

PZU (2011)

- report on the application of corporate governance



Warsaw 15 March 2012



1 The corporate governance principles

In 2011, PZU complied with “The Best Practices of Companies Listed on the Warsaw Stock Exchange” (hereinafter: “The Best Practices of WSE Listed Companies”) binding at the Warsaw Stock Exchange. The code of “The Best Practices of the WSE Listed Companies” is available on the website devoted to corporate governance on the Warsaw Stock Exchange at www.corp-gov.gpw.pl and on the Company's website www.pzu.pl in the section dedicated to PZU's shareholders – “Investor Relations”.

Apart from the above-mentioned corporate governance principles, PZU applies ethical principles and social responsibility principles contained, among other things, in the following documents:

- Principles of Good Insurance Practices enacted on 8 June 2009 by the General Meeting of the Polish Insurance Association (“PIA”) which associates insurance companies operating on the Polish market. The principles adopted by PZU regulate the rules of conduct for insurance companies in relations with clients, insurance agents, the PFSA and the Polish Insurance Ombudsman and the media. They also regulate the relations between the insurers themselves and the actions of insurance companies acting as participants in public trading in securities. The document is available on the website of PIA: <http://piu.org.pl/zasady-dobrych-praktyk/project/132/pagination/1>;
- The Best Practices in PZU. The document underlines the role of ethical values binding in all the aspects of PZU's operations. It describes the best business practices in PZU. It promulgates and promotes the culture of compliance with the binding law, making decisions based on ethical criteria and responsibility for the decisions made. The document is available on PZU's website: http://www.pzu.pl/c/document_library/get_file?uuid=f430d2f3-0ffa-4b72-add8-c53f3668c66a&groupId=10172;
- The social report of PZU. This is the first report concerning sustainable development and social activity of the Issuer, which has been prepared based on the guidance and standards of Global Reporting Initiative (GRI) using the Sustainability Reporting Guidelines & Financial Services Sector Supplement. The report is an element in the implementing of the corporate social responsibility (CSR) strategy in PZU and raises a number of issues in various areas, including: corporate governance, availability of services, product quality, data security, the effect of PZU's operations on the natural environment and PZU's active involvement in social activities. The document is available on PZU's website: <http://www.pzu.pl/grupa-pzu/dzialalnosc-spoleczna/raporty>.

Application of “The Best Practices of WSE Listed Companies”

The year 2011 confirmed PZU's devotion to the highest corporate governance standards. There were no violations of the rules specified in The Best Practices of WSE Listed Companies, as provided in

chapters II, III and IV, in recognition of the recommendations indicated in points I.5. and I.9. of The Best Practices of WSE Listed Companies. The announcement of not fully complying with those recommendations was not made, in line with the exemption based on the resolution of the Management Board of WSE of 11 December 2007 concerning the obligation to publish reports referred to in § 29 clause 3 of the Rules and Regulations of WSE in respect of corporate governance rules contained in section I of The Best Practices of WSE Listed Companies.

With regards to chapter I of The Best Practices of WSE Listed Companies containing "Recommendations", two points require commenting on.

With reference to recommendation I.5 of The Best Practices of WSE Listed Companies concerning the remuneration policy for members of management and supervisory bodies, the decision on the remuneration of the Supervisory Board members lies within the competencies of the General Meeting of PZU and decisions on the remuneration of the Management Board members are made by a resolution of the Supervisory Board of PZU.

The remuneration of the Supervisory Board members is clearly specified in the resolution of the General Meeting. The level of remuneration depends on the function performed in the Supervisory Board and is not due in the month in which a given Supervisory Board member was absent from the meeting for an unjustified reason. The Supervisory Board decides by resolution whether the absence of the Supervisory Board member was justified or unjustified.

The principles for remunerating the Management Board members were specified by the Supervisory Board. The remuneration of the Management Board members is composed of several components and comprises the basic monthly salary, additional benefits and an annual bonus which is paid once a year and depends on the decision of the Supervisory Board made in the form of a resolution based on the economic and financial results for a given financial year.

The remuneration policy for members of management and supervisory bodies does not contain all the elements indicated in the Recommendation of the European Commission of 14 December 2004 fostering and appropriate regime for the remuneration of directors of listed companies (2004/913/EC), as supplemented by the Recommendation of the EC of 30 April 2009 (2009/385/EC)." Moreover, PZU has not presented a declaration disclosing the remuneration policy on the corporate website. The decision concerning full compliance with the above principle in the future will belong to the Supervisory Board and the General Meeting of PZU.

Another matter requiring clarification is the recommendation contained in point I. 9 of The Best Practices of WSE Listed Companies referring to ensuring the balanced participation of women and men in the company's bodies. PZU has always maintained a policy of appointing competent and creative persons who have appropriate professional experience and education as members of its bodies. The composition of the Management and Supervisory Boards is determined by a decision of the Supervisory Board and the General Meeting, and other factors, including the person's gender, are not taken into account.

Currently, there is one woman in the seven-member Supervisory Board – Marzena Piszczek who is the Chairman of the Supervisory Board.

From 1 January 2012, in connection with the amendment to The Best Practices of WSE Listed Companies introduced by a resolution of the Board of WSE no. 20/1287/2011 and binding from

1 January 2012, PZU applies and will carry out the recommendations and principles of the amended best practices.

2 The General Meeting and shareholder rights

The Annual General Shareholders' Meeting of PZU should be held within six months after the end of each financial year of the Company.

An Extraordinary General Meeting is convened in the cases specified in the Commercial Companies Code Act dated 15 September 2000 (Journal of Laws 94 of 2000, item 1037 as amended, "the Commercial Companies Code"), the Insurance Activity Act, the Statute and when PZU's bodies or persons authorized to convene an Extraordinary General Meeting consider it appropriate.

In accordance with the provisions of the Statute, the Supervisory Board convenes:

- the Annual General Meeting when the Management Board fails to convene such Annual General Meeting within the prescribed deadline;
- an Extraordinary General Meeting when it considers it appropriate;
- an Extraordinary General Meeting when the Management Board fails to convene an Extraordinary General Meeting based on the motion of an authorized shareholder, authorized shareholders or the Supervisory Board within 14 days from the date of submitting the motion

The Statute also provides that the shareholders representing at least one half of the share capital or at least one half of the general number of votes in the Company may convene the Extraordinary General Meeting. These shareholders appoint the chairman of such Extraordinary General Meeting.

The Supervisory Board and the shareholder or shareholders of PZU representing at least one twentieth of the share capital may demand that individual matters be put on the agenda of the next General Meeting. The demand should contain justification for a draft resolution concerning the proposed point on the agenda and should be reported to the Management Board not later than twenty one days before the set date of the General Meeting. The Management Board is obliged to immediately announce changes in the agenda introduced on the demand of the shareholders, not later however than eighteen days before the set date of the General Meeting. The announcement should be made on PZU's website and in accordance with the procedure for announcing current information specified in the provisions of the Act dated 19 July 2005 on public offering and terms and conditions of introducing financial instruments to an organized trading system and on public companies (Journal of Laws No. 184 of 2005, item 1539 as amended, "the Act on public offering"), i.e. in the form of current reports.

Before the date of the General Meeting, PZU's shareholder or shareholders representing at least one twentieth of the company's share capital may submit to the company in writing or using electronic communication means, draft resolutions concerning matters introduced onto the agenda of the General Meeting or matters which are to be introduced onto the agenda. The Company immediately announces draft resolutions on its website. During the General Meeting, each shareholder of PZU may propose draft resolutions concerning matters introduced onto the agenda.

The General Meeting is convened by an announcement published on PZU's website and in line with the procedure for providing of current information specified in the provisions of the Act on public offering, i.e. in the form of current reports. The announcement should be made at least twenty six days before the date of the General Meeting.

A properly convened General Meeting is valid, regardless of the number of present shareholders or shares represented during the meeting.

The General Meetings is held in Warsaw.

The right to participate in the General Meeting only falls to persons who were PZU's shareholders sixteen days before the date of the General Meeting (the date of registering participation in the General Meeting)

At the request of an entity authorized based on dematerialized shares of PZU submitted not earlier than after the announcement of the General Meeting being convened and not later than on the first working day after the date of registering participation in the General Meeting, the entity maintaining the securities account issues a named certificate of the right to participate in the General Meeting.

The certificates of the right to participate in the General Meeting issued by the entity maintaining the securities account shall constitute the basis for that entity to prepare a list, which shall then be sent to the National Depository for Securities ("KDPW") as the entity maintaining the deposit of the securities. On this basis, KDPW shall prepare a list of the shares authorized to participate in the General Meeting. The list prepared by KDPW shall be sent to the Company and shall constitute the basis for PZU to prepare a list of shares authorized to participate in the General Meeting.

In the period between the date of registering participation in the General Meeting and the date of closing the General Meeting, a shareholder of PZU may transfer shares.

Each share gives the right to one vote at the General Meeting, taking into account the restrictions concerning the execution of voting rights. A shareholder may vote differently based on each of the shares held. PZU's shareholders may participate in the General meeting and execute the voting rights in person or through a proxy.

Competencies of the General Meeting

The General Meeting is a body authorized to make decisions through resolutions in matters related to the PZU's organization and operation. The resolutions passed by the General Meeting are reached by an absolute majority of votes, except for special cases provided for in the Commercial Companies Code or the Statute. In accordance with the Statute, the resolutions of the General Meeting concerning the following matters require a qualified majority of three fourth of the votes: (i) changing the Statute, (ii) reducing share capital, (iii) selling and leasing out the enterprise or its business unit and establishing a limited property right on them. The resolutions of the General Meeting relating to preference shares and matters of the Company's business combination by transferring all its assets to another company or a merger by forming a new company, closing the Company (also as a result of moving its seat or main office abroad), its liquidation, transformation or reduction in share capital by cancellation of a portion of shares without at the same time increasing it, require a 90% majority of the votes cast.

The most significant competencies of the General Meeting specified in the Commercial Companies Code and the Statute of PZU include passing resolutions concerning, in particular, the following:

- reviewing and approving the Directors' Report and the financial statements for the prior financial year and granting a vote of approval to individual bodies of the Company for performing their duties;
- appropriation of profit or covering loss;
- making decisions relating to claims to remedy losses arising in the course of forming the Company or its management or supervision;
- selling and leasing the enterprise or its business unit and placing restricted property rights upon them;
- cancelling shares and issuing of bonds;
- formation of reserve capitals and deciding on their use or how to use them;
- demerger of the Company, the Company's merger with another company, liquidating or closing the Company;
- appointing and dismissing the Supervisory Board members, in recognition of the State Treasury's personal right to appoint and dismiss one Supervisory Board member.

On 8 February 2012, the Extraordinary General Meeting of the Company, in amending PZU's Statute, granted competence to the General Meeting to pass a resolution concerning the Company buying or selling real estate, perpetual usufruct or a share in real estate or in perpetual usufruct with a value exceeding the equivalent of EUR 30,000,000 (thirty million Euro), gross. The said change in the Statute has not yet been registered by the registration court.

Entitlements and rights of the shareholders and the manner of their execution

The shareholders' rights and entitlements arise from the provisions of the Commercial Companies Code and PZU's Statute.

The Company's shareholder has a right to view the list of the shareholders entitled to participate in the General Meeting and request a copy of the list, while reimbursing the costs of its preparation.

The Company's shareholder may request that the shareholders' list be sent to him free of charge by electronic mail, after giving the address to which the list should be sent.

Each shareholder of the Company has the right to request a copy of the motions concerning the issues on the agenda of the next General Meeting within one week before the General Meeting. The request should be submitted to the Management Board.

Immediately after selecting the chairman of the General Meeting, an attendance list should be prepared containing the list of participants at the General Meeting, including the number of Company shares represented by each one of them and the number of votes attached to them. The attendance list should be signed by the chairman of the General Meeting and displayed during the meeting.

At the request of shareholders holding one tenth of the share capital represented at the General Meeting, the attendance list should be verified by a commission elected for this purpose, composed of

at least three persons. The persons tabling the motion have the right to elect one member of the commission.

At the request of the shareholders representing at least one fifth of the Company's share capital, the election of the Supervisory Board should be performed by the next General Meeting through voting in separate groups, even if the Statute provides for a different manner of appointing the Supervisory Board. The persons representing the proportion of the Shares at the General Meeting which is arrived at by dividing the total number of Shares represented at the General Meeting by the number of Supervisory Board members (in the Company's case – five members of the Supervisory Board) may form a separate group in order to elect one Supervisory Board member, but they may not participate in the election of the remaining Supervisory Board members. Mandates in the Supervisory Board not filled by an appropriate group of shareholders as part of the procedure described above, shall be filled by a vote of all the Company's shareholders who did not cast votes when electing the Supervisory Board members by voting in separate groups. In the event that shareholders representing at least one fifth of the Company's share capital filing a motion for electing the Supervisory Board by voting in separate groups, the provisions of the Statute providing for a different manner of appointing the Supervisory Board shall not apply in respect of such election of the Supervisory Board, in recognition of the fact that if the Supervisory Board contains a person appointed by an entity specified in a separate Act, only the remaining members of the Supervisory Board shall be elected.

During the General Meeting, the Management Board is obliged to provide a shareholder at his request with information concerning the Company, if it is justified for the purpose of evaluating the issue covered by the agenda of the General Meeting. The Management Board shall refuse to provide information if it could cause damage to the Company, its related company or a subsidiary company or cooperative, in particular be revealing technical, trading or organizational secrets of the enterprise. The Management Board member may refuse to provide information should it constitute a basis for his penal, civil law or administrative liability. A response shall be considered to have been given if the relevant information is available on the Company's PZU's website on the site designated for the shareholders to ask questions and for providing them with answers. In response to a request made by a shareholder, the Management Board may provide an answer in writing outside the General Meeting if there are valid reasons to do so. The Management Board is obliged to provide an answer not later than within two weeks from the date of making a request during the General Meeting. In the event of a shareholder making a request for information about the Company outside the General Meeting, the Management Board may provide the shareholder with an answer in writing, taking into account the restrictions concerning the possibility of causing damage, referred to above. In the documentation submitted to the next General Meeting, the Management Board reveals in writing the information provided to a shareholder outside the General Meeting, including the date of providing it and the person to whom the information was given. The information provided to the next General Meeting need not comprise the information announced to the public and provided during the General Meeting.

The shareholder to whom the information requested during a General Meeting was refused and who filed an objection in the minutes, may file an application with the registration court to oblige the Management Board to provide the information. The application should be submitted within one week of the closing of the General Meeting at which the information was refused. The shareholder may also file an application with the registration court to oblige the Company to publish the information provided to another shareholder outside the General Meeting. In accordance with the Decree of 19 February

2009 on current and periodic information to be prepared by issuers of securities and conditions for considering as equivalent the information required by the provisions of the law of a non-EU state (Journal of Laws No. 33 of 2009, item 259; "the Decree on current and periodic information"), the Company shall be obliged to provide, in the form of a Periodic Report, information provided to a shareholder due to Management Board having been obliged to do so by the registration court in the cases referred to above.

3 The Issuer's management and supervisory bodies and their committees

The Management Board of PZU

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

In the period from 1 January 2011 to 31 December 2011, the composition of the Management Board of PZU was as follows:

At 1 January 2011, the composition of the Management Board of PZU was as follows:

- Andrzej Piotr Klesyk – Chairman of the Management Board of PZU;
- Witold Jaworski – Board Member of PZU;
- Przemysław Dąbrowski - Board Member of PZU.

As of 21 April 2011, the Supervisory Board appointed Mr Tomasz Tarkowski member of the Management Board.

As of 15 May 2011, the Supervisory Board appointed Mr Marcin Halbersztadt member of the Management Board.

As of 1 July 2011, the Supervisory Board appointed Mr Bogusław Skuza and Mr Ryszard Trepczyński members of the Management Board.

On 6 October 2011, Marcin Halbersztadt resigned as a member of the Management Board of PZU.

As at 31 December 2011 and as at the date of publishing this Directors' Report, the composition of the Management Board of PZU was as follows:

- Andrzej Piotr Klesyk – Chairman of the Management Board of PZU;
- Witold Jaworski – Board Member of PZU;
- Przemysław Dąbrowski - Board Member of PZU;
- Tomasz Tarkowski – Board Member of PZU;

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- Bogusław Skuza - Board Member of PZU;
 - Ryszard Trepczyński - Board Member of PZU.

The current term of office of the Management Board of PZU commenced on 28 June 2011 and will last for the next three full financial years. The mandates of the Management Board members shall expire at the latest on the date of holding the General Meeting to approve the financial statements for the last full financial year of their performing their functions.

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

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

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

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

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

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

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

- adopting a long-term plan for the Company's development and its functioning;
- adopting a plan for the operations and development of the PZU Group;
- adopting an annual financial plan and a report on its execution;

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

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

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

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

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

The Supervisory Board

The Supervisory Board is composed of eleven members: The number of the Supervisory Board members is established by the General Meeting. The Supervisory Board members are appointed by the General Meeting for a joint term of office lasting for three full consecutive financial years. At least one member of the Supervisory Board must have accounting or auditing qualifications as defined in and in accordance with the provisions of the Act of 7 May 2009 on registered auditors and their self-government, entities authorized to audit financial statements and on public supervision (Journal of Laws No. 649 of 2009, item 77, "the Act on registered auditors"). Additionally, at least one member of the Supervisory Board should meet all the independence criteria specified in the Statute (the

Independent Member) concerning, among others, professional relations or kinship, in particular with members of management and supervisory bodies of the Issuer and the PZU Group companies. The Independent Member is obliged to submit a written statement to the Company concerning his meeting all the independence criteria provided for in the Statute and inform PZU of ceasing to meet those criteria. Moreover, the Statute grants the State Treasury a personal right to appoint and dismiss one Supervisory Board member by virtue of a written statement submitted to the Management Board, if the share of the State Treasury in the Company drops below 50% of all of the Issuer's shares. The right shall expire on the State Treasury ceasing to be a shareholder in PZU.

As at 1 January 2011, the following persons sat on the Supervisory Board of PZU:

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| 1. Marzena Piszczek | Chairman of the Board |
| 2. Zbigniew Ćwiąkowski | Deputy Chairman of the Board |
| 3. Krzysztof Dresler | Member of the Board |
| 4. Dariusz Filar | Member of the Board |
| 5. Waldemar Maj | Member of the Board |
| 6. Piotr Maciej Kamiński | Member of the Board |
| 7. Grażyna Piotrowska-Oliwa | Secretary of the Board |

On 30 June 2011, the Annual General Meeting appointed the following persons for the new term of office of the Supervisory Board of PZU:

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| 1. Marzena Piszczek | Chairman of the Board |
| 2. Zbigniew Ćwiąkowski | Deputy Chairman of the Board |
| 3. Krzysztof Dresler | Secretary of the Board |
| 4. Dariusz Filar | Member of the Board |
| 5. Waldemar Maj | Member of the Board |
| 6. Zbigniew Derdziuk | Member of the Board |
| 7. Dariusz Daniluk | Member of the Board |

On 30 June 2011, the Supervisory Board of PZU was constituted. The Supervisory Board decided to entrust the function of its Chairman to Marzena Piszczek, the function of Deputy Chairman to Zbigniew Ćwiąkowski and the function of Secretary of the Board to Krzysztof Dresler.

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

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

The Supervisory Board has constant supervision over the activities of PZU in all areas of its activities. In accordance with the Statute, the competencies of the Supervisory Board include:

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

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- analyzing and giving opinions on issues brought by the Management Board for the consideration of the General Meeting.

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

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

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

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

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

The Rules and Regulations of the Supervisory Board were enacted by the Supervisory Board on 4 March 2010.

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

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

Committees functioning as part of the Supervisory Board

The Audit Committee

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

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

The audit committee was appointed by a resolution of the Supervisory Board on 3 June 2008. As at 31 December 2011, the audit committee was composed of the following persons: Marzena Piszczek (Chairman of the committee), Dariusz Filar (member of the committee) and Dariusz Daniluk (member of the committee). Dariusz Filar was indicated by the Supervisory Board as an independent member having accounting / audit qualifications as defined in Art. 86 clause 4 of the Act on Registered Auditors.

The Nominations and Remuneration Committee

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

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

The Supervisory Board decided that the nominations and remuneration committee shall be composed of four persons. On 30 June 2011, the Supervisory Board appointed a nominations and remuneration committee composed of the following persons: Zbigniew Cwiąkalski (Chairman of the committee), Marzena Piszczek (member of the committee), Zbigniew Derdziuk (member of the committee), Dariusz Filar (member of the committee). As at 31 December 2011, the composition of the nominations and remuneration committee had not changed. The committee shall be dissolved on the date of appointing five members of the Supervisory Board by voting in groups, and its rights shall be taken over by the Supervisory Board as a whole.

The Strategy Committee

In order to properly perform supervisory functions at the Company, the Supervisory Board may appoint permanent committees with an advisory and consultative role. On 30 June 2011, the Supervisory Board appointed a strategy committee composed of the following persons: Waldemar Maj (Chairman of the committee), Krzysztof Dresler (member of the committee), Marzena Piszczek (member of the committee) and Zbigniew Derdziuk (member of the committee). As at 31 December 2011, the composition of the strategy committee had not changed.

The objective of the strategy committee is to give opinions on all documents of a strategic nature submitted to the Supervisory Board by the Management Board (in particular, the Company's development strategy) and presenting recommendations to the Supervisory Board concerning planned investments which have a significant effect on the Company's assets.

The Group Directors

As at 1 January 2011, the following persons were PZU Group Directors:

- Dariusz Krzewina;
- Rafał Grodzicki;
- Przemysław Dąbrowski;
- Mariusz J. Sarnowski;

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- Krzysztof Branny.

On 2 January 2011, Przemysław Dąbrowski resigned as PZU Group Director and on 24 January 2011, the Management Board of PZU dismissed Przemysław Dąbrowski from this post and appointed Tomasz Tarkowski Group Director from 1 February 2011.

On 4 May 2011, the Management Board of PZU dismissed Tomasz Tarkowski as PZU Group Director. On 7 July 2011, the Management Board dismissed Mariusz Sarnowski as PZU Group Director effective from 20 June 2011. On 24 August 2011, the Management Board of PZU dismissed Krzysztof Branny as PZU Group Director effective from 16 August 2011.

On 7 February 2012, the Management Board of PZU appointed Przemysław Henschke PZU Group Director as of 1 February 2012. As a result, as at the date of publishing the Directors' Report the following persons were PZU Group Directors:

- Dariusz Krzewina;
- Rafał Grodzicki;
- Przemysław Henschke.

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

The process of preparing financial statements is performed by the Finance Division of PZU supervised by a Member of the Management Board of PZU.

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

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

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

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

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

- controls and regular monitoring of the quality of the input data, supported by financial systems in which data correctness rules have been defined in accordance with the internal documents of PZU regulating the principles for controlling the correctness of accounting data;

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- mapping of data from the source systems to the financial statements, supporting the correct presentation of data;
 - analytical review of financial statements by specialists in order to confront them with the knowledge of the business and the business transactions conducted;
 - formal review of the financial statements in order to confirm compliance with the binding legal regulations and market practice in the scope of the required disclosures.

Stand-alone and consolidated financial statements of PZU are subject to:

- a registered auditor's review - in the case of bi-annual financial statements;
- an audit by a registered auditor - in the case of annual financial statements.

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

Consolidated financial reporting

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

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

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

As at 31 December 2011, PZU's shareholders holding significant packages of shares are the State Treasury and ING Otworthy Fundusz Emerytalny. The State Treasury holds 30,385,253 shares, representing 35.19% of the Company's share capital and ING Otworthy Fundusz Emerytalny holds 4,339,308 shares, representing 5.02% of the Company's share capital.

The remaining shareholders hold a total of 51,627,739 shares, representing 59.7874% of the Company's share capital.

The share capital of the Issuer is divided into 86,352,300 ordinary shares with a nominal value of PLN 1 each, giving a right to 86,352,300 votes at the General Meeting.

Table 38: Shareholding structure – as at 31 December 2010

Shareholders	31 December 2010		Share of votes at the General Shareholders' Meeting
	Number of shares	% share in share capital	
State Treasury	39 020 483	45.19%	45.19%
Other shareholders	47 331 817	54.81%	54.81%
Total	86 352 300	100.00%	100.00%

Table 39: Shareholding structure – as at 31 December 2011

Shareholders	31 December 2011		Share of votes at the General Shareholders' Meeting
	Number of shares	% share in share capital	
State Treasury	30 385 253	35.19%	35.19%
ING Otworthy Fundusz	4 339 308	5.03%	5.03%
Emerytalny	51 627 739	59.79%	59.79%
Other shareholders			
Total	86 352 300	100.00%	100.00%

The Management Board of PZU is not aware of any contracts concluded as a result of which changes might occur in the future in the proportions of shares held by the current shareholders.

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

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

7 Restrictions on execution of voting rights

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

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

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

8 Restriction concerning transferring of ownership rights to securities

The Statute of PZU does not introduce any restrictions concerning the transfer of ownership rights to securities issued by the Company.

9 The principles for amending the Statute of PZU

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

10 Amendments to the Statute of PZU

On 1 June 2011, based on a proposition of the State Treasury, the Extraordinary General Meeting of PZU passed a resolution on amending the Statute of PZU and enacted all the amendments proposed by the shareholder.

The amendments to PZU's Statute concerned the following issues:

- editorial changes concerning deleting from the Statute of PZU transitional provisions in the period of PZU's operations before and after entry to the regulated market in order to increase the transparency of the Statute of PZU by resigning from provisions which became redundant when the actual status described therein came true;
- restricting the voting rights of the shareholders, including the adoption the principles for the accumulation and reduction of votes;

The shareholders' voting rights have been restricted so that none of them at the General Meeting can have more than 10% of the total number of votes existing in PZU on the date of holding the General Meeting, with the reservation that for the purpose of establishing the obligations of the acquirers of significant packages of shares provided for in the Act dated 29 July 2005 on public offering and the terms and conditions of introducing financial instruments to an organized trading system and on public companies (Journal of Laws No. 185 of 2005, item 1539 as amended) and in the Act on insurance activities, this restriction of the voting right shall be considered non-existent. For the purpose of restricting the voting rights, the votes of shareholders between whom there is a controlling or subsidiary relationship are added up.

The restrictions do not apply to the State Treasury and shareholders acting with it based on concluded agreements concerning joint execution of the voting rights from shares. The restrictions of the voting rights shall expire when the State Treasury's share in PZU's share capital drops below 5%.

- the procedure for appointing the Supervisory Board.

Members of the Supervisory Board of PZU are appointed and dismissed by the General Meeting.

Until such time as the State Treasury's share in PZU's share capital drops below 20%, half of the Supervisory Board members are appointed by the General Meeting from among the persons indicated by the State Treasury.

- At the moment of the expiry of the right due to the State Treasury, it shall be acquired by a different shareholder representing the highest share in the share capital of PZU if that shareholder holds at least 20% of the share capital.
- Additionally, until the State Treasury ceases to be a shareholder in the Company, it has the right, in accordance with Art. 354 § 1 of the Commercial Companies Code, to appoint and dismiss one member of the Supervisory Board by virtue of a written statement submitted to the Company's Management Board. Such appointment or dismissal shall be effective from the moment of delivery of the relevant statement to the Management Board and shall not require a resolution to be passed by the General Meeting.

On 6 June 2011, in accordance with Art. 32 clause 2 points 4 and 7 of the Act on insurance activities, PZU applied to the PFSA for approval of the amendments to the Statute of PZU. On 28 June 2011, the PFSA issued a decision approving the amendments.

The amendments to the Statute came into force on the date of their entry by the registration court. On 17 October 2011, PZU received the court's decision concerning entering the amendments to the Statute of PZU in the National Court Register with effect from 6 October 2011.

The above amendments to the Statute were dictated by the need to ensure the stabilization of PZU's position. They ensure stabilization of the execution of the voting rights from shares and thus demotivate any actions leading to speculative trading in PZU's shares, especially such as might lead to temporary investment decisions. The amendments related to the principles for appointing the Supervisory Board are intended to ensure long-term stabilization of PZU's management and consistent execution of the adopted objectives.

These amendments prevent a strategic investor entering PZU.

On 8 February 2012 the Extraordinary Shareholders' Meeting of PZU adopted resolution No. 3/2012 amending the By-laws of PZU by way of adding item 11 in Article 18 and changing the wording of Article 25.2.12 of the By-laws.

The changes of the By-laws of PZU concern the competences of the Company's bodies with respect to approving the acquisition or sale of real property, perpetual usufruct right or share in real property or perpetual usufruct right.

Under Article 393.4 of the Code of Commercial Companies the acquisition or sale of real property, perpetual usufruct right or a share in real property or perpetual usufruct right requires a consent of the general shareholders' meeting, unless the company by-laws provide for otherwise. The binding By-

laws of PZU specify the competences of the Supervisory Board with respect to approving the acquisition or sale of real property, perpetual usufruct right or share in real property or perpetual usufruct right the value of which exceeds Euro 3,000,000 (Article 25.2.12 of the By-laws) and does not exclude such approvals from the competences of the General Shareholders' Meeting. Therefore, any acquisition or sale of real property, perpetual usufruct right or a share in real property or perpetual usufruct right by PZU requires the approval of the General Shareholders' Meeting, irrespective of the value of the transaction. Moreover, if the value of the transaction exceeds Euro 3,000,000, such transaction requires an additional approval of the Supervisory Board. The By-laws of PZU, however, do not specify whether the amount includes the VAT.

The amendments in question are aimed at dividing the competences in this respect between appropriate PZU's bodies and at eliminating interpretation differences which may occur due to the fact that there no clear instructions specifying if the amount of the transaction includes the VAT.