



# **PZU Group's Q4 and full year 2011 financial results**

**Warsaw, 15 March 2012**



**Current composition of the PZU Group's Management Board**

**Operating performance in 2011**

**Financial results overview**

**Major elements of the new strategy**

# PZU Group's Management Board



**Andrzej Klesyk**  
CEO PZU



**Dariusz Krzewina**  
CEO PZU Życie



**Przemysław Dąbrowski**  
CFO



**Witold Jaworski**



**Bogusław Skuza**



**Tomasz Tarkowski**



**Ryszard Trepczyński**



**Rafał Grodzicki**



**Przemysław Henschke**

**PZU**

✓

✓

✓

✓

✓

✓

✓

**PZU Życie**

✓

✓

✓

✓

✓

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Responsible for life insurance, HR and the Group's network

Responsible for accounting, planning, controlling, tax policy and actuaries

Responsible for retail insurance, sales network, marketing and bancassurance

Responsible for corporate insurance and reinsurance

Responsible for claims handling and assistance

Responsible for investments, the treasury and macro analysis

Responsible for contact center and insurance operations

Responsible for IT

**PZU Group's Q4 and full year 2011 financial results**



## Agenda

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### Operating performance in 2011

**Financial results overview**

**Major elements of the new strategy**

**Questions and answers**

## Key Messages Describing PZU's Performance in 2011

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- **Strong premium growth, especially in non-life insurance**
- **Profitability as main focus**
  - high profitability in group life
  - in non-life COR below 96%
- **Weaker investment results as equity markets retreated**
- **Few one-offs impact on P&L**
  - high operating results despite of conservative policy relating to estimation of future receivables and liabilities

## Overview of PZU Group's 2011 Financial Results

*m PLN*

	2010	2011	Change YoY
Gross Written Premium	14 541	15 279	5.1%
Investment Result	2 778	1 594	(42.6%)
Operating Profit	3 088	2 957	(4.3%)
Net Profit	2 439	2 344	(3.9%)
ROE *	20.3%	18.3%	(2.0 pp)

\* Computed using equity at beginning and end of year

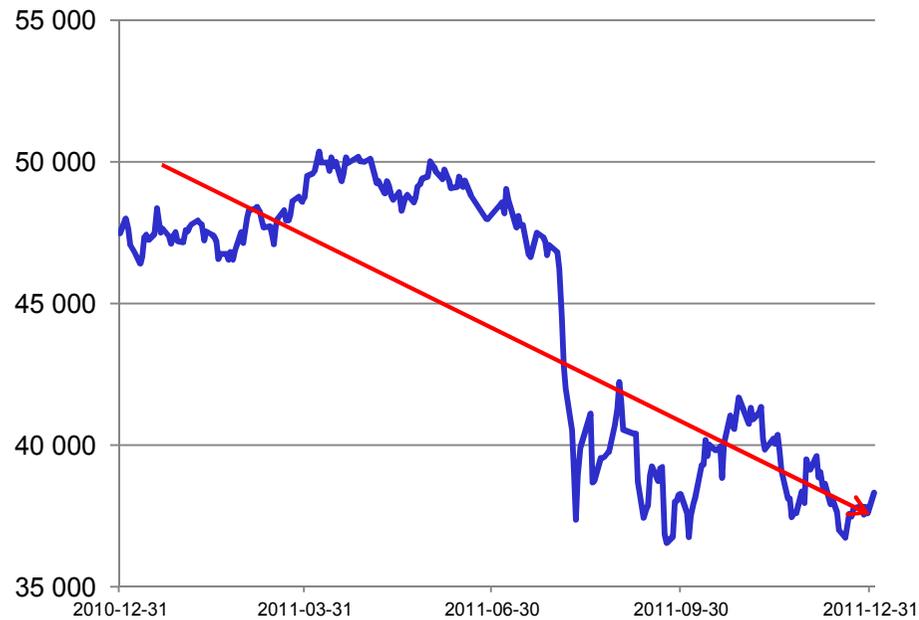
**PZU Group's Q4 and full year 2011 financial results**



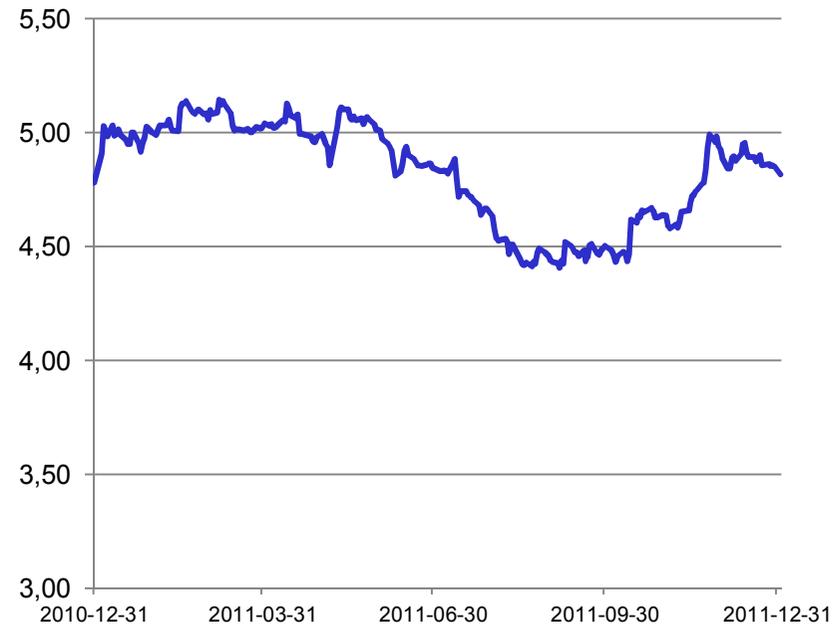
## Significant Volatility of Capital Markets in 2011

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WSE WIG Index in 2011

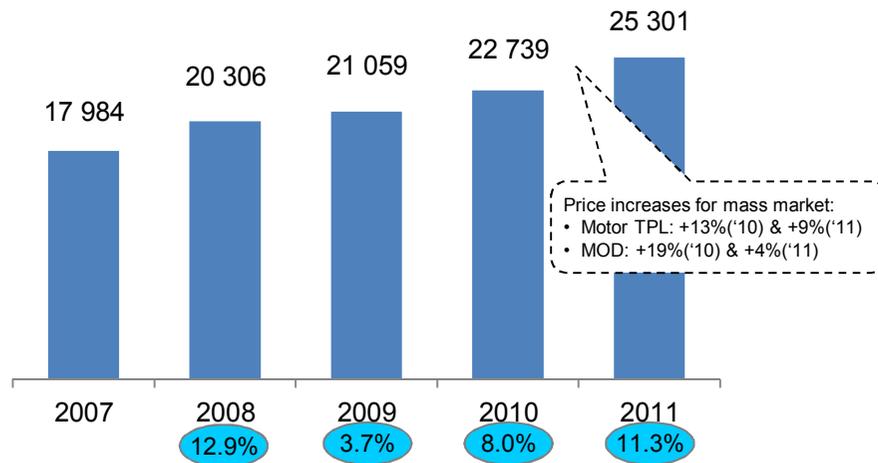


Yield on 2-year Polish Treasury Bonds in 2011 (%)



# Non-life Insurance Market – Strong Growth due to Price Increases in 2010/2011

**Gross Written Premium – Non-life Insurance (m PLN)**



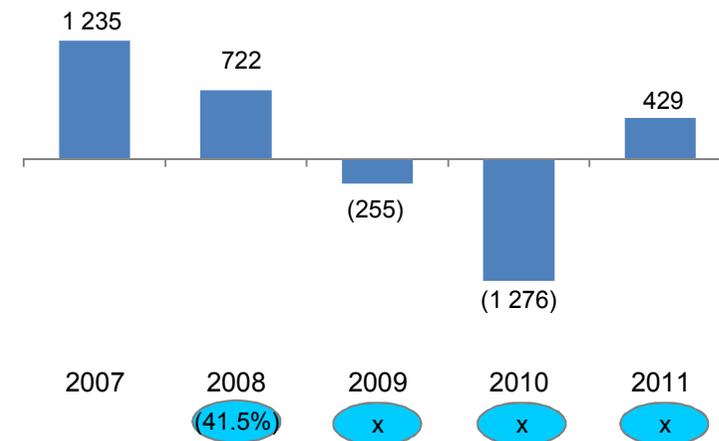
- Major price increases for mass motor products in 2H2010 & 1H2011 resulted in high market growth in 2011.

x% - % change YoY

## PZU Group's Q4 and full year 2011 financial results

Source: Polish FSA Quarterly Reports 4/2011, 4/2010, 4/2009, 4/2008

**Technical Result Non-life Insurance (m PLN)**

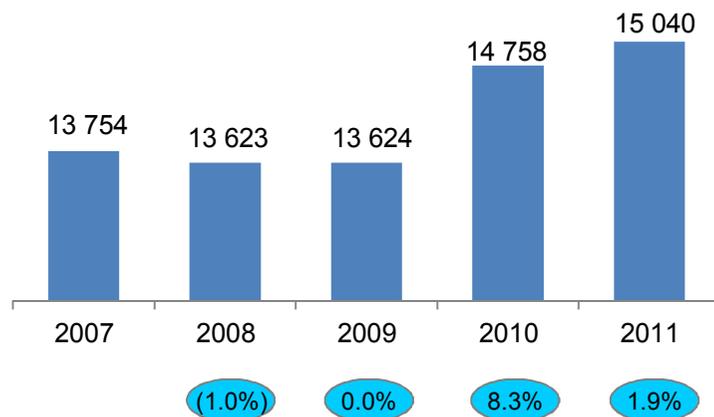


- End of price war – impact on profitability visible in 2011.
- PZU is still leader in profitability (332 m PLN in 2011 – 77.5% of market share).



## Growth in Life Insurance Market Coupled with a Stable Level of Profitability

**Regular Gross Written Premium  
Life Insurance (m PLN)**



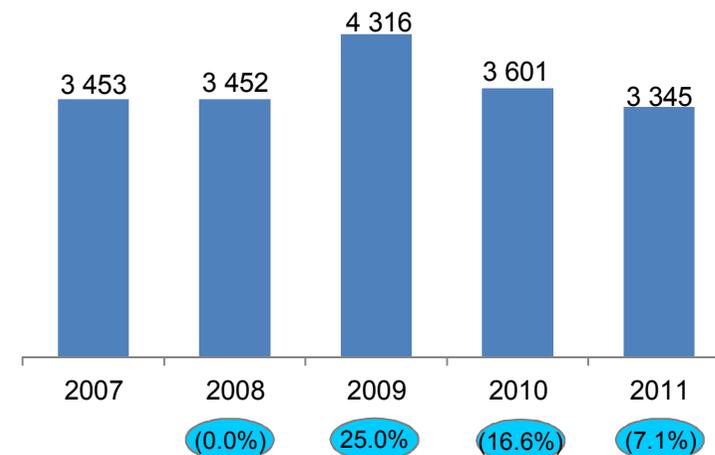
- Last year PZU Life reported regular premium growth of +2.6% vs +1,4% reported by the rest of the market.
- Regular premium growth figures are affected by some single premium products being classified as regular premium business.

x% - % change YoY

### **PZU Group's Q4 and full year 2011 financial results**

Source: Polish FSA Quarterly Reports 4/2011, 4/2010, 4/2009, 4/2008

**Technical Result  
Life Insurance (m PLN)**

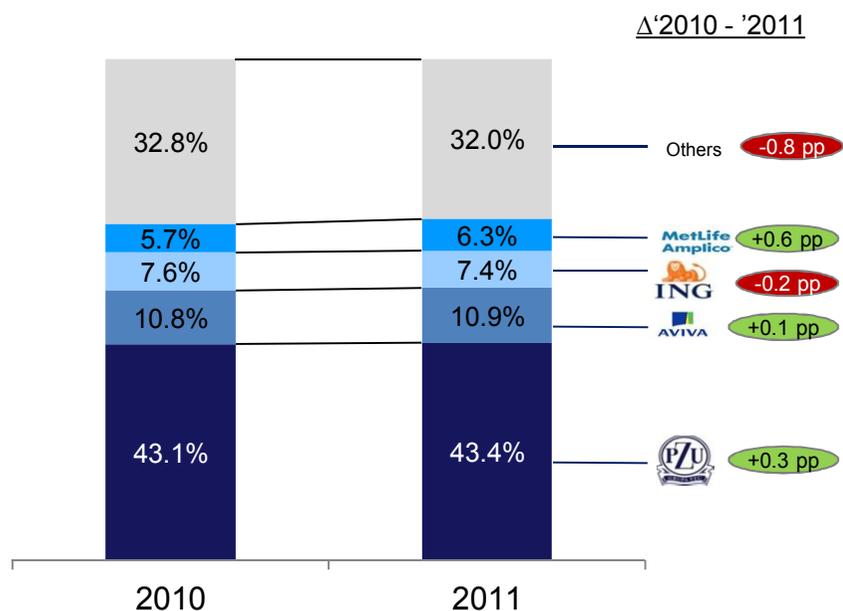


PZU Life's share of the market's technical results exceeds 60%.

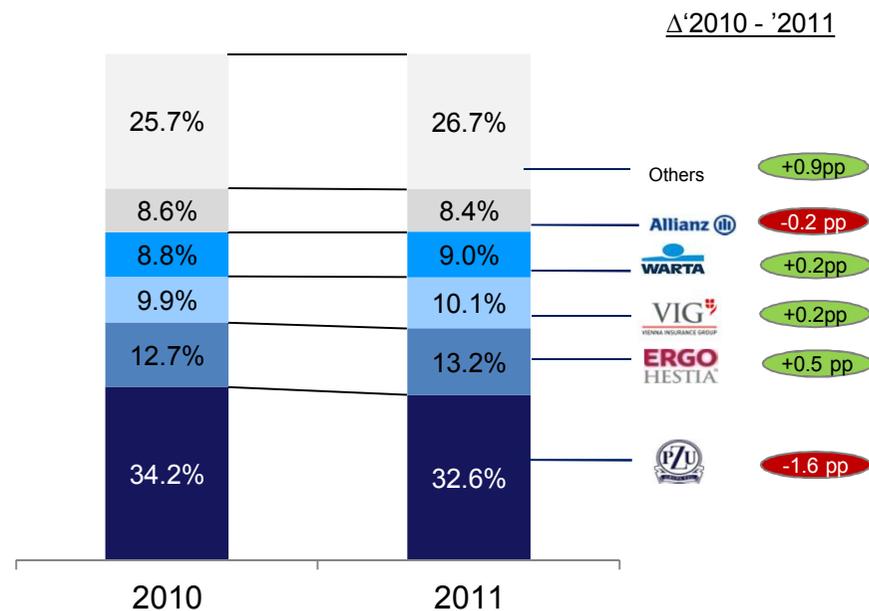


# Decelerating Pace of Market Share Constriction Effect of Restructuring Corporate Insurance & Changes in Price Positioning

**PZU's Market Share – Life Insurance  
(Regular Premium)**

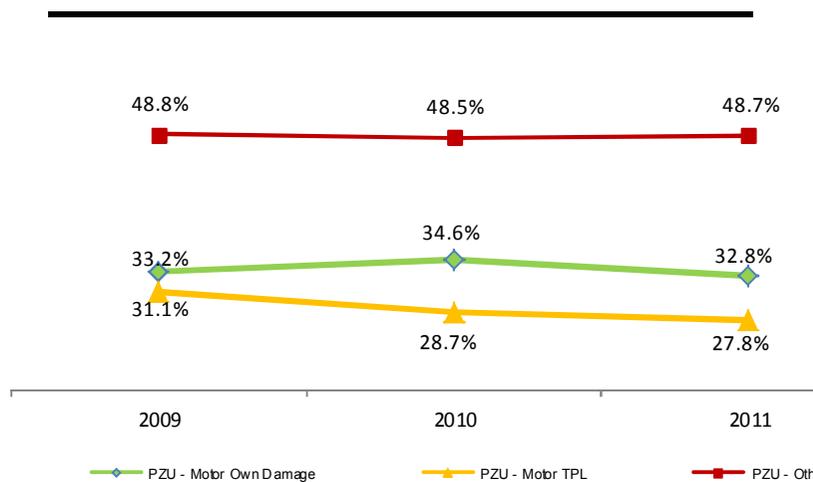


**PZU's Market Share – Non-life Insurance**

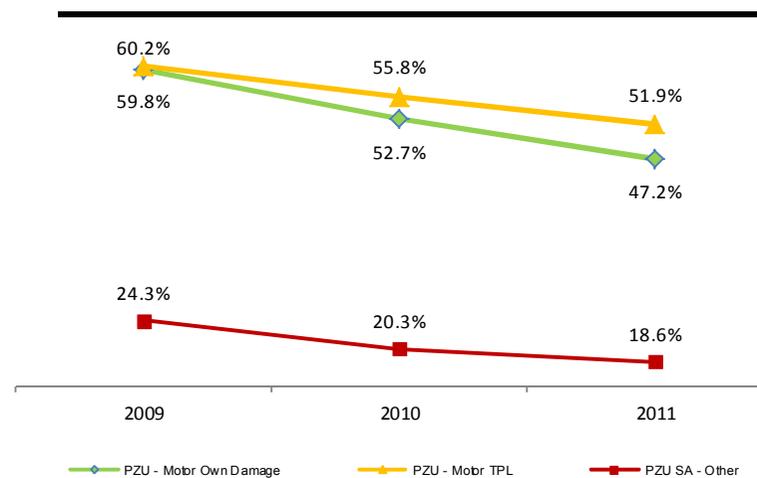


## In Non-life PZU's Position Has Stabilized in Individual Insurance while the Corporate Client Portfolio Is Still Undergoing Restructuring

### PZU Market Share – Individual Clients



### PZU Market Share – Corporate Clients



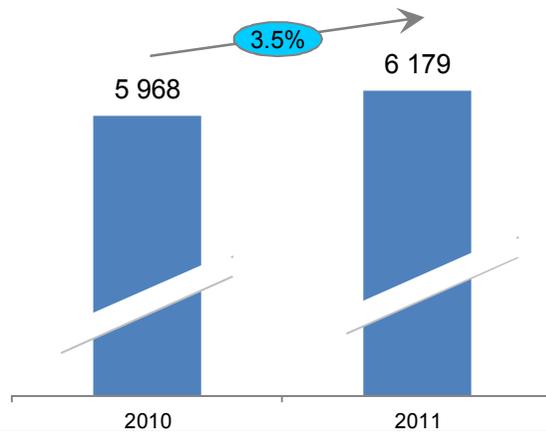
Source: Polish FSA Quarterly Reports 4/2011, 4/2010

**PZU Group's Q4 and full year 2011 financial results**



# Group Life Insurance and Continued Business Remain Stable...

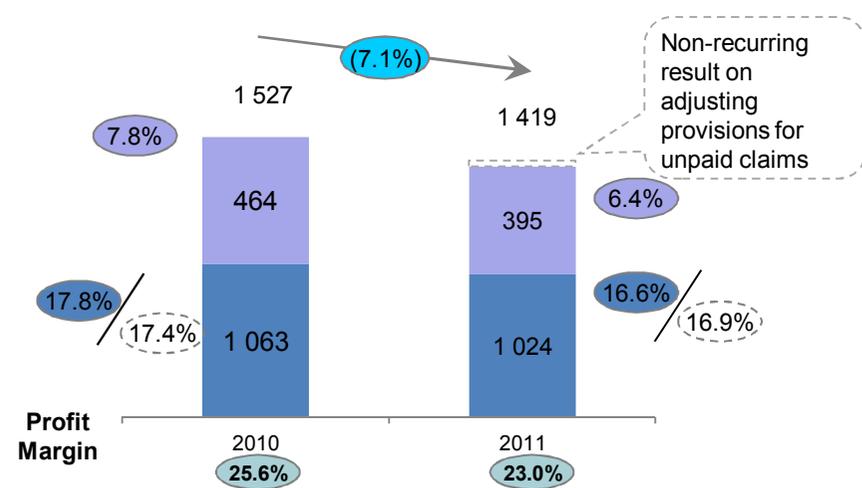
**PZU Life Gross Written Premium – Group and Continued Business (m PLN)**



Higher gross written premium driven by:

- Growth in the group insurance portfolio and higher average premiums;
- High sales of riders;
- Growth of bancassurance endowments classified as insurance contracts.

**PZU Life Operating Profit – Group and Continued Business\* (m PLN)**



- Lower operating profit caused by lower investment profit.
- Controlled growth in the loss ratio and mathematical reserves in continued business.

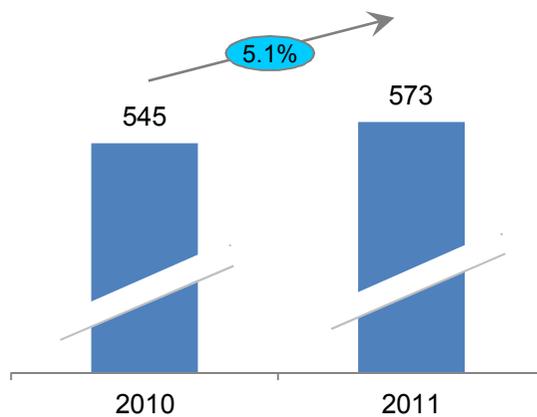
Investment margin (investment yield above technical rate)

Insurance margin (investment yield using technical rate)

\* Net of conversion effect

## ... while Individual Insurance Is Expanding Rapidly

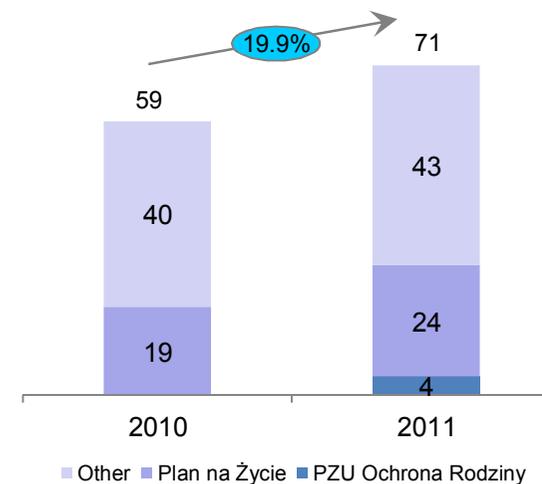
PZU Life Gross Written Premium (m PLN)



Launching new product: "PZU Ochrona Rodziny,,":

- No. of new policies sold: 7.4 thousand;
- APE: 4 m PLN.

PZU Life APE in Individual Life Insurance\* (m PLN)

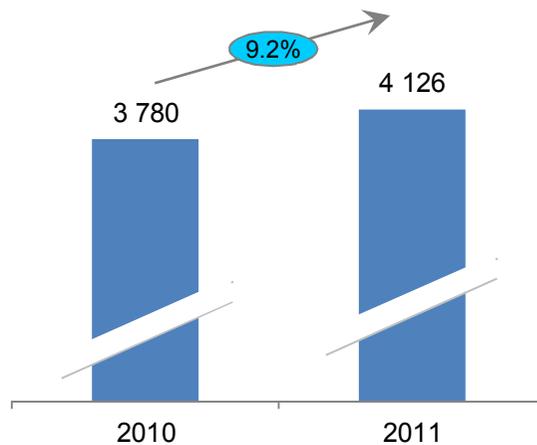


- Stable growth in sales of Plan na Życie.
- Sales of traditional protection products up.
- New unit-linked product in the bancassurance channel.
- Higher demand for structured product in PZU's own sales channel.

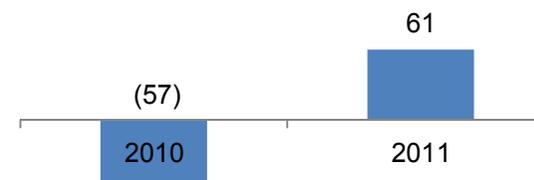
\* Only insurance contracts

## Motor Business for Mass Client Sales and Profitability

PZU's Gross Written Premium in Motor Insurance for Mass Clients (m PLN)



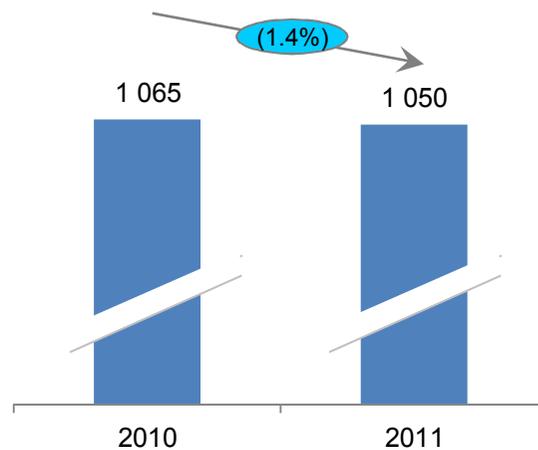
PZU's Technical Result in Motor Insurance for Mass Clients (m PLN)



- Price increases in 2H2010 & 1H2011 impacted sales results in 2011 (average premium rose).
- First effects of price changes visible in 2011 results.

## Restructuring Corporate Insurance Portfolio Visibly Improves Profitability

**PZU's Gross Written Premium in Motor Insurance for Corporate Clients (m PLN)**

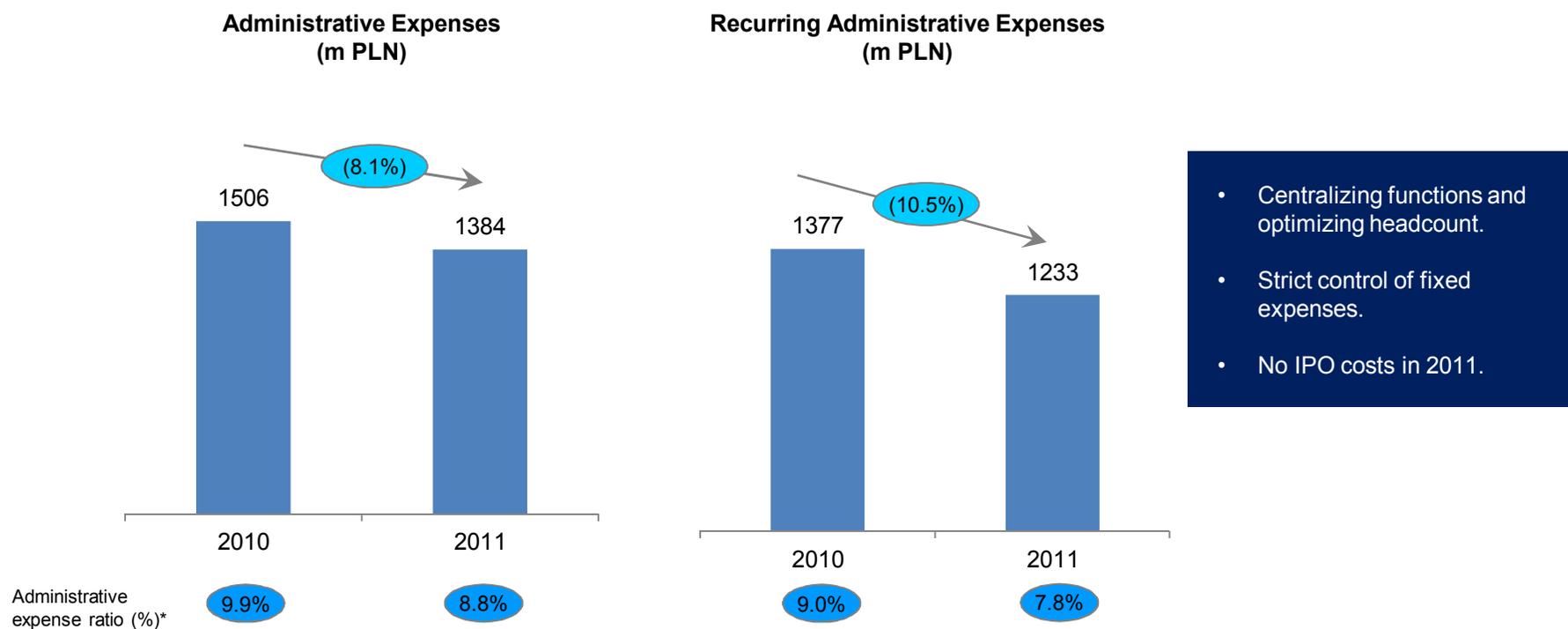


**PZU's Technical Result in Motor Insurance for Corporate Clients (m PLN)**



- Further changes in pricing for corporate clients - gross written premium sustained on lower number of risks.
- In 2011 positive technical results for the first time in years – IPO promise delivered ahead of schedule.

## PZU Group's Administrative Expenses Cut by PLN 122 m in 2011 vs. 2010



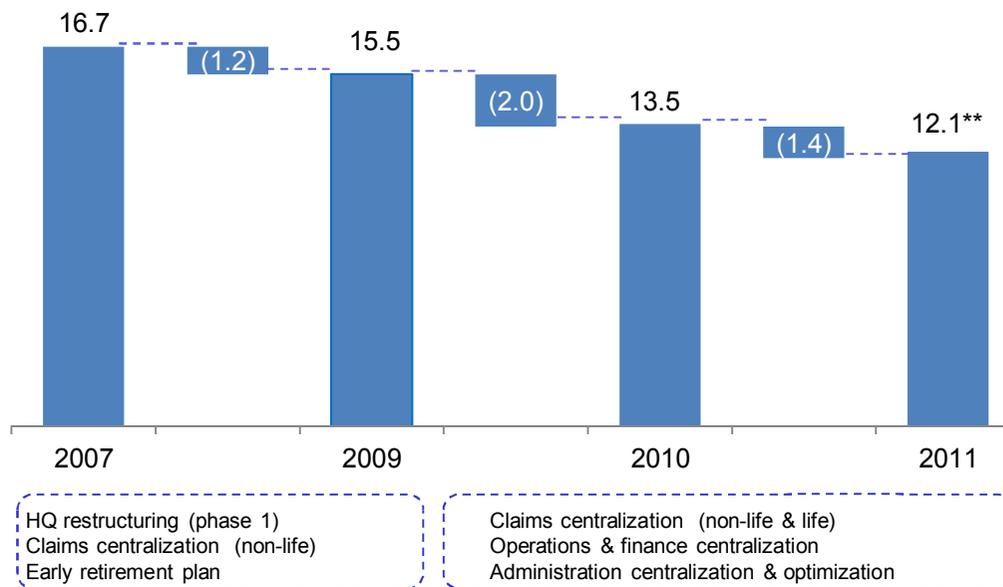
\* Administrative expense ratio: administrative expenses / net earned premium – sum of life and non-life insurance

**PZU Group's Q4 and full year 2011 financial results**



## PZU Group's 2010-2011 restructuring program – next phase of downsizing

Headcount in the PZU Group\* (000s of FTEs)



\*excluding employees of foreign companies, PZU AM, PZU TFI and Armatura Group

\*\* excluding 504 employees in the termination period

- The second phase of the restructuring program has been completed.
- The main areas are claims handling, back office, administration.

## Agenda

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Operating performance in 2011

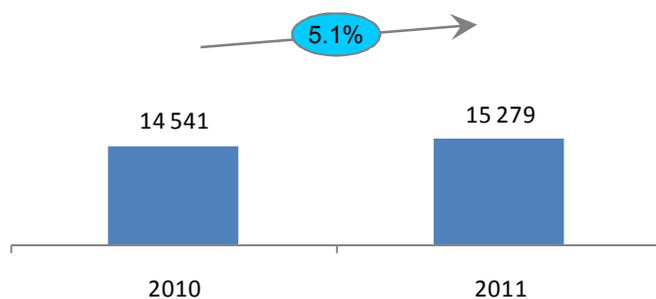
**Financial results overview**

Major elements of the new strategy

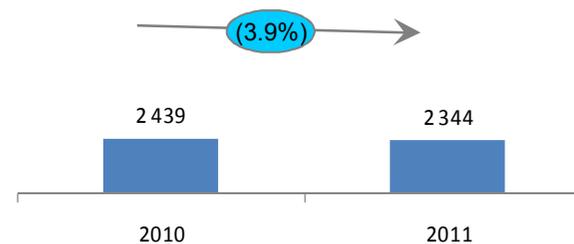
Questions and answers

## Overview of the PZU Group's 2011 Financial Results

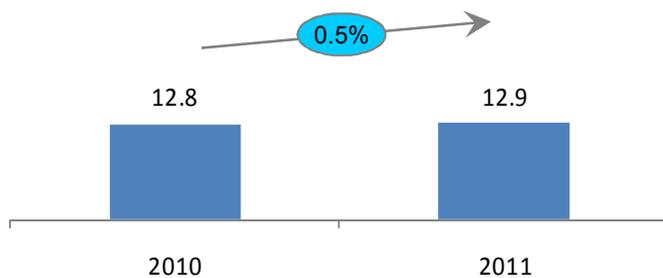
Gross Written Premium (m PLN)



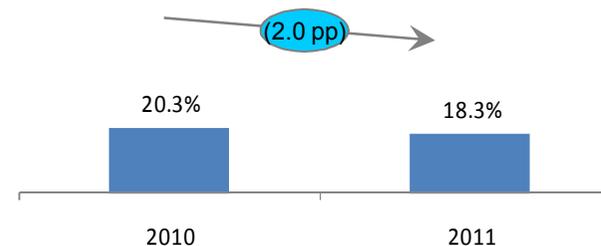
Net Profit (m PLN)



Equity (bn PLN)



ROE (%)\*



\* Computed using average equity in a given period

**PZU Group's Q4 and full year 2011 financial results**



## Overview of PZU Group's Financial Highlights

m PLN, IFRS	2010	2011	Change YoY	Q4 2010	Q4 2011	Change YoY	Q3 2011	Change Q4 over Q3
<b>Profit and Loss Statement</b>								
Gross Written Premium	14 541	15 279	5.1%	3 741	3 853	3.0 %	3 753	2.7%
Non-life Insurance	8 028	8 527	6.2%	2 073	2 113	1.9%	2 074	1.9%
Life Insurance	6 513	6 752	3.7%	1 667	1 740	4.4%	1 679	3.6%
Investment Result	2 778	1 594	(42.6%)	592	554	(6.4%)	(39)	x
Operating Profit	3 088	2 957	(4.3%)	710	625	(12.0%)	429	45.7%
Non-life Insurance	3 613	2 727	(24.5%)	168	108	(35.1%)	148	(26.4%)
<i>Non-life Insurance (net of dividend from PZU Życie)</i>	493	740	50.1%	168	108	(35.1%)	148	(26.4%)
Life Insurance	2 592	1 880	(27.4%)	549	394	(28.2%)	265	48.7%
Net Profit	2 439	2 344	(3.9%)	565	487	(13.8%)	305	59.7%
<b>Balance Sheet</b>								
Equity	12 800	12 870	0.5%	x	x	x	x	x
Total Assets	50 671	52 129	2.9%	x	x	x	x	x
<b>Principal Financial Ratios</b>								
ROE *	20.3%	18.3%	(2.0 pp)	x	x	x	x	x
Combined Ratio**	104.7%	95.3%	(9.4 pp)	x	x	x	x	x

Remarks:

\* Computed using equity at beginning and end of year

\*\* Only for non-life insurance

**PZU Group's Q4 and full year 2011 financial results**



## Profitability by Major Product Lines

Non-life Segment m PLN, IFRS	Gross Written Premium			Operating Profit			Combined Ratio	
	2010	2011	Change YoY	2010	2011	Change YoY	2010	2011
<b>Total</b>	<b>8 028</b>	<b>8 527</b>	<b>6.2%</b>	<b>3 613</b>	<b>2 727</b>	<b>(24.5%)</b>	<b>104.7%</b>	<b>95.3%</b>
<b>Mass motor insurance<sup>(4)</sup></b>	<b>3 780</b>	<b>4 126</b>	<b>9.2%</b>	<b>(57)</b>	<b>61</b>	<b>x</b>	<b>103.5%</b>	<b>98.9%</b>
Motor TPL Insurance	2 199	2 486	13.1%	(81)	(102)	x	107.8%	105.5%
Motor Own Damage	1 581	1 641	3.8%	24	163	579.2%	97.2%	89.3%
<b>Corporate Motor Insurance<sup>(4)</sup></b>	<b>1 065</b>	<b>1 050</b>	<b>(1.4%)</b>	<b>(161)</b>	<b>21</b>	<b>x</b>	<b>114.2%</b>	<b>97.8%</b>
Motor TPL Insurance	397	405	2.0%	(149)	(64)	x	137.5%	115.6%
Motor Own Damage	667	645	(3.4%)	(12)	85	x	101.2%	86.8%
<b>Other Products<sup>(4)</sup></b>	<b>2 936</b>	<b>3 071</b>	<b>4.6%</b>	<b>(26)</b>	<b>250</b>	<b>x</b>	<b>99.5%</b>	<b>88.6%</b>
<b>Other Elements<sup>(1)</sup></b>	<b>247</b>	<b>280</b>	<b>13.4%</b>	<b>3 857</b>	<b>2 395</b>	<b>(37.9%)</b>	<b>x</b>	<b>x</b>

Life Segment m PLN, IFRS							Operating Profit Ratio	
	2010	2011	Change YoY	2010	2011	Change YoY	2010	2011
<b>Total</b>	<b>6 513</b>	<b>6 752</b>	<b>3.7%</b>	<b>2 592</b>	<b>1 880</b>	<b>(27.4%)</b>	<b>39.8%</b>	<b>27.8%</b>
Group and Continued <sup>(2)</sup>	5 968	6 179	3.5%	1 527	1 419	(7.1%)	25.6%	23.0%
Individual	545	573	5.1%	140	131	(6.4%)	25.8%	22.9%
Other Elements <sup>(3)</sup>	x	x	x	924	330	(64.3%)	x	x

Remarks:

- 1) Gross written premium generated by PZU Group's foreign entities, investment profit, other revenues and operating expenses.
- 2) Operating profit without adjusting the mathematical provision for Type P group insurance primarily resulting from converting long-term contracts into yearly-renewable term insurance.
- 3) Conversion effect, profit on investing own funds, other revenues and operating expenses not related to products.
- 4) Only for PZU

### PZU Group's Q4 and full year 2011 financial results



## Changes in PZU SA reporting: premium recognition & ABC cost allocation

PZU's GWP	2010	2011	%
<b>Previous method</b>			
Gross written premium	7 784	8 270	6.2%
Change of premium reserve	→ 294	→ 364	23.8%
Gross earned premium	7 490	7 906	5.6%
<b>New method</b>			
Gross written premium	7 781	8 247	6.0%
Change of premium reserve	→ 291	→ 341	17.2%

PZU's indirect costs for full year 2011	ABC method	Previous method	Difference
Administration costs	634	880	(246)
Acquisition costs	546	412	134
Claims handling costs	393	290	103
Part of asset management costs	25	18	7
Other operating costs	5	3	2
<b>Total</b>	<b>1 603</b>	<b>1 603</b>	<b>0</b>

*PZU Group's Q4 and full year 2011 financial results*



## Several Extraordinary Items Affected the Results

m PLN, IFRS	2010	2011
<b>Operating Profit (according to financial statements)</b>	<b>3 088.1</b>	<b>2 956.7</b>
<i>including:</i>		
<b>1</b> Snowfall and flood claims	(369.4)	-
<b>2</b> Dividend financing costs	(58.7)	-
<b>3</b> Movement in insurance provisions – release of type P provisions	+520.3	+406.1
<b>4</b> Effects of consolidating the Armatura Group – change in the method of valuation	-	+118.9
<b>5</b> Provision for UOKiK decision	-	(56,6)
<b>6</b> Reinsurance settlements	-	(91,8)

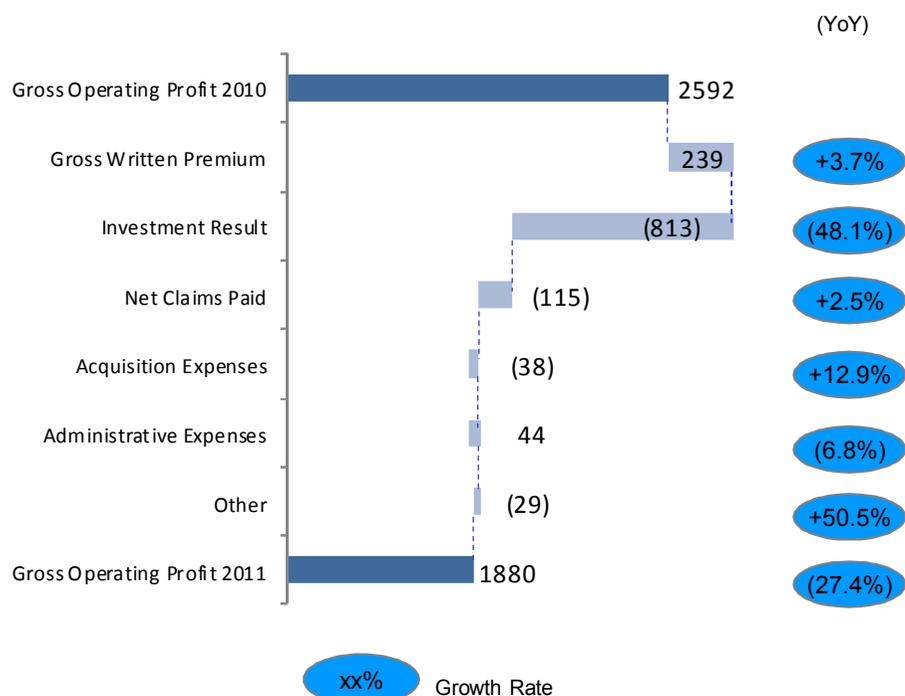
### PZU Group's Q4 and full year 2011 financial results

- 1** In 2011 the effect of snowfall and flood claims was much lower than in the previous year.
- 2** In 2011 PZU didn't incur any costs to finance the dividend paid in 2009 (in 2010 PZU incurred loan-related costs to pay the dividend).
- 3** Impact of converting long-term contracts into yearly-renewable term contracts comparable YoY.
- 4** The difference between the value of the Armatura Group carried in the balance sheet as at 31 December 2010 and PZU Group's share in the Armatura Group's net assets was reported in the profit and loss statement. The non-recurring impact is related to commencing consolidation by the full method.
- 5** PZU provisioned the penalty imposed by the Office of Competition and Customer Protection (UOKiK) related to group accident insurance for students and school personnel.
- 6** PZU changed its assessment of reinsurance settlements regarding the green card product.



# Life Insurance Segment Profitability Under Pressure from Financial Markets

**Primary Operating Profit Components in Life Insurance  
(m PLN)**



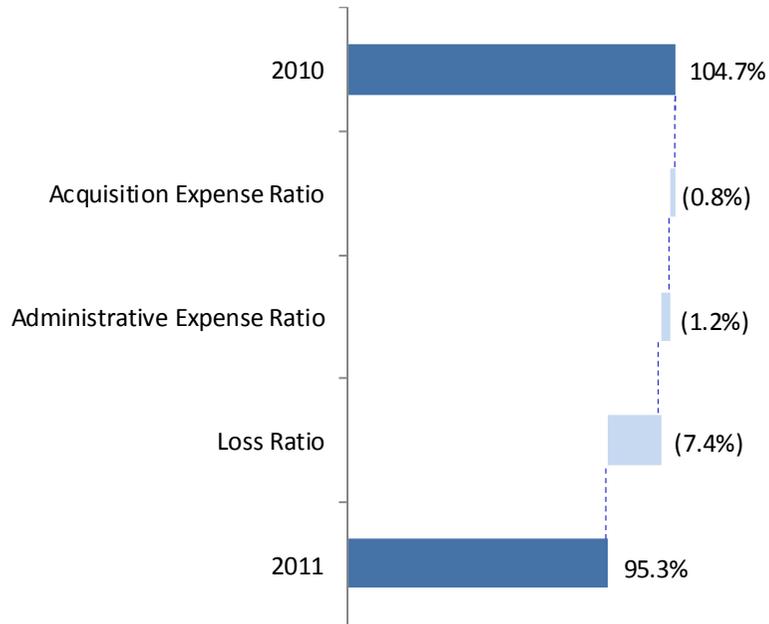
**Remarks**

- Gross written premium growth due to group and continued insurance +3.5% YoY; in addition, high growth in individual products +5.1%.
- The lower investment result driven by the poor capital market situation in H2 2011.
- Higher net claims paid in type P group protection insurance (the higher frequency of claims paid is the effect of portfolio expansion, though in line with expectations).
- Acquisition expenses grew year on year as a result of higher sales volume (including investment insurance with a high first-year commission).
- Optimizing fixed expenses.
- The lower operating profit stems primarily from lower investment results on the part above the technical rate.

# Profitability of Non-life Insurance Improved

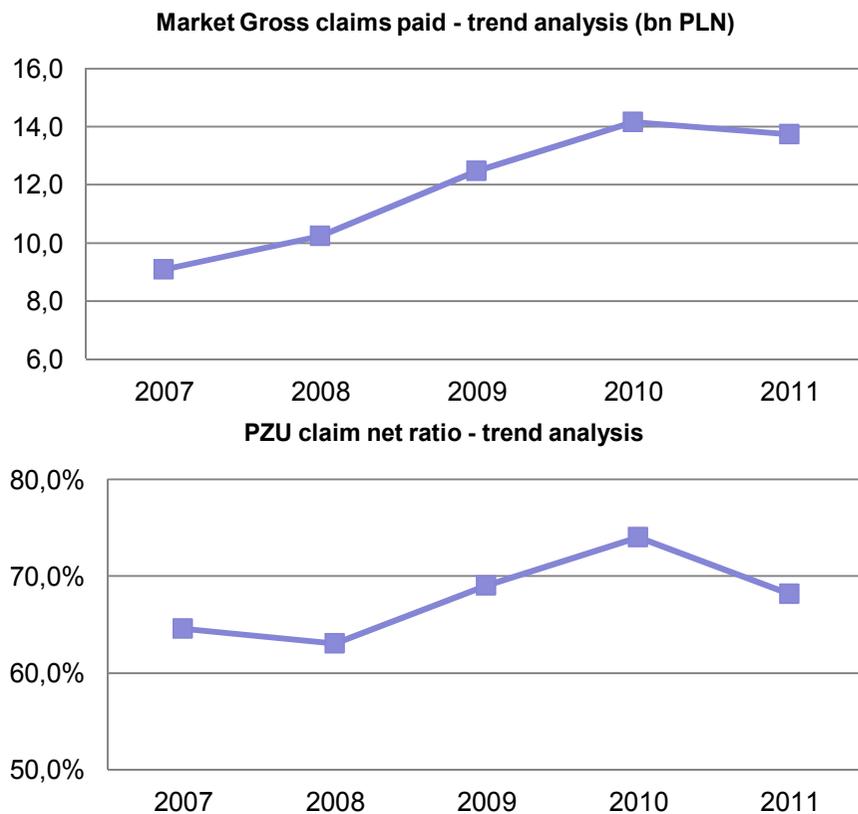
Profitability of Non-life Insurance (COR %)

Remarks



- Decrease of acquisition expenses ratio due to decline of indirect acquisition costs (c.a. 4% comparing to 2010).
- Reduction of administrative expenses in conjunction with:
  - headcount downsizing and strict control of fixed expenses;
  - change of ABC cost allocation model.
- Lower loss ratio as a result of the absence of non-recurring events in 2011 (snowfall and flooding in 2010) and enhancement of profitability on motor insurance.

## Non-life Segment – Prudent Approach to Provisions



Profitability in 2011 was above expectations and is not representative for trend purposes :

- small catastrophic events (not triggering reinsurance program) were much lower than historically;
- changes in the law (mostly TPL) expand range of possible claims, resulting in higher expected claims (measure quantitatively and in PLN).

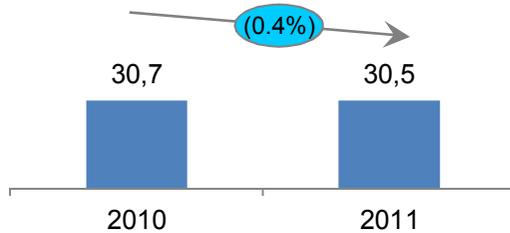
**That is why PZU elected to raise technical provisions following the principle of prudence.**

*PZU Group's Q4 and full year 2011 financial results*



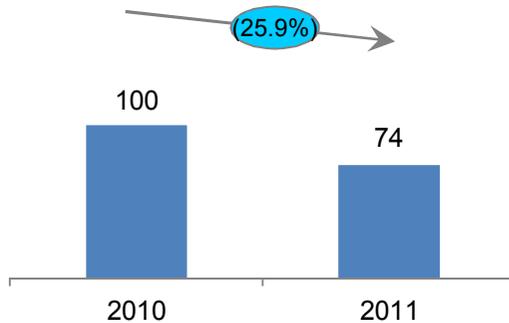
## Profitability of the Pension Segment

### Assets under Management – OFE PZU (bn PLN)



- Lower assets under management as a result of unfavorable capital market conditions.

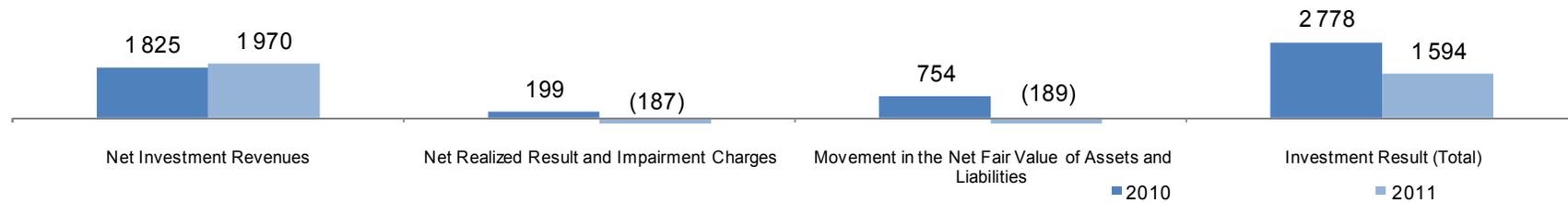
### Net Result (m PLN, IFRS)



- Net profit fell in 2011 in conjunction with:
  - lower revenues from ZUS contributions;
  - higher acquisition costs – expensing some of the deferred acquisition costs as a result of statutory amendments (percentage of contribution transferred to open-end pension funds reduced from 7.3% to 2.3%).

# Investment Activity

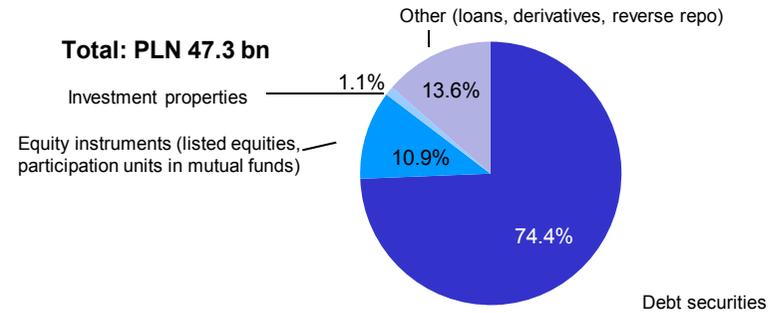
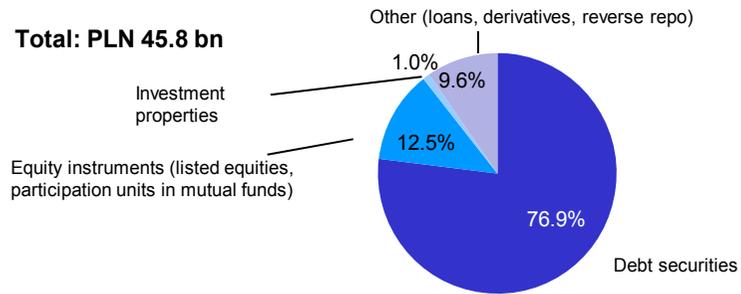
## Investment Revenues (m PLN)



2010

## Investment Composition\*

2011



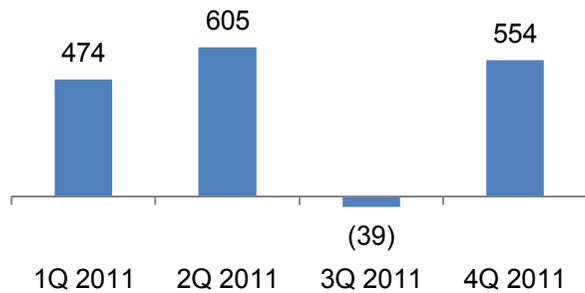
\* Investments include financial assets and investment properties

**PZU Group's Q4 and full year 2011 financial results**

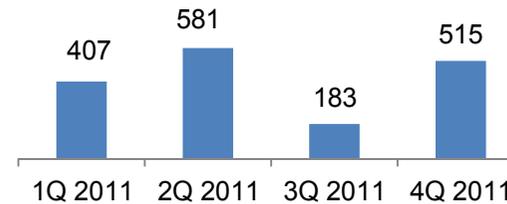


# Investment Activity

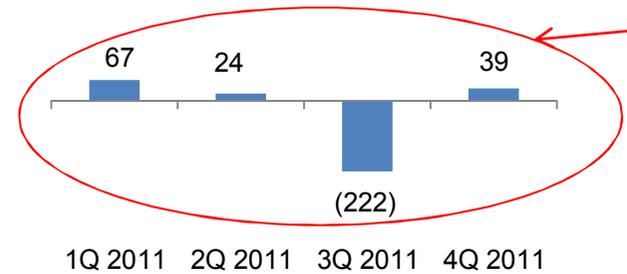
**Investment Revenues (Total m PLN)**



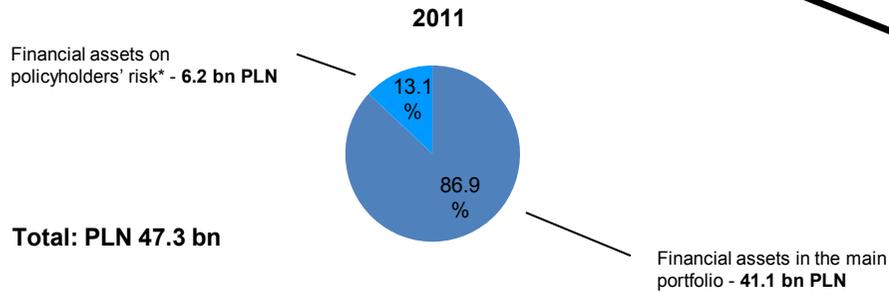
**Investment Revenues from the main portfolio (m PLN)**



**Investment Revenues on policyholders' risk\* (m PLN)**



No impact on PZU Group's net result



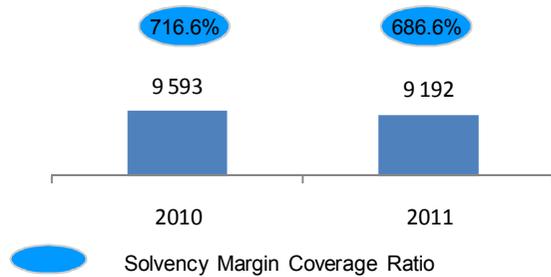
**PZU Group's Q4 and full year 2011 financial results**

\* Products at policyholders' risk: unit-linked, structured and tax exempt products

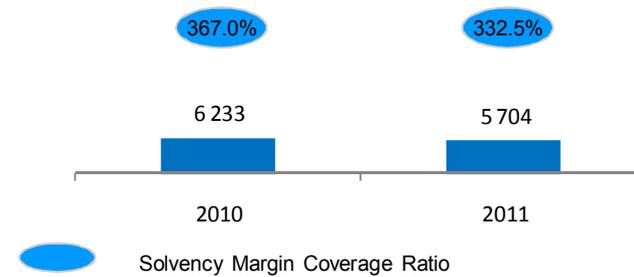


# Robust Capitalization, Strong Solvency Ratios and Stable Dividends

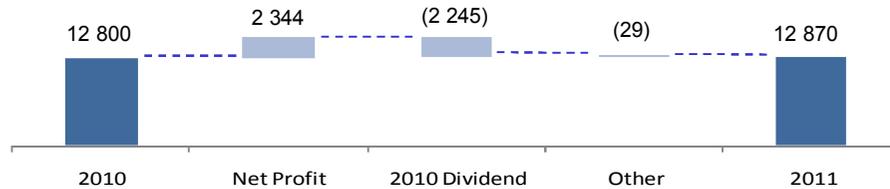
**PZU SA's Own Funds and Solvency Margin Coverage Ratio (m PLN, PAS)**



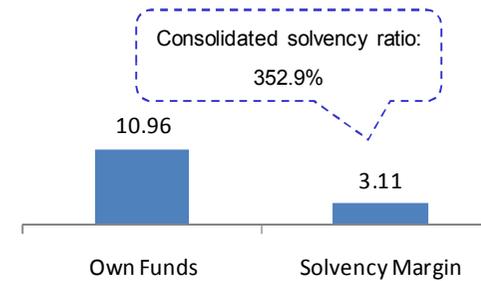
**PZU Życie SA's Own Funds and Solvency Margin Coverage Ratio (m PLN, PAS)**



**PZU Group's Equity (m PLN, IFRS)**



**PZU Group's Own Funds (bn PLN, IFRS)**

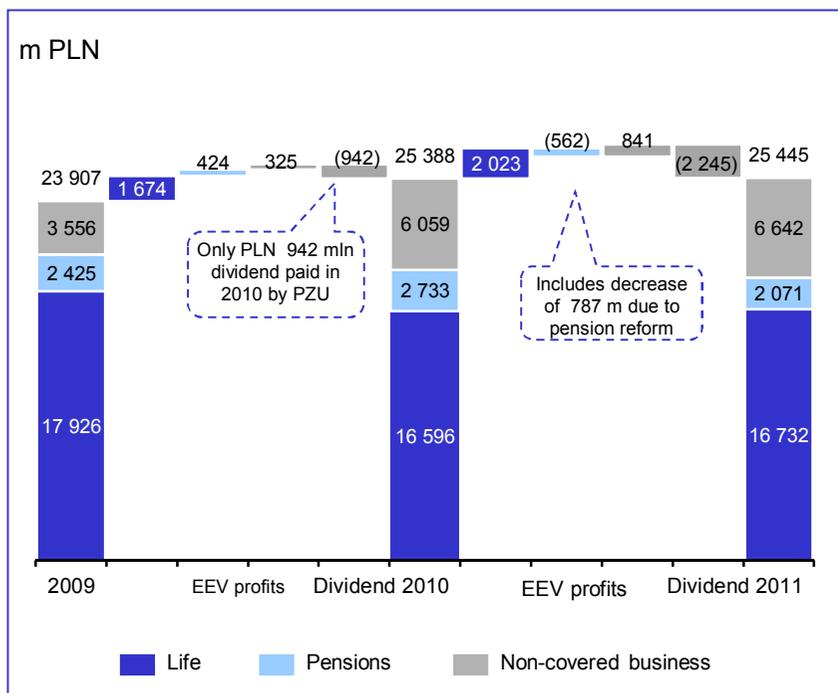


*PZU Group's Q4 and full year 2011 financial results*



## Group EEV is driven by capital transfers and new pension system law

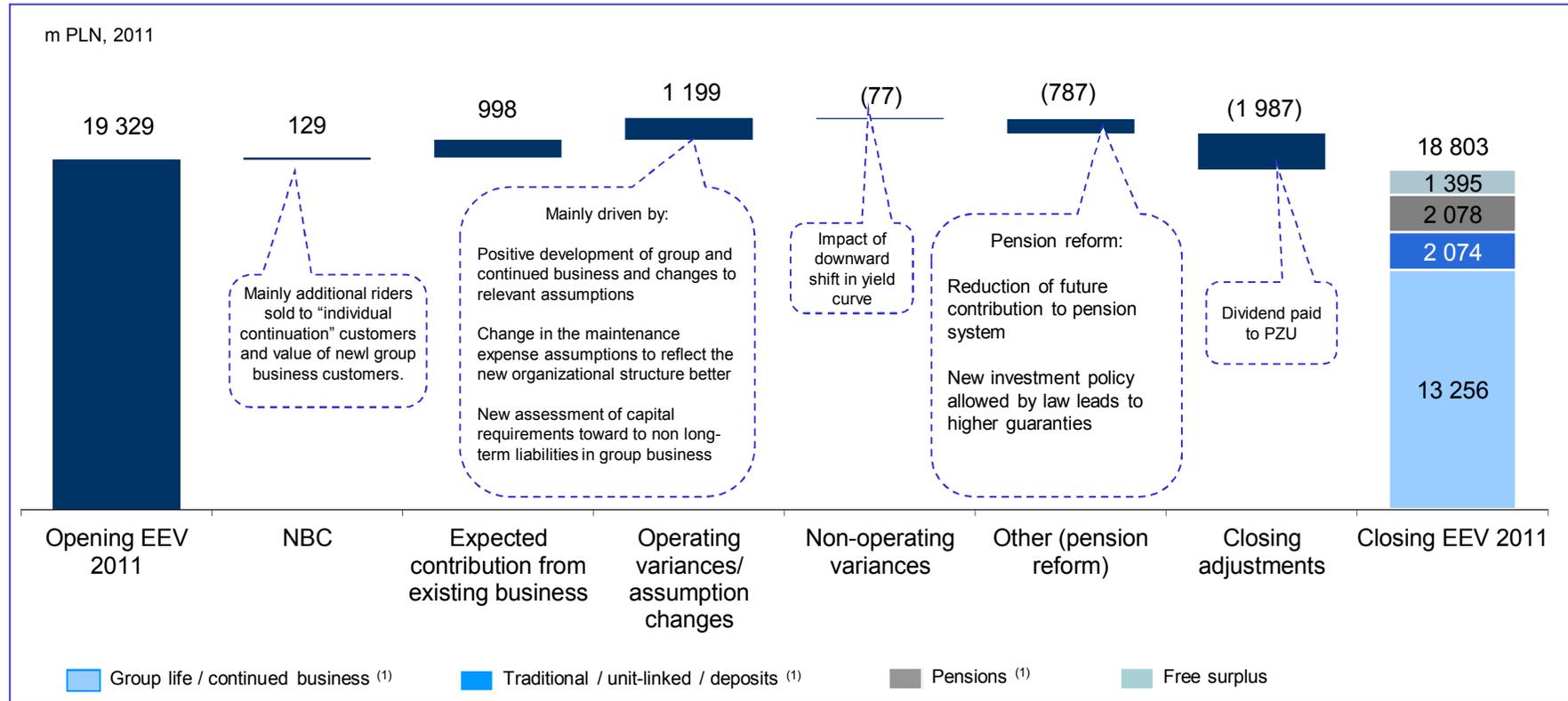
### Group EEV



### Comments

- The new Pension System Act lowered PTE's value by 0.8 bn PLN
- Development of Group EEV and its components are driven to a great extent by internal and external capital transfers
  - EEV profit in 2010 exceeded dividend paid
  - In 2011 Group EEV remains approximately constant compared to 2010 due to similar dividend payout and current year profit
- PZU life & pensions EEV earnings in 2011
  - 1.5 bn PLN, i.e. 7.6% of 2010 EEV – after Pension Reform
  - 2.2 bn PLN, i.e. 11.6% of 2010 EEV – before Pension Reform
- PZU's life and pensions EEV is conservative relative to European peers
  - Low sensitivity to interest rates and equities
  - Very high portion of risk business

## Life and pension business contributes substantial value

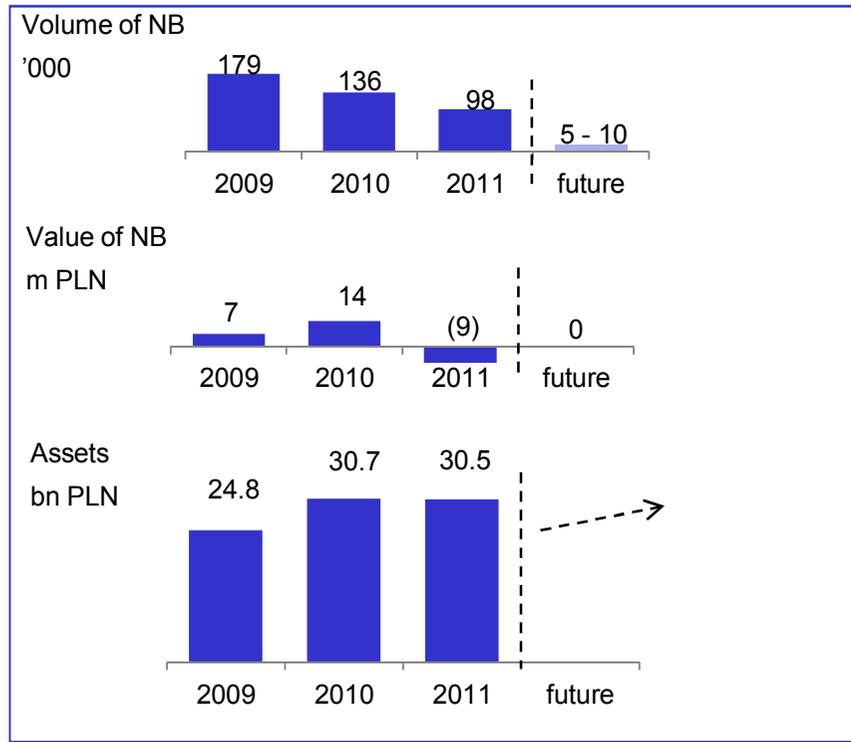


Notes:

1) Includes required capital for the line of business

# Pension Reform Turns System into a Run-off Business

## PTE PZU



## Comments

- Limitation of acquisition
    - There is no place for acquisition of members from other pension schemes
    - only new generation of employees
  - Reduction of future contribution to pension system
- 
- 
- 
- Pension system becomes similar to pure Mutual Fund or Asset Management
  - ... but without acquisition-related growth opportunities
- PZU will report Pension Segment not under EEV, but i.a.:
- Financial results,
  - Assets under management,
  - Number of members.

## Agenda

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Operating performance in 2011

Financial results overview

**Major elements of the new strategy**

Questions and answers

## PZU Group's Vision for Growth

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„Through our strong customer focus and superior operational efficiency the PZU Group will become the largest and most profitable insurance company in Central and Eastern Europe”

## The New Strategy Builds on the Strategy for 2009-2011

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PZU Group's Objectives in the Strategy for 2009-2011	Execution Score
1. We will strive to grow in Poland	✓
2. We will become a <u>customer-oriented group</u>	✓
3. We will engage in M&A so that ultimately <u>15% of our revenue is generated abroad</u>	✗
4. We will be an <u>effective, performance-oriented organization</u>	✓

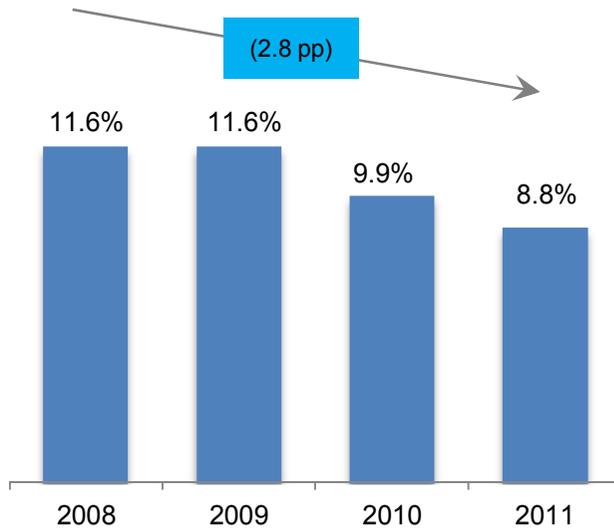
## Ambitious Financial Targets Achieved

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- Technical result in corporate motor insurance improved by **0.5 bn PLN**, (combined ratio improved from 131% in 2008 to 98% in 2011)
- Operational margin in group and continued business sustained above **20%** (23% in 2011)
- Aggressive growth in the sales of individual life business
  - **30%** APE growth, 2011 compared to 2008
- Administrative expenses slashed by **390 m PLN**
- Profound restructuring of the Group completed

## Administrative Expense Ratio Reduced to 8.8%

Administrative Expense Ratio\*  
PZU Group (%)



\* Administrative expense ratio: administrative expenses / net earned premium – sum of life and non-life insurance

## Commentary

- Downsizing more than 4 thousand FTEs in the restructuring program (decline to 12.1 thousand FTEs at yearend 2011), largely by centralizing operational processes and claims handling
- Controlling the level of other administrative expenses

## PZU 2.0 Will Be an Efficient Organization Highly Focused on Customer Needs

	PZU Group's Strategy 2009-11 (2011)	PZU 2.0 Strategy (2014)
Business Philosophy	Lines of business strongly cooperating with one another based on products	Active customer relationship management
Distribution and Customer Service	Modern and effective traditional channels	Multi-channel, integrated sales and customer service model
Operations	High degree of automation Effective processes espousing „less paper”	Total automation „Paperless” philosophy
Organization	„Group of well-functioning product companies”	„Well-functioning Group organized by customer segments”

## Pillars of the PZU 2.0 Strategy for 2012 – 2014 and Facilitators



## The PZU Group Will Build a Major Position on the Savings / Investment Market

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- Building a strong sub-brand called PZU Inwestycje reflecting our skills and position as an expert in asset management
- Expanding our product offering where PZU's priority will be to sell long-term regular savings programs
- Opening up to new distribution channels (banks, web platforms)

### PZU Energia Medycyna Ekologia



## PZU Group's Ambition Is to Create the Health Insurance Market

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- PZU will enhance its ambulatory products predicated on a service organization model and launch new drug prescription insurance products.
- The PZU Group's objective is to generate 5 bn PLN of premiums in 5 years. Achieving this target, however, will necessitate legislative changes (supplementary health insurance law, allowing for competition in managing public premiums).



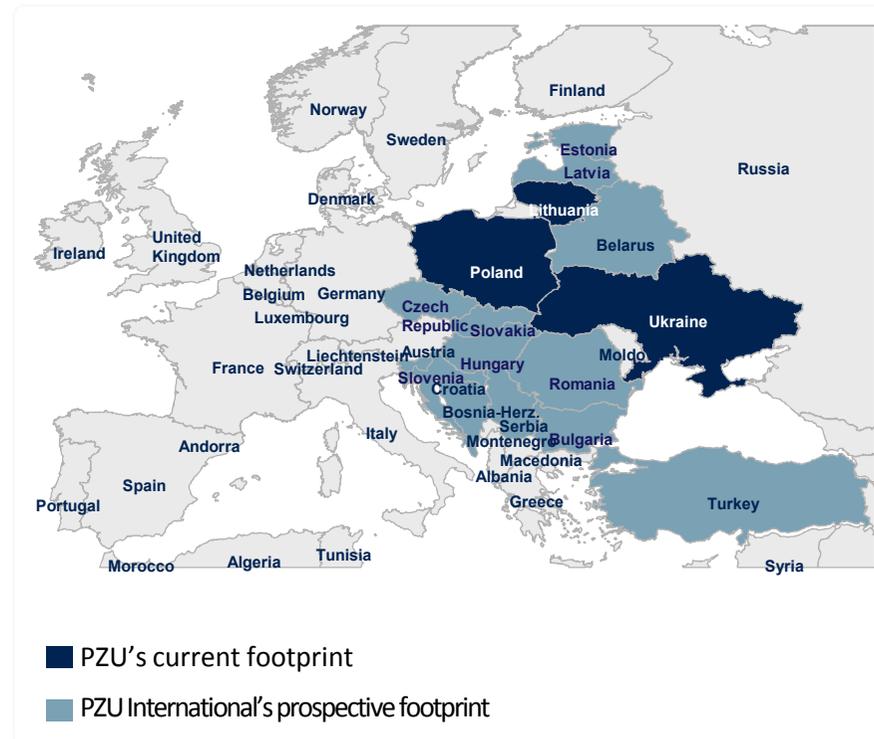
## A New Formula for International Expansion

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- Growing an international business under a new formula through cooperation with a financial investor and establishing PZU International ...
- ... whose task will be to orchestrate acquisitions for the PZU Group and manage the PZU Group's foreign operations so as to grow their value
- ... whose major shareholders will be the PZU Group, one of the leading private equity funds and an international financial institution (e.g. EBRD)
- ... and which will ultimately be listed on the Warsaw Stock Exchange with PZU as its predominant strategic shareholder.

## PZU's Objective Is to Build a Major International Business

- The PZU Group has the ability to earmark up to 6-7 bn PLN on acquisitions, translating into approximately 13 bn PLN of capital in PZU International.



## Ambitious Financial Objectives in 2012-2014

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- Growing the PZU Group's gross written premium by **2 bn PLN**.  
(Computed from yearend 2011 to yearend 2014, net of PZU International and growing gross written premium on health insurance if private entities are permitted to manage public health premiums.)
  
- Maintaining ROE at **30%**.  
(ROE calculated using 250% capital requirement according to Solvency I)

## Agenda

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**Operating performance in 2011**

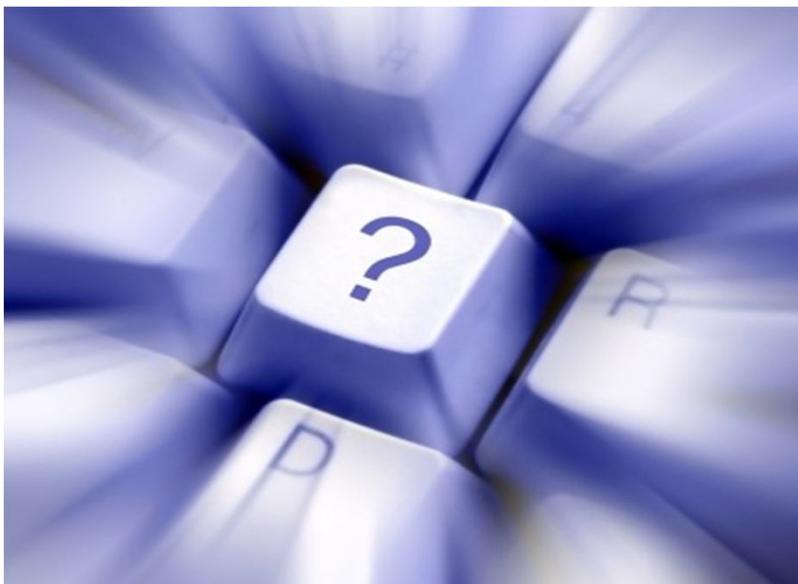
**Major elements of new strategy**

**Financial results overview**

**Questions and answers**

## Questions and Answers

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*PZU Group's Q4 and full year 2011 financial results*

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