

Attachment to Resolution No. URN/44/2017
adopted by the PZU SA Supervisory Board on 29 May 2017

PZU SA SUPERVISORY BOARD'S REPORT ON THE ACTIVITY OF THE PZU SA SUPERVISORY BOARD AS THE COMPANY'S GOVERNING BODY IN 2016



I. Supervisory Board Composition

As at 1 January 2016, the following persons sat on the PZU SA Supervisory Board:

- Zbigniew Ćwiąkowski – Supervisory Board Chairman
- Paweł Kaczmarek – Supervisory Board Deputy Chairman
- Dariusz Filar – Supervisory Board Secretary
- Zbigniew Derdziuk – Supervisory Board Member
- Dariusz Kacprzyk – Supervisory Board Member
- Jakub Karnowski – Supervisory Board Member
- Aleksandra Magaczewska – Supervisory Board Member
- Alojzy Nowak – Supervisory Board Member
- Maciej Piotrowski – Supervisory Board Member

The criteria of independence in respect of Supervisory Board members were fulfilled by Dariusz Filar and Dariusz Kacprzyk.

On 7 January 2016, the Extraordinary Shareholder Meeting of PZU SA dismissed Zbigniew Ćwiąkowski, Zbigniew Derdziuk, Maciej Piotrowski, Dariusz Kacprzyk, Jakub Karnowski, Aleksandra Magaczewska and Dariusz Filar from the Company's Supervisory Board with effect from 7 January 2016. At the same time, with effect from 7 January 2016, the Extraordinary Shareholder Meeting of PZU SA appointed Piotr Paszko, Marcin Chłudziński, Marcin Gargas, Maciej Zaborowski, Eligiusz Krześniak, Radosław Potrzezszcz and Jerzy Paluchniak to the PZU SA Supervisory Board.

On 19 January 2016, Paweł Kaczmarek became the Supervisory Board Chairman, Marcin Gargas became the Supervisory Board Deputy Chairman and Maciej Zaborowski became the Supervisory Board Secretary. On 1 July 2016, Jerzy Paluchniak tendered his resignation from being a PZU SA Supervisory Board Member as of 1 July 2016. On 1 July 2016, the Ordinary Shareholder Meeting of PZU SA appointed Piotr Walkowiak, with effect from 2 July 2016, as Member of the PZU SA Supervisory Board.

On 7 July 2016, the State Treasury Minister of the Republic of Poland, acting pursuant to § 20 section 7 of PZU SA's Articles of Association, appointed Jerzy Paluchniak as Member of the PZU SA Supervisory Board. On 4 August 2016, Piotr Walkowiak tendered his resignation from being a PZU SA Supervisory Board Member with effect from 4 August 2016. As of 5 August 2016, the

composition of the PZU SA Supervisory Board was as follows:

- | | | |
|------------------------|-------------|-------|
| • Paweł Kaczmarek | Supervisory | Board |
| Chairman | | |
| • Marcin Gargas | Supervisory | Board |
| Deputy Chairman | | |
| • Maciej Zaborowski | Supervisory | Board |
| Secretary | | |
| • Marcin Chłudziński | Supervisory | Board |
| Member | | |
| • Eligiusz Krześniak | Supervisory | Board |
| Member | | |
| • Alojzy Nowak | Supervisory | Board |
| Member | | |
| • Jerzy Paluchniak | Supervisory | Board |
| Member | | |
| • Piotr Paszko | Supervisory | Board |
| Member | | |
| • Radosław Potrzezszcz | Supervisory | Board |
| Member | | |

The criteria of independence in respect of Supervisory Board members were fulfilled by Marcin Gargas, Maciej Zaborowski, Marcin Chłudziński, Eligiusz Krześniak, Alojzy Nowak, Piotr Paszko and Radosław Potrzezszcz.

As at 31 December 2016, the PZU SA Supervisory Board composition did not change.

II. Supervisory Board's activity

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

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

- 19 January 2016,
- 24 February 2016,
- 14 March 2016,
- 18 and 19 March 2016,
- 31 March 2016,
- 11 and 13 May 2016,
- 24 May 2016,
- 1 June 2016,
- 24 June 2016,
- 22 July 2016,

- 23 August 2016,
- 30 August 2016,
- 14 October 2016,
- 9 November 2016,
- 2 and 7 December 2016,
- 19 December 2016

The Supervisory Board made pertinent decisions in the form of resolutions and opinions submitted to the Company's Management Board and PZU SA Shareholder Meeting. In the reporting period, the Supervisory Board adopted sixty-eight resolutions, including ten resolutions by circulation (a list of all resolutions forms attachment 1 to this report). All Supervisory Board resolutions – with the exception of Resolution Nos. URN/1/2016, URN/3/2016 and URN/55/2016 – were adopted unanimously, with the quorum required by the applicable regulations. The Supervisory Board meeting agendas prepared by the PZU SA Supervisory Board Chairpersons comprised all the topics that the Supervisory Board should address according to its powers and took into consideration additional issues that the Management Board or Supervisory Board members thought material.

All meetings were attended by most PZU SA Supervisory Board members. Absence of individual persons at Supervisory Board meetings was caused mainly by important business trips and was justified through the adoption of justification resolutions by the Supervisory Board (Supervisory Board meeting attendance record constitutes attachment 2 to this report). Pursuant to § 26 Item 1 of the PZU SA Supervisory Board Bylaws, in 2016, PZU SA Management Board members, PZU Group Directors, Managing Directors, Head Office Department Directors and representatives of advisory companies and law offices cooperating as part of projects carried out by the Company were invited to PZU SA Supervisory Board meetings, providing exhaustive explanations and presenting all documents pertaining to the Company's operations. In addition, PZU SA Supervisory Board meetings were also attended by the representatives of the auditor – KPMG Audyt Sp. z o.o. Sp. k.

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

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

III. Key issues addressed by the Supervisory Board

During the financial year ended 31 December 2016, the PZU SA Supervisory Board addressed all the issues which, pursuant to the Company's Articles of Association, lie within the powers of this governing body. As part of its activities, the Supervisory Board actively supported the Management Board in its pursuance of the Company's strategic objectives, reviewed the Management Board motions pertaining to issues which, pursuant to the Company's Articles of Association, required the Supervisory Board's approval, and familiarized itself with other issues presented by the Management Board.

Key issues addressed by the Supervisory Board in 2016:

- Systematic assessment of the Company's and PZU Group's financial and economic standing, market position and key strategic initiatives and plans for 2016.
- Approval of the PZU SA and PZU Group financial plan for 2016 and on-going monitoring of its implementation.
- Approval of the long-term Company development plan presented in the document entitled: "PZU 2020 Strategy. Profitability, Growth, Innovation. PZU Group's Strategy for 2016-2020".
- Monitoring of the implementation status of the "PZU Group Strategy "PZU 3.0"".
- Monitoring of the implementation status of the "PZU Group Strategy "PZU 2020"".
- Approval of the PZU Group's Capital and Dividend Policy for 2016-2020.
- Ongoing monitoring of the preparation of the PZU SA and PZU Group financial plan for 2017.
- Assessment of the PZU SA financial statements for the year ended 31 December 2015 and recommendation to the PZU Ordinary Shareholder Meeting to approve them.
- Assessment of the Management Board report on PZU SA's activity in 2015 and

recommendation to the PZU SA Ordinary Shareholder Meeting to approve it.

- Assessment of the Management Board motion on the distribution of PZU SA's net profit for the year ended 31 December 2015 and recommendation to the PZU SA Ordinary Shareholder Meeting to approve it.
- Assessment of the PZU SA Capital Group consolidated financial statements for the year ended 31 December 2015 and recommendation to the PZU Ordinary Shareholder Meeting to approve them.
- Assessment of the Management Board report on the PZU SA Capital Group's activity in 2015 and recommendation to the PZU SA Ordinary Shareholder Meeting to approve it.
- Approval of the Supervisory Board Report on the assessment of the PZU SA financial statements for the financial year ended 31 December 2015 and the Management Board report on PZU SA's activity in 2015 and the Company's Management Board motion on distribution of profit.
- Adoption of the PZU SA Supervisory Board report on the activity of the PZU SA Supervisory Board as the Company's governing body in 2015.
- Ongoing monitoring of the implementation of strategic projects, with particular consideration of the Everest project (implementation of the target operating model along with the target PZU SA policy system).
- Ongoing risk monitoring.
- Ongoing investment activity monitoring.
- Giving consent to supporting the acquisition of a stake in Bank BPH S.A. by Alior Bank S.A. and ongoing monitoring of the transaction.
- Giving consent to the acquisition of a stake in Bank Pekao S.A. and ongoing monitoring of the transaction.
- Monitoring of acquisition projects in the banking sector, which includes making relevant decisions.
- Approval of the answers provided in the BION questionnaire.
- Appointment of the President of the PZU SA Management Board and Members of the PZU SA Management Board of a changed composition.
- Amendments to compensation rules and compensations for members of the PZU SA Management Board and acceptance of draft

employment contracts for the President of the PZU SA Management Board and members of the PZU SA Management Board

- Amendments to the PZU SA Supervisory Board Bylaws.
- In connection with the changes in the PZU SA Supervisory Board – electing the new Supervisory Board Chairperson and establishing the composition of the Audit Committee, the Nomination and Compensation Committee and the Strategy Committee.
- Ongoing monitoring of operation of the Audit, Nomination and Compensation and Strategic Committees of the PZU SA Supervisory Board.

To correctly perform the supervisory activities in the Company, the Supervisory Board appointed advisory and opinion-making committees. In 2016, the following three Committees were active within the PZU SA Supervisory Board:

- Audit Committee,
- Nomination and Compensation Committee,
- Strategy Committee.

Audit Committee

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

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

As at 1 January 2016, the following persons sat on the PZU SA Supervisory Board Audit Committee:

- Dariusz Filar – Committee Chairman,
- Dariusz Kacprzyk – Committee Member,

- **Paweł Kaczmarek** – Committee Member.

Dariusz Filar was indicated by the Supervisory Board as an independent member holding accounting or financial audit qualifications within the meaning of Article 86 Section 4 of the Act on Statutory Auditors and their Self-government, Entities Authorized to Audit Financial Statements and Public Supervision of 7 May 2009 (consolidated text: Journal of Laws 2015 Item 1011).

In connection with the changes in the PZU SA Supervisory Board, the PZU SA Supervisory Board established the following composition of the Audit Committee as of 19 January 2016:

- **Marcin Chludziński** – Committee Chairman,
- **Jerzy Paluchniak** – Committee Member,
- **Paweł Kaczmarek** – Committee Member.

Marcin Chludziński and Jerzy Paluchniak were indicated by the Supervisory Board as independent members holding accounting or financial audit qualifications within the meaning of Article 86 Section 4 of the Act on Statutory Auditors and their Self-Government, Entities Authorized to Audit Financial Statements and Public Supervision of 7 May 2009 (consolidated text: Journal of Laws 2015 Item 1011).

On 18 March 2016, the PZU SA Supervisory Board changed the composition of the Audit Committee to the following:

- **Piotr Paszko** – Committee Chairman;
- **Jerzy Paluchniak** – Committee Member;
- **Marcin Chludziński** – Committee Member.

As at 31 December 2016, the composition of the Audit Committee did not change.

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

- 23 February 2016,
- 14 March 2016,
- 11 May 2016,
- 24 May 2016,
- 23 June 2016,
- 23 August 2016,
- 26 October 2016,
- 8 November 2016,
- 19 December 2016

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

the PZU SA Supervisory Board Audit Committee on its activity in 2016 constitutes attachment 3 to this report.

Nomination and Compensation Committee

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

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

As at 1 January 2016, the PZU SA Supervisory Board Nomination and Compensation Committee was as follows:

- **Zbigniew Cwiąkański** – Committee Chairman,
- **Zbigniew Derdziuk** – Committee Member,
- **Dariusz Filar** – Committee Member,
- **Maciej Piotrowski** – Committee Member,
- **Paweł Kaczmarek** – Committee Member.

In connection with the changes in the PZU SA Supervisory Board, on 19 January 2016 the PZU SA Supervisory Board resolved that the Nomination and Compensation Committee will be composed of 4 persons and established the following composition of the Committee:

- **Radosław Potrzeszcz** – Committee Chairman;
- **Marcin Gargas** – Committee Member;
- **Piotr Paszko** – Committee Member;
- **Paweł Kaczmarek** – Committee Member.

On 18 March 2016, the PZU SA Supervisory Board changed the composition of the Nomination and Compensation Committee to the following:

- **Radosław Potrzeszcz** – Committee Chairman;
- **Marcin Gargas** – Committee Member;
- **Eligiusz Krześniak** – Committee Member;
- **Paweł Kaczmarek** – Committee Member.

As at 31 December 2016, the composition of the Nomination and Compensation Committee did not change.

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

- 19 January 2016,

- 14 March 2016,
- 18 and 19 March 2016,
- 31 March 2016,
- 11 and 13 May 2016,
- 24 May 2016,
- 1 June 2016,
- 24 June 2016,
- 29 June 2016,
- 22 July 2016,
- 23 August 2016,
- 30 August 2016,
- 14 October 2016,
- 9 November 2016,
- 19 December 2016

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

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

Strategy Committee

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

As at 1 January 2016, the following persons sat on the PZU SA Supervisory Board Strategy Committee:

- Alojzy Nowak – Committee Chairman;
- Zbigniew Derdziuk – Committee Member;
- Aleksandra Magaczewska - Committee Member;
- Jakub Karnowski – Committee Member;
- Maciej Piotrowski – Committee Member.

In connection with the changes in the PZU SA Supervisory Board, on 19 January 2016 the PZU SA Supervisory Board resolved that the Strategy Committee will be composed of 6 persons and established the following composition of the Committee:

- Alojzy Nowak – Committee Chairman;

- Marcin Chludziński – Committee Member;
- Marcin Gargas – Committee Member;
- Piotr Paszko – Committee Member;
- Radosław Potrzezszcz – Committee Member;
- Maciej Zaborowski – Committee Member.

As at 31 December 2016, the composition of the Strategy Committee did not change.

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

- 24 February 2016,
- 23 August 2016,
- 14 September 2016

In 2016, decisions of the PZU SA Supervisory Board Strategy Committee were made in the form of opinions and recommendations which were each time submitted to the Company's Supervisory Board.

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

The Supervisory Board states that in 2016 it was not obligated to perform any actions following from the resolutions of the PZU SA Shareholder Meeting.

V. Observance of reporting and information duties

The PZU SA Supervisory Board states that all the reporting and information duties imposed on it by the provisions of law were observed in 2016 in a timely fashion.

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

PZU SA is in very good financial standing and satisfies all the safety criteria imposed on the Company by the Insurance and Reinsurance Activity Act and the Polish Financial Supervision Authority. PZU SA's stable rating outlook confirms the Company's strong business standing, high level of equity and continued competitive position on the insurance market. The financial results generated by PZU SA in recent years, based on the Polish Accounting Standards, place it among the most profitable financial institutions in the country. At the same time, they contribute to high performance ratios.

In 2016, PZU SA generated a return on equity of 13.0%. ROE was down by 5.2 p.p. compared to the previous year. In 2014-2016, the average return on equity (ROE) was almost 17.5%.

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

PZU SA ensures a high level of security of its business. This is corroborated both by its high solvency ratios and by the A- grade awarded by S&P Global Ratings. This is one grade above Poland's rating for foreign currency-denominated debt. On 22 December 2016, i.e. already after the Company announced the signing of the Bank Pekao acquisition agreement, S&P analysts upheld the high PZU rating.

Compared to other insurance groups, PZU SA keeps exceptionally high capital safety ratios.

On 1 January 2016, the Insurance and Reinsurance Activity Act of 11 September 2015 introduced into the Polish legal system the new capital requirements of Solvency II. According to the new Act, the calculation of the capital requirement is based on market, actuarial (insurance), counterparty insolvency, catastrophic and operational risks. In connection with the implementation of the requirements of the Solvency II Directive into the national legal system, on 19 May 2017 PZU SA published its Solvency and Financial Condition Report for the year ended 31 December 2016.

As at 31 December 2016, the Company satisfied the solvency requirements and held eligible own funds to cover the solvency capital requirement. The solvency capital requirement (SCR) was PLN 7,872,486 thousand and eligible own funds were PLN 22,828,451 thousand, which provided a ratio of SCR coverage with eligible own funds of 290%.

These high values place PZU among the insurance groups with the greatest capital strength.

In 2016, PZU SA recorded a technical result at a level of PLN 536.5 million compared to PLN 636.3 million in the preceding year (a decline by 15.7%). The net profit was PLN 1,593.0 million compared to PLN 2,248.5 million in 2015 (down 29.2%). Without taking into account the dividend received from PZU Życie SA, PZU SA's net profit was PLN 768.0 million and was higher by PLN 209.6 million compared to 2015.

In 2016, PZU SA's net investment result was PLN 1,897.6 million compared to PLN 2,024.0 million in

2015 (down 6.2%). After excluding the effect of the dividend received from PZU Życie SA, the net result on investment activity was PLN 1,072.6 million compared to PLN 333.8 million the year before. The increase in the result was primarily driven by the following factors:

- redemption of participation units in PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Universum [PZU Universum Open-End Specialized Mutual Fund] and the related recognition of the revaluation reserve of PLN 764.4 million,

- better results generated on foreign currency instruments due to higher foreign exchange gains on foreign currency-denominated instruments than in 2015, slightly offset by a lower net result on interest-bearing financial instruments.

In December 2016, the value of PZU SA's investment portfolio was PLN 31,476.6 million compared to PLN 32,356.0 million at yearend 2015. Sovereign debt securities represented the largest share in PZU SA's investment portfolio (38.6%). The increase in this item over 2015 was driven primarily by the redemption of participation units in PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Universum. The redemption of the Fund's units was realized to a significant extent in non-cash form, specifically in the form of Polish State Treasury bonds. As a result of this operation and the redemption of investment certificates issued by PZU Fundusz Inwestycyjny Zamknięty Dynamiczny [PZU Closed-End Dynamic Mutual Fund], the share of participation units and investment certificates in mutual funds declined (except for real estate funds). The portfolios of funds included in this investment category included predominantly corporate loans, non-treasury bonds and stock exchange-listed shares, but as a result of the said operations involving the redemption of participation units and investment certificates, the share of treasury bonds dropped significantly.

A significant part of PZU SA's investment portfolio, in addition to the mutual funds, consisted of investments in subsidiaries and other shares. They represented 30.7% compared to 24.9% at yearend 2015. The stake held in PZU Życie SA accounted for the largest share in this class of investments, while the main driver of the increase in the share of this investment category was the subscription for a new issue of Alior Bank shares in 2016.

As at the end of 2016, the main component of PZU SA's liabilities was technical provisions. They reached the amount of PLN 18,714.8 million, i.e.

50.0% of total liabilities and equity. Their share in the balance sheet increased by 1.8 p.p. compared to 2015, while in terms of value they rose by PLN 1,174.3 million, in particular due to higher provisions for unearned premiums in the group of motor insurance and various financial losses.

As at the end of 2016, equity amounted to PLN 12,219.0 million and accounted for 32.7% of liabilities and equity (down 1.3 p.p.). At yearend 2016, PZU SA's debt ratio, calculated as the quotient of loan liabilities to the sum of equity and loan liabilities, increased to 23.6%.

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

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

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

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

- manage capital effectively by optimizing the usage of capital from the Group's perspective;
- maximize the rate of return on equity for the parent company's shareholders, in particular by maintaining the level of security and retaining

capital resources for strategic growth objectives through acquisitions;

- ensure sufficient financial means to cover the PZU Group's liabilities to its clients.

The following factors had a key impact on PZU SA's financial results in 2016:

- an increase in gross written premium to PLN 10,682.0 million, or 20.6%, compared to the previous year, mainly in motor insurance as a result of an increase in the average premium (driven by a gradual shift in the average price since the end of 2015 and an increase in the number of policies) and in assistance insurance offered mainly in bundles with motor insurance. After considering the reinsurers' share and movement in the unearned premium reserve, the net earned premium was PLN 9,212.8 million and was 16.6% higher than in 2015;
- a higher level of claims in the amount of PLN 6,148.5 million, down 22.1% compared to 2015. The main change was recorded in the motor insurance group driven by growth of the insurance portfolio and in the agricultural insurance group as a result of the occurrence of extensive damage in H1 2016 caused by the forces of nature;
- a lower net result on investing activity by PLN 126.4 million, mainly due to a lower dividend from PZU Życie SA;
- higher acquisition expenses (an increase by PLN 278.0 million), mainly due to an increase in direct acquisition expenses driven by the growing insurance portfolio. At the same time, a decline in direct acquisition expenses was recorded in bancassurance as the offshoot of changes made to the rules for making settlements with banks under bancassurance agreements – according to the requirements of the Insurance Activity Act, the rules for paying consideration to policyholders in group contracts were altered as of 1 April.
- a decrease in administrative expenses to PLN 723.9 million compared to PLN 753.7 million in 2015, primarily as a result of the application of cost discipline measures.

PZU SA as the parent company, through its representatives in supervisory bodies of subsidiaries and voting at their shareholder meetings, exerts an impact on the selection of strategic directions regarding both the scope of business and the finances of the Group members.

In August 2016, the PZU SA Management Board adopted and the Supervisory Board approved the updated PZU Group Strategy for 2016-2020. Three key strategic directions were identified: profitability, growth and innovation. Their implementation is assumed to pertain both to the main insurance pillar of the business and complementary areas with a high growth potential, i.e. asset management and healthcare. At the same time, the Management Board declared that the implementation of the adopted assumptions should increase PZU SA's attractiveness as an investment target not only for dividend-driven investors but also for investors seeking growth companies with a high potential to generate capital gains on the market valuation of their stock.

The PZU Strategy became diversified in a manner enabling generation of stable and predictable flows (in non-life and life insurance) and to obtain above-average returns on complementary undertakings (asset management and healthcare). In respect of the building of the PZU Group's scale, the Strategy provides for various forms of investment activity, including in the banking sector. In the long term perspective, this approach should enable the shareholders to achieve their expected return on PZU SA shares, while maintaining a moderate level of risk.

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

In 2016, the Company had in place an internal control system adapted to fit the scale of operations and organizational structure, aimed at ensuring efficiency and effectiveness of the organization's activities, reliability of financial reporting and compliance of PZU SA's actions with the provisions of law and internal regulations.

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

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

Supervision over the internal control system in the Company comprises:

- supervision exercised by the Supervisory Board;
- the activities of the Company's Management Board involving, without limitation: establishment of an adequate and effective internal control system and periodic assessment of the functioning of the internal control system;
- supervision exercised by the managers of functional divisions, specialist units and organizational cells in their subordinated organizational units/cells.

An important role in this system is played by the PZU SA Supervisory Board Audit Committee. The Committee plays an advisory and opinion-making role for the Supervisory Board and has been appointed to increase the effectiveness of supervisory activities performed by the Supervisory Board in the area of monitoring the Company's financial reporting, financial audit activities in the Company, independence of the statutory auditor and the entity authorized to audit financial statements and effectiveness of the internal control, internal audit and risk management systems in place.

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

The internal control system and the risk management system are subject to assessment by, among others, the internal audit services which operate in conditions ensuring objectivism and independence. The manager of the internal audit

services answers directly to the Management Board President and is authorized to contact the Supervisory Board Chairman and the Audit Committee Chairman directly, in particular in matters concerning audit results. A double reporting system is applied in relation to the results of undertaken actions: to the Management Board and to the Supervisory Board Audit Committee. The Supervisory Board Audit Committee's prior positive opinion is required for an audit plan to be accepted or amended, if applicable. The appointment or dismissal of the manager of PZU SA's audit services requires the Audit Committee's opinion. In addition, the internal audit services in PZU SA are independent of operational functions.

In order to ensure the quality and continuous improvement of the internal audit function, internal (on an annual basis) and external (not less than once every five years) assessments of the Company's internal audit activities are conducted. The most recent external assessment of the internal audit function was conducted in 2015 and confirmed that the internal audit function in PZU SA is compliant with the requirements of Standards of the Institute of Internal Auditors.

In 2016, the audit tasks in PZU SA were performed on the basis of an annual audit plan prepared on the basis of the assessment of the risks existing in individual areas of the Company's operations, which received a positive opinion of the Supervisory Board Audit Committee and was then adopted by a PZU SA Management Board resolution.

Audit results, recommendations issued and their implementation (subject to a monitoring process by the Internal Audit Department (BAW)) are presented to the Company's Management Board on an on-going basis and to the Supervisory Board Audit Committee on a periodical (quarterly) basis. BAW prepared an annual report on its activity in 2016, comprising information about the execution of the audit plan and other tasks performed by BAW and an assessment of the internal control system and the risk management system.

BAW coordinates the internal audit function in the PZU Group's key companies. As in the previous years, on the basis of the cooperation agreement entered into with key PZU SA subsidiaries, the internal audit function obtains information regarding the adequacy and effectiveness of their risk management and internal control systems. BAW's key methodological solutions were introduced in the PZU Group's material companies (taking into

consideration the formal and legal conditions and specific characteristics of those companies). The consolidation of the internal audit function did not include Alior Bank due to the applicable legal and regulatory requirements.

In 2016, the Company had in place a risk management system adapted to fit the scale of its activity and organizational structure. The risk management system was based on the following elements:

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

The division of powers and tasks within the risk management system is based on four competence levels. The first three levels comprise:

- the Supervisory Board, which supervises the risk management process and assesses its adequacy and effectiveness as part of its decision-making powers defined in the Company's Articles of Association and the Supervisory Board Bylaws;
- the Management Board which organizes the risk management system through adopting strategies and policies and defining the appetite for risk, the risk profile and tolerance for individual categories of risk;
- committees which make decisions pertaining to mitigation of individual risks within the frameworks outlined by the appetite for risk. The Committees implement the procedures and methodologies for mitigating the individual risks and accept individual risk limits. The PZU Group Risk Committee, established in 2016, provides support to endeavors aimed at the implementation of an effective risk management system coherent for all members of the PZU Group. The PZU Group Risk Committee was created with a view to coordinating and supervising activities related to the PZU Group's risk management system and processes.

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

- the first line of defense – ongoing risk management at the business unit and

organizational unit level and decision-making as part of the risk management process. Management is responsible for the implementation of an effective risk management in the supervised area of the Company's activity, in particular for designing and efficient functioning of identification and monitoring actions as integral components of implemented processes, ensuring an appropriate response to the risks present;

- the second line of defense – risk management by specialized cells responsible for risk identification, monitoring and reporting and controlling the limits. Within the second line of defense, the units which play an important role in the process are the Risk Department, the Planning and Controlling Department, the Actuarial Department, the Reinsurance Department, the Legal Department, the Compliance Department, the Security Department, the HR Department and the Technology Function;
- the third line of defense comprises internal audit which conducts independent audits of the elements of the risk management system as well as control activities embedded in the Company's activities. This function is performed by the Internal Audit Department.

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

The basic risk categories identified in the company include: market risk, credit risk, concentration risk, actuarial risk, operating risk and compliance risk. Each risk classified as material is subject to measurement involving definition of the risk measures adequate to the type and availability of data and quantification of risk using established measures or expert assessment taken into account in the measurement of total risk. Within the framework of the risk management processes, reports are delivered at decision-making levels adequate to the type and materiality of the risk. In particular, in accordance with the applicable regulations, reports are submitted to the Company's Supervisory Board, Management Board, PZU Group Risk Committee, Credit Risk Committee and Asset and Liability Management Committee. Managerial actions pertaining to individual risk categories are defined in internal regulations or management standards adopted for such risks. Depending on the

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

The following two levels have been distinguished in the risk management process in the PZU Group:

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

PZU exercises supervision over the PZU Group's risk management system on the basis of cooperation agreements entered into with other PZU Group entities and information obtained from them in accordance with the cooperation agreements, and manages the PZU Group's risk at an aggregate level. The cooperation agreements and the scope of information to be provided take into consideration

the specific legal nature of each entity concerned, including limitations arising from banking secrecy rules.

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

The management boards of PZU Group entities are responsible for fulfilling their own duties, in accordance with the generally applicable provisions of national, European and international law. In particular, they are responsible for the implementation of an adequate and effective risk management system.

Supervision over the risk management systems in each regulated entity is exercised by the supervisory boards to which PZU SA appoints its representatives.

The PZU SA Supervisory Board recommends that the PZU SA Ordinary Shareholder Meeting discharge all PZU SA Management Board members on the performance of their duties in 2016, i.e.:

- Michał Krupiński, President of the Management Board,
- Przemysław Dąbrowski, Management Board Member,
- Andrzej Jaworski, Management Board Member,
- Beata Kozłowska-Chyła, Management Board Member,
- Dariusz Krzewina, Management Board Member,
- Tomasz Tarkowski, Management Board Member,
- Maciej Rapkiewicz, Management Board Member,
- Sebastian Klimek, Management Board Member,
- Roger Hodgkiss, Management Board Member,
- Tomasz Kulik, Management Board Member,
- Rafał Grodzicki, Management Board Member,
- Robert Pietryszyn, Management Board Member,
- Paweł Surówka, Management Board Member.

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

On 22 July 2014, the Polish Financial Supervision Authority (KNF) issued the Corporate Governance Rules for Regulated Institutions ("Rules") constituting a set of guidelines (soft law norms) that should be applied by regulated entities from 1

January 2015 under the applicable laws giving consideration to the rule of proportionality.

The PZU SA Management Board and Supervisory Board declared their readiness to apply the Rules to the objectively broadest extent while giving consideration to the principle of proportionality and the principle "comply or explain" stemming from their wording. These declarations were confirmed by the PZU SA Management Board and Supervisory Board in their respective resolutions.

Information on the application of the Rules was presented by the PZU SA Management Board and Supervisory Board during the Ordinary Shareholder Meeting of PZU SA held on 30 June 2016. The Ordinary Shareholder Meeting of PZU SA declared that, acting within its powers, it will be guided by the Rules, except for certain specific ones waived by the Ordinary Shareholder Meeting of PZU SA.

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

The following rules are satisfied in part by PZU SA:

- the rule laid down in § 8 section 4 of the Rules concerning the enabling of all shareholders to participate in the Shareholder Meeting, including by procuring the possibility of actively participating electronically in the Shareholder Meeting
 - it should be emphasized that currently the PZU SA shareholders may follow the broadcast of the Shareholder Meeting, however PZU SA decided not to introduce the so-called e-Shareholder Meeting, because, in PZU SA's opinion, there are a number of factors of a technological and legal nature which may affect the proper conduct of the Shareholder Meeting; legal concerns include the possibility of identifying the shareholders and verifying their legitimacy; the risk of the occurrence of technical difficulties, e.g. with the Internet connection or possible external interference in the IT systems, may disrupt the work of the Shareholder Meeting and evince doubts concerning the efficacy of the resolutions adopted during its course; the materialization of the above risks may affect the proper application of this rule to its full extent;
- the rule laid down in § 21 section 2 of the Rules according to which within the

supervising body there should be a separate function of the chairperson in charge of managing the work of the supervising body, and the selection of the chairperson of the supervising body should be accomplished on the basis of experience and team management skills while giving consideration to the criterion of independence

– it should be emphasized that, in accordance with the Commercial Companies Code and PZU SA's Articles of Association, the function of chairperson has been established within the PZU SA Supervisory Board; the PZU SA Supervisory Board's composition and the chairperson's function are shaped in accordance with the criteria of independence stated in the Act of 7 May 2009 on Statutory Auditors and Their Self-Regulatory Body (...); the selection of the Supervisory Board Chairperson is accomplished on the basis of the criterion of knowledge, experience and skills that confirm the competences required to discharge duly the duties of supervision; applying the criterion of independence to the chairperson according to the KNF Office's explanation of this rule may evince doubts concerning a possible collision with the legal regulations pertaining to shareholder rights;

- the rule laid down in § 49 section 3 of the Rules concerning the appointment and dismissal, in a regulated institution, of the person managing the internal audit cell and the person managing the compliance cell with the consent of the supervising body or the audit committee

– it should be pointed out that PZU SA applies the rules laid down in § 14 of the Rules to their full extent, which means that the PZU SA Management Board is the sole body empowered to, and responsible for, managing the Company's activity; moreover, according to the labor law regulations, the managing body exercises labor law activities; on account of the foregoing, PZU SA has adopted a solution that anticipates that the selection and dismissal of the person managing the internal audit cell is accomplished while taking into account the opinion of the Supervisory Board's Audit Committee; the person managing the compliance cell is appointed and dismissed in an identical manner; in making these

decisions, the Management Board obtains the Audit Committee's opinions.

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

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

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

- the rule laid down in § 11 section 3 of the Rules reading as follows: "In the event that the decision-making body makes a decision

concerning a transaction with an affiliate, all shareholders should have access to all information required to assess the conditions on which it is implemented and its impact on a regulated institution's standing."

– in PZU SA, the Shareholder Meeting does not make decisions on transactions with an affiliate;

- the rule laid down in § 49 section 4 of the Rules reading as follows: "In a regulated institution in which there is no audit or compliance cell, the rights ensuing from sections 1-3 are vested in the persons responsible for performing these functions."
 - audit and compliance cells operate in PZU SA;
- the rule laid down in § 52 section 2 of the Rules reading as follows: "In a regulated institution in which there is no audit or compliance cell or no cell responsible for this area has been designated, the information referred to in section 1 shall be conveyed by the persons responsible for performing these functions."
 - audit and compliance cells operate in PZU SA;
- the rules laid down in Chapter 9 of the Rules entitled "Exercising the rights from assets acquired at a client's risk"
 - PZU SA does not offer products entailing asset management at a client's risk.

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

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

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

Since the day when the Company's shares were admitted to trading on a regulated market, PZU SA

has invariably followed the corporate governance rules laid down in the document entitled Best Practices of WSE listed companies.

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

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

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

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

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

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

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

- principle I.Z.1.10, providing for the publication of financial projections, if the company has decided to publish them, published at least in the last 5 years, including information about the

degree of their implementation, because, as at the date of publication of this report, PZU SA has not published any financial projections or estimates;

- principle III.Z.6., concerning cases of non-separation of an internal audit function within the company's organizational structure, because this function has been separated in PZU SA's organizational structure;
- recommendation IV.R.3., concerning situations where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, because PZU SA securities are traded only on the Polish market.

Information on the actual application of the recommendations and principles contained in BPLC 2016 by PZU SA ("Information"), following a detailed analysis of the situation in this area, was published by PZU SA on 24 March 2016 via the Electronic Information Database ("EBI") and on the Company's website.

During the reporting period, there were no events causing the need to update the information published on 24 March 2016.

Moreover, no events occurred during the reporting period as a result of which PZU SA would be required to publish a report on a breach of a particular detailed principle in an incidental manner, in accordance with § 29 section 3 of the WSE Rules. In performance of the obligation arising out of § 91 Section 5 Item 4 of the Finance Minister's Regulation of 19 February 2009 on the Current and Periodic Information Transmitted by Securities Issuers and the Conditions for Recognizing the Information Required by the Regulations of a Non-Member State as Equivalent ("Regulation"), PZU SA included, in the Management Board report on PZU SA's activity in 2016 and in the Management Board report on the PZU Group's activity in 2016 ("Reports"), a corporate governance statements forming a separate part of these Reports.

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

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

PRINCIPLES FOR SHAPING THE COMPENSATION POLICY AT PZU SA

- In 2016, the Company's Management Board adopted the PZU SA Compensation Policy (hereinafter: "Compensation Policy") applicable to the Company's employees, excluding Management Board members. The Compensation Policy covers all internal regulations defining the principles for compensating specific employee groups or specific employees, determined in accordance with the regulatory requirements and other generally applicable provisions of law, the Company's internal regulations and guidelines issued by the regulatory authority. This regulation also covers detailed solutions pertaining to compensating specific employee groups, i.e. Management Board members and key personnel as well as other employee groups whose work significantly affects the company's risk profile (hereinafter: "Entitled Persons"), Senior Management who are not classified as Entitled Persons and other employees. Entitled Persons who are not Management Board members are classified in accordance with the Identification Method developed by the Company. The purpose for the adoption of the Identification Method was to implement the requirements of the delegated regulation on the introduction of detailed compensation policies for employees whose work significantly affects the undertaking's risk profile. The detailed solutions pertaining to Entitled Persons in the developed documents concern Management Board members and all employees of the Company but do not apply to Supervisory Board members whose compensation rules are regulated by the Shareholder Meeting.
- The main objective of the Company's compensation policy is to recruit, retain and motivate employees to demonstrate the best possible performance by pursuing the Company's strategic objectives while maintaining optimal and rational employee compensation levels and taking into account the need for proper financial and risk management at PZU SA.
- Compensations in the Company are shaped in relation to the scope of tasks and the level of responsibility defined in the job description, which is subject to valuation in accordance with the Hay Group's methodology.

- On an annual basis, the HR Department verifies the market competitiveness of compensations offered by the Company.
- The Company's compensation system is communicated to all PZU SA employees.

ELEMENTS OF EMPLOYEE COMPENSATION

- Total compensation is divided into a fixed part and a variable part.
- The Company defines the appropriate ratio of the fixed basic compensation component to variable compensation where this ratio is appropriately balanced so that the fixed part of compensation forms a sufficiently large part of total compensation to enable the conduct of a flexible policy in respect of the variable components of compensation.
- Variable compensation is determined differently for each specific employee group or each person. Its level is substantiated by the Company's financial performance and the achieved work results. Information on the bonus system applicable to the employee is part of his/her employment contract.
- The basis for specifying the total amount of variable compensation is an assessment of the performance of both the employee and his/her organizational unit in the connection with the Company's overall performance; any assessment of individual performance takes into account both financial and non-financial criteria.
- The bonus system depends on the job group and business specificity.
- The rules governing the granting of variable compensation, especially for Entitled Persons and employees classified as Senior Management, are aimed at supporting the proper and effective risk management, discouraging the taking of excessive risk beyond the limits approved by the Supervisory Board, supporting the pursuit of the business strategy and curtailing conflicts of interest.
- Variable compensation may be subject to limits on the allowable maximum amount – in a specific percentage of the fixed compensation for the applicable assessment period. The Management Board or, in the case of Management Board members, the Supervisory Board may determine the maximum ratio of variable compensation to fixed compensation in a given calendar year for each person subject to the Policy. The ratio of fixed base compensation

to variable compensation of an Entitled Person enables the conduct of a flexible policy of variable components of compensation, including a reduction or elimination of the variable compensation component. Moreover, total variable compensation granted to Entitled Persons for a given year must not impair the Company's ability to increase its capital base.

- The Compensation Policy also provides for the possibility of postponing the disbursement of a substantial part of variable compensation to an Entitled Person for a given year. Such postponed disbursement is deferred for 3 years, and after 12, 24 and 36 months from the vesting date, as appropriate, the Entitled Persons may acquire the right to 1/3 of the deferred disbursement for a given year, provided that they satisfy the conditions defined in the Company's internal regulations and the Compensation Policy.
- Entitled Persons are required not to use their own hedging strategies or compensation and liability insurance, except for compulsory insurance arising from special laws that would neutralize the measures taken against such persons within the framework of implementation of the Compensation Policy.
- Moreover, as part of its compensation policy, PZU SA offers its personnel the following employee benefits:
 - Employee Pension Plan.
 - Medical care.
 - Pharmaceutical insurance.
 - Company Social Benefit Fund cafeteria (the amount of benefits depends on the level of income per family member).
 - Housing loans for employees.
 - Discounts on insurance products offered by the PZU Group.
 - Relocation benefit in case of a change of the place of work within the PZU Group at the initiative of the employer.
 - Managerial package for Senior Management specified in the applicable procedure (a company car, a mobile phone with accessories, a limit on phone calls and data transmission).
- The rules of compensation for members of the Management Board are defined by the Supervisory Board on the basis of opinions of the Nomination and Compensation Committee of the PZU SA Supervisory Board and are contained in individual employment contracts.

- The rules of compensation for Supervisory Board members are governed by resolutions adopted by the Company's Shareholder Meeting. The above components of compensation do not apply to members of the Supervisory Board.

ASSESSMENT OF THE OPERATION OF THE COMPENSATION POLICY AT PZU SA IN 2016

- PZU SA's compensation policy is consistent with the Company's business strategy, objectives, values and long-term interests, in particular in respect of sustainable growth, and incorporates measures aimed at avoiding conflicts of interest and eliminating the potential adverse impact of the compensation system on proper risk management.
- In 2016, the Nomination and Compensation Committee of the PZU SA Supervisory Board reviewed on several occasions the rules of compensating PZU SA's employees, including in particular the rules of compensating Management Board members. In 2016, supervision over the implementation of the compensation policy was exercised by:
 - The Company's Shareholder Meeting in respect of members of the PZU SA Supervisory Board.
 - The PZU SA Supervisory Board and the Nomination and Compensation Committee of the PZU SA Supervisory Board in respect of members of the PZU SA Management Board.
 - The PZU SA Management Board and the HR Director in the PZU Group in respect of PZU SA's Senior Management.
 - The HR Director in the PZU Group in respect of the Company's other employees.
- In 2016, 15 regular meetings of the Nomination and Compensation Committee of the PZU SA Supervisory Board were held.

The Supervisory Board is of the opinion that in 2016 the Company properly implemented the adopted Policy in line with all the rules of compensation dedicated to specific employee groups contained therein.

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

In 2016, the Company adopted the "PZU social involvement strategy" in which it recognized the improvement of the level of safety for Poles as the most important direction of its socially motivated endeavors.

The Company assumed the continuation of the adopted directions of its social activities: safety, health, active lifestyle and national heritage.

The Company recognizes prevention-related activities as its strategic objective and intends to engage in them on a long term basis. PZU believes that through its involvement in such activities it will gradually contribute to the achievement a very significant social benefit: improved level of safety. At the same time, the Company contributes to the process of increasing social capital, comfort and quality of life in Poland.

In the area of prevention-related activities, PZU continued the conduct of such activities related to safety of road traffic, public safety and safety at work. Cooperation with rescue organizations, both professional ones and volunteer-based organizations, and supporting local initiatives aimed at improving security are a foundation for PZU's social involvement. In 2016, the Company signed a new three-year prevention agreement with GOPR (volunteer mountain rescue service). Funds provided by PZU were spent, among others, on new quads and backpacks for all rescue groups in southern Poland. In 2016, the Company ran a prevention-focused summer vacation campaign dubbed "Safe Summer Vacation" and supported the project "Teddy Bears Rescue Children" through the help of which the youngest Polish victims of road accidents receive psychological assistance, which helps them restore their mental balance, and physiotherapeutic assistance. A key form of promotion of an active lifestyle and disease prevention among Poles was PZU's involvement in running initiatives. The Company was a strategic partner in such events, among others, as the PZU Warsaw Marathon, the PZU Warsaw Half Marathon, the PZU Gdynia Half Marathon and the PZU Cracovia Royal Marathon. All the running events sponsored by PZU were accompanied by a charitable campaign entitled "Share a kilometer" aimed at encouraging Poles to help others through their own physical activity. In the sponsorship area, PZU's most important involvement was the patronage of cultural institutions. The Company contributed to the preservation of Polish cultural heritage by providing its patronage to such institutions as the Royal Castle

in Warsaw, the Royal Łazienki Museum in Warsaw, the Warsaw Uprising Museum, the National Museum in Kraków, the National Museum in Warsaw, the National Theater in Warsaw and the Grand Theater – National Opera in Warsaw, among others. The Company was also involved in a number of initiatives aimed at building Polish identity – it supported various organizations, conferences and congresses aimed at shaping patriotic attitudes and care for the country's image.

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

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

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

In consideration of the foregoing, the PZU SA Supervisory Board is of the opinion that the rules introduced by the document entitled "PZU social involvement strategy" and the internal regulations adopted by the Company (Sponsoring Activity Bylaws, Prevention Activity Bylaws) are applied properly and in accordance with the declarations of PZU SA's governing bodies.

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

The PZU SA Supervisory Board diligently and effectively discharged its duties, exercising constant supervision over the activity and development of the Company in all areas of its activity and taking all actions reported by the PZU SA Management Board

and required for the efficient conduct of the statutory activity and attainment of the Company's strategic objectives. The scope, method of operation and composition of the Supervisory Board in 2016 complied with generally prevailing laws, the Company's internal regulations and requirements imposed on public companies, in particular those specified in the "Code of Best Practice for Warsaw Stock Exchange Listed Companies" in effect in 2016. All PZU SA Supervisory Board members represented a high level of preparation and professional experience in the area of management and supervision of commercial law companies, as a result of which they properly discharged their codical and statutory powers, guaranteeing appropriate supervision over the Company. All the Supervisory Board members exercised due diligence and displayed commitment in performance of their duties in the Supervisory Board and were guided in their actions by the Company's interests and independence of opinions and judgments. The diversified composition of the Supervisory Board and interdisciplinary knowledge and skills of its Members made it possible to comprehensively review and issue opinions on the topics put forward, and ensure broad representation of views regarding the assessment of the work of the Management Board and the functioning of PZU SA as a public company.

The Supervisory Board discharged its duties without interruptions and actively supported the Management Board in the execution of the most important tasks. Considering the above, the Supervisory Board is prepared to exercise its powers as stated in the statutes and articles of association and properly discharges them, guaranteeing appropriate supervision over the Company. In the Supervisory Board's opinion, the activity of the PZU SA Supervisory Board in 2016 can be assessed as effective, in accordance with the best market practices.

Chairwoman
of the PZU SA Supervisory Board

/-/ Katarzyna Lewandowska
Warsaw, 29 May 2017

Attachment 1
to the PZU SA Supervisory Board Report on the Activity of the PZU SA Supervisory Board
as the Company's corporate body in 2016

Resolution number	Date of the resolution	Subject matter of the resolution:
URN/1/2016	19 January 2016	in the matter of the PZU SA Supervisory Board Chairperson
URN/2/2016	19 January 2016	in the matter of election of the PZU SA Supervisory Board Deputy Chairperson
URN/3/2016	19 January 2016	in the matter of election of the PZU SA Supervisory Board Secretary
URN/4/2016	19 January 2016	to set the composition of the PZU SA Supervisory Board Audit Committee
URN/5/2016	19 January 2016	to set the number of members and composition of the PZU SA Supervisory Board Nomination and Compensation Committee
URN/6/2016	19 January 2016	to set the number of members and composition of the PZU SA Supervisory Board Strategy Committee
URN/7/2016	19 January 2016	to appoint Michał Krupiński to the PZU SA Management Board and entrusting him with the function of the President of the Management Board
URN/8/2016	19 January 2016	to appoint Roger Hodgkiss to the PZU SA Management Board
URN/9/2016	19 January 2016	to appoint Beata Kozłowska-Chyła to the PZU SA Management Board
URN/10/2016	19 January 2016	to appoint Robert Pietryszyn to the PZU SA Management Board
URN/11/2016	19 January 2016	to appoint Paweł Surówka to the PZU SA Management Board
URN/12/2016	29 January 2016	to amend resolution no. URN/37/2013 to set compensation rules and compensation for the members of the PZU SA Management Board and accept draft employment agreements for the President of the PZU SA Management Board and members of the PZU SA Management Board
URN/13/2016	29 January 2016	to set the individual amount of basic monthly compensation and the maximum annual bonus indicator for the President of the PZU SA Management Board Michał Krupiński
URN/14/2016	29 January 2016	to set the individual amount of basic monthly compensation and the maximum annual bonus indicator for the PZU SA Management Board Member Przemysław Dąbrowski
URN/15/2016	29 January 2016	to set the individual amount of basic monthly compensation and the maximum annual bonus indicator for the PZU SA Management Board Member Roger Hodgkiss

Resolution number	Date of the resolution	Subject matter of the resolution:
URN/16/2016	29 January 2016	to set the individual amount of basic monthly compensation and the maximum annual bonus indicator for the PZU SA Management Board Member Beata Kozłowska-Chyła
URN/17/2016	29 January 2016	to set the individual amount of basic monthly compensation and the maximum annual bonus indicator for the PZU SA Management Board Member Dariusz Krzewina
URN/18/2016	29 January 2016	to set the individual amount of basic monthly compensation and the maximum annual bonus indicator for the PZU SA Management Board Member Robert Pietryszyn
URN/19/2016	29 January 2016	to set the individual amount of basic monthly compensation and the maximum annual bonus indicator for the PZU SA Management Board Member Paweł Surówka
URN/20/2016	24 February 2016	to excuse the absence of the PZU SA Supervisory Board Secretary Maciej Zaborowski at the meeting on 24 February 2016
URN/21/2016	24 February 2016	in the matter of the PZU SA Supervisory Board Bylaws
URN/22/2016	24 February 2016	to approve the 2016 Financial Plan of PZU SA and PZU Group
URN/23/2016	24 February 2016	to evaluate of the level of security of PZU SA's IT systems
URN/24/2016	14 March 2016	to excuse the absence of the PZU SA Supervisory Board Member Eligiusz Krześniak at the meeting on 14 March 2016
URN/25/2016	14 March 2016	on the evaluation of the PZU SA Financial Statements for the year ended 31 December 2015 in terms of their compliance with the ledgers and documents and the factual status, along with the statutory auditor's opinion and report and the recommendation to the PZU SA Ordinary Shareholder Meeting to approve the Financial Statements
URN/26/2016	14 March 2016	on the evaluation of the Management Board Report on PZU SA's activity in 2015 and recommendation to the PZU SA Ordinary Shareholder Meeting to approve it
URN/27/2016	14 March 2016	on the evaluation of PZU SA Group's Consolidated Financial Statements for the year ended 31 December 2015, pursuant to IFRS along with the statutory auditor's opinion and report and recommendation to the PZU SA Ordinary Shareholder Meeting to approve the Financial Statements
URN/28/2016	14 March 2016	on the evaluation of the Management Board Report on the PZU SA Group's activity in 2015 and recommendation to the PZU SA Ordinary Shareholder Meeting to approve it
URN/29/2016	18 March 2016	to set the composition of the PZU SA Supervisory Board Audit Committee

Resolution number	Date of the resolution	Subject matter of the resolution:
URN/30/2016	18 March 2016	to set the number of members and composition of the PZU SA Supervisory Board Nomination and Compensation Committee
URN/31/2016	18 March 2016	to approve selected answers provided by the Company in the BION questionnaire
URN/32/2016	19 March 2016	to appoint Sebastian Klimek to the PZU SA Management Board
URN/33/2016	19 March 2016	to appoint Maciej Rapkiewicz to the PZU SA Management Board
URN/34/2016	31 March 2016	to set the individual amount of basic monthly compensation and the maximum annual bonus indicator for the PZU SA Management Board Member Maciej Rapkiewicz
URN/35/2016	31 March 2016	to set the individual amount of basic monthly compensation and the maximum annual bonus indicator for the PZU SA Management Board Member Sebastian Klimek
URN/36/2016	31 March 2016	to give consent for concluding a mandate agreement for extending an insurance guarantee and granting an unfunded credit protection insurance guarantee to Alior Bank SA
URN/37/2016	31 March 2016	to accept the motion of the PZU SA Management Board for a consent to grant support for Alior Bank S.A.'s acquisition of Bank BPH S.A.'s business and signing the Additional Memorandum
URN/38/2016	13 May 2016	to appoint Andrzej Jaworski to the PZU SA Management Board
URN/39/2016	13 May 2016	to set the individual amount of basic monthly compensation and the maximum annual bonus indicator for the PZU SA Management Board Member Andrzej Jaworski
URN/40/2016	24 May 2016	on the evaluation of the Management Board motion on the distribution of PZU SA's net profit for the year ended 31 December 2015
URN/41/2016	24 May 2016	to adopt the PZU SA Supervisory Board report on the evaluation of the PZU SA Financial Statements for the year ended 31 December 2015, the Management Board Report on PZU SA's activity in 2015 and the Company's Management Board motion on the distribution of PZU SA's net profit for the year ended 31 December 2015
URN/42/2016	24 May 2016	to adopt the annual PZU SA Supervisory Board Report on the activity of the PZU SA Supervisory Board as the Company's corporate body in 2015, the Report on assessment of the operation of the compensation policy, the assessment of application of the Corporate Governance Rules for Regulated Institutions, concise assessment of the Company's standing, including an evaluation of the internal control system, compliance policy risk management system and the internal audit function
URN/43/2016	1 June 2016	to change the individual amount of basic monthly compensation for the PZU SA Management Board Member Andrzej Jaworski

Resolution number	Date of the resolution	Subject matter of the resolution:
URN/44/2016	1 June 2016	to change the individual amount of basic monthly compensation for the PZU SA Management Board Member Sebastian Klimek
URN/45/2016	1 June 2016	to change the individual amount of basic monthly compensation for the PZU SA Management Board Member Maciej Rapkiewicz
URN/46/2016	1 June 2016	to give consent for Maciej Rapkiewicz's membership in the Supervisory Board of Dom-Invest Sp. z o.o.
URN/47/2016	1 June 2016	to give consent for Beata Kozłowska-Chyła's membership in the Supervisory Board of the LOTOS S.A. Group
URN/48/2016	24 June 2016	to excuse the absence of the PZU SA Supervisory Board Member Eligiusz Krześniak at the meeting on 24 June 2016
URN/49/2016	24 June 2016	to excuse the absence of the PZU SA Supervisory Board Member Alojzy Nowak at the meeting on 24 June 2016
URN/50/2016	24 June 2016	to give consent for the subscription to shares in the increased share capital of the Mutual Insurance Company of the Polish Mutual Insurance Company (Towarzystwo Ubezpieczeń Wzajemnych Polskiego Zakładu Ubezpieczeń Wzajemnych) with its registered office in Warsaw.
URN/51/2016	22 July 2016	to set the composition of the PZU SA Supervisory Board Audit Committee
URN/52/2016	4 August 2016	to give consent for establishment of the Polish National Foundation (Polska Fundacja Narodowa) by PZU SA and other companies with a State Treasury shareholding
URN/53/2016	23 August 2016	To excuse the absence of the PZU SA Supervisory Board Secretary Maciej Zaborowski at the meeting on 23 August 2016
URN/54/2016	23 August 2016	to approve the long-term plan for the development and operation of the Company presented in the document entitled "PZU 2020 Strategy. Profitability, Growth, Innovation. PZU Group Strategy for 2016 – 2020"
URN/55/2016	30 August 2016	to give consent for sale of real property located in Warsaw at ul. Puławska / Bażancia
URN/56/2016	30 August 2016	to second PZU SA Supervisory Board Members Piotr Paszko, Jerzy Paluchniak and Marcin Chludziński to independently perform certain oversight activities
URN/57/2016	3 October 2016	to approve the PZU Group's Capital and Dividend Policy for 2016 – 2020
URN/58/2016	14 October 2016	to excuse the absence of the PZU SA Supervisory Board Member Eligiusz Krześniak at the meeting on 14 October 2016
URN/59/2016	14 October 2016	to appoint Tomasz Kulik to the PZU SA Management Board
URN/60/2016	9 November 2016	to excuse the absence of the PZU SA Supervisory Board Member Alojzy Nowak at the meeting on 9 November 2016
URN/61/2016	9 November 2016	in the matter of the rules for PZU SA to invest funds in shares

Resolution number	Date of the resolution	Subject matter of the resolution:
URN/62/2016	9 November 2016	to give consent for closing (shutdown) of regional branches
URN/63/2016	2 December 2016	to excuse the absence of the PZU SA Supervisory Board Member Marcin Gargas at the meeting on 2 December 2016
URN/64/2016	2 December 2016	to excuse the absence of the PZU SA Supervisory Board Secretary Maciej Zaborowski at the meeting on 2 December 2016
URN/65/2016	7 December 2016	to excuse the absence of the PZU SA Supervisory Board Member Eligiusz Krzeński at the second part of the meeting on 7 December 2016
URN/66/2016	7 December 2016	to give consent for purchase of shares in Bank Pekao S.A, DI Xelion Sp. z o.o., Pekao Pioneer PTE S.A., Pioneer Pekao Investment Management S.A. pursuant to the Share Purchase Agreement and signing the Consortium Agreement and the Shareholder Agreement with PFR S.A.
URN/67/2016	19 December 2016	to give consent for expanding the list of reports audited by an entity authorized to audit financial statements
URN/68/2016	19 December 2016	to approve the 2017 Financial Plan of PZU SA and PZU Group

Attachment 2
to the PZU SA Supervisory Board Report on the Activity of the PZU SA Supervisory Board as the Company's corporate body in 2016

First and last name of the PZU SA Supervisory Board Member	DATE OF THE MEETING															
	19 Jan	24 Feb	14 Mar	18 Mar	31 Mar	11 & 13 May	24 May	1 June	24 June	22 July	23 Aug	30 Aug	14 Oct	9 Nov	2 & 7 Dec	19 Dec
Marcin Chludziński	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
Marcin Gargas	√	√	√	√	√	√	√	√	√	√	√	√	√	√	X	√
Eligiusz Krześniak	√	√	X	√	√	√	√	√	X	√	√	√	X	√	X	√
Paweł Kaczmarek	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
Alojzy Nowak	√	√	√	√	√	√	√	√	X	√	√	√	√	X	√	√
Jerzy Paluchniak	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
Piotr Paszko	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
Radosław Potrzeszcz	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
Piotr Walkowiak	/	/	/	/	/	/	/	/	/	√	/	/	/	/	/	/
Maciej Zaborowski	√	X	√	√	√	√	√	√	√	√	X	√	√	√	X	√

√ – present
 X – absence excused

Attachment 3

to the PZU SA Supervisory Board Report on the Activity of the PZU SA Supervisory Board as the Company's corporate body in 2016

Report of the PZU SA Supervisory Board Audit Committee on its activities in 2016

Warsaw, 14 March 2017



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

The Audit Committee of the PZU SA Supervisory Board was established on 3 June 2008 by the power of resolution no. URN/20/2008 of the PZU SA Supervisory Board to establish the PZU SA Supervisory Board Audit Committee.

As at 1 January 2016, the following persons sat on the PZU SA Supervisory Board Audit Committee:

- Dariusz Filar – Committee Chairman,
- Dariusz Kacprzyk – Committee Member,
- Paweł Kaczmarek – Committee Member.

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

On 7 January 2016, the Extraordinary Shareholder Meeting of PZU SA dismissed Zbigniew Ćwiąkański, Zbigniew Derdziuk, Maciej Piotrowski, Dariusz Kacprzyk, Jakub Karnowski, Aleksandra Magaczewska and Dariusz Filar from the PZU SA Supervisory Board.

On the same day, the Extraordinary Shareholder Meeting of PZU SA appointed Marcin Chludziński, Marcin Gargas, Eligiusz Krześniak, Jerzy Paluchniak, Piotr Paszko, Radosław Potrzezszcz and Maciej Zaborowski to the Supervisory Board. In connection with the change of the Supervisory Board's composition, during the first meeting held on 19 January 2016, the following composition of the Audit Committee was determined:

- Marcin Chludziński – Committee Chairman,
- Paweł Kaczmarek – Committee Member,
- Jerzy Paluchniak – Committee Member.

Marcin Chludziński was identified by the Supervisory Board as the independent member, and Jerzy Paluchniak – as the member holding accounting or financial audit qualifications within the meaning of Article 86 Section 4 of the Act on Statutory Auditors

and their Self-government, Entities Authorized to Audit Financial Statements and Public Supervision of 7 May 2009 (Journal of Laws 2009 No. 77, Item 649).

On 18 March 2016, Marcin Chludziński resigned from the function of the Audit Committee Chairman, and, accordingly, on 18 March 2016, the Supervisory Board determined the following composition of the PZU SA Supervisory Board Audit Committee:

- Piotr Paszko – Committee Chairman,
- Marcin Chludziński – Committee Member,
- Jerzy Paluchniak – Committee Member.

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

As at 31 December 2016, the composition of the PZU SA Supervisory Board Audit Committee did not change.

The Extraordinary Shareholder Meeting of PZU SA dismissed Marcin Gargas, Piotr Paszko and Radosław Potrzezszcz from the Company's Supervisory Board and on 8 February 2017 Eligiusz Krześniak resigned from the function of a Supervisory Board member. At the same time, on 8 February 2017, the Extraordinary Shareholder Meeting appointed Agata Górnicka, Łukasz Świerżewski, Paweł Górecki, Bogusław Marian Banaszak to the PZU SA Supervisory Board.

In connection with a change of the Supervisory Board's composition, at the meeting on 23 February 2017, the following composition of the Audit Committee was determined:

- Bogusław Marian Banaszak – Committee Chairman,
- Marcin Chludziński – Committee Member,
- Jerzy Paluchniak – Committee Member.

Bogusław Marian Banaszak was identified by the Supervisory Board as the independent member, and Jerzy Paluchniak – as the member holding accounting or financial audit qualifications within the meaning of Article 86 Section 4 of the Act on Statutory Auditors and their Self-government,

Entities Authorized to Audit Financial Statements and Public Supervision of 7 May 2009 (Journal of Laws 2009 No. 77, Item 649).

II. Activity of the PZU SA Supervisory Board

Audit Committee

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

- Company's Articles of Association,
- PZU SA Supervisory Board Bylaws,
- PZU SA Supervisory Board Audit Committee Bylaws,
- Act on Statutory Auditors and their Self-government, Entities Authorized to Audit Financial Statements and Public Supervision of 7 May 2009,
- other provisions of generally binding laws.

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

In the reporting period, i.e. from 1 January 2016 to 31 December 2016, the Committee held nine meetings on the following dates:

In 2016, the meetings of the PZU SA Supervisory Board Audit Committee were attended by the following members:

- 24 February 2016,
- 14 March 2016,
- 11 May 2016,
- 24 May 2016,
- 23 June 2016,
- 23 August 2016,
- 26 October 2016,
- 8 November 2016,
- 19 December 2016.

In the corresponding period, the PZU SA Supervisory Board held sixteen meetings.

Depending on the issues discussed, the following persons were invited to attend Audit Committee meetings: PZU SA Management Board Members, PZU Group Directors and the Director of the Internal Audit Department of PZU SA and PZU Życie SA, representatives of the auditor – KPMG Audyty Sp. z o.o. spółka komandytowa.

Audit Committee decisions were made in the form of opinions delivered each time to the Company's Supervisory Board.

First and last name of the Audit Committee Member	24 Feb	14 Mar	11 May	24 May	23 Jun	23 Aug	26 Oct	8 Nov	19 Dec
Marcin Chludziński	√	√	√	√	√	√	√	√	√
Paweł Kaczmarek	√	√	/	/	/	/	/	/	/
Jerzy Paluchniak	√	√	√	√	√	√	√	√	√
Piotr Paszko	/	/	√	√	√	√	√	√	√

√ – present
 X – absent

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

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

In pursuance of the above objectives, in the period from 1 January to 31 December 2016, the Audit Committee addressed in particular the following issues:

- recommendation to the PZU SA Supervisory Board to approve the 2016 Financial Plan of PZU SA and PZU Group;
- assessment of the financial statements and Management Board reports on the activities of PZU SA and the PZU SA Group for 2015;
- discussion on the preliminary results of PZU SA and the PZU Group for 2015, the first half-year of 2016 and the third quarter of 2016;
- assessment of the PZU SA Management Board motion to the PZU SA Shareholder Meeting on the distribution of PZU SA's net profit for the year ended 31 December 2015;
- approval of the report of the PZU SA Supervisory Board Audit Committee on its activities in 2015;
- discussion on the draft versions of the PZU SA Supervisory Board report on the assessment of PZU SA's financial statements for the year ended 31 December 2015, the Management Board report on PZU SA's activity in 2015 and the Management Board motion to distribute PZU SA's net profit for the year ended 31 December 2015;
- discussion on the risk report for the fourth quarter of 2015 and for first-third quarter of 2016;
- discussion on the annual report on the Internal Audit Department's activity in 2015;
- discussion on the results of external inspections conducted in PZU SA in 2015;
- discussion on the status of implementation of the Internal Audit Strategy for 2015-2020 as at 31 December 2015 and 30 June 2016;
- discussion on the report on the Internal Audit Department's activity in the fourth quarter of 2015 and in the first-third quarter of 2016;
- summary of performance of a strategic project entitled "Adjustment to Solvency II requirements" and implementation of the strategy in the risk area for 2015-2020;
- discussion on the analysis of the status of the PZU Group's selected activity areas;
- discussion on the strategy for review of semi-annual reports;
- summary of self-assessment of operational risk in PZU SA;
- discussion on the PZU risk map;
- discussion of the recommendations given by the statutory auditor (KPMG Audyt Sp. z o.o. Spółka komandytowa) after the audit of the Company's financial statements for 2015;
- information on the amendment to the Investment Activity Bylaws;
- issuance of a recommendation to the Supervisory Board on the PZU SA Management Board motion to adopt a resolution in the matter of the rules for PZU SA to invest funds in shares;
- information of an entity authorized to audit the ledgers on changes in PZU SA's financial reporting in 2016 and the related duties of the Supervisory Board, including the Supervisory Board Audit Committee;
- information of an entity authorized to audit the ledgers on the possibility of development in PZU SA of an internal model serving to calculate a solvency capital requirement consistent with Directive 2009/138/EC of the European Parliament and of the Council of 23 November 2009 (Solvency II);
- information on the methods of fulfilling the duty of carrying out the energy audit in accordance with the Energy Efficiency Act of 20 May 2016 and Directive 2012/27/EU of the European Parliament and of the Council;
- information on banking projects;

- information on the ethical principles in the PZU Group and recommendation for the PZU SA Supervisory Board to adopt a resolution in the matter of the ethical principles of supervisory board members of PZU Group companies, the procedure for expressing consent for a Management Board member to participate in corporate bodies, and actions to be taken by the PZU SA Supervisory Board in the event of occurrence of a conflict of interest involving a PZU SA Management Board member;
- information on the BION score for 2015;
- recommendation to the PZU SA Supervisory Board to approve the 2017 Financial Plan of PZU SA and PZU Group;
- recommendation to the PZU SA Supervisory Board to expand the list of reports audited by an entity authorized to audit financial statements;
- discussion on the degree of implementation and performance of guidelines and

recommendations issued by the Polish Financial Supervision Authority for insurance companies;

- discussion on the draft Audit Plan for 2017;
- discussion on the work plan of the PZU SA Supervisory Board Audit Committee for 2017;
- opining the dismissal and appointment of the internal audit cell manager.

IV. Performance of reporting obligations to the PZU SA Supervisory Board

Pursuant to the provisions of § 13 item 2 of the PZU SA Supervisory Board Audit Committee Bylaws, at PZU SA Supervisory Board meetings, the Chairperson of the Audit Committee presented information about the work of the Committee to the Supervisory Board.

Chairperson
PZU SA Supervisory Board Audit Committee

/-/ Bogusław Marian Banaszak