



Warsaw, 29 August 2012  
Press release

## PZU Group's H1 2012 performance: dynamic growth of written premiums, higher investment income, record-breaking net profit

**The PZU Group's gross written premium grew by more than 7.5% to PLN 8.25 billion compared to H1 2011. Investment income surged up by more than 41.2%. These factors allowed the Group to earn a high record-breaking net profit in H1 2012, up 10.6% to PLN 1.72 billion. While maintaining its positive technical result, PZU continues to be the leading force on the Polish insurance market, also with respect to profitability. Return on equity (ROE) climbed 2 percentage points to almost 26.8% in the same period.**

*„Today, we reported the PZU Group's high record-breaking results for H1 2012. We are happy to note written premium growth, impressive investment income growth and as a result – a higher net financial result. In the last 6 months, we continued to improve the profitability of motor insurance products. As a result, PZU's combined ratio is 90%, much better than we had planned”* said Andrzej Klesyk, CEO of PZU SA.

The following factors were of key importance for the PZU Group's H1 2012 financial results:

- gross written premium growth in non-life and life insurance (approx. +7.5% in total);
- improved profitability in motor insurance and other property insurance, with the exception of insurance guarantees (the effect of the deteriorating condition of companies in the construction industry);
- higher administrative expenses due to project-related activity aimed at, among others, optimizing service processes and building the PZU Group's positive image;
- a significant increase in investment income caused mainly by a higher valuation of debt instruments and implementation of a new investment strategy which boosted profitability while reducing the volatility of investment results (+41.2%);

## **Premiums**

In H1 2012, gross written premium was PLN 8.25 billion, compared to PLN 7.67 billion in the same period of the previous year. The sales growth was driven primarily by growth in motor TPL insurance in the mass insurance segment.

PZU Life also recorded premium growth in group protection insurance (higher average premium and more insureds, including dynamic new sales growth) and individually continued insurance. The premium in single premium investment endowment insurance also increased in the bancassurance channel in the individual insurance segment. PZU SA's premium growth was bolstered by implementing a new accidental death and dismemberment insurance for hospitals and growth in TPL insurance for corporate clients and modified TPL products for health care units (higher sums guaranteed) in the corporate insurance segment.

## **Claims**

Net claims (including the movement in technical reserves) grew 9.9%, i.e. PLN 496 million. This growth was fostered by a lower conversion rate from long-term policies to yearly renewable term policies in type P group insurance as well as higher sales of individual investment products in the bancassurance channel and an increase in claim reserves in contractual guaranties in the corporate segment related to a series of bankruptcies in the construction industry.

At the same time, a 5.9% point improvement in the loss ratio in motor insurance in H1 2012 was recorded. This resulted among others from the lower frequency of losses.

## **Costs**

In H1 2012, acquisition costs grew by PLN 45.84 million (+4.8%) compared to H1 2011. This increase resulted mainly from changes in sales, especially in the group and individually continued insurance segment and were a direct result of gross written premium growth in type P protection insurance in the corporate insurance segment. At the same time, costs in the pension insurance segment dropped by PLN 25.12 million in connection with the statutory ban on canvassing for open-end pension funds, in effect from the beginning of 2012.

An increase in administrative expenses of PLN 53.51 million (+8.5%) resulted from project activity aimed at optimizing service processes and improving the PZU Group's image.

Positive results were also produced by continuing the fixed cost optimization program, as a result of which expenditures were reduced in many areas, including staff costs, administrative expenses (consumable materials, postal services), real property handling (cleaning costs) and own costs (fees under civil law agreements, consulting fees).

## **Investment activity**

As a consequence, PZU Group's investment income in H1 2012 jumped 41.2% compared to the same period of the previous year.

In H1 2012, a new investment strategy was introduced which increased profitability while reducing the volatility of investment results.

The growth of investment income earned on equity instruments resulted from the business conditions on the financial markets improving from the same period of the previous year. The increase in results on debt instruments was caused by the decline in market interest rates in H1 2012 compared to the same period of the previous year, when interest rates increased.

The PZU Group's investment activity complies with the statutory requirements while maintaining an adequate level of safety, liquidity and profitability. Debt securities issued by the State Treasury constituted over 70% of the investment portfolio<sup>1</sup> as at 30 June 2012 as well as at 30 June 2011.

### **Profit**

In H1 2012, net profit was PLN 1.72 billion, up 10.6% from the same period of the previous year. The net profit was mainly achieved thanks to an increase in net earned premium (+ PLN 597 million) and higher investment income driven by implementing a new investment activity strategy and lower yields on treasuries (+ PLN 445 million). These factors were partially offset by higher net claims (+ PLN 496 million).

ROE for H1 2012 was 26.8%, up 2.0% points from the corresponding period of the previous year.

### **Rating**

PZU and PZU Życie are subject to regular rating reviews by rating agencies. Ratings awarded to PZU and PZU Życie result from analyzing financial data, competitive position, management and corporate strategy. They also contain a rating outlook, i.e. an evaluation of the company's future situation in the event of the occurrence of certain specific circumstances.

As at the date of conveying this report on the activity of the PZU Group, both companies had 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 23 July 2012, Standard & Poor's Ratings Services upheld this rating.

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<sup>1</sup> The investment portfolio includes financial assets (including investment contracts) investment property and a negative valuation of derivatives.

**PZU Group's consolidated H1 2012 financial data**

Item	Item (PLN thousand)	6 months ended	
		30 June 2012	30 June 2011
1.	Gross written insurance premium	8,246,274	7,673,262
2.	Net insurance claims and movement in the balance of technical provisions	(5,514,635)	(5,018,297)
3.	Investment income, including:	1,523,904	1,079,059
3a.	Net investment income	1,084,369	894,822
3b.	Net result on the realization of investments and impairment charges	126,088	(67,751)
3c.	Net movement in the fair value of assets and liabilities carried at fair value	313,447	251,988
4.	Net profit	1,716,449	1,552,404
5.	Equity	12,740,584	12,230,698
6.	Financial assets and investment properties	49,423,408	51,590,436
7.	Total assets	54,267,604	57,301,278