MANAGEMENT REPORT
ON THE ACTIVITIES OF
POWSZECHNY ZAKŁAD UBEZPIECZEŃ
SPÓŁKA AKCYJNA CAPITAL GROUP
IN 2012

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INTRODUCTION

1. Summary

Powszechny Zakład Ubezpieczeń Spółka Akcyjna Capital Group ("**PZU Group**") is one of the oldest and largest insurance groups in Poland in terms of gross written premium (according to the data collected by Polish Financial Supervision Authority, PFSA) whose a large offer includes insurance and financial products.

PZU Group operates in the four key areas:

- Property and personal insurance offered by Powszechny Zakład Ubezpieczeń Spółka Akcyjna („PZU", „Issuer");
- life insurance offered by Powszechny Zakład Ubezpieczeń na Życie SA ("PZU Życie");
- open pension funds offered by Powszechne Towarzystwo Emerytalne PZU („PTE PZU"), managing Otwarty Fundusz Emerytalny PZU „Złota Jesień" ("OFE PZU");
- investment funds offered by Towarzystwo Funduszy Inwestycyjnych PZU SA ("TFI PZU".)

PZU is a leader on the property and personal insurance market in Poland in terms of gross written premium (its share amounted to 32.3% at the end of Q3 2012). Motor insurance, both for individuals and corporate clients are the key product group offered by PZU.

PZU Życie is a leader on the life insurance market in Poland in terms of gross written premium (its share amounted to 26.5% at the end of Q3 2012). Group and individual life insurance is the key product group offered by PZU Życie.

PTE PZU manages OFE PZU Złota Jesień, which at the end of 2012 was the third largest in terms of the number of members (2.2 million members) and of net assets (PLN 36.3 billion) among open pension funds in Poland.

TFI PZU offers:

- participation units in open investment funds, including specialized open investment funds;
- investment certificates in closed investment funds;
- investment plans, and
- pension plans, including Employee Pension Plans and Individual Pension Accounts.

At the end of 2012, net value of investment funds managed by TFI PZU amounted to PLN 15.3 billion (the first place in the market).

Net profit of the PZU Group calculated in line with International Financial Reporting Standards (IFRS) in 2012 amounted to PLN **3,253.8 million** and was 38.8% higher from that of the previous year.

ROE[1] for the period from 1 January to 31 December 2012 amounted to 24.0%, and was 5.7 p.p. higher than in the previous year.

The following elements had effects on net performance of the PZU Group compared to the previous year:

- Increase in gross written premium resulting from growing sales of TPL motor insurance (mass insurance segment), obligatory accidental insurance of hospitals and medical entities (corporate insurance segment), as well as group insurance and individual investment insurance (in the bancassurance channel);
- Higher investment income, mainly due to growing prices of treasury bonds arising from debt instruments yield down, re-bounce on capital markets and introduction of a new investment strategy aimed at improved investments yield accompanied with optimised risk management;
- Increase in mathematical provisions and capitalised annuity provision arising from a cutting in technical rates applied resulting from lower treasury bonds yield;
- Improved profitability of motor, group and individually continued insurance (excluding conversion and adjustment of technical rates);
- Higher level of claims (including the change in technical provisions) in the current year arising from:
  - growing sales of individual investment products in the bancassurance channel and better performance on investment activity translated into an increase in technical provisions for contracts with an element of investment;
  - slowdown in conversion of long-term contracts into annual revolving ones in P class group insurance;
  - Worse performance in contract guarantees in the corporate client segment, among others following an increase in claim provisions related to a series of bankruptcies in the construction industry;
- Implementing of the PZU Group strategy on optimising processes and centralising functions, to include unification of PZU and PZU Życie resulting in subsequent stages of headcount restructuring;
- Implementing of project work aimed at modification of image of the Group and introducing a new policy system in property insurance (2013 is planned launch of policy sales in new system).

PZU Życie and PZU have a long-term credit and financial rating **A** (by Standard & Poor's Ratings Services) **with a stable rating perspective**.

2. Macroeconomic trends in 2012

2.1. 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.

2.2. 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.

2.3. 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

2.4. Labor 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).

2.5. 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%.

2.6. 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.

2.7. Insurance and pension market vs. market shares of PZU Group companies

2.7.1. Insurance market in total

As at the end of Q3 2012[1] the gross written premium in the Polish insurance industry as a whole calculated in line with Polish Accounting Standards (PAS) amounted to PLN 46,946 million, which denotes a 7.8% rise (+ PLN 3,413 million) year on year.

The total value of investments of all insurance companies (without shares in controlled entities) amounted to PLN 86.9 billion at the end of Q3 2012 and increased by 4.8% compared to the end of 2011.

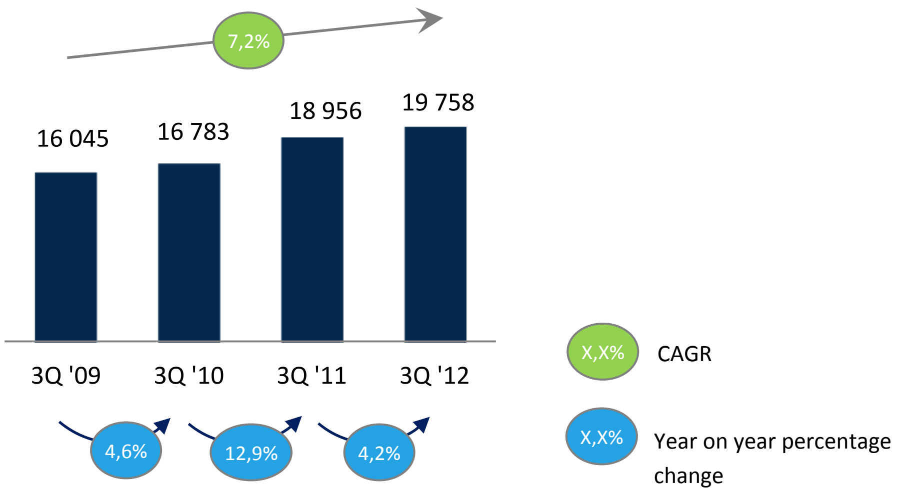
2.7.2. Property and personal insurance in Poland

The market of property and 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 million), 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 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

[1] The newest data published by Polish Financial Supervision Authority (PFSA) as at the date of the Report

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 perosnal 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 personal insurance market increased by PLN 0.79 billion (+83.1%). The underwriting profit/loss on the property and personal insurance market, which does not include investment income, increased by PLN 439.7 million to PLN 721.4 million. Positive changes resulted from motor own damage 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 treasury bonds yield 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 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 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 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 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%, PZU is a leader in the property and 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 program. 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 perosnal 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 personal insurance market

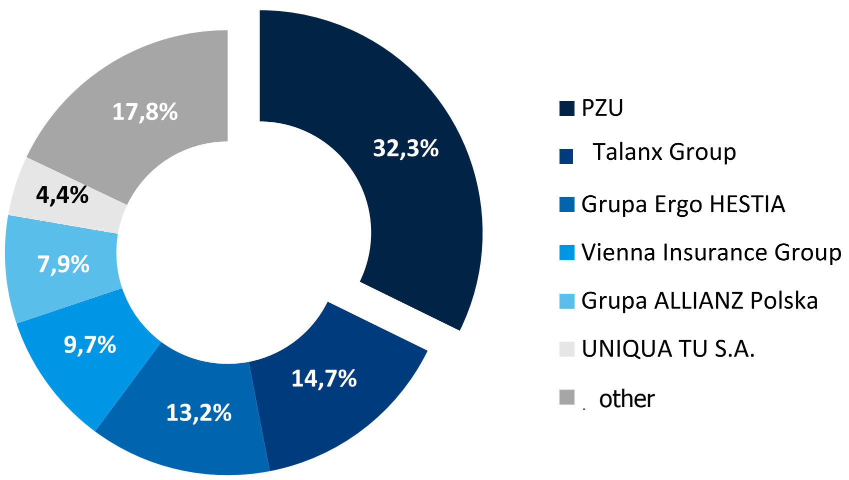
PLN million

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 yield 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)

2.7.3. Life insurance

Life insurance market in Poland measured with gross written premium has grown by average of 6.8% per year over last four years. At the end of Q3 2012, gross written premium on the life insurance market increased by +10.6% year on year, which is a solid growth compared to overall dynamics at the end of Q3 2011 and 2010, of + 5.6% and + 4.3%, respectively. The substantial increase resulted from high sales of one-off group insurance, mainly in the bancassurance channel. Increased interest in these products may have resulted from liquidation of overnight deposits that allowed avoidance of capital tax within a certain limit due to a gap in tax regulations. At the end of Q3 2012, premium from the bancassurance channel accounted for approx. 54.8% (PLN 14.7 billion) compared to 52.2% (PLN 12.7 billion) during the comparable period in the previous year[1]. Development of this insurance channel resulted in a 24.7% growth in the group insurance compared to 9.8% during the comparable period in the previous year. Further, the regular premium underlying the competitive advantage of PZU Życie, increased by 6.4% at the end of Q3 2012, compared to + 1.4% at the end of Q3 2011. At the same time, during the discussed period, the amount of PLN 4.5 billion of periodic premium was collected in the market of unit-linked insurance, which constituted a growth of 12.0%. Good standing of capital markets supported development of insurance with element of investment.

During the three quarters of 2012, insurance companies paid the total of PLN 18.7 billion claims, out of which life insurance payments (class I) with a one-off premium, in particular related to short-term investment contracts, accounted for PLN 12.5 billion.

The total underwriting profit/loss increased by PLN 125.1 million (+4.8%), mainly thanks to improved profitability of accidental and illness class V insurance (so-called additions) – performance improvement by PLN 137.0 million (+12.8%).

During this period, life insurers generated net profit of PLN 2.6 billion constituting a growth by 14.3% (+ PLN 326.8 million). Excluding PZU Życie, the market saw a drop of PLN 68.8 million (-6.3%).

Good standing of the capital market and treasury bonds yield down contributed to the growth in investments made by life insurers. The total value of investments made by life insurers at the end of Q3 2012 was PLN 91.0 billion (+7.4%) and net assets in unit-linked life insurance amounted to PLN 42.5 billion (+13.3%).

Life insurers have estimated the total amount of technical provisions at PLN 77.2 billion, which constituted 84.8% of investment value.

Table 5: Life insurance market – gross written premium and underwriting profit/loss

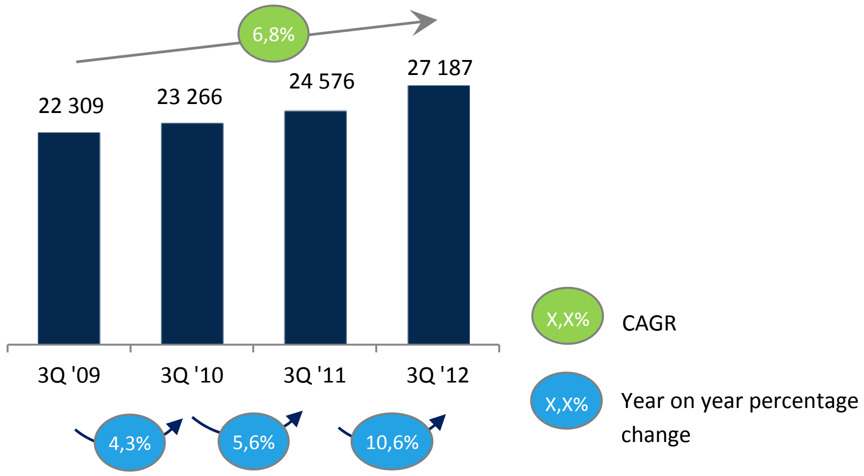
PLN '000

Life insurance market – gross written premium vs. underwriting profit/loss	1 January – 30 September 2012			1 January – 30 September 2011		
	PZU Życie	Market	Market, excluding PZU Życie	PZU Życie	Market	Market, excluding PZU Życie
Written premium	**7 203**	**27 187**	**19 984**	**7 918**	**24 576**	**16 658**
Underwriting profit/loss	**1 581**	**2 717**	**1 136**	**1 555**	**2 591**	**1 036**

Source: PFSA (www.knf.gov.pl). Biuletyn Kwartalny. Rynek ubezpieczeń 3/2012, Rynek ubezpieczeń 3/2011, data of PZU Życie

[1] Data by PIU (www.piu.org.pl), Bancassurance market after Q3 2012

Chart 3: Gross written premium of life insurance companies in Poland



Source: PFSA (www.knf.gov.pl). Biuletyn Kwartalny. Rynek ubezpieczeń 3/2012, Rynek ubezpieczeń 3/2011

PZU Życie has remained the leader in the regular premium segment with market share of 42.7% at the end of Q3 2012. Further, despite a decrease in the single premium segment (by 8.6 p.p. to 14.0%), margin on banking products has increased and cooperation with banks has been extended to include Bank Millennium SA, Bank Handlowy w Warszawie SA and ING Bank Śląski SA.

The underwriting profit/loss of PZU Życie accounts for a major part of the result generated by all life insurance companies in the market. This proves high profitability of products offered. Interestingly, the technical margin on premium written is almost four times higher than the margin generated jointly by all other life insurers on the market (21.9% compared to 5.7%). At the end of Q3 2012, the margin of PZU Życie increased by 2.3 p.p. y-o-y, while that of other life insurers dropped by 0.5 p.p.

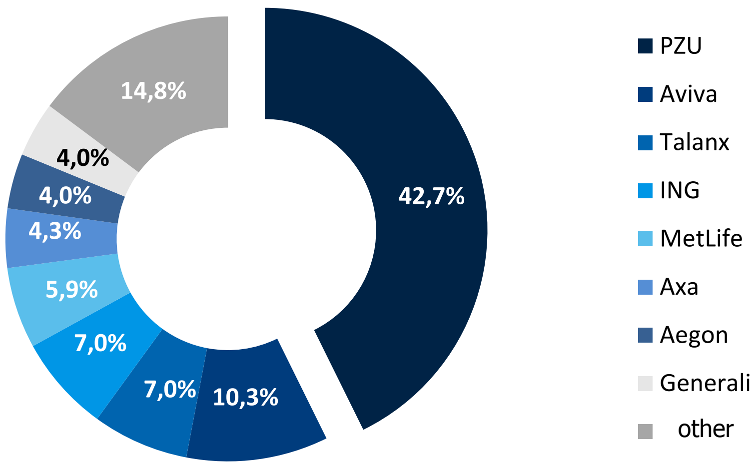
Table 6. Life insurance market – gross written premium

PLN '000

Life insurance market – gross written premium	1 January – 30 September 2012			1 January – 30 September 2011		
	PZU Życie	Market	Market, excluding PZU Życie	PZU Życie	Market	Market, excluding PZU Życie
Regular premium	5 051	11 827	6 776	4 882	11 114	6 232
Single premium	2 153	15 361	13 208	3 036	13 462	10 426
TOTAL	**7 203**	**27 187**	**19 984**	**7 918**	**24 576**	**16 658**

Source: PFSA (www.knf.gov.pl). Biuletyn Kwartalny. Rynek ubezpieczeń 3/2012, Rynek ubezpieczeń 3/2011, data of PZU Życie

Chart 4: Share of the largest life insurers in Poland in regular premium



Capital groups: Talanx - Warta, Europa, HDI, Open Life; VIG - Compensa, Benefia, Polisa Życie; Aviva - Aviva TUnŻ, BZ WBK-Aviva TUnŻ

Source: PFSA (www.knf.gov.pl). Biuletyn Kwartalny. Rynek ubezpieczeń 3/2012, Rynek ubezpieczeń 3/2011

2.7.4. Pension insurance

Table 7: Position of OFE PZU in the pension insurance market in Poland

Pension Insurance Market	31 December 2012			31 December 2011		
	OFE PZU	Open pension fund market	Open pension fund market, excluding PZU	OFE PZU	Open pension fund market	Open pension fund market, excluding PZU
Number of OPF members	2 222 853	15 942 282	13 719 429	2 214 995	15 493 373	13 278 378
Net AUM in PLN million	36 282	269 596	233 314	30 523	224 720	194 197

Source: PFSA (www.knf.gov.pl), Pension market. Monthly data.

Table 8: Share of OFE PZU in the pension market in Poland

Market share of OFE PZU "Złota Jesień" (%)	31 December 2012	31 December 2011
Number of OPF members	13.9%	14.3%
Net AUM	13.5%	13.6%

Source: PFSA (www.knf.gov.pl), Pension market. Monthly data.

At the end of 2012, OFE PZU had about 2,223 thousand members constituting 13.9% of the general number of open pension funds members and gives PFE PZU the third place in the market in this respect. Drop in the market share experienced by the largest three funds: ING OFE (-0.2 p.p.), OFE PZU (-0.4 p.p.) and Aviva OFE (-0.5 p.p.) arise from the complete acquisition ban on the open pension fund market effective from 1 January 2012. The law allows correspondence as the only manner to conclude agreements with open pension funds, which has significantly reduced the number of people changing pension funds (a decrease by 79% compared to 2011) and limited the number of individuals who join the funds the first time upon their own decision (a drop by 62% compared to 2011). The law does not allow large funds participation in statutory draws, in which 356 thousand people were allocated in 2012 (79% of new clients).

At the end of 2012, the total net assets of all open pension funds amounted to PLN 269,596 million and increased by 20% compared to the end of 2011. During this period, the assets of OFE PZU increased by 18.9% to PLN 36,282 million giving it the third place among the market players in terms of asset value.

2.7.5. Investment funds

According to the Chamber of Fund and Asset Management (CFAM) at the end of December 2012, net assets of investment funds in Poland approximated PLN 145.8 billion, which means a y-o-y growth by 26.9%. Further, the total assets were the highest after the record level reached in October 2007 (i.e. PLN 144.3 billion).

The year 2012 was marked with changes in the structure of assets by market segment. Debt, stock and non-public asset funds had the highest market share. The sales balance of the funds for the entire 2012 was positive and amounted to PLN 19 billion.

Table 9: Net assets per segment and their share in the investment fund market in Poland

PLN mln

Net assets per segment and their market share	31.12.2012	31.12.2011	Changes	Share as at 31 December 2012	Share as at 31 December 2011
Debt	41 233	24 710	66.9%	28.3%	21.5%
Non-public assets	23 352	14 261	63.7%	16.0%	12.4%
Absolute return rate	4 419	2 956	49.5%	3.0%	2.6%
Securitisation	2 071	1 760	17.7%	1.4%	1.5%
Stock	24 604	21 337	15.3%	16.9%	18.6%
Real property	3 486	3 307	5.4%	2.4%	2.9%
Cash	13 795	13 595	1.5%	9.5%	11.8%
Mixed	20 163	21 286	(5.3)%	13.8%	18.5%
Capital protection	2 281	2 886	(21.0)%	1.6%	2.5%
Commodity market	519	697	(25.5)%	0.4%	0.6%
Undefined	9 898	8 135	21.7%	6.8%	7.1%
TOTAL	**145 821**	**114 931**	**26.9%**	**100.0%**	**100.0%**

* Assets of the funds are presented in aggregate figures, mainly with respect to non-public asset funds, and also other classes (mixed, real property, securitisation, stock funds).

Source: www. izfa.pl; Raport miesięczny – aktywa – grudzień 2012.pdf

The increase in the value of assets resulted among others with good standing of the stock market and Polish treasury bond market and reduced bank deposits yield (including liquidation of overnight deposits). Another reason was introduction of a new investment strategy in the PZU Group, resulting in an increase in assets managed by TFI PZU from PLN 5.37 billion to PLN 15.36 billion due to non-cash or cash contribution of PZU Group companies (mainly PZU and PZU Życie).

The share of the five largest investment funds measured in net AUM amounted to 42.6% at the end of December 2012.

In terms of net AUM, TFI PZU is first among 37 investment funds included in IZFA report with assets value of PLN 15.3 billion and market share of 10.5%. The increase of about PLN 10 billion y-o-y resulted from the investment strategy mentioned above. At the same time, TFI PZU remains the leader in the segment of employee pension plans among domestic investment pension funds with assets exceeding PLN 1.8 billion.

2.7.6. Property and personal insurance market in Ukraine

According to the State Commission on Financial Market Service Regulation, as at 30 September 2012, the insurance market in Ukraine included 448 insurance companies (including 384 property insurers), out of which over 100 had foreign capital.[2]

Motor insurance accounted for approx. 32.4% of gross written premium.

[2] State Commission on Finance Service Market Regulation

Table 10: Structure of the gross written premium for property and personal insurance in Ukraine

Written premium structure	1 January – 30 September 2012	1 January – 30 September 2011
TPL motor insurance	12,7%	10,8%
Motor own damage insurance	17,9%	16,9%
Motor insurance total	1,8%	1,5%
Property insurance, including fire and accidents	32,4%	29,2%
Voluntary medical insurance	24,4%	28,0%
Cargo	6,7%	5,4%
Accidental insurance	5,3%	7,0%
Green Card	3,8%	2,7%
Medical expenses insurance	1,7%	1,4%
Aviation risks	1,7%	1,4%
Other products	24,0%	24,9%
Total property and personal without motor insurance	67,6%	70,8%
Total	**100,0%**	**100,0%**

Source: State Commission on Financial Market Service Regulation, Summary of insurer operations for the nine months of 2012, summary of insurers' operations for the nine months of 2011.

In 2012, insurance market was stagnant. This resulted mostly from the standing of the national economy and policy of banks regarding loans. Insurance market is directly related to the loan market, since almost 40% of motor insurance market was based on the instalment purchase method. [3]

According to data for the nine months of 2012, gross written premium in property and personal insurance market was UAH 14.6 billion, which meant a drop by 6.1% year on year. At the same time, the estimated share of the 'classical' market ranges from 50 to 60%. [4]

Insurance claims on the market amounted to UAH 3.9 billion, which meant a 14.5% increase year on year. The scope of reinsurance decreased more than twofold, reaching the level of UAH 2.0 billion (UAH 4.7 billion for the nine months of 2011).

Market concentration was fairly high: 20% of the largest property insurers collected approx. 51.4% of gross written premium on (53.9% for the nine months of 2011). The top fifty insurers accounted for 77.8% of market turnover. [5]

During the nine months of 2012, distribution of property and personal insurance was as follows: about 40% of gross written premium collected through own sales networks (including 34% through head offices and 66% through regional offices); 60% collected through brokers and partners (including 53% through banking institutions, 8% through multi-agents, 38% through non-financial agents and just 1% through brokers). [6]

In 2012, key processes on the Ukrainian insurance market included price competitiveness and high level of costs related to sales of insurance products, liquidity problems of some insurers, as well as low popularity of insurance services among citizens and little trust in effective insurance.

Ukrainian insurance market has vast growth potential and remains attractive for foreign investors. Effective and necessary legal reforms must be implemented to contribute to its growth and provide conditions that would attract investment.

2.7.7. Property and personal insurance market in Lithuania

According to data by Lietuvos Bankas, the Central Bank of Lithuania, in 2012 gross written premium of property and personal insurers amounted to LTL 1.2 billion and grew by 6.6% year on year (LTL 1.1 billion in 2011). Analysis of performance per insurance class draws attention to premium value increase:

[3] Association of Ukrainian Insurance Companies

[4] State Commission on Finance Service Market Regulation, "Summary of the insurance business for the nine months of 2012"

[5] State Commission on Finance Service Market Regulation, "Summary of the insurance business for the nine months of 2012"

[6] Insurance TOP; Association of Ukrainian Insurance Companies

- in TPL by 11.9% (from LTL 256.3 million to LTL 286.9 million);
- in motor TPL by 9.0% (from LTL 390.0 million to LTL 425.0 million);
- in accident and health insurance by 9.1% (from LTL 104.2 million to LTL 113.9 million).

The increase in motor insurance resulted mostly from growing policy prices and increasing fleets of companies (due to economic improvement). The increase in the accident and health insurance market resulted mostly from growing popularity of health insurance on the Lithuanian market (the segment grew by 23.4% year on year).

In 2012, the structure of personal and property insurance was dominated by motor insurance, accounting for 58.6% of gross written premium, with the share of vehicle owners of 35.0% and of Motor own damage insurance of 23.6%. Property insurance was the second largest segment with the total contribution to gross written premium of 19.3%. Accident and health insurance with the share of 9.4% is the third most popular class in property and personal insurance measured by written premium.

When comparing the market structure year on year, an increase in motor insurance share is visible, both in TPL and comprehensive insurance (from 56.7% to 58.6%). The share of TPL insurance increased from 34.2% to 35.0% (by 0.8 p.p.) and of comprehensive insurance, from 22.5% to 23.6% (by 1.1 p.p.). The share of property insurance decreased (from 21.4% to 19.3%).

In 2012, there were 15 insurance companies in Lithuania operating in property and personal insurance (including ten branches of companies registered in other EU member states). In terms of total gross written premium for other property and personal insurance, Lietuvos Draudimas with market share of 31.3% is the largest in Lithuania. PZU Lietuva is the second with the market share of 13.3%. BTA is the third largest with the market share of 13.2%.

2.8. Regulatory environment of the PZU Group

2.8.1. Regulations regarding the Polish insurance market

Below please find key legal regulations regarding insurance that came into effect or were published in 2012 and could contribute to changes in the scope of business or organisation of the PZU Group.

Act amending the act on statutory insurance, Insurance Guarantee Fund and Polish Office of Motor Insurers and some other acts (Law Journal No. 205 of 2011 item 1210), "coming into effect on 11 February 2012, has materially changed the existing regulations regarding conclusion and termination of statutory insurance contracts, including motor TPL insurance and agricultural insurance, i.e. statutory insurance of farm buildings and statutory TPL insurance of farmers related to running a farm.

In particular, legal solutions were introduced to limit the so-called double insurance. Statutory 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 statutory insurance, Insurance Guarantee Fund and Polish Office of Motor Insurers, of 22 May 2003 (Law Journal No. 124 of 2003, item 1153, as amended, "Act on statutory 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 statutory 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 on the 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.

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 statutory 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 statutory 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 statutory 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 statutory 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 statutory insurance and the minimum guarantee amount.

Effects of amendments to the therapeutic laws for PZU Group: an increased written premium in the first half of 2012 arising from the obligation for hospitals and therapeutic entities to conclude insurance contract. The statutory 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 statutory 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 Group: 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.

Ordinance of the Minister of Finance of 4 October 2012 on statutory 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 Group: 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 Group: 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.

Act on modification of certain acts in relation to implementation of the Budget Law of 22 December 2011 (Law Journal No. 291 of 2011, item 1707) whose article 4 amends Article 63 of the Tax Ordinance of 29 August 1997 effective from 31 March 2012 by eliminating the possibility to round the tax amount and therefore to avoid paying it on revenue generated on overnight bank deposits.

Effects of the act for the PZU Group: It may increase interest in other forms of investment /savings, in particular those that allow not paying PIT (policies combined with investments).

Ordinance of the Minister of Health of 17 May 2012 on the detailed scope of and manner of providing information regarding the health of the potential insured to insurers by entities providing medical services and the manner of determining fees for submitting the information (Law Journal of 2012, item 605) has changed the scope of data to be included in an insurer's request regarding information about health of the insured or potential insured. In particular, the name of the physician authorised by the insurer to ask for the information has been added, and the scope of personal data of the person of interest has been reduced (only PESEL identification number is necessary, but only if the insurer already holds it, similarly as the number and series of the personal identity card).

Effects of the act for the PZU Group: The procedure of requesting information on health of the insured or potential insured has been simplified: the scope of obligatory identification data of the person in question has been limited.

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.

2.8.2. Other regulations in Poland

Below please find key legal regulations regarding insurance that came into effect or were published in 2012 and could contribute to changes in the scope of business or organisation of the PZU Group.

Act of 25 March 2011 amending certain acts related to operation of the social security system (Law Journal No. 75 of 2011, item 398) effective from 1 May 2011 changed the amount of premium transferred to open pension funds from 7.3% to:

- 2.3% from 1 May 2011 to 31 December 2012;
- 2.8% in 2013;
- 3.1% in 2014;
- 3.3% in 2015 and 2016;
- 3.5% from 1 January 2017.

Additionally, effective from 1 January 2012, the above act has introduced the following changes:

- The list of products related to voluntary pension accounts has been extended allowing establishing of a voluntary individual pension insurance account along with the statutory individual pension account;

- Tax allowance for holders of voluntary individual pension insurance accounts have been introduced;
- Savings on voluntary pension accounts held by investment funds, broker houses, life insurers, banks and voluntary pension funds have been permitted;
- Acquisition ban has been introduced with regard to open pension funds.

Effects of the act for PTE: Reduced revenue of Powszechne Towarzystwo Emerytalne accompanied with an increase in costs related to implementation of the changes introduced by the Act; that has been partly offset with the tax allowance (payments to the voluntary pension insurance fund can be deducted from the tax basis when annual returns are prepared).

Act of 21 December 2011 amending the Act on the social security system (Law Journal No. 291 of 2011, item 1706). As of 1 February 2012, the disability pension premium (the portion paid by employers) has been increased by 4.5% to 6.5% of the base, i.e. by 2 p.p. (the total disability pension premium has increased from 6.0% to 8.0% out of which 1.5% has been paid by the insured, and the other portion by the employer). The amendment is to reduce the deficit of the Social Security Fund (ZUS) in disability pension funds and in future should contribute to its gaining a balance.

Effects of the act for the PZU Group: Increased operating costs of employers.

2.8.3. Regulatory environment in Ukraine

The need to comply with recommendations of 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) resulted in work performed among others by the Parliament on the Insurance Act. Draft act assumptions include:

- increased requirements regarding share capital of insurers;
- implementing regulator's prudency supervision over market participants;
- insurers will be allowed to open private pension funds, administer and manage assets;
- the obligation to register terms and conditions of insurance will be eliminated (insurers will be able to run their business based on terms of company operation, based on which all insurance products will be created in future);
- concluding e-insurance contracts will be allowed (not only in hard copies) and the digital signature will be approved (for e-policies) and/or facsimile, which should support development of direct sales in Ukraine.

On 1 July 2012, the Ukrainian parliament passed the Act on specific features of insurance for agricultural and food products with state support. Since autumn 2012, farmers can minimise potential losses arising from bad weather since the state has compensated up to 50% of insurance fees for winter wheat.

In September 2012, State Commission on Financial Market Service Regulation published a draft ordinance on changes in the principles of reinsurance contract registration, which: increases the limit of reinsurance contracts with residents that, if exceeded, obliges the policy holder to register, from UAH 150 thousand to UAH 1 million. The draft does not eliminate the obligation to register contracts with non-residents, which is an additional complication when concluding them.

In the new tax code, the Ukrainian parliament has provided insurance companies the right to pay 3% tax on written premium without the necessity to transit to a general tax system. At the same time, tax base calculation has changed: reinsurance payments to resident reinsurers have been excluded (the Act no. 5412-VI of 2 October 2012 regarding amendments to the Ukrainian Tax Code related to certain tax issues).

On 5 November 2012, amendments to the act on statutory TPL insurance came into effects. Pursuant to them, insurers must be members of the Ukrainian Office of Motor Insurance to be permitted to sell TPL policies to owners of land vehicles. Further, members of the Office will be obliged to pay a guarantee fee to the insurance guarantee fund whose amount is determined in internal regulations of the Fund and cannot be lower than the equivalent of EUR 1 million. Since the Office is the only association of insurers that provide statutory TPL insurance for land vehicle owners, the changes will limit access to membership for small and unreliable insurance companies.

Since 1 January 2012 Ukrainian insurers have been obliged to transit to International Financial Reporting Standards, which will significantly impact their performance as presented in financial statements (the Act no. 3332-VI of 12 May 2011 amending Act on accounting and financial reporting).

2.8.4. Regulatory environment on the Baltic market (Lithuania)

In 2012 the Lithuanian Insurance Act No. 94-4246; 2011, No. 145-6816 adjusting its regulations to Solvency II requirements has been amended (it will come into effect on 1 January 2014).

According to the Act on Lithuanian Bank No. 99-1957; No. 28-890, No. 54-1830 since 11 June 2012, sum assured in statutory TPL insurance for owners of motor vehicles have increased. At present, the sum assured regarding personal damage is EUR 5 million and for property damage, EUR 1 million. The increase of sum assured has resulted from implementation of EU regulations.

On 12 September 2012, Resolution No. N-40 of 13 April 2004 on calculation of the solvency margin was amended. The change will come into force on 1 January 2013.

On 28 March 2012, the Bank of Lithuania approved Resolution No. 03-73 regarding the amount and method of calculating payments to cover costs of supervision of insurance companies. The amount was reduced from 0.35% to 0.16% of the annual gross written premium.

2.9. Macroeconomic factors that will affect the activities of PZU Group 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 program), 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

3. PZU Group organisation description

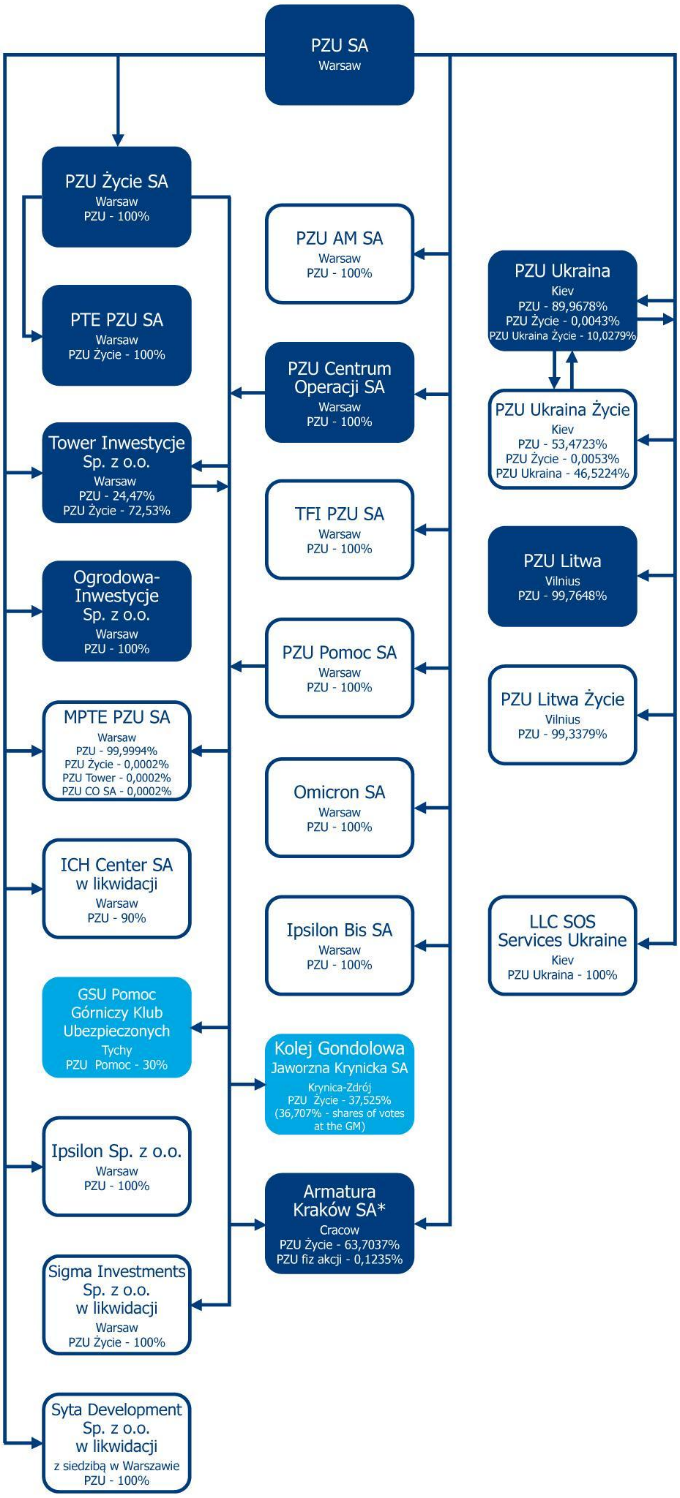
3.1. Organisation of the PZU Group

The scope of business activities of the PZU Group includes provision of comprehensive insurance services. The Group companies offer services relating to life, other personal and property insurance as well as asset management on behalf of their customers in the form of an open pension fund and investment funds.

In the period from 1 January to 31 December 2012, the scope of activities of the major PZU Group companies did not change substantially.

Chart 5: PZU Group as at 31 December 2012

Chart does not include investments funds managed by TFI PZU, which are, alter alia, included in consolidation process



*) Armatura's Group consists of the following companies: Armatura Kraków SA, Armatoora SA, Armatoora SA i wspólnicy sp. k., Armagor SA, Armadimp SA

Table 1: PZU Group entities

No.	Entity	Registered office	Date of taking up control/ significant influence	% of share capital held directly or indirectly by PZU		% of voting rights held directly or indirectly by PZU		Business
				31 December 2012	31 December 2011	31 December 2012	31 December 2011	
Entities covered by consolidation								
1	Powszechny Zakład Ubezpieczeń SA ("PZU")	Warsaw	n/a	n/a	n/a	n/a	n/a	Property and personal insurance
2	Powszechny Zakład Ubezpieczeń na Życie SA („PZU Życie”)	Warsaw	18.12.1991	100,00%	100,00%	100,00%	100,00%	Life insurance
3	Powszechne Towarzystwo Emerytalne PZU SA („PTE PZU”)	Warsaw	08.12.1998	100,00%	100,00%	100,00%	100,00%	Managing pension funds
4	PZU Centrum Operacji SA („PZU CO”)	Warsaw	30.11.2001	100,00%	100,00%	100,00%	100,00%	Auxiliary activities related to insurance and pension funds
5	Tower Inwestycje Sp. z o.o. („Tower Inwestycje”)	Warsaw	27.08.1998	100,00%	100,00%	100,00%	100,00%	Other financial services, excluding insurance and pension funds
6	PrJSC IC PZU Ukraine („PZU Ukraine”)	Kiev (Ukraine)	01.07.2005	100,00%	100,00%	100,00%	100,00%	Property and personal insurance.
7	UAB DK PZU Lietuva („PZU Lietuva”)	Vilnius (Lithuania)	26.04.2002	99,76%	99,76%	99,76%	99,76%	Property and personal insurance
8	Ogrodowa-Inwestycje Sp. z o.o.	Warsaw	15.09.2004	100,00%	100,00%	100,00%	100,00%	Purchasing, using, leasing and selling properties
9	Armatura Kraków SA	Kraków	07.10.1999	63,83%	63,83%	63,83%	63,83%	Distribution of Armatura Group products, administration and management of the Group.
10	Armatoora SA	Nisko	10.12.2008	63,83%	63,83%	63,83%	63,83%	Manufacture and sale of heaters and taps.
11	Armatoora SA i wspólnicy sp. k.	Kraków	10.02.2009	63,83%	63,83%	63,83%	63,83%	Use of free cash flows, development investment projects
12	Armagor SA	Kraków	06.09.2009	63,83%	63,83%	63,83%	63,83%	Manufacturing of bathroom (water and gas) and central heating fittings
13	Armadimp SA	Kraków	20.07.2012	63,83%	n/a	63,83%	n/a	Manufacturing of ceramic sanitary fixtures

14	PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Dłużny	Warsaw	15.12.2009	100,00%	100,00%	n/a	n/a	Investing of funds collected from members
15	PZU Fundusz Inwestycyjny Zamknięty Akcji [1)]	Warsaw	27.01.2010	100,00%	100,00%	n/a	n/a	Investing of funds collected from members
16	PZU Fundusz Inwestycyjny Zamknięty Dynamiczny [2)]	Warsaw	27.01.2010	100,00%	100,00%	n/a	n/a	Investing of funds collected from members
Subsidiaries not subject to consolidation								
17	Towarzystwo Funduszy Inwestycyjnych PZU SA („TFI PZU")	Warsaw	30.04.1999	100,00%	100,00%	100,00%	100,00%	Establishing, representing, managing investment funds.
18	PZU Asset Management SA („PZU AM")	Warsaw	12.07.2001	100,00%	100,00%	100,00%	100,00%	Management of securities portfolios for the account of third parties
19	PZU Pomoc SA	Warsaw	18.03.2009	100,00%	100,00%	100,00%	100,00%	Assistance services
20	UAB PZU Lietuva Gyvybes Draudimas	Vilnius (Lithuania)	26.04.2002	99,34%	99,34%	99,34%	99,34%	Life insurance
21	PrJSC IC PZU Ukraine Life Insurance („PZU Ukraine Life")	Kiev (Ukraine)	01.07.2005	100,00%	100,00%	100,00%	100,00%	Life insurance
22	Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA („MPTE PZU SA")	Warsaw	13.08.2004	100,00%	100,00%	100,00%	100,00%	Management of employee pension fund
23	Ipsilon Sp. z o.o.	Warsaw	02.04.2009	100,00%	100,00%	100,00%	100,00%	The Company does not carry out any operations.
24	Ipsilon Bis SA	Warsaw	02.09.2011	100,00%	100,00%	100,00%	100,00%	The Company does not carry out any operations.
25	Omicron SA	Warsaw	13.09.2011	100,00%	100,00%	100,00%	100,00%	The Company does not carry out any operations.
26	Syta Development Sp. z o.o. w likwidacji	Warsaw	29.04.1996	100,00%	100,00%	100,00%	100,00%	Acquisition and disposal of real property, agency in real property trade, real property management
27	Sigma Investments Sp. z o.o. w likwidacji [3)]	Warsaw	28.12.1999	100,00%	100,00%	100,00%	100,00%	The Company does not carry out any operations.

28	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100,00%	100,00%	100,00%	100,00%	Assistance services.
29	Company with Additional Liability Inter-Risk Ukraine („Inter Risk") 4)	Kiev (Ukraine)	01.07.2005	0,00%	100,00%	0,00%	100,00%	Legal services.
30	LLC Finansowa Kompania Idea-Kapitał [5]	Kiev (Ukraine)	06.10.2011	0,00%	100,00%	0,00%	100,00%	Financial services.
31	ICH Center SA w likwidacji [6]	Warsaw	31.01.1996	90,00%	90,00%	90,00%	90,00%	The Company does not carry out any operations.
Associates								
32	Kolej Gondolowa Jaworzyna Krynicka SA ("KGJK")	Krynica	17.08.1998	37,53%	37,53%	36,71%	36,71%	Ski lifts
33	GSU Pomoc Górniczy Klub Ubezpieczonych SA (d. Nadwiślańska Agencja Ubezpieczeniowa SA)	Tychy	08.06.1999	30,00%	30,00%	30,00%	30,00%	Insurance handling

[1)] Consolidated using the full method since 1 July 2012.

[2)] Consolidated using the full method since 1 October 2012.

[3)] Resolution of the Extraordinary Shareholder Meeting of 19 July 2012 commenced the liquidation procedure as of 1 August 2012.

[4)] Resolution of the Extraordinary Shareholder Meeting of 8 March 2012 commenced the liquidation procedure as of 16 March 2012.

3.2. PZU Group enitites

3.2.1. PZU

The PZU Group's Parent Company is PZU, which was established as a result of the transformation of Państwowy Zakład Ubezpieczeń (a state-owned enterprise) into a joint-stock company where the State Treasury was the sole shareholder on the basis of art. 97 of the Act on insurance activities of 28 July 1990 (Journal of Laws No. 11 of 2010, item 66 as amended ("Insurance Act").

PZU's core business is conducting insurance and directly related activities in respect of section II insurance – Other property and personal insurance, in accordance with the categories specified in the Act on insurance activities:

1. Accident insurance, including accident at work and occupational disease;
2. Sickness insurance;
3. Comprehensive insurance of land vehicles, with the exception of rail vehicles;
4. Comprehensive insurance of rail vehicles, covering damage to rail vehicles;
5. Comprehensive insurance of aircraft covering damage to aircraft;

6. Insurance of maritime and inland navigation and vessel comprehensive insurance;
7. Insurance of goods in transport covering damage to transported goods;
8. Insurance of damage caused by natural disasters;
9. Insurance of other damage to goods;
10. Insurance of all types of liability resulting from the ownership and use of land vehicles with their own propulsion, including shipper's liability;
11. Insurance of all types of liability resulting from the ownership and use of aircraft, including shipper's liability;
12. Insurance of general maritime and inland navigation liability resulting from the ownership and use of maritime and inland vessels, including shipper's liability;
13. Liability insurance (general liability insurance);
14. Loan insurance;
15. Insurance guarantees;
16. Insurance of various financial risks;
17. Insurance of legal cover;
18. Insurance in respect of providing assistance for people who have encountered difficulties during travel or absence in their place of residence.

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.

3.2.2. PZU Życie

PZU Życie core business is conducting insurance and directly related activities in respect of section I insurance – Life insurance, in accordance with the categories specified in the Act on insurance activities:

1. Life insurance;
2. Dowry insurance, providing for children;
3. Capital fund-linked life insurance;
4. Annuity insurance.
5. Accident and sickness insurance, if they supplement the insurance referred to above in items 1-4.

In 2012 and 2011 PZU Życie did not file a request to change the scope of the permit to carry out insurance activities. Moreover, in 2011 and 2010 permits for insurance activities issued for PZU Życie were not withdrawn with respect to one or more insurance class and no receivership was established.

3.2.3. PTE PZU

Based on the By-Laws, the key business of PTE PZU involves:

- establishing an open pension fund;

- managing the established open pension fund, representing it before third parties in a manner specified in the By-Laws and managing more than one open pension fund in the cases and on terms and conditions stipulated in the Act on Organisation and Operation of Pension Funds of 28 August 1997 (Law Journal of 2010 No. 34, item 189 as amended);
- establishing a voluntary fund whose business includes individual pension accounts or individual voluntary pension insurance accounts referred to in the Act on individual pension accounts and pension insurance accounts of 20 April 2004 (Law Journal No. 116 item 1205 as amended);
- managing the voluntary fund and representing it before third parties in a manner determined in the By-Laws.

Based on NACE classification, the core business of PTE PZU includes pension fund.

PTE PZU manages the third largest open pension fund in Poland measured with net assets value, Otwarty Fundusz Emerytalny PZU „Złota Jesień" („OFE PZU"). Further, PTE PZU manages Dobrowolny Fundusz Emerytalny PZU („DFE PZU"), the first of the type that commenced its operations as an entity managed by a universal pension fund and reached the position of a leader in the segment of voluntary pension insurance.

3.2.4. Baltics

The PZU Group conducts activities on the Baltic markets in the area of property and life insurance via two Lithuanian companies:

- PZU Lietuva – property and personal insurance;
- UAB PZU Lietuva Gyvybës Draudimas – life insurance.

PZU Lietuva on 15 October 2012 has opened a branch in Latvia and on 14 November 2012 also in Estonia (detailed description in chapter 12.1).

3.2.5. Ukrainian market

The PZU Group conducts activities on the Ukrainian market in the area of property and life insurance via two companies:

- PZU Ukraine – property and personal insurance;
- PrJSC IC PZU Ukraine Life – life insurance.

Additionally LLC SOS Services Ukraine provides assistance services.

3.2.6. TFI PZU

TFI PZU engages in establishing investment funds and, as their authority, in their management, including intermediation in selling and repurchasing participation units and representing funds vis-à-vis third parties.

Currently TFI PZU manages 25 investment funds and sub-funds with various investment strategies.

TFI PZU offers investment products and services for both retail and institutional clients, including additional savings programs under Pillar III of the social insurance program, which include:

- IKE (Individual Pension Accounts);
- Specialized Investment Programs;
- PPE (Employee Pension Plans);

- ZPI (Company Investment Plans).

3.2.7. PZU AM

PZU AM manages selected asset portfolios of PZU, PZU Życie companies and provides management services in respect of investment portfolios managed by TFI PZU on the basis of art. 46 clause 1 of the Act of 27 May 2004 on Investment Funds (Journal of Laws No. 234 of 2011, item 1391 as amended) and assets of Employee Pension Fund "Słoneczna Jesień" managed by Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU (intercompany pension fund management company) on the basis of art. 152 clause 1 of the Act of 28 August 1997 on the organization and operations of pension funds (Journal of Laws No. 232 of 2011, item 1378 as amended).

The operations of PZU AM comprise:

- conducting brokerage activities within the meaning of the Act of 19 July 2005 on trading in financial instruments (Journal of Laws No. 211 of 2010, item 1384 as amended), including managing investment portfolios of investment funds;
- providing portfolio management services.

PZU AM is a company servicing PZU Group entities, included in the Tax Capital Group (details in Section 14.7).

3.2.8. PZU Pomoc SA

PZU Pomoc SA engages specifically in the following activities:

- organizing assistance services consisting of providing assistance to Clients;
- lease and rental of motor vehicles;
- conducting Internet auctions and Internet trading;
- managing loyalty programs as part of conducting other business supporting activities not classified elsewhere;
- managing post-accident assets;
- activities in the area of medical services.
- PZU Pomoc SA is a company servicing PZU Group entities, included in the Tax Capital Group (details in Section 14.7).

3.2.9. Ogrodowa–Inwestycje Sp. z o.o.

The business of Ogrodowa-Inwestycje Sp. z o.o. is:

- rental and management of own or leased real estate;
- purchase and sale of real estate on own behalf;
- activities in the area of stationary telecommunications;
- other business and management advisory services.

Ogrodowa is an owner of City-Gate office building (at Ogrodowa 58, Warszawa) and three leisure centres (Pensjonat Albatros, Hotel Polanica, Hotel Karłów).

Ogrodowa-Inwestycje Sp. z o.o. provides services to both PZU Group entities and external clients.

3.2.10. PZU CO

The statutory activities of PZU CO cover business in the area of the following services:

- auxiliary activities related to insurance and pension and disability pension funds;

- constant intermediation in underwriting insurance contracts, financial and investment, and assistance contracts;
- Contact Center services;
- Data Center services;
- printing services;
- IT services.

PZU CO is a company servicing PZU Group entities, included in the Tax Capital Group (details in Section 14.7).

3.2.11. Grupa Armatura

PZU Życie holds 63.7% in the share capital of Armatura Kraków SA and therefore 63.7% of votes in the extraordinary shareholders' meeting. Since 1 January 2011 the company has been included in the consolidated financial statements of the PZU Group. Management Board of PZU decided to commence consolidation of the company only because it exceeded the materiality level.

Armatura Kraków SA is the parent of the Armatura Capital Group and since 2007 has been quoted with Warsaw Stock Exchange. The Armatura Capital Group consists of the following companies: Armatura Kraków SA, Armatoora SA, Armagor SA and Armadimp SA. The Group's business activity does not include finance and insurance. It is a leading manufacturer of plumbing and heating equipment in Poland. Its companies specialise in production of bathroom and kitchen taps, aluminium heaters, valves, toilet seats and sinks.

PZU Życie has been holding shares in the company since October 1999.

3.2.12. MPTE PZU SA

MPTE PZU SA runs the third pillar pension plans for employees of PZU and PZU CO. They include defined contribution plans, additionally supported by the employer apart from remuneration determined in employment contracts in the amount of 7% of gross remuneration.

3.2.13. Tower Inwestycje

Tower Inwestycje Sp. z o.o. (formerly PZU Tower Sp. z o.o.) was established in 1998 as an SPV in the PZU Group. Its shareholders include PZU and PZU Życie.

In 1998-2008 its business operations included purchase and sales of real property, services related to construction, development and management of real property, as well as office space lease.

In 2008 PZU and PZU Życie commenced restructuring program of the company. The purpose of the program was to reduce operating expenses of PZU and PZU Życie through elimination of VAT on leases of office space in PZU Tower building (then owned by the present Tower Inwestycje Sp. z o.o.).

The restructuring included sales of the company's enterprise (the entire enterprise except of ownership of City Gate building) co-owned by PZU and PZU Życie and the sale of City Gate building (then owned by the present Tower Inwestycje Sp. z o.o.) to Ogrodowa – Inwestycje Sp. z o.o.

At present, business operations of Tower Inwestycje includes mainly investing of free cash. In 2012, the Company provided only security management services on behalf of its customers. Since 2013 the Company has provided accounting and HR and payroll services for PZU Group companies (PZU AM, PZU TFI).

3.2.14. Kolej Gondolowa Jaworzyna Krynicka SA

PZU Życie holds 310.620 shares in KGJK accounting for 37.5% of its share capital and 36.7% of the total number of votes at its General Shareholders' Meeting. PKO BP SA has identical interests in the company. Share capital of KGJK is PLN 41.4 million and is divided into 827,763 registered preference shares of PLN 50 each. PZU Życie and PKO BP SA assumed the shares at the price equal their nominal value, i.e. PLN 50 per share. The value of the block of shares held by PZU Życie at acquisition price is PLN 15.53 million. PZU Życie purchased the shares in KGJK in 1997, 1998, 2000 and 2003.

The core business of KGJK involves transport of people by cable railway and ski lifts and hotels.

PZU Życie in cooperation with PKO BP SA has initiated the process of selling shares in KGJK. For this purpose, in July 2012 a new agreement was signed between PZU Życie and PKO BP regulating cooperation of the shareholders in the process of selling the shares. Then, an advisor was selected in the process. In December 2012, the advisor commenced preparation of a memorandum and valuation of KGJK. The sales procedure is assumed to be completed in Q2/Q3 2013.

3.2.15. GSU Pomoc Górniczy Klub Ubezpieczonych SA (formerly Nadwiślańska Agencja Ubezpieczeniowa SA)

GSU Pomoc Górniczy Klub Ubezpieczonych SA (formerly Nadwiślańska Agencja Ubezpieczeniowa SA) was established on 3 February 1999, among others by PZU Życie, in order to act as an agent selling insurance products of the PZU Group in plants and mines owned by former Nadwiślańska Spółka Węglowa SA (at present Kompania Węglowa SA). On 22 June 2012, PZU Życie sold the whole block of shares in that company to PZU Pomoc SA.

Following the transaction, PZU Pomoc SA became the holder of 36,000 registered shares in that company, accounting for 30% of its share capital and 30% of votes at the General Shareholders' Meeting. Górnośląska Spółka Ubezpieczeniowa SA holding 70% of shares in the share capital is the second majority shareholder.

In June 2012, the company's GSM passed a resolution changing its By-Laws and the name to GSU Pomoc Górniczy Klub Ubezpieczonych SA, as well as change in the scope of its business operations.

The change of ownership and core business were to allow the company's establishing a club for employees of the mining sector and a loyalty program dedicated to them. At present, the company runs the club and develops its offer under the loyalty program.

3.3. Changes in the organization of the PZU Group

Transfer of portion of financial investments to funds

In 2012, the PZU Group continued transferring financial investments to funds. The objective of the activities was to improve the effectiveness of the management of financial investments.

The following transaction had no impact on the net assets and profit/loss of the PZU Group. Presentation, classification and measurement of the assets in the consolidated financial statements of the PZU Group have not changed, either, since:

- The PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Dłużny fund has been consolidated using the full method since 30 June 2011;
- The PZU Fundusz Inwestycyjny Zamknięty Akcji fund has been consolidated using the full method since 1 July 2012;
- The PZU Fundusz Inwestycyjny Zamknięty Dynamiczny fund has been consolidated using the full method since 1 October 2012.

Details are provided in the financial statements of the PZU Group for 2012, section 2.3.1.

Sale of Inter-Risk

On 22 December 2011 PZU Ukraine and PZU Ukraine Life concluded an agreement on the sale of Inter-Risk company with Powszechna Kasa Oszczędności BP SA ("PKO BP SA") for the total amount of PLN 2,500 thousand.

On 16 January 2012 the ownership rights to Inter Risk shares were transferred to the acquirer. The profit from the sale of shares amounted to PLN 2,286 thousand.

The sale of the company LLC Finansowa Kompania Idea-Kapitał

Under the agreement dated 20 March 2012, on 23 March 2012 the ownership rights to shares in LLC Finansowa Kompania Idea-Kapitał were transferred to Publiczna Spółka Akcyjna Kredobank for the total amount of UAH 4,100 thousand.

FINANCIAL PERFORMANCE OF PZU GROUP IN 2012

4. Events significantly affecting the activities and financial performance of PZU Group in 2012

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

- An increase in the gross written premium resulting among others from growing sales of TPL motor insurance (mass insurance segment), statutory accident insurance for hospitals and TPL for therapeutic entities (corporate insurance segment), group and continued cover, as well as individual investment insurance (bancassurance channel);
- Higher investment income, mainly due to growing prices of treasury bonds arising debt instruments yield down, situation on capital markets and introduction of a new investment strategy aimed at improved investments yield accompanied with optimised risk management;
- Increase in mathematical provisions and capitalised annuity value arising from a drop in technical rates applied resulting from treasury bonds yield down;
- Improved profitability of motor, group and individually continued insurance (excluding conversion);
- Higher level of claims (including the change in technical provisions) in the current year arising from:
  - growing sales of individual investment products in the bancassurance channel and better performance on investment activity translated into an increase in technical provisions for contracts with an element of investment;
  - slowdown in conversion of long-term contracts into annual revolving ones in P class group insurance;
  - worse performance in contract guarantees in the corporate client segment, among others following an increase in claim provisions related to a series of bankruptcies in the construction industry;
- Implementing of the PZU Group strategy on optimising processes and centralising functions, to include unification of PZU and PZU Życie resulting in subsequent stages of headcount restructuring;

Implementing of project work aimed at modification of image of the Group and introducing a new policy system in property insurance (2014 is the planned implementation deadline).

5. Comments to the consolidated financial performance of the PZU Group

5.1. Premiums

Gross written premiums from direct and indirect insurance for 2012 amounted to PLN 16,243.1 million (PLN 15,279.3 million in 2011). The increase by PLN 963.9 million (+6.3%) year on year resulted from the growth in sales, especially of life insurance products (+10.4%). Key product lines that saw growth in 2012 include:

- individual insurance (including unit-linked and structured products) with a single premium (+ PLN 492.6 million) mainly in bancassurance channel;
- group cover insurance and continued individual insurance with regular premium (+ PLN 223.8 million), mainly due to additional sales of extra insurance and increasing the sum insured in individually continued products, as well as development of classic cover group insurance (P type);
- accident insurance and other TPL insurance (+ PLN 198.5. million), in particular obligatory accident insurance for hospitals and TPL for medical entities in the corporate insurance segment
- TPL motor insurance (+ PLN 70 million) including the mass segment (+ PLN 80.7 million).

At the same time, Motor own damage insurance saw a decrease (-PLN 143.1 million), on the one hand, due to a reduced number of new cars registered, on the other hand as a result of restrictive underwriting policy in the corporate client segment, where the Motor own damage insurance premium dropped by PLN 100.1 million.

Premium changes have been discussed in the comments to segment performance (point 6.1 and 6.2).

Table 12: Gross written premium assignment in the PZU Group

PLN '000

Gross written premiums	1 January - 31 December 2012	1 January - 31 December 2011	% change
Gross written premiums – property and personal insurance	8 791 447	8 532 432	*3.0%*
Corporate insurance	1 839 912	1 823 885	0.9%
Mass insurance	6 613 586	6 423 356	*3.0%*
Foreign companies	337 949	285 191	*18.5%*
Gross written premiums – life insurance	7 453 977	6 751 771	*10.4%*
Group cover and individually continued insurance	6 364 007	6 179 053	*3.0%*
Individual insurance	1 089 970	572 718	*90.3%*
Gross written premiums among segments: consolidation adjustment	(2 293)	(4 941)	*(53.6)%*
Gross written premiums	**16 243 131**	**15 279 262**	***6.3%***

5.2. Claims

An increase in net claims (PLN 1,997.6 million i.e. by 19.5%) has resulted mostly from reduced technical rates both in property and personal insurance (PZU) as well as in life insurance (PZU Życie).

The increase resulted from change of technical rate related to the reduced bonds yield, decrease in future yield of assets covering provisions and increase in forecasted annuities growth (concern PZU).

Following the above changes, the one-off provision increase took place for:

- mathematical provisions in group and continued insurance segment by PLN 798.6 million, including the effect of technical rate adjustment in the consolidated financial statements prepared in line with IFRS to the one applied in the separate financial statements prepared in line with PAS: PLN 390.1 million;
- capitalized annuity amount net of reinsurance in the corporate and mass insurance segment by total of PLN 234.2 million.

Further, the following factors contributed to the growth in claims:

- an increase in unit-linked life insurance provisions (much better performance on investments): PLN 810.4 million;
- in P type group insurance, the conversion of multi-year policies to one-year renewable ones slowed down (the conversion effect in IAS (excluding the change in technical rates) in 2012 translated into release of PLN 207.0 million provisions, i.e. PLN 199.1 million less than during 2011);
- in financial insurance, contract guarantees, payments and increase in provisions related to a series of bankruptcies in the construction sector (gross provisions for contract guarantees increased by PLN 117.0 million including by PLN 46.1 million net of reinsurance).

The following factors contributed to a reduction in claims:

- in motor insurance, reduced frequency of claims due to improved road conditions and less traffic (among others, fuel price drop);
- in property insurance, the low scale of individual claims with substantial payments;

Claims handling costs decreased by PLN 34. 1 million (-4.9%) as a result of implementing a program optimising claims handling processes, in particular based on the standardised claim handling procedure performed in one of nine claims handling centres and aligning employee costs to volumes handled (lower frequency of claims in motor insurance).

5.3. Claims and change in measurement of investment contracts

The claim balance and change in measurement of investment contracts at the end of 2012 and 2011 amounted to PLN -176.8 million and PLN 32.5 million. The decrease resulted from the sales volume of short-term investment products being much lower than in the previous year accompanied with a higher level of endowment payment related to these products.

5.4. Acquisition costs and administrative expenses

In 2012 acquisition costs grew by PLN 38.4 thousand (+2.0%) versus 2011. The increase resulted mainly from changes in sales in the life insurance segment arising from:

- an increase in commissions paid on cover group insurance in relation to portfolio growth, high sales of new policies during 2012 and increasing share of premium collected through the broker channel;
- rapid growth in sales of investment products through the banking channel, in particular in relation to unit-linked products with high acquisition costs.

At the same time, in the pension insurance segment, following regulatory changes and the acquisition ban, the costs decreased by PLN 61.3 million, i.e. by 75.2%.

An increase in administrative expenses by PLN 56.4 million (+ 4.1%) resulted mainly from project activities aimed at a change of the PZU Group image. The total costs of image campaigns in 2012 charged to administrative expenses amounts to PLN 34.4 million. Further, in 2012 work was commenced to introduce a new policy system for property insurance (more details in section 9.6).

Moreover, the strategy adopted by PZU has been strictly adhered to in terms of improved claims efficiency, centralised policy handling and internal management (so-called non-insurance accounting) and new client service standards developed (the Group Network Function has been established). Following the above activities, the PZU Group could complete another stage of employment restructuring and enter a subsequent one at the end of 2012 (details in section 9.8). Total employment expenses decreased by 2.3% to PLN 1,511.8 million as a result of headcount reduction. In PZU and PZU Życie only the number of FTE's decreased by 4.1% compared to the end of 2011.

Further, under fixed cost optimisation plan, lease, cleaning and protection expenses were reduced through revision of some related agreements, as well as costs of phone calls following IP implementation.

5.5. Other operating income and expense

In 2012 the balance of other operating revenue and expenses increased by PLN 243.8 million year on year (a change from PLN (274.5) million to PLN (30.7) million). The key reasons of the above change included:

- releasing provisions for employee benefits (retirement and jubilee bonuses) of PLN 177.0 million following termination of the Collective Labour Agreement and limiting the liabilities to the statutory level (as described in section 9.8);
- reorganisation and restructuring costs being lower than the year before (PLN 10.8 million in 2012 vs. PLN 95.6 million in 2011);
- in 2011 a provision was recognised for fines imposed by Office for Competition and Consumer Protection of PLN 67.9 million (for limiting competition at sales of group accident insurance and restrictions in refunding costs of a substitute car lease under motor TPL; details provided in Note 54.2 to the consolidated financial statements of the PZU Group);
- donation of PLN 50.0 million to PZU Foundation;
- Armatura Group being consolidated in line with the full method, which resulted in one-off recognition of revenue of PLN 118.9 million in 2011.

5.6. Performance and performance ratios of PZU Group

Table 13: Data from the consolidated income statement of the PZU Group

PLN '000

Data from the consolidated income statement	1 January - 31 December 2012	1 January - 31 December 2011	% change
Gross written premiums	16 243 131	15 279 262	*6,3%*
Net earned premiums	16 005 240	14 890 528	*7,5%*
Revenue from commissions and fees	237 102	281 351	*(15,7)%*
Net profit/loss on investing activities	3 704 729	1 593 826	*132,4%*
Net insurance claims	(12 218 731)	(10 221 122)	*19,5%*
Acquisition costs	(2 000 351)	(1 961 986)	*2,0%*
Administrative expenses	(1 440 301)	(1 383 897)	*4,1%*
Operating profit (loss)	4 080 198	2 956 727	*38,0%*
Gross profit (loss)	4 038 708	2 907 575	*38,9%*
Net profit, including:	3 253 826	2 343 947	*38,8%*
Profit/loss	3 255 181	2 345 424	*38,8%*
Minority profit/loss	(1 355)	(1 477)	*(8,3)%*
Weighted average basic and diluted number of ordinary shares	86 352 300	86 352 300	-
Basic and diluted PZU Group earnings per ordinary share (in PLN)	37,68	27,14	*38,8%*
PZU net profit	2 580 720	2 582 303	*(0,1)%*
Basic and diluted PZU earnings per ordinary share (in PLN)	29,89	29,90	*(0,1)%*

Table 14: Data from the consolidated statement of cash flows of the PZU Group

PLN '000

Net cash flows in PZU	1 January - 31 December 2012	1 January - 31 December 2011	% change
Net cash generated by operating activities	1 228 357	1 587 572	(22,6%)
Net cash used in/generated by investment activities	421 388	(288 686)	X
Net cash used in financing activities	(1 747 114)	(1 485 832)	17,6%
Total net cash flows	**(97 369)**	**(186 946)**	**(47,9%)**

Table 15: Key profitability ratios of the PZU Group

Ratio	1 January - 31 December 2012	1 January - 31 December 2011	% change
Return on Equity (ROE) *(net profit/average equity) x 100%*	24,0%	18,3%	*5,7 p.p.*
Return on assets (ROA) *(net profit/average assets) x 100%*	6,0%	4,6%	*1,4 p.p.*
Administrative expenses ratio *(administrative expenses / premium earned net of reinsurance)*	9,0%	9,3%	*(0,3) p.p.*
Return on Sales (ROS) *(Net financial profit/(loss) / Gross written premium) x 100%*	20,0%	15,3%	*4,7 p.p.*

In 2012, net profit amounted to PLN 3,253.8 million and was higher by PLN 910.0 million, i.e. by 38.8% than in the previous year.

The increase resulted mostly from very high investment income (+ PLN 2,110.9 million, i.e. +132.4%) resulting from an increase in the price of debt instruments (treasury bond yield drop) and good standing of capital markets.

Negative impact on the net profit came from an increase in technical provisions arising from a change in technical interest rates, whose total effect on the gross profit accounted to PLN (1,032.8) million.

5.7. Structure of assets and liabilities

Assets

Investments[7] (financial assets and investment property) constitute a key asset accounting for 91.2% of the balance sheet total. Their value reached PLN 50,987.5 million and was 7.8% higher than at the end of 2011. The increase in investments by PLN 3,677.9 million resulted from growing prices of debt instruments (lower market yield) and good standing of capital markets.

Table 16: Selected balance sheet items of PZU Group: assets

PLN '000

Assets	31 December 2012	31 December 2011	% change
Intangible assets	183 238	166 038	10.4%
Goodwill	8 474	8 716	(2.8)%
Property, plant and equipment	992 317	1 055 381	(6.0)%
Investment property	564 404	534 222	5.6%
Entities measured using the equity method	0	0	x
Financial assets	50 423 076	46 775 359	7.8%
Receivables, including under insurance contracts	1 835 793	1 734 636	5.8%
Reinsurers' share in technical provisions	749 334	700 713	6.9%
Estimated recoveries and recourses	121 632	83 117	46.3%
Deferred tax asset	13 963	8 600	62.4%
Current income tax receivables	80 646	8 582	839.7%
Deferred acquisition costs	574 489	569 843	0.8%
Prepayments	94 942	125 890	(24.6)%
Other assets	83 704	120 461	(30.5)%
Cash and cash equivalents	136 586	237 724	(42.5)%
Assets used in continuing operations	**55 862 598**	**52 129 282**	**7.2%**
Non-current assets held for sale and disposal groups	46 962	0	x
Total assets	**55 909 560**	**52 129 282**	**7.3%**

Equity

Table 17: Selected balance sheet items of PZU Group: equity

PLN '000

Equity	31 December 2012	31 December 2011	% change
Share capital	86 352	86 352	-
Supplementary capital	8 780 212	7 711 818	13.9%
Revaluation reserve	363 242	268 831	35.1%
Exchange differences from translation – controlled entities	(38 004)	(32 263)	17.8%
Prior year profit (loss)	1 743 148	2 403 000	(27.5)%
Net profit (loss)	3 255 181	2 345 424	38.8%
NCI	79 138	86 343	(8.3)%
Total equity	**14 269 269**	**12 869 505**	**10.9%**

Equity was higher by 10.9% versus the previous year and amounted to PLN 14,269.3 million.

[7] Investments without negative value of derivatives.

The equity increase of PLN 1,068.4 million resulted from accumulation of a portion of net profit generated in 2011 and reduction of the dividend payment ration to 75% (in line with recommendations of PFSA; more details in section 14.5).

Liabilities

Technical provisions net of reinsurance accounted for 63.3% of equity and liabilities. At the end of 2012, the balance of provisions amounted to PLN 35,400.8 million and was 8.8% higher than at the end of 2011. The increase resulted in particular from:

- a lower technical rate applied to calculation of mathematical provisions and those for capitalised annuity amount;
- higher value of investments: the technical provision for unit-linked life insurance products;
- a series of bankruptcies in the construction industry: provision for unpaid claims in financial insurance.

The provision increase effect was netted off with introduction of a new individual continuation option.

Changes in technical provisions are described in details in section 5.2.

The balance of investment contracts dropped by PLN 1,172.6 million due to the sales volume of short-term investment products being much lower than in the previous year accompanied with a higher level of endowment payment related to these products.

In 2012, provisions for employee benefits of PLN 177.0 million were released following termination of the Collective Labour Agreement (details in section 9.8).

The increase of PLN 247.8 million in the deferred tax provision compared to the end of 2011 resulted from good performance on investment activities (higher prices of investments). For investment insurance, the increase in provision constitutes amount deductible upon calculation of current tax liability, while unrealised investment income are not taxable, and therefore the deferred tax provision has been recognised.

The increase in other liabilities compared to 31 December 2011 by PLN 630.2 million resulted in particular from higher liabilities to credit institutions due to sell-buy-back transactions and transactions unsettled as at the balance sheet date.

Table 18: Selected balance sheet items of PZU Group: liabilities

PLN '000

Liabilities	31 December 2012	31 December 2011	% change
Technical provisions	35 400 778	32 522 729	8.8%
Provision for unearned premiums and for unexpired risks	4 537 167	4 521 396	0.3%
Provision for life insurance	15 675 243	14 595 112	7.4%
Provisions for outstanding claims	5 878 445	5 429 481	8.3%
Provision for capitalised value of annuity	5 660 281	5 088 626	11.2%
Provisions for bonuses and discounts for the insured	4 227	7 192	(41.2)%
Other technical provisions	531 617	581 155	(8.5)%
Unit-linked provision	3 113 798	2 299 767	35.4%
Investment contracts	2 299 147	3 471 772	(33.8)%
Provisions for employee benefits	60 649	255 576	(76.3)%
Other provisions	267 456	322 063	(17.0)%
Deferred tax provision	357 557	109 716	225.9%
Derivatives	129 921	93 443	39.0%
Other liabilities, including current income tax	2 441 813	1 797 521	35.8%
Accruals and deferred income	682 970	686 957	(0.6)%
Liabilities total	**41 640 291**	**39 259 777**	**6.1%**
Total equity and liabilities	**55 909 560**	**52 129 282**	**7.3%**

5.8. Significant off-balance sheet items

As at 31 December 2012, the amount of recorded disputable claims, unaccepted by PZU Group companies and claimed at court, amounted to PLN 69.7 million (PLN 54.0 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 contractual guarantees) 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 28 September 2012 to 27 September 2013, 53 guarantees for the total amount of PLN 6.5 million were granted.

5.9. Equity management and capital requirements

PZU Group has a solid capital base which significantly exceeds the related capital requirements.

Pursuant to the Act on insurance activity, insurance companies having their registered offices within the territory of the Republic of Poland are obliged to have own funds in the amount not lower than the required solvency margin and the guarantee fund. There are no regulations that would define the calculation of the solvency margin and the amount of own funds for the capital group and therefore tables 19 and 21 present the data separately for PZU and PZU Życie.

The solvency margin and own funds were calculated in accordance with PAS and requirements included in Ordinance of the Minister of Finance of 28 November 2003 on calculation of the solvency margin and minimum capital and reserves required for insurance sections and classes (Dz. U. No. 211 of 2003 item 2060 as amended).

The above requirement is based on Solvency I regime. Following implementation of Solvency II, the capital requirement calculation model will change.

Assets covering the technical provisions in PZU under Polish GAAP

Table 19: Calculation of own funds to cover the required solvency margin of PZU (under Polish GAAP)

Item	1 January - 31 December 2012	1 January - 31 December 2011	*Change*
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	2445.9%	2059.8%	*386.1 p.p.*

* Gross technical provisions less estimated recourses and recoveries.

List of assets that cover the technical provision under Polish GAAP as at 31 December 2012 is presented in Table 20. Requirements regarding the coverage of the technical provisions with assets are determined in Article 154 and 155 of the Act on insurance activity. At the end of 2012, the coverage ratio was 126.1% (127% at the end of 211).

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

Table 20: Assets covering the technical provisions in PZU

PLN '000

Item	Total	% of technical provisions	Ceiling (%)
A. Technical provisions	**15 651 881**	**100,0%**	
B. Assets for provision coverage, total	**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 limits
2. Bonds issued or guaranteed by local authorities or associations of local authorities	52 759	0,3%	No limits
3. other fixed income securities	1 276 627	8,2%	10%
4. Participation units in investment funds	5 286 061	33,8%	40%
5. Investment certificates in investment funds	877 507	5,6%	10%
6. Real property or its part, excluding property or its part used for internal purposes	80 492	0,5%	25%
7. Bank deposits	1 033 591	6,6%	No limits
8. Receivables	561 411	3,6%	25%
9. Receivables from the State Budget	81 050	0,5%	No limits
10. Fixed assets, other than real property, if depreciated using the prudence principle	85 605	0,5%	5%
11. Cash	4 423	0,0%	3%
12. Capitalized acquisition costs compliant with the principles of determining provision for unearned premium in section I of the attachment to the act and in compliance with the premium provision calculation in section II	490 285	3,1%	No limits
13. Share of reinsurers in technical provisions	359 318	2,3%	25%
C. Surplus (shortage) of assets covering technical provisions	**4 089 265**	**26,1%**	

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

Assets covering the technical provisions in PZU Życie as per PAS

Table 21: Calculation of own funds to cover the required solvency margin of PZU Życie (as per PAS)

Item	1 January - 31 December 2012	1 January - 31 December 2011	*Change*
Assets to provisions ratio *(assets for provision coverage/technical provisions) x 100%**	115,1%	106,9%	*8,2 p.p.*
Solvency margin (in PLN million)	1 742,4	1 715,2	*27,2*
Equity to required solvency margin ratio	376,0%	332,5%	*43,5 p.p.*
Guarantee fund (in PLN million)	580,8	571,7	*9,1*
Equity to guarantee fund ratio	1 128,0%	997,6%	*130,4 p.p.*

* Gross technical provisions less estimated recourses and recoveries.

List of assets that cover the technical provision as per PAS as at 31 December 2012 is presented in Table 22. Requirements regarding the coverage of the technical provisions with assets are determined in Article 154 and 155 of the Act on insurance activity. At the end of 2012, the coverage ratio was 115.1% (106.9% at the end of 211).

Table 22: Assets covering the technical provisions in PZU Życie

PLN '000

Item	Total	% of technical provisions	Ceiling (%)
A. Technical provisions	**22 231 028**	**100,0%**	
B. Total assets	**25 583 278**	**115,1%**	
1. Securities issued or guaranteed by the State Treasury and international organizations to which the Republic of Poland belongs	17 582 108	79,1%	No limits
2. Bonds issued or guaranteed by local authorities or associations of local authorities	52 759	0,2%	No limits
3. Other fixed income securities	799 332	3,6%	10%
4. Shares	5 991 976	27,0%	40%
5. Units or investment certificates in investment funds	3 698	0,0%	10%
6. Other variable income securities	1 303 040	5,9%	No limits
7. Bank deposits	89 852	0,4%	25%
8. Receivables*	17 719	0,1%	3%
9. Cash	(257 206)	-1,2%	No limits
10. Other liabilities	**3 352 250**	**15,1%**	

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

5.10. Effect of one-off events on operating profit

Rate changes in mathematical provisions and those for capitalized annuity

Technical rates have been decreased both in property and personal insurance and in life insurance. The change in the technical rate resulted mainly from the decrease in treasury bonds yield.

Following the above changes, the one-off provision increase took place for:

- mathematical provisions for group and continued insurance by PLN 798.6 million;
- capitalized annuity amount net of reinsurance in the corporate and mass insurance segment by the total of PLN 234.3 million.

Performance on contract guarantees

PZU increased the provisions for claims under contract guarantees and reduced the estimated income from share in reinsurers' profits as a result of a series of bankruptcies in the construction industry (for contract guarantees increase in gross provisions by PLN 117.0 million including PLN 46.1 million net of reinsurance).

Sales from the AFS portfolio

Following implementation of the new investment strategy, quoted shares from the available for sale portfolio whose remeasurement effects had been charged to revaluation reserve in previous years, were sold. Gross profit on the transaction amounted to PLN 101.0 million.

Release of provisions for employee benefits

Following termination of the Collective Labour Agreement and limiting the liabilities to the statutory level (as described in section 9.8) provisions for employee benefits (retirement and jubilee bonuses) were released and resulted in recognition of one-off profit of PLN 177.0 million.

Consolidation of the Armatura Capital Group: comparative data

Since 1 January 2011, the consolidated financial data of the Armatura Capital Group ("Armatura Group"), including the financial data of Armatura Kraków SA, Armatoora SA, Armatoora i wspólnicy sp. k. and Armagora SA), have been consolidated using the full method in the consolidated financial statements of the PZU Group. The reason for the consolidation of the Armatura Group is the fact that its consolidated financial data have exceeded the materiality thresholds adopted by the PZU Group for the purposes of the consolidated financial reporting.

A one-off effect of the consolidation in 2011 calculated as a difference between the carrying amount of shares of Armatura Kraków SA as at 1 January 2011 and the share of the PZU Group in the net assets of the Armatura Group of PLN 118.9 million was charged to the profit/loss for 2011 and presented under "Other operating revenue" of the consolidated income statement.

5.11. Changes in investments in controlled entities

ICH Centre SA in liquidation

As at 31 December 2011, PZU held 1,530 shares in International Claims Handling Centre SA in liquidation ("ICH Centre"), i.e. 90% of the company's share capital.

On 16 March 2012, ICH Centre was put in liquidation. The decision to liquidate the company resulted from takeover of its operations by PZU. ICH Centre SA discontinued its statutory operations (i.e. Green Card claims handling services) effective from the beginning of 2011. As at 31 December 2012, the liquidation was in progress. It is projected to be completed and the company deleted from the register of entrepreneurs in Q2 2013.

Sigma Investments Sp. z o.o.

Extraordinary Shareholders' Meeting of Sigma Investments Sp. z o.o. (a company excluded from consolidation) issued a resolution dated 19 July 2012 to start liquidation of the company as of 1 August 2012. Sigma Investments Sp. z o.o. did no carry out any business activities.

6. Comments to segment reporting

6.1. Corporate insurance: personal and property insurance

Table 23: Gross written premium in the corporate insurance segment (property and personal insurance)

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	380 084	385 676	(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 of PLN 16.0 million (+0.9%) compared to 2011 resulted in particular from sales of:

- new accident insurance from medical events (accident insurance of hospitals + PLN 50.1 million; from 1 January 2012 it was statutory, but in the first half of 2012 the Ministry of Finance changed the law and released medical entities from the obligatory insurance);
- TPL for corporate clients (+ PLN 23.7 million) and modified TPL products for therapeutic entities (+ PLN 57.9 million, mainly resulting from an increase in sum assured).

Gross written premium decreased in motor insurance despite the average premium growth by 10.2% as a result of losing a portion of portfolio (due to the restrictive underwriting policy).

Table 24: Performance of the corporate insurance segment (property and personal insurance)

PLN '000

Data from the income statement: corporate property and personal insurance	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%
Investment income	127 357	158 938	(19,9)%
Net insurance claims	(1 174 033)	(1 254 224)	(6,4)%
Acquisition costs	(336 218)	(310 961)	8,1%
Administrative expenses	(107 687)	(104 737)	2,8%
Operating profit (loss)	217 531	194 351	11,9%
Operating profit (loss) excluding the effect of technical rate change	238 931	194 351	22,9%

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 54.5 and 54.6 of the financial statements of PZU for 2012.

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.

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 bonds yield, one-off negative impact on the underwriting profit/loss was recognised in the form of increased provisions for capitalized annuities of PLN 21.4 million.

The 19.9% decrease (compared to the previous period) in investment income allocated in accordance with transfer prices to the corporate segment resulted among others from the reduced value of technical provisions denominated in foreign currencies following changes in PLN/EUR rate underlying the calculation of risk-free rate income.

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 217.5 million and PLN 194.4 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. The one-off effect of the technical rate reduction and the projected increase of annuities contributed to the performance decrease by PLN 21.4 million. Excluding this effect, operating profit increased by PLN 44.6 million year on year (+22.9%).

6.2. Mass personal and property insurance

Table 25: Gross written premium in the mass insurance segment (property and personal insurance)

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%
Accident 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 statutory 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 26: Performance of the mass insurance segment (property and personal insurance)

PLN '000

Data from the income statement: mass property and personal insurance	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%
Investment income	537 003	542 502	(1,0)%
Net insurance claims	(4 298 978)	(4 132 339)	4,0%
Acquisition costs	(1 136 834)	(1 156 488)	(1,7)%
Administrative expenses	(568 609)	(529 170)	7,5%
Operating profit (loss)	799 648	573 401	39,5%
Operating profit (loss) excluding the effect of technical rate change	1 012 448	573 401	76,6%

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 bonds yield, 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.

In 2012 and 2011 investment income allocated in accordance to transfer prices to the mass insurance segment amounted to PLN 537.0 million and PLN 542.5 million, respectively.

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 increase in operating profit in the mass insurance segment by PLN 226.2 million (+39.5%) compared to 2011 resulted from improved profitability of motor insurance (reduced claim frequency) and in property insurance (reduced number of claims due to absence of large claims). At the same time, the one-off effect of the technical rate reduction and projected growth in annuities contributed to the reduction of profit by PLN 212.8 million. Operating profit calculated without this effect increased by PLN 439.0 million (+ 76.6%) year on year.

6.3. Group and individually continued life insurance

Table 27: Gross written premium in the corporate insurance segment (property and personal insurance)

PLN '000

Written premium by payment type – group and individually continued insurance	1 January - 31 December 2012	1 January - 31 December 2011	% change
Regular premium	6 287 671	6 063 875	3,7%
Single premium	76 336	115 178	(33,7)%
Total	**6 364 007**	**6 179 053**	**3,0%**

The gross written premium increase by PLN 185.0 million (+3.0%) resulted mainly from:

- development in protection group insurance (increase in the average premium and the number of insured, including rapid growth of new sales);
- upselling and increase in the sum insured in individually continued products;
- premium collected in group health insurance (new clients and new prescription drug insurance introduced in the offer);
- commenced cooperation with ING on the sale of a new structured product;
- continued cooperation with bank agents on sales of cover insurance: during 2012, the highest growth in sales was seen in insurance of debtors offered in cooperation with Bank Millennium SA.

The increase was compensated with decrease in sales of life insurance with single premium (bancassurance), what resulted from decline in market interest rate and lower attractiveness of the product.

Table 28: Performance in the group and individually continued insurance segment

PLN '000

Data from the income statement: group and individually continued insurance	1 January - 31 December 2012	1 January - 31 December 2011	% change
Gross written premiums	6 364 007	6 179 053	3,0%
Group insurance	4 491 887	4 349 810	3,3%
Individual insurance	1 872 120	1 829 243	2,3%
Net earned premiums	6 362 185	6 178 109	3,0%
Investment income	955 194	657 127	45,4%
Net insurance claims	(4 143 878)	(4 074 495)	1,7%
Change in the balance of other technical provisions net of reinsurance	(848 700)	(109 119)	677,8%
Acquisition costs	(317 716)	(277 703)	14,4%
Administrative expenses	(578 417)	(560 860)	3,1%
Operating profit (loss)	1 373 075	1 779 782	(22,9)%
Operating profit (loss) excluding the effect of technical rate change	1 781 592	1 779 782	17,5%
	1 561 157	1 349 144	38,7%
Operating profit (loss) excluding the effect of conversion and technical rate change*	220 435	430 638	(48,8)%
Conversion effect	(408 517)	-	-

** Conversion effect as per PAS*

The increase in net claims (by PLN 69.4 million, i.e. 1.7%) resulted mainly from higher surrender value in group insurance - Employee Pension Plan and higher endowment payments in the structured bancassurance products (in both cases netted off with a change in the mathematical provision). At the same time, a reduction in payments in short-term endowment products in the bancassurance channel was seen (netted off with a change in the mathematical reserve as well). Despite group and continued individual protection insurance premium increase, the net value of claims remained similar to 2011.

The difference in the change in technical provisions (an increase by PLN 739.6 million) resulted mostly from additional provisions recognised at the end of 2012 in the amount of PLN 408.5 million due to the one-off effect of the technical rate decrease. Additional factors were:

- lower pace of converting multi-year policies into one-year renewable ones in P type group insurance (the conversion effect in IAS (the conversion effect[8] in 2012 translated into release of PLN 220.4 million provisions, which was PLN 210.2 million less than during 2011)
- an increase in unit-linked life insurance provisions (much better investment performance with the increase higher by PLN 218.9 million

Investment income comprises income allocated in accordance with transfer prices and income generated on investment products. In the group and individually continued insurance segment, investment income increased by PLN 298.1 million due to reduced revenue in investment products, due to an improved standing of financial markets. Income allocated in accordance with transfer prices remained flat.

In 2012, acquisition costs in the group and individually continued insurance segment amounted to PLN 317.7 million (increase by 14.4%, i.e. PLN 40.0 million). The change resulted mainly from:

- an increase in commissions paid on cover group insurance in relation to portfolio growth, high sales of new policies during 2012 and increasing share of premium collected through the broker channel;
- an increase in indirect acquisition costs, among others remuneration in the sales network related to winning new clients in group insurance (modification and working with the portfolio).

In 2012, administrative expenses increase by PLN 17.6 million (+3.1%) compared to 2011 was related to new project initiatives aimed at improvement and automation of service processes and building of a positive image of the PZU Group.

In 2012 the operating profit in the group and individually continued insurance segment decreased by PLN 406.7 million (-22.9%) mostly due to the one-off effect of the technical rate decrease and a reduced effect of converting long-term contracts to renewable ones in the P-type group insurance. Without these elements, the operating profit increased by PLN 212.0 million (+15.7%) year on year.

6.4. Individual life insurance

Table 2: Gross written premium in the individual insurance segment

PLN '000

Written premium by payment type - individual insurance	1 January - 31 December 2012	1 January - 31 December 2011	% change
Regular premium	483 512	458 906	5.4%
Single premium	606 458	113 812	432.9%
Total	**1 089 970**	**572 718**	**90.3%**

[8] The conversion effect based on data prepared in accordance with PAS

Compared to 2011, the gross written premium increased by PLN 517.3 million (+90.3%) as a result of:

- high sales growth of a unit-linked single-premium product introduced in cooperation with Bank Millennium SA in November 2011;
- good performance on sales of a structured product in cooperation with Citibank Handlowy;
- very high payments to accounts of an individual pension account product (IKE) made at year end;
- continuous development of a savings and investment product with a cover component and regular premium called "Plan na Życie", introduced to the offer in 2010.

The changes were partly offset with sales of structured insurance with a single premium called "Świat Zysków", which saw a year-on-year drop and expiration of endowment insurance portfolio originating from the nineties.

Table 30: Performance of the individual insurance segment

PLN '000

Data from the income statement: individual insurance	1 January - 31 December 2012	1 January - 31 December 2011	% change
Gross written premiums	1 089 970	572 718	90.3%
Net earned premiums	1 091 926	574 821	90.0%
Investment income	346 956	197 443	75.7%
Net insurance claims	(604 780)	(649 296)	(6.9)%
Change in the balance of other technical provisions net of reinsurance	(594 055)	133 908	X
Acquisition costs	(90 824)	(56 104)	61.9%
Administrative expenses	(53 383)	(49 180)	8.5%
Operating profit (loss)	104 514	160 135	(34.7)%

The decrease in the value of net claims (by PLN 44,5 million, i.e. 6.9%) resulted from lower endowment payments arising from old individual portfolio policies concluded in the nineties and lower endowment level in the structured, single-premium product "Świat Zysków" (the value was offset with a change in the mathematical provision). An increase in the claim amount was seen in the individual pension account product, which was partly related to transfer of the insured to individual pension insurance account.

The difference in the change of technical provisions (which increased by PLN 594.1 million compared to a drop of PLN 133.9 million in the same period of 2011) resulted mostly from high sales of investment products in the bancassurance channel (the unit-linked products offered in cooperation with Bank Millennium SA and the structured product offered in cooperation with Citibank) and from significant improvement in investment performance, which translated into an increase in provisions for unit-linked products (by PLN 591.5 million). Also, a slowdown in the expiry of the portfolio of old endowment policies concluded in the nineties and lower endowment level in "Świat Zysków" structured product contributed to a higher growth of the mathematical provision.

Investment income comprises income allocated in accordance with transfer prices and income generated on investment products. In the individual insurance segment they increased by PLN 149.5 million mainly due to an increase in revenue related to investment products due to improvement on financial markets. Income allocated in accordance with transfer prices remained flat.

The increase in acquisition costs in this segment (by PLN 34.7 million, i.e. by 61.9%) resulted mainly from rapid growth in sales of investment products through bancassurance channel, in particular the unit-linked product with high acquisition costs.

Following the above events (mainly the acquisition cost increase), operating profit of the segment decreased by PLN 55.6 million to PLN 104.5 million.

6.5. Investment

In 2012, investment income of the PZU Group increased by PLN 2,110.9 million, i.e. by 132.4% year on year.

Investment income in the investment segment9 constitute the surplus income from investments of PZU and PZU Życie over that allocated based on transfer prices to insurance segments (corporate, mass, group, individually continued and individual segment) and investment contracts. The income grew by PLN 1,409.5 million and reached PLN 1,525.2 million.

Table 3: Profit/loss on investment activities by segment

PLN '000

Profit/loss on investment activities by segment	1 January - 31 December 2012	1 January - 31 December 2011	Change (%)
Investment segment (external transactions)	1 525 225	115 720	1 218.0%
Insurance business segments (PZU and PZU Życie)	1 966 510	1 556 010	26.4%
Other segments and adjustments	212 994	(77 904)	x
Total	**3 704 729**	**1 593 826**	**132.4%**

In 2012, a new investment strategy was introduced, which resulted in improved profitability and reduced fluctuation of performance on investments.

Improved investment performance of the PZU Group and investment segment resulted among others from growing prices of bonds (two-year treasury bonds yield decreased by 97 p.p. y-o-y, and that of five-year bonds by 26.2%, while the year before it dropped by 20.8%).

The increase of investment income on equity instruments by PLN 1,398.6 million resulted from an improved standing of financial markets compared to the previous year.

A drop in market interest rates by PLN 765.6 million contributed to the improved performance on debt instruments.

An increase of PLN 40.0 million was recorded on derivatives, purchased mainly for risk management purposes (among others regarding market risk).

Table 4: Profit/loss on investing activities

PLN '000

Profit/loss on investing activities	1 January - 31 December 2012	1 January - 31 December 2011	Change (%)
Equity instruments	845 969	(552 597)	x
Debt instruments	3 080 451	2 314 808	33.1%
Investment property	8 547	5 249	62.8%
Derivatives	29 247	(10 732)	x
Receivables	(210 523)	(142 566)	x
Other	(48 962)	(20 336)	x
Total	**3 704 729**	**1 593 826**	**132.4%**

[9] The income includes „Investment income" in the investment segment, classified as external transactions

Investment activity of the PZU Group complies with statutory requirements ensuring an appropriate level of security, liquidity and profitability. Debt securities issued by State Treasury accounted for more than 65% of the investment portfolio[10] both as at the end of 2012 and 2011.

An increase in the share and value of equity instruments resulted among others from good standing of financial markets.

The increase in share and value of other debt securities and the decrease in governmental debt securities resulted among others from adjusting their size to the new investment strategy of the PZU Group, assuming more diversified investment portfolio. Exposure to debt securities issued by governments other than the RP was amounted to 2.5% and 1.4% of investments in 2011 and 2012, respectively. Moreover, exposure to corporate and local government authorities' debt securities increased from 1.0% to 4.8%.

Table 5: Investments (including investment contracts)

PLN '000

Investments (including investment contracts)	31 December 2012	Structure as at 31 December 2012	31 December 2011	Structure as at 31 December 2011
Equity instruments, including:	6 325 626	12.4%	5 160 350	10.9%
Instruments for which fair value may be determined (listed)	2 403 641	4.7%	2 507 136	5.3%
Instruments for which fair value may be determined (other)	3 795 637	7.5%	2 524 987	5.3%
Instruments for which fair value may not be determined	126 348	0.2%	128 227	0.3%
Debt instruments, including:	43 933 051	86.4%	41 529 814	88.0%
Governmental debt securities	33 494 446	65.9%	34 716 308	73.5%
Other debt securities	2 435 153	4.8%	478 724	1.0%
Reverse repo transactions and deposits	6 982 331	13.7%	5 457 008	11.6%
Loans	1 021 121	2.0%	877 774	1.9%
Investment property	564 404	1.1%	534 222	1.1%
Derivatives (net amount)	34 149	0.1%	(8 655)	0.0%
Other	329	0.0%	407	0.0%
Total	**50 857 559**	**100.0%**	**47 216 138**	**100.0%**

6.6. Pension insurance

Table 6: Performance of the pension insurance segment

PLN '000

Data from the income statement – pension insurance	1 January - 31 December 2012	1 January - 31 December 2011	% change
Revenue from commissions and fees	199 165	231 638	(14.0)%
Investment income	13 273	12 563	5.7%
Acquisition costs	(20 212)	(81 559)	(75.2)%
Administrative expenses	(92 967)	(73 091)	27.2%
Operating profit (loss)	98 449	90 447	8.8%

[10] The investment portfolio includes financial assets (with investment contracts), investment property and negative valuation of derivatives

In 2012 and 2011, revenue from commissions and fees ("Revenue from core business of non-insurance entities") in the pension insurance segment amounted to PLN 199.2 million and PLN 231.6 million, respectively. The decrease by PLN 32.5 million (-14%) resulted in particular from:

- PLN 37.5 million (-50.4%) drop in revenue from premium fees arising from the statutory reduction of premiums transferred by Social Security Institution (ZUS) to open pension funds from 7.3% to 2.3%;
- PLN 6.4 million (+4.4%) increase in the management fee arising from the growth in assets of OFE PZU;
- PLN 1.5 million growth in revenue from the reserve account;
- PLN 2.8 million drop in other revenue of the funds (in 2011, a revenue arising from a refund received from the Guarantee Fund was recorded of PLN 2.6 million; such a transaction did not occur in 2012).

Administrative expenses of PTE PZU increased by PLN 19.9 million (+27.2%), mainly due to a growth in the costs of keeping fund membership records by PLN 28.4 million (+117.8%), including additional fee for the transfer agent for provision of agreed quality level of services. Reduction of premiums transferred to open pension funds resulted in a drop in fees charged by ZUS by PLN 7.9 million (-48.5%).

The statutory acquisition ban effective from 2012 contributed to the reduction of acquisition costs by PLN 61.3 million (-75.2%).

In 2012 operating profit increased from PLN 90.4 million to 98.4 million (+8.8%).

A change in the Act on open pension funds of 2011 introduced a total acquisition ban on the open pension fund market as of 1 January 2012. The law allows correspondence as the only manner to conclude agreements with open pension funds, which has significantly reduced the number of people changing pension funds and limited the number of individuals who join the funds the first time. These activities resulted from an increased number of people who did not choose their open pension fund and therefore participated in the draw procedure carried out by Social Security Institution (ZUS). Due to statutory provisions, OFE PZU as one of the largest funds on the market does not participate in the draw, which impacts its market share calculated as the number of members. At the end of 2012, PFE PZU had about 2,222.9 thousand members constituting 13.9% of the general number of open pension fund members and gives PFE PZU the third place in the market in this respect. Compared to the end of 2011, the number of OFE PZU members increased by 7.9 thousand, i.e. 0.4%, while the total number of members rose by 2.9%.

At the end of 2012, the total net assets of all open pension funds amounted to PLN 269,596.5 million and increased by 20% compared to the end of 2011. During this period, the assets of OFE PZU increased by 18.9% to PLN 36,282.4 million. The above rise was mainly driven by the level of premiums received from the Social Insurance Institution as well as profits on investing activities. In 2012, Social Insurance Institution (ZUS) provided OFE PZU with PLN 1,067.0 million in premiums, which is over 47.2% less than in 2011. Such a significant drop results from the statutory reduction in the amount of premiums transferred by ZUS to open pension funds since May 2011 from 7.3% to 2.3%, i.e. by 68.5%. Investment profit of OFE PZU in 2012 amounted to PLN 4,872.7 million. The return rate of OFE PZU in 2012 was 15.7%.

6.7. Ukraine

Table 7: Performance of the Ukrainian segment (property and personal insurance)

PLN '000

Data from the income statement: Ukraine	1 January - 31 December 2012	1 January - 31 December 2011	% change
Gross written premiums	142 228	120 892	17.6%
Net earned premiums	103 010	92 394	11.5%
Investment income	17 741	14 329	23.8%
Net insurance claims	(53 874)	(48 809)	10.4%
Acquisition costs	(27 998)	(31 594)	(11.4)%
Administrative expenses	(28 450)	(26 854)	5.9%
Operating profit (loss)	10 429	(534)	x

UAH/PLN exchange rate	0.4001	0.3716	7.7%

The increase in the gross written premium by PLN 21.3 million (+17.6%) year on year resulted both from an increased value of premiums collected through external entities (banks, travel agencies, etc.) and of own sales. Tourist insurance, Green Card, corporate property insurance and motor insurance contributed the most to the growth in the written premium.

The increase in investment income by PLN 3.4 million (+23.8%) year on year resulted from a growth in liquid financial instruments yield (deposits, bonds) and increase in the liquid asset base.

In 2012, the claim ratio improved compared to the previous year thanks to reduction of popular but claim-generating medical insurance and balancing of the portfolio with the profitable property insurance one.

Acquisition costs decreased by PLN 3.6 million (-11.4%) compared to 2011.

Administrative expenses increased by PLN 1.6 million (+5.9%), mostly due to the increase of UAH/PLN exchange rate from 0.3716 as at 31 December 2011 to 0.4001 as at 31 December 2012 (by 7.7%). Administrative expenses in the original currency (UAH) decreased by 1.6% compared to 2011 due to continued tight cost control policy.

Increase in operating profit by PLN 11 million resulted mostly from positive changes in net premium earned (+11.5%) and claim ratio decrease from 53.0% to 52.0%.

6.8. Baltics

Table 8: Performance of the Baltics segments (property and personal insurance)

PLN '000

Data from the income statement: Lithuania	1 January - 31 December 2012	1 January - 31 December 2011	% change
Gross written premiums	195 721	164 299	19.1%
Net earned premiums	171 833	139 556	23.1%
Investment income	9 890	(5 701)	x
Net insurance claims	(111 653)	(86 453)	29.1%
Acquisition costs	(49 047)	(40 067)	22.4%
Administrative expenses	(18 861)	(15 049)	25.3%
Operating profit (loss)	2 162	(7 714)	x
LTL/PLN exchange rate	1.2087	1.1990	0.8%

In 2012, gross written premium of PZU Lietuva increased by PLN 31.4 million (+19.1%) compared to 2011, mainly due to increase in the sales of comprehensive insurance products (by 23.8%), as well as accident and health products (increase by 39.2%).

Motor insurance had the highest share in the portfolio structure (57.0%). The share of TPL motor insurance amounted to 36.5% and did not change from 2011, while Motor own damage insurance increased slightly from 19.6% to 20.5%. Accident and health products also generated growth (from 10.2% to 12.0%), and so did property insurance products (from 14.9% to 15.2%).

Investment income for the 12 months ended 31 December 2012 amounted to PLN 9.9 million. An increase in this income arose mostly from improved standing of stock markets and increased exposure to corporate bonds, being more profitable than treasury bonds.

Net insurance claims increased by PLN 25.2 million (+29.1%). The increase resulted mostly from a growth in health claims, where the company had significantly increased its market share in the previous year, and an increase in general TPL provisions.

In 2012 acquisition costs grew by PLN 9 million (+22.4%) versus 2011. The increase resulted mainly from changes in the portfolio structure regarding sales of motor and property insurance (increased share of products and distribution channels with higher commissions).

Administrative expenses increased by PLN 3.8 million (+25.3%) mainly as a result of establishing foreign branches (Latvia, Estonia) and rebranding.

Operating profit increase resulted in particular from high growth in the net premium earned and investment income.

6.9. Investment contracts

Investment contract accounting is based on the deposit method. In consequence, investment contract volumes are not classified as revenue in accordance with IFRS.

Table 9: Gross written premium in the investment contract segment

PLN '000

Written premium by payment type - individual insurance	1 January - 31 December 2012	1 January - 31 December 2011	% change
Regular premium	47 082	7 446	532.3%
Single premium	1 812 357	3 046 904	(40.5)%
Total	**1 859 439**	**3 054 350**	**(39.1)%**

In 2012, gross written premium on investment contracts decreased by PLN 1,194.9 million (-39.1%) compared to 2011. Changes in the gross written premium resulted mainly from:

- lower sales of short-term endowment and unit-linked investment products in the banking channel;
- launch of a new investment product called Individual Pension Security Account (IKZE).

Table 10: Performance of the investment contract segment

PLN '000

Data from the income statement: investment contracts	1 January - 31 December 2012	1 January - 31 December 2011	% change
Gross written premiums	1 859 439	3 054 350	(39.1)%
Group insurance	1 373 414	2 293 916	(40.1)%
Individual insurance	486 025	760 434	(36.1)%
Net earned premiums	1 858 734	3 054 350	(39.1)%
Investment income	191 383	(13 956)	x
Net insurance claims	(3 185 031)	(3 069 661)	3.8%
Change in the balance of other technical provisions net of reinsurance	1 171 526	72 829	1508.6%
Acquisition costs	(31 215)	(37 500)	(16.8)%
Administrative expenses	(15 978)	(12 172)	31.3%
Operating profit (loss)	1 070	14 758	(92.7)%

Investment income in the investment contract segment increased by PLN 205.3 million as a result of improved standing of financial markets.

The increase in net claims (+PLN 115.4 million) resulted from the reduction in payments from short-term investment insurance, mainly in own channel.

The decrease in technical provisions by PLN 1,171.5 million (PLN 1,098.7 million more than in 2011) resulted from a significant drop in the volume of sales of short-term investment products compared to the previous year, accompanied in an increase in endowment payments from these products.

Acquisition cost decrease by PLN 6.3 million (-16.8%) resulted mostly from a reduction in the volume of sales.

The operating profit of the segment amounted to PLN 1.1. million i.e. PLN 13.7 million less than in 2011. Cost of launching a new product, Individual Pension Insurance Account (IKZE) contributed to the drop.

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

7.1. Property and personal insurance

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 statutory 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.

7.2. Life insurance

Key risks that can affect the performance in 2013 in the group and individual segment (life insurance):

- growing trends in unemployment rate in 2013, translating into lower demand for insurance products;
- potential increase in competition in group insurance arising from the growing role of brokers in the segment and the requirement to hold tender for group insurance applicable to entities subject to the Public Procurement Act of 29 January 2004 (Law Journal No. 223 of 2007, item 1655);
- decreasing attractiveness of policies combined with investment and structured products in light of planned introduction of tax on capital profit on these products;

- legal or regulatory changes in business terms, i.e. amendments to the Act on insurance activity, PFSA introducing new standards and decisions of the Supreme Court in favour of consumers;
- growing consumer awareness that may translate into a growing number of claims, among others as a result of actions undertaken by consumer institutions, such as Office of Competition and Consumer Protection, Insurance Ombudsman, PFSA;
- changes in the financial brokerage, reduced growth in popularity of independent financial advisory services thus limiting the number of sales channels;
- changes in the current mortality, longevity and incidence proportion;
- situation in the capital market in 2013, in particular on the Warsaw Stock Exchange – attractiveness of equity products offered by PZU depends on capital market standing;
- the amended VAT Act of 11 March 2004 (Law Journal No. 54 of 2004 item 535 as amended) lacks the precise scope of exemptions, e.g. regarding insurance or medical services;
- the implementation date and scope of Solvency II is unknown, which may impact the capital requirement level in the PZU Group.

7.3. Pension funds

Key risks that can affect the performance of PTE PZU in 2013:

- continued unemployment rate growth, which reduces number of members joining open pension funds;
- low pace of pay increase affecting growth of premiums paid by pension fund members;
- changes in the financial brokerage, reduced growth in popularity of independent financial advisory services thus limiting the number of sales channels;
- volatile yield of treasury securities, depending on the standing of Polish and EU economies; an increase in yield of these securities may result in a reduced value of investments managed by PZU PTE;
- situation in the capital market in 2013, in particular at the Warsaw Stock Exchange – a portion of the investment income of OFE PZU depends on the market trends, which translates into value of assets and fees charged by PTE PZU for management services.

7.4. Investing activity

Key risks that can affect the investment performance in 2013:

- volatile yield of treasury securities, depending on the standing of Polish and EU economies; an increase in yield of these securities may result in a reduced value of investments;
- situation in the capital market in 2013, in particular on the Warsaw Stock Exchange – a portion of the investment income of companies is conditional on market trends. Further, attractiveness of equity products offered by PZU depends on the standing of capital markets;
- changes in the financial brokerage, reduced growth in popularity of independent financial advisory services thus limiting the number of sales channels and reduced interest in equity instruments purchased for savings purposes.

8. Management Board’s position concerning previous performance projections

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

In 2012, Strategy of the PZU Group for 2012-2014 was published. Section 9.9 thereof includes information regarding implementation of the Strategy in the previous year.

PZU GROUP ACTIVITIES IN 2012

9. Activities, key developments and achievements of the major PZU Group Companies

9.1. Rating

PZU and PZU Życie are regularly rated by credit rating agencies. The rating assigned to PZU and PZU Życie results from an analysis of the financial information, competitive position, management and corporate strategy. It also includes 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 assigned to polish companies. Long-term credit rating in the local currency for Poland as at the date of the report is A with a stable outlook.

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

Table 11: Rating of PZU and PZU Życie

Nazwa zakładu	Company name	Rating and outlook	Update	Previous rating and outlook
PZU				
Financial strength rating	A /stable/	23 July 2011	A /stable/	22 July 2011
Credit rating	A /stable/	23 July 2011	A /stable/	22 July 2011
PZU Życie				
Financial strength rating	A /stable/	23 July 2011	A /stable/	22 July 2011
Credit rating	A /stable/	23 July 2011	A /stable/	22 July 2011

9.2. Property, personal and life insurance

9.2.1. Insurance products

Property and personal insurance

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 client

- 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 statutory 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 statutory 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 statutory and voluntary insurance products addressed to medical entities was introduced.

Products – corporate client

- 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

Corporate client segment

- 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

Retail client segment

- 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.

Life insurance

2012 was the year of adjusting product offer to growing clients' expectations, strong competition and changing legal environment. One of the key changes included a response to Decision of the EU Court of Justice of 1 March 2011 and Act on 14 December 2012 amending the Act on insurance activity; PZU achieved compliance with the changes through modifying of its tariff rates and eliminating of sex as a separating criterion.

Products – group insurance

On 1 January 2012, tariffs for P Plus group insurance changed, which resulted in implementation of:

- new tariff levels to improve pricing flexibility of the offer; rebates and commissions were regulated;
- new additional group insurance of the title to individual continuation with three continuation guarantee types, differing in terms of premium for the continuation right and in group insurance and in the continuation stage. Thanks to the new continuation guarantee, each new group employee insurance P Plus contract has had the continuation title since 1 January 2012;
- changes in the group employee P Plus insurance dedicated to SME – PZU Ochrona Plus (among others continuation guarantee was added to the additional insurance offer in all cover packages).

In 2012 the following was commenced:

- activities aimed at increased interest in the additional insurance offer among employers / policy holders;
- customisation of the group offer through more flexible and developed product system;
- offering assistance services and discount programs through Klub PZU Pomoc w Życiu.

Individually continued insurance products were changed as well in order to ensure their compliance with the Council Directive 2004/113/EC and decision of the European Court of Justice (case C-236/09 Test-Achats of 1

March 2011). Therefore, effective from 1 October 2012, premium calculation principles have changed: the calculation does not include the sex of the insured.

Products – individual insurance

In individual insurance, extending the offer of PZU Życie by a new product, Individual Pension Insurance Account (IKZE) was the key success of 2012. IKZE is a product allowing voluntary pension savings and a tax relief in annual tax returns. Holders of IKZE may deduct payments to the pension account from their tax base. Up to 4% of the premium calculation basis for the previous year is deductible. IKZE is offered by a number of financial institutions, but its framework is regulated by the Act on individual pension accounts amended on 1 January 2012. At the end of 2012, PZU Życie was a clear in the sales of IKZE in Poland with the number of its clients being substantially higher than in other insurance companies.

Due to strong uncertainty regarding stability of financial markets and national economies seen in 2012, PZU Życie has observed growing interest in traditional life insurance products (cover or cover and saving). Therefore, the sales of "classical" products, such as "PZU Ochrona Życia" or "PZU Twoja Ochrona" increased significantly in 2012 compared to previous years.

In 2012, the sale of "Plan na Życie", an individual life insurance product linked to an equity fund continued, but the "black PR" regarding unit-linked products in the bancassurance channel and discussions regarding construction of such products (among others in relation to liquidation fees) the sales results may indicate that clients have become more cautious when making investment decisions.

On the other hand, structured product enjoyed strong popularity. Twelve successful subscriptions were held for "Świat Zysków" structured product, based on diversified investment strategies and allowing risk diversification in own investment portfolio, which have become an important element of investment offer of PZU Życie. In relation to frequent changes on financial markets, investment strategies proposed under the "Świat Zysków" product have been subject to continuous changes to ensure the best match with current needs of clients. Therefore, the number of subscriptions carried out increased to 12, compared to 6 in 2011. Further, the duration of each subscription was reduced. The product has been included to the standing offer of PZU Życie and its regular issues are planned.

When discussing changes in the product offer caused by external factors, the broad process of adjusting to guidelines issued by EU Court of Justice, carried out both by PZU Życie and other EU insurers, is to be highlighted. Following the changes, tariffs were modified, as well as general terms of most products offered. Further, tools supporting sales and maintenance of products, such as IT systems, simulators, etc., were modified. The decision of the EU Court of Justice set the compliance deadline at 21 December 2012. PZU Życie was among the first Polish sellers of products compliant with the decision since their launch took place on 1 October and 1 December 2012.

Products –bancassurance

Group, individually continued and individual insurance segment

In 2012, the main focus in the investment sector was on the unit-linked and structured products. The existing policy regarding policies combined with investment products was continued. Their distribution has been progressively restricted. The offer included only one product offered in cooperation with Bank Millennium, and one campaign carried out in cooperation with PKO BP. Modifications were introduced to many products to incorporate the guidance on bancassurance investment insurance issued by supervisory bodies.

The continued sales of 'Wielowalutowy Program Inwestycyjny' introduced at the end of 2011 in cooperation with Bank Millennium met strong interest of both sellers and clients. Other unit-linked products offered in cooperation with this bank were withdrawn. In the second half of the year, when working on modification of two group unit-linked products offered in cooperation with Deutsche Bank PBC, sales improved significantly, but the Management Board decided to withdraw them in light of doubts expressed by supervising bodies.

In cooperation with Bank Handlowy w Warszawie, ten subscriptions were held for Indywidualne Inwestycyjne Ubezpieczenie na Życie. Some of them were offered in a new auto call version (the early endowment option).

In the second half of the year, a group structured product offered in cooperation with ING Bank Śląski was launched. The launch was stopped after the first subscription, though, due to doubts raised in relation to the group form of insurance.

Further, a decision was made to withdraw group investment products (except from policies combined with investment) and negotiations were commenced with partners to renew the individual offer of this product based on agency contracts.

In the cover insurance segment, in 2012 cooperation was established with Idea Expert SA (former PDK SA) regarding life insurance added to mortgage loans. Focus was placed on maintenance of the insurance portfolio and work related to the planned consumer finance insurance and mortgage banking.

Products – health insurance

Group and individually continued insurance segment

In 2012, development of the product offer continued, based on the fee for service model through PZU Pomoc SA, providing medical performances and services. The number of medical partners cooperating with PZU Pomoc SA under the fee for service model exceeded 800 facilities.

In Q1 2012, the complementary health insurance product was introduced to the offer of PZU Życie: prescription drug insurance. The product was developed in cooperation with PELION Group and allows significant reduction of prescribed drug purchase costs.

At the end of 2012, Opieka Medyczna, the individual hospital insurance product, was withdrawn.

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, statutory 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 nor PZU Życie 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.

9.2.2. Sales network

PZU Group has the largest network of POS among Polish insurers.

Property and personal insurance

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[11] field agents and 23 partner agencies providing workplaces for the agents;
    - In 2012, 1,078 agents were recruited;
    - 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[12] 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.

Life insurance

PZU Życie offers insurance both through its own network and the agency network. Additionally it uses new distribution channels which are gaining popularity in Poland, such as banks and direct sales (mail). Key distribution channels include:

- PZU employees – group insurance;
    - employees of PZU Życie with the key task to sale and maintain the existing group insurance portfolio;
    - the broker network cooperating on the sales of group insurance.
- Exclusive agents
    - As at the end of 2012, sales of individual and group life insurance were performed through the network of nearly 2.2 thousand exclusive agents and 167 Sales Team Managers supervised by Sales Directors in 36 Agency Sales Units grouped in five regions.

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

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

- PZU employees
    - The network of shared POS of PZU and PZU Życie, which carry out sales and provide services, in particular with regard to individual policies (including individually continued products).
- Bancassurance
    - A network of banks that cooperate with the company distributing a broad game of investment and cover products.
- Direct
    - This distribution channel is used to win clients for individually continued insurance (including upselling).

9.2.3. Claims handling costs

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 claims handling 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);
- 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 Program 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.

In 2012, the following activities were performed with the purpose to improve the claims handling process:

- Launching of PZU 24 hotline for PZU Życie claims;
- Automated communication with suppliers of diagnostic services in TPL and accident claims. At present, information and data are exchanged automatically (on the system basis) with all four suppliers;
- mass correspondence service managed by claims handling system was implemented;
- the system used to maintain group insurance (among others by employers / policy holders) was integrated with the claims handling system, which allowed among others automated adjustment of certain losses.

The above measures reduced the average claims handling time compared to the previous year:

- in PZU by approx. 4.5 days to 15.65 days; for motor insurance: 18.87 days for TPL and 15.34 days for Motor own damage insurance;
- in PZU Życie, by approx. 0.4 day and amounted to 4.6 days.

9.3. Pension insurance

IKZE was the key project commenced in 2011 and continued in 2012. Following statutory changes, effective from 1 January 2012, pension funds have been entitled to maintain individual pension insurance accounts (IKZE) and offer the related financial services (pension savings) to clients. The related activities are performed through Dobrowolny Fundusz Emerytalny PZU established by PTE PZU. PTE PZU is among the market pioneers permitted by PFSA to carry out this sort of business activity (a decision of 22 November 2011 permitting the establishing of Dobrowolny Fundusz Emerytalny PZU "DFE PZU"), thus accepting its by-laws. The fund managed by PTE PZU was the first market player in this segment entered in the Register of Funds on 12 January 2012 and thus enabled to commence operations. DFE PZU soon gained a leader position in the voluntary pension insurance segment and became the leader in terms of return rate. Its new product offered as the third pillar pension insurance allows a tax relief in PIT for those paying to IKZE, up to the amount of the annual statutory limit. PTE PZU focused on support of sales and education, encouraging potential members to make payments.

At the end of 2012, DFE PZU maintained 121.6 thousand IKZE accounts, and as at 31 December 2012, its assets amounted to PLN 3.4 million. Sales of IKZE in DFE PZU are carried out in cooperation with PZU CO, which is the product distributor. DFE PZU became a market leader among voluntary funds managed by pension funds. In the first year of operation on the IKZE market, 30 financial institutions entered the market offering their clients with the new product. The sales performance of DFE PZU in 2012 placed it among the three largest financial institutions offering IKZE. With substantial experience on pension product market, highly qualified management, well-established market position confirmed with numerous awards (e.g. Investment & Pensions Awards for the best-managed pension fund in Central and Eastern Europe in 2010), PTE PZU will develop this aspect of its business to provide clients with the opportunity to increase their funds held in OFE PZU and in DFE PZU in a safe manner.

Acting in the best interest of OFE PZU members, the management board of PTE PZU decided to change its depositary bank to ING Bank Śląski SA. On 18 November 2011, an appropriate permit was obtained from PFSA. ING Bank Śląski assumed the role as of 14 January 2012. The change, with the existing service and entrusted fund safety standards maintained, allowed OFE PZU significant reduction of fees charged by the Depositary for stowing of its assets. The asset stowing costs were reduced by 32.8% with the average asset growth of 5.4%, which resulted in an increase in funds on accounts of OFE PZU members and IKZE holders, since the bank is also the Depositary of DFE PZU.

In 2013, PTE PZU will actively participated in consulting of proposed changes in legal regulations regarding pension insurance, raising arguments and solutions that secure interests of clients of open pension funds and development of the pension insurance market. We will submit our opinions through the forum of Pension Fund Chamber of Commerce and Polish Confederation of Private Employers "Lewiatan".

9.4. Investment funds

As at the end of 2012, TFI PZU had 25 funds and sub-funds in its offer, out of which 16 are offered also to clients outside the PZU Group. In 2012 five new closed funds were established, out of which two (PZU FIZ Medyczny and PZU FIZ Forte) are offered to external clients.

At the end of 2012, the total net assets of funds managed by TFI PZU amounted to PLN 15,363.5 million (increase by 186.9% year on year). In terms of assets value, PZU TFI held the first place in the market with the share of 10.54%. Among others, the increase resulted from:

- Introduction of a new investment strategy in the PZU Group, resulting in an increase in assets managed by TFI PZU from PLN 5.37 billion to PLN 15.36 billion due to non-cash or cash contribution of PZU Group companies (mainly PZU and PZU Życie);
- Introducing new closed investment funds to the offer and holding issues of certificates;
- Extending the distribution network;
- Very good investment performance generated by fund managers.

Table 12: Funds' return rate

Funds	Return rate* in the period from 30 December 2011 to 28 December 2012	Return rate* in the period from 31 December 2010 to 30 December 2011
PZU Zrównoważony	24,52%	(17,41)%
PZU Akcji Małych i Średnich Spółek	22,81%	(23,87)%
PZU Akcji NOWA EUROPA	22,16%	(20,69)%
PZU Akcji KRAKOWIAK	20,47%	(26,21)%
PZU Stabilnego Wzrostu MAZUREK	17,12%	(7,96)%
PZU Papierów Dłużnych POLONEZ	15,85%	12,63%
PZU Akcji Spółek Dywidendowych	15,42%	(23,79)%
PZU Dłużny Rynków Wschodzących	14,72%	1,78%
PZU Akcji Rynków Wschodzących	11,71%	(13,74)%
PZU Akcji Rynków Rozwiniętych	11,31%	1,37%
PZU SEJF+	7,09%	1,40%
PZU Gotówkowy	6,33%	4,47%
PZU Energia Medycyna Ekologia	4,62%	27,65%
PZU FIO Ochrony Majątku	4,52%	2,83%

** The presented historical performance does not include the tax on capital gains and handling fees. The table of tariffs is available at pzu.pl website, in the office of TFI PZU (Al. Jana Pawła II 24 in Warsaw) and in points trading participation units.*

Most funds obtained by TIF PZU include assets of PZU Group companies (at the end of December 2012, 78.5% of assets in all funds and sub-funds managed by TFI PZU). They include both portfolios of PZU and PZU Życie used to cover technical provisions and money collected with unit-linked investment insurance. For the latter, clients can select funds from the broad offer of TFI PZU.

Other distribution channels:

- Direct sales
  - The leading products include Employee Pension Plans (the third pillar). The existing and new plans account to nearly 47% of the total net sales (excluding assets of the PZU Group).
- External channel
  - It accounts for approx. 45% of net sales (except from PZU Group assets).
  - In 2012, the existing network was revitalized and cooperation established with new distributors. Their sales share approximated 15% of the total assets collected on the market.

The year 2012 was marked by intense efforts including sales, public relations and marketing. The key activities in this period included:

- Completion of work on the remote distribution channel in the form of an Internet platform with an IVR ordering system;
- Commencement of work on PZU Investor loyalty program;
- TFI PZU participating in a number of initiatives, such as Asset Management Forum, Private Banking 2012 Conference, European Economic Congress - Katowice 2012, Economic Forum in Krynica, V Investment Forum in Tarnów, Listed Companies Management Congress, Retail Banking Congress;
- Advertising campaign held in Internet and promoting the remote registration via the Internet platform and IVR;
- Enhancing the image of TFI PZU in press, including a large promotion campaign in December 2012;
- Obtaining a very good rating from an independent analytics company Analizy Online for PZU Gotówkowy, PZU Papierów Dłużnych POLONEZ and PZU Energia Medycyna Ekologia (4* in the rating);

- The manager of PZU Papierów Dłużnych POLONEZ won the award of Gazeta Giełda PARKIET called "Złoty Portfel" for very good investment performance in 2011;
- PZU Bezpiecznego Inwestowania sub-fund changed its name to PZU SEJF+ and its investment policy;
- Closed funds: PZU FIZ Nieruchomości 3, PZU FIZ Aktywów Niepublicznych BIS 2, PZU FIZ Aktywów Niepublicznych BIS 1 commenced their operations;
- Closed investment funds PZU FIZ Medyczny and PZU FIZ Forte commenced their operations and certificates were issued;
- Employee Pension Plan was implemented in:
  - GRUPA PHN,
  - PGNiG Energia Oddział Obrotu Energią,
  - Zakłady Azotowe w Tarnowie-Mościcach S.A. (at present Azoty Group),
  - ZAK S.A. (at present Azoty Group),
  - Totalizator Sportowy Sp. z o.o.
- Winning new distributors: BRE WM SA, Deutsche Bank SA, DM BOŚ SA, DM PKO BP SA;
- Winning key partners in subscribing investment certificates during issues: CDM Pekao SA, Raiffeisen Bank Polska SA, DM PKO BP SA;
- Extending cooperation with AEGON TU na Życie SA – possibility to invest funds in PZU Energia Medycyna Ekologia and PZU Papierów Dłużnych POLONEZ;
- Establishing cooperation on investing in funds managed by TFI PZU with the following companies:
  - TU EUROPA SA and TU na Życie EUROPA SA;
  - AXA Życie TU SA;
  - Fundusz Górnośląski SA;
  - Tower Inwestycje Sp. z o.o.;
  - Ogrodowa – Inwestycje Sp. z o.o.;
  - Przedsiębiorstwo Produkcyjno – Handlowe „TEMAR" sp. j.

9.5. Organizational structure

From executive perspective the organizational structure of PZU and PZU Życie is based on the functional and territorial coordination of tasks. Under the functional coordination, PZU and PZU Życie have been divided into divisions coordinating specific functions such as marketing, sales management in specific client segments, claims handling, POS network management, operational division, financial division, HR division, investment division as well as support divisions and functions. The territorial coordination is carried out via territorial structures (regional branches or relevant divisions/functional areas, including specialized units). 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 at 31 December 2012, the organizational structure of PZU and PZU Życie comprised the following units:

- Head office: supporting the Management Board in the management of PZU Życie 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 PZU 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 PZU and PZU Życie includes committees, collective bodies with decision-making and opinion-giving power.

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).

9.6. IT area

In 2012, measures performed in the IT function 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.

9.7. Key marketing activities in 2012

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).

9.8. Key HR activities

Employment in the PZU Group

In order to develop modern insurance products tailored to customer needs and to establish appropriate relations with the insured by developing distribution channels and ensuring top quality services, including claims handling, PZU selects employees with various competences and interests. At the same time, employees may expand their knowledge in the area of insurance, finance, sales, modern technologies or management participating in individual and group training programs.

Employment structure of PZU and PZU Życie at the end of 2012 and 2011 is presented in the tables below. Employees of these companies constitute a significant portion of the PZU Group's headcount

Restructuring program in the PZU Group (as described below) resulted in reducing the average age of employees in the Group and increasing the share of persons with a university diploma degree.

Table 13: PZU and PZU Życie – employment by age

age group	2012	2011
below 25 years	3.6%	3.2%
from 25 to 34	31.2%	29.9%
from 34 to 44	33.1%	31.8%
from 44 to 54	20.8%	23.1%
from 54 to 64	11.3%	11.9%
over 64	0.1%	0.1%

Table 14: PZU and PZU Życie – employment by education

education level	2012	2011
Higher	73.4%	69.7%
secondary	26.0%	29.9%
other*	0.6%	0.5%

* below secondary

Table 15: PZU and PZU Życie – employment of women

Data	2012	2011
Share of women in top management	29.7%	31.9%
Share of women in total headcount	64.4%	66.0%

In the area of HR in 2012 the Group carried out activities aimed at improving motivation, promoting team work/ cooperation and new initiatives among staff and building positive employer image. Additionally, strategic objectives of the PZU Group were linked to remuneration system at all levels of the organization thanks to changing performance management system and defining a new incentive scheme.

The first staff performance review for the year 2012 will be carried out in 2013. The key objective of the review is to promote appropriate attitudes focused on cooperation, knowledge sharing and giving feedback. To this end, 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 the HR function.

At the same time, in 2012 position 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 technical skills. 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 programs. A development program 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, commitment survey was held among employees. It resulted in a project called TOP 30 – Change Leaders. Its objective is to develop initiatives that improve employee commitment in five areas: "People: our greatest asset", "Pay for performance", "Grow with PZU", "Client First", "PZU Ambassadors".

An internship program aimed at strengthening the position of PZU as an employer of choice was launched in order to enable students and young graduates to develop their knowledge and skills and apply them in practice. 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").

Restructuring of PZU

Restructuring program for 2010-2012

On 29 December 2009 the Management Board of PZU and PZU Życie published 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.

In 2010 the changes affected 6,045 employees, out of which 2,439 were given termination documents. In 2011, changes related to group layoffs affected 1,943 employees, out of which termination of employment process was initiated for 1,276 people. In the same year employment was terminated with 75 persons under individual layoffs for reasons not related to these individuals. The costs of redundancies were charged to the restructuring provision.

On 10 July 2012, the Management Boards of PZU and PZU Życie decided to start the implementation of the last stage of the restructuring plan for the years 2010-2012 and to carry out lay-offs. The decision resulted from implementation of a number of projects consisting in simplification of procedures, automation and optimisation of business processes and centralisation of functions. The restructuring will affect most operations, finance and claims handling areas.

On 24 July 2012 PZU, PZU Życie and their trade unions concluded an agreement concerning the terms and conditions of staff restructuring. The final version of the document was based on experience gained and solutions developed during similar negotiations in previous years.

Ultimately, 746 people from both Companies were affected by the aforementioned phase of the restructuring program (employment and remuneration terms and conditions of 192 employees were changed, the headcount was reduced by 554 employees, including 401 employees whose employment contracts were terminated, because they did not approve the new terms and conditions).

To sum up, staff restructuring in the years 2010-2012, PZU and PZU Życie initiated termination of employment contracts of 4,400 individuals by executing a termination agreement with them or handing them a termination notice, or if an employee rejected the new terms and conditions of employment offered by the employer.

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.

As of 31 December 2012 the provision for restructuring costs amounted to PLN 9,841 thousand (vs. PLN 112,956 thousand as at 31 December 2011), which implied a decrease in the provision of PLN 103,115 thousand (versus an increase of PLN 37,703 thousand in 2011).

Restructuring program for 2013

On 27 December 2012, the Management Boards of PZU and PZU Życie announced 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 3,145 employees of PZU and PZU Życie, with the estimated employment reduction level up to 630 people, what constitute 5.5% of employees in both companies.

PZU and PZU Życie recognized a provision for the restructuring program of PLN 48,353 thousand as at 31 December 2012.

Employment of PZU and PZU Życie at the end of the years 2009-2012 is presented in the table below.

Table 16: PZU and PZU Życie - employment

Company	2012	2011	2010	2009
PZU	8.34	8.66	9.36	10.95
PZU Życie	3.24	3.41	3.81	4.06
Total	**11.58**	**12.07**	**13.17**	**15.01**

** total headcount in FTE thousand, without exclusions - as at 31 December of a given year*

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 quarterly 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 severance pay and jubilee bonuses) where amount of PLN 177.0 million was included in other operating revenue.

9.9. 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

Objective	Measures undertaken in 2012
Business pillars:	
Mass client	
Maintaining yield of assets	1. Underwriting profit/loss (excluding the technical rate change) increased by PLN 439.0 million y/y, i.e. + 76.6%. 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%). 3. A new mass sales management model was implemented with focus on improved efficiency of multi-channel distribution management. 4. Nowa Era Sprzedaży (New Sales Era) in the multi-agent channel was implemented to improve efficiency of cooperation with the channel. 5. More sales campaigns were performed based on an extended sales support tool (analytical CRM). 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	1. At the end of 2012, TFI PZU won the first place in terms of value of managed assets according to IZFA (10.5% share in net assets due to transfer to funds).
Group Client	
Maintaining the leading position and yield in life insurance	1. Stable increase in gross written premium and underwriting profit (YoY) in basic types of insurance ("P" type). 2. Introduction of new individually continued group life insurance. 3. Dynamic growth of new sales. 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. 2. A 17.2% increase in the number of risks in group health insurance Y/Y. 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. 4. Market launch of a new product – prescription drug insurance.
Corporate client	
Regaining market position with yield maintained	1. Underwriting profit/loss increased (excluding the technical rate change) by PLN 44.6 million y/y, i.e. + 22.9% 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 Motor TPL insurance (49.3%). 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

Objective	Measures undertaken in 2012
	partner with a strong expert position, not only selling insurance policies, but also providing clients with advisory support. 4. Work on developing of a shared system of cooperation with brokers was completed. 5. Verification of tariffs for yield 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. 2. Work was performed to prepare the PZU Group to fulfil Solvency II regulatory requirements.
New international expansion model: PZU International	1. Developing business in Baltic countries: PZU is present in Lithuania; in Latvia, first sales of policies took place in December 2012; in Estonia sales is planned for Q2/32013. 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. 2. Fourth place in the Ranking of Most Precious Polish Brands by Rzeczpospolita Daily in 2012. 3. The main award in "Charity Leaders 2012" among companies who provided the most funds for social purposes in 2011 (PLN 20.7 million). 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. 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. 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. 4. PZU Group Client Centre was opened, being a specialist central unit dealing with clients' issues. 5. Work aimed at optimization of claims handling area continued, to include: • progressing centralisation and optimisation of claims handling; initiating remote employment solutions as an alternative for office work; • implementing Assistance order handling platform and a platform allowing communication with seasonal liquidator under E-szkoda platform development; • mass printing service was implemented; • 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 (described in point 9.6). 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. 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

Objective	Measures undertaken in 2012
	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. 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. 2. Employee and performance assessment was implemented. In Q4 2012, for the first time employees were assigned quarterly targets and made accountable for them. 3. Job valuation was verified for consistency in PZU and PZU Życie. 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 position / workload, training being available for any number of participants, ability to monitor training outcome. 5. The second edition of the internship program 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. 2. On 10 May, a new logo was presented at a press conference and the brand refreshment process commenced. 3. From 12 May to 31 July a campaign was held called "changing for good" as a part of the image-changing action. 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).

9.10. Corporate social responsibility activities in 2012

9.10.1. Ethics in business

PZU applies ethical and corporate social responsibility principles presented in item 15.1.

9.11. 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) program addressed to selected fleet drivers was continued;
- in liaison with Disabled Driver Assistance Association the Auto Mobility Centrum program 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.

9.12. PZU Foundation

In 2012, PZU Foundation performed a number of programs 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 programs:
  - 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 programs 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.

10. 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	
Retail client	
Profitable maintaing the market share on the property and personal insurance	1. Maintain the existing market share in motor and property insurance segment. 2. Develop savings and investment products, in particular long-term saving ones. 3. Further development of the mass sales area, among others in the form of developing key distribution channels.
Group Client	
	1. Maintaining profitable leader position in life insurance. 2. Further the creation of the health insurance market in order to increase the scale of the business in this area. 3. Active further sale of group insurance products related to health and the medicines. 4. Strengthen the direct relations with the insured by offering assistance in PZU Pomoc in PZU Życie
Corporate client	

Rebuildig market position while maintaining yield	1. Transforming PZU into a business partner with a strong expert position, acting not only as an insurer, but also as client advisor. 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. 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. 2. Further centralisation and optimisation of operating processes.
HR: business partner / involved employees / performance oriented culture	1. Transforming PZU Group into a performance-oriented organisation. 2. Further strengthening of PZU position as an employer of choice through another edition of the internship program.

11. Risk management

11.1. Risk management objective

The risk management objective is to ensure that the PZU and PZU Życie, 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.

11.2. Risk appetite

Risk appetite is defined as the risk level which the PZU and PZU Życie are 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.

11.3. 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.

11.4. Organizational structure and responsibilities in the risk management process

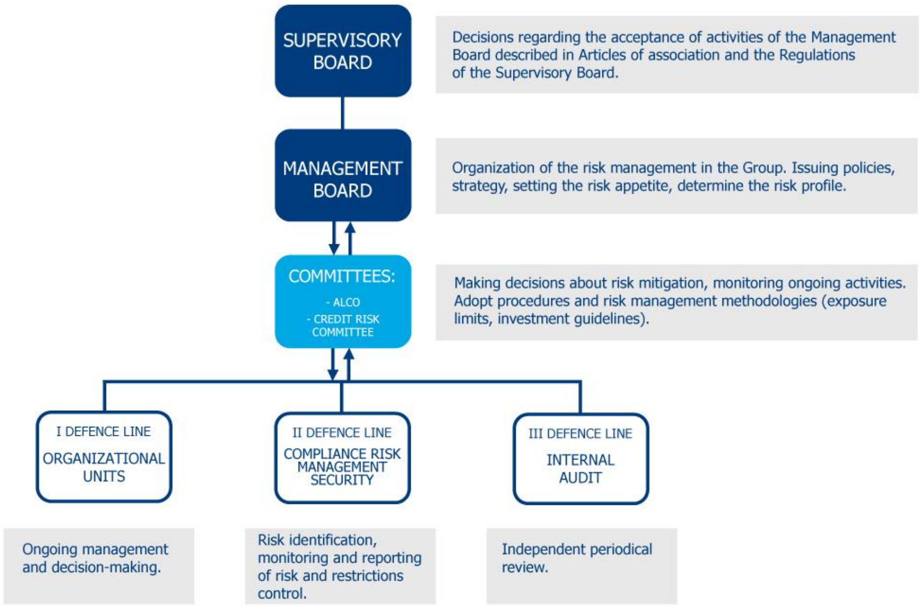
The risk management structure is based on four competency levels. The first three include:

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 6: Risk management organisational structure: roles and tasks



11.5. Risk types

In 2012, the risk profile of the PZU and PZU Życie 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 and PZU Życie 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 and PZU Życie is exposed to.

In PZU and PZU Życie, 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 and PZU Życie 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 programs;
- establishing reinsurance programs.

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 programs;
- appropriate tariff policy;
- application of a relevant provision calculating methodology;
- underwriting procedure;
- business decisions and sales plans;
- prevention.

Market risk

Insurance risk in PZU and PZU Życie 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

PZU and PZU Życie define credit risk 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 of PZU and PZU Życie 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 Group[13] 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[14] identifies and assesses operational risk by way of collecting and analyzing 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 Group[16] applies the following solutions:

- Update and optimization 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;

[13] PZU Group excluding Armatura Group
[14] PZU Group excluding Armatura Group

- Monitoring and analysis of causes of key IT system failures.

Companies in the PZU Group [16] 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

Continuity plans have been implemented and tested in PZU Group[16] (PZU, PZU Życie, PZU AM, TFI PZU, PZU CO, PZU PTE) 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 PZU and PZU Życie, its employees or entities acting on its behalf fail to comply with legal regulations, internal rules and accepted norms of conduct, including ethical standards.

PZU and PZU Życie manage compliance risk based on the Compliance Policy and Methodology to Identify and Assess Compliance Risk for internal processes.

Based on the above regulations, clear separation of competences under the systemic and ongoing management of compliance risk has been introduced. In PZU and PZU Życie leaders of areas, units and teams are in charge of ongoing compliance risk management.

It includes in particular:

- promoting of norms of conduct regarding compliance in PZU and PZU Życie,
- developing and monitoring solutions applicable to compliance risk management,
- monitoring of compliance with norms of conduct in PZU and PZU Życie,
- monitoring of the compliance risk management process in PZU and PZU Życie, 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 is fully owned Risk Office.

Identification and evaluation (measurement) of the risk of non-compliance are performed by organizational units in charge of PZU and PZU Życie 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 direct 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 and PZU Życie 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 and PZU Życie in activities inconsistent with applicable regulatory requirements, best practices and those that may negatively affect the image.

11.6. Sensitivity to risk

Risk of the financial assets

The table below summarizes the results of the analysis of the sensitivity of net profit and equity on changes in interest rate risk, currency risk and price risk of equity instruments. The analysis does not take into account the effect on net profit and equity of changes the in investment valuation, which are taken into account when calculating the amount of provisions.

Table 17: Sensitivity of the asset portfolio

PLN million

Sensitivity of the asset portfolio	Change in the risk factor	31 December 2012		31 December 2011	
		Effect on net profit/loss	Effect on equity	Effect on net profit/loss	Effect on equity
Interest rate risk	drop by 100 bp	315	360	135	299
	growth by 100 bp	(295)	(337)	(126)	(283)
Currency risk	increase by 20%	83	140	232	167
	decrease by 20%	(83)	(140)	(232)	(167)
Price risk of equity instruments	increase by 20%	234	304	254	336
	decrease by 20%	(234)	(304)	(254)	(336)

Financial assets exposed to FX risk include deposit transactions and debt securities that hedge outlays for technical provisions denominated in foreign currencies, exposure to equity instruments listed at other exchanges than WSE, investment units, certificates and derivatives denominated in foreign currencies, as well as financial assets denominated in foreign currencies of companies included in consolidation. Decrease in sensitivity to exchange rate risk at the end of 2012 compared to 2011, was mainly caused by the use of derivatives to hedge currency risk.

Decrease in the sensitivity of the portfolio of financial assets on revaluation of listed equity instruments at the end of 2012, compared to 2011 resulted from lower exposure to financial instruments exposed to other price risk.

Technical interest and mortality risks

<u>Capitalized value of annuity claims – property and personal insurance - PZU</u>

Presented below is an analysis of sensitivity of the net profit/loss and equity to changes in the assumptions used while calculating the provision for capitalized value of annuity claims. The analysis does not present the effects of changes in the measurement of investments on the net financial profit/loss or equity which are taken into consideration while determining the value of the provision.

Table 18: Sensitivity of the provision for capitalized value of annuity claims

Change in the assumptions for the provision for capitalized value of annuity claims net of reinsurance in property and personal insurance (in PLN million)	Effect of changes in the assumptions on			
	net profit/loss		net profit/loss	
	31 December 2012	31 December 2012	31 December 2012	31 December 2012
Technical interest rate – rise by 0.5 p.p.	397	348	397	348
Technical interest rate – drop by 1.0 p.p.	(1 028)	(900)	(1 028)	(900)
Mortality – 110% of the currently assumed level	119	104	119	104
Mortality – 90% of the currently assumed level	(133)	(116)	(133)	(116)

Annuity insurance in life insurance portfolio

Table 19: Sensitivity of annuity provisions in life insurance

Change in the assumptions for annuity insurance in life insurance (in PLN million)	Effect of changes in the assumptions on			
	net profit/loss		net profit/loss	
	31 December 2012	31 December 2012	31 December 2012	31 December 2012
Technical interest rate – drop by 1 p.p.	(38)	(36)	(38)	(36)
Mortality – 90% of the currently assumed level	(13)	(14)	(13)	(14)

Liabilities due to investment and insurance with DPF in life insurance (excluding annuity insurance)

The impact of changes in assumptions concerning provisions for contracts for insurance and investment with DPF in life insurance (excluding annuity insurance) has been presented below.

Table 20: Sensitivity of provisions for contracts for insurance and investment with DPF

Change in assumptions concerning provisions for contracts for insurance and investment with DPF in life insurance (excluding annuity insurance; in PLN million)	Effect of changes in the assumptions on			
	net profit/loss		net profit/loss	
	31 December 2012	31 December 2012	31 December 2012	31 December 2012
Technical interest rate – drop by 1 p.p.	(2 296)	(2 168)	(2 296)	(2 168)
Mortality – 110% of the currently assumed level	(954)	(961)	(954)	(961)
110% of incidence and accident proportion	(199)	(205)	(199)	(205)

Additionally, Note 7.5.1.1 to the consolidated financial statements of the PZU Group for 2012 presents sensitivity analysis concerning catastrophe risk.

11.7. 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.

12. Other selected PZU Group companies – directions for development and performance

12.1. PZU Lietuva

In 2012, PZU Lietuva advanced to the second position in the Lithuanian insurance market. In 2012 the key objective of the company was to further increase the profitability of motor insurance and corporate property insurance. The Company has grown sales by 18.2% versus 6.6% growth of the entire market.

In the reporting period the company executed projects aimed at complete unification of life and property and personal insurance companies of the PZU Lietuva Group initiated in the preceding year. The process objective was to adjust the structure of PZU Lietuva to follow new shareholders guidelines, such as reduction of operating costs.

On 6 September 2012 the Latvian Financial and Capital Markets Commission issued a decision approving establishment of a branch of PZU Lietuva in Latvia. The following step was the registration of the Latvian branch in the register of entrepreneurs on 10 October. On 15 October PZU Lietuva opened its office in Riga. The company's offer includes property insurance, guarantees and general TPL insurance. The company is developing new products (TPL and Motor own damage insurance) adjusted to the requirements of the Latvian market. At the same time, the company recruits employees and prepares internal procedures and IT systems. In December 2012 the entity sold its first policy with the premium of EUR 26.4 thousand.

On 17 October 2012 the Estonian Financial Supervision issued an approving establishment of a branch of PZU Lietuva in Estonia. On 14 November 2012, a branch was registered in the register of entrepreneurs. The branch will launch sales at the end of the second quarter of 2013.

12.2. PZU Ukraine

In 2012 PZU Ukraine reported a growth in written premium while the Ukrainian insurance market was expected to decline (a decline after 9 months of 2012). After three quarters of 2012 the company was ranked 13 in standard property and personal insurance and its market share reached 2.94% (share of the market leader – 7.13%).

In 2012 the company managed to considerably improve profitability thanks to modification of the rates for motor insurance which constitute a significant portion of PZU Ukraine's portfolio and due to increasing the share of property insurance in the portfolio and reducing the share of medical insurance.

12.3. PZU AM

In line with adopted assumptions, in 2012 PZU AM provided services solely to the PZU Group companies including PZU, PZU Życie, TFI PZU and MPTE PZU SA.

In line with the assumptions in 2012 PZU AM started managing new investment portfolios (PZU FIZ Medyczny; FIZ Sektora Nieruchomości 3; PZU FIZ Forte; PZU FIZ AN BIS 1; PZU FIZ AN BIS 2).

12.4. PZU Pomoc SA

In June 2012 PZU Pomoc SA acquired shares in Nadwiślańska Agencja Ubezpieczeniowa, which was transformed into GSU Pomoc Górniczy Klub Ubezpieczonych. PZU Życie acquired 30% of shares in the entity. The entity will develop discount and incentive schemes and incentive programs for the mining industry.

The entity has optimised service processes and development of loyalty programs and at the end of the year it reviewed the strategy of Klub PZU Pomoc w Życiu based on marketing research results. The program will be continued in 2013 in compliance with customer needs.

As for medical services, at the end of 2012 the company had a network of 800 medical centres countrywide. It optimized service processes which considerably reduced operating expenses without compromising client satisfaction.

The entity became a leader in the agency sale of damaged vehicles using an online auction platform. The tool will be developed in order to implement the platform in claims handling processes in the PZU Group.

12.5. PZU CO

In 2012 PZU CO executed a number of projects developing, supporting and streamlining operational support services. The key projects have been specified below.

In the area of agency sales support the following projects were launched:

- distribution of the Individual Pension Account product for PTE PZU;
- cross-selling of group property insurance for PZU;

In the area of operations and IT projects supporting operational processes:

- opening a new Contact Centre location in Bydgoszcz for the needs of PZU and PZU ŻYCIE;
- providing services related to the Individual Pension Account product for PTE PZU and PZU ŻYCIE.

ADDITIONAL INFORMATION

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

Table 21: 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)	No data	0	X
	Supervisory Board			
1	Marzena Piszczek (Supervisory Board Member until 30 May 2012)	0	No data	X
2	Waldemar Maj	30	30	X
3	Zbigniew Ćwiąkalski	0	0	X
4	Tomasz Zganiacz (Supervisory Board Member since 30 May 2012)	No data	0	X
5	Dariusz Daniluk	0	0	X
6	Zbigniew Derdziuk			X
7	Krzysztof Dresler (Supervisory Board Member until 30 May 2012)	0	No data	X
8	Dariusz Filar	0	0	X
9	Włodzimierz Kiciński (Supervisory Board Member since 30 May 2012)	No data	30	X
10	Alojzy Nowak (Supervisory Board Member since 30 May 2012)	No data	0	X
11	Maciej Piotrowski (Supervisory Board Member since 30 May 2012)	No data	0	X
Total		**610**	**640**	**X**

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

On the date of the report on the activities of the PZU Group managers and supervisors did not have the PZU shares or shares in other companies of the PZU Group.

14. Other information

14.1. Remuneration of members of management and supervisory bodies of PZU Group

Detailed information regarding remuneration of members of management and supervisory bodies of PZU is presented in Note 55.1. to the Consolidated Financial Statements of PZU Group.

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.

14.2. 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.

14.3. Employee stock ownership plan

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

14.4. 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 7: Changes in the prices of PZU in 2012 compared to WIG20 31.12.2011 = 100%

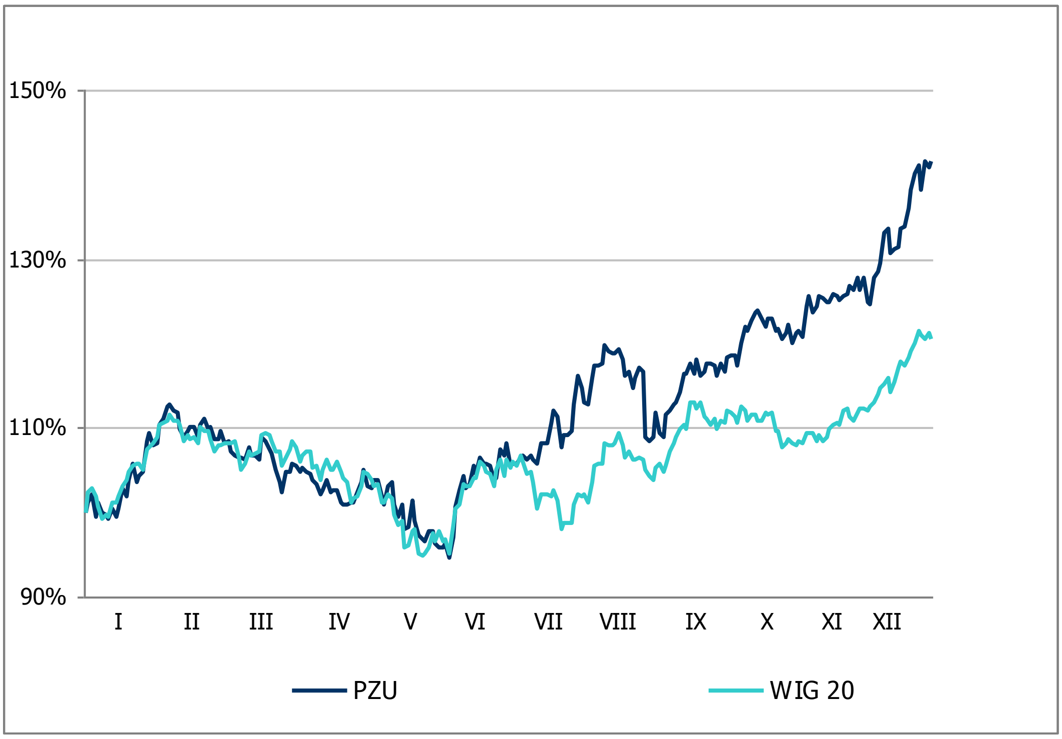


Chart 8: Prices of PZU shares in 2012

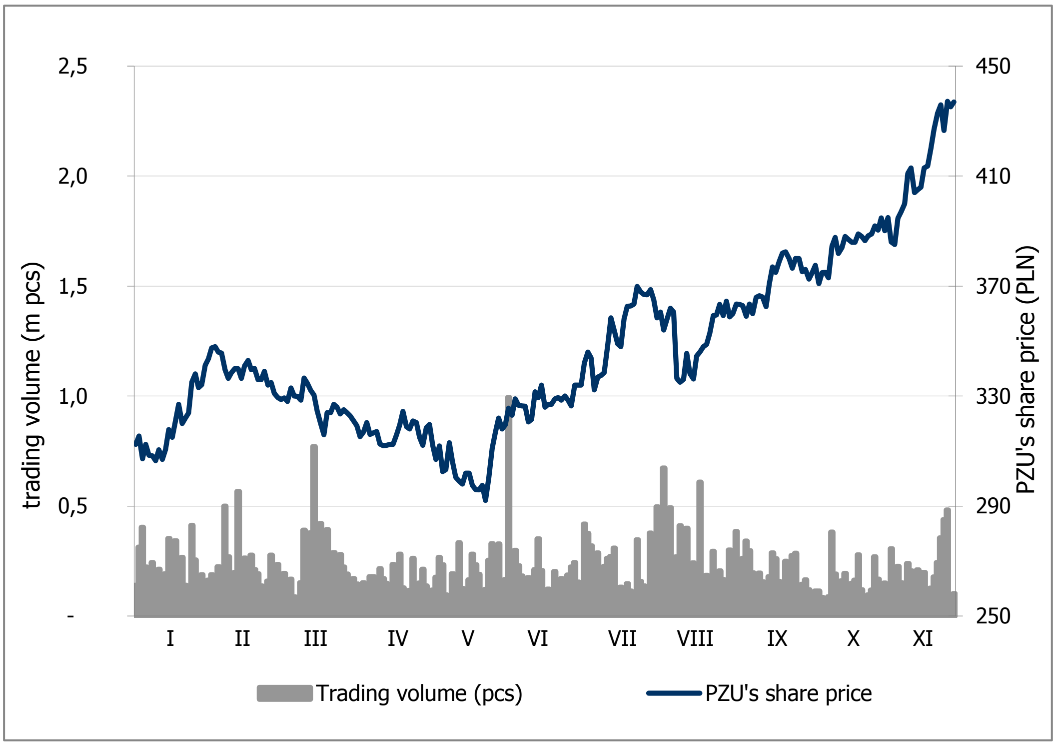


Table 22: Key data regarding PZU shares

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

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 23: Capital market indicators for PZU Group

Capital market indicators for PZU as at	31 December 2012	31 December 2011
P / BV *Market price/book value per share*	2,81	2,27
BVPS *Book value per share*	155,79	136,02
P / E *Price/Earnings per share*	14,62	10,33
EPS (PLN) *Net profit (loss)/number of shares*	29,89	29,90
DY Dividend Yield (%) *Dividend per one share/market share price*	5,1%	8,4%
DPS (PLN) *Dividend per share*	22,43	26,00
TSR Total return rate for shareholders *(Closing balance of market price of shares – opening balance of market price of shares + dividend paid in the period) / opening balance of market price of shares*	48,7%	(5,8)%

14.5. 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 of the parent company

On 30 May 2012, General Shareholders Meeting distributed the 2011 net profit of PLN 2,582.3 million in the following manner:

- PLN 1,936.9 million for dividend paid to shareholders, i.e. PLN 22.43 per share (more than originally recommended by the Management Board);
- PLN 635.4 million for supplementary capital;
- PLN 10.0 million to the Company's Social Benefits Fund.

According to above mentioned resolution, the cum dividend date for which the list of shareholders entitled to dividend for the financial year ended 31 December 2011 was determined at 30 August 2012, and the dividend payment date at 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 3,280,883 thousand, GSM decided to distribute the 2006 profit in a manner corresponding to the distribution based on the canceled resolution, i.e.:

- PLN 3,260.9 million for supplementary capital;
- PLN 20.0 million to the Company's Social Benefits Fund.

By the date of signing these financial statements, the Management Board of the Company had not adopted a resolution on the proposed distribution of the net profit for the year ended 31 December 2012.

14.6. Investor relations

Meeting stringent information governance requirements for public companies and fulfilling information needs of different groups of stakeholders, the Management Board of PZU undertakes various investor relations activities aimed at improving transparency in PZU. In 2012 the entity published "Principles for Powszechny Zakład Ubezpieczeń Spółka Akcyjna to Conduct its Information Policy for Capital Market Participants". Management Board declaration is available at PZU website in investor relations tab.

The prime objective of investor relations is to add value to PZU in the area of active communication with capital market participants which whom the Issuer wants to develop long-term relationships. In 2012 the major goal of investor relations was to provide information on the activities and performance of the PZU Group in a transparent manner and to create a positive image of the entity among investors to ensure investors' confidence and satisfaction of shareholders.

Investor relations activities performed in 2012

In 2012 an Ordinary General Shareholders' Meeting was held on 30 May and an Extraordinary Shareholders' Meeting took place on 8 February.

The financial performance of PZU was presented after each quarter-end and discussed by the Management Board of the Company at meetings with capital market analysts. The meetings, similarly to the General Shareholders' Meetings, were broadcast live on the Internet.

In 2012 PZU representatives participated in three Non-Deal Road shows in Europe and the United States, organized after publishing information about the Group's performance for 6 months of the year and at year-end, in 12 financial conferences organized abroad and attended by global investors, in 5 conferences held in Poland and numerous group meetings, *one-on-one* meetings and conference calls with investors and share portfolio managers held at PZU premises. In 2012 PZU organized over 240 meetings with nearly 400 institutional investors and nearly 120 meetings with analysts issuing recommendations concerning PZU shares.

The Group also organized communication activities addressed to private investors. PZU representatives participated in 2 conferences organized for private investors in Poland.

- WallStreet in Zakopane, the largest meeting of private investors in CEE organized by Stowarzyszenie Inwestorów Indywidualnych;
- The sixth edition of the conference "Professional Investor 2012" in Jachranka

After issuing information concerning PZU performance in 2011, and after the end of 3 and 6-month periods, the PZU Group also organized 4 chats with a Member of the Management Board of PZU and the CFO for private investors.

In 2012 PZU still actively participated in the program "10 in 10 – Communicate effectively". It is an original project initiated by Stowarzyszenie Inwestorów Indywidualnych aimed at creating high standards of communication between listed companies and private investors.

Since its IPO, PZU has been partnering and actively participating in Akcjonariat Obywatelski project. Akcjonariat Obywatelski is an initiative for private investors started by the Ministry of Treasury during the IPO of listed entities: PZU, Tauron Polska Energia and Warsaw Stock Exchange.

Awards and distinctions

Investor relations activities carried out in 2012 have been appreciated by investors and analysts and capital market institutions.

The quality of data and presentation of information concerning companies' activities and performance and their value for PZU's shareholders and investors have been appreciated by the jurors of "The Best Annual Report 2011" contest organized by the Instytut Rachunkowości i Podatków. The PZU Group took the third place in the contest in the category of banks and financial institutions for its Annual Report for the year 2011.

In November 2012 PZU was granted the right to use the "Investor Friendly Company" certificate by Stowarzyszenie Inwestorów Indywidualnych (Association of Private Investors). The certificate was awarded for meeting strict requirements concerning investor relations and communication with private investors.

PZU also qualified to the second stage of the sixth edition of the contest entitled the Golden Website. Twelve companies from those listed in WIG20 and mWIG40 were appreciated for top quality communication with investors, the content and usefulness of their websites.

14.7. Tax Capital Group

On 27 September 2011, a new Tax Group agreement was signed between the PZU Group companies, comprising 9 companies: PZU, PZU Życie, TFI PZU, PZU AM, PZU CO, PZU Pomoc SA, Ipsilon BIS SA, Ogrodowa-Inwestycje Sp. z o.o., Ipsilon Sp. z o.o. The PGK was established for the period of three years from 1 January 2012 to 31 December 2014.

PZU is the parent company and the company representing the PGK in both the above-mentioned agreements. In accordance with art. 25 clause 1 of the CIT Act, the PGK conducts settlements with the Tax Office in monthly cycles. PZU makes tax advances to the Tax Office in respect of corporate income tax, which are due from all the companies belonging to the PGK and the said companies transfer the CIT advances related to their business activities to PZU.

14.8. Main reinsurance contracts binding in 2012

In 2012 reinsurance coverage of the PZU Group SA secured insurance activities of the Group, reducing the risk of catastrophic events which could have a negative impact of the financial position of insurance companies. The above objective is achieved through obligatory reinsurance contracts with additional facultative reinsurance.

Reinsurance contracts – PZU

Based on the reinsurance contracts concluded, PZU mitigates its risks, among other things, by a disproportionate excess of loss agreement protecting PZU's portfolio against catastrophic losses (e.g. flood, hurricane), a disproportionate excess of loss agreements protecting the portfolios of property, technical, marine, aviation, third party, and third party motor vehicle insurance against the effects of large individual losses. Additionally, PZU mitigates its risks through a proportionate contract protecting the portfolio of financial insurance.

The main partners granting obligatory reinsurance protection to PZU in 2011 are the following reinsurers: Swiss Re, Hannover Re, Scor, Endurance, Lloyd's. PZU's reinsurance partners have high ratings according to S&P, which ensures certainty of a good financial standing of the reinsurers to the Company.

PZU's activities in the scope of inward reinsurance are one of the support measures to PZU Lietuva and PZU Ukraine. The Company participates both in obligatory and facultative reinsurance contracts of the above-mentioned companies. Moreover, PZU obtains gross written premium from inward reinsurance from its operations on the domestic and foreign market, mainly through facultative reinsurance.

Reinsurance contracts - PZU Życie

As part of the outward reinsurance contracts concluded by PZU Życie, the Company hedges the portfolio against accumulation of risks (catastrophe reinsurance) and individual policies with higher sums insured and group insurance - against serious illness of a child.

Partners providing PZU Życie with reinsurance coverage were: RGA, Gen Re, Arch Re and Lloyd's. Reinsurance partners of PZU Życie have high S&P's ratings, which ensure good financial positions of the Company's reinsurers.

14.9. 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.

In the PZU Group Armatura Kraków SA, Armagor SA, Armatoora SA and Armadimp SA concluded or terminated credit facility agreements with unrelated entities in 2011. Concluded and terminated credit facility agreements have been presented in the table below.

Table 24: Concluded and terminated credit facility agreements in the PZU Group

PLN '000

Credit facilities and loans of the Armatura Group companies *	2012	2011
Credit facility/loan granted, rolled over or increased during the financial year	2 300	105 000
Credit facility/loan matured during the year	-	59 000
Closing balance	**107 300**	**105 000**

** companies from the Armatura Group, which had outstanding credit facilities as at 31 December 2012 and/or 31 December 2011: Armatura Kraków SA, Armatoora SA, Armagor SA, Armadimp SA, excluding line guarantees, guarantees, suretyships, letters of credit and factoring*

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

As for investment activities of PZU and PZU Życie in 2012, the entities extended loans totalling PLN 186.2 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 1,021.1 million and PLN 877.8 million, respectively.

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

In 2012 neither PZU nor subsidiaries granted any 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.

14.12. 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.

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

The entities in the PZU Group are parties 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, while typical administrative proceedings are those related to own real property. The proceedings and disputes are typical and repetitive and, usually, individually they are not significant for the going concern of the PZU Group.

Most disputes the PZU Group companies are parties to pertain to two companies: PZU and PZU Życie. Additionally, PZU and PZU Życie are a party to proceedings before the President of the Office of Competition and Consumer Protection and proceedings before the Polish Financial Supervision Authority.

PZU and PZU Życie consider such claims when creating technical provisions for reported damages, considering the probability of an unfavourable decision of the court and estimating the value of probable settlement. Disputable claims regarding revaluation of annuities in PZU Życie are recognized in other technical provisions in the amount of annual annuity amount in excess of the corresponding provision amount as determined under mathematical provisions for life insurance purposes.

In 2012 and by the date of preparation of the report on the activities, the PZU Group 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 or its direct and indirect subsidiaries with the value of at least 10% of the equity of PZU.

As at 31 December 2012 the total value of all 40,289 cases heard by courts, bodies competent to hear arbitration proceedings or public authority bodies involving the PZU Group entities was PLN 2,129.5 million. The amount includes PLN 1,638.8 million of liabilities and PLN 490.7 million of receivables of the PZU Group companies, which accounted for 12.2% and 3.7% of the equity of PZU calculated in line with PAS, respectively.

14.14. 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.

14.15. 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.

14.16. 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.

14.17. Significant events after the end of the reporting period

It has been described in point 58 of the Notes to Consolidated Financial Statements of PZU Group for the year 2012.

14.18. Business Combination

During the period from 1 January 2013 to the date of preparing this report on the activities, the PZU Group did not enter into any business combination transactions.

14.19. Information on agreements significant for the activities of PZU Group, 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 change in proportions of shares held by the existing shareholders.

14.20. Cooperation with international public institutions

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

14.21. 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 57.5.

REPRESENTATIONS OF THE MANAGEMENT BOARD OF PZU

15. Representation concerning corporate governance

15.1. 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.

15.2. The General Meeting and shareholder rights

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".

15.3. The Issuer's management and supervisory bodies and their committees

The Management Board of PZU

In accordance with PZU's Articles of Association, the Management Board is composed of three to seven members appointed for a joint term of office which covers three full consecutive financial years. The members of the Management Board, including the Chairman, are appointed and dismissed by the Supervisory Board, and additionally, the Management Board Members are appointed and dismissed by the Supervisory Board on a motion tabled by the Chairman of the Management Board. The Chairman of the Management Board for the new term of office who is appointed before the expiry of the current term of office may submit a motion to the Supervisory Board to appoint the remaining Members of the Management Board for the new term of office before the expiry of the current term of office.

In the period from 1 January 2012 to 31 December 2012, the composition of the Management Board of PZU was as follows:

At 1 January 2012, the composition of the Management Board of PZU was as follows:

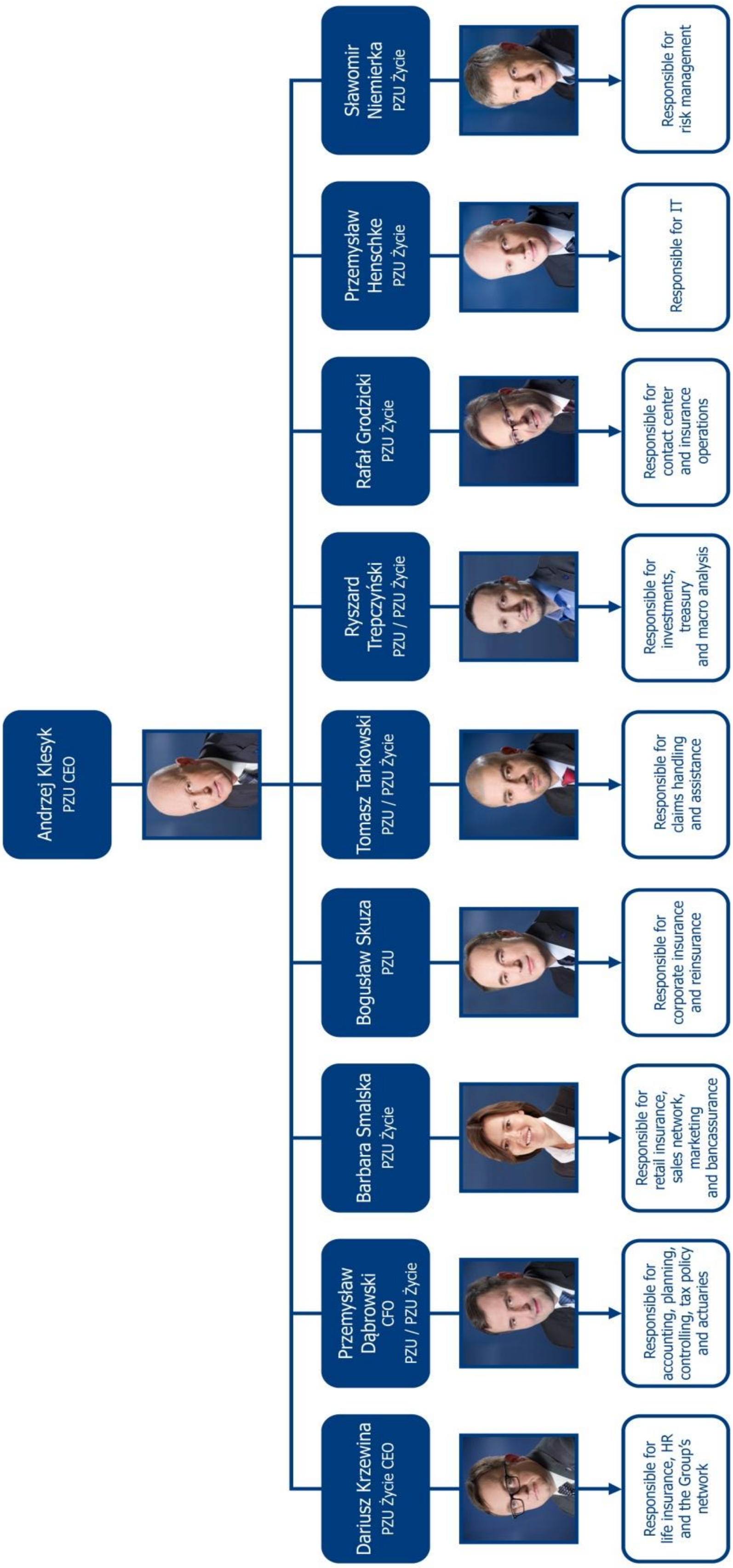
- Andrzej Klesyk - Chairman of the Management Board of PZU;
- Witold Jaworski - Board Member of PZU;
- Przemysław Dąbrowski - Board Member of PZU;
- Bogusław Skuza - Board Member of PZU;
- Tomasz Tarkowski -Board Member of PZU;
- Ryszard Trepczyński - Board Member of PZU.

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

According to above mentioned, the composition of Management Board of PZU was as follows:

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

Chart 9: Organizational structure of PZU Group – segregation of duties



The current term of office of the Management Board of PZU SA has started on 1 July 2011 and will last until the end of three consecutive financial years. The mandates of members of the Management 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.

Information about experience and competences of the Management Board of PZU and PZU Życie has been presented below:

Andrzej Klesyk - Chairman of the Board of PZU

Andrzej Klesyk has been the Chairman of the Board of PZU SA since December 2007. From 2003 to 2007 he was a 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 project. Managed a team creating Handlobank, the consumer banking division of Bank Handlowy w Warszawie SA. From 1993 to 2000 he worked in the London branch of McKinsey. In 1991 Andrzej Klesyk 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.

He is a member of The Geneva Association – a non-profit organisation associating 80 Board Chairmen from top world insurance companies. He represents PZU at annual meetings of the World Economic Forum in Davos and the meetings of the Institute of International Finance in Washington.

Przemysław Dąbrowski, Member of the Board of PZU

Przemysław Dąbrowski graduated from Warsaw University, Information Technology Department and a Post-Graduate Management Course. He completed MBA studies at the University of Illinois and the Warsaw-Illinois Executive MBA program. Przemysław Dąbrowski has vast experience in financial management services for the insurance sector, in managing financial investments and large financial transactions. 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 a Member of the Management Board of PZU Życie since January 2010. He has held the position of a Member of the Management Board of PZU since December 2010. Przemysław Dąbrowski is in charge of the Financial Division.

Bogusław Skuza, Member of the Board of PZU

Bogusław Skuza graduated from the University of Gdańsk, the Economy of Transport Department, International Trade Faculty. He has vast experience in the financial sector, 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. He has held the position of a Member of the Management Board of PZU since July 2011. Bogusław Skuza is in charge of the Corporate Client Division, reinsurance and bancassurance.

Tomasz Tarkowski, Member of the Board of PZU

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. 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 Cliams Handling Director in a Regional Branch of PZU SA 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 SA and the Proxy of the Management Board of PZU Życie in charge of Claims Handling. He has held the position of a Member of the Management Board of PZU since April 2011 and the position of a Member of the Management Board of PZU Życie - since July 2011. He is in charge of claims handling and assistance functions.

Ryszard Trepczyński, Member of the Board of PZU

Ryszard Trepczyński graduated from Warsaw School of Economics, from the Management and Marketing Department. 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. He has held the position of a Member of the Management Board of PZU and PZU Życie since July 2011. Ryszard Trepczyński is in charge of the Investment Division.

Dariusz Krzewina – Chairman of the Board of PZU Życie, Director in the PZU Group

Dariusz Krzewina graduated from the Economy and Sociology Department of the University of Łódź and post-graduate studies in insurance at Warsaw School of Economics. He has worked in the insurance industry for many years. From September 1993 to August 1998 he was employed in PZU Życie as a Sales Department Head, Deputy Director and Director of the Insurance Office. From September 1997 to September 1998 he was a Member of the Management Board of PZU Życie. In the period from September 1998 to March 2000 he was the General Sales Director and from April 2000 to August 2001 a Member of the Management Board of STUnŻycie ERGO HESTIA SA. From April 2002 he was a Sales Director and from October 2002 to June 2004 he was the Chairman of the Management Board and the Sales Director at SAMPO Towarzystwo Ubezpieczeń na Życie SA. In August 2004 he was appointed the Director of the Group Insurance Office Director in PZU Życie and since January 2006 he was the Coordinating Director in charge of Corporate Clients. He has been in the Management Board of PZU Życie since March 2007 and since August 2007 he has held the position of the Chairman of the Management

Board. He has become a Director of the PZU Group in February 2010. He is in charge of HR and the Group Network Function.

Rafał Grodzicki – Member of the Board of PZU Życie, Director of the PZU Group

Rafał Grodzicki graduated from Warsaw School of Economics. He has extensive management experience in the banking and insurance sector gained in numerous Polish and foreign institutions. He joined the PZU Group in February 2004 holding the following positions: Director of the SME Insurance Office, Coordinating Director in charge of Agency Network Development and Managing Director in charge of Insurance Products – Head of the Mass Client Function. He has been in the Management Board of PZU Życie since 2008. He became a Director of the PZU Group in February 2010. He manages the Operational Function (Contact Centres and Operation Centres).

Przemysław Henschke – Member of the Board of PZU Życie, Director of the PZU Group

He graduated from Warsaw University of Technology. He has more than 20 years of experience in financial services for the IT industry. He worked as a technology provider (as a Project Manager and an advisor) and also represented clients (IT Architect, CIO). His first important engagement was the implementation project for handlobank, which he managed as a Project Manager of the provider. He was one of the co-founders and creators of Inteligo, where he was the IT Architect and Project Manager of the implementation and then the CIO. He also acted as the CIO in Lucas Bank, where he managed the replacement of the banking system and IT reorganization in the Credit Agricole Group in Poland. The next stage in his career was the launch of Polbank EFG, where he acted as a CIO responsible for the IT structure implementation in the Polish branch and he co-designed universal IT infrastructure for the CEE as a part of the EFG Group. After the launch of Polbank in 2007 he supported Management Boards and CIOs of top banks and insurance companies from Europe and the Middle East as a strategic advisor at McKinsey. He focused on optimization of operations and IT costs, supported reorganization projects, developing IT strategies and architecture and streamlining communication and mutual understanding between the Business and the IT functions. Later, as the Group CIO in Banque Audi, one of the top banking groups operating in the Middle East and headquartered in Beirut, he developed an IT strategy and architecture for the group and started the implementation. Przemysław Henschke joined the Management Board of PZU Życie on 3 February 2012. On 7 February 2012 he was appointed a Director of the PZU Group in charge of the IT function.

Sławomir Niemierka – Member of the Board of PZU Życie, Director of the PZU Group

Sławomir Niemierka graduated from Warsaw University, Law and Administration Department and a Post-Graduate Course - Law and Economy in the European Union. He is a qualified legal counsel. He participated in Polish and international training courses in financial supervision and risk management in financial institutions. He authored and co-authored a number of publications on financial law and bank supervision. He was an academic teacher at post-graduate courses at Polish Academy of Sciences, Warsaw University and the Academy of Insurance and Finance. For many years he worked in the National Bank of Poland - the General Inspectorate of Banking Supervision, where he headed the Inspection Office responsible for inspections carried out in banks, branches of foreign banks and credit institutions in Poland, in particular inspections of internal controls and risk management systems. Member of a Steering Committee of the General Inspectorate of Banking Supervision in charge of the implementation of the second Basel Accord, supervision over risk models, operational risk and accounting standards. He was in a Team in charge of the development of the risk management system in the National Bank of Poland. As a Member of the Management Board of the Bank Guarantee Fund he supervised the operational risk management system, inspections and monitoring of banks financially supported by the Fund. Sławomir Niemierka joined the PZU Group in 2008 as a Managing Director in charge of Audit. On 19 March 2012 he was appointed a Member of the Management Board of PZU Życie. He was appointed a Director of the PZU Group in charge of security and risk management on 16 March 2012.

Barbara Smalska – Member of the Board of PZU Życie, Director of the PZU Group

Barbara Smalska studied particle physics and holds a PhD of Warsaw University, the Physics Department and the Institute of Deutsches Elektronen Synchrotron (DESY) in Hamburg. In the years 2002-2008 she worked at the Warsaw office of the The Boston Consulting Group. As a strategic advisor to top Polish banks, insurance and telecommunication companies she specialized in business strategies, operational models, distribution strategy, organization and activation of the sales network – in particular in the consumer and SME sectors. She joined the PZU Group in 2008 and worked as a Director of the Product Management Office, Managing Director in charge of Mass Client Sector and Managing Director in charge of Marketing and Individual Products. She joined the Management Board of PZU Życie on 1 February 2013. On 5 February 2013 she was appointed a Director of the PZU Group in charge of marketing and mass sales.

Witold Jaworski (Member of the Board of PZU until 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.

Witold Jaworski 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.

The functioning and competencies of the Management Board arising from the Statute

The Management Board exercises all the rights in the scope of managing the Company, which are not reserved by the provisions of the law or the provisions of the Statute to the General Meeting or the Supervisory Board.

The Management Board enacts its rules and regulations which are approved by the Supervisory Board. The operations of the Management Board are directed by the Chairman of the Management Board who establishes the scope of responsibilities for individual Board Members. The resolutions of the Management Board are passed only in the presence of the Chairman of the Management Board or a person appointed to direct the work of the Management Board in his absence, and if at least one half of the Management Board Members are present at the meeting. The resolutions of the Management Board are passed by an absolute majority of votes and if the number of votes is equal, the Chairman of the Board has the casting vote. The Management Board, on the approval of the Chairman of the Board, may pass resolutions by circulation, in a written or electronic form (i.e. using remote means of communication and using a qualified electronic signature). The Statute also provides for the possibility of holding Management Board meetings using means of direct communication over a distance. Two Members of the Management Board acting jointly or one Member acting jointly with a proxy are authorized to represent the Company.

The functioning and competencies of the Management Board arising from the rules and regulations of the Management Board

The rules and regulations of the Management Board were enacted by the Management Board on 23 February 2010 and approved by the Supervisory Board by a resolution dated 4 March 2010.

The rules and regulations of the Management Board regulate: (i) the scope of competencies of the Management Board and the scope of actions requiring permission or approval by the Supervisory Board; (ii) the competencies of the Chairman of the Board and of the remaining Board Members; (iii) the rules and organization of the work of the Management Board, including organization of meetings and the procedure for making decisions; and (iv) the rights and obligations of the resigning Board Members.

In accordance with the rules and regulations of the Management Board, the following issues in particular require a resolution of the Management Board:

- adopting a long-term plan for the Company's development and its functioning;
- adopting a plan for the operations and development of the PZU Group;
- adopting an annual financial plan and a report on its execution;
- adopting the financial statements for the prior financial year and the Directors' Report of the Company;
- adopting the proposition concerning appropriation of profit or covering loss;
- establishing a tariff for compulsory and voluntary insurance contributions and the general terms and conditions for voluntary insurance;
- establishing the scope and size of outward reinsurance and tasks in the scope of inward reinsurance;
- adopting the annual audit and control plan and report on its execution including conclusions;
- establishing the principles for investment, prevention and sponsorship activities;
- granting warranties and guarantees (excluding those which constitute insurance procedures) and drawing and granting loans and borrowings by the Company (excluding loans and borrowings granted from the Company Social Fund); and
- granting powers of attorney.

In accordance with the Rules and Regulations of the Management Board, the Board's meetings are held not less frequently than once every two weeks. The work of the Management Board is directed by the Chairman, whose competencies include in particular:

- establishing the scope of responsibilities for individual Board Members;
- convening the Management Board meetings;
- drawing up the agenda for Board meetings;
- applying to the Supervisory Board to appoint or dismiss members of the Management Board;
- appointing a person to direct the work of the Management Board in the absence of the Chairman of the Management Board.

The Chairman of the Management Board makes decisions in the form of directives and official orders. The remaining Board Members direct the Company's activities within the scope of responsibilities established by the Chairman of the Board.

The Statute of PZU does not specify any particular rights for the Management Board to make decisions on the issue or redemption of shares.

Supervisory Board

The Supervisory Board is composed of eleven members: The number of the Supervisory Board members is established by the General Meeting. The Supervisory Board members are appointed by the General Meeting for a joint term of office lasting for three full consecutive financial years. At least one member of the Supervisory Board must have accounting or auditing qualifications as defined in and in accordance with the provisions of the Act of 7 May 2009 on registered auditors and their self-government, entities authorized to audit financial statements and on public supervision (Journal of Laws No. 649 of 2009, item 77, "the Act on registered auditors"). Additionally, at least one member of the Supervisory Board should meet all the independence criteria specified in the Statute (the Independent Member) concerning, among others, professional relations or kinship, in particular with members of management and supervisory bodies of the Issuer and the PZU Group companies. The Independent Member is obliged to submit a written statement to the Company concerning his meeting all the independence criteria provided for in the Statute and inform PZU of ceasing to meet those criteria. Moreover, the Statute grants the State Treasury a personal right to appoint and dismiss one Supervisory Board member by virtue of a written statement submitted to the Management Board, if the share of the State Treasury in the Company drops below 50% of all of the Issuer's shares. The right shall expire on the State Treasury ceasing to be a shareholder in PZU.

As at 1 January 2012, the following persons sat on the Supervisory Board of PZU:

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

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

On 30 May 2012, General Shareholders Meeting of PZU passed a resolution regarding the number of Supervisory Board Members stating that the Supervisory Board consisted of nine people.

The Shareholders Meeting dismissed Marzena Piszczek from the Supervisory Board, and at the same time appointed the following people as its members: Tomasz Zganiacz, Maciej Piotrowski, Włodzimierz Kiciński and Alojzy Nowak.

According to above mentioned, from 30 May 2012 the composition of the Supervisory Board is as follows:

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

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

According to the above mentioned information, from 28 June 2012 the composition of the Supervisory Board is as follows:

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

The current term of office of the Supervisory Board of PZU started on 30 June 2011 and will end after three consecutive full financial years. The mandates of the Supervisory Board members shall expire at the latest on the date of holding the General Meeting to approve the financial statements for the last full financial year of their performing their functions, i.e. on the date of holding the Annual General Meeting in 2015.

The functioning and competencies of the Supervisory Board arising from the Articles of Association

The Supervisory Board has constant supervision over the activities of PZU in all areas of its activities.

In accordance with the Statute, the competencies of the Supervisory Board include:

- evaluating the Directors' Report and the financial statements for the prior financial year in terms of their consistency with the books and documents and with the actual state;
- evaluating the propositions of the Management Board concerning appropriation of profit or covering loss;
- submitting a written report to the General Meeting on the results of the evaluation referred to in the points above and submitting a brief annual assessment of the Company's standing, including an assessment of the internal control system and the system for managing risks significant to the Company, and an annual report on the activities of the Supervisory Board;
- concluding, terminating and amending contracts with the Management Board members and establishing the principles for their remuneration as well as the level of remuneration;
- appointing, suspending and dismissing the Chairman of the Management Board, the Management Board Members and the entire Management Board as well as making decisions on ceasing any such suspension;
- granting approval for the transfer of a whole or part of the insurance portfolio;
- accepting the Management Board's motions concerning the purchase, taking up or selling of shares in companies and concerning the Company's participation in other entities – the Supervisory Board may specify up to what amount and on what terms and in what mode the Management Board can perform the aforementioned actions without the obligation to obtain the Supervisory Board's approval;
- delegating members of the Supervisory Board to temporarily perform the duties of the Management Board members who were dismissed, resigned or are unable to perform their duties for other reasons;
- accepting instructions concerning the execution of the voting rights by the Company's representatives at the General Meetings of PZU Życie in matters relating to: increasing or reducing share capital, issuing bonds, selling and leasing out the PZU Życie enterprise and establishing the right of use thereon, demerger of PZU Życie, merger of PZU Życie with another company, liquidation or closing of PZU Życie;
- electing the entity authorized to audit the financial statements to whom the audit of the Company's annual financial statements shall be entrusted;
- establishing a consolidated text of the amended Statute;
- approving the long-term development plans of the Company and the annual financial plans prepared by the Management Board**;**
- approving the rules and regulations of the Management Board;
- analyzing and giving opinions on issues brought by the Management Board for the consideration of the General Meeting.

Moreover, the competencies of the Supervisory Board include granting approval to:

- buy or sell real estate, perpetual usufruct or a share in real estate or in perpetual usufruct with a value exceeding the equivalent of EUR 3 million;
- the Company to conclude a significant contract with its related entity as defined in the Decree on current and periodic information, excluding typical contracts concluded by the Company on an arm's length basis as part of its operating activities (the requirement to obtain approval in this scope will come into force on the date of the first quoting of Shares on the WSE);
- the Company to conclude a contract with a subissuer referred to in Art. 433 § 3 of the Commercial Companies Code;

- make payments of interim dividends;
- form and close regional branches and foreign branches.

The Supervisory Board enacts the rules and regulations which regulate its organization and mode of operation. In accordance with the Statute, the Supervisory Board meetings are held at least once every quarter. The Supervisory Board may delegate its members to independently perform specific supervision tasks and appoint temporary commissions for this purpose. The scope of duties of a delegated member of the Supervisory Board and of a commission is specified in a resolution of the Supervisory Board.

Resolutions of the Supervisory Board are passed by an absolute majority of the votes. If the number of votes is equal, the Chairman of the Supervisory Board has the casting vote. The Supervisory Board may pass resolutions both using remote means of direct communication and in writing by circulation. Moreover, the Statute provides for the possibility of casting a vote in writing through another Supervisory Board member. In accordance with the Statute, the resolutions of the Supervisory Board are passed in an open ballot, except for the resolutions concerning the delegation of Supervisory Board members to temporarily perform the functions of the Management Board members and concerning the appointment, suspension and dismissal of the Chairman of the Management Board, Board Members or the entire Management Board, as well as making decisions on ceasing such suspension, which are made in a secret ballot. Moreover, a secret ballot can be ordered based on a motion tabled by a Supervisory Board member.

The functioning and competencies of the Supervisory Board arising from the Rules and Regulations of the Supervisory Board

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

The Rules and Regulations of the Supervisory Board specify the composition and the manner of appointing the Supervisory Board as well as the scope of the Supervisory Board's operations and the method for convening the Supervisory Board and conducting meetings.

The Supervisory Board elects from among its members the Chairman and Deputy Chairman of the Supervisory Board, as well as Secretary of the Supervisory Board. In accordance with the Rules and Regulations of the Supervisory Board, apart from appointing the Audit Committee and Nominations and Remuneration Committee mentioned in Articles of Association, in order to properly perform its supervisory duties the Supervisory Board may appoint other permanent advisory and consultative committees with competencies, in a composition, and with work procedures established in the rules and regulations of a given committee enacted by the Supervisory Board. The Rules and Regulations of the Supervisory Board provide for the possibility of the Supervisory Board and the committees appointed by it availing themselves of the services of experts and advisory firms. Members of the Management Board (invited by the Supervisory Board) and the Company’s employees indicated by the Management Board competent in the matters discussed at the meeting may participate, among others, in the Supervisory Board's meetings without a voting right. The Supervisory Board of PZU may also invite to a joint meeting for a specific purpose members of the management and supervisory bodies of other PZU Group companies. Moreover, members of the Supervisory Board are entitled, on the approval of the Supervisory Board, to select not more than one advisor authorized to participate with an advisory vote in meetings of the Supervisory Board devoted to financial reports and financial statements, provided that such persons maintain confidentiality and sign a statement of obligation to maintain confidentiality.

Committees functioning as part of the Supervisory Board

The Audit Committee

The Statute provides for the Supervisory Board to appoint the audit committee. The committee is composed of three members, including at least one independent member with accounting or audit qualifications. The detailed tasks and principles for the appointment and operation of the audit committee are specified in the resolution of the Supervisory Board, which when electing the audit committee members takes into account the competencies and experience of the candidates in the matters entrusted to this committee.

In accordance with the rules and 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 in order to increase the effectiveness of the supervisory activities performed by the Supervisory Board in the scope of examining the correctness of financial reporting, the effectiveness of internal control, including the internal audit and risk management system. Moreover, the audit committee may apply to the Supervisory Board to commission the performance of specified control activities in the Company, and the controls commissioned may be performed by an internal unit or an external company.

The audit committee was appointed by a resolution of the Supervisory Board on 3 June 2008. As at 31 December 2012 the audit committee was composed of the following persons: Marzena Piszczek (Chairman 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 / audit qualifications as defined in Art. 86 clause 4 of the Act on Registered Auditors.

On 30 May 2012 Annual General Meeting of PZU dismissed Marzena Piszczek from the position of the Member of Supervisory Board the Chairman of the Audit Committee of the Supervisory Board of PZU. Therefore, during the meeting of the Supervisory Board of PZU on 28 June 2012, the composition of the Audit Committee was supplemented by Tomasz Zganiacz and Dariusz Filar was entrusted with the position of Chairman of the Audit Committee of the Supervisory Board of PZU. As at 28 June 2012, the Audit Committee consisted of: Dariusz Filar (Committee Chairman), Tomasz Zganiacz (Committee Member) and Dariusz Daniluk (Committee Member).

From 31 December 2012, the composition of the Audit Committee has not changed.

The Nominations and Remuneration Committee

In accordance with the Statute, from the moment of introducing the Company's shares to trading on the regulated market as defined in the Act on trading in financial instruments dated 29 July 2005 (Journal of Laws 183 of 2005, item 1538 as amended), the Supervisory Board may appoint the nominations and remuneration committee. The detailed tasks and principles for the appointment and operation of the nominations and remuneration committee are specified by the Supervisory Board in a resolution. The committee should include at least one independent member. If the Supervisory Board is composed of five members as a result of voting on its composition, the nominations and salary committee shall not be formed and its tasks shall be performed by the Supervisory Board as a whole.

The nominations and remuneration committee performs an advisory and consultative function for the Supervisory Board in the scope shaping the management structure, including organizational issues, the remuneration system and salaries and selecting staff with appropriate qualifications.

The Supervisory Board decided that the nominations and remuneration committee shall be composed of four persons. On 30 June 2011, the Supervisory Board appointed a nominations and remuneration committee composed of the following persons: Zbigniew Ćwiąkalski (Chairman of the committee), Marzena Piszczek (member of the committee), Zbigniew Derdziuk (member of the committee), Dariusz Filar (member of the committee). As at 31 December 2012, the composition of the nominations and remuneration committee had not changed. Due to the dismiss of Marzena Piszczek from the position of the Member of the Supervisory Board by the General Assembly at the meeting of the Supervisory Board of PZU on 28 June 2012, it was agreed that the Committee will consist of five people, and Zbigniew Ćwiąkalski was appointed as Chairman of the Audit Committee, Dariusz Filar, Maciej Piotrowski and Tomasz Zganiacz as Members of the Committee. As at 31 January 2012, the composition of the committee has not changed.

The committee shall be dissolved on the date of appointing five members of the Supervisory Board by voting in groups, and its rights shall be taken over by the Supervisory Board as a whole.

The Strategy Committee

In order to properly perform supervisory functions at the Company, the Supervisory Board may appoint permanent committees with an advisory and consultative role. On 30 June 2011, the Supervisory Board appointed a strategy committee composed of the following persons: 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 31 December 2011, the composition of the strategy committee had not changed. 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 objective of the strategy committee is to give opinions on all documents of a strategic nature submitted to the Supervisory Board by the Management Board (in particular, the Company's development strategy) and presenting recommendations to the Supervisory Board concerning planned investments which have a significant effect on the Company's assets.

The Group Directors

As at 1 January 2012, the following persons were PZU Group Directors:

- Dariusz Krzewina,
- Rafał Grodzicki.

Effective from 1 February 2012 and 19 March 2012, the Management Board of PZU appointed Przemysław Henschke and Sławomir Niemierka as PZU Group Directors, respectively.

On 5 February 2013, the Management Board of PZU appointed Barbara Smalska as PZU Group Director.

15.4. Discussion of the main features of the internal control and risk management systems applied in the issuer's enterprise in respect of the process of preparation of financial statements and consolidated financial statements

The process of preparing financial statements is performed by the Finance Division of PZU (the Accounting Office and central units operating based on applicable regulations). Finance Division of PZU is supervised by a Member of the Management Board of PZU.

The elements enabling proper performance of the process are: the accounting policies adopted by the Management Board of PZU and the chart of accounts with a commentary, which set out the main principles for recording the economic events of PZU, and the dedicated reporting systems.

The preparation of data in the source systems is subject to formalized operational and acceptance procedures, which define the scope of competencies of the individual persons.

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

PZU monitors changes in the external regulations concerning, for example, the accounting policies and the reporting requirements for insurance companies, and carries out appropriate adaptation processes in these areas.

The process of closing the books and preparing financial statements is regulated by detailed schedules covering the key actions and control points as well as allocating responsibilities for timely and proper execution.

The key controls in the process of preparing financial statements comprise:

- controls and regular monitoring of the quality of the input data, supported by financial systems in which data correctness rules have been defined in accordance with the internal documents of PZU regulating the principles for controlling the correctness of accounting data;
- mapping of data from the source systems to the financial statements, supporting the correct presentation of data;
- analytical review of financial statements by specialists in order to confront them with the knowledge of the business and the business transactions conducted;
- formal review of the financial statements in order to confirm compliance with the binding legal regulations and market practice in the scope of the required disclosures.

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

In accordance with the Statute of PZU, the Supervisory Board of PZU appoints an audit committee composed of three members, including at least one member with accounting or auditing qualifications as defined in and in accordance with the requirements of the Act on registered auditors. The audit committee is an advisory and consultative body to the Supervisory Board of PZU and is appointed in order to increase the effectiveness of the supervisory activities performed by the Supervisory Board of PZU within the scope of examining the correctness of the financial reporting of PZU, the effectiveness of internal controls, including the internal audit and risk management system.

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

Coordination of activities in the scope of the consolidated financial reporting processes is achieved, among other things, by the organizational structure of the Finance Division in the Head Offices of PZU and PZU Życie, which is a joint unit, i.e. it is organized based on personnel unity, and additionally it also employs part-time key persons responsible for the reporting of the majority of the companies covered by consolidation with their seats in Poland. In the case of all the consolidated subsidiaries, PZU performs control functions through the Management and Supervisory Boards of these companies.

The process of consolidated financial reporting is regulated by a number of internal documents regulating the accounting policies adopted in the PZU Group and the applied reporting standards, and by detailed schedules covering the key actions and control points as well as allocating responsibilities for timely and proper execution.

15.5. The list of PZU shareholders directly or indirectly holding significant packages of shares

As at 31 December 2012, PZU's shareholders holding significant packages of shares are the State Treasury that held 30,385,253 shares, which consisted of 35.2% of the Company's share capital.

The remaining shareholders hold a total 55,967,047 shares, representing 64.81% of the Company's share capital.

The share capital of the Issuer is divided into 86,352,300 ordinary shares with a nominal value of PLN 1 each, giving a right to 86,352,300 votes at the General 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 25: Shareholding structure – as at 7 February 2013

Shareholders	Number of shares	% share in share capital	Share of 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 26: Shareholding structure – as at 31 December 2012

Shareholders	Number of shares	% share in share capital	Share of 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 27: Shareholding structure – as at 31 December 2011

Shareholders	Number of shares	% share in share capital	Share of 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 PZU is not aware of any contracts concluded as a result of which changes might occur in the future in the proportions of shares held by the current shareholders. In 2012 and 2011 PZU did not acquire any treasury shares.

15.6. Holders of any securities which give special controlling rights, including a description of those rights

PZU did not issue any securities that would give special controlling rights to the shareholders.

15.7. Restriction on execution of voting rights

In accordance with the Statute of PZU, the shareholders' voting rights have been restricted so that, at the General Meeting, none of them can have more than 10% of the total number of votes existing at the Company on the date of holding the General Meeting, with the reservation that for the purpose of establishing the obligations of the acquirers of significant packages of shares provided for in the Act on public offering and in the Act on insurance activities, this restriction of the voting right shall be considered non-existent.

The above restriction of the voting rights does not apply to:

1. shareholders who on the date of passing the resolution of the General Meeting introducing the restriction had rights from shares representing more than 10% of the total number of votes at the Company;
2. shareholders acting with the shareholders referred to in point 1 on the basis of concluded agreements concerning the joint execution of voting rights from 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.

15.8. Restriction concerning transferring of ownership rights to securities

The articles of association of PZU do not introduce any restrictions concerning the transfer of ownership rights to securities issued by the Company.

15.9. The principles for amending the Articles of association of PZU

Amending the Statute of PZU lies within the competencies of the General Meeting and requires passing a resolution by a majority of three fourth of the votes, obtaining approval from the PFSA in the cases indicated in the Act on insurance activities and entry in the National Court Register. The Statute of PZU provides for the Supervisory Board's competence to establish a consolidated amended text of the Company's Statute.

15.10. Changes in the Articles of association 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.

16. The truth and fairness of the presented financial statements

To the best knowledge of the Management Board of PZU, the consolidated financial statements of the PZU Group and the comparative figures have been prepared in accordance with the binding accounting policies and they give a true, fair and clear view of the financial position of the Group and its results, and the Directors' Report of the PZU Group presents a true picture of the PZU Group's development, achievements and situation, including a discussion of the main risks and threats.

17. Election of the registered audit company

The Management Board of PZU declares that a registered audit company Deloitte Polska Spółka z ograniczoną odpowiedzialności Sp.k. - performing the audit of the consolidated financial statements of the PZU Group has been elected in accordance with the binding regulations and that the registered audit company and the registered auditors performing the audit met the conditions required for issuing an objective and independent opinion on the audited consolidated financial statements, in accordance with the binding regulations of the law and professional standards.

Signatures of the Management Board Members of PZU:

Name and surname	Position / Function	
Andrzej Klesyk	Prezes Zarządu PZU	.... (signature)
Przemysław Dąbrowski	Board Member of PZU	.... (signature)
Bogusław Skuza	Board Member of PZU	.... (signature)
Tomasz Tarkowski	Board Member of PZU	.... (signature)
Ryszard Trepczyński	Board Member of PZU	.... (signature)

Warsaw, 12 March 2013