





PZU 3.0

Insurance, Investments, Health PZU Group Strategy for 2015-2020

Warsaw, January 28th 2015



Market trends



Historically low interest rate environment



Aging society



Regulatory changes (Solvency II, Recommendation U)



Price war in motor insurance



Expected increase in the loss ratio



Growing role of intermediaries

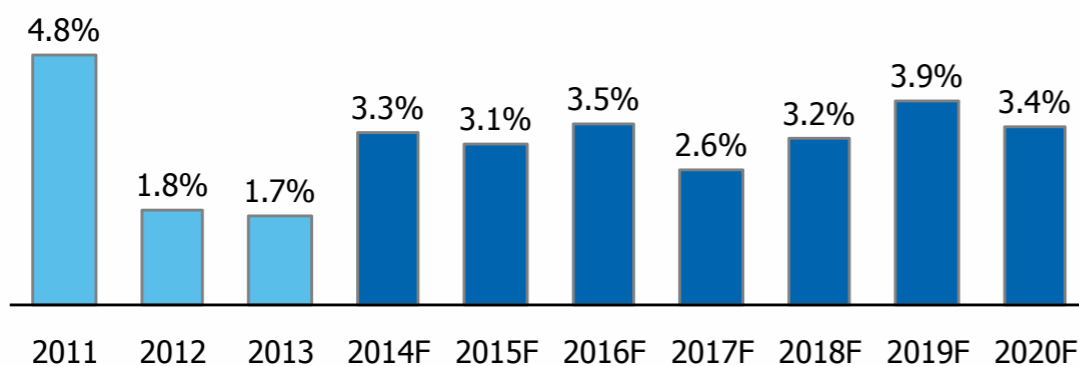


Amendment of the single premium life insurance market

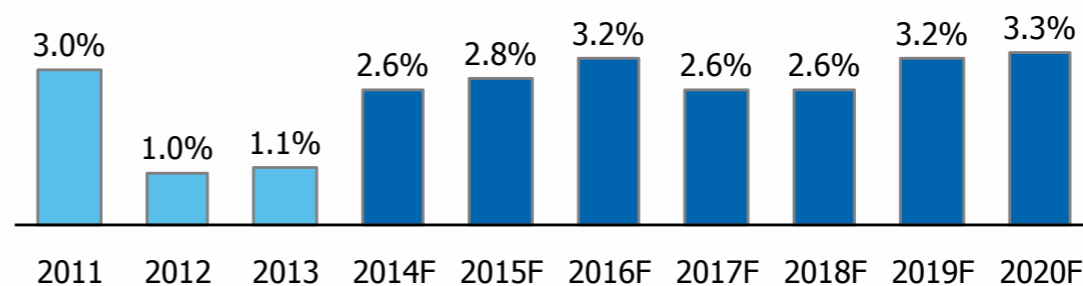
Macroeconomic Assumptions



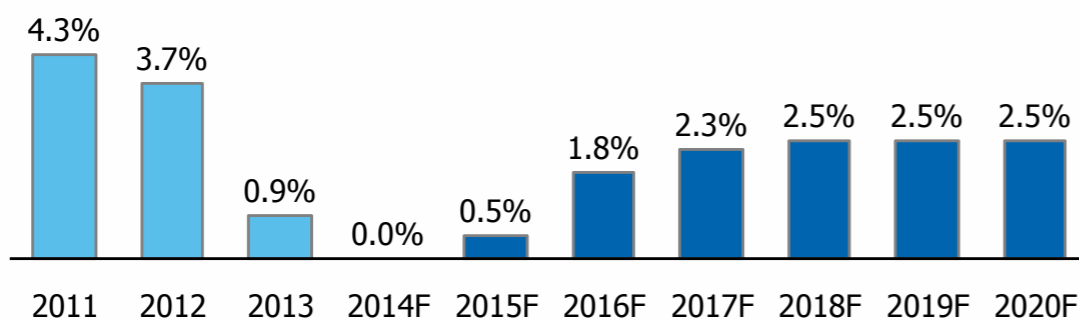
GDP growth rate (% , per annum)



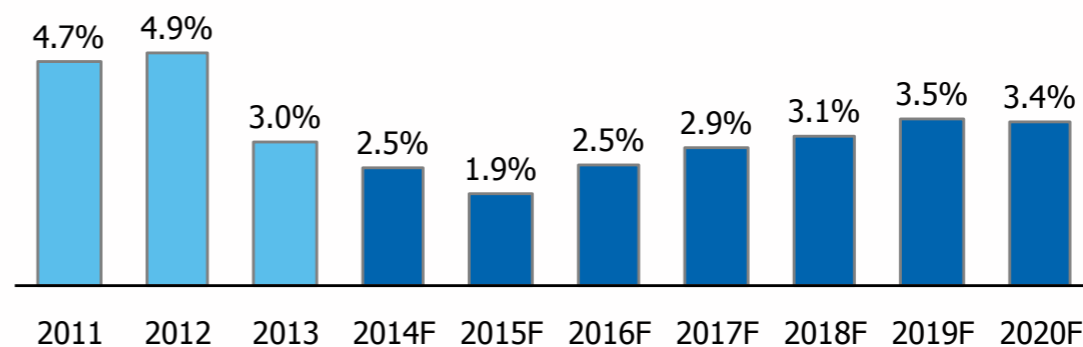
Individual consumption (% , change in real terms)



CPI (% , annual average)



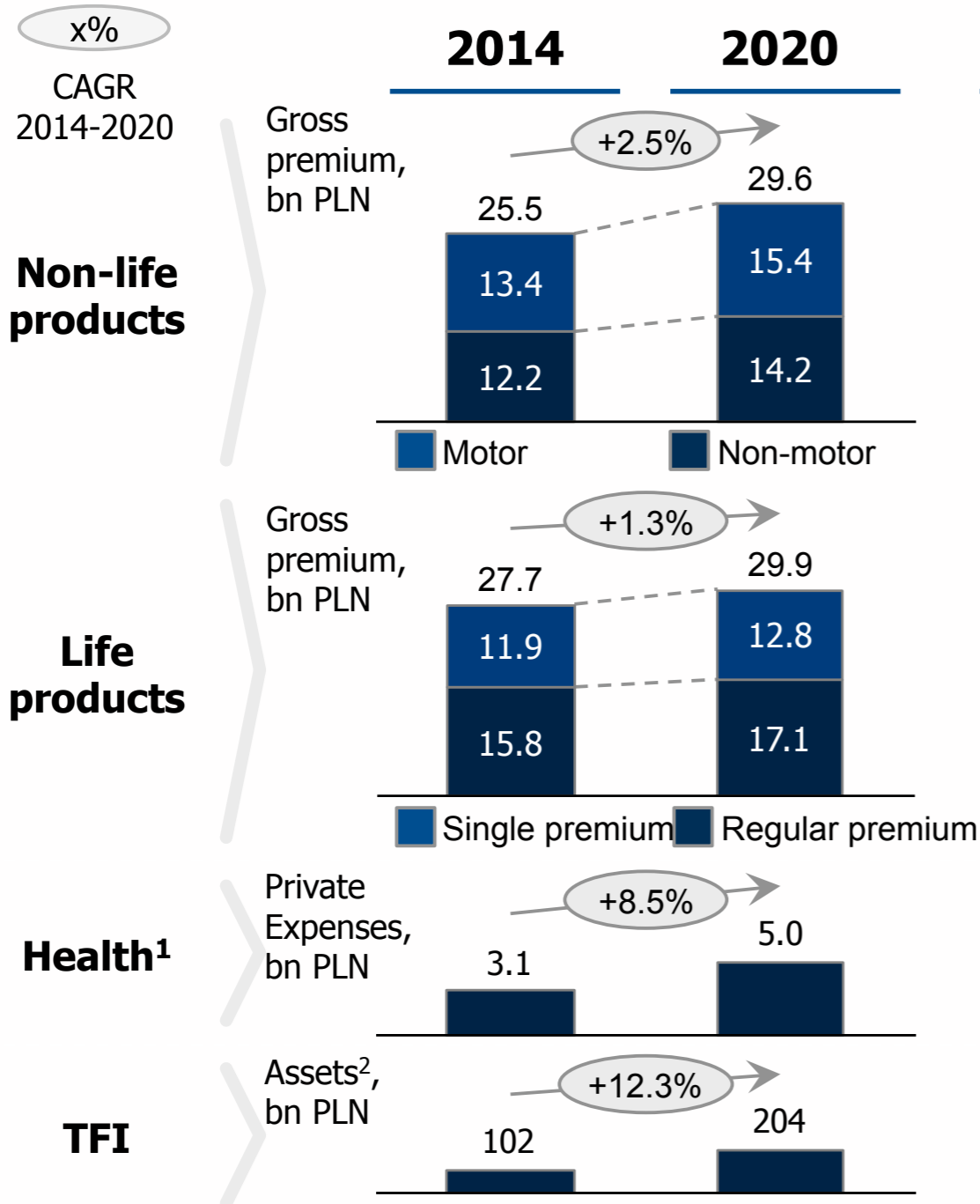
6M WIBOR (% , annual average)



Actual data

Forecast

Stable Insurance Market Growth, High Potential of the Health and Asset ManagementMarket



Key observations

Low growth in motor insurance (2.3%)

- Price war until 2016 (possible with low loss ratio)
- Low growth in the number of cars of roughly 2.0% to 2020

Stable growth in non-motor insurance (2.7%)

- Growth in companies' assets and investments in fixed assets
- Greater affluence and penetration with additional insurance

Low rate of growth in regular insurance (1.3%)

- Stable growth of group insurance (roughly 2.7%)
- Regulations in bancassurance (Recommendation U, IMD II)

Low growth in single premium insurance (1.2%)

- Change in composition: more unit-linked as premiums migrate from structured products and endowments (term deposits in the form of insurance policies)

Extensive potential for medical insurance and subscriptions

- Demand for medical services will rise 2x faster than the National Health Fund's budget
- Access to National Health Fund's benefits is already impeded today (mostly cities)

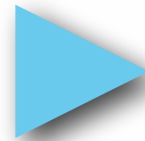
Rapid TFI (mutual funds) expansion (roughly 12%)

- Low interest rates and the society's growing affluence will foster expansion of the asset management market in Poland

1. Includes subscriptions and life insurance
2. Household savings invested on the TFI market

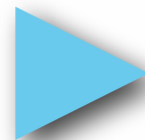
We Have Laid a Robust Foundation for Further Growth

Modern IT tools



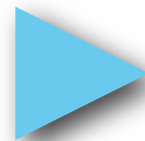
Greater operating efficiency

Branch network
revitalization



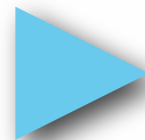
Highest level of Customer service

Cost optimization



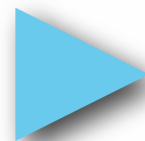
Achieved benchmark cost effectiveness

Brand refreshment



Perception of PZU at the same level as other leading financial institutions

Acquisition of entities from
the RSA Group



Geographic diversification, implementation of dual brand strategy

Effectively executing the PZU 2.0 Strategy made it possible to lay a robust foundation for PZU Group's further growth



PZU 3.0

We Are PZU!



**We Provide Peace of Mind
and a Sense of Safety**



We exist to provide our Customers peace of mind and a sense of safety. Customers can always rely on us



Our excellent knowledge of our Customers enables us to meet their needs and reasonable expectations while our large scale and high efficiency enable us to deliver them with the best quality of service at an attractive price



PZU is a workplace that inspires people to do their best while maintaining a good work-life balance



Due to its' unique market position PZU is a „best practice guardian” - we take actions that are favorable to the overall market and Customers; we actively contribute to market development and we set the quality of service standards



Thanks to our position as market leader in Central and Eastern Europe we consistently deliver above average earnings to our shareholders

Three Basic Rules Describe how We Behave

We are Fair

We are Effective

We are Innovative



We Will Transform PZU from an Insurer into a Group Based on Three Strong Pillars



Insurance



2020

Market share:
Non-life market⁽¹⁾ > **35%**
Life market⁽²⁾ > **43%**

Asset Management (PZU Investments)



2020

TFI market share⁽³⁾ > **11.5%**

Medical Care (PZU Health)



2020

Revenues > **650 m PLN**

ROE 20%

The PZU Group will become the market leader in asset management and private health care by 2020

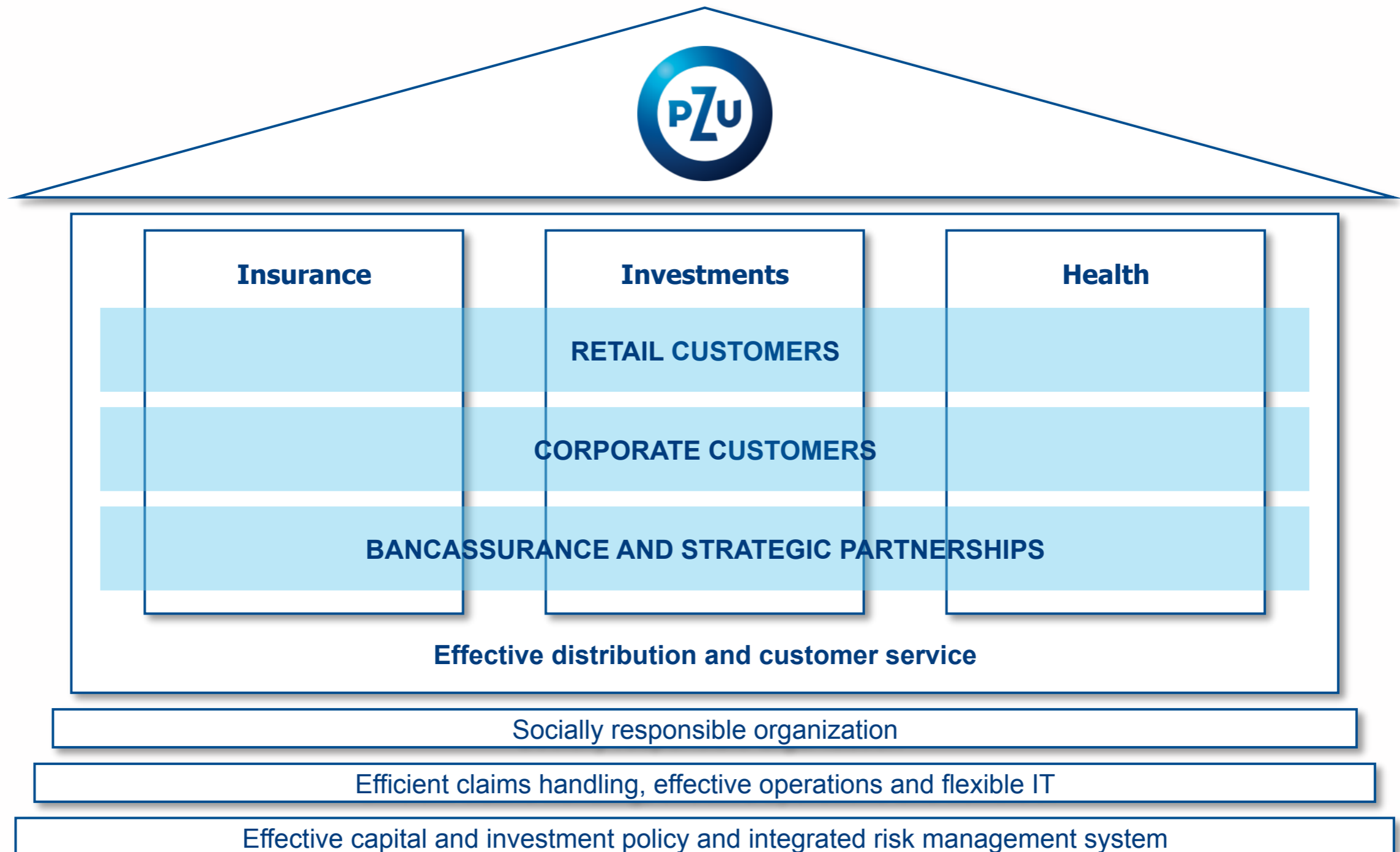
- (1) PZU SA and Link4 jointly
- (2) Share of regular premium
- (3) Share of PZU's third party Customers assets in the TFI market's assets net of non-public assets

PZU Group's Expansion Based on Customer Segmentation



- Customize the product offering to the needs of the segments
- Identify the areas with potential to grow PZU Group's revenues by looking at the Group's position in the segments
- Effectively use the current Customer base
- Enhance Customer satisfaction and loyalty - higher cross-sell, referrals
- Integrated multi-channel sales and Customer service model - response to the needs of various segments

PZU Group's Growth Pillars



Three Segments in the Retail Customer Business



Mass Customers



Premium Customers



SMEs

Criterion

Monthly net income
below
4 000 PLN

Monthly net income
above
4 000 PLN

Annual turnover
below
20 m PLN

Subsegments examples

Pensioners
Farmers
Youngsters

VIP
Affluent
Aspiring

Micro Companies
Public Administration

Individual Customers

Segments in Corporate Customer Business (Non-life insurance)



Mid Corporate



Key Customers



Strategic Customers

Criterion

Annual Turnover
20 - 100 m PLN

Annual Turnover above
100 m PLN

Top 150 Companies
in Poland with the greatest
insurance potential

Subsegments examples

Public administration and local government units
Energy production
Heavy engineering
Transportation
Health Care

Segments in Corporate Customer Business (Life Insurance)



Mid Corporate



Key Customers



Strategic Customers

Criterion

Employment
30 - 250 FTE

Employment
251 - 1000 FTE

Employment
above 1000 FTE

Subsegments examples

Small Mid Corporate
Large Mid Corporate
Industry programs

A Standard-Setting Leader of the Insurance Market



- Clear products to Customers; no exclusions
- The market leader in claims handling
- Product and process innovations with new technologies usage

New Broader Customer Value Proposition

With the most extensive product offering on the market and extensive product development experience, the PZU Group is capable of adapting its offer to Customer requirements not only in terms of product-related needs but also its overall experience in all PZU Group's contact channels and points of interaction

Major assumptions:

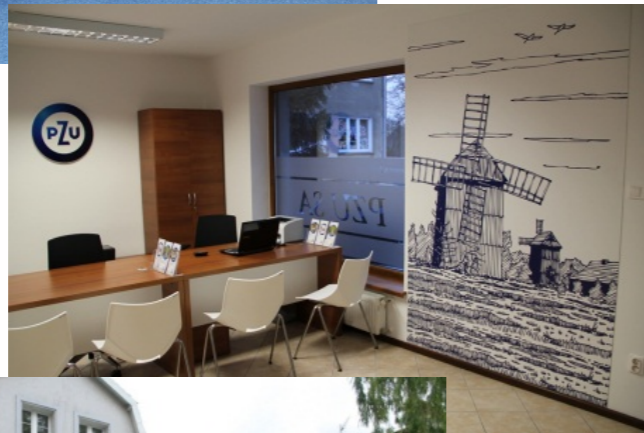
- Manage PZU Group's overall offer in Customer segments (non-life and life insurance, investments, health)
- Products that are transparent and clear to Customers, no small print („You can rely on us“)
- Increase the flexibility and speed of providing a competitive response to motor insurance pricing
- Revitalize the product offering for individual Customers in life insurance
- Compete on the quality of service and raise the importance of the quality of service criterion in Customer decision-making (e.g. „Motor TPL Revolution“)
- Implement systemic solutions to manage the customer experience in the PZU Group
- Create an ecosystem building loyalty and enhancing Customer involvement, continue the philosophy of assistance, not just the disbursement of benefits / indemnification
- Product and process innovations employing new technologies (including digital) and the Everest System



Comprehensive Multi-channel Distribution and Customer Service



The PZU Group has the most comprehensive and wide distribution and customer service network on the market enabling Customers to choose the most convenient form of contact and service for themselves. Regardless of the form of contact and the reason for it Customers may always count on the highest level of service and skills of PZU Group's employees and partners



Major assumptions:

- Product and service universalization in tied channels and intensification of cooperation between channels with a narrower specialized offer
- Launch of a cohesive multi-channel model for distribution and customer service based on clear rules to split the channels' functions to focus on the most effective measures from the viewpoint of the channel and the Customer
- Cohesive visual identification and high standards of quality of service at every point of interaction between Customers and the PZU Group
- Launch of operational CRM facilitating the usage of PZU Group's 360° Customer view to customize products and augment quality of service
- Enabling Customers to make direct purchases and access service via direct/self-service channels (PZU Customer's single account)

The PZU Group Will Actively Compete on the Marketplace by Leveraging Two Brands



The PZU Group will employ two brands whose positioning and offer vary to address the needs of broadest portion of the Retail Customer market. The strength of the direct brand will make it possible to reach new Customers in this channel while raising the PZU Group's Customer retention (possibility of offering an product)

LINK4

Major assumptions:

- Complementary dual brand strategy targeting Customers with different profiles and needs
- Inter-entity coordination of actions in marketing and product strategy (value proposition)
- Distribution cooperation in PZU and Link4 to achieve synergies, including the utilization of Link4's offer in PZU's distribution channels
- Reciprocal usage of market and organizational know-how by PZU and Link4
- Maintenance of Link4's organizational independence and flexibility

PZU Group's Directions for Growth in the Retail Customer Business



Segment

Aspirations and main areas of growth



Mass Clients

Maintain a target group Customer database and extend cross-selling in the Mass Customer segment:

- upsell non-life products (mostly TPL, Home insurance) to individual continuation and group insurance Customers
- enhance PZU's retention by rolling out direct/self-service
- expand acquisition and retention in the PZU Group by pursuing a dual brand strategy



Premium Clients

Grow the share-of-wallet in the Premium Customer segment:

- upsell individual life protection products
- expand the portfolio of non-life products
- devise an offer and model to sell individual health products
- devise a model to sell investment products (chiefly TFI)



SMEs

Sustain a high market share in the SME segment despite growing competition by enhancing relations with SME Customers:

- comprehensive life and non-life offer for SME Customers (non-life, life and health)
- Increase the insured sums for non-life products as SME companies grow and their insurance awareness becomes more pronounced, in particular for larger SMEs

Comprehensive Offer Tailored to Meet Corporate Customers' Resonable Needs (Non-life Insurance)



The PZU Group will become a business partner with a strong expert position providing not only insurance products but also advising Customers at every stage of risk management, including in particular the stage of defining insurance needs. Regardless of a Customer's size the PZU Group will employ an individual approach to its Customers



Mid Corporate



Key Customers
and Strategic Customers

Major assumptions:

- Implement product and process-related innovations based on new technologies, including the utilization of the potential offered by the Everest platform
- Regardless of segment, protect market share in motor insurance while sustaining positive technical profitability (limited market share contraction is permissible)
- Implement systemic solutions enhancing sales efficiency and the level of the quality of service offered to Customers and brokers (market share expansion in non-motor insurance from roughly 13% to roughly 20% in the Mid Corporate segment)
- Launch advisory services related to risk management for Key Customers and Strategic Customers to grow market share in non-motor insurance and trade credit insurance

Comprehensive Offer Tailored to Meet Corporate Customers' Reasonable Needs (Life Insurance)



Considering PZU's position in the Corporate Customer area in PZU Życie the goal is to sustain its market share while concurrently controlling the decline in profitability



Mid Corporate



Key Customers
and Strategic Customers

Major assumptions:

- Retain its market leader position by implementing product innovations
- Develop service processes based on new technologies and gradually roll out self-service in group insurance and individual continuation
- Enhance the quality of the Customer database in group insurance and individual continuation to cross-sell retail products and monitor and manage flows of Customers between groups in group insurance and individual continuation

PZU Group's Directions for Growth in Bancassurance and Strategic Partnerships



Partner

Aspirations and main areas of growth



Banks

- Retain market share in non-life product
- Tap into the long-term opportunities ensuing from Recommendation U and build a position in life insurance (temporary declines in gross written premium may be expected)
- Endeavor to create a Joint Venture with a bank partner



Other partners

- Maintain its leadership position in rolling out innovative insurance and assistance products distributed by valuable Strategic Partners
- Acquire new Partners to extend the area of cooperation and products, particularly from the power, fuel and telecommunication industries

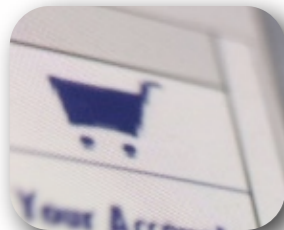
Comprehensive Roll-out of the Digital Operating Model by 2020



Flexible customization of the offer to meet Customer needs: rapid changes to tariffs and new product launches



360° Customer view: all relations, including history of changes and contacts



Multi-channel sales and Customer service with full Customer accessibility to electronic channels



Comprehensive digitization of Customer processes (paperless customer service)



Process management with strong support from workflow systems

The Role of the PZU Group's International Operations Will Grow



The PZU Group will increase the scale of foreign operations both through organic growth on the markets where the Group has a footprint and through acquisitions on markets with a good outlook



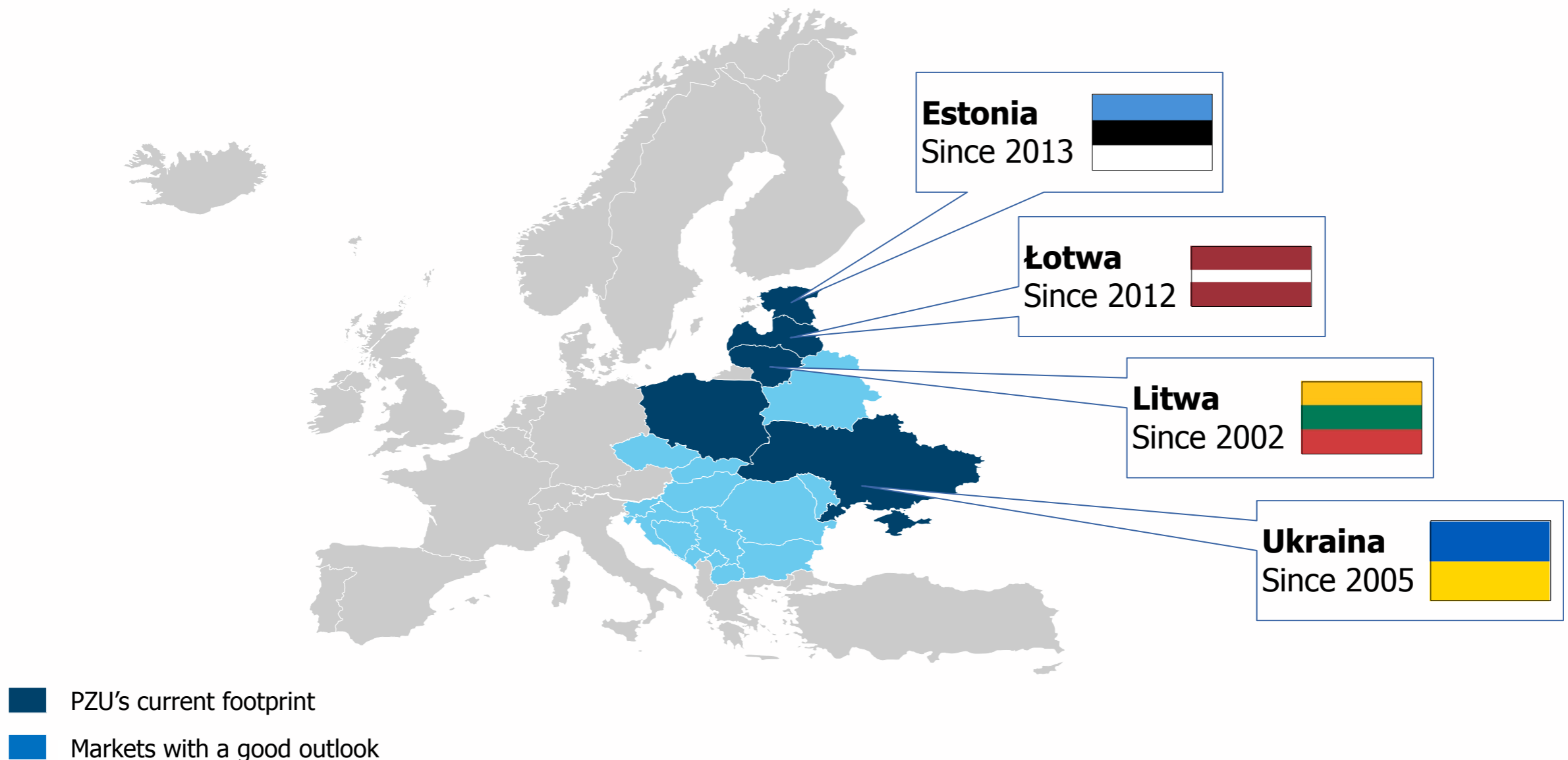
- Strategic objective in countries in which the PZU Group has a footprint: be one of the top three measured by gross written premium
- Active monitoring of the CEE market⁽¹⁾ to identify prospective acquisition targets that are attractive in terms of profitability or restructuring opportunities
- Acquisitions of large companies with a significant market share as well as small players offering growth potential and a foothold for further expansion to be considered
- Expansion through greenfield investments is also permissible (for instance using Link4)

(1) CEE means Poland, Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Belarus, Ukraine, Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Macedonia, Albania, Moldavia, Bulgaria and Romania

Central and Eastern Europe Is the PZU Group's Primary Area of Interest



PZU Group's international operations and area of interest for future expansion



PZU Investments Will Be a Leading Asset Manager in the CEE Region



Leader in managing Customer assets in the Central and Eastern European (CEE) region by 2020:



Inwestycje

- Provider of unique products with **above average investment performance** (better than the median for competitors' performance)
- Image as an entity with **investment skills**
- **Rapid growth** of Customer assets
- **Enhance the contribution** to PZU Group's financial result from managing Customer assets

PZU Investments Offers Products in which the PZU Group Also Invests Its Own Funds



PZU Investments constantly adapts to its Customers' changing needs. Leveraging its exceptional asset management skills and its significant investment portfolio for its own account, the PZU Group offers Customers investments in which it also invests its own funds



Major assumptions:

- Nurture long-term Customer relationships by offering Customers transparent and comprehensible products and by communicating the risks and costs in an explicit and clear fashion
- Search for attractive market niches whereby the products offered by PZU Investments will be difficult for the competition to copy
- Grow its proprietary investment product sales network by launching web-based sales and selectively tapping into the PZU Group's proprietary network
- Procure widespread accessibility to PZU Investments' products by expanding its external sales network in Poland by establishing cooperation with new partners and extending cooperation with current distributors

In Medical Care We Want to Become an Integrated Operator of Coordinated Care in the Next 10-15 Years



PZU Health will become an integrated operator of coordinated care meaning that it will provide Customers a full range of health protection services by leveraging the possibilities stemming from available funding sources

PZU Health:

- Will provide Customers an entire vertically-integrated health protection service chain
- Will build a network of proprietary medical outlets coupled with outsourcing (an external network) in an economically justified manner (growing PZU's value)
- Will provide a unique, comprehensive and customer-friendly service model
- Will utilize all available sources to finance services (National Health Fund, patients' commercial expenditures, supplementary insurance, other available sources)
- Will expand systems to finance accessibility to health protection services



Investment in the medical business as a **strategic option** to be exercised in the event of major structural reforms (supplementary health insurance or competition in managing public contributions)

In the Upcoming 6 Years We Will Build an Effective Medical Operator as the Foundation for Coordinated Care



<i>Insurer (payer)</i>		
<i>Payer + reference network</i>		
<i>Proprietary medical network</i>		
PZU today	PZU in 2015	PZU in 2020
<p>External network of medical partners as the main service provider</p> <p>Some proprietary medical outlets</p>	<p>Limited number of proprietary medical outlets – to build the brand and as a source of gaining knowledge</p> <p>Customer-friendly booking system (on-line calendar)</p> <p>Devising standards for the quality of medical care in PZU Health</p>	<p>Nationwide proprietary standardized network of ambulatory outlets (outpatient clinics)</p> <p>Partner network to complement the proprietary network to provide the appropriate accessibility of services</p> <p>Integrated medical documentation system – on-line Patient's Account (central medical data)</p>

- In parallel, building a network of hospitals and possible investments in care homes as financial investments
- Integration of the hospital and care home network with PZU Health at the right market time (demand, operational readiness of PZU Health)

Investment Policy Focused on Optimizing Profitability



The most important aspect of the PZU Group's investment policy in 2015-2020 is to optimize the profitability of investment activity for the intended risk appetite. Thanks to its considerable investment portfolio for its own account, the PZU Group has built and continues to improve unique asset management skills, also by using TFI. At the same time, under PZU Investments, TFI PZU offers the PZU Group's Customers products giving them the opportunity to tap into these unique skills



Major assumptions:

- Manage the volatility of investment performance (continue to expand the share of absolute return portfolios at the expense of index portfolios)
- Continue to diversify the investment portfolio (raise the share of corporate and bank debt, expand the share of alternative assets)
- Continue to expand real estate investments
- Extend the role of strategic asset allocation on account of the persisting low interest rate environment

The Capital and Dividend Policy Focus on Total Shareholder Return (TSR)



The PZU Group manages capital comprehensively and effectively by optimizing the return on capital from the Group's viewpoint. The capital and dividend policy focuses on total shareholder return by optimizing capital while maintaining the level of safety and retaining resources for strategic development through acquisitions



Major assumptions:

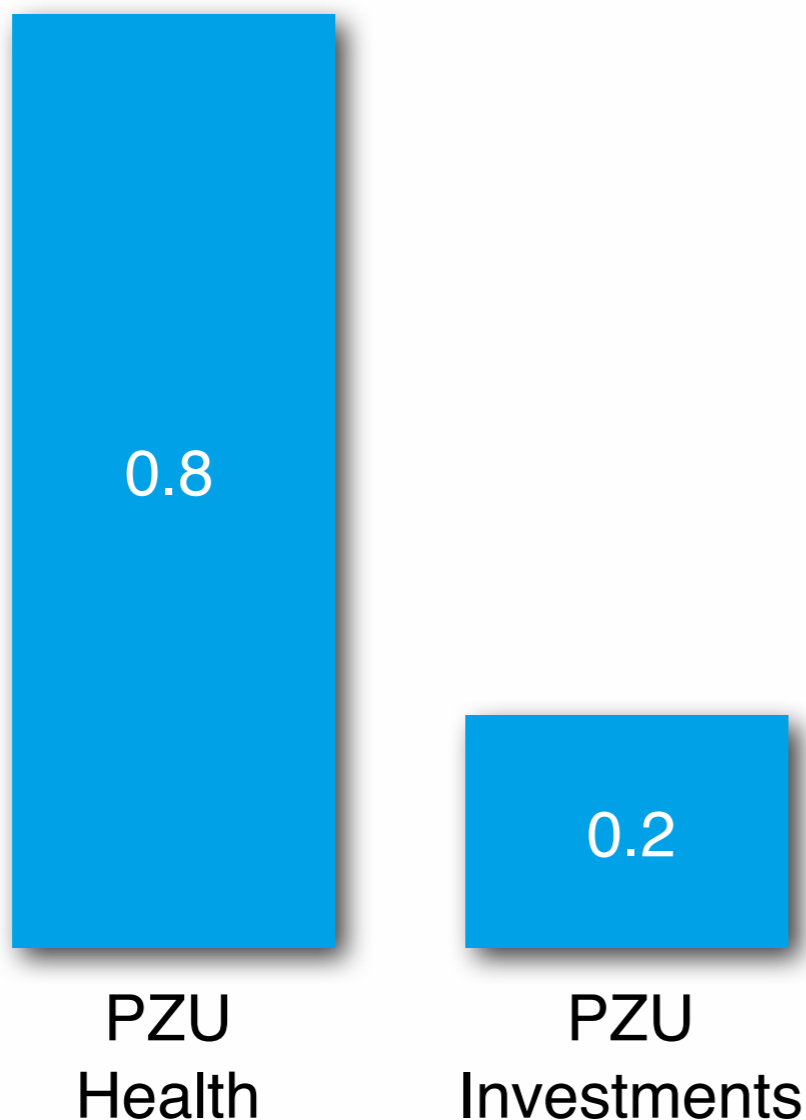
- Pay dividends ranging from 50% to 100% of the PZU Group's consolidated annual earnings
- Sustain the solvency coverage ratio at a level no lower than 250%
- Maintain assets to cover the provisions of the PZU Group's various companies, i.e. PZU SA and PZU Życie at a level no lower than 110%
- Optimize the financial structure by converting excess capital into subordinated debt (as an option depending on acquisition-related needs)

The PZU Group's capital and dividend policy will be modified to meet the requirements of the Solvency II Directive

We Will Invest at Least 1 bn PLN to Grow PZU Health and PZU Investments



Expenditures to execute
Strategy 2015-2020 [bn PLN]



Expenditures split

- PZU will invest roughly 450 m PLN on acquisitions in Health
- PZU Investments will invest 0.2 bn PLN to execute its Strategy of rapidly growing assets under management to drive up net profit

This Strategy's Key Performance Indicators - Aspirations

Area	KPI	2013	2020	Best competitors / market ⁽¹⁾
Business scale	1 Non-life market share in Poland	31.8% ⁽²⁾	> 35%	Player no. 2: 15.5%
	2 Life market share in Poland (regular premium)	43.3%	> 43%	Player no. 2: 9.9%
	3 Share of PZU's third party Customers assets in the TFI market's assets (net of non-public assets)	3.6%	> 11.5%	Player no. 1: 14.2%
	4 PZU Health's revenues [m PLN]	74.9	> 650	Player no. 1: ~740
	5 Share of premium on foreign operations in the PZU Group's premium	2.8%	> 8.0%	Not applicable

(1) Data for chief competitor in private medical care in 2012, other data in 2013

(2) Solely PZU SA

This Strategy's Key Performance Indicators - Aspirations

Area	KPI	2013	2020	Best competitors / market ⁽¹⁾
Customer	6 No. of products per Retail Customer	1.45	1.68	No data
Business profitability	7 ROE	24.1%	20%	Market ⁽²⁾ : 10.2%
	8 PZU SA combined ratio	87.3%	at least 3 p.p. above the competition ⁽³⁾	Market ⁽²⁾ : 96.0%
	9 Operating margin in group insurance and individual continuation	23.0%	20%	No data
Employee	10 Employee Engagement Index	48%	> 65%	> 65%

(1) Data for chief competitor in private medical care in 2012, other data in 2013

(2) Ratio to overall Polish market net of PZU

(3) In an average year without any major catastrophic events this ratio should be under 95%

We Are PZU!



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PZU 3.0



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