



Press release

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PZU's financial results after the 4 quarters of 2011

## **PZU Group grows gross written premium, improves efficiency and cuts costs, earning a net profit of PLN 2.34 billion.**

The 5.1% increase in gross written premium in both insurance segments (totaling PLN 15,279.3 million), the improved profitability in the non-life segment, the cutting of administrative expenses and lower investment performance than in 2010 were the key factors that affected the PZU Group's 2011 financial results. PZU generated a net profit of PLN 2.34 billion.

*"I have the great pleasure of presenting the PZU Group's 2011 financial results. From a business standpoint, the year was quite a good one. As planned, we grew gross written premium while cutting administrative expenses. We successfully continued restructuring processes in the corporate segment. On the other hand, the economic environment deteriorated. The debt crisis in the Euro zone and the related falling stock prices on the Warsaw Stock Exchange had an adverse effect on investment income in Q3 2011. In spite of this fact, we were able to post a stable net result. The ROE and ROA ratios, which are important to shareholders, have remained at a very satisfactory level,"* said Andrzej Klesyk, CEO of PZU SA.

### **Key factors affecting PZU Group's financial performance in 2011**

The PZU Group's financial results in 2011 were largely determined by:

- improved profitability of the non-life insurance segment, especially motor and property insurance;
- stable gross written premium growth rate in group protection insurance,
- declining administrative expenses due to strict cost discipline and the restructuring program entailing group layoffs,
- lower investment performance compared to the previous year, due to significant slippage on capital markets, including the Warsaw Stock Exchange.

## Overview of financial results

### Premiums

Gross written premium on direct and indirect insurance in 2011 was PLN 15,279.3 million (PLN 14,541.0 million in 2010). The growth of PLN 738.2 million (+5.1%) compared to the previous year was caused by higher sales in both the life and non-life segments. The key product groups experiencing growth in 2011 included motor TPL in the mass segment (+ PLN 287.3 million), fire and other property insurance (+ PLN 102.0 million) and group insurance (+ PLN 179.5 million).

### Investment activity

The investment income for the 12 months ended 31 December 2011 was PLN 1,593.8 million, that is about 42.6% lower than in 2010. The change resulted mainly from the falling prices of equities on financial markets: in 2011 the WIG index fell 20.8% as opposed to 18.8% growth in 2010.

The PZU Group's investment activity is conducted while maintaining adequate safety, liquidity and profitability. Debt securities issued by state governments accounted for about 75% of the investment portfolio on 31 December 2011 as well as on 31 December 2010, primarily Polish treasuries.

The lower percentage and value of equities was caused mainly by their declining market valuation in 2011.

### Claims

A decline in net claims (by PLN 162.9 million i.e. 1.6%) was recorded only in the non-life segment.

In the life segment, the following contributed to the total increase of PLN 115.3 million (2.5%) in net claims paid and the movement in the balance of technical reserves in 2011:

- a 6.6% increase in claims paid;
- a decline in reserves where the policyholder bears the investment risk in 2011 (negative investment performance in this group of investments) compared to the strong growth recorded in 2010.

In the property insurance segment, the fall was associated with a much lower value of property insurance claims, caused mainly by lower catastrophic losses which were extensive in 2010 (heavy snowfall in Q1 2010 and flooding in Q2 2010).

### Acquisition and administrative expenses

In 2011, acquisition expenses rose by PLN 50.7 million (+2.7%) compared to 2010. This increase resulted mainly from changes occurring in the sales of the non-life insurance segment, associated with:

- an increase in gross written premium;
- changes in the structure of distribution channels (higher sales through channels charging commissions, at the expense of commission-free channels and automatic renewals);

- changes in sales launched in recent years, including additional bonuses to support the effectiveness of agents and link their earnings to targets (override commissions; in 2011 override commissions played a more extensive role as they were implemented in other channels).

A PLN 121.9 million (-8.1%) drop in administrative expenses was caused mainly by the restructuring activities carried out in PZU Group companies; the campaign covered the Head Office as well as the field units of PZU Group companies. Downsizing was continued in the field units in 2011. This process aimed at improving the efficiency of claims handling operations, centralizing ongoing policy administration and creating new customer service standards (establishing a shared Group Network Division) resulting in a significant reduction of the fixed costs of ongoing activity. Other positive effects were brought about by continued fixed cost optimization. This allowed the Group to cut expenditures in several areas, including administration (office supplies, mailing services), real estate handling (cleaning) and IT costs.

### **Impact of non-recurring events on operating results**

No non-recurring events in 2011 could match what occurred in 2010 (including flood and "snowfall" losses in the non-life segment). The events exerting a significant effect on the operating result included:

- the first full-method consolidation of the Armatura Group in the consolidated financial statements of the PZU Group, which resulted in the recognition of non-recurring income of PLN 118.9 million in 2011;
- claims paid in farming insurance – frost and negative effects of wintering at PLN 128.4 million;
- adjustment of estimated reinsurance commissions and profit-sharing at PLN 91.8 million;
- provisioning of the penalty imposed by the Office of Competition and Consumer Protection for non-competitive practices on the domestic market of accident insurance for students and school personnel at PLN 56.6 million.

Despite the conservative policy of estimating future liabilities and receivables and the developments on the capital markets, the PZU Group generated a high operating result.

### **PZU Group – operating ratios**

Operating profit in 2011 was PLN 2,956.7 million, i.e. 4.3% below last year, which was primarily due to lower investment income (-42.6%). This decline was offset to a significant extent by a 4.8% increase in net earned premium and a 1.6% decrease in net insurance claims.

ROE was 18.3% and ROA 4.6%. The administrative expense ratio was 9.3%.

The PZU Group has safe and high solvency margin coverage with shareholder funds at 352.9%. The indemnity capital coverage ratio with shareholder funds was 1,058%.

Standard&Poor's awarded PZU SA and PZU Life a financial strength rating of (A) with a stable outlook.

## Selected financial data of the PZU Group, 4Q 2011

No.	Item (PLN thousands)	12 months ended		9 months ended		Q4 net	
		31 Dec 2011	31 Dec 2010	30 Sep 2011	30 Sep 2010	1 Oct 2011 - 31 Dec 2011	1 Oct 2010 - 31 Dec 2010
1.	Gross written premium	15,279,262	14,541,022	11,425,796	10,800,917	3,853,466	3,740,105
2.	Net insurance claims and movement of technical reserves	10,221,122	10,384,062	7,624,189	7,903,704	2,596,933	2,480,358
3.	Investment income, including:	1,593,826	2,777,774	1,040,071	2,185,919	553,755	591,855
3a.	Net investment income	1,970,254	1,824,518	1,475,004	1,388,949	495,250	435,569
3b.	Net investment realization result and investment impairment charges	-187,247	199,451	-80,292	194,763	-106,955	4,688
3c.	Net movement in the fair value of assets and liabilities carried at fair value	-189,181	753,805	-354,641	602,207	165,460	151,598
4.	Net profit	2,343,947	2,439,229	1,857,015	1,874,164	486,932	565,065
5.	Equity	12,869,505	12,799,926	12,419,330	12,191,979	x	x
6.	Financial assets	46,775,359	45,345,032	48,440,461	43,705,970	x	x
7.	Total assets	52,129,282	50,670,557	54,234,820	49,240,420	x	x

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