Management's Report of PZU Capital Group for the First Half of 2014

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Letter of the President of the Management Board

Ladies and Gentlemen,

in the name of the Management Boards of PZU Group companies, I would like to present you with the report from our operations for the first half of 2014.

The period covering the realisation of PZU Group strategy for the years 2012-2014, focused on PZU 2.0 concept, is slowly coming to its end. This strategy defined the new vision of the development of PZU, which will remain Central and Eastern Europe biggest and most profitable insurance group due to its strong customer orientation and high operating effectiveness. The first half of 2014 clearly shows how much has already been done towards the assumed objectives.

This period included numerous events significant from the perspective of the realisation of PZU group strategy. The premises of international expansion and reaching the top position in Central and Eastern Europe were realised through the acquisition of the assets of the RSA Insurance Group in Poland and the Baltic states of Lithuania, Latvia, and Estonia. The subjects of the acquisition with total value of approximately 360 million EUR included LINK 4, the leader in direct insurance in Poland, as well as Lietuvos Draudimas AB and AAS Balta – the most important insurance entities on the Lithuanian and Latvian markets. This transaction should be completed by the end of the year.

In April, PZU Group announced the introduction of direct claims handling, a breakthrough on the Polish market. Early July saw the implementation of the next stage of project Everest. The new IT system is a technological leap. It will allow for more effective sales and better service for our customers with complete satisfaction of their demands. Both of these solutions refer directly to the formula of PZU 2.0 – a customer-oriented company.

In July 2014, PZU Group succeeded in conducting a record issue of bonds. The value of the five-year securities acquired by investors reached EUR 500 million. The coupon value was established at 1.375 percent per year – the lowest ever in our region. The issue of the bonds, which was an element of managing the risk of asset and liability mismatch in the euro currency, saw the realisation of PZU Group strategy.

There are also visible consequences from PZU Group drive toward the best possible financial results with preservation of top profitability. I have the pleasure of informing you that the net profit of PZU Group in the first half of 2014 amounted to PLN 1,720.7 million and was greater than the net result for the first half of 2013 by PLN 45.6 million. The factors, which assisted this result, included preservation of profitability in the insurance business and growth of the net income from investments.

During the analysed period, the result from investment operations amounted to PLN 1,357.8 million, a rise of 40.1 percent from the first six months of 2013. High results in non-life insurance were achieved due to a proper adjustment of prices for protection in combination with low levels of mass claims. Additionally, the key group and individually continued life insurance, with an increase in premiums, was characterized by even higher than in previous years profitability, which confirms that our offer is properly adjusted to the Customers and our operational efficiency high.

Another reason for satisfaction is the high rate of return on the assets of PZU Group. The ROE indicator of the first half of 2014 reached 27.5 percent, with a growth of 3.2 percentage points compared to the corresponding period of the previous year.

We are entering the second half of 2014 with great optimism. I am certain that the consistently realised strategy will serve to reach the planned business objectives and will bring measurable results, which will be presented in the annual financial summaries.

Right now, I want to thank all of our employees and agents for their efforts in building the value of PZU.

With best regards,

Andrzej Klesyk

PZU President of the Board

1 Brief Description of PZU Group

Top position in non-life insurance, with a **32.4%** market share in the first quarter

With a share of **42.7%** in the first quarter, PZU Group ranks highest in regular-premium life insurance

Largest investment fund management company in the market in terms of assets under management, as it holds a share of **11.8%** in total funds' assets in the

Third largest (in terms of net assets) open pension fund – share of **13.4%** in market net assets in the first half of the year

The Capital Group of Powszechny Zakład Ubezpieczeń (PZU Group) is one of the largest financial institutions in both Poland and Central and Eastern Europe. PZU SA (PZU, the Issuer), a Polish insurance company, is at the helm of this Group.

PZU Group appeases the fundamental needs of 16 million Polish customers in the area of safety, security and stabilisation, including 6 million customers covered by group life insurance policies.

The dynamic development of PZU is based on innovativeness, ethical actions and capability to adjust to toughest market conditions, such as those triggered by the appearance of international players on the Polish market. PZU Group still holds the top position in the Polish insurance market. At the same time it is strengthening its standing in other segments of the Polish financial market.

Simultaneously, PZU Group is developing its business by acquisitions. In the first half of 2014 the implementation of PZU Group development strategy was notably impacted by the signing of an agreement resulting in the take-over of the Polish leader in direct insurance – Link4, as well as leaders operating in: the Lithuanian market – Lietuvos Draudimas AB, the Latvian market – AAS Balta, and the Estonian market – Codan Forsikring A/S.

As at 30 June 2014 PZU had completed the process of obtaining permits for AAS Balta from various regulators. Consequently, its market share in terms of gross premium in Latvia exceeds 20%.

PZU Group holds a 14% share in the non-life insurance market in Lithuania. Upon the closing of the Lietuvos Draudimas AB acquisition, the share of PZU Group in the non-life insurance market will exceed 40%.

The State Treasury is a strategic investor that invests in PZU shares. As at the end of June 2014, it held a 35.19% share in the Issuer's share capital.

Ever since it was launched on the Warsaw Stock Exchange (WSE), PZU has distributed generated profit among its shareholders. PZU operates a clearly outlined dividend policy. The key objective of the *Capital Structure and Dividend Policy of PZU Group for the Years 2013-2015*, adopted in August 2013 and revised in May 2014, is to reduce the cost of capital through optimization of the balance sheet structure by way of replacing equity with less expensive borrowed capital, and at the same time ensuring high security and maintaining funds for development. Dividend paid out of profits for the years 2010-2012 catered for high dividend rates, as compared with other large companies listed on the regulated market. The savings of any shareholder who purchased PZU shares in May 2012 at the initially offered price have, by mid-2014, increased by 77%.

PZU Group's presence in the debt market also deserves attention. On 3 July 2014 PZU Finance AB (publ) issued 5-year bonds that were introduced to trading on the regulated market of the Irish Stock Exchange.

PZU – strongly customer-oriented approach

The products of PZU Group accompany its individual customers at all stages of life, and Polish companies at all stages of development. PZU Group not only ensures comprehensive insurance protection in all the crucial areas of private and economic life, but also offers various possibilities of multiplying one's savings, including amassing funds for a complementary pension.

PZU Group is an innovator in the Polish financial market. It was the first institution in Poland to create a voluntary pension fund (Dobrowolny Fundusz Emerytalny) and add individual pension security accounts (Indywidualne Konta Zabezpieczenia Emerytalnego) to its offer. It is a forerunner in the area of health insurance development and was first to launch a medicine insurance on the Polish market. It also actively participates in fostering the development of voluntary health insurance. Thanks to the acquisition of medical companies, such as Orlen Medica (CM Medica) and PROF-MED, PZU Group develops its activity in the field of health insurance.

The outstanding feature of PZU is also a wide distribution network. Customers of PZU Group may avail themselves of the largest network of sale and service outlets on the Polish market. This network consists of: 412 outlets, 8,600 agents and various electronic distribution channels (helpline, Internet). PZU Group operates an efficient claims handling system. So as to tighten relations with several millions of its customers, PZU is also implementing a cutting-edge IT system.

PZU's key objective is to meet highest customer service standards. Large-scale customer satisfaction research has shown that 91% of customers is satisfied with the claims handling process. Moreover, in April 2014 PZU introduced a direct claims handling procedure which offers the Customers holding a TPL policy at PZU an opportunity to have their claim settled by PZU even if the party who caused the collision hold a policy with a different insurance company.

PZU – high operational effectiveness

The financial results generated by PZU Group in recent years allow for adding it to the list of the most profitable financial institutions in Poland. At the same time, these translate into high activity effectiveness rates. In the first half of 2014, ROE (Return on Equity) equalled 27.5%. In recent years, the loss ratio in the insurance portfolio has been decreasing. In the first half of 2014, the combined ratio (COR) in non-life insurance remained at the low level of 86.1%.

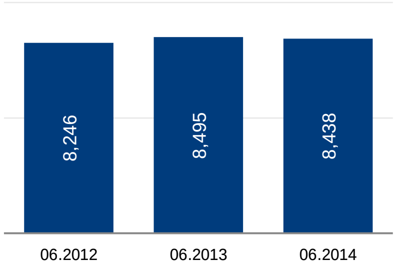
PZU Group observes any and all norms regarding the safety and security of its activity. As at 30 June 2014, equity equalled PLN 11,917.3 million. Solvency margin coverage with own funds of both PZU and PZU Życie notably exceeded the insurance sector average.

Property and third-party property insurance	**Accident insurance**	**Savings**	**Securing the future of immediate family**	**Pension**
motor TPL and casco insurance Financial insurance	Accident insurance Health insurance	Structured products Participation units in TFI and UFK	Group and individually continued protective insurance Individual protective insurance	II Pension Pillar – Open Pension Funds III Pension Pillar – (PPE – Employee Pension Plans, IKE – Individual Pension Accounts and IKZE – Individual Pension Security Accounts).

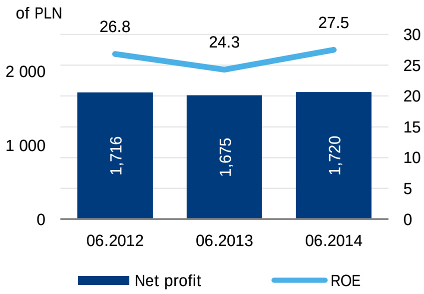
KPI	06.2014	06.2013	06.2012
ROE	27.5%	24.3%	26.8%
Combined ratio (COR), non-life insurance	86.1%	82.3%	90.5%
Group insurance result margin*	24.4%	23.3%	20.9%
DY	12.2%	7.3%	6.7%

* Ratio calculated for gross written premium in the group insurance and individually-continued insurance segments, except for one-off effects

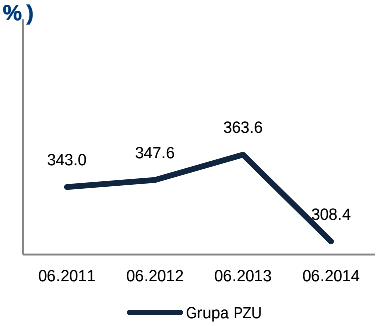
Gross written premium (millions of PLN)



Net profit (millions of PLN) and ROE (%)



Solvency as per Solvency I (%)



Gross written premium	Net profit	Solvency
In the years 2012-2014, premiums went up by 2.3% p.a.	ROE of 27.5% confirms that PZU Group is one of the most profitable financial institutions in Poland.	PZU Group is characterised by a security ratio higher than the insurance sector average. Drop of the solvency ratio in comparison with the first half of 2013 in connection with the payment of the advance dividend from the capital surplus.

PZU insurance portfolio is not exposed to concentration risk, as it is greatly diversified. A notable part of the portfolio consists of premiums obtained from mass customers (non-life insurance) and customer groups (with moderate insurance sums).

PZU – socially responsible

The social responsibility of the entire company and each and every individual employee is the cornerstone of all PZU activities, as well as a prerequisite for its sustainable development. By supporting the implementation of business goals, PZU takes CSR actions in the following areas:

Customer relations – cooperation ethics form the basis for customer relations and high service standards.

Activities taken to the benefit of the society, driven by concerns about financial awareness and comprehensive security.

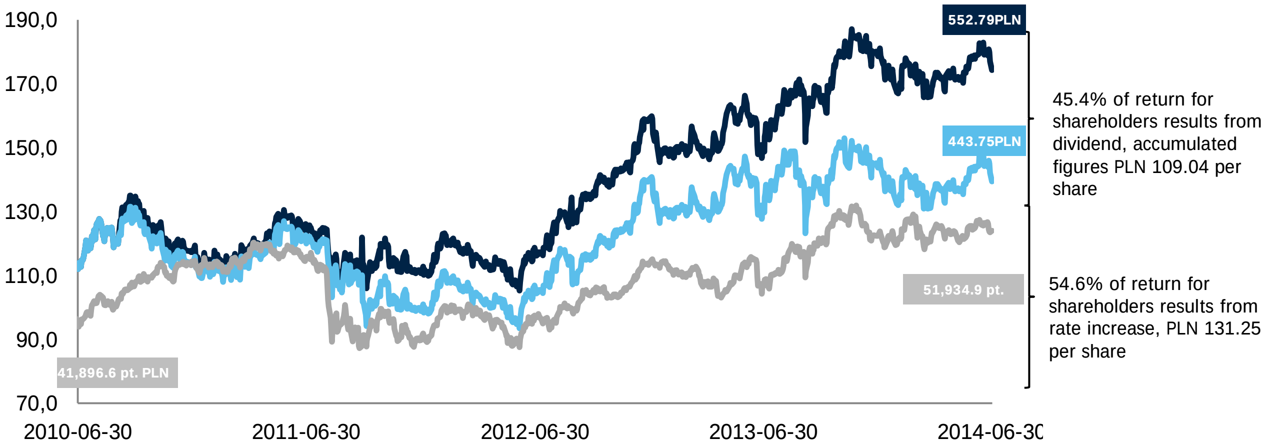
Employee relations – shaping a result-oriented organisational culture.

Impact on the environment, especially in the area of delivering environment-related education to employees.

PZU Group’s adherence to strictest CSR norms has been confirmed by the fact that PZU is listed on the WSE *RESPECT Index* of socially responsible companies, as well as on the CEERIUS (*CEE Responsible Investment Universe*) sustainable development index of the Vienna Stock Exchange.

Since 2009, both PZU and PZU Życie have maintained Standard&Poor's A rating. This rating is one of the highest ratings awarded to companies in Poland.

Price quote of PZU shares from WSE floatation date (12 May 2010 = 100) until 30 June 2014



PZU TSR – total shareholder return rate, takes dividend paid out by PZU into account

Basic consolidated data of PZU Capital Group for the first halves of the years 2012-2014

	06.2014	06.2013	06.2012
Gross written insurance premiums (PLN million)	8,438	8,495	8,246
Fee and commission income (PLN million)	131	143	116
Income from investment activities (PLN million)	1,358	969	1,524
Net claims and benefits (PLN million)	(5,418)	(5,459)	(5,515)
Acquisition costs (PLN million)	(1,036)	(973)	(999)
Administrative expenses (PLN million)	(702)	(641)	(687)
Operating profit (PLN million)	2,236	2,145	2,136
Net income (PLN million)	1,720	1,675	1,716
Total assets (PLN million)	63,822	62,602	54,268
Financial assets (PLN million)	55,628	54,329	48,889
Equity (PLN million)	11,917	13,289	12,741
Technical provisions (PLN million)	38,506	36,518	33,585

Most significant events in the first half of 2014

Non-life insurance	Gross written premium of PLN 4,294 million, i.e. 1.0% lower than in the first half of 2013, due to drop in motor insurance premiums. Market leader with 32.4% share, and 35.0% share in motor insurance market (as at after Q1 2014). Signing of agreement resulting in the take-over of Poland's direct insurance leader – Link4.
Life insurance	Gross written premium compliant with IFRS of PLN 3,909.1 million, fell by 0.9%. Market share of 30.6%, as regards regular premium: 42.7% (as at after Q1 2014). Stable increase of premium in group and continued insurance by 2.1% p.a., development of protective group insurance (increase in average premium and number of insured persons), complementary sales of riders and steadily growing insurance sum in individually-continued products, as well as continued cooperation with bank intermediaries in protective insurance sales. Development of group health insurance (dynamic acquisition of new customers in out-patient insurance due to introduction of more attractive products in the second half of 2013).
Investment funds	Nett assets of PLN 24 billion as at the end of the first half of 2014 – increase by PLN 1.8 billion as compared to the end of 2013. Retaining leading market position with market share of 11.8%. Retaining leading position in Employee Pension Plans (PPE) and registration of new PPEs.
Pension funds	PZU ranks third in the pension fund market, with a share of 13.4% in net assets value. Retaining the leading position in the IKZE market among voluntary pension funds. Active participation in works on the Pension System Act.
Foreign activity	The signing of an agreement resulting in the take-over of leaders in the Lithuanian market – Lietuvos Draudimas AB, the Latvian market – AAS Balta and the Estonian company Codan Forsikring A/S. A share of more than 20% in property insurance premium in Latvia thanks to the settlement of the AAS Balta acquisition. A 14% share in non-life insurance in Lithuania (exclusive of Lietuvos Draudimas AB).
Infrastructure	Launch of direct claims handling procedure and further improvements to the claims handling and customer service processes. Further stages of launching the new IT system *Everest* for processing non-life insurance policies. Further extension of own outlets.
HR management	Research has been conducted to assess PZU Group employees' involvement (the obtained result equalled 48%).
Financial results and secure activity	Net profit of PLN 1,720.0 million, i.e. 2.7% higher than in the corresponding period in 2013. ROE of 27.5% – increase by 3.2 p.p. as compared to 2013. Maintaining above-average security ratios. Active works on implementing Solvency II requirements.
Equity management	Issue of bonds on 3 July 2014, introduced to trading on the regulated market of the Irish Stock Exchange. Update of the capital and dividend policies – accepting payment of dividend from capital surplus in the amount of PLN 1.7 billion.

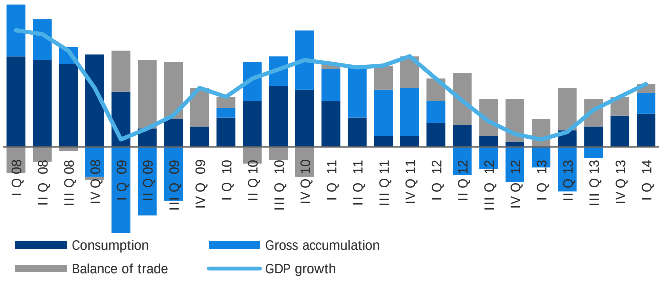
2 Business environment in the first half of 2014

2.1 Key economic trends of the Polish economy

Gross Domestic Product

The GDP growth clearly accelerated in the first quarter of 2014 with the livening of the domestic demand. During this period, the GDP dynamics were at 3.4% year-on-year in comparison to the 2.7% year-on-year of the previous quarter. The biggest surprise was growth of investments in fixed assets by 10.7% year-on-year, which was caused by the earlier than usual start of construction work and the purchases of cars with a “partition”. It should be noted that the growing trend of enterprise investments was preserved even after the exclusion of the aforementioned one-off factors. In turn, the GDP dynamics change in the first quarter was negatively affected by the drop of stock (-0.1 percentage points). In the conditions of actually rising remuneration and the improving condition of the labour market, the individual consumption growth pace grew in the first quarter to 2.6% year-on-year. From mid-2013, the import volume growth accelerated (in the depiction of national accounts, 6.9% year-on-year in the first quarter), reflecting the gradual livening of domestic demand. However, thanks to the solid growth of the export volume (7.6% year-on-year), the net export added 0.5 percentage points to the GDP growth pace in the first quarter. Therefore, the economic growth was based on more solid foundations – other than the net export, it was also supported by the rising domestic demand with pace of 3.0% year-on-year.

Composition of GDP growth



According to the initial information from the Central Statistical Office (CSO), the GDP dynamics in the second quarter slowed down to 3.2% year-on-year. The accelerated start of the construction season had negative effect on the annual dynamics of construction production and investments in the second quarter. The months of May and June saw the slowdown of industrial sold production, while the PMI indicator in industrial processing was gradually reduced, signalling a drop in export orders. The month of June also saw a considerable slowdown of the retail commodity sales dynamics. We assume that these signals are indicating a periodical slowdown of the economic livening caused by negative external impulses. The crisis in Ukraine and the economic slowdown in Russia – including the raised uncertainty - had a negative effect on economic growth. However, thus far the economic data have not confirmed the weakened dynamics of all Polish export, although its volume to these two countries was greatly reduced. However, the second quarter saw the weakening of the GDP growth pace in the entire Euro zone and in Germany. Recent information seems to indicate that at the start of the third quarter of 2014, the global economic growth has accelerated, which should also benefit the Polish economy. The conditions for domestic demand are still favourable. There is maintenance of relatively high real remuneration dynamics and furthermore – the salary fund in enterprises and the entire economy. The situation on the labour market is improving. Furthermore, the survey of the NBP prosperity level shows that the enterprises in good financial condition are more eager to invest.

Labour market and consumption

In the first half of 2014 situation on the labour market was improving. During this period, the average monthly employment in the enterprise sector grew by 35 thousand people in comparison to just 3 thousand during the second quarter of last year, and its annual dynamics in June were at 0.7% year-on-year, the peak result since the end of 2011. The employment growth was accompanied by reduced unemployment. In June, the registered unemployment rate was 12.0%, lower by 1.4 percentage points than that at the end of 2013.

The prosperity surveys indicate that the pressure on raising the remuneration is relatively low, but the average monthly remuneration in the enterprise sector grew in the first half of 2014 by 4.1% year-on-year compared with 2.9% year-on-year in all of 2013. Low inflation was beneficial to the actual remuneration growth. The actual growth of the average monthly remuneration in the enterprise sector in the first half of 2014 was 3.7% year-on-year – the strongest rise in over three years. The improvement in the labour market, the actual remuneration growth, and the accompanying positive attitudes of households formed favourable conditions for the growth of individual consumption growth, which saw the growth of its dynamics in the first quarter to 2.6% year-on-year.

Inflation, monetary policy, and interest rates

The CPI inflation during the first half of this year was very low (0.4% year-on-year) and decreased in the second quarter to 0.3% year-on-year compared to 0.6% year-on-year in the first quarter. The low level of inflation was encouraged also, in addition to the external situation, by the decline in prices of food and energy. In the first half of 2014, the core inflation (with the exception of food and energy prices) amounted to 0.8% year-on-year.

The NBP reference rate remains in the first half of 2014 at the level of 2.50%. Between March and June, the Polish Monetary Policy Council supported the declaration of maintaining a low level of interest rates at least until the end of the third quarter of 2014. However, during a meeting in July, in the absence of changes in interest rates, the MPC abandoned any method of signalling their next level.

Public finances

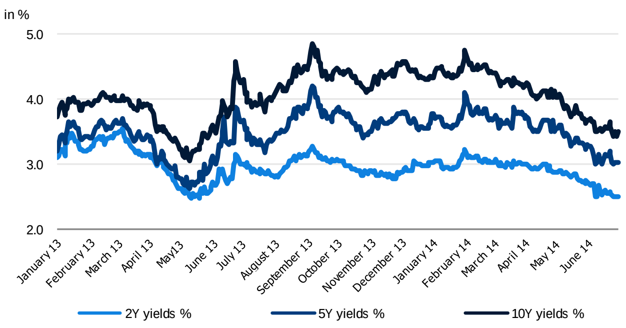
Following June of this year, the state budget deficit was at 25.4 billion PLN, which is approximately 53% of the plan for 2014. Its level continues to be clearly lower than that planned in the schedule. After an inferior May, the execution of the budget revenue in June was very good once again (over 8% over the government premises. The budget revenue for the first half of 2014 was over 6% greater than that in 2013, with exclusion of the June NBP profit payment during that year. It was also almost 4% greater than scheduled. In 2014, the planned fiscal income may be greater than planned by several billion PLN. An additional source of savings for the state budget is provided by the fact that the number of Poles who decided to remain in open-end pension funds was lower than that assumed in the budget premises.

2.2 Financial market situation

In the first half of the current year, prices in the stock market moved without a clearly defined direction and were characterized by a rather high volatility. Improving growth conditions and a favourable condition of the global capital markets encouraged in February increases of the Polish stock market indices. In early March, the crisis in Ukraine reversed this trend, yet the second half of the month was more favourable. April brought further decreases following the situation on the most important global markets, however in May the losses were recuperated. In June, the indices decreased again, reflecting slightly worse economic data. WIG and WIG 20 indices between the end of December 2013 and the end of June this year increased respectively by 1.3% and 0.3%.

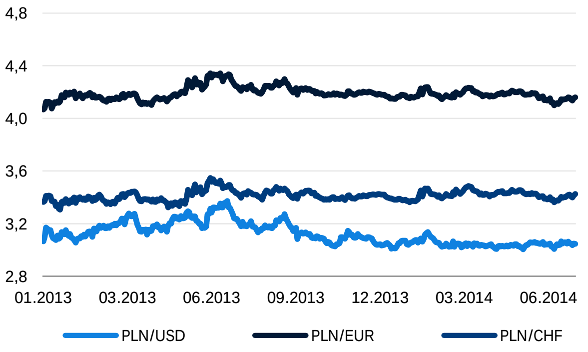
The yield of the Polish Treasury bonds, after the turbulent end of the year 2013, continued increasing until February and after the redemption of the bonds owned by OFE, it decreased, particularly on the long end of the yield curve. Since the end of the March, the bond prices showed an upward trend following the core markets, especially the German one. In June, the decisions of ECB on the loosening of the monetary policy favoured the decreasing of the Polish bond yield. Although the ECB has not decided yet on the use of the “quantitative easing”, because of the abandonment of the sterilisation of the SMP[1] programme and the impact of the planned TLTRO[2] operations, as well as the extended access to ECB liquidity under the existing rules, a significant amount of liquid funds will be provided to banks that will "spill over" on the debt market. As a result, the bond yield in the Eurozone dropped to significantly low levels. Among the important factors influencing the Polish bond market there were also a persistent low level of inflation, an improving fiscal situation of Poland (reduction of the deficit, decline in public debt, high degree of financing of loan needs), as well as robust economic growth. Ultimately, in the period between the end of December 2013 and the end of June 2014, the Polish yield curve decreased by 53 bps for 2-year Treasury bonds and by 75 and 83 bps respectively for 5- and 10-year bonds.

Treasury bond yields in 2013 and 1H 2014



In the first half of the year, the PLN exchange rate was very stable in comparison to the American Dollar USD. During this period, the rates of EUR/PLN and USD/PLN increased respectively by 0.3% and 1.2% at the end of June compared to the end of 2013, whereas the CHF/PLN rate increased at the same time by 1.3%.

PLN quotation in 2013 and the first half of 2014



2.3 External environment in Ukraine and the Baltic states

Ukraine

Over the first half of 2014, the Ukrainian economy was experiencing recession. According to the data of the State Statistical Authority of Ukraine, between January and June of 2014, the Ukrainian GDP amounted to UAH 3.1 billion, a 3% drop in comparison to the corresponding period of the previous year. Over the same period, the level of industrial production dropped in comparison to the level of industrial production in the corresponding period of 2013 by 4.7%. The greatest industrial production drop was recorded in production of machinery (18%), the chemical industry (14.1%), and the steel industry (8.7%).

The difficult macroeconomic situation resulted from the instable political situation and social anxiety during the first months of 2014, as well as the Crimea annexation and the warfare operations in eastern Ukraine.

Despite these unfavourable conditions, insurance agencies were able to collect UAH 559.4 million of gross premium written during the first quarter of 2014, i.e. 18.1% more than in the corresponding period of 2013. The growth was reached mainly due to the sales of insurance in foreign currencies (e.g. USD) and the depreciation of the UAH. The gross premium written of the property and other personal insurance market during the first quarter of 2014 amounted to UAH 4.7 billion, i.e. was 38.9% lower than during the corresponding period of the previous year, which was mainly caused by the drop in the instalment for active reinsurance obtained from agencies-residents (from UAH 3.1 to UAH 0.9, i.e. by 69.4%), which had been

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[1] Security Markets Programme

[2] Targeted Longer-Term Refinancing Operation

used during the previous periods to evade tax payments.

Baltic States

Following the strong economic livening over the years 2011-2013 observed in the Baltic states, the GDP dynamics started to gradually slow down in the first quarter of 2014. Whereas the drop was relatively small in Latvia and Lithuania and both countries continued to develop at a rather high pace (adequately 2.3% and 3.0%), the GDP growth rate of Estonia dropped in the first quarter of 2014 to -1.1%. This was the result of both the weakened domestic demand, specifically investments, and drop of export. The reduced export resulted from the reducing demand from the markets outside of the Euro zone (including Ukraine and Russia). At the same time, there was a noticeable reduction of the demand from Scandinavian countries, particularly in Estonia. The slowdown of export in the Baltic states was also influenced by the deteriorated competition caused by raised remuneration and simultaneously reduced labour productivity growth pace.

In the first half of 2014, the condition of the insurance sector in the Baltic states was good. In Lithuania, the gross premiums written of personal and property insurance agencies was LTL 682.8 million, which was an increase of 3.4% in comparison to the previous year, whereas that of life insurance agencies was LTL 331.0 million(growth by 18.3%). In turn, in Latvia, the gross premiums written for personal and property insurance over the first six months of 2014 was EUR 123.8 million and was higher by 9.9% in comparison to the corresponding period of the previous year.

2.4 Macroeconomic factors with potential impact on the operations of the Polish insurance sector and the operations of PZU Group in 2014.

The economic growth in 2014 will receive increased support from domestic demand and is estimated to reach approximately 3.3.%.

We are observing the maintenance of relatively high real remuneration dynamics and the salary fund in enterprises and the entire economy. The situation on the labour market is improving. From this perspective, the recent slowdown of the retail sales growth seems to be a disturbance rather than a symptom of more serious problems. Furthermore, the enterprises in good financial condition are more eager to invest. Late 2014 should also see the start of public investments applying European Union funds. Recent information seems to confirm that in the second half of 2014, the global economic growth will accelerate, which should also benefit the Polish economy, and consequentially the insurance sector.

However, we are noticing threats to economic growth, which are mainly associated with the geopolitical condition on our region and the potential escalation of sanctions in the economic relations between the EU and Russia. The risen uncertainty associated with the Ukrainian crisis and the Russian sanctions is already having negative impact on the atmosphere of Polish prosperity. Although the potential Russian countersanctions are not expected to have considerable impact on the Euro zone economy at present time, in the condition of weak GDP growth and still complicated situation of the region’s banking sector, a potential external shock could force the region into a deflation trap. This would also have negative impact on the Polish economy.

The very low inflation level will likely be maintained in Poland until at least the spring of 2015. The lack of inflation pressure in the Euro zone will continue to serve as a factor slowing down our price growth. The Russian embargo for Polish vegetables and fruits and the likely crop abundance should reduce the prices of food in the near future. Next year, the inflation may rise to approximately 1.1% on annual average and approximately 1.6%-1.7% year-on-year in December. However this greatly depends on the projected raise of the food and energy prices. The low inflation and signals of economic growth slowdown increase the probability of interest rate lowering by the Monetary Policy Council. With reduced interest rate, the very low inflation in comparison to the low profitability level of German obligations will also likely favour the low profitability of Polish obligations.

Meanwhile, the low market interest rates create a risk for the insurance and retirement fund sector. They make it difficult for the life insurance agencies and retirement funds to reach the guaranteed rates of return.

Forecast for the Polish economy	**2014P***	**2013**	**2012**	**2011**
Real GDP growth in % (year-on-year)	3.3	1.6	2.0	4.5
Individual consumption growth in % (year-on-year)	3.0	0.8	1.3	2.6
Increase in gross expenditure on fixed assets in % (year-on-year)	7.5	(0.2)	(1.6)	8.5
Price increase in % (year-on-year, end of year)	0.3	0.7	2.4	4.6
Nominal wage growth in domestic economy in % (year-on-year)	4.6	3.4	3.7	5.6
Unemployment rate in % (end of year)	12.3	13.4	13.4	12.5
NBP base rate in % (end of year)	2.00	2.50	4.25	4.50
Average annual EUR/PLN exchange rate	4.15	4.20	4.19	4.12
Average annual USD/PLN exchange rate	3.06	3.16	3.26	2.96

Source: PZU Macroeconomic Analysis Office

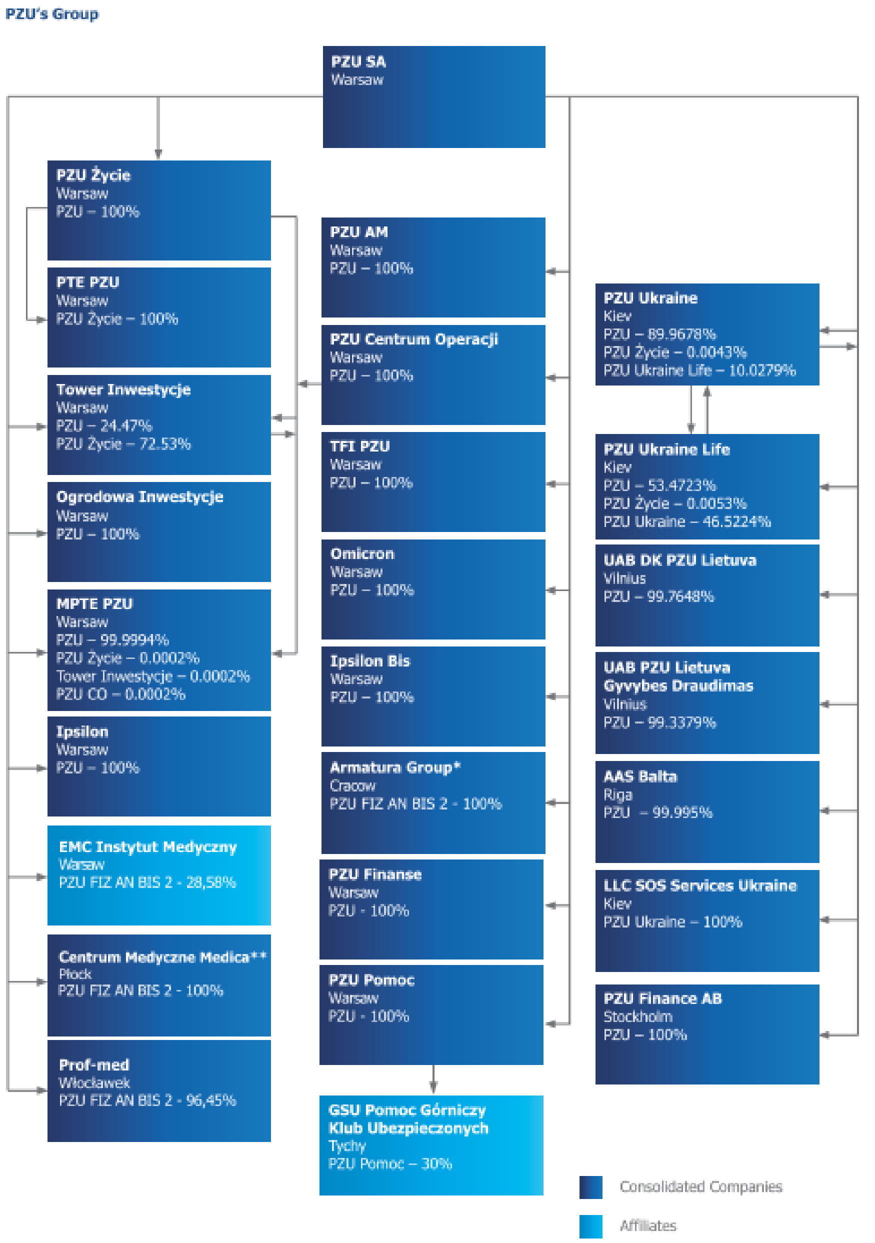
*Forecast

3 Activity of PZU Group

3.1 Structure of PZU Capital Group

PZU Group is engaged in various types of insurance-related and financial activity. Companies belonging to Group offer services in the area of life insurance, as well as non-life insurance. These entities also manage customer assets within an open pension fund and investment funds.

Structure of PZU Capital Group (as at 30 June 2014)



*Armatura Group consist of the following companies: Armatura Kraków SA, Armatoora SA, Armaton SA, Armagor SA, Armadimp SA and Armatura Tower Sp. z o.o.

** Centrum Medyczne Medica Group consists of the following companies: Centrum Medyczne Madica Sp. z o.o. and Sanatorium Uzdrowiskowe „Krystynka" Sp. z o.o.

The PZU's Group structure does not include investemt funds.

PZU – as the parent entity – has been entrusted with control functions in its companies' supervisory bodies, and avails itself of this position to take key decisions on the scope of activity and finance of the entities forming part of PZU Group. PZU equity links with the companies are moreover strengthened by ties of business nature, whereby these transactions are performed under the arm's length principle.

The following structural changes were witnessed by PZU Group in the first half of 2014:

- on 2 June PZU purchased Goldcup 9812 AB with its registered office in Stockholm (Sweden), share capital of SEK 500,000. On 16 June 2014, in compliance with the entry to the Swedish Register of Entrepreneurs, the company changed its name to PZU Finance AB (publ).
- On 8 April 2014 PZU FIZ AN BIS 2 acquired from PKN Orlen 17,983 shares of face value of PLN 500.00 each in Centrum Medyczne Medica, constituting 100% of shares in the share capital of this entity and granting the right to 100% of votes at the Shareholders Meeting. Share transfer took place on 9 May 2014. The total acquisition price of 17,983 shares in Centrum Medyczne Medica amounted to PLN 43,344 thousand. Under the agreement on the sale of shares in Centrum Medyczne Medica, PZU became the indirect holder of 4,525 shares in the company operating under the name of Sanatorium Uzdrowiskowe “Krystynka” Sp. z o.o. of face value of PLN 500.00, constituting 98.58% of shares in its share capital and granting the right to 98.58% of votes at the Shareholders Meeting, owned by CM Medica.
- On 8 April 2014 PZU FIZ AN BIS 2 acquired from Anwil 136 shares of face value of PLN 500.00 each in Prof-med, constituting approx. 96.45% of shares in the share capital of this entity and granting the right to approx. 96.45% of votes at the Shareholders Meeting. Share transfer took place on 12 May 2014. The total acquisition price of 136 shares in Prof-med amounted to PLN 3,760 thousand.

Moreover, on 12 August 2014, PZU FIZ AN BIS2 signed a conditional agreement to purchase Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji zdrowia Elvita – Jaworzno III from Grupa Tauron. As a result of the purchase, the fund will become a direct owner of 57.0% of shares in Proelmed.

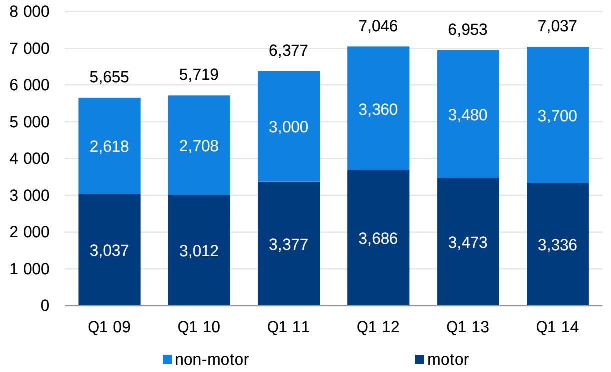
3.2 PZU – activity in the Polish non-life insurance market

Market situation

After Q1 2014 the non-life insurance market, measured at gross written premium, witnessed an increase by PLN 83.6 million in total (+1.2%), as compared with the corresponding period of the previous year. The greatest influence on premium increase was exerted by higher sales of other damage and loss property insurance (by PLN 86.4 million, + 17.0%) and financial risk insurance (by PLN 55.7 million, + 27.9%).

Non-life insurance market – gross written premium	**1 January – 31 March 2014**			**1 January – 31 March 2013**		
	PZU	**Market**	**Market, excluding PZU**	**PZU**	**Market**	**Market, excluding PZU**
Motor casco	508	1,356	848	518	1,361	843
Motor TPL	667	1,999	1,332	734	2,143	1,409
Other products	1,107	3,682	2,575	1,068	3,449	2,381
TOTAL	**2,282**	**7,037**	**4,755**	**2,320**	**6,953**	**4,633**

Gross written premium of non-life insurance companies in Poland (millions of PLN)



Source PFSA (www.knf.gov.pl). Quarterly Bulletin, Insurance market 1/2014, Insurance market 1/2013, Insurance market 1/2012, Insurance market 1/2011, Insurance market 1/2010, Insurance market 1/2009

Moreover, growth of the entire non-life insurance market was fuelled by notably higher sales of sickness insurance (by PLN 20.4 million, + 14.3%, as compared with previous year).

The drop of motor insurance instalments concerned mainly motor TPL insurance for individuals (total premium lower by PLN 96.4 million in comparison to the corresponding period of the previous year), primarily due to the lower rates.

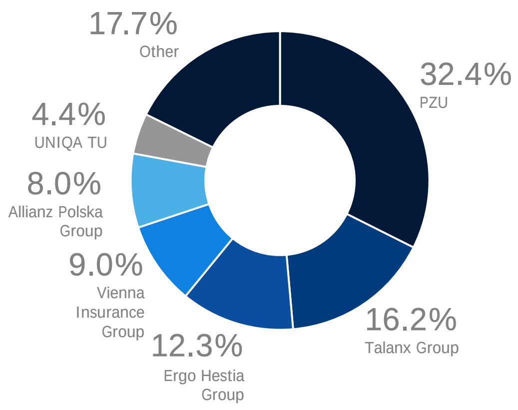
In Q1 2014 the entire non-life insurance market generated a net result of PLN 546.6 billion (lower by PLN -206.0 million, -27.4%, as compared with the corresponding period of the previous year). The technical result of the market, to a large extent not taking into account income on investments and deposits, fell by PLN 30.0 million, i.e. by -5.6% as compared with the previous year, to PLN 501.5 million. This change was triggered mainly by the decrease in net premiums earned which dropped by PLN 72.6 million, accompanied by a lower claims ratio which dropped by 1.9 pp.

A negative technical result has been recorded in motor TPL insurance which amounted to PLN -20.9 million, i.e. PLN 80.4 million less in comparison with the same period in the previous year.

Positive changes have been witnessed in insurance against damage caused by natural disasters (increase by PLN + 52.4 million, +73.1%) and an increase in accident insurance (growth by PLN +22.5 million, +26.1%).

An additional factor with beneficial effect on Q1 2014 results was constituted by lower claim payments in respect of damage caused by natural forces. These payments were lower by PLN -36.4 million, i.e. -17.1%, as compared to the corresponding period of the previous year.

Non-life insurance companies - share of gross written premium in Q1 2014 (%)



Capital groups: Allianz – Allianz, Euler Hermes; Ergo Hestia – Ergo Hestia, MTU; Talanx – Warta, Europa, HDI; VIG – Compensa, Benefia, Inter-Risk

Source: PFSA Biuletyn Kwartalny (Quarterly Bulletin of the Polish Financial Supervision Authority). Insurance market 1/2014.

PZU’s activities

Within PZU Group, activity in the Polish non-life market is pursued by its parent company, i.e. PZU.

Technical results	1 January – 31 March 2014			1 January – 31 March 2013		
	PZU	**Market**	**Market, excluding PZU**	**PZU**	**Market**	**Market, excluding PZU**
Motor casco	59	107	48	75	122	47
Motor TPL	84	(21)	(105)	159	57	(102)
Other products	223	416	193	237	353	116
TOTAL	**366**	**502**	**136**	**471**	**532**	**61**

In recent years, PZU has been insuring approx. 1/3 of the non-life market. After Q1 2014 it held a 32.4% share of the non-life insurance market (as compared to 33.4% after Q1 2013). PZU had a relatively strong market position in motor TPL insurance (a share of 37.6%). As regards corporate motor insurance, this share was even higher and equalled 45.3% for motor casco insurance and 40.7% for motor TPL.

After Q1 2014 the share of PZU's net result in the market net result amounted to 55.0%. The market share of 32.4% calculated in accordance with gross written premium confirms high profitability of insurance and effective asset management.

PZU offers a wide range of non-life insurance products, including motor, property, personal, agricultural insurance as well as TPL insurance. As at the end of 2013 PZU's offer involved more than 200 insurance products. Motor insurance constitutes the most significant group of products offered by PZU, in terms of both the number of valid insurance contracts and premium share in total gross written premium value.

In order to meet its Customers’ needs, in 2013 PZU introduced changes to its offer that concerned basic insurance product categories aimed at all customer segments.

In the first half of 2014, the main activities in the mass insurance sector were related to implementation of further products in new product management system Everest. New general insurance terms as well as tariffs for house insurance, mandatory TPL for entrepreneurs who conduct business activity in the scope of property and personal protection, voluntary TPL insurance – general for individual Customers and SME, and professional TPL, TPL for natural persons in private life, PZU Wojażer and accident insurance for children, youth and personnel were developed. Insurance products were modified to adopt PZU offer to market requirements and with the view to make them more competitive and provide the Customers with optimal insurance protection.

In the scope of financial insurance for corporate Customers and SME, PZU mainly retained selective sales of bonds.

In the first half of 2014 PZU continued and tightened cooperation with trading partners that owned large Customer databases or servicing mass payments (including electricity companies). As part of the strategic partnership, PZU offers such types of insurance as: electronic equipment (telephone, laptop), household, hospitalization, TPL in private life and *Dom Assistance* (Home Assistance).

In the area of bancassurance PZU continued to cooperate with leading banks operating in the Polish market, (including PKO Bank Polski, ING Bank Śląski, Bank Millenium and BGŻ). As part of the above cooperation, PZU offers customers of the banks, among others, protective payment card programmes and facility and building insurance supplemented to mortgage loans.

In the first half of 2014 PZU accumulated gross written premium of PLN 4,294.4 million, i.e. lower by 1.0% than that generated in the corresponding period in the previous year. Also, as compared with the previous year, its structure was altered, therefore:

- the value of motor TPL insurance amounted to PLN 1,343.5 million and was lower by 6.4% than in the corresponding period of the previous year.

  This represented 31.3% of the entire portfolio, i.e. its share decreased by 1.8 pp. as compared to the first half of 2013. Lower motor TPL insurance value at PZU resulted mainly from the drop in the average premium and decrease in sales (strong competition in the market).
- on account of motor casco insurance, PZU collected PLN 1,025.5 million, i.e. 0.2% less than in the corresponding period of the previous year. The share of casco insurance in total premium went slightly up from 23.7% in the first half of 2013 to 23.9% in the first half of 2014.
- dynamic growth witnessed in the sales of such insurance as: PZU DOM, corporate motor TPL and financial insurance, contributed to the 2.7% increase in written premiums in other products. As a result, the share of gross premium arising from non-motor insurance in total premium went up to 44.8% (as compared to 43.2% in the first half of 2013).

In the first half of 2014 PZU settled gross claims and gross benefits amounting PLN 2,124.4 million, i.e. 3.0% more than in the corresponding period in the previous year.

In the first half of 2014 PZU generated net profit of PLN 1,899.4 million, of which PLN 1,330.0 million was received as dividend from PZU Życie.

Factors that will impact activity in the non-life insurance sector in the year 2014

Apart from force majeure events (such as floods, draughts and spring ground frost), the following can be classified as the major factors influencing the non-life insurance sector in the second half of 2014:

- maintaining economy recovery in Poland. Good financial condition of households may result in an increase in sales of motor insurance policies (effected by a growing numbers of new cars purchased), an increase in sales of mortgage loans and, as a result, of insurance for borrowers and a growing demand for other property insurance. On the other hand, good financial standing of companies may bring about a lower credit risk and a drop in loss ratio in financial insurance portfolio.
- limiting the growth of the share of mortgage loans due to stricter requirements listed in Recommendation S concerning good practices in the scope of managing credit exposure secured against a mortgage and the small range of the government programme *Mieszkanie dla Młodych*. An amendment to the *Mieszkanie dla Młodych* programme is planned for 2015. It will aim to increase supplementary payment amount and, as a result, boost popularity of the programme, which - in a longer perspective - may influence a growth in sales of insurance for borrowers;
- pricing pressure exerted by competitors resulting from lower loss ratio of motor insurance portfolio.

3.3 PZU Życie – activity in the Polish life insurance market

Market situation

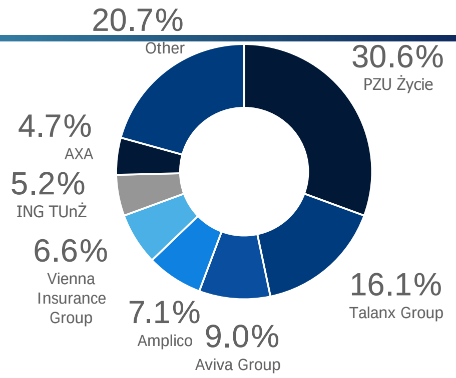
The Polish life insurance market, measured at gross written premium, equalled PLN 6.9 billion in Q1 2014. This is equivalent to a drop by 14.0%, i.e. PLN 1.1 billion, as compared to the corresponding period in the previous year. As a result, the market has been observing a drop in the written premium for two years. Changes in this area amounted to -14.5%, respectively, in the corresponding period of 2013.

Life insurance market – gross written premium vs. technical result	**1 January – 31 March 2014**			**1 January – 31 March 2013**		
	PZU Życie	**Market**	**Market, excluding PZU Życie**	**PZU Życie**	**Market**	**Market, excluding PZU Życie**
Written premium	**2,123**	**6,930**	**4,807**	**2,737**	**8,061**	**5,324**
Technical result	**444**	**778**	**334**	**342**	**661**	**319**

It ought to be underlined that the drop in premium amount observed in the period of two previous years was triggered solely by the drop in the single premium, which amounted to PLN 2.8 billion, witnessing a drop by 30.6% as compared with the previous year. This results from less effective sales of short-term endowments and structured products in the *bancassurance* channel. The share of this channel in the obtained premium fell in the whole life insurance market from 57.4%[3] in Q1 2012 (before the entering into force of the law on lump-sum tax on overnight deposits) to 40.6% in Q1 2014.

On the life insurance market it's ought to be noted that the attractiveness of employee pension plans (PPEs) is slightly decreasing. In recent years, each year witnessed a decrease in the nominal number of plans implemented in this form, while the number of pension plans in the form of a contract signed with an investment fund is constantly on the rise and pensions plans managed by employee pension funds maintain a slight growth.

Life insurance companies - share in gross written premium in Q1 2014 (%)



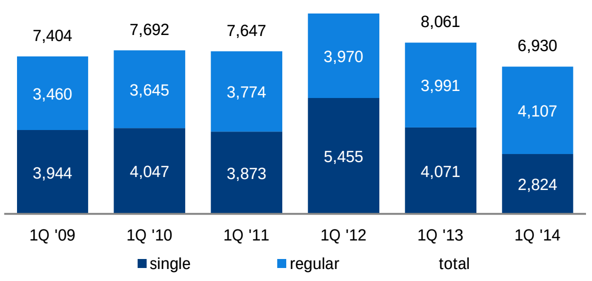
*Capital groups: Talanx- Warta, Europa, Open Life (*in December 2013 Warta ind HDI merged) VIG - Compensa, Benefia, Polisa Życie; Aviva - Aviva TUnŻ, BZ WBK-Aviva*
Source: PFSA Quarterly Bulletin. Insurance market 1/2014

During the four quarters of 2013, the sum of PPE premiums transferred to insurance companies equalled PLN 360 million, which amounted to a drop by PLN 10 million, i.e. by 2.7%, as compared to the corresponding period in the previous year. At the same time, the share of PZU in PPE premiums transferred to insurance companies amounted to 31.7% in 2011 and 33.2% in 2012.[4]

The technical result of insurance companies obtained after Q1 2014 was higher by PLN 114.8 million, i.e. 17.3%, than in the corresponding period in 2013.

The net result generated for that period amounted to PLN 626.2 million, which corresponded to an increase by PLN 11.3 million, i.e. by 1.8%, mainly due to better investment activity results.

Gross written premium in life insurance companies in Poland (millions of PLN)



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[3] Data published by the Polish Insurance Association (PIU, www.piu.org.pl) *Bancassurance* market after Q1 2014.

[4] Report of the Polish Financial Supervision Authority (PFSA) "Employee Pension Plans in 2013".

Activity of PZU Życie

Within PZU Group, PZU Życie pursues activity in the life insurance market. The Company offers a wide range of life insurance products, including group and individual protective insurance, investment insurance and pension products.

In Q1 2014, PZU Życie collected 30,6% of gross written premiums collected by life insurance companies. To compare: in the corresponding period of 2013 the Company held a 34.0% share in the market. At the same time, PZU Życie retained its leading position in the regular premium segment. Within three months of the year 2014, PZU Życie acquired 42.7% of the sum of life total insurance premiums.

The technical result of PZU Życie constituted the majority of the result obtained by all life insurance companies. This is indicative of the high profitability of products offered by PZU Życie. PZU Życie technical result margin per premium exceeded the margin obtained in total by remaining companies offering life insurance (19.5% vs. 7.2%).

In 2014 PZU Życie continued to adjust its product offer to more and more extensive customer requirements, actions taken by rival entities and the changing legal situation.

It is possible to discern the following changes in the protective insurance offer (group, individual, banking and individually-continued) introduced in 2014:

- individual protective insurance – general insurance terms and conditions and individual life insurance tariffs were amended. The changes resulted from a notable drop in the profitability of government bonds and the necessity to adjust technical rates to the maximum level announced by the Polish Financial Supervision Authority (PFSA). Furthermore, the provisions of the general insurance terms and conditions were verified in terms of provisions that might pose interpretation difficulties. As a result, the GITC provisions have been adjusted to comply with changing provisions of law.
- bank activity insurance – the main focus was on retaining the insurance portfolio and works connected with the planned launch of consumer finance and mortgage banking insurance;
- health insurance – in the first half of 2014 PZU Życie was engaged in consistently strengthening its position in this area. In order to meet customer needs, the process of signing non-standard agreements was simplified and made less formal (additional provisions were removed). The list of channels enabling scheduling a consultation or medical examination was expanded to contain a mobile application, chat with a consultant and an online form. The offer of individually-continued insurance was extended to involve an innovative type of health insurance - the additional medicine insurance PZU Opieka Medyczna, which is first such insurance available in the market. PZU Życie continuesly extend the network of medical facilities - as at 30 June 2014 number of medical facilities reached 1,177.
- group protective insurance – actions in this area were focused mainly on the offer targeted at SMEs. So as to fulfil customer expectations, a new more flexible offer adjusted to the segmentation of the SME sector has been introduced. What is more, this offer has been furnished with an additional sales tool, the Professional's Card, which makes concierge services available for customers.

The following events were observed in the first half of 2014 in the investment insurance segment:

- in January 2014, due to the IKZE-related changes in legislation (new rules concerning the maximum level of payments and altered principles of taxing IKZE withdrawals) new general insurance terms and conditions adjusted to the requirements stipulated in the Act were introduced, and the principles of processing insurance policies in the scope of tax and settlements with the Tax Office were amended;
- withdrawal of the individual Plan na Życie insurance. Due to changes in binding legislation and recommendations of supervisory authorities PZU Życie SA altered its product strategy and on 31 January 2014 removed the general terms and conditions of individual life insurance with insurance capital fund Plan na Życie from its offer.
- On 1 May 2014, PZU introduced a Product Card for the Multicurrency Investment Programme insurance sold by Bank Millennium SA. The Product Card was introduced in compliance with the Recommendation issued by PIU. The Product Card concerns life insurance agreements signed with an insurance capital fund and entered into individually (except for IKE and IKZE contracts) or insurance relations established under a group insurance agreement signed through *bancassurance*.

The interest in structured products visible in the market has persuaded the Company to consistently pursue the goal of ensuring the continuous presence of the Świat Zysków product in the offer of PZU Życie SA, as well as continuing cooperation upon launching new subscriptions on individual investment life insurance in the sales network of Bank Handlowy in Warsaw SA:

- Świat Zysków – this product is based on varied investment strategies and allows for diversifying risk to which one's own investment portfolio is exposed in a modern and up-to-date manner. It has become a significant element of the investment offer of PZU Życie. In the first half of 2014, six subscriptions for Świat Zysków structured insurance were announced. In the first five subscriptions, the financial instruments offered were indices based on sub-funds available as part of PZU FIO: PZU Akcja Krakowiak and PZU Papiery Dłużne Polonez, PZU Energia Medycyny i Ekologii. In the sixth subscription, the index based on foreign fund quotes were used as financial instruments: Ethna-AKTIV, Templeton Asian Growth Fund, Templeton Global Total Return Fund.
- As part of structured products offered via the bancassurance channel, two subscriptions for the structured product sold through the network of Bank Handlowy in Warsaw SA were held. In both subscriptions the financial instrument used was constituted by the Hang Seng China Enterprises Index.

In the first half of 2014 PZU Życie accumulated, in accordance with Polish standards, gross written premium of PLN 4,187.0 million, i.e. an amount lower by 12.8% than that generated in the previous year. The major part of the premiums collected by the Company was constituted by regular premiums. The accounted for 83.8% of the gross written premium value (as compared with 72.3% in the previous year). These involved mainly written premiums arising from group and individually continued insurance, which were taken out by approx. 12 million Poles. A drop in gross written premium as per the Polish accounting standards resulted mainly from the decision to withdraw from PZU Życie offer low-profitability short-term life and endowment insurance products.

In the first six months of 2014 PZU Życie paid out claims and benefits of PLN 3,571.3 million, i.e. it paid out an amount higher by 3.2% than in the previous year.

In that period, the net profit of PZU Życie amounted to PLN 967.1 million, i.e. it was 26.6% higher than in the same period of the previous year.

Factors that will impact activity in the life insurance sector in the year 2014

In 2014 the life insurance market will mainly be influenced by:

- the expected increase in economic growth in Poland impacting the financial standing of both households and business entities;
- unforeseeable economic situation in capital markets, which determines the attractiveness of products involving insurance capital funds;
- possible introduction of the tax on profits derived from saving insurance policies and structured products, which will result in less interest in these products;
- increase in basic interest rates and interest on deposits that will render structured products less appealing.
- changes in legal regulations; especially those concerning voluntary health insurance and the Product Card (in compliance with the PIU Recommendation);
- changes in the financial intermediation market impacting the popularity of independent financial advisory and limiting the number of channels available for insurance product distribution.

3.4 PTE PZU – activity in the pension fund market

Market situation

As at June 2014, the net assets of open pension funds amounted to PLN 152.2 billion and dropped by 44.1% as compared to June of the previous year. The following factors contributed to this change in the value of net assets of open pension funds (OPF):

- OPF's transfer of 51.5% of assets of fund members to the Polish Social Insurance Institution (ZUS) that took place on 3 February 2014 pursuant to the Act of 6 December 2014;
- since the beginning of 2013, the volume of premiums transferred by ZUS to OPFs increased from 2.8% to 2.92% of the pension insurance premium base.
- The funds generated an average return rate of 0.95%.

Also the amendments introduced to legal regulations influenced the activity of open pension funds (OPFs) in the first half of 2014. Apart from the statutory ban on aggressive marketing of bank products, the revised legal regulations adopted in December 2013 introduced, among others, the ban on advertising OPFs in the period from the date of entering into force of the revised regulations to 31 July 2014, obliged OPFs to transfer 51.5% of their assets constituting a fund bond portfolio, introduced a ban on investing in government bonds and launched several changes in OPF deposit activity, halved the manipulation fee collected by PTE, revoked the shortage coverage mechanism and principles concerning the minimal required return rate, liquidated the additional part of the Guarantee Fund, and also waived statutory provisions on the principles of random selection of new OPF members from among persons who failed to join an OPF despite being obliged to do so.

Pension fund management companies (PTE) are also classified as entities entitled to operate Individual Pension Security Accounts (IKZE). In 2013, these accounts did not attract much attention from future pensioners, among others due to low incentives in the form of tax deductions, as well as a general lack of interest in accumulating pension savings among Poles. The pension system act package adopted at the beginning of 2014 introduced a uniform payment limit binding for all Savers. This limit amounted to 120% of the average monthly salary in the Polish economy as at a given year. The legal package also introduced a 10% lump-sum tax imposed on persons withdrawing funds from IKZE or beneficiaries, which - from customers' perspective - is a solution much more favourable than previous legal provisions.

Combined with the simultaneous limitation of II-pillar activity, these solutions might spur Poles' interest in III-pillar savings, among others via IKZE.

Activity of PTE PZU

The Open Pension Fund PZU *Złota Jesień* managed by PTE PZU SA (PTE PZU) is one of the largest players in the Polish pension fund market. As at the end of June 2014 OPF PZU was the third largest pension fund in terms of both the number of members and the value of its net assets:

- the fund had 2,235.4 thousand members, i.e. 13.4% of all OPF members;
- its net assets equalled PLN 20,469.3 million, i.e. corresponded to 13.5% of total assets of all OPFs operating in Poland.

In the first half of 2014 ZUS transferred premiums of PLN 744.21 million to OPF PZU, i.e. 26.2% more than in the corresponding period of the previous year. As it has vast expertise in the capital pension product market, highly-qualified management staff and a stable market position, PTE PZU is perfectly qualified to provide its customers with attractive pension saving opportunities. In the first half of 2014 the value of OPF PZU settlement unit went up by 1.73% and, at the end of the first six months of 2014, equalled PLN 36.43.

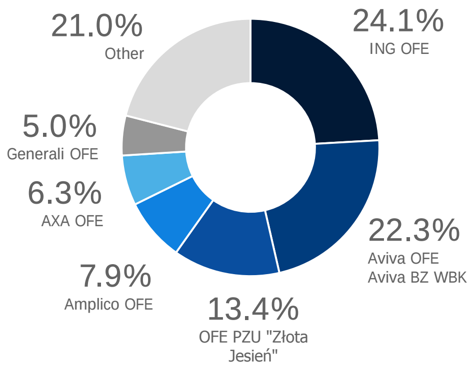
Our Fund achieved the highest return rate of all OPFs in the period following the introduction of the changed investing policies.

Pursuant to the new legal regulations concerning the functioning of open pension funds in the period from 1 April 2014 to 31 July 2014, all OPF customers have the right to choose whether their premiums will be transferred to both OPF and ZUS, or solely to ZUS.

In connection with the revision of legal regulations, the Company undertook actions consisting in engaging in an information campaign conducted by the Polish Pension Chamber (IGTE) and the Polish Confederation LEWIATAN. Moreover, so as to cater for the interests of OPF PZU members, while performing processing activities, we informed our customers of the changes in the functioning of open pension funds, the significance of their decision on further pension premium transfer and possibilities in this area. It is estimated that, due to information campaigns conducted by PTEs by the end of July approx. 1.5 million persons of a total of 16.7 million customers of all open pension funds will submit statements on further pension premium transfer to OPFs. As at 14 August 2014 PTE PZU had received a notification from ZUS that 255 thousand customers submitted statements on further premium transfer to OPF PZU.

PTE PZU also offers IKZE as part of PZU Voluntary Pension Fund. As at the end of June 2014 DFE PZU operated 67.2 thousand IKZE accounts holding assets of PLN 6.7 million. This result allowed for maintaining PZU's leading position in the voluntary pension fund segment.

Open Pension Funds - share in net assets as at 30.06.2014 (%)



Source: PFSA , Monthly data on OPF market, December 2013 data

Factors that will impact activity in the pension fund sector in the year 2014

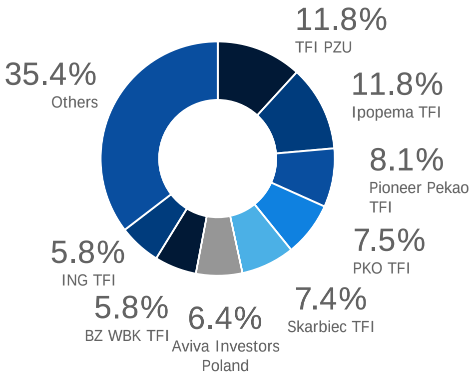
The following will constitute the main challenges for the pension fund market in 2014:

- legislation changes concerning the pension system – negative impact on the Company's revenues;
- number of OPF member declarations on further pension premium transfer to OPF connected with the obligatory choice between pension premium transfer to ZUS

and OPF or solely to ZUS that falls due in the period from April to July 2014;

- development of supplementary individual pension products (III pillar).

Fund management companies - share in assets as at 30.06.2014 (%)



Source: Chamber of Fund and Asset Managers

3.5 TFI PZU – activity in the investment fund market

Market situation

In the first half of 2014 one could observe the persistence of positive 2013 trends, i.e. asset growth, in the investment fund market. However, this growth to a large extent resulted from the establishment of special funds dedicated occasionally to single investors and operating on the non-public market. As at the end of June 2014 TFIs managed assets of total value of PLN 202.7 billion, i.e. 7.3% higher than as at the end of 2013.

This growth resulted mainly from positive management results estimated to equal approx. PLN 8.5 billion. Among almost 30 groups of funds available on the Polish market to a large group of investors, only a few generated a negative average return rate in the first six months of 2014. On average, in this period of time, the share funds that held American shares in USD gained the most (+22.0%). Meanwhile, among funds holding assets in PLN, the highest return rate was generated by funds holding universal Polish shares (+15.8%).

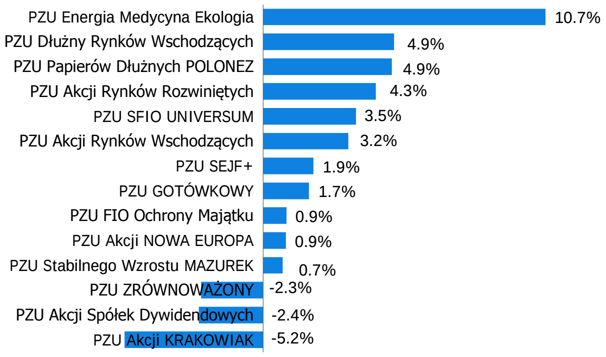
The positive balance of payments and redemptions, which amounted to PLN +5.2 billion, had beneficial influence on the increase in the value of assets held by investment funds. The majority of these funds constituted payments to non-public market funds (non-quoted, OTC).

Activity of TFI PZU

Within PZU Group, activity in the investment funds market is pursued by TFI PZU SA (TFI PZU, Investment Fund Company). This entity offers products and services directed at both individual and institutional customers, including complementary investment and savings programmes operated as part of the III pillar of the social insurance system, among them: Individual Pension Accounts (IKE), Specialised Investment Programmes, Employee Pension Plans (PPE) and Company Investment Programmes (ZPI).

As at the end of June 2014 TFI PZU had 25 funds and sub-funds in its offer, 16 of which were also offered to non-PZU-Group customers.

Rates of return of TFI PZU investment funds in H1 2014 (%)



As at 30 June 2014, TFI PZU accumulated net assets of PLN 23,979.7 million, which translates into growth of 7.9% as compared to the balance as at the end of 2013. As a result, it managed to maintain its top position in the investment fund market, as its share equalled 11.8%. TFI PZU continued to enjoy its leading position in the employee pension plans segment among all institutions operating in this market (not only TFIs), as it accumulated assets of

PLN 2.37 billion (PLN 2.29 billion as at the end of 2013).

This increase in TFI PZU assets in the first half of 2014 resulted mainly from:

- active sales of products in the offer, including closed funds;
- registration of six new Employee Pension Plans and take-over of one PPE for management purposes;
- investment results generated by portfolio managers.

In the first half of 2014, the Company worked among others on starting new products and launched works on developing online mobile applications dedicated to customers of PZU Inwestycje.

The market appreciated the activity of TFI PZU – the specialists from an independent analytical company Analizy Online issued or maintained a very high score (4*) to the subfunds PZU Papierów Dłużnych Polonez and PZU Zrównoważony;

Factors that will impact investment fund activity in the year 2014

The standing of the investment fund market will be mainly dependent on:

- the economic situation in capital markets;
- volatility of profitability of treasury securities;
- the attractiveness of traditional bank deposits;
- changes in the financial intermediation and brokerage market and, in particular, a drop in the popularity of independent financial advisory, i.e. decrease in the number of sales channels;
- any other possible unforeseeable changes in legal regulations concerning, among others, the III pillar of the pension system, especially concerning individual products, and the lack of more pronounced incentives for savers might continue to block the development of this market segment.

3.6 Foreign activity

Ukrainian market

In Q1 2014 the gross written premium in the non-life insurance market amounted to UAH 4.7 billion, i.e. was 38.9% lower than in the corresponding period of the previous year. This drop resulted from the decrease in sales of financial risk insurance (63.9%), voluntary property insurance (49.0%), voluntary civil liability insurance (57.7%) and credit insurance (69.2%). The greatest impact was triggered mainly by the decrease in the premium arising from active reinsurance obtained from investment fund companies-residents (from UAH 3.1 million to UAH 0.9 million, i.e. by 69.4%). Increase in the value of gross written premium was noted in the medical insurance segment. As regards motor insurance, an increase in gross written premium (22.2%) was noted solely in the case of the Green Card, and a drop was noted in the casco insurance area (14.7%) and in the motor TPL insurance (6.9%). As a result of these trends, motor insurance catered for 29.1% of premiums obtained from insurers in Q1 2014 (i.e. 3.1 p.p. less than in an corresponding period of the previous year). As compared to previous years, the value of written motor insurance premium fell by 9.6%. This followed from the expiry of agreements on credits financing the purchase of cars entered into in 2007 and the drop in sales of new car loans.

In Q1 2014 life insurance companies accumulated UAH 559.4 million of gross written premiums, i.e. 18.1% more than in the corresponding period of 2013. Approximately 98% of written premiums was obtained via bancassurance channel and the brokerage sales channel. 76.9% of written premiums were transferred by natural persons, while the number of insured natural persons dropped by 42.5% as compared to Q1 2013, which was triggered by Ukraine's unstable political, financial and economic situation in the analysed period.

In accordance with the data provided by the State Commission for Regulation of Financial Services Markets, as at 30 March 2014 Ukraine's insurance market was composed of 404 insurance companies (including 343 non-life insurance companies), 112 of which were foreign equity companies. The TOP 100 non-life insurance companies generated 94.3% of gross written premiums for the entire market, and the TOP 20 of life insurance companies – 99.9% of written premiums.

In the Ukrainian market, PZU Group pursues its insurance activity through:

- PZU Ukraine (in the scope of non-life insurance) - “PZU Ukraina” and
- PrJSC IC PZU Ukraine Life (life insurance) – “PZU Ukraine Life”.

Moreover, LLC SOS Services Ukraine performs support functions.

During Q1 2014 PZU Ukraina acquired 3.5% (increase by 0.4 p.p. as compared to Q1 2013) of the gross written premium of the Ukrainian sector of conventional non-life insurance sector, which catered for its eleventh position in this market. The leader held a 7.5% market share.

As at the end of Q1 2014 PZU Ukraine Life ranked seventh in the life insurance market with a market share of 6.8% (increase by 0.9 p.p. as compared to Q1 2013), and the market share of the leader equalled 21.8%.

As at the end of Q1 2014 the insurance market share in Ukraine's GDP amounted to 1.7% (decrease by 1 p.p. as compared with the corresponding period of the year 2013).[5]

In the first months of 2014 the Ukrainian insurance market was characterised mainly by high costs related to insurance product sales, problems of some insurance companies with maintaining current liquidity, low growth of the traditional insurance market, as well as low popularity of insurance services among society members and a moderate level of trust towards insurance effectiveness. A positive change was observed in this market: a drop in usage of insurance transactions for purposes of tax evasion (the drop in premiums arising from active reinsurance obtained from societies-residents was indicative of this phenomenon).

Owing to the relatively low level of market penetration, as well as the number of citizens, Ukraine's insurance market has great growth potential and attracts the interest of foreign investors. If the political changes introduced in 2014 are accompanied by changes in legal regulations and the insurance market is subjected to greater control, these developments will most certainly attract foreign capital.

Lithuanian market

In Lithuania, the gross written premium of non-life insurance companies amounted to 576.3 million Lithuanian litas (LTL) and grew by 4.5% as compared to the previous year, while the gross written premium of life insurance companies equalled LTL 267 million(increase by 15.3%). Property and health insurance had significant impact on the dynamic changes in premium volume on the non-life insurance market (increase by 7.6% and 7.1%, respectively). In the case of motor TPL insurance, growth resembling that of the entire market was noted (4.7%), while slight growth was observed in casco insurance (0.4%). A closer look at the premium structure of non-life insurance sector reveals that motor insurance policies were dominant, as in total they constituted 58% of the gross written premium, where the share of motor TPL insurance taken out by motor vehicle owners amounted to 35.6% and the share of casco insurance – 22.4%. Further positions of this list were occupied by property and accident insurance, together with health insurance, which accounted for 20.3% and 10.4% of the premium, respectively. The share structure of the main insurance groups was stable and remained at a similar level as compared to the first half of 2013. Growth in the life insurance market resulted mainly from an increase in the single premium insurance policies (34.4%). As regards regular-premium insurance policies, an increase of 12.2% was

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[5] State Commission for Regulation of Financial Services Markets – “Summary of Insurance Company Activity in Q1 2014”.

observed. A significant increase in premiums collected in two insurance groups was noted: in unit-linked insurance (+14.3%) and in traditional life insurance (+13.3%). As compared to the corresponding period of the previous year, the market structure did not undergo any major changes. Unit-linked insurance dominated the life insurance structure (68.6%). Traditional life insurance catered for 23.7% of total premiums. These were followed by endowment insurance, whose share corresponded to 5.3% of premiums. The share of disability insurance was negligible and amounted to 2.1% of the gross written premium.

Latvian market

In Latvia, non-life insurance companies generated gross written premiums of EUR 123.8 million, which corresponds to growth of 9.9% as compared to the corresponding period of the previous year. As regards product structure, the largest share was held by motor casco insurance (24.8%) and motor TPL insurance (20.7%), property insurance (19.8%) and health insurance (19.7%).

Estonian market

The total value of gross written premium from the non-life insurance market in Estonia amounted to EUR 129.8 million, which corresponds to an increase by 6.8% as compared to the corresponding period in the previous year. The largest market share in product structure is held by motor casco insurance policies (34.4%) and motor TPL insurance policies (26.0%), as well as property insurance policies (26.0%).

The activity of PZU companies in Baltic states

In the Baltic states, PZU Group pursues its insurance activity through to companies registered in Lithuania: PZU Lietuva (as regards non-life insurance) – "PZU Litwa" and UAB PZU Lietuva Gyvybës Draudimas (life insurance) – "PZU Litwa Życie".

In the first half of 2014 PZU Litwa (BALTIC) acquired gross written premiums of PLN 140.8 million, i.e. 27.8% more than in the corresponding period in the previous year, i.e. notably more than the dynamic of the entire market's development. This result was achieved thanks to increased sales of property insurance (growth by 32.1%), casco insurance (increase by 18.6%) and motor TPL insurance (up by 36.1%).

Portfolio structure was dominated by motor insurance, and its share in written premium equalled 56.3%. The share of motor TPL insurance fell to 37.3% (35.3% in Q1 2013). However, the share of property insurance in the insurance portfolio rose from 16.3% to 16.8%.

In the period from January to June 2014 the premium obtained by PZU Litwa Życie equalled PLN 17.8 million, i.e. grew by 18.7% as compared to the corresponding period of the previous year. The largest increase in sales was observed in conventional life insurance, which went up by 40.5% as compared to the previous year, and in unit-linked insurance (increase by 5.3% year-on-year).

As at the end of June 2014 PZU Litwa took second position in the Lithuanian non-life insurance market, as it held a market share of 14.0% (13.6% as at the end of 2013). At the same time, the share of PZU Litwa Życie in the life insurance market amounted to 4.4% (as compared to 4.2% as at the end of 2013).

Though in the first half of 2013 the activity of PZU in Latvia and Estonia was still in the development phase, sales generated in both markets in the first half of the current year already constituted a noticeable element of PZU business. In this period both foreign branches premiums of LTL 24.8 million, which corresponds to 17.6% of total premiums generated in all three Baltic states. In the analysed period the share of PZU's foreign branches in the market amounted to 2.7% in Latvia and 2.0% in Estonia.

As of 30 June 2014 PZU Group includes also AAS Balta, which for the period ended 30 June 2014 collected EUR 26.1 million of gross written premium. The premium isn't, however, included in the total of gross written premium of PZU Group. The consolidation of AAS Balta started on the date of purchase, i.e. 30 June 2014. AAS Balta held as at the end of I HY 2014 21% of the local market share.

3.7 Other segments of activity

PZU AM

Pursuant to the provisions of the Statutes, the following constitute PZU Asset Management SA (PZU AM) activity:

- pursuing brokerage activity as defined in the Act of 29 July 2005 on Trading in Financial Instruments (including management of investment portfolios of investment funds);
- rendering portfolio management services.

By the end of December 2012 PZU AM managed selected portfolios containing assets of PZU companies and PZU Życie, and provided services consisting in the management of investment portfolios of investment funds that were subject to the management of TFI PZU. PZU AM also managed the assets of the *Słoneczna Jesień* Employee Pension Fund (Pracowniczy Fundusz Emerytalny) managed by Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU*.* As a result of the reorganisation in the area of PZU Group's investments consisting in establishing TFI PZU as the key entity engaged in asset management, on 1 January 2013 the role of PZU AM in managing asset portfolios of PZU and PZU Życie, as well as investment portfolios of investment funds, was limited.

On 1 February 2014, following from an agreement on the termination of the contract on the management of assets of the *Słoneczna Jesień* Employee Pension Fund and the entering into force of amendments to the statutes of the *Słoneczna Jesień* Employee Pension Fund, under which the Fund shall manage its assets itself, PZU AM ceased to render management services of this fund's assets.

At the request of PZU AM for declaration of expiry of the administrative decision issued by the Polish Securities and Exchange Commission (Komisja Papierów Wartościowych i Giełd, KPWiG) of 28 May 2002 on granting a brokerage activity licence, on 4 March 2014 a meeting of the Commission was convened and a decision was taken to declare the expiry of the administrative decision granting PZU AM permission to pursue brokerage activity.

Currently, the company does not conduct any business operations.

PZU Pomoc

The activity of PZU Pomoc SA (PZU Pomoc) concerns, in particular:

- organisation of assistance services consisting in providing customers with support;
- tenancy and lease of motor vehicles;
- conducting Internet auctions and Internet trading;
- management of loyalty programmes;
- management of post-accident property;
- medical service activity.

As at the end of the first half of 2014 the company cooperated with more than 1,170 medical outlets across Poland and enjoyed a leading position in the online-auction damaged vehicle sale brokerage market (this tool will be developed so as to enable the use of the online auction platform in further claims handling processes within PZU Group). Since June 2012 PZU Pomoc has held 30% of shares in GSU Pomoc Górniczy Klub Ubezpieczonych. Discount, incentive and loyalty programmes targeted at the mining sector are developed within this entity.

Ogrodowa-Inwestycje

Ogrodowa-Inwestycje Sp. z o.o. (Ogrodowa-Inwestycje) is the owner of the City-Gate office tower (Ogrodowa 58, Warszawa) and leases three vacation centres from PZU (Pensjonat Albatros, Polanica Hotel, Karłów Hotel).

Ogrodowa-Inwestycje also performs functions that benefit PZU Group companies and external customers.

PZU CO

The activities stipulated in the Statutes of PZU CO cover pursuing business activity within the scope of the following services:

- support services for insurance and pension business;
- intermediation in signing insurance contracts, financial and investment contracts and assistance agreements;
- contact centre services;
- data centre services;
- printing services;
- IT services.

Armatura Group

PZU Group has held equity interest in Armatura Kraków S.A. (Armatura Kraków) since October 1999. Starting from 1 January 2011 Armatura Kraków is subject to consolidation in the consolidated financial statements of PZU Group. The Management Board adopted the decision on Company consolidation solely due to the fact that materiality thresholds had been exceeded.

Armatura Kraków is the parent entity of the Armatura Capital Group. Armatura Group is composed of: Armatura Kraków SA, Armatoora SA, Armagor SA, Armadimp SA, Armaton SA and Armatura Tower Sp. z o.o. Armatura Group pursues activity beyond the area of financial and insurance services. It is the leading producer in the Polish sanitary and heating industry. Companies belonging to the Armatura Group specialise in the manufacture of kitchen and bathroom fittings, aluminium central heating radiators, a vast selection of fixtures and sanitary ceramics.

As a result of contributing 516,000,000 shares in return for the granting of investment certificates to PZU Życie, on 27 August 2013 PZU FIZ AN BIS 2, the investment fund managed by TFI PZU, became the holder of Armatura Kraków shares.

In 2014 PZU FIZ AN BIS 2 Fund acquired:

- 5,816,287 shares, which was the outcome of the squeeze-out announced on 16 January 2014;
- 58,175 own shares from Armatura Kraków SA on 12 March 2014.

Currently PZU FIZ AN BIS 2 holds 81,000,000 shares of Armatura Kraków, which corresponds to 100.00% of its share capital.

Quotations of Armatura Kraków shares were suspended by the Warsaw Stock Exchange on 16 January 2014. On 18 February 2014 the Polish Financial Supervision Authority (KNF) consented to restore document form of the company's shares (removal of share dematerialisation) with effect on 10 March 2014.

4 Development strategy

In January 2014 the Management Board adopted the revised PZU Development Strategy 2.0 for the Years 2014-2015. The core goal of PZU Group development was not altered and will remain in force in the coming years.

PZU Group – strongly customer-oriented and highly operationally effective – will be the largest and most profitable insurance company in Central and Eastern Europe.

PZU Group revised development strategy is being implemented under the principle Zmieniamy się na dobre (Changing for the Better). In practical terms, this translates into:

- focusing on customer needs.
  On the basis of an analysis of needs surfacing in individual segments, PZU tightens relations with its customers by way of providing them with products and needs adjusted to their needs. Products and services are rendered through a multi-channel sales and servicing system. This new business philosophy emphasises PZU Group's unity as an organisation functioning according to customer segments and managing its relations with customers in an active manner with a view to ensuring they remain loyal PZU customers.
- improvement of operational effectiveness.
  The modern and integrated customer service model, along with automated back-office processes, allow for eliminating hard-copy transactions and will create conditions conducive to improved customer service and effective management of available resources;
- professionalism and involvement of employees.
  Having managed to maintain its position of preferred employer, PZU Group is engaged in building a result-oriented organisational culture;
- making use of the high recognisability of its powerful refreshed PZU brand.
  The new PZU entails a vision of a strong brand using modern technologies when contacting its customers. The new PZU is also an institution that successfully manages its customers' assets, as it draws from the competences of the largest Polish asset management company and uses any and all new opportunities appearing on the market.

As it strives to maintain the position of largest CEE insurance company, PZU Group will:

- maintain its current position in the Polish non-life and life insurance markets, and at the same time it will ensure that its activity in these areas is profitable;
- engage in refurbished international rollout and expand its activity in the savings/systematic savings market;
- seek out new opportunities for expanding growth - it is PZU Group's ambition to, among others, become a pioneer and creator the Polish health insurance market.

Apart from market expansion, investment activity will contribute to PZU Group high effectiveness. A new investment policy is being implemented and the investment portfolio is being remodelled. PZU Group intends to finance large undertakings, the purchase of such undertakings and the restructuring of its real estate. These actions will be taken, among others, to reduce fluctuations of the investment result.

The underlying financial goal of PZU Group is to maintain high ROE. For this purpose, at the beginning of July, bonds were issued with a nominal value of EUR 500 millionand, in accordance with the updated capital and dividend policy, a change of the balance sheet structure was made through the payment of dividends from capital surplus in the amount of PLN 1,727 million.

In the first half of 2014 the implementation of PZU Group's development strategy was notably impacted by the signing of an agreement resulting in the take-over of the leader in direct insurance in Poland – Link4, as well as leaders operating in: the Lithuanian market – Lietuvos Draudimas AB, the Latvian market – AAS Balta, and Estonia – Codan Forsikring A/S.

In 2014 PZU Group will focus on:

- the mass customer and SMEs: taking actions aimed at maintaining PZU current position in the property and motor insurance market. By the end of 2014 motor, housing and certain non-life products will be implemented in the new non-life company's insurance policy system, which in future will enable active customer relations management and better adaptation of its product offer to customer needs. Moreover, special attention will be given to offering attractive protective products and long-term savings products to individual customers;
- the group customers: PZU will maintain its leading position in the group life insurance market. The sales of medicine and health insurance, including complementary insurance, will play a vital role in the achievement of this goal. PZU Group will also take actions aimed at strengthening its relations with insured customers through *PZU Pomoc Club*;
- The corporate customer: professionalism and quality of service to a large extent determine for which insurer corporate customers opt. That is why PZU will support customers in developing their activity, among other, by developing its advisory services in the area of risk engineering. In the area of non-life insurance, especially motor insurance, actions directed at maintaining market position will take into account the need to ensure appropriate profitability of offered products;
- IT and operations: PZU will focus mainly on implementing the new non-life insurance product system – the *Everest* project. By the end of 2014 PZU will launch the processing of motor, housing and certain property insurance products within this system (for 8.5 thousand end users);
- HR management: as part of creating a result-oriented organisational culture, special attention will be placed on developing employee competences. After the annual evaluation performed for the first time in 2013,

PZU launched *Program Plus*, a programme targeted at expanding the knowledge and skills of all PZU employees. The MBA PZU, a programme unique in the Polish market, will be continued. This scheme is aimed at managers and directors with highest development potential. The process of sharing experience by PZU Group's best managers will also play a pivotal role in the project of enhancing employee competences and involvement.

Goal	**Implementation of Strategy 2.0 for the Years 2012-2014/summary of actions and achievements in the first half of 2014**
Business pillars:	
The mass customer	
Maintaining the position in property insurance in a profitable manner (in Poland)	1. Number 1 in the market in accordance with data provided by KNF for Q1 2014 under the natural persons category – 34.7% in casco insurance, 28.4% in motor TPL insurance and 51.2% in other insurance. 2. As part of sales support implementation (analytical CRM), functionalities enabling cross-sales for PZU Group customers have been made available. 3. Implementation works connected with the launch of a new product system (the Everest project) were continued. The Everest project will influence product flexibility and deliver new functionalities to specific distribution channels. The implementation of a new version of the system was completed at the beginning of July. The system framework allows for selling certain property, housing and motor insurance products, e.g. PZU Auto, PZU Dom, PZU NNW and OC w Życiu Prywatnym, Wojażer).
Development of protective life insurance (in Poland)	1. Works on the launch of a sales support tool (analytical CRM) for PZU Życie have been completed.
The group customer	
Maintaining the leading market position in life insurance segment (in Poland)	1. Maintaining the position of leader in life insurance with a 42.7% market share after Q1 2014. 2. Maintaining high segment profitability, annual growth by 2.1 p.p. to 24.4% (excluding conversion effect) 3. PZU continued to sell new agreements on individually-continued group life insurance.
The corporate customer	
Regaining market position and maintaining profitability (in Poland)	1. Market leader in accordance with the data published by PFSA after Q1 2014 in the enterprise and other entity category in terms of gross written premium – 40.7% in casco insurance, 45.3% in motor TPL insurance and 19.4% in other insurance.
Investments	
Dynamic growth of customer assets under management	1. In terms of net asset value of managed funds, TFI PZU ranks first among 41 investment fund included in the IZFA report. In June 2014 the value of assets held by TFI PZU equalled 23,980 million, which corresponded to 11.8% of assets held by Polish TFIs. 2. An increase of 14.5% in external customer assets managed by TFI PZU was observed, as compared to asset balance as at the end of 2013. 3. TFI PZU continues to enjoy the position of leader in the employee pension plan segment among investment funds holding assets of more than PLN 2.4 billion.
Health	
Dynamic development of health	1. Increase in written premium related to group health insurance by 35.4% as compared to

Goal	Implementation of Strategy 2.0 for the Years 2012-2014/summary of actions and achievements in the first half of 2014
insurance (in Poland)	the first half of 2013. 2. Increase in number of risks in group health insurance by 66.4% as compared to the first half of 2013. 3. Launch of new medicine insurance sold as a supplement to individual continued insurance. 4. Further improvement and development of the ambulatory care insurance offer targeted at institutional customers, including further development of service provider network and enhancement of third party agreement (TPA) functioning.
Achieving the position of leading private medical service provider	1. PZU Group has become a strategic investor of Płock-based ORLEN Medica and and PROF-MED operating in the Włocławek medical market within ANWIL Group.
Foreign transactions/International rollout	
Activity in CEE	1. In the first half of 2014 PZU signed agreements resulting in the take-over of the following market leaders: Lietuvos Draudimas AB in the Lithuanian market, AAS Balta in the Latvian market and Codan Forsikring A/S in the Estonian market. The acquisition of AAS Balta was closed on 30 June 2014. 2. Expanding activity in the Baltic states – for many years PZU Group has been present in Lithuania, and although its Latvian and Estonian branches were still in start-up phase, PZU succeeded in generating a market share of 2.7% and 2.0%, respectively. 3. As it holds a large capital base, PZU Group seeks investment opportunities both in Poland and abroad.

Conditions for implementation	
International rollout: PZU International	1. In the first half of 2014 PZU signed agreements resulting in the take-over of the following market leaders: Lietuvos Draudimas AB in the Lithuanian market, AAS Balta in the Latvian market and Codan Forsikring A/S in the Estonian market. 2. As it holds a large capital base, PZU Group seeks investment opportunities both in Poland and abroad.
Middle-office: a modern and integrated customer service model	1. 92% of customers satisfied with the claims handling process (customer satisfaction survey conducted on sample of approx. 11,000 respondents in the first half of 2014). 2. The process of implementing a network of modern PZU Branches was continued. These sales-oriented outlets will be clearly visible and available to the entire PZU Group. Since the launch of this process, 88 Branches functioning under the new model were opened. 3. PZU Group continued works aimed at further optimisation in the area of claims handling. These included, among others, modernisation of the principles of cooperating with persons responsible for claims handling (remote work), teams were centralised and processes were automated.
Back-office: efficient operations and flexible IT	1. Works on implementing Everest, the product system for property insurance, were performed. 2. The launch of a new service bus enabling management and control of inter-system data exchange took place. PZU Group received the main prize in the 2013 IT Leader among Financial Institutions contest held by Gazeta Bankowa and was awarded the 2013 Insurance IT Leader title under the transaction system category for the service bus project.
HR: business partner / committed employees / result-oriented culture	1. In the first half of 2014 the training module targeted at employees and agents was implemented. This module enables conducting e-learning training sessions adjusted to employee and agent needs.

Goal	Implementation of Strategy 2.0 for the Years 2012-2014/summary of actions and achievements in the first half of 2014
	2. PZU Group also undertook actions aimed at strengthening its image as reliable employer among three groups: employees, students and professionals. In order to fulfil these image-related goals and establish PZU Group as preferred employer, another round of apprenticeships and traineeships was announced. 3. Research has been conducted to assess PZU Group employees' involvement (the obtained result itself equalled 48%). 4. The implementation of a new HR and payroll system was initiated.
Effective capital structure and investment policy	1. The dividend policy is being implemented in compliance with the adopted plan. Interim dividend has been paid out in the amount of PLN 1.7 billion. 2. Bond issue was carried out on 3 July 2014 in the amount of EUR 500 million.

Planned key development directions

PZU Strategy for the Years 2014-2015 was revised in January 2014. In order to retain all major strategic goals specified in the Strategy 2.0 and generate a new impulse for growth, implementation instruments related to this Strategy have been adjusted.

In particular, this concerned the goals that had not assumed sufficient dynamics, such as health insurance development. Moreover, long-term goals regarding the streamlining of PZU Group operational model have been defined in the revised Strategy. Also financial goals were adjusted to real market conditions and the changing macroeconomic environment, as well as the market situation in terms of competition. The means of measurement used to evaluate Strategy implementation (KPIs) were defined more precisely.

In order to more precisely delineate the directions adopted for PZU Group activity, also business pillars were adjusted – among others, the Health pillar was brought out.

PZU plans for 2014 assume an expected moderate increase in Polish economic growth, the possibility that global financial markets remain exposed to turmoil, and the necessity to fulfil new solvency-related requirements in the medium-term perspective. As PZU Group operates in an unstable and volatile environment, it intends to implement its strategy by availing itself of all its advantages consisting in a databases on several millions of customers, high equity, employee qualifications and a powerful refreshed brand.

Currently, works on PZU Group strategy for the years 2015-2018 are pending.

Goal	Planned development directions in 2014
Business pillars	
The mass customer	
Maintaining the position in non-life insurance in a profitable manner (in Poland)	1. Maintaining the market share in the motor insurance and property insurance segment in a profitable manner. 2. Development of protective, savings and investment products, and in particular long-term savings products. 3. Further development in the area of mass sales, among other things, by developing basic distribution channels.
The group customer	

Maintaining the leading market position in life insurance segment	1. Maintaining the profitable lead position in group life insurance. 2. Strengthening direct relations with the insured thanks to PZU Club's offer "Pomoc w Życiu" (help in life).
The corporate customer	
Regaining position and profitability	1. Transforming PZU Group into a business partner with a strong expert position that is not only an entity selling insurance but also a customer advisor. 2. Regaining the market position in motor insurance and increasing the market share in non-motor insurance.
Investments	
Dynamic growth of customer assets under management	1. It is the objective of PZU Group to ensure dynamic business growth measured at nominal value of customer assets under management. 2. PZU Inwestycje conducts its activity in compliance with the positioning of PZU "Możesz na nas polegać" ("You can rely on us") brand.
Health	
Health insurance development	1. Further creation of the health insurance market so as to increase business volume in this field. 2. Active sales of complementary medicine- and health-insurance related products targeted at the group client.
International rollout	
Activity in CEE	1. It is the goal of PZU Group to be the largest and most profitable insurer in Central and Eastern Europe.

Conditions for implementation	
Middle-office: a modern and integrated customer service model	1. Implementing a new customer service model which assumes an integrated contact channel structure, compliant with customers' expectations, and specifically building a network of modern sales and service outlets. 2. Further optimization in the area of claims handling and benefits.
Back-office: efficient operations and flexible IT	1. Continuation of activities aimed at implementing a new product system at PZU Group, which will make it possible to increase operating efficiency. 2. Further centralization of operating processes.
HR: business partner / committed employees / result-oriented culture	1. Strengthening the position of PZU as a preferred employer through implementing a new edition of the training and apprenticeship programme. 2. Performing operations focused on transforming PZU Group into a results-oriented organization.
Effective capital structure and investment policy	1. Focus on shareholder return rate, among others by way of capital structure optimisation and simultaneous maintenance of current security level and resources earmarked for strategic development through acquisition.

5 Consolidated financial results

5.1 Main factors affecting the achieved financial result

During the first half of 2014, PZU Group achieved profit before tax on the level of PLN 2,176.2 million compared to PLN 2,109.4 million in the previous year (growth by 3.2%). Meanwhile, the net profit attributable to the equity holders of the parent entity was PLN 1,720.4 million compared to PLN 1,675.1 million in the first half of 2013 (growth of 2.7%).

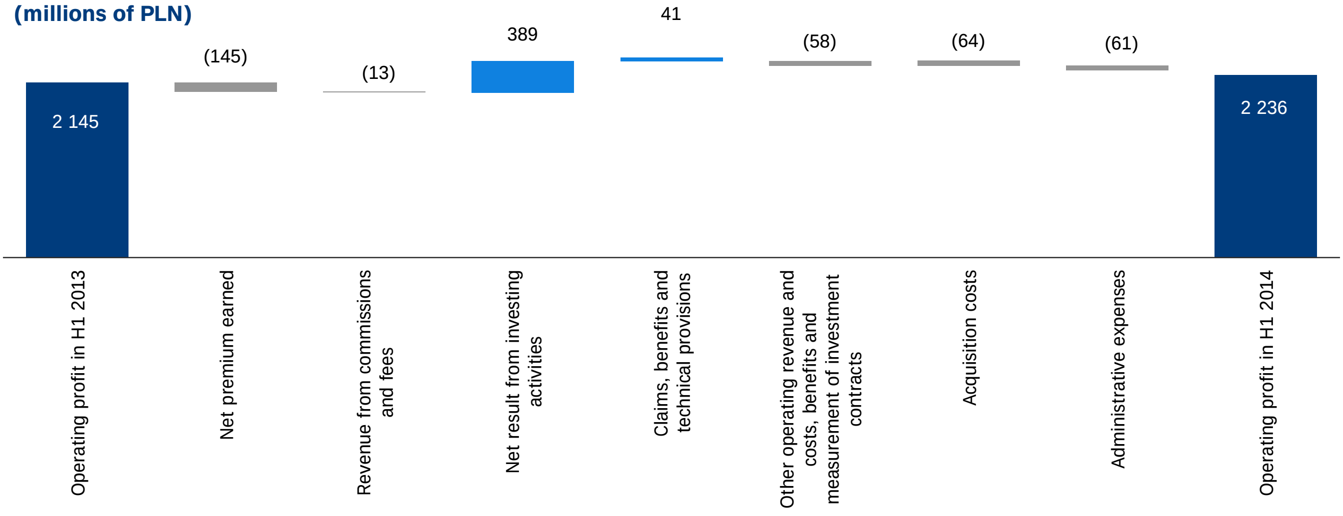
The financial results of PZU Group in the first half of 2014 were shaped mainly by:

- drop in gross written premiums. PLN 8,437.9 million, i.e. 0.7% lower than in the previous year, mainly due to a decline in motor TPL insurance premiums and single life insurance premiums with an increase in regular premiums for life insurance and accident insurance products. After the recognition of the reinsurance share and the changed premium reserve state, the net premium earned amounted to PLN 8,032.6 million and was 1.8% lower than that in the first half of 2013;
- growth of net result on investments. Due to a higher result from valuation of debt securities and capital instruments, the net result from investments amounted to PLN 1,357.8 million, i.e. 40.1% higher than that in the first half of 2013, which saw a drop of the debt security and capital instrument prices;
- Higher administrative costs due to an increase in current costs which result from development projects in the scope of implementing customer-oriented approach. Moreover, as a result of statutory changes, higher costs were recorded in pension insurance resulting from a statutory amendment of the required Guarantee Fund level.
- Gross claims and benefits paid drop (along with change in technical reserves). This was at the level of PLN 5,418.1 million, a drop of 0.8% in comparison to the corresponding period of 2013.

Furthermore, the following one-off events of 2013 had considerable impact on the comparability of the results:

- one-off income from consolidating investment funds in amount of PLN 172.7 million;
- one-off gross income from concluding a conciliatory agreement with the reinsurer in respect of Green Card insurance in amount of PLN 53.2 million (PLN 73.3 million is included in other operating costs and income).

The PZU Group operating profit in w H1 2014 (millions of PLN)



Key figures from the consolidated income statement	1 January – 30 June 2014	1 January – 30 June 2013	2014/2013	
	in millions of PLN	in millions of PLN	*in millions of PLN*	*in %*
Net premium earned	8,033	8,177	(145)	*(1.8)%*
Revenue from commissions and fees	131	143	(13)	*(8.7)%*
Investment activity net result	1,358	969	389	*40.1%*
Other operating income/expense and benefits and measurement result of investment contracts	(129)	(71)	(58)	*81.8%*
Net claims and benefits	(5,418)	(5,459)	41	*(0.8)%*
Acquisition costs	(1,036)	(973)	(64)	*6.5%*
Administrative expenses	(702)	(641)	(61)	*9.5%*
Operating activity result	2,236	2,145	90	*4.2%*
Financing expenses	(60)	(38)	(22)	*58.1%*
Profit/(loss) before tax	2,176	2,109	67	*3.2%*
Income tax	(456)	(434)	(22)	*5.0%*
Net profit (loss)	1,720	1,675	45	*2.7%*
Net profit (loss) attributable to equity holders of the parent entity	1,720	1,675	45	*2.7%*

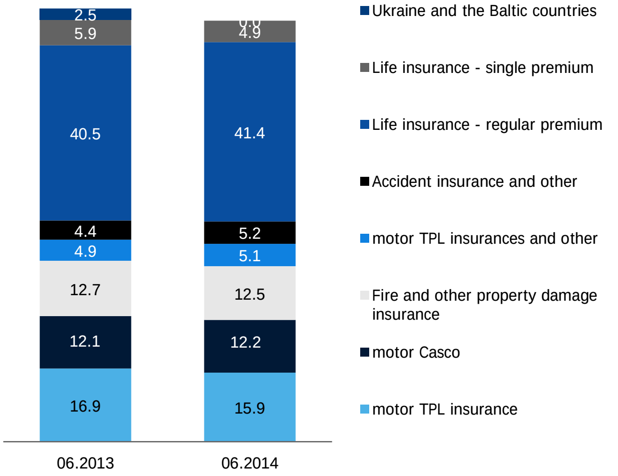
5.2 Revenues

Premiums

In the first half of 2014, PZU Group collected gross premiums amounting to PLN 8,437.9 million, i.e. 0.7% lower than in the first half of 2013. The premiums included mainly the following:

- regular life insurance premiums constituted 41.4% of the total gross written premium (i.e. 0.9 pp. more than in the same period of 2013) and they resulted mainly from group insurance;
- motor TPL insurance premiums constituted 15.9% of the Group's insurance portfolio (16.9% in the previous year). In 2014, their value was 6.4% lower than in the previous year, which resulted from a lower sale rate of fleet insurance and ageing of the portfolio;
- motor casco insurance (AC) premiums constituted 12.2% of the total gross written premium of PZU Group (i.e. 0.1% less than in the previous year);
- Insurance against fire and other damage to property premiums constituted 12.5% of the total premium and their value dropped by 2.9% when compared to the previous year;
- life insurance premiums with single premium constituted 4.9% of the total premium of the Group (cf. 5.9% in 2013); the 17.1% drop resulted mainly from a lower sale of short-term endowment insurance with single premium, including structured products;
- Accident insurance and other premiums amounted to 5.2% of the total gross written premium, i.e. increased by 0.8 pp., mainly due to granting high insurance guarantees and resumption of existing long-term contracts.

Structure of the PZU Group gross written premium (%)



Fee and commission income

Over the first half of 2014, the income from commission and fees contributed PLN 130.7 million to the result of PZU Group, 8.7% lower than the year before.

They covered mainly the following:

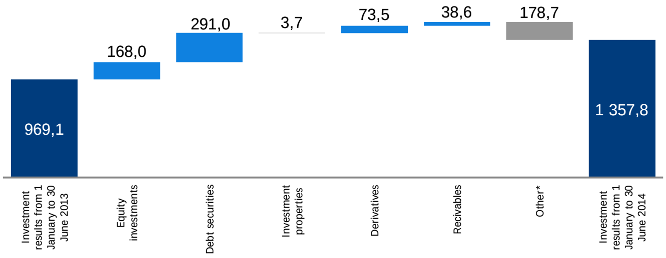
- asset management fees for *Złota Jesień* open pension fund. This amounted to PLN 61.4 million (24.3% drop in comparison the 2013 due to the statutory transfer of certain open pension fund's assets to the Social Insurance Institution equal to the value of 51.5% of settlement units on the account of each member of OPF PZU);
- income and fees from funds and fund management companies in amount of PLN 46.1 million, i.e. 41.7% higher than in the previous year, mainly due to a high sales volume of participation units via internal channel;
- manipulation fees on pension insurance. This has reached the level of PLN 15.5 million, i.e. 75.1% of the value from the previous year. Drop associated with the statutory reduction of the manipulation fee from 3.5% to 1.75%, effective on 1 February of this year;
- Revenue from unit-linked investment contract fees. This provided PZU Group with PLN 7.7 million, 14.1% less than the year before.

Net investment income

During the first half of 2014, PZU Group achieved the gross result of PLN 1,357.8 million compared to the PLN 969.1 million in the first half of 2013 (growth by 40.1%).The grows of this income was determined mainly by the following factors:

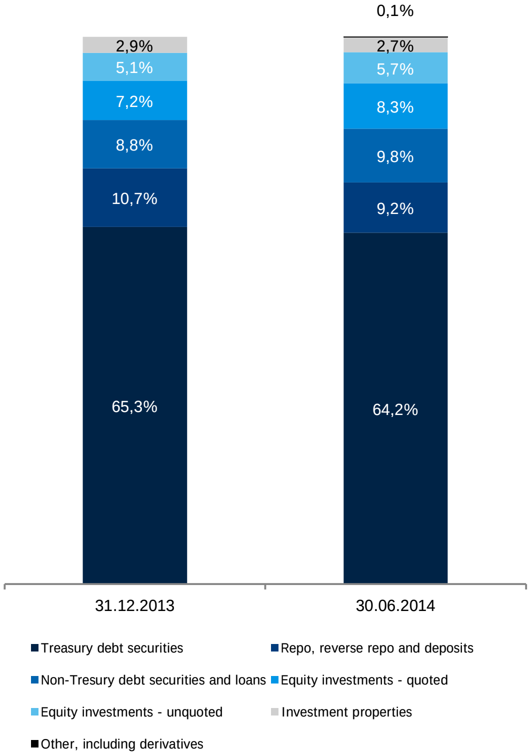
- profitability of treasury bonds dropped in the first half of 2014 when compared to the growth observable in the middle and end of the curve in the same period of the previous year. This provided PZU Group with income from financial interest assets in amount of PLN 1,244.0 million, i.e. PLN 291.0 million higher than over the first half of the previous year;
- improved situation of the capital markets in respect of 2013 – over the first half of 2014, the WIG index rose by 1.3%, whereas it had dropped by 5.7% over the corresponding period of the precious year. In effect, over the first half of 2014, PZU Group income from capital instruments amounted to PLN 191.5 million, PLN 168.0 million higher than over the first half of the previous year;

In June 2014, the value of the investment portfolio[6] of PZU Group was PLN 52,311.3 million compared to 51,198.6 million at the end of 2013. PZU Group's investment activity is run in compliance with the statutory requirements and preserve an adequate level of security, liquidity, and profitability.



* The value includes the non-recurring effect of fund consolidation +172.7 m PLN that occured in 2013

Structure of investment assets (w %)



The first half of 2014 saw the rise in the value of quoted equity instruments and non-treasury debt securities and loans, which resulted from the investment strategy of PZU Group, which included greater diversification of the investment portfolio. In June 2014, the quoted equity instruments composed 8.3% and the non-treasury debt securities and loans composed 9.8% of PZU Group entire investment portfolio compared to adequately 7.2% and 8.8% at the end of 2013. Non-quoted equity instruments are associated mainly with unit-linked product funds.

Result from other operating revenues and expenses

The balance of other operating income and expenses in the first half of 2014 was negative, PLN 122.6 million, compared to the also negative in the corresponding period of the prior year PLN 59.1 million. The main reason for the change was recognizing one-off income in respect of a conciliatory agreement concluded with the reinsurer (one-off impact on other operating income of the first half of 2013 +PLN 73.3 million, total impact on profit before tax +PLN 53.2 million). The conciliatory agreement was concluded to settle reinsurance

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[6] The investment portfolio includes financial assets (along with investment contracts), investment property and financial liabilities (negative valuation of derivatives and liabilities resulting from reverse repo transactions).

commissions in the Green Card product which in 2011 had been adjusted, thus decreasing the results for that period by PLN 91.8 million.

Moreover, the change in the balance of other operating income and expenses was triggered by release of a part of provisions which amounted to PLN 28.2 million for settlements with CSC in conjunction with implementation of Graphtalk.

5.3 Claims and technical provisions

The net value of the claims and benefits and the increase of PZU Group technical provisions amounted to PLN 5 418.1 million. In relation to the first half of 2013, total claims, including the change in technical provisions, was lower by 0.8%. The drop in net claims and benefits resulted mainly from the following factors:

- a low level of mass claims and individual claims with a significant scale of payments in non-life insurance;
- a decrease in the frequency of events resulting from the death of the insured party/co-insured parties in relation to the first half of 2013 in group protection insurance and in continued insurance;
- lower sales of structured products in the bancassurance channel (reflected in the change in technical provisions).

On the other hand, the following had an impact on the increase in net claims and benefits in this category:

- a lower rate of conversion effect from long-term into yearly-renewable term business in type P insurance (the conversion effect" in the first half of 2014 translated to releasing PLN 45.2 million of reserves, PLN 38.9 million less than in the same period of 2013);
- increase of the mathematical reserves in unit-linked products due to improved investment results, which with simultaneous higher investment appraisal had no effect on the results of PZU Group;
- higher benefit payments for structured products and higher surrenders in unit-linked products.

5.4 Acquisition and administrative expenses

In the first half of 2014, the acquisition costs amounted to PLN 1,036.4 million and grew 6.5% compared with the same period of the prior year. This growth resulted mainly from:

- changes in commission rates in the motor insurance bundles in the mass insurance segment;
- growth of asset-based fee in unit-linked products in the bank channel (changed contractual conditions);
- expansion of the contract portfolio and high sales of new policies in group protection insurance.

At the same time, a drop in acquisition costs was caused by the growth of deferred acquisition costs for multi-3year contracts in the segment of corporate insurance.

The administrative costs of the Group in the first half of 2014 amounted to PLN 702.3 million, 9.5% higher than the year before. This was due to the following factors:

- Growth of the obligatory contribution to the KDPW Guarantee Fund by PTE PZU in amount of PLN 20.7 million (statutory change of the required level from 0.1% to 0.3% of OPF net assets);
- additional human resource costs, customer service training costs and a concurrent maintenance of two systems as a consequence of realization of previous years’ projects in non-life insurance. These actions will allow the Customer relation management philosophy to change – Customercentricity, and the Group to regain its competitive edge in the area of product management and to shorten, at the same time, the new product introduction period (time to market);

- Higher costs of project initiatives aimed to improve and automate the service processes in the segment of corporate customers.

5.5 Analysis of assets and liabilities

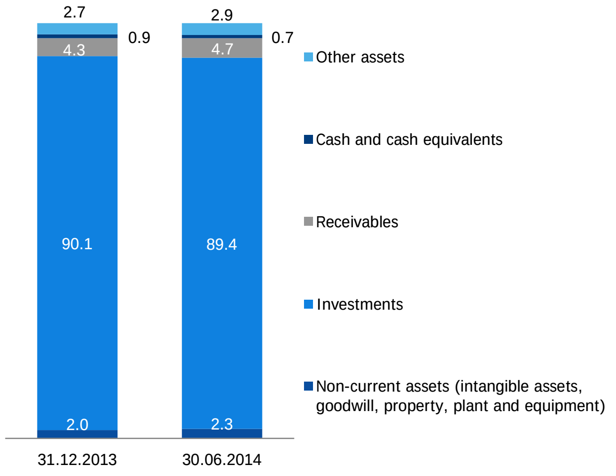
On 30 June, the balance total of PZU Group amounted to PLN 63,821.8 million and was 1.6% higher than at the end of 2013.

Assets

The main element of PZU Group assets were investments (financial assets and investment property). They amounted to PLN 57,036.9 million and were 0.8% higher than as at the end of the previous year. They composed 89.4% of PZU Grouptotal assets compared to 90.1% at the end of 2013. The investment growth was mainly determined by the growth of capital and debt instrument measurement.

The receivables of PZU Group, including insurance receivables and current income tax receivables, amounted to PLN 3,011.7 million, i.e. composed 4.7% of total assets. In comparison, by the end of 2013, they amounted to PLN 2,706.9 million (4.3% of the Group total assets) and their growth resulted from the security bond unsettled sales transitions as of the balance sheet day.

Structure of the PZU Group assets (%)



The intangible assets, goodwill and property, plant and equipment assets are presented on the balance sheet in the amount of PLN 1,473.0 million. They composed 2.3% of total assets and their growth in comparison to 2013 resulted from the operations associated with the Everest Platform.

As of 30 June 2014, PZU Group held PLN 446.7 million in cash and cash equivalents (0.7% of the assets). At the end of 2013, their value was PLN 569.2 million.

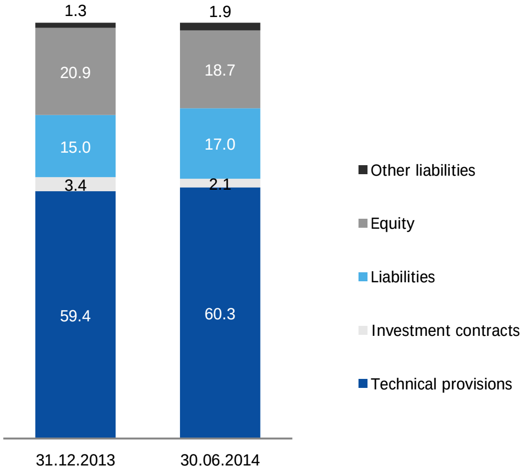
Liabilities and equity

As of 30 June, the main component of PZU Group's liabilities were technical provisions. The reached PLN 38,506.4 million, which composed 60.3% of liabilities. Their share in the balance sheet grew during the first half of 2014 by 0.9% p.p.

The value of the investment contracts amounted to PLN 1,335.8 million compared to PLN 2,121.0 million at the end of 2013. This drop resulted from the high volume ofredemptions of short-term endowment products in the bancassurance channel and lower sales level. In effect, their share in the total liabilities structure dropped from 3.4% at the end of 2013 to 2.1% at the end of the first half of 2014.

As at 30 June 2014, equity equalled PLN 11,917.3 million and was 10.3% lower than the year before. This resulted mainly from the advance dividend payment from the surplus capital in the second half of 2013 in the amount of PLN 1,727.0 million. In relation to the consolidated own capital as at 31 December 2013, the capital dropped by PLN 1,210.3 million (-9.2%).

Structure of PZU Group liabilities (%)



The balance of liabilities and provisions at the end of the first half of 2014 amounted to PLN 12,062.3 million. The 18.1% increase compared with the end of 2013 was in particular the result of the liabilities towards PZU shareholders from dividend payment.

Statement of cash flows

The net cash flows for the first half of 2014 amounted to PLN -126.3 million and dropped by PLN 162.9 million in comparison with the corresponding period of the previous year, the reasons for which included lower inflows and higher outflows from investment contracts.

5.6 Results of operating segments

The following operating segments are identified for the purposes of PZU Group management:

- Corporate insurance (non-life);This segment covers a wide range of property, civil liability, and motor insurance products adjusted to the needs of the customer and with individual risk assessment offered by PZU to large entities;
- Mass customer insurance (non-life). Covers property insurance, accident insurance, civil liability insurance, and motor insurance. Provided by PZU to individual customers and entities from the small and medium company sector;
- Life insurance - group and individually continued. Offered by PZU Życie to employee groups and other official group (e.g. labour unions). The insurance is assumed by individuals in legal relations with the insurer (e.g. employer, labour unions) and individually continued insurances, which provide the insurer with the right to continue hir/her group policy as an individual policy. It covers the following types of insurance: protection, investment (with exception of investment contracts) and health;
- Individual life insurance. Provided by PZU Życie to individual customers. The insurance contract concerns a specific policyholder subject to individual risk assessment. These are protection, investment (with exception of investment contracts) and health insurance;
- Investments. These are investment activities in respect of PZU Group own funds constituting a surplus of investments over technical provisions in the key insurance companies of PZU Group (PZU and PZU Życie), and investments corresponding to the value of technical provisions of PZU and PZU Życie in non-investment products being the surplus over the risk-free rate as well as other free financial resources available in PZU Group.
- Pension insurance. Activity conducted by PTE PZU;
- Ukraine segment. Covers non-life, and life insurance;
- Baltic States segment. Non-life, and life insurance;
- Investment contracts. These are PZU Życie products, which to not transfer significant insurance risk and do not fulfil the definition of an insurance contract. These are certain products with a guaranteed rate of return and certain unit-linked products in form of capital products – unit-linked;
- Other include consolidated entities not falling under any of the aforementioned segments

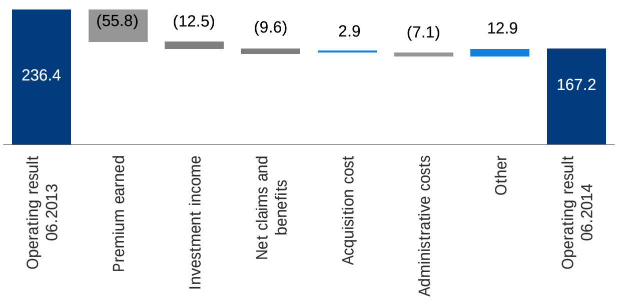
Corporate insurance

In the first half of 2014, the corporate insurance segment reached PLN 167.2 million of operating profit, which is 29.3% less than in the first half of 2013.

The level of profit in this segment was influenced in the first half of 2014 especially by the following factors:

- a decrease in premiums earned by 7.1%, while the gross written premium increased only slightly (by 0.8%) compared to the first half of 2013. In the first half of 2014, sales increased primarily in the financial insurance (by PLN 46.6 million) as a result of major insurance guarantees and the renewal of existing long-term contracts. In addition, other TPL insurance, premiums were obtained from several strategic customers, which positively influenced sale amounts in this insurance group (increase by PLN 8.1 millionmillion). An increase in written premium was partially offset by lower sales of fire damage insurance and other property insurance (by PLN 44.4 million), mainly as a result of obtaining in the corresponding period in 2013, a number of long-term contracts, as well as by a decrease of the written premium of motor fleet insurance;

Operating profit in the corporate segment (millions of PLN)



- total net value of claims and benefits amounted to PLN 415.7 million and was by PLN 9.6 million higher than in the previous year. Net claims and benefits in the first half of 2014 increased by 2.4%, compared to the first half of 2013, which, combined with the premium earned lower by 7.1%, resulted in the loss ratio lower by 5.3 percentage points. There was an increase primarily in claims in non-life insurance (by 6.3% year-on-year), mainly as a result of the occurrence of high-value claims. Regarding the motor insurance, a positive trend was kept and the level of claims and benefits was maintained at the level from the previous year, which resulted from the insurance portfolio verification, reduction of the number of unprofitable customers and a lower claim frequency (more favourable road conditions);
- a decrease in investment income allocated to the segment – the income amounted to PLN 66.8 million and was lower by 15.7% compared to the corresponding period in the previous year. This resulted mainly from a lower market interest rates, as well as lower increase in EUR exchange rate.
- a decrease in acquisition costs by PLN 2.9 million, i.e. 1.9% compared to the corresponding period of the previous year, which was mainly due to a significant increase in deferred acquisition costs for long-term contracts and a slight increase in direct costs (by 2.6%), as well as an comparable level of indirect costs;
- an increase in administrative costs to the level of PLN 57.3 million, i.e. 14.0% compared to the corresponding period in the previous year. The higher costs were a consequence of the realization of projects from previous years to change the Customer relation management philosophy – Customercentricity. The additional costs concerned among others human resource and Customer service training costs with a concurrent maintenance of two systems.

Mass insurance

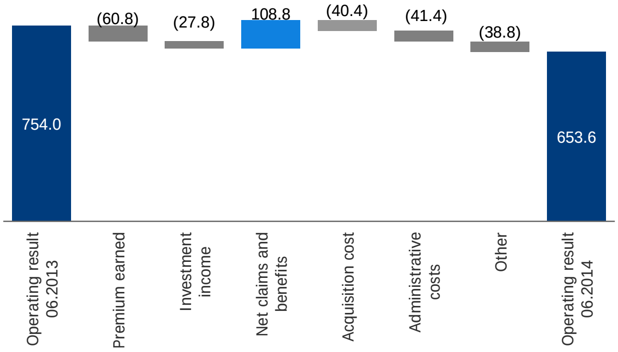
In the first half of 2014, the operating profit in the mass insurance segment amounted to PLN 653.6 million (a decrease of 13.3% compared to the first half of 2013). It was a result of the following:

- the gross written premiums amounted to PLN 3,330.3 million, i.e. it decreased by 15% compared to the corresponding period in 2013. The motor insurance premiums decreased by 4.0%, whereas insurance against fire and other damage to property increased by PLN 14.6 million and other liability insurance increased by PLN 9.9 million. The premium earned amounted to PLN 3,200.7 million, i.e. it decreased by 1.9% compared to the corresponding period in the previous year;
- income from investments allocated to the segment amounted to PLN 274.5 million (a decrease of 9.2% compared to the same period of the previous year). This resulted mainly from a lower market interest rates, as well as lower increase in EUR exchange rate.

- claims and benefits, which amounted to PLN 1,886.7 million, i.e. decreased by 5.5% compared to the corresponding period in 2013. This result, which was better than in the previous year, was due to a lower level of claims and benefits in motor insurance that was determined to a large extent by the release of the IBNR reserves, which were caused by a persistent decline in claims paid, as well as a lower than expected increase of loss frequency. In addition, a low level of mass claims related to atmospheric phenomena such as heavy rainfall, flooding and flash flooding. The favourable trends were partially offset by an increased loss ratio in the group of agricultural insurance, which was caused by a higher level of capitlized annuities reserves and a higher number of frost-related losses.
- the acquisition costs amounted to PLN 582.8 million, i.e. they were 7,5% higher than the costs incurred in the corresponding period in 2013. Primarily, the direct costs increased due to a change in commission rates in motor insurance;
- the administrative costs increased to the level of PLN 272.8 million, i.e. 17.9% compared to the corresponding period in the previous year (human resources, consulting and legal service costs increased). The higher costs were a consequence of the realization of projects from previous years to change the Customer relation management philosophy – Customercentricity. The additional costs concerned among others human resource and Customer service training costs with a concurrent maintenance of two systems.

In addition, the comparability of the results was largely influenced by a one-off effect from 2013, i.e. one-off gross income from concluding a conciliatory agreement with the reinsurer in respect of Green Card insurance in the amount of PLN 53.2 million, of which PLN 73.3 million was included in reinsurer's commissions and share of reinsurers' profit.

Operating result in the mass segment (millions of PLN)



Group and individually continued insurance

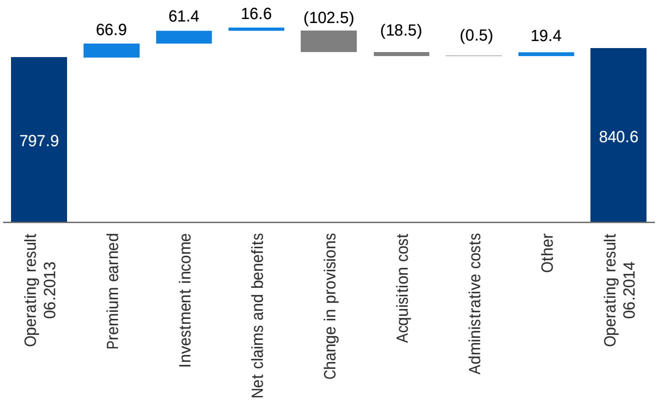
The operating profit of the segment of group and individually continued insurance amounted to PLN 840.6 million and was by 5.4% higher than in the previous year. The main sources of income are as follows:

- gross written premium in the amount of PLN 3,265.8 million, i.e. higher by 2.1% than in the previous year. Due to the withdrawal from offering short-term endowment insurance with a single premium, - total regular premium was recognized in its entirety. In the first half of 2014, the upward trend remained stable as a result of: development of protective group insurance (increase in average premium and number of insured persons), upsale of additional insurance and increasing insurance sum in individually-continued products, acquiring premiums from health group insurance (new customers in ambulatory insurance and sale of medicine and antibiotic products), as well as continued cooperation with banking intermediaries in sales of protective insurance;
- Income from investing activities (which comprises income allocated to the segment and income from investment-type products) in the amount of PLN 371.3 million, i.e. they increased by 19.8%. The increase concerned, in particular, investment products, in case of which income from investment increased by PLN 80.00 million as a result of the prices of Treasury bonds and an increase of the WIG index

compared to its drop in value in the previous year;

- Net claims and benefits amounted to PLN 2,190.1 million (decrease of 0.8%). A lower loss ratio of protection products was observed -a decline in the frequency of events resulting from the death of the insured party/co-insured parties in relation to the first half of 2013 (confirmed with GUS data on the increase in the number of deaths in Poland in January 2013).
- An increase of other net technical provisions amounted to PLN 161.1 million. The increase in reserves was by PLN 102.5 million higher compared to the previous year. The increase was caused mainly by higher mathematical reserves in unit-linked products (as a consequence of higher investment result than in 2013) as well as lower conversion pace of long term insurance policies to yearly annual in P type group insurance. Due to the convension PLN 45.2 million reserve was released, that is PLN 38.9 million less than in the corresponding period of 2013.
- The acquisition costs amounted to PLN 174.9 million, i.e. they increased by 11.8%. This was due to an increase in direct and indirect acquisition costs in protective group insurance (including *bancassurance*) as a result of an expansion of the contract portfolio and high sales of new policies (a growing number of which is acquired and operated by a brokerage or an agency channel);
- The administrative costs of the segment amounted to PLN 259.5 million and maintained a stable level compared to the previous year despite the business growth;
- other operating costs amounted to PLN 9.5 million, whereas their drop by 67.2% resulted from the lack of the prevention fund charge.

Operating profit in the group and individually continued insurance segment (millions of PLN)



After adjusting the financial results of the segment by one-off effects related to a lower effect of the conversion of long-term contracts into annual contracts in type P group insurance, in the first half of 2014, the operating profit/loss of the segment amounted to PLN 795.4 million compared to PLN 713.7 million in the corresponding period in the previous year (increase of 11.4%), which was mainly due to the expansion of the portfolio and a lower loss ratio of protection products.

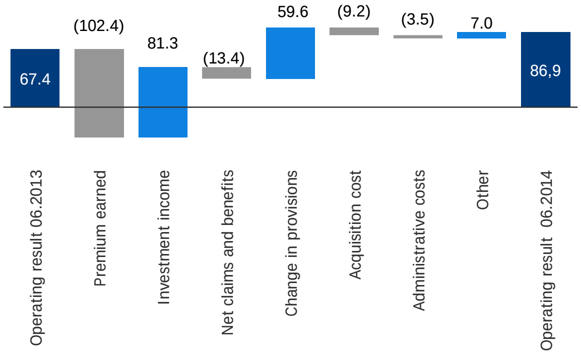
Individual insurance

In the first half of 2014, the operating profit of the individual life insurance segment amounted to PLN 86.9 million, i.e. was 28.8% higher than in the previous year. The main factors influencing the operating result are as follows:

- gross written premiums dropped and amounted to PLN 643.3 million and was 13.6% lower than in the previous year. It resulted from lower sales of investment products offered in cooperation with banks (a *unit-linked* product with Bank Millennium and a structured product with Bank Handlowy w Warszawie SA), as well as from premium transfers to IKE (Individual Pension Accounts), which were lower than at the beginning of the previous year.
- an increase in income from investment activities (i.e. income allocated to the segment and income from investment products). They amounted to PLN 170.1 million, which were higher by 91.4% than in the previous year. The increase concerned in particular products with

investment element, in case of which income from investment increased by PLN 81.4 million as a result of the prices of Treasury bonds and an increase of the WIG index compared to its drop in the previous year;

- an increase in the value of net claims and benefits, which amounted to PLN 308.9 million, i.e. increased by 4.5% compared with the year 2013. Their increase was influenced by higher benefits for structured products (both in tied-agent channel and *bancassurance* channel), as well as higher surrenders in *unit-linked* products in the *bancassurance* channel. However, the benefits from old individual endowment policies underwritten in the 1990s and transfers from IKE were lower;
- net technical provisions increased by PLN 342.4 million, i.e. PLN 59.6 million less than in 2013. The difference was mainly due to a decrease in reserves for structured bancassurance products compared to the increase in the previous year resulting from lower sales of such products than in the previous year and an increase in the provision of the *unit-linked* product in the *bancassurance* channel, which resulted from lower premiums and higher surrenders. This effect was partially offset by an increase in the reserves in IKE compared to the decrease in the previous year (better investment activities and lower benefit payments);
- significant increase in the acquisition costs. They amounted to PLN 62.9 million (increase of 17.1% compared to 2013). This increase was primarily caused by an increase of asset-based commissions in the *unit-linked* products in the bank channel (amendment to agreement provisions) and an increase in the cost of agency commissions as a result of an increase in the volume of new sales of protection products after the sales of investment products in the tied-agents channel were reduced.
- increase in administrative costs in the first half of 2014 compared to the corresponding period in 2013 of PLN 3.5 million to the level of PLN 25.8 million (+ 15.7%), which was primarily due to an increase in the agency network involvement in improving the quality of services and increased marketing spending.


Operating profit in the group and individual insurance sector (millions of PLN)

Investments

Income from the investment segment resulted from investment activities in respect of PZU Group own funds constituting a surplus of investments over technical reserves in the key insurance companies of PZU Group (PZU and PZU Życie), increased by the surplus of revenues exceeding the risk free rate of investments corresponding to the value of technical reserve of PZU and PZU Życie in non-investment products of a , i.e. a surplus of income from investments of PZU and PZU in addition to the income allocated in accordance with the transfer prices to insurance segments. In addition, the Investment segment includes income from other available funds in PZU Group.

The operating income of the investment segment (external operations) amounted to PLN 359.0 million compared to PLN 348.9 million in the first half of 2013. This was mainly due to an increase in the prices of bonds and the WIG index compared to the declines observed in the corresponding period in the previous year.

Pension insurance

In the first half of 2014, the operating profit in the pension insurance segment amounted to PLN 28.9 million, i.e. it decreased by 55.2% compared to the first half of 2013. The sources of the operating income are as follows:

- revenues from commissions and fees, which amounted to PLN 76.9 million, i.e. decreased by 24.4% compared to the previous year. This change resulted mainly from:
  - a decrease of management fees of PLN 24.1 million due to the statutory transfer of certain OPF assets to the Social Insurance Institution equal to the value of 51.5% of settlement units on the account of each member of PZU OPF);
  - a decrease in manipulation fees of PLN 5.1 million associated with the statutory reduction of the premium fee from 3.5% to 1.75%, effective on 1st February of this year;
  - an increase of PLN 4.8 million from the reserve account.
- the acquisition costs amounted to PLN 3.3 million, and were lower by 59.8% than in the previous year. The decrease results from lower amortization of deferred acquisition costs for contracts concluded before 21 January 2014;
- the administrative costs amounted to PLN 50.4 million, i.e. were higher by 44.8% than in the previous year. The change was mainly caused by the mandatory contributions to the KDPW (National Depository for Securities) Guarantee Fund, which were higher by PLN 20.7 million. The increase in these costs was caused by the statutory change of the level of the value of net OFE (Open Pension Funds) assets from 0.1% to 0.3%. In addition, there was a decrease of PLN 4.0 million in costs of the fund member record keeping due to a reduction from 1 February of this year of the costs of the service of the OPF PZU member accounts, as well as a decrease of PLN 1.1 million in ZUS (Social Insurance Institution) fees resulting from the statutory fee reduction from 0.8% to 0.4% of transferred premiums.

Ukraine

The exchange rate of hryvnia to złoty (UAH/PLN) was subject to a significant decrease (-28.0%) due to the current political situation in Ukraine which is reflected in the year on year comparability of results.

The Ukraine segment finished the first half of 2014 years with a loss from operating activities on the level amounting to PLN -4.5 million compared to a profit of PLN 8.4 million in the previous year. After taking into account the revenues and the operating costs, as well as the financial costs, the gross profit of the Ukrainian companies amounted to PLN 4.0 million compared to PLN 7.8 million in the first half of 2013. For the above amount, the non-life insurance generated a gross income of PLN 0.2 million, whereas the life company– PLN 3.8 million.

The main factors influencing the financial results of the segment in the original currency in relation to the non-life insurance were as follows:

- an increase in gross written premiums - it amounted to UAH 201.6 million, i.e. was by 13.6% higher than in the corresponding period in the previous year, mainly in the scope of travel, Green Card, corporate property and motor insurance offered by both external and own distribution channels;
- an increase in income from investment activity of 14.9% compared to the corresponding period in the previous year;
- an increase of acquisition costs by UAH 7.2 million (+ 14.4%), as a result of the positive dynamics of the net premium earned (+ 10.2%), including increased sales of motor and travel insurance that are characterized by higher charges that the acquired sales are subject to;
- administrative costs were increased by 7.3% compared to the first half of 2013; while the administrative cost ratio was improved by 0.6 percentage points, which was influenced by the positive dynamics of the net premium earned

The main factors influencing the financial results of the segment in the original currency in relation to the life insurance were as follows:

- an increase of the gross written premium amounted to UAH 69.8 million, i.e. it increased by 32% compared to the corresponding period in 2013. This growth was reached mainly in the bancassurance channel due to the sales of life and endowment insurance, including especially those in USD.
- the revenue from investing activities was 1.5 times higher compared to the corresponding period in 2013, mainly due to the foreign exchange gains from revaluation of investments which cover technical provisions offered in a foreign currency (e.g. USD);
- acquisition costs were higher by 20.5% compared to the corresponding period on 2013 as a result of positive dynamics of the net premium earned (33.9%), including high sales dynamics of *bancassurance,* as well as an active cooperation with brokers, which are characterized by higher commission fees. Despite the increase in the acquisition costs, the acquisition cost ratio improved by 3.8 percentage points compared to the corresponding period in 2013;
- administrative costs were increased by 25.9% mainly due to an increase in sales and human resources. However, an improvement of the administrative cost ratio by 0.6 percentage points was observed, which was due to the positive dynamics of the gross written premium.

Baltic States

In relation to operations in the Baltic states, PZU Group acquired in the first half of 2014, PLN 4.1 million of operating profit compared to a loss of PLN 3.4 million in the previous year.

The main factors influencing the financial results of the segment in relation to the non-life insurance were as follows:

- an increase in gross written premiums. They amounted to PLN 140.8 million, compared to PLN 110.1 million in the previous year, and increased primarily due to higher premiums in Latvia and Estonia, in particular in the property and motor insurance sector;
- better investment results. In the first half of 2014, revenues from investments amounted to PLN 5.1 million compared to PLN 2.0 million in the previous year;
- higher net claims and benefits. They amounted to PLN 65.8 million (increase of 14.3% compared to the previous year). However, the loss ratio improved as well by 3 pp.
- higher acquisition costs related to higher sales. Expenses of a non-life insurance company for this goal amounted to PLN 29.7 million, i.e. they increased by 9.5% compared to the first half of 2013;
- higher administrative costs. They amounted to PLN 14.1 million and were higher by 32.2% compared to the first half of 2013. The increase was influenced by the development of business activity on the Baltic market.

The main factors influencing the financial results of the segment in relation to life insurance were as follows:

- a gross written premiums increase. They amounted to PLN 17.8 million compared to PLN 15.0 million in the previous year and increased mostly in the field of traditional life insurance, which increased by 40.5% compared to the previous year, and *unit-linked* insurance (an increase of 5 3% year-on-year);
- an increase in investment results. In the first half of 2014, revenues from investments amounted to PLN 3.4 million compared to PLN -0.5 million in the previous year;
- and increase in claims of 69.7% due to an increase in technical provisions (the technical rate was lowered from 1.88 to 1.77);

- higher acquisition costs related to higher sales. Expenses of the company for this goal amounted to PLN 5.8 million, i.e. they increased by 8.8% compared to the first half of 2013;
- higher administrative costs. They amounted to PLN 1.6 million and were higher by 10.1% compared to the first half of 2013.

Investment contracts

Investment contracts are accounted for under the deposit method, in consequence the transaction volumes from investment contracts do not constitute revenue according to IFRS.

PZU Group generated PLN 11.1 million of operating income, compared to PLN 14.5 million in the previous year (decrease of 23.6%), from investment contracts, i.e. the products of PZU that do not generate any significant insurance risk and are not defined as insurance contracts (such as certain products with a guaranteed rate of return and certain unit-linked products).

The amount of profit was influenced in the first half of 2014 by, among others, the following factors:

- gross written premiums drop. They amounted to PLN 278.0 million, which were lower by 67.6% than in the previous year. Lower sales of, in particular, short-term endowment products - the effect of the strategy consisting in withdrawing from sales of this type of insurance policies;
- lower investment results. It amounted to PLN 17.0 million, which was 30.5% lower than in 2013, mainly as a result of a reduction in volume of contracts;
- the increase in the net amount of claims and benefits was the effect of: higher amount of benefits from short-term investment endowment policies, mainly in the *bancassurance* channel, and higher surrenders in *unit-linked* products. They amounted to PLN 1 062.8 million and were higher by 11.5% compared to the previous year.
- A significant decrease in net technical reserves. They amounted to PLN 786.6 million compared to PLN 92.2 million in the previous year. The difference was due to changes in the portfolio of short-term endowment products, mainly in the *bancassurance* channel, i.e. lower sales, higher benefits redemptions and lower income from investing activities;
- higher acquisition costs. They amounted to PLN 10.4 million and were higher by 23.4% compared to the previous year. It was a result of an increase of asset-based commissions in *unit-linked* products in the bank channel (changed contractual conditions);
- administrative costs remained stable compared the corresponding period of 2013.

Profitability ratio

In the first half of 2014, PZU Group improved its operating ratios. Particular attention should be paid to a high return on equity obtained by PZU. ROE ratio amounted to 27.5% and was higher by 3.2 percentage points than in the previous year. Profitability ratios obtained in the first half of 2014 years by PZU Group exceed the levels achieved by the entire market (according to data for the first quarter of 2014).

Key operating ratios of PZU Group	**1 January - 30 June 2014**	**1 January - 30 June 2013**	**1 January - 30 June 2012**
Return on equity (ROE) *(net profit/loss year-on-year /average equity) x 100%*	27.5%	24.3%	26.8%
Return on assets (ROA) *(net profit/loss year-on-year /average assets) x 100%*	5.4%	5.7%	6.5%
Return on sales *(net profit (loss) gross written premium) x 100%*	20.4%	19.7%	20.8%

Activity effectiveness ratios

One of the primary measures of effectiveness and efficiency of an insurance company is COR (Combined Ratio), which is usually calculated only for non-life insurance. Maintaining a low rate of the combined ratio of PZU Group (for non-life insurance) results, among others, from the and the lack of significant catastrophic events (such as floods, flash floods or snow damage).

The effectiveness ratios as per particular segments are presented in the Appendix.

Activity effectiveness ratios		**1 January – 30 June 2014**	**1 January – 30 June 2013**	**1 January – 30 June 2012**
1	*Gross claims and benefits ratio (simple).* *(total gross claims and benefits paid/gross written premium) x 100%*	64.9%	64.2%	68.5%
2	Net claims and benefits ratio *(net claims and benefits/net premium earned) x 100%*	67.5%	66.8%	70.1%
3	Costs of insurance activity ratio *(costs of insurance activity/net premium earned) x 100%*	21.6%	19.7%	21.4%
4	Acquisition cost ratio *(acquisition costs / net premium earned)* *x 100%*	12.9%	11.9%	12.7%
5	Administrative cost ratio *(administrative costs / net premium earned) x 100%*	8.7%	7.8%	8.7%
6	Combined ratio (COR) in other non-life insurance *(net claims and benefits + costs of insurance activity /net premium earned)* *x 100%*	86.1%	82.3%	90.5%
7	Operating profit margin in life insurance *(operating income/gross written premium) x 100%*	23.3%	21.8%	24.4%

6 Risk management

6.1 Risk management objective

Risk management objectives:

- Raise of PZU Group value through active and conscious changes to the volume of the accepted risk;
- Prevention of risk acceptance at the level potentially hazardous to financial stability.

6.2 Risk management system

The risk management system is based on:

- Organisational structure, which covers the distribution of competences and assignments realised by statutory authorities, committees, and organisational cells and units in the risk management process;
- Risk management process, including methods of risk identification, measurement, assessment, monitoring, controlling, and reporting, and management operations.

Organizational structure

The risk management organisational structure is based on four competence levels.

The first three are:

- the Supervisory Board, which supervises the risk management process and assess its adequacy and effectiveness as part of the decisions defined in the Statute and the Supervisory Board rules and regulations;
- the Management Board, which organizes the risk management system and ensures its functionality through approving strategies and policies and determining appetite for risk and tolerance to individual categories of risk;
- the Asset and Liability Committee (ALCO) and the Credit Risk Committee (CRC), which make decisions on reducing the individual risks to the levels determined by the risk appetite. The Committees implement the procedures and methodologies for mitigating the individual risks and accept individual risk limits.

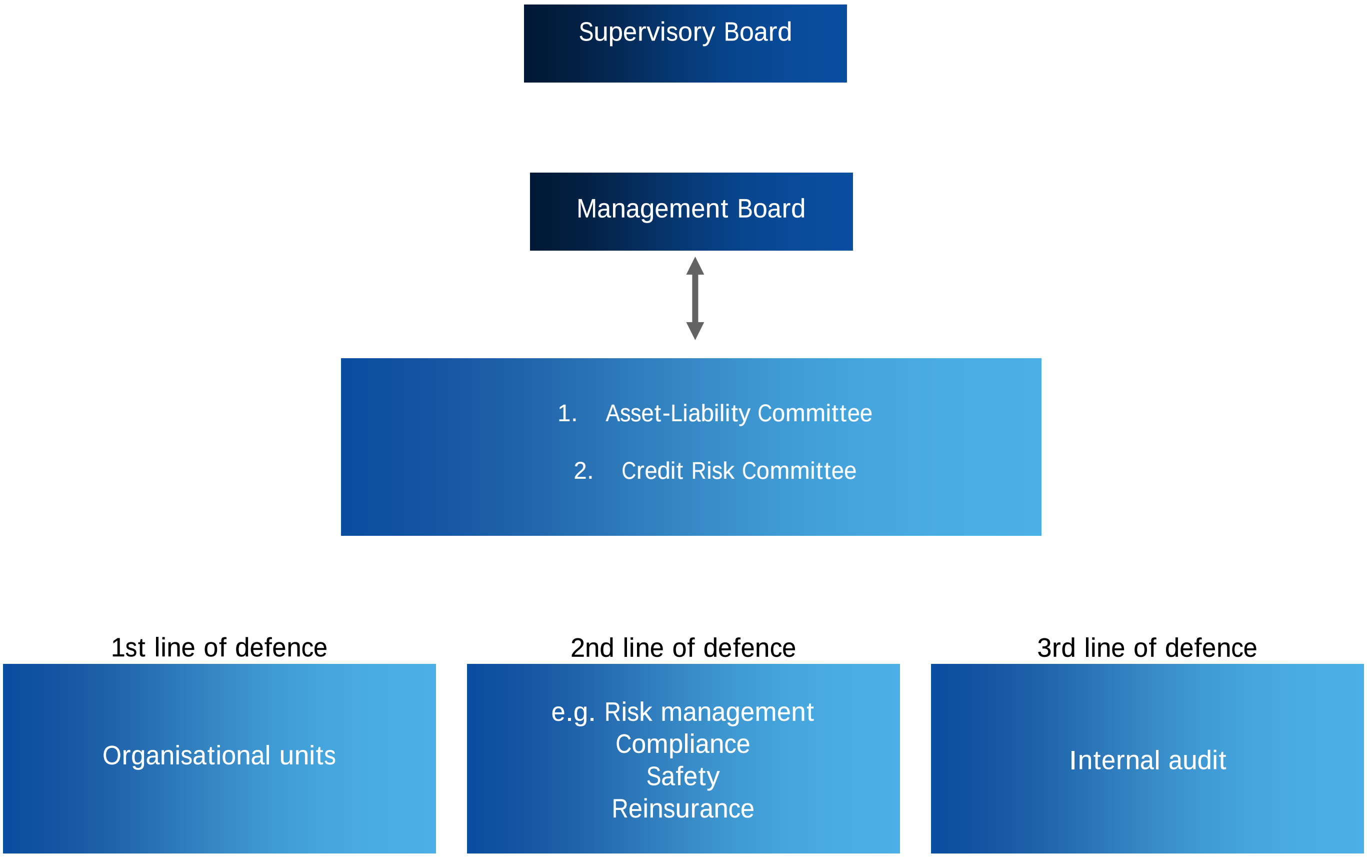
The fourth competence level is associated with the operating level, on which the risk management activities are divided among the three defence lines:

- first line of defence – covers current risk management on the organisational unit and cell level and decisions making within the risk management process.
- second line of defence – covers risk management through structured risk identification, monitoring, and reporting, as well as limit control. The main components of the second line of defence include the following: risk unit, planning and controlling unit, actuarial unit, reinsurance unit, legal unit, security unit, human resources unit, IT risk and security unit;
- third line of defence – covers the internal audit, which conducts independent audits of the risk management system and performs the controlling activities embedded in the operations. This function is performed by the audit unit.

Risk management process

The risk management is composed of the following stages:

- Identification. It commences with the proposal for the creation of an insurance product, purchase of a financial instrument, change of the operating process, and with the occurrence of any other event potentially creating a risk, and accompanies it until the end of the obligations, receivables, or associated operations. Risk identification involves recognizing the actual and potential sources of such risk, which are analysed for significance.



- risk measurement and assessment. Conducted depending on the nature of the given risk and its significance. Risk measurement is conducted by special units and the risk unit is responsible for the development of tools and risk measurement in scope defining the risk appetite, risk profile, and tolerance limits.
- Monitoring of the risk and control buyer's credit risk. Based on current inspection of departures of the realisation from the assumed points of reference, i.e. limits, threshold levels, plans, values from the previous period, and provided recommendations;
- Reporting. Allows for effective risk communication and supports risk management at various decision-making levels, from employee to Supervisory Board. The risk unit prepares the following reports for:
    - the Supervisory Board – quarterly risk information on insurance risk, market risk, credit risk, concentration risk, operating risk and compliance risk;
    - the Management Board and its Members – monthly and quarterly risk information on insurance risk, market risk, credit risk, concentration risk, and operating risk;
    - the members of the Credit Risk Committee – current information on exceeding market limit, credit limits, and concentration limits, weekly and monthly information on the

level of market risk, credit risk, and concentration risk;
  - the members of the Asset and Liability Committee – current information on exceeding market limits, weekly information on the level of market risk, credit risk, and concentration risk, monthly information on market risk, credit risk, and concentration risk;
- management activities. These activities include in particular: risk evasion, risk transfer, risk limitation, determining appetite for risk, risk level tolerance, and supporting tools, i.e. limits, reinsurance programmes, and underwriting policy reviews.

6.3 Risk appetite

Risk appetite is the size of the risk undertaken for business purposes, and is measured by the level of potential financial loss, drop of asset value, or growth of liability value over one year. Risk appetite is determined by the Management Board to establish the maximum level of permitted risk for the determination of the limits for individual partial risks, and as the level determining the need to take specific management actions to limit further risk growth. Each year, the risk unit reviews the size of risk appetite.

6.4 Risk profile

Over the first half of 2014, the risk profile did not change significantly. The main operating risks are: insurance risk, market risk, credit risk, concentration risk, operating risk, and compliance risk.

The tool, which holistically presents the risk profile is the risk map. The map depicts a systematised visualisation of the risk exposure levels. The risk map is updated once a year or in the event of changes to the risk profile or external environment. The risk unit is responsible for the coordination of the risk map creation and updating.

Insurance risk

This is the risk of a loss or adverse change in the value of insurance liabilities due to inadequate assumptions concerning valuation and provisions.

Risk identification starts with the creation of an insurance product and accompanies it until the end of the obligations associated with it. Insurance risk identification is conducted through:

- analysis of general insurance conditions for assumed risk and compliance with common legal regulations;
- present product monitoring;
- analysis of the underwriting policy, tariff policy, provision policy, and reinsurance policies, and the claims and benefits handling process.

Insurance risk assessment consists of recognizing the degree of exposure or a group of exposures associated with the possibility of incurring a loss and analyzing the risk elements in order to make a decision on accepting the risk for insurance and assuming liability by the company. The objective of risk evaluation (underwriting) is the evaluation of future damage potential and reduction of adverse selection.

The insurance risk measurement is conducted in particular with the use of the following tools:

- analysis of selected ratios;
- the scenario method − analysis of impairment resulting from the assumed change in risk factors;
- the factor method – a simplified version of the scenario method, reduced to one scenario per one risk factor;
- statistical data.

Insurance risk monitoring and control involves analysing the risk level with reports containing the selected indicators.

Reporting aims to allow for effective insurance risk communication and support insurance risk management at various decision-making levels, from employee to Supervisory Board. The frequency of individual reports and scope of the information are adapted to the information needs at individual decision-making levels.

Management actions planned in the insurance risk management process are realised in particular through:

- determining tolerance to insurance risk and monitoring it;
- business decisions and sales plans;
- calculating and monitoring the adequacy of technical provisions;
- tariff strategy and monitoring current estimates and assessing the adequacy of premium;
- the process of assessment, measurement and acceptance of insurance risk;
- using insurance risk mitigation tools, including in particular reinsurance and prevention.

Moreover, the following actions are taken to mitigate the insurance risk related to ongoing business activity:

- defining the scopes of and exemptions from liability in general terms of insurance;
- reinsurance activities;
- adequate tariff policy;
- application of relevant methods to measure the provision;
- underwriting;
- claims handling procedure;
- decisions and sales plans;
- preventive actions.

Market risk

This is a risk of a loss or adverse change in the financial situation, which directly or indirectly results from fluctuations and changes in market prices of assets, liabilities and financial instruments.

Market risk identification involves recognizing the actual and potential sources of such risk. In the case of assets, the market risk identification process begins when a decision is made to commence transactions on a given type of financial instruments. Units which decide to commence transactions on a given type of financial instrument prepare a description of the instrument, including in particular a description of the risk factors, and submit it to the risk unit, which identifies and assesses market risk on this basis.

The process of identifying market risk associated with insurance liabilities commences simultaneously with the process of creating an insurance product and involves identifying the relationship between the amount of financial flows associated with this product and the market risk factors. Identified market risks are subject to evaluation for significance criteria. i.e. if the risk materialisation involves any losses with potential impact on the financial condition.

Market risk is measured with the use of the following risk measures:

- VaR, i.e. Value at Risk - a risk measure quantifying the potential economic loss, which under normal market circumstances will not be exceeded over a period of one year with 99.5% probability;
- exposure and sensitivity measures;
- accumulated monthly loss.

The following stages of the market risk measurement process can be distinguished:

- collecting information on assets and liabilities that generate market risk;
- risk value calculation.

The risk measurement is performed:

- daily - to measure exposures and sensitivity of instruments included in the Kondor+ transaction system;
- monthly – using a partial internal model.

Market risk monitoring and control involves analysing the risk level and utilising the established limits. Market risk is monitored on two levels: internally at the organizational units responsible for operating market risk management and independently by the risk unit. Monitoring is conducted on a daily or monthly basis, adequately to the defined limits.

Reporting involves communication of the market risk level and effects of monitoring and controlling to various decision-making levels. The frequency of individual reports and scope of the information are adapted to the information needs at individual decision-making levels.

Management actions concerning market risk include in particular:

- concluding transactions aimed at mitigating market risk, such as the sale of a financial instrument, closing of a derivative instrument, purchase of a hedging derivative instrument;
- diversification of the portfolio of assets, in particular with respect to market risk categories, maturities of instruments, concentration of exposure in one entity, geographical concentration;
- setting market risk restrictions and limits.

Setting limits constitutes the main management tool aimed at maintaining risk positions within acceptable risk tolerance levels. The structure of limits for the individual market risk categories and organizational units is determined by the Asset-Liability Committee taking into account the risk tolerance determined by the Management Board. ALCO sets additional detailed market risk limits.

Credit and concentration risk

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

Credit risk identification is conducted at the decision stage concerning investment in a new financial instrument type or credit involvement in a new entity. The identification is based on analysing the potential credit risk of a given investment, which determines its level and time fluctuations. The identification covers actual and potential sources of credit and concentration risk.

Risk evaluation based on the assessment of the potential materialisation of the risk and its potential impact on the financial condition.

Credit risk is measured with the use of the following tools:

- exposure measures (net and gross credit exposure amount and maturity-weighted net credit exposure);
- VaR.

Credit risk measurement with respect to a single entity is estimated as the sum of single exposures, calculated as the product of the following two values:

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

Concentration risk measurement for a single entity is calculated as the product of the following two values:

- amount of exposure to this entity over the excessive concentration level;
- concentration risk ratio determined for every internal rating.

The total concentration risk is measured as the sum of concentration risks of individual entities. In the case of related entities, concentration risk is determined for all related entities cumulatively.

Credit and concentration risk monitoring and supervision involves analysing the current risk level, assessing creditworthiness and determining the level of utilization of the levels set.

Monitoring is performed in the following cycles:

- monthly - for financial insurance exposures;
- semi-annual - for Reinsurance Office exposures;
- daily - for other exposure limits;
- monthly - for VaR limits.

Reporting involves communication of the credit and concentration risk level and effects of monitoring and controlling to various decision-making levels. The frequency of individual reports and scope of the information are adapted to the information needs at individual decision-making levels.

Management actions with respect to credit risk and concentration risk involve in particular:

- setting limits of exposure to a single entity, group of entities, sectors, states;
- diversification of a portfolio of financial assets and insurance, mainly with respect to the state, sector;
- accepting security;
- concluding transactions aimed at mitigating credit risk, such as the sale of a financial instrument, closing of a derivative instrument, purchase of a hedging derivative instrument, restructuring granted debt;
- reinsurance of a financial insurance portfolio.

The structure of credit and concentration risk limits for the individual issuers is determined by the Credit Risk Committee (CRC) in line with the risk tolerance determined by the Management Board. Additionally, the CRC sets detailed amount limits and qualitative restrictions.

Operational risk

This risk is defined as the possibility of incurring a loss resulting from inappropriate or incorrect internal processes, human action, operation of systems or external events.

Operating risk identification is conducted mainly through:

- collecting and analyzing information on operational risk incidents;
- self-assessments of operational risk.

Operating risk evaluation and measurement is conducted through:

- establishment of the effects of operational risk incidents;
- assessment of the effects of potential operating risk incidents;

The monitoring and control of operating risk is realised mainly by an established system of operating risk indicators, which allows for evaluation of the changes to the operating risk level in time and the factors affecting its level in the operations. At this stage, the verification checks if the operating risk level does not exceed the operating risk tolerance level.

Reporting involves communication of the operating risk level and effects of monitoring and controlling to various decision-making levels. The frequency of individual reports and scope of the information are adapted to the information needs at individual decision-making levels.

Management actions with respect to reaction to identified and evaluated operating risk involve in particular:

- risk reduction through actions aimed to minimise the risk, including strengthening of the internal control system and introduction of additional controlling mechanisms, such as:
    - competence limitation,
    - fulfilment of the so-called “four eyes rule”,
    - distribution of functions and performed assignments,
    - automation of control in the IT supporting process realisation;
- risk transfer – specifically through conclusion of an insurance contract;
- risk evasion though abandonment or withdrawal from specific business operations with the establishment of excessive operating risk with unprofitable limitation costs;
- risk acceptance – approval of the consequences of the potential operating risk materialisation, if such does not hold the potential to exceed the operating risk tolerance level. The operating continuity plans are in place in the most important companies of PZU Group. The operations securing proper functioning of the key processes of said companies in the event of a failure have been tested.

Compliance risk

This is the risk of legal sanctions, financial losses, or reputation loss due to violation of the law, internal regulations, and common procedure standards, including ethical norms.

Compliance risk is identified and assessed for individual internal processes by the managers of organizational units, in line with the division of reporting responsibilities. Additionally, the compliance unit identifies compliance risk on the basis of entries in the register of conflicts of interest, gifts, benefits and irregularities, as well as the inquiries received.

Compliance risk is assessed and measured by determining the effects of materialization of the following risk:

- financial, the causes of which include administrative fines, court rulings, penalty fees, and compensation.
- intangible, such as loss of reputation, including damage to PZU Group image and brand.

Compliance risk is monitored mainly through:

- analyzing quarterly reports received from managers of organizational units;
- reviewing regulatory requirements;
- participating in legislation work on amending the generally applicable regulations;
- activity in professional organizations;
- coordination of external control procedures;
- coordination of stock exchange and statutory obligations;
- reviewing the Compliance Office recommendations.

Compliance risk is reported on a quarterly basis. Risk reports on non-compliance are submitted to the Management Board every year.

Management actions taken in response to the compliance risk comprise in particular:

- acceptance of risk, e.g. in connection with legal or regulatory changes;
- mitigation of risk, including adjustment of procedures and processes to regulatory requirements, issuing opinions and drafting internal regulations from the perspective of compliance, participating in the process of agreeing marketing activities;
- avoiding risk through preventing the involvement in activities which do not comply with the regulatory requirements or good market practices or which could have an adverse effect on their image.

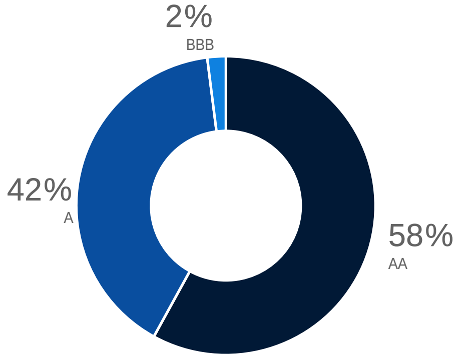
6.5 Reinsurance activity

The reinsurance cover of PZU Group secures the insurance activities and mitigates the effects of the occurrence of any catastrophic events which might have an adverse effect on the financial standing of the insurance companies. The task was executed by concluding obligatory reinsurance contracts with supplementary facultative reinsurance.

PZU reinsurance contracts

Based on the reinsurance contracts concluded, PZU mitigates its risk against catastrophic losses (e.g. flood, hurricane), among other things, by catastrophic disproportionate excess of loss agreements; and against the effects of large individual claims under disproportionate reinsurance agreements protecting the portfolios of property, technical, marine, aviation, third party liability and motor third party liability insurance.

Reinsurance share from PZU obligatory contracts as per Standard & Poor's rating



Additionally, PZU mitigates its risks through reinsurance of the financial insurance portfolio.

The main partners granting obligatory reinsurance protection to PZU in 2014 are the following reinsurers: Swiss Re, Hannover Re, Munich Re, Scor and Lloyd’s. According to S&P/AM Best, PZU's reinsurance partners have good ratings, which assures the company of the good financial position of the reinsurer.

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

PZU Życie Reinsurance contracts

The outward reinsurance contracts concluded by PZU Życie serve the protection of the portfolio of PZU Życie against the accumulation of risks (catastrophe contract), the protection of individual insurance policies with higher insurance sums and the protection of the portfolio of group insurance covering the serious illness of a child.

The following reinsurance companies are partners granting reinsurance protection to PZU Życie: RGA, Partner Re and Arch Re. According to S&P/AM Best, the reinsurance partners have good ratings, which assures PZU Życie of the good financial position of the reinsurer.

7 PZU on capital and debt market

7.1 Share prices

PZU made its debut on the Warsaw Stock Exchange on 12 May 2010. The company is one the top companies traded on the Warsaw stock exchange and has been a part of the WIG20 index since its debut.

PZU is also a part of the following: WIG30, WIGdiv, RESPECT Index, and CEERIUS (CEE Responsible Investment Universe) balanced growth index. CEERIUS is an index of the Vienna Stock Exchange for the companies in the Central and Eastern Europe (CEE) region. It is composed of companies satisfying the quality criteria in the social and ecological areas.

In accordance with the capital and dividend policy implemented in 2013, PZU is focused on total shareholder return (TSR).

The first half of 2014 was difficult to investors all over the world. The key factor determining the nervous behaviour of the investors on the Warsaw stock exchange in the first half of 2014 was the Ukrainian conflict. The growth was also impeded by the changes to retirement funds. In reply, changes were made to the investment strategy of the funds, which started to move their operations to stock exchanges abroad.

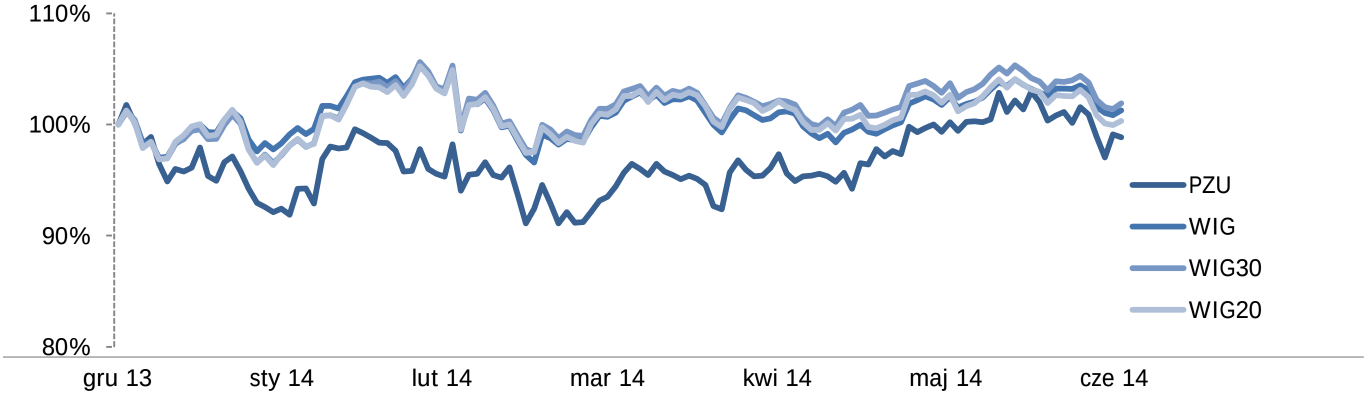
PZU stock price was also influenced by the investor behaviour variables during the analysed period, varying between PLN 409.00 (13 March) to PLN 462.25 (12 June) at the closing of the exchange session. The closing price of PZU shares from the trading session on 30 June 2014 amounted to PLN 443.75, which represented a 1.16% drop compared with the price on the last day of December 2013 (PLN 448.95). Over the same period, the index of the top WIG20 companies grew only by 0.33% and the index of the extensive WIG market grew by 1.27%.

The average market price of PZU shares in the first half of 2014 was PLN 433.67 and it was higher in comparison to the corresponding period of the previous year by PLN 14.79.

PZU shares are liquid. By the end of June 2014, 65% of the shares were traded. The average daily trading volume of PZU shares in the first half of 2013 was 167,114 shares, with the highest level (533,459 shares) recorded on 12 March 2014.

At the end of the first half of 2014, the market appraisal of PZU shares was PLN 38.319 billion. The relation between the price and the accounting value was at 3.22.

Dynamics of PZU shares quote in the first half of 2014 as compared with selected indices



Item	**1 January – 30 June 2014**	**1 January – 30 June 2013**	**1 January – 30 June 2012**
P/BV Share market price/ Book value per share	3.22	2.66	2.26
BVPS Book value per share	138.01	153.89	147.54
P/E Price/ Earnings per share	22.27	21.11	16.80
EPS (PLN) Net profit attributable to equity holders of the parent entity/ number of shares	19.93	19.41	19.88
DY Dividend yield (%) Dividend per share/ Share market price	12.17%	7.25%	6.72%
DPS (PLN) Dividend per share from profit from the previous financial year	54.00	29.70	22.43

7.2 Equity management

Equity requirements

PZU Group holds a solid capital base, which considerably exceeds the capital requirements and average in the Polish insurance sector.

Pursuant to the act concerning insurance activity, an insurance agency with its registered seat in Poland should hold assets in minimum amount equal to the required solvency margin and the guarantee capital. Due to the lack of regulations defining the calculation of the required solvency margin and the equity level for capital groups, PZU applies an indicator produced based on unit solvency margins and equities (pursuant to Solvency I) of the insurance companies, with consideration of consolidation corrections.

In turn, the separate solvency margins and own funds of PZU and PZU Życie are calculated based on Polish accounting standards and the requirements of the Ordinance of 28 November 2003 on the manner of calculation of the solvency margin and the minimum amount of the guarantee fund for insurance sections and classes (Journal of Laws No. 211 of 2003, item 2060, as amended).

When the requirements of Solvency II come into force, the capital requirement calculation model will be changed.

PZU also maintains assets to cover the technical provisions above the required level. As of 30 June 2014, the indicator of reserves covered with assets was 115.7% for PZU and 119.4% for PZU Życie.

Calculation of own funds to cover the required solvency margin	1 January – 30 June 2014	1 January – 30 June 2013	1 January – 30 June 2012
Own funds of PZU Group (in millions of PLN)	10,094	11,708	10,955
Solvency margin of PZU Group (in millions of PLN)	3,273	3,220	3,152
Guarantee fund of PZU Group (in millions of PLN)	1,091	1,073	1,051
Coverage of solvency margin by own funds at PZU Group	**308.38%**	**363.6%**	**347.6%**
Coverage of guarantee fund by own funds at PZU Group	925%	1091%	1043%
PZU own funds (in millions of PLN)	8,190	9,858	9,151
Coverage of solvency margin by own funds at PZU	598.16%	719.96%	678.86%
PZU Życie own funds (in millions of PLN)	3,750	3,404	5,643
Coverage of solvency margin by own funds at PZU Życie	211.63%	193.7%	322.7%

External financing

On 3 July 2014, PZU Finance AB with its registered office in Stockholm, a 100% subsidiary of PZU, issued five-year bonds in the amount of EUR 500 million with the redemption date of 3 July 2019. The bonds were introduced to trading on the regulated market of the Irish Stock Exchange on the basis of a prospectus approved by the Central Bank of Ireland.

The margin over mid-swap amounted to 85 base points, which translated into obligation profitability of 1.499 percent. The coupon rate was set at 1.375 percent per annum. This is the lowest coupon obtained in the Central and Eastern Europe region and the lowest margin in the region since 2007. Standard & Poor's awarded these bonds a rating of “A-” for unsecured debt.

PZU Finance AB liabilities resulting from the bonds (including the obligation for payment of the nominal obligation value and the obligation interest) were secured with a guarantee provided by PZU, which covers the whole of the issuer's obligations arising from the issue and was granted to all bondholders. The maximum amount of the guarantee has not been determined. The guarantee expires upon the expiry of the claims of the bondholders towards PZU Finance AB.

The issue of Eurobonds constitutes the implementation of PZU Group’s investment strategy in the management of matching assets and liabilities in Euro. After purchasing companies in the Baltic states, a significant value of the Group’s assets will depend on the exchange rate of the euro, which is why it was decided that the issue would be made in this currency.

Dividend policy

On 13 May 2014, the Management Board of PZU decided to update the capital and dividend Policy of PZU Group for the years 2013-2015 (“Policy”) passed on 26 August 2013.. At the same time, the Management Board of PZU decided to file a request to the Supervisory Board of PZU to adopt a resolution to approve the update of the capital and dividend Policy. In accordance with the request of the Management Board, on 13 May 2014, the Supervisory Board of PZU approved the updated capital Policy with the wording prepared by the Management Board.

Due to the uncertainty existing at the time of adopting the current Policy concerning the profit and loss of PZU Group in 2013, as well as the implementation of acquisition plans, the Policy does not specify the proceedings in a case in which the safety indicators are met, despite the lack of a subordinated debt issue.

The key objective of the Policy is to reduce the cost of capital through optimization of the balance sheet structure by way of replacing equity with less expensive borrowed capital at the same time ensuring high security and maintaining funds for development.

The Policy assumes payment of dividend calculated based on a consolidated net profit and capital surplus, where the total dividend to be paid out based on capital surplus for the years 2013 - 2015 cannot exceed PLN 3 billion. Consequently, ROE will remain high and the Total Shareholder Return will increase.

Key principles of the capital policy are the following:

- focus on total shareholder return (TSR);
- preservation of a safe level of own funds. The following is planned to be maintained:
    - coverage of the required solvency margin of PZU Group in accordance with Solvency I at approximately 400% and coverage of the required solvency margin with own funds, with the exception of the subordinated debt, at the minimum level of 250%;
    - Equity at the level corresponding to the AA rating according to the methodology of Standard & Poor's;
- provision of resources for development and acquisition over the next few years.

Dividend paid by PZU from profit derived in financial years 2011-2013

	2013	2012	2011
Consolidated net profit of PZU Group (in millions of PLN)	3,295.11	3,253.83	2,343.95
Separate net profit of PZU (in millions of PLN)	5,106.35	2,580.72	2,582.30
Dividend paid out of profit in financial year (in millions of PLN)	4,663.02 *	2,564.66	2,245.16
Dividend per share (in PLN)	54.00 *	29.70	22.43
Ratio of dividend payment from consolidated profit	89%	79%	83%

**Dividend from PZU SA 2013 net income amounts to PLN 4,663.02 million. An amount of PLN 1,727.05 million, i.e. PLN 20.00 per one share, was paid out on 19 November 2013 from the capital surplus, towards the dividend expected at the end of the financial year 2013. Payment of the outstanding dividend for 2013, i.e. PLN 2,935.97 million, meaning PLN 34.00 per share, shall be effected in two parts, PLN 1,467.99 million each, i.e. PLN 17.00 per one share, between 6 October 2014 and 15 January 2015. Dividend date shall be 17 September 2014.*

In the next few years, the Management Board does not intend to increase the share capital through the issue of shares.

Distribution of 2013 profit

On 17 June 2014, the General Shareholders Meeting of PZU passed a resolution regarding distribution of net profit of PZU for the year concluded on 31 December 2013, which included the decision to dedicate PLN 4,663.0 million, i.e. PLN 54.00 per share, to the dividend payment.

Taking into consideration the advance payment of dividend expected at the end of financial year 2013 done on 19 November 2013 amounting to PLN 1,727.0 million, i.e. PLN 20.00 (in words: twenty PLN) per share, the rest of the dividend for the year ended on 31 December 2013 will amount to PLN PLN 2,936.0 million, i.e. PLN 34.00 per share.

The date according to which the list of shareholders entitled to the payment of the remaining dividend for the year concluded on 31 December 2013 will be established is 17 September 2014.

The following dates are established for the payment of the remaining part of the aforementioned dividend:

1. PLN 1,468.0 million, i.e. PLN 17.00 per share, on 8 October 2014.

2. PLN 1,468.0 million, i.e. PLN 17.00 per share, on 15 January 2015.

Thanks to PZU Group's fulfilment of all key security factors at the end of 2013, amendments have been made to the Policy, under which the advance paid on 19 November 2013 in the amount of PLN 1,727.0 million towards the dividend expected at the end of the financial year 2013 was considered as part of the payment of the capital surplus of PZU Group, according to IFRS.

Rating

PZU and PZU Życie are regularly rated by the credit rating agency Standard & Poor's Rating Services (S&P). The rating assigned to PZU and PZU Życie results from an analysis of the financial information, competitive position, management and corporate strategy, as well as the financial condition of the country. It also includes a rating outlook, i.e. an assessment of the future position of the Company in the event specific circumstances occur.

As at the date of submission of this report, PZU and PZU Życie SA had an A long-term credit rating and financial strength rating (assigned by Standard & Poor's Ratings Services on 16 July 2009) and a stable rating outlook.

The long-term credit rating for the Polish debt in local currency at the date of this interim report is A with a stable outlook rating, while the Polish credit rating for debt in foreign currency is A-with a stable outlook rating.

In the announcement dated 25 March 2014, S&P confirmed PZU rating as grade "A" with stable outlook.

This means that the financial strength rating of PZU is greater than Poland's rating for foreign currency debt.

The table below shows the ratings granted to PZU and PZU Życie and the Republic of Poland by Standard & Poor's Rating Services with the ratings awarded a year earlier.

	Current		Previous	
Issuer	**Rating and outlook**	**Date of update**	**Previous rating and outlook**	**Date of previous update**
PZU				
Financial strength rating	A /Stable/	25 March 2014	A /under observation/	26 November 2013
Credit rating	A /Stable/	25 March 2014	A /under observation/	26 November 2013
PZU Życie				
Financial strength rating	A /Stable/	25 March 2014	A /under observation/	26 November 2013
Credit rating	A /Stable/	25 March 2014	A /under observation/	26 November 2013

Country of	Rating	Date of rating	Outlook	Date of outlook
Republic of Poland				
Credit rating (long-term, in local currency)	A	29 March 2007	stable	29 March 2007
Credit rating (long-term, in foreign currency)	A -	29 March 2007	stable	27 October 2008

8 Corporate governance

8.1 Entity authorized to audit financial statements

On 18th February 2014, PZU Supervisory Board appointed its auditor, KPMG Audyt Sp. z o.o. sp. k. with its registered office in Warsaw, ul. Chłodna 51, 00-867 Warsaw, entered by the National Chamber of Auditors on the list of entities authorised to audit financial reports under the number 3546, as an entity authorised to audit financial reports. The contract for reviews and audits of separate financial statements of PZU and consolidated reports of PZU Group was concluded on 26th June 2014.

The scope of the contract includes in particular:

- audit of the annual separate financial statements of PZU and annual consolidated financial statements of PZU Group;
- review of the interim separate financial statements of PZU and interim consolidated financial statements of PZU Group;

The aforementioned assignments will be performed for three consecutive reporting periods, which will end on respectively 31 December 2014, 31 December 2015, and 31 December 2016, with option of extending the cooperation for two more reporting periods, which will end on respectively 31 December 2017, and 31 December 2018.

8.2 PZU share capital and shareholders;

The share capital of PZU is divided into 86,352,300 common shares with nominal value of PLN 1 each, entitling to 86,352,300 votes at the General Meeting.

As at the date of preparing this Report, the shareholding structure of PZU, taking into account the shareholders holding over 5% of votes at the General Meeting was as follows:

In the period from 1 January 2014 to the date of preparing this Report, there was one significant change in the ownership structure of significant PZU's shares packages.

On 29 May 2014, the Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK SA presented PZU with a notice concerning a change in the ownership of PZU shares by Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK (“Aviva OFE”), informing that as the result of the transaction of purchase of the PZU shares on 22nd May 2014, as of 27th May 2014, Aviva OFE increased its ownership of the Company to 5.0% of PZU share capital, which composed 5.0% of the total votes at PZU General Shareholder Meeting.

PZU did not issue, redeem, or repay any debt or equity securities and did not issue securities providing the shareholders with special control authorisations.

In accordance with the Statute, the shareholders' voting rights have been restricted so that none of them can execute at the general meeting more than 10% of the total number of votes existing at 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 on public offering and in the act on insurance activities, this restriction of the voting right shall be considered non-existent. The restriction of the voting rights does not apply to:

Shareholders	**Number of shares**	**Share in the share capital**	**Share of votes at General Shareholders Meeting**
State Treasury	30,385,253	35.19%	35.19%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	4,317,691	5.00%	5.00%
Other shareholders	51,649,356	59.81%	59.81%
Total	86,352,300	100.00%	100.00%

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

For the purpose of restricting the voting rights, the votes of the shareholders between whom there is a controlling or subsidiary relationship are added up in line with the principles described in PZU Statute.

In the event of any doubts as to the interpretation, the decisions concerning the limitation of the voting rights should be made in accordance with art. 65 §2 of the Civil Code.

In accordance with the Statute of PZU, the above-mentioned restrictions of shareholders voting rights shall expire from the moment when the share of the shareholder who on the date of passing the resolution by the General Meeting introducing the restriction had been entitled to shares representing more than 10% of the total number of votes existing at PZU, drops below 5% of the Company's share capital.

Shares or rights to shares held by members of management and supervisory bodies of PZU

No.	Body / Name and last name	Number of shares / rights to shares as at the date of signing these interim financial statements (i.e. 27 August 2014)	Number of shares / rights to shares as at the date of signing annual financial statements (i.e. 14 May 2014)	Difference in the period between these dates
	Management Board			
1	Andrzej Klesyk	-	-	
2	Przemysław Dąbrowski	-	-	
3	Dariusz Krzewina	-	-	
	Barbara Smalska			
5	Tomasz Tarkowski	80	80	
6	Ryszard Trepczyński	-	-	
	Directors of the Group	-	-	
1	Rafał Grodzicki	-	-	
2	Przemysław Henschke			
3	Sławomir Niemierka			
4	Tobiasz Bury	50	50	
	Supervisory Board			
1	Aleksandra Magaczewska	-	n/a	
2	Waldemar Maj	n/a	30	
3	Zbigniew Ćwiąkalski	-	-	
4	Tomasz Zganiacz	-	-	
5	Dariusz Daniluk	n/a	-	
6	Zbigniew Derdziuk	-	-	
7	Dariusz Filar	-	-	
8	Dariusz Kacprzyk	-	n/a	
9	Jakub Karnowski	28	n/a	
10	Włodzimierz Kiciński	n/a	30	
11	Alojzy Nowak	-	-	
12	Maciej Piotrowski	-	-	
Total		**158**	**190**	

9 Representations of the Management Board

Truth and fairness of the presented financial statement

According to the information of PZU Management Board, the consolidated financial statements of PZU Group and the comparative figures were prepared in accordance with the binding accounting standards and transparently reflect true and fair views of PZU Group financial situation and the financial results, and the Management Report of PZU Group contains the true image of the development, accomplishments, and condition of PZU Group, including the descriptions of the main hazards and risks.

Appointment of the entity authorized to audit financial statements

PZU Management Board declares that the entity authorised to audit financial reports - KPMG Audyt Sp. z o.o. sp. k. – auditing the consolidated financial statement was selected pursuant to legal regulations, and that said entity and auditors auditing the financial statements have fulfilled the conditions for the expression of impartial and independent opinion concerning the audited consolidated financial statements pursuant to current regulations and professional standards.

Information on contracts concluded that are significant to PZU Group's operations, including those concluded between the shareholders

By the date of preparing this Management Report of PZU Group no contracts were concluded (including those concluded after the balance sheet date) as a result of which the current shareholding structure may change in the future.

Information on significant contracts concluded

On 3 July 2014, the Issuer provided a guarantee for the obligations of PZU Finance AB resulting from the bond issue. The maximum amount of the guarantee has not been determined. The guarantee provided by PZU is irrevocable and unconditional, and expires upon the expiry of the claims of the bondholders towards PZU Finance AB. PZU shall receive no remuneration for the issue of the guarantee.

On 7 July 2014, the Issuer took out a loan from PZU Finance AB (publ) with total value of EUR 500 million and interest rate of 1.425% per annum. The deadline for the repayment of the loan is 28th June 2019.

Guarantees for loans and advances, including the ones granted to Issuer's related parties

During the period of six months that ended 30 June 2014, neither PZU nor its subsidiaries did grant any guarantees for credits or loans to a single entity or a subsidiary of that entity - if the total combined value of existing guarantees equalled at least 10% of PZU's equity.

Related party transactions

In the period of 6 months ended 30 June 2014, PZU or its subsidiaries did not conclude any related party transactions (excluding transactions with related parties who are members of Tax Capital Group) which could be considered significant (individually or jointly) and would be concluded on non-arm's length basis.

Seasonality or cyclicality of operations

Activity of the Group is not subject to seasonal or cyclical nature as to justify the use of the suggestions made in International Financial Reporting Standards.

Disputes

In 2014 and by the date of the signing of these consolidated financial statements, PZU Group did not take part in any proceedings before court, body competent to hear arbitration proceedings or public authority body concerning liabilities or receivables of PZU or its direct or indirect subsidiary of the value or the total value of at least 10% of the equity of PZU.

As at 30 June 2014 the total value of all cases held by courts, bodies competent to hear arbitration proceedings or public authority bodies involving PZU

Group companies was PLN 2,698.8 million. The amount includes PLN 2,136.7 million of liabilities and PLN 557.0 million of receivables of PZU Group companies, which constituted 19.3% and 5.1% of PZU equity calculated in line with PAS, respectively.

This Management Report of Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna for the first half of 2014 consists of 75 pages bearing consecutive numbers.

Signatures of PZU Management Board Members

Andrzej Klesyk – President of the Management Board

Przemysław Dąbrowski – Member of the Management Board

Dariusz Krzewina – Member of the Management Board

Barbara Smalska – Member of the Management Board

Tomasz Tarkowski – Member of the Management Board

Ryszard Trepczyński – Member of the Management Board

Warsaw, 28 August 2014

Appendix: Financial data

Data from consolidated profit and loss account	**1 January – 30 June 2014**	**1 January – 30 June 2013**	**1 January – 30 June 2012**
Gross written premiums	8,437,893	8,495,251	8,246,274
Net premium earned	8,032,599	8,177,240	7,866,736
Revenue from commission and fees	130,661	143,178	116,359
Investment activity net result	1,357,796	969,097	1,523,904
Net claims and benefits	(5,418,087)	(5,459,405)	(5,514,635)
Acquisition cost	(1,036,364)	(972,660)	(998,877)
Administrative expenses	(702,275)	(641,314)	(686,707)
Operating profit (loss)	2,235,721	2,145,380	2,135,556
Financing expenses	(59,813)	(37,826)	(12,805)
Profit / (loss) before tax	2,176,153	2,109,410	2,122,751
Net profit / (loss), including:	1,720,361	1,675,462	1,716,449
Profit / (loss) attributable to equity holders of the parent entity	1,720,351	1,675,094	1,716,933
Non-controlling interest profit / (loss)	10	368	(484)
Basic and diluted weighted average number of ordinary shares in issue	86,352,300	86,352,300	86,352,300
Basic and diluted profit / (loss) of per one ordinary share (in PLN)	19,92	19,40	19,88
PZU (Issuer) net profit	1,899,372	4,679,913	1,895,361
Basic and diluted profit of Issuer per ordinary share of Issuer (in PLN)	22,00	54,20	21,95

Assets	30 June 2014	30 June 2013	30 June 2012
Intangible assets	434,527	200,705	154,676
Goodwill	67,261	8,651	8,601
Property, plant and equipment	971,235	969,986	1,019,919
Investment property	1,409,061	1,604,253	534,493
Entities measured using the equity method	68,150	604	0
Financial assets	55,627,741	54,329,370	48,888,915
Receivables, including insurance receivables	3,002,398	3,555,562	1,911,710
Reinsurers' share in technical reserves	579,835	501,214	728,367
Estimated subrogations and salvages	126,689	104,664	65,622
Deferred tax assets	24,640	13,549	18,615
Current income tax receivables	9,255	87,321	235
Deferred acquisition costs	667,610	586,406	573,653
Other assets	205,628	178,922	192,915
Cash and cash equivalents	446,650	298,878	169,614
Assets related to continued operations	**63,640,680**	**62,440,085**	**54,267,335**
Assets available for sale	181,101	162,078	269
Total assets	**63,821,781**	**62,602,163**	**54,267,604**

PLN thousand

Equity	30 June 2014	30 June 2013	30 June 2012
Share capital	86,352	86,352	86,352
Supplementary capital	9,669,111	8,816,731	8,780,034
Revaluation reserve	257,449	263,556	368,057
Foreign exchange differences form translation	(44,519)	(31,682)	(34,133)
Retained earnings / (Accumulated losses)	201,135	2,398,897	1,743,326
Net profit (loss)	1,720,351	1,675,094	1,716,933
Non-controlling interests	498	79,724	80,015
Total equity	11,917,297	13,288,562	12,740,584

PLN thousand

Liabilities	30 June 2013	30 June 2013	30 June 2012
Technical provisions	38,506,356	36,518,122	33,584,783
Unearned premium and unexpired risk reserves	4,913,340	4,764,051	4,786,417
Life insurance provisions	16,210,953	15 ,948,486	14,784,811
Outstanding claims provisions	6,753,307	6,150,934	5,724,615
Provision for the capitalized value of annuities	5,890,944	5,697,792	5,146,903
Provision for bonuses and rebates for the insured	2,214	3,238	4,165
Other technical provisions	451,450	503,182	544,809
Unit-linked technical provisions	4,284,148	3,450,439	2,593,063
Investment contracts	1,335,801	2,202,234	3,472,589
Provision for employee benefits	141,986	125,383	259,848
Other provisions	179,176	245,050	278,667
Provision for deferred income tax	446 045	310,048	299,044
Derivative instruments	448,167	258,354	36,142
Other liabilities, including liabilities arising from current income tax	10,846,953	9,654,410	3,595,947
Total liabilities	**51,904,484**	**49,313,601**	**41,527,020**
Total equity and liabilities	**63,821,781**	**62,602,163**	**54,267,604**

PLN thousand

One-off events in PZU Group	1 January – 30 June 2014	1 January – 30 June 2013	1 January – 30 June 2012
Conversion effect	45,220	84,104	131,829
Fund consolidation opening balance		172,718	
Contractual warranty result		(1,278)	(114,381)
Green Card reinsurance settlements		53,200	
Additional payments to Guarantee Fund	(20,872.6)		

Activity effectiveness ratios

PLN thousand

Profit and loss account data – corporate insurance (non-life insurance)	1 January – 30 June 2014	1 January – 30 June 2013	difference %
Operating profit (loss)	**167,214**	**236,358**	***(29.3)%***
acquisition cost ratio (including reinsurance commissions)*	19.4%	18.9%	*0.5 p.p.*
administrative cost ratio*	7.9%	6.4%	*1.5 p.p.*
loss ratio*	56.9%	51.7%	*5.2 p.p.*
combined ratio (COR)*	84.1%	77.0%	*7.1 p.p.*

* ratios calculated on the basis of net earned premium

PLN thousand

Profit and loss account data – mass insurance (non-life insurance)	1 January – 30 June 2014	1 January – 30 June 2013	difference %
Operating profit (loss)	**653,568**	**754,024**	***(13.3)%***
acquisition cost ratio (including reinsurance commissions)*	18.3%	14.3%	*4.0 p.p.*
administrative cost ratio*	8.5%	7.1%	*1.4 p.p.*
loss ratio*	58.9%	61.2%	*(2.3) p.p.*
combined ratio (COR)*	85.7%	82.6%	*3.1 p.p.*

* ratios calculated on the basis of net earned premium

PLN thousand

Profit and loss account – group and individually continued insurance	1 January – 30 June 2014	1 January – 30 June 2013	difference in %
Operating profit (loss)	**840,619**	**797,863**	*5.4%*
acquisition cost ratio*	5.4%	4.9%	*0.4 p.p.*
administrative expenses ratio*	7.9%	8.1%	*(0.2) p.p.*
Operating profit result margin*	24,4%	23.3%	*2.1 p.p.*

* ratios calculated on the basis of gross written premiums, excluding conversion effect

PLN thousand

Profit and loss account – individual insurance	1 January – 30 June 2014	1 January – 30 June 2013	difference in %
Operating profit (loss)	**86,857**	**67,439**	*28.8%*
acquisition cost ratio*	9.8%	7.2%	*2.6 p.p.*
administrative expenses ratio*	4.0%	3.0%	*1.0 p.p.*
Operating profit result margin*	13.5%	9.1%	*4.4 p.p.*

* ratios calculated on the basis of gross written premiums

PLN thousand

Profit and loss account – investment contracts	1 January – 30 June 2014	1 January – 30 June 2013	difference in %
Operating profit (loss)	**11,108**	**14,535**	*(23.6)%*
Operating profit result margin*	4.0%	1.7%	*2.3 p.p.*

* ratios calculated on the basis of gross written premiums

PLN thousand

Investment results	1 January – 30 June 2014	1 January – 30 June 2013	difference %
Total	**1,357,796**	**969 097**	**40.1%**

PLN thousand

Profit and loss account – pension segment	1 January – 30 June 2014	1 January – 30 June 2013	difference in %
Operating profit/loss	**28,946**	**64,611**	**(55.2)%**

PLN thousand

Profit and loss account data – Ukrainian segment	1 January – 30 June 2014	1 January – 30 June 2013	difference %
Operating profit (loss)	**(4,479)**	**8,411**	**X**
Profit before tax	**3,977**	**7,798**	**(49.0)%**
UAH-PLN exchange rate	0.2840	0.3947	(28.0)%
acquisition cost ratio*	36.0%	36.0%	4.2 p.p.
administrative expenses ratio*	19.9%	36.0%	(1.2) p.p.

* ratios calculated on the basis of net premium earned

PLN thousand

Profit and loss account data – Lithuanian segment	1 January – 30 June 2014	1 January – 30 June 2013	difference %
Operating profit (loss)	**4,134**	**(3,351)**	**X**
Profit before tax	**3,437**	**(4,122)**	**X**
LTL-PLN exchange rate	1.2102	1.2205	(0.8)p.p.
acquisition cost ratio*	28.2%	30.8%	(2.6) p.p.
administrative expenses ratio*	12.5%	11.5%	0.1 p.p.

* ratios calculated on the basis of net premium earned