

PZU Group's 1Q 2012 financial results

Warsaw, 15 May 2012





Current composition of the PZU Group's Management Board

Operating performance in Q1 2012

Financial results overview

PZU Group's Management Board



Andrzej Klesyk
CEO PZU



Dariusz Krzewina	Przemysław Dąbrowski	Witold Jaworski	Bogusław Skuza	Tomasz Tarkowski	Ryszard Trepczyński	Rafał Grodzicki	Przemysław Henschke	Sławomir Niemierka
CEO PZU Życie	CFO							
PZU	✓	✓	✓	✓	✓			
PZU Życie ✓	✓	✓		✓	✓	✓	✓	✓
<i>Responsible for life insurance, HR and the Group's network</i>	<i>Responsible for accounting, planning, controlling, tax policy and actuarial matters</i>	<i>Responsible for retail insurance, sales network, marketing and bancassurance</i>	<i>Responsible for corporate insurance and reinsurance</i>	<i>Responsible for claims handling and assistance</i>	<i>Responsible for investments, the treasury and macro analysis</i>	<i>Responsible for contact center and insurance operations</i>	<i>Responsible for IT</i>	<i>Responsible for risk management</i>



Operating performance in 1Q 2012

Financial results overview

Questions and answers

Key Messages Describing PZU's Performance in 1Q 2012



- **Sales in line with Group's Strategy for 2012 – 2014**

- GWP increase in individual life
- GWP increase in corporate non-life (new products)

- **Profitability as main focus**

- high profitability in group life
- non-life COR 91.2%, i.e. below long term target of 96%
- Y / Y results' improved despite of one-offs

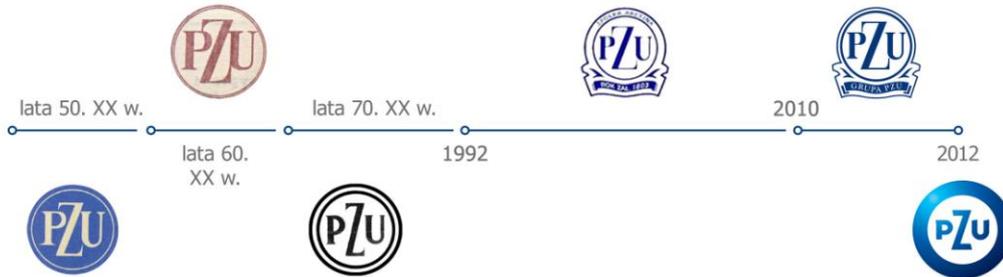
- **Better investment result**

- increase of WIG in 1Q 2012
- decrease of bond yields (higher portfolio valuation)

- **Proposed dividend per share – 20.30 PLN**

- 74.8% of 2011 PZU Group's result
- restrictive Polish FSA recommendations (up to 75% of net results)

Rebranding



Aim of campaign:

- underpinning changes;
- introduction of a fresh, modern look...
- ...in order to diverge from old beaurocratic image.

Large scale operation:

- ~1.000 locations;
- >2,000 cars;
- >1,000 model documents;
- ~30 IT systems;

were rebranded or modified.

30 mln Poles will see BRD campaign



Overview of PZU Group's 1Q 2012 Financial Results



m PLN

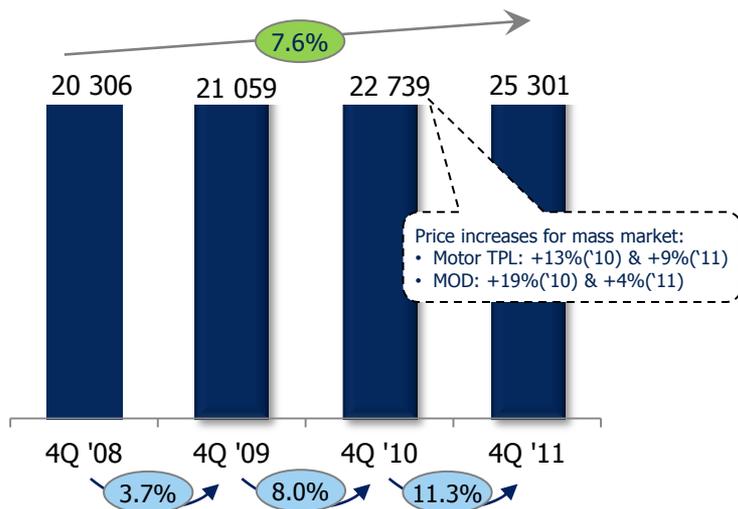
	1Q 2011	1Q 2012	Change Y/Y
Gross Written Premium	3 977	4 323	8.7%
Investment Result	474	873	84.1%
Operating Profit	962	1 035	7.5%
Net Profit	791	823	4.0%
ROE *	23.9%	24.7%	0.8 p.p.

* Annualized ratio computed using equity at beginning and end of reporting period

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



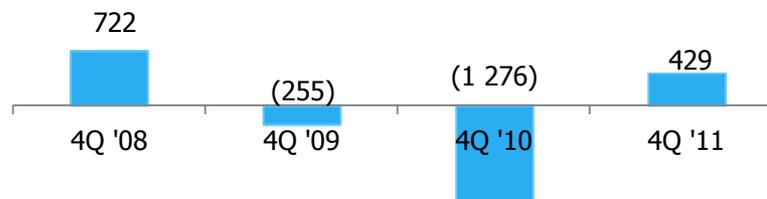
GWP Non-life Insurance



- Major price increases for mass motor products in 2H 2010 & 1H 2011 resulted in high market growth in 2011.

Technical Result Non-life Insurance

YTD, 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).

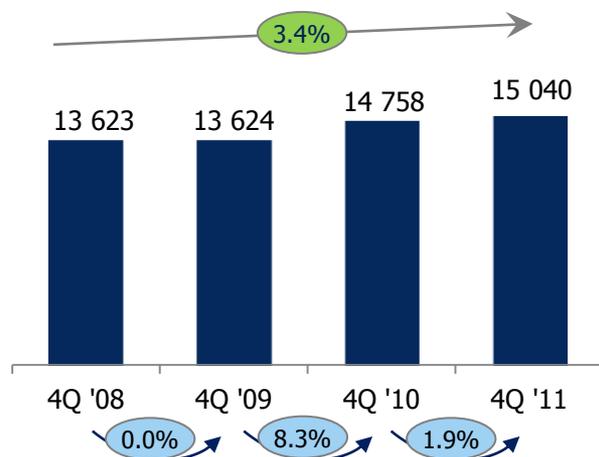
x% - change Y/Y

Polish FSA data; only for Polish insurance market

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



Regular GWP Life Insurance



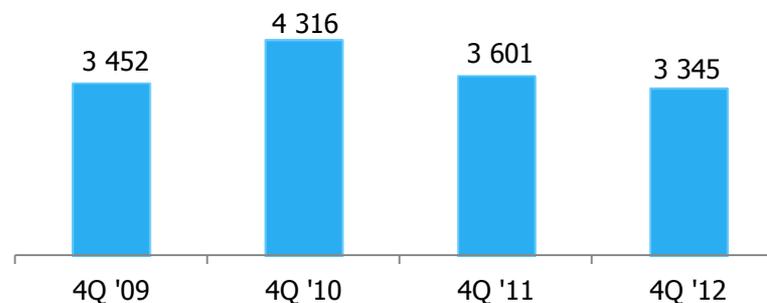
- Last year PZU Life reported regular premium growth of +2.6% vs +1.4% reported by the rest of the market.
- Figures concerning regular premium business distorted by certain single premium products classified as regular premium business.

x% - change Y/Y

Polish FSA data; only for Polish insurance market

Technical Result Life Insurance

YTD, m PLN



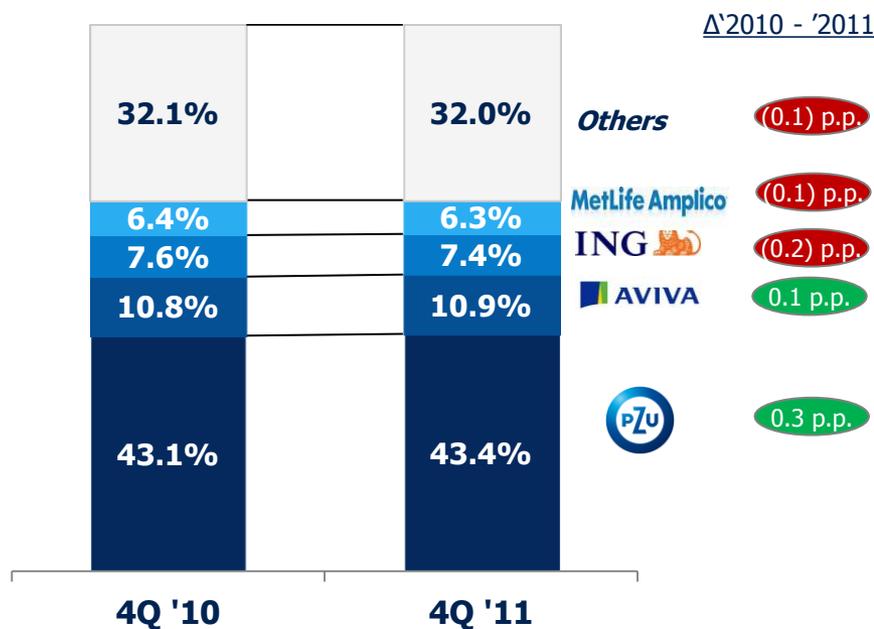
- PZU Life's share of the market's technical results exceeds 60%.

Decelerating Pace of Market Share Constriction

Effect of Restructuring Corporate Insurance & Changes in Price Positioning

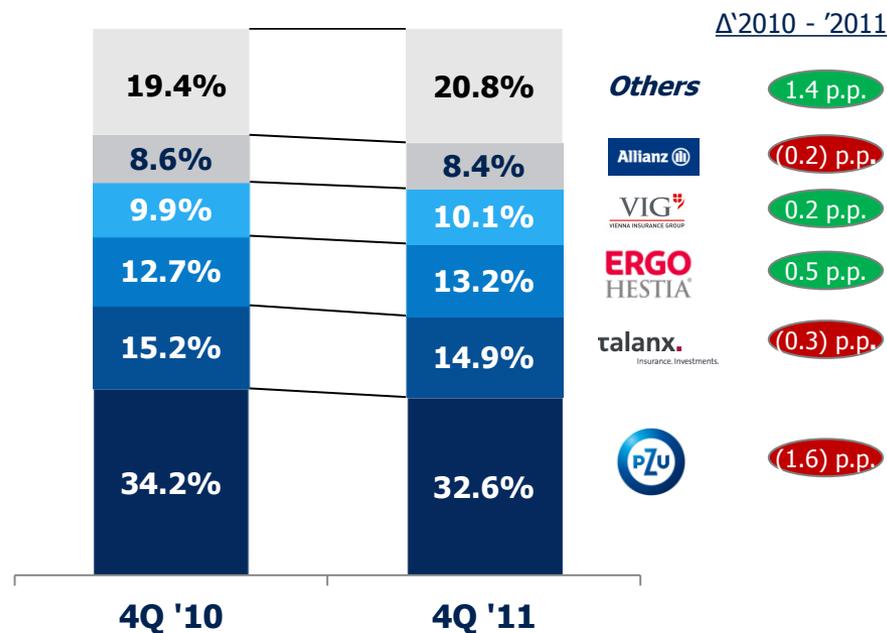


PZU Life Market Share
Life Insurance (Regular Premium)



PZU's Market Share
Non-life Insurance

YTD

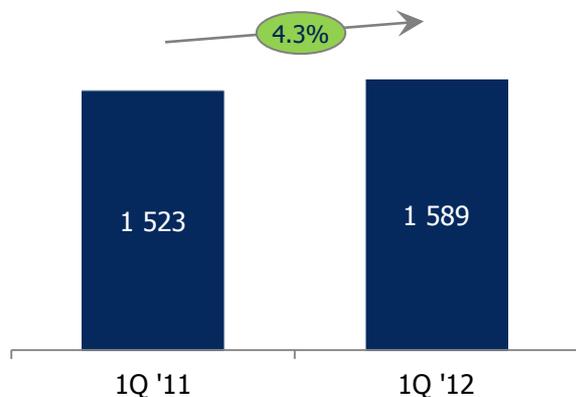


Group Life Insurance and Continued Business Remain Stable...



YTD, m PLN

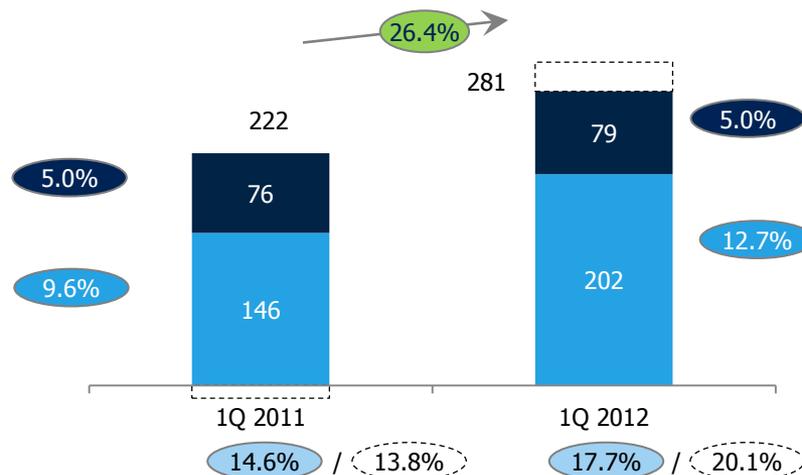
Gross Written Premium Group and Continued Segment



Higher gross written premium driven by:

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

Operating Profit Group and Continued Segment*



Higher operating profit caused by:

- Increase in GWP;
- Lower claims ratio.

* Net of conversion effect



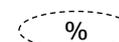
Investment margin (investment yield above technical rate up to risk free rate)



Insurance margin (investment yield using technical rate)



Profit Margin



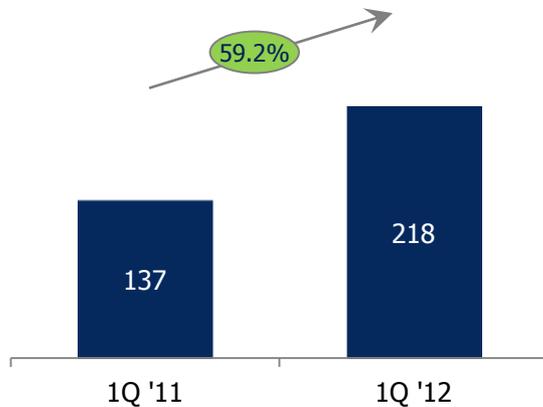
Profit Margin under previous segments

... while Individual Insurance Is Expanding Rapidly

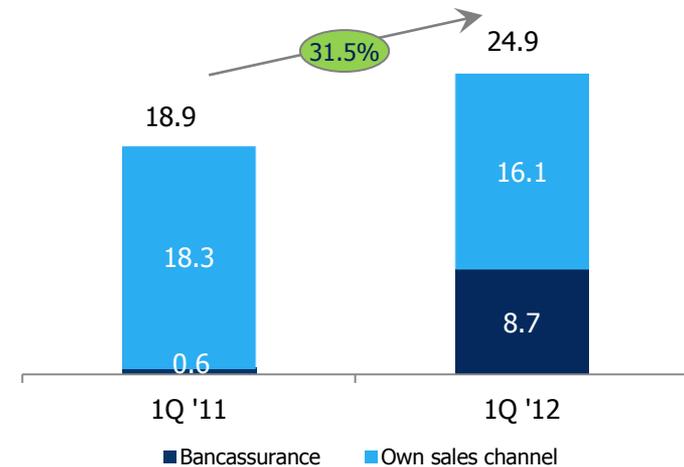


YTD, m PLN

Gross Written Premium Individual Life Segment



APE in Individual Life Segment*



Success of individual products in the bancassurance channel:

- Structured in cooperation with Citibank Handlowy;
- Unit-linked in cooperation with Bank Millennium.

- Success of unit-linked and structured products in the bancassurance channel.
- Stable sales level of Plan na Życie.
- Slight decline of sales of traditional protection products.
- Growing demand for structured product in PZU's own sales channel.

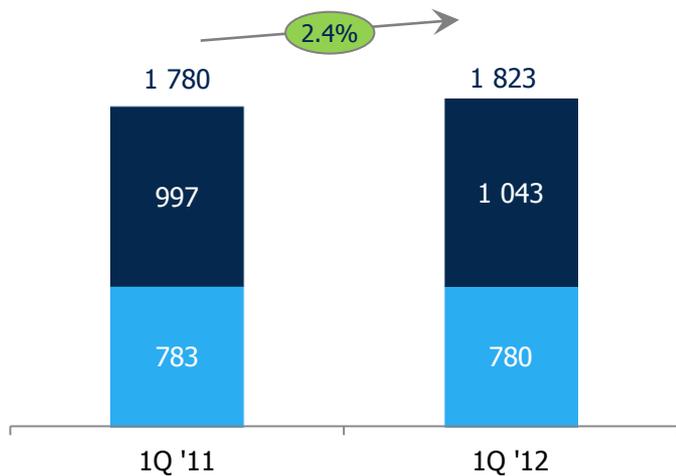
* Only insurance contracts

Mass Client Segment

Profitability deteriorated due to winter crop damages

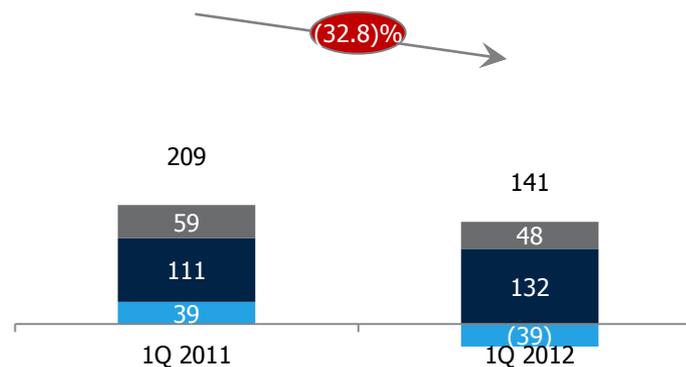


PZU's Gross Written Premium in Mass Client Segment



PZU's Technical Result in Mass Client Segment

YTD, m PLN



- Price increases in 2H 2010 & 1H 2011 impacted sales results in 2012 (higher average Premium).

- Lower loss ratio in Motor Business (68.4% 1Q 2012 vs. 68.7% 1Q 2011) due to decrease in loss frequency as a result of benign weather conditions;
- Significant result deterioration in Non-Motor Business due to negative effects of winter crop damages in agricultural insurance (increase of net claims by 90 m PLN in 1Q 2012 vs. 1Q 2011).

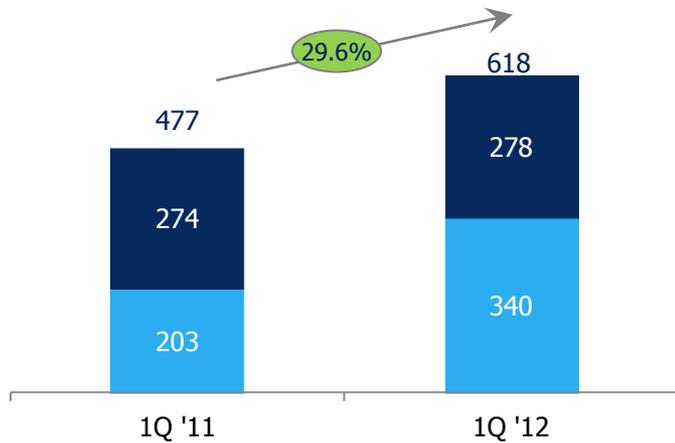
Impact of Investment Segment Allocation
 Motor Insurance Business
 Non Motor Insurance Business

Corporate Client Segment

Sales and Profitability improved



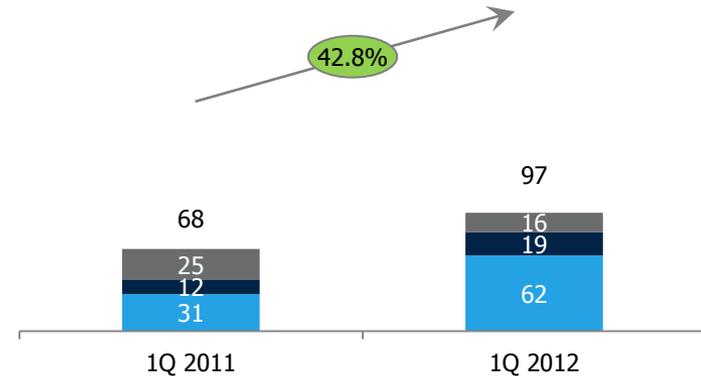
PZU's Gross Written Premium in Corporate Client Segment



- Increase of GWP in products for health care units due to law changes (Non Motor Insurance Business).

PZU's Technical Result in Corporate Client Segment

YTD, m PLN



- Much better results in Non-Motor Business due to lack of large single losses.
- Increase of Motor Business results related to lower loss ratio (69.6% 1Q 2012 vs. 77.0% 1Q 2011) as a result of:
 - changes in underwriting policy in 2011 and;
 - decrease in loss frequency (benign weather).

■ Impact of Investment Segment Allocation

■ Motor Insurance Business

■ Non Motor Insurance Business

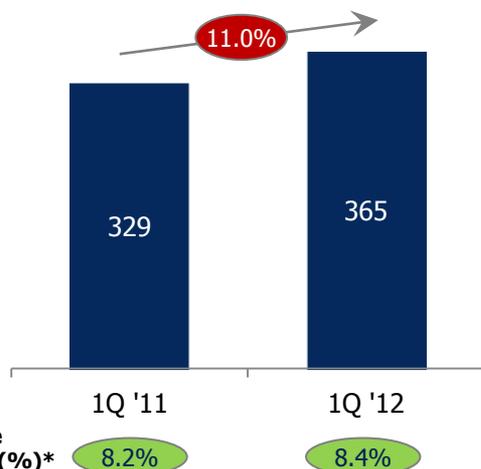
PZU Group's Administrative Expenses

Lower Recurring Administrative Expenses

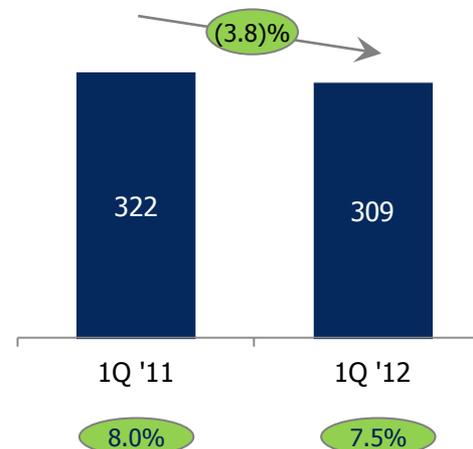


YTD, m PLN

Administrative Expenses



Recurring Administrative Expenses



- Decrease of recurring administrative expenses as a result of restructuring.
- Increase of administrative expense due to higher sales support costs, new initiatives related to rebranding of the PZU Group and implementation of new IT system.

* Administrative expense ratio: administrative expenses / net earned premium – sum of Poland's insurance business segments



Operating performance in 1Q 2012

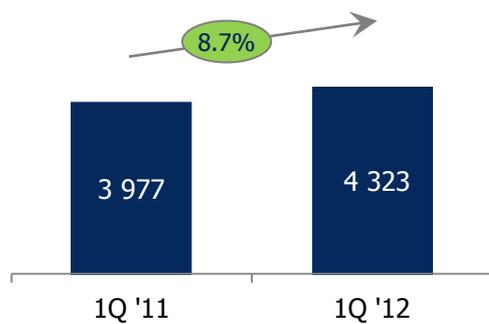
Financial results overview

Questions and answers

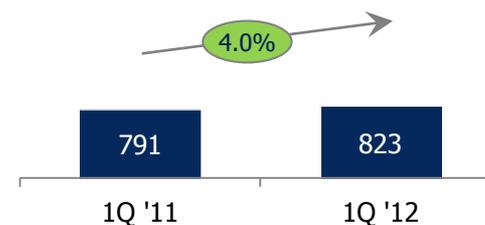
Overview of the PZU Group's 1Q 2012 Financial Results



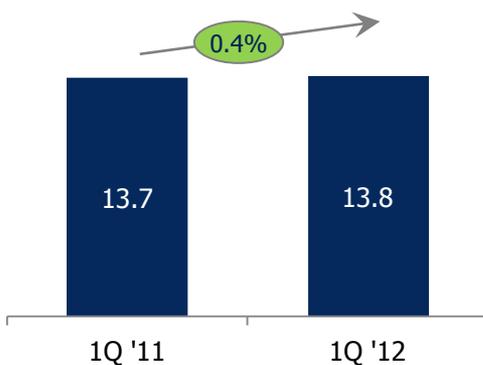
Gross Written Premium (m PLN)



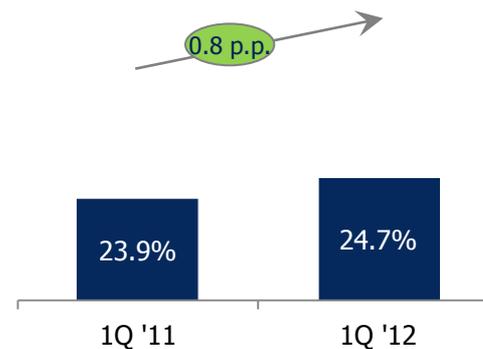
Net Profit (m PLN)



Equity (bn PLN)



ROE (%)*



* Annualized ratio computed using equity at beginning and end of reporting period

Overview of PZU Group's Financial Highlights



m PLN, IFRS	1Q 2011	1Q 2012	Change Y/Y	4Q 2011	Change 1Q 2012 over 4Q 2011
Profit and Loss Statement					
Gross Written Premium	3 977	4 323	8.7%	3 853	12.2%
Premium Earned	3 572	3 869	8.3%	3 836	0.9%
Investment Result	474	873	84.1%	554	57.6%
Operating Profit	962	1 035	7.5%	625	65.5%
Net Profit	791	823	4.0%	487	68.9%
Balance Sheet					
Equity	13 735	13 789	0.4%	12 870	7.1%
Total Assets	53 641	55 329	3.1%	52 129	6.1%
Principal Financial Ratios					
ROE *	23.9%	24.7%	0.8 p.p.	18.3%	6.4 p.p.
Combined Ratio**	88.8%	91.2%	2.4 p.p.	x	x

Remarks:

* Annualized ratio computed using equity at beginning and end of reporting period

** Only for Non-Life insurance business

Profitability by Insurance Business Segments



Insurance Business Segments	Gross Written Premium			Operating Profit			Combined Ratio / Operating profit ratio *		
	m PLN, local GAAP	1Q 2011	1Q 2012	Change Y/Y	1Q 2011	1Q 2012	Change Y/Y	1Q 2011	1Q 2012
Total Non-Life		2 318	2 516	8.6%	278	242	(12.9)%	88.8%	91.2%
Mass insurance - Poland		1 780	1 823	2.4%	209	141	(32.8)%	88.0%	93.0%
Motor TPL Insurance		581	635	9.4%	81	83	3.3%	88.0%	88.8%
Motor Own Damage		416	408	(2.0)%	30	49	60.5%	91.0%	87.0%
Other products		783	780	(0.4)%	39	(39)	X	86.0%	101.6%
Impact of investment segment allocation		x	x	X	59	48	X	X	X
Corporate Insurance - Poland		477	618	29.6%	68	97	42.8%	88.5%	81.9%
Motor TPL Insurance		109	118	8.8%	(2)	(5)	168.6%	101.9%	107.5%
Motor Own Damage		165	159	(3.6)%	14	25	76.6%	90.8%	84.4%
Other products		203	340	67.8%	31	62	102.9%	78.4%	66.1%
Impact of investment segment allocation		x	x	X	25	16	X	X	X
Ukraine		28	31	12.6%	0	3	675.4%	120.5%	112.8%
Lithuania		33	44	31.7%	0	1	587.1%	105.1%	104.7%
Total Life Poland		1 660	1 807	8.8%	500	430	(14.1)%	30.1%	23.8%
Group and Continued **		1 523	1 589	4.3%	222	281	26.4%	14.6% / 13.8%	17.7% / 20.1%
Individual		137	218	59.2%	48	49	1.6%	35.0%	22.4%
Conversion effect		X	X	X	230	100	X	X	X

* Combined Ratio presented for Non-Life insurance business / operating profit ratio presented for Life insurance business

** Operating profit ratio net of conversion effect (under PAS GAAP) according to new / old method

Extraordinary Items Affecting the Results



m PLN, IFRS

1Q 2011 1Q 2012

	1Q 2011	1Q 2012
Operating Profit (according to financial statements)	962.2	1034.7

including:

1 Movement in insurance provisions – release of type P insurance provisions	+217.7	+123.7
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1 Impact of converting long-term contracts into yearly-renewable term contracts comparable Y/Y.

2 Effects of consolidating the Armatura Group – change in the method of valuation	+118.9	
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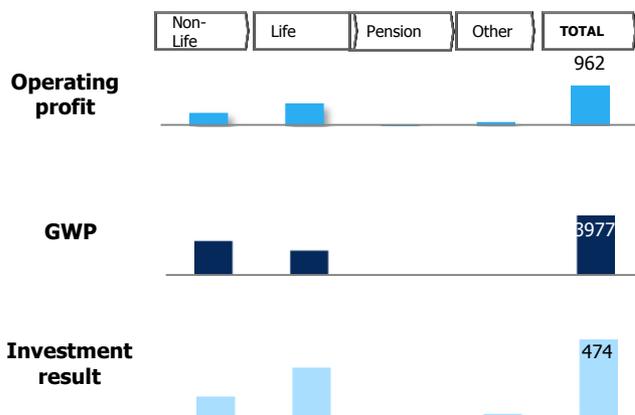
2 The difference between the value of the Armatura Group carried in the balance sheet as at 31 December 2010 and PZU Group's share in the Armatura Group's net assets was reported in the 2011 profit and loss statement. The non-recurring impact is related to commencing consolidation by the full method.

Change in Segment Presentation – Comparable data for 1Q 2011

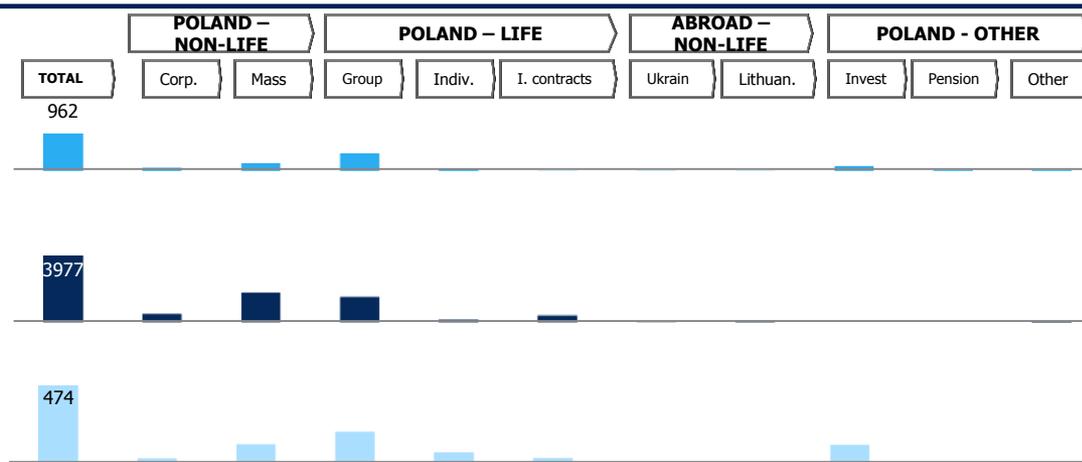


m PLN

Segments under Previous Presentation

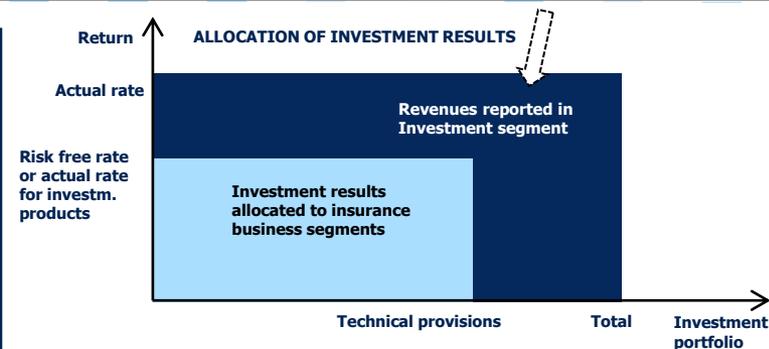


Segments under New Presentation



Change in segment presentation:

- Breakdown of insurance business segments;
- All insurance business segments under local GAAP;
- The investment segment has been introduced on which investment results from own funds and results over risk-free rate calculated on the basis of technical provisions (excluding investment products) are allocated.

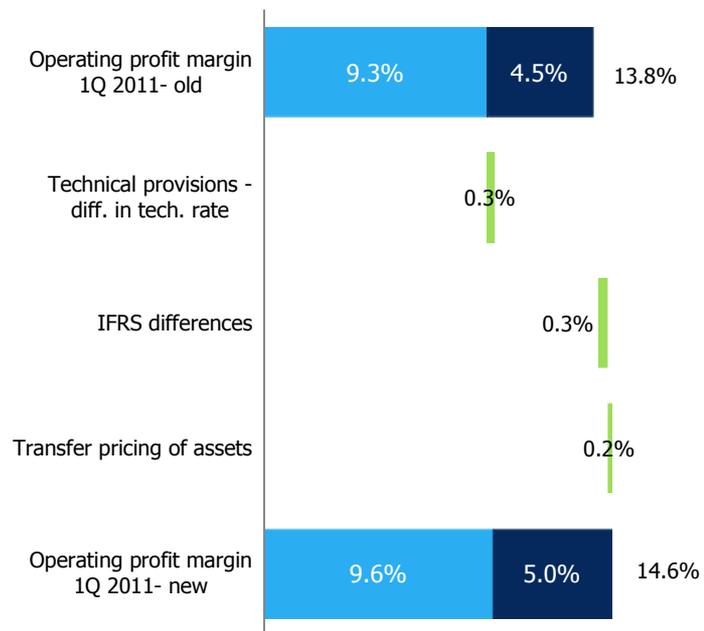


Illustrative graph

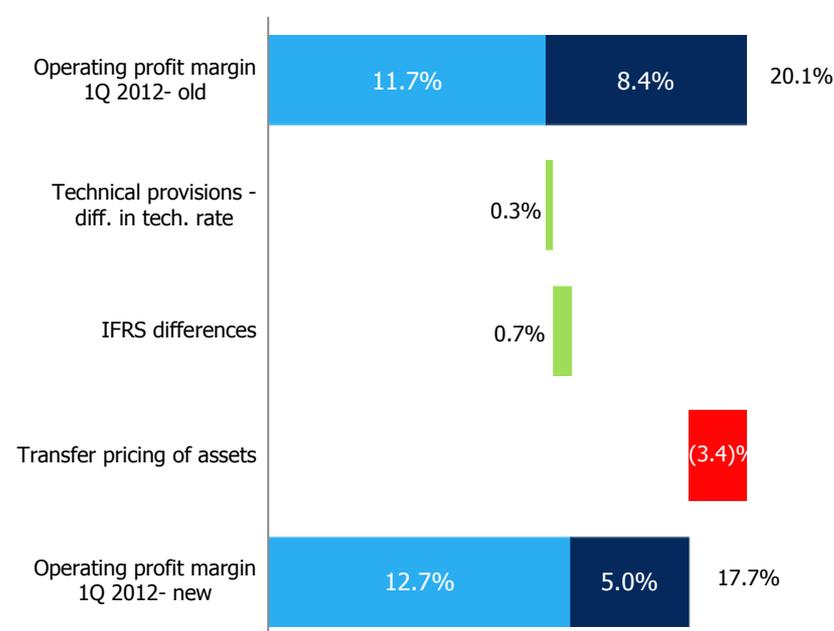
Life Insurance New Segment Profitability (Group and Continued business)



Changes in operating profit ratio due to changes in segmentation 2011



Changes in operating profit ratio due to changes in segmentation 2012



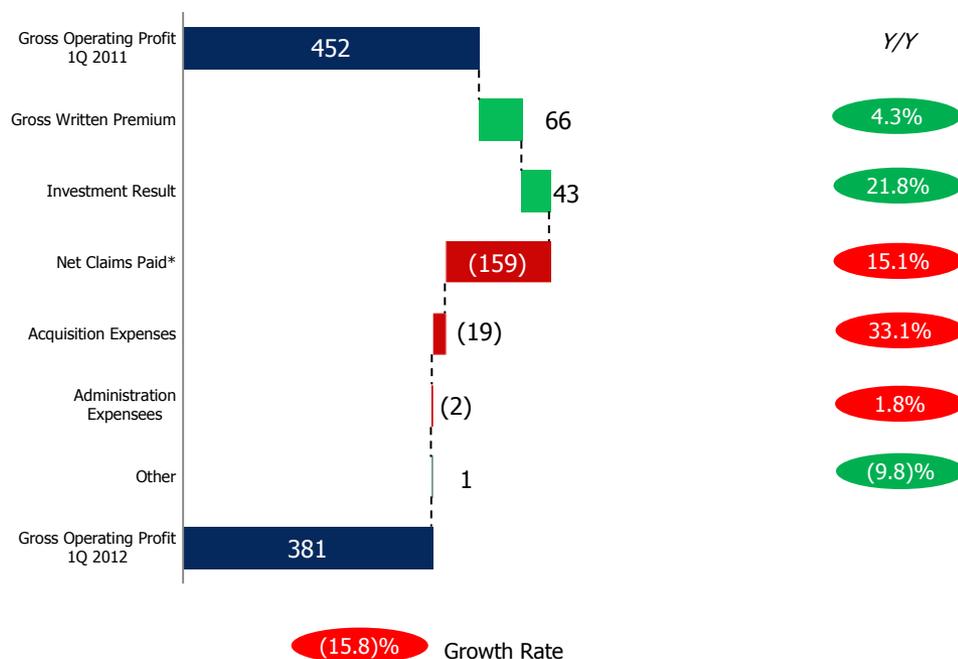
 *Investment margin (investment yield above technical rate)*

 *Insurance margin (investment yield using technical rate)*

Group and Continued Life Insurance Segment



Primary Operating Profit Components in Group and Continued Life Insurance (m PLN)



* including technical provisions and conversion effect

Remarks

- GWP growth +4.3% Y/Y due to group protection contracts and bancassurance products with single premium.
- Higher investment result mainly in investment-type products driven by good capital market condition in 1Q 2012.
- Lower net claims paid in type P group protection insurance (lower average claims).
- Growth of mathematical reserves due to lower conversion ratio in type P group insurance; higher sales of bancassurance investment products and higher investment result in unit-linked portfolio.
- Acquisition expenses grew Y/Y as a result of higher sales volume.
- Slightly higher administrative expenses.
- The lower operating profit stems primarily from lower conversion effect from type P group insurance; w/o conversion growth of margin in this segment.

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



* including technical provisions

Remarks

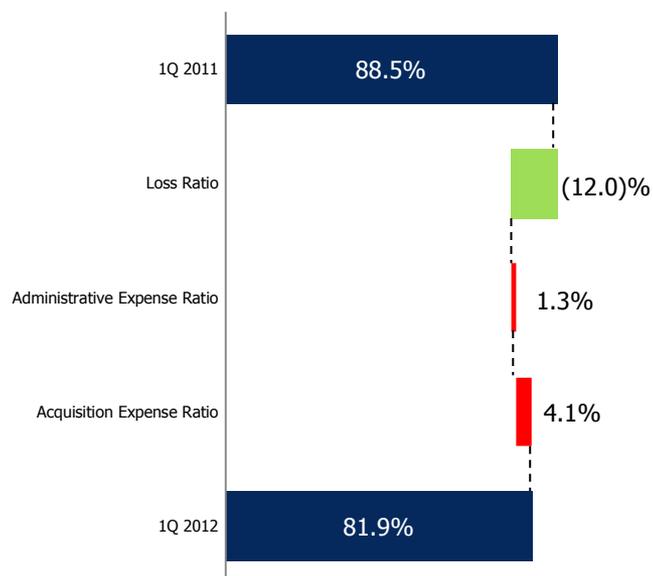
- GWP increase by 59.2% Y/Y particularly due to success of bancassurance products.
- Higher investment result mainly in investment-type products driven by good capital market condition in 1Q 2012.
- Lower net claims as a result of lower surrenders and maturities in 'old' portfolio.
- Growth of mathematical reserves due to higher sales of investment products and higher investment result in unit-linked portfolio.
- Acquisition expenses grew Y/Y as a result of higher sales volume (including investment insurance with a high first-year commission).
- Stable administrative expenses.
- The higher operating profit stems primarily from successful sale of products.

Profitability of Corporate Non-life Insurance Segment



Profitability of Corporate Non-life Insurance (COR %)

Remarks



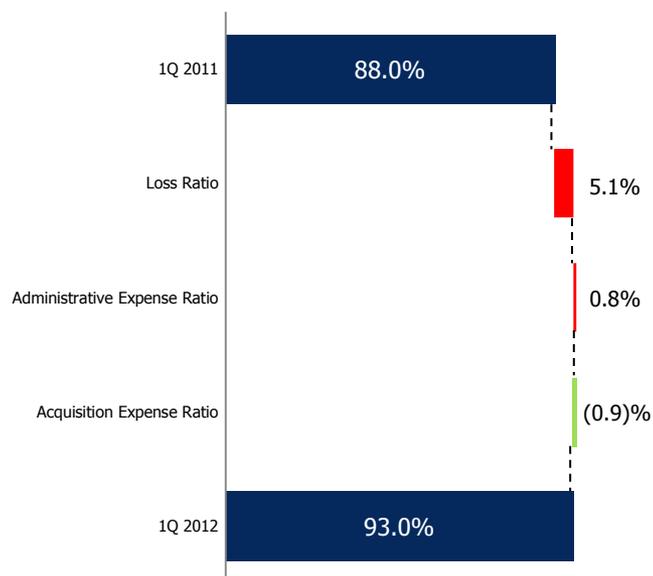
- Decrease of loss ratio as a result of motor business profitability improvement and lack of large single losses.
- Increase of administrative expense ratio due to new initiatives related to rebranding of the PZU Group and operational process optimization.
- Increase of acquisition expense ratio due to lower level of deferred acquisition costs changes.

Profitability in Mass Non-life Insurance Segment



Profitability of Mass Non-life Insurance (COR %)

Remarks

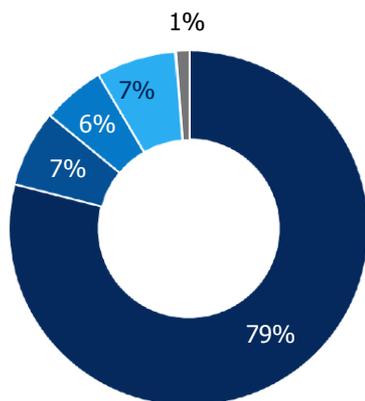


- Increase of loss ratio as a result of negative effects of winter crop damages in agricultural insurance (loss ratio 61.1% 1Q 2011 vs 66.2% 1Q 2012; excluding winter crop damage 55.4% 1Q 2011 vs 55.2% 1Q 2012).
- Increase of administrative expense ratio due to new initiatives related to rebranding of the PZU Group and operational process optimization.
- Decrease of acquisition expenses ratio due to the decrease in indirect costs of acquisition.

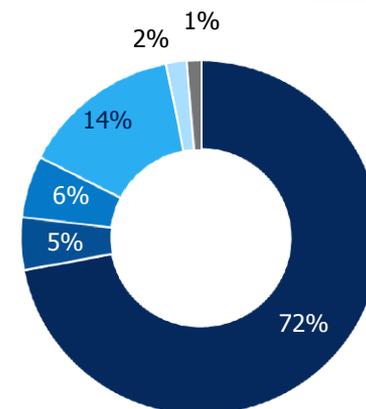
High profitability of Debt and Capital Instruments



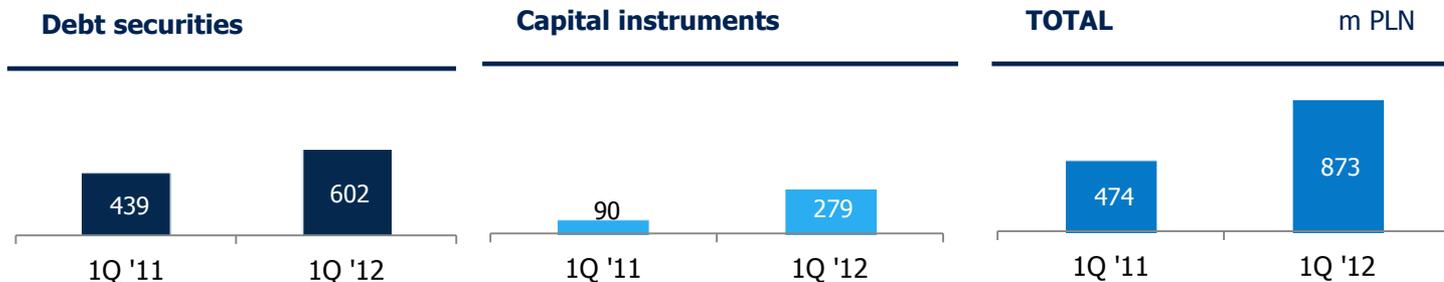
1Q '11 Investment Composition*



1Q '12 Investment Composition*



Investment revenues*

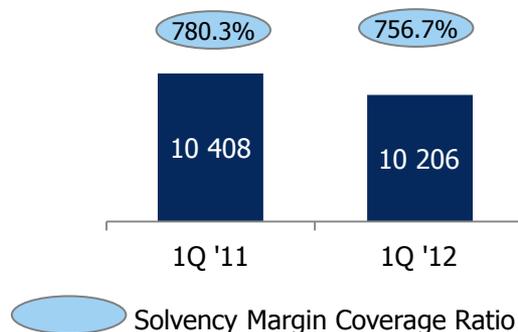


* Investments include financial assets and investment properties

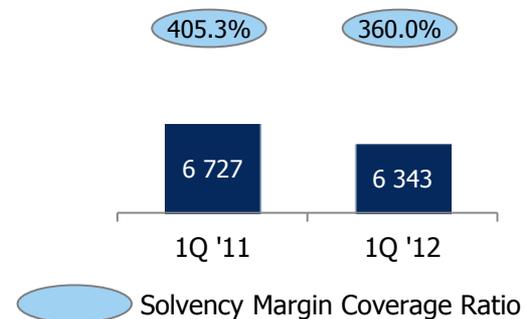
Robust Capitalization, Strong Solvency Ratios and Stable Dividends



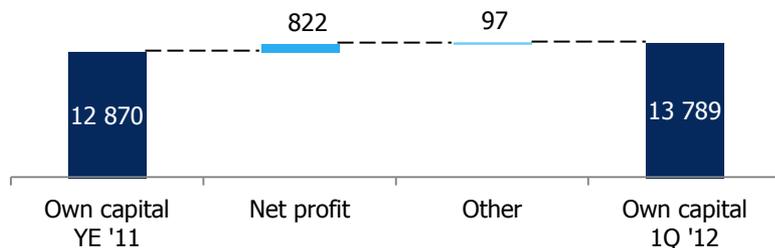
PZU SA's Own Funds and Solvency Margin Coverage Ratio (m PLN, PAS)



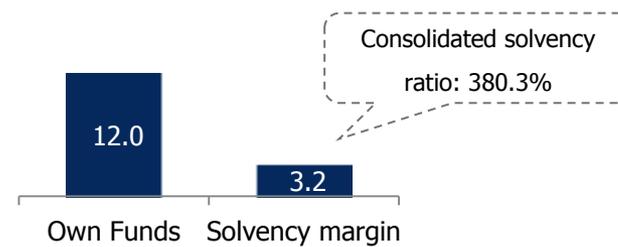
PZU Życie SA's Own Funds and Solvency Margin Coverage Ratio (m PLN, PAS)



PZU Group's Equity (m PLN, IFRS)



PZU Group's Own Funds for 1Q 2012 (bn PLN, IFRS)





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