Management's Report of PZU Capital Group for 2013

Letter from the President of the Management Board

Dear Sirs,

On behalf of the Management Boards of the PZU Group companies, I hereby present the consolidated financial statements for 2013.

The PZU Group has had another successful year. We have made numerous changes in a short time and are continuing to build a new quality of organization based on the Company's long-term strategy. These changes have reinforced the firm's high market position in the insurance industry in Central and Eastern Europe and have enabled new markets and business areas to be opened. The PZU Group's objective is consistently to continue its profitable growth and maintain its leading position on the Polish insurance services market.

At the end of 2013, we initiated the pilot programme of the Everest platform – one of the world's most modern IT policy support systems. This is key evidence of the evolution of the PZU Group's operating model from an organization operating in accordance with product lines to a customer-oriented organization. This is almost certainly the most important change we managed to implement this year and it will have an impact on the Company's operations and competitive position for many years.

Customer orientation and high operational effectiveness will help maintain the leadership position – the PZU Group will remain the largest and most profitable insurance company in Central and Eastern Europe.

PZU is also developing its foreign offices. We started to sell insurance products in Latvia and Estonia in 2013. The profitability of PZU's foreign business is increasingly improving and, from year to year, is becoming an increasingly important position in our balance sheet.

In the area of investments, the PZU Group is continuing to strengthen its position on the market through TFI PZU, consistently pursuing a policy of expanding the PZU Group's investment skills and building the Company's significance for individual investors.

From a business point of view, we set ourselves a particularly high target in 2012, achieving the best net financial result since our IPO. This is why I am especially pleased to announce that the PZU Group's net financial profit in 2013 was PLN 3,295.1m and was PLN 41.3m higher than the previous year's net profit. ROE in this period was 24.1 % which means growth of 0.1 p.p. compared with the previous year. This success is the result of the consistently pursued strategy, which emphasizes total shareholders return. The unique mobilization and determination enabled us to achieve the business objectives in the situation of an economic downturn and a slow-down in the growth of individual consumption.

Many factors contributed to such a good result, including an increase in written gross premiums arising from the high rate of growth of sales of certain products, as well as the lack of major catastrophic and natural claims in agriculture. The maintenance of discipline in fixed costs, which is a result of several years of restructuring, was of particular significance. We achieved this with the simultaneous streamlining and automation of the servicing processes.

PZU's and PZU Życie's financial strength rating and credit rating awarded by Standard & Poor's remained at the "A" level.

We entered 2014 with visible symptoms of economic recovery, which will certainly affect the whole of the financial sector. However, our ambitions are very wide and we do not intend to rest on our laurels. I trust that the consistent pursuit of the business strategy coupled with the effects of changes which have taken place at PZU in recent years will help us achieve our business objectives.

At this point, I would like to thank our employees for their efforts in building value for PZU. I would like to thank the Supervisory Board for their effective cooperation and support in transforming PZU into a modern and operationally effective organization focused on satisfying customer needs.

Yours faithfully,

Andrzej Klesyk

President of the Management Board of PZU SA

Letter from the Chairperson of the Supervisory Board

Dear Sirs,

2013 was another successive year which ended with the best financial result for PZU since the IPO, and the maintenance of the highest rating for Polish companies. Despite the difficult external situation and significant economic downturn, the Company has reinforced its market position and is successfully continuing to implement its strategy.

The beginning of 2013 in the economy was a continuation of the negative trend from 2011. The slow-down in the growth of individual consumption and decline in investments, both in Poland and abroad, was accompanied by a further exacerbation of the credit crunch in the euro zone. This adverse impact from external factors was noticeable in many segments of the insurance business; it particularly severely affected the mass market insurance segment, including motor insurance, as well as the corporate insurance segment.

Even so, in such difficult conditions, the PZU Group managed to improve its financial results for another successive year. The improvement in the results was primarily due to the increase in gross written premiums, less calims in agriculture and the improvement in the profitability of certain products. Paradoxically, we managed to improve profitability in the financial insurance segment because of last year's collapse of the construction market and the resulting changes in the risk acceptance and valuation process. Upholding cost discipline was also important. It is also worth emphasizing PZU's consistently improving profitability on eastern markets over the past few years.

PZU has maintained a high rating. Standard & Poor's confirmed PZU's and PZU Życie's financial strength at the "A" level for both companies, is which confirmation of PZU's very strong capital position and an expression of market confidence in the strategy pursued by the Company.

I would like to thank the Management Boards and employees of the PZU Group for their vision, commitment and their thorough work, without which the achievement of such a good result would not have been possible.

We are looking into the future at the clear economic recovery in the second half of 2013. This applies to both growth in GDP and industrial production, as well as retail sales. That hence opportunities for faster growth and a further improvement in the PZU Group's results.

I am certain the Company will be able to take advantage of this opportunity and that the ambitious plans for 2014 will be achieved with benefits for the shareholders, customers and employees of the PZU Group.

Yours faithfully,

Waldemar Maj

Chairperson of the Supervisory Board of PZU SA

1 Brief description of the PZU Group

First position on the non-life insurance market, with a **31.1%** market share.	First place on the life insurance market in regular premiums - share of **43.7%**	Number one in the ranking of investment funds with an **11.8%** share of fund assets	Third place on the open-ended pension funds market – share of net assets at a level of **13.4%**

The Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group (PZU Group) is one of the largest financial institutions in Poland and in Central and Eastern Europe. It is headed by a Polish insurance company, PZU SA (PZU, Issuer).

The PZU Group satisfies the fundamental needs of 16m customers in the area of security and stability, including 6m customers in the area of group life insurance.

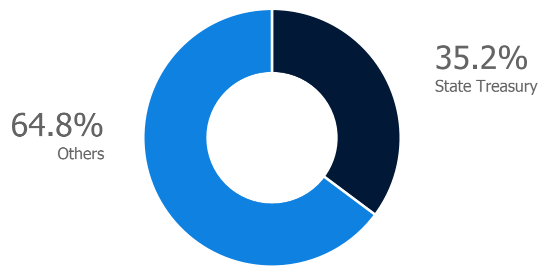
Innovativeness, ethics in operation and adaptation to the increasingly demanding market conditions caused by, among other things, the entry of international players onto the Polish market, constitute the basis for PZU's rapid expansion. The PZU Group is still number one on the Polish insurance market. It is simultaneously strengthening its position in other segments of the financial market in Poland.

The PZU Group is also developing its insurance business in selected countries of Central and Eastern Europe and has a presence in Ukraine, Lithuania, Latvia and Estonia. It has already gained a significant position there. For instance, it collected 13.6% gross written premiums in non-life insurance in Lithuania in 2013 and has therefore taken third place on that market.

PZU on the capital market

The event, which became an additional catalyst for change and PZU's offensive turn towards modernity, was its IPO in 2010. The value of the offer was almost 8.1bn zlotys and was the largest public offering (IPO) not only in the history of the Polish capital market, but also in Central and Eastern Europe since the beginning of the economic transformations, as well as throughout the whole of Europe since 2007. PZU's shares have ended up in the hands of 250 thousand individual investors.

Structure of PZU's shareholders as at 31/12/2013



PZU's strategic investor is the State Treasury, which, at the end of 2013, held a 35.19% share of the Issuer's share capital.

PZU has been distributing the profit generated to its shareholders since the start of its presence on the WSE. PZU has a clearly defined dividend policy. The main objective of the *PZU Group's equity and dividend policy for the years 2013–2015*, which was adopted in August 2013, is to reduce the cost of capital by optimizing the balance sheet structure through the conversion of equity to cheaper debt capital, while maintaining a high level of security and development funding. The dividends paid out of the profits for 2010–2012 gave PZU's shareholders high dividend yields compared with other large companies listed on the regulated market. A shareholder, who acquired PZU's shares from the IPO in May 2012 increased his savings by 78.6%. by the end of 2013.

PZU – strong customer orientation

The PZU Group’s products accompany individual customers at every stage of life and every stage of development of Polish firms. The PZU Group not only provides comprehensive insurance cover in all major areas of private, public and business life, but also offers various forms of increasing savings, including the accumulation of funds for an additional pension.

The PZU Group is an innovator on the Polish financial market. It was the first institution in Poland to create a Voluntary Pension Fund and offer Individual Pension Security Accounts. It is a precursor in the development of health insurance and was the first to launch drug insurance on the Polish market. It is also actively working towards developing voluntary health insurance.

PZU’s customers have access to the largest sales and service system among Polish insurers. It includes 412 branches, 8.4 thousand agents and electronic distribution channels (helpline, Internet). The PZU Group also has an efficient claims handling system. It is also implementing a modern IT system, with a view to building closer relationships with the multi-million group of its customers.

PZU is aiming to maintain the highest standards of service. The extensive satisfaction surveys have shown that 91% of customers are satisfied with the claims handling process. The NPS (*Net Promoter Score*) among customers who experienced the claims handling process or received a payment of benefits, was as high as 29%. As many as 50% of customers indicated that they are active promoters of PZU.

Protection of property and securing third party property against damage	**Accident cover**	**Increasing savings**	**Securing the future of the family**	**Preparations for retirement**
TPL and auto casco insurance insurance Financial insurance	Accident insurance Health insurance	Structured products Participation units in investment funds and unit linked funds	Group and individually continued protection insurance Individual protection insurance	Pillar II of the pension system – open-ended pension funds Pillar III of the pension system (employment pension products- EPP, individual pension accounts – IKE and individual pension security accounts – IKZE)

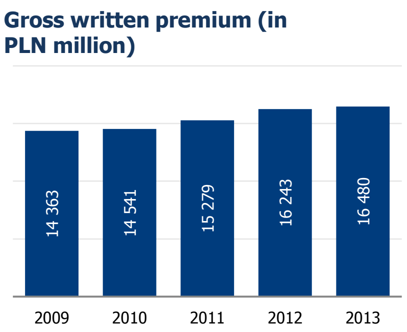
PZU – high operational efficiency

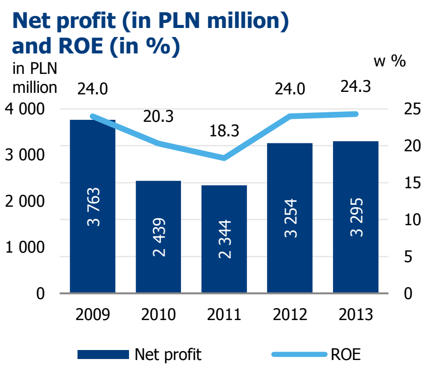
The financial results achieved by the PZU Group in recent years place it among the most profitable financial institutions in the country. They simultaneously contribute to high performance ratios. In 2013, the rate of return on capital was 24.1%. In addition, the claims ratio in the insurance portfolio has been systematically declining in recent years. In 2013, the combined ratio (COR) for non-life insurance declined to 87.8%.

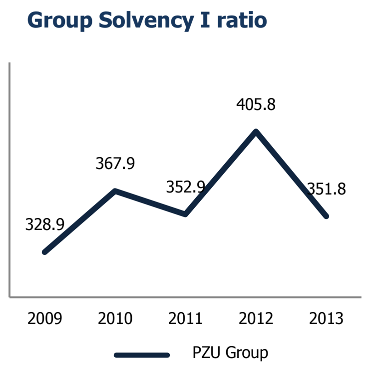
The PZU Group complies with all safety standards of business. Equity amounted to PLN 13,127.3m as at 31 December 2013. The solvency coverage ratio at both PZU and PZU Życie significantly exceeded the average for the insurance sector.

KPI	2013	2012	2011	2010	2009***
ROE	24.1%	24.0%	18.3%	20.3%	24.0%
Combined ratio (COR) for non-life insurance	87.8%	92.8%	95.3%	104.5%	99.0%
Group insurance profit margin*	23.0%	24.5%.	21.8%	n.a.	n.a.
DY- dividend yield	11.1%	5.1%	8.4%	3.1%**	n.a.

* ratio measured to the gross written premium of the group and individually continued insurance segment, excluding one-off effects
** excluding the dividend paid on 26 November 2009 as an advance towards the dividend expected at the end of the 2009 financial year of PLN 12,749,917k (PLN 147.69 per share)
*** change in the ABC indirect cost allocation model from 2010







Gross written premium	Net profit	Solvency
The premium increased at an average rate of 3.5% per year in the years 2009–2013.	ROE at 24.1% confirms that the PZU Group is one of the most profitable financial institutions in Poland.	The PZU Group has a solvency ratio which is higher than average for the insurance sector.

PZU's insurance portfolio is not exposed to concentration risk – this arises from the high level of diversification of the portfolio. It largely consists of a substantial share of premiums obtained from the mass market (non-life insurance) and group insurance customer (with moderate sum of insurance).

At the end of 2013, the PZU Group employed approximately 11.24 thousand employees calculated as FTEs.

PZU socially responsible

Social responsibility – of the whole firm and every employee – is the foundation of all PZU's activities and a prerequisite for sustainable development. The CSR activities undertaken in support of the business objectives apply to the following areas:

Customer relations – ethics in cooperation as the basis of customer relations, high standards of service;

Activities for the community and hence concern for financial awareness and comprehensive safety;

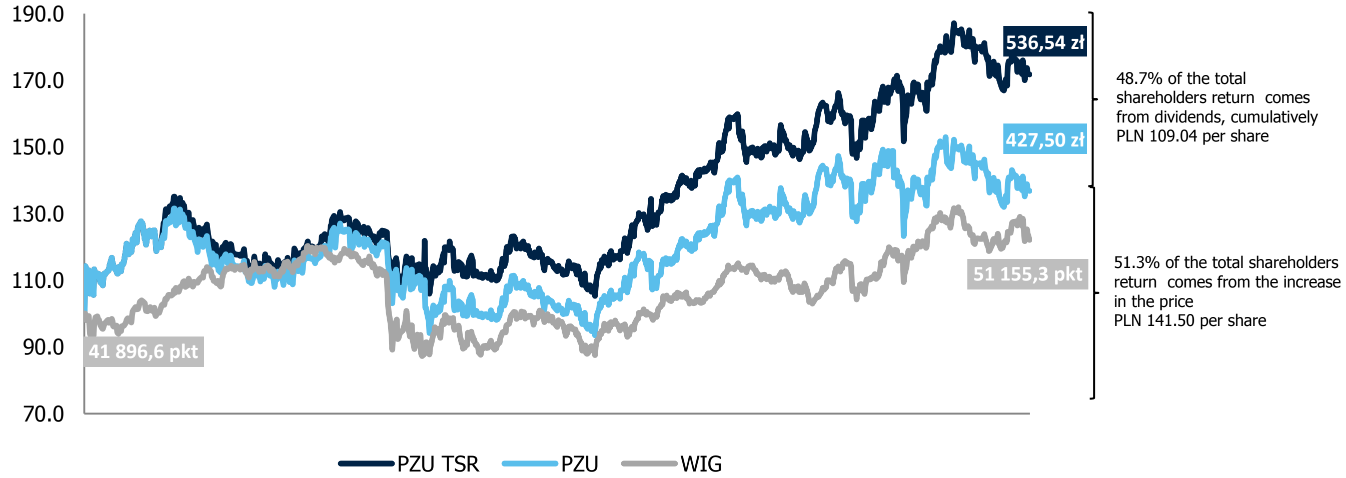
Employee relations – development of a results-oriented organizational structure;

Environmental impact, especially in terms of educating employees in this area.

The confirmation of the highest standards at the PZU Group regarding CSR is PZU's presence in the *RESPECT Index* of socially responsible companies on the WSE in Warsaw, as well as in the *CEERIUS* (*CEE Responsible Investment Universe*) sustainable development index on the stock exchange in Vienna.

Both PZU and PZU Życie have had a Standard&Poor's rating at the "A" level since 2009. This is the one of highest possible rating awarded to companies in Poland.

PZU's share price listings from IPO on the Warsaw Stock Exchange



PZU TSR - total shareholders' returs, including dividend paid by PZU

Main consolidated financial data of the PZU Group for 2009–2008

	2013	2012	2011	2010	2009
Gross written insurance premiums (in PLN million)	16,480.0	16,243.1	15,279.3	14,541.0	14,362.7
Revenues from commissions and fees (in PLN million)	320.0	237.1	281.4	288.0	340.9
Income from investments (in PLN million)	2,488.1	3,704.7	1,593.8	2,777.8	3,469.0
Net insurance claims and benefits (in PLN million)	(11,161.2)	(12,218.7)	(10,221.1)	(10,384.1)	(9,436.3)
Acquisition costs (in PLN million)	(2,015.9)	(2,000.4)	(1,962.0)	(1,911.3)	(1,839.6)
Administrative expenses (in PLN million)	(1,406.5)	(1,440.3)	(1,383.9)	(1,505.8)	(1,808.9)
Operating profit (in PLN million)	4,181.0	4,080.2	2,956.7	3,088.1	4,601.8
Net profit (in PLN million)	3,295.1	3,253.8	2,343.9	2,439.2	3,762.9
Total assets (in PLN million)	62,362.4	55,909.6	52,129.3	50,670.6	53,287.4
Financial assets (in PLN million)	54,688.7	50,423.1	46,775.4	45,345.0	48,237.6
Equity (in PLN million)	13,127.8	14,269.3	12,869.5	12,799.9	11,266.9
Technical provisions (in PLN million)	37,324.4	35,400.8	32,522.7	31,823.0	30,825.0

The most important events in 2013

Non-life insurance	Gross written premium of PLN 8,274m zlotys, namely 2.1% less than in 2012, as a result of a decline in written premium of motor insurance. Market leader with a share of 31.1% and 38.1% on the motor insurance market (after 3 quarters of 2013). Extension of strategic cooperation with companies which have large customer databases.
Life insurance	Gross written premium according to IFRS at PLN 7,745m, increase of 3.9%. Market share of 29.3%, including 43.7% in regular premiums (after three quarters of 2013). Stable growth in group and continued insurance premiums of 0.8 % y/y, because of an increasing number of insured, as well as a rise in the average premium, additionally supported by additional sales of profitable riders. Development of group health insurance (introduction of additional medical consultations and innovative products – *Antibiotic* drug insurance). The healthcare services provider, PZU Pomoc [PZU Assistance] worked with 1,050 establishments (800 at the end 2012).
Investment funds	Net ssset value of PLN 22.2bn at the end of 2013 – growth of PLN 6.9bn. Maintenance of the position of leader with a market share of 11.8%. Maintenance of the position of leader on the market of Employee Pension Programmes and registration of further EPPs. Launch of a new product onto the market, *PZU Peace of Mind Portfolio.*
Pension funds	Third place on the market with a share of 13.4% by net asset value. Maintenance of the position of leader on the Individual Pension Security Accounts market among the voluntary pension funds. Active participation in the work on the Pension System Act.
Foreign operations	Rapid expansion of business and increase in market share: Ukraine: 3.3% of the non-life insurance market and 5.7% of the life insurance market (after 3 quarters of 2013); Lithuania: 13.6% of the non-life insurance market (3rd place on the market) and 4.2% of the life insurance market. Opening of a branch in Estonia. Participation in the privatization process of Croatia Osiguranje.
Infrastructure	Pilot launch of a new *Everest* IT system for non-life insurance policies. Reconstruction of the Company's further branches. Further improvements in the claims handling process.
Human resource management	Employment restructuring and a decline in the number of employees – 2.9% decline in employment in 2013. Completion of the process of writing up and valuing work posts. Development of a results-oriented organizational structure.
Financial results and safety of operations	Net profit of PLN 3,295.1m, namely 1.3% higher than in 2012. Return on capital 24.1% – an increase of 0.1 p.p. compared with 2012. Acceptance of a new dividend policy and payment of an advance towards dividends from the profit for 2013. Overall, PLN 4.3bn was paid to shareholders. Maintenance of solvency ratios which are higher than the average for the sector.

2 The external environment in 2013

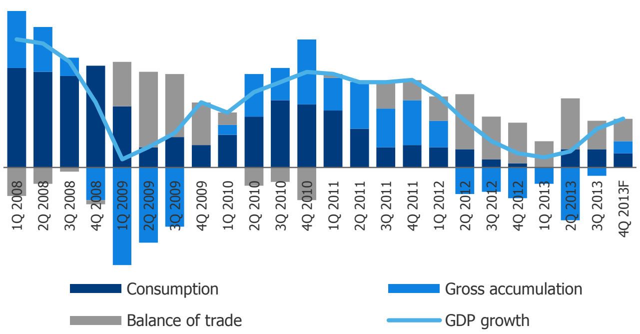
2.1 The main trends in the Polish economy

Gross Domestic Product

Real GDP in Poland increased by 1.6 % in 2013 compared with 1.9% in the previous year. In the first half year, the growth rate was just 0.7% y/y, but then it started to increase and, in the last quarter, it was 2.7% y/y.

2013 was the second successive year of a decline in domestic demand, which was concentrated in the first half year. A real decline in income from 2012, with a higher rate of unemployment and a low rate of savings, resulted in two successive years of the lowest individual consumption growth since the mid-nineties. Individual consumption in 2013 increased by just 0.8%, which is even weaker than in the previous year. Once again, investments in fixed assets also declined (annual decline of 0.4%), while the change in inventories still had a negative impact on GDP growth.

Composition of GDP growth



However, starting from the third quarter, domestic demand gradually started to recover. In the light of the real growth in income and symptoms of the improvement on the labour market, the stagnation of individual consumption was finally interrupted, the rate of which can be estimated at around 2.0% y/y in the last quarter of 2013.[1] Investments in fixed assets also started to increase in the third quarter. The turnaround in the declining trend of investments can be evidence of a noticeable improvement in the outlook for demand and the financial situation in companies.

In the light of the declining domestic demand, economic growth was once again possible in 2013 as a result of the achievement of a positive balance of foreign trade. The situation improved gradually in 2013 on the main markets for Polish exports, which remained competitive. A gentle recovery in domestic demand in the second half of the year has not resulted in a sufficiently major increase in imports, to significantly reduce the scale of the positive impact of net exports on GDP growth.

The labour market and consumption

The rate of unemployment recorded in 2013 was higher on average than in 2012 (13.5% compared with 12.8%). However, symptoms of improvement in the situation on the labour market have been noticeable since the middle of the year. The rate of growth of employment in companies started to increase from May and, at the end of 2013, employment in this sector was slightly higher than a year earlier (by 0.3% y/y in December). The seasonal increase in the rate of unemployment recorded in the last months of last year was the lowest in six years. As a result, its level in December was the same as in the previous year, i.e. it was 13.4%.

In the light of the increased rate of unemployment and low inflation, employers did not feel any pressure on salary increases in 2013. The average rate of increase in monthly salaries in the national economy weakened to 3.4% compared with 3.7% in the previous year. However, salaries increased in real terms by 2.5%, compared with 0.1% in 2012, because of the low level of inflation. It can be assessed that real gross disposable income of households also increased, after they declined slightly in 2012. In view of the low interest rates in 2013, current household deposits increased strongly with a decline in term deposits, which also favoured consumption.

[1] PZU's estimate

In the first half of the year, the rate of growth of individual consumption was still close to zero. However, the real growth in household income, with a slightly better outlook on the labour market and the increase in consumer credit, has helped overcome this stagnation and, in the last quarter 2013, the rate of growth of individual consumption approached 2%[2] y/y. However, throughout 2013, it was only 0.8%.

Inflation, monetary policy and interest rates

In 2013, the consumer price index (CPI) increased by an average of just 0.9% compared with 3.7% in 2012. At the end of the year, the CPI index declined to 0.7% y/y compared with 2.4% y/y in December 2012. Inflation would have been even lower, if not for the jump in the CPI index in July from 0.2% y/y to 1.1% y/y. This was mainly caused by the entry into force of the amendments to the regulations on the maintenance of cleanliness in municipalities and, as a result, a significant increase in household charges for waste disposal.

The reduction in inflation was encouraged by both supply as well as demand factors. The regulated prices of natural gas were reduced at the beginning of the year, while electricity prices remained stable. Food prices rose more slowly than in 2012. Given the relatively weak global economic growth, world prices of commodities and fuels also encouraged the maintenance of low inflation. Simultaneously, there was no demand or pay pressure on price rises. Net inflation (excluding food and energy prices) declined in 2013 to an annual average of 1.2% compared with 2.2% in 2012.

In these circumstances, the Monetary Policy Council continued the cycle of reductions in NBP (National Bank of Poland) interest rates, which started in early 2013, by 25 basis points per month. In March, the Council made a surprising decision to increase the scale of reductions to 50 basis points, simultaneously suggesting the possible end of the cycle of easing monetary policy. However, in May, given the further decline in inflation and the lack of clear signals of an upturn in the economy, it resumed the 25-point cuts in rates. Three such decisions were made at successive meetings of the MPC, after which, in July, with the reference rate reduced to 2.5%, the end of the cycle of easing monetary policy was announced. In September, the Council indicated that interest rates should remain unchanged at least until the end of 2013, while, at the November meeting, this period was extended at least until the middle of 2014. In March 2014 the Monetary Policy Council announced the prolongation of declaration of maintenance of unchanged interest rates at least till 3Q2014.

On the money market, changes in WIBOR 6M rates were closely related to the changes in the NBP reference rate. The level of WIBOR declined together with the cuts in interest rates. It stabilized in June 2013, even before the last reduction in rates by the Monetary Policy Council. The extent to which the WIBOR 6M rate declined in 2013 was approximately 140 basis points.

Public finance

In 2013, the budget deficit proved to be clearly higher than the deficit of PLN 30.4bn recorded in 2012. It was initially planned to be PLN 35.6bn, but worse tax revenues than expected in conditions of an economic downturn forced the government to amend the Budget Act in September 2013. The planned deficit was increased to PLN 51.6bn. In January 2014, the Ministry of Finance initially reported that the deficit for 2013 amounted to approximately PLN 42.5bn.

Poland had no problems whatsoever in obtaining debt financing – 25% of borrowing needs planned for 2014 had been financed at the end of 2013. After January 2014, it was already 53%.

2.2 The situation on the financial markets

The main trends on the global financial markets developed in conditions of the euro zone coming out of the recession in the second quarter and the continuation of the economic recovery in the US, which

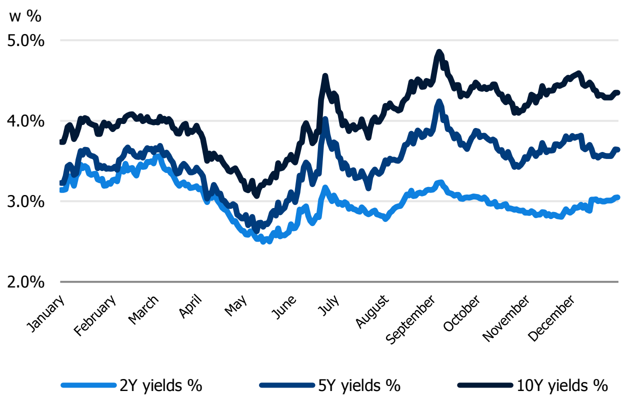
[2] PZU's estimate

was sealed in June by the announcement of the reduction in the "quantitative easing" in that country. This turnaround in the Fed's monetary policy was a shock to the global financial markets, especially for the debt market, initiating a trend of a growth in yields from the middle of 2013. The flow of capital from the bond market and a better outlook for economic growth promoted the increase in share prices.

After the banking crisis in Cyprus, which resulted in a temporary increase in unrest on the global financial markets in the initial months of 2013, increases in major world stock exchange indices dominated.

2013 was not unambiguously successful for the Polish stock exchange. Although the value of the broad market index, WIG, rose by 8.1%, the index of the largest and most liquid companies, WIG20, dropped by 7.0%. Such an unusual situation last took place in 2002. The decline in the WIG20 index could have been the result of concerns about the outflow of foreign institutional investors in response to the turnaround in monetary policy in the US. Likewise the uncertainty as to the scale of further investments of Open-ended Pension Fund (OFE) capital on the Polish stock exchange, in the light of the amendments introduced by the government, could have had an adverse effect on the stock market.

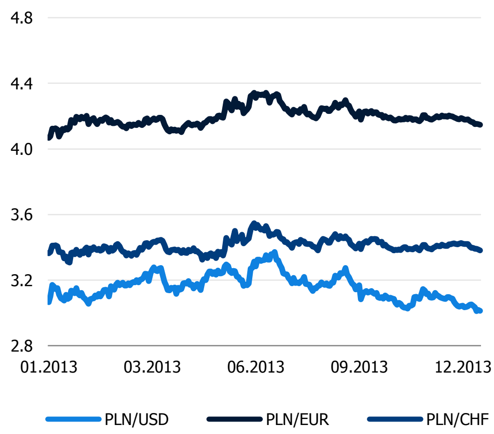
Treasury bond yields in 2013



In 2013, the gradient of the Polish treasury bond yield curve clearly steepened. The difference between the yields of 10-year and 1-year treasuries increased by approximately 100 basis points. An important factor in the decline in the yields of shorter maturity instruments was lowering in 2013. For 1-year instruments, this decline amounted to approximately 40 basis points. The yields of treasury bonds with longer maturities also started to increase in June 2013, which coincided with both the final phase of the cuts in interest rates by the MPC and the Fed's turnaround in monetary policy. It seems that this latter factor, in particular, is responsible for the change in the market trend of Polish treasury bonds. Finally, 5-year and 10-year bond yields increased in 2013 by approximately 60 basis points.

Up to the middle of 2013, the zloty was weakening against the euro and the US dollar. However, in the second half of the year, the Polish currency strengthened, despite announcements of the reduction in the "quantitative easing" in the US, reinforcing the risk of the outflow of capital from emerging markets. The zloty exchange was supported very strongly by the reduction in the current account deficit in the balance of payments, placing Poland among the stable economies. Finally, over the whole of 2013, the zloty weakened against the euro, although more strongly compared with the end of 2012 (1.4%) than in monthly terms (0.3%). However, the Polish currency strengthened against the US dollar (by an annual average of 3.0% and 2.8% compared with the end of 2012). Additionally, the zloty strengthened by 0.2% against the Swiss franc compared with the end of 2012.

Zloty exchange rates in 2013



2.3 The insurance sector compared with Europe

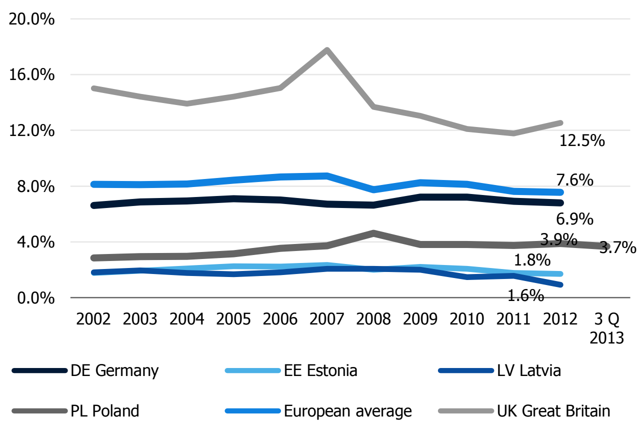
The average Pole spends over 4 times less on insurance than the average European. The value of insurance premium per average Pole (density ratio) in

Poland was EUR 384.4 (i.e. PLN 1,627) in 2012, while it was EUR 1,842.8 in Europe at the end 2012. Almost 60% of the premiums of both the average Pole and the average European are paid towards life insurance.

In analysing the level of the premium compared with GDP (penetration ratio), Poland is below the European average, as a result of which it can be assumed that there is still growth potential. This indicator for Poland is half the European average and less than one third of that of the UK.

Central and Eastern European countries, such as Estonia and Latvia, in which PZU is present, have a ratio of 1.7% and 0.9% accordingly, which, from the point of view of market development, open up huge opportunities for sales growth.

Penetration ratio (in %)



Source: Statistics N°48 European Insurance in Figures February 2013

2.4 Regulations on the insurance market in Poland

The main legal regulations concerning insurance and other business activities, which entered into force, or were adopted or published in 2013, that may have influence on a change in the PZU Group's business or organization, are presented below:

The Act of 14 December 2012 on the amendment to the Act on Insurance Activity of 22 May 2003, which entered into force on 29 January 2013 and implemented changes in the domestic legal order, which arise from the ruling of the Court of Justice of the European Union of 1 March 2011 regarding the lack of possibility of differentiating insurance premiums or benefits due to the gender of the person insured.

The legal amendment mainly applies to the subsidiary – PZU Życie. At the same time, the new wording of the Act still allows insurance companies to apply the criterion of gender in the calculation of insurance premiums and benefits, but only on condition that it does not lead to a differentiation in insurance premiums and benefits of individual people.

Minister of Finance Regulation of 8 March 2013 amending the Minister of Finance Regulation of 24 November 2003 on the level of the percentage contribution paid by insurance companies to the Insurance Guarantee Fund and the dates of payment of this contribution, which has come into force on 31 March 2013.

According to the regulation, insurers will pay the Insurance Guarantee Fund 1.3% (an increase of 0.3 p.p.) of the gross written premiums in a given calendar year on Motor third party liability insurance (later 'MTPL') insurance and third party liability of farmers.

Draft of the Act on Insurance Activity due to the implementation of Solvency II

The Ministry of Finance published a further draft of the assumptions to the new Act on Insurance Activity in May 2012. The objective of this work is, among other things, to implement the provisions of the Solvency II Directive on solvency requirements into Polish law.[3] The timing for the implementation of these changes it is not currently known.

The new act will introduce significant changes in the business and financial management of insurance and reinsurance companies, which will result in the need to make many organizational changes and incur substantial costs. It is difficult to estimate them at the present stage. These costs will probably be spread over time.

[3] Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II),

Products data sheets. In 2013, the Polish Insurance Association (PIU) adopted a Recommendation of Information Best Practices relating unit linked life insurance policies. The main point of the recommendation is the Product Data Sheet, which will be received by every customer considering purchase of investment product from a life insurance company, which accedes the Recommendation. .

The customer will be warned that such a policy is related to the risk of a loss in value or a loss of all invested funds. He will also receive information about the level of all charges related to the insurance product and three variants of the course of the insurance (the base variant, a variant with a reduced profitability and increased profitability). Therefore, the Product Data Sheet will give the ability in a simple cost comparison, as well as indicate the risk of every unit linked life insurance policy.

Although the Chamber does not have the right to issue obligatory recommendations and its application is voluntary, up to 98 percent of life insurance companies (measured by the written premium within the framework of unit linked life insurance products) have declared that they intend to implement it. In accordance with the schedule proposed by the PFSA (Polish Financial Supervision Authority) insurers shall fully adapt to the provisions of the Product Data Sheet until May 2014.

On 28 August 2013, PZU Życie declared that it would join the recommendation and implement it no later than by 1 May 2014.

Other regulations in Poland

Operating conditions of the insurance sector in Poland were also influenced by changes introduced to other areas of economic life also, including:

Regulations on the banking sector, including the introduction of the amended Recommendation M on operational risk management at banks, which restricted the sale of policies with term deposits through bancassurance. Most of the provisions of this recommendation entered into force on 1 July 2013.

Consequences for the PZU Group: The above supervisory recommendations, which were implemented in 2013, had no effect on the level of sales of insurance products through bancassurance channels.

The Act on the amendment to certain Acts in connection with the specification of the principles of paying out pensions from the funds collected in open-ended pension funds of 6 December 2013, which has been in force since 1 February 2014, while some of the provisions, including those regarding the Individual Pension Security Account (IKZE) have been in force since 14 January 2014. The changes include, in particular:

- the transfer of the parts of the pension rights of the members which are expressed as Treasury bond liabilities from the Open-ended Pension Funds (OFE) to the Social Insurance Institution (ZUS) – the bond part of the assets accumulated in the OFE, of a total amount corresponding to 51.5% of the units on the account of every member of the OFE as at 31 January 2013, was transferred to ZUS on 3 February 2014. After the redemption of the bonds (with effect from 4 February 2014), these funds were recorded on sub-accounts at ZUS, where they are to be indexed and inherited, just as the remaining funds on these sub-accounts. Additionally, from 3 February 2014, pension funds cannot invest in treasury securities nor in debt instruments guaranteed by the State Treasury, nor in securities issued by the governments of other OECD states;
- the specification of the principles of paying pensions from the funds accumulated in the OFE and the method of transferring pension rights of those insured with the OFE to ZUS – pensions should be paid when the insured reach retirement age (ultimately 67 years) in whole from the Social Security Fund (FUS). To this end, the funds accumulated in the OFE should be transferred to the FUS. They will be indexed according to the rules to date. Funds collected in the OFE by the insured when he reaches an age of 10 years less than retirement age will be

gradually transferred to ZUS to a sub-account and the new contribution will be transferred to ZUS. Funds on the sub-accounts at ZUS, which will pay the pension, may be inherited after 3 years pass from the moment the insured retires;

- the ability of the insured to make a choice in the form of a declaration regarding the further transfer of the contribution at the new level to the open-ended pension funds, with respect to future contributions – in the period from 1 April 2014 to 31 July 2014, the insured may decide on whether the pension contribution of 2.92% is to continue to be transferred to the OFE or to ZUS. In the absence of a declaration on the transfer of the contributions to the OFE, the pension contributions will be automatically recorded on a special sub-account at ZUS. The decision on whether to choose the OFE or remain in ZUS will not be final. The insured will receive successive opportunities to change his decision in four-year intervals;
- the establishment of new rules of investment by the OFE – the gradual reduction in the minimum limit of the OFE's commitment to shares. A substantial proportion of the concentration limits will be eliminated. Every Fund will need to specify the objective and principles of the investment policy, as well as the quantifiable benchmark in the annual information for its members;
- a change in the system of fees and commissions charged by the pension funds – the fees charged by the funds on the contributions will be reduced from 3.5% to 1.75% (including the reduction in the charge to ZUS from 0.8% to 0.4%);
- the establishment of the level of contributions to the Guarantee Fund – 0.3% of the net asset value of the OFE is to be transferred to the Guarantee Fund administered by the National Securities Depository (Krajowy Depozyt Papierów Wartościowych SA), while the funds accumulated to date on the additional part of the Fund are to be transferred to the pension fund societies (PTE) as at 1 July 2014;
- the introduction of the ban on advertising OFEs – the advertising ban is to apply after the passage of 14 days from the date of publication of the Act until 31 July 2014 and in the periods from 1 January to 31 July in the years in which it will be possible to make a decision to re-select ZUS/OFE (so-called "windows");
- the introduction of changes in pillar III (IKZE) – introduction of incentives for saving for retirement in the so-called third pillar. A flat-rate has been introduced for disbursements from Individual Pension Security Accounts (IKZE), which amounts to 10%. The income, which will be transferred to the IKZE will be exempt from tax, just as previously. It will be possible to pay 120% of the average monthly salary in the national economy forecast for the given year, which is currently equivalent to PLN 4,495.20 into the IKZE.

Even though the Act entered into force in 2014, work on it, and then its adoption, had an impact on the situation on the Polish capital market at the end of 2013.

2.5 External environment in the Ukraine and the Baltic States

Ukraine

The Ukrainian economy fell into stagnation in 2013 (GDP growth at a level of 0% based on the preliminary data from the statistical office). The difficult situation arose from both the unstable political situation contributing to fading investments and the still poor climate on foreign markets, including the continuously deteriorating access to the Russian market. Only the positive rate of growth of retail sales (9.5% increase in turnover compared with 2012) had a positive impact on GDP growth. The stagnation also forced cuts in several budgetary expenditures (mainly investments and transfers to local budgets).

Despite these adverse conditions, in 2013, the insurance sector in Ukraine was developing rapidly. The gross written premiums on the non-life insurance market in three quarters of 2013 was UAH 19.7bn, or, in other words, it was 34.8% higher than in the corresponding period of the previous year. Additionally, life insurance companies collected UAH 1.7bn gross written premiums in three quarters of 2013, which was 39.8% more than in the corresponding period of 2012.

Numerous legal regulations entered into force in 2013, which had the objective of stabilizing the Ukrainian insurance market. The most important of these include:

- Changes in the fiscal code. In the fiscal code in force since 1 January 2013, the Ukrainian Parliament gave insurance companies primarily the right to pay 3% tax on the gross written premium, without the need to transfer to the overall tax system.
- Introduction of a green card. In order to stabilize the Ukrainian Green Card market and confirm Ukraine's status as a full member of the International Green Card Insurance System, on 1 January 2013, the Ukrainian insurers, which are members of Ukraine's Motor Insurance Bureau (MTSBU), introduced a plan for administering the Green Card.
  The new mechanism anticipates that the full members of the MTSBU transfer from 45% to 55% of the insurance premiums under the Green Card agreements to the insurance guarantee fund, while the MTSBU ensures the punctual and qualitative settlement of insurance claims on the basis of these agreements. Together with the introduction of the new mechanism, for 6 months of 2013, the average period in which the payment of settled claims was made declined threefold (from 60 to 20 days).
- Amendments to the Act "On obligatory third party liability insurance of owners of land transport."
  A new mechanism was introduced for calculating claims with regard to damage to the health and lives of victims. The injured party can receive no less than 1/30 of the amount of the minimum monthly salary per day of treatment (but no more than for 120 days) according to the value on the date of the accident (as at 30 June 2013, the minimum monthly salary was 1,147 hryvni).
- Changes in the principles of registering insurance agents. In accordance with Regulation approved on 18 April 2013 "On the approval of the order of registering insurance agents conducting business with regard to obligatory TPL insurance on land transport," insurance agents (natural or legal persons) have the right to conduct business as an intermediary in Motor third party liability, provided they register with the MTSBU. The Regulation became effective on 7 December 2013.

Amendments to the Act "On insurance" entered into force on 16 May 2013. The changes applied to:

- enabling Ukrainian insurance brokers to conclude basic all-risks insurance contracts for Ukrainian customers with foreign insurance companies. Before this change it was only possible to take out insurance directly with foreign insurance companies for specified risks;
- the level of the share capital required when setting up life insurance companies in Ukraine – the required capital was increased from EUR 1.5m to EUR 10m (the equivalent in hryvni), whereby this requirement will not apply to existing insurance companies.

Baltic States

In 2013, the Baltic States were among the fastest economically developing countries of the European Union. According to Eurostat data, gross domestic product in the third quarter of 2013 was 4.5% higher than in the third quarter of 2012 in Latvia, 2.2% in Lithuania and 0.7% in Estonia.

In 2013, the condition of the insurance sector in Lithuania was good. The gross written premium of non-life insurance companies was LTL 1.3bn and increased by 8.7% with respect to the previous year, while the gross written premium of life insurance companies amounted to LTL 626m (an increase of 8.9%).

The Act on Insurance was amended in Lithuania on 19 December 2013, the provisions of which have been in force since 1 January 2014. The main amendments applied to:

- equalizing the declarations of will of the party to the insurance contract in electronic form, in the form of a fax or via other telecommunications devices with a declaration made in written form;
- the regulation of the matter of processing the personal data of the policyholder, the person paying the premium, without their consent, except for detailed personal data;
- the regulation of the consequences of the failure to perform the obligation to pay the insurance premium on a specified date under an insurance agreement (in non-life insurance), under which the insurance agreement expires, if the premium is not paid within 30 days (previously 15 days) from the date on which the notice of default on the payment term is sent. In life insurance, the regulation is only amended with respect to the payment term of the premium after the notice is sent;
- expansion of the scope of the insurer's rights with regard to collecting personal data when handling claims;
- the detailing of the principles regarding automatic renewals of insurance agreements, according to which their quantity is not limited;
- the award of rights to a state institution to adjudicate on the matter of the funds (insurance premiums), which are held on the account of the brokerage company in the event of its bankruptcy.

Amendments were adopted in 2013 to the Insurance Act, under which, when calculating the level of the premium and the insurance benefit, insurance companies do not have the right to take into account the gender of the insured, which can affect the insurance risk.

In 2013, the Bank of Lithuania:

- adopted a resolution on the level of costs of supervision over insurance companies. The amendment has been in force since 1 January 2013. According to the resolution the level of the charge was raised from 0.16% to 0.182% of the value of the gross written premiums per year;
- also changed the maximum technical rate – its current level is 1.88%;
- accepted that the minimum indexed sum insured in TPL insurance of the insurance agent is EUR 1.25m in the case of one insurance event and EUR 1.88m for all insurance events per year;
- adopted a resolution on the guidelines regarding the combating of money laundering, according to which insurance companies must guarantee that their foreign branches will comply with these guidelines.

On 28 January 2013, the Minister of Finance of the Republic of Lithuania, amended the level of the charge on written premiums to the Lithuanian office of motor vehicles from 4.6% to 4.1% by means of a Regulation.

2.6 Macroeconomic factors, which can affect the operations of the Polish insurance sector and the PZU Group's activities in 2014

According to the forecasts prepared by PZU, GDP growth in Poland should exceed 3% in 2014. After two years of decline, domestic demand will increase. This improvement should also be noticeable in the insurance sector.

A relatively moderate increase in inflation will help sustain the growth in purchasing power of households, even with a modest increase in nominal salary growth. The real increase in household income, with the improvement of the situation on the labour market, should contribute to the acceleration of the rate of consumption in 2014 to over 2%.[4]

In the light of the recovering domestic demand and good export prospects, companies should increase capital expenditure. It is expected that public investments using funding from the European Union will also start in the second half of 2014.

The outlook of moderate, gradually increasing inflation and the relatively calm increase in the growth rate probably means that the MPC will start to raise interest rates no earlier than at the end of this year. The maintenance of low interest rates and the acceleration of the growth ratecan promote a recovery in loans and support demand for capital goods.

The risk factor for the fiscal policy and, consequently, for the whole economy is the decision on the matter of compliance of the changes in the pension system with the Constitution. As a result of these changes, all treasury bonds held by Open-ended Pension Funds were transferred to the Social Insurance Institution on 4 February 2014. This enabled their redemption and, consequently, the reduction in the state's public debt by approximately PLN 130bn. If the Constitutional Tribunal rules that these changes are inconsistent with the Constitution to a significant extent, the reduction in public debt arising from the redemption of the treasury bonds transferred by the OFE to ZUS could prove ineffective. In this situation, the government may be required to take steps to increase the restrictiveness of fiscal policy.

Simultaneously, the changes in the OFE are a source of uncertainty for the financial markets in Poland. They can result in an increase in volatility. The risk for the stock market is the question of how many Poles will decide to remain with the OFE. The scale of the potential reduction in demand for shares from pension funds, which are a major player on this market, depends on this.

The process of standardization of monetary policy in the US could promote the outflow of capital from "emerging markets" in 2014 and, consequently, may cause disturbances on the financial markets of these countries. The most dynamic and financially stable economies – which include Poland – will have a chance of avoiding such problems. Even so, it seems inevitable that bond yields will rise over the coming two years, while the volatility of prices on the Polish financial market can intensify periodically.

[4] PZU's estimate

Forecasts for the Polish economy	2014F*	2013	2012	2011	2010
Real GDP growth in % (y/y)	3.0	1.5	1.9	4.5	3.9
Increase in individual consumption in % (y/y)	2.2	0.7	1.2	2.6	3.2
Increase in gross expenditure on fixed assets in % (y/y)	3.5	(1.7)	(1.7)	8.5	(0.4)
Price increases in % (y/y, end of the year)	1.9	0.9	2.4	4.6	3.1
Increase in nominal salaries in the national economy in % (y/y)	3.9	3.4	3.5	5.6	3.9
Rate of unemployment in % (end of the year)	13.7	13.7	13.4	12.5	12.4
NBP base rate in % (end of the year)	2.75	2.50	4.25	4.50	3.50
Annual average EUR/PLN exchange rate	4.17	4.19	4.19	4.12	3.99
Annual average USD/PLN exchange rate	3.18	3.17	3.26	2.96	3.02

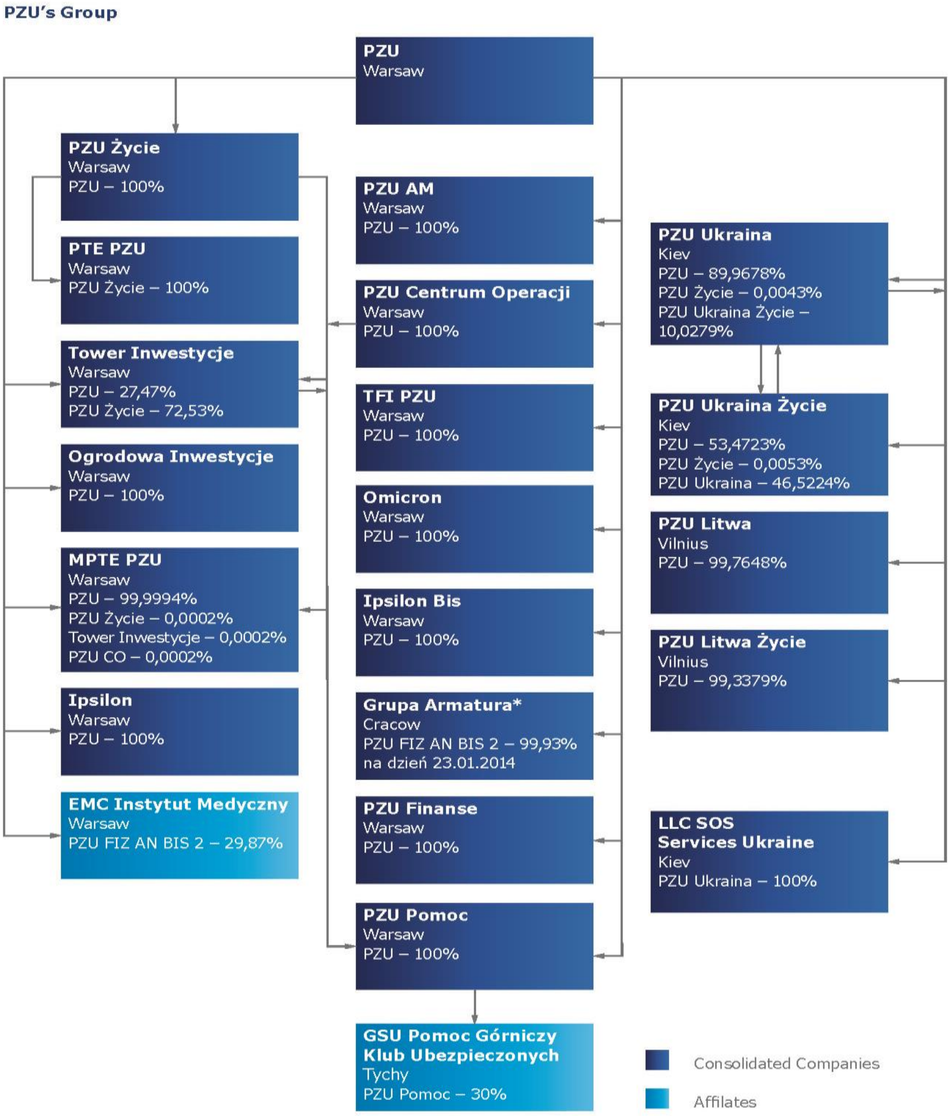
*Source: PZU Macroeconomic Analysis Bureau, * Forecast*

3 Activities of the PZU Group

3.1 Structure of the PZU Group

The PZU Group conducts various activities in the area of insurance and finance. The Group's companies provide services in life insurance, other non-life insurance and asset management for customers within the open-ended pension fund and investment funds.

Structure of the PZU Group (as at 31 December 2013)



* Armatura's Group consists of the following companies: Armatura Kraków SA, Armatoora SA, Armatoora SA i wspólnicy sp. k., Armagor SA, Armadimp SA and Armatura Tower
The PZU's Group structure does not include investment funds

By performing control functions in the supervisory authorities of the companies, PZU – as the parent company – makes key decisions regarding both the scope of activities and the finances of the entities making up the Group. PZU's capital ties with the companies additionally strengthen the business bonds, whereby these transactions are conducted on an arm's length basis.

The following changes took place in the structure of the PZU Group in 2013:

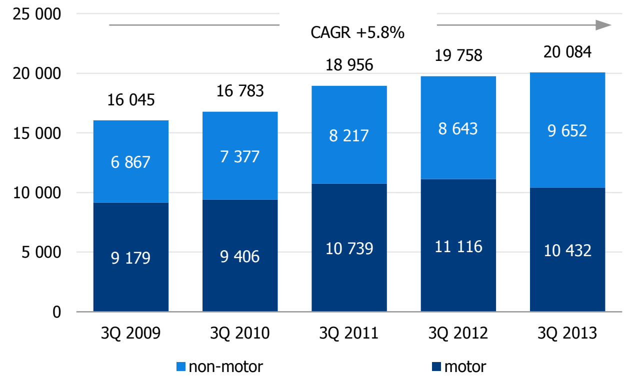
- A new company, PZU Finanse Sp. z o.o., was established on 30 October 2013. The Company's capital is PLN 50k and is divided into 100 shares, at PLN 500 per share. All shares were acquired by PZU. The Company was registered in the National Court Register on 8 November 2013.
- In 2013, the PZU Group increased its share of the capital of Instytut Medyczny SA (EMC) (from 25.31% of the votes at the general meeting of shareholders at the beginning of 2013 to 29.87% at the end of 2013) through PZU FIZ AN BIS 2, by acquiring the additional shares in stock exchange transactions. The Company has been valued using the equity method in the PZU Group's consolidated financial statements since 30 June 2013.
- On 23 December 2013, PZU FIZ AN BIS 2 concluded a final agreement on the acquisition of 948,370 shares in EMC from the new issue at a nominal value of PLN 4 per share and an issue price of PLN 19.50 per share. The total purchase price for the acquisition of the new issue was PLN 18,493k. Because the increase in the capital had not been registered by 31 December 2013, the amount was disclosed in receivables in the financial statements.
- On 24 September 2013, PZU FIZ Aktywów Niepublicznych BIS 2 sold 310,620 shares in an associated company, Kolejka Gondolowa Jaworzyna Krynicka (KGJK), representing 37.525% of its share capital, for PLN 24,850k. As a result of the settlement of this transaction, the PZU Group does not hold any shares in KGJK, which ceased to be an associate of the PZU Group. A profit of PLN 8,263k was realized in the transaction of the sale of the shares in KGJK.
- On 26 March 2013, the General Meeting of Sigma Investments in liquidation passed a resolution to terminate the liquidation of the Company. The Company was deleted from the register on 11 May 2013.
- On 23 April 2013, the General Meeting of ICH Center in liquidation passed a resolution to wind up the Company. The Company was deleted from the register on 20 May 2013.

3.2 PZU – operations on the Polish non-life insurance market

Situation on the market

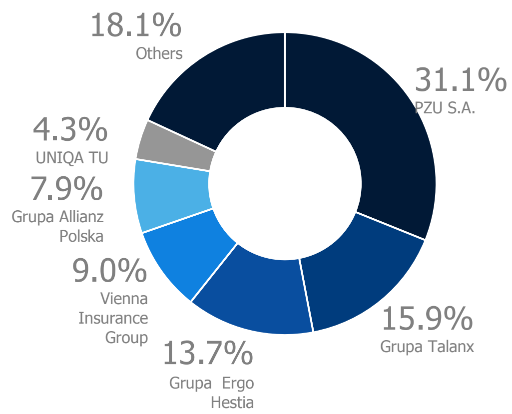
The non-life insurance market in Poland measured by the gross written premium grew by an annual average of 5.8% over the past 5 years. Over 3 quarters of 2013, the market grew by a total of PLN 325.5m compared with the same period of the previous year, mainly as a result of the increased sales of insurance covering damage caused by the forces of nature and other property damage (by PLN 520.0m, +12.9% compared with the same period of the previous year) in particular as a result of the renewal of long-term agreements with corporate customers.

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



Source: PFSA (www.knf.gov.pl). Quarterly bulletin. Rynek ubezpieczeń [Insurance Market] 3/2013, Rynek ubezpieczeń 3/2012, Rynek ubezpieczeń 3/2011,

Non-life insurance companies - share of the gross written premium for 3 quarters of 2013 (in %)



Groups: Allianz – Allianz, Euler Hermes; Ergo Hestia – Ergo Hestia, MTU; Talanx – Warta, Europa, HDI; VIG – Compensa, Benefia, Inter-Risk
Source: KNF Biuletyn Kwartalny [PFSA Quarterly Bulletin]. Rynek ubezpieczeń [Insurance Market] 3/2013

Furthermore, the positive impact on the growth of the entire non-life insurance market had significantly higher sales of insurance covering various financial risks (PLN 227.0m, +41.1% year-on-year). The increase of premiums for the whole of the market was possible despite the decline in sales of MTPL insurance (by PLN -384.4m, -5.6% year-on-year) and auto casco insurance (by PLN -299.5m, -7.0% y/y). These changes resulted mainly from the decline in prices on the Polish insurance market in 2013 and the depreciation of insured vehicles.

The whole of the non-life insurance market in 3 quarters of 2013 generated a net profit of PLN 5.8bn (+100.2% compared with the same period of the previous year). Excluding the dividend from PZU Życie (which constitutes the profit generated by the life insurance sector in 2012), the net profit of the non-life insurance market increased by PLN 0.25bn (+14.6%). The technical result of the non-life insurance market, which largely omits income on investments and deposits, increased by PLN 696.5m, i.e. by 97.9% year-on-year, to a level of PLN 1.4bn. This change was affected to the greatest extent by the increase in the technical result on insurance covering damage caused by the forces of nature and other property damage (by PLN 455.0m compared with the same period of the previous year), the increase in contract guarantees (PLN 218.6m, exclusively for direct business, year-on-year) and in MTPL insurance (by PLN 187.5m year-on-year). The higher result than in the previous year was caused by the increase of provisions set in 2012 for contract

Non-life insurance market - gross written premium

million PLN

	1 January – 30 September 2013			1 January – 30 September 2012		
	PZU	**Market**	**Market excluding PZU**	**PZU**	**Market**	**Market excluding PZU**
Auto casco insurance	1,502	3,956	2,454	1,608	4,256	2,648
MTPL insurance	2,118	6,476	4,358	2,231	6,860	4,629
Other products	2,617	9,652	7,035	2,535	8,642	6,107
TOTAL	**6,237**	**20,084**	**13,847**	**6,374**	**19,758**	**13,384**

Source: PFSA (www.knf.gov.pl). Biuletyn Kwartalny [Quarterly Bulletin]. Rynek ubezpieczeń [Insurance market] 3/2013, Rynek ubezpieczeń 3/2012, PZU's data guarantees issued for the construction sector as a result of the bankruptcy of selected companies. A symptomatic change is the return after 6 years to the path of clear profitability of MTPL insurance, the technical result of which amounted to PLN 97.2m at the end of the third quarter of 2013.

In addition to the improved sales described above, an additional factor causing the good results for three quarters of 2013 was the PLN 577.5m lower value of claims paid in respect of damage caused the forces of nature, i.e. a 50.2% decline compared to the corresponding period of the previous year.

The total value of investments and deposits of the non-life insurance companies (excluding investments in subsidiaries) was PLN 46.6bn at the end of the third quarter of 2013, which was a 9.9% increase since the end of 2012. 51.0% of these investments at the end of the third quarter of 2013 were securities issued or guaranteed by the State Treasury and local government units. Increasing yields on treasury bonds in 2013 had a negative impact on the valuation of these instruments in insurers' portfolios. Simultaneously, the share of other fixed-income instruments (including corporate bonds) declined from 7.2% to 4.8% (from PLN 2.9bn to PLN 2.2bn).

Non-life insurance companies, on aggregate, estimated the value of technical provisions at PLN 36.5bn, which represented an increase of 6.5% compared with the end of 2012.

PZU's activities

Within the PZU Group, activities on the non-life insurance market in Poland are conducted by the parent company in the Group, i.e. PZU.

Over the past years, PZU has been managing approximately 1/3 of the non-life insurance market. After three quarters of 2013, it had a 31.1% share of the non-life insurance market (compared with 32.3% in 2012). The Company had a relatively strong market position in a auto casco insurance (with a share of 38.1%). Meanwhile, in the case of motor insurance for corporate customers, this share was even higher, amounting to 49.8% for MTPL insurance and 43.5% for auto casco insurance.

PZU has been pursuing a corporate insurance portfolio restructuring programme for several years in order to maintain profitability. These measures have resulted in a significant improvement in PZU's technical results for TPL and auto casco insurance in the corporate customer segment (the Combined Operating Ratio[5] fell respectively by 2.0 p.p. and 5.4 p.p. in the period of three quarters of 2013 compared with the same period of 2012), with a decline in the market share. Overall, the technical result in non-life insurance increased by PLN 696.5m, i.e. 97.9%, of which PZU's result alone was PLN 516.9m, or 82.0% higher.

After the first three quarters 2013, the share of PZU's net result to the market's net result (excluding dividends from PZU Życie) was 58.6%, which, with a market share of 31.1% calculated using the gross written premium, confirms the high level of profitability

The non-life insurance market – technical results

in million PLN

Technical results	1 January – 30 September 2013			1 January – 30 September 2012		
	PZU	Market	Market excluding PZU	PZU	Market	Market excluding PZU
Auto casco insurance	212	368	156	251	509	258
MTPL insurance	359	97	(262)	217	(90)	(307)
Other products	576	943	367	162	293	131
TOTAL	**1,147**	**1,408**	**261**	**630**	**712**	**82**

[5] The quotient of the sum of settled claims and costs of insurance activity, and the premium earned

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. PZU's product range encompassed 200 insurance products at the end of 2013. Motor insurance is the most important group of products offered by PZU, both in terms of the number of valid insurance contracts, as well as the share of the premium to the total value of gross written premiums.

During 2013, PZU made changes to its product offering, with customers in mind, which included basic categories of insurance products addressed to all customer segments.

In 2013, the changes in the offer dedicated to the mass market consisted of:

- the introduction of changes in the TPL and auto casco insurance tariffs for individual customers and SMEs on 1 May 2013, in order to adapt to the market conditions;
- the definition of general terms and conditions of motor insurance and the wide range of scales of motor insurance premiums for the mass market customer and entrepreneur with a small fleet, as well as for non-life insurance (*PZU Dom* – PZU Home), for insurance contracts which are to be registered in the new IT system respectively from the fourth quarter of 2013 and the first quarter of 2014;
- the activation of a new application "*Przeglądarka UFG*" [UFG Browser] enabling verification of customer statements about their claims history in motor insurance at the time of sale;
- the introduction of changes into the offering of obligatory subsidized crop insurance in the spring season, in order to improve profitability. These changes were dictated by the high level of claims in 2011–2012;
- withdrawal of a product differentiating the premium by gender – individual insurance for daily hospital benefits, in accordance with the guidelines of the European Commission on the European Union Gender Equality Directive.

While improving the offer for corporate customers in 2013, PZU simultaneously took into account the need to increase the profitability of cooperation with this customer segment. The Company assumed most of all:

- Modified the existing tariff premiums for auto casco and TPL insurance. This change arose from the increasing competition in motor insurance for corporate customers and involved the adjustment of premiums to market conditions while maintaining a safe technical result in these products. In addition, it changed the limit of the number of vehicles designating the size of a fleet of vehicles, on which, among other things, the level of the premium depends. It was accepted that a small fleet comprises up to 40 vehicles, while a large fleet consists of at least 40 vehicles.
- Upheld the importance of underwriting in the area of non-life insurance through selective insurance sales, including to entities from sectors with high claims levels, ongoing improvement in the risk management process and the general application of additional clauses and other technical limitations changing the scope of the insurance.
- In TPL insurance, it consistently used tools to assess the risk and tailor the insurance terms and conditions and the quotation rules to the level of risk accepted for insurance. However, in TPL medical insurance, it more frequently used medical risk assessments (medical visits to hospitals, questionnaires).

In terms of financial insurance for corporate customers the Company assumed most of all:

- Upheld the moratorium on sales of guarantees to companies performing construction contracts in the initial months of 2013. In April 2013 sale of guarantees to companies from the construction sector with revenues of over PLN 30m was unblocked, simultaneously hightened risk assessment criteria. Sales of guarantees to smaller companies operating in sectors related to construction were still subject to strong restrictions.

- Signed a low down payment insurance contract with mBank Hipoteczny S.A.

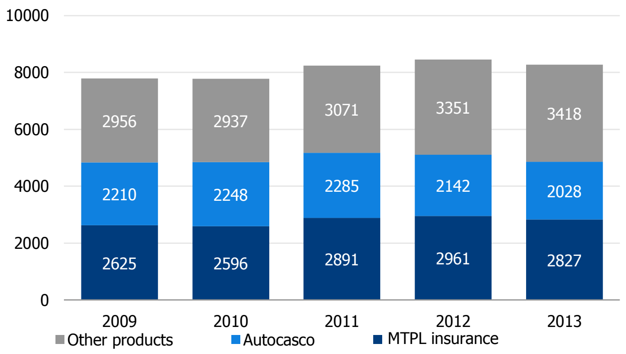
Furthermore, the Company continued to work on the launch of new products intended for corporate customers, such as insurance of the risk related to making lease payments until the establishment of the mortgage, insurance of the risk of paying a lease with regard to absence of the lessor's down-payment and portfolio non-life insurance.

In 2013, the Company also tightened its cooperation with trading partners with large customer databases or supporting mass payments (including electricity companies and large retail chains). And so, within the framework of the strategic partnership, it introduced new types of insurance, such as insurance of electronic equipment (telephone, laptop), home fittings, hospitalization, TPL in private life and *Dom Assistance* [Home Assistance].

In the area of bancassurance, PZU continued to work with the leading banks operating on the Polish market (including PKO Bank Polski, ING Bank Śląski, Bank Millennium and BGŻ). The Company offers the customers of these banks, among other things, card payment protection programmes, as well as buildings and premises insurance attached to mortgage loans. In 2013, sales of PZU's products offered in cooperation with the banks were expanded to include new channels, i.e. electronic banking and telemarketing.

PZU's research indicates that, apart from price, crucial to customer loyalty is the process of claims handling and payment of benefits. The implemtation of improved claims handling procedures for TPL and non-life insurance has resulted in reducing the average time of claims handling in PZU. In 2013, it was 16.8 days and was 3.4 days shorter than in 2011 and 1.2 days longer than in 2012.

PZU's gross written premium (in PLN million)



In 2013, PZU collected gross written premiums of PLN 8,273.9m, which was 2.1% more than in the previous year. At the same time, its structure changed in comparison with the previous year and, therefore:

- The value of MTPL insurance was PLN 2,827.2m, which was 4.5% lower than in the previous year. This represented 34.2% of the overall portfolio, i.e. its share remained at a similar level to that of 2012. The drop in the value of MTPL insurance at PZU resulted mainly from lower sale of new cars and increasing competition in the market, which led to a fall in prices of policies. The increase in the number of motor insurance policies for corporate customers did not fill the gaps after the drop in prices of policies.

- PZU collected PLN 2,028.2m from auto casco insurance, which was 5.3% less than in the previous year. The slight increase in the number of insurance policies did not compensate for the effect of the drop in the average premium which contributed to growing competition, the ageing portfolio and the increase in no claims bonuses discounts. As a result, the share of the total auto casco insurace premium declined from 25.3% in 2012 to 24.5% in 2013.

- The rapid growth in sales of insurance, such as: PZU DOM Plus [PZU HOUSE plus], PZU Doradca [PZI Advisor] and agricultural insurance, contributed to the 2% growth in written premiums from the other products. As a result, the share of gross premiums from non-motor insurance to the total premium increased to a level of 41.3% (39.6% in 2012).

In 2013, PZU settled gross claims and benefits amounting to PLN 4,301.9m, which was 5.0% less than in the previous year.

In 2013, PZU generated a net profit of PLN 5,106.3m, of which PLN 3,842.9m was from the dividend from PZU Życie.

Factors, which will affect the activities of the non-life insurance sector in 2014

Apart from events of a catastrophic nature (such as floods, drought and spring frost), the main factors which can affect the situation of the non-life insurance sector in 2014, include:

- The expected economic recovery in Poland. The better financial standing of households can lead to an increase in sales of motor policies (as a result of higher new car sales), higher sales of mortgage loans and the related borrower insurance, as well as an increased demand for other non-life insurance. Additionally, the improvement in the financial standing of businesses can result in a decline in credit risk and a reduction in the level of claims in the financial insurance portfolio.
- The reduction in the development of mortgage loan campaigns as a result of the stricter requirements of Recommendation S on good practices regarding the management of credit exposures collateralized with mortgages and the small scope of the *Mieszkanie dla Młodych [Flat for the Young] Programme*.
- Price pressure from the competition arising from a decline in the level of motor insurance claims in 2013.

3.3 PZU Życie – activities on the life insurance market in Poland

Situation on the market

The life insurance market in Poland measured by the gross written premium increased by an annual average of 1.0 % over the past 5 years. The premium collected during the three quarters of 2013 was 14.5% lower than in the same period of the previous year, which means a major decline after a series of increases. The rates of growth for the same periods of 2012, 2011 and 2010 were respectively 10.6%, 5.6% and 4.3%.

It should be pointed out that the decline in the premium year-on-year applied exclusively to the single premium, for which exceptionally high growth of +14.1% year-on-year was achieved in the same period of 2012. This decline mainly applied to the written premium obtained through the *bancassurance* channel (a decline of PLN 3.0bn, i.e. 20.1% year-on-year).

The source of the exceptional rate of growth of the single premium and group insurance for the first three quarters of 2012, which constituted the high base for the same period of the following year, was the prohibition to benefit from the gap in the tax regulations regarding the lack of application of the flat-rate tax on overnight deposits and the resulting increase in interest in single premium insurance, mainly in the *bancassurance* channel (the so-called deposit policies).

As a result, the share of the bancassurance channel in the life insurance premium obtained by the market declined with respect to the same period of the previous year by 4.2 p.p. to a level of 50.6%,[6] which, despite everything, suggests that the bancassurance channel is

[6] PIU data (www.piu.org.pl), The bancassurance market after the third quarter of 2013

of great importance to the revenues obtained by insurance comapanies from the market.

The result of the changes taking place on the market is the return to the relative primacy of the regular premium over the single premium, which is PZU Życie's competitive advantage on the market.

The expected changes in the law introducing taxation on deposit policies and their lower yield because of low interest rates on the market have contributed to the continued declining trend in sales of these products, thereby generating greater interest in investment risk borne by the customer. These changes significantly contributed to the 31.3% year-on-year decline in the written premiums in life insurance (group I) and the 6.2% year-on-year increase in written premiums related to unit-linked life insurance, despite the decline in income from investments in this insurance group by as much as 25.6% year-on-year. This is a quantifiable effect of the search by customers of insurance companies to fill the market gap after the withdrawal of the deposit policies from the market.

The gradual increase in the attractiveness of employee pension programmes (EPP) should be noted on the life insurance market. The increase in the premium collected by life insurance companies from the EPP for three quarters was 10.7% year-on-year in 2013. However, the annual average growth rate in premiums measured from 2009 to 2012 was 8.1%. Simultaneously, the share of life insurance companies in the premiums paid within the EPP, increased from 32.8% in 2009 to 33.2% in 2012. At the end of 2012, just 2.3% of Polish workers were covered by EPPs, which is why the market has huge growth potential.

The total technical result of life insurance companies achieved during three quarters of 2013 was PLN 389.5m (14.3%) lower than in the corresponding period of the previous year, mainly because of the lower profitability of life insurance – a decline of PLN 326.7 PLN (-34.6%) in the technical result.

During this period, life insurance companies generated a net result at a level of PLN 2.3bn, which constituted a decline of 10.7% (PLN -278.7m), mainly due to the poorer results on investment activities.

Despite the poorer climate on the capital market and the increase in treasury bond yields, the value of investments of life insurance companies increased slightly with respect to the previous year. The total value of investments of life insurance companies at the end of the third quarter of 2013 amounted to PLN 95.6bn, which means growth of 1.3% compared with the end of 2012. In particular, the higher premium contributed to an increase in the net assets of life insurance, if the investment risk is borne by the policyholder (increase of 6.7% to PLN 48.1bn).

Life insurance companies, on aggregate, estimated the value of technical provisions at PLN 81.1bn, which represented 84.8% of the value of the investments.

million PLN

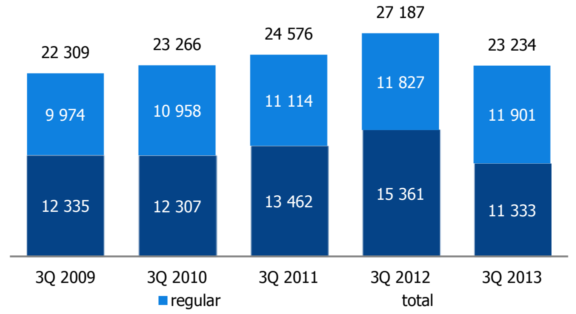
Life insurance market – gross written premium	1 June – 30 September 2013			1 June – 30 September 2012		
	PZU Życie	Market	Market excluding PZU Życie	PZU Życie	Market	Market excluding PZU Życie
Regular premium	5,196	11,901	6,705	5,051	11,827	6,776
Single premium	1,610	11,333	9,722	2,153	15,361	13,208
TOTAL	**6,807**	**23,234**	**16,427**	**7,203**	**27,187**	**19,984**

Source: PFSA (www.knf.gov.pl). Biuletyn Kwartalny [Quarterly Bulletin]. Rynek ubezpieczeń [Insurance Market] 3/2012, PZU Życie's data

Life insurance market – gross written premium vs. technical result	1 June – 30 September 2013			1 June – 30 September 2012		
	PZU Życie	Market	Market excluding PZU Życie	PZU Życie	Market	Market excluding PZU Życie
Written premium	6,807	23,234	16,427	7,203	27,187	19,984
Technical result	1,368	2,327	959	1,581	2,717	1,136

Source: PFSA (www.knf.gov.pl). Biuletyn Kwartalny [Quarterly Bulletin]. Rynek ubezpieczeń [Insurance Market] 3/2012, PZU Życie's data

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



PZU Życie's technical result constituted the majority of the result obtained by all life insurance companies. This is evidenced by the high profitability of the products offered. The margin in PZU Życie's technical result on a written premium was more than three times higher than the margin obtained by all the other companies offering life insurance together (20.1% compared with 5.8%).

In 2013, PZU Życie adjusted its product offering to the increasingly greater customer requirements, the actions taken by the competition and the changing legal situation.

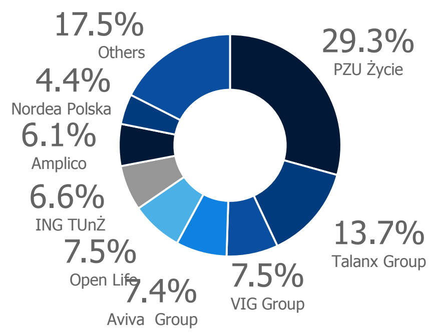
The changes in the offering of group insurance and individually continued insurance introduced in 2013 consisted of:

- protection insurance - changes were introduced into the general terms and conditions of insurance and marketing materials, in order to simplify the language, remove provisions which could give rise to doubts in interpretation and adapt them to the changing provisions of the law.
- banking protection insurance - the focus was on maintaining the insurance portfolio and work related to the planned implementation of insurance for consumer finance and mortgage banking customers.
- drug insurance - the offering was made more flexible through the introduction of the ability to create different variants○ with a variable sum insured and a variable amount of co-payment by the patient. Furthermore, a new PZU product range – *Antybiotyk* [*Antibiotic*] – was launched into the group drug insurance.
- group health insurance offered on the basis of the fee-for-service settlement model (the medical service provider is PZU Pomoc). The range was extended to include a number of additional medical consultations and diagnostic

PZU Życie's activities

PZU Życie SA (PZU Życie) operates on the life insurance market within the PZU Group. The Company offers a wide range of life insurance products, including group and individual protection insurance, investment insurance and pension products.

Life insurance companies - share of the gross written premium for 3 quarters of 2013 (in %)



Groups: Allianz – Allianz, Euler Hermes; Ergo Hestia – Ergo Hestia, MTU; Talanx – Warta, Europa, HDI; VIG – Compensa, Benefia, Inter-Risk
Source: KNF Biuletyn Kwartalny [PFSA Quarterly bulletin]. Rynek

During three quarters of 2013, PZU Życie collected 29.3% of the gross written premiums of the life insurance companies. In comparison, in 2012, the Company had a 25.6% share of the market. Simultaneously, PZU Życie continued to remain the decisive leader in the regularly paid premium segment.

During three quarters of 2013, it obtained 43.7% of such premiums of all insurance companies.

examinations. Furthermore, additional options were introduced which are appropriate for sponsored products, such as family packages and the reimbursement of services provided outside the insurer's own network. At the end of 2013, PZU Pomoc was working with 1,050 establishments (compared with 800 at the end of 2012).

Simultaneously, PZU Życie actively worked towards attracting new customers for group insurance. Because the number of employment establishments operating in the public sector placing orders for insurance services in the tender procedure is increasing, the Company entered many – successfully completed – tenders for group insurance.

Because of the continuing uncertainty on financial markets, customers were still interested in traditional life insurance of a protective or protective and savings nature. Customers were primarily interested in the sale of classic insurance, such as *PZU Ochrona* Życia [PZU Life Protection] or *PZU Twoja Ochrona* [PZU Your Protection]. Simultaneously, the Company worked intensively on the adjustment of the current offering to the low yields on treasury bonds.

In 2013, PZU Życie offered an individual unit-linked life insurance product named *Plan na Życie* [Plan for Life]. However, because of the unfavourable press, the statements of the regulator and the discussion on the structure of these products, customers showed limited interest in this product.

An important element of PZU Życie's investment portfolio was the structured *Świat Zysków* [World of Profits]. In order to adjust these products to customer expectations, the Company has products with varying investment strategies, enabling the diversification of portfolio risk. Because of the considerable decline in interest rates on deposits and bond yields, in 2013, the Company decided to extend the period of liability in the product from 3 to 5 years. Furthermore, it changed its approach to the choice of instruments, on which the product is offered and, in June 2013, it launched the sale of *Świat Zysków* [World of Profits], which is based on an index investing in funds managed by TFI PZU.

The objective of these changes was to maintain the attractiveness of the product, including retaining a 100% guarantee of a return of the invested capital in the event of adverse changes in market conditions. PZU Życie conducted 11 successive subscriptions for the *Świat Zysków* structured insurance in 2013. Because of the observed unfaltering customer interest in structured products, further issues of this product are planned.

In the case of structured products sold through the bancassurance channel, in 2013, the Company, in collaboration with Bank Handlowy, conducted two, subscriptions of *Indywidualne Inwestycyjne Ubezpieczenie na Życie* [Individual Investment Life Insurance], which enjoyed a great deal of interest from customers. High sales were also recorded of the *Wielowalutowy Program Inwestycyjny* [Multiple Currency Investment Programme] (a unit-linked type product with a single premium) sold through Millennium Bank.

In an effort to standardize the investment offering which was marketed in cooperation with Bank Millennium, PZU Życie modified the group *ubezpieczenie na życie i na dożycie SPE (Single Premium Endowment)* offered by the Bank to an individual form under the name of indywidualne ubezpieczenie na życie i dożycie *Polisa Oszczędnościowa* [individual endowment *Savings Policy*].

In 2013, customer interest only increased slightly in pension insurance, i.e. Individual Pension Accounts (IKE) and Individual Pension Security Accounts (IKZE).

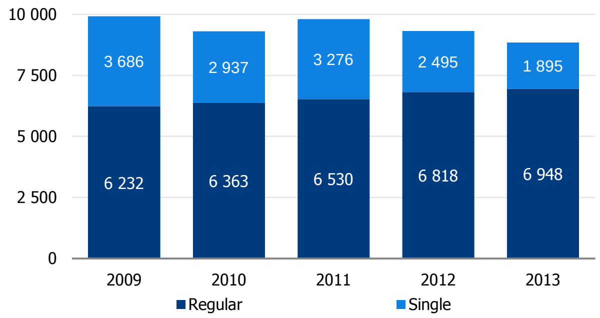
In 2013, in accordance with Polish GAAP, PZU collected gross written premiums of PLN 8,843.0m, which was 5.1% more than in the previous year. The vast majority of the Company's premium was from insurance paid regularly. It represented 78.6% of the gross written premiums (as opposed to 73.2% in the previous year). It primarily included written premiums from group insurance and individually continued insurance, from which approximately 12 million Poles benefited.

In 2013, PZU Życie settled claims and benefits at the amount of PLN 6,255.9m, which was 21.1% less than in the previous year.

The amendments introduced in the operating sphere resulted in the claims handling process being shortened in 2013. In 2013, it was 4.2 days and was 0.4 days shorter than in the previous year.

In 2013, PZU Życie generated a net profit of PLN 1,694.7m.

PZU Życie gross written premium (in PLN million)



Factors, which will affect the activities of the life insurance sector in 2014

The situation on the life insurance market in 2014 will primarily be affected by:

- The expected acceleration in the growth rate in Poland, affecting the financial condition of both households and business entities.
- The economic climate on the capital markets, which is difficult to predict and which determines the attractiveness of unit-linked insurance products.
- The possible introduction of taxation on income from deposit policies and structured products, which will reduce customer interest in these products.
- An increase in basic interest rates and interest on deposits, reducing the attractiveness of structured products.
- Changes in the legal regulations, especially regarding voluntary health insurance and the Product Sheet (in accordance with the Recommendation of the Polish Insurance Association).
- Changes on the financial intermediation market affecting the popularity of independent financial advisory services and reducing the number of distribution channels of insurance products.

3.4 PTE PZU – activities on the pension funds market

Situation on the market

In December 2013, the net assets of open-ended pension funds were at a level of PLN 299.3bn and increased by 11.0% with respect to the end of the previous year. The following factors affected the rate of growth of the net asset value of the open-ended pension funds:

- The increase in the level of premiums transferred by the Social Insurance Institution to the Open-Ended Pension Funds from 2.3% to 2.8% of the level of the pension insurance premium at the beginning of 2013.
- Good financial results. The funds generated an average rate of return at a level of 7.2%.

The activities of the open-ended pension funds in 2013 were also affected by the changes made in the legal regulations. Apart from the statutory prohibition to conduct personal sales which was already in force in 2012, the principles of allocating new members to the Open-Ended Pension Funds from the people who, despite such an obligation, had not joined any fund, were changed in 2013. In accordance with the currently applicable regulations, only those funds which had rates of return that were higher in the last two settlement periods than the weighted average rate of return of all funds and which have net assets that do not exceed 10% of the total net assets of all funds take part in the allocation through a draw. The shares of the pool of people allocated are equal for all the funds satisfying these conditions. The Social Insurance Institution draws the allocation on the last working day of January and July of each year.

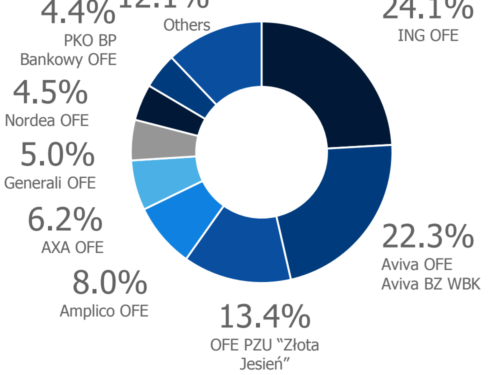
General pension companies are also included in the group of entities which are entitled to operate individual pension security accounts (IKZE). In 2013, there was not much interest in these accounts from future pensioners because of the excessively low incentives in the form of tax relief and the general lack of interest on the part of most Poles in pension savings. New, substantially simpler principles of calculating the limit of payments to the IKZE were introduced in a package of Acts of law on the pension system at the beginning of 2014, making them dependent on the personal income of the Savers, together with a lower flat-rate tax on payments from the IKZE at a level of 10%. With the simultaneous reduction in the activities of pillar II, these solutions can contribute to the increase in interest of Poles in saving for retirement in pillar III, including the IKZE.

Activities of PTE PZU

The Open-ended Pension Fund, PZU *Złota Jesień [Golden Autumn]*, which is managed by PTE PZU SA (PTE PZU), is one of the largest players on the pension funds market in Poland. At the end of 2013, OFE PZU was the third largest pension fund, both in terms of the number of members, as well as in terms of net asset value:

- The Fund had 2,229.8k members, i.e. 13.6% of all participants of open-ended pension funds belonged to it. Meanwhile, in 2013, since it was one of the largest funds, it did not take part in the draw for new members.
- Net assets stood at PLN 40,114.7m, or, in other words, they represented 13.4% of the total value of assets of the open-ended pension funds operating in Poland.

Open-ended Pension Funds - share of net assets as at 31/12/2013 (in %)



Source: PFSA, Monthly data on the open-ended pension fund market, Data as at

The Social Insurance Institution transferred PLN 1,395.4m in premiums in 2013, which was 30.8% more than in the previous year. Having experience with pension products on the capital market, the highly qualified management staff, as well as a consolidated and stable market position, PTE PZU has appropriate conditions for providing customers with attractive conditions for saving for retirement. In 2013, the value of a settlement unit in OFE PZU increased by 9.2%.

PTE PZU also offers Individual Pension Insurance Accounts. It operates in this area through the PZU Voluntary Pension Fund, which was the first to be entered into the Register of Funds on 12 January 2012. At the end of 2013, DFE PZU held 84.4k IKZE accounts, in which assets worth PLN 5.8m were kept. As a result, it maintained its position as one of the leaders in the voluntary pension funds segment, while the rate of return in 2013 was 32.7%.

In connection with the review of the pension system, the Company actively participated in the work on the draft amendments to the Act. It conducted these activities through the Chamber of Commerce of Pension Companies and by the Polish Confederation of Private Employers, LEWIATAN. Remarks of key importance to the pension insurance scheme in Poland were reported through these institutions, including those which had the objective of ensuring safety and protection of the funds held on the accounts of members of the Open-ended Pension Funds and improving the effectiveness of operation of pillar II of the obligatory pension insurance. New solutions were also proposed in order to increase the effectiveness of pillar III (i.e. IKE and IKZE).

Because of the changes in the rules on the functioning of open-ended pension funds, in 2013, PTE PZU held an awareness campaign addressed to the members of OFE PZU so that they could make their choice of method of receiving annual information and to survey customer satisfaction with the services provided by the Fund. These activities were designed to increase OFE PZU customer awareness of their need to make a decision on the matter of transferring pension contributions. This campaign will continue in 2014.

Factors, which will affect the activities of pension funds in 2014

The main challenges for the pension funds market in 2014 are:

- The reform of the pension system in Poland and the outflow of funds from open-ended pension funds.
- The continued high level of unemployment, which affects the number of members joining the OFE.
- The low rate of salary growth, which adversely affects the rate of growth of contributions paid by the members of the pension funds.
- Changes on the financial intermediation market, slow-down in the growth of popularity of independent financial advisory services and, therefore, a reduction in the number of sales channels.
- The economic climate on the capital market and, in particular on the WSE, affecting the value of the assets of the funds and the level of fees collected by the PTE for management.

3.5 TFI PZU – activities on the investment fund market

Situation on the market

2013 was a good year for the investment fund market, although the average increase in assets largely arose from the creation of special funds often dedicated to single investors and operating on the private market. At the end of 2013, the investment funds managed assets of a value of PLN 189.0bn, or 29.6% more than a year earlier. This was the highest level in history. This increase was due, among other things, to:

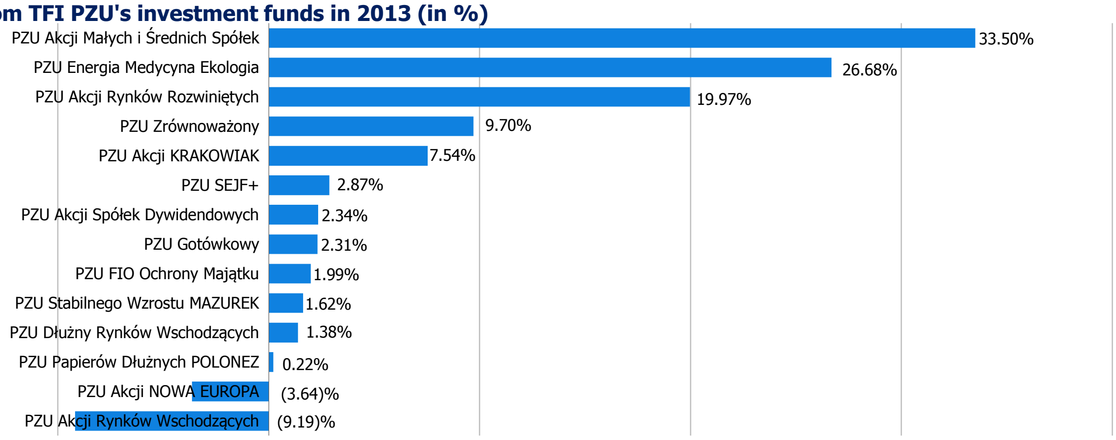
- The positive balance of funds flow to the investment fund. It amounted to PLN 21.5bn, whereby it was mainly the inflow of funds to the private funds market related to the transfer of substantial funding to the dedicated funds within the groups.
- Performance of the funds – in 2013, the average rate of return of investment funds on the Polish market fluctuated from 1.5% in the case of funds investing resources in Polish Treasury bond to 31.1% for small- and medium-sized enterprise shares. However, it should be noted that, in this context, sometimes, clearly negative rates of return of funds dedicated to emerging markets and very poor investment performance of some bond funds stood out negatively.

The structure of assets changed on the Polish investment fund market because of the trends described earlier. The share of non-public asset funds with respect to the total value of assets increased (to 19.7%) at the expense of debt instrument funds (drop to a level of 23.1%).

Activities of TFI PZU

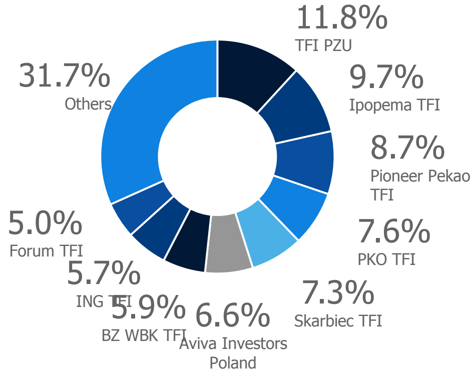
TFI PZU SA (TFI PZU) conducts activities on the investment fund market within the PZU Group. It offers products and services to both mass market and institutional customers, including additional investment/savings programmes within pillar III of the social insurance system, including Individual Pension Account (IKE), Specialized investment programmes, Employee Pension Programmes (EPP) and Corporate Investment Programmes (ZPI).

Rate of return from TFI PZU's investment funds in 2013 (in %)



At the end of 2013, TFI PZU had 25 funds and sub-funds in its portfolio, of which 16 were also offered to customers from outside the PZU Group.

Investment funds - share of assets as at 31/12/2013 (in %)



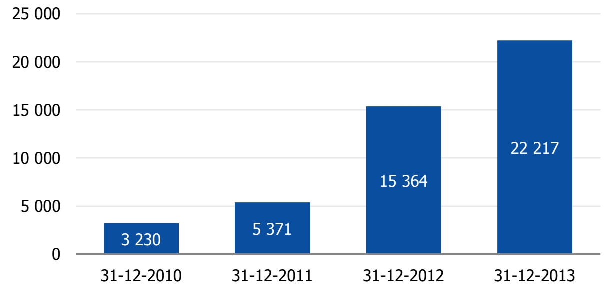
Source: Chamber of Fund and Asset Managers

At the end of 2013, TFI PZU had accumulated net assets of a value of PLN 22,216.6m, which means growth of 44.6% compared with the situation at the end of 2012. Similarly, it maintained the leading position on the investment funds market with a share of 11.8% (compared with 10.5% in December 2012). Simultaneously, the Company remained the leader in the segment of employee pension programmes among all institutions operating on this market (not only investment funds), accumulating assets worth more than PLN 2.2bn (PLN 1.8bn at the end 2012).

TFI PZU's asset growth in 2013 was primarily due to:

- The continuation of the investment strategy within the PZU Group and the transfer of some of the funds by some of its companies (mainly PZU and PZU Życie) for TFI PZU to manage.
- The active sales of closed-ended funds and conducting issues of certificates.
- Further expansion of the distribution network - in 2013, TFI PZU obtained new distributors to work with it, namely, DM BOŚ, DM BPS, Dom Inwestycyjny Xelion and CDM PEKAO. However, with regard to accepting subscriptions for investment certificates, the Fund started to work with ING Bank Śląski, Alior Bank, Dom Inwestycjny Xelion, Dom Maklerski Bankuy Handlowego, Deutsche Bank PBC and CDM PEKAO.
- The establishment of cooperation with regard to investing the funds in investment funds managed by TFI PZU with TU na Życie Europa, TU Allianz Życie Polska, NATIXIS and AVIVA TU na Życie.
- The registration of eight new Employee Pension Programmes and the takeover of two EPPs for management.
- The investment results generated by the fund managers.

TFI PZU's net assets (in PLN million)



In 2013 the Company launched a new product onto the market (through the network of PZU branches) which was based on the *Portfel PZU Święty Spokój* [PZU Peace of Mind Portfolio] and loyalty programme and the *PZU Inwestor* [PZU Investor] loyalty programme. Furthermore, work was conducted, among other things, on the launch of a public closed-ended investment fund - PZU FIZ Akord and work was initiated on the development of mobile web applications dedicated to customers of PZU Inwestycje.

TFI PZU's activities were welcomed by the market. In 2013, the Company:

- received a very good appraisal from an independent analytical company, Analysis Online, for *PZU Stabilnego Wzrostu Mazurek* [PZU Stable Growth Mazurek], *PZU Akcje Małych i Średnich Spółek* [PZU SME shares] and *PZU Zrównoważony* [PZU Balanced] and maintained this assessment for *PZU Energia Medycyna Ekologia* [PZU Energy, Medicine, Ecology] (4* in this rating);
- The *PZU Zrównoważony* Fund Managers – Konrad Augustyński, Kamil Gaworecki and Paweł Kowalski – received the prize of the newspaper, Gazeta Giełdy PARKIET, "*Złoty Portfel*" [Golden Portfolio] for the very good investment results in 2012.

Factors, which will affect the activities of investment funds in 2014

The condition of the investment fund market will primarily depend on:

- the economic climate on capital markets;
- the volatility of yields on treasuries;
- the attractiveness of traditional bank deposits;
- changes on the financial intermediation market, especially the slow-down in the growth of popularity of independent financial advisory services and, therefore, a reduction in the number of sales channels;
- the currently unpredictable possible further regulatory changes regarding, *inter alia*, the pillar III pension system – especially with respect to individual products – the lack of clearer incentives for savers may continue to block the development of this segment of the market.

3.6 Foreign operations

The Ukrainian market

The Ukrainian insurance market grew rapidly in 2013. The gross written premium on the non-life insurance market in three quarters of 2013 was UAH 19.7bn, or, in other words, it was 34.8% higher than in the corresponding period of the previous year. This growth was primarily due to the increase in sales of voluntary non-life insurance (40.4% premium growth), including financial risk insurance (74.8%) and voluntary TPL liability insurance (86.7%). In the case of motor insurance, the increase in the premium collected was relatively small and amounted to 6.9% in the case of auto casco insurance and 3.1% for MTPL insurance. As a result of these trends, motor insurance premiums accounted for 29.5% of the value of the premium actually obtained by insurers during three quarters of 2013 (i.e. 1.4 p.p. less than in the corresponding period of the previous year). The decline in the growth of the written premium in motor insurance compared with previous years arose from the expiry of loan agreements on the purchase of cars concluded in 2007 and the lower sales of new car loans.

Life insurance companies collected UAH 1.7 billion gross written premiums in three quarters of 2013, which was 39.8% more than in the corresponding period of 2012. Approximately 98% of the written premium was obtained through the bancassurance channel and the brokerage sales channel.

Substantial growth (of 64%) in premiums for endowment policies was recorded in 2013, which were concluded for a term of 10 years as a result of the expiry of this portfolio.

The Ukrainian insurance market is fragmented. 441 insurance companies were operating on it in September 2013 (of which 62 were providing life insurance), of which 94 are companies with foreign capital.

In 2013, the insurance market in Ukraine was primarily characterized by the application by some companies of price dumping, a high level of costs related to the sale of insurance products, liquidity problems of some insurance companies, low growth on the classical insurance market, the use of insurance operations for tax evasion, as well as the continued low level of popularity of insurance services among the public and a moderate level of confidence in the effectiveness of insurance.

On the Ukrainian market, the PZU Group conducts its insurance business through two companies: PZU Ukraine (in terms of non-life insurance) – "PZU Ukraine" and PrJSC IC PZU Ukraine Life (life insurance) – "PZU Ukraine Life". In addition, LLC SOS Services Ukraine performs assistance functions.

In 2013, the total gross value of the PZU Group's gross written premiums in non-life insurance in the Ukraine amounted to UAH 404.2m, i.e. it was 13.7% higher than in the previous year. This increase arose from both the increase in the premium obtained through external entities (i.e. banks, travel agencies, etc.), as well as through its own distribution channels. Travel insurance, Green Cards, corporate non-life insurance and motor insurance played a particularly important role in the growth in written premiums.

During three quarters of 2013, PZU Ukraine had obtained 3.3% of the gross written premium on the Ukrainian non-life insurance sector, which gave it twelfth place on the market. However, the leader had a 6.6% share of the market.

The written premium collected by PZU Ukraine in 2013 amounted to UAH 119.9m and was 23.9% higher than in 2012. This growth was mainly achieved in the bancassurance channel as a result of sales of endowment policies.

On the life insurance market, PZU Ukraine Life held seventh place after three quarters of 2013, with a market share of 4.7% (the leader's share was 22.2%).

Because of the relatively low market penetration, as well as the number of inhabitants, Ukraine's insurance market has a huge growth potential and is of interest to foreign investors. The amendments to the legal regulations introduced in 2013 should also favourably affect its functioning.

The Lithuanian market

According to the Lithuanian central bank's data, the gross written premium of non-life insurance companies was LTL 1.3bn and increased by 8.7% compared with the previous year. The market grew primarily as a result of:

- the 10.4% increase in MTPL insurance premiums;
- the 7.1% increase in auto casco insurance premiums;
- the 9.0% increase in accident and health insurance premiums.

The increase in the value of motor insurance was mainly due to the higher prices of policies and the increase in company car fleets (due to the recovery in the economy). However, the expansion of the accident and health insurance market was related to the increase in interest in insurance of this type.

The structure of non-life insurance in 2013 was dominated by motor insurance, which accounted for 58.8% of the gross written premiums, whereby the share of MTPL insurance of vehicle owners was 35.5%. Second position was taken by non-life insurance with a 19.3% share of the premiums.

Twelve non-life insurance companies were operating in Lithuania at the end of 2013 (including 9 branches of insurance companies registered in another EU member state). The largest insurance company in Lithuania in terms of total gross written premiums for non-life insurance is Lietuvos Draudimas. It had a 31.1% market share in 2013. The next places were taken by BTA – 14.2% and PZU Lietuva – 13.6%.

According to the Lithuanian central bank's data, the gross written premium of life insurance companies was LTL 626.0m which constituted 8.9% compared with 2012. Market growth primarily arose from the increase in insurance with a single premium (23.8%) while insurance with a regular premium increased by 6.8%.

The structure of life insurance was dominated by unit-linked type insurance, representing 70.1% of the value of the premium. Traditional life insurance accounted for 23.7% of the total premium.

Nine companies were operating in the life insurance sector at the end of 2013 (including 4 branches of insurance companies registered in another EU member state). The Lithuanian life insurance market is highly concentrated. At the end of December 2013, the share of total gross written premiums of the three largest life insurance companies amounted to 62.5%.

The largest life insurance company in Lithuania in terms of total gross written premiums for life insurance was Swedbank, which had a 21.9% market share. The next places were taken by Aviva (20.3%) and SEB (20.3%).

The Latvian market

Over three quarters of 2013, non-life insurance companies obtained a gross written premium of EUR 237.2m, which constitutes a decline of 1.5% compared with the same period of the previous year. MTPL insurance (31.5%) and auto casco insurance (28.8%), as well as non-life insurance (16.5%) accounted for the largest share of the product structure.

Thirteen non-life insurance companies were operating in Latvia at the end of September 2013 (including 8 branches of insurance companies registered in another member state). The largest life insurance company in Latvia in terms of gross written premiums was BTA, which had a 26.4% market share. The next places were taken by Gjensidige (18.1%), Balta (18.1%) and IF (8.7%).

The Estonian market

According to the data for the first half of 2013, the total value of the gross written premiums on the non-life insurance market was EUR 119m, which constitutes 3% growth compared with the same period of the previous year. Within the product structure, auto casco insurance (36%) and MTPL insurance (27%), as well as non-life insurance (26%) had the highest market shares.

Eleven companies were operating in the non-life insurance sector at the end of the third quarter of 2013 (including 5 branches of insurance companies registered in another member state). The largest insurance company in terms of total gross written premiums was If, which had a 27% market share. The next places were occupied by Ergo and Swedbank (each with 14%), Codan (13%) and Seesam (11%).

Activities of PZU companies in the Baltic States

In the Baltic States, the PZU Group conducts its insurance business through two companies registered in Lithuania: PZU Lietuva (in terms of non-life insurance) – "PZU Lithuania" and UAB PZU Lietuva Gyvybës Draudimas (life insurance) – "PZU Lithuania Life".

In 2013, PZU Lithuania obtained a gross written premium of a value of LTL 189m, i.e. 16.7% more than in 2012, which was significantly higher than the rate of growth of the whole market. This result was achieved as a result of the increased sales of non-life insurance (increase of 28.7 %), auto casco (increase of 15.3%) and MTPL insurance (increase of 8.1%).

The structure of the portfolio was dominated by motor insurance with a 54.1% share of the written premium. The share of MTPL insurance declined to 33.8% (36.2% in 2012), while the share of auto casco insurance declined slightly from 20.3% to 20.2%. However, the share of non-life insurance increased in the insurance portfolio (from 15.1% to 16.8%).

In 2013, the contribution obtained by PZU Lithuania Life amounted to LTL 26.1m, which meant that it increased by 24%. The highest sales growth was recorded in traditional life insurance, which increased by 61.2% compared with the previous year, as well as unit-linked insurance (increase of 5.3% year-on-year).

In 2013, PZU Lithuania occupied third place on the non-life insurance market with a market share of 13.6% (13.3% in 2012). However, PZU Lithuania Life's share of the life insurance market was 4.2% (compared with 3.7% in 2012).

In 2013, PZU's activity in Latvia and Estonia was still in the start-up phase and, therefore:

- the Latvian branch, PZU Lietuva, which was opened on 15 October 2012, sold its first policy in December 2012. In 2013, the office prepared additional products (MTPL insurance and auto casco insurance), which were adapted to the requirements of the Latvian market. Simultaneously, additional employees were recruited and internal procedures and IT systems were prepared.
- The PZU Lietuva Branch in Estonia was registered on 14 November 2012 and had recruited the key staff by the end of 2012. Sales started in June 2013.

3.7 Other areas of activity

PZU AM

In accordance with the Articles of Association, the activities of PZU Asset Management SA (PZU AM) are:

- conducting brokerage activities in the meaning of the Act on the trading of financial instruments of 29 July 2005 (including the management of investment portfolios of investment funds);
- the provision of portfolio management services.

Up to the end of December 2012, PZU AM had been managing PZU's and PZU Życie's selected asset portfolios, as well as providing investment portfolio management services for investment funds managed by TFI PZU and the assets of the Employee Pension Fund *Słoneczna Jesień* [Sunny Autumn] managed by Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU. Following the reorganization of activities in the PZU Group's investment areas involving the establishment of TFI PZU, the main asset management vehicle, as of 1 January 2013, PZU AM's role in managing the PZU and PZU Życie asset portfolios, as well as the investment portfolios of investment funds, was reduced.

During 2013, PZU AM's activities involved managing closed-ended investment funds from the real property sector as well as managing the assets of the *Słoneczna Jesień* Employee Pension Fund.

The management of closed-ended investment funds from the real property sector was transferred to TFI PZU on 1 January 2014.

With effect from 1 February 2014, as a result of the conclusion of an agreement terminating the contract for the management of the assets of the *Słoneczna Jesień* Employee Pension Fund and the entry into force of the amendments to the statutes of the *Słoneczna Jesień* Employee Pension Fund, under which the Fund manages the assets on its own, PZU AM ceased providing asset management services to this fund.

PZU Pomoc

The core activities of PZU Pomoc SA (PZU Pomoc) are, in particular:

- organizing assistance type services involving the provision of assistance to the customer;
- renting and leasing motor vehicles;
- conducting on-line auctions and e-commerce;
- managing loyalty programmes;
- managing post-accident property;
- activities in medical support.

At the end of 2013, the Company was working with more than 1,000 healthcare establishments throughout the country and had a leading position on the market of intermediation in the sale of damaged vehicles through an on-line auction platform (this tool will be developed in the direction of using the platform for further claims handling processes in the PZU Group). From June 2012, PZU Pomoc held 30% of the shares in *GSU Pomoc Górniczy Klub Ubezpieczonych* [GSU Mining Assistance Insured Club]. Discount, incentive and loyalty programmes addressed to the mining industry are being developed within this entity.

Ogrodowa-Inwestycje

Ogrodowa-Inwestycje Sp. z o.o. (Ogrodowa-Inwestycje) is the owner of the City-Gate office building (ul. Ogrodowa 58, Warsaw) and three leisure centres from PZU (the Albatros Guest House, the Polanica Hotel and the Karłów Hotel).

Ogrodowa-Inwestycje performs functions for both companies from the PZU Group and external customers.

PZU CO

The statutory activities of PZU CO include conducting business regarding the provision of:

- ancillary services related to insurance and pension funds;
- permanent intermediation in the conclusion of 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 an equity stake in Armatura Kraków S.A. (Armatura Kraków) since October 1999. Armatura Kraków has been consolidated in the PZU Group's consolidated financial statements since 1 January 2011. The decision to start consolidating the Company was made by the Management Board of PZU because the thresholds of materiality had been exceeded.

Armatura Kraków is the parent company of the Armatura Group and is listed on the Warsaw stock exchange, Giełda Papierów Wartościowych SA. The Armatura group includes: Armatura Kraków SA, Armatoora SA, Armatoora SA i wspólnicy sp. k., Armagor SA and Armadimp SA, as well as Armatura Tower Sp. z o.o. The Armatura Group conducts its business outside the area of financial and insurance services. It is a leading manufacturer in the plumbing and heating sector in Poland. The companies making up the Armatura Group specialize in the manufacture of bathroom and kitchen taps, aluminium central heating radiators, a wide range of valves and sanitaryware.

Since 27 August 2013, the owner of Armatura Kraków has been an investment fund managed by TFI PZU – PZU FIZ AN BIS 2 as a result of the contribution of shares in exchange for the allocation of investment certificates to PZU Życie.

In 2013, the PZU FIZ AN BIS 2 fund acquired:

- 15,229,960 shares in Armatura Kraków as a result of a call announced on 30 August 2013; after this transaction was cleared, on 28 October 2013, the PZU Group held 66,829,960 shares, representing 82.51% of the share capital.
- 1,217,197 shares through stock exchange transactions with a clearance date of 31 October 2013.
- 7,078,381 shares as a result of a call announced on 6 November 2013; after this transaction was cleared, on 18 December 2013, the PZU Group held 75,125,538 shares, representing 92.75% of the share capital.
- 5,816,287 shares as a result of a squeeze out of minority shareholders announced on 16 January 2014; after this transaction was cleared, from 23 January 2014, the PZU Group held 80,941,825 shares in Armatura Kraków, representing 99.93% of the share capital. The Company itself holds the remaining 58,175 shares.

Armatura Kraków's listings were suspended by the Warsaw Stock Exchange on 16 January 2014.

On 18 February 2014 the Polish Financial Supervision Authority agreed to the return of the Company's shares to the form of a document (elimination of the dematerialization of the shares) on 10 March 2014.

MPTE PZU

MPTE PZU SA handles pillar III pension programmes for PZU's and PZU CO's employees. These are programmes with specified premiums, which are additionally paid for by the employer in excess of the salary specified in the employment contract, constituting 7% of the gross salary.

Tower Inwestycje

Tower Inwestycje Sp. z o.o. (formerly PZU Tower) was established in 1998 as a special purpose vehicle of the PZU Group. The Company's shareholders are PZU and PZU Życie.

Tower Inwestycje's activities currently include the investment of free funds. In 2013, the Company took up activities of accounting and HR/salary support for companies in the PZU Group (PZU AM, PZU TFI)

4 Business strategy

The Management Board adopted an updated business strategy - the PZU 2.0 Strategy - in December 2011. At the same time, the main objective of the PZU Group's development for successive years has been maintained.

Because of its strong customer orientation and high operational efficiency, the PZU Group will be the largest and the most profitable insurance company in Central and Eastern Europe.

PZU Group's updated business strategy is driven by the slogan We are changing for good. This primarily means:

- focusing on customer needs.
  Based on an analysis of the needs of the individual segments, PZU is tightening relations with its customers, providing them with products and services tailored to their needs via a multi-channel, integrated system of sales and service. The new business philosophy emphasizes the organizational unity of the PZU Group, which operates by customer segment and actively manages its relations with customers to retain them for the long term;
- improving operational efficiency.
  A modern and integrated model of customer service, together with automated back office processes leading to the elimination of paper operations, will create favourable conditions for better customer service and efficient resource management;
- employee professionalism and commitment.
  By maintaining the position of the preferred employer, the PZU Group is building a results-oriented organizational culture;
- making use of the high level of recognition of PZU's strong, refreshed brand.
  The new PZU is a vision of a strong brand that uses modern technologies to communicate with customers. The new PZU is also an institution that successfully manages its customers' funds using the competencies of the largest asset management company in Poland and the new opportunities which appear on the market.

In striving to maintain its position of the largest insurance company in Central and Eastern Europe, the PZU Group:

- will maintain its present position on the market of both non-life and life insurance in Poland, simultaneously maintaining the profitability of these businesses;
- will continue international expansion in the new form and possibly in cooperation with a financial investor;
- will develop activities on the savings / regular saving market;
- will seek new opportunities to introduce new activities - the PZU Group has the ambition to become the pioneer and creator of the health insurance market in Poland.

In addition to market expansion, investing activities will ensure a high level of efficiency of the PZU Group's operations. A new investment policy and investment portfolio re-modelling are being implemented. The PZU Group intends to finance large projects, as well as the purchase and restructuring of real property. These activities will be undertaken, *inter alia*, in order to reduce volatility of results on investing activities.

The PZU Group's main financial objective is to maintain a high return on equity (ROE).

An important event which affected the implementation of the PZU Group's business strategy in 2013 was the pilot implementation of the IT system for non-life products. The completion of this project (which was given the characteristic name of *Everest*) will enable the business and technological transformation of PZU and create conditions for the appropriate management of its customer relations.

In 2014, the PZU Group will focus on:

- The mass market, as well as small and medium sized enterprises: actions will be taken to maintain PZU's current position on the market of motor and non-life insurance. A new policy system for handling motor, home and some non-life insurance products will be implemented in the non-life insurance company by the end of 2014. As a result, it should be able to actively manage customer relations in the future and better adjust its product offering to customer needs. Moreover, special attention will be paid to offering attractive savings and investment products to mass-market customers, in particular in the area of long-term saving.
- Group customers: PZU will maintain its leadership position on the group life insurance market. The sales of health and drug insurance, including riders, will play an important role in achieving this objective. At the same time, the development of this market will depend, to a large extent, on changes in legislation (i.e. the introduction of an act on voluntary health insurance and the admittance of competitors to manage public health insurance contributions). Actions will also be taken to strengthen relations with the insured through the offering of the *Klub PZU Pomoc w Życiu* [*PZU Help in Life Club*].
- Corporate customers: professionalism and quality of service are the primary factors determining the choice of insurer by corporate customers. Therefore, PZU will support its customers in the development of their businesses, *inter alia*, by developing consulting services on risk engineering. Activities to maintain PZU's position on the market will take into account the need to maintain adequate profitability of non-life insurance, especially motor insurance.
- IT and operations: PZU will primarily concentrate on the implementation of its new product system for non-life products - the *Everest* project. PZU will introduce motor, home and some property products into the system (for 11.5 thousand end users) by the end of 2014.
- Human resource: In building a results-oriented organizational culture, special attention will be devoted to the development of employee competencies. The implementation of the knowledge and skills development programme for all PZU employees, known as *Program Plus,* was initiated after the annual appraisal had been conducted for the first time in 2013. The PZU MBA programme dedicated to managers and directors with the highest development potential, which is a unique initiative on the Polish market, will be continued. The process of the Group's best managers sharing their experience will also play an important role in the process of enhancing employee competencies and commitment.

Objective	Implementation of Strategy 2.0 for the years 2012 - 2014 / summary of actions and achievements in 2013
Business pillars:	
Mass-market customer	
Profitable maintenance of the position in non-life insurance (in Poland)	1. Operating profit in the mass-market insurance segment in 2013 was 86.1% higher than in 2011. 2. According to the PFSA data, the market leader in the mass-market category after three quarters of 2013 - 33.3% in auto casco insurance, 27.2% in MTPL insurance, and 48.3% in other insurance. 3. Sales campaigns were conducted on the basis of the sales support tool to which new functionality was added (analytical CRM). 4. The implementation of the new product system was continued (the Everest project). The system will contribute to the flexibility and sophistication of the products and will give the individual distribution channels new functionality. As a part of the pilot programme, the first motor insurance policy was issued in November 2013 within phase 1.0 of the Target Policy System. 5. A new PZU sales management model was implemented. It involved preparing new job specifications for the employees in the sales area, training and creating new Sales Areas.
Development of life insurance (in Poland)	1. 132.2% increase in the gross written premium in the individual insurance segment compared with 2011. 2. Work on the activation of a sales support tool (analytical CRM) for PZU Życie was continued.
Building a position in the Investments sector	1. According to the Chamber of Fund and Asset Management (IZFA), TFI PZU ranked first among 38 investment fund companies in terms of the net asset value of the funds managed. In December 2013, the value of TFI PZU's assets was PLN 22,217m, which represented 11.8% of the assets of investment fund companies. 2. 85.6% growth in the assets of third party customers managed by TFI PZU compared with 2011. 3. With assets of more than PLN 2.2bn, TFI PZU has remained the market leader in the employee pension programme segment among the domestic investment fund companies.
Group customer	
Profitable maintenance of the leadership position in life insurance	1. Operating profit, excluding the conversion effect in the group and continued insurance segment for 2013, was 9.4% higher than in 2011. 2. Consistent growth in the gross written premium (+3.8% compared with 2011) and high profitability of the segment. 3. Sales of new individual continuation agreements for group life insurance continued in 2013.
Development of individual relations (*Klub PZU Pomoc w Życiu* [*PZU Help in Life Club*])	1. The increase in the number of club members to 2.6m (from just over 2.0m at the end of 2011), created an opportunity for closer cooperation with customers and the extension of the range of services. 2. The implementation of *Klub PZU Pomoc w Życiu* at the workplaces of the insured at PZU Życie continued. The range of services and discounts offered by the *Klub PZU Pomoc w Życiu* is constantly being updated and adjusted to customer needs.

Objective	Implementation of Strategy 2.0 for the years 2012 - 2014 / summary of actions and achievements in 2013
Rapid development of health insurance (in Poland)	1. 47.6% increase in the written premium in group health insurance compared with 2011. 2. 39.6% increase in the number of risks in group health insurance compared with 2011. 3. Work continued on the launch of a new product – the *Antybiotyk* [*Antibiotic*] riders to the Individually Continued insurance. 4. Further improvement and development of the outpatient healthcare offering addressed to institutional customers, including further expansion of the network of service providers and improvement in the functioning of the TPA (third party agreement).
The corporate customer	
Regaining market position and maintaining profitability	1. Operating profit for 2013 in the corporate insurance segment was 101.4% higher than in 2011. 2. According to the PFSA data, the market leader after three quarters of 2013 in the category of enterprises and other entities in terms of value of gross premium written - 43.5% in auto casco insurance, 49.8% in MTPL insurance, 18.1% in other insurance.
Other areas of activity	
Effective capital and investment policy	1. PZU's and PZU Życie's financial strength rating and credit rating awarded by Standard&Poor 's at the "A" level - one of the highest ratings awarded to companies in Poland. 2. A new PZU Group Equity and Dividend Policy for the years 2013-2015 was adopted, which main objective is to reduce the cost of capital by optimizing the balance sheet structure through the conversion of equity to cheaper debt capital, while maintaining a high level of security and development funding. 3. Work aimed at preparing the PZU Group for complying with the regulatory requirements related to the Solvency II Directive continued.
A new international expansion model - PZU International / operations in Central and Eastern Europe	1. Development of operations in the Baltic states - the PZU Group is present in Lithuania; the first policies were sold in Latvia in December 2012 and in Estonia started operations in June 2013. 2. Having a high capital base, the PZU Group is looking for investment opportunities both in Poland and abroad. 3. In 2013, PZU participated in the privatization process of Croatia Osiguranje. The Croatian Ministry of Finance announced its acceptance of the offer from the Croatian company Adris in December 2013.
Strategic marketing / Corporate Social Responsibility	1. Programmes supporting public safety, health protection and an active lifestyle were conducted. 2. Activities were conducted in the area of national heritage, education and development of young talents. 3. The PZU Group placed a great deal of emphasis on prevention programmes aimed at preventing road accidents and mitigating their effects and supported activities promoting health prophylaxis. 4. PZU was the titular sponsor of the 35th Warsaw Marathon, which was voted the best public sports event of 2013 in the 79th poll organized by the *Przegląd Sportowy* daily newspaper. 5. For the second time in a row, the PZU Group won the main prize in the "Philanthropy Leaders" competition in the category of companies that donated the largest sums of money to social causes. PZU won with a record-breaking value of donations of more than PLN 65m.

Objective	Implementation of Strategy 2.0 for the years 2012 - 2014 / summary of actions and achievements in 2013
Conditions for implementation	
Middle-office: a modern and integrated customer service model	1. 91% of customers were satisfied with the claims handling process (a customer satisfaction survey conducted on a sample of approx. 20,000 people in 2013). 2. The process of implementing a network of modern, highly visible, sales-oriented PZU Branches, which are uniform throughout the PZU Group, was continued. 85 Branches operating as part of the new model have been opened since the beginning of the project. 3. Work continued on the further optimization of the claims handling and benefits area, including modernization of the principles of cooperation with loss adjusters (telecommuting), centralization of teams and automation of processes.
Back-office: efficient operations and flexible IT	1. Work was performed on the implementation of a product system for non-life insurance (*Everest*). 2. The implementation of a common ERP class system for PZU and PZU Życie was completed - further processes were being implemented in the area of insurance bookkeeping for PZU and PZU Życie from January 2013. 3. Critical systems and business applications at the PZU Group were included in the monitoring, which enabled the elimination of the risk of long-term failure and the simultaneous reduction in downtime of critical systems. 4. All PZU Group systems were transferred to a new integration environment. The current platform is modern and highly efficient, as a result of which it can handle large transaction volumes (1.5m a day).
HR: business partner / committed employees / results-oriented culture	1. An extensive training programme was made available to all PZU and PZU Życie employees (*PLUS*). It focuses on the development of key competencies of employees. Construction of a system for offering training courses tailored to the needs of the employees started in the second quarter of 2013. 2. Actions were taken to strengthen the image of the PZU Group as a reliable employer among employees, students and professionals. Another cycle of internships and traineeships was launched at the PZU Group as a part of the activities aimed at strengthening the position of the PZU Group as the preferred employer. 3. PZU Sport Team was launched for employees to play sports together. 4. A survey of PZU Group employee commitment was held (87.0% of the employees submitted responses during the survey).
Branding: PZU is a modern, customer-oriented firm.	1. PZU has the largest network of branch offices in Poland (412 PZU Branches). 2. The PZU Group focuses on its customers in all its activities and aims to build an image that is consistent with the positioning of the PZU brand, "you can count on us". 3. In 2013, the PZU brand was valued at more than PLN 2.3bn (the fourth most valuable Polish brand in the annual *Rzeczpospolita* daily newspaper ranking).

Planned key development directions

The PZU Strategy for 2012-2014 was updated in December 2013. In the conditions of upholding the main strategic objectives selected in Strategy 2.0, the instruments for implementing the strategy were adjusted in order to provide a new growth stimulus.

This applied, in particular, to the objectives that have not yet reached a sufficient rate, such as the development of health insurance. Long-term objectives regarding the improvement of the PZU Group's operating model were also defined in the revised Strategy.

Additionally, business pillars were adjusted in order to present the direction of PZU Group's operations more clearly. This included the creation of the Health pillar.

PZU's plans for 2014 take into account the expected moderate acceleration of growth in the Polish economy, the possible continuation of turbulence on the global financial markets, as well as the need to comply with the new solvency requirements in the mid-term perspective. Operating in the uncertain and variable environment, the PZU Group is going to pursue its strategy taking advantage of its strengths, such as the enormous customer base (millions of customers), high capital, qualifications of its employees and a strong, refreshed brand.

Objective	Planned development directions in 2014
Business pillars	
Mass-market customer	
Profitable maintenance of the position in non-life insurance	1. Profitable maintenance of the market share in the motor insurance and non-life insurance segment. 2. Development of protection, savings and investment products, including, in particular, long-term savings products. 3. Further development in the area of mass-market sales, among other things, by developing basic distribution channels.
Group customer	
Profitable maintenance of the leadership position in life insurance	1. Maintenance of the profitable position of leader in group life insurance. 2. Strengthening direct relations with the insured as a result of the *Klub PZU Pomoc w Życiu* [*PZU Help in Life Club*].
The corporate customer	
Regaining market position while maintaining profitability	1. Transformation of the 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. Rebuilding the market position in motor insurance and increasing the market share in the non-motor business.
Investments	
Rapid growth of the customer assets managed by PZU.	1. One of the objectives of the PZU Group is the rapid growth of business measured by the nominal value of the customers' assets managed. 2. PZU Inwestycje's operations are consistent with the positioning of the PZU brand "*Możesz na nas liczyć*" ("*You can count on us*").
Health	
Development of health insurance	1. Further creation of the health insurance market to increase the scale of business in this area. 2. Active upselling of products related to health and medicine insurance to group customers.

International expansion

Operations in Central and Eastern Europe	1. The objective of the PZU Group is to become the largest and the most profitable insurer in Central and Eastern Europe.

Conditions for implementation

Middle-office: a modern and integrated customer service model	1. Implementation of a new customer service model, which assumes an integrated contact channel structure, which is compliant with customer expectations and, specifically, further construction of a network of modern sales and service branch offices. 2. Further optimization in the area of claims handling and benefits.
Back-office: efficient operations and flexible IT	1. Continuation of activities related to the introduction of a new policy system into the PZU Group to make it possible to increase operating efficiency. 2. Further centralization and optimization of operating processes.
HR: business partner / committed employees / results-oriented culture	1. Further strengthening of PZU's position as a preferred employer by holding a further edition of the internships and traineeships programme. 2. Transformation of the PZU Group into a results-oriented organization.
Effective capital and investment policy	1. Focusing on the rate of shareholders return using such measures as optimization of capital, combined with maintaining the solvency ratios and maintaining resources for strategic development through acquisition.

5 Organization, infrastructure and human resources

5.1 Organizational and functional structure

PZU's and PZU Życie's organizational structure is based on the functional and territorial coordination of tasks.

Within the framework of the functional coordination at PZU and PZU Życie, divisions and functional areas coordinating specific functions, such as marketing, management of sales in individual customer segments, claims handling, management of the network of offices, operations division, finance division, HR division, investment division, as well as divisions and functional areas responsible for support functions, are distinguished.

Territorial coordination is implemented by the field structures (regional branches and appropriate structures of the functional divisions, including specialized units). Many of the structures at every organizational level (headquarters, specialized units, regional branches and branch offices) are fully integrated and perform their functions for PZU and PZU Życie.

As at 31 December 2013, PZU's and PZU Życie's organizational structure consisted of the following organizational units:

- the headquarters – which supports the Management Board of PZU in the management of the operations of the companies and the coordination of activities within the PZU Group, develops assumptions and directions of development of activities and the organization of the companies from the PZU Group; it is the centre of planning and management by setting business objectives, defining the strategy and coordinating its implementation;
- specialized units – specialized operations centres performing their tasks for the companies or a distinct area of the country with regard to the contact centre, insurance operations, claims handling, accounting operations (insurance and non-insurance), personnel and salaries operations, debt recovery, financial insurance and administrative support operations;
- regional branches with the network of branches – direct, comprehensive customer service points with regard to life and non-life insurance.

At the same time, some operations are performed by subsidiaries (including PZU Pomoc – with regard to handling claims, PZU Centrum Operacji – with regard to insurance operations and Towarzystwo Funduszy Inwestycyjnych PZU – with regard to investment portfolio management).

The Group also uses outsourcing in its activities.

The PZU and PZU Życie organizational structure also has committees – collective bodies with decision-making and consultative powers.

5.2 Sales and service channels

The PZU Group has the largest network of sales and service branches of all Polish insurers. The organization of the PZU sales network has the objective of guaranteeing sales effectiveness, while simultaneously assuring a high quality of services provided.

At the end of 2013, the PZU Group distribution network included:

- Exclusive agents. PZU's own agency network consisted of 8,354 exclusive agents at the end of 2013. The agency channel conducts sales of mainly all types of insurance, especially motor and non-life insurance and individual insurance (life insurance).

- Multiagencies. 2,178 multiagencies working with several insurance companies make sales mainly to the mass market (insurance of all types is sold through this channel, especially motor insurance and non-life insurance, as well as individual life insurance).
- Insurance brokers. PZU, in particular the Corporate Customer Division, worked with approximately 885 insurance brokers.
- PZU employees. Approximately 800 PZU employees sold insurance at their own branch offices (primarily to corporate and group customers).
- Bancassurance and Strategic Partnership Programmes. In 2013, the PZU Group worked with 9 banks and 4 strategic partners with large customer databases or partners supporting mass payments, including telecommunications companies and airlines. Sales of non-life insurance through this channel mainly applies to insurance connected to a banking product or the strategic partner's basic service.
- Direct. PZU sells products to individual customers by telephone and over the Internet.

PZU's customers can file claims:

- Via the Internet – the *E-likwidacja* [*E-loss adjustment*] system;
- by telephone via the hotline;
- personally at a selected Branch or garage belonging to the PZU Repair Network;
- in writing (sent by post, e-mail or fax).

The claims handling process is conducted at 8 Regional Claims Centres located throughout the country and at the central unit – the Operational Centre for Claims and Benefits. Since the process is based mainly on electronic information and there is no connection of the servicing with the place of residence of the insured / event, the model of an equal workload of individual claims handling units has been implemented.

Furthermore, PZU is continuously expanding its cooperation with repair networks – at the end of 2013, the number had increased to 1,398 from 1,363 in 2011.

More than one PZU Branch in the town

One PZU Branch in the town

Claims handling, for the customer, is the moment of truth in contacts with the insurer. Satisfying his expectations in the claims handling process is the key to building his ties with PZU. Therefore, extensive work was conducted in 2013 to streamline and shorten this process.

The quality of the claims handling process at PZU is very highly assessed by customers – according to PZU's survey on a sample of more than 20k customers, the satisfaction index in 2013 was 91%. In turn, among the customers who experienced the claims handling process or the process of paying benefits, the NPS (Net Promoter Score) recommendation index, which is the difference between the proportion of promoters and critics participating in the survey, was as high as 29% while 50% of consumers surveyed indicated that they are active promoters of PZU.

IT and operations

In 2012, PZU made a strategic decision to implement a new IT system for non-life products. Because of the importance of this project to the functioning of the organization, this project was given the name *Everest*.

The implementation of the new IT system will enable the transformation of PZU and will improve the conditions for the proper management of customer relationships. By automating many processes, the new system will be an online tool for the sales person and the support employee, will allow easy changes to be made to the product offering and will support PZU in dealings with customers through various servicing channels. The integration of the new system with other applications, namely claims handling, data warehouse, internal management and document flow, will create the conditions for fully exploiting the capabilities of the new solution.

In accordance with the accepted schedule, a pilot implementation of the new system was launched on 18 November 2013. The *Everest* system pilot programme was conducted in two stages. Within the so-called small pilot programme, PZU made *Everest* available to approximately 70 exclusive agents and 30 PZU employees from Lublin. During the "large pilot programme" conducted from 13 January until the end of February 2014, *Everest* was made available to all of PZU's exclusive agents and sales branches in the Lubelskie and Podkarpackie network. The pilot programme had the purpose of checking the functioning of the new process and the correctness of the plan to deploy the new system throughout the country, as well as prepare users. The "large pilot programme" also gave the opportunity to monitor and analyse the business indicators.

The implementation of the *Everest* platform has been divided into three phases. Such organization of the project will enable the business benefits to be achieved quickly with the simultaneous minimization of implementation risk. PZU will introduce motor, home and some property products into the system (for 11.5 thousand end users) by the end of 2014. The other products offered to the mass market and SMEs, will be activated from the beginning of 2015 (a further 10k end users). PZU plans to make products for corporate customers available in *Everest* in 2016.

Full implementation of the new policy system is planned by the middle of 2016.

A number of activities supporting important business initiatives and optimizing the technical infrastructure and processes were conducted in 2013, in particular:

- the implementation of the system supporting the new model of human capital management at the PZU Group was completed;
- work continued on improving the IT tools in the areas of fund and asset management;
- a project of consolidating the IT infrastructure with regard to disk resources was completed, gaining the ability to effectively use them within the PZU Group;
- work started on the strategy in the area of the technical infrastructure, the implementation of which will help optimize the costs of the IT infrastructure;
- significant cost savings were achieved through the optimization of the wide area networks (WANs);
- measurement of performance, effectiveness of processes and IT spending on the basis of the cost allocation model was improved;
- implementation of an ERP system which is common to PZU and PZU Życie was completed – further processes were being implemented in the area of insurance bookkeeping for PZU and PZU Życie;
- critical systems and business applications at the PZU Group were included in the monitoring, which enabled the elimination of the risk of long-term failure and the simultaneous reduction in downtime of critical systems.

A major step was also taken with regard to the unification of IT in the PZU Group, standardizing supervision, the structure and management of IT in all PZU Group companies.

5.3 Human resource management

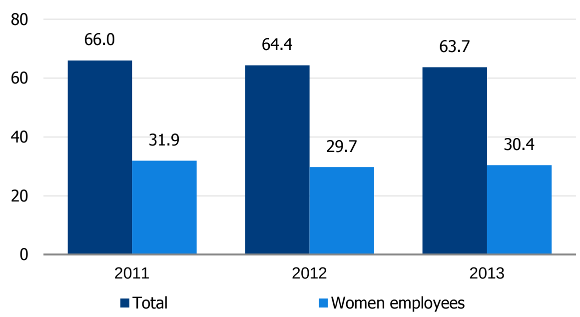
Level of employment

As at 31 December 2013, employment in the PZU Group in FTEs was 11.2k and was 2.9% lower than a year earlier.

The majority of employees in PZU and PZU Życie were women. At the end of 2013, they represented 63.7% of the total number of employees in these companies.

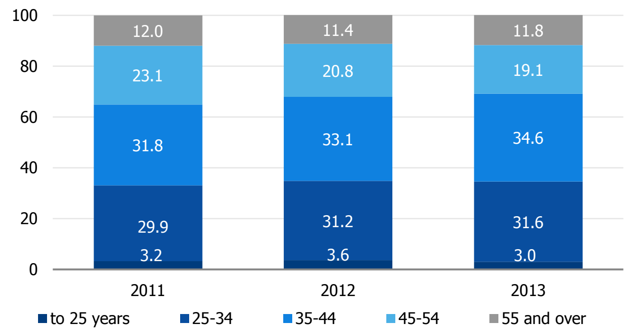
The proportion of women in the employment structure has slowly declined in recent years. 99.2% of employees had degrees or secondary education, whereby 75.5% had degrees. The share of employees with degrees increased significantly compared to 2011. However, the age structure of employees was stable and, in December, 69.2% of the employees of both companies were aged up to 44 years.

Proportion of women in total employment at PZU and PZU Życie (in %)



The decline in the number of employees of the PZU Group in 2013 was a result of the implementation of the assumptions to the restructuring plan announced in December 2012 by the Boards of PZU and PZU Życie, which was to mainly encompass the areas of claims handling and finance and, to a much lesser extent, support functions (administration, logistics, IT).

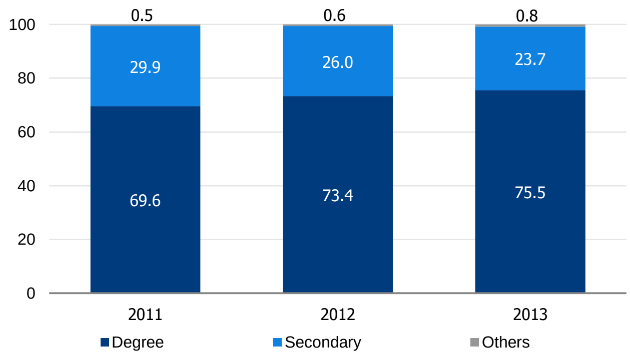
Age structure of employment at PZU and PZU Życie (in %)



On 13 February 2013, the Management Boards of PZU and PZU Życie announced their intention to make group redundancies, in accordance with the Act on the detailed principles of terminating employment for reasons not attributable to employees of 13 March 2003. The trade unions operating at these companies were consulted on the intention to make group redundancies, while information about the initiation of group redundancy procedures was provided to the appropriate County Labour Office.

Employment restructuring was planned for the period from 18 March to 15 June 2013. The restructuring was supposed to have encompassed 3.1k people at PZU and PZU Życie, whereby it was estimated that employment downsizing would apply to 630 employees of PZU and PZU Życie, which represented 5.5% of all employees of these two companies.

Employment at PZU and PZU Życie by level of education (in %)



On 28 February 2013, PZU, PZU Życie and the trade unions operating at these companies signed an agreement setting out the terms and conditions of employment restructuring. The final form of the document was based on the experience and solutions developed during the corresponding negotiations in prior years.

Table of Employment at PZU and PZU Życie (in thousands of FTEs)

	31/12/2013	31/12/2012	31/12/2011	31/12/2010	31/12/2009
PZU	7.92	8.34	8.66	9.36	10.95
PZU Życie	3.32	3.24	3.41	3.81	4.06
Total	11.24	11.58	12.07	13.17	15.01

** Data in thousands of FTEs. all employees with no exceptions – as at 31 December of the given year*

Employment restructuring was conducted during the planned period and finally encompassed 2.2k people at PZU and PZU Życie, while the employment downsizing applied to 538 employees of PZU and PZU Życie.

The people who were dismissed or who did not accept the changes in the terms and conditions of employment (just as during all stages of employment restructuring, namely in 2010–2012) were offered more favourable conditions of leaving than those provided for by law in similar situations. The amount of additional severance depended on the length of service at the PZU Group and the level of the given employee's salary.

The total costs of restructuring recognized in the provisions for restructuring expenses in 2013 were PLN 39,568k (throughout the whole of 2012: PLN 75,862k), while the unused part of the provision of PLN 18,626 k was released.

Salary policy

Employee appraisals, for which the assumptions were prepared in 2012, were conducted for the first time at PZU in 2013. Their objective was primarily to promote appropriate attitudes among the employees based on cooperation, knowledge sharing and feedback. The *PZU employee DNA* and *PZU Leader DNA*, which were created in 2012, were used in this appraisal.

Within the process of valuing all positions, which started in 2012, the process of writing up and valuing positions was completed in 2013 and an analysis was conducted of salary practices applied at the individual companies with respect to the market. The last stage of the project, i.e. the implementation of its results is planned for the first half of 2014. They will be used in the salary system, which will take into account the competencies, skills required for a given position and market standards.

The *WOW* (*Wynik – Ocena – Wartości* [*Result – Rating – Values*]) appraisal system has been in force at PZU since 2012. Its objective is to improve the efficiency of the whole organization, in accordance with the slogan *We Reward Results*. WOW is a bonus system based on the assessment of the extent to which objectives are achieved, consisting of the employee's annual appraisal and the annual development plan.

Recruitment, training and building an image of the preferred employer

Work at the PZU Group is related to stability of employment and, simultaneously, to substantial development opportunities within the Company.

PZU employees receive an annual development plan. The following have been introduced to support employees in improving their skills, which are required at the given work post:

- *PLUS* Training programme. Training is selected for the employee on the basis of his DNA appraisal, which has the objective of developing the areas which constitute his weaknesses. Every programme contains a dozen or so training modules, which develop all the new skills implemented in the organization, such as, for instance, team management, personal effectiveness and building customer relationships.
- *Leader 2.0* programme, the aim of which is to strengthen key managers at PZU in the role of all-round leaders. 300 managers participate in it.
- Classroom training packages, such as management challenges, the Manager's CV and coaching.
- Other forms of training: postgraduate studies and specialized forms of professional development, language courses and MBA programmes.

Every employee benefited from an average of 30 hours of classroom training and 16 hours of e-learning in 2013.

In addition, two projects were inaugurated as a part of the development of the new organizational culture:

- *TOP 30*, which involves the selection of 30 Change Leaders. Its objective is to develop initiatives to raise the commitment of employees in 5 areas: *People – the most* *important resource of PZU*, *We pay for results*, *Develop together with PZU*, *The Customer comes first* and *Ambassadors of PZU*.

- *Champions' breakfasts.* These are informal morning meetings during which employees who submit interesting questions or issues have the opportunity to discuss them with the president – the host of the meeting.

In addition to salaries, employees have additional benefits, such as the *P Plus* and *Pełnia Życia* [*Fullness of Life*] Group Employee Insurance, an Employee Pension Programme, *Health Insurance – Medical Insurance*, *Drug Insurance* and discounts on insurance offered by PZU.

In terms of *employer branding*, a number of activities dedicated to students were conducted. The *Wiedzą pisane* [*Written with knowledge*] competition, participation in job fairs and *PZU Ambassador* programme are just some of the examples of activities addressed to students. A new, centralized programme of internships and traineeships dedicated to third year and higher students, as well as young graduates, started in 2013. Within this programme, three-month traineeships, six-month internships and nine-month internships are organized for talents, the so-called *High Potentials*. In 2012, the programme enabled more than 100 people to work for the PZU Group. More than 60% of them remained with the Company for longer. Internships start every year at two times: June and October.

PZU also has mechanisms for entry into and exit from the organization. The assumption to the process of introducing a new employee is to build commitment and loyalty in an atmosphere of openness and cooperation. However, anyone parting with the organization by mutual consent is asked for his opinion on working for PZU and the reasons why he decided to change employer.

5.4 Marketing

In 2013 , the PZU Group conducted six advertising campaigns with broad coverage, which primarily had the objective of strengthening the image of PZU as a modern and trustworthy company. These were:

- A campaign on auto casco insurance, the objective of which is to inform customers that insurance in the formula of all risks give them peace of mind and certainty, even in unexpected situations.
- A campaign addressed to students and graduates *Praca przez duże P* [*Work with a capital P*]. Its objective was to strengthen PZU's image as an attractive and desirable employer.
- A *Strongly helpful Agents* campaign. Its objective was to inform customers that the agents are trustworthy and can be relied upon.
- A *Claims handling without obstacles* campaign. It demonstrated problem-free claims handling and particularly helpful experts and loss adjusters.
- An *Even the best will do anything to work for PZU* campaign, which had the objective of positioning the PZU Group as a desirable employer.
- A *PZU Christmas Reindeer* Campaign. A reindeer giving out presents reminded viewers that, whatever happens, customers can always rely on PZU. At the same time, some advertisements informed viewers that PZU and its employees support the *Szlachetna Paczka* [*Noble Pack*] project.

The PZU Group conducted an indicator campaign throughout the whole of 2013, the objective of which was to promote the most attractive products / services from various business areas and the resulting customer benefits. It was simultaneously building PZU's image (*It is a modern company; It is a customer-friendly company; It is the company for me; It is a trustworthy company)*. Animated advertising slogans also had the purpose of strongly reinforcing PZU's corporate identity.

This campaign gave PZU a continuous presence on television.

In addition, in September, PZU was the titled sponsor of the *35th PZU Warsaw Marathon*. This information appeared in the Internet, the press, the OOH channel (digital communications channel addressed to customers located away from home), radio and television.

An important element of the marketing support of sales conducted by agents was the regular communication in the form of a newsletter dedicated to them and the development of standards of exposure for promotional materials (leaflets, posters, shop window stickers, etc.).

6 Consolidated financial results

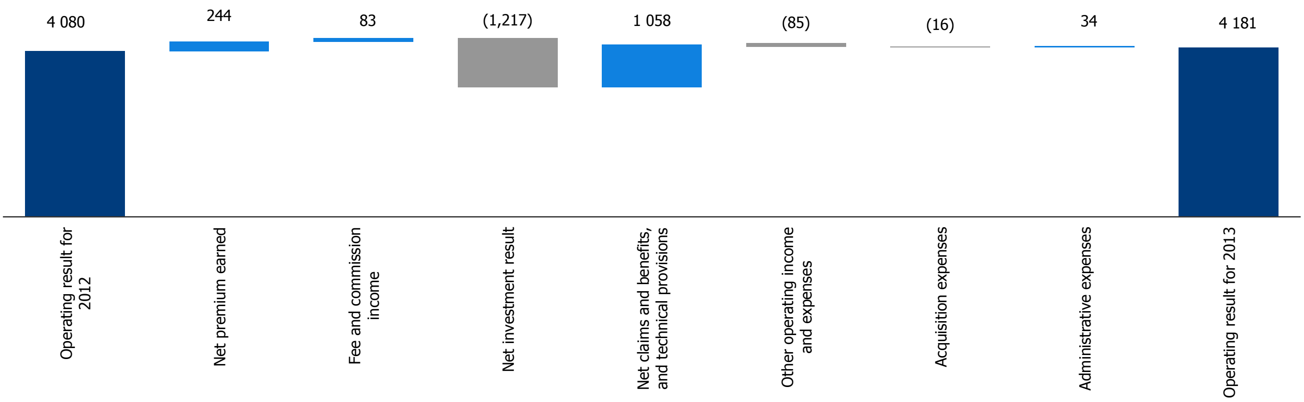
6.1 Key factors affecting the financial results achieved

The PZU Group achieved profit before tax in 2013 at a level of PLN 4,120.7m compared with PLN 4,038.7m in the prior year (increase of 2.0%). Net profit attributable to the shareholders of the parent company amounted to PLN 3,293.7m, compared with PLN 3,255.2m in 2012 (a 1.2% increase).

The following factors had a key impact on the PZU Group’s financial results in 2013:

- An increase in gross written premium. It amounted to PLN 16,480.0, i.e. an increase of 1.5% compared with the prior year. After accounting for the share of reinsurers and the change in provision for unearned premium, the net premium earned amounted to PLN 16,248.8m, which was 1.5% higher than in 2012.
- A decline in the net result on investing activities. The net result on investing activities amounted to PLN 2,488.1m, i.e. it was 32.8% lower than in 2012, mainly because of the decline in prices of treasuries compared with the prior year, when the prices for these securities were high. This decline was partly offset by the one-off income on consolidation of investment funds of PLN 172.8m, which was included in the net result on investing activities.
- The one-off profit before tax on the settlement agreement with the reinsurer on the Green Card insurance of PLN 53.2m (PLN 73.3m was recognized in other operating income and expenses).
- Maintenance of cost discipline in the area of administrative and acquisition expenses. These amounted to PLN 3,422.4m in total and, because of the lower administrative expenses, were at the same level as in 2012.
- The decline in claims and benefits. Claims and benefits amounted to PLN 11,161.2m, which is a decline of 8.7% compared with the prior year. Additionally, in 2012, technical provisions increased significantly as a result of a one-off change in technical rates. The total negative impact of this operation on the PZU Group’s profit before tax in 2012 amounted to PLN 1,032.8m.

The PZU Group's operating results in 2013
in PLN million



Basic amounts from the consolidated income statement

	2013	2012	2013/2012	
	in PLN million	in PLN million	in PLN million	in %
Net premium earned	16,248.8	16,005.2	243.5	1.5
Fee and commission income	320.0	237.1	82.9	34.9
Net result on investing activities	2,488.1	3,704.7	(1,216.7)	(32.8)
Benefits and change in measurement of investment contracts	(292.2)	(207.5)	(84.7)	40.8
Net claims and benefits	(11,161.2)	(12,218.7)	1,057.5	(8.7)
Acquisition expenses	(2,015.9)	(2,000.4)	(15.6)	0.8
Administrative expenses	(1,406.5)	(1,440.3)	33.8	(2.3)
Operating profit/(loss)	4,181.0	4,080.2	100.8	2.5
Financial costs	(61.7)	(41.5)	(20.2)	48.6
Profit/(loss) before tax	4,120.7	4,038.7	82.0	2.0
Income tax	(825.6)	(784.9)	(40.7)	5.2
Net profit/(loss)	3,295.1	3,253.8	41.3	1.3
Net profit/(loss) attributable to the shareholders of the parent company	3,293.7	3,255.2	38.3	1.2

6.2 Income

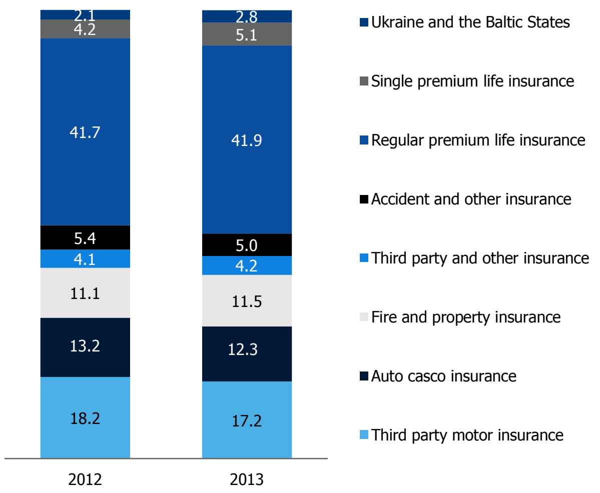
Premiums

In 2013 the PZU Group collected gross premiums of PLN 16,480.0m, i.e. 1.5% more than in 2012. They comprised mainly:

- Regularly paid life insurance premiums. They had a 41.9% share of the total gross written premium (i.e. 0.2 p.p. more than in 2012). They comprised mainly group insurance revenues.
- MTPL insurance. This comprised 17.2% of the Group's insurance portfolio (18.2% in the prior year). In 2013, its value was 4.5% lower than in the prior year. This was the effect of a decline in policy prices as a result of increased competition on the market and lower car sales.
- Auto casco insurance. This type of insurance had a 12.3% share of the Group's total gross written premium (i.e. 0.9 p.p. less than in the prior year).
- Fire and non-life insurance – this type of insurance represented 11.5% of total premiums. Its value increased by 5.1% compared with the prior year. The value of agricultural insurance increased primarily as a result of the increase in sums insured in obligatory farm building insurance.
- Premiums from life insurance with a single premium. The written premium from this represented 5.1% of the Group's total premiums (compared with 4.2% in 2012). The main increase was noted in premiums on unit-linked and structured products.
- Accident insurance (NNW) and other types of cover. Their share amounted to 5.1%, namely a decline of 0.3 p.p. compared with 2012. In

this insurance category, primarily the value of patient cover in respect of medical events dropped. In the first half of 2012, medical establishments were obliged to conclude insurance contracts for patients in covering medical events. Because of the changes in legislation, this obligation was deferred to 2016.

Analysis of the PZU Group's gross written premium (in %)



Fee and commission income

Fee and commission income in 2013 contributed PLN 320.0 M to the PZU Group's result, which is 34.9% higher than in the prior year.

Fee and commission income comprised mainly:

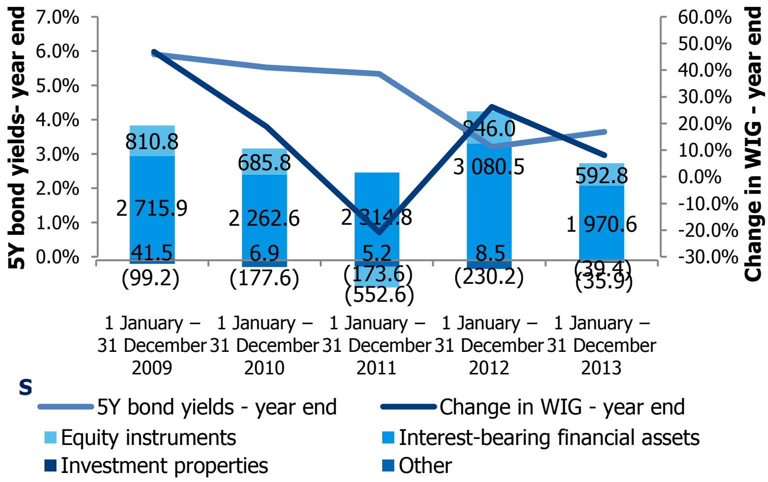
- Income on the management of the *Złota Jesień* open-ended pension fund assets. They amounted to PLN 168.5m (a 3.9% increase compared with the prior year). The contributions transferred by the Social Insurance Institution (ZUS) to the open-ended pension funds (OFE) increased from 2.3% to 2.8% of the base contribution.
- Income and fees from investment funds and investment fund management companies of PLN 82.9m, i.e. PLN 66.9m more than in the previous year, mainly as a result of the start of consolidation of real property funds from 2013.
- Commission on pension insurance administration fees. This amounted to PLN 48.7m, namely 131.9% of their prior year's value.
- Income from fees charged on investment contracts at the customer's expense and risk. The PZU Group earned PLN 18.8m, i.e. 14.5% less than in the prior year on these fees.

Net investment income

In 2013, the PZU Group's result on investments amounted to PLN 2,488.1m compared with PLN 3,704.7m in 2012 (a decline of 32.8%). The following factors had the greatest impact on the decline in this income:

- A decline in bond prices. For example, the 5-year Treasury bond yield increased by 42 basis points year-on-year, while the 10-year bond yield increased by 61 basis points year-on-year, while the yields dropped by 211 and 215 basis points respectively in 2012. As a result the Group earned income of PLN 1,970.6m on interest-bearing financial assets, which was PLN 1,109.8m less than in the prior year, among other tings.

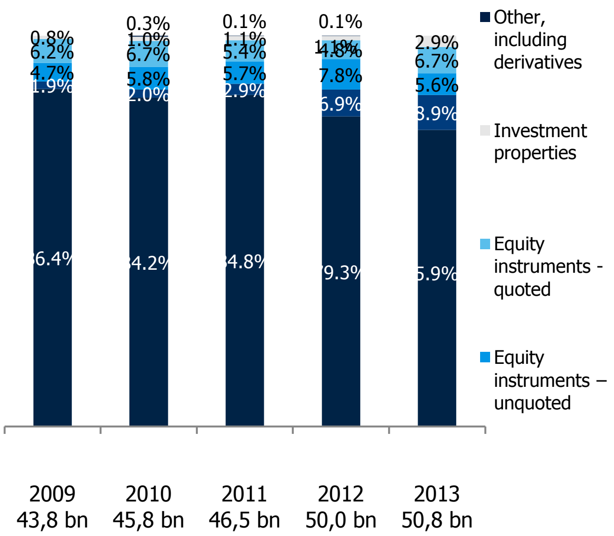
Investment results vs macroeconomic factors



- Worse conditions on the capital markets than in 2012 – in 2013 the WIG index increased by 8.1%, whereas, in the previous year, it increased by 26.2%. In effect, in 2013, the Group's income on investing activities on the capital markets amounted to PLN 592.8m and was PLN 253.2m lower than in the previous year.

- The decline in the result on derivatives, purchased mainly to manage market risk, of PLN 25.0m.
- A drop in the value of investment properties.

In December 2013 the value of the PZU Group's investments portfolio[7] amounted to PLN 50,801.6m compared with PLN 50,017.6m as at the end of 2012. Investing activities of the PZU Group are conducted in compliance with the statutory requirements, ensuring an appropriate degree of safety, liquidity and profitability.



During 2013, the value of quoted equity instruments and non-Treasury bonds and borrowings increased as a result of the Group's new investment strategy involving, among other things, the further diversification of the investment portfolio. In December 2013, the value of quoted equity instruments amounted to 6.7%, while non-Treasury debt securities and borrowings amounted to 8.9% of the Group's whole investment portfolio compared with 4.8% and 6.9% respectively in 2012.

As at the end of 2013, the PZU Group had made significant commitments to debt and equity instruments of such companies as: Polkomtel, Azoty Group, EMC Instytut Medyczny, Armatura Group and Empik Media & Fashion. PZU plans to increase its debt portfolio to approximately 30 investments. According to the strategy, PZU plans to increase its non-Treasury debt securities portfolio to approximately 16% of the investment portfolio at its own risk.

In 2013, PZU participated in the privatization of Croatia Osiguranje. The Croatian Ministry of Finance announced the process of selling its shares in the largest Croatian insurer. After the non-binding offers were placed, PZU was one of two bidders admitted to the second stage of the proceedings. In December 2013, the Croatian Ministry of Finance published information on the acceptance of the Adris bid.

Other operating income/expenses (net)

In 2013, the balance of other net operating income and expenses was negative and amounted to PLN 214.5m compared with the also negative balance for 2012 of PLN 30.7m. The following factors had an impact on this result:

- One-off income from conclusion of a settlement with the reinsurer (the one-off impact on other operating income in 2013 was PLN +73.3m, the total impact on profit before tax was PLN +53.2m). The settlement agreement related to the settlement of Green Card reinsurance commissions, which were adjusted for 2011, while the result for that period was reduced by PLN 91.8m.
- Net income from restructuring activities (release of provisions – net + PLN 18.6m in 2013 compared with additional provisions of PLN 21.1m in 2012).
- Increase in other operating expenses of consolidated entities.

Furthermore, provisions for employee benefits (retirement and long-service benefits) of PLN 177.0m were released in 2012 because of the termination of the Collective Bargaining Agreement.

[7] The investment portfolio covers financial assets (including investment contracts), investment properties and financial liabilities (negative valuation of derivative instruments and reverse repo liabilities).

6.3 Claims and technical provisions

In 2013, the net value of claims and benefits, as well as the increase in the PZU Group's provisions amounted to PLN 11,161.2m, which was 8.7% lower than in 2012. Additional provisions of PLN 1,032.8m were established in 2012 because of the decline in the technical rates. The following factors also contributed to the decline in the net value of claims and benefits:

- a low level of damage related to the negative effects of overwintering, a lack of frost and floods in the summer in agricultural insurance, whereas in the years 2011-2012, a high level of claims was recorded in this respect which led to negative returns on this product;
- the lack of need to establish additional provisions for claims in financial insurance with regard to contract guarantees; in 2012, because of a slump in the construction industry, it had been necessary to establish additional provisions for contract guarantees and the resulting change in the process of risk acceptance and valuation;
- the maintenance of a low loss ratio in motor insurance due to improved road conditions and lower traffic intensity (low loss frequency);
- a lower increase in technical provisions for unit-linked products as a result of deteriorating investment activity results, which, with a simultaneous drop in investment income, had no impact on the PZU Group's results;
- a lower increase in the technical provisions in continued protection insurance as a result of modifying the product, which affected the amount of technical provisions established upon the insured's transfer to the individually continued phase;
- optimization of the claims handling processes.

On the other hand, the following contributed to the increase in the net value of claims and benefits:

- a lower rate of conversions of long-term contracts to renewable annual contracts in type P group insurance (the effect of conversion in 2013 translated into a release of PLN 127.1m of provisions, i.e. PLN 79.9m less than in 2012);
- an increase in life insurance provisions for individual investment products in the bancassurance channel as a result of high sales of new insurance.

6.4 Acquisition costs and administrative expenses

In 2013, acquisition expenses amounted to PLN 2,015.9m and increased by 0.8% compared with 2012. This increase was mainly the result of:

- the rapid increase in sales of investment products through the bancassurance channel, specifically of the unit-linked product characterized by high acquisition expenses;
- an increase in the share of the more expensive distribution channels in sales of insurance cover to the mass-market customer and changes in commission rates for selected product groups;
- the start of consolidation of life insurance companies in Lithuania and Ukraine – acquisition expenses of the consolidated companies amounted to PLN 30.7m in 2013.

At the same time, a decline in acquisition expenses was recorded in the corporate segment (lower commissions paid as a result of negative sales growth) and a decline in indirect acquisition expenses (such as personnel costs).

In 2013, the Group's administration expenses were at a level of PLN 1,406.5m, which was 2.3% lower than in the prior year. The following factors had an impact on their level:

- PLN 19.1m lower personnel costs, as a result of employment restructuring and reorganization;
- a decline in advertising expenses compared with 2012, when a large-scale corporate campaign was conducted;
- an increase in project costs related to the implementation of a new product system, the

Everest Platform (implementation of the first part of the pilot programme in November 2013).

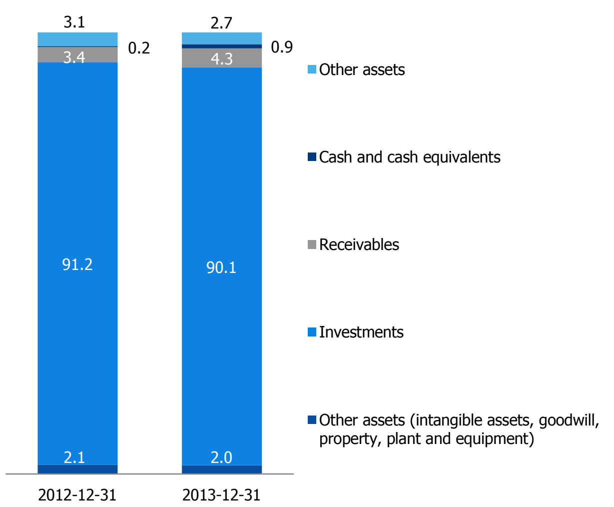
6.5 Structure of assets and liabilities

As at 31 December 2013, total assets of the PZU Group amounted to PLN 62,362.4m and were 11.5% higher than as at the end of 2012.

Assets

The key components of the Group's assets were investments (financial assets and investment property). In total, these assets amounted to PLN 56,163.5m and were 10.2% higher than at the end of the prior year. They represented 90.1% of the Group's total assets compared with 91.2% at the end of 2012. The increase in the value of investments was especially due to the inclusion of subordinated entities, including investment funds, in the consolidation (the effect of discontinuation of applying the materiality criterion to determine the list of consolidated subsidiaries as of 1 January 2013) and positive cash flows from operating activities (higher written premiums and a lower level of claims paid).

Analysis of the PZU Group assets (in %)



The PZU Group's receivables, including receivables from insurance contracts, amounted to PLN 2,665.0m, i.e. they represented 4.3% of total assets. In comparison, at the end of 2012, they amounted to PLN 1,835.8m (3.3% of the Group's assets), while their increase arose from the security sales transactions which had not been settled as at the balance sheet date.

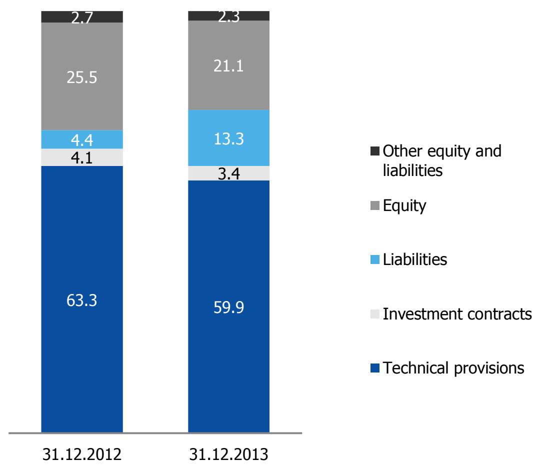
Non-current assets – in the form of intangible assets, goodwill and property, plant and equipment – were disclosed in the balance sheet at PLN 1,244.5m. They comprised 2.0% of total assets. In particular, in 2013 the balance of intangible assets increased by PLN 125.5m due to the implementation of the new policy system in the non-life company.

The PZU Group's cash and cash equivalents amounted to PLN 548.3m (0.9% of total assets). A year earlier, they amounted to PLN 136.6m.

Equity and liabilities

At the end of 2013, the main component of the PZU Group's equity and liabilities was technical provisions. They amounted to PLN 37,324.4m, which represented 59.9% of total equity and liabilities. Their share in the balance sheet declined by 3.4 p.p. compared with 2012.

Anallysis of the PZU Groups' equity and liabilities (in %)



Investment contracts amounted to PLN 2,121.0m compared with PLN 2,299.1m as at the end of 2012. This drop was a result of slightly lower sales of investment products, combined with the lower disbursements in endowment covers in the bancassurance channel. In effect, their share in the structure of liabilities and equity dropped from 4.1% as at the end of 2012 to 3.4% as at the end of December 2013.

As at the end of 2013, equity amounted to PLN 13,127.8m and was 8.0% lower than in the prior year. In 2013, PZU paid out PLN 4,291.7m to shareholders in the form of a dividend.

The balance of other liabilities and provisions as at the end of 2013 amounted to PLN 9,789.2m. The PLN 5 848.8m increase arose mainly from sell-and-buy-back transactions concluded at the turn of the years.

Cash flow statement

The balance of cash and cash equivalents as at the end of 2013 increased by PLN 417.4m compared with the prior year, mainly as a result of lower claims disbursements. Moreover, in 2013 buy-and-sell-back transactions and trading in debt instruments increased almost 1.5 times (as a result of the redemption of a large portion of the HTM portfolio).

Off-balance sheet items

Under a guarantee facility agreement dated 7 October 2013 concluded by and between PZU and Bank Millennium SA, the bank grants bank guarantees (both as tender deposits and performance bonds) to PZU in tenders for insurance services. The guarantee facility is PLN 15m. It is open for one year and it may be every year renewed for another year. 72 guarantees were open, as at 31 December 2013, for a total amount of PLN 6.4m, under the guarantee facility which is available from 7 October 2013 to 6 October 2014.

Under the guarantee facility agreement dated 7 October 2013 concluded by and between PZU Życie and Bank Millennium SA, the bank grants bank guarantees (as tender deposits, as well as performance bonds) to PZU Życie in tenders for insurance services. The guarantee facility is PLN 10m, it is open for one year and may be renewed every year for another year. 12 guarantees were open as at 31 December 2013, for a total amount of PLN 0.5m, under the guarantee facility which is available from 7 October 2013 to 6 October 2014.

Loans and borrowings incurred and granted

As at the end of 2013, the balance of loans incurred by the PZU Group amounted to PLN 222.4m, of which the Armatura Group incurred PLN 88.5m and SPVs established for the investment funds incurred: PH3 Sp z o.o. SKA – PLN 62.7m and PORTFEL PB2 Sp. z o.o. - PLN 76.1m. As at the end of 2012, the balance of loans incurred by the Armatura Group amounted to PLN 76.5m. All the loans and borrowings were granted at arm’s length.

6.6 Share of the industry segments in the results

For management purposes, the PZU Group has been divided into the following industry segments:

- Corporate insurance (non-life). This segment encompasses a wide range of non-life insurance,general liability and motor insurance, which are adapted to customer needs and, with individually valued risks, offered by PZU to large business entities.
- Mass-market insurance (non-life). This segment comprises property, accident, general liability and motor insurance. PZU provides the insurance to individuals and entities from the SME sector.
- Life insurance – group and individually continued. PZU Życie offers this insurance to groups of employees and other formal groups (e.g. trade unions). People who have a legal relationship with the policyholder (for instance an employer or a trade union) may enroll in the insurance; and individually continued insurance in which the policyholder acquired the right to individual continuation during the group phase. It includes the following types of insurance: protection, investment (which however are not investment contracts) and health insurance.
- Individual life insurance. PZU Życie provides this to individual customers. The insurance contract relates to a specific insured, subject to the assessment of the individual risk. This group comprises protection, investment (other than investment contracts) and health insurance products.

- Investments. This comprises investment activity conducted with the PZU Group's own funds, defined as the surplus of investments over technical provisions in the leading companies of the PZU Group (PZU and PZU Życie) and surplus of income from investing activities of PZU and PZU Życie corresponding to value of technical provisions for non-investment insurance products over the risk free rate.
- Pension insurance. Activity conducted by PTE PZU.
- Ukraine. This includes both non-life and life insurance.
- Baltic States. Non-life and life insurance products provided by PZU Lietuva in Lithuania. Since 2012, also by its branches in Latvia and Estonia including non-life insurance.
- Investment contracts. These include PZU Życie products which do not result in a transfer of significant insurance risk and do not satisfy the definition of an insurance contract. They include some products with a guaranteed rate of return and some products in the form of a unit-linked policy.
- Other. This encompasses consolidated entities not classified in any of the segments above.

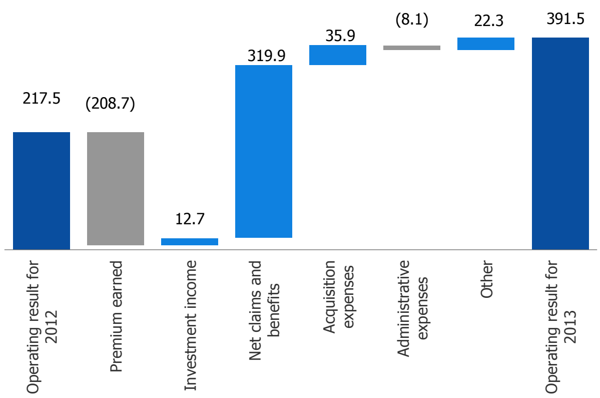
Corporate insurance

In 2013, the corporate insurance segment earned an operating profit of PLN 391.5m, which is 80.0% more than in the prior year. Additionally, in 2012, one-off factors in the form of changes in technical rates had a negative impact on the result. After the effect of this change has been eliminated, in 2012 operating profit in the corporate segment was PLN 238.9m.

The following factors primarily had a key impact on this segment result in 2013:

- A drop in gross written premium. It amounted to PLN 1,740.2m, i.e. it was 5.4% lower than in the prior year. In particular, the average policy value dropped (by approximately 11%), which led to a decline in the value of motor insurance (of PLN 86.1m). In the last quarter of 2013, thanks to of renouncement of the application of an uniform policy to all companies, meant that PZU recorded a positive trend due to the closer cooperation with lease companies in motor insurance. The value of accident and health insurance also dropped (by PLN 65.6m). In the first half of 2012, hospitals and medical entities were obliged to take out insurance on behalf of patients to cover medical events; as a result of legislative changes, this obligation was deferred to 2016. As a result of renewing the three-year premium for the fuel and energy sector, premiums increased in the fire and other non-life insurance cover (by PLN 49.0m).

Operating results of the corporate insurance segment (in PLN million)



- The drop in claims and benefits. The total amount of claims and benefits was PLN 854.1m and was PLN 319.9m lower than in the prior year. In particular, claims in non-life insurance dropped (by 37.9% year-on-year). This was the result of a smaller number of large one-off claims, a change in the approach to individual risk assessment and new pricing policies, taking into consideration customer risk and a more stringent financial insurance risk policy. A significant drop in claims and benefits in motor insurance was also recorded, as a result of the verification of the insurance portfolio and the reduction in the number of unprofitable customers, as well as the smaller frequency of claims (more favourable road conditions and lower traffic intensity). Moreover, in 2012 PZU paid substantial claims as a result of a large number of bankruptcies in the construction industry, including those relating to contract guarantees. Furthermore, the value of claims and benefits included the one-off effect of the reduction in the technical rate in the form of an increase in the value of capitalized annuities provisions of PLN 21.4m. In 2013, the loss ratio in corporate insurance amounted to 54.9% compared with 66.5% in the prior year.

- An increase in investment income allocated to the segment at transfer prices. This income amounted to PLN 140.0m and was 10.0% higher than in the previous year. The increase resulted mainly from an increase in the prices of the insurance liability hedging portfolios denominated in foreign currencies.
- A drop in acquisition expenses. The drop mainly arose from lower sales and indirect costs which amounted to PLN 300.3m; they decreased by 10.7% compared with the prior year.
- An increase in administrative expenses. They amounted to PLN 115.8m, i.e. they increased by 7.6% compared with the prior year. They included a portion of the costs related to the implementation of the new product system.

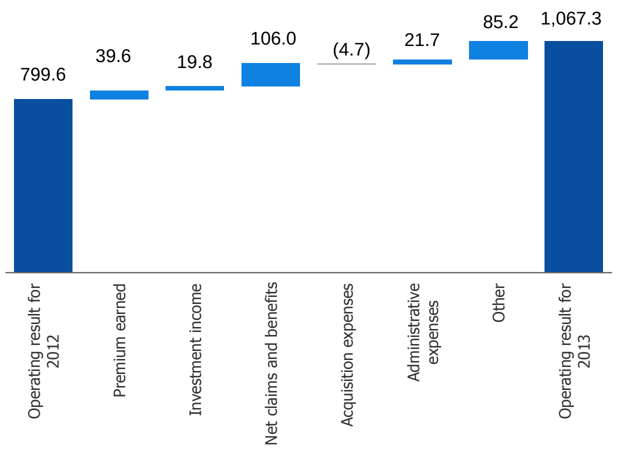
Mass insurance – non-life

In 2013, the operating profit in the mass-market non-life insurance segment amounted to PLN 1,067.3m (a 33.5% increase compared with the prior year). They comprised:

- A gross written premium of PLN 6,533.7m, i.e. 1.2% less than in 2012. The motor insurance premium was 3.9% lower than in the prior year, but non-life (mainly agricultural) insurance premiums increased by PLN 81.7m. However, the premium earned was PLN 6,552.3m and was 0.6% higher than in the prior year.
- Income from investments allocated at transfer prices to the mass-market insurance segment amounted to PLN 556.8m (a 3.7% increase compared with the prior year).
- Claims and benefits, as well as provisions, which were at a level of PLN 4,193.0m, dropped by 2.5% compared with 2012. The substantially lower level of disbursements in agricultural insurance (absence of the negative impact of overwintering, frost, lower flood, rain and hail claims), a smaller number of high unit value claims in property covers and a lower loss frequency in MTPL insurance contributed to the better result that in the prior year. At the same time, PZU paid more auto casco claims. Additionally, in 2012, the value of claims and benefits included the one-off effect of the decline in the technical rate in the form of an increase in the value of capitalized annuities of PLN 212.8m. In 2013, the loss ratio amounted to 64.0%, i.e. it decreased by 2.0 p.p. compared with 2012.
- Acquisition expenses amounted to PLN 1,141.5m, i.e. a level similar to that of the prior year.
- Administrative expenses which amounted to PLN 546.9m, declined by 3.8% compared with 2012. The main reason for the decline was employment reorganization and restructuring.

A one-off income was recognized in 2013 with regard to a settlement agreement with a reinsurer relating to the Green Card cover at the amount of PLN 53.2m, because of the operating activities in the mass-market insurance segment (partial reversal of the adjustment of the estimates with the reinsurer which reduced the result in 2011).

Operating profit of the mass-market insurance segment (in PLN million)



Group insurance and individually continued insurance – life insurance

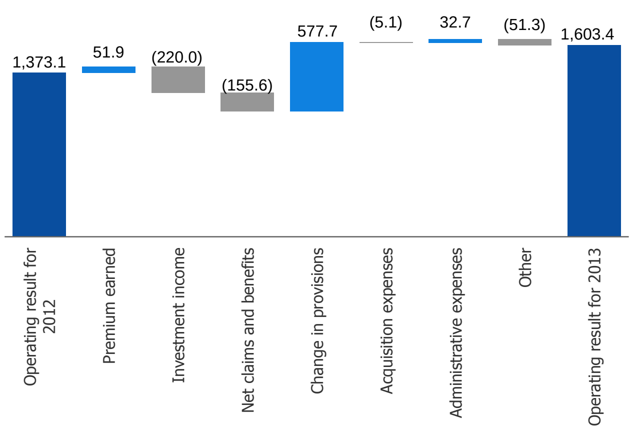
The operating profit of the group and individually continued insurance amounted to PLN 1,603.4m and was 16.8% higher than in the previous year. This was a result of:

- A gross written premium of PLN 6,415.2m, which was 0.8% higher than in 2012. Because of the discontinuation of the short-term endowment insurance offering with a single premium, this almost entirely represented the premiums paid regularly. In 2013, a stable growth trend was maintained in regular premiums as a result of the development of group protection insurance (an increase in the average premium and in the number of insured, including new sales), sales of riders and an increase in the sum insured in individually continued products, the acquisition of premiums in group health insurance (new customers in outpatient insurance and introduction of a new drug product into the range), as well as the continuation of the cooperation with bank intermediaries in sales of protection insurance.
- Income from investing activities – comprising income allocated according to transfer prices and income from investment-type products – amounted to PLN 735.2m, i.e. it declined by 23.0%. This was the effect of unfavourable financial market conditions and, specifically, the increase in instrument yields and a drop in risk-free rates (for allocated income).
- Net insurance claims and benefits amounted to PLN 4,299.5m (a 3.8% increase). In addition to the increase in the group and individually continued protection portfolio, the increase in the frequency of events also contributed to this increase.
- The increase in other net technical provisions amounted to PLN 271.0m. The increase in technical provisions was PLN 577.7m lower than in the prior year, when one-off additional provisions of PLN 408.5m were established as a result of a decrease in technical rates. Moreover, the following factors had an impact on the amount level the provisions: a smaller increase in technical provisions in unit-linked products (as a result of significantly lower results on investing activities than in 2012) and in continued protection cover (the effect of modification of the product affecting the amount of provisions established at the time of transfer of the insured to the individually continued cover) and a decline in technical provisions in short-term endowment products as a result of a drop in their sales through the bancassurance channel. The lower rate of conversion of long-term contracts into annual renewable contracts in type P group cover also affected the level of these provisions. As a result, provisions of PLN 127.1m were released, i.e. PLN 93.3m less than in 2012.
- Acquisition expenses amounted to PLN 322.8m, i.e. they increased by 1.6%. The main factors for their increase were the higher direct and indirect acquisition expenses in type P group protection insurance as a result of increased sales of policies (of which an increasingly larger portion was acquired through brokers and agency channel), as well as the increase in commissions in group protection insurance in

the bancassurance channel, as a result of an increase in sales of policies.

- Administrative expenses in the segment amounted to PLN 545.7m. Their almost 6% decline was mainly the result of lower personnel costs, as a result of reorganization and employment restructuring, as well as the decline in advertising expenses (a rebranding campaign was conducted in 2012).
- Other operating expenses amounted to PLN 108.4m which represented an increase of PLN 49.3m, mainly as a result of an additional prevention fund write-off.

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



After accounting for the one-off effects related to the drop in technical rates in 2012 and the lower effect of conversion of long-term contracts into renewable contracts in type P group insurance in the segment's results, the segment's operating profit amounted to PLN 1,476.3m in 2013, compared with PLN 1,561.2m in 2012 (a 5.4% decline).

Individual insurance – life insurance

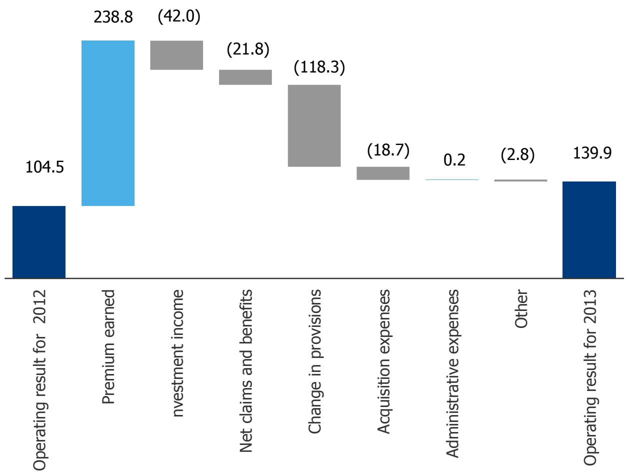
In 2013, the operating result of the individual life insurance segment amounted to PLN 139.9m, i.e. it was 33.8% higher than in the prior year. The main factors affecting the level of the segment's operating results were:

- A substantial increase in the gross written premium – it amounted to PLN 1,329.9m and was 22.0% higher than in the prior year. This was the result of high sales of investment products offered in cooperation with banks (Bank Millennium and Bank Handlowy w Warszawie), sales of the structured product *Świat Zysków* through the Group's own sales channels, which was higher than that of the prior year, and the level of sales of the savings product with a protection component and regular premium *Plan na Życie.* The high sales of those products more than offset the discontinuation of the endowment insurance contracts concluded in the 1990s.
- The drop in income from investing activities (i.e. income allocated and income from investment-type products). This amounted to PLN 305.0m, i.e. was 12.1% lower than in the prior year.
- The increase in net claims and benefits which amounted to PLN 626.6m, i.e. they increased by 3.6% compared with 2012. This increase was due to higher disbursements on endowments in structured products (both though the Group's own and through the bancassurance channel) and higher redemptions of unit-linked products in the bancassurance channel. Endowment disbursements from old policies underwritten in the 1990s were lower.
- A material increase in other net technical provisions. These increased by PLN 712.4m, which was PLN 118.3m more than in the prior year. The large increase in these provisions was related to high sales of investment insurance through the bancassurance channel. This increase was partly offset by a lower increase in provisions on unit-linked products through the traditional channel (due to a lower result on investing activities) and maintainance of assumptions concerning future claims payments in the annuity portfolio (these assumptions were changed in 2012 what, because of the change of technical provisions, had a negative impact on 2012 financial result;

such effect does not appear in current financial year) .

- A significant increase in acquisition expenses. These amounted to PLN 109.5m (a 20.6% increase compared with the prior year). The rapid expansion of sales of investment products through the bancassurance channel, specifically of the unit-linked product characterized by high acquisition expenses, was the reason for this increase.
- Stabilization of administrative expenses. These amounted to PLN 53.2m.

Operating profit of the individual insurance segment (in PLN million)



Investments

Income from the investment segment comprises investments of the PZU Group's own funds, understood as the surplus of investments over technical provisions in the leading PZU Group insurance companies (PZU and PZU Życie) plus the surplus of income earned over the risk-free rate on investments reflecting the value of PZU's and PZU Życie's technical provisions in non-investment products.

Additionally, the investment segment includes income from other free funds in the PZU Group.

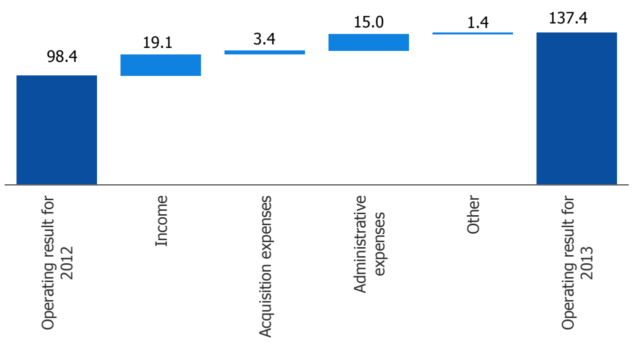
Income on operating activities in the investments segment amounted to PLN 896.6m (external operations only) and was 41.2% lower than in the previous year. This was mainly the effect of a decline in bond prices.

Pension insurance

In 2013, the operating profit in the pension insurance segment amounted to PLN 137.4m, i.e. it increased by 39.6% compared with the prior year. This was the result of:

- Fee and commission income which amounted to PLN 218.3m, i.e. it increased by 9.6% compared with the prior year. This change was the result of:
  - an increase of PLN 11.8m in fee income from contributions due to the statutory increase in rates from 2.3% to 2.8% of the base contributions;
  - an increase of PLN 16.6m in the management fee resulting from a higher level of assets;
  - a drop of PLN 10.3m in income from the reserve account.
- Acquisition expenses amounted to PLN 16.8m, i.e. they were 17.0% lower than in the prior year. This was primarily a result of a decline in commission income.
- Administrative expenses amounted to PLN 77.9m, i.e. were 16.2% lower than in the prior year. In particular, the costs of maintaining pension fund registers declined (by PLN 13.5m) due to lower in 2013 additional fee for Transfer Agent in respect of ensuring a certain level of service while in 2012 the salary was accrued for the first time for two years, 2011 and 2012. Additional payments to the Guarantee Fund decreased (by PLN 3.5m), while the Transfer Agent's fee was also lower. The increase in contributions transferred to OFE led to an increase of PLN 2.3m in the fees collected by the Social Insurance Institution (ZUS).

Operating profit of the pension insurance segment (in PLN million)

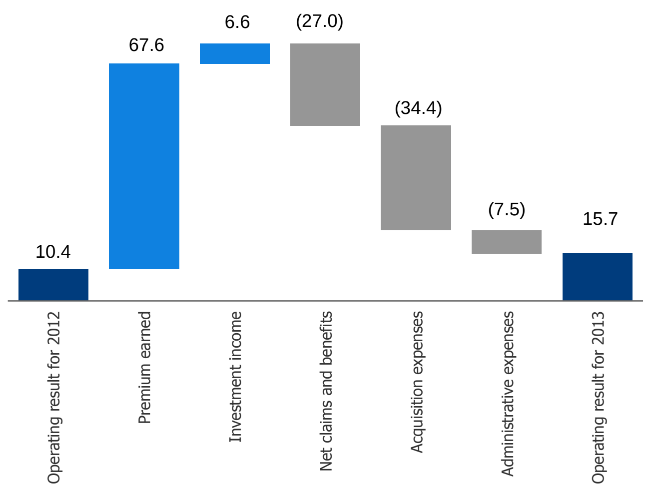


Ukraine

Because of the change in accounting policies in the PZU Group involving the discontinuation of the materiality principle, as of 1 January 2013, the company offering life insurance started to be included in the consolidation. Therefore, the data for this segment for 2013 includes the data of two companies, while the data for 2012 only has the data of the non-life company which had been subject to consolidation until this time.

In 2013, the Ukraine segment earned an operating profit of PLN 15.7m, compared with PLN 10.4m in the prior year.

Operating profit of the Ukraine segment (in PLN million)



The significant improvement in the segment's results was the effect of:

- An increase in the gross written premium. It amounted to PLN 203.6m, i.e. it increased by 43.2%. In 2013, it comprised PLN 46.6m of premiums of the life insurance company, which had not been subject to consolidation in 2012.
- An increase in income from investing activities. This segment earned PLN 24.4m in this respect, which is 37.4% more than in 2012. The increase in returns on liquid financial instruments (deposits, bonds) and an increase in liquid assets had a positive impact on this income.
- A significant increase in claims and benefits. The segment recognised PLN 80.9m, i.e. 50.2% more claims and benefits than in the prior year. In 2012, this segment only included the amount of non-life claims. In 2013, the non-life company disbursed PLN 56.6m claims, i.e. 5.1% more than in the prior year. An improvement in the loss ratio was noted (from 52.3% to 45.1%), which was a result of reducing the sales of popular medical insurance which was exposed to a high loss ratio, and balancing the portfolio with a high-yield non-life insurance portfolio. The amount of claims in the life insurance company was PLN 24.2m, i.e. it increased by 33.5% compared with the prior year. At the same time, the operating profit margin improved (from 5.3% to 11.2%).
- An increase in acquisition expenses. They amounted to PLN 62.4m compared with PLN 28.0m in the prior year. In 2013, they comprised PLN 20.3m of the life insurance company's acquisition expenses. Their level was the result of high costs of "new business" and active cooperation with brokers and banks, which are characterized by higher commission charges.
- An increase in administrative expenses. They amounted to PLN 35.9m, and included administrative expenses of the consolidated life insurance company of PLN 6.1m. For comparison purposes, in 2012, the administrative expenses of the segment amounted to PLN 28.5m.

Baltic States

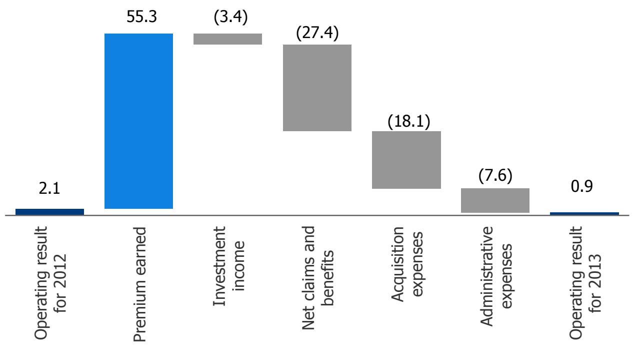
Because of the change in the accounting policies in the PZU Group involving the discontinuation of the materiality principle, as of 1 January 2013, the company offering life insurance started to be included in the consolidation. Therefore, the data for this segment for 2013 includes the data of two companies, while the data for 2012 only includes the data of the non-life company which had been consolidated until this time.

The PZU Group earned an operating profit of PLN 0.9m in the Baltic States in 2013, compared with PLN 2.2m in the prior year.

This result arose from the following factors:

- An increase in gross written premium. It amounted to PLN 262.3m, and included PLN 31.8m of the life insurance company, which had not been consolidated in 2012. For comparison purposes, in 2012, the written premium in the segment amounted to PLN 195.7m. The premium increased in the non-life segment mainly as a result of increased sales of non-life insurance (an increase of 28.7%), auto casco insurance (an increase of 15.5%) and MTPL insurance (an increase of 8.1.%). In life insurance, the largest sales increase was recorded in traditional life insurance, which increased by 61.2% compared with the previous year and in unit-linked insurance (an increase of 5.3% year-on-year).
- A decline in the result on investing activities. In 2013, investment income amounted to PLN 6.5m and was 34.2% lower than in the previous year, mainly as a result of unfavourable conditions on the capital markets.
- An increase in net claims and benefits. They amounted to PLN 139.1m, including claims and benefits relating to the life insurance company, which was not consolidated in 2012, of PLN 20.4m. The non-life insurance company recorded a relatively low increase in claims and benefits. The company disbursed PLN 118.7m on claims and benefits, which was 6.3% more than in the previous year. The loss ratio also improved (from 65.0% to 60.7%). In life insurance, the amount of claims and benefits was 32.4% higher than in the previous year because of the increase in technical provisions (the technical rate was reduced from 2.6 to 1.9).
- An increase in acquisition expenses. The respective expenses of the segment amounted to PLN 67.1m, including PLN 10.5m of acquisition expenses incurred by the life insurance company. The increase in acquisition expenses resulted mainly from an increase in sales of insurance.
- An increase in administrative expenses. These expenses amounted to PLN 26.5m and included the administrative expenses of the life insurance company of PLN 2.8m. Costs related to the development of branches on the Latvian and Estonian markets contributed to the increase in these expenses.

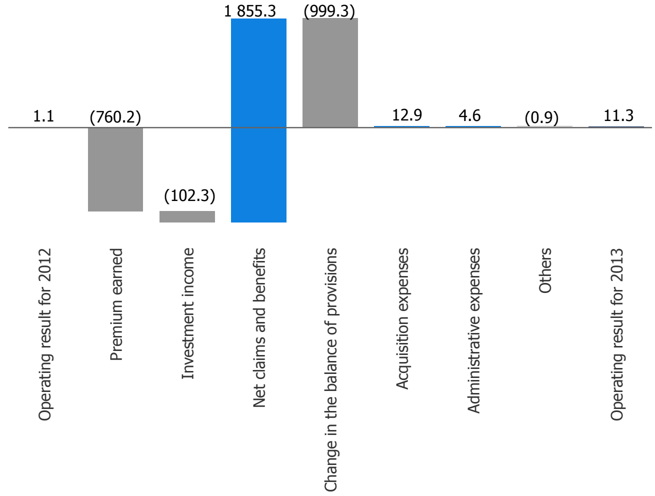
Operating profit of the Baltic States segment (in PLN million)



Investment contracts

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

Operating profit from the investment contracts segment (in PLN million)



The PZU Group earned PLN 11.3m of operating profit compared with PLN 1.1m in the prior year (increase of 953.9%) on investment contracts, i.e. PZU Życie's products which do not generate a material insurance risk and which do not meet the definition of an insurance contract (such as some products with a guaranteed rate of return and some unit-linked products).

The following had an impact on the results of the segment in 2013:

- A drop in gross written premium. This amounted to PLN 1,098.0m, i.e. was 41.0% lower than in the prior year. In particular, sales of short-term endowment products dropped (the effect of the strategy consisting of withdrawing from this type of policy). At the same time, the written premium on the Individual Pension Insurance Accounts (Indywidualne Konta Zabezpieczenia Emerytalnego – IKZE), which were launched in 2012, increased.
- Deterioration in the result on investing activities. This amounted to PLN 89.1m, i.e. was 53.4% lower than in 2012.
- A lower amount of net insurance claims and benefits, because of the lower level of payments of short-term endowment contracts of an investment nature through the bancassurance channel. They amounted to PLN 1,329.7m, i.e. they were 58.3% lower than in the prior year.
- A lower positive balance of net technical provisions. This amounted to PLN 172.3m compared with PLN 1,171.5m in the prior year. This difference arose from the changes in the cover portfolio of short-term endowments of an investment nature, mainly through the bancassurance channel, i.e. lower sales, endowment disbursements and income from investing activities.
- Lower acquisition expenses. These amounted to PLN 18.3m, i.e. they were 41.3% lower than in the prior year. This was the effect of a decline in the sales volume. Additionally, in 2012, costs were incurred on the launch of individual pension security accounts (IKZE) on the market.
- Lower administrative expenses. These amounted to PLN 11.4m and declined by 28.8% compared with 2012.

Profitability ratios

The PZU Group improved its profitability in 2013. In particular, the high return on equity should be noted. ROE amounted to 24.1% and was 0.1 p.p. higher than in the prior year. The profitability ratios achieved in 2013 by the PZU Group exceed the levels achieved by the whole market (according to the data for three quarters of 2013).

Basic profitability ratios of the PZU Group	2013	2012	2011	2010	2009
Return on equity (ROE) *(net profit/loss y/y /average equity) x 100%*	24.1%	24.0%	18.3%	20.3%	24.0%
Return on assets (ROA) *(net profit/loss y/y /average assets) x 100%*	5.6%	6.0%	4.6%	4.7%	6.7%
Administrative expense ratio *(administrative expenses / net premium earned)*	8.7%	9.0%	9.3%	10.6%	12.5%
Return on sales *(net profit (loss)/ gross written premium) x 100%*	20.0%	20.0%	15.3%	16.8%	26.2%

Operating efficiency ratios

One of the key operating ratios of an insurance company is the combined ratio (COR), which is calculated for the non-life sector (Sector II) because of its specific nature.

The consistent improvement in the PZU Group's combined ratio (for non-life insurance) in successive years arises, among others, from the correct matching of prices and insurance cover offered, the ability to maintain cost discipline (reduction in fixed costs in connection with releasing provisions from previous years, reduction in IT costs following from contract renegotiation and consistent management of remuneration costs for insurance intermediaries).

The improving combined ratio was also a result of the absence of major catastrophic events (such as floods, inundations and snow damage).

Operating efficiency ratios by segments were also presented in Appendix.

	Operating efficiency ratios	2013	2012	2011	2010	2009*
1	Gross claims ratio (simple) *(gross claims paid / gross written premium) x 100%*	67.9%	76.2%	67.9%	75.2%	65.9%
2	Net claims ratio *(net claims paid / net premium earned) × 100%*	68.7%	76.3%	68.6%	73.1%	65.1%
3	Insurance activity expense ratio *(insurance activity expense / net premium earned) × 100%*	21.1%	21.5%	22.5%	24.0%	25.2%
4	Acquisition cost ratio *(acquisition expenses / net premium earned) × 100%*	12.4%	12.5%	13.2%	13.4%	12.7%
5	Administrative expense ratio *(administrative expenses / net premium earned) x 100%*	8.7%	9.0%	9.3%	10.6%	12.5%
6	Combined ratio in non-life insurance *(net claims + insurance activity expenses / net premium earned) × 100%*	87.8%	92.8%	95.3%	104.5%	99.0%
7	Operating profit margin in life insurance *(operating profit / gross written premium) x 100%*	22.3%	19.8%	28.7%	no data	no data

**As of 2010 a change in the ABC indirect costs allocation model.*

Source: The PZU Group

7 Risk management

7.1 Objective of risk management

The objective of risk management is to ensure that PZU and PZU Życie pursue their business goals, monitor and manage their investment and insurance portfolios and operational risk safely, adequately to the scale of the risks incurred. The risk management strategies are an integral part of the management process in place at PZU and PZU Życie.

The main elements of the risk management strategy include:

- the system of acceptable limits on the level of risk and restrictions defined by the Management Board, the Supervisory Board, and the appropriate Committees, including the level of the appetite for risk;
- the processes of identifying, measuring and assessing, monitoring and controlling, reporting and managing actions with respect to the individual risks;
- the risk management organizational structure, in which the Management Board, the Supervisory Board, the Asset-Liability Committee (ALCO) and the Credit Risk Committee (CRC) play a key role.

7.2 Risk management system

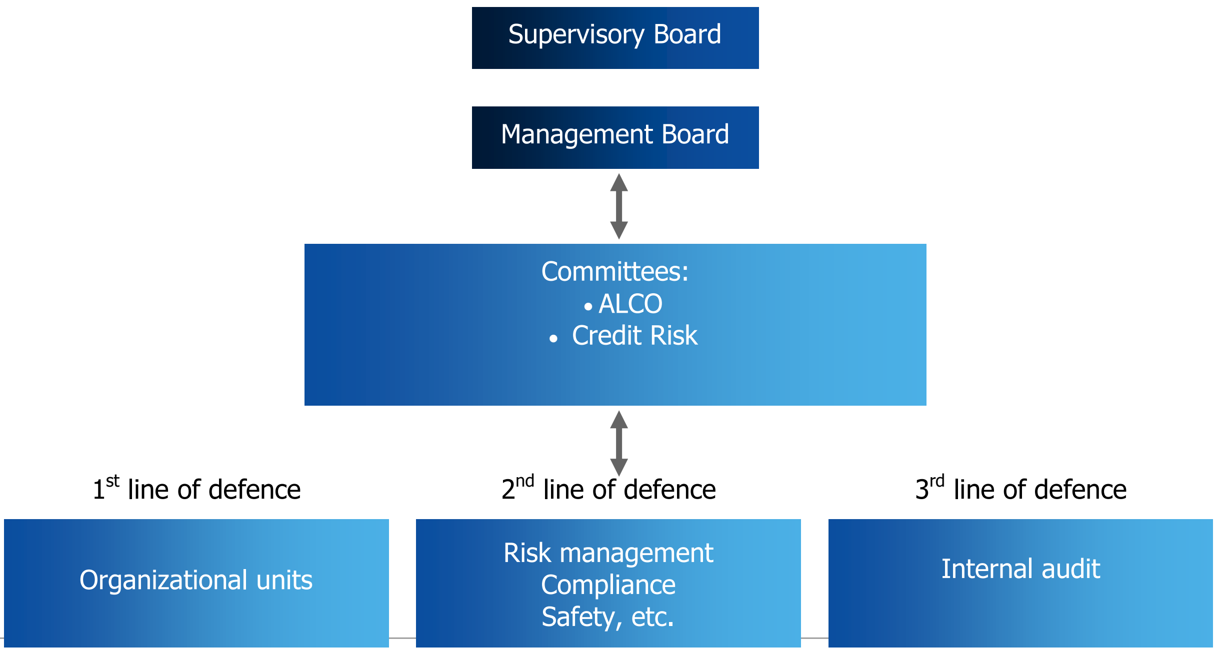
The risk management system at PZU and PZU Życie is based on three elements:

- organizational structure - comprising the demarcation of responsibilities and tasks performed by the individual organizational units in the risk management process;
- actions taken with the use of hedging and risk transfer techniques in order to adjust the risk profile and appetite for risk to strategic plans;
- methods for identifying, measuring, assessing, monitoring and reporting risk.

The risk management organizational structure is based on four competence levels (the same in both companies).

The first three competence levels comprise:

- the Supervisory Board, which supervises the risk management process and assesses its adequacy and effectiveness as part of its decision-making powers defined in the Company's Articles of Association and the Supervisory Board rules and regulations;
- the Management Board, which organizes the



risk management system and ensures its functionality through approving the Strategy and policies and defining the appetite for risk, the risk profile and tolerance for individual categories of risk;

- the Committees (ALCO and CRC), which make decisions to reduce individual risks to the levels defined by the appetite for risk. The Committees implement the procedures and methodologies for mitigating the individual risks and accept individual risk limits.

The fourth level of responsibility is related to the operating level, at which the risk management activities are divided among the three lines of defence:

- the first line of defence - ongoing risk management at the business unit and organizational unit level and decision-making as part of the risk management process. The managers are responsible for implementing an effective risk management system in the areas of the Company's operations they supervise; in particular, they are responsible for design and effective operation of risk identification and monitoring measures, which are integral components of the processes guaranteeing adequate response to the risks as they arise;
- the second line of defence - risk management by specialized units responsible for risk identification, monitoring and reporting and controlling the limits. Within the second line of defence, the units which play an important role in the process are the Risk Department, the Planning and Controlling Department, the Actuarial Department, the Reinsurance Department, the Legal Department, the Security Department, the HR Department and the Technology Function;
- the third line of defence - comprises internal audit, which conducts independent audits of the elements of the risk management system, as well as control activities embedded in the Company's activities. This function is performed by the Internal Audit Department.

7.3 Appetite for risk

The appetite for risk, risk profile and risk tolerance limits reflect the strategic plans of the PZU Group, thereby ensuring adequacy and effectiveness of the risk management system and preventing acceptance of risk levels which could jeopardize the financial stability of the PZU Group.

The risk management strategy, which was updated by the Management Boards in 2013, defines the maximum/minimum parameters of the appetite for risk, risk profile and tolerance limits that lead to active and informed changes in the level of risk accepted by the PZU Group companies.

- Appetite for risk. Appetite for risk was defined as the level of risk which the PZU Group is prepared to accept while pursuing its business objectives. The level of the appetite for risk is defined as the minimum capital requirement coverage ratio.
- Risk profile. These are quantitative limits which define the appetite for risk of the PZU Group more precisely.
- Tolerance limits. These are additional risk limits introduced to mitigate potential risks.

7.4 Risk management process

The process of risk identification, measurement, assessment, monitoring and reporting, as well as the process of taking management actions, is subject to internal control at the PZU Group to ensure its compliance with internal and external regulations, constant improvement and adequacy to the PZU Group business profile.

It consists of the following elements:

- Identification. The process of risk identification starts with the idea of creating an insurance product, acquiring a financial instrument or changing an operating process, as well as at the any other event takes place which could potentially create a risk for the PZU Group. The process lasts until the liabilities, receivables or activities relating to such an event expire. Risk identification involves identifying the actual and potential sources of risk and estimating the materiality of the potential impact of such risks on the PZU Group's financial position.

- Measurement. The materiality of all risks from the list of risks is analysed. Every risk which is considered material and measurable or difficult to measure is subject to a measurement process comprising the definition of the measures of the risk which are adequate to the type and materiality of risk and availability of data. Risk measurement is performed by specialist units. The Risk Department is responsible for developing tools, as well as for measuring limits, including assessing the appetite for risk, risk profile and limits of risk.
- Risk assessment. Overall risk assessment is reflected on the risk map, which presents a systematic visualization of the levels of the PZU Group's risk exposure. Measurable risks are assessed by the Risk Department. Non-measurable risks are assessed by experts and their assessment is taken into account in the overall risk measurement.
- Risk monitoring and control. This involves ongoing reviews of any variances from the assumed parameters, namely limits, thresholds, plans, values from the previous period, recommendations and guidelines issued, which are performed by dedicated units. The monitoring process also involves risk measurement through the calculation and analysis of risk.
- Reporting. This process allows efficient risk communication and supports risk management at various decision-making levels from the level of the employee to the Supervisory Board. Management Board members supervising individual business lines receive current reports (daily / weekly) on changes in the specific areas that affect the level of risk at the PZU Group and the extent to which the levels of market risk are utilized.

The PZU Group prepares the following risk reports for:

- Management Board members - quarterly and monthly information by portfolio and business line on the levels of insurance, market, credit, concentration and operational risk;
- ALCO members - weekly information on the level of market risk and current information on exceeded market limits;
- the Credit Risk Committee - weekly and monthly information on the market, credit and concentration risk levels and current information on exceeded market, credit and concentration limits;
- the Supervisory Board - quarterly information on key indicators of the level of insurance, market, credit, concentration and operational risk;
- The other units report on the levels of risk related to their activities in accordance with the applicable internal regulations.

Management actions relating to individual risk categories are defined in the internal regulations of the PZU Group. Depending on the type and characteristics of the risk, these actions can include the avoidance of risk, the transfer of risk, the mitigation of risk, the acceptance of risk levels and tools which support these actions, i.e. limits, reinsurance programmes and underwriting policy reviews.

7.5 Risk profile

The PZU and PZU Życie risk profile did not change significantly in 2013, except for market risk. The change in the market risk profile was due to the fact that PZU Życie paid a dividend in the form of transfer of share fund units, as well as because of the implementation of a new internal model for calculating market risk. The main risks incurred by these companies include insurance risk, market risk, credit risk, concentration risk, operational risk and compliance risk.

Insurance risk

Insurance risk is the risk of a loss or an adverse change in the value of insurance liabilities as a result of improper assumptions regarding valuation and the establishment of provisions. The insurance risk management process starts with the idea of creating an insurance product, while insurance risk assessment involves recognizing the degree of exposure or a group of exposures related to the possibility of incurring a loss and analysing the risk elements in order to make a decision on whether the PZU Group should accept a risk for insurance and assume liability. The insurance risk analysis takes into account the scope of insurance cover granted, the amount of the premium and (in financial insurance) the level of security.

The insurance risk assessment also involves actions relating to:

- prevention, involving insurance risk management aimed at:
  - reducing the frequency of losses;
  - reducing the extent of the losses;
- reinsurance of risks of the greatest amount and exposure.

Insurance risk measurement is based in particular on:

- the analysis of selected ratios;
- the scenario method - analysis of impairment arising from an assumed change in risk factors;
- the factor method - a simplified version of the scenario method, reduced to one scenario per risk factor;
- statistical data;
- exposure and sensitivity measures;
- the expertise of the Company's employees.

The PZU Group manages insurance risk in particular by:

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

In the event of any circumstances which cause adverse changes in insurance liabilities or a financial loss arising from variations in the occurrence, frequency or scale of insured events or variations in the payment of settled claims and benefits, the PZU Group takes steps to:

- modify the tariffs;
- modify the scope of the PZU Group's liability in the individual specific products;
- introduce new exemptions to the general terms of insurance;
- modify the underwriting principles;
- develop co-insurance programmes;
- develop reinsurance programmes;
- withdraw a product from sales.

The PZU Group takes the following actions to mitigate the insurance risk:

- definition of the scopes of liability in the general terms of insurance or templates of financial insurance agreements;
- definition of exemptions from liability in the general terms of insurance or templates of financial insurance agreements;
- co-insurance and reinsurance actions;
- adequate tariff policies;
- adoption of conservative assumptions for calculating provisions using methods which are in compliance with the applicable legal regulations;
- underwriting procedure;
- claims handling procedure;
- sales decisions and plans;
- prevention.

Market risk

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

The identification of market risk 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 instrument. The units which decide to start 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 Department, which identifies and assesses the market risk on this basis.

The process of identifying market risk related to insurance liabilities starts 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 assessed in terms of materiality, i.e. based on whether the materialization of a risk would be related to a loss that could affect the PZU Group's financial position.

The PZU Group measures market risk using the following measures of risk:

- VaR;
- exposure and sensitivity measures;
- accumulated monthly loss.

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

- collection of information on assets and liabilities that generate market risk;
- calculation of the value of the risk.

The risk measurement is performed:

- daily - to measure exposures and sensitivity of instruments contained in the Kondor+ transaction system;
- monthly - using a partial internal model.
  Market risk is monitored on two levels: internally at the organizational units responsible for operating market risk management and independently by the Risk Department. Market risk monitoring involves analysing the risk levels and the utilization of limits. Monitoring is performed in daily or monthly cycles adequately to the defined limits.

Management actions regarding market risk include, in particular:

- concluding transactions to mitigate market risk, such as selling a financial instrument, closing a derivative and purchasing a hedging derivative;
- diversifying the portfolio of assets, in particular with respect to market risk categories, maturities of instruments, concentration of exposure in one entity, geographical concentration;
- investing in highly liquid instruments;
- setting market risk restrictions and limits.

The setting of limits is the main management tool for maintaining risk positions within acceptable risk tolerance levels. The structure of limits for the individual market risk categories and the PZU Group organizational units is defined by ALCO taking into account the risk tolerance defined by the Management Board. ALCO sets additional detailed market risk limits.

Credit risk and concentration risk

This is the risk of incurring a loss or an adverse change in the financial situation to which the PZU Group is exposed, which arises from changes in credibility and creditworthiness of issuers of securities, business partners and any debtors, as a result of which the business partner may fail to meet its obligations or the credit spread could increase.

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

- exposure measures (the amount of the gross and net credit exposure and maturity-weighted net credit exposure);
- VaR, i.e. Value at Risk - a risk measure quantifying the potential economic loss, which will not be exceeded over a period of one year with a 99.5% probability under normal market circumstances.

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;

- net maturity-weighted credit exposure.

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

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

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

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

Monitoring is conducted in the following cycles:

- monthly - for financial insurance exposures;
- half-yearly - for Reinsurance Department exposures;
- daily - for other exposure limits;
- monthly - for VaR limits.

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

- concluding transactions aimed at mitigating credit risk, such as selling a financial instrument, closing a derivative or purchasing a hedging derivative;
- accepting security;
- reinsuring a financial insurance portfolio;
- diversifying a portfolio of financial assets and insurance, mainly with respect to the state, sector;
- setting limits of exposure to a single entity, group of entities, sectors or states.

The structure of credit and concentration risk limits for the individual issuers is determined by the CRC in line with the risk tolerance determined by the Management Board. Additionally, the CRC sets detailed limits on amounts and qualitative restrictions.

Operational risk

Operational risk is defined by the PZU Group as a possibility of incurring a loss arising from inappropriate or incorrect internal processes, human actions, the operation of systems or external events.

Operational risk management has the purpose of optimizing the level of operational risk and operating efficiency in the PZU Group’s operations, leading to a reduction of losses and costs arising from such risks and ensuring adequate and effective controls, with the use of appropriate organizational, procedural and technical solutions. The level of operational risk is identified and assessed by the PZU Group by collecting and analysing information on this risk for the security, human resources, IT and legal areas. The scale of exposure to operational risk can be determined in this way.

The following solutions are applied by the PZU Group to mitigate the operational risk level:

- updating and optimizing processes and procedures;
- changing the structure of checkpoints, reconciliation and validation;
- automation of control systems;
- contingency plans;
- monitoring and analysis of the number of security incidents;
- analysis of employee turnover and actions taken to minimize the risk level in this area, such as appropriate staff selection, improvement of employee qualifications, incentive systems;
- monitoring and analysing the reasons for failures of the key IT systems.

The PZU Group companies manage their operational risk in accordance with the guidelines defined by the PZU Group, taking into account their specific nature and the scale of their activities. The Management Board and Supervisory Board members regularly receive information on the operational risk level.

PZU companies (PZU, PZU Życie, PZU AM, TFI PZU, PZU CO and PZU PTE) have implemented and tested business continuity plans securing the correct operation of the processes of key importance to these companies in the case of failure.

Compliance risk

Compliance risk is the risk of legal sanctions, financial losses or a loss of reputation arising from non-compliance of the PZU Group with the law, internal regulations or standards of conduct adopted by the PZU Group, including norms of ethics.

At the PZU Group, compliance risk is managed on the basis of the Compliance Policy and the Methodology of Identifying and Assessing Compliance Risk for Internal Processes.

The demarcation of responsibilities with respect to systemic and ongoing compliance risk management is based on the above-mentioned regulations. Ongoing management of compliance risk relating to specific processes is the responsibility of the managers of the individual organizational areas and units within the PZU Group.

The activities in the compliance area include in particular:

- developing solutions for implementing compliance risk management principles;
- promoting and monitoring compliance with internal regulations and standards of conduct in the compliance area at the PZU Group;
- monitoring the compliance risk management process at the PZU Group.

The Management Boards are responsible for making strategic decisions regarding compliance risk and accepting risk levels in this area.

The compliance risk management process is coordinated by the Compliance Department, which was established on the basis of resolutions of the Management Boards of PZU and PZU Życie in June 2013.

Compliance risk identification, assessment and measurement are performed by the managers of the PZU Group's organizational units and, additionally, by the Compliance Department. Compliance risk is identified and assessed for the individual internal processes of the insurance company defined in the Classification by the managers of organizational units, in line with the demarcation of reporting responsibilities. Additionally, the Compliance Department identifies compliance risk on the basis of entries in the register of conflicts of interest, gifts, benefits and irregularities, as well as the enquiries received.

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

- financial, resulting from administrative penalties, court verdicts, contractual penalties, damages etc.
- intangible, such as loss of reputation, including damage to the PZU image and brand.

Compliance risk is monitored mainly through:

- the analysis of quarterly reports received from the managers of the organizational units;
- the review of the regulatory requirements;
- participation in legislative work on amending the generally applicable regulations;
- participation in the activities of professional organizations;
- coordination of external control processes;
- coordination of reporting requirements arising from the stock exchange regulations and the law;
- review of the Compliance Department's recommendations.

Reporting on compliance risk takes place quarterly. Risk reports for the PZU Group are submitted to the Management Board every year by 15 March of the following year. No material compliance risk incidents were identified in 2013.

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 point of view of compliance, participating in the process of agreeing marketing activities;

- avoiding risk through the prevention of involvement of PZU Group companies in activities which do not comply with the regulatory requirements or good market practices or which could have an adverse effect on their image.

7.6 Sensitivity to risk

Risk pertaining to financial assets

The following table presents the results of the analysis of the sensitivity of the net financial result and equity to changes in interest rate risk, exchange risk and equity instruments price risk.

The analysis does not take into account the impact of changes in valuation of the deposits taken into consideration in the calculation of the provision on the net financial result and equity

financial assets exposed to exchange risk include deposit transactions and debt securities used to hedge payments from technical reserves denominated in foreign currencies, as well as exposures to equity instruments quoted on stock exchanges other than WSE, investment fund units and certificates in foreign currencies, exposures to derivatives denominated in foreign currencies and financial assets of consolidated entities denominated in foreign currencies.

The increase in the sensitivity of the financial assets portfolio to changes in valuation of listed equity instruments as at the end of 2013 compared to the end of 2012 arises from the higher exposure in financial instruments exposed to other price risks.

Sensitivity of the asset portfolio (in PLN million)	Change of the risk factor	31 December 2013		31 December 2012	
		Impact on the net financial result	Impact on equity	Impact on the net financial result	Impact on equity
Interest rate risk	decrease by 100 bp	433	464	315	360
	increase by 100 bp	(403)	(435)	(295)	(337)
Exchange risk	increase by 20%	19	83	83	140
	decrease by 20%	(19)	(83)	(83)	(140)
Equity instruments price risk	increase by 20%	396	456	234	304
	decrease by 20%	(396)	(456)	(234)	(304)

Sensitivity of reserves

	Impact of changes in assumptions on			
	the net financial result		equity	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Changes in the assumptions to the net capitalized annuities in non-life insurance (in PLN million)				
Technical rate - increase by 0.5 p.p.	411	397	411	397
Technical rate - decrease by 1.0 p.p.	(1,064)	(1,028)	(1,064)	(1,028)
Mortality at 110% of the currently assumed rate	126	119	126	119
Mortality at 90% of the currently assumed rate	(141)	(133)	(141)	(133)
Changes in the assumptions for annuities in life insurance (in PLN million)				
Technical rate - decrease by 1 p.p.	(36)	(38)	(36)	(38)
Mortality at 90% of the currently assumed rate	(13)	(13)	(13)	(13)
Changes in the assumptions for reserves for insurance contracts and investment contracts with DPF in life insurance, excluding annuity insurance (in PLN million)				
Technical rate - decrease by 1 p.p.	(2.221)	(2.296)	(2.221)	(2.296)
Mortality at 110% of the currently assumed rate	(937)	(954)	(937)	(954)
110% morbidity and accident rate	(195)	(199)	(195)	(199)

Risk pertaining to technical rates and mortality

A sensitivity analysis is presented below of the net result and equity to changes in the assumptions used to calculate the capitalized annuities. The analysis does not take into account the impact of changes in valuation of the deposits taken into consideration in calculation of the reserve on the net financial result and equity.

The table also presents the impact of changes in the assumptions regarding annuity insurance in life insurance and the impact of changes in the assumptions regarding reserves for insurance contracts and investment contracts with DPF in life insurance, excluding annuity insurance.

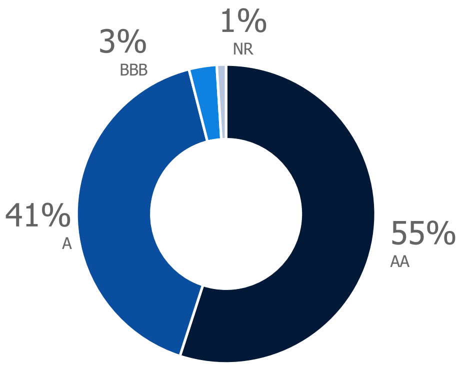
7.7 Reinsurance operations

Reinsurance cover in the PZU Group secures the insurance activity, reducing the consequences of the occurrence of catastrophic phenomena which could adversely affect the financial standing of insurance companies. This task was performed through obligatory reinsurance contracts supplemented with optional reinsurance contracts.

Reinsurance contracts - PZU

PZU uses the reinsurance contracts it concludes to mitigate its exposure to catastrophic losses (e.g. flood, hurricane) among other things through a catastrophic non-proportional excess loss contract and to the consequences of large one-off losses in non-proportional reinsurance contracts protecting property, technical, marine, aviation, TPL and MTPL portfolios.

Reinsurance premium on PZU obligatory contracts according to Standard & Poor's rating



PZU's risk is also mitigated through reinsurance of the financial insurance portfolio.

In 2013, the main partners providing obligatory reinsurance cover to PZU were Swiss Re, Hannover Re, Scor, Endurance and Lloyd's. PZU's reinsurance partners have high S&P/AM Best ratings, which gives the Company the certainty of the reinsurer's good financial standing.

PZU's activity in the area of inward reinsurance constitutes one of the elements of its support for PZU Lietuva and PZU Ukraine. The Company participates both in obligatory and optional reinsurance contracts of the aforementioned companies. In addition, PZU obtains a gross written premium from inward reinsurance from activity on the domestic and foreign market, mainly through optional reinsurance.

Reinsurance contracts - PZU Życie

Outward reinsurance contracts concluded by PZU Życie protect PZU Życie's portfolio against the accumulation of risks (catastrophic treaty), protect individual policies with higher sums insured and protect the group child's serious illness insurance portfolio.

The partners granting reinsurance cover to PZU Życie comprised the following reinsurance companies: RGA, Gen Re, Arch Re and Lloyd's. PZU Życie's reinsurance partners have high S&P ratings, which gives the Company the certainty that the reinsurer has a good financial standing.

7.8 Capital management

The PZU Group has a solid capital base, which is much higher than the capital requirements and the average values for the insurance sector in Poland.

In accordance with the Act on Insurance Activity, an insurance company with its registered office on the territory of Poland is obliged to maintain its own funds at an amount of no less than the solvency margin and no less than the guarantee capital. Because of the lack of regulations defining the calculation of the solvency margin and the amount of own funds for the group, PZU applies a ratio calculated on the basis of the unit solvency margins and own funds (using Solvency I rules) of insurance companies, taking into account consolidation adjustments.

PZU and PZU Życie's unit solvency margins and own funds were calculated on the basis of Polish GAAP and the requirements of the Regulation of 28 November 2003 on the method of calculating the solvency margin and the minimum amount of guarantee capital for insurance categories and groups (Journal of Laws no. 211 of 2003, item 2060 as amended).

The capital requirement calculation model will be changed when Solvency II enters into force.

PZU also maintains assets for covering technical reserves in excess of the required level. As at the end of 2013, the assets to technical reserves ratio amounted to 115.5% for PZU and 115.8% for PZU Życie. The details are presented in the Appendix.

Calculation of own funds for solvency margin coverage	31 December 2013	31 December 2012	31 December 2011	31 December 2010	31 December 2009
Amount of the PZU Group's own funds of (in PLN million)	11,377	12,756	10,959	11,336	9,947
PZU Group's solvency margin (in PLN million)	3,234	3,144	3,106	3,081	3,024
PZU Group's guarantee capital (in PLN million)	1,078	1,048	1,035	1,027	1,008
PZU Group's solvency margin coverage with own funds	**351.8%**	**405.8%**	**352.9%**	**367.9%**	**328.9%**
PZU Group's guarantee capital coverage with own funds	1,055.5%	1,217.3%	1,058.6%	1,103.7%	986.8%
Amount of PZU's own funds (in PLN million)	9,505	10,956	9,192	9,593	8,262
PZU's solvency margin coverage with own funds	697.7%	815.3%	686.6%	716.6%	617.1%
Amount of PZU Życie's own funds (in PLN million)	4,185	6,551	5,704	6,233	7,224
PZU Życie's solvency margin coverage with own funds	235.5%	376.0%	332.5%	367.0%	440.8%

8 PZU on the capital market

8.1 Stock prices

The shares of PZU were first traded on Warsaw Stock Exchange (WSE, Giełda Papierów Wartościowych) on 12 May 2010. The Company is among the largest listed with WSE and has been included in WIG20 since its IPO.

Further, it has been included in RESPECT Index and WIGdiva, as well as CEERIUS sustainable development index (CEE Responsible Investment Universe). CEERIUS is an index of Wiener Börse for Central and Eastern European (CEE) companies. It consists of companies that meet certain quality criteria regarding social and ecological aspects.

In 2013, the closing price of PZU shares ranged from PLN 385.00 (on 5 May) to PLN 477.9 (on 6 November). Since mid-March 2013, i.e. the publishing of PZU performance for 2012, its stock prices have been much higher than those of other WSE blue chips. The trend lasted until the end of 2013. The closing price from the last session in 2013 amounted to PLN 448.95, which was a growth by 2.7% compared to the closing price of 31 December 2012 of PLN 437.00. In the same time, WIG20, including the largest companies, lost 7.1% and the broad market index WIG gained 8.1%.

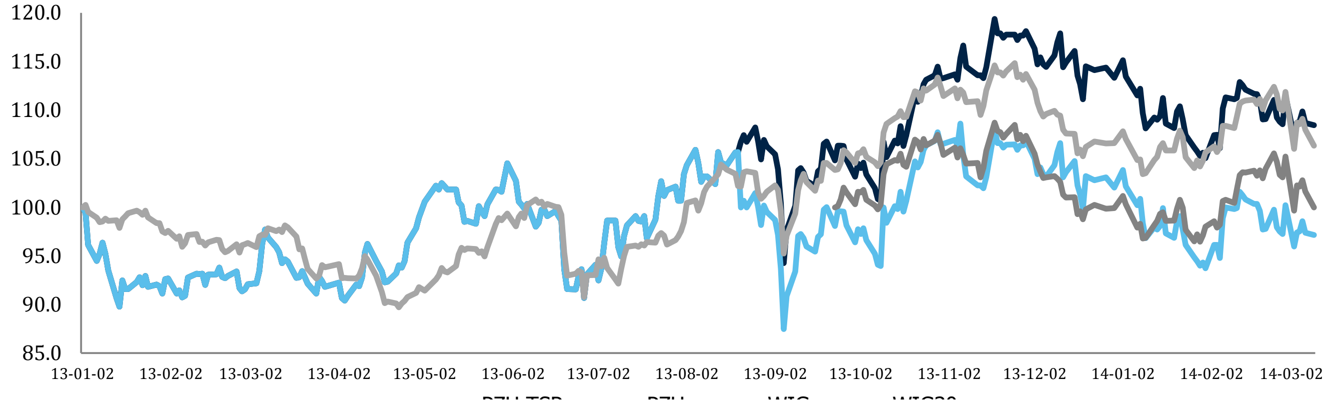
In 2013, the average market price of PZU stock was PLN 432.19 and was PLN 86.17 higher than in 2012.

In 2013, the price of PZU stock was materially influenced by, among others, investors' behavior on global financial markets, very good financial performance and attractive dividend policy adopted by the Management Board of the Company, reflected in valuation and recommendations of stock market analysts.

PZU stock is liquid. At the end of 2012, 65% shares were traded. Average daily turnover of PZU shares in 2013 amounted to 188,219 shares and the highest level (787,905 shares) was reported on 13 March 2013.

At the end of 2013, the market valuation of PZU Group was PLN 38,768m. The price/book value ratio was 2.95, making PZU one of the best-valued companies in the financial market listed with WSE.

Quiting of PZU to selected indces (02.01.2013=100)



PZU TSR - Total shareholder return including dividend paid by PZU

Capital market indicators for PZU

Item	31 December 2013	31 December 2012	31 December 2011
Market price per share / book value per share (P/BV)	2.95	2.64	2.07
Book value per share	152.03	165.24	149.03
Market price per share / earnings per share (P/E)	11.77	11.60	11.38
EPS (PLN) Earnings (losses) per share / number of shares	38.16	37.68	27.14
DY Dividend yield (%) Dividend per share / market price	11.1%	5.1%	8.4%
DPS (PLN) Dividend per share	49.70	22.43	26.00
(TSR) Total shareholder return (market price of shares at end of period - market price of shares at the beginning of the period + dividend paid in the period) / market price of shares at beginning of period	14.1%	48.7%	(5.8)%

8.2 Investor relations

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

PZU creates value through active communication with capital market participants, building trust and caring for good relationships.

In 2013 the major goal of investor relations was to provide information on the activities and performance of the PZU Group in a transparent manner and to create a positive image of the entity among investors to ensure investors' confidence and satisfaction of shareholders.

Key corporate events in 2013 that generated most investor relation activities included quarterly publication of the financial performance and the general shareholders' meeting.

The financial performance of PZU Group (for 2012, Q1 2013, 1H 2013 and Q3 2013) were presented and discussed by the Management Board during meetings with capital market analysts. The meetings, similarly to the General Shareholders' Meetings, were broadcast live on the Internet.

In 2013, representatives of PZU participated in:

- three non-deal roadshow in Europe and the U.S. organized following the publication of 2012 results;
- ten financial conferences held abroad (in London, New York and Prague) with global institutional investors;
- two conferences for institutional investors in Poland;
- a number of group, one-on-one meetings and teleconferences with investors and stock portfolio managers held in PZU office. In 2013 PZU organized 180 meetings with nearly 300 institutional investors and nearly 120 meetings with analysts issuing recommendations concerning PZU shares.

Undertaken communication activities were addressed to thousands private investors. PZU especially for them:

- participated in two conferences for individual investors organized in Poland by Individual Investors' Association, in 17th WallStreet

Conference in Karpacz, the largest meeting of individual investors in Central and Eastern Europe and in the seventh edition of Professional Investor Conference in Władysławowo;

- organized four chats with individual investors, hosted by a PZU Management Board Member in charge of Finance Division in PZU Group after publication of 2012 financial performance and the results for Q1 and 1H of 2013;
- participated in *10 na 10 – Komunikuj się skutecznie* (Ten to Ten: Effective Communication) meeting aimed at creating of high communication standards for listed companies to reach individual investors.

Since its IPO, PZU has been partnering and actively participating in *Akcjonariat Obywatelski* project. Akcjonariat Obywatelski is an initiative for private investors started by the Ministry of Treasury during the IPO of listed entities: PZU, Tauron Polska Energia and Giełda Papierów Wartościowych w Warszawie.

Activities of PZU regarding investor relations are highly appreciated both by investors, analysts and media. Recognition won in 2013 in this respect included:

- In EXTEl survey performed first time in 2013 for WSE companies, the following awards went to PZU:
  - Przemysław Dąbrowski won the first place as *CFO Best for Investor Relations in Poland*, obtaining 57.14% of votes.
  - PZU was ranked fourth in *Corporate Best for Investor Relations in Poland*.
  - Piotr Wiśniewski, RI Head in PZU, was ranked fourth in *IR Professional Best for IR in Poland*.

- Extel survey, performed for 15 years by Thomson Reuters, is recognized as one of the key industry rankings and the source of knowledge of best practices on the capital market, including communication with investors. High standards and quality of the survey are confirmed by Deloitte, its external auditor.

- PZU won the title of *Capital Market Hero* in the second edition of this survey held by Individual Investors' Association among its members. The purpose of the survey is to look for companies that meet top standards in communication with investors and individuals who contribute to the building of knowledge of the capital market and its transparency.
- PZU won also *Spółka przyjazna inwestorom* certificate (Investor Friendly Company). It has been recognized as an entity maintaining high reliability of its information policy and protecting the rights of investors through a committee manned by representatives of Individual Investors' Association.
- The first place for the best annual report for 2012 among banks and financial institutions during *The Best Annual Report* contest organized by Instytut Rachunkowości i Podatków (Accounting and Tax Institute). PZU is the only financial institutions to be recognized for *Useful Value of Annual Report*. The Best Annual Report contest has been organized since 2005 and is to promote annual reports with most value for shareholders and investors.

Analysts' recommendations regarding PZU stock

	2013	2012
Buy, Accumulate, Outperform	18	28
Neutral, Hold	20	20
Underperform, Reduce	12	7
Total	**50**	**55**

8.3 Analysts' recommendations

In 2013, recommendations for PZU stock were issued by 22 domestic and foreign financial institutions. In total, the sell side analysts issued 50 recommendations. Neutral and Hold recommendations prevailed (about 40% of all recommendations issued).

The median of target prices from recommendations valid at the end of 2013 was PLN 445 and was 5.0% higher compared to that at the beginning of the year, while the maximum target price was PLN 520 and 16.1% higher.

8.4 Dividend policy

On 26 August 2013, the Management Board of PZU approved the *Capital Structure and Dividend Policy for the PZU Group for 2013-2015,* which on the same date was approved by the Supervisory Board with the wording prepared by the Management Board.

The key objective of the Capital Structure and Dividend 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 Capital Structure and Dividend Policy of the PZU Group for the years 2013-2015 assumes dividend payment calculated on the consolidated net profit and capital surplus, where the total dividend to be paid out based on capital surplus 2013 – 2015 cannot exceed PLN 3 bn. Consequently, ROE will remain high and the Total Shareholder Return will increase.

The planned new capital policy implementation schedule assumes:

- paying a portion of the surplus capital of PLN 1.7 bn as an interim dividend of 2013 profit (paid on 19 November 2013);
- issue of subordinate debt of up to PLN 3 bn;
- for 2014 - 2015, paying other portions of the surplus capital as dividend, up to PLN 1.3 bn.

Dividend payment from capital surplus will depend on the issue of subordinated debt (up to PLN 3 bn) in line with the requirements of the Act on Insurance Activity and *Solvency II*. If the subordinated debt is not issued or it its amount is insufficient, or in case the Polish Financial Supervision Authority does not approve classification of the subordinated debt to own funds, the dividend from capital surplus will not be paid and the interim dividend (paid on 19 November 2013) will constitute a portion of thedividend calculated based on the consolidated net profit for 2013.

Key principles of the new capital policy are

Distribution of target prices from recommendations issued in 2013	December 2013	January 2013	Annual change
Highest target price	PLN 520	PLN 448	+ 16.1%
Median	PLN 445	PLN 424	+ 5.0%
Lowest target price	PLN 390	PLN 367	+ 6.3%

the following:

- focus on TSR;
- maintaining a safe level of own funds. Assuming maintenance of:
  - solvency margin coverage ratio of the PZU Group of ca. 400% and solvency margin coverage with own funds excluding subordinated debt of at least 250%;
  - equity level corresponding to Standard & Poor's AA rating;
- sufficient funds for development and acquisitions in the coming years.

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

In December 2012, all insurance companies operating on the Polish market received a Recommendation of the Head of Polish Financial Supervision Authority regarding restrictions on dividend payment. It recommended a prudent dividend policy and using profits generated in 2012 to enhance capital standing of the companies. Further, it recommended that only companies meeting specific criteria (detailed in the Recommendation) might consider dividend payment. Insurance companies meeting the specified criteria should limit dividend payment to the maximum of 75% of the 2012 profit maintaining the capital requirement coverage ratio after dividend of at least 110%. At the same time, the Recommendation allowed payment of dividend amounting to 100% of 2012 profit if the capital requirement coverage ratio after dividend is higher than 160% for section I companies or 200% for section II companies (as at 31 December 2012) and if the newest stress tests carried out for all tested risk types indicated the capital requirement coverage ratio of at least 110% and the ratio of covering technical provisions with relevant assets of at least 100%.

On 23 May 2013, General Shareholders' Meeting distributed the net profit for 2012 of PLN 2,580.7 bn in the following manner:

- PLN 2,564.7 m for shareholders' dividend (PLN 29.70 per share);
- PLN 6.1 m to supplementary capital;
- PLN 10.0 m to appropriations to the Company's Social Benefit Fund.

According to the Resolution on distribution of the net profit for the year ended 31 December 2012, 23 August 2013 was the dividend date, while 12 September 2013 was the payment date.

On 26 August 2013, pursuant to Article 349 of the Code of Commercial Companies, the Management Board of PZU adopted a resolution concerning the advance payment of dividend expected at the end of the 2013 financial year of PLN 1,727,046,000, i.e. PLN 20.00 per share. The advance was paid from profit generated during the six months ended 30 June 2013 in the amount of PLN 4,679,913,000, recognized in the separate financial statements of PZU for this period prepared in accordance with Polish Accounting Standards. On the same date, Supervisory Board of PZU passed a resolution accepting the payment of the interim dividend.

According to the resolution, 12 November 2013 was the dividend date, while 19 November 2013 was the payment date.

Following the Recommendation regarding dividend payment by insurance companies from profit generated in 2012, the supervisory body issued a recommendation regarding the payment of dividend from 2013 profit. In a letter of 11 December 2013 the supervisory body recommended that the insurance companies continue their prudent dividend policy using the generated profit to enhance their capital standing. At the same time, when deciding on the dividend amount, the insurance companies should include additional capital needs within the 12 months of the date of approving 2013 financial statements, among others arising from the growth of costs caused by changes in market and legal conditions and capital needs arising from the necessity to achieve compliance with Solvency II.

The supervisory body recommended the dividend to be paid only by insurance companies that meet all of the following criteria:

- received BION risk assessment above 2.5 for 2012;
- in 2013 did not disclose shortage of own funds to cover the solvency margin or guarantee capital or a shortage of assets to cover technical provisions (in quarterly or monthly periods);
- in 2013, were not included in a recovery plan referred to in Article 187.1 to 187.3 and 187.8 of the Act on Insurance Activity;
- as at 31 December 2013 their capital requirement coverage ratio (defined as the minimum of own funds/solvency margin and own funds/guarantee capital) reached at least 160% for section I companies or 200% for section II companies;
- whose stress tests carried out as at 31 December 2013 for all tested risk types indicated the capital requirements coverage ratio of at least 110% and the ratio of covering the technical provisions with relevant assets of at least 100%.

Insurance companies meeting the above criteria should limit dividend payment to the maximum of 75% of the 2013 profit maintaining the capital requirement coverage ratio after dividend of at least 110%. At the same time, the supervisory body allows using the entire 2013 profit for dividend payment if the coverage of capital requirements after dividend remains higher than the one determined in point 4 and the criterion determined in point 5 is met as at 31 December 2013 after dividend.

By the date of preparing this Report on the activities of PZU Group, the Management Board had not adopted a resolution concerning distribution of profit for 2013.

Dividend paid by PZU in 2011-2013

	2013	2012	2011
Net profit of PZU Group (in PLN mln)	3 29.7	3 255.2	2 345.4
Net profit of PZU (in PLN mln)	5 106.3	2 580.7	2 582.3
Dividend paid (PLN million)	1 727.0*	2 564.7	1 936.9
Percentage of net profit of PZU Group paid as dividend	nd	78.8	82.6
Percentage of net profit of PZU paid as dividend	nd	99,4	75.0
Dividend per share (in PLN)	49.70**	22.43	26.00
Dividend rate* (%)	11.1	5.1	8.4

** Dividend payable per share in the year when dividend was paid / market price per share on the last day of quoting in the year when dividend was paid*

*** In 2013, an advance dividend was paid from 2013 profit of PLN 20 per share.*

8.5 Rating

PZU and PZU Życie are regularly rated by Standard & Poor's Ratings 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 country financial situation. It also includes *outlook*, i.e. an assessment of the future position of the Company in the event of specific circumstances.

As at the date of the report, both companies had financial strength rating and the credit rating on the A level. This is the top S&P rating available for a Polish company.

As at the date of this Report, long-term credit rating in the local currency as at the date of the report was A with a stable outlook, while the credit rating for a foreign currency was A- with a stable outlook.

On 26 November 2013 S&P put PZU on its *CreditWatch Neg*. This is related to a change in the rating methodology linking the company's rating with the country rating for debts in foreign currencies to the risk of which the company is particularly exposed.

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

Company name	Rating and outlook	Update	Previous rating and outlook	Previous update
PZU				
Financial strength rating	A /watch/ CreditWatch Neg.	26 November 2013	A /stable/	23 July 2012
Credit rating	A /watch/ CreditWatch Neg..	26 November 2013	A /stable/	23 July 2012
PZU Życie				
Financial strength rating	A /watch/ CreditWatch Neg.	26 November 2013	A /stable/	23 July 2012
Credit rating	A /watch/ CreditWatch Neg.	26 November 2013	A /stable/	23 July 2012

9 CORPORATE SOCIAL RESPONSIBILITY

As a socially responsible financial institution, PZU includes a broad range of ethical, social and environmental issues in its business operations.

The top standards adopted by the PZU Group with regard to CSR are confirmed by its presence in *RESPECT Index* of socially responsible companies (of Warsaw Stock Exchange)and *CEERIUS* sustainable development index (*CEE Responsible Investment Universe*). *CEERIUS* is an index of Wiener Börse for Central and Eastern European (CEE) companies.

In 2013, PZU published its sustainable development report entitled *PZU 2.0 Zmieniamy się na dobre*, including actions and performance on social responsibility of PZU and PZU Życie for 2011-2012. The report was prepared on B+ level based on GRI G3 guidance using the supplement for the finance industry.

CSR activities support achievement of business objectives of PZU and include mostly the following areas:

- Client relations: ethics in cooperation as the basis of client relations; top service standards;
- Social actions, including care for financial awareness and complex security;
- Employee relations: building performance-oriented organizational culture;
- Environmental impact, in particular including employee education.

Ethics, regarding the firm as a whole and individual employees, is the foundation of all activities performed by PZU and the prerequisite of sustainable development. Both formal documents (*Good Practices in PZU, New Security Policy*) and values adopted by the Group are the benchmark for all ethical issues. Three key values of PZU:

- wisdom
- simplicity
- imagination.

9.1 Client relations

PZU aims at achieving top service standards and providing its clients with insurance protection adequate to their varying needs. The Company respects principles included in *Code of Good Insurance Practices* introduced by the Polish Chamber of Insurance (PIU).

In order to ensure appropriate terms of cooperation with clients and make them feel secure, PZU analyses their needs using a variety of tools to include:

- Client satisfaction survey. The Company performs regular surveys of client's satisfaction and loyalty. In 2013, 50,000 clients were surveyed, participating in one of the key processes including: sales of new policies, loss handling, post-sale support and policy renewal. Among others, client satisfaction with loss handling has been surveyed on a monthly basis. In 2013, the satisfaction ratio of loss handling clients was 91% (the survey included a sample of approx. 20,000 people). The Mystery Shopper method was also used to assess the work of branches, and client satisfaction with the contact center was tested.
  The research carried out in PZU allows not only determining clients' needs but also identifying areas for improvement and organizational strengths.
- Communication with clients. PZU has established an exceptional advisory body, the Client Council. It includes ten clients appointed for a single-year term of office. They provide opinions regarding selected initiatives of the firm, regarding among others: service quality, manners of communicating with clients, service processes, marketing materials, social actions. Along with the Client Council, posts in

social media and at You Tube are used to learn clients' views. Complaints are also an important source of information. Bearing in mind sensitivity of communication with unsatisfied clients, new, more client-friendly principles of complaint handling have been adopted.

- Education activities. The Company sponsors a number of educational initiatives, including: *Akcjonariat Obywatelski*, *Akademia Liderów Rynku Kapitałowego* and *Droga na Harvard.*

PZU takes utmost care for safety of entrusted and processed data. Therefore, Personal Data Protection Act is rigorously observed, allowing processing of data only if approved by its owner. As a data administrator PZU strictly controls which personal data are introduced, when and by whom, and to whom they are transferred. We also take special care for protecting of interests of individuals, in particular processing of data in accordance with the law, collect them for determined, legal purposes and refraining from further processing if not compliant with these purposes.

Availability of PZU services is another important advantage recognized by clients. Most outlets are located in towns up to 15 thousand of inhabitants and materially contribute to their growth.

PZU cares for appropriate relations with its suppliers and expects them to respect all valid regulations pertaining to their scope of operations. In particular, we focus on ensuring appropriate cooperation with agents, providing them with support programs, training (e.g. *Akademia Agenta*) and a new internal communication portal. Candidates for agents are trained as well. In 2013, 384 training sessions were held of r 7.5 thousand people.

9.2 Ethics in action

Both formal documents (*Good Practices in PZU, New Security Policy*) and corporate values adopted by the Group are the benchmark for all ethical issues.

The purpose of measures we undertake is to make all employees aware of the valid procedures and desirable attitudes regarding ethics and corporate governance. Therefore, e-learning courses on *Good Practices in PZU* and compliance have been included in the obligatory training module for all new hires.

Good practices in PZU

The document emphasizes the role of ethical standards applicable to all aspects of PZU operations and describes the best business practices. It promotes the culture of compliance with the law, ethical standards and responsibility for decisions taken. The set of values and principles is binding for all PZU employees and all external entities acting on behalf of PZU, e.g. agents, consultants, intermediates, and independent sub-contractors.

Each employee is obliged to follow the document and submit comments regarding its contents. Only such procedures allow maintaining suitably high ethical standards in the organization and ensuring appropriate quality of its operations.

PZU has developed additional regulations for members of its management and supervisory boards in the form of a document entitled *Ethical principles.*

Safety is another pillar supporting the trust in PZU. Safety regulations are included in the adopted documents, including Information *Security Policy for PZU SA / PZU Życie SA* and in *Fraud Preventing Policy for PZU SA /PZU Życie SA.*

The first paper regulates all key issues regarding protection of information, i.e. all data of business or legal value for PZU, e.g. personal data, insurance secrecy.

The other determines behavior that is not tolerated in PZU, and that should be treated as fraud, identifies procedures for employees to follow if a fraud is detected, and most of all, things to do to prevent fraud. *Anti-Money Laundering and Terrorism Funding Policy for PZU Życie SA* is an appendix to the *Anti-Fraud Policy*.

Education

In 2011-2013, training and information campaigns were carried out regarding security, insurance fraud and corruption prevention.

Any doubts, suggestions and irregularities may be reported on the phone, via mail, fax or during meetings with Compliance Coordinator, or to a special e-mail address (zareaguj@pzu.pl).

Ethics and transparency in external communications

We care for ethics and transparency in each stage of preparing and launching products available in our offer. The adopted *Procedure of Developing, Modifying and Implementing of Insurance Products* focuses on monitoring of the abusive clause records and continuous review of template agreements, as well as on compliance with recommendations of FSA, Office for Competition and Consumer Protection and Insured's Spokesman.

A project regarding improvement of marketing communications initiated in 2012 is a unique initiative, not only in the financial industry.

9.3 Employee involvement

Our employees acting upon corporate values and PZU brand including wisdom, simplicity and imagination is of special importance for us.

The Group has a written set of values and ethical principles called *Good Practices in PZU*. It has been assumed that each employee is a PZU brand ambassador and should be a role model, promoting ethical standards and compliance with norms that underlie the Company's reputation. Among others, the document states that in PZU relations are based on equal opportunities. In all processes, in particular in recruitment, evaluation of personal performance, promotion, professional development and participation in training, employees are offered equal opportunities regardless of their sex, age, efficiency, nationality, religion, political views, union membership, gender and type of employment (permanent or temporary, FTE or less).

In 2013, PZU signed the *Diversity Chart* joining the group of companies that support and promote equal treatment of employees. This is an international initiative promoted by the European Commission and coordinated in Poland by Responsible Business Forum. By signing the Chart, PZU committed to equal treatment of its employees, diversity management, as well as active prevention of discrimination and mobbing at work.

Regular employee involvement surveys taken by external entities and a number of initiatives, e.g. *Employee Days* are aimed at preventing discrimination in the firm's structures. The *Employee Days* are direct meetings of employees with HR Division aimed among others at collecting views regarding changes implemented in the organization. In 2013, they were organized in over 30 PZU entities employing nearly 8,000 people. Respect for an individual is also demonstrated in the form of fair, non-discriminating remuneration. We want our employees to be paid on a level comparable to other entities operating in the industry. The issue of remuneration and additional benefits is presented in the section entitled *Organization, Infrastructure and Human Resources* under *Staff Management*.

Open communication with employees is among the key objectives of our HR policy. The Whistleblowing System provides a communication path between PZU and its employees and other cooperating entities, e.g. agents. Gaining direct information from all structural levels, we allow employees, agents and other stakeholders sharing their opinions on the functioning of our organization. The dialogue with the employees has also the form of Employee Council activities, confidential surveys allowing feedback to a superior and the Intranet platform PZU24.

9.4 Social activities

Supported by PZU Foundation and using the prevention fund, we get strongly involved with social issues.

Prevention

As in previous years, in 2013 PZU carried out preventive actions to improve public safety and mitigate various risks:

- We have commenced cooperation with the Warsaw Marathon Foundation on the 35th PZU's Warsaw Marathon promoting health care and active lifestyle;
- We continued the cooperation with Tatra Voluntary Mountain Rescue (TOPR), Voluntary Mountain Rescue Service (GOPR) and selected groups of Voluntary Water Rescue Service (WOPR);
- We co-funded purchases of rescue equipment for fire brigades using the prevention fund;
- We continued cooperation with Misie Ratują Dzieci Association involving a long-term prevention and treatment of traffic accident effects on children;
- In cooperation with Stowarzyszenie Pomocy Niepełnosprawnym Kierowcom (Physically Impaired Driver Assistance Association) we carried out *Auto Mobility Centrum* program aimed at eliminating barriers for physically impaired individuals allowing them safe driving through substitution of physical dysfunctions;
- We continued the *Bezpieczna Flota* project addressed to professional drivers;
- We organized sports competitions for the mentally handicapped in cooperation with Special Olympics Poland;
- We co-funded the operations of *Zdążyć z Pomocą Foundation* involving purchases of arte-therapy equipment;
- We supported improvement in the safety of the Royal Łazienki Museum in Warsaw consisting in expansion of the technical safety system in the museum buildings and physical protection of people and property on the premises of the Museum.

In 2013, PZU acted as a sponsor and patron of various cultural and sport events – both local and countrywide. As the largest Polish insurance company, we cared for conservation of Polish cultural heritage supporting Royal Castle in Warsaw, Royal Łazienki Museum and National Museum in Kraków with Sukiennice, its key branch. As the Polish culture patron, we actively participated in the organization of the Night of Museums, preparing special PZU guest zones offering non-standard promotion of art and culture. We supported the celebration of the 400th anniversary of Słowacki Theater in Kraków and Jaracz Theater in Łódź. Our contribution allowed organization of Rzeszów Carpathia Festival. For a subsequent year, we have sponsored Willa Decjusza in Kraków and Bukowina Tatrzańska Municipality with its oldest non-sacral wooden structure called Dom Ludowy.

Caring for social education and promotion of science, in 2013 PZU supported organization of the Scientific Picnic by Polish Radio, Centrum Nauki Kopernik and Centrum Hewelianum in Gdańsk. Another year we have sponsored *Road to Harvard*, an opportunity for outstanding students.

Recognizing the importance of sport and healthy life style, PZU got involved in *Cavaliada*, a cycle of equestrian events held every year in Warsaw, Poznań and Lublin.

From mid-July to the end of August 2013, Nostres PZU zones were operating on the most popular beaches in Poland. The organizers offered guests with the relax zone and games for kids and adults.

PZU Foundation

The Foundation provides financing of projects carried out by non-government organizations and other organizational units, which statutory objectives are coincident with the areas of its activities.

Its operations have focused on the following areas:

- education, mostly supporting of initiatives that provide young people with equal opportunities of intellectual, professional and cultural development;
- social care and assistance, including supporting, promoting and developing activity of impaired people;
- culture and art, in particular supporting promotion of knowledge of Polish art and culture, artists, talented youth and organization of artistic events;
- health care, in particular supporting broadly-defined prevention initiatives.

In 2013, PZU Foundation spent PLN 12/7 mln for its statutory operations.

Education

Pomoc to Moc

PZU Foundation is financing mostly NGO projects supporting education initiatives in rural areas and small towns. In 2013, under *Z PZU po lekcjach* initiative, 20 organizations won subsidies for projects that extend the educational offer in small locations, to include:

- Fundacja Edukacyjnej Przedsiębiorczości in Łódź in the form of scholarship for students of science and arts from rural areas and small towns;
- Polska Fundacja Dzieci i Młodzieży in Warsaw, supporting the project *Świetlica Moje Miejsce* in Lubelskie and Podkarpackie Province;
- Krajowy Fundusz na rzecz Dzieci in Warsaw, funding of multi-disciplinary workshops for talented youth;
- Centrum im prof. Bronisława Geremka Foundation in Warsaw to be used for co-funding of historical workshops for students and teachers;
- Fundacja Młodzieżowej Przedsiębiorczości in Warsaw to fund a finance and insurance education project called *Od Grosika do Złotówki*.

Further, the Foundation granted one-off support to a number of other organizations.

Social care and assistance

PZU Foundation supports and promotes social inclusion of impaired individuals and co-funds employees of PZU Group facing personal problems. In 2013, seventeen organizations were awarded in *Młodzi Niepełnosprawni* competition with grants for social inclusion projects. One-off support was granted to the following organizations: Tatrzańskie Pogotowie Ratunkowe, Rzymskokatolicka Parafia św. Andrzeja Apostoła, Fundacja Świat Na Tak, Fundacja Dzieło Nowego Tysiąclecia, Stowarzyszenie Wiosna, Towarzystwo Opieki Nad Ociemniałymi, Stowarzyszenie Dzieciom Specjalnej Troski, Stowarzyszenie Cichy Kąt, Fundacja Bezdomniaki, Parafia Wszystkich Świętych, Fundacja Perpetum Mobile.

Health care

In 2013 PZU Foundation continued cooperation with Polish Oncologic Union in Warsaw, co-funding project that involved training of medical personnel in psycho-oncology.

Several one-off grants for other health care projects were issued.

Culture and art

PZU Foundation has been supporting initiatives promoting Polish culture and art, supporting artists and talented youth. In 2013, first time grants were awarded during *PZU z Kulturą* contest to 41 organizations from small towns that organized trips for kids and youth to culture centers.

At the same time, as in previous years, the Foundation cooperated with organizations supporting Poles abroad, to include: Fundacja Pomoc Polakom na Wschodzie, Fundacja Dobroczynności i Wsparcia Rozgłośni Radiowej *Znad Wilii* and Stowarzyszenie Wspólnota Polska.

In 2013, the Foundation donated a set of medals from the collection of Jan Henryk Dąbrowski to Muzeum Wojska Polskiego.

9.5 Volunteers among the PZU Group employees

The Employee Volunteer program was initiated in 2012 and in 2013 included 45 projects, among them 33 initiatives of employees submitted for the contest *Wolontariat to radość działania.* Other three projects were non-competition employee initiatives performed in Warsaw, Poznań and Tarnów. Further, PZU volunteers got involved in events related to the Children Day in Szczecin and Gródek and St. Claus actions in Sandomierz, Gdynia and Warsaw. In cooperation with Akademia Rozwoju Filantropii w Polsce, PZU Foundation initiated a countrywide social program called *Family Volunteers* (Wolontariat Rodzinny). In cooperation with Stowarzyszenie Wiosna, twenty Volunteer Leaders were trained, selected from among most active PZU Group employees, who coordinated preparation of Xmas packages for families around the country (under Szlachetna Paczka project).

Andrzej Klesyk, Chairman of the PZU Management Board, became a member of Volunteer CEO Coalition and according to its idea held workshops for students of Warsaw School of Economics active in Academic Business Incubators.

Knowledge sharing

PZU was involved in a number of events aimed at sharing of knowledge and experience with business environment. PZU participated in organization of: Economic Forum in Krynica, III European New Ideas Forum in Sopot, I Kongres CFO Spółek Giełdowych, VI Kongres Zarządów Spółek Giełdowych, *Wallstreet* conference, European Economic Congress, Kongres Nowego Przemysłu, International Sea Congress in Szczecin, Baltic Business Forum.

We cooperated with *Polityka* Weekly organizing a series of debates focused on important social issues and participated in meetings and reports of ThinkTank. Further, we cooperated with demosEUROPA Centre for European Strategy, which resulted in a series of debates for PZU management staff regarding among others pension systems and the role of Poland in Europe. A relationship established with Kurhaus Publishing, a publication entitled *Szkoła Liderów* was launched on the market with an introduction by Andrzej Klesyk. As in previous years, PZU co-organized Forbes Ball during which prestigious awards called Milestones are granted to biggest authorities in culture, business, politics, sports and social initiatives. PZU experts participated in foreign events, such as Lider Conference Zagreb and Yalta Finance Forum.

Charity

In November 2013, PZU Group won the first prize in the fourth edition of *Charity Leaders* contest as the company who spent most funds for social purposes. We won the award for the second subsequent year with the record donated amount exceeding PLN 65 mln.

9.6 Environmental impact

PZU 2.0 Strategy considers environmental impact management a factor building the organizational value. Our activities with this respect take two forms: of responsible internal resource management and of building environmental sensitivity and awareness among stakeholders: employees, clients, business partners, suppliers and representatives of local communities.

PZU cares for natural environment through:

- economic management of resources and raw materials. Using electronic data carries and limiting the use of paper in business is an important aspect of this activity. In order to reduce power consumption, we install energy-saving lighting and heating systems. Waste management and aiming at its full recycling (100 percent of electronic and paper waste recycled in PZU).
- Employee education. Key initiatives include: campaigns regarding use of consumables, recycling, e.g. involving employees in collection of mobile phones and environmental campaigns.

10 Corporate governance

10.1 Corporate governance principles applied by PZU

Since the date the Company's shares have been admitted to trading on a regulated market PZU has followed the corporate governance rules laid down in *Good practices of companies listed on WSE*.

The document was accepted by WSE Council on 4 July 2007 and has undergone several modification since then. The contents of *Good practices of companies listed on WSE* are available on the website devoted to corporate governance of WSE-listed entities (www.corp-gov.gpw.pl) and on the Company's website (www.pzu.pl) in the section dedicated to PZU's shareholders – *Investor Relations*.

Code of Good Insurance Practices adopted on 8 June 2009 by the General Meeting of the Polish Chamber of Insurance ("PIU"), an organization associating insurance companies operating in the Polish market is another document determining the manner of business operations and of developing relations with stakeholders. The document is available on the website:

http://piu.org.pl/zasady-dobrych-praktyk/project/132/pagination/1

Further, stakeholder relations are based on our internal *PZU Code of Good Practices*. The document is available on the website:

http://www.pzu.pl/c/document_library/get_file?uuid=f430d2f3-0ffa-4b72-add8-c53f3668c66a&groupId=10172;

10.2 Application of *Good Practices of Companies Listed on WSE*

Good Practices of Companies Listed on WSE have been effective since 1 January 2013 accepted by the Resolution of WSE Council regarding amendments thereto of 21 November 2012.

In 2013, PZU complied with the principles included in *Good Practices of Companies Listed on WSE* except from the one referred to in Section IV.10, regarding enabling shareholders' participation in general meetings using IT tools to allow mutual real-time communication and participating in discussions during the meeting for shareholders who are physically absent at the meeting venue. Further, PZU does not comply with recommendations of Section I.5, I.9 and I.12.

With regard to the principle referred to in Section IV.10, regarding enabling shareholders' participation in general meetings using IT tools to allow mutual real-time communication and participating in discussions during the meeting for shareholders who are physically absent at the meeting venue, please note that in our opinion, there are a number of technical and legal factors that may affect the course of a general meeting, and therefore the appropriate application of the above rule. Moreover, in our view, principles concerning participation in shareholders' meetings applicable in PZU allow for exercising rights from shares and protect interests of all shareholders. The communication regarding non-compliance with the principle included in Section VI.10 was submitted by the Company on 29 January 2013.

The following issues mentioned in section I of *Good practices of companies listed on WSE* defining *Recommendations concerning good practices of companies listed on WSE* should be emphasized:

- As for the recommendation included in Section 1.5 concerning the policy of remunerating members of management and supervisory bodies, remunerations of members of the Supervisory Board are determined by the General Shareholders' Meeting and those of the Management Board are set based on a resolution of the Supervisory Board.

- The policy of remunerating members of the management and supervisory bodies of PZU does not include all elements indicated in the recommendation of the European Commission of 14 December 2004 fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC), supplemented by recommendation of EC of 30 April 2009 (2009/385/EC). Moreover, PZU did not present a declaration presenting remuneration policy on its corporate website. The decision concerning future compliance with the said rule will be taken by the Supervisory Board and the General Shareholders' Meeting.
- At the same time, please note that implementing the Ordinance on current and periodic information[8], the Company discloses information regarding remuneration, awards or bonuses for each member of the managing and supervisory bodies in PZU on the annual basis.
- As for the recommendation specified in Section I.9 concerning gender parity principle to be followed in the Company's management and supervisory bodies, PZU has always pursued the policy of appointing competent, creative, experienced and educated people to the Company's bodies. The composition of the Management and Supervisory Board is determined based on a decision of the Supervisory Board or a General Shareholders' Meeting, respectively and other factors, such as sex, are not taken into account.
- With regard to the recommendation referred to in Section IV.12, regarding enabling shareholders' participation in general meetings using IT tools to allow mutual real-time communication and participating in discussions during the meeting for shareholders who are physically absent at the meeting venue, please note that in our opinion, there are a number of technical and legal factors that may affect the course of a general meeting, and therefore the appropriate application of the above rule. Moreover, in our view, principles concerning participation in shareholders' meetings applicable in PZU allow for exercising rights from shares and protect interests of all shareholders.

The announcement on non-compliance with these recommendations was not issued in line with the waiver of the obligation to publish issuers' reports referred to in Article 29.3 of the Regulations of WSE with respect to corporate governance principles set forth in Section I of *Good practices of companies listed on WSE*, in accordance with the resolution of the Management Board of WSE dated 11 December 2007 regarding partial waiver of the obligation to publish reports on corporate governance adopted on the WSE Main Market.

10.3 Control system applied during preparation of the financial statements

Financial statements are prepared within the PZU Finance Division including PZU Head Office (the Accounting Office) and central units operating based on applicable regulations. PZU Finance Division is supervised by a Member of the Management Board of PZU.

The elements which facilitate completing the process are the accounting principles (policy), the chart of accounts with a commentary and other detailed internal regulations approved by the Management Board of PZU specifying the key rules of recording business events in PZU and dedicated reporting systems.

Data is prepared in the source systems using formal operating and acceptance procedures which specify the competencies of individual persons.

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

PZU monitors the changes in the external regulations concerning e.g. the accounting policy (procedures) and

[8] Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information submitted by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state.

reporting requirements of insurance undertakings and carries out appropriate adaptation processes.

The accounting records are closed and financial statements are prepared in accordance with detailed schedules, including the key activities and control points with assigned liability for timely and correct completion.

The key controls during preparation of the financial statements include:

- controls and permanent monitoring of the quality of input data, supported by the financial systems with defined rules of data correctness, in accordance with the PZU internal regulations concerning the control of correctness of the accounting data;
- data mapping from the source systems to financial statements supporting appropriate presentation of data;
- analytical review of financial statements by specialists to compare them with the business knowledge and business transactions;
- formal review of the financial statements to confirm compliance with the valid legal regulations and market practice in terms of required disclosures.

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

Audit Committee

In accordance with the By-laws of PZU, the Supervisory Board of PZU appoints an Audit Committee composed of three members, with at least one of them qualified in accounting or auditing as understood by the Act on statutory auditors. The Audit Committee is an advisory and consultative body to the Supervisory Board of PZU and is appointed to improve the effectiveness of the supervision of the correctness of financial reporting of PZU, effectiveness of internal control, including internal audit and risk management, exercised by the Supervisory Board of PZU.

A certified auditor appointed by the Supervisory Board of PZU based on the recommendation of the Audit Committee reviews interim separate and consolidated financial statements of PZU and audits its annual separate and consolidated financial statements.

Activities within the consolidated financial reporting are coordinated through the organizational structure of the Finance Division in the PZU and PZU Życie Head Offices which is shared, i.e. organized based on a personal union and with persons important for financial reporting of the majority of consolidated entities with their registered office in Poland, employed for a FTE fraction. PZU controls all the consolidated subsidiaries through Management Boards and Supervisory Boards of the companies.

Consolidated financial reporting is governed by a number of internal regulations concerning the accounting principles (policy) adopted by the PZU Group and applied accounting standards, as well as detailed schedules including the key activities and control points with assigned liability for timely and correct completion.

10.4 Entity authorized to audit financial statements

On 8 May 2012 the Supervisory Board of PZU appointed Deloitte Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa with the registered office in Warsaw, Al. Jana Pawła II 19, entered on the list of entities authorized to audit financial statements under no. 73 by the National Chamber of Statutory Auditors as the entity authorized to audit:

- annual financial statements of PZU;
- annual consolidated financial statements of the PZU Group;

and to review:

- interim separate financial statements of PZU;
- interim consolidated financial statements of the PZU Group.

The entity has been appointed for two subsequent financial years, i.e. 2012 and 2013.

Fee of the entity authorized to audit financial statements	1 January - 31 December 2013	1 January - 31 December 2012
a) statutory audit of annual separate/consolidated financial statements	633	633
b) other attestation services including review of separate/consolidated financial statements	887	519
c) tax advisory services	416	377
d) other services	34	34
Total	**1 970**	**1 563**

Annex of 2 August 2013 modified the scope of work specified in the aforementioned agreement for the separate financial statements of PZU for the 6-month period ended 30 June 2013 so that the review of the condensed interim separate financial statements of PZU was replaced by an audit of the separate financial statements of PZU.

On 18 February 2014 the Supervisory Board of PZU appointed KPMG Audyt Sp. z o.o. sp. k. with the registered office in Warsaw, ul. Chłodna 51, 00-867 Warsaw, entered on the list of entities authorized to audit financial statements under no. 3546 by the National Chamber of Statutory Auditors as the entity authorized to audit financial statements, with whom an agreement on audit and review of financial statements will be concluded.

The scope of the agreement will include:

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

The work referred to above will include three subsequent financial years ending, respectively,

on 31 December 2014, 31 December 2015 and 31 December 2016 with an option to extend the agreement for further two financial years ending, respectively, on 31 December 2017 and 31 December 2018.

Former cooperation of PZU with KPMG Audyt included mostly tax advisory services.

10.5 Share capital and shareholders of PZU; stock held by members of its authorities

The share capital of PZU is divided into 86,352,300 ordinary shares with the face value of PLN 1 each, giving right to 86,352,300 votes on the General Shareholders' Meeting.

As at 31 December 2013 the State Treasury holding 30,385,253 shares, i.e. 35.2% of the share capital of the Company and gave the right to 30,385,253 votes the general meeting was the only shareholder of the Company with a significant block of shares.

Shareholding structure - as at 31 December 2013

Shareholder	Number of shares	Interest in the share capital	Share in votes at the General Shareholders' Meeting
State Treasury	30 385 253	35.19%	35.19%
Other shareholders	55 967 047	64.81%	64.81%
Total	86 352 300	100.00%	100.00%

In 2013 the shareholding structure of PZU did not change. The Management Board of the Company has no knowledge about concluded agreements which may result in changes in the proportion of shares held by the shareholders.

PZU did not issue, redeem or repay any debt or equity securities that would provide its shareholders with special control rights.

In 2012 and 2013 no employee stock ownership plans existed in PZU.

In line with the PZU's By-laws the voting right of the shareholders was restricted in a way that none of them can exercise more than 10% of the total number of votes at PZU at the date of the general meeting, with the reservation that for the purpose of determining obligations of parties acquiring material blocks of shares provided for in the Act on public offering and the Act on insurance activity, such voting restrictions are considered non-existent. The restrictions do not apply to:

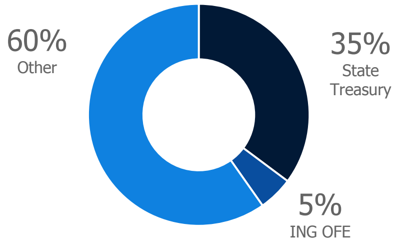
- Shareholders who held shares entitling to more than 10% in the total number of votes in the Company as at the date of adopting a resolution of the General Shareholders' Meeting;
- Shareholders co-acting with shareholders defined in item 1 based on agreements concerning joint voting rights attached to the shares.

For the purposes of voting rights restrictions, the votes of the shareholders being parent companies or subsidiaries will be added up in line with the principles specified in the By-laws.

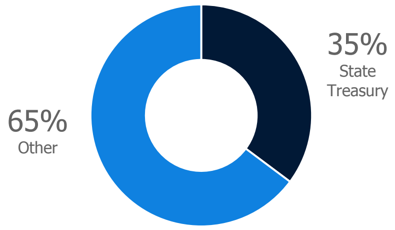
In case of any interpretation doubts with respect to the voting restrictions, Article 65.2 of the Civil Code will apply.

In line with the PZU's By-laws, the above voting restrictions will expire starting from the moment when a share of a shareholder who, at the date of adopting a resolution of the Shareholders' Meeting introducing the restriction held shares entitling him to more 10% in the total number of votes in the Company, drops below 5% of the share capital.

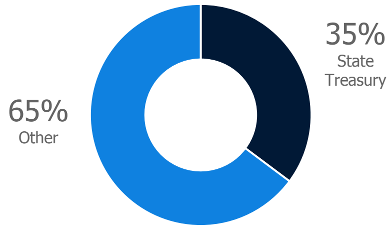
PZU shareholding structure as at 31.12.2011



PZU sharehoding structure as at 31.12.2012



PZU shareholding structure as at 31.12.2013



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

No.	Body / Name and surname	Number of shares held as at 13 March 2013	Number of shares held as at 12 March 2014	Change between dates
	Management Board			
1	Andrzej Klesyk	0	0	X
2	Przemysław Dąbrowski	0	0	X
3	Bogusław Skuza (Board member until 31 December 2013)	500	500	X
4	Ryszard Trepczyński	0	0	X
5	Tomasz Tarkowski	80	80	X
6	Dariusz Krzewina (Board member until 15 March 2013)	0	0	X
7	Barbara Smalska (Board member since 15 March 2013)	0	0	X
	Group Directors			
1	Rafał Grodzicki	0	0	X
2	Dariusz Krzewina (Director until 14 March 2013)	0	0	X
3	Przemysław Henschke	0	0	X
4	Sławomir Niemierka	0	0	X
5	Barbara Smalska (Director until 14 March 2013)	0	0	X
6	Tobiasz Bury (Director since 16 January 2014)	50	50	X
	Supervisory Board			
2	Waldemar Maj	30	30	X
3	Zbigniew Ćwiąkalski	0	0	X
4	Tomasz Zganiacz	0	0	X
5	Dariusz Daniluk	0	0	X
6	Zbigniew Derdziuk			X
8	Dariusz Filar	0	0	X
9	Włodzimierz Kiciński	30	30	X
10	Alojzy Nowak	0	0	X
11	Maciej Piotrowski	0	0	X
Total		**690**	**690**	**X**

10.6 By-laws of PZU

Amendments to By-laws

The By-laws of PZU can be amended by the General Shareholders' Meeting in the form of a resolution passed by a majority of three fourths of votes. In cases specified in the Act on Insurance Activity such change must be approved by the FSA and then recorded in the National Court Register. The Supervisory Board can approve the unified amended text of the By-laws.

In 2013 the By-laws of PZU were not amended.

10.7 General Shareholders' Meeting, Supervisory Board and Management Board

General Shareholders' Meeting

The General Shareholders' Meeting is the highest body of PZU. The general operational principles and the rights of the General Shareholders' Meeting have been determined by the Code of Commercial Companies and the By-laws.

The By-laws are available on PZU's corporate website (www.pzu.pl) in the "Investors relations" section, tab: "Company".

The General Shareholders' Meeting did not issue its Regulations.

The General Shareholders' Meeting is a body authorized to make decisions concerning issues related to the organization and operations of the Company. Resolutions of the General Shareholders' Meeting are adopted by an absolute majority of votes, except for cases specified in the Code of Commercial Companies or the By-laws.

The competencies of the General Shareholders' Meeting, in addition to those specified in the Commercial Companies Code and the By-laws of PZU, include passing resolutions concerning the following:

- examination and approval of the Management Board report on the company's activities, financial statements for the previous financial year and acknowledgment of the fulfilment of duties by members of the company's authorities;
- profit distribution or loss coverage;
- making decisions concerning claims for redressing damage inflicted upon formation of the Company or exercising management or supervision;
- disposal of the enterprise or its organized part or its lease or establishment of a limited property right;
- redemption of shares or issue of bonds;
- creating reserve capitals and making the decision whether to use them and if so, how;
- division of the Company, its combination with another company, its liquidation or dissolution;
- appointing and dismissing members of the Supervisory Board, subject to the right granted to the State Treasury to appoint and dismiss one member of the Supervisory Board;
- establishing the rules of remunerating members of the Supervisory Board;
- acquisition or disposal of real property, perpetual usufruct or share in real property or in perpetual usufruct with a value exceeding the equivalent of a gross amount of EUR 30.0m (thirty million euro).

In accordance with the By-laws, a majority of three fourths of votes is required to pass resolutions on the following:

- amendments in the By-laws;
- a decrease in the share capital;
- disposal of the enterprise or its organized part or its lease or establishment of a limited property right.

A majority of 90% of votes at the General Shareholders' Meeting is required to pass resolutions relating to the following:

- preference shares;
- Company's business combination by transferring all its assets to another company;
- its merger by forming a new company;

- dissolving the Company (also as a result of moving its seat or the head office abroad);
- its liquidation, transformation or reduction in the share capital through redemption of a portion of shares without a similar capital increase.

The General Shareholders' Meeting is held:

- as an Ordinary General Shareholders' Meeting which should be held within six months from the end of each financial year;
- as an Extraordinary General Shareholders' Meeting which is convened in cases specified in the generally applicable law and the By-laws.

The General Shareholders' Meetings are held in Warsaw and convened by placing an appropriate announcement on PZU's website in accordance with the method for providing current information specified in the Act on public offering, conditions governing the introduction of financial instruments to organized trading, and public companies of 19 July 2005, i.e. in the form of current reports. Such announcement should be made not later than 26 days before the date of the General Shareholders' Meeting. From the date of convening the General Shareholders' Meeting the announcement with materials presented to shareholders at the General Shareholders' Meeting are available on PZU's corporate website (www.pzu.pl) in section "Investors relations", tab "General Shareholders' Meeting". A duly called General Shareholders' Meeting is deemed valid regardless of the number of attending shareholders or number of represented shares.

The General Shareholders' Meeting is opened by the Chairman of the Deputy Chairman of the Supervisory Board and then the Chairman of the Shareholders' Meeting is elected. In the absence of the Chairman and Deputy Chairman of the Supervisory Board, the General Shareholders' Meeting is opened by the Chairman of the Management Board or a person designated by the Management Board.

The General Shareholders' Meeting may adopt resolutions regardless of the number of attending shareholders or number of represented shares. Resolutions are passed in an open ballot. The secret ballot vote is used when appointing and dismissing members of the Company's bodies or liquidators, in cases of their personal responsibility towards the Company, and in personal cases, except when an open ballot method is required by the applicable law, upon request of any shareholder present or represented at the General Shareholders' Meeting.

The rights of the shareholders and the method of exercising thereof at the General Shareholders' Meeting are specified in the Code of Commercial Companies and the By-laws.

Only persons who were shareholders of the Company 16 days before the date of the General Shareholders' Meeting have the right to participate in the Meeting (date of registration of attendance at the Meeting). Shareholders may attend the General Shareholders' Meeting and exercise the right to vote personally or through a proxy. The power of attorney to participate in the General Shareholders' Meeting and to exercise the voting right may be granted in writing or in an electronic form.

One share of PZU gives the right to a single vote at the General Shareholders' Meeting, including restrictions with respect to exercising the voting rights described in the Company's By-laws. The shareholder has the right to vote in a different manner under each share held.

During the General Shareholders' Meeting each shareholder may provide resolution drafts concerning items on the agenda.

In accordance with the Code of Commercial Companies, detailed procedures concerning participation in the General Shareholders' Meeting and exercising the voting rights are always presented in an announcement of the General Shareholders' Meeting published on the date of convening the Shareholders' Meeting on PZU's corporate website (www.pzu.pl), section "Investors relations", tab "General Shareholders' Meeting".

Composition, powers and functioning of the Supervisory Board

Composition

The Supervisory Board is composed of seven to eleven members. The number of members is specified at the General Shareholders' Meeting.

Members of the Supervisory Board are appointed by the General Shareholders' Meeting for a shared term which includes three consecutive full financial years.

At least one member of the Supervisory Board must be qualified in accounting or auditing, as understood by the Act on statutory auditors and their self-governing body, auditing firms and on public oversight of 7 May 2009. Furthermore, at least one member of the Supervisory Board should meet the independence criteria specified in the By-laws (Independent Member) concerning e.g. professional and personal relations, especially with members managing or supervising PZU and entities in the PZU Group. The *Independent Member* has to present a written statement that all independence criteria provided for in the By-laws have been met and inform the Company when the criteria are no longer met. In addition, the By-laws give the State Treasury the right to appoint and dismiss one member of the Supervisory Board by way of a written statement submitted to the Management Board. The right will expire once the State Treasury ceases to be the Company's shareholder.

Composition of the Supervisory Board of PZU as at 1 January 2013:

- Waldemar Maj Chairman
- Zbigniew Ćwiąkalski Vice-Chairman
- Tomasz Zganiacz Secretary
- Dariusz Daniluk Member
- Zbigniew Derdziuk Member
- Dariusz Filar Member
- Włodzimierz Kiciński Member
- Alojzy Nowak Member
- Maciej Piotrowski Member

The criteria of an Independent Member of the Supervisory Board were met by Dariusz Daniluk and Dariusz Filar.

The composition of the Supervisory Board did not change in 2013.

The current term of office of the Supervisory Board of PZU started on 30 June 2011 and will end after the lapse of three financial years. The mandates of members of the Supervisory Board expire not later than on the date of the General Shareholders' Meeting approving the financial statements for the last full financial year of their term, i.e. on the date of the General Shareholders' Meeting in 2015.

Waldemar Maj - Chairman of the Supervisory Board

Graduated from the Faculty of Technical Physics and Applied Mathematics of the Technical University of Warsaw, obtained ScD from the Institute of Physics of the Polish Academy of Sciences and MBA from Harvard Business School, U.S.A. Awarded with the Officer's Cross of the Order of Polonia Restituta. In 1981-1991 he was junior lecturer and assistant professor at the Institute of Physics of the Polish Academy of Sciences, postdoctoral fellow at the Kamerlingh Onnes Laboratorium in Leiden, the Netherlands. From 191 to 1994 he was adviser to the Minister of Finance; Chairman of the Management Board of the Foundation for the Development of the Financial System; Chairman of the Supervisory Board of Bank Gdański S.A.

In 1996-2000 he worked as a senior investment officer in the International Finance Corporation (The World Bank Capital Group, Washington, U.S.A.). From 2000 to 2002 he was senior associate in the U.S. strategic advisory firm McKinsey & Company in Warsaw. In 2002 he was appointed Chairman of the Management Board of AmerBank S.A./DZ Bank Polska S.A. and held the position until 2004 when he became Member of the Management Board of BGŻ S.A. in charge of corporate and treasury banking, which he held until 2007. From 2007 to 2008 he was Deputy Chairman and CFO at PKN Orlen S.A. in charge of finance and investor relations functions.

Currently, he is Member of the Supervisory Boards of PZU and Ciech SA, and the founding Partner of Metropolitan Capital Solutions Sp. z o.o. SKA, a provider of strategic and transaction advisory services.

Tomasz Zganiacz – Secretary of the Supervisory Board

He is an engineer and MBA graduate. He is an experienced and highly qualified manager with advanced knowledge of tools for restructuring, efficiency improvement, especially in financial management and investment valuation. He has been involved in many projects carried out by enterprises from various industries; he has worked with commercial and investment banks, brokerage offices and other players on the capital market. He has been in charge of finance, preparation and implementation of investment projects and has co-authored development strategies. He has broad experience in managing commercial companies; among others, he was member of the Warsaw Stock Exchange Supervisory Board

Until 2009, before he became Chairman of the listed development company Triton Development S.A., Mr. Tomasz Zganiacz was Deputy Chairman and CFO of the listed company Arksteel, head of credit at Societe Generale, a researcher and lecturer at the Faculty of Production Engineering of the University of Warsaw, and was a participant in the National Investment Funds programme.

From 2009 he was Director in the Ministry of the State Treasury in charge of capital market transactions and corporate governance in financial institutions. At present he is Member of the Supervisory Board of PZU and PKO BP SA.

Zbigniew Ćwiąkalski – Deputy Chairman of the Supervisory Board

He graduated from the Faculty of Law at the Jagiellonian University in Kraków in 1972. He was an academic teacher at the Jagiellonian University, University in Rzeszów, and the School of Law and Public Administration in Przemyśl. Since 1988, h has been partner in one of the leading law firms specialising in business law T. Studnicki, K. Płeszka, Z. Ćwiąkalski, J. Górski, sp. k. He is deputy Chairman of the Supervisory Board of the International Airport in Kraków. He was Member of the Supervisory Board of Bank Przemysłowo-Handlowy in Kraków, and from 16 November 2007 to 21 January 2009, he served as the Minister of Justice – Attorney General in PM Donald Tusk's Cabinet. Currently, he is Member of the Supervisory Board of PZU.

Dariusz Daniluk – Member of the Supervisory Board

He has graduated from the Faculty of Law and Administration of the University of Warsaw; he has completed post-graduate studies in European Community Law and Economics at the University of Warsaw, and international finance and banking at the University of Southampton. He worked in the General Inspectorate of Banking Supervision, the Department of International Financial Institutions and the Foreign Department of the National Bank of Poland, and Bank Gospodarki Żywnościowej S.A. He was member of the Internal Audit Committee of the European Central Bank. His publications cover banking law, banking supervision and regulations regarding financial institutions. In 2008-2011 he was undersecretary of state in the Ministry of Finance. From 2008 to April 20th 2011 he was a member of the Polish Financial Supervision Commission. From 2009 he was appointed Chairman of the Council of the Bank Guarantee Fund. In 2011 – 2013 he served as Chairman of Bank Gospodarstwa Krajowego. Since January 2014, he has been Chairman of the Management Board of Trade Trans Sp. z o.o., a leading transport company in the PKP Cargo S.A. Capital Group.

Zbigniew Derdziuk – Member of the Supervisory Board

He has a degree from the Faculty of Sociology of the University of Warsaw. In 1996, he completed post-graduate studies in turnaround management and received a diploma from the Institute of Organisation and Management in the Industry "ORGMASZ " and Swedish M-Gruppen Consulting Group. He has completed numerous training courses in finance and management. He has many years of experience working in middle and senior management positions, including Director of the Office of Analysis and Strategic Planning in Telewizja Polska SA; Deputy Head of the Marketing Department in Polski Bank Inwestycyjny; Deputy Head of the Promotion and Communication Department in PKO BP SA; Director of the Office of the Management Board in Telewizja Familijna; Deputy Chairman of the Management Board of Bank

Pocztowy SA. He has also gained broad experience in administration during his employment as Director of the Office of the Head of the Chancellery of the Sejm; Secretary of State in the Chancellery of the Prime Minister, including Deputy Head of the Chancellery – Member of the Cabinet; Head of the Standing Committee of the Cabinet; Secretary of the Capital City of Warsaw. Since 2009, he has been Chairman of the Polish Social Insurance Institution. His extensive experience as member of supervisory bodies extends to companies PKP Polskie Linie Kolejowe SA, Przedsiębiorstwo Robót Drogowo Mostowych w Tomaszowie Lubelskim, Metro Warszawskie, Bank Gospodarstwa Krajowego, Totalizator Sportowy sp. z o.o., PKO BP SA, OBOP, Postdata SA, Winuel SA.

Dariusz Filar

He was born in Gdynia on August 18th, 1950. He began working as a lecturer at the Faculty of Economics of the University of Gdansk; since 1992 he has been professor extraordinarius. He was visiting professor at the Center for Russian and East European Studies (CREES), University of Michigan, Ann Arbor (USA) in 1992-1995 and lecturer at the Central European University in 1998-2001.

In 1980s., he contributed to the underground political publications and published commentaries in The *Wall Street Journal.* Since 1988, he has cooperated with the editorial team of the quarterly *Przegląd Polityczny.* He also publishes articles and comments on economic matters in *Rzeczpospolita* and *Gazeta Wyborcza* daily newspapers. In 1999 - 2004 he was Chief Economist Bank Pekao S.A. In 2004 – 2010 he served as Member of the Monetary Policy Council of the National Bank of Poland. In March 2010 he was appointed member of the Economic Council to the Chairman of the Council of Ministers.

Włodzimierz Kiciński - Member of the Supervisory Board

In 1986 graduated from Foreign Trade Faculty of the present Warsaw School of Economics and in 1989 from Mechanical and Technological Faculty of Warsaw University of Technology. In 1988-1989 participated in post-graduate courses at Gutenberg University in Mainz, Germany, Foreign Trade Theory Institute. He has won a number of prestigious awards, including the title of Bankowy Menedżer Roku 2010 and Lider Polskiego Biznesu Business Centre Club received in 2009. In 2006 he was honored with Krzyż Kawalerski Orderu Polonia Restituta and in 2011, Krzyż Oficerski Orderu Polonia Restituta (Order of Rebirth of Poland).

In 1990-1991 was an advisor in Central Europe Trust sp. z o.o. Since 1991, member of several supervisory boards, including International Economic Cooperation Bank and International Investment Bank in Moscow, Wielkopolski Bank Rolniczy S.A. in Kalisz, Nordea Polska Towarzystwo Ubezpieczeń na Życie S.A., Związek Banków Polskich (ZBP), Nordea Powszechne Towarzystwo Emerytalne S.A., KGHM International Canada, Ltd., KGHM (Shanghai) Copper Trading Co., Ltd.

In 1991 - 1994 acted as Foreign Department Director in the National Bank of Poland. In 1994-1995 an advisor in Bayerische Hypotheken- und Wechsel-Bank AG in Munich, and from 1995 to 1998 Deputy Chairman in the Management Board of Zarządu Hypo-Bank Polska S.A. and in ltach. In 1999-2002 Deputy Chairman in Bank Gospodarki Żywnościowej S.A. In 2002-2011 Chairman of the Management Board in Nordea Bank Polska S.A. In 2012-2013 the first deputy chairman in KGHM Polska Miedź SA.

Since 1998 a member of Supervisory Regulatory Committee in Association of Polish Banks, in 1991 member of the Polish delegation negotiating with the Paris Club, and in 1991-1994 member of the Polish delegation negotiating with the London Club. In 1997-1998 representative of banks with foreign capital in Association of Polish Banks and in 1997-1999 member of the Program Council in Fundacja na rzecz Kredytu Hipotecznego. In 1999-2002 Chairman in Banking Card Issuer Council, and in 2009-2011 member of Managing Committee for New European Market (Poland, Russia Baltic States) in the Nordea Group.

Alojzy Zbigniew Nowak - Member of the Supervisory Board

In 1984 graduated from the present Warsaw School of Economics and in 1992 from University of Illinois at Urbana - Champaign, USA, M.A. in economics. In 1993 completed studies in banking, finance and capital markets at Exeter, UK, and in 1996 economic studies at Free University of Berlin, while in 1997 in International Economics at RUCA. In 2002 gained the title of Professor of Economics.

He has won a number of prestigious awards, including Rector Award for Scientific Achievements (annually since 1997), Award of the Minister of Education for a book *Integracja europejska. Szansa dla Polski?* and *Banki a gospodarstwa domowe - dynamika rozwoju*. Member of scientific organizations and professional editing boards of periodicals, among others *Foundations of Management* (member), *Journal of Interdiscciplinary Economics* (editor in chief), *Yearbook on Polish European Studies*, *Mazovia Regional Studies*, *Gazeta Bankowa* and a reviewer in PWE SA Warszawa editing company. A long-term committee member of *Teraz Polska* Award and scientific council member of *Studia Europejskie*.

He gained his professional experience working as head of International Business Relations Section at Management Faculty, University of Warsaw, head of National Economy Unit at Management Faculty, University of Warsaw, Director of European Center at University of Warsaw, Deputy Dean in charge of foreign cooperation at Management Faculty, University of Warsaw, dean at Management Faculty, University of Warsaw and Deputy Rector in charge of scientific research and cooperation, University of Warsaw. He is a lecturer at University of Warsaw, and also in France, UK, U.S., Russia, China and Korea.
Further, he worked as: advisor to the Prime Minister, to the Minister of Agriculture, President of University Sports Association at University of Warsaw, member of the advisory committee NewConnect at Management Board of Warsaw Stock Exchange, member of the Foundation Council of the National Bank of Poland, chairman of the Scientific Council of the National Bank of Poland.

He held positions in supervisory boards of various institutions, to include: PTE WARTA S.A., PKO BP S.A., JSW S.A., Chairman and Deputy Chairman of the Supervisory Board in EUROLOT S.A.

Maciej Piotrowski - Member of the Supervisory Board

In 1989 Maciej Piotrowski graduated from Faculty of Fundamental Problems of Technology at Wrocław University of Technology. In 1998-1990 was a student at post-graduate Foreign Trade courses at Wrocław University of Economics; from 1990 to 1991 he studied finance at the same University, and in 1990-1994, he participated in Ph.D. studies at Wrocław University of Technology. In 199501997 participated in Master of Business Administration University of Illinois at Urbana-Champaign co-organized with University of Warsaw (M.A. in Management and Marketing). Participated in a number of domestic and foreign seminars and courses on banking, finance and capital markets. In 1991 obtained a security broker license (in 1992, won WSE President Award for the best broker) and in 2004 obtained a license for candidates for supervisory board members in State Treasury companies.

In 1991-1997 gained professional experience working as securities broker, deputy director in a Broker Office, managing director in charge of investment banking in Bank Gdański S.A. From 1997 to 1999 was an investment banking director in Bank of America (Poland) S.A. In 2000-2002 was a managing director in charge of investment project funding and Vice President Global corporate & investment banking in Bank of America (Poland) S.A., then from 2002 to 2007 held the following positions: Management Board Chairman in TP Invest Sp. z o.o. and Management Board Chairman in Towarzystwo Emerytalne Telekomunikacji Polskiej S.A. in Telekomunikacja Polska S.A. Capital Group. In 2008-2013 was Deputy CEO in charge of finance and administration in Polska Agencja Żeglugi Powietrznej, and in 2013 temporarily acted as its CEO. Since January 2014, Deputy Chairman of the Management Board in Bank Gospodarstwa Krajowego.

He held positions in supervisory boards of various institutions, to include: Supervisory Board Chairman in Bank Gospodarstwa Krajowego, Member of the Supervisory Commission of Bank Przemysłowy in Łódź established by National Bank of Poland, Supervisory Board Member in Metro Warszawskie sp. z o.o., and since 2013 Supervisory Board Member in Enea Wytwarzanie SA.

Competencies

The Supervisory Board exercises constant supervision over the company's activities in all aspects of its business.

In accordance with the By-laws, the powers of the Supervisory Board include:

- review of the Management report on the activities of the Company and financial statements for the previous financial year in terms of their compliance with the accounting records, documents and facts;
- review of the motions of the Management Board concerning profit distribution or loss coverage;
- presenting the General Shareholders' Meeting with a written report on the results of the review described above and submitting a brief annual assessment of the situation of the Company including internal controls and key risk management and an annual report on the work of the Supervisory Board;
- concluding, terminating and amending the agreements with members of the Management Board and setting the terms and conditions of remuneration and the amount of remuneration;
- appointing, suspending and dismissing the Chairman of the Management Board, members of the Management Board or the entire Management Board, as well as making decision to stop the suspension;
- agreeing to transfer the entire or portion of the insurance portfolio;
- accepting motions of the Management Board concerning acquisition, assumption or disposal of shares in companies, as well as the Company's participation in other entities - the Supervisory Board may specify the amount, terms and conditions and the way in which the Management Board may carry out the activities without the acceptance of the Supervisory Board;
- delegating members of the Supervisory Board to temporarily perform the functions of members of the Management Board who have been dismissed, resigned or cannot perform their functions for other reasons;
- accepting instructions concerning votes being cast by the Company's representatives during general shareholders' meeting of PZU Życie

concerning: an increase and decrease in the share capital, bonds issue, disposal and lease of a PZU Życie enterprise or establishment of a usufruct right, division of PZU Życie, combination of PZU Życie with a different company, liquidation or termination of PZU Życie;
- selection of the entity authorized to audit the financial statements which will audit the annual financial statements of the Company;
- wording of the consolidated amended By-laws;
- approval of the long-term plans for the development of the Company and annual financial plans drafted by the Management Board;
- approval of the regulations of the Management Board;
- examination and evaluation of issues submitted by the Management Board for discussion during the General Shareholders' Meeting.

Moreover, the Supervisory Board grants consent to:

- acquisition or disposal of a real property, perpetual usufruct or share in the real property or in perpetual usufruct exceeding the equivalent of EUR 3m.
- conclusion of a material agreement as understood by the Ordinance on current and periodic information by the Company and its related party, excluding standard agreements concluded by the Company on an arm's length basis as part of its operating activities (consent will be required on the date of the first listing on WSE);
- conclusion of the agreement with the underwriter referred to in Article 433.3 of the Code of commercial companies;
- advance payment against expected dividend;
- creation and closing of regional and foreign branches.

Mode of operation

The Supervisory Board adopts the Regulations of the Supervisory Board specifying its organization and the manner of performing activities. The regulations of the Supervisory Board were adopted by its Resolution of 9 October 2012 and specify its composition and the way in which its members are appointed, the tasks and the scope of its activities and the manner of calling the Supervisory Board and conducting debates.

The By-laws stipulate that the Supervisory Board should meet at least once every quarter. The Supervisory Board may delegate its members to fulfil specific supervising activities on their own and to this effect appoint temporary committees. The scope of responsibility of a delegated member of the Supervisory Board and the committee is specified in a resolution of the Supervisory Board.

Resolutions of the Supervisory Board are adopted by an absolute majority of votes. In the event of a voting tie, the Chairman of the Supervisory Board has the casting vote. The resolutions of the Supervisory Board may be adopted using means of direct distant communication and circular vote. Additionally, the By-laws stipulate that a vote may be cast in writing through another member of the Supervisory Board.

In accordance with the By-laws, the resolutions of the Supervisory Board are adopted in an open ballot, except for resolutions concerning appointment of the chairman, Deputy Chairman and the Secretary of the Supervisory Board, delegation of members of the Supervisory Board to temporarily fill in for members of the Management Board and for resolutions with respect to appointing, suspending and dismissing the Chairman of the Management Board, members of the Management Board or the entire Management Board as well and taking decision to stop such suspension which are adopted in a secret ballot. Moreover, a secret ballot may be chosen on request of a member of the Supervisory Board.

The Supervisory Board appoints the Chairman and the Deputy Chairman of the Supervisory Board from its members and it may also select the Secretary of the Supervisory Board.

In accordance with the Regulations of the Supervisory Board, apart from appointing the audit committee and promotion and compensation Committee, provided for in the By-laws to properly perform its supervision, the Supervisory Board may appoint other permanent advisory and consultative committees whose competencies, composition and way of work is specified by regulations adopted by the Supervisory Board. The regulations of the Supervisory Board stipulate that the Supervisory Board and the appointed committees may use the services of experts and advisory companies.

Members of the Management Board, employees of the Company competent for the discussed issue, selected by the Management Board and other persons invited by the Supervisory Board may take part in the meetings of the Supervisory Board, however, they cannot cast votes. In specific cases, the Supervisory Board of PZU may also invite members of the management board or a supervisory board of a different company in the PZU Group. Moreover, members of the Supervisory Board, upon consent of the Supervisory Board, may select one advisor authorized to take part in the meetings of the Supervisory Board devoted to reports and financial statements, and give their advice, provided that such person respects confidentiality and signs a confidentiality statement.

At present, the following committees function as part of the Supervisory Board of PZU SA:

- Audit Committee
- Promotion and Compensation Committee
- Strategy Committee.

The By-laws provide for appointing an Audit Committee by the Supervisory Board**.** The Committee is composed of three members, including at least one independent members qualified in accounting or auditing. Detailed tasks and terms and conditions of appointing members of the Audit Committee and its functioning have been specified in a resolution of the Supervisory Board, which views relevant competencies and experience of the candidates for members of the Committee.

In accordance with the Regulations of the Audit Committee adopted by a resolution of the Supervisory Board, the Audit Committee is an advisory and consultative body to the Supervisory Board and is appointed to improve the effectiveness of the supervision of the correctness of financial reporting, effectiveness of internal control, including internal audit and risk management, exercised by the Supervisory Board. Moreover, the Audit Committee may apply to the Supervisory Board for commissioning specific controls in the Company to be exercised by an internal or external entity.

The Supervisory Board appointed the Audit Committee on 3 June 2008. Composition of the Audit Committee as at 1 January 2013:

- Dariusz Filar – Chairman
- Dariusz Daniluk – Member
- Tomasz Zganiacz – Member.

Dariusz Filar was indicated by the Supervisory Board as an independent member, having accounting and audit qualifications as defined in Article 86.4 of the Act on statutory auditors.

As at 31 December 2013 the composition of the Audit Committee had not changed.

In accordance with the Regulations of the Supervisory Board, once the Company’s shares are listed on a regulated market, as understood by the Act on trading in financial instruments of 29 July 2005, the Supervisory Board my appoint a Promotion and Compensation Committee.

In accordance with the By-laws, detailed responsibilities and the method of appointing members of the Promotion and Compensation Committee, the way it works and remuneration are specified in a resolution of the Supervisory Board. The Committee should include at least one independent member. If the Supervisory Board includes five members elected in a vote, the Promotion and Compensation Committee is not appointed and its tasks are carried out by the entire Supervisory Board.

According to the regulations of the Promotion and Compensation Committee adopted by a resolution of the Supervisory Board of 4 April 2013, it is an advisory and consultative body to the Supervisory Board and is to improve efficiency of the Board's supervisory activities related to establishing the management structure, including organizational issues, remuneration system, remuneration principles and selection of properly qualified staff.

The Supervisory Board decided that the promotion and compensation committee would be composed of five persons. Composition of the Promotion and Compensation Committee as at 1 January 2013:

- Zbigniew Ćwiąkalski – Chairman
- Zbigniew Derdziuk – Member
- Dariusz Filar – Member
- Maciej Piotrowski – Member
- Tomasz Zganiacz – Member.

As at 31 December 2013 the composition of the Committee had not changed.

The Committee is dissolved once five members of the Supervisory Board are elected in a vote in groups and its rights are then taken by the entire Supervisory Board.

According to the regulations of the Strategy Committee adopted by a resolution of the Supervisory Board of 4 April 2013, it is an advisory and consultative body to the Supervisory Board and is to improve efficiency of the Board's supervisory activities related to consulting of all strategic documents presented by the Management Board (in particular, the Company development strategy) and presenting the Supervisory Board with recommendations on planned investments that materially impact the Company's assets.

The composition of the Committee in 2013:

- Waldemar Maj – Chairman
- Zbigniew Derdziuk – Member
- Alojzy Nowak – Member
- Maciej Piotrowski – Member.

In 14 January 2014 the Supervisory Board added Włodzimierz Kiciński to the Strategy Committee.

Management Board

Composition

In accordance with the By-laws of PZU, the Management Board is composed of three to seven members appointed for a shared term which includes three consecutive full financial years.

Members of the Management Board, including the Chairman of the Management Board, are appointed and dismissed by the Supervisory Board; however, members of the Management Board are appointed and dismissed by the Supervisory Board at the request of the Chairman of the Management Board. The Chairman of the Management Board of the new term appointed before the end of the current term may apply to the Supervisory Board for appointing other members of the Management Board of the new term before the end of the current term.

Management Board of PZU as at 1 January 2013:

- Andrzej Klesyk – Chairman
- Przemysław Dąbrowski – Member
- Tomasz Tarkowski – Member
- Bogusław Skuza – Member
- Ryszard Trepczyński – Member.

On 12 March 2013, the Supervisory Board of PZU appointed Dariusz Krzewina and Barbara Smalska to the positions of Members of the Management Board effective from 15 March 2013. Consequently, the Management Board of PZU was composed of:

- Andrzej Klesyk – Chairman
- Przemysław Dąbrowski – Member
- Dariusz Krzewina – Member
- Barbara Smalska – Member
- Bogusław Skuza – Member
- Tomasz Tarkowski – Member
- Ryszard Trepczyński – Member.

On 27 December 2013, Bogusław Skuza resigned from the position of a Member of the Management Board of PZU effective from 31 December 2013.

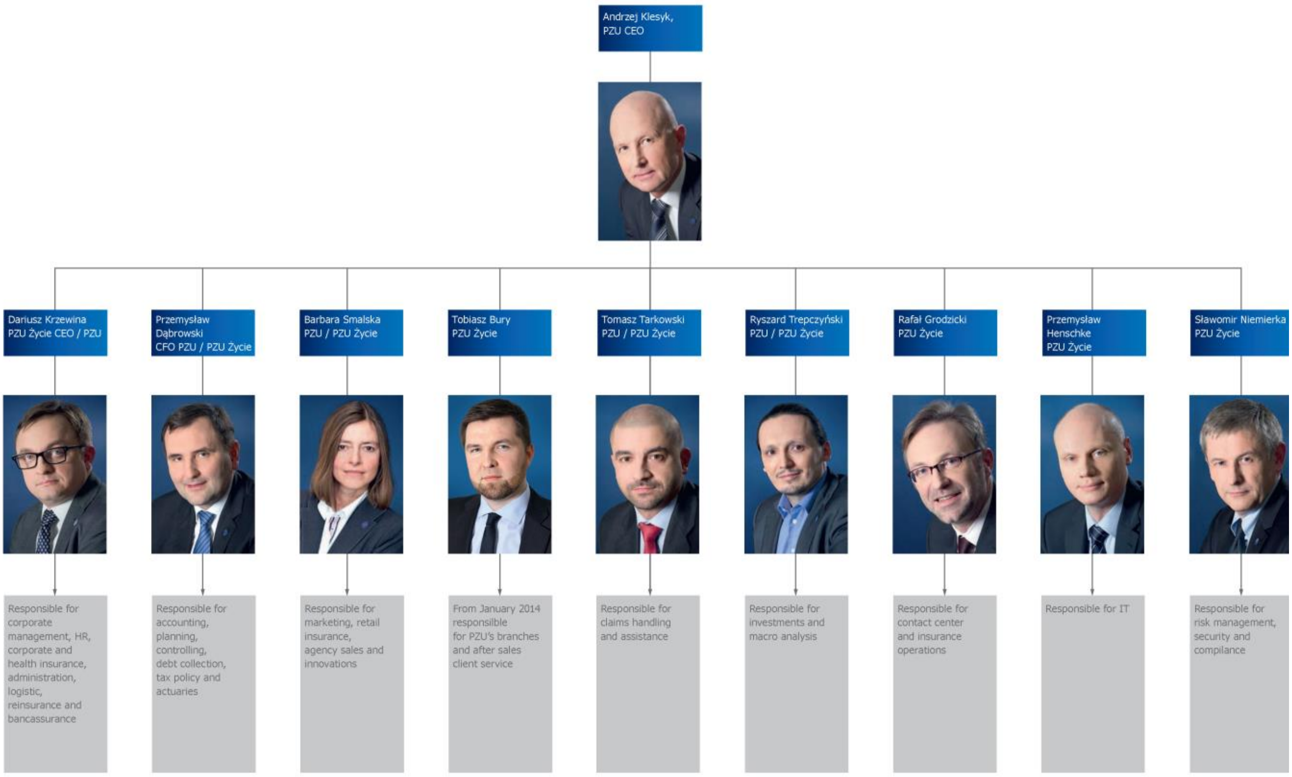
Therefore, since 1 January 2014, composition of the Management Board has been as follows:

- Andrzej Klesyk – Chairman
- Przemysław Dąbrowski – Member
- Dariusz Krzewina – Member
- Barbara Smalska – Member
- Tomasz Tarkowski – Member
- Ryszard Trepczyński – Member.

The current term of the Management Board of PZU started on 1 July 2011 and will last until the end of three consecutive financial years. The mandates of members of the Management Board expire not later than on the date of the General Shareholders' Meeting approving the financial statements for the last full financial year of their term.

Information about experience and responsibilities of the Management Board of PZU and PZU Życie has been presented below.

Roles and responsibilities:



Andrzej Klesyk, Chairman of the Management Board in PZU

Andrzej Klesyk has been the Chairman of the Management Board of PZU SA since December 2007. From 2003 to 2007 he was a Partner and Managing Director of The Boston Consulting Group in Warsaw, where he collaborated with PZU in performing insurance projects. Created and managed Inteligo, a pioneer Internet banking project. Managed a team creating Handlobank, the consumer banking division of Bank Handlowy w Warszawie SA. From 1993 to 2000 he worked in the London branch of McKinsey. In 1991 Andrzej Klesyk went to the USA, where he worked for Kidder, Peabody and Coopers & Lybrand, New York.

Andrzej Klesyk graduated from the Faculty of Economy of the Catholic University of Lublin. He was one of the first Poles to complete a two-year MBA course at Harvard Business School, the USA.

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

Dariusz Krzewina – Chairman of the Management Board of PZU Życie, Member of the Management Board in PZU

Dariusz Krzewina graduated from the Economy and Sociology Department of the University of Łódź and post-graduate studies in insurance at Warsaw School of Economics. He has worked in the insurance industry for many years. From September 1993 to August 1998 he was employed in PZU Życie as a Sales Department Head, Deputy Director and Director of the Insurance Office. From September 1997 to September 1998 he was a Member of the Management Board of PZU Życie. In the period from September 1998 to March 2000 he was the General Sales Director and from April 2000 to August 2001 a Member of the Management Board of STUnŻycie ERGO HESTIA SA. From April 2002 he was a Sales Director and from October 2002 to June 2004 he was the Chairman of the Management Board and the Sales Director at SAMPO Towarzystwo Ubezpieczeń na Życie SA. In August 2004 he was appointed the Director of the Group Insurance Office Director in PZU Życie and since January 2006 he was the Coordinating Director in charge of Corporate Clients. He has been in the Management Board of PZU Życie since March 2007 and since August 2007 he has held the position of the Chairman of the Management Board. From 1 February 2010 to 14 March 2013 Director in PZU Group. Since 15 March 2013, Management Board Member in PZU in charge of group and health insurance, administration.

Barbara Smalska – Member of the Management Board of PZU / PZU Życie

Barbara Smalska studied particle physics and holds a PhD of Warsaw University, the Physics Department and the Institute of Deutsches Elektronen Synchrotron (DESY) in Hamburg. In the years 2002-2008 she worked at the Warsaw office of the The Boston Consulting Group. As a strategic advisor to top Polish banks, insurance and telecommunication companies she specialized in business strategies, operational models, distribution strategy, organization and activation of the sales network – in particular in the consumer and SME sectors. She joined the PZU Group in 2008 and worked as a Director of the Product Management Office, Managing Director in charge of Mass Client Sector and Managing Director in charge of Marketing and Individual Products. She joined the Management Board of PZU Życie on 1 February 2013. On 5 February 2013 she was appointed a Director of the PZU Group and held the position until 14 March 2013. Since 15 March 2013, Management Board Member in PZU in charge of mass insurance, product management, CRM and marketing.

Przemysław Dąbrowski, Member of the Board in PZU / PZU Życie

Przemysław Dąbrowski graduated from Warsaw University, Information Technology Department and a Post-Graduate Management Course. He graduated from MBA studies at the University of Illinois and from the Warsaw-Illinois Executive MBA program. He has vast experience in financial management services for the insurance sector, in managing financial investments and large financial transactions. He has knowledge and experience in accounting, tax and actuarial issues.

He started his professional career in 1993. From 1993 to 1998 he worked at Whirlpool Polska Sp. z o.o. as an analyst and financial controller. In 1998-2000 he was the Treasurer at AIG Poland. In the years 2000-2001 he was the Financial Director and a Member of the Management Board of Creative Team SA (the Elektrim Group). From 2001 to 2006 he was the Planning and Controlling Director at PZU SA. In 2006-2008 he worked at AT Kearney and Accenture as a Manager and a Senior Manager. From October 2008 to March 2009 he held the function of the Director – Financial Division Deputy Head in the Head office of PZU and PZU Życie. From November 2008 to February 2009 he was the Planning and Controlling Director in the Head office of PZU and PZU Życie and in March 2009 he was appointed the Information Management Director in the Head office of PZU and PZU Życie. He has been a Member of the Management Board of PZU Życie since January 2010. He has held the position of a Member of the Management Board of PZU since December 2010. Przemysław Dąbrowski is in charge of the Financial Division.

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

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

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

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

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

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

Bogusław Skuza, Member of the Management Board of PZU until 31 December 2013

Bogusław Skuza graduated from the University of Gdańsk, the Economy of Transport Department, International Trade Faculty. He has vast experience in the financial sector, in particular in insurance. In the years 1979-1985 he worked in the Loss Adjustment Department of TUiR Warta SA. From 1985 to 1991 he was the General Representative of TUiR WARTA SA for the USA and Canada. In 1991-1992 he was a Manager of the Insurance and Claim Department at Gdynia America Line Inc., while in the years 1992-1999 he worked as a Country Manager and the Deputy Chairman of the Management Board of Marsh & McLennan Polska Sp. z o.o. In the years 1998-2000 he held the position of the Deputy Chairman of the Management Board of Towarzystwo Ubezpieczeń Życiowych i Emerytalnych Petrus SA and the Chairman of the Management Board of Fiat Ubezpieczenia SA. From 2000 to 2008 he was the Chairman of the Management Board of Skandia Życie Towarzystwo Ubezpieczeń SA. From 2008 to 2010 Bogusław Skuza was a Member of the Management Board of the Group and a CEE Regional Managing Director in Intrum Justitia AB. Also, he held the position of the Chairman of the Supervisory Board of Intrum Justitia entities in Poland, the Czech Republic, Slovakia and Hungary. In the years 1992-1998 he held the position of the Founder Member and the Secretary General of the Association of Polish Insurance and Reinsurance Brokers and in the years 2002-2008 he held the position of a Member of the Management Board of the Polish Insurance Chamber. Since 2009 he has been a Member of Good Practices Council at the Polish Insurance Chamber. From July to 31 December 20913 he was a Member of the Management Board in PZU in charge of the Corporate Client Division, reinsurance and bancassurance.

Tomasz Tarkowski, Member of the Board in PZU / PZU Życie

Tomasz Tarkowski graduated from the Faculty of Automotive and Construction Machinery Engineering at the Warsaw University of Technology and from the Academy of Finance (formerly Academy of Insurance and Banking). He also completed an Advanced Management Program at IESE Business School University of Navarra and post-graduate studies in road traffic safety and business insurance. He has been collaborating with the PZU Group since 1996. Initially, he worked in internal control and insurance fraud departments. In the years 2002-2005 he worked in the loss adjustment function as the Head of the Technical Department in the Loss Adjustment Office. From 2006 to 2007 he was a Director of the Loss Adjustment Centre and a Loss Adjustment Director in a Regional Branch of PZU in Warsaw. In 2007-2011 he was a Member of the Management Board of PZU Ukraine, where he supervised the loss adjustment, product management and risk assessment departments. He was a Member of the Supervisory Board of SOS Service Ukraine, a subsidiary of PZU Ukraine, responsible for *assistance* services. Since February 2011 he has been a Director of the PZU Group in the Head office of PZU SA and the Proxy of the Management Board of PZU Życie in charge of Loss Adjustment. He has held the position of a Member of the Management Board of PZU since April 2011 and the position of a Member of the Management Board of PZU Życie - since July 2011. He is in charge of loss adjustment and assistance functions.

Ryszard Trepczyński, Member of the Board in PZU / PZU Życie

Ryszard Trepczyński graduated from Warsaw School of Economics, the Management and Marketing Department. Since the beginning of his professional career he was focused on the capital market. He has vast experience in developing and implementing investment strategies, drawing up investment policies and managing large and diverse asset portfolios. He participated in building management structures for strategic allocation of assets, liquidity and investment risk. In 1994-1006 he worked as a broker in the Capital Transactions Centre of Bank Handlowy w Warszawie SA. In the years 1996 – 2002 he was employed in the Financial Investment Office of PZU Życie – initially as an Asset Manager and subsequently as the Head of the Debt Instruments Portfolio Management Department. From December 2002 to June 2011 he worked at Pioneer Pekao Investment Management S.A., first as a Director of Debt Securities Department, Director of the Asset Management Department, and since March 2009 he held the position of the Deputy Chairman of the Management Board in charge of investments. He has held the position of a Member of the Management Board of PZU and PZU Życie since July 2011. Ryszard Trepczyński is in charge of the Investment Division.

Tobiasz Bury – Member of the Board of PZU Życie, Director of the PZU Group

Tobiasz Bury graduated from Warsaw School of Economics, Kellogg School of Management w USA and Harvard Business School Advanced Management Program. He joined the PZU Group in 2009. He held the position of Director Managing the Agency Network and Director in Charge of Mass Sales in PZU Życie S.A. Since May 2010, he acted as Director Managing the Network in PZU Group and Head of the Network Division in the Group. On this position, he was in charge of the network of branches in PZU SA and PZU Życie SA and of client service in the network and in the Client Center of the PZU Group. On 16 January 2014 he was appointed a Member of the Management Board of PZU Życie. Since 16 January 2014 he has been PZU Group Director in charge of the Network Division.

The Management Board exercises all management rights which have not been reserved by the provisions of law or provisions of the By-laws for the General Shareholders' Meeting or the Supervisory Board.

The Company may be represented by two members of the Management Board acting jointly or one member of the Management Board acting with a commercial proxy.

The Management Board adopts its regulations which are approved by the Supervisory Board. The regulations of the Management Board were adopted by the Management Board on 2 October 2012 and amended with a Resolution of the Board of 2 April 2013 and approved by a resolution of the Supervisory Board of 16 April 2013.

The regulations of the Management Board determine:

- the scope of Management Board's competencies and activities that require approval or confirmation by the Supervisory Board;
- competencies of the Chairman and Members of the Management Board;
- principles and organization of Board's activities, including its meetings and decision making procedures;
- rights and obligations of Board members upon dismissal.

In accordance with the regulations of the Management Board, resolutions of the Management Board are especially required for:

- adoption of a long-term plan for development and operations of the Company;
- adoption of an action and development plan for the PZU Group;
- adoption of an annual financial plan and a report on its implementation;
- approval of the financial statements for the previous financial year and the management report on the activities of the Company;
- approval of a motion concerning profit distribution or loss coverage;
- determination of premiums in the compulsory and voluntary insurance and general voluntary insurance terms and conditions;
- determination of the scope and size of outward reinsurance and the tasks for inward reinsurance;
- adoption of an annual audit and control plan and a report on its implementation with conclusions;
- determination of the terms and conditions of investments, prevention and sponsoring;
- giving sureties and guarantees (excluding insurance operations) and taking out and giving credit facilities or loans by the Company (excluding credit facilities and loans given from the Company's Social Benefits Fund);
- appointment of a commercial representation.

In accordance with the regulations, meetings of the Management Board are held at least once a fortnight.

The work of the Management Board is administered by the Chairman of the Management Board whose powers include in particular:

- defining the scope of responsibility of each member of the Management Board;
- calling meetings of the Management Board;
- setting the agenda of the meeting of the Management Board;
- applying to the Supervisory Board for appointing and dismissing members of the Management Board;
- designating a person to administer the work of the Management Board during the absence of the Chairman.

The work of the Management Board is administered by the Chairman of the Management Board who defines the scope of responsibility of each member of the Management Board.

Resolutions of the Management Board are adopted only in the presence of the Chairman of the Management Board or a person designated to administer the work of the Management Board during their absence and if the meeting is attended by at least half of the members of the Management Board.

Resolutions of the Management Board are adopted by an absolute majority of votes and in the event of a voting tie, the Chairman of the Management Board has the casting vote. The Management Board, upon consent of the Chairman, may adopt resolutions in writing, on paper or in an e-form (i.e. using means of distant communication and a qualified electronic signature). The by-laws also provide that the meetings of the Management Board may be held using means of direct distant communication.

The Chairman of the Management Board takes decisions in the form of orders and official instructions. Other members of the Management Board administer the operations of the Company within the scope specified by the Chairman of the Management Board.

The By-laws of PZU do not provide for any special rights of the Management Board concerning decisions to issue or redeem shares.

10.8 Remuneration of the members of Group's bodies

Employment contracts concluded with the Chairman and Members of the Management Board, approved by resolution of the Supervisory Board, do not include compensation for resignation or dismissal from their positions without a valid reason, or if the dismissal results from business combination through acquisition of the issuer.

Separate non-competition agreements regulate among others refraining from post-employment competition with PZU in exchange for damages.

In 2012-2013, PZU Group companies included in consolidation did not grant any loans or similar benefits to members of their management boards, higher level managers or members of their supervisory boards.

Salaries and other short-term employee benefits paid by PZU	1 January - 31 December 2013		1 January - 31 December 2012	
		Including bonuses and special awards		Including bonuses
Management Board including**:**	**9 503**	**3 024**	**7 012**	**1 600**
Andrzej Klesyk	2 780	980	1 691	480
Przemysław Dąbrowski	1 135	336	1 092	252
Dariusz Krzewina	642	-	-	-
Barbara Smalska	593	-	-	-
Tomasz Tarkowski	1 102	336	1 100	259
Ryszard Trepczyński	1 535	736	945	105
Witold Jaworski	-	-	1 176	336
Bogusław Skuza 1)	1 716	636	1 008	168
Contracts concluded with high level managers (PZU Group Directors), out of which:	**3 263**	**1 122**	**2 283**	**337**
Rafał Grodzicki	874	250	709	179
Przemysław Henschke	804	180	435	-
Dariusz Krzewina 2)	291	180	616	86
Sławomir Niemierka	863	200	523	72
Barbara Smalska 2)	431	312	-	-
Supervisory Board including**:**	**1 224**	**-**	**1 126**	**-**
Waldemar Maj	192	-	162	-
Zbigniew Ćwiąkalski	168	-	168	-
Tomasz Zganiacz	144	-	85	-
Dariusz Daniluk	120	-	120	-
Zbigniew Derdziuk	120	-	120	-
Dariusz Filar	120	-	120	-
Włodzimierz Kiciński	120	-	71	-
Alojzy Nowak	120	-	71	-
Maciej Piotrowski	120	-	71	-
Marzena Piszczek	-	-	79	-
Krzysztof Dresler	-	-	59	-

Group Directors

Positions of PZU Group Directors were established in relation to the implementation of the management model, according to which members of the Management Board of PZU Życie SA as Group Directors are in charge of the same business areas and functions in both Companies. The positions of Group Directors are established based on Organizational Regulations of Powszechny Zakład Ubezpieczeń Spółka Akcyjna (Article 20.3).

As at 1 January 2012 Group Directors of the PZU Capital Group were the following:

- Dariusz Krzewina
- Rafał Grodzicki
- Przemysław Henschke
- Sławomir Niemierka.

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

Effective 14 March 2013, Dariusz Krzewina and Barbara Smalska were dismissed from the positions of Group Directors.

Directors in the PZU Group as at 31 December 2013:

- Rafał Grodzicki
- Przemysław Henschke
- Sławomir Niemierka.

On 16 February 2014 the Management Board of PZU appointed Tobiasz Bury Director in the PZU Group. Effective 16 January 2014 Tobiasz Bury was appointed a Member of the Management Board in PZU Życie.

11 Management Board's Representation

Correctness and reliability of presented financial statements

• The Management Board of PZU declares that to the best of their knowledge, the annual financial statements and comparable data of the PZU Group have been prepared in accordance with the applicable accounting principles and provide a true, fair and clear view of the economic and financial position and the financial profit or loss of the Group and the Report on activities of the PZU Group presents a true picture of its development and achievements, including a description of the main risks and threats.

Selection of the entity authorized to audit financial statements

• The Management Board of PZU represents that the entity authorized to audit financial statements - Deloitte Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa - which audited the annual consolidated financial statements was selected in accordance with the provisions of law and that the entity and certified auditors which audited the financial statements met the requirements to express an unbiased and independent opinion on the audited annual consolidated financial statements, in accordance with the applicable provisions of law and professional standards.

Cooperation with international public institutions

• In 2013 and 2012 the PZU Group companies did not cooperate with any international public institutions.

Agreements significant for the operations of the PZU Group, including those concluded between shareholders

• By the date of preparing this Report on the Activities of the PZU Group, there were no agreements (including those concluded after the end of the reporting period), which could result in future changes in proportions of shares held by the existing shareholders.

Information on significant contracts concluded

• On 3 September 2013, PZU entered into an agreement with PZU Życie (the "Agreement"), under which PZU Życie paid dividend for the financial year ended 31 December 2012, in the form of non-monetary assets – dematerialized investment certificates issued by closed-end investment funds managed by TFI PZU, held by PZU Życie, in the amount of PLN 2,373.0m and in the amount of PLN 1,469.8m in the form of cash paid. Detailed information on the Agreement and its terms has been presented in current report 59/2013 dated 4 September 2013 and current report 61/2013 dated 10 September 2013.

Related party transactions

• During the 12-month period ended 31 December 2013, PZU did not conclude any related party transactions which could be considered significant (individually or jointly) and would be concluded on non-arm's length basis.

Seasonal or cyclical business

• Operations of PZU are not of a seasonal or cyclical nature to the extent that would justify application of the suggestions presented in International Financial Reporting Standards.

Business Combination

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

Evaluation of financial resources management including the ability to repay liabilities and definition of possible threats and activities, undertaken or planned by the issuer to counteract these threats

- The financial position of the Issuer is very good. It meets all the security requirements imposed by the Act on Insurance Activity and the Polish Financial Supervision Authority. A stable rating outlook of PZU confirms that the Issuer has a strong business position, high levels of equity and is a competitive entity in the insurance market.

Disputes

- In 2013 and by the date of preparation of the report on the activities, the PZU Group did not take part in any proceedings before court, body competent to hear arbitration proceedings or public authority body concerning liabilities or receivables of PZU or its direct and indirect subsidiaries with the value of at least 10% of the equity of PZU.
- As at 31 December 2013 the total value of all 61,616 cases heard by courts, bodies competent to hear arbitration proceedings or public authority bodies involving the PZU Group entities was PLN 2,545.8m. The amount includes PLN 1,968.0m of liabilities and PLN 577.8m of receivables of the PZU Group companies, which accounted for 16.05% and 4.71% of the equity of PZU calculated in line with PAS, respectively.

This Report on the Activities of the PZU Capital Group for 2013 includes 139 pages with sequential numbers.

Signatures of Members of PZU S.A. Management Board

-
- ____
- Andrzej Klesyk – Chairman of the Board
-
- ____
-
- Przemysław Dąbrowski - Member of the Board
-
- ____
- Dariusz Krzewina – Member of the Board
-
- ____
- Barbara Smalska - Member of the Board
-
- ____
- Tomasz Tarkowski - Member of the Board
-
- ____

Ryszard Trepczyński - Member of the Board

Warsaw, 11 March 2014

Appendix: Financial data

Data from the consolidated income statement	2013	2012	2011	2010	2009*
Gross written premiums	16 480 003	16 243 131	15 279 262	14 541 022	14 362 717
Net earned premiums	16 248 769	16 005 240	14 890 528	14 213 013	14 485 214
Revenue from commissions and fees	319 962	237 102	281 351	288 037	340 876
Net profit/loss on investing activities	2 488 068	3 704 729	1 593 826	2 777 774	3 469 001
Net insurance claims	(11 161 224)	(12 218 731)	(10 221 122)	(10 384 062)	(9 436 281)
Acquisition costs	(2 015 938)	(2 000 351)	(1 961 986)	(1 911 255)	(1 839 605)
Administrative expenses	(1 406 480)	(1 440 301)	(1 383 897)	(1 505 784)	(1 808 881)
Operating profit (loss)	4 180 952	4 080 198	2 956 727	3 088 085	4 601 751
Financial expenses	(61 664)	(41 490)	(49 152)	(58 654)	(35 940)
Gross profit (loss)	4 120 692	4 038 708	2 907 575	3 029 431	4 565 811
Net profit (loss), including:	3 295 113	3 253 826	2 343 947	2 439 229	3 762 911
Shareholders' profit (loss)	3 293 654	3 255 181	2 345 424	2 439 231	3 762 945
Minority profit (loss)	1 459	(1 355)	(1 477)	(2)	(34)
Weighted average basic and diluted number of ordinary shares	86 352 300	86 352 300	86 352 300	86 352 300	86 352 300
Basic and diluted owners' earnings per ordinary issuer's share (in PLN)	38.14	37.70	27.16	28.25	43.58
Net profit of PZU (issuer)	5 106 345	2 580 720	2 582 303	3 516 709	2 510 379
Basic and diluted earnings per ordinary share (in PLN)	59.13	29.89	29.90	40.73	29.07

** Since 2010, the model of ABC indirect costs allocation has been changed*

Assets	31 December 2013	31 December 2012	31 December 2011	31 December 2010	31 December 2009
Intangible assets	308 726	183 238	166 038	109 067	85 069
Goodwill	8 519	8 474	8 716	8 381	19 631
Property, plant and equipment	927 281	992 317	1 055 381	990 411	1 043 811
Investment property	1 474 770	564 404	534 222	441 014	346 552
Entities measured using the equity method	48 595	0	0	0	0
Financial assets	54 688 714	50 423 076	46 775 359	45 345 032	48 237 593
Receivables, including under insurance contracts	2 664 986	1 835 793	1 734 636	1 734 274	1 495 207
Reinsurers’ share in technical provisions	526 605	749 334	700 713	771 850	748 313
Estimated recoveries and recourses	129 950	121 632	83 117	77 812	82 330
Deferred tax asset	16 949	13 963	8 600	16 645	24 913
Current income tax receivables	34 895	80 646	8 582	9 958	87 599
Deferred acquisition costs	609 819	574 489	569 843	540 729	518 279
Other assets	195 449	178 646	246 351	201 681	231 585
Cash and cash equivalents	548 266	136 586	237 724	423 703	366 556
Assets used in continuing operations	**62 183 524**	**55 862 598**	**52 129 282**	**50 670 557**	**53 287 438**
Non-current assets held for sale and disposal groups	**178 897**	46 962	0	0	0
Total assets	**62 362 421**	**55 909 560**	**52 129 282**	**50 670 557**	**53 287 438**

Equity	31 December 2013	31 December 2012	31 December 2011	31 December 2010	31 December 2009
Share capital	86 352	86 352	86 352	86 352	86 352
Supplementary capital	8 855 999	8 780 212	7 711 818	6 296 313	5 485 014
Revaluation reserve	242 344	363 242	268 831	392 268	340 970
Actuarial gains and losses related to provisions for employee benefits	902	0	0	0	0
Exchange differences from translation – controlled entities	(37 737)	(38 004)	(32 263)	(38 799)	(23 416)
Prior year profit (loss)	2 396 978	1 743 148	2 403 000	3 624 435	2 365 282
Net profit (loss)	3 293 654	3 255 181	2 345 424	2 439 231	3 762 945
Appropriations of net profit during the financial year (negative value)	(1 727 046)				(750 401)
NCI	16 341	79 138	86 343	126	133
Total equity	**13 127 787**	**14 269 269**	**12 869 505**	**12 799 926**	**11 266 879**

PLN '000

Liabilities	31 December 2013	31 December 2012	31 December 2011	31 December 2010	31 December 2009
Technical provisions	37 324 416	35 400 778	32 522 729	31 822 990	30 825 046
Provision for unearned premiums and for unexpired risks	4 540 011	4 537 167	4 521 396	4 315 675	4 189 849
Provision for life insurance	16 048 191	15 675 243	14 595 112	14 570 725	14 582 590
Provisions for outstanding claims	6 586 781	5 878 445	5 429 481	5 157 080	4 456 464
Provision for capitalized value of annuity	5 761 332	5 660 281	5 088 626	4 862 552	4 874 653
Provisions for bonuses and discounts for the insured:	2 893	4 227	7 192	6 177	5 071
Other technical provisions	477 987	531 617	581 155	614 692	698 918
Unit-linked reserve	3 907 221	3 113 798	2 299 767	2 296 089	2 017 501
Investment contracts	2 121 037	2 299 147	3 471 772	3 544 515	3 726 529
Provisions for employee benefits	123 380	107 307	255 576	257 916	260 946
Other provisions	192 906	267 456	322 063	212 559	314 595
Deferred tax provision	255 399	357 557	109 716	404 956	444 053
Derivatives	237 749	129 921	93 443	11 730	3 533
Other liabilities, including current income tax	8 979 747	3 078 125	2 484 478	1 615 965	6 445 857
Liabilities total	**49 234 634**	**41 640 291**	**39 259 777**	**37 870 631**	**42 020 559**
Total equity and liabilities	**62 362 421**	**55 909 560**	**52 129 282**	**50 670 557**	**53 287 438**

Assets to cover technical provision in PZU

PLN '000

Item	Total	% of technical provisions	Ceiling (%)
A. Technical provisions	**16 392 345**	**100.0%**	
B. Assets for provision coverage, total	**18 941 151**	**115.5%**	
1. Securities issued or guaranteed by the State Treasury and international organizations to which the Republic of Poland belongs	8 547 142	52.1%	no limits
2. Bonds issued or guaranteed by local authorities or associations of local authorities	26 253	0.2%	no limits
3. Other fixed income securities	513 358	3.1%	10%
4. Shares	0	0.0%	40%
5. Investment fund units	6 363 583	38.8%	40%
6. Loans	180 107	1.1%	
7. Investment certificates in investment funds	1 627 130	9.9%	10%
8. Real property or its part, excluding property or its part used for internal purposes	75 643	0.5%	25%
9. Bank deposits	187 694	1.1%	no limits
10. Receivables	524 140	3.2%	25%
11. Receivables from the State Budget	33 968	0.2%	no limits
12. Fixed assets, other than real estate, if depreciated using the prudence principle	98 574	0.6%	5%
13. Cash	4 168	0.0%	3%
14. Deferred acquisition costs compliant with the principles of determining provision for unearned premium in section I of the attachment to the act and in compliance with the premium provision calculation in section II	520 305	3.2%	no limits
15. Share of reinsurers in technical provisions	239 086	1.5%	25%
C. Surplus (shortage) of assets covering technical provisions	**2 548 806**	**15.5%**	

Assets covering technical provisions in PZU Życie

PLN '000

Item	Total	% of technical provisions	Ceiling (%)
A. Technical provisions	**23 059 362**	**100.0%**	
B. Assets for provision coverage, total	**26 694 284**	**115.8%**	
1. Securities issued or guaranteed by the State Treasury and international organizations to which the Republic of Poland belongs	15 915 972	69.0%	no limits
2. Bonds issued or guaranteed by local authorities or associations of local authorities	26 253	0.1%	no limits
3. Other fixed income securities	199 634	0.9%	10%
4. Shares	574 789	2.5%	40%
5. Investment fund units	6 075 850	26.3%	40%
6. Investment fund certificates	1 715 494	7.4%	10%
7. Other variable income securities	1 257	0.0%	10%
8. Loans	798 959	3.5%	5%
9. Bank deposits	1 345 494	5.8%	no limits
10. Receivables*	6 590	0.0%	25%
11. Fixed assets, other than real estate, if depreciated using the prudence principle	48 299	0.2%	5%
12. Cash	10 539	0.0%	3%
13. Other liabilities	(24 846)	(0.1%)	no limits
C. Surplus (shortage) of assets covering technical provisions	**3 634 922**	**15.8%**	

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

One-off events in the PZU Group					PLN million
	2013	**2012**	**2011**	**2010**	**2009**
Conversion effect	127.1	207.0	406.1	520.3	1 339.8
Fund consolidation commenced	172.8				
Adjusting the rate of PZU Życie calculated according to IFRS to the PAS level		(390.1)			
Reducing the technical interest rate in PZU Życie		(408.5)			
Change in the rates for annuity provision		(234.2)			
Provisions for employee benefits		177.0			
Sales of shares from the AFS portfolio		101.0			
Performance on contract guarantees		(93.2)			
Consolidation of the Armatura Group			118.9		
Office for Competition and Consumer Protection			(67.9)		
Insurance settlements	53.2		(91.8)		
Claims arising from snowfall and flood damages				(369.4)	
Dividend costs				(58.7)	
Payment to the National Health Fund					(119.4)

Key profitability ratios

PLN '000

Data from the income statement – corporate insurance (non-life insurance)	2013	2012	2011	% change 13/12
Operating profit (loss)	**391 481**	**217 531**	**194 351**	***80.0%***
Operating profit (loss) excluding one-off events	**391 481**	**332 131**	**194 351**	***17.9%***
acquisition costs ratio (including reinsurance commission)*	18.8%	19.4%	17.3%	*(0.6) p.p.*
administrative expense ratio *	7.4%	6.1%	6.1%	*1.3 p.p.*
claims ratio*	54.9%	66.5%	72.8%	*(11.6) p.p.*
Combined ratio (COR)*	81.1%	92.0%	96.2%	*(10.9) p.p.*

* ratios calculated with net premium earned

PLN '000

Data from the income statement – mass- market insurance (non-life insurance)	2013	2012	2011	% change 13/12
Operating profit (loss)	**1 067 271**	**799 648**	**573 401**	***33.5%***
Operating profit (loss) excluding one-off events	**1 014 071**	**1 012 448**	**665 201**	***0.2%***
acquisition costs ratio (including reinsurance commission)*	16.4%	17.7%	19.2%	*(1.3) p.p.*
administrative expense ratio *	8.3%	8.7%	8.6%	*(0.4) p.p.*
claims ratio*	64.0%	66.0%	66.8%	*(2.0) p.p.*
combined ratio (COR)*	88.7%	92.4%	94.6%	*(3.7) p.p.*

* ratios calculated with net premium earned

PLN '000

Data from the income statement – group and individually continued insurance	2013	2012	2011	% change 13/12
Operating profit (loss)	**1 603 421**	**1 373 075**	**1 779 782**	***16.8%***
Operating profit (loss) excluding one-off events	**1 476 325**	**1 561 157**	**1 349 144**	***(5.4)%***
acquisition costs ratio (including reinsurance commission)*	5.0%	5.0%	4.5%	-
administrative expense ratio *	8.5%	9.1%	9.1%	*(0.6) p.p.*
operating profit margin**	23.0%	24.5%	21.8%	*(1.5) p.p.*

* ratios calculated with gross premium written
** ratios calculated with gross premium written, excluding one-off events

PLN '000

Data from the income statement – individual insurance	2013	2012	2011	% change 13/12
Operating profit (loss)	**139 857**	**104 514**	**160 135**	***33.8%***
acquisition costs ratio*	8.2%	8.3%	9.8%	*(0.1) p.p.*
administrative expense ratio *	4.0%	4.9%	8.6%	*(0.9) p.p.*
operating profit margin*	10.5%	9.6%	28.0%	*0.9 p.p.*

* ratios calculated with gross premium written

PLN '000

Data from the income statement – investment contracts	2013	2012	2011	% change 13/12
Operating profit (loss)	**11 277**	**1 070**	**14 758**	***x***
operating profit margin*	1.0%	0.1%	0.5%	*0.9 p.p.*

* ratios calculated with gross premium written

PLN '000

Investment result – investment segment	2013	2012	2011	% change 13/12
Total	**896 559**	**1 525 225**	**115 720**	**(41.2)%**

PLN '000

Data from the income statement – Ukaine segment – non-life insurance	2013	2012	2011	% change 13/12
Operating profit (loss)	**10 465**	**10 429**	**(534)**	**0.3%**
exchange rate UAH/PLN	0.3872	0.4001	0.3716	(3.2)%
aquisition costs ratio*	33.6%	27.2%	34.2%	6.4 p.p.
administrative expenses ratio*	23.8%	27.6%	29.1%	(3.8) p.p.
claims ratio*	45.1%	52.3%	52.8%	(7.2) p.p.
combined ratio (COR)*	102.5%	107.1%	116.1%	(4.6) p.p.

* ratios calculated with net premium earned

PLN '000

Data from the income statement - Ukaine segment – life insurance	2013	2012	2011	% change 13/12
Operating profit (loss)	**5 238**	**2 033**	**(4 254)**	**157.7%**
exchange rate UAH/PLN	0.3872	0.4001	0.3716	(3.2)%
aquisition costs ratio*	43.5%	47.0%	50.9%	(3.5) p.p.
administrative expenses ratio*	13.1%	14.0%	15.3%	(0.9) p.p.
Operating profit margin*	11.2%	5.3%	(14.7)%	5.9 p.p.

* ratios calculated with gross premium written

PLN '000

Data from the income statement – Lithuania segment – non-life insurance	2013	2012	2011	% change 13/12
Operating profit (loss)	**1 065**	**2 162**	**(7 714)**	**(50.7)%**
exchange rate LTL/PLN	1.2175	1.2087	1.1990	0.7%
aquisition costs ratio*	29.0%	28.5%	28.7%	0.5 p.p.
administrative expenses ratio*	12.1%	11.0%	10.8%	1.1 p.p.
claims ratio*	60.7%	65.0%	61.9%	(4.3) p.p.
combined ratio (COR)*	101.8%	104.5%	101.4%	(2.7) p.p.

* ratios calculated with net premium earned

PLN '000

Data from the income statement – Lithuania segment –life insurance	2013	2012	2011	% change 13/12
Operating profit (loss)	**(122)**	**496**	**8**	**(124.6)%**
exchange rate LTL/PLN	1.2175	1.2087	1.1990	0.7%
aquisition costs ratio*	32.9%	43.8%	34.7%	(10.9) p.p.
administrative expenses ratio*	8.9%	14.0%	9.9%	(5.1) p.p.
Operating profit margin*	(0.4)%	2.4%	0.0%	(2.8) p.p.

* ratios calculated with gross premium written

PLN '000

Data from the income statement – pension segment	2013	2012	2011	% change 13/12
Operating profit (loss)	**137 432**	**98 449**	**90 447**	**39.6%**