



PZU 2020 Strategy

Profitability, Growth, Innovation

PZU Group's Strategy
for 2016-2020

Introduction

This document forms the outcome of reviewing PZU Strategy 3.0 from January to June 2016.

The PZU Group's Strategy presented in this document calls for a fundamental alteration in the Group's profile from a pure dividend company into a combined dividend and growth company pursuing ambitious projects to grow revenues and net profit while leveraging the PZU Group's capital strength.

The key changes to the PZU Strategy 3.0 adopted in January 2015:

- increase the focus on the profitability of the Group's core business (insurance), including a reduction in fixed expenses by PLN 400 m within 3 years
- accelerate the PZU Group's growth, including the development of the Health and Investments pillars
- incorporate a plan for banking sector investments in the PZU Group's Strategy
- expand the role of innovation in the PZU Group as a tool to attain profitability and growth objectives

On account of the volatility of the market environment, most of the key metrics in the Strategy have been expressed in relative values (e.g. market shares and profitability of various segments).

Agenda



PZU Group's mission



Strategic objectives



Implementation methods and tools



Strategy implementation metrics

We are PZU!



We Provide Peace of Mind and a Sense of Safety



PZU Group's mission



We exist to provide our Customers peace of mind and a sense of safety. Customers can always rely on us



Our excellent knowledge of our Customers enables us to meet their needs and reasonable expectations while our large scale and high efficiency enable us to deliver them with the best quality of service at an attractive price



PZU is a workplace that inspires people to do their best while maintaining a good work-life balance



Due to its' unique market position PZU is a „best practice guardian“ - we take actions that are favorable to the overall market and Customers; we actively contribute to market development and we set the quality of service standards



Thanks to our position as market leader in Central and Eastern Europe we consistently deliver above average earnings to our shareholders



We are fair

- Our offering is transparent and satisfies Customers' genuine expectations
- We are transparent in interactions with our employees

We are effective

- We offer efficient and friendly service and competitive prices
- We control our costs and streamline our processes

We are innovative

- We constantly adapt to our Customers' evolving needs
- We actively strive to streamline how our company functions



PZU Group's responsible method of business management

The Company's value growth should be aligned to the interests of the environment and rely on sustainable and responsible resource utilization



Customer needs are our priority



Reliable business partner



Responsible employer



Social commitment



Compliance culture



Savings for the environment

PZU responsibly manages many types of capital – financial, human, social, environmental and intellectual

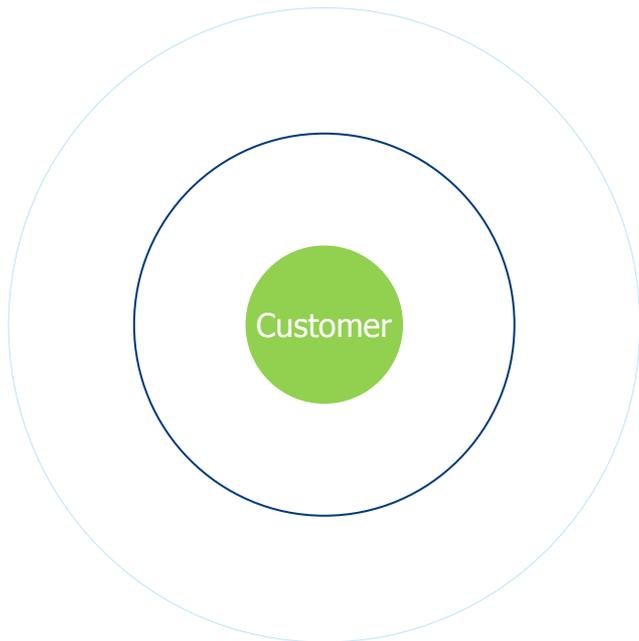


The PZU Group is socially involved and supports in various aspects of life





The PZU Group's strategy is Customer-oriented



We accompany our Customers throughout their path of life

- We provide our Customers with peace of mind and a sense of safety by protecting their health, life and property and growing their savings
- We draw on our more than 200 years of experience, knowledge and the commitment shown by our employees and business partners

We are improving to respond better to our Customers' needs

- We will become one of the most innovative insurance groups in Europe
- We want to accompany our Customers everywhere they go in order to address their needs in the way they expect us to do that

We will be a stable partner for our Customers

- We will maintain a high level of capital security and profitability whereby we will be a trustworthy partner for our Customers



We want to develop the PZU Group while thinking about our Customers

Insurance – our core business

- Insurance will continue to be the PZU Group's principal and most important business pillar
- In insurance the PZU Group's fundamental objective is to concentrate on high profitability coupled with growth in selected market segments and take advantage of its competitive advantage ensuing from the magnitude of its business activity

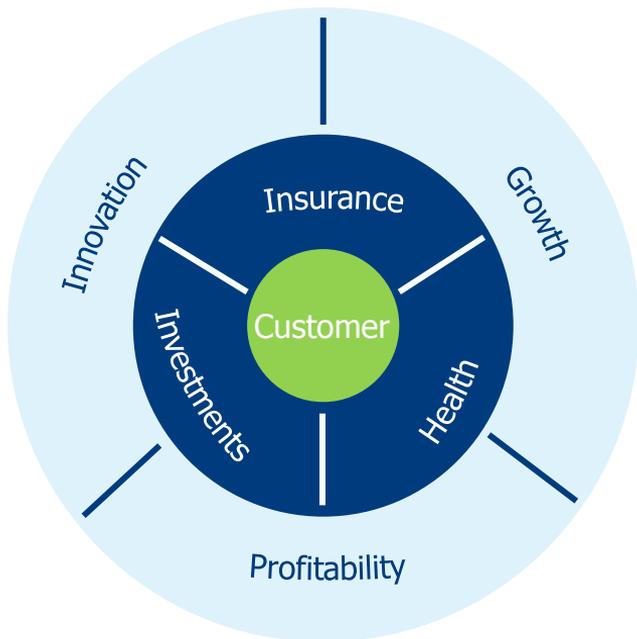
PZU Group's rapid growth in other business pillars

- The PZU Group will use its capital surplus and a portion of the earnings generated by insurance activity to grow the magnitude of its business activity in other pillars, thereby enabling it to differentiate its sources of generating revenues and profit
- The PZU Group's objective is to grow its revenues and profits in the PZU Health and PZU Investments segments rapidly





We will pursue our strategic objectives while emphasizing profitability, growth and innovation



Profitability

- Thanks to the magnitude and effectiveness of our insurance activity we will retain a high level of profitability
- Reduction of fixed costs in insurance activity in Poland (PZU and PZU Życie) by PLN 400 m within 3 years

Growth

- In insurance we will grow in selected market segments in which PZU's share is below its natural market share (roughly 30%)
- Growth in revenues and profits at a pace exceeding the overall market growth rate in additional business pillars through organic growth and acquisitions

Innovation

- By cultivating a culture of innovation we will support the achievement of our strategic objectives - Profitability and Growth
- PZU will become one of the most high tech insurance companies in Europe



By 2020 the PZU Group will implement a digital Customer service operating model

The digital operating model will enable the PZU Group to shape relations with Clients and the Customer experience effectively



- Digitization of Customer-related processes (paperless Customer service)
- 360° Customer view: history of all activities by channel, product and customer service
- Implementation of self-service solutions wherever Customer expect it
- Utilization of additional Customer interactions to upsell products and services with a better fit – improving cross-sell
- The digital operating model will enhance PZU's perception as a modern company and improve its positioning in Young Customer and Premium Customer segments



We will utilize our existing Customer base better by increasing the average number of products per Client



The PZU Group's revenue growth will be attained by growing the number of products per Retail Customer (to 1.64 in 2020 from 1.49 in 2015)

- To the largest extent, the growth in the number of products will ensue from selling up health products and the incremental growth in pension and property products
- Products will be upsold through all the sales channels, with special emphasis on own channels (tied agents, branches) and direct channels (contact center, direct) using information regarding the PZU Group's Customers (development of CRM tools)



In the Retail Customer segment we are focusing on managing profitability and developing sales channels

Nearly 16 million Customers trust the PZU Group. Every day we are becoming a better Company for them by looking for innovative solutions aligned to their needs



- Achieving permanent profitability in motor insurance and becoming more active in profitable non-motor insurance by getting to know Customers' needs better and implementing a flexible pricing policy
- Concentrating on maintaining business volume and growth in internal sales channels (tied agents, branches) and enhancing the profitability of external channels by matching Customer service costs to the distributor's potential and managing profitability in the channels
- Unlocking PZU Group's cross-sell potential through comprehensive management of the PZU Group's offering (non-life insurance, life insurance, investments, health, pensions) – development of CRM tools supporting all retail sales channels, including direct channels
- Implementing product innovations based on new technological solutions



Better price to risk alignment by enhancing accessibility and quality of Customer data and process-related streamlining

		Profitability		
		negative	slightly positive	highly positive
Risk	low			
	medium			
	high			

The table is a 3x3 grid. The top row is labeled 'Profitability' and has three columns: 'negative', 'slightly positive', and 'highly positive'. The left column is labeled 'Risk' and has three rows: 'low', 'medium', and 'high'. The cells are colored as follows: (low, negative) is white; (low, slightly positive) is light green; (low, highly positive) is dark green; (medium, negative) is red; (medium, slightly positive) is white; (medium, highly positive) is light green; (high, negative) is red; (high, slightly positive) is red; (high, highly positive) is white. Three blue arrows point from the (medium, negative) cell to the (low, slightly positive) cell, from the (high, negative) cell to the (medium, slightly positive) cell, and from the (high, slightly positive) cell to the (medium, highly positive) cell.

Enhancing portfolio profitability by getting to know Customer needs better and following a flexible pricing policy

- Using efficient analytical tools and Big Data files
- Portfolio management based on a given Customer's actual risk profile:
 - Profitability growth driven by higher prices offered to Customers generating a high loss ratio (transforming groups generating losses into profit centers)
 - Above average sales growth in the most profitable segments



Using Link4's complementary offering and know-how to generate synergy effects with the PZU Group

Coordinated management of the PZU and Link4 offering in the various distribution channels

LINK4

- Cooperation of PZU and Link4's distribution areas to capture synergy effects
- Utilization of Link4's offering to safeguard the PZU Group's position in the multi-agent channel and web price comparison engines, possible capital investments in the segment of intermediaries and price comparison engines made at the Link4 level
- Regular exchange of market and organizational know-how, including the establishment of a joint competence center for price management
- Creation of an internal innovation center - Link4 as a low cost environment to test new solutions in the PZU Group



New own brands will enable the PZU Group to better use the hidden potential in market niches



LINK4



The PZU Group will create new insurance brands in Poland to enhance its competitive position in selected Customer groups

- Link4 as a platform for the low cost launch of new brands
- Focusing on market niches in which PZU and Link4's market shares are below ambition
- The new brands will target Customers affected by market inefficiencies (e.g. improper pricing, ineffective distribution model)
- Small and relatively homogenous (concentrated) Customer groups will be model subsegments to promote and cultivate new brands in their preliminary phase
- Utilize brand characteristics in subsegments to enhance perception and Customer retention



The PZU Group's proactive measures and growing significance in the Corporate Customer segment (non-life insurance)

PZU Group's rapid growth in various lines of business in the Corporate Customer segment



- Implementing systemic solutions facilitating optimum management of the Corporate Customer portfolio, including comprehensive management of profitability in the segment and rapid development of sales of non-motor products
- Dynamic business growth in the Mid-Corpo segment in motor insurance and non-motor insurance (medium-sized corporates operating on the Polish market)
- Developing cooperation with hospitals, local government entities and State Treasury-owned companies by creating a dedicated insurance cover offering (nearly PLN 500 m in premium at PZUW TUW in 2020)
- Implementing advanced consulting services in risk management (PZU Lab)
- Extending PZU's international activity by entering the Lloyd's market



The PZU Group's strong position on the market for regular premium life insurance



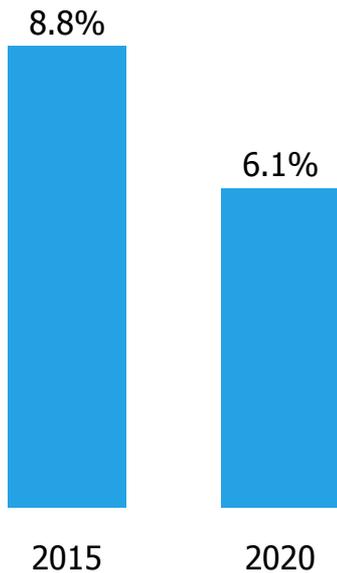
Retain market share and high profitability

- Actively manage profitability in the life insurance Customer portfolio, maintain a high level of profitability in the group and individually continued insurance portfolio
- Retain the position of market leader in group and individually continued insurance by developing the offering in terms of products, processes and distribution with special emphasis placed on the SME segment
- Developing service processes utilizing new technologies and gradually implementing self-service in group insurance and individually continued insurance
- Use a cross/upsell platform for group insurance: health, non-life and life bundles
- Develop the sales of individual life protection products



PZU will reduce its annual insurance activity expenses by PLN 400 m

Administrative expense ratio to net earned premium in PZU and PZU Życie (%)

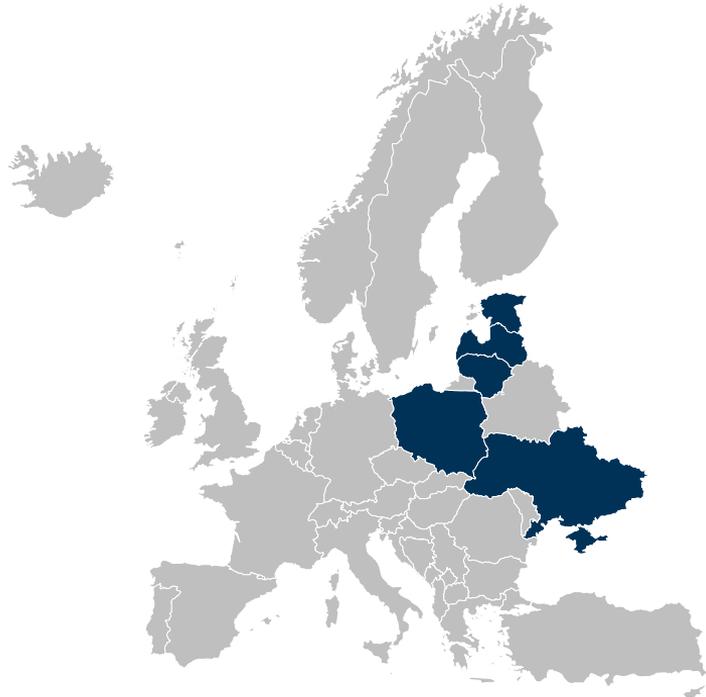


Cost cutting as the key to compete effectively on the insurance market (taking advantage of PZU's scale)

- Cut fixed costs by 20% compared to the base year of 2015, i.e. by PLN 400 m as the net effect to be achieved in 2018 (compared to 2015)
- Cost cutting will largely result from utilizing the implementation of the Everest platform and streamlining operational processes, including automation
- Implementation of the Everest platform makes it possible to reduce project costs and IT costs (end of the period of maintaining two policy systems for non-life insurance)
- Administrative expense optimization



Opportunistic approach to International expansion



 PZU's business footprint

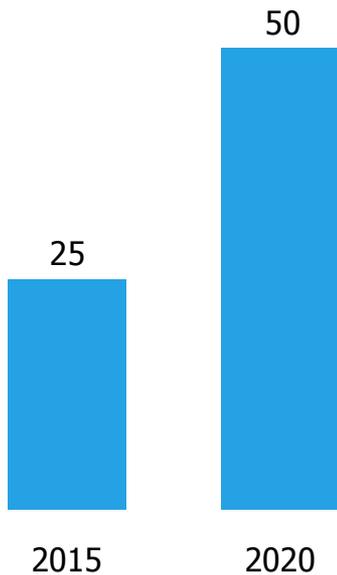
The PZU Group will look for opportunities to create added value by acquiring insurance companies

- Within the framework of International expansion insurance companies are the key targets
- The strategic objective in the countries in which the PZU Group has a footprint is to be one of the leading companies measured by gross written premium
- Market monitoring with an intention to acquire large companies with a significant market share (market leaders) with a profile enabling PZU to create an added value and smaller players with extensive growth potential
- Potential acquisitions in the non-insurance sector (e.g. asset management companies)



PZU Investments will be a leading asset manager in CEE

Third party assets under management (PLN bn)



PZU Investments will manage assets worth nearly PLN 100 bn. Assets of third party Customers under management worth at least PLN 50 bn

- Grow the contribution from the third party asset management business to the PZU Group's financial result
- Enable Customers to participate in the PZU Group's own investments
- Make the products of PZU Investments widely available across Poland including own distribution channels development (e.g. the Internet)
- Considerably higher market share held by TFI PZU in Poland. Market share growth in assets of capital market funds by at least 1 p.p. per annum
- PZU Investments will be a leader in pension and savings programs. Exploit the potential stemming from the Capital Development Program
- Growth through consolidation of the sector in Poland or acquiring asset managers in the CEE region



We will provide our Customers a full range of health care services

PZU Zdrowie as the leader of private health care insurance and the supplier of coordinated medical care

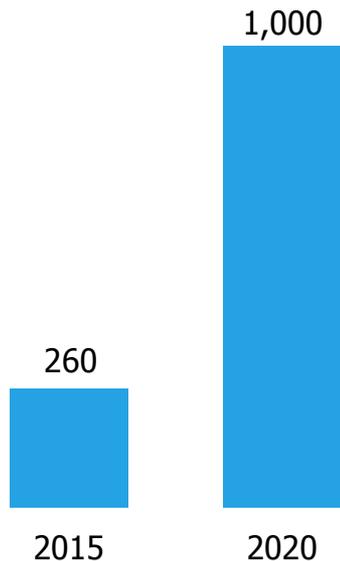


- Create a comprehensive offering of health insurance including subscription plans and fee for service arrangements
- Put in place a unique and customer friendly service model in medical centers divided by quality parameters and cost effectiveness with additional backing from its proprietary network
- Create modern tools to cooperate with a network of subcontractors (portal for service providers, development of an assistance system, communication busbar with centers, online calendars)
- Build a self-service portal for Patients in a third party network and a proprietary network while making it possible in the subsequent stage for all the persons insured in the PZU Group to purchase medical services in the PZU Zdrowie's nationwide network
- Integrate its proprietary network of medical centers and strengthen its market position – promote the PZU Zdrowie brandname and maximize revenues



Growth PZU Zdrowie's revenues to PLN 1 bn in revenues in 2020

Revenues (PLN m)



PZU Zdrowie with revenues at the level of PLN 1 bn in 2020 will significantly strengthen its market position

- Develop its offering based on the PZU Group's key advantages: base of 16 million Customers, strong sales network and brand's high recognition
- Continue to follow the acquisition plan – purchase of medical centers with stable profitability and generate synergy effects (assumptions pertaining to acquisition spending: PLN 330 m up to 2020)
- Business scale growth reflected by the steady improvement in PZU Zdrowie's profitability (EBITDA margin in 2020 of at least 12%)
- The planned growth in PZU Zdrowie's revenues will enable PZU to become one of the leaders on the private health care market in Poland



Implementation of the banking project will make it possible to generate additional shareholder value



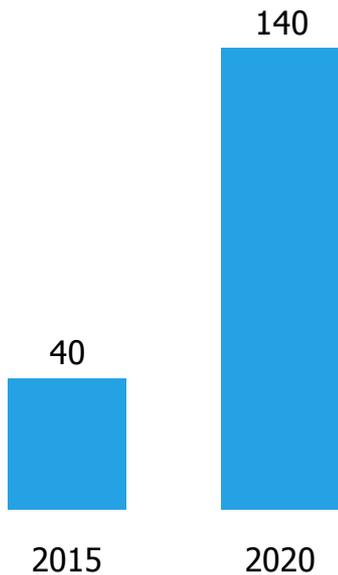
Assumptions underpinning the bank project pursued by PZU

- The banking sector in Poland represents an attractive investment because of its long-term growth prospects and the low level of consolidation, affording the opportunity to take a strategic market position and to build a scale making it possible to generate higher rates of return in the long-term
- On account of its financial standing and the regulatory environment the PZU Group may achieve a premium as the consolidator of the banking market and through investment profits it may generate shareholder value
- Alior Bank is one of the best platforms to consolidate the sector on account of its extensive operating efficiency, innovation and high level of commercial and technological advancement
- If attractive investment options appear, the acquisition of banks whose characteristics justify the lack of integration in the Group's banking segment are permissible



Construction of a banking group in the top five banks in Poland

Assets held by PZU Group's banking pillar (PLN bn)



The PZU Group will build a large-sized and highly profitable banking group

- Considering the opportunity to generate profit in the banking sector, the PZU Group's objective is to build a large-sized banking group, i.e. one of the top five banks in Poland, translating into a goal of at least PLN 140 bn in assets in 2020
- Through effective consolidation and synergy capture the banking pillar's contribution to the PZU Group's result in 2020 should increase to PLN 450 m
- Alior Bank's presence in the PZU Group will also be used to promote a culture of innovation in the Group and to capture synergy, including bancassurance, while cooperation will proceed on commercial principles (an arm's length basis), without operational integration



Capital policy focused on Group stability, a portion of net profit will be allocated to pursue ambitious growth plans



Assumptions underpinning the capital and dividend policy

- Maintain a Solvency II solvency ratio for the PZU Group at a level no lower than 200%
- Issue subordinated debt (an option depending on the needs following from acquisitions)
- Retain a portion of the PZU Group's consolidated earnings to finance growth initiatives (banking project, acquisitions on the mutual fund market, international acquisitions)
- If the retained capital is not used for development it will be returned to the Shareholders
- The PZU Group's structure will be aligned to pursue strategic objectives by making changes to the structures for managing the PZU Group, also including formal and legal changes (establishment of new companies, reorganization of the capital Group)



Minimize threats by employing an integrated risk management system

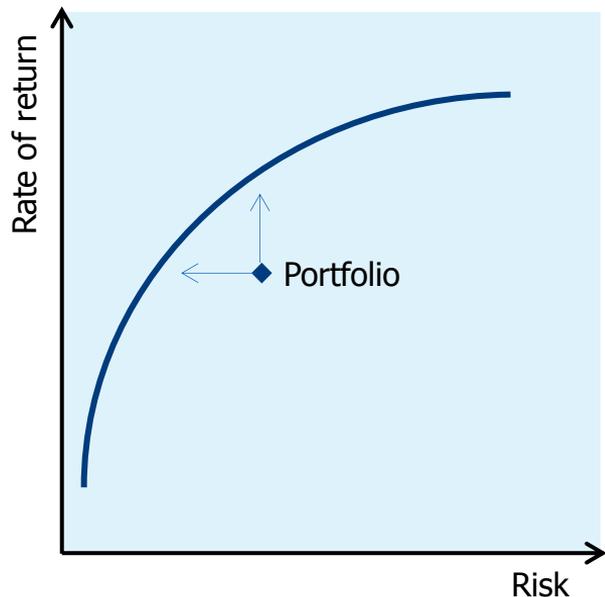


The mission for the integrated risk management system is to support the execution of the PZU Group's Strategy

- Protect the sustainable growth of the PZU Group's value
- Co-manage the level of financial, operational and regulatory security and stabilize the technical result
- Protect the PZU Group's values and reputation
- Contribute to enhance the level of satisfaction of internal Customers and key Stakeholders
- Optimize PZU's reinsurance cover
- Ensure that the highest standards of conduct are observed in all the areas of PZU's activity



PZU Group's investment activity based on actively managing strategic and tactical allocation by asset classes

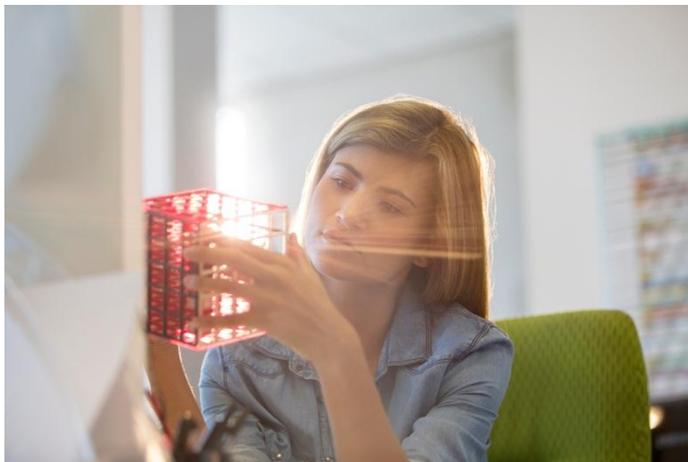


Disciplined management of strategic and tactical asset allocation enabling optimization of profitability in investment activity for the assumed risk appetite

- Management by asset classes. Greater effectiveness of investment processes that determine the medium and long-term investment portfolio
- Better diversification of investment strategies, asset classes, geographic exposure and market cycle exposure
- Improving the profit/risk profile by opportunistic utilization of the non-banking corporate finance niche (e.g. M&A transactions)
- Implementing a new front-office system supporting full cycle (except for accounting) automatic asset management



Create one of the most innovative insurance groups in Europe



Implementing innovative solutions as an accelerator for following the main strategic directions: growth and profitability

- Implementing innovative products
- Using Big Data files in the process of quoting, selling and providing customer service
- Developing electronic distribution and service channels
- Effective transfer of know-how and technological solutions within the PZU Group through local innovation centers: Link4, Alior Bank and selected international companies
- PZU Lab as a supplier of innovative solutions for risk management in large businesses
- Culture of innovation supporting the generation of new solutions by employees



The PZU Group supports the Polish economy's innovation



The PZU Group will actively support the formation of an ecosystem facilitating the development of Polish entrepreneurship and innovation



- Support Polish entrepreneurs and scientists through the PZU Group's own initiatives or cooperation with other initiatives supporting innovation (e.g. the Witelo fund)
- Search for and support external synergy-related initiatives or ones that are complementary to the actions conducted by the PZU Group
- Financial support for the initiatives of entrepreneurs on commercial terms, also via Venture Capital funds



Key Performance Indicators of the Strategy for 2016-2020



		ROE ¹							
		2015	2020						
		18%	18%						
BUSINESS SIZE	NON-LIFE INSURANCE	LIFE INSURANCE		INVESTMENTS		HEALTH		BANKING	
	PZU Group's market share ²	Number of Customers in PZU Życie (million)		Assets of third party Customers under management (PLN bn)		Revenues (PLN m)		Assets (PLN bn)	
	2015 2020	2015 2020	2015 2020	2015 2020	2015 2020	2015 2020	2015 2020	2015 2020	
	33.9% 35%	11.4 11.0	25.3 50	259.5 1000	40 140				
BUSINESS PROFITABILITY	Combined ratio ³	Operating margin in group insurance and individual continuation		Net result on third party asset management (PLN m)		EBITDA margin		Net financial result attributed to the PZU Group (PLN m)	
	2015 2020	2015 2020	2015 2020	2015 2020	2015 2020	2015 2020	2015 2020		
	94.0% 92%	22.4% >20%	92.4 200	3.9% 12%	0 450				
	Reduction of fixed expenses (PLN m)	Surplus rate of return on own portfolio above the RFR							
2015 2018	2015 2016-2020 ⁴								
0 400	2.2 p.p. 2.0 p.p.								
GROUP OBJECTIVES		Solvency II solvency ratio ⁵		NPS for Retail Customer vs. competition		Number of products per Retail Customer		Employee Engagement Index	
		2015 2020	2015 2020	2015 2020	2015 2020	2015 2020	2014 ⁶ 2020		
		285% >200%	+8.6 p.p. > competitors	1.49 1.64	49% 55%				

1 ROE attributable to the parent company

2 Without reinsurance premium

3 Including PZUW TUW and Link4

4 Average from 2016 to 2020

5 Onw funds decreased by expected dividends and tax on assets

6 Last survey



Definitions of Key Performance Indicators (1/3)

Business Size



BUSINESS SIZE

The PZU Group's market share in non-life insurance - non-life market share in Poland calculated as the combined market share held by PZU, Link4 and PZUW TUW based on the data published by the Polish FSA. Calculated on the basis of gross written premium without inward reinsurance

Number of Customers in PZU Życie – number of persons holding Group Life Insurance, Individually Continued Insurance or Individual Life Insurance. Forecasted number of Customers in 2020 based on the assumptions adopted in the sales plan

Assets of third party Customers under management - value of assets owned by the external Customers of TFI PZU and PTE PZU (or their legal successors)

PZU Health's revenues - include revenues for medical insurance sold by PZU Życie and PZU, revenues on medical benefits sold by medical centers (including the ones provided by the company PZU Zdrowie), revenues for medical subscriptions and revenues generated by PZU Pomoc/PZU Zdrowie for medical benefits

Assets (banking) - total level of the banking segment's assets at the yearend



Definitions of Key Performance Indicators (2/3)

Business Profitability



ROE attributable to the parent company - return on equity (ROE) attributable to the parent company calculated as the ratio of net profit according to IFRS attributable to the parent company in a given calendar year to the average consolidated equity net of minority interests in a given calendar year

PZU Group's combined ratio in non-life insurance in Poland - level of combined ratio for PZU, Link4 and PZUW TUW calculated as the ratio of insurance activity expenses and claims and benefits to net earned premium

Operating margin in group insurance and individual continuation - profitability of the group and individually continued insurance segment, calculated as the ratio of the operating result net of the conversion effect to gross written premium

Net financial result on third party asset management - net result generated by PZU Investments on third party asset management. It includes the net profit of TFI PZU after excluding the result on managing the PZU Group's own assets and the net profit of PTE PZU (or their legal successors)

PZU Zdrowie's EBITDA margin - ratio of the sum of the operating result plus depreciation (for non-insurance business) and the technical result (for insurance products) of PZU Zdrowie to the revenues generated by PZU Zdrowie. PZU Zdrowie's revenues include revenues for medical insurance sold by PZU Życie and PZU, revenues on medical benefits sold by medical centers (including the ones provided by the company PZU Zdrowie), revenues for medical subscriptions and revenues generated by PZU Pomoc/PZU Zdrowie for medical benefits net of the impact exerted by non-recurring transactions

Net financial result attributable to the PZU Group (banking) - combined net financial result of the banking segment attributable to the PZU Group



Definitions of Key Performance Indicators (3/3)

Business Profitability, Group Objectives



BUSINESS PROFITABILITY

Reduction of fixed costs - the difference between the level of fixed costs in PZU and PZU Życie in 2018 and the level of costs in 2015 (the base to be reduced). This does not incorporate the potential non-recurring severance costs and M&A costs that may appear in 2018

Surplus rate of return on own portfolio above the RFR - the difference between the annual accounting rate of return on investments for the PZU Group's account and its risk (net of unlisted equities) and the annual average level of WIBOR6M

GROUP OBJECTIVES

Solvency II solvency ratio - quotient of own funds and the capital requirement

NPS for Retail Customer vs. competition - net promoter score calculated for the PZU Group (only PZU and PZU Życie). Difference between the PZU Group's annual average NPS score and the annual average NPS scores of competing insurance groups weighted by the market shares of competing insurance groups

Number of products per Retail Customer - metric specifying the number of products from various lines of business per Retail Customer

Employee Engagement Index - employee engagement index according to the Aon Hewitte methodology accepted by the PZU Group