

Attachment to resolution no. URN/25/2015  
Adopted by the PZU SA Supervisory Board on 21 May 2015

REPORT OF THE PZU SA SUPERVISORY BOARD ON THE ACTIVITY OF THE PZU SA  
SUPERVISORY BOARD AS A CORPORATE BODY OF THE COMPANY IN 2014.



## I. Supervisory Board Composition

As at 1 January 2014, the following persons sat on the PZU SA Supervisory Board:

- Waldemar Maj – Supervisory Board Chairman,
- Zbigniew Cwiąkalski – Supervisory Board Deputy Chairman,
- Tomasz Zganiacz – Supervisory Board Secretary,
- Zbigniew Derdziuk – Supervisory Board Member,
- Dariusz Daniluk – Supervisory Board Member,
- Dariusz Filar – Supervisory Board Member,
- Włodzimierz Kiciński – Supervisory Board Member,
- Alojzy Z. Nowak – Supervisory Board Member,
- Maciej Piotrowski – Supervisory Board Member.

On 17 June 2014, the PZU SA Ordinary Shareholder Meeting dismissed Waldemar Maj, hitherto holding the position of Supervisory Board Chairman, Dariusz Daniluk and Włodzimierz Kiciński from the Supervisory Board with effect from 18 June 2014. At the same time, starting from 18 June 2014, the following persons were appointed to the PZU SA Supervisory Board: Dariusz Kacprzyk, Jakub Karnowski and Aleksandra Magaczewska.

On 15 July 2014, Aleksandra Magaczewska took the position of Supervisory Board Chairwoman.

Accordingly, from 15 July 2014, the composition of the Supervisory Board was as follows:

- Aleksandra Magaczewska – Supervisory Board Chairwoman,
- Zbigniew Cwiąkalski – Supervisory Board Deputy Chairman,
- Tomasz Zganiacz – Supervisory Board Secretary,
- Zbigniew Derdziuk – Supervisory Board Member,
- Dariusz Filar – Supervisory Board Member,
- Dariusz Kacprzyk – Supervisory Board Member,
- Jakub Karnowski – Supervisory Board Member,
- Alojzy Z. Nowak – Supervisory Board Member,
- Maciej Piotrowski – Supervisory Board Member.

As at 31 December 2014, 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 was as follows: the 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 ten meetings on the following dates:

- 14 January 2014,
- 18 February 2014,
- 11 March 2014,
- 15 April 2014,
- 13 May 2014,
- 15 July 2014,
- 26 August 2014,
- 8 September 2014,
- 12 November 2014,
- 9 December 2014.

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 forty nine resolutions, including ten resolutions by circulation (list of resolutions constitutes attachment 1 to this report). All Supervisory Board resolutions – with the exception of resolutions no. URN/37/2014 and no. URN/38/2014 – were adopted unanimously, with the quorum required by the 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 2014, 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 – Deloitte Polska 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 mostly 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 2014, 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.

Material issues addressed by the Supervisory Board in 2014:

- Systematic assessment of the Company's and PZU Group's financial and economic standing, market position and key strategic initiatives and plans for 2014.
- Approval of the PZU SA and PZU Group financial plan for 2014 and on-going monitoring of its implementation.
- On-going monitoring of the preparation of the PZU SA and PZU Group financial plan for 2015.

- Assessment of the PZU SA financial statements for the year ended 31 December 2013 and recommendation to the PZU Ordinary Shareholder Meeting to approve them.
- Assessment of the Management Board report on PZU SA's activity in 2013 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 2013 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 2013 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 2013 and recommendation to the PZU SA Ordinary Shareholder Meeting to approve it.
- Recommendation to the PZU SA Ordinary Shareholder Meeting to discharge PZU SA Management Board Members on the performance of their duties in the Management Board in 2013.
- Approval of the Supervisory Board Report on the assessment of the PZU SA financial statements for the financial year ended 31 December 2013 and the Management Board report on PZU SA's activity in 2013 and the Company's Management Board motion on distribution of profit.
- Adoption of the PZU SA Supervisory Board report on the activity of the Supervisory Board as the Company's governing body in 2013.
- Approval of the long-term plan for the development and operation of the Company presented in the document entitled: "PZU Group Updated Strategy "PZU 2.0" for 2014-2015".
- Works relating to the preparation of the long-term plan for the development and operation of the Company, presented in the document entitled "PZU Group Strategy "PZU 3.0" for 2015 - 2020".
- Due to the provisions of the Insurance Activity Act, the auditor had to be replaced from 2014. Accordingly, the PZU SA Supervisory Board selected KPMG Audyt Sp. z o.o. Sp. k. as the entity authorized to audit financial statements, to audit in particular the PZU SA annual financial statements and the PZU Group annual

consolidated financial statements. The auditor was selected for three subsequent financial years ending, respectively, on 31 December 2014, 31 December 2015 and 31 December 2016 with an option to extend the agreement for further two financial years ending, respectively, on 31 December 2017 and 31 December 2018.

- On-going 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).
- On-going risk monitoring.
- On-going investment activity monitoring.
- Approving the PZU Group's capital and dividend policy for 2013-2015.
- Consenting to the acquisition of shares and assets as part of projects relating to the acquisition of the Lithuanian company Lietuvos Draudimas AB, Latvian company AAS Balta, Estonian branch of Codan Forsinkring A/S and 100% of shares in Link 4 Towarzystwo Ubezpieczeń SA from RSA Insurance Group plc. On-going monitoring of the course of the aforementioned transaction.
- Consenting for PZU SA to grant a collateral guarantee to secure liabilities under the Eurobonds to be issued by PZU Finance AB (publ).
- Consenting to the execution of a loan agreement between PZU Finance AB (publ) as the lender and PZU SA as the borrower.
- Consenting for PZU SA to take up shares in the increased share capital of UAB DK PZU Lietuva.
- Consenting to the acquisition, by PZU SA, of 188 shares in Lietuvos Draudimas AB as part of the call for subscription for shares in Lietuvos Draudimas AB.
- Approval of the answers provided in the BION questionnaire.
- Discussion on the application of the Corporate Governance Rules.
- Awarding annual bonuses for the year ended 31 December 2013 to the PZU SA Management Board President and Management Board members.
- In connection with the changes in the PZU SA Supervisory Board - electing the new Supervisory Board Chairperson and determining the composition of the Audit Committee and Strategy Committee.

- On-going monitoring of the activity of the PZU SA Supervisory Board Audit Committee, PZU SA Supervisory Board Appointment and Compensation Committee and the PZU SA Supervisory Board Strategy Committee.

To perform correctly the supervisory activities in the Company, the Supervisory Board appointed advisory and opinion-making committees. In 2014, three Committees were active within the PZU SA Supervisory Board:

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

#### **Audit Committee**

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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.

In 2014, the composition of the PZU SA Supervisory Board Audit Committee was as follows:

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

Dariusz Filar was indicated by the Supervisory Board as an independent member, having accounting or audit qualifications as defined in 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 17 June 2014, the PZU SA Ordinary Shareholder Meeting dismissed Dariusz Daniluk from the PZU SA Supervisory Board with effect from 18 June 2014. Accordingly, as at 30 June 2014, the Audit Committee did not meet the criteria concerning the number of its members specified in § 20 Item 10 of the Company's Articles of Association.

On 15 July 2014, the PZU SA Supervisory Board supplemented the composition of the Audit Committee to include Dariusz Kacprzyk as a Committee Member.

In connection with the above, the Audit Committee had the following composition:

- Dariusz Filar – Committee Chairman,
- Dariusz Kacprzyk - Committee Member,
- Tomasz Zganiacz – Committee Member.

As at 31 December 2014, the composition of the Audit Committee did not change.

Audit Committee decisions were made in the form of resolutions which were each time submitted to the Company's Supervisory Board. The PZU SA Supervisory Board Audit Committee report on its activity in 2013 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.

In 2014, the composition of the PZU SA Nomination and Compensation Committee was as follows:

- Zbigniew Cwiakalski – Committee Chairman,
- Zbigniew Derdziuk – Committee Member,
- Dariusz Filar – Committee Member,
- Maciej Piotrowski – Committee Member,
- Tomasz Zganiacz – Committee Member.

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 Supervisory Board.

As at 1 January 2014, the following persons sat on the PZU SA Supervisory Board Strategy Committee:

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

On 14 January 2014, the composition of the Strategy Committee was supplemented to include Włodzimierz Kiciński as a Strategy Committee Member. Accordingly, the composition of the Committee was as follows:

- Waldemar Maj – Committee Chairman,
- Zbigniew Derdziuk – Committee Member,
- Włodzimierz Kiciński – Committee Member,
- Alojzy Nowak – Committee Member,
- Maciej Piotrowski – Committee Member.

On 17 May 2014, the PZU SA Ordinary Shareholder Meeting dismissed Waldemar Maj and Włodzimierz Kiciński from the PZU SA Supervisory Board with effect from 18 June 2014.

Consequently, on 15 July 2014, the PZU SA Supervisory Board determined the following composition of the Strategy Committee:

- Alojzy Nowak – Committee Member,
- Dariusz Kacprzyk - Committee Member,
- Aleksandra Magaczewska - Committee Member,
- Maciej Piotrowski – Committee Member.

On 8 September 2014, the Supervisory Board appointed Jakub Karnowski as Strategy Committee Member.

Accordingly, the Strategy Committee had the following composition:

- Alojzy Nowak – Committee Member,
- Dariusz Kacprzyk - Committee Member,
- Jakub Karnowski – Committee Member,
- Aleksandra Magaczewska - Committee Member,
- Maciej Piotrowski – Committee Member.

As at 31 December 2014, the composition of the Committee did not changed.

In 2014, 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 2014 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 2014 in a timely fashion.

#### **VI. Concise assessment of the Company's standing, together with assessment of the internal control system and key risk management system**

The financial results achieved by the 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 2014, the return on equity (ROE) was 21.4% and was 18.3 p.p. lower than in the previous year. In the years 2012-2014, PZU SA's return on equity (ROE) on average exceeded 27%, whereas the ROE of the largest and best insurance companies in the

world was at a level of 10-15%. In 2014, the combined ratio (COR) for non-life insurance amounted to 94.7%.

The PZU SA complies with all business safety standards. As at 31 December 2014, equity amounted to PLN 12,328.7m. PZU SA's solvency coverage ratio (according to Solvency I regulations) significantly exceeded the average for the insurance sector.

PZU SA is regularly rated by Standard & Poor's Ratings Services (S&P). The rating awarded to PZU SA results from an analysis of the financial information, competitive position, management and corporate strategy as well as the country's financial situation. As at the date of the report, PZU SA had the financial strength rating and the credit rating (awarded by S&P on 16 July 2009) at the A level with a stable outlook. This is the top S&P rating available to a company in Poland. As at the date of this report, the long-term credit rating in the local currency was A with a stable outlook, while the foreign currency credit rating for Poland was A- with a stable outlook.

In 2014, PZU SA recorded a technical result at a level of PLN 564.4m compared with PLN 1,061.9m in the preceding year (decline by 46.8%). The net profit was PLN 2,636.7m compared with PLN 5,106.3m in 2013 (decline by 48.4%). Without taking into account the dividend received from PZU Życie SA, PZU SA's net profit was PLN 576.7m and was lower than in 2013 by PLN 686.7m. In 2014, PZU SA's net result on investments amounted to PLN 2,568.0m compared with PLN 4,633.3m in 2013 (decline by 44.6%). After excluding the effect of the dividend received from PZU Życie SA, the net revenues from investment activities amounted to PLN 508.0m compared with PLN 790.4m in the preceding year.

On 31 December 2014, PZU SA's balance sheet total amounted to PLN 34,629.8m and was 14.9% higher as at the end of 2013.

The main element of PZU SA's assets was investments. They totaled PLN 31,030.9m and were 12.4% higher than at the end of the preceding year. They represented 89.6% of PZU SA's balance sheet total compared with 91.6% at the end of 2013. With the exclusion of investments in subordinated entities, this level was 8.4% higher.

At the end of 2014, the main component of PZU's liabilities was technical provisions. They reached PLN 16,861.2m, which represented 48.7% of the

liabilities. Their share in the balance sheet decreased slightly compared with the preceding year, while they increased by PLN 948.2m in terms of value, in particular due to higher motor insurance equalization provisions in the group insurance segment.

As at the end of 2014, the equity amounted to PLN 12,328.7m, which was close to its level at the end of 2013 (increase by 0.6%).

The following factors had a key impact on PZU SA's financial results in 2014:

- a decrease in gross premium written to PLN 8,261.8m compared with the preceding year (0.1% lower), mainly in motor insurance, as an effect of strong price competition. After considering the reinsurers' share and the change in the unearned premium reserve, the net earned premium was PLN 7,902.6m and was 2.5% lower than in 2013;
- higher level of claims and benefits. They amounted to PLN 5,230.9m, which means a 3.6% increase compared with 2013, mainly in motor third party liability insurance in connection with a considerably higher level of the claims provision for events in previous years;
- the result on investment activity lower by PLN 2,065.3m. In 2013, PZU SA recorded high revenues from dividends from PZU Życie SA, amounting to PLN 3,842.9m, of which PLN 2,000m constituted a distribution from part of the supplementary capital created from this company's profit for prior years;
- higher acquisition costs (increase by PLN 70.1m) relating mainly to changes in commission rates in package motor insurance;
- increase in the administrative costs up to PLN 729.1m compared with PLN 662.7m in 2013, relating mainly to higher project costs, including the strategy implementing and IT costs as well as personnel and customer service training costs;
- lower level of re-insurance commission fees being a result of identifying the effect of the settlement with the re-insurer concerning the Green Card (*Zielona Karta*) insurance in the previous year's results and disclosing non recurring income of PLN 73.3m (total positive effect on the gross result for 2013 was PLN 53.2m).

2014 was the last year of implementing the PZU Group Strategy "PZU 2.0" for 2012-2014, adopted in December 2011. While it was in force, the Company significantly strengthened its position in the financial market as a result of:

- stopping the decline in the share in the non-life insurance market;
- achieving a higher than average profitability level.

In the years 2012-2014, PZU SA's return on equity (ROE) on average exceeded 27%, whereas the ROE of the largest and best insurance companies in the world was at a level of 10-15%.

As a result of implementing the "PZU 2.0" Strategy, solid foundations for the organization's further development were created, such as:

- modern IT Tools;
- revitalization of the outlet network;
- cost optimization;
- brand refreshment;
- strengthening of the position in the Central and Eastern European market.

PZU SA significantly increased its presence in international markets through capital investments. In the years 2012-2013 - acting through its daughter company operating in Lithuania - PZU SA entered the insurance market in Latvia and Estonia. In 2014, PZU SA took over Link4 TU SA (a leader in the direct insurance market in Poland) and the Lithuanian company Lietuvos Draudimas AB, Latvian company AAS Balta, as well as the business of the Estonian company Codan Forsikring A/S.

In January 2015, the PZU SA Supervisory Board adopted a new strategy of development of the PZU Group

"PZU 3.0". This strategy assumes further expansion of the PZU Group until 2020, based on three pillars:

- insurance - with the use of two different brands (PZU SA and Link4) the PZU Group will increase its share in the Polish non-life market up to at least 35% in 2020. With respect to the life insurance market, it will maintain its current position, i.e. over 43% measured by the share in the regular premium. At the same time, it will be among the three largest insurance companies in the Central and Eastern Europe (in the countries in which it is already present). Additionally, the PZU Group will consider the possibilities of further acquisitions in prospective markets;

- asset management - the PZU Group will be a market leader in managing clients' assets in the Central and Eastern European region, *inter alia* due to offering products with higher than average investment performance. At the same time, it will maintain the leading position in the Polish investment funds market and intends to have at least a 11.5% share in TFI assets in 2020 (after deducting the PZU Group's assets invested in investment funds);
- medical care - the PZU Group intends to become the largest integrated operator of coordinated medical care in the Polish market. A comprehensive offer will include out-patient care, preventive healthcare, hospital care, health rehabilitation and long-term care.

A factor contributing to an increase in the shareholder value will also be the high efficiency of operation. Despite operating in the conditions of low interest rates, which adversely affect the results on investment activities, the return on equity in 2020 will reach 20%.

PZU SA made its debut at the Warsaw Stock Exchange on 12 May 2010 and since then it has been in the WIG20 Index. With capitalization reaching nearly PLN 42m at the end of 2014, PZU SA was the second largest listed company in Poland and its share in the WIG20 portfolio amounted to 14.4%.

PZU SA is also included in the following Warsaw Stock Exchange indexes: WIG, WIG30, WIG-Poland, RESPECT Index and WIGdiv. Since 2012 PZU SA's shares have also been included in the CEERIUS sustainable development index.

In 2014, PZU SA's shares were doing much better than the shares of other blue chip companies (WIG20) or banks (WIG Banki). PZU SA's closing price at the last stock exchange session in 2014 was PLN 486 which meant a +8.3% increase compared with the price on the last day of December 2013 (PLN 448.95). Taking into account the PLN 34 dividend paid in 2014, investors could earn 15.83% on PZU SA's shares. Consequently, PZU SA ranked among the top five WIG20 companies with the highest rate of return in 2014. Taking into account an additional dividend from surplus capital of PLN 20 (paid in 2013 in the form of an advance from profit for 2013), the rate of return on PZU SA's shares would increase to 20.3%.

At the session on 8 September 2014, PZU SA's price for the first time exceeded PLN 500 (reaching PLN

501.4). The historic maximum quotation at closing (PLN 511 per share) was reached on 4 November 2014.

It is worth noting that in May 2010 the price of the PZU SA IPO shares was PLN 312.5. An investor which purchased them then gained twice the value of its investment at the end of 2014. The return on investment in PZU SA's shares, including accumulated dividends of PLN 143.04, was 101.3%.

PZU SA's shares are characterized by high liquidity. At the end of 2014, 59.98% of shares were free-floating shares. The average number of transactions per session was 2,495 (increase by 5.3% YoY). The price to book value ratio was at a level of 3.19, which means that PZU SA was among the most highly valued financial sector companies listed at the Warsaw Stock Exchange.

A factor contributing to the very good performance of PZU SA's shares was undoubtedly the consistent implementation of the PZU Group's Strategy "PZU 2.0". The restructuring of the PZU's Group brought the expected effects on costs optimization and an increase in operating efficiency. The PZU Group cares for its image as a modern insurer, undertakes innovative healthcare projects and introduces modern solutions. The brand refreshment, revitalization of the outlet network and actions aimed at ensuring a high level of customer service are among the main initiatives taken over the last years. Actions such as the introduction of groundbreaking direct loss adjustment services and an own fleet of replacement cars are very well received not only by clients, but also by investors and analysts. One of important events in the course of implementing the PZU Group's previous strategy was the finalization of takeovers of insurance companies

in the Baltic states and in Poland. Once the transaction was announced - in April 2014 - the PZU SA's price increased by 3.6%, which led to a growth in market capitalization by PLN 1.3bn. Also the high value of dividends paid every year has a positive impact on the share price, which ensures an attractive dividend rate. PZU SA paid the highest to date dividend (PLN 54 per share) from the profit for 2013.

On 3 July 2014, PZU FINANCE AB (a 100% subsidiary of PZU SA) issued five-year Eurobonds for EUR 500,000 thousand. The Eurobond issue, with the lowest coupon in the Central and Eastern European region and the lowest margin in the



region since 2007, constituted the implementation of the PZU Group's investment strategy concerning the management of the matching of assets and liabilities in EUR. Standard & Poor's granted the bonds a senior unsecured rating of A, which is an investment grade. The bonds were introduced into trading on the regulated market of the Irish Stock Exchange (Official List, Main Securities Market) on the basis of a prospectus approved by the Central Bank of Ireland. Since 22 December 2014, the bonds have been listed on the Catalyst ASO GPW/Bondspot market.

As at 31 December 2014, the shareholders holding large blocks of PZU SA's shares were the State Treasury (35.19% of the share capital) and Aviva Otarty Fundusz Emerytalny Aviva BZ WBK (5% of the share capital). The analysis of PZU SA's shareholding structure conducted in 2014 showed, compared with the preceding year, a clear growth in the share of Polish institutional investors (+2.7 p.p.) at the expense of individual and foreign investors. The growth in the institutional investors' share in Poland is mainly an effects of the growth of interest in PZU SA's shares on the part of OFE, whose share increased from 16.7% in 2013 to 18.3%.

PZU SA has consistently applied the "Principles for Powszechny Zakład Ubezpieczeń Spółka Akcyjna to Conduct its Information Policy for Capital Market Participants", created value through proactive communication with capital market participants, building trust and caring for good relationships. In 2014, recommendations for PZU SA's shares were issued by 20 domestic and foreign financial institutions. In total, the sell side analysts issued 34 recommendations. Buy, Accumulate and Overweight recommendations prevailed slightly (about 35% of all recommendations issued). The median of target prices from recommendations valid in December 2014 was PLN 495 and was 11.2% higher compared to that at the beginning of the year.

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 insurance non-life products. PZU SA's activities in 2015 will be determined by the accomplishment of the assumptions of the PZU Group's Strategy "PZU 3.0" for 2015-2020" adopted in January 2015.

In 2014, 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 rationally:

- efficiency and effectiveness of the operating activity;
- reliability of information communicated inside and outside the Company, 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, *inter alia*: 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 the Head Office;
- supervision exercised by the managers of organizational cells in relation to their directly reporting organizational units functioning outside the functional divisions.

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 and effectiveness of 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, *inter alia*, 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 choice, appointment or dismissal of the manager of PZU SA's audit services require the Audit Committee's opinion. In addition, the internal audit services in PZU SA are independent of operational functions.

In 2014, the audit tasks in PZU SA were executed 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 an effective 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 the activity in 2014, comprising information about the execution of the audit plan and other tasks performed by BAW, assessment of the internal control system and the risk management system.

In 2014, BAW continued to implement the Internal Audit Strategy for 2012-2014; All tasks planned for 2012-2014 were completed according to the schedule. Other continuous tasks will be carried on in subsequent years. BAW developed the BAW Strategy for 2015-2020, approved by the PZU SA Supervisory Board Audit Committee and the Company's Management Board. The Strategy assumed, *inter alia*, that BAW would be involved in the construction of the Company's value and the implementation of business transformation, and would continue to supervise the PZU Group's companies and to support the Company in the implementation of the Solvency II directive. The implementation of the Internal Audit Strategy will be subject to continuous monitoring and periodic reporting to the PZU SA Supervisory Board Audit Committee and Management Board.

Within the framework of the "Agreement on cooperation on organization and functioning of the internal control system, internal audit system, risk management system, compliance system and the safety management system in the PZU Group", concluded with the PZU Group key companies, the construction of uniform standards and the exchange of information concerning the internal control system and internal audit services were continued. Similarly to previous years, on the basis of the aforementioned agreement, the internal audit services obtain information from PZU SA's subsidiaries regarding the adequacy and effectiveness of their implemented risk management and internal control systems - all Companies being parties to the aforementioned agreement confirmed the adequacy and effectiveness of the implemented 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 these Companies). The internal audit function was strengthened in the PZU Group's key Polish companies by dedicating additional human resources.

Corresponding agreements were entered into in 2014 with Link4 TU SA, AAS Balta and Lietuvos Draudimas AB in connection with taking over the assets of RSA Insurance Group plc in Poland and the Baltic states.

The PZU SA Internal Audit Rules and Regulations and Internal Control Rules and Regulations were updated in 2014. The amendments were aimed at:

- adapting to the Solvency II guidelines
- adapting to the assumptions of the Internal Audit Department Strategy for 2015-2020 and related organizational changes in the Internal Audit Department.

In 2014, 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:

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

The risk management organizational structure 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;
- the Asset and Liability Management Committee and the Credit Risk Committee, which take decisions pertaining to mitigation of individual risks within the frameworks outlined by the risk appetite. The Committees adopt procedures and methodologies associated with mitigation of individual risks and accept the limits constraining individual risk types;

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 - on-going risk management at the organizational unit and cell level and decision-making as part of the risk management process. The management staff is responsible for the implementation of an effective risk management in the supervised area of the Company's activity, in particular for

designing and efficient functioning of identification and monitoring actions as integral components of implemented processes, ensuring appropriate response to the risks present,

- the second line of defense - risk management by specialized cells responsible for risk identification, 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 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, insurance risk, operating risk and non-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 taking into account 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 prevailing regulations, reports are submitted to the Company's Supervisory Board, Management Board, 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, reinsurance program.

As part of performing the Agreements referred to in the part pertaining to the assessment of the internal

control system, the Risk Department continues on implementing an integrated risk management system in the PZU Group. The execution of the relevant agreements providing the framework for cooperation in, *inter alia*, the risk management process in the PZU Group makes it possible to obtain and process information necessary for adequate and effective risk management at the Group's level.

Two levels have been distinguished in the risk management process in the PZU Group:

- the PZU Group level - ensuring that the PZU Group attain its business objectives in a safe manner adapted to fit the scale of the risk incurred. The limits and specific types of risk existing in business lines are monitored at this level, e.g. the total catastrophe risk or the PZU Group's total exposure to financial risk or counterparty risk. The PZU Group ensures support in implementing risk management standards and monitors their implementation. The PZU Group dedicated personnel cooperates with the Management Boards of companies and managers of such areas as finance, risk, actuarial services, reinsurance or investments.
- the Company level - ensuring that the company attain its business objectives in a safe manner adapted to fit the scale of the risk incurred by it. At this level, risk limits and specific types of risk existing in a given company are monitored and the risk management process is implemented at the level of the individual company (both in the area of legal regulations and the PZU Group's standards).

In 2014, the process of determining the appetite for risk and risk limits consistent with the group process was implemented in all insurance companies belonging to the Group. The management board of each company determines the appetite for risk, risk profile and tolerance limits reflecting its strategic plans and the objectives of the entire PZU Group. This approach ensures the adequacy and effectiveness of the risk management system in the PZU Group and prevents the acceptance of risk levels which could jeopardize the financial stability of individual companies or the entire Group. The determination of the appropriate level of risk in the company is the Management Board's responsibility, whereas a review of the risk appetite values is conducted once a year by the unit responsible for

risk, with all actions being coordinated at the Group level.

The PZU SA Supervisory Board positively assesses the cooperation with the Company's Management Board in 2014 and recommends that the PZU SA Ordinary Shareholder Meeting discharge all PZU SA Management Board members on the performance of their duties in 2014, i.e.:

- Andrzej Klesyk – Management Board President in the period from 1 January 2014 to 31 December 2014,
- Przemysław Dąbrowski, Management Board Member in the period from 1 January 2014 to 31 December 2012,
- Dariusz Krzewina, Management Board Member in the period from 1 January 2014 to 31 December 2014,
- Barbara Smalska, Management Board Member in the period from 1 January 2014 to 31 December 2014,
- Tomasz Tarkowski, Management Board Member in the period from 1 January 2014 to 31 December 2014,
- Ryszard Trepczyński, Management Board Member, in the period from 1 January 2014 to 31 December 2014.

## VII. 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 2014 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". All PZU SA Supervisory Board members represented a high and unquestionable 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. Supervisory Board decisions were characterized by care for the good of all shareholders. Considering the above, the Supervisory Board is prepared to perform 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 2014 can be assessed as effective, in accordance with the best market practices.

Chairwoman  
PZU SA Supervisory Board

*Aleksandra Magaczewska*

Warsaw, 21 May 2015

**Attachment no. 1**  
**to the PZU SA Supervisory Board Report on the Activity of the PZU SA Supervisory Board**  
**as a Corporate Body of the Company in 2014**

<b>Resolution number</b>	<b>Date of the resolution</b>	<b>Subject matter of the resolution:</b>
<b>URN/1/2014</b>	14 Jan. 2014	adoption of the Company's long-term development plan presented in the document entitled "PZU Group's Updated Strategy "PZU 2.0" for 2012-2014"
<b>URN/2/2014</b>	14 Jan. 2014	approval of the PZU SA and PZU Group Financial Plan for 2014
<b>URN/3/2014</b>	14 Jan. 2014	amendment to PZU SA Supervisory Board's resolution no. URN/37/2011 and supplementing the composition of the PZU SA Supervisory Board Strategy Committee
<b>URN/4/2014</b>	18 Feb. 2014	excusing the absence of the PZU SA Supervisory Board Member Włodzimierz Kiciński at the meeting on 18 February 2014
<b>URN/5/2014</b>	18 Feb. 2014	selection of an entity authorized to audit financial statements
<b>URN/6/2014</b>	11 Mar. 2014	excusing the absence of the PZU SA Supervisory Board Deputy Chairman Zbigniew Cwiąkalski at the meeting on 11 March 2014
<b>URN/7/2014</b>	11 Mar. 2014	excusing the absence of the PZU SA Supervisory Board Member Dariusz Daniluk at the meeting on 11 March 2014
<b>URN/8/2014</b>	11 Mar. 2014	assessment of the PZU SA financial statements for the year ended 31 December 2013 in terms of their compliance with the ledgers and documents and the factual status, along with the auditor's opinion and report and the recommendation to the PZU SA Ordinary Shareholder Meeting to approve the financial statements
<b>URN/9/2014</b>	11 Mar. 2014	assessment of the PZU SA Group's Consolidated Financial Statements for the year ended 31 December 2013, pursuant to IFRS along with the auditor's opinion and report and recommendation to the PZU SA Ordinary Shareholder Meeting to approve the financial statements
<b>URN/10/2014</b>	11 Mar. 2014	assessment of the Management Board Report on PZU SA's activity in 2013 and recommendation to the PZU SA Ordinary Shareholder Meeting to approve it
<b>URN/11/2014</b>	11 Mar. 2014	assessment of the Management Board Report on the PZU SA Group's activity in 2013 and recommendation to the PZU SA Ordinary Shareholder Meeting to approve it
<b>URN/12/2014</b>	03 Apr. 2014	approval of the answers provided in the BION questionnaire
<b>URN/13/2014</b>	15 Apr. 2014	consent to the acquisition of shares and assets as part of the Baron Project
<b>URN/14/2014</b>	15 Apr. 2014	recommendation to discharge Andrzej Klesyk on the performance of his duties in the PZU SA Management Board in 2013
<b>URN/15/2014</b>	15 Apr. 2014	recommendation to discharge Dariusz Krzewina on the performance of his duties in the PZU SA Management Board in 2013
<b>URN/16/2014</b>	15 Apr. 2014	recommendation to discharge Przemysław Dąbrowski on the performance of his duties in the PZU SA Management Board in 2013
<b>URN/17/2014</b>	15 Apr. 2014	recommendation to discharge Bogusław Skuza on the performance of his duties

<b>Resolution number</b>	<b>Date of the resolution</b>	<b>Subject matter of the resolution:</b>
		in the PZU SA Management Board in 2013
<b>URN/18/2014</b>	15 Apr. 2014	recommendation to discharge Barbara Smalska on the performance of her duties in the PZU SA Management Board in 2013
<b>URN/19/2014</b>	15 Apr. 2014	recommendation to discharge Tomasz Tarkowski on the performance of his duties in the PZU SA Management Board in 2013
<b>URN/20/2014</b>	15 Apr. 2014	recommendation to discharge Ryszard Trepczyński on the performance of his duties in the PZU SA Management Board in 2013
<b>URN/21/2014</b>	15 Apr. 2014	adoption of the PZU SA Supervisory Board Report on the activity of the PZU SA Supervisory Board as the Company's governing body in 2013
<b>URN/22/2014</b>	16 Apr. 2014	consent to the acquisition of shares as part of the Powder Project
<b>URN/23/2014</b>	13 May 2014	approval of the "PZU Group's Updated Capital and Dividend Policy for 2013-2015"
<b>URN/24/2014</b>	13 May 2014	assessment of the Management Board motion on the distribution of PZU SA's net profit for the year ended 31 December 2013
<b>URN/25/2014</b>	13 May 2014	adoption of the PZU SA Supervisory Board report on the assessment of the PZU SA financial statements for the year ended 31 December 2013, the Management Board report on PZU SA's activity in 2013 and the Company's Management Board motion on the distribution of PZU SA's net profit for the year ended 31 December 2013
<b>URN/26/2014</b>	13 May 2014	awarding an annual bonus for the financial year ended 31 December 2013 to the PZU SA Management Board President Andrzej Klesyk
<b>URN/27/2014</b>	13 May 2014	awarding an annual bonus for the financial year ended 31 December 2013 to the PZU SA Management Board Member Przemysław Dąbrowski
<b>URN/28/2014</b>	13 May 2014	awarding an annual bonus for the financial year ended 31 December 2013 to the PZU SA Management Board Member Dariusz Krzewina
<b>URN/29/2014</b>	13 May 2014	awarding an annual bonus for the financial year ended 31 December 2013 to the PZU SA Management Board Member Bogusław Skuza
<b>URN/30/2014</b>	13 May 2014	awarding an annual bonus for the financial year ended 31 December 2013 to the PZU SA Management Board Member Barbara Smalska
<b>URN/31/2014</b>	13 May 2014	awarding an annual bonus for the financial year ended 31 December 2013 to the PZU SA Management Board Member Tomasz Tarkowski
<b>URN/32/2014</b>	13 May 2014	awarding an annual bonus for the financial year ended 31 December 2013 to the PZU SA Management Board Member Ryszard Trepczyński
<b>URN/33/2014</b>	13 May 2014	amending the PZU SA Supervisory Board's resolution no. URN/38/2013 of 9 July 2013 to accept the amount of the base monthly compensation and the maximum annual bonus indicator for the PZU SA Management Board President and Management Board members;
<b>URN/34/2014</b>	17 Jun. 2014	conclusion of the "Agreement to finance the participation in the TOPex 30! program" with the PZU SA CEO Andrzej Klesyk

<b>Resolution number</b>	<b>Date of the resolution</b>	<b>Subject matter of the resolution:</b>
<b>URN/35/2014</b>	17 Jun. 2014	the PZU SA Management Board motion to consent for PZU SA to grant a collateral guarantee to secure liabilities under Eurobonds to be issued by PZU Finance AB (publ);
<b>URN/36/2014</b>	04 Jul. 2014	the PZU SA Management Board motion to consent to the execution of a loan agreement between PZU Finance AB (publ) as the lender and PZU SA as the borrower
<b>URN/37/2014</b>	15 Jul. 2014	election of the PZU SA Supervisory Board Chairperson
<b>URN/38/2014</b>	15 Jul. 2014	determination of the composition of the PZU SA Supervisory Board Audit Committee
<b>URN/39/2014</b>	15 Jul. 2014	determination of the number of members and composition of the PZU SA Supervisory Board Strategy Committee
<b>URN/40/2014</b>	15 Jul. 2014	conditions for consenting to the extension of the period for meeting the conditions precedent for the closing of the transaction of acquisition of Lietuvos Draudimas AB and payment into the escrow account
<b>URN/41/2014</b>	26 Aug. 2014	excusing the absence of the PZU SA Supervisory Board Chairwoman, Aleksandra Magaczewska, at the meeting on 26 August 2014
<b>URN/42/2014</b>	26 Aug. 2014	excusing the absence of the PZU SA Supervisory Board Member Dariusz Kacprzyk at the meeting on 26 August 2014
<b>URN/43/2014</b>	08 Sept. 2014	excusing the absence of the PZU SA Supervisory Board Member Zbigniew Derdziuk at the meeting on 8 September 2014
<b>URN/44/2014</b>	08 Sept. 2014	determination of the number of members and composition of the PZU SA Supervisory Board Strategy Committee
<b>URN/45/2014</b>	12 Sept. 2014	consent to the conclusion of an annex to the agreement for the sale of shares in Link4 Towarzystwo Ubezpieczeń Spółka Akcyjna
<b>URN/46/2014</b>	22 Oct. 2014	consent for PZU SA to take up shares in the increased share capital of UAB DK PZU Lietuva
<b>URN/47/2014</b>	31 Oct. 2014	consent to the acquisition, by PZU SA, of 188 shares in Lietuvos Draudimas AB as part of the takeover bid to subscribe for shares in Lietuvos Draudimas AB
<b>URN/48/2014</b>	19 Dec. 2014	approval of the answers provided in the BION questionnaire
<b>URN/49/2014</b>	19 Dec. 2014	application of the Corporate Governance Rules for Regulated Institutions



Attachment no. 2

to the PZU SA Supervisory Board Report on the Activity of the PZU SA Supervisory Board as a corporate body of the Company in 2014

First and last name of the PZU SA Supervisory Board Member	DATE OF THE MEETING									
	14.01	18.02	11.03	15.04	13.05	15.07	26.08	8.09	12.11	9.12
<b>Zbigniew Cwiąkałski</b>	√	√	X	√	√	√	√	√	√	√
<b>Dariusz Daniluk</b>	√	√	X	√	√	/	/	/	/	/
<b>Zbigniew Derdziuk</b>	√	√	√	√	√	√	√	X	√	√
<b>Dariusz Filar</b>	√	√	√	√	√	√	√	√	√	√
<b>Dariusz Kacprzyk</b>	/	/	/	/	/	√	X	√	√	√
<b>Jakub Karnowski</b>	/	/	/	/	/	√	√	√	√	√
<b>Włodzimierz Kiciński</b>	√	X	√	√	√	/	/	/	/	/
<b>Aleksandra Magaczewska</b>	/	/	/	/	/	√	X	√	√	√
<b>Waldemar Maj</b>	√	√	√	√	√	/	/	/	/	/
<b>Alojzy Nowak</b>	√	√	√	√	√	√	√	√	√	√
<b>Maciej Piotrowski</b>	√	√	√	√	√	√	√	√	√	√
<b>Tomasz Zganiacz</b>	√	√	√	√	√	√	√	√	√	√

√ - present  
X - absence excused

**Attachment no. 3**  
**to the PZU SA Supervisory Board Report on the Activity of the PZU SA Supervisory Board**  
**as a Corporate Body of the Company in 2014**

Report of the PZU SA Supervisory Board Audit Committee on its activities in 2014



Warsaw, 16 March 2015

## **I. Appointment and composition of the PZU SA Supervisory Board Audit Committee**

The PZU SA Supervisory Board Audit Committee was appointed on 3 June 2008 pursuant to resolution no. URN/20/2008 of the PZU SA Supervisory Board to appoint the PZU SA Supervisory Board Audit Committee.

As at 1 January 2014, the following persons sat on the PZU SA Supervisory Board Audit Committee:

- Dariusz Filar – Committee Chairman,
- Dariusz Daniluk – Committee Member,
- Tomasz Zganiacz – 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 (Journal of Laws 2009 No. 77, Item 649).

On 17 June 2014, the PZU SA Ordinary Shareholder Meeting dismissed Dariusz Daniluk from the PZU SA Supervisory Board with effect from 18 June 2014. Accordingly, as at 30 June 2014, the Audit Committee did not meet the criteria concerning the number of its members specified in § 20 Item 10 of the Company's Articles of Association.

On 15 July 2014, the PZU SA Supervisory Board supplemented the composition of the Audit Committee to include Dariusz Kacprzyk as a Committee Member.

Accordingly, the composition of the Audit Committee was as follows:

- Dariusz Filar – Committee Chairman,
- Dariusz Kacprzyk - Committee Member,
- Tomasz Zganiacz – Committee Member.

As at 31 December 2014, the composition of the PZU SA Supervisory Board Audit Committee did not change.

## **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 following the ordinary procedure, 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 2014 to 31 December 2014, the Committee held eight meetings on the following dates: 28 January 2014, 18 February 2014, 11 March 2014, 13 May 2014, 26 August 2014, 14 October 2014, 12 November 2014 and 9 December 2014. In the corresponding period, the PZU SA Supervisory Board held ten 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, Director for Reporting of the Accounting Office of PZU SA and PZU Życie SA, Director for Legislation and Organizational System at the Management Board Office of PZU SA and PZU Życie SA, Chairperson of the PZU Życie SA Supervisory Board Audit Committee, representatives of the auditor - Deloitte Polska Sp. z o.o. Sp. k. and representatives of the firms which submitted offers to audit financial statements (KPMG Audyty Sp. z o.o. Sp. k., Ernst & Young Audyty Polska Sp. z o.o. Sp. k., PricewaterhouseCoopers Sp. z o.o.).

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

In 2014, the PZU SA Supervisory Board Audit Committee adopted six resolutions.

#### List of resolutions of the PZU SA Supervisory Board Audit Committee

<b>Resolution number</b>	<b>Date of the resolution</b>	<b>Subject matter of the resolution</b>
<b>UKA/1/2014</b>	28.01.2014	recommendation to the PZU SA Supervisory Board to select an entity authorized to audit financial statements
<b>UKA/2/2014</b>	11.03.2014	adoption of the PZU SA Supervisory Board Audit Committee's report on the activity in 2013
<b>UKA/3/2014</b>	11.03.2014	assessment of the financial statements and Management Board reports on the activities of PZU SA and the PZU SA Capital Group for 2013
<b>UKA/4/2014</b>	13.05.2014	recommendation to the PZU SA Supervisory Board to issue a positive opinion on the Management Board motion regarding the distribution of PZU SA's net profit for the year ended 31 December 2013
<b>UKA/5/2014</b>	26.08.2014	adoption of the PZU SA Supervisory Board Audit Committee's report on the activity in the first half of 2014
<b>UKA/6/2014</b>	9.12.2014	recommendation to the PZU SA Supervisory Board to approve the Financial Plan of PZU SA and the PZU Group for 2015

In 2014, the meetings of the PZU SA Supervisory Board Audit Committee were attended by the following members:

First and last name of the Audit Committee Member	DATE OF THE MEETING							
	28.01	18.02	11.03	13.05	26.08	14.10	12.11	9.12
Dariusz Filar	√	√	√	√	√	√	X	√
Dariusz Daniluk	√	√	√	√	/	/	/	/
Dariusz Kacprzyk	/	/	/	/	X	X	X	X
Tomasz Zganiacz	√	√	√	√	√	√	√	√

√ - 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 place in the Company.

In pursuance of the above objectives, in the period from 1 January to 31 December 2014, the Audit Committee addressed in particular the following issues:

- Selection of an entity authorized to audit financial statements - pursuant to Article 170 Section 1 of the Insurance Activity Act, stipulating that the same entity authorized to audit financial statements may not be selected for a period longer than five years, this entity had to be replaced in PZU SA and in the PZU Group Companies. In connection with the above, the Audit Committee held meetings with the representatives of the audit firms which submitted their offers to provide the aforementioned services. Subsequently, having regard to the assumptions formulated earlier in

respect of the process of selecting the auditor, the PZU SA Supervisory Board Audit Committee decided to recommend to the Company's Supervisory Board to choose between KPMG Audyt Sp. z o.o. Sp. k. and Ernst & Young Audyt Polska Sp. z o.o. as entities authorized to audit financial statements. Additionally, the Audit Committee recommended to the Supervisory Board to select the auditor for the three subsequent financial years ending, respectively, on 31 December 2014, 31 December 2015 and 31 December 2016, with an option to extend the agreement for further two financial years ending, respectively, on 31 December 2017 and 31 December 2018.

- Discussion on the recommendations given by the auditor on the basis of the results of the audit of PZU SA's financial statements for 2012;
- Assessment of the financial statements and Management Board reports on the activities of PZU SA and the PZU SA Capital Group for 2013;
- Discussion on the preliminary results of PZU SA and the PZU Group for 2013 and for Q1, the 1<sup>st</sup> half-year and Q3 of 2014;
- 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 2013;

- Forecast performance of the Financial Plan of PZU SA and the PZU Group for 2014, along with a deviation analysis;
- Discussion on the draft Financial Plan of PZU SA and the PZU Group for 2015;
- Recommendation to the PZU Supervisory Board to approve the Financial Plan of PZU SA and the PZU Group for 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 2013, the Management Board report on PZU SA's activity in 2013 and the Management Board motion to distribute PZU SA's net profit for the year ended 31 December 2013;
- Discussion on the risk reports as at 31 December 2013, 31 March 2014, 30 June 2014 and 30 September 2014;
- Discussion on the PZU risk map;
- Discussion on the information concerning the implementation of the action strategy in the risk area in 2012-2014;
- Information on the results of the self-assessment of the operational risk in PZU SA and PZU Życie SA;
- Information on the Risk Management Strategy and Internal Audit Strategy for 2015-2020;
- Discussion on the draft Audit Plan for 2015;
- Discussion on the Internal Audit Department's reports for Q4 2013 and Q1, Q2 and Q3 2014;
- Discussion on the status of implementation of the Internal Audit Strategy for 2012-2014;
- Discussion on the Internal Audit Department Strategy for 2015-2020;
- Discussion on the annual report on the Internal Audit Department's activity in 2013, along with an assessment of the internal control system and risk management system;
- IT tools used by the Internal Audit Department;
- Information on amendments to PZU SA's Internal Audit Rules and Regulations and Internal Control Rules and Regulations;
- Discussion on the decision-making process in connection with the planned acquisition of Croatia Osiguranje;
- Information on the M&A projects carried out in the years 2013-2014, along with information on the decision-making process in connection with the planned acquisition of Bank BGŻ and Alior Bank;
- Information on the use of financial means from the prevention and sponsoring fund within the PZU SA Capital Group, taking into account the PZU Foundation (*Fundacja PZU*) in the years 2013-2014;
- Information on the advisory services provided to PZU SA and PZU Życie SA in the years 2013-2014;
- Information on the business trips of the PZU SA Management Board Members in 2013-2014;
- Information on the completed audit concerning the selection of the strategic advisor in connection the pzu.pl website remodeling;
- Information on the results of external inspections conducted in the Company in 2013 and the first half of 2014;
- Results of the European stress test;
- Adoption of the PZU SA Supervisory Board Audit Committee's report on the activity in 2013 and the first half of 2014;

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

Pursuant to the provisions of § 14 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.

Chairman  
PZU SA Supervisory Board Audit Committee

Dariusz Filar