

Attachment to Resolution No. URN/48/2019
adopted by the PZU SA Supervisory Board on 16 April 2019

PZU SA SUPERVISORY BOARD'S REPORT ON THE ACTIVITY OF THE PZU SA SUPERVISORY BOARD AS THE COMPANY'S GOVERNING BODY IN 2018



I. Supervisory Board Composition

As at 1 January 2018, the following persons sat on the PZU SA Supervisory Board:

- Katarzyna Lewandowska – Supervisory Board Chairwoman
- Aneta Fałek – Supervisory Board Deputy Chairwoman
- Alojzy Nowak – Supervisory Board Secretary
- Maciej Zaborowski – Supervisory Board Member
- Marcin Chłudziński – Supervisory Board Member
- Bogusław Marian Banaszak – Supervisory Board Member
- Paweł Górecki – Supervisory Board Member
- Agata Górnicka – Supervisory Board Member
- Robert Śnitko – Supervisory Board Member

The criteria of independence in respect of Supervisory Board members were fulfilled by Alojzy Nowak, Maciej Zaborowski, Paweł Górecki and Bogusław Marian Banaszak.

On 8 January 2018, Aneta Fałek tendered her resignation from membership in the Supervisory Board effective immediately. On 8 January 2018, the Prime Minister of the Republic of Poland, acting pursuant to § 20 section 7 of PZU SA's Articles of Association, appointed Maciej Łopiński as Member of the Supervisory Board. On 9 January 2018, Maciej Łopiński took over the function of Chairman of the Supervisory Board and Paweł Górecki – Deputy Chairman of the Supervisory Board.

As of 9 January 2018, the composition of the PZU SA Supervisory Board was as follows:

- Maciej Łopiński – Supervisory Board Chairman
- Paweł Górecki – Supervisory Board Deputy Chairman;
- Alojzy Nowak – Supervisory Board Secretary
- Bogusław Marian Banaszak – Supervisory Board Member
- Marcin Chłudziński – Supervisory Board Member

II. Supervisory Board's activity

In the reporting period, the legal basis for the activity of the Supervisory Board included: Commercial Company Code, Insurance Activity Act and other provisions of generally binding laws, as well as the Company's Articles of Association and Supervisory Board Bylaws. Following the provisions of the Articles of

- Agata Górnicka – Supervisory Board Member
- Katarzyna Lewandowska – Supervisory Board Member;
- Robert Śnitko – Supervisory Board Member
- Maciej Zaborowski – Supervisory Board Member

The criteria of independence in respect of Supervisory Board members were fulfilled by Alojzy Nowak, Maciej Zaborowski, Paweł Górecki and Bogusław Marian Banaszak.

On 9 January 2018, due to his demise, the mandate of Bogusław Marian Banaszak as a Supervisory Board Member expired. On 9 March 2018, the Extraordinary Shareholder Meeting appointed Robert Jastrzębski. Accordingly, the composition of the PZU SA Supervisory Board was as follows:

- Maciej Łopiński – Supervisory Board Chairman
- Paweł Górecki – Supervisory Board Deputy Chairman;
- Alojzy Nowak – Supervisory Board Secretary
- Marcin Chłudziński – Supervisory Board Member
- Agata Górnicka – Supervisory Board Member
- Robert Jastrzębski – Supervisory Board Member;
- Katarzyna Lewandowska – Supervisory Board Member;
- Robert Śnitko – Supervisory Board Member
- Maciej Zaborowski – Supervisory Board Member

The criteria of independence in respect of Supervisory Board members were fulfilled by Alojzy Nowak, Maciej Zaborowski, Paweł Górecki and Robert Jastrzębski.

As at 31 December 2018, the PZU SA Supervisory Board composition did not change.

Association and the Bylaws, the Supervisory Board held correctly convened and prepared meetings, with high attendance.

During the financial year, the Supervisory Board held seventeen meetings on the following dates:

- 9 January 2018,
- 14 March 2018,

- 26 April 2018,
- 15 May 2018,
- 14 June 2018,
- 31 July 2018,
- 29 August 2018,
- 14 November 2018,
- 11 December 2018

The Supervisory Board made pertinent decisions in the form of resolutions and opinions submitted to the Company's Management Board and PZU SA Shareholder Meeting.

In the reporting period, the Supervisory Board adopted sixty-five resolutions, including twelve resolutions by circulation (a list of all resolutions forms attachment 1 to this report).

Most resolutions of the Supervisory Board – with the exception of Resolution Nos. URN/1/2018, URN/2/2018, URN/6/2018, URN/7/2018, URN/10/2018 and URN/28/2018 – were adopted unanimously while maintaining the quorum required by the applicable laws.

The Supervisory Board meeting agendas prepared by the PZU SA Supervisory Board Chairpersons comprised all the topics that the Supervisory Board should address according to its powers and took into consideration additional issues that the Management Board or Supervisory Board members thought material.

All meetings were attended by most PZU SA Supervisory Board members. The absence of individual persons at Supervisory Board meetings was caused mainly by important business trips. After the adoption of Resolution No. 5/2017 of 8 February 2017 by the PZU SA Extraordinary Shareholder Meeting to define the rules for

setting the compensation of Supervisory Board Members of Powszechny Zakład Ubezpieczeń Spółka Akcyjna, the adoption of resolutions justifying absence was not required (list of attendance at the meetings of the Supervisory Board forms attachment 2 to this report).

Pursuant to § 26 Item 1 of the PZU SA Supervisory Board Bylaws, in 2018, PZU SA Management Board members, PZU Group Directors, Managing Directors, Head Office Department Directors and representatives of advisory companies and law offices cooperating as part of projects carried out by the Company were invited to PZU SA Supervisory Board meetings, providing exhaustive explanations and presenting all documents pertaining to the Company's operations. In addition, PZU SA Supervisory Board meetings were also attended by the representatives of the auditor – KPMG Audyt Sp. z o.o. Sp. k.

Regardless of the on-site meetings, the Supervisory Board was informed of the key aspects of the Company's operations on an on-going basis by electronic mail (Supervisory Board Members were sent current and periodic reports resulting from the functioning of PZU SA as a company listed at the Warsaw Stock Exchange).

The cooperation of the Supervisory Board with the PZU SA Management Board was good and focused on increasing the value of the Company and care for its good. The information and materials delivered by the Management Board were prepared in a clear and reliable manner and according to the requirements specified by the Supervisory Board.

III. Key issues addressed by the Supervisory Board

During the financial year ended 31 December 2018, the PZU SA Supervisory Board addressed all the issues which, pursuant to the Company's Articles of Association, lie within the powers of this governing body. As part of its activities, the Supervisory Board actively supported the Management Board in its pursuance of the Company's strategic objectives, reviewed the Management Board motions pertaining to issues which, pursuant to the Company's Articles of Association, required the Supervisory Board's approval, and familiarized itself with other issues presented by the Management Board.

Key issues addressed by the Supervisory Board in 2018:

- Systematic assessment of the Company's and PZU Group's financial and economic

standing, market position and key strategic initiatives and plans for 2018.

- On-going monitoring of the implementation of the financial plan of PZU SA and the PZU Group for 2018.
- Approval of the long-term Company development plan presented in the document entitled: "The New PZU – More Than Insurance. PZU Group's Updated Strategy for 2017-2020".
- Monitoring of the implementation status of the PZU Group Strategy "New PZU".
- Assessment of the PZU SA financial statements for the year ended 31 December 2017 and recommendation to the PZU Ordinary Shareholder Meeting to approve them.

- Assessment of the Management Board report on the activity of the PZU Group and PZU SA in 2017 and recommendation to the PZU SA Ordinary Shareholder Meeting to approve it.
 - Assessment of the Management Board motion on the distribution of PZU SA's net profit for the year ended 31 December 2017 and recommendation to the PZU SA Ordinary Shareholder Meeting to approve it.
 - Assessment of the PZU SA Group's consolidated financial statements for the year ended 31 December 2017 and recommendation to the PZU Ordinary Shareholder Meeting to approve them.
 - Acceptance of the PZU SA Supervisory Board report on its assessment of PZU SA's Financial Statements for the year ended 31 December 2017, the Consolidated Financial Statements of the PZU SA Group for the year ended 31 December 2017, the Management Board Report on the Activity of the PZU Group and PZU SA in 2017 and the Management Board's motion to distribute PZU SA's net profit for the year ended 31 December 2018
 - Adoption of the PZU SA Supervisory Board report on the activity of the PZU SA Supervisory Board as the Company's governing body in 2017.
 - Ongoing monitoring of the execution of strategic projects.
 - Ongoing risk monitoring.
 - Ongoing investment activity monitoring.
 - Acceptance of the Principles for Assessment and Verification of Competence and Integrity of Members of the PZU SA and PZU Życie SA Management Boards and those PZU Group Directors at PZU SA who are also Members of the PZU Życie SA Management Board.
 - Monitoring of acquisition projects, which includes making relevant decisions.
 - Approval of the answers provided in the BION questionnaire.
 - Amendments to compensation rules and compensations for members of the PZU SA Management Board and amendments to draft management contracts for the President of the PZU SA Management Board and members of the PZU SA Management Board
 - Approval of amendments to the Rules and Regulations of the PZU SA Management Board.
 - Amendments to the PZU SA Supervisory Board Bylaws.
 - Approval of amendments to the PZU SA Articles of Association.
 - Approval of the Financial Plan for 2019.
 - In connection with the changes in the PZU SA Supervisory Board – electing the new Supervisory Board Chairperson, Deputy Chairperson and Secretary and establishing the composition of the Audit Committee, the Nomination and Compensation Committee and the Strategy Committee.
 - Ongoing monitoring of operation of the Audit, Nomination and Compensation and Strategic Committees of the PZU SA Supervisory Board.
- During the reporting period, within the framework of ongoing monitoring of risks, the Supervisory Board was presented with the key changes to PZU SA's legal environment, leading to analysis and discussion of the challenges and risks present in PZU SA's regulatory environment. In particular, the Supervisory Board dealt with the following issues related to changes in PZU SA's legal and regulatory environment:
- Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision,
 - Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data,
 - Act of 16 December 2016 on Rules for Managing State Property,
 - Directive of 15 May 2014 on markets in financial instruments (MIFID 2) (this regulation is material for some PZU Group entities, in particular for TFI),
 - Act of 15 December 2017 on the distribution of insurance.
- To correctly perform the supervisory activities in the Company, the Supervisory Board appointed advisory and opinion-making committees. In 2018, the following three Committees were active within the PZU SA Supervisory Board:
- Audit Committee,
 - Nomination and Compensation Committee,
 - Strategy Committee.

Audit Committee

The Audit Committee was appointed by virtue of a PZU SA Supervisory Board resolution on 3 June 2008 to increase the effectiveness of supervisory activities performed by the Supervisory Board in the area of monitoring the Company's financial reporting process, financial audit activities and effectiveness of internal control, internal audit and risk management systems in place in the Company. In addition, the scope of activity of the

Audit Committee may comprise other issues as instructed by the Company's Supervisory Board.

The Committee is composed of three members, most of whom are independent members, including at least one independent member holding accounting or financial audit qualifications. The detailed tasks and rules of the appointment and operation of the Audit Committee are specified in the PZU SA Supervisory Board Bylaws, PZU SA Supervisory Board Audit Committee Bylaws and a resolution of the Supervisory Board which, when selecting Audit Committee members, takes into consideration the competences and experience of the candidates in the matters entrusted to the Committee.

As at 1 January 2018 the PZU SA Supervisory Board Audit Committee functioned in the following composition:

- Bogusław Banaszak – Committee Chairman;
- Marcin Chludziński – Committee Member,
- Maciej Zaborowski – Committee Member.

Bogusław Banaszak and Maciej Zaborowski were indicated as independent members within the meaning of Article 129 Section 3 of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision, and Marcin Chludziński was indicated as a member holding accounting or financial audit qualifications. All Audit Committee members were named as members who have knowledge and skills in the industry in which the Company operates.

On 9 January 2018, due to his death, the mandate of Bogusław Banaszak as the Committee Chairman expired.

In connection with the expiration of the mandate of Bogusław Banaszak, on 9 February 2018 the Supervisory Board established the following composition of the Audit Committee:

- 1) Alojzy Nowak – Committee Chairman,
- 2) Marcin Chludziński – Committee Member,
- 3) Maciej Zaborowski – Committee Member.

Alojzy Nowak and Maciej Zaborowski were designated as independent members within the meaning of Article 129 Section 3 of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision, while Marcin Chludziński was designated as a member holding accounting or financial audit qualifications. All Audit Committee members were named as members who have

knowledge and skills in the industry in which the Company operates.

As at 31 December 2018, the PZU SA Supervisory Board Audit Committee's composition was unchanged.

During the financial year, the Audit Committee held eight meetings on the following dates:

- 6 March 2018,
- 14 March 2018,
- 26 April 2018,
- 15 May 2018,
- 14 June 2018,
- 29 August 2018,
- 14 November 2018,
- 8 December 2018

Decisions of the PZU SA Supervisory Board Audit Committee were made in the form of resolutions, opinions and recommendations which were each time submitted to the Company's Supervisory Board. The report of the PZU SA Supervisory Board Audit Committee on its activity in 2018 constitutes attachment 3 to this report.

Nomination and Compensation Committee

Pursuant to the PZU SA Articles of Association, from the moment the Company's shares were introduced into trading on the regulated market within the meaning of the Act of 29 July 2005 on Trading in Financial Instruments, the Supervisory Board could appoint the Nomination and Compensation Committee which was appointed on 12 May 2010.

The Nomination and Compensation Committee is an advisory and opinion-making body to the Supervisory Board with regard to the governance structure, including organizational solutions, compensation rules and compensation, and the selection of appropriately qualified staff.

As at 1 January 2018, the PZU SA Supervisory Board Nomination and Compensation Committee was as follows:

- Aneta Fątek – Committee Chairwoman,
- Paweł Górecki – Committee Member;
- Katarzyna Lewandowska – Committee Member.

In connection with the changes in the PZU Supervisory Board, on 8 January 2018 the PZU Supervisory Board resolved that the nomination and compensation committee will be composed of 3 persons and established the following composition of the committee:

- Paweł Górecki – Committee Chairman;

- Agata Górnicka – Committee Member;
- Katarzyna Lewandowska – Committee Member.

On 14 March 2018, the PZU SA Supervisory Board set the number of members of the Nomination and Compensation Committee at 4 and changed its composition to the following:

- Paweł Górecki – Committee Chairman;
- Agata Górnicka – Committee Member;
- Katarzyna Lewandowska – Committee Member.
- Maciej Łopiński – Committee Member.

As at 31 December 2018, the composition of the Nomination and Compensation Committee did not change.

During the financial year, the Nomination and Compensation Committee held two meetings on the following dates:

- 14 March 2018,
- 31 July 2018

Decisions of the PZU SA Supervisory Board Nomination and Compensation Committee were made in the form of opinions and recommendations which were each time submitted to the Company's Supervisory Board.

Pursuant to the provisions of the Articles of Association, the Committee is to be dissolved upon the appointment of five Supervisory Board members by group voting, upon which its powers are to be taken over by the full Supervisory Board.

Strategy Committee

The Strategy Committee's tasks include issuing opinions on all strategic documents submitted to the Supervisory Board by the PZU SA Management Board (in particular the Company's development strategy) and presenting recommendations in respect of the planned

investments with significant impact on the Company's assets to the PZU SA Supervisory Board.

As at 1 January 2018, the following persons sat on the PZU SA Supervisory Board Strategy Committee:

- Alojzy Nowak – Committee Chairman;
- Bogusław Banaszak – Committee Member;
- Marcin Chludziński – Committee Member;
- Agata Górnicka – Committee Member;
- Robert Śnitko – Committee Member;
- Maciej Zaborowski – Committee Member.

In connection with the changes in the PZU SA Supervisory Board, on 14 March 2018 the PZU SA Supervisory Board resolved that the Strategy Committee will be composed of 6 persons and established the following composition of the Committee:

- Alojzy Nowak – Committee Chairman;
- Marcin Chludziński – Committee Member;
- Agata Górnicka – Committee Member;
- Robert Jastrzębski – Committee Member;
- Robert Śnitko – Committee Member;
- Maciej Zaborowski – Committee Member.

As at 31 December 2018, the composition of the Strategy Committee did not change.

During the financial year, the Strategy Committee held four meetings on the following dates:

- 8-9 January 2018,
- 14 March 2018,
- 15 May 2018,
- 11 December 2018

In 2018, decisions of the PZU SA Supervisory Board Strategy Committee were made in the form of opinions and recommendations which were each time submitted to the Company's Supervisory Board.

IV. Information on the implementation of PZU SA Shareholder Meeting resolutions

Acting pursuant to § 2 of Resolution No. 32/2018 adopted by the Ordinary Shareholder Meeting of PZU SA on 28 June 2018 on amendments to the PZU SA Articles of Association, the Supervisory Board accepted, by Resolution No. URN/54/2018 of 29 August 2018, the consolidated text of the Articles of Association, incorporating the amendments resulting from the said resolution.

Acting pursuant to § 2 of Resolution No. 33/2018 adopted by the Ordinary Shareholder Meeting of PZU SA on 28 June 2018 on consent to the

acquisition of securities issued, guaranteed or secured by the State Treasury of the Republic of Poland, the Supervisory Board was required each time to issue an opinion on the intended acquisition of any of the securities referred to in the said resolution. In 2018, the Supervisory Board did not adopt any resolutions in this matter.

The PZU SA Supervisory Board declares that all duties imposed on it by resolutions adopted by

the PZU SA Shareholder Meeting in 2018 were

implemented in a proper and timely manner.

V. Observance of reporting and information duties

The PZU SA Supervisory Board states that all the reporting and information duties imposed on it by

the provisions of law were observed in 2018 in a timely fashion.

VI. Concise assessment of the Company's standing, including an evaluation of the internal control system, compliance policy risk management system and the internal audit function

PZU SA is in very good financial standing and satisfies all the safety criteria imposed on the Company by the Insurance and Reinsurance Activity Act and the Polish Financial Supervision Authority. The stable rating outlook issued by S&P for PZU SA confirms the Company's strong business standing, high level of equity and continued competitive position on the insurance market. The financial results generated by PZU SA in recent years, based on the Polish Accounting Standards, place it among the most profitable financial institutions in the country. At the same time, they contribute to high performance ratios. In 2018, PZU generated a return on equity (ROE) of 19.7%, up 0.5 p.p. compared to 2017. In 2015-2018, the average return on equity (ROE) was 17.5%.

COR (combined ratio) was one of the fundamental measures of productivity and operating efficiency of an insurance company; in PZU SA it has been maintained at a level confirming its high operating profitability in recent years.

The PZU Group features a high level of security in its business. This is corroborated both by its high solvency ratios and by the A- investment grade rating awarded by S&P Global Ratings.

In 2018 no changes were made to PZU's rating or outlook, while S&P Global Ratings twice affirmed the financial strength and creditworthiness ratings for PZU at A- with a stable outlook. This rating was awarded to PZU on 27 October 2017. This is one of the highest possible ratings for a Polish company to receive. Compared to other insurance groups, PZU SA keeps exceptionally high capital safety ratios.

On 1 January 2016, the Insurance and Reinsurance Activity Act of 11 September 2015 introduced into the Polish legal system the new capital requirements of Solvency II. According to the new Act, the calculation of the capital requirement is based on market, actuarial (insurance), counterparty insolvency, catastrophic and operational risks. As at the end of Q3 2018, PZU SA's solvency ratio (calculated

according to the standard Solvency II equation) was 316%. These high values place PZU among the insurance groups with the greatest capital strength.

In 2018, PZU SA recorded a technical result at a level of PLN 1,539 million compared to PLN 1,218 million in the preceding year, which translates into a 26.3% increase in the result year on year. Net profit was PLN 2,712 million compared to PLN 2,459 million in 2017 (up 10.3%). Without taking into account the dividends received from PZU Życie SA, PZU's net profit was PLN 1,454 million and was higher by PLN 425 million compared to 2017.

Operating profit in 2018 was driven in particular by the following factors:

- the growth in gross written premium in motor insurance (due to the higher average premium coupled with the decline in the number of insurance policies), the conclusion of several high-value contracts and higher sales in international companies (chiefly in motor insurance);
- higher profitability in the mass insurance segment, mainly due to the higher result of the non-motor insurance portfolio connected to the lower level of weather-related claims and the motor own damage portfolio, slightly offset by the decline in the result on motor TPL insurance
 - as a result of remeasurement of the provision for claims for general damages for pain caused by an accident victim being in a vegetative state;
- higher underwriting result in the corporate insurance segment due to improved profitability in the portfolio of motor own damage insurance coupled with the higher loss ratio on motor TPL and third party liability insurance;
- lower result on listed equities, in particular due to softer conditions on the Warsaw Stock Exchange.

In the individual net result items, PZU recorded:

- an increase in gross written premium to PLN 13,003 million, or 4.6%, compared to the previous year, mainly in motor insurance as a result of an increase in the average premium (driven by

changes in the tariff introduced in recent years and changes in the structure of the insured vehicle portfolio) and in insurance against fire and other damage to property. After considering the reinsurers' share and movement in the unearned premium reserve, the net earned premium was PLN 12,086 million and was 8.1% higher than in 2017;

- higher claims and benefits totaling PLN 7,520 million, up 4.9% compared to 2017. The main change was recorded in the motor insurance and third party liability insurance group;

- net investment result higher by PLN 153 million. These were mainly the effects of the dividends paid out by Pekao, compensated partly by the lower than the year before dividends received from PZU Życie;

- higher acquisition expenses, taking into account reinsurance commission (up PLN 218 million), mainly due to an increase in direct acquisition expenses driven by the growing insurance portfolio coupled with the simultaneous shift in the sales channel mix (the multi-agency and dealer channel featuring higher commission rates have a higher share);

- a decrease in administrative expenses to PLN 655 million compared to PLN 693 million in 2017, primarily as a result of the application of cost discipline measures both in current and in project activities.

In 2018 PZU collected gross written premium of PLN 13,003 million, i.e. 4.6% more than in 2017. They comprised mainly:

- TPL motor insurance premiums, accounting for 41.5% of PZU's insurance portfolio (42.4% in the prior year). In 2018, their value was 2.3% higher than in the previous year, mainly as an effect of increase in the average premium as a result of the tariff changes introduced in recent years combined with a lower number of insurance policies;

- motor own damage insurance premiums with a 25.0% share of PZU's total gross written premium (i.e. 0.3 p.p. lower than in the corresponding period of the previous year) – incremental growth (+3.3% y/y) forming the outcome of average premium growth and the lower number of concluded insurance policies (in the corporate client segment);

- premiums on insurance against fire and property damage accounting for 19.7% of PZU's premium portfolio. In 2018 their percentage of the insurance portfolio edged up 0.5 p.p., while its value was up 7.4% versus the previous year – the effect of the higher premiums on residential and

business insurance and indirect activity with the Group Companies;

- ADD and other insurance premiums whose share totaled 8.0% (up 0.7 p.p. versus 2017). In this insurance category PZU posted higher premiums mainly in assistance insurance (including assistance offered with motor insurance) and various financial losses insurance – in 2017 TUW PZUW was joined by several existing strategic partners and end of cooperation with a big customer under an obligatory quota share inward reinsurance treaty.

In 2018, PZU's investment activity focused on the continuation of strategic assumptions, in particular on the optimization of profitability of investment operations through greater diversification of the investment portfolio.

In 2018, the result on PZU's investment activity was PLN 2,152 million compared to PLN 1,998 million in 2017. After netting out the effect of the dividends received from PZU Życie, the net investment result was PLN 894 million compared to PLN 569 million the year before. The increase in the result was attributable mainly to the dividends received from Pekao in the amount of PLN 415 million. In December 2018, the value of PZU's investment portfolio was PLN 37,571 million, compared to PLN 36,553 million at yearend 2017.

The increase in the portfolio value resulted primarily from higher cash flows in connection with the dynamic development of the insurance portfolio, and the investment resulted generated. Compared to the year before, the share of bank deposits and conditional transactions, entered into mainly to enhance the return on investing activity, increased.

In 2018 PZU did not use hedge accounting.

In 2018, net claims and benefits and the incremental growth in PZU's provisions totaled PLN 7,520 million, i.e. 4.9% growth compared to 2017.

The following factors contributed to the change in the net value of claims and benefits:

- higher claims and benefits in motor insurance resulting from change of the structure of the insurance portfolio, remeasurement of the provision for claims for general damages and the observed increase in the average payout;

- the higher loss ratio in third party liability insurance, resulting to a large extent from an increase in the value of the annuities provision (mainly in third party liability insurance for medical entities) and reporting of several big claims;

- the lower level of claims in the group of damages caused by elements and other property losses, including much lower level of events with a high unit value and claims under crop insurance – in the corresponding period of 2017, there were numerous losses caused by gusty wind and rainfall.

In 2018, acquisition expenses (net of reinsurance commissions) totaled PLN 2,371 million and were up 10.9% compared with 2017. This increase resulted predominantly from an increase in direct acquisition expenses (commissions) which resulted from higher sales and change of the distribution channel mix (higher share of the multiagency and dealer channel in the portfolio). In 2018, PZU's administrative expenses were PLN 655 million, i.e. down 5.5% versus the prior year. The expense growth rate was affected primarily by the persistent cost discipline in operating areas unrelated to wages (current and project-related operations), partly limited by higher payroll costs in response to clear signs of wage pressure on the market.

The balance of other technical income and expenses in 2018 was negative and stood at PLN 242 million. The deterioration of the balance in relation to 2017 was the result of, among others, revaluation charge for receivables and lower other technical expenses.

In 2018, the net balance of other operating income and expenses was negative and amounted to PLN 447 million compared with the also negative balance for 2017 of PLN 217 million. Starting in mid-2014 the balance of other operating expenses was charged with the interest expense and change of the valuation on account of foreign exchange differences on the loan taken from PZU Finance AB for the total amount of EUR 850 million (EUR 500 million in July 2014 and EUR 350 million in October 2015). In 2018, revenues on account of foreign exchange differences on the loan received from PZU Finance AB (publ.) amounted to PLN 1 million, compared to the 2017 revenues of PLN 217 million. Additionally, the level of other operating expenses was significantly impacted by the tax on assets – the resulting charge in 2018 was PLN 190 million (increase by PLN 12 million compared to 2017).

On 31 December 2018, PZU SA's total balance sheet value was PLN 43,567 million, up 2.8% compared to yearend 2017.

The main component of PZU's assets were investments which stood at PLN 37,571 million (up 2.8% compared to the end of 2017), which accounted for 86.2% of PZU's total balance sheet

value, compared to 86.3% as at the end of the previous year. Net of investments in subordinated entities, the level of investments was higher by 8.8% compared to the end of 2017. The main cause of the increase in the value of investments was the higher level of operating cash flows into the portfolio and increase in the investment result generated.

PZU's receivables stood at PLN 2,343 million and accounted for 5.4% of assets. For comparison, at the end of 2017 they amounted to PLN 2,315 million (5.5% of PZU's assets). Growth was recorded in the value of receivables on reinsurance, including from subordinated entities (increase by PLN 73 million, compared to the end of 2017) resulting from the rapid growth of the inward reinsurance portfolio with TUW PZUW. Non-current assets – in the form of intangible assets, goodwill and property, plant and equipment – were disclosed in the balance sheet at PLN 458 million. They constituted 1.1% of assets.

As at 31 December 2018, PZU held cash of PLN 1,222 million (2.8% of assets). The year before their value was PLN 982 million.

At the end of 2018, net technical provisions were the main component of PZU's equity and liabilities. They reached the amount of PLN 20,998 million (taking into account estimated salvage and subrogation), i.e. 48.2% of equity and liabilities. Their share in the balance sheet increased by 1.1 p.p. compared to 2017, while in terms of value they rose by PLN 1,030 million, in particular due to a higher provision for outstanding claims and benefits, mainly in the group of TPL motor insurance and general TPL.

As at the end of 2018, equity amounted to PLN 13,925 million and accounted for 32.0% of equity and liabilities (same share as at yearend 2017).

Contingent receivables amounted to PLN 4,490 million, down PLN 126 million compared to the year before. They comprised among others: guarantees and sureties received, bills of exchange issued on account of granted insurance guarantees and other contingent receivables comprising mainly securities obtained in the form of mortgage on the debtor's assets and other contingent receivables.

The balance of contingent liabilities increased by PLN 75 million compared to the year before. This resulted mainly from the increase in the granted guarantees and sureties (which include, among others, the guarantee granted to the subsidiary PZU Finance AB), partly compensated by a

decrease in other contingent liabilities, including disputable liabilities, challenged by the insurer.

PZU endeavors to manage capital effectively and maximize the rate of return on equity for the parent company's shareholders, in particular by maintaining the level of security and retaining capital resources for strategic growth objectives through acquisitions.

On 3 October 2016, the PZU SA Supervisory Board adopted a resolution to approve the PZU Group's Capital and Dividend Policy for 2016-2020. The introduction of the Policy follows from implementation, as of 1 January 2016, of Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of insurance and reinsurance ("Solvency II"), as amended, the Insurance and Reinsurance Activity Act of 11 September 2015 and the expiration of the PZU Group's Capital and Dividend Policy for 2013-2015 updated in May 2014.

The capital management policy rests on the following principles:

- manage the PZU Group's capital (including excess capital) at the level of PZU SA as the parent company;
- sustain target solvency ratios at the level of 200% for the PZU Group, PZU SA and PZU Życie SA (according to Solvency II);
- maintain the PZU Group's financial leverage ratio at a level no higher than 0.35;
- ensure funds for growth and acquisitions in the coming years;
- PZU SA will not issue any new shares for the duration of this Policy.

In accordance with the Policy, the PZU Group endeavors to do the following:

- manage capital effectively by optimizing the usage of capital from the Group's perspective;
- maximize the rate of return on equity for the parent company's shareholders, in particular by maintaining the level of security and retaining capital resources for strategic growth objectives through acquisitions;
- ensure sufficient financial means to cover the PZU Group's liabilities to its clients.

PZU SA as the parent company, through its representatives in supervisory bodies of subsidiaries and voting at their shareholder meetings, exerts an impact on the selection of

strategic directions regarding both the scope of business and the finances of the Group members.

On 9 January 2018 the PZU Management Board and Supervisory Board adopted the strategy update up to 2020. The PZU Group's new operating model departs from the classical model of cultivating client relations based on sales and after-sales service in the direction of having frequent and high quality client interactions during every stage of life anywhere PZU can lend a helping hand. Building relations and partnerships in this line of thinking has been defined as delivering products and services well-matched to clients at the appropriate time and place so as to ensure at the same time that the product's attributes (including its price) are aligned to client needs.

This strategy has specified how various areas within the PZU Group will be integrated to focus on clients in a way that will maximize client convenience and satisfaction. Special emphasis will be placed on analyzing the information the PZU Group has to grasp and use it better.

In order to create the appropriate business environment to attain these targets, clients interactions were redefined from scratch. This entailed an alteration to the philosophy of how the overall Group operates. For this purpose, the various business units were placed in a single integrated system dedicated to full dimensional client service at every stage of development. Client interactions were realigned to long-term partnership based on trust and understanding where a major value driver is the quality of the solutions dedicated to clients.

The strength of the #nowePZU strategy lies in technological support spanning the field of innovation and encompassing nearly all the Group's operating areas. Multi-dimensional data analysis will make it possible to gain a better grasp of client needs, offer more efficient client service and provide for easier contacts with a greater amount of partnership. The means to execute these initiatives will involve the usage of tools based on artificial intelligence, Big Data and mobile solutions.

In the Supervisory Board's assessment, the operations carried out by PZU SA enable the continuation of the Company's further development and the achievement of good financial results in subsequent years. The Company offers a broad range of non-life insurance products.

In 2018, the Company had in place an internal control system adapted to fit the scale of operations and organizational structure, aimed at ensuring efficiency and effectiveness of the organization's activities, reliability of financial reporting and compliance of PZU SA's actions with the provisions of law and internal regulations.

The internal control system in PZU SA comprises supervision, overall administrative and accounting procedures, organizational structures, reporting systems, solutions implemented in IT systems, the compliance function and other control mechanisms contributing to the attainment of the Company's objectives and security and stability of its operations, implemented to ensure the following in a reasonable manner:

- efficiency and effectiveness of the operating activity;
- reliability of information communicated inside and outside the Company and assurance of availability and reliability of such information, in particular pertaining to financial statements;
- adequacy and effectiveness of risk controls (control operations should be commensurate with the level of risk involved in the operations and processes under control);
- responsible and transparent management of the Company;
- compliance of the Company's activity with laws and internal regulations and the standards of conduct adopted by the Company.

Supervision over the internal control system in the Company comprises:

- supervision exercised by the Supervisory Board;
- activities of the Company's Management Board, including the establishment of an adequate and effective internal control system and periodic assessment of the functioning of the internal control system;
- supervision exercised by the managers of functional divisions, specialist units and organizational cells in their subordinated organizational units/cells;
- supervision exercised by the Compliance Department in the area of system solutions aimed at ensuring adequacy and effectiveness of risk control in the business processes covered by the internal control system.

An important role in this system is played by the PZU SA Supervisory Board Audit Committee. The 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, independence of the statutory auditor and the entity authorized to audit financial statements and effectiveness of the internal control, internal audit and risk management systems in place.

The manager of the division/unit/organizational cell is responsible for the implementation of an effective internal control system in the pertinent area of the Company's operations, in particular for designing and efficient functioning of control actions as integral components of the processes executed.

The internal control system and the risk management system are subject to assessment by, among others, the internal audit services which operate in conditions ensuring objectivism and independence. The manager of the internal audit services answers directly within the organization to the Management Board President and functionally to the Audit Committee, and is authorized to contact the Supervisory Board Chairman and the Audit Committee Chairman directly, in particular in matters concerning any discovered material irregularities. A double reporting system is applied in relation to the results of undertaken actions: to the Management Board and to the Supervisory Board Audit Committee. The Supervisory Board Audit Committee's prior opinion is required for an audit plan to be accepted or amended, if applicable. The appointment or dismissal of the manager of PZU SA's audit services requires the Audit Committee's opinion. In addition, the internal audit services in PZU SA are independent of operational functions.

In order to ensure good quality and continuous improvement of the internal audit function, internal (on an annual basis) and external (not less than once every five years) assessments of the Company's internal audit activities are conducted. The most recent external assessment of the internal audit function confirmed that the internal audit function in PZU SA is compliant with the requirements of Standards of the Institute of Internal Auditors.

In 2018, the audit tasks in PZU SA were performed on the basis of an annual audit plan prepared on

the basis of the assessment of the risks existing in individual areas of the Company's operations, which received a positive opinion of the Supervisory Board Audit Committee and was then adopted by a PZU SA Management Board resolution.

Audit results, recommendations issued and their implementation (subject to a monitoring process by the Internal Audit Department (BAW)) are presented to the Company's Management Board on an on-going basis and to the Supervisory Board Audit Committee on a periodical (quarterly) basis. The Internal Audit Department prepared an annual report on its activity in 2018, comprising information about the execution of the audit plan and other tasks performed by the Internal Audit Department and an assessment of the internal control system and the risk management system. The Internal Audit Department coordinates the internal audit function in the PZU Group's key companies. As in the previous years, on the basis of the cooperation agreements entered into with key PZU SA subsidiaries, the internal audit function obtains information regarding the adequacy and effectiveness of their risk management and internal control systems.

In 2018, the Company had in place a risk management system adapted to fit the scale of its activity and organizational structure. The risk management system was based on the following elements:

- demarcation of responsibilities and tasks performed by the Company's governing bodies, committees and individual organizational units and cells in the risk management process;
- risk management process, including risk identification, measurement and assessment, monitoring and control methods, risk reporting and undertaking management actions.

The split of duties and tasks within the risk management system is based on four decision-making levels. The first three levels comprise:

- The Supervisory Board, which supervises the risk management process and assesses its adequacy and effectiveness as part of its decision-making powers defined in the Company's Articles of Association and the Supervisory Board Bylaws;
- The Management Board which organizes the risk management system through adopting strategies and policies and defining the appetite for risk, the risk profile and tolerance for individual categories of risk;

- committees, which make decisions to mitigate individual risks to a level determined by the risk appetite. The committees adopt the procedures and methodologies for mitigating individual risks and accept individual risk limits. Established in 2016, the PZU Group Risk Committee provides support to the subsidiaries in implementing an effective risk management system coherent for the entire PZU Group. The operational objective of the PZU Group Risk Committee is to coordinate and supervise activities related to the PZU Group's risk management system and processes.

The fourth level pertains to operations where the tasks associated with the risk management process are divided between three lines of defense:

- the first line of defense - ongoing risk management at the business unit and organizational unit level and decision-making as part of the risk management process. The management staff is responsible for the implementation of an effective risk management in the supervised area of the Company's activity, in particular for designing and efficient functioning of identification and monitoring actions as integral components of implemented processes, ensuring appropriate response to the risks present,
- the second line of defense - risk management by specialized cells responsible for risk identification, measurement, monitoring and reporting and controlling the limits. Within the second line of defense, the units which play an important role in the process are the Risk Department, the Planning and Controlling Department, the Actuarial Department, the Reinsurance Department, the Legal Department, the Compliance Department, the Security Department, the HR Department and the Technology Function;
- the third line of defense - comprises internal audit, which conducts independent audits of the elements of the risk management system, as well as control activities embedded in the Company's activities. This function is performed by the Internal Audit Department.

The risk management process consists of the following stages: identification, measurement and assessment, monitoring and controlling, reporting and management activities.

The basic risk categories identified in the company include: market risk, credit risk,

concentration risk, actuarial risk, operational risk, model risk and compliance risk. Each risk classified as material is subject to measurement involving definition of the risk measures adequate to the type and availability of data and quantification of risk using established measures or expert assessment taken into account in the measurement of total risk.

Within the framework of the risk management processes, reports are delivered at decision-making levels adequate to the type and materiality of the risk. In particular, in accordance with the applicable regulations, reports are submitted to the Company's Supervisory Board, Management Board, PZU Group Risk Committee, Investment Risk Committee, Investment Committee and Asset-Liability Management Committee. Managerial actions pertaining to individual risk categories are defined in internal regulations or management standards adopted for such risks.

Depending on the risk type and characteristics, these actions can comprise in particular: risk evasion, risk transfer, risk mitigation and acceptance of the risk level, and tools supporting such actions, i.e. limits, reinsurance program.

The management functions in the PZU Group are exercised at the following two levels:

- the PZU Group level – ensuring that the PZU Group attains its business objectives in a safe manner appropriate to fit the scale of the risk incurred. Monitored at this level are the limits and risks specific to the PZU Group such as: catastrophic risk, financial risk, counterparty risk and risk concentration. The PZU Group provides support for the implementation of a risk management system, including the introduction of compatible mechanisms, standards and organization of an efficient operation of the internal control system (with particular emphasis on the compliance function), the risk management system (in particular in the reinsurance area) and the security management system in the PZU Group, and monitors their ongoing application. The PZU Group dedicated personnel cooperates with the Management Boards of companies and managers of such areas as finance, risk, actuarial services, reinsurance, investments and compliance on the basis of pertinent cooperation agreements;
- the company level – ensuring that the PZU Group company attains its business objectives in a safe manner appropriate to fit

the scale of the risk incurred by the company. Monitored at this level are the limits and risk categories specific to the company and, as part of the risk management system, mechanisms, standards and organization are implemented for the efficient operation of the internal control system (with particular emphasis on the compliance function), the risk management system (in particular in reinsurance area) and the security management system.

PZU exercises supervision over the PZU Group's risk management system on the basis of cooperation agreements entered into with other PZU Group entities and information obtained from them in accordance with the cooperation agreements, and manages the PZU Group's risk at an aggregate level. The cooperation agreements and the scope of information to be provided take into consideration the specific legal nature of each entity concerned, including limitations arising from banking secrecy rules.

In order to ensure the effectiveness of risk management at the PZU Group level, the risk management rules applicable to subsidiaries include a recommendation issued by PZU regarding the organization of the risk management system (both in the insurance sector and in the banking sector).

The management boards of PZU Group companies are responsible for fulfilling their own duties in accordance with the generally applicable provisions of national and international law. In particular, they are responsible for the implementation of an adequate and effective risk management system. Supervision over the risk management systems in each regulated entity is exercised by the supervisory boards to which PZU SA appoints its representatives.

The PZU SA Supervisory Board recommends that the PZU SA Ordinary Shareholder Meeting discharge all PZU SA Management Board members on the performance of their duties in 2018, i.e.:

- Paweł Surówka, President of the Management Board,
- Roger Hodgkiss, Management Board Member,
- Tomasz Kulik, Management Board Member,
- Maciej Rapkiewicz, Management Board Member,
- Małgorzata Sadurska, Management Board Member.

VII. Assessment of application of the Corporate Governance Rules for Regulated Institutions

On 22 July 2014, the Polish Financial Supervision Authority (KNF) issued the Corporate Governance Rules for Regulated Institutions (“Rules”) constituting a set of guidelines (soft law norms) that should be applied by regulated entities from 1 January 2015 under the applicable laws giving consideration to the rule of proportionality.

The PZU SA Management Board and Supervisory Board declared their readiness to apply the Rules to the objectively broadest extent while giving consideration to the principle of proportionality and the principle “comply or explain” stemming from their wording. These declarations were confirmed by the PZU SA Management Board and Supervisory Board in their respective resolutions. Information on the application of the Rules was presented by the PZU SA Management Board and Supervisory Board during the Ordinary Shareholder Meeting of PZU SA held on 30 June 2016. The Ordinary Shareholder Meeting of PZU SA declared that, acting within its powers, it will be guided by the Rules, except for certain specific ones waived by the Ordinary Shareholder Meeting of PZU SA.

Detailed information on the application of the Rules by PZU SA, indicating the rules that PZU SA satisfies in part and the rules that due to the nature or specificity of the Company’s business do not apply to PZU SA, is posted on PZU SA’s website.

The following rules are satisfied in part by PZU SA:

- the rule laid down in § 8 section 4 of the Rules concerning the enabling of all shareholders to participate in the Shareholder Meeting, including by procuring the possibility of actively participating electronically in the Shareholder Meeting
 - it should be emphasized that currently the PZU SA shareholders may follow the broadcast of the Shareholder Meeting, however PZU SA decided not to introduce the so-called e-Shareholder Meeting, because, in PZU SA’s opinion, there are a number of factors of a technological and legal nature which may affect the proper conduct of the Shareholder Meeting; legal concerns include the possibility of identifying the shareholders and verifying their legitimacy; the risk of the occurrence of technical difficulties, e.g. with the Internet connection or possible external interference in the IT systems, may disrupt the work of the Shareholder Meeting and evince doubts

concerning the efficacy of the resolutions adopted during its course; the materialization of the above risks may affect the proper application of this rule to its full extent;

- the rule laid down in § 21 section 2 of the Rules according to which within the supervising body there should be a separate function of the chairperson in charge of managing the work of the supervising body, and the selection of the chairperson of the supervising body should be accomplished on the basis of experience and team management skills while giving consideration to the criterion of independence
 - it should be emphasized that, in accordance with the Commercial Company Code and PZU SA’s Articles of Association, the function of chairperson has been established within the PZU SA Supervisory Board; the PZU SA Supervisory Board’s composition and the chairperson’s function are shaped in accordance with the criteria of independence stated in the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision; the selection of the Supervisory Board Chairperson is accomplished on the basis of the criterion of knowledge, experience and skills that confirm the competences required to discharge duly the duties of supervision; applying the criterion of independence to the chairperson according to the KNF Office’s explanation of this rule may evince doubts concerning a possible collision with the legal regulations pertaining to shareholder rights;
- the rule laid down in § 49 section 3 of the Rules concerning the appointment and dismissal, in a regulated institution, of the person managing the internal audit cell and the person managing the compliance cell with the consent of the supervising body or the audit committee
 - it should be pointed out that PZU SA applies the rules laid down in § 14 of the Rules to their full extent, which means that the PZU SA Management Board is the sole body empowered to, and responsible for, managing the Company’s activity; moreover, according to the labor law regulations, the managing body exercises labor law activities; on account of the foregoing, PZU

SA has adopted a solution that anticipates that the selection and dismissal of the person managing the internal audit cell is accomplished while taking into account the opinion of the Supervisory Board's Audit Committee; the person managing the compliance cell is appointed and dismissed in an identical manner; in making these decisions, the Management Board obtains the Audit Committee's opinions.

The Ordinary Shareholder Meeting of PZU SA has waived the following rules:

- the rule laid down in § 10 section 2 of the Rules reading as follows: "The implementation of personal rights or other special rights for shareholders of the regulated institution should be justified and serve the accomplishment of the regulated institution's material operating goals. The possession of such rights by shareholders should be reflected in the wording of the primary governing document of the regulated institution."
 - the waiving of this rule was due to the unfinished process of the Company's privatization by the State Treasury;
- the rule laid down in § 12 section 1 of the Rules reading as follows: "Shareholders are responsible for recapitalizing without delay a regulated institution in a situation in which it is necessary to maintain the regulated institution's equity at the level required by the legal regulations or oversight regulations as well as when the security of the regulated institution so requires."
 - the waiving of this rule was due to the unfinished process of the Company's privatization by the State Treasury;
- the rule laid down in § 28 section 4 of the Rules reading as follows: "The decision-making body assesses whether the implemented compensation policy fosters the regulated institution's development and operating security."
 - the waiving of this rule was due to the overly broad scope of the subject matter of the compensation policy subject to assessment by the decision-making body. The compensation policy in respect of persons who discharge key functions but are not members of the supervising body or the managing body should be subject to assessment by such persons' employer or

principal, i.e. the Company represented by the Management Board and supervised by the Supervisory Board.

Furthermore, the following rules are not applicable to PZU SA:

- the rule laid down in § 11 section 3 of the Rules reading as follows: "In the event that the decision-making body makes a decision concerning a transaction with a related party, all shareholders should have access to all information required to assess the conditions on which it is implemented and its impact on a regulated institution's standing."
 - in PZU SA, the Shareholder Meeting does not make decisions on transactions with related parties;
- the rule laid down in § 49 section 4 of the Rules reading as follows: "In a regulated institution in which there is no audit or compliance cell, the rights ensuing from sections 1-3 are vested in the persons responsible for performing these functions."
 - audit and compliance cells operate in PZU SA;
- the rule laid down in § 52 section 2 of the Rules reading as follows: "In a regulated institution in which there is no audit or compliance cell or no cell responsible for this area has been designated, the information referred to in section 1 shall be conveyed by the persons responsible for performing these functions."
 - audit and compliance cells operate in PZU SA;
- the rules laid down in Chapter 9 of the Rules entitled "Exercising the rights from assets acquired at a client's risk"
 - PZU SA does not offer products entailing asset management at a client's risk.

During the reporting period, there were no events causing the need to update the above information.

In consideration of the foregoing, the PZU SA Supervisory Board is of the opinion that the rules introduced by the document entitled "Corporate Governance Rules for Regulated Institutions" are applied properly and in accordance with the declarations of PZU SA's governing bodies.

VIII. Assessment of the Company's fulfillment of the disclosure obligations associated with the application of the corporate governance principles set forth in the Warsaw Stock Exchange Rules and in the provisions of law concerning current and periodic information transmitted by securities issuers

Since the day when the Company's shares were admitted to trading on a regulated market, PZU SA has invariably followed the corporate governance rules laid down in the document entitled Best Practices of WSE listed companies.

Since 1 January 2016, a set of corporate governance principles entitled Best Practices of WSE Listed Companies 2016 ("BPLC 2016"), adopted by resolution of the WSE Board on 13 October 2015, have been in force.

Pursuant to § 29 sec. 3 of the WSE Rules, the issuer is required to publish a report in cases where a specific corporate governance principle is not applied on a permanent basis or is breached on an incidental basis.

Moreover, pursuant to principle I.Z.1.13 of BPLC 2016, information on the actual application of the recommendations and principles contained in BPLC 2016 should be posted by issuers on their websites.

In 2018, PZU SA complied with the recommendations and principles set forth in BPLC 2016, except for recommendation IV.R.2. which provides for a possibility for shareholders to participate in a shareholder meeting using means of electronic communication, in particular via:

- 1) real-time transmission of the Shareholder Meeting,
- 2) real-time bilateral communication where shareholders may take the floor during a Shareholder Meeting from a location other than the shareholder meeting,
- 3) exercising, in person or by proxy, the voting rights during a shareholder meeting.

Presently, PZU SA shareholders may follow the broadcast of the shareholder meeting. However the Company has not elected to introduce an electronic shareholder meeting. According to PZU SA, there are many technical and legal factors that may affect the proper course of the shareholder meeting. The legal doubts pertain to the ability to identify shareholders and check the legitimacy of participants in the shareholder meeting. The risk of the occurrence of technical difficulties, e.g. with the internet connection or possible external interference in the IT systems may disrupt the work of the shareholder meeting and evince doubts concerning the efficacy of the resolutions adopted during its course. The appearance of these risks may affect the proper application of this rule to a full extent.

Furthermore, the following rules are not applicable to PZU SA:

- principle I.Z.1.10, providing for the publication of financial projections, if the company has decided to publish them, published at least in the last 5 years, including information about the degree of their implementation, because, as at the date of publication of this report, PZU SA has not published any financial projections or estimates;
- principle III.Z.6., concerning cases of non-separation of an internal audit function within the company's organizational structure, because this function has been separated in PZU SA's organizational structure;
- recommendation IV.R.3., concerning situations where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, because PZU SA securities are traded only on the Polish market.

Information on the actual application of the recommendations and principles contained in BPLC 2016 by PZU SA ("Information") is available on PZU SA's website in the "Investor relations" section.

Moreover, no events occurred during the reporting period as a result of which PZU SA would be required to update any such information or publish a report on a breach of a particular detailed principle in an incidental manner, in accordance with § 29 section 3 of the WSE Rules.

In conjunction with the work conducted in 2018 to modify the PZU Group's website and its implementation with a new look, incidental difficulties may have transpired in respect of accessing some of the material and content on the website. The scope of information on the site and access thereto were monitored on an ongoing basis. In the event of detecting any technical problems posing an impediment to specific resources, were promptly taken to reinstate the website's full functionality.

In performance of the obligation arising out of § 70 Section 6 Item 5 of the Finance Minister's Regulation of 29 March 2018 on the Current and Periodic Information Transmitted by Securities Issuers and the Conditions for Recognizing the Information Required by the Regulations of a

Non-Member State as Equivalent ("Regulation"), PZU SA included, in the Management Board report on the activity of the PZU Group and PZU SA in 2018, a corporate governance statements forming a separate part of this Report.

Taking the foregoing into consideration, the PZU SA Supervisory Board is of the opinion that the

disclosure obligations regarding the application of the corporate governance principles set forth in the Warsaw Stock Exchange Rules and in the provisions of law concerning current and periodic information transmitted by securities issuers are fulfilled in a proper manner.

IX. Report on assessment of the operation of the compensation policy at PZU SA

The basis for assessment of the operation of the compensation policy at PZU SA is § 28 section 3 of the Corporate Governance Rules for Regulated Institutions.

PRINCIPLES FOR SHAPING THE COMPENSATION POLICY AT PZU SA

- The rules for compensating the Company's employees are laid down in the PZU SA Compensation Policy (hereinafter: "Compensation Policy"), as adopted by the Company's Management Board in 2016. The Compensation Policy covers all internal regulations defining the principles for compensating specific employee groups or specific employees, determined in accordance with the regulatory requirements and other generally applicable provisions of law, the Company's internal regulations and guidelines issued by the regulatory authority. This regulation also covers detailed solutions pertaining to compensating specific employee groups, i.e. key personnel as well as other employee groups whose work significantly affects the company's risk profile (hereinafter: "Entitled Persons"), Senior Management who are not classified as Entitled Persons and other employees. Entitled Persons who are not Management Board members are classified in accordance with the Identification Method developed by the Company. The purpose for the adoption of the Identification Method was to implement the requirements of the delegated regulation "Solvency II" on the introduction of detailed compensation policies for employees whose work significantly affects the undertaking's risk profile. The detailed solutions pertaining to Entitled Persons in the developed documents concern Company employees but do not apply to Supervisory Board members whose compensation rules are regulated by the Shareholder Meeting or Management Board Members or PZU Group Directors in PZU SA who are also Members of the PZU Życie SA Management Board

(hereinafter: "Managers"), whose rules of compensation are governed separately by:

- 1) Supervisory Board – in respect of Management Board Members, in the performance of Resolution No. 4 of the Extraordinary Shareholder Meeting of Powszechny Zakład Ubezpieczeń S.A. of 8 February 2017 to define the rules for setting the compensation of Management Board Members, as amended by Resolution No. 38 of the Ordinary Shareholder Meeting of Powszechny Zakład Ubezpieczeń S.A. of 29 June 2017 in conjunction with the Act of 9 June 2016 on the Rules for Shaping the Compensation of Persons Managing Certain Companies (hereinafter: "Act").
- 2) PZU SA Management Board – in respect of PZU Group Directors who are also Members of the PZU Życie SA Management Board and the rules of whose compensation are specified in the contract for the provision of management services (hereinafter: "Agreement") and in the resolutions adopted in this matter by the Management Board in conjunction with the Act of 9 June 2016 on the Rules for Shaping the Compensation of Persons Managing Certain Companies.

The total compensation due to a Manager for rendering management services and discharging other obligations ensuing from the Management Services Provision Agreement (hereinafter: "Agreement") consists of the following:

fixed compensation – flat monthly base compensation (for a calendar month) that cannot exceed the reference range established pursuant to Article 4 Section 2 of the Act without prejudice to the situations outlined in Article 4 Section 3 of the Act;

variable compensation – supplementary compensation for a given financial year depending on the extent to which management objectives are attained. The

variable compensation for a given financial year may not exceed 100% of the annual fixed compensation in the previous financial year for which the amount of variable compensation due is to be calculated. Moreover, a significant portion of variable remuneration is allocated in the form of deferred variable remuneration. Deferred variable compensation is subject to deferral for 3 years. 12, 24 and 36 months, respectively from the date of allocation, a Management Board member may acquire the right to 1/3 of the deferred variable compensation for a given year subsequent to satisfying the conditions defined in the Agreement.

- The main objective of the Company's compensation policy is to recruit, retain and motivate employees to demonstrate the best possible performance by pursuing the Company's strategic objectives while maintaining optimal and rational employee compensation levels and taking into account the need for proper financial and risk management at PZU SA.
- Compensations in the Company are shaped in relation to the scope of tasks and the level of responsibility defined in the job description, which is subject to valuation in accordance with the Hay Group's methodology.
- On an annual basis, the HR Department verifies the market competitiveness of compensations offered by the Company.
- The Company's compensation system is communicated to all PZU SA employees.
- The basis for specifying the total amount of variable compensation is an assessment of the performance of both the employee and his/her organizational unit in the connection with the Company's overall performance; any assessment of individual performance takes into account both financial and non-financial criteria.
- The bonus system depends on the job group and business specificity.
- The rules governing the granting of variable compensation, especially for Entitled Persons and employees classified as Senior Management, are aimed at supporting the proper and effective risk management, discouraging the taking of excessive risk beyond the limits approved by the Supervisory Board, supporting the pursuit of the business strategy and curtailing conflicts of interest.
- Variable compensations granted in the Company are subject to limits on the allowable maximum amount – in a specific percentage of the fixed compensation for the applicable assessment period. In the case of the Managers, the amount of their variable compensation is specified in the Agreement in compliance with the provisions of the Act. The ratio of fixed base compensation to variable compensation of an Entitled Person or a Manager enables the conduct of a flexible policy of variable components of compensation, including a reduction or elimination of the variable compensation component. Moreover, total variable compensation granted to Entitled Persons for a given year must not impair the Company's ability to increase its capital base.

ELEMENTS OF EMPLOYEE COMPENSATION

- Total compensation is divided into a fixed part and a variable part.
- The Company defines the appropriate ratio of the fixed basic compensation component to variable compensation where this ratio is appropriately balanced so that the fixed part of compensation forms a sufficiently large part of total compensation to enable the conduct of a flexible policy in respect of the variable components of compensation.
- Variable compensation is determined differently for each specific employee group or each person. Its level is substantiated by the Company's financial performance and the achieved work results. Information on the bonus system applicable to the employee is part of his/her employment contract.
- The Compensation Policy and the Managers' Agreements also provide for the possibility of postponing the disbursement of a substantial part of variable compensation to an Entitled Person or a Manager for a given year. Such postponed disbursement is deferred for 3 years, and after 12, 24 and 36 months from the vesting date, as appropriate, the Entitled Persons may acquire the right to 1/3 of the deferred disbursement for a given year, provided that they satisfy the conditions defined in the Company's internal regulations, the Compensation Policy and the Managers' Agreements.
- Entitled Persons and Managers are required not to use their own hedging strategies or compensation and liability insurance, except for compulsory insurance arising from special

laws that would neutralize the measures taken against such persons within the framework of implementation of the Compensation Policy.

- Moreover, as part of its compensation policy, PZU SA offers its personnel the following employee benefits:
 - Employee Pension Plan.
 - Medical care.
 - Insurance for medicine.
 - Company Social Benefit Fund cafeteria (the amount of benefits depends on the level of income per family member).
 - Housing loans for employees.
 - Discounts on insurance products offered by the PZU Group.
 - Relocation benefit in case of a change of the place of work within the PZU Group at the initiative of the employer.
 - Managerial package for Senior Management specified in the applicable procedure (a company car, a mobile phone with accessories, a limit on phone calls and data transmission).
- The rules of compensation for Supervisory Board members are governed by resolutions adopted by the Company's Shareholder Meeting. The above components of compensation do not apply to members of the Supervisory Board.

ASSESSMENT OF THE OPERATION OF THE COMPENSATION POLICY AT PZU SA IN 2018

- PZU SA's compensation policy is consistent with the Company's business strategy, objectives, values and long-term interests, in particular in respect of sustainable growth, and incorporates measures aimed at avoiding

conflicts of interest and eliminating the potential adverse impact of the compensation system on proper risk management.

- In 2018, the PZU SA Supervisory Board's Nomination and Compensation Committee focused predominantly on shaping the rules included in the compensation policy in respect of the Company's Management Board Members and setting the 2018 Management Objectives for Management Board Members.
- In 2018, supervision over the implementation of the compensation policy was exercised by:
 - The Company's Shareholder Meeting in respect of members of the PZU SA Supervisory Board.
 - The PZU SA Supervisory Board and the Nomination and Compensation Committee of the PZU SA Supervisory Board in respect of members of the PZU SA Management Board.
 - The PZU SA Management Board and the HR Director in the PZU Group in respect of PZU SA's Senior Management.
 - The HR Director in the PZU Group in respect of the Company's other employees.
- In 2018, 2 regular meetings of the Nomination and Compensation Committee of the PZU SA Supervisory Board were held.

The Supervisory Board is of the opinion that in 2018 the Company properly implemented the adopted Policy in line with all the rules of compensation dedicated to specific employee groups contained therein.

X. Assessment of rationality of the company's sponsorship activities, charitable activities or other activities of a similar nature.

In 2018, the Company adopted the "Corporate social responsibility strategy of the PZU Group for 2018-2020". For the first time in history, the key indicators for all CSR areas became an integral part of the PZU Group's business strategy. Recognizing the significance of growing the Company's value in consideration of the interests of its environment and based on a responsible approach to the use of resources, at PZU SA we manage all types of capital – financial, human, environmental and social – in a sustainable manner, aware of the strong social impact that we exert.

The main objectives of the adopted document are: bringing order to the most important areas

and principles of responsibility and defining directions of activities and initiatives in reference to business and social challenges.

PZU's Social Commitment

As a leader of the market for financial and insurance services enjoying public trust, not only is PZU involved in a variety of activities in the corporate social responsibility domain but also shapes certain patterns of behavior and best practices in this area. Using its prevention funds, the Group takes specific measurable endeavors that result in a reduced risk of materialization of insurable events. For a number of years, on top of ordinary charitable activity (PZU Foundation) and

sponsoring activity, the PZU Group has been involved in social investments to reduce risk and simultaneously generate business and social benefits.

The strategic pillars underpinning PZU's social involvement are as follows: safety (road and public safety, at the local level), health, culture and expert approach. In the area of prevention-related activities, in 2018 PZU continued the conduct of such activities related to safety of road traffic, public safety and safety at work. In Q3 2018, the Company ran a national social campaign under the slogan "Reflectors: keeping children safe on the road", which was aimed at improving the visibility of children on the road and limiting the number of accidents involving the youngest school-goers. Within the framework of the campaign, more than 1.6 million safety reflectors were handed out to first-, second- and third-graders throughout Poland. With teachers and parents in mind, educational materials were prepared and made available for downloading through the school e-register system called Librus. The campaign was carried out under the honorary patronage of the Ministry of National Education.

PZU also produced the second season of the documentary series on road safety entitled "Seconds that altered life", which was then broadcast on Channel 1 of Polish Television. In 2018, the Company ran a prevention-focused summer vacation campaign dubbed "Safe Summer Vacation with PZU" and supported the project "Teddy Bears Rescue Children" through the help of which the youngest Polish victims of road accidents received physiotherapeutic and psychological assistance to help them restore their mental balance. Another significant aspect of PZU's social involvement was the Company's cooperation with rescue organizations, both professional ones and volunteer-based organizations, such as the Voluntary Mountain Rescue Service "GOPR", the Voluntary Water Rescue Service "WOPR", the Police and the State Fire Service.

Since 2018, PZU has been conducting the Helping is Power (Pomoc To Moc) campaign, which is a nationwide program of support for local communities. Thanks to the program, everyone may initiate an important change in his/her neighborhood aimed at improving safety with the possible use of funds provided by PZU. To date, 718 applications have been submitted to the program, of which almost 100 have received

financial support from PZU with total value of PLN 4,870 thousand. During one year from the program launch, more than 200 thousand people have taken advantage of it. More than 85 non-governmental organizations are partners in this campaign.

Strategic activities in the CSR area included sponsoring activities, the most important of which included PZU's involvement in the patronage of cultural institutions. The Company contributed to the preservation of Polish cultural heritage by providing its patronage to such institutions as the Royal Łazienki Museum in Warsaw, the Warsaw Uprising Museum, the National Museum in Kraków, the National Museum in Warsaw, the National Theater in Warsaw and the Grand Theater – National Opera in Warsaw, among others. The Company was also involved in a number of initiatives aimed at building Polish identity – it supported various organizations, conferences and congresses aimed at shaping patriotic attitudes and care for the country's image. In 2018, the Company became involved in events accompanying the year-long celebration of the 100th anniversary of Poland regaining independence, providing support to projects such as musical events ("Our Independent One" project, concert for the Independent One at the National Stadium) and temporary exhibitions ("Paderewski" at the National Museum in Warsaw, "The Brilliance of Orders" in the Royal Łazienki Park).

PZU is a funder and active supporter of the PZU Foundation which carries out the PZU Group's philanthropic activities forming part of its social involvement strategy.

The Foundation broadens citizens' access to cultural and social life, promotes education for children and youths and supports equal opportunity initiatives targeting people with disabilities. By participating in various projects, the Foundation supports initiatives that stand out in terms of innovation and involvement of local communities and those whose effectiveness contributes to the creation of a permanent social change.

Since 2012, the PZU Foundation is also been involved in the employee volunteer program in the PZU Group within the framework of which employees engage in their own projects and volunteer initiatives initiated by the Foundation.

In consideration of the foregoing activities, the PZU SA Supervisory Board is of the opinion that the rules introduced by the document entitled

“PZU Group’s corporate social responsibility strategy for 2018-2020” and the internal regulations adopted by the Company (Sponsoring Activity Bylaws, Prevention Activity Bylaws) are

applied properly and in accordance with the declarations of PZU SA’s governing bodies.

XI. Self-assessment of the work of the Supervisory Board

The PZU SA Supervisory Board diligently and effectively discharged its duties, exercising constant supervision over the activity and development of the Company in all areas of its activity and taking all actions reported by the PZU SA Management Board and required for the efficient conduct of the statutory activity and attainment of the Company’s strategic objectives. The scope, method of operation and composition of the Supervisory Board in 2018 complied with generally prevailing laws, the Company’s internal regulations and requirements imposed on public companies, in particular those specified in the “Best Practices of WSE Listed Companies” in effect in 2018. All PZU SA Supervisory Board members represented a high level of preparation and professional experience in the area of management and supervision of commercial law companies, as a result of which they properly discharged their codical and statutory powers, guaranteeing appropriate supervision over the Company. All the Supervisory Board members exercised due diligence and displayed commitment in performance of their duties in the Supervisory Board and were guided in their

actions by the Company’s interests and independence of opinions and judgments. The diversified composition of the Supervisory Board and interdisciplinary knowledge and skills of its Members made it possible to comprehensively review and issue opinions on the topics put forward, and ensure broad representation of views regarding the assessment of the work of the Management Board and the functioning of PZU SA as a public company.

The Supervisory Board discharged its duties without interruptions and actively supported the Management Board in the execution of the most important tasks. Considering the above, the Supervisory Board is prepared to exercise its powers as stated in the statutes and articles of association and properly discharges them, guaranteeing appropriate supervision over the Company. In the Supervisory Board’s opinion, the activity of the PZU SA Supervisory Board in 2018 can be assessed as effective, in accordance with the best market practices.

Chairman
of the PZU SA Supervisory Board

/-/ Maciej Łopiński
Warsaw, 16 April 2019

Attachment 2
to the PZU SA Supervisory Board Report on the activity of the PZU SA Supervisory Board as the Company's corporate body in 2018

Name of a PZU SA Supervisory Board Member	MEETING DATE								
	09.01	14.03	26.04	15.05	14.06	31.07	29.08	14.11	11.12
Bogusław Banaszak	√								
Marcin Chłudziński	√	√	√	√	√	√	X	√	X
Aneta Fątek									
Paweł Górecki	√	√	√	√	√	√	√	√	√
Agata Górnicka	√	√	√	√	√	X	√	√	√
Robert Jastrzębski		√	√	√	√	√	√	√	√
Katarzyna Lewandowska	√	√	√	√	√	X	√	√	√
Maciej Łopiński	√	√	√	√	√	√	√	√	√
Alojzy Nowak	√	√	√	√	√	X	√	√	√
Robert Śnitko	√	√	√	√	√	√	√	√	√
Maciej Zaborowski	X	√	√	√	X	√	√	√	√

√ – present
X – absence justified

Attachment 1

to the PZU SA Supervisory Board Report on the activity of the PZU SA Supervisory Board as the Company's corporate body in 2018

Resolution number	Resolution date	Subject matter of the resolution:
URN/1/2018	9 January 2018	to elect the Chairperson of the PZU SA Supervisory Board
URN/2/2018	9 January 2018	to elect the Deputy Chairperson of the PZU SA Supervisory Board
URN/3/2018	9 January 2018	to set the size and composition of the PZU SA Supervisory Board's Nomination and Compensation Committee
URN/4/2018	9 January 2018	to approve a long-term plan for the Company's development and operations included in the document entitled "The New PZU – More Than Insurance. Update and operationalization of the PZU Group strategy for 2017-2020"
URN/5/2018	9 February 2018	to set the composition of the PZU SA Supervisory Board's Audit Committee
URN/6/2018	9 February 2018	to give consent to the granting of a cash donation to the PZU Sport Team Association
URN/7/2018	9 February 2018	to give consent to the execution of contracts for the provision of soft marking services, cars and the production of point-of-sale (POS) materials
URN/8/2018	14 March 2018	to set the size and composition of the PZU SA Supervisory Board's Nomination and Compensation Committee
URN/9/2018	14 March 2018	to determine the number of members and composition of the PZU SA Supervisory Board's Strategy Committee
URN/10/2018	14 March 2018	to give consent to the execution by Powszechny Zakład Ubezpieczeń Spółka Akcyjna of a transaction agreement associated with the demerger of PZU Centrum Operacji Spółka Akcyjna and the acquisition by Powszechny Zakład Ubezpieczeń Spółka Akcyjna of new shares in Pekao Financial Services Spółka z ograniczoną odpowiedzialnością within the framework of the M&A High Noon Project
URN/11/2018	14 March 2018	to approve the Risk Management Strategy in the PZU Group
URN/12/2018	14 March 2018	on the principles of investing funds in shares and ownership interests by PZU SA
URN/13/2018	14 March 2018	to approve the risk management policy in the reinsurance area at PZU SA
URN/14/2018	14 March 2018	to give consent to the granting of a donation to the PZU Foundation for its statutory activities
URN/15/2018	14 March 2018	to give consent to the execution of a donation agreement for Bartosz Stachecki
URN/16/2018	14 March 2018	on the Principles for Assessment and Verification of Competence and Integrity of Members of the PZU SA and PZU Życie SA Management Boards and those PZU Group Directors at PZU SA who are also Members of the PZU Życie SA Management Board
URN/17/2018	14 March 2018	to define the Management Objectives for Members of the PZU SA Management Board for 2018
URN/18/2018	14 March 2018	to assess the Financial Statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna for the year ended 31 December 2017 prepared in accordance with Polish accounting standards in terms of their compliance with the accounting ledgers, documents and facts and to recommend their approval by the PZU SA Ordinary Shareholder Meeting
URN/19/2018	14 March 2018	to assess the Consolidated Financial Statements of the Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group for the year ended 31 December 2017

Resolution number	Resolution date	Subject matter of the resolution:
		prepared in accordance with International Financial Reporting Standards and to recommend their approval by the PZU SA Ordinary Shareholder Meeting
URN/20/2018	14 March 2018	to assess the Management Board Report on the Activity of the PZU Group and PZU SA in 2017 together with the Non-Financial Report of the PZU Group and PZU SA for 2017 and to recommend their approval by the PZU SA Ordinary Shareholder Meeting
URN/21/2018	26 April 2018	to approve the Solvency and Financial Condition Report of Powszechny Zakład Ubezpieczeń Spółka Akcyjna for the year ended 31 December 2017
URN/22/2018	26 April 2018	to accept selected answers provided by the Company in the Supervisory Survey and Evaluation for 2017
URN/23/2018	26 April 2018	to give consent to place orders under the framework cooperation agreement on the performance of media activities entered into by and between PZU SA and PZU Życie SA on the one side and Universal McCann Sp. z o.o. on the other side in the "PZU DOM" advertising campaign
URN/24/2018	26 April 2018	to give consent to the execution of contracts for the provision of services related to below-the-line (BTL) activities
URN/25/2018	15 May 2018	on the assessment of the Management Board's motion to distribute PZU SA's net profit for the year ended 31 December 2017
URN/26/2018	15 May 2018	on the recommendation to discharge Roger Hodgkiss on the performance of his duties in the PZU SA Management Board in 2017
URN/27/2018	15 May 2018	on the recommendation to discharge Andrzej Jaworski on the performance of his duties in the PZU SA Management Board in 2017
URN/28/2018	15 May 2018	on the recommendation to discharge Michał Krupiński on the performance of his duties in the PZU SA Management Board in 2017
URN/29/2018	15 May 2018	on the recommendation to discharge Tomasz Kulik on the performance of his duties in the PZU SA Management Board in 2017
URN/30/2018	15 May 2018	on the recommendation to discharge Maciej Rapkiewicz on the performance of his duties in the PZU SA Management Board in 2017
URN/31/2018	15 May 2018	on the recommendation to discharge Małgorzata Sadurska on the performance of her duties in the PZU SA Management Board in 2017
URN/32/2018	15 May 2018	on the recommendation to discharge Paweł Surówka on the performance of his duties in the PZU SA Management Board in 2017
URN/33/2018	15 May 2018	to accept the PZU SA Supervisory Board report on its assessment of PZU SA's Financial Statements for the year ended 31 December 2017, the Consolidated Financial Statements of the PZU SA Group for the year ended 31 December 2017, the Management Board Report on the Activity of the PZU Group and PZU SA in 2017 and the Management Board's motion to distribute PZU SA's net profit for the year ended 31 December 2017
URN/34/2018	15 May 2018	to adopt the PZU SA Supervisory Board Report on the activity of the PZU SA Supervisory Board as the Company's governing body in 2017
URN/35/2018	15 May 2018	to issue an on the Powszechny Zakład Ubezpieczeń Spółka Akcyjna Management Board Report on representation expenditures and expenditures for legal, marketing, public relations and public communication services and management consulting services for 2017
URN/36/2018	15 May 2018	to evaluate the PZU SA Management Board's motion to adopt the Rules and Regulations of the PZU SA Shareholder Meeting
URN/37/2018	15 May 2018	to evaluate the PZU SA Management Board's motion to amend the Articles of Association of PZU SA
URN/38/2018	15 May 2018	to evaluate the PZU SA Management Board's motion to the Shareholder Meeting of PZU SA on giving consent to the acquisition of securities issued, guaranteed or secured by the State Treasury of the Republic of Poland

Resolution number	Resolution date	Subject matter of the resolution:
URN/39/2018	15 May 2018	to approve amendments to the Rules and Regulations of the PZU SA Management Board
URN/40/2018	15 May 2018	to give consent to the execution of annexes and the placement of orders to framework agreements for the provision of strategic advisory services
URN/41/2018	15 May 2018	to give consent to the placement of an order with Deloitte Advisory Sp. z o.o. for consulting services to support the assessment of the investment project executed as part of the M&A Umbrella Project
URN/42/2018	15 May 2018	to give consent to the execution of an agreement with a transaction advisor under the M&A Circle Project
URN/43/2018	14 June 2018	to approve the Solvency and Financial Condition Report of the Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group for the year ended 31 December 2017
URN/44/2018	14 June 2018	to give consent to the extension of the scope of work related to the review of the condensed interim consolidated financial statements of PZU SA Group for the 6 months ended 30 June 2018
URN/45/2018	14 June 2018	to give consent to the execution of an annex to the agreement of 23 November 2017 with Deutsche Bank AG under the M&A Tytan Project
URN/46/2018	21 June 2018	to give consent for Paweł Surówka to become a member of the PTE PZU SA Supervisory Board
URN/47/2018	21 June 2018	to give consent for Maciej Rapkiewicz to become a member of the PTE PZU SA Supervisory Board
URN/48/2018	31 July 2018	to give consent to the execution of a sponsorship agreement with the Office of the Niepodległa Program
URN/49/2018	31 July 2018	to give consent to the execution of an agreement on the provision of PR services during strategic international events with the participation of PZU by and between PZU SA and PZU Życie SA on the one side and MSLGROUP Sp. z o.o. on the other side
URN/50/2018	2 August 2018	amending Resolution No. URN/48/2017 on the rules for setting the compensation of Management Board Members
URN/51/2018	2 August 2018	to give consent to the execution of additional agreements on the provision of services by Members of the PZU SA Management Board
URN/52/2018	29 August 2018	to give consent to place orders within the framework of the SME advertising campaign to the framework cooperation agreement on the performance of media activities entered into by and between PZU SA and PZU Życie SA on the one side and Universal McCann Sp. z o.o. on the other side
URN/53/2018	29 August 2018	to give consent to the execution of framework cooperation agreements on marketing research activities
URN/54/2018	29 August 2018	to adopt the consolidated text of the Articles of Association of PZU SA
URN/55/2018	29 August 2018	amending the Rules and Regulations of the Supervisory Board of Powszechny Zakład Ubezpieczeń Spółka Akcyjna
URN/56/2018	26 October 2018	amending Resolution No. URN/81/2017 on the policy for the selection of an audit firm to perform the audit
URN/57/2018	26 October 2018	amending Resolution No. URN/82/2017 on the policy for the provision of permitted non-audit services by the audit firm conducting the audit, by entities related to this audit firm and by a member of the audit firm's network
URN/58/2018	14 November 2018	to give consent to enter into annex 1 to the framework agreement on the provision of tax advisory services with PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa
URN/59/2018	26 November 2018	to give consent for Małgorzata Sadurska, Member of the PZU SA Management Board, to become a member of the Supervisory Board of

Resolution number	Resolution date	Subject matter of the resolution:
		Towarzystwo Ubezpieczeń Wzajemnych Polskiego Zakładu Ubezpieczeń Wzajemnych (TUW PZUW)
URN/60/2018	11 December 2018	to approve the PZU SA and PZU Group Financial Plan for 2019
URN/61/2018	11 December 2018	to give consent to the execution of framework agreements with event agencies
URN/62/2018	11 December 2018	to give consent to the execution of framework agreements on the provision of marketing materials
URN/63/2018	11 December 2018	to give consent to the acquisition of shares in e-Kiosk S.A.
URN/64/2018	11 December 2018	to give consent to increase the value of the cooperation agreement entered into by and between PZU SA and PZU Życie SA on the one side and ClickAd Interactive sp. z o.o. on the other side
URN/65/2018	11 December 2018	to give consent for Roger Hodgkiss, Member of the PZU SA Management Board, to become a member of the Supervisory Board of AB "Lietuvos draudimas" with its registered office in Vilnius, a PZU SA Group company

Attachment to Resolution No. KA/4/2019
adopted by the PZU SA Supervisory Board Audit Committee on 6 March 2019



(attachment 3 to the PZU SA Supervisory Board report on the activity of the PZU SA Supervisory Board as a corporate body of the Company in 2018)

REPORT OF THE PZU SA SUPERVISORY BOARD AUDIT COMMITTEE ON ITS ACTIVITY IN 2018

Warsaw, 6 March 2019

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

The PZU SA Supervisory Board's Audit Committee was appointed on 3 June 2008 by the power of Resolution No. URN/20/2008 adopted by the PZU Supervisory Board in the matter of appointing the PZU SA Supervisory Board Audit Committee.

As at 1 January 2018 the PZU SA Supervisory Board Audit Committee functioned in the following composition:

- 1) Bogusław Marian Banaszak – Committee Chairman,
- 2) Marcin Chludziński – Committee Member,
- 3) Maciej Zaborowski – Committee Member.

Bogusław Banaszak and Maciej Zaborowski were designated as independent members within the meaning of Article 129 Section 3 of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision, and Marcin Chludziński was designated as a member holding accounting or financial audit qualifications. All Audit Committee members were designated as members who have knowledge and skills in the industry in which the Company operates.

On 9 January 2018, due to his death, the mandate of Bogusław Banaszak as Committee Chairman expired.

In connection with the expiration of the mandate of Bogusław Banaszak, on 9 February 2018 the Supervisory Board established the following composition of the Audit Committee:

- 1) Alojzy Nowak – Committee Chairman,
- 2) Marcin Chludziński – Committee Member,
- 3) Maciej Zaborowski – Committee Member.

Alojzy Nowak and Maciej Zaborowski were designated as independent members within the meaning of Article 129 Section 3 of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision, while Marcin Chludziński was designated as a member holding accounting or financial audit qualifications. All Audit Committee members were named as members who have knowledge and skills in the industry in which the Company operates.

As at 31 December 2018, the PZU SA Supervisory Board Audit Committee's composition was unchanged.

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,
- PZU SA Supervisory Board Bylaws,
- PZU SA Supervisory Board Audit Committee Bylaws,
- Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision (since 21 June 2017),
- other provisions of generally binding laws.

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

In the reporting period, i.e. from 1 January 2018 to 31 December 2018, the Committee held eight meetings on the following dates:

- 6 March 2018,
- 14 March 2018,

- 26 April 2018,
- 15 May 2018,
- 14 June 2018,
- 29 August 2018,
- 14 November 2018,
- 8 December 2018.

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

The meetings of the Audit Committee were attended by the Managing Director on Audit overseeing BAW (Internal Audit Department) and the Managing Director on Regulations overseeing BCM (Compliance Department). Depending on the issues discussed, the following persons, among others, were invited to attend Audit Committee meetings: PZU SA Management Board Members, PZU Group Directors, the Director of the Accounting Department and representatives of the auditor – KPMG Audyt Sp. z o.o. spółka komandytowa.

Audit Committee decisions were made in the form of opinions and resolutions delivered in every

instance to the Company's Supervisory Board.

In 2018 the PZU SA Supervisory Board Audit Committee held its meetings in the following composition:

Name Audit Committee Member	6 March	14 March	26 April	15 May	14 June	29 August	14 November	11 December
Bogusław Banaszak								
Marcin Chłudziński	√	√	√	√	√	X	√	X
Alojzy Nowak	√	√	√	√	√	√	√	√
Maciej Zaborowski	X	√	√	√	X	√	√	√

√ – present

X – not present

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 2018, the Audit Committee addressed in particular the following issues:

- assessment of the financial statements and the Management Board's reports on the activity of PZU SA and the PZU SA Group in 2017;
- discussion of the preliminary results of PZU SA and the PZU Group for 2017, H1 2018 and Q1 and Q3 2018;
- assessment of the PZU SA Management Board's motion to the PZU SA Shareholder Meeting on the distribution of PZU SA's net profit for the financial year ended 31 December 2017;

- acceptance of the PZU SA Supervisory Board Audit Committee's report on its activity in 2017;
- discussion of the draft versions of the PZU SA Supervisory Board's report on the assessment of PZU SA's financial statements for the year ended 31 December 2017, the Management Board's report on PZU SA's activity in 2017 and the Management Board's motion to distribute PZU SA's net profit for the year ended 31 December 2017;
- discussion of the risk report for Q4 2017 and for Q1-Q3 2018;
- discussion of the annual report on the Internal Audit Department's activity in 2017;
- discussion of the findings of external inspections conducted in PZU SA in 2017;
- discussion of the report on the Internal Audit Department's activity in Q4 2017 and Q1-Q3 2018;
- discussion of the risk management strategy in 2017-2020;
- information on the update of the risk management strategy in 2018-2020;
- information on the update of the PZU Group's internal audit strategy in 2018-2020;
- information on the results of monitoring the recommendations given by PWC Polska Sp. z o.o. in its "opening report";
- discussion of information regarding the BION assessment for 2017;

- discussion of the recommendations given by the statutory auditor (KPMG Audyt Sp. z o.o. Spółka komandytowa) after the audit of the Company's financial statements for 2017;
- discussion of the recommendations given by the statutory auditor (KPMG Audyt Sp. z o.o. Spółka komandytowa) after the audit of the solvency and financial condition reports (SFCR) for 2016;
- discussion of information on the implementation of the new IFRS 17 accounting standard in the PZU Group;
- issuance of a recommendation to the PZU SA Supervisory Board on consent to the extension of the scope of work related to the review of the condensed interim consolidated financial statements of the PZU SA Group for the 6 months ended 30 June 2018;
- discussion of the methodology for preparing SFCR reports of the PZU Group and the PZU SA Capital Group;
- issuance of a recommendation to the Supervisory Board on the assessment of the PZU SA solvency and financial condition report for the year ended 31 December 2017;
- issuance of a recommendation to the Supervisory Board on the assessment of the PZU Group's consolidated solvency and financial condition report for the year ended 31 December 2017;
- recommendation to the PZU SA Supervisory Board to approve the Financial Plan of PZU SA and the PZU Group for 2019;
- adoption of resolutions on the acceptance of the permitted services to be provided by KPMG to PZU SA, PZU Życie SA and PZU Group companies;
- discussion of the draft audit plan for 2019.

During the reporting period, within the framework of monitoring the risk management system, the Audit Committee was presented with the key changes to PZU SA's legal environment, leading to analysis and discussion of the challenges and risks present in PZU SA's regulatory environment. In particular, the Audit Committee dealt with the following issues related to changes in PZU SA's legal and regulatory environment:

- Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision;
- Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data;
- Act of 16 December 2016 on Rules for Managing State Property;
- Directive of 15 May 2014 on markets in financial instruments (MIFID 2) (this regulation is material for some PZU Group entities, in particular for TFI);
- Act of 15 December 2017 on the distribution of insurance.

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

Pursuant to the provisions of § 18 item 2 of the PZU SA Supervisory Board Audit Committee Bylaws, at PZU SA Supervisory Board meetings,

the Audit Committee Chairman presented information about the work of the Committee to the Supervisory Board.

Chairman
PZU SA Supervisory Board Audit Committee

/-/ Alojzy Nowak