# MANAGEMENT REPORT ON THE ACTIVITIES OF POWSZECHNY ZAKŁAD UBEZPIECZEŃ SPÓŁKA AKCYJNA FOR 2012

## Spis treści

**INTRODUCTION ... 5**

10. Summary of the financial results ... 5
11. Macroeconomic trends in 2012 ... 6
11.1. Key economic trends and economic growth ... 6
11.2. Capital market ... 6
11.3. Monetary policy, interest rates, inflation ... 6
11.4. Labour market and consumption ... 7
11.5. Foreign exchange rates ... 7
11.6. The impact of macroeconomic factors on the insurance sector ... 7
11.7. Market share of PZU ... 7
11.8. Legal environment ... 11
11.9. Macroeconomic factors that will affect the activities of PZU in 2013 ... 13

**FINANCIAL PERFORMANCE OF PZU IN 2012 ... 15**

12. Events significantly affecting the activities and financial performance of PZU in 2012 ... 15
13. Comments to the financial performance of PZU ... 15
13.1. Underwriting profit/loss in the corporate insurance segment ... 15
13.2. Underwriting profit/loss in the mass client segment ... 17
13.3. Result on investing activities ... 18
13.4. Other revenue and expense ... 20
13.5. Financial performance and performance ratios of PZU ... 20
13.6. Assets and liabilities structure ... 22
13.7. Assets to cover technical provisions ... 23
13.8. Changes in investments in controlled entities ... 23
13.9. Significant off-balance sheet items ... 23
14. Risk factors which may affect financial performance in the following periods ... 24
15. Management Board's position concerning previous performance projections ... 24

**PZU ACTIVITIES IN 2012 ... 25**

16. Activities, key developments and achievements of PZU ... 25
16.1. Scope of activities of PZU ... 25
16.2. Rating ... 26
16.3. Operating activities of PZU in 2012 ... 26
16.4. Key developments and implementation of the strategy ... 34
16.5. Corporate social responsibility activities in 2012 ... 37
16.6. Key developments planned ... 40
17. Risk management ... 41
17.1. Risk management objective ... 41
17.2. Risk appetite ... 41

17.3. Risk management process ... 41
17.4. Organisational structure and responsibilities in the risk management process ... 41
17.5. Risk types ... 43
17.6. Key risk related events in 2012 ... 47
**ADDITIONAL INFORMATION ... 49**
9. Shares or rights to shares held by members of management or supervisory bodies of PZU as at the date of the annual report ... 49
10. Other information ... 50
10.1. Remuneration of members of management and supervisory bodies of PZU ... 50
10.2. Issues, redemption and repayment of debt and equity securities ... 50
10.3. Employee stock ownership plan ... 50
10.4. Price of PZU's shares ... 50
10.5. Dividend ... 53
10.6. PZU Tax Group ... 54
10.7. Main reinsurance contracts binding in 2012 ... 54
10.8. Executed and terminated credit facility agreements ... 54
10.9. Originated loans, including those to the issuer's related parties ... 55
10.10. Guarantees and sureties extended and received with respect to credit facilities and loans, including those granted to the issuer's related parties ... 55
10.11. Evaluation of financial resources management including the ability to repay liabilities and definition of possible threats and activities, undertaken or planned by the issuer to counteract these threats ... 55
10.12. Proceedings before court, body competent to hear arbitration proceedings or a public authority body ... 55
10.13. Information on significant contracts concluded ... 56
10.14. Related party transactions ... 56
10.15. Seasonal or cyclical business ... 56
10.16. Significant events pertaining to previous years and disclosed in the financial statements for the current reporting period ... 56
10.17. Significant events after the end of the reporting period ... 56
10.18. Business Combination ... 56
10.19. Information on agreements significant for the activities of PZU, including those concluded between the shareholders ... 56
10.20. Cooperation with international public institutions ... 56
10.21. Agreements on audit and review of financial statements ... 56
**REPRESENTATIONS OF THE MANAGEMENT BOARD OF PZU ... 58**
11. Representation concerning corporate governance ... 58
11.1. Corporate governance principles ... 58
11.2. General Shareholders' Meeting and the rights of the shareholders ... 59
11.3. Managing and supervisory bodies of the Company and their committees ... 61

11.4. Key features of internal control and risk management used by the issuer with respect to preparation of the financial statements and consolidated financial statements. ......................... 70

11.5. PZU shareholders holding directly or indirectly significant blocks of shares ............................... 71

11.6. Holders of securities with special control rights and a description of the rights ......................... 72

11.7. Voting restrictions ........................................................................................................ 72

11.8. Restrictions on transfers of the title to securities .................................................................... 72

11.9. Rules of changing the By-laws of PZU .................................................................................. 72

11.10. Changes in the By-laws of PZU .......................................................................................... 73

12. Correctness and reliability of presented financial statements .................................................. 74

13. Selection of the entity authorized to audit financial statements ............................................... 74

# INTRODUCTION

## 10. Summary of the financial results

Financial results of Powszechny Zakład Ubezpieczeń Spółka Akcyjna ("PZU", "Company") according to Polish Accounting Standards (PAS) in 2012 compared to the previous year were influenced mostly by:

- An increase in investment income (without dividend) mainly due to higher valuation of treasury bonds arising from a drop in yield of debt instruments, improved capital market standing and a new investment strategy aimed at improved yield of investments with optimized risk management;
- A decrease in the number of claims in motor insurance due to lower claim frequency, partly compensated by an increase in the number of claims in financial insurance due to the poor standing of the construction sector and a series of bankruptcies (claims arising from contract guarantees);
- An increase in provisions for capitalized annuity due to a lower technical interest rate applied following the deteriorated yield of treasury bonds as well as, as a result, a decrease in future rates of return of assets to cover technical provisions and also due to increase in expected annuity growth;
- An increase in the gross written premium in insurances, mainly in the mass client segment, thanks to development in motor third-party liability insurance and other civil liability insurance, as well as obligatory insurance of subsidized crops;
- Consistent implementation of PZU strategy of restructuring aimed at reduction of administrative expenses (group layoffs);
- Realization of project activities aimed at change of PZU Group image and introducing a new policy system (with the planned implementation deadline in 2013).

In 2012 the **net profit of PZU** amounted to **PLN 2,580.7 thousand**, being 0.1% lower than in 2011. Excluding dividend received from PZU Życie, the net profit of PZU equalled PLN 1,403.2 million (growth by 135.8%).

At the end of 2012, investment balance amounted to PLN 27,591.5 million and was 10.9% higher than at the end of the previous year. Equity was higher by 14.5% versus the previous year and amounted to PLN 13,452.6 million.

**PZU** is the parent entity in Powszechny Zakład Ubezpieczeń Spółka Akcyjna Capital Group (PZU Group).

**PZU** is a leader, in respect of gross written premiums on property and personal insurance market in Poland (32.3% share at the end of 3th quarter of 2012). Motor third-party liability insurances for mass and corporate clients are main group of products offered by PZU.

ROE[1] for 2012 amounted to 20.5% p.p. and decreased by 1.4 p.p. year-on-year.

PZU have a long-term credit rating and financial strength rating (assigned by Standard & Poor's Ratings Services) at the **A level with a stable rating outlook**.

[1] ROE – calculated as the quotient of net profit/loss and the average of the opening and closing balance of equity

# 11. Macroeconomic trends in 2012

## 11.1. Key economic trends and economic growth

According to draft data of Central Statistical Office, GDP in Poland increased by 2.0% in 2012 compared to 4.3% in the previous year, which was accompanied with clear deterioration in domestic demand: -0.1% compared to 3.4% in 2011. Economic growth slowed down regularly on a quarterly basis, with domestic demand growth being negative from Q2 2012 on.

Labour market deterioration, slowing growth in disposable income and low savings rate contributed to slowdown in individual consumption seen in 2012, to -0.5% compared to 2.5% in 2011. At the same time, investments in fixed assets increased by mere 0.6% compared to 9.0% a year before. Investment slowdown (in the second half of 2012, the growth was negative) resulted from limited infrastructural investment related to EURO 2012 and infrastructural construction industry problems on the one hand, and limited investments in enterprises arising from their negative response to the economic slowdown on the other hand. Change in the level of inventory in 2012 had a negative impact on GDP. In these circumstances, net export was decisive for economic growth. Its growth slowed down due to recession in the Eurozone, but the volume of net export increased despite the recession mentioned. Compared to poor domestic demand import adjustment was higher: import volume dropped compared to 2011.

Industrial production and construction saw significant slowdown. In 2012, value added in industry grew by 1.2% (10% in 2011), and in construction by 0.5% (8.2% in 2011). The increase in added value in trade and motor repair sectors by 1.5% has been the third worst result since the beginning of the century.

## 11.2. Capital market

In the middle of 2012, the debt crisis in Eurozone increased again. In subsequent months, global financial markets gained balance again, mostly thanks to measures undertaken by the European Central Bank (EBC). Readiness to intervene on the bonds market declared by EBC in H2 2012 and arrangements regarding remodeling of the financial architecture in the Eurozone (banking union) clearly reduced the probability of currency union's disintegration. At the same time, in the U.S. quantitative easing was continued in monetary policy. Reduced tension on the financial market, accommodative monetary policy of key central banks and the economic improvement projected for 2013 contributed to growth of the world's stock exchange indexes. In 2012, stock prices in Poland increased as well. WIG index grew by 26.2%, while WIG20 by 20.4%.

In 2012, prices of Polish bonds grew as well, supported by relatively good economic and budget standing, attracting foreign portfolio capital looking for assets with favorable profit/risk proportion. Additionally, in the second half of the year, the yield decrease was supported with expected reduction in interest rates to be announced by the National Bank of Poland. The second end of the yield curve saw the biggest drop. Between the end of 2011 and 2012, it reached 213 and 218 base points, respectively, for five- and ten-year bonds.

## 11.3. Monetary policy, interest rates, inflation

In the second half of 2012, a regular decrease of CPI year ratio in Poland commenced, so in October it returned to the range of allowed fluctuations determined by the Monetary Policy Council (MPC) (2.5% +/- 1 pp.). In December 2012, prices of commodities and services were 2.4% higher year on year (4.6% at the end of 2011). The average annual inflation remained relatively high, although it dropped to 3.7% compared to 4.3% at the end of 2011. Its reduction was propelled by economic slowdown (at the end of 2012, net inflation rate was 1.4% y-o-y compared to 3.1% y-o-y in the previous year). The increase in food and fuel prices and the exhausted impact of VAT increase introduced a year before contributed to the inflation rate.

Faced with the high inflation in the first months of 2012, Monetary Policy Council increased interest rates by 25 base points in May. Having obtained data that confirmed significant economic slowdown and the inflationary pressure being lower than expected, MPC signalled the possibility to ease its policy in September, and in November commenced the cycle of interest rate reductions. Beginning from November 2012 and until February

2013, each month all interest rates of the National Bank of Poland (NBP) were reduced by 25 base points. In March 2013, NBP reference rate was reduced by further 50 base points and MPC signalized the end of its easing policy. The reference ratio was 3.25% in March 2013 compared to 4.75% in October 2012, before the reduction cycle was initiated.

On the money market, changes in WIBOR 6M rates were closely related to the changes in the NBP reference rate. Following the increase in May 2012, in the period from September to the end of 2012, WIBOR clearly dropped by about 100 base points, while interest rates of the central bank decreased by 50 base points in the same period. This tendency continues in 2013 when at the beginning of March WIBOR 6M dropped by further 40 base points.

### 11.4. Labour market and consumption

The economic slowdown in 2012 was accompanied with a deteriorated labour market standing. The average employment in the enterprise sector in December 2012 was 0.5% lower than in December 2011. The average employment in the entire economy in Q3 2012 dropped by 0.1% year on year. The registered unemployment rate increased to 13.4% at the end of 2012 compared to 12.5% at the end of 2011. Therefore, the nominal growth in the average nominal pay in domestic economy slowed down significantly, to 3.5% compared to 5.6% in 2011. In 2012, the average pay was in actual terms 0.1% lower than in 2011.

The labour market deterioration and actual drop in remuneration did not support increase in individual consumption especially that the savings rate in households was very low, and consumer loans reduced. In 2012, individual consumption grew by mere 0.5% and its drop in the second half of the year had a decisive impact on the average (an increase by 0.1% in Q3 2012 and according to initial estimates, a drop by 1% in Q4 year on year).

### 11.5. Foreign exchange rates

The average annual exchange rate of EUR and USD to PLN increased by 1.6% and 9.9%, respectively, in 2012. Compared to exchange rates at the end of 2011, the exchange rate of PLN to these key global currencies improved, with a short depreciation period in Q2. This was supported by global financial markets gaining their balance. At the end of 2012, EUR/PLN rate was lower than at the end of 2011 by 7.4%, USD/PLN rate was lower by 9.3% and CHF/PLN rate was lower by 6.8%.

### 11.6. The impact of macroeconomic factors on the insurance sector

The economic slowdown in 2012 negatively impacted the demand for insurance products. Households rationalised their spending faced with labour market deterioration, slowing growth of disposable income and the low savings rate. Production, import and sale of cars decreased, which reduced opportunities to sell comprehensive car insurance and TPL insurance.

The deteriorated market and financial standing of enterprises contributed to the worsening of the corporate insurance market standing compared to 2011. Suspended investment and financial problems in the construction industry adversely impacted the related insurance and guarantee segment.

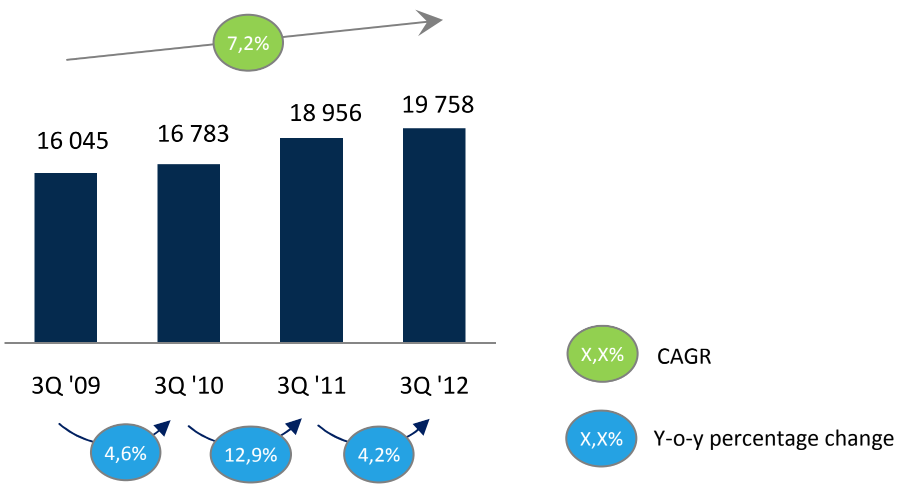
Business loan dynamics dropped in 2012, and the financial insurance market grew tougher.

On the other hand, an increase in the prices of stock and bonds in 2012 positively impacted investment income of insurance companies.

### 11.7. Market share of PZU

The market of property and other personal insurance market in Poland expressed as gross written premium saw an average annual increase of 7.2% over last four years. During the first three quarters of 2012, the total market growth was PLN 0.8 billion year on year, mainly thanks to increased sales of TPL motor policies (by PLN 411.8 billion), in particular as a result of an increase in corporate tariffs and other non-motor insurance products, including mainly other third-party liability products (by PLN 242. 1 million, i.e. + 21.6% year on year). At the same time, the entire market of property and other personal insurance saw a slowdown compared to the previous year (+4.2% vs. 12.9%). The decrease resulted mainly from significant slowdown in motor own damage insurance (-0.8% y-o-y for the first three quarters of 2012 compared to +12.8% in 2011) and a reduced growth in motor third-party liability insurance (+6.4% compared to +14.0%, respectively). The changes resulted mainly from the halted growth in the number of policies for individuals in motor own damage insurance during last two years.

***Chart 1: Gross written premium of other personal and property insurers in Poland***




*Source: Polish Financial Supervision Authority - "Biuletyn Kwartalny. Rynek ubezpieczeń 3/2012, Rynek ubezpieczeń 3/2011 (www.knf.gov.pl)*

The entire property and other personal insurance market generated the net result of PLN 2.9 billion in the first three quarters of 2012 (-0.6% year on year). Net of dividend from PZU Życie (which constitutes profit generated by the life insurance sector), the net profit on the property and other personal insurance market increased by PLN 0.79 billion (+83.1%). The underwriting profit/loss on the property and other personal insurance market, which does not include investment income, increased by PLN 439.7 million to PLN 721.4 million. Positive changes resulted from comprehensive insurance profitability maintained the second consecutive year (an increase in the underwriting profit/loss by PLN 304.0 million to PLN 509.5 million) and reduced losses in motor TPL insurance (by PLN 333.8 million to PLN -81.6 million). Reduced number of claims in motor insurance arising from lower frequency of claims paid, in particular thanks to better weather and less traffic (among others due to fuel price increase) was the main factor contributing to the performance improvement. The number of claims in comprehensive and TPL motor insurance dropped by 9.6% year on year.

At the same time, in the first three quarters of 2012, payments related to voluntary insurance of agricultural crops increased and reached PLN 455.2 million compared to PLN 183.0 million in the previous year (exceptionally high). In insurance guarantees, the underwriting result was negative and dropped by PLN 250.8 million year on year. The performance was determined by payments and linking provisions for contractual guarantees issued for the construction sector (bankruptcy of selected companies announced in 2012).

The total value of investments of companies providing other personal and property insurance (excluding shares in controlled entities) amounted to PLN 40.2 billion at the end of Q3 2012 and increased by 7.7% from the end of 2011. At the end of Q3 2012, most of these investments consisted of securities issued or guaranteed by the State Treasury and local self-government units (67.7% i.e. PLN 27.2 billion). Reduced yield of treasury bonds in 2012 had a positive effect on measurement of these instruments in insurers' portfolios. At the same time, the share of other fixed-income securities (including corporate bonds) increased from 4.3% to 7.2% (from PLN 1.6 billion to PLN 2.9 billion).

Companies providing property and other personal insurance estimated the total value of technical provisions for PLN 33.6 billion, which constituted an increase of 7.0% compared to the end of 2011 and resulted mainly from business growth (an increase in gross written premiums).

***Table 1: Gross written premium – property and other personal insurance***

PLN million

| Gross written premium – property insurance | 1 January – 30 September 2012 | | | 1 January – 30 September 2011 | | |
|---|---|---|---|---|---|---|
| | PZU | Market | Market, excluding PZU | PZU | Market | Market, excluding PZU |
| Motor own damage insurance | 1 608 | 4 256 | 2 648 | 1 701 | 4 291 | 2 590 |
| TPL motor insurance | 2 231 | 6 860 | 4 629 | 2 141 | 6 448 | 4 307 |
| Other products | 2 535 | 8 642 | 6 107 | 2 375 | 8 217 | 5 842 |
| **TOTAL** | **6 374** | **19 758** | **13 384** | **6 217** | **18 956** | **12 739** |

*Source: Source: Polish Financial Supervision Authority - "Biuletyn Kwartalny. Rynek ubezpieczeń 3/2012, Rynek ubezpieczeń 3/2011 (www.knf.gov.pl); PZU data*

***Table 2: Gross written premium structure – property and other personal insurance***

| Written premium structure | 1 January – 30 September 2012 | | | 1 January – 30 September 2011 | | |
|---|---|---|---|---|---|---|
| | PZU | Market | Market, excluding PZU | PZU | Market | Market, excluding PZU |
| Motor own damage insurance | 25.2% | 21.5% | 19.8% | 27.4% | 22.6% | 20.3% |
| TPL motor insurance | 35.0% | 34.7% | 34.6% | 34.4% | 34.0% | 33.8% |
| Other products | 39.8% | 43.7% | 45.6% | 38.2% | 43.3% | 45.9% |
| **TOTAL** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

*Source: Polish Financial Supervision Authority - "Biuletyn Kwartalny. Rynek ubezpieczeń 3/2012, Rynek ubezpieczeń 3/2011 (www.knf.gov.pl); PZU data*

***Table 3: PZU share in gross written premium – property and other personal insurance***

| PZU SA share in market premium (%) | 1 January – 30 September 2012 | 1 January – 30 September 2011 |
|---|---|---|
| Motor own damage insurance | 37.8% | 39.6% |
| TPL motor insurance | 32.5% | 33.2% |
| Other products | 29.3% | 28.9% |
| **TOTAL** | **32.3%** | **32.8%** |

*Source: Polish Financial Supervision Authority - "Biuletyn Kwartalny. Rynek ubezpieczeń 3/2012, Rynek ubezpieczeń 3/2011 (); PZU data*

With the market share of 32.3%, Powszechny Zakład Ubezpieczeń Spółka Akcyjna (PZU, the Issuer) is a leader in the property and other personal insurance market in terms of gross written premium. Since 2011, the market share growth has stopped and remained on the level of approx. 33%. For a few years, in order to maintain the profitability, PZU has carried out a corporate insurance portfolio restructuring programme. Thanks to these measures, underwriting result for motor TPL and comprehensive insurance in the corporate client segment have improved significantly (COR decreased by 9.4 pp. and 11.6 pp. respectively in 2012 compared to 2011) with a certain decrease in market share. At the same time, PZU maintained a high gross written premium – based market position: 49.3% for TPL and 43.3% for motor own damage insurance in the corporate sector at the end of Q3 2012.

The total underwriting profit/loss on the property and other personal insurance market increased by PLN 439 million, i.e. by 155.7%, out of which the performance of PZU alone increased by PLN 308 million.

***Table 4: Underwriting profit/loss on the property and other personal insurance market***

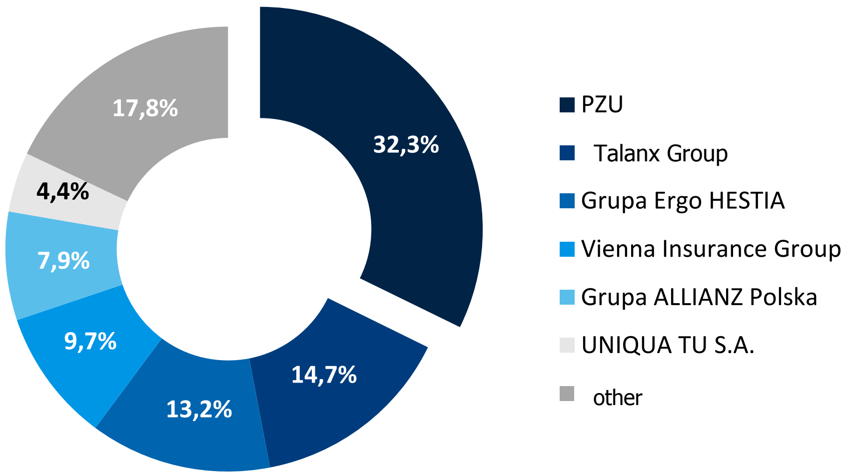
PLN million

| Underwriting profit/loss | 1 January – 30 September 2012 | | | 1 January – 30 September 2011 | | |
|---|---|---|---|---|---|---|
| | PZU | Market | Market, excluding PZU | PZU | Market | Market, excluding PZU |
| Motor own damage insurance | 251 | 509 | 258 | 166 | 205 | 39 |
| TPL motor insurance | 217 | (82) | (299) | (47) | (415) | (368) |
| Other products | 162 | 294 | 132 | 211 | 492 | 281 |
| **TOTAL** | **630** | **721** | **91** | **330** | **282** | **(48)** |

*Source: Polish Financial Supervision Authority - "Biuletyn Kwartalny. Rynek ubezpieczeń 3/2012, Rynek ubezpieczeń 3/2011 (); PZU data*

At the end of Q3 2012, the share of PZU net performance in the market net result (without dividend from PZU Życie) amounted to 62.6%, which, with the gross written premium-based market share of 32.3% confirms high profitability of the insurance business and effective capital management.

***Chart 2: Share of largest property and other personal insurers in Poland***




*Capital groups: Allianz - Allianz, Euler Hermes; Ergo Hestia - Ergo Hestia, MTU; Talanx - Warta, Europa, HDI; VIG - Compensa, Benefia, Interrisk, PZM (on 31 July 2012 Interrisk and PZM combined)*

*Source: Polish Financial Supervision Authority - "Biuletyn Kwartalny. Rynek ubezpieczeń 3/2012, Rynek ubezpieczeń 3/2011 (www.knf.gov.pl)*

### 11.8. Legal environment

Below please find key legal regulations that become effective or were published in 2012 and could contribute to changes in business operations or organisation of PZU.

**Act of 19 August 2011 amending the act on obligatory insurance, Insurance Guarantee Fund and Polish Office of Motor Insurers and some other acts (Law Journal No. 205 of 2011 item 1210 as amended, "Amendment to the Act on obligatory insurance"** coming into effect on 11 February 2012, has materially changed the existing regulations regarding conclusion and termination of obligatory insurance contracts, including motor third-party liability insurance and agriculture insurances i.e. obligatory insurance of farm buildings and obligatory TPL insurance of farmers related to running a farm.

In particular, legal solutions were introduced to limit the so-called double insurance. Obligatory insurance policies are not renewed for another period in the case of transferring ownership title to a vehicle, which allows terminating of an insurance contract concluded pursuant to Article 28.1 of the Act on obligatory insurance, Insurance Guarantee Fund and Polish Office of Motor Insurers, of 22 May 2003 (Law Journal No. 124 of 2003, item 1152, as amended, "Act on obligatory insurance") if an owner of a car is at the same time insured with two or more insurance companies. Further, according to the act, no later than 14 days prior to the policy expiry date, the insurer is obliged to send the insured information regarding insurance terms for the subsequent year. The information should include among others the premium amount and instruction regarding termination of the existing policy, as well as the form, manner and deadline of submitting a notice, as well as describing effects of both the notice and its lack. Further, if a policy is renewed pursuant to Article 28.1 of the Act on obligatory insurance, the insurer should send to the insured a document confirming that the insurance contract has been concluded within 14 days of the conclusion date.

Pursuant to the amendment, the Act of 22 May 2003 on insurance activity (Law Journal No. 11 of 2010, item 66 as amended) has stated that notifications and statements regarding the concluded insurance agreement submitted to an insurance agent shall be considered as delivered to the insurer represented by the agent. The principle includes property and life insurance. At the same time, the provision requiring that such statements and notifications are made in writing and delivered by registered mail with receipt confirmation has been deleted.

**Effects of the act for PZU Group:**

- Imposing additional obligations on PZU related to sending information regarding terms of insurance for the subsequent years and confirmations that insurance contracts have been concluded to clients, and the related increase in operating expenses;
- Clients can terminate insurance contracts if double insurance occurs; in such cases, premiums cannot be claimed from them;
- The number of drivers without TPL policies may increase following modification of termination conditions and the fact that a policy is not renewed if a car is sold;
- Operating problems since clients may submit statements or notifications regarding their insurance contracts in any form, since they are binding for PZU if delivered to a relevant agent.
- Unisured with respect to motor third party liability insurance due to new rules of terminating insurance contracts.

**Act on therapeutic activities of 15 April 2011 (Law Journal No. 112 of 2011, item 654 as amended)** came into effect on 1 July 2011, and Article 25 introducing the insurance obligation and provisions directly related to it have been in force since 1 January 2012 subject to information indicated in the following paragraph. The act has introduced among others an obligation to get insured against patients' claims arising from medical events determined in regulations on the rights of patients and the Patient Ombudsman for therapeutic entities running hospital business.

**The Act of 14 June 2012 amending the act on therapeutic activity and certain other acts (Law Journal of 2012 item 742)** has released therapeutic entities running hospital business from the obligation to conclude additional insurance contracts against patients' claims arising from medical events until 1 January 2014.

**Ordinance of the Minister of Finance on obligatory TPL insurance for therapeutic entities of 22 December 2011 (Law Journal No. 293, item 1729)** came into effect on 1 January 2012 and has defined the detailed scope of obligatory TPL insurance for entities carrying out therapeutic business with regard to damages arising from therapeutic performances or neglect in providing such performances against the law, and the minimum guarantee amount.

The Ordinance of the Minister of Finance on obligatory TPL insurance of an insurer not carrying out therapeutic business activity but providing health care services of 22 December 2011 (Law Journal No. 293, item 1728) came into force on 1 January 2012 and has determined the detailed scope of obligatory TPL insurance for entities providing health care performances referred to in Article 5.41.b and 5.41.d of the Act on health care performances financed with public funds of 27 August 2004 against damages arising from health care performances provided based on health care performance agreement, the deadline for the obligatory insurance and the minimum guarantee amount.

**Effects of amendments to the therapeutic laws for PZU:** an increased written premium in the first half of 2012 arising from the obligation for hospitals and therapeutic entities to conclude insurance contract. The obligatory insurance may contribute to market growth and at the same time result in an increase in the number of claims lodged in relation to therapeutic activities, as well as in the total of claims paid.

**Act amending the act on rights of patients and Patients' Ombudsman and the act on obligatory insurance, Insurance Guarantee Fund and Polish Office of Motor Insurers of 28 April 2011 (Law Journal No. 113 of 2011 item 660)** which came into effect on 1 January 2012 is to accelerate and make it easier for hospital patients to lodge claims arising from medical events (e.g. infections, bodily damage, health breakdown and death of a patient). The Act has introduced a new procedure of claims outside the court, in the form of motions to determine whether a medical event has taken place addressed to provincial commissions deciding on medical events. Further, it has provided that the insurer who has concluded an insurance contract with the hospital where a given medical event has occurred shall propose compensation to the aggrieved party. Decisions of provincial commissions shall be binding for the competent insurer, who will be obliged to pay the compensation. The Act has determined the maximum compensation amount payable to patients (PLN 100 thousand in the case of infection, bodily damage and health breakdown, PLN 300 thousand in the case of patient's death, not more than PLN 1,200 thousand in relation to all medical events in the insurance period). The Act does not preclude court claims in cases defined therein.

**Effects of the act for PZU:** May result in an increased number of claims arising from therapeutic insurance and a growth in the total claims paid, among others due to the simplified claim procedure.

**Act of 14 December 2012 amending the act on insurance activities of 22 May 2003 (Law Journal of 2013 item 53)** came into effect on 29 January 2013 and has implemented changes arising from the decision of the European Court of Justice of 1 March 2011 in the case C-236/09 Test-Achats. In the decision, the European Court of Justice stated that Article 5.2 of the Council Directive 2004/113/EC of 13 December 2004 allowing insurers providing different performances depending upon sex non-compliant with the equal treatment principle arising from Article 21 and 23 of the Charter of Fundamental Rights of the European Union. As of 21 December 2012, the European Court of Justice has cancelled the possibility to provide various premium amounts depending on the sex of the insured. In order to ensure execution of the Court's decision, the wording of Article 18a of the Act on insurance activity has been changed. According to it, applying the sex criterion to calculation of insurance premium and performance cannot result in various premium level offered to individuals.

**Effects of the act for PZU:**

- necessity of changes in some products and their tariffs, including exclusion of one product from PZU offer – individual hospital insurance
- the risk of lower sales in the group of clients whose premium amount will grow significantly, compensated with an increase in sales in the group of clients whose premium will be reduced

The amendment will affect mainly PZU Życie, a subsidiary of PZU. The new wording of the act allows insurers' application of the sex criterion when calculating premium and performance amounts only provided that this does not result in various levels of premium and performance offered to individuals.

**Act of 21 December 2011 on amendment of the act on the social insurance system (Law Journal No. 291 of 2011, item 1706).** Effective from 1 February 2012, the disability premium amount in the part payable by employers was increased from 4.5% to 6.5% of the base, i.e. by 2 pp. (the total disability premium increased from 6.0% to 8.0%, out of which 1.5% is still funded by the insured, and the other portion by employers). The amendment is to reduce the deficit of the Social Insurance Fund related to disability pension, and in future should contribute to balancing of receipts and payments of the Fund.

**Effects of the act for PZU:** Operating expenses will grow on the employer's side.

**Ordinance of the Minister of Finance of 4 October 2012 on obligatory TPL insurance for entrepreneurs applying for civil aviation guard contract (Law Journal of 2012 item 1123)** states that enterprises applying for such contracts are to conclude an insurance contract not later than on the date preceding the contract date with regard to civil aviation guard activities performed in airports and concerning damages related to the business operations. The Ordinance determines the minimum guarantee amount.

**Effects of the ordinance for PZU:** A potential growth in sales arising from the obligation to conclude the insurance contract and the minimum guarantee amount determined.

**Draft Act on insurance activity related to implementation of Solvency II Directive.** In May 2012, Ministry of Finance published draft assumptions for the new insurance activity act that will among others introduce to Polish law regulations of European directive Solvency II provisions to the Polish law with regard to solvency requirements (Directive of the European Parliament and Council 2009/138/EC of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II). The effective date of these amendments is unknown at the moment.

According to the draft act, capital requirements will grow to correspond with specific risk profiles of an insurer or reinsurer. Own funds of the entities should reach a level to ensure coverage of potential losses with fulfilling performances regarding policy holders and beneficiaries due at a given moment. The draft extends requirements regarding internal risk management procedures and increases information obligations of insurers with regard to capital security and risk management. Further, insurers will be obliged to implement not only management procedures related to insurance risk, but also those regarding credit, market, liquidity and operational risk, and to present their supervisory bodies with financial standing reports. The draft projects certain changes in the existing regulations on insurer's obligations regarding conclusion and performance of insurance contracts.

PZU has actively participated in consulting processes in the industry and carried out compliance activities. Further, under implementation of Solvency II, PZU has carried out quantity survey following guidance of the Polish Financial Supervision Authority (FSA).

**Effects of the projected act for PZU:** It will introduce material changes to operations and financial management of insurers and reinsurers, which will necessitate a number of organisational changes and significant expenses, which are hard to estimate in the current stage of the legislation process. Due to transitional provisions of the new act, the expenses may be distributed over time.

***Judicature and Register of Abusive Clauses***

Judicature also impacted the operations of PZU in 2012, among others a resolution of the Supreme Court of 17 November 2011 (III CZP 05/11) regarding the principles of substitute car lease under TPL and new clauses entered in the Register of Abusive Clauses maintained by the President of Office of Competition and Consumer Protection, including those regarding assistance service related provisions in accident insurance.

**Effects for the PZU Group:** It necessitated revision of Terms and Conditions and modification of relevant provisions.

### 11.9. Macroeconomic factors that will affect the activities of PZU in 2013

The year 2013 will remain tough for the insurance market. The projected GDP growth is still lower than in 2012. Consumption demand may grow only slightly higher than in 2012, with lower investment increase. Only the second half of the year may see a more significant growth in GDP.

Reduced uncertainly on financial markets due to mitigation of the Eurozone disintegration risk is certainly a good sign. In 2012, it was still relatively high, which caused strong fluctuations in prices of financial assets and complicated the allocation process in asset management. Since the European Central Bank declared contingent intervention on the secondary bonds market (OMT programme), the standing of the financial markets in Eurozone has improved visibly, which gives hope for the region to gradually get its economic problems under control. Therefore, the risk of disorder on the Polish financial market has diminished as well.

Negative financial performance of insurance companies, whose portfolios are dominated by bonds, may impact the low level of interest rates. Prices of bonds increased significantly in 2012, at year-end hitting the record level. Possibilities of further growth in their prices have been limited, with growing risk of decrease, especially if the global economic growth accelerates in 2013.

# FINANCIAL PERFORMANCE OF PZU IN 2012

## 12. Events significantly affecting the activities and financial performance of PZU in 2012

The financial performance of PZU in 2012 was affected by the following factors:

- An increase in the gross written premium, mainly in the mass client segment, thanks to development in third-party motor insurance and other civil liability insurance, as well as obligatory insurance of subsidized crops;
- A decrease in the number of claims in motor insurance due to lower claim frequency, partly compensated by an increase in the number of claims in financial insurance due to the poor standing of the construction sector and a series of bankruptcies (claims arising from contract guarantees);
- An increase in provisions for capitalized annuity due to a lower technical interest rate applied (from 3.7% to 3.6%) used in its calculation; following the deteriorated yield of treasury bonds as well as, as a result, a decrease in future rates of return of assets covering provisions and also due to increase in expected annuity growth (from 3.7% to 3.9%);
- An increase in investment income (without dividend), mainly due to:
  - Treasury bond price increase arising from reduced yield of debt instruments;
  - Improved standing of capital markets, including Warsaw Stock Exchange (WSE) and
  - Introduction of a new investment strategy, resulting in transfer of a portion of PZU portfolio to TFI PZU for management in the form of increased exposure to participation units;
- Consistent implementation of PZU strategy of restructuring aimed at reduction of administrative expenses (group layoffs);
- Implementation of project activities aimed at change of PZU Group image and introducing a new policy system (with the planned implementation deadline in 2013); and
- Derecognition of certain pension provisions following termination of the Collective Labour Agreement and resigning from payment exceeding the obligatory obligations.

## 13. Comments to the financial performance of PZU

### 13.1. Underwriting profit/loss in the corporate insurance segment

***Table 5: Gross written premium in the corporate insurance segment***

PLN '000

| Gross written premium by product group | 1 January - 31 December 2012 | 1 January - 31 December 2011 | % change |
|---|---|---|---|
| TPL motor insurance | 394 328 | 405 060 | (2.6)% |
| Motor own damage insurance | 544 551 | 644 674 | (15.5)% |
| Motor insurance total | 938 879 | 1 049 734 | (10.6)% |
| Insurance against fire and other damage to property | 380 083 | 385 675 | (1.4)% |
| Other TPL insurance (class 11, 12, 13) | 337 188 | 253 631 | 32.9% |
| Accident and other insurance* | 183 761 | 134 844 | 36.3% |
| Total property and personal without motor insurance | 901 033 | 774 151 | 16.4% |
| **Total** | **1 839 912** | **1 823 885** | **0.9%** |

* The item includes credit guarantees and other financial insurance, assistance, tourist, maritime, rail and aviation insurance.

In the corporate insurance segment, the increase in gross written premium by PLN 16.0 million (+ 0.9%) compared to 2011 resulted in particular from the sales of:

- New medical event insurance (against patient claims; accidental insurance for hospitals +PLN 50.1 million; from 1 January 2012 it was obligatory but since the end of 1H of 2012 the Ministry of Finance has changed the legislation releasing them from the insurance obligation);
- TPL for corporate clients (+PLN 23.7 million) and modified TPL product for therapeutic entities (+ PLN 57.9 million mainly arising from an increase in guarantee amounts).

There was a decrease in gross written premium related to motor own damage insurance despite an increase in the average premium by 10.2% due to losing a portion of portfolio (as a result of restrictive underwriting policy).

***Table 1: Performance of the corporate insurance segment***

PLN '000

| Data from the income statement – corporate insurance (property and personal) | 1 January - 31 December 2012 | 1 January - 31 December 2011 | % change |
|---|---|---|---|
| Gross written premiums | 1 839 912 | 1 823 885 | 0,9% |
| Net earned premiums | 1 764 459 | 1 723 966 | 2,3% |
| Net claims and benefits | (1 174 033) | (1 254 224) | (6,4)% |
| Gross claims paid | (952 143) | (1 222 675) | (22,1)% |
| Acquisition costs | (336 218) | (310 961) | 8,1% |
| Administrative expenses | (107 687) | (104 737) | 2,8% |
| Underwriting profit/loss | 116 425 | 57 992 | 100,8% |
| Technical result excluding adjustments resulting from change in technical rates | 137 825 | 57 992 | 137,7% |

In 2012, claims amounted to PLN 1,174.0 million and decreased by PLN 80.2 million (-6.4%) compared to 2011.

A decrease in claims was seen in motor insurance for corporate clients. Additionally, the claims number decreased by 13.4 pp. to 65.4% as a result of:

- verification of the insurance portfolio following modification of the underwriting policy through reduction in the number of unprofitable clients;
- better driving conditions and smaller traffic (lower claim frequency).

A significant increase in claims occurred in financial insurance, where technical provisions for suretyships grew in relation to a series of bankruptcies in the construction industry, in particular with regard to contract guarantees for PBG Capital Group companies (PBG SA and Hydrobudowa Polska SA). In relation to payments from contract guarantees issued, PZU joined bankruptcy procedures of the above companies, submitting its claims to their bankruptcy estates. Details of the proceeding are described in sections 29.3 and 29.4 of the financial statements of PZU for 2012.

Together for contract guarantees an increase in provisions net of reinsurance by PLN 46.1 million and gross provision by PLN 117.0 million was registered.

In other insurance (except from financial and accidental insurance), the amount of claims decreased as a result of:

- a lower number of large individual claims and no catastrophes;
- a change in approach to individual risk measurement.

Moreover, due to change in assumptions concerning forecasted annuities growth rate (from 3,7% to 3,9%) and decrease of technical rate (from 3,7% to 3,6%), decreasing yield of debt securities and decreasing future rate of return on assets covering technical provisions, what resulted in increase of provision for capitalized annuities, the negative impact of PLN 21.4 million was recognized.

Acquisition costs in the corporate insurance segment increased by 8.1% year on year, mainly due to their reduction in 2011 (impact on comparative data) as a result of early recognition of deferred acquisition costs on motor insurance in 2010.

The share of total commissions in gross written premium dropped, in particular due to a lower share of commissions in the premium in the broker channel, where often increases in sum insured is not accompanied with the corresponding increase in commission paid, and due to introduction of a new product with lower commission rates (accidental insurance for hospitals).

An increase in administrative expenses in 2.8% resulted from project activity aimed at optimization of service processes, among others by implementing of a new product system and building of a positive image of the PZU Group.

In 2012 and 2011, the underwriting profit/loss in the corporate segment amounted to PLN 116.4 million and PLN 58.0 million, respectively. Its increase resulted from improved profitability of motor own damage insurance thanks to the underwriting policy pursued for a number of years and the general claim decrease trend observed on the market, partly offset by deteriorated performance in the financial insurance segment due to the series of bankruptcies in the construction industry.

Technical result for corporate insurance segment, excluding adjustments resulting from change in technical rates, for 2012 amounted to PLN 137.8 million and was higher by 137.7% in comparison to prior year.

## 13.2. Underwriting profit/loss in the mass client segment

***Table 7: Gross written premium in the mass insurance segment***

PLN '000

| Gross written premium by product group | 1 January - 31 December 2012 | 1 January - 31 December 2011 | % change |
|---|---|---|---|
| TPL motor insurance | 2 566 564 | 2 485 856 | 3.2% |
| Motor own damage insurance | 1 597 542 | 1 640 540 | (2.6)% |
| Motor insurance total | 4 164 106 | 4 126 396 | 0.9% |
| Insurance against fire and other damage to property | 1 424 459 | 1 337 996 | 6.5% |
| Other TPL insurance (class 11, 12, 13) | 325 495 | 264 628 | 23.0% |
| Accidental and other insurance* | 699 526 | 694 336 | 0.7% |
| Total property and personal without motor insurance | 2 449 480 | 2 296 960 | 6.6% |
| **Total** | **6 613 586** | **6 423 356** | **3.0%** |

* The item includes credit guarantees and other financial insurance, assistance, tourist, maritime, rail and aviation insurance.

In the mass insurance segment, gross written premium increased by PLN 190.2 million (+ 3.0%) compared to 2011. The change resulted mostly from:

- Increases in TPL motor insurance tariffs (increase in average premium amount) implemented in 2011;
- Increase in written premium for other TPL insurance as a result of sales of TPL products for therapeutic individuals and SME's, modified among others as a result of changes in the law;
- Increase in sales of agricultural insurance product resulting from the sales campaign initiated on 1 October 2012 with regard to obligatory insurance of subsidized crops;
- Increase in sales of PZU DOM Plus products, better adjusted to market needs (with extended scope of insurance risks);
- Decrease in written premium in motor own damage insurance, among others due to reduced sales of new and second-hand cars to individuals.

***Table 8: Performance of the mass insurance segment***

PLN '000

| Data from the income statement – mass insurance (property and personal) | 1 January - 31 December 2012 | 1 January - 31 December 2011 | % change |
|---|---|---|---|
| Gross written premiums | 6 613 586 | 6 423 356 | 3.0% |
| Net earned premiums | 6 512 677 | 6 182 305 | 5.3% |
| Net insurance claims | (4 298 978) | (4 132 339) | 4,0% |
| Gross claims paid, including: | (3 575 950) | (3 830 232) | (6.6)% |
| Acquisition costs | (1 136 834) | (1 156 488) | (1.7)% |
| Administrative expenses | (568 609) | (529 170) | 7.5% |
| Underwriting profit/loss | 523 693 | 274 305 | 90,9% |
| Technical result excluding adjustments resulting from change in technical rates | 736 493 | 274 305 | 168,5% |

In 2012, claims increased by + 4.0% year on year, i.e. slower than the increase in net earned premium. In particular, profitability improved in motor insurance where the number of claims decreased by 1.7 pp. to the level of 74.9% due to improved driving conditions and smaller traffic (among others, reduced fuel prices). At the same time, in 2012 in the property insurance segment, the number of large individual claims was small.

Further, due to a change in assumptions regarding projected growth in annuities (from 3.7% to 3.9%) and the technical rate reduction (from 3.7% to 3.6%) related to the reduced yield of bonds, one-off negative impact on the underwriting profit/loss was recognised in the form of increased provisions for capitalized annuities of PLN 212.8 million.

Both in 2012 and 2011, substantial claims were lodged in agricultural insurance, resulting from natural reasons (very cold winter and spring frost). In both periods, the level of claims was similar.

Acquisition costs in the mass insurance segment decreased by 1.7% despite growing sales due to reduction in indirect expenses. At the same time, direct acquisition expenses increased due to higher sales and growing share of more expensive distribution channels (including broker, agency and multi-agency channel).

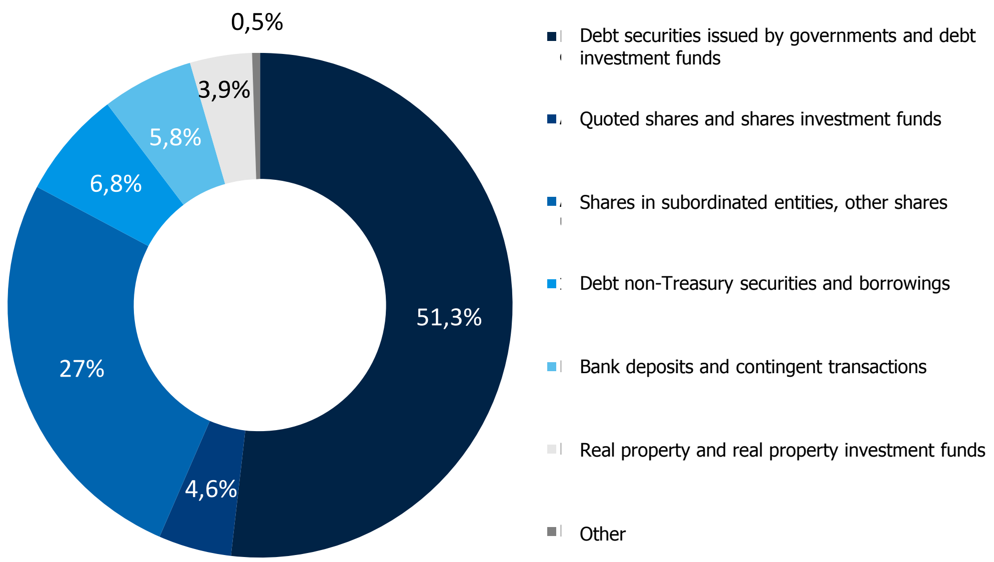
An increase in administrative expenses in 2012 (+ PLN 39.4 million) compared to 2011 resulted from project activity aimed at optimization of service processes, among others by implementing of a new product system and building of a positive image of the PZU Group.

The growth in underwriting profit/loss generated in the mass insurance system and amounting to PLN 249.4 million (+90.9%) compared to the first half of 2011 resulted from improved profitability in motor insurance (reduced frequency of claims) and in property insurance (reduced number of claims due to absence of large-size damage). Excluding change in technical rate and forecasted increase in annuities, the technical result in mass insurance segment in 2012 increased by 168.5% to the amount of PLN 736.5 million.

### 13.3. Result on investing activities

In 2012, like in previous years, the investment activities of PZU SA focused on matching the structure of its assets to the structure of equity and liabilities with the right level of security, profitability and liquidity.

***Chart 2: PZU investment structure as at 31.12.2012 2012 (including tranfer of participation units to adequate investment categories: shares and debt securities; elimination of the "transafer to funds" effect)***




In 2012 investment activities of PZU followed the new investment strategy assuming increased diversification of the portfolio. Implementation of the new strategy resulted in an increased share in non-treasury debt securities and loans from 2.8% at the end of 2011 to 6.9% at the end of 2012, as well as a growth in exposure to real property and property funds managed by TFI PZU (certificates FIZ Real Property Sector and FIZ Re Income) from 3.5% at the end of 2011 to 4% at the end of 2012. Still debt securities issued by state governments held directly or indirectly (through investment funds) accounted for majority of the investment portfolio (in 2012, pursuing its strategic objectives, the Company transferred a substantial portion of its assets to investment funds managed by TFI PZU; a detailed description of the transfer is presented in section 2.5.1 of the financial statements for 2012).

PZU portfolio mainly includes debt securities issued by state treasury. As at 31 December 2012 exposure to state treasury securities in total (including funds managed by TFI PZU) amounted to PLN 14,303.4 million (31 December 2011: PLN 14,308.1 million), what constituted 51.8% of investments (31 December 2011: 57.8%). The debt securities issued by state treasuries other than Polish constituted in total 2.2% of investments portfolio (Romania – 0.6%, Hungary – 0.6%, Iceland – 0.4%, Slovenia – 0.4%, Germany – 0.2%).

The Company was also active in the quoted stock market. The percentage share of quoted shares and stock funds managed by TFI PZU in the investment portfolio of PZU increased and amounted to 4.7% compared to 3.8% a year before.

The share of deposits and contingent transactions has not changed. Both at the end of 2012 and 2011, these investments accounted for 5.9% of the total value of the investment portfolio.

Shares in controlled entities with other shares including those of PZU Życie constituted a significant part of PZU investment portfolio. As at 31 December 2012, the value of shares in PZU Życie was PLN 6,748.1 million. At the end of 2012, shares in controlled entities and other shares accounted for 26.3.0% of PZU portfolio and increased year on year (25.8% at the end of 2011).

***Table 9: Profit/loss on investing activities of PZU***

PLN '000

| Profit/loss on investing activities of PZU in 2011 | 1 January - 31 December 2012 | 1 January - 31 December 2011 | % change |
|---|---|---|---|
| Closing balance of investments | 27 591 485 | 24 882 946 | *10,9%* |
| Total investment revenue (excluding dividend from PZU Życie) | 1 697 194 | 1 427 051 | *18,9%* |
| Total costs of investment activity | 402 011 | 570 370 | *(29,5)%* |
| Investment income (excluding dividend from PZU Życie) | 1 295 183 | 856 681 | *51,2%* |
| Dividend received from PZU Życie | 1 177 476 | 1 987 282 | *(40.7)%* |
| Investment income (including dividend from PZU Życie) | 2 472 660 | 2 843 963 | *(13,1)%* |

In 2012, the Company generated net investment revenue of PLN 2,477.0 million compared to PLN 2,844.0 million generated in 2011. Net investment revenue (excluding the dividend from PZU Życie) amounted to PLN 1,299.5 million compared to PLN 856.7 million a year before.

Revenue on portfolios of treasury securities (among others arising from a decrease in market interest rates and the related revaluation) and revenue on quoted shares arising from good standing of financial markets contributed the most to the net revenue increase.

In 2012, the Company did not apply hedge accounting.

### 13.4. Other revenue and expense

In 2012 the balance of other operating revenue and expenses increased by PLN 257.6 million year on year (a change from PLN (163.4) million to PLN 94.2 million). The change in the item resulted mainly from:

- Derecognition of provisions for pension and jubilee benefits of PLN 147.8 million following termination of the Collective Labour Agreement and resigning from payments exceeding statutory obligations (described in details in section 7.3.7);
- Reduced reorganization and restructuring costs compared to 2011 (PLN 12.3 million vs. PLN 73.2 million);
- Provision for a fine imposed by Office of Competition and Consumer Protection of PLN 67.9 million recognised in 2011 (for use of practices that limit competition in group accident insurance market and reimbursement of the costs of rental a replacement car – described in point 29. of notes in PZU 2012 separate financial statement;
- Donating PLN 25.0 million to PZU Foundation in 2012.

### 13.5. Financial performance and performance ratios of PZU

Compared to the previous year, underwriting profit/loss increased by PLN 307.8 million to PLN 640.1 million. A reduced number of claims in motor insurance and absence of catastrophes contributed the most to the positive performance.

In 2012 the net profit of PZU amounted to PLN 2,580.7 thousand, being 0.1% lower than in 2011. Excluding dividend received from PZU Życie, the net profit of PZU equalled PLN 1,403.2 million (growth by 135.8%) due to an increase in underwriting performance, investment income and the balance of other operating revenue and expenses.

Moreover, excluding PZU Życie dividend, increase of provisions for capitalized annuities (due to chanhe in technical rate from 3.7% to 3.9%) and forecasted annuities growth (from 3.7% to 3.9%) the net result in 2012 increased by 175.2%.

***Table 10: Income statement analysis***

PLN '000

| Income statement analysis | 1 January - 31 December 2012 | 1 January - 31 December 2011 | % change |
|---|---|---|---|
| Gross written premiums | 8 453 498 | 8 247 241 | *2.5%* |
| Net earned premiums | 8 277 136 | 7 906 271 | *4.7%* |
| Net insurance claims | 5 473 011 | 5 386 563 | *1,6%* |
| Net operating expenses | 2 170 992 | 2 118 773 | *2.5%* |
| Underwriting profit/loss | 640 118 | 332 297 | *92,6%* |
| Net profit/loss on investing activities | 2 472 660 | 2 843 963 | *(13,1)%* |
| Operating profit (loss) | 2 924 381 | 2 741 606 | *6,7%* |
| Gross profit (loss) | 2 924 381 | 2 741 606 | *6,7%* |
| Net profit | 2 580 720 | 2 582 303 | *(0,1)%* |
| Weighted average basic and diluted number of ordinary shares | 86 352 300 | 86 352 300 | *x* |
| Basic and diluted earnings (loss) per ordinary share | 29,89 | 29,90 | *(0,1)%* |

***Table 11: Data from cash flow statement***

PLN '000

| Data from separate cash flow statement | 1 January - 31 December 2012 | 1 January - 31 December 2011 | % change |
|---|---|---|---|
| Net cash generated by operating activities | 1 091 181 | 726 927 | *50.1%* |
| Net cash used in/generated by investment activities | 886 569 | 1 247 548 | *(28,9)%* |
| Net cash used in financing activities | 886 569 | 1 247 548 | *(28,9)%* |
| **Total net cash flows** | (66 370) | (59 123) | *12,3%* |

***Table 12: Profitability and solvency ratios***

| Item | 1 January - 31 December 2012 | 1 January - 31 December 2011 | Change |
|---|---|---|---|
| **Profitability of underwriting** *(underwriting profit/loss / premium earned net of reinsurance ) x 100%* | 7,7% | 4,2% | *3,5 p.p.* |
| **Return on Equity** *(net financial result/average equity*) x 100%* | 20,5% | 21,8% | *(1,4) p.p.* |
| **Return on Assets** *(net financial result/average assets*) x 100%* | 9,0% | 9,6% | *(0,6) p.p.* |
| **Assets to provisions ratio** *(assets for provision coverage/technical provisions) x 100%* | 126,1% | 127,0% | *(0,9) p.p.* |
| **Solvency margin** (in PLN million) | 1 343,8 | 1 338,8 | *5,0* |
| **Equity to required solvency margin ratio** | 815,3% | 686,6% | *128,7 p.p.* |
| **Guarantee fund** (in PLN million) | 447,9 | 446,3 | *1,7* |
| **Equity to guarantee fund ratio** | 2 445,9% | 2 059,8% | *386,1 p.p.* |

** - average of the opening and closing balance*

***Table 13: Efficiency ratios***

| Item | 1 January - 31 December 2012 | 1 January - 31 December 2011 | Change |
|---|---|---|---|
| **Acquisition costs ratio** *(acquisition costs* / premium earned net of reinsurance )* | 18,1% | 18,8% | *(0,7) p.p.* |
| **Administrative expenses ratio** *(administrative expenses / premium earned net of reinsurance )* | 8,2% | 8,0% | *0,2 p.p.* |
| **Ratio of costs of insurance activity** *(costs of insurance activity/ premium earned net of reinsurance )* | 26,2% | 26,8% | *(0,6) p.p.* |
| **Claims ratio** *(claims net of reinsurance / premium earned net of reinsurance)* | 66,1% | 68,1% | *(2,0) p.p.* |
| **Combined ratio** *(claims + costs of insurance activity / premium earned net of reinsurance) x 100%* | 92,3% | 94,9% | *(2,6) p.p.* |

** including reinsurance commissions received*

## 13.6. Assets and liabilities structure

As at 31 December 2012, the balance sheet total was PLN 29,913.2 million and was 9.2% higher than as at 31 December 2011.

Investments accounting for 92.2% of the balance sheet total were the key asset item. At the end of 2012, they amounted to PLN 27,591.5 thousand, being 10.9% higher than in 2011. The above growth resulted from business development in the analysed period and accumulation of a portion of net profit generated in 2011 accompanied with the dividend payment ratio reduced to 75% (in accordance with guidance of the Polish Financial Supervision Authority described in details in section 10.5).

Equity, which in 2012 constituted 45.0% of the balance sheet total grew during the reporting period by 14.5% up to PLN 13,452.6 thousand.

***Table 14: Key balance sheet items***

PLN '000

| Balance sheet data | 31 December 2012 | 31 December 2011 | % change |
|---|---|---|---|
| **Assets** including**:** | **29 913 216** | **27 397 857** | ***9,2%*** |
| Investments | 27 591 485 | 24 882 946 | *10,9%* |
| Receivables | 1 473 952 | 1 487 399 | *(0,9)%* |
| **Liabilities** including: | **29 913 216** | **27 397 857** | ***9,2%*** |
| Equity | 13 452 581 | 11 745 410 | *14,5%* |
| Technical provisions* | 14 933 110 | 13 895 347 | *7,5%* |
| Other provisions | 218 355 | 412 906 | *(47,1)%* |
| Liabilities | 810 652 | 826 280 | *(1,9)%* |
| Weighted average basic and diluted number of ordinary shares | 86 352 300 | 86 352 300 | - |
| Book value per ordinary share (in PLN) | 155,79 | 136,02 | *14,5%* |

** The amount includes reinsurers' share in technical provisions and estimated recourses and recoveries*

Technical provisions net of reinsurance (TPNR) were the key item of equity and liabilities and accounted for 49.9% of their amount. At the end of 2012, the balance of TPNR amounted to PLN 14,933.1 million and was 7.5% higher than at the end of 2011. The year-on-year increase in TPNR at the end of 2012 resulted in particular from:

- Change in assumptions concerning forecasted annuities growth (from 3.7% to 3.9%) and decrease in technical rate (from 3.7% to 3.6%) due to decrease in debt securities yield, the technical provisions net of reinsurance increased by PLN 234.2 million;
- In suretyship – increase in gross provision by PLN 117.0 million, net of reinsurance by PLN 46.1 million due to series of construction companies bankruptcies.

***Table 15: Gross technical provisions total***

PLN '000

| Gross technical provisions total, PZU | 31 December 2012 | 31 December 2011 | % change |
|---|---|---|---|
| I. Provision for unearned premiums | 4 294 942 | 4 292 509 | 0,1% |
| III. Provisions for outstanding claims | 10 889 674 | 9 765 468 | 11,5% |
| IV. Equalization provision | 2 812 | 6 232 | (54,9%) |
| V. Provision for bonuses and rebates for the insured. | 583 759 | 588 799 | (0,9%) |
| **Total gross technical provisions** | **15 771 187** | **14 653 008** | **7,6%** |
| Reinsurers' share in technical provisions (negative value) | (721 301) | (679 274) | 6,2% |
| Expected recoveries and recourses (negative value) | (116 776) | (78 387) | 49,0% |
| **Net technical provisions total** | **14 933 110** | **13 895 347** | **7,5%** |

## 13.7. Assets to cover technical provisions

The list of assets to cover the technical provisions in PZU according to PAS as at 31 December 2012 is presented in Table 16. Requirements regarding coverage of provisions with assets are included in Articles 154 and 155 of thee Act on insurance activity of 22 May 2003 (Journal of Laws No. 11 of 2010, item 66 as amended, Act on insurance activity). At the end of 2012, the coverage ratio was 126.1% (127.0% at the end of 2011).

***Table 16: Assets covering the technical provisions***

PLN '000

| Item | Total | % of technical provisions | Maximum % limit |
|---|---|---|---|
| **A. Technical provisions** | **15 651 881** | **100,0%** | |
| **B. Assets to cover technical provisions** | **19 741 146** | **126,1%** | |
| 1. Securities issued or guaranteed by the State Treasury and international organizations to which the Republic of Poland belongs | 9 552 017 | 61,0% | no limit |
| 2. Bonds issued or guaranteed by local authorities or associations of local authorities | 52 759 | 0,3% | no limit |
| 3. Other fixed income securities | 1 276 627 | 8,2% | 10% |
| 4. Units or certificates in investment funds | 6 163 568 | 39,4% | 40% |
| 5. Real property or its part, excluding property or its part used for internal purposes | 80 492 | 0,5% | 25% |
| 6. Bank deposits | 1 033 591 | 6,6% | no limit |
| 7. Receivables* | 561 411 | 3,6% | 25% |
| 8. Receivables from the State Budget | 81 050 | 0,5% | no limit |
| 9. Fixed assets, other than real property, if depreciated using the prudence principle | 85 605 | 0,5% | 5% |
| 10. Cash | 4 423 | 0,0% | 3% |
| 11. Capitalized acquisition costs | 490 285 | 3,1% | no limit |
| 12. Share of reinsurers in technical provisions | 359 318 | 2,3% | 25% |
| **C. Surplus (shortage) of assets to cover technical provisions** | **4 089 265** | **26,1%** | |

** The maximum limit quoted is the ceiling for technical provisions coverage regarding the total of receivables from cedents, reinsurers, policy holders, insurance agents and reinsurers' share in technical provisions*

In line with the letter from the Polish Financial Supervision Authority No. DN2/107/4/2004 MP dated 25 March 2004, PZU may recognize the share of the reinsurer - AXA France IARD – in technical provisions as assets covering technical provisions in the amount exceeding 5% of these provisions.

## 13.8. Changes in investments in controlled entities

As at 31 December 2011, PZU held 1,530 shares in ICH Center S.A. accounting for 90% of its share capital.

On 16 March 2012, liquidation procedure commenced with regard to ICH Center S.A. The decision to liquidate it was related to its operations involving performances for PZU being taken over by the latter.

As at 31 December 2012, the liquidation procedure continued.

It is projected that the company will be liquidated and deleted from the register of entrepreneurs in Q2 2013.

## 13.9. Significant off-balance sheet items

As at 31 December 2012, disputable claims not accepted by PZU as the insurer and claimed at court amounted to PLN 94.5 million (PLN 53.5 million as at 31 December 2011).

Under the guarantee line agreement of 26 September 2008 between PZU and Bank Millennium SA, the bank extended bank guarantees (bid bonds and performance bonds) to PZU in procurement proceedings for insurance services. The guarantee line amounts to PLN 15 million and is annually extended for another year. As at

31 December 2012, under the facility valid for the period from 29 September 2012 to 27 September 2013, 53 guarantees for the total amount of PLN 6.5 million were granted.

Further, as at 31 December 2011, PZU had a surety regarding an agency agreement granted by Raiffeisen-Leasing Polska S.A. in the amount of PLN 11.0 million and contingent receivables from Syta Development as a collateral of a loan originated by PZU in the amount of PLN 2.3 million.

Further, PZU holds contingent receivables in the form of promissory notes regarding insurance guarantees granted under agency agreements (as at 31 December 2012, PLN 7,958.3 million and as at 31 December 2011, PLN 7,7747,4 million).

## 14. Risk factors which may affect financial performance in the following periods

Key risks that can affect the Company's performance in the property and personal insurance segment in 2013:

- catastrophes (flood, hurricane, draught, spring frost);
- economic slowdown or stagnation, which may result in an increased number of claims in the financial and property portfolio due to moral hazard;
- decreasing sales of new cars resulting in a reduced number of motor insurance policies sold;
- legal or regulatory changes regarding business operations, i.e. amendments to the Act on insurance activities, introduction of new standards by Financial Supervision Authority Office and Supreme Court decisions favourable for consumers;
- growing consumer awareness that may translate into an increased number of claims, resulting among others from activities of consumer bodies, such as Office of Competition and Consumer Protection, Insured's Ombudsman, Financial Supervision Authority;
- growing insurance delinquency;
- increase in the number of drivers without TPL insurance following introduction of the new insurance principles (amended Act on obligatory insurance);
- continued unemployment rate growth in 2013 and a slowdown in individual consumption, which translate to flat demand for insurance products;
- pricing pressure of competitors, in particular resulting from reduced motor claim number in 2012;
- returning growing trends in the claims ratio, in particular in the frequency of claims;
- increase in the average cost of personal claims due to a growing share of private healthcare and the principle of compensation for a relative's death (Article 446 § 4 of the Civil Code of 23 April 1964, Law Journal No. 16 of 1964, item 93 as amended), which may require an increase in the value of TPL motor insurance provisions;
- risk of growth in the number and value of claims and victims related to the Act on group claims of 17 December 2009 (Law Journal No. 7 of 2010, item 44 as amended);
- stronger position of insurance brokers, which may result in increased acquisition costs;
- the VAT Act of 11 March 2004 (Law Journal No. 54 of 2004, item 535 as amended) lacking a precise definition of exemptions regarding e.g. insurance or medical services;
- unknown date and scope of implementation of Solvency II which may impact the capital requirement level in the PZU Group;
- changes in regulations applicable to banks, which may result in a reduced number of mortgage loans granted and debtor insurance policies.

## 15. Management Board's position concerning previous performance projections

PZU did not publish or disclose any projections concerning separate financial information.

# PZU ACTIVITIES IN 2012

## 16. Activities, key developments and achievements of PZU

### 16.1. Scope of activities of PZU

The core business of PZU involves insurance activities and directly related to them with regard to other personal and property insurance (Class II) according to classification prescribed in the Act on insurance activities (Law Journal 2010.11.66):

1. Accident insurance, including industrial injury and occupational disease
2. Sickness insurance
3. Comprehensive insurance of land vehicles other than railway rolling stock
4. Comprehensive insurance of railway rolling stock, covering damage to such stock
5. Comprehensive insurance of aircraft, covering damage to aircraft
6. Insurance of sea and inland navigation, comprehensive insurance of vessels in sea and inland navigation
7. Goods-in-transit insurance, covering damage to goods in transit
8. Insurance against natural forces
9. Insurance against other damage to or loss of property
10. Third party liability insurance of any type, ensuing from the possession and use of self-propelled land vehicles, including insurance of carrier's liability
11. Aircraft liability – all liability arising out of the possession and use of aircraft, including carrier’s liability
12. Civil liability for ships in sea and inland navigation, arising out of the possession and use of sea and inland vessels, including carrier’s liability
13. Third party liability insurance (general third party liability insurance)
14. Credit insurance
15. Suretyship
16. Insurance of various financial risks
17. Insurance of legal protection
18. Insurance of assistance to persons encountering difficulties while travelling or when away from their place of residence.

After 1 January 2012, being the effective date of the Act of 25 March 2011 amending certain social insurance related acts (Law Journal No. 75 of 2011, item 398), which among others amended Article 92 of the Act on pension funds forbidding insurers’ acquisition for open pension funds, PZU has ceased its acquisition services for OFE as of that date.

On 30 May 2012, General Shareholders' Meeting of PZU passed Resolution No. 25/2012 amending the Company's By-laws and deleting the provision that allows acquisition for open pension funds.

The above amendment was recorded in the National Court Register on 18 July 2012.

In 2012 and 2011 PZU did not file a request to change the scope of the permit to carry out insurance activities. Moreover, in 2012 and 2011 PZU permits for insurance activities with respect to one or more insurance class were not withdrawn and no receivership was established.

## 16.2. Rating

PZU is regularly rated by credit rating agencies. The rating assigned to PZU results from an analysis of its financial information, competitive position, management and corporate strategy. It also includes a rating outlook, i.e. an assessment of the future position of the Company in the event of specific circumstances.

As at the date of the report, PZU had a long-term credit rating and financial strength rating (assigned by Standard & Poor's Ratings Services on 16 July 2009) at the A level with a stable rating outlook. On 23 July 2012 Standard & Poor's Ratings Services maintained the above rating.

This is one of the highest ratings received by Polish company. Long-term credit rating in local currency as the date of the report is established at A level with a stable rating outlook.

The table below presents PZU ratings assigned by Standard&Poor's, together with those of the previous year.

***Table 2: Rating PZU***

| Company name | Rating and outlook | Update | Previous rating and outlook | Previous update |
|---|---|---|---|---|
| Financial strength rating | A /stable/ | 23 July 2012 | A /stable/ | 22 July 2011 |
| Credit rating | A /stable/ | 23 July 2012 | A /stable/ | 22 July 2011 |

## 16.3. Operating activities of PZU in 2012

### 16.3.1. Sales

PZU offers a wide range of personal and property insurance, in particular motor, property, personal agricultural and other TPL insurance. At the end of 2012 the Company's offer included over 200 insurance products. Motor insurance constitutes the most important product group offered by PZU, both in terms of the number of binding insurance contracts and the share of gross written premium in the total gross written premium of PZU.

In 2012 PZU activities focused on improving the profitability of the corporate insurance portfolio and pro-sales activities in the retail mass segment.

### Products – mass segment

- In March 2012, motor insurance tariffs for individuals and SME changed and were adjusted to market conditions.
- In 2012, regular verification of all new PZU clients commenced for compliance of their data stored in Information Centre of the Insurance Guarantee Fund with their Bonus-Malus statements regarding insurance history.
- Following amendment of the Act on obligatory insurance, Insurance Guarantee Fund, Polish Office of Motor Insurers and certain other acts effective from 11 February 2012, PZU adjusted its operations to these amendments, among others through change of selected general terms and conditions, information provided to clients and operating procedures.
- On 1 July 2012, a new residential insurance version was introduced called PZU DOM Plus with a wider scope of risk included. In the same time, PZU DOM product, a narrow version of PZU DOM Plus, was withdrawn.
- In relation to European Commission guidelines regarding EU Directive on Sex Equality, PZU withdrew from its offer a product whose premium amount depends on sex: individual insurance of daily hospital performance.
- Comprehensive insurance tariffs in PZU DORADCA product for SME were adjusted to the risk level, in particular including flood risk.
- Due to high number of claims regarding obligatory insurance of subsidized crops, in autumn 2011, changes were introduced to the insurance offer to improve its profitability.
- Pursuant to amendments of legal acts (the package of health acts), in 2012 a new offer of obligatory and voluntary insurance products addressed to medical entities was introduced.

### Products – corporate customer

- In accordance with its strategy, PZU carried out activities aimed at improving the profitability of TPL and motor own damage insurance, among others through relatively restrictive underwriting policy and selective sales addressed to selected portfolio segments. As a result, and due to formerly introduced changes in tariffs, further improvement in underwriting profit/loss was observed.
- In property insurance segment, the profitability and portfolio quality improvement measures included maintaining a key role of underwriting through:
    - selective sales of policies, including entities from industries characterised with high number of claims
    - continued improvement and specialization of selection, classification and risk assessment process
    - common use of additional clauses and other technical and insurance restrictions that modify the scope of insurance.
- In TPL insurance:
    - modified TPL products were introduced for therapeutic entities as a result of legislation changes regarding the scope of liability and increasing the guarantee amount;
    - risk assessment tools were used consistently and relatively restrictive insurance terms and quoting principles applied
    - in medical TPL insurance, risk survey use increased.

### Products – financial insurance

- In mid-2012, the Management Board of PZU suspended sales of guarantees to construction companies due to the crisis and bankruptcies on construction market. Since then, the Company has only sold contract guarantees in other industries. The decision has resulted in a substantial reduction of written premium in this product compared to the previous year.
- In 2012, written premium related to bank loan insurance increased, mostly in relation to insurance of the entire portfolio of mortgage loans originated by PKO BP. At the end of 2012, a new framework insurance agreement regarding repayment of mortgage loans was concluded with ING Bank Śląski SA.
- Work was also commenced with regard to new products, among others lease repayment risk insurance until establishing of a mortgage and lease repayment risk insurance with regard to the insufficient own contribution of a lessee.

### Products –bancassurance

- In 2012 the Company continued cooperation with the existing partners, i.e. leading banks in the Polish market, to include PKO BP SA, ING Bank Śląski SA, Bank Millennium SA, BGŻ SA. Special insurance products added to bank ones were launched: insurance programs to payment cards, insurance of buildings and residential premises added to mortgage loans.
- Cooperation with counterparties with large client bases or supporting mass payments was continued and negotiations commenced with new partners, among others IT companies, power plants and commercial networks. It included introduction of a series of new specialized insurance products, among others regarding mobile phones, notebooks and debt repayment risk in case of losing a job.

### General terms and conditions of insurance

General insurance terms and conditions are published in PZU website (www.pzu.pl) and available in PZU offices. According to the Act on insurance activity, general terms should be delivered to the policy holder prior to concluding an agreement.

According to Management Board Regulations adopted in PZU, obligatory and voluntary insurance tariffs and general terms of voluntary insurance are determined in the form of resolutions.

### Insurance contracts exceeding 25% of the total of TPNR and equity

During 12 months ended 31 December 2012, PZU did not conclude an insurance agreement whose sum insured with regard to a single risk net of reinsurance would exceed 25% of the total of technical provisions and equity.

#### 16.3.2. Sales network

Organization of PZU sales network is to ensure that high efficiency of sales is maintained, accompanied with high service quality. This is achieved through dual organizational of sales:

- division by distribution channel;
- customer segmentation.

Key distribution channels:

- Exclusive agents:
  - At the end of 2012, own agency network of PZU consisted of 318 office agents, 5,710[2] field agents and 23 partner agencies providing workplaces for the agents;
  - In 2012, 1,078 agents were recruited;

[2] Including dealers cooperating with PZU based on an exclusivity agreement (153)

    - the agency channel is the key one for sales of all sorts of insurance to mass clients, with special focus on motor and property insurance.

- Multi-agents:
    - 2,511[3] agents cooperating with a number of offices and selling mostly to mass clients;
    - in this channel, all sorts of policies are sold, with special focus on motor and property insurance.
- Insurance brokers:
    - About 850 brokers cooperate in particular with the Corporate Client Function.
- PZU employees:
    - About 470 employees working in own PZU offices sell insurance in particular to corporate clients.
- Bancassurance:
    - In 2012, PZU cooperated with 9 banks and 3 strategic partners holding large client bases or maintaining mass payments (telecoms, airlines);
    - In this channel, sales of property insurance are limited to policies linked to bank products or basic services provided by the key strategic partner.
- Direct:
    - Sales to mass clients through telephone and Internet.

### 16.3.3. Claims handling

Losses or claims may be submitted via:

- Internet
- Telephone or PZU Group Hotline
- Personally, in a selected PZU Branch or shop belonging to the PZU Repair Network
- In writing (sent via mail, e-mail, fax).

Losses are adjusted in 9 adjustment centres around the country. If the process is based mostly on e-data (in the form of images, documents and data from operating systems) and the service location not depending on the residence of the insured / place where an event occurred, the method involving equal distribution of workload to individual loss adjusting centres has been adopted.

For a few years, PZU has undertaken measures aimed at reduction of broadly understood insurance crime. For this purpose, among others analyses of relations among data in PZU operating systems and Information Centre of Insurance Guarantee Fund are carried out. Further, cost estimates are verified based on standardised procedures aimed at inefficiency reduction.

In 2012, under improvement of claims handling with regard to motor insurance claims, the following measures were undertaken:

- Cost optimization through centralising of claim handling procedures regarding substitute vehicles;
- Centralized handling of records of cost verification orders regarding car repairs;
- Automated random allocation of losses to key adjusters located in one of the 9 claims handling centres;
- Automated control of cost estimates prepared by repair shops and submitted through Clam Communication Platform (Eurotax Audyt service);

[3] Including dealers cooperating with PZU based on a multi-agent agreement (996)

- Control of car repair cost estimates prepared by repair shops (service by Control Expert);
- Simplified procedure of window break claims handling.

The following changes were introduced in 2012 to property claims handling:

- Another stage of expert system integration aimed among others at verification of external bills / cost estimates with the claims handling operating system;
- Reduction of the average claim amount regarding premises, among others by adjusting the existing assumptions to current repair technologies;
- New versions of property and TPL claims handling procedures;
- Implementing a comprehensive document "Property claims handling standards for corporate clients (CC): claims handling stages" in order to optimize the amount of claims paid and recovered (recourses) and to reduce the risk of future loss, among others by providing CC Function underwriting unit with relevant information;

  Pilot of simplified claims handling procedure for crops to allow reducing the handling of the related claims to about 10 days.

The following measures were taken with regard to personal claims handling:

- Free Rehabilitation Programme involving cooperation on diagnostic and rehabilitation services with medical entities around the country has been extended;
- Automated communication with providers of diagnostic services in TPL and accidental insurance was introduced. At present, data with all 4 providers are extended on an automated (systemic) basis;
- Mass correspondence service managed by claims handling system was introduced.

Due to above mentioned activities the average claims handling ratio in 2012 has decreased by approximately 4.5 days and amounted to 15.65 days, including 18.78 for motor third-party liability insurance and 15.34 for motor own damage insurance.

### 16.3.4. PZU organizational structure

The organizational structure of PZU is based on the functional and territorial coordination of tasks. As part of the functional coordination, PZU has been divided into coordination divisions for specific functions such as sales management in specific client segments, claims handling, POS network management, financial division, HR division, investment division and division responsible for the support function. The territorial coordination is carried out via the company's territorial structures (regional branches or relevant divisions/functional areas).

As at 31 December 2012, the Company's organizational structure comprised the following units:

- Head office: supporting the Management Board in the management of the Company's operations and coordination of operations of the PZU Group; preparing assumptions and development plans for the Company's operations and organization; the centre of planning and management of the Company; determining business objectives, defining strategy and coordinating its implementation;
- Specialised units: specialised operating centres providing the following services for the entire Company or in a determined region of the country: Contact Centre, insurance operations unit, claims handling unit; accounting operations unit (insurance and non-insurance); HR operations unit; collection operations unit; financial insurance unit; administrative support unit;
- regional branches with the branch network: points of sales offering direct comprehensive client services regarding property and life insurance.

A portion of operations is carried out via subsidiaries (for instance PZU Pomoc – claims handling and PZU Asset Management – managing the asset portfolio) and outsourcing.

The organizational structure of the Company includes committees, collective bodies with decision-making and opinion-giving power.

On each organisational level (head office, specialised units, regional branches, PZU branches) most of these structures are fully integrated and provide their services to PZU and PZU Życie.

As a part of optimisation of the organisational structure and tailoring the business strategy to changing environment in 2012 the Group introduced the following key organizational changes:

- Restructuring of the marketing division, by way including insurance product management to this division;
- Reorganization of sales channel management – sales channel based approach;
- Establishment of the Investment Division;
- Establishment of the Health Insurance Division in PZU Życie SA;
- Further centralization of insurance operations (liquidation of 5 insurance operations units and creation of 2 centres) in PZU SA;
- Unification of centres of PZU and PZU Życie responsible for insurance accounting;
- Centralisation of financial support, which was provided to field offices at a regional level, in central and specialized units;
- Establishment of the HR Division;
- Centralization of HR operations and establishing a payroll and HR centre (to replace the payroll centre and dispersed HR services provided at a regional level).

### 16.3.5. IT area

In 2012, measures performed under the IT strategy were based among others on the following assumptions:

- Long-term plan to develop applications supporting key business areas based on the IT architecture agreed with business functions;
- System version issue management process to optimise the number of system changes at the same time ensuring improved quality and timely implementation;
- IT sourcing strategy with a well-defined sourcing model balancing internal and external sources based on know-how and costs;
- Simple, common, transparent measures of efficiency and effectiveness of IT processes and expenditure based on a detailed cost allocation model.

#### Guidewire

In 2012, tender procedure was completed and the new policy management system by Guidewire was selected. The project is of strategic importance for PZU and has been called Everest. System implementation is based on the agile methodology ensuring high quality of work, maximum alignment of results with business needs and keeping the pre-determined deadlines. Apart from IT, all key business areas including sales (including distribution channel management), operations and product management, claims handling, debt collection and accounting are involved in implementation. The new system will entirely transform processes performed in PZU, in particular will dramatically reduce time to market for new products. The transformation will take 3-4 years and include integration of products, sales, operations, policy management and claims handling.

#### Other activities

In 2012, a series of activities aimed at supporting of key business initiatives and optimising of technical infrastructure were performed, in particular:

- Another stage of the project regarding the shared ERP-class system for PZU and PZU Życie was implemented and replaced the old finance and accounting systems of the companies;
- Internet auction platform was improved to allow sales of assets remaining after property damage to a broad audience and precise valuation of these assets for the insured;
- Changes were introduced in all IT systems of the PZU Group with regard to visualizing standards in relation to refreshed PZU brand;
- IT tools were introduced to support new principles of employee assessment, bonuses and incentives for PZU Group employees, as well as training with the use of modern e-Learning technologies;
- The process of securing workstations used by PZU Group management thus significantly improving safety of key data; the process has been continued for other mobile devices used by PZU Group employees;
- WAN acceleration project was completed and resulted in material speed-up of its operation and rationalized used of infrastructure and capacity;
- VoIP phone system was put into operation for all PZU Group employees, which reduced operating expenses and improved the service quality;
- Internal processes were refined in accordance with international ITIL standards, which included implementation of IT hardware and software management principles.

Further, in 2012 a few material initiatives were commenced, which will result in implementation of new IT tools, including those supporting the new sales structure.

### 16.3.6. Key marketing activities

In 2012, the image campaign was the key task, with the objective to communicate that PZU had been transformed into a modern, client-oriented company.

At the same time, attention was drawn to such features as reliability and stability, although the firm adjusted to the contemporary market and clients' expectations. "Changing for good"

The campaign included not only logotype change, but also modification of branches and POS, as well as advertisement communication.

The logotype was selected after months of work and research. The refreshed logo refers to one used by the firm from 1952 to mid-nineties. It is simpler and more legible that the old one. Within two months of commencement of the campaign (i.e. 10 May 2012), the new visualisation with the logo was distributed to over 2,000 branches, agent offices and repair workshops. Over 1,165 templates of forms and documents received the new logo as well.

In 2012, total expenses incurred by the PZU Group in relation to the media campaigns amounted to PLN 34.4 million.

At the same time, presentation of the broad product offer of PZU was taking place, including motor, agricultural, tourist (PZU Wojażer), finance (e-myto) and PZU Niezguba insurance products. All these campaigns were carried out in TV and Internet, and in other selected media (radio, press).

### 16.3.7. Key HR activities

**Restructuring of PZU**

*Restructurization plan for 2010-2012*

On 29 December 2009 the Management Board of PZU and PZU Życie announced an implementation plan of the restructuring program for 2010-2012.

Staff restructuring and optimization in the years 2010-2012 was carried out in accordance with the provisions of the Act of 13 March 2003 on special principles applicable to termination of employment contracts for reasons other than through the fault of employees (Journal of Laws No. 90 of 2003, item 844 as amended) as a part of group layoffs and individual redundancies based on the Act in question. Every intention of group layoffs was consulted with the trade unions operating in the companies and applicable District Employment Agency was informed of initiation of the group layoff procedure in line with the Act of 13 March 2003.

On 10 July 2012, the Management Boards of PZU and PZU Życie decided to continue the employment restructuring process and requested the respective labour unions to commence work on agreements regarding collective layoffs, in accordance to the Act on special principles of employment termination for reasons not related to employees (Law Journal No. 90 of 2003, item 844 as amended) and provided the competent County Labour Office with information about the commencement of the collective layoff procedure.

On 24 July 2012, PZU and PZU Życie and the respective labour unions concluded an agreement regarding terms of employment restructuring. The final version of the document was based on experience gained and solutions developed during similar negotiations in previous years.

Finally, the above stage of restructuring included 698 people in PZU (160 had their employment terms modified, 538 were laid off, out of which 396 terminated their contracts refusing to accept new employment terms).

In all restructuring stages (i.e. in 2010-2012), individuals who were laid off or refused to accept the proposed change of employment terms were offered more favourable terms of leaving the company than projected by relevant legal regulations (Act on special principles of employment termination for reasons not related to employees). The amount of additional redundancy pay on each stage was different; at the same time the redundancy package depended on the salary of each employee and their time of employment at the PZU Group.

*Restructurization plan for 2013*

On 27 December 2012, the Management Boards of PZU and PZU Życie published assumptions of the restructuring plan for 2013 to include mainly claim adjustment and finance areas, as well as auxiliary functions, but to much lower extent. On 13 February 2013, the Management Board of PZU Życie announced the plan to carry out group layoff. The restructuring action shall take from March to June 2013. It will include up to 2,901 employees of PZU, with the estimated employment reduction level up to 583 people.

The total 2012 restructuring costs charged to the provision amounted to PLN 51.3 thousand (2011: PLN 39.0 thousand).

As at 31 December 2012, the restructuring provision totalled PLN 47.9 thousand (as at 31 December 2011: PLN 86.9 thousand) which meant a decrease in the provision in 2012 by PLN 39.0 thousand.

### Termination of the Collective Labor Agreement

On 28 February 2012, Management Boards of PZU and PZU Życie terminated Collective Labour Agreements (CLA) concluded in these companies in 2003 and 2006, respectively, mainly because they needed a new remuneration system, better adjusted to market conditions and providing better incentives. Details of the negotiations are described in point 57.8 of Notes in consolidated financial statements of PZU Group.

The proposed principles of remuneration system implemented in 2012 included:

- New bonus rules to be introduced in Q4 2012: the monthly bonus up to 25%% of the base pay to be replaced with a quarterly bonus up to 30%% of the base pay (directly linked to performance);
- Maintaining other employee benefits (retirement benefit and jubilee bonus) only to the extent determined in the Labour Code. As a consequence:
    - retirement benefits have been limited to one-month salary, i.e. the level determined in the Labor Code. Former internal regulations of PZU extended the aforementioned entitlements for employees whose length of service at the PZU Group companies exceeded 10 years (up to 6 times an employee's monthly pay, depending on the overall length of service);
    - jubilee benefits have been liquidated

The results of implemented solutions did not significantly affect remuneration and other employee benefits costs in 2012, except release of provision for employee benefits (retirement seven ray pay and jubilee bonuses) where amount of PLN 142.5 million was included in other operating revenue.

### Other HR activities

In 2012, activities performed focused in particular on improved motivation, promoting cooperation and initiatives among employees and employer's image building. Further, the change in the system of deliverables management and bonuses, strategic objectives of the Company were linked to remuneration on all organizational levels.

In 2013, the first employee assessment regarding 2012 shall take place with the purpose to promote desirable attitudes. For this purpose, DNA of an employee and of a PZU Leader was developed as the basis of the annual employee performance assessment. In order to strengthen "genes" in the DNA, employees and managers can select courses offered by HR function.

At the same time, in 2012 job valuation process began in order to link the remuneration level to competencies, required skills and market standards. It shall be completed in Q1 2013.

The e-learning platform put into operation allowed among others distributing information regarding HR activities, including the new remuneration and DNA systems. Statistically, there were 8 hours of training per employee delivered through this platform. The target training offer shall be extended by additional modules including soft skills and industrial topics. The industry-related knowledge can be extended also through access to e-materials (including media monitoring), industry magazines and press.

At the same time, a full package of on-site courses has been developed to include: managing challenges, manager's CV, coaching, individual and group courses, studies and specialist forms of professional development, language courses and MBA curricula. A development programme for managers called Lider 2.0 was opened with the purpose to enhance key PZU managers in their roles of versatile leaders.

Entry and exit mechanisms were introduced in the organisation. The orientation process for new hires assumes building involvement and loyalty based on the climate of openness and cooperation. Each individual leaving the organisation upon mutual agreement is asked to express an opinion regarding his/her work in PZU and motives underlying the decision to change employer. The recruitment period (at present 28 days) was reduced.

Further, involvement survey was held among employees. It resulted in a project called TOP 30 – Change Leaders. Its objective is to develop initiatives that improve employee involvement in 5 areas: "People: our key resource", "Paying for performance", "Grow with PZU", "Client First", "PZU Ambassadors".

Internship programme was commenced as an initiative aimed at strengthening the position of PZU as an employer of choice. The programme allows students and graduates developing their knowledge and skills and using them in business. Further, PZU participated in a series of initiatives addressed to young-talents, among others Writing with Knowledge and PZU Ambassador. These activities improve the value of PZU brand as a good employer (the fifth place in the third edition of Antal International survey "Employers of choice 2012 as seen by professionals and managers").

## 16.4. Key developments and implementation of the strategy

In 2012, PZU Group published its strategic objectives for the years 2012-2014. Their summary is presented in the following table.

| Objective | Measures undertaken in 2012 |
|---|---|
| **Business pillars:** | |
| **Mass client** | |
| Maintaining profitability of assets | 1. Underwriting profit/loss (excluding change of technical rates) increased by PLN 462.2 million y-o-y, i.e. + 168.5%.<br>2. According to FSA, for the first three quarters of 2012, market no. 1 in personal insurance (33.4%), comprehensive and TPL motor insurance (27.4%) and in other insurance (49.0%).<br>3. A new mass sales management model was implemented with focus on improved efficiency of multi-channel distribution management.<br>4. Nowa Era Sprzedaży (New Sales Era) in the multi-agent channel was implemented to |

| | |
|---|---|
| | improve efficiency of cooperation with the channel.<br>5. More sales campaigns were performed based on an extended sales support tool (analytical CRM).<br>6. Actions were performed to introduce a new product system that will improve product flexibility and refinement and serve as a tool for individual distribution channels. In 2012, a new operating model was developed, a supplier selected and a detailed analysis performed. Implementation work was commenced. |
| Development of life insurance | 1. Works on a new strategy for individual life insurance were started due to the change in market situation (including a number of documents issued by the Office of Competition and Consumer Protection and the Insurance Ombudsman). |
| Building a position in investments | 2. At the end of 2012, TFI PZU won the first place in terms of value of managed assets according to IZFA (13.1% compared to 5.4% partly due to transfer of assets). |
| **Group Client** | |
| Maintaining the leading position and profitability in life insurance | 1. Stable increase in gross written premium and underwriting profit (Y/Y) in basic types of insurance ("P" type).<br>2. Introduction of new individually continued group life insurance.<br>3. Dynamic growth of new sales.<br>4. Concentration of selected activities in the SME segment which resulted in a 10% increase in sales in the segment (in number of the insured) in 2012 versus 2011. |
| Developing individual relations (Klub PZU Pomoc w Życiu) | 1. An increase in the number of club members to more than 3 million (versus over 2 million at the end of 2011) enables closer cooperation with clients and expanding the service scope. |
| Dynamic growth in health insurance | 1. A 24.3% increase in the gross written premium in health insurance Y/Y.<br>2. A 17.2% increase in the number of risks in group health insurance Y/Y.<br>3. Further improvement and development of the outpatient medical care offer for institutional clients, including further development of a network of service providers and streamlining operations of TPA.<br>4. Market launch of a new product – prescription drug insurance. |
| **Corporate client** | |
| Regaining market position with profitability maintained | 1. Underwriting profit/loss increased (z wyłączeniem efektu zmiany stóp technicznych) by PLN 79.8 million y-o-y, i.e. + 137.7%<br>2. According to FSA, for the first three quarters of 2012, market no. 1 in corporate and other insurance in terms of motor own damage insurance (43.3%) and in TPL insurance (49.3%).<br>3. Work was commenced to develop and implement a direct sales model for corporate clients. The activity supported the strategy of transforming PZU into a business partner with a strong expert position, not only selling insurance policies, but also providing clients with advisory support.<br>4. Work on developing of a shared system of cooperation with brokers was completed.<br>5. Verification of tariffs for profitability and sales was performed, as well as verification of calculation tools. |
| **Other areas** | |
| Efficient capital and investment policy | 1. Financial and credit rating of PZU and PZU Życie according to Standard & Poor's on the A level (with the stable rating outlook for both companies) is the highest rating granted to Polish companies.<br>2. Work was performed to prepare the PZU Group to fulfil Solvency II regulatory requirements. |
| New international expansion | 1. Developing business in Baltic countries: PZU is present in Lithuania; inLatvia, first sales |

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| model: PZU International | of policies took place in December 2012; in Estonia sales is planned for for Q2/32013.<br>2. With its large capital base, PZU is searching for investment opportunities both in the country and abroad. |
| Strategic marketing / Corporate Social Responsibility | 1. Since January 2012, PZU has been included in the Respect Index of socially responsible companies.<br>2. Fourth place in the Ranking of Most Precious Polish Brands by Rzeczpospolita Daily in 2012.<br>3. The main award in "Charity Leaders 2012" among companies who provided the most funds for social purposes in 2011 (PLN 20.7 million).<br>4. In 2012, PZU and PZU Życie assigned the total of PLN 16.8 million for charity. |
| **Implementation conditions** | |
| **Middle-office:** modern integrated client service model | 1. Over 350 shared POS of PZU and PZU Życie were established providing their clients with an opportunity to fix both property and life insurance in one-stop-shop.<br>2. Implementation of the network of high-visibility modern branches shared by the entire Group and focused on sales continued. At the end of 2012, there were 52 branches.<br>3. The structures of managing the existing offices in the PZU Group were unified and the process of front-office staff unification commenced in order to provide comprehensive services to customers in the life and property segment in all offices.<br>4. PZU Group Client Centre was opened, being a specialist central unit dealing with clients' issues.<br>5. Work aimed at optimization of claims handling area continued, to include:<br>• progressing centralisation and optimisation of claims handling; initiating remote employment solutions as an alternative for office work;<br>• implementing Assistance order handling platform and a platform allowing communication with seasonal loss adjusters under E-szkoda platform development;<br>• mass printing service was implemented;<br>• claims handling for selected insurance was optimized and took the form of phone service thanks to implementation of a simplified process for transport losses. |
| **Back-office**: efficient operations, flexible IT | 1. In 2012, implementation of DSP product system for property insurance was commenced.<br>2. Centralisation and optimisation of operating processes continued. In 2012, 2 Operation Centres were closed, as well as a branch office and Insurance Operations centre. Their activities were transferred to CBO in Łódź and Opole.<br>3. The second implementation stage of the shared ERP-class system in PZU and PZU Życie was completed. Additionally, in the first half of 2012, unified real property management procedures were implemented and a pilot performed for some insurance accounting processes, whose full implementation was continued in the third stage of implementation: in January 2013, further insurance accounting processes were implemented in PZU and PZU Życie.<br>4. A tool to monitor IT system breakdowns was implemented that allowed reduction of time necessary to identify and rectify problems. |
| **HR:** business partner / involved employees / performance oriented culture | 1. In Q1 2012 CLA termination process was completed. It proceeded smoothly, with 98.4% of employees having signed amendment arrangements. This was the first step towards a new market-based remuneration system in the PZU Group.<br>2. Employee and performance assessment was implemented. In Q4 2012, for the first time employees were assigned quarterly targets and made accountable for them.<br>3. Job valuation was verified for consistency in PZU and PZU Życie.<br>4. A training platform was successfully implemented and e-learning commenced, which translated into improved training efficiency through: substantial reduction of organizational costs, time savings, ability to adjust the training date to the current |

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| | position / workload, training being available for any number of participants, ability to monitor training outcome.<br>5. The second edition of the internship programme was commenced, aimed at strengthening the position of PZU as an employer of choice (interns were hired). These activities improve the value of PZU brand as a good employer (the fifth place in the third edition of Antal International survey "Employers of choice 2012 as seen by professionals and managers"). |
| **Branding:** PZU is a modern, truly client-oriented firm | 1. Image change, including logotype, office arrangement and advertisement communication.<br>2. On 10 May, a new logo was presented at a press conference and the brand refreshment process commenced.<br>3. From 12 May to 31 July a campaign was held called "changing for good" as a part of the image-changing action.<br>4. High brand recognition: 55% of potential brand customers mention PZU as the first recognizable insurance brand (4 p.p. growth), 90% of potential clients surveyed spontaneously mention PZU as one of insurance brands ("Insurance brand image survey" carried out by GfK Polonia, telephone surveys, sample N=1,500 per month). |

## 16.5. Corporate social responsibility activities in 2012

### 16.5.1. Ethics in business

PZU applies ethical and corporate social responsibility principles presented in item 11.1

### 16.5.2. Social responsibility

As a part of its educational activities, PZU has supported an insurance website "JakieUbezpieczenie.pl". This is an information and education website, which presents the advantages of insurance in a clear and user-friendly manner.

As every year PZU carried out preventive actions to improve public safety and mitigate various risks. The following activities were carried out in this area in 2012:

- continuation of the cooperation with Tatra Voluntary Mountain Rescue (TOPR), Mountain Voluntary Rescue Service (WOPR) and chosen groups of Water Voluntary Rescue Service (WOPR)
- cooperation with the Misie Ratują Dzieci association in therapeutic and psychological assistance to children who become accident victims;
- Bezpieczna Flota (Safe Fleet) programme addressed to selected fleet drivers was continued;
- in liaison with Disabled Driver Assistance Association the Auto Mobility Centrum programme was pursued, aimed at eliminating mobility barriers for handicapped persons through allowing their safe driving in properly adapted cars;
- organizing contests for intellectually handicapped persons in liaison with Olimpiady Specjalne Polska;
- improving safety in Łazienki Królewskie Museum through extended technical security systems in facilities, personal and property guard in the Museum.

PZU acted as a sponsor and patron of various cultural and sport events – both local and countrywide. The key activities in this area include:

- close cooperation with the Royal Castle in Warsaw and National Museum in Kraków, Nowe Sukiennice Branch;
- patronage over the Łazienki Królewskie Museum;
- PZU zone during the Long Night of Museums at the Royal Castle in Warsaw, Łazienki Królewskie Museum in Warsaw and in National Museum in Kraków;

- sponsoring "Rzeszów Carpathia Festiwal 2012";
- patronage over the Decius Villa in Kraków;
- sponsoring the "Droga na Harvard" competition;
- sponsoring a project of Akcjonariat Obywatelski;
- sponsoring of Krynica Economic Forum;
- sponsoring of Forbes Ball;
- sponsoring Polish Economy Pillar Gala 2011;
- sponsoring of Yalta Finance Forum;
- sponsoring the Academy of Capital Market Leaders;
- sponsoring of Centrum Hewelianum in Gdańsk;
- sponsoring of the Second European Forum of New Ideas in Sopot;
- sponsoring of the Fourth Women Congress;
- sponsoring of the First Congress of Listed Companies' CFOs;
- sponsoring of WallStreet Conference;
- sponsoring of Bukowina Tatrzańska Municipality.

#### 16.5.3. PZU Foundation

In 2012, PZU Foundation performed a number of programmes in cooperation with other institutions and NGO's and granted subsidies of nearly PLN 7 million. Its operations focus on the following areas:

- Education: in particular supporting initiatives that provide young people with equal opportunities of intellectual, professional and cultural development;
- Social care and aid: in particular supporting, promoting and developing activities of handicapped people;
- Culture and art: in particular, supporting cultural institutions in the form of obtaining new collections for them and providing support for organisations of Poles in Eastern Europe;
- Healthcare: subsidising initiatives focused on broadly defined health protection.

**Education area:**

- The ninth edition of competition for grants entitled "Enriching education in rural areas" took place, with 19 projects awarded;
- The following organizations were granted subsidies under partnership programmes:
    - Fundacja Edukacyjnej Przedsiębiorczości in Łódź in the form of scholarships for young people from rural areas and small towns and those for students of Humanities;
    - Polska Fundacja Dzieci i Młodzieży in Warsaw in the form of subsidy to the project "Świetlica Moje Miejsce";
    - Europejski Dom Spotkań Fundacji Nowy Staw in Lublin funding rental of a hall for the purpose of Economic Forum of Young Leaders;
    - Krajowy Fundusz na Rzecz Dzieci in Warsaw providing support for talented kids and youngsters;
    - Fundacja Centrum im prof. Bronisława Geremka in Warsaw sponsoring history workshops for students and teachers;
    - Fundacja Młodzieżowej Przedsiębiorczości in Warsaw subsidising the project "Przedsiębiorczość";

  - Fundacja ABC XXI – "Cała Polska czyta dzieciom" in Warsaw for a writing competition for a contemporary book for children named from Astrid Lindgren;

- Further, one-off subsidies were granted to the following organisations:

  - Fundacja Harcerstwa Drugiego Tysiąclecia in Warsaw, Fundacja Tygodnika Polityka in Warsaw, Instytut Spraw Publicznych in Warsaw, Polskie Towarzystwo Fizyczne in Warsaw, Zespół Szkół Społecznych in Warsaw, Fundacja Klasa Kobiet, Akademia Wychowania Fizycznego in Warsaw, Instytut Głuchoniemych in Warsaw, Stowarzyszenie Centrum Wolontariatu in Warsaw, Fundacja Edukacji Rynku Kapitałowego in Warsaw, Związek Harcerstwa Rzeczypospolitej, Instytut Historyczny NN im. Andrzeja Ostoi Owsianego in Łódź.

**Social care and aid area:**

- 16 organisations were awarded in the ninth edition of the subsidy contest "Developing social activity of handicapped children and youth";
- financial support was provided to 42 aggrieved individuals;
- Under a partnership project, funds were granted for "Lato z Polską" initiative pursued in cooperation with Stowarzyszenie Wspólnota Polska in Warsaw, to fund insurance for approx. 2 thousand Poles spending vacation in Poland;
- One-off subsidies were granted to the following organisations:

  - Fundacja Wspólnota Pokoleń in Warsaw, Wielofunkcyjna Placówka Opiekuńczo – Wychowawcza Wiosna in Wołowo, Fundacja Dziecięca Fantazja in Warsaw, Towarzystwo Rodzin Wielodzietnych in Krosno, Rzymskokatolicka Parafia Św. Andrzeja in Warsaw, Fundacja Tęczowy Dom in Warsaw, Fundacja Dzieło Nowego Tysiąclecia in Warsaw, Fundacja Szkoły Społecznej in Wesoła, Caritas Diecezji Warszawsko – Praskiej i Archidiecezji Częstochowskiej, Parafia Świętego Józefa Oblubieńca in Pruszków, Parafia Rzymskokatolicka in Zielona Góra.

**Culture and art area:**

- Subsidy for Fundacja Pomoc Polakom na Wschodzie in Warsaw – continuing support of radio programmes broadcast by the Polish station in Vilnius;
- In this class, subsidies from financial reserves were granted to the following organisations:

  - Fundacja Dobroczynności i Wsparcia Rozgłośni Radiowej „Znad Wilii" in Vilnius, Muzeum Diecezjalne in Kielce, Narodowe Centrum Kultury In Warsaw, Regionalna Telewizja Lubuska RTV in Zielona Góra, Stowarzyszenie Przyjaciół Nowicy, Fundacja Świat Ma Sens in Limanowa.

**Healthcare area:**

- Subsidy was granted to Polska Unia Onkologii in Warsaw for training of medical personnel in psychology of cancer;
- One-off subsidies for health projects were granted to the following organisations:

  - Fundacja Amicic Cordis in Warsaw, Fundacja Gajusz in Łódź, Stowarzyszenie Na Rzecz Osób z Wadami Rąk in Warsaw, Fundacja Wemenders in Warsaw, Mazowiecki Uczniowski Klub Sportowy in Legionowo, Fundacja Przeciwko Leukemii in Warsaw, Fundacja Ewy

Błaszczyk A Kogo? in Warsaw, Polskie Stowarzyszenie Pomocy Osobom z Zespołem Prader Willi in Warsaw, Fundacja Spełnionych Marzeń in Warsaw.

### 16.6. Key developments planned

According to the Strategy for the years 2012-2014, in the years to come, the operating model of the PZU Group will be transformed from one aligned with product lines to one aligned to client segments. These activities will allow better understanding of client needs and appropriate response to these needs. Plans for the years to come include also further optimisation of PZU Group's operations.

Client-orientation and high operational efficiency will allow the Group's maintaining its leadership position: it will remain the largest and most profitable insurer in the Central and Eastern Europe.

| Objective | Activities planned for 2013 |
|---|---|
| **Business pillars** | |
| **Mass client** | |
| | 1. Maintain the existing market share in motor and property insurance segment.<br>2. Develop savings and investment products, in particular long-term saving ones.<br>3. Further development of the mass sales area, among others in the form of developing key distribution channels. |
| **Corporate client** | |
| | 1. Transforming PZU into a business partner with a strong expert position, acting not only as an insurer, but also as client advisor.<br>2. Maintaining the existing market position in motor insurance and increasing market share in other insurance. |
| **Other areas** | |
| Efficient capital and investment policy | 1. Further changes in investment policy, to include modification of investment structure, which will result in improved profitability and reduced fluctuation of ROI. |
| New international expansion model: PZU International | 1. If interesting offers appear, increasing the scale of operations of the PZU Group in the form of cross-border expansion to Central and Eastern European Markets. |
| Strategic marketing / Corporate Social Responsibility | 1. Continuing activities that support the image of PZU as an institution helping to secure future. |
| **Implementation conditions** | |
| **Middle-office:** modern integrated client service model | 1. Implementing a new client service model assuming integrated contact channel structure corresponding to clients' expectations; in particular further development of the modern POS network.<br>2. Further optimisation of claims handling procedures. |
| **Back-office:** efficient operations, flexible IT | 1. Continuing implementation of the new product system to allow improved operating efficiency.<br>2. Further centralisation and optimisation of operating processes. |
| **HR:** business partner / involved employees / performance oriented culture | 1. Transforming PZU into a performance-oriented organisation.<br>2. Further strengthening of PZU position as an employer of choice through another edition of the internship programme. |

# 17. Risk management

## 17.1. Risk management objective

The risk management objective is to ensure that the PZU Group, when pursuing its business goals, keeps monitoring and managing its portfolios in a safe manner and adequately to the scale of incurred risk. Risk management strategies are an integral part of the management process in PZU and PZU Życie. Key elements of risk management in PZU and PZU Życie include:

- the system of limits and restrictions to acceptable risk level determined by the Supervisory Board, Management Board and adequate Committees;
- identification, measurement, evaluation, monitoring and reporting processes and management measures regarding each type of risk;
- risk management organizational structure, in which Supervisory Board, Management Board of PZU and PZU Życie, ALCO, Credit Risk Committee play key roles.

## 17.2. Risk appetite

Risk appetite is defined as the risk level which the PZU Group is ready to accept when pursuing its business objectives. The definition determines limitations adopted in the risk management strategy.

The risk appetite is defined in the form of limits approved by the Management Board or a relevant committee. The limits determined in PZU and PZU Życie are not allocated to organisational units on lower levels of their organisational structure.

## 17.3. Risk management process

PZU and PZU Życie effectively pursue their risk management strategy through identification, measurement, evaluation, monitoring and reporting processes and management measures. Each element of the process is applied by PZU and PZU Życie to key operational areas, i.e. from the moment of proposing a new insurance or investment product until liabilities or receivables expire, or other activities are completed in relation to the product and support areas.

## 17.4. Organizational structure and responsibilities in the risk management process

The risk management structure is based on four competency levels. The first three include:

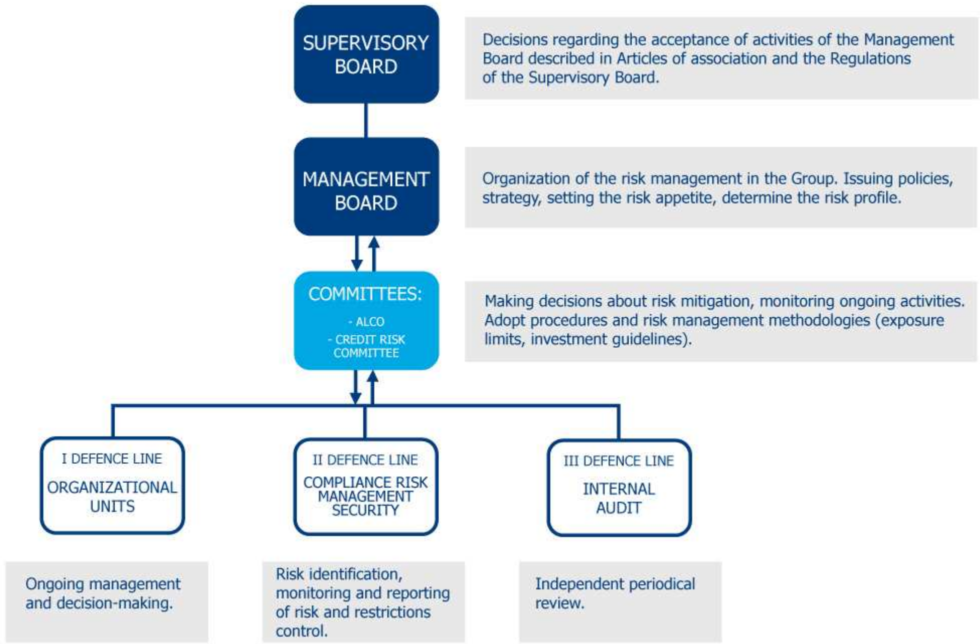
1) Supervisory Board, which supervises the risk management process, assesses its efficiency and adequacy in relation to decisions determined in the By-laws of PZU and PZU Życie and internal regulations regarding operation of the Supervisory Board;
2) Management Board, which organises and ensures operation of the risk management system through determining strategies, policies, risk appetite for each risk class;
3) The Committees (ALCO, Credit Risk Committee) which make decisions on limited level of each risk within the framework determined by the risk appetite. The Committees adopt mitigation procedures and methods for each risks and accept risk limits for every type of risk.

The fourth competency level is the operating one, where tasks included in the risk management process are distributed to three defence lines:

1) Line 1: risk management at the business (organizational) unit level in accordance with valid procedures, guidelines and limits. On this level, risk management is additionally supported with the current internal control principles, including activities performed by supervisors in the form of ongoing or regular control, as well as the controls embedded in procedures and processes by a given organisational units.

2) Line 2: risk management through specialised units and committees (established for the purpose of specific risk management) within the existing risk management framework, based on the applicable principles, methodologies and procedures. On this level, tasks related to risk identification, measurement and control, guidance development, reporting and preparing of management information on risk exposure are performed.
3) Line 3: the internal audit, whose tasks include independent control and audit of key risk management system elements and control activities embedded in the operations of PZU and PZU Życie based on audit and internal control methodologies developed and subject to continuous improvement. Additionally, this line includes monitoring the implementation of auditor's recommendations.

**Chart 3: Risk management organisational structure: roles and tasks**




## 17.5. Risk types

In 2012, the risk profile of the PZU Group did not change significantly. Key risks to which the Group is exposed include insurance, market, credit, operating, and compliance risk.

The following list defines risk types, tools used to manage each risk type and summarises key risk mitigation methods used in 2012.

### Insurance risk

Insurance risk in PZU is the risk of loss or unfavourable value change of insurance liabilities related to incorrect valuation and provision-related assumptions. Insurance risk is the key risk PZU is exposed to.

In PZU, insurance risk management process starts with a proposal to develop a new insurance product.

Assessment of insurance risk involves recognition of the level of threat or a group of threats on which a possible loss occurrence depends and analysis of risk elements in a manner allowing a decision to include the risk in an insurance policy and accept the related liability. The scope of insurance cover, the determined premium amount, and in financial insurance, also the collateral level accepted, are included in the insurance risk assessment.

Insurance risk assessment includes:

- prevention involving insurance risk management in order to:
    - reduce loss frequency;
    - reduce loss value;
- reinsure the largest and most probable risks, to include:

Insurance risk is measured in PZU based on:

- analysis of selected ratios;
- scenario method: analysis of impairment caused by a determined change in risk factors;
- factor method: a simplified version of the scenario method reduced to one scenario per risk factor;
- statistical data;
- exposure and sensitivity measures;
- expert knowledge of Company employees.

Insurance risk in the Company is managed especially through:

- determining tolerance to the risk and its monitoring;
- business decisions and sales plans;
- calculation and monitoring of the adequacy of technical provisions;
- tariff strategy, current estimate monitoring and premium adequacy assessment;
- process of assessment, measuring and acceptance of insurance risk;
- using risk mitigating tools, in particular reinsurance and prevention.

In circumstances indicating unfavourable changes in insurance liabilities or financial losses arising from fluctuation in occurrence, frequency and scale of insured events and from volatility in claim payments, PZU initiates measures aimed at:

- withdrawal of a given product from sale;
- modification of tariffs;
- modification of Company's responsibility scope in individual products;
- introducing new exclusions in general insurance terms and conditions;
- modification of underwriting principles;
- establishing co-insurance programmes;
- establishing reinsurance programmes.

Insurance risk in the Company is limited through:

- defining liability periods in general terms and conditions;
- defining liability exclusions in general terms and conditions;
- establishing reinsurance programmes;
- appropriate tariff policy;
- application of a relevant provision calculating methodology;
- underwriting procedure;
- business decisions and sales plans;
- prevention.

### Market risk

Insurance risk in PZU is the risk of loss or unfavourable value change in the financial standing, arising directly or indirectly from volatility in the level and fluctuation of market prices of assets, liabilities and financial instruments.

Market risk identification involves recognition of actual and potential sources of this risk. It is carried out for all types of instruments, both these with already accepted risk and the planned ones.

Identification of market risk related to assets starts at the moment of deciding to commence transactions with a given type of financial instruments. Entities deciding to commence transactions with a given type of instruments prepare its description to include in particular risk factors and submit it to the Risk Office, which identifies market risk based on the description. Market risk identification related to insurance liabilities commences along with creation of an insurance product and linked to identification of relationships between cash flows generated by the product and market risk factors.

Identified market risks are assessed for materiality, i.e. whether risk materialisation may involve a loss that will impact the financial standing of the Company.

Market risk measurement is based on the following risk measures:

- VaR;
- factor method: analysis of impairment caused by a determined change in risk factors, based on one scenario per risk factor;
- exposure and sensitivity measures;
- accumulated monthly loss.

Market risk measurement includes in particular the following three stages:

- Collecting information regarding market risk-generating assets and liabilities.
- Calculating the risk value.

The risk is measured:

- every day for measures of exposure and sensitivity of instruments held in Kondor+ transaction system;
- monthly using a partial internal model, except from real property used for own purposes, whose balance is updated quarterly and property in real property funds, whose measurement is updated every six months.

Market risk monitoring is double-tracked: internally in organisational units in charge of operational market risk management and independently by the Risk Office. Market risk monitoring involves analysis of risk level and the use of pre-determined limits. The monitoring is carried out in daily or monthly cycles, adequately to the defined limits.

Management measures regarding market risk involve in particular:

- transactions aimed at its mitigation, i.e. sales of financial instruments, closures of derivatives, purchases of hedging derivatives;
- diversification of asset portfolio, in particular for a market risk class, instruments maturity, exposure concentration in one entity, geographical concentration;
- investing in highly liquid debt instruments;
- establishing market risk restrictions and limits.

Limits are the key management tool aimed at maintaining of the risk position within the acceptable tolerance range. The structure of limits per market risk class and for organisational units of the Company is determined by ALCO in a manner ensuring their compliance with the risk tolerance accepted by the Management Board. ALCO defines additional detailed market risk limits.

### Credit risk

Credit risk is defined as the risk of loss or unfavourable change of the financial standing resulting from fluctuations of reliability and creditworthiness of issuers of securities, counterparties and debtors, which materialises in their failure to perform or an increase in credit spread.

The credit risk is measured with:

- exposure limits (gross and net credit exposure and net credit exposure weighted with maturity);
- Value at Risk limits, the risk measure identifying a potential loss unlikely to be exceeded (99.5% probability that it will not be exceeded) under normal market conditions within one year.

Credit risk measurement for a single entity is estimated as the total of individual exposures calculated as a product of two figures:

- risk weight for internal rating;
- net credit exposure weighted by maturity.

Concentration risk per entity is measured as a product of two figures:

- exposure to that entity over the concentration limit;
- concentration risk ratio determined for each internal rating.

The total concentration risk measure is the total of risks of individual entities. For related parties, concentration risk is calculated as total for all of them.

Monitoring of credit risk and concentration involves analysis of risk level, creditworthiness and the use of determined limits.

Monitoring is carried out in cycles:

- monthly for exposure arising from financial insurance;
- every six months for exposures of Reinsurance Office;
- daily for other exposure limits;
- monthly for VaR limits.

Management measures regarding credit and concentration risk involve in particular:

- transactions aimed at their mitigation, i.e. sales of financial instruments, closures of derivatives, purchases of hedging derivatives;
- accepting collateral;
- reinsurance of financial insurance risk portfolio;
- diversification of asset and financial insurance portfolio, in particular for a market risk class, instruments maturity, exposure concentration in one entity, geographical concentration;
- determining limits of exposure to an entity, group, sector, state.

The structure of limits per credit risk class and for individual issuers of the Company is determined by Credit Risk Committee (CRC) in a manner ensuring their compliance with the risk tolerance accepted by the Management Board. Additionally, CRC sets detailed amount limits and quality restrictions.

### Operational risk

Operating risk in PZU is defined as a possibility to incur a loss arising from incorrect or irrelevant internal processes, human errors, system operations or external events.

The objective of operational risk management is to optimize operational risk and operational effectiveness of the PZU Group and therefore to reduce losses and costs resulting from such risks. The process assumes ensuring adequate effective controls and applying appropriate organizational, procedural and technical solutions.

The PZU Group identifies and assesses operational risk by way of collecting and analysing information about this risk type for the following areas: safety, HR, IT and legal. Consequently, the Group is able to assess threats resulting from operational risk.

In order to mitigate operational risk PZU applies the following solutions:

- Update and optimisation of processes and procedures;
- Change of check points, reconciliation and validation structure;
- Automation of controls;
- Emergency plans;

- Monitoring and analysis of security incidents;
- Analysis of staff turnover and steps taken to mitigate the risk in this area such as: staff selection, training and incentive systems;
- Monitoring and analysis of causes of key IT system failures.

Companies in the PZU Group manage operational risk in line with the guidelines defined by the PZU Group and taking into account the type and scale of a particular company.

Members of the Management and Supervisory Boards are provided with periodical operational risk reports.

Business continuity plans

Business continuity plans have been implemented and tested in PZU to ensure correct operation of the key processes in an event of a failure.

### Compliance risk

Compliance risk is a risk of legal sanctions, financial losses, damage to reputation or credibility if the Company, its employees or entities acting on its behalf fail to comply with legal regulations, internal rules and accepted norms of conduct, including ethical standards.

The Company manages compliance risk based on the Compliance Policy and Methodology to Identify and Assess Compliance Risk for internal processes.

Based on the above regulations, separation of competences under the systemic and ongoing management of compliance risk has been introduced. Leaders of areas, units and teams are in charge of ongoing compliance risk management. Management Board, Risk Office Director and Compliance Team are in charge of systemic management.

It includes in particular:

- promoting of norms of conduct regarding compliance,
- developing and monitoring solutions applicable to compliance risk management,
- monitoring of compliance with norms of conduct in PZU,
- monitoring of the compliance risk management process in the Company , to include in particular:
  - developing opinions regarding possible non-compliance of draft internal regulations and information, marketing and advertisement materials addressed to clients and investors,
  - training and internal communication regarding compliance.

Strategic decisions regarding compliance risk and acceptance of the risk level is the responsibility of the Management Board.

In the process of compliance risk management coordinating role fully Risk Office.

Identification and evaluation (measurement) of the risk of non-compliance are performed by organizational units in charge of PZU and additionally, on their own by the Risk Office. Identification and assessment of compliance risk is realized for each internal process set out in the insurance Classifier, by those who directs organizational units, according to the segregation of responsibility for reporting. In addition, the Risk Office identifies compliance risks arising from information included in register for the reports of conflicts of interest, gifts and benefits and deficiencies, as well as affecting queries.

Evaluation and measurement of the risk of non-compliance are made by determining the effects of the materializing the risk, including:

- financial, resulting from:
  - administrative penalties;
  - judicial decisions;
  - agreements penalties;
  - compensation.
- intangible, relating to loss of reputation, including deterioration in terms of image and brand of PZU.

Compliance risk monitoring is carried out in particular by:

- analysis of quarterly reports received from managers of organizational units;
- reviewing regulatory requirements;

- participation in the work of the legislative changes in existing legal environment;
- activity in professional organizations;
- review of the implementation of recommendations of the Risk Office.

Compliance risk reporting to the Risk Office shall be made on the quarterly basis. Reports on risk on a scale of PZU are submitted to the Management Board each year by 15 March of the following year. In 2012, there were no significant incidents of non-compliance risk.

Management actions in response to the risk of non-compliance include the following:

- acceptance of such risk in respect of legal and regulatory changes;
- risk reduction including adaptation procedures and processes in the context of regulatory requirements, evaluation and design of internal control in respect of compliance, participation in the revising the marketing process;
- avoiding the risk by preventing the involvement of PZU in activities inconsistent with applicable regulatory requirements, best practices and those that may negatively affect the image.

## 17.6. Key risk related events in 2012

### Organizational changes

In March 2012, as a part of optimisation and concentration of the decision making process, Credit Risk Committee took over competences of the following committees that were subsequently liquidated:

- Committee in Charge of Financial Insurance and PZU Guarantees, whose key task involved determining strategy and system of limits in the financial insurance and guarantee segment;
- Investment Committee in charge of determining exposure limits for non-banking entities.

### Developing Risk Strategy for the years 2012-2014

In 2012, PZU SA developed Risk Strategy for 2012-2014 with the following key objectives:

- adjusting the PZU Group to the requirements of Solvency II;
- unifying the system of concepts, risk measuring and reporting in the PZU Group;
- building risk map.

### Solvency II

In 2012, a strategic project related to adjusting PZU to Solvency II requirements was commenced. Project work follows the accepted timeline. PZU has been cooperating with Polish Financial Supervision Authority when preparing to implementation of the Directive, in particular participates in all quantity surveys.

## ADDITIONAL INFORMATION

## 9. Shares or rights to shares held by members of management or supervisory bodies of PZU as at the date of the annual report

***Table 18: Shares or rights to shares held by members of management or supervisory bodies of PZU***

| No. | Body / Name and surname | Number of shares held Balance as at 14 March 2012 | Number of shares held as at 13 March 2013 | Change between dates |
|---|---|---|---|---|
| | **Management Board** | | | |
| 1 | Andrzej Klesyk | 0 | 0 | X |
| 2 | Witold Jaworski (Member of the Board until 27 December 2012) | 0 | 0 | X |
| 3 | Przemysław Dąbrowski | 0 | 0 | X |
| 4 | Bogusław Skuza | 500 | 500 | X |
| 5 | Ryszard Trepczyński | 0 | 0 | X |
| 6 | Tomasz Tarkowski | 80 | 80 | X |
| | **Group Directors** | | | |
| 1 | Rafał Grodzicki | 0 | 0 | X |
| 2 | Dariusz Krzewina | 0 | 0 | X |
| 3 | Przemysław Henschke (Director of the PZU Group since 1 February 2012) | 0 | 0 | X |
| 4 | Sławomir Niemierka (Director of the PZU Group since 19 March 2012) | 0 | 0 | X |
| 5 | Barbara Smalska (Director of the PZU Group since 5 February 2013) | b.d. | 0 | X |
| | **Supervisory Board** | | | |
| 1 | Marzena Piszczek (Supervisory Board Member until 30 May 2012) | 0 | b.d. | X |
| 2 | Waldemar Maj | 30 | 30 | X |
| 3 | Zbigniew Ćwiąkalski | 0 | 0 | X |
| 4 | Tomasz Zganiacz (Supervisory Board Member since 30 May 2012) | b.d. | 0 | X |
| 5 | Dariusz Daniluk | 0 | 0 | X |
| 6 | Zbigniew Derdziuk | | | X |
| 7 | Krzysztof Dresler (Supervisory Board Member until 30 May 2012) | 0 | b.d. | X |
| 8 | Dariusz Filar | 0 | 0 | X |
| 9 | Włodzimierz Kiciński (Supervisory Board Member since 30 May 2012) | b.d. | 30 | X |
| 10 | Alojzy Nowak (Supervisory Board Member since 30 May 2012) | b.d. | 0 | X |
| 11 | Maciej Piotrowski (Supervisory Board Member since 30 May 2012) | b.d. | 0 | X |
| | **Razem** | **Total** | **640** | **X** |

No data - as at 14 March 2012 / 13 March 2013 these individuals were not members of Management / Supervisory Board of PZU.

# 10. Other information

## 10.1. Remuneration of members of management and supervisory bodies of PZU

Detailed information regarding remuneration of members of management and supervisory bodies of PZU is presented in Note 32.1.2. to the Financial Statements of PZU.

During the 12-month period ended 31 December 2012, PZU did not conclude agreements with members of its management bodies that would include compensation for their resigning or dismissal from the position without a valid reason, or if they are dismissed as a result of combination through acquisition. Members of the Management Board in PZU have concluded standard no-competition agreements which oblige them to refrain from activities competitive to that of their employer for the period defined in the contract following termination of employment.

## 10.2. Issues, redemption and repayment of debt and equity securities

During the 12-month period ended 31 December 2012, PZU did not issue, redeem or repay any debt or equity securities.

## 10.3. Employee stock ownership plan

In 2012 and 2011 no employee stock ownership plans occurred in PZU.

## 10.4. Price of PZU's shares

The shares of PZU were first traded on GPW S.A. on 12 May 2010. The Company shares are continuously traded in the primary market of WSE. In 2012, PZU shares were included in WIG, WIG20, WIG PL, RESPECT Index (since 1 February 2012) and WIGdiv (since 24 September 2012). On 24 December 2012, PZU was included also in CEERIUS (CEE Responsible Investment Universe) sustainable development index. CEERIUS is an index developed by Wiener Börse for Central and Eastern Europe. It includes leading companies from the region, which meet quality criteria related to social and ecological aspects of their operations.

***Chart 1: Changes in the prices of PZU in 2012 compared to WIG20 31.12.2011 = 100%***

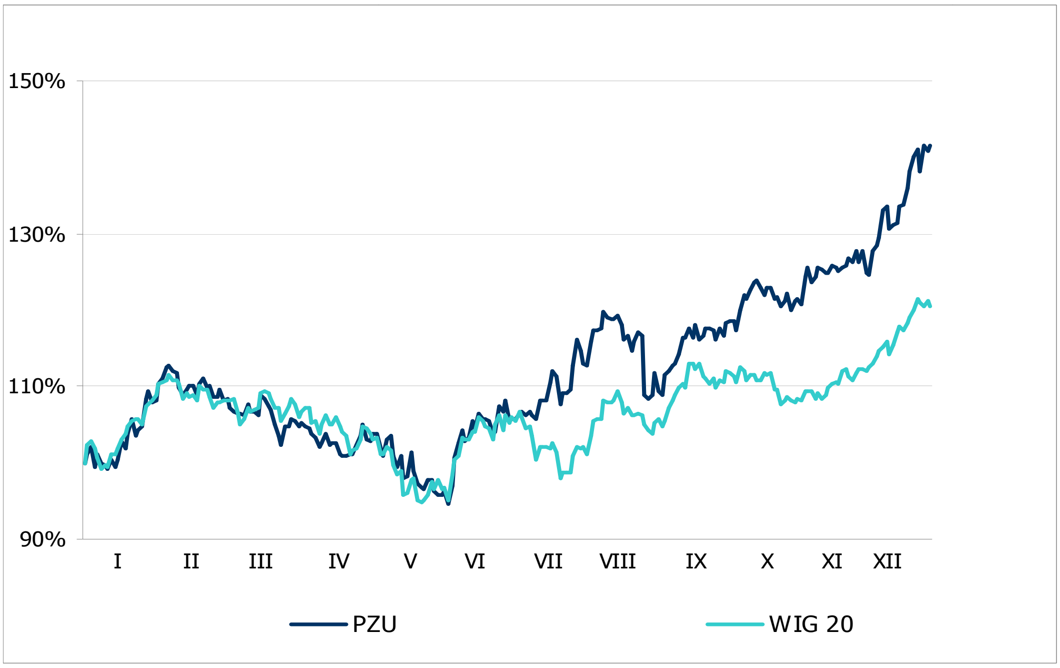



***Chart 2: Prices of PZU shares in 2012***

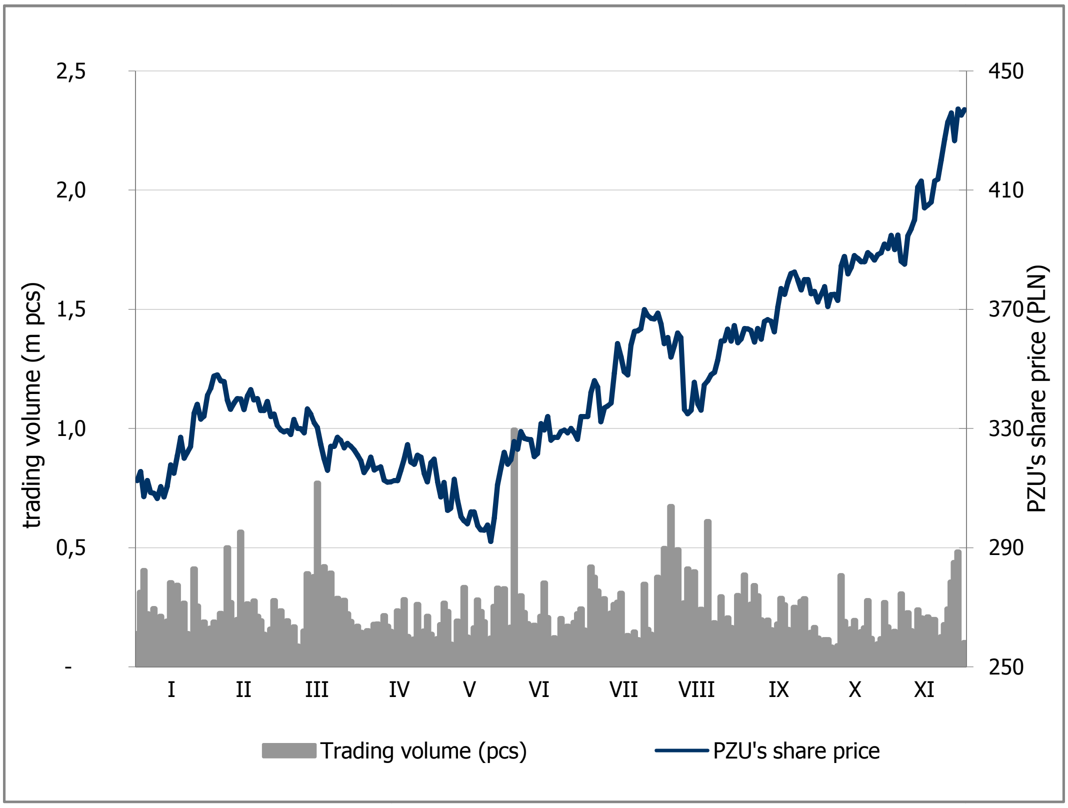


***Table 19: Key data regarding PZU shares***

| unit | | 1 January - 31 December 2012 | 1 January - 31 December 2011 |
|---|---|---|---|
| Closing balance of shares | item | 86 352 300 | 86 352 300 |
| Number of shares traded with stock exchange | item | 86 344 698 | 86 344 698 |
| Closing price on the last trading day in the year | PLN | 437,00 | 309,00 |
| Highest closing price in the year | PLN | 437,20 | 396,80 |
| Lowest closing price in the year | PLN | 292,10 | 294,20 |
| Closing balance of market value of the Company | PLN | 37 735 955 100 | 26 682 860 700 |
| Average market price | PLN | 346,02 | 349,40 |
| Average trading volume per session | item | 211 993 | 265 862 |
| Dividend (gross) paid in the current year from previous year profit distribution | PLN/share | 22,43 | 26,00 |

** Without dividend paid on 26 November 2009 as an advance for dividend planned for the end of 2009 financial year of PLN 12,749,917 thousand (PLN 147.69 per share).*

In 2012, the price of PZU shares was significantly influenced among others by volatility of financial markets, uncertain date of potential sale of 10% of shares by the State Treasury and very good financial performance compared to other companies in the sector, as reflected in sell-side measurements and analysts' recommendations.

At the last session in 2012, the closing price of PZU shares was PLN 437.00, i.e. 41.4% higher than on the last day of December 2011 (PLN 309.00). At the same time, WIG20 and WIG gained 20.5% and 26.2%, respectively. In the first half of 2012 changes in the price of PZU shares did not materially differ from stock exchange index changes, in the second half of the year, their price significantly exceeded the market level.

In 2012, the prices of PZU shares dropped 110 times at the closing, increased 130 times, and remained flat 9 times. The highest closing price (PLN 437.20) was reached on 21 December 2012, while the lowest was seen on 5 June (PLN 292.10). The average market price of PZU shares in 2012 was PLN 346.02 and was PLN 3.38 lower than in 2011. Average daily turnover of PZU shares in 2012 amounted to 211,993 shares and the highest level (993,896 shares) was reported on 15 June 2012.

In 2012, PZU was on the list of 21 domestic and foreign financial institutions whose analysts issued the total of 55 recommendations regarding its shares. Recommendations like "Buy", "Accumulate", "Prevail" were the most frequent (in total 29), while 19 were neutral ("Hold" or "Neutral") and 7 "Underweight" or "Reduce".

***Table 20: Capital market indicators***

| Capital market indicators for PZU as at | 31 December 2012 | 31 December 2011 |
|---|---|---|
| P / BV (C / WK)<br>*Market price/book value per share* | 2.81 | 2.27 |
| BVPS<br>*Book value per share* | 155.79 | 136.02 |
| P / E (C / Z)<br>*Price/Earnings per share* | 14.62 | 10.33 |
| EPS (PLN)<br>*Net profit (loss)/number of shares* | 29.89 | 29.90 |
| DY Dividend Yield (%)<br>*Dividend per one share/market share price* | 5.1% | 8.4% |
| DPS (PLN)<br>*Dividend per share* | 22.43 | 26.00 |
| TSR Total return rate for shareholders<br>*(Closing balance of market price of shares – opening balance* | 48.7% | (5.8)% |

| | | |
|---|---|---|
| *of market price of shares + dividend paid in the period) / opening balance of market price of shares* | | |

## 10.5. Dividend

### Dividend policy

Dividend policy of PZU has been determined by the Resolution of the Management Board of 11 May 2011 providing that:

1. the basis for the dividend paid by PZU for a given financial year will be the consolidated profit/loss of the PZU Group in accordance with International Financial Reporting Standards (IFRS);
2. Dividend amount:
   - cannot be lower than 50% and higher than 100% of the net profit presented in the consolidated financial statements prepared in line with IFRS;
   - cannot be higher than the separate net profit of PZU in line with PAS;
   - cannot lead to a reduction of the equity of PZU below the amount corresponding to 250% of the solvency margin;
   - cannot lead to a reduction in the financial strength of the PZU Group below the level corresponding to the AA rating of Standard & Poor's;
   - should consider additional capital needs of PZU in the twelve months following approval of the consolidated financial statements of the PZU Group for a given year by the Management Board of PZU.
3. Equity and the solvency margin are calculated in line with the prudential standards established for the Polish insurance market.

Resolution on the dividend policy came into effect as at the effective date of articles referred to in Article 311 of the Directive of the European Parliament and the Council 2009/138/EC of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

In February 2012, all insurance companies operating on the Polish market received a letter from the Chairman of Polish Financial Supervision Authority with recommendations regarding limiting the dividend payment to maximum 75% of profit generated for 2011 with the capital requirement ratio following its payment of at least 110% and including additional capital needs within 12 months of the date of approving the 2011 financial statements, including those arising from investment concentration.

In December 2012, Chairman of Financial Supervision Authority, following the above recommendation, encouraged insurance companies to adopt prudent dividend policy and use the 2012 profit to enhance their capital position.

The supervisory body recommended further (similarly to the recommendation regarding dividend from profit generated in 2011) that dividend payment should take place only in companies that met specific criteria (described in detail in the recommendation). The companies meeting these criteria should limit dividend payment to the maximum of 75% of profit generated in 2012, with the capital requirement coverage ratio following the payment of at least 110%. At the same time, the recommendation allowed using the entire 2012 profit for dividend payment with the capital requirement coverage ratio of at least 160% following its payment for class I companies, or of at least 200% for class II companies (as at 31 December 2012), and if following the latest stress tests for all surveyed risk types the capital requirement coverage ratio was at least 110%, and the coverage of technical provisions with assets amounted to at least 100%.

### Distribution of profit for 2011

On 12 April 2012, PZU Management Board passed a resolution no. 8/2012 regarding the following distribution of net profit from 1 January 2011 to 31 December 2011 in the following manner:

- PLN 1,936.9 million, i.e. PLN 22.43 per one share - payment of dividend for shareholders;
- PLN 635.4 million to supplementary capital;
- PLN 10 million to appropriations to the Company's Social Benefit Fund.

Pursuant to the above resolution, the date of determining the list of shareholders entitled to dividend payment for the financial year ended 31 December 2011 was set to 30 August 2012, while the date of dividend payment was 20 September 2012.

Further, following court's cancellation of a resolution of the General Shareholders Meeting regarding distribution of profit for 2006 in the amount of PLN 3,280,9 million (described in point 7.2 of Notes in financial statement of PZU), GMS of PZU decided to distribute the profit for 2006 in a manner corresponding to the cancelled resolution:

- PLN 3,260.9 million to the supplementary capital;
- PLN 20.0 million to the Social Benefit Fund

By the date of preparing this Report on the activities of PZU, the Management Board of PZU had not adopted a resolution concerning distribution of profit for 2012.

## 10.6. PZU Tax Group

Pursuant to the Corporate Income Tax Act of 15 February 1992 (Journal of Laws No. 74 of 2011 item 397 as amended "CIT Act") PZU and the remaining companies from the PZU Capital Group form the PZU Tax Group. According to the agreement, the PZU Tax Group has been established for the period of three consecutive years, from 1 January 2012 to 31 December 2014.

PZU is the holding company and represents the Tax Group. Pursuant to the provisions of Article 25.1 of the CIT Act, the PZU Tax Group settles its receivables from and liabilities to the Tax Office on a monthly basis. When PZU Tax Group entities have paid personal income tax withheld to PZU, PZU pays the tax withheld to the Tax Office on behalf of the Tax Group.

## 10.7. Main reinsurance contracts binding in 2012

Reinsurance contracts entered into by PZU reduce the risk of PZU related to catastrophic claims (such as floods or hurricanes), among others by a catastrophic non-proportional claim surplus contract and they also mitigate the risk of large individual claims under non-proportional reinsurance contracts protecting property, technical, sea, aircraft, TPL and TPL motor insurance portfolios. Additionally, PZU's risk is mitigated by reinsurance of the financial insurance portfolio.

In 2012 key partners providing PZU with obligatory reinsurance coverage were: Swiss Re, Hannover Re, Scor, Endurance and Lloyd's. Reinsurance partners of PZU have high S&P's ratings which ensure good financial positions of the Company's reinsurers.

Inward reinsurance of PZU is a way of supporting PZU Lietuva and PZU Ukraine. The Company is a party to mandatory and optional reinsurance contracts with these entities. Moreover, PZU recognizes a gross premium written from inward reinsurance services provided domestically and abroad, mainly in the form of optional reinsurance.

## 10.8. Executed and terminated credit facility agreements

In the period from 1 January 2012 to 31 December 2012, PZU did not take or terminate any credit facility agreements.

### 10.9. Originated loans, including those to the issuer's related parties

As for investment activities of PZU in 2012, the entities extended loans totalling PLN 52.5 million maturing until 2018 at arm's length interest rates based on an appropriate WIBOR rate and margin. Loans are collateralized in a manner typical for a given instrument.

At the end of 2012 and 2011 the total value of loans (excluding buy sell back transactions) amounted to PLN 456.2 million and PLN 421.1 million, respectively.

### 10.10. Guarantees and sureties extended and received with respect to credit facilities and loans, including those granted to the issuer's related parties

During the 12-month period ended 31 December 2012, PZU granted no security of a credit facility/loan or guarantees - to one entity or a subsidiary of such an entity - if the total value of the existing sureties or guarantees constituted the equivalent of at least 10% of the equity of PZU.

### 10.11. Evaluation of financial resources management including the ability to repay liabilities and definition of possible threats and activities, undertaken or planned by the issuer to counteract these threats

The financial position of the Company is very good. It meets all the security requirements imposed by the Act on insurance activity and the Polish Financial Supervision Authority. The stable rating outlook of PZU confirms that the Company's position is strong. The entity has high levels of equity and remains a competitive company in the insurance market.

Considering the strong competitive position and very good financial standing of the Company, the Management Board of PZU does not see any threats to the Company business.

Own funds of the Company are sufficient to guarantee that all liabilities to the customers will be repaid.

### 10.12. Proceedings before court, body competent to hear arbitration proceedings or a public authority body

PZU is a party to a number of court and arbitration disputes and administrative proceedings. The typical court disputes are those related to insurance contracts, employment contracts and contractual obligations. Typical administrative proceedings in which PZU participates include proceedings related to ownership of real estate. The above proceedings and litigation cases are typical and repetitive in nature, usually none of them separately has a significant impact on PZU.

Additionally, PZU is a party to proceedings before the President of the Office of Competition and Consumer Protection and proceedings before the Polish Financial Supervision Authority. Information on proceedings before the President of the Office of Competition and Consumer Protection PZU is a party to has been presented in the financial statements of PZU for the year 2012 – item 29.2.

PZU take such claims into account when creating technical provisions for reported damages, considering the probability of an unfavourable decision of the court and estimating the value of probable settlement.

In 2012 and by the date of preparation of the report on the activities, PZU did not take part in any proceedings before court, body competent to hear arbitration proceedings or public authority body concerning liabilities or receivables of PZU with the value of at least 10% of the equity of PZU.

As at 31 December 2012 the total value of all 38,214 cases heard by courts, bodies competent to hear arbitration proceedings or public authority bodies involving PZU was PLN 1,861,375 thousand. The amount includes PLN 1,506,433 thousand of liabilities and PLN 354,942 thousand of receivables of PZU, which constituted 11.20% and 2.64% of PZU equity calculated in line with PAS, respectively.

### 10.13. Information on significant contracts concluded

In 2012, PZU or its related entity did not conclude any contract the value of which exceeded 10% of PZU's equity or in which the level of equity was not the criterion enabling proper assessment of the contract concluded - of the PZU Group's sales for the last four financial quarters.

### 10.14. Related party transactions

During the 12-month period ended 31 December 2012, PZU did not conclude any related party transactions which could be considered significant (individually or jointly) and would be concluded on non-arm's length basis.

### 10.15. Seasonal or cyclical business

Operations of PZU are not of a seasonal or cyclical nature to the extent that would justify application of the suggestions presented in International Financial Reporting Standards.

### 10.16. Significant events pertaining to previous years and disclosed in the financial statements for the current reporting period

Until the date of preparation of this report on the activities, there had been no significant events pertaining to previous years that would not be included in this report on the activities.

### 10.17. Significant events after the end of the reporting period

From 1 January 2012 till the issuance of the Report no significant events, to be included in this Report, took place.

Business Combination

During the period from 1 January 2012 to the date of preparing this Report on the activities PZU did not enter into any business combination transactions.

### 10.18. Information on agreements significant for the activities of PZU, including those concluded between the shareholders

By the date of preparing this report on the activities there were no agreements (including those concluded after the end of the reporting period), which could result in future changes in proportions of shares held by the existing shareholders.

### 10.19. Cooperation with international public institutions

In 2012 and 2011 PZU did not cooperate with any international public institutions.

### 10.20. Agreements on audit and review of financial statements

On 8 May 2012 the Supervisory Board of PZU appointed Deloitte Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa with the registered office in Warsaw, Al. Jana Pawła II 19, entered on the list of entities authorized to audit financial statements under no. 73 by the National Chamber of Statutory Auditors as the entity authorized to audit PZU's annual financial statements, annual consolidated financial statements of the PZU Group and to review interim separate financial statements of PZU and interim consolidated financial statements of the PZU Group.

The Supervisory Board of PZU selected Deloitte Audyt Sp. z o.o. as an entity authorized to audit financial statements of the PZU Group in two consecutive financial years 2012 and 2013.

Information about the fee of the authorized entity can be found in the financial statements of PZU for 2012 - point 31.1.

# REPRESENTATIONS OF THE MANAGEMENT BOARD OF PZU

## 11. Representation concerning corporate governance

### 11.1. Corporate governance principles

Since the date the Company's shares have been admitted to trading on a regulated market PZU has followed the corporate governance rules laid down in "Good practices of companies listed on WSE" adopted by the Council of Giełda Papierów Wartościowych w Warszawie S.A.

The wording of "Good practices of companies listed on WSE" is available on the website devoted to corporate governance of WSE-listed entities (www.corp-gov.gpw.pl) and on the Company's website (www.pzu.pl) in the section dedicated to PZU's shareholders – "Investor Relations".

Apart from the aforementioned corporate governance principles the Company applies Ethical standards and other corporate social responsibility principles presented in the following documents:

- Code of Good Insurance Practice adopted on 8 June 2009 by the General Meeting of the Polish Chamber of Insurance ("PIU"), an organization associating insurance companies operating in the Polish market. The document is the code of conduct for insurance companies specifying their relationships with customers, insurance intermediaries, supervisory body and the Insurance Ombudsman as well as the media; governing the relationships between the insurers and setting standards of operations of insurance companies which participate in public trading in securities. The document is available on the website of PIU: http://piu.org.pl/zasady-dobrych-praktyk/project/132/pagination/1;
- Good Practices at PZU. The document emphasizes the role of ethical standards applicable to all aspects of PZU operations, presenting sound business practices at PZU. It promotes the culture of compliance with the law, decision making based on ethical standards and responsibility for decisions taken. The document is available on the Company's website: http://www.pzu.pl/c/document_library/get_file?uuid=f430d2f3-0ffa-4b72-add8-c53f3668c66a&groupId=10172.
- The social report of PZU. This is the first report concerning sustainable development and social activity of the Company, which has been prepared based on the guidance and standards of Global Reporting Initiative (GRI) using the Sustainability Reporting Guidelines & Financial Services Sector Supplement. The report is an element of implementing of the corporate social responsibility (CSR) strategy in PZU and raises a number of issues in various areas, including: corporate governance, availability of services, product quality, data security, the effect of PZU's operations on the natural environment and PZU's active involvement in social activities. The document is available on the Company's website: http://www.pzu.pl/grupa-pzu/dzialalnosc-spoleczna/raporty.

#### Application of "Good practices of companies listed on WSE"

In 2012 PZU followed the principles defined in "Good practices of companies listed on WSE" adopted by resolution No. 20/1287/2011 of the Council of the WSE dated 19 October 2011, subject to recommendations indicated in Sections I.5, I.9 and I.12 with respect to two-way real-time communication which ensures that shareholders may express their opinions during a shareholders meeting even if they are not physically present at the session and with respect to exercising voting rights during the shareholders' meeting (whether in person or through a proxy). The announcement on non-compliance with these Recommendations was not issued in line with the waiver of the obligation to publish issuers' reports referred to in Article 29.3 of the Regulations of WSE with respect to corporate governance principles set forth in part I of "Good practices of companies listed on WSE", in accordance with the resolution of the Management Board of WSE dated 11 December 2007.

The following issues mentioned in section I of "Good practices of companies listed on WSE" defining "Recommendations concerning good practices of companies listed on WSE" should be emphasised:

- As for the recommendation included in Section 1.5 concerning the policy of remunerating members of management and supervisory bodies, remunerations of members of the Supervisory Board are determined by the General Shareholders' Meeting and those of the Management Board are set based on a resolution of the Supervisory Board.
- The policy of remunerating members of the management and supervisory bodies of PZU does not include all elements indicated in the recommendation of the European Commission of 14 December 2004 fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC), supplemented by recommendation of EC of 30 April 2009 (2009/385/EC). Moreover, PZU did not present a declaration presenting remuneration policy on its corporate website. The decision concerning future compliance with the said rule will be taken by the Supervisory Board and the General Shareholders' Meeting.
- As for the recommendation specified in Section I.9 concerning gender parity principle to be followed in the Company's management and supervisory bodies, PZU has always pursued the policy of appointing competent, creative, experienced and educated people to the Company's bodies. The composition of the Management and Supervisory Board is determined based on a decision of the Supervisory Board or a General Shareholders' Meeting, respectively and other factors, such as sex, are not taken into account.

As for the recommendation specified in Section I.12 with respect to ensuring two-way real-time communication which ensures that shareholders may express their opinions during a shareholders meeting even if they are not physically present at a session and with respect to exercising voting rights during the shareholders' meeting (whether in person or through a proxy) the Company decided to no longer provide two-way real-time communication ensuring that shareholders may express their opinions during a shareholders' meeting even if they are not physically present at a session and exercise their voting rights during the shareholders' meeting (whether in person or through a proxy), because according to the Company there are numerous technical and legal issues, which may disrupt appropriate course of a session of the Shareholders' Meeting and adequate application of the provisions of the recommendation in question. Moreover, according to the Company, principles concerning participation in shareholders' meetings applicable in PZU allow for exercising rights from shares and protect interests of all shareholders.

## 11.2. General Shareholders' Meeting and the rights of the shareholders

The General Shareholders' Meeting is the highest body of the Company. The general operational principles and the rights of the General Shareholders' Meeting have been determined by the Code of Commercial Companies and the By-laws. The By-laws are available at the PZU's corporate website (www.pzu.pl) in its section dedicated to PZU's shareholders in "Investors relations" tab: "Company".

The General Shareholders' Meeting did not issue its Regulations.

The General Shareholders' Meeting is a body authorized to take decisions concerning issues related to organization and operations of the Company. Resolutions of the General Shareholders' Meeting are adopted by an absolute majority of votes, except for cases specified in the Code of Commercial Companies or the By-laws. In accordance with the By-laws, resolutions of the General Shareholders' Meeting concerning: changes in the By-laws, decrease in the share capital, disposal and lease of the enterprise or its organized part or establishment of a limited property right require a qualified majority of three fourths of votes. The resolutions of the General Shareholders' Meeting relating to preference shares and the Company's business combination by transferring all its assets to another company or a merger by forming a new company, dissolving the Company (also as a result of moving its seat or the head office abroad), its liquidation, transformation or reduction in share capital by redemption of a portion of shares without a similar capital increase require a 90% majority of the votes cast.

The most significant competencies of the General Shareholders' Meeting, apart from those specified in the Commercial Companies Code and the By-laws of PZU include passing resolutions concerning, in particular, the following:

- examination and approval of a management board report on the company's activities, financial statements for the previous financial year and acknowledgment of the fulfilment of duties by members of the company's authorities;
- profit distribution or loss coverage;
- taking decisions concerning claims for redressing damage inflicted upon formation of the Company or exercising management or supervision;
- disposal of the enterprise or its organized part or its lease or establishment of a limited property right;
- redemption of shares or issue of bonds;
- creating reserve capitals and taking the decision whether to use them and if so, how;
- taking the decision concerning division of the Company, its combination with a different company, its liquidation or dissemination of the Company;
- appointing and dismissing members of the Supervisory Board, subject to the right granted to the State Treasury to appoint and dismiss one member of the Supervisory Board;
- establishing the rules of remunerating members of the Supervisory Board;
- acquisition or disposal of a real property, perpetual usufruct or share in the real property or in perpetual usufruct exceeding the equivalent of a gross amount of EUR 30,000,000 (thirty million euro).

The General Shareholders' Meeting is convened in the form of the Ordinary Shareholders' Meeting, which should be held within six months after the end of each financial year of the Company and the Extraordinary Shareholders' Meeting, which is convened in cases specified in the generally applicable law and the By-laws. The General Shareholders' meeting takes place in Warsaw.

A General Shareholders' Meeting is called by placing an appropriate announcement on the Company website in accordance with the method of providing current information specified in the Act on public offering, conditions governing the introduction of financial instruments to organized trading, and public companies of 19 July 2005 (Journal of Laws of 2005, No. 184, item 1539 as amended "Act on public offering"), i.e. in the form of current reports. Such announcement should be made not later than 26 days before the date of the General Shareholders' Meeting. Starting from the date of convening the Shareholders' Meeting the announcement with materials presented to shareholders at the General Shareholders' Meeting are available at the PZU's corporate website (www.pzu.pl) in its section dedicated to PZU's shareholders in "Investors relations" tab: "General Shareholders' Meeting". Duly called General Shareholders' Meeting is deemed valid regardless of the number of attending shareholders or number of represented shares.

The General Shareholders' Meeting is opened by the Chairman of the Deputy Chairman of the Supervisory Board and then the Chairman of the Shareholders' Meeting is elected. If the Chairman and Deputy Chairman of the Supervisory Board are absent, the Shareholders' Meeting is opened by the Chairman of the Management Board or a person designated by the Management Board.

The General Shareholders' Meeting may adopt resolutions regardless of the number of attending shareholders or number of represented shares. Resolutions of the Shareholders' Meeting are passed in an open ballot. Secret ballot is held in the following cases: elections, voting requests for dismissal of members of the Company's bodies or liquidators, in cases of their personal responsibility towards the Company, in personal cases, excluding when an open ballot is required by applicable law, upon request of any shareholder present or represented at the General Shareholders' Meeting.

The rights of the shareholders and the method of exercising thereof at the General Shareholders' Meeting are specified in the Code of Commercial Companies and the By-laws.

Only persons who were shareholders of the Company 16 days before the date of the General Shareholders' Meeting have the right to participate in the Meeting (date of registration of attendance at the Meeting).

The Company's shareholders may attend the General Shareholders' Meeting and exercise the right to vote personally or through a proxy. The power of attorney to participate in the General Shareholders' Meeting and to exercise the voting right may be granted in writing or in an electronic form.

One share of PZU gives the right to a single vote at the General Shareholders' Meeting, including restrictions with respect to exercising the voting rights described in the Company's By-laws. The shareholder has the right to vote in a different manner under each share held.

During the General Shareholders' Meeting each shareholder may provide resolution drafts concerning items on the agenda.

In line with the Code of Commercial Companies, detailed procedures concerning participation in the General Shareholders' Meeting and exercising the voting rights are always presented in an announcement of the General Shareholders' Meeting published on the date of convening the Shareholders' Meeting at the PZU's corporate website (www.pzu.pl) in its section dedicated to PZU's shareholders in "Investors relations" in tab: "General Shareholders' Meeting".

## 11.3. Managing and supervisory bodies of the Company and their committees

### Management Board of PZU

In accordance with the By-laws of the Company, the Management Board is composed of three to seven members appointed for a shared term which includes three consecutive full financial years. Members of the Management Board, including the Chairman of the Management Board, are appointed and dismissed by the Supervisory Board, however, members of the Management Board are appointed and dismissed by the Supervisory Board at the request of the Chairman of the Management Board. The Chairman of the Management Board of the new term appointed before the end of the current term may apply to the Supervisory Board for appointing other members of the Management Board of the new term before the end of the current term.

Management Board of PZU from 1 January 2012 to 31 December 2012 presented as below:

Management Board of PZU as at 1 January 2012:

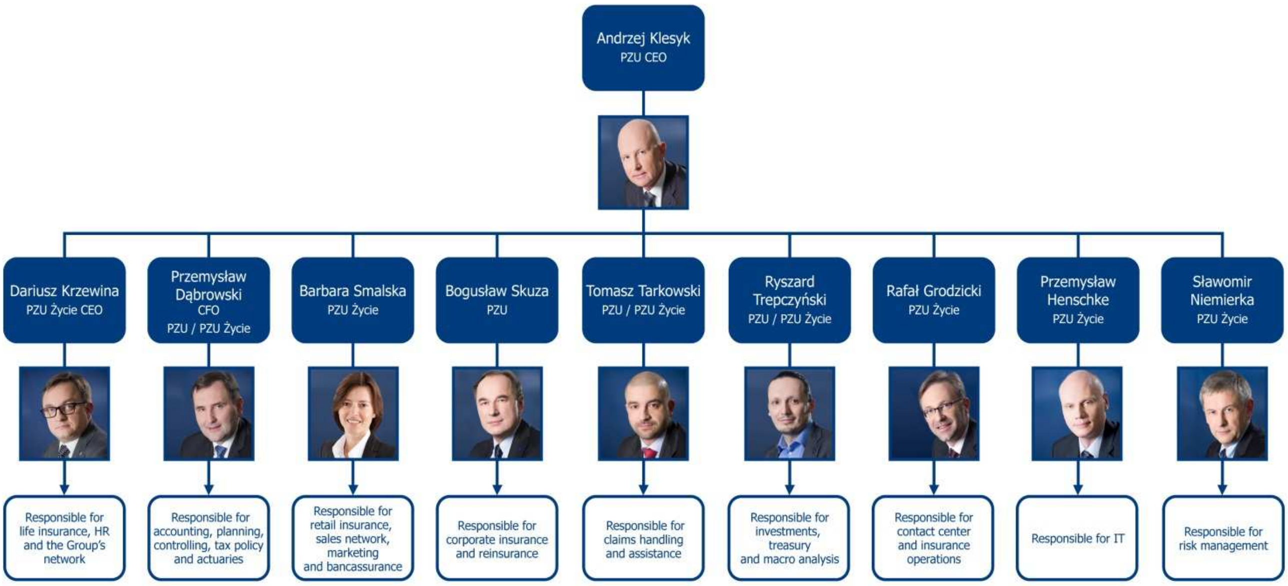
- Andrzej Klesyk - Chairman of the Board;
- Przemysław Dąbrowski - Member of the Board
- Witold Jaworski - Member of the Board
- Bogusław Skuza - Member of the Board;
- Tomasz Tarkowski - Member of the Board;
- Ryszard Trepczyński - Member of the Board.

On 27 December 2012, Witold Jaworski resigned from the position of a Member of the Management Board of PZU.

Consequently, the Management Board of PZU was composed of:

- Andrzej Klesyk - Chairman of the Board;
- Przemysław Dąbrowski - Member of the Board;
- Bogusław Skuza - Member of the Board;
- Tomasz Tarkowski - Member of the Board;
- Ryszard Trepczyński - Member of the Board.

***Picture 1. Organizational stucture i PZU Group - competencies***




Obecna kadencja Zarządu PZU rozpoczęła się z dniem 1 lipca 2011 roku i obejmuje trzy kolejne pełne lata obrotowe. Mandaty członków Zarządu wygasną najpóźniej z dniem odbycia Walnego Zgromadzenia zatwierdzającego sprawozdanie finansowe za ostatni pełny rok obrotowy pełnienia przez nich funkcji.

Poniżej zaprezentowano informację o doświadczeniu oraz kompetencjach członków Zarządu PZU:

### Andrzej Klesyk, Chairman of the Board

Andrzej Klesyk since December 2007 is a Chairman of the Board of PZU SA. Since May 2003 - Partner and Managing Director of The Boston Consulting Group in Warsaw, where he collaborated with PZU in performing insurance projects. Created and managed Inteligo, a pioneer Internet banking. Managed a team creating Handlobank, the consumer banking division of Bank Handlowy w Warszawie S.A. From 1993 to 2000 he worked in the London branch of McKinsey & Co. In 1991 he went to the USA, where he worked for Kidder, Peabody and Coopers & Lybrand, New York.

Andrzej Klesyk graduated from the Faculty of Economy of the Catholic University of Lublin.. He was one of the first Poles to complete a two-year MBA course at Harvard Business School, the USA.

Andrzej Klesyk is a member of The Geneva Association – non-profit organization associating 80 Chairmans of the Board of biggest insurance companies in the world. He represents PZU in annual World Economic Forum w Davos, and meetings of Institute of International Finance in Washington.

### Przemysław Dąbrowski, Member of the Board

Przemysław Dąbrowski graduated from Warsaw University, Information Technology Department and a Post-Graduate Management Course. He graduated from MBA studies at the University of Illinois and from the *Warsaw-Illinois Executive MBA* programme. He has vast experience in financial management services for the insurance sector, in managing financial investments and large financial transactions. Additionally, he has knowledge and experience in accounting, tax and actuarial issues.

Przemysław Dąbrowski started his professional career in 1993. From 1993 to 1998 he worked at Whirlpool Polska Sp. z o.o. as an analyst and financial controller. In 1998-2000 he was the Treasurer at AIG Poland. In the years

2000-2001 he was the Financial Director and a Member of the Management Board of Creative Team SA (the Elektrim Group). From 2001 to 2006 he was the Planning and Controlling Director at PZU SA. In 2006-2008 he worked at AT Kearney and Accenture as a Manager and a Senior Manager. From October 2008 to March 2009 he held the function of the Director – Financial Division Deputy Head in the Head office of PZU and PZU Życie. From November 2008 to February 2009 he was the Planning and Controlling Director in the Head office of PZU and PZU Życie and in March 2009 he was appointed the Information Management Director in the Head office of PZU and PZU Życie. He has been the Deputy Chairman of the Management Board of PZU Życie since January 2010. In April 2009 he was appointed the Managing Director in charge of Finance in the PZU Group and in January 2010 he became the PZU Group Director in charge of Finance in the Head office of PZU. He has held the position of a Member of the Management Board of PZU since 21 December 2010. Przemysław Dąbrowski is a Member of the Board in charge of the Financial Division.

### Bogusław Skuza, Member of the Board

Bogusław Skuza graduated from the University of Gdańsk, the Economy of Transport Department, International Trade Faculty. He has has vast experience in the financial industry, in particular in insurance. In the years 1979-1985 he worked in the Claims handling Department of TUiR Warta SA. From 1985 to 1991 he was the General Representative of TUiR WARTA SA for the USA and Canada. In 1991-1992 he was a Manager of the Insurance and Claim Department at Gdynia America Line Inc., while in the years 1992-1999 he worked as a Country Manager and the Deputy Chairman of the Management Board of Marsh & McLennan Polska Sp. z o.o. In the years 1998-2000 he held the position of the Deputy Chairman of the Management Board of Towarzystwo Ubezpieczeń Życiowych i Emerytalnych Petrus SA and the Chairman of the Management Board of Fiat Ubezpieczenia SA. From 2000 to 2008 he was the Chairman of the Management Board of Skandia Życie Towarzystwo Ubezpieczeń SA. From 2008 to 2010 Bogusław Skuza was a Member of the Management Board of the Group and a CEE Regional Managing Director in Intrum Justitia AB. Bogusław Skuza held the position of the Chairman of the Supervisory Board of Intrum Justitia entities in Poland, the Czech Republic, Slovakia and Hungary. In the years 1992-1998 he held the position of the Founder Member and the Secretary General of the Association of Polish Insurance and Reinsurance Brokers and in the years 2002-2008 he held the position of a Member of the Management Board of the Polish Insurance Chamber. Since 2009 he has been a Member of Good Practices Council at the Polish Insurance Chamber. Since 1 July Bogusław Skuza is a member of PZU management board. He is responsible for corporate customer division, reinsurance and bancassurance.

### Tomasz Tarkowski, Member of the Board

Tomasz Tarkowski graduated from the Faculty of Automotive and Construction Machinery Engineering at the Warsaw University of Technology and from the Academy of Finance (formerly Academy of Insurance and Banking). He also completed an Advanced Management Program at IESE Business School University of Navarra and post-graduate studies in road traffic safety and business insurance. Tomasz Tarkowski has been collaborating with the PZU Group since 1996. Initially, he worked in internal control and insurance fraud departments as a Specialist and Service Line Manager in Internal Audit Office and then as the Head of the Motor Insurance Control Department in the Internal Control Office of PZU. In the years 2002-2005 he worked in the claims handling function as the Head of the Technical Department in the Claims handling Office. From 2006 to 2007 he was a Director of the Claims handling Centre and a Claims handling Director in a Regional Branch of PZU in Warsaw. In 2007-2011 he was a Member of the Management Board of PZU Ukraine, where he supervised the claims handling, product management and risk assessment departments. Tomasz Tarkowski was a Member of the Supervisory Board of SOS Service Ukraine, a subsidiary of PZU Ukraine, responsible for assistance services. Since February 2011 he has been a Director of the PZU Group in the Head office of PZU and the Proxy of the Management Board of PZU Życie in charge of Claims handling and Assistance.

### Ryszard Trepczyński, Member of the Board

Ryszard Trepczyński graduated from Management and Marketing Department of Warsaw School of Economics in Warsaw. Since the beginning of his professional career he was focused on the capital market. He has vast experience in developing and implementing investment strategies, drawing up investment policies and managing large and diverse asset portfolios. He participated in building management structures for strategic allocation of assets, liquidity and investment risk. In 1994-1006 he worked as a broker in the Capital Transactions Centre of Bank Handlowy w Warszawie SA. In the years 1996 – 2002 he was employed in the Financial Investment Office of PZU Życie – initially as an Asset Manager and subsequently as the Head of the Debt Instruments Portfolio Management Department. From December 2002 to June 2011 he worked at Pioneer Pekao Investment Management S.A., first as a Director of Debt Securities Department, Director of the Asset Management Department, and since March 2009 he held the position of the Deputy Chairman of the Management Board in charge of investments. Since July 2011 he has been a Member of the Board of the PZU Group in charge of the Investment Division.

### Witold Jaworski (Member of the Board of PZU till 27 December 2012)

Witold Jaworski graduated from Poznań University of Economics (master degree in economics), Fachhochschule fur Wirtschaft in Berlin (scholarship) and Eurekans Management Development Program. He holds a PhD in economy. From 2001 to 2010 he was an assistant professor in the Insurance Department of the Poznań University of Economics.

He has vast experience in managing insurance products and sales. In the period from February 1998 to March 2001 he worked for McKinsey & Company and from May 2004 to December 2012 – for the PZU Group. From 14 December 2007 to 27 December 2012 he held the position of a Member of the Management Board of PZU. As a Board Member of PZU he was responsible for network management, mass client segment, sales, product management and marketing.

### Functioning and powers of the Management Board derived from the By-laws

The Management Board exercises all management rights which have not been reserved by the provisions of law or provisions of the By-laws for the General Shareholders' Meeting or the Supervisory Board.

The Management Board adopts its regulations which are approved by the Supervisory Board. The work of the Management Board is administered by the Chairman of the Management Board who defines the scope of responsibility of each member of the Management Board. Resolutions of the Management Board are adopted only in the presence of the Chairman of the Management Board or a person designated to administer the work of the Management Board during their absence and if the meeting is attended by at least half of the members of the Management Board. Resolutions of the Management Board are adopted by an absolute majority of votes and in the event of a voting tie, the Chairman of the Management Board has the casting vote. The Management Board, upon consent of the Chairman, may adopt resolutions in writing, on paper or in an e-form (i.e. using means of distant communication and a qualified electronic signature). The by-laws also provide that the meetings of the Management Board may be held using means of direct distant communication. The Company may be represented by two members of the Management Board acting jointly or one member of the Management Board acting with a commercial proxy.

### Functioning and powers of the Management Board derived from the Regulations of the Management Board

The regulations of the Management Board were adopted by the Management Board of 23 February 2010 and approved by a resolution of the Supervisory Board of 4 March 2010.

The regulations of the Management Board specify: (i) the powers of the Management Board and activities requiring consent or approval of the Supervisory Board; (ii) the powers of the Chairman of the Management Board and other Members of the Management Board; (iii) the rules and organization of work of the Management Board, including organization of meetings and the manner of taking decisions; and (iv) the rights and obligations of resigning members of the Management Board.

In accordance with the regulations of the Management Board, resolutions of the Management Board are especially required for:

- adoption of a long-term plan for development and operations of the Company;
- adoption of an action and development plan for the PZU Group;
- adoption of an annual financial plan and a report on its implementation;
- approval of the financial statements for the previous financial year and the management report on the activities of the Company;
- approval of a motion concerning profit distribution or loss coverage;
- determination of premiums in the compulsory and voluntary insurance and general voluntary insurance terms and conditions;
- determination of the scope and size of outward reinsurance and the tasks for inward reinsurance;
- adoption of an annual audit and control plan and a report on its implementation with conclusions;
- determination of the terms and conditions of investments, prevention and sponsoring;
- giving sureties and guarantees (excluding insurance operations) and taking out and giving credit facilities or loans by the Company (excluding credit facilities and loans given from the Company's Social Benefits Fund); and
- appointment of a commercial representation.

In accordance with the Regulations, meetings of the Management Board are held at least once a fortnight. The work of the Management Board is administered by the Chairman of the Management Board whose powers include in particular:

- defining the scope of responsibility of each member of the Management Board;
- calling meetings of the Management Board;
- setting the agenda of the meeting of the Management Board;
- applying to the Supervisory Board for appointing and dismissing members of the Management Board;
- designating a person to administer the work of the Management Board during the absence of the Chairman.

The Chairman of the Management Board takes decisions in the form of orders and official instructions. Other members of the Management Board administer the operations of the Company within the scope specified by the Chairman of the Management Board.

The By-laws of PZU do not provide for any special rights of the Management Board concerning decisions to issue or redeem shares.

### Supervisory Board

The Supervisory Board is composed of seven to eleven members. The number of members is specified during the General Shareholders' Meeting. Members of the Supervisory Board are appointed by the General Shareholders' Meeting for a shared term which includes three consecutive full financial years. At least one member of the Supervisory Board must be qualified in accounting or auditing, as understood by the Act on statutory auditors and their self-governing body, auditing firms and on public oversight of (Journal of Laws of 2009, No. 649, item 77, "Act on statutory auditors"). Additionally, at least one member of the Supervisory Board should meet the independence criteria specified in the By-laws (Independent Member) concerning e.g. professional and personal relations, especially with members managing or supervising the Issuer and entities in the PZU Group. The Independent Member is obliged to present the Company with a written statement that all independence criteria provided for in the By-laws have been met and inform the Company if the criteria are no longer met. Additionally, the By-laws provide the State Treasury with the right to appoint and dismiss one member of the Supervisory Board by way of a written statement submitted to the Management Board, if the share of the State Treasury in the Company falls below 50% of all the Company's shares. The right will expire once the State Treasury ceases to be the Company's shareholder.

Composition of the Supervisory Board of PZU as at 1 January 2012:

- Marzena Piszczek Chairperson of the Board;

- Zbigniew Ćwiąkalski Deputy Chairman of the Board;
- Krzysztof Dresler Secretary of the Board;
- Dariusz Filar Member
- Waldemar Maj Member
- Zbigniew Derdziuk Member
- Dariusz Daniluk Member

On 30 May 2012 Krzysztof Dresler resigned from the position of a Member of the Supervisory Board of PZU.

On 30 May 2012, General Shareholders' Meeting of PZU passed a resolution regarding the number of Supervisory Board members stating that the Supervisory Board should consist of 9 people.

Subsequently, the Ordinary General Shareholders' Meeting dismissed Marzena Piszczek, the Chairman of the Supervisory Board and on the same day it appointed new members of the Supervisory Board of PZU: Tomasz Zganiacz, Maciej Piotrowski, Włodzimierz Kiciński and Alojzy Nowak.

Therefore, the composition of the Supervisory Board of PZU as of 30 May 2012 was the following:

- Zbigniew Ćwiąkalski Deputy Chairman of the Board
- Dariusz Daniluk Member
- Zbigniew Derdziuk Member
- Dariusz Filar Member
- Włodzimierz Kiciński Member
- Waldemar Maj Member
- Alojzy Nowak Member
- Maciej Piotrowski Member
- Tomasz Zganiacz Member

On 28 June 2012 the Supervisory Board of PZU SA was constituted. Waldemar Maj took the position of the Chairman, while Tomasz Zganiacz was appointed the Secretary.

Therefore, the composition of the Supervisory Board of PZU as at 28 June 2012 was the following:

- Waldemar Maj Chairman of the Supervisory Board
- Zbigniew Ćwiąkalski Deputy Chairperson of the Board
- Tomasz Zganiacz Secretary of the Board
- Dariusz Daniluk Member
- Zbigniew Derdziuk Member
- Dariusz Filar Member
- Włodzimierz Kiciński Member
- Alojzy Nowak Member
- Maciej Piotrowski Member

The current term of office of the Supervisory Board of PZU started on 30 June 2011 and will end after the lapse of three financial years. The mandates of members of the Supervisory Board expire not later than on the date of the General Shareholders' Meeting approving the financial statements for the last full financial year of their term, i.e. on the date of the General Shareholders' Meeting in 2015.

### Functioning and powers of the Supervisory Board derived from the By-laws

The Supervisory Board exercises constant supervision over the company's activities in all aspects of its business.

In accordance with the By-laws, the powers of the Supervisory Board include:

- review of the Management report on the activities of the Company and financial statements for the previous financial year in terms of their compliance with the accounting records, documents and facts;
- review of the motions of the Management Board concerning profit distribution or loss coverage;
- presenting the General Shareholders' Meeting with a written report on the results of the review described above and submitting a brief annual assessment of the situation of the Company including internal controls and key risk management and an annual report on the work of the Supervisory Board;
- concluding, terminating and amending the agreements with members of the Management Board and setting the terms and conditions of remuneration and the amount of remuneration;
- appointing, suspending and dismissing the Chairman of the Management Board, members of the Management Board or the entire Management Board, as well as making decision to stop the suspension;
- agreeing to transfer the entire or portion of the insurance portfolio;
- accepting motions of the Management Board concerning acquisition, assumption or disposal of shares in companies, as well as the Company's participation in other entities - the Supervisory Board may specify the amount, terms and conditions and the way in which the Management Board may carry out the activities without the acceptance of the Supervisory Board;
- delegating members of the Supervisory Board to temporarily perform the functions of members of the Management Board who have been dismissed, resigned or cannot perform their functions for other reasons;
- accepting instructions concerning votes being cast by the Company's representatives during general shareholders' meeting of PZU Życie concerning: an increase and decrease in the share capital, bonds issue, disposal and lease of a PZU Życie enterprise or establishment of a usufruct right, division of PZU Życie, combination of PZU Życie with a different company, liquidation or termination of PZU Życie;
- selection of the entity authorized to audit the financial statements which will audit the annual financial statements of the Company;
- wording of the consolidated amended By-laws;
- approval of the long-term plans for the development of the Company and annual financial plans drafted by the Management Board;
- approval of the regulations of the Management Board;
- examination and evaluation of issues submitted by the Management Board for discussion during the General Shareholders' Meeting.

Moreover, the Supervisory Board grants consent to:

- acquisition or disposal of a real property, perpetual usufruct or share in the real property or in perpetual usufruct exceeding the equivalent of EUR 3 million.
- conclusion of a material agreement as understood by the Ordinance on current and periodic information by the Company and its related party, excluding standard agreements concluded by the Company on an arm's length basis as part of its operating activities (consent will be required on the date of the first listing on WSE);
- conclusion of the agreement with the underwriter referred to in Article 433.3 of the Code of Commercial Companies;
- advance payment against expected dividend;
- creation and closing of regional and foreign branches.

The Supervisory Board adopts the Regulations of the Supervisory Board specifying its organization and the manner of performing activities. The By-laws stipulate that the Supervisory Board should meet at least once every quarter. The Supervisory Board may delegate its members to fulfil specific supervising activities on their own and to this effect appoint temporary committees. The scope of responsibility of a delegated member of the Supervisory Board and the committee is specified in a resolution of the Supervisory Board.

Resolutions of the Supervisory Board are adopted by an absolute majority of votes. In the event of a voting tie, the Chairman of the Supervisory Board has the casting vote. The resolutions of the Supervisory Board may be adopted using means of direct distant communication and circular vote. Additionally, the By-laws stipulate that a vote may be cast in writing throught another member of the Supervisory Board. In accordance with the By-laws, the resolutions of the Supervisory Board are adopted in an open ballot, except for resolutions concerning appointment of the chairman, Deputy Chairman and the Secretary of the Supervisory Board, delegation of members of the Supervisory Board to temporarily fill in for members of the Management Board and for resolutions with respect to appointing, suspending and dismissing the Chairman of the Management Board, members of the Management Board or the entire Management Board as well and taking decision to stop such suspension which are adopted in a secret ballot. Moreover, a secret ballot may be chosen on request of a member of the Supervisory Board.

### Functioning and powers of the Supervisory Board derived from the Regulations of the Supervisory Board

On 9 October 2012 the Supervisory Board adopted new Regulations of the Supervisory Board of PZU.

The regulations of the Supervisory Board specify the composition of the Supervisory Board and the way in which its members are appointed, the tasks and the scope of activities of the Supervisory Board and the manner of calling the Supervisory Board and conducting debates.

The Supervisory Board appoints the Chairman and the Deputy Chairman of the Supervisory Board from its members and it may also select the Secretary of the Supervisory Board. In accordance with the Regulations of the Supervisory Board, apart from appointing the audit committee and promotion and compensation Committee, provided for in the By-laws to properly perform its supervision, the Supervisory Board may appoint other permanent advisory and consultative committees whose competencies, composition and way of work is specified by regulations adopted by the Supervisory Board. The regulations of the Supervisory Board stipulate that the Supervisory Board and the appointed committees may use the services of experts and advisory companies. Members of the Management Board, employees of the Company competent for the discussed issue, selected by the Management Board and other persons invited by the Supervisory Board may take part in the meetings of the Supervisory Board, however, they cannot cast votes. In specific cases, the Supervisory Board of PZU may also invite members of the management board or a supervisory board of a different company in the PZU Group. Moreover, members of the Supervisory Board, upon consent of the Supervisory Board, may select one advisor authorized to take part in the meetings of the Supervisory Board devoted to reports and financial statements, and give their advice, provided that such persons respect confidentiality and signs a confidentiality statement.

### Committees within the Supervisory Board

### Audit Committee

The By-laws provide for appointing an audit committee by the Supervisory Board. The Committee is composed of three members, including at least one independent members qualified in accounting or auditing. Detailed tasks and terms and conditions of appointing members of the Audit Committee and its functioning have been specified in a resolution of the Supervisory Board, which views relevant competencies and experience of the candidates for members of the Committee.

In accordance with the Regulations of the Audit Committee adopted by a resolution of the Supervisory Board, the Audit Committee is an advisory and consultative body to the Supervisory Board and is appointed to improve the effectiveness of the supervision of the correctness of financial reporting, effectiveness of internal control, including internal audit and risk management, exercised by the Supervisory Board. Moreover, the Audit Committee may apply to the Supervisory Board for commissioning specific controls in the Company to be exercised by an internal or external entity.

The Supervisory Board appointed the Audit Committee on 3 June 2008. As at 1 January 2012 the Audit Committee was composed of: Marzena Piszczek (Chairperson of the Committee), Dariusz Filar (Member of the

Committee) and Dariusz Daniluk (Member of the Committee). Dariusz Filar was indicated by the Supervisory Board as an independent member, having accounting and audit qualifications as defined in Article 86.4 of the Act on statutory auditors.

On 30 May 2012 the Ordinary General Shareholders' Meeting of PZU dismissed Marzena Piszczek, the Chairman of the Audit Committee from the Supervisory Board of PZU. Therefore, on 28 June 2012 the Supervisory Board of PZU appointed Tomasz Zganiacz a new Member of the Audit Committee and Dariusz Filar became its Chairman. As at 28 June 2012 the Audit Committee was composed of: Dariusz Filar (Chairman of the Committee), Tomasz Zganiacz (Member of the Committee) and Dariusz Daniluk (Member of the Committee).

As at 31 December 2012 the composition of the Audit Committee had not changed.

### Promotion and Compensation Committee

In accordance with the Regulations of the Supervisory Board, once the Company's shares are listed on a regulated market, as understood by the Act on trading in financial instruments of 29 July 2005 (Journal of Laws of 2005 No. 183 item 1538 as amended), the Supervisory Board my appoint a Promotion and Compensation Committee. In accordance with the By-laws, detailed responsibilities and the method of appointing members of the Promotion and Compensation Committee, the way it works and remuneration are specified in a resolution of the Supervisory Board. The Committee should include at least one independent member. If the Supervisory Board includes five members elected in a vote, the Promotion and Compensation Committee is not appointed and its tasks are carried out by the entire Supervisory Board.

The Promotion and Compensation Committee is an advisory and consultative body to the Supervisory Board for matters related to establishing the management structure, including organizational issues, remuneration system and the amount of remuneration and selection of properly qualified staff.

The Supervisory Board decided that the Promotion and Compensation Committee will be composed of four persons. On June 2011 members of the Promotion and Compensation Committee appointed by the Supervisory Board included: Zbigniew Ćwiąkalski (Chairman of the Committee), Marzena Piszczek (Member of the Committee), Zbigniew Derdziuk (Member of the Committee) and Dariusz Filar (Member of the Committee). As at 1 January 2012 the composition of the Promotion and Compensation Committee had not changed. The General Shareholders' Meeting dismissed Marzena Piszczek from the Supervisory Board of PZU, hence on 28 June 2012 the Supervisory Board of PZU decided that the Committee would be composed of 5 members and appointed Zbigniew Ćwiąkalski the Chairman of the Committee and Zbigniew Derdziuk, Dariusz Filar, Maciej Piotrowski and Tomasz Zganiacz Committee – its members. As at 31 January 2012 the composition of the Strategy Committee had not changed.

The Committee is dissolved once five members of the Supervisory Board are elected in a vote in groups and its rights are then taken by the entire Supervisory Board.

### Strategy Committee

The Supervisory Board may appoint permanent advisory and consultative committees to perform its supervision in the Company. On 30 June 2011 the Supervisory Board appointed a Strategy Committee comprising: Waldemar Maj (Chairman of the Committee), Krzysztof Dresler (Member of the Committee), Marzena Piszczek (Member of the Committee) and Zbigniew Derdziuk (Member of the Committee). As at 1 January 2012 the composition of the Strategy Committee had not changed. As on 30 June 2012 Krzysztof Dresler resigned from the position of a Member of the Supervisory Board of PZU and the General Shareholders' Meeting changed the composition of the Supervisory Board of PZU on 30 May 2012, Alojzy Nowak and Maciej Piotrowski were appointed new members of the Strategy Committee based on a resolution of the Supervisory Board of PZU dated 28 June 2012. As at 31 January 2012 the composition of the Strategy Committee had not changed.

The job of the Strategy Committee is to give opinions about all strategic documents presented to the Supervisory Board by the Management Board (in particular the development strategy of the Company) and present the Supervisory Board with recommendations concerning planned investment with material impact on the Company's assets.

### Group Directors

As at 1 January 2012 Group Directors of the PZU Capital Group were the following:

- Dariusz Krzewina;
- Rafał Grodzicki.

Przemysław Henschke was appointed a Director of the PZU Group as of 1 February 2012 and Sławomir Niemierka – as of 19 March 2012.

On 5 February 2012 the management board of PZU appointed Barbara Smalska to the position of PZU Group Director.

## 11.4. Key features of internal control and risk management used by the issuer with respect to preparation of the financial statements and consolidated financial statements.

Financial statements are prepared within the PZU Finance Division including PZU Head office (the Accounting Office and central units operating based on applicable regulations). PZU Finance Division is controlled by the Member of the Management Board of PZU.

The elements which facilitate completing the process are the accounting principles (policy), the chart of accounts with a commentary and other detailed internal regulations approved by the Management Board of PZU specifying the key rules of recording business events in PZU and dedicated reporting systems.

Data is prepared in the source systems using formal operating and acceptance procedures which specify the powers of individual persons.

The reporting process is controlled by appropriately qualified, skilled and experienced staff.

PZU monitors the changes in the external regulations concerning e.g. the accounting policy (procedures) and reporting requirements of insurance undertakings and carries out appropriate adaptation processes.

The accounting records are closed and financial statements are prepared in accordance with detailed schedules, including the key activities and control points with assigned liability for timely and correct completion.

The key controls during preparation of the financial statements include:

- controls and permanent monitoring of the quality of input data, supported by the financial systems with defined rules of data correctness, in accordance with the PZU internal regulations concerning the control of correctness of the accounting data;
- data mapping from the source systems to financial statements supporting appropriate presentation of data;
- analytical review of financial statements by specialists to compare them with the business knowledge and business transactions;
- formal review of the financial statements to confirm compliance with the valid legal regulations and market practice in terms of required disclosures.

PZU internal audit periodically reviews the organization and the process of preparing the financial statements.

In accordance with the By-laws of PZU, the Supervisory Board of PZU appoints an Audit Committee composed of three members, with at least one of them qualified in accounting or auditing as understood by the Act on statutory auditors. The Audit Committee is an advisory and consultative body to the Supervisory Board of PZU and is appointed to improve the effectiveness of the supervision of the correctness of financial reporting of PZU, effectiveness of internal control, including internal audit and risk management.

A certified auditor appointed by the Supervisory Board of PZU based on the recommendation of the Audit Committee reviews interim separate and consolidated financial statements of PZU and audits annual separate and consolidated financial statements of PZU.

### Consolidated Financial Reporting

Activities within the consolidated financial reporting are coordinated through the organizational structure of the Finance Division in the PZU and PZU Życie Head Offices which is shared, i.e. organized based on a personal union and with persons important for financial reporting of the majority of consolidated entities with their registered office in Poland, employed for a FTE fraction. PZU controls all the consolidated subsidiaries through Management Boards and Supervisory Boards of the companies.

Consolidated financial reporting is governed by a number of internal regulations concerning the accounting principles (policy) adopted by the PZU Group and applied accounting standards and detailed schedules including the key activities and control points with assigned liability for timely and correct completion.

## 11.5. PZU shareholders holding directly or indirectly significant blocks of shares

As at 31 December 2012 the State Treasury holding 30,385,253 shares, i.e. 35.2% of the share capital of the Company was the only shareholder of the Company with a significant block of shares.

The remaining shareholders owned the total of 55,967,047 shares which accounted for 64.81% of the share capital of the Company.

The share capital of the Issuer is divided into 86,352,300 ordinary shares with the face value of PLN 1 each, giving right to 86,352,300 votes on the General Shareholders' Meeting.

Following acquisition of shares in transactions settled on the Warsaw Stock Exchange on 1 February 2013, ING Otwarty Fundusz Emerytalny ("ING Fund") managed by ING Powszechne Towarzystwo Emerytalne S.A. has increased its holding to 4,356,139 shares in PZU, accounting for 5.0446% of the share capital of the Company and the total number of votes in the General Shareholders' Meeting. As at 31 December 2012 ING Fund held 4,281,972 shares constituting 4.9587% of the share capital of the Company and the same share in the total number of votes in the General Shareholders' Meeting.

Consequently, as at 7 February 2013 the shareholding structure of PZU, including shareholders entitled to less than 5% votes in the General Shareholders' Meeting of PZU was the following:

***Table 3: Shareholding structure - as at 7 February 2013***

| Shareholder | Number of shares | Interest in the share capital | Share in votes at the General Shareholders' Meeting |
|---|---|---|---|
| State Treasury | 30 385 253 | 35,19% | 35,19% |
| ING Otwarty Fundusz Emerytalny | 4 356 139 | 5,04% | 5,04% |
| Other shareholders | 51 610 908 | 59,77% | 59,77% |
| **Total** | 86 352 300 | 100,00% | 100,00% |

***Table 4: Shareholding structure - as at 31 December 2012***

| Shareholder | Number of shares | Interest in the share capital | Share in votes at the General Shareholders' Meeting |
|---|---|---|---|
| State Treasury | 30 385 253 | 35,19% | 35,19% |
| Other shareholders | 55 967 047 | 64,81% | 64,81% |
| **Total** | 86 352 300 | 100,00% | 100,00% |

***Table 5: Shareholding structure - as at 31 December 2011***

| Shareholder | Number of shares | Interest in the share capital | Share in votes at the General Shareholders' Meeting |
|---|---|---|---|
| State Treasury | 30 385 253 | 35,19% | 35,19% |
| ING Otwarty Fundusz Emerytalny | 4 339 308 | 5,02% | 5,02% |
| Other shareholders | 51 627 739 | 59,79% | 59,79% |
| **Total** | 86 352 300 | 100,00% | 100,00% |

The Management Board of the Company has no knowledge about concluded agreements which may result in changes in the proportion of shares held by the shareholders. In 2012 and 2011 PZU did not acquire any treasury shares.

## 11.6. Holders of securities with special control rights and a description of the rights

The Company has not issued any securities which would give the shareholders special control rights.

## 11.7. Voting restrictions

In line with the PZU's By-laws the voting right of the shareholders was restricted in a way that none of them can exercise more than 10% of the total number of votes at PZU at the date of the General Meeting, with the reservation that for the needs of determination of the obligations of parties acquiring material blocks of shares provided for in the Act on public offering and the Act on insurance activity such voting restrictions are considered non-existent.

The voting restriction does not apply to:

1. Shareholders who held shares entitling to more than 10% in the total number of votes in the Company as at the date of adopting a resolution of the General Shareholders' Meeting;
2. Shareholders co-acting with shareholders defined in item 1 based on agreements concerning joint voting rights attached to the shares.

For the purposes of voting rights restrictions, the votes of the shareholders being parent companies or subsidiaries will be added up in line with the principles specified in the By-laws.

In case of any interpretation doubts with respect to the voting restrictions, Article 65.2 of the Civil Code will apply.

In line with the PZU's By-laws, the voting restrictions in question will expire starting from the moment when a share of a shareholder who, at the date of adopting a resolution of the Shareholders' Meeting introducing the restriction held shares entitling him to more 10% in the total number of votes in the Company, drops below 5% of the share capital.

## 11.8. Restrictions on transfers of the title to securities

The By-laws of PZU do not provide for any restrictions on transferring the titles to securities issued by the company.

## 11.9. Rules of changing the By-laws of PZU

The By-laws of PZU may be amended by the General Shareholders' Meeting in the form of a resolution passed by a majority of three fourth of votes. In cases specified in the Act on insurance activity such change must be approved by the Polish Financial Supervision Authority and then recorded by the National Court Register. Based on the By-laws of PZU, the Supervisory Board can approve the unified amended text of the Company By-laws.

### 11.10. Changes in the By-laws of PZU

On 8 December 2012, the Extraordinary Shareholders' Meeting of PZU adopted a resolution no. 3/2012 introducing amendments to the By-laws of PZU, which consisted in adding point 11 to Article 18 and amending Article 25.2.12 of the By-laws.

The changes were made in provisions determining competences of the Company's bodies with respect to approving acquisition or disposal of a real property, perpetual usufruct or share in the real property or in perpetual usufruct.

In accordance with Article 393.4 of the Code of Commercial Companies acquisition or disposal of a real property, perpetual usufruct or share in the real property (perpetual usufruct) must be approved by the general shareholders' meeting, unless the By-laws determine otherwise. Before introducing the amendments in question, the By-laws of PZU included provisions assuming that the Supervisory Board was authorized to approve the acquisition or disposal of a real property, perpetual usufruct or share in the real property or in perpetual usufruct with the value not exceeding the equivalent of EUR 3.0 million (Article 25.2.12 of the By-laws). According to the previous version, the general shareholders' meeting was authorized to take decisions in this respect. This implied that any acquisition or disposal of a real property, perpetual usufruct or share in the real property (or in perpetual usufruct) required the approval of the General Shareholders' Meeting of PZU, irrespective of the transaction amount. Moreover, if the transaction value exceeded the equivalent of EUR 3.0 million the transaction had to be approved by the Supervisory Board. At the same time, the By-laws did not clearly define whether the threshold was the net or the gross value.

The amendments introduced detailed principles concerning division of competences between the Company's bodies with relation to approving disposal/acquisition of real properties. The changes were made to eliminate any interpretation differences which might occur in case it was unclear whether the transaction value was a net or a gross amount.

On 14 March 2012 the Supervisory Board of PZU adopted resolution No. URN/11/2012 approving unified amended By-laws of PZU.

The District Court for the capital city of Warsaw registered the changes in the By-laws of PZU on 27 March 2012.

On 30 May 2012, the Shareholders' Meeting of PZU adopted a resolution No. 25/2012 on amendments to the By-laws of PZU.

Changes in the By-laws were connected with:

- The change in law related to acquisition activities for the benefit of open pension funds managed by PZU. As of 1 January 2012 provisions of law on the social insurance system which allowed for carrying out acquisition activities for the benefit of open pension funds by insurance companies were repealed. Consequently, Article 5.2.1 of PZU's By-laws had to be removed;
- Due to the IPO of shares of PZU and listing PZU shares on the Warsaw Stock Exchange registered shares dematerialized under the Act on trading in financial instruments of 29 July 2005 were transformed into bearer shares as of the dematerialization date. At present the share capital is composed of registered and bearer shares, hence certain amendments had to be introduced to Article 6.1 of the By-laws of PZU to reflect the actual share capital structure;
- At the same time editorial changes were introduced: "by circulation" was replaced by "in writing" in the entire By-laws of PZU in order to adjust the document to the Code of Commercial Companies.

On 28 June 2012 the Supervisory Board of PZU adopted resolution No. URN/40/2012 on unified By-laws of PZU.

The District Court for the capital city of Warsaw registered the changes in the By-laws of PZU on 18 July 2012.

## 12. Correctness and reliability of presented financial statements

The Management Board of PZU declares that to the best of their knowledge, the annual financial statements and comparable data have been prepared in accordance with the applicable accounting principles and provide a true, fair and clear view of the economic and financial position and the financial profit or loss of the Company and the Report on activities of the Company presents a true picture of the Company's development, achievements and situation, including a discussion of the main risks and threats.

## 13. Selection of the entity authorized to audit financial statements

The Management Board of PZU represents that the entity authorized to audit financial statements - Deloitte Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa - which audited the annual financial statements was selected in accordance with the provisions of law and that the entity and certified auditors which audited the financial statements met the requirements to express an unbiased and independent opinion on the audited annual financial statements, in accordance with the applicable provisions of law and professional standards.

### Signatures of members of the Management Board of PZU:

| Name | Position | |
|---|---|---|
| Andrzej Klesyk | Chairman of the Management Board of PZU | ............................................<br>(signature) |
| Przemysław Dąbrowski | Member of the Management Board of PZU | ............................................<br>(signature) |
| Tomasz Tarkowski | Member of the Management Board of PZU | ............................................<br>(signature) |
| Bogusław Skuza | Member of the Management Board of PZU | ............................................<br>(signature) |
| Ryszard Trepczyński | Member of the Management Board of PZU | ............................................<br>(signature) |

Warsaw, 12 March 2013