

Attachment to Resolution No. URN/34/2018  
adopted by the PZU SA Supervisory Board on 15 May 2018

## PZU SA SUPERVISORY BOARD'S REPORT ON THE ACTIVITY OF THE PZU SA SUPERVISORY BOARD AS THE COMPANY'S GOVERNING BODY IN 2017



## I. Supervisory Board Composition

As at 1 January 2017, the following persons sat on the PZU SA Supervisory Board:

- Paweł Kaczmarek – Supervisory Board Chairman
- Marcin Gargas – Supervisory Board Deputy Chairman
- Maciej Zaborowski – Supervisory Board Secretary
- Marcin Chludziński – Supervisory Board Member
- Eligiusz Krześniak – Supervisory Board Member
- Alojzy Nowak – Supervisory Board Member
- Jerzy Paluchniak – Supervisory Board Member
- Piotr Paszko – Supervisory Board Member
- Radosław Potrzyszcz – Supervisory Board Member

The criteria of independence in respect of Supervisory Board members, as specified in the Best Practices of WSE Listed Companies 2016, were fulfilled by Marcin Gargas, Maciej Zaborowski, Marcin Chludziński, Eligiusz Krześniak, Alojzy Nowak, Piotr Paszko and Radosław Potrzyszcz.

On 8 February 2017, Eligiusz Krześniak tendered his resignation from membership in the Supervisory Board effective immediately. On 8 February 2017, the PZU Extraordinary Shareholder Meeting dismissed Marcin Gargas, Piotr Paszko and Radosław Potrzyszcz from the Company's Supervisory Board effective as of 8 February 2017. At the same time, on 8 February 2017, the Extraordinary Shareholder Meeting appointed Agata Górnicka, Łukasz Świerzewski, Paweł Górecki, Bogusław Marian Banaszak to the PZU SA Supervisory Board.

On 14 March 2017, Paweł Górecki assumed the function of Chairman of the PZU Supervisory Board, Łukasz Świerzewski assumed the function of Deputy Chairman of the PZU Supervisory Board, and Alojzy Nowak assumed the function of Secretary.

On 23 March 2017, the PZU Supervisory Board decided to second PZU SA Supervisory Board

Member Marcin Chludziński to temporarily act as the President of the PZU SA Management Board.

On 12 April 2017, Łukasz Świerzewski tendered his resignation from membership in the Supervisory Board effective immediately. Also on 12 April 2017, the State Treasury Minister of the Republic of Poland, acting pursuant to § 20 section 7 of PZU SA's Articles of Association, dismissed Jerzy Paluchniak and appointed Aneta Fałek as Member of the PZU SA Supervisory Board. On 12 April 2017, effective as of 12 April 2017, the PZU Extraordinary Shareholder Meeting dismissed Paweł Kaczmarek from the Company's Supervisory Board. On the same date, the Extraordinary Shareholder Meeting appointed Robert Śnitko and Katarzyna Lewandowska to the PZU SA Supervisory Board.

On 13 April 2017, Katarzyna Lewandowska assumed the function of Chairwoman and Aneta Fałek assumed the function of Deputy Chairwoman.

As of 13 April 2017, the composition of the PZU SA Supervisory Board was as follows:

- Katarzyna Lewandowska – Supervisory Board Chairwoman
- Aneta Fałek – Supervisory Board Deputy Chairwoman
- Alojzy Nowak – Supervisory Board Secretary
- Bogusław Marian Banaszak – Supervisory Board Member
- Marcin Chludziński – Supervisory Board Member
- Paweł Górecki – Supervisory Board Member
- Agata Górnicka – Supervisory Board Member
- Robert Śnitko – Supervisory Board Member
- Maciej Zaborowski – Supervisory Board Member

The criteria of independence in respect of Supervisory Board members, as specified in the Best Practices of WSE Listed Companies 2016, were fulfilled by Alojzy Nowak, Maciej Zaborowski, Bogusław Marian Banaszak and Robert Śnitko.

As at 31 December 2017, the PZU SA Supervisory Board composition did not change.

## II. Supervisory Board's activity

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

of the Articles of Association and the Bylaws, the Supervisory Board held correctly convened and prepared meetings, with high attendance.

During the financial year, the Supervisory Board held seventeen meetings on the following dates:

- 13 January 2017,

- 23 February 2017,
- 14 March 2017,
- 22 March 2017,
- 13 April 2017,
- 16 May 2017,
- 29 May 2017,
- 12 June 2017,
- 30 June 2017,
- 6 July 2017,
- 14 and 21 July 2017,
- 30 August 2017,
- 18 September 2017,
- 2 October 2017,
- 8 November 2017,
- 14 November 2017,
- 11 December 2017

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 93 resolutions, including 13 resolution by circulation (list of resolutions constitutes attachment 1 to this report). Most resolutions of the Supervisory Board – with the exception of Resolution Nos. URN/7/2017, URN/8/2017, URN/9/2017, URN/15/2017, URN/16/2017, URN/18/2017, URN/19/2017, URN/20/2017, URN/23/2017, URN/31/2017, URN/32/2017, URN/33/2017, URN/34/2017, URN/35/2017, URN/36/2017, URN/37/2017, URN/38/2017, URN/39/2017, URN/41/2017, URN/42/2017, URN/75/2017 and URN/85/2016 – were adopted unanimously while maintaining the quorum required by the applicable laws.

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

### **III. Key issues addressed by the Supervisory Board**

During the financial year ended 31 December 2017, the PZU SA Supervisory Board addressed all the issues which, pursuant to the Company's Articles of Association, lie within the powers of this governing body. As part of its activities, the Supervisory Board actively supported the Management Board in its

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 duties and was justified through the adoption of justification resolutions by the Supervisory Board. After the adoption of Resolution No. 5/2017 of 8 February 2017 by the PZU SA Extraordinary Shareholder Meeting to define the rules for setting the compensation of Supervisory Board Members of Powszechny Zakład Ubezpieczeń Spółka Akcyjna, the adoption of resolutions justifying absence was not required (list of attendance at the meetings of the Supervisory Board forms attachment 2 to this report).

Pursuant to § 26 Item 1 of the PZU SA Supervisory Board Bylaws, in 2017, PZU SA Management Board members, PZU Group Directors, Managing Directors, Head Office Department Directors and representatives of advisory companies and law offices cooperating as part of projects carried out by the Company were invited to PZU SA Supervisory Board meetings, providing exhaustive explanations and presenting all documents pertaining to the Company's operations. In addition, PZU SA Supervisory Board meetings were also attended by the representatives of the auditor – KPMG Audyt Sp. z o.o. Sp. k.

Regardless of the on-site meetings, the Supervisory Board was informed of the key aspects of the Company's operations on an on-going basis by electronic mail (Supervisory Board Members were sent current and periodic reports resulting from the functioning of PZU SA as a company listed at the Warsaw Stock Exchange).

Cooperation of the Supervisory Board with the PZU SA Management Board was good and focused on increasing the value of the Company and care for its good. The information and materials delivered by the Management Board were prepared in a clear and reliable manner and according to the requirements specified by the Supervisory Board.

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

Key issues addressed by the Supervisory Board in 2017:

- Systematic assessment of the Company's and PZU Group's financial and economic standing, market position and key strategic initiatives and plans for 2017.
- On-going monitoring of the implementation of the financial plan of PZU SA and the PZU Group for 2017.
- Monitoring of the implementation status of the PZU Group Strategy "PZU 2020".
- Ongoing monitoring of the preparation of the PZU SA and PZU Group financial plan for 2018.
- Assessment of the PZU SA financial statements for the year ended 31 December 2016 and recommendation to the PZU Ordinary Shareholder Meeting to approve them.
- Assessment of the Management Board report on PZU SA's activity in 2016 and recommendation to the PZU SA Ordinary Shareholder Meeting to approve it.
- Assessment of the Management Board motion on the distribution of PZU SA's net profit for the year ended 31 December 2016 and recommendation to the PZU SA Ordinary Shareholder Meeting to approve it.
- Assessment of the PZU SA Group's consolidated financial statements for the year ended 31 December 2016 and recommendation to the PZU Ordinary Shareholder Meeting to approve them.
- Assessment of the Management Board report on the PZU SA Group's activity in 2016 and recommendation to the PZU SA Ordinary Shareholder Meeting to approve it.
- Approval of the Supervisory Board Report on the assessment of the PZU SA financial statements for the financial year ended 31 December 2016 and the Management Board report on PZU SA's activity in 2016 and the Company's Management Board motion on distribution of profit.
- Adoption of the PZU SA Supervisory Board report on the activity of the PZU SA Supervisory Board as the Company's governing body in 2016.
- Ongoing monitoring of the execution of strategic projects.
- Ongoing monitoring of management information in the IT area.
- Ongoing monitoring of legal, marketing, public relations and management consulting agreements entered into by the Company.
- Ongoing risk monitoring.
- Ongoing investment activity monitoring.
- Giving consent to the execution of a mandate contract with Alior Bank Spółka Akcyjna on periodic granting of insurance guarantees constituting unfunded credit protection.
- Monitoring of acquisition projects in the banking sector, which includes making relevant decisions.
- Monitoring of the Strategy in the risk management area.
- Approval of the answers provided in the BION questionnaire.
- Appointment of the President of the PZU Management Board and Members of the PZU SA Management Board.
- Amendments to compensation rules and compensations for members of the PZU SA Management Board and acceptance of draft management contracts for the President of the PZU SA Management Board and members of the PZU SA Management Board
- Defining the management objectives for the Company's Management Board Members.
- Implementation of new regulations in connection with the provisions of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision
- Amendment of the PZU SA Supervisory Board Bylaws.
- Amendments to the PZU SA Supervisory Board Audit Committee Bylaws
- In connection with the changes in the PZU SA Supervisory Board – electing the new Supervisory Board Chairperson, Deputy Chairperson and Secretary and establishing the composition of the Audit Committee, the Nomination and Compensation Committee and the Strategy Committee.
- Ongoing monitoring of operation of the Audit, Nomination and Compensation and Strategic Committees of the PZU SA Supervisory Board.

To correctly perform the supervisory activities in the Company, the Supervisory Board appointed advisory and opinion-making committees. In 2017, the following three Committees were active within the PZU SA Supervisory Board:

- Audit Committee,

- Nomination and Compensation Committee,
- Strategy Committee.

### **Audit Committee**

The Audit Committee was appointed by virtue of a PZU SA Supervisory Board resolution on 3 June 2008 to increase the effectiveness of supervisory activities performed by the Supervisory Board in the area of monitoring the Company's financial reporting process, financial audit activities and effectiveness of internal control, internal audit and risk management systems in place in the Company. In addition the scope of activity of the Audit Committee may comprise other issues as instructed by the Company's Supervisory Board.

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

As at 1 January 2017, the following persons sat on the PZU SA Supervisory Board Audit Committee:

- Piotr Paszko – Committee Chairman,
- Jerzy Paluchniak – Committee Member,
- Marcin Chludziński – Committee Member;

Piotr Paszko was identified by the Supervisory Board as the independent member, and Jerzy Paluchniak – as the member holding accounting or financial audit qualifications within the meaning of Article 86 Section 4 of the Act on Statutory Auditors and their Self Regulation, Entities Authorized to Audit Financial Statements and Public Supervision of 7 May 2009 (Journal of Laws 2009 No. 77, Item 649).

In connection with the change in the composition of the Supervisory Board on 23 February 2017, the following composition of the Audit Committee was established:

- Bogusław Marian Banaszak – Committee Chairman,
- Marcin Chludziński – Committee Member,
- Jerzy Paluchniak – Committee Member.

Bogusław Marian Banaszak was identified by the Supervisory Board as the independent member, and Jerzy Paluchniak – as the member holding accounting or financial audit qualifications within the meaning of Article 86 Section 4 of the Act of 7 May 2009 on Statutory Auditors and their Self Regulation, Entities Authorized to Audit Financial Statements and Public Supervision (Journal of Laws 2009 No. 77, Item 649).

In connection with the change in the composition of the Supervisory Board on 13 April 2017, the following composition of the Audit Committee was established:

- Bogusław Marian Banaszak – Committee Chairman,
- Marcin Chludziński – Committee Member,
- Robert Śnitko – Committee Member.

Bogusław Banaszak was identified by the Supervisory Board as the independent member, and Marcin Chludziński – as the member holding accounting or financial audit qualifications within the meaning of Article 86 Section 4 of the Act of 7 May 2009 on Statutory Auditors and their Self Regulation, Entities Authorized to Audit Financial Statements and Public Supervision (Journal of Laws 2009 No. 77, Item 649).

In connection with the entry into force of the new Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision, on 18 September 2017 the following new composition of the Audit Committee was established:

- Bogusław Marian Banaszak – Committee Chairman,
- Marcin Chludziński – Committee Member,
- Maciej Zaborowski – Committee Member.

Bogusław Banaszak and Maciej Zaborowski were indicated as independent members within the meaning of Article 129 Section 3 of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision, and Marcin Chludziński was indicated as a member holding accounting or financial audit qualifications. All Members of the Audit Committee were indicated as members possessing knowledge and skills in the industry of the Company's operation.

As at 31 December 2017, the composition of the Audit Committee did not change.

During the financial year, the Audit Committee held eighteen meetings on the following dates:

- 13 January 2017,
- 31 January 2017,
- 23 February 2017,
- 2 March 2017,
- 14 March 2017,
- 6 April 2017,
- 24 April 2017,
- 16 May 2017,
- 29 May 2017,
- 30 June 2017,
- 14 July 2017,
- 24 and 29 August 2017,
- 29 August 2017,
- 18 September 2017,
- 27 September 2017,
- 2 October 2017,
- 14 November 2017,
- 11 December 2017.

Decisions of the PZU SA Supervisory Board Audit Committee were made in the form of resolutions, opinions and recommendations which were each time submitted to the Company's Supervisory Board. The report of the PZU SA Supervisory Board Audit Committee on its activity in 2017 constitutes attachment 3 to this report.

#### **Nomination and Compensation Committee**

Pursuant to the PZU SA Articles of Association, from the moment the Company's shares were introduced into trading on the regulated market within the meaning of the Act on Trading in Financial Instruments of 29 July 2005, the Supervisory Board could appoint the Nomination and Compensation Committee which was appointed on 12 May 2010.

The Nomination and Compensation Committee is an advisory and opinion-making body to the Supervisory Board with regard to the governance structure, including organizational solutions, compensation rules and compensation, and the selection of appropriately qualified staff.

As at 1 January 2017, the PZU SA Supervisory Board Nomination and Compensation Committee was as follows:

- Radosław Potrzeszcz – Committee Chairman;
- Marcin Gargas – Committee Member;
- Eligiusz Krześniak – Committee Member;

- Paweł Kaczmarek – Committee Member.

In connection with the changes in the PZU Supervisory Board, on 23 February 2017 the PZU Supervisory Board resolved that the nomination and compensation committee will be composed of 3 persons and established the following composition of the committee:

- Agata Górnicka – Committee Chairwoman;
- Paweł Górecki – Committee Member;
- Paweł Kaczmarek – Committee Member.

On 13 April 2017, the PZU SA Supervisory Board changed the composition of the Nomination and Compensation Committee to the following:

- Aneta Fałek – Committee Chairwoman;
- Paweł Górecki – Committee Member;
- Katarzyna Lewandowska – Committee Member.

As at 31 December 2017, the composition of the Nomination and Compensation Committee did not change.

During the financial year, the Nomination and Compensation Committee held seventeen meetings on the following dates:

- 13 January 2017,
- 23 February 2017,
- 13 March 2017,
- 21 March 2017,
- 22 March 2017,
- 11 April 2017,
- 25 April 2017,
- 10 May 2017,
- 25 May 2017,
- 5 June 2017,
- 12 June 2017,
- 30 June 2017,
- 6 July 2017,
- 14 and 21 July 2017,
- 29 August 2017,
- 2 September 2017,
- 18 September 2017

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

Pursuant to the provisions of the Articles of Association, the Committee is to be dissolved upon



the appointment of five Supervisory Board members by group voting, upon which its powers are to be taken over by the full Supervisory Board.

### **Strategy Committee**

The Strategy Committee's tasks include issuing opinions on all strategic documents submitted to the Supervisory Board by the PZU SA Management Board (in particular the Company's development strategy) and presenting recommendations in respect of the planned investments with significant impact on the Company's assets to the Supervisory Board.

As at 1 January 2017, the following persons sat on the PZU SA Supervisory Board Strategy Committee:

- Alojzy Nowak – Committee Chairman;
- Marcin Chludziński – Committee Member;
- Marcin Gargas – Committee Member;
- Piotr Paszko – Committee Member;
- Radosław Potrzebny – Committee Member;
- Maciej Zaborowski – Committee Member.

In connection with the changes in the PZU SA Supervisory Board, on 23 February 2017 the PZU SA Supervisory Board resolved that the Strategy Committee will be composed of 6 persons and established the following composition of the Committee:

- Alojzy Nowak – Committee Chairman;
- Bogusław Banaszak – Committee Member;
- Marcin Chludziński – Committee Member;
- Agata Górnicka – Committee Member;

#### **IV. Information on the implementation of PZU SA Shareholder Meeting resolutions**

Acting pursuant to Resolution No. 4/2017 adopted by the Extraordinary Shareholder Meeting of Powszechny Zakład Ubezpieczeń SA on 8 February 2017 to define the rules for setting the compensation of Management Board Members of Powszechny Zakład Ubezpieczeń Spółka Akcyjna (as amended), the Supervisory Board, by Resolution No. URN/48/2017 of 6 July 2017, developed and adopted the rules for setting the compensation of PZU SA Management Board Members, including forms of management contracts, and set the amount of fixed compensation for each Management Board Member.

Acting pursuant to § 3 of Resolution No. 4/2017 adopted by the Extraordinary Shareholder Meeting of Powszechny Zakład Ubezpieczeń SA on 8

- Łukasz Świerżewski – Committee Member; Maciej Zaborowski – Committee Member.

In connection with the changes in the PZU SA Supervisory Board, on 13 April 2017 the PZU SA Supervisory Board resolved that the Strategy Committee will be composed of 6 persons and established the following composition of the Committee:

- Alojzy Nowak – Committee Chairman;
  - Bogusław Banaszak – Committee Member;
  - Marcin Chludziński – Committee Member;
  - Agata Górnicka – Committee Member;
  - Robert Śnitko – Committee Member; Maciej Zaborowski – Committee Member.
- As at 31 December 2017, the composition of the Strategy Committee did not change.

During the financial year, the Strategy Committee held seven meetings on the following dates:

- 11 April 2017,
- 30 June 2017,
- 24 August 2017,
- 30 August 2017,
- 14 November 2017,
- 5 December 2017,
- 15 December 2017

In 2017, 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.

February 2017 to define the rules for setting the compensation of Management Board Members of Powszechny Zakład Ubezpieczeń Spółka Akcyjna (as amended), the Supervisory Board, by Resolution No. URN/74/2017 of 30 August 2017 on setting the Management Objectives for the Company's Management Board Members for 2017, on set the Management Objectives for the Company's Management Board Members for 2017, as referred to in Resolution No. 4/2017 adopted by the PZU SA Extraordinary Shareholder Meeting on 8 February 2017 (as amended), and defined the weights of each Objective as well as objective and measurable criteria (indicators) of their achievement and settlement (KPIs).

Acting pursuant to § 2 of Resolution No. 39/2017 adopted by the Ordinary Shareholder Meeting of PZU SA on 29 June 2017 on amendments to the PZU SA Articles of Association, the Supervisory Board accepted, by Resolution No. URN/77/2017 of 18 September 2017, the consolidated text of the Articles of Association, incorporating the amendments resulting from the said resolution.

#### **V. Observance of reporting and information duties**

The PZU SA Supervisory Board states that all the reporting and information duties imposed on it by

The PZU SA Supervisory Board declares that all duties imposed on it by resolutions adopted by the PZU SA Shareholder Meeting in 2017 were implemented in a proper and timely manner.

the provisions of law were observed in 2017 in a timely fashion.

#### **VI. Concise assessment of the Company's standing, including an evaluation of the internal control system, compliance policy risk management system and the internal audit function**

PZU SA is in very good financial standing and satisfies all the safety criteria imposed on the Company by the Insurance and Reinsurance Activity Act and the Polish Financial Supervision Authority. PZU SA's stable rating outlook confirms the Company's strong business standing, high level of equity and continued competitive position on the insurance market. The financial results generated by PZU SA in recent years place it among the most profitable financial institutions in the country. At the same time, they contribute to high performance ratios.

In 2017, PZU SA generated a return on equity of 18.9%. ROE was up 6.1 p.p. compared to the previous year. In 2014-2017, the average return on equity (ROE) was 17.9%. Return on assets (ROA) went up 1.8 p.p. and stood at 6.1%.

COR (combined ratio), one of the fundamental measures of productivity and operating efficiency of an insurance company for non-life insurance, has been maintained in PZU SA at a level confirming its high operating profitability in recent years. In 2017, the ratio declined mainly due to the lower loss ratio in agricultural insurance as a result of the occurrence of numerous losses caused by forces of nature (adverse effects of ground frost) in 2016.

PZU SA ensures a high level of security of its business. This is corroborated both by its high solvency ratios and by the investment grade rating awarded by S&P Global Ratings. On 27 October 2017, the S&P agency increased the PZU's rating outlook from negative to stable. At the same time, PZU's financial strength rating stayed at A-. This is one grade above Poland's rating for foreign currency-denominated debt. "Group stabilization and transparency of investments in the banking

sector supports the PZU Group's creditworthiness in the medium term," as written in the S&P press release. Compared to other insurance groups, PZU SA keeps exceptionally high capital safety ratios. On 1 January 2016, the Insurance and Reinsurance Activity Act of 11 September 2015 introduced into the Polish legal system the new capital requirements of Solvency II. According to the new Act, the calculation of the capital requirement is based on market, actuarial (insurance), counterparty insolvency, catastrophic and operational risks. As at the end of Q3 2017, PZU SA's estimated solvency ratio (calculated according to the standard Solvency II equation) was 320%.

As the PZU Group's parent company, PZU SA offers an extensive array of non-life insurance products, including motor insurance, property insurance, casualty insurance, agricultural insurance and third party liability insurance. At yearend 2017, motor insurance was the most important group of products offered by PZU, both in terms of the number of insurance agreements and its premium stated as a percentage of total gross written premium.

In 2017, PZU SA recorded a technical result at a level of PLN 1,218 million compared to PLN 537 million in the preceding year, which signifies an over double increase in the result year on year. Net profit was PLN 2,434 million compared to PLN 1,573 million in 2016 (up 54.7%). Without taking into account the dividends received from PZU Życie SA, PZU's net profit was PLN 1,005 million and was higher by PLN 256 million compared to 2016.

PZU SA's operating profit in 2017 was driven in particular by the following factors:

- higher gross written premium in the motor insurance group in the mass and corporate client



- segments on the coattails of the rising average premium and the number of insurance policies,
- the increase in profitability in the mass insurance segment associated mainly with a decrease in the loss ratio in agricultural insurance – in the corresponding period of the previous year, occurrence of numerous losses caused by forces of nature (adverse effects of ground frost) and, to a smaller extent, improvement of profitability in motor insurance,
  - lower profitability in the corporate insurance segment, mainly in the non-motor insurance product group following the reporting of a few claims with high unit values;
  - higher investment income on equity portfolios due to an upswing on the Warsaw Stock Exchange,
  - increase in acquisition expenses caused in particular by higher sales in the mass client and corporate client segments,
  - lower administrative expenses in insurance activity segments resulting from lower costs of project activities.

In the individual net result items, PZU SA recorded:

- an increase in gross written premium to PLN 12,433 million, or 16.4%, compared to the previous year, mainly in motor insurance as a result of an increase in the average premium (driven by a gradual shift in the tariff) and in insurance of other property losses. After considering the reinsurers' share and movement in the unearned premium reserve, the net earned premium was PLN 11,181 million and was 21.4% higher than in 2016,
- a higher level of claims and benefits totaling PLN 7,169 million, down 16.6% compared to 2016. The main change was recorded in the motor insurance group driven by growth of the insurance portfolio and in the insurance against damages caused by the forces of nature;
- the result on investing activity, higher by PLN 95 million, as a result of a higher dividend from PZU Życie offset by the one-off effect of realization of the result of valuation of participation units in the Universum PZU Specialist Open-end Mutual Fund (PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Universum) in 2016, which until redemption of the units was captured through a change of the revaluation reserve;
- higher acquisition expenses, taking into account reinsurance commission (an increase by PLN 270 million), mainly due to an increase in direct

acquisition expenses driven by the growing insurance portfolio. The factor that had a positive effect on acquisition expenses was the fact that, according to the requirements of the Insurance Activity Act, the rules for paying consideration to policyholders in group contracts were altered – since 1 April 2016, these expenses have been treated as administrative expenses;

- a decrease in administrative expenses to PLN 693 million compared to PLN 724 million in 2016, primarily as a result of the application of cost discipline measures both in current and in project activities.

On 31 December 2017, PZU SA's balance sheet total amounted to PLN 42,388 million and was 13.6% higher than at yearend 2016.

The main component of PZU SA's assets were deposits which amounted to PLN 36,576 million (up 16.6% compared to the end of 2016), which accounted for 86.3% of PZU SA's total assets compared to 84.1% as at the end of the previous year. With the exclusion of investments in subordinated entities, this level was 9.3% lower. The main reason behind the increase in the value of investments in subordinated entities was the acquisition of a stake representing approx. 20% of the total number of votes in Pekao in July 2017. The increase in the portfolio value resulted primarily from PZU's issue of PLN 2,250 million subordinated bonds in June 2017, higher cash flows in connection with the dynamic development of the insurance portfolio, and the investment resulted generated. Compared to the year before, the share of debt securities and other fixed income securities decreased, driven mainly by reaching the maturity of part of the bond portfolio in 2017.

PZU SA runs its investment operations in compliance with statutory requirements while maintaining appropriate levels of safety, liquidity and profitability.

In 2017, PZU's investment activity focused on the continuation of strategic assumptions, in particular on the optimization of profitability of investment operations through greater diversification of the investment portfolio, as well as ensuring financing for the transaction of purchase of shares in Bank Pekao. In 2017, the result on PZU's investment activity was PLN 1,973 million compared to PLN 1,878 million in 2016. After netting out the effect of the dividend received from PZU Życie SA, the net investment result was PLN 544 million compared to

PLN 1,053 million the year before. The decline of the result was driven mainly by the one-off effect of the result realized in 2016 on participation units in the Universum PZU Specialist Open-end Mutual Fund (PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Universum) in the amount of PLN 764 million, which until redemption of the units was captured through a change of the revaluation reserve.

PZU SA's receivables stood at PLN 2,315 million and accounted for 5.5% of the assets. For comparison, at the end of 2016, they amounted to PLN 2,252 million (6.0% of PZU's assets).

The biggest increase was recorded in the value of receivables on direct insurance, as a result of the dynamic increase of the insurance portfolio (mainly motor insurance). Non-current assets – in the form of intangible assets, goodwill and property, plant and equipment – were disclosed in the balance sheet at PLN 463 million. They accounted for 1.1% of the assets.

As at 31 December 2017, PZU's cash amounted to PLN 982 million (2.3% of assets). A year earlier, they amounted to PLN 1,148 million.

As at the end of 2017, the main component of PZU SA's liabilities was technical provisions. They reached the amount of PLN 19,969 million, i.e. 47.1% of total liabilities and equity. Their share in the balance sheet decreased by 3.0 p.p. compared to 2016, while in terms of value they rose by PLN 1,254 million, in particular due to higher provisions for unearned premiums in the group of non-life insurance, resulting predominantly from growth in sales of motor insurance.

As at the end of 2017, equity amounted to PLN 13,583 million and accounted for 32.0% of equity and liabilities (down 0.5 p.p.).

Contingent receivables amounted to PLN 4,616 million, up PLN 259 million compared to the year before. They comprised among others: guarantees and sureties received, bills of exchange issued on account of granted insurance guarantees and other contingent receivables comprising mainly securities in the form of mortgage on the debtor's assets and other contingent receivables. The balance of contingent liabilities dropped by PLN 145 million compared to the year before. The decline was recorded mainly in the granted guarantees and sureties line item (which shows, among others, the guarantee granted to a subsidiary PZU Finance AB) and other liabilities, which show mainly liabilities on account of unpaid loan tranches.

On 3 October 2016, the PZU SA Supervisory Board adopted a resolution to approve the PZU Group's Capital and Dividend Policy for 2016-2020. The introduction of the Policy followed from implementation, as of 1 January 2016, of Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of insurance and reinsurance ("Solvency II"), as amended, the Insurance and Reinsurance Activity Act of 11 September 2015 and the expiration of the PZU Group's Capital and Dividend Policy for 2013-2015 updated in May 2014. The capital management policy rests on the following principles:

- manage the PZU Group's capital (including excess capital) at the level of PZU SA as the parent company;
- sustain target solvency ratios at the level of 200% for the PZU Group, PZU and PZU Życie (according to Solvency II);
- maintain the PZU Group's financial leverage ratio at a level no higher than 0.35;
- ensure funds for growth and acquisitions in the coming years;
- PZU will not issue any new shares for the duration of this Policy.

As a result of the acquisition of Pekao, the PZU Group's solvency ratio calculated for Tier 1 capital decreased as at the end of June 2017. To counteract this decrease, on 30 June 2017 PZU SA issued subordinated bonds with a nominal value of PLN 2.25 billion.

PZU SA as the parent company, through its representatives in supervisory bodies of subsidiaries and voting at their shareholder meetings, exerts an impact on the selection of strategic directions regarding both the scope of business and the finances of the PZU Group members.

As selected companies focus on their specialization and utilize their membership in the Tax Group, these companies render services to one another on chosen markets pursuant to an internal cost allocation model (under the Tax Group).

The PZU Group Strategy for 2017-2020 published on 9 January 2018 and entitled "The New PZU – More Than Insurance" is also our response to the ongoing social and technological changes that are diametrically affecting the insurance industry. PZU's goal is to take advantage of the opportunities ensuing from the transformation of the insurance market, address our current clients' needs better

and enhance their satisfaction as well as reach those segments that value digital solutions.

The New PZU entails 4 key business areas whose development has been defined on the basis of the most forward-looking economic, technological, regulatory and demographic trends. PZU's long-term ambitious is to gain a leadership position on every one of the markets, namely insurance, banking, investments and health.

The new strategy contains very ambitious objectives. In relation to 2016, PZU is driven by its ambition to increase the PZU Group's ROE by more than 7 p.p. to more than 22% in 2020, collect one billion Polish zloty in insurance premiums from cooperation with banks and one million new clients for the banks. The PZU Group intends to materially grow its revenues in the health segment to one billion PLN in 2020. By consolidating the asset management market and growing our clients' savings, we will more than double the value of our portfolio, thereby reaching the watermark of PLN 65 billion in assets under management. Better data utilization, process digitalization, additional client interactions with clients and more extensive cross-selling will act as a catalyst for these efforts.

In the Supervisory Board's assessment, the operations carried out by PZU SA and the whole PZU Group enable the continuation of the Company's further development and the achievement of good financial results in subsequent years. 2017 was a period of ambitious projects carried out by the PZU Group whose force of impact is taking on greater significance. The dynamic growth in the Group's results posted in 2017 constitutes an important growth element that not only underpins shareholders' earnings but also contributes to the growth of other branches of the economy.

One of the most important transactions executed in 2017 from the vantage point of the Supervisory Board and the market undoubtedly contributed to that rating, i.e. the finalization of the acquisition of a 32.8% equity stake in Bank Pekao SA jointly with the Polish Development Fund for a total amount of PLN 10.6 billion. This acquisition confirms the Management Board's determination in pursuing the PZU 2020 strategy calling for a strong footprint in Poland's banking sector. This investment has enabled the PZU Group to become the largest group offering comprehensive financial services in Poland and Central and Eastern Europe with a total balance sheet value in excess of PLN 317 billion.

In 2017 the Company had in place an internal control system adapted to fit the scale of operations and organizational structure, aimed at ensuring efficiency and effectiveness of the organization's activities, reliability of financial reporting and compliance of PZU SA's actions with the provisions of law and internal regulations.

The internal control system in PZU SA comprises supervision, overall administrative and accounting procedures, organizational structures, reporting systems, solutions implemented in IT systems, the compliance function and other control mechanisms contributing to the attainment of the Company's objectives and security and stability of its operations, implemented to ensure the following in a reasonable manner:

- efficiency and effectiveness of operating activity;
- reliability of information communicated inside and outside the Company and assurance of availability and reliability of such information, in particular pertaining to financial statements;
- adequacy and effectiveness of risk controls (control operations should be commensurate with the level of risk involved in the operations and processes under control);
- responsible and transparent management of the Company;
- compliance of the Company's activity with laws and internal regulations and the standards of conduct adopted by the Company.

Supervision over the internal control system in the Company comprises:

- supervision exercised by the Supervisory Board;
- activity of the Company's Management Board involving, inter alia, establishment of an adequate and effective internal control system and periodic assessment of the functioning of the internal control system;
- supervision exercised by the managers of functional divisions, specialist units and organizational cells in their subordinated organizational units/cells;
- supervision exercised by the Compliance Department in the area of system solutions aimed at ensuring adequacy and effectiveness of risk control in the business processes covered by the internal control system.

An important role in this system is played by the PZU SA Supervisory Board Audit Committee. The Committee plays an advisory and opinion-making role for the Supervisory Board and has been

appointed to increase the effectiveness of supervisory activities performed by the Supervisory Board in the area of monitoring the Company's financial reporting, financial audit activities in the Company, independence of the statutory auditor and the entity authorized to audit financial statements and effectiveness of the internal control, internal audit and risk management systems in place.

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

The internal control system and the risk management system are subject to assessment by, among others, the internal audit services which operate in conditions ensuring objectivism and independence. The manager of the internal audit services answers directly within the organization to the Management Board President and functionally to the Audit Committee, and is authorized to contact the Supervisory Board Chairman and the Audit Committee Chairman directly, in particular in matters concerning any discovered material irregularities. A double reporting system is applied in relation to the results of undertaken actions: to the Management Board and to the Supervisory Board Audit Committee. The Supervisory Board Audit Committee's prior positive opinion is required for an audit plan to be accepted or amended, if applicable. The appointment or dismissal of the manager of PZU SA's audit services requires the Audit Committee's opinion. In addition, the internal audit services in PZU SA are independent of operational functions.

In order to ensure good quality and continuous improvement of the internal audit function, internal (on an annual basis) and external (not less than once every five years) assessments of the Company's internal audit activities are conducted. The most recent external assessment of the internal audit function confirmed that the internal audit function in PZU SA is compliant with the requirements of Standards of the Institute of Internal Auditors.

In 2017, the audit tasks in PZU SA were performed on the basis of an annual audit plan prepared on the basis of the assessment of the risks existing in individual areas of the Company's operations, which received a positive opinion of the Supervisory Board

Audit Committee and was then adopted by a PZU SA Management Board resolution.

Audit results, recommendations issued and their implementation (subject to a monitoring process by the Internal Audit Department (BAW)) are presented to the Company's Management Board on an on-going basis and to the Supervisory Board Audit Committee on a periodical (quarterly) basis. BAW prepared an annual report on the activity in 2017 comprising information about the execution of the audit plan and other tasks performed by BAW, assessment of the internal control system and the risk management system.

BAW coordinates the internal audit function in the PZU Group's key companies. As in the previous years, on the basis of the cooperation agreement entered into with key PZU SA subsidiaries, the internal audit function obtains information regarding the adequacy and effectiveness of their risk management and internal control systems.

In 2017, the Company had in place a risk management system adapted to fit the scale of its activity and organizational structure. The risk management system was based on the following elements:

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

The division of powers and tasks within the risk management system is based on four competence levels. The first three levels comprise:

- The Supervisory Board, which supervises the risk management process and assesses its adequacy and effectiveness as part of its decision-making powers defined in the Company's Articles of Association and the Supervisory Board rules and regulations;
- The Management Board which organizes the risk management system through adopting strategies and policies and defining the appetite for risk, the risk profile and tolerance for individual categories of risk;
- committees, which make decisions to mitigate individual risks to a level determined by the risk appetite. The Committees implement the procedures and methodologies for mitigating

the individual risks and accept individual risk limits. The special role of the PZU Group Risk Committee is to provide support to the subsidiaries in implementing an effective risk management system coherent for the entire PZU Group. The operational objective of the PZU Group Risk Committee is to coordinate and supervise activities related to the PZU Group's risk management system and processes.

The fourth level pertains to operations, where the tasks associated with the risk management process are divided between three lines of defense:

- the first line of defense – ongoing risk management at the business unit and organizational unit level and decision-making as part of the risk management process. The managers are responsible for implementing an effective risk management system in the areas of the Company's operations they supervise; in particular, they are responsible for design and effective operation of risk identification and monitoring measures, which are integral components of the processes guaranteeing adequate response to the risks as they arise;
- the second line of defense – risk management by specialized cells responsible for risk identification, monitoring and reporting and controlling the limits. Within the second line of defense, the units which play an important role in the process are the Risk Department, the Planning and Controlling Department, the Actuarial Department, the Reinsurance Department, the Legal Department, the Compliance Department, the Security Department, the HR Department and the Technology Function;
- the third line of defense - comprises internal audit, which conducts independent audits of the elements of the risk management system, as well as control activities embedded in the Company's activities. This function is performed by the Internal Audit Department.

The risk management process consists of the following stages: identification, measurement and assessment, monitoring and controlling, reporting and management activities.

The basic risk categories identified in the company include: market risk, credit risk, concentration risk, actuarial risk, operating risk and compliance risk. Each risk classified as material is subject to measurement involving definition of the risk measures adequate to the type and availability of

data and quantification of risk using established measures or expert assessment taken into account in the measurement of total risk. Within the framework of the risk management processes, reports are delivered at decision-making levels adequate to the type and materiality of the risk. In particular, in accordance with the applicable regulations, reports are submitted to the Company's Supervisory Board, Management Board, PZU Group Risk Committee, Investment Risk Committee, Investment Committee and Asset-Liability Management Committee. Managerial actions pertaining to individual risk categories are defined in internal regulations or management standards adopted for such risks. Depending on the risk type and characteristics, these actions can comprise in particular: risk evasion, risk transfer, risk mitigation and acceptance of the risk level, and tools supporting such actions, i.e. limits, reinsurance program.

The management functions in the PZU Group are exercised at the following two levels:

- the PZU Group level – ensuring that the PZU Group attains its business objectives in a safe manner appropriate to fit the scale of the risk incurred. Monitored at this level are the limits and risks specific to the PZU Group such as: catastrophic risk, financial risk, counterparty risk and risk concentration. The PZU Group provides support for the implementation of an integrated risk management system, including the introduction of compatible mechanisms, standards and organization of an efficient operation of the internal control system (with particular emphasis on the compliance function), the risk management system (in particular in the reinsurance area) and the security management system in the PZU Group, and monitors their ongoing application. The PZU Group dedicated personnel cooperates with the Management Boards of companies and managers of such areas as finance, risk, actuarial services, reinsurance, investments and compliance on the basis of pertinent cooperation agreements;
- the company level – ensuring that the PZU Group company attains its business objectives in a safe manner appropriate to fit the scale of the risk incurred by the company. Monitored at this level are the limits and risk categories specific to the company and, as part of the integrated risk management system,



implemented are the mechanisms, standards and organization of an efficient operation of the internal control system (with particular emphasis on the compliance function), the risk management system (in particular in the reinsurance area) and the security management system.

PZU exercises supervision over the PZU Group's risk management system on the basis of cooperation agreements entered into with other PZU Group entities and information obtained from them in accordance with the cooperation agreements, and manages the PZU Group's risk at an aggregate level. The cooperation agreements and the scope of information to be provided take into consideration the specific legal nature of each entity concerned, including limitations arising from banking secrecy rules.

In order to ensure the effectiveness of risk management at the PZU Group level, the risk management rules applicable to subsidiaries include a recommendation issued by PZU regarding the organization of the risk management system (both in the insurance sector and in the banking sector).

The management boards of PZU Group entities are responsible for fulfilling their own duties in

#### **VII. Assessment of application of the Corporate Governance Rules for Regulated Institutions**

On 22 July 2014, the Polish Financial Supervision Authority (KNF) issued the Corporate Governance Rules for Regulated Institutions ("Rules") constituting a set of guidelines (soft law norms) that should be applied by regulated entities from 1 January 2015 under the applicable laws giving consideration to the rule of proportionality.

The PZU SA Management Board and Supervisory Board declared their readiness to apply the Rules to the objectively broadest extent while giving consideration to the principle of proportionality and the principle "comply or explain" stemming from their wording. These declarations were confirmed by the PZU SA Management Board and Supervisory Board in their respective resolutions.

Information on the application of the Rules was presented by the PZU SA Management Board and Supervisory Board during the Ordinary Shareholder Meeting of PZU SA held on 30 June 2016. The Ordinary Shareholder Meeting of PZU SA declared that, acting within its powers, it will be guided by the Rules, except for certain specific ones waived by the Ordinary Shareholder Meeting of PZU SA.

Detailed information on the application of the Rules by PZU SA, indicating the rules that PZU SA satisfies

accordance with the generally applicable provisions of national, European and international law. In particular, they are responsible for the implementation of an adequate and effective risk management system.

Supervision over the risk management systems in each regulated entity is exercised by the supervisory boards to which PZU SA appoints its representatives.

The PZU SA Supervisory Board recommends that the PZU SA Ordinary Shareholder Meeting discharge all PZU SA Management Board members on the performance of their duties in 2017, i.e.:

- Michał Krupiński, President of the Management Board,
- Paweł Surówka, President of the Management Board,
- Roger Hodgkiss, Management Board Member,
- Tomasz Kulik, Management Board Member,
- Andrzej Jaworski, Management Board Member,
- Maciej Rapkiewicz, Management Board Member,
- Małgorzata Sadurska, Management Board Member.

in part and the rules that due to the nature or specificity of the Company's business do not apply to PZU SA, is posted on PZU SA's website.

The following rules are satisfied in part by PZU SA:

- the rule laid down in § 8 section 4 of the Rules concerning the enabling of all shareholders to participate in the Shareholder Meeting, including by procuring the possibility of actively participating electronically in the Shareholder Meeting
  - it should be emphasized that currently the PZU SA shareholders may follow the broadcast of the Shareholder Meeting, however PZU SA decided not to introduce the so-called e-Shareholder Meeting, because, in PZU SA's opinion, there are a number of factors of a technological and legal nature which may affect the proper conduct of the Shareholder Meeting; legal concerns include the possibility of identifying the shareholders and verifying their legitimacy; the risk of the occurrence of technical difficulties, e.g. with the Internet connection or possible external interference in the IT systems, may disrupt the work of the Shareholder Meeting and evince doubts



concerning the efficacy of the resolutions adopted during its course; the materialization of the above risks may affect the proper application of this rule to its full extent;

- the rule laid down in § 21 section 2 of the Rules according to which within the supervising body there should be a separate function of the chairperson in charge of managing the work of the supervising body, and the selection of the chairperson of the supervising body should be accomplished on the basis of experience and team management skills while giving consideration to the criterion of independence
  - it should be emphasized that, in accordance with the Commercial Company Code and PZU SA's Articles of Association, the function of chairperson has been established within the PZU SA Supervisory Board; the PZU SA Supervisory Board's composition and the chairperson's function are shaped in accordance with the criteria of independence stated in the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision; the selection of the Supervisory Board Chairperson is accomplished on the basis of the criterion of knowledge, experience and skills that confirm the competences required to discharge duly the duties of supervision; applying the criterion of independence to the chairperson according to the KNF Office's explanation of this rule may evince doubts concerning a possible collision with the legal regulations pertaining to shareholder rights;
- the rule laid down in § 49 section 3 of the Rules concerning the appointment and dismissal, in a regulated institution, of the person managing the internal audit cell and the person managing the compliance cell with the consent of the supervising body or the audit committee
  - it should be pointed out that PZU SA applies the rules laid down in § 14 of the Rules to their full extent, which means that the PZU SA Management Board is the sole body empowered to, and responsible for, managing the Company's activity; moreover, according to the labor law regulations, the managing body exercises labor law activities; on account of the foregoing, PZU SA has adopted a solution that anticipates that the selection and dismissal of the person managing the internal

audit cell is accomplished while taking into account the opinion of the Supervisory Board's Audit Committee; the person managing the compliance cell is appointed and dismissed in an identical manner; in making these decisions, the Management Board obtains the Audit Committee's opinions.

The Ordinary Shareholder Meeting of PZU SA has waived the following rules:

- the rule laid down in § 10 section 2 of the Rules reading as follows: "The implementation of personal rights or other special rights for shareholders of the regulated institution should be justified and serve the accomplishment of the regulated institution's material operating goals. The possession of such rights by shareholders should be reflected in the wording of the primary governing document of the regulated institution."
  - the waiving of this rule was due to the unfinished process of the Company's privatization by the State Treasury;
- the rule laid down in § 12 section 1 of the Rules reading as follows: "Shareholders are responsible for recapitalizing without delay a regulated institution in a situation in which it is necessary to maintain the regulated institution's equity at the level required by the legal regulations or oversight regulations as well as when the security of the regulated institution so requires."
  - the waiving of this rule was due to the unfinished process of the Company's privatization by the State Treasury;
- the rule laid down in § 28 section 4 of the Rules reading as follows: "The decision-making body assesses whether the implemented compensation policy fosters the regulated institution's development and operating security."
  - the waiving of this rule was due to the overly broad scope of the subject matter of the compensation policy subject to assessment by the decision-making body. The compensation policy in respect of persons who discharge key functions but are not members of the supervising body or the managing body should be subject to assessment by such persons' employer or principal, i.e. the Company represented by the Management Board and supervised by the Supervisory Board.

Furthermore, the following rules are not applicable to PZU SA:

- the rule laid down in § 11 section 3 of the Rules reading as follows: "In the event that the decision-making body makes a decision concerning a transaction with an affiliate, all shareholders should have access to all information required to assess the conditions on which it is implemented and its impact on a regulated institution's standing."  
– in PZU SA, the Shareholder Meeting does not make decisions on transactions with an affiliate;
- the rule laid down in § 49 section 4 of the Rules reading as follows: "In a regulated institution in which there is no audit or compliance cell, the rights ensuing from sections 1-3 are vested in the persons responsible for performing these functions."  
– audit and compliance cells operate in PZU SA;
- the rule laid down in § 52 section 2 of the Rules reading as follows: "In a regulated institution in which there is no audit or

compliance cell or no cell responsible for this area has been designated, the information referred to in section 1 shall be conveyed by the persons responsible for performing these functions."

– audit and compliance cells operate in PZU SA;

- the rules laid down in Chapter 9 of the Rules entitled "Exercising the rights from assets acquired at a client's risk"  
– PZU SA does not offer products entailing asset management at a client's risk.

During the reporting period, there were no events causing the need to update the above information.

In consideration of the foregoing, the PZU SA Supervisory Board is of the opinion that the rules introduced by the document entitled "Corporate Governance Rules for Regulated Institutions" are applied properly and in accordance with the declarations of PZU SA's governing bodies.

#### **VIII. Assessment of the Company's fulfillment of the reporting duties associated with the application of the corporate governance principles set forth in the Warsaw Stock Exchange Rules and in the provisions of law concerning current and periodic information transmitted by securities issuers**

Since the day when the Company's shares were admitted to trading on a regulated market, PZU SA has invariably followed the corporate governance rules laid down in the document entitled Best Practices of WSE listed companies.

Since 1 January 2016, a set of corporate governance principles entitled Best Practices of WSE Listed Companies 2016 ("BPLC 2016"), adopted by resolution of the WSE Board on 13 October 2015, have been in force.

Pursuant to § 29 sec. 3 of the WSE Rules, the issuer is required to publish a report in cases where a specific corporate governance principle is not applied on a permanent basis or is breached on an incidental basis.

Moreover, pursuant to principle I.Z.1.13 of BPLC 2016, information on the actual application of the recommendations and principles contained in BPLC 2016 should be posted by issuers on their websites.

In 2017, PZU SA complied with the recommendations and principles set forth in BPLC 2016, except for recommendation IV.R.2. which provides for a possibility for shareholders to

participate in a shareholder meeting using means of electronic communication, in particular via:

- 1) real-time transmission of the Shareholder Meeting,
- 2) real-time bilateral communication where shareholders may take the floor during a Shareholder Meeting from a location other than the shareholder meeting,
- 3) exercising, in person or by proxy, voting rights during a shareholder meeting.

Presently, PZU SA shareholders may follow the broadcast of the shareholder meeting. However the Company has not elected to introduce an electronic shareholder meeting. According to PZU SA, there are many technical and legal factors that may affect the proper course of the shareholder meeting. The legal doubts pertain to the ability to identify shareholders and check the legitimacy of participants in the shareholder meeting. The risk of the occurrence of technical difficulties, e.g. with the internet connection or possible external interference in the IT systems may disrupt the work of the shareholder meeting and evince doubts concerning the efficacy of the resolutions adopted during its

course. The appearance of these risks may affect the proper application of this rule to a full extent.

Furthermore, the following rules are not applicable to PZU SA:

- principle I.Z.1.10, providing for the publication of financial projections, if the company has decided to publish them, published at least in the last 5 years, including information about the degree of their implementation, because, as at the date of publication of this report, PZU SA has not published any financial projections or estimates;
- principle III.Z.6., concerning cases of non-separation of an internal audit function within the company's organizational structure, because this function has been separated in PZU SA's organizational structure;
- recommendation IV.R.3., concerning situations where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, because PZU SA securities are traded only on the Polish market.

#### **IX. Report on assessment of the operation of the compensation policy at PZU SA**

The basis for assessment of the operation of the compensation policy at PZU SA is § 28 section 3 of the Corporate Governance Rules for Regulated Institutions.

##### **PRINCIPLES FOR SHAPING THE COMPENSATION POLICY AT PZU SA**

- The rules for compensating the Company's employees are laid down in the PZU SA Compensation Policy (hereinafter: "Compensation Policy"), as adopted by the Company's Management Board in 2016. The Compensation Policy covers all internal regulations defining the principles for compensating specific employee groups or specific employees, determined in accordance with the regulatory requirements and other generally applicable provisions of law, the Company's internal regulations and guidelines issued by the regulatory authority. This regulation also covers detailed solutions pertaining to compensating specific employee groups, i.e. key personnel as well as other employee groups whose work significantly affects the company's risk profile (hereinafter: "Entitled Persons"), Senior Management who are not classified as Entitled Persons and other employees. Entitled Persons who are not Management Board members are classified in

Information on the actual application of the recommendations and principles contained in BPLC 2016 by PZU SA ("Information") is available on PZU SA's website in the "Investor relations" section.

Moreover, no events occurred during the reporting period as a result of which PZU SA would be required to update any such information or publish a report on a breach of a particular detailed principle in a permanent or incidental manner, in accordance with § 29 section 3 of the WSE Rules.

In performance of the obligation arising out of § 91 Section 5 Item 4 of the Finance Minister's Regulation of 19 February 2009 on the Current and Periodic Information Transmitted by Securities Issuers and the Conditions for Recognizing the Information Required by the Regulations of a Non-Member State as Equivalent, PZU SA included, in the Management Board report on the activity of the PZU Group and PZU SA in 2017 ("Report"), a corporate governance statements forming a separate part of this Report.

accordance with the Identification Method developed by the Company. The purpose for the adoption of the Identification Method was to implement the requirements of the delegated regulation on the introduction of detailed compensation policies for employees whose work significantly affects the undertaking's risk profile. The detailed solutions pertaining to Entitled Persons in the developed documents concern Company employees but do not apply to Supervisory Board members whose compensation rules are regulated by the Shareholder Meeting or Management Board Members or PZU Group Directors in PZU SA who are also Members of the PZU Życie SA Management Board (hereinafter: "Managers"), whose rules of compensation are governed separately by:

- 1) Supervisory Board – in respect of Management Board Members, in the performance of Resolution No. 4 of the Extraordinary Shareholder Meeting of Powszechny Zakład Ubezpieczeń S.A. of 8 February 2017 to define the rules for setting the compensation of Management Board Members, as amended by Resolution No. 38 of the Ordinary Shareholder Meeting of Powszechny Zakład

Ubezpieczeń S.A. of 29 June 2017 in conjunction with the Act of 9 June 2016 on the Rules for Shaping the Compensation of Persons Managing Certain Companies (hereinafter: "Act").

- 2) PZU SA Management Board – in respect of PZU Group Directors who are also Members of the PZU Życie SA Management Board and the rules of whose compensation are specified in the contract for the provision of management services (hereinafter: "Agreement") and in the resolutions adopted in this matter by the Management Board in conjunction with the Act of 9 June 2016 on the Rules for Shaping the Compensation of Persons Managing Certain Companies.

The total compensation due to a Manager for rendering management services and discharging other obligations ensuing from the Management Services Provision Agreement (hereinafter: "Agreement") consists of the following:

**fixed compensation** – a fixed monthly base salary (for a calendar month) that cannot exceed the reference range established pursuant to Article 4 Section 2 of the Act, without prejudice to the situations referred to in Article 4 Section 3 of the Act;

**variable compensation** – supplementary compensation for a given financial year, depending on the extent to which the management objectives have been attained. The variable component for a given financial year may not exceed 100% of the annual fixed salary in the previous financial year for which the amount of the variable compensation is being calculated. In addition, a significant portion of the variable compensation component is awarded in the form of deferred variable compensation. Deferred variable compensation is subject to deferral for 3 years. 12, 24 and 36 months, respectively from the date of allocation, a Management Board member may acquire the right to 1/3 of the deferred variable compensation for a given year subsequent to satisfying the conditions defined in the Agreement.

- The main objective of the Company's compensation policy is to recruit, retain and motivate employees to demonstrate the best possible performance by pursuing the

Company's strategic objectives while maintaining optimal and rational employee compensation levels and taking into account the need for proper financial and risk management at PZU SA.

- Compensations in the Company are shaped in relation to the scope of tasks and the level of responsibility defined in the job description, which is subject to valuation in accordance with the Hay Group's methodology.
- On an annual basis, the HR Department verifies the market competitiveness of compensations offered by the Company.
- The Company's compensation system is communicated to all PZU SA employees.

#### ELEMENTS OF EMPLOYEE COMPENSATION

- Total compensation is divided into a fixed part and a variable part.
- The Company defines the appropriate ratio of the fixed basic compensation component to variable compensation where this ratio is appropriately balanced so that the fixed part of compensation forms a sufficiently large part of total compensation to enable the conduct of a flexible policy in respect of the variable components of compensation.
- Variable compensation is determined differently for each specific employee group or each person. Its level is substantiated by the Company's financial performance and the achieved work results. Information on the bonus system applicable to the employee is part of his/her employment contract.
- The basis for specifying the total amount of variable compensation is an assessment of the performance of both the employee and his/her organizational unit in the connection with the Company's overall performance; any assessment of individual performance takes into account both financial and non-financial criteria.
- The bonus system depends on the job group and business specificity.
- The rules governing the granting of variable compensation, especially for Entitled Persons and employees classified as Senior Management, are aimed at supporting the proper and effective risk management, discouraging the taking of excessive risk beyond the limits approved by the Supervisory Board, supporting the pursuit of the business strategy and curtailing conflicts of interest.

- Variable compensations granted in the Company are subject to limits on the allowable maximum amount – in a specific percentage of the fixed compensation for the applicable assessment period. In the case of the Managers, the amount of their variable compensation is specified in the Agreement in compliance with the provisions of the Act. The ratio of fixed base compensation to variable compensation of an Entitled Person or a Manager enables the conduct of a flexible policy of variable components of compensation, including a reduction or elimination of the variable compensation component. Moreover, total variable compensation granted to Entitled Persons for a given year must not impair the Company's ability to increase its capital base.
  - The Compensation Policy and the Managers' Agreements also provide for the possibility of postponing the disbursement of a substantial part of variable compensation to an Entitled Person or a Manager for a given year. Such postponed disbursement is deferred for 3 years, and after 12, 24 and 36 months from the vesting date, as appropriate, the Entitled Persons may acquire the right to 1/3 of the deferred disbursement for a given year, provided that they satisfy the conditions defined in the Company's internal regulations, the Compensation Policy and the Managers' Agreements.
  - Entitled Persons and Managers are required not to use their own hedging strategies or compensation and liability insurance, except for compulsory insurance arising from special laws that would neutralize the measures taken against such persons within the framework of implementation of the Compensation Policy.
  - Moreover, as part of its compensation policy, PZU SA offers its personnel the following employee benefits:
    - Employee Pension Plan.
    - Medical care.
    - Insurance for medicine.
    - Company Social Benefit Fund cafeteria (the amount of benefits depends on the level of income per family member).
    - Housing loans for employees.
    - Discounts on insurance products offered by the PZU Group.
    - Relocation benefit in case of a change of the place of work within the PZU Group at the initiative of the employer.
  - Managerial package for Senior Management specified in the applicable procedure (a company car, a mobile phone with accessories, a limit on phone calls and data transmission).
  - The rules of compensation for Supervisory Board members are governed by resolutions adopted by the Company's Shareholder Meeting. The above components of compensation do not apply to members of the Supervisory Board.
- ASSESSMENT OF THE OPERATION OF THE COMPENSATION POLICY AT PZU SA IN 2017
- PZU SA's compensation policy is consistent with the Company's business strategy, objectives, values and long-term interests, in particular in respect of sustainable growth, and incorporates measures aimed at avoiding conflicts of interest and eliminating the potential adverse impact of the compensation system on proper risk management.
  - In 2017, the PZU SA Supervisory Board's Nomination and Compensation Committee focused predominantly on the review of the rules included in the compensation policy in respect of the Company's Management Board Members and recommendations on changing the compensation rules applicable to Management Board Members, as referred to earlier in this report.
  - In 2017, supervision over the implementation of the compensation policy was exercised by:
    - The Company's Shareholder Meeting in respect of members of the PZU SA Supervisory Board.
    - The PZU SA Supervisory Board and the Nomination and Compensation Committee of the PZU SA Supervisory Board in respect of members of the PZU SA Management Board.
    - The PZU SA Management Board and the HR Director in the PZU Group in respect of PZU SA's Senior Management.
    - The HR Director in the PZU Group in respect of the Company's other employees.
  - In 2017, 17 regular meetings of the Nomination and Compensation Committee of the PZU SA Supervisory Board were held.
- The Supervisory Board is of the opinion that in 2017 the Company properly implemented the adopted Policy in line with all the rules of compensation

dedicated to specific employee groups contained therein.

#### **X. Assessment of rationality of the company's sponsorship activities, charitable activities or other activities of a similar nature.**

In 2016, the Company adopted the "PZU social involvement strategy" in which it recognized the improvement of the level of safety for Poles as the most important direction of its socially motivated endeavors.

In 2017, the Company assumed the continuation of the adopted directions of its social activities: safety, health, active lifestyle and national heritage.

The Company recognizes prevention-related activities as its strategic objective and intends to engage in them on a long term basis. PZU believes that through its involvement in such activities it will gradually contribute to the achievement of a very significant social benefit: improved level of safety. At the same time, the Company contributes to the process of increasing social capital, comfort and quality of life in Poland.

In the area of prevention-related activities, PZU continued the conduct of such activities related to safety of road traffic, public safety and safety at work. Cooperation with rescue organizations, both professional ones and volunteer-based organizations, and supporting local initiatives aimed at improving security are a foundation for PZU's social involvement. In 2017, the Company continued its prevention cooperation with GOPR (volunteer mountain rescue service). Funds provided by PZU were spent, among others, on new quads and backpacks for all rescue groups in southern Poland. In 2017, the Company ran a prevention-focused summer vacation campaign dubbed "Safe Summer Vacation" and supported the project "Teddy Bears Rescue Children" through the help of which the youngest Polish victims of road accidents receive psychological assistance, which helps them restore their mental balance, and physiotherapeutic assistance. A key form of promotion of an active lifestyle and disease prevention among Poles was PZU's involvement in running initiatives. The Company was a strategic partner in such events, among others, as the PZU Warsaw Marathon, the PZU Warsaw Half Marathon and the PZU Cracovia Royal Marathon. All the running events sponsored

#### **XI. Self-assessment of the work of the Supervisory Board**

The PZU SA Supervisory Board diligently and effectively discharged its duties, exercising constant supervision over the activity and development of the Company in all areas of its activity and taking all

by PZU were accompanied by a charitable campaign entitled "Share a kilometer" aimed at encouraging Poles to help others through their own physical activity. In the sponsorship area, PZU's most important involvement was the patronage of cultural institutions. The Company contributed to the preservation of Polish cultural heritage by providing its patronage to such institutions as the Royal Łazienki Museum in Warsaw, the Warsaw Uprising Museum, the National Museum in Kraków, the National Museum in Warsaw, the National Theater in Warsaw and the Grand Theater – National Opera in Warsaw, among others. The Company was also involved in a number of initiatives aimed at building Polish identity – it supported various organizations, conferences and congresses aimed at shaping patriotic attitudes and care for the country's image.

As regards charitable activities, PZU is a funder and active supporter of the PZU Foundation which carries out the PZU Group's philanthropic activities forming part of its social involvement strategy.

The Foundation broadens citizens' access to cultural and social life, promotes education for children and youths and supports equal opportunity initiatives targeting people with disabilities. By participating in various projects, the Foundation supports those of them that stand out in terms of innovation and involvement of local communities and those whose effectiveness contributes to the creation of a permanent social change.

Since 2012, the PZU Foundation is also been involved in the employee volunteer program in the PZU Group within the framework of which employees engage in their own projects and volunteer initiatives initiated by the Foundation.

In consideration of the foregoing, the PZU SA Supervisory Board is of the opinion that the rules introduced by the internal regulations adopted by the Company (Sponsoring Activity Bylaws, Prevention Activity Bylaws) are applied properly and in accordance with the declarations of PZU SA's governing bodies.

actions reported by the PZU SA Management Board and required for the efficient conduct of the statutory activity and attainment of the Company's strategic objectives. The scope, method of operation



and composition of the Supervisory Board in 2017 complied with generally prevailing laws, the Company's internal regulations and requirements imposed on public companies, in particular those specified in the "Code of Best Practice for Warsaw Stock Exchange Listed Companies" in effect in 2017. All PZU SA Supervisory Board members represented a high level of preparation and professional experience in the area of management and supervision of commercial law companies, as a result of which they properly discharged their codical and statutory powers, guaranteeing appropriate supervision over the Company. All the Supervisory Board members exercised due diligence and displayed commitment in performance of their duties in the Supervisory Board and were guided in their actions by the Company's interests and independence of opinions and judgments. The diversified composition of the Supervisory Board and interdisciplinary knowledge and skills of its Members made it possible to comprehensively

review and issue opinions on the topics put forward, and ensure broad representation of views regarding the assessment of the work of the Management Board and the functioning of PZU SA as a public company.

The Supervisory Board discharged its duties without interruptions and actively supported the Management Board in the execution of the most important tasks. Considering the above, the Supervisory Board is prepared to exercise its powers as stated in the statutes and articles of association and properly discharges them, guaranteeing appropriate supervision over the Company.

In the Supervisory Board's opinion, the activity of the PZU SA Supervisory Board in 2017 can be assessed as effective, in accordance with the best market practices.

Maciej Łopiński

Chairman of the PZU SA Supervisory Board

Warsaw, 15 May 2018

**Attachment 1**  
**to the PZU SA Supervisory Board Report on the activity of the PZU SA Supervisory Board as the Company's corporate body in 2017**

<b>Resolution number</b>	<b>Date of the resolution</b>	<b>Subject matter of the resolution:</b>
<b>URN/1/2017</b>	13 January 2017	to excuse the absence of Mr. Marcin Chludziński, a PZU SA Supervisory Board Member, at the meeting held on 13 January 2017
<b>URN/2/2017</b>	13 January 2017	on the ethical principles applicable to members of the PZU SA Supervisory Board, the ethical principles applicable to members of management boards of PZU Group companies, the ethical principles applicable to members of PZU Group companies other than PZU SA who are not employees of any PZU Group company and are not bound with any PZU Group company by any other contract of a similar nature, the procedure for expressing consent for a member of the PZU SA Management Board to become a member of corporate bodies and the activities to be taken by the PZU SA Supervisory Board in the event of a conflict of interest involving a PZU SA Management Board member
<b>URN/3/2017</b>	23 February 2017	to determine the number of members and composition of the PZU SA Supervisory Board's Strategy Committee
<b>URN/4/2017</b>	23 February 2017	to set the size and composition of the PZU SA Supervisory Board's Nomination and Compensation Committee
<b>URN/5/2017</b>	23 February 2017	to set the composition of the PZU SA Supervisory Board's Audit Committee
<b>URN/6/2017</b>	23 February 2017	to assess the degree of implementation of the standards indicated in the "Guidelines for managing information technology and the security of the information and telecommunications environment in insurance and reinsurance companies" issued by the Polish Financial Supervision Authority on 16 December 2014
<b>URN/7/2017</b>	14 March 2017	election of the Chairperson of the PZU SA Supervisory Board
<b>URN/8/2017</b>	14 March 2017	in the matter of election of the PZU SA Supervisory Board Deputy Chairperson
<b>URN/9/2017</b>	14 March 2017	election of the Secretary of the PZU SA Supervisory Board
<b>URN/10/2017</b>	14 March 2017	on evaluation of the motion submitted by the Management Board of Powszechny Zakład Ubezpieczeń Spółka Akcyjna in the matter of issuing subordinated bonds on the domestic or international market
<b>URN/11/2017</b>	14 March 2017	on the evaluation of the PZU SA Financial Statements for the year ended 31 December 2016 in terms of their compliance with the ledgers and documents and the factual status, along with the statutory auditor's opinion and report and the recommendation to the PZU SA Ordinary Shareholder Meeting to approve the Financial Statements
<b>URN/12/2017</b>	14 March 2017	on the evaluation of the Management Board Report on PZU SA's activity in 2016 and recommendation to the PZU SA Ordinary Shareholder Meeting to approve it

<b>Resolution number</b>	<b>Date of the resolution</b>	<b>Subject matter of the resolution:</b>
<b>URN/13/2017</b>	14 March 2017	on the evaluation of PZU SA Group's Consolidated Financial Statements for the year ended 31 December 2016, pursuant to IFRS along with the statutory auditor's opinion and report and recommendation to the PZU SA Ordinary Shareholder Meeting to approve the Financial Statements
<b>URN/14/2017</b>	14 March 2017	on the evaluation of the Management Board Report on the PZU SA Group's activity in 2016 and recommendation to the PZU SA Ordinary Shareholder Meeting to approve it
<b>URN/15/2017</b>	22 March 2017	to dismiss Michał Krupiński from the function of President of the PZU SA Management Board and from membership in the Management Board
<b>URN/16/2017</b>	23 March 2017	to second PZU Supervisory Board Member Marcin Chłudziński to temporarily act as the President of the PZU Management Board
<b>URN/17/2017</b>	29 March 2017	on the consent to amend the Share Purchase Agreement of 8 December 2016, annexed on 23 January 2017, regarding the purchase of shares in Bank Pekao S.A. and the Consortium Agreement entered into by and between PZU SA and PFR on 8 December 2016 and the Shareholder Agreement entered into by and between PZU SA and PFR on 23 January 2017
<b>URN/18/2017</b>	13 April 2017	election of the Chairperson of the PZU SA Supervisory Board
<b>URN/19/2017</b>	13 April 2017	in the matter of election of the PZU SA Supervisory Board Deputy Chairperson
<b>URN/20/2017</b>	13 April 2017	to set the composition of the PZU SA Supervisory Board's Audit Committee
<b>URN/21/2017</b>	13 April 2017	to set the size and composition of the PZU SA Supervisory Board's Nomination and Compensation Committee
<b>URN/22/2017</b>	13 April 2017	to supplement the composition of the PZU SA Supervisory Board's Strategic Committee
<b>URN/23/2017</b>	13 April 2017	to appoint Paweł Surówka to the PZU SA Management Board and entrust him with the function of President of the Management Board
<b>URN/24/2017</b>	13 April 2017	to revoke the secondment of PZU Supervisory Board Member Marcin Chłudziński to temporarily act as the President of the PZU Management Board
<b>URN/25/2017</b>	27 April 2017	to approve selected answers provided by the Company in the BION questionnaire
<b>URN/26/2017</b>	27 April 2017	to extend, for the years 2017-2018, the agreement entered into with KPMG Audył Spółka z ograniczoną odpowiedzialnością spółka komandytowa on the review and audit of the standalone financial statements of PZU SA and the consolidated financial statements of the PZU SA Group
<b>URN/27/2017</b>	27 April 2017	to enter into an agreement with the law firm Kancelaria Prawna Łozowska & Reczyńska-Ratajczak sp. k. with its registered office in Warsaw to serve as an advisor to the PZU SA Supervisory Board
<b>URN/28/2017</b>	19 May 2017	to approve the Solvency and Financial Condition Report of Powszechny Zakład Ubezpieczeń Spółka Akcyjna for the year ended 31 December 2016
<b>URN/29/2017</b>	29 May 2017	on the assessment of the Management Board's motion to distribute PZU SA's

<b>Resolution number</b>	<b>Date of the resolution</b>	<b>Subject matter of the resolution:</b>
		net profit for the year ended 31 December 2016
<b>URN/30/2017</b>	29 May 2017	on the recommendation to discharge Dariusz Krzewina on the performance of his duties in the PZU SA Management Board in 2016
<b>URN/31/2017</b>	29 May 2017	on the recommendation to discharge Przemysław Dąbrowski on the performance of his duties in the PZU SA Management Board in 2016
<b>URN/32/2017</b>	29 May 2017	on the recommendation to discharge Rafał Grodzicki on the performance of his duties in the PZU SA Management Board in 2016
<b>URN/33/2017</b>	29 May 2017	on the recommendation to discharge Tomasz Tarkowski on the performance of his duties in the PZU SA Management Board in 2016
<b>URN/34/2017</b>	29 May 2017	on the recommendation to discharge Michał Krupiński on the performance of his duties in the PZU SA Management Board in 2016
<b>URN/35/2017</b>	29 May 2017	on the recommendation to discharge Roger Hodgkiss on the performance of his duties in the PZU SA Management Board in 2016
<b>URN/36/2017</b>	29 May 2017	on the recommendation to discharge Beata Kozłowska-Chyła on the performance of her duties in the PZU SA Management Board in 2016
<b>URN/37/2017</b>	29 May 2017	on the recommendation to discharge Robert Pietryszyn on the performance of his duties in the PZU SA Management Board in 2016
<b>URN/38/2017</b>	29 May 2017	on the recommendation to discharge Paweł Surówka on the performance of his duties in the PZU SA Management Board in 2016
<b>URN/39/2017</b>	29 May 2017	on the recommendation to discharge Sebastian Klimek on the performance of his duties in the PZU SA Management Board in 2016
<b>URN/40/2017</b>	29 May 2017	on the recommendation to discharge Maciej Rapkiewicz on the performance of his duties in the PZU SA Management Board in 2016
<b>URN/41/2017</b>	29 May 2017	on the recommendation to discharge Andrzej Jaworski on the performance of his duties in the PZU SA Management Board in 2016
<b>URN/42/2017</b>	29 May 2017	on the recommendation to discharge Tomasz Kulik on the performance of his duties in the PZU SA Management Board in 2016
<b>URN/43/2017</b>	29 May 2017	to adopt the PZU SA Supervisory Board report on the evaluation of the PZU SA Financial Statements for the year ended 31 December 2016, the Management Board Report on PZU SA's activity in 2016 and the Company's Management Board motion on the distribution of PZU SA's net profit for the year ended 31 December 2016
<b>URN/44/2017</b>	29 May 2017	to adopt the PZU SA Supervisory Board Report on the activity of the PZU SA Supervisory Board as the Company's governing body in 2016
<b>URN/45/2017</b>	2 June 2017	to give consent to the purchase of shares in Alior Bank Spółka Akcyjna with its registered office in Warsaw by Powszechny Zakład Ubezpieczeń Spółka Akcyjna or other PZU Group entities
<b>URN/46/2017</b>	12 June 2017	to appoint Małgorzata Sadurska to the PZU SA Management Board
<b>URN/47/2017</b>	30 June 2017	to approve the Solvency and Financial Condition Report of the PZU Group for

<b>Resolution number</b>	<b>Date of the resolution</b>	<b>Subject matter of the resolution:</b>
		the year ended 31 December 2016
<b>URN/48/2017</b>	6 July 2017	on the rules for setting the compensation of Management Board Members
<b>URN/49/2017</b>	6 July 2017	to accept the motion submitted by the PZU SA Management Board on the purchase of shares in PTE PZU SA
<b>URN/50/2017</b>	7 July 2017	to enter into an agreement with the law firm Kancelaria Prawna Łozowska & Reczyńska-Ratajczak sp. k. with its registered office in Warsaw to serve as an advisor to the PZU SA Supervisory Board
<b>URN/51/2017</b>	21 July 2017	to award an annual bonus for the financial year ended 31 December 2016 to Michał Krupiński, President of the PZU SA Management Board
<b>URN/52/2017</b>	21 July 2017	to award an annual bonus for the financial year ended 31 December 2016 to the Roger Hodgkiss, PZU SA Management Board Member
<b>URN/53/2017</b>	21 July 2017	to award an annual bonus for the financial year ended 31 December 2016 to Andrzej Jaworski, PZU SA Management Board Member
<b>URN/54/2017</b>	21 July 2017	to award an annual bonus for the financial year ended 31 December 2016 to Maciej Rapkiewicz, PZU SA Management Board Member
<b>URN/55/2017</b>	21 July 2017	to award an annual bonus for the financial year ended 31 December 2016 to Paweł Surówka, PZU SA Management Board Member
<b>URN/56/2017</b>	21 July 2017	to award an annual bonus for the financial year ended 31 December 2016 to Rafał Grodzicki, PZU SA Management Board Member
<b>URN/57/2017</b>	21 July 2017	to award an annual bonus for the financial year ended 31 December 2016 to Przemysław Dąbrowski, PZU SA Management Board Member
<b>URN/58/2017</b>	21 July 2017	to awarding an annual bonus for the financial year ended 31 December 2016 Dariusz Krzewina, PZU SA Management Board Member
<b>URN/59/2017</b>	21 July 2017	to award an annual bonus for the financial year ended 31 December 2016 to Beata Kozłowska-Chyła, PZU SA Management Board Member
<b>URN/60/2017</b>	21 July 2017	to award an annual bonus for the financial year ended 31 December 2016 to Sebastian Klimek, PZU SA Management Board Member
<b>URN/61/2017</b>	21 July 2017	to award an annual bonus for the financial year ended 31 December 2016 to Tomasz Tarkowski, PZU SA Management Board Member
<b>URN/62/2017</b>	21 July 2017	to award an annual bonus for the financial year ended 31 December 2016 to Robert Pietryszyn, PZU SA Management Board Member
<b>URN/63/2017</b>	21 July 2017	to give consent to the execution of the Management Services Provision Agreement with Małgorzata Sadurska, PZU Management Board Member
<b>URN/64/2017</b>	21 July 2017	to give consent to the execution of the Management Services Provision Agreement with Tomasz Kulik, PZU Management Board Member
<b>URN/65/2017</b>	21 July 2017	to give consent to the execution of the Management Services Provision Agreement with Paweł Surówka, President of the PZU Management Board
<b>URN/66/2017</b>	21 July 2017	to give consent to the execution of the Management Services Provision

<b>Resolution number</b>	<b>Date of the resolution</b>	<b>Subject matter of the resolution:</b>
		Agreement with Maciej Rapkiewicz, PZU Management Board Member
<b>URN/67/2017</b>	21 July 2017	to give consent to the execution of the Management Services Provision Agreement with Roger Hodgkiss, PZU Management Board Member
<b>URN/68/2017</b>	3 August 2017	to give consent to the subscription for shares in the increased share capital of Link4 TU SA with its registered office in Warsaw
<b>URN/69/2017</b>	30 August 2017	to give consent to the extension of the scope of work related to the review and audit of the consolidated financial statements of the PZU Group
<b>URN/70/2017</b>	30 August 2017	amending Resolution No. URN/64/2017 to give consent to the execution of the Management Services Provision Agreement with Tomasz Kulik, PZU Management Board Member
<b>URN/71/2017</b>	30 August 2017	amending Resolution No. URN/65/2017 to give consent to the execution of the Management Services Provision Agreement with Paweł Surówka, President of the PZU Management Board
<b>URN/72/2017</b>	30 August 2017	amending Resolution No. URN/48/2017 on the rules for setting the compensation of Management Board Members
<b>URN/73/2017</b>	30 August 2017	to give consent to the execution of the Agreement on Settlement of the Compensation under the Employment Contract of 26 October 2016 and under the Management Services Provision Agreement in the period from 13 April 2017 to the date of execution of the Management Services Provision Agreement with Paweł Surówka, President of the PZU Management Board, and to the termination of the current employment contract
<b>URN/74/2017</b>	30 August 2017	to define the Management Objectives for the Company's Management Board Members for 2017
<b>URN/75/2017</b>	30 August 2017	to give consent to the subscription for shares in the increased share capital of Omicron SA with its registered office in Warsaw
<b>URN/76/2017</b>	7 September 2017	to enter into an agreement with the law firm Matczuk, Wieczorek i Wspólnicy Kancelaria Adwokatów i Radców Prawnych Spółka Jawna on the provision of support to the PZU SA Supervisory Board's Audit Committee in issuing an opinion and preparing the documentation in connection with the fulfillment of the obligation arising from the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision
<b>URN/77/2017</b>	18 September 2017	to adopt the consolidated text of the Articles of Association of PZU SA
<b>URN/78/2017</b>	18 September 2017	to set the composition of the PZU SA Supervisory Board's Audit Committee
<b>URN/79/2017</b>	2 October 2017	amending the Rules and Regulations of the Supervisory Board of Powszechny Zakład Ubezpieczeń Spółka Akcyjna
<b>URN/80/2017</b>	2 October 2017	on the Rules and Regulations of the PZU SA Supervisory Board's Audit Committee
<b>URN/81/2017</b>	2 October 2017	on the policy for the selection of an audit firm to perform the audit



<b>Resolution number</b>	<b>Date of the resolution</b>	<b>Subject matter of the resolution:</b>
<b>URN/82/2017</b>	2 October 2017	on the policy for the provision of permitted non-audit services by the audit firm conducting the audit, by entities related to this audit firm and by a member of the audit firm's network
<b>URN/83/2017</b>	2 October 2017	on the procedure for the selection of an audit firm
<b>URN/84/2017</b>	25 October 2017	amending Resolution No. URN/82/2017 on the policy for the provision of permitted non-audit services by the audit firm conducting the audit, by entities related to this audit firm and by a member of the audit firm's network
<b>URN/85/2017</b>	8 November 2017	to give consent to the execution of a mandate contract with Alior Bank Spółka Akcyjna on periodic granting of insurance guarantees constituting unfunded credit protection
<b>URN/86/2017</b>	14 November 2017	amending the Rules and Regulations of the Supervisory Board of Powszechny Zakład Ubezpieczeń Spółka Akcyjna
<b>URN/87/2017</b>	14 November 2017	to give consent to the execution of an agreement with a financial advisor under the M&A Tytan type of project
<b>URN/88/2017</b>	14 November 2017	to give consent to the subscription for shares in the increased share capital of PZU Zdrowie SA with its registered office in Warsaw
<b>URN/89/2017</b>	21 November 2017	to give consent to the execution of an agreement with DoubleClick, a branch of Google Ireland Limited
<b>URN/90/2017</b>	21 November 2017	to give consent to the placement of orders for the broadcast of commercials in an advertising campaign supporting the PZU brand's image
<b>URN/91/2017</b>	21 November 2017	to give consent to the extension of the scope of work related to the audit of the consolidated financial statements of the PZU Group for 2017 and the PZU Group's solvency and financial condition report for 2017
<b>URN/92/2017</b>	11 December 2017	on the application, by members of the PZU SA Management Board, of the rules for handing investment information, as set forth in the PZU SA Investment Activity Bylaws, and to repeal Resolution No. URN/20/2005 adopted by the Powszechny Zakład Ubezpieczeń SA Supervisory Board on 18 May 2005 on the approval of the "Bylaws on the PZU employees using good practices in financial and capital investments"
<b>URN/93/2017</b>	11 December 2017	to accept the Financial Plan of PZU SA and the PZU Group for 2018

Attachment 2 to the PZU SA Supervisory Board Report on the activity of the PZU SA Supervisory Board as the Company's corporate body in 2017

First and last name of the PZU SA Supervisory Board Member	DATE OF THE MEETING																	
	13.01	23.02	14.03	22.03	13.04	16.05	29.05	12.06	30.06	06.07	14 -	21.07	30.08	18.09	02.10	08.11	14.11	11.12
<b>Bogusław Banaszak</b>		√	√	X	√	√	√	√	√	√	√	√	√	√	√	√	√	√
<b>Marcin Chłudziński</b>	X	√	√	√	X	√	X	√	√	√	√	X	X	√	√	√	√	√
<b>Aneta Fałek</b>						√	√	√	√	√	√	√	√	√	√	√	√	√
<b>Marcin Gargas</b>	√																	
<b>Paweł Górecki</b>		√	√	√	√	√	√	√	√	√	X	√	√	√	√	√	√	√
<b>Agata Górnicka</b>		√	√	√	√	√	√	√	X	√	X	X	X	√	X	√	√	X
<b>Paweł Kaczmarek</b>	√	√	√	√														
<b>Eligiusz Krześniak</b>	√																	
<b>Katarzyna Lewandowska</b>					√	√	√	√	√	√	√	√	√	√	√	√	√	√
<b>Alojzy Nowak</b>	√	X	√	√	√	X	√	√	√	√	√	√	√	√	√	X	√	√
<b>Jerzy Paluchniak</b>	√	√	√	√														
<b>Piotr Paszko</b>	√																	
<b>Radosław Potrzyszcz</b>	√																	
<b>Robert Śnitko</b>					√	√	√	√	√	√	√	√	√	√	√	√	√	√
<b>Łukasz Świerzewski</b>		√	√	√														
<b>Maciej Zaborowski</b>	√	√	√	√	√	√	√	X	√	X	√	√	√	√	√	√	√	√

√ – present  
X – absence excused

# Report of the PZU SA Supervisory Board Audit Committee on its activities in 2017

Warsaw, 14 March 2018



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

The Audit Committee of the PZU SA Supervisory Board was established on 3 June 2008 by the power of resolution no. URN/20/2008 of the PZU SA Supervisory Board to establish the PZU SA Supervisory Board Audit Committee.

As at 1 January 2017, the following persons sat on the PZU SA Supervisory Board Audit Committee:

- 1) Piotr Paszko – Committee Chairman,
- 2) Marcin Chludziński – Committee Member,
- 3) Jerzy Paluchniak – Committee Member.

Piotr Paszko was identified by the Supervisory Board as the independent member, and Jerzy Paluchniak – as the member holding accounting or financial audit qualifications within the meaning of Article 86 Section 4 of the Act on Statutory Auditors and their Self Regulation, Entities Authorized to Audit Financial Statements and Public Supervision of 7 May 2009 (Journal of Laws 2009 No. 77, Item 649).

On 8 February 2017, Eligiusz Krześniak tendered his resignation from membership in the Supervisory Board effective immediately. On 8 February 2017, the Extraordinary Shareholder Meeting of PZU SA dismissed Marcin Gargas, Piotr Paszko and Radosław Potrzezszcz from the Company's Supervisory Board. On the same date, the Extraordinary Shareholder Meeting appointed Agata Górnicka, Łukasz Świerzewski, Paweł Górecki, Bogusław Marian Banaszak to the PZU SA Supervisory Board. In connection with the change in the composition of the Supervisory Board, during the first meeting held on 23 February 2017, the following composition of the Audit Committee was established:

- 1) Bogusław Marian Banaszak – Committee Chairman,
- 2) Marcin Chludziński – Committee Member,
- 3) Jerzy Paluchniak – Committee Member.

Bogusław Marian Banaszak was identified by the Supervisory Board as the independent member, and Jerzy Paluchniak – as the member holding accounting or financial audit qualifications within the

meaning of Article 86 Section 4 of the Act of 7 May 2009 on Statutory Auditors and their Self Regulation, Entities Authorized to Audit Financial Statements and Public Supervision (Journal of Laws 2009 No. 77, Item 649).

On 12 April 2017, Łukasz Świerzewski tendered his resignation from membership in the Supervisory Board effective immediately. On 12 April 2017, by letter from State Treasury, Jerzy Paluchniak was dismissed from and Aneta Fałek was appointed to the Supervisory Board. On 12 April 2017, the Extraordinary Shareholder Meeting of PZU SA dismissed Paweł Kaczmarek from the Company's Supervisory Board. On the same date, the Extraordinary Shareholder Meeting appointed Robert Śnitko and Katarzyna Lewandowska to the PZU SA Supervisory Board. In connection with the change in the composition of the Supervisory Board, during the meeting held on 13 April 2017, the following composition of the Audit Committee was established:

- 1) Bogusław Marian Banaszak – Committee Chairman,
- 2) Marcin Chludziński – Committee Member,
- 3) Robert Śnitko – Committee Member.

Bogusław Banaszak was identified by the Supervisory Board as the independent member, and Marcin Chludziński – as the member holding accounting or financial audit qualifications within the meaning of Article 86 Section 4 of the Act of 7 May 2009 on Statutory Auditors and their Self Regulation, Entities Authorized to Audit Financial Statements and Public Supervision (Journal of Laws 2009 No. 77, Item 649).

In connection with the entry into force of the new Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision, on 18 September 2017 the following new composition of the Audit Committee was established:

- 1) Bogusław Marian Banaszak – Committee Chairman,
- 2) Marcin Chludziński – Committee Member,
- 3) Maciej Zaborowski – Committee Member.

Bogusław Banaszak and Maciej Zaborowski were indicated as independent members within the meaning of Article 129 Section 3 of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision, and Marcin Chludziński was indicated as a member holding accounting or financial audit qualifications. All Members of the Audit Committee were indicated as members possessing knowledge and skills in the industry of the Company's operation.

As at 31 December 2017, the composition of the PZU SA Supervisory Board Audit Committee did not change.

On 9 January 2018, due to his demise, the mandate of Bogusław Banaszak as the Committee Chairman expired.

In connection with the expiration of the mandate of Bogusław Banaszak, on 9 February 2018 the Supervisory Board established the following composition of the Audit Committee:

- 1) Alojzy Nowak – Committee Chairman,
- 2) Marcin Chludziński – Committee Member,
- 3) Maciej Zaborowski – Committee Member.

Alojzy Nowak and Maciej Zaborowski were indicated as independent members within the meaning of Article 129 Section 3 of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision, and Marcin Chludziński was indicated as a member holding accounting or financial audit qualifications. All Members of the Audit Committee were indicated as members possessing knowledge and skills in the industry of the Company's operation.

## II. Activity of the PZU SA Supervisory Board Audit Committee

In the reporting period, the legal basis for the activity of the PZU SA Supervisory Board Audit Committee was as follows:

- Company's Articles of Association,
- PZU SA Supervisory Board Bylaws,
- PZU SA Supervisory Board Audit Committee Bylaws
- Act of 7 May 2009 on Statutory Auditors and their Self Regulation, Entities Authorized to Audit Financial Statements and Public Supervision (until 21 June 2017),

- Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision (since 21 June 2017),
- other provisions of generally binding laws.

Committee meetings were convened by its Chairperson with written notice given to all Committee Members on the proposed agenda, date and place of the meeting.

In the reporting period, i.e. from 1 January 2017 to 31 December 2017, the Committee held eighteen meetings on the following dates:

- 13 January 2017,
- 31 January 2017,
- 23 February 2017,
- 2 March 2017,
- 14 March 2017,
- 6 April 2017,
- 24 April 2017,
- 16 May 2017,
- 29 May 2017,
- 30 June 2017,
- 14 July 2017,
- 24 and 29 August 2017,
- 29 August 2017,
- 18 September 2017,
- 27 September 2017,
- 2 October 2017,
- 14 November 2017,
- 11 December 2017.

In the corresponding period, the PZU SA Supervisory Board held seventeen meetings.

The meetings of the Audit Committee were attended by the Managing Director on Internal Audit overseeing BAW (Internal Audit Department) and the Managing Director on Regulations overseeing BCM (Compliance Department). Depending on the issues discussed, the following persons, among others, were invited to attend Audit Committee meetings: PZU SA Management Board Members, PZU Group Directors, the Director of the Accounting Department and representatives of the auditor – KPMG Audyt Sp. z o.o. spółka komandytowa.

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

In 2017, the meetings of the PZU SA Supervisory Board Audit Committee were attended by the following members:

First and last name of the Audit Committee Member	13. 01	31. 01	23. 02	02. 03	14. 03	06. 04	24. 04	16. 05	29. 05	30. 06	14. 07	24 and 29. 08	29. 08	18. 09	27. 09	02. 10	14. 11	11. 12
<b>Marcin Chludziński</b>	X	√	√	√	√	X	X	√	X	√	√	√	√	√	√	√	√	√
<b>Piotr Paszko</b>	√	√	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
<b>Jerzy Paluchniak</b>	√	√	√	√	√	√	/	/	/	/	/	/	/	/	/	/	/	/
<b>Bogusław Banaszak</b>	/	/	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
<b>Robert Śnitko</b>	/	/	/	/	/	/	√	√	√	√	√	√	√	√	/	/	/	/
<b>Maciej Zaborowski</b>	/	/	/	/	/	/	/	/	/	/	/	/	/	/	X	√	√	√

√ – present  
 X – absent



### III. Material issues addressed by the PZU SA Supervisory Board Audit Committee

Pursuant to the PZU SA Supervisory Board Audit Committee Bylaws adopted by resolution of the PZU SA Supervisory Board, the Audit Committee plays an advisory and opinion-making role for the Supervisory Board and has been appointed to increase the effectiveness of supervisory activities performed by the Supervisory Board in the area of monitoring the Company's financial reporting, financial audit activities in the Company and effectiveness of internal control, internal audit and risk management systems in the Company.

In pursuance of the above objectives, in the period from 1 January to 31 December 2017, the Audit Committee addressed in particular the following issues:

- assessment of the financial statements and Management Board reports on the activities of PZU SA and the PZU SA Group for 2016;
- discussion on the preliminary results of PZU SA and the PZU Group for 2016, the first half-year of 2017 and the first and third quarters of 2017;
- assessment of the PZU SA Management Board motion to the PZU SA Shareholder Meeting on the distribution of PZU SA's net profit for the year ended 31 December 2016;
- approval of the report of the PZU SA Supervisory Board Audit Committee on its activities in 2016;
- discussion on the draft versions of the PZU SA Supervisory Board report on the assessment of PZU SA's financial statements for the year ended 31 December 2016, the Management Board report on PZU SA's activity in 2016 and the Management Board motion to distribute PZU SA's net profit for the year ended 31 December 2016;
- discussion on the risk report for the fourth quarter of 2016 and for first and third quarters of 2017;
- discussion on the annual report on the Internal Audit Department's activity in 2016;
- discussion on the results of external inspections conducted in PZU SA in 2016;
- discussion on the report on the Internal Audit Department's activity in the fourth quarter of 2016 and in the first and third quarters of 2017;
- discussion on the Strategy in the risk management area for 2017-2020;
- information on the implementation of the strategy in the risk management area in 2015-2020;
- discussion on the PZU risk map;
- discussion on the recommendations provided by the statutory auditor (KPMG Audyt Sp. z o.o. Spółka komandytowa) after the audit of the Company's financial statements for 2016;
- discussion on the motion submitted by Alior Bank SA for permission to expand the scope of work, under the consulting agreement entered into with KPMG in respect of the implementation of IFRS 9, to include a review of the SPPI condition for the portfolio of loans granted to business clients acquired from Bank BPH;
- issuing a recommendation to the Supervisory Board on the assessment of the degree of implementation of the standards indicated in the "Guidelines for managing information technology and the security of the information and telecommunications environment in insurance and reinsurance companies" issued by the Polish Financial Supervision Authority on 16 December 2014;
- issuing a recommendation to the PZU SA Supervisory Board regarding the exercise of the option included in the agreement with KPMG Audyt on the review and audit of standalone financial statements of PZU SA and consolidated financial statements of PZU SA Group for the financial years 2014-2016 with an extension option for 2017-2018, entered into on 26 June 2014;
- information on the implementation of the GDPR, i.e. Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation);
- discussion on the methodology for preparing SFCR reports of the PZU SA and the PZU SA Group;
- Information on Directive 2014/56/UE amending Directive 2006/43/EC on statutory

- audits of annual accounts and consolidated accounts and Regulation 537/2014 on specific requirements regarding statutory audit of public-interest entities and amendments to the Act on Statutory Auditors and their Self Regulation, Entities Authorized to Audit Financial Statements and Public Supervision and certain other acts;
- issuing of recommendations to the Supervisory Board on the assessment of the solvency and financial condition report of PZU SA for the year ended 31 December 2016;
  - issuing of recommendations to the Supervisory Board on the consolidated assessment of the solvency and financial condition report of the PZU Group for the year ended 31 December 2016;
  - recommendation to the PZU SA Supervisory Board to approve the 2018 Financial Plan of PZU SA and PZU Group;
  - information on the ethical principles in the PZU Group and recommendation for the PZU SA Supervisory Board to adopt a resolution in the matter of the ethical principles of supervisory board members of PZU Group companies, the procedure for expressing consent for a Management Board member to participate in corporate bodies, and actions to be taken by the PZU SA Supervisory Board in the event of occurrence of a conflict of interest involving a PZU SA Management Board member;
  - issuing a recommendation to the Supervisory Board on the motion submitted by the PZU SA Management Board to give consent to the extension of the scope of work related to the review and audit of the consolidated financial statements of the PZU Group;
  - issuing a recommendation to the Supervisory Board to accept documents adapted to the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision, i.e. the Articles of Association, the Rules and Regulations of the Supervisory Board and the Audit Committee Bylaws,
- development and adoption of: policy for the selection of an audit firm to conduct the audit, policy for the provision of permitted non-audit services by the audit firm conducting the audit, by entities related to this audit firm and by a member of the audit firm's network, procedure for the selection of an audit firm;
  - issuing recommendations to the Supervisory Board to accept: amended Audit Committee Bylaws, policy for the selection of an audit firm to conduct the audit, policy for the provision of permitted non-audit services by the audit firm conducting the audit, by entities related to this audit firm and by a member of the audit firm's network, procedure for the selection of an audit firm;
  - adoption of resolutions on the acceptance of the permitted services to be provided by KPMG to PZU SA, PZU Życie SA and other PZU Group companies;
  - information on the audit of the consolidation package of Bank Pekao SA as at 31 December 2017 for inclusion in the annual consolidated financial statements of the PZU Group;
  - discussion on the draft Audit Plan for 2018;
  - issuing an opinion on the appointment of the head of the internal audit unit.

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

Pursuant to the provisions of § 18 item 2 of the PZU SA Supervisory Board Audit Committee Bylaws, at PZU SA Supervisory Board meetings, the Chairperson of the Audit Committee presented information about the work of the Committee to the Supervisory Board.

Chairman of the  
PZU SA Supervisory Board Audit Committee

/-/ Alojzy Nowak