



Warsaw, 14 November 2013  
Press release

## Profitability Growth and Cost Discipline – PZU Posts Excellent Results in the First Three Quarters of 2013

**The PZU Group's net financial result in the first three quarters of 2013 surpassed PLN 2.7 billion and was similar to the net result for the same period last year. Gross written premium rose by 2% in this period to more than PLN 12.4 billion.**

*„The adopted strategy has proven its effectiveness. The PZU Group has posted very robust financial performance despite macroeconomic conditions that are not conducive to insurance business. Above all, this is the result of profitability growth, cost discipline and improved efficiency” – said Andrzej Klesyk, CEO of PZU SA.*

The Group's strategy, announced in March of last year, under the working name of PZU 2.0, defines PZU as a company that is strongly customer-focused and operationally-efficient with strong skills in investments. Q3 performance confirms that this strategy is measuring up to the task.

*„The material improvement in the profitability of some insurance products was of crucial importance for Q3 performance. On one hand, this follows from pursuing planned measures to select risks better and, on the other hand, from the absence of large-scale mass and corporate claims.” – said Przemysław Dąbrowski, PZU's CFO.*

One of the largest investments in the Polish insurance sector has been underway since mid 2012, namely the implementation of a new product system in PZU SA. The objective of this implementation is not only to enhance operational efficiency but above all to procure high quality efficient customer service and the ability to adapt the product offering to the individual requirements of every customer.

*„We are investing in customer service quality. I am proud that the first policies will be issued in the new IT product system according to schedule in a week. On one hand, this is an enormous IT implementation, with PZU's project team numbering more than 500 persons, while, on the other hand, it is a milestone on the path to securing a considerable competitive advantage in the utilization of modern IT tools to offer perfect customer service. This will bring us closer to attaining our strategic objective of fully focusing our company on customer needs. We are implementing a highly-complicated system at a record-breaking pace” – said Andrzej Klesyk.*

During the first nine months of 2013 the following factors made a key contribution to the PZU Group's results:

- higher gross written premium in conjunction with maintaining a high growth rate in the sales of single-premium insurance in the bancassurance channel,
- lower premium in the corporate insurance segment (motor and hospital accident insurance as a result of legislative changes);
- improvement in profitability:
  - in agricultural insurance (in the mass segment) as a result of the low level of claims caused by natural forces (no frost, no negative wintering effects),
  - in financial insurance (in the corporate segment) due to last year's collapse in the construction industry and the resulting changes in the risk acceptance and pricing process;
- maintenance of fixed cost discipline (lower payroll expense driven by restructuring activities in recent years) and concurrent project activities aimed at streamlining and automating service processes;
- slower rate of conversion of long-term policies into yearly renewable term agreements in type P group insurance;
- lower investment income, both on equity instruments (good market conditions on the Warsaw Stock Exchange, WSE, in the previous year) and on debt instruments (higher yields on bonds, which reached historical lows at the end of 2012);
- one-time income on the consolidation of mutual funds;
- one-time income on the Green Card settlement with a reinsurer (partial reversal of the adjustment to estimates with the reinsurer, which reduced the 2011 result).

### **Premiums**

Gross written premium in the first three quarters of 2013 was PLN 12,402,550 thousand compared to PLN 12,158,994 thousand in the same period last year (+2.0%). Sales growth was recorded above all in single-premium individual insurance, especially in products sold through the bancassurance channel and regular premium group and continued insurance, mostly protection business – as an effect of the higher average premium and the number of insureds.

At the same time, a decline was recorded in gross written premium in the corporate insurance segment, including medical insurance for patients and motor insurance in the face of fierce competition and the persisting poor condition of the domestic car market. There was also a decline in the group insurance segment – short-term single-premium products in the bancassurance channel as a result of retracting from these types of products in light of their low profitability.

### **Claims**

The decline in net claims paid (including movement in the provisions for unpaid claims) of PLN 217,727 thousand (-2.6%) compared to the same period last year primarily resulted from the low level of claims related to the adverse effects of overwintering and the absence of ground frost in agricultural insurance, the absence of establishing additional claims provisions in financial insurance for contractual guarantees, by maintaining a low claims ratio in motor insurance thanks to favorable road conditions and less traffic as well as by optimizing claims handling processes.

## **Costs**

Acquisition costs fell by 2.0% in the first three quarters of 2013 compared to the same period last year, primarily as a result of lower commissions (inter alia as an outcome of the lower gross written premium in the corporate insurance segment) and indirect costs (inter alia payroll expenses).

The decline in administrative expenses of PLN 33,541 thousand (-3.4%) largely resulted from lower headcount and lower advertising spend (effect of the image campaign conducted in 2012) coupled with higher project-related activities to streamline and automate service processes.

## **Investments**

Investment income (including investment contracts, i.e. contracts that do not contain significant insurance risk) was PLN 1,860,514 thousand and PLN 2,569,395 thousand, respectively in the first three quarters of 2013 and 2012 and fell primarily as a result of lower growth in the measurement of equity instruments in conjunction with worse conditions on the Warsaw Stock Exchange (the WIG index rose by 6.0% in the first three quarters of 2013, while one year earlier it was up 16.3%) and the decline in the measurement of debt instruments following bond yield growth (the yield on 5 and 10-year treasury bonds was up by 52 and 72 basis points, respectively in the first three quarters of 2013, compared to the first three quarters of 2012 when it fell by 114 and 119 basis points, respectively). Moreover, in connection with the consolidation of mutual funds in 2013, (gross) non-recurring income of PLN 172,810 thousand was recognized in the first three quarters of 2013.

## **Profit**

The operating profit in the first three quarters of 2013 was PLN 3,502,382 thousand. The major drivers of this result were robust performance in the mass insurance segment, primarily as the outcome of improved profitability in agricultural insurance (low level of claims) and in motor TPL and the higher result in the corporate insurance segment, which was up PLN 196,486 thousand, mostly as a result of the low claims ratio in motor insurance and the improved profitability of financial insurance (last year's collapse in the construction industry and the ensuing change to the risk acceptance and measurement process).

## **Equity, ROE**

Consolidated equity in the first three quarters was PLN 12,681,967 thousand compared to PLN 13,800,615 thousand one year ago. The adoption of the resolution to pay an interim dividend in conjunction with the implementation of the PZU Group's new capital and dividend policy, in addition to the dividend payment for 2012 contributed to this decline. The return on equity (ROE) for the period from 1 January 2013 to 30 September 2013 was 27.4%, down 1.0 p.p. from the same period in the previous year. When compared to consolidated equity as at 31 December 2012, equity fell by PLN 1,587,302 thousand (-11.1%), while ROE rose 3.4 percentage points vis-a-vis ROE for the period from 1 January 2012 to 31 December 2012.

Item	Item (000s PLN)	9 months ended	
		30 September 2013	30 September 2012
1.	Gross written insurance premium	12,402,550	12,158,994
2.	Net insurance claims and movement in technical provisions	(8,210,298)	(8,428,025)
3.	Investment income, including:	1,858,648	2,569,395
3a.	Net investment income	1,444,798	1,653,515
3b.	Net result on the realization of investments and impairment charges	(166,478)	367,091
3c.	Net change in the fair value of assets and liabilities carried at fair value	580,328	548,789
4.	Net profit	2,766,835	2,840,258
5.	Equity	12,681,967	13,800,615
6.	Financial assets and investment properties	55,511,250	49,705,862
7.	Total assets	61,640,113	56,800,666

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