



Presentation of PZU's financial results for 1H 2011

Warsaw, 25 August 2011



Full composition of the PZU Group's Management Board

Shareholder Meeting – distribution of earnings for 2010

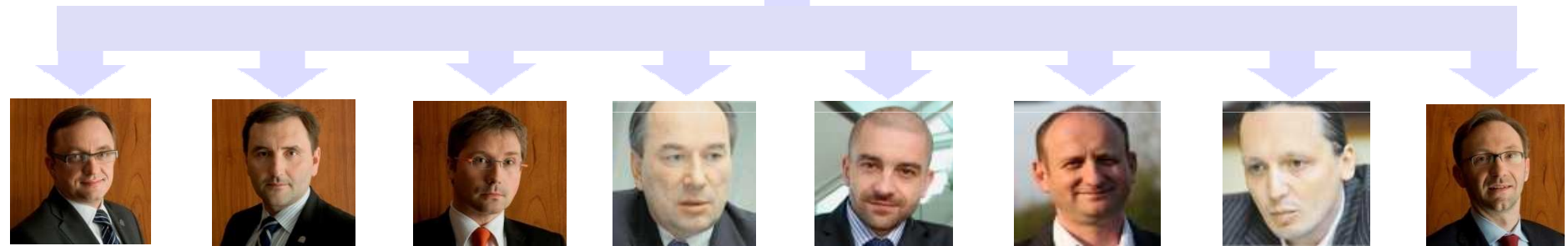
Progress in strategy implementation

Overview of the financial results in H1 2011

Management Board of the PZU Group



Andrzej Klesyk
CEO PZU SA



Dariusz Krzewina
CEO PZU Życie SA



Przemysław Dąbrowski
CFO



Witold Jaworski



Bogusław Skuza



Tomasz Tarkowski



Marcin Halbersztadt



Ryszard Trepczyński



Rafał Grodzicki

PZU SA

✓

✓

✓

✓

✓

✓

PZU Życie SA

✓

✓

✓

✓

✓

✓

Responsible for corporate life insurance and the Group's network

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

Responsible for retail insurance, the Group's network and marketing

Responsible for corporate insurance and reinsurance

Responsible for claims handling and assistance

Responsible for IT systems, strategy and governance as well as support and operations

Responsible for investments, the treasury and macro analysis

Responsible for individual life insurance, marketing and operations

Dividend for 2010

Dividend policy – payout ratio: 50%-100%

The dividend paid by PZU for a given financial year will be determined on the basis of the consolidated profit of the PZU Group in accordance with IFRS while the dividend amount:

- ✓ cannot be lower than 50% or higher than 100% of the net earnings in the IFRS-compliant consolidated financial statements
- ✓ cannot be higher than PZU's standalone net earnings in accordance with Polish accounting standards
- ✓ cannot cause PZU's own funds to fall below 250% of the solvency margin
- ✓ cannot diminish the PZU Group's financial strength below a AA rating conferred by Standard & Poor's
- ✓ should be determined 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

Dividend for 2010:

- Dividend payout ratio: 92.04%
- Dividend: PLN 2 245.2 m
- PLN 26.00 per share
- Dividend date: 30 Sept. 2011
- Payment date: 21 Oct. 2011

Delivering on IPO Promises



Life insurance: stable growth in group insurance, development of individual insurance

Non-life insurance: sales growth on the mass market, enhancing profitability in the corporate segment

Restructuring: ongoing headcount optimization, other savings measures regarding IT and real estate

Mergers and acquisitions: we are waiting for the appropriate opportunities

Overview of the Financial Results for H1 2011



m PLN

	1H 2010	1H 2011	Change YoY
Gross Written Premium	7 291.9	7 673.3	5.2%
Investment Result	1 262.1	1 079.1	(14.5)%
Operating Profit	1 500.1	1 902.4	26.8%
Net Profit	1 169.8	1 552.4	32.7%
ROE *	20.7%	24.8%	4.1 p.p.

* Computed using average equity of the period

PZU Group: Presentation of the financial results for 1H 2011



Agenda

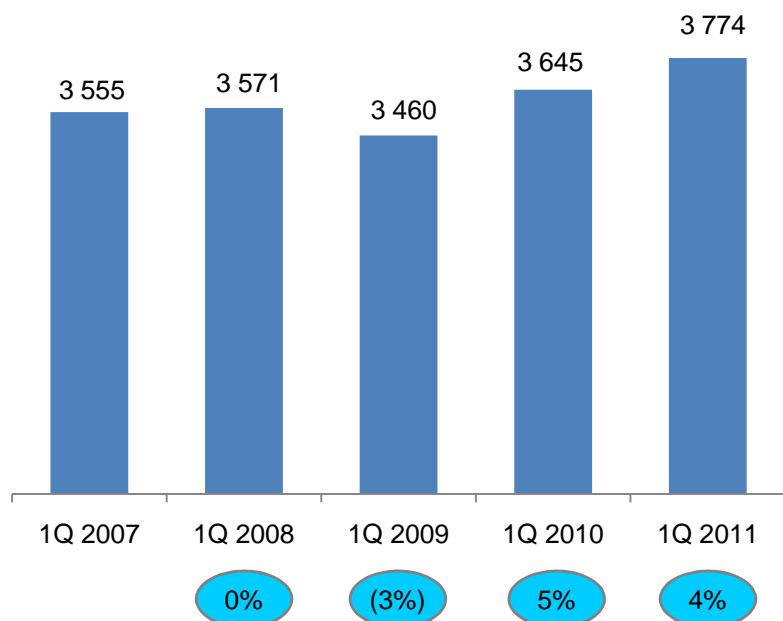
Business Overview

Financial Results Overview

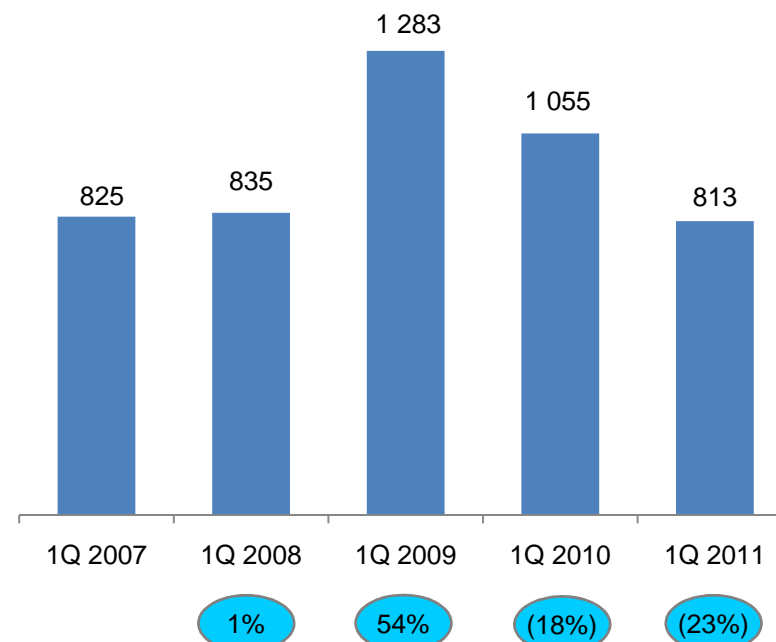
Questions and Answers

Growth in Life Insurance Coupled with a Stable Level of Profitability

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



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

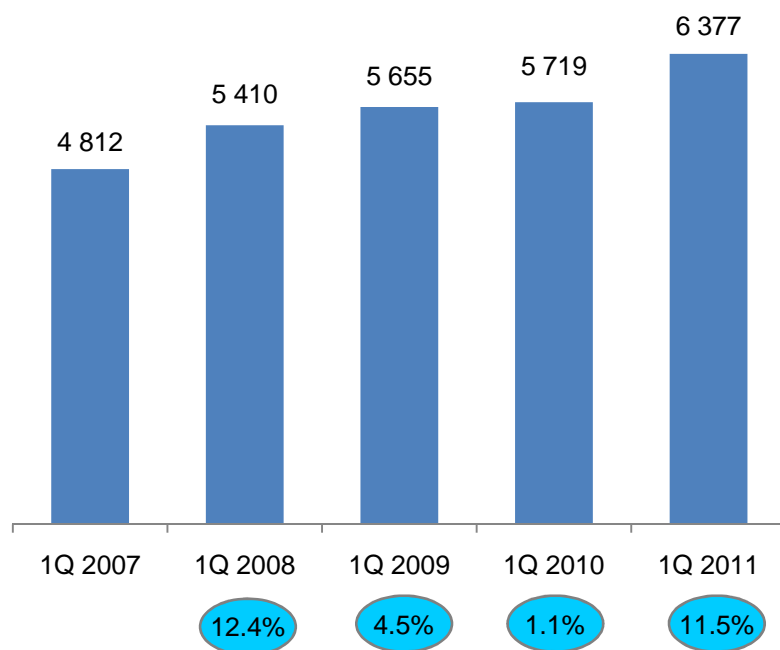


Regular premium insurance growth is disturbed by classifying some single premium products as regular premium business

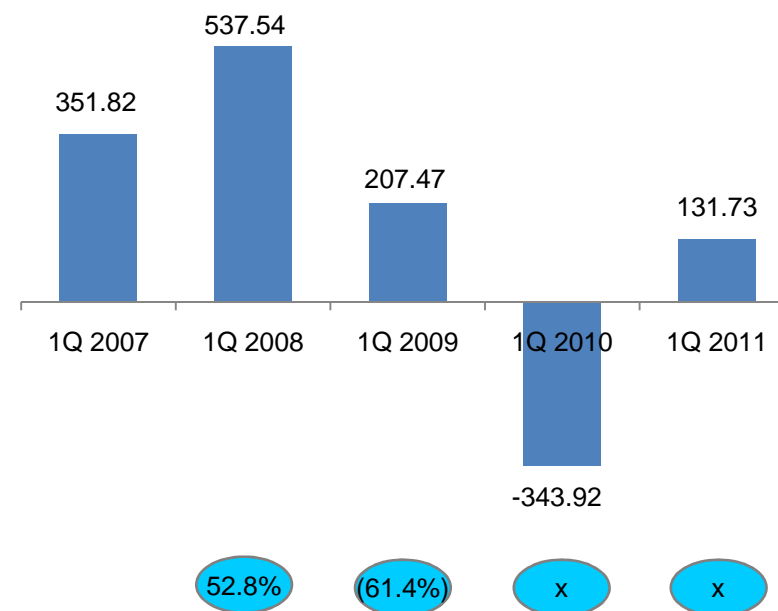
x% - % change YoY

Non-life Insurance Segment Still Growing but Considerable Pressure on Profitability Continues to be Present

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



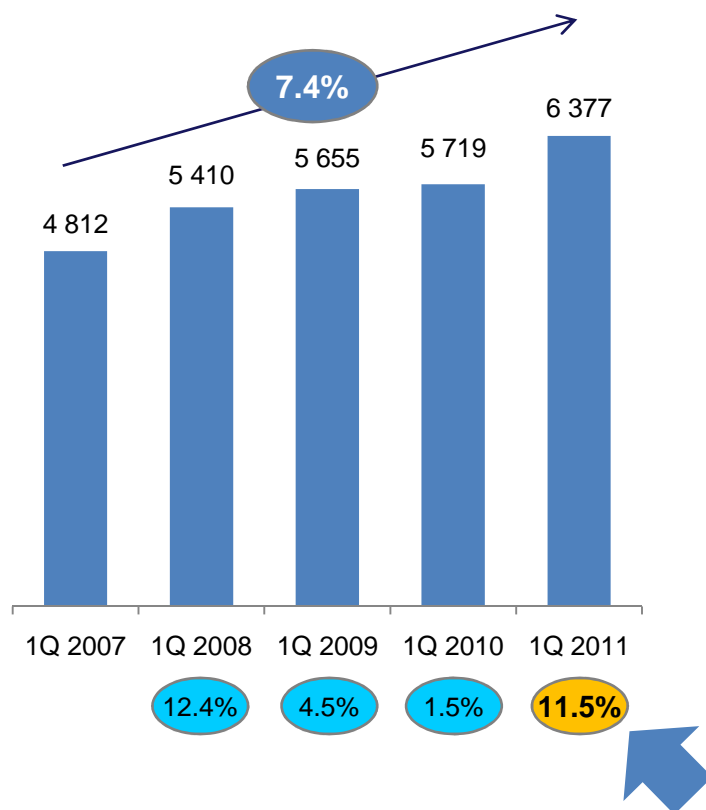
**Technical Result
Non-life Insurance (m PLN)**



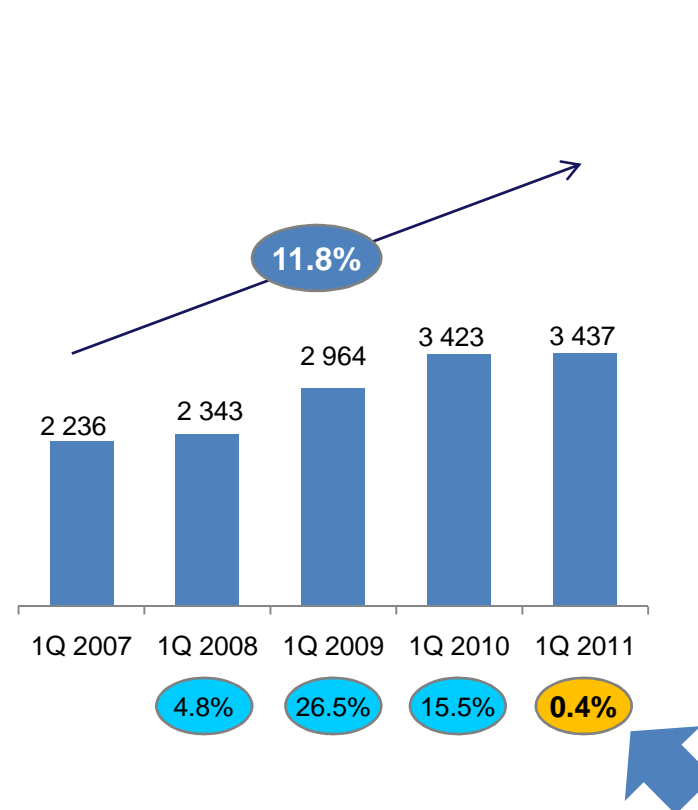
x% - % change YoY

Gross Written Premium Growth vs. Growth in Non-life Claims Paid

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



**Claims Paid –
Non-life Insurance (m PLN)**

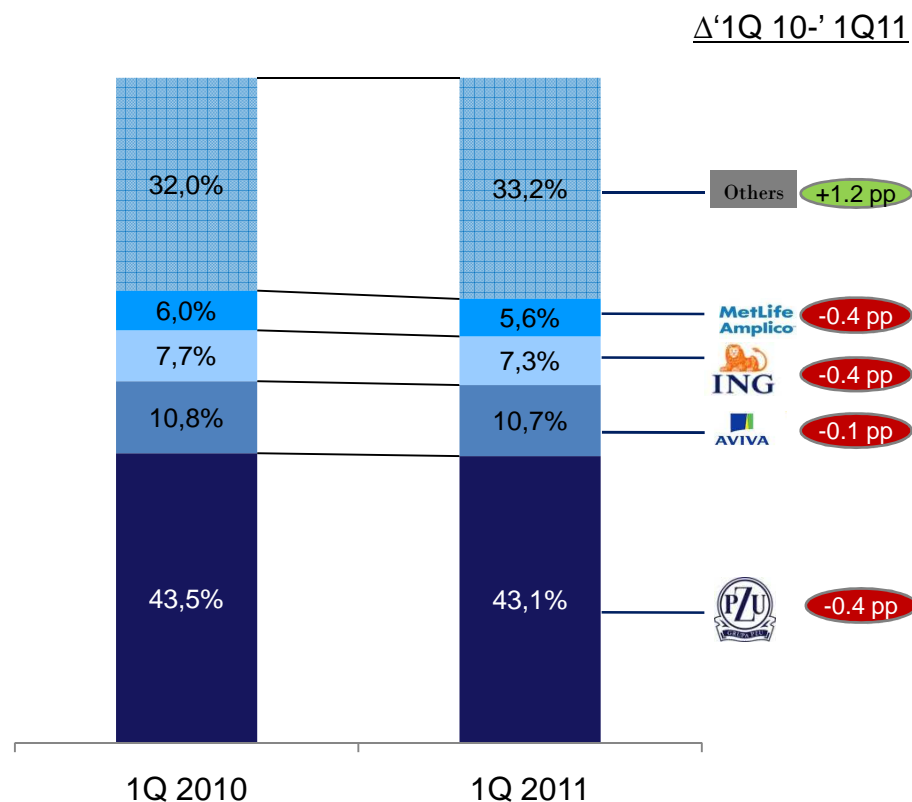


x% - % change YoY x% - CAGR

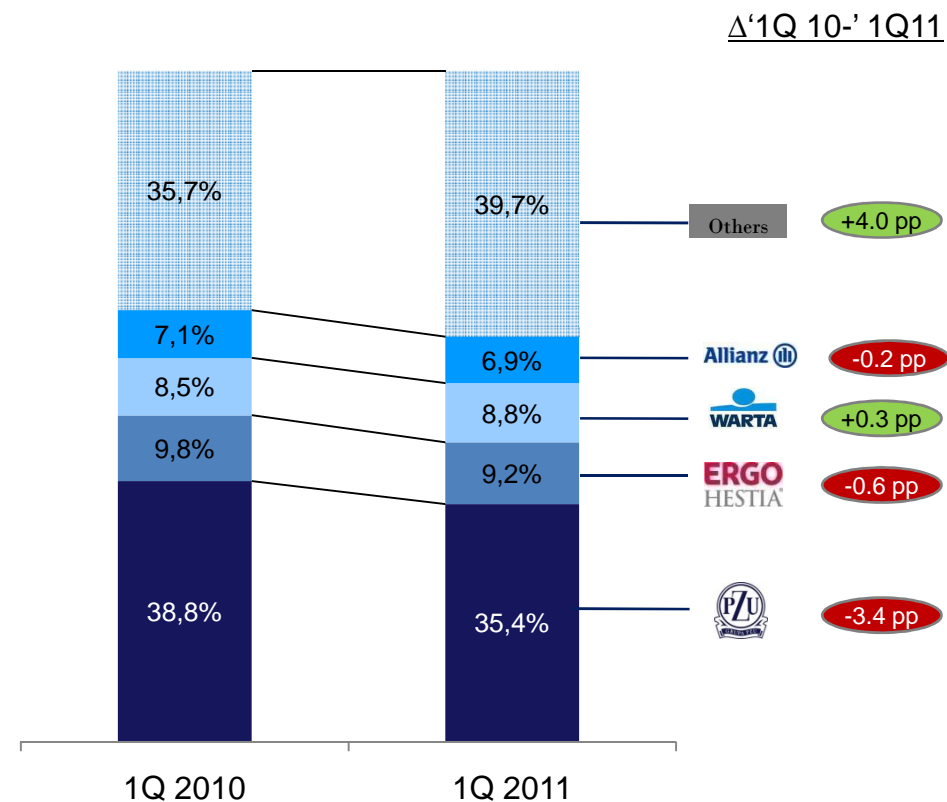
Decelerating Pace of Market Share Constriction

Effect of Restructuring Corporate Insurance in Non-life Business

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



PZU's Market Share – Non-life Insurance



Delivering on IPO Promises



Life insurance: stable growth in group insurance, development of individual insurance

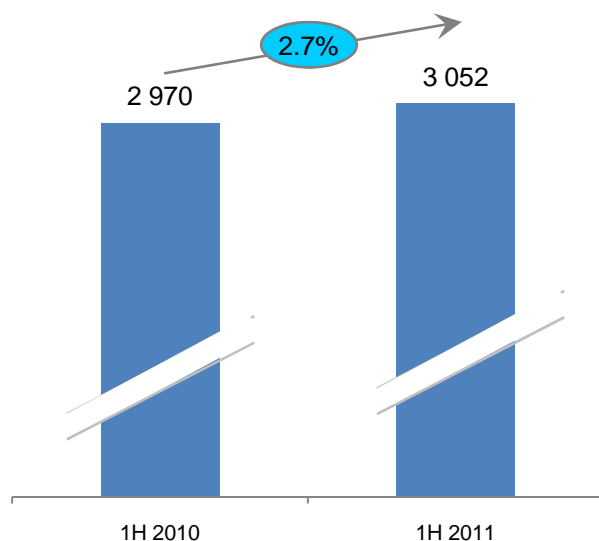
Non-life insurance: sales growth on the mass market, enhancing profitability in the corporate segment

Restructuring: ongoing headcount optimization, other savings measures regarding IT and real estate

Mergers and acquisitions: we are waiting for the appropriate opportunities

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

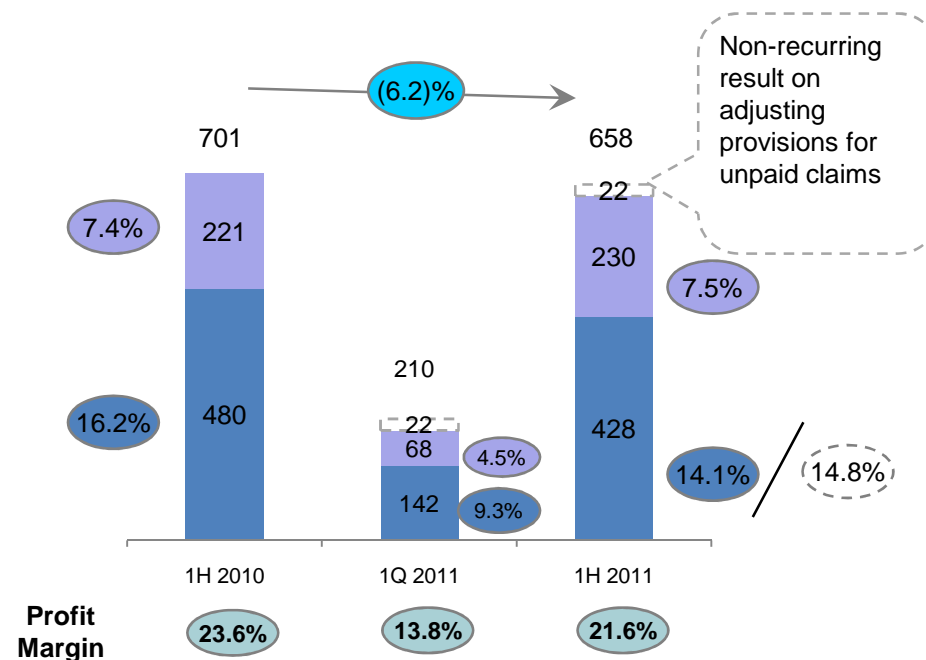
PZU's Gross Written Premium – Group and Continued Business (m PLN)



Higher gross written premium driven by:


- Growth in the group insurance portfolio and higher average premiums
- High level of rider sales


PZU's Operating Profit – Group and Continued Business* (m PLN)



The slightly lower operating profit was caused by controlled growth in the loss ratio. Major improvement vs. 1Q2011.

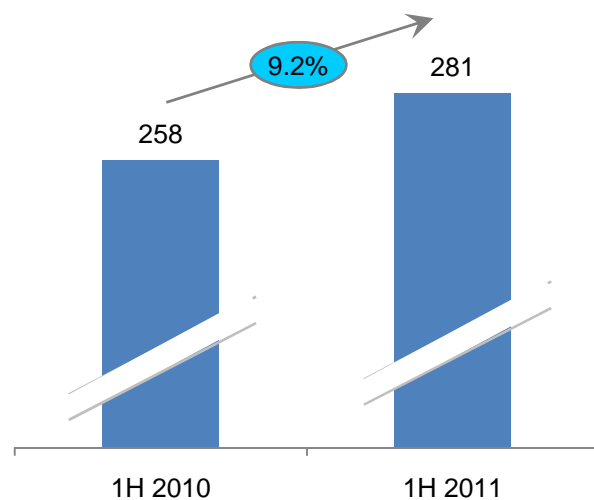
* Net of conversion effect

 Insurance margin (investment yield using technical rate)

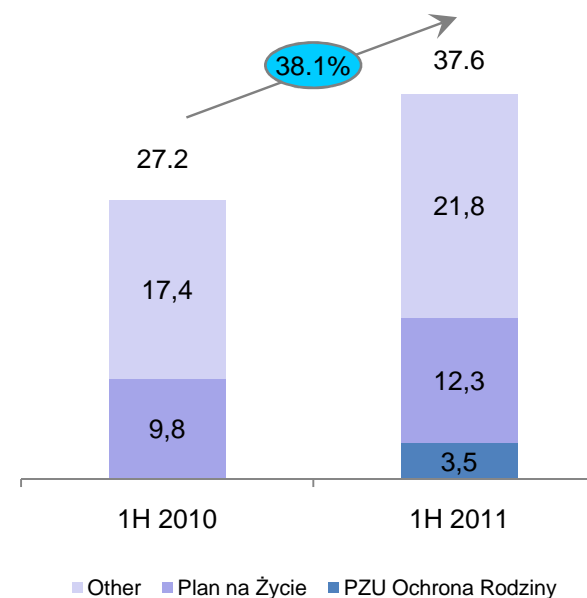
 Investment margin (investment yield above technical rate)

... While Individual Insurance Is Expanding Rapidly

PZU's Gross Written Premium in Life Insurance (m PLN)



PZU's APE in Individual Life Insurance* (m PLN)



Launching new product: "PZU Ochrona Rodziny"

- No. of new policies sold: 6.0 thousand
- APE: PLN 3.5 m

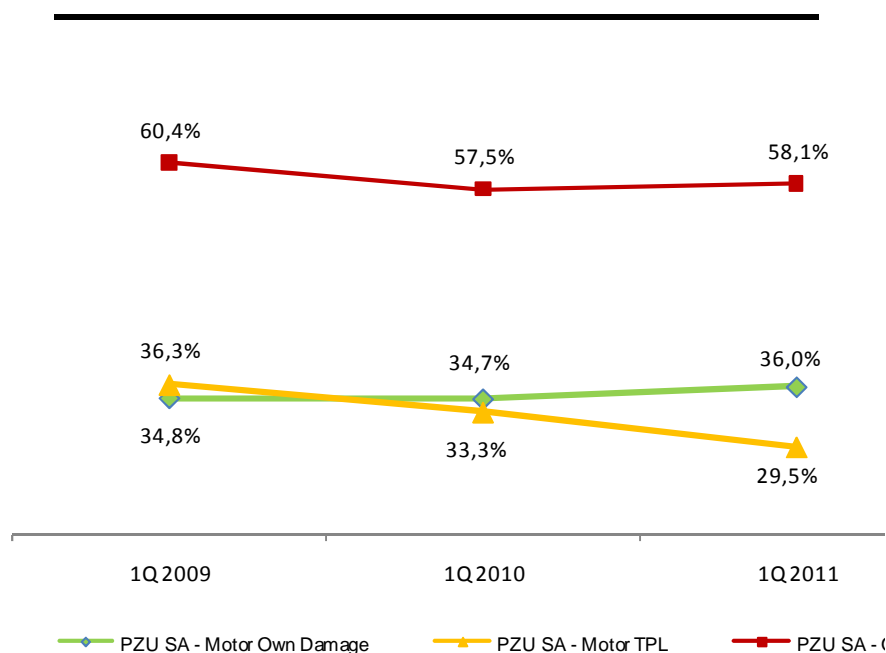
Steady sales growth of Plan na Życie and IRA.

New structured product in the bancassurance channel and higher interest in our proprietary channel.

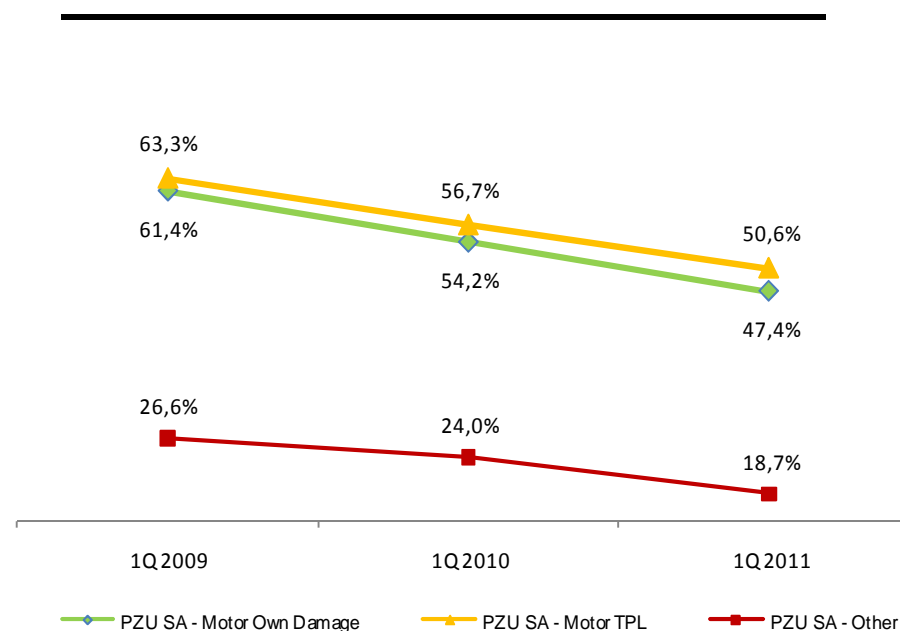
* Only insurance contracts

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

PZU SA's Market Share – Individual Clients



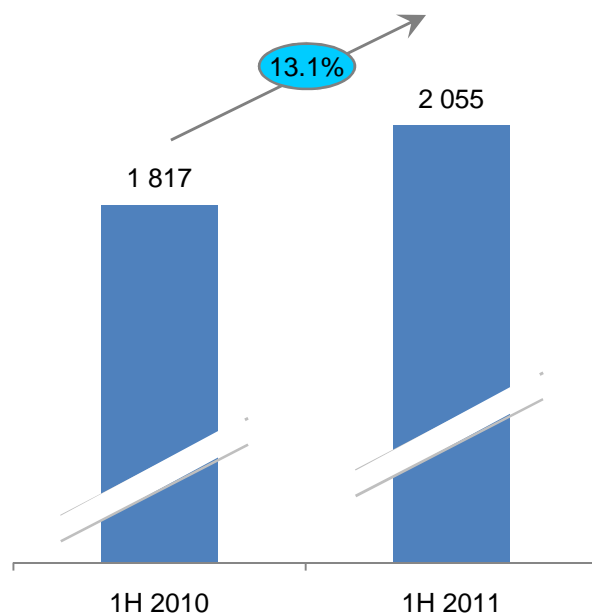
PZU SA's Market Share – Corporate Clients



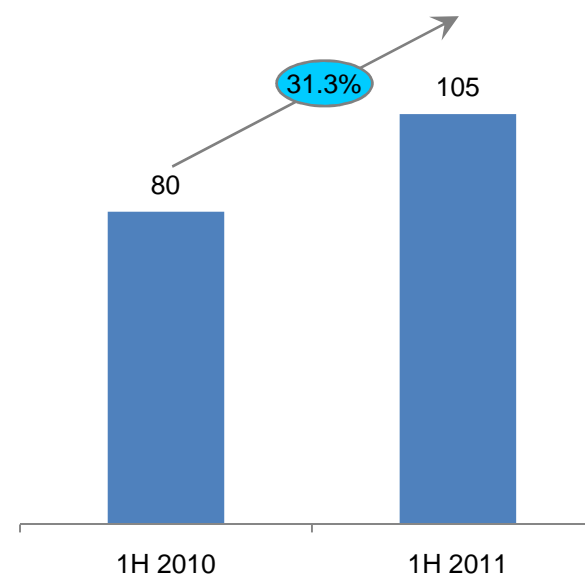
Source: KNF

Market Context in Motor Business Drives PZU's Sales and Profitability

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



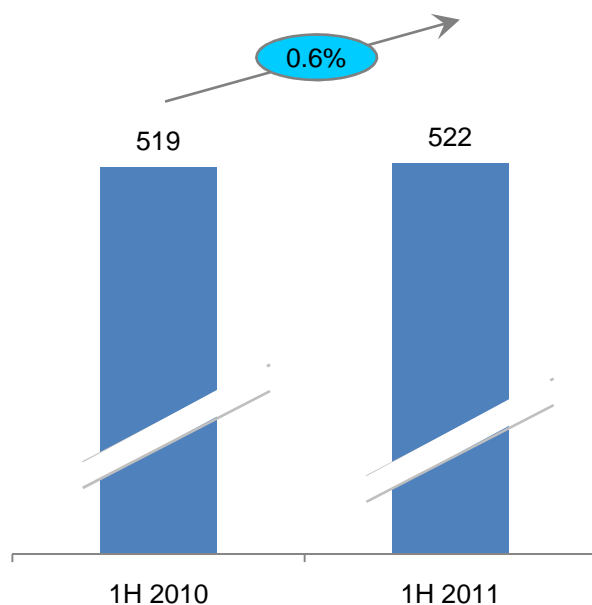
PZU's Technical Result in Motor Insurance for the Mass Market (m PLN)



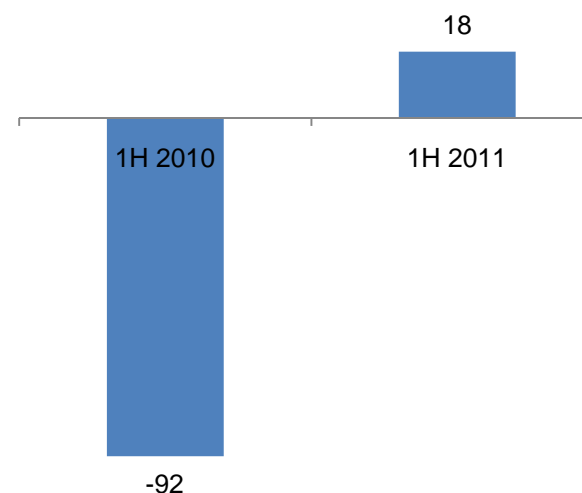
End of price war on the market – average prices on the market have grown.

Restructuring the Corporate Insurance Portfolio Is Producing Visible Improvement of Profitability

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



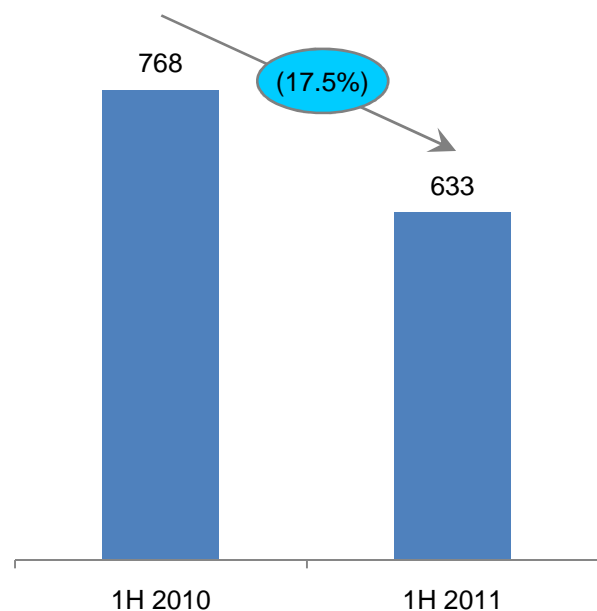
PZU's Technical Result in Motor Insurance for Corporate Clients (m PLN)



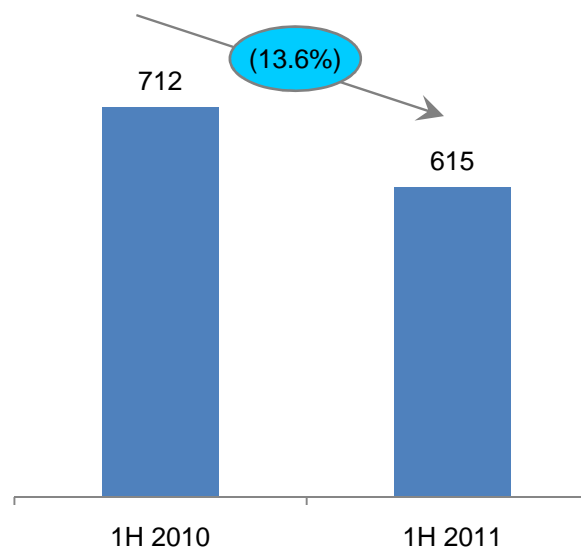
Enhanced portfolio quality as a result of altering the rules of underwriting and risk acceptance.
Level of gross written premium sustained on lower number of risks.

PZU's Administrative Expenses Cut by PLN 135 m in 1H 2011 vs. 1H 2010

**Administrative Expenses
(m PLN)**



**Recurring Administrative
Expenses
(m PLN)**



- Centralizing functions and optimizing headcount
- Strict control of fixed expenses
- No IPO costs in 1H 2011

Administrative expense ratio (%)*

10.1%

7.9%

9.3%

7.7%

* Administrative expense ratio: administrative expenses / gross written premium – sum of life and non-life insurance

PZU Group: Presentation of the financial results for 1H 2011



Agenda

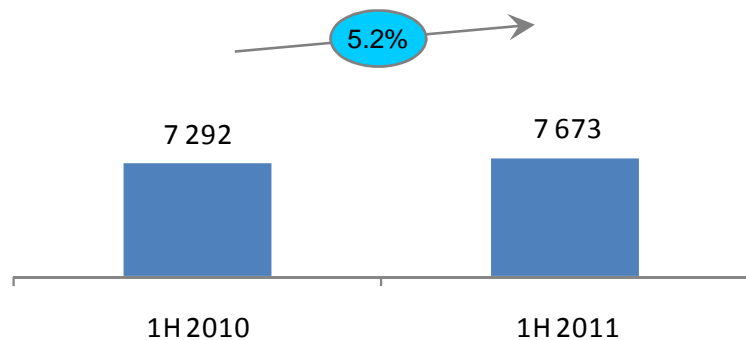
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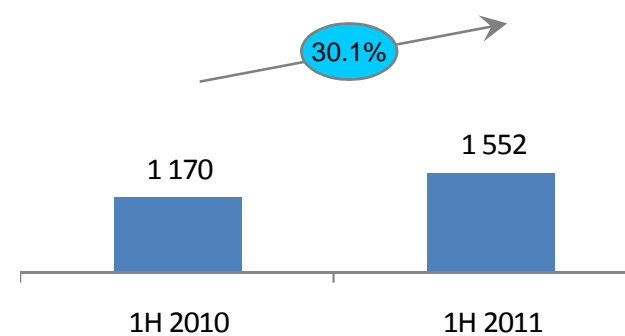
Questions and Answers

Overview of PZU's Financial Results in 2011

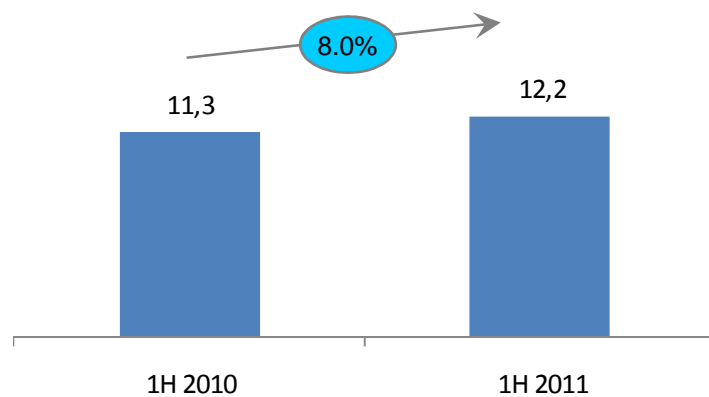
Gross Written Premium (m PLN)



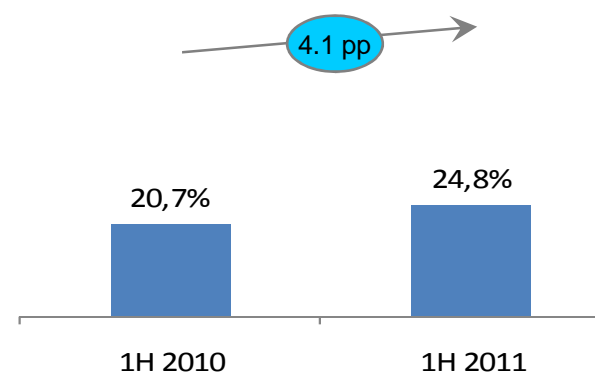
Net Profit (m PLN)



Equity (bn PLN)



ROE (%) *



* Computed using average equity in a given period

Overview of PZU's Financial Highlights

M PLN. IFRS	1H 2010	1H 2011	Change YoY	2Q 2010	2Q 2011	Change YoY	1Q 2011	Change 2Q over 1Q
Profit and Loss Statement								
Gross Written Premium	7 291.9	7 673.3	5.2%	3 487.1	3 696.4	6.0%	3 976.9	-7.1%
Non-life Insurance	4 063.8	4 339.9	6.8%	1 864.5	2 023.2	8.5%	2 316.7	-12.7%
Life Insurance	3 228.0	3 333.4	3.3%	1 622.5	1 673.2	3.1%	1 660.2	0.8%
Investment Result	1 262.1	1 079.1	-14.5%	352.3	605.0	71.7%	474.1	27.6%
Operating Profit	1 500.1	1 902.4	26.8%	470.9	940.2	99.7%	962.2	-2.3%
Non-life Insurance	3 315.9	2 470.8	-25.5%	3 142.1	2 164.9	-31.1%	305.9	607.7%
<i>Non-life Insurance (net of dividend from PZU Życie)</i>	195.9	483.5	146.8%	22.1	177.6	703.6%	305.9	-41.9%
Life Insurance	1 336.2	1 221.2	-8.6%	556.7	701.4	26.0%	519.8	34.9%
Net Profit	1 169.8	1 552.4	32.7%	362.4	761.2	110.0%	791.2	-3.8%
Balance Sheet								
Equity	11 338.8	12 230.7	7.9%	x	x	x	13 734.7	x
Total Assets	47 575.7	57 301.3	20.4%	x	x	x	53 640.6	x
Principal Financial Ratios								
ROE *	20.7%	24.8%	4.1 p.p.	x	x	x	23.9%	x
Combined Ratio**	107.3%	92.9%	(14.4 p.p.)	x	x	x	89.5%	x

Remarks:

* Computed on the basis of average equity in a given period

** Only for non-life insurance net of reinsurer's share

PZU Group: Presentation of the financial results for 1H 2011



Profitability by Major Product Lines

m PLN, IFRS	Gross Written Premium			Operating Profit			Combined Ratio	
	(m PLN)			(m PLN)			1H 2010	1H 2011
	1H 2010	1H 2011	Change YoY	1H 2010	1H 2011	Change YoY	1H 2010	1H 2011
Total	4 064	4 340	6.8%	3 316	2471	(25.5%)	107.3%	92.9%
Mass motor insurance	1 817	2 055	13.1%	80	105	31.3%	97.7%	96.2%
Motor TPL Insurance	1 068	1 220	14.2%	33	44	33.3%	101.4%	99.6%
Motor Own Damage	750	835	11.3%	47	61	29.8%	91.9%	91.4%
Corporate Motor Insurance	519	522	0.6%	-92	18	X	115.8%	96.1%
Motor TPL Insurance	196	201	2.6%	-74	-2	X	138.5%	100.8%
Motor Own Damage	323	321	(0.6%)	-18	20	X	104.2%	93.4%
Other Products	1 606	1 636	1.9%	-202	165	X	112.6%	85.0%
Other Elements ⁽¹⁾	123	127	3.3%	3 530	2 183	(38.2%)	x	x

m PLN, IFRS	Gross Written Premium			Operating Profit			Operating Profit Ratio	
	(m PLN)			(m PLN)			1H 2010	1H 2011
	1H 2010	1H 2011	Change YoY	1H 2010	1H 2011	Change YoY	1H 2010	1H 2011
Total	3 228	3 333	3.3%	1 336	1 221	(8.6%)	41.4%	36.6%
Group and Continued ⁽²⁾	2 970	3 052	2.7%	701	658	(6.2%)	23.6%	21.6%
Individual	258	281	9.2%	76	81	6.6%	29.4%	28.7%
Other Elements ⁽³⁾	x	x	x	559	482	(13.7%)	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.

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

GWP of PZU SA	1H 2010	1H 2011	%
Previous method			
Gross written premium	4 044	4 328	7,0%
Change of premium reserve	293	401	36,8%
Gross earned premium	→ 3 751	→ 3 927	4,7%
New method			
Gross written premium	3 942	4 214	6,9%
Change of premium reserve	191	287	49,8%
Gross earned premium	→ 3 751	→ 3 927	4,7%

Indirect costs of PZU SA for 1H 2011	ABC method	Previous method	Difference
Administration costs	265	372	-107
Acquisition costs	268	208	60
Claims handling costs	191	148	42
Part of asset management costs	13	9	4
Total	737	737	0

Several Extraordinary Items Affected the Results

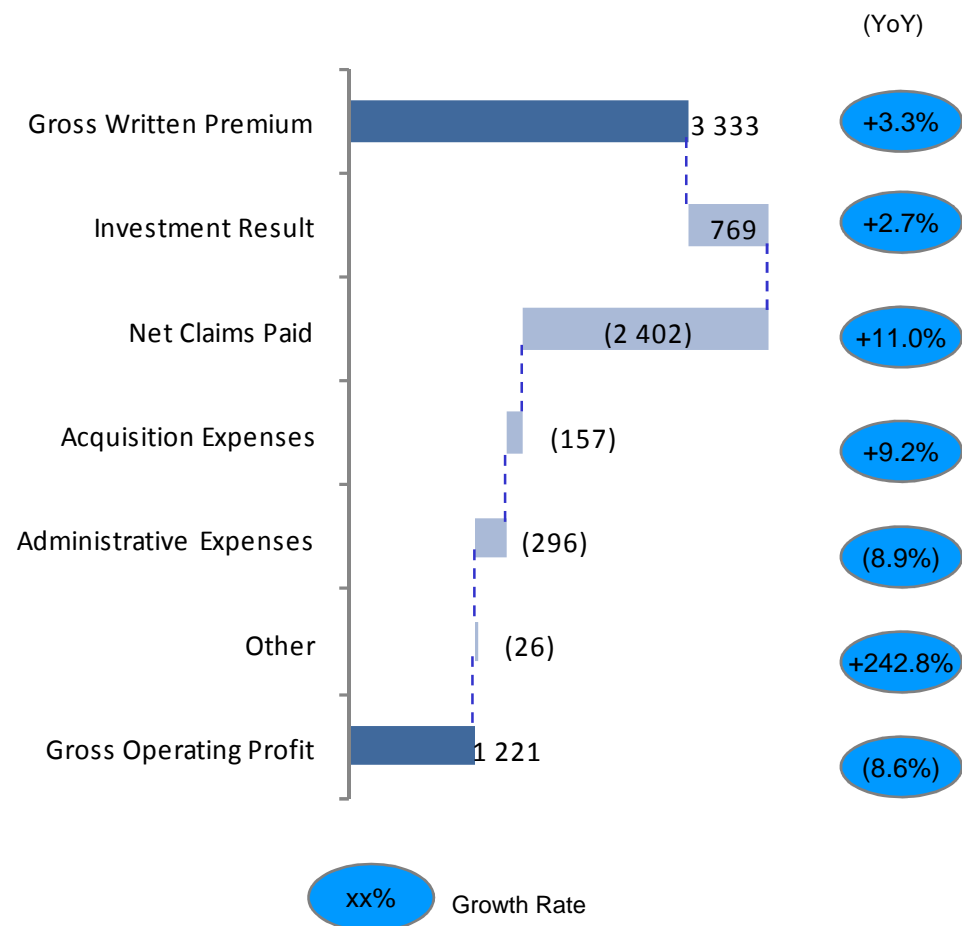
m PLN, IFRS	1H 2010	1H 2011
Operating Profit (according to financial statements)	1 500.1	1 902.4
<i>including:</i>		
1 Snowfall and flood claims	(393.0)	-
2 Dividend financing costs	(47.0)	-
3 Movement in insurance provisions – release of type P provisions	+325.4	+302.9
4 Effects of consolidating the Armatura Group – change in the method of valuation	-	+118.9

- 1** In 1H 2011 there were no claims related to snowfall and flooding, which took place in 1H 2010.
- 2** In 1H 2011 there were no costs to finance the dividend paid in 2009 (in 1H 2010 PZU incurred costs for the loan 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. Non-recurring impact related to commencing consolidation by the full method.

Life Insurance Segment Maintains High Profitability

Primary Operating Profit Components in Life Insurance (m PLN)

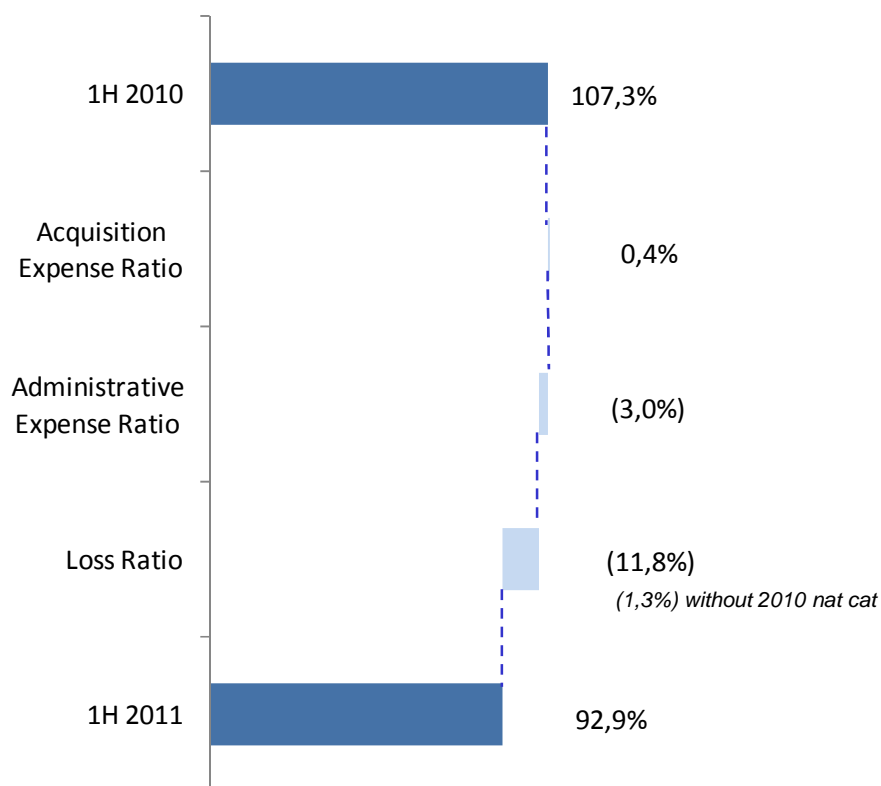
Remarks



- Gross written premium growth gained thanks to group and continued insurance +2.7% YoY; in addition, high growth in individual products +9.2%
- The higher investment result resulted from investment portfolio expansion and the better market situation in Q2 2011
- Higher net claims paid in type P group protection insurance (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 the higher sales volume, including investment insurance with a high first-year commission
- Optimizing fixed expenses
- The lower operating profit stems primarily from the controlled growth in the loss ratio in type P group insurance

Profitability of Non-life Insurance Continues to Be a Tough Subject

Profitability of Non-life Insurance (COR %)

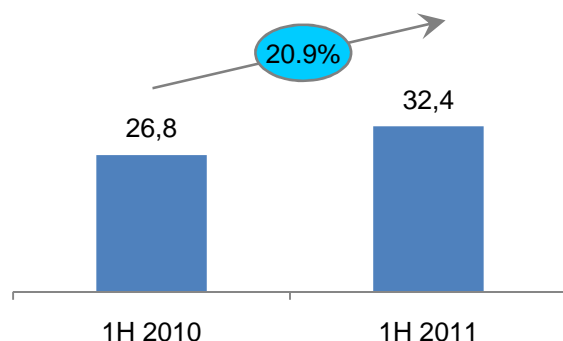


Remarks

- The slight growth in administrative expenses was precipitated by changes in the mix of distribution channels (rising share of higher commission channels, primarily at the expense of the commission-free channel).
- Reduction of administrative expenses in conjunction with headcount downsizing and strict control of fixed expenses.
- Lower loss ratio as a result of the absence of non-recurring events in 2011 (snowfall and flooding in 1H 2010) and enhancement in the technical result on motor insurance.

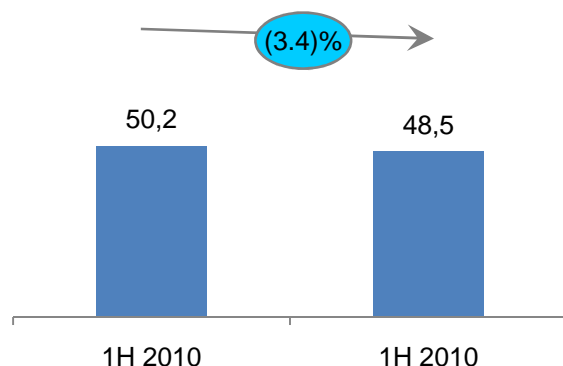
Profitability of the Pension Segment

Assets under Management (bn PLN)



Considerable growth in assets under management on account of ZUS contributions, investment performance and the net balance of incoming and outgoing clients.

Net Result (m PLN, IFRS)



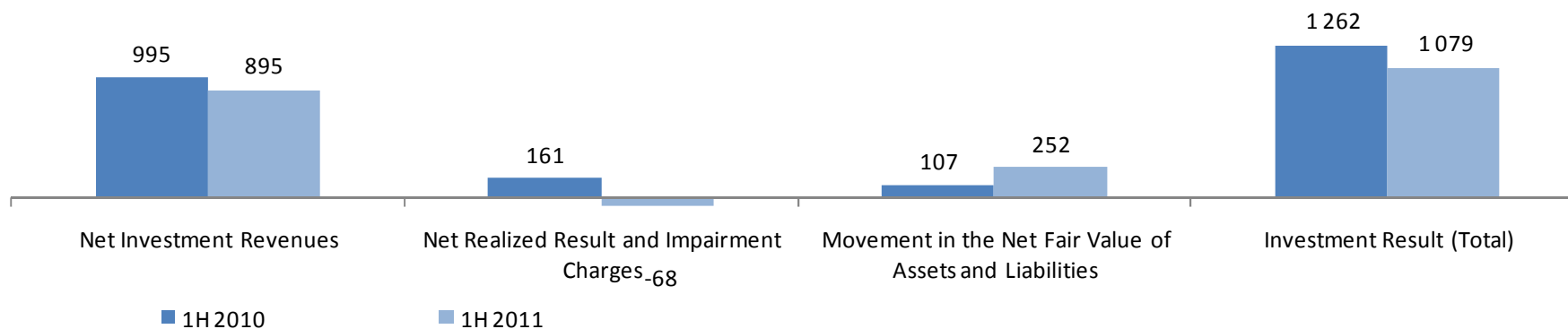
Net profit fell in 1H 2011 in conjunction with higher acquisition expenses – expensing some of the deferred acquisition expenses as a result of statutory amendments (percentage of contribution transferred to open-end pension funds reduced from 7.3% to 2.3%).

Major assumptions of the pension system reform:

- Reducing the contributions transferred by ZUS to OFE from 7.3% to 2.3%
- New investment limits for open-end pension funds (the percentage of equity instruments to expand from 40% to 90%)
- Ban on active acquisition
- Individual Social Security Accounts in OFE

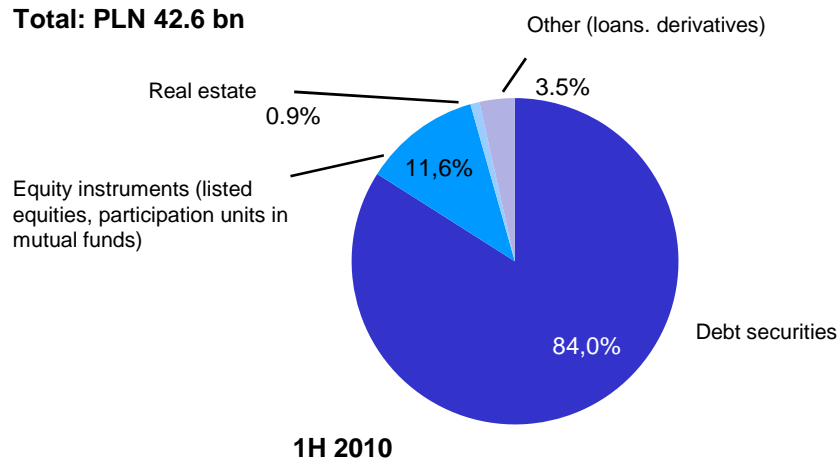
Investment Activity

Investment Revenues (m PLN)

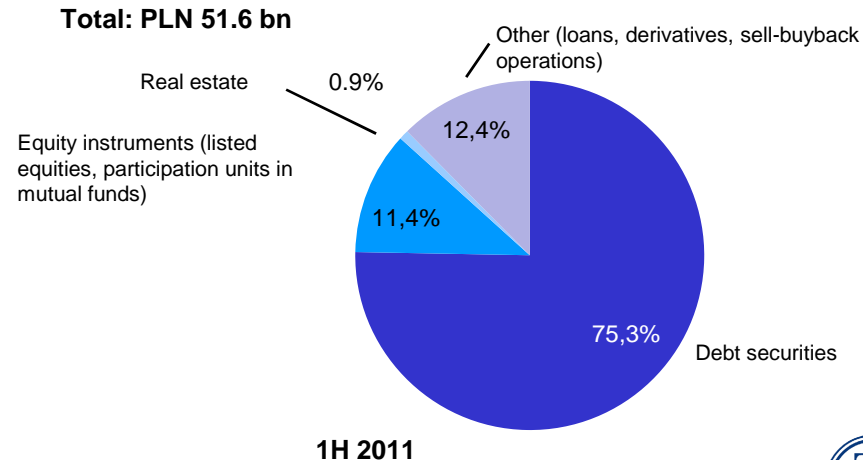


Financial Asset Composition

Total: PLN 42.6 bn

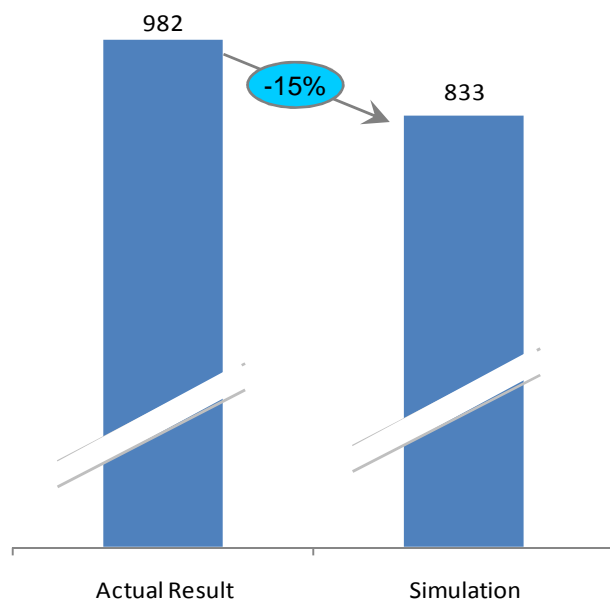


Total: PLN 51.6 bn

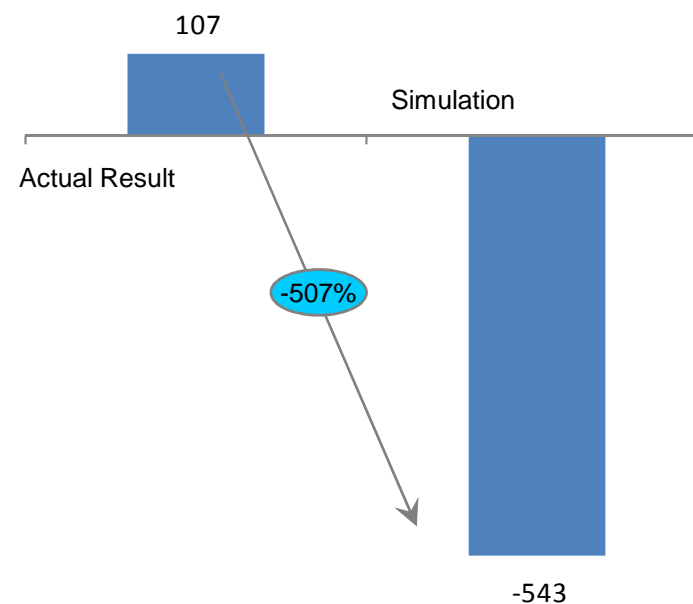


Sensitivity of Investment Performance to the Financial Crisis

Interest Rate Sensitivity



Sensitivity to Equity Price Volatility

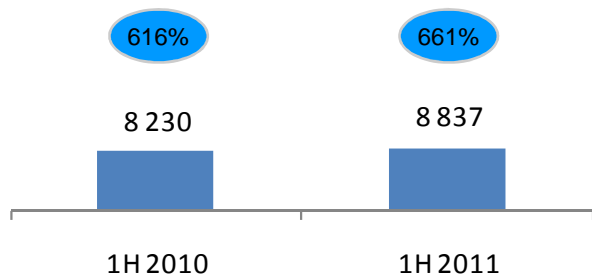


The stress test regarding the result on debt securities for 1H 2011 was conducted under the assumption that the profitability of debt securities will grow by 1%.

The stress test regarding the result on listed equities for 1H 2011 was conducted under the assumption that the valuation of equities will fall by 30%.

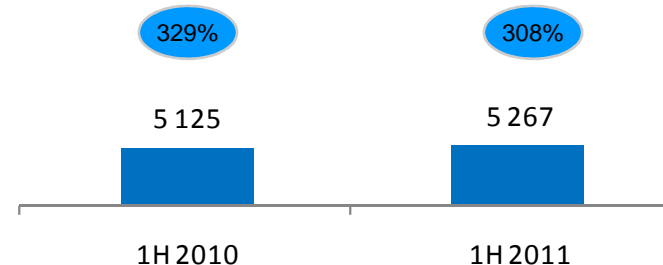
Strong Capitalization and Ongoing Control of Solvency Lead to Satisfactory Performance

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



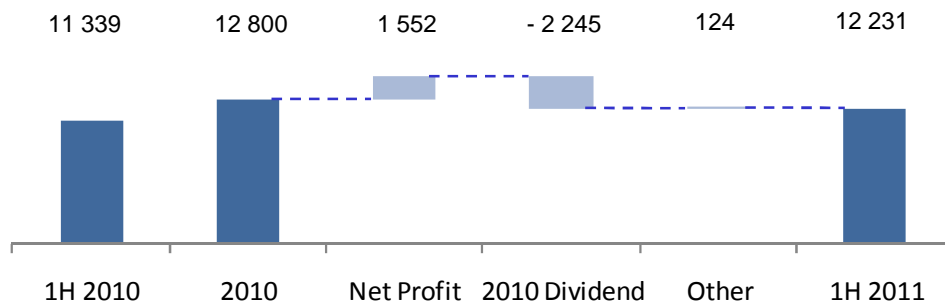
Solvency Margin Coverage Ratio

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

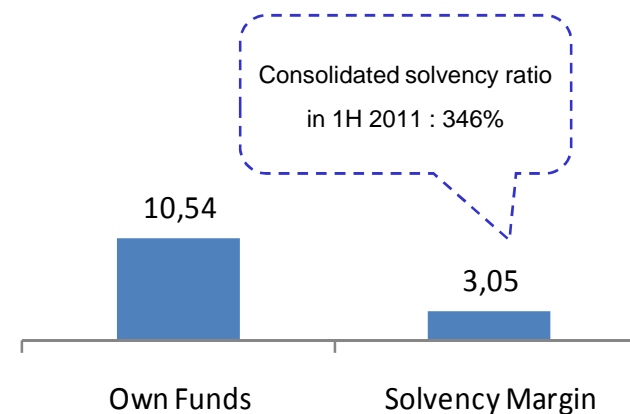


Solvency Margin Coverage Ratio

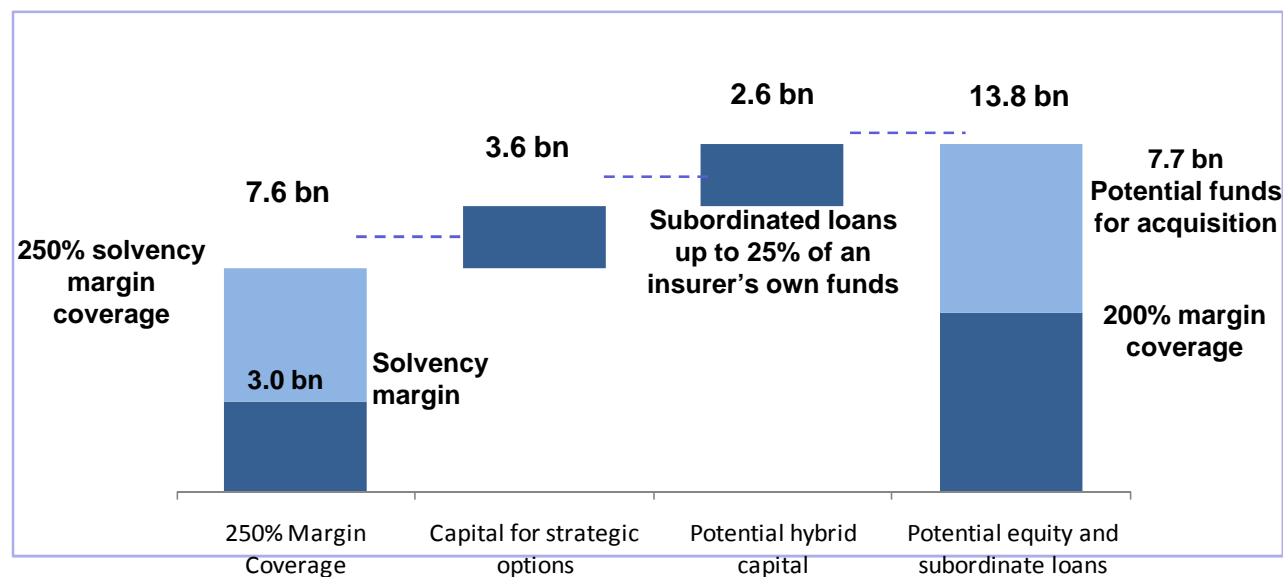
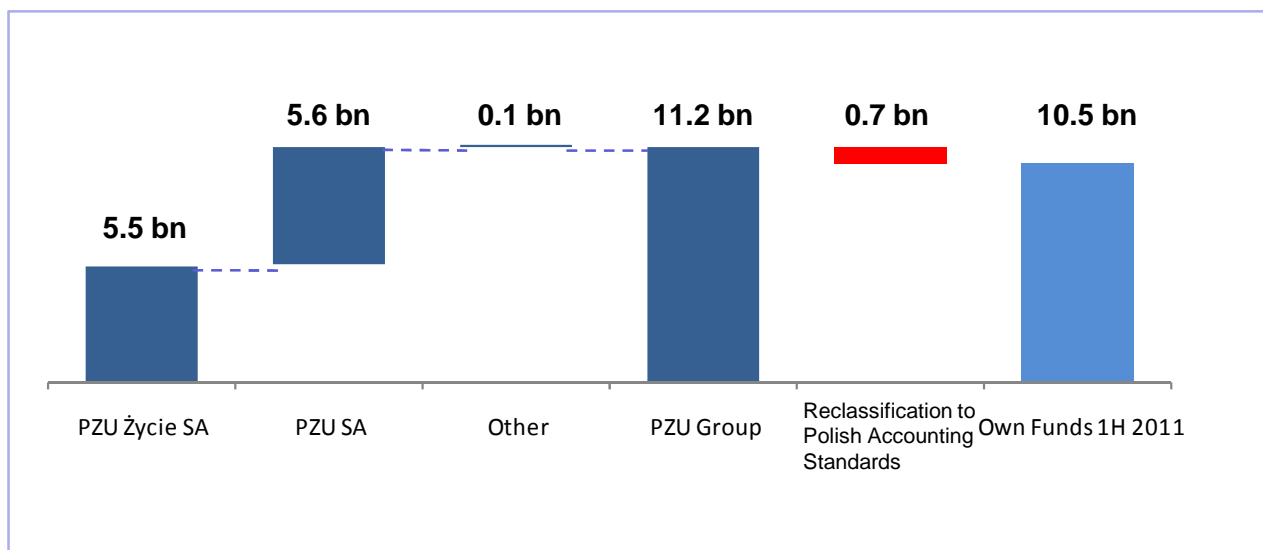
PZU Group's Equity (m PLN, IFRS)



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



Capital Management in the PZU Group



- **Implementing Solvency II**
 - Effective date of 1 Jan. 2013 or 1 Jan. 2014
 - Amendments to capital requirements and provisions
- **Amendments to IFRS 4 (regarding insurance contracts)**
 - No precise date (probably 2013 or 2014)
 - Amendments to future liabilities – possible changes to level of provisions
- **Provisions – legal amendments**
 - Possibility of higher annuities in PZU SA or the „old portfolio” in PZU Życie

Agenda

Business Overview

Financial Results Overview

Questions and Answers

Questions and Answers



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