

**POWSZECHNY ZAKŁAD UBEZPIECZEŃ
SPÓŁKA AKCYJNA
SUPERVISORY BOARD**



**REPORT OF THE PZU SA SUPERVISORY BOARD ON ITS ACTIVITY
AS THE COMPANY'S GOVERNING BODY IN 2010**

Warsaw, 7 June 2011

I. Composition of the Supervisory Board

As at 1 January 2010, the following persons sat on the PZU SA Supervisory Board:

1. Tomasz Gruszecki – Supervisory Board Chairman,
2. Marcin Majeranowski – Supervisory Board Deputy Chairman,
3. Alfred Bieć – Supervisory Board Member,
4. Waldemar Maj – Supervisory Board Member,
5. Marzena Piszczek – Supervisory Board Member,
6. Tomasz Przesławski – Supervisory Board Member,
7. Marco Vet – Supervisory Board Member.

On 5 January 2010, the State Treasury Minister dismissed Alfred Bieć and Tomasz Przesławski from the Supervisory Board and at the same time appointed Piotr Maciej Kamiński and Grażyna Piotrowska-Oliwa as Supervisory Board Members.

On 12 January 2010, the Eureka B.V. and Bank Millennium SA consortium dismissed Marco Vet from the Supervisory Board and appointed Jurgen B.J. Stegmann.

On 9 June 2010, PZU SA received Marcin Majeranowski's resignation from the function of Deputy Chairman and from his membership in the Supervisory Board and Jurgen B.J. Stegmann's resignation from the function of Supervisory Board Member.

On 10 June 2010, the PZU SA Ordinary Shareholder Meeting dismissed Tomasz Gruszecki from the Supervisory Board and at the same time appointed Zbigniew Cwiąkowski, Krzysztof Dresler and Dariusz Filar as Supervisory Board Members.

Accordingly, from 10 June 2010 to 31 December 2010 the PZU SA Supervisory Board composition was as follows:

1. Marzena Piszczek – Supervisory Board Chairperson (function taken on 16 June 2010),
2. Zbigniew Cwiąkowski – Supervisory Board Deputy Chairman (function taken on 16 June 2010),
3. Grażyna Piotrowska-Oliwa – Supervisory Board Secretary (function taken on 16 June 2010),
4. Krzysztof Dresler – Supervisory Board Member,
5. Dariusz Filar – Supervisory Board Member,
(in the period from 1 October to 21 December 2010 delegated to temporarily discharge the function of PZU SA Management Board Member),
6. Piotr Maciej Kamiński – Supervisory Board Member,
7. Waldemar Maj – Supervisory Board Member.

II. Supervisory Board Activity

In the reporting period, the legal basis for the activity of the Supervisory Board was as follows: Commercial Company Code, Insurance Activity Act, the Company's Articles of Association, Supervisory Board Bylaws and other provisions of generally binding laws.

Following the provisions of the Articles of Association and the Bylaws, the Supervisory Board held correctly convened and prepared meetings, with high attendance. During the financial year the Supervisory Board held 14 meetings on the following dates: 19 January 2010, 19 February 2010, 4 March 2010, 6 April 2010, 15 April 2010, 5 May 2010, 12 May 2010, 16 June 2010, 29 July 2010, 23 August 2010, 30 September 2010, 27 October 2010, 6 December 2010 and 21 December 2010.

The Supervisory Board made pertinent decisions in the form of resolutions and opinions submitted to the Company's Management Board and PZU SA Shareholder Meeting. In the reporting period the Supervisory Board adopted 56 resolutions, including 7 resolutions by circulation (list of resolutions constitutes attachment no. 1 to this report).

All resolutions were adopted unanimously, with the legally required quorum, hence there were no material differences between Supervisory Board members with regard to assessment of the work of the Management Board and managing the Company's affairs.

The Supervisory Board meeting agendas prepared by the PZU SA Supervisory Board Chairperson comprises all the topics that the Supervisory Board should address according to its powers and took into consideration additional issues that the Management Board or Supervisory Board members thought material.

All meetings were attended by most PZU SA Supervisory Board members. Absence of individual persons at Supervisory Board meetings was caused mainly by important business trips and was justified (Supervisory Board meeting attendance record constitutes attachment no. 2 to this report).

Pursuant to § 15 of the PZU SA Supervisory Board Bylaws, PZU SA Management Board members, PZU Life Supervisory Board members, PZU Life Management Board members, Managing Directors, Head Office Department Directors and other PZU SA and PZU Life employees were invited to PZU SA Supervisory Board meetings in 2010, providing any and all documents pertaining to the PZU Group operations.

Regardless of the on-site meetings, the Supervisory Board was informed of the key aspects of the Company's operations on an on-going basis by electronic mail.

In addition, PZU SA Supervisory Board meetings were also attended by representatives of Dewey&LeBoeuf Grzesiak sp.k., Credit Suisse Poland, Deloitte Audyt Sp. z o.o., Weil, Gotshal&Manges Sp. k., Kancelarii Marek Wierzbowski i Partnerzy Adwokaci i Radcowie Prawni, HayGroup Sp. z o.o., Biura Informacji Kapitałowych Sp. z o.o. Sp. k., Krajowy Instytut Ubezpieczeń and the Management Board of PrJSC IC PZU Ukraine.

Cooperation of the Supervisory Board with the PZU SA Management Board was harmonious and conflict-free and characterized by the care for the good of the Company. The information and materials delivered by the Management Board were prepared in a clear and reliable manner and according to the requirements specified by the Supervisory Board.

III. Key issues addressed by the Supervisory Board

During the financial year ended 31 December 2010 the PZU SA Supervisory Board addressed all the issues which, pursuant to the Company's Articles of Association, lie within the powers of this governing body.

As part of its actions the Supervisory Board actively supported the Management Board in pursuance of the Company's strategic objectives, reviewed the Management Board's motions pertaining to issues which, pursuant to the Company's Articles of Association, required the Supervisory Board's approval, and familiarized itself with other issues presented by the Management Board.

Key issues addressed by the Supervisory Board in 2010:

1. Approval of the PZU SA financial plan in 2010 and on-going monitoring of its implementation.
2. Systematic assessment of the Company's and PZU Group's financial and economic standing, market position and key strategic initiatives and plans for 2010.
3. Assessment of PZU SA's financial statements for the year ended 31 December 2009 and recommendation to the PZU Ordinary Shareholder Meeting to approve them.
4. Assessment of the Management Board report on PZU SA's activity in 2009 and recommendation to the PZU SA Ordinary Shareholder Meeting to approve it.
5. Assessment of the PZU SA motion on distribution of PZU SA's net profit and disbursement of dividend for the year ended 31 December 2009 together with a recommendation for the PZU SA Ordinary Shareholder Meeting.
6. Assessment of PZU SA Capital Group's consolidated financial statements for the year ended 31 December 2009 and recommendation to the PZU Ordinary Shareholder Meeting to approve them.
7. Assessment of the Management Board report on PZU Capital Group's activity in 2009 and recommendation of its approval to the PZU SA Ordinary Shareholder Meeting.
8. Recommendation to the PZU SA Ordinary Shareholder Meeting to discharge PZU SA Management Board Members on the performance of their duties in the Management Board in 2009.
9. Approval of the Supervisory Board Report on assessment of the PZU SA financial statements for the financial year ended 31 December 2009 and the Management Board Report on PZU SA's activity in 2009 and the Company's Management Board motion on distribution of profit.
10. Acceptance of the PZU SA Supervisory Board's activity report as the Company's governing body in 2009.
11. Selection of an entity authorized to audit financial statements to audit PZU SA's annual financial statements and the PZU Capital Group's consolidated financial statements for the financial year ended 31 December 2010.
12. Appointment of the IPO Committee and on-going monitoring of its activity.
13. Issuing an opinion on the PZU SA Management Board motion on amendment of PZU SA's Articles of Association.
14. Determining the consolidated version of PZU SA's Articles of Association.
15. Adoption of a new PZU SA Supervisory Board Audit Committee Bylaws.
16. Amendment of the PZU SA Supervisory Board Bylaws.
17. Approval of the PZU SA Management Board Bylaws.

18. Approval of the amendment of the "Bylaws on the PZU employees using good practices in financial and capital investments" made by the PZU SA Management Board.
19. Determining remuneration rules and remuneration of PZU SA Management Board Members.
20. Introduction of draft employment contracts and post-employment no-competition agreements for the PZU SA CEO and Management Board Members.
21. Decision on the terms and conditions and procedure of take-up of the shares of PrJSC IC PZU Ukraine and PrJSC IC PZU Ukraine Life Insurance by PZU SA
22. Monitoring of the status of implementation of the PZU Group Strategy.
23. Monitoring of the course of the IPO process.
24. Discussion of the status of implementation of recommendations of Oliver Wyman AG issued following a review of the investment activity in PZU Group Companies.
25. Discussion on the assumptions of the investment policy in the PZU Group.
26. Discussion of the employment restructuring process.
27. Familiarization with the Investment Activity Bylaws at PZU SA.
28. Discussion on the target PZU Group management model.
29. Analysis of the GraphTalk Project.
30. On-going monitoring of the activity of the PZU SA Supervisory Board Audit Committee.
31. Appointment of the PZU SA Supervisory Board Remuneration Commission/Nomination and Remuneration Committee and on-going monitoring of their activity.
32. Appointment of the PZU SA Supervisory Board Strategy Committee and on-going monitoring of its activity.
33. Delegation of a PZU SA Supervisory Board Member, Dariusz Filar, to temporarily discharge the function of PZU SA Management Board Member.
34. Appointment of Przemysław Dąbrowski to the position of PZU SA Management Board Member.
35. Approval of the PZU SA financial plan for 2011.

By virtue of resolution no. URN/31/2010 of 12 May 2010, the PZU SA Supervisory Board selected Deloitte Audyt Sp. z o.o., as an entity authorized to audit financial statements, to audit the financial statements of PZU SA for 2010 drawn up pursuant to the Accountancy Act of 29 September 1994 (consolidated version, Journal of Laws of 2002 no. 76 item 694, as amended) and International Financial Reporting Standards.

To correctly perform the supervisory activities in the Company, the Supervisory Board appointed advisory and opinion-making committees. In 2010 four Committees were active within the PZU SA Supervisory Board:

- PZU SA Supervisory Board Audit Committee
- IPO Committee
- PZU SA Supervisory Board Remuneration Commission transformed into Nomination and Remuneration Committee
- PZU SA Supervisory Board Strategy Committee.

PZU SA Supervisory Board Audit Committee

The Audit Committee is appointed to increase the effectiveness of supervisory activities performed by the Supervisory Board in the area of monitoring the Company's financial reporting, financial audit activities in the Company and effectiveness of internal control systems, internal audit and risk management system in place in the Company. In addition the scope of activity of the Audit Committee may comprise other issues as instructed by the Company's Supervisory Board.

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

The PZU Supervisory Board Audit Committee was appointed by a PZU SA Supervisory Board resolution **on 3 June 2008**.

The composition of the first PZU SA Supervisory Board Audit Committee was as follows:

- Tomasz Gruszecki – Chairman,
- Alfred Bieć – Deputy Chairman,
- Michał Nastula – Committee Member.

On 1 October 2009 Michał Nastula submitted his resignation from the function of PZU SA Supervisory Board Member and thus Audit Committee Member. The composition of the Committee was not supplemented and the PZU SA Supervisory Board Audit Committee suspended its activity.

On 5 January 2010 the State Treasury Minister dismissed Alfred Bieć from the PZU SA Supervisory Board.

On 19 January 2010 the PZU SA Supervisory Board Audit Committee Chairman, Tomasz Gruszecki, submitted his resignation from the function of PZU SA Supervisory Board Audit Committee Chairman and membership in the Committee. Consequently a new composition of the PZU SA Supervisory Board Audit Committee was determined on the same day:

- Marzena Piszczek - Chairperson,
- Grażyna Piotrowska – Oliwa – Member,
- Marcin Majeranowski – Member,
- Jurgen B.J. Stegmann – Member.

In connection with amendment of PZU SA's Articles of Association and, as a consequence, amendment of the PZU SA Supervisory Board Audit Committee Bylaws, on 4 March 2010 the Company's Supervisory Board made a decision on the necessity to change the composition of the PZU SA Supervisory Board Audit Committee and adapt the number of Committee members to the provisions of the aforementioned acts. Consequently, the PZU SA Supervisory Board adopted resolution no. URN/7/2010 to dismiss the existing composition and appoint a new composition of the PZU SA Supervisory Board Audit Committee. As of 4 March 2010 the composition of the Committee was as follows:

- Marzena Piszczek - Chairperson,
- Grażyna Piotrowska – Oliwa – Member,
- Jurgen B.J. Stegmann – Member.

On 9 June 2010 Jurgen B.J. Stegmann submitted his resignation from the function of PZU SA Supervisory Board Member and thus Audit Committee Member. Accordingly the composition of the Audit Committee was supplemented on 16 June 2010 by Dariusz Filar as a PZU SA Supervisory Board Audit Committee Member.

From 16 June 2010 to 31 December 2010 the composition of the PZU SA Supervisory Board Audit Committee was as follows:

- Marzena Piszczek - Chairperson,
- Grażyna Piotrowska – Oliwa – Member,
- Dariusz Filar – Member.

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

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

IPO Committee

Pursuant to the PZU SA Articles of Association and the Settlement and Divestment Agreement ¹, on 19 January 2010 the Company's Supervisory Board appointed a three-person Initial Public Offering Committee ("IPO Committee") by delegating Supervisory Board members to individually perform supervisory activities. The Committee was appointed until introduction of the Company's shares into trade on the regulated market within the meaning of the Act on Trading in Financial Instruments of 29 July 2005, i.e. until 7 May 2010. Detailed tasks and rules of appointment and activity of the IPO Committee were defined by the IPO Committee Bylaws adopted by a PZU SA Supervisory Board resolution.

The IPO Committee's task was to monitor the activity of the Company's Management Board regarding the PZU SA IPO process and furnish the Company's Supervisory Board with opinions on the matters associated with the IPO process.

The composition of the Committee was as follows: Waldemar Maj (Committee Chairman – Supervisory Board Member being an independent expert), Piotr Maciej Kamiński (Committee Member – Supervisory Board Member appointed by the State Treasury) and Jurgen B.J. Stegmann (Committee Member – Supervisory Board Member appointed on the recommendation of Eureka B.V.). The personal composition of the Committee has not changed.

PZU SA Supervisory Board Nomination and Remuneration Committee

On 4 March 2010 the PZU SA Supervisory Board appointed the **Remuneration Commission in the following composition:**

- Marzena Piszczek,

¹ Agreement concluded between the State Treasury, Eureka B.V., PZU SA and Kappa SA on 1 October 2009.

- Marcin Majeranowski,
- Piotr Maciej Kamiński.

The Remuneration Commission was established until the time of appointment of the Nomination and Remuneration Committee referred to § 20 section 11 of the PZU SA Articles of Association.

Pursuant to the PZU SA Articles of Association, until introduction of the Company's shares into trading on the regulated market within the meaning of the Act on Trading in Financial Instruments of 29 July 2005, the Supervisory Board could appoint a Nomination and Remuneration Committee.

On 12 May 2010 the PZU SA Supervisory Board adopted a resolution on appointing the PZU SA Supervisory Board Nomination and Remuneration Committee. Pursuant to this resolution the first composition this Committee comprised the following three members:

- Marzena Piszczek - Chairperson,
- Marcin Majeranowski – Member,
- Piotr Maciej Kamiński – Member.

Simultaneously, as of 12 May 2010, the Remuneration Commission stopped its activity.

By virtue of a PZU SA Supervisory Board decision, all powers and duties of the Remuneration Commission were taken over by the newly appointed PZU SA Supervisory Board Nomination and Remuneration Committee.

Detailed tasks and rules of appointment and activity of the Nomination and Remuneration Committee were defined by the Supervisory Board in a resolution.

The Nomination and Remuneration Committee is an advisory and opinion-making body to the Supervisory Board with regard to the governance structure, including organizational matters, remuneration system and remunerations and selection of staff with appropriate qualifications.

On 9 June 2010 Marcin Majeranowski submitted his resignation from the function of PZU SA Supervisory Board Member and thus PZU SA Supervisory Board Nomination and Remuneration Committee Member. In addition, on 10 June 2010 the Ordinary Shareholder Meeting of PZU SA made changes to the composition of the PZU SA Supervisory Board. These changes are described in section "Composition of the Supervisory Board" on page 2 of this report.

On 16 June 2011 the PZU SA Supervisory Board resolved that the PZU SA Nomination and Remuneration Committee would be composed of four persons and then appointed the PZU SA Supervisory Board Nomination and Remuneration Committee with the following composition.

- Zbigniew Cwiakalski – Chairman,
- Marzena Piszczek – Member,
- Piotr Maciej Kamiński – Member,
- Dariusz Filar – Member.

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

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

As at 31 December 2010 the composition of the Nomination and Remuneration Committee has not changed.

PZU SA Supervisory Board Strategy Committee

On 29 July 2010 the Supervisory Board appointed the PZU SA Supervisory Board Strategy Committee in the following composition: Waldemar Maj (Committee Chairman), Krzysztof Dresler (Committee Member), Marzena Piszczek (Committee Member) and Grażyna Piotrowska – Oliwa (Committee Member). As at 31 December 2010 the composition of the Strategy Committee has not changed.

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

In 2010 decisions of the PZU SA Supervisory Board Strategy Committee were made in the form of opinions and recommendations which were each time submitted to the Company's Supervisory Board.

IV. Information on implementation of PZU SA Shareholder Meeting resolutions

Implementing the provisions of resolution no. 6/2010 of the Extraordinary Shareholder Meeting of PZU SA of 16 March 2010 on amending resolution no. 4/2008 of the Extraordinary Shareholder Meeting of PZU SA of 15 October 2008 on setting the rules for remunerating Management Board members and setting their remuneration, the PZU SA Supervisory Board took a number of actions aiming at developing a target remuneration model for the Company's Management Board members. The PZU SA shareholders' intent, expressed in the aforementioned resolution, was to develop a mechanism making it possible to introduce market remuneration for PZU SA Management Board Members.

On 6 April 2010 the Supervisory Board adopted resolution no. URN/24/2010 on the rules for remunerating PZU SA Management Board Members which defined the assumptions and direction of actions leading to a situation where the Company's Management Board Members are remunerated adequately to the size, market position and competitive position of the Company.

By virtue of resolution no. 34/2010 of 10 June 2010 the Ordinary Shareholder Meeting of PZU SA waived the following resolutions:

- resolution no. 4/2008 of the Extraordinary Shareholder Meeting of PZU SA of 15 October 2008 on setting the rules for remunerating Management Board members and setting their remuneration, and
- resolution no. 6/2010 of the Extraordinary Shareholder Meeting of PZU SA of 16 March 2010 on amendment of resolution no. 4/2008 of the Extraordinary Shareholder Meeting of PZU SA of 15 October 2008 on setting the rules for remunerating the Company's Management Board members and setting their remuneration.

Pursuant to the provisions of PZU SA's Articles of Association, since the State Treasury stopped being the owner of more than 50% shares – conclusion, termination and

amendment of agreements with Management Board Members, and setting the rules for remunerating them and setting their remuneration lies within the powers of the Company's Supervisory Board.

The Supervisory Board ascertains that in 2010 it followed all the provisions following from the Shareholder Meeting resolutions within the deadlines and in the matter consistent with the provisions of law, and that it supervised implementation of the Shareholder Meeting resolutions pertaining to the Company's Management Board.

V. Observance of reporting and information duties

The requirement to submit quarterly information on a company with a majority State Treasury shareholding and other duties imposed on the Supervisory Board by the provisions of law were observed in a timely manner.

Until the IPO the PZU SA Supervisory Board regularly received synthetic reports comprising information on the financial results of PZU Group companies (Monthly Financial Information) and information about key decisions of the PZU SA Management Board and key events in PZU Group companies.

After floating of the Company's shares on the regulated market the Supervisory Board received current and periodic stock exchange reports. In addition, quarterly information about the company with a minority State Treasury shareholding was submitted to the State Treasury Ministry in due time.

The PZU SA Supervisory Board ascertains that all the reporting and information duties imposed on it by the provisions of law were observed in 2010 in a timely fashion.

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

In 2010, the Company had very good financial standing and fulfilled all the safety criteria imposed by the Insurance Activity Act and the Polish Financial Supervision Commission (KNF).

PZU SA's written premium in 2010 was maintained on a level similar to that in 2009; gross written premium for 2010 amounted to PLN 7,783,936 thousand (PLN 7,791,169 thousand the year before).

In 2010, PZU SA generated a net profit in the amount of PLN 3,516,709 thousand compared to PLN 2,510,379 thousand in 2009. Without taking into account the dividend received from PZU Life of PLN 3,120,000 thousand, PZU SA's net result for 2010 amounted to PLN 396,709 thousand and was 63.6% lower than in 2009 (the result in 2009 was PLN 1,091,233 thousand).

PZU SA's technical result decreased; as at the end of the year it amounted to PLN -252,014 thousand.

The value of the Company's investments as at the end of the year amounted to PLN 23,832,035 thousand and was 11% lower than at the end of 2009, which was associated with repayment, in April 2010, of liabilities incurred in connection with the financing of the interim dividend for 2009. Equity was 14.3% higher than the year before and amounted to PLN 11,902,186 thousand.

As at the end of 2010, ROE was 31.5%, up by 14.5 p.p. year-over-year.

Despite the dividend paid and decrease of the technical profitability ratio, PZU SA retained a very high level of financial safety ratios.

On 5 July 2010 Standard & Poor's Ratings Services upheld the 'A' credit rating and financial strength rating with a stable rating outlook.

The Company's results and activity in 2010 were impacted to the largest extent by the following factors:

- Change in the written premium structure – restructuring of the corporate client portfolio.
- Events of catastrophic and non-recurring nature:
 - intensive snowfall in the winter;
 - two waves of flood in May and June;
 - smaller local floods and torrential rains in July and August;
- Consistent implementation of PZU SA's strategy in the area of:
 - restructuring of the quality of the corporate client motor insurance portfolio in property and casualty insurance;
 - implementing restructuring processes aiming at limiting administrative expenses (completion of negotiations on the collective bargaining agreement with the trade unions and commencement of the group lay-off process).

In addition, one should note other key events which impacted the Company's operations in 2010, in particular:

- floating PZU SA's shares on the Warsaw Stock Exchange (“WSE”);

On 13 April 2010 the Financial Supervision Commission approved PZU SA's prospectus which was published on 16 April 2010.

On 7 May 2010 the WSE Management Board, in resolution 425/2010, resolved to follow the ordinary procedure to introduce, as of 12 May 2010, 60,418,337 PZU series A shares and 25,905,980 PZU series B shares into stock exchange trading on the primary market. The resolution was conditional and the conditions specified therein were satisfied on 10 May 2010.

On 12 May 2010 PZU's shares were floated on WSE. This was one of the biggest offerings in 2010 in Central and Eastern Europe and the biggest offering in the history of the Polish Stock Exchange. The IPO ended the 10-year conflict of the two biggest shareholders of PZU, i.e. State Treasury and Dutch Eureko B.V. The opening price of PZU's shares increased 11.7% to PLN 349 and the closing price at this session was PLN 360.0 per share. PZU's shares are listed in the continuous trading system under the abbreviated name “PZU” and the “PZU” ticker.

After the successful debut (increase of the price at the close of the day was 15.2% in relation to the offering price), PZU's shares displayed an upward trend, reaching the maximum price of PLN 417.50 at the session on 21 September 2010.

- employment restructuring and optimization process as part of group lay-offs associated, among other things, with centralization of dispersed functions in several centers located in big Polish cities and increase of specialization of employees. The process affected to the largest extent the following areas: operations, finance, claims handling and the PZU Group network;
- preparation and disbursement of dividend;
- carrying out project activities directly associated with execution of PZU Group's strategy for 2009-2011 oriented at profitable growth and building a cost-efficient organization focused on satisfying client needs.

The actions taken by the Company will make it possible to create solid foundations for its further growth and attainment of good financial results in the years to come, provided that macroeconomic factors do not deteriorate significantly. In 2011 the biggest challenge for the Company will be improvement of financial results, acquisition of new clients, implementation of growth initiatives and improvement of asset profitability.

In 2010 the Company had in place an internal control system adapted to the scale of operations and organizational structure; it aimed at ensuring effectiveness and efficiency of the organization's operations, reliability of financial reporting and compliance of PZU SA's actions with the provisions of law and internal regulations.

The internal control system in PZU SA comprises supervision, overall procedures, organizational structures, solutions implemented in IT systems as well as internal audits (at all organizational levels) contributing to attainment of the Company's objectives and ensuring safety and stability of its operations, performed in order to rationally ensure:

- effectiveness and efficiency of operating activities;
- reliability of financial statements;
- compliance of the activity with the provisions of law and internal regulations.

Supervision over the internal control system in the Company comprises:

- supervision exercised by the Supervisory Board;
- activity of the Company's Management Board involving, among other things:
 - establishing an adequate and effective internal control system,
 - periodic assessment of the operation of the internal control system,
 - implementation of the decisions and recommendations of the Supervisory Board pertaining to the internal control system;
- supervision exercised by the managers of functional divisions and organizational units (i.e. branches and central units) and organizational cells in the Head Office.

An important role in this system is played by the PZU SA Supervisory Board Audit Committee.

The Committee is an advisory and opinion-making body to the Supervisory Board and has been appointed to increase the effectiveness of supervisory activities performed by the Supervisory Board in the area of monitoring the Company's financial reporting, financial audit activities in the Company and effectiveness of internal control systems, internal audit and risk management system in place.

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

The Company's organizational cells which did not have clearly specified internal control functioning rules have systematically introduced such procedures. As at the end of 2010, 71% of PZU SA's organizational cells had an internal control procedure in place.

The internal control system and the risk management system are assessed by the internal audit.

The Internal Audit Department ("IAD") operates within an environment ensuring objectivism and independence, is directly supervised by the CEO, informs the Supervisory Board Audit Committee about the actions taken and their outcome, and is independent of operational functions.

Audit tasks in PZU SA were performed on the basis of an annual audit plan prepared on the basis of assessment of the risks in individual areas of the Company's operations, adopted by a PZU SA Management Board resolution.

The outcome of audits, recommendations issued and their implementation (subject to an effective monitoring process by IAD) are presented on an on-going basis to the Company's Management Board and periodically (at least once a year) to the Supervisory Board Audit Committee.

IAD has prepared an annual activity report comprising information about performance of the audit plan and other tasks performed by IAD, assessment of the internal control system and risk management system.

The statutory auditor positively assessed the internal control system during the audit of the 2009 financial statements (unqualified opinion), formulating 9 recommendations for PZU SA and 5 joint recommendations (for PZU SA and PZU Life), however no high priority was given to any of the identified weaknesses². As for opportunities, one high-priority recommendation was issued; it pertained to introduction of organizational and process changes in the internal audit function to ensure compliance with the requirements specified in the Solvency II Directive.

A cooperation agreement in the matter of organization and functioning of the internal control system at the PZU Group was concluded between PZU Group companies, making it possible to build uniform standards for the functioning of an efficient internal audit system in the PZU Group and exchange of information for the needs of independent assessment of the risk management processes in the PZU Group.

On 4 March 2010 in the structures of PZU SA and PZU Life, the position of Risk Managing Director was established and on 1 August 2010 a new organizational cell – Risk Department – commenced operations; it focused all the processes related to the risk function as described in Articles 44 and 45 of the Solvency II Directive. The tasks associated with operational risk and compliance and abuse risk management elements performed by the Internal Audit Department have been moved to this cell.

In 2010 dedicated internal control regulations (Internal Control Bylaws) and internal audit regulations (Internal Audit Bylaws) were introduced.

Currently the scope of the Risk Department's activity comprises, inter alia:

- development of a risk management system,
- identification of investment, insurance and operational risks, their measurement and development and implementation of an effective risk reporting system,
- development and implementation of an internal investment, insurance and operational risk model,
- development of an effective system for reporting profitability of operations taking into account the cost of capital,
- ensuring PZU Group's compliance with the Solvency II Directive and other external acts in the area of insurance and operational risk management.

The objective of the above changes is to prepare the PZU Group for implementation of an integrated risk management process (ERM). In the area of risk, currently legislative work is carried out to develop internal procedures which will comprehensively address the risk management issues in the Company.

The risk management system currently in place in the PZU Group is directed both at risk control and ensuring the appropriate level of capitalization. Through identification, analysis,

² Statutory auditor recommendations were divided into two categories: weaknesses and opportunities.

measurement, control, management and reporting of risks associated with the operating activity conducted, the PZU Group is able to satisfy its obligations towards its clients and business partners and satisfy the requirements following from external regulations.

Risk management is based on the principle of “three lines of defense” comprising:

- First line of defense: risk management on the line of business and organizational cell level on the basis of prevailing procedures, guidelines and established limits. Risk management on this level is additionally supported by prevailing internal control rules.
- Second line of defense: risk management by specialized cells and committees (established to manage specified risks) within the existing risk management structure on the basis of prevailing principles, methodologies and procedures.
- Third line of defense: internal audit which carries out independent control and audit exercises regarding key elements of the risk management system and control activities inherent in the Group's operations. Additionally, within this function the execution of recommendations of the statutory auditor is monitored.

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

- Taking controlled risk: the financial strength and sustainable increase of value are integral elements of the PZU Group's business strategy. To achieve these objectives the PZU Group conducts activity pursuant to clearly defined risk policy and within established risk limitations.
- Clearly defined responsibility: The PZU Group acts in line with the principle of allocation of tasks, powers and responsibilities. Delegated employees are responsible for the risk they take and their incentives are aligned to the PZU Group's business objectives.
- Adaptation to changes in the business environment: the ability to respond to changes taking place in the business environment, resulting both from external determinants and internal PZU Group determinants, is an integral part of the risk control process in the PZU Group.

The risk appetite reflects the maximum level of acceptable risk that PZU SA is able to incur and is closely related to the business strategy and financial objectives. The risk appetite may be expressed both in quantitative and qualitative terms.

The risk appetite with regard to individual risk types is determined in the form of approved limits on the level of appropriate committees:

- PZU SA and PZU Life Asset and Liability Management Committee (ALCO),
- PZU SA and PZU Life Credit Risk Committee (CRC),
- PZU SA and PZU Life Investment Committee (IC),
- PZU SA Financial Insurance and Bonding Risk Committee (FIBRC).

Then the limits are allocated to lines of business and organizational cells on the lowest levels of the organizational structure.

In connection with the obligation imposed on insurance companies by the Financial Supervision Commission (“KNF”), PZU SA carried out, according to KNF's instructions, stress tests for the financial data reported as at 31 December 2009 and submitted the results by the end of July 2010. The stress tests have shown that PZU SA has sufficient capital to safely continue its operations in the event of occurrence of unfavorable events in the business environment that have material financial consequences.

On 31 March 2011 the Company received the results of the first assessment carried out by the Financial Supervision Commission under the Supervisory Audit and Assessment ("BION")³, on the basis of the data comprises in the financial statements prepared as at 31 December 2009. This assessment is positive and is at the level of 1.77⁴.

In the opinion of the PZU SA Supervisory Board, in 2010 the risk management and internal control systems in PZU SA ensured safety of the Company's operations. The Management Board properly identified the risks associated with PZU SA's operations, monitored them on an on-going basis and effectively managed them.

The introduction of modified risk management procedures and their observance verification system planned for 2011 will facilitate the system of identification, monitoring and control of the risks associated with broadly understood operations of PZU SA.

The PZU SA Supervisory Board positively assesses the cooperation with the Company's Management Board in 2010 and recommends that the Ordinary Shareholder Meeting of PZU SA discharge all the members of the PZU SA Management Board on the performance of their duties in the PZU SA Management Board in 2010, i.e.:

- 1) Andrzej Klesyk, CEO in the period from 1 January to 31 December 2010,
- 2) Witold Jaworski, Management Board Member in the period from 1 January to 31 December 2010,
- 3) Rafał Stankiewicz, Management Board Member in the period from 1 January to 27 September 2010,
- 4) Przemysław Dąbrowski, Management Board Member in the period from 21 December 2010 to 31 December 2010,
- 5) Dariusz Filar, PZU SA Supervisory Board Member, delegated to discharge temporarily the function of PZU SA Management Board Member in the period from 1 October 2010 to 21 December 2010.

VII. Self-assessment of the work of the PZU SA Supervisory Board

The PZU SA Supervisory Board diligently and efficiently discharged its duties, exercising permanent supervision over the activity and development of the Company in all the areas of its activity and taking all actions reported by the PZU SA Management Board required to efficiently conduct statutory operations and attain the Company's strategic objectives. The scope, method of operation and composition of the Supervisory Board in 2010 were consistent with generally binding provisions of law, the Company's internal regulations and requirements imposed on public companies, in particular those specified in "The Code of Best Practice for WSE Listed Companies".

³ BION – is the acronym of the Polish words "*badanie i ocena nadzorcza*" [supervisory audit and assessment], according to the definition of the Office of Financial Supervision Commission this is one of the supervisory tools supporting prudential supervision based on risk analysis, understood as an organizational concept subordinating organizational processes and solutions and allocation of resources to the results of risk level assessment. The starting point for BION principles was the bank scoring model in the banking sector which was significantly extended and expanded to include other markets supervised by the Office of Financial Supervision Commission: the insurance, pension and capital markets.

⁴ Individual risks are assessed on a scale from 1 to 4 where 1 is the best result and 4 the worst result, pointing to high exposure of the entity to the respective risk.

All PZU SA Supervisory Board members represented high and unchallenged level of preparation and professional experience in the area of managing and supervising commercial law companies, as a result of which they performed their code- and charter-related powers appropriately and ensuring the right supervision over the Company. Each Supervisory Board member exercised utmost diligence and commitment to performance of his/her duties in the Supervisory Board and was driven in his/her actions by the interests of the Company and independence of opinions and judgments.

The diversified composition of the Supervisory Board and interdisciplinary expertise and skills of its members made it possible to review and issue opinions on the presented topics in a comprehensive fashion and have a broad representation of views pertaining to assessment of the work of the Management Board and activity of PZU SA as a public company.

Despite several changes to the composition of the PZU SA Supervisory Board, the Supervisory Board uninterruptedly discharged its duties and actively supported the Management Board in performance of its key tasks. The decisions of the Supervisory Board were characterized by care for the good of all shareholders.

Considering the above, the Supervisory Board is prepared to discharge its statutory and charter-based powers and discharges them appropriately and in a manner that ensures proper supervision over the Company. In the opinion of the PZU SA Supervisory Board its activity in 2010 can be assessed as carried out effectively and in line with the best market practices.

Chairperson
PZU SA Supervisory Board

Marzena Piszczek