

**SUPERVISORY BOARD
POWSZECHNY ZAKŁAD UBEZPIECZEŃ
SPÓŁKA AKCYJNA**

**PZU SA SUPERVISORY BOARD REPORT
ON THE ACTIVITY OF THE PZU SA SUPERVISORY BOARD
AS A CORPORATE GOVERNING BODY IN 2012**

Warsaw, 16 April 2013

I. Composition of the Supervisory Board

As at 1 January 2012, the following persons sat on the PZU SA Supervisory Board:

1. Marzena Piszczek – Supervisory Board Chairwoman,
2. Zbigniew Cwiąkalski – Supervisory Board Deputy Chairman,
3. Krzysztof Dresler – Supervisory Board Secretary;
4. Dariusz Daniluk – Supervisory Board Member,
5. Zbigniew Derdziuk – Supervisory Board Member;
6. Dariusz Filar – Supervisory Board Member,
7. Waldemar Maj – Supervisory Board Member.

Krzysztof Dresler submitted his resignation from the function of a PZU SA Supervisory Board Member as of 30 May 2012. On 30 May 2012 the PZU SA Ordinary Shareholder Meeting adopted a resolution to determine the number of Supervisory Board members – it was resolved that the Supervisory Board would be made up of 9 persons. Then the Ordinary Shareholder Meeting dismissed Marzena Piszczek, the then Supervisory Board Chairwoman, from the Supervisory Board and at the same time appointed the following persons to the PZU SA Supervisory Board: Tomasz Zganiacz, Maciej Piotrowski, Włodzimierz Kiciński and Alojzy Nowak. Accordingly, as of 30 May 2012, the composition of the PZU SA Supervisory Board was as follows:

1. Zbigniew Cwiąkalski – Supervisory Board Chairman,
2. Zbigniew Derdziuk – Supervisory Board Member,
3. Dariusz Daniluk – Supervisory Board Member,
4. Dariusz Filar – Supervisory Board Member,
5. Włodzimierz Kiciński – Supervisory Board Member,
6. Waldemar Maj – Supervisory Board Member,
7. Alojzy Nowak – Supervisory Board Member,
8. Maciej Piotrowski - Supervisory Board Member,
9. Tomasz Zganiacz - Supervisory Board Member.

On 28 June 2012, the Supervisory Board was officially formed. Waldemar Maj took up the function of Supervisory Board Chairman and Tomasz Zganiacz was entrusted with the function of Supervisory Board Secretary. Accordingly, as of 28 June 2012, the composition of the PZU SA Supervisory Board was as follows:

1. Waldemar Maj – Supervisory Board Chairman,
2. Zbigniew Cwiąkalski – Supervisory Board Deputy Chairman,
3. Tomasz Zganiacz – Supervisory Board Secretary,
4. Zbigniew Derdziuk – Supervisory Board Member,
5. Dariusz Daniluk – Supervisory Board Member,
6. Dariusz Filar – Supervisory Board Member,
7. Włodzimierz Kiciński – Supervisory Board Member,
8. Alojzy Nowak – Supervisory Board Member,
9. Maciej Piotrowski - Supervisory Board Member.

As at 31 December 2012, the PZU SA Supervisory Board composition did not change.

II. Supervisory Board Activity

In the reporting period, the legal basis for the activity of the Supervisory Board was as follows: 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 10 meetings on the following dates:

- 1 February 2012
- 8 March 2012
- 14 March 2012
- 8 May 2012
- 28 June 2012
- 28 August 2012
- 9 October 2012

- 13 November 2012
- 11 December 2012
- 20 December 2012

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 53 resolutions, including 1 resolution by circulation (the list of resolutions constitutes attachment 1 to this report). All Supervisory Board resolutions – with the exception of resolution no. URN/41/2012 – 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 adoption of justification resolutions by the Supervisory Board (Supervisory Board meeting attendance record constitutes attachment 2 to this report). Pursuant to § 26 sec. 1 of the PZU SA Supervisory Board Bylaws, in 2012, PZU SA Management Board members, PZU Group Directors, Managing Directors, Head Office Department Directors and other PZU SA employees were invited to PZU SA Supervisory Board meetings, providing exhaustive explanations and presenting documents pertaining to the Company's operations. In addition, PZU SA Supervisory Board meetings were also attended by representatives of the auditor – Deloitte Audyt Sp. z o.o. and consulting companies: K&L Gates Jamka Sp. k., KPMG Advisory Sp z o.o. Sp. k. and Hay Group Sp. z o.o.

Notwithstanding on-site meetings, the Supervisory Board was kept abreast 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).

Cooperation of the Supervisory Board with the PZU SA Management Board was good and focused on growing the value of the Company and caring for its welfare. 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 2012 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 pursuance of the Company's strategic objectives, reviewed the Management Board's 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 2012:

1. Regular assessment of the Company and PZU Group's financial and economic standing, market position and key strategic initiatives and plans for 2012.
2. On-going monitoring of the implementation of the PZU SA financial plan for 2012.
3. On-going monitoring of preparation of the PZU SA and PZU Group financial plan for 2013 and its approval.
4. Assessment of PZU SA's financial statements for the year ended 31 December 2011 and recommendation to the PZU Ordinary Shareholder Meeting to approve them.
5. Assessment of the Management Board report on PZU SA's activity in 2011 and recommendation to the PZU SA Ordinary Shareholder Meeting to approve it.
6. Assessment of the Management Board motion on distribution of PZU SA's net profit for the year ended 31 December 2006 and recommendation to the PZU SA Ordinary Shareholder Meeting to approve it.
7. Assessment of the Management Board motion on distribution of PZU SA's net profit for the year ended 31 December 2011 and recommendation to the PZU SA Ordinary Shareholder Meeting to approve it.

8. Assessment of PZU SA Capital Group's consolidated financial statements for the year ended 31 December 2011 and recommendation to the PZU Ordinary Shareholder Meeting to approve them.
9. Assessment of the Management Board report on PZU SA Capital Group's activity in 2011 and recommendation to the PZU SA Ordinary Shareholder Meeting to approve it.
10. 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 2011.
11. Approval of the Supervisory Board Report on assessment of the PZU SA financial statements for the financial year ended 31 December 2011 and the Management Board Report on PZU SA's activity in 2011 and the Company's Management Board motion on distribution of profit.
12. Adoption of the report of the PZU SA Supervisory Board on the activity of the Supervisory Board as the Company's governing body in 2011.
13. Selection of an entity authorized to audit financial statements. By virtue of resolution no. URN/27/2012 of 8 May 2012, the PZU SA Supervisory Board selected Deloitte Audyt Sp. z o.o., as an entity authorized to audit financial statements, to audit in particular the annual financial statements of PZU SA and the annual consolidated financial statements of the PZU Group and review the interim stand-alone financial statements of PZU SA and interim consolidated financial statements of the PZU Group for two consecutive financial years ending on 31 December 2012 and 31 December 2013, respectively.
14. Carrying out, in cooperation with consulting companies, the following analyses: PZU Group structures, remuneration paid to employees of PZU Group Companies in connection with their functions in the governing bodies of the PZU Group Companies, valuation of selected management board positions in PZU Group Companies, and preparation of market information about the remuneration of executive staff in Poland and Central and Eastern Europe, correctness of the tender procedure for the IT system and brand refreshment project.
15. Discussion of the costs of functioning and executed and contemplated investment programs incurred by the PZU Group.
16. On-going monitoring of execution of strategic projects, with special focus on the Everest project.
17. On-going risk monitoring.
18. On-going investment activity monitoring.
19. On-going monitoring of the status of works associated with implementation of the target operating model together with the target PZU SA policy system.
20. Discussion of the progress of work on adaptation of PZU SA to the requirements of the Solvency II Directive.
21. Discussion of the project management standards in PZU SA, taking into account project management issues.
22. Discussion of the potential impact of the activity of the Talanx Group on the activity of PZU SA in the short and long run.
23. Determining the consolidated version of PZU SA's Articles of Association.
24. Adoption of the PZU SA Supervisory Board Bylaws.
25. Discussion on the approval of the PZU SA Management Board Bylaws.
26. On-going monitoring of the activity of the PZU SA Supervisory Board Audit Committee, PZU SA Supervisory Board Appointment and Remuneration Committee and the PZU SA Supervisory Board Strategic Committee.

To perform its supervisory activities in the Company correctly, the Supervisory Board appointed advisory and opinion-making committees. In 2012, three committees were active within the PZU SA Supervisory Board:

- Audit Committee
- Nomination and Remuneration Committee
- Strategic Committee

Audit Committee

The Audit Committee was appointed by virtue of a PZU SA Supervisory Board resolution on 3 June 2008 to augment the effectiveness of supervisory activities performed by the Supervisory Board in the area of monitoring the Company's financial reporting, 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. Detailed tasks and rules of appointment and activity of the Audit Committee are specified in the PZU SA Supervisory Board Bylaws, PZU SA Supervisory Board Audit Committee Bylaws and the Supervisory Board resolution which, when selecting Audit Committee members, takes into consideration the competences and experience of the candidates in the matters entrusted to the Committee.

From 30 June 2011 the composition of the PZU SA Supervisory Board Audit Committee was as follows: Marzena Piszczek (Committee Chairperson), Dariusz Daniluk (Committee Member), Dariusz Filar (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 of 2009 No. 77, Item 649). In addition, Supervisory Board Members have determined that Audit Committee meetings will be attended by the PZU SA Supervisory Board Secretary Krzysztof Dresler, without voting rights. As at 1 January 2012 the composition of the Audit Committee has not changed. On 30 May 2012, the PZU SA Ordinary Shareholder Meeting dismissed from the Supervisory Board Marzena Piszczek, Chairperson of the PZU SA Supervisory Board Audit Committee, who also discharged the function of the PZU SA Supervisory Board Chairperson. Consequently, at the PZU SA Supervisory Board meeting on 28 June 2012, the composition of the Audit Committee was supplemented to include Tomasz Zganiacz, and Dariusz Filar was entrusted the function of the PZU SA Supervisory Board Audit Committee Chairman. As at 31 December 2012 the composition of the Audit Committee has not changed.

Audit Committee decisions were made in the form of resolutions conveyed each time to the Company's Supervisory Board. The report of the PZU SA Supervisory Board Audit Committee on its activity in 2012 constitutes attachment 3 to this report.

Nomination and Remuneration Committee

Pursuant to the PZU SA Articles of Association, until introduction of the Company's shares 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 a Nomination and Remuneration Committee, which was appointed on 12 May 2010. The Nomination and Remuneration Committee is an advisory and opinion-making body to the Supervisory Board with regard to the governance structure, including organizational matters, remuneration rules and remunerations, and selection of staff with appropriate qualifications.

As of 30 June 2011 the PZU SA Supervisory Board of the new term appointed the PZU SA Supervisory Board Nomination and Remuneration Committee of the new term in the following composition: Zbigniew Cwiąkański (Committee Chairman), Zbigniew Derdziuk (Committee Member), Krzysztof Dresler (Committee Member), Marzena Piszczek (Committee Member). As at 1 January 2012 the composition of the Nomination and Remuneration Committee has not changed. On 30 May 2012 the PZU SA Ordinary Shareholder Meeting dismissed from the composition of the Supervisory Board Marzena Piszczek, PZU SA Supervisory Board Nomination and Remuneration Committee Member, and Krzysztof Dresler, Nomination and Remuneration Committee Member, submitted his resignation from the PZU SA Supervisory Board. Consequently, at the aforementioned PZU SA Supervisory Board meeting on 28 June 2012, it was resolved that the Committee would be composed of five persons and the following persons were appointed to it: Zbigniew Cwiąkański as the Committee Chairman and Zbigniew Derdziuk, Dariusz Filar, Maciej Piotrowski and Tomasz Zganiacz as Committee Members. As at 31 December 2012 the composition of the Nomination and Remuneration Committee has not changed.

Decisions of the PZU SA Supervisory Board Nomination and Remuneration Committee were made in the form of opinions and recommendations conveyed each time submitted to the Company's Supervisory Board. Pursuant to the provisions of the Articles of Association, the Committee will be dissolved upon appointment of five Supervisory Board members by group voting, and its powers will be then taken over by the full Supervisory Board.

Strategic Committee

The task of the Strategic Committee is to issue opinions on all documents of a strategic nature submitted to the Supervisory Board by the PZU Management Board (in particular the Company development strategy) and provide the Supervisory Board with recommendations regarding contemplated investments of material impact on the Company's assets.

From 30 June 2011 the composition of the PZU SA Supervisory Board Strategic Committee was as follows: Waldemar Maj (Committee Chairman), Zbigniew Derdziuk (Committee Member), Krzysztof Dresler (Committee Member), Marzena Piszczek (Committee Member). As at 1 January 2012 the composition of the Strategic Committee has not changed. On 30 May 2012, the PZU SA Ordinary Shareholder Meeting dismissed from the composition of the Supervisory Board Marzena Piszczek, PZU SA Supervisory Board Strategic Committee Member, and Krzysztof Dresler, Strategic Committee Member, submitted his resignation from the PZU SA Supervisory Board. Consequently, at the aforementioned PZU SA Supervisory Board meeting on 28 June 2012 PZU SA Supervisory Board supplemented the composition of the PZU SA Supervisory Board Strategic Committee to include the following persons: Alojzy Nowak and Maciej Piotrowski as Committee Members. As at 31 December 2012 the composition of the Committee has not changed.

In 2012 decisions of the PZU SA Supervisory Board Strategic Committee were made in the form of opinions and recommendations conveyed each time to the Company's Supervisory Board.

IV. Information on implementation of PZU SA Shareholder Meeting resolutions

The Supervisory Board states that in 2012 it was not obligated to perform any actions following from resolutions adopted by the PZU SA Shareholder Meeting.

V. Observance of reporting and information duties

In 2012 the Supervisory Board received on-going and periodic stock exchange reports. In addition, quarterly information about the Company with a minority State Treasury shareholding was submitted to the State Treasury Ministry. The PZU SA Supervisory Board asserts that all the reporting and information duties imposed on it by the provisions of law were observed in 2012 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

In 2012, the Company had a very good financial standing and fulfilled all the security criteria imposed by the Insurance Activity Act and the Polish Financial Supervision Authority (KNF).

In 2012 the Company recorded a 2.5% increase of gross written premium on direct and indirect business, which amounted to PLN 8,453.5 million, compared to PLN 8,247.2 million in 2011. In 2012 PZU SA generated a net profit in the amount of PLN 2,580.7 million, compared to PLN 2,582.3 million in 2011, which means that the net result was maintained on the level recorded in 2011. Without taking into account the dividend received from PZU Life, PZU SA's net result for 2012 amounted to PLN 1,403.2 million, compared to the 2011 result in the amount of PLN 595.0 million (135.8% increase). PZU SA's technical result on property and casualty business at the end of 2012 amounted to PLN 640.1 million, compared to PLN 332.3 million in 2011, which means 92.6% growth.

The Company's investments at the end of 2012 amounted to PLN 27,591.5 million and were 10.9% lower than at the end of 2011. Equity was 14.5% higher than the year before and amounted to PLN 13,452.6 million. ROE for 2012 amounted to 20.5% and dropped by 1.4 p.p. in comparison to the year before.

On 23 July 2012, Standard & Poor's Ratings Services upheld PZU SA's "A" financial strength rating. At the same time the agency upheld its stable outlook.

PZU SA's financial results in 2012 in comparison to the year before were largely driven by:

- higher investment income (without taking into account dividend) mainly as a result of higher valuation of treasury bonds as a result of decrease of debt instrument yields, better circumstances on the capital markets, and introduction of a new investment strategy aimed at improving the profitability of investments with optimum risk management;
- lower loss ratio in motor insurance as a result of lower loss frequency, partly offset by the higher loss ratio in financial insurance as a result of the poor condition of the construction sector and a series of bankruptcies (losses on contractual guarantees);
- increase of capitalized annuity reserve caused by reduction of technical rates used to calculate them due to decrease of bond yields and the resulting decrease of future rates of return from assets covering provisions, and increase of anticipated growth of annuities;
- increase of the gross written premium in insurance mainly in the mass client segment thanks to development of motor TPL insurance and other TPL insurance and mandatory insurance of subsidized agricultural crops;
- consistent implementation of PZU's strategy with regard to restructuring processes aimed at reducing the fixed costs (group lay-off process);
- execution of project efforts aimed at changing the image of the PZU Group and introduction of a new policy system (planned launch of sales in the new system – the end of 2013).

PZU SA made its debut at the Warsaw Stock Exchange on 12 May 2010. The Company's shares are listed on the main market in the continuous trading system. In 2012 PZU SA's shares were part of the WIG, WIG20, WIG PL, RESPECT Index (from 1 February 2012) and WIGdiv (from 24 September 2012) indices. On 24 December 2012 PZU SA was included also in the sustainable development index CEERIUS (CEE Responsible Investment Universe). CEERIUS is a Vienna Stock Exchange index for Central and Eastern Europe (CEE). It comprises leading companies from the region satisfying the quality criteria in the area of social and environmental aspects. In 2012, the price of PZU SA's shares was affected, among other things, by the volatility of the financial markets, uncertainty regarding the potential timing of the sale of a 10% stake of the Company's shares by the State Treasury and the Company's very good financial results standing out in the financial sector, which was reflected in the valuations and recommendations of sell-side analysts. PZU SA's closing price at the last stock exchange session in 2012 was PLN 437.00 which, compared to the price of PLN 309.00 on the last day of December 2011, meant a 41.4% increase. In the same period the WIG20 and WIG indices grew 20.5% and 26.2% respectively. Although in the first half of 2012 the changes of PZU SA's share prices did not deviate significantly from the movements of stock exchange indices, the second half of the year brought upsurges in PZU's share price much above the market. In 2012, PZU SA's shares ended stock exchange sessions with increases 130 times, remained the same 9 times and dropped 110 times. The highest closing price (PLN 437.20) was reached on 21 December and the lowest (PLN 292.10) on 5 June. The average market price of PZU SA's shares in 2012 amounted to PLN 346.02 and was PLN 3.38 lower than in 2011. The average daily turnover in PZU SA's shares in 2012 was 211,993 shares and the highest level (993,896) was recorded on 15 June 2012. In 2012, PZU SA was on the list of 21 local and foreign financial institutions whose analysts issued in total 55 recommendations for PZU SA's shares. The "Buy", "Accumulate" and "Overweight" recommendations prevailed – in total 29 recommendations; 19 recommendations were neutral ("Keep" or "Neutral") and 7 "Underweight" or "Reduce".

In accordance with the Strategy adopted for 2012-2014, in the next few years PZU Group's operating model will be subject to transformation from an organization focused on product lines to an organization focused on customer segments. These efforts will make it possible to understand customer needs better and respond to such needs appropriately. In the next few years further operational optimization of the PZU Group is planned. Customer focus and high operating efficiency will enable the Company to retain the leading position and the PZU Group will remain the biggest and the most profitable insurance company in Central and Eastern Europe.

In 2012 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 procedures, organizational structures, solutions implemented in IT systems and other control mechanisms contributing to the attainment of the Company's objectives and security and stability of its operations, implemented to rationally ensure:

- efficiency and effectiveness of operating activity;
- reliability of information communicated inside and outside the Company, in particular pertaining to financial statements;
- adequacy and effectiveness of risk controls;
- responsible and transparent management of the Company;
- compliance of the Company's activity with laws and internal regulations.

Supervision over the internal control system in the Company comprises:

- supervision exercised by the Supervisory Board;
- activity 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 the organizational cells (except for the Company's Head Office) in relation to their directly reporting organizational cells 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 implementation of an effective internal control system in the pertinent area of the Company's operations, in particular for designing and efficient functioning of the 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 – it is overseen directly by the President of the Management Board, and informs the Management Board and the Supervisory Board Audit Committee about the actions taken and their results. In addition, the internal audit services in PZU SA are independent of operational functions.

In 2012 the audit tasks in PZU SA were executed on the basis of an annual audit plan prepared on the basis of 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 (IAD)) 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. IAD prepared an annual report on the activity in 2012 comprising information about the execution of the audit plan and other tasks performed by IAD, assessment of the internal control system and the risk management system.

In 2012 IAD started to implement the internal audit strategy for 2012-2014, which (after obtaining the approval of the PZU SA/PZU Life Supervisory Board Audit Committees) was adopted by Resolution no. UZ/9/2012 adopted by the PZU SA Management Board on 10 January 2012). The most important assumptions of the Strategy include in particular: preparation of the internal audit function for the requirements imposed by the Solvency II Directive, development of audit in the PZU Group, strengthening of control over field offices and development of partner audit. Information about the status of implementation of the Strategy is periodically submitted by IAD to the Company's Management Board and the Supervisory Board Audit Committee.

The PZU Group companies concluded an "Agreement on cooperation on the organization and functioning of the internal audit system and risk management system in the PZU Group" making it possible to construct uniform standards for the functioning of an effective internal audit system in the PZU Group and exchange of information for the needs of independent overall assessment of the risk management systems in the PZU Group. All companies being parties to the aforementioned agreement confirmed the adequacy and effectiveness of the implemented systems. On the basis of the aforementioned agreement, internal audit obtains information from PZU SA's subsidiaries regarding the adequacy and effectiveness of their risk management and internal control systems. On 4 April 2012, Agreements on cooperation on the organization and functioning of the internal audit system and risk management system in the PZU Group were concluded with PZU Lithuania and PZU Ukraine. IAD prepared a concept of cooperation with foreign companies regarding the organization and functioning of the internal control system on the basis of the provisions of the above Agreements. The concept, upon approval by the PZU SA Management Board, was presented to the PZU SA Supervisory Board Audit Committee at the meeting on 28 August 2012. As part of implementation of the concept in 2012, primarily actions pertaining to methodological support for the foreign companies were taken. If needed, these actions will be continued in the future. In addition, the method and scope of regular reporting of information from the internal control system area has been prepared and agreed upon.

In 2012 the Company had in place a risk management system adapted to fit the scale of its activity and organizational structure. The risk management system is based on three elements:

1. Organizational structure – division of powers and tasks executed by individual units and organizational cells in the risk management process;
2. Risk identification, measurement, evaluation, monitoring and reporting methods;
3. Actions using risk hedging and transfer techniques to adapt the risk profile and risk appetite to the Company's strategic plans.

The risk management structure is based on four authority levels. The first three levels comprise:

- Supervisory Board, which exercises supervision over the risk management process and assesses the adequacy and effectiveness of this process within the powers laid down in the Company's Articles of Association and Supervisory Board Bylaws;
- Management Board, which organizes and ensures the activity of the risk management system through adoption of strategies, policies, definition of risk appetite, specification of the risk profile and specification of tolerance in individual risk categories;
- 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 – comprises on-going risk management on the level of units and organizational cells and decision-making within the framework of the risk management process. The management staff is responsible for 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 – comprises risk management through specialized cells dealing with identification, monitoring and reporting of risk and control of limitations. In the second line of defense, special role in the process is played by: Risk Department, Planning and Controlling Department, Actuarial Department, Reinsurance Department, Legal Department, HR Department and Technology Division,
- the third line – comprises internal audit which carries out independent audits of the risk management system elements and control activities incorporated into the Company's activity. This function is discharged 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 key risk categories identified in the Company comprise: market risk, credit risk, concentration risk, insurance risk and operating 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 on 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. The 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 performance of the Agreements referred to in the part pertaining to assessment of the internal control system, the Risk Department undertook work on unifying the rules of systemic risk management in PZU Group companies, initiated the process of exchange of information with PZU Lithuania and PZU Ukraine in the area of risk management. An analysis of the solutions adopted in PZU Lithuania and PZU Ukraine to manage individual risk types was carried out. The foreign companies were provided with a set of information, guidelines and procedural templates for application. Development of cooperation is planned to ensure implementation of consistent management solutions, inter alia to standardize the reporting for the needs of consolidated ownership reporting.

In connection with the obligation imposed on insurance companies by the Polish Financial Supervision Authority (KNF), PZU SA carried out, in accordance with KNF's guidance, stress tests pertaining to financial data reported as at 31 December 2010, and provided the results before the end of July 2011. In addition, the PZU Group took part in European stress tests for the insurance sector carried out by the European Insurance and Occupational Pensions Authority ("EIOPA") whose results were delivered to KNF. The stress tests have shown that the PZU Group has sufficient capital to continue its operations securely in the event of the occurrence of unfavorable events in the business environment with significant financial consequences.

In the opinion of the PZU SA Supervisory Board, the risk management and internal control systems in PZU SA in 2012 operated on a level ensuring the safety of the Company's operations. The Management Board properly identified the risks associated with PZU SA's activities and monitored them on an ongoing basis and managed them effectively.

The PZU SA Supervisory Board positively assesses the cooperation with the Company's Management Board in 2012 and recommends that the PZU SA Ordinary Shareholder Meeting discharge all PZU SA Management Board members on the performance of their duties in 2012, i.e.:

- 1) Andrzej Klesyk, Management Board President in the period from 1 January 2012 to 31 December 2012,
- 2) Przemysław Dąbrowski, Management Board Member in the period from 1 January 2012 to 31 December 2012,
- 3) Witold Jaworski, Management Board Member in the period from 1 January 2012 to 27 December 2012,
- 4) Bogusław Skuza, Management Board Member in the period from 1 January 2012 to 31 December 2012,
- 5) Tomasz Tarkowski, Management Board Member in the period from 1 January 2012 to 31 December 2012,
- 6) Ryszard Trepczyński, Management Board Member in the period from 1 January 2012 to 31 December 2012.

VII. Self-assessment of the work of the PZU SA 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 required for efficient conduct of the statutory activity and attainment of the Company's strategic objectives. The scope, method of activity and composition of the Supervisory Board in 2012 were consistent 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 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 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 review comprehensively and issue opinions on the topics put forward and broad representation of views regarding the assessment of the work of the Management Board and functioning of PZU SA as a public company.

Despite changes in the composition of the PZU SA Supervisory Board, the Supervisory Board discharged its duties without interruptions and actively supported the Management Board in execution of the most important tasks. Supervisory Board decisions were characterized by care for the welfare of all shareholders. Considering the above, the Supervisory Board is prepared to perform its statutory powers and properly discharges them, guaranteeing appropriate supervision over the Company. In the Supervisory Board's opinion, the activity of the PZU SA Supervisory Board activity in 2012 can be assessed as effective, in accordance with the best market practices.

Chairperson
PZU SA SUPERVISORY BOARD

Waldemar Maj