Warsaw, 26 August 2010

Stable revenues, lower administrative expenses and lower earnings as a result of non-recurring catastrophic losses

PZU's financial performance in 1H 2010

In 1H 2010 the PZU Group continued to generate a high level of revenues with PLN 7.4 billion in insurance premiums. The PZU Group's net earnings in 1H 2010 were PLN 1.17 billion, resulting primarily from the growth in claims paid driven by catastrophic events (snowfall and flood claims), lower investment income caused by a lower asset base and the smaller impact exerted by group insurance conversion. Inspite of that, the PZU Group maintained a high ROE – at the end of 1H 2010 it was 20.6%.

„I am pleased with the firm's performance, which in the face of such a difficult market situation brought about by catastrophic claims has demonstrated its strength and that the strategy being implemented is the right one" – said Andrzej Klesyk – CEO of PZU SA.

The PZU Group's financial performance in 1H2010 was primarily driven by the following:

- Changes to the structure of gross written premium:
  - lower gross written premium in the non-life segment related inter alia to the restructuring efforts in the corpo segment portfolio;
  - higher sales in the life insurance segment;
- High impact of non-recurring events on the underwriting result:
  - intensive snowfall in the winter;
  - two flood waves in May and June;
  - lower releases of technical provisions following the conversion of long-term policies into yearly renewable term type P life insurance.
- Lower administrative expenses as an outcome of cutting fixed expenses.
- Robust investment performance despite the considerable shrinkage in the value of the investment portfolio (interim dividend disbursement in November 2009) and as an offshoot lower net earnings coupled with a stable ROE.
- Steady implementation of the PZU Group's strategy in the following areas:
  - sustaining its dominant position in group life while maintaining the stability of this line of business's profitability;
  - reconstruing portfolio quality in motor insurance for commercial lines in non-life insurance;

- conducting restructuring processes to curtail administrative expenses (completing collective bargaining negotiations and commencing the group layoff process);
- arresting market share constriction in the mass motor insurance segment.

PZU GROUP'S FINANCIAL PERFORMANCE IN 1H2010

#	Line item	6 month period ended on		3 month period ended	
		30 June 2010	30 June 2009	31 March 2010	31 March 2009
1.	Gross written premium	7 393 705	7 486 843	3 927 789	3 992 173
2.	Net claims and benefits and movement in technical provisions	-5 089 412	-4 015 678	-2 459 124	-1 693 394
3.	Investment income, of which:	1 265 042	1 503 576	911 414	416 719
3a.	Net investment income	997 369	1 268 127	442 309	678 427
3b.	Net result realized and investment impairments	160 754	-91 978	135 274	-108 614
3c.	Movement in the net fair value of assets and liabilities valued at fair value	106 919	327 427	333 831	-153 094
4.	Net earnings	1 169 834	2 308 833	807 412	1 144 646
5.	Equity	11 338 781	22 355 981	12 053 249	21 018 295
6.	Financial assets	42 182 959	53 946 708	47 409 523	53 841 290
7.	Total assets	47 474 306	58 950 458	52 507 801	58 834 318

Gross written premium in 1H 2010 was PLN 7,393.7 million (PLN 7,486.8 million one year earlier). The decline of PLN 93.1 million (1.2%) was caused by the lower premium in non-life business, which was partially compensated for by higher sales in life insurance. Net earned premium fell as a result of the decline in gross written premium.

Investment income in 1H 2010 decreased by 15.9% compared to the previous year. This was a consequence of the shrinkage in the value of the debt security portfolio following the interim dividend payment in November 2009 in the amount of PLN 12,750 million and lower income on equities – the Warsaw Stock Index (WIG) reflecting the changes in the prices of all stock companies fell by 1.5% in 1H 2010 while in it grew by 11.7% in 1H 2009.

The growth in net claims and benefits of PLN 1,073.7 million (26.7%) stemmed primarily from the lower level of conversion of long-term policies into yearly renewable term insurance (smaller release of mathematical reserve) in life insurance and higher claims in property insurance, general TPL and agricultural insurance in non-life business on account of intense snowfall in 1Q 2010 (net deterioration in the result was PLN 157 million) and flooding in 2Q 2010 (net deterioration of the result was PLN 237 million).

Acquisition expenses in 1H 2010 grew by PLN 12.6 million (1.5%) compared to 1H 2009. This stems primarily from the changes in sales in non-life insurance linked to changes in the structure of the insurance portfolio (growth in the percentage of products and distribution channels with higher commissions) and to changes in sales chain management (changes to the commission system and implementation of a super commission).

Decline in administrative expenses of PLN 26.8 million (-3.2%) was largely the outcome of restructuring efforts in the PZU Group companies, including among others the headcount restructuring program in the Head Offices of PZU and PZU Życie conducted in mid 2009. In 1H 2010 a headcount restructuring process was also commenced, but its financial effects will not be visible until the second half of the year.

Operating profit in 1H 2010 was PLN 1,500.1 million and was PLN 1,371.1 million (-47.8%) lower than in the same period of the previous year, which resulted mainly from the growth in net claims and benefits paid in the current year and the lower release of technical provisions in life insurance. The reduction in operating profit directly contributed to a decline in net earnings of PLN 1,139 million (-49.3%).

Consolidated equity according to IFRS as at 30 June 2010 was PLN 11,339.8 million compared to PLN 22,356.0 million as at 1H 2009. The decline in equity resulted from the disbursement of the interim dividend for the 2009 financial year in November 2009. The PZU Group has sustained its ROE at a level close to the one at the end of 1H 2009 – at the end of 1H 2010 its ROE was 20.7%, while at the end of 1H 2009 it was 20.8%.

The value of financial assets at the end of 1H 2010 was PLN 42,183.0 million compared to PLN 53,946.7 million at 1H 2009. The decline in financial assets of PLN 11,763.6 was caused above all by the shrinkage in the debt security portfolio as a result of the disbursement of the interim dividend toward the 2009 financial year.

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