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Press Release

PZU shows high earnings in H1 2014 and indicates its intention to declare a new strategy

The PZU Group's net financial result in H1 2014 was PLN 1 720 million and was up by 2.7% over the net result for the same period in the previous year. In this period gross written premium contracted by 0.7% to just above PLN 8.4 billion. PZU 2.0 strategic projects were implemented at the same time as generating H1's robust results.

"In H1 2014 the PZU Group generated high earnings and a high return on equity. What is noteworthy is the substantially better than expected performance in the investment business. This confirms that it was the right decision to develop this area and to bolster PZU's investment competence. The Group is steadfastly executing its adopted strategy: in the first half of the year we acquired companies belonging to RSA, we are also growing our health business by making acquisitions on the service provider market. We are rolling out projects focused on client needs, such as direct claims handling. We are also rolling out more of the components of the Everest platform, which will technologically move our firm into the 21st century. We are intensively working on the strategic directions for PZU's growth in upcoming years. We will present the outcome of this work in the autumn of this year", said Andrzej Klesyk, CEO of PZU SA.

The following factors exerted an impact on the PZU Group's operations in H1 2014 compared to the same period last year:

- lower gross written premium driven by lower sales of single premium life insurance and motor insurance, partially offset by growth in group and continued insurance and accident insurance;
- higher net performance in investment activity, primarily as a consequence of the higher measurement of debt treasury securities and equity instruments;
- lower claims paid in conjunction with the movement in technical provisions;
- higher administrative expenses ensuing from higher current expenses as a result of growth projects to implement our „client-centric focus” vision.

In addition, non-recurring events in 2013 also materially affected the comparability of results: non-recurring income on account of consolidating mutual funds and the non-recurring gross profit on account of entering into a settlement with the Green Card reinsurer.

Premiums

Gross written premium in the first six months of 2014 was PLN 8,437.9 million compared to PLN 8,495.3 million in the same period last year (-0.7%). This decline primarily concerned single premium individual insurance (-17.1%), in particular as a result of lower sales of short-term endowment insurance and premiums for motor TPL insurance (-6.4%), as an offshoot of the lower level of fleet insurance sales and the aging portfolio. At the same time, regular premium life insurance and accident products recorded higher sales.

Investment activity

In H1 2014 the PZU Group's net investment performance was PLN 1 357.8 million, climbing 40.1% compared to the same period last year. This growth was driven chiefly by the lower yield offered by Polish treasury bonds, leading to the Group generating income on interest-bearing assets of PLN

1,244 million, i.e. PLN 291 million more than in H1 2013. The second factor contributing to better net investment performance was linked to market conditions on the capital markets being better than in 2013 – in H1 2014 the WIG index edged up by 1.3%, while in the same period last year it fell by 5.7% – as a consequence, the Group's income from equity instruments in H1 2014 was PLN 191.5 million, up PLN 168 million over the same period last year.

Claims paid

In H1 2014 the amount of claims paid and incremental growth in the PZU Group's provisions was PLN 5,418.1 million, down 0.8% from the same period last year. The following factors among others affected the net claims paid in the period under analysis: low level of mass claims and single high-value claims payments in non-life insurance and the lower pace of conversion from long-term contracts to yearly renewable term contracts in group insurance.

Insurance profitability

In Q1 2014 the major lines of business recorded high profitability. In non-life insurance the combined ratio constituting net claims paid, acquisition and administrative expenses stated as a percentage of premium earned was 86.1%. This result was achieved thanks to properly matching prices for protection in connection with the low level of mass claims. In turn, the key group and continued life insurance delivered profitability of 24.4%, even higher than in previous years, accompanied by premium expansion, which confirms that this offering is aligned to our clients and high operating efficiency.

Administrative expenses

Administrative expenses were up 9.5% compared to H1 2013 driven by current costs incurred in growth projects linked to implementing our „client-centric focus” vision. At present, additional payroll expenses and customer service training expenses are being occurred as two systems are being maintained. This will make it possible to alter the philosophy of client relationship management, regaining a competitive edge in product management and shortening time-to-market. Moreover, pension insurance recorded higher expenses ensuing from the statutory change of the required level of the Guarantee Fund.

Profit and equity

Net profit rose by 2.7% to PLN 1 720 million (+ PLN 45 million) compared to H1 2013.

Consolidated equity according to IFRS as at 30 June 2014 was PLN 11 917.3 million, some 10.3% lower than a year ago. This change was primarily caused by the interim dividend payout of PLN 1 727.0 million from surplus capital in H2 2013.

Return on equity (ROE) during the period from 1 January 2014 to 30 June 2014 was 27.5%, up by 3.2 percentage points over the same period last year.

Additional information:

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