



Warsaw, 16 March 2011

Press Release

## PZU Group's 2010 Financial Results

**In 2010 the PZU Group wrote premiums of PLN 14,544 million. That is 1.3% more than last year. Non-recurring events contributed to lower net earnings than last previous year of PLN 2,439 million. The PZU Group paid claims worth PLN 10,299 million. In 2010 the Return on Equity (ROE) was 20.3%.**

*„The past year abounded in challenges: our IPO and restructuring coupled with massive flooding and a severe winter. With this in mind we are publishing our financial results with even greater satisfaction. The premium growth achieved in spite of restructuring our corporate insurance portfolio is a source of particular joy. We also cut administrative expenses as announced prior to our IPO. The shareholders should also appreciate the 20%+ ROE generated despite having surplus equity. The Management Board I led fully delivered on the promises made before the IPO. Our shareholders and customers have reason to be satisfied. This however does not alter the fact that more difficult challenges await us,“ – said Andrzej Klesyk, CEO of PZU SA.*

### **Key Factors Contributing to the PZU Group's Financial Results in 2010:**

- Changes in the composition of gross written premium in non-life business – restructuring the corporate portfolio.
- Growth trend in life insurance in both group and individual business.
- Impact exerted by catastrophic and non-recurring events:
  - heavy snow fall in Q1;
  - two waves of flooding in May and June;
  - lower release of technical reserves stemming from converting long-term policies into yearly-renewable term insurance in group type P life insurance – the impact exerted by conversion is gradually declining on account of the shrinking portfolio of long-term agreements.
- Robust investment performance despite the significant decline in the asset base as a consequence of the dividends paid (payment of the interim dividend in November 2009 and of the dividend for 2009).
- Unwavering implementation of the PZU Group's strategy:
  - maintaining its dominant position in group life while retaining a stable level of profitability;
  - rebuilding the quality of the corporate motor insurance portfolio in non-life;
  - implementing restructuring processes to curtail administrative expenses (completing negotiations of the collective bargaining agreement with the trade unions and launching group layoff process).

## Discussion of the Financial Results

### Premiums

Gross written premium in 2010 amounted to PLN 14,544 million. The PLN 181 million (+1.3%) growth stemmed primarily from expanding group insurance and higher sales of single-premium endowments in the bancassurance channel (life insurance segment). In the non-life insurance segment gross written premium remained steady at the level of premium in 2009 (+0.1%).

### Investment Activity

Income on investing activity in 2010 was PLN 2,781 million. The decline in net investment revenues by PLN 534 million was primarily caused by lower interest income. The major factor driving lower revenues was the reduction in the size of the debt security portfolio stemming from the dividend disbursement at the end of November 2009 under the shareholder settlement.

### Claims Paid

Net claims paid grew in both business segments by PLN 862 million zł (+ 9.1%). In the life insurance segment this growth was primarily driven by the lower conversion rate of long-term policies into yearly-renewable term insurance (lower release of mathematical reserves) and higher claims paid (mainly as a consequence of higher benefits paid in group protection business and continued business). In the non-life segment, the growth followed from significantly higher claims paid in property insurance, general TPL and agricultural insurance (heavy snow fall in Q1 2010 and flooding in Q2 2010).

### Expenses

Acquisition expenses in 2010 increased by PLN 11 million (+ 0.6%) compared to 2009. This growth primarily resulted from changes in the sales area in the non-life segment related to rebuilding the composition of the insurance portfolio (growing the share held by products and distribution channels with higher margins) and the changes implemented last year in sales network management.

The decline in administrative expenses by PLN 145 million (-8.1%) was to a large extent the consequence of the restructuring measures taken by PZU Group companies, including the downsizing program in the head offices of PZU and PZU Życie carried out in the latter half of 2009. In 2010 the PZU Group continued the downsizing process launched one year earlier in the field units to streamline claims handling, centralize current policy administration and devise new customer service standards leading to a considerable reduction in fixed operating expenses. Moreover, the fixed expense optimization program implemented mid-year accrued positive effects at the PZU Group level, making it possible to cut expenditures in many areas, including administration (office materials, postal services), property management (space cleaning costs) and IT expenses.

### PZU Group's Results

In 2010 operating earnings were PLN 3,088 million, 32.9% below the previous year, primarily resulting from higher net claims paid in the current year and lower release of technical reserves in the life insurance segment. The decline in operating earnings translated directly into 35.2% lower net earnings.

At the end of 2010, return on equity (ROE) was 20.3%. ROA was 4.7%.

***A detailed discussion of the results and the individual business segments may be found in the Management Board's Report on the PZU Group's Operations in 2010.***

#	Item	Period		Q4 Net	
		Ended on			
		31.12.2010	31.12.2009	01.10.2010- 31.12.2010	01.10.2009- 31.12.2009
1.	Gross written premium	14 544 457	14 362 717	3 597 951	3 301 023
2.	Net claims paid and movement in technical reserves	-10 299 235	-9 436 281	-2 447 702	-2 667 486
3.	Investment income, including:	2 781 840	3 469 001	591 623	890 146
	3a. Net investment revenues	1 828 584	2 363 384	435 337	526 506
	3b. Net realized result and impairments	199 451	261 310	4 688	236 146
	3c. Net movement in the fair value of assets and liabilities at fair value	753 805	844 307	151 598	127 494
4.	Net earnings	2 439 229	3 762 911	565 065	562 078
5.	Equity	12 799 926	11 266 879	x	x
6.	Financial assets	45 345 032	48 237 593	x	x
7.	Total assets	50 533 832	53 176 209	x	x

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