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Press release

Excellent quarter for the PZU Group: higher gross written premium and a record high net financial result

After Q3 2012, the PZU Group's net financial result was PLN 2.84 billion (an increase of 52.9%). This is PZU's best performance since being listed. Gross written premium rose 6.4% to PLN 12.15 billion. Return on equity climbed to 28.4%.

" I have the great pleasure of presenting the PZU Group's record high results after Q3 2012. Net profit markedly improved and gross written premium was up. ROE grew by almost 9 percentage points. On the one hand, this was driven by higher investment income and premium growth, while on the other hand it was driven by the lower loss ratio in non-life insurance. We continue our efforts to grow the company's shareholder value. My colleagues and I are very much involved in changing PZU to make it the most customer-centered financial institution in this part of Europe, according to our strategy. It gives us great satisfaction to see how, step by step, our company is moving toward that goal," said Andrzej Klesyk, CEO of PZU SA.

The following factors were of key importance for the PZU Group's financial results in the first 3 quarters of 2012:

- higher gross written premium due to higher sales of, among others, ADD insurance for hospitals and TPL insurance for health care units as well as group and continued protection insurance and individual investment insurance (through the bancassurance channel);
- new investment strategy implemented by the PZU Group's investment division leading to higher investment income leveraging the good market conditions on the Warsaw Stock Exchange and the higher valuation of debt instruments;
- improved profitability of motor insurance and group and individually continued insurance (when the conversion effect is not taken into account);
- execution of project activity to change the PZU Group's image (brand refreshment) automating and streamlining service processes;
- higher claims (taking into account the movement in technical provisions) driven by higher sales of individual investment products in the bancassurance channel, slower rate of conversion from long-term agreements to yearly renewable term agreements (in type P group insurance);
- lower result on contract guarantees in the corporate segment, one of the reasons being an increase in claims reserves in connection with a number of bankruptcies in the construction industry.

Premiums

In the 9-month period ended 30 September 2012, gross written premium was PLN 12,158 million compared to PLN 11,426 million in the corresponding period of the previous year (+6.4%). The increase was driven, among others, by increases in the new hospital ADD product. Other factors that supported growth included higher sales of liability insurance in the corporate segment and in the mass segment. Higher written premiums were also achieved due to rising sums guaranteed in liability insurance of health care entities in the corporate insurance segment. After Q3 2012, the premium also increased in group protection insurance, which resulted from both higher average premium and higher number of insureds. The dynamic growth of new sales in this segment is also an important contributing factor. This upward trend was also observable in single premium investment endowment insurance in the individual insurance segment.

Profitability of insurance activity

In the first 9 months of 2012 the combined ratio for non-life insurance was 90.7%, down by 4.1 percentage points compared to the corresponding period of the previous year. This was primarily the outcome of the combined ratio's considerable improvement in mass market insurance, especially thanks to more favorable road conditions (lower claims frequency in motor business) and the low level of mass claims (overall, the combined ratio in the mass client segment fell by 5.1%). Corporate lines also recorded an improved combined ratio in motor insurance, but its effect was largely offset by the lower result in contractual guarantees in conjunction with a series of bankruptcies in the construction industry (overall, the combined ratio for corporate lines fell by 0.6%). The improved combined ratios contributed to a better result on total non-life insurance in Poland: the operating result was PLN 902,840 thousand, growing by PLN 237,855 thousand over last year (up 35.8%).

In life insurance both group and individually continued business continue to generate a high level of profitability: 23.0% in the first three quarters of 2012, net of conversion of type P contracts (up 1.9 percentage points compared to the first 3 quarters of 2011). In 2012 the pace of converting long-term contracts into yearly renewable term contracts decelerated (down by PLN 193,696 thousand compared to the corresponding period of the previous year), which is linked to the gradual depletion of this portfolio. The margin on individual life insurance also narrowed (from 36.7% in the first 3 quarters of 2011 to 16.0% in the first 3 quarters of 2012), primarily on account of high acquisition costs incurred at the time of selling unit-linked products (these costs are not deferred). The overall operating result in life insurance was PLN 1,400,010 thousand, down by PLN 94,172 thousand compared to last year (down by 6.3%; net of the conversion effect the result was up by PLN 99,524 thousand, i.e. 8.9%).

Costs

Administrative costs recorded an increase of PLN 59,377 million (+6.3%). The increase could be attributed mainly to projects to enhance PZU Group's image (brand refreshment) and automating and streamlining customer service processes. After the first three quarters of 2012 acquisition costs rose by PLN 52,149 thousand (+3.6%) compared to the corresponding period of the previous year. This resulted from higher sales and the rising share of more costly distribution channels, such as agents, multiagencies and brokers. Moreover, in 2012 a charge of PLN 20 million was made to the Company Social Benefit Fund.

Investment activity

Investment income in the 3 quarters of 2012 amounted to PLN 2,569 million. During that period, the PZU Group's Investment Division implemented a new investment strategy. Its key assumptions included organizational changes in the investment division, launching new products and modifying the investing strategy. One of the key elements of the new strategy in place in PZU Inwestycje is a broader offer of investment products for individual investors.

The increased income on investment activity was also affected by higher valuation of equity instruments due to better market conditions on the WSE. In the first 3 quarters of 2012, the WIG index grew 16.3%, while dropping 19.4% the year before. Another factor contributing to higher investment income was the increased valuation of debt instruments due to declining bond yields. Additionally, when the new investment strategy was implemented, listed shares in the available for sale portfolio were sold: this applies to equities whose revaluation was recognized in the revaluation reserve in previous years

Profit

The operating profit in the first 3 quarters of 2012 was PLN 3,541 million, up PLN 1,209 million (51.9%) from the corresponding period of the previous year, primarily driven by the PZU Group's higher investment income. The net profit grew in comparison to the first 3 quarters of 2011 by PLN 983 million (+52.9%) to PLN 2,840 million.

Capital, solvency ratios, ROE

As at 30 September 2012, consolidated equity according to IFRS was PLN 13,801 million, compared to PLN 12,419 million as at 30 September 2011. Return on equity (ROE¹) for the period from 1 January 2012 to 30 September 2012 was 28.4% making it 8.8 percentage points higher than in the corresponding period of the previous year. When compared to consolidated equity as at 31 December 2011, equity increased by PLN 931 million (7.2%), while ROE rose 10.1 percentage points vis-a-vis ROE for the period from 1 January 2011 to 31 December 2011.

PZU Group's consolidated financials for Q3 2012

Item (000s PLN)	1 January – 30 September 2012	1 January – 30 September 2011
Gross written insurance premium	12,158,994	11,425,796
Net insurance claims and movement in the balance of technical reserves	(8,428,025)	(7,624,189)
Investment income, including:	2,569,395	1,040,071
Net investment income	1,653,515	1,475,004
Net result on the realization of investments and impairment charges	367,091	(80,292)
Net movement in the fair value of assets and liabilities carried at fair value	548,789	(354,641)
Net profit	2,840,258	1,857,015
Equity	13,800,615	12,419,330
Financial assets and investment properties	49,705,862	48,894,907
Total assets	56,800,666	54,234,820

¹ Annualized ratio.