



*PZU*

## **PZU 1Q 2010 Results**

**17 May 2010**

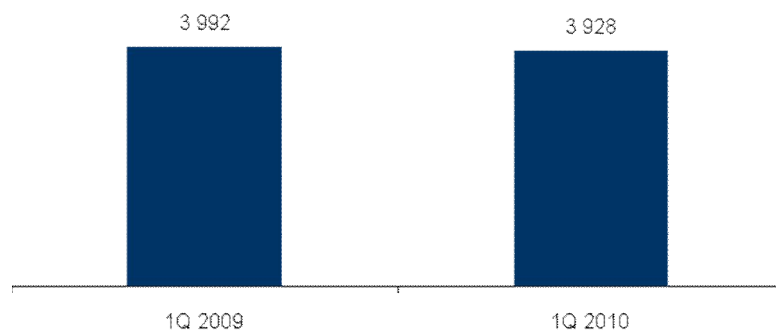
# Summary

- PZU's financial results for the first quarter 2010 were materially impacted by extraordinary effects.
- GWP decreased by 1.6% compared to the first quarter of the previous year, driven mainly by lower sales in the non-life segment, partially offset by growth in life insurance.
- The return on equity remained highly satisfactory and increased by 5.9% points to 28.7% <sup>(1)</sup>, as PZU operated from a leaner equity than in the previous year following dividend distribution.
- At the same time PZU continues to benefit from very comfortable capital adequacy.
- PZU recorded a decrease in net profit by PLN 338 to PLN 807 million – the result was affected by following items:
  - implementation of PZU's strategy focusing on:
    - retaining dominant position and profitability in group life insurance,
    - reorganization of corporate motor portfolio which resulted in lower GWP,
    - restructuring measures aiming at reducing the administrative expenses.
  - lower releases of technical provisions driven by lower conversion of whole life policies into one year policies in the life segment.
  - high investment income on a reduced asset base, following the payment of a PLN 12,750 million interim dividend in November 2009.
  - long and snow heavy winter in 2010, which led to a significant increase in non-life claims, particularly in property, general TPL and agricultural insurance products, and decreased profitability of non-life segment.

# PZU 1Q 2010 financials at a glance

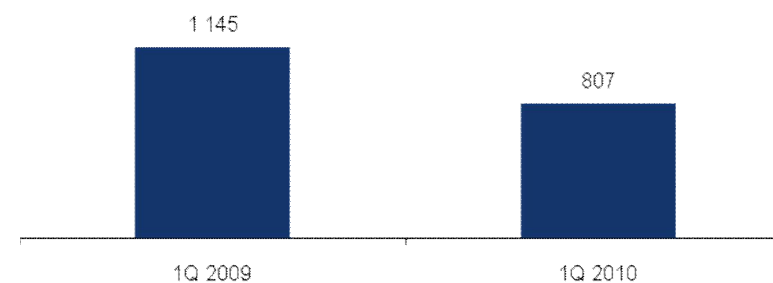
## Gross written premium

PLN m



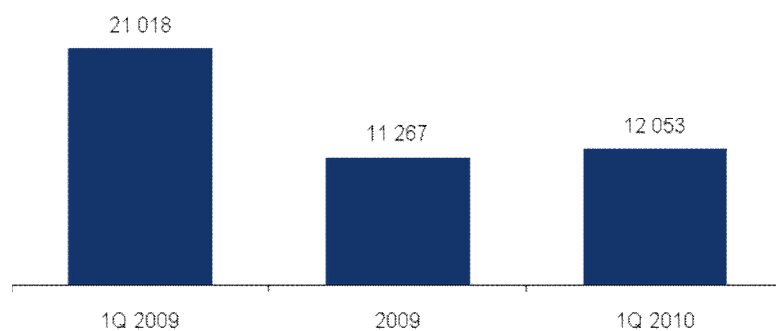
## Net result

PLN m



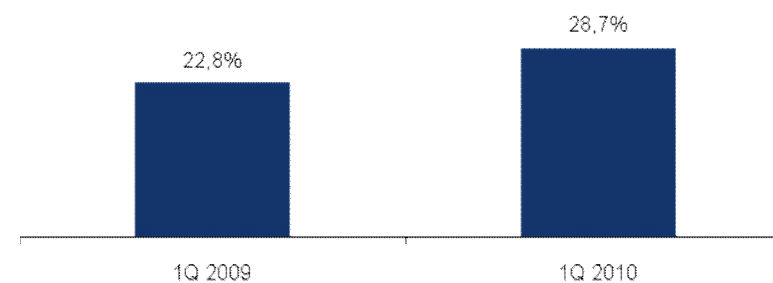
## Shareholder equity

PLN m



## Return on equity

%



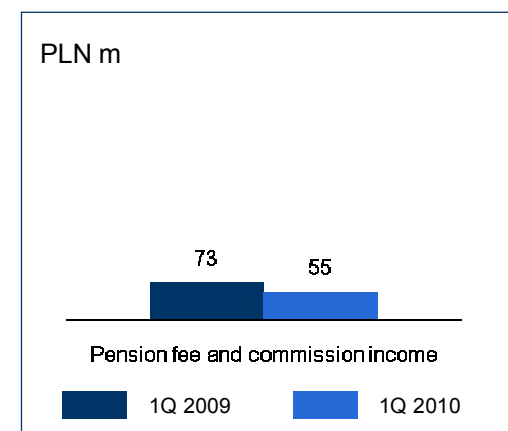
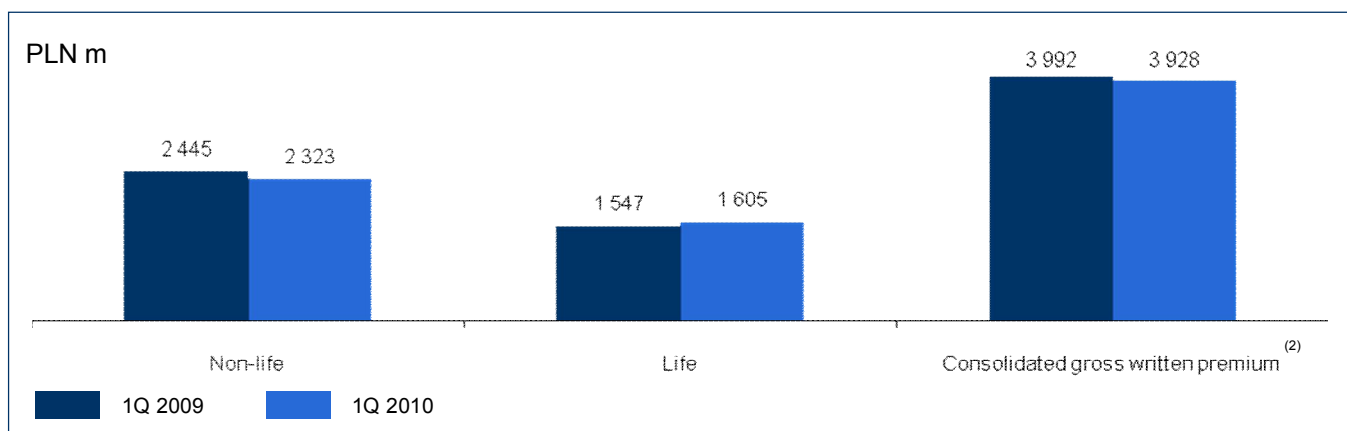
# Key financials overview

PLN m, IFRS	1Q 2009	1Q 2010	Y-o-Y change
<b>Income statement</b>			
GWP	3,992	3,928	(1.6%)
Acquisition and administration expenses	(868)	(824)	(5.1%)
Operating profit	1,433	1,029	(28.2%)
Net profit	1,145	807	(29.5%)
<b>Balance sheet</b>			
Shareholders' equity	21,018	12,053	(42.7%)
Total Assets	58,834	52,508	(10.8%)
<b>Key ratios</b>			
Return on equity <sup>(1)</sup>	22.8%	28.7%	5.9 p.p.
Combined ratio <sup>(2)</sup>	84.0%	102.8%	18.8 p.p.

- Small decrease of GWP caused by lower sale in non-life segment partially compensated by increase in life business.
- A decrease of acquisition & administration costs, mainly due to costs 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 was lower by PLN 9.0 billion than at the end of the first quarter 2009, reflecting a PLN 12.75 billion dividend distribution in 2009.

# Gross written premiums by segment

## Gross written premiums by segment <sup>(1)</sup>

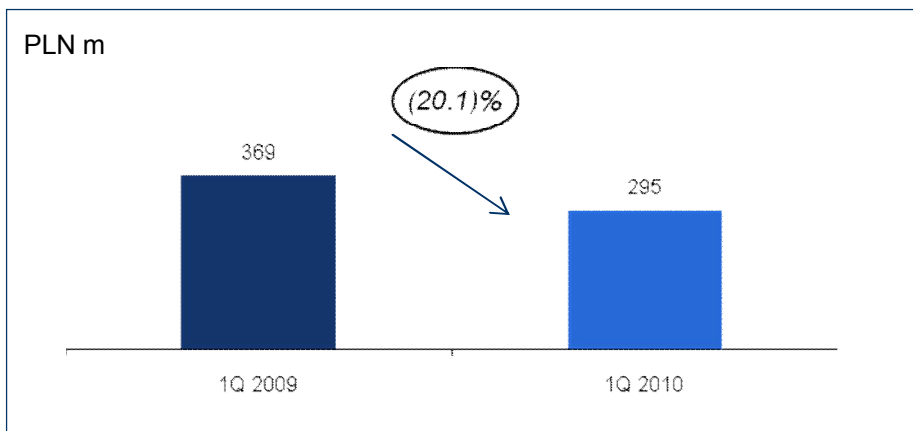


## Comments

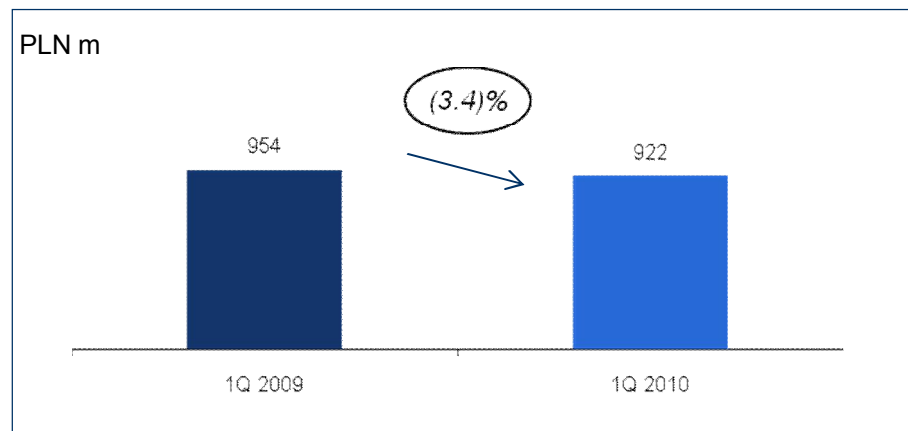
- Gross written premiums in 1Q 2010 declined by 1.6% over 1Q 2009
- The change in non-life GWP in 1Q 2010 is a consequence of decrease in corporate motor sales due to PZU's strategy of restructuring of the portfolio and to decrease in leasing market.
- Life GWP increased as a result of:
  - increase in group business,
  - increase in individual continuation, particularly due to upsell of additional risk,
  - small decrease in individual due to expiration of life policies
- Pension fee and commission income declined due to statutory decrease of the handling fee (percentage charged on contributions from ZUS to OFE) from 7.0% to 3.5% (effective from January 1, 2010).

# Non-Life premium volume affected by restructuring of corporate motor

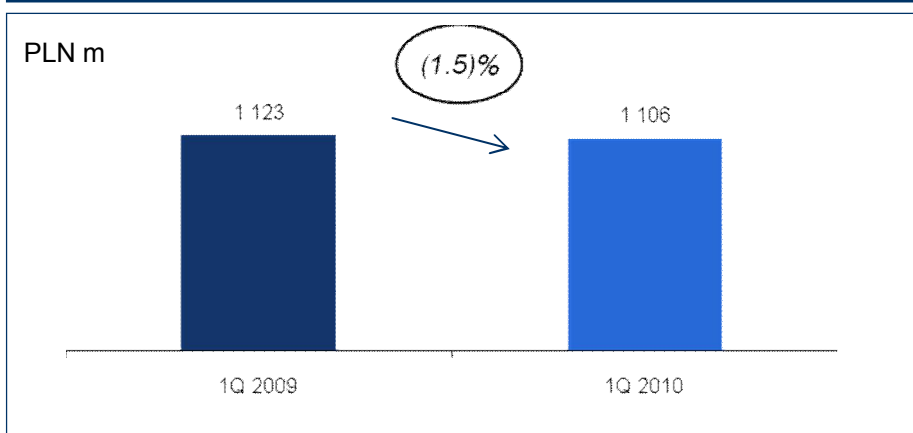
## Gross written premium – corporate clients



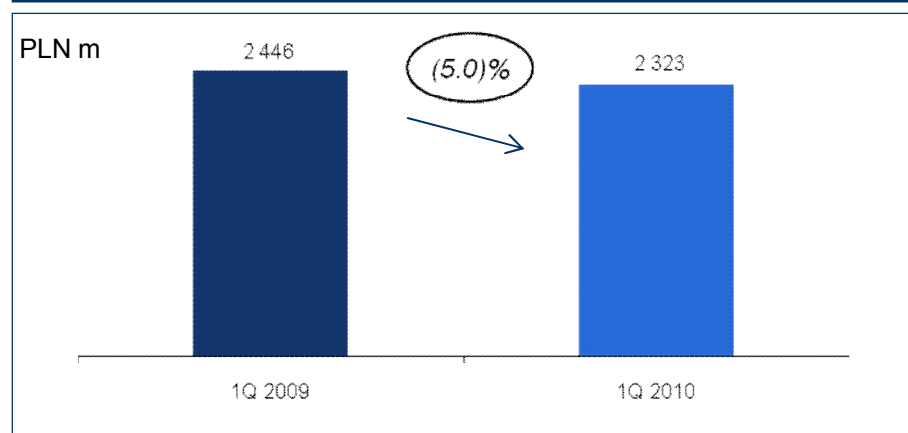
## Gross written premium – mass clients



## Gross written premium – other

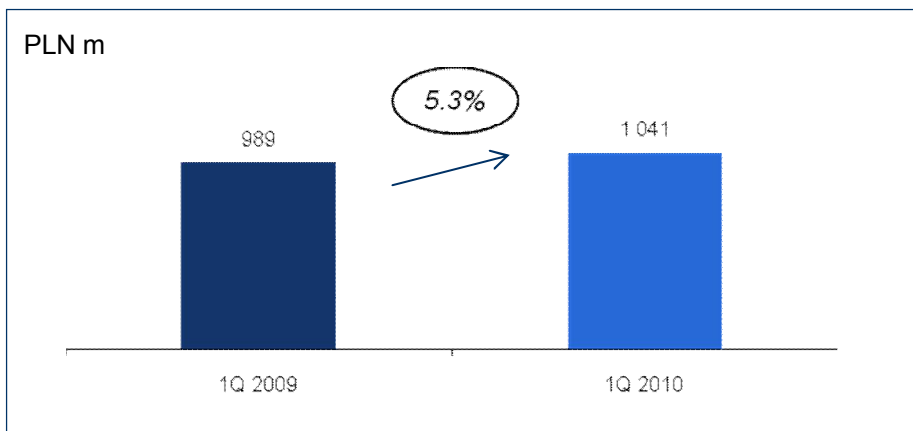


## Gross written premium – total non-life

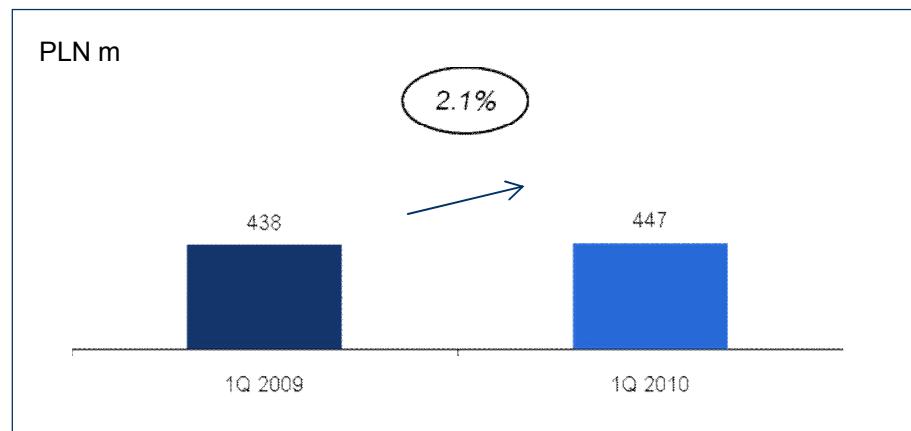


# Life premium volume

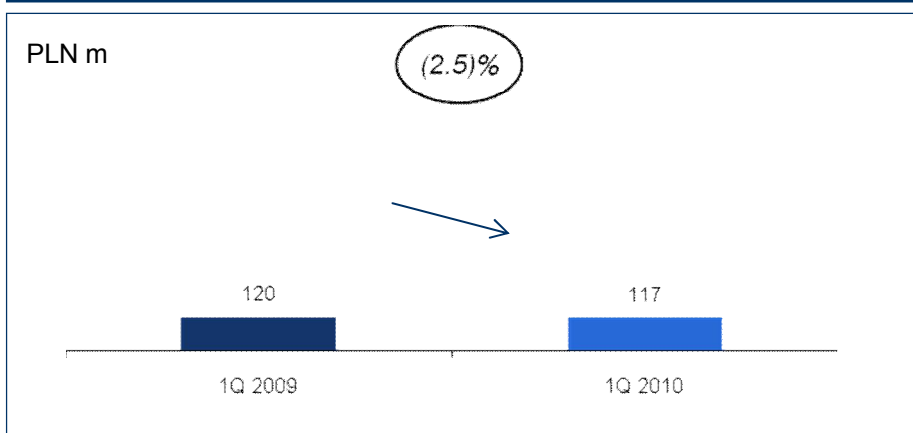
## Gross written premium – group insurance



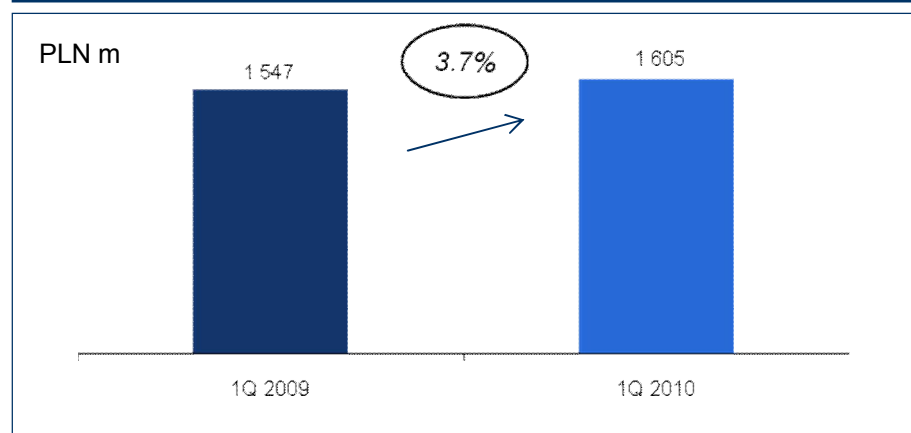
## Gross written premium – individual continued insurance



## Gross written premium – other individual insurance

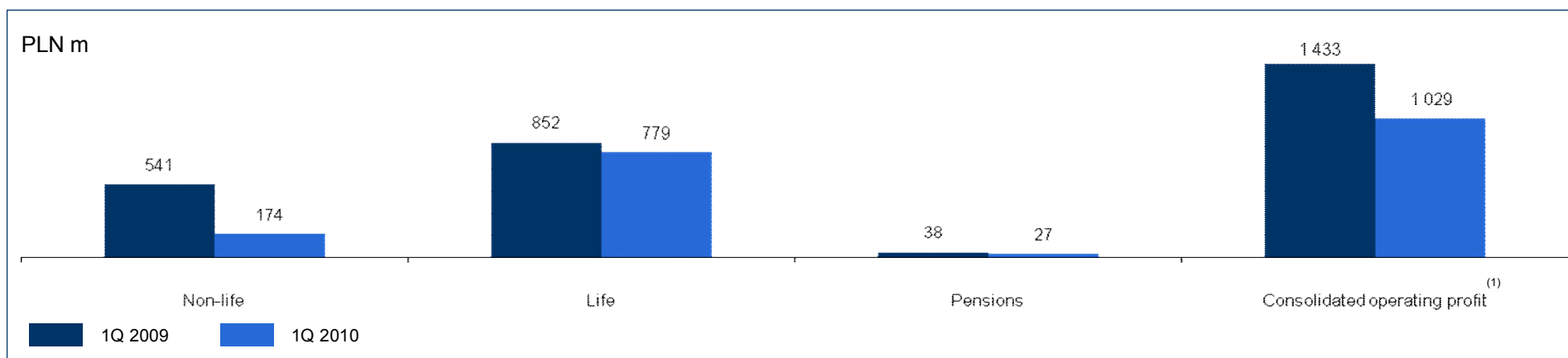


## Gross written premium – total life



# Operating profit by segment

## Operating profit by segment



## Comments

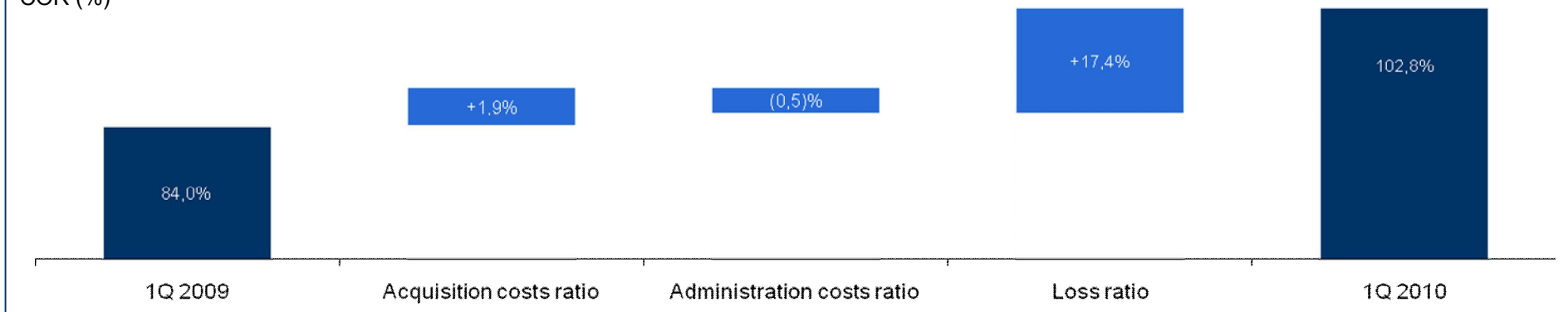
- Consolidated operating profit was PLN 404,1 m (28,2%) lower than previous year.
- In non-life segment increase of claims and benefits net of reinsurance mainly as a result of atmospheric conditions – long winter with heavy snowfalls (PLN 5,2 m of „snow claims” in 1Q 2009 and PLN161,2 m in 1Q 2010). Also decrease of premiums earned due to lower sales and to increase of premium reserves.
- In life segment lower release of technical provisions (lower pace of conversions from long-term contracts to one year renewable contracts).
- Good investment results in all segments.



# Non-life profitability

## Non-life profitability

COR (%)

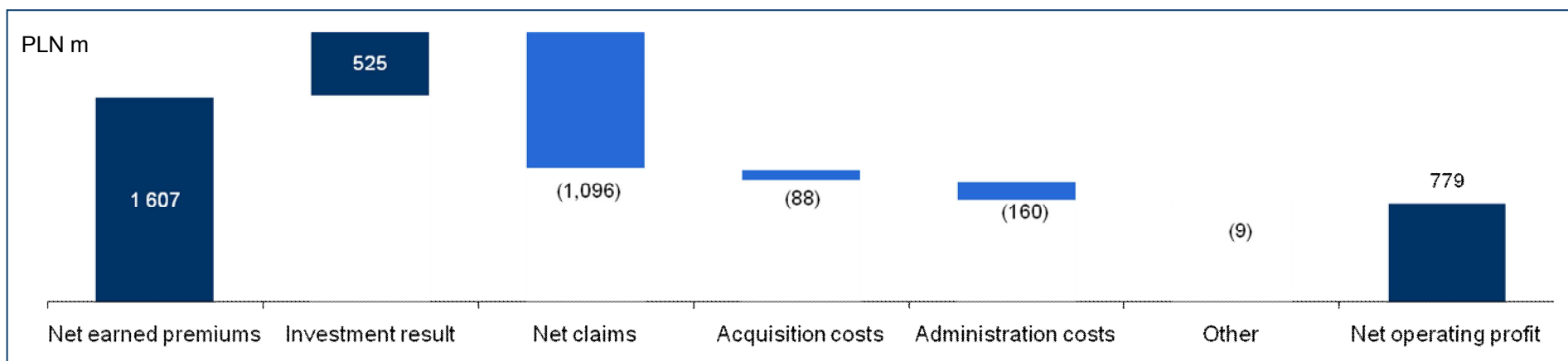


## Comments

- Increase of acquisition cost ratio due to changes in product mix (products with higher commission fees) and to changes in agents' incentive program.
- Decrease of administration costs ratio thanks to restructuring of employment in PZU headquarters in second half of 2009.
- Long winter with heavy snowfalls caused high increase of loss ratio. „Snow claims” impacted mainly agricultural (farm buildings), property and general TPL insurance.
- Additionally a decrease of premiums earned impacted negatively all ratios. This decrease was caused by lower sales and higher costs of premium reserves (creation of additional reserves for unexpired risks).

# Life profitability

## Main components of life segment operating profit

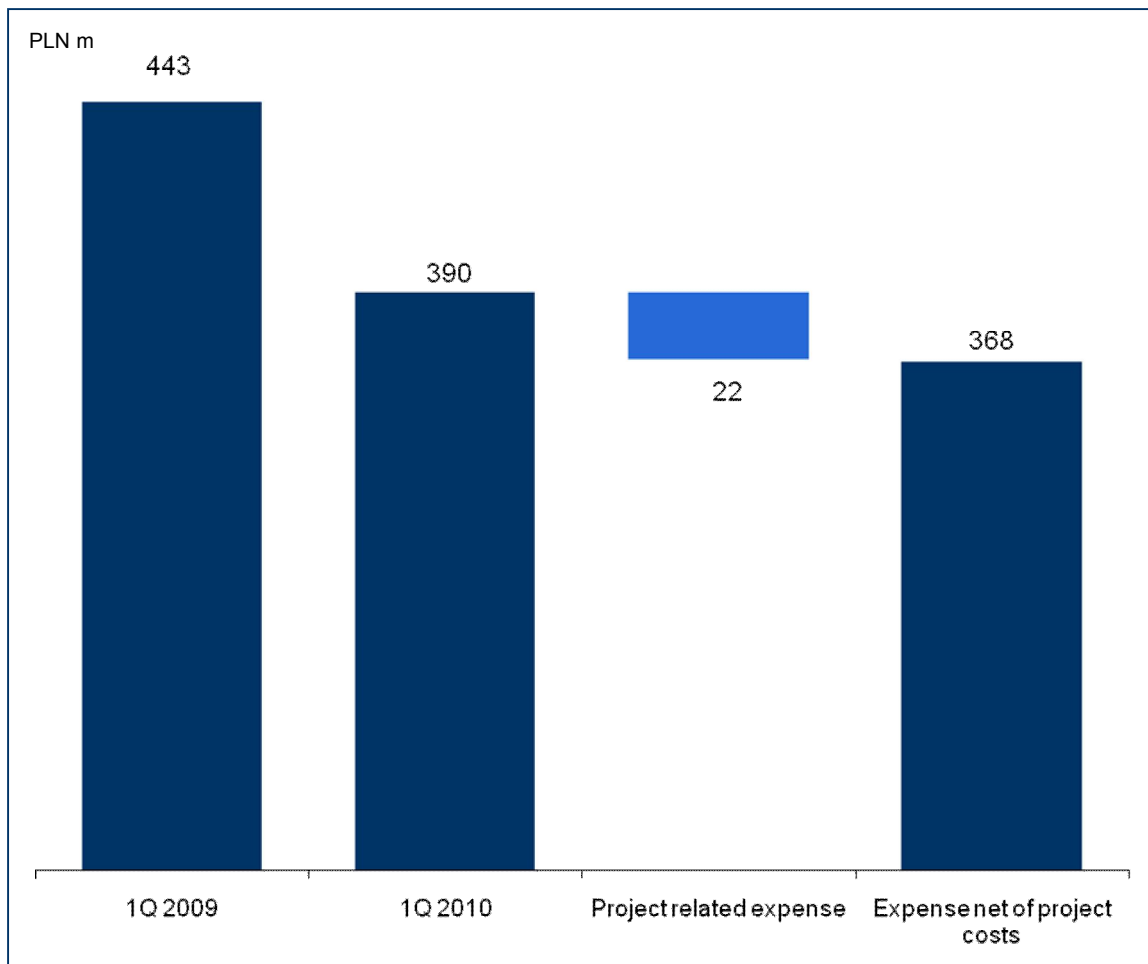


## Comments

- Increase of net earned premiums by 3,8% due to development of group insurance as well as of life insurance with single premium distributed by banks and of individual continuations.
- Increase of net claims of PLN 575,0 m due to:
  - increase of costs of technical provisions by PLN 615,6 m – mainly as a result of lower conversion of whole life policies into one year renewable policies (in 1Q 2010 PLN 223,2 m of provisions was released – in 1Q 2009 it was PLN 686,1 m);
  - decrease of claims by PLN 40,7 m – mainly lower payouts in investment insurances and lower claims in continuations.
- Decrease of acquisition cost was an effect of indirect costs decrease, partially offset by increase of commissions on group insurances sold via brokers.
- Increase of administration costs resulted from PLN 5,0 m increase of Social Fund.

# Costs restructuring status update

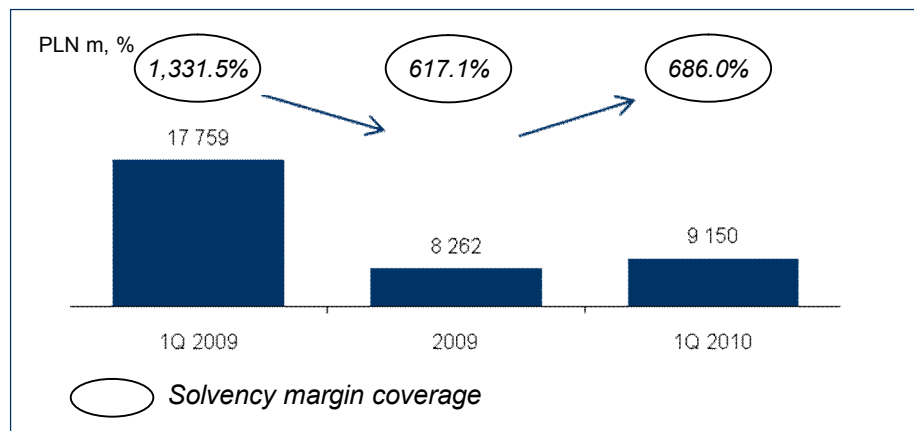
## Administration expenses



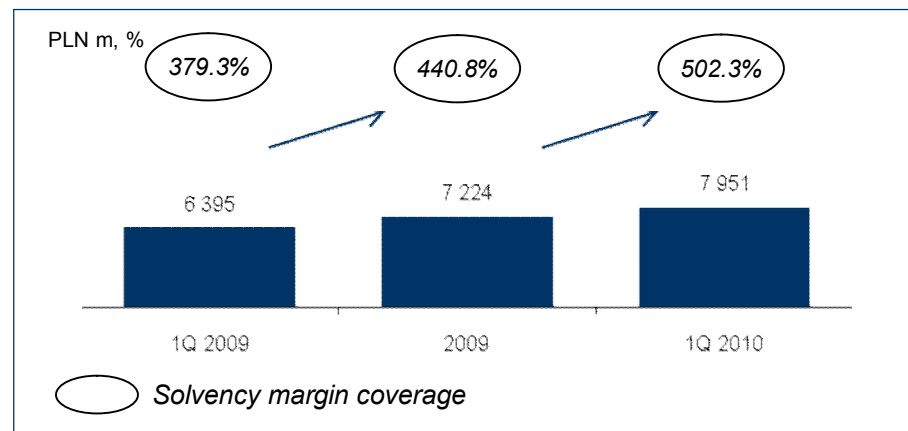
- Decrease of PZU Group administration expenses in 1Q 2010 was result of cost saving initiatives realized in PZU Group entities, incl. i.a. employment restructuring program in PZU SA and PZU Życie SA headquarters carried out in second half of 2009.
- In 1Q 2010 the management has finalized negotiations with trade unions on lay-off program planned for next periods.
- Project and modernization costs increased by PLN 10 m in 1Q 2010 [vs. 1Q 2009].

# Strong capitalization

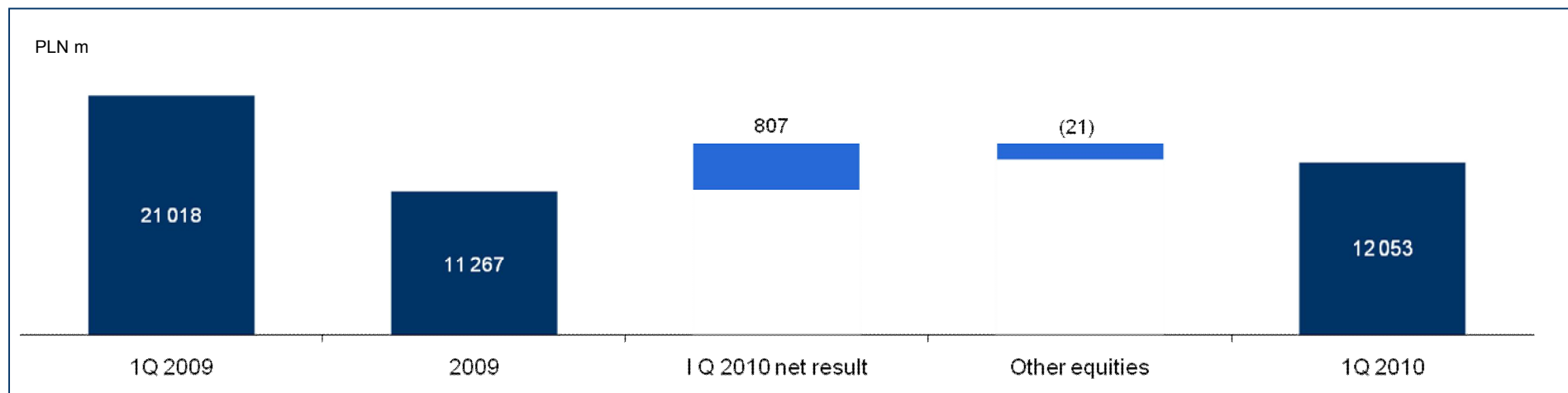
Own funds and solvency margin coverage PZU SA (PAS)



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

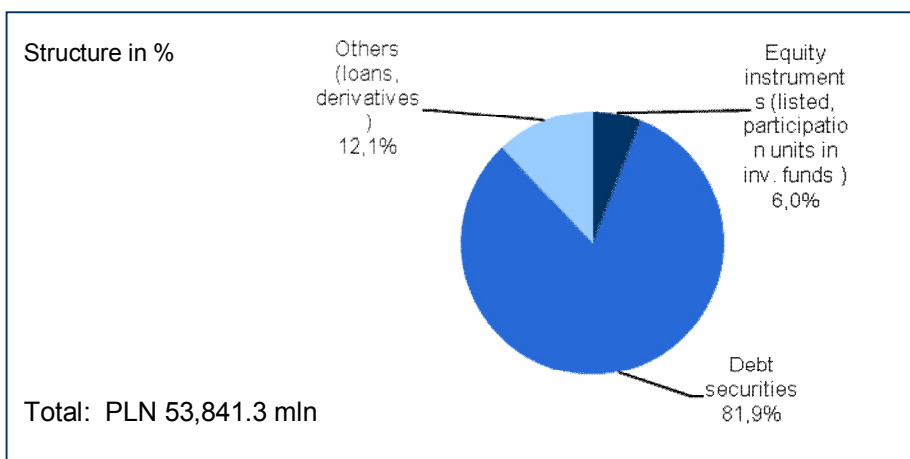


PZU Group equities

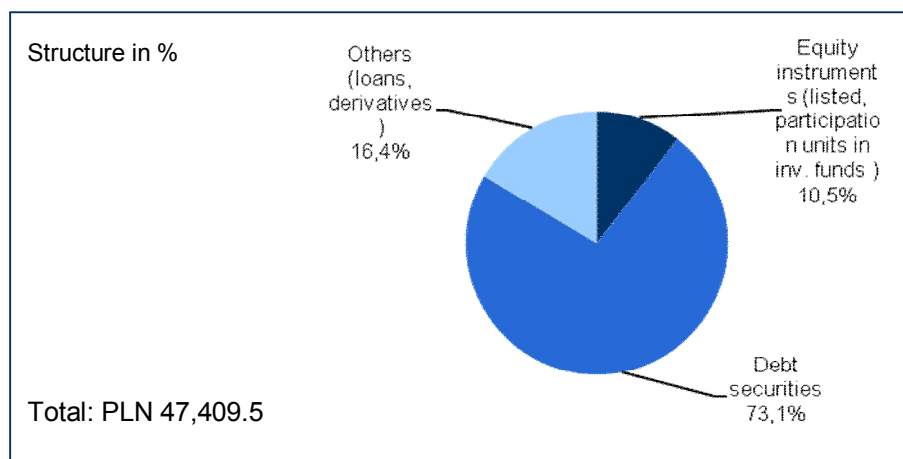


# Asset structure overview

## Q1, 2009 (IFRS)



## Q1, 2010 (IFRS)

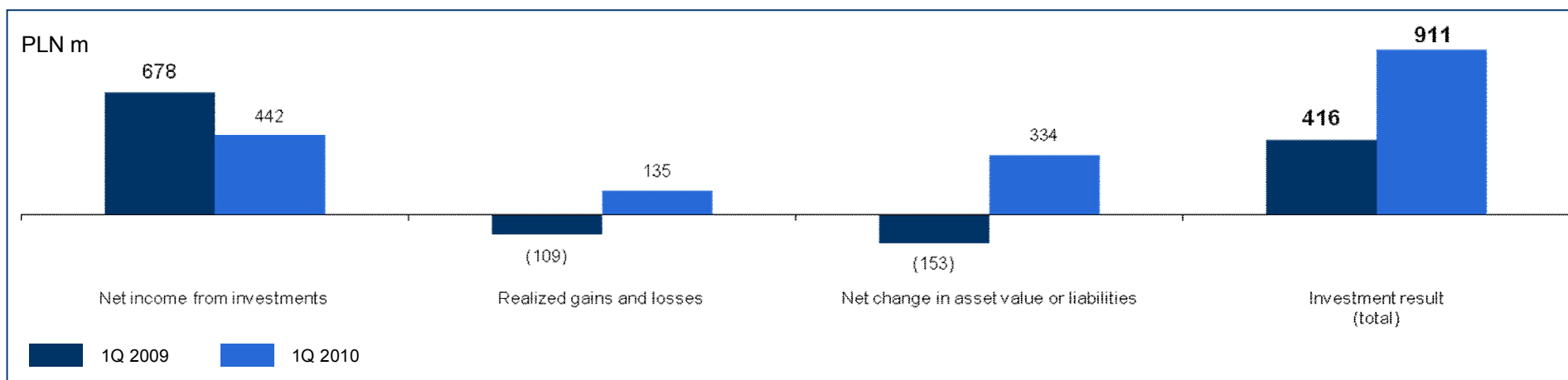


## Comments

- An increase of equity instruments share in 1Q 2010 investment portfolio due to their value increase (mainly listed shares).
- Significant decrease of investment portfolio value because of interim dividend from 2009 net result paid by PZU in November 2009 (PLN 12,750 m).

# Investment income

## Investment income



## Comments

- Decrease of net income from investments results from lower interest incomes which in turn resulted from 1PLN 2,75 billion interim dividend from 2009 net result paid by PZU in November 2009.
- Increase of realized gains as well as increase of net change in asset value was mainly caused by increase in valuation of equities (mainly listed shares).



Appendix 1

*IFRS Financials – PZU Group*

# Consolidated financial results

PLN thousands (unaudited)	For the three months ended March 31	
	2010	2009
<b>Gross written premiums</b>	<b>3,927,789</b>	<b>3,992,173</b>
<b>Net earned premiums</b>	<b>3,444,564</b>	<b>3,614,264</b>
Fee and commissions income	62,632	79,885
Net income from investments	442,309	678,427
Realized gains and losses and impairment losses on investments	135,274	(108,614)
Net change in the value of financial assets or liabilities remeasured to fair value	333,831	(153,094)
<b>Net claims and benefits paid out</b>	<b>(2,459,124)</b>	<b>(1,693,394)</b>
Investment benefits and change in valuation of investment contracts	(62,188)	(55,455)
Acquisition costs	(433,329)	(424,981)
Administration expenses	(390,292)	(442,967)
Net other operating income and expenses	(44,510)	(60,724)
<b>Operating profit (loss)</b>	<b>1,029,167</b>	<b>1,433,347</b>
<b>Gross profit (loss)</b>	<b>982,148</b>	<b>1,433,347</b>
<b>Net profit (loss), of which</b>	<b>807,412</b>	<b>1,144,648</b>
– profit (loss) attributable to the equity holders of the parent company	807,415	1,144,648
– minority gains (losses)	(3)	(2)

Source: the Company.



# Financial results by business segments

Income statement by business segments	Non - Life		Life		Pension funds		Unallocated (consolidation eliminations and other)		Consolidated	
	For the three months ended March 31									
PLN thousands (unaudited)	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
<b>Gross written premiums</b>	<b>2,322,886</b>	<b>2,445,556</b>	<b>1,605,469</b>	<b>1,547,335</b>	-	-	(566)	(718)	<b>3,927,789</b>	<b>3,992,173</b>
<b>Net premiums earned (net of reinsurer's share)</b>	<b>1,838,361</b>	<b>2,066,814</b>	<b>1,606,764</b>	<b>1,547,891</b>	-	-	(561)	(441)	<b>3,444,564</b>	<b>3,614,264</b>
Fee and commission income	-	-	-	-	54,942	73,115	7,690	6,770	62,632	79,885
Net result on investments	191,165	385,712	222,775	216,888	5,060	4,783	23,309	71,044	442,309	678,427
Net result on realization of investments and impairment write-downs	39,458	(80,422)	63,105	(28,481)	-	-	32,711	289	135,274	(108,614)
Net change in the value of assets or liabilities remeasured to fair value	43,073	(31,329)	239,213	(115,053)	-	-	51,545	(6,712)	333,831	(153,094)
<b>Net claims and benefits paid out</b>	<b>(1,363,156)</b>	<b>(1,172,359)</b>	<b>(1,095,946)</b>	<b>(520,922)</b>	-	-	(22)	(113)	<b>(2,459,124)</b>	<b>(1,693,394)</b>
Investment benefits and change in valuation of investment contracts	-	-	-	-	-	-	(62,188)	(55,455)	(62,188)	(55,455)
Acquisition costs	(317,063)	(317,624)	(87,672)	(90,807)	(12,234)	(13,030)	(16,360)	(3,520)	(433,329)	(424,981)
Administration costs	(210,321)	(246,495)	(160,155)	(156,629)	(20,963)	(26,765)	1,147	(13,078)	(390,292)	(442,967)
Other operating income and expenses	(47,711)	(63,053)	(9,197)	(465)	364	87	12,034	2,707	(44,510)	(60,724)
<b>Net operating profit (loss)</b>	<b>173,806</b>	<b>541,244</b>	<b>778,887</b>	<b>852,422</b>	<b>27,169</b>	<b>38,190</b>	<b>49,305</b>	<b>1,491</b>	<b>1,029,167</b>	<b>1,433,347</b>

Source: the Company.

# Consolidated balance sheet

PLN thousands (unaudited)	As at March 31	
	2010	2009
Equity	12,053,249	21,018,295
– net profit (loss) attributable to the equity holders of the parent company	807,415	1,144,648
Financial assets	47,409,523	53,841,290
Other assets	5,098,278	4,993,028
Total assets	52,507,801	58,834,318
Technical provisions	30,851,259	30,402,605
Other liabilities	9,603,293	7,413,418
Total equity and liabilities	52,507,801	58,834,318

Source: the Company.



Appendix 2  
*PAS Financials – PZU SA*

# Income statement of PZU SA (PAS)

PLN thousands (unaudited)	For the three months ended March 31	
	2010	2009
<b>Gross premium written</b>	2,268,168	2,380,216
Net premium earned	1,786,366	2,003,787
<b>Claims and benefits</b>	1,329,753	1,131,984
<b>Insurance activity costs</b>	504,544	482,178
Acquisition costs *	306,941	256,171
Administration costs	197,603	226,007
Other technical items-result	-11,391	-73,201
<b>Technical result</b>	<b>-59,322</b>	<b>316,424</b>
<b>Investment income</b>	<b>303,019</b>	<b>310,430</b>
<b>Net financial result</b>	<b>100,416</b>	<b>452,696</b>

\* acquisition costs diminished by reinsurance commissions and reinsurer's profit participation  
Source: the Company.

## Balance sheet of PZU SA (PAS)

PLN thousands (unaudited)	As at March 31	
	2010	2009
Equity	10,895,053	19,779,361
Investments	27,193,562	31,058,243
Receivables	1,442,032	1,239,908
Other assets	935,690	1,002,567
Total assets	29,571,284	33,300,718
Technical provisions	12,352,822	11,946,410
Other liabilities	6,323,409	1,574,947
Total equity and liabilities	29,571,284	33,300,718

Source: the Company.