MANAGEMENT REPORT

ON THE ACTIVITY OF

POWSZECHNY ZAKŁAD UBEZPIECZEŃ

SPÓŁKA AKCYJNA

FOR 2011

Warsaw, 14 March 2012

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A. INTRODUCTION

1. Summary of the financial results

In 2011 the results of Powszechny Zakład Ubezpieczeń Spółka Akcyjna ("PZU", "the Company"), according to Polish Accounting Standards ("PAS") and compared with the prior year, were mainly shaped by:

- a 6.0% increase in PZU's written premium, in particular in respect of motor liability (OC) insurance in the mass client segment (+PLN 287.3 million) and fire and other property damage insurance (+PLN 102.0 million);
- improved profitability, mainly in motor insurance and property insurance products:
  - a significantly lower rate of natural disasters in the analyzed period, which in 2010 related mainly to snow and flood claims (PZU's net share in the claims amounted to PLN 369.4 million);
- a 4.5% decrease in the level of administrative expenses achieved thanks to the restructuring program implemented in 2011 and the program for reducing fixed costs;
- a drop in investment activities resulting from the poor condition on the capital markets and lower dividend earned from Powszechny Zakład Ubezpieczeń na Życie SA ("PZU Życie" – amounting to PLN 1,987.3 million in 2011 compared with PLN 3,120.0 million in the previous year).

Net profit earned by PZU in 2011 amounted to PLN 2,582.3 million which is a 26.6% drop compared with the result for 2010. Without taking into account dividend received from PZU Życie, the net profit of PZU amounted to PLN 595.0 million (a 50.0% increase).

PZU's investments as at the end of 2011 amounted to PLN 24,882.9 million and were 4.4% higher than at the end of the prior year. Equity was 1.3% lower than in the prior year and amounted to PLN 11,745.4 million.

As at the end of 2011, ROE[1] amounted to 21.8% and dropped 9.7 p.p. compared with the end of the prior year.

PZU is the Parent of the Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group ("the PZU Group").

[1] ROE – the ratio is calculated as the ratio of the net profit/loss to the average value of equity as at the end and at the beginning of the reporting period.

2. Macroeconomic environment in 2011

2.1. Basic trends in the economy and rate of economic growth

In 2011 GDP in Poland increased by 4.3%, which exceeded both expectations and last year's dynamics (3.9%). In 2011 the rate of increase in domestic demand slowed a little to 3.8% compared with 4.6% in 2010, and contrary to 2010, net exports contributed to the growth in GDP. Once again, in 2011 retail consumption was the most important factor behind economic growth and increased by 3.1% compared with 3.2% in 2010. However, in the 2nd half of the year, its dynamics started to decrease significantly due to the gradually lower increase in real income. Moreover, domestic consumption was lower in 2010. In 2011 capital expenditure on fixed assets increased quarter on quarter, mainly as a result of public investments in infrastructure. During 2011 investments increased by 8.5%, compared with the drop of 0.2% in the prior year, and became a factor almost equally significant to GDP growth as retail consumption. In 2011 the input of investments to GDP was significantly lower than in 2010, and in the first quarter it was for the first time since 2009 negative.

On the supply side of economic growth, added value in the construction industry increased the most in 2011 (11.8% compared with 6.4% in 2010), thus confirming the important part played by infrastructural investments. Added value in the industrial sector increased at a lower pace in 2011 compared with 2010 (6.3% compared with 9.4%). The pace of growth of added value increased in trade and repairs of motor vehicles (4.6% compared with 2.6%).

2.2. Capital market

In 2011, despite the good financial position of companies and the relatively high increase in GDP, the key indices of the Polish equities market WIG and WIG20 noted drops of 20.8% and 21.9% respectively. Until April, the indices increased in line with the expectations of accelerated global economic growth. In the 2nd quarter, global growth perspectives dampened, which translated into investors' increased risk aversion on the global financial markets. In the 3rd quarter, the deepening of the global debt crisis in the euro zone, fiscal problems in the USA and the rating agencies' cutting of the highest financial credibility rating, as well as revised data on the country's GDP, contributed to the huge increase in aversion to risk on the global financial markets which also resulted in a drop in the WIG and WIG20 indices.

The return on Polish debt remained relatively stable during the turbulences on the financial markets in 2011. As the Eurozone debt crisis intensifies and investors become increasingly risk averse in the global debt market, the yield of Polish ten- and five-year treasury bonds dropped between the end of 2011 and the end of 2010 by 16 and 17 b.p., respectively. The yield of two-year bonds, however, increased by 7 b.p. In terms of annual average, the return on Polish debt was a little higher than in 2010 – in respect of two- and five-year bonds by 5 and 11 base points respectively, and in respect of 10-year bonds by 19 base points. The resilience of the Polish debt market to crisis events resulted among other things from the maintained relatively high economic growth, progress in reducing the budget deficit and efficient management in financing debt requirements.

2.3. Monetary policy, interest rates, inflation

In 2011 the average annual inflation (CPI) amounted to 4.3% compared with 2.6% in 2010, and at the end of the year prices of consumer goods were 4.6% higher than in 2010 (3.1% y/y in 2010). Acceleration of inflation in the 1^{st} half of the year was the result of the impact of global trends – an increase in food prices and other raw materials (including mainly fuels), and increases in administered prices (including prices of energy for households) and an increase in the VAT rates. In the 2^{nd} half of the year, in turn, a pro-inflationary factor was the huge weakening of the Polish zloty against key currencies. In 2011 net inflation also increased systematically (CPI, net of food and energy prices) achieving 3.1% at the end of the year. The Monetary Policy Council (RPP) increased interest rates four times during the first half of 2011, each time by 25 basis points. Since June, in view of the escalation of the debt crisis in the euro zone and an increase in the related uncertainty as to Poland's further economic growth, RPP decided to maintain the interest rates at an unchanged level (with the NBP reference rate at 4.5%).

2.4. Labour market and consumption

In 2011 conditions on the labour market deteriorated systematically. Despite the increase in employment in the corporate sector by ca. 124 thousand people in December 2011 compared with December 2010 (2.3% y/y compared with 2.4% y/y in 2010) and from the 2^{nd} quarter of 2010 the demand for employees dropped. The slowing down of employment dynamics accompanied by an insignificantly higher number of active employees contributed to maintaining the recorded unemployment rate at a higher level (annual average 12.4% compared with 12.1% in 2010, at the end of the year 12.5% compared with 12.4%). In these conditions the dynamics of wages and salaries remained moderate. Although average monthly remuneration in the national economy increased in nominal terms by 5.4% in 2011 compared with 3.9% in the prior year, in the 2^{nd} half of the year, in the corporate sector, both the nominal and real dynamics of wages and salaries gradually dropped. At the end of 2011 the average monthly remuneration in the corporate sector was after accounting for inflation slightly lower than at the end of 2010. High inflation was a significant factor impacting the drop in dynamics of the real income of households in 2011, in particular due to the lower dynamics of social benefits. Therefore, individual consumption increased by 3.1% compared with 3.2% in 2010, but its dynamics in the 2^{nd} quarter dropped visibly. In the 4^{th} quarter of 2011 consumer satisfaction ratios dropped yet again.

2.5. Foreign exchange rates

Increased aversion to risk on the global financial markets related to the intensification of the debt crisis in the euro zone in the 2^{nd} half of 2011 (especially in the 3^{rd} quarter) contributed to weakening the Polish zloty and its increased volatility. The exchange rate of the EUR to PLN (NBP fixing) was 11.5% higher at the end of 2011 than at the end of 2010, and the USD to PLN rate increased by 15.3%. The changes in the annual average exchange rate of the PLN were lower – the EUR / PLN exchange rate increased by 3.1%, and the USD / PLN rate dropped by 1.7%. In conditions of increased aversion to risk, the CHF also strengthened against the PLN, and the CHF / PLN exchange rate was 14.8% higher at the end of 2011 than at the end of 2010.

2.6. Impact of macroeconomic factors on the insurance sector

Macroeconomic conditions had an ambiguous impact on insurance sales. On the one hand, the relatively high increase in GDP should contribute to an increase in demand for insurance services. On the other hand, however, particularly in the 2nd half of the year, the dynamics of real income dropped and thus the conditions for an increase in consumer demand deteriorated. The GDP increase was increasingly driven by investments, particularly investments in infrastructure.

In 2011, among other things, production, imports and sales of cars dropped which led to the ageing of the car park in Poland and a drop in demand for comprehensive motor insurance (AC). Sales dynamics of durable consumer goods also fell. On the other hand, in 2011 corporate capital expenditure increased after the drop in 2010. The financial position of non-financial companies (data for the period from the 1st to the 3rd quarter of 2011) improved compared with the same period of 2010, contributing to the improvement in the conditions of sales of insurance products for corporate and SME clients.

The weakening of the zloty against the EUR had a negative impact on the loss ratio in motor insurance due to the impact of imported spare parts (a process extended in time due to importers' maintaining specific inventory balances).

In 2011 the credit market revived somewhat which could have a positive impact on the sales level and the related financial insurance. This phenomenon concerned mainly to corporate loans. The increase in mortgage loans was lower than in the previous year and the value of consumer loans granted dropped.

The drop in share prices in 2011 – resulting from a global increase in aversion to risk – had an unfavourable impact on investment income.

2.7. Market share of PZU

Premiums in non-life insurance for the 4th quarter of 2011[2] increased by 11.3% to PLN 25,301 million compared with four quarters of the previous year, whereas life insurers noted an increase of 1.4% to PLN 31,849 million in the same period.

PZU's share measured by gross written premium on the Polish non-life insurance market amounted to 32.6% at the end of December 2011. PZU is still the leader on the Polish insurance market, in particular in the motor insurance sector.

[2] Most current data published by the Polish Financial Supervision Authority ("KNF") as at the time of preparing the PZU Directors' Report

Table 1: Property insurance market – gross written premium

Property insurance market – gross written premium	2011			2010		
	PZU	Market	Market without PZU	PZU	Market	Market without PZU
AC	2 285	5 822	3 537	2 258	5 263	3 005
Motor liability	2 891	8 725	6 101	2 591	7 674	5 083
Other products	3 071	10 754	7 416	2 935	9 804	6 869
TOTAL	**8 247**	**25 301**	**17 054**	**7 784**	**22 741**	**14 957**

Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Rynek ubezpieczeń 4/2011, Rynek ubezpieczeń 4/2010, PZU data

Table 2: Property insurance market – analysis of gross written premium

Structure of written premium	2011			2010		
	PZU	Market	Market without PZU	PZU	Market	Market without PZU
AC	27,7%	23,0%	20,7%	29,0%	23,1%	20,0%
Motor liability	35,1%	34,5%	35,8%	33,3%	33,8%	34,0%
Other products	37,2%	42,5%	43,5%	37,7%	43,1%	46,0%
TOTAL	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Rynek ubezpieczeń 4/2011, Rynek ubezpieczeń 4/2010, PZU data

Table 3: Property insurance market – PZU share in market premium (in %)

PZU SA share in market premium (in %)	2011	2010
AC	39,3%	42,9%
Motor liability	33,1%	33,8%
Other products	28,6%	29,9%
TOTAL	**32,6%**	**34,2%**

Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Rynek ubezpieczeń 4/2011, Rynek ubezpieczeń 4/2010, PZU data

The main reason for the drop in PZU's market share in the property insurance market is its pursuit of the corporate insurance portfolio restructuring program, mainly in the area of motor insurance, aimed at lowering the loss ratio. Under this program a restrictive underwriting policy is pursued in respect of areas of operation with increased risk, where the key focus is on the security of the portfolio held and earning a technical profit.

Table 4: Property insurance market – technical result

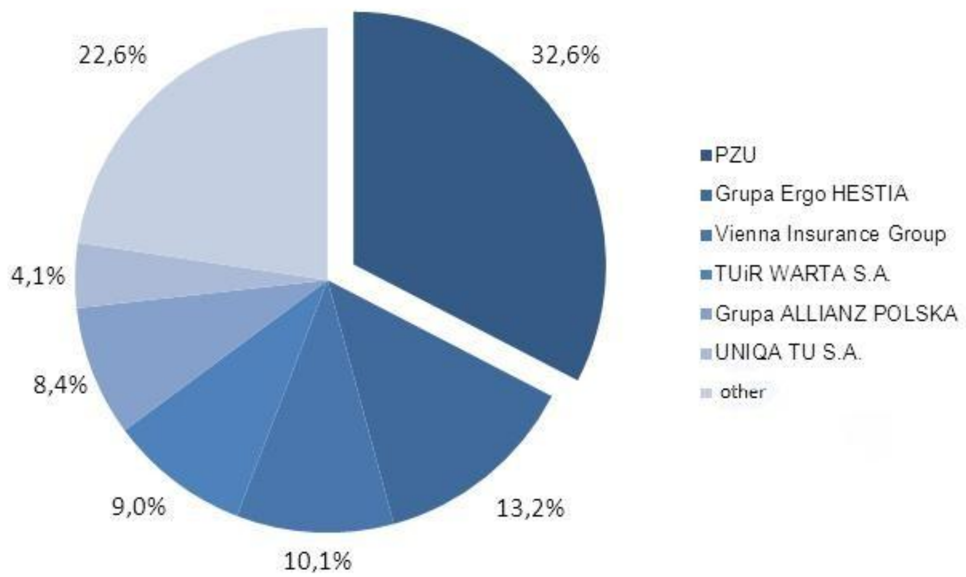
PLN million

Technical result	2011			2010		
	PZU	**Market**	**Market without PZU**	**PZU**	**Market**	**Market without PZU**
AC	248	333	85	(6)	(315)	(309)
Motor liability	(105)	(512)	(407)	(160)	(908)	(748)
Other products	189	608	419	(163)	(53)	110
TOTAL	**332**	**429**	**97**	**(329)**	**(1 276)**	**(947)**

Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Rynek ubezpieczeń 4/2011, Rynek ubezpieczeń 4/2010, PZU data

Due to the increase in rates and restructuring the quality of the motor insurance portfolio (specifically in the corporate client segment) and the absence of natural disasters which had such an impact on PZU's results for 2010, the Company achieved very good technical results compared with other companies on the market. This is specifically visible in motor insurance.

Diagram 1: Shares of the largest non-life insurance companies in Poland



Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Rynek ubezpieczeń 4/2011, Rynek ubezpieczeń 4/2010, PZU data

2.8. Macroeconomic factors which will have an impact on PZU's operations in 2012

The expected slowdown in the pace of economic growth with a possible insignificant deterioration on the labour market may have a negative impact on the demand dynamics for insurance products.

The euro zone debt crisis will continue to pose a risk to Poland's economic development in 2012. It may also contribute to the sustained high volatility of financial asset prices and in the event of its further exacerbation – even to a drop, which would negatively impact income on investments.

B. FINANCIAL RESULTS OF PZU IN 2011

3. Events with a significant impact on PZU's operations and results in 2011

PZU's financial results in 2011 were mainly shaped by:

- changes in the structure of written premium, due to:
    - restructuring of the corporate clients portfolio;
    - the effect of increases (as of 2010) in prices for retail clients;
- improved profitability, mainly in motor insurance and property insurance products:
    - a significantly lower number of natural disasters in the analyzed period, which in 2010 related mainly to snow and flood claims (PZU's net share in the claims amounted to PLN 369.4 million);
- consistent pursuit of the strategy for conducting the restructuring processes aimed at reducing administrative expenses by PZU (group layoffs);
- lower profits on investment activities compared with the prior year as a result of poor capital market conditions, which includes the Warsaw Stock Exchange ("WSE").

4. Comments on PZU's financial results

4.1. Premiums

As of 1 January 2011 a change was introduced which consisted of recognizing revenue from premium written on the date of concluding the insurance contract instead than on the date of commencement of insurance cover. Additionally, the date of recognizing commission expense relating to the underwritten contracts was changed in an identical manner. The change had no impact on the Company's results as it was offset by changes in the principles for calculating unearned premium reserves and for deferring acquisition costs.

Gross written premium on direct and indirect insurance for the year ended 31 December 2011 amounted to PLN 8,247.2 million (PLN 7,780.5 million in the prior year). The premium written was PLN 466.7 million higher than in 2010. The dynamics of written premium of 106.0% results mainly from the increase in tariffs in motor insurance, introducing a modified product in property insurance "PZU DOM Plus" and adding sales of property insurance to motor insurance.

The increase in written premium related to motor AC and motor liability insurance for mass clients, motor liability insurance for corporate clients, property insurance, general liability insurance and other property insurance. The drops relate to the following groups: accident insurance and loans and guarantees.

In the Company's operations, motor insurance (direct and indirect insurance) constituted 62.8% of the premium collected, i.e. 0.5 p.p. more than in 2010. Sales of motor liability insurance increased by

PLN 295.0 million – in the mass client segment +13.1%, and in the corporate client segment +2.0% - mainly due to the increases in tariffs effected in 2010. In AC insurance, written premium increased by PLN 36.8 million – in the mass client segment premiums increased by 3.8%, and in the corporate client segment it dropped by 3.4% in connection with the profitability improvement policy (verification of unprofitable clients).

Table 5: Gross written premium in direct and indirect property insurance

PLN'000

Gross written premium by product groups	1 January – 31 December 2011	1 January – 31 December 2010	% change
Motor liability insurance, including:	2 890 917	2 595 912	11,4%
- individual*	2 485 857	2 198 602	13,1%
- corporate	405 060	397 310	2,0%
AC insurance, including:	2 285 214	2 248 430	1,6%
- individual*	1 640 540	1 581 230	3,8%
- corporate	644 674	667 200	(3,4)%
Total motor insurance	5 176 131	4 844 342	6,8%
Fire and other property damage insurance	1 723 671	1 621 623	6,3%
Other liability insurance (cat. 11, 12, 13)	518 258	493 874	4,9%
Accident insurance (NNW) and others**	829 181	820 662	1,0%
Total property and personal insurance net of motor insurance	3 071 110	2 936 159	4,6%
Total PZU	**8 247 241**	**7 780 501**	6.0%

* *including SMEs*

** *This item includes loan guarantees and other financial insurance, travel insurance, assistance insurance, maritime, rail and air transport insurance.*

Table 6: Gross written premium in direct and indirect property and personal insurance (premium by date of cover)

PLN'000

Gross written premium by product groups	**1 January – 31 December 2011**	**1 January – 31 December 2010**	**% change**
Motor liability insurance, including:	2 928 946	2 590 946	*13,0%*
- individual*	2 505 077	2 208 286	*13,4%*
- corporate	423 869	382 659	*10,8%*
AC insurance, including:	2 338 058	2 257 857	*3,6%*
- individual*	1 669 860	1 582 082	*5,5%*
- corporate	668 198	675 776	*(1,1)%*
Total motor insurance	5 267 004	4 848 803	*8,6%*
Fire and other property damage insurance	1 712 046	1 625 210	*5,3%*
Other liability insurance (cat. 11, 12, 13)	525 274	488 051	*7,6%*
Accident insurance (NNW) and others**	766 051	821 872	*(6,8)%*
Total property and personal insurance net of motor insurance	3 003 370	2 935 133	*2,3%*
Total PZU	**8 270 374**	**7 783 936**	*6.2%*

** including SMEs*

*** This item includes loan guarantees and other financial insurance, travel insurance, assistance insurance, maritime, rail and air transport insurance.*

4.2. Results on investing activities

Similarly to previous years, in 2011 the investing activities of PZU were focused on appropriately matching the structure of assets and liabilities and ensuring a proper level of security, profitability and liquidity. What is more PZU did not apply hedge accounting.

The composition of the PZU portfolio covers mainly debt securities issued by sovereign governments. As at 31 December 2011 the Company's exposure to Polish Treasury securities with contingent transactions in the said securities amounted to PLN 13,573.2 million (as at 31 December 2010: PLN 14,151.6 million), which constituted 54.5% of the value of investments (as at 31 December 2010: 59.4%). At the same time, as at 312 December 2011 PZU had debt securities issued by other sovereigns in its portfolio (Germany – 1.9% share in investments and Iceland – 0.1% share in investments).

The Company also actively operated on the quoted equities market and their share in the PZU investment portfolio dropped compared with the end of 2010, and amounted to 3.3% compared with 4.6% in the prior year. The drop in prices on the global capital markets in 2011 contributed to this (a drop in the WIG index of 20.8%, a drop in the WIG20 index of 21.9%).

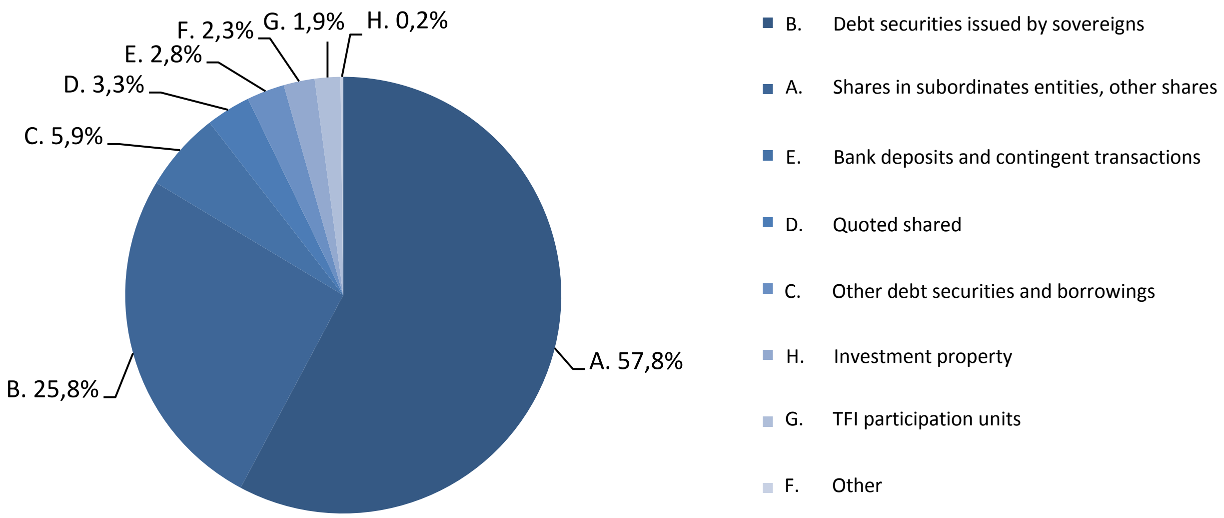
A large portion of PZU's investment portfolio comprises equities and shares in subordinated entities and other equities and shares, including shares in PZU Życie. As at 31 December 2011, the value of shares in PZU Życie amounted to PLN 5,960.0 million. As at the end of 2011 the share of equities and shares in subordinated entities in PZU's portfolio dropped compared with 2010 and amounted to 25.8% (compared with 28.8% as at the end of 2010).

As at the end of 2011 exposure to other debt securities and loans in PZU's investment portfolio increased compared with the share as at the end of 2010 and amounted to 2.8% (compared with 1.9% as at the end of 2010).

The value of deposits and contingent transactions amounted to 5.9% of the total value of the investment portfolio as at the end of 2011.

The share of particular asset categories in PZU's investment portfolio as at 31 December 2011 is shown in the diagram below.

Diagram 2: Share in particular asset categories in PZU's investment portfolio



The Company's income on investing activities in 2011 compared with 2010 dropped by PLN 1,390.1 million (a drop of 32.9% from PLN 4,234.1 million in 2010 to PLN 2,844.0 million in 2011). After deducting dividend received from PZU Życie, the income from investing activities dropped by PLN 257.4 million (a drop of 23.1% from PLN 1,114.1 million in 2010 to PLN 856.7 million in 2011). The main reason for the drop in income from investments in 2011 compared with 2010 was the lower profit on investing activities relating to quoted equities.

Detailed information on the results of investing activities in 2011 and 2010 is presented in the table below:

Table 7: Results on PZU's investing activities

PLN'000

Results on PZU's investing activities in 2011	**1 January – 31 December 2011**	**1 January – 31 December 2010**	***% change***
Investments as at the end of the year	24 882 946	23 832 035	*4.4%*
Total revenue on investments (net of dividend from PZU Życie)	1 427 051	1 362 897	*4.7%*
Total expenses on investing activities	570 370	248 836	*129.2%*
Income on investments (net of dividend from PZU Życie)	856 681	1 114 061	*(23.1)%*
Dividend received from PZU Życie	1 987 282	3 120 000	*(36.3)%*
Income on investments (with dividend from PZU Życie)	2 843 963	4 234 061	*(32.8)%*

4.3. Claims

In 2011, claims and benefits from direct and indirect insurance amounted to PLN 5,052.9 million. Compared with 2010, they dropped by PLN 430.5 million, i.e. at a rate of 92.1%.

In 2011, the largest drop in claims and benefits compared with the prior year was noted in fire and other property damage insurance, and results mainly from the absence of claims in respect of natural disasters which took place in the previous year. A drop of nearly PLN 486.9 million (i.e. 34.2%) in gross claims and benefits paid was noted in the said insurance category, in direct insurance.

A positive sign is the drop of PLN 103.0 million (i.e. 2.9%) in claims and benefits paid in the Company's key segment of operations, i.e. motor insurance (cats. 3 and 10).

Table 8: Gross claims and benefits paid in property and personal insurance

PLN'000

Gross claims and benefits paid in property and personal insurance (by accounting classes)	1 January – 31 December 2011	1 January – 31 December 2010	% change
Motor liability insurance, including:	1 945 688	1 954 811	(0.5%)
- individual*	1 584 248	1 560 102	1.5%
- corporate	361 439	394 709	(8.4%)
AC insurance, including:	1 483 112	1 576 973	(6.0%)
- individual*	1 033 756	991 618	4.2%
- corporate	449 356	585 355	(23.2%)
Total motor insurance	3 428 800	3 531 784	(2.9%)
Fire and other property damage insurance	935 636	1 422 537	(34.2%)
Other liability insurance (cats. 11, 12, 13)	248 117	222 232	11.6%
Accident insurance (NNW) and others**	415 732	294 766	41.0%
Total property and personal insurance net of motor insurance	1 599 485	1 939 535	(17.5%)
Total gross claims and benefits paid in direct insurance	**5 028 285**	**5 471 319**	**(8.1%)**
Total gross claims and benefits paid in indirect insurance	**24 622**	**12 060**	**104.2%**
Total gross claims and benefits paid	**5 052 907**	**5 483 379**	**(7.9%)**

** including SMEs*

*** This item includes loan guarantees and other financial insurance, travel insurance, assistance insurance, maritime, rail and air transport insurance.*

4.4. Acquisition and administrative expenses

In 2011 gross acquisition costs increased by PLN 19.1 million (1.3%) compared with 2010. This increase resulted mainly from an increase in gross written premium, changes in the area of sales related to the restructuring of the insurance portfolio (an increase in the share of distribution channels with higher commission) and an increase in the additional commission (additional bonuses supporting the effectiveness of agents and multi-agents connecting their remuneration with the goals pursued and profitability of sales).

The drop in administrative expenses of PLN 29.8 million (-4.5%) was, to a large extent, the effect of restructuring activities conducted in PZU, including, among other things, the employment restructuring program. Moreover, cost optimization activities are being carried out in PZU.

In 2011 a model for allocating indirect costs to particular insurance products according to activity based costing (ABC method) was implemented in PZU, which led to transfers of particular costs between cost categories such as acquisition, administration, loss adjustment and investing activities. This has no impact on the overall volume of indirect costs. The model assumptions were described in chapter 4.2 of the PZU financial statements. The ABC method led to changes in the cost structure in the years 2011 and 2010:

- administrative expenses dropped by PLN 245.6 million and PLN 221.7 million respectively;
- acquisition costs increased by PLN 133.5 million and PLN 125.3 million respectively;
- loss adjustment costs increased by PLN 103.4 million and PLN 89.1 million respectively;
- other costs in the general income statement increased by PLN 8.7 million and PLN 7.3 million respectively.

4.5. PZU financial results and business ratios

The technical result increased by PLN 577.0 million compared with the prior year and amounted to PLN 332.3 million. The absence of mass losses (mainly resulting from floods) which caused the technical loss in 2010 (minus PLN 244.7 million) had the largest impact on the technical profit earned in 2011. In 2011 a significant drop in investment income was noted due to poor market conditions on capital markets. This income dropped by PLN 1,390.0 million compared with the prior year and amounted to PLN 2,844.0 million. Without taking into account the dividend received from PZU Życie (in 2011 it amounted to PLN 1,987.3 million – a drop of 36.3% compared with the prior year's dividend), income from PZU's investments dropped by PLN 257.4 million.

Net profit earned by PZU in 2011 amounted to PLN 2,582.3 million, which is a 26.6% drop compared with the result for 2010. Without accounting for dividend received from PZU Życie, the net profit of PZU amounted to PLN 595.0 million (a 50.0% increase).

Table 9: Income statement data

PLN'000

Income statement data	1 January– 31 December 2011	1 January– 31 December 2010	*% Change*
Gross written premium	8 247 241	7 780 501	*6.0%*
Net written premium	7 906 271	7 490 079	*5.6%*
Net claims and benefits	5 386 563	5 632 235	*(4.4)%*
Insurance activity costs	2 118 773	2 130 198	*(0.5)%*
Technical result	332 297	(244 725)	*x*
Net result on investing activities	2 843 963	4 234 061	*(32.8)%*
Operating profit/(loss)	2 741 606	3 670 748	*(25.3)%*
Profit/(loss) before tax	2 741 606	3 670 748	*(25.3)%*
Net profit	2 582 303	3 516 709	*(26.6)%*
Basic and diluted weighted average number of ordinary shares in issue	86 352 300	86 352 300	*x*
Basic and diluted earnings per one ordinary share	29.90	40.73	*(26.6)%*

Table 10: Cash flow statement data

PLN'000

Data from the separate cash flow statement	1 January– 31 December 2011	1 January– 31 December 2010	*% change*
Net cash from operating activities	726 927	(142 067)	*x*
Net cash from investing activities	1 247 548	5 908 943	*(78.9)%*
Net cash from financing activities	(2 033 598)	(5 727 985)	*(64.5)%*
Net increase/(decrease) in cash and cash equivalents	(59 123)	38 891	*x*

Table 11: Business effectiveness and financial security ratios

Description	1 January – 31 December 2011	1 January – 31 December 2010	*Change*
Technical profitability *(technical result / net premium earned) x 100%*	4.2%	(3.3)%	*7.5 p.p.*
Return on equity (ROE) *(net profit/loss /average equity*) x 100%*	21.8%	31.5%	*(9.7) p.p.*
Return on assets (ROA) *(net profit/loss /average assets*) x 100%*	9.6%	12.7%	*(3.1) p.p.*
Coverage of technical reserves with assets ratio *(Assets covering technical reserves / technical reserves) x 100%*	127.0%	127.4%	*(0.3) p.p.*
Solvency margin (in PLN millions)	1 338.8	1 338.8	-
Coverage of the solvency margin ratio	686.6%	716.6%	*(30.0) p.p.*
Guarantee capital (in PLN millions)	446.3	446.3	-
Coverage of the guarantee capital ratio	2059.8%	2149.7%	*(89.9) p.p.*

**- average of the balance as at the start and end of the reporting period*

Table 12: Efficiency ratios

Description	**1 January – 31 December 2011**	**1 January – 31 December 2010**	***Change***
Acquisition cost ratio *(acquisition costs* / net premium earned)*	18.8%	19.6%	*(0.8) p.p.*
Administrative expense ratio *(administrative expenses / net premium earned)*	8.0%	8.9%	*(0.9) p.p.*
Insurance activity cost ratio *(insurance activity costs /net premium earned)*	26.8%	28.5%	*(1.7) p.p.*
Claims and benefits ratio *(net claims and benefits / net premium earned)*	68.1%	75.2%	*(7.1) p.p.*
Mixed ratio (*claims and benefits + insurance activity costs / net premium earned) x 100%*	94.9%	103.7%	*(8.8) p.p.*

** after accounting for reinsurance commission received*

4.6. Analysis of assets and liabilities

As at 31 December 2011 total assets, and total liabilities and equity amounted to PLN 27,397.9 million, which constituted an increase of 4.0% compared with the balance as at 31 December 2010.

The main component of the assets were investments comprising 90.8% of total assets. As at the end of 2011 they amounted to PLN 24,882.9 million, which is an increase of 4.4% compared with 2010. This increase was related to the development of the business in the period under analysis.

Equity, which constituted 42.9% of total liabilities and equity in 2011, dropped by 1.3% during the reporting period, to PLN 11,745.4 million.

The main component of total liabilities and equity were the net technical reserves ("RTU"), which constituted 50.7% of the balance. As at the end of 2011, RTU amounted to PLN 13,895.4 million and were 6.1% higher than as at the end of 2010. The increase in the balance of RTU as at the end of 2011 was due to an increase in gross written premium in motor liability insurance in the mass client segment (+13.1%) and further increase in estimated claims in this segment.

Table 13: Key balance sheet items

PLN'000

Key balance sheet items	31 December 2011	31 December 2010	*% change*
Assets, including	**27 397 857**	**26 349 819**	***4.0%***
Investments	24 882 946	23 832 035	*4.4%*
Receivables	1 487 399	1 543 565	*(3.6)%*
Liabilities, including:	**27 397 857**	**26 349 819**	***4.0%***
Equity	11 745 410	11 902 186	*(1.3)%*
Technical reserves*	13 895 347	13 101 608	*6.1%*
Other provisions	412 906	328 726	*25.6%*
Liabilities	826 280	674 552	*22.5%*
Basic and diluted weighted average number of ordinary shares in issue	86 352 300	86 352 300	*x*
Book value per share (in PLN)	136.02	137.83	*(1.3)%*

*Including reinsurance share in technical provision and expected recoveries and recourses

4.1. Assets to cover technical reserves

The list of assets covering PZU's technical reserves according to PAS as at 31 December 2011 is presented in Table 15. The requirements specifying covering technical reserves with assets are stated in art. 154 and 155 of the Act of 22 May 2003 on insurance activities (Journal of Laws No. 11 of 2010 item 66 as amended ("Insurance Act"). As at the end of 2011, the degree of coverage of the technical reserves with assets amounted to 127.0% (127.4% as at the end of 2010).

Table 14: Assets covering technical reserves

PLN'000

Description	Total	% RTU	Maximum limit %
A. Technical reserves	**14 572 028**	**100,0%**	
B. Total assets	**18 510 626**	**127,0%**	
1. securities and bonds issued or warranted or guaranteed by the State Treasury, local authorities or associations of local authorities	14 717 777	101.3%	no restrictions
2. other fixed-income securities	191 904	1.3%	10%
3. shares	817 691	5.6%	40%
4. properties or their parts, with the exclusion of properties or their parts used for internal purposes	68 672	0.5%	25%
5. bank deposits	1 022 963	7.0%	no restrictions
6. Receivables	695 034	4.8%	25%
7. receivables from the State	5 476	0.0%	no restrictions
8. fixed assets other than properties, if they are depreciated at rates determined according to the prudence principle	86 693	0.6%	5%
9. Cash and cash equivalents	72 895	0.5%	3%
10. Deferred acquisition costs	493 180	3.4%	no restrictions
11. Ceded technical reserves	338 341	2.3%	25%
C. Excess/(shortage) of assets for covering the technical reserves	**3 938 598**	**27.0%**	

** the given maximum limit is the maximum limit for covering technical reserves in receivables from assignors, reinsurers, insurants, insurance intermediaries and the ceded share of technical reserves, in total.*

In accordance with the letter from KNF no. DN2/107/4/2004 MP dated 25 March 2004, PZU may include the share of technical reserves ceded to AXA France IARD in the assets constituting the coverage for technical reserves in an amount exceeding 5% of the reserves.

4.2. Changes in investments in subordinated entities

Transfer of PZU CO, TFI PZU and PZU AM from PZU Życie to PZU

On 27 September 2011 (after receiving consent from KNF for the transaction in 26 September 2011) PZU acquired all the shares which had been held by PZU Życie in the following companies:

- 50,000 registered shares in PZU Centrum Operacji SA ("PZU CO") (100.0% shares) for PLN 40,605 thousand which reflects the value of PZU CO shares recorded in the books of PZU Życie as at the date of signing the share sale agreement (according to PAS);
- 13,000 registered shares in Towarzystwa Funduszy Inwestycyjnych PZU SA ("TFI PZU") (100.0% shares) for PLN 38,364 thousand which reflects the value of TFI PZU shares recorded in the books of PZU Życie as at the date of signing the share sale agreement (according to PAS);
- 25,001 registered shares in PZU Asset Management S.A. ("PZU AM") (50.002% shares) for PLN 5,617 thousand, constituting the equivalent of the net assets of PZU AM represented by the shares acquired, resulting from the financial statements of the company prepared for the last reported period (according to PAS).

Currently PZU is the sole shareholder in those companies. The transaction was conducted in connection with, among other things, the expansion of the Tax Group, as described in item 11.5.

Establishment of Ipsilon Bis SA

On 9 August 2011 PZU established a joint-stock company, Ipsilon Bis SA, with share capital of PLN 100 thousand which was registered with the National Court Register on 2 September 2011.

Establishment of Omicron SA

On 30 August 2011 PZU established a joint-stock company, Omicron SA, with share capital of PLN 100 thousand which was registered with the National Court Register on 13 September 2011.

Capital deficit in PZU Ukraine

As a result of decreasing the share capital and the consecutive significant increase in the EUR/UAH exchange rate, PZU Ukraine Life stopped meeting the minimum share capital requirement which the Ukrainian Insurance Act specifies for insurance companies, i.e. EUR 1,500 thousand (in accordance with the binding EUR/UAH exchange rate, as at 31 March 2011 the requirement amounted to UAH 16,823 thousand, thus leading to a capital deficit of UAH 622 thousand as at that date).

On 18 April 2011, at the meeting of the Supervisory Boards of PZU Ukraine and PZU Ukraine Life, a plan for the mutual additional capitalization of the companies was presented amounting to ca. UAH 8,000 thousand each, in such manner that the shares in PZU Ukraine Life would be taken up by PZU Ukraine and vice versa. This transaction was intended to enable meeting the licence requirements without the additional involvement of PZU funds.

On 30 June 2011, on the basis of the recommendation of their Supervisory Boards, the Extraordinary General Shareholders' Meeting of PZU Ukraine and PZU Ukraine Life passed resolutions on:

- increasing the share capital of PZU Ukraine Life by UAH 2,500 thousand, and equity of UAH 7,872 thousand by issuing 25,000 shares with a nominal value of UAH 100 per share and an issue price of UAH 314.88 per share;
- increasing the share capital of PZU Ukraine by UAH 1,800 thousand, and equity of UAH 7,517 thousand by issuing 180,000 shares with a nominal value of UAH 10 per share and an issue price of UAH 41.76 per share.

On 16 September 2011 the Ukrainian companies concluded share purchase agreements in accordance with the terms and conditions described above. The respective Memorandums of Association accounting for the capital increases were registered on 26 September 2011, and on 13 October 2011 share registration certificates were issued. The increased share capital of PZU Ukraine is UAH 17,954 thousand, and of PZU Ukraine Life - UAH 18,701 thousand.

4.3. Material off-balance sheet items

As at 31 December 2011, PZU had PLN 53.5 million of disputed claims which were not approved by the insurer and which are to be litigated by the creditors (31 December 2010: PLN 71.7 million).

Under a guarantee line agreement dated 26 September 2008 concluded by and between PZU and Bank Millennium SA, the bank grants bank guarantees (both in terms of bid bonds and performance bonds) to PZU in tenders for insurance services. The guarantee line is PLN 15.0 million and every year it is renewed for another year. As at 31 December 2011, 33 bank guarantees were in force under the guarantee line, for a total of PLN 6.4 million. Moreover, as at 31 December 2011 PZU had a warranty in respect of an agency agreement from Raiffeisen-Leasing Polska S.A. in the amount of PLN 11.0 million and contingent receivables from Syta Development for advances granted by PZU of PLN 2.3 million.

Moreover, PZU has contingent liabilities in the form of bills of exchange in respect of insurance guarantees granted under agency agreements (as at 31 December 2011 – PLN 7,774.4 million and as at 31 December 2010 – PLN 6,650.3 million).

5. Risk factors which may have an impact on the financial results in the future periods

The factors which could have an impact on PZU's results in 2012 comprise mainly:

- the economic slowdown or stagnation which could lead to an increased loss ratio on the financial insurance portfolio;
- a possible increase in the unemployment rate in 2012 and lower retail consumption dynamics translating into a change in the demand for insurance products;

- fluctuations in the return on Treasury securities depend on the economic position of Poland and European Union countries - a drop in the return on securities could lead to a drop in returns on investments and the potential need to change the technical rates applied by the Company;
- the behaviour of the capital markets in 2012, and in particular of the WSE – part of the Company's investment income depends on the trends on this market;
- absence of a precisely specified scope of exemptions relating to e.g. medical insurance services in the amended Act of 11 March 2004 on Value Added Tax (Journal of Laws No. 54 of 2004, item 535 as amended);
- possible changes (amended regulations) in the principles of valuation of reserves for capitalized value of annuities – this could lead to the need to increase the level of prudence and an increase in reserves;
- the risk of an increase in the number and value of claims from clients and injured parties in connection with the Act of 17 December 2009 on pursuing claims in group proceedings (Journal of Laws No. 7 of 2010, item 44 as amended);
- the growing average cost of personal claims resulting, among other things, from the growing share of non-public healthcare and the principles for monetary compensation on behalf of members of the deceased's family (art. 446 § 4 of the Act of 23 April 1964 the Civil Code (Journal of Laws No. 16 of 1964, item 93 as amended, "Civil Code")), which could lead to the need to increase reserves and payments in motor liability insurance;
- increasing loss ratios, and in particular loss frequency;
- price pressure from competitors;
- an increase in the insurance brokers' role which could lead to increased acquisition costs;
- small flexibility of many product applications operating in PZU Group companies, hampering quick adaptation to the changing market requirements;
- changes in bank regulations which may have an impact on the reduction in the number of mortgage loans granted and borrowers' insurance.

6. Management position on the previously published forecast results

TPZU did not publish forecasts of the separate financial results.

C. PZU'S OPERATIONS IN 2011

7. Operations, key development directions and achievements of PZU

7.1. Scope of PZU's operations

PZU's core business is conducting insurance activity and directly related activities in respect of section II insurance – Other property and personal insurance, in accordance with the categories specified in the Act on insurance activities.

1. Accident insurance, including accident at work and occupational disease;
2. Sickness insurance;
3. Comprehensive insurance of land vehicles, with the exception of rail vehicles;
4. Comprehensive insurance of rail vehicles, covering damage to rail vehicles;
5. Comprehensive insurance of aircraft covering damage to aircraft;
6. Insurance of maritime and inland navigation and vessel comprehensive insurance;
7. Insurance of goods in transport covering damage to transported goods;
8. Insurance of damage caused by natural elements;
9. Insurance of other damage to goods;
10. Insurance of all types of liability resulting from the ownership and use of land vehicles with their own drive, including the shipper's liability;
11. Insurance of all types of liability resulting from the ownership and use of aircraft, including shipper's liability;
12. Insurance of general maritime and inland navigation liability resulting from the ownership and use of maritime and inland vessels, including the shipper's liability;
13. Liability insurance (general liability insurance);
14. Loan insurance;
15. Insurance guarantees;
16. Insurance of various financial risks;
17. Insurance of legal cover;
18. Insurance in respect of providing assistance on behalf of people who have encountered difficulties during travel or absence in place of residence.

In 2011 and 2010 PZU did not file a request to change the scope of the permit to carry out insurance activities. Moreover, in 2011 and 2010 PZU permits for insurance activities with respect to one or more insurance class were not withdrawn and no receivership was established.

7.2. Rating

PZU is rated on a regular basis by rating agencies. The rating granted to PZU is an evaluation following from an analysis of the financial data, the competitive positions, management and corporate strategy. The rating also includes a rating outlook, i.e. the future assessment of the company's position if specific circumstances arise.

As at the date of this Directors' Report, PZU had a long-term credit rating and a financial strength rating (awarded by Standard & Poor's Ratings Services on 16 July 2009) of level A with a stable outlook. On 22 July 2011 Standard & Poor's Ratings Services upheld the above rating.

The table below shows the ratings granted to PZU by Standard&Poor's with the ratings awarded a year earlier.

Table 15: PZU Rating

Name	Rating and outlook	Date of update	Previous rating and outlook	Date of previous update
Financial strength rating	A /stable/	22 July 2011	A /stable/	5 July 2010
Creditworthiness rating	A /stable/	22 July 2011	A /stable/	5 July 2010

7.3. Operating activities of PZU in 2011

7.3.1. Sales

PZU offers a wide scope of property and personal insurance products, in particular motor, personal, agricultural and general liability insurance. As at the end of 2011, the Company offered over 200 insurance products. Motor insurance is the most important group of products offered by PZU, both in terms of the number of binding insurance contracts and the share of written premium in total gross written premium of PZU.

In 2011 PZU's activities concentrated mainly on improving returns on the corporate insurance portfolio and proactive sales of insurance for mass clients.

Products – mass client

- In 2011 motor insurance tariffs for individual clients and SMEs changed several times to adapt them to market conditions, and in particular to growing costs.
- Introducing the Premium Security Option in motor insurance is a novelty in PZU. Clients who buy this additional option to comprehensive and motor liability insurance will retain the bonus-malus deduction if and insured event occurs.
- Tools for quoting and servicing fleet insurance of small and medium enterprises were developed.

- Tools enabling verification of the declaration of the insurance history were implemented (submitted by new clients upon underwriting a motor liability or comprehensive insurance contract) using the data of the Information Centre of the Insurance Guarantee Fund (Ośrodek Informacji Ubezpieczeniowego Funduszu Gwarancyjnego).
- In respect of property insurance a new version of home insurance was implemented PZU DOM and PZU DOM Plus, covering among other things PZU Pomoc w domu (help at home) insurance. Prices of home insurance were also adapted to flood risk in particular parts of the country, and at the same time an option to eliminate flood cover from the standard insurance contract was eliminated.
- The basic offer for SME clients was modified – the PZU Doradca (advisor) package. The changes were aimed at extending the availability of the product to all SME clients and improving the profitability of insurance. Depending on client needs, insurance may be expanded by assistance services and insurance of risks specific for a given business (such as the PZU HOTEL clause addressed to clients in the hotel and catering industry).
- Due to the high loss ratio in the mandatory subsidized insurance of agricultural cultivation, in the autumn season of 2011, changes were made to such insurance offer aimed at improving profitability.
- In accordance with amendments to legislation (package of health acts), a new offer was prepared for mandatory and voluntary insurance for healthcare facilities. Modifications to the insurance of payers of public benefits were introduced and the option to also insure other professional groups was introduced in respect of financial losses arising in connection with performing the function.
- In NNW insurance, PZU Pomoc w Podróży (travel assistance) was added to the offer, covering insurance of the costs of treatment and assistance for people travelling in Poland and abroad. Special insurance for Euro 2012 Football Cup fans was also created, offered with Polish Pass cards.

Products – corporate client

- In accordance with the adopted strategy, PZU continued actions aimed at further improving the profitability of motor insurance (AC and motor liability), among other things through changing tariffs and modifying the general insurance terms and conditions for comprehensive insurance of corporate clients. As a result of the actions already conducted, there is a noticeable significant improvement in the technical results.
- In the area of property insurance as part of the activities related to improving profitability and portfolio quality, the essential role of underwriting was maintained through:
  - further limitation of sales to entities from high loss ratio industries;
  - improving the efficiency of the selection process, classification and risk assessment (including flood risk);

  - wider application of additional clauses and other technical insurance restrictions changing the scope of insurance.
- In general liability insurance, new risk assessment tools were applied and changes were introduced to the terms and conditions of insurance and quotation principles.

Products – financial insurance

- In 2011 two new products were added to the offer:
  - performance bond for removing and adjusting negative effects on the environment and environmental damage (the so-called environmental performance bond);
  - an insurance guarantee for the user contract in respect of accounts with deferred payments (the so-called e-toll guarantee).
- In respect of insuring monetary receivables and bank loans, a policy was pursued aimed at securing the portfolio held and earning a technical profit. This was realized by using restrictive risk assessment criteria, hedging the transactions concluded and maintaining safe legal regulations in the contracts concluded.

Products – bank insurance

- In 2011 cooperation was continued with its current business partners – lead banks on the Polish market – such as PKO BP SA, ING Bank Śląski SA, Bank Millennium SA, BGŻ SA. The offer was supplemented by new insurance being added to banking products, such as protection programs for payment cards and insurance of buildings and apartments added to mortgage loans and advances.
- Cooperation was continued with partners with large client bases or those handling mass payments such as telecoms, power companies and commercial chains. It comprised several new, specialized insurance products such as insurance for mobile telephones and notebooks, insurance of loan repayment in the even of loss of one’s job.

Sales network

The organization of PZU’s sales network is aimed at guaranteeing maintenance of high sales effectiveness while simultaneously ensuring high quality services. This is achieved by organizing sales in two dimensions:

- division by distribution channels;
- client segmentation.

As at 31 December 2011, PZU offered products in the following distribution channels:

- exclusive agents – PZU’s own agent network:
  - office agents (347; sales-supporting agents in PZU’s own outlets);

    - agents operating locally exclusively on a mobile basis (5,686); [3]
    - Group Agencies (6; pilot program – agents managing stationary outlets);
- Multi-agencies – agents cooperating with several insurance companies (2,215);[4]
- insurance brokers (ca. 800);
- bancassurance – sales via banks and other partners for whom insurance sales are an auxiliary activity;
- direct – telephone and Internet sales;
- PZU employees – sales in own outlets (470 people).

General terms and conditions of insurance

The general insurance terms and conditions are provided on the PZU website (www.pzu.pl) and in particular PZU outlets. In accordance with the Act on insurance activities, the general insurance terms and conditions should be provided to the insurant before the insurance contract is concluded.

In accordance with the Regulations of the PZU Management Board, tariffs for mandatory and voluntary insurance are passed in the form of a resolution.

Insurance contracts exceeding 25% of the total amount of RTU and equity

During the 12 months ended 31 December 2011 PZU did not conclude any insurance contracts for the sum of one net risk insured exceeding 25% of the total amount of technical reserves and equity.

7.3.2. Claims adjustment

In 2011, under the process of improving motor claims adjustment, the following actions were taken:

- electronic flow of documents was introduced;
- a procedure was implemented for simplified claims adjustment in a vehicle;
- cooperation started with ControlExpert in respect of automating the verification of the motor claims valuation process;
- a pilot solution was implemented to improve management of the PZU Repairs Network;
- a telephone service was launched "Proposed Vehicle Sales" in respect of partial damage to vehicles in motor liability insurance;

[3] łącznie z dealerami współpracującymi z PZU na podstawie umowy wyłącznej (182)

[4] łącznie z dealerami współpracującymi z PZU na podstawie umowy multiagencyjnej (964)

- the process for renting substitute cars was centralized for motor liability claims;
- an auction platform was launched to trade in vehicle remains after vehicles have been totally damaged.

The following changes took place in respect of property loss adjustment in 2011:

- electronic flow of claims documents was introduced;
- the loss adjustment system (SLS) was integrated with the expert claims valuation systems in buildings;
- a simplified system for valuing claims in buildings was implemented;
- new tools were used for property loss adjustment (among other things, Mini Mobile PZU Assistance Office).

The following changes took place in respect of personal loss adjustment:

- a new model for cooperation with certifying physicians was implemented – four entities providing medical services for the purpose of certifying claims in motor liability and NNW were selected and cooperation with them commenced;
- a program for mental rehabilitation groups for children injured in motor accidents was implemented (under cooperation with Dom Misia Ratownika);
- a system automating payment of annuities was implemented.

7.3.3. Organizational structure of PZU and PZU Życie

The organizational structure of PZU and PZU Życie is based on functional and geographical coordination of tasks. Divisions coordinating particular functions have been developed in PZU and PZU Życie. Such functions include: sales management (for particular customer segments), loss adjustment, management of the distribution network, financial division and support. The geographical coordination is carried out through geographical structures of the companies (regional branches or appropriate structures of divisions/functional areas).

As at 31 December 2011, the organizational structure of PZU and PZU Życie comprised the following organizational units:

- head office – supporting the Management Boards of PZU and PZU Życie in the scope of managing the operations of the PZU Group; it prepares the key assumptions for the operations and organization of the companies in the PZU Group and constitutes the planning and management center;
- specialized units – specialized operational units responsible for mailing customer service and the call center, for managing insurance operations, loss adjustment, accounting and payroll services, administration and logistic support;
- regional branches (9) - with outlets.

Moreover, subsidiaries such as: PZU CO, PZU Pomoc SA, TFI PZU, PZU AM provide services to PZU and PZU Życie covering administration of insurance operations, the call center, loss adjustment and asset management

7.3.4. IT area

In 2011 the functioning of common consolidated IT structures in the PZU Group stabilized. The following, among other things, were completed:

- the 1st stage of the project for a common ERP class system for PZU and PZU Życie was implemented, which is to gradually take over the systems currently operating;
- a system for supporting the creation of separate and consolidated financial statements was implemented (the Hyperion system);
- the process of automatic loading of policies issued in the sales system to the policy administration system was launched;
- tools were implemented aimed at reducing the costs of technical IT infrastructure and increasing its reliability (such as the process of accelerating the wide network, tools for monitoring the operations of critical systems, modernizing the data maintenance and backup system).

Moreover, in 2011 several important initiatives were launched which could lead to implementing new IT tools, including commencing work on the project aimed at replacing the key policy system of PZU.

7.3.5. Key marketing activities

Advertising, media and the Internet

In 2011 PZU conducted six widespread advertising campaigns:

- in February and March a campaign was conducted relating to the fixed sum insured and door-to-door services, which was aimed at building the perception of a wide and comprehensive PZU motor insurance offer;
- at the turn of May and June the “Young drivers” campaign was conducted in which PZU’s offer addressed to drivers below 26 years of age was presented;
- in August and September the “PZU assistance at home” campaign was conducted which promoted the PZU home insurance offer;
- in October and November the e-szkoda (e-claim) campaign was conducted aimed at providing information about the possibility of complete loss adjustment via the Internet;
- in December the “ochrona znizek” [deduction protection] campaign was carried out aimed at presenting PZU’s motor insurance offer.

All the above campaigns were conducted on TV and in the Internet, and in selected media other than the TV (such as radio, press).

Marketing sales support

In 2011 PZU's activity in the area of sales support was focused mainly on the mass product segment. Apart from activities which consisted of preparing advertising banners and leaflets, the following were conducted:

- a test mini loyalty program for PZU clients purchasing motor liability and comprehensive insurance as a package – thanks to this program clients may also make use of the Niezguba service (lost car keys are returned to the owner), and an additional assistance package and discount program;
- enhancing standard mass correspondence sent to clients with communications concerning marketing (e.g. in the form of the newspaper Moje PZU and Moje PZU Dobry Rolnik, or leaflets informing clients how a claim lodged can be easily monitored);
- issuing 850 PZU Business Club cards – a program directed at corporate clients of PZU and PZU Życie;
- marking the best PZU EU branches to improve awareness of the location of branches among potential clients.

7.3.6. Key activities in the HR area

Restructuring process in PZU

On 29 December 2009 the Management Board of PZU announced a plan for implementing a restructuring program in the years 2010-2012.

On 11 May 2011 the Management Board of PZU passed a resolution on the intention to conduct group layoffs in 2011.

On 26 May 2011 an agreement was concluded relating to group layoffs between PZU and the labour unions operating in the Company. In accordance with the determinations from 13 June to 10 October 2011 employment restructuring and optimization processes were implemented under the group layoffs.

The employment restructuring processes in 2011 are a continuation of the processes begun in 2010. They consist, among other things, of the further integration of particular teams which carry out similar tasks in PZU and PZU Życie, implementation of IT tools and optimization of the processes enabling the achievement of higher work effectiveness norms (ratios) and further centralization of some functions in central entities. The employment restructuring processes in 2011 mainly covered the following areas: transactions, finance, administration, HR and payroll, loss adjustment and benefits, and the network, in all areas, both in local entities and central entities, including PZU's Head Office.

In 2011 a maximum of 1,706 PZU employees were to be covered by the change, which include net layoffs, i.e. an assumed decrease in the number of employees of 1,041 people.

The people who were laid off or who did not accept the proposed change in the terms and conditions of employment were offered favourable resignation terms, better than those offered in accordance with the law in similar situations (the Act of 13 March 2003 on specific principles for terminating employment contracts for reasons not relating to employees (Journal of Laws No. 90 of 2003 item 844 as amended)).

The amount of additional severance payments depended on the level of remuneration of particular employees and their years of service with the PZU Group.

In 2011, 1,607 employees were covered by the layoff procedures, of which termination of contracts was initiated with 1,042 employees as a result of a termination agreement or handing them declarations about terminating the contracts or as a result of the employees not accepting the new terms and conditions of employment, not due to the fault of the employer. Moreover, employment contracts with 72 employees were terminated under individual layoff procedures, for reasons not relating to the employees, and the costs of the layoffs were also charged to the restructuring provision. An outplacement program was launched for the laid-off employees, one of the largest support programs for such employees realized in Poland in 2011.

Total restructuring expenses amounted to PLN 39.0 million in 2011 (in 2010: PLN 129.7 million).

As at 31 December 2011, the restructuring provision costs amounted to PLN 86.9 million (as at 31 December 2010: PLN 52.6 million), which meant a change in the balance of the provision of PLN 34.3 million in 2011.

Other activities in the HR area

In 2011, a new project was conducted in the HR area: “New Energy of PZU Leaders” – a development program for key PZU managers from the Mass Client department. The Project is aimed at permanently strengthening the competencies of PZU key sales managers and gaining a competitive edge on the market in respect of sales of property insurance for retail clients. 25 key managers are participating in the program.

7.4. Pursuing the strategy and development projects

Projects conducted in the previous year were directly related to the pursuit of the PZU Group strategy for the years 2009-2011 aimed at profitable growth and constructing a cost-effective organization aimed at satisfying client requirements.

In respect of profitable growth, the following actions were pursued:

- a process for implementing a chain of modern outlets was launched according to the physical presence model developed in 2010 - clearly visible, common for the whole PZU Group and sales-focused;
- work was completed on revitalizing the corporate property insurance sales area aimed at improving the competencies of sales teams and optimizing their geographic location;

- a tool was implemented to enable deeper segmentation of clients, which will be used for cross-selling campaigns (analytical CRM enabling the creation of a standardized PZU client database).

Under the actions aimed at building an effective organization, focused on satisfying client needs - in respect of loss adjustment and benefits – the following activities were pursued:

- a new model for cooperation with certifying physicians and simplified and remote NNW loss adjustment procedures were implemented;
- work was carried out related to the expansion of Internet services in the area of claims and benefits – among other things, an application for Internet reporting of claims for English speaking clients was launched (an innovation on the Polish market);
- a pilot program for directing clients to respective repair shops in the chain of garages was conducted;
- work was carried out on creating a centralized model for managing the process of renting substitute vehicles during repairs;
- under the process of developing the PZU Assistance concept, an auction platform was developed PZU Pomoc Online (trading in vehicle remains after the vehicles have been totally damaged), and as part of building brand awareness, substitute cars used by clients under the door-to-door service were appropriately marked.

In the area of customer service, apart from the project mentioned above related to the construction of a chain of modern outlets, the following activities were pursued:

- the process of unifying management structures in the current PZU Group outlets and of front-office employees was continued to enable comprehensive servicing of life and property insurance clients in all outlets;
- IT tools were implemented to support office processes and handling correspondence from all channels and moreover a Central Office was opened which provides services to all PZU Group companies;
- the functionality for servicing PZU Życie group insurance clients was expanded by the option of upselling or downselling other PZU products to the clients, and sales network training was conducted - this will enable using the cross-selling potential of Group products (cross-selling is planned to start in the 1st quarter of 2012).

Additionally, apart from the activities listed above, in 2011 several initiatives were conducted in PZU aimed at improving process efficiency and cost optimization – those included:

- analytical work on a project aimed at developing PZU's operating model and as a result the PZU policy system will be replaced;
- stage 1 of joint implementation of the PZU and PZU Życie ERP class system - in 2011 unified processes in the area of financial accounting, procurement and a joint chart of accounts were implemented (start-up in 16 January 2012);

- starting analytical work related to the process of restructuring the real estate portfolio necessary from the perspective of PZU's and PZU Życie's statutory operations;
- creating the HR and remuneration service centre for contractors and intermediaries of PZU and PZU Życie, by the end of 2011 the servicing of all the branches of both companies was taken over;
- launching the process of automatic loading of policies issued in the sales system to the policy administration system;
- further optimization of the costs of the functioning of the operations back-office;
- centralization and automation of the claims and annuities payment process was conducted;
- continuing the projects in progress related to the unification and centralization of the IT systems and IT servicing of the PZU Group in other areas, i.e. the Service Desk, systems for the authentication of users, e-mail system or the data warehouse.

7.5. Activities related to Corporate Social Responsibility in 2011

7.5.1. Business Ethics

PZU applies the ethical principles of corporate social responsibility described in item 12.1.

7.5.2. Social commitment

As part of the educational activities, PZU maintains an Internet insurance-dedicated service – "JakieUbezpieczenie.pl". The character of the site is purely informative and educational. It explains the benefits of insurance products in a simple and easily accessible manner.

Similarly to the preceding years, PZU also conducted preventive activities aimed at improving public safety and limiting various risks. In this respect the following actions were taken in 2011:

- cooperation with TOPR, GOPR and selected WOPR groups was continued;
- cooperation with Stowarzyszenie Misie Ratują Dzieci (Teddies Save Children Association) was initiated in the area of therapeutic and psychological help for children injured in accidents;
- the Bezpieczna Flota (Safe Fleet) project was undertaken addressed at selected fleet drivers.

PZU also was the sponsor and patron of various cultural and sports events, both countrywide and local. Key activities in this area include:

- sponsoring the Royal Castle in Warsaw;
- the PZU zone during the Night of Museums at the Royal Castle in Warsaw;

- close cooperation with the Nowe Sukiennice National Museum Department in Kraków;
- patron of the Royal Łazienki Museum;
- sponsoring the Grand Theatre in Warsaw;
- sponsoring the “Rzeszów Carpathia Festiwal 2011”;
- patron of Willa Decjusza in Kraków;
- sponsoring the “Droga na Harvard” (Way to Harvard) competition;
- sponsoring the Polish Presidency in 2011;
- sponsoring the educational program Akcjonariat Obywatelski (Citizens’ Shareholdings).

7.5.3. The PZU Foundation

The mission of Fundacja PZU (the PZU Foundation) is acting in the interests of the public in the area of education, culture, art, healthcare, and social security. The PZU Foundation pursues its goals co-financing the projects carried out by non-governmental organizations and other organizational entities in the area of operations of the PZU Foundation.

In its activities in 2011, the PZU Foundation awarded subsidies under consecutive editions of the competitions and projects outside the competitions, and for individual aid.

In the area of “Education” the following action was taken:

- a competition subsidy “Wzbogacanie oferty edukacyjnej na terenach wiejskich i w małych miastach” (Expanding the educational offer in rural areas and in small towns);
- Partnership programs were introduced:
  - in cooperation with Fundacja Edukacyjna Przedsiębiorczości in Łódź – scholarships were founded for young people from rural areas and small towns;
  - two editions of historical workshops were co-financed organized by Fundacja Centrum im. prof. Bronisława Geremka in Warsaw;
  - financial support was offered for the project “Świetlica – Moje Miejsce” conducted in cooperation with Polska Fundacja Dzieci i Młodzieży in Warsaw;
  - three-year cooperation was established with the national children’s fund Krajowy Fundusz na rzecz Dzieci in Warsaw under the program for helping the extremely gifted Program Pomocy Wybitnie Zdolnym;
  - one-off subsidies were awarded to Fundacja Pomoc Polakom na Wschodzie in Warsaw, Fundacja ABC XXI – Cała Polska czyta dzieciom in Warsaw, Fundacja dla Uniwersytetu Jagiellońskiego in Kraków and Fundacja Młodzieżowej Przedsiębiorczości.

in the area of “Culture and Art”, the PZU Foundation supports cultural institutions such as the National Museum in Kraków and the National Museum in Warsaw by acquiring new collections on their behalf.

In the area of “Social care and social aid” subsidies were awarded:

- in the competition “Developing social activity in handicapped children and adolescents”;
- to disadvantaged individuals, including PZU employees;
- to Stowarzyszenie Wspólnota Polska in Warsaw by financing insurance for children and adolescents from our eastern neighbours during their stay in Poland;
- to Mokotowskie Hospicjum Św. Krzyża (hospice) in Warsaw;
- to organizations indicated in the PZU employees commitment survey.

In the area of “Health Protection”, initiatives aimed at widely-understood health prophylactics were financed. Subsidies were granted to the organizations listed below:

- to Stowarzyszenie Wspólnota Polska in Warsaw by financing insurance of the medical mission in the Ukraine and Moldavia;
- to Polska Unia Onkologii (oncological union) in Warsaw.

8. Planned key development directions

The strategy for the years 2012-2014 will, to a large extent, be a continuation of the pursuit of the goals under the strategy for the years 2009-2011. The objective of the PZU Group is maintaining profitable growth and its lead position on the Polish insurance services market.

In the foreseeable future, the operating model of the PZU Group will be transformed from an organization operating according to product lines to an organization operating according to client segments. These transformations will enable the Group to better understand the needs of its clients and to react appropriately to these needs. In consecutive years, further operating optimization of the PZU Group is planned.

Pro-client orientation and high operating effectiveness will allow the Group to maintain its lead position – the PZU Group will remain the largest and most profitable insurance firm in Central and eastern Europe.

These goals will be realized thanks to actions focused on:

- in the mass client segment:
  - maintaining the market share in the motor insurance and property insurance segment and introducing advanced principles for price-setting and reacting to market changes;
  - dynamic development of savings and investment products, and in particular long-term savings products;
  - further development in the area of mass sales, among other things, by developing basic distribution channels;
- in the corporate client segment:

  - transforming PZU into a business partner with a strong expert position that is not only an entity selling insurance but also a client advisor;
  - maintaining the market position in motor insurance and increasing its market share in non-motor insurance;
- in the operating model:
  - introducing a new product system in PZU which will enable an increase in operating effectiveness;
  - implementing a new customer service model which assumes an integrated contact channel structure, compliant with customer expectations, and specifically building a network of modern sales and service outlets;
  - further optimization in the area of loss adjustment and benefits, where the key initiatives are as follows:
    - a new management module which suggests, in a simple way, the optimum form of loss settlement and the best and closest cooperating enterprises;
    - implementing a mass printing service;
    - improving the current recourse servicing process;
    - recovering overdue recourse claims;
    - centralized adjustment of all motor claims with foreign elements;
    - implementing a simplified loss adjustment process for motor claims.

Additionally actions are planned aimed at:

- continuing operations focused on transforming the PZU Group into a results-oriented organization;
- increasing the scale of operations of the PZU Group through international expansion on the Central and East European markets;
- refreshing the brand which will enable its modernization and communicating the changes that have already been implemented in the PZU Group;
- introducing changes in the investment policy covering, among other things, a change in the structure of investments which will lead to an increase in profitability with a simultaneous reduction in the volatility of results on investing activities.

9. Risk management

9.1. Risk management policy

The risk management system implemented by PZU and PZU Życie is directed at risk control and at maintaining an appropriate level of capitalization. Through identifying, analyzing, measuring, controlling, managing and reporting the risk related to the operating activities conducted, the PZU

Group is able to discharge its obligations towards clients and business partners and fulfil the requirements arising from the provisions of the law and external regulations.

Risk management in the PZU Group is based on the following main principles:

- taking controlled risk – financial strength and constant value growth are an integral part of the PZU Group's business strategy. In order to achieve these objectives the PZU Group conducts operations in accordance with a clearly defined risk policy and within the established risk limits;
- clearly defined responsibilities – the PZU Group operates in line with the principle of allocating tasks, competencies and responsibilities. The delegated employees are responsible for the risk they undertake, and their incentives are harmonized with the business objectives of the PZU Group;
- adapting to changes occurring in the business environment – the ability to respond to changes occurring in the business environment, both those arising from external and internal conditions of the PZU Group, are an integral part of the risk control process in the PZU Group.

PZU and PZU Życie manage insurance risk by applying the following tools:

- calculating and monitoring the adequacy of technical reserves;
- tariff strategy and monitoring current estimates and assessing the adequacy of premium;
- reinsurance.

9.2. Risk concentration

As at 31 December 2011, the Company's exposure in Polish Treasury securities issued by the Ministry of Finance of the Republic of Poland, including the contingent transactions on these securities amounted to PLN 13,573.2 million (31 December 2010: PLN 14,151.6 million), which represented 54.5% of the total investments (31 December 2010: 59.4%). The Company's exposure in subordinated entities (including units of TFI PZU investment funds and bonds issued by TFI PZU funds) as at 31 December 2011 was PLN 6,915.8 million (31 December 2010: PLN 6,923.7 million, excluding the exposure in TFI PZU because in 2010, PZU did not directly own TFI PZU), which represented 27.8% of investments (31 December 2010: 28.8%).

9.3. Stress tests

In connection with the obligation placed on insurance companies by the PFSA, PZU and PZU Życie carried out stress tests relating to the financial data reported as of 31 December 2010, in line with the guidance obtained from the PFSA and submitted the test results by the 31 July 2011 deadline. Additionally, the PZU Group participated in the European Stress Tests for the insurance sector carried out by EIOPA, the results of which were submitted to the PFSA. The stress tests showed that the PZU Group has sufficient capital to be able to safely continue its operations after the strong turbulence in the business environment has abated.

D. ADDITIONAL INFORMATION

10. Shares or rights to shares held by members of the management and supervisory bodies of PZU as at the date of submitting the annual report

Table 16: Shares or rights to shares held by members of the management and supervisory bodies of PZU

No.	Body / Name and last name	Number of shares held as at 14 March 2012	Number of shares held as at 17 March 2011	The resulting change in the period between those dates
	Management Board			
1	Andrzej Klesyk	0	0	x
2	Witold Jaworski	0	0	X
3	Przemysław Dąbrowski	0	0	X
4	Bogusław Skuza	500	n/a	X
5	Ryszard Trepczyński	0	n/a	X
6	Tomasz Tarkowski	80	n/a	X
7	Marcin Halbersztadt (Board Member until 6.10.2011)	0	n/a	X
	Group Directors			
1	Rafał Grodzicki	0	0	X
2	Dariusz Krzewina	0	0	X
3	Mariusz J. Sarnowski (Director of the Group until 20.06.2011)	0	0	X
4	Krzysztof Branny (Director of the Group until 16.08.2011)	30	30	X
	Supervisory Board			
1	Marzena Piszczek	0	0	X
2	Waldemar Maj	30	30	X
3	Piotr Kamiński (SB Member until 30.06.2011)	0	0	X
4	Grażyna Piotrowska-Oliwa (SB Member until 30.06.2011)	0	0	X
5	Zbigniew Ćwiąkalski	0	0	X
6	Krzysztof Dresler	0	0	X
7	Dariusz Filar	0	0	X
8	Dariusz Daniluk (SB Member until 30.06.2011)	0	n/a	X
9	Zbigniew Derdziuk (SB Member until 30.06.2011)	0	n/a	X
Total		**640**	**60**	**x**

n/a – as of March 17, 2011 they were not Members of PZU Management Board

11. Other information

11.1. Remuneration of the Management and Supervisory Board Members of PZU

Detailed information on the remuneration of the Management Board Members of PZU has been presented in Note 32.1.2 to the Financial Statements of PZU.

In the 12-month period ended 31 December 2011, PZU did not conclude any contracts with the Management Board Members providing for any compensation in the event of their resignation or dismissal from the position held without an important reason or when their dismissal takes place due to a business combination of the issuer by acquisition. The Management Board Members of PZU have standard non-competition agreements signed under which they are obliged not to undertake activities that are competitive with the activities of the employer for the period specified in the agreement after termination of their employment.

11.2. Issues, redemption and repayment of debt and equity securities

In the 12-month period ended 31 December 2011, PZU did not make any issues, redemption or repayment of debt and equity securities.

11.3. Employee stock ownership plan

In 2011 and 2010 no employee stock ownership plans were implemented.

11.4. Price of PZU shares

PZU made its debut on the Warsaw Stock Exchange on 12 May 2010. The Company’s shares are continuously traded on the primary market. In 2011, the shares of PZU were included in the WIG, WIG20, WIG PL indices and from 1 February 2012 also in the RESPECT Index.

Diagram 2: Dynamics of PZU share prices in 2011 compared with WIG20 31.12.2010 = 100%

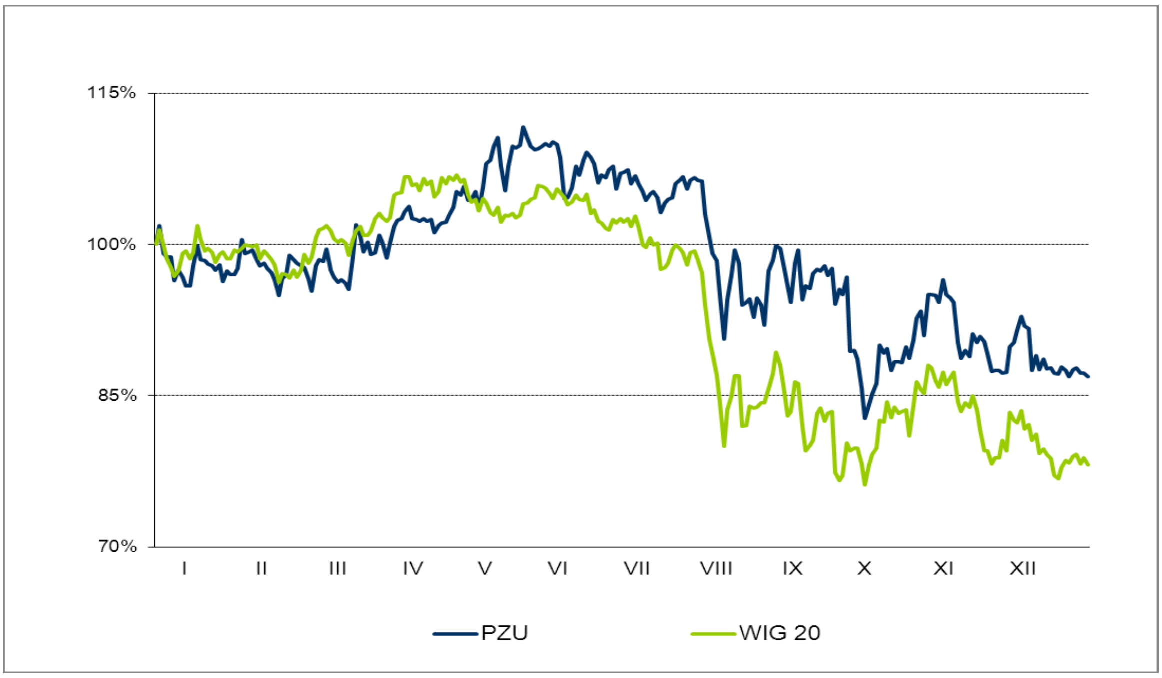


Diagram 4: Prices of PZU shares in 2011

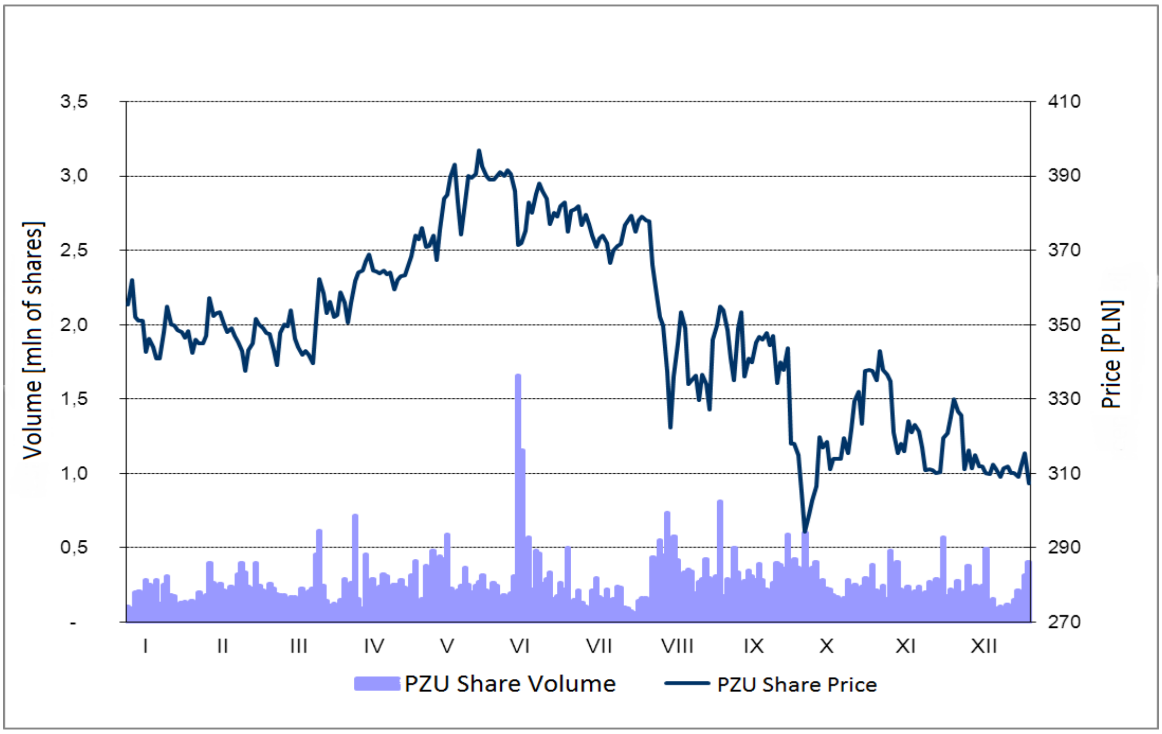


Table 17: Basic information on PZU shares

	measurement unit	1 January – 31 December 2011	1 January – 31 December 2010
Number of shares as at the end of the year	units	86 352 300	86 352 300
Number of shares in trading	units	86 344 698	86 340 692
Closing price on the last trading day of the year	PLN	309.00	355.50
The highest closing price in the year	PLN	396.80	411.00
The lowest closing price in the year	PLN	294.20	330.00
Market value of PZU as at the end of the year	PLN	26 682 860 700	30 698 242 650
Average market price	PLN	349.40	372.33
Average trading volume per session	units	265 862	317 391
Dividend (gross) paid out in the financial year out of prior year profit distribution	PLN/share	26.00	10.91*

** excluding the dividend paid on 26 November 2009 as interim dividend on account of the dividend anticipated at the end of the financial year 2009 of PLN 12,749,917 thousand (PLN 147.69 per share).*

In 2011, the price of PZU shares was affected by not very optimistic factors shaping the situation on the WSE, and by the sentiments of global investors regarding the Eurozone and the Polish market. The decisions of investors interested in PZU securities were also affected by the State Treasury selling a 10% package of PZU shares and the payment of dividend for 2010.

The closing price of PZU shares in the last trading session in 2011 was PLN 309, which represented a 13.1% decrease compared with the price on the last day of December 2010 of PLN 355.50. At the same time, WIG20 and WIG indices lost 21.9% and 20.8% respectively. For the majority of 2011, the shares of PZU lost less than the market.

In 2011, PZU shares closed the trading sessions 124 times with drops, 122 times with increases, and they remained unchanged 5 times. The highest closing price (PLN 396.80) was achieved on 25 May and the lowest (PLN 294.20) on 4 October. The average market price of PZU shares in 2011 was PLN 349.40 which was PLN 22.93 lower than in 2010. The average daily trading volume of PZU shares in 2011 was 265,862 shares, with the highest level (1,659,172 shares) recorded on 9 June 2011.

In 2011, PZU was on the list of 21 domestic and foreign financial institutions whose analysts issued a total of 49 recommendations for PZU shares. “Buy”, “Accumulate” and “Overweight” prevailed – a total of 31 recommendations, 17 recommendations were neutral (“Hold” or “Neutral”) and 1 was “Underweight”.

Table 18: Capital market ratios

Capital market ratios for PZU as at	31 December 2011	31 December 2010
P / BV	2.27	2.58
Market price of shares / book value per share		
BVPS	136.02	137.83
Book value per share		
P / E	10.33	8.73
Price / net profit per share		
EPS (PLN)	29.90	40.73
Net profit (loss) / number of shares		
DY Dividend yield (%)	8.4%	3.1%
Dividend per share / market price of shares		
DPS (PLN)	26.00	10.91*
Dividend per share		
TSR Total shareholder return	(5.8)%	17.3%**
(Market price of shares at the end of the period – market price of shares at the start of the period + dividend paid out in the period) / market price of shares at the start of the period		

** excluding the dividend paid on 26 November 2009 as interim dividend on account of the dividend anticipated at the end of the financial year 2009 of PLN 12,749,917 thousand (PLN 147.69 per share)*

*** Total Shareholder Return = (market price of shares at the end of the period – market price of shares in the offering + dividend paid in the period/market price of shares in the offering*

11.5. Dividend

Dividend policy

On 11 May 2011, the Management Board of PZU passed a resolution concerning the Company's dividend policy.

The adopted dividend policy provides for the following:

1. The consolidated net profit of the PZU Group in accordance with the International Financial Reporting Standards (IFRS) shall be the basis for establishing the dividend to be paid out by PZU for a given financial year.
2. The amount of the dividend:

- shall not be lower than 50% or higher than 100% of the net profit shown in the consolidated IFRS financial statements;
- shall not be higher than the stand-alone net profit of PZU in accordance with PAS;

- shall not result in reducing PZU's equity below the amount corresponding to 250% of the solvency margin;
- shall not result in reducing the financial strength of the PZU Group below a level corresponding to the AA rating according to Standard & Poor’s methodology;
- should take into account the additional capital requirements of PZU in a 12-month perspective from the moment of approval of the consolidated financial statements of the PZU Group for a given year by the Management Board of PZU.

3. The equity and solvency margin are calculated in accordance with the prudence norms established for the Polish insurance market.

The resolution on the dividend policy is binding from the date of the coming into force of the articles listed in Art. 311 of the Directive 2009/138/EC of the European Parliament and Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

Appropriation of profit for the financial year 2010

On 11 May 2011, the Management Board of PZU passed a resolution to accept the motion concerning the appropriation of the net profit of PZU for the year ended 31 December 2010 of PLN 3,516,709 thousand as follows:

- PLN 2,245,160 thousand for payment of dividend to shareholders;
- PLN 1,271,549 thousand to supplementary capital.

On 30 June 2011, the Annual General Shareholders’ Meeting of PZU passed resolution no. 7/2011 concerning the distribution of the net profit of PZU for the financial year ended 31 December 2010 according to which PLN 2,245,160 thousand, i.e. PLN 26.00 per one share was earmarked for payment of dividend. In accordance with the above-mentioned resolution, 30 September 2011 was the date according to which the list of shareholders entitled to payment of dividend for the financial year ended 31 December 2010 was established, and 21 October 2011 was the date of payment of the said dividend.

By the date of preparing this Directors’ Report of PZU, the Company’s Management Board had not passed the resolution concerning profit appropriation for 2011.

11.6. PZU Tax Group

On 5 September 2008, the Management Boards of PZU and PZU Życie passed a resolution on PZU and PZU Życie forming a Tax Group (hereinafter referred to as “TG”) as defined in the Corporate Income Tax Act of 15 February 1992 (*Journal of Laws* no. 74 of 2011, item 397, with further amendments “the CIT Act”). The TG comprised PZU and PZU Życie and was formed for a period of 3 years from 1 January 2009 to 31 December 2011.

On 27 September 2011, a new Tax Group agreement was signed between the PZU Group companies, comprising 9 companies: PZU, PZU Życie, TFI PZU, PZU AM, PZU CO, PZU Pomoc SA, Ipsilon BIS SA, Ogrodowa-Inwestycje Sp. z o.o., Ipsilon Sp. z o.o. The TG was formed for a period of 3 years from 1 January 2012 to 31 December 2014.

PZU is the parent company and the company representing the TG in both the above-mentioned agreements. In accordance with art. 25 clause 1 of the CIT Act, the TG conducts settlements with the Tax Office in monthly cycles. PZU makes tax advances to the Tax Office in respect of corporate income tax, which are due from all the companies belonging to the TG and the said companies transfer the CIT advances related to their business activities to PZU.

11.7. Main reinsurance contracts binding in 2011

The reinsurance cover of PZU in 2011 constitutes security of the insurance activities and mitigates the effects of the occurrence of any catastrophic events which might have an adverse effect on the Company's financial standing. The task was executed by concluding obligatory reinsurance contracts with supplementary facultative reinsurance.

Based on the reinsurance contracts concluded, PZU mitigates its risks, among other things, by a disproportionate excess of loss agreement protecting PZU's portfolio against catastrophic losses (e.g. flood, hurricane), a disproportionate excess of loss agreements protecting the portfolios of property, technical, marine, aviation, third party, and third party motor vehicle insurance against the effects of large individual losses. Additionally, PZU mitigates its risks through a proportionate contract protecting the portfolio of financial insurance.

The main partners granting obligatory reinsurance protection to PZU in 2011 are the following reinsurers: Swiss Re, Hannover Re, Scor, Munich Re, Lloyd's. PZU's reinsurance partners have high ratings according to S&P, which ensures certainty of a good financial standing of the reinsurers to the Company.

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

11.8. Concluded and terminated loan agreements

In the period from 1 January 2011 to 31 December 2011, PZU did not draw any loan agreements or have any terminated loan agreements.

11.9. Loans granted, including loans granted to the Issuer's related entities

As for investment activities of PZU and PZU Życie in 2011, the entities extended loans totaling PLN 865 million maturing in the period from 2016 to 2018 at arm's length interest rates based on an appropriate WIBOR rate, margin or a fixed rate. Loans are collateralized in a manner typical for a given instrument.

11.10. Guarantees and warranties in respect of loans and borrowings granted and received, including those granted to the Issuer's related entities

In the 12-month period ended 31 December 2011, PZU did not grant any warranties in respect of loans and borrowings or guarantees – in aggregate to one company or an entity related to that company - if the total value of the existing warranties or guarantees would constitute the equivalent of at least 10% of PZU's equity.

Based on the guarantee line agreement dated 26 September 2008 concluded between PZU and Bank Millennium SA, the bank grants bank guarantees (related to bid bonds and proper performance of the contract) to PZU in tenders for insurance services. The guarantee line is PLN 15 million and is renewed every year for a period of another year. As at 31 December 2011, 33 guarantees for a total of PLN 6.4 million were active as part of the valid line.

11.11. Evaluation of financial resources management, taking into account the ability to cover the liabilities drawn, and the identification of potential threats and action taken or planned by the Issuer in order to counteract those threats

The Company is in a very good financial situation and it fulfils all the safety criteria imposed on it by the Act on insurance activities and by the PFSA. The stable rating perspective of PZU confirms the fact that the Company has a strong business position, a high level of equity and it remains a competitive player on the insurance market.

Due to the Company's strong competitive position and very good financial standing, the Management Board of PZU does not currently perceive any threats to the Company's operations.

The Company has own funds which guarantee covering all liabilities to its clients.

11.12. Litigation pending before the court, the appropriate arbitration body or the public administration body

PZU participates in numerous litigation cases before the court, arbitration and administrative proceedings. Typical litigation cases in which PZU participates include disputes related to insurance contracts concluded, disputes related to employment relationships and disputes related to contractual obligations. Typical administrative proceedings in which PZU participates include proceedings related to ownership of real estate. The above proceedings and litigation cases are typical and repetitive in nature, usually none of them separately has a significant impact on PZU.

Additionally, PZU is a party in proceedings before the President of the Office of Competition and Consumer Protection and proceedings before the Polish Financial Supervision Authority. Information on the proceedings of the Office of Competition and Consumer Protection against PZU is provided in the Financial Statements of PZU for 2011 – Note 28.1.2.

PZU includes disputed claims in the process of recording technical reserves for known claims taking into account the probability of unfavourable resolution of the dispute and estimating the value of the probable adjudication.

In 2011 and by the date of signing this Directors' Report, in PZU there were no litigations before the court, the appropriate arbitration body or the public administration body in respect of PZU's obligations or debt the unit value of which would represent respectively at least 10% of PZU's equity.

As at 31 December 2011, the value of all the 20,139 cases pending before courts, appropriate arbitration bodies or public administration bodies in PZU totalled PLN 1,224.7 million. Of this amount, PLN 1,067.6 million related to obligations and PLN 157.1 million to PZU's debt, which represented 9.1% and 1.3% respectively of PZU's equity according to PAS.

11.13. Information on significant contracts concluded

In 2011, no contract was concluded with PZU or its related company as one of the parties where the contract value would have amounted to at least 10% of PZU's equity or where the level of equity was not the criterion enabling proper assessment of the contract concluded - of the PZU Group's sales for the last four financial quarters.

11.14. Related party transactions

In the 12-month period ended 31 December 2011, PZU did not conclude one or a number of transactions with related entities if individually or in total they were material and were concluded on terms other than an arm's length basis.

11.15. The seasonal or cyclical nature of the activities

The activities of PZU are not seasonal or cyclical in nature to an extent that would justify applying the suggestions contained in the International Financial Reporting Standards.

11.16. Significant prior year events recognized in the financial statements for the reporting period

By the date of preparing this Directors' Report of PZU, there were no significant prior year events that had not been included in this report.

11.17. Significant post balance sheet events

On 28 February 2012, the Management Board of PZU gave notice of the termination of Corporate Collective Labour Agreements ("CCLA") for both companies. The CCLA was concluded in 2003 in

PZU and in 2006, and it is an outdated solution which does not work in the current social and economic environment. The purpose of introducing the new remuneration system is to further modernize the PZU Group and improve its competitiveness. The Management Board of PZU intends to adjust salaries to market standards and link individual employee objectives to the performance of the PZU Group's strategy.

11.18. Business combinations

In the period from 1 January 2011 to the date of preparing this Directors' Report of PZU, no business combinations were carried out between PZU and other companies.

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

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

11.20. Cooperation with international public institutions

In 2011 and 2010 the PZU Group companies did not cooperate with any international public institutions.

11.21. Contracts for the audit and review of the financial statements

On 13 May 2011, the Supervisory Board of PZU selected Deloitte Audyt Sp. z o.o. with its seat in Warsaw, Al. Jana Pawła II 19, entered in the register of companies authorized to audit financial statements by the National Chamber of Registered Auditors under the number 73, as the registered audit company to carry out the audit of the annual financial statements of PZU prepared in accordance with the Accounting Act of 29 September 1994 (*Journal of Laws* No. 152 of 2009, item 1223 as amended) and of the annual consolidated financial statements of the PZU Group prepared in accordance with the International Financial Reporting Standards.

The contract for the review of the abridged interim consolidated financial statements of the PZU Group and the abridged separate financial statements of PZU for the 6 months ended 30 June 2011 and for the audit of separate financial statements of PZU and consolidated financial statements of the PZU Group for the financial year ended 31 December 2011 was concluded on 30 June 2011.

Information on the fee of the registered audit company is provided in the financial statements of PZU for 2011 – Note 31.1.

E. REPRESENTATIONS OF THE MANAGEMENT BOARD OF PZU

12. Statement of compliance with corporate governance principles

12.1. Corporate governance principles

In 2011, PZU complied with "The Best Practices of Companies Listed on the Warsaw Stock Exchange" (hereinafter: "The Best Practices of WSE Listed Companies") binding at the Warsaw Stock Exchange. The code of "The Best Practices of the WSE Listed Companies" is available on the website devoted to corporate governance on the Warsaw Stock Exchange at www.corp-gov.gpw.pl and on the Company's website www.pzu.pl in the section dedicated to the Company's shareholders – "Investor Relations".

Apart from the above-mentioned corporate governance principles, the Company applies ethical principles and social responsibility principles contained, among other things, in the following documents:

- Principles of Good Insurance Practices enacted on 8 June 2009 by the General Meeting of the Polish Insurance Association ("PIA") which associates insurance companies operating on the Polish market. The principles adopted by the Company regulate the rules of conduct for insurance companies in relations with clients, insurance agents, the PFSA and the Polish Insurance Ombudsman and the media. They also regulate the relations between the insurers themselves and the actions of insurance companies acting as participants in public trading in securities. The document is available on the website of PIA: http://piu.org.pl/zasady-dobrych-praktyk/project/132/pagination/1;
- The Best Practices in PZU. The document underlines the role of ethical values binding in all aspects of PZU's operations. It describes the best business practices in PZU. It promulgates and promotes the culture of compliance with the binding law, making decisions based on ethical criteria and responsibility for the decisions made. The document is available on the Company's website: http://www.pzu.pl/c/document_library/get_file?uuid=f430d2f3-0ffa-4b72-add8-c53f3668c66a&groupId=10172;
- The social report of PZU. This is the first report concerning the sustainable development and social activity of the Company, which has been prepared based on the guidance and standards of Global Reporting Initiative (GRI) using the Sustainability Reporting Guidelines & Financial Services Sector Supplement. The report is an element in the implementation of the corporate social responsibility (CSR) strategy in PZU and raises a number of issues in various areas, including: corporate governance, availability of services, product quality, data security, the effect of PZU's operations on the natural environment and PZU's active involvement in social activities. The document is available on the Company's website: http://www.pzu.pl/grupa-pzu/dzialalnosc-spoleczna/raporty.

Application of "The Best Practices of WSE Listed Companies"

The year 2011 confirmed the Company's devotion to the highest corporate governance standards. There were no violations of the rules specified in The Best Practices of WSE Listed Companies, as provided in chapters II, III and IV, except for the recommendations provided in points I.5. and I.9. of The Best Practices of WSE Listed Companies. An announcement of not fully complying with those recommendations was not made, in line with the exemption based on the resolution of the Management Board of WSE of 11 December 2007 concerning the issuers' obligation to publish the reports referred to in § 29 clause 3 of the Rules and Regulations of WSE in respect of corporate governance rules contained in section I of The Best Practices of WSE Listed Companies.

With regards to chapter I of The Best Practices of WSE Listed Companies containing "Recommendations", two points require commenting on.

With reference to recommendation I.5 of The Best Practices of WSE Listed Companies concerning the remuneration policy for members of management and supervisory bodies, the decision on the remuneration of the Supervisory Board members lies within the competencies of the General Meeting of PZU and decisions on the remuneration of the Management Board members are made by a resolution of the Supervisory Board of PZU.

The remuneration of the Supervisory Board members is clearly specified in the resolution of the General Meeting. The level of remuneration depends on the function performed in the Supervisory Board and is not due in the month in which a given Supervisory Board member was absent from the meeting for an unjustified reason. The Supervisory Board decides by resolution whether the absence of the Supervisory Board member was justified or unjustified.

The principles for remunerating the Management Board members were specified by the Supervisory Board. The remuneration of the Management Board members is composed of several components and comprises the basic monthly salary, additional benefits and an annual bonus which is paid once a year and depends on the decision of the Supervisory Board made in the form of a resolution based on the economic and financial results for a given financial year.

The remuneration policy for members of management and supervisory bodies does not contain all the elements indicated in the Recommendation of the European Commission of 14 December 2004 fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC), as supplemented by the Recommendation of the EC of 30 April 2009 (2009/385/EC). Moreover, the Company has not presented a declaration disclosing the remuneration policy on its website. The decision concerning full compliance with the above principle in the future belongs to the Supervisory Board and the General Meeting of the Company.

Another matter requiring clarification is the recommendation contained in point I. 9 of The Best Practices of WSE Listed Companies referring to ensuring the balanced participation of women and men in the company's bodies. PZU has always maintained a policy of appointing competent and creative persons who have appropriate professional experience and education as members of its bodies The composition of the Management and Supervisory Boards is determined by a decision of the Supervisory Board and the General Meeting, and other factors, including the person's gender, are not taken into account.

Currently, there is one woman in the seven-member Supervisory Board – Marzena Piszczek who is the Chairman of the Supervisory Board.

From 1 January 2012, in connection with the amendment to The Best Practices of WSE Listed Companies introduced by a resolution of the Board of WSE no. 20/1287/2011 and binding from 1 January 2012, the Company applies and will carry out the recommendations and principles of the amended best practices.

12.2. The General Meeting and shareholder rights

The Annual General Shareholders' Meeting of PZU should be held within six months after the end of each financial year of the Company.

An Extraordinary General Meeting is convened in the cases specified in the Commercial Companies Code Act dated 15 September 2000 (Journal of Laws 94 of 2000, item 1037 as amended, "the Commercial Companies Code"), the Insurance Activity Act, the Statute and when the Company's bodies or persons authorized to convene an Extraordinary General Meeting consider it appropriate.

In accordance with the provisions of the Statute, the Supervisory Board convenes:

- the Annual General Meeting when the Management Board fails to convene such Annual General Meeting within the prescribed deadline;
- an Extraordinary General Meeting when it considers it appropriate;
- an Extraordinary General Meeting when the Management Board fails to convene an Extraordinary General Meeting based on the motion of an authorized shareholder, authorized shareholders or the Supervisory Board within 14 days from the date of submitting the motion.

The Statute also provides that the shareholders representing at least one half of the share capital or at least one half of the general number of votes in the Company may convene the Extraordinary General Meeting. These shareholders appoint the chairman of such Extraordinary General Meeting.

The Supervisory Board and the shareholder or shareholders of the Company representing at least one twentieth of the share capital may demand that individual matters be put on the agenda of the next General Meeting. The demand should contain a justification for a draft resolution concerning the proposed point on the agenda and should be submitted to the Management Board not later than twenty one days before the set date of the General Meeting. The Management Board is obliged to immediately announce changes in the agenda introduced on the demand of the shareholders, not later however than eighteen days before the set date of the General Meeting. The announcement should be made on the Company's website and in accordance with the procedure for announcing current information specified in the provisions of the Act dated 19 July 2005 on public offering and terms and conditions of introducing financial instruments to an organized trading system and on public companies (Journal of Laws No. 184 of 2005, item 1539 as amended, "the Act on public offering"), i.e. in the form of current reports.

Before the date of the General Meeting, the Company's shareholder or shareholders representing at least one twentieth of the Company's share capital may submit to the Company in writing or using electronic communication means, draft resolutions concerning matters introduced onto the agenda of the General Meeting or matters which are to be introduced onto the agenda. The Company immediately announces draft resolutions on its website. During the General Meeting, each shareholder of the Company may propose draft resolutions concerning matters introduced onto the agenda.

The General Meeting is convened by an announcement published on the Company's website and in line with the procedure for providing current information specified in the provisions of the Act on public offerings, i.e. in the form of current reports. The announcement should be made at least twenty six days before the date of the General Meeting.

A properly convened General Meeting is valid, regardless of the number of shareholders present or shares represented during the meeting.

The General Meetings is held in Warsaw.

The right to participate in the General Meeting only falls to persons who were the Company's shareholders sixteen days before the date of the General Meeting (the date of registering participation in the General Meeting)

At the request of an entity authorized based on dematerialized shares of the Company submitted not earlier than after the announcement of the General Meeting being convened and not later than on the first working day after the date of registering participation in the General Meeting, the entity maintaining the securities account issues a named certificate of the right to participate in the General Meeting.

The certificates of the right to participate in the General Meeting issued by the entity maintaining the securities account shall constitute the basis for that entity to prepare a list, which shall then be sent to the National Depository for Securities ("KDPW") as the entity maintaining the deposit of the securities. On this basis, KDPW shall prepare a list of the shares authorized to participate in the General Meeting. The list prepared by KDPW shall be sent to the Company and shall constitute the basis for the Company to prepare a list of shares authorized to participate in the General Meeting.

In the period between the date of registering participation in the General Meeting and the date of closing the General Meeting, a shareholder of the Company may transfer shares.

Each Share gives the right to one vote at the General Meeting, taking into account the limitations concerning the execution of the voting rights described in point 13.7. A shareholder may vote differently based on each share held. The Company's shareholders may participate in the General meeting and execute the voting rights in person or through a proxy.

Competencies of the General Meeting:

The General Meeting is a body authorized to make decisions through resolutions in matters related to the Company's organization and operation. The resolutions passed by the General Meeting are reached by an absolute majority of votes, except for special cases provided for in the Commercial Companies Code or the Statute. In accordance with the Statute, the resolutions of the General Meeting concerning the following matters require a qualified majority of three fourth of the votes: (i) changing the Statute, (ii) reducing share capital, (iii) selling and leasing out the enterprise or its business unit and establishing a limited property right on them. The resolutions of the General Meeting relating to preference shares and matters of the Company's business combination by transferring all its assets to another company or a merger by forming a new company, closing the Company (also as a result of moving its seat or main office abroad), its liquidation, transformation or reduction in share capital by cancellation of a portion of shares without at the same time increasing it, require a 90% majority of the votes cast.

The most significant competencies of the General Meeting specified in the Commercial Companies Code and the Statute of PZU include passing resolutions concerning, in particular, the following:

- reviewing and approving the Directors' Report and the financial statements for the prior financial year and granting a vote of approval to individual bodies of the Company for performing their duties;
- appropriation of profit or covering loss;
- making decisions relating to claims to remedy losses arising in the course of forming the Company or its management or supervision;
- selling and leasing the enterprise or its business unit and placing restricted property rights upon them;
- cancelling shares and issuing of bonds;
- formation of reserve capitals and deciding on their use or how to use them;
- demerger of the Company, the Company's merger with another company, liquidating or closing the Company;
- appointing and dismissing the Supervisory Board members, in recognition of the State Treasury's personal right to appoint and dismiss one Supervisory Board member.

On 8 February 2012, the Extraordinary General Meeting of the Company, in amending PZU's Statute, granted competence to the General Meeting to pass a resolution concerning the Company buying or selling real estate, perpetual usufruct or a share in real estate or in perpetual usufruct with a value exceeding the equivalent of Euro 30,000,000 (thirty million Euro), gross. The said change in the Statute has not yet been registered by the registration court.

Entitlements and rights of the shareholders and the manner of their execution

The shareholders' rights and entitlements arise from the provisions of the Commercial Companies Code and the Company's Statute.

The Company's shareholder has a right to view the list of shareholders entitled to participate in the General Meeting and request a copy of the list, while reimbursing the costs of its preparation.

The Company's shareholder may request that the shareholders' list be sent to him free of charge by electronic mail, after giving the address to which the list should be sent.

Each shareholder of the Company has the right to request a copy of the motions concerning the issues on the agenda of the next General Meeting within one week before the General Meeting. The request should be submitted to the Management Board.

Immediately after selecting the chairman of the General Meeting, an attendance list should be prepared containing the list of participants at the General Meeting, including the number of Company shares represented by each one of them and the number of votes attached to them. The attendance list should be signed by the chairman of the General Meeting and displayed during the meeting.

At the request of shareholders holding one tenth of the share capital represented at the General Meeting, the attendance list should be verified by a commission elected for this purpose, composed of at least three persons. The persons tabling the motion have the right to elect one member of the commission.

At the request of the shareholders representing at least one fifth of the Company's share capital, the election of the Supervisory Board should be performed by the next General Meeting through voting in separate groups, even if the Statute provides for a different manner of appointing the Supervisory Board. The persons representing the proportion of the Shares at the General Meeting which is arrived at by dividing the total number of Shares represented at the General Meeting by the number of Supervisory Board members (in the Company's case – five members of the Supervisory Board) may form a separate group in order to elect one Supervisory Board member, but they may not participate in the election of the remaining Supervisory Board members. Mandates in the Supervisory Board not filled by an appropriate group of shareholders as part of the procedure described above, shall be filled by a vote of all the Company's shareholders who did not cast votes when electing the Supervisory Board members by voting in separate groups. In the event that shareholders representing at least one fifth of the Company's share capital filing a motion for electing the Supervisory Board by voting in separate groups, the provisions of the Statute providing for a different manner of appointing the Supervisory Board shall not apply in respect of such election of the Supervisory Board, in recognition of the fact that if the Supervisory Board contains a person appointed by an entity specified in a separate Act, only the remaining members of the Supervisory Board shall be elected.

During a session of the General Meeting, the Management Board is obliged to provide a shareholder at his request with information concerning the Company, if it is justified for the purpose of evaluating the issue covered by the agenda of the General Meeting. The Management Board shall refuse to provide information if it could cause damage to the Company, its related company or a subsidiary company or cooperative, in particular be revealing technical, trading or organizational secrets of the enterprise. The Management Board member may refuse to provide information should it constitute a basis for his penal, civil law or administrative liability. A response shall be considered to have been given if the relevant information is available on the Company's website on the site designated for the shareholders to ask questions and for providing them with answers. In response to a request made by a shareholder, the Management Board may provide an answer in writing outside the General Meeting if there are valid reasons to do so. The Management Board is obliged to provide an answer not later than within two weeks from the date of making a request during the General Meeting. In the event of a shareholder making a request for information about the Company outside the General Meeting, the Management Board may provide the shareholder with an answer in writing, taking into account the restrictions concerning the possibility of causing damage, referred to above. In the documentation submitted to the next General Meeting, the Management Board reveals in writing the information provided to a shareholder outside the General Meeting, including the date of providing it and the person to whom the information was given. The information provided to the next General Meeting need not comprise the information announced to the public and provided during the General Meeting.

The shareholder to whom the information requested during a General Meeting was refused and who filed an objection in the minutes, may file an application with the registration court to oblige the Management Board to provide the information. The application should be submitted within one week of the closing of the General Meeting at which the information was refused. The shareholder may also file an application with the registration court to oblige the Company to publish the information provided to another shareholder outside the General Meeting. In accordance with the Decree of 19 February 2009 on current and periodic information to be prepared by issuers of securities and conditions for considering as equivalent the information required by the provisions of the law of a non-EU state (Journal of Laws No. 33 of 2009, item 259; "the Decree on current and periodic information"), the Company shall be obliged to provide, in the form of a Periodic Report, information provided to a shareholder due to Management Board having been obliged to do so by the registration court in the cases referred to above.

12.3. The Company's management and supervisory bodies and their committees

The Management Board of PZU

In accordance with the Company's Statute, the Management Board is composed of three to seven members appointed for a joint term of office which covers three full consecutive financial years. The members of the Management Board, including the Chairman, are appointed and dismissed by the Supervisory Board, and additionally, the Management Board Members are appointed and dismissed by the Supervisory Board on a motion tabled by the Chairman of the Management Board. The Chairman of the Management Board for the new term of office who is appointed before the expiry of the current term of office may submit a motion to the Supervisory Board to appoint the remaining Members of the Management Board for the new term of office before the expiry of the current term of office.

In the period from 1 January 2011 to 31 December 2011, the composition of the Management Board of PZU was as follows:

At 1 January 2011, the composition of the Management Board of PZU was as follows:

- Andrzej Klesyk – Chairman of the Management Board of PZU;
- Witold Jaworski – Board Member of PZU;
- Przemysław Dąbrowski - Board Member of PZU.

As of 21 April 2011, the Supervisory Board appointed Mr Tomasz Tarkowski member of Management Board.

As of 15 May 2011, the Supervisory Board appointed Mr Marcin Halbersztadt member of the Management Board.

As of 1 July 2011, the Supervisory Board appointed Mr Bogusław Skuza and Mr Ryszard Trepczyński members of the Management Board.

On 6 October 2011, Marcin Halbersztadt resigned as a member of the Management Board of PZU.

As at 31 December 2011 and as at the date of publishing this Directors' Report, the composition of the Management Board of PZU was as follows:

- Andrzej Klesyk – Chairman of the Management Board of PZU;
- Witold Jaworski – Board Member of PZU;
- Przemysław Dąbrowski - Board Member of PZU;
- Tomasz Tarkowski – Board Member of PZU;
- Bogusław Skuza - Board Member of PZU;
- Ryszard Trepczyński - Board Member of PZU.

The current term of office of the Management Board of PZU commenced on 28 June 2011 and will last for the next three full financial years. The mandates of the Management Board members shall expire at the latest on the date of holding the General Meeting to approve the financial statements for the last full financial year of their performing their functions.

The functioning and competencies of the Management Board arising from the Statute

The Management Board exercises all the rights in the scope of managing the Company, which are not reserved by the provisions of the law or the provisions of the Statute to the General Meeting or the Supervisory Board.

The Management Board enacts its rules and regulations which are approved by the Supervisory Board. The operations of the Management Board are directed by the Chairman of the Management Board who establishes the scope of responsibilities for individual Board Members. The resolutions of the Management Board are passed only in the presence of the Chairman of the Management Board or a person appointed to direct the work of the Management Board in his absence, and if at least one half of the Management Board Members are present at the meeting. The resolutions of the Management Board are passed by an absolute majority of votes and if the number of votes is equal, the Chairman of the Board has the casting vote. The Management Board, on the approval of the Chairman of the Board, may pass resolutions by circulation, in a written or electronic form (i.e. using remote means of communication and using a qualified electronic signature). The Statute also provides for the possibility of holding Management Board meetings using means of direct communication over a distance. Two Members of the Management Board acting jointly or one Member acting jointly with a proxy are authorized to represent the Company.

The functioning and competencies of the Management Board arising from the rules and regulations of the Management Board

The rules and regulations of the Management Board were enacted by the Management Board on 23 February 2010 and approved by the Supervisory Board by a resolution dated 4 March 2010.

The rules and regulations of the Management Board regulate: (i) the scope of competencies of the Management Board and the scope of actions requiring permission or approval by the Supervisory Board; (ii) the competencies of the Chairman of the Board and of the remaining Board Members; (iii) the rules and organization of the work of the Management Board, including organization of meetings and the procedure for making decisions; and (iv) the rights and obligations of the resigning Board Members.

In accordance with the rules and regulations of the Management Board, the following issues in particular require a resolution of the Management Board:

- adopting a long-term plan for the Company's development and its functioning;
- adopting a plan for the operations and development of the PZU Group;
- adopting an annual financial plan and a report on its execution;
- adopting the financial statements for the prior financial year and the Directors' Report of the Company;
- adopting the proposition concerning appropriation of profit or covering loss;
- establishing a tariff for compulsory and voluntary insurance contributions and the general terms and conditions for voluntary insurance;
- establishing the scope and size of outward reinsurance and tasks in the scope of inward reinsurance;
- adopting the annual audit and control plan and report on its execution including conclusions;
- establishing the principles for investment, prevention and sponsorship activities;
- granting warranties and guarantees (excluding those which constitute insurance procedures) and drawing and granting loans and borrowings by the Company (excluding loans and borrowings granted from the Company Social Fund); and

- granting powers of attorney.

In accordance with the Rules and Regulations of the Management Board, the Board's meetings are held not less frequently than once every two weeks. The work of the Management Board is directed by the Chairman, whose competencies include in particular:

- establishing the scope of responsibilities for individual Board Members;
- convening the Management Board meetings;
- drawing up the agenda for Board meetings;
- applying to the Supervisory Board to appoint or dismiss members of the Management Board;
- appointing a person to direct the work of the Management Board in the absence of the Chairman of the Management Board.

The Chairman of the Management Board makes decisions in the form of directives and official orders. The remaining Board Members direct the Company's activities within the scope of responsibilities established by the Chairman of the Board.

The Statute of PZU does not specify any particular rights for the Management Board to make decisions on the issue or redemption of shares.

The Supervisory Board

The Supervisory Board is composed of seven to eleven members: The number of the Supervisory Board members is established by the General Meeting. The Supervisory Board members are appointed by the General Meeting for a joint term of office lasting for three full consecutive financial years. At least one member of the Supervisory Board must have accounting or auditing qualifications as defined in and in accordance with the provisions of the Act of 7 May 2009 on registered auditors and their self-government, entities authorized to audit financial statements and on public supervision (Journal of Laws No. 649 of 2009, item 77, "the Act on registered auditors"). Additionally, at least one member of the Supervisory Board should meet all the independence criteria specified in the Statute (the Independent Member) concerning, among others, professional relations or kinship, in particular with members of management and supervisory bodies of the Issuer and the PZU Group companies. The Independent Member is obliged to submit a written statement to the Company concerning his meeting all the independence criteria provided for in the Statute and inform the Company of his ceasing to meet those criteria. Moreover, the Statute grants the State Treasury a personal right to appoint and dismiss one Supervisory Board member by virtue of a written statement submitted to the Management Board, if the share of the State Treasury in the Company drops below 50% of all of the Company's shares. The right shall expire on the State Treasury ceasing to be a shareholder in the Company.

As at 1 January 2011, the following persons sat on the Supervisory Board of PZU:

1. Marzena Piszczek Chairman of the Board

2.	Zbigniew Ćwiąkalski	Deputy Chairman of the Board
3.	Krzysztof Dresler	Member of the Board
4.	Dariusz Filar	Member of the Board
5.	Waldemar Maj	Member of the Board
6.	Piotr Maciej Kamiński	Member of the Board
7.	Grażyna Piotrowska-Oliwa	Secretary of the Board

On 30 June 2011, the Annual General Meeting appointed the following persons for the new term of office of the Supervisory Board of PZU:

1.	Marzena Piszczek	Member of the Board
2.	Zbigniew Ćwiąkalski	Member of the Board
3.	Krzysztof Dresler	Member of the Board
4.	Dariusz Filar	Member of the Board
5.	Waldemar Maj	Member of the Board
6.	Zbigniew Derdziuk	Member of the Board
7.	Dariusz Daniluk	Member of the Board

On 30 June 2011, the Supervisory Board of PZU was constituted. The Supervisory Board decided to entrust the function of its Chairman to Marzena Piszczek, the function of Deputy Chairman to Zbigniew Ćwiąkalski and the function of Secretary of the Board to Krzysztof Dresler.

The current term of office of the Supervisory Board of PZU started on 30 June 2011 and will end after three consecutive full financial years. The mandates of the Supervisory Board members shall expire at the latest on the date of holding the General Meeting to approve the financial statements for the last full financial year of their performing their functions, i.e. on the date of holding the Annual General Meeting in 2015.

The functioning and competencies of the Supervisory Board arising from the Statute

The Supervisory Board has constant supervision over the activities of the Company in all areas of its activities.

In accordance with the Statute, the competencies of the Supervisory Board include:

- evaluating the Directors' Report and the financial statements for the prior financial year in terms of their consistency with the books and documents and with the actual state;
- evaluating the propositions of the Management Board concerning appropriation of profit or covering loss;
- submitting a written report to the General Meeting on the results of the evaluation referred to in the points above and submitting a brief annual assessment of the Company's standing, including an

assessment of the internal control system and the system for managing risks significant to the Company, and an annual report on the activities of the Supervisory Board;

- concluding, terminating and amending contracts with the Management Board members and establishing the principles for their remuneration as well as the level of remuneration;
- appointing, suspending and dismissing the Chairman of the Management Board, the Management Board Members and the entire Management Board as well as making decisions on ceasing any such suspension;
- granting approval for the transfer of a whole or part of the insurance portfolio;
- accepting the Management Board's motions concerning the purchase, taking up or selling of shares in companies and concerning the Company's participation in other entities – the Supervisory Board may specify up to what amount and on what terms and in what mode the Management Board can perform the aforementioned actions without the obligation to obtain the Supervisory Board's approval;
- delegating members of the Supervisory Board to temporarily perform the duties of the Management Board members who were dismissed, resigned or are unable to perform their duties for other reasons;
- accepting instructions concerning the execution of the voting rights by the Company's representatives at the General Meetings of PZU Życie in matters relating to: increasing or reducing share capital, issuing bonds, selling and leasing out the PZU Życie enterprise and establishing the right of use thereon, demerger of PZU Życie, merger of PZU Życie with another company, liquidation or closing of PZU Życie;
- electing the entity authorized to audit the financial statements to whom the audit of the Company's annual financial statements shall be entrusted;
- establishing a consolidated text of the amended Statute;
- approving the long-term development plans of the Company and the annual financial plans prepared by the Management Board**;**
- approving the rules and regulations of the Management Board;
- analyzing and giving opinions on issues brought by the Management Board for the consideration of the General Meeting.

Moreover, the competencies of the Supervisory Board include granting approval to:

- buy or sell real estate, perpetual usufruct or a share in real estate or in perpetual usufruct with a value exceeding the equivalent of Euro 3 million;
- the Company to conclude a significant contract with its related entity as defined in the Decree on current and periodic information, excluding typical contracts concluded by the Company on an arm's length basis as part of its operating activities (the requirement to obtain approval in this scope will come into force on the date of the first quoting of Shares on the WSE);

- the Company to conclude a contract with a subissuer referred to in Art. 433 § 3 of the Commercial Companies Code;
- make payments of interim dividends;
- form and close regional branches and foreign branches.

The Supervisory Board enacts the Rules and Regulations of the Supervisory Board which regulate its organization and mode of operation. In accordance with the Statute, the Supervisory Board meetings are held at least once every quarter. The Supervisory Board may delegate its members to independently perform specific supervision tasks and appoint temporary commissions for this purpose. The scope of duties of a delegated member of the Supervisory Board and of a commission are specified in a resolution of the Supervisory Board.

Resolutions of the Supervisory Board are passed by an absolute majority of the votes. If the number of votes is equal, the Chairman of the Supervisory Board has the casting vote. The Supervisory Board may pass resolutions both using remote means of direct communication and in writing by circulation. Moreover, the Statute provides for the possibility of casting a vote in writing through another Supervisory Board member. In accordance with the Statute, the resolutions of the Supervisory Board are passed in an open ballot, except for the resolutions concerning the delegation of Supervisory Board members to temporarily perform the functions of the Management Board members and concerning the appointment, suspension and dismissal of the Chairman of the Management Board, Board Members or the entire Management Board, as well as making decisions on ceasing such suspension, which are made in a secret ballot. Moreover, a secret ballot can be ordered based on a motion tabled by a Supervisory Board member.

The functioning and competencies of the Supervisory Board arising from the Rules and Regulations of the Supervisory Board

The Rules and Regulations of the Supervisory Board were enacted by the Supervisory Board on 4 March 2010 (with further amendments).

The Rules and Regulations of the Supervisory Board specify the composition and the manner of appointing the Supervisory Board as well as the scope of the Supervisory Board's operations and the method for convening the Supervisory Board and conducting meetings.

The Supervisory Board elects from among its members the Chairman and Deputy Chairman of the Supervisory Board. In accordance with the Rules and Regulations of the Supervisory Board, apart from appointing provided for in the Statute the audit committee and the nominations and remuneration committee, in order to properly perform its supervisory duties the Supervisory Board may appoint other permanent advisory and consultative committees with competencies, in a composition, and with work procedures established in the rules and regulations of a given committee enacted by the Supervisory Board. The Rules and Regulations of the Supervisory Board provide for the possibility of the Supervisory Board and the committees appointed by it availing themselves of the services of experts and advisory firms. Members of the Management Board (invited by the Supervisory Board) and the Company’s employees indicated by the Management Board competent in the matters discussed at the meeting may participate, among others, in the Supervisory Board's meetings without a voting right. The Supervisory Board of PZU may also invite to a joint meeting for a specific purpose members of the management and supervisory bodies of other PZU Group companies. Moreover, members of the Supervisory Board are entitled, on the approval of the Supervisory Board, to select not more than one advisor authorized to participate with an advisory vote in meetings of the Supervisory Board devoted to financial reports and financial statements, provided that such persons maintain confidentiality and sign a statement of obligation to maintain confidentiality.

Committees functioning as part of the Supervisory Board.

The Audit Committee

The Statute provides for the Supervisory Board to appoint the audit committee. The committee is composed of three members, including at least one independent member with accounting or audit qualifications. The detailed tasks and principles for the appointment and operation of the audit committee are specified in the resolution of the Supervisory Board, which when electing the audit committee members takes into account the competences and experience of the candidates in the matters entrusted to this committee.

In accordance with the rules and regulations of the audit committee adopted by a resolution of the Supervisory Board, the audit committee is an advisory and consultative body to the Supervisory Board and is appointed in order to increase the effectiveness of the supervisory activities performed by the Supervisory Board in the scope of examining the correctness of financial reporting, the effectiveness of internal control, including the internal audit and risk management system. Moreover, the audit committee may apply to the Supervisory Board to commission the performance of specified control activities in the Company, and the controls commissioned may be performed by an internal unit or an external company.

The audit committee was appointed by a resolution of the Supervisory Board on 3 June 2008. As at 31 December 2011, the audit committee was composed of the following persons: Marzena Piszczek (Chairman of the committee), Dariusz Filar (member of the committee) and Dariusz Daniluk (member of the committee). Dariusz Filar was indicated by the Supervisory Board as an independent member having accounting / audit qualifications as defined in Art. 86 clause 4 of the Act on Registered Auditors.

The Nominations and Remuneration Committee

In accordance with The Rules and Regulations of the Supervisory Board, from the moment of introducing the Company’s shares to trading on the regulated market as defined in the Act on trading in financial instruments dated 29 July 2005 (Journal of Laws 183 of 2005, item 1538 as amended), the Supervisory Board may appoint the nominations and remuneration committee. In accordance with the Statute, the detailed tasks and principles for the appointment and operation of the nominations and remuneration committee are specified by the Supervisory Board in a resolution. The committee should include at least one independent member. If the Supervisory Board is composed of five members as a result of voting on its composition, the nominations and salary committee shall not be formed and its tasks shall be performed by the Supervisory Board as a whole.

The nominations and remuneration committee performs an advisory and consultative function for the Supervisory Board in the scope shaping the management structure, including organizational issues, the remuneration system and salaries and selecting staff with appropriate qualifications.

The Supervisory Board decided that the nominations and remuneration committee shall be composed of four persons. On 30 June 2011, the Supervisory Board appointed a nominations and remuneration committee composed of the following persons: Zbigniew Ćwiąkalski (Chairman of the committee), Marzena Piszczek (member of the committee), Zbigniew Derdziuk (member of the committee), Dariusz Filar (member of the committee). As at 31 December 2011, the composition of the nominations and remuneration committee had not changed. The committee shall be dissolved on the date of appointing five members of the Supervisory Board by voting in groups, and its rights shall be taken over by the Supervisory Board as a whole.

The Strategy Committee

In order to properly perform supervisory functions at the Company, the Supervisory Board may appoint permanent committees with an advisory and consultative role. On 30 June 2011, the Supervisory Board appointed a strategy committee composed of the following persons: Waldemar Maj (Chairman of the committee), Krzysztof Dresler (member of the committee), Marzena Piszczek (member of the committee) and Zbigniew Derdziuk (member of the committee). As at 31 December 2011, the composition of the strategy committee had not changed.

The objective of the strategy committee is to give opinions on all documents of a strategic nature submitted to the Supervisory Board by the Management Board (in particular, the Company's development strategy) and presenting recommendations to the Supervisory Board concerning planned investments which have a significant effect on the Company's assets.

The Group Directors

As at 1 January 2011, the following persons were PZU Group Directors:

- Dariusz Krzewina;
- Rafał Grodzicki;
- Przemysław Dąbrowski;
- Mariusz J. Sarnowski;
- Krzysztof Branny.

On 2 January 2011, Przemysław Dąbrowski resigned as PZU Group Director and on 24 January 2011, the Management Board of PZU dismissed Przemysław Dąbrowski from this post and appointed Tomasz Tarkowski Group Director from 1 February 2011.

On 4 May 2011, the Management Board of PZU dismissed Tomasz Tarkowski as PZU Group Director. On 7 July 2011, the Management Board dismissed Mariusz Sarnowski as PZU Group Director effective from 20 June 2011. On 24 August 2011, the Management Board of PZU dismissed Krzysztof Branny as PZU Group Director effective from 16 August 2011.

On 7 February 2012, the Management Board of PZU appointed Przemysław Henschke PZU Group Director as of 1 February 2012. As a result, as at the date of publishing the Directors' Report the following persons were PZU Group Directors:

- Dariusz Krzewina;
- Rafał Grodzicki;
- Przemysław Henschke.

12.4. Discussion of the main features of the internal control and risk management systems applied in the issuer's enterprise in respect of the process of preparation of financial statements and consolidated financial statements

The process of preparing financial statements is performed by the Finance Division of PZU supervised by a Member of the Management Board of PZU.

The elements enabling proper performance of the process are: the accounting policies adopted by the Management Board of PZU and the chart of accounts with a commentary, which set out the main principles for recording the economic events of PZU, and the dedicated reporting systems.

The preparation of data in the source systems is subject to formalized operational and acceptance procedures, which define the scope of competences of the individual persons.

PZU monitors changes in the external regulations concerning, for example, the accounting policies and the reporting requirements for insurance companies, and carries out appropriate adaptation processes in these areas.

The process of closing the books and preparing financial statements is regulated by detailed schedules covering the key actions and control points as well as allocating responsibilities for timely and proper execution.

The key controls in the process of preparing financial statements comprise:

- controls and regular monitoring of the quality of the input data, supported by financial systems in which data correctness rules have been defined in accordance with the internal documents of PZU regulating the principles for controlling the correctness of accounting data;
- mapping of data from the source systems to the financial statements, supporting the correct presentation of data;
- analytical review of financial statements by specialists in order to confront them with the knowledge of the business and the business transactions conducted;

- formal review of the financial statements in order to confirm compliance with the binding legal regulations and market practice in the scope of the required disclosures.

Stand-alone and consolidated financial statements of PZU are subject to:

- a registered auditor's review - in the case of bi-annual financial statements;
- an audit by a registered auditor - in the case of annual financial statements.

In accordance with the Statute of PZU, the Supervisory Board of PZU appoints an audit committee composed of three members, including at least one member with accounting or auditing qualifications as defined in and in accordance with the requirements of the Act on registered auditors. The audit committee is an advisory and consultative body to the Supervisory Board of PZU and is appointed in order to increase the effectiveness of the supervisory activities performed by the Supervisory Board of PZU within the scope of examining the correctness of the financial reporting of PZU, the effectiveness of internal controls, including the internal audit and risk management system.

Consolidated financial reporting

Coordination of activities in the scope of the consolidated financial reporting processes is achieved, among other things, by the organizational structure of the Finance Division in the Head Offices of PZU and PZU Życie, which is a joint unit, i.e. it is organized based on personnel unity, and additionally it also employs part-time key persons responsible for the reporting of the majority of the companies covered by consolidation with their seats in Poland. In the case of all the consolidated subsidiaries, PZU performs control functions through the Management and Supervisory Boards of these companies.

The process of consolidated financial reporting is regulated by a number of internal documents regulating the accounting policies adopted in the PZU Group and the applied reporting standards, and by detailed schedules covering the key actions and control points as well as allocating responsibilities for timely and proper execution.

12.5. The list of PZU shareholders directly or indirectly holding significant packages of shares

As at 31 December 2011, Company shareholders holding significant packages of shares are the State Treasury and ING Otwarty Fundusz Emerytalny. The State Treasury holds 30,385,253 shares, representing 35.19% of the Company's share capital and ING Otwarty Fundusz Emerytalny holds 4,339,308 shares, representing 5.02% of the Company's share capital.

The remaining shareholders hold a total of 51,627,739 shares, representing 59.79% of the Company's share capital.

The share capital of the Issuer is divided into 86,352,300 ordinary shares with a nominal value of PLN 1 each, giving a right to 86,352,300 votes at the General Meeting.

Table 19: Shareholding structure – as at 31 December 2010

Shareholders	As at 31 December 2010		
	Number of shares	% share in share capital	Share of votes at the General Shareholders' Meeting
State Treasury	39 020 483	45.19%	45.19%
Other shareholders	47 331 817	54.81%	54.81%
Total	**86 352 300**	**100.00%**	**100.00%**

Table 20: Shareholding structure – as at 31 December 2011

Shareholders	As at 31 December 2011		
	Number of shares	% share in share capital	Share of votes at the General Shareholders' Meeting
State Treasury	30 385 253	35.19%	35.19%
ING Otwarty Fundusz Emerytalny	4 339 308	5.03%	5.03%
Other shareholders	51 627 739	59.79%	59.79%
Total	**86 352 300**	**100.00%**	**100.00%**

The Company's Management Board is not aware of any contracts concluded as a result of which changes might occur in the future in the proportions of shares held by the current shareholders. What is more, in 2010-2011 PZU did not purchase own shares.

12.6. Holders of any securities which give special controlling rights, including a description of those rights

The Company did not issue any securities that would give special controlling rights to the shareholders.

12.7. Restrictions on the execution of voting rights

In accordance with the Statute of PZU, the shareholders' voting rights have been restricted so that, at the General Meeting, none of them can have more than 10% of the total number of votes existing at the Company on the date of holding the General Meeting, with the reservation that for the purpose of establishing the obligations of the acquirers of significant packages of shares provided for in the Act on public offering and in the Act on insurance activities, this restriction of the voting right shall be considered non-existent.

The above restriction of the voting rights does not apply to:

1. shareholders who on the date of passing the resolution of the General Meeting introducing the restriction had rights from shares representing more than 10% of the total number of votes at the Company;
2. shareholders acting with the shareholders referred to in point 1 on the basis of concluded agreements concerning the joint execution of voting rights from shares.

12.8. Restriction concerning transferring ownership rights to securities

The Statute of PZU does not introduce any restrictions concerning the transfer of ownership rights to securities issued by the Company.

12.9. The principles for amending the Statute of PZU

Amending the Statute of PZU lies within the competencies of the General Meeting and requires passing a resolution by a majority of three fourth of the votes, obtaining approval from the PFSA in the cases indicated in the Act on insurance activities and entry in the National Court Register. The Statute of PZU provides for the Supervisory Board's competence to establish a consolidated amended text of the Company's Statute.

12.10. Amendments to the Statute of PZU

On 1 June 2011, based on a proposition of the State Treasury, the Extraordinary General Meeting of PZU passed a resolution on amending the Statute of PZU and enacted all the amendments proposed by the shareholder.

The amendments to the Company's Statute concerned the following issues:

- editorial changes concerning deleting from the Statute of PZU transitional provisions in the period of PZU's operations before and after entry to the regulated market in order to increase the transparency of the Statute of PZU by resigning from provisions which became redundant when the actual status described therein came true;
- restricting the voting rights of the shareholders, including the adoption the principles for the accumulation and reduction of votes.

  The shareholders' voting rights have been restricted so that none of them at the General Meeting can have more than 10% of the total number of votes existing in PZU on the date of holding the General Meeting, with the reservation that for the purpose of establishing the obligations of the acquirers of significant packages of shares provided for in the Act dated 29 July 2005 on public offering and the terms and conditions of introducing financial instruments to an organized trading system and on public companies (Journal of Laws No. 185 of 2005, item 1539 as amended) and in the Act on insurance activities, this restriction of the voting right shall be considered non-existent. For the purpose of restricting the voting rights, the votes of shareholders between whom there is a controlling or subsidiary relationship are added up.

The restrictions do not apply to the State Treasury and shareholders acting with it based on concluded agreements concerning joint execution of the voting rights from shares. The restrictions of the voting rights shall expire when the State Treasury's share in PZU's share capital drops below 5%.

- the procedure for appointing the Supervisory Board.

  Members of the Supervisory Board of PZU are appointed and dismissed by the General Meeting.

  Until such time as the State Treasury's share in PZU's share capital drops below 20%, half of the Supervisory Board members are appointed by the General Meeting from among the persons indicated by the State Treasury.

- At the moment of the expiry of the right due to the State Treasury, it shall be acquired by a different shareholder representing the highest share in the share capital of PZU if that shareholder holds at least 20% of the share capital.
- Additionally, until the State Treasury ceases to be a shareholder in the Company, it has the right, in accordance with Art. 354 § 1 of the Commercial Companies Code, to appoint and dismiss one member of the Supervisory Board by virtue of a written statement submitted to the Company's Management Board. Such appointment or dismissal shall be effective from the moment of delivery of the relevant statement to the Management Board and shall not require a resolution to be passed by the General Meeting.

On 6 June 2011, in accordance with Art. 32 clause 2 points 4 and 7 of the Act on insurance activities, PZU applied to the PFSA for approval of the amendments to the Statute of PZU. On 28 June 2011, the PFSA issued a decision approving the amendments.

The amendments to the Statute came into force on the date of their entry by the registration court. On 17 October 2011, PZU received the court's decision concerning entering the amendments to the Statue of PZU in the National Court Register with effect from 6 October 2011.

The above amendments to the Statute were dictated by the need to ensure the stabilization of PZU's position. They ensure stabilization of the execution of the voting rights from shares and thus demotivate any actions leading to speculative trading in PZU's shares, especially such as might lead to temporary investment decisions. The amendments related to the principles for appointing the Supervisory Board are intended to ensure long-term stabilization of PZU's management and consistent execution of the adopted objectives.

These amendments prevent a strategic investor entering PZU.

On 8 February 2012 the Extraordinary Shareholders' Meeting of PZU adopted resolution No. 3/2012 amending the By-laws of PZU by way of adding item 11 in Article 18 and changing the wording of Article 25.2.12 of the By-laws.

The changes of the By-laws of PZU concern the competences of the Company's bodies with respect to approving the acquisition or sale of real property, perpetual usufruct right or share in real property or perpetual usufruct right.

Under Article 393.4 of the Code of Commercial Companies the acquisition or sale of real property, perpetual usufruct right or a share in real property or perpetual usufruct right requires a consent of the general shareholders' meeting, unless the company by-laws provide for otherwise. The binding By-laws of PZU specify the competences of the Supervisory Board with respect to approving the acquisition or sale of real property, perpetual usufruct right or share in real property or perpetual usufruct right the value of which exceeds Euro 3,000,000 (Article 25.2.12 of the By-laws) and does not exclude such approvals from the competences of the General Shareholders' Meeting. Therefore, any acquisition or sale of real property, perpetual usufruct right or a share in real property or perpetual usufruct right by PZU requires the approval of the General Shareholders' Meeting, irrespective of the value of the transaction. Moreover, if the value of the transaction exceeds Euro 3,000,000, such transaction requires an additional approval of the Supervisory Board. The By-laws of PZU, however, do not specify whether the amount includes the VAT.
The amendments in question are aimed at dividing the competences in this respect between appropriate PZU's bodies and at eliminating interpretation differences which may occur due to the fact that there no clear instructions specifying if the amount of the transaction includes the VAT.

13. The truth and fairness of the presented financial statements

To the best knowledge of the Management Board of PZU, the annual financial statements and the comparative figures have been prepared in accordance with the binding accounting policies and they give a true, fair and clear view of the financial position of the Company and its results, and the Directors' Report of the Company presents a true picture of the Company's development, achievements and situation, including a discussion of the main risks and threats.

14. Election of the registered audit company

The Management Board of PZU declares that a registered audit company Deloitte Audyt Sp. z o.o. - performing the audit of the annual financial statements has been elected in accordance with the binding regulations and that the registered audit company and the registered auditors performing the audit met the conditions required for issuing an objective and independent opinion on the audited annual financial statements, in accordance with the binding regulations of the law and professional standards.

Signatures of the Management Board Members of PZU:

Name and surname	**Position / Function**	
Andrzej Klesyk	Chairman of the Board of PZU	.... (signature)
Przemysław Dąbrowski	Board Member of PZU	.... (signature)

Witold Jaworski	Board Member of PZU	.... (signature)
Tomasz Tarkowski	Board Member of PZU	.... (signature)
Bogusław Skuza	Board Member of PZU	.... (signature)
Ryszard Trepczyński	Board Member of PZU	.... (signature)

Warsaw, 14 March 2012