



Grupa PZU

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## Record-breaking policy sales in H1 2015

**In H1 2015 the PZU Group sold a record-breaking amount of insurance for PLN 9.13 billion, some 8.2% more than in the corresponding period last year. In the first six months of this year the insurer recorded net profit in excess of PLN 1.3 billion. The company also sustained its high return on equity with an ROE of 21.1%. A dividend payout of PLN 30 per share from the 2014 net profit was approved on 30 June 2015. The dividend record date is 30 September 2015. These results place PZU among the most profitable institutions in Poland and across Europe.**

*“Q2 weighed heavily on the assessment of H1 as it did not afford an opportunity to generate robust investment performance. The decline in bond prices on the Polish market and soft conditions on the Warsaw Stock Exchange were the major factors contributing to this situation. In turn, the higher loss ratio in motor policies did not help the insurance business. At the same time, we managed to enhance group insurance profitability on a quarterly basis. The PZU Group earned a profit surpassing one billion PLN, it maintained a high return on equity and it generated a record-breaking gross written premium. This demonstrates how skillfully we remained in synch with the changing market and suitably customized products to client requirements. The PZU Group’s entrance into the banking sector by acquiring a controlling stake in Alior Bank was a landmark moment in H1. This was a well-considered and forward-looking decision that will help us tap into all of the PZU Group’s competitive advantages. Expanding asset management and steadily building our medical care branch network are additional elements of the actions we are taking under the new strategy PZU 3.0. Its purpose is to ensure that the PZU Group holds the leadership position in three key areas: insurance, health and investments”, said Przemysław Dąbrowski, CFO of PZU SA.*

The following factors exerted an influence on the PZU Group’s operations in H1 2015 compared to the corresponding period last year:

- higher gross written premium achieved by expanding operations on international markets, the premium earned by Link4 and by developing group protection insurance;
- profitability in the mass insurance segment compared to H1 2014 down PLN 144.1 million. This decline is mainly related to the higher loss ratio in motor business;
- marked growth in profitability in Q2 2015 versus Q1 2015 in the group and individually continued insurance segment. However, in the full interim period its profitability fell by PLN 115.5 million yoy (net of the conversion effect), chiefly as a result of the higher loss ratio caused by the upswing in the incidence of death in protection products;
- lower net result on investing activity related to higher T-bond yields partially offset by better performance on equities and derivatives;

- pursuit of pro-growth measures to implement Strategy 3.0.

The expansion of operations in Poland and the Baltic States in 2014 also affected comparability year on year. Last year the acquired companies contributed to the PZU Group's result from the time of their acquisition (with AAS Balta being the first acquired company included as of 30 June 2014) while they are recognized in this year's results as of 1 January 2015, thereby leading to various line items in the profit and loss account and assets and liabilities being higher than in 2014.

### **Gross written premium**

Gross written premium in H1 2015 was PLN 9,126.5 million, trending up some 8.2% compared to the corresponding period in the previous year. This growth pertained above all to the following: regular premium insurance (chiefly by developing group and continued protection insurance, the premium recorded in health insurance, higher average contributions to IKE individual retirement accounts and high sales of individual protection products), motor insurance premiums (mostly the effect of recognizing in 2015 the premium generated by Link4), premium for fire insurance and for other property claims (mostly residential insurance) and premium generated abroad.

### **Investing activity**

In H1 2015 the PZU Group's net investment result was PLN 1,057.8 million compared to PLN 1,370.5 million in the corresponding period of 2014 (a decline of 22.8%). The lower result in H1 is chiefly the outcome of higher Polish T-bond yields across the yield curve versus falling yields in the same period last year.

This decline in the result was partially offset by the higher valuation of equities on the financial markets and better performance generated on derivatives in the period under analysis in 2015 compared to the corresponding period of last year.

### **Claims and benefits**

In H1 2015 the net value of claims and benefits and the incremental movement in the PZU Group's provisions were equal to PLN 6 billion. Compared to the corresponding period last year the value of claims coupled with the movement in provisions rose 10.9%. The contributing factors were as follows: expansion of the group protection insurance portfolio, including health coupled with a higher loss ratio; higher sales and investment income in individual unit-linked products and a higher loss ratio in motor insurance.

In turn, the decline in technical provisions in continued insurance (made within the framework of annually setting the rules for possible indexation of clients' sums insured to modify these rules as of the outset of 2016); this year's dearth of sales of individual structured and deposit products in cooperation with banks, the lower loss ratio in the general third party liability insurance group and natural catastrophe claims in the corporate insurance segment contributed to lower net claims and benefits in H1 2015.

## Expenses

In H1 2015 acquisition expenses were PLN 1,130.8 million, climbing some 9.1% compared to the level in 2014. This incremental growth resulted primarily from higher indirect acquisition expenses in the mass client segment, high new sales of individual protection products and upselling riders to continued insurance and commencing the consolidation of the insurance companies acquired in 2014. Concurrently, the higher level of deferred expenses contributed to the decline in the line item acquisition expenses.

The 17.1% upsurge in administrative expenses compared to the same period last year (to PLN 822.1 million) followed from incorporating in the PZU Group's results the administrative expenses incurred by the newly-acquired insurance companies and the higher expenses related to implementing the strategy PZU 3.0.

## Profit

Net profit in H1 2015 compared to H1 2014 is down 23.2% to PLN 1,321.5 million. Net of non-recurring events<sup>[1]</sup> net profit fell 23.8% compared to last year.

The deterioration in profitability in the mass insurance segment (mostly as a result of the higher loss ratio in motor insurance), lower profitability in group and individually continued insurance and lower investment income related to higher Polish T-bond yields drove this decline.

## Ratios

Consolidated equity according to IFRS as at 30 June 2015 was PLN 11,853.1 million compared to PLN 13,167.6 million at the end of 2014 (down 10.0%). This movement ensued in particular from the distribution of 2014 profit, including the designation of PLN 2,590.6 million as a dividend payment. The return on equity (ROE) ratio in the period from 1 January 2015 to 30 June 2015 was 21.1%, representing a decrease of 6.4 p.p. compared to the same period last year.

<sup>[1]</sup> Non-recurring events include the effect of converting long-term policies into yearly-renewable term contracts in type P group insurance

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