



Warsaw, 13 November 2014  
Press release

## Execution of strategy and constant improvement of profits on investing activity – PZU’s results after Q3 2014

**PZU Group’s net financial result after Q3 2014 exceeded PLN 2.5 billion and, excluding non-recurring events<sup>[1]</sup>, was similar to last year’s result. Gross written premium amounted to PLN 12.4 billion. For PZU, the third quarter meant, among other things, acquisition of the leader of Poland’s direct market – Link4 and a record-breaking Eurobond issue.**

*- After 9 months of 2014, the PZU Group may boast of both high profits and profitability of insurance products. The results in the investment business are much better than in the previous period, which is attributable to a large extent to the situation in the financial markets. In Q3 we consistently pursued our strategy of being a company focused on clients, innovative and acting efficiently and effectively. We also set market standards: we were the first in Poland to start developing our own fleet of 300 replacement cars available to anyone. We made another milestone in modern customer service, reaching nearly one million policies issued through the Everest system. At the same time PZU made significant acquisitions in the healthcare and insurance market and issued EUR 500 million Eurobonds with a historically low coupon and margin – said Andrzej Klesyk, the President of PZU SA’s Management Board.*

The factors impacting PZU Group’s activity in Q3 2014, compared to the corresponding period last year, included:

- higher investment income, in particular as a result of decrease of bond yields
- development of group protection business combined with lower loss ratios
- decreasing profitability of motor insurance caused by higher court losses from the old portfolio
- lower rate of conversion of long-term agreements to renewable yearly agreements in type P group insurance

Additionally, the comparability of results was significantly affected by one-off events: better results in the pension insurance segment as a result of the OFE reform, non-recurring income from consolidation of investment funds and non-recurring income from a settlement with a reinsurer in respect of the Green Card insurance (partial reversal of the correction of estimates with the reinsurer which decreased the result for 2011).

### Premiums

The gross written premium after 3 quarters 2014 was PLN 12,408,778 thousand compared to PLN 12,402,550 thousand in the corresponding period of the previous year (+0.1%). Increased sales were recorded primarily in the area of group and individually continued insurance (mainly as a result of development of protection business – as a result of higher average premium and number of the insureds, including high new business levels), health insurance agreements concluded in the group

form, and financial insurance – associated with improved situation in the construction industry. The increase of PZU Group's premiums is also attributable to consolidation of AAS Balta (PLN +55 million).

At the same time, the Group recorded a decrease of gross written premium in the single-premium individual insurance segment (in particular structured products), motor TPL insurance – as a result of strong competition, and property insurance – as a result of acquisition of long-term contracts from the power and mining sector in the corresponding period of 2013.

### **Investment activity**

Investment income (including investment contracts i.e. contracts that involve no material insurance risk) for 3 quarters of 2014 and 3 quarters of 2013 was PLN 2,163,202 thousand and PLN 1,860,689 thousand, respectively, increasing mainly due to higher valuation of debt instruments.

In addition, the comparability of data was affected by the income recognized in 2013 in the amount of PLN 172,718 thousand, in connection with consolidation of investment funds as of 1 January 2013.

### **Claims**

The growth in net claims paid (incorporating the movement in the technical provisions) of PLN 201,624 thousand (+2.5%) in comparison with the corresponding period of the previous year resulted, in particular, from: lower pace of conversion of long-term contracts to yearly renewable policies in type P group insurance, increase of the group protection insurance portfolio, including health insurance, and increase of the loss ratio in motor TPL insurance, caused in particular by much higher level of claim reserves from previous years.

### **Costs**

In 3 quarters of 2014, acquisition costs rose by PLN 105,475 thousand (+7.2%) compared to the corresponding period of the previous year. The increase resulted, in particular, from changes in the commission rates in package motor insurance and pro-sales efforts in the property insurance segment, increase of the contract portfolio and high level of new sales in group protection business and modification of the remuneration system in the agency channel.

Increase of administrative expenses by PLN 91,695 thousand (+9.5%) resulted mainly from higher costs of IT and HR Project, mandatory contribution to the KDPW Guarantee Fund by PTE PZU in the amount of PLN 20,071 thousand and development of foreign operations – including as a result of consolidation of AAS Balta and conduct of activity by the branches in Estonia and Latvia.

### **Profit**

The net profit decreased in comparison to 3 quarters of 2013 by PLN 202,865 thousand (-7.3%) to PLN 2,563,832 thousand.

### **Ratios**

IFRS-compliant consolidated equity as at 30 September 2014 amounted to PLN 12,778,720 thousand compared to PLN 12,681,821 thousand as at 30 September 2013. Return on equity (ROE<sup>[2]</sup>) for the period from 1 January 2014 to 30 September 2014 was 26.4%, 1.0 p.p. lower than in the corresponding period of the previous year. In comparison with consolidated equity at 31 December 2013, equity dropped PLN 348,911 thousand (-2.7%), while ROE<sup>[2]</sup> was 2.3 percentage points higher as compared to the ratio for the period from 1 January 2013 to 31 December 2013.

[1] Non-recurring events comprise the consolidation of investment funds, settlement with the reinsurer as regards the Green Card insurance, conversion of long-term policies to renewable annual contracts in type P group insurance and change of PTE's result as a result of the pension reform.

[2] Annualized ratio.