



# Presentation of the Q3 2010 Financial Results

Warsaw. 15 November 2010

# PZU's Management Team



Andrzej Klesyk  
President. Management Board  
CEO of the PZU Group

- Responsible for Administration. Logistics. Claims Handling. Strategy. Corporate Governance. HR. Audit and 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 Business. Group Network and Marketing
- 1998–2001 i 2002–2004: McKinsey
- 2000: Poznań University of Economics
- 6 years with the Group



Dariusz Krzewina  
President (Life)  
Management Board

- Responsible for Life Business and 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 and Distribution. Operations and IT
- 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 and Treasury
- Previously employed by Elektrim Group and AIG Polska
- 9 years with the Group



Mariusz J. Sarnowski  
Management Board

- Responsible for Corporate Business and Reinsurance
- Previously CEO of Link4
- 1 year with the Group



Krzysztof D. Branny  
Management Board

- Responsible for HR
- Previously employed at (for 17 years) as the Vice-President responsible for HR in the CEE region
- Joined the Group on 1 Sept. 2010

In conjunction with Rafał Stankiewicz's resignation. Supervisory Board Member Dariusz Filar has been delegated to act in the capacity of a Member of the PZU SA Management Board until 31 December 2010 to meet the statutory requirement concerning the size of the PZU SA Management Board.

# Agenda

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## Market Context

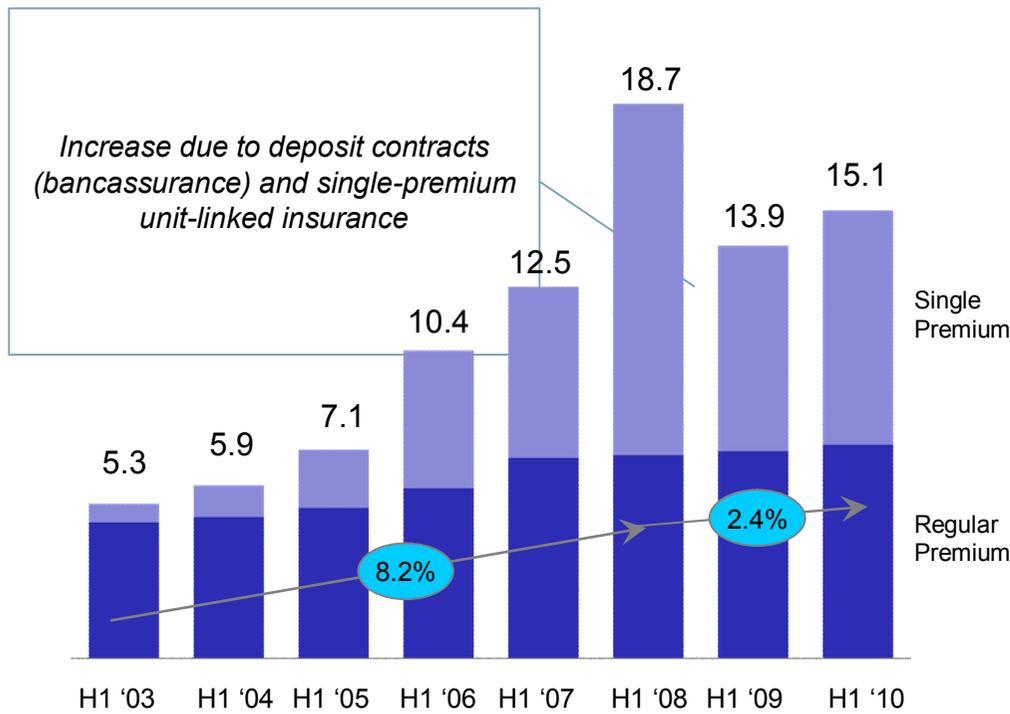
Business Overview

Financial Results

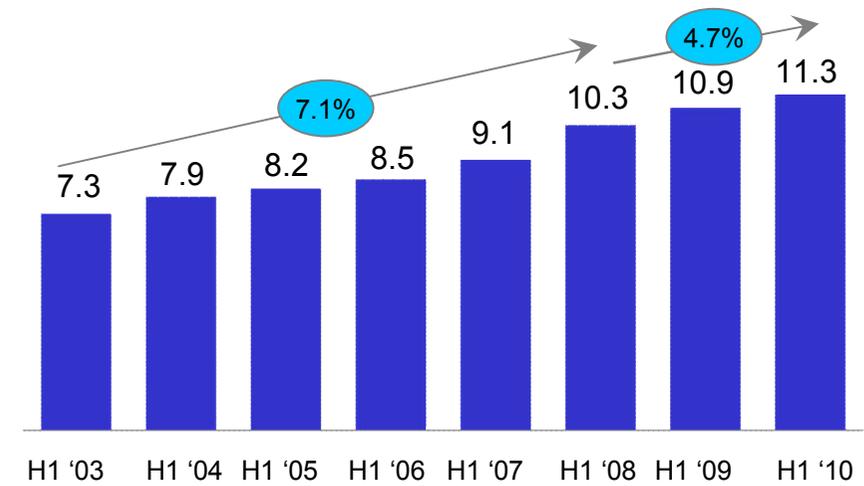
Questions and Answers

# Slowdown in the development of the Polish insurance market

## Life Insurance (Gross Written Premium. b PLN)



## Non-life Insurance (Gross Written Premium. b PLN)

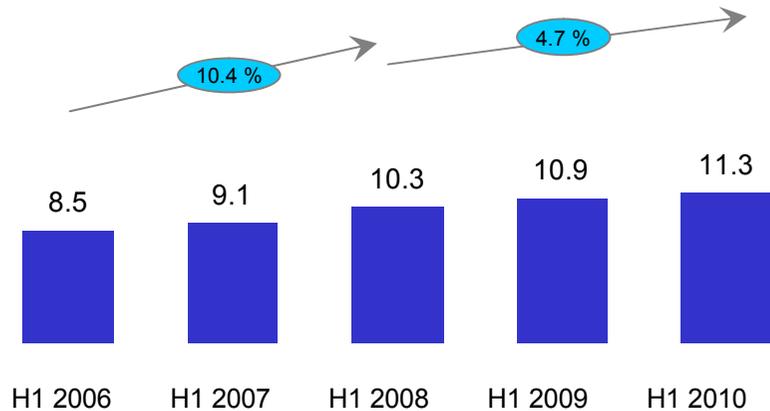


Source: KNF

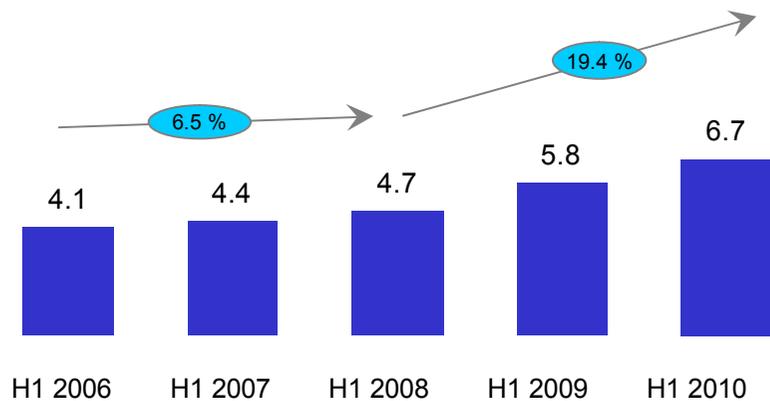
xx % - CAGR

# Clear Slowdown in Non-life Business Growth Coupled with Higher Claim Ratio

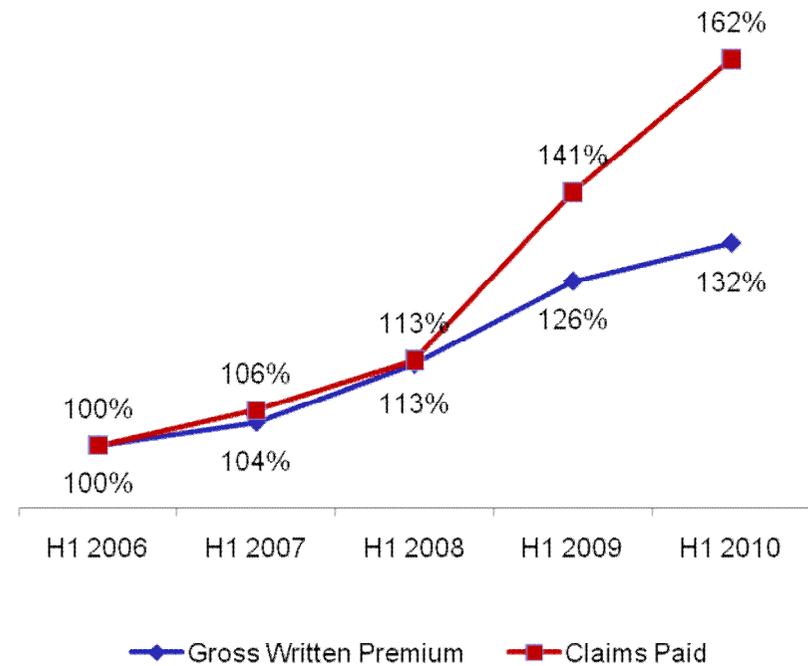
**Non-life Insurance Market (Gross Written Premium. b PLN)**



**Non-life Claims (b PLN)**



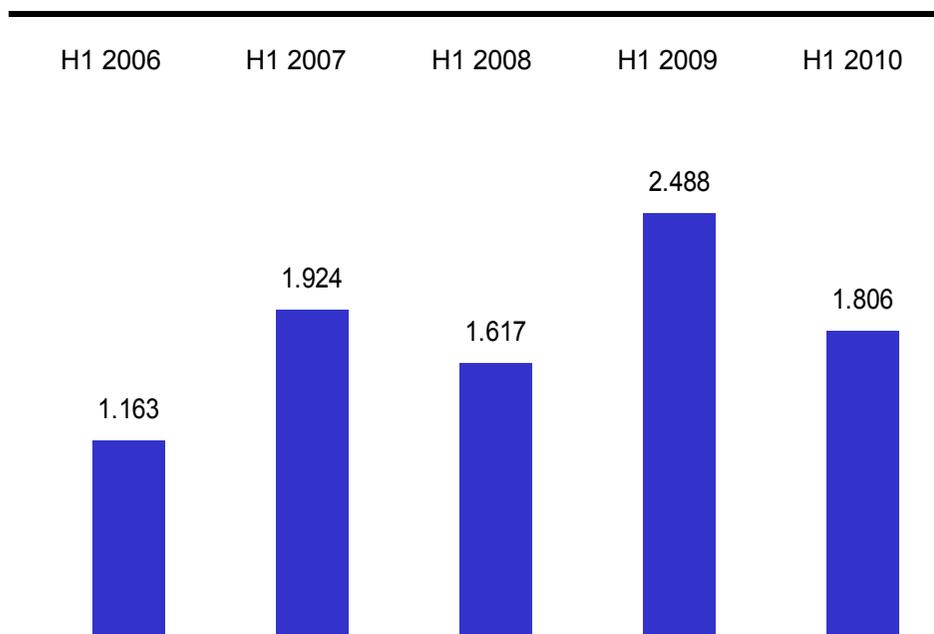
**Gross Written Premium Index and Claims Paid Index**



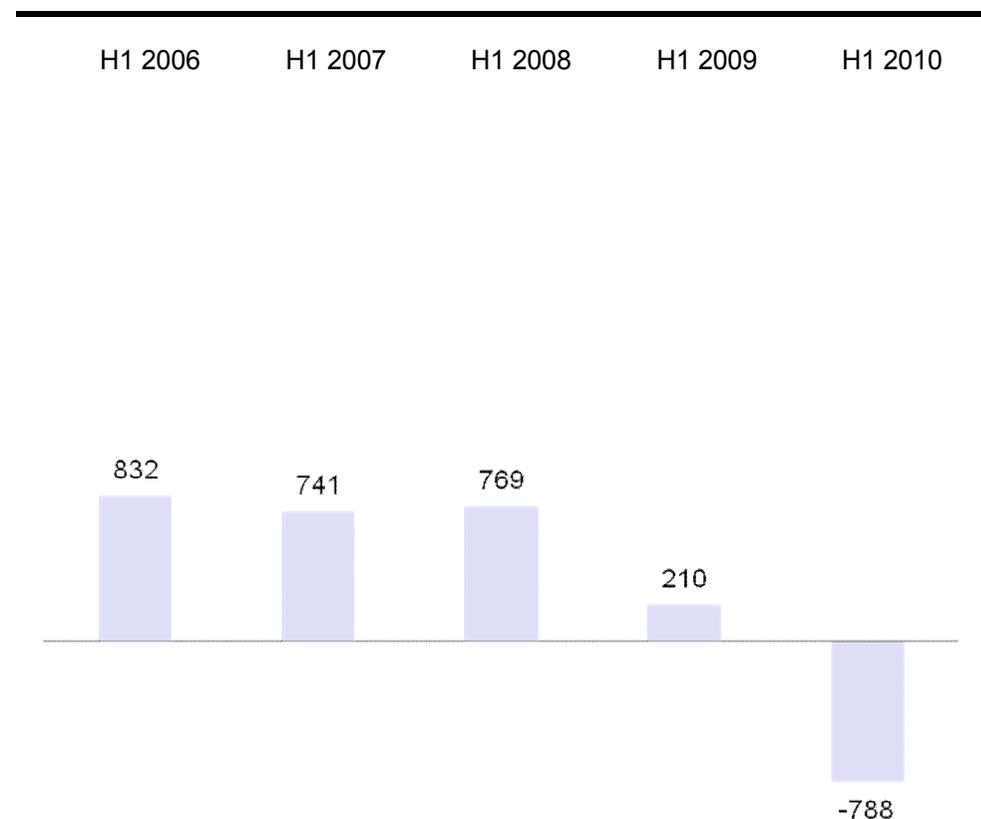
Source: KNF xx % - CAGR

# Life Insurance Market Highly Profitable; Substantial Deterioration in Profitability of Non-life Insurance

**Profitability of the Life Insurance Market  
(Technical Result. m PLN)**



**Profitability of the Non-life Insurance Market  
(Technical Result. m PLN)**



Source: KNF

# Agenda

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**Market Context**

**Business Overview**

**Financial Results**

**Questions and Answers**

## Summary of the Effects of Implementing the PZU Group's Strategy

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Sustaining Growth in Life Insurance

Stemming the Adverse Trend in Motor Business among Individual Customers – Growing the Rate of Sales

Continuing the Turn-around Program of the Corporate Segment in Non-life Insurance

Continuing the Headcount Restructuring Program – Further Reduction of Administrative Expenses

# The PZU Group in Figures

m PLN



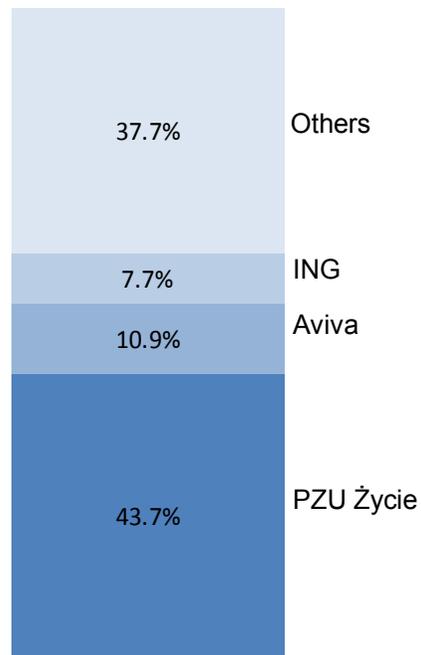
	Q3 2009	Q3 2010	Q1-3 2009	Q1-3 2010	Change YoY	Remarks
GWP	3,574.9	3,552.8	11,061.7	10,946.5	-1.0%	<ul style="list-style-type: none"> <li>• Growth in group and individual life</li> <li>• Restructuring corporate portfolio of non-life business</li> </ul>
Investment Result	1,075.3	925.2	2,578.9	2,190.2	-15.1%	
Operating Profit	1,080.0	878.0	3,951.2	2,378.0	-39.8	
Net Profit	892.0	704.3	3,200.8	1,874.2	-41.4%	
ROE			18.2%	20.5%	+2.3 p.p.	<ul style="list-style-type: none"> <li>• Claims growth (especially snow and flood-related)</li> <li>• Lower asset base for investment purposes (dividend payout)</li> <li>• Lower conversion rate in group life</li> </ul>

# PZU maintains a strong position as the leading market player

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## PZU's life market share (regular premium)

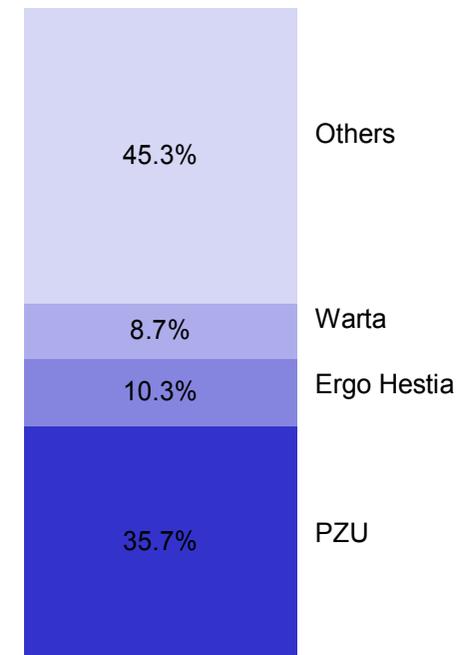
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H1 2010

## PZU's non-life market share

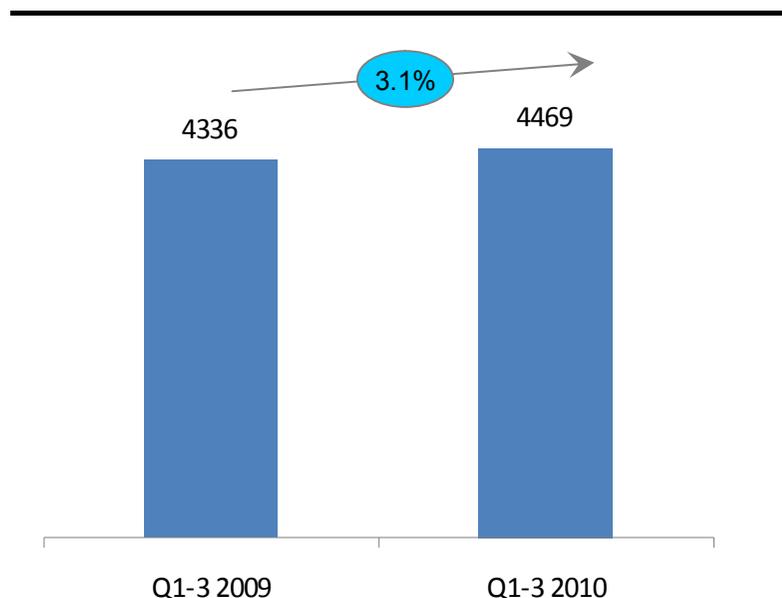
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H1 2010

# Further Strengthening of PZU's Position in Group Business while Building Its Position in Individual Business

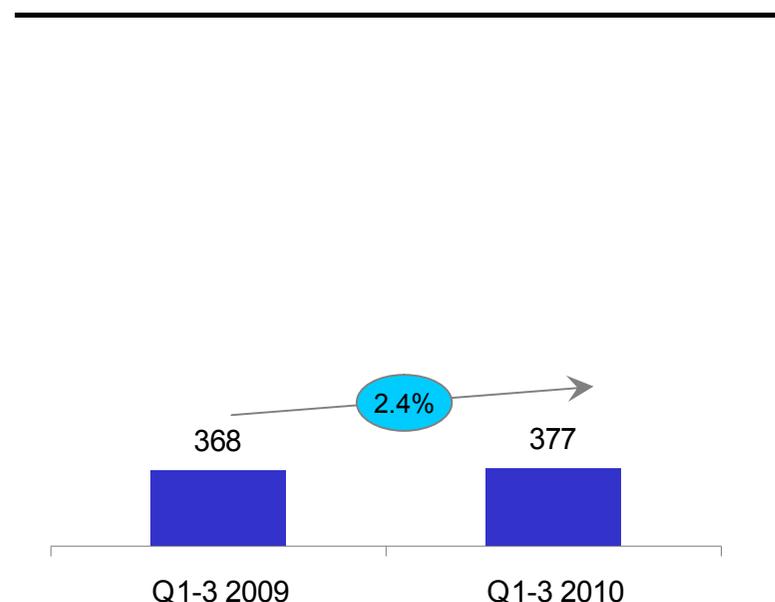
**PZU's Gross Written Premium in Group and Continued Business (m PLN)**



Type-P Group Insurance (major group product in PZU's portfolio) in Q3 2010 (compared to Q3 2009):

- Higher average premium per policy
- Higher number of policies
- Slight growth in claims ratio

**PZU's Gross Written Premium in Individual Life Business (m PLN)**



New product called „Plan na życie”

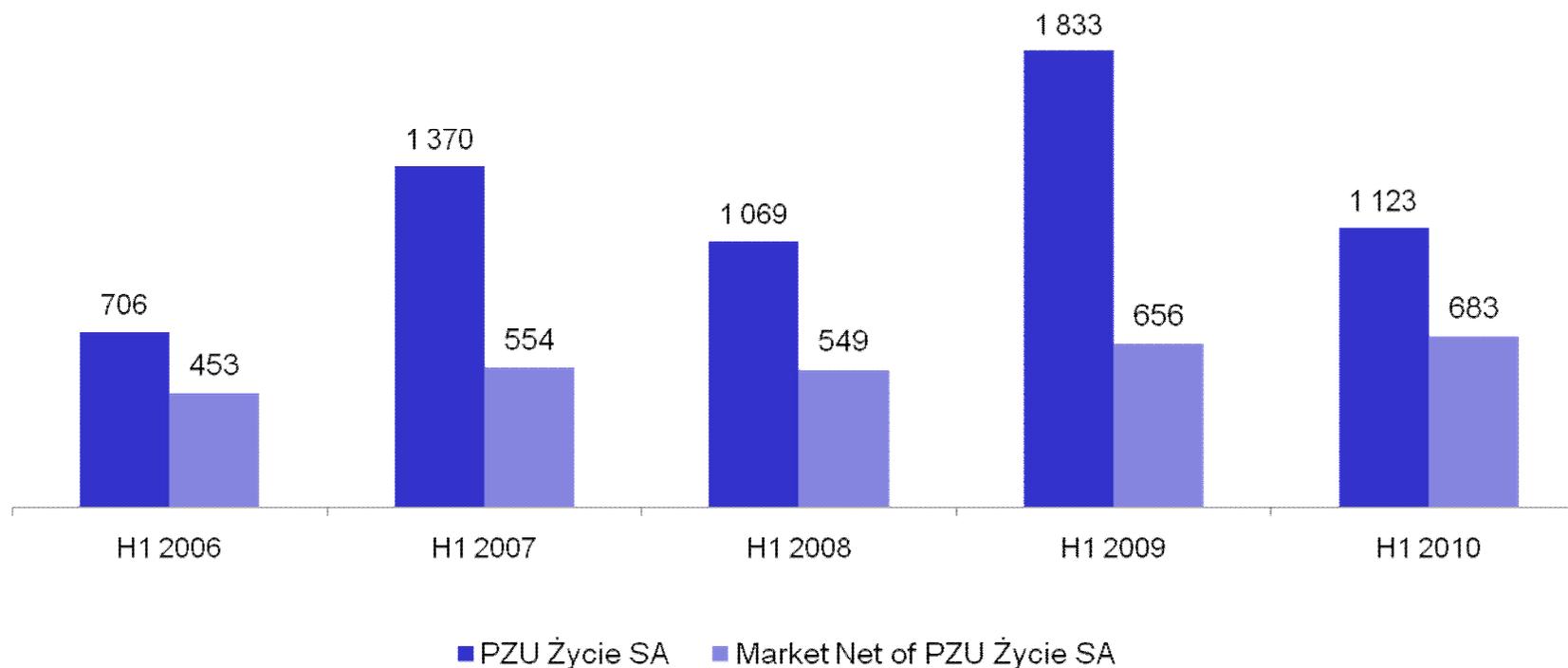
- New sales stated as number of policies: 7.6 thousand
- New sales stated as APE: 13.4 m PLN

## PZU Generates the Bulk of Profit in the Life Insurance Sector

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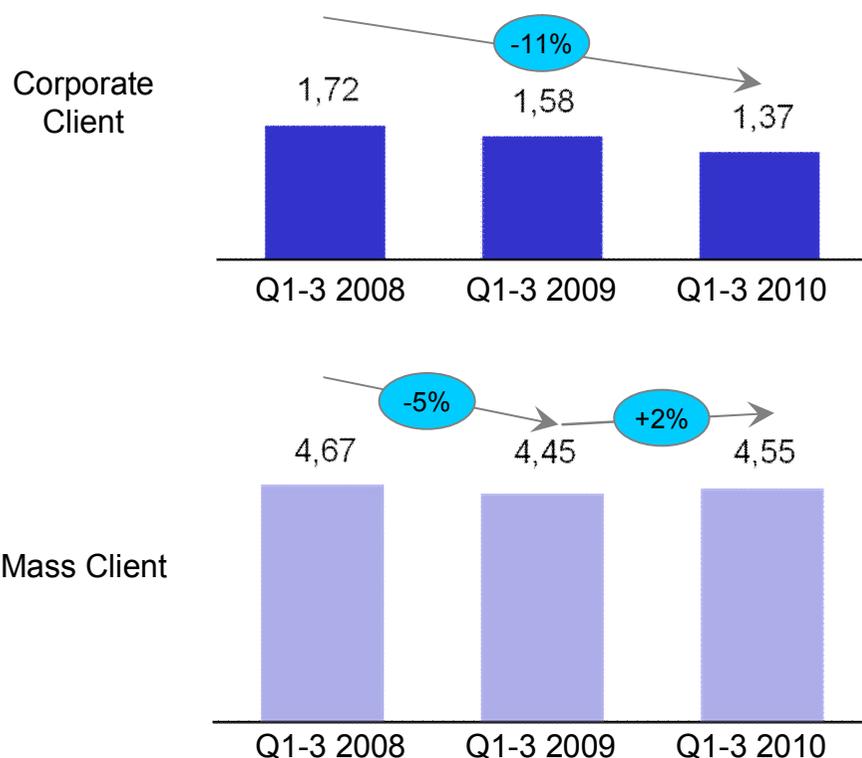
Technical Result – PZU Życie SA Compared with the Market (m PLN)

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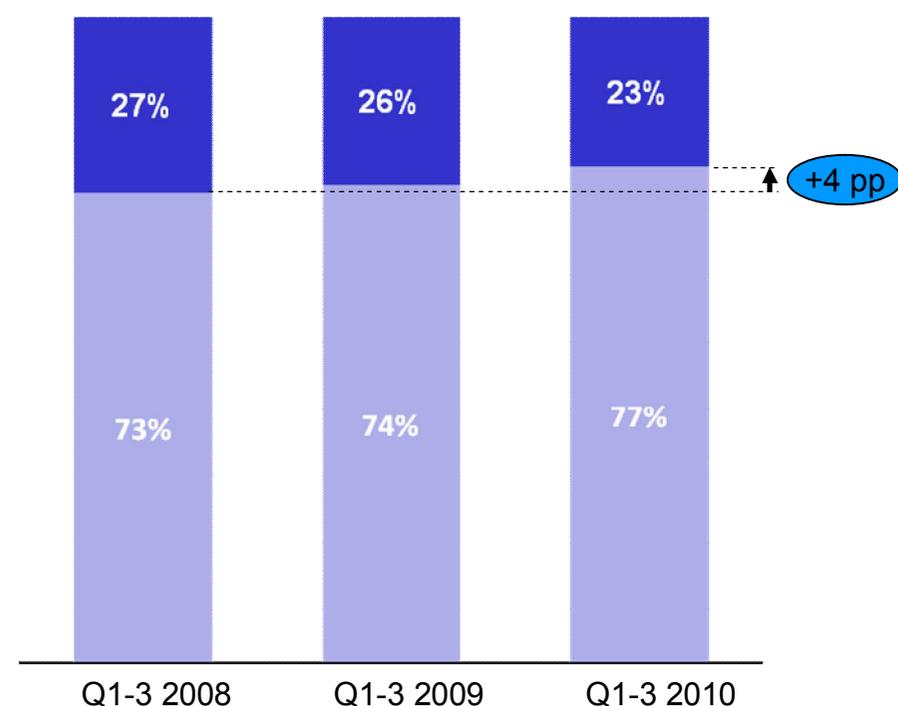


# PZU Is Deliberately Altering GWP Composition to Develop the Business Profitably

**Gross Written Premium  
(b PLN)**



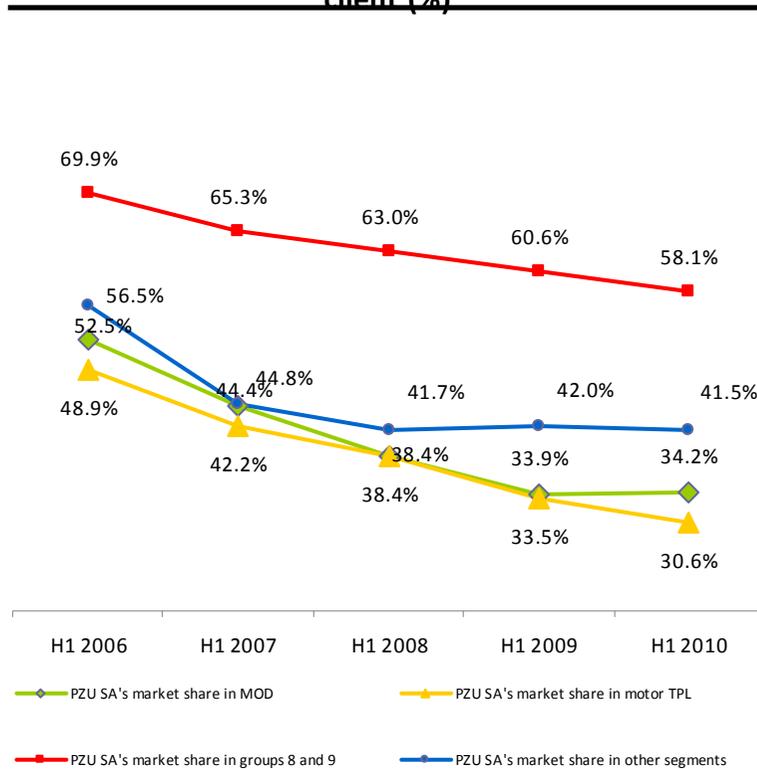
**GWP Composition by Customer Segment  
in 2008-2010**



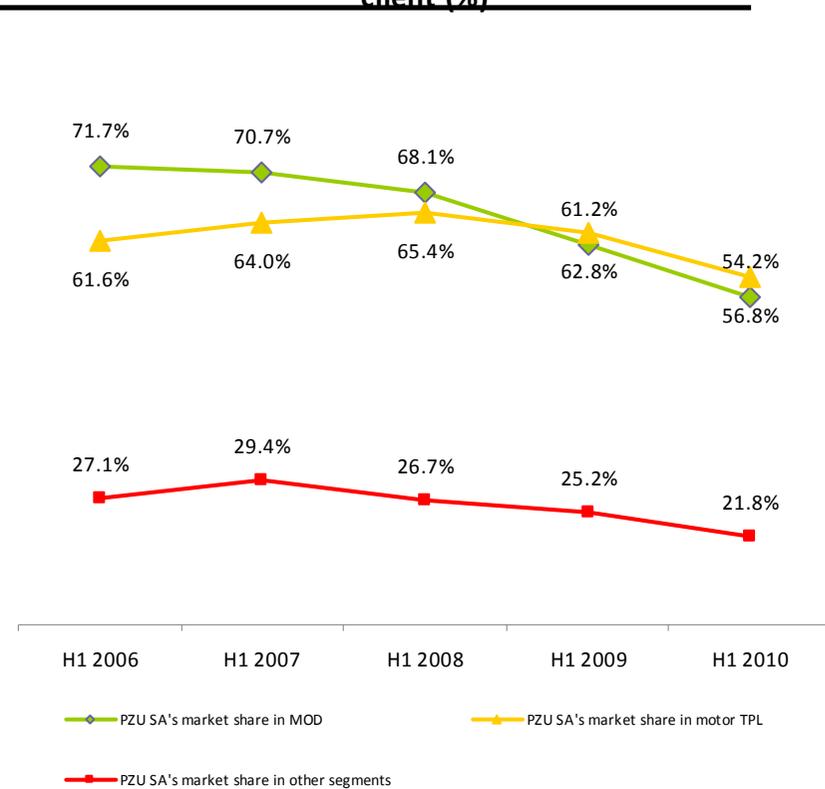
Remark: concerns the Polish market

# Stabilizing PZU's Market Position in Individual Non-life Business

**PZU SA's non-life market share – individual client (%)**



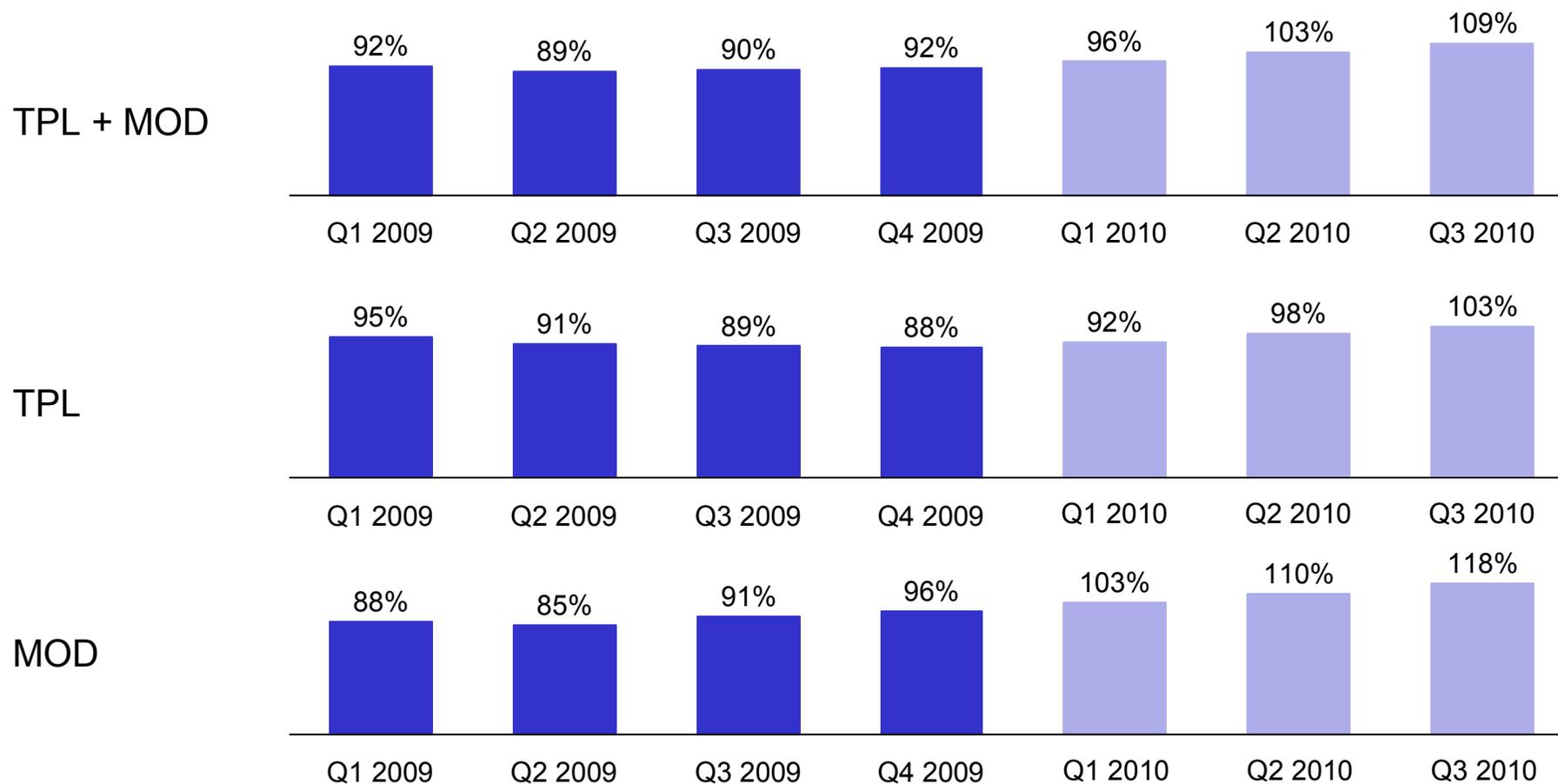
**PZU SA's non-life market share – institutional client (%)**



Source: KNF

# PZU's Rate of Sales in Motor Business Is Steadily Growing on Mass Market

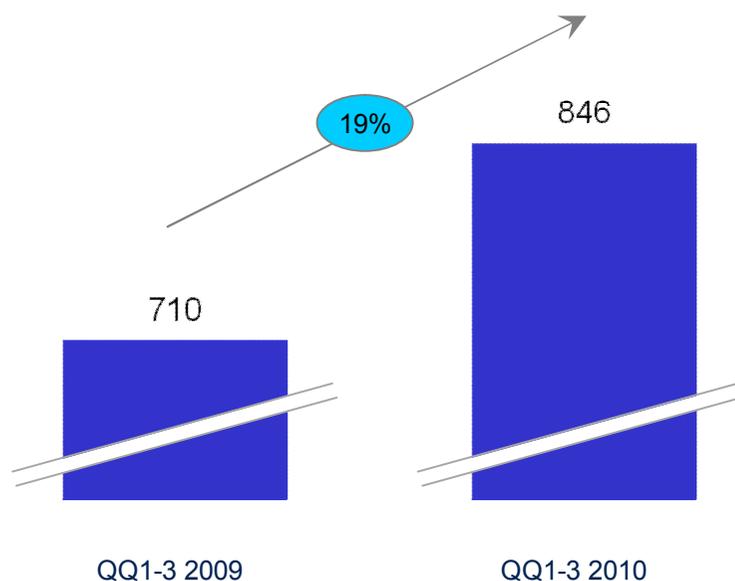
## Rate of Sales in Motor Business on Mass Market (Polish Market)



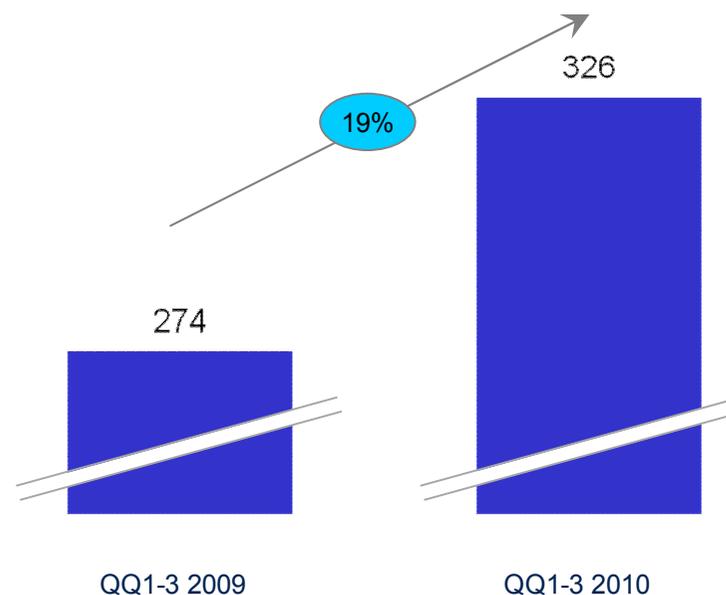
Rate measured against similar periods of the previous year

# 19% Growth in the Number of New Motor Insurance Policies

Number of New TPL Policies (000s of Policies)



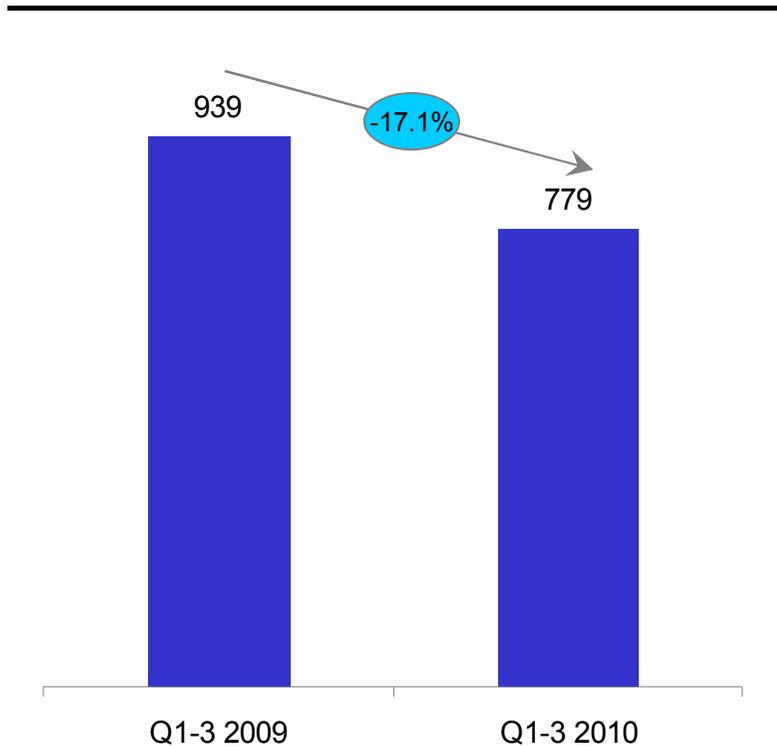
Number of New MOD Policies (000s of Policies)



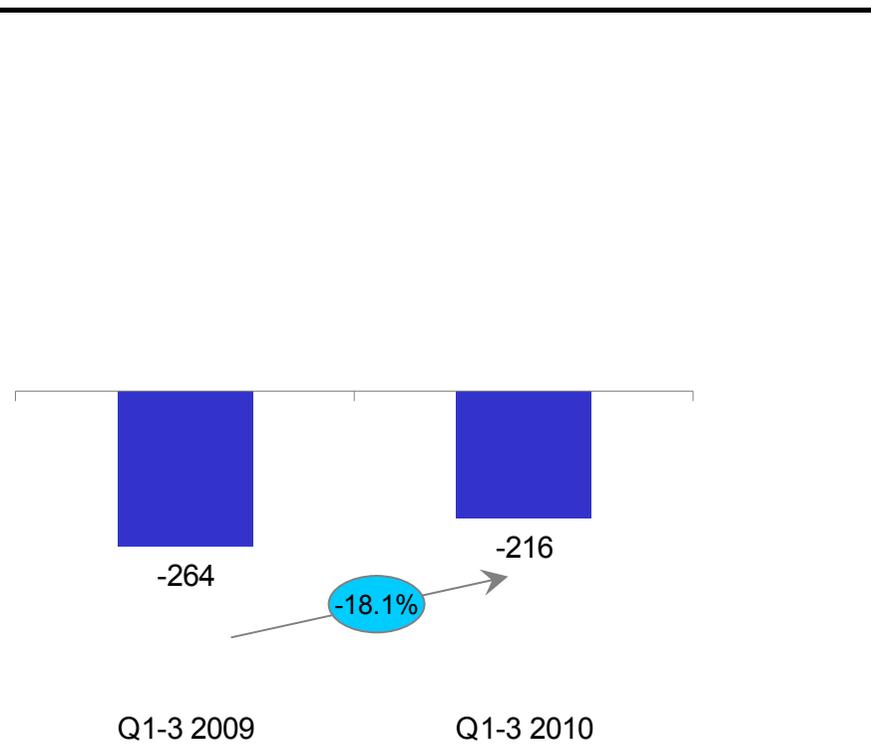
Remark: concerns the Polish market

# Placing Greater Emphasis on Corporate Segment Profitability Is Yielding the First Results

**PZU's GWP in the Corporate Segment.  
Motor Business (m PLN)**



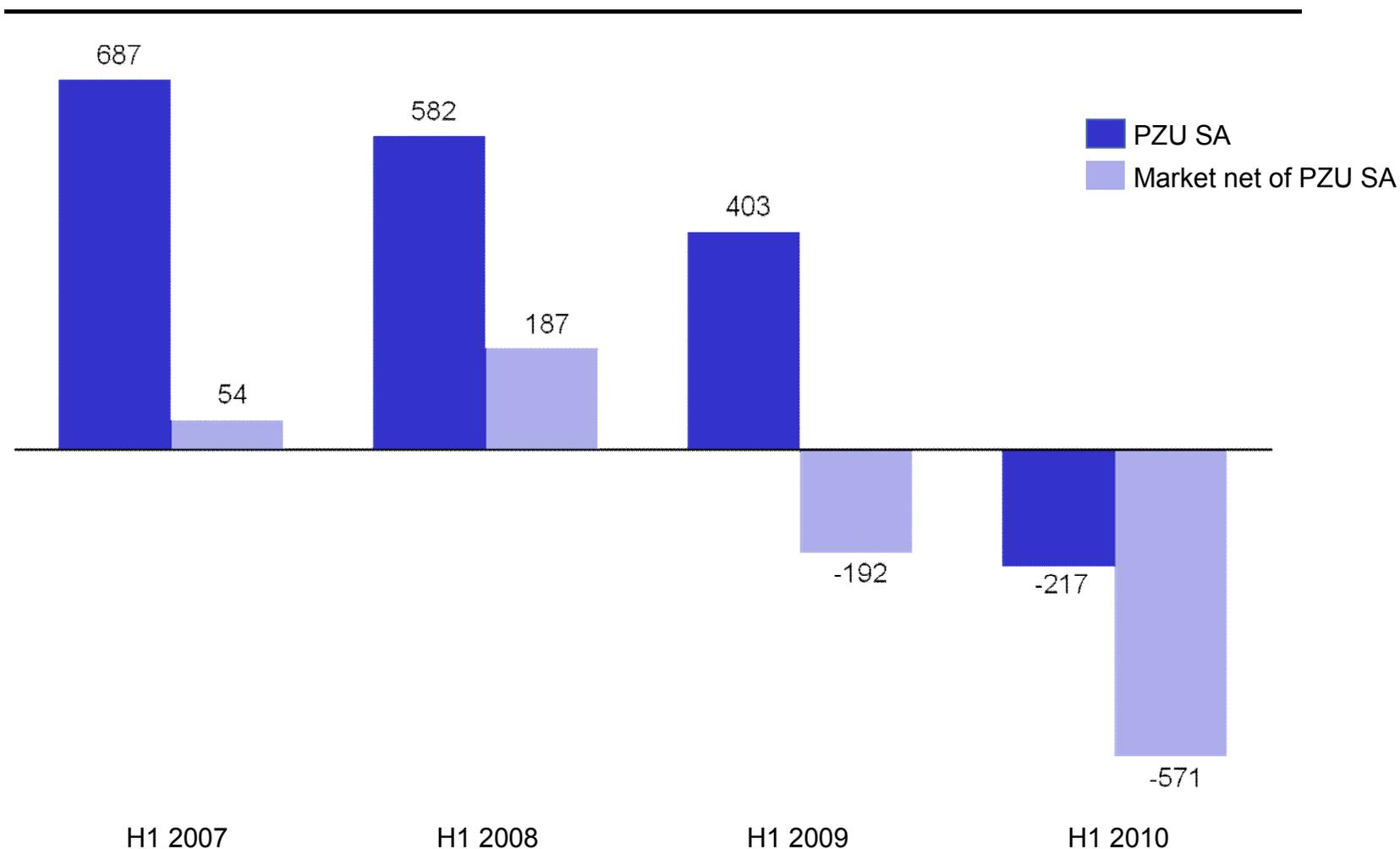
**PZU's Technical Result in the Corporate Segment. Motor Business (m PLN)**



The method of signing policies and the distribution of claims over the lifetime of a policy in the corporate segment mean that the results of accounting measures will not be visible in the bottom line any sooner than within a 12-month horizon

## Considerable Claims Growth and Price Pressure Have Caused the Sector's Profitability at the Level of the Technical Result to Collapse...

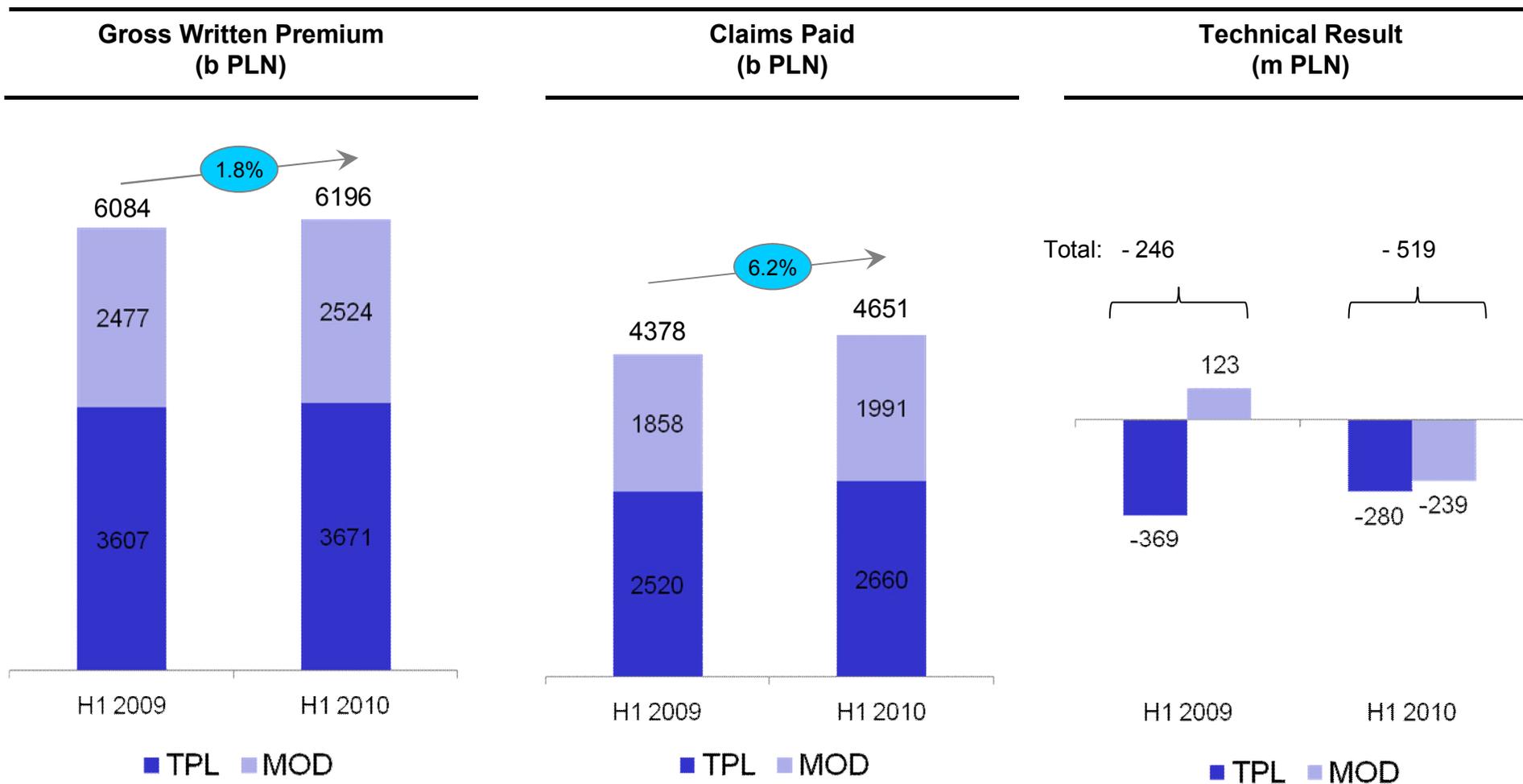
PZU SA's Technical Result Compared to the Market (m PLN)



Source: KNF, PZU

## ... Especially in Motor Insurance

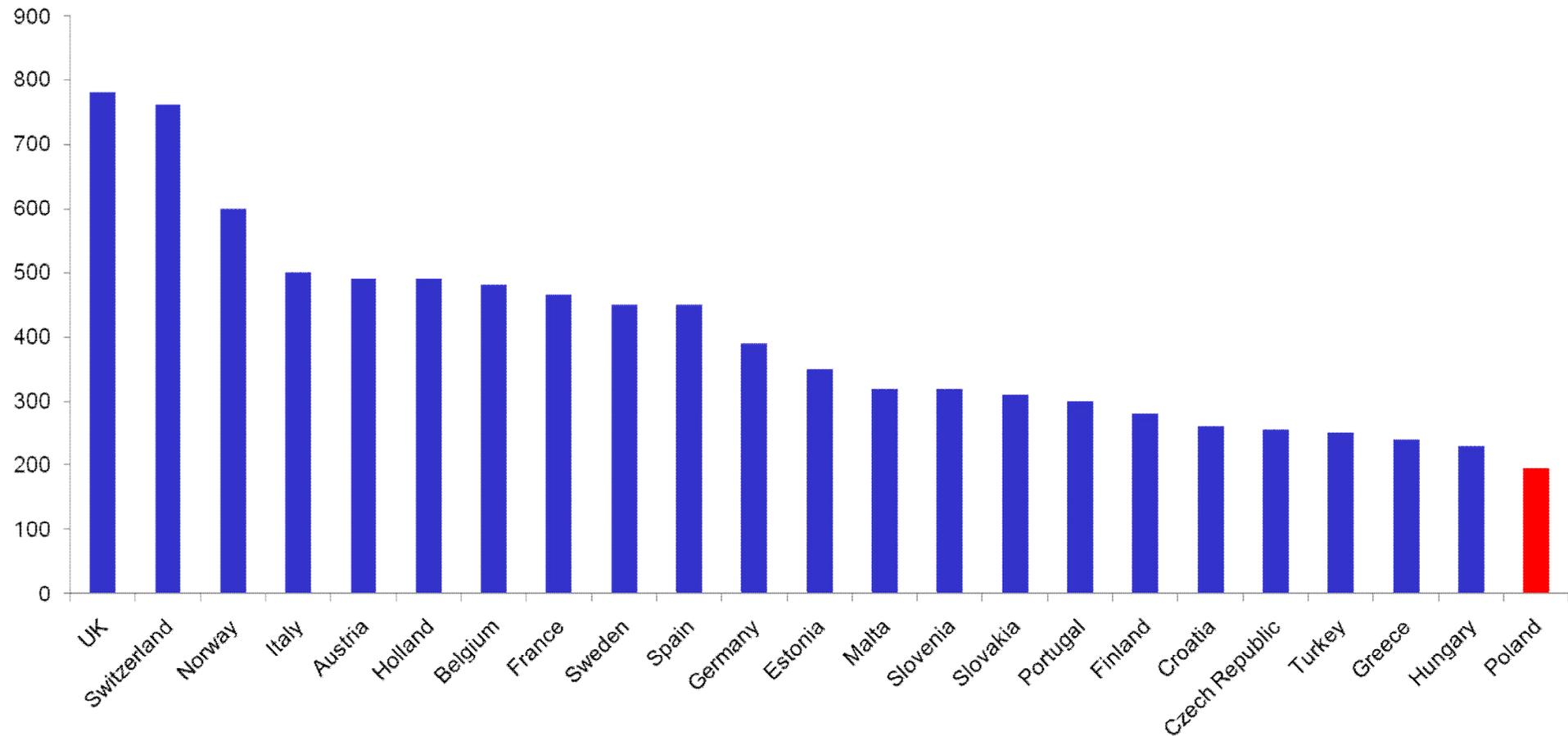
### Motor Insurance Market



Source: KNF

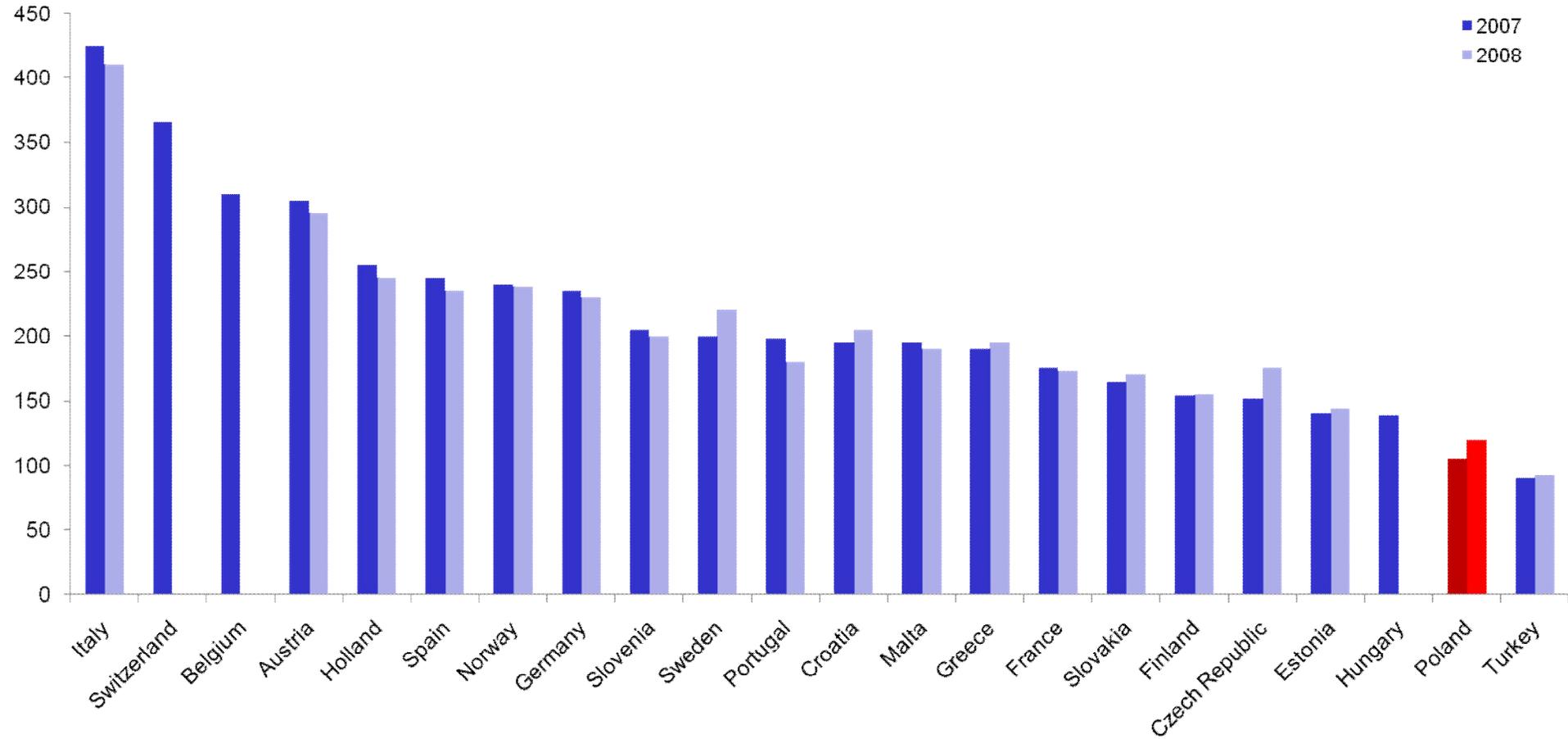
# Poland Has One of the Lowest Average Rates for Motor Insurance in Europe

Average Motor Insurance Premium (2008. EUR)

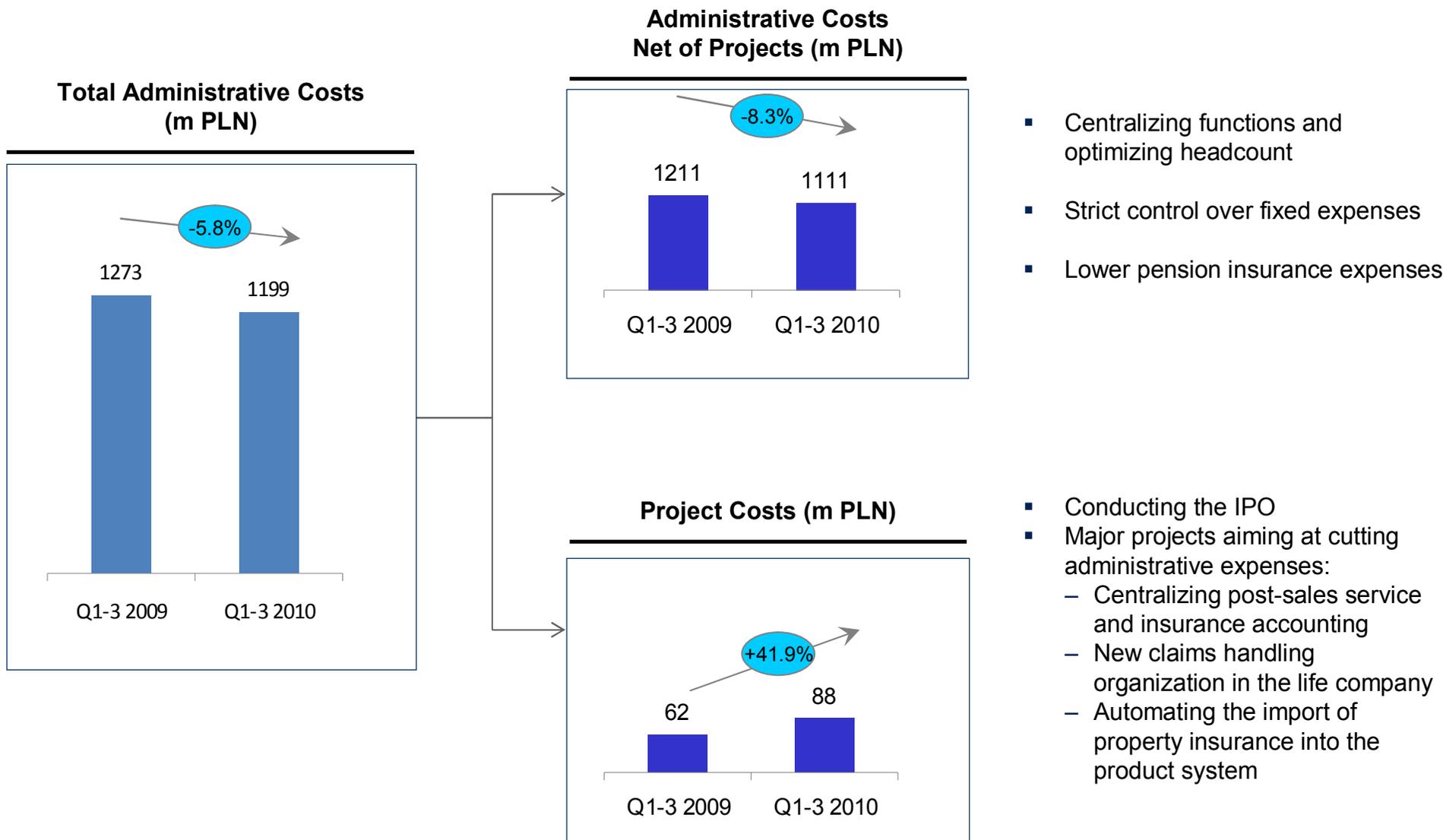


# Poland Has One of the Lowest Average TPL Rates in Europe

Average TPL Rate in 2007 and 2008 (EUR)

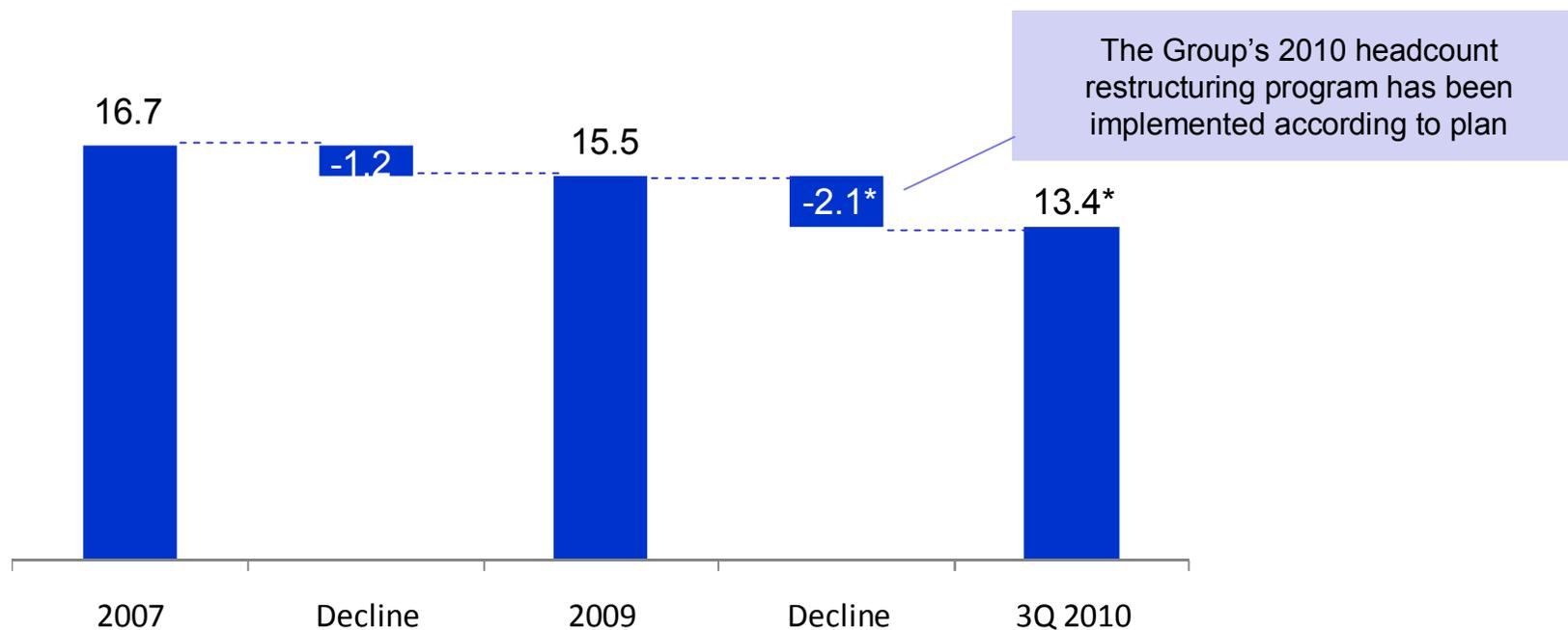


# During the First Three Quarters of 2010 We Have Reduced PZU's Administrative Expenses



# Headcount Restructuring in the PZU Group (FTEs)

## Headcount in the PZU Group (Full Time Equivalents - FTEs)



Note:

\* Contracts terminated under the Headcount Restructuring Program in PZU SA, PZU Życie SA and PZU CO SA; ~10% of the employees are in the termination period.

# Agenda

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**Market Context**

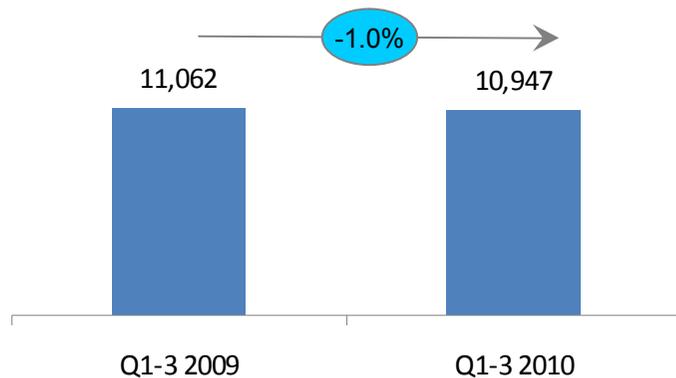
**Business Overview**

**Financial Results**

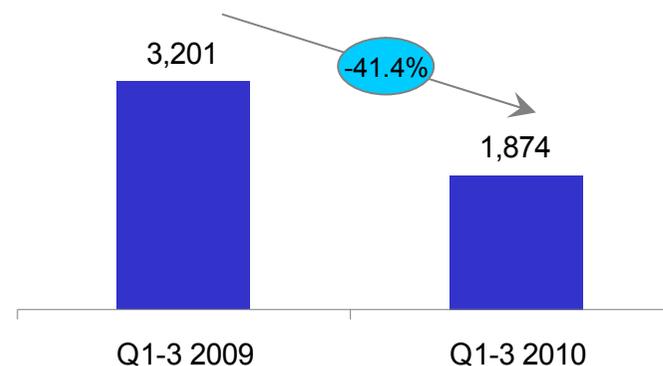
**Questions and Answers**

# Brief Overview of PZU's YTD Financials in the First Three Quarters of 2010

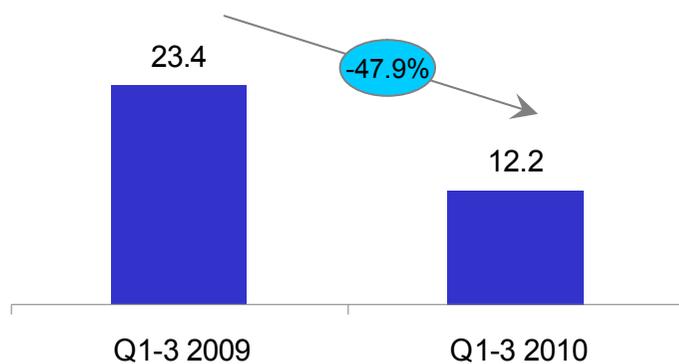
### Gross Written Premium (m PLN)



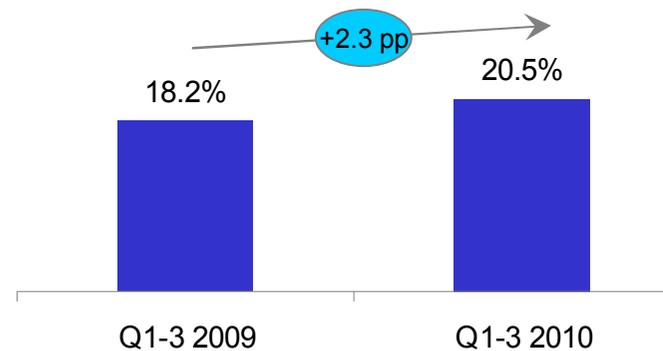
### Net result (m PLN)



### Equity (b PLN)



### ROE (%)



## Overview of PZU's Financial Highlights Supports Optimism (I)

m PLN. IFRS	Q3 2009	Q3 2010	Q1-3 2009	Q1-3 2010	% movement
<b>Profit and Loss Account</b>					
Gross Written Premium	3,574.9	3,552.8	11,061.7	10,946.5	(1.0%)
Acquisition and Administrative Costs	(860.4)	(840.4)	(2,573.8)	(2,539.6)	(1.3%)
Operating Profit	1,080.0	878.0	3,951.2	2,738.0	(39.8%)
Net Profit	892.0	704.3	3,200.8	1,874.2	(41.4%)
<b>Balance Sheet</b>					
Equity	x	x	23,393.4	12,192.0	(47.9%)
Total Assets	x	x	61,247.1	49,171.7	(19.7%)
<b>Fundamental Financial Ratios</b>					
ROE <sup>(1)</sup>	x	x	18.2%	20.5%	2.3 p.p.
Combined Ratio <sup>(2)</sup>	x	x	94.2%	107.0%	+12.8 p.p.

- The slight decline in gross written premium caused by lower non-life premiums was partially compensated for by higher life insurance premiums.
- The decline in operating expenses (acquisition and administrative) stems primarily from cost restructuring.
- The decline in operating profit was a consequence of higher claims paid in non-life business, lower net premium earned and the lower conversion ratio in life insurance.
- Reduction of equity following the dividend payout of PLN 12.75 billion in 2009 and the payout of the remaining dividend for 2009 in the amount of PLN 9.9 billion in September 2010

Note:

1) Computed using equity at the end of the period

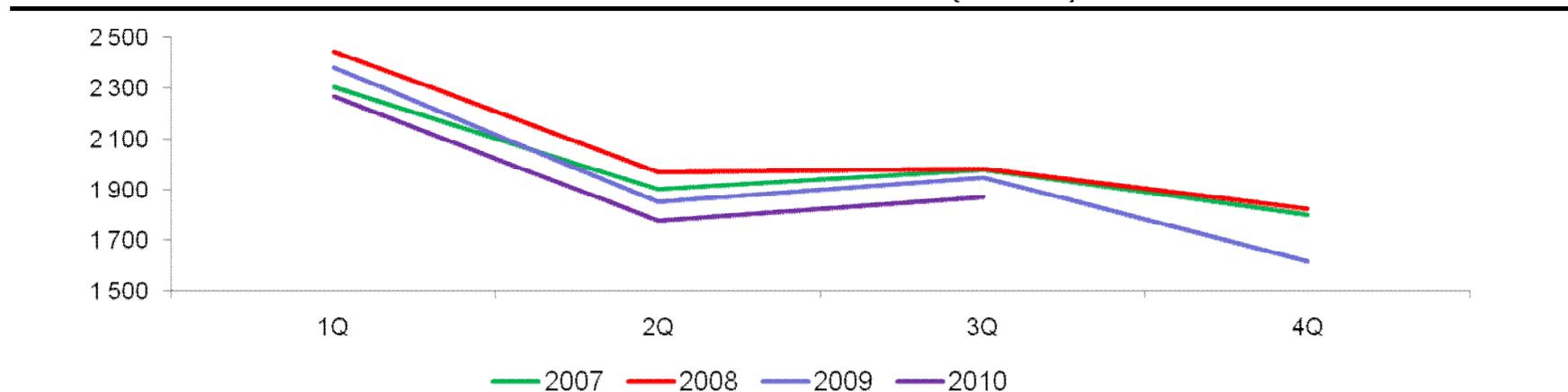
2) Only non-life insurance net of the reinsurers' share

## Overview of PZU's Financial Highlights Supports Optimism (II)

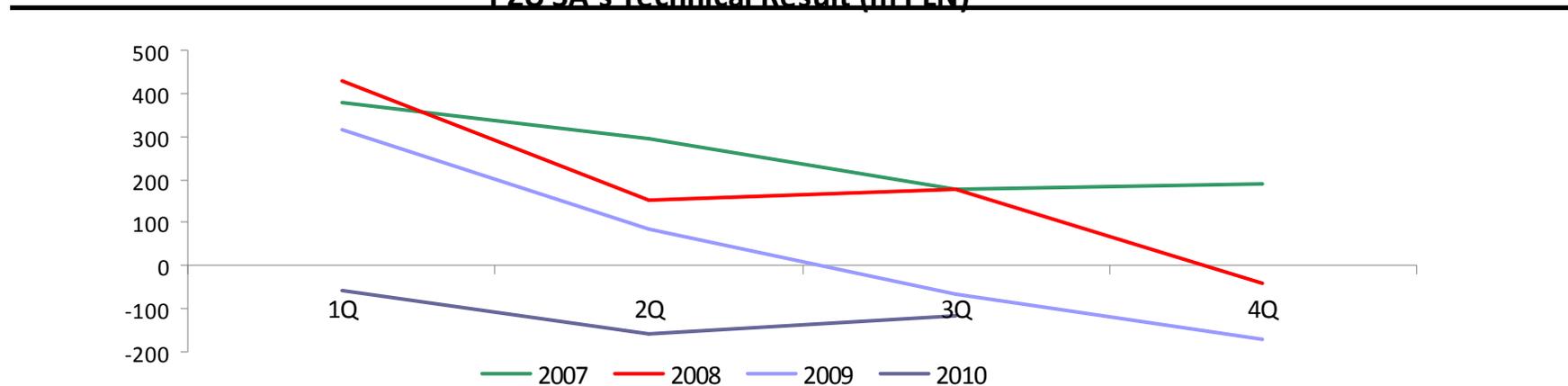
m PLN. IFRS	2Q 2009	Q3 2009	% movement	2Q 2010	Q3 2010	% movement
<b>Profit and Loss Account</b>						
Gross Written Premium	3,494.7	3,574.9	2.3%	3,465.9	3,552.8	2.5%
Non-life Insurance	1,914.5	1,998.3	4.4%	1,843.4	1,935.0	5.0%
Life Insurance	1,580.2	1,576.5	(0.2%)	1,622.5	1,617.8	(0.3%)
Investment Result	1,086.9	1,075.3	(1.1%)	353.6	925.2	161.7%
Acquisition and Administrative Costs	(845.5)	(860.4)	1.8%	(875.6)	(840.4)	(4.0%)
Acquisition Costs	(440.0)	(436.2)	(0.9%)	(444.2)	(463.0)	4.2%
Administrative Costs	(405.5)	(424.2)	4.6%	(431.3)	(377.4)	(12.5%)
Operating Profit	1,437.8	1,080.0	(24.9%)	470.9	878.0	86.5%
Non-life Insurance	397.4	256.8	(35.4%)	22.1	128.9	483.3%
Life Insurance	1,108.1	792.2	(28.5%)	553.8	706.7	27.6%
Net Profit	1,164.2	892.0	(23.4%)	362.4	704.3	94.3%

# PZU SA's Premium and Technical Result from 2007 to 2010

**PZU SA's Gross Written Premium (m PLN)**

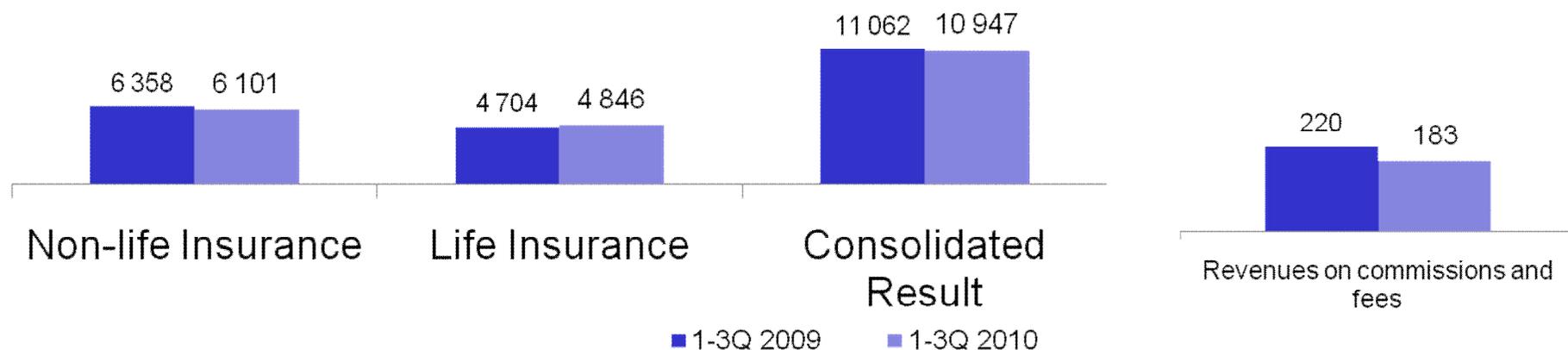


**PZU SA's Technical Result (m PLN)**

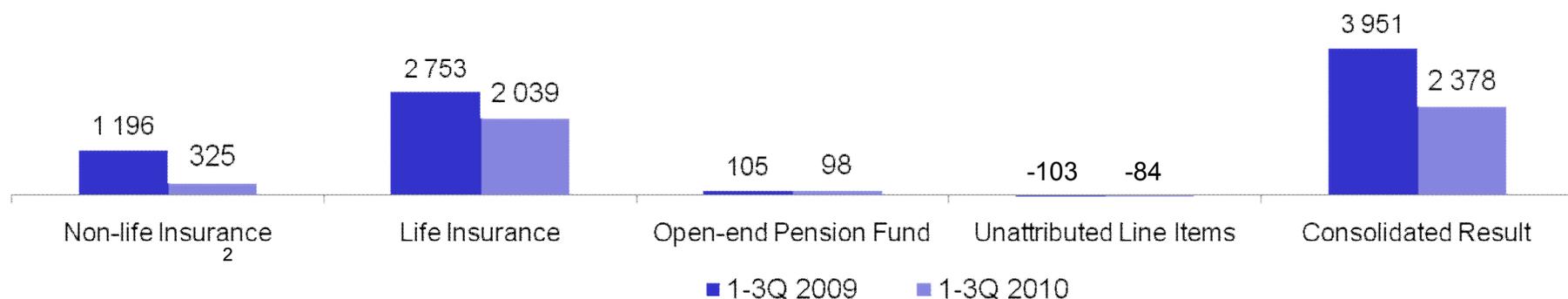


# Financial Results by Segment

## Gross Written Premium<sup>1</sup> (m PLN)



## Result on Operating Activity (m PLN)

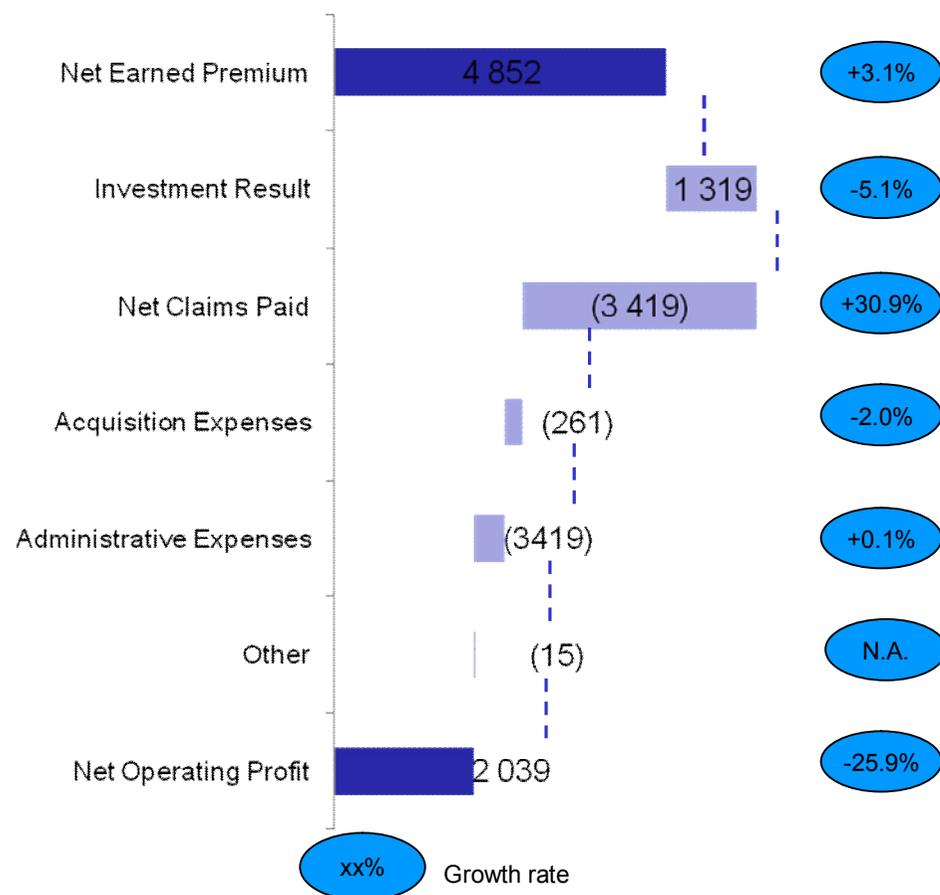


1. Revenues on commissions and fees – pension fund segment 2. Net of the dividend received from *PZU Życie*

# Profitability of Life Insurance Is under Control

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

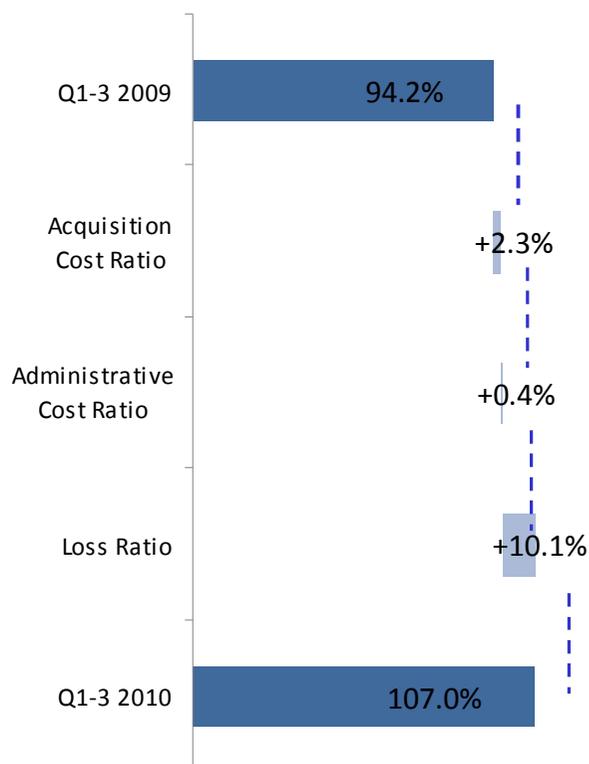
Remarks



- The 3.1% growth in the net earned premium resulted primarily from development of the group business – a higher number of insureds and a higher average premium in group protection and a higher premium in single-premium endowments distributed via the bancassurance channel.
- Claims grew as a result of the lower conversion rate from long-term policies to Yearly Renewable Term policies (higher reserves compared to the major decline in 2009) and slight growth of claims paid.
- Two factors affected acquisition expenses – decline in indirect expenses and growth of commissions for group business sold by brokers.
- Growth of administrative expenses (non-recurring impact of the Social Fund equal to PLN 5.0 m). Net of the Social Fund, these expenses fell by PLN 4.5 m (-1.0%) as a result of strict control of fixed expenses and restructuring measures.

# Profitability of Non-life Insurance Is Still a Challenge

## Profitability of Non-life Insurance (COR %)

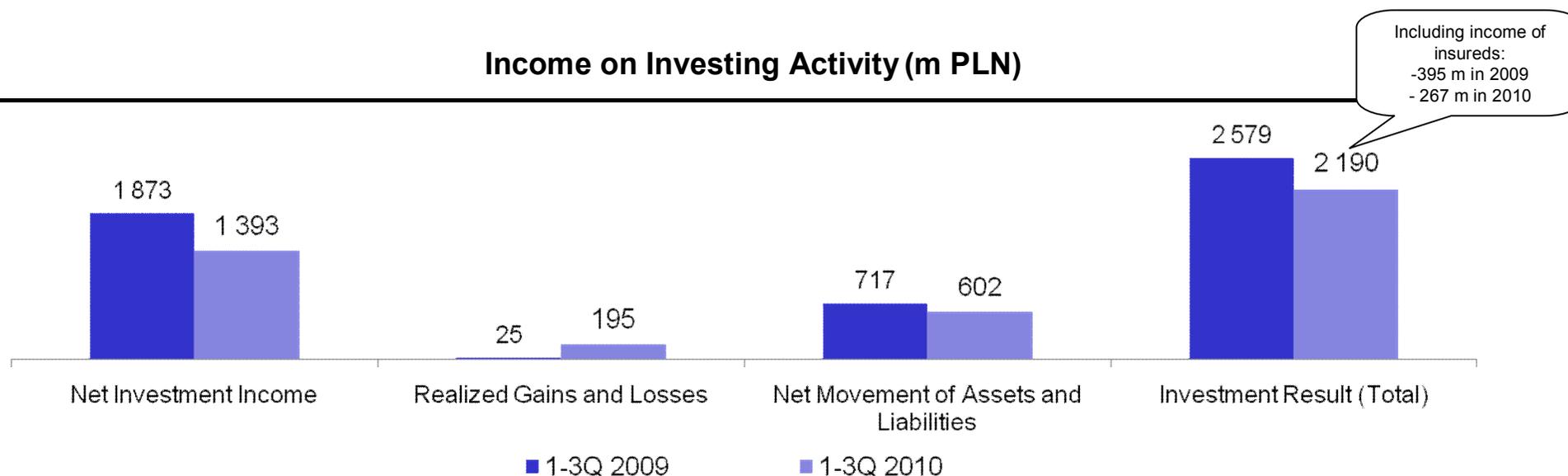


## Remarks

- Acquisition cost ratio – changes to the product composition (higher commission products) and changes to the agent motivation program.
- Administrative cost ratio – decline in earned premium (but with decline of administrative expenses).
- Higher loss ratio – claims related to flooding and intensive snowfall (especially property and farm insurance) and claims for natural disasters in July-August.
- The decline in earned premium (lower sales and higher premium reserve expenses – establishing additional unexpired risk reserves) adversely affected all the ratios.

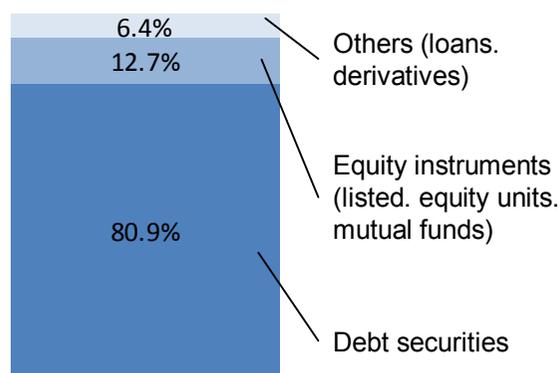
# Income on Investing Activity Is Lower Because of Dividend Payout

## Income on Investing Activity (m PLN)



## Financial Asset Composition

Total: PLN 43.7 b



## Remarks

- Net investment income – decline in net investment income and lower result on asset valuation at fair value coupled with improved net result on investment performance.
- Considerable reduction of investment base stemming from dividend payouts.
- Higher WIG in Q3 2010 and as a result higher rates of return on investment portfolios – much better performance of equity instruments portfolio.

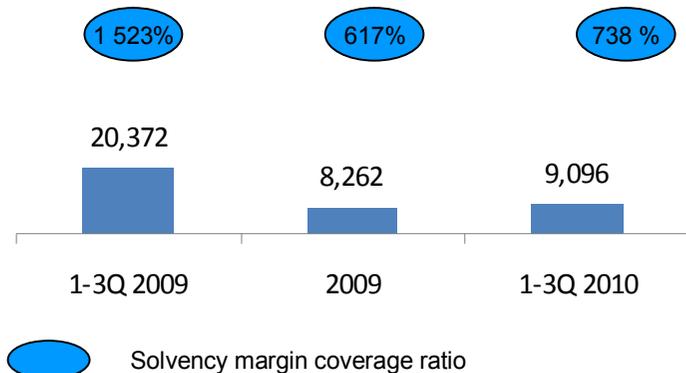
## A Number of Extraordinary Items Contributed to the Results

mIn PLN. MSSF	Q1-3 2009	Q1-3 2010
<b>Operating Profit (according to the financial statements)</b>	<b>3,951</b>	<b>2,378</b>
<i>Of which:</i>		
1 Movement of technical reserves for Type P	+1,162	+396
2 Claims related to flooding and snowfall	-	-394
3 Reduction of investment portfolio	-	-526
4 Fee to the National Health Fund	-113	-

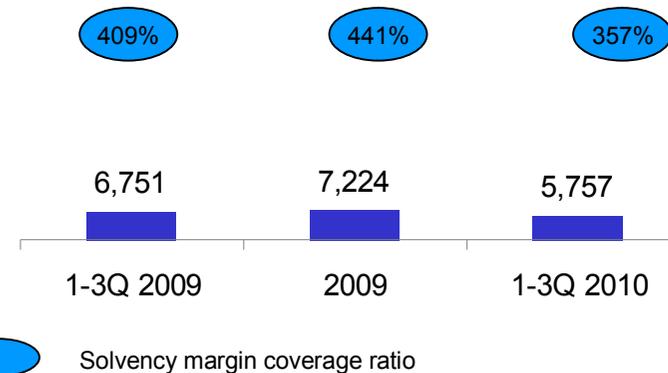
- Gradually subsiding impact exerted by conversion of long-term policies into yearly-renewable term insurance (long-term policy portfolio is shrinking)
- Snow-related claims in Q1 2010 and flood claims in May-June 2010.
- Lower investment base stemming from interim dividend payout in November 2009 (PLN 12.75 b) and final dividend payout for 2009 of PLN 0.9 b on 9 September 2010).
- In 2009 the settlement of the mandatory fee to the National Health Fund charged to motor TPL (referred to as the „Religa tax” was made; this tax was repealed at the end of 2008).

# Strong Capitalization and Ongoing Control of Solvency Are Generating Satisfactory Performance

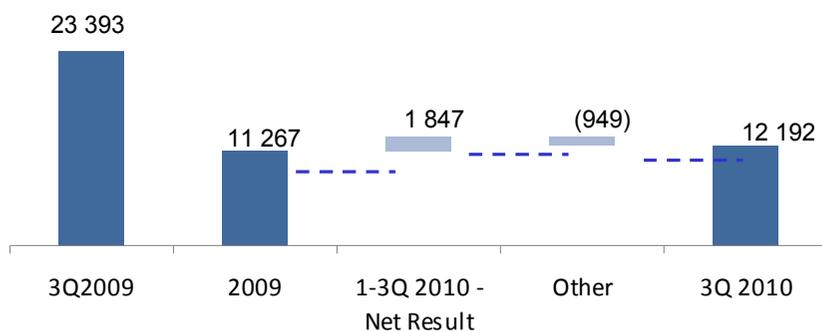
**PZU SA's Equity and Solvency Margin Coverage Ratio (m PLN. PAS)**



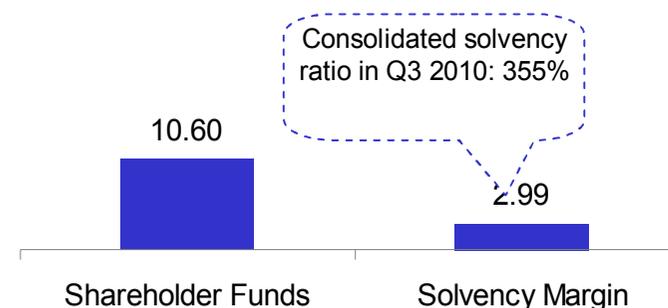
**PZU Życie SA's Equity and Solvency Margin Coverage Ratio (mIn PLN. PAS)**



**PZU Group's Equity (m PLN. PAS)**



**PZU Group's Equity (b PLN. PAS)**



## Questions and Answers

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