Press release

Warsaw, 25 August 2011

PZU's financial results after two quarters of 2011

Very good half of the year for the PZU Group

A higher written premium, an improved profitability, a decrease in fixed costs and, as a consequence, a 32% increase in the financial result – these are the conclusions from the financial results of the Powszechny Zakład Ubezpieczeń S.A. Capital Group published on 25 August 2011.

The PZU Group's financial results in H1 2011 were largely driven by:

- an increase in the written premium generated in the PZU Group's insurance segments;
- an improved profitability in the non-life insurance segment, especially in motor and property insurance;
- a decrease in administrative expenses thanks to the implemented restructuring program and the fixed costs reduction program;
- lower income on investment activity (despite a very good result in Q2 2011) due to a worse net result on investment activity than in the previous year, especially on the debt securities portfolio;
- consolidation of the Armatura Group.

The PZU Group's net financial result for H1 2011 was PLN 1,552.4 million, up by 32.7% compared to the net result for H1 2010.

As at the end of H1 2011, ROE, calculated as the ratio of the annualized net profit to the average equity in H1 2011, was 24.8%, up by 4.1 p.p. compared to the end of H1 2010.

"The first half of 2011 was very successful for the PZU Group. An increase in written premium, a further improvement in profitability and a decrease in administrative expenses resulting from continuation of restructuring processes are all facts that will certainly please the investors. It is also worth mentioning that return on equity reached almost 25%. There are reasons for PZU's clients to be satisfied as well: we keep developing the PZU Pomoc offer, modernizing our outlet network and implementing new products," said Andrzej Klesyk, CEO of PZU SA.

Premiums

After the first half of 2011, gross written premium was PLN 7,673.3 million (compared to PLN 7,291.9 million in the same period in the previous year). The increase by PLN 381.4 million (5.2%) was caused by a higher written premium both in the non-life insurance segment and in the life insurance segment.

The increase in gross written premium by PLN 276.0 million (6.8%) in the non-life insurance segment was caused by higher sales of motor insurance, particularly in the mass client segment.

Besides motor insurance, written premium also grew year-over-year in property insurance, especially in apartment and building insurance.

The increase in gross written premium in the life insurance segment (by 3.3%) resulted to a similar degree from the development of group insurance (a 3.3% growth year-over-year) and individual insurance (a 3.2% growth year-over-year). In group insurance, both in the number of insureds and the average premium increased. In individually continued insurance, an increase in written premium was achieved predominantly due to up-sales of riders. In other individual insurance, the premium grew as a result of high sales of investment products: the regular-premium Plan na Życie savings and investment product with a protection component and structured products sold through the PZU Group's own network, the bancassurance channel and the Individual Retirement Accounts. This increase was partly offset by the gradual phasing-out of the portfolio of endowment insurance agreements concluded in the 1990s.

Investment activity

The PZU Group recorded a 14.5% decrease in investment income. The decrease resulted primarily from lower results on executed investments, in particular on the debt securities portfolio. Furthermore, interest income decreased due to, among other reasons, a reduction in the average size of the portfolio of debt securities, term deposits and contingent transactions on treasury securities (reduced in April 2010 in order to settle dividend-related liabilities).

Claims

The PZU Group recorded a decrease in net claims by PLN 102.6 million (2%). The decrease resulted primarily from the absence of damage caused by snowfalls or floods in the property insurance segment. However, it was partly offset by an increase in claims paid with a concurrent fall in reserves in 2011 compared to an increase in 2010 in the life insurance segment.

Costs

In H1 2011, a decrease in administrative expenses by PLN 134.5 million (-17.5%) was recorded. It was largely caused by restructuring activities conducted in PZU and PZU Life, cost-optimizing activities conducted in the PZU Group, predominantly in the IT, administration and real property areas, and the absence of expenses related to the IPO project in H1 2011 (such expenses were incurred in H1 2010).

In the first half of 2011, acquisition costs increased by PLN 56.5 million (6.3%) compared to the same period in 2010. The increase resulted mainly from higher sales and a change in the structure of distribution channels (a greater share of commission channels at the expense of non-commission channels).

Profits

The operating profit in H1 2011 was PLN 1,902.4 million, up by PLN 402.3 million (26.8%) compared to the same period in the previous year. This good result was driven by an increase in earned premium in a situation of stable costs of claims paid and a decrease in administrative expenses. The increased operating profit translated directly into a rise in net profit by PLN 382.6 million (32.7%).

Rating

PZU and PZU Life have a long-term credit rating and a financial strength rating (awarded by Standard & Poor's Ratings Services on 16 July 2009) of A with a stable rating outlook. On 22 July 2011, the agency confirmed both the above rating and the outlook. The rating is the highest possible rating for a Polish company.

Restructuring

On 26 December 2009, the PZU and PZU Life Management Boards announced a plan to implement a restructuring program for the years 2010-2012.

The employment restructuring process involves, among other issues, centralization of previously dispersed functions in several centers located in big cities across Poland and increased specialization of newly hired employees, focusing primarily on the following areas: operations, finance, claims handling and the PZU Group network.

Due to the planned scale of layoffs, on 11 May 2011 the PZU and PZU Life Management Boards announced their intention to effect new group layoffs.

It was estimated as at that date that the change will cover up to 3,316 persons, of which layoffs, i.e. a decrease in the headcount at PZU and PZU Life in 2011, were assumed to reach the total number of 1,212 persons.

During the 3 months from 1 April to 30 June 2011, the change process in PZU and PZU Life affected 347 employees, of whom 248 were handed documents terminating their employment agreements.

No.	Item	H1		Q1		Q2 net	
		2011	**2010**	**2011**	**2010**	**2011**	**2010**
1.	Gross written insurance premium	7,673,262	7,291,854	3,976,884	3,804,773	3,696,378	3,487,081
2.	Net insurance claims and change in the balance of technical reserves	5,018,297	5,120,912	2,400,828	2,474,264	2,617,469	2,646,648
3.	Investment income, including:	1,079,059	1,262,140	474,059	909,805	605,000	352,335
3a.	Net investment income	894,822	994,467	405,905	440,700	488,917	553,767
3b.	Net result on the realization of investments and impairment charges	-67,751	160,754	-129,544	135,274	61,793	25,480
3c.	Net change in the fair value of assets and liabilities restated to fair value	251,988	106,919	197,698	333,831	54,290	-226,912
4.	Net profit	1,552,404	1,169,834	791,235	807,412	761,169	362,422
5.	Equity	12,230,698	11,338,781	13,734,678	12,053,249	x	x
6.	Financial assets	51,134,442	42,182,959	47,411,928	47,409,523	x	x
7.	Total assets	57,301,278	47,575,661	53,640,564	52,577,500	x	x