



Presentation of PZU's Q1 2011 financial results

Warsaw, 12 May 2011

Key messages

Appointment of PZU SA Management Board members

Announcement of 2011 headcount restructuring program

Capital management proposal resulting in new dividend policy

Q1 2011 financial results overview



PZU's Management Team



Andrzej Klesyk
President (PZU SA)
CEO of PZU Group

Przemysław Dąbrowski
Management Board (PZU SA)
CFO of PZU Group

Witold Jaworski
Management Board
(PZU SA)

Tomasz Tarkowski
Management Board
(PZU SA)

Marcin Halbersztadt
Management Board
(PZU SA)

Bogusław Skuza
Management Board
(PZU SA)

Ryszard Trepczyński
Management Board
(PZU SA)



no changes

*Appointed on
April 21, 2011*

*His appointment will
take effect on
May 15, 2011*

*Their appointments will
take effect on
July 1, 2011*



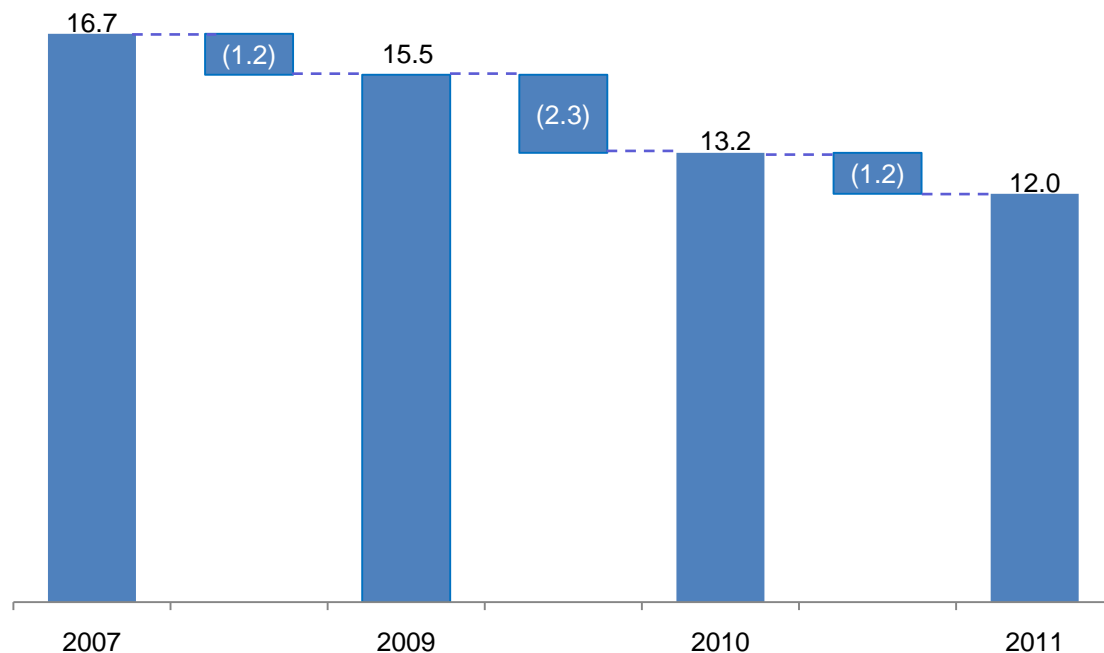
Dariusz Krzewina President (PZU Życie)
Przemysław Dąbrowski Management Board (PZU Życie)
Rafał Grodzicki Management Board (PZU Życie)
Mariusz J. Sarnowski Management Board (PZU Życie)
Krzysztof D. Branny Management Board (PZU Życie)

no changes



Group's 2010-2012 restructuring program – subsequent phase of headcount reduction

Headcount in the PZU Group (FTEs)



HQ restructuring (phase 1)
Claims centralization (non-life)
Early retirement plan

- After successfully conducting the first phase in 2010, the PZU Group is introducing the second phase of the restructuring program
- The main areas are claims handling, back office, administration,

2010 dividend proposal

New dividend policy – increased payout ratio: 50%-100%

Dividends payable by PZU for any given financial year will be determined on the basis of the consolidated profit of the PZU Group in accordance with IFRS and the amount of dividends:

- ✓ cannot be lower than 50% and higher than 100% of the net profit reported in the consolidated financial statements prepared in accordance with IFRS
- ✓ cannot exceed PZU's nonconsolidated net profit in accordance with Polish Accounting Standards
- ✓ cannot result in any decrease of PZU's own funds below 250% of the solvency margin
- ✓ cannot weaken the financial strength of the PZU Group below the AA rating given by Standard & Poor's
- ✓ should be decided taking into consideration PZU's additional capital requirements over the 12 months from the approval of the PZU Group's consolidated financial statements for a given year by the PZU Management Board

**2010
dividend proposal:**

Payout ratio: 92.04%

PLN 26.00 per share

Q1 2011 financial results overview

m PLN



	Q1 2010	Q1 2011	Change YoY	Q4 2010
GWP	3 804.8	3 976.9	4.5%	x
Investment Result	909.8	474.1	(47.9)%	591.6
Operating Profit	1 029.2	962.2	(6.5)%	710.0
Net Profit	807.4	791.2	(2.0)%	565.0
ROE *	27.7%	23.9%	(3.8 p.p.)	x

* Computed using average equity of the period



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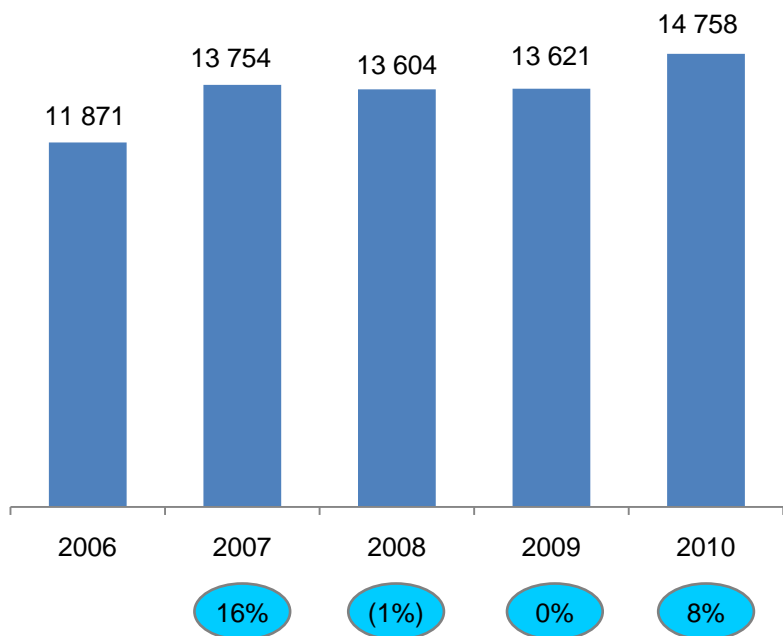
Reporting changes

Financial results overview

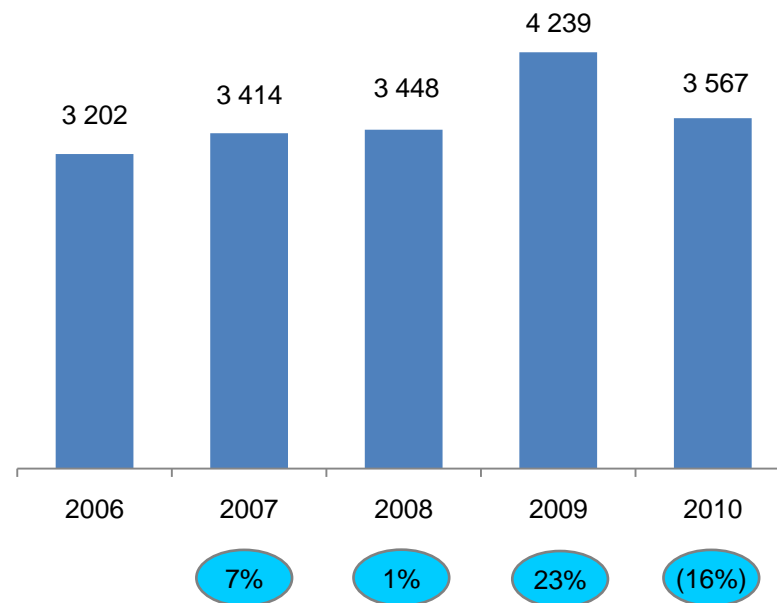
Questions and Answers

Market growth within life segment with relatively stable profitability

Regular Gross Written Premium– Life Insurance (mn PLN)



Technical result – Life Insurance (mn PLN)

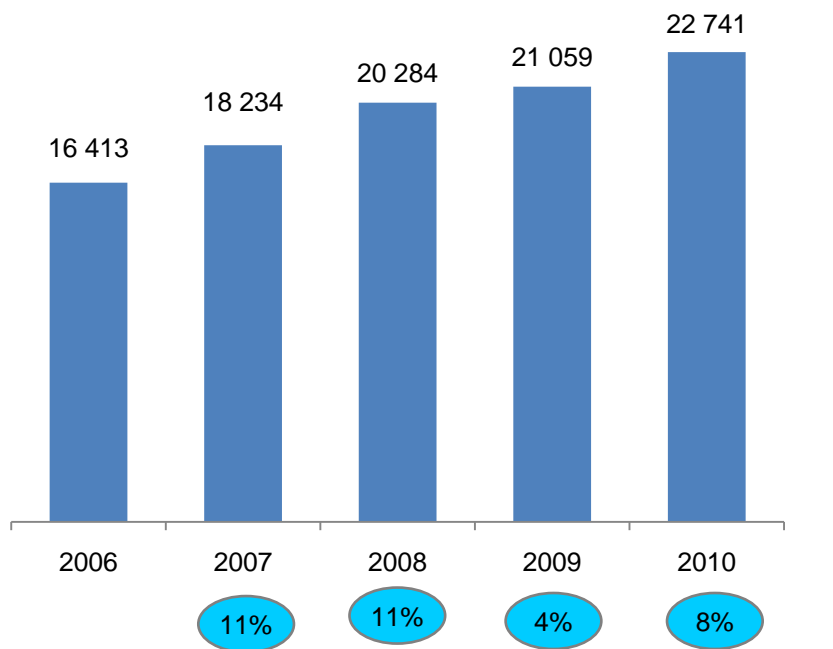


The increase in the regular premium is correlated with pay and employment growth, affected by reporting of part of single premium products as regular premium products.

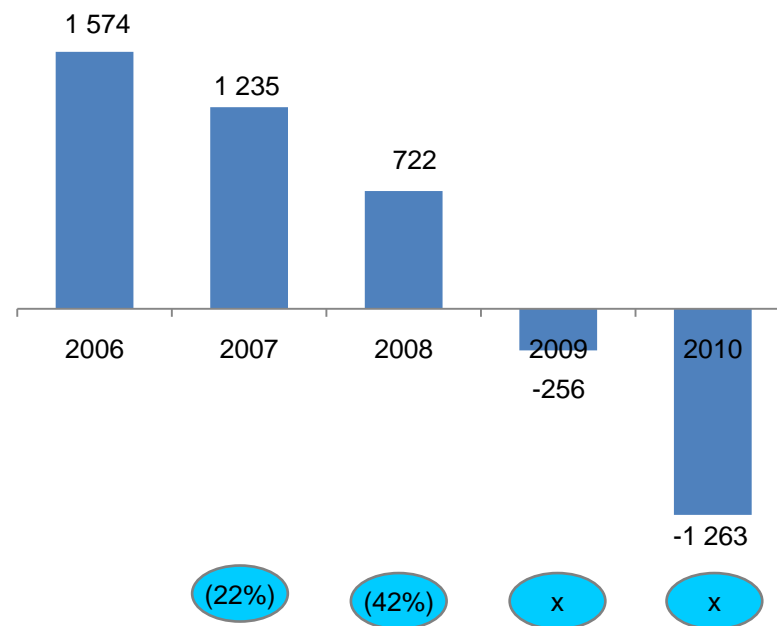
x% - % change YoY

Growing non-life segment, but profitability under extreme pressure

**Gross Written Premium–
Non-Life Insurance (mn PLN)**



**Technical result –
Non-Life Insurance (mn PLN)**

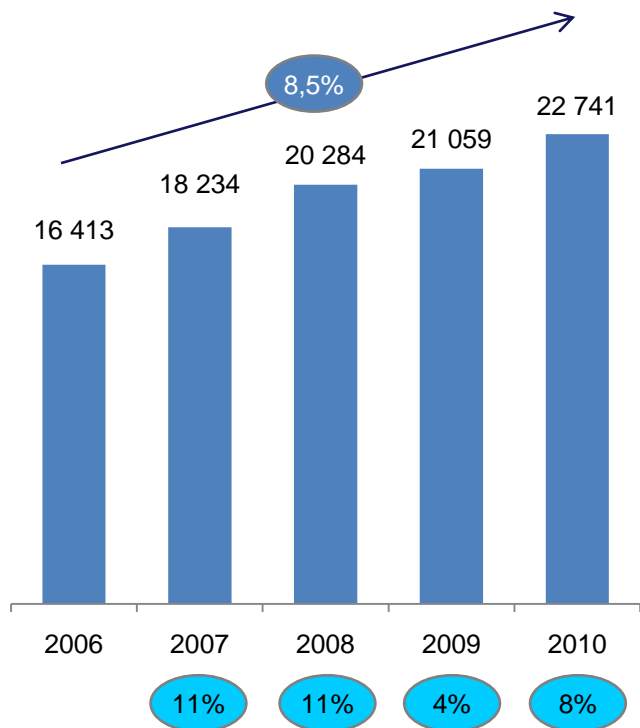


„Motor TPL prices already increased by ~10% in 2010” – Rzeczpospolita, 15.02.2011

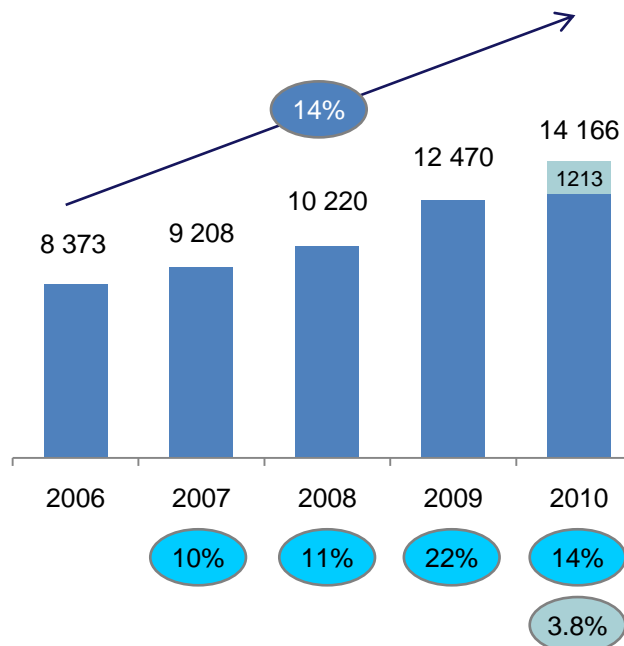
x% - % change YoY

Gross Written Premium growth vs. claims paid Non-Life Insurance

Gross Written Premium– Non-Life Insurance (m PLN)



Claims Paid– Non-Life Insurance (m PLN)

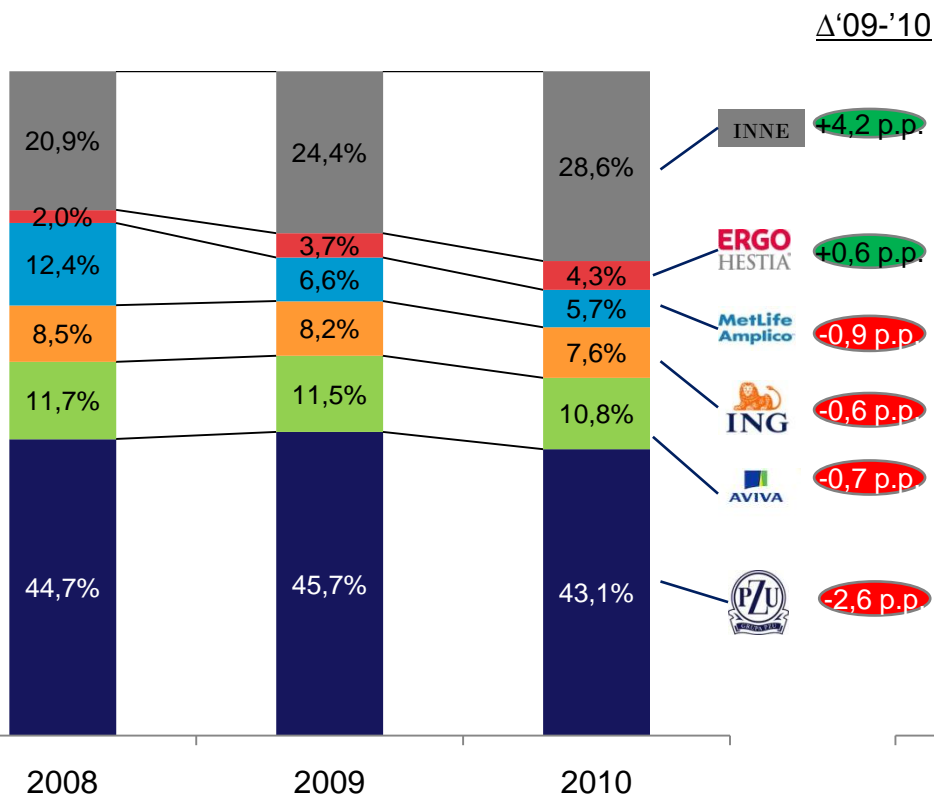


x% - % change YoY
 x% - CAGR
 x% - % change YoY without flood effect

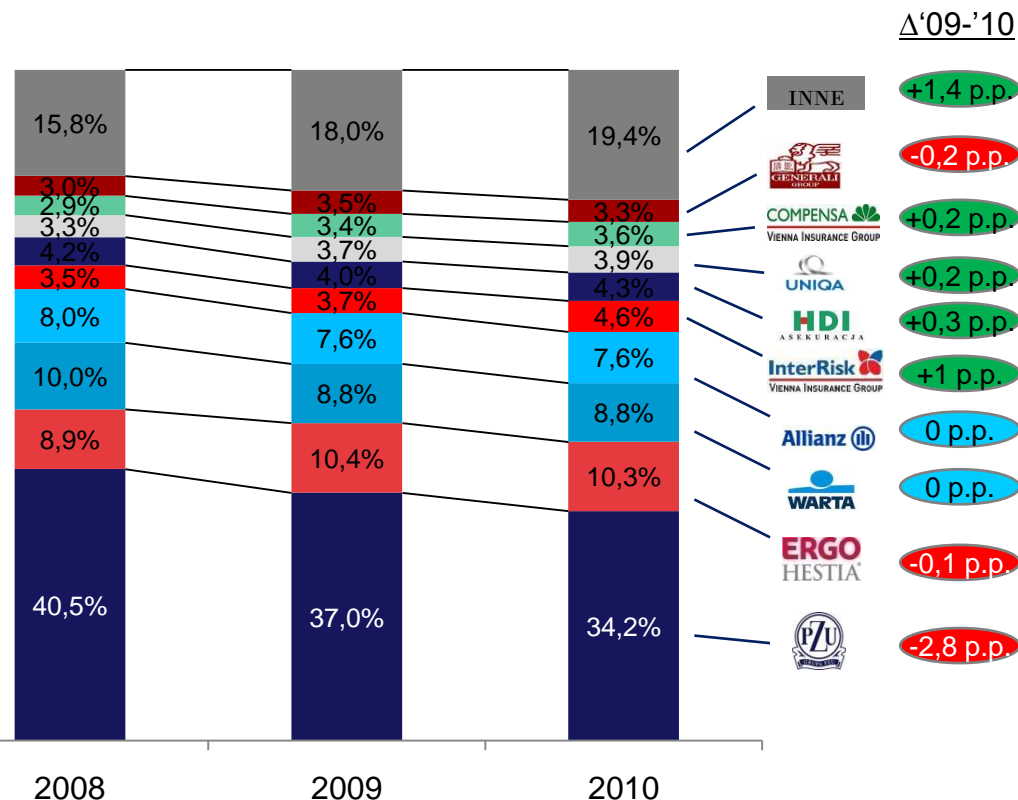
Catastrophic claims by KNF

Decrease in market shares vs. 2009 as a result of restructuring non-life corporate business and limited presence in lower margin bancassurance

PZU's life market share (regular premium)



PZU's non-life market share



We are on track with IPO promises

Life segment: stable growth of GWP but profitability affected by lower investment return

Non-life segment: mass market sales growth with a significant slow down in market share erosion. Turnaround in corporate segment showing positive results

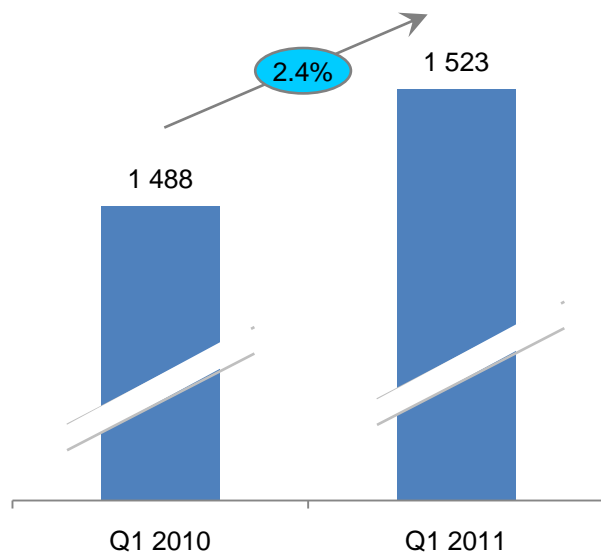
Restructuring: continued reduction of administrative expenses and further headcount optimization

M&A: looking for opportunities

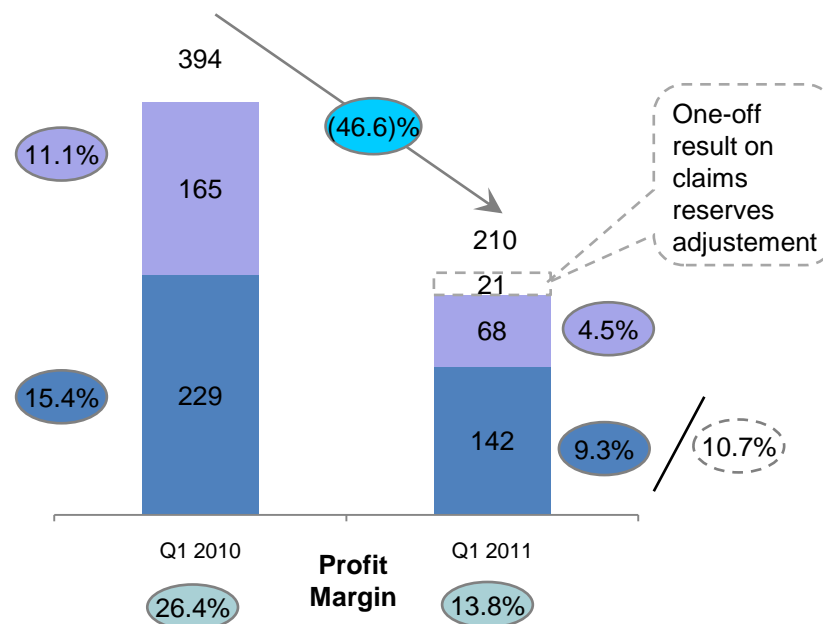


Within life segment, further growth of group and continued business...

PZU's gross written premium in group & continued business (m PLN)



PZU's operating profit in group and continued business* (m PLN)



Growth in group and continued business:

- Growing group insurance portfolio and average premiums

- Successful sale of riders

Lower operating profit as a result of

- drop in investment income

- growth of claims paid in line with expectations

* Without conversion effect



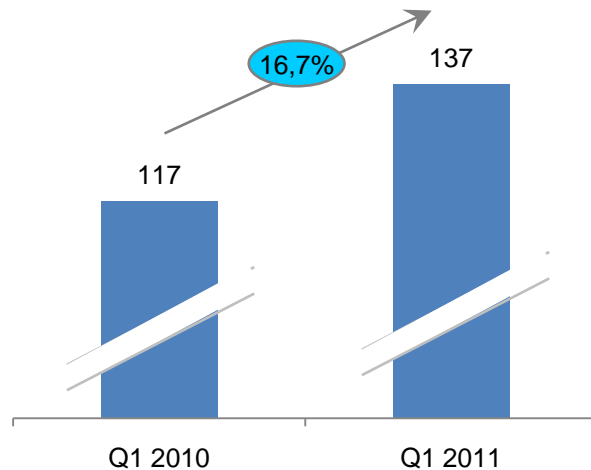
Underwriting margin (investment income on technical rate)



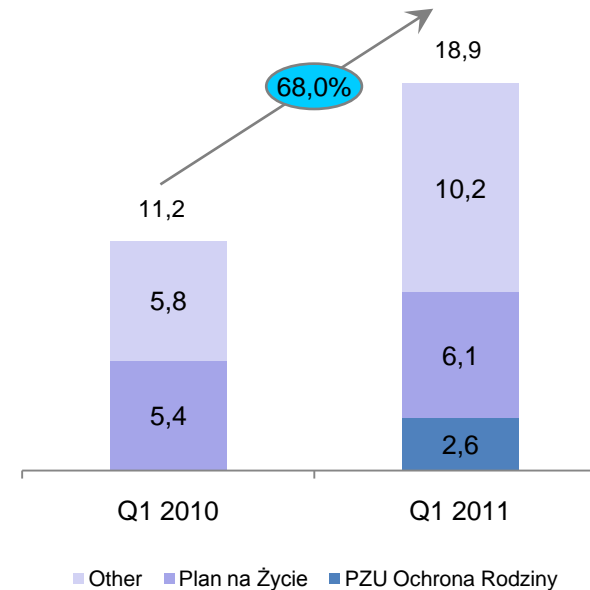
Investment margin (investment income over technical rate)

... and fast build-up of individual business

PZU's gross written premium in individual life business (m PLN)



PZU's APE in individual life business* (m PLN)



Introduction of new product called „PZU Ochrona Rodziny”

Number of new policies sold: 4.8 ths

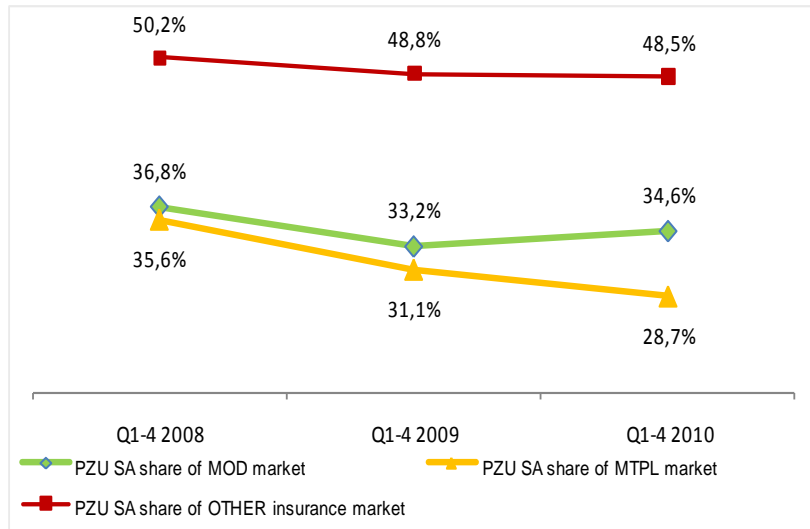
Annual Premium Equivalent: 2.6 m PLN

Continuous growth of sales in Plan na Życie
New structured product in bancassurance channel

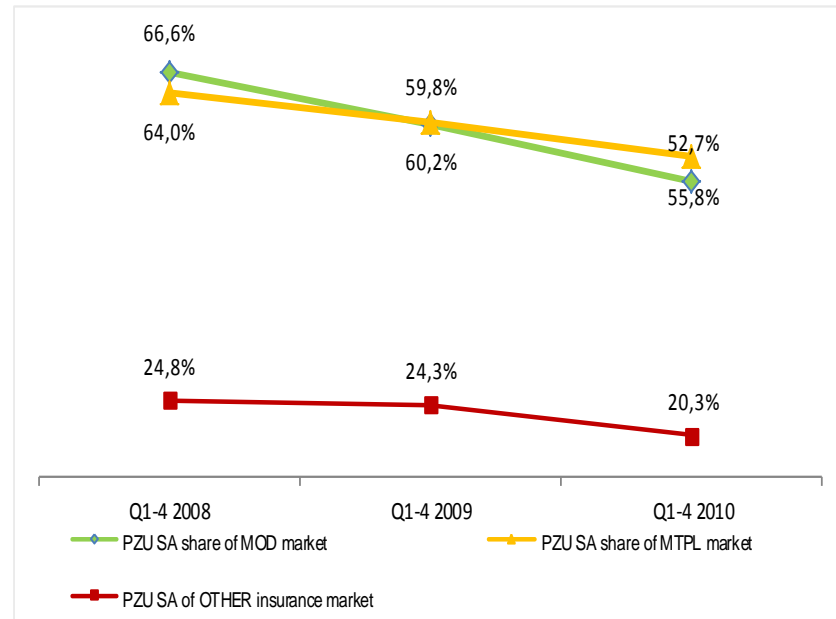
* Insurance contracts only

Stabilizing PZU's market position in individual non-life business and continued restructuring of institutional clients portfolio

PZU SA market share - individual clients



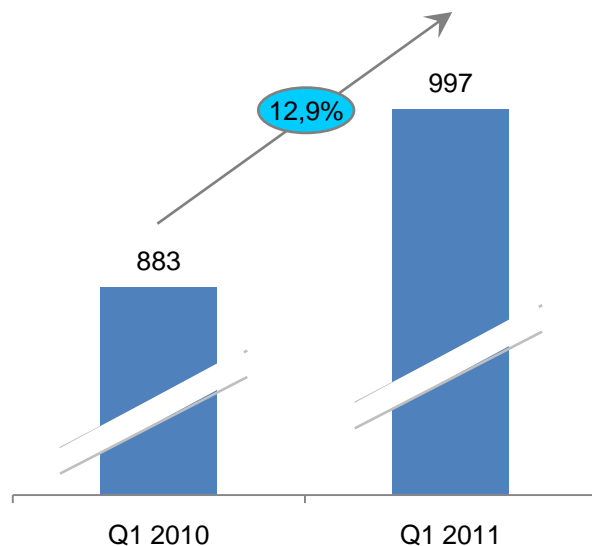
PZU SA market share - institutional clients



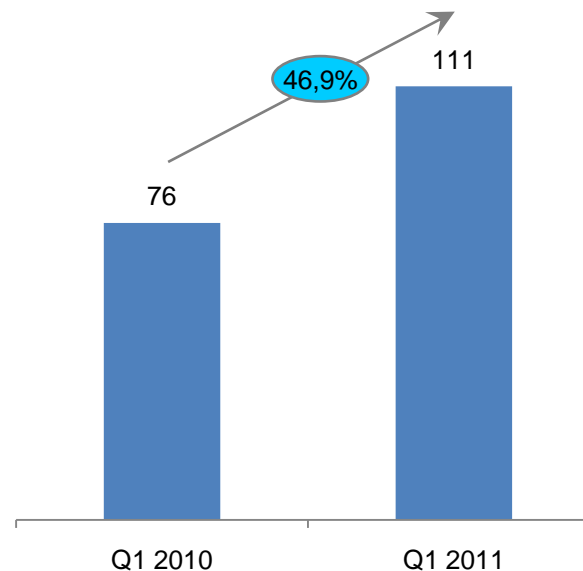
Source: KNF

Technical result and GWP of PZU SA – individual motor business

PZU's GWP in individual motor business segment (m PLN)



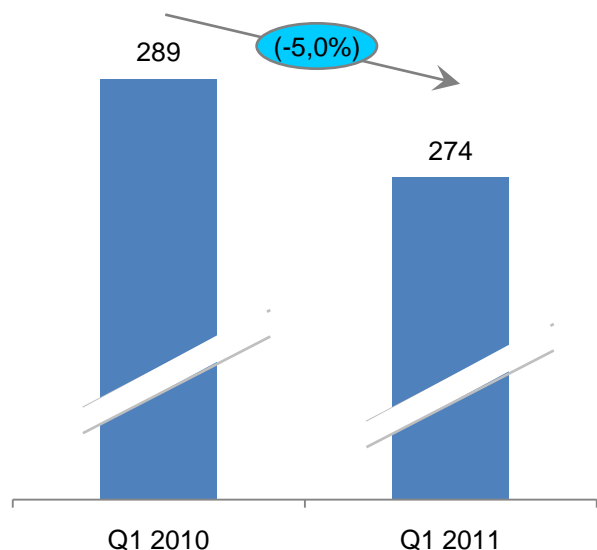
PZU's technical result in individual motor business segment (m PLN)



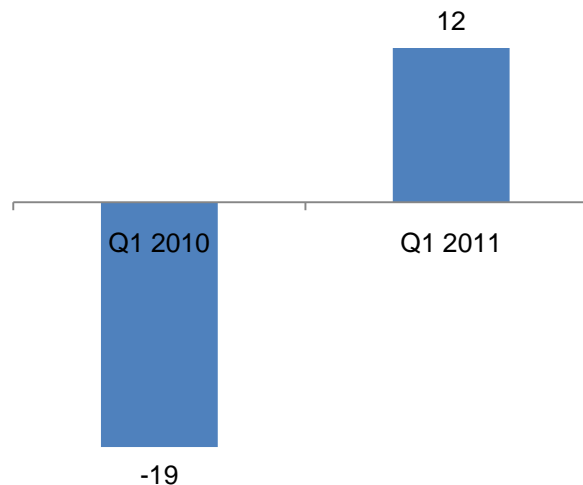
First signs of improvement after significant drop in results

Restructuring of corporate portfolio already bringing significant improvement in profitability

PZU's GWP in the corporate motor business segment (m PLN)



PZU's technical result in the corporate motor business segment (m PLN)

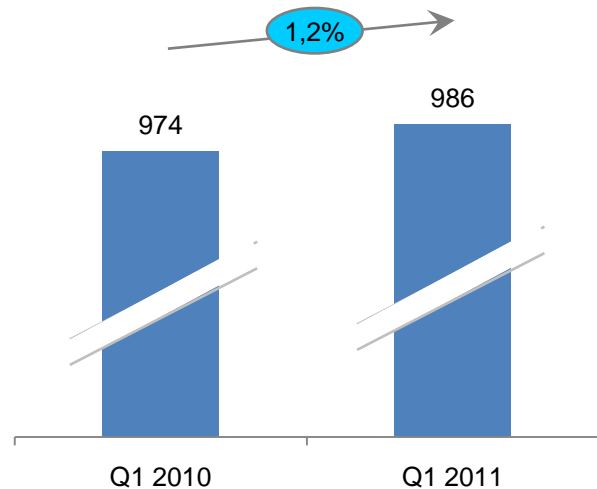


The method of signing policies and distribution of claims over the lifetime of a policy in the corporate segment led to a situation in which the results measured in accounting standards will not be visible in the bottom line any sooner than within a 12-15 months horizon

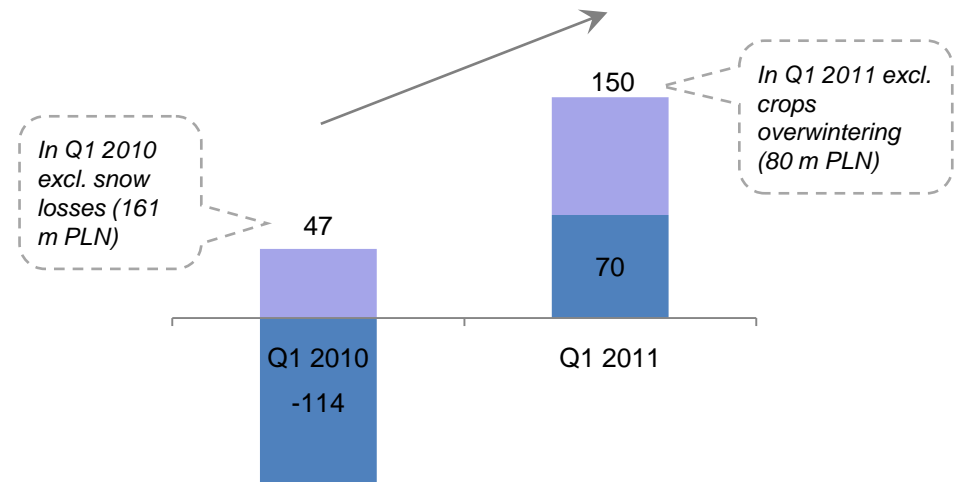
Higher technical result – significant decrease of payments – cleaning of unprofitable business

Technical result and GWP of PZU SA – other business

PZU's GWP in other business (m PLN)



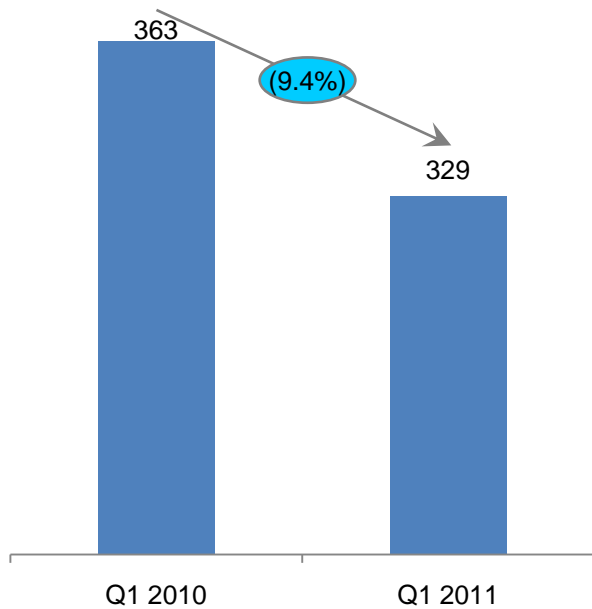
PZU's technical result in other business (m PLN)



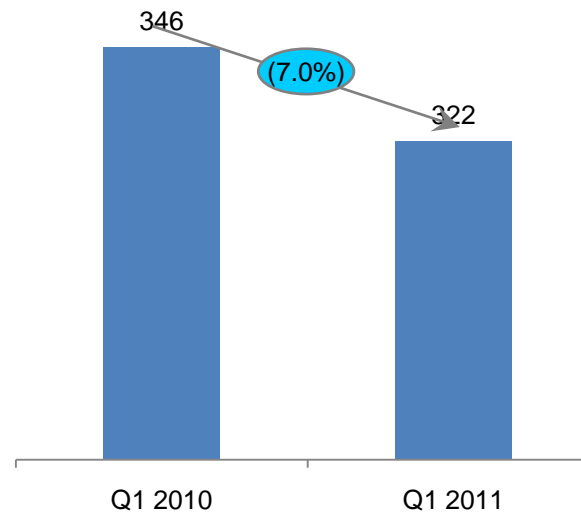
**GWP - increase in sales of fire insurance
technical result – increase due to improved results in fire insurance**

In Q1 2011 PZU's administrative expenses reduced by PLN 34 mln vs Q1 2010

Total administrative costs
(m PLN)



Recurring administrative costs
(m PLN)



- Centralizing functions and optimizing headcount
- Strict control over fixed expenses

Blended admin cost ratio (%)*

9.7%

8.2%

9.2%

8.0%

* Admin ratio defined as administrative expenses / gross earned premium – sum of life and non-life

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Reporting changes



Premium recognition

- Changing the rules to recognize premium revenue - according to the recommendations of „KNF” as from 1 January 2011

Cost allocation

- more accurate reflection of the actual costs of products offered by PZU and better identification of the actual overhead costs.

Scope of full consolidation

- Consolidation (full method) of the Armatura Group is the result of exceeded consolidated financial data materiality thresholds adopted by the PZU Group for the purposes of consolidated financial reporting.
- This fact led to a one-time revenue of PLN 118.9 mn.

Reporting changes: premium recognition

Change in method of identifying the written premium*

- **NO IMPACT ON NET RESULT**
- Up to 2010 written premium was qualified by the period of liability. From 2011, gross written premium is qualified by date of signature

Data reconciliation

	Q1 2010	Q1 2011	%
Old metod			
Gross written premiums	2 268	2 389	5,3%
Change in gross provisions for unearned premiums	426	471	10,4%
Gross premiums earned	→ 1 842	→ 1 918	4,1%
New metod			
Gross written premiums	2 145	2 257	5,2%
Change in gross provisions for unearned premiums	303	339	11,7%
Gross premiums earned	→ 1 842	→ 1 918	4,1%

Note:

* The new method of Gross Written Premium identification relates to PZU SA

New methodology for the allocation of indirect costs - ABC

ABC - activity based costing

- **NO IMPACT ON NET RESULT**

- Up to 2010, PZU SA had a simplified method of allocating indirect costs to products. Indirect costs were distributed in proportion to premiums, claims paid and direct acquisition costs.
- Since 2011, PZU SA introduced a new way of allocating indirect costs - ABC (activity based costing), which consists of assigning indirect costs to resources, assigning activities to resources and then splitting the cost of insurance products.

Below are provided indirect costs according to the old and new methods for Q1 2011:

Data reconciliation

type of indirect costs as at 31.03.2011	ABC method	previous method	difference
Administrative	137	190	-53
Acquisition	135	105	30
Claims handling	90	72	19
Recovery and subrogation	3	1	2
Part of the cost of the asset management	6	4	2
total	371	371	0

indirect costs as at 31.03.2011	ABC method	previous method	difference
corporate motor business	28	53	-24
retail motor business	171	173	-2
non - motor business	166	141	24
part of the cost of the asset management	6	4	2
total	371	371	0

Reporting changes: scope of full consolidation

KFA full consolidation

- From 1 January 2011 Armatura Group consolidated financial data are consolidated using the full method in PZU Group consolidated financial statement. Full method of consolidation is an effect of Armatura Group exceeding the financial data thresholds for materiality as adopted by the PZU Group for the consolidated financial statements.
- One- off impact of Armatura Group consolidation in amount of PLN 118.9 m – higher net profit driven by higher other operating income.

One-off impact on Q1 2011 net result

	Q1 2010	Q1 2011
Net result	-	118,9 m PLN

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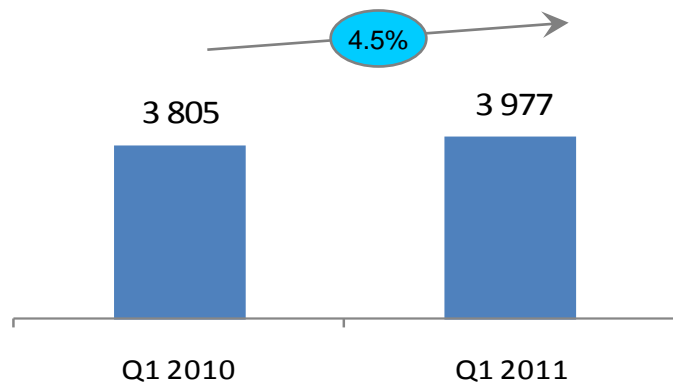
Reporting changes

Financial results overview

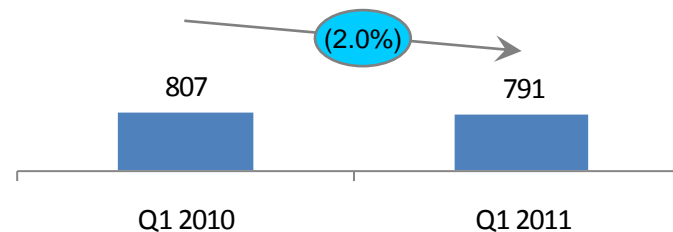
Questions and Answers

Overview of PZU's financials in 2010

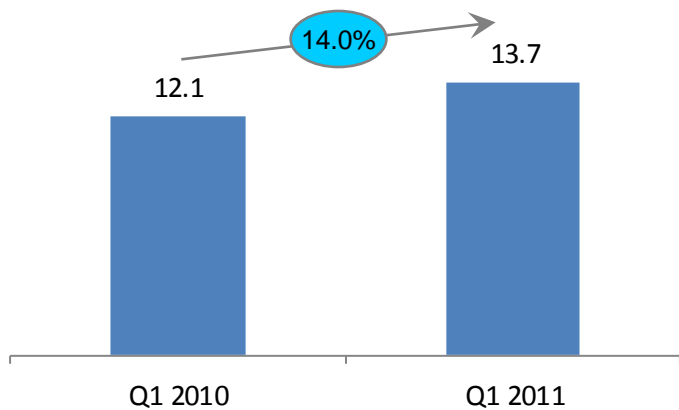
Gross Written Premium (m PLN)



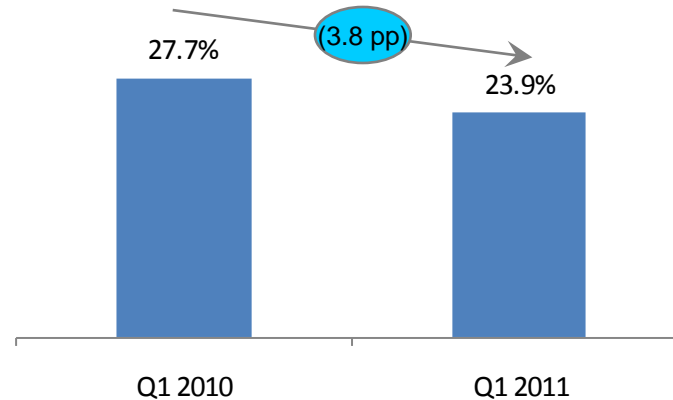
Net result (m PLN)



Equity (b PLN)



ROE (%) *



* Computed using average equity over the period

Overview of PZU's Financial Highlights

m PLN. IFRS	Q1 2010	Q1 2011	Change YoY	Q4 2010
Profit and Loss Account				
Gross Written Premium	3 804.8	3 976.9	4.5%	x
Non-life Insurance	2 199.3	2 316.7	5.3%	x
Life Insurance	1 605.5	1 660.2	3.4%	1 666.8
Investment Result	909.8	474.1	(47.9)%	591.6
Operating Profit	1 029.2	962.2	(6.5)%	710.0
Non-life Insurance	173.8	305.9	76.0%	168.4
Life Insurance	779.5	519.8	(33.3)%	542.2
Net Profit	807.4	791.2	(2.0)%	565.0
Balance Sheet				
Equity	12 053.2	13 734.7	14.0%	x
Total Assets	52 577.5	53 640.6	2.0%	x
Non-life Insurance	21 333.6	22 723.1	6,5%	x
Life Insurance	26 191.4	27 118.6	3.5%	x
Fundamental Financial Ratios				
ROE *	27.7%	23.9%	(3.8 p.p.)	x
Combined Ratio **	102.8%	89.5%	(13.3 p.p.)	x

Notes:

* Computed using average equity of the period

** Only non-life insurance net of the reinsurers' share

PZU Group: Presentation of the Q1 2011 financial results



Profitability by major product lines

PLN m, IFRS	Gross written premiums (m PLN)			Operating profit (m PLN)			Combined Ratio	
	Q1 2010	Q1 2011	Change YoY	Q1 2010	Q1 2011	Change YoY	Q1 2010	Q1 2011
	Total	2,199	2,317	5.3%	174	306	75.9%	102.8%
Motor retail	883	997	12.9%	76	111	46.9%	93.2%	89.3%
MTPL	523	581	11.1%	41	81	97.6%	95.9%	88.0%
MOD	360	416	15.6%	35	30	(14.3%)	89.1%	91.0%
Motor corporate	289	274	(5.0%)	-19	12	x	106.7%	94.5%
MTPL	110	109	(0.9%)	-17	-2	x	117.3%	101.9%
MOD	179	165	(7.8%)	-2	14	x	101.0%	90.8%
Other products	974	986	1.2%	-114	70	x	113.5%	84.4%
Other elements ⁽¹⁾	54	60	11.1%	231	113	(51.1%)	x	x

PLN m, IFRS	Gross written premiums (m PLN)			Operating profit (m PLN)			Operating profit ratio	
	Q1 2010	Q1 2011	Change YoY	Q1 2010	Q1 2011	Change YoY	Q1 2010	Q1 2011
	Total	1,605	1,660	3.4%	779	520	(33.3%)	48.6%
Group & continued ⁽²⁾	1,488	1,523	2.4%	394	210	(46.6%)	26.4%	13.8%
Individual	117	137	16.7%	41	36	(10.8%)	34.6%	26.4%
Other elements ⁽³⁾	x	x	x	345	273	(20.9%)	x	x

- Notes:
- 1) GWP from PZU Group foreign entities, investment income, other operating income and expenses
 - 2) operating profit excluding change in mathematical reserve for group "Type P", which results mostly from converting whole life to yearly renewable term policies
 - 3) conversion effect, investment income on own funds, other operating income and expenses not attributable to products.

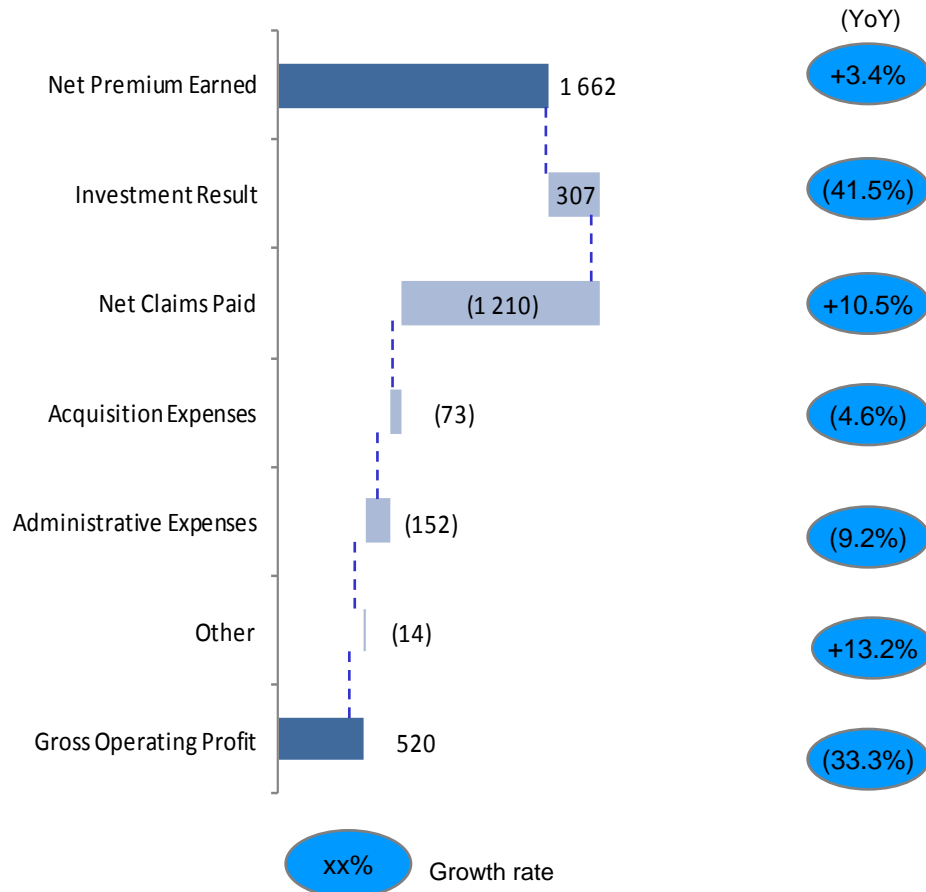
A number of extraordinary items contributed to the results

mIn PLN. IFRS		Q1 2010	Q1 2011
Operating Profit (according to the financial statements)		1,029.2	962.2
<i>Of which:</i>			
1	Movement of technical reserves for Type P	+223.2	+217.7
2	Snow-related claims	(161.2)	-
3	Effects of consolidation Armatura Group - change in valuation method	-	+118.9

- Comparable YoY impact of conversion of long term policies into yearly renewable term insurance
- No snow-related claims in Q1 2011, contrary to what occurred in Q1 2010.
- The difference between the balance sheet value of Armatura Group shares at 31 December 2005 and the PZU Group's share of the net assets of the Armatura Group, listed in profit and losses account

Profitability of life insurance hit by lower investment income

Major components of operating profit in life insurance (m PLN)



Comments

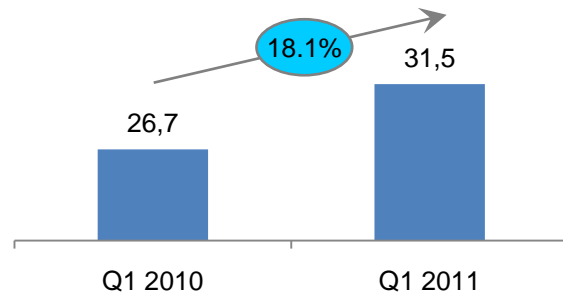
- Increase in NPE mainly due to group & continued business +2.4% YoY; additionally high growth in individual products +16.7%
- Lower investment result caused by lower market yields and lower debt securities portfolio
- Growth of net claims paid due to higher claims in Type P product (higher frequency of benefits as a result of business growth, but in line with expectations)
- Acquisition expenses drop due to lower commissions in bancassurance channel (driven by volume of new sale) and decrease of indirect expenses
- Optimization of running costs
- Lower operating profit mainly driven by investment results

Profitability of non-life insurance is still a challenge

Profitability of Non - life Insurance (COR %)		Comments
Q1 2010	102.8%	<ul style="list-style-type: none"> Slight increase of acquisition costs due to changes in distribution channel mix (increase of share of higher commission channels) and effect of introduction of „over-commissions” (additional remuneration for agents for reaching specific targets) Decrease of administration costs due to headcount reductions and strict control over fixed costs Decrease of loss ratio as a result of one-off events (heavy snowfalls in winter) in Q1 2010 and improvement in the technical results in motor and property business.
Acquisition Cost Ratio	1.0%	
Administrative Cost Ratio	(1.6%)	
Loss Ratio	(12.7%)	
Q1 2011	89.5%	

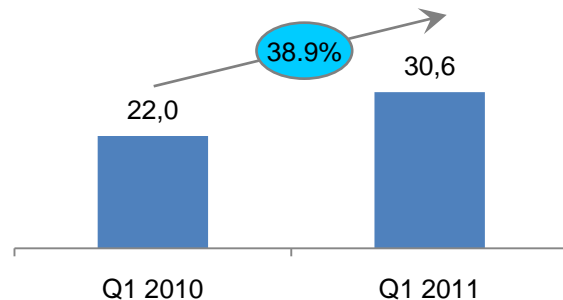
Profitability of pensions

Assets under management (b PLN)



Strong increase of assets under management due to premiums received from ZUS and new net investment profits. In Q1 2011 ZUS transferred to OFE PZU 828.0 m PLN premiums, nearly 30.3% more than in the same period in 2010

Net result (m PLN, IFRS)



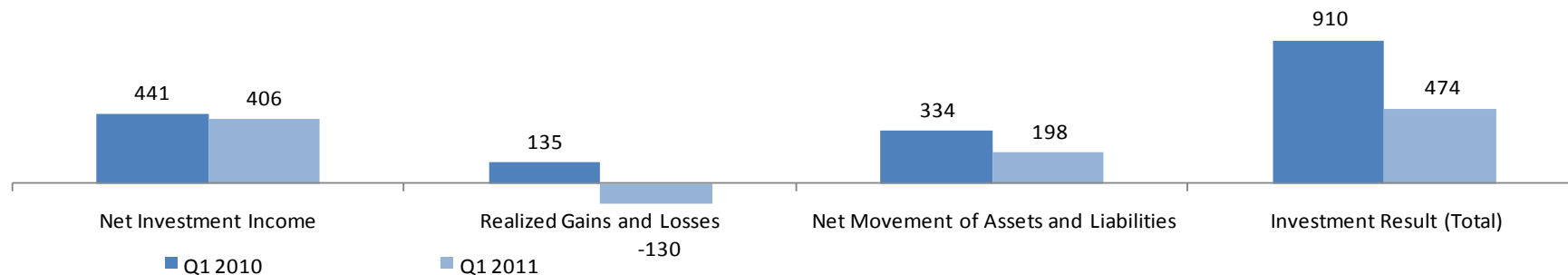
Net profit increased in 1Q 2011 due to higher commissions on incoming premiums and due to lower operating costs.

Key assumptions of retirement system reform:

- Decrease in premiums from ZUS to OFE from 7.3% to 2.3%
- New investment limits for funds (share of equity to increase from 40% to 90%)
- Ban on acquisition
- Individual retirement accounts in OFE

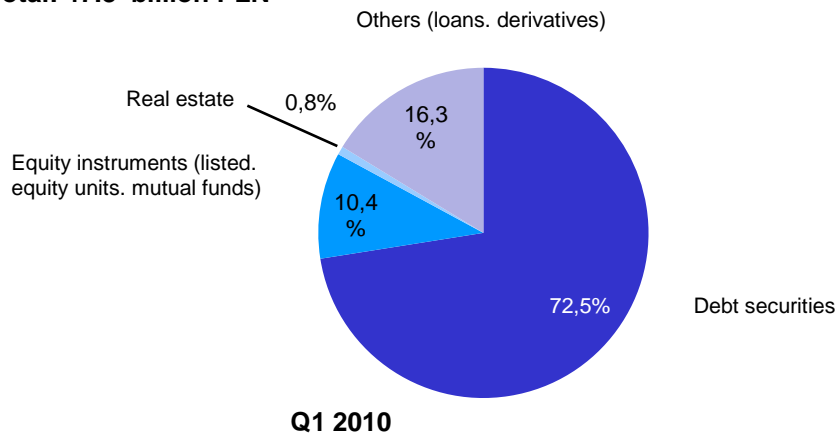
Investing Activity Investment

Income on Investing Activity (m PLN)

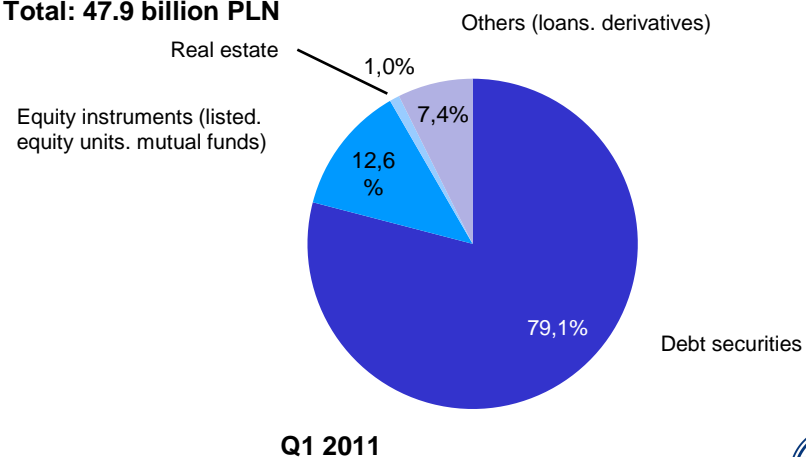


Financial Asset Composition

Total: 47.8 billion PLN

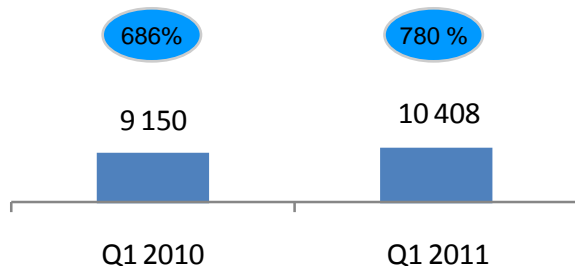


Total: 47.9 billion PLN



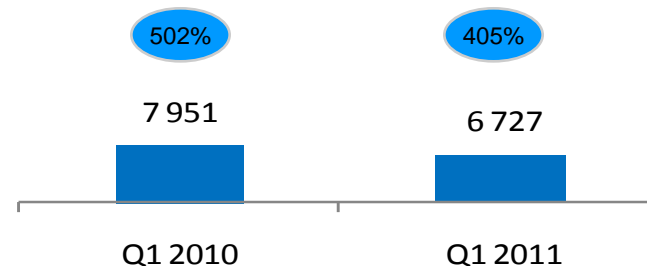
Strong capitalization and ongoing control of solvency are generating satisfactory performance

PZU SA's own funds and solvency margin coverage ratio (m PLN PAS)



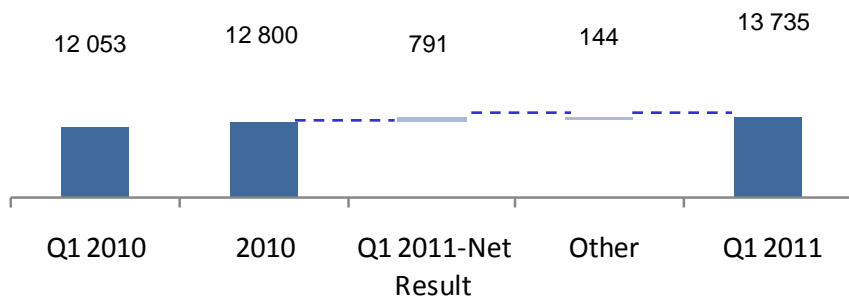
Solvency margin coverage ratio

PZU Życie SA's own funds and solvency margin coverage ratio (m PLN PAS)

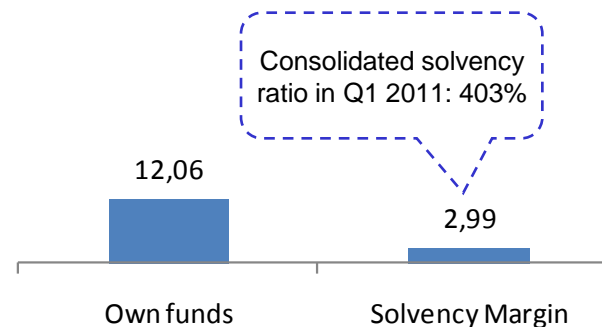


Solvency margin coverage ratio

PZU Group's equity (thousand PLN IFRS)



PZU Group's own funds (b PLN PAS)



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Questions and answers



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