

**POWSZECHNY ZAKŁAD UBEZPIECZEŃ SPÓŁKA AKCYJNA
SUPERVISORY BOARD AUDIT COMMITTEE**

**REPORT OF THE PZU SA SUPERVISORY BOARD AUDIT COMMITTEE
ON ITS ACTIVITY IN 2012**

Warsaw, 12 March 2013

REPORT OF THE PZU SA SUPERVISORY BOARD AUDIT COMMITTEE ON ITS ACTIVITY IN 2012

I. Appointment and composition of the PZU SA Supervisory Board Audit Committee

The PZU SA Supervisory Board Audit Committee was appointed on 3 June 2008 pursuant to resolution no. URN/20/2008 of the PZU SA Supervisory Board to appoint the PZU SA Supervisory Board Audit Committee.

On 30 June 2011, the PZU SA Shareholder Meeting appointed the Supervisory Board of the new term. In connection with change of the personnel composition of the Supervisory Board, at the first meeting of the PZU SA Supervisory Board of the new term, the following composition of the Audit Committee was established:

- Marzena Piszczek – Chairperson,
- Dariusz Daniluk – Member,
- Dariusz Filar – Member.

Dariusz Filar was indicated by the Supervisory Board as an independent member holding accounting or financial audit qualifications within the meaning of Article 86 Section 4 of the Act on Statutory Auditors and their Self-government, Entities Authorized to Audit Financial Statements and Public Supervision of 7 May 2009 (Journal of Laws of 2009 No. 77, Item 649).

In addition, Supervisory Board Members have determined that Audit Committee meetings will be attended by the PZU SA Supervisory Board Secretary Krzysztof Dresler, without voting rights.

As at 1 January 2012 the composition of the Audit Committee has not changed.

On 30 May 2012, the PZU SA Ordinary Shareholder Meeting dismissed from the Supervisory Board Marzena Piszczek, Chairperson of the PZU SA Supervisory Board Audit Committee, who also discharged the function of the PZU SA Supervisory Board Chairperson. Consequently, at the PZU SA Supervisory Board meeting on 28 June 2012, the composition of the Audit Committee was supplemented to include Tomasz Zganiacz, and Dariusz Filar was entrusted with the function of the PZU SA Supervisory Board Audit Committee Chairman.

As at 31 December 2012 the composition of the Audit Committee did not change.

II. Activity of the PZU SA Supervisory Board Audit Committee

In the reporting period, the legal basis for the activity of the PZU SA Supervisory Board Audit Committee was as follows:

- Company's Articles of Association,
- Supervisory Board Bylaws,
- PZU SA Supervisory Board Audit Committee Bylaws,
- Act of 7 May 2009 on statutory auditors and their self-regulatory body and public oversight,
- other provisions of generally binding laws.

Committee meetings were convened by its Chairperson according to the ordinary procedure, with written notice given to all Committee Members with the proposed agenda, date and place of the meeting.

In the reporting period, i.e. from 1 January 2012 to 31 December 2012, the Committee held 8 meetings at the following dates: 1 February 2012, 8 March 2012, 14 March 2012, 8 May 2012, 30 July 2012, 28 August 2012, 13 November 2012 and 11 December 2012.

In the corresponding period the PZU SA Supervisory Board held 10 meetings.

Depending on the issues discussed, the following persons were invited to attend Audit Committee meetings: PZU SA Management Board Members, PZU Group Directors, Audit Managing Director in the PZU Group, PZU SA and PZU Life Internal Audit Department Director, PZU SA and PZU Life Legal Department Director, and Register, External Control and Legislation Director at the PZU SA and PZU Life Management Board Office. In addition, Audit Committee meetings were attended by representatives of the auditor, Deloitte Audyt Sp. z o. o. and representatives of the PZU Life Supervisory Board Audit Committee.

Audit Committee decisions were made in the form of resolutions and opinions conveyed each time to the Company's Supervisory Board. In 2012 the PZU SA Supervisory Board Audit Committee adopted 8 resolutions (listed as attachment 1 to the report).

At the meetings in 2012 the PZU SA Supervisory Board Audit Committee worked with a high level of attendance (only at the meeting on 1 February 2012 the Chairperson of the PZU SA Supervisory Board Audit Committee, Marzena Piszczek, was absent, and at the meeting on 30 July 2012, Audit Committee Member, Dariusz Daniluk, was absent).

III. Material issues addressed by the PZU SA Supervisory Board Audit Committee

Pursuant to the PZU SA Supervisory Board Audit Committee Bylaws adopted by the PZU SA Supervisory Board resolution, the Audit Committee plays an advisory and opinion-making role for the Supervisory Board and has been appointed to increase the effectiveness of supervisory activities performed by the Supervisory Board in the area of monitoring the Company's financial reporting, financial audit activities in the Company and effectiveness of internal control, internal audit and risk management systems in place in the Company.

In pursuance of the above objectives, in the period from 1 January to 31 December 2012, the Audit Committee addressed in particular the following issues:

- Recommendation for the Supervisory Board regarding approval of the adjusted financial plan of PZU SA and the PZU Group for 2012;
- Discussion and assessment of the financial statements and Management Board reports on the activity of PZU SA and the PZU SA Capital Group for the year ended 31 December 2011;
- Assessment of the PZU SA Management Board motion for the PZU SA Shareholder Meeting on distribution of PZU SA's net profit and disbursement of dividend for the year ended 31 December 2006;
- Assessment of the PZU SA Management Board motion for the PZU SA Shareholder Meeting on distribution of PZU SA's net profit and disbursement of dividend for the year ended 31 December 2011;
- Acceptance of the report on the activity of the PZU SA Supervisory Board Audit Committee in 2011 and in the first half of 2012;
- Discussion of the draft report of the PZU SA Supervisory Board on the activity of the PZU SA Supervisory Board as the Company's governing body in 2011, the draft Report of the PZU SA Supervisory Board on assessment of the PZU SA financial statements for the year ended 31 December 2011, Management Board report on PZU SA's activity in 2011 and the Management Board motion on distribution of PZU SA's net profit for the year ended 31 December 2011;
- Initial recommendations of the auditor, Deloitte Audyt Sp. z o.o., issued on the basis of the results of the audit of the Company's financial statements for 2011;
- Recommendation for the Supervisory Board on selection of an entity authorized to audit financial statements;
- Issuing an opinion for Ms. Beata Sambora as the person managing the internal audit cell in the Company;

- Strategy of activities in the risk area for 2012-2014;
- Risk reports;
- Discussion of the internal audit strategy for 2012-2014;
- Discussion of the concept underlying the implementation of Agreements on the organization and functioning of the internal control system and risk management system in the PZU Group with PZU Lithuania and PZU Lithuania Life and PZU Ukraine and PZU Ukraine Life dated 4 April 2012;
- Discussion of the reports of the Internal Audit Department for Q4 2011, 2011 and Q1-3 2012;
- Discussion of the methodology used in the audit scoring process and the methodology for developing an annual audit plan;
- Discussion of the draft Audit Plan for 2013;
- Discussion of the methodologies and standards used in the Technology Division since 2009;
- Discussion of the results of internal controls carried out in the Company and analysis of the status of implementation of post-control recommendations for 2011 and Q1 2012;
- Review of the process to select the supplier for purchase, implementation, support and development of the Target Policy System for PZU SA.

PZU SA Supervisory Board Audit Committee members, together with the representatives of the PZU Life Supervisory Board Audit Committee and the Tender Team, worked out the selection criteria and then, after meetings with selected bidders and discussions, resolved to recommend to the PZU SA Supervisory Board selection of Deloitte Audyt Sp. z o.o. as the entity authorized to audit financial statements. In addition, the PZU SA Supervisory Board Audit Committee recommended to the PZU SA Supervisory Board that the works in question should be performed for two consecutive financial years ended 31 December 2012 and 31 December 2013.

Additionally, the Audit Committee supported the communication between the entity authorized to audit financial statements performing the financial audit activities in the Company, the persons managing the internal control and audit area in the Company and the Supervisory Board, and took all other actions as instructed by the Company's Supervisory Board.

IV. Execution of reporting duties to the PZU SA Supervisory Board

Pursuant to the provisions of § 14 item 2 of the PZU SA Supervisory Board Audit Committee Bylaws, at PZU SA Supervisory Board meetings, the Chairperson of the Audit Committee presented information about the work of the Committee to the Supervisory Board.

Chairperson
PZU SA Supervisory Board Audit Committee

Dariusz Filar