PZU Group

Capital Management Policy

May 2011

Summary

PZU Group’s capital management policy is conducted for PZU SA on the basis of its consolidated data. Each of the remaining insurance companies from the PZU Group keeps shareholder funds in the amount of up to 250% of its solvency margin.

The PZU Group pursues a safe capital management policy. Two key parameters determining capital safety are determined:

1. minimum solvency ratio of 250%, and
2. capital for strategic options – being an additional capital provision in the amount of 15% of shareholder funds determined on the basis of the minimum solvency ratio.

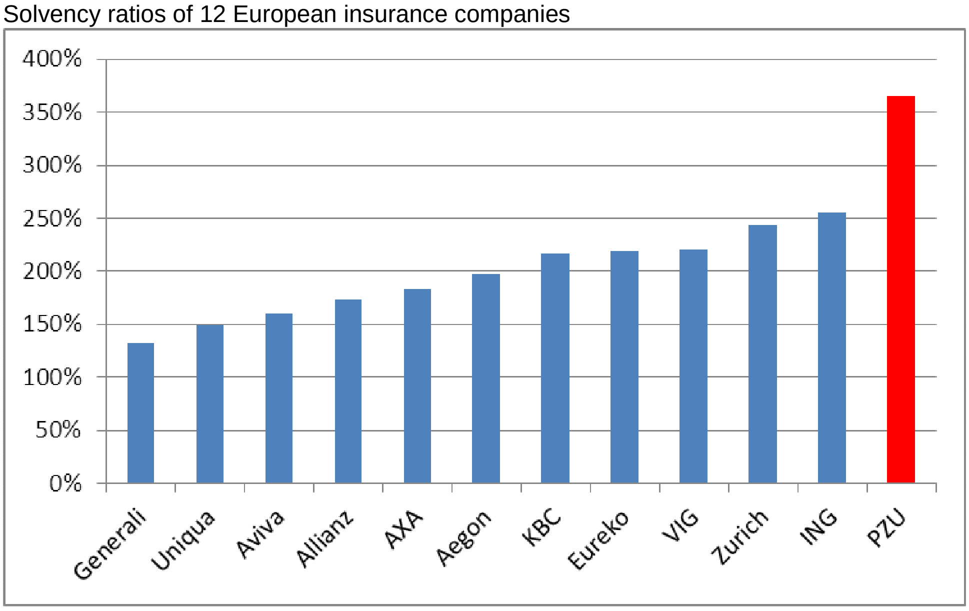
It is expected to pay out dividend between 50% to 100% of PZU Group’s consolidated net profit in accordance with international accounting standards, unless it impairs PZU Group’s capital safety resulting from the Group’s additional capital requirements over the period of 1 year from the date of adoption of PZU Group’s consolidated financial statements.

Key capital safety ratios

Minimum solvency ratio

Insurance companies conducting operations on emerging markets have higher solvency ratios.

Solvency ratios of 12 European insurance companies



As PZU Group’s operations are not geographically diversified, one should conclude that the solvency ratio of 250% is the most optimal.

Capital for strategic options – additional capital provision

In PZU Group's strategy important role is played by the benefits associated with the possibility of geographic diversification of PZU Group's operations and increasing the risk of operations. In this respect additional capital, the so-called capital for strategic options, is required. This capital constitutes an additional provision for direct investments or investments to associated with changing the PZU Group's risk profile, which significant but do not exceed 15% of shareholder funds (estimated on the basis of the minimum solvency ratio).

Capital standing

PZU Group's capital requirement over the past 5 years

Over the past few years the PZU Group has had a stable insurance portfolio. Major part of the portfolio is made up of property and casualty insurance in PZU SA, and life insurance in PZU Life. The capital requirement over the past 5 years oscillated around PLN 3 billion and increased PLN 400 million over this period. Below is a presentation of the solvency margin of PZU Group insurance companies.

Solvency ratio of PZU Group companies over the past 5 years (PLN million)

solvency margin	**2006**	**2007**	**2008**	**2009**	**2010**
PZU SA	1,170	1,271	1,339	1,339	1,339
PZU Life	1,493	1,517	1,734	1,639	1,698
UAB DK PZU Lietuva	17	23	31	33	28
UAB PZU Lietuva Gyvybes Draudimas	4	11	13	13	14
PrJSC IC PZU Ukraine	14	12	12	13	16
PrJSC IC PZU Ukraine Life	11	12	12	13	14
Total	**2,708**	**2,848**	**3,140**	**3,050**	**3,110**

Capital adequacy at the end of 2010

Capital adequacy is not measured by comparison of balance sheet equity with the solvency margin level. Equity is replaced by shareholder funds, which are assets minus liabilities and selected asset components, i.e. intangible assets and deferred income tax assets. As at the end of 2010 PZU Group's consolidated equity (calculated on the basis of international accounting standards) amounted to PLN 12,800 million, compared to PLN 11,364 million of PZU Group's shareholder funds estimated on the basis of Polish accounting standards.

Consequently, PZU Group's solvency ratio is in the range of 365 %.

Dividend policy

As at the end of 2010, the capital requirement determined on the basis of the minimum solvency ratio (PLN 7,774 million) and the capital for strategic options (PLN 1,166 million) amounted to PLN 8,940 million. Hence the funds available to shareholders amounted to PLN 2,424 million. Consequently, shareholders could be paid 99% of consolidated net profit according to international accounting standards for 2010. Due to the stable level of the solvency margin it is expected that between 50% and 100% of PZU Group's consolidated net profit will be paid to shareholders in the form of dividend.

Not to impair PZU Group's capital safety in the future, each time before setting the dividend amount, PZU Group's capital requirements for the next year following the approval of the Group's consolidated financial statements are analyzed.

In addition, when determining the dividend level, additional constraints are taken into consideration. Dividend amount:

1. may not be higher than PZU SA's standalone profit according to Polish accounting standards;
2. and may not cause lowering of PZU Group's financial strength below the level corresponding to the AA rating according to Standard & Poor's methodology.