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Press release

Very good results of the PZU Group – strong growth in written premium and a significantly better net financial result

The PZU Group's financial result for Q1 2012 was PLN 822.6 million. Gross written premium grew by nearly 9%, an achievement which, combined with disciplined expenses, allowed the Group to maintain its high profitability.

"Today, we presented the PZU Group's very good results for the first quarter of 2012. We recorded a strong growth in written premium and a significant increase in net profit. It is worth reminding that last year the PZU Group's profit included certain non-recurring events which increased the financial result by more than PLN 212 million. What I mean by that was consolidation with the Armatura Group (resulting in an increase in earnings of more than PLN 118 million) and a smaller dissolution of type-P reserves (PLN 123.7 million vs. PLN 217.7 million in the first quarter of last year). We are glad to have reduced our recurring administrative costs and achieved an increase in ROE," said Andrzej Klesyk, CEO of PZU SA.

The following elements had a key impact on the PZU Group's financial results in Q1 2012:

- growth in gross written premium due to an increase in sales of such products as motor third party liability insurance, group protection insurance and individual life insurance;
- improved profitability in both segments: motor and non-life insurance (in particular in the corporate insurance segment) and group and individually continued insurance;
- maintenance of cost discipline with the concurrent launch of project activities aimed at changing the PZU Group's image and improving and automating its service processes;
- greater income from investment activities caused by higher valuations of sovereign bonds and corporate equities.

Premiums

Gross written premium for Q1 2012 was 4.32 billion, an increase by 8.7%. The growth in written premium was caused by higher sales of motor third party liability insurance in the mass insurance segment, group protection insurance (increase in the average premium and the number of insureds, including a strong growth in new business) and endowment insurance. The growth in written premium was accompanied by maintenance of the PZU Group's high profitability.

Claims

In comparison with the same period of 2011, in Q1 2012 the PZU Group recorded an increase in net claims (allowing for movement in technical provisions) of PLN 376.05 million (+15.7%). This increase resulted primarily from a negative impact of winter crop damage in the agricultural insurance segment, a smaller rate of policy conversions from multi-year agreements to annual renewable agreements in type-P group insurance and higher sales of individual products in the bancassurance channel.

At the same time, profitability improved in motor insurance and non-life insurance in Q1 2012 due to favorable driving conditions and lack of large-scale individual claims.

Costs

The increase in administrative costs by PLN 36.15 million (+11.0%) was caused by the implementation of new projects aimed at changing the PZU Group's image and improving and automating its service processes. This increase was also the result of changes in the seasonality of costs and investments in the HR and IT areas (work on a new product system for the non-life company). In terms of recurring expenses, discipline was maintained in fixed costs, which resulted in their decrease by 3.8%.

Profitability of the insurance business

In both segments of the insurance business, the PZU Group improved its profitability. The combined ratio increased from 88.8% to 91.2%, but without claims in agricultural insurance (which were recorded in Q2 of the previous year) the combined ratio would be below 88%. In the main life insurance product line, i.e. group and individually continued insurance, the operating profit ratio increased from 13.8% to 20.1%.

Investment activities

Income from investment activities totaled PLN 872.8 million, an increase by more than 84%. The increase was caused predominantly by higher valuations of sovereign bonds and a better situation on the Warsaw Stock Exchange.

Profit

Operating profit in Q1 2012 was PLN 1,034,672 thousand, up by PLN 72,520 thousand (7.5%) compared to the same period in the previous year, driven predominantly by the increase in income from the PZU Group's investment activities.

ROE for the period from 1 January to 31 March 2012 was 24.7%, an increase by 0.8 p.p. compared to the same period of 2011.

Solvency margin

The PZU Group maintains a surplus of own funds to cover the solvency margin. After Q1, this surplus was more than PLN 8.85 billion, which in the context of turmoil in the financial markets confirms the PZU Group's very secure capital position.

Selected consolidated financial highlights of the PZU Group for Q1 2012

No.	Item (000s of PLN)	3 months ended	
		31 March 2012	31 March 2011
1.	Gross written insurance premium	4,322,747	3,976,884
2.	Net insurance claims and change in the balance of technical reserves	2,776,882	2,400,828
3.	Investment income, including:	872,798	474,059
3a.	Net investment income	436,435	405,905
3b.	Net result on the realization of investments and impairment charges	110,421	-129,544
3c.	Net change in the fair value of assets and liabilities restated to fair value	325,942	197,698
4.	Net profit	822,629	791,235
5.	Equity	13,788,677	13,734,678
6.	Financial assets and real properties held for investment purposes	49,940,106	47,877,614
7.	Total assets	55,328,867	53,640,564