PZU Group's
2012 Annual Report

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PZU Management Board

Przemysław Henschke
PZU Życie

IT

Tomasz Tarkowski
PZU / PZU Życie

Claims handling and assistance

Przemysław Dąbrowski
CFO PZU / PZU Życie

Accounting, planning, controlling, tax policy and actuarial affairs

Dariusz Krzewina
PZU / CEO PZU Życie

Group and health insurance, administration and the Group's network

Andrzej Klesyk
CEO PZU

Barbara Smalska
PZU / PZU Życie

Mass insurance, product management, CRM and marketing

Rafał Grodzicki
PZU Życie

Contact center and insurance operations

Ryszard Trepczyński
PZU / PZU Życie

Investments, treasury and macroeconomic analyses

Sławomir Niemierka
PZU Życie

Risk management

Bogusław Skuza
PZU

Corporate insurance, bancassurance and reinsurance

PZU

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Dear Stakeholders,

On behalf of the Management Boards of the PZU Group companies I would like to convey the PZU 2012 Annual Report to you.

PZU Group's new strategy for 2012-2014 being pursued since the outset of the reporting year is largely a continuation of efforts previously undertaken. The objective of the PZU Group continues to be sustaining profitable growth and its leading position on the Polish insurance services market. In line with our announcements the PZU Group's operating model will evolve over the upcoming years from an organization operating according to product lines into an organization operating according to client segments. Focusing on client needs and high operating performance will enable us to retain our leadership position – the PZU Group will continue to be the largest and most profitable insurance company in Central and Eastern Europe.

In the course of pursuing its strategy in 2012 the PZU Group took numerous measures in key areas. A new mass sales management model focused on enhancing effectiveness was implemented in the mass client segment. Preparations to launch a new product system were also made. A new operating model was devised, the vendor was selected and implementation work was commenced.

We grew our gross written premium in the group client area while we developed individual relations through the PZU Pomoc Club. In the investment area the PZU Group significantly strengthened its position. At the end of the year TFI PZU took first place measured by assets under management according to IZFiA, the Chamber of Fund and Asset Management.

More than 350 joint PZU and PZU Życie branches were formed in the reporting period where in a single venue clients can handle their life and non-life insurance needs. That marks a material qualitative change and is a clear sign of the measures we are taking to satisfy client needs. We also continued to develop our operations in the Baltic States in 2012. PZU currently has a footprint in Ukraine and Lithuania. In Latvia the first policies were sold in December 2012 while in Estonia we plan to commence sales at the turn of the second and third quarter of 2013.

As we appreciate the role HR plays in pursuing the PZU Group's strategy and are endeavoring to build a performance oriented work culture, we introduced an employee appraisal system and a system to measure the performance of objectives in 2012 whose implementation will strengthen employee compensation and development policy and will help us build an effective organization.

From an external vantage point, the project concerning logo refreshment, altering the image of our branches and outlets and advertising communication was the most visible element of the dynamic changes taking place in PZU.

From a business point of view, 2012 was an exceptional year for PZU. The PZU Group generated its best net financial result from the time of its IPO (PLN 3,253.8 million), up nearly 40% over the previous year. Gross written premium, which was up by more than 6% (PLN 16,243.1 million), very robust investment results (+ 132%) and the high level of profitability in the business it conducts (20%) contributed to this success. The PZU Group also generated a very high return on equity (ROE), i.e. 24%. This success is the outcome of steadfastly pursuing our strategy of modernizing and restructuring the PZU Group while maintaining cost discipline.

The financial strength and credit ratings Standard & Poor's Rating Services awarded to PZU and PZU Życie were maintained at the level of "A" (with a stable rating outlook for both companies).

Less than optimistic macroeconomic forecasts suggest a significant economic slowdown in 2013. This may entail repercussions for business growth and performance this year. In conjunction with these macroeconomic data and our ambitious tasks in implementing the PZU Group's strategy, 2013 will require that we be exceptionally mobilized and determined in pursuing our business objectives.

Here I would like to thank our employees for their efforts to build the PZU Group's value. I would like to thank the Supervisory Board for effective cooperation and support in transforming PZU into a modern and operationally effective organization focused on satisfying client needs.

Respectfully,

Andrzej Klesyk
CEO PZU SA

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Dear Stakeholders,

2012 came to a close with PZU reporting the best financial result since its IPO and with PZU being awarded the highest rating once again. This success was achieved despite the challenging market situation and the significant economic slowdown.

The further deepening of the Eurozone debt crisis was accompanied by the deceleration felt in 2012 in the growth of individual consumption and the decline in investments, both in Poland and abroad. The slowdown in the pace of economic growth affecting the financial condition of households and economic entities exerted an adverse impact on the demand for insurance products in all operating segments.

Despite such unfavorable conditions the PZU Group managed to grow its sales for another consecutive year. The growth in gross written premium stemmed primarily from higher sales in group and continued protection insurance as well as in individual investment insurance. This means market share stabilization after years of decline and maintaining its position as market leader.

The PZU Group's very robust financial results in 2012 were a consequence of rising sales coupled with its products demonstrating persistently high profitability, as well as solid investment activity results and maintaining cost discipline.

2012 witnessed the effective implementation of measures to change the PZU Group's image, ultimately underscored by brand refreshment. An important event that will affect how the Group operates in the future was the kick-off of efforts to implement a new policy system for non-life insurance.

PZU retained its high rating. Standard & Poor's confirmed the financial strength of PZU SA and PZU Życie SA at the level of "A" with a stable outlook for both companies. The fact that PZU has maintained the highest rating in such demanding times for financial institutions confirms PZU's very strong capital position and is an expression of the confidence the market places in the strategy being pursued by the Company. The high level of safety offered to clients and investors alike is something that builds PZU's competitive edge on the market place.

I would like to thank the PZU Group's Management Boards and employees for their vision, commitment and extensive work without which it would not have been possible to achieve such a good result.

I am confident that the ambitious plans for 2013 will be achieved to the benefit of the shareholders, clients and employees of the PZU Group.

Respectfully,

Waldemar Maj
PZU SA Supervisory Board Chairman

01 Brief description of the PZU Group

The Powszechny Zakład Ubezpieczeń Capital Group is one of the largest financial institutions in Poland and Central and Eastern Europe. It is headed up by the Polish insurance company PZU SA, whose history dates back to 1803 when the first insurance company was established on Polish soil. By offering an extensive range of insurance services the PZU Group meets the fundamental needs of 16 million clients for safety and stability. The PZU Group provides not only comprehensive insurance cover in all the most important areas of private, public and business life but also operates through its daughter companies on other financial markets in Poland and in the insurance area in some Central and Eastern European countries.

The PZU Group's market share was as follows at yearend 2012:

First place in non-life insurance with a 32.2% market share	First place in life insurance with a 25.6% market share	Number one in the ranking of mutual fund companies with a 10.6% market share measured by its funds' assets	Third place on the open-end pension fund market with a 13.5% market share measured by net asset value
32.2%	**25.6%**	**10.6%**	**13.5%**

For several years the PZU Group has also been developing its insurance operations in selected Central and Eastern European countries and has a presence in Ukraine, Lithuania, Latvia and Estonia.

PZU's clients have the largest sales and customer service network at their disposal among Polish insurers. It consists of 415 branches, 8.2 thousand agents and electronic channels of distribution (information line, Internet).

415
branches

The PZU Group employed roughly 12.2 thousand employees translated into full-time equivalents at yearend 2012.

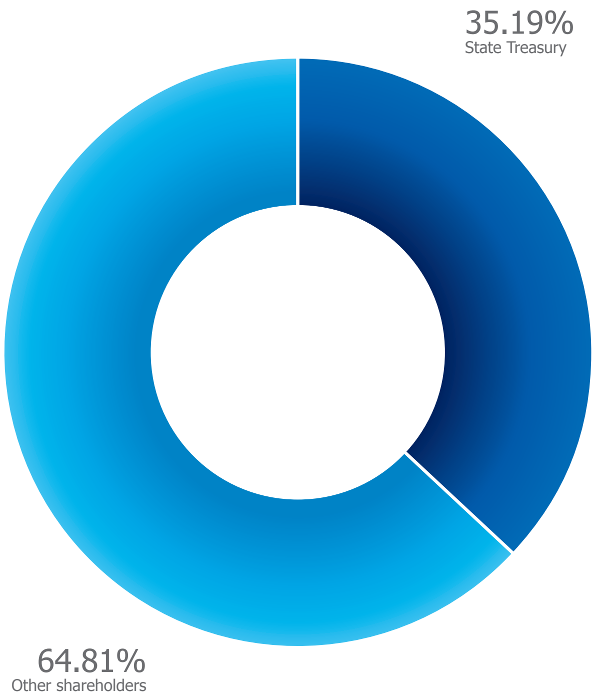
12.2 thousand
employees

PZU went public on the Warsaw Stock Exchange on 12 May 2010. Its offering was worth nearly PLN 8.1 billion; it was the largest in the Central and Eastern European region since the beginning of economic transformation; and it was the largest offering in Europe since 2007. PZU's shares were allocated to 250 thousand individual investors.

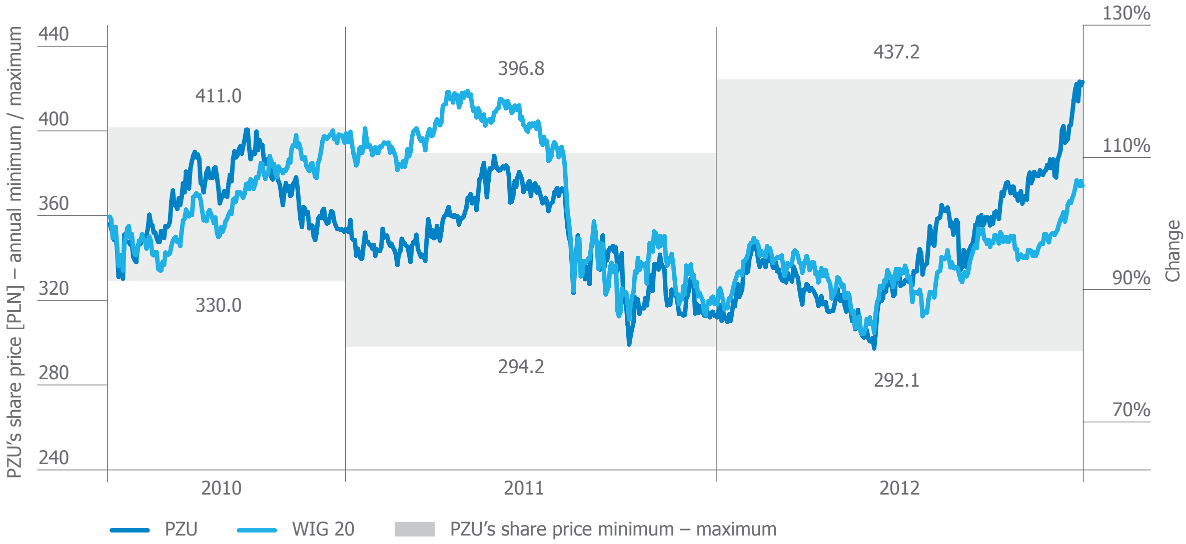
PZU's shares were allocated to
250 thousand
investors

PZU's shareholder structure as at 31 December 2012

The State Treasury is PZU's strategic shareholder, which held a 35.19% equity stake at yearend 2012.



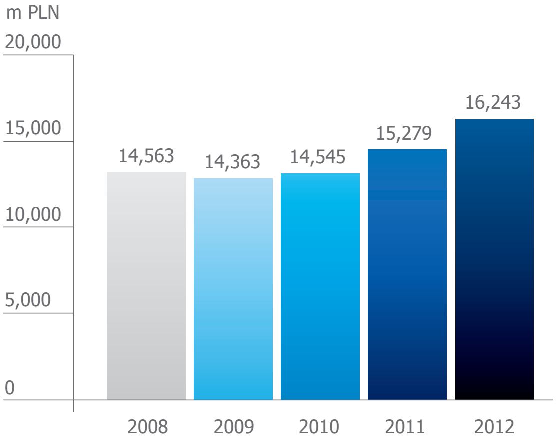
PZU's share price



The PZU Group adheres to all the standards of operational safety. As at 31 December 2012 its equity was PLN 14,269, up 10.9% in comparison to yearend 2011. The equity to solvency margin coverage ratio in both PZU and PZU Życie considerably surpassed the average for the insurance sector. Since 2009 both PZU and PZU Życie have retained an "A" rating from Standard & Poor's with a stable outlook. This is the highest possible rating awarded to companies in Poland.

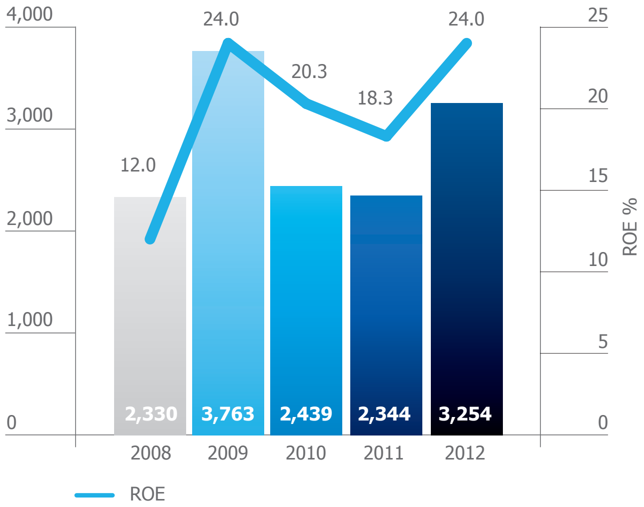
Gross written premium (m PLN)

GWP grew by an average of 2.8% per annum from 2008 to 2012.



Net profit (m PLN)

Its 24.0% ROE confirms that the PZU Group is one of the most profitable financial institutions in Poland.



Solvency (%)

PZU Group companies are characterized by above average safety ratios in the insurance sector.

Equity to solvency margin coverage ratio (%)

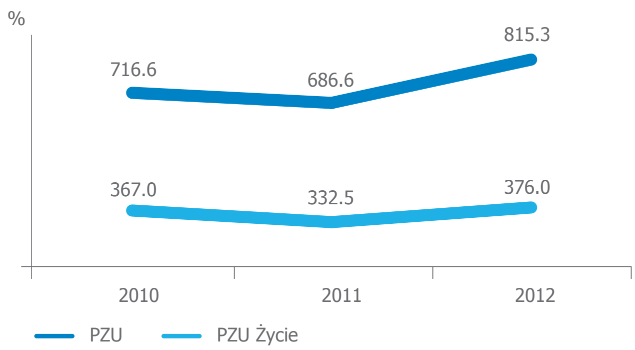


Table 1. PZU Group's main consolidated financial data from 2008 to 2012 (000s PLN)

		2008	2009	2010	2011	2012
1	Gross written premium	14,563,147	14,362,717	14,541,022	15,279,262	16,243,131
2	Commission and fee income*	338,022	340,876	288,037	281,351	237,102
3	Investment result	579,898	3,469,001	2,777,774	1,593,826	3,704,729
3a	Net investment revenues	2,411,755	2,363,384	1,824,518	1,970,254	2,047,054
3b	Net result realized and impairments	-855,895	261,310	199,451	-187,247	521,268
3c	Net movement in the fair value of assets and liabilities measured at fair value	-975,962	844,307	753,805	-189,181	1,136,407
4	Net claims paid and movement in technical provisions	-8,592,057	-9,436,281	-10,384,062	-10,221,122	-12,218,731
5	Acquisition expenses	-1,668,023	-1,839,605	-1,911,255	-1,961,986	-2,000,351
6	Administrative expenses	-1,774,846	-1,808,881	-1,505,784	-1,383,897	-1,440,301
7	Operating profit	2,931,058	4,601,751	3,088,085	2,956,727	4,080,198
8	Net profit	2,329,718	3,762,911	2,439,229	2,343,947	3,253,826
9	Equity	20,052,390	11,266,879	12,799,926	12,869,505	14,269,269
10	Financial assets	54,220,993	48,237,593	45,345,032	46,775,359	50,423,076
11	Total assets	59,359,041	53,287,438	50,670,557	52,129,282	55,909,560
12	Technical provisions	30,767,412	30,825,046	31,822,990	32,522,729	35,400,778
	ROE**	**12%**	**24%**	**20%**	**18%**	**24%**

* Commission and fee income – pension insurance segment
** Computed on the basis of average equity in the period

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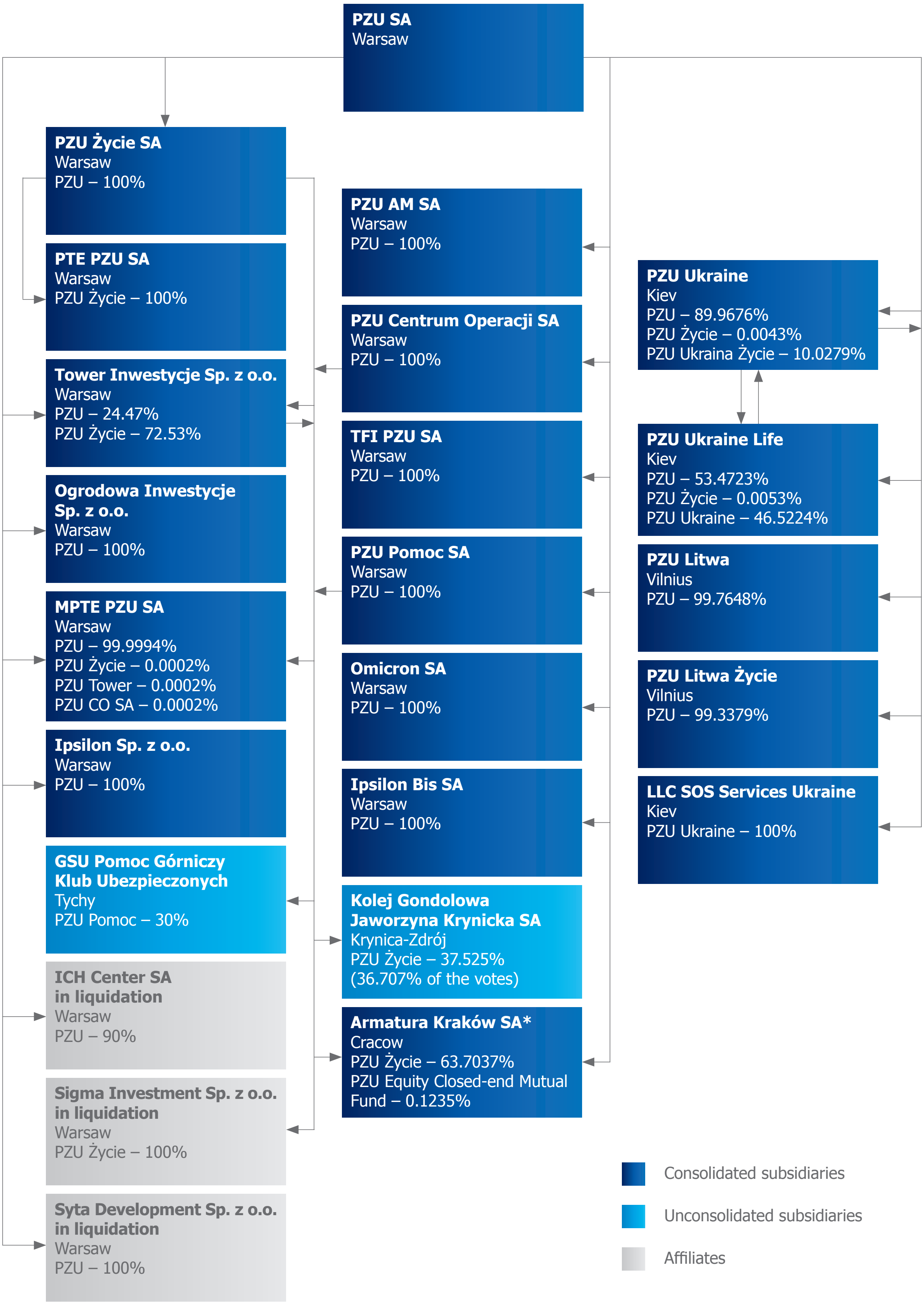
Important events in the PZU Group in 2012

January	PZU joins the RESPECT Index – the CEE region's first index of companies observing CSR principles. In this manner PZU joined a group of companies meeting the highest standards of responsible governance among the companies listed on the Warsaw Stock Exchange. The PZU Voluntary Pension Fund managed by PTE PZU was the first entity in this market segment to be registered by the Polish FSA in the Fund Register, thereby obtaining the possibility of launching operations on the Individual Retirement Security Account (IRSA) market.
February	The Management Boards of the PZU Group Companies terminate the Collective Bargaining Agreements in PZU and PZU Życie. Negotiations commence between the employers and the trade unions on new compensation rules and regulations.
March	The PZU Group presents the strategic directions for its development up to 2014 – the PZU 2.0 Strategy.
April	PZU declares a dividend payment from its 2011 profit.
May	PZU refreshes its brand, introducing a new logo and visual identification. This operation is accompanied by an extensive image campaign.
June	PZU selects the vendor for a new IT system for non-life products. The new system will support better client service while streamlining operations in PZU and creating the foundation for appropriately managing client relations.
July	PZU Group Companies and their trade unions enter into agreements specifying the terms and conditions for downsizing headcount. Standard & Poor's Rating Services (S&P) confirms the long-term credit rating and financial strength rating both of PZU and PZU Życie at the level of A with a stable outlook.
September	For the third time PZU acts as a partner to the 22nd Economic Forum in Krynica organized under the motto: "New visions for tough times. Europe and the world in the face of crisis."
October	PZU receives consent to launch operations in Latvia and Estonia.
November	The PZU Group receives the main prize in the 6th annual competition called Leaders of Philanthropy in the category of companies that donated the largest amounts for social purposes.

PZU Capital Group's structure



*the following companies belong to the Armatura Group: Armatura Kraków SA, Armatoora SA, Armatoora SA i wspólnicy sp.k., Armagor SA, Armadimp SA

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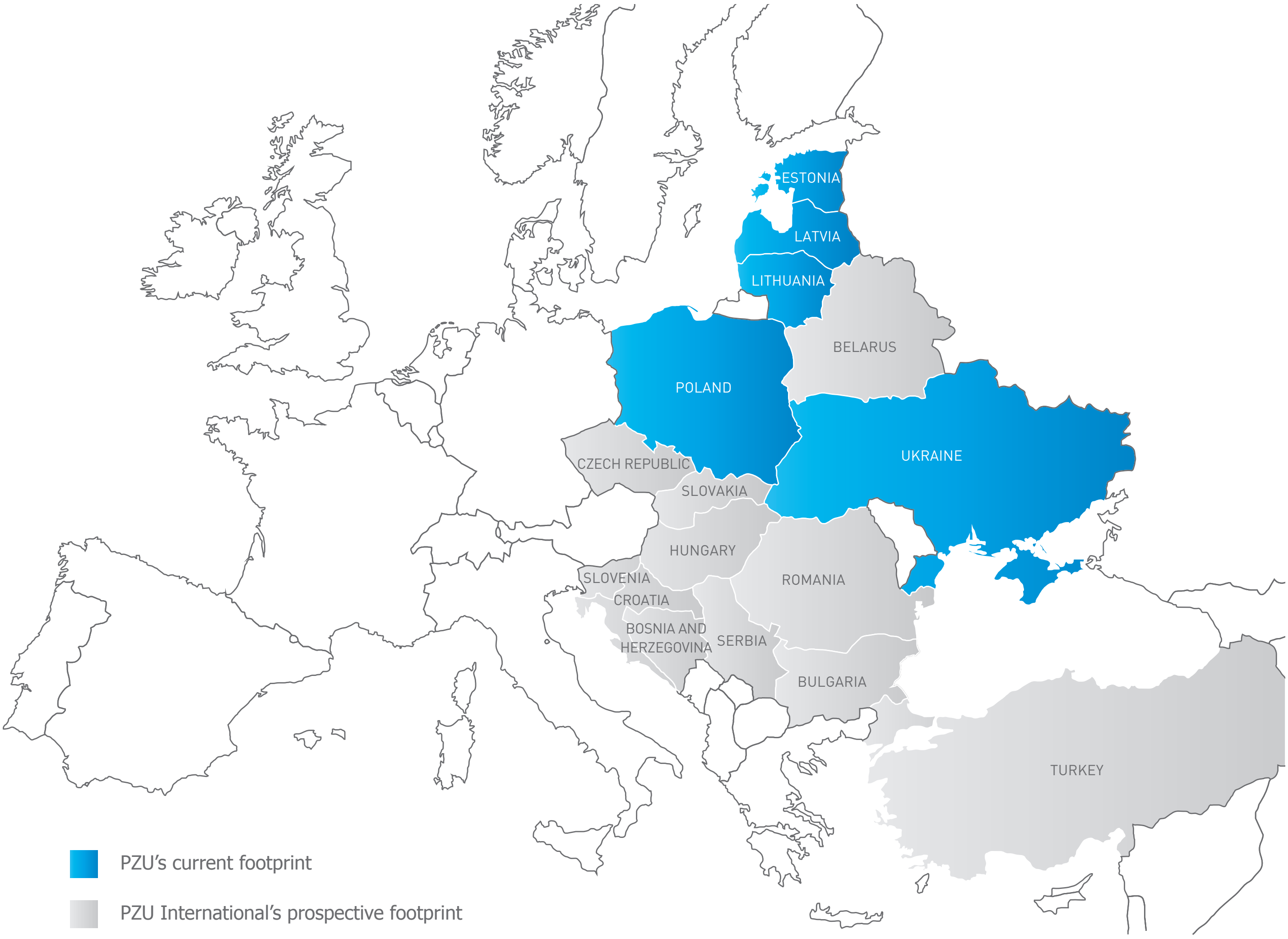
02 Growth strategy

By being strongly client-focused and being very operationally effective, the PZU Group will be the largest and most profitable insurance company in Central and Eastern Europe.



On the basis of a thorough analysis of the macroeconomic context and the commercial and financial results generated by the PZU Group in recent years, the Management Board adopted an updated growth strategy in December 2011: the PZU 2.0 Strategy, simultaneously upholding the PZU Group's fundamental growth objective in upcoming years.

The slogan **We are changing for the better** underpins the pursuit of the PZU Group's updated growth strategy. Above all, it denotes the following:

- **focusing on client needs.**
  Based on an analysis of the needs of particular segments PZU is tightening relations with clients by providing them with products and services aligned to their needs via a multi-channel, integrated sales and client service system. This new business philosophy emphasizes the PZU Group's unity as an organization operating according to client segments and actively managing client relations for them to develop permanent ties with the PZU Group;

- **enhancing operating effectiveness.**
  A modern integrated client service model coupled with automation of back-office processes supporting the elimination of operations based on hard copy documentation will create suitable conditions to provide better client service and manage our resources effectively;

- **professionalism and employee commitment.**
  By sustaining its position as a preferred employer the PZU Group is building its culture as a performance-oriented organization;

- **harnessing the high level of brand awareness and the strong refreshed PZU brand.**
  The new PZU entails a vision of a strong brand harnessing modern technologies in client interfaces. The new PZU also means being an institution that successfully manages client funds by taking advantage of the skills of Poland's leading asset manager and tapping into the new opportunities appearing on the market.

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In striving to maintain its position as the largest insurance company in Central and Eastern Europe the PZU Group:

- **will retain its current position** on the life and non-life insurance market in Poland while simultaneously preserving the profitability of these franchises;

- **will embark on international expansion** under a new formula with the possible cooperation of a financial investor;

- **it will expand its business** on the savings / regular savings market;

- **it will seek out new opportunities** to expand its activity – it is one of the PZU Group's ambitions to be a pioneer and shaper of the health insurance market in Poland.

In addition to market expansion, investing activity will enable the PZU Group to generate a high return on its operations. Above all, the assumption is that the investment composition will be modified to enhance the yield while simultaneously containing the volatility of the operating result.

The PZU Group's major financial objectives to be achieved by 2014 are as follows:

- grow gross written premium by PLN 2 billion compared to 2011;

- sustain the return on equity at the level of 30% (computed using a 250% capital requirement according to Solvency I).

An important event in 2012 in implementing the PZU Group's growth strategy was conducting a tender process to select the vendor for the new IT system for non-life products. Executing this project, which was given the pithy name Everest, will facilitate PZU's business and technology transformation and create conditions conducive to the appropriate management of client relations.

In 2013 the PZU Group will focus on the following:

- **individual clients and small and medium enterprises.**
  Actions will be taken to retain PZU's current position on the motor and property insurance market. Introducing a new policy system in the non-life company will enable the PZU Group to manage client relations actively and customize the product offer to client needs better. Particular attention will be paid to offering attractive savings and investment products to individual clients, in particular in long-term savings;

- **group clients.**
  PZU will retain its leadership position on the group life insurance market. The sale of health and medicine insurance riders will play an important role in attaining this goal. Actions will also be taken to strengthen relations with insureds through the PZU Pomoc Club offering in PZU Życie. PZU will also actively work to grow the health insurance market. At the same time, the development of this market will hinge to a large extent on legislative changes (i.e. enacting an act on voluntary health insurance and admitting competition in managing the public contribution);

- **corporate clients.**
  Professionalism and quality of service are the primary contributing factors when corporate clients choose an insurer; that is why PZU will lend support to clients in the development of their businesses, inter alia, by expanding consulting services concerning risk engineering. PZU will continue its current efforts to procure profitability in property insurance, especially motor business;

- **IT and operations.**
  Above all, PZU will concentrate on implementing its new product system to handle non-life products: the Everest project. According to plan, it will be implemented in phases with the pilot being launched at the end of 2013;

- **HR management.**
  In building a performance-oriented organizational culture particular attention will be devoted to developing employee competences. After the annual assessment conducted for the first time in 2013, the knowledge and skill enhancement program encompassing all PZU employees known as Program Plus was launched. The PZU MBA program, which is a unique initiative on the Polish market was also launched. It is dedicated to managers and directors with the greatest growth potential. The process of sharing experience involving the Company's best managers will also play an important role in the process of enhancing employee competences and commitment.

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PZU's 2013 financial plan gives consideration to the anticipated slowdown in the pace of growth in the Polish economy, the possibility of turbulence persisting on global financial markets and the necessity of meeting new solvency-related requirements in the medium-term perspective. While operating in an uncertain and volatile environment in the course of pursuing its strategy the PZU Group intends to utilize its strengths entailing its multi-million client database, its high equity, its employees' qualifications and its strong refreshed brand.

Table 2. Main directions of operation in 2013

Objective	Intended measures
Individual clients and small and medium enterprises	
Profitably maintain its market leader position	1. Sustain market share in the motor and property insurance segment. 2. Develop savings and investment products, especially long-term savings products. 3. Continue to grow sales, among others by developing the fundamental channels of distribution.
Group clients	
Profitably maintain its life insurance leader position Grow health insurance dynamically	1. Maintain its profitable position as life insurance leader. 2. Create a health insurance market to expand the scale of business in this area. 3. Upsell health and medicine insurance riders to group clients. 4. Strengthen direct relations with insureds through the PZU Pomoc Club in PZU Życie.
Corporate clients	
Rebuild its market position while preserving profitability	1. Transform PZU into a business partner with a strong expert position, which is not just an entity selling insurance but also a client advisor. 2. Maintain its market position in motor business and grow market share in non-motor business.
Other operating areas	
Enhance the return on capital and investment policy	Make further changes to investment policy entailing among others a modification to the investment composition whose outcome would be to grow the yield while simultaneously containing the volatility of the investment activity result.
New model for international expansion – PZU International	Grow the scale of the PZU Group's operations through international expansion on the Central and Eastern European markets provided that interesting offers emerge.
Strategic marketing / Corporate Social Responsibility	Continue efforts to lend support to PZU's image as an institution aiding the process of shaping a safe future.
Facilitating factors	
Middle-office: modern integrated client service model	1. Implement a new client service model calling for an integrated structure for contact channels aligned to client expectations, in particular further rollout of the network of modern sales and service outlets. 2. Continue to optimize claims handling.
Back-office: effective operations and flexible IT	1. Continue efforts to launch a new product system in PZU to enhance operational effectiveness. 2. Continue to decentralize and optimize operational processes.
HR: business partner / committed employees / performance-oriented culture	1. Transform the PZU Group into a performance-oriented organization. 2. Continue to strengthen PZU's position as a preferred employer, among others by running another edition of the apprenticeship and internship program.

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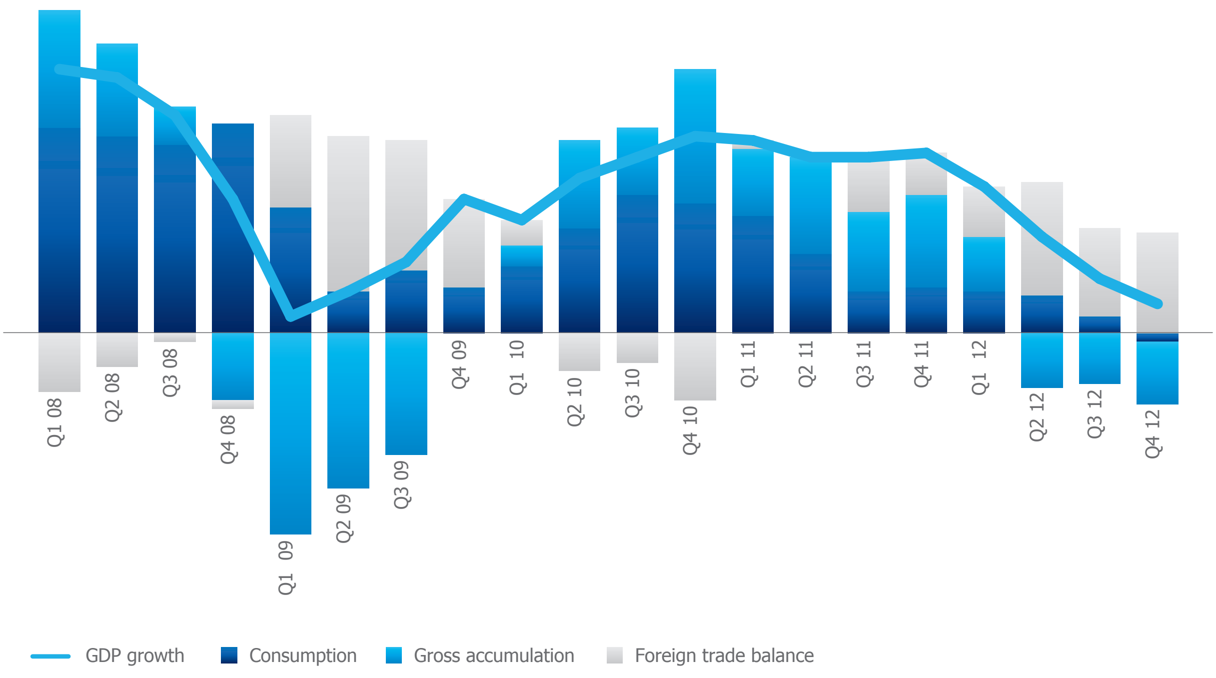
03 Macroeconomic environment in 2012

Despite the weakening in the Polish economy's pace of growth we managed to stay in good shape, as did the overall insurance sector. We are one of the key financial institutions in Poland. We understand our role and we want to be a haven of stability: above all for clients, but also for the shareholders who have placed their confidence in us.

Composition of GDP growth



Major trends in the Polish economy

Gross Domestic Product

Poland's GDP grew by 1.9% in 2012, opposed to 4.5% one year earlier, with domestic demand falling by 0.2%, opposed to 3.6% growth in 2011. The pace of economic growth declined steadily quarter to quarter, while the rate of growth of domestic demand turned negative in Q2 2012.

Individual consumption growth clearly decelerated to 0.8% in 2012 compared to 2.6% in 2011 faced with a deteriorating labor market, a falling rate of growth in disposable income and a low savings rate. At the same time, investments in fixed assets fell by 0.8% compared to 8.5% growth one year earlier. The deceleration in investment growth (the annual rate of growth turned negative in the second half of the year) was precipitated on one hand by the curtailment of infrastructural investments related to Euro 2012 and the problems suffered by the infrastructural construction industry and on the other hand by the curtailment of investments by corporates reacting defensively to the falling rate of economic growth. The movement of inventories exerted an adverse impact on GDP in 2012 growth. In these circumstances net exports were the most important factor of economic growth. Although the rate of export growth did decelerate faced with the recession in the Eurozone, but the volume of exports nevertheless was on the rise. In light of falling domestic demand, imports reacted strongly: the volume of imports declined in comparison to 2011.

The rate of growth of production in industry and construction decelerated strongly. The added value in industry rose by 1.1% in 2012 (8.2% in 2011), while in the construction industry it fell by 0.7% (it grew by 11.8% in 2011). The 1.5% growth in added value in the trade and repair of motor vehicles was the third worst result since the beginning of this century.

Labor market and consumption

In conjunction with the slowdown in economic growth the situation on the labor market deteriorated in 2012. Average employment in the national economy was down by 0.2% in 2012 compared to 2011. The registered unemployment rate rose to 13.4% at yearend 2012 compared to 12.5% at yearend 2011. The nominal growth of average wages in the national economy clearly decelerated in these conditions to 3.5% compared to 5.6% in 2011. The average wage was 0.1% lower in real terms in 2012 than in 2011. Household disposable income in real terms also declined. The deteriorating situation on the labor market and the decline in real income were not conducive to individual consumption growth, especially since the household rate of savings was very low while consumer credit was shrinking. Individual consumption rose by a mere 0.8% in 2012, driven by stagnation in the second half of the year (0.2% yoy growth in Q3 2012 and 0.2% yoy decline in Q4 2012).

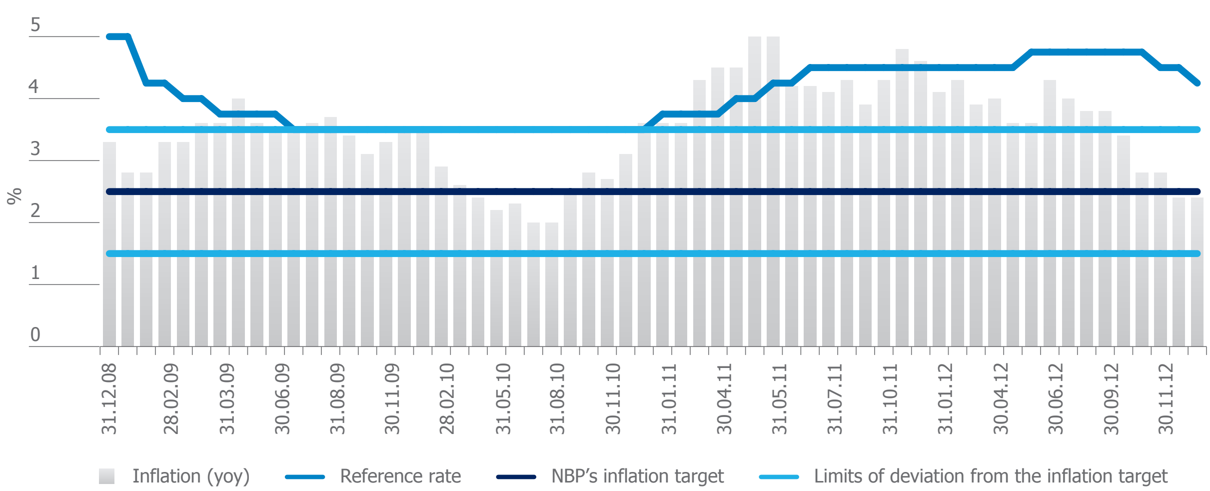
Inflation, monetary policy, interest rates

In the latter half of 2012 the annual CPI rate in Poland started to fall steadily, returning in October to the limits of the permissible range of fluctuation of the inflation target set by the Monetary Policy Board ("RPP") (2.5% ± 1 percentage point). In December 2012 the prices of consumer goods and services were 2.4% higher than at yearend 2011 (4.6% at yearend 2011). Average annual inflation was still relatively high, though it fell to 3.7% compared to 4.3% in 2011.

The deceleration of economic growth was conducive to lower inflation (the net inflation rate was 1.4% yoy at yearend 2012 compared to 3.1% yoy in the previous year), and was further supported by lower price growth for food and fuel than in 2011 and by the elapse of the impact exerted by the VAT rate hike in the previous year. Faced with stubbornly persistent high inflation in early 2012 the Monetary Policy Board raised interest rates by 25 basis points in May. Having regard for the data confirming the strong deceleration in economic growth and lower than expected inflationary pressure, in September RPP suggested the possibility of loosening monetary policy and in November it launched a series of interest rate cuts. Starting from November 2012 the Monetary Policy Board slashed all the official interest rates published by the National Bank of Poland by 25 basis points in every consecutive month until February 2013. In March the rates were slashed by another 50 basis points, at which time RPP signaled the end of this series of loosening monetary policy. Ultimately, however, the series of cuts was resumed: rates were cut by 25 basis points each time in May, June and July 2013. NBP's reference rate was 2.50% in July 2013 compared to 4.75% in October 2012, prior to initiating the series of loosening monetary policy.

On the money market the changes in the level of WIBOR 6M rates were closely tied to the changes in NBP's reference rate. After growth in May 2012, WIBOR clearly declined by approximately 100 basis points from September to yearend 2012: leading and discounting the central bank's interest rate cuts, which fell by 50 basis points in this period. This downward trend has continued to-date in 2013 when WIBOR 6M fell by another 140 basis points up to the end of June.

Inflation and official interest rates



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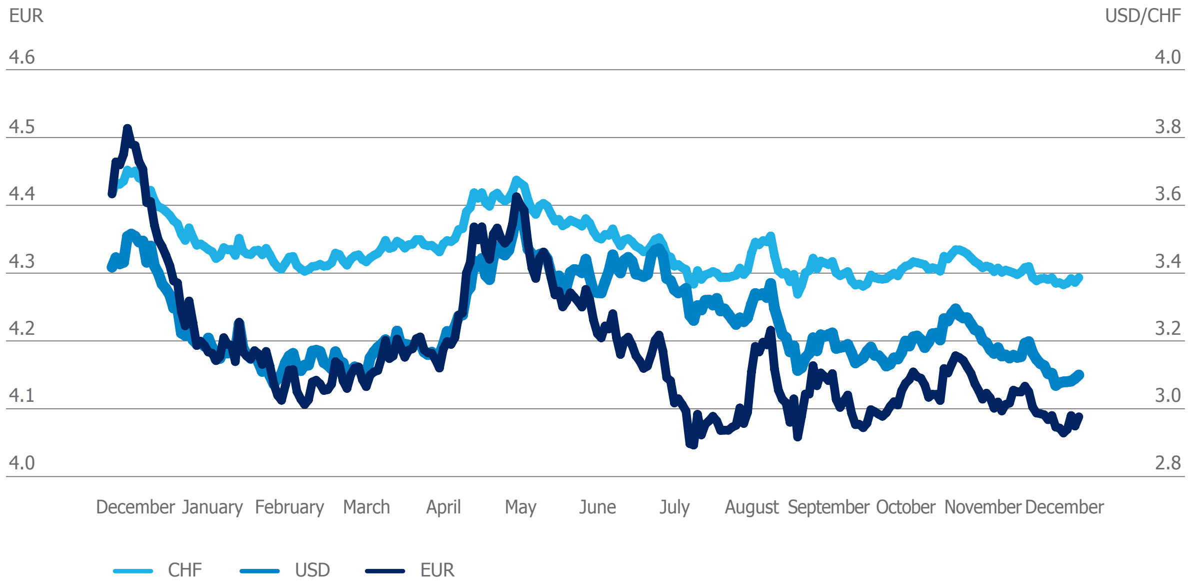
Foreign exchange rates

The annual average Euro and US dollar exchange rate in PLN grew by 1.6% and 9.9%, respectively in 2012. However, in reference to the exchange rates at yearend 2011 the Polish zloty appreciated against these main global currencies – with a brief period of clear depreciation in the second quarter.

This was supported by the situation on the global financial markets calming down. At yearend 2012 the Euro exchange rate in PLN was 7.4% lower than at yearend 2011, the US dollar exchange rate was 9.3% lower and the Swiss franc exchange rate was 6.8% lower.

PLN exchange rate in 2012



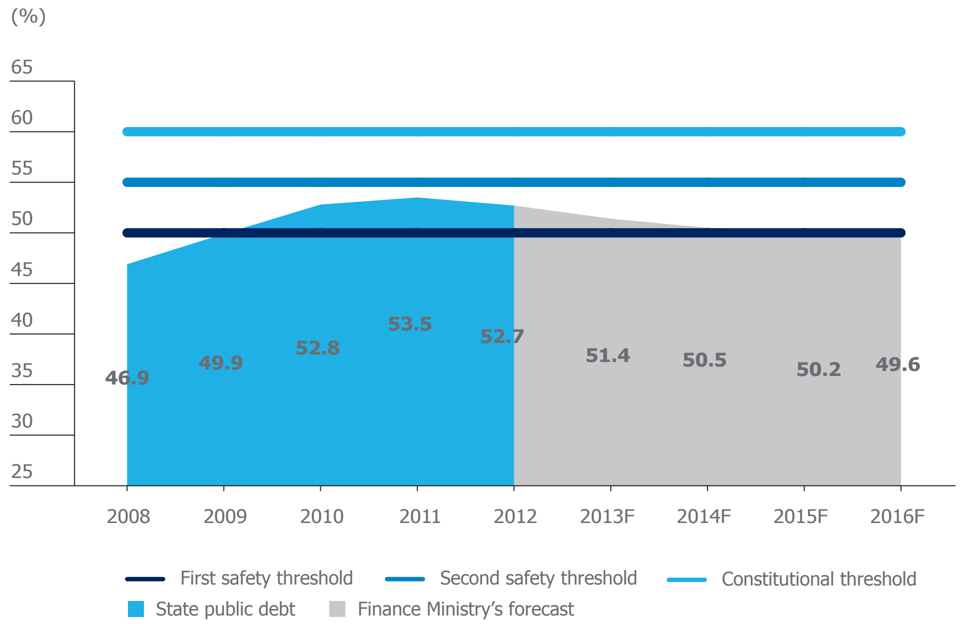
Public finance

In 2012 the Polish government continued efforts to reduce the budgetary deficit, accruing short-term results (such as raising the disability social security contribution paid by employers, eliminating some forms of tax breaks and introducing a royalty tax on some minerals) and long-term results (making the decision to raise the retirement age).

The state budget's deficit of PLN 30.4 billion in 2012 proved to be lower than the planned level of PLN 35 billion despite tax revenues being clearly below plan, especially VAT and CIT. This was plausible thanks to curtailing public expenditures. However, the limitation of the combined government and local government sector's deficit to 2.9% of GDP embraced in the Convergence Program was not achieved. It was ultimately 3.9% of GDP. The economic slowdown exerted a clear impact on the condition of public finances in 2012, which was reflected by the deterioration in the cyclical portion of the result generated by the government and local government institutional sector compared to 2011, even though the structural deficit was reduced.

At the end of 2012 the ratio of state public debt to GDP was 52.7% (as opposed to 53.5% at yearend 2011). Poland did not encounter any difficulties with procuring funds to underwrite its budgetary expenses whether in 2012 it secured funding for approximately 27% of the budget's borrowing needs in full year 2013. Nevertheless, on account of the significant slowdown of economic growth in Poland, 2013 is a tough year for public finance. This may adversely affect the sentiment of international investors toward the Polish debt market, though the growth rate of prices on Polish treasury bonds is currently driven predominantly by global trends, and to a lesser extent by domestic data.

State public debt from 2008 to 2016 (%)



Source: Finance Ministry, Debt management strategy for the public finance sector from 2013 to 2016

Situation on the financial markets

The debt crisis in the Eurozone sharpened once again in the first half of 2012. However, in subsequent months the situation on global financial markets calmed down – primarily thanks to the measures taken by the European Central Bank ("ECB"). ECB's readiness to intervene on the bond market as announced in the latter half of the year coupled with the agreements to reconstruct the Eurozone financial architecture (bank union) clearly reduced the probability of monetary union collapse. At the same time, quantitative easing in monetary policy was continued in the US. As the tension on financial markets eased off, coupled with an accommodating monetary policy being pursued by the major central banks and expectations concerning improvement in the global economic standing in 2013, global equity indices rose. Equity prices also trended up in Poland in 2012. The WIG Index surged upward by 26.2% while the WIG20 climbed 20.4%. Polish bond prices rose in these conditions in 2012, too, faced with a relatively robust economic standing and budgetary situation, which were conducive to an inflow of international portfolio capital looking for assets with a favorable reward-risk tradeoff. Furthermore, in the second half of the year the expected cuts to the National Bank of Poland's interest rates lent support to declining yields. The yields on the long end of the yield curve experienced the greatest decline. Between yearend 2011 and 2012 this decline was 213 and 218 basis points, respectively for 5 and 10 year bonds.

Polish insurance sector

In 2012 the condition of the Polish insurance sector was robust.
Insurance undertakings generated total gross written premium of PLN 62.6 billion, i.e. 9.7% more than in the previous year, where:

- life insurance undertakings saw 14.3% growth.
  In particular, life insurance premiums were up (15.2%) and group unit-linked life insurance premiums were up (16.9%);
- premium expansion in non-life insurance undertakings was 3.9%. In addition to the 3.9% premium growth in TPL motor business, constituting the principal type of insurance, other TPL insurance recorded a high growth rate (premium growth of 21.3%), as did insurance for other tangible losses (up 13.0%). The motor own damage insurance premium however fell (by 2.4%).

In 2012 insurance undertakings generated a net profit of PLN 6.6 billion, up 10.4% over 2011. This figure consists of PLN 3.2 billion of net profit in life insurance undertakings (up 11.0%) and PLN 3.4 billion of net earnings in non-life insurance undertakings (up 9.8%).

In addition to higher insurance premium revenues, the following factors drove the financial results of insurance companies in 2012:

- inconsequential growth in claims paid. They were 0.4% higher than in 2011, resulting from a 0.6% decline in life insurance undertakings and a 2.3% increase of claims paid in non-life insurance undertakings;
- robust investment activity result, which surged up by 43.1% over the previous year when giving consideration to all insurance companies;
- clear growth in total administrative and acquisition expenses, which were up 9.9% over the previous year.

The legal conditions affecting the operations of insurance undertakings were altered in 2012. The most important changes in this area include the following:

- entry into force on 11 February 2012 of the amendment to the Act of 22 May 2003 on Compulsory Insurance, the Insurance Guarantee Fund and the Polish Motor Insurers' Bureau. This amendment materially altered hitherto regulations concerning the execution and termination of compulsory insurance contracts, including TPL motor insurance and agricultural insurance. Above all, the issue of double TPL motor insurance cover was regulated;
- the amendment of the Insurance Activity Act, which took force on 1 January 2012. Its enactment facilitated the submission of declarations and notifications related to an insurance contract using electronic means of communication provided that the insured's consent is obtained and that the information conveyed is accompanied by a secure electronic signature;
- the amendments in force since 1 January 2012 to the Act on Patient Rights and the Patient Rights Ombudsman and the Act on Compulsory Insurance, the Insurance Guarantee Fund and the Polish Motor Insurers' Bureau. To accelerate and facilitate the pursuit of claims by hospital patients by virtue of losses caused by medical events, these amendments introduce a new out-of-court procedure for pursuing claims for indemnification by reporting them to regional (voivodship) commissions charged with ruling on medical events. In addition, the act introduces a regulation whereby the insurance undertaking which entered into an insurance contract with the hospital where the medical event occurred should submit a proposal concerning indemnification and pecuniary damages;
- act of 22 December amending some laws associated with the performance of the budgetary act, implementing changes to the tax code and eliminating tax benefits associated with overnight deposits.

Macroeconomic situation in Ukraine and the Baltic States

Ukraine

According to preliminary data, Ukraine's Gross Domestic Product grew by 0.2% in 2012 compared to 5.2% in the previous year. The slowdown in the economic growth rate was primarily linked to the decline in capital expenditures and the persisting negative contribution made by net exports. In turn, the high growth rate of private consumption exerted a positive impact on growth of business activity.

In 2012 the Ukrainian insurance sector grappled with numerous difficulties. Besides the decline in premiums, its major difficulties were insufficient control over the measures taken by some insurers employing dumping prices, maintaining financial liquidity in some companies and the low level of confidence clients have in insurers.

Many changes were made to legal regulations in Ukraine in 2012, which affected the operating conditions of insurance undertakings, such as:

- affording insurance companies the right under the new tax code to pay a 3% tax on gross written premium without having to switch to the general taxation system;
- amendments to the act on compulsory third party insurance according to which insurers holding a permit to sell motor TPL insurance must be members in the Motor Insurance Bureau of Ukraine (MTSBU).
  In addition, MTSBU members will be obligated to remit a guarantee fee to the insurance guarantee fund where this fee cannot be lower than EUR 1 million.
  This amendment will limit market access among a number of small insurance companies lacking credibility;
- obligation for insurance undertakings to apply International Financial Reporting Standards as of 1 January 2012, which affected the method of presenting their financial results.

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Baltic States

Besides Greece, the Baltic States, which experienced a considerable fall in their GDP in 2008 and 2009 were the European Union member states that suffered the most as a result of the global financial crisis of 2008. Starting in 2010 the economic standing of these countries improved and according to Eurostat they recorded clear economic growth in 2012. The GDP growth rate was 3.7% in Lithuania, 5.6% in Latvia and 3.2% in Estonia. The European Commission anticipates that the economic growth in these countries will be slightly above 3% in 2013.

In 2012 Lithuanian insurance sector was in good condition. The gross written premium of its insurance undertakings was LTL 1.8 billion, up 5.2% over the previous year.

In 2012 amendments were made to the legal regulations applicable to the Lithuanian insurance market, among others, aligning them to the solutions in force in the EU such as:

- amendment to the insurance law of the Republic of Lithuania harmonizing regulations to the requirements of Solvency II (it will take force on 1 January 2014);
- increase of the sums guaranteed in compulsory motor TPL insurance. The increase of these sums guaranteed was the result of implementing EU regulations;
- modification to the method of computing the solvency margin in force as of 1 January 2013;
- implementation of new rules for calculating payments to cover the costs of supervising insurance companies. The payment amount was cut from 0.35% to 0.16% of the annual gross written premium.

Macroeconomic factors that will affect the Polish insurance sector in 2013

According to PZU's forecasts prepared in June of this year, 2013 GDP growth may be as high as 1.0%, where the first clear signals of economic recovery may appear in the second half of the year.

Acceleration in the pace of economic growth in Poland in 2013 primarily hinges upon the economic condition of the Eurozone, in particular market conditions in Germany. If signals suggesting gradual improvement in the economic standing and emerging from financial crisis are generated there, the uncertainty in the operation of Polish companies will also subside, thereby facilitating growth-related decision-making.

According to PZU's forecasts, the nominal growth rate of wages will continue to be relatively low in 2013. The anticipated strong inflationary falloff should in turn contribute to achieving a positive growth rate in real wages and lend support to consumption despite the persisting process of rebuilding savings. Furthermore, the easing of supervisory recommendations should be conducive to growing consumer credit. Even so, consumption growth in 2013 might not accelerate compared to 2012.

The difficult standing of public finance will not be conducive to growing infrastructural investments. Therefore, similarly to 2012, net exports should be the major GDP growth driver in Poland in 2013.

Circumstances on the labor market will continue to be demanding. The unemployment rate at yearend 2013 will be higher than at yearend 2012.

Deceleration in economic growth will stifle price growth, It is forecasted that inflation in December 2013 will be 0.9% on an annual basis.

The low rate of economic growth is currently causing budgetary income to be lower than planned. The changes to the pension system announced by the government may improve the standing of public finances. At the same time, however, there is a risk of public expenditures being cut.

Table 3. Forecasts for the Polish economy

	2010	2011	2012	2013F*
Real GDP growth in % (yoy)	3,9	4,5	1,9	1,0
Individual consumption growth in % (yoy)	3,2	2,6	0,8	0,5 0,6
Growth of gross capital expenditures for fixed assets in % (yoy)	-0,4	8,5	-0,8	-3,1
Price growth in % (yoy, yearend)	3,1	4,6	2,4	0,9
Growth of nominal salaries in the national economy in % (yoy)	3,9	5,6	3,5	2,5
Unemployment rate in % (yearend)	12,4	12,5	13,4	14,1
NBP's prime rate in % (yearend)	3,50	4,50	4,25	2,50
Average annual PLN/EUR exchange rate	3,99	4,12	4,19	4,24
Average annual PLN/USD exchange rate	3,02	2,96	3,26	3,26

Source: PZU's Macroeconomic Analysis Department, * Forecast

PZU anticipates that the entire insurance sector's gross written premium will grow by 0-0.1% in 2013 compared to the previous year, where:

- the non-life insurance market will probably shrink by several percent on account of the strong correlation with the pace of GDP growth. The adverse impact of the deceleration in the pace of growth will be particularly visible in the corporate segment;

- slight growth is anticipated on the life insurance market. Its growth rate will primarily hinge upon the level of interest rates, new enacted regulations, e.g. on the principles for the operation of bancassurance. Group and individually continued insurance should grow relatively the best.

Apart from unforeseeable natural calamities the most important type of risk to which insurance undertakings will be exposed will be the market risk associated with investment activity, in particular the risk of share price decline and of price decline on Polish treasuries. The credit risk associated with the insurance bonds extended by the insurance sector may also rise (including good performance bonds concerning contracts). However, on account of the inconsequential extent of this business, one should not anticipate it exerting a significant impact on the results of the non-life insurance sector.

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04
PZU Group's operations in 2012

Smartly and quietly introduced changes permit us to maintain our leading position in the Polish insurance market. We provide the daily peace of mind to millions of our clients purchasing life insurance, saving for retirement and protecting their vehicles and homes. We also multiply assets of people who have put their savings in Poland's largest Mutual Fund Companies.

PZU – operations on the Polish non-life insurance market

Market

Gross premium: PLN 26.3 billion (+3.9%)	Assets: +12.0%	Net profit: PLN 3.4 billion (+9.8%)	ROE: 17.0% (-0.9 p.p.)

PZU

Written premium: PLN 8,453.5 million (+2.5%)	Claims paid: PLN 5,415.7 million (+1.4%)	Net profit: PLN 2,580.7 million (-0.1%)	Average claim handling time: 15.7 days (-4.5 days)

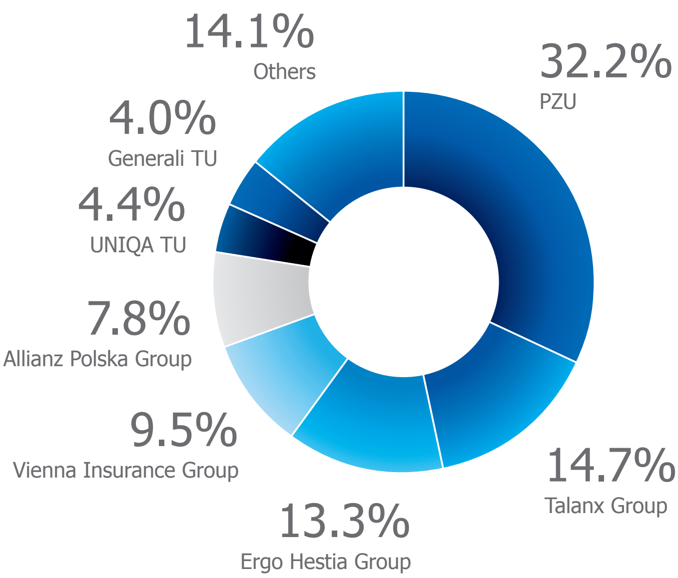
Market situation

In 2012, the rate of growth of the non-life insurance market decreased significantly in comparison with the previous year. Insurance companies collected a gross premium of PLN 26.3 billion, up by 3.9% from the previous year. For the sake of comparison, in 2011 the market grew by 11.3%.

The situation in the non-life insurance market in 2012 was shaped predominantly by the following factors:

- a decrease in motor own damage insurance premiums by 2.4% due to the persisting, in the last two years, inhibition of growth in sales of insurance policies to natural persons;
- an increase in TPL motor insurance premiums, in particular due to an increase of tariffs for business clients – growth by 3.9%;
- an increase in the value of other TPL insurance – by 28.3%;
- an increase in written premium from insurance of other material damages – by 12.9%.

Non-life insurance companies – share in gross written premium for 2012 (in %)



Capital groups: Allianz – Allianz, Euler Hermes; Ergo Hestia – Ergo Hestia, MTU; Talanx – Warta, Europa, HDI; VIG – Compensa, Benefa, Inter-Risk, PZM (since 31 July 2012, a merger of Inter-Risk and PZM)
Source: KNF, Quarterly Newsletter. Insurance market 4/2012

In 2012, the insurance structure was dominated by motor insurance. The share of motor insurance in the total value of gross written premium was 56.8%. Property insurance had the second largest share of 20.1% of the total premium.

During 2012, the assets of non-life insurance companies increased by 12.0%. At the same time, their equity grew to reach a level 21.8% greater in December 2012 than a year earlier. In 2012, non-life insurance companies generated net profit of PLN 3.4 billion, up by 9.8% in comparison with 2011. In a situation of a substantial increase in equity, return on equity (ROE) stood at 17.0% compared to 17.9% in the previous year.

PZU's operations

Within the PZU Group, the entity conducting business in the non-life insurance market in Poland is the Group's parent company, i.e. PZU.

In recent years, PZU has been managing approximately one-third of the non-life insurance market. In 2012, PZU gathered 32.2% of gross written premium (compared to 32.6% in 2011). The Company also enjoyed a relatively strong market position in motor own damage insurance (with a 38.1% market share).

We are a pillar of the Polish economy with one-third of the non-life insurance market.

PZU offers a broad selection of non-life insurance products, including motor insurance, property insurance, casualty insurance, agricultural insurance and third party liability insurance. As at the end of 2012, the Company's offer consisted of over 200 insurance products. Motor insurance is the most significant group of products offered by PZU, both in terms of the number of the existing insurance agreements and in terms of the share of its premium in the total value of gross written premium.

Being a leader implies certain commitments. To respond to the needs, throughout 2012 PZU kept introducing significant changes in its offer, involving the basic categories of insurance products targeted at all client segments.

The following are the main changes introduced by the Company to its offer targeted at individual clients and small and medium-sized enterprises (SMEs):

- changed motor insurance tariffs to align them with market conditions;
- at the beginning of July, a new version of PZU Dom Plus home insurance introduced with a broader range of insured risks; a simultaneous withdrawal of the PZU Dom product from the market;
- changed PZU Doradca comprehensive insurance tariffs designed for SMEs by bringing them in line with the level of risk, in particular the risk of flooding;
- new mandatory and voluntary insurance for healthcare centers offered in connection with the introduction of a new package of healthcare laws;
- the only product differentiating premiums according to gender withdrawn from the offer in accordance with the guidelines issued by the European Commission to the EU Gender Equality Directive – individual insurance of daily hospital benefit;
- changes introduced to the offer of subsidized crop insurance aimed at improving its profitability in light of its high loss ratio in 2011;
- selected provisions of the General Terms and Conditions of Insurance, information provided to clients and operating procedures adapted to amendments in legal regulations.

With respect to corporate clients, PZU acted primarily with a view to improving the profitability of its operations in this segment, namely:

- in motor insurance, PZU conducted a relatively restrictive underwriting policy coupled with and selective sales of these products to selected client groups;
- the Company upheld a significant role of underwriting in the property insurance area through selective sales of insurance, including to entities in high-loss industries, further improvement of the risk management process and frequent use of additional clauses and other technical restrictions changing the insurance coverage;

- in third party liability insurance, the Company modified its TPL products for medical entities (due to the legislative changes concerning the scope of liability and increasing sums guaranteed), used risk assessment tools and applied relatively restrictive insurance conditions and quotation principles.

Significant changes were also introduced to the remaining parts of PZU's offer, namely:

- financial insurance:

  – the Company suspended sales of guarantees to companies performing construction contracts due to the crisis and a wave of bankruptcies in the construction market,

  – the Company expanded the scope of cooperation with PKO Bank Polski and provided insurance cover for the whole portfolio of mortgage loans granted by the bank. At the end of 2012, the Company also signed a new general agreement to insure repayment of mortgage loans until the establishment of mortgages with ING Bank Śląski.

The Company also commenced work on the development of new products, such as insurance of the lease repayment risk until the establishment of a mortgage and insurance of the lease repayment risk covering the lessor's down payment shortfall.

- bancassurance:

  – the Company continued its cooperation with the leading banks operating in Poland (including PKO Bank Polski, ING Bank Śląski, Bank Millennium and BGŻ). PZU also enriched its offer with new insurance products added to banking products, such as payment card protection programs and insurance of buildings and premises added to mortgage loans,

  – with a view to strengthening cooperation with counterparties in possession of large client databases or handling mass payments, the Company introduced new, specialized types of insurance, including insurance of mobile phones and laptops and insurance of the loan repayment risk in the event of a job loss.

Studies conducted by PZU have shown that a factor of key importance for client loyalty in addition to price is the claim handling and benefit payment process. The introduction of improved procedures for handling property and third party liability claims shortened the average claim handling time at PZU. In 2012, it was 15.7 days, down by 4.5 days from 2011.

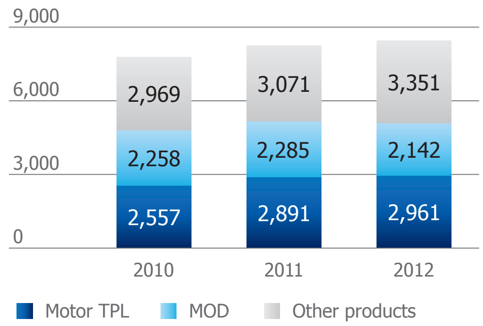
In 2012, PZU accumulated gross written premium of PLN 8,453.5 million, an increase of 2.5% compared to the previous year. At the same time, the structure of gross written premium also changed in comparison with the previous year, namely:

- motor TPL insurance accounted for 35.0% of the total portfolio, i.e. its share remained at a similar level as in 2011;

- the economic slowdown coupled with PZU's policy aimed at improving the profitability of motor own damage insurance for corporate clients resulted in a decrease in the value of gross premium from motor own damage insurance by 6.3% compared to the previous year. As a result, the share of this premium in total premium decreased from 27.7% in 2011 to 25.3% in 2012;

- the rapid growth of sales of such insurance products as the new accident insurance for patients due to medical events, TPL insurance for healthcare centers and the PZU Dom Plus product contributed to the 9.1% percent increase in written premium from other products. As a result, the share of gross premium from other insurance in total premium increased to 39.7% (compared to 37.2% in 2011).

PZU's gross written premium (millions of PLN)



During 2012, PZU paid claims and other benefits in the total amount of PLN 5,473.0 million, up by 1.4% compared to the previous year. The claims ratio stood at 66.1% compared to 68.1% in 2011.

In 2012, PZU generated net profit of PLN 2 580.7 million, down by 0.1% from the previous year. The amount of net profit was affected by the increase in provisions for the capitalized value of annuities caused by a non-recurring decrease in technical rates.

Factors to affect the performance of the non-life insurance sector in 2013

In addition events of a random nature (such as floods, droughts and spring frosts), the main factors that can affect the situation of the non-life insurance sector in 2013 are as follows:

- The economic slowdown in Poland. The difficult financial situation of households may lead to a further decline in sales of motor insurance policies (due to a lower volume of new car sales), lower sales of mortgage loans and related borrower insurance as well as reduced demand for other property insurance. In turn, financial difficulties experienced by businesses may lead to an increase in credit risk and a rise in the loss ratio of the financial insurance portfolio;

- Price pressure exerted by competitors, resulting from a decrease in the loss ratio of the motor insurance portfolio in 2012, which was in general a year of good weather conditions and lower traffic;

- Changes in the regulatory framework, such as amendments to the Compulsory Insurance Act and the introduction of new rules for terminating TPL insurance agreements resulting in an increase in the number of drivers without TPL cover as well as amendments to health insurance laws.

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PZU Życie – operations on the Polish life insurance market

Market

Gross premium: PLN 36.4 billion (+14.3%)	Assets: +11.1%	Net profit: PLN 3.2 billion (+11.0%)	ROE: 23.3% (-0.8 p.p.)

PZU Życie

Written premium: PLN 9,313.4 million (-5.1%)	Claims paid: PLN 8,013.3 million (+2.8%)	Net profit: PLN 1,852.9 million (+17%)	Average claim handling time: 4.6 days (-0.4 days)

Market situation

In 2012, the life insurance market in Poland was developing rapidly. Gross written premium of life insurance companies was PLN 36.4 billion, up by 14.3% compared to the previous year (for comparison, the growth rate in 2011 was 1.4%).

The growth of the life insurance market in 2012 was driven by increases in gross written premium in two basic categories of insurance, i.e. life insurance, including short-term policies of an investment nature (up by 15.2%) and unit-linked insurance (up by 16.9%). This was primarily due to the improved situation in capital markets and greater interest among bank clients in insurance products due to amendments to the Tax Code removing, with effect from 1 April 2012, the benefits resulting from investing savings in the so-called tax-exempt deposits. In other types of insurance (i.e. dowry, disability and accident insurance), the growth of gross written premium was relatively low.

During 2012, the assets of life insurance companies increased by 11.1%. At the same time, their equity grew as well, in December 2012 reaching a level 17.7% higher than a year earlier. In 2012, life insurance companies generated PLN 3.2 billion of net profit, up by 11.0% from 2011. Return on equity stood at 23.3% (an increase of 0.8 percentage points compared to 2011).

PZU Życie's operations

Within the PZU Group, the entity conducting business in the life insurance market in Poland is PZU Życie, offering a broad range of life insurance products, including: group protection insurance, individual insurance and products offered in cooperation with banks.

PZU Życie, a PZU Group's company, is the unrivalled market leader in life insurance with regular premiums. In 2012, we introduced new products in this area, such as individual pension security accounts (IKZEs) and the first drug insurance in the Polish market.

In 2012, PZU Życie customized its product offer to match the ever greater client requirements, actions taken by competitors and the changing legal situation.

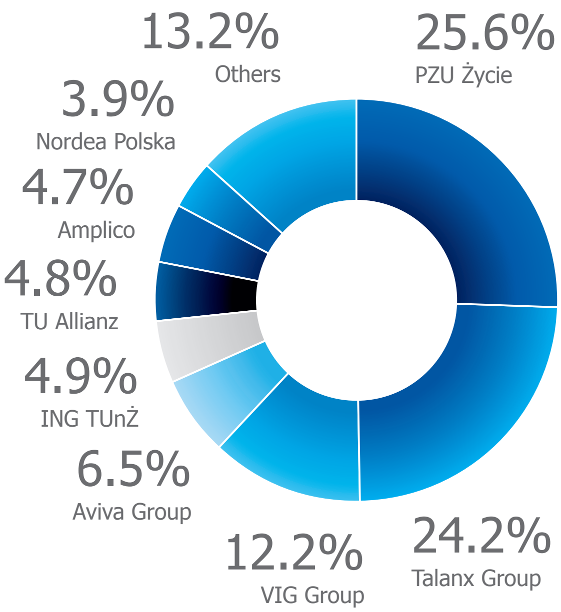
Significant changes occurred, above all, in one of PZU Życie's basic products, i.e. in type P Plus group insurance, involving:

- the introduction of new tariffs, systematization of discounts and differentiation of commissions, all of which allowed for improving the price elasticity of this product;

- the introduction of new riders covering the right of individual continuation of insurance with three types of continuation guarantees. The result is that every newly executed type P Plus group insurance agreement has an embedded right of continuation starting from 1 January 2012;

- changes in the offer of type P Plus group employee insurance, the PZU Ochrona Plus product for the SME sector (where, among other changes, a rider for guaranteed continuation of insurance in all protection packages was added).

Life insurance companies – share in gross written premium in 2012 (in %)



Capital groups: Talanx – Warta, Europa, HDI, Open Life; VIG – Compensa, Benefia, Polisa Życie; Aviva – Aviva TUnŻ, BZ WBK – Aviva TUnŻ.
Source: KNF, Quarterly Newsletter. Insurance market 4/2012

At the same time, PZU Życie worked actively to generate greater interest among employers/insurers in its offer of riders and to offer assistance services and discount programs (through the use of Klub PZU Pomoc w Życiu).

In the area of development of individual insurance, the most significant event for PZU Życie in 2012 was the launch of a new product: the individual pension security account (IKZE). The possibility of investing savings in IKZEs was introduced by the amended, on 1 January 2012, Act on Individual Retirement Accounts. Clients voluntarily depositing their savings for retirement in IKZEs may take advantage of a tax relief in the annual tax return and deduct pension insurance premiums from their taxable base in an amount of up to 4 percent of the base for calculating the amount of pension insurance contributions. This product is very popular with clients. Among the several institutions offering such accounts in 2012, PZU Życie was the unrivalled leader in terms of IKZE sales.

Due to the continuing uncertainty in the financial markets, clients became more interested in traditional life insurance products of a protection or protection-and-savings nature. Growing client interest was related primarily to the sale of classic insurance products such as PZU Ochrona Życia or PZU Twoja Ochrona. In turn, in relation to the Plan na Życie individual unit-linked life insurance product, clients applied an increased amount of caution when making their investment decisions (part of the reason being discussions about the product structure).

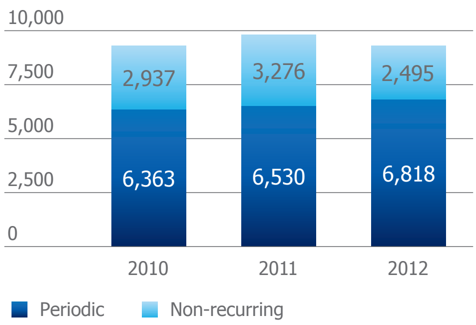
The use, in PZU Życie's structured products, of diversified investment strategies taking into consideration the changing conditions in the financial markets, allowed for a better alignment of these products to the clients' current expectations and resulted in an increase in their sales. In 2012, the Company held 12 consecutive subscriptions of the Świat Zysków structured insurance product (compared to 6 subscriptions the year before).

As regards unit-linked products (products linked to an insurance capital fund), in 2012 the Company continued sales of the Multicurrency Investment Program and investment policies in collaboration with Bank Millennium and the Individual Unit-Linked Life Insurance product in collaboration with Bank Handlowy of Warsaw (some of these products were offered in the new autoCall version allowing for an early termination of the investment under certain specific conditions).

Furthermore, in 2012 PZU Życie introduced Poland's first complementary health insurance related to reimbursement of drug expenses – PZU Ubezpieczenie Lekowe (PZU Drug Insurance). This product is offered in collaboration with the PELION Group and enables clients to significantly reduce the cost of purchasing prescription drugs. Concurrently, at the end of 2012 the Opieka Medyczna individual hospital insurance product was withdrawn from the market.

In 2012, PZU Życie collected gross written premium of PLN 9,313.4 million, down by 5.1% from the previous year. This represented 25.6% of gross written premium collected by all life insurance companies (compared to 30.8% in 2011). However, PZU Życie continued to be the unrivalled leader in the periodic premium segment. In 2012, its share of this market was 43.1%.

PZU Życie's gross written premium (millions of PLN)



Periodically paid premiums formed the main part of the Company's insurance-related revenues. They represented 73.2% of PZU Życie's gross written premium (compared to 66.6% in the previous year). These premiums were predominantly related to group insurance and individually continued insurance providing cover to approximately 12 million Poles.

In 2012, PZU Życie paid claims amounting to PLN 7,933.7 million, up by 2.8% compared to the previous year. As a result of changes made to the Company's operating procedures, in 2012 the claim handling process was shortened.
In 2012, the average claim was handled in 4.6 days, i.e. 0.4 days faster than in the previous year.
In 2012, PZU Życie generated PLN 1,852.9 million in net profit.

Factors to affect the performance of the life insurance sector in 2013

The situation in the life insurance market in 2013 will be affected predominantly by the following factors:

- The economic slowdown in Poland affecting the financial condition of both households and businesses;
- Trends in the capital markets determining the attractiveness of unit-linked products;
- The possible introduction of a capital gains tax on investment policies of structured products;
- Changes in the financial intermediation market affecting the popularity of independent financial advisory services and limiting the number of distribution channels for insurance products.

PTE PZU – operations on the pension fund market

Market		Złota Jesień Open-End Pension Fund	
Assets of the Open-End Pension Fund: PLN 269.6 billion (+20.0%)	Average rate of return: +16.4%	Number of members: 2,222.9 thousand (13.9% of the market)	Net assets: PLN 36,282.4 million (13.5% of the market)

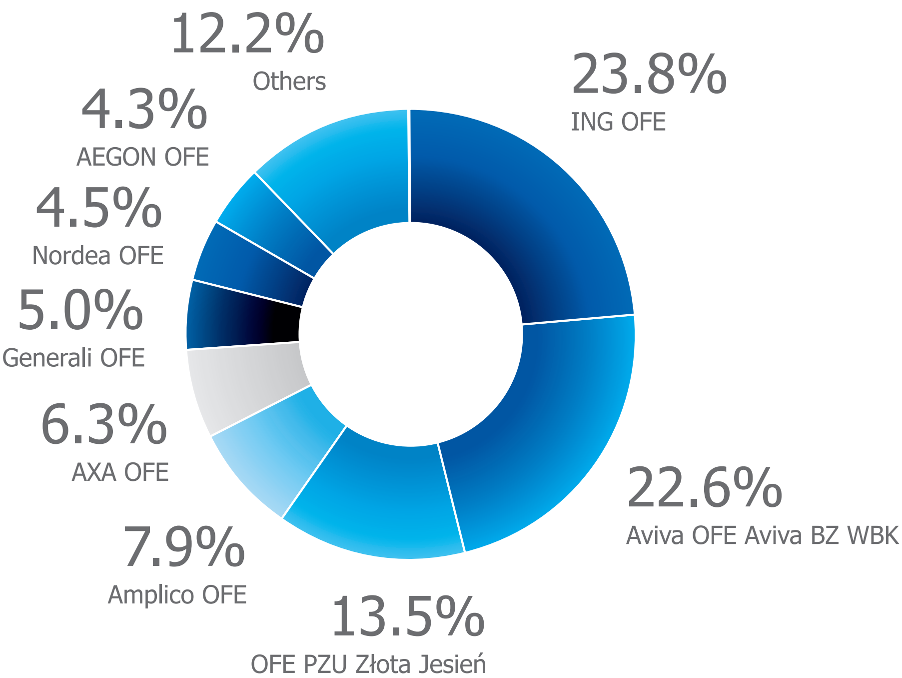
Market situation

In December 2012, the net assets of open-end pension funds stood at PLN 269.6 billion, up by 20.0% compared to the end of the previous year. The rate of growth of the net asset value of open-end pension funds was affected by the following factors:

- Record-breaking investment results. The funds succeeded in taking advantage of the favorable conditions in the financial market, generating an average rate of return of 16.4%;
- A decrease in the value of assets transferred to the funds to PLN 8.4 billion in connection with a reduction in the rate of contributions transferred to the funds to 2.8% of the base for calculating the amount of pension insurance contributions.

General pension fund companies also found themselves included in the group of entities authorized to keep, from 1 January 2012, individual pension security accounts (IKZEs). As at the end of 2012, 9 general pension fund companies kept such accounts. Voluntary pension funds had 127.6 thousand members.

Open-End Pension Funds – share in net assets as at 31 December 2012 (in %)



Source: KNF, Monthly data on the open-end pension fund market, Data for December 2012

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PTE PZU's operations

Otwarty Fundusz Emerytalny PZU Złota Jesień (PZU Złota Jesień Open-End Pension Fund) managed by PTE PZU is one of the main participants in the pension fund market in Poland. As at the end of 2012, OFE PZU was the third largest pension fund both in terms of the number of members and the net asset value:

- The fund had 2,222.9 thousand members, i.e. 13.9% of the total number of participants in all pension funds;
- Its net assets totaled PLN 36,282.4 million representing 13.5% of the total value of assets of all open-end pension funds operating in Poland.

Leveraging its strong position in the open-end pension fund market and the qualifications of its management team, in 2012 PTE PZU, a PZU Group company, was a pioneer and leader in the voluntary pension fund market.

Taking advantage of its experience in the market for equity-based pension products, its highly qualified management team and its established and stable position in the open-end pension fund market, PTE PZU has all the right conditions to provide clients with attractive IKZE savings products. PTE PZU's operations in this area is run through DFE PZU (*Dobrowolny Fundusz Emerytalny PZU* – PZU Voluntary Pension Fund), which was the first such fund entered in the Register of Funds on 12 January 2012. As at the end of 2012, DFE PZU kept 121.6 thousand IKZE accounts and was third leading financial institution in the IKZE market and the unrivalled market leader among voluntary funds run by general pension fund companies. It was also a leader in terms of the generated rate of return.

Acting in the interests of members of its open-end pension funds and clients saving in IKZE accounts, on 14 January 2012 PTE PZU changed the bank acting as the depositary to ING Bank Śląski.

In 2013, PTE PZU intends to continue to actively participate in the process of consultation of proposed amendments to pension insurance laws by suggesting solutions serving, above all, the purpose of protection of the interests of open-end pension fund members.

Factors to affect the operations of pension funds in 2013

The main challenges for the pension fund market in 2013 are as follows:

- An increase in the unemployment rate translating into a smaller number of members joining open-end pension funds;
- A low rate of growth of salaries which will adversely affect the rate of growth of contributions paid by pension fund members;
- The situation in the treasury debt securities market – an increase in the yield on such securities will result in a lower valuation of investments managed by PTE;
- The situation in the capital market, in particular on the Warsaw Stock Exchange, affecting the value of the funds' assets and the fees charged by PTE for asset management;
- The situation of the state budget. The higher-than-expected state budget deficit may adversely affect the sentiments of international investors toward Polish debt securities and cause an increase in their yields. The growing state budget deficit may also lead to new changes in the operation of open-end pension funds.

TFI PZU – operations on the mutual fund market

Market		TFI PZU	
Assets: PLN 145.8 billion (+26.9%)	Balance of cash flows to TFI: PLN 14.2 billion	Net assets: PLN 15.4 billion (+186.9%)	Market share: 10.5% (+5.8 p.p.)

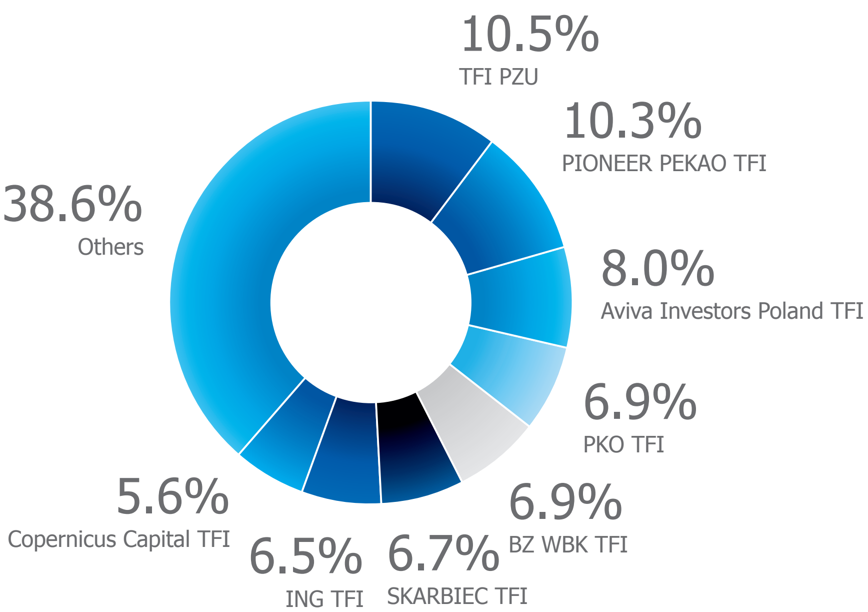
Market situation

Thanks to the calmed moods and improved quotations on the Warsaw Stock Exchange, the continuing bullish momentum in the Polish government bonds market and the perceived lower attractiveness of traditional bank deposits in the second half of the year, the whole year 2012 proved very successful the mutual fund market. As at the end of 2012, mutual funds managed assets of PLN 145.8 billion, up by 26.9% than a year earlier. This increase resulted from the following factors, among others:

- A positive balance of cash flows into TFI. It amounted to PLN 14.2 billion, predominantly due to the inflow of cash to funds investing in the private equity market related to transfers of large amounts of cash to dedicated funds within capital groups;
- Good investment results of the funds – in 2012, the average rate of return of funds investing in the Polish market ranged from 4.5% in the case of funds investing in Polish corporate debt to 17.7% in the case of universal Polish equity funds.

In 2012, the structure of assets changed as well. The share of debt funds in the total value of assets increased (to 28.3%) as did the share of private equity funds (to 16.0%) at the expense of equity funds (down to 16.9%) and mixed funds (to 13.8%).

Mutual fund companies – share in assets as at 31 December 2012 (in %)



Source: Chamber of Fund and Asset Managers

TFI PZU's operations

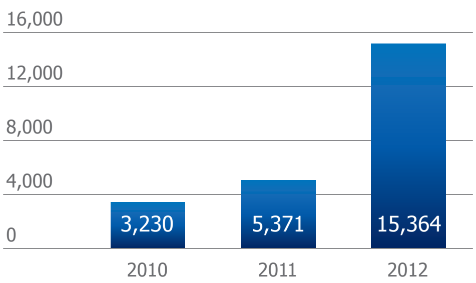
Within the PZU Group, the entity conducting business in the mutual funds market is TFI PZU, offering products and services for both individual and institutional clients, including additional savings plans under the so-called third pillar of the social security system, including: individual retirement accounts (IKEs), specialized investment programs, employee pension plans (PPEs) and company investment programs (ZPIs).

Thanks to changing the asset management philosophy of the PZU Group and expanding its distribution network, our Mutual Fund Company (TFI PZU) has moved into the leading position in the mutual fund market.

As at the end of 2012, TFI PZU had in its offer 25 funds and subfunds, of which 16 were also offered to clients from outside the PZU Group.

As at the end of 2012, TFI PZU's net assets amounted to PLN 15,363.5 million, up by 186.9% compared to the end of 2011. Thus, the Company moved into the leading position in the mutual fund market with a 10.5% share (compared to 4.7% in December 2011). At the same time, the Company defended its leading position in the employee pension plan segment among domestic mutual fund companies, gathering assets of over PLN 1.8 billion.

TFI PZU's net assets (millions of PLN)

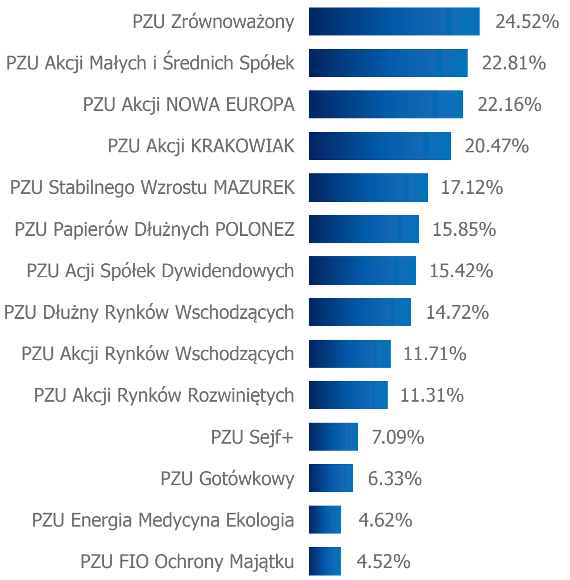


Source: Chamber of Fund and Asset Managers

The growth in the value of TFI PZU's assets in 2012 resulted primarily from:

- The introduction of a new investment strategy in the PZU Group and the transfer by some of the Group companies (mainly by PZU and PZU Życie) of part of their assets to TFI PZU for management. As a result, the assets obtained from the Group's companies as at the end of 2012 accounted for 78.5% of TFI PZU's total assets;
- The introduction of new closed-end mutual funds to the offer and the issue of certificates. The following closed-end mutual funds were launched: PZU FIZ Nieruchomości, PZU FIZ Aktywów Niepublicznych BIS 1, PZU FIZ Aktywów Niepublicznych BIS 2, PZU FIZ Medyczny and PZU FIZ Forte;
- Expansion of the distribution network. In 2012, the existing network was revitalized and cooperation was established with new distributors, namely: BRE Wealth Management, Deutsche Bank, DM BOŚ and DM PKO Bank Polski. The share of sales generated by the new distributors in all assets acquired from the market was approximately 15%. Remote distribution channels, i.e. a Web platform and an IVR system for placing orders, were also launched;
- The establishment of cooperation involving investment of assets in mutual funds managed by TFI PZU, including from: TU EUROPA and TU na Życie EUROPA, AXA Życie TU, Fundusz Górnośląski, Tower Inwestycje and Ogrodowa – Inwestycje;
- Very good investment results generated by fund managers;
- The implementation of employee pension plans in: the PHN Group, PGNiG Energia Oddział Obrotu Energią, Zakłady Azotowe in Tarnów-Mościce (currently the Azoty Group), ZAK (currently the Azoty Group) and Totalizator Sportowy;
- Intensive activities in the areas of sales, marketing and PR. An advertising campaign was conducted on the Internet to promote the functionality of remote opening of registers through the Internet platform and the IVR system. TFI PZU was also a partner in a number of major events taking place in the financial markets, such as: the Asset Management Forum, the 2012 Private Banking Conference, the European Economic Congress – Katowice 2012, the Economic Forum in Krynica, the 5th Investment Forum in Tarnów, the Congress of Management Boards of Listed Companies and the Retail Banking Congress.

Rates of return from TFI PZU's mutual funds in 2012 (in %)



Factors to affect the operations of mutual funds in 2013

The situation in the mutual fund market will depend primarily on:

- trends prevailing in the capital markets;
- variability of yields on treasury securities;
- attractiveness of traditional bank deposits;
- changes in the financial intermediation market, in particular the inhibition of growth in popularity of independent financial advisory services, and thus a reduction in the number of sales channels.

International operations

Ukraine

In 2012, the insurance market in Ukraine experienced a period of stagnation. This was a result of the country's economic situation and the banks' lending policy.
The insurance market is directly related to the credit market and almost 40% of the motor insurance market was associated with installment purchases.

In 2012, gross written premium from the non-life insurance market amounted to UAH 19.7 billion, down by 7.7% from the previous year. Motor insurance accounted for approximately one-third of the premium. Gross written premium in life insurance amounted to UAH 1.8 billion (up by 34.4% from 2011).

The Ukrainian insurance market is fragmented. In December 2012, it had 448 insurance companies operating (of which 64 were involved in life insurance), of which over 100 are companies with foreign capital.

In 2012, the insurance market in Ukraine was characterized predominantly by: the use by some companies of dumping prices, a high level of costs associated with sales of insurance products, some insurance companies experiencing problems maintaining current liquidity and the still low popularity of insurance services among the public coupled with a moderate level of confidence in the effectiveness of insurance.

Due to the relatively low level of market penetration and the large number of inhabitants, the Ukrainian insurance market has a huge growth potential and is very attractive to foreign investors.

In the Ukrainian market, the PZU Group conducts its insurance business through two companies: PZU Ukraine (in the non-life insurance sector) and PrJSC IC PZU Ukraine Life (life insurance). Furthermore, LLC SOS Services Ukraine provides assistance functions.

In 2012, the total value of the PZU Group's gross written premium in the non-life insurance segment in Ukraine amounted to PLN 142.2 million, up by 17.6% from the previous year. This increase resulted both from the increase in premiums received through third parties (i.e. banks, travel agencies, etc.) and through the Group's own distribution channels. Of particular importance for the increase in written premium was travel insurance, the Green Card, corporate property insurance and motor insurance.

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In 2012, PZU Ukraine collected 1.8% of gross written premium of the Ukrainian non-life insurance sector, ranking it fifteenth in the market.

In the life insurance market, as at the end of 2012 PZU Ukraine ranked ninth with a market share of 5.4%.

Lithuania

According to data published by the central bank of Lithuania – Lietuvos Bankas – the gross written premium generated by non-life insurance undertakings was LTL 1.2 billion in 2012, up 6.6% compared to the previous year. Market expansion was driven primarily by the following factors:

- motor insurance premium growth as a result of raising the prices of policies as well as of companies expanding the number of cars (related to economic recovery);
- growing popularity of health insurance.

Lietuvos Draudimas is the largest insurance undertaking in Lithuania measured by the total gross written premium generated in non-life insurance. In 2012 it held a 31.3% market share.

In the Baltic States the PZU Group conducts underwriting activity through two companies organized in Lithuania: PZU Lietuva (non-life insurance) and UAB PZU Lietuva Gyvybës Draudimas (life insurance).

In 2012 PZU Lietuva generated gross written premium of PLN 195.7 million, i.e. 19% higher than 2011, mainly by selling more motor own damage insurance (23.8% growth) and accident and health insurance (39.2% growth).

Motor business dominated the portfolio structure with 57.0% of the gross written premium. Motor TPL insurance accounted for 36.5%, remaining at the same level as in 2011, while the share of motor own damage insurance edged upward from 19.6% to 20.5%.
Accident and health insurance also grew their share (from 10.2% to 12.0%), as did property insurance (from 14.9% to 15.2%).

In 2012 PZU Lietuva improved its position on the Lithuanian insurance market, taking second place with a market share of 13.3%.

PZU Lietuva's objective in 2012 was to continue improving the profitability of its motor portfolios and to strengthen its position on the corporate non-life market.

Measures initiated in the previous year were taken in 2012 to ensure full unification of the PZU Lietuva Group with the standards in force in the PZU Group. They also entailed the organizational structure, which should contribute among others to cutting operating expenses.

On 6 September 2012 the Latvian Finance and Capital Market Commission issued a decision to consent to PZU Lietuva establishing a branch in Latvia. On 15 October 2012 PZU Lietuva opened its office in Riga. Its offering includes property insurance, insurance bonds and general TPL insurance. In December 2012 the first policy was sold with a premium of EUR 26.4 thousand. More products (TPL and motor own damage) aligned to the Latvian market's requirements were prepared at the outset of 2013. At the same time, more employees were recruited and internal procedures and IT systems were developed.

On 17 October the Estonian Financial Supervision Authority issued a decision to consent to PZU Lietuva opening a branch in Estonia. On 14 November 2012 the branch was registered in the register of entrepreneurs. The branch plans to commence sales at the turn of Q2 and Q3 2013.

Other areas of operations

The PZU Group additionally comprises other entities operating on the financial market or within the Group's infrastructure; they include, among others:

- PZU AM. In 2012, the Company provided services solely to PZU Group companies, i.e. to PZU, PZU Życie, TFI PZU and MPTE PZU. PZU AM launched the management of new investment portfolios (PZU FIZ Medyczny, FIZ Sektora Nieruchomości 3, PZU FIZ Forte, PZU FIZ AN BIS 1, PZU FIZ AN BIS 2);

- PZU Pomoc. It conducts business activity supplementing the core business of PZU and PZU Życie. Its activity includes:

  – medical administration services,

  – support for claims handling processes and management of chains of the Assistance service subcontractors,

  – organization of Assistance services, which involve the provision of assistance to PZU Group clients,

  – administration of loyalty programs and provision of all kinds of services and discounts,

  – sale of PZU Pomoc cards.

In the area of medical administration services, at the end of 2012, the Company had a chain of 800 medical centers throughout Poland. It also has the leading position on the market for selling damaged vehicles using an on-line auction platform.

- PZU CO. The main line of business is to provide auxiliary services related to insurance and pension and disability funds and continuous intermediation in execution of insurance contracts and other financial contracts. In 2012, PZU CO carried out a number of projects aimed at developing, supporting and improving the efficiency of support for the operations area, including:

  – in the area of support for agency sales – administration of distribution of Individual Retirement Savings Accounts (IKZE) for PTE PZU and sale of group property insurance for PZU,

  – in the area of operations and IT projects supporting operating processes – commissioning of the new Contact Center location in Bydgoszcz for the needs of PZU and PZU Życie and administration ofIndividual Retirement Savings Accounts (IKZE) for PTE PZU SA and PZU Życie.

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05 Organization, infrastructure and human resources

All the people who observed PZU from the outside last year noticed a change of our logo, the design of our outlets and information materials. That however was only a good crowning of our changes inside: numerous, bold, affecting many areas in the Company, such as the organizational structure, management, training and salary systems, IT infrastructure. Thanks to those changes that we have been introducing and continuing for years, we are now an efficient mechanism that can be relied on.

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Organizational and functional structure

From the management point of view, the organizational structure of PZU and PZU Życie is based on the functional and geographic coordination of tasks. As part of the functional organization, there are functional divisions and areas in PZU and PZU Życie, such as marketing, sales management in individual customer segments, claims handling, outlet chain management, operations division, HR division, investment division and functional divisions and areas responsible for the support function. The geographic coordination is carried out by field structures (regional branches and relevant structures of functional divsions, including specialized entities). A significant part of structures at each organizational level (head office, specialized units, regional branches, PZU branches) is fully integrated and performs its functions for both PZU and PZU Życie.

In 2012, we made significant changes in our organization. First and foremost, we took a strategic decision to launch the implementation of a new product system for property insurance. We have unified sales and service outlets. We have also concluded an agreement to continue the employment restructuring process.

As at 31 December 2012, the organizational structure of PZU and PZU Życie consisted of the following organizational units:

- head office – supporting the PZU Management Board in the management of companies and coordination of activities in the PZU Group, it develops assumptions and development directions of the business and organization of PZU Group companies; it is the center of planning and management through setting business goals, defining the strategy and coordinating its implementation;
- specialized units – specialized operating centers performing the following tasks for the companies or in a specific geographic area of Poland:
  Contact Center, insurance operations, claims handling, accounting operations (both insurance and non-insurance), HR and salary operations, recovery operations, financial insurance, administrative support;
- regional branches and the chain of PZU branches – points of direct and comprehensive customer service relating to life and non-life insurance.

At the same time, part of the business is performed through subsidiaries (including PZU Pomoc - claims handling, PZU Asset Management - management of the investment portfolio) and outsourcing. The organizational structure of PZU and PZU Życie also features committees, which are collective decision-making and opinion-making bodies.

In order to optimize our organizational structure to adjust it to our business strategy and the changing environment, the following key organizational changes were introduced in 2012:

- transformation of the marketing division and inclusion of the insurance product management area;
- reorganization of the sales channel management function – approach per sales channel;
- establishment of the investment division;
- establishment of the health insurance division at PZU Życie;
- further centralization of insurance operations (liquidation of 5 insurance operations units – currently there are 2 centers);
- unification of insurance accounting centers (PZU and PZU Życie);
- centralization of financial support for field structures provided at the regional branch level into the level of relevant head office structures and specialized units;
- establishment of the HR division;
- centralization of HR operations and establishment of the HR and salary center (to replace the salary center and the HR functions decentralized at the regional branch level).

Channels of sales and service

The PZU Group has the largest sales and service network among Polish insurance companies. The organization of the PZU sales network serves the purpose of maintaining high efficiency of sales, while ensuring high quality of service. This is achieved through two-dimensional organization of sales:

- breakdown by distribution channels;
- customer segmentation.

At the end of 2012, the insurance products and services of the PZU Group were offered primarily through:

- Tied agents. These included 5,710 field agents and 318 office agents;
- Multiagencies. These were agents cooperating with several insurance companies (their total number was 2,511);
- insurance brokers. The PZU Group cooperated with about 850 insurance brokers;
- own outlets. At the end of 2012, there were 415 outlets, of which 372 offered products of both PZU and PZU Życie. The operational unification process of branches was launched in 2012; in December 2012, there were 52 outlets operatin in the new model;
- bancassurance. In 2012, PZU cooperated with 9 banks and 3 strategic partners with large customer bases or handling mass payments (telecoms, airlines);
- electronic channels (telephone, Internet). These channels are available to individuals and small and medium enterprises.

PZU Clients may report a claim:

- on the Internet – through the E-likwidacja system;
- by telephone, through Infolinia hotline;
- personally in a Branch or in a workshop of the PZU Repair Network;
- in writing (in a traditional letter, by e-mail, fax).

The claims handling procedure is the moment of truth in the client's contacts with the insurer. Meeting clients' expectations in the claims handling process is the key for building their loyalty to PZU. For this reason, a broad range of actions have been taken to improve and shorten this process.

5.7 thousand tied field agents,	2,511 multi-agents cooperating with several insurers,	approx. 850 insurance brokers,
415 own outlets,	9 cooperating banks selling bancassurance products,	3 strategic partners with large customer bases (telecoms, airlines).

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IT and operations

In 2012, a tender was conducted to select the vendor of a new IT system for property insurance products. Guidewire Inc. was selected in the process.

Implementation of the new product system will allow PZU to undergo a business and technology transformation and create the conditions for the proper management of client relations. By automating many processes, the new system will be an on-line tool for agents and service employees, facilitate easy changes in the product offering and will support PZU in contacts with clients through various sales channels. Integration of the new system with other applications: claims handling, data warehouse, enterprise resource planning, document circulation systems, will create the conditions for full utilization of the capacity offered by the new solution.

The IT system vendor selection process was multi-tier and included, among others: market review and analysis, the "blueprint" phase, i.e. familiarizing the bidders with PZU's unique needs for specific functions and customization options of the system and an objective, transparent evaluation of the bids based on an algorithm. The relevant factors included the system's total implementation and ownership cost, functionality and technology and the bidder's capacity to carry out implementations of this scale. Reference visits were also conducted with insurance companies using the selected solution.

The system implementation plan assumes that a pilot would start at the end of 2013 and the customers and insurance policies will be gradually migrated to the new system by 2015. This organization of the project will make it possible to obtain business benefits quickly, while minimizing the implementation risk.

In 2012, a number of actions was taken in the IT area aimed at supporting important business initiatives and optimizing the technical infrastructure:

- we have implemented another project stage of the ERP class system shared by PZU and PZU Życie and have decommissioned the legacy financial and accounting system in the Companies;

- we have improved the Internet auction platform where we sell assets remaining after property claims to a wide group of buyers and where the assets can be valued precisely for the insureds;

- we have made changes to all IT systems of the PZU Group with respect to visualization standards in connection with the PZU brand refresh;

- we have implemented IT tools supporting the new rules of evaluation, bonuses and incentives for PZU Group employees, including e-learning training;

- we have completed the process of securing workstations of PZU Group's management staff, increasing the safety of key information significantly; this process is continued in 2013 for the remaining mobile hardware of PZU Group employees;

- we have completed the wide area network (WAN) acceleration project, which brought about a significant acceleration of its operation while optimizing the use of the infrastructure and throughput;

- we have launched the VoIP phone system for all PZU Group employees, thus reducing our operating expenses and improving the quality of telephone services;

- we have been improving internal processes in line with the international ITIL (Information Technology Infrastructure Library, which is a collection of recommendations for IT divisions on how to offer IT services effectively) which included the implementation of hardware and software management principles.

An important event in the operations area was the launch of the Customer Service Center in Bydgoszcz in January 2012. It is a modern unit which serves the purpose of handling customer matters from all the contact channels (mail, Internet, phone, Branch) while maintaining unified quality and efficiency standards. It is also equipped with phone service workstations. The center already handles 85% of the mailed cases and all the cases received through remote channels.

Table 4. Headcount at PZU and PZU Życie*

	31 Dec 2009	31 Dec 2010	31 Dec 2011	31 Dec 2012
Total:	**15.01**	**13.17**	**12.07**	**11.58**
PZU	10.95	9.36	8.66	8.34
PZU Życie	4.06	3.81	3.41	3.24

* in thousands of FTEs; all employees without any exclusions – as at 31 December

Human resource management

Headcount status

As at 31 December 2012, the headcount at PZU SA and PZU Życie SA, converted into FTEs, was 11.6 thousand, 4.1% down from the previous year.

The reduction of headcount in the PZU Group in 2012 was driven by the implementation of the restructuring program for 2010-2012 announced in December 2009 by the Management Boards of PZU and PZU Życie.

The restructuring and optimization of employment in the years 2010-2012 was carried out on the basis of the Act of 13 March 2003 on special rules for termination of employment for reasons not attributable to employees. Each single intention of group layoffs was consulted with the trade unions operating in those companies, while information on launching the group layoffs procedure was conveyed to the relevant County Employment Office.

In the years 2009-2010, the change process affected almost 8.0 thousand employees, out of which 3.7 thousand received the employment agreement termination documents.

On 10 July 2012, the Management Boards of PZU and PZU Życie made a decision on the intention to conduct further group layoffs in connection with the implementation of the last stage of the restructuring plan for 2010-2012. The decision was a consequence of completion of several projects aimed at the streamlining of procedures, automation and optimization of work processes and centralization of functions.

To the greatest extent, the restructuring activities affected the areas of operation, finance and claims handling.
On 24 July 2012, PZU, PZU Życie and the trade unions operating at these companies signed an agreement specifying the terms and conditions of employment restructuring. The final form of the document is based on the experience and solutions developed during similar negotiations in the previous years.

In 2012, the restructuring process affected 746 people in both companies. 192 employees had their terms of employment and salary changed, while employment cuts affected 554 employees, of which 401 people terminated their employment agreements because they did not accept the new terms of employment.

Persons who were laid off or who did not accept the proposed change of terms of employment during all the restructuring stages received more favorable terms and conditions of severance than the ones contemplated by the law in similar circumstances, i.e. in the Act on the Special Rules for Terminating Employment Relations. The amount of additional severance pays was different in each restructuring process, while the financial package depended on the years in service in the PZU Group and the salary level of each employee.

As at 31 December 2012, the provision for restructuring expenses was PLN 9.8 million (PLN 113.0 million as at 31 December 2011).

On 27 December 2012, the Management Boards of PZU and PZU Życie announced the assumptions for the 2013 restructuring plan, which will cover mainly the claims handling and finance areas and, to a much lesser extent, the support functions. On 13 February 2013, the Management Boards of PZU and PZU Życie announced their intention to effect new group layoffs. The employment restructuring process was planned for the period from March to June 2013. The restructuring is to cover up to 3,145 persons in PZU and PZU Życie; it is estimated that 630 PZU and PZU Życie employees will be laid off, which represents 5.5% of all employees in both companies.

In connection with the above, PZU and PZU Życie established a provision for restructuring expenses, which was PLN 48.4 million as at 31 December 2012.

Salary policy

On 28 February 2012, the Management Boards of PZU and PZU Życie terminated the remuneration systems existing in those companies since 2003 and 2006, respectively. The main reason why these decisions were made was the need to change the performance management system and to set the rules for awarding bonuses linked to the achievement of strategic objectives at all levels of the organization, which would also be adjusted to the prevailing situation on the market.

The new remuneration system introduced in 2012 involves, among others:

- application of the new rules for awarding bonuses starting in Q4 2012: the monthly bonus up to 25% of monthly basic salary was replaced by a quarterly bonus up to 30% of quarterly basic salary (which relies directly on the extent to which the objectives are fulfilled);

- abolishment of other employee benefits (retirement pays and jubilee awards) going beyond those set forth in the Labor Code. As a result:

  – the level of retirement pays upon disability or retirement of an employee whose employment relationship has ceased, were reduced to one-month salary, i.e. the level specified in the Labor Code. According to the previous internal regulations in place in PZU Group companies with their registered offices in Poland, the employees, whose period of employment in PZU Group companies exceeded 10 years, had extended entitlements in this respect (up to 6 times the final monthly salary of the employee, depending on the overall period of employment),

  – jubilee awards were abolished

The effects of the change in the remuneration rules had no significant effect on the cost of salary and other employee benefits in 2012, except for the dissolution of the provision for employee benefits (retirement pays and jubilee awards) the effect of which in the amount of PLN 177.0 million was recognized in other operating income.

Recruitment and building the preferred employer image

In the HR area in 2012, the PZU Group conducted activities which were aimed at increasing motivation, promoting cooperation and initiative among employees and building a positive image of the employer.

In 2012, assumptions for employee evaluation was prepared which was then carried out for the first time in 2013. Its purpose was primarily to promote adequate attitude based on collaboration, knowledge sharing and feedback. For the purposes of the evaluation, Employee DNA and PZU Leader DNA was developed. To strengthen individual genes in DNA, assumptions for the Plus program, i.e. a skill development program were prepared; every employee could select training from the offering proposed by HR. Also in 2012, a process to allocate value to every position was launched. Its outcome will be used in the remuneration system that will take into account: competence, required skills and market standards.

PZU has developed and implemented the mechanisms of entry to and exit from the organization. The assumption of the new employee orientation process is to build commitment and loyalty in the environment of openness and collaboration. A new employee recruitment period was shortened and currently it takes 28 days. Every single person leaving the organization upon agreement of the parties is asked for their opinion on employment in PZU and why they decided to change the employer.

PZU additionally carried out a commitment study among its employees. As a result of this study, it established the TOP 30 - Change Leaders programme. Its purpose is to develop initiatives increasing employee commitment in 5 areas: People – PZU's Key Resource, We Pay for Performance, Grow with PZU, Customer First and PZU Ambassadors.

As part of the activities to strengthen PZU's position as a preferred employer, the Internship and Apprenticeship Program was launched which allows students and graduates to expand their knowledge and skills and apply them in business. Moreover, PZU has become involved in a number of initiatives targeting young talents, such as: Written with Knowledge Contest or the PZU Ambassador Program.

PZU's actions to develop proper relations with employee have been noted by the Market. It was ranked 5th in the third edition of the Antal International study entitled "Most Desired Employers 2012 in the Opinion of Professionals and Managers".

Training

The main training event in 2012 in PZU was the launch of an e-learning platform. It was used first to distribute information on HR activities, including two new systems being implemented: the remuneration system and Employee and Leader DNA. Statistically, every employee spent 8 hours using the platform for training purposes. Ultimately, the training offer will be expanded by additional soft and industry training modules. Industry knowledge may also be expanded through access to electronic materials (including media monitoring), industry publications and press.

At the same time, PZU created a comprehensive package of stationary training: management challenges, Manager's CV, coaching, individual training, group training, university study and specialized forms of professional development, language courses, MBA programs. A development program for the management staff, Lider 2.0, was launched to strengthen PZU's key managers in their role of versatile leaders.

Marketing

In 2012, the business activity of the PZU Group was supported by an extensive image campaign using a broad range of media. Its purpose was to communicate the transformation which made PZU become a cutting edge company focused on its customers. The image campaign used the slogan "We are changing for good". During the campaign, attention was turned to persistent features of PZU, such as reliability and stability.

The logo was changed as part of the Group's image refresh. The refreshed PZU logo contains references to the logo used in the company from 1952 to mid-90s. The new logo is simpler and more legible than the one used previously and serves as a testament to the changes introduced in the organization.

The implementation of the new logo was accompanied by changes in the visual design of branches and outlets and advertising materials. During the two months after the campaign launch (i.e. 10 May 2012), a total of over 2 thousand branches, agent outlets and repair workshops received the new visual design.

In addition to image campaigns, promotional campaigns for the wide product offering of PZU and PZU Życie was carried out, including for: motor insurance, agricultural insurance, travel insurance (PZU Wojażer), e-toll financial insurance, PZU Niezguba, medicines insurance and the Individual Retirement Savings Account.

06 Consolidated financial results

The increase of net profit above PLN 3.2 billion and a record improvement of return on equity by 5.7% points up to 24.0% shows our persistence in building a large, stable and secure insurance group. This is how we can summarize in figures the efforts to become the financial institution that provides the best service to its customers in Poland.

The Annual Report of PZU and the consolidated annual report of the PZU Group in the version published pursuant to the Act on Offerings are available on the Company's website www.pzu.pl, in the "Investor Relations" section, "Annual Reports" chapter.

Major drivers of the financial result

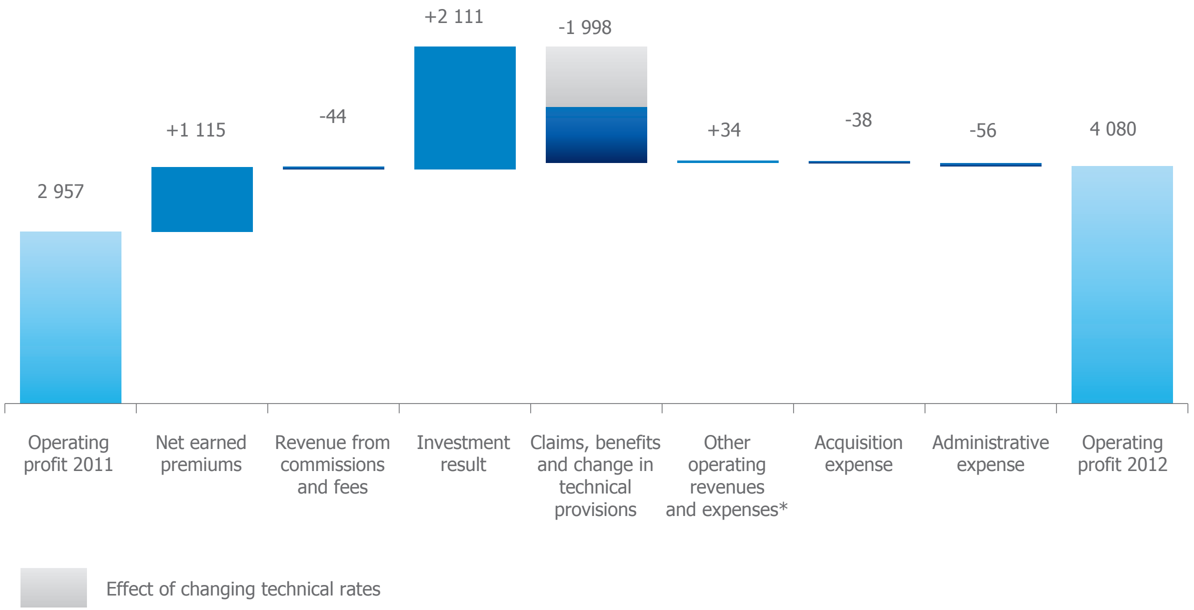
In 2012 the PZU Group recorded a gross result of PLN 4,038.7 million, compared to PLN 2,907.7 in the previous year (an increase of 38.9%). The net profit attributable to parent company shareholders was PLN 3,255.2 million, compared to PLN 2,345.4 million in 2011 (an increase of 38.8%).

The key drivers of PZU Group's financial results in 2012 included:

- growth of gross written premium. It was PLN 16,243.1 million, increasing by 6.3% compared to the previous year. After consideration of the reinsurers' share and the movement in unearned premium reserve, net earned premium was PLN 16,005.2 million and was 7.5% higher than in 2011;
- excellent investment performance. Driven mainly by the high prices of treasury debt securities, the net investment result reached PLN 3,704.7 million i.e. 132.4% more than in 2011;
- maintenance of cost discipline with respect to acquisition expenses and administrative expenses. Together, they reached PLN 3,440.7 million, increasing by 2.8% from the previous year;
- increase in claims paid and increase of technical provisions. They amounted to PLN 12,218.7 million, up by 19.5% from 2011. The technical provisions increased significantly in 2012 due to a one-off change of technical rates. The aggregated negative effect of this operation on PZU Group's gross result was PLN 1,032.8 million. After the effects of the one-off change of technical rates are removed, the amount of claims paid and an increase in provisions was 9.4% higher than in 2011.

The main part of the Group's net profit was generated by the parent company, PZU. It was PLN 2,580.7 million.

Operating profit of PZU Group in 2012 PLN mln



* including the valuation of investment contracts

Table 5. Key figures from the consolidated profit and loss account – analytical layout

	2012	2011	2012/2011	
	PLN millions	PLN millions	PLN millions	%
Net earned premium	16,005.2	14,890.5	1,114.7	7.5
Fee and commission income	237.1	281.4	-44.2	-15.7
Net investment income	3,704.7	1,593.8	2,110.9	132.4
Other operating income and costs and benefits and valuation of investment contracts	-207.5	-242.0	34.5	-14.3
Net claims and benefits	-12,218.7	-10,221.1	-1,997.6	19.5
Acquisition expense	-2,000.4	-1,962.0	-38.4	2.0
Administrative expenses	-1,440.3	-1,383.9	-56.4	4.1
Operating result	4,080.2	2,956.7	1,123.5	38.0
Financial costs	-41.5	-49.2	7.7	-15.6
Gross profit (loss)	4,038.7	2,907.6	1,131.1	38.9
Income tax	-784.9	-563.6	-221.3	39.3
Net profit (loss)	3,253.8	2,343.9	909.9	38.8
Net profit (loss) attributed to holders of parent's equity	3,255.2	2,345.4	909.8	38.8

In 2012, we achieved an almost 40 percent increase of the net result, even though additional technical provisions were established. This performance allowed us to achieve a 24 percent return on equity

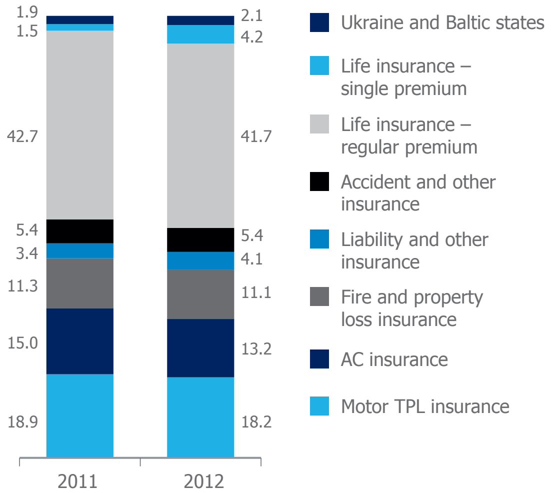
Income

Premium income

In 2012, the PZU Group collected PLN 16,243.1 million of gross premiums, 6.3% higher than in 2011. They consisted, among others, of the following:

- life insurance premiums, paid regularly. In 2012, they accounted for 41.7% of all gross written premiums (vs. 42.7% in the previous year). Those were mainly group insurance premiums;
- motor TPL insurance with an 18.2 percent share in all premiums (18.9% in the previous year);
- MOD insurance represented 13.2% of collected premiums A lower level of registration of new vehicles as well as a more restrictive underwriting policy of PZU for corporate customers have led to a decline in the value of MOD insurance policies as compared to the previous years. Their share in the structure declined by 1.8% points when compared with 2011;
- insurance against fire and property damage accounted for 11.1% of total premiums.

Structure of gross written premium at PZU Group (%)



The year 2012 also saw a rise in importance of single life insurance premiums. Premium written on this account represented 4.2% of all PZU Group premiums, while in 2011 it was a mere 1.5%. Those were predominantly the funds acquired on the sale of unit-linked products and structured products. They were PLN 606.5 million, increasing by 432.9% from 2011.

Fee and commission income

In 2012, fee and commission income added PLN 237.1 million to PZU Group's result, i.e. 15.7% less than in 2011.

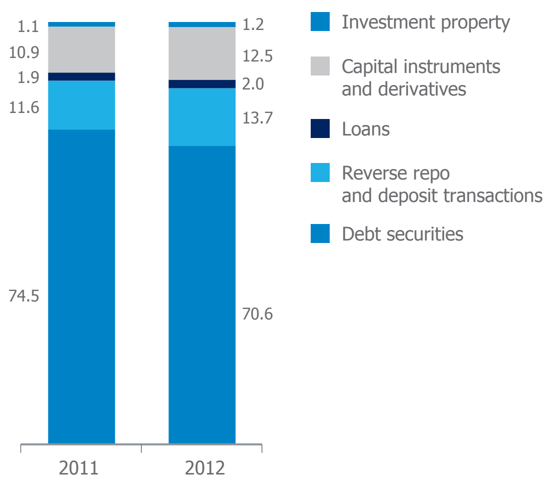
These included in particular the following:

- revenue on management of OPF Złota Jesień Assets. They amounted to PLN 162.3 million (up by 3.2% from 2011);
- commission on pension insurance distribution fees. They reached PLN 36.9 million, or 49.6% of their level in the previous year;
- Income on the fees pertaining to investment contracts concluded for the client's account and risk. The PZU Group collected PLN 22.0 million on this account, or 18.8% less than in the previous year.

Net investment income

In 2012, the PZU Group introduced a new investment strategy which increased profitability while reducing volatility of investment results.

Structure of PZU Group's investments (in %)



In 2012, PZU Group's net investment result was PLN 3,704.7 million, i.e. 132.4% more than in 2011. The following factors, among others, have contributed to the increase in this income category:

- an increase in the price of bonds. For example, the yield of 2-year treasury bonds decreased by 97 basis points per annum, while the yield of 5-year securities fell by 124 basis points;
- improvement of economic conditions on capital markets – in 2012, the WIG index increased 26.2%, while declining 20.8% in the previous year;
- increasing value of PZU Group's investments – they were worth PLN 50,987.5 million at the end of 2012 and PLN 47,309.6 million one year earlier.

Claims paid and technical provisions

In 2012, the net value of claims and an increase in PZU Group's provisions was PLN 12,218.7 million, i.e. 19.5% more than in 2011. This growth was driven primarily by the following:

- non-recurring factors associated with changes in technical rates, i.e.:

  – adjustment of the technical rate for mathematical provisions according to IFRS to the level of PAS at PZU Życie – increase of the provisions by PLN 390,1 million,

  – reduction of the technical rate at PZU Życie for insurance without profit-sharing to the level of 3% – increase of the provisions by PLN 408.5 million,

  – change of rates for the provisions for capitalized value of annuity claims at PZU – increase of the provisions by PLN 234,2 million;
- slower rate of conversion of long-term policies into yearly renewable term agreements in type P group insurance. As a result, PLN 207.0 million of provisions was released in 2012 (PLN 199.1 million less than in 2011);
- increase in disbursements in financial insurance - contractual payment guarantees and increase in provisions in connection with several bankruptcies in the construction industry (which increased gross provisions for contractual guarantees by PLN 117.0 million and net provisions by PLN 46.1 million).

On the other hand, the following occurrences had a beneficial effect on the level of claims and benefits:

- in motor insurance: reduced frequency of claims as a result of better driving conditions and lower traffic;
- in property insurance: lower number of single claims with large disbursement amounts.

Acquisition and administrative expenses

In 2012, acquisition expenses were PLN 2,000.4 million, increasing by 2.0% from 2011. This increase was driven predominantly by changes in the sales area of the life insurance segment, associated with:

- higher commissions paid on group protection insurance, caused by portfolio growth, high sales of new policies and an increasing percentage of premiums acquired through the brokers channel;

- quick growth of investment product sales through the bancassurance channel, in particular unit-linked products commanding high acquisition expenses.

At the same time, as a result of regulatory changes, acquisition expense in the pension insurance segment fell by PLN 61.3 million, i.e. by 75.2%.

The administrative expenses of the PZU Group amounted to PLN 1,440.3 million, increasing by 4.1% over the previous year. The growth was driven mainly by the expenditures incurred for PZU Group's image campaign. They added a total amount of PLN 34.4 million to the administrative expenses. Moreover, the first expenses associated with the introduction of a new product system for property insurance were incurred in 2012.

Consistent implementation of PZU's strategy in the area of: improved efficiency of the claims handling process, centralization of ongoing administration of policies and resource planning and development of new customer service standard (establishment of the shared Group Network Division) has allowed the PZU Group to complete another stage of the employment restructuring process and begin the next stage at the end of 2012. Driven by the falling headcount, the PZU Group's total employee expenses dropped to PLN 1,511.8 million (i.e. 2.3% less than in 2011).

As a result of the fixed cost optimization program and modification of the terms and conditions of some rental and service contracts, a reduction was also achieved in rent, cleaning and security expenses. Implementation of IP phones has reduced the cost of phone connections.

Asset and liability structure

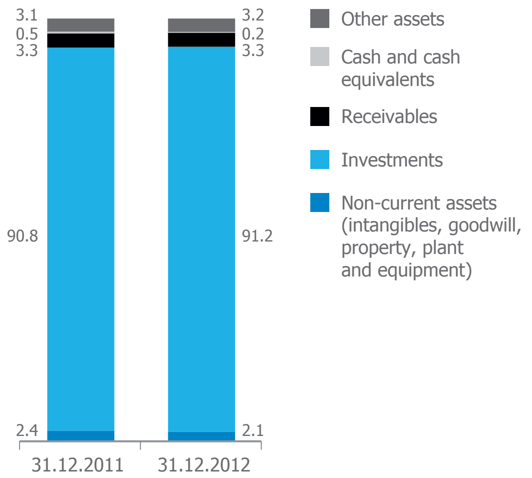
As at 31 December 2012, the PZU Group had total assets of PLN 55,909.6 million, 7.3% more than at the end of 2011.

Assets

Investments (financial assets and commercial property) were the largest component of Group's assets. Their total value was PLN 50,987.5 million and was 7.8% higher compared to the end of the previous year. They represented 91.2% of the Group's total assets, compared to 90.8% at the end of 2011.

PZU Group's receivables, including receivables under insurance contracts, were PLN 1,835.8 million, or 3.3% of assets (the same percentage as at the end of 2011).

Structure of PZU Group's assets (in %)



The balance sheet value of non-current assets, composed of intangible assets, goodwill and property, plant and equipment, was PLN 1,184.0 million. As a result of a 6.0% decline in the value of property, plant and equipment compared to December 2011, their share in assets dropped to 2.1% (2.4% at the end of 2011).

The PZU Group had PLN 136.6 million (0.2% of assets) of cash and cash equivalents. Its value was 42.5% lower than the year before.

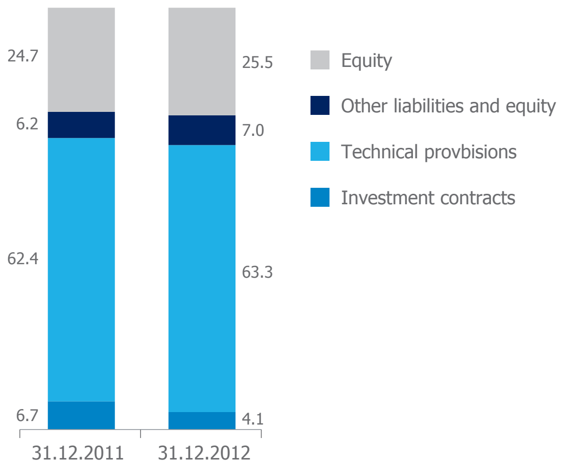
Liabilities and equity

At the end of 2012 technical provisions were the main component of PZU Group's liabilities and equity. They amounted to PLN 35,400.8 million, i.e. 63.3% of total liabilities and equity. Their share in the balance sheet structure grew by 0.9% points during the year.

The value of investment contracts was PLN 2,299.1 million, i.e. 33.8% less than in December 2011. The decline was a result of lower sales of investment products and at the same time a higher level of endowment payments in those products. Consequently, their share in liabilities and equity dropped from 6.7% at the end of 2011 to 4.1% in December 2012.

At the end of 2012, equity reached the level of PLN 14,269.3 million, up 10.9% over the previous year. The share of equity in financing PZU Group's activity increased from 24.7% at the end of 2011 to 25.5% in December 2012. In addition to the allocation of 25% of the 2011 profit for reserve capital, the additional significant contribution to equity came from a profit increase in the current financial year.

Structure of PZU Group's liabilities and equity (in %)

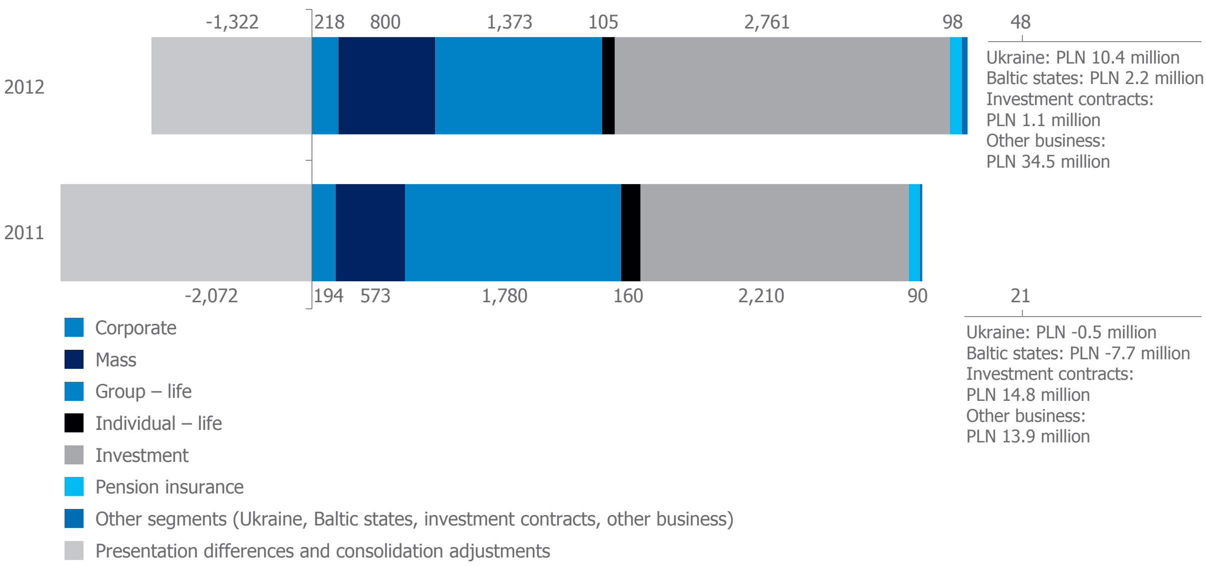


Contribution of industry segments to result

For management purposes, the PZU Group is divided into the following industry segments:

- corporate insurance (property and casualty); It covers a broad scope of property insurance, liability and motor insurance customized to client's needs entailing individual underwriting offered by PZU to large business entities;
- mass insurance (property and casualty). It covers property, accident, liability and motor insurance products. PZU offers them to private individuals and to entities in the SME sector;
- group and individually continued life insurance. Offered by PZU Życie to groups of employees and other formal groups (for instance trade unions), under which persons under a legal relationship with the policyholder (for instance employer, trade union) enroll in the insurance; and individually continued insurance in which the policyholder acquired the right to individual continuation during the group phase. It includes the following insurance types: protection, investment (which however are not investment contracts) and health insurance;
- individual life insurance. Provided by PZU Życie to individual clients where the insurance contract applies to a specific insured and this insured is subject to individual underwriting. Those are protection, investment (other than investment contracts) and health insurance products;
- investments. This is an investment activity carried out with PZU Group's own funds, defined as the surplus of investments over technical provisions in the leading companies of the PZU Group;
- pension insurance. Activity conducted by PTE PZU;
- Ukraine. Includes both casualty and property products;
- Baltic states. Casualty and property insurance provided by PZU Lietuva in Lithuania and since 2012 also through its branches in Latvia and Estonia;
- investment contracts. These include PZU Życie products which do not result in a transfer of significant insurance risk and do not meet the definition of an insurance contract. Those include some products with a guaranteed rate of return and some products in the form of a unit-linked policy;
- other business, which includes consolidated entities not classified in any of the above segments.

Operating profit (loss) by industry segments (in PLN m)



Corporate insurance

In 2012, the corporate insurance segment earned PLN 217.5 million of operating profit, i.e. 11.9% more than in the previous year. The following main factors affected its level:

- slight growth of gross written premium. It was PLN 1,839.9 million, increasing by 0.9% compared to the previous year. As a result of a change in the underwriting policy, premium dropped in AC insurance (by 15.5%) while premiums in other liability insurance increased (by 32.9%);
- decrease of investment income allocated to the segment at transfer prices. This income reached PLN 127.4 million, falling 19.9% compared to the previous year;
- drop in insurance claims. The total amount of net claims was PLN 1,174.0 million, decreasing 6.4% compared to the previous year. The main factors included: lower motor insurance claims due to a smaller scale of business (premium decreasing by 10.6%), a better loss ratio of 65.4% (vs. 78.8% the year before) and a review of the insurance portfolio in connection with changes to the underwriting policy and reduced number of unprofitable customers. On the other hand, claims increased in financial insurance resulting from a number of bankruptcies in the construction industry. The claims item additionally includes a non-recurring effect of a reduced technical rate, i.e. a PLN 21.4 million increase in provisions;
- increase in acquisition expenses. They reached PLN 336.2 million, increasing by 8.1% compared to the previous year when they were lower due to the prior recognition, in the costs of 2010, the deferred acquisition expenses in motor insurance;
- increase in administrative expenses. They amounted to PLN 107.7 million, up by 2.8% from the previous year. They included a certain part of the cost of project activity associated with the implementation of the new product system and with the image campaign.

In 2012, the operating profit of the corporate segment, when the effect of changing technical rates is excluded, was PLN 238.9 million (a 22.9% growth vs. 2011).

Mass insurance – property and casualty insurance

The mass property and casualty insurance segment closed the year 2012 with an operating profit of PLN 799.6 million (an increase of 39.5% over the previous year).
The following key elements contributed to this achievement:

- gross written premium of PLN 6,613.6 million, i.e. 3.0% higher than in 2011. This increase was achieved in the period of declining written premium in AC insurance (down 2.6% as a result of lower car sales), increased value of TPL motor insurance (2.3% as a result of tariff increases) and growing premium in other TPL insurance products (by 23.0%);
- investment income allocated according to transfer prices to the mass insurance segment was PLN 537 million (down 1.0% compared to the previous year);
- claims and provisions, which amounted to PLN 4,299.0 million, i.e. increasing by 4.0% over 2011. Their level was affected by the lower loss rate in motor insurance – the loss ratio was 74.9% (down 1.5% points) and a lower amount of large individual claims in property insurance. This amount also incorporates the non-recurring effect of reduced technical rates, that is a PLN 212.8 million increase in provisions;
- acquisition expenses of PLN 1,136.8 million, down by 2.8% from the previous year. Changes within their structure included a drop in indirect cost and an increase in direct acquisition expense driven by higher sales and a growing share of more expensive distribution channels (including the brokerage and agency channels and through multiagencies);
- administrative expenses of PLN 568.6 million, increasing by 7.5%. The increase was driven mainly by the allocation of project activity costs associated with the new product system and the costs of the image campaign.

The operating result of the mass insurance segment, without the effect of reduced technical rates, was PLN 1,012.4 million i.e. 76.6% higher than in 2011.

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Group and individually continued insurance – life insurance

The operating result of the mass insurance segment, without the effect of reduced technical rates, was PLN 1,373.1 million i.e. 22.9% higher than in 2011. The result consisted of:

- gross written premium of PLN 6,364.0 million, up 3.0% from the previous year. It was made up almost entirely of regular premiums (98.8%). The premium increase was driven mainly by growth in group protection insurance, up-selling riders and the increasing value of group health insurance. On the other hand, sales of single premium endowment insurance in the bancassurance channel decreased;

- investment income – including income allocated according to transfer prices and income earned on investment products reached PLN 955.2 million, increasing by 45.4%. This growth resulted from higher income on investment products achieved as a result of better conditions on the financial markets;

- net claims reached PLN 4,143.9 million (an increase of 1.7%);

- the increase in other net technical provisions was PLN 848.7 million (PLN 739.6 million more than in the previous year). It was driven primarily by establishment of additional provisions of PLN 408.5 million at the end of 2012 as a result of a non-recurring reduction in technical rates. The provision amount was also affected by a slower rate of conversion of long-term policies into yearly renewable term agreements in type P group insurance. As a result, PLN 220.4 million of provisions was released in 2012 (PLN 210.2 million less than in 2011). An increase was also recorded in life insurance reserves where the policyholder bears the investment risk, as a result of better investment activity performance (by PLN 218.9 million);

- acquisition expenses were PLN 317.7 million, up by 14.4%. The key contributors to the increase included: higher commission in group protection insurance caused by high new policy sales, where most of them were acquired through the brokers channel and an increase in indirect acquisition expenses (including, among others, remuneration for sales networks);

- the segment's administrative expenses were PLN 578.4 million. The 3.1% growth was driven mainly by the new project initiatives aimed at improving efficiency and automating service processes and expenditures incurred for the image campaign.

After the non-recurring effects of the reduced technical rates and a lower effect of converting long-term contracts into yearly renewable term contracts in type P group insurance, the segment's operating profit was PLN 1,561.7 million, compared to PLN 1,349.1 million in 2011 (an increase of 38.7%).

Individual insurance – life insurance

In 2012, the operating result of the individual life insurance segment was PLN 104.5 million, decreasing by 34.7% from the previous year. The key factors contributing to the segment's operating result included:

- strong gross written premium growth, which reached PLN 1,090.0 million, i.e. 90.3% more than in the previous year. This was driven by high sales of investment products offered in cooperation with banks (Bank Millennium and Bank Handlowy w Warszawie), a significant value of funds contributed to IKE accounts at the end of the year and sales of the regular premium Plan na Życie savings product with protection elements;

- clear increase of investment income (allocated income and income on investment products). It was PLN 347.0 million, increasing by 75.7% compared to the previous year;

- drop in net insurance claims, which amounted to PLN 604.8 million, down by 6.9% compared to 2011. The decrease affected mainly endowment payments under the old portfolio of individual endowment policies concluded in the 90s and lower endowments in the Świat Zysków single premium structured insurance;

- significant increase in other net technical provisions. They grew by PLN 594.1 million, while PLN 133.9 million worth of provisions was released in the previous year. The strong growth of these provisions was driven by high sales of investment insurance products and much better investment performance;

- clear increase in acquisition expenses. They were PLN 90.8 million, increasing by 61.9% from 2011. The main factors included an increase of the cost of selling investment products through the bancassurance channel, including the cost of unit-linked products which entail high acquisition expenses;

- increase in administrative expenses. They amounted to PLN 53.4 million, up by 8.5% compared to the previous year.

Investments

The operating income of the investment segment were PLN 760.7 million, increasing 24.9% over 2011.

The income of the investment segment is the surplus of investment income earned by PZU and PZU Życie over the income allocated using transfer prices to individual insurance segments, plus income on investment contracts.

Pension insurance

In 2012, the operating profit of the pension insurance segment was PLN 98.4 million, increasing by 8.8% over 2011 levels. The following factors contributed to the operating result:

- fee and commission income, which were PLN 199.2 million, down by 14.0% compared to the previous year. This drop resulted primarily from the statutory reduction of premiums transferred from ZUS to OFEs from 7.3% to 2.3% and lower other income (a refund from the Guarantee Fund was posted in 2011, while there was no such refund in 2012). This income was positively affected by the increase of the management fee due to growing assets of the Fund and an increase of revenues from the reserve account;

- investment income was PLN 13.3 million, increasing by 5.7%;

- acquisition expenses reached PLN 20.2 million, falling 75.2% compared to the previous year; This was caused by the statutory restriction of acquisition, which can now target only those joining the OFE system, coming into effect on 1 January 2012;

- administrative expenses were PLN 93.0 million, up by 27.2% from the previous year. This was driven mainly by the increasing cost of running fund member registers (by 117.8%), also due to the additional fee awarded to the transfer agent for delivering a specified service quality level. At the same time, due to lower contributions received, fees paid to ZUS decreased.

Ukraine

The Ukraine segment closed the year 2012 with an operating profit of PLN 10.4 million, compared to the loss of PLN 0.5 million last year.

The significant improvement of the segment's result was caused by:

- growing gross written premium. It reached PLN 142.2 million, increasing by 17.6%;
- growing investment income. The segment earned PLN 17.7 million on this account, or 23.8% more than in 2011. Investment income was positively affected by increased profitability of liquid financial instruments (deposits, bonds) and an increased base of liquid assets;
- relatively low increase in claims paid. The segment expended PLN 53.9 million on them, i.e. 10.4% more than in the previous year. In 2012, the loss ratio improved (from 53.0% to 52.0%) when the sales of popular but lossy medical insurance was reduced, to the benefit of profitable property insurance;
- reduction of acquisition expenses. They amounted to PLN 28.0 million (down by 11.4% compared to the previous year);
- increase in administrative expenses. They were PLN 28.0 million, increasing by 5.9% compared to 2011, mainly as a result of the 7.7% appreciation of the UAH/PL exchange rate. Due to the continuation of the strict cost control policy, administrative expenses denominated in UAH fell by 1.6%.

Baltic states

In its Baltic operations, the PZU Group earned PLN 2.2 million of operating profit in 2012, compared to the loss of PLN 7.7 million in the previous year.

The following factors contributed to this result:

- growth of gross written premium. It amounted to PLN 195.7 million (up by 19.1% over the previous year). The key factors included increasing sales of AC insurance (by 23.8%) and property and health insurance (by 39.2%);
- positive investment activity result. In 2012, investment income was positive at PLN 9.9 million, compared to the negative income of PLN 5.7 million in the previous year. This performance was possible due to an improved situation on equity markets and increased exposure to corporate bonds offering higher yields than treasury bonds;
- significant growth of net claims paid. They reached PLN 111.7 million, increasing by 29.1%. The growth was recorded mainly in health insurance benefits resulting from higher sales. Provisions for general liability insurance products have also increased.
- significant increase in acquisition expenses. Segment's expenses for this purpose amounted to PLN 49.0 million (an increase of 22.4%). This growth was caused mainly by changes in the structure of motor insurance sales, i.e. increase in the share of high-commission products and channels;
- increase in administrative expenses. They reached the level of PLN 18.9 million. The 25.3% growth resulted to a significant extent from expenditures incurred to create branches in Latvia and Estonia and for rebranding.

Investment contracts

Under investment contracts, i.e. PZU Życie products which do not generate significant insurance risk and do not meet the definition of an insurance contract (such as: certain products with a guaranteed rate of return and certain products in the form of a unit-linked insurance product), the PZU Group earned operating profit of PLN 1.1 million, compared to PLN 14.8 million in the previous year (down by 92.7%).

The significant decline of the segment's performance was driven by the following factors:

- decrease in gross written premiums. They reached PLN 1,859.4 million, i.e. 39.1% less compared to the previous year. Declining sales were recorded mainly in short-term endowment products and unit-linked products sold through the bancassurance channel. At the same time, the premium includes revenue from the an Individual Retirement Savings Account (IKZE) introduced in 2012;

- mproved investment result. It was PLN 191.4 million, compared to the loss of PLN 14.0 million incurred in 2011;

- higher value of net insurance claims. They reached PLN 3,185.0 million, increasing by 3.8% compared to the previous year; The change was caused by the higher endowment payments in short-term investment insurance products;

- significant positive balance in other net technical provisions. It was PLN 1,171.5 million, compared to PLN 72.8 million in the previous year. The provisions were dissolved due to the lower sales or short-term investment products and at the same time a higher level of endowment payments in those products;

- lower acquisition expenses. They were PLN 31.2 million, or 16.8% less than in the previous year;

- higher administrative expenses. They amounted to PLN 16.0 million, up by 31.3% compared with 2011.

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PZU Group's main profitability ratios

Profitability ratios

In 2012, the Group's performance ratios improved considerably. The high return on equity deserves special attention. ROE was 24.0% and was 5.7% points higher than in the previous year. No large financial institution listed on the WSE could boast such a high return on equity.
The profitability ratios achieved by the PZU Group at the end of 2012 were much higher than average market levels at the end of the same period.
At the end of 2012, aggregated ROE, ROA and ROS for the whole insurance market in Poland were 19.57%, 4.29% and 10.58%.

The high ROE was achieved despite the low leverage (3.9 at the end of 2012, vs. 4.1 the year before).

Table 6. Key profitability ratios (%)

	2010	2011	2012
Return on assets (ROA)	4.7	4.6	6.0
Return on equity (ROE)	20.3	18.3	24.0
Return on sales (ROS)	16.8	15.3	20.0
Leverage	4.0	4.1	3.9

RROA – (net profit/average assets on the last day of the previous financial year and the last day of the current financial year) x 100%
ROE – (net profit/average equity on the last day of the previous financial year and the last day of the current financial year) x 100%
Return on Sales – (net financial result / gross written premium) x 100%
Leverage – total assets / equity

Operating efficiency ratios

One of the key measures of operating efficiency of an insurance company is the combined ratio (COR), which is calculated for the property and casualty insurance sector (Section Two).

The consistent improvement of PZU Group's combined ratio (for property and other casualty insurance) in successive years results, among others, from the correct matching of prices and insurance cover offered, ability to maintain the cost discipline (reduction of fixed cost in connection with dissolution of provisions from previous years, reduction of IT costs following from contract renegotiation and consistent management of remuneration costs for insurance intermediaries).

The improving combined ratio was also a result of the absence of major catastrophic events (such as floods, inundations and snow losses in 2010).

Tabela 7. Wskaźniki sprawności działania Grupy PZU

		2010	2011	2012
1	Claims ratio (simple) (gross claims paid / gross written premium) x 100%	75.23%	67.89%	76.16%
2	Net claims ratio (net claims paid / net premium earned) × 100%	73.06%	68.64%	76.34%
3	Insurance activity expense ratio (insurance activity expense / net premium earned) × 100%	24.04%	22.47%	21.50%
4	Acquisition expenses ratio (acquisition expenses / net premium earned) × 100%	13.45%	13.18%	12.50%
5	Administrative expenses ratio (administrative expenses / net premium earned) × 100%	10.59%	9.29%	9.00%
6	Combined ratio in property and other casualty insurance (net claims + insurance activity expenses / net premium earned) x 100%	104.70%	95.30%	92.80%
7	Operating profit margin in life insurance (operating profit / gross written premium) x 100%	nd	28.70%	19.80%

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07 Risk management

We dedicate a lot of time to care and constant development of advanced risk management procedures. They have fundamental importance to us because the point is to ensure that our clients feel safe and have peace of mind. And that we think about their risk and let them just rely on us.

Purpose of risk management

The risk management system implemented in the PZU Group is focused both on risk control and on ensuring appropriate level of capitalization. The risk management process supports the PZU Group in performance of its obligations towards clients and business partners and helps it to satisfy the requirements following from provisions of law and external regulations.

The main elements of the risk management strategy include:

- the system of limits and limitations of acceptable risk level, including the risk appetite, established by the Supervisory Board, Management Board and pertinent committees;
- processes comprising identification, measurement and assessment, monitoring, reporting and managerial actions pertaining to individual risks;
- the organizational structure of risk management in which a key role is played by the Supervisory Board and Management Board of PZU and PZU Życie as well as the Asset and Liability Management Committee (ALCO) and the Credit Risk Committee (CRC).

Risk appetite and tolerance

Risk appetite is understood as the level of risk which PZU and PZU Życie are ready to take in the course of pursuance of their business objectives. The risk appetite is defined in the risk management strategy.

Risk tolerance regarding individual risk types is defined in the form of approved limits on the level of the Management Board or pertinent committees. The limits defined on the PZU and PZU Życie level are allocated to organizational units on lower levels of the organizational structure.

Risk management process

Through structured identification, measurement, assessment, monitoring and reporting or risk, as well as managerial actions PZU and PZU Życie effectively implement their risk management strategy. PZU and PZU Życie apply individual process elements to key areas of activity, i.e. from the insurance or investment product development proposal to expiry of liabilities, receivables or other actions associated with the product and support areas.

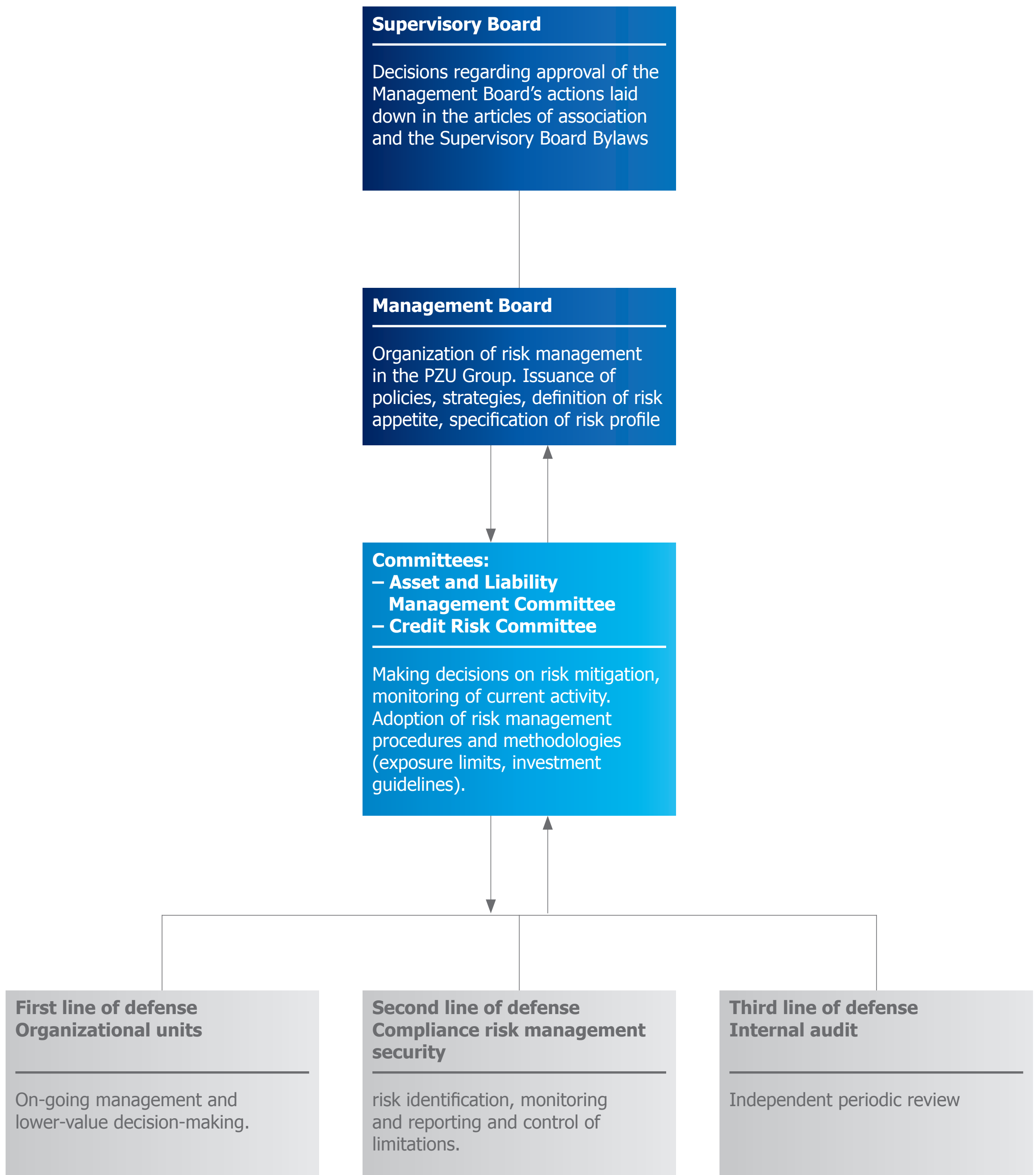
The risk management structure is based on 4 authority levels. The first 3 levels comprise:

- Supervisory Board, which exercises supervision over Management Board actions within the powers laid down in the Company articles of associations and Supervisory Board Bylaws;
- Management Board, which organizes and ensures the operation of the risk management system through adoption of strategies and policies and definition of risk appetite;
- ALCO and CRC committees, which make decisions regarding mitigation, transfer, avoidance and acceptance of risk within the defined risk appetite. The Committees adopt procedures and methodologies associated with management of individual risks and accept the limits constraining exposures to individual risks.

The fourth authority level pertains to operations, where the tasks associated with the risk management process are divided between 3 lines of defense:

- the first line of defense: risk management on the business unit (organizational unit) level on the basis prevailing procedures, guidelines and established limits. Risk management on this level is additionally supported by prevailing internal control rules, as well as control mechanisms embedded in the procedures and processes executed by the given organizational unit;
- the second line of defense: risk management through specialized units within the existing risk management structure on the basis of prevailing principles methodologies and procedures. This level executes tasks associated with identification, measurement, monitoring and control of risk, preparation of guidelines, and reporting and preparation of managerial information on exposure to risk;
- the third line of defense: internal audit, which carries out independent inspections and audits of key elements of the risk management system and control activities embedded in the activity of PZU and PZU Życie on the basis of prepared and constantly improved internal control and audit methodologies. Additionally, this function exercises monitoring of execution of the auditor's recommendations.

Risk management organizational structure – roles/duties



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Organizational changes

As part of optimization and concentration of the decision-making process, in March 2012 the Credit Risk Committee took over the powers of the following committees which had been liquidated:

- PZU Financial Insurance and Guarantee Risk Committee, whose main task was to define the strategy and limitation system in the financial insurance and insurance guarantee segment;
- Investment Committee, whose task was to set exposure limits for non-banking entities.

Preparation of the strategy of activities in the risk area for 2012-2014

In 2012, PZU prepared a strategy of activities in the risk area for 2012-2014, whose main task is to:

- adapt the PZU Group to the requirements of the Solvency II Directive;
- unify the conceptual framework, and risk measurement and reporting tools in the PZU Group;
- build the risk map.

Solvency II Directive

In 2012 a strategic project was launched to adapt PZU to the requirements of the Solvency II Directive. The work under the project is under way in accordance with the original schedule. PZU cooperates with the Office of the Financial Supervision Commission in the preparatory work for implementation of the Directive; in particular it participates in all quantitative research initiatives.

Risk profile

In 2012, the risk profile of PZU and PZU Życie did not change significantly. The main risks to which the above companies are exposed include: insurance risk, market risk, credit risk, operational risk and compliance risk.

Insurance risk

PZU and PZU Życie understand insurance risk as the risk of loss or unfavorable change of the value of insurance liabilities in connection with improper assumptions regarding the valuation and creation of reserves. The insurance risk is the most important risk to which PZU and PZU Życie are exposed.

Assessment of insurance risk involves determining the extent of risk or group of risks entailing the possibility of a loss and analyzing the risk elements in the manner making it possible to take a decision on acceptance of a risk for insurance and acceptance of liability by the Company. The scope of provided insurance cover, the level of the insurance premium set, and – in financial insurance – also the level of collateral accepted, are taken into account in the insurance risk underwriting.

Insurance risk underwriting comprises also actions associated with:

- prevention – involving insurance risk management aimed at:

  – limiting the frequency of losses,

  – reduction of the size of losses;

- reinsurance of risks with the highest size and threat. Insurance risk in PZU and PZU Życie is measured in particular using:
- an analysis of selected indicators;
- the scenario method – analysis of impairment caused by a given change of the risk factors;
- the factor method – simplified version of the scenario method, reduced to a single scenario for a single risk factor;
- statistical data;

- exposure and sensitivity measures;
- expert knowledge of the Company's employees.

In particular, insurance risk in PZU and PZU Życie is managed through:

- defining the tolerance for insurance risk and its monitoring;
- business decisions and sales plans;
- calculation and monitoring of adequacy of technical reserves;
- tariff strategy and monitoring of existing estimates and assessment of the adequacy of premiums;
- insurance risk assessment, valuation and acceptance process;
- application of insurance risk mitigation tools, including in particular reinsurance and prevention.

Market risk

PZU and PZU Życie understand market risk as the risk of loss or unfavorable change of the financial standing resulting directly or indirectly from fluctuations of the level and volatility of market prices of assets, liabilities and financial instruments.

Identification of market risk involves identification of actual and potential sources of such risk. Risk is identified for all types of instruments – both for instruments whose risk has been accepted and for contemplated ones.

The process of identification of market risk associated with assets starts at the time of making the decision to proceed with a transaction on a given type of financial instruments. Units which make a decision to proceed with a transaction on the given type of financial instruments prepare a description of the instrument comprising, in particular, a description of the risk factors, and submit it to the Risk Department which, on its basis, identifies and assesses the market risk. The process of identification of the market risk associated with insurance liabilities starts together with the insurance product development process and is associated with identification of the dependence of the size of financial flows from such product on market risk factors.

Identified market risks are assessed from the standpoint of materiality, i.e. does materialization of the risk entail a loss that may influence PZU Group's financial standing.

Market risk is measured using the following risk measures:

- VaR – value at risk – a risk measure quantifying potential economic losses which, within the timeframe of one year, with normal market conditions, will not be exceeded with the probability of 99.5%;
- factor method – analysis of impairment caused by a given change of the risk factors, based on a single scenario for a single risk factor;
- exposure and sensitivity measures;
- accumulated monthly loss.

When measuring the market risk, the following stages are identified in particular:

- gathering information about assets and liabilities generating market risk;
- calculating the risk level.

The risk is measured:

- daily for exposure measures and sensitivity of instruments in the Kondor+ transaction system;
- monthly, using a partial internal model, with the exception of real estate used for own purposes, for which the status is updated quarterly, and properties in real estate funds, whose valuation is updated semi-annually.

Credit risk

PZU and PZU Życie understand credit risk as the risk of loss or unfavorable change of financial standing to which PZU and PZU Życie are exposed, following from fluctuations of credibility and creditworthiness of securities issuers, counterparties and all kinds of debtors, materializing in the form of counterparty default or increase of credit spread.

Credit risk is measured using:

- exposure measures (value of credit exposure and net credit exposure weighted by maturity);
- VaR.

Credit risk measurement in relation to a single entity is estimated as the sum of individual exposures calculated as the product of two figures:

- risk weight for the internal rating;
- credit exposure weighted by maturity.

Credit risk measurement for a single entity is calculated as the product of two figures:

- exposure towards such entity above the excessive concentration threshold;
- concentration risk ratio set for each internal rating.

The measure of total concentration risk in PZU and PZU Życie is the sum of concentration risks of individual entities. In the case of related entities the concentration risk is determined for all entities jointly. Credit risk and concentration monitoring involves an analysis of the risk level, assessment of creditworthiness and verification of the level of utilization of established limits.

Monitoring takes places in cycles:

- monthly cycles for financial insurance exposures;
- semi-annual for the Reinsurance Department exposures;
- daily in the case of other exposure limits;
- monthly in the case of VaR risk limits.

Operational risk

According to the definition adopted by the PZU Group, operational risk is understood as the risk of loss resulting from inadequate or failed internal processes, people, systems or external events.

The purpose of operational risk management is to optimize the level of operational risk and operational efficiency in PZU Group’s activities, leading to mitigation of losses and costs caused by materialization of this risk and to ensure adequate and effective control mechanisms, using appropriate organizational, procedural and technical solutions. Through accumulation and analysis of information about operational risk, in particular for the following areas: security, HR, ICT technologies, and legal, the PZU Group identifies and evaluates the level of operational risk. This makes it possible to determine the scale of the threats associated with occurrence of operational risk. To mitigate the level of operational risk the PZU Group uses such solutions as:

- updating and optimizing processes and procedures;
- change of the structure of checkpoints, reconciliation and validation;
- automation of control systems;
- contingency plans;
- monitoring and analysis of the number of security incidents;
- analysis of employee turnover and actions taken to minimize the risk level in this area, such as: selection of personnel, improvement of employee qualifications and incentive systems;
- monitoring and analysis of the number of failures of the most critical IT systems.

Business continuity plans

PZU companies (PZU, PZU Życie, PZU AM, TFI PZU, PZU CO and PZU PTE) have implemented and tested business continuity plans securing the correct operation of the processes of key importance for these companies in the case of failure.

Compliance risk

Compliance risk is the risk of legal sanctions, financial losses or loss of reputation or credibility as a result of failure of PZU and PZU Życie, PZU and PZU Życie's employees or entities acting on their behalf to follow the provisions of law, internal regulations and the standards of conduct adopted by PZU and PZU Życie, including ethical norms.

In PZU and PZU Życie compliance risk management takes place on the basis of the compliance policy and compliance identification and assessment mythology for internal processes.

Actions in the compliance area involve in particular:

- promotion of compliance with the standards of conduct in the compliance area in PZU and PZU Życie;
- formulation and monitoring of solutions pertaining to implementation of compliance risk management principles;
- monitoring of PZU's and PZU Życie's observance of the standards of conduct in the compliance area;
- monitoring of the compliance risk management process in PZU and PZU Życie comprising in particular:
  - – issuing opinions on compliance risk regarding draft internal regulations and information, advertising and marketing materials addressed to clients and investors,
  - – delivering training and internal communication actions pertaining to compliance.

Strategic decisions pertaining to compliance risk and acceptance of the risk level is the responsibility of the Management Boards.

In the compliance risk management process the coordinating role is played by the Risk Department.

Identification and assessment (measurement) of the compliance risk are carried out by the managers of PZU and PZU Życie organizational cells and additionally by the Risk Department. Identification and assessment of the compliance risk is carried out for individual internal processes in the insurance company, specified in the Classifier, by the managers of the organizational cells, in accordance with the division of responsibility for reporting. Additionally, the Risk Department identifies the compliance risk on the basis of information from notifications in the register of conflicts of interest, gifts and benefits, and irregularities as well as enquiries received.

Compliance risk assessment and measurement is carried out through defining the consequences of materialization of risk:

- financial consequences following, among other things, from:
  - – administrative penalties,
  - – court verdicts,
  - – contractual penalties,
  - – damages;
- intangible consequences pertaining to loss of reputation, including damage to PZU's image and brand.

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Risk susceptibility

Risk pertaining to financial assets

The table below summarizes the results of a sensitivity analysis of the net result and equity to interest rate changes, FX risk and equity risk. The analysis does not take into account the impact of changes in valuation of deposits taken into consideration in calculation of the provision for the net financial result and equity.
Financial assets exposed to FX risk comprise deposit transactions and debt securities which collateralize expenditures from technical reserves denominated in foreign currencies, as well as exposure in capital instruments listed on exchanges other than the WSE, investment funds and certificates in foreign currencies, exposures in derivative instruments denominated in foreign currencies and financial assets of consolidated entities in foreign currencies. The decrease of sensitivity to the FX risk at the end of 2012 in relation to 2011 was caused mainly by application of derivative instruments to hedge FX risk.

Decrease of sensitivity of the financial assets portfolio to changes of the valuation of listed equity instruments at the end of 2012 in comparison to 2011 results from the lower exposure in financial instruments exposed to other price risk.

Table 8. Sensitivity of the asset portfolio (PLN million)

Sensitivity of the asset portfolio	Change of the risk factor	2011		2012	
		Impact on the net financial result	Impact on equity	Impact on the net financial result	Impact on equity
Interest rate risk	decrease by 100 bp	315	360	135	299
	increase by 100 bp	(295)	(337)	(126)	(283)
Foreign currency risk	increase by 20%	83	140	232	167
	decrease by 20%	(83)	(140)	(232)	(167)
Equity risk	increase by 20%	234	304	254	336
	decrease by 20%	(234)	(304)	(254)	(336)

Risk pertaining to technical rates and mortality

Capitalized annuities – property and casualty insurance – PZU

Below is presented a sensitivity analysis of the net result and equity to change of the assumptions used to calculate the capitalized annuity reserve. The analysis does not take into account the impact, on the net financial result and equity, of changes in valuation of the deposits taken into consideration in calculation of the reserve.

Table 9. Sensitivity of the capitalized annuity reserve

Change of the assumptions for the net capitalized annuity reserve in property and casualty insurance (PLN million)	Impact of change of assumptions on			
	net financial result		equity	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Technical rate – increase by 0.5 p.p.	397	348	397	348
Technical rate – decrease by 1.0 p.p.	(1,028)	(900)	(1 028)	(900)
Mortality 110% of the currently assumed	119	104	119	104
Mortality 90% of the currently assumed	(133)	(116)	(133)	(116)

Annuities in life insurance

Table 10. Sensitivity of annuity reserves in life insurance

Change of assumptions for annuities in life insurance (PLN million)	Impact of change of assumptions on			
	net financial result		equity	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Technical rate – decrease by 1 p.p.	(38)	(36)	(38)	(36)
Mortality 90% of the currently assumed	(13)	(14)	(13)	(14)

Liabilities on account of insurance and investment liabilities with DPF in life insurance, with the exception of annuity insurance

Below is presented the impact exerted by changes in assumptions regarding the reserves for insurance and investment contracts with DPF in life insurance, without annuity insurance.

Table 11. Sensitivity of reserves for insurance contracts and investment contracts with DPF

Changes in assumptions for reserves for insurance contracts and investment contracts with DPF in life insurance, without annuity insurance (PLN million)	Impact of change of assumptions on			
	net financial result		equity	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Technical rate – decrease by 1 p.p.	(2,296)	(2,168)	(2,296)	(2,168)
Mortality 110% of the currently assumed	(954)	(961)	(954)	(961)
110% morbidity and accident rate	(199)	(205)	(199)	(205)

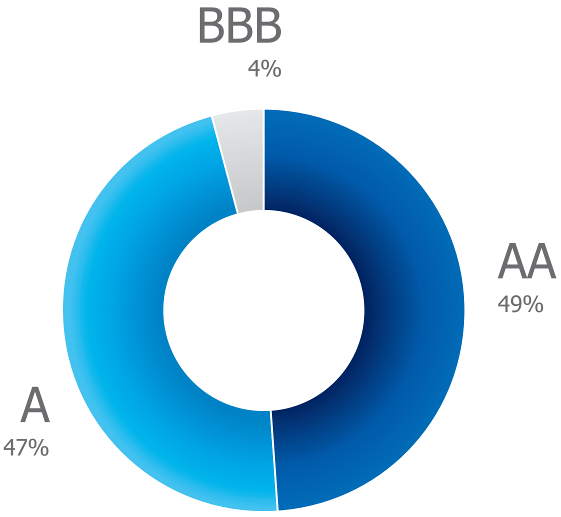
Reinsurance operations

Reinsurance cover in the PZU Group secures the insurance activity, reducing the consequences of occurrence of catastrophic phenomena which could adversely affect the company's financial standing. In 2012 this task will be executed by obligatory reinsurance treaties supplemented by facultative treaties.

Reinsurance treaties – PZU

On the basis of concluded reinsurance treaties PZU mitigates its exposure to catastrophic losses (e.g. flood, hurricane) among other things through a catastrophic non-proportional excess loss treaty and to the consequences of big single losses in non-proportional reinsurance treaties protecting property, technical, marine, aviation, TPL and TPL motor insurance portfolios. PZU's risk is mitigated also through reinsurance of the financial insurance portfolio. In 2012 the main partners providing obligatory reinsurance cover to PZU comprised the following reinsurance companies: Swiss Re, Hannover Re, Scor, Endurance and Lloyd's. PZU's reinsurance partners have high S&P ratings, which gives the Company the certainty of the reinsurer's good financial standing. PZU's activity in the area of inward reinsurance constitutes one of the elements of its support for PZU Lietuva and PZU Ukraine. The Company participates both in obligatory and facultative reinsurance treaties of the aforementioned companies. In addition, PZU obtains gross written premium from inward reinsurance from activity in the local and foreign market, mainly through facultative reinsurance.

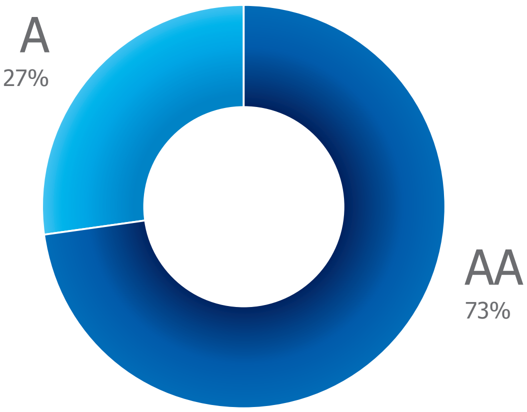
Reinsurance premiums from PZU's obligatory treaties according to Standard & Poor's rating



Reinsurance treaties – PZU Życie

Outward reinsurance treaties concluded by PZU Życie protect PZU Życie's portfolio against accumulation of risks (catastrophic treaty), protect individual policies with higher sums insured, and protect the group child's critical illness insurance portfolio.
The partners granting reinsurance cover to PZU Życie comprised the following reinsurance companies: RGA, Gen Re, Arch Re and Lloyd's. The reinsurance partners have high S&P ratings, which gives the PZU Życie the certainty of the reinsurer's good financial standing.

Reinsurance premiums from PZU Życie's obligatory treaties according to Standard & Poor's rating



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Capital management

The PZU Group has a solid capital base which is much higher than the capital requirements laid down by the Solvency I system.

At the end of 2012 the shareholder funds to solvency margin coverage ratio was as follows:

- PZU – 815.3% (compared to 686.6% in December 2011). For comparison, the average for property and casualty insurance was 467.3%;
- PZU Życie – 376.0% (increase by 43.5 p.p. in relation to the end of 2011). Whereas the average for life insurance companies was in the range of 355.5%.

The situation pertaining to the own funds to guarantee fund coverage ratio was equally good:

- PZU – 2,445.9% (compared to 2,059.8% in December 2011). The average for property and casualty insurance was 1,277.0%;
- PZU Życie – 1,128.0% (increase by 130.4 p.p. in relation to the end of 2011). Whereas the average ratio for life insurance companies was in the range of 979.5%.

Table 12. Calculation of shareholder funds to cover the solvency margin (according to PAS)

	31 Dec 2012	31 Dec 2011	Change
PZU			
Assets to reserves coverage* (%)	126.1	127.0	-0.9 p.p.
Solvency margin (PLN million)	1,343.8	1,338.8	5.0
Own funds to solvency margin coverage ratio (%)	815.3	686.6	128.7 p.p.
Guarantee fund (PLN million)	447.9	446.3	1.7
Own funds to guarantee fund coverage ratio (%)	2,445.9	2,059.8	386.1 p.p.
PZU Życie			
Assets to reserves coverage* (%)	115.1	106.9	8.2 p.p.
Solvency margin (PLN million)	1,742.4	1,715.2	27.2
Own funds to solvency margin coverage ratio (%)	376.0	332.5	43.5 p.p.
Guarantee fund (PLN million)	580.8	571.7	9.1
Own funds to guarantee fund coverage ratio (%)	1,128.0	997.6	130.4 p.p.

* Reserves coverage with assets – the assets covering reserves/technical reserves minus estimated recourses and salvages

08
PZU on the capital market

Since the IPO at the Warsaw Stock Exchange in May 2010 the price of the Company's shares has grown faster than the main market indices. In addition, every year we pay out dividend to shareholders. We want our shareholders to be able to rely on us just like the millions of our clients can sleep peacefully when we insure their homes and cars and invest their savings.

Share prices

PZU SA made its debut at the Warsaw Stock Exchange on 12 May 2010. The Company belongs to the biggest companies listed on the Warsaw exchange and has been part of the WIG20 index from the beginning. In addition, in 2012 PZU was incorporated into the following indices: RESPECT Index (from 1 February) and WIGdiv (from 24 September). On 24 December 2012, PZU was included also in the sustainable development index CEERIUS (CEE Responsible Investment Universe). CEERIUS is a Vienna Stock Exchange index for companies from Central and Eastern Europe (CEE). It comprises companies satisfying the quality criteria in the area of social and environmental aspects.

In 2012 the closing price of PZU's shares at WSE was in the range from PLN 292.10 (recorded on 5 June) to PLN 437.20 (at the session on 21 December). Although in the first half of 2012 the changes of PZU's share prices did not deviate significantly from the changes of stock exchange indices, the second half of the year brought significant increases of the price of the Company's shares. As a consequence, at the last session of 2012 (i.e. on 28 December) the price of PZU's shares amounted to PLN 437.00, i.e. was 41.4% higher than on the last listing day of 2011 (for comparison the WIG20 index grew by 20.5%).

Our shares brought high rates of return to investors in 2012. We are characterized by high valuation in comparison with other financial institutions.

In 2012, the price of PZU's shares was influenced primarily by: the Company's financial results standing out in the financial sector, general volatility of the situation in the financial markets and uncertainty regarding the potential timing of the sale of a 10% stake of the Company's shares by the State Treasury.

PZU's shares are liquid. At the end of 2012, 65% of the Company's shares were traded. In 2012, the average daily trading volume in PZU's shares was 212.0 thousand and the highest level (993.9 thousand shares) was recorded on 15 June 2012.

At the end of 2012, PZU's market price was PLN 37,736 million. The Price/Book Value ratio amounted to 2.8, which means that PZU had the highest valuation among financial sector companies listed on the WSE.

PZU's share price growth rate

Table 13. Capital market indicators for PZU

		2010	2011	2012
1	Market price per share / book value per share (P/BV)	2.40	2.27	2.81
2	Market price per share / Earnings per share (P/E)	12.59	10.33	14.62
3	Annual rate of return in % Market price per share at the end of the period / Market price per share at the end of the preceding period.	13.80	-13.10	41.40
4	Total shareholder return (TSR) (Market share price at the end of the period - market share price at the beginning of the period + dividend paid in the period) / market share price at the beginning of the period	17.30%	-5.80%	48.70%

Dividend policy

The rules of PZU's dividend policy are laid down by the Company's Management Board Resolution of 11 May 2011. It assumes primarily that:

- the basis for determining the dividend to be paid by PZU for the relevant financial year will be the Capital Group's consolidated financial result consistent with International Financial Reporting Standards (IFRS);

- the dividend amount:

  - may not be lower than 50% or higher than 100% of the net profit presented in the consolidated financial statements consistent with IFRS,

  - may not be higher than PZU's unconsolidated net profit consistent with Polish Accounting Standards (PSR),

  - may not cause a decrease in PZU's shareholder funds below 250% of the solvency margin. The shareholder funds and the solvency margin must be calculated in compliance with the prudential requirements applicable to the Polish insurance market,

  - may not contribute to decrease in the PZU Group's financial strength below a level equivalent to the AA rating under Standard & Poor's methodology,

  - should take into account additional capital needs of PZU over a 12-month time horizon following the adoption of the PZU Capital Group's consolidated financial statements for the relevant year by the Company's Management Board.

The resolution on the dividend policy will remain in force until the effective date of the requirements enumerated in Article 311 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).

In February 2012, the Chairman of the Financial Supervision Commission sent to all insurance companies operating in the Polish market a letter with a recommendation to limit disbursement of dividend up to 75% of the profit generated in 2011, while maintaining the coverage of capital requirements after the pay-out at the level of at least 110% and taking into account additional capital needs in the timeframe of 12 months of the approval of the financial statements for 2011, including those following from concentration of the companies' deposits in individual entities.

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On 30 May 2012 the PZU Shareholder Meeting adopted a resolution on distributing the net profit for 2011 and earmarked PLN 1,936.9 million for disbursement of a dividend for shareholders, i.e. PLN 22.43 per share. Pursuant to the resolution, 30 August 2012 was the day according to which the list of shareholders entitled to the dividend was established and 20 September 2012 was the dividend payment day.

In December 2012, the Chairman of the Financial Supervision Commission recommended that insurance companies adopt a conservative dividend policy and earmark the profit generated in 2012 for strengthening their capital base. Insurance companies whose capital requirement coverage ratio after disbursement of the dividend amounts to at least 110% should limit the dividend to up to 75% of the profit generated in 2012. At the same time the recommendation permits the possibility of disbursement of dividend in the amount of 100% of the net profit for 2012 if:

- the coverage of capital requirements after the disbursement of the dividend remains at the level higher than 160% in the case of life insurance companies or 200% in the case of property and casualty insurance companies (as at 31 December 2012);

- in recently completed stress tests the capital requirements coverage ratio amounted to at least 110%, and the coverage of technical reserves with appropriate assets amounted to at least 100%.

On 23 May 2013 the PZU Shareholder Meeting adopted a resolution on distributing the net profit for 2012 and earmarked PLN 2,564.7 million of profit, i.e. PLN 29.70 per share, for shareholder dividend. Pursuant to the resolution, 23 August 2013 will be the day according to which the list of shareholders entitled to the dividend will be established and 12 September 2013 was the dividend payment day.

Table 14. Dividend paid out by PZU from profit for 2010-2012

	2010	2011	2012
PZU Group's net profit (PLN million)	2,439.2	2,345.4	3,255.2
PZU's net profit (PLN million)	3,516.7	2,582.3	2,580.7
Dividend paid (PLN million)	2,245.2	1,936.9	2,564.7
% of the PZU Group's net profit paid in the form of dividend	92.0	82.6	78.8
% of the PZU's profit paid in the form of dividend	63.8	75.0	99.4
Dividend per share (PLN)	26.00	22.43	29.70
Dividend rate* (%)	-	8.4	5.1

* The dividend per share in the year of disbursement / Market price per share in the last listing day of the year in which the dividend was paid

Rating

PZU and PZU Życie are regularly assessed by Standard & Poor's Rating Services.

Despite subsequent verifications of the ratings, both Companies have retained their A ratings awarded by Standard & Poor's on 16 July 2009, for both financial strength and creditworthiness, with a stable outlook. These are at the same time some of the highest ratings awarded to Polish companies by international rating agencies.

Retaining the rating on the same level in July 2012, Standard & Poor's pointed to PZU's strengths, including: dominant market position, good financial performance and high capitalization. In addition, the agency stated that PZU was able to transform its strong competitive position into good operating results, consistently ranking above the market average. It also appreciated the effective efforts of the Management Board in the area of the Company's modernization and change of its organizational structure.

Analysts' recommendations

In 2012, 21 local and foreign financial institutions issued recommendations for PZU. In 2012 analysts issued in total 55 recommendations for the Company's shares. Recommendations "Buy", "Accumulate" and "Overweight" prevailed (approx. 53% of all recommendations issued).

Analyst recommendations for PZU's shares in 2012

55	↗	28	buy accumulate overweight
	~	20	neutral hold
	↘	7	underweight reduce

Table 15. Rating of PZU and PZU Życie

PZU

Financial strength rating Credit rating	Outlook
A	Stable
Date of last update: 23 July 2012 Date of previous update: 22 July 2011	

PZU Życie

Financial strength rating Credit rating	Outlook
A	Stable
Date of last update: 23 July 2012 Date of previous update: 22 July 2011	

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Table 16. Institutions issuing recommendations for PZU

1.	Barclays Capital	Claudia Gaspari Olivia Brindle	+44 20 3134 6039 claudia.gaspari@barcap.com +44 20 3134 4799 olivia.brindle@barcap.com
2.	Bank of America Merrill Lynch	Maciej Szczęsny	+44 20 7996 2366 maciej.szczesny@baml.com
3.	Credit Suisse Securities	Richard Burden	+44 20 7888 0499 richard.burden@credit-suisse.com
4.	Deutsche Bank	Marcin Jabłczyński	+48 22 579 87 33 marcin.jablczynski@db.com
5.	Dom Inwestycyjny BRE Banku	Iza Rokicka	+48 22 697 47 37 Iza.Rokicka@dibre.com.pl
6.	Dom Maklerski Banku Handlowego SA (Citi)	Andrzej Powierża	+48 22 690 35 66 andrzej.powierza@citi.com
7.	Erste Group Research	Christoph Schultes	+43 5 0100 16314 christoph.schultes@erstegroup.com
8.	Espirito Santo Investment Bank	Kamil Stolarski	+48 22 347 40 48 kstolarski@espiritosantoib.pl
9.	Exane BNP Paribas	Thomas Jacquet	+33 142 99 51 96 thomas.jacquet@exanebnpparibas.com
10.	Goldman Sachs Global Investment Research	Vinit Malhotra	+44 20 7774 3488 vinit.malhotra@gs.com
11.	HSBC Global Research	Dhruv Gahlaut	+44 20 7991 6728 dhruv.gahlaut@hsbcib.com
12.	ING Securities	Piotr Palenik	+48 22 820 50 20 piotr.palenik@pl.ing.com
13.	IPOPEMA Securities	Tomasz Bursa	+48 22 236 92 31 tomasz.bursa@ipopema.pl
14.	J.P. Morgan Cazenove	Michael Huttner	+44 20 7325 9175 michael.huttner@jpmorgan.com
15.	Morgan Stanley	Maciej Wasilewicz	+44 20 7425 9104 Maciej.Wasilewicz@morganstanley.com
16.	Raiffeisen Centrobank	Bernd Maurer	+43 1 51520 706 maurer@rcb.at
17.	Societe Generale	Jason Kalamboussis	+44 20 7762 4076 jason.kalamboussis@sgcib.com
18.	Trigon	Hanna Kędziora	+48 22 330 11 14 hanna.kedziora@trigon.pl
19.	UBS	Michael Christelis Michał Potyra	+27 11 322 7320 michael.christelis@ubs.com +48 22 525 84 30 michal.potyra@ubs.com
20.	Unicredit	Paweł Kozub	+48 22 586 23 53 pawel.kozub@caib.unicreditgroup.eu
21.	Wood & Company	Mark MacRea	+48 22 222 15 48 mark.macrea@wood.com

Investor relations

The most important objective of PZU's investor relations activity is to create the Company's value through active communication with capital market participants, including shareholders. To ensure reliable and transparent information, satisfying the highest information governance standards in public companies, in 2012 the Company adopted Rules of PZU SA's information policy for capital market participants. The Management Board's declaration is available on PZU's website, in the investor relations service.

PZU observes all provisions of law in the area of reporting duties of companies listed on the regulated market. Material financial and business information are in parallel made available to the broad capital market in the form of current and periodic reports and investor presentations. In addition to obligatory activities, the Company takes actions addressed and adapted to individual capital market participant groups.

In 2012, the organization and delivery of investor relations in PZU was the responsibility of the Management Board Office. Contacts with capital market participants were the responsibility of the Investor Relations Team. The Team employees maintain on-going contacts with investment bank and brokerage house analysts and Polish and global institutional investors. They are also at the disposal of retail inventors, answering numerous telephone and email queries.

Execution of information duties, organizational of shareholder meetings and coordination of the dividend disbursement process were within the powers of the Information Duty Team.

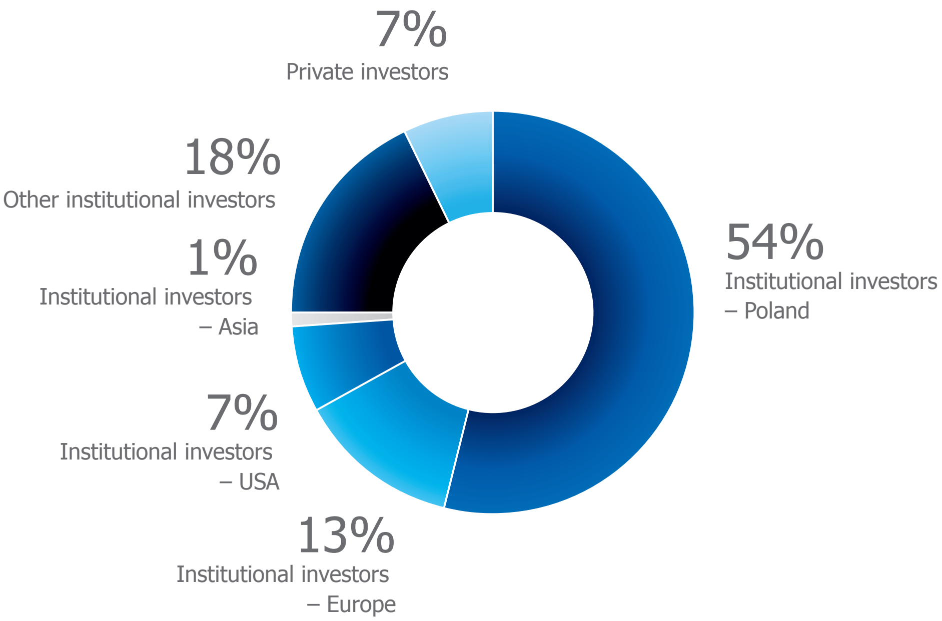
In 2012 PZU's representatives participated in:

- 3 Non-Deal Roadshows in Europe and United States organized after publication of annual and interim financial results;
- 12 financial conferences abroad with participation of global inventors;
- 5 conferences in Poland;
- numerous group and one-to-one meetings and teleconferences with institutional investors and equity portfolio managers in PZU's seat. In 2012, in total 240 such meetings were held with nearly 400 institutional investors and nearly 120 with analysts issuing recommendations for the Company's equities.

Table 17. Changes of PZU's shareholding structure since the IPO, taking into account shareholders holding more than 5% of the total number of votes

	16 April 2010	12 May 2010	23 November 2010	10 June 2011	27 July 2011	27 July 2012	6 January 2013
State Treasury	50.19%	45.19%	45.19%	35.19%	35.19%	35.19%	35.19%
Eureko B.V.	23.00%	13.00%	x	x	x	x	x
Kappa SA	14.90%	x	x	x	x	x	x
ING OFE	x	x	x	x	5.03%	x	5.05%
Others	11.92%	41.82%	54.81%	64.81%	59.79%	64.81%	59.77%

PZU's shareholding structure at the end of 2012



Source: own material, on the basis of Thomson One, data as at 31 December 2012

PZU also attaches great importance to communication with the thousands of private shareholders
Thinking about them PZU:

- participated in 2 conferences for private investors organized in Poland, i.e.:

  – the WallStreet Conference, the biggest meeting of individual investors in Central and Eastern Europe, organized by the Individual Investors Association

  – Sixth edition of the Professional Investor 2012 Conference;

- organized 4 chats with private investors with participation of the PZU Management Board Member, Financial Director, after publication of the annual results for 2011 and quarterly and semi-annual results for 2012;

- actively participated in "10 out of 10 – communicate effectively", a proprietary program of the Individual Investors Association;

- is a partner and active participant of the Citizen Shareholding program initiated by the State Treasury Ministry.

PZU's actions in the area of information policy were appreciated by inventors and analysts and were recognized by capital market institutions, which is proved by, among other things:

- 3rd place for PZU's Annual Report for 2011 in the Banks and Financial Institutions category in the Best Annual Report 2011 competition;

- Investor-Friendly Company certificate granted by the Individual Investors Association;

- qualification to the second stage of the Issuer's Golden Site competition.

In 2013 PZU will continue to actively work towards satisfaction of the information needs of capital market participants. Apart from the existing forms and tools of communication with investors, shareholders and analysts, it is planning to launch a newsletter and prepare a factsheet about the PZU Group. In addition work will be conducted on development of a modern corporate investor relations internet service compliant with the best global practices. Together with the new internet portal the Group also plans to provide an application for mobile devices.

Calendar of key corporate events in 2013

13 March	2012 Annual Report
15 May	Results – Q1 2013
23 May	Shareholder Meeting
23 August	Dividend rights date
28 August	H1 2013 report
12 September	Dividend payment date
14 November	Results – Q3 2013

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09
Corporate social responsibility

Being a market leader obligates and motivates us. We are aware that we play an important social role, therefore in our daily work and strategic plans we do not focus only on clients and shareholders. All members of society are important to us hence our constant and still increasing commitment to cooperation with different institutions and communities.

Being a socially responsible financial institution, PZU takes into account in its business activity a broad range of ethical, social and environmental problems.

This highest CSR standards prevailing in PZU are confirmed by the Company's incorporation, in 2012, into the socially responsible companies index – RESPECT Index at the Warsaw Stock Exchange, and inclusion of the Company into the sustainable development index CEERIUS (CEE Responsible Investment Universe). CEERIUS is a Vienna Stock Exchange index for companies from Central and Eastern Europe (CEE).

In 2011, PZU published the first sustainable development report which was prepared on the basis of GRI G3 (2006) guidelines using the industry supplement for the financial industry (Sustainability Reporting Guidelines & Financial Services Sector Supplement). The next such report will be published in the summer of 2013.

Our objective is to conduct our business in a manner we can be proud of and which is consistent with PZU's image and history. We strive to be a socially responsible company and bring plenty of positive values into our relationships with all our stakeholders – the communities we live and work in, our clients, suppliers, employees and shareholders.

The actions taken in the area of CSR support attainment of PZU's business objectives and pertain primarily to the following areas: client relations, employee relations, activities benefiting society, and environmental impact.

Client relations

PZU strives to maintain the highest standards of service and provide its clients with insurance cover adequate to their diversified needs. The Company respects the principles defined in the "Principles of Good Insurance Practices" enacted by the Polish Insurance Chamber, affiliating insurance companies operating in the Polish market.

PZU cares for the safety and comfort of the insured, not only at the stage of product design and implementation, but throughout product life cycle, including the critical moment when a loss occurs and is reported. To guarantee appropriate rules of cooperation with the clients and give them the feeling of safety, PZU analyzes client needs, utilizing different tools, such as:

- **client satisfaction surveys.** The Company carries out regular PZU Group client satisfaction and loyalty surveys. In 2012, 50 thousand clients were surveyed from among those who participated in one of the key processes, such as: sale of new policies, claims handling, post-sales service and policy renewal. Every month the Company tests client satisfaction with claims handling processes in which nearly 2 thousand PZU clients participate each time. It also evaluates the work of the branches using the Mystery Shopper method and measures client satisfaction with the work of the contact center. The surveys carried out by PZU make it possible not only to identify client needs but also identify areas requiring changes, as well as strengths of the organization;

- **communication with clients.** Every opinion is important to PZU. Dialogue with clients is conducted in different forms and using different media. In 2012, PZU made a decision to appoint a unique advisory body – Client Council. It is composed of 10 clients selected for a one-year term. They issue opinions on selected initiatives taken by the Company pertaining, for example, to: quality of service, client communication methods, service processes, marketing materials and social activity. Apart from the Client Council, to learn client opinions, we use the posts in networking media and You Tube. On PZU Group's official You Tube channel we have posted several tens of films which evoke lively client responses. Also client complaints are an important source of opinions about PZU. To maintain the highest quality and comply with complaint processing deadlines PZU has developed specific rules and procedures for complaint acceptance and review. They are available to clients on PZU's website.

- **educational activity.** PZU operates an Internet service dedicated to insurance – www.JakieUbezpieczenie.pl. There it posts information which explain in a simple and understandable way the benefits following from insurance products. In addition the Company sponsors numerous educational projects such as: Citizen Shareholding project, Capital Market Leader Academy and the "Road to Harvard" competition.

Proper client relations mean also ethics and transparency of communication. In addition to monitoring of the register of abusive clauses, a project to improve the quality of marketing texts initiated in 2012 is another initiative that is unique, not only in the financial industry. Its purpose is to make it easier for clients to understand difficult insurance issues.

Also availability of PZU's services is an important feature for clients. Large share of the branches are located in towns with population under 15 thousand, which is an important factor stimulating their development.

PZU also attaches great importance to building appropriate relations with suppliers and expects them to observe all provisions and regulations applicable to their activity. In particular, it concentrates on ensuring appropriate cooperation with agents, providing them with agent support programs, training (such as Agent Academy) and a new internal communication portal for the agent network. Also candidates for agents are trained. In 2012, 100 such training sessions were delivered for 3.5 thousand people.

Committed employees

Employees are the most important link in the company, for employee satisfaction and engagement belong to the key elements of business management.

In particular PZU attaches great importance to ensuring that every day its employees are guided by the values of the Company and PZU brand: wisdom, simplicity and imagination. The Company has prepared its collection of values and ethical principles – Good Practices in PZU. A rule has been adopted that each employee is an ambassador of the PZU brand and should provide a good example, promoting the standards of ethical conduct and observance of norms determining the Company's reputation. The document describes the good business practices shaping PZU's organizational culture and the attitudes of its employees in the work environment. It emphasizes the role of ethical values prevailing in all aspects of PZU's operations.

The document stipulates that relations at PZU are based on the equal opportunities principle. In all processes, in particular in recruitment, performance appraisal, promotion, professional development and participation in training, employees have equal opportunities and possibilities, regardless of their gender, age, physical ability, nationality, religion, political convictions, trade union membership, sexual orientation and employment form (defined or undefined term or full/part time employment). The document also opens a path for employees to report irregularities to be analyzed by the Compliance Team in the Risk Department.

Respect for the individual is also manifested through offering fair and non-discriminatory compensations. PZU strives to ensure that its employees are paid compensations at the level comparable to the salaries in the industry. Apart from compensation, employees take advantage of additional benefits, such as: P Plus and Pełnia Życia group employee insurance, Employee Pension Plan, Opieka Medyczna health insurance, Medicine Insurance and discounts for insurance products offered by PZU.

In addition PZU creates for its employees conditions facilitating development of their personal interests and self-fulfillment in different spheres of private life, e.g. with regard to sport or volunteering activity. In 2012 the first competition entitled "Volunteering is the joy of action" was carried out. Thanks to the competition the so-called volunteering promoters were selected, i.e. persons who will group together around themselves employees who want to take part in volunteering activities. Their task will be to activate and coordinate actions in the field. PZU is planning to provide them with training support, cover some of the costs, e.g. the costs of travel to the destination or other costs associated with the projects. Already in 2012 volunteers organized pilot Christmas present campaigns in 3 Polish cities.

Operations for the public benefit

PZU – with the support of the PZU Foundation and using the prevention fund – is very active in social life. Just like in previous years, also in 2012 PZU conducted prevention activity to improve public safety and mitigate different types of risks:

- it continued cooperation with the rescue services – TOPR, GOPR and selected WOPR groups. In 2012, PZU supported, among other things, the Never Stop Exploring Safely campaign in which avalanche training sessions were delivered to skiers, snowboarders and fans of winter mountain activity in Tatra Mountains hostels;

- it subsidized purchase of rescue equipment for the border guards from the prevention fund. In 2012 such help was provided to, among others, the State Fire Brigade from the Wielkopolska area;

- it continued its cooperation with the Misie Ratują Dzieci Association regarding execution of a long-term prevention program devoted to health prevention and treatment of the consequences of road accidents for children. The program comprises comprehensive rehabilitation and psychological care in the Therapeutic Center in Dźwirzyn and production of Teddy Rescuer mascots and their distribution among rescue services and police throughout Poland;

- it executed – in cooperation with the Association for Help to Disabled Drivers – the Auto Mobility Center program aimed at limiting the mobility barrier for the disabled, through enabling them to safely operate vehicles thanks to adaptation enabling substitution of physical dysfunctions;

- it organized, together with Special Olympics Poland, sports competitions for persons with intellectual disability;

- it supported improvement of safety in the Łazienki Królewskie Museum through a program aimed at extension of the technical security system in the facilities and physical security protecting people and property in the Museum.

PZU also was the sponsor and patron of different types of cultural and sports events, both national and local. As the biggest Polish insurer, PZU took care primarily of ensuring Poland's cultural heritage, being the patron of the Royal Castle in Warsaw, Łazienki Królewskie Museum and the National Museum in Kraków, together with its most important branch in Sukiennice. As the Patron of Polish Culture it once again took active part in organizing the Museum Night, preparing special PZU zones for the visitors.

In 2012, PZU sponsored the following cultural and sports events: Rzeszów Carpathia Festival 2012, Great Forbes Ball, Pillars of Polish Economy Gala, Yalta Finance Forum, II European Forum of New Ideas in Sopot, IV Women's Congress, I Listed Company CFO Congress and the WallStreet conference. In addition it was the patron of Willa Decjusza in Kraków and the patron of the Bukowina Tatrzańska Municipality.

PZU Charitable Foundation

The main activity of the PZU Foundation in 2012 was to provide subsidies for projects executed by non-governmental organizations and other organizational units whose objectives and activities fit within the Foundation's areas of activity. In addition the PZU Foundation continued to cooperate with other charitable organizations under partnership programs.

In 2012 the Foundation granted subsidies for nearly PLN 7 million. The Foundation focused its activity on the following areas:

- education – in particular supporting initiatives providing equal opportunities for young people's intellectual, professional and cultural development;

- social care and welfare – including in the area of supporting, promoting and developing the activity of the disabled;

- culture and arts – in particular through supporting the activities stimulating propagation of knowledge about Polish culture and arts, artists, creators, talented youths and artistic events;

- health care – supporting initiatives aimed at broadly understood health prevention.

Education

In 2012 the PZU Foundation supported the following initiatives:

- it awarded 19 projects in the 9th edition of the subsidy competition "Enriching the educational offer in rural areas and small towns";
- under partnership programs it granted subsidies to the following organizations:

  – Educational Entrepreneurship Foundation in Łódź, funding scholarships for young people in rural areas and small towns and scholarships for students of humanities,

  – Polish Children and Youth Foundation in Warsaw, subsidizing the Day Care Center – My Place project,

  – European Meeting House of the Nowy Staw Foundation in Lublin financing the lease of a room during the Young Leaders Economic Forum,

  – National Children's Fund in Warsaw, supporting talented children and youths,

  – Professor Bronisław Geremek Foundation in Warsaw for history workshops for students and teachers,

  – Youth Entrepreneurship Foundation in Warsaw, financing the Entrepreneurship project,

  – ABC XXI Foundation – Whole Poland Reads to Children in Warsaw – for an Astrid Lindgren literary competition for a contemporary book for children
- in addition it granted one-off subsidies to the following organizations: Second Millennium Scouts Foundation in Warsaw, Polityka Weekly Foundation in Warsaw, Institute of Public Affairs in Warsaw, Polish Physics Society in Warsaw, Social Schools Complex in Warsaw, Women's Class Foundation, Physical Education Academy in Warsaw, Deaf and Mute Institute in Warsaw, Volunteering Center Association in Warsaw, Foundation for Capital Markets Education in Warsaw, Polish Scouting Association, Andrzej Ostoja Owsiany NN Historical Institute in Łódź.

Social care and welfare

In pursuance of its statutory objectives in the area of social care and welfare, in 2012 the Foundation:

- awarded 16 organizations in the 9th edition of the subsidy competition "Development of social activity of disabled children and youths";
- granted financing support to 42 underprivileged persons;
- granted a subsidy under a partnership program for the Summer with Poland project – executed in cooperation with Polish Community Association in Warsaw, financing the insurance of approx. 2 thousand people from Polish families spending holiday in Poland;
- granted one-off support to the following organizations: Community of Generations Foundation in Warsaw, Wiosna Multifunctional Care Center in Wołów, Children's Fantasy Foundation in Warsaw, Multi-Children Family Society in Krosno, St. Andrew Roman Catholic Parish in Warsaw, Tęczowy Dom Foundation in Warsaw, Dzieło Nowego Tysiąclecia Foundation in Warsaw, Social School Foundation in Wesoła, Warsaw-Praga Diocese and Chęstochowa Archdiocese Caritas, St. Joseph Parish in Pruszków, Roman Catholic Parish in Zielona Góra.

Culture and art

The PZU Foundation financed the recovery and renovation of Aleksander Gierymski's painting "Pomarańczarka". After maintenance work that lasted for more than one year, the painting was presented again in December 2012, which was an important cultural event for Poland.

In 2012 the Foundation provided help to: Foundation for Helping Poles in the East in Warsaw (in the form of a subsidy for preparation of radio programs in the Polish radio station in Vilnius), Charity and Support Foundation of the "Znad Wilii" Radio Station in Vilnius, Diocese Museum in Kielce, National Center of Culture in Warsaw, RTV Regional Lubin Television in Zielona Góra, Nowica Friends Association, World Makes Sense Foundation in Limanowa.

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Health care

In 2012 the PZU Foundation granted financial help to the Polish Oncology Union in Warsaw for psycho-oncology training for medical staff. In addition it granted one-off subsidies for health-related projects: Amici Cordis Foundation in Warsaw, Gajusz Foundation in Łódź, Association for People with Hand Defects in Warsaw, Wemenders Foundation in Warsaw, Mazovia Student Sports Club in Legionowo, Foundation Against Leukemia in Warsaw, Ewa Błaszczyk's A Kogo? Foundation in Warsaw, Polish Association for Help to Persons with the Prader Willi Syndrome in Warsaw, Fulfilled Dreams Foundation in Warsaw.

Direct impact on the environment

PZU's direct impact on the natural environment is relatively small. It comes down to all kinds of aspects associated with operation of offices, i.e. consumption of electricity, water and heat and different consumables (paper, toners, bulbs etc.). However PZU is of the position that the relatively small impact of the offices on the environment does not mean that this impact should not be minimized. Therefore PZU cares for the natural environment primarily through:

- economical management of resources and raw materials. Utilization of electronic information carriers and efforts to limit the consumption of paper in business activity are important parts of these actions. Other efforts made in this area include: waste management in the company, limitation of the use of company cars and fuel, and reduction of water and electricity consumption;

- educational efforts among employees. The main initiatives in this area include: actions to educate employees about reduction of raw material consumption, recycling, e.g. involving employees in collection of mobile handsets, environmental protection campaigns (in the form of information for employees, stickers in kitchens and toilets).

10
Corporate Governance

Our understanding is that the role of a market leader is to set the highest standards for the entire industry.
This is what we are doing, not only by complying with a number of codes, but working continuously to improve them. We believe that this is an element of wise changes that we can contribute to the world.

Corporate governance principles

Ever since the admission of its shares into trading on the regulated market, PZU has complied with the corporate governance principles described in the document "Best Practices for WSE Listed Companies" prepared by the Supervisory Board of the Warsaw Stock Exchange.

The wording of the Best Practices for WSE Listed Companies is available on WSE's corporate governance site: www.corp-gov.gpw.pl and also on PZU's corporate website at www.pzu.pl in the "Investor Relations" section.

In addition to the above corporate governance principles, the Company has complied with the ethical principles and corporate social responsibility principles expressed, among others, in the following documents:

- Insurance Best Practices adopted on 8 June 2009 by the General Meeting of the Polish Insurance Chamber ("PIU"), associating insurance companies operating on the Polish market. The principles adopted by the Company describe the conduct of insurance companies in their relations with customers, insurance intermediaries, the Financial Supervision Commission, the Ombudsman of the Insureds and the media and also regulate the relations between the insurers themselves and activities of the insurance companies with publicly traded securities. The document is available in Polish on the PIU website at www.piu.org.pl, section "O PIU": "Zasady Dobrych Praktyk";

- Best Practices at PZU This document emphasizes the role of ethical values in all aspects of PZU's operations. It describes good business practices at PZU. It encourages and promotes the culture of compliance with the law, decision-making based on ethical criteria and accountability for decisions. The document is available at the Company's website at www.pzu.pl, "PZU Group" section, chapter "Social Responsibility" and "Ethical Corporation"

- PZU Social Report It is the first report on the Company's sustainability and social activity, prepared based on GRI (Global Reporting Initiative) Sustainability Reporting Guidelines & Financial Services Sector Supplement. The report constitutes an element of implementation of the CSR (corporate social responsibility) strategy at PZU and refers to a number of issues in many areas such as corporate governance, availability of services, product quality, security of data, effect of PZU's business on the environment as well as PZU's involvement in social activity. The document is available at the Company's website at www.pzu.pl, "PZU Group" section, chapter "Social Responsibility" and "Reports"

Application of the Best Practice for WSE Listed Companies

The report on the application of the corporate governance principles in its full version published with the PZU Annual Report pursuant to the Act on Offerings is available on the Company's website at www.pzu.pl, in the "Investor Relations" section, "Annual Reports" chapter.

In 2012, PZU observed the principles prescribed by the Best Practice for WSE Listed Companies document adopted by resolution no. 20/1287/2011 adopted by the Supervisory Board of WSE on 19 October 2011, except for the recommendations in chapter I items 5 and 9 and item 12 regarding real-time bilateral communication where shareholders may take the floor during a shareholder meeting from a location other than the shareholder meeting and regarding the exercise of their right to vote during a shareholder meeting either in person or through a plenipotentiary. The press release on non-application of these recommendations was not published, in line with the exclusion, based on a resolution adopted by the WSE Management Board on 11 December 2007, from the issuers' duty to publish reports mentioned in § 29 sec. 3 of WSE Bylaws with respect to corporate governance principles included in chapter I of the Best Practice for WSE Listed Companies.

Regarding the wording of chapter I of the Best Practice for WSE Listed Companies containing "Recommendations for Best Practice for Listed Companies", we should note that:

- regarding the recommendation included in Chapter I item 5 pertaining to the remuneration policy for members of supervisory and management bodies, Supervisory Board members receive remuneration for their participation in the work of the Supervisory Board in line with the remuneration principles adopted by the Shareholder Meeting while the Supervisory Board in its resolutions adopts the remuneration principles for Management Board members;

- the remuneration policy for members of supervisory and management bodies of PZU does not contain all the elements mentioned in the Commission Recommendation of 14 December 2004 fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC) and Commission

Recommendation of 30 April 2009 complementing that Recommendation (2009/385/EC). Moreover, PZU did not present a declaration presenting remuneration policy on its corporate website. The decision concerning future compliance with the said rule will be taken by the Supervisory Board and the Shareholder Meeting.

- As for the recommendation specified in chapter I item 9 concerning gender parity principle to be followed in the Company's management and supervisory bodies, PZU has always pursued the policy of appointing competent, creative, experienced and educated people to the Company's bodies. The composition of the Management Board and the Supervisory Board is determined based on a decision of the Supervisory Board and the Shareholder Meeting, respectively and other factors, such as sex, are not taken into account in this respect.

- As for the recommendation specified in Section I.12 regarding real-time bilateral communication where shareholders may take the floor during a shareholder meeting from a location other than the shareholder meeting and regarding the exercise of their right to vote during a shareholder meeting either in person or through a plenipotentiary, the Company decided to no longer provide real-time bilateral communication where shareholders may take the floor during a shareholder meeting from a location other than the shareholder meeting and exercise their right to vote during a shareholder meeting either in person or through a plenipotentiary, because according to the Company there are numerous technical and legal issues, which may disrupt appropriate course of a session of the Shareholder Meeting and adequate application of the provisions of the recommendation in question. Moreover, according to the Company, principles concerning participation in shareholder meetings applicable in PZU allow for exercising rights from shares and protect interests of all shareholders of the Company.

List of shareholders holding directly or indirectly significant blocks of shares

The Issuer's share capital is divided into 86,352,300 shares with a par value of PLN 1 each, giving the right to a total of 76,757,525 votes at the Shareholder Meeting.

As at 31 December 2012, the sole shareholder with a significant block of shares was the State Treasury which held 30,385,253 shares, i.e. 35.19% of PZU's share capital.

Other shareholders held a total of 55,967,047 shares which accounted for 64.81% of the share capital.

Detailed information on historical changes in the shareholder structure is included in the chapter entitled "PZU on the Capital Market".

The Management Board of PZU has no information about any concluded agreements which may result in the future in changes to the proportions of shares held by the existing shareholders. In 2012 and 2011 PZU did not acquire any treasury shares.

The Company did not issue any securities providing shareholders with special control rights.

According to the Articles of Association of PZU, shareholders' voting right shall has been restricted in a way that no shareholder may exercise at the Shareholder Meeting more than 10% of the overall number of votes existing in PZU on the date of the Shareholder Meeting, with a reservation that, for the purposes of determining the obligations of the buyers of large blocks of shares prescribed by the Act on Public Offerings and the Insurance Activity Act, such restriction of the voting right will be deemed non-existent.

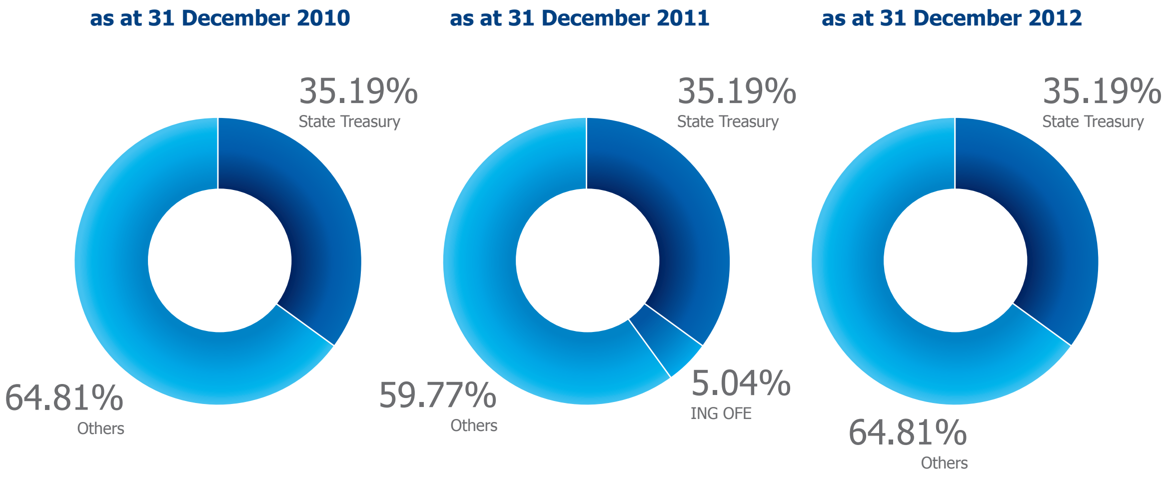
The above restriction of the voting right does not apply to:

1. the shareholders holding the voting rights under shares representing over 10% of the overall number of votes in PZU on the date of adopting the Shareholder Meeting resolution introducing the restriction;
2. the shareholders acting along with the shareholders specified in item 1 under the concluded arrangements regarding the joint exercise of the voting right under the shares.

For the purposes of restricting the voting right, the votes of the shareholders connected by a parent or subsidiary relationship are added up according to the principles described in the Articles of Association.

In the event of doubts, the provisions regarding the restriction of the voting right shall be subject to interpretation according to Article 65 § 2 of the Civil Code. According to the Articles of Association of PZU, the above restrictions of shareholder voting rights will expire when the stake held by the shareholder with over 10% of the overall number of votes in the Company on the date of adopting the Shareholder Meeting resolution introducing the restriction drops below 5%. The Articles of Association of PZU do not introduce any restrictions on the transfer of the legal title to securities issued by PZU.

PZU shareholding structure



Shareholder Meeting and shareholder rights

The Shareholder Meeting is the highest corporate body of PZU. The operation and powers of the Shareholder Meeting are governed by the Commercial Company Code and the Articles of Association. The text of the Articles of Association is available on the www.pzu.pl website, "Investor Relations" section, chapter "Company".

The Shareholder Meeting has not adopted its bylaws.

The Shareholder Meeting is authorized to make decisions regarding the organization and operation of the Company. Shareholder Meeting resolutions are adopted with an absolute majority of votes, except in special circumstances prescribed by the Commercial Company Code or the Articles of Association. According to the Articles of Association, a three fourths majority of votes are required to adopt Shareholder Meeting resolutions to: amend the Articles of Association, reduce the share capital and sell or lease the enterprise or its organized part and encumber it with a limited right in rem. Shareholder Meeting resolutions in the matter of introducing the preference of shares and in the matter of the Company's merger by transferring all of its assets to another company or merger by establishing a new company, dissolution of the Company (also as a result of moving the Company's registered office or its main establishment abroad), its liquidation, transformation and reduction of its share capital by retirement of a portion of shares without its simultaneous increase, require the majority of 90% of the votes cast.

The powers of the Shareholder Meeting include, in addition to other matters stipulated as being within its powers by the Commercial Company Code or the Articles of Association:

- examination and approval of the Management Board's report on the Company's activity and the financial statement for the previous financial year and granting a discharge to individual members of the Company's corporate bodies on the performance of their duties;
- distribution of profit or covering the loss;
- decisions on claims to remedy damages incurred during the incorporation of the Company or in its administration or oversight;
- sale or lease of the enterprise or an organized part thereof and establishment of a limited material right thereon;
- retirement of shares and bond issues;
- establishment of reserve capital accounts and decision on their allocation or manner of allocation;
- division of the Company, merger of the Company with another company, winding up or dissolving the Company,
- appointment and dismissal of Supervisory Board members, subject to the State Treasury's personal entitlement to appoint and dismiss one member of the Supervisory Board;
- establishing the rules for remunerating the Supervisory Board members;
- purchase or sale by the Company of real estate, a perpetual usufruct right or a share in real estate or a perpetual usufruct right whose gross value exceeds the equivalent of EUR 30.0 million (thirty million euros).

The Shareholder Meeting convenes in the form of an Ordinary Shareholder Meeting, which should take place within six months after the elapse of each financial year of the Company and an Extraordinary Shareholder Meeting, which is convened in the circumstances specified in the applicable law and in the Articles of Association. Shareholder Meetings are held in Warsaw.

A Shareholder Meeting is convened by way of an announcement published on the Company's website and in the manner specified for publication of current information according to the Act on Offerings, i.e. in the form of a current report. The announcement should be made no later than twenty six days before the date of the Shareholder Meeting. The announcement and the materials provided to shareholders at the Shareholder Meeting are made available from the date o convening the Shareholder Meeting at the Company's website at www.pzu.pl, "Investor Relations" section, chapter "General Shareholder Meetings". A correctly convened Shareholder Meeting is valid notwithstanding the number of shareholders in attendance or the shares represented.

The Chairman or Deputy Chairman of the Supervisory Board opens the Shareholders' Meeting and then the Meeting Chairman is elected from among the persons authorized to vote. The President of the Management Board or a person designated by the Management Board opens the Meeting if the Supervisory Board Chairman and Deputy Chairmen are absent.

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The Shareholders' Meeting may adopt resolutions notwithstanding the number of shareholders in attendance or the shares represented. The balloting at a Shareholder Meeting shall be open. Secret balloting is ordered for elections or on motions to dismiss members of the Company's governing bodies or its liquidators, in matters of their personal accountability to the Company, in staffing issues or, excluding the cases where the open vote requirement results from the law, at the request of at least one shareholder attending or represented at the Shareholder Meeting.

The rights of the shareholders and how they are exercised at the Shareholder Meeting are defined in the Commercial Company Code and in the Articles of Association. Only the persons who are Company's shareholders sixteen days before the date of a Shareholder Meeting (registration date of participation in a Shareholder Meeting) have the right to participate in the Shareholder Meeting: Shareholders may participate in the Shareholder Meeting and exercise their voting right in person or through a proxy. The power-of-attorney to participate in the Shareholder Meeting and exercise the voting right must be granted in writing or electronically.

One PZU share entitles its holder to one vote at the Shareholder Meeting, subject to the restriction in the exercise of the voting right, described in the Company's Articles of Association. A Shareholder may vote in a different way from each of the shares held by it.
Any shareholder may, during the Shareholder Meeting, submit draft resolutions on issues included in the agenda.
A detailed description of the procedures for taking part in the Shareholder Meeting and for exercising the voting right is always included, according to the requirements of the Commercial Company Code, in the announcement on the Shareholder Meeting available, from the date of convening the Shareholder Meeting, on the Company's corporate website at www.pzu.pl, "Investor Relations" section, chapter "General Shareholder Meetings".

Management and supervisory bodies and their committees PZU Management Board

According to the Articles of Association of PZU, the Management Board consists of 3 to 7 members appointed for a joint term of office of three full consecutive financial years. Members of the Management Board, including the President, are appointed and dismissed by the Supervisory Board, while Management Board members are appointed and dismissed by the Supervisory Board upon a motion submitted by the President of the Management Board. The President of the Management Board of a new term of office appointed before the elapse of the current term may submit a request to the Supervisory Board to appoint the other Management Board Members for the new term of office before the elapse of the current term of office.

The current term of office of the PZU Management Board started on 1 July 2011 and covers three full consecutive financial years. Mandates of the Management Board members will expire no later than on the date of holding the Shareholder Meeting approving the financial statements for the most recent full financial year of discharging their function.

Below is the current information on experience and competence of Members of PZU and PZU Życie Management Boards:

Andrzej Klesyk – President of the PZU Management Board (CEO)

Andrzej Klesyk has been the President of the PZU SA Management Board since December 2007. From 2003 to 2007 he was a Partner and Managing Director of The Boston Consulting Group in Warsaw, where he collaborated with PZU in performing insurance projects. Created and managed Inteligo, a pioneer Internet banking project. Earlier, managed a team developing Handlobank, the consumer banking division of Bank Handlowy w Warszawie SA. From 1993 to 2000 he worked in the London branch of McKinsey. In 1991 Andrzej Klesyk went to the USA, where he worked for Kidder, Peabody and Coopers & Lybrand, New York. Andrzej Klesyk graduated from the Faculty of Economy of the Catholic University of Lublin. He was one of the first Poles to complete a two-year MBA course at the Harvard Business School in the USA. He is a member of The Geneva Association – a non-profit organization associating 80 CEOs from top global insurance companies. He represents PZU at annual meetings of the World Economic Forum in Davos and at the Institute of International Finance in Washington.

Dariusz Krzewina, President of the PZU Życie Management Board, Member of the PZU Management Board

A graduate of the Economy and Sociology Department of the University of Łódź and post-graduate studies in insurance at Warsaw School of Economics. Worked in the insurance industry for many years. From September 1993 to August 1998 he was employed in PZU Życie as the Head of the Sales Department, Deputy Director and Director of the Insurance Department. From September 1997 to September 1998 he was a Member of the Management Board of PZU Życie. In the period from September 1998 to March 2000 he was the General Sales Director and from April 2000 to August 2001 a Member of the Management Board of STUnŻycie ERGO HESTIA SA. From April 2002 he was a Sales Director and from October 2002 to June 2004 he was the Chairman of the Management Board and the Sales Director at SAMPO Towarzystwo Ubezpieczeń na Życie SA. In August 2004 he was appointed the Director of the Group Insurance Office Director in PZU Życie and since January 2006 he was the Coordinating Director in charge of Corporate Clients. He has been in the Management Board of PZU Życie since March 2007 and in August 2007 he was appointed to the position of the Management Board President. He served as a Director of the PZU Group from February 2010 to 14 March 2013. Member of the PZU Management Board since 15 March 2013. In charge of group and health insurance, administration and the PZU Group Network.

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Barbara Smalska – Management Board Member

Barbara Smalska studied particle physics and holds a PhD of Warsaw University, the Physics Department and the Institute of Deutsches Elektronen Synchrotron (DESY) in Hamburg. In the years 2002-2008 she worked at the Warsaw office of the Boston Consulting Group. As a strategic advisor to top Polish banks, insurance and telecommunication companies she specialized in business strategies, operational models, distribution strategy, organization and activation of the sales network – in particular in the consumer and SME sectors. She joined the PZU Group in 2008 and worked as a Director of the Product Management Office, Managing Director in charge of Mass Client Sector and Managing Director in charge of Marketing and Individual Products. Appointed to the Management Board of PZU Życie on 1 February 2013. Served as a PZU Group Director from 5 February 2013 to 14 March 2013. On 15 March 2013, she was appointed to the Management Board of PZU. In charge of mass insurance, product management, CRM and marketing.

Przemysław Dąbrowski – Management Board Member

A graduate of the University of Warsaw with a specialization in information technology and post-graduate course in management. Holds an MBA from the University of Illinois and has completed a Warsaw-Illinois Executive MBA program. Vast experience in managing the finances of insurance companies, managing financial investments and closing large financial deals. He also has a practical and theoretical knowledge of accounting, tax issues and elements of actuarial mathematics. He started his professional career in 1993. From 1993 to 1998 he worked as a financial analyst and controller at Whirlpool Polska Sp. z o.o. In 1998-2000, he served as the Treasurer at AIG Polska. In 2000-2001, Mr. Dąbrowski was the Financial Director and a Management Board Member at Creative Team SA (Elektrim Group). In 2001-2006, he headed PZU's Planning and Controlling Department. In 2006-2008, he worked for the consulting firms AT Kearney and Accenture as a Manager and, subsequently, as a Senior Manager. From October 2008 to March 2009, he discharged the function of Director and Deputy Head of the Financial Division at the PZU and PZU Życie Head Office. From November 2008 to February 2009, he worked as the Director of the Planning and Controlling Department at the PZU and PZU Życie Head Office. Then in March 2009, he became the Director of the Information Management Department at the PZU and PZU Życie Head Office. Since January 2010, he has been the Member of the PZU Życie Management Board. Member of the PZU Management Board since December 2010. In charge of the Financial Division.

Rafał Grodzicki, Member of the PZU Życie Management Board, Group Director

A graduate of the Warsaw School of Economics. He has extensive management experience in the banking and insurance sector gained in numerous Polish and foreign institutions. In the years 1991-2004, he worked for Bank Handlowy w Warszawie SA, where he headed the Small Business Division and handled the implementation of the product offering, sales, acquisitionm, development of distribution channels and the credit risk management process. He joined the PZU Group in February 2004 where he held positions of Director of the SME Insurance Department, Coordinating Director in charge of Agency Network Development and Managing Director in charge of Insurance Products – Head of the Mass Client Division. In 2010, he also served as the PZU Representative in charge of IPO responsible for the process of listing PZU shares on the stock market. Since 2013, a Member of the Audit Committee of the Polish Insurance Chamber (PIU) and Supervisory Board Chairman of the Insurance Guarantee Fund (UFG). For over 10 years, he has sat on Supervisory Boards of various financial and insurance institutions. Appointed to the Management Board of PZU Życie in August 2008. PZU Group Director since February 2010. In charge of the Operations Division (Contact Center and Operations Centers).

Przemysław Henschke, Member of the PZU Życie Management Board, Group Director

A graduate of the Warsaw University of Technology. He has more than 20 years of experience in financial services for the IT industry. He worked as a technology provider (as a Project Manager and an advisor) and also represented clients as an IT Architect and CIO. His first important engagement was the implementation project for handlobank, which he managed as the vendor's Project Manager. He was one of the co-founders and creators of Inteligo, where he was the IT Architect and Project Manager of the implementation and then the CIO. He also acted as the CIO in Lukas Bank, where he managed the replacement of the banking system and IT reorganization in the Credit Agricole Group in Poland. The next stage in his career was the launch of Polbank EFG, where he acted as a CIO responsible for the IT structure implementation in the Polish branch and he co-designed universal IT infrastructure for the CEE as a part of the EFG Group. After the launch of Polbank in 2007 he supported Management Boards and CIOs of top banks and insurance companies from Europe and the Middle East as a strategic advisor at McKinsey. He focused on optimization of operations and IT costs, supported reorganization projects, developing IT strategies and architecture and streamlining communication and mutual understanding between the Business and the IT functions. Later, as the Group CIO in Banque Audi, one of the top banking groups operating in the Middle East with headquarters in Beirut, he developed an IT strategy and architecture for the group and started the implementation. Appointed to the Management Board of PZU Życie on 3 February 2012. PZU Group Director since 7 February 2012. In charge of the IT area.

Sławomir Niemierka, Member of the PZU Życie Management Board, Group Director

Graduate of the Law and Administration Department at the Warsaw University and of a Post-Graduate Course in Law and Economy in the European Union. He is a qualified legal counsel. He authored and co-authored a number of publications on financial law and bank supervision. From 1994 to 2007, he was an academic teacher at post-graduate courses at Polish Academy of Sciences, Warsaw University and the Academy of Insurance and Finance. For many years he worked in the National Bank of Poland - the General Inspectorate of Banking Supervision, where he spent eight years heading the Inspection Office responsible for inspections carried out in banks, branches of foreign banks and credit institutions in Poland, in particular inspections of internal controls and risk management systems. Member of a Steering Committee of the General Inspectorate of Banking Supervision in charge of the implementation of the second Basel Accord, supervision over risk models, operational risk and accounting standards. He was on the Team developing the risk management system in the National Bank of Poland. From 2010 to 2011, as a Management Board member of the Bank Guarantee Fund he supervised the operational risk management system, inspections and monitoring of banks using the support provided by the Fund. Joined the PZU Group in 2008 as a Managing Director in charge of Audit. On 19 March 2012 he was appointed to the Management Board of PZU Życie. PZU Group Director since 19 March 2012. In charge of the security and risk management area.

Bogusław Skuza – Management Board Member

Graduate of the University of Gdańsk, the Economy of Transport Department, International Trade Faculty. He has vast experience in the financial sector, especially in insurance. He started his professional career in the years 1979-1985 working for the Claims Handling Department of TUiR Warta SA. From 1985 to 1991 he was the General Representative of TUiR WARTA SA for the USA and Canada. In 1991-1992 he was a Manager of the Insurance and Claim Department at Gdynia America Line Inc., while in the years 1992-1999 he worked as a Country Manager and the Deputy Chairman of the Management Board of Marsh & McLennan Polska Sp. z o.o. In the years 1998-2000 he held the position of the Vice-President of the Management Board of Towarzystwo Ubezpieczeń Życiowych i Emerytalnych Petrus SA and the President of the Management Board of Fiat Ubezpieczenia SA. From 2000 to 2008 he was the President of the Management Board of Skandia Życie Towarzystwo Ubezpieczeń SA. From 2008 to 2010 Bogusław Skuza was a Group Management Board Member and a CEE Regional Managing Director in Intrum Justitia AB. He also acted as the Supervisory Board Chairman of Intrum Justitia entities in Poland, the Czech Republic, Slovakia and Hungary. In the years 1992-1998 he held the position of the Founding Member and Secretary General of the Association of Polish Insurance and Reinsurance Brokers and in the years 2002-2008 a Management Board Member at the Polish Insurance Chamber. Member of the Good Practices Council at the Polish Insurance Chamber since May 2009. Serving as a Member of the PZU Management Board since July 2011. In charge of the Corporate Client Division, reinsurance and bancassurance.

Tomasz Tarkowski – Management Board Member

A graduate of the Faculty of Automotive and Construction Machinery Engineering at the Warsaw University of Technology and the Academy of Insurance and Banking. He also completed the Advanced Management Program at IESE Business School University of Navarra and post-graduate studies in road traffic safety and business insurance. He joined the PZU Group in 1996. Initially, he worked in internal control and insurance fraud departments. In the years 2002-2005 he worked in the claims handling function as the Head of the Technical Unit at the Claims Handling Department. From 2006 to 2007 he was a Director of the Claims Handling Center and a Claims Handling Director at the PZU Regional Branch in Warsaw. In 2007-2011, as a Management Board Member of PZU Ukraine, he supervised the claims handling, product management and risk assessment departments. As a Supervisory Board Member of SOS Service Ukraine, he was responsible for assistance services. Since February 2011 he has been a PZU Group Director at the Head Office the Management Board Representative in charge of Claims Handling at PZU Życie. Serving as a Member of the PZU Management Board since April 2011. In July 2011 he was also appointed to the Management Board of PZU Życie as its member. In charge of the claims handling and assistance areas.

Ryszard Trepczyński – Management Board Member

A graduate of the Management and Marketing Department at the Warsaw School of Economics. Since the beginning of his professional career he was focused on the capital market. He has vast experience in developing and implementing investment strategies and drawing up investment policies. He also has experience in managing large and diverse asset portfolios. He participated in building structures for strategic management of asset allocation, liquidity and investment risk. In 1994-1996 he worked as a broker in the Capital Operations Center at Bank Handlowy w Warszawie SA. In the years 1996-2002 he worked for the Financial Investment Department of PZU Życie – initially as an Asset Manager and subsequently as the Head of the Debt Portfolio Management Department. From December 2002 to June 2011 he worked at Pioneer Pekao Investment Management S.A., first as a Director of Debt Securities Department, Director of the Asset Management Department, and since March 2009 the Vice-President of the Management Board in charge of investments. He has been a Management Board Member at PZU and PZU Życie since July 2011. In charge of the Investment Division, Treasury Division and macroeconomic analyses.

Operation and powers of the Management Board as stated in the Articles of Association

The Management Board exercises all the powers relating to the management of PZU, which are not assigned by law or by the Articles of Association to the Shareholder Meeting or to the Supervisory Board.

The Management Board adopts its bylaws which are approved by the Supervisory Board. The work of the Management Board is directed by its President, who allocates responsibilities to individual Management Board members. Resolutions of the Management Board are adopted only in the presence of the Management Board President or a person appointed to direct the work of the Management Board in his absence, with at least one half of the Management Board Members present at the meeting. Management Board resolutions are adopted with absolute majority of votes, and in the event of the equal number of votes, the President of the Management Board has the casting vote. The Management Board, upon approval of the President, may adopt resolutions in writing, also in an electronic form (i.e. using means of remote communication and a qualified electronic signature). The Articles of Association also provide for the possibility of holding Management Board meetings while using direct means of remote communication. Two Management Board members acting jointly or one Management Board member acting jointly with a general proxy are authorized to represent the Company.

Operation and powers of the Management Board as stated in the Management Board Bylaws

The Management Board Bylaws were adopted by the Management Board on 23 February 2010 and approved by the Supervisory Board in its resolution of 4 March 2010. The Management Board Bylaws specify: (i) powers of the Management Board and the list of actions requiring permission or approval by the Supervisory Board; (ii) powers of the Management Board President and the remaining Management Board members; (iii) the rules and organization of Management Board's work, including organization of meetings and decision-making procedure; and (iv) the rights and obligations of the resigning Board Members.

According to the Management Board Bylaws, the following in particular require a resolution of the Management Board:

- adopting a long-term development and operation plan for the Company;
- adopting a business and development plan for the PZU Group;
- adopting the annual financial plan and its performance report;
- adopting the financial statements for the previous financial year and the Management Board activity report;
- accepting a motion to distribute profits or cover losses;
- setting premium tariffs for mandatory and facultative insurance and general terms and conditions of facultative insurance;
- setting the scope and extent of inward reinsurance and outward reinsurance tasks;
- accepting the annual audit and inspection plan and the report on its performance with conclusions;
- setting the rules for investment, prevention and sponsoringactivity;
- extending sureties and guarantees except for the ones that are insurance activities and for the Company to draw down and grant credits or loans except for the credits and loans granted with the resources in the company social benefits fund; and
- awarding a general proxy.

Pursuant to the Management Board Bylaws, Management Board meetings are held no less frequently than once in two weeks. The Management Board's work is directed by its President, whose powers include in particular:

- setting the responsibility of individual Management Board members;
- calling Management Board meetings;
- setting the agenda of Management Board meetings;
- submitting motions to the Supervisory Board to appoint or dismiss Management Board members;
- naming a person to direct the Management Board's work in the absence of its President.

The President of the Management Board makes decisions in the form of directives and business orders. The remaining Management Board Members direct the activity of PZU within the scope of their responsibility set by the President.

The Articles of Association of PZU do not provide for any powers of the Management Board to make decisions on the issue or redemption of shares.

Supervisory Board

The Supervisory Board shall be composed of seven to eleven members. The number of Supervisory Board members is specified by the Shareholder Meeting. Supervisory Board members are appointed by the Shareholder Meeting for a joint term of office of three consecutive full financial years. At least one Supervisory Board Member must hold qualifications in accounting or financial review within the meaning and in accordance with the Act of 7 May 2009 on Statutory Auditors and Their Self-Regulatory Body, Approved Entities to Audit Financial Statements and Public Oversight. Additionally, at least one member of the Supervisory Board should satisfy all the independence criteria specified in the Articles of Association (Independent Member) concerning, among others, professional relations or kinship, in particular with members of management and supervisory bodies of the Issuer and PZU Group companies. An Independent Member is obliged to submit a written representation to the Company on satisfying all the independence criteria provided for in the Articles of Association and to notify the Company immediately when he/she no longer meets such criteria. Moreover, the Articles of Association grants the State Treasury a personal right to appoint and dismiss one Supervisory Board member by a written statement submitted to the Management Board, if the stake held by the State Treasury in the Company drops below 50% of all of its shares. This right will expire when the State Treasury ceases to be a shareholder in the Company.

Accordingly, as of 28 June 2012, the composition of the PZU Supervisory Board was as follows:

- Waldemar Maj Supervisory Board Chairman;
- Zbigniew Ćwiąkalski Supervisory Board Deputy Chairman;
- Tomasz Zganiacz Supervisory Board Secretary;
- Dariusz Daniluk Supervisory Board Member;
- Zbigniew Derdziuk Supervisory Board Member;
- Dariusz Filar Supervisory Board Member;
- Włodzimierz Kiciński Supervisory Board Member;
- Alojzy Nowak Supervisory Board Member;
- Maciej Piotrowski Supervisory Board Member.

The current term of office of the PZU Supervisory Board started on 30 June 2011 and will end after three full consecutive financial years. Mandates of the Supervisory Board members will expire no later than on the date of holding the Shareholder Meeting approving the financial statements for the most recent full financial year of discharging their function, i.e. on the date of the Ordinary Shareholder Meeting in 2015.

Operation and powers of the Supervisory Board as stated in the Articles of Association

The Supervisory Board conducts constant oversight over the Company's operations in all areas of its activity. According to the Articles of Association, the powers of the Supervisory Board include:

- evaluating the Management Board's Activity Report and the financial statements for the previous financial year in terms of their compliance with the accounting ledgers and documents as well as the actual state of affairs;

- evaluating Management Board's motions on the distribution of profit or coverage of loss;

- submitting a written report to the Shareholder Meeting on the results of the evaluation mentioned in the above items and submitting a concise annual evaluation of the Company's standing with an assessment of its internal control system and the Company's system for managing significant risks and an annual report on the Supervisory Board's work;

- concluding, terminating and amending agreements with Management Board members and setting the rules for their compensation;

- appointing, suspending and dismissing the President of the Management Board, Management Board members or the entire Management Board and making decisions to discontinue such a suspension;

- granting consent to transfer the entire or part of an insurance portfolio,

- accepting motions submitted by the Management Board to purchase, subscribe for or sell ownership interest and shares in companies and on the Company's participation in other entities – the Supervisory Board may define the maximum amount, the terms and conditions and the procedure that the Management Board may use to conduct the foregoing activities without obtaining the acceptance of the Supervisory Board;

- delegating Supervisory Board members to perform temporarily the duties of Management Board members, who were dismissed, resigned or who cannot perform their duties for any other reason;

- accepting instructions for the Company representatives to vote at Shareholder Meetings of PZU Życie in the following matters: increasing and decreasing the share capital, issuing bonds, selling and leasing PZU Życie's enterprise and establishing a usufruct right on the enterprise, splitting PZU Życie, merging PZU Życie with another company, liquidating or dissolving PZU Życie;

- selecting an entity authorized to audit financial statements to audit the Company's annual financial statements;

- establishing the consolidated text of the amended Articles of Association;

- approving the Company's long-term development plans and annual financial plans prepared by the Management Board;

- approving the Management Board bylaws;

- examining and giving opinions on the matters submitted by the Management Board to the Shareholder Meeting;

The powers of the Supervisory Board additionally include giving consent for:

- a purchase or sale of real property, perpetual usufruct right or a share in real property or a perpetual usufruct right whose value exceeds the equivalent of EUR 3 million;

- the Company entering with a related entity into a material agreement within the meaning of the Regulations on current and periodic information, excluding typical agreements executed by the Company on an arm's length basis within the framework of its operating activity (the requirement to obtain consent in this respect will come into effect on the date of first quotation of the Shares on the WSE);

- the Company concluding an agreement with an underwriter mentioned in art. 433 § 3 of the Commercial Company Code;

- disbursement of an advance payment towards the dividend planned;

- establishing or dissolving regional branches and foreign branches.

The Supervisory Board adopts Supervisory Board Bylaws specifying its organization and method for performing its actions. According to the Articles of Association, Supervisory Board meetings are held at least once per quarter. The Supervisory Board may delegate its members to perform specific oversight functions independently and set up to this end permanent or temporary committees. The scope of activity of a delegated Supervisory Board member and a committee will be defined by a Supervisory Board resolution.

Supervisory Board resolutions are adopted by an absolute majority of votes. In the event of a tie vote, the Supervisory Board Chairman has the casting vote. The Supervisory Board may adopt resolutions by using direct means of remote communication and in writing by distribution. The Articles of Association additionally provide for the possibility of voting in writing through another Supervisory Board member. According to the Articles of Association, Supervisory Board resolutions are adopted in an open ballot, except for the resolutions concerning the selection of the Chairman, Deputy Chairman and Secretary of the Supervisory Board, delegation of Supervisory Board members to act temporarily as Management Board members and on the appointment, suspension and dismissal of the President of the Management Board, Management Board members or the entire Management Board, and on making decisions on ceasing such suspension, which are adopted in a secret ballot. Moreover, a secret ballot can be ordered upon request of a Supervisory Board member.

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Operation and powers of the Supervisory Board as stated in Supervisory Board Bylaws

On 9 October 2012, the Supervisory Board adopted the new Bylaws of the PZU Supervisory Board. The Supervisory Board Bylaws define the composition and the manner of appointing the Supervisory Board and the method for convening and conducting Supervisory Board meetings.

The Supervisory Board elects the Chairman and Deputy Chairman of the Supervisory Board from among its members; it may also elect the Supervisory Board Secretary from among its members. Pursuant to Supervisory Board Bylaws, in addition to the appointment of the Audit Committee and the Nomination and Compensation Committee as envisaged in the Articles of Association, in order to properly perform its supervisory duties, the Supervisory Board may appoint other permanent advisory and consultative committees with powers, composition and working procedure defined in bylaws of such committee adopted by the Supervisory Board Supervisory Board Bylaws provide for the possibility of the Supervisory Board and its appointed committees to use services of experts and advisory firms. The Company Management Board members and Company employees relevant for the matter discussed at the meeting, named by the Management Board and invited by the Supervisory Board, and other persons invited by the Supervisory Board may attend Supervisory Board meetings without a voting right. The Supervisory Board of PZU may also invite members of management boards or supervisory boards of other PZU Group companies to hold a joint meeting for a specified purpose.. Moreover, Supervisory Board members have the right, upon approval of the Supervisory Board, to select only one advisor authorized to attend Supervisory Board meetings devoted to reports and financial statements with an advisory vote, provided that such a person maintains confidentiality and signs a confidentiality undertaking.

Committees operating within the Supervisory Board

Audit Committee

The Articles of Association provide for the Supervisory Board appointing the Audit Committee. The Committee is composed of three members, including at least one independent member holding accounting or financial audit qualifications. Detailed tasks and rules of appointment and activity of the Audit Committee are specified by a resolution of the Supervisory Board which, when selecting Audit Committee members, takes into consideration the competences and experience of the candidates in the matters entrusted to the Committee.
Pursuant to the Audit Committee Bylaws adopted by resolution of the PZU SA Supervisory Board, the Audit Committee has an advisory and consultative role for the Supervisory Board and has been appointed to increase efficiency of supervisory activities performed by the Supervisory Board in the area of examining correctness of financial reporting, efficiency of the internal control system, including internal audit and risk control system. Moreover, the Audit Committee may request the Supervisory Board to commission the performance of specific inspection activities in the Company, while the commissioned inspection may be performed by an internal unit or an external entity.

The Audit Committee was established by the Supervisory Board resolution on 3 June 2008. As at 1 January 2012, the Audit Committee was composed of: Marzena Piszczek (Committee Chairperson), Dariusz Filar (Committee Member), Dariusz Daniluk (Committee Member). Dariusz Filar was named by the Supervisory Board as an independent member with competence in the area of accounting or financial audit within the meaning of Article 86 sec. 4 of the Act on Chartered Auditors.

On 30 May 2012, the Ordinary Shareholder Meeting of PZU dismissed the chairwoman of the PZU Supervisory Board’s Audit Committee from the Supervisory Board. Consequently, at the PZU SA Supervisory Board meeting on 28 June 2012, Tomasz Zganiacz was added to the Audit Committee and Dariusz Filar was appointed to the position of the Chairman fo the PZU Supervisory Board Audit Committee.

As at 28 June 2012, the Audit Committee was composed of: Dariusz Filar (Committee Chairman), Tomasz Zganiacz (Committee Member) and Dariusz Daniluk (Committee Member). As at 31 December 2012, the composition of the Audit Committee has not changed.

Nomination and Compensation Committee

Pursuant to the Supervisory Board Bylaws, upon introduction of the Company's shares into trading on the regulated market within the meaning of the Act on Trading, the Supervisory Board can appoint a Nomination and Compensation Committee. According to the Articles of Association, detailed tasks and rules of appointment and operation of the Nomination and Compensation Committee are defined by the Supervisory Board in a resolution. The committee should include at least one independent member. In the event that the elected Supervisory Board is composed of 5 members, the Nomination and Compensation Committee will not be established and its tasks will be performed by the Supervisory Board in its full composition. The Nomination and Compensation Committee is an advisory and consultative body to the Supervisory Board with regard to the governance structure, including organizational matters, remuneration system and remunerations and selection of staff with appropriate qualifications.

The Supervisory Board has decided that the Nomination and Compensation Committee will consist of four people. On 30 June, the Supervisory Board appointed the following Nomination and Compensation Committee: Zbigniew Ćwiąkalski (Committee Chairman), Marzena Piszczek (Committee Member), Zbigniew Derdziuk (Committee Member), Dariusz Filar (Committee Member). As at 1 January 2012 the composition of the Nomination and Compensation Committee has not changed. In connection with Marzena Piszczek's dismissal from the PZU Supervisory Board by the Shareholder Meeting, it was decided at the PZU Supervisory Board meeting held on 28 June that the Committee will consist of 5 people; Zbigniew Ćwiąkalski was appointed as the Chairman and Zbigniew Derdziuk, Dariusz Filar, Maciej Piotrowski and Tomasz Zganiacz as Committee members. As at 31 December 2012 the composition of the Committee has not changed.

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

Strategic Committee

To ensure correct performance of supervisory functions in the Company, the Supervisory Board may establish standing committees to provide consultative and advisory services. On 30 June 2011, the Supervisory Board appointed the Strategic Committee in the following composition: Waldemar Maj (Committee Chairman), Krzysztof Dresler (Committee Member), Marzena Piszczek (Committee Member) and Zbigniew Derdziuk (Committee Member). As at 1 January 2012 the composition of the Strategic Committee has not changed. In connection with the resignation of Krzysztof Dressler from the function of a PZU Supervisory Board Member tendered on 30 June 2012 and other changes in the composition of the PZU Supervisory Board made by the Shareholder Meeting on 30 May 2012, at the PZU Supervisory Board meeting held on 28 June 2012, Alojzy Nowak and Maciej Piotrowski were appointed the Strategic Committee as its members. As at 31 December 2012 the composition of the Committee has not changed.

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

Description of the primary attributes used in the issuer's enterprise, internal control and risk management systems in reference to preparing financial statements and consolidated financial statements

The process of preparing financial statements is conducted in the PZU Finance Division, with PZU Head Office Departments (including the Accounting Department) and centralized units operating on the basis of the relevant bylaws. The PZU Finance Division is supervised by a Member of the PZU Management Board.

The elements enabling the process include: the accounting policy adopted by the PZU Management Board, the company chart of accounts with commentary and other detailed internal documents defining the key principles governing the registration of economic events at PZU and dedicated reporting systems.

Data preparation in source systems is subject to formalized operating and approval procedures which define the scope of powers of the individual users. The reporting process is executed by competent personnel with adequate knowledge and experience. PZU monitors amendments to external regulations affecting among others the accounting policy and reporting requirements for insurance companies; it also conducts appropriate adjustment processes in those areas.

The process of closing the ledgers and preparing financial statements is regulated by detailed schedules covering the key actions and checkpoints and accountability for timely and correct performance.

The key checks in the financial statements preparation process include:

- checks and continuous monitoring of input data quality, supported by the financial systems with defined data correctness rules in accordance with the internal acts adopted in PZU that regulate the rules for checking correctness of accounting data;

- data mapping from source systems to financial statements, which supports the correct presentation of data;

- analytical review of financial statements by specialists to verify them against the knowledge of the business and economic transactions;

- formal review of financial statements to confirm their comliance with the applicable legal regulations and market practices regarding the required disclosures.

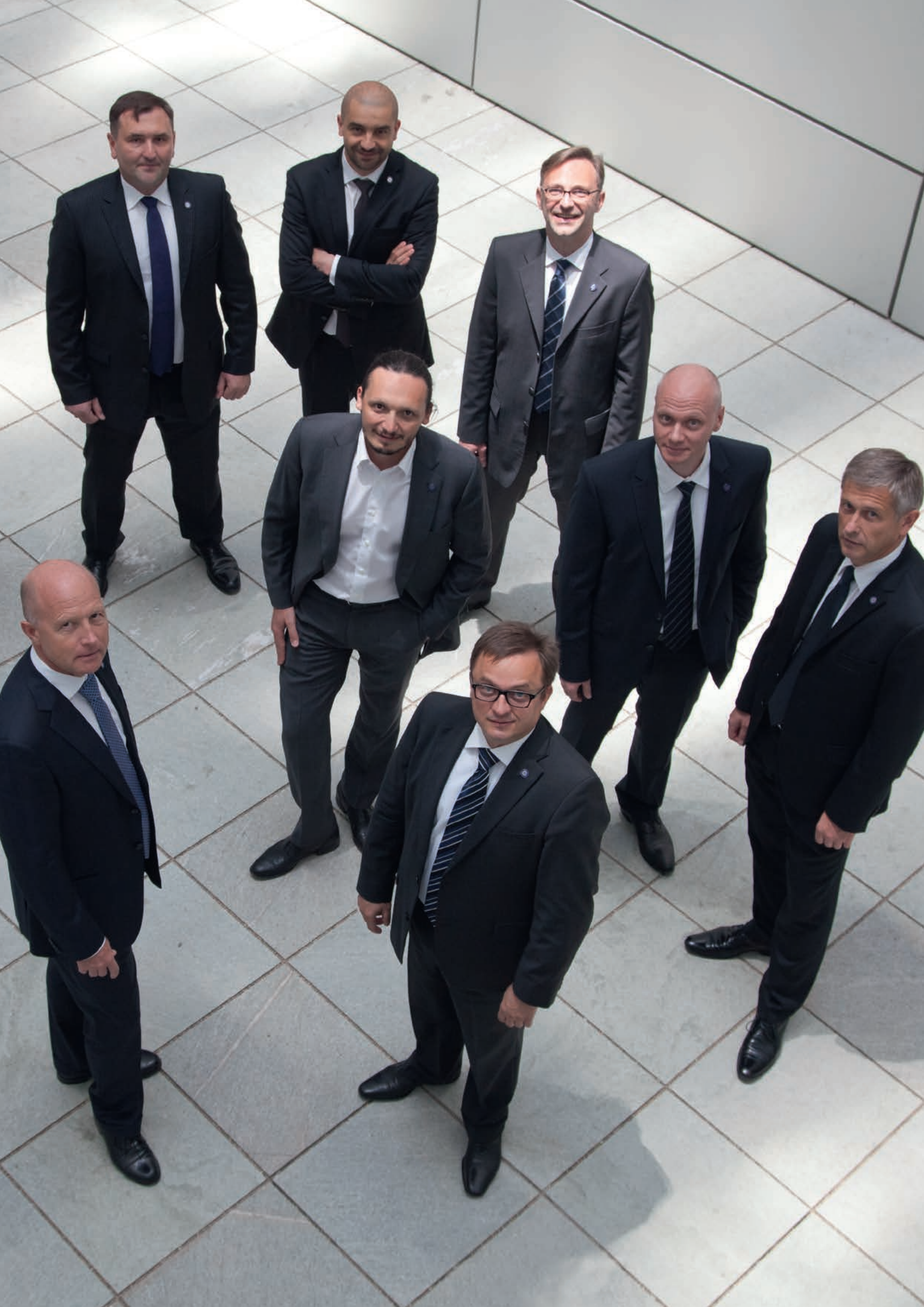
The organization and correctness of the financial statement preparation process is examined periodically by PZU's internal audit function.

According to the Articles of Association of PZU, the PZU Supervisory Board appoints the Audit Committee consisting of three members, of which at least one with accounting or financial audit competence within the meaning and in accordance with the requirement of the act on chartered accountants. The Audit Committee has an advisory and consultative role for the PZU Supervisory Board and has been appointed to increase efficiency of supervisory activities performed by the PZU Supervisory Board in the area of examining correctness of PZU's financial reporting, efficiency of the internal control system, including internal audit and risk control system.

The chartered accountant selected by teh PZU Supervisory Board based on a recommendation of the Audit Committee reviews PZU's semi-annual standalone and consolidated financial statements and audits PZU's annual standalone and consolidated financial statements.

11 Consolidated financial statements (selected items)

The Annual Report of PZU and the consolidated annual report of the PZU Group in the full version published pursuant to the Act on Offerings are available on the Company's website www.pzu.pl, in the "Investor Relations" section, "Annual Reports"chapter.



Accuracy and reliability of presented financial statements

According to the best knowledge of the PZU Management Board, the consolidated financial statements of the PZU Group and the comparative data were prepared in accordance with the prevailing accounting principles, and they truly, reliably, and clearly reflect the asset and financial standing of the PZU Group and its financial result and the Management Board's activity report contains a true image of development and achievements of the PZU Group and its standing, including a description of key threats and risks;

Selection of an entity authorized to audit financial statements

The Management Board of PZU hereby represents that the entity authorized to audit the financial statements, Deloitte Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa, which audited the consolidated financial statements, has been selected in accordance with the law and that entity and the auditors who audited the statements satisfied the requirements for expressing an impartial and independent opinion on the audited consolidated financial statements in accordance with the applicable law and professional standards.

Highlights of the consolidated financial statements

Table 18. Consolidated statement of financial position of the PZU Group (000s of PLN)

Assets	PLN 000s As at 31 Dec 2012	PLN 000s As at 31 Dec 2011
Intangible assets	183,238	166,038
Goodwill	8,474	8,716
Property, plant and equipment	992,317	1,055,381
Investment property	564,404	534,222
Financial assets		
Financial instruments held to maturity	21,117,559	21,659,505
Financial instruments available for sale	3,924,501	7,851,903
Financial instruments carried at fair value through profit or loss	15,628,401	10,814,619
Loans	9,752,615	6,449,332
Receivables, including receivables under insurance contracts	1,835,793	1,734,636
Reinsurers' share in technical provisions	749,334	700,713
Estimated salvage and subrogation	121,632	83,117

Assets	PLN 000s As at 31 Dec 2012	PLN 000s As at 31 Dec 2011
Deferred income tax assets	13,963	8,600
Current income tax receivables	80,646	8,582
Deferred acquisition expenses	574,489	569,843
Prepayments and accruals	94,942	125,890
Other assets	83,704	120,461
Cash and cash equivalents	136,586	237,724
Assets related to continuing operations	**55,862,598**	**52,129,282**
Assets available for sale	46,962	-
Total assets	**55,909,560**	**52,129,282**

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Liabilities and equity	PLN 000s As at 31 Dec 2012	PLN 000s As at 31 Dec 2011
Equity		
Issued share capital and other capital attributable to parent's shareholders		
Share capital	86,352	86,352
Other capital	9,105,450	7,948,386
Reserve capital	8,780,212	7,711,818
Revaluation reserve	363,242	268,831
Conversion FX differences	(38,004)	(32,263)
Retained earnings	4,998,329	4,748,424
Profit (loss) carried forward	1,743,148	2,403,000
Net profit (loss)	3,255,181	2,345,424
Non-controlling interest	79,138	86,343
Total capital	**14,269,269**	**12,869,505**
Liabilities		
Technical provisions		
Provision for unearned premium and unexpired risk	4,537,167	4,521,396
Provision for life insurance	15,675,243	14,595,112
Provision for unpaid claims	5,878,445	5,429,481
Provision for capitalized value of annuity claims	5,660,281	5,088,626
Provision for bonuses and rebates for the insureds	4,227	7,192
Other technical provisions	531,617	581,155
Technical provisions for life insurance if the policyholder bears the investment risk	3,113,798	2,299,767

Liabilities and equity	PLN 000s As at 31 Dec 2012	PLN 000s As at 31 Dec 2011
Investment contracts		
- with guaranteed and fixed terms	1,297,224	2,330,870
- for the client's account and risk	1,001,923	1,140,902
Provisions for employee benefits	60,649	255,576
Other provisions	267,456	322,063
Deferred income tax reserve	357,557	109,716
Current income tax liabilities	21,658	7,570
Derivatives	129,921	93,443
Other liabilities	2,420,155	1,789,951
Accruals and deferred income		
Accrued expenses	672,550	669,048
Deferred income	10,420	17,909
Liabilities related to continuing operations	**41,640,291**	**39,259,777**
Total liabilities	**41,640,291**	**39,259,777**
Total Liabilities and Equity	**55,909,560**	**52,129,282**

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Table 19. Consolidated profit and loss account of the PZU Group (000s of PLN)

Consolidated profit and loss account	PLN 000s 1 Jan - 31 Dec 2012	PLN 000s 1 Jan - 31 Dec 2011
Gross written insurance premium	16,243,131	15,279,262
Reinsurers' share in gross written insurance premium	(237,276)	(285,386)
Net written premium	**16,005,855**	**14,993,876**
Movement in the net unearned premium reserve	(615)	(103,348)
Net earned premium	**16,005,240**	**14,890,528**
Fee and commission income	237,102	281,351
Net investment income	2,047,054	1,970,254
Net result on the realization of investments and impairment charges	521,268	(187,247)
Net change in the fair value of assets and liabilities carried at fair value	1,136,407	(189,181)
Other operating income	588,028	485,481
Claims and movement in technical provisions	**(12,371,298)**	**(10,373,521)**
Claims and movement in insurance liabilities ceded to re-insurers	152,567	152,399
Net insurance claims	(12,218,731)	(10,221,122)
Claims and changes in valuation of investment contracts	(176,780)	32,512
Acquisition expenses	(2,000,351)	(1,961,986)
Administrative expenses	(1,440,301)	(1,383,897)

Consolidated profit and loss account	PLN 000s 1 Jan - 31 Dec 2012	PLN 000s 1 Jan - 31 Dec 2011
Other operating expenses	(618,738)	(759,966)
Operating profit (loss)	**4,080,198**	**2,956,727**
Financial costs	(41,490)	(49,152)
Gross profit (loss)	**4,038,708**	**2,907,575**
Income tax		
- current part	(568,541)	(826,397)
- deferred part	(216,341)	262,769
Net profit (loss) on continuing operations	3,253,826	2,343,947
Net profit (loss), including	**3,253,826**	**2,343,947**
- profit (loss) attributed to holders of parent's equity	3,255,181	2,345,424
- profit (loss) attributed to holders of non-controlling interest	(1,355)	(1,477)
Net profit (loss) on continuing operations	3,255,181	2,345,424
Net profit (loss) on discontinued operations	-	-
Basic and diluted weighted average number of common shares	86,352,300	86,352,300
Basic and diluted earnings (losses) on continuing operations per common share (in PLN)	37.70	27.16
Basic and diluted earnings (losses) on discontinued operations per common share (in PLN)	-	-
Basic and diluted earnings (losses) per common share (in PLN)	37.70	27.16

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Table 20. Consolidated statement of comprehensive income (000s of PLN)

Consolidated Statement of Comprehensive Income	PLN 000s 1 Jan - 31 Dec 2012	PLN 000s 1 Jan - 31 Dec 2011
Net profit (loss)	3,253,826	2,343,947
Other comprehensive income	88,660	(116,887)
To be reclassified to profit or loss in the future	88,660	(116,887)
Financial assets available for sale	77,654	(162,649)
Conversion FX differences	(5,751)	6,550
Reclassification of real property from property, plant and equipment to investment property	16,757	39,212
Total net comprehensive income	**3,342,486**	**2,227,060**
- comprehensive income attributed to holders of parent's equity	3,343,851	2,228,523
- comprehensive income attributed to the equity component of agreements with a discretionary participation feature	-	-
- comprehensive income attributed to holders of non-controlling interest	(1,365)	(1,463)

Table 21. Statement of Changes in Consolidated Equity (000s of PLN)

	Capital and provisions attributed to holders of the parent's equity							Non-controlling interest	Total Equity
		Other capital			Retained earnings				
	Share capital	Reserve capital	Revaluation reserve	Conversion FX differences	Profit (loss) carried forward	Net profit (loss)	Total		
Balance as at 1 Jan 2012	**86,352**	**7,711,818**	**268,831**	**(32,263)**	**4,748,424**	**-**	**12,783,162**	**86,343**	**12,869,505**
Change in the value of financial instruments available for sale	-	-	77,654	-	-	-	77,654	-	
Conversion FX differences	-	-	-	(5,741)	-	-	(5,741)	(10)	(5,751)
Reclassification of real property from property, plant and equipment to investment property	-	-	16,757	-	-	-	16,757	-	
Total net increases (decreases) recognized directly in capital (after income tax)	**-**	**-**	**94,411**	**(5,741)**	**-**	**-**	**88,670**	**(10)**	
Net profit (loss) of the financial year	-	-	-	-	-	3,255,181	3,255,181	(1,355)	3,253,826
Total increases (decreases)	**-**	**-**	**94,411**	**(5,741)**	**-**	**3,255,181**	**3,343,851**	**(1,365)**	
Other changes, including:	**-**	**1,068,394**	**-**	**-**	**(3,005,276)**	**-**	**(1,936,882)**	**(5,840)**	
Distribution of financial result	-	1,068,113	-	-	(3,004,995)	-	(1,936,882)	(5,860)	
Other	-	281	-	-	(281)	-	-	20	
Balance as at 31 Dec 2012	**86,352**	**8,780,212**	**363,242**	**(38,004)**	**1,743,148**	**3,255,181**	**14,190,131**	**79,138**	

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Table 22. Consolidated cash flow statement (000s of PLN)

	PLN 000s 1 Jan - 31 Dec 2012	PLN 000s 1 Jan - 31 Dec 2011
Cash flow on operating activity		
Inflows	19,384,276	19,725,868
- inflows from gross insurance premiums	16,324,691	14,929,349
- inflows from investment contracts	1,859,439	3,054,350
- inflows from reinsurance commissions and profit-sharing	13,967	20,513
- payments received from reinsurers for their share of claims paid	133,668	385,775
- inflows from acting as an emergency adjuster	230,235	220,906
- other operating inflows	822,276	1,114,975
Outflows	(18,155,919)	(18,138,296)
- insurance premiums paid for reinsurance	(196,190)	(174,369)
- commissions paid and profit-sharing on inward reinsurance	(2,521)	(4,679)
- gross claims paid	(8,901,396)	(9,026,567)
- claims paid on investment contracts	(3,186,306)	(3,068,852)
- acquisition outflows	(1,524,373)	(1,483,488)
- administrative outflows	(2,137,169)	(2,073,279)
- interest outflows	(65)	(146)

	PLN 000s 1 Jan - 31 Dec 2012	PLN 000s 1 Jan - 31 Dec 2011
- income tax payments	(664,465)	(904,071)
- payments for acting as an emergency adjuster	(439,757)	(423,401)
- other operating outflows	(1,103,677)	(979,444)
Net cash flow on operating activity	**1,228,357**	**1,587,572**
Cash flow on investing activity		
Inflows	360,665,055	259,765,786
- sale of investment property	-	13,282
- inflows from investment property	8,594	8,763
- sale of intangible assets and components of property, plant and equipment	13,917	27,905
- sale of ownership interests and shares	3,379,218	4,372,949
- realization of debt securities	56,717,604	65,465,651
- realization of debt securities issued in buy-sell-back transactions	149,885,455	56,898,259
- liquidation of term deposits in credit institutions	139,511,297	130,812,922
- realization of other investments	9,679,935	1,614,486
- interest received	1,336,736	450,899
- dividends received	131,507	98,101
- increase in cash due to consolidation of new entities	792	2,569

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Glossary

ALMC (Polish: KZAP – Asset and Liability Management Committee)	Asset and Liability Management Committee
Bancassurance	sale of insurance products through a bank's distribution channels
Benefit	the amount paid by the insurer by virtue of insurance in the event of the occurrence of an event contemplated by an insurance contract
Ceding company	person assigning a liability to a buyer. See "cession"
Cession	in the insurance industry ordinarily denotes the transfer of a portion of risk by an insurer to a reinsurer by means of a reinsurance treaty or the assignment of rights stemming from an insurance contract to a third party
Facultative reinsurance	reinsurance in which the ceding company transfers particular risks or a group of risks individually to a reinsurer, in every instance facilitating an assessment thereof, unfettered agreement of terms and conditions (including risk quotation) and the shares
Gross loss ratio	ratio of claims and benefits, including movement in the balance of provisions for unpaid claims and benefits, to earned premium
Gross written premium	amounts of gross premiums due by virtue of the insurance contracts executed in a reporting period regardless of whether these amounts have been remitted. Presented before giving consideration to the reinsurers' share
Insurance Activity Act	Insurance Activity Act of 22 May 2003 (consolidated text, Journal of Laws of 2010, No. 11, Item 66 as amended)
Insurance agent	entrepreneur performing agency activity pursuant to a contract concluded with an insurance undertaking. The activity of agents concentrates on acquiring clients, executing insurance contracts, participating in administering and performing insurance contracts and organizing and overseeing agency activities
Insurance broker	entity holding a permit to conduct brokerage activity. Acts on behalf or in favor of an entity seeking insurance cover
Insurance Guarantee Fund	fund specified by the Act of 22 May 2003 on Compulsory Insurance, the Insurance Guarantee Fund and the Polish Motor Insurers' Bureau (Journal of Laws of 2003, No. 124, Item 1152, as amended)
Insurance premiums	total value of direct and indirect insurance premiums adjusted by riders and additional contributions as well as by refunds, rebates, price reductions and other discounts
Inward reinsurance	reinsurance activity entailing a reinsurer or reinsurers accepting a portion of the insurance or groups of insurance yielded by the ceding company
IRSA (Polish: IKZE – Individual Retirement Security Account)	one of the forms of saving for retirement under the third pillar of insurance
LTRO (Long-Term Refinancing Operation)	low interest rate loans to commercial banks extended by the European Central Bank for a term of 36 months

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MTSBU (Ukrainian: Моторне (транспортне) страхове бюро України)	Motor Insurance Bureau of Ukraine
Non-life insurance	property and casualty insurance covered by Section Two
Non-proportional reinsurance	type of reinsurance in which the object of cession is a loss or a loss ratio; in consideration for its share in a loss or a loss ratio the reinsurer receives a suitable payment (fee for cover)
Obligatory reinsurance	reinsurance according to which the ceding company is obligated to cede the risks defined by the treaty while the reinsurer is obligated to accept the cession of these risks in accordance with the agreed limits and conditions
Offering Act	Act of 29 July 2005 on Public Offering and the Conditions for Introducing Financial Instruments on an Organized Trading System and on Public Companies (i.e. Journal of Laws of 2009, No. 185, Item 1439 as amended)
Outward reinsurance	reinsurance activity entailing an insurer (ceding company) yielding a portion of the executed insurance contracts to a reinsurer / reinsurers in the form of a reinsurance treaty
PPE	Employee retirement programs
Provisions	technical provisions designated to cover the current and future obligations that may stem from the executed insurance contracts
PZU, Company, Undertaking	Powszechny Zakład Ubezpieczeń SA with its registered office in Warsaw
Reference rate	minimum yield on 7-day cash bills issued by the National Bank of Poland
Reinsurance	Yielding all or a portion of an insured risk or a group of risks along with the commensurate portion of the premiums to some other insurance undertaking – a reinsurer. As a result of reinsurance, there is a secondary split of the risks making it possible to minimize the risks to the insurance market
Reinsurance treaty	document precisely stating the rights and duties of the parties to the treaty: the ceding company and the reinsurer
Reinsurer	entity conducting reinsurance activity involving the acceptance of all or part of an insured risk or a group of insured risks along with the suitable part of the premiums from ceding companies
S&P rating	credit risk assessment performed by Standard & Poor's. An A rating means that issuers of debt securities have a high capability of servicing their obligations giving consideration to the emergence of factors diminishing that capability. A company's rating cannot exceed the sovereign rating of the country by whose legislation it is governed
Section One	life insurance according to the classification used in the Insurance Activity Act. Life insurance, juvenile, annuity and accident insurance, etc. are classified as life insurance
Section Two	non-life insurance according to the classification used in the Insurance Activity Act

Solvency	European Union project aiming at creating a solvency system giving consideration to the risk profile to which insurance undertakings and reinsurance undertakings are exposed in connection with the business they pursue
Solvency II Directive	The Solvency II Directive was enacted in 2009 and published in the Official Journal of the European Union (series L) on 17 December 2009 as "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) (recast) (Text with EEA relevance)" – OJ L 335, 17.12.2009
Solvency margin coverage ratio	statutory ratio specifying the level of capital security for the business conducted by an insurer; by law, this ratio should be above 100%
Sum insured	the cash amount for which an insured object is insured. In non-life insurance the sum insured ordinarily constitutes the upper limit of the insurer's liability
TPL insurance	third party liability insurance
Trading Act	Act of 29 July 2005 on Trading Financial Instruments (i.e. Journal of Laws of 2010, No. 211, Item 1384 as amended)
Underwriting	process of selecting and classifying risks declared for insurance to estimate and accept, according to suitable terms and conditions, or reject an insurance risk
Unit-Linked Fund	separate pool of assets in unit-linked life insurance constituting a reserve invested in the method specified under the insurance contract
VaR – Value at Risk	measure of risk quantifying the potential economic loss that will not be exceeded in normal market conditions with a probability of 99.5% over a one year horizon
VoIP – Voice over Internet Protocol	technique supporting the transfer of audio via internet circuits
WIBOR – Warsaw Inter Bank Offered Rate	interest rate used on the Polish interbank market for interbank loans

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