



Warsaw, 13 May 2015
Press release

PZU posts profit of nearly PLN 1 billion in Q1 2015

The PZU Group's net financial result in Q1 2015 surpassed PLN 941 million. Net of non-recurring events it surged up by 25.2% versus Q1 2014. ROE also rose by 5.1 percentage points to 27.6%. Insurance sales were also robust: gross written premium was PLN 4.7 billion. PZU plans to earmark nearly PLN 2.6 billion of profit as a dividend payout.

"Q1 2015 was a challenging period for the insurance industry in Poland. Low interest rates, the repercussions of last year's price war and non-recurring demographic factors exerted adverse pressure on financial results in the insurance industry. Against this backdrop, our results are exceptionally satisfying. We have never opened a year with such a robust result in the company's history as a public company. In Q1 we reported enormous earnings of nearly PLN 1 billion while demonstrating the persistently high profitability of our business. Investment results also merit attention as once again they have exhibited superbly-high double-digit growth. Q1 2015 was also the first quarter in which we implemented the new PZU 3.0 strategy to give the PZU Group the leadership position by 2020 in three key areas: insurance, health and investments. We successfully accelerated the attainment of our strategic objectives, which elevates expenses in the short-run while making it possible to achieve the intended benefits. The past few months have proven that we are well-poised to achieve our objectives", said Przemysław Dąbrowski, CFO of PZU SA.

The following factors exerted an impact on the PZU Group's business in Q1 2015 compared to the same period last year:

- gross written premium growth achieved by developing business on international markets, Link4's gross written premium and developing the group protection business;
- enhanced profitability in the corporate insurance segment chiefly as a result of the lower loss ratio in general third party liability and financial risk insurance;
- lower profitability in the group and individually-continued insurance segment related mostly to the higher loss ratio in protection products following the higher incidence of deaths;
- profitability down in the mass insurance segment related mostly to the higher loss ratio in motor business;
- higher investment income, in particular as a consequence of better market conditions on the Warsaw Stock Exchange.

In addition, business expansion in Poland and the Baltic States in 2014 materially affected the comparability of the results. Last year the acquired companies contributed to the PZU Group's result from the time of their acquisition (AAS Balta, the first acquired company, starting from 30 June 2014) while they are recognized in this year's results as of 1 January 2015, whereby various line items in the income statement and assets and liabilities are higher than in 2014.

Gross written premium

Gross written premium in Q1 2015 was PLN 4,680,827 thousand versus PLN 4,353,979 thousand in the same period last year (+7.5%). Higher sales were mostly recorded in the following areas: international operations (including primarily the gross written premium generated by the companies acquired in 2014), the gross written premium in the group and individually continued insurance

segment (mostly as a result of developing group protection business); health insurance business done in group form; motor insurance in the mass client segment (mostly on the gross written premium collected by Link4); motor own damage insurance in the corporate client segment (in conjunction with the considerable growth in the number of insurance policies coupled with the decline in the average premium) and the gross written premium in agricultural insurance.

At the same time, a decline was recorded in gross written premium in third party liability, fire and other property insurance in the corporate client segment (as a consequence of finalizing several large tenders in December 2014 and entering into insurance contracts in 2015) as well as in individual investment products in the bancassurance channel.

Investment activity

Investment income (including investment contracts, i.e. contracts that do not entail significant insurance risk) in Q1 2015 was PLN 951,033 thousand (PLN 542,647 thousand in Q1 2014). Its growth was driven mostly by the higher valuation of equities.

Claims and benefits

The growth in net claims and benefits (including movement in technical provisions) of PLN 381,692 thousand (+14,3%) compared to the same period last year stemmed in particular from the higher loss ratio in protection products (as a consequence of the higher incidence of deaths – confirmed by Central Statistics Office [GUS] data for the entire population); the increase in mathematical provisions in unit-linked products as a consequence of more robust investment performance and the higher loss ratio in motor insurance as an effect of the growth in the average claim value.

In turn, the lower loss ratio in the corporate insurance segment in general third party liability and financial risk insurance as an effect of the lower level of provisions for claims in previous years contributed to the decline in net claims and benefits in Q1 2015.

Expenses

Acquisition expenses in Q1 2015 rose by PLN 45,482 thousand (+9.0%) compared to the same period last year. This growth was in particular the result of the higher level of commissions as an effect of changes in commission rates in the broker channel and indirect acquisition expenses (i.a. competitions, overriding commissions) on account of the sales-related measures taken in the multi-agency channel in the mass client segment; the rising protection product portfolio and further growth in the percentage of the portfolio held by the broker and agency channel and consolidation of the insurance companies acquired in 2014.

Concurrently, the higher level of deferred expenses in the corporate client segment and the retraction from the offering of the *Plan na Życie* regular premium savings product with a protection element coupled with lower sales in the bancassurance channel contributed to the decline in the acquisition expenses line item.

The growth in administrative expenses compared to the same period last year of PLN 73,933 thousand (+22.1%) ensued from accelerating the implementation of the 3.0 Strategy focusing on developing the PZU Group's key areas (retail and corporate client areas, PZU Health, distribution and operational support) and incorporating the administrative expenses incurred by the newly-acquired insurance companies in the PZU Group's results.

Profit

Net profit grew by PLN 180,897 thousand (+23.8%) to PLN 941,340 thousand compared to Q1 2014. Higher investment income and profitability growth in the corporate insurance segment (effect of the lower loss ratio in other TPL insurance) coupled with the suppressed profitability of motor business in the mass segment and the higher loss ratio in life protection products ensuing from the higher incidence of deaths contributed to the growth in the result.

Just as in every other year PZU will share 2014 earnings with its shareholders. On 12 May 2015 the PZU Management Board resolved to submit a motion to PZU's Shareholder Meeting to set the dividend at PLN 30 per share.

Ratios

Consolidated equity according to IFRS as at 31 March 2015 was PLN 14,084,460 thousand versus PLN 13,887,660 thousand as at 31 March 2014. Return on equity (ROE²) in the period from 1 January 2015 to 31 March 2015 was 27.6%, up by 5.1 p.p. compared to the same period last year. Compared to consolidated equity as at 31 December 2014, equity rose by PLN 916,832 thousand (+7.0%), while ROE² moved up by 5.0 p.p. compared to the period from 1 January 2014 to 31 December 2014.

[¹] Non-recurring events include the effect of converting long-term policies into yearly renewable term business in type P group insurance

[²] Annualized ratio.

| | Item (000 PLN) | Q1 2015 | |
|----|---|------------|------------|
| | | 31.03.2015 | 31.03.2014 |
| 1. | Gross written premiums | 4 680 827 | 4 353 979 |
| 2. | Net insurance claims and benefits | -3 045 858 | -2 664 166 |
| 3. | Net investment result | 951 033 | 542 647 |
| | 3a. Net investment income | 354 845 | 371 252 |
| | 3b. Net result on the realization of investments and impairment charges | 117 784 | -111 665 |
| | 3c. Net change in the fair value of assets and liabilities measured at fair value | 478 404 | 283 060 |
| 4. | Net profit | 941 340 | 760 443 |
| 5. | Total equity | 14 084 460 | 13 887 660 |
| 6. | Financial assets and investment properties | 62 429 670 | 57 980 600 |
| 7. | Total assets | 71 741 982 | 65 044 581 |