



PZU

PZU Group

2010 Interim Results Presentation

August 26, 2010

PZU Management Team



Andrzej Klesyk
President, Management Board
Group CEO

- Responsible for Strategy, Corporate Governance, HR, Audit & Investments
- 2003–2007: The Boston Consulting Group
- 2000–2003: Bankgesellschaft Berlin (Polska)
- 1993–2000: McKinsey
- 3 years with the Group



Witold Jaworski
Management Board

- Responsible for Retail, Corporate Business & Marketing
- 1998–2001 and 2002–2004: McKinsey
- 2000: Poznań University of Economics
- 6 years with the Group



Rafał Stankiewicz
Management Board

- Responsible for Administration, Logistics, Claims Handling & IT
- 14 years with the Group



Dariusz Krzewina
President (Life),
Management Board

- Responsible for Life Business & Actuaries
- Previously CEO of Sampo and board member of Ergo Hestia in Poland
- 10 years with the Group



Rafał Grodzicki
Management Board

- Responsible for: Individual Life & Distribution
- Previously employed at Bank Handlowy w Warszawie (Citigroup) for 13 years
- 6 years with the Group



Przemysław Dąbrowski
Management Board
Group CFO

- Responsible for Finance, Accounting, Controlling & Treasury
- Previously employed by Elektrim Group and AIG Poland
- 9 years with the Group



Mariusz J. Sarnowski
Management Board

- Responsible for Operations
- Previously CEO of Link4
- 1 year with the Group



Krzysztof D. Branny
Management Board

- Responsible for HR
- Previously at Unilever (17 years), Vice President responsible for HR in CEE Region
- Will join the Group on September 1st 2010

Agenda

Key highlights and market context

Business overview

Financial performance

Q&A

Listing of PZU shares on Warsaw Stock Exchange on 12 May 2010



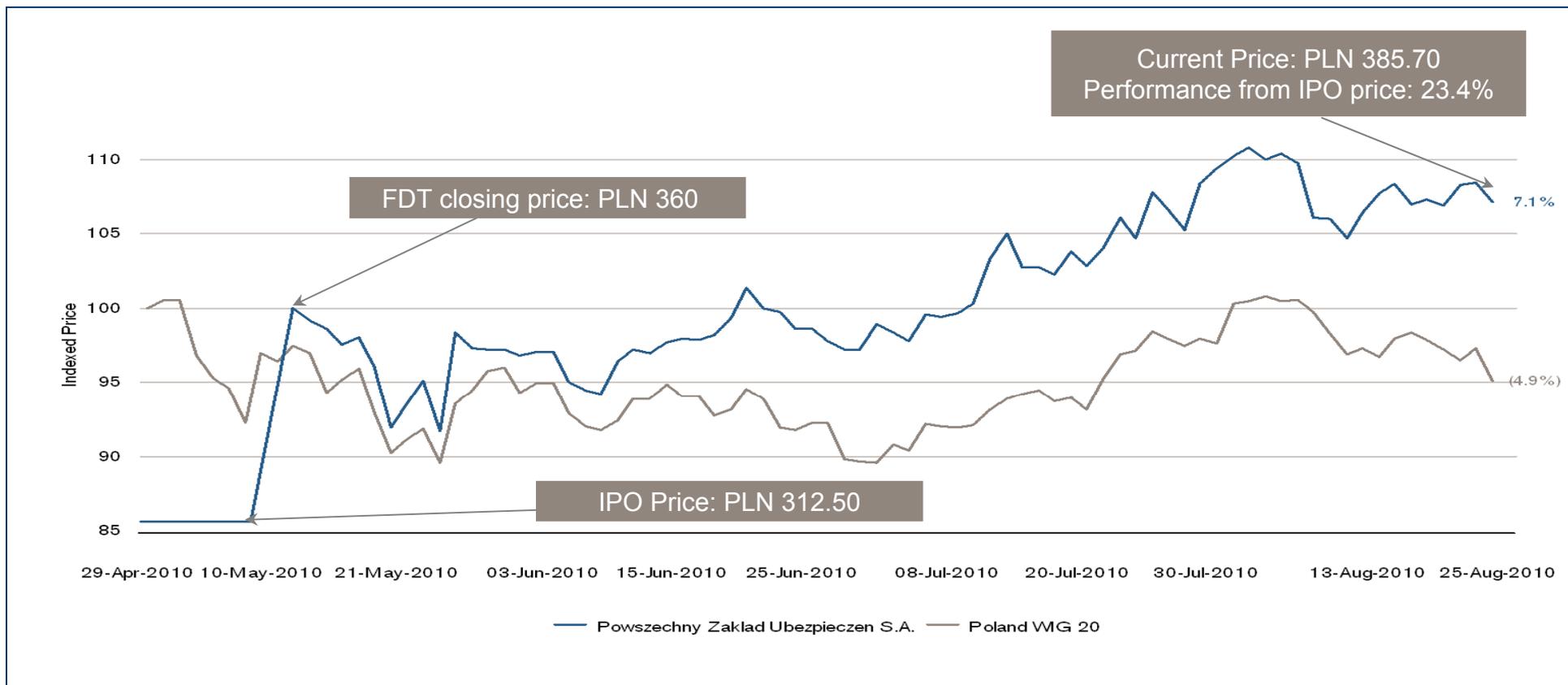
Listing on Warsaw Stock Exchange on 12 May 2010

- Offer price of PLN 312.50 per share
- Secondary offering of shares of Kappa (14.9%), Eureko (10.0%), State Treasury (5.0%)

Largest IPO in Poland and CEE to date, and largest in Europe since 2007

- Offer size PLN 8.1bn (US\$ 2.7bn)
- Strong demand achieved in a challenging market environment
 - over 251 ths. individual investors attracted
- Broad diversification between institution/retail and domestic/international investors

PZU share price performance vs WIG20*

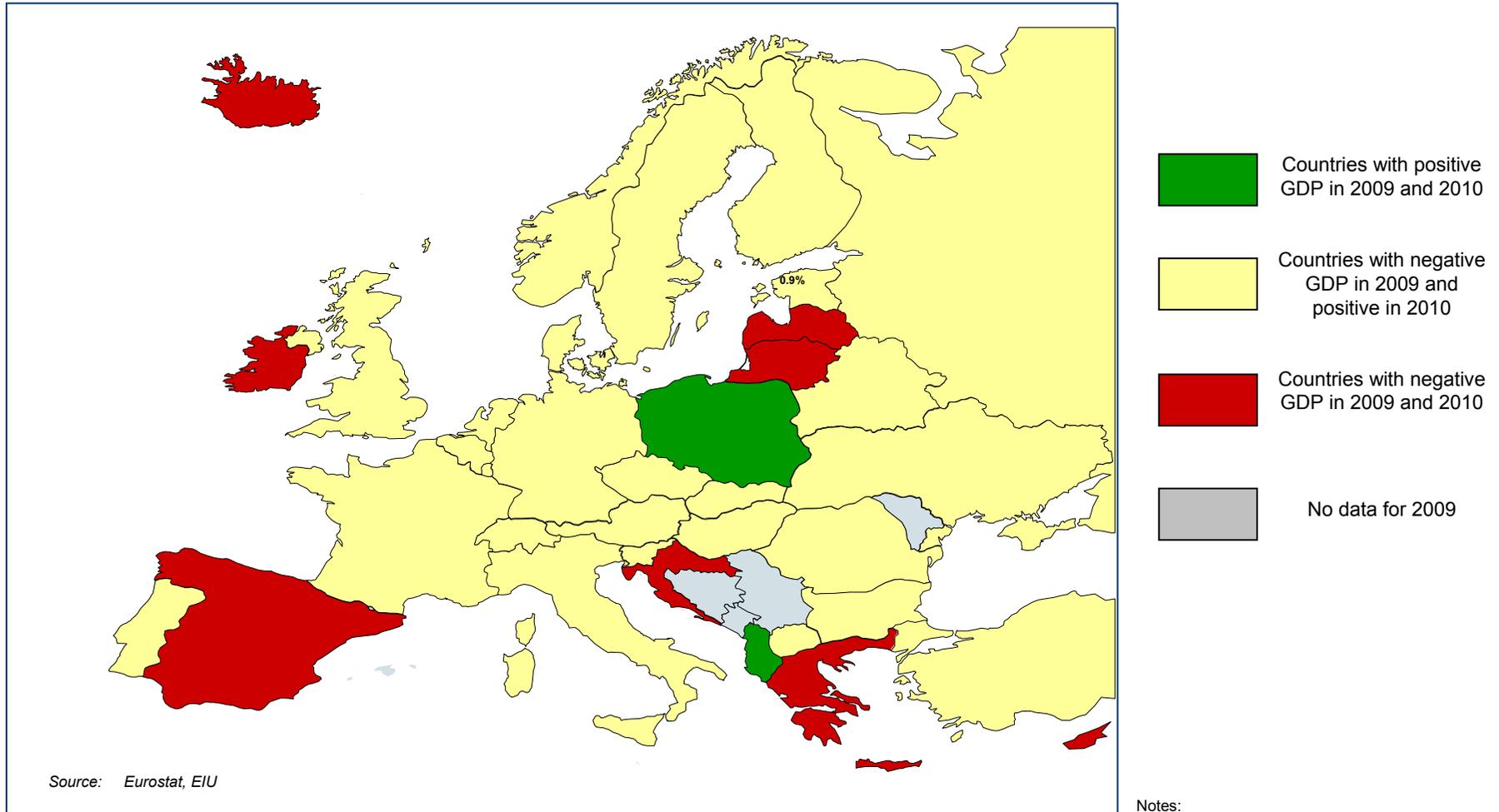


**Since public offer, market capitalization of PZU SA
Increased by PLN 5.8 bn**

*Source: Factset as of 24 August 2010

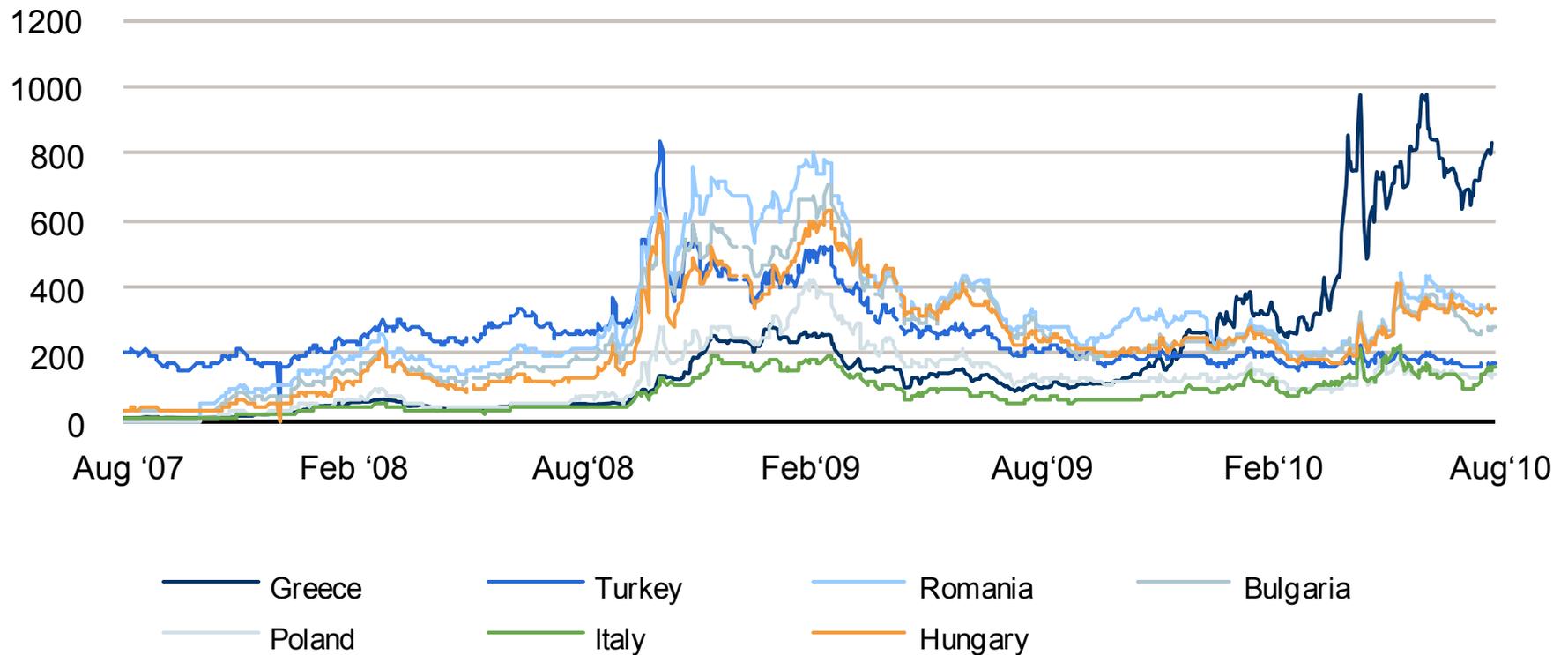
Polish economy continues to grow

Poland 2010 GDP vs. European Countries (2009 and forecasts for 2010)



Credit risk for Poland perceived as very low

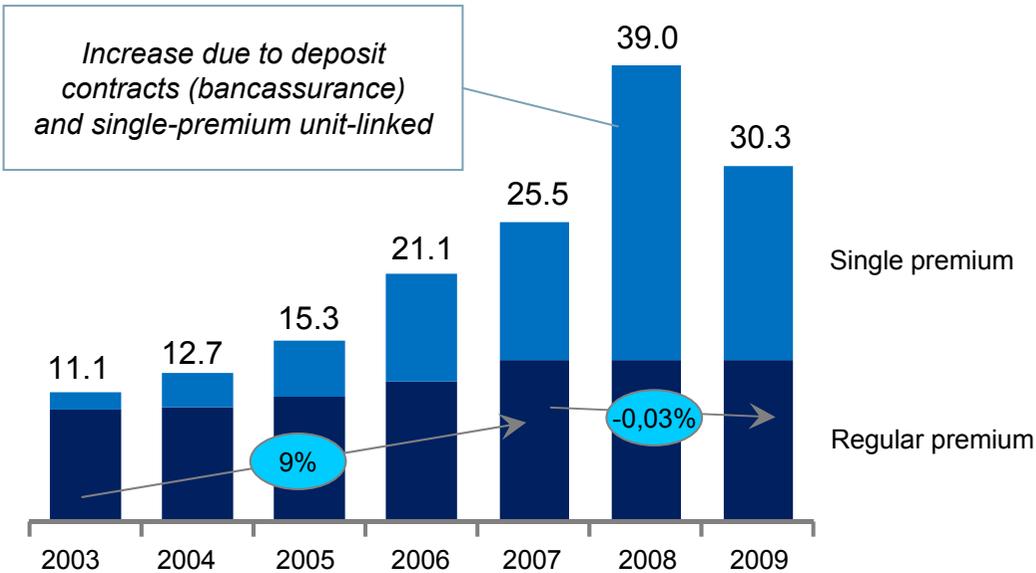
Credit Default Swaps



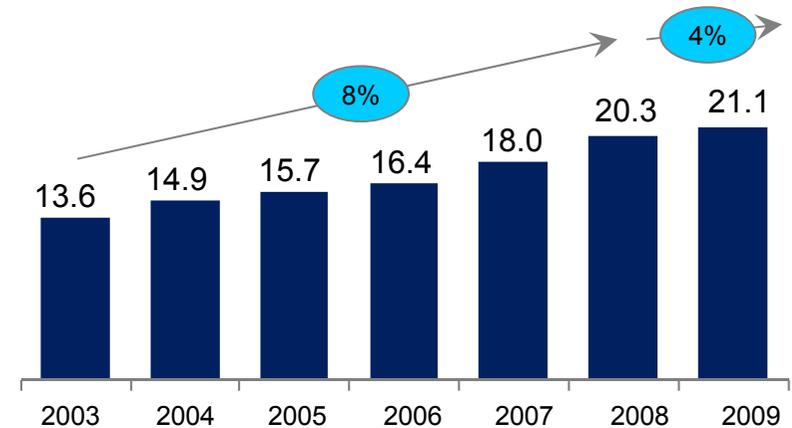
Source: Locus

Slow-down in Polish insurance market development

Life segment (GWP, PLNm)



Non-life segment (GWP, PLNm)



Key characteristics of Polish insurance segment

Life insurance segment



- Unit-linked products still under volume pressure
- Regular life and group insurance growing in line with GDP / salaries
- More cautious approach to „deposit contracts”
- Slight pressure on margins

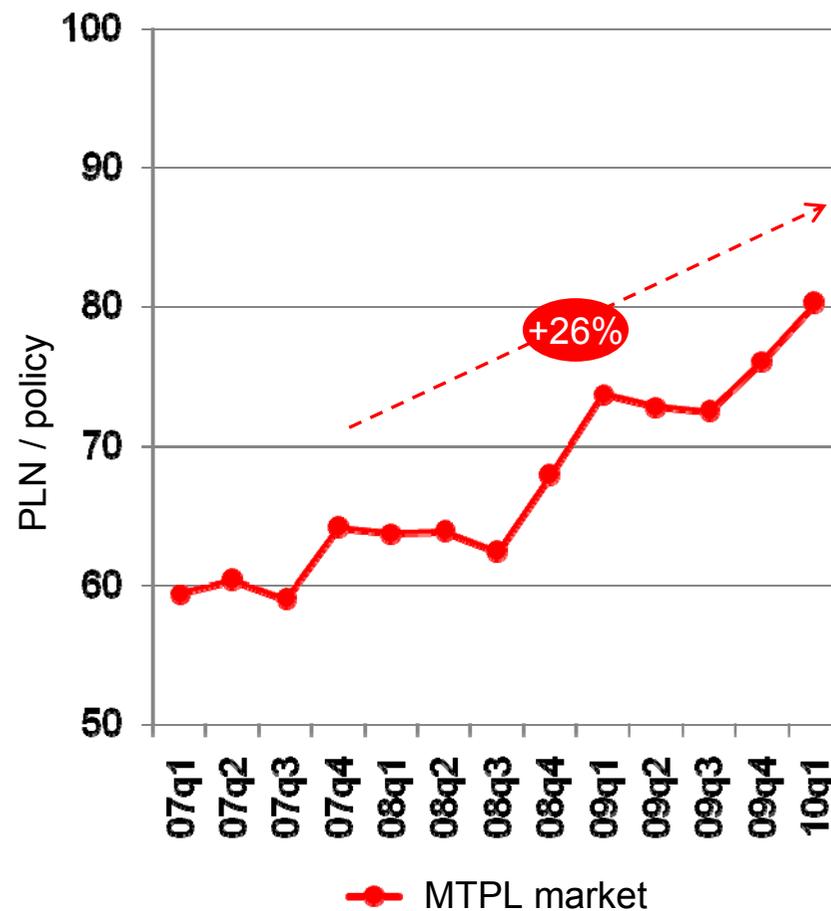
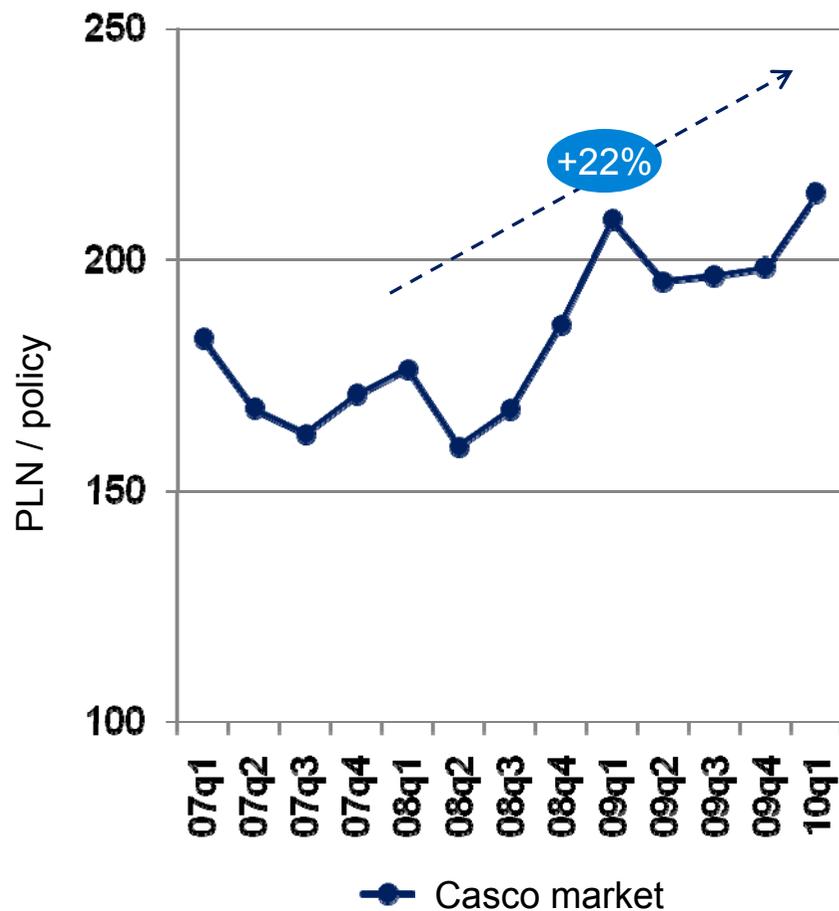
Non-life insurance segment



- Extremely competitive pressure on pricing
- Growing claims due to Euro exchange rate as well as pain & suffering and bereavement of close relatives
- Claims frequency increase due to crisis
- Major catastrophic events (flood, snowfall)

Increasing claims in motor insurance

Average claim per active policy



+xx% - change q1'10 vs q1'08

In second quarter of 2010 flood had major impact on the whole non-life insurance market



- 2 flood waves: in May and June 2010
- Hundreds of thousands of people affected by flooding (over 30 ths. people evacuated)
- Over 2 ths. cities, towns and villages endangered by water (in 10 of 16 voivodships)
- In many areas highest water level ever noted

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Execution of strategy on track

Life segment

- We continue to strengthen our leading market position in regular premium life segment

Non-life segment

- In the **Mass segment** we are taking action to stabilize market share while maintaining profitability
- In the **Corporate segment** we continue to implement turn-around program to ensure profitability

Restructuring

- We continue to optimize **administration expenses** and restructure **headcount**

... however financial results have been impacted by one-off catastrophic events in non-life segment

PZU in figures

in PLNm

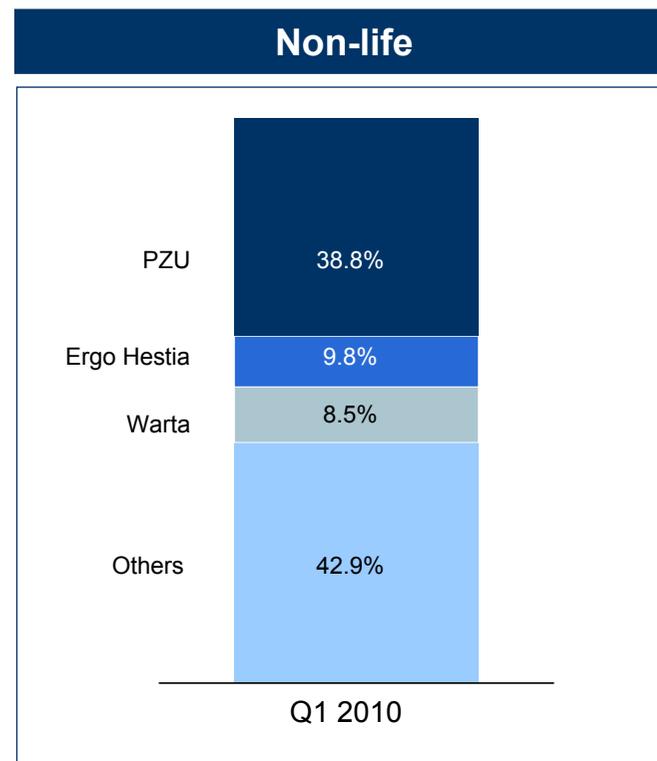
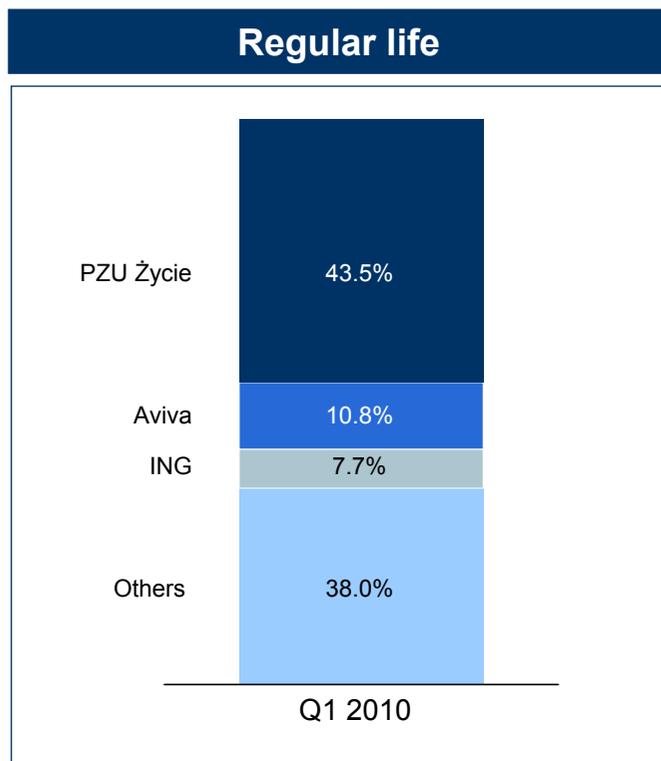


	PZU Group			
	H1 2010	H1 2009	Change	Comments
GWP	7 393.7	7 486.8	-1.2%	<ul style="list-style-type: none"> • Growth in life business • Portfolio restructuring in Corpo non-life • Increase in claims (esp. snow, flood) • Lower asset base for investments (dividend pay-out) • Lower conversion in group life
Investment Result	1 265.0	1 503.6	-15.9%	
Operating Profit	1 500.1	2 871.1	-47.8	
Net Profit	1 169.8	2 308.8	-49.3%	
ROE	20.6%	20.7%	-0.1 p.p.	

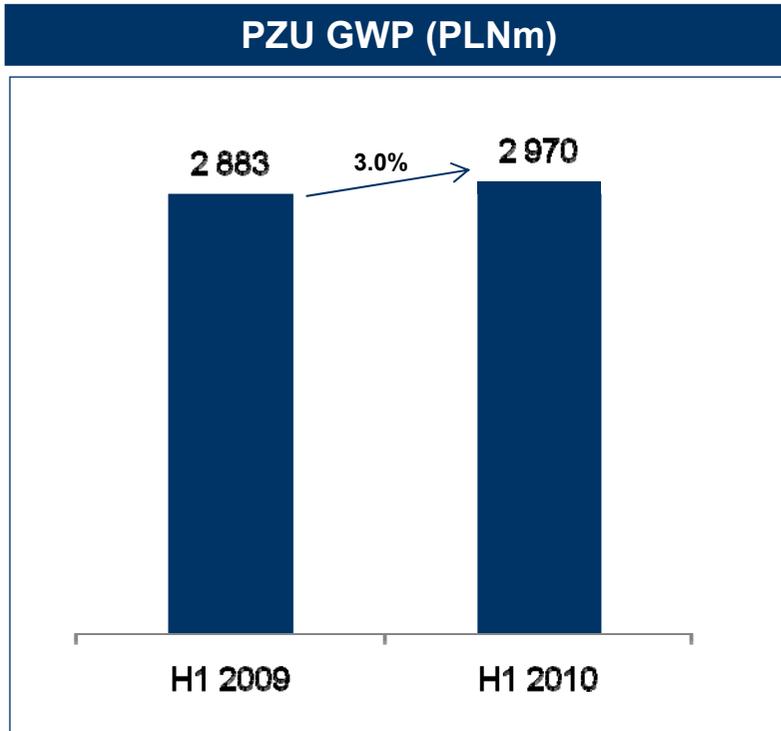
Results of PZU Group – one-off elements

PLNm, IFRS	H1 2009	H1 2010	Change
Operating profit (reported)	2 871	1 500	-1 371
<i>Including:</i>			
Movements in technical reserves (type P)	+1 021	+325	-696
Flood and snow claims	-	-394	-394
Decrease of investment portfolio	-	-351	-351
Fee to National Health Fund	-92	-	+92

PZU maintains leading, strong market position

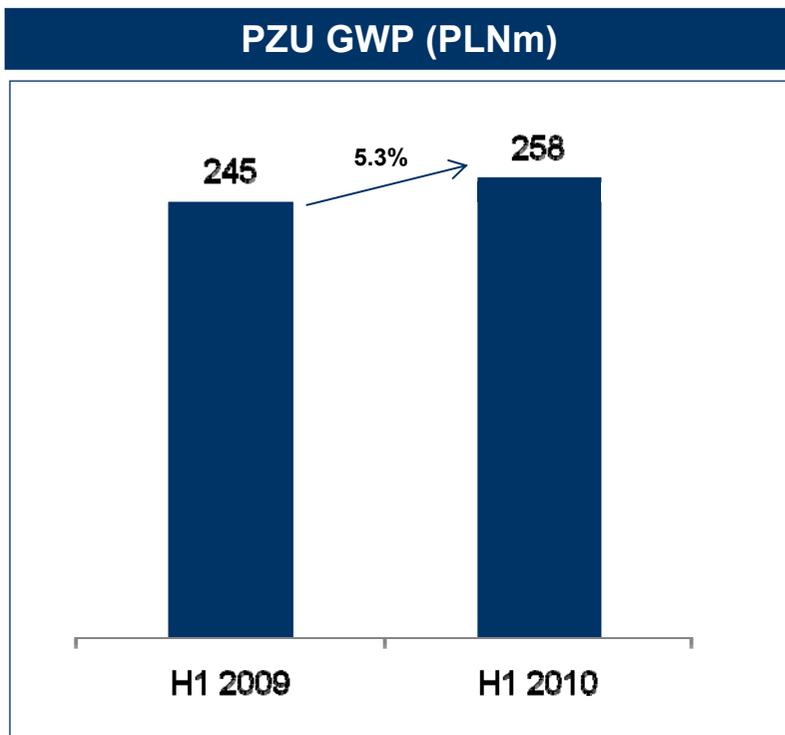


In group and individual continuation PZU strengthens its leading position



- In type P group product (main group product in PZU's portfolio) in H1 2010 (comparing to H1 2009):
 - Increase in average premium per policy
 - Increase in no. of policies
 - Stable loss ratio
- Change in commission system for corporate sales force – focus on profitability
- Increase in penetration of riders both in group and continued policies
- Expected pressure on margins due to:
 - introduction of tenders
 - growing importance of brokers

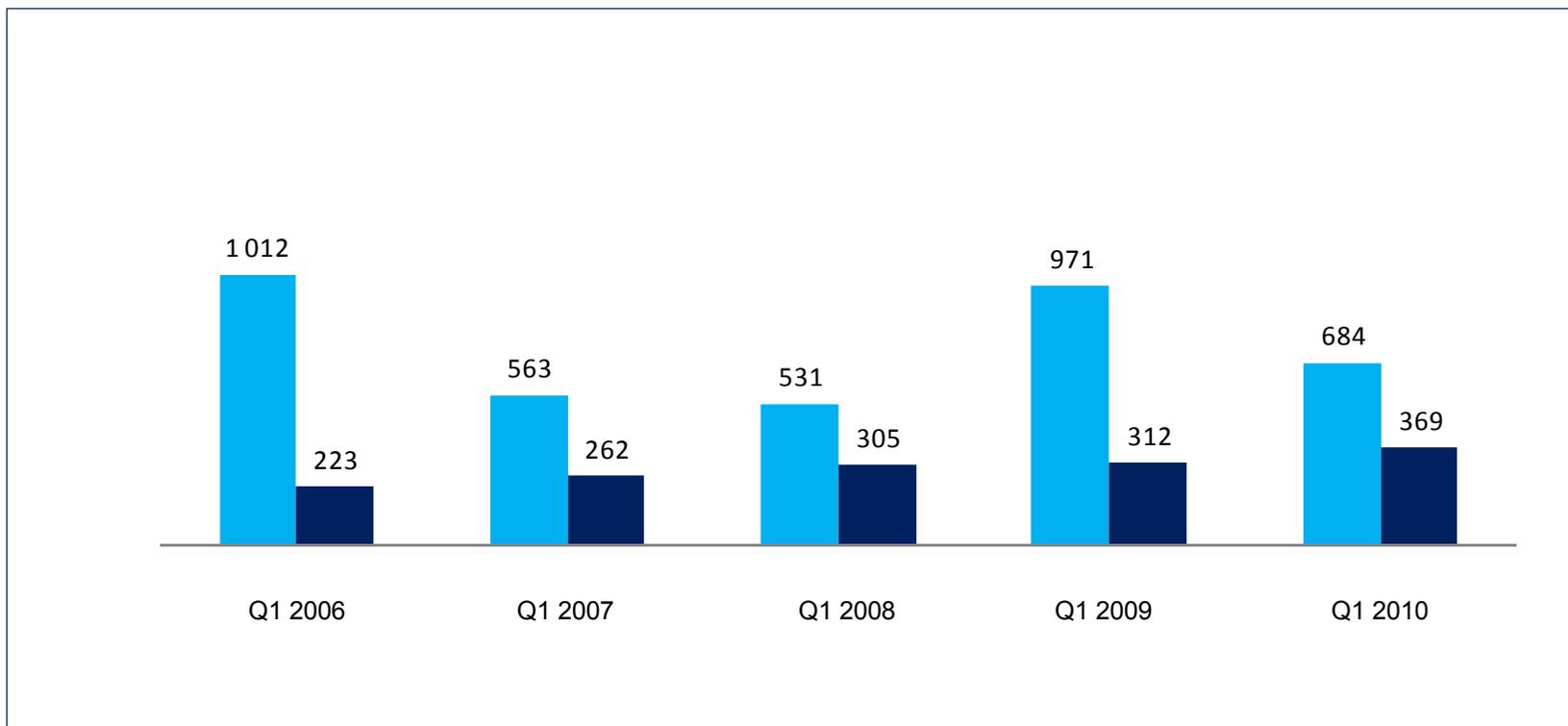
In individual life PZU builds position based on new product and new sales model



- Implementation of „Sales activation program”
 - Increase in retention of new agents
 - Increase in no. of policies sold per agent
- Introduction of new product „Plan for life”
 - New sales in no. of policies: 5.7 ths.
 - New sales in APE (PLNm): 9.8

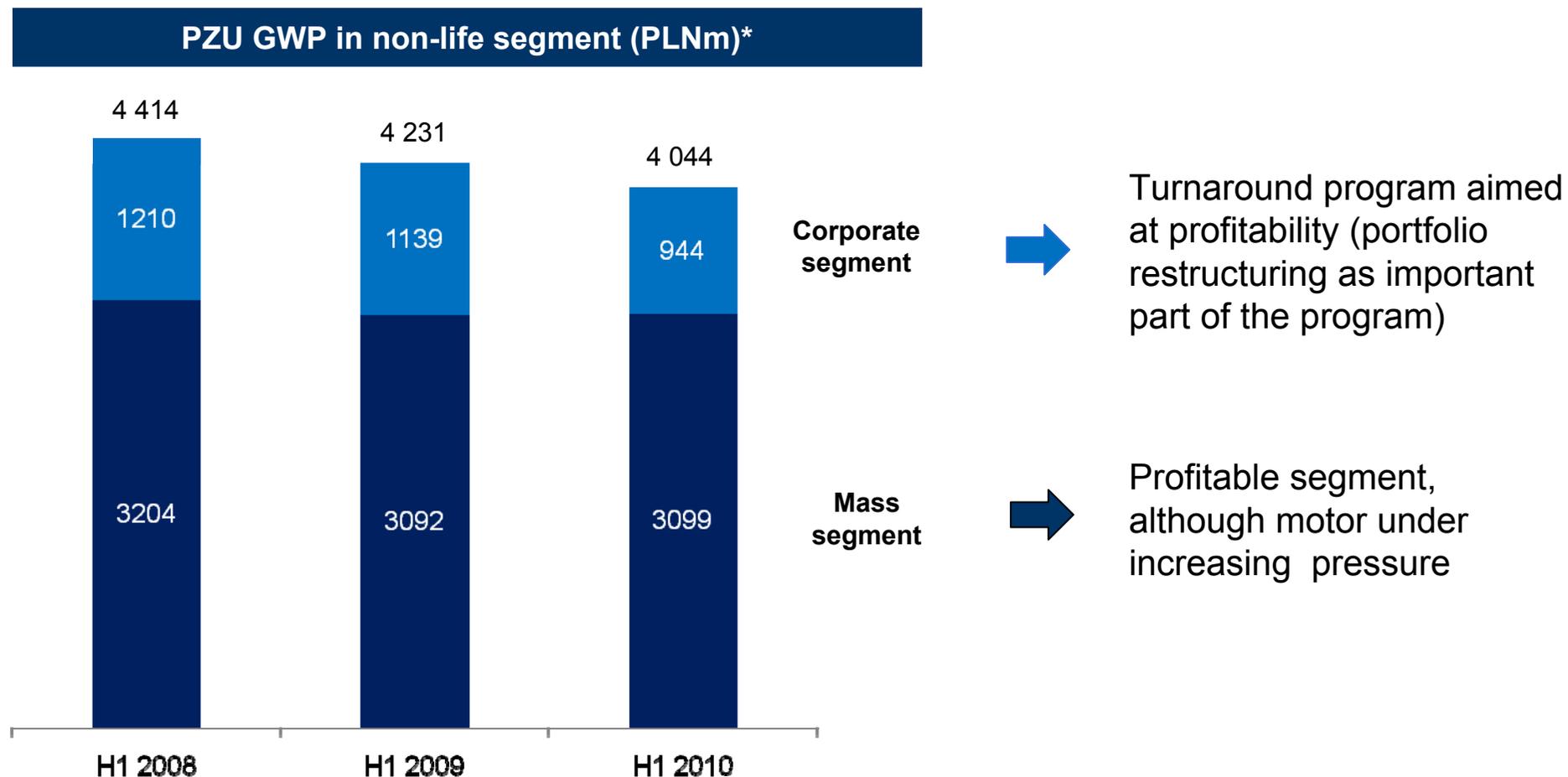
Stable and high profitability of life insurance market

Technical result – PZU Życie SA vs. market (PLNm)



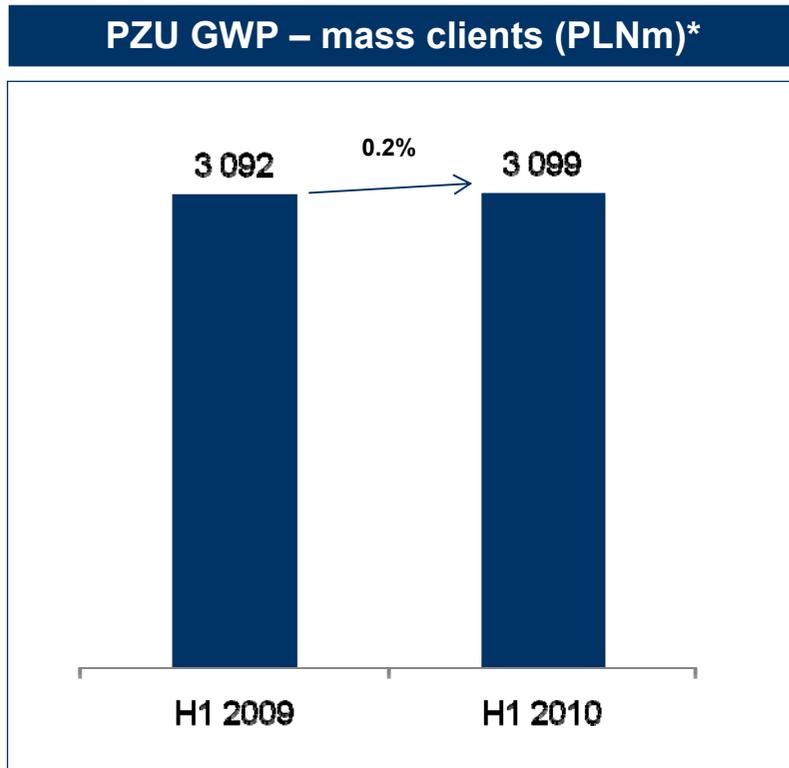
Market without PZU Życie SA PZU Życie SA

Different goals for PZU in corpo and mass segments



Notes:
*) Only Polish market

In non-life mass segment PZU stabilizing market position



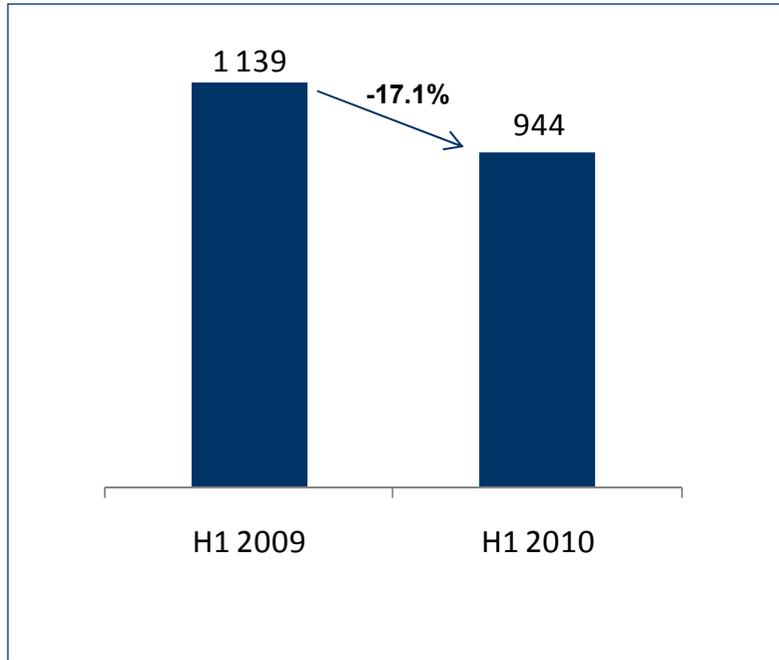
- „Sales activation program” for tied agents fully implemented
 - whole network working in the new, standardized model
 - improvement of agents’ efficiency
 - more dynamic recruitment
- Pilot activation program for multi-agents launched
- Sales actions and better pricing in Motor resulted in growing the new sales growth ratio (both in motor and non-motor insurance) and reducing erosion in the portfolio

Notes:

*) Only Polish market

In non-life corporate segment PZU continues turn-around program

PZU GWP – corporate clients (PLNm)*



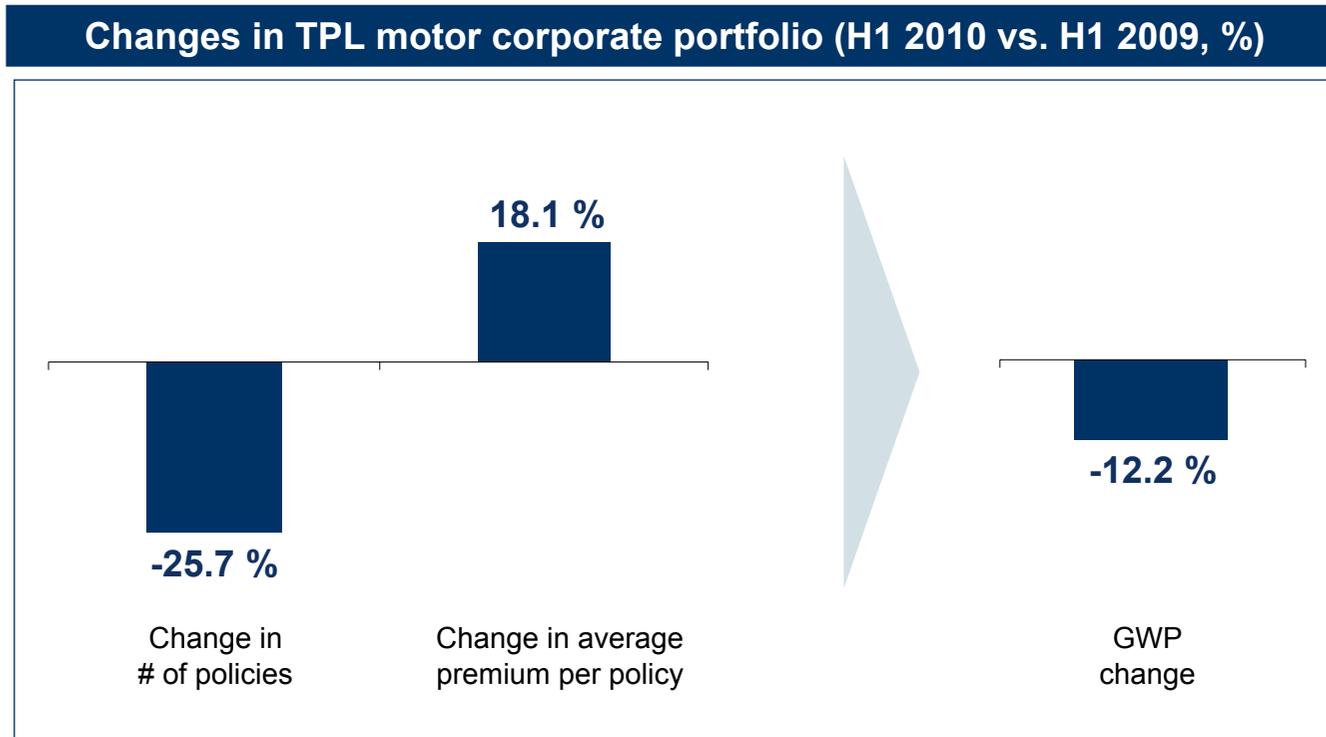
Elements of turn-around program

- Separate of sales and underwriting
- Ensure full segment and customer P&L transparency
- Remove unprofitable customers from the portfolio
- Introduce profitability based motivation system

Notes:

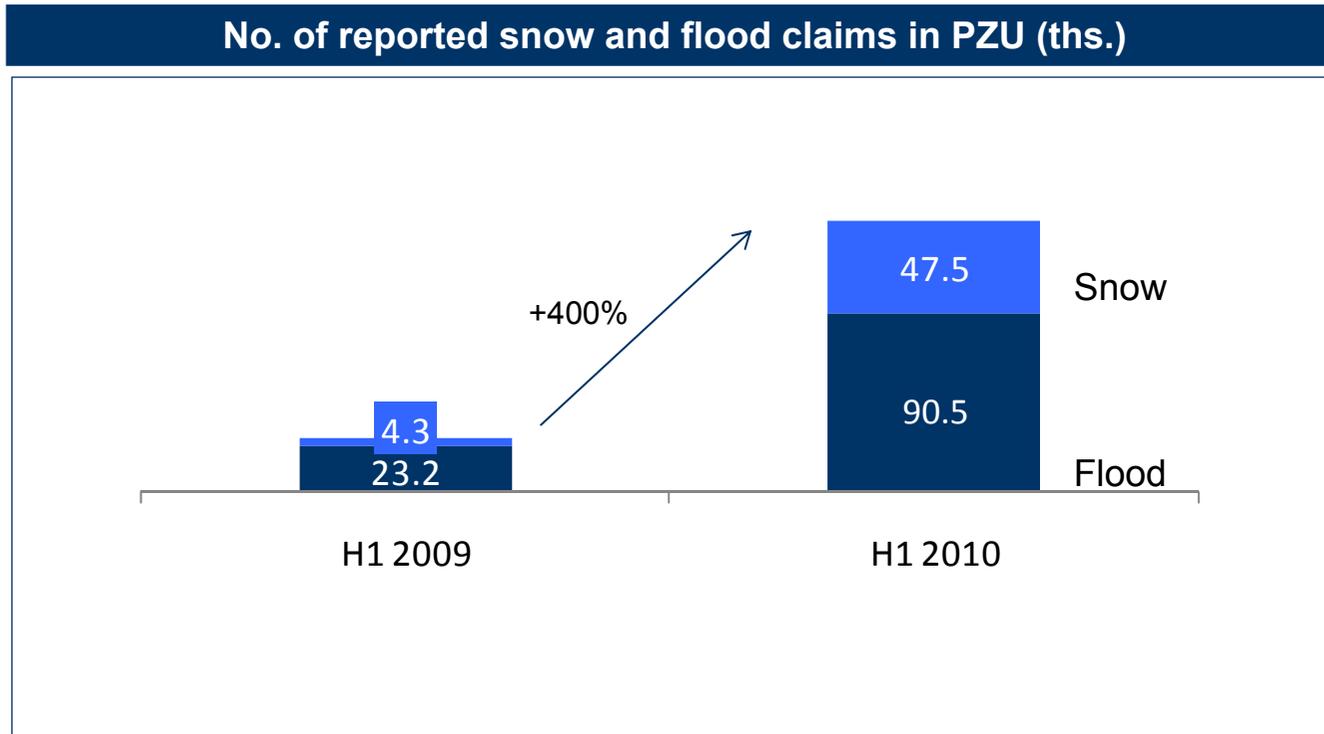
*) Only Polish market

Impact of turn-around program on motor TPL corporate portfolio – example



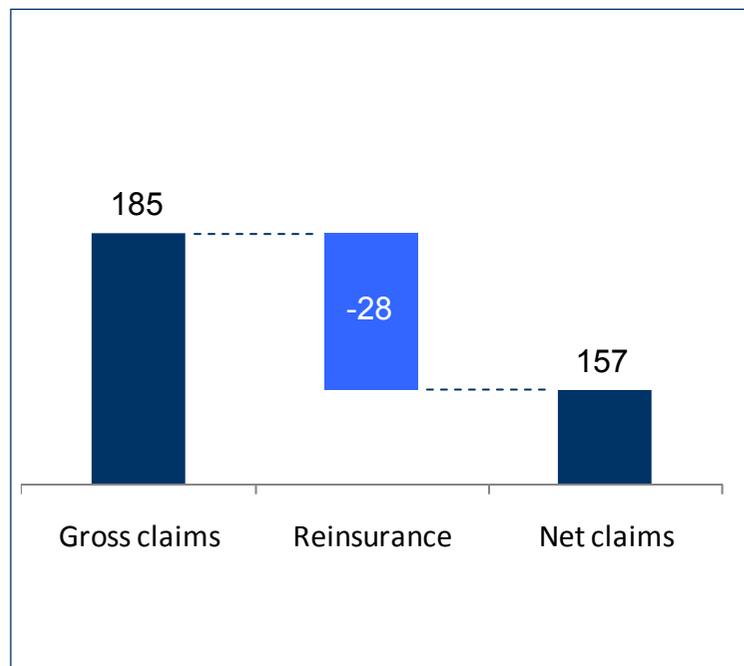
Notes:
*) Only Polish market

In first half of 2010 substantial increase in no. of reported snow and flood claims

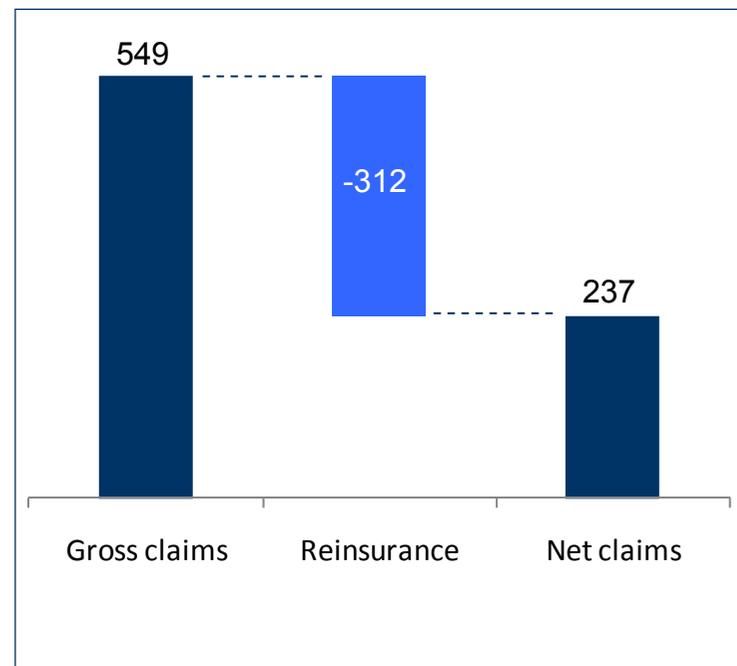


Financial impact of catastrophic events

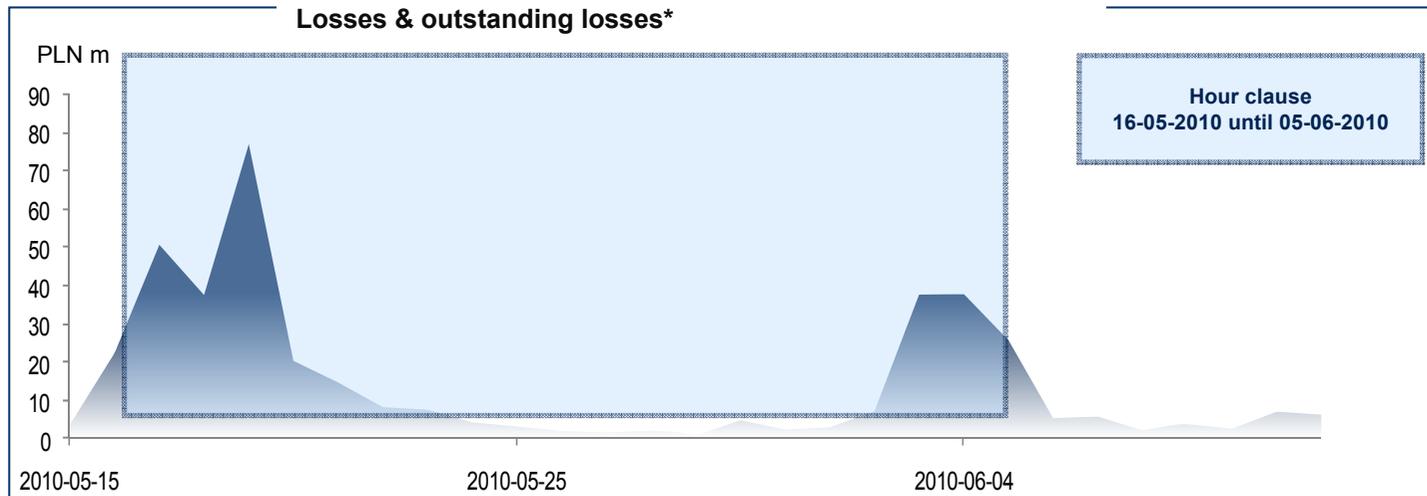
**Snow claims at PZU
(H1 2010, PLNm)**



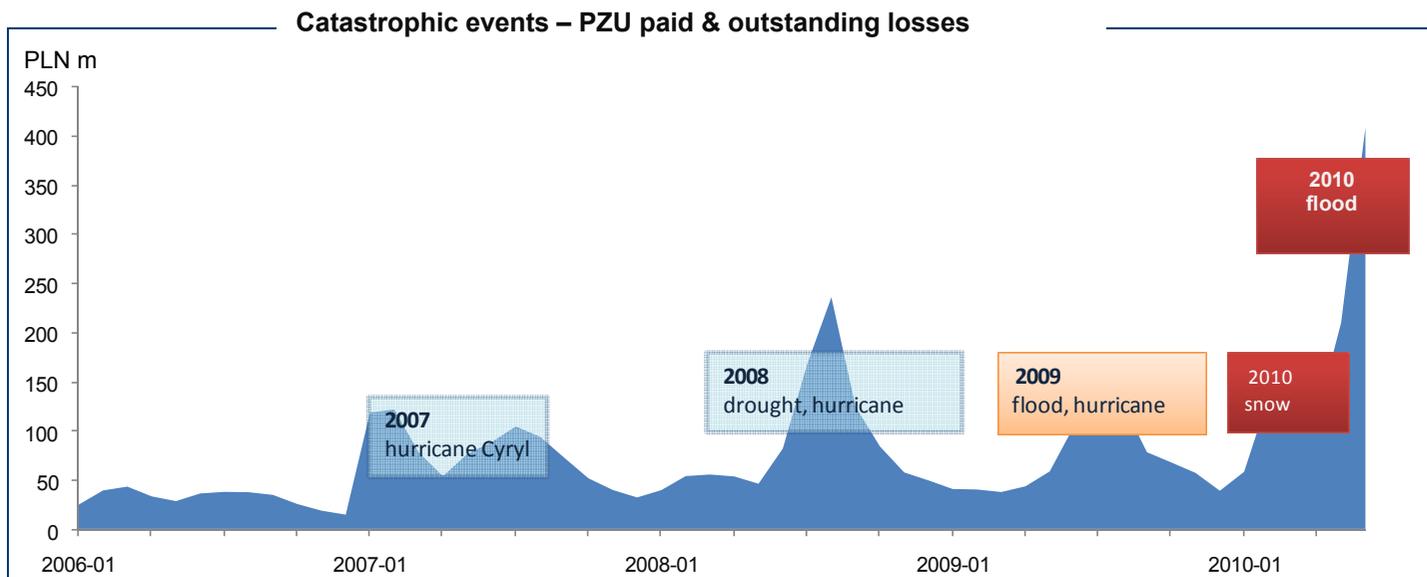
**Flood claims at PZU
(H1 2010, PLNm)**



Claims from catastrophic events



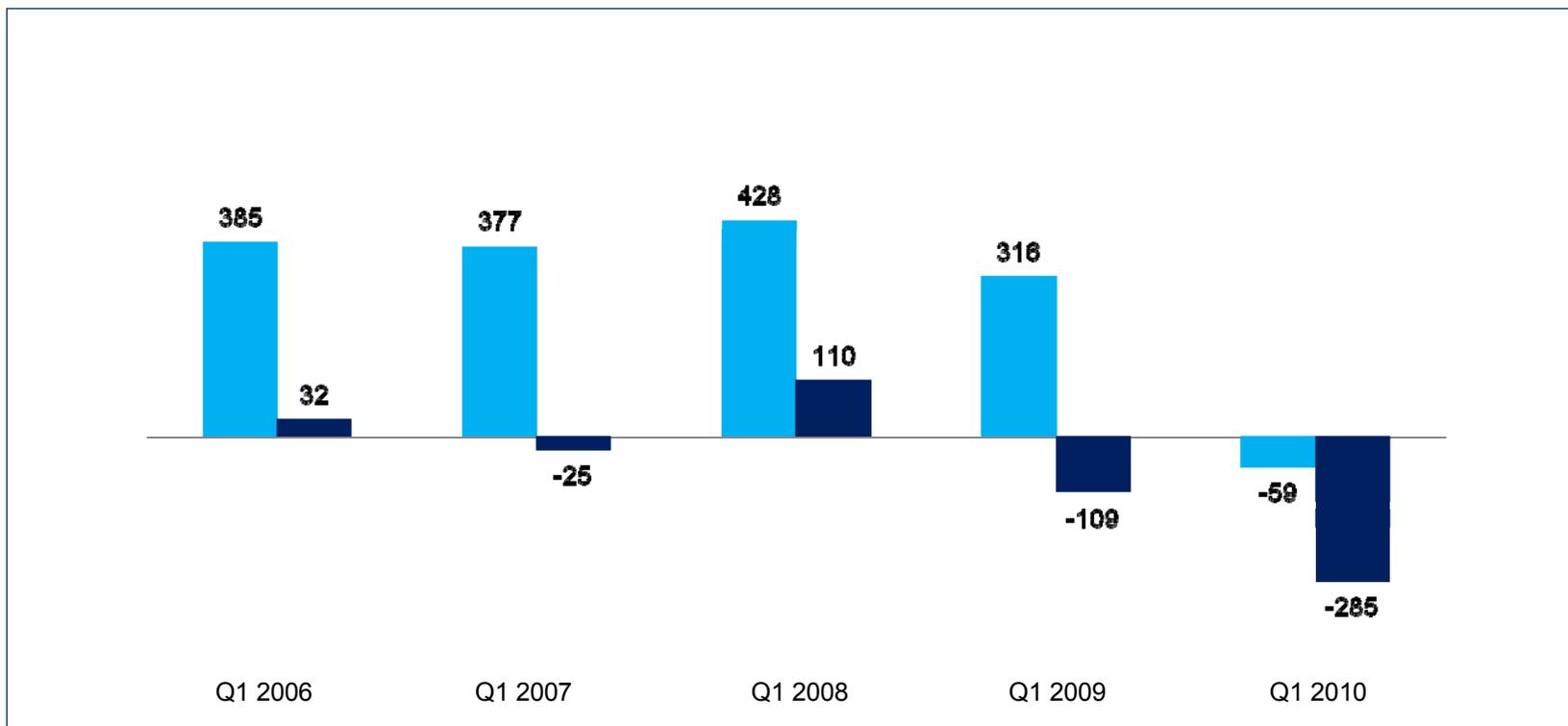
- Unexpected 2nd wave of flood on Vistula river exceeded „hour clause” in reinsurance catastrophic treaty (from 16.05.2010 to 05.06.2010).
- Reinsurance treaty covers most losses („the worst” 3 weeks).



- Catastrophic events in Poland getting more frequent and severe in last years – climate changes
- These events vary in type: from droughts, through hurricanes, to floods

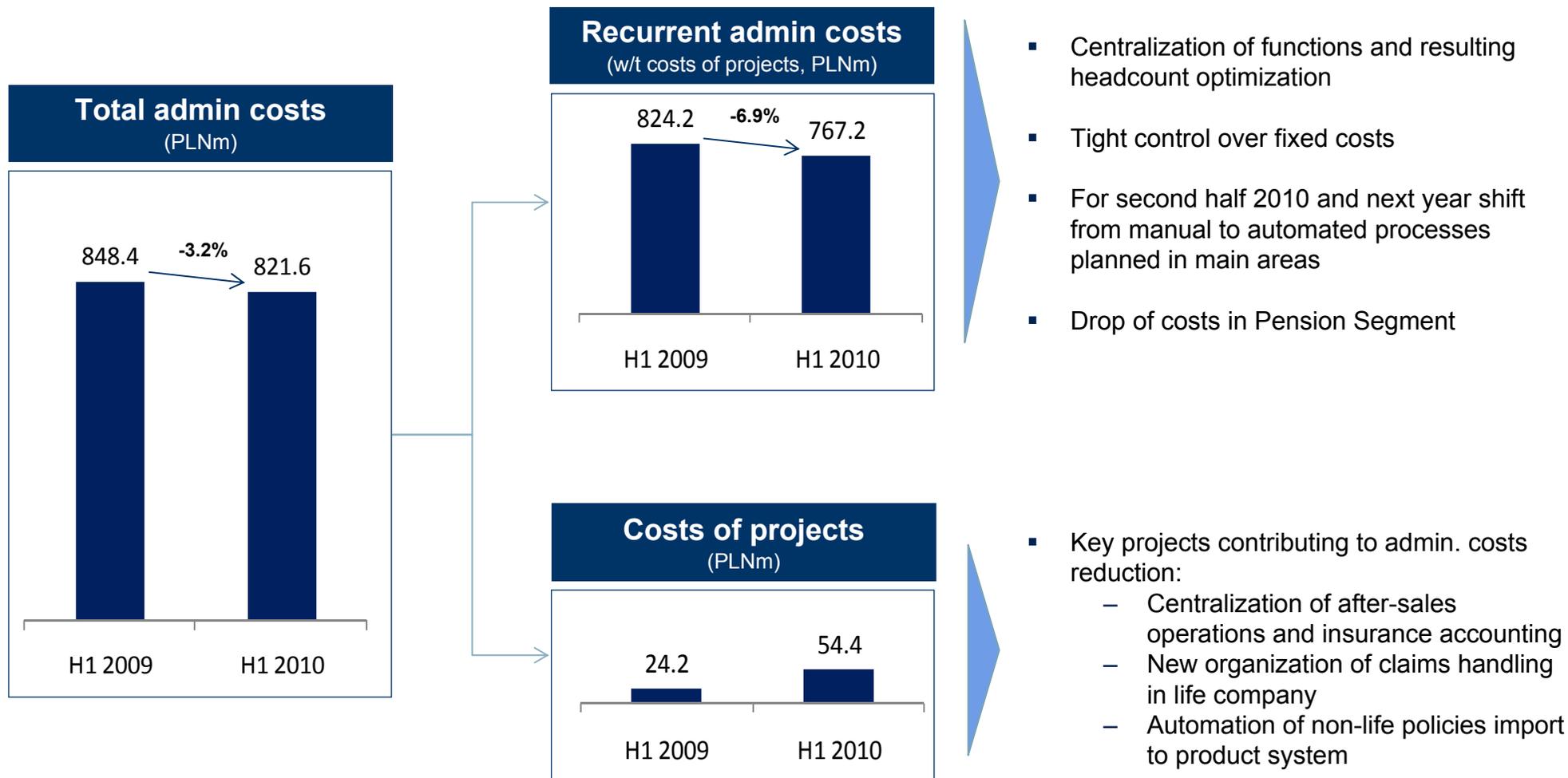
In first half 2010 non-life market under extreme pressure

Technical result – PZU vs. market (PLNm)

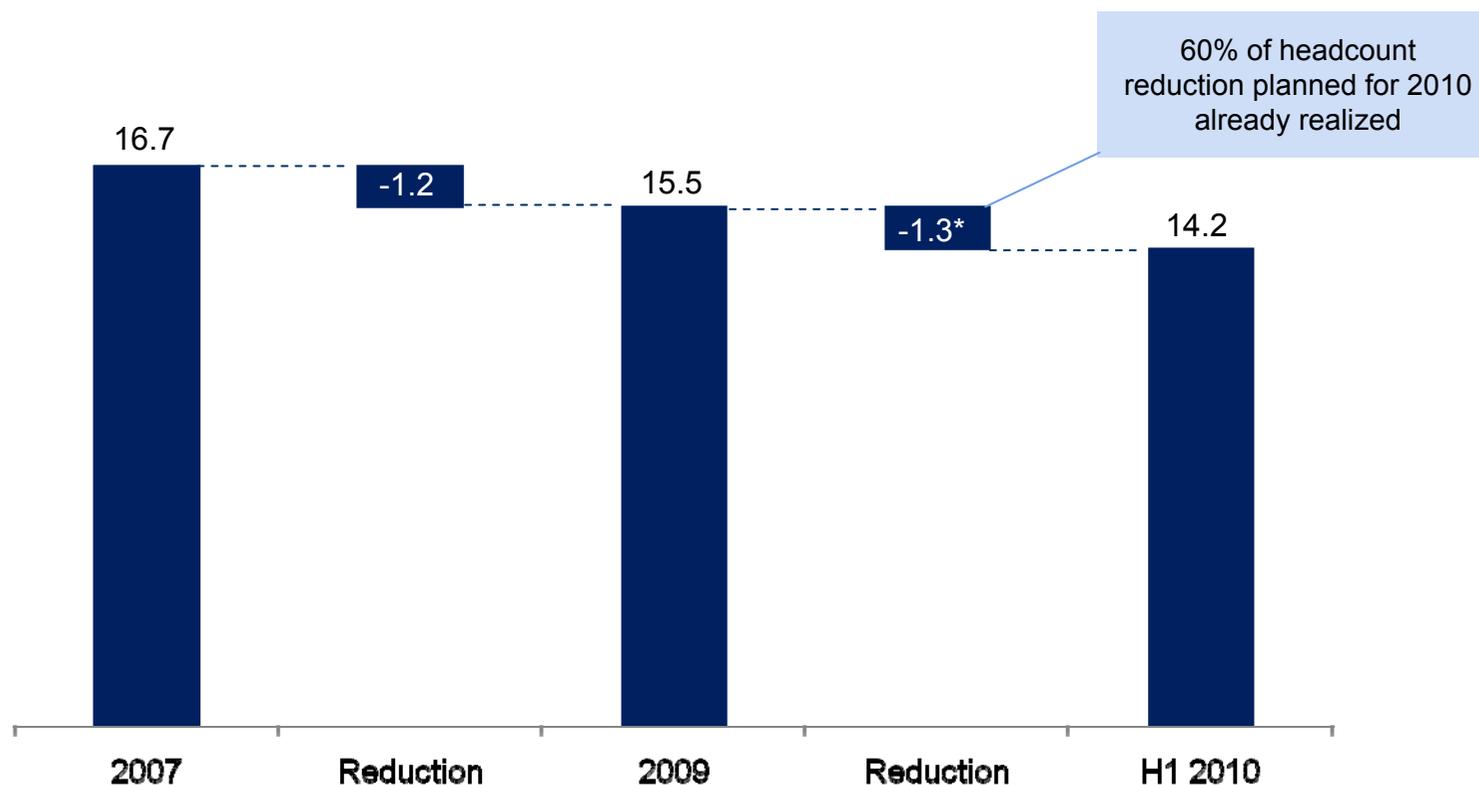


Market without PZU PZU SA

In first half of 2010 we reduced recurrent administration costs in PZU Group



Headcount restructuring at PZU Group (FTEs)



Notes:

*) Number of terminations under Restructuring Program in PZU SA , PZU Życie SA & PZU CO

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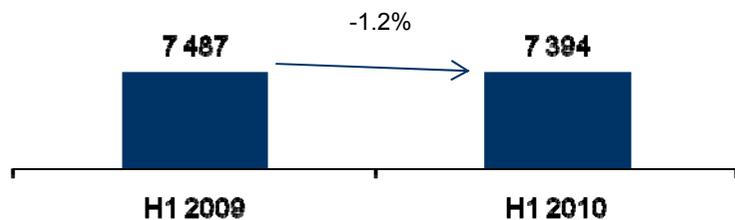
Financial performance

Q&A

PZU 1H 2010 financials at a glance

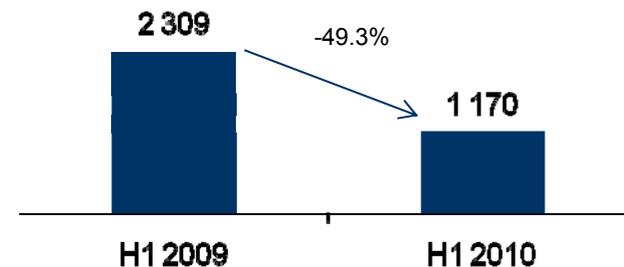
Gross written premium

PLNm



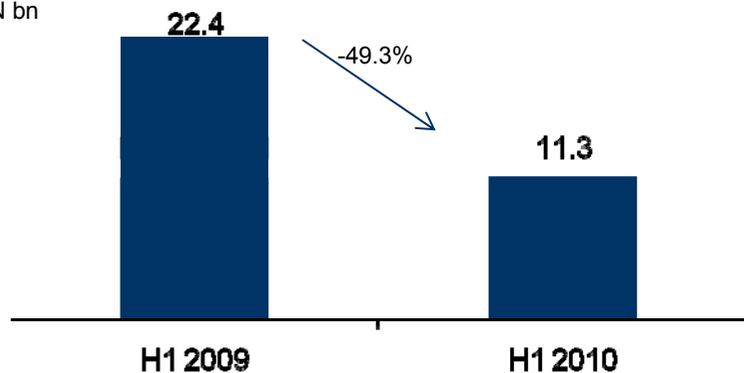
Net result

PLNm



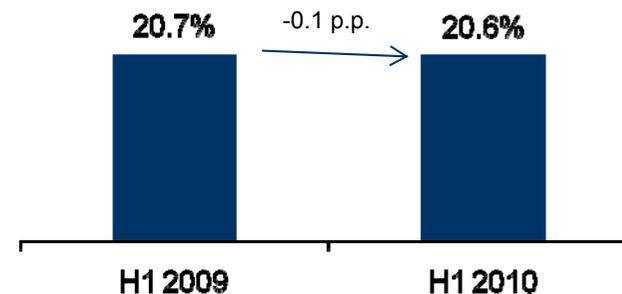
Shareholder equity

PLN bn



Return on equity

%



Key financials overview allows PZU to be optimistic

PLN m, IFRS	H1 2009	H1 2010	Y-o-Y change
Income statement			
GWP	7 486.8	7 393.7	(1.2%)
Acquisition and administration expenses	(1 713.4)	(1 699.2)	(0.8%)
Operating profit	2 871.1	1 500.1	(47.8%)
Net profit	2 308.8	1 169.8	(49.3%)
Balance sheet			
Shareholders' equity	22 356.0	11 338.8	(49.3%)
Total Assets	58 950.5	47 474.3	(19.5%)
Key ratios			
Return on equity ⁽¹⁾	20.7%	20.6%	(0.1) p.p.
Combined ratio ⁽²⁾	89.8%	107.3%	17.5 p.p.

- Small decrease of GWP caused by lower sales in non-life segment partially compensated by increase in life business.
- A decrease of acquisition & administration costs, mainly due to cost restructuring.
- A decrease of operating profit followed by higher claims and benefits in non-life segment and lower level of conversion in life segment.
- Shareholders' equity lower - PLN 12.75 billion dividend distribution in 2009.

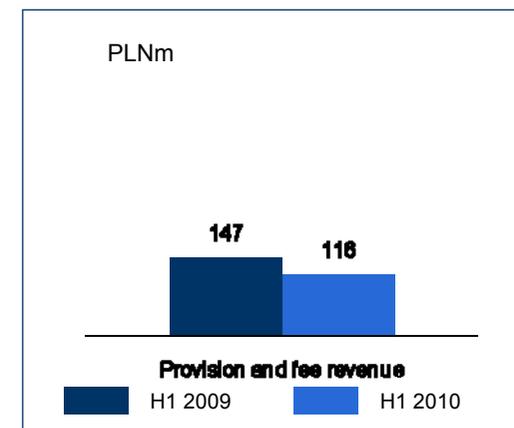
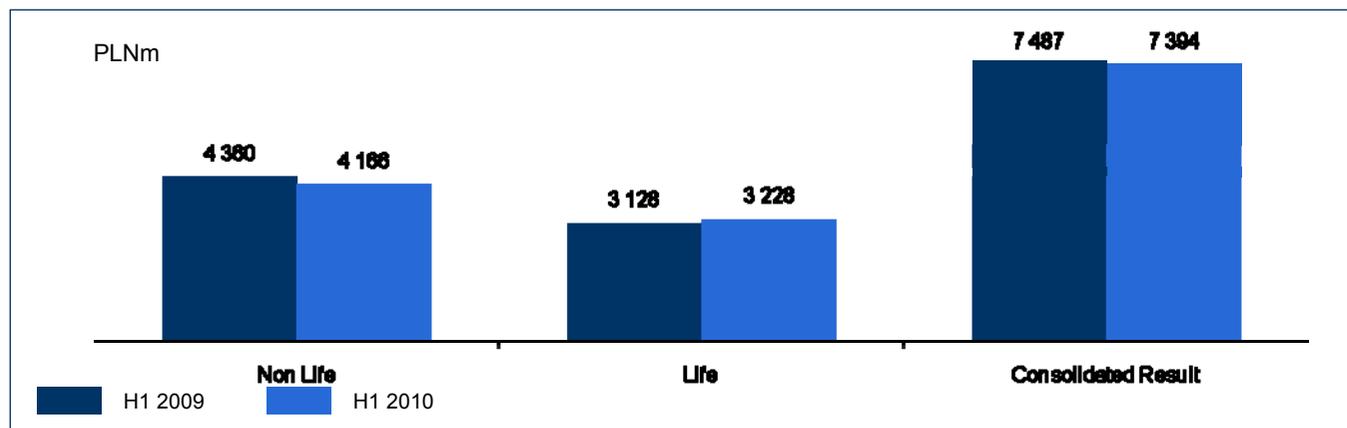
Notes:

1) Calculated over opening equity

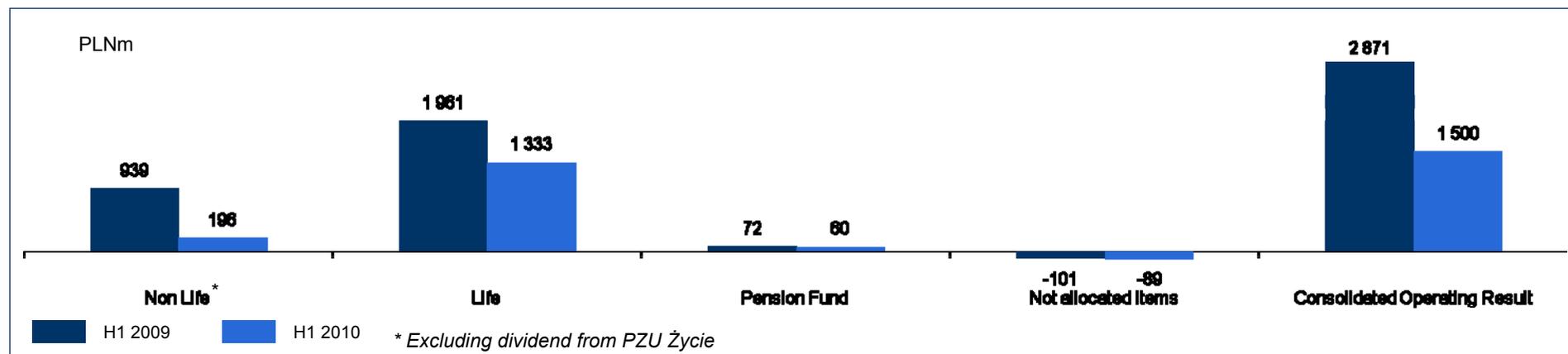
2) Non-life segment only, net of reinsurance basis

Financial results by major segments

Gross Written Premium⁽¹⁾



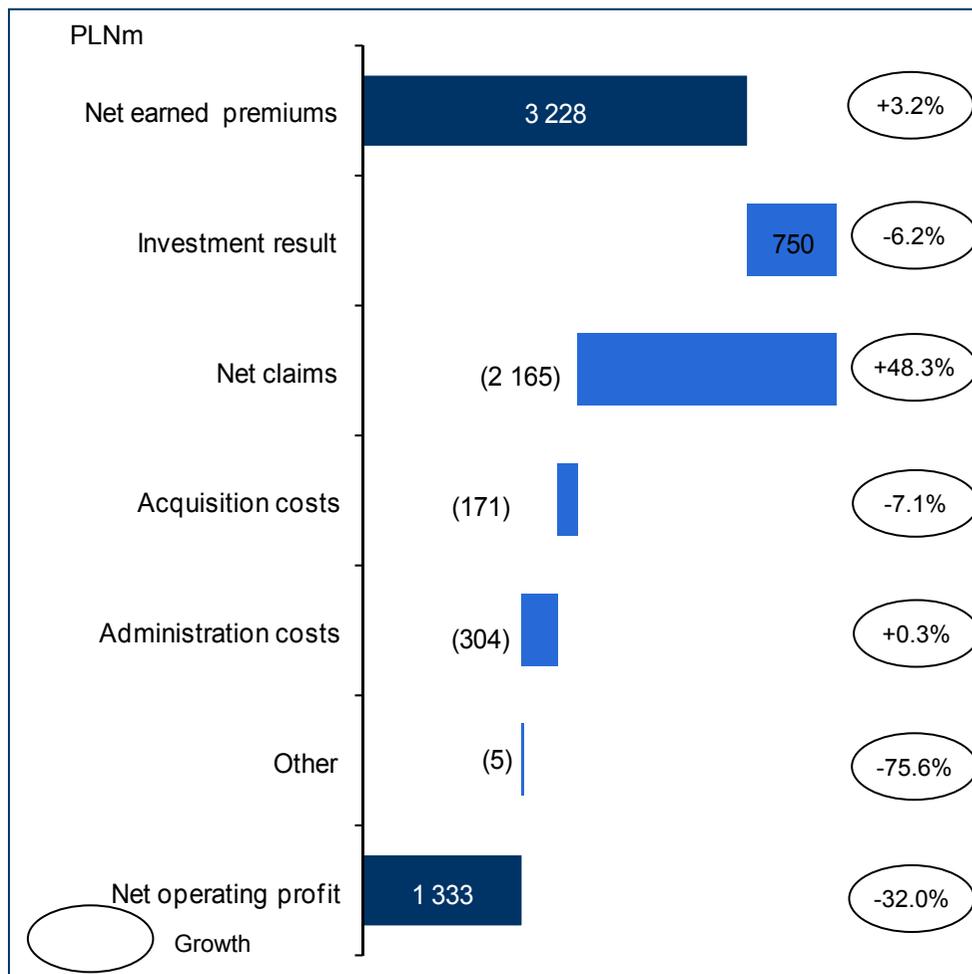
Operating result



1) Revenues from provisions and fees – Pension Fund segment

Life profitability under control

Main components of life segment operating profit

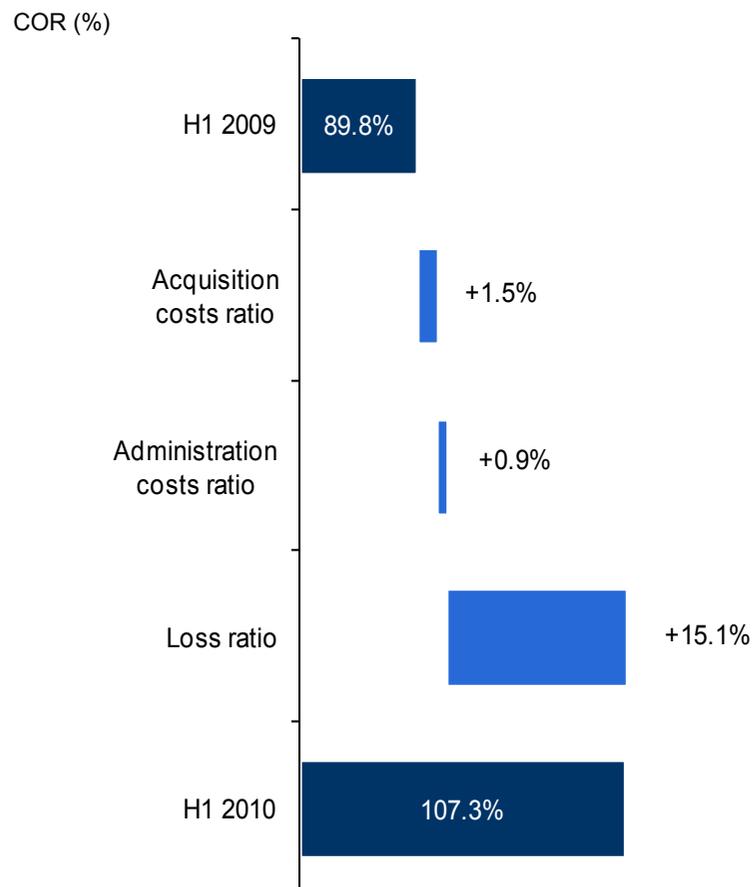


Comments

- Increase of net earned premiums by 3.2% due to growth in group and individually continued business; Successful launch of new product with regular premium increased sales of single premium investment product;
- Increase of net claims due to lower conversion of whole life policies into one year renewable policies and decrease of claims payouts in investment insurances and continuations.
- Acquisition cost affected by two factors – lower indirect costs and increase of commissions on group insurances sold via brokers.
- Growth of administration costs (one-off effect of Social Fund PLN 5.0m). Excluding Social Fund there is decrease by PLN 4.1m (-1.4%) as effect of tight control over fixed costs.

Non-life profitability still remains as the challenge

Non-life profitability

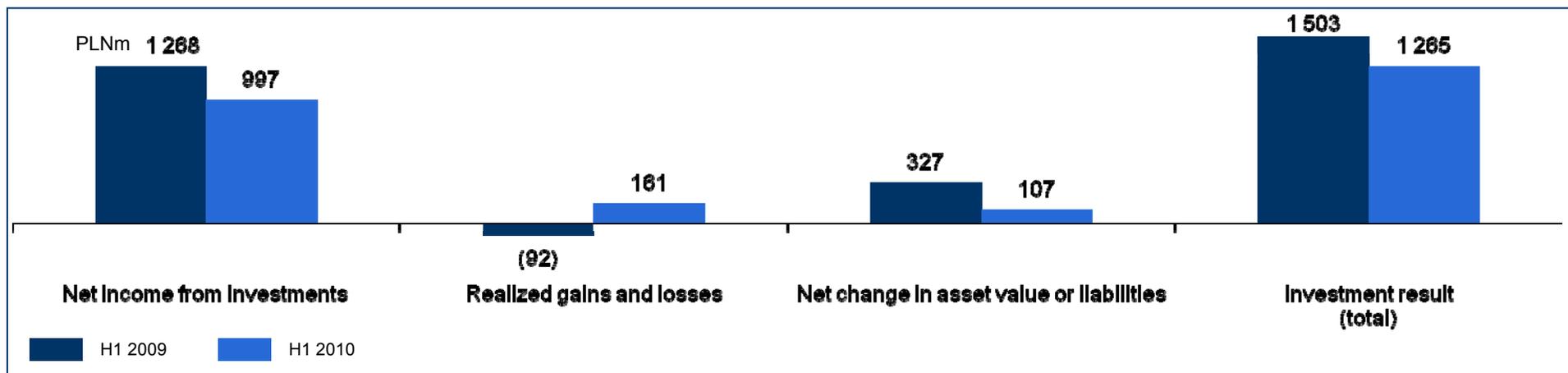


Comments

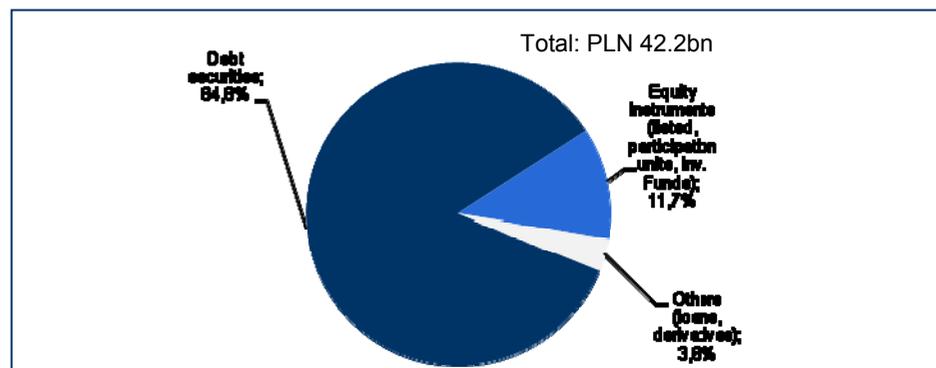
- Acquisition cost ratio - changes in product mix (products with higher commission fees) and to changes in agents' incentive program.
- Administration costs ratio - fall of earned premium (but administration costs decreased).
- Increased loss ratio - flood claims (esp. property insurance) and long winter with heavy snowfalls (esp. agriculture insurance).
- Decrease of premiums earned (lower sales and higher costs of premium reserves - creation of additional provisions for unexpired risks) impacted negatively all ratios.

Investment income lower due to paid dividend

Investment income



Financial Assets exposure



Comments

- Net investment income - lower interest income which in turn resulted from 2009 interim dividend net result paid by PZU in November 2009.
- Realized gains & net movement in asset value - increase in valuation of equities (mainly listed shares).

A number of non-recurring items have impacted results

PLNm, IFRS	H1'09	H1'10
Operating profit (reported)	2,871	1,500
<i>including:</i>		
1 Movement in technical reserves ("Type P")	+1,021	+325
2 Flood and snow claims	-	-394
3 Decrease of investment portfolio	-	-351
4 Fee to National Health Fund	-92	-

Source: PZU

1 The movement in technical reserves ("Type P") is due principally to the release of reserves related to group life

- PLN 1.2 bn in group "Type P" reserves related to the whole life group portfolio remaining in force as of June 2010.

2 Flood and snow claims

- In Q1 2010 Poland experienced heavy snowfalls collapsing roofs and causing accidents - in PZU those losses accounted to PLN 185 m (PLN 157 m net of reinsurance).
- In Q2 2010 there were 2 „waves” of flood causing massive property damage around Vistula river – losses on PZU side amounted to PLN 549 m (PLN 237 m net of reinsurance).

3 Decrease of investment portfolio

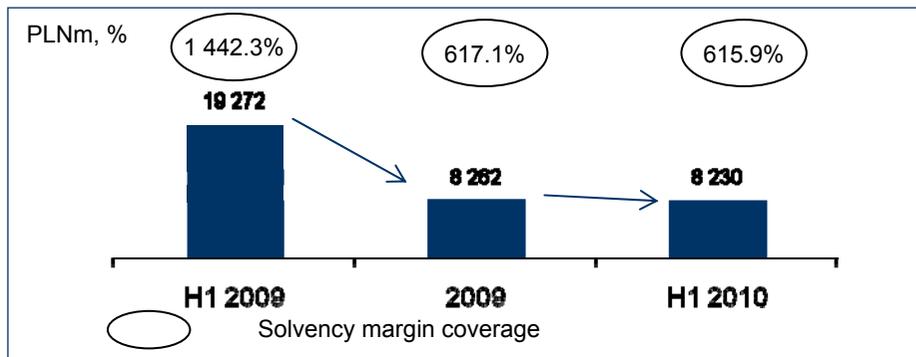
- Due to dividend payout at the end of 2009, in Q1 2010 there was lower investment base comparing to Q1 2009 (lower investment income).

4 Fee to National Health Fund

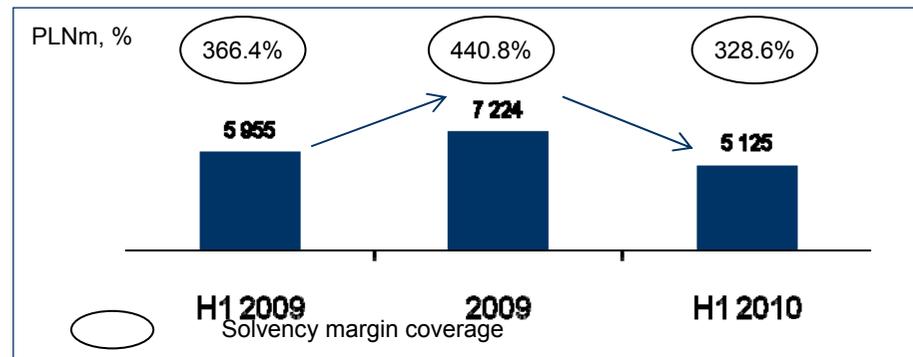
- As of end of 2009 PZU stopped releasing accrual for fee to National Health Fund which decreased results during 2009 (the fee was abolished at the end of 2008).

Strong capitalization and ongoing control of solvency deliver satisfying results

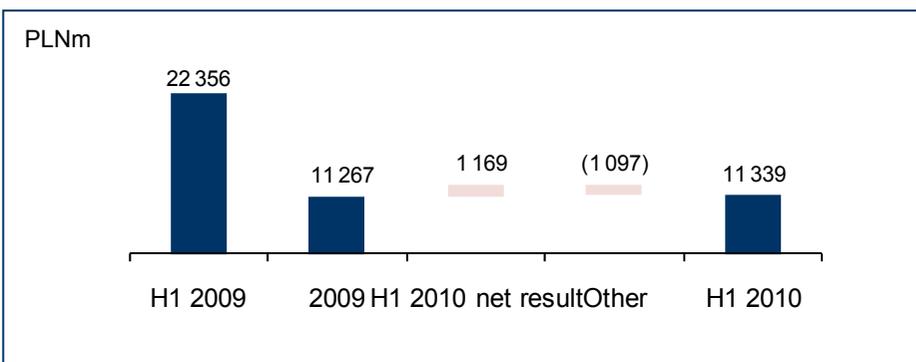
Own funds and solvency margin coverage PZU SA (PAS)



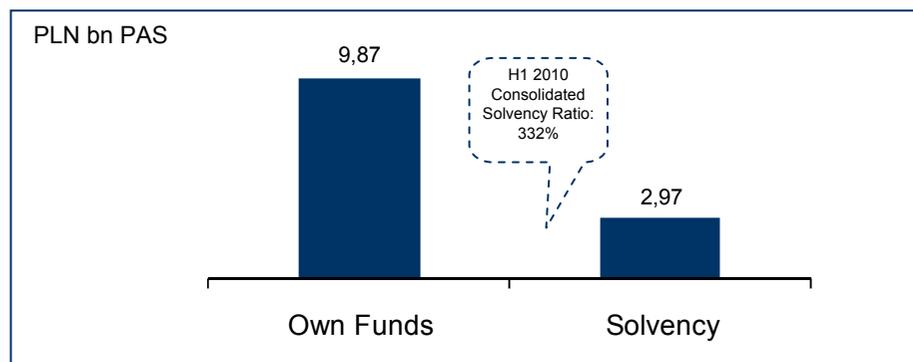
Own funds and solvency margin coverage PZU Życie SA (PAS)



PZU Group equities



Consolidated solvency



Source: PZU, based on PAS

