2014 PZU Group's Annual Report

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16 million
customers in PZU Group in Poland

Ranked 1st
in Poland in terms of gross written premium in non-life insurance

91.5%
customer satisfaction rating with the claims handling process

9.1 thous.
agents in the tied agent network

13.1%
share in the open-end pension fund market, by assets value

PLN 3.0 bn
Group net profit in 2014

Ranked 1st
in Poland in terms of gross written premium in life insurance

Ranked 1st
in Poland among mutual fund companies, by net assets value

33.0%
share in non- life insurance market in Poland after Q3 2014

42.9%
share in life insurance market in Poland, by regular premium after Q3 2014

22.6%
return on equity 2014

11.3 thous.
FTEs in the PZU and PZU Życie

95.7%
combined ratio (COR) in non-life insurance

Ranked 1st
in Lithuania and Latvia in terms of gross written premium in non-life insurance

Andrzej Klesyk CEO of PZU

The level of gross written premium grew in 2014 by 2.5% from the previous year to PLN 16,884.6 million.

This was another consecutive year which saw the rise of PZU insurance sales.

Dear All,

On behalf of the Management Boards of PZU Group companies, I hereby present the Management's Report of PZU Capital Group for the year 2014.

The period for the realisation of PZU Group's strategy for the years 2012-1014 focusing around PZU 2.0 concept is now over. The strategy defined the vision of PZU development. Thanks to its strong customer-orientation and high operational efficiency, PZU Group will continue to be the largest and the most profitable insurance group in the region. The year 2014 concluded the realisation of these goals with a strong accent.

PZU Group expanded internationally and became a leader in Central and Eastern Europe through the acquisitions of considerable assets of RSA Insurance Group. The acquisitions included among others Link4 and the largest insurance entities on the Lithuanian and Latvian markets.

The year 2014 also saw the development of several pro-customer solutions. In April, PZU Group introduced the direct claims handling service, a breakthorugh in the Polish market. In early July, the next stage of Everest project was concluded and, in October, PZU opened Poland's first own fleet of hybrid replacement cars and thus revoultionising their market.

Another noteworthy event was the record-setting issue of bonds valued at EUR 500 million. This operation was an important element of PZU Group's asset and liability management strategy.

However, numbers and results are equally as important as the realised projects, and the ones we achieved in 2014 and in the previous years place PZU Group among the most profitable institutions in the country and in Europe.

Last year, PZU Group's net income reached PLN 2,968 million despite the unfavourable economic and regulatory conditions which led to the increase in claims and benefits and certain provisions. Other factors with considerable impact on result during the year were the increase in the net investment result and slightly declined profitability of the insurance business.

However, the level of the collected gross written premium grew in 2014 by 2.5% from the previous year to PLN 16,884.6 million. This was another consecutive year which saw the rise of the PZU insurance sales.

The net investment result is also consequently growing. In 2014, it amounted to PLN 2,733.5 million and was 8.7% higher than in 2013. Moreover, revenues from fees and commissions grew by 17.2%.

The high return on PZU Group's equity continues to provide reason for satisfaction. The 2014 ROE amounted to 22.6% and was only 1.5 p.p. lower than in the record-setting year of 2013.

In the upcoming years 2015-2020 we will focus on the realisation of PZU 3.0 strategy. Its main goals include taking PZU Group to the leadership in all of its key businesses: insurance, investments and private health care. I believe that the foundations built over the recent years will make this period a success.

At this point, I would like to thank our employees and agents for their efforts in building PZU value.

Yours faithfully,

Andrzej Klesyk

CEO of PZU

The past 12 months were the final stage of PZU 2.0 strategy assumed for the years 2012-2014, and crowned with success.

I am convinced that the established foundations will allow for the effective realisation of the new PZU 3.0 strategy.

Aleksandra Magaczewska Chairperson of the Supervisory Board of PZU

Dear All,

2014 was another year in PZU Group's history which saw its leadership in the dynamic domestic and regional insurance market. The past 12 months were also the final stage of the realization of PZU 2.0 strategy assumed for the years 2012-2014 and crowned with success.

The year 2014, was demanding for business operation, because insurance companies were experiencing not just the pressure of the changing economic conditions, but also were preparing for the implementation of the Solvency II directive's requirements which will come into force on 1st January 2016.

Additionaly, the price war also played a considerable role which affected the premium level and profitability of motor insurance, low interest rate environment, and growth of claims and benefits for the insured.

Despite these conditions, PZU Group was able to produce a profit similar to that of the previous year and increase the gross written premium from 2013 by PLN 400 million.

PZU Group's financial results in the last year were considerably affected particularly by the declined profitability in the mass and corporate insurance segment and the simultaneous increase in the profitability of the group and individually continued insurance, as well as the higher investment net result.

At this point, I am pleased to inform you that 16 million Polish customers used the Group's services last year. Considering the fact that a statistical Pole continues to spend on insurance five times less than an average European, the insurance industry in our country has great perspectives.

The shareholders were surely glad to learn that PZU and PZU Życie retained their high rating awarded by Standard & Poor's. The granted "A" category for stable perspectives confirm the excellent financial conditions of both entities.

I would like to thank the Management Boards and employees of PZU Group for their vision, commitment, and effective work which build the measurable value of the PZU brand. We hope that the first signs of economic improvement that appeared in 2014 will continue this year. This concerns GDP growth, dropping unemployment, or household consumption. This will create even better conditions for the development of all PZU Group businesses. I am convinced that the foundations established over the recent years will allow for the effective realisation of the new PZU 3.0 strategy. And that is what I wish us all in 2015.

Yours faithfully,

Aleksandra Magaczewska

Chairperson of the Supervisory Board of PZU

We are the

number 1 insurer in Poland

and the market leader in non-life insurance in Lithuania and Latvia

01

Brief overview of PZU Group

The Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna (PZU Group) is one of the largest financial institutions in Poland and in Central and Eastern Europe. PZU is its leading insurance company. Offering a comprehensive range of insurance services, PZU Group satisfies the fundamental needs of 16 million customers in Poland in the area of security and stability. PZU Group is also an important player in other segments of the Polish financial market, such as investment fund companies, open pension funds, and employee pension plans. With each year, PZU Group expands its operations in Central and Eastern Europe. In 2014, PZU Group became the leader of the non-life insurance market in Lithuania, Latvia, and Estonia thanks to the acquisition of big local insurance companies.

Brief overview of PZU Group

33.0 %
Number one in the non-life insurance in Poland – market share

42.9 %
Number one in the life insurance in Poland – market share by regular premium

12.2 %
Number one in the ranking of mutual fund companies – share in net assets value

13.1 %
Number three in the open pension funds – share in OFE assets

30.9 %
Number one in non-life insurance in Lithuania (30.9 %) and Latvia (22.9%)

The Capital Group of Powszechny Zakład Ubezpieczeń SA (PZU Group) is one of the largest financial institutions in Poland and in Central and Eastern Europe. It is headed by a Polish insurance company, PZU SA (PZU, Issuer).

PZU Group is the leader in both non-life and life insurance on the Polish market. Innovativeness, ethics in operation and adaptation to the increasingly demanding market conditions constitute the basis for PZU's rapid expansion. The year 2014 saw a clear growing trend of PZU in the non-life insurance sector thanks to the changes made to customer service and the implementation of new solutions. Furthermore, PZU is planning on reaching a wider scope of clients thanks to its acquisition of the leader of the direct insurance market, i.e. Link4 – thus through the use of two brands.

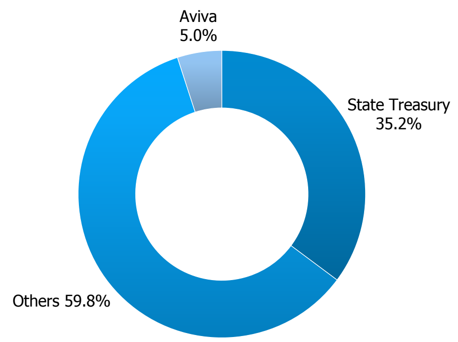
PZU Group is also an important player on other segments of the Polish financial market, such as investment fund companies, open pension funds, and employee pension plans.

PZU Group is also expanding its operations in health care. Other than the health insurance offer, the clients can also take advantage of PZU Group's own health care centres and a chain of partner centres (approximately 1,380 in total). From year to year, PZU Group is expanding its operations in Central and Eastern Europe. In 2014, the Group became the leader of the non-life insurance market in Lithuania and Latvia thanks to the acquisition of large local insurance companies. The organic development also strengthened its position on the fragmented Ukrainian insurance market.

PZU on the capital and debt market
The event, which became an additional catalyst for change and PZU's offensive turn towards modernity, was its IPO in 2010. The value of the public offer was almost 8.1 billion PLN and was the largest IPO not only in the history of the Polish capital market, but also in Central and Eastern Europe since the beginning of the economic transformations, as well as throughout the whole of Europe since 2007. PZU's shares have ended up on the accounts of 250 thousand individual investors.

PZU's strategic investor is the State Treasury, which, at the end of 2014, held a 35.2% share of the Issuer's share capital.

PZU shareholders' structure as of 31.12.2014



PZU has been distributing the profit generated to its shareholders since the start of its quotation. The company has a clearly defined dividend policy. The main objective of PZU Group's Capital and Dividend Policy for the Years 2013–2015, which was adopted in August 2013 and updated in May 2014, is to reduce the cost of capital by optimizing the balance sheet structure through the conversion of equity to cheaper external capital, while maintaining a high level of security and development funding.

The dividends paid out of the profits for 2010–2013 gave PZU's shareholders high dividend yields compared with other large stock market companies. A shareholder who acquired PZU's shares from the IPO in May 2010 increased his investment by 101.3% by the end of 2014.

In 2014, PZU Group released bonds in the amount of EUR 500 million in scope of optimising the financing and currency structures.

PZU – strong Customer orientation
PZU Group's products accompany individual customers at every stage of life and every stage of development of companies. PZU Group not only provides comprehensive insurance coverage in all major areas of private, public and business life, but also offers various forms of increasing savings, including the accumulation of funds for an additional retirement income. PZU Group is an innovator on the Polish financial market. It also offers a continually expanding range of health care services.

PZU Group satisfies the fundamental needs of 16 million customers in Poland in the area of security and stability, including 12 million customers in the area of group and individually continued life insurance.

In recent years, the relations between PZU Group and its clients have tightened. On average, the typical individual Polish client takes advantage of 1.5 of its products. At the same time, among our Customers for whom PZU is the main insurer, the NPS (Net Promoter Score) ratio, which account for the difference in the share of promoters and critics, amounted to 7.7% in 2014, which is two times higher than the average result of the competing companies.

PZU Group also supports the Polish economy as it insures big infrastructural projects such as investments in the energy industry, construction and modernisation of railway lines.

PZU is aiming to maintain the highest standards of service. It was the first institution in Poland to create a Voluntary Pension Fund and to propose Individual Pension Security Accounts. It is a precursor in the development of healthcare insurance and was the first to introduce medicine insurance to the Polish market. In 2014, the Group started to offer solutions unprecedented on the Polish market: direct claims handling and its own fleet of replacement cars, ecological hybrid vehicles.

PZU's customers have access to the largest sales and post-sale service system among Polish insurers. It includes

Protection of property and securing third party property against damage	Accident cover	Increasing savings	Securing the future of the family	Preparations for retirement	Health care
• Motor TPL and Motor own damage • Other property insurance • Financial insurance	• Accident insurance • Assistance services	• Structured products • Participation units in investment funds	• Group and individually continued protection products • Individual protection insurance	• Pillar II of the pension system – open-ended pension funds • Pillar III of the pension system (employment pension products-EPP, individual pension accounts – IKE and Individual Pension Security Accounts – IKZE)	• Health insurance • Medicine insurance • Healthcare services: general health care and additional services packages

KPI	2014	2013	2012	2011	2010
ROE	22.6%	24.1%	24.0%	18.3%	20.3%
Combined ratio (COR) for non-life insurance	95.7%	87.8%	92.8%	95.3%	104.5%
Group insurance profit margin*	25.9%	23.0%	24.5%	21.8%	n/a
Dividend Yield**	7.0%	11.1%	5.1%	8.4%	3.1%

* ratio measured to the gross written premium of the group and individually continued insurance segment, excluding one-off effects
** Advance dividend included in the year of payment

414 branches, 9.1 thousand exclusive agents, 3 thousand multiagencies and electronic distribution channels (call centre, the Internet). It is also implementing a modern IT system, with a view to building closer relationships with the multi-million group of its customers.

PZU strives to preserve the highest service standards, which covers regular and advanced surveys concerning customer satisfaction. In 2014, they showed that 91.5% of customers are satisfied with the claims handling process. The NPS (Net Promoter Score) among customers who experienced the claims handling process or received a payment of benefits, was as high as 26%. As many as 49% of customers indicated that they are active promoters of PZU.

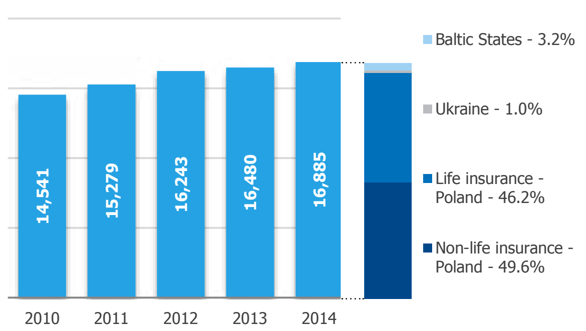
PZU – high operational efficiency

The financial results achieved by PZU Group in recent years place it among the most profitable financial institutions in the country. They simultaneously contribute to high performance ratios. In 2014, the return on equity was 22.6%. In 2014, the combined ratio (COR) GLOSSARY for non-life insurance was 95.7%.

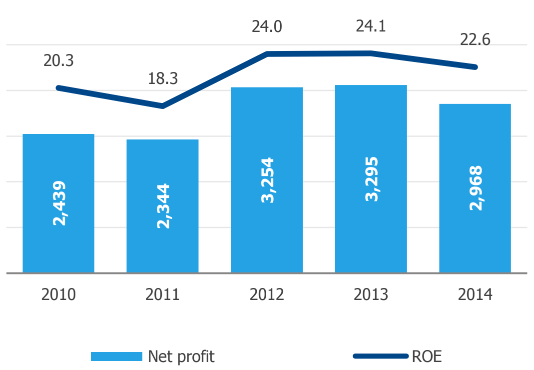
PZU Group complies with all safety standards of business. Equity amounted to PLN 13,167.6 million as at 31st December 2014. The solvency margin at both PZU and PZU Życie significantly exceeded the average for the insurance sector (according to Solvency I). The level of 291.2% for PZU Group also exceeded the average values of the big European insurance companies. The decrease in the ratio resulted from the implementation of the capital and dividend policy.

PZU's insurance portfolio is not exposed to concentration risk. This arises from the high level of diversification of the portfolio. It largely consists of a substantial share of premiums obtained from the mass market (non-life insurance) and group insurance customer (with moderate sum of insurance).

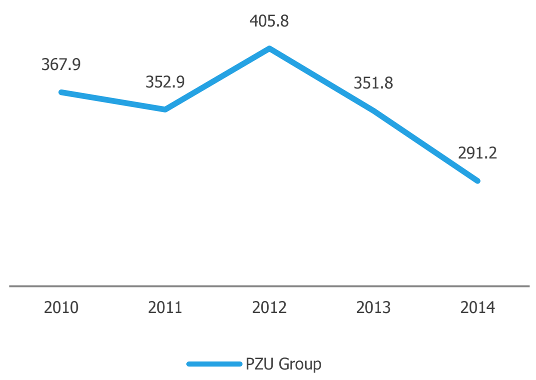
Gross written premium (million PLN)



Net profit (PLN million) and ROE (%)



Net profit (PLN million) and ROE (%)



PZU Strategy 3.0

In January 2015, PZU passed the new PZU Business Strategy – PZU 3.0. STRATEGY OF PZU Group FOR THE YEARS 2015-2020 – PZU 3.0 STRATEGY

It assumes further expansion of PZU Group until the year 2020 based on the following three strong pillars:

Insurance – using two different brands (PZU and Link4), the Group will expand its share in the Polish non-life insurance market to at least 35% by the year 2020. It will retain its position of 43% measured with the share in regular premiums on the life insurance market. Simultaneously, it will become one of the three biggest insurance companies in Central and Eastern Europe (in the countries where it is already present). Furthermore, the Group will consider the possibilities of further acquisitions on prospective markets.

Asset management – thanks to its offer of products with above-average investment results, PZU Group will become the leader in customer asset management in Central and Eastern Europe. It will retain the leading position on the Polish investment fund market and intends to hold at least 11.5% of shares in fund management companies' assets by the year 2020 (excluding PZU Group's assets held in investment funds).

Health care – PZU Group intends to become the biggest integrated operator for coordinated health care on the Polish market. The complex offer will cover ambulatory care, prevention, hospitalisation, rehabilitation, and long-term care.

The high operating effectiveness will increase the value for the stockholders. Despite operating under the conditions of low interest rates with an unfavourable effect on investment activity, the 2020 rate of return on equity will be 20%.

PZU socially responsible

Social responsibility – of the whole firm and every employee – is the foundation of all PZU's activities and a prerequisite for sustainable development.

PZU Group entities have a common operating philosophy, which stresses the following three basic values:

- We are Fair.
- We are Effective.
- We are Innovative.

The CSR GLOSSARY activities undertaken in support of the business objectives apply to the following areas:

Client relations – the Group enforces the Good Practices in PZU code, which establishes the standards for ethical business operations. In order to learn the needs and opinions of the clients, we conduct surveys, take advantage of social media, analyse complaints, and conduct quality audits of our communication with the clients.

Activities for the community and hence concern for financial awareness and comprehensive safety.The Group sponsors numerous education-oriented ventures, such as Akcjonariat Obywatelski, Akademia Liderów Rynku Kapitałowego, and Droga na Harvard. In 2014, the Group also conducted a nationwide campaign to Stop wariatom drogowym (stop road rage). It also participates in numerous philanthropic campaigns through the PZU Foundation.

Employee relations – building performance-oriented organizational culture. The year 2014 included the commitment survey among the employees. The results of this survey serve as the foundation for the development of the Group's programmes oriented on building organisation culture.

Otwarte PZU, TalentUp oraz SmartUp are the three main programmes for the Group's employees. Beside recognising employees with high development potential, they promoted direct and straightforward communication, teamwork, and encouraged the employees to seek innovative solutions.

At the end of 2014, PZU Group employed approximately 16.1 thousand employees calculated as FTEs (including 7.96 thousand in PZU and 3.34 thousand in PZU Życie). Significant increase in FTE results from M&A in 2014 of insurance companies in Baltic States and in Poland.

Environmental impact – our activities take two forms: of responsible internal resource management and of building environmental sensitivity and awareness among stakeholders – employees, clients, business partners, suppliers and representatives of local communities.

The confirmation of the highest standards at PZU Group regarding CSR is PZU's presence in the RESPECT Index of socially responsible companies dedicated to the companies listed on the WSE, as well as in the CEERIUS (CEE Responsible Investment Universe) GLOSSARY sustainable development index on the stock exchange in Vienna.

Both PZU and PZU Życie have had a Standard&Poor's financial strength rating at the "A" level since 2009. This is one of the top ratings available for a Polish company.

Financial Strength Rating and Credit Rating awarded by S&P

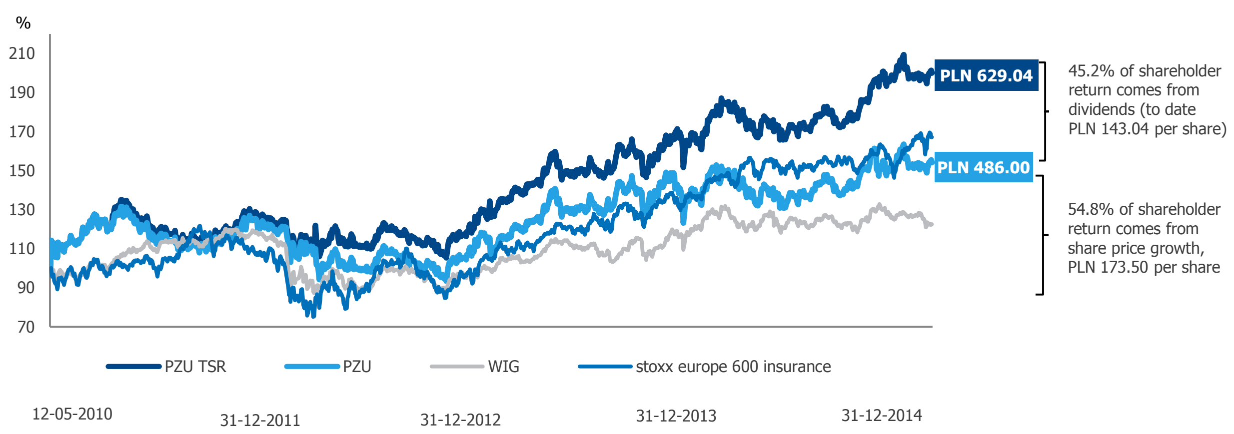
Stable outlook

25 March 2014

A

Rating awarded on 16 July 2009

PZU's share price listings between the IPO on the Warsaw Stock Exchange (12.05.2010=100) and 31.12.2014



Calendar

March 2014

25 March – The rating agency S&P confirms **A stable** rating for PZU. The PZU financial strength rating is higher than Poland's rating debts in foreign currencies.

April

4 April – PZU introduces a revolutionary service – **Direct Claims Handling**. PZU Clients with TPL policy can file and handle the vehicle damage claims when the perpetrator is insured in a different company.

June

17 June – The PZU Management Board offers the highest dividend in the history of PZU – **PLN 54 per share**.

July

3 July – issue of five-year **eurobonds for the amount of EUR 500 million**. The S&P rating agency awarded the bonds with a A- rating.

September

Two consecutive quarters the **PZU share** in non-life insurance grew and amounted to **31.4%** as of 3rd quarter 2014, compared to **31.1%** in the previous year.

October

300 hybrid Toyota cars now available in PZU car rentals in Poland. Thus, we have created the first such fleet of replacement cars in the country.

November

The end of the process of purchasing insurance companies:

- In Baltic states: the Lithuanian market leader - Lietuvos Draudimas AB and the Latvian market leader - AAS Balta and the Estonian branch of Codan Forsikring A/S
- In Poland: leader of direct market - **Link4**

December

Health insurance premiums at PZU exceeded PLN **100 million**. As at the year-end, 0.5 million insured had PZU healthcare products.

January 2015

28 January – publication of **Strategy PZU 3.0** for 2015-2020

The most important achievements in 2014

01 Non-life insurance - Poland

PZU: Gross written premium (according to IFRS) at PLN 8,261.8 milion, i.e. decrease of 0.1% in relation to 2013. Decline in MTPL premium and considerable increase in non-motor premiums.

Leader on the Polish non-life insurance market with share of 31.4%, on the motor insurance market (after three quarters of 2014) - 34,7%. Visible growing tendency of market shares following the second and third quarters of 2014.

Introduction of a modified non-motor TPL and household insurance offer (All Risk formula).

Link4: Gross written premium PLN 417.1 million (including contribution to the result of PZU Group at PLN 138.8 million) from the moment of acquisition.

Market share of 1.6% (after three quarters of 2014).

02 Life insurance - Poland

Gross written premium (according to IFRS) at PLN 7,807.7 million. Increase by 0.8% in relation to 2013 in the conditions of declining single premium (by 6.6%). Withdrawal of the Plan na Życie savings product with a protection component and regular premium and the MegaZysk and Polisa Oszczędnościowa single premium insurance constituting investment contracts.

Life insurance market share of 29.1%, including 42.9% in regular premiums (after three quarters of 2014).

Stable growth in group and individually continued premiums of 1.9% y/y, because of an increasing number of insured, as well as a rise in the average premium, additionally supported by additional sales of profitable riders.

Introduction of the additional rider PZU Pomoc od Serca to individual protection insurance and the Cztery Pory Roku group medicine insurance.

03 Investment funds

Net asset value of PLN 25.5 billion at the end of 2014 – annual increase of PLN 3.3 billion. External clients' assets value of PLN 6.0 billion, annual net increase of PLN 1.7 billion.

Maintaining the position of the leader with a TFI market share of 12.2% (share growth of 0.5 p.p.).

Maintaining the leading position on the market of Employee Pension Programmes, registration of ten new and acquisition of five EPPs.

04 Pension funds

Third place on the market with a share of 13.1% by net asset value.

Maintenance of the position of leader on the Individual Pension Security Accounts (IKZE) market among the voluntary pension funds.

05 Health care

Setting-up of own health care chain and purchase of shares in Elvita Jaworzno III (one of southern Poland's biggest chain of cutting edge medical offices), ORLEN Medica, and Specjalistyczna Przychodnia Przemysłowa Prof-Med.

Cooperation with approximately 1,380 health care centres (compared to 1,050 at the end of 2013).

Providing general health care services for the population of Płock, Włocławek, and Upper Silesia in scope of contracts with NFZ (National Health Fund).

Offering health care to the Tauron Group and the PKN Orlen Group and sanatorium care in Ciechocinek and Ustroń.

06 Foreign operations

Firm strengthening of the insurance position in Central and Eastern Europe resulting from the acquisition of new entities: Lietuvos Draudimas AB (Lithuania), AAS Balta (Latvia) and Codan Forsikring A/S (Estonia).

Lithuania: In 2014, PZU Lithuania collected premiums in amount of 53.3 million EUR (third on the market with share of 13.8%). The acquired Lietuvos Draudimas AB held a 30.9% market share (the entity enters PZU Group in the end of 2014). According to the recommendations of the Lithuanian authority, on 2nd February of 2015 PZU Group entered a conditional agreement for the sale of PZU Lithuania to the Norwegian insurance company Gjensidige Forsikring ASA. In 2014, PZU Lithuania Life collected premiums in amount of EUR 8.9 million (4.1% share in the life insurance market).

Latvia: In 2014, PZU Group operated through the PZU Lithuania branch and AAS Balta, which entered the Group in June of 2014. In 2014, the share of AAS Balta in non-life insurance market was 22.9%. The total gross written premium of both entities was EUR 61.2 million. From the time it joined PZU Group, ASS Balta generated the gross written premium of EUR 28.9 million.

Estonia: The Group operates through the PZU Lietuva branch created from the merger of the branch of Lithuanian PZU entity and the acquired Codan Forsikring A/S branch. In 2014, the share of both entities in the non-life insurance market was 14.5%. The written premium collected by the newly acquired branch from the time of its acquisitions is EUR 5.3 million.

Ukraine: As the gross non-life premium has generally decreased, PZU Group collected premiums of UAH 503.9 million (growth of 24.7%). The reasons for the increased premium included the growing confidence in foreign insurance companies. After 3 quarters of 2014, PZU Ukraine held the approximate share of 4.2% of the non-life insurance market. The gross premium collected by PZU Ukraine Life amounted to UAH 154.3 million and was 28.7% higher than in 2013. The company was placed sixth on the market with a share of 7.3%.

07 Infrastructure

Completed stage I of implementing the new Everest IT system for non-life insurance policies. Providing the system to 17.5 thousand end users.

Offering a direct claims handling system.

Setting up of own fleet of replacement cars composed of 300 hybrid vehicles.

Establishment of the Assistance to victims of accidents (Organizatorzy Pomocy Poszkodowanym w Wypadkach).

Acquisition of 1.7 thousand new tied agents.

08 Human resources management

At the end of 2014, employment of approximately 16.1 thousand employees calculated as FTEs. Employment increase by 18.7% during the year due to the Group's expansion.

Employment restructuring in PZU and PZU Życie.

Introduction of PZU's bonus system WOW (Wynik-Ocena-Wartości - Result-Appraisal-Values).

Extensive employee training programme. Every employee benefited from an average of 24 hours of onsite training and 7 hours of e-learning in 2014.

09 Financial results and safety of operations

Net profit at PLN 2,967.6 million, i.e. 9.9% lower than in 2013, mainly due to the rise of paid claims and benefits.

Return on equity 22.6% – a decline of 1.5 p.p. compared with 2013.

Dividend payment from 2013 PZU profit at PLN 4,663.0 million, including PLN 1,727.0 million from surplus capital.

Issue of five-year Eurobonds for EUR 500 million.

Purchase of four logistics parks located in Łódź, Gdańsk, and Wrocław for EUR 140 million.

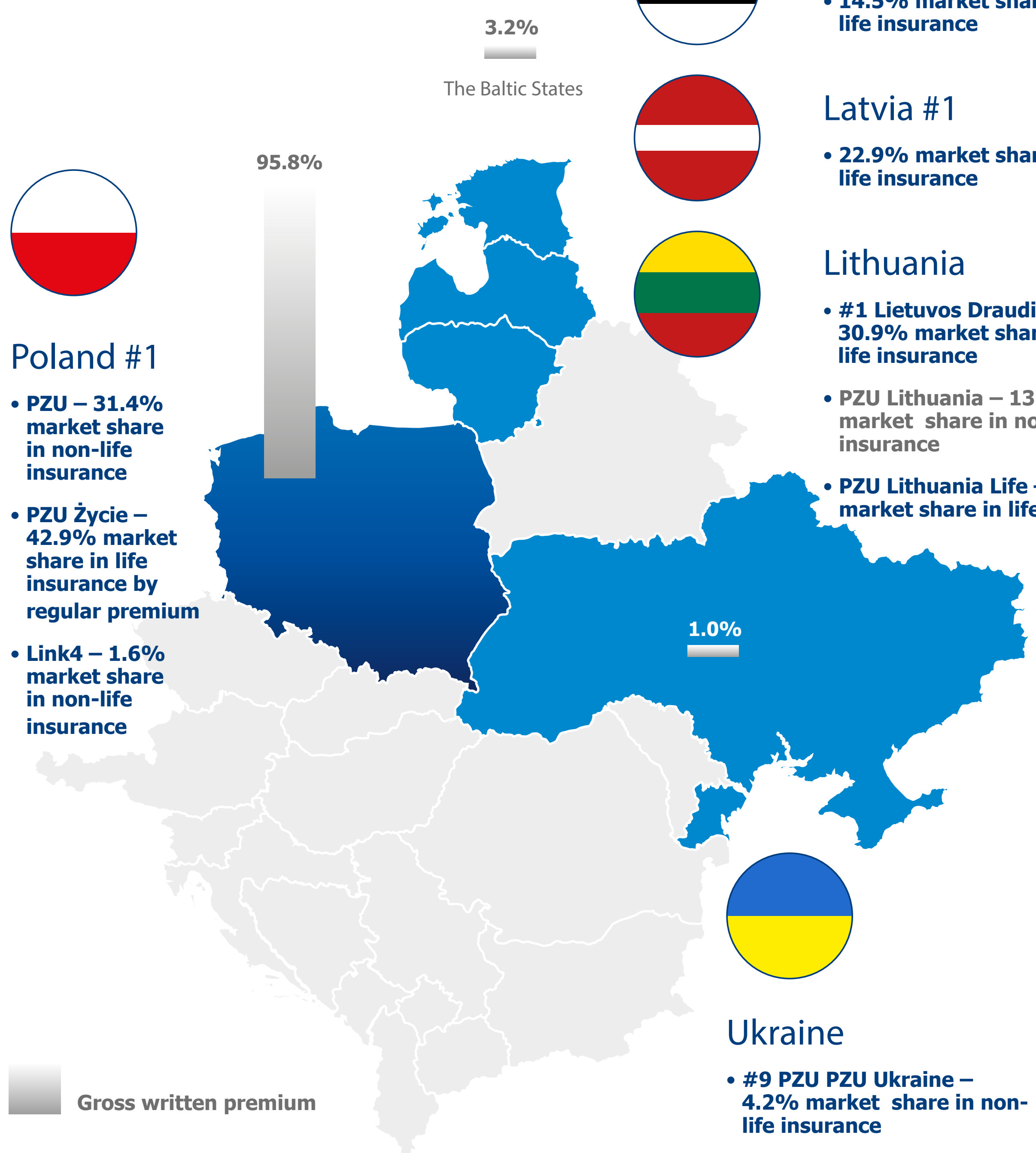
Maintenance of solvency ratios which are higher than the average for the sector.

Brief overview of PZU Group

Summary of consolidated financial highlights of PZU Group for 2010–2014 (PLN million)

	2014	2013	2012	2011	2010
Gross written premiums	16,884.6	16,480.0	16,243.1	15,279.3	14,541.0
Revenues from commissions and fees	350.8	299.2	237.1	281.4	288.0
Net investment result	2,733.5	2,514.6	3,704.7	1,593.8	2,777.8
Net insurance claims and benefits	(11,541.7)	(11,161.2)	(12,218.7)	(10,221.1)	(10,384.1)
Acquisition costs	(2,147.0)	(2,015.9)	(2,000.4)	(1,962.0)	(1,911.3)
Administrative expenses	(1,527.7)	(1,406.5)	(1,440.3)	(1,383.9)	(1,505.8)
Operating profit	3,913.1	4,180.8	4,080.2	2,956.7	3,088.1
Net profit	2,967.6	3,295.0	3,253.8	2,343.9	2,439.2
Total assets	67,572.8	62,787.3	55,909.6	52,129.3	50,670.6
Financial assets	56,760.0	55,085.7	50,423.1	46,775.4	45,345.0
Equity	13,167.6	13,127.6	14,269.3	12,869.5	12,799.9
Technical provisions	40,166.9	37,324.4	35,400.8	32,522.7	31,823.0

International operations of PZU Group



Poland #1

- PZU – 31.4% market share in non-life insurance
- PZU Życie – 42.9% market share in life insurance by regular premium
- Link4 – 1.6% market share in non-life insurance

Estonia #5

- 14.5% market share in non-life insurance

Latvia #1

- 22.9% market share in non-life insurance

Lithuania

- #1 Lietuvos Draudimas – 30.9% market share in non-life insurance
- PZU Lithuania – 13.8% market share in non-life insurance
- PZU Lithuania Life – 4.1% market share in life insurance

Ukraine

- #9 PZU PZU Ukraine – 4.2% market share in non-life insurance
- #6 PZU Ukraine – 7.3% market share in life insurance

02

External environment in 2014

Stable growth rate of the Polish economy had a positive effect on the insurance sector, as well as on the Group's result, which remains stable.

Contents:

2.1 Main trends in the Polish economy

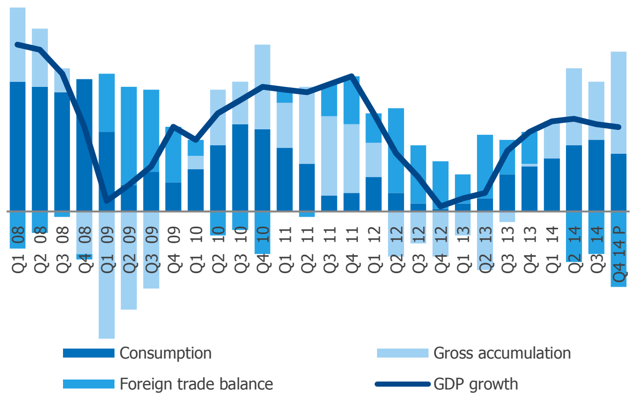
Gross Domestic Product

According to the initial assessment of the CSO (Central Statistical Office), the real GDP in Poland increased by 3.3% in 2014 compared with 1.7% in the previous year. The GDP growth rate in 2014 remained rather stable, maintaining a level between 3.3% y/y and 3.5% y/y during the first three quarters. In the fourth quarter, the GDP dynamics dropped to 3.1% y/y.

After two years of stagnation, the domestic demand grew considerably in 2014, i.e. by 4,6%. A considerable, real increase in household income with the substantial improvement of the situation on the labour market, allowed a significant growth of consumption. The consumption growth in the household sector was 3.1% (1.1% in 2013). With the biggest growth of public consumption since 2010, the total consumption grew by 3.0% in comparison to 2013. In the face of sustained relatively favourable economic prosperity indicators, the good financial condition of enterprises benefited their investment growth during the year. The gross investments in tangible assets grew by 9.5% in 2014, the highest growth since 2007. This was also accompanied by the growing dynamics of investment loans.

The stimulation of the domestic demand resulted in a significant growth of import. In effect, with the negative consequences of the Russian-Ukrainian conflict on the Polish export, the impact of net export on the GDP growth was clearly negative in 2014. However, it should be highlighted that despite the issues concerning export to the eastern markets and the relatively weak economic condition in the Euro zone states, the export dynamics improved. The declining export to Russia and Ukraine was compensated by the growing export to other markets.

GBP growth composition in 2008 - 2014



The labour market and consumption

The situation on the labour market improved considerably in 2014. The rate of registered unemployment in December 2014 was 11.5% compared to 13.4% at the end of the previous year. In 2014, the average monthly employment in the business sector grew by 58 thousand people and its annual dynamics grew to 1.1% y/y in December as compared to 0.3% y/y at the end of 2013.

In the light of the very low inflation, the 2014 pressure on salary increases remained relatively low. In 2014, the dynamics of average monthly remuneration in the national economy decreased to 3.4% in comparision to 3.7% in 2013. The real remunerations rose considerably with the very low inflation and the dropping consumer price index (CPI) in the second half of the year. With consideration of the price changes, the average monthly remuneration in the national economy was 3.4% in 2014 in comparison to 2.8% the year before. The average monthly real dynamics of the remuneration fund in the business sector in 2014 was 4.5% y/y – the biggest in 6 years. It can be assessed that the real gross disposable income growth in 2014 was considerably higher than in 2013. The consumer financial condition indicators also systematically improved.

As employment grew and unemployment dropped, the improving financial situation of households was beneficial to growing consumption. The dynamics of household consumption in the fourth quarter exceeded 3.1% y/y.

Inflation, monetary policy and interest rates

In 2014, the annual average consumer price index (CPI) did not change in comparison to the 0.9% growth in 2013. The annual consumption index has remained negative from July 2014, reaching -1.0% y/y in December.

Such strong inflation decrease in 2014 resulted mainly from supply factors – primarily the dropping global petroleum prices and the visibly dropping food prices. At the same time, the demand and remuneration pressure on price growth continued to be very weak with the import of low inflation from abroad. Net inflation (CPI excluding food and energy prices) declined to an annual average of 0.6% compared with 1.2% in 2013.

NBP reference rate remained at 2.5% until September 2014. In the first half of the year, the Monetary Policy Council announced that the interest rates would likely be maintained at the same level, but abandoned any form of forward guidance at the July session as the interest rates remained the same. In October, the Monetary Policy Council lowered the reference rate by 50 base points to 2.0%. Additionally, the Council narrowed down the interest rate corridor and set its bottom limit – the rate of interest on the deposits placed by banks in the NBP – at 1%, simultaneously lowering the top limit – the rate of Lombard credit – by 1 percentage point to 3.0%. The promissory note rediscount rate was reduced correspondingly to the reference rate – by 0.5% to 2.25%. Furthermore, the interest rate for the obligatory provision funds, which had previously constituted 0.9% of the NBP rediscount rate, was bound with the same coefficient to the NBP reference rate – entailing reduced interest rate of bank funds. The rates remained at the level established in October 2014 for the next two months.

Public finance

According to initial estimations, the State Budget deficit for 2014 was approximately PLN 30 billion, which is considerably lower than the planned PLN 47.5 billion. This deficit is also considerably lower than that of 2013, which was PLN 42.2 billion. The government believes that the entire deficit of the public finance sector will drop below 3,0% GDP in 2015 from 3.3% GDP initially assessed in 2014.

Poland had no problems in obtaining debt financing – 30% of borrowing needs planned for 2015 had been financed at the end of 2014.

2.2 Situation on the financial markets

The main trends of the global financial markets were strongly associated with the development of the economic situation in the USA and the Euro zone and with their central banks – the Federal Reserve and the European Central Bank. The Russian-Ukrainian conflict and the sudden petroleum price drops also had significant impact on the markets. Despite the reduction of the "quantitative easing" in the USA until its complete end, the country's treasury bonds yields declined. This was caused by moderate inflation and skilful communication between the Fed and the market, which saw the central bank extinguish the expectations for interest rate rises in the near future. The treasury bonds yields also dropped in the Euro zone in light of the concerns with economic growth and towards the very

GDP in Poland in 2014

3.3 %

▲+1.6 p.p. y/y

Unemployment rate in Poland at the end of 2014

11.5 %

▼-1.9 p.p. y/y

CPI in Poland as at the end of 2014

-1.0 %

▼-1.7 p.p. y/y

Real growth rate of salaries in Poland in 2014

3.4 %

▲+0.6 p.p. y/y

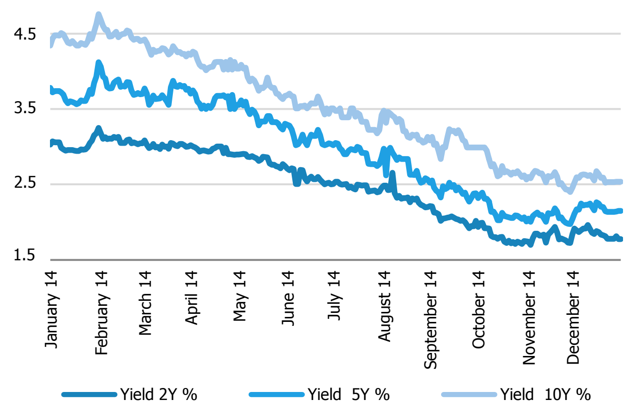
low inflation. Furthermore, in June 2014, the EBC announced a package of actions to ease the monetary policy and lowered the interest rates in the Euro zone. Additionally, before the end of the year there was a rising belief of the financial markets that the EBC would be forced to expand its operations over purchasing of treasury bonds of the Euro zone countries. The yields decline in Europe led to the reduction of differences between the interest rates of bonds in Germany and the so-called peripheral countries of the euro zone.

The USA stock market saw a much more significant growth trend than the Euro zone, especially in the second half of 2014 – which was a reflection of the relative condition of the economies of the two regions and the impact of the Russian-Ukrainian conflict on Western Europe.

2014 was not a good year for the Polish stock exchange. The value of the broad market index, WIG, remained virtually unchanged (0.3% growth), but the index of the largest and most liquid companies, WIG20, dropped by 3.5%. In 2014, these indices fluctuated with no clear change direction. The markets began to observe considerable uncertainty – especially in the second half of the year with the escalation of the Russian-Ukrainian conflict. The inflation index was also considerably lower than commonly expected. Additionally, the operating changes of open pension funds entailed the reduction of stock price support from pension funds.

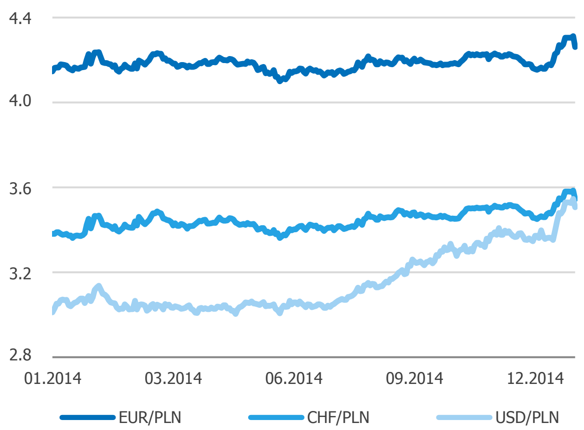
In 2014 Polish treasury bond yield curve clearly dropped, especially concerning bonds with longer maturity periods. The difference between the yields of 10-year and 1-year treasuries dropped by approximately 100 basis points. The declining yields in Poland were corresponding to the European trend. This was also influenced by the strong drop of the inflation rate in Poland. The 2014 lowering of the NBP reference rate in 2013 was an important factor in the decline in the yields of shorter maturity instruments. For 1-year instruments, this decline amounted to approximately 90 basis points. The 5-year and 10-year bond yields dropped in 2014 by 120 and 150 basis points respectively.

Treasury bond yield in 2014



The most important event on the currency market in 2014 was the trend of the strong appreciation of the US dollar to the euro, which resulted from the clear differences in the conducted monetary policy and the economic condition. In effect, the euro lost 12.2% to the dollar in 2014. The PLN to USD exchange rate also changed – the dollar cost 16.4% more than at the end of 2013. The Polish currency remained rather stable in comparison to the European one, to which it lost approximately 2.8%. The currency rate of the PLN towards the Swiss frank dropped by 4.8%.

PLN quote in 2014

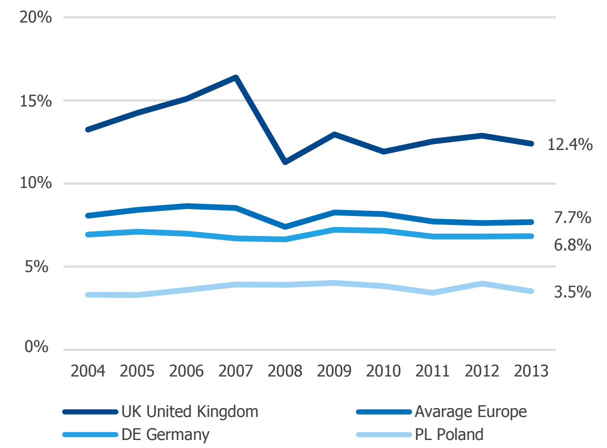


2.3 Insurance sector compared with Europe

In 2013, the statistical European spent EUR 1,882.7 for insurance (density index), while the average Pole spent EUR 361.8 (i.e. PLN 1,503.1), 5 times less. Almost 60% of the premiums of the average European and 54% of the average Pole are paid towards life insurance.

Analysing the level of premium compared with GDP (penetration ratio), Poland lays below the European average. This indicator for Poland is slightly below half of the European

Penetration (%)



average. Central and Eastern European countries, such as Estonia and Latvia, in which PZU operates, have a ratio of 1.7% and 1.3% accordingly, which, from the point of view of the market development, opens up huge opportunities for sales growth.

2.4 Regulations regarding the insurance market and financial markets in Poland

The year 2014 was a period of intense preparations aimed at the implementation of the requirements of the Solvency II Directive, which will be enforced towards insurance companies from 1 January 2016. The new system focuses on the risk taken by insurance companies.

On 11 March 2014, the European Parliament passed the so-called Omnibus II Directive, which modifies the regulations of the Solvency II Directive (2009/138/EC concerning the taking-up and pursuit of the insurance and reinsurance business). One of the key elements was the authorisation of the European Commission to pass legally binding acts of the so-called level 2 and 3 in scope of the Solvency II system. This means that the individual state legislators do not have to implement detailed regulations in their states. The insurance companies are obliged to obey the requirements passed at the level of the European Commission.

An important document in the Solvency II system is the level 2 delegated act, i.e. the Delegated Resolution of the Commission (EU) 2015/35 dated 10 October 2014. The delegated act evolves upon numerous regulations of the Solvency II Directive, which will be enforced from 1 January 2016 and partially already from 1 April 2015. Furthermore, the aforementioned document is a collection of technical recommendations in the scope of the calculation of capital requirements and own funds.

In January 2015, the EIOPA (European Insurance and Occupational Pensions Authority) published the first set of recommendations, i.e. the level 3 documents.

There is also ongoing work on the draft of the Act on Insurance Activity GLOSSARY in connection with the implementation of Solvency II.

According to the Act's project, there will be more capital requirements that should correspond to the specific risk profile of a given insurance company and reinsurance company. The own funds of a company have to be at a level guaranteeing the coverage of the potential losses and the required benefits for the insured and the beneficiaries. The drafted act expands the requirements in scope of the internal procedures of risk management and the disclosure obligations of the insurance companies regarding capital security and risk management. The companies will be obliged to implement procedures associated not only with insurance risk but also credit, market, liquidity, and operating risk and to report their financial condition to the PFSA (Polish Financial Supervision Authority). The draft also assumes changes to the current regulations concerning the obligations of the insurance companies regarding entering and performing insurance contracts. The act shall authorise the PFSA to issue recommendations concerning specific insurance and reinsurance activity.

Furthermore, the act refers to the remuneration for insurance agents and surrender fees for unit-linked products and structured products. While setting the remuneration of the agent, an insurance company should follow the rule of even expense distribution of insurance agent's commission over time. The act provides the right to withdraw (apart from the right to withdraw provided for in the Civil Code GLOSSARY) from unit-linked agreements and structured products, entered after into the act comes into force, within 60 days from the receipt of the first so-called anniversary information, while the surrender fee at the withdrawal cannot exceed 4%.

In 2014, PFSA released recommendations concerning flood risk management in the insurance sector, insurance distribution, motor insurance claims handling, outwards reinsurance/ retrocession, IT management and ICT security. The recommendations fall under the "comply or explain" rule.

Institutions under supervision may not follow the Principles but if the company fails to implement any of the principles, either permanently or incidentally, it is obliged to inform the market of this fact and justify reasons for non-implementation of a given principle.

Other than the work on implementing the requirements of the Solvency II Directive, there was also work on other regulations, which had or will have impact on the operations of PZU Group. Some of them are listed below:

The Act on the amendment to certain Acts in connection with the specification of the principles of paying out pensions from the funds collected in open pension funds of 6 December 2013, which has been in force since 1 February 2014, while some of the provisions, including those regarding the Individual Pension Security Account (IKZE) have been in force since 14 January 2014. The changes include, in particular:

- transfer of the parts of the members' pension rights which are expressed as Treasury bond liabilities from the Open Pension Funds (OFE) to the Social Insurance Institution (ZUS) – on 3 February 2014 the bond part of the assets accumulated in OFE, of a total amount corresponding to 51.5% of the units on the account of every member of OFE as at 31 January 2014, was transferred to ZUS. After the redemption of the bonds (effective from 4 February 2014), these funds will be recorded on sub-accounts at ZUS on 31 March 2015, where they will to be indexed and inherited, just as the remaining funds on these sub-accounts. Additionally, from 3 February 2014, pension funds must not invest in both treasury debt instruments and debt instruments guaranteed by the Treasury, as well as in instruments issued by the governments of other OECD states;
- specification of the principles of paying pensions from the funds accumulated in OFE and the method of transferring pension rights of those insured with OFE to ZUS – pensions should be paid when the particular insured reach retirement age (ultimately 67 years) in its entirety from the Social Security Fund (FUS). To this end, the funds accumulated in OFE should be transferred to FUS. They will be indexed according to the current rules. When the insured reach the age of 10 years less than retirement age the funds collected in OFE by them will be gradually transferred to ZUS to a sub-account and the new contributions will be transferred directly to ZUS. Funds on the sub-accounts at ZUS, which will pay the pension, may be inherited within 3 year-period after the insured retires;
- ability of the insured to make a choice in the form of a declaration regarding the further transfer to OFEs of the contributions determined at the new level, with respect to future contributions – in the period from 1 April 2014 to 31 July 2014 the insured decided on whether the pension contribution of 2.92% is still to be transferred to OFE or to ZUS. In the absence of a declaration on the transfer of the contributions to OFE, the pension contributions are automatically recorded on a special sub-account at ZUS. The decision on whether to choose OFE or remain in ZUS was not final. The insured will receive successive opportunities to change their decision in four-year intervals;
- establishment of new investment rules by OFE – the gradual reduction in the minimum limit of OFE's exposure to shares. A substantial proportion of the concentration limits was eliminated. Every OFE needs to specify the objective and principles of the investment policy, as well as the quantifiable benchmark in the annual information for its members;
- change in the system of fees and commissions charged by the pension funds – the fees charged by OFEs on the contributions have been reduced from 3.5% to 1.75% (including the reduction in the charge to ZUS from 0.8% to 0.4%);
- establishment of the level of contributions to the Guarantee Fund – 0.3% of the net asset value of OFE is transferred to the Guarantee Fund administered by CSDP (Central Securities Depository of Poland), while the funds accumulated to date on the additional part of the Fund have been transferred to the OFE managing companies (PTE) as at 1 July 2014;
- introduction of the ban on advertising OFEs – the advertising ban is to specifically apply to the periods from 1 January to 31 July in the years in which it will be possible to make a decision to re-select ZUS/OFE (so-called „windows");
- introduction of changes in pillar III (IKZE) – introduction of incentives for saving for retirement in the so-called third pillar. A flat-rate has been introduced for disbursements from IKZE, which amounts to 10%. The income transferred to IKZE is exempt from tax, just as before. It is possible to pay 120% of the average monthly salary in the national economy forecast for the given year, which is currently equivalent to PLN 4,495.20 into IKZE.

The act has considerable impact on the net results of PZU PTE in successive years because of the lower management fee and lower contributions. At the same time, as the result of the liquidation of the additional part of the Guarantee Fund in 2014, a single gross income in the amount of PLN 132.3 million was recorded by PZU PTE.

The Act dated 30 May 2014 concerning consumer rights (valid from 25 December 2014)

Pursuant to the Act, the deadline for the insured to withdraw from the insurance agreement entered from a distance is 30 days. The consumer is not entitled to withdraw from agreements concerning travel, baggage, and similar insurance if they are established for less than 30 days.

Every action made for purposes of direct marketing (sales) through telephone, computer, mobile devices, and other similar devices requires prior consent of the client – an individual or a legal person.

Amendments to the Act dated 22 May 2003 on insurance agents implemented by the Act dated 9 May 2014 concerning fair access to practicing certain regulated professions (in force from 10 August 2014) – the amendments to the Act on insurance agents concern the deregulation of authorisation to perform broker and agency actions. In the strictly defined circumstances including lifting of the mandatory exams for brokers and the periodical professional training every three years for both insurance agents and brokers.

The Act dated 10 June 2014 on amending the Act on competition and consumer protection and the Code of Civil Procedures. The Act comes into effect on 18 January 2015 and introduces several changes to the Polish anti-monopoly law aimed to strengthen the domestic system of competition and consumer protection. The Act aims to improve the detection of competition limitation, enhance the effectiveness of detection and prosecution of entrepreneurs entering illegal agreements, and strengthen the position of the weaker market players. The Act changes the obligation of notifying about the intention of concentration in instances of acquiring control of an entrepreneur or the property of another entrepreneur.

The Act dated 29 August 2014 on amending the Act on corporate income tax, the Act on personal income tax, and several other acts.

The Act made amendments to the regulations concerning thin capitalisation and limits the exemption of revenues acquired from investment-related life insurance – structured products. Income from endowment insurance where the endowment benefit is based on the value of specified indices or other base values or is equal to the premium increased by the index specified in the insurance contracts taxable from 1 January 2015. Tax does not apply to income from endowment insurance for which a technical rate is applied to establish the technical provision in the life insurance category. The Act simplifies the calculation of taxable income from insurance premium investment as the difference between the benefit amount and the premium paid to the insurance company.

There is ongoing work on regulations implementing the FATCA- Foreign Account Tax Compliance Act into the domestic legal order. FATCA is an American federal law, which aims to oppose tax evasion by both individuals and legal persons obliged to pay taxes in the United States. PZU Życie and PZU TFI are implementing procedural and IT solutions aimed to satisfy the requirements of the Intergovernmental Agreement (IGA – internetional agreement, when ratified it will allow execution of the requirements of the American FATCA Act).

Jurisdiction and the Abusive Clauses Register

On 27 June of 2014, the Supreme Court (ref. no. III CZP 2/14) confirmed that pursuant to Article 448 of the Civil Code GLOSSARY the closest relative is entitled to compensation from the TPL insurance of motor vehicle owners for damage resulting from the pain and suffering if the casualty died before 3rd August 2008 and if there was actual relation between the casualty and the claimant, a mental and emotional bond.

Effects: increased accountability of insurance companies offering motor vehicle insurance; confirmation of the obligation of disbursement to the closest relative from the TPL insurance of motor vehicle owners, monetary compensation for damage resulting from pain and suffering if the casualty died before 3 August 2008.

2.5 External Environment in Ukraine and the Baltic States

Ukraine

In 2014, the Ukrainian economy entered a crisis resulting from the difficult political situation, the annexation of Crimea, and the armed conflict in the east.

According to the data of the Ukrainian Central Statistical Office, the GDP decrease amounted to 5.3% in the third quarter. As at the end of December 2014, industrial production dropped by 10.9% in comparison to the industrial production in 2013. Inflation in December 2014 rose by 24.9% as compared to December 2013, which resulted from the administratively regulated prices and the devaluation of the Ukrainian hryvnia. The period of three quarters recorded a positive foreign trade balance (USD 4.3 billion), which resulted from the 25.1% drop in import (with a simultaneous 9.1% drop in export).

The negative results recorded by the Ukrainian economy and the political situation as well as the drop of the real revenue of the society had a negative impact on the results of the insurance sector. The gross written premiums in the non-life insurance market in the period of three quarters of 2014 was UAH 15.6 billion and was lower by 20.7% than in the premiums corresponding period of the previous year. Life insurance companies collected UAH 1.5 billion gross written premiums in three quarters of 2014, which was 12% less than in the corresponding period of 2013.

Numerous legal regulations came into force in 2014, which had impact on the Ukrainian insurance market. The most important of these include:

- Changes in the Fiscal Code. Confirmed option of paying a 3% tax on the gross written premium with no need for insurance companies to switch to the general tax system;
- Changed rates in the motor TPL insurance and Green Card pursuant to the decision of the Motor (Transport) Insurance Bureau of Ukraine (MTSBU) – average rise of approximately 30% and 80% resulting from the devaluation of the UAH.

Lithuania

Despite the political and economic turmoil in Europe, Lithuania has been able to maintain its stable economic growth. According Eurostat, the 2014 GDP growth rose by 2.9% y/y. It dropped due to the reduced export, resulting mainly from the Russian embargo. At the beginning of 2015 Lihtuania adopted a euro.

Despite the economic growth in Lithuania, the prices of non-life insurance presented a dropping tendency due to the offers of big discounts. With relatively high profitability, insurance companies attempted to increase market share. The total gross written premium of non-life insurance companies amounted to EUR 387.2 million, 1.3% higher than in the previous year.

In 2014, the Lithuanian FSA approved several new resolutions concerning the requirements of Solvency II Directive to be implemented.

Furthermore, there is ongoing work on the new version of the Act concerning motor TPL insurance. The changes concern the removal of the statutory-established limit of compensation for material damage and also cover the determination of a basic insurance premium and regulation of pricing of insurance products. It is not known when the new version of the Act shall come into effect.

Latvia

Despite the Ukrainian crisis and the mutual sanctions between of the Russia and the European Union, the Latvian economy recorded a GDP growth of 2.4% y/y. The main growth accelerator was the domestic consumption (increased by 4.7% y/y in October 2014). The production volume in the third quarter of 2014 was higher than the year before and export reached EUR 1 billion for the first time in the country's history in October 2014.

GDP of Baltic States in 2014 – Lithuania, Latvia, Estonia

2.9 %

▼-0.4 p.p. y/y

2.4 %

▼-1.8 p.p. y/y

2.1 %

▲+0.5 p.p. y/y

The situation on the labour market improved as well. The real unemployment level dropped to 8.2% (in October 2014) and is half that of the 2008 financial crisis. The general purchasing power of the society also grew because of the growth of average revenue, considerable increase of the minimum salary, and the indexation of pensions. The purchasing power of the society is expected to continue to grow in the next year.

Latvia followed in the footsteps of Estonia and introduced the euro currency in 2014. The euro introduction was calm and successful, it only raised inflation by 0.1-0.2 p.p.

In 2014, the standing of the insurance sector in Latvia was good. The written premium of non-life insurance companies amounted to EUR 240.1 million, and grew by 6.1% as compared to the previous year.

In 2014, the regulative community focused on the preparations for the implementation of the Solvency II Directive in 2016.

New regulations concerning compensation for personal injury were introduced in July 2014. In motor insurance, they lifted the limits concerning compensation for damage resulting from pain and suffering.

Estonia

The GDP of Estonia grew by 2.1% y/y in the 2014. The main contributor to the economic growth during the last quarter of the year was industry, which also held the biggest share in the Estonian economy. The unemployment rate was 7.4%, and was lower by 1.2 p.p. than in 2013. However, this result was significantly lower than in the previous years when the unemployment rate was 16.7% (in 2010).

In 2014, the consumer price index (CPI) dropped by 0.1% in comparison to 2013. This was mainly caused by the decrease in the prices of the electronics equipment purchased by households.

The Estonian insurance sector grew rapidly in 2014. The gross written premium of non-life insurance companies amounted to EUR 261.4 million, 7.0% higher than in 2013.

Similarly to other member states, in 2014 Estonia approved new resolutions concerning the implementation of the requirements of the Solvency II Directive.

In October 2014 the amendments to the act on motor TPL insurance came into effect regulating the possibility of vehicles approval, the total insurance sum, and the introduction of direct claims handling (with the start of 2015).

2.6 Macroeconomic factors, which can affect the operations of the Polish insurance sector and PZU Group's activities in 2015

We forecast that the 2015 GDP growth will be similar to that of the last year. Much like in 2014, the main factors of economic growth will be consumption and investment growth. If the real GDP growth is maintained above 3% and the solid dynamics of the domestic demand continue, the conditions for insurance sales should be relatively favourable.

The deflation will likely be maintained at least until halfway through 2015 with a slight annual average drop of consumption prices. This factor will support the preservation of the relatively high remuneration dynamics and thus the purchasing power of households. According to PZU's projections, the 2015 individual consumption growth rate should slightly accelerate as compared to the previous year. However, it is difficult to project the consequences of the maintaining price drop for a longer period as the mechanisms weakening economic growth and having unfavourable impact on the insurance market in this situation cannot be excluded. It should also be noted that the lower fuel prices may entail a higher claims ratio of motor insurance.

The prospects of the economic growth in Poland considerably depend on the future situation in the Euro zone. The potential escalation of the Russian-Ukrainian crisis and the associated sanctions create a considerable threat to the economy of the Euro zone having a hard time rising from the crisis, suffering debts, and trying to avoid the deflation trap. In this situation, there is a risk of the economic growth in Poland falling below projections – although the direct impact of Ukraine's and Russia's economic problems on the dynamics of the Polish economy has thus far been limited and should remain as such.

The external environment in 2014

The very low yields of bonds will continue to be a challenge in the context of the technical interest rate level.

The operations and investment result of PZU Group may also suffer from the effects of the unstable financial markets, which may have several potential sources in 2015. The first is the perspective of the economic growth in Poland, Europe, and the USA, which forms investment demand, particularly on the stock market. The recent years since the outbreak of the global financial crisis also show the significant impact of the monetary policy of the central banks on the dynamics of the financial markets. The most important thing in 2015 will be the investors' collection of "quantitative ease" in the euro zone and its stimulation of the real economy and inflation expectations. Moment and scope of the potential tightening of the US monetary policy constitute the risk, which may entail a certain capital outflow from emerging markets.

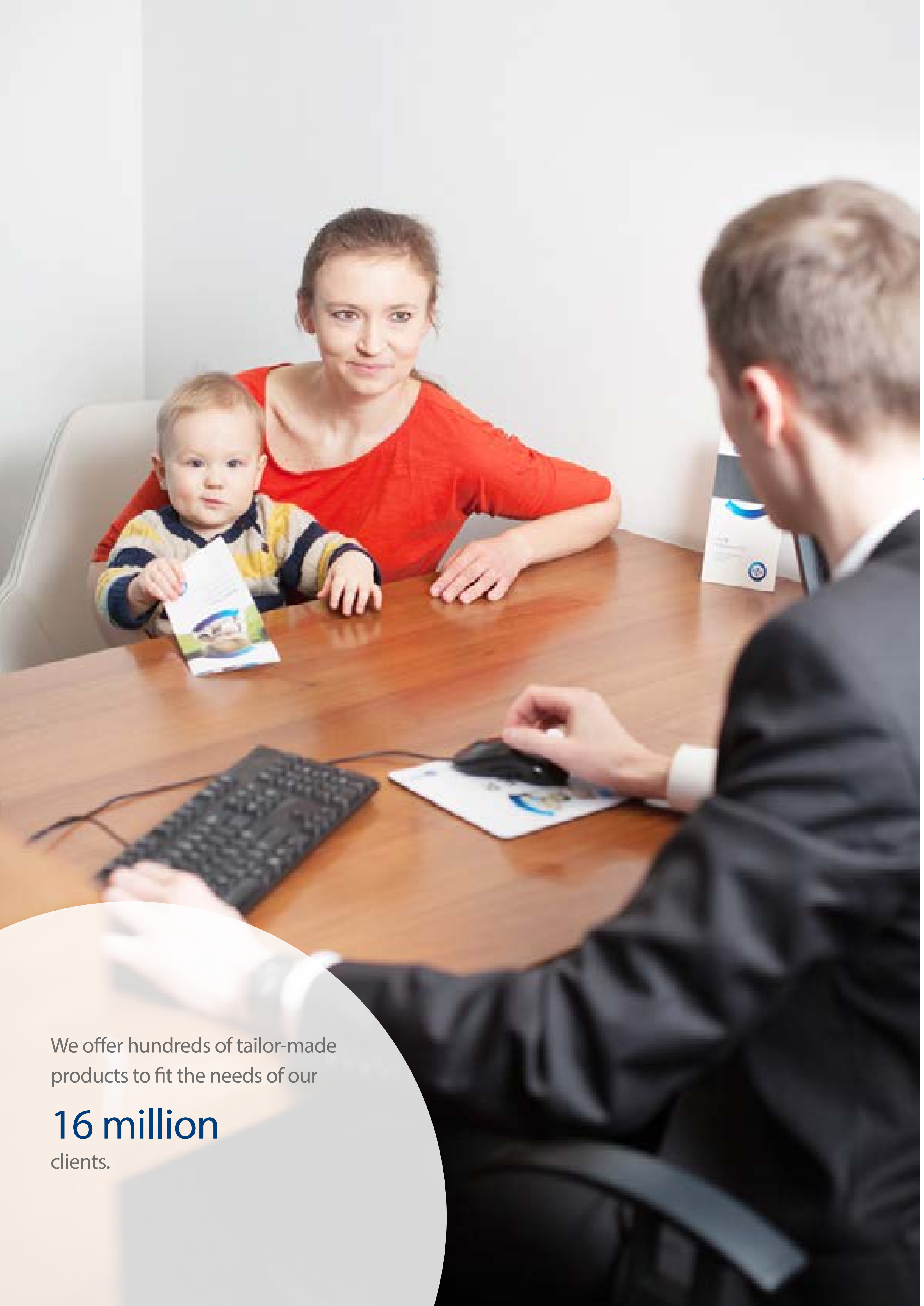
Another risk factor is the PLN FX rate, which has been increasingly volatile as of late. A weakening of the Polish currency can be unfavourable to insurance operations e.g. by raising the prices of car replacement parts.

Geopolitical factors will also have considerable impact on the financial markets in 2015, as they had in 2014. The Russian-Ukrainian conflict and its effects on the economic condition of the Euro zone and risk aversion level on financial markets continues to be a source of risk. The unstable situation in the Middle East continues as a result of, but not limited to, the new threat presented by the Islamic States.

Another important risk factor for 2015 is the level of petroleum price which considerable drop in the second half of 2014, considerably affected on the both financial markets and the global economy. It is difficult to say whether the petroleum prices will rise within next year or remain at their current levels. Their dynamics may impact global inflation and economic growth, contributing to the valuation of assets on stock and obligation markets.

Forecasts for the Polish economy	2015*	2014	2013	2012	2011
Real GDP growth in % (y/y)	3.4	3.3	1.7	1.8	4.8
Increase in individual consumption in % (y/y)	3.3	3.1	1.1	1.0	3.0
Increase in gross expenditure on tangible assets in % (y/y)	7.0	9.5	0.9	(1.5)	9.3
Inflation in % (y/y, end of the year)	1.4	(1.0)	0.7	2.4	4.6
Increase in nominal salaries in the national economy in % (y/y)	4.2	3.4	3.7	3.7	5.6
Rate of unemployment in % (end of the year)	10.5	11.5	13.4	13.4	12.5
NBP base rate in % (end of the year)	1.75	2.00	2.50	4.25	4.50
Annual average EUR/PLN exchange rate	4.20	4.19	4.20	4.19	4.12
Annual average USD/PLN exchange rate	3.81	3.16	3.16	3.26	2.96

* Forcasts of 26th January 2015
Source: PZU Macroeconomic Analysis Bureau



We offer hundreds of tailor-made products to fit the needs of our

16 million

clients.

03

Activities of PZU Group

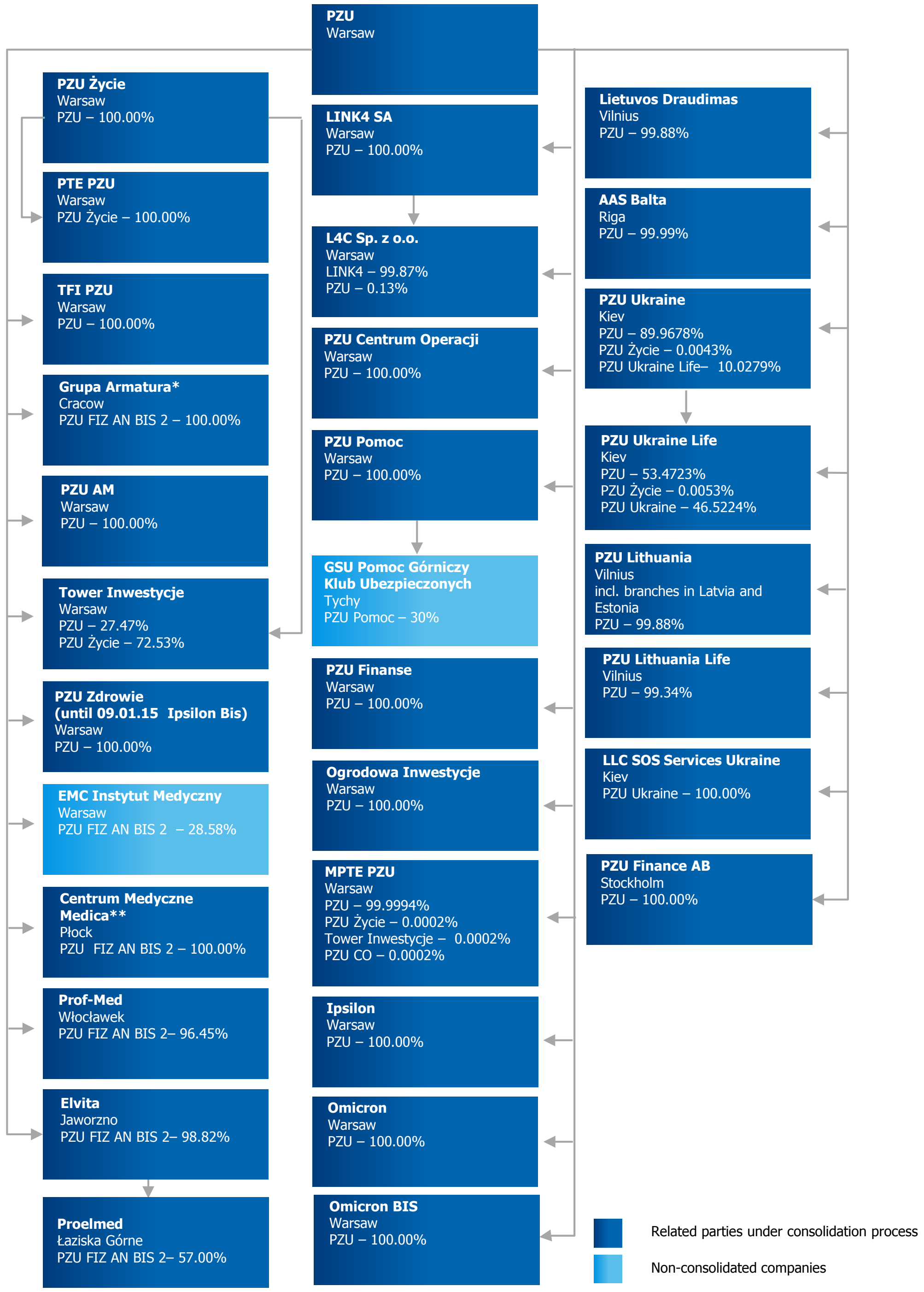
We are strengthening the position of Polish insurance leader and expanding on the international market through acquisitions of companies and implementation of product and process innovations.
We are building the assets of people who keep their savings in Poland's biggest investment fund company and expanding our presence on the health care market.

Contents:

3.1 Structure of PZU Group

PZU Group conducts various activities in the area of insurance and finance. In particular, PZU Group's entities provide services in life insurance, non-life insurance, health insurance and asset management for customers within OFE and investment funds.

Structure of PZU Group (as at 31 December 2014)



* as at 31 December 2014, Grupa Armatura included the following entities: Armatura Kraków SA, Armatoora SA, Armaton SA, Armatura Tower Sp. z o.o., Arm Property sp. z o.o., Armagor SA and Armadimp SA.
** Grupa Centrum Medyczne Medica includes the following entities: Centrum Medyczne Medica Sp. z o.o. and Sanatorium Uzdrowiskowe "Krystynka" Sp. z o.o.
The structure does not cover investment funds.

By performing control functions in the supervisory bodies of the companies, PZU – as the parent company – makes key decisions regarding both the scope of activities and the finances of PZU Group entities. The companies provide mutual services both under market conditions and based on the internal cost allocation model (in scope of the Tax Capital Group) thanks to the expertise of selected companies and by taking advantage of the Tax Capital Group.

The following changes took place in the structure of PZU Group in 2014 and until the release of this report:

- PZU acquired majority shares in the following companies while realising the development strategy to strengthen its position in Poland and expand internationally: Link4, AAS Balta, Lietuvos Draudimas AB, and the Estonian branch of Codan Forsikring A/S. 3.6 FOREIGN OPERATIONS
- In relation to the development strategy concerning health insurance, PZU FIZ AN BIS 2 (a fund 100% owned by PZU) acquired the shares of the following health care companies: Centrum Medyczne Medica Sp. z o.o., Prof-Med Sp. z o.o., Elvita 3.7 PZU ZDROWIE – ACTIVITIES ON THE HEALTHCARE MARKET
- In order to manage Armatura Kraków SA more effectively, as the result of the shares squeeze-out, the number of shares held by PZU FIZ AN BIS 2 increased to 100% and the shares of Armatura Kraków SA underwent dematerialisation on 10th March 2014. Furthermore, in scope of optimising the organisational structure, selected companies within Armatura Group have been merged. 3.8 OTHER AREAS OF ACTIVITY

3.2 PZU and Link4 – operations on the Polish non-life insurance market

Situation on the market

The non-life insurance market in Poland measured by the gross written premium grew by an annual average of 3.9% over the first three quarters of the past 5 years. Nevertheless, the non-life insurance market in three quarters of 2014 dropped by a total of PLN 501.8 million (-2.5%) compared with the corresponding period of the previous year. The greatest impact on the lower premium was made by the drop of MTPL insurance sales (by PLN 387.5 million, -6.0% y/y) and insurance of damage caused by forces of nature and of other tangible damage (by PLN 328.8 million, -7.2%), resulting from the strong price competition effective since 2013.

Furthermore, there was a recorded drop in the motor own damage insurance (by PLN 38.2 million, -1.0%) and insurance of legal protection (by PLN 28.4 million, -31.1%). The drop of the entire market's premium was partially compensated by the increase of financial risk insurance sales (by PLN 163.1 million, +20,9%) and insurance of credits and insurance guarantees (by PLN 58.1 million, +9,6%). After 2 years of decline (crash of the construction industry), considerable stimulation of the financial insurance market from 2013 onwards is observed.

The whole of the non-life insurance market in three quarters of 2014 generated a net profit of PLN 3.0 billion (-48.7% compared with the same period of the previous year). Excluding the dividend from PZU Życie (which constitutes the profit generated by the company in 2013), the net profit of the non-life insurance market dropped by PLN 0.33 billion (-16.4%). The technical result of the non-life insurance market, which largely does not include income on investments and deposits, dropped by PLN 374.0 million, i.e. by 26.6% to the level of PLN 1.0 billion. This change was affected to the

3.9 %
average annual growth of gross written premium on the non-life insurance market after Q3 2010 - 2014

19.6 PLN billion
gross written premium of non-life insurance companies after Q3 2014

1.0 PLN billion
technical result of non-life insurance companies after Q3 2014

50.0 PLN billion
value of investments of non-life insurance companies at the end of Q3 2014

PZU:
Insurance, Investments, Health

Protection of property and securing third party property against damage

MTPL and motor own damage insurance

Other non-life insurance

Financial insurance

Accident cover

Accident insurance

Assistance services

Securing the future of the family

Group and individually continued protection products

Individual protection insurance

Preparations for retirement

Pillar II of the pension system – open-ended pension funds

Pillar III of the pension system (employment pension products - EPP, individual pension accounts – IKE and individual pension security accounts – IKZE)

Increasing savings

Participation units in investment funds

Structured product

Health care

Health insurance

Medicine insurance

Healthcare services: general health care and additional services packages

9,100 exclusive agents

414 branches

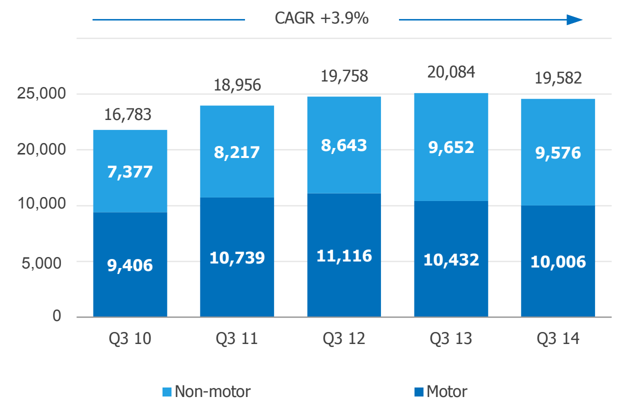
3,000 multiagencies

Internet call centre,

We provide peace of mind and a sense of safety for

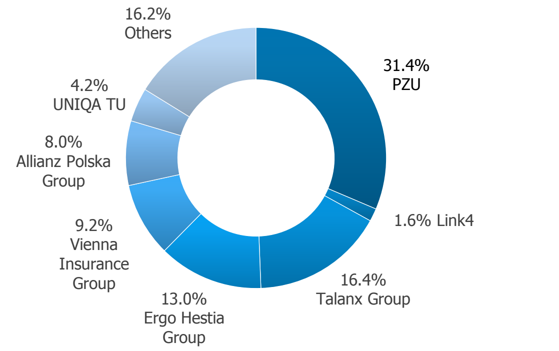
16,000,000 Customers in Poland

Gross written premium - non-life insurance companies in Poland (PLN million)



Source: KNF (www.knf.gov.pl). Biuletyn Kwartalny [PFSA Quarterly Bulletin]. Insurance market 3/2014, Insurance market 3/2013, Insurance market 3/2012, Insurance market 3/2011, Insurance market 3/2010.

Non-life insurance companies - share in gross written premium in 3 quarters of 2014 (%)



Groups: Allianz – Allianz, Euler Hermes; Ergo Hestia – Ergo Hestia, MTU; Talanx Warta, Europa, HDI; VIG – Compensa, Benefia, Inter-Risk;
Source: KNF Biuletyn Kwartalny [PFSA Quarterly Bulletin]. Rynek ubezpieczeń [Insurance market] 3/2014

greatest extent by the drop in the technical result on MTPL insurance (PLN -256.6 million), other tangible damage (PLN -131.1 million for direct business), motor own damage (PLN -114.5 million) and other TPL insurance (PLN -75.6 million for direct business).

The drop of the technical result in MTPL insurance resulted mainly from the lower earned premium (PLN -305.8 million, i.e. -5.3%) and the increased costs of insurance activity, which resulted from the lower by 46.2% reinsurance commission and the shares in the profits of the reinsurers. Furthermore, the maintaining dropping trend of the average premium, which resulted from the strong price competition ongoing since 2013 also had negative impact on the profitability of this group.

The total value of investments and deposits of the non-life insurance companies (excluding investments in subsidiaries) was PLN 50.4 billion, which was a 8.9% increase since the end of 2013. The instruments issued or guaranteed by the State Treasury and local authorities constituted 45.6% of the aforementioned investment portfolio.

Non-life insurance companies, on aggregate, estimated the value of technical provisions at PLN 39.0 billion, which represented an increase of 4.4% compared with the end of 2013.

Non-life insurance market - gross written premium (PLN million)

	1 January - 30 September 2014			1 January - 30 September 2013		
	PZU	**Market**	**Market without PZU***	**PZU**	**Market**	**Market without PZU**
Motor own damage	1,492	3,918	2,426	1,502	3,956	2,454
MTPL	1,979	6,088	4,109	2,118	6,476	4,358
Other products	2,684	9,576	6,892	2,617	9,652	7,035
TOTAL	**6,155**	**19,582**	**13,427**	**6,237**	**20,084**	**13,847**

*including Link4 which has a different business model than PZU
Source: KNF (www.knf.gov.pl). Biuletyn Kwartalny [PFSA Quarterly Bulletin]. Life insurance market 3/2014, data collected by PZU

Activities of PZU Group

The Solvency II project - non-life insurance
The condition of the non-life insurance sector in Poland one year before the requirements of the Solvency II Directive come into effect, i.e. on 1st January 2016, can be graded as positive. According to the quantitative survey conducted by PFSA as at the end of 2013 (QIS2014), the solvency of capital requirements (SCR) established with the standard formula for the non-life insurance market in Poland was 231.8%.

PZU's activities
Within PZU Group, activities on the non-life insurance market in Poland are conducted by the parent company in the Group, i.e. PZU nad Link4.

Over the past years, PZU has been managing approximately 1/3 of the non-life insurance market. After three quarters of 2014, PZU had a 31.4% share of the non-life insurance market compared with 31.1% after three quarters of 2013.

PZU had a strong market position in motor own damage insurance (with a share of 38.1%). Meanwhile, in the case of motor insurance for corporate customers, this share was even higher, amounting to 47.6% for MTPL insurance and 42.2% for motor own damage.

After the first three quarters 2014, the share of PZU's technical result in the market's technical result was 68.3%, which, with a market share of 31.4% calculated using the gross written premium confirming high level of profitability of insurance.

PZU offers a wide range of non-life insurance products, including motor, property, personal, agricultural insurance, as well as general liability insurance. PZU's product range encompassed 200 insurance products at the end of 2014.

Motor insurance is the most important group of products offered by PZU, both in terms of the number of valid insurance contracts, as well as the share of the premium to the total value of gross written premiums.

In 2014, PZU made changes to its product offering, with customers in mind, which included basic categories of insurance products addressed to all customer segments.

In 2014, the changes in the offer dedicated to the mass market consisted of:

- introduction of modified household insurance, other TPL, travel insurance, and accident insurance offer:
  - the new household insurance offer allows for protection of private property under the All Risk formula. The new solution provides the clients with the most extensive insurance protection, which covers all events defined for the traditional option, including fire, flooding, destruction, breaking and entering, and all other unusual events that may occur at home;
  - travel insurance and accident insurance received a faster and easier way of establishing agreements thanks to the intuitive product modelling and responses depending on e.g. the travel destination. Furthermore, accident insurance was expanded with a broad range of additional benefits, which definitely made the insurance more attractive (e.g. meeting the requirements of the sports market by introducing the clauses of sports agreements into the conditions);
  - the other TPL insurance dedicated to the companies of the SME sector saw the introduction of numerous optional riders allowing for more flexible adjustment of the insurance to the needs of the client. The occupational TPL product allows for simple conclusion of voluntary TPL insurance for several types of professional activity. There is also the option of including the mandatory TPL insurance in scope of a single policy;
  - the scope of the carrier TPL insurance was expanded considerably by additional riders, including the long-awaited cabotage transport insurance in Germany and EU states;
- introduction of the direct claims handling service for MTPL insurance, a free-of-charge service allowing the MTPL client of PZU, who is the victim of an accident caused by a non-PZU client, to report and handle the claim in PZU rather than the perpetrator's insurer.

Non-life insurance market - technical results (PLN million)

Technical results	1 January - 30 September 2014			1 January - 30 September 2013		
	PZU	Market	Market without PZU	PZU	Market	Market without PZU
Motor own damage	164	254	90	212	368	156
MTPL	107	(159)	(267)	359	97	(262)
Other products	434	940	505	576	943	367
TOTAL	**706**	**1,034**	**328**	**1,147**	**1,408**	**261**

Source: KNF (www.knf.gov.pl). Biuletyn Kwartalny [PFSA Quarterly Bulletin]. Life insurance market 3/2014, data collected by PZU

The Corporate Client Division underwent considerable business transformation in 2014. Changes were made to the organisational structure, the operating model, and there was implementation of several sales tools aimed to improve the effectiveness of the sales network in the long run. These operations were conducted when the corporate insurance market was experiencing a difficult situation which saw the decline of the average price in key business lines. Nevertheless, the structures oriented towards the development of the so-called medium and big corporate business were able to increase the premium.

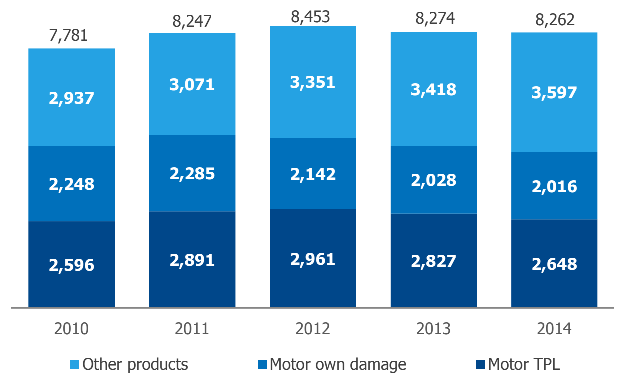
In terms of financial insurance for corporate customers, PZU has been supporting the Polish economy in various areas, including the following:

- securing investments concerning the construction and modernisation of individual railway line segments throughout the country. The realisation of such investments increased traffic capacity, connection quality, and passenger safety;
- supporting the Polish energy and electrical energy industry by guaranteeing return of advance payment and proper performance of the contract for the construction of a new hard coal block in the Jaworzno Power Plant or securing the expansion of the energy transmission networks;
- securing the performance of contracts for the realisation of ventures associated with the design and performance of audience sound systems in prestigious cultural venues.

During the year, following the analysis of the economic situation, the conditions of guarantees sales to smaller companies operating in sectors related to construction calmed down.

PZU Group cooperated with 8 banks and 6 strategic partners in scope of protective insurance in 2014. The partners of PZU Group are the leaders in their fields and have customer bases with great potential. The cooperation in scope of strategic partnerships concerned mainly the companies operating in telecommunications and energy, which were used to offer insurance of electronic equipment and assistance services.

PZU gross written premium (PLN million)



33.0 %
PZU's share in the non-life insurance market after Q3, 2014, incl. 1.6% Link4

42.2 %
share of PZU in corporate motor own damage insurance market

68.3 %
share of PZU in the technical result of the market after Q3, 2014

16.5 days
average claims handling period in PZU

The sales of protective property insurance in scope of the bancassurance channel covered mainly the insurance of buildings, structures, household, and payment card insurance.

In 2014, PZU collected gross written premiums of PLN 8,261.8 million, which was 0.1% less than in the previous year. At the same time, its structure changed in comparison with the previous year, and therefore:

- The value of MTPL insurance was PLN 2,648.5 million, which was 6.3% lower than in the previous year. This represented 32.1% of the overall portfolio, i.e. its share dropped in comparison to 2013 by 2.1 p.p. The drop in the value of MTPL insurance at PZU resulted mainly from the drop of the average premium and lower sales (strong market competition);
- PZU collected PLN 2,016.3 million from motor own damage, which was 0.6% less than in the previous year. This represented 24.4% of the overall portfolio, i.e. its share remained at a similar level to that of the previous year;
- The rapid growth in sales of the following types of insurance: contractual guarantees, corporate TPL, PZU DOM contributed to the 5% growth in written premiums from non-motor products. As a result, the share of gross premiums from non-motor insurance to the total premium increased to a level of 43.5% (41.3% in 2013).

In 2014, PZU paid gross claims and benefits amounting to PLN 4,427.3 million, which was 2.9% more than in the previous year.

In 2014, PZU generated a net profit of PLN 2,636.7 million in accordance with the Polish Accounting Standards, of which PLN 2,060.0 million was from the dividend from PZU Życie.

Activities of Link4

In scope of PZU Group's development strategy assuming the strengthening of PZU's position in Poland and international expansion, PZU signed the agreement for the acquisition of Link4 shares on 17th April 2014. The transaction of the acquisition of Link4 shares was closed on 15th September 2014 and final settlement of the transaction on 11 march 2015, as the purchaser, PZU paid the total price of EUR 91,816.0 thousand

Link4 is the leader of the Polish direct insurance market and offers a wide range of non-life insurance, which covers motor insurance, property insurance, personal insurance, and TPL insurance.

Motor insurance is the most important group of products offered by Link4, both in terms of the number of binding insurance contracts, as well as the premium share in the total gross written premiums.

Link4 cooperated with banks and several strategic partners in scope of protective insurance in 2014. The sales of non-life insurance in the bancassurance channel covered mainly the insurance of buildings, structures, and residences, motor insurance, and travel insurance.

In 2014, Link4 collected a gross written premium of PLN 417.1 million (within the written premium of PZU Group of PLN 138.8 million, i.e. from the time of the purchase), most of which is composed of motor insurance as follows:

- the value of MTPL insurance was PLN 262.5 million, which composes 62.9% of the entire portfolio;
- the value of the motor own damage premium was PLN 77.5 million, which composes 18.6% of the entire insurance portfolio.

Factors, including threats and risks, which will affect the activities of the non-life insurance sector in 2015

Apart from events of a catastrophic nature (such as floods, drought and spring frost), the main factors which can affect the situation of the non-life insurance sector in 2015 include:

- the potential slowdown of the economic growth in Poland resulting from the deteriorating external conditions – the Russian-Ukrainian conflict and the slowdown of economic growth in the euro zone and in Germany. In consequence, the worse financial standing of households can lead to a decline in sales of motor policies (as a result of lower new car sales), lower sales of mortgages and the related mortgage related insurance, as well as lower demand for other property insurance. The worse financial standing of businesses can result in a growth in credit risk and an increase in the level of claims in the financial insurance portfolio;
- the reduction in the development of mortgage campaigns as a result of the stricter requirements of S Recommendation on good practices regarding the management of credit exposures collateralized with mortgages and the small scope of the Mieszkanie dla Młodych (Flat for the Young) Programme. There are plans to amend the Mieszkanie dla Młodych programme in 2015, which will aim to increase the contributions and thus increase the programme's popularity, which could influence the increase of mortgage related insurance sales in the long run;
- price pressure from the competition arising from the declining level of motor insurance claims starting in 2013;
- decisions of supreme courts in scope of monetary compensation from to the closest relative from the TPL insurance of owners of motor vehicles for damage resulting from pain and suffering even if the victim died before 3rd August 2008;
- implementation of the Solvency II requirements from January 2016, which is based on risk evaluation and may change the operating model of selected areas of the insurance companies on the market (e.g. the tariff policy).

3.3 PZU Życie – activities on the life insurance market in Poland

Situation on the market

The life insurance market in Poland measured by the gross written premium decreased by an annual average of 2.3% over the past 5 years. The premium collected during the three quarters of 2014 was 8.7% lower than in the corresponding period of the previous year, which means a continued decline after a series of increases ended in 2012. The rates of growth for the same periods of 2013, 2012 and 2011 were respectively -14.6%, 10.6% and 5.6%.

It should be noted that the premium decline applied exclusively to the single premium (a decline of 21.2% y/y), mainly in the bancassurance channel. The dynamics for the corresponding period of 2013 were also negative at -26.2%.

The reasons of the lower single premiums in recent years include the current situation of the capital market. The record low interest rates reduce the profitability of short-term endowment policies (polisolokaty) thereby generating greater interest in other investment products, i.e. the investment funds offered by TFI or the unit-linked insurance products. Additionally, a tax on revenue from short-term endowment policies was introduced on 1st January 2015, which reduced the customer interest in such products already in the last year. REGULATIONS CHAPTER 2.4

Due to the above, the share of the bancassurance channel in the gross written premium of life insurance companies is reducing quarter to quarter starting from 2013. This share was 40,6%[1] in the first quarter 2014 and dropped since the corresponding period of 2013 by 5.8 p.p.

The result of the changes taking place on the market is the rising prominence of the regular premium over the single premium, which is PZU Życie's competitive advantage on the market. Throughout three quarters of 2014 the premium was higher by 3.2% compared to the corresponding period of 2013.

The gradual increase in the attractiveness of employee pension programmes (EPP) on the life insurance market is noticeable. Much like in previous years, the most common form of EPP were insurance programmes. In 2013 they represented 67%[2] of all Employee Pension Programmes. However, their share declined by 2.2 p.p. compared with 2012. Regardless, much like other EPP forms, the ones offered by life insurance companies recorded a growth of assets in 2013 (by 11.2% y/y). By the end of 2013 almost 2.4% Polish employees were covered by EPP, which means that the market still holds great growth potential.

[1] PIU data (www.piu.org.pl), The bancassurance market after the first quarter of 2014.

[2] Employee Pension Programmes (EPP) in 2013, Polish Financial Supervision Authority, June 2014

Life insurance market – gross written premium (PLN million)

	1 January - 30 September 2014			1 January - 30 September 2013		
	PZU Życie	Market	Market without PZU Życie	PZU Życie	Market	Market without PZU Życie
Regular premium	5,267	12,279	7,012	5,196	11,901	6,705
Single premium	910	8,930	8,021	1,610	11,333	9,722
TOTAL	**6,176**	**21,209**	**15,032**	**6,807**	**23,234**	**16,427**

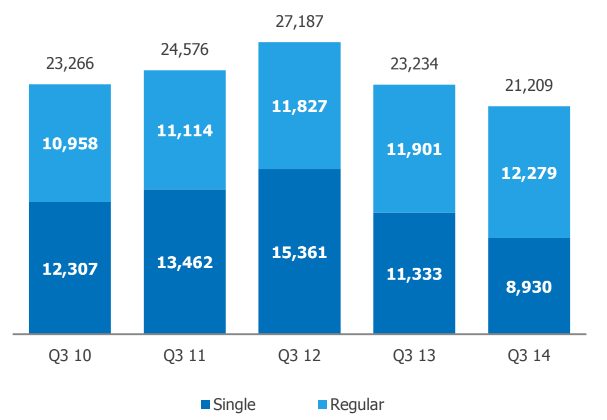
Source: KNF (www.knf.gov.pl). Biuletyn Kwartalny [PFSA Quarterly Bulletin]. Life insurance market 3/2012, data collected by PZU Życie

The total technical result achieved by life insurance companies during three quarters of 2014 was greater by PLN 388.7 million (16.7%) than in the corresponding period of 2013, mainly due to the greater profitability of life insurance (Group I) – technical result growth of PLN 258.3 million (+41.8%).

During this period, life insurance companies generated a net result at a level of PLN 2.7 billion, which constituted a growth of 14.0% (PLN 326.3 million). This growth results mainly from the investment results of the insurance companies that benefited from the continuing boom on the debt market. As at the end of the third quarter of 2014, the debt instruments and fixed income securities in the portfolios of the life insurance companies composed over 60%.

The total value of investments of life insurance companies at the end of the third quarter of 2014 amounted to PLN 99.5 billion, which means growth of 4.4% compared with the end of 2013. In particular, high premiums (and higher than the level of the benefits paid) contributed to an increase of the unit-linked net assets (increase of 8.0% to PLN 53.8 billion).

Gross written premium of life insurance companies in Poland (PLN million)



Source: KNF (www.knf.gov.pl). Biuletyn Kwartalny [PFSA Quarterly Bulletin]. Rynek ubezpieczeń [Insurance Market] 3/2010 - 3/2014.

The Solvency II project - life insurance

The condition of the life insurance sector in Poland one year before the requirements of the Solvency II Directive come into effect, i.e. on 1 January 2016, can be graded as positive. According to the quantitative survey conducted by PFSA among the domestic insurance and reinsurance companies as at the end of 2013 (QIS2014), the solvency of capital requirements (SCR) established with the standard formula for the life insurance market in Poland was 343.2%.

PZU Życie's activities

PZU Życie SA (PZU Życie) operates on the life insurance market within PZU Group. The Company offers a wide range of life insurance products, including group and individual protection insurance, investment insurance and pension products.

During three quarters of 2014, PZU Życie collected 29.1% of the gross written premiums of the life insurance companies. In comparison, in 2013, the Company had a 29.3% share of the market. Simultaneously, PZU Życie continued to remain the decisive leader in the regular premium segment. During three quarters of 2014, it obtained 42.9% of such premiums of all life insurance companies.

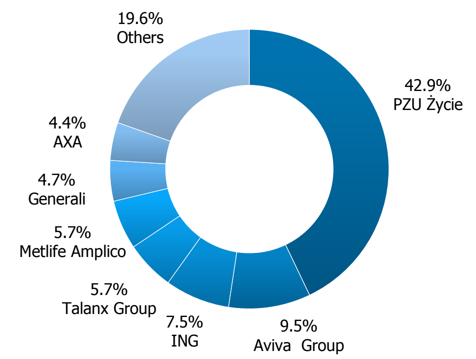
PZU Życie's technical result constituted the majority of the result obtained by all life insurance companies. This is the evidence of the high profitability of the products offered. PZU Życie's technical result margin was more than three times higher than the margin obtained by all the other companies offering life insurance together (26.1% compared with 7.4%).

Life insurance market – gross written premium vs. technical result (PLN million)

	1 January - 30 September 2014			1 January - 30 September 2013		
	PZU Życie	Market	Market without PZU Życie	PZU Życie	Market	Market without PZU Życie
Written premium	6,176	21,209	15,032	6,807	23,234	16,427
Technical result	1,610	2,723	1,112	1,368	2,334	966

Source: KNF (www.knf.gov.pl). Biuletyn Kwartalny [PFSA Quarterly Bulletin]. Life insurance market 3/2012, data collected by PZU Życie

Life insurance companies - share of regular gross written premiums for 3 quarters of 2014 (%)



Groups: Talanx – Warta, Europa, Open Life; Aviva - Aviva TUnŻ, BZ WBK-Aviva TUnŻ; VIG – Compensa, Benefia, Polisa Życie.
Source: KNF Biuletyn Kwartalny [PFSA Quarterly Bulletin]. Rynek ubezpieczeń [Insurance Market] 3/2014

In 2014, PZU Życie adjusted its product offering to the rising customer needs, the actions taken by the competition and the changing legal situation.

The 2014 changes in the offer include the following:

- individual protection insurance – in 2014, PZU Życie added the new "PZU Pomoc od Serca" additional insurance to the offer, which was positively received by the clients. This insurance provides financial support in instances of suffering from a major illness such as malignant tumours, multiple sclerosis, and others. In such instances, the insurance provides access to foreign medical consultation in addition to the payout from the policy. This allows the clients of PZU to take advantage of the knowledge and experience of the best health care centres in the world. Everyone covered by this insurance is entitled to a five-year protection and guaranteed that the premium will not change over this period;
- group protection insurance – the offer for SMEs was modified with the introduction of a new, flexible offer allowing the client more freedom in the selection of additional insurance and the total insurance and benefit amounts;
- group health insurance – the new changes in the general insurance conditions favour the clients as there is easier access to health care (approximately 1,380 health care centres in 460 Polish cities) and there is a new offer for the clients from the SME sector;
- medicine insurance – introduction of the new Cztery Pory Roku product, which mainly covers drugs treating seasonal diseases.

Simultaneously, PZU Życie actively worked towards attracting new customers for group insurance. Because the number of employment establishments operating in the public sector placing orders for insurance services in the tender procedure is increasing, the company entered many – successfully completed – tenders for group insurance.

The year 2014 saw rising client interest in traditional individual life and endowment insurance. Simultaneously, PZU Życie worked intensively on the adjustment of the current offering to the further decline of treasury bond profitability.

In 2014, PZU Życie was active in the field of pension insurance, which also aimed to preserve the portfolio and acquire new clients. The month of January saw the implementation of changes to the IKZE product resulting from the amendment of the Act, which introduced changes favouring the clients as they simplified the structure of payment limits and limited the tax from the pension benefit to the flat rate of 10%.

-2.3 %
average annual decrease of gross written premium on the life insurance market after Q3 2010-2014

3.2 %
growth in life insurance market with regular premium after Q3 2014

16.7 %
growth in total technical result of life insurance companies after 3Q 2014

14,0 %
growth in total net result of life insurance companies after 3Q 2014

According to the strategic principles concerning the revitalisation of the investment offer and adjustment of the products to the client and distribution channel segments, the sales of the individual unit-linked life insurance Plan na Życie were ended as at 1st February 2014.

In 2014, in accordance with Polish Accounting Standards, PZU collected gross written premiums of PLN 8,182.2 million, which was 7.5% less than in the previous year. The vast majority of the Company's premium was from regular premium products. It represented 86.3% of the gross written premiums (as opposed to 78.6% in the previous year). It primarily included the written premium from group insurance and individually continued insurance, from which approximately 12 million Poles benefited.

In 2014, PZU Życie settled claims and benefits at the amount of PLN 6,529.9 million, which was 4.4% more than in the previous year.

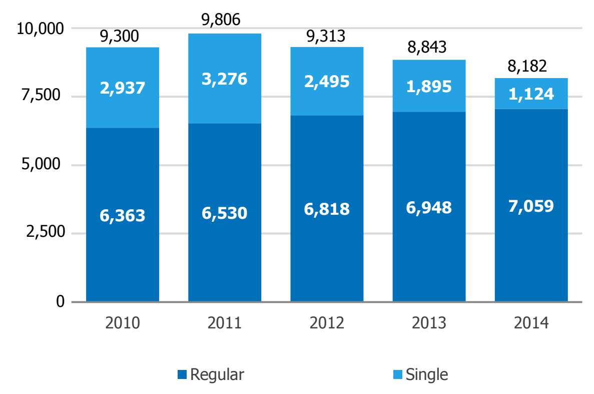
In 2014, PZU Życie generated a net profit of PLN 1,931.3 million in accordance with the Polish Accounting Standards.

Factors, including threats and risks, which will affect the activities of the life insurance sector in 2015

The situation on the life insurance market in 2015 will primarily be affected by:

- low interest rates, which reduce the profitability of investments made from premiums collected;
- the economic climate on the capital markets, which is difficult to predict and which determines the attractiveness of unit-linked insurance products;
- the guidance in scope of insurance distribution released by the PFSA, which affect both the product structure and the entire insurance agency sector;

Gross written premium of PZU Życie (PLN million)



- OCCP (Office for Competition and Consumer Protection) rulings in scope of unit-linked fund products;
- implementation of the Solvency II requirements from January 2016, which is based on risk evaluation and may change the operating model of selected areas of the insurance companies on the market (e.g. the pricing policy).

3.4 PTE PZU – activities on the pension funds market

Situation on the market

In December 2014, the net assets of OFEs were at a level of PLN 149.1 billion and dropped by 50.2% with respect to the end of the previous year.

The activities of OFEs and their assets in 2014 were particularly affected by the changes made in the legal regulations. REGULATIONS ON THE INSURANCE MARKET IN POLAND 2.4.

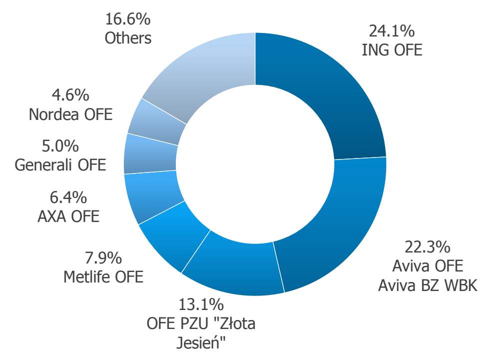
Activities of PTE PZU

The OFE PZU Złota Jesień, which is managed by PTE PZU SA (PTE PZU), is one of the largest players on the pension funds market in Poland. At the end of 2014, OFE PZU was the third largest pension fund, both in terms of the number of members, as well as in terms of net asset value:

- The Fund had 2,224.3 thousand members, i.e. 13.4% of all participants of open-ended pension funds belonged to it;
- Net assets stood at PLN 19,553.7 million, or, in other words, they represented 13.1% of the total value of assets of the open-ended pension funds operating in Poland.

The ZUS (Social Insurance Institution) transferred PLN 993.4 million in premiums in 2014, which was 28.8% less than in the previous year. The declined premium level results mainly from the introduction of voluntary contribution of premiums to OFE, but also, on a much smaller scale, from the activation of the "slider" (the members within the slider do not pay premiums to OFE). At the end of 2014, DFE PZU held 60.8 thousand IKZE accounts, in which assets worth PLN 8.8 million

Open-ended pension funds – share in net assets; balance as at 31 December 2014 (%)



Source: KNF (www.knf.gov.pl), OFE market data: monthly statistics - December 2014.

were kept. As a result, it maintained its position as one of the leaders in the voluntary pension funds segment, while the rate of return in 2014 was 3.64%.

Factors, including threats and risks, which will affect the activities of pension funds in 2015

The main challenges for the pension funds market in 2015 are:

- The reform of the pension system in Poland and the outflow of funds from OFEs;
- The economic climate on the capital market and, in particular on the WSE, affecting the value of the assets of OFEs and the level of management fees collected by PTEs.

3.5 TFI PZU – activities on the investment fund market

Situation on the market

After a good result in 2013, which saw the assets managed by domestic funds grow by almost +29.6%, the 2014 asset dynamics were three times lower and ultimately amounted to +10.6%. At the end of 2014, the assets for the entire investment fund market amounted to over PLN 209 billion in comparison to almost PLN 189 billion in December of 2013.

The slowdown of the market development dynamics is rooted mainly in the reduced popularity of funds among the clients. In 2014, the balance of sales of the products offered by domestic TFIs amounted to PLN 11.5 billion compared to PLN 21.5 billion in 2013. The lower sales balance results mainly from the reduced interest in non-retail funds oriented towards a narrow target group.

Additionally, the low results of the managers and the changed preferences of the clients also contributed to the 2014

42.9 %
share of PZU Życie in the life insurance market after Q3, 2014 by regular premium

26.1 %
technical margin of PZU Życie after Q3 2014

8 %
increase of net assets on the risk of policyholders after 3Q 2014

99.5 PLN billion
volume of investment assets of life insurance companies at the end of Q3 2014

149.1 PLN billion
net asset value of open-ended pension funds at the end of 2014

2.2 mln members
of open-ended pension funds at the end of 2014

209.0 PLN billion
net assets value of mutual funds at the end of 2014

11.5 PLN billion
net inflow to domestic mutual funds in 2014

reduction of asset growth. In 2014, the most popular products among domestic investors were those with a low risk profile – cash, monetary, and debt-based.

The structure of assets changed on the Polish investment fund market because of the trends described earlier. The biggest growth dynamics were recorded by security funds, monetary market funds, debt funds, and raw material funds.

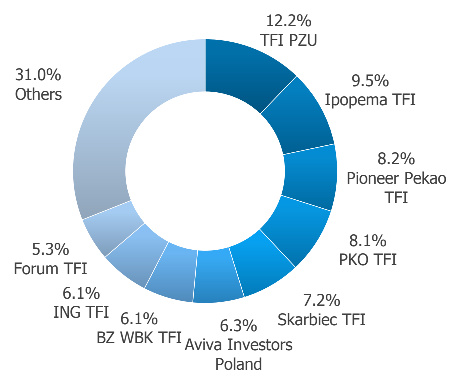
Activities of TFI PZU

The operations on the investment fund market in scope of PZU Group are carried out by Towarzystwo Funduszy Inwestycyjnych PZU SA (TFI PZU). It offers products and services to both mass market and institutional customers, including additional investment/ savings programmes within pillar III of the social insurance system, including Individual Pension Account (IKE), Specialized investment programmes, Employee Pension Programmes (EPP) and Corporate Investment Programmes (ZPI).

At the end of 2014, TFI PZU had 24 funds and sub-funds in its portfolio, of which 16 were also offered to customers from outside PZU Group.

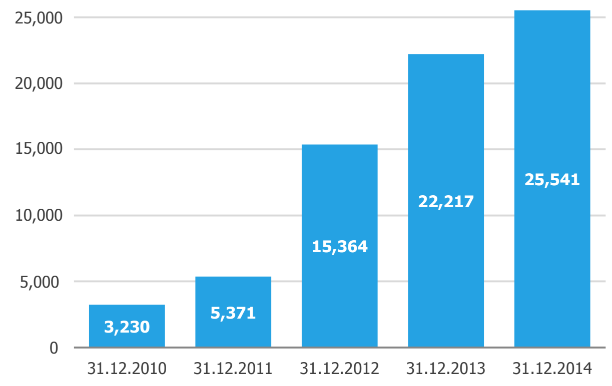
At the end of 2014, TFI PZU accumulated net assets of a value of PLN 25 540.9 million, which means growth of 15.0% compared with the situation at the end of 2013. Similarly, it maintained the leading position on the investment funds market with a share of 12.2% (compared with 11.8% by the end of 2013 and 10.5% in December 2012).

Investment fund companies - share in net assets as at 31.12.2014 (%)



Source: Chamber of Fund and Asset Management

Net assets value of TFI PZU (PLN million)

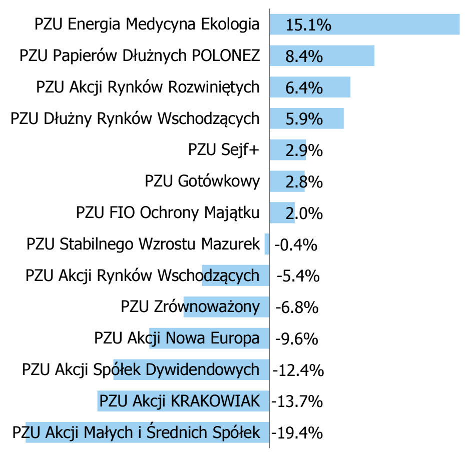


Simultaneously, TFI PZU remained the leader in the segment of employee pension programmes among all institutions operating on this market (not only investment funds), accumulating assets worth more than PLN 3.0 billion (compared to PLN 2.2 billion at the end of 2013 and PLN 1.8 billion in December of 2012).

TFI PZU's assets growth in 2014 was primarily due to:

- active sales of funds and subfunds – in 2014 the external clients of TFI PZU invested almost PLN 3.1 billion gross (and almost PLN 1.7 billion net sales). Combined with the results of fund management, this allowed to increase the external client asset value in TFI PZU to over 6.0 billion PLN (41.5% more than in the previous year and 83.9% more than in December 2012). Therefore, the value of external client assets managed by TFI PZU rose 2.5 times during the last three years;
- the registration of eight new Employee Pension Programmes and the takeover of five EPPs for management;
- the investment results generated by the fund managers.

Rates of return on TFI PZU investment funds in 2014 (in %)



Factors, including threats and risks, which will affect the activities of investment funds in 2015

The condition and results of the investment fund market will primarily depend on:

- operations of central banks;
- the economic climate on capital markets (including the prices of raw materials);
- attractiveness of traditional bank deposits and profitability of instruments.

3.6 Foreign operations

The Lithuanian market

According to the Bank of Lithuania, the written premium of non-life insurance companies amounted to EUR 387.2 million, 1.3% higher than in the previous year.

The main generator of the market's gross written premium was property insurance (premium growth of 4.2%). Motor insurance recorded a decline with motor own damage lower by 1.4% and MTPL by 0.1%. The negative dynamics were caused mainly by the lowered policy prices (by approximately 10-15%) and the started price war. The recovering new car market failed to compensate for this decline.

The structure of non-life insurance in 2014 was dominated by motor insurance, which accounted for 57.6% of the gross written premiums, whereby the share of MTPL insurance was 35.0%.

Eleven companies were operating in Lithuania in the non-life insurance sector at the end of 2014 (including 9 branches of insurance companies registered in another EU member state). The largest insurance company in Lithuania in terms of total gross written premiums from non-life insurance remains Lietuvos Draudimas. The 2014 market share of this company was 30.9%. BTA was second with 14.0% and PZU Lithuania third with 13.8%.

According to the data of the Bank of Lithuania, the gross written premium of life insurance companies was EUR 215.0 million which constituted a growth of 18.6% compared to 2013. The positive dynamics concerned both the single premium (40.0%) and the regular premium (15.0%).

The structure of life insurance was dominated by insurance with investment funds representing 70.5% of the premiums. Traditional life insurance accounted for 22.8% of the premiums.

Nine companies were operating in the life insurance sector at the end of 2014 (including 4 branches of insurance companies registered in another EU member state). The Lithuanian life insurance market is highly concentrated. At the end of December 2014, the share of total gross written premiums of the three largest life insurance companies amounted to 60.7%.

The Latvian market

The domestic non-life insurance market in Latvia grew by approximately EUR 14 million in 2014 and reached the total volume of EUR 240.1 million. The following forms of insurance had the greatest impact on the growth of this revenue: health by EUR 4.2 million (growth by 11,9%), property by EUR 3.3 million (7,1%), motor own damage by EUR 2.6 million (4.4%).

In 2014, 13 insurance companies were operating on the Latvian non-life insurance market, 5 of which held an approximate share of 75%.

The Estonian market

In 2014, the non-life insurance companies and branches of foreign companies of this insurance sector operating in Estonia collected the total premiums of EUR 261.4 million, EUR 62.7 million i.e. 24.0% of which were acquired by the branches of foreign insurance companies operating in Estonia.

Considering the product structure, motor own damage insurance (35.3%) and MTPL insurance (25.4%), as well as individual property insurance (15.4%) had the highest market shares.

Ten companies were operating in the non-life insurance sector at the end of 2014 (including 4 branches of insurance companies registered in another EU member state).

Capital changes of PZU Group in the Baltic States
In scope of the expansion strategy and pursuant to the agreements dated 17th April 2014, PZU and PZU Lietuva acquired the following entities from Royal & Sun Alliance plc (RSA) for EUR 258 million:

- ASS Balta, the leader of the Latvian market. The transaction covering the purchase of 99.995% of the company's equity was closed on 30th June 2014 after approval of the Latvian supervisory authority and antimonopoly offices. The final purchase price was EUR 48.4 million for the net assets in amount of EUR 39.4 million. As a result of the transaction intangible assets in the amount of EUR 30,1 million and the goodwill in the amount of EUR 9 million have been recognized.
- Lietuvos Draudimas, the leader of the Lithuanian market. PZU paid the total price of EUR 191.0 million for the majority bundle representing 99.997% of shares in PZU capital. The transaction has not been ultimately settled. As a result of the transaction intangible assets in the amount of EUR 58.7 million and the goodwill in the amount of EUR 84.5 million have been recognized. The transaction covering the purchase of Lietuvos Draudimas was closed on 31st October 2014 with the reservation resulting from the decision of the anti-monopoly office of the Bank of Lithuania. The decision was conditioned by the reduction of PZU's share in the Lithuanian motor own damage and property insurance. This decision is carried out through the sale of PZU Lietuva, which is discussed below.
- The Estonian branch of Codan Forsikring A/S. The acquisition of the branch was closed on 31st October 2014. As the purchaser, PZU Lietuva paid the total price of EUR 21.4 million. The transaction has not been ultimately settled. As a result of transaction intangible assets in the amount of EUR 7.4 million and the goodwill in the amount of EUR 26.4 million have been recognized.

According to the agreement concluded on 2 February 2015, PZU Group sold 1,761,941 common shares of PZU Lithuania to the Norwegian insurance company Gjensidige Forsikring ASA. The transaction will be completed after the fulfilment of the following conditions:

- lack of objection of the Bank of Lithuania;
- approval from the Latvian, Estonian, and Lithuanian anti-monopoly authorities;
- completion of the process of separating assets and receivables of PZU Lithuania related to the operations carried out by the company's branches in Latvia and Estonia to PZU Group;
- consent of the Bank of Lithuania concerning the early repayment of the subordinated loan granted to PZU Lithuania by PZU and the repayment of the subordinated loan by PZU Lithuania;
- approval from the Norwegian FSA for the purchase of the shares in PZU Lithuania by Gjensidige Forsikring ASA;
- waiver of the preemptive right by the minority shareholder of PZU Lithuania in relation to the shares;
- approval of the Lithuanian government commission for the purchase of the shares in PZU Lithuania by the Norwegian insurance company.

The price of the shares will amount to EUR 54 million adjusted by the differences in the net assets. The conditions precedent should be fulfilled until 30th November 2015.

Activities of PZU companies in the Baltic States
In 2014, PZU Lietuva recorded a growth of the gross written premium of 2.5% compared to 2013 and reached the level of EUR 53.3 million.

During this time, Lietuvos Draudimas (the leader of the Lithuanian market) collected the gross written premiums of EUR 119.5 million, 0.8% higher than in 2013. The growth of the written premiums resulted mainly from increased insurance sales in the individual client segment (by 3.7% compared to the previous year), specifically in non-life insurance. From the time it joined PZU Group, Lietuvos Draudimas generated the written premium of EUR 19.7 million.

The premium acquired by UAB PZU Lietuva Gyvybës Draudimas – "PZU Lithuania Life" was EUR 8.9 million, which was 17.4% more than in 2013. The highest sales growth was recorded in endowment insurance, which increased by 34.3% compared with the previous year, as well as unit-linked life insurance (increase of 4.6%).

In 2014, PZU Lithuania occupied third place on the non-life insurance market with a market share of 13.8% (13.6% in 2013). Lietuvos Draudimas remains the Latvian leader with a share of 30.9% (31% last year).

However, PZU Lithuania Life's share of the life insurance market was 4.1% (compared with 4.2% in 2013).

In 2014, PZU Group operated in Latvia through the PZU Lithuania branch, which was opened in 2012, and AAS Balta, the market's leader, which entered the Group in June of 2014. The share of AAS Balta in the Latvian market was 22.9%, the total gross written premium of both entities was EUR 61.2 million, and since it entered PZU Group, AAS Balta generated the written premium of EUR 28.9 million.

PZU Group operates in Estonia through the PZU Lithuania branch, which was created from the merger of two entities: the Lithuanian PZU branch, which was registered in 2012, and the Estonian branch, which was purchased in 2014 and previously operated under the Codan brand. The total share of the gross written premiums of both entities in the Estonian market amounted to 14.5%. The written premium collected by the newly acquired branch from the time of its acquisition is EUR 5.3 million.

The Ukrainian market
W The Ukrainian insurance market recorded a considerable decline in 2014. The gross written premiums on the non-life insurance market in three quarters of 2014 was UAH 15.6 billion and was lower by 20.7% than in the corresponding period of the previous year. This decline resulted mainly from the lower non-motor premium. Financial risk insurance (-33.6%), voluntary property insurance (-26.6%), voluntary other TPL insurance (-34.8%), and credit insurance (-40.3%) recorded lower sales. The decline resulted from the lower premium for active reinsurance obtained from resident companies (from UAH 5.1 billion to UAH 3.4 billion). In scope of motor insurance, there was recorded growth in the Green Card product (31.3%) with lower motor own damage (-14.7%) and MTPL (-2.8%) premiums. As a result of these trends, motor premiums accounted for 30% of the value of the premium actually obtained by insurers during three quarters of 2014 (i.e. 4.4 p.p. more than in the corresponding period of the previous year).

Life insurance companies collected UAH 1.5 billion gross written premiums in three quarters of 2014, which was 12% less than in the corresponding period of 2013.

Within the written premium structure, 87.7% came from individual clients (18% less than in the corresponding period of 2013) with a 10% decline of the total number of insured individual clients compared to the previous year, which resulted from the unstable political, financial, and economic situation of Ukraine over the discussed period.

On one hand, the Ukrainian insurance market is fragmented as it was composed of 389 insurance companies as at September 2014 (of which 58 were providing life insurance). On the other hand, the TOP 100 non-life insurance companies generated 92.9% of the entire market's gross written premium and the TOP 20 life insurance companies generated 98.8% of the written premium.

In 2014, the Ukrainian insurance market experienced difficult conditions associated with the state's weakened economy, the annexation of Crimea, the armed conflict in the east, low client activeness, devaluation processes, and the decline of bank system liquidity. The market continued to present a high level of acquisition costs, problems with preservation of current liquidity of some insurance companies, and the reduced confidence among individual clients, which entailed the problems associated with the liquidity of a part of the banking system. In 2014, due to the aforementioned events, the Ukrainian clients often decided to purchase insurance and investment products from companies holding the western capital share. The previous determinant of the insurance company was the price but in 2014 it was moved aside by credibility and solvency.

On the Ukrainian market, PZU Group conducts its insurance business through two companies: PZU Ukraine (in terms of non-life insurance) – "PZU Ukraine" and PrJSC IC PZU Ukraine Life (life insurance) – "PZU Ukraine Life". In addition, LLC SOS Services Ukraine performs assistance functions.

In 2014, the total gross value of PZU Group's gross written premiums in non-life insurance in the Ukraine amounted to UAH 503.9 million, i.e. it was 24.7% higher than in the previous year. This increase arose from both the increase in the premium obtained through external entities (banks, travel agencies), as well as through its own distribution channels. Travel insurance, Green Card insurance, corporate non-life insurance and motor insurance played a particularly important role in the growth in written premiums.

During three quarters of 2014, PZU Ukraine had obtained 4.2% (growth of 0.9 p.p. in relation to three quarters of 2013) of the gross written premium on the Ukrainian non-life insurance sector, which gave it a ninth place on the market. Meanwhile, the leader's share was 6.6%.

The written premium collected by PZU Ukraine Life in 2014 amounted to UAH 154.3 million and was 28.7% higher than in 2013. This growth was mainly achieved in the bancassurance channel as a result of sales of endowment policies.

On the life insurance market, PZU Ukraine Life held sixth place after three quarters of 2014, with a market share of 7.3% (2.5 p.p. growth in comparison to the previous year). The leader's share was 19.4%.

It should also be noted that the written premium in the reporting currency for both companies was lower than last year under the conditions of strong currency depreciation. In 2014, the premium of PZU Group was PLN 173.6 million and was lower by 14,8%.

During 2014 Ukraine's political and economic situation has deteriorated significantly. Social unrest combined with rising regional tensions has deepened the ongoing economic crisis and has resulted in a widening of the state budget deficit, a depletion of the National Bank of Ukraine's foreign currency reserves, a further downgrading of the Ukrainian sovereign debt credit ratings and significant depreciation of Ukrainian hryvnia.

In connection with this volatile situation the management boards of PZU Ukraine and PZU Ukraine Life Insurance (hereinafter collectively referred to as the "Ukrainian Companies") have made the following decisions in order to mitigate the risk:

- in the scope of insurance activity, apart from standard exceptions (war, terrorism, etc.), insurance coverage does not apply to third party operations performed in violation of the law. In addition, it has been decided to temporarily suspend conclusion and renewal of non-life insurance contracts with natural and legal persons, including property that is subject to a lien or mortgage, if the contract is executed in the territory of Donetsk and Luhansk regions. The same applies to forwarding agent and carrier liability insurance, as well as cargo insurance, if the freight lane passes through the territory of the above mentioned regions;
- the regional office of PZU Ukraine in Simferopol and its customer service centre in Sevastopol are closed. In addition, four sales offices and two agencies were closed in the Donetsk and Luhansk regions;
- actions have been taken to transfer part of the assets, such as cash at current accounts and bank deposits owned by the Ukrainian Companies, to selected banks operating in Ukraine. The main criterion applied when making the above selection is whether a given institution has a trustworthy foreign majority shareholder.

Both in 2014 and early 2015, the Ukrainian Companies realised their sales plans approved by the Supervisory Board.

The Management Board of PZU, in cooperation with the management boards of the Ukrainian Companies, constantly monitors the situation in Ukraine. As at the date of this consolidated financial statements, the Management Board of PZU assumes that the Ukrainian Companies will continue their business activity in accordance with the approved objectives. Nevertheless, a continuation of the current unstable business environment could negatively affect in the future the Ukrainian Companies' results and financial position in a manner not currently determinable. These consolidated financial statements reflects the current assessment of the Management Board of PZU in this respect.

4.2 %
share of PZU Ukraina in gross written premium of the non-life market in Ukraine after Q3, 2014

30.9 %
share of Lietuvos Draudimas in gross written premium of the non-life market in Lithuania

22.9 %
share of AAS Balta in gross written premium of the non-life market in Latvia

14.5 %
share PZU in gross written premium of the non-life market in Estonia

3.7 PZU Zdrowie – activities on the health care market

Health care market

The Polish health care market holds great growth potential. Its current value (including drugs sales) exceeds PLN 100 billion, including NFZ (Polish National Health Fund) expenditures exceeding PLN 70 billion and remaining private expenditures estimated at over PLN 30 billion.

Considering the above, PZU Group made the decision to intensify the operations oriented towards real presence on the health care market. The development will include successive acquisitions of health care centres. The systematic acquisition of the successive entities, which began in 2014, will increase the scope of the realised benefits.

Activity of the companies (health care)

The chain of PZU Group's health care centres offers the following:

- health care for the local population of Płock, Włocławek, and cities of Upper Silesia in scope of NFZ contracts covering general health care and ambulatory special care;
- health care in company clinics for employees of Tauron Group and PKN Orlen Group (mainly chemical plants, power plants, heat and power plants, and mines);
- services in scope of additional health care packages for employees of Tauron Group and PKN Orlen Group and corporate and individual clients in Płock, Włocławek, and cities of Upper Silesia;
- sanatorium and rehabilitation services in Ciechocinek and Ustroń.

Mergers of PZU Group's entities in the health care field

The changes to the capital structure of PZU Group made in 2014 and until the release of this report listed below aimed to realise the strategy to build a network of health care centres and health insurance:

- On 8th April 2014, PZU FIZ AN BIS 2 purchased 100% of the shares in Centrum Medyczne Medica (CM Medica) from PKN Orlen. CM Medica holds 98.58% shares of Sanatorium Uzdrowiskowe "Krystynka" Sp. z o.o.
- On 8th April 2014, PZU FIZ AN BIS 2 purchased 96.45% of the shares in Specjalistyczna Przychodnia Przemysłowa "Prof-Med" Sp. z o.o. (Prof-Med) from Anwil SA.
- On 1st December 2014, the transaction covering the purchase of 98.82% shares of Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia Elvita – Jaworzno III ("Elvita") from three subsidiary companies of Tauron Group (Tauron Dystrybucja, Tauron Wytwarzanie, and Tauron Wydobycie) by PZU FIZ AN BIS 2 was closed. Elvita is the owner of 57.0% shares in Przedsiębiorstwo Usług Medycznych Proelmed Sp. z o.o. ("Proelmed").

The total cost of purchase of the aforementioned companies was PLN 81.5 million and the goodwill recognised in the consolidated financial statements amounted to PLN 29.6 million.

PZU Zdrowie started operations on 9th January 2015. This company is intended to serve as the platform for the development of health care services under PZU Group. The company was created from the transformation of Ipsilon Bis SA, which had no previous record of operations.

Health care market

100 PLN billion

The chain of the cooperating with PZU Group's health care centres in Poland

1,380

3.8 Other areas of activity

PZU Pomoc

The core activities of PZU Pomoc SA (PZU Pomoc) are, in particular:

- organizing assistance services involving the customer help;
- renting and leasing motor vehicles;
- conducting on-line auctions and e-commerce;
- managing loyalty programmes;
- managing post-accident property;
- activities in medical support.

At the end of 2014, the Company was cooperating with more than 1,380 health care establishments throughout the country and had a leading position on the market of intermediation in the sale of damaged vehicles through an on-line auction platform.

Thanks to the cooperation with a car rental service, PZU Pomoc introduced 300 Toyota Auris hybrid cars in Poland in 2014. 5.1 SALES AND SERVICE CHANNELS

From June 2012, PZU Pomoc held 30% of the shares in GSU Pomoc Górniczy Klub Ubezpieczonych [GSU Mining Assistance Insured Club]. Discount, incentive and loyalty programmes addressed to the mining industry are being developed within this entity.

PZU CO

The statutory activities of PZU CO include conducting business regarding the provision of:

- ancillary services related to insurance and pension funds;
- permanent intermediation in the conclusion of insurance contracts, financial and investment contracts and assistance agreements;
- Contact Centre;
- Data Centre;
- printing services;
- IT services;
- bookkeeping;
- human resources and salaries.

PZU Finance AB

PZU Group's operations on the debt market are realised through PZU Finance AB in Stockholm (Sweden). The Company was established in 2014 and is a 100% subsidiary of PZU. Its main operating field is collection of funds through issuance of bonds or other debt instruments and providing financing for the companies within PZU Group.

On 3rd July 2014, PZU Finance AB emitted five-year eurobonds in the amount of EUR 500 million.DEBT FINANCING CHAPTER 8.3

Ogrodowa-Inwestycje

Ogrodowa-Inwestycje Sp. z o.o. (Ogrodowa-Inwestycje) is the owner of the City-Gate office building (ul. Ogrodowa 58, Warsaw). In 2014, it leased three leisure centres from PZU (the Albatros Guest House until the end of October, the Polanica Hotel until the end of December, and the Karłów Hotel until the end of November).

Ogrodowa-Inwestycje performs functions for both companies from PZU Group and external customers.

Grupa Armatura

PZU Group has held an equity stake in Armatura Kraków S.A. (Armatura Kraków) since October 1999.

Armatura Kraków SA (Armatura Kraków) is the parent entity in the Armatura Group. The Armatura Group includes: Armatura Kraków SA, Armatoora SA, Armaton SA, Armatura Tower Sp. z o.o., Arm Property sp. z o.o. and until 31st December 2014, Armadimp SA and Armagor SA. The Armatura Group conducts its business outside the area of financial and insurance services. It is a leading manufacturer in the plumbing and heating sector in Poland. The Armatura Group entities specialize in manufacturing of bathroom and kitchen taps, aluminium central heating radiators, a wide range of valves and sanitary ware.

Since 27th August 2013, the owner of Armatura Kraków has been an investment fund managed by TFI PZU – PZU FIZ AN BIS 2. This was a result of the contribution of 51,600,000 shares in exchange for the allocation of investment certificates to PZU Życie.

In 2013 and 2014 the PZU FIZ AN BIS 2 fund acquired additionally 29,400,000 shares in the Armatura Kraków due to a minority shares squeeze-out, and redemption of own shares from the Company.

Currently, PZU FIZ AN BIS 2 holds 81,000,000 shares of Armatura Kraków, which compose 100.0% of the share capital.

From 10th March 2014, the shares of Armatura Kraków are not listed on the Warsaw Stock Exchange.

Arm Property sp. z o.o. was established on 26 November 2014. All shares were acquired by Armaton SA.

On 15 January 2015, Armatura Kraków and Armatoora SA purchased 8 421 053 shares in Aquaform SA.

In 2020 our Group will stand firmly on three robust pillars:

insurance, asset management and medical care

04

Business strategy

2014 was the last year of PZU 2.0 - the PZU Strategy for the years 2012-2014 – which was approved in December 2011. The PZU Strategy for the years 2015-2020 – PZU 3.0 – was approved in January 2015.

We are PZU!

We ensure peace of mind and a sense of security.

Contents:

4.1 Effects of the PZU 2.0 strategy

2014 was the last year of PZU 2.0 – the PZU Strategy for the years 2012-2014 – which was approved in December 2011.

When the PZU 2.0 Strategy was in effect, PZU Group considerably strengthened its position on the financial market as a result of the following:

- slowdown of the declining share in the non-life insurance market. In the third quarter of 2014, the share of PZU Group in the gross written premium of non-life insurance companies in Poland was established at 33.0%. This result was achieved in the conditions of the corporate insurance portfolio restructuring program aimed to ensure the profitability of such products;
- maintaining the position on the life insurance market. In the third quarter of 2014, PZU Życie held a 42.9% share in the regular premium of insurance companies. The reasons for the 7.9% growth of the regular premium in the third quarter of 2014 compared to the third quarter of 2011 included the development of product innovations;
- dynamic development of asset management. In 2014, PZU Group recorded a 162.5% growth in the assets of third party customers managed by TFI PZU compared with 2011. TFI PZU ranked the first on the market in terms of the fund-managed net asset value in 2014 with the share of 12.2%. TFI PZU was also the leader in the segment of Employee Pension Programmes among domestic investment funds;
- achievement of above-average profitability. During the years 2012-2014, the average return on equity (ROE) amounted to almost 24%, whereas the ROE of the biggest and leading global insurance companies is around 10-15%.

Today, some things seem obvious to us. But we could only dream about them just a couple of years ago.

The PZU Strategy 2.0 also provided solid background for further organisational development, including:

- innovative IT tools – The first functions of one of the world's most advanced policy systems – the Everest system GLOSSARY – were released in November 2013. This new system is used to offer motor, household and some property products. Almost 2.4 million policies were issued in the Everest system by the end of 2014.
- revitalisation of the branch network. – The renovated PZU branches, which no longer have architectural barriers, not only received a new visualization but also began to offer products of PZU Group's entities;
- cost optimisation – Thanks to the organisational changes (including the centralisation of certain functions), automation of numerous processes, employment restructure, new distribution channels, and a new policy administration system, PZU Group was able to achieve benchmark cost effectiveness. The administrative expenses index dropped from 10.6% in 2010 to 9.3% in 2014. FINANCIAL RESULTS OF PZU GROUP CHAPTER 6.1;
- refreshing the brand – PZU Group underwent a big business transformation and started to establish the market standards, especially in scope of service. Meanwhile, the previous brand was associated with the traditional PZU operating model, which was appreciated mainly by the current clients. The refreshed PZU brand is a symbol of a company, which offers new products and uses modern technologies to communicate with Customers. In 2014, in scope of implementing innovative solutions, PZU Group introduced direct claims handling for motor insurance and Poland's first fleet of replacement cars. The new PZU is also an institution that successfully manages its customers' funds using the competencies of the largest asset management company in Poland. Today, PZU is seen as a peer of the leading cutting-edge financial institutions;
- strengthening the market position in Central and Eastern Europe – When the PZU 2.0 Strategy was in effect, PZU considerably strengthened its presence in international markets. In 2012-2013 PZU Group used its subsidiary in Lithuania to enter the insurance markets of Latvia and Estonia. In 2014, PZU acquired Link4 (the Polish market leader of direct insurance), the Lithuanian Lietuvos Draudimas AB, the Latvian AAS Balta, and the business of the Estonian Codan Forsikring A/S. Today PZU is not only the biggest insurance company in Poland but is also the number one on the insurance markets of Latvia and Lithuania. FOREIGN OPERATIONS CHAPTER 3.6.

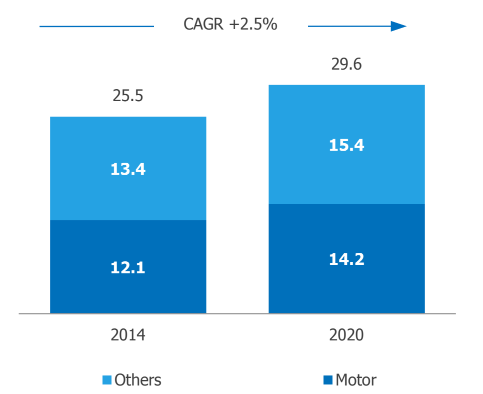
Rate of return on equity confirms the legitimacy of the directions of development for PZU Group assumed in the PZU 2.0 strategy. The TSR index from the IPO (i.e. 12th May 2010) until the end of 2014 was 101.3%.

4.2 Projected external situation

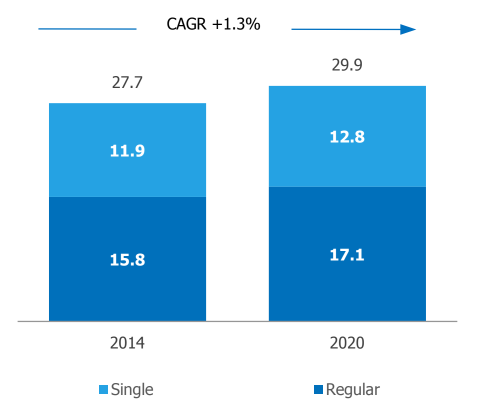
The strategy for the development of PZU Group until the year 2020 was created with the following assumptions concerning the condition of the Polish economy and insurance sector:

- moderate economic growth pace in Poland – According to PZU's projections, the Polish economy will develop at the approximate annual pace of 3-4% in the near future. One of the main contributors of the growth of the Polish economy will still be individual consumption, which will grow at the annual pace of 2.6-3.3%.
- low inflation – The year 2015 will record a 0.5% price growth. Then the inflation index will slowly accelerate and may reach the target assumed by the Monetary Policy Council by 2018 (i.e. 2.5% annually).
- historically low interest rates – The projections for the first years of the strategy state that the interest rates will drop to unprecedented lows. In 2015, the average annual WIBOR6M GLOSSARY may drop below 2.0% and should rise to approximately 3.5% within the strategy's horizon;
- aging of the society – The Polish population is projected to decline and the share of the elderly in the population structure is projected to increase;
- introduction of regulative changes, including implementation of the following:
  - Solvency II GLOSSARY – The Solvency II Directive will come into effect on 1st January of 2016 and some of its regulations on 1st April 2015. It will have impact on the capital requirements of insurance companies and introduce new risk management standards.
  - U Recommendation GLOSSARY of the PFSA concerning good practices in scope of bancassurance. It is projected that it may temporarily slow down the development of the sales via bancassurance channel.
- growth of the claims ratio in non-life insurance in the long run;
- moderate perspectives in scope of the development of the Polish insurance market:
  - Non-life insurance market. It is projected to develop at the annual pace of 2.5%. Due to the low growth of vehicle numbers, the premiums for motor insurance will grow at a rather slow pace (annual average of approximately 2.3%). The price war on this market is projected to continue during the first years of the strategy (with maintenance of a low claims ratio). Projections state that the non-motor insurance market will grow at a somewhat faster pace (2.7% annually).

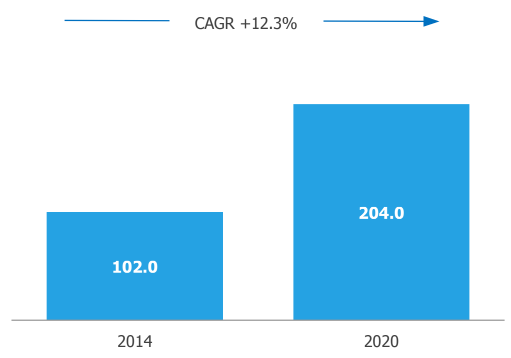
Non-life insurance market – gross written premium (PLN billion)*



Life insurance market – gross written premium (PLN billion)*



Household savings invested on TFI market (PLN billion)*



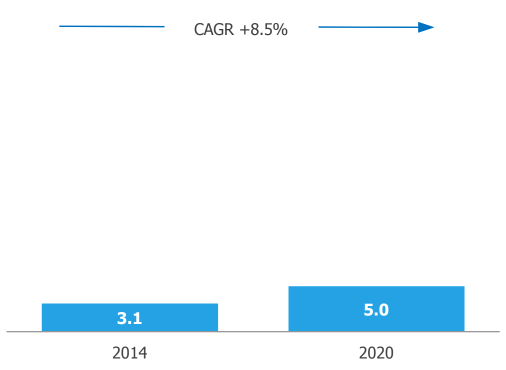
*Q4 2014 Forecast

This will result from the growth of corporate tangible assets, the growing wealth of individual clients, and the greater interest in additional insurances;

- Life insurance market. It will develop at a slower pace than the non-life insurance market with annual average of 1.3%. The 1.3% growth of regular insurance is assumed to cover a stable growth of group insurance (average annual pace of 2.7%). The arrangement of the single premium insurance market will result in the growth of their share unit-linked products at the expense of structured products and short-term endowments (polisolokaty);

- dynamic development on the investment fund market – This market will benefit from the low interest rates and the rising wealth of the society. It is projected that the household assets invested in TFI will grow at the average annual pace of approximately 12,3%;
- great potential of health insurance and prepaid health packages – Due to the difficult access to the NFZ benefits, the private expenses for health insurance and prepaid health packages will grow at the average annual pace of 8.5%.

Private expenses on health insurance and prepaid health packages (billion PLN)*



*Q4 2014 Forecast

4.3 Implementation of Strategy 2.0 for the years 2012 – 2014

Objective	Summary of the performed operations and accomplishments
Business pillars:	
Mass-market customer	
Profitable maintenance of the position in non-life insurance (in Poland)	1. Operating profit in the mass-market insurance segment in 2014 was 31.9% higher than in 2011. 2. According to the PFSA data, PZU is the market leader in the mass-market category after three quarters of 2014 - 34.5% in motor own damage, 27.0% in MTPL insurance, and 47.4% in other insurance. 3. Release of further products on the Everest platform (PZU Auto, PZU Dom, PZU NNW, OC w Życiu Prywatnym, Wojażer). 4. Acquisition of Link4, the leader of the Polish direct insurance market. During three quarters of 2014, it held 1.6% of the gross written premiums of the non-life insurance companies in Poland
Development of life insurance (in Poland)	1. 121.5% increase in the gross written premium in the individual life insurance segment compared with 2011. 2. In scope of the implementation of analytical CRM, PZU Życie developed functions allowing cross-selling operations.
Building a position in the Investments sector	1. Acquisition of PLN 1.7 billion in net assets of external clients by TFI PZU in 2014. By the end of 2014 TFI PZU managed over PLN 6.0 billion assets of external clients, i.e. 41.5% more than by the end of 2013. The value of these assets grew 2.5 times within the last 3 years. 2. In December 2014, the value of TFI PZU's net assets amounted to PLN 25.5 billion which represented 12.2% of the assets of investment fund companies (maintaining the first position on the market). 3. PZU Group registered 17 out of 29 new Employee Pension Programmes (EPP) set-up in 2014. This allowed PZU Inwestycje to strengthen its position as the leader of the EPP market managing 524 out of a total of 1,063 such programmes in Poland.
Group customer	
Profitable maintenance of the leadership position in life insurance (in Poland)	1. Operating profit, excluding the conversion effect in the group and continued insurance segment for 2014, was 25.4% higher than in 2011. 2. Consistent growth in the gross written premium (+5.8% compared with 2011) and high profitability of the segment. 3. After three quarters of 2014, still first with 42.9% market share in regular premiums. 4. Sales of new individual continuation policies for group life insurance.
Development of individual relations (Klub PZU Pomoc w Życiu [PZU Help in Life Club])	1. The number of club members rose to 2.6 million (from over 2.0 million as at the end of 2011). 2. Expansion of the range of services and discounts offered by the Klub PZU Pomoc w Życiu.
Dynamic development of health insurance and building the leading private health care provider	1. 111.1% increase in the written premium in group health insurance compared with 2011. 2. 185.3% increase in the number of risks in group health insurance compared with 2011. 3. Introduction of medicine insurance that includes the modified offer of the Antybiotyk ("Cztery Pory Roku") additional insurance (also for continued insurance). 4. Expansion of the own health care centre network. Purchase of shares in Elvita Jaworzno III (one of southern Poland's biggest chain of cutting edge health care offices) acquired from three companies of the Tauron Group, Centrum Medyczne Medica (acquired from PKN ORLEN), and Specjalistyczna Przychodnia Przemysłowa "Prof-Med" (acquired from Anwil). 5. Expansion of health care service access channels by a mobile application.

Objective	Summary of the performed operations and accomplishments
The corporate customer	
Regaining market position and maintaining profitability (in Poland)	1. Operating profit for 2014 in the corporate insurance segment was 11.7% higher than in 2011. 2. According to the PFSA data, PZU is the market leader after three quarters of 2014 in the category of "enterprises and other entities" in terms of value of gross premium written - 42.2% in motor own damage, 47.6% in MTPL insurance, 19.0% in other insurance.
Other areas of activity	
Effective capital and investment policy	1. Five-year Eurobonds issuance in the amount of EUR 500 million. The high rating and good strategy realisation results allowed for the most beneficial bonds issuance by the Polish company on the international market. 2. PLN 4,663.0 million of PZU's 2013 net profit paid as dividend. 3. Continuation of the work aimed at preparing PZU Group to comply with the regulatory requirements related to the Solvency II Directive. 4. Acquisition of the prestigious logistic property portfolio. PZU Group acquired four logistics parks located in Łódź, Wrocław, and Gdańsk for EUR approximately 140 million.
Expansion in Central and Eastern Europe	1. Strengthening of the position in Central and Eastern Europe resulting from the acquisition of the leaders on the following markets: Lithuanian - Lietuvos Draudimas AB and Latvian - AAS Balta, as well as the Estonian branch of Codan Forsikring A/S.
Conditions for implementation	
Modern and integrated customer service model and effective operations	1. Implementation of direct claims handling. 2. 91.5 % of customers were satisfied with the claims handling process (a customer satisfaction survey conducted on a sample of approx. 24 thousand people in 2014). 3. First insurance company on the Polish market to introduce a fleet of replacement cars (300 hybrid vehicles available throughout the country). 4. Introduction of new functions of the Everest policy system. By the end of 2014 the Everest platform was used to issue 27 thousand policies daily. 5. Establishment of the Organizatorzy Pomocy Poszkodowanym w Wypadkach team [Providers of Assistance to Accident Victims].
HR: business partner/ committed employees/ results-oriented culture	1. Another survey of PZU employee commitment was held. The 2013 involvement index was 48% compared to 40% in the prior year. 2. Revitalisation and standardisation of the branches and the change in the customer service model on many levels. 3. Introduction of an e-learning training module dedicated to PZU Group. 4. Start of the next round of practices and internships in PZU Group. The campaign "Upoluj najlepszy staż w mieście" (Hunt Down the Top Internship in Town) was held. 5. Inauguration of the Menedżer 2.0 development programme which is the continuation of the "Lider 2.0" programme, addressed to the management. 6. The "PZU. Przyciągamy najlepszych" (PZU, We Attract the Best) campaign was conducted to help the company acquire the best candidates. The message was for both experienced experts and academic students and graduates. 7. The "W trosce o serce" (Care for the Heart) programme covered over 1,200 women working at PZU. 8. The start of implementation of a new personnel and salary system.

4.4 Strategy of PZU Group for the years 2015-2020 – The PZU 3.0 Strategy

The PZU Strategy for the years 2015-2020 – PZU 3.0 – was approved in January 2015. WWW.PZU.PL/RELACJE-INWESTORSKIE/SPOLKA/STRATEGIA

Mission

The operations of PZU Group until the year 2020 have the following mission:

„We are PZU! We ensure peace of mind and a sense of security."

PZU Group entities have a common operating philosophy, which emphasises the following three basic values:

- we are Fair – We play fair with our clients, employees, and shareholders. Our rules are clear and our offer is transparent and satisfies the real expectations of the clients;
- we are Effective – We control the costs and make sure the processes are optimal. We offer our clients friendly service and competitive prices;
- we are Innovative – We keep searching for ways to improve and continually adapt to the changing needs of the clients.

Clients

- Our role is to provide our Clients with peace of mind and a sense of security. Our Clients can always count on us. We know our Clients very well and that is why we are ready to satisfy their needs and meet their justified expectations. Thanks to a large scale of our business and effectiveness, we provide them with top quality services at reasonable price.
- As a result of our position on the market, we serve as "market watchdogs". Our actions are beneficial for entire market and the clients, we actively influence market development and set high-quality standards in customer service.

Shareholders

- As a leader on the Central and Eastern European market, we continue to deliver extraordinary profits to our shareholders.

Employees

- PZU is a workplace which inspires the people to try their bests and enables them to keep work-life balance at the same time.

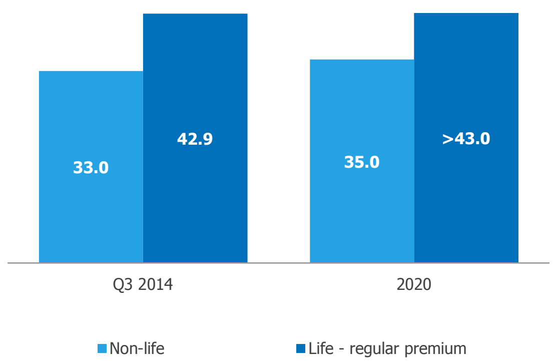
Main strategic objectives

The main strategic objective for the period until 2020 is to transform the institution from an insurance company into the Group based on three strong pillars, i.e.:

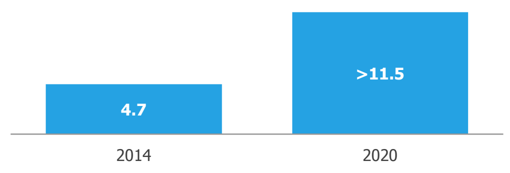
- insurance – By raising the market share in selected segments, the Group will completely reverse the trend and acquire a bigger segment of the market. The Group will increase its non-life insurance market shares to a minimum of 35% [1]. It will retain its life insurance market share of over 43% measured with the share in regular premiums PZU I PZU ŻYCIE CHAPTER 3.2 and 3.3;
- asset management – It will be the leader of the investment fund market. The objectives of Group include reaching a share of at least 11.5% in TFI assets (after exclusion of PZU Group's assets in investment funds) PTE PZU I TFI PZU CHAPTER 3.4 and 3.5;
- health care – PZU Group plans on becoming the leading Polish integrated health care provider and obtain the minimum revenue of PLN 650 million (including the written premium from health insurance) in 2020. PZU ZDROWIE CHAPTER 3.7.

Group will also ensure a competitive return on equity. In the conditions of low interest rates with an unfavourable effect on investment activity, the 2020 ROE of PZU Group will reach minimum 20%.

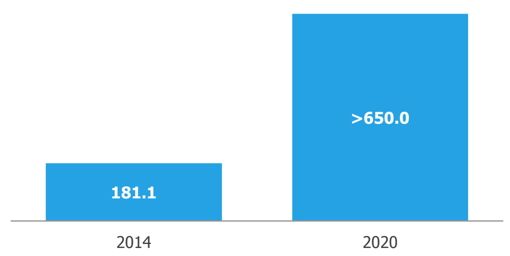
PZU Group's market share (%)



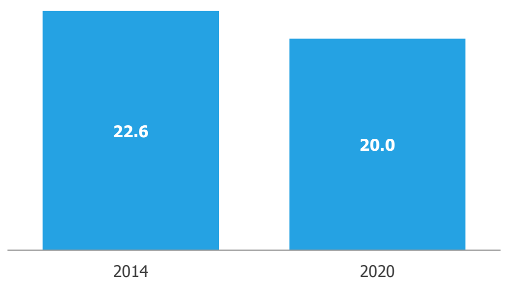
Share of PZU's third party Customers assets in the TFI market's assets (net of non-public assets) [%]



PZU Health's revenues (PLN million)



Return On Equity (ROE) (%)



1 Jointly for PZU and Link4

The 2020 net result of PZU Group will be achieved in the following conditions of insurance business profitability:

- the combined ratio for PZU will be 3 p.p. better than the competition;
- the minimum operating margin in group insurance and individually continued insurance will be 20% (3.0 p.p. lower than in 2013).

Main instruments of the new strategy

The new client segmentation will play a considerable role among the instruments to realise the PZU Group's strategy. The areas of potential revenue growth will not be identified through the product mix, as previously, but through the outlook on the position of PZU and PZU Życie in the segments of retail clients, corporate clients, and strategic partners (including Banks).

Retail Clients		
Individual Client	**Premium Client**	**Small and medium-sized enterprises (SME)**
Net monthly revenue up to PLN 4,000	Net monthly revenue over PLN 4,000	Annual revenue up to PLN 20 million

Corporate Clients – non-life insurance		
Corporate Client (Mid Corporate)	**Key Client**	**Strategic Client**
Annual revenue between PLN 20 million and PLN 100 million	Annual revenue over PLN 100 million	Top 150 Polish companies with the greatest insurance potential

Corporate Clients – life insurance		
Corporate Client (Mid Corporate)	**Key Client**	**Strategic Client**
Employment: between 30 and 250 FTE	Employment: between 251 and 1,000 FTE	Employment: over 1,000 FTE

New, broader proposal of product mix value

Thanks to the market's biggest product mix and experience in product development, PZU Group is able to adapt its offer to the client expectations not just in scope of product-associated demands but to use all its experience in all contact channels.

PZU Group's policy will be based on a new, broader value proposal for the clients and will focus on the following:

- complete proposal management in individual segments (non-life insurance, life insurance, investments, and health);
- offering clear and transparent products to the clients – products without so-called asterisks;
- increasing the flexibility and reducing response time to the actions of the competition in the scope of motor insurance prices;
- revitalising the life insurance product mix for individual clients;
- competing with service quality;
- implementing system solutions for Customer Experience Management;
- building mutual relations (an ecosystem) to build loyalty and increase client involvement, including continuation of the assistance philosophy (and not just benefit/ compensation pay-outs);
- introducing product and process innovations thanks to the application of new technologies, including digital technologies, and the Everest system.

Complex and multichannel distribution and customer service

PZU Group has the most complex and widespread distribution and customer service network, which allows the clients to choose the most convenient form of contact and service.

The main assumptions of PZU Group's policy in relation to the distribution and service channels include:

- the universal profile of exclusive channels and intensified cooperation among the channels with a narrower and more oriented offer;
- introduction of a coherent, multichannel customer service model based on clear distribution of the channels' function, allowing focus on the most effective operations from the perspective of the channel and the client;
- coherent visual identification and high service quality standards in every customer service point of PZU Group;

- introduction of an operating CRM – ensuring a 360° view of PZU Group's client to adapt the products to the client's needs and improve the service quality;
- allowing direct purchase for the clients and service through the direct/ self service channels (i.e. one PZU client account).

The use of two brands for competitive purposes
In order to reach the biggest possible number of retail clients, PZU Group will use two brands – PZU and Link4 – with different positions and offers.

The strong direct Link4 brand will allow for the acquisition of new clients.

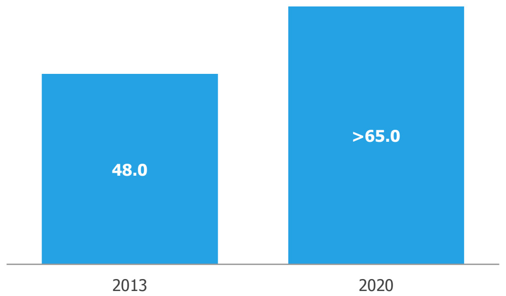
Main assumptions:
- strategy of two complementary brands addressed to clients with various profiles and needs;
- preservation of the organisational independence and flexibility of Link4;
- coordination of the operations between the entities in the marketing strategy (value proposal);
- cooperation of the distribution fields of PZU and Link4 aimed towards synergy, including the use of Link4 offer in PZU sales channels;
- sharing know-how in scope of market information and organisation.

Introduction of a digital operating model
In early 2015 PZU shifted the products offered to individual clients and SME to the Everest platform. Products for corporate customers will be introduced into the system in the second half of 2015.

In 2020, PZU Group will operate through a digital model. It will ensure the following:
- flexible adaptation of the offer to the needs of the clients (quick pricing changes and product implementation);
- complete image of the client – a 360° view of the client with all relation, change and contact history;
- multichannel sales and customer service with full availability of the electronic channels to the client;
- complete digitalisation of client processes (elimination of "paperwork");
- process management with strong support from systems determining the workflow.

Employee professionalism and commitment

Employee involvement ratio in %



By maintaining the position of the preferred employer, PZU Group is building a results-oriented organizational culture.

Main actions (examples):
- transparent procedures and innovative working tools;
- improvement of the internal communication system;
- realisation of the initiatives submitted by employees;
- offering professional development opportunities;
- attractive remuneration and additional benefit packages.

Investment policy
The most important objective of PZU Group's investment policy until 2020 is the optimisation of investment profitability with the assumed risk appetite.

Main assumptions:
- income volatility reduction (further growth of the share of portfolios with profiles near the absolute rate of return at the expense of index portfolios);
- further diversification of investment portfolios (increase of corporate debt and alternative assets at the expense of treasury debt instruments);
- development of investment property;
- increase of the role of strategic asset allocation due to the lingering low interest rate environment.

Capital and dividend policy
PZU Group offers complex and effective capital management. The objective of the capital and dividend policy is to focus on the rate of return for the shareholders by optimising the capital level while ensuring high solvency ratio and maintaining funds for strategic development through acquisitions.

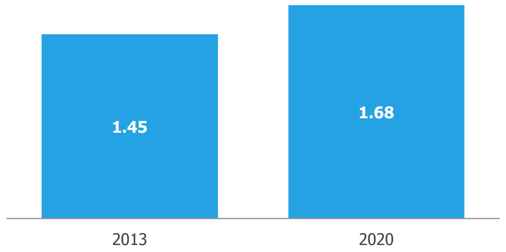
The main premises of PZU Group's capital and dividend policy include:
- dividend payment at 50-100% of PZU Group's consolidated profit;
- maintenance of the solvency margin (pursuant to Solvency I) at a level no lower than 250%;
- maintenance of assets to cover the technical provisions in individual companies of PZU Group (i.e. PZU and PZU Życie) at a level no lower than 110%;
- if the law should allow it, optimisation of the funding structure by changing the surplus capital into subordinated debt (optionally depending on the needs resulting from acquisitions).

PZU Group admits the possibility of changing the capital and dividend policy after the Solvency II Directive comes into effect. DIVIDEND POLICY CHAPTER 8.6

4.5 Development strategy of PZU Group on individual markets

Retail market
In the scope of the retail client, PZU Group intends to focus on the following:
- mass-market client: The Group will maintain its current target client base (with top potential) and increase the segment's cross-selling. The introduction of direct/ self service and the insurance products offered under two brands, i.e. PZU and Link4, will play an important role in maintaining the current clients and acquiring new ones. The Group will strengthen relations with its clients thanks to the upsale of non-life insurance (mainly TPL and household) among clients with group life insurance or individually continued insurance;
- Premium client – PZU Group will raise its share in fulfilling the insurance needs and managing the assets of such clients. Except the insurance upsale (life individual protective as well as property), the Group will offer them individual health insurance products and investment products (mainly TFI);
- SME client – Despite the rising competition, the Group will maintain its high market share in the SME segment. PZU Group will strengthen its relations with this segment by offering a complex life and non-life offer, i.e. property, life, and health insurance. With the development of these companies and growth of their insurance awareness, the

Product per Retail Client



Group will propose increases of the sums insured in the property insurance product to the clients in this segment, especially to big clients.

Corporate clients:
PZU Group will retain its position in motor insurance for corporate clients and also retain positive technical profitability. The Group will increase its share in the so-called Mid-Corpo segment of non-motor insurance from approximately 13% to approximately 20%.

The operating philosophy of PZU Group on this market assumes that it will become a business partner with strong expertise for the clients and provide not just insurance products but also advise the clients at all risk management stages (especially during the determination of insurance needs). Regardless of the entity's size, PZU Group will have an individual approach to its clients.

The main instruments to realise the assumed objectives include the following:
- market introduction of product and process innovations with application of new technologies, including taking advantage of the Everest platform;
- offering risk management consulting for Clients;
- implementation of system solutions increasing sales effectiveness and raising the quality of customer and broker service.

PZU Group's objective in the area of life insurance offered to corporate clients is to maintain the market share and accept the simultaneous controlled profitability decline.

Main operations:

- implementation of product innovations;
- development of service processes applying new technologies and gradual introduction of self-service to group and individually continued insurance;
- improving the quality of the database of clients with group and individually continued insurance for potential to use it in cross-sale for retail clients. Monitoring and management of the flow of clients from the group with group insurance to the group with individually continued insurance.

Bancassurance and Strategic Partnership Programmes

In the area of cooperation with banks, the Group sets the following objectives:

- preservation of the market share in scope of non-life products;
- in the long term, exploiting the opportunities arising from U Recommendation and building its position in the field of life insurance (U Recommendation may temporarily contribute to the decline in gross written premiums);
- seeking to establish a joint venture with a selected bank partner.

PZU Group will also expand its cooperation with trading partners with large customer bases or supporting mass payments. In particular, the Group aims to acquire new partners in the energy, fuel and telecommunications industries.

The Group will implement innovative insurance and assistance products for its strategic partners.

Asset management

PZU Group's asset management operations are carried out under the PZU Inwestycje brand. The main objectives until the year 2020 include the following:

- dynamic growth of clients' assets and becoming the leader in customer asset management in Central and Eastern Europe;
- building the image of a company which provides unique products with above-average financial results (i.e. better than the median of the competitors) and exceptional competences in investing and managing considerable investment portfolios for the benefit of the clients;
- increasing the contribution from client asset management to the financial result of PZU Group.

During the realisation of these objectives, PZU will focus on the following:

- maintaining long-term relations with the client through offers of clear and comprehensible products and clear and transparent communication concerning risk and investment-related costs;
- seeking attractive market niches to make the offered products difficult to copy by the competition;
- developing own investment product network, including start of online sales and selective use of PZU Group's own network;
- striving to provide common access to its products by expanding the external sales network in Poland (as a result of establishing cooperation with new partners and expanding cooperation with current ones);
- establishing cooperation with the biggest client asset management companies as their subcontractor;
- activating sales on foreign markets covering institutional investors.

Until 2020, PZU Group will dedicate over PLN 200 million for expanding asset management operations.

Health care

By 2020 PZU Zdrowie will become the biggest integrated coordinated health care operator. This means that it will provide its clients with a full range of health care services, primarily taking advantage of the potential resulting from the available sources of financing.

PZU Zdrowie:

- will provide its clients with an entire vertically integrated chain in scope of health care composed of ambulatory care, prevention, hospitalisation, rehabilitation, and long-term care;
- will build an effective nationwide network of own standardised centres combined with a network of partner services (to ensure adequate access to the services);
- will provide a unique, complex customer service model, including a client-friendly appointment system (online calendars) and an integrated medical documentation system (online patient account);
- will take advantage of all available service funding sources (NFZ, patient funding, additional insurance, and others);
- will develop funding systems for access to health care services.

At the same time, PZU Group is considering investing in a hospital network and potentially in an assisted living residences. They will be treated as financial investments. If market conditions permit, the hospital and assisted living residences will have the potential to be integrated with PZU Zdrowie.

Between 2015 and 2020, PZU Group will allocate over PLN 800 million to expanding health care operations, including PLN 450 million to acquisitions.

The Group considers health care business investment as a strategic option, which will be applied in instances of considerable structural reforms (additional health insurance or competition in public premium management).

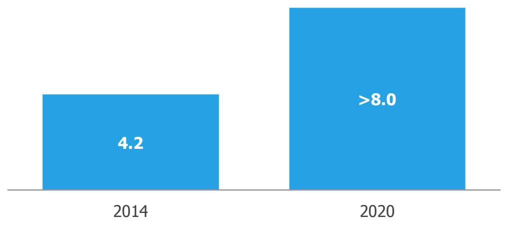
Central and Eastern Europe

PZU Group will expand its international operations through both organic development on the markets where it is already present and acquisition on prospective markets.

In the countries where it is already present, the Group will become one of the three biggest insurance companies considering the gross written premium.

PZU Group will actively monitor the markets of Central and Eastern Europe to identify potential insurance (or optionally asset management) acquisition targets attractive from the perspective of profitability or restructuring potential. The considered options will include acquisition of both big companies with considerable market share as well as small entities with the development potential providing an outpost for further expansion. Expansion is also possible through greenfield investments (e.g. through Link4).

Share of foreign business premium in PZU Group premium (%)



05

Organization, infrastructure and human resources

Claims handling, for the customer, is the moment of truth in contacts with the insurer. Satisfying his or her expectations was our priority during the creation of an innovative and revolutionary service – Direct Claims Handling (BLS).

Contents:

5.1 Sales and service channels

PZU Group (PZU and PZU Życie) has the largest network of sales and service branches on the Polish market. The organization of the PZU sales network has the objective of guaranteeing sales effectiveness, while simultaneously assuring a high quality of services provided.

At the end of 2014, PZU Group distribution network included:
- tied agents – PZU own agency network consisted of 9,083 tied agents, 1,703 of whom were hired in 2014. The agency channel conducts sales of mainly all types of insurance, especially motor and non-life insurance and individual insurance (life insurance);
- multiagencies – 2,963 multiagencies work with PZU Group to make sales mainly to the mass market (insurance of all types is sold through this channel, especially motor insurance and property insurance), as well as individual life insurance;
- insurance brokers – PZU, in particular the Corporate Customer Division, worked with approximately 900 insurance brokers;
- PZU employees – Thousands of PZU employees sold insurance at their own branch offices (primarily to corporate and group customers), which underwent a metamorphosis in 2014. They are well-advertised, in attractive locations, have no architectural barriers, and provide convenient access to all Clients.
- bancassurance and strategic partnership programmes – PZU Group cooperated with 10 banks and 6 strategic partners in scope of protective insurance in 2014. The partners of PZU Group are the leaders in their fields and have customer bases with great potential. The cooperation in scope of strategic partnerships concerned mainly the companies operating in telecommunications and energy, which were used to offer insurance of electronic equipment and assistance services.
- direct – PZU sells products to individual customers by telephone and over the Internet.

PZU's customers can file claims:
- via the Internet
- by telephone via the Contact Centre;
- personally at a selected branch or garage belonging to the PZU Repair Network or the PZU Pomoc mobile office;
- in writing (sent by post, e-mail or fax).

The claims handling process is conducted at 8 Regional Claims Centres located throughout the country and at the central unit – the Operational Centre for Claims and Benefits. Since the process is based mainly on electronic information and there is no connection of the servicing with the place of residence of the insured/event, the model of an equal workload of individual claims handling units that is automated within the SLS system has been implemented.

In 2014, in the field of claim handling, new measures were introduced to improve the quality of claims handling and customer satisfaction.
The biggest innovation on the market was the start of Poland's first direct claims handling service. Thanks to this, the clients of PZU with MTPL insurance can report and handle the vehicle damage claims when the perpetrator is insured in a different company. PZU takes care of all claims handling operations, including compensation payment, and then files for the return of the paid compensation to the insurance company of the perpetrator.

PZU was also the first to introduce its own fleet of replacement cars to the insurance market. The offer covers 300 hybrid Toyota Auris cars, which guarantee comfort and safe and ecological use. This provides a high replacement car availability standard according to market rates, which is dedicated for all PZU clients.

PZU's own agency network

9,083

exclusive agents

Sales through multiagencies

2,963

multiagencies

The next measure adopted to improve the customer experience was the establishment of the Organizatorzy Pomocy Poszkodowanym w Wypadkach [Providers of Assistance to Accident Victims] – Assistance Providers. They are mobile employees who conduct personal interviews with the victims. Their role is to determine the actual life situation and the needs arising from the accident that the victims suffered from, for which PZU is liable. The provided assistance includes, among others, the broadly defined assistance in organising medical, social, vocational and psychological rehabilitation. The Assistance Providers advise the victims how to adjust their housing and vehicles to meet the needs of a disabled person, as well as how to choose the proper systems that compensate for dysfunctions and disabilities. They also provide assistance in completing all the formalities connected with claims handling. They assist in obtaining the benefits and government and institutional assistance (from PFRON [National Disabled Persons Rehabilitation Fund], ZUS [Social Insurance Institution], KRUS [Farmer's Social Security Fund], MOPS [Municipal Social Services Centre] and MOPR [Municipal Family Support Centre]). They also provide psychological support to the immediate family members of the victim, if he or she suffered death as a result of the accident.

Claims handling, for the customer, is the moment of truth in contacts with the insurer and an opportunity to check the quality of the purchased product. Satisfying his or her expectations in the claims handling process is the key to building his ties with PZU. Therefore, in 2014, extensive measures were taken to improve and shorten the process, such as the implementation of a LEAN culture and the expansion of an automatic and simplified process of claims handling.

The quality of the claims handling process at PZU is very highly assessed by customers – according to PZU's survey on a sample of more than 24 thousand customers, the satisfaction index in 2014 was 91.5%. In turn, among the customers who experienced the claims handling process or the process of paying benefits, the NPS (Net Promoter Score) recommendation index, which is the difference between the proportion of promoters and critics participating in the survey, was as high as 26% while 49% of consumers surveyed indicated that they are active promoters of PZU.

PZU's branches

PZU's research indicates that, apart from price, crucial to customer loyalty is the process of claims handling and payment of benefits. The implantation of improved claims handling procedures for TPL and property insurance further reduces the average time of claims handling in comparison to previous years.

The customer service and claims handling processes in the companies acquired in 2014 have not been adjusted to the standards of PZU and PZU Życie. In this scope, these companies are independent. Nevertheless, the service quality is receiving praise from the Clients.

IT and operations
By realising the strategy, PZU is consequently implementing projects oriented on the needs of the Clients. The biggest project – the implementation of the new Everest policy system – is carried out under close IT and business cooperation and is ongoing from 2013.

By implementing the new online IT system, PZU is providing the departments and employees with knowledge allowing for better understanding of the needs of people purchasing insurance and presenting them with complex offers.

PZU consequently trained successive end users of the system throughout 2014. The total of 17.5 thousand users started work under the Everest system until the end of 2014, including all branch employees, tied agents, and office agents.

In 2014, according to the assumed schedule, PZU introduced motor, home, and some property products into the system and thus successfully completed the first stage of the project.

The other products offered to individual, corporate, and SME clients will be activated during successive stages falling to the years 2015 and 2016. Full implementation of the new policy system is planned by the middle of 2016.

In 2014, in addition to operating activities, the Technology Division implemented internal strategic initiatives, which consisted in the development of a series of activities supporting the key business initiatives, as well as an optimised technical infrastructure and related processes, specifically the following:

- in scope of the integration with the newly acquired companies in Poland and the Baltic States, an analysis of IT synergy was conducted and – in selected areas - the companies were entered into the central infrastructure (PZU and PZU Życie).
- in the field of infrastructure consolidation, a comprehensive strategy for the Groups' technical and system infrastructure was developed for the subsequent five years. Its implementation will reduce the maintenance expenses of the technical infrastructure;
- in the field of the system and IT infrastructure capacity management, a systematic infrastructure monitoring was introduced, a strategy for the capacity of critical systems and initiatives was established, and an infrastructure development plan was drawn up;
- critical systems and business applications at PZU Group were included in the monitoring, which enabled the elimination of the risk of long-term failure and the simultaneous reduction in downtime of critical systems.

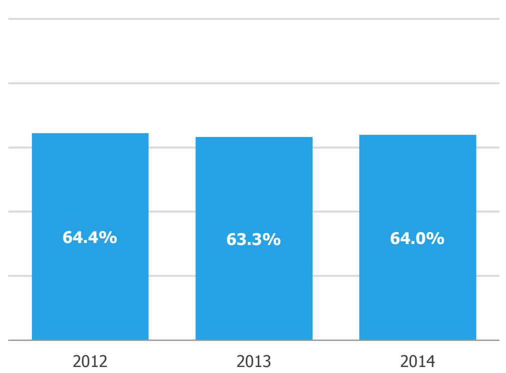
5.2 Human resources management

Level of employment

At the end of 2014, PZU Group employed approximately 16.1 thousand employees[1] calculated as FTEs (including 7.96 thousand in PZU and 3.34 thousand in PZU Życie) and was 18.7% higher than a year earlier. This considerable growth of employment results from the 2014 acquisition of the companies in the Baltic States and in Poland.

The majority of employees in PZU Group were women. At the end of 2014, they represented 64.0% of the total number of employees. It should be noted that the proportion of women in the employment structure has been stable in recent years. More than 74% of PZU Group's employees had degrees. The employee age structure remains stable. 72.7% of the employees were aged under 44 in December 2014.

Female employees in PZU Group structure Female employees in PZU Group structure



2014 data includes employment in newly acquired entities in Baltic states and Poland

[1] Excluding Armatura Group and Health

Bancassurance and strategic partnership

10

cooperating banks

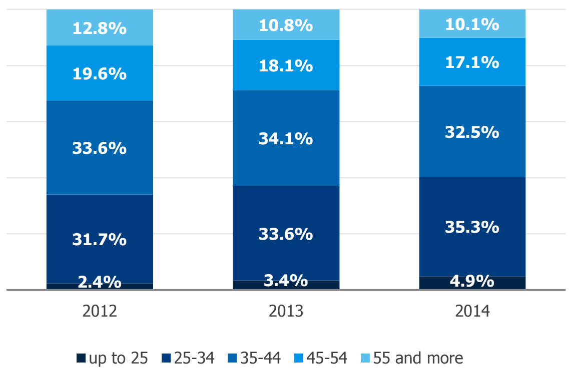
Insurance brokers

900

cooperating brokers

On 8th September 2014, the Management Boards of PZU and PZU Życie announced their intention to make group redundancies, in accordance with the Act on the detailed principles of terminating employment for reasons not attributable to employees of 13 March 2003. The employment restructuring programme was carried out in the fourth quarter of 2014. Ultimately, it encompassed 643 people at PZU and PZU Życie, while the employment downsizing applied to 171 employees of PZU and PZU Życie.

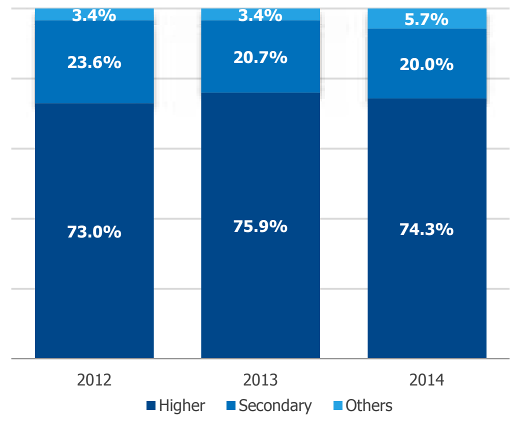
Employment at PZU Group per age



2014 data includes employment in newly acquired entities in Baltic states and Poland

The people who were dismissed or who did not accept the changes in the terms and conditions of employment (just as during all stages of employment restructuring, namely in 2010–2013) were offered more favourable conditions of leaving than those provided for by law in similar situations. The amount of additional redundancy pay depended on the length of service with PZU Group and the salary of each employee.

Employment at PZU Group per education



2014 data includes employment in newly acquired entities in Baltic states and Poland

Salary policy

In 2014, the process of writing up and valuing positions at PZU, PZU Życie, and selected companies from the Group[2] was completed and its results were implemented through adjustment of individual conditions of remuneration for employees who did not fall within the ranges of projected salaries. The results of position valuing will be used in the salary system, which will take into account the competencies, skills required for a given position and market standards.
In addition, in all of the above mentioned companies, the WOW (Wynik – Ocena – Wartości [Result – Appraisal–Values]) appraisal system has been introduced. Its objective is to improve the efficiency of the whole organization, in accordance with the slogan We Reward Results. WOW is a bonus system based on the assessment of the extent to which objectives are achieved, consisting of the employee's annual appraisal and the annual development plan.

Recruitment, training and building an image of the preferred employer

Employment in PZU Group is related to stability of employment and, simultaneously, to substantial development opportunities within the Company.

The following have been organised in 2014 to support employees in improving their skills, which are required at the given work post:

- PLUS Training programme – Training is selected for the employee on the basis of his DNA appraisal, which has the objective of developing the areas which constitute

[2] TFI PZU, PTE PZU and PZU CO

his weaknesses. Every programme contains a dozen or so training modules, which develop all the new skills implemented in the organization, such as, for instance, team management, personal effectiveness and building customer relationships;
- the Lider 2.0 programme – the aim of which is to strengthen key managers in the role of all-round leaders. More than 300 managers participate in it;
- coaching for the top management with the aim to support individual development;
- other forms of training – postgraduate studies and specialized forms of professional development, language courses.

Furthermore, 2014 saw the introduction of the Menedżer 2.0 programme, which expands the Lider 2.0 programme over mid-level management (approximately 1,500 managers).

Every employee benefited from an average of 24 hours of classroom training and 7 hours of e-learning in 2014.

In addition, three projects were inaugurated as a part of the development of the new organizational culture:
- Otwarte PZU [Open PZU] – is a programme designed to build employees' awareness in the area of openness. The programme objective is building innovative basis and it promotes: direct and simple communication, feedback providing strategies, team cooperation, partner relations and research of innovative solutions;
- TalentUp – is a programme addressed to specialists and aims to prepare the employees to work more important roles within the organisation;
- SmartUP – is a General MBA development programme addressed to managers and directors who exhibit high potential. It has been designed in cooperation with the Warsaw University of Technology Business School.

In addition to salaries, employees have additional benefits, such as the P Plus and Pełnia Życia [Fullness of Life] Group Employee Insurance, an Employee Pension Programme, Health Insurance – Opieka Medyczna, Medicine and discounts on insurance offered by PZU.

In terms of employer branding, a number of activities dedicated to students were conducted. Inwestycja w Przyszłość [Investment in the Future] and Studencki Projekt Roku [Student Project of the Year] contests, participation in job fairs, Ambasador PZU [Ambassadors of PZU] programme or the management of the fourth largest Facebook profile dedicated to career opportunities are just a few examples of activities addressed to students. In 2014, for the second time in a raw, a centralized programme of internships and traineeships dedicated to third year and higher students, as well as young graduates, was organised. Within this programme, three-month traineeships, six-month internships and nine-month internships were organized for talents, the so-called High Potentials.

PZU and its subsidiaries also have mechanisms for entry into and exit from the organization. The assumption to the process of introducing a new employee is to build commitment and loyalty in an atmosphere of openness and cooperation. However, anyone parting with the organization by mutual consent is asked for his opinion on working for PZU Group and the reasons why he decided to change employer.

5.3 Marketing

In 2014, PZU Group made several wide-ranging advertising campaigns, including:

- the „Rewolucja w OC" – (TPL Revolution) campaign concerning direct claims handling;
- the „Stop Wariatom Drogowym" (Stop Road Rage) social campaign – the "Kochasz? Powiedz STOP Wariatom Drogowym" (If you love, say no to road rage) campaign enforces PZU's "możesz na nas polegać" (you can trust us) slogan. Instead of presenting the shocking effects of dangerous driving, the campaign focuses on a positive message. The educational activities are intended to encourage the passengers to react to dangerous behaviour and show how to calm the driver. The PZU blue heart was a key tool and symbol of the campaign.

In 2014, PZU launched the cooperation with Marcin Dorociński – one of the most prominent Polish actors. His image reflects the peace and harmony that PZU provides its customers with.

PZU's marketing campaigns received numerous awards in 2014, among which "Mocno pomocni agenci PZU" [Strongly Helpful PZU Agents] campaign was the leading winner. Other Employer Branding campaigns that were acknowledged include: „#dorenifera" [#dearreindeer] and the "Kura" [Hen] movie. The awards included:
- 3 Innovation Awards / Media Trendy awards;
- 3 KTR (the Polish festival of advertising creation) awards;
- The Golden Effie award for the "Mocno pomocni agenci PZU" [Strongly Helpful PZU Agents] campaign;
- The Golden Drum award at the 21st Golden Drum festival in Portorož, Slovenia. The blue hearts of PZU won the golden award in the important "Integrated Communication Campaigns" category, scoring victory over projects from a number of the New Europe countries.

In 2014, the PZU exclusive agent offices were presented with service standards. The visual agency concept consistent with the PZU sales network was developed, which allowed for the implementation of standards in both labelling and the interior design of the agencies. The project provides guidelines on the customer service, as well as the display of advertising materials.

PZU is a modern company, which reflected in the "Prosty Język" [Simple Language] project. For an average Pole, the majority of insurance documents, sales materials or even advertisements are too specialised, difficult and confusing. This was the reason why one of the major marketing projects in 2014 aimed at improving the transparency of communication messages.

The 2014 acquisition of insurance companies entailed the rebranding of the acquired entities. The process covers the removal of the trademarks of the previous owners and the introduction of the PZU brand or brands under the PZU family. This was followed by the positioning of the brands on individual markets and campaigns introducing new branding strategies.

In 2014 our clients bought insurance for

PLN 16.89 billion.

We paid claims and benefits worth

PLN 10.09 billion.

06

Consolidated financial results

Net profit of PLN 3.0 billion and the return on capital of 22.6% place us among the most profitable financial institutions both in the country and in Europe. Our financial results already show the effects of our development efforts – our position as the leader of Polish insurance has strengthened and we continue to expand on the international market.

Contents:

6.1 Key factors affecting the achieved financial results

PZU Group achieved in 2014 gross profit at a level of PLN 3,691.7 million compared with PLN 4,120.5 million in the prior year (decrease of 10.4%). Net profit attributable to the shareholders of the parent company amounted to PLN 2,967.7 million, compared with PLN 3,293.5 million in 2013 (a 9.9% decrease).

Excluding one-off events[1] the net result fell by 3.6% compared with the last year.

Operating profit for 2014 amounted to PLN 3,913.1 million and was lower by PLN 267.7 million in comparison to 2013. This change was brought about, in particular, by:

- drop of PLN 310.8 million in profitability in the retail client insurance segment compared with 2013. A decrease of profitability mainly in motor insurance in relation to the increased claims provisions from previous years;
- drop of PLN 174.4 million in profitability in the corporate insurance segment. A decrease of profitability mainly in the motor insurance group as a result of a slowdown in sales and a simultaneous increase in claims and benefits for losses from previous years, and other third party liability and non-life insurance due to several claims of high unit value;
- higher net investment result related to increase in valuation of debt instruments;
- improvement of profitability in the area of group and individually continued insurance by PLN 215.6 million, excluding the conversion effect. An increase in profitability mainly due to larger portfolio and a decrease in the loss ratio associated with the insurance products;
- lower rate of conversion of long-term insurance contracts into annual renewable contracts in type P group coverage by PLN 57.2 million, which contributed to a lower increase of the operational result in the group and continued insurance segment.

What is more, the following one-off events had significant impact on year-on-year comparability of the results:

- higher results in the pension insurance segment due to the open pension fund (OFE) reform (an increase in revenues due to liquidation and withdrawal of funds from the additional part of the Guarantee Fund, partially offset by a drop in revenues from premiums and assets management);
- revenue on consolidation of investment funds in 2013;
- gross profit on the settlement agreement with the reinsurer on the Green Card insurance of PLN 53.2 million (PLN 73.3 million was recognized in other operating revenue and expenses).

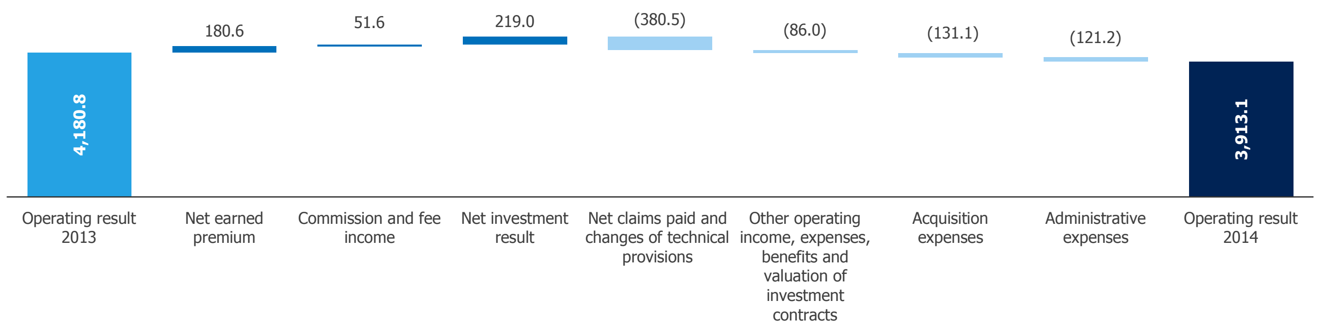
[1] One-off events include: higher results in the pension insurance segment due to the open pension fund (OFE) reform, start of the consolidation of investment funds, the settlement agreement with the reinsurer on the Green Card insurance, the effect of the conversion of long-term insurance contracts into annual renewable contracts in type P group cover.

In 2014, as a result of the acquisition transactions, PZU took over Link4 (the leader of Polish direct insurance market), as well as the Lithuanian company Lietuvos Draudimas, Latvian AAS Balta and the business of the Estonian company Codan Forsikring A/S. Since their purchase, the companies have contributed to the results of PZU Group and contributed to the increases in particular items in the operating result and assets and liabilities in comparison to 2013.

Within particular item of the operating result, PZU Group recorded:

- increase in the gross written premium to the level of PLN 16,884.6 million compared with the previous year (higher by 2.5%) mainly due to the growth of its foreign operations and the premium collected by Link4. After accounting for the share of reinsurers and the change in provision for unearned premium, the net premium earned amounted to PLN 16,429.4 million, which was 1.1% higher than in 2013.
- higher net investment result, in particular due to the increase in the price of debt instruments. Net investment result amounted to PLN 2,733.5 million, namely 8.7% higher than in 2013;
- higher amount of claims and benefits. The claims and benefits amounted to PLN 11,541.7 million, which means that they increase by 3.4% compared with 2013 mainly in motor TPL insurance in relation to significantly higher level of claims provisions from previous years;
- higher acquisition expenses (an increase of PLN 131.1 million) related to the changes of commission rates for motor insurance packages, an increase in the group protection portfolio and modification of the remuneration system in the Agency Network in the individual insurance segment;
- increase in administrative expenses to the level of PLN 1,527.7 million compared with PLN 1,406.5 million in 2013, related mostly to higher costs of projects, including the strategy implementation, IT, as well as personnel costs and the costs of customer service training;
- a higher negative balance of other revenues and expenses in the amount of PLN 370.1 million mainly due to the depreciation of intangible assets identified as a result of the acquisition of insurance companies.

PZU Group operation result in 2014 (PLN million)



Basic amounts from the consolidated income statement	2014	2013	2012	2011	2010
	PLN million	PLN million	PLN million	PLN million	PLN million
Net premium earned	16,429.4	16,248.8	16,005.2	14,890.5	14,213.0
Revenue from commissions and fees	350.8	299.2	237.1	281.4	288.0
Net investment result	2,733.5	2,514.6	3,704.7	1,593.8	2,777.8
Other operating revenues and expenses and benefits and change in measurement of investment contracts	(384.1)	(298.1)	(207.5)	(242.0)	(389.6)
Net claims and benefits	(11,541.7)	(11,161.2)	(12,218.7)	(10,221.1)	(10,384.1)
Acquisition expenses	(2,147.0)	(2,015.9)	(2,000.4)	(1,962.0)	(1,911.3)
Administrative expenses	(1,527.7)	(1,406.5)	(1,440.3)	(1,383.9)	(1,505.8)
Operating profit/(loss)	3,913.1	4,180.8	4,080.2	2,956.7	3,088.1
Financial expenses	(219.9)	(61.7)	(41.5)	(49.2)	(58.7)
Share in profits/ (losses) of entities measured using the equity method	(1.5)	1.4	-	-	-
Gross profit/(loss)	3,691.7	4,120.5	4,038.7	2,907.6	3,029.4
Income tax	(724.1)	(825.5)	(784.9)	(563.6)	(590.2)
Gross profit/(loss)	2,967.6	3,295.0	3,253.8	2,343.9	2,439.2

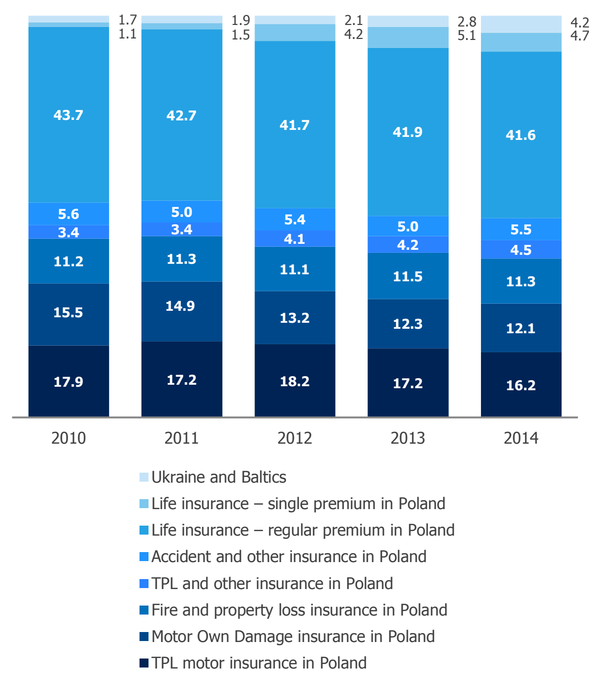
6.2 Revenue

Premiums

In 2014 PZU Group collected gross premiums of PLN 16,884.6 million, i.e. 2.5% more than in 2013. They comprised mainly:

- regular life premiums, which had a 41.6% share of the total gross written premium (41.9% in 2013). Their value was higher by 1.7% compared with the previous year mainly due to the growth of group protective insurance and the premiums in the health insurance;
- MTPL insurance. This comprised 16.2% of the Group's insurance portfolio (17.2% in the prior year). In 2014, its value was 3.1% lower than in the prior year. This was the effect of a decline in policy prices as a result of strong competition on the market and lower car sales;
- Motor own damage insurance. This type of insurance had a 12.1% share of the Group's total gross written premium (i.e. 0.2 p.p. less than in the prior year), a decrease caused by price pressure from the competition;
- Fire and non-life insurance – this type of insurance represented 11.3% of total premiums. Its value increased by 0.1% compared with the prior year, foremost because of the upsale of the basic types of risk in household insurances;
- accident and other insurance premiums, which had a 5.5% share, which meant a 0.5 p.p. increase compared with 2013. In this insurance category, the most significant increase was recorded in the value of financial insurance in relation to large guarantee policies and the resumption of long-term contracts;
- single premiums in life insurance, where the written premium represented 4.7% of the Group's total premiums (compared with 5.1% in 2013). In particular, there was a fall in the sales of structured products in the bancassurance channel;
- premiums obtained in Ukraine and in the Baltic states, their share in the Group's premium amounted to 4.2% and increased in comparison to 2013 as a result of PZU Group's expansion in the Baltic states. Due to the fact that the premiums collected by the newly-acquired companies were included in PZU Group's result only from the commencement of the consolidation (not for a full year), a further increase of this group's share in the structure of PZU Group's gross written premiums is to be expected in the next period.

Gross written premium structure in PZU Group (in %)



Revenue from commissions and fees

Fee and commission revenue in 2014 contributed PLN 350.8 million to PZU Group's result, which is 17.2% higher than in the prior year.

Fee and commission revenue comprised mainly:

- asset management fee from OFE PZU Złota Jesień. It amounted to PLN 112.1 million (a drop of 33.5% compared with 2013 as a result of statutory transfer of a portion of the assets of OFEs to the Social Insurance Institution (ZUS) corresponding to 51.5% of the units on the account of every member of OFE PZU).REGULATIONS ON THE INSURANCE MARKET IN POLAND CHAPTER 2.4;
- revenues from the liquidation and withdrawal of funds from the additional part of the Guarantee Fund in the amount of PLN 132.3 million related to statutory changes in OFE PZU (one-off effect);
- revenue and fees from investment funds and investment fund management companies of PLN 67.9 million, i.e. PLN 4.7 million more than in the previous year, mainly as a result of the increase in sales of fund units through the external channel;
- front fees from contributions transferred to OFE PZU. This amounted to PLN 19.9 million, namely 40.8% of their prior year's value. A fall related to a statutory decrease in the fees from the level of 3.5% to 1.75% from 1st February 2014 REGULATIONS ON THE INSURANCE MARKET IN POLAND CHAPTER 2.4;
- revenue from fees charged on investment contracts at the customer's expense and risk. PZU Group earned PLN 12.3 million, i.e. 34.7% less than in the prior year on these fees. It is related to the discontinuation of sales of the short-term endowment products by PZU Group.

Net investment result and financing expenses

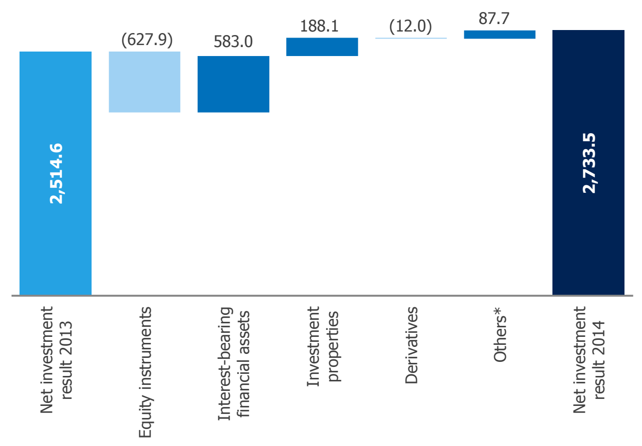
In 2014, PZU Group 's net investment result amounted to PLN 2,733.5 million compared to PLN 2,514.6 million in 2013 (increase by 8.7%). The following factors had the greatest impact on the increase in the revenue:

- decrease in the profitability of Polish treasury bonds across the whole yield curve in 2014 compared with the increases in the middle and on the far end of the curve in the previous year which influenced the increase in the result on the interest-bearing financial assets by PLN 583.0 million compared with 2013;
- increase in the value of investment property related mostly to the higher valuation of development projects;
- increase in the value of the assets portfolio denominated in EUR, i.a. due to the issuance of debt instruments and a simultaneous increase in the EUR exchange rate.

At the same time, the results from shares portfolios were lower than in the previous year, which was caused by worse conditions on capital markets (the WIG index increased by 0.3% in 20014 compared with 8.1% in 2013) related mostly to the increased risk aversion in the face of increasing geopolitical tensions.

In 2013 there was a one-off event amounting to PLN 172.7 million regarding consolidation of investment funds, mostly for the property sector.

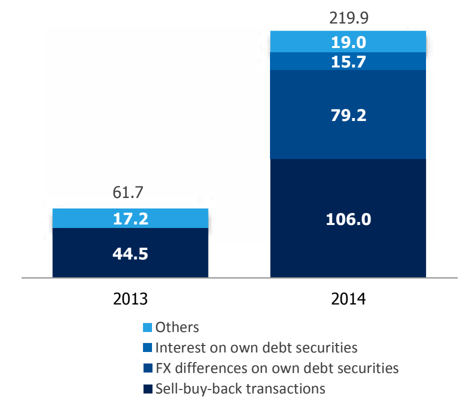
Change in the net investment result (PLN million)



* The value includes a one-off effect of the consolidation of investment funds (PLN 172.7 million) which took place in 2013.

Financial expenses increased during 2014 by 256.6% as compared to the previous year.

Financial expenses (PLN million)



The increase in financial expenses is foremost due to the increased EUR FX rate with the higher level of liabilities denominated in EUR due to the issuance of own debt securities and an increase in the use of sell-buy-back transactions. Monetary market transactions were performed in order to boost effectiveness of investment activities and achieve additional margins.

In December 2014 the value of PZU Group's investments portfolio[2] amounted to PLN 53,958.7 million compared with PLN 51,198.6 million as at the end of 2013.

[2] The investment portfolio covers financial assets (including investment products), investment property and financial liabilities (negative valuation of derivative instruments and liabilities from sell-buy-back transactions).

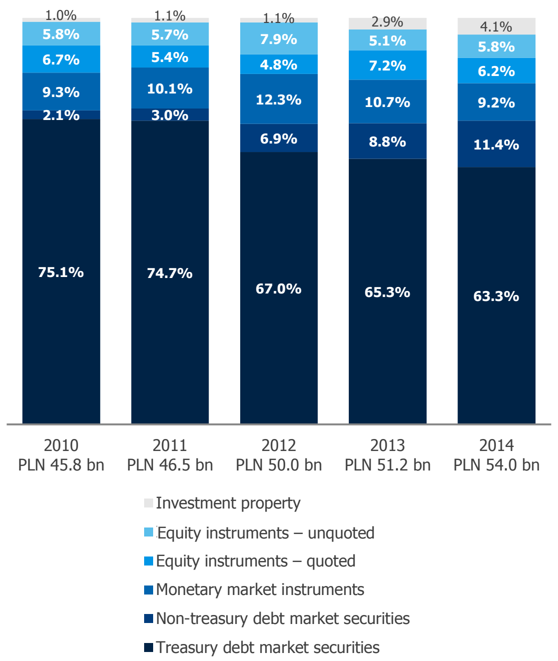
Investing activities of PZU Group are conducted in compliance with the statutory requirements, ensuring an appropriate degree of safety, liquidity and profitability, therefore treasury debt instruments accounted for more than 60% of the investments portfolio both as at 31 December 2014 and 31 December 2013.

An increase in non-treasury debt market instruments and investment property resulted from the consistently implemented investment policy aimed at ensuring greater diversification of the investment portfolio.

As compared to the end of the previous year, the currency structure of the investment portfolio has been changed mainly due to:

- increase in the value of the assets portfolio denominated in Euro i.a. due to the issuance of debt instruments;
- acquisition of the prestigious logistics property portfolio (four logistics parks located in Lodz, Wroclaw and Gdansk) for about EUR 140 million;
- consolidation of the assets portfolios of the newly acquired Baltic companies.

Structure of financial assets (in%)[3]



[3] Derivatives related to the interest rate, FX rates and prices of instruments are presented, respectively, in the following categories: Debt instruments – treasury, Money market instruments and Listed and non-listed equity instruments.

According to the strategy, the plan is to further diversify the investment portfolio by increasing the share of corporate debt and alternative assets at the expense of the share of treasury debt instruments, as well as the growth of property investments.

Other operating revenue/expenses (net)

In 2014, the balance of other net operating revenue and expenses was negative and amounted to PLN 370.1 million compared with the also negative balance for 2013 of PLN 220.4 million. The following factors had an impact on this result:

- increase of other operating expenses of newly acquired companies, including mostly the expenses resulting from the depreciation of intangible assets identified as a result of the acquisition of insurance and health care companies in the amount of PLN 87.8 million;
- one-off revenue from conclusion of a settlement with the reinsurer (the one-off impact on other operating revenues in 2013 was PLN 73.3 million, the total impact on gross profit was PLN 53.2 million). The settlement agreement related to the settlement of Green Card reinsurance commissions, which were adjusted for 2011, while the result for that period was reduced by PLN 91.8 million.

6.3 Claims and technical provisions

In 2014, the net value of claims and benefits, as well as the increase in PZU Group's technical provisions amounted to PLN 11,541.7 million, compared with 2013, the value of claims, including the change in technical provisions, was higher by 3.4%. The following factors also contributed to the increase in the net value of claims and benefits:

- lower rate of conversions of long-term contracts to renewable annual contracts in type P group insurance (the effect of conversion in 2014 translated into a release of PLN 69.9 million of provisions, i.e. PLN 57.2 million less than in 2013);
- increase in the group protection portfolio, including health insurance, with lower loss ratio;
- higher claims ratio in motor insurance, in particular caused by a significantly higher level of technical provisions covering claims from previous years;
- increase of claims ratio in other TPL insurance as well as fire and other non-life insurance, which is a result of a higher level of claims technical provisions related to several individually significant claims;
- higher level of claims in the agricultural insurance group caused by weather conditions.

On the other hand, the following contributed to the decrease in the net value of claims and benefits:

- decrease of the ratio of possible indexation of the sum insured by the clients of continued insurance;
- lower sale of structured products in the bancassurance channel.

6.4 Acquisition expenses and administrative expenses

In 2014, acquisition expenses amounted to PLN 2,147.0 million and increased by 6.5% compared with 2013. The main reasons for the increase were the following:

- changes of commission rates for motor insurance packages and activities promoting sales in the multiagency channel, mainly in the retail client insurance segment;
- modification of the remuneration system in the tied agents channel in the individual insurance segment;
- increase of the contract portfolio and high sales of new insurance policies in group protective insurance, as well as an increase of the share of more expensive distribution channels in the portfolio;
- start of consolidation of the newly-acquired insurance companies.

In 2014, the Group's administration expenses were at a level of PLN 1,527.7 million, which was 8.6% higher than in the prior year. The following factors had an impact on their level:

- higher costs of projects, including the strategy implementation, IT, as well as personnel costs and the costs of customer service training, with two systems coexisting simultaneously – the effect of implementing projects from previous years which will make it possible to change the philosophy of customer relations management;
- an obligatory additional payments to the Guarantee Fund in the Central Securities Depository of Poland by PTE PZU in the amount of PLN 19.5 million (a statutory change of the required level from 0.1% to 0.3% of the net assets of the open pension fund (OFE) REGULATIONS ON THE INSURANCE MARKET IN POLAND CHAPTER 2.4;
- inclusion of the administrative expenses covered by the newly-acquired insurance companies in the results of the Group.

6.5 Structure of assets, equity and liabilities

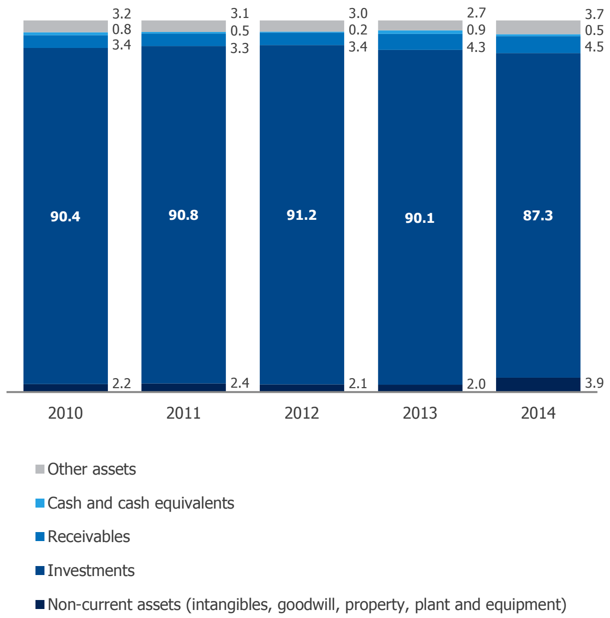
As at 31st December 2014, total assets of PZU Group amounted to PLN 67,572.8 million and were 7.6% higher than as at the end of 2013.

Assets

The key components of the Group's assets were investments (financial assets and investment property). In total, these assets amounted to PLN 58,996.0 million and were 4.3% higher than at the end of the prior year. They represented 87.3% of the Group's total assets compared with 90.1% at the end of 2013. The increase in the value of investments was mainly caused by:

- a higher price of interest-bearing financial assets;
- the start of consolidation of the newly-acquired insurance companies.

PZU Group asset structure (%)



PZU Group's receivables, including receivables from insurance contracts, amounted to PLN 3,068.8 million, i.e. they represented 4.5% of the total assets. For comparison, at the end of 2013 the receivables amounted to PLN 2,672.0 million (4.3% of the Group's assets) and their increase was mainly caused by the start of consolidation of the newly-acquired insurance companies and applied foremost to the receivables from policyholders.

Non-current assets – in the form of intangible assets, goodwill and property, plant and equipment – were recognised in the statement of financial position at PLN 2,656.0 million. They comprised 3.9% of total assets. Their balance more than doubled in 2014 in comparison to 2013, mostly due to the start of consolidation of the newly-acquired insurance and health care companies, including:

- calculation of the goodwill in the amount of PLN 777.0 million;
- identification of new intangible assets, such as the trademark, present value of future profits (PVFP), relations with customers and brokers, which were previously not recorded by the companies.

As at 31 December 2014, PZU Group's cash and cash equivalents amounted to PLN 324.0 million (0.5% of the assets). A year earlier, they amounted to PLN 569.2 million.

An increase of PLN 427.7 million in the category of assets held for sale is caused by the sale of PZU Lithuania FOREIGN OPERATIONS CHAPTER 3.6.

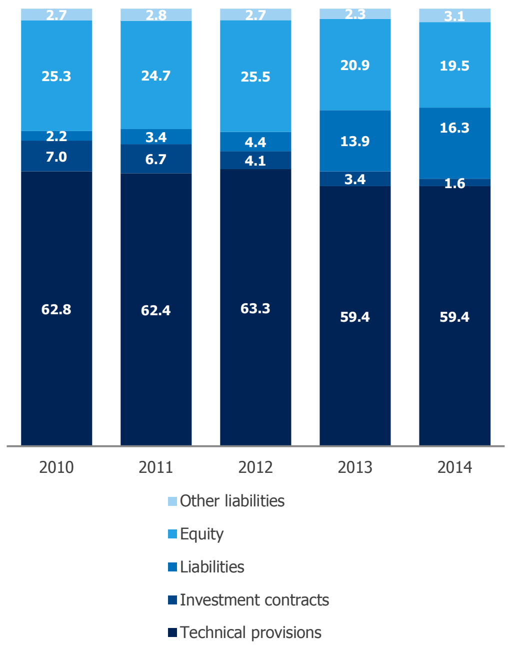
Equity and liabilities

At the end of 2014, the main component of PZU Group's equity and liabilities was technical provisions. They amounted to PLN 40,166.9 million, which represented 59.4% of total equity and liabilities. Their share in the statement of financial position did not change in comparison to the previous year, but their value increased by PLN 2,842.5 million, mainly due to:

- higher claims provisions in motor insurance in the mass and corporate insurance segment;
- development of the unit-linked products (sale and high investment result) and the portfolio of continued insurance;
- the start of consolidation of the newly-acquired insurance companies (influence of the technical provisions of PZU Group of PLN 1,256.3 million).

Investment contracts amounted to PLN 1,108.1 million compared with PLN 2,121.0 million as at the end of 2013. This fall was caused, in particular, by the decrease of the level of the investment contracts value due to the subsequent tranches in short-term endowment products, mostly in the bancassurance channel, reaching their maturity dates. In effect, their share in the structure of liabilities and equity dropped from 3.4% as at the end of 2013 to 1.6% as at the end of December 2014.

PZU Group liabilities structure (%)



At the end of 2014, equity amounted to PLN 13,167.6 million and remained at the similar level to the one as at the end of 2013 (0.3% higher). An increase in the consolidated equity resulting from the net result for 2014 in the amount of PLN 2,967.6 million was offset by the dividends paid in the amount of PLN 2,936.0 million.

The balance of other liabilities and provisions as at the end of 2014 amounted to PLN 13,130.1 million and included, in particular, liabilities from the sell-buy-back transactions in the amount of PLN 4,411.5 million, liabilities to participants in consolidated investment funds in the amount of PLN 856.9 million, liabilities to the policyholders in the amount of PLN 686.7 million. The increase of the balance by PLN 2,915.9 million compared with 2013 resulted mostly from the liabilities arising from the issuance of debt instruments in the amount of PLN 2,127.5 million and dividend liabilities to the shareholders from the 2013 profit appropriation, which remained to be paid in 2015 in the amount of PLN 1,468.0 million. WWW.PZU.PL/RELACJE-INWESTORSKIE/AKCJE-PZU-NA-GPW/DYWIDENDA

Cash Flow Statement

Total net cash flows as at the end of 2014 amounted to PLN -282.6 million and decreased by PLN 595.4 million compared with the previous year, i.a. due to the lower inflows from investment contracts.

Off-balance sheet items

Under the guarantee line agreements of 2013 concluded between PZU and PZU Życie and Bank Millennium SA, the bank extended bank guarantees (bid bonds and contractual guarantees) to companies in tenders for insurance services. The guarantee facilities are, respectively, PLN 15 and 10 million. They are valid for one year and may be extended by another. As at 31 December 2014, 79 guarantees totalling PLN 7.1 million had been given under the facility provided for the period from 21 October 2014 to 20 October 2015.

Loans taken and granted

As at the end of 2014, the balance of loans taken by PZU Group amounted to PLN 219.5 million, including: Grupa Armatura – PLN 83.9 million, and the SPVs established for the investment funds: PH3 Sp z o.o. SKA – PLN 62.7 million and PORTFEL PB2 Sp. z o.o. PLN 76.1 million. As at the end of 2013, the balance of loans taken by the Armatura Group amounted to PLN 88.5 million. All the loans and borrowings were granted at arm's length. As at the end of 2014, the balance of loans incurred amounted to PLN 54.0 million and concerned the liabilities of PZU SFIO Universum.

6.6 Share of the business segments in the results

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

- corporate insurance (non-life). This segment encompasses a wide range of non-life insurance, general liability and motor insurance, which are adapted to customer needs and, with individually valued risks, offered by PZU and Link4 to large business entities;
- Mass-market insurance (non-life). This segment comprises property, accident, general liability and motor insurance. PZU and Link4 provide the insurance to individuals and entities from the SME sector;
- life insurance – group and individually continued. PZU offers this insurance to groups of employees and other formal groups (e.g. trade unions). Individuals who have a legal relationship with the policyholder (for instance an employer or a trade union) may 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 types of insurance: protection, investment (which however are not investment contracts) and health insurance;
- individual life insurance. PZU provides this to individual customers. The insurance contract relates to a specific insured, subject to the assessment of the individual risk. This group comprises protection, investment (other than investment contracts) and health insurance products;
- investments - comprising investment activities in respect of PZU Group's own funds constituting a surplus of investments over technical provisions in the key insurance companies of PZU Group (PZU and PZU Życie) increased by surplus of investment income over the risk-free rate corresponding to the value of technical provisions of PZU and PZU Życie in non-investment products. Additionally, the Investments segment includes income earned on other excess cash on other excess cash in PZU Group;
- pension insurance. Activity conducted by PTE PZU;
- Ukraine. This includes both non-life and life insurance;
- Baltic States. Non-life and life insurance products provided by PZU in Lithuania, Latvia and Estonia;
- investment contracts. These include PZU Życie products which do not transfer significant insurance risk and do not satisfy the definition of an insurance contract. They include some products with a guaranteed rate of return and some unit-linked products;
- other. This encompasses consolidated entities not allocated to any of the segments above.

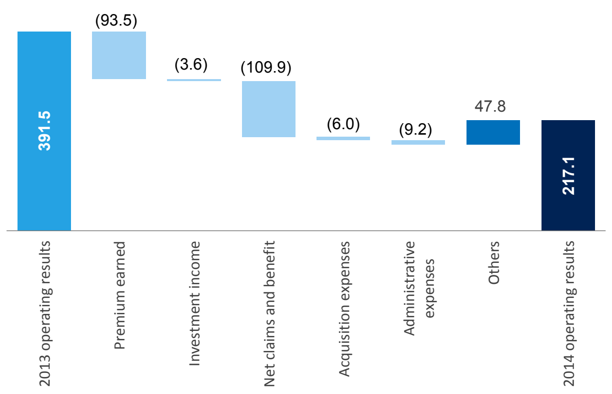
Corporate insurance

In 2014, the corporate insurance segment earned an operating profit of PLN 217.1 million, which is 44.5% less than in the prior year. The acquisition of Link4 had a negative impact on the result in 2014. It contributed to the segment's result from the moment of its acquisition and caused the increases in particular items of the operating result. After the effect of this change has been eliminated, in 2014 operating profit in the corporate segment was PLN 219.5 million.

The following factors primarily had a key impact on this segment result in 2014:

- decrease in the premium earned by 6.0% despite an increase of the gross written premium by 5.2% compared with 2013. In 2014 there was an increase in the other TPL insurance group (increased by PLN 65.6 million) as a result of acquiring several strategic clients and entering contracts for the period longer than one year. A difficult situation on the business insurance market and a decline in prices resulted in the greater inclination to enter into long-term contracts – this tendency was already observed last year. What is more, the sales structures oriented towards the development of the so-called medium and big corporate business were able to raise the premium and significantly increase the number of insurance policies. Additionally, several big insurance guarantees were granted in the category of financial insurance (an increase by PLN 59.1 million, including Link4's share of PLN 1.5 million). The increase in the written premium was partially offset by the decrease in the motor insurance group (a decrease of PLN 29.5 million), which was the result of a strong price competition;
- total amount of claims and benefits was PLN 964.0 million and it was PLN 109.9 million higher than in the prior year. Net claims and benefits in 2014 increased by 12.9% in comparison with 2013, which, considering a 6.0% decline in the net premium earned, means that the loss ratio decreased by 11.0 p.p. The increase was recorded mainly in other non-life insurance (increase in the value of claims of 16.6%) as a result of several individually significant claims, in particular, in miscellaneous financial loss insurance and in insurance covering property damage and damage caused by forces of nature. As far as motor insurance is concerned, despite a decline in the frequency of losses, the level of claims and benefits increased (by 10.6% y/y) as a result of the higher average claim payment and the increase in the technical provisions for bodily injury claims. In 2014, the loss ratio in corporate insurance amounted to 65.9% compared with 54.9% in the previous year;
- decline in the investment income allocated to the segment at transfer prices. This income amounted to PLN 136,5 million and was 2.6% lower than in the previous year. This decline was caused by lower market interest rates used as the basis for calculating the income from portfolios replicating insurance liabilities;
- increase in acquisition expenses by PLN 6.0 million, i.e. 2.0 %, compared with 2013, was caused mainly by higher

Operating result in corporate segment (PLN million)



indirect acquisition expenses and the inward reinsurance commission, partially offset by an increase in the deferred acquisition expenses for multiyear contracts;
- increase in administrative expenses to the level of PLN 125.1 million, i.e. 8.0 %, compared with the previous year, as a result of implementation of projects aiming to change the philosophy of customer relations management and improving the key servicing processes, which in the long term are to led to higher effectiveness of the sales network.

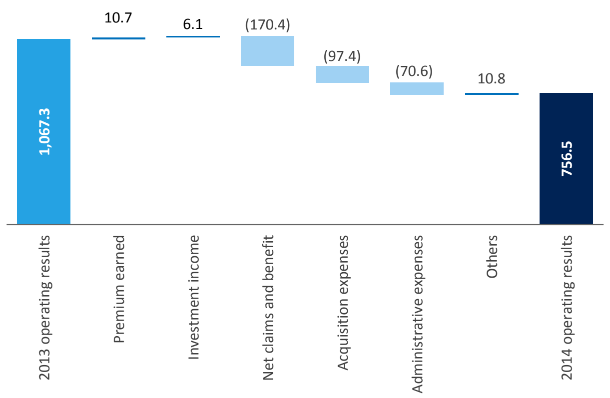
Mass-market insurance

In 2014, the operating profit in the mass-market insurance segment amounted to PLN 756.5 million (a 29.1% decrease compared with the prior year). The acquisition of Link4 had a negative impact on the result in 2014. It contributed to the segment's result from the moment of its acquisition and caused the increases in particular items in the operating result. After the effect of this change has been eliminated, in 2014 the operating profit in the corporate segment was PLN 771.0 million.

The following factors primarily had a key impact on this segment result in 2014:

- gross written premium was PLN 6,569.5 million, i.e. it increased by 0.5 % compared with the previous year (after excluding Link4's share, a 1.4 % decline). In this, the motor TPL premium was lower by 1.1 % as a result of price pressure from the competition. The effect was partially offset by higher sales of insurance concerning damages caused by forces of nature (an increase of PLN 23.5 million) and general liability insurance (an increase of PLN 18.8 million) – mostly household insurance because of the upsale of the basic types of risk (movable to immovable property and the other way around) and TPL insurance as additional insurance. The premium earned amounted to PLN 6,563.0 million and was 0.2% higher than in the previous year, which is the result of recognition of the premium from Link4 in the 2014 result (after excluding Link4's share, the premium earned declines by 1.6 p.p.);
- investment income allocated at transfer prices to the mass-market insurance segment amounted to PLN 562.8 million (1.1% increase compared with the prior year);
- claims and benefits were at the level of PLN 4,363.4 million, i.e. they increased by 4.1% in relation to 2013 (after excluding Link4's share, a 1.9% increase). A deterioration of the results with respect to the previous year was brought about by higher amount of claims and benefits in the motor insurance, determined mainly by an increase in the technical provisions for bodily injury claims, including claims concerning pain and suffer claims pursuant to Article 448 of the Civil Code for the damages incurred before 3rd August 2008 (justification of the judgement of the Supreme Court of 2014 – catalogue number III CZP 2/14). What is more, the claims caused by forces of nature (mostly frost) was higher in agricultural insurance and had a negative impact. The adverse events were partially offset by a lower level of mass claims in non-life insurance and a low level of individually significant claims;
- acquisition expenses amounted to PLN 1,238.9 million, i.e. they were 8.5% higher compared with the previous year. The primary type of costs that increased were direct costs which grew mainly as a result of a change in the commission rates for motor insurance packages;

Operating result in mass segment (PLN million)



- administrative expenses which amounted to PLN 617.5 million, increased by 12.9% compared with 2013. The higher costs were caused by the implementation of projects aiming to change the philosophy of customer relations management (customer centricity). The increase applies mainly to the IT and personnel costs, as well as the costs of customer service training.

What is more, a one-off event from 2013 had a significant impact on comparability of the results, the event in question being the one-off gross profit on the settlement agreement with the reinsurer on the Green Card insurance of PLN 53.2 million (of which PLN 73.3 million was recognized in the reinsurance commission and the shares in the profits).

Group insurance and individually continued insurance

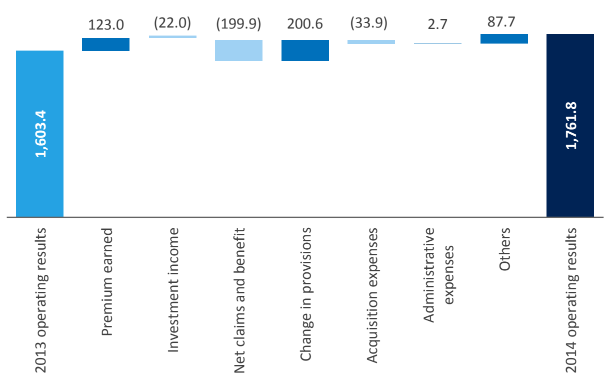
The operating profit of the group and individually continued insurance amounted to PLN 1,761.8 million and was 9.9% higher than in the previous year. This was a result of:

- gross written premium of PLN 6,539.1 million, which was 1.9% higher than last year. Because of the discontinuation of the short-term endowment insurance offering with a single premium, this was entirely regularly paid premium. In 2014, a stable growth trend was maintained as a result of the development of group protection insurance (an increase in the average premium and in the number of insured, including new sales), upsale of riders and an increase in the sum insured in individually continued products, the acquisition of premiums in group health insurance (new customers in outpatient insurance and development of drug products);
- investment income – comprising allocated income at transfer prices and income from investment-type products – amounted to PLN 713.3 million, i.e. it declined by 3.0%, mainly due to decline of the income allocated at transfer prices as a result of low market interest rates used as the basis for calculating income from portfolios replicating insurance liabilities;
- net insurance claims and benefits amounted to PLN 4,499.4 million (a 4.6% increase). The main reason was the transfer of assets from the insurance policy of the EPP policy of the PZU's employees to the EPP scheme run by TFI PZU (PLN 141.3 million, offset by a change in mathematical provision – a neutral impact on the result) and, additionally, an increase in the group protection portfolio, including health insurance. A simultaneous decrease in the loss ratio of insurance products as a result of a decline of the frequency of events due to death

compared with 2013 – confirmed by the Central Statistics Office's (GUS) data concerning the increase of the number of deaths in Poland in January 2013;

- increase in other net technical provisions amounted to PLN 70.3 million. The increase in provisions was by PLN 200.6 million lower than in the previous year. The main reason for that was the decline in the mathematical provision in the pillar III pension product (EPP) in comparison with the increase in the previous year which resulted from the transfer of assets from the PZU's employees' policy to the TFI PZU. Additionally, PZU Życie, in the course of the annual process of establishing the ratio of possible indexation of the sum insured by the clients of continued insurance, made a decision to lower said ratio in relation to the low market interest rates and a low level of inflation. This had a positive impact on the level of technical provisions in this portfolio. There was also a decrease of provisions in short-term endowment products in the bancassurance channel compared with a small growth in the previous year – the endowment of the subsequent tranches in the face of the lack of sales of new contracts. Moreover, the lower rate of conversion of long-term contracts into annual renewable contracts in type P group cover also affected the level of these provisions. As a result, provisions of PLN 69.9 million were released, i.e. PLN 57.2 million less than in 2013;
- acquisition expenses amounted to PLN 356.6 million, i.e. they increased by 10.5%. A higher portfolio of contracts and an increase of the broker and agency channels' share in the portfolio, and in the case of bancassurance, also changes in the contract's terms and conditions, were the factors determining the increase in direct and indirect acquisition expenses in group protection insurance;
- the segment's administrative expenses amounted to PLN 543.0 million and the previous year's level was maintained;
- year-on-year improvement of the result in other revenues and expenses by PLN 87.7 million was caused by lack of the Prevention Fund charge in 2014 (eliminated for the purpose of the consolidated result) and lower costs related to PZU Życie financing the premium (lower promotional sales of additional insurance policies to individually continued insurance).

Operating result in group and individually continued insurance segment (PLN million)



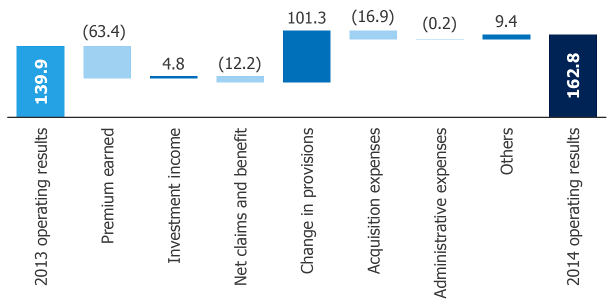
After excluding from the segment's result the one-off effect related to the lower effect of conversion of long-term contracts into renewable contracts in type P, the segment's operating profit amounted to PLN 1,692.0 million in 2014, compared with PLN 1,476.3 million in 2013 (a 14.6% increase). The main reason was an increase of the portfolio and a simultaneous fall in the loss ratio of protection products.

Individual insurance

In 2014, the operating result of the individual life insurance segment amounted to PLN 162.8 million, i.e. it was 16.4% higher than in the prior year. The main factors affecting the level of the segment's operating result were:

- gross written premium of PLN 1,268.6 million, i.e. 4.6% less than in the previous year. This was the result of: a significantly lower than in the previous year sales of the structured product in cooperation with Bank Handlowy, a withdrawal of the Plan na Życie savings product with a protection component and regular premium and a decline in the level of contributions to the individual pension accounts (IKE). There was a positive y/y change in the written premium of the protection products in the Company's own sale channels (high new sales and the introduction of a new additional insurance Pomoc od Serca PZU ŻYCIE – ACTIVITIES ON THE LIFE INSURANCE MARKET IN POLAND CHAPTER 3.3) and higher than in the previous year sales of the structured product Świat Zysków;
- investment income consists of income allocated at transfer prices and income from investment-type products. In the individual insurance segment the income increased y/y by PLN 4.8 million to the level of PLN 326.7 million mainly due to the higher level of assets of unit-linked products. The income allocated at transfer prices remained at the similar level;
- value of net claims and benefits which amounted to PLN 638.8 million, i.e. they increased by 1.9% compared with 2013. This increase is caused by higher disbursements on endowments in structured products both through the Group's own and through the bancassurance channel (maturity dates reached for the subsequent product tranches) and higher redemptions of unit-linked bank products (an increase of the portfolio y/y). Both these effects had a neutral impact on the result – they are offset by an adequate change in the mathematical provision. These increases were partially offset by lower than in the previous year redemptions from the individual pension accounts (IKE) and a decrease in the endowment disbursements from old policies in the individual endowment portfolio underwritten in 1990s (an expiring portfolio);
- increase in other net technical provisions being lower than in the previous year. They increased by PLN 611.1 million, which was PLN 101.3 million less than in 2013. The lower increase was connected with decreased provisions in structured bank products (compared with the increase in the previous year), which was the result of lower sales of these products (compared with the previous year) and simultaneous higher disbursements related to reaching the maturity dates of the policies. A similar effect was observed in the unit-linked products;
- increase in acquisition expenses. These amounted to PLN 126.4 million (a 15.5% increase compared with 2013). This was caused foremost because of the increased cost of the agency network's commission, which was the result of a change in the remuneration policy, and which contributed also to a higher volume of new sales of protection products, and also to changes in the contract's terms and conditions in the case of life insurance where the investment risk is borne by the policyholders in the bancassurance channel. The above-mentioned effects were offset by a lower sales commission which was caused by a withdrawal of the Plan na Życie savings product with a protection component and regular premium and limited cooperation with Bank Handlowy;
- administrative expenses in the segment were at the same level as in the previous year;
- changes in the other revenues and expenses category (expenses lower by PLN 9.4 million) as a result of the lack of the Prevention Fund charges in the current year (eliminated for the purpose of the consolidated result).

Operating result in individual insurance segment (PLN million)



Investments

Income from investment segment comprises investment activities in respect of PZU Group's own funds constituting a surplus of investments over technical provisions in the key insurance companies of PZU Group (PZU and PZU Życie) increased by surplus of investment income over the risk-free rate corresponding to the value of technical provisions of PZU and PZU Życie in non-investment products. Additionally, the „Investments" segment includes income earned on other excess cash on other excess cash in PZU Group.

Income from operating activities in the investments segment amounted to PLN 578.9 million (external operations only) and was 35.4% lower than in 2013. It was mostly a one-off effect of the beginning of the consolidation.

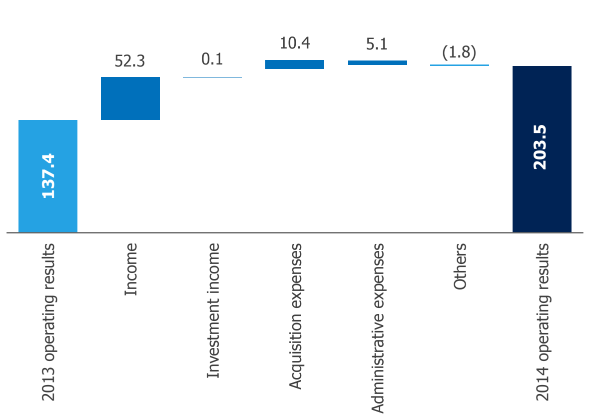
Pension insurance

In 2014, the operating profit in the pension insurance segment amounted to PLN 203.5 million, i.e. it increased by 48.1% compared with 2013. This was the result of:

- fee and commission revenue which amounted to PLN 270.6 million, i.e. it increased by 23.9% compared with the prior year. This change was the result of:
  - statutory withdrawal of funds from the additional part of the Guarantee Fund in the amount of PLN 132.3 million;
  - decrease of PLN 58.3 million in the management fee resulting from the transfer of a portion of the assets of OFE to the Social Insurance Institution (ZUS); REGULATIONS ON THE INSURANCE MARKET IN POLAND CHAPTER 2.4
  - decrease of PLN 28.8 million in fee from contributions mainly due to the statutory decrease in the rates from 3.5% to 1.75% as at February 1st 2014;

    - overpayments in the Guarantee Fund in the Central Securities Repository of Poland in the amount of PLN 5.3 million as a result of lower net assets of OFE PZU at the end of the fourth quarter of 2014;
    - increase of PLN 1.9 million in revenue from the reserve account.
- acquisition expenses amounted to PLN 6.3 million, i.e. they were 62.2% lower than in the previous year. It was caused by a decrease in the costs of commission remuneration linked with the fact that in 2013 the costs of commissions related to the contracts concluded before 31st January 2010 ceased to be settled over time;
- administrative expenses amounted to PLN 72.8 million, i.e. they were 6.5% lower than in the prior year. In particular, the costs of managing pension fund registers declined by PLN 15.1 million as a result of lowering the management fee of the accounts of the members of OFE PZU from February 1st 2014 as well as the resignation from the additional compensation for the transfer agent due to the fulfilment of objectives related to improving the quality of provided services. The fees on premiums transferred by the Social Insurance Institution (ZUS) to OFE were lower by PLN 6.2 million due to statutory changes regarding the amount of fees and premiums. The decrease in personnel costs by PLN 1.7 million was caused by a lower level of employment and the change in the remuneration system. Additionally, the costs of obligatory additional payments to the Guarantee Fund in the Central Securities Repository of Poland increased by PLN 19.5 million (mainly the result of a statutory change of the required level from 0.1% to 0.3% of the net assets of OFE).

Operating result in pension insurance segment (PLN million)



Ukraine

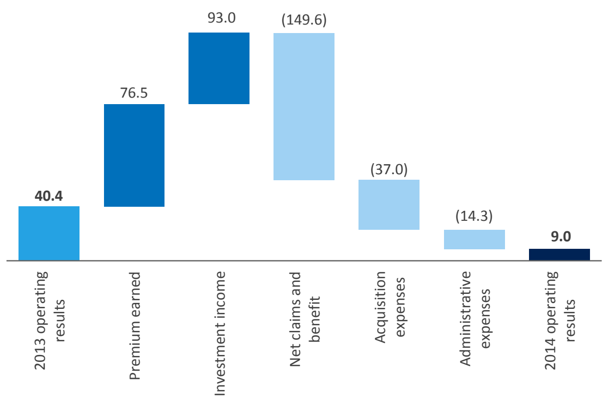
Taking into account the significant depreciation of the Ukrainian currency, the choice was made to present the data in this segment in the currency in which the companies report their results.

In 2014, the Ukraine segment earned an operating profit of UAH 9.0 million, compared with UAH 40.4 million in the previous year.

The change of the segment result was caused by:

- increase in the gross written premium. The premium amounted to UAH 658.2 million and increased by 25.6% in comparison with the previous year. The sales of the Green Card (increased rates) and accident insurance improved. Taking into account the depreciation of the currency, the written premium showed a reverse trend (a fall by PLN 30.1 million);
- increase in net investment result. This segment earned UAH 155.7 million in this respect, which is 148.2% more than in 2013. The following factors had the positive impact on its level: the increase in the liquid assets base and positive FX differences, in particular in the life insurance offered mainly in foreign currencies;
- significant increase in claims and benefits. The segment disclosed UAH 357.8 million, i.e. 71.9% more claims and benefits than in the previous year. The increase was mainly caused by the increase in the technical provisions in the life insurance company, which amounted to UAH 132.7 million.

Operating result in Ukraine segment (UAH million)



In 2014, the non-life company paid UAH 155.5 million claims, i.e. 6.7% more than in the prior year.

- increase in acquisition expenses. They amounted to UAH 197.7 million compared with UAH 160.7 million in the prior year. Their level was the result of an increase in the written premium for the property, motor and travel insurance which are characterised by higher commission charges;
- increase in administrative expenses. They amounted to UAH 106.7 million. For comparison purposes, in 2013, the administrative expenses of the segment amounted to UAH 92.4 million. A the same time, the administrative expenses ratio calculated with net premium earned improved slightly and amounted to 20.7% (a decline by 0.3 p.p. compared with the previous year).

In the presentation currency the written premium amounted to PLN 173.6 million and was lower by 14.8% compared with the previous year. The segment's gross result decreased to PLN 9.3 million (from PLN 15.6 million in 2013). The lower results in this segment were caused by lower revenue on investments and deposits in non-life insurance, together with the combined ratio remaining at the similar level as in the previous year and a significant depreciation of the currency.

Baltic states

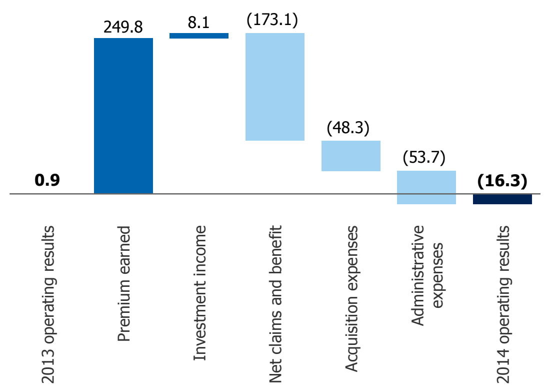
Due to the new companies acquired by PZU Group in this region, the data for this segment for 2014 include the data from all companies, including the newly-acquired ones. FOREIGN OPERATIONS CHAPTER 3.6. For 2013, on the other hand, we present only the data of the companies which had been consolidated up to the end of 2013: non-life and life companies (PZU Lithuania and PZU Liethuania Life).

PZU Group generated an operating loss in the amount of PLN 16.3 million in the Baltic states in 2014, compared with PLN 0.9 million of the operating profit in the prior year. The gross result was negative and amounted to minus PLN 32.1 million. The recorded losses were to a large extent caused by the one-off costs related to the acquisition and then post-acquisition mergers of the companies within PZU Group.

The result arose from the following factors:

- increase in gross written premium. It amounted to PLN 536.5 million, and included PLN 226.0 million of the companies which had not been consolidated in 2013. For comparison purposes, in 2013, the written premium in the segment amounted to PLN 262.3 million. In non-life insurance, without taking into account the newly-acquired companies, the biggest increase was in the non-life insurance (increased by 26.3%) and motor insurance (increased by 18.8%) In life insurance, the largest sales increase was recorded in traditional life insurance, which were higher by 30.3% compared with the previous year and in unit-linked insurance (an increase of 4.6% compared with the previous year);
- increase in the net investment result. In 2014 the result amounted to PLN 14.6 million and was 124.5% higher than in the previous year;
- increase in net claims and benefits. They amounted to PLN 312.2 million, with the share of claims and benefits of the companies non-consolidated in the previous year in the total claims and benefits amounting to 42.9%. The non-life insurance company presented in the previous year, as a result of the increase in technical provisions, recorded an increase of 28.5% in the value of claims and benefits, which was foremost the result of an intense development of branches on the Latvian and Estonian market. On the other hand, in life insurance the value of claims was by 26.6% higher than in the previous year due to the increase in technical provisions (the technical rate was lowered);
- increase in acquisition expenses. The respective expenses of the segment amounted to PLN 115.4 million, including PLN 41.3 million of acquisition expenses incurred by the companies acquired in 2014. The increase in acquisition expenses resulted mainly from an increase in sales of insurance;
- increase in administrative expenses. They amounted to PLN 80.2 million, while the expenses of the newly-acquired companies, where due to the change of the owner additional expenses had to be incurred, amounted to PLN 47.8 million.

Operating result in Baltic states segment (PLN million)



Investment contracts

The consolidated statements present the investment contracts in accordance with the requirements of IAS 39.

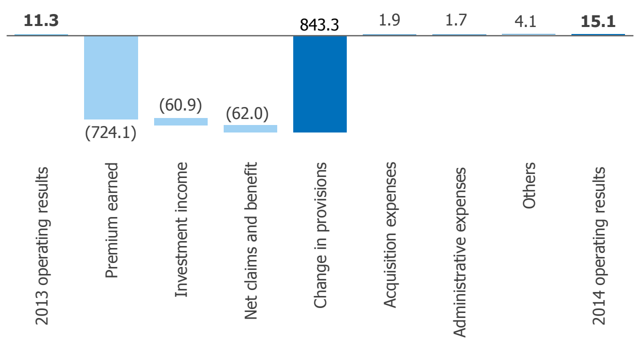
The results of investment contracts segment are presented as per the Polish Accounting Standards, which means that, among others, the following items were included: gross written premiums, paid benefits and change in technical provisions. The above categories are eliminated for the purpose of the consolidated results.

PZU Group earned PLN 15.1 million of operating profit compared with PLN 11.3 million in the previous year (increase of 34.2%) on investment contracts, i.e. PZU Życie's products which do not transfer significant insurance risk and which do not meet the definition of an insurance contract (such as some products with a guaranteed rate of return and some unit-linked products).

The following had an impact on the results of the segment in 2014:

- drop in gross written premium. This amounted to PLN 374.5 million, i.e. was 65.9% lower than in the previous year. In particular, sales of short-term endowment products dropped (by PLN 711.9 million, the effect of the strategy consisting of withdrawing from this type of products);
- deterioration of the investment income. The result was PLN 43.6 million which means it was lower by 58.3% than the in 2013, mainly in the bancassurance unit-linked products and endowment insurance products, as the effect of lower investment level;

Operating profit of the investment contracts (PLN million)



- higher value of net claims and benefits resulting from an increase of redemptions of unit-linked products in the bancassurance channel. They amounted to PLN 1,391.7 million, i.e. they were 4.7% higher than in the previous year;
- higher negative balance of net technical provisions. This amounted to PLN 1,015.5 million compared with PLN 172.3 million in the prior year. This difference arose mainly from the changes in the cover portfolio of short-term investment endowments, sold mainly through the bancassurance channel, i.e. lower sales and revenue from investing activities, together with a comparable level of endowment disbursements;
- lower acquisition expenses. These amounted to PLN 16.5 million, i.e. they were 10.1% lower than in the prior year. This was the effect of a decline in the sales volume;
- lower administrative expenses. These amounted to PLN 9.7 million and declined by 14.6% compared with 2013 – the result of a decrease in the contracts portfolio;
- change in the other revenues and expenses category (expenses lower than in the previous year by PLN 4.1 million) mainly as a result of the lack of the Prevention Fund charge in the current year (eliminated for the purpose of the consolidated result).

Profitability ratios

In 2014 PZU Group's return on equity was 22.6%. ROE was 1.5 p.p. lower than in the prior year. The profitability ratios achieved in 2014 by PZU Group exceed the levels achieved by the whole market (according to the data for three quarters of 2014).

Operating efficiency ratios

One of the basic efficiency and operating measure of an insurance company is the combined ratio (COR), which is calculated for the non-life sector because of its specific nature.

The combined ratio of PZU Group (for non-life insurance) remains in the last few years at the level which guarantees high profitability. The ratio increased in 2014, however it was caused to a large extent by a higher loss ratio in motor own damage insurance resulting from an increase in the technical provisions covering claims from the previous years.

Operating efficiency ratios by segments were also presented in APPENDIX.

Key profitability ratios of PZU Group	2014	2013	2012	2011	2010
Return on Equity (ROE) (annualised net profit / average equity) x 100%	22.6%	24.1%	24.0%	18.3%	20.3%
Return on assets (ROA) (annualised net profit / average assets) x 100%	4.6%	5.6%	6.0%	4.6%	4.7%
Administrative expense ratio (administrative expenses / premium earned net of reinsurance)	9.3%	8.7%	9.0%	9.3%	10.6%
Return on Sales (net revenue / gross written premium) x100%	17.6%	20.0%	20.0%	15.3%	16.8%

	Operating efficiency ratios	2014	2013	2012	2011	2010
1.	**Claims ratio gross** (Claims gross along with change in technical reserves/written premium gross) x 100%	69.5%	67.9%	76.2%	67.9%	75.2%
2.	**Claims ratio net of reinsurance** (net claims paid / net premium earned) × 100%	70.3%	68.7%	76.3%	68.6%	73.1%
3.	**Insurance activity costs ratio** (Costs of insurance activity/ premium earned net of reinsurance) x 100%	22.4%	21.1%	21.5%	22.5%	24.0%
4.	**Acquisition expenses ratio** (acquisition expenses / premium earned net of reinsurance)x 100%	13.1%	12.4%	12.5%	13.2%	13.4%
5.	**Administrative expense ratio** (Administrative expenses / premium earned net of reinsurance) x 100%	9.3%	8.7%	9.0%	9.3%	10.6%
6.	**Combined ratio in non-life insurance** (claims + costs of insurance activity / premium earned net of reinsurance) x 100%	95.7%	87.8%	92.8%	95.3%	104.5%
7.	**Operating profit margin in life insurance** (operating profit / gross written premium) x 100%	24.4%	22.3%	19.8%	28.7%	n/a

PZU holds a

rating above Poland's foreign currency sovereign rating

for debt in a foreign currency.

07

Risk management

We devote a lot of time to the care and continued development of advanced procedures of risk management. We consider them to be fundamental, as, all in all, we want our Clients to feel secure and calm and our results to remain predictable. We are the ones who should concentrate on the risk that our Clients might bear and they should be able to completely rely on our expertise.

Contents:

7.1 Objective of risk management

The main objectives of risk management:

- raise of the value of PZU Group through active and conscious change in the amount of exposure at risk;
- preventing acceptance of risk at a level which could threaten the financial stability of PZU Group.

Risk management in PZU Group is based on risk analysis of all processes and entities , and it is an integral part of the management process.

The main elements of risk management are consistent for all companies of PZU Group and implemented in a way which ensures the implementation of strategic plans of individual companies and ensure business objectives of the whole PZU Group.

They include, among others:

- the systems of acceptable limits of risk , including the level of risk appetite;
- the processes of identifying, measuring and assessing, monitoring and controlling, reporting and managing actions with respect to the individual risks;
- the risk management organisational structure, in which Management Boards and Supervisory Boards of companies as well as dedicated Committees play the key role.

7.2 Risk management system

The risk management system of PZU Group is based on:

- organisational structure – containing division of responsibilities and tasks performed by management bodies, committees as well as organisational units in the risk management;
- the risk management process, including the methods of identification, measurement and assessment, monitoring and control, reporting risk and taking management action.

The risk management organisational structure is coherent in PZU Group and in individual companies includes four competence levels.

The first three are as follows:

- the Supervisory Board, which oversees the risk management and assesses its adequacy and effectiveness as part of its decision-making powers defined in the company's Articles of Association and the Supervisory Board rules and regulations;
- the Management Board, which organizes the risk management system and ensures its functionality through approving the strategy and policies and defining the risk appetite, the risk profile and tolerance for individual kinds of risk;
- the Committees which make decisions to reduce individual risks to a levels determined by the risk appetite. The Committees implement the procedures and methodologies for mitigating and accept the individual risks and their limits.

The fourth level of competence relates to operational actions and is divided between the three lines of defence:

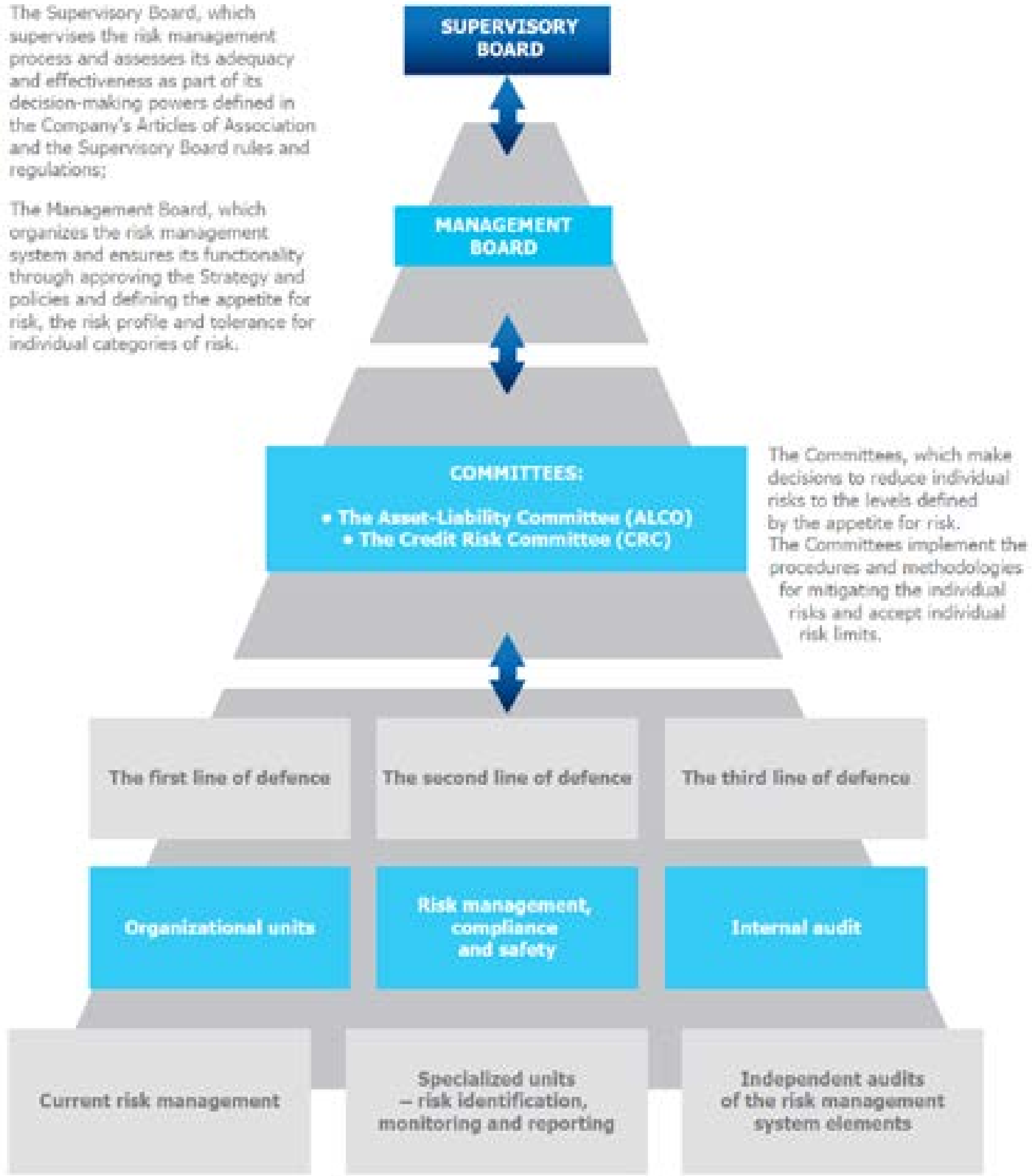
- the first line of defence – ongoing risk management at the business unit and organizational unit level and decision-making as part of the risk management process;
- the second line of defence –risk management by specialised units responsible for risk identification, monitoring and reporting as well as controlling limits;
- the third line of defence – comprises internal audit, which conducts independent audits of the elements of the risk management system, as well as control activities embedded in the activity.

7.3 Risk appetite

The below diagram presents organizational structure of the risk management system in each insurance entity within PZU Group.

The risk appetite is defined in PZU Group as the amount of risk taken in order to achieve business objectives and its measure by the level of potential financial losses, decrease in the value of assets or an increase in the value of liabilities in the period of one year.

Structure of the risk management system



The risk appetite determines the maximal level of acceptable risk when setting individual partial risks limits and restrictions which, when exceeded, results in taking actions necessary to limit further risk growth.

The way of determining the risk appetite and risk limits is cohenrent in all insurance companies of PZU Group. The Management Board in each company determines the risk appetite, the risk profile and tolerance limits which reflect its strategic plans and objectives of the entire PZU Group. Such an attitude ensures appropriateness and efficiency of

The risk management process consists of the following stages:

Identification

Begins with the proposal to commence the creation of an insurance product, acquire a financial instrument, change the operating process, as well upon the occurrence of any other event which potentially results in a risk. The identification process takes place until the expiry of the liabilities, receivables or activities related to the given risk. The identification of market risk involves recognising the actual and potential sources of such risk which are then identified as to their relevance.

Risk assessment and measurement

Risk assessment and measurement are performed depending on the characteristics of the given risk type and the level o its relevance. The risk assessment is performed by specialised units. In every company, the risk unit is responsible for development of risk assessment tools and risk assessment process to the extent which specifies risk appetite, risk profile and risk tolerance levels.

Risk monitoring and control

This involves ongoing reviews of any variances from the assumed parameters, namely limits, thresholds, plans, values from the previous period, recommendations and guidelines issued, which are performed by dedicated units.

Reporting

Allows efficient risk communication and supports risk management at various decision-making levels.

Management activities

These activities encompass among others risk mitigation, risk transfer, risk avoidance, specifying risk appetite, acceptance of risk tolerance levels, as well as tools which facilitate such activities, i.e. thresholds, reinsurance plans and reviews of underwriting policy.

the risk management system in PZU Group and prevents risk acceptance at a level which could pose a threat to the financial stability of individual companies or the entire PZU Group. The company's Management Board is responsible for determining the appropriate risk level for that company, whereas the risk unit reviews the level risk appetite once a year and all the activities are coordinated at the level of the Group.

7.4 Risk management process

Two levels are distinguished in the risk management process:

- PZU Group's level – It ensures that PZU Group implements its business objectives in a safe way which is adequate to the scale of risk involved. This level engages the monitoring of limits and specific types of risk occurring in business lines, e.g. catastrophe risk, entire exposure of PZU Group to financial risk or counterparty risk. PZU Group ensures support in the application of coherent risk management standards and monitors their implementation. Dedicated employees from PZU Group cooperate with Management Boards of the companies and with management of such areas as finance, risk, actuary, reinsurance, investment.
- company's level – It ensures that the company implements its business objectives in a safe way which is conformable to the scale of risk involved in its operations. This level involves the monitoring of limits and specific types of risk occurring in the given company and implementation of the risk management process at the level of the single company (both in terms of local legal regulations and standards of PZU Group).

7.5 Risk profile of PZU Group

The risk profile did not change significantly in 2014.

The most important factors influencing PZU Group's risk profile in 2014:
The acquisition of the Polish and Baltic assets was the key event from the point of view of PZU Group's risk profile. The influence of this event is insignificant due to the traditional structure of the insurance portfolios in the acquired companies and the structure of assets characterised by low level of risk. Moreover, the new companies have already adopted and implemented the risk management model of PZU Group and all incidents are constantly analysed and monitored.

The main types of risks incurred by PZU Group include insurance risk, market risk, credit risk, concentration risk, operational risk and compliance risk.

Insurance risk
It is the risk of a loss or an adverse change in the value of insurance liabilities as a result of improper assumptions regarding valuation and the establishment of provisions.

The process of risk identification starts with the idea of creating an insurance product and it lasts until the liabilities relating to it will expire. Insurance risk identification is carried out, i.a. by means of:

- an analysis of general insurance terms in respect of the accepted risk and compliance with generally applicable provisions of law;
- monitoring of the existing products;
- an analysis of the policy relating to underwriting, tariffs, provisions and reinsurance, as well as the claims and benefits handling process.

Insurance risk assessment involves recognizing the degree of exposure or a group of exposures related to the possibility of incurring a loss and analysing the risk elements in order to make a decision on whether PZU should accept a risk for insurance and assume liability. The aim of the risk assessment (underwriting) GLOSSARY is the assessment of future claims and the reduction of anti-selection.

Insurance risk measurement is based in particular on:

- the analysis of selected ratios;
- the scenario method - analysis of impairment arising from an assumed change in risk factors;
- the factor method - a simplified version of the scenario method, reduced to one scenario per risk factor;
- statistical data.

Monitoring and controlling of insurance risk includes the analysis of the level of risk by means of a set of reports including selected ratios.

The reporting aims to ensure efficient insurance risk communication and supports insurance risk management at various position from the employee level to the Supervisory Board. The frequency of individual reports and the scope of information are tailored to meet the information needs at different decision-making levels.

Insurance risk management process are carried out, in particular by:
- specifying the level of tolerance to insurance risk and monitoring thereof;
- business decisions and sales plans;
- calculating and monitoring the adequacy of technical provisions;
- tariff strategy, as well as monitoring existing estimates and assessing the adequacy of the premium;
- the process of assessment, measurement and acceptance of insurance risk;
- the use of insurance risk mitigation tools, including, in particular, reinsurance and prevention.

Furthermore, in order to reduce the insurance risk associated with the ongoing activities the following actions, in particular, are undertaken:
- definition of the scopes of liability and exclusions in the general terms of insurance;
- reinsurance activities;
- adequate tariff policy;
- employ of appropriate methodology of provisions calculation;
- appropriate underwriting process;
- appropriate claims handling process;
- sales decisions and plans;
- prevention.

Market risk

This is a risk of a loss or an adverse change in the financial situation, which directly or indirectly arises from fluctuations and changes in market prices of assets, liabilities and financial instruments.

The identification of market risk involves recognizing the actual and potential sources of such risk. In the case of assets, the market risk identification process begins when a decision is made to commence transactions on a given type of financial instrument. The units which decide to start transactions on a given type of financial instrument prepare a description of the instrument, including, in particular, a description of the risk factors, and submit it to the unit responsible for risk management, which identifies and assesses the market risk on this basis.

The process of identifying market risk related to insurance liabilities starts simultaneously with the process of creating an insurance product and involves identifying the relationship between the amount of cash flows associated with this product and the market risk factors. Identified market risks are assessed in terms of materiality, i.e. based on whether the materialization of a risk would be related to a loss that could affect the financial position.

The market risk is measured using the following measures of risk:
- VaR, i.e. Value at Risk - a risk measure quantifying the potential economic loss, which will not be exceeded over a period of one year with a 99.5% probability under normal market circumstances;
- exposure and sensitivity measures;
- accumulated monthly loss.

The following stages of the market risk measurement process can be distinguished:
- collection of information on assets and liabilities that generate market risk;
- calculation of the value of the risk.

The risk measurement is performed:
- for the measures of exposure and sensitivity of instruments;
- by using a partial internal model.

Monitoring and control of the market risk involves analysing the risk levels and the utilization of limits.

Reporting consists of communicating the level of market risk and the effects of monitoring and control to the different decision-making levels. The frequency of individual reports and the scope of information are tailored to meet the information needs at different decision-making levels.

Management actions regarding market risk include, in particular:
- concluding transactions to mitigate market risk, such as selling a financial instrument, closing out a derivative transaction and purchasing a hedging derivative;
- diversifying the portfolio of assets, in particular with respect to market risk categories, maturities of instruments, concentration of exposure in one entity, geographical concentration;
- setting market risk restrictions and limits.

The setting of limits is the main management tool for maintaining risk positions within acceptable risk levels. The structure of limits for the individual market risk categories and the organizational units is defined by dedicated Committees in line with the risk tolerance.

Credit risk and concentration risk

Credit risk is the risk of loss or adverse change of the financial standing resulting from fluctuations of reliability and creditworthiness of issuers of instruments, counterparties and debtors, which materializes in the default of counterparty or an increase in credit spread.

Concentration risk is a risk arising from lack of diversification in the portfolio of assets or from too high exposure to the risk of default by a single entity or group of related entities.

Identification of the credit and concentration risk takes place at the stage of making a decision to invest in a new type of financial instrument or the credit exposure to a new entity. Identification is based on an analysis of whether a given investment is related to credit or concentration risk, on which its level and volatility depends. The actual and potential sources of credit and concentration risk are identified.

The risk assessment is based on estimating how probable it is that the risk will occur and potential impact of such occurrence on the financial condition.

Credit risk is measured with the use of the following tools:
- exposure measures (the amount of the gross and net credit exposure and maturity-weighted net credit exposure);
- VaR.

Concentration risk measurement for a single entity is calculated as the product of the following two values:
- the amount of exposure to this entity over the excessive concentration level;
- the concentration risk ratio set for every internal rating.

The total concentration risk is measured as the sum of concentration risks of individual entities. In the case of related related, concentration risk is specified for all related entities cumulatively.

Monitoring and controlling of the credit and concentration risk involve analysing the current risk level, assessing creditworthiness and determining the level of utilization of the limits set.

Monitoring is conducted for:
- financial insurance exposures;
- reinsurance exposures;
- exposure limits and VaR limits.

Reporting consists of communicating the level of credit and concentration risk and the effects of monitoring and control to the different decision-making levels. The frequency of individual reports and the scope of information are tailored to meet the information needs at different decision-making levels.

Management actions with respect to credit risk and concentration risk include, in particular:
- setting limits of exposure to a single entity, group of entities, sectors or states;
- diversifying a portfolio of financial assets and insurance, mainly with respect to the state, sector;
- accepting security;
- concluding transactions aimed at mitigating credit risk, such as selling a financial instrument, closing out a derivative transaction or purchasing a hedging derivative, restructuring of the granted debt;
- reinsuring a financial insurance portfolio;

The structure of credit and concentration risk limits for the individual issuers is determined by dedicated Committees in line with the risk tolerance.

Operational risk

Is a risk of loss resulting from incorrect or erroneous internal processes, human actions, operation of systems or external factors.

Identification of the operational risk is carried out, in particular, by means of:
- collecting and analysing information on operational risk incidents;
- operational risk self-assessment.

Assessment and measurement of the operational risk is carried out by means of:
- identifying the results of operational risk incidents;

- estimating the results of potential operational risk incidents which may occur in the course of business activity.

Monitoring and controlling the operational risk is carried out mainly by the established operational risk indicators which make it possible to assess the change of the operational risk level , and the factors that influence the risk level in business activities.

Reporting consists of communicating the level of operational risk and the effects of monitoring and control to the different decision-making levels. The frequency of individual reports and the scope of information are tailored to meet the information needs at different decision-making levels.

Management actions in response to the identified and assessed operational risk involve, in particular:

- reducing risk by taking actions aimed at minimising the risk, i.a. by strengthening the internal control system;
- risk transfer – in particular by means of concluding an insurance agreement;
- avoiding risk by not engaging in or withdrawing from particular business activity when excessive operational risk is detected and its restriction would be too costly to make the venture profitable;
- risk acceptance – approval of the consequences of a possible materialisation of the operational risk if its level does not exceed the tolerance level for operational risk.

The business continuity plans were implemented in the key companies of PZU Group. The companies tested also the actions that secure the correct operation of processes which are of key importance to these companies in the case of breakdown.

Compliance risk

Is the risk of legal sanctions, financial losses or a loss of reputation arising from non-compliance with the law, internal regulations or adopted standards of conduct, including norms of ethics.

Compliance risk is identified and assessed for the individual internal processes by the managers of organizational units, in line with the division of reporting responsibilities. Additionally, the compliance unit identifies risks on the basis of entries in the register of conflicts of interest, gifts, benefits and irregularities, as well as the enquiries received.

Compliance risk is assessed and measured by determining the effects of materialization of the following risks:

- financial, resulting from administrative penalties, court verdicts, penalties, damages etc.
- intangible, such as loss of reputation, including damage to PZU Group's image and brand.

Compliance risk is monitored mainly through:

- the analysis of quarterly reports received from the managers of the organizational units;
- the review of the regulatory requirements;
- participation in legislative work on amending the generally applicable regulations;
- participation in the activities of professional organizations;
- coordination of external control processes;
- coordination of reporting requirements arising from the stock exchange regulations and the statutory law;
- review of the recommendations of PZU Group's compliance unit.

Management actions taken in response to the compliance risk comprise in particular:

- acceptance of risk, e.g. in connection with legal or regulatory changes;
- mitigation of risk, including adjustment of procedures and processes to regulatory requirements, issuing opinions and drafting internal regulations from the point of view of compliance, participating in the process of agreeing marketing activities;
- avoiding risk through the prevention of involvement in activities which do not comply with the regulatory requirements or good market practices or which could have an adverse effect on their image.

7.6 Sensitivity to risk

Risk related to financial assets

The below table presents the results of the analysis of the sensitivity of the net financial result and PZU Group's equity to changes in interest rate risk, exchange risk and equity instruments price risk. The analysis does not take into account the impact of changes in valuation of the deposits taken into consideration in the calculation of the provision on the net financial result and equity.

Sensitivity of the portfolio of assets (PLN million)	Change of the risk factor	31 December 2014		31 December 2013	
		Effect on net financial profit/loss	Effect on equity	Effect on net financial profit/loss	Effect on equity
Interest rate risk	100 p.b. decrease	126	223	433	464
	100 p.b. increase	(138)	(219)	(403)	(435)
Exchange risk	20% increase	6	119	19	83
	20% decrease	(6)	(119)	(19)	(83)
Equity instruments price risk	20% increase	346	561	396	456
	20% decrease	(346)	(561)	(396)	(456)

Sensitivity of reserves	Effect of changes in assumptions on:			
	net financial profit/loss		equity	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Changes in the assumptions to the net capitalized annuities in non-life insurance (PLN million)				
Technical rate - increase by 0.5 p.p.	415	411	415	411
Technical rate - decrease by 1.0 p.p.	(1,074)	(1,064)	(1,074)	(1,064)
Mortality at 110% of the currently assumed rate	129	126	129	126
Mortality at 90% of the currently assumed rate	(144)	(141)	(144)	(141)
Changes in the assumptions for annuities in life insurance (PLN million)				
Technical rate - decrease by 1 p.p.	(34)	(36)	(34)	(36)
Mortality at 90% of the currently assumed rate	(12)	(13)	(12)	(13)
Changes in the assumptions for reserves for insurance contracts and investment contracts with DPF in life insurance, excluding annuity insurance (PLN million)				
Technical rate - decrease by 1 p.p.	(2,194)	(2,221)	(2,194)	(2,221)
Mortality at 110% of the currently assumed rate	(923)	(937)	(923)	(937)
110% morbidity and accident rate	(187)	(195)	(187)	(195)

Financial assets exposed to exchange risk include deposit transactions and debt instruments used to hedge payments from technical provisions denominated in foreign currencies, as well as exposures to equity instruments listed on stock exchanges other than WSE, investment fund units and certificates in foreign currencies, exposures to derivatives denominated in foreign currencies and financial assets of consolidated entities denominated in foreign currencies.

Reduction of the sensitivity of the portfolio of financial assets exposed to the interest rate risk at the end of 2014, compared with 2013, was caused by the change in the structure of the bond portfolio, a switch from long-term to short-term instruments.

Risk pertaining to technical rates and mortality
The analysis presented above is a sensitivity analysis of the net result and equity to changes in the assumptions used to calculate the capitalized annuities. The analysis does not take into account the impact of changes in valuation of the deposits taken into consideration in calculation of the reserve on the net financial result and equity.

7.7 Reinsurance operations

Reinsurance coverage in PZU Group secures the insurance activity, reducing the consequences of the occurrence of catastrophic events which could adversely affect the financial situation of insurance companies. This task was performed through treaty reinsurance supplemented with facultative reinsurance.

Reinsurance contracts – PZU
PZU uses the reinsurance contracts it concludes to mitigate its exposure to catastrophic losses (e.g. flood, hurricane) among other things through a catastrophic non-proportional excess of loss contract and to the consequences of large one-off losses by non-proportional excess of losscontracts protecting property, technical, marine, aviation, TPL and MTPL portfolios.

PZU's risk is also mitigated through reinsurance of the financial insurance portfolio. In 2014, the main partners providing treaty reinsurance coverage to PZU were Swiss Re, Hannover Re, Munich Re, Scor and Lloyd's. PZU's reinsurance partners have high S&P/AM Best ratings, which gives the Company the certainty of the reinsurer's good financial standing.

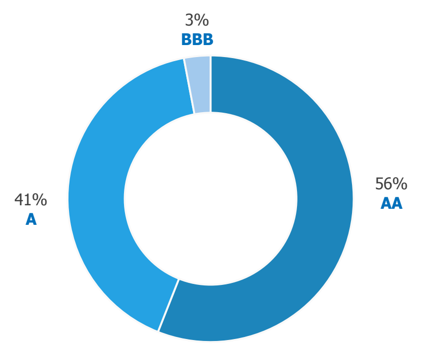
PZU's activity in the area of inward reinsurance includes foreign companies of PZU Group. As a result of the new acquisitions, in 2014 years the commitment to the protection of subsidiaries increased, and so did the related written premium. In addition, PZU obtains a gross written premium from inward reinsurance from activity on the domestic and foreign market, mainly through facultative reinsurance.

Reinsurance contracts - PZU Życie
Outward reinsurance contracts concluded by PZU Życie protect PZU Życie's portfolio against the accumulation of risks (catastrophic treaty), protect individual policies with higher sums insured and protect the child's serious illness group insurance portfolio.

RGA, Partner Re and Arch Re are the partners which provide reinsurance coverage to PZU Życie. Reinsurance partners have high S&P ratings, which gives PZU Życie the certainty of the reinsurer's good financial standing.

Reinsurance contracts of foreign companies of PZU Group and Link4
Other insurance companies of PZU Group, which are PZU Lietuva, PZU Ukraina and the companies acquired in the course of the year (Lietuvos Draudimas, AAS Balta, the Estonian branch of Codan and Link4), have reinsurance coverage that matches their business profile. Every significant insurance portfolio is secured by an treaty contract, usually non-proportional. PZU coordinates the cover of the Group's companies and in 2015 it will become the main reinsurer of the subsidiaries.

Reinsurance premium from PZU obligatory contracts as per Standard & Poor's rating



7.8 Capital management

PZU Group has a solid capital base, which is much higher than the capital requirements and the average values for the insurance sector in Poland.

In accordance with the Act on Insurance Activity GLOSSARY, an insurance company with its registered office on the territory of Poland is obliged to maintain its own funds at an amount of no less than the solvency margin and no less than the guarantee capital. Because of the lack of regulations defining the calculation of the solvency margin and the amount of own funds for the Group, PZU applies a ratio calculated on the basis of the unit solvency margins and own funds (using Solvency I rules) of insurance companies, taking into account consolidation adjustments.

PZU and PZU Życie's unit solvency margins and own funds were calculated on the basis of Polish Accounting Standards and the requirements of the Regulation of 28th November 2003 on the method of calculating the solvency margin and the minimum amount of guarantee capital for insurance categories and groups (Journal of Laws No. 211 of 2003, item 2060 as amended).

The capital requirement calculation model will be changed when Solvency II GLOSSARY enters into force.

PZU also maintains assets for covering technical reserves in excess of the required level. At the end of 2014, the assets to technical provisions ratio amounted to: 118,3% for PZU and 117% for PZU Życie. The details are presented in the APPENDIX.

Calculation of own funds for solvency margin coverage	2014	2013	2012	2011	2010
Amount of PZU Group's own funds of (in PLN million)	10,081	11,377	12,756	10,959	11,336
PZU Group's solvency margin (in PLN million)	3,462	3,234	3,144	3,106	3,081
PZU Group's guarantee capital (in PLN million)	1,154	1,078	1,048	1,035	1,027
PZU Group's solvency margin coverage with own funds	**291.2%**	**351.8%**	**405.8%**	**352.9%**	**367.9%**
PZU Group's guarantee capital coverage with own funds	873.6%	1,055.5%	1,217.3%	1,058.6%	1,103.7%
Amount of PZU's own funds (in PLN million)	7,981	9,506	10,956	9,192	9,593
PZU's solvency margin coverage with own funds	585.9%	697.7%	815.3%	686.6%	716.6%
Amount of PZU Życie 's own funds (in PLN million)	3,996	4,185	6,551	5,704	6,233
PZU Życie 's solvency margin coverage with own funds	224.1%	235.5%	376.0%	332.5%	367.0%

Shareholders who bought shares in PZU's initial public offering saw the value of their investment grow by

101.3%

as at the end of 2014.

08

PZU on the capital and debt market

Since PZU's debut on the Warsaw Stock Exchange in May 2010, our share price has been rising faster than the major market indices. Every year, we pay dividends to our investors. We create the value of PZU also through active communication with capital market participants. We build trust and take care of good relations.

Contents:

8.1 Stock and bond markets

The main trends of the global financial markets in 2014 were strongly associated with the development of the economic situation in the USA and the euro zone and with their central bank's policy SITUATION ON FINANCIAL MARKETS SECTION. 2.2. An additional factor influencing the behaviour of financial market was the sharp decline of oil prices. Stock markets especially in Central and Eastern Europe remained under significant impact of the conflict in Ukraine and the events which followed - increased geopolitical risk in Europe, the problems of the Ukrainian economy, Western sanctions and Russian counter-sanctions, the decline in Polish exports to the east (especially food).

As far as events in Poland are concerned, the biggest influence on the share prices had the reform of the pension system REGULATIONS ON THE INSURANCE MARKET IN POLAND SECTION 2.4. Introduced changes have forced the management of open pension funds to introduce a radical change in the investment policy, which resulted in a decrease of demand for shares from major investors in the Polish market. Open pension funds turned towards the most liquid domestic and foreign shares, at the expense of smaller and illiquid ones. This resulted in a significant disparity in the behaviour of share prices of the largest (WIG20TR) and smallest (sWIG80) companies listed on the Warsaw Stock Exchange.

In 2014 there was still a boom on the market of Polish treasury bonds, which was in line with the general European trend. The lower inflation and the Monetary Policy Council's decision to reduce the interest rates constituted a support for the declining yields of the Polish Treasury instruments, especially the ones at the long end of the yield curve SITUATION ON FINANCIAL MARKETS SECTION 2.2.

In 2014, it could be also observed that Poland slowly ceases to be seen as an emerging market. It is confirmed by the behaviour of the WIG index in comparison with the MSCI Emerging Markets which reflects the behaviour of emerging markets. Usually, both of them moved in the same direction. There was a noticeably lower correlation in the behaviour of these indices in 2014.

8.2 PZU's stock prices

In the face of the events on the global markets, 2014 did not bring any spectacular profits to the stock exchange investors on WSE. The average price/profit ratio for all the shares of domestic companies from the WSE's main market at the end of December amounted 19.7. WIG index increased of mere +0.26%.

Not even the largest companies avoided the reduction of share prices. WIG20 with the result of -3.5% finished the second consecutive year with a negative result (+0.5%, including dividends). The companies with lower capitalisation achieved even worse results. WIG250 recorded a -18% decline compared with 2013. During 12 months of the previous year only 4 out of 11 sectoral indices recorded any increase. WIG-Energy recorded the highest increase (by +23.6%). WIG-Food recorded the highest decrease (by -20.0%).

PZU share's performance

IPO of PZU on the Warsaw Stock Exchange on 12th May 2010 and since its debut it has been included in the WIG20 index. With capitalization of nearly PLN 42 billion at the end of 2014, PZU was the second largest listed company in Poland, and its share in WIG20 portfolio was 14.4%.

PZU was also included in the following indices of the WSE: WIG, WIG30, WIG-Poland, RESPECT Index and WIGdiv. Since 2012 PZU's shares are also included in the sustainable development index CEERIUS GLOSSARY.

In 2014 PZU's stock prices fared much better than other WSE blue chips GLOSSARY (WIG20) or banks (WIG-Banks). The closing price from the last session in 2014 amounted to PLN 486, which was a growth by +8.3% compared to the closing price of 31st December 2013 of PLN 448.95. Taking into account PLN 34 per share of the dividend paid in 2014, the PZU shares allowed the investors to earn 15.83%. Thus, PZU was in the top five companies in the WIG20 index with the highest rate of return in 2014. Taking into account PLN 20 of additional dividends from the surplus capital (paid in 2013 in the form of an advance from the profit for 2013), the rate of return from the PZU shares would increase to the level of 20.3%.

During the session on 8th September 2014, the PZU's share price exceeded the barrier of PLN 500 for the first time (reaching PLN 501.4). The historical maximum closing price (PLN 511 per share) was achieved on 4th November 2014.

It is worth noting that the price of PZU's shares in the IPO in May of 2010 was PLN 312.5. Any investor who bought the shares at that point, doubled the price of compared to the closing price of 31st December 2013 of their investment at the end of 2014. The rate of return on investment in PZU shares,

15.83% PZU TSR

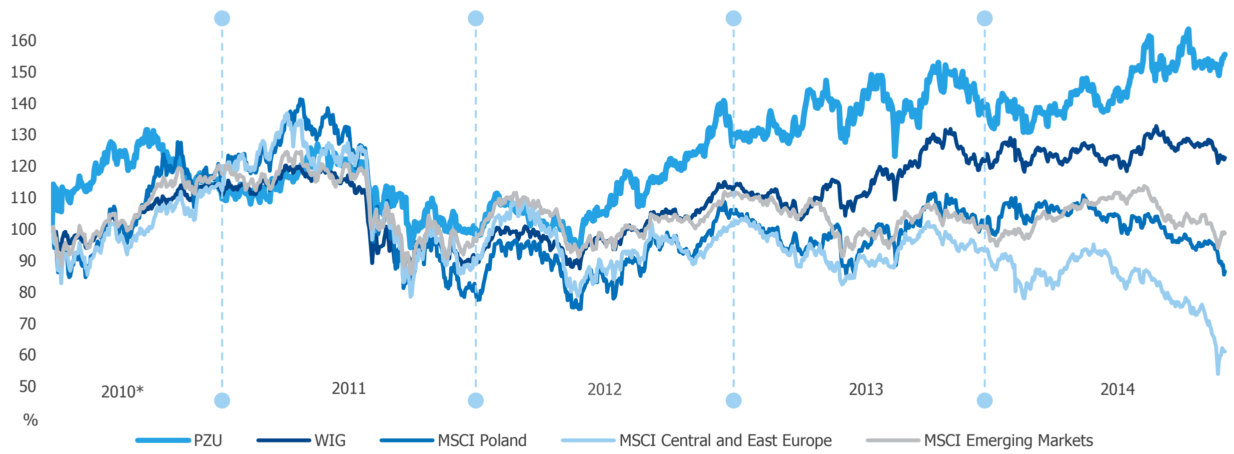
0.51% WIG20TR

8.25% PZU

-3.54% WIG20

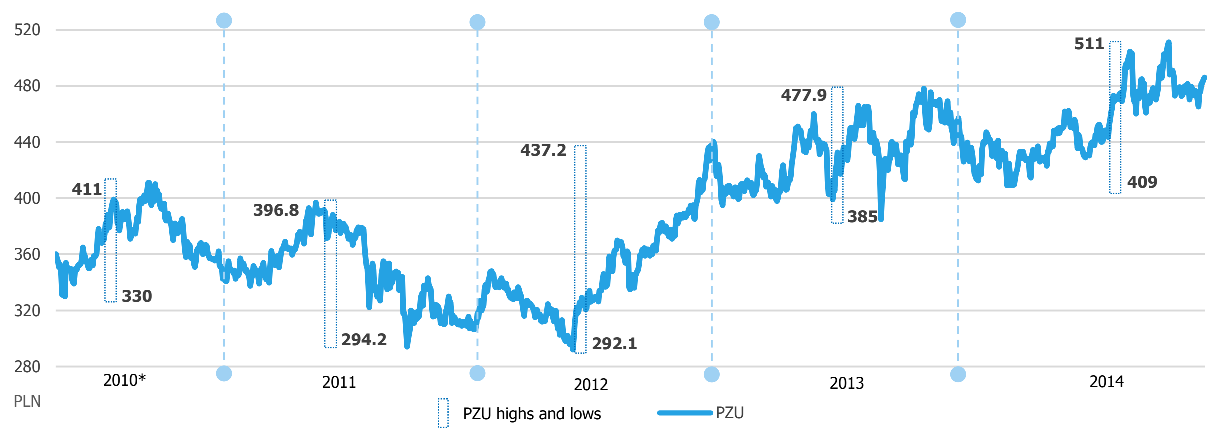
-0.66% WIG Banks

Evolution of PZU's share price (%) compared to MSCI indexes (USD)



* Quotations since 12 May 2010 (PZU's IPO)
Source: Reuters

PZU's share price development in the years 2010 - 2014



* Quotations since 12 May 2010 (PZU's IPO)
Source: Reuters

PZU Group's capital market ratios	31 December 2014	31 December 2013	31 December 2012	31 December 2011
(P/BV) Market price per share / book value per share	3.19	2.95	2.64	2.07
BVPS Book value per share	152.49	152.02	165.24	149.03
(P/E) Market price per share / earnings per share	14.14	11.77	11.60	11.38
EPS (PLN) Earnings (losses) per share / number of shares	34,.37	38.16	37.68	27.14

taking into account PLN 143.04 of the accumulated dividends was 101.3%.

PZU's shares are characterised by a high level of liquidity. At the end of 2014, 59,8% shares were in free float. The average number of transactions per session was 2 495 (an increase by 5.3% y/y). Average daily turnover per session declined. In 2014, it was 163,5 thousand units, which means a drop by 13.1% in comparison to 2013. The highest trading volume (592.5 thousand shares) was recorded on 13 November 2014, that is, on the date of publication of the interim consolidated financial statements of PZU Group for three quarters of 2014.

The price/book value ratio was 3.19, making PZU one of the best-valued companies in the financial market listed on the WSE.

Factors influencing performance of the PZU's shares
The PZU's share's good results were undoubtedly influenced by the consistency with which the Management Board of PZU implemented its PZU 2.0 strategy. Restructuring of PZU Group brings the expected results in terms of cost optimisation and improved operational efficiency. PZU cares about the image of a modern insurer, undertakes innovative health-related projects and introduces innovative solutions. Refreshment of the brand, revitalisation of the branch network and actions aimed at providing a high level of customer service - these are just a few of the initiatives taken by PZU in recent years. Business decisions of the Management Board, such as ground breaking direct claims handling and the company's own fleet of replacement cars, are very well-received not only by the customers but also by investors and analysts.

Share statistics	1 January – 30 December 2014	1 January – 30 December 2013	1 January – 30 December 2012	1 January – 30 December 2011
Maximum price of shares (PLN)	511.00	477.90	437.20	396.80
Minimum price of shares (PLN)	409.00	385.00	292.10	294.20
The closing price from the last session of the year (PLN)	486.00	448.95	437.00	309.00
Average price per session (PLN)	452.23	432.19	346.07	349.40
Value of the volume (PLN million)	18,400.72	19,970.39	18,152.22	23,315.25
Average value of the volume per session (PLN million)	73.90	80.85	73.19	92.98
Number of transactions	621,224	582,205	411,635	526,265
Average number of transactions per session	2,495	2,369	1,660	2,097
Trading volume (million)	40.72	46.49	52.56	66.74
Average trading volume per session	163,553	188,219	211,955	265,883
Capitalisation at the end of the period (PLN million)	41,954.10	38,755.75	37,735.96	26,682.86

One of the most important events in the course of implementation of PZU's strategy was acquisition in 2014 insurance companies in Baltic States and Poland. After this transaction was announced (in April 2014), PZU price increased by 3.6%, which resulted in an increase in the market capitalization of PLN 1.3 billion.

High dividends (paid annualy), guaranteeing an attractive dividend rate, also had a positive impact on the share prices. PZU paid the highest dividend to date from the profit from 2013 (PLN 54 per share).

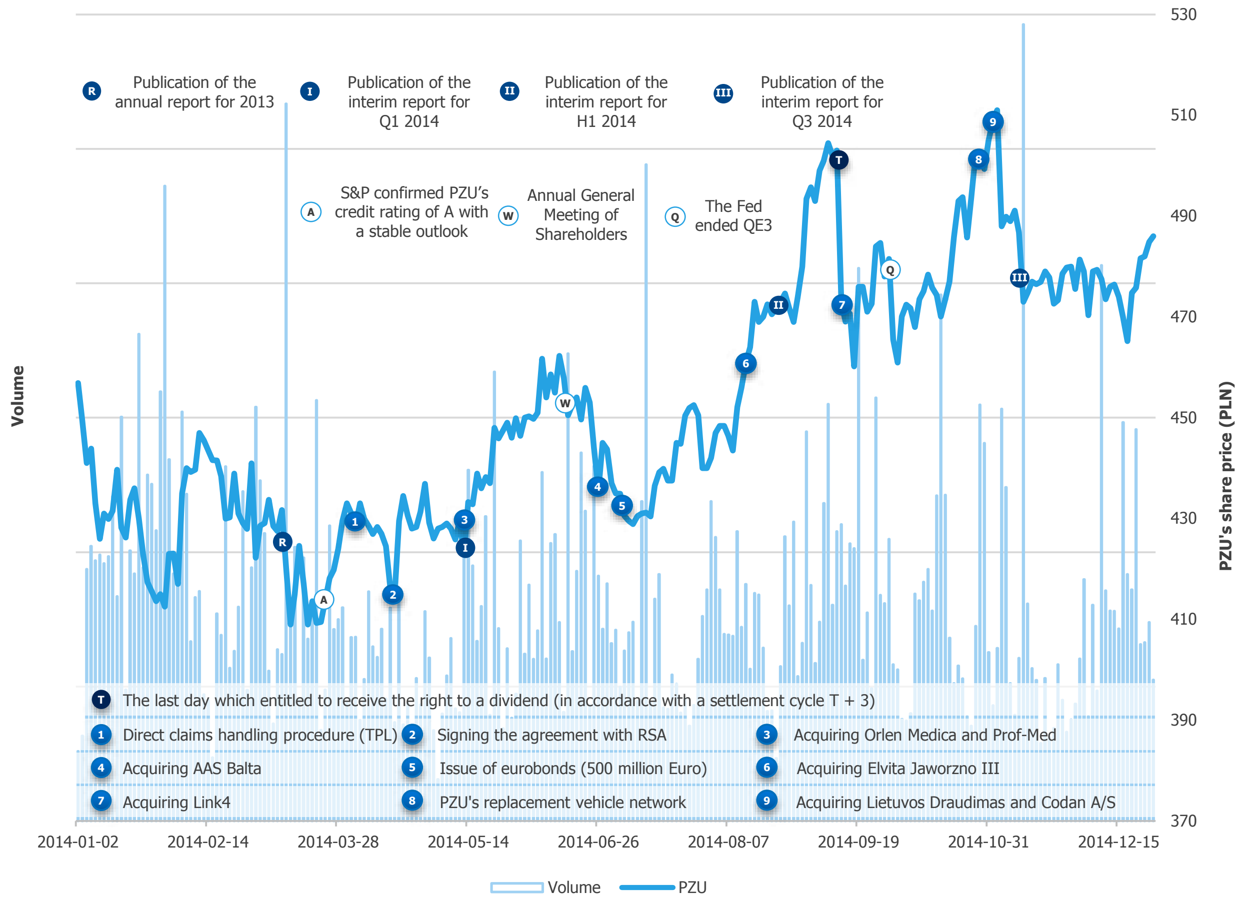
8.3 Debt financing

On 3rd July 2014, PZU Finance AB (a 100% subsidiary of PZU) issued five-year eurobonds for the amount of EUR 500 million[1]. The redemption of the bonds will take place on 3rd July 2019. The liabilities arising from the bonds were secured by a guarantee granted by PZU. The issue price of one bond with a nominal value of EUR 100,000 amounted to EUR 99,407. Standard & Poor's awarded these bonds a senior unsecured rating at "A-", that is, an investment grade.

The bonds were released on the regulated market of the Irish Stock Exchange (Official List, Main Securities Market) on the basis of a prospectus approved by the Central Bank of Ireland. From 22nd December 2014 bonds have also been traded on the Warsaw Stock Exchange Catalyst ASO/Bondspot market.

[1] On 7th July 2014, there was a loan agreement concluded on which basis PZU Finance AB granted PZU a loan in the total amount of EUR 500 million. The loan will be paid back on 28th June 2019

Key events affecting the PZU's share price in 2014 year



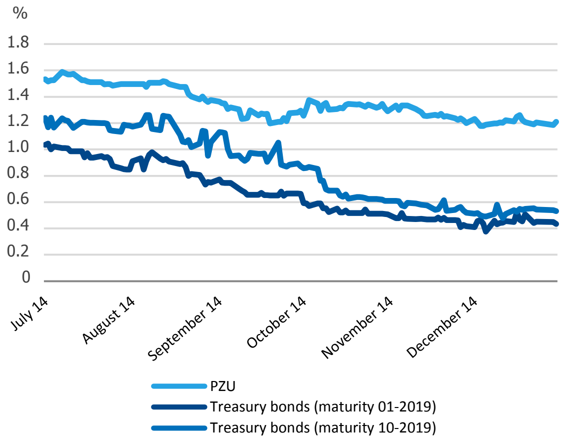
PZU on the capital and debt market

The margin over mid-swap rate (the curve, which constitutes the average of the bid and ask curves for fixed-coupon bonds corresponding to the period of redemption of the bonds) amounted to 85 bps, which resulted in the bond yield of 1.499%.

The bonds bear interest at a fixed interest rate of 1.375% per year and the coupon will be paid once a year. As at the issue date it was the lowest coupon obtained in the region of Central and Eastern Europe and the lowest margin in the region since 2007.

The issue of Eurobonds constituted the implementation of PZU Group's investment strategy in the scope of the management of the matching of assets and liabilities denominated in euro.

PZU eurobonds yield compared to Polish treasury eurobonds with matury date in 2019



Source: Reuters

8.4 Investor relations

In order to meet the highest information governance requirements for public companies and fulfilling information needs of different groups of stakeholders, the Management Board of PZU undertakes various investor relations activities aimed at improving transparency of the company. Therefore, PZU has consistently applied „Principles for PZU to Conduct its Information Policy for Capital Market Participants".

IR Vision: We provide honest information everywhere and at all times – this helps to better understand the company and ensures peace of mind and security to those who invest in PZU shares. We set directions for development of investor relations in Poland.

PZU creates value through proactive communication with capital market participants, building trust and caring for good relationships.

Shareholding structure

As at 31st December 2014, the shareholders of PZU with significant blocks of shares were: the State Treasury (35.2% of the share capital) and Aviva OFE Aviva BZ WBK (5.00% of the share capital). SHARE CAPITAL AND SHAREHOLDERS OF PZU SECTION 10.6.

In 2014 the shareholding structure of PZU was analysed. Compared with 2013, there was a noticeable increase of Polish institutional investors by 2.7 p.p. at the expense of individual and foreign investors. The increase in the share of institutional investors in Poland is primarily the result of the increased interest of the part of PZU from the open pension fund (OFE), whose share rose to 18.3% from 16.7% in 2013.

Geographic structure of the investors in 2014 was similar to the structure from the previous year. Main changes concerned the involvement of institutional investors from Western

500 mln euro bond issue value

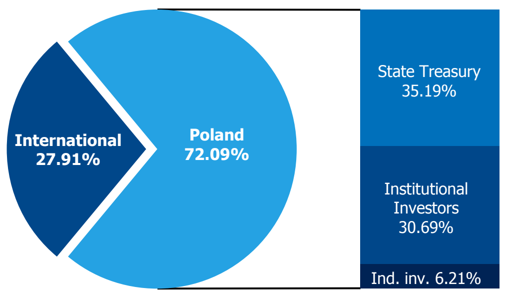
3 July 2019 redemption date

A- (S&P) issue rating

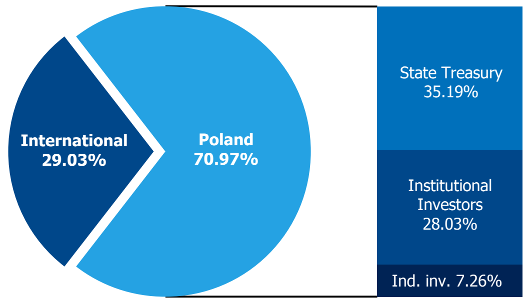
99.407% issue price

1.375% fixed interest rate

PZU shareholding structure in 2014



PZU shareholding structure in 2013



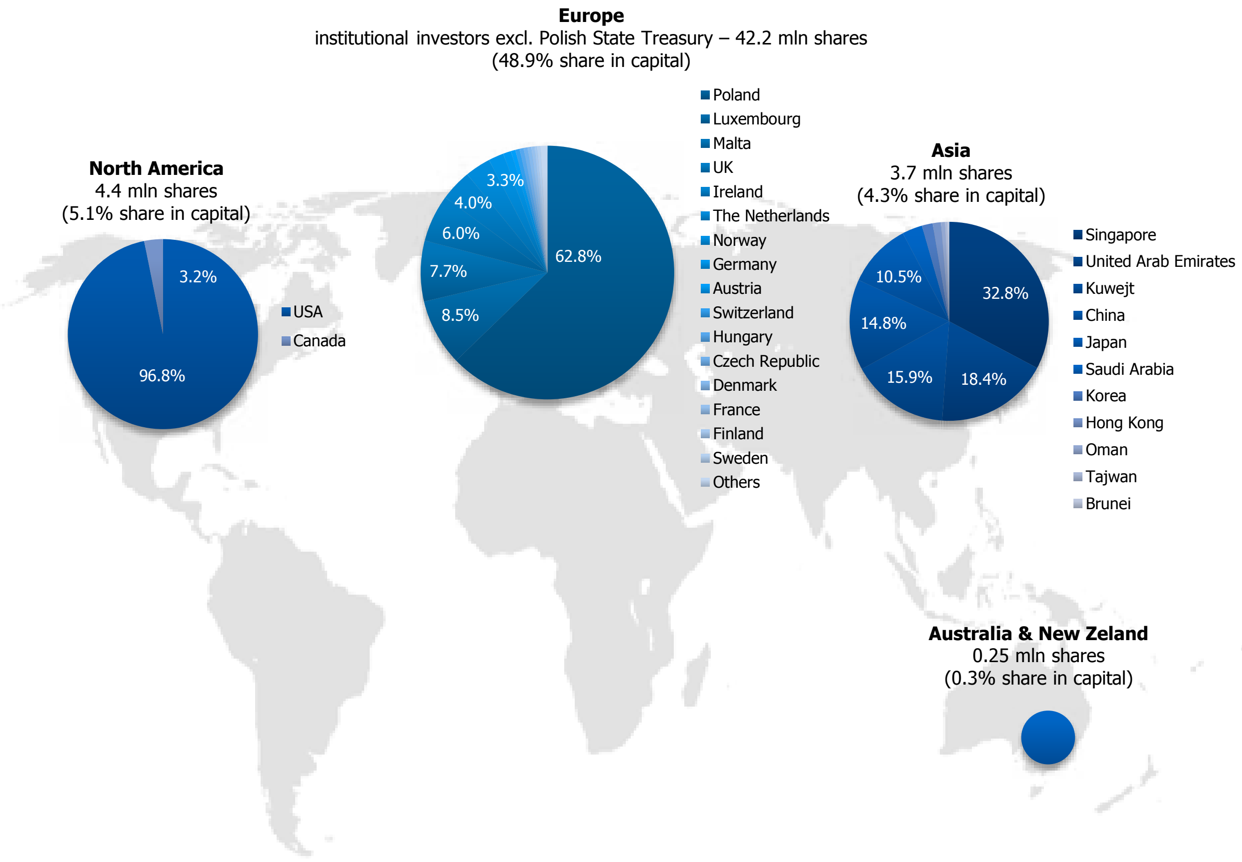
Europe, who have increased their holdings to 42.3 million shares (an increase of 8.5% y/y).

Communication with capital market participants

The financial performance of PZU Group (for 2013, Q1 2014, 1H 2014 and Q3 2014) were presented and discussed by the Management Board of PZU during meetings with capital market analysts (all also broadcast live on the Internet). Additionally, on 17th April 2014, a meeting was organized with the aim of presenting and discussing the acquisition of insurance companies from the Baltic States and Poland.

In 2014, PZU first time presented on-line annual report with the most important events, achievements and plans.

Institutional investors - geographical structure



Activities aimed at institutional investors – share investors

In 2014, representatives of PZU participated in:

- 3 non-deal road show in Boston (USA), Edinburgh (Great Britain) and Los Angeles, San Francisco and San Diego (USA);
- 13 financial conferences held abroad with global institutional investors;
- 2 conferences for institutional investors in Warsaw;
- a number of group, one-on-one meetings and teleconferences with investors and stock portfolio managers held in PZU office.

In 2014 PZU organized 186 meetings with nearly 300 institutional investors and 112 meetings with analysts issuing recommendations concerning PZU shares.

Activities aimed at individual investors

In 2014 PZU continued also communication activities addressed to the large group of individual investors. With them in mind, we:

- participated in 2 conferences for individual investors organized in Poland by Individual Investors' Association (SII): the 18th edition of the WallStreet Conference in Karpacz – the largest meeting of individual investors in Central and Eastern Europe and in the 7th edition of Professional Investor Conference 2014 in Zakopane;
- organized 4 chats with individual investors, in which the Member of the Management Board of PZU who is in charge of Finance Division in PZU Group also participated, after each publication of the results;
- we participate in the "10 na 10 – komunikuj się skutecznie" programme (Ten to Ten: Effective Communication) aimed at creating of high communication standards for listed companies to reach individual investors;
- since its IPO, PZU has been partnering and actively participating in Akcjonariat Obywatelski project; it is an initiative for private investors started by the Ministry of Treasury during the IPO of such companies as PZU or WSE.

Investor centres visited in 2014

Activities aimed at institutional investors – investing in shares

In connection with the issuance of eurobonds in June 2014, the representatives of PZU participated in the Roadshow, in which there were held 24 meetings with almost 50 institutional investors (in the major financial centres of Europe). The effectiveness of the bonds placement was confirmed by the lowest coupon obtained in the region of Central and Eastern Europe and the lowest margin in the region since 2007.

3
Non-Deal Roadshows

1
Deal Roadshow

15
conferences for institutional investors

210
investor meetings

Awards and prizes for IR activities

Activities of PZU regarding investor relations are highly appreciated both by investors, analysts and media. In 2014, PZU received in this area the following awards and prizes:

- Granted in the Thomson Reuters Extel survey GLOSSARY:
  - PZU was ranked first in Corporate Best for Investor Relations in Poland;
  - PZU was ranked first in the category of IR Professional Best for IR awarded to Piotr Wiśniewski who manages investor relations in PZU.
- PZU was ranked first in the category of "Investor Relations" and second in the main ranking "WSE Company of the Year" of the contest organised by Puls Biznesu. PZU was also ranked second in the categories "Competencies of the Board" and "Success 2013". The following factors were evaluated in the category of "Investor Relations": quality of information and communication with all capital market participants.
- The award for best investor relations in the survey of the WSE magazine "Parkiet". The survey of investor relations was conducted in the WIG30 companies by "Parkiet", Chamber of Brokerage Houses and PwC.
- PZU won the distinction of „Heros rynku kapitałowego" - Capital Market Hero in the second edition of this survey held by Individual Investors' Association (SII) among its members. The association awarded companies that meet top standards in communication with individual investors and individuals who contributed to the building of knowledge of the capital market and its transparency.
- Spółka przyjazna inwestorom certificate (Investor Friendly Company) – awarded by the association to the companies that maintain high reliability of its information policy and protect the rights of investors.
- Distinction for the highest useful value of annual report for 2013 in the „Banks and financial institutions" category in the Best Annual Report competition organised by Polish Institute of Accounting and Taxes GLOSSARY. In the main awards category, PZU ranked third among banks and financial institutions.

IR aims for 2015

The following are the main IR aims in 2015:

- building understanding and approval for the PZU 3.0 strategy among the investors;
- providing a broad market for PZU shares – by continuing pro-investors activities aiming to create a diversified (geographically, numerically and in terms of their profiles) group of investors who know the company and are well-informed;
- adequate coverage for PZU shares by analysts of investment banks and brokerages (sell-side) and ensuring the fair valuation of PZU shares by providing analysts with high-quality information on the activities of PZU, industry trends, factors affecting the financial results and feedback on the analysis of the issued recommendations;
- providing a broad market for PZU bonds by carrying out pro-investors activities addressed to debt investors;
- creating standards of investor relations for other listed companies to emulate;
- monitoring changes in the shareholding structure in order to take on appropriate targeting of actions and assess the effectiveness of IR plans.

8.5 Analysts' recommendations

In 2014, recommendations for PZU stock were issued by 20 domestic and foreign financial institutions. In total, the sell side analysts issued 34 recommendations. Positive recommendations, that is, buy, accumulate and overweight, slightly outweighed the negative ones (about 35% of all recommendations). The median of target prices from the

2
conferences for individual investors

90
individual investors participating in chats with CFO

38
days spent on conferences and roadshows

25
days spent by the management on meetings with investors

recommendations valid in December 2014 amounted to PLN 495 and was higher by 11.2% compared with the beginning of the year. The maximum target price was PLN 527 and 1.4%% higher, compared to the maximum target price from January 2014.

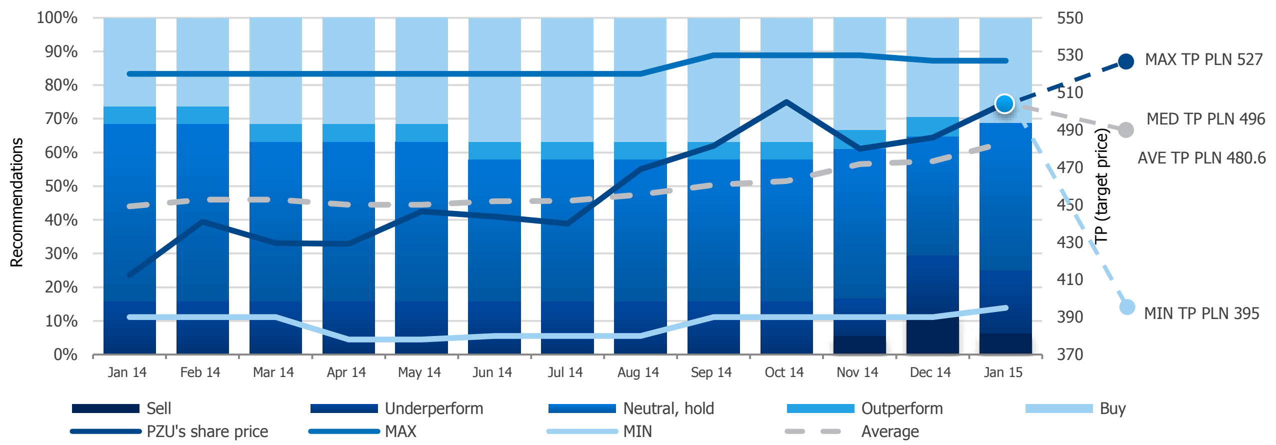
The biggest impact on the valuation of PZU shares in 2014 had the expectations of analysts concerning the assumptions of the new strategy, the potential increase in PZU's revenues due to the acquisition of the insurance companies in Poland and the Baltic states, as well as the issues related to the amount of dividends, including the possibility of further payments from the surplus capital. The following topics were also stressed: topics concerning the expected results of PZU in the medium and long term in the conditions of low interest rates and the effects of the implementation of Solvency II GLOSSARY on the capital position and the dividend policy of PZU.

Distribution of target prices from the recommendations issued in 2014

RECOMMENDATIONS 34		
	▲12	Buy, accumulate, outperform
	11	Neutral, hold
	▼11	Underperform, reduce

	December 2014	January 2014	annual change
Highest target price	PLN 527	PLN 520	+ 1.4%
Median	PLN 495	PLN 445	+ 11.2%
Lowest target price	PLN 390	PLN 390	+ 0.0%

Analysts' forecasts towards quote of PZU shares in 2015 based on current recommendations at the end of January 2015



Institutions issuing recommendations for PZU shares in 2014

POLND

Institution	Analyst	Contact information
Deutsche Bank	Marcin Jabłczyński	+48 22 579 87 33 marcin.jablczynski@db.com
Dom Maklerski mBank S.A.	Michał Konarski	+48 22 697 47 37 michal.konarski@mdm.pl
DM BH (Citi)	Andrzej Powierża	+48 22 690 35 66 andrzej.powierza@citi.com
Espirito Santo Investment Bank	Kamil Stolarski	+48 22 347 40 48 kstolarski@espiritosantoib.pl
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ING	Piotr Palenik	+48 22 820 50 20
PKO Dom Maklerski	Jaromir Szortyka	+48 22 580 39 47 jaromir.szortyka@pkobp.pl
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Uni Credit	Paweł Kozub (until December 2014 roku)	
Wood & Company	Marta Jeżewska-Wasilewska	+48 22 222 15 48 marta.jezewska-wasilewska@wood.com

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Goldman Sachs	Vinit Malhotra	+44 20 7774 3488 vinit.malhotra@gs.com
HSBC	Dhruv Gahlaut	+44 20 7991 6728 Dhruv.gahlaut@hsbcib.com
JP Morgan	Michael Huttner	+44 20 7325 9175 michael.huttner@jpmorgan.com
Raiffeisen Centrobank	Bernd Maurer	+43 1 51520 706 maurer@rcb.at
UBS	Michael Christelis	+27 11 322 7320 michael.christelis@ubs.com
Societe Generale	Jason Kalamboussis	+44 207 762 4076 jason.kalamboussis@sgcib.com

8.6 Dividend policy

On 13th May 2014, the Management Boards for PZU decided to update the Capital Structure and Dividend Policy of PZU Group for the years 2013-2015 (Policy), approved on 26th August 2013. Thanks to the introduced changes, on 19th November 2013 an advance paid towards the dividend expected at the end of the 2013 financial year in the amount of PLN 1,727 million, i.e. PLN 20 per share, was recognized as part of the payment of the surplus capital.

The key objective of the implementation of the Policy is reduction of the cost of capital through optimization of the balance sheet structure by way of replacing equity with less expensive borrowed capital at the same time ensuring high security and maintaining funds for development.

The policy aims to increase the total shareholder return (TSR) GLOSSARY and is based on the following principles:

- maintaining the own funds of PZU Group, excluding the subordinate debt, at the level not lower than 250% of the solvency margin (according to Solvency I GLOSSARY of PZU Group and an attempt to maintain the own funds of PZU Group, including the subordinate debt, at the level of about 400% of the solvency margin (as at the end of the financial year) in order to maintain the financial security of the Group;
- maintaining assets to cover the provisions of individual companies of PZU Group at a level no lower than 110%;
- obtaining an optimal financing structure by replacing the capital surplus with subordinated debt up to an amount no higher than PLN 3 billion, not to exceed a 25% own funds to cover the solvency margin as referred to in article 148 of the Insurance Activity Act GLOSSARY.
- maintaining the equity level corresponding to Standard & Poor's AA rating;
- providing funds for development and acquisitions in upcoming years;
- no equity issues by PZU in the upcoming years.

The policy assumes dividend payment calculated based on:

- the consolidated net profit, where the amount of the dividend paid cannot be lower than 50% or higher than 100% of the net profit shown in PZU Group's consolidated financial statements compliant with IFRS; and
- surplus capital, where the total amount of dividends paid from surplus capital in 2013-2015 cannot exceed PLN 3 billion.

Payment of dividends for 2013

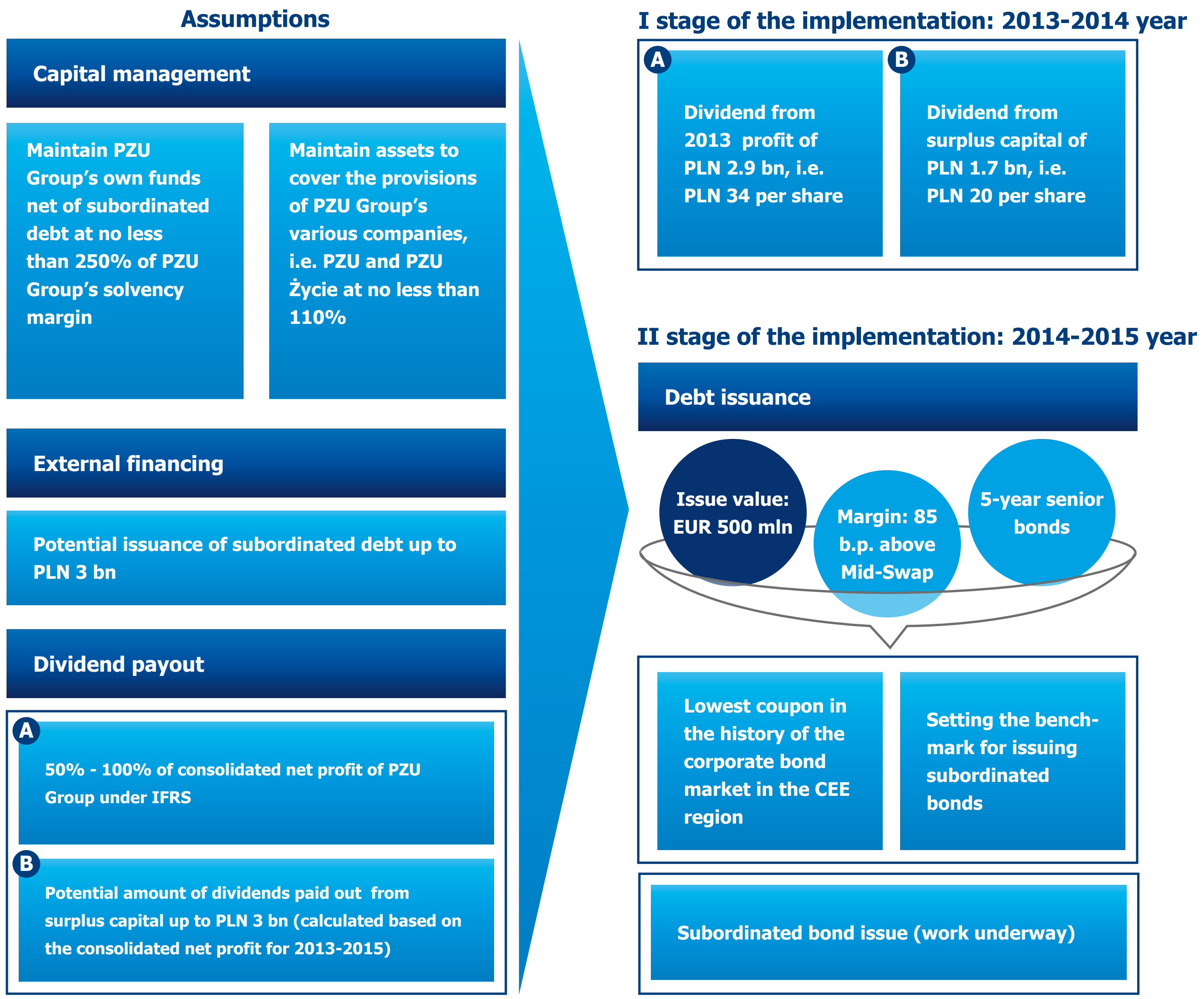
In December 2013, all insurance companies operating on the Polish market received a Recommendation of the Head of PFSA (KNF) GLOSSARY regarding restrictions on dividend payment. The supervisory body recommended that the insurance companies continue their prudent dividend policy using the generated profit to enhance their capital standing. At the same time, when deciding on the dividend amount, the insurance companies should take into account additional capital needs within the 12 months of the date of approving 2013 financial statements, among others arising from the growth of costs caused by changes in market and legal conditions and capital needs arising from the necessity to achieve compliance with Solvency II GLOSSARY.

The supervisory body recommended the dividend to be paid only by insurance companies that meet all the set financial criteria.

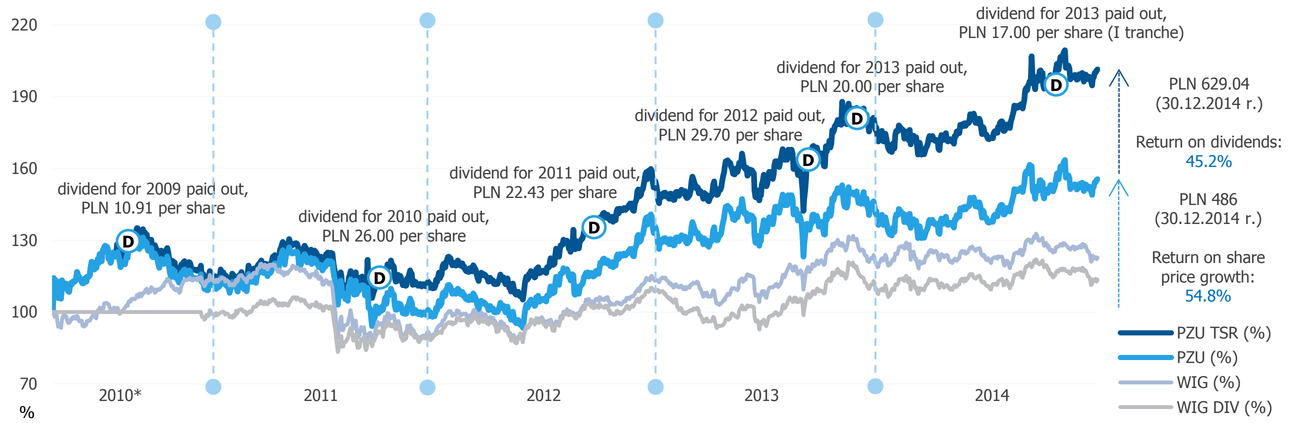
At the same time, it recommended limiting the dividend payment (when meeting the criteria) to the maximum of 75% of the 2013 profit maintaining the capital requirement coverage ratio after dividend of at least 110%. The supervisory body allowed for the payment of dividend from the entire profit generated in 2013, as long as the capital requirements cover will stay at the level higher than the one defined in the recommendation after the payment of dividends.

On 17th June 2014 the General Shareholders' Meeting of PZU adopted the resolution on distribution of the net profit for the year ended 31st December 2013, in which it decided to allocate to the dividend payment the amount of PLN 4,663 million, that is PLN 54.00 per share.

Assumptions and implementation of PZU Group's capital policy



Evolution od PZU's share price (%) compared to selected indices



* Quotations from 12 May 2010 (PZU IPO at WSE).

Given the payment made on 19th November 2013 on the account of advance payments towards the dividend expected at the end of 2013 in the amount of PLN 1,727 million, i.e. PLN 20.00 per share, the remaining part of the dividend payable for the year which ended on 31st December 2013 amounted to PLN 2,936 million, i.e. PLN 34.00 per share.

17th September 2014 was chosen as the date according to which the list of shareholders entitled to other parts of the dividend payment for the year ended 31st December 2013 was established.

The following payment dates of the above-mentioned dividends were set:

- 8th October 2014 – PLN 1,468 million, that is, PLN 17.00 per share;
- 15th January 2015 – PLN 1,468 million, that is, PLN 17.00 per share.

Because all the key solvency ratios are met and due to the dividend policy, on 19th November 2013 an advance interim for 2013 was paid in the amount of PLN 1,727 million, and was disclosed as part of the payment from the surplus capital of PZU Group, according to the IFRS.

Payment of dividends for 2014

Following the recommendation regarding dividend payment by insurance companies from profit generated in 2013, the supervisory body issued a recommendation regarding the payment of dividend from 2014 profit. In a letter of 3rd December 2014 the supervisory body recommended that the insurance companies continue their prudent dividend policy using the generated profit to enhance their capital standing.

The supervisory authority has recommended that dividend should be paid exclusively by insurance companies that meet designated financial criteria and that the payment of dividends should be limited to a maximum of 75% of the profit generated in 2014. The coverage ratio of capital requirements after dividends should remain at a level of at least 110%. At the same time, the supervisory body allows the payment of dividend from the entire profit generated in 2014, as long as the capital requirements cover will stay at the level higher than the one defined in the recommendation after the payment of dividends.

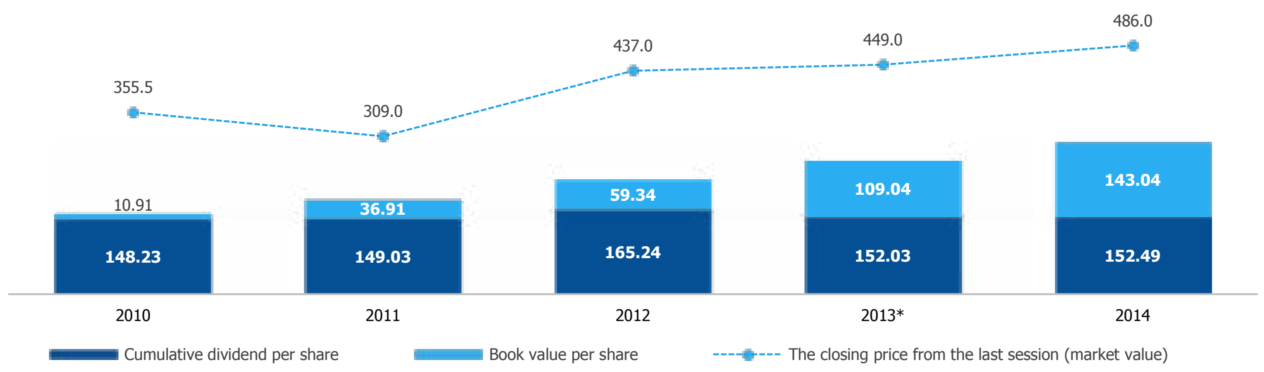
By the date of preparing this Management's Report of PZU Group, the Management Board had not adopted a resolution concerning distribution of profit for 2014.

Divident paid by PZU from profits of 2010-2013

	2014	2013	2012	2011	2010
PZU Group's consolidated net profit (PLN million)	2,967.6	3,295.0	3,253.8	2,343.9	2,439.2
PZU's standalone net profit (PLN million)	2,636.7	5,106.3	2,580.7	2,582.3	3,516.7
Dividend paid from the profit for the financial year (PLN million)	n/a ***	4,663.0	2,564.7	1,936.9	2,245.2
Dividend per share (PLN)*	n/a ***	54.00	29.70	22.43	26.00
Dividend per share as at ex-dividend date (PLN)	34.00	49.70	22.43	26.00	10.91
Dividend payout ratio on consolidated profit (%)	n/a***	89.1%*	78.8%	82.6%	92.0%
Dividend rate in the year (%) **	7.0%	11.1%	5.1%	8.4%	3.1%
TSR (Total Shareholders Return)	15.8%	14.1%	48.7%	(5.8)%	17.3%

* dividend from surplus capital paid in 2013 (PLN 20.00 per share), not included in dividend payout ratio
** rate calculated as dividend as at the date of establishing dividend right versus share price at the end of the given year
*** until the date of issuing the Management's Report, The Management Board has not concluded on proposal of profit distribution for the year 2014

Book value per share and gross accumulated dividend per share (PLN)



* Dividend payment from surplus capital in the amount of PLN 20.00 per share in 2013 year

8.7 Rating

PZU and PZU Życie are regularly rated by Standard & Poor's Ratings Services (S&P). The rating assigned to PZU and PZU Życie results from an analysis of the financial information, competitive position, management and corporate strategy as well as country financial situation. It also includes outlook, i.e. an assessment of the future position of the Company in the event of specific circumstances. As at the date of the report, both companies had the financial strength rating and the credit rating (awarded by S&P on 16th July 2009) at the A level, with a stable outlook. This is the top S&P rating available for a Polish company. The long-term credit rating in the local currency as at the date of the report was A with a stable outlook, while the credit rating of Poland for a foreign currency to A- with a stable outlook.

On 26th November 2013 S&P put PZU on its CreditWatch list with a negative outlook. This was related to a change in the rating methodology linking the company's rating with the country's long-term rating for debts in foreign currencies to the risk of which the company is particularly exposed.

In the announcement of 25th March 2014 the S&P agency confirmed PZU's rating position at the level of A with a stable outlook. It means that PZU successfully went through the rating process based on new criteria and currently has the financial strength rating higher than the rating for Poland for debt in foreign currency.

On 20th June 2014, Standard&Poors's awarded a rating of "A-" for unsecured debt to the eurobonds issued by PZU Finance AB.

Rating of PZU

Company name	Currently: Rating and outlook	Currently: Date on which the rating was awarded / updated	Previously: Rating and outlook	Previously: Date on which the rating was awarded / updated
PZU				
Financial strength rating	A /stable/	25th March 2014	A /CreditWatch/	26th November 2013
Credit rating	A /stable/	25th March 2014	A /CreditWatch/	26th November 2013
PZU Życie				
Financial strength rating	A /stable/	25th March 2014	A /CreditWatch/	26th November 2013
Credit rating	A /stable/	25th March 2014	A /CreditWatch/	26th November 2013

Rating of the Republic of Poland

Country	Currently: Rating and outlook	Currently: Date on which the rating was awarded / updated	Previously: Rating and outlook	Previously: Date on which the rating was awarded / updated
Republic of Poland				
Credit rating (long-term in local currency)	A /positive/	2nd February 2015	A /stable/	8th August 2014
Credit rating (long-term in foreign currency)	A - / positive /	2nd February 2015	A- /stable/	8th August 2014
Credit rating (short-term in local currency)	A–1 / positive /	2nd February 2015	A–1 /stable/	8th August 2014
Credit rating (short-term in foreign currency)	A–2 / positive /	2nd February 2015	A-2 /stable/	8th August 2014

Calendar of the main corporate events in 2015

15th January	Payment of the second tranche of the dividend for 2013 PLN 17 per share
17th March	Annual report 2014
13th May	Report for the first quarter of 2015
29th - 31st May	19th WallStreet Conference for individual investors
26th August	Report for the first half of 2015
10th November	Report for the third quarter of 2015

MORE

In 2014 we launched a nationwide program in Poland called

PZU Health Track

to promote a healthy and active lifestyle.

09

Corporate social responsibility

We are committed and motivated in our role of the market leader. We are aware that we play an important social role. Through preventive actions, we aim at mitigating negative effects of events that could impact the lives of citizens.

Contents:

As a socially responsible financial institution, PZU Group includes a broad range of ethical, social and environmental issues in its business operations.

The top standards adopted by PZU Group with regard to CSR GLOSSARY are confirmed by its presence in RESPECT Index of socially responsible companies (of Warsaw Stock Exchange) and CEERIUS sustainable development index (CEE Responsible Investment Universe). CEERIUS is an index of Wiener Börse for Central and Eastern European (CEE) companies.

CSR activities support achievement of business objectives of PZU and include mostly the following areas:

- client relations - ethics of cooperation as the basis of client relations; top service standards;
- social actions, including care for financial awareness and complex security;
- employee relations: building performance-oriented organizational culture;
- environmental impact, in particular including employee education.

Ethics, regarding the firm as a whole and individual employees, is the foundation of all activities performed by PZU and the prerequisite of sustainable development. Both formal documents (Good Practices in PZU, New Security Policy) and values adopted by the Group are the benchmark for all ethical issues. Three key values of PZU:

- wisdom;
- simplicity;
- imagination.

9.1 Client relations

PZU aims at achieving top service standards and providing its clients with insurance protection adequate to their varying needs. The Company respects principles included in Code of Good Insurance Practices introduced by the Polish Chamber of Insurance.

In order to ensure appropriate norms of cooperation with clients and make them feel secure, PZU analyses their needs and uses the results to improve our business processes. The tools we use for this include:

- client satisfaction survey – The Company performs regular surveys of client's satisfaction and loyalty. In 2014, 50,000 clients were surveyed, participating in one of the key processes including: sales of new policies, claims handling, post-sale support and policy renewal. Among others, client satisfaction with claims handling has been surveyed on a monthly basis. In 2014, the satisfaction ratio of claims handling clients was higher than 91,5% (the survey included a sample of approx. 24,000 people). The research carried out in PZU allows not only determining clients' needs but also identifying areas for improvement and indicate organizational strengths. Conclusions from the surveys were used to initiate many pro-customer an innovative changes in business processes, i.a. implementation of direct claims handling;
- customer service quality survey – PZU regularly carries out surveys examining the quality of customer service in PZU branches and through the agents and partners of PZU. Conclusions from the survey were used to prepare trainings in customer service quality in which 2 thousand agents and partners of PZU took part in 2014;
- Client Council – an exceptional advisory body composed of PZU customers. The Council actively supports and provides feedback to PZU in selected initiatives, concerning, among others, service quality, manners of communicating with clients, service processes, marketing materials, social actions.
- social media and customer complaints – They are actively used by the company to identify areas for improvement;
- quality audits of communication with customers – The audit of spoken and written language used by PZU employees in communication with customers, which was carried out by the Plain Polish Section of the University of Wrocław, became the basis for a number of initiatives and training programmes (addressed to all employees of PZU) aimed at simplifying communications;
- education activities – PZU sponsors numerous education-oriented ventures, such as Akcjonariat Obywatelski project, Akademia Liderów Rynku Kapitałowego, and Droga na Harvard contest.

PZU takes utmost care for safety of entrusted and processed data. Therefore, Personal Data Protection Act is rigorously observed, allowing processing of data only if approved by its owner. As a data administrator PZU strictly controls which personal data are introduced, when and by whom, and to whom they are transferred. We also take care to protect the interests of individuals, in particular in relation to processing of data in accordance with the law, collecting them for determined, legal purposes and refraining from further processing if not compliant with these purposes.

Availability of PZU services is another important advantage recognized by clients. Most branches are located in towns up to 15 thousand of inhabitants and materially contribute to their growth.

PZU cares for appropriate relations with its suppliers and expects them to respect all valid regulations pertaining to their scope of operations. In particular, we focus on ensuring appropriate cooperation with agents, providing them with support programs, training (e.g. Akademia Agenta) and a new internal communication portal. Candidates for agents are trained as well. In 2014, 616 training sessions were held for almost 6 thousand people.

9.2 Ethics in action

Both formal documents (Good Practices in PZU, New Security Policy) and corporate values adopted by the Group are the benchmark for all ethical issues.

The purpose of initiatives which we undertake is to make all employees aware of the valid procedures and desirable attitudes regarding ethics and corporate governance. Therefore, e-learning and traditional training courses on Good Practices in PZU and compliance have been included in the obligatory training module for all new hires, as part of the popularization of knowledge in the field of compliance, including, in particular, the standards adopted in PZU.

Good practices in PZU

In 2014 the implemented new version of the document under the name of "Good Practices of PZU". It is a set of internal policies, standards and practices which guide the conduct of business by PZU Group.

Good Practice of PZU promote values (being fair, innovation and efficiency) which should guide employees of PZU Group in their everyday work. It promotes the culture of compliance with the law, ethical standards and responsibility for decisions taken. The set of values and principles of conduct is binding for all PZU employees and external entities acting on behalf of PZU, e.g. agents, consultants, intermediates, and independent sub-contractors.

Each employee is obliged to follow the document and has an opportunity to submit issues in this area. Only such procedures allow maintaining suitably high standards of operations and consciously build ethical culture within the organization.

In addition, PZU Group has adopted "The Code of Ethics of the Members of PZU Group's Companies' Bodies" which defines the applicable standards of conduct for the members of these bodies in the context of performing their functions.

In 2014, PZU received an award from Compliance Association Poland (Stowarzyszenie Compliance Polska). This prestigious award in the "Best compliance on the Polish financial market" category was granted by Compliance Association Poland, for the first time on the Polish market. The jury assessed PZU as a credible and reliable organization which is guided by ethical values and has an effective compliance system

Safety is another pillar supporting the trust in PZU. Safety regulations are included in the adopted documents, including the policies of PZU/PZU Życie which define:

- behaviour that is not tolerated in PZU, and that should be treated as fraud, identifies procedures for employees to

91.5 %

satisfied with the claims handling process

6 thousand

people trained in agent support programs

18 PLN million

spent on the statutory tasks of the PZU Fundation

33 PLN million

donations given by PZU Group for socially-relevant purposes

follow if a fraud is detected, and most of all, things to do to prevent fraud;
- all key issues regarding protection of information, i.e. all data of business or legal value for PZU, e.g. personal data, insurance secrecy;
- principles and requirements connected with management of employees and resources protection and the protection of the PZU Group's image.

Education
In 2014 there were many training sessions organised which focused on providing information and raising awareness of the issues related to the broadly understood security and insurance fraud prevention.

What is more, any irregularities and violations of the rules of the Group can be reported by means of a dedicated shared platform for reporting incidents in the area of Security, Operational Risk and Compliance.

9.3 Employee engagement

PZU Group wants to ensure that every employee is aware of how their daily work contributes to the result of the company. The strategy defines the direction taken by the company in its operations and the most important objectives, but managers play a big role in cascading these aims. The annual assessment closely links performance to remuneration, allows for ongoing monitoring of the implementation of the main strategic goals, as well as team and individual goals at all levels of the organization; it provides structure and improves functioning of the company.

The process of annual assessment and quarterly goal-setting is constructed in such a way so that it can constitute an opportunity to agree on shared expectations between employees and managers, as well as to evaluate corporate competencies and plan development. Thanks to that, all employees know the criteria on which the assessment and expectations of their superiors are based. They know how their work is perceived. They take active part in the assessment, have the opportunity to share their opinions with their superiors and take responsibility for their individual development. Thanks to the development interviews, we prepared more than 33,000 planned development activities and only 25% of them are to be performed in the form of training courses.

The implemented assessment process facilitates the process of making informed decisions about rewarding and developing employees. What is more, the fact that this solution is a system guarantees that the human capital management is objective and standardised. In 2014, PZU received for the first time Top Employer Polska 2014 certificate. Being recognised as Top Employer allowed PZU to stand out as an employer of choice. It was advantageous for all of PZU stakeholders, but particularly so for its current and future employees. It was also a confirmation of the fact that PZU constitutes a high-quality work environment, which in turn results in engaged and satisfied employees.

In 2014, PZU was awarded the "Program Polskich Ram Jakości Staży i Praktyk" (Polish Quality Framework for Internships and Work Placements) certificate for the second time. This is the first initiative in Poland which aims to establish the highest standards in implementation of internship and work placement programmes in companies. The certificate confirmed the high quality of internships and work placements organised by PZU.

In 2014 the third employee engagement survey was conducted among the employees of PZU Group. It is a method of obtaining employees' opinions about their company. If employees of a given organisation are committed, the organisation has bigger chance to succeed than a company without such asset. Not only PZU Group benefited from building engagement, the same applies to the employees, as the company creates an environment in which they like to spend time and work. A committed employee of PZU is an employee who thinks about the aims of their actions, about consequences for the company and what else can be done so that the staff can together achieve even greater successes. After the last survey in 2013, in various business units employees together with their superiors came up with more than 600 ideas how to turn PZU into even friendlier place to work – all on the basis of the surveys' results. It was possible to provide (locally) for example:
- allowance for people commuting to work using Polish State Railways (PKP);
- a new, enhanced Fit Profit card;
- Business English with Boss, discussion panels in English;
- FunRoom, a relaxation room in which you can "recharge your batteries" or "de-stress" after a difficult conversation. The room is equipped with, i.a. a pool table, table football and x-box;
- relaxing weekly tai-chi exercises in the office.

Additionally, some of the initiatives were carried out personally by employees. Change Continuators are a group of people who thanks to their positive energy and knowledge of the organization undertake activities that influence employee engagement in a positive way. They act locally in: Gdańsk, Katowice, Łódź, Poznań, Warsaw and Wrocław – over 80 people in total. So far they have prepared, i.a. numerous children's carnival balls, guidebooks and libraries.

Regular employee engagement surveys taken by external entities and a number of initiatives, e.g. Employee Picnics are aimed at preventing discrimination in PZU Group's structures.

Respect for an individual is demonstrated in the form of fair, non-discriminating remuneration. We want our employees to be paid on a level comparable to other entities operating in the industry. The issue of remuneration and additional benefits was presented in chapter titled HUMAN RESOURCES MANAGEMENT 5.2

Open communication with employees is among the key objectives of PZU Group's HR policy. The Whistleblowing System provides a communication path between PZU and its employees and other cooperating entities, e.g. agents. The dialogue with the employees has also the form of Employee Council activities, confidential surveys allowing feedback to a superior and the Intranet platform PZU24.

9.4 Social activities for the benefit of the community

Supported by PZU Foundation and using the Prevention Fund, we get strongly involved with social issues.

Prevention
The aim of prevention activities is to minimise negative effects of events by i.a. spreading knowledge about safety and health. In 2014, both PZU and PZU Życie cooperated with hospitals, non-government organisations and media who carried out health-related projects. We carried out programmes which aimed to improve health and promote health prophylaxis, e.g. such associations as Misie Ratują Dzieci (Bears Save Children), Nagle Sami (Suddenly Alone), Stowarzyszeniem Pomocy Niepełnosprawnym Kierowcom (Physically Impaired Driver Assistance Association) and Fundacja Aktywnej Rehabilitacji (Active Rehabilitation Foundation), as well as the Institute of Mother and Child. PZU carried out many activities supporting running events – the following are some of the most important of the projects: 9th PZU Warsaw Half-Marathon, PZU Running Festival in Krynica, the 36th PZU Warsaw Marathon, the 1st PZU Cracovia Royal Half-marathon. PZU sponsored Yareda Shegumo, a silver medallist of the European Athletics Championships, in the marathon. This cooperation involves also sharing experiences, which gives the PZU employees a chance to learn from the best how to overcome difficulties and achieve high scores.

In 2014, PZU supported voluntary rescue service with the aim of improving safety in the mountains and on the water. PZU continued the Bezpieczna Flota (Safe Fleet) project addressed to professional drivers and promoted safe road behaviour at the local level, e.g. through school campaigns. Recognizing the importance of sport and healthy life style, PZU and PZU Życie got involved in Cavaliada, a cycle of equestrian events held every year in Poznań, Warsaw and Lublin.

With development of medicine and operations of hospitals in mind, PZU and PZU Życie co-funded, among others:
- the operations of Zdążyć z pomocą Foundation by providing funds for the purpose of buying equipment for Tomatis method therapy;
- Polish Ultrasound Society (Polskie Towarzystwo Ultrasonograficzne), by supporting ultrasound examination in prevention of various diseases.

In 2014, PZU acted as a sponsor and patron of various cultural and sport events – both local and countrywide. As the largest Polish insurance company, we cared for conservation of Polish cultural heritage supporting Royal Castle in Warsaw, Royal Museum and National Museum in Kraków. As the Polish culture patron, we actively participated in the organization of the Night of Museums, preparing special PZU guest zones offering non-standard promotion of art and culture. Thanks to cooperation with Bajka publishing house, PZU contributed to the publication of "Mazurek Dąbrowskiego – nasz hymn narodowy" (Dąbrowski's Mazurka – Our National Anthem). In 2014, PZU assumed patronage over the celebrations of the 70th anniversary of the outbreak of the Warsaw Uprising.

PZU Foundation

Sine 2004 PZU Foundation has carried out charity activities of PZU Group which are the element of its corporate community involvement strategy.

The aim of PZU Foundation is to promote education of children and teenagers, fostering talents and creating equal opportunities for people who are, for various reasons, disadvantaged, as well as to increase the access to cultural assets and social life, that is, a broadly understood development of civil society.

The Foundation provides financing of projects carried out by non-government organizations and institutions, which statutory objectives are coincident with the areas.

Its operations have focused on the following areas:

- education – mostly supporting of initiatives that provide young people with equal opportunities of intellectual, professional and cultural development;
- social care and assistance – including supporting, promoting and developing activity of disabled people;
- culture and art – in particular supporting promotion of knowledge of Polish art and culture, artists, talented youth and organization of artistic events;
- health care – in particular supporting initiatives.

In 2014, PZU Foundation spent almost PLN 18 million for its statutory operations.

Education

Pomoc to Moc

Help is Power

PZU Foundation is financing education initiatives in rural areas and small towns which are run by credible local partners. In 2014, under Z PZU po lekcjach grant competition initiative, subsidies were granted to 20 organizations that successfully extended the educational offer in small locations (up to 30 thousand residents).

Additionally, the Foundation carries out partnerships in education, cooperating with recognized non-governmental organizations in Poland, including:

- Krajowy Fundusz na rzecz Dzieci (National Fund for Children), funding a programme offering help to 200 exceptionally talented children and teenagers annually;
- Fundacja Edukacyjnej Przedsiębiorczości (Educational Enterprise Foundation) in the form of scholarship for students of science and arts from rural areas and small towns;
- Polska Fundacją Dzieci i Młodzieży (Polish Children and Youth Foundation), co-funding the project titled Świetlica Moje Miejsce (Community Centre is My Place);
- Centrum im prof. Bronisława Geremka Foundation in Warsaw to be used for co-funding of historical workshops for students and teachers;
- Fundacja Młodzieżowej Przedsiębiorczości (Youth Enterprise Foundation) to fund a finance and safety education project called Bezpieczne wędrówki. Od grosika do złotówki (Safe Journeys: from grosz to zloty);
- Fundacja Wisławy Szymborskiej (Wisława Szybmorska Foundation) as a strategic partner for the award Nagroda Poetycka im. Wisławy Szymborskiej.

Further, the Foundation granted one-off support to a number of other organizations.

In 2014 PZU Foundation was awarded for its support of science and education in the Popularyzator Nauki (Science Populariser) 2014 competition organised by the Ministry of Science and Higher Education and the Polish Press Agency.

Social care and assistance

PZU Foundation supports and promotes social inclusion of impaired individuals and co-funds employees of PZU Group facing personal problems. In 2014, 16 organizations were awarded in Młodzi niepełnosprawni sprawni z PZU (Young Disabled People Able with PZU) competition with grants for social inclusion projects for the disabled and their families. One-off support was also granted to the following organizations.

PZU supported the Szlachetna Paczka [Noble Pack] project, organised by Stowarzyszenie Wiosna, for the third time.

Health care

The PZU Foundation launched in 2014 a nationwide campaign promoting a healthy and active lifestyle - PZU Trasy Zdrowia (Routes of Health). Mini sports facilities centres for outdoor sport were built as part of the pilot edition of the programme in 30 municipalities throughout the country. Each of the PZU's Routes of Health was equipped with exercise facilities and information boards which include training plans tailored to the needs of different age groups of users.

Culture and art

PZU Foundation has been supporting initiatives promoting Polish culture and art, supporting artists and talented youth. In 2014, grants were again awarded during PZU z Kulturą contest to 53 organizations from small towns that organized trips for kids and youth to culture centres.

As in previous years, the PZU Foundation cooperated also with organizations supporting Poles abroad, which included: Fundacja Pomoc Polakom na Wschodzie, Fundacja Dobroczynności i Wsparcia Rozgłośni Radiowej Znad Wilii and Stowarzyszenie Wspólnota Polska.

Social campaigns

From July 2014 PZU Foundation has carried out a campaign titled "Kochasz? Powiedz STOP Wariatom Drogowym" (If you love, say no to road rage). Its main objective is to improve road safety by promoting responsible attitudes among drivers.

The campaign's symbol is a blue heart, which, gifted by a dear person, is placed in a visible place in the car and remind drivers to drive safely. 3 million hearts were produced for the campaign. They were handed out in all offices and branches of PZU and during special events.

The campaign received awards in:

- an international competition Magellan Awards 2014 in the corporate communication category, and it received the tile of the most engaging campaign of the year;
- Best 25 – a ranking listing 25 best campaign of the last year in which PZU's campaign was ranked second;
- 21st Golden Drum Festival, where it received a golden statue in the integrated communication campaign category;
- Mixx Awards, receiving an award in the image campaign category.

9.5 Volunteers among PZU Group employees

In 2014, the Management Board of the PZU Foundation, which was in charge of the implementation of the employee volunteering programme, approved the Corporate Volunteer Strategy in PZU Group, The strategy identifies four key areas of engagement and determines the assumptions for the programmes addressed to employees: family volunteering, education volunteering, volunteering promoting healthy and active lifestyle and civic volunteering. In 2014 we formulated the Academy of Volunteering Leaders from the group of most active employees of PZU Group which promotes and coordinates volunteering activities.

As far as the newly-determined areas, in 2014 the Foundation started implementing two:

- family volunteering – national social programme Wolontariat Rodzinny in cooperation with the Charity Development Academy in Poland (Akademia Rozwoju Filantropii w Polsce);
- civic volunteering – 45 projects of PZU employees were implemented as part of the win in the Wolontariat to radość działania (Volunteering is the Joy of Life) competition.

What is more, PZU volunteers became engaged again in the celebrations of the Children's Day as well as events organised on Santa Claus Day. As part of the Szlachetna Paczka project, the most active employees of PZU Group went through numerous training courses and coordinated preparation of the Christmas packages from all over the country.

Awards and prizes

In November 2014, PZU Group won the main prize in the 8th edition of Charity Leaders contest as the company who spent most funds for social purposes. PZU won another award in a row, taking the first place with the record donated amount exceeding PLN 33 million.

9.6 Environmental impact

Managing environmental impact is one of the elements of building the organisation's value. PZU's activities in this area take two forms: of responsible internal resource management and of building environmental sensitivity and awareness among stakeholders: employees, clients, business partners, suppliers and representatives of local communities.

PZU cares for natural environment through:

- economic management of resources and raw materials. Using electronic data carries and limiting the use of paper in business is an important aspect of this activity. In order to reduce power consumption, we install energy-saving lighting and heating systems. Waste management and aiming at its full recycling;
- introducing hybrid cars to the fleet. The drive complies with the highest standard of combustion EURO 5 binding in the European Union, and cars, with proper driving techniques, burn in the city about 4 l/100 km;
- a choice of the new back office's headquarters with attention to ecological aspects. Konstruktorska Business Center Building in which there is the headquarters of the PZU's back office. It is powered entirely by energy from renewable sources and offers over 30 places for charging electric cars. The building was designed with special attention devoted to environment protection – PZU has the BREEAM certificate. Categories assessed in the certificate include: air quality, energy and water consumption, low waste levels, the use of eco-friendly materials and providing good working conditions;
- Employee education. Key initiatives include: campaigns regarding use of consumables, recycling, e.g. involving employees in collection of mobile phones and environmental campaigns.

We are creating and implementing
modern standards in management and oversight.

10

Corporate governance

We understand that being the market leader, our role is to set the highest standards for the whole industry.

We fulfil this role not only by complying with a wide range of codes, but also by continuously improving them. We believe that we can offer these wise changes to the world that surrounds us.

Contents:

10.1 Corporate governance principles applied by PZU

Since the IPO of PZU on a regulated market the Issuer has followed the corporate governance rules laid down in Good practices of companies listed on WSE.

The document was accepted by WSE Council on 4th July 2007 and has undergone several modification since then. The document accepted by the Resolution of WSE Council regarding amendments to the Good Practices of Companies Listed on WSE of 21st November 2012 has been effective since 1st January 2013. The current contents are available on the website devoted to corporate governance of WSE- listed entities WWW.CORP-GOV.GPW.PL and on the PZU's corporate website (www.pzu.pl) in the section dedicated to PZU's shareholders – "Investor Relations".

Code of Good Insurance Practices adopted on 8th June 2009 by the General Meeting of the Polish Chamber of Insurance ("PIU"), an organization associating insurance companies operating in the Polish market is another document determining the manner of business operations and of developing relations with stakeholders. The document is available on the website: http://piu.org.pl/en

Further, stakeholder relations are based on our internal PZU Code of Good Practices. The document is available on the website: http://www.pzu.pl/

On 22nd July 2014, Polish Financial Supervision Authority issued Corporate Governance Rules for Supervised Institutions ("Rules").

The rules are a set of guidelines (soft law standards) which should be used by supervised entities from 1st January 2015 under the applicable law and with respect to the principle of proportionality.

The rules and information on how to use them can be found on the PZU's website: http://www.pzu.pl/grupa-pzu/pzu-sa/zasady-ladu-korporacyjnego

10.2 Application of Good Practices of Companies Listed on WSE

In 2014, PZU complied with the principles included in Good Practices of Companies Listed on WSE except from the one referred to in Section IV.10 and Section I.5, I.9 and I.12.

With regard to the principle referred to in Section IV.10, regarding enabling shareholders' participation in general meetings using IT tools to allow mutual real-time communication and participating in discussions during the meeting for shareholders who are physically absent at the meeting venue, please note that in our opinion, there are a number of technical and legal factors that may affect the course of a general meeting, and therefore the appropriate application of the above rule. Moreover, in our view, the company's principles concerning participation in shareholders' meetings applicable in PZU allow for exercising rights from shares and protect interests of all shareholders. The communication regarding non-compliance with the principle included in Section VI.10 was submitted by the Issuer on 29th January 2013.

The following issues mentioned in section I of Good practices of companies listed on WSE defining Recommendations concerning good practices of companies listed on WSE should be emphasized:

- as for the recommendation included in Section 1.5 concerning the policy of remunerating members of management and supervisory bodies, remunerations of members of the Supervisory Board are determined by the General Shareholders' Meeting and those of the Management Board are set based on a resolution of the Supervisory Board.
- the policy of remunerating members of the management and supervisory bodies of PZU does not include all elements indicated in the recommendation of the European Commission of 14th December 2004 fostering an appropriate regime for the remuneration of directors of exchange listed companies (2004/913/EC), supplemented by recommendation of EC of 30th April 2009 (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 General Shareholders' Meeting.
- at the same time, please note that implementing the Ordinance on current and periodic information[1] , the Issuer discloses information regarding remuneration, awards or bonuses for each member of the managing and supervisory bodies in PZU in the annual report.
- as for the recommendation specified in Section I.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 and Supervisory Board is determined based on a decision of the Supervisory Board or a General Shareholders' Meeting, respectively and other factors, such as sex, are not taken into account.
- with regard to the recommendation referred to in Section IV.12, regarding enabling shareholders' participation in general meetings using IT tools to allow mutual real-time communication and participating in discussions during the meeting for shareholders who are physically absent at the meeting venue, please note that in our opinion, there are a number of technical and legal factors that may affect the course of a general meeting, and therefore the appropriate application of the above rule. Moreover, in our view, principles concerning participation in shareholders' meetings applicable in PZU allow for exercising rights from shares and protect interests of all shareholders.

The announcement on non-compliance with these recommendations was not issued in line with the waiver of the obligation to publish issuers' reports with respect to corporate governance principles set forth in Section I of Good practices of companies listed on WSE, in accordance with the resolution 1014/2007 of the Management Board of WSE dated 11 December 2007 regarding partial waiver of the obligation to publish reports on corporate governance adopted on the WSE Main Market.

10.3 Application of Corporate Governance Principles to Supervised institutions

The Management Board and the Supervisory Board of PZU declared their readiness to apply the Principles to the furthest objectively possible extent, taking into account the principle of proportionality and the "comply or explain" rule, arising from their content. These statements of the Management Board and the Supervisory Board of PZU were confirmed by their appropriate resolutions.

Detailed information about the application of the Rules by PZU can be found on PZU's website. That includes the principles whose application is partial, that is:

- in relation to the principle contained in § 8.4 of the Principles, facilitating the participation of all shareholders in the General Shareholders' Meeting i. a. by ensuring the active electronic participation in meetings; it should be emphasized that the current shareholders of PZU can follow the broadcast of the meeting, but the Company decided not to introduce the so-called e-GSM; in the assessment of PZU, there are many technical and legal factors that could affect the proper conduct of the General Shareholders' Meeting. The legal concerns are related to the possibility of identifying shareholders and inspecting the ID cards of the GSM's participants; the risk of technical problems, e.g. with the Internet connection or a potential intrusion into information systems, can disrupt the work of the General Shareholder's Meeting and raise doubts about the effectiveness of the resolutions adopted during the meeting; the occurrence of the above-mentioned risks may affect the correct application of the principle in full;
- in relation to the principle contained in § 12.2 of the Principles, which states that in the composition of the supervisory body there should be a separate function of a chairperson who manages the works of the supervisory body and that the choice of the chairperson of the supervisory body should be made based on the experience and team leadership skills, taking into account the criterion of independence; it must be emphasized that, in accordance with the Code of Commercial Companies GLOSSARY and the Articles of Association of PZU, there is a separate function of a chairperson in the Supervisory Board of PZU; the composition of the Supervisory Board of PZU, including the function of the chairperson, are shaped according to the criterion of independence set out in the Act on statutory auditors GLOSSARY; the election of the chairperson of the Supervisory Board is made on the basis of their knowledge, experience and skills, which confirm that the chosen person has the competencies necessary for the proper performance of their supervising duties; the application of the criterion of independence in the case of the chairperson in accordance with the PFSA's explanation

[1] Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information submitted by issuers of instruments and conditions for recognizing as equivalent information required by the laws of a non-member state.

of the principle may raise doubts about the potential conflicts of law relating to shareholders' rights;

- in relation to the principle specified in § 49.3 of the Good Governance Principles concerning appointment and dismissal in supervised institutions of the person heading the internal audit unit or the person heading the compliance unit, it should be noted that PZU complies with the principles specified in § 14 of the Principles fully, which means that PZU's Management Board is the only one entitled to and responsible for management of the operations of the company; furthermore, in accordance with the provisions of the labour law, the activities related to the labour law are performed by the governing body; in view of the above, PZU adopted a solution according to which the decision about appointment and dismissal of the person heading the internal audit unit is made, taking into account the opinion of the Audit Committee of the Supervisory Board; the same applies to the appointment and dismissal of the person heading the compliance unit; the Management Board consults the Audit Committee about such decisions.

Moreover, the following rules do not apply to PZU:

- rule specified in § 11.3:
  "In the event that the decision concerning a transaction with a related party was made by the General Shareholders' Meeting, all shareholders should have access to any information necessary for assessment of the terms on which the transaction is to be executed and its impact on the situation of the supervised institution."
  – in PZU the General Shareholders' Meeting does not make decisions concerning transactions with related parties;
- rule specified in § 49.4:
  "In a supervised institution, where there is no internal audit unit or compliance unit, the entitlements referred to in items 1-3 shall be held by the people responsible for performance of those functions."
  – there is both an internal audit unit and a compliance unit in PZU;
- rule specified in § 52.2:
  "In a supervised institution, where there is no audit unit or compliance assurance unit, and where no unit responsible for that area has been appointed, the information referred to in item 1 shall be submitted by the people responsible for fulfilling those functions."
  – there is both an internal audit unit and a compliance unit in PZU;
- rules specified in Chapter 9 – Execution of Rights Resulting from Assets Acquired at Client's Risk, as PZU offers no products which involve managing assets at client's risk.

10.4 Control system applied during preparation of the financial statements

Financial statements are prepared within the PZU Finance Division including PZU Head Office (the Accounting Office) and central units operating based on applicable regulations. PZU Finance Division is supervised by a Member of the Management Board of PZU.

The elements which facilitate completing the process are the accounting principles (policy), the chart of accounts with a commentary and other detailed internal regulations approved by the Management Board of PZU specifying the key rules of recording business events in PZU and dedicated reporting systems.

Data is prepared in the source systems using formal operating and acceptance procedures which specify the competencies of individual persons.

The reporting process is controlled by appropriately qualified, skilled and experienced staff.

PZU monitors the changes in the external regulations concerning e.g. the accounting policy (procedures) and reporting requirements of insurance undertakings and carries out appropriate adaptation processes.

The accounting records are closed and financial statements are prepared in accordance with detailed schedules, including the key activities and control points with assigned liability for timely and correct completion.

The key controls during preparation of the financial statements include:

- controls and permanent monitoring of the quality of input data, supported by the financial systems with defined rules of data correctness, in accordance with the PZU internal regulations concerning the control of correctness of the accounting data;
- data mapping from the source systems to financial statements supporting appropriate presentation of data;
- analytical review of financial statements by specialists to compare them with the business knowledge and business transactions;
- formal review of the financial statements to confirm compliance with the valid legal regulations and market practice in terms of required disclosures.

PZU internal audit periodically reviews the organization and the process of preparing the financial statements.

Activities within the consolidated financial reporting are coordinated through the organizational structure of the Finance Division in the PZU and PZU Życie Head Offices which is shared, i.e. organized based on a personal union. PZU controls all the consolidated subsidiaries through Management Boards and Supervisory Boards of the companies.

The process of consolidated financial reporting is regulated by a number of internal acts. The acts regulate the accounting principles (policy) adopted by PZU Group and applied accounting standards. Additionally, the process is also subject to detailed schedules including the key activities and control points with assigned liability for timely and correct completion.

Audit Committee

In accordance with the Articles of Association of PZU, the Supervisory Board of PZU appoints an Audit Committee composed of three members, with at least one of them qualified in accounting or auditing as understood by the Act on statutory auditors. The Audit Committee is an advisory and consultative body to the Supervisory Board and is appointed to improve the effectiveness of the supervision of the correctness of financial reporting, effectiveness of internal control, including internal audit and risk management.

A certified auditor appointed by the Supervisory Board of PZU based on the recommendation of the Audit Committee reviews interim separate and consolidated financial statements of PZU and audits its annual separate and consolidated financial statements.

10.5 Entity authorised to audit financial statements

On 18th February 2014 the Supervisory Board of PZU appointed KPMG Audyt Sp. z o.o. sp. k., with the registered office in Warsaw, ul. Chłodna 51, 00-867 Warsaw, entered on the list of entities authorized to audit financial statements under no. 3546 by the National Chamber of Statutory Auditors as the entity authorized to audit financial statements, with whom an agreement on audit and review of financial statements will be concluded.

The scope of the agreement will include:

- audit of annual separate financial statements of PZU and of annual consolidated financial statements of PZU Group;
- review of interim separate financial statements of PZU and of interim consolidated financial statements of PZU Group.

The work referred to above will include three subsequent financial years ending, respectively, on: 31st December 2014, 31st December 2015 and 31st December 2016 with an option to extend the agreement for further two financial years ending, respectively, on: 31st December 2017 and 31st December 2018.

Fee of the entity authorized to audit financial statements	1 January - 31 December 2014	1 January - 31 December 2013
Statutory audit of annual separate/consolidated financial statements	714	633
Other attestation services including review of separate/consolidated financial statements	248	887
Tax advisory services	-	416
Other services	27	34
Total	**989**	**1,970**

Former cooperation of PZU with KPMG Audyt included mostly tax advisory services.

10.6 Share capital and shareholders of PZU; stock held by members of its authorities

The share capital of PZU is divided into 86,352,300 ordinary shares with the face value of PLN 1 each, giving right to 86,352,300 votes on the General Shareholders' Meeting.

As at 31st December 2014 the shareholders of PZU with significant blocks of shares were: State Treasury holding 30,385,253 shares, i.e. 35.2% of the share capital of PZU and the right to 30,385,253 votes at the General Shareholder's Meeting, and Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK holding 4,317,691 shares, i.e. 5.00%% of the share capital of PZU and the right to 4,317,691 votes at the General Shareholder's Meeting.

There was one significant change in the ownership structure of blocks of PZU shares in 2014.

On 29th May 2014, Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK SA presented PZU with a notice concerning a change in the ownership of PZU shares by Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK ("Aviva OFE"), informing that as the result of the transaction of purchase of the Company's shares on 22nd May 2014, as at 27th May 2014, Aviva OFE increased its volume of shares held in the Company to 5.0% of PZU share capital, which constitutes 5.0% of the total votes at the General Shareholders Meeting of PZU.

The Management Board of PZU has no knowledge about concluded agreements which may result in changes in the proportion of shares held by the shareholders.

PZU did not issue, redeem or repay any debt or equity instruments that would provide its shareholders with special control rights.

In 2013 and 2014 no employee stock ownership plans existed in PZU.

In line with the PZU's Articles of Association the voting right of the shareholders is restricted in a way that none of them can exercise more than 10% of the total number of votes at PZU at the date of the General Shareholder's Meeting, with the reservation that for the purpose of determining obligations of parties acquiring material blocks of shares provided for in the Act on public offering and the Act on insurance activity, such voting restrictions are considered non-existent. The restrictions do not apply to:

- Shareholders who held shares entitling to more than 10% in the total number of votes in the Company as at the date of adopting a resolution of the General Shareholders' Meeting;
- Shareholders co-acting with shareholders defined in the point above based on agreements concerning joint voting rights attached to the shares.

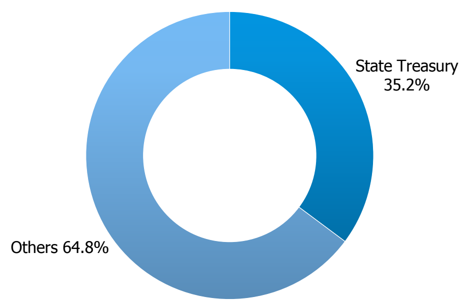
For the purposes of voting rights restrictions, the votes of the shareholders being parent companies or subsidiaries will be added up in line with the principles specified in the Articles of Association.

In case of any interpretation doubts with respect to the voting restrictions, Article 65.2 of the Civil Code will apply GLOSSARY.

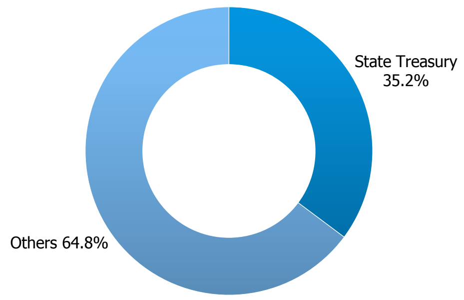
Shareholding structure - as at 31 December 2014

Shareholder	Number of shares	Interest in the share capital	Share in votes at the General Shareholder Meeting
State Treasury	30,385,253	35.19%	35.19%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	4,317,691	5.00%	5.00%
Other shareholders	51,649,356	59.81%	59.81%
Total	86,352,300	100.00%	100.00%

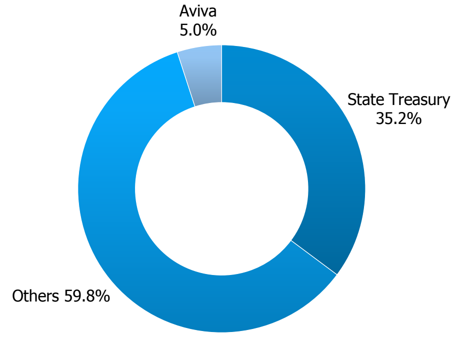
PZU shareholder structure as at 31 December 2012



PZU shareholder structure as at 31 December 2013



PZU shareholder structure as at 31 December 2014



In line with the PZU's Articles of Association, the above voting restrictions will expire starting from the moment when a share of a shareholder who, at the date of adopting a resolution of the Shareholders' Meeting introducing the restriction held shares entitling him to more 10% in the total number of votes in the Company, drops below 5% of the share capital.

10.7 Articles of Association of PZU

Amendments to the Articles of Association

The Articles of Associationof PZU can be amended by the General Shareholders' Meeting in the form of a resolution passed by a majority of three fourths of votes. In cases specified in the Act on Insurance Activity such change must be approved by the PFSA and then recorded in the National Court Register. The Supervisory Board can approve the unified amended text of the Articles of Association.

In 2014 the Articles of Association of PZU were not amended.

10.8 General Shareholders' Meeting, Supervisory Board, and Management Board

General Shareholders' Meeting

The General Shareholders' Meeting is the highest body of PZU. The general operational principles and the rights of the General Shareholders' Meeting have been determined by the Code of Commercial Companies GLOSSARY and the Articles of Association.

The Articles of Association are available on PZU's corporate website (WWW.PZU.PL) in the "Investors relations" section, tab: "Company".

The General Shareholders' Meeting did not issue its Regulations.

The General Shareholders' Meeting is a body authorized to make decisions concerning issues related to the organization and operations of the issuer. Resolutions of the General Shareholders' Meeting are adopted by an absolute majority of votes, except for cases specified in the Code of Commercial Companies GLOSSARY or the Articles of Association.

Shares or rights to shares held by management and PZU supervisory personnel

No.	Body / Name and surname	Number of shares / rights to shares as of the date of submitting this annual report (i.e. 5 March 2015)	Number of shares / rights to shares as of the date of submitting this annual report (i.e. 12 March 2014)	The resulting change in the period between these dates
Management Board				
1.	Andrzej Klesyk	-	-	-
2.	Przemysław Dąbrowski	-	-	-
3.	Dariusz Krzewina	-	-	-
4.	Barbara Smalska	-	-	-
5.	Tomasz Tarkowski	80	80	-
6.	Ryszard Trepczyński	-	-	-
Group Directors				
1.	Rafał Grodzicki	-	-	-
2.	Przemysław Henschke	-	-	-
3.	Sławomir Niemierka	-	-	-
4.	Tobiasz Bury	50	50	-
Supervisory Board				
1.	Aleksandra Magaczewska	-	nd	-
2.	Waldemar Maj	nd	30	-
3.	Zbigniew Ćwiąkalski	-	-	-
4.	Tomasz Zganiacz	-	-	-
5.	Dariusz Daniluk	nd	-	-
6.	Zbigniew Derdziuk	-	-	
7.	Dariusz Filar	-	-	-
8.	Dariusz Kacprzyk	-	nd	-
9.	Jakub Karnowski	28	nd	-
10.	Włodzimierz Kiciński	nd	30	-
11.	Alojzy Nowak	-	-	-
12.	Maciej Piotrowski	-	-	-
Total		158	190	

The competencies of the General Shareholders' Meeting, in addition to those specified in the Commercial Companies Code and the Articles of Association of PZU, include passing resolutions concerning the following:

- examination and approval of the Management's Report, financial statements for the previous financial year and acknowledgement of the fulfilment of duties by members of the company's authorities;
- profit distribution or loss coverage;
- making decisions concerning claims for redressing damage inflicted upon formation of the Company or exercising management or supervision;
- disposal of the enterprise or its organized part or its lease or establishment of a limited property right;
- redemption of shares or issue of bonds;
- creating reserve capitals and making the decision whether to use them and if so, how;
- division of the company, its combination with another company, its liquidation or dissolution;
- appointing and dismissing members of the Supervisory Board, subject to the right granted to the State Treasury to appoint and dismiss one member of the Supervisory Board;
- establishing the rules of remunerating members of the Supervisory Board;
- acquisition or disposal by the issuer Real property, perpetual usufruct or share in Real property or in perpetual usufruct with a value exceeding the equivalent of a gross amount of EUR 30.0 million (thirty million euro).

In accordance with the Articles of Association, a majority of three fourths of votes is required to pass the General Shareholders' Meeting's resolutions on the following:

- amendments in the Articles of Association;
- decrease in the share capital;
- disposal of the enterprise or its organized part or its lease or establishment of a limited property right.

A majority of 90% of votes at the General Shareholders' Meeting is required to pass resolutions relating to the following:

- preference shares;
- issuer's business combination by transferring all its assets to another company;
- its merger by forming a new company;
- dissolving the company (also as a result of moving its seat or the head office abroad);
- its liquidation, transformation or reduction in the share capital through redemption of a portion of shares without a similar capital increase.

The General Shareholders' Meeting is held:

- as an Ordinary General Shareholders' Meeting which should be held within six months from the end of each financial year;
- as an Extraordinary General Shareholders' Meeting which is convened in cases specified in the generally applicable law and the Articles of Association.

The General Shareholders' Meetings are held in Warsaw and convened by placing an appropriate announcement on PZU's website in accordance with the method for providing current information specified in the Act on public offering, conditions governing the introduction of financial instruments to organized trading, and public companies of 19th July 2005, i.e. in the form of current reports. Such announcement should be made not later than 26 days before the date of the General Shareholders' Meeting. From the date of convening the General Shareholders' Meeting the announcement with materials presented to shareholders at the General Shareholders' Meeting are available on PZU's corporate website (WWW.PZU.PL) in section "Investors relations", tab "General Shareholders' Meeting". A duly called General Shareholders' Meeting is deemed valid regardless of the number of attending shareholders or number of represented shares.

The General Shareholders' Meeting is opened by the Chairman of the Deputy Chairman of the Supervisory Board and then the Chairman of the Shareholders' Meeting is elected. In the absence of the Chairman and Deputy Chairman of the Supervisory Board, the General Shareholders' Meeting is opened by the President of the Management Board or a person designated by the Management Board.

The General Shareholders' Meeting may adopt resolutions regardless of the number of attending shareholders or number of represented shares. Resolutions are passed in an open ballot. The secret ballot vote is used when appointing and dismissing members of the issuer's bodies or liquidators, in cases of their personal responsibility towards the issuer and in personal cases, except when an open ballot method is required by the applicable law, upon request of any shareholder present or represented at the General Shareholders' Meeting.

The rights of the shareholders and the method of exercising thereof at the General Shareholders' Meeting are specified in the Code of Commercial Companies GLOSSARY and the Articles of Association.

Only persons who were shareholders of the issuer 16 days before the date of the General Shareholders' Meeting have the right to participate in the Meeting (date of registration of attendance at the Meeting). Shareholders may attend the General Shareholders' Meeting and exercise the right to vote personally or through a proxy. The power of attorney to participate in the General Shareholders' Meeting and to exercise the voting right may be granted in writing or in an electronic form.

One share of PZU gives the right to a single vote at the General Shareholders' Meeting, including restrictions with respect to exercising the voting rights described in the Company's Articles of Association. The shareholder has the right to vote in a different manner under each share held.

During the General Shareholders' Meeting each shareholder may provide resolution drafts concerning items on the agenda.

In accordance with the Code of Commercial Companies GLOSSARY, detailed procedures concerning participation in the General Shareholders' Meeting and exercising the voting rights are always presented in an announcement of the General Shareholders' Meeting published on the date of convening the Shareholders' Meeting on PZU's corporate website (WWW.PZU.PL), section "Investors relations", tab "General Shareholders' Meeting".

Composition, powers and functioning of the Supervisory Board

Composition

The Supervisory Board is composed of seven to eleven members. The number of members is specified at the General Shareholders' Meeting.

Members of the Supervisory Board are appointed by the General Shareholders' Meeting for a shared term which includes three consecutive full financial years.

At least one member of the Supervisory Board must be qualified in accounting or auditing, as understood by the Act on statutory auditors and their self-governing body, auditing firms and on public oversight. Furthermore, at least one member of the Supervisory Board should meet the independence criteria specified in the Articles of Association (Independent Member) concerning e.g. professional and personal relations, especially with members managing or supervising PZU and entities in PZU Group. The Independent Member has to present a written statement that all independence criteria provided for in the Articles of Association have been met and inform the company when the criteria are no longer met. In addition, the Articles of Association give the State Treasury the right to appoint and dismiss one member of the Supervisory Board by way of a written statement submitted to the Management Board. The right will expire once the State Treasury ceases to be the Company's shareholder.

Composition of the Supervisory Board of PZU as at 1st January 2014:

- Waldemar Maj – Chairman of the Board;
- Zbigniew Ćwiąkalski – Vice-Chairman of the Board;
- Tomasz Zganiacz – Secretary of the Board;
- Dariusz Daniluk – Member of the Board;
- Zbigniew Derdziuk – Member of the Board;
- Dariusz Filar – Member of the Board;
- Włodzimierz Kiciński – Member of the Board;
- Alojzy Zbigniew Nowak – Member of the Board;
- Maciej Piotrowski – Member of the Board.

The criteria of an Independent Member of the Supervisory Board were met by Dariusz Daniluk and Dariusz Filar.

On 17th June 2014, effective from 18th June 2014, the General Shareholders' Meeting of PZU removed from the Supervisory Board of the company Waldemar Maj, the former chairman of the Supervisory Board, as well as Dariusz Daniluk and Włodzimierz Kiciński. At the same time, on 18th June 2014, the General Shareholders' Meeting of PZU Życie appointed the following people to the Supervisory Board: Dariusz Kacprzyk, Jakub Karnowski and Aleksandra Magaczewska.

On 15th July 2014 Aleksandra Magaczewska was appointed the Chairwoman of the Supervisory Board.

Therefore, since 15th July 2014, composition of the Supervisory Board of PZU has been as follows:

- Aleksandra Magaczewska – Chairperson of the Board;
- Zbigniew Ćwiąkalski – Deputy Chairman of the Board;
- Tomasz Zganiacz – Secretary of the Board;
- Zbigniew Derdziuk – Member of the Board;
- Dariusz Filar – Member of the Board;
- Dariusz Kacprzyk – Member of the Board;
- Jakub Karnowski – Member of the Board;
- Alojzy Zbigniew Nowak – Member of the Board;
- Maciej Piotrowski – Member of the Board.

The criteria of an Independent Member of the Supervisory Board were met by Dariusz Kacprzyk and Dariusz Filar.

The current term of office of the Supervisory Board of PZU started on 30th June 2011 and will end after the lapse of three financial years. The mandates of members of the Supervisory Board expire not later than on the date of the General Shareholders' Meeting approving the financial statements for the last full financial year of their term, i.e. on the date of the General Shareholders' Meeting in 2015.

Aleksandra Magaczewska – Chairperson of the Supervisory Board of PZU SA

Aleksandra Magaczewska is a graduate of the Faculty of Law and Administration at the University of Silesia. The President of the Management Board of the Industrial Development Agency. Aleksandra Magaczewska has gained knowledge and professional experience at various positions in the Ministry of Economy where she worked for 11 years (2000-2011). Her work there included i.a. ownership supervision over companies in the steel and mining industry, and special economic zones. Later, as the Director of the Mining Department, she was responsible for the state aid for the mining companies. She took part in the setting-up of Polskie Huty Stali S.A., Kompania Węglowa S.A. and the IPO of Jastrzębska Spółka Węglowa S.A. She worked in the Ministry of Treasury as Director of the Department of Restructuring and State Aid since the beginning of 2012. As the head of the department, she exercised ownership supervision over dozens of state-owned companies, including LOT S.A., defence sector companies and the Industrial Development Agency. Previously she was the Chairwoman of the Supervisory Board of Kompania Węglowa S.A, PERN "Przyjaźń" S.A., KGHM Polska Miedź S.A. and a Member of the Supervisory Boards of the following companies: Katowicki Holding Węglowy S.A., Centrum Bankowo-Finansowe "Nowy Świat" S.A., GRABINEX Sp. z o.o., Centrum Informatyki Sp. z o.o.

Zbigniew Ćwiąkalski – Deputy Chairman of the Supervisory Board

He graduated from the Faculty of Law and Administration at the Jagiellonian University in Kraków. An academic teacher and a professor of criminal law at the Jagiellonian University and the School of Law and Public Administration in Przemyśl/Rzeszów. Since 1988, he has been a partner in one of the leading law firms specialising in business law T. Studnicki, K. Płeszka, Z. Ćwiąkalski, J. Górski, sp. k. He is a Member of the Supevisory Board of PLL LOT SA. He was a Member of the Supervisory Board of Bank Przemysłowo-Handlowy in Kraków and, from 16 November 2007 to 21 January 2009, he served as the Minister of Justice – Attorney General in PM Donald Tusk's Cabinet.

Tomasz Zganiacz – Secretary of the Supervisory Board

He is an engineer and MBA graduate. From 2009 he was the Director in the Ministry of Treasury in charge of capital market transactions and ownership supervision over financial institutions. He is an experienced and highly qualified manager with advanced knowledge of tools for restructuring, efficiency improvement, especially in financial management and investment valuation. Until 2009, before he became the CEO of the public listed development company Triton Development S.A., Mr. Tomasz Zganiacz was the Deputy CEO and CFO i.a. of the public listed company Arksteel, head of credit department at Societe Generale Bank, a researcher and a lecturer at the Faculty of Production Engineering of the Warsaw University of Technology, and was a participant in the National Investment Funds programme. Tomasz Zganiacz has been involved in many projects carried out by enterprises from various industries; cooperating with i.a. commercial and investment banks, brokerage offices and other capital market players. He has been in charge of finance management, preparation and implementation of investment projects and has co-authored development strategies. He has broad experience in managing commercial companies; among others, he was a Member of the WSE Supervisory Board. Currently, he is a Member of the Supervisory Board of PKO BP SA.

Zbigniew Derdziuk – Member of the Supervisory Board

He has a degree from the Faculty of Sociology of the University of Warsaw. In 1996, he received a postgraduate diploma in the field of organization and management. A graduate of AMP IESE Business School Programme. He has completed numerous training courses in finance and management. He has many years of experience working in middle and senior management positions, including i.a.: the Deputy Head of the Marketing Department in Polski Bank Inwestycyjny; the Deputy Head of the Promotion and Information Department in PKO BP SA, and the Deputy CEO of Bank Pocztowy SA. Moreover, he gained broad experience in administration during i.a. his employment as the Director of the Chancellery of the Sejm; the Secretary of State in the Chancellery of the Prime Minister, including the Deputy Head of the Chancellery – Member of the Cabinet; the Head of the Standing Committee of the Cabinet; the Secretary of the Capital City of Warsaw. Since 2009, he has been the CEO of ZUS. His extensive experience as member of supervisory bodies extends to numerous companies, including i.a.: PKP Polskie Linie Kolejowe SA, Bank Gospodarstwa Krajowego, Totalizator Sportowy sp. z o.o., PKO BP SA.

Dariusz Filar – Member of the Supervisory Board

In 1973, he began working as a lecturer at the Faculty of Economics of the University of Gdańsk; since 1992 he has been professor extraordinarius. He was a visiting professor at the Centre for Russian and East European Studies (CREES), University of Michigan, Ann Arbor (USA) in 1992-1995 and a lecturer at the Central European University in 1998-2001. In 1980s, he contributed to the underground political publications and published commentaries in The Wall Street Journal. Since 1988, he has cooperated with the editorial team of the quarterly Przegląd Polityczny. He also publishes articles and comments on economic matters in Rzeczpospolita and Gazeta Wyborcza daily newspapers. In 1999 - 2004 he was the Chief Economist of Bank Pekao S.A. In 2004 – 2010 he served as a Member of the Monetary Policy Council of the National Bank of Poland. From March 2010 to December 2014 he was a Member of the Economic Council to the Chairman of the Council of Minister.

Dariusz Kacprzyk – Member of the Supervisory Board

He completed his studies at the Faculty of Internal Commerce and Services at the Warsaw School of Economics (former SGPiS) and the post-graduate MBA program at the Leon Koźmiński University. Furthermore, Dariusz Kacprzyk is a graduate of IESE – University of Navarra, Advanced Management Program. He has worked in the banking industry for more than 25 years. He has gained knowledge and experience while holding managerial positions in leading financial institutions on the Polish market. In 2011 – 2013 he served as the CEO of Bank Gospodarstwa Krajowego, and before that, he worked in BRE Bank SA as the Director of the Corporate Cooperation Department while simultaneously sitting on the Bank's Management Board's Credit Committee. Even earlier, from 2007 to 2009, he worked at Bank Pekao SA as the Managing Director of the Corporate Banking, Real Estate Financing and International Markets Division and as a Member of its Credit Committee. He also worked in Bank BPH SA and Powszechny Bank Kredytowy SA prior to the merger with BPH SA, as well as in PKO Bank Polski S.A. He was the coordinator of the Municipal Development Program organized by the World Bank and the Municipal Development Agency (Foundation of the Minister of Finance). Since 21 June 2013 Mr. Dariusz Kacprzyk has been a Supervisory Board Member of the WSE.

Jakub Karnowski – Member of the Supervisory Board

He is a doctor of economics and a graduate of the Warsaw School of Economics and the University of Minnesota, as well as a former fellow of The Margaret Thatcher Foundation in the London School of Economics. He holds the title of Chartered Financial Analyst confirming his qualifications in investment advisory services. He works as an assistant professor in the College of Economic Analyses at the Warsaw School of Economics. From 1997 to 2000 he was the Chief of the political office and an advisor of the Minister of Finance. He later worked as an advisor on macroeconomic matters at PKPP "Lewiatan" in the years 2000-2001. He was an advisor to the President of the National Bank of Poland and later the Director of its Foreign Department in the years 2001-2003. From 2003 to 2008, he worked at the World Bank Group in Washington, DC as a Deputy Executive Director. From 2008 to 2012, he held the position of the CEO of PKO TFI, and in the years 2010-2013 he was a Member of the Management Board of the CFA Society of Poland. Since April 2012 he has held the position of the CEO of Polskie Koleje Państwowe S.A.

Alojzy Zbigniew Nowak – Member of the Supervisory Board

In 1984, he graduated from the present Warsaw School of Economics (former SGPiS) and, in 1992, from the University of Illinois at Urbana - Champaign, USA, M.A. in the field of economics. In 1993, he completed studies in banking, finance and capital markets at Exeter University, UK, and in 1996 economic studies at Free University of Berlin, whereas in 1997 in International Economics at RUCA. In 2002, he gained the title of Professor of Economics. He has won a number of prestigious awards, including Rector Award for Scientific Achievements (annually since 1997), Award of the Minister of Education for a book "Integracja europejska. Szansa dla Polski?" and a book titled "Banki a gospodarstwa domowe - dynamika rozwoju". Member of numerous scientific organizations and professional editing boards of periodicals, among others a member of Foundations of Management, the Editor in Chief of Journal of Interdiscciplinary Economics, Yearbook on Polish European Studies, Mazovia Regional Studies, Gazeta Bankowa and a reviewer in PWE SA Warszawa editing company. A long-term Competition Jury Member of Teraz Polska Emblem and Scientific Council Member. He gained his professional knowledge and experience working as the Head of International Business Relations Section at Management Faculty, University of Warsaw, the Head of National Economy Unit at Management Faculty, University of Warsaw, the Director of European Centre at University of Warsaw, the Deputy Dean in charge of foreign cooperation at Management Faculty, University of Warsaw, the Dean at Management Faculty, University of Warsaw and the Deputy Rector in charge of scientific research and cooperation, University of Warsaw. Apart from beeing a lecturer at the University of Warsaw, he also lectures in France, UK, USA, Russia, China and Korea. Furthermore, he served as: advisor to the Prime Minister, to the Minister of Agriculture, the President of University Sports Association at University of Warsaw, a Member of the Advisory Committee NewConnect at Management Board of WSE, a Member of the Foundation Council of the National Bank of Poland, the Chairman of the Scientific Council of the National Bank of Poland. Over the years, he held positions in supervisory boards of i.a.: PTE WARTA S.A., PKO BP S.A., JSW S.A., the Chairman and the Deputy Chairman of the Supervisory Board of EUROLOT S.A.

Maciej Piotrowski – Member of the Supervisory Board

In 1989, Maciej Piotrowski graduated from the Master Studies at the Faculty of Fundamental Problems of Technology at Wrocław University of Technology. In 1998-1990, he was a student at post-graduate Foreign Trade courses at Wrocław University of Economics; from 1990 to 1991, he was a student at post-graduate Finance courses at the same University, and in the years 1990-1994, he participated in Ph.D. studies at Wrocław University of Technology. Moreover, in 1995-1997, he participated in Master of Business Administration Program at the University of Illinois at Urbana-Champaign, USA co-organized with the University of Warsaw (M.A. in Management and Marketing). Participated in a number of domestic and foreign seminars and courses on banking, finance and capital markets. In 1991, he obtained a security broker license (in 1992, he won WSE President Award for the best broker) and in 2004 obtained a license for candidates for supervisory board members in state-owned companies. In 1991-1997, he gained professional knowledge and experience working i.a. as a securities broker, the Deputy Director in a Brokerage Office, the Managing Director in Charge of Investment Banking in Bank Gdański S.A. From 1997 to 1999, he was the Investment Banking Director in Bank of America (Poland) S.A. In 2000-2002, he was the Managing Director in charge of investment project funding and the Vice President Global Corporate & Investment Banking in Bank of America (Poland) S.A., then from 2002 to 2007, he held the following positions: Management Board Chairman in TP Invest Sp. z o.o. and CEO of Towarzystwo Emerytalne Telekomunikacji Polskiej S.A. in Telekomunikacja Polska S.A. Capital Group. In 2008-2013, he was the Deputy CEO in charge of finance and administration in Polska Agencja Żeglugi Powietrznej, and in 2013 he temporarily acted as its CEO. Later, he served as the Deputy CEO of the Supervisory Board of Bank Gospodarstwa Krajowego, and he currently works for the WSE Capital Group as the General Director of the Polish Power Exchange SA. Over the years, he held positions in supervisory boards of numerous institutions, i.a.: Supervisory Board Chairman in Bank Gospodarstwa Krajowego, Member of the Compulsory Supervisory Board of Bank Przemysłowy in Łódź established by the National Bank of Poland, Supervisory Board Member in Metro Warszawskie sp. z o.o., and since 2013 Supervisory Board Member in Enea Wytwarzanie SA. Mr. Maciej Piotrowski has also served as a Member of the Advisory Committee to the Chairman of the Polish Securities and Exchange Commission (present PFSA).

Competencies

The Supervisory Board exercises constant supervision over the company's activities in all aspects of its business.

In accordance with the Statue, the powers of the Supervisory Board include:

- review of the Management's Report and financial statements for the previous financial year in terms of their compliance with the accounting records, documents and facts;
- review of the motions of the Management Board concerning profit distribution or loss coverage;
- presenting the General Shareholders' Meeting with a written report on the results of the review described above and submitting a brief annual assessment of the situation of the company, including internal controls and key risk management and an annual report on the work of the Supervisory Board;
- concluding, terminating and amending the agreements with members of the Management Board and setting the terms and conditions of remuneration and the amount of remuneration;
- appointing, suspending and dismissing the President of the Management Board, members of the Management Board or the entire Management Board, as well as making decision to stop the suspension;
- agreeing to transfer the entire or portion of the insurance portfolio;
- accepting motions of the Management Board concerning acquisition, assumption or disposal of shares in companies, as well as the company's participation in other entities - the Supervisory Board may specify the amount, terms and conditions and the way in which the Management Board may carry out the activities without the acceptance of the Supervisory Board;
- delegating members of the Supervisory Board to temporarily perform the functions of members of the Management Board who have been dismissed, resigned or cannot perform their functions for other reasons;
- accepting instructions concerning votes being cast by the company's representatives during the General Shareholders' Meeting of PZU Życie concerning: an increase and decrease in the share capital, bonds issue, disposal and lease of a PZU Życie enterprise or establishment of a usufruct right, division of PZU Życie, combination of PZU Życie with a different company, liquidation or termination of PZU Życie;
- selection of the entity authorized to audit the financial statements which will audit the annual financial statements of the company;
- wording of the consolidated amended Statue;
- approval of the long-term plans for the development of the company and annual financial plans drafted by the Management Board;
- approval of the regulations of the Management Board;
- examination and evaluation of issues submitted by the Management Board for discussion during the General Shareholders' Meeting.

Moreover, the Supervisory Board grants consent to:

- acquisition or disposal of a real property, perpetual usufruct or share in the real property or in perpetual usufruct exceeding the equivalent of EUR 3.0 million.
- conclusion of a material agreement by the company and its related party, as understood by the Ordinance on current and periodic information, excluding standard agreements concluded by the company on an arm's length basis as part of its operating activities;
- conclusion of the agreement by the issuer with the underwriter referred to in Article 433.3 of the Code of Commercial Companies GLOSSARY;
- advance payment against expected dividend;
- creation and closing of regional and foreign branches.

Mode of operation

The Supervisory Board adopts the regulations of the Supervisory Board specifying its organization and the manner of performing activities. The regulations of the Supervisory Board were adopted by its Resolution of 9th October 2012 and specify its composition and the way in which its members are appointed, the tasks and the scope of its activities and the manner of calling the Supervisory Board and conducting debates.

The Statue stipulate that the Supervisory Board should meet at least once every quarter. The Supervisory Board may delegate its members to fulfil specific supervising activities on their own and to this effect appoint temporary committees. The scope of responsibility of a delegated member of the Supervisory Board and the committee is specified in a resolution of the Supervisory Board.

Resolutions of the Supervisory Board are adopted by an absolute majority of votes. In the event of a voting tie, the Chairman of the Supervisory Board has the casting vote. The resolutions of the Supervisory Board may be adopted using means of direct distant communication and in a written form. Additionally, the Statue stipulate that a vote may be cast in writing through another member of the Supervisory Board.

In accordance with the Statue, the resolutions of the Supervisory Board are adopted in an open ballot, except for resolutions concerning appointment of the chairman, Deputy Chairman and the Secretary of the Supervisory Board, delegation of members of the Supervisory Board to temporarily fill in for members of the Management Board and for resolutions with respect to appointing, suspending and dismissing the President of the Management Board, members of the Management Board or the entire Management Board as well and taking decision to stop such suspension which are adopted in a secret ballot. Moreover, a secret ballot may be chosen on request of a member of the Supervisory Board.

The Supervisory Board appoints the Chairman and the Deputy Chairman of the Supervisory Board from its members and it may also select the Secretary of the Supervisory Board.

In accordance with the Regulations of the Supervisory Board, apart from appointing the audit committee and promotion and compensation Committee, provided for in the Statue to properly perform its supervision, the Supervisory Board may appoint other permanent advisory and consultative committees whose competencies, composition and way of work is specified by regulations adopted by the Supervisory Board. The regulations of the Supervisory Board stipulate that the Supervisory Board and the appointed committees may use the services of experts and advisory companies.

Members of the Management Board, employees of the company competent for the discussed issue, selected by the Management Board and other persons invited by the Supervisory Board may take part in the meetings of the Supervisory Board, however, they cannot cast votes. In specific cases, the Supervisory Board of PZU may also invite members of the management board or a supervisory board of a different company in PZU Group. Moreover, members of the Supervisory Board, upon consent of the Supervisory Board, may select one advisor authorized to take part in the meetings of the Supervisory Board devoted to reports and financial statements, and give their advice, provided that such person respects confidentiality and signs a confidentiality statement.

At present, the following committees work as part of the Supervisory Board of PZU:

- Audit Committee;
- Promotion and Compensation Committee;
- Strategy Committee.

The Statue provide for appointing an Audit Committee by the Supervisory Board. The Committee is composed of three members, including at least one independent members qualified in accounting or auditing. Detailed tasks and terms and conditions of appointing members of the Audit Committee and its functioning have been specified in a resolution of the Supervisory Board, which views relevant competencies and experience of the candidates for members of the Committee.

In accordance with the Regulations of the Audit Committee adopted by a resolution of the Supervisory Board, the Audit Committee is an advisory and consultative body to the Supervisory Board and is appointed to improve the effectiveness of the supervision of the correctness of financial reporting, effectiveness of internal control, including internal audit and risk management, exercised by the Supervisory Board. Moreover, the Audit Committee may apply to the Supervisory Board for commissioning specific controls in the company to be exercised by an internal or external entity.

The Supervisory Board appointed the Audit Committee on 3rd June 2008. Composition of the Audit Committee as at 1st January 2014:

- Dariusz Filar – Chairman of the Committee;
- Dariusz Daniluk – Member of the Committee;
- Tomasz Zganiacz – Member of the Committee.

Dariusz Filar was indicated by the Supervisory Board as an independent member, having accounting and audit qualifications as defined in Article 86.4 of the Act on statutory auditors GLOSSARY.

On 17th June 2014, effective from 18th June 2014, the General Shareholders' Meeting of PZU removed Dariusz Daniluk from the Supervisory Board of PZU. Therefore, on 15th July 2014, the Supervisory Board of PZU added Dariusz Kacprzyk to the Audit Committee.

Accordingly, as at 31st December 2014 the composition of the Audit Committee was as follows:

- Dariusz Filar – Chairman of the Committee;
- Dariusz Kacprzyk – Member of the Committee;
- Tomasz Zganiacz – Member of the Committee.

In accordance with the Regulations of the Supervisory Board, once the company's shares are listed on a regulated market, as understood by the Act on trading in financial instruments of 29th July 2005, the Supervisory Board my appoint a Promotion and Compensation Committee.

In accordance with the Statue, detailed responsibilities and the method of appointing members of the Promotion and Compensation Committee, the way it works and remuneration are specified in a resolution of the Supervisory Board. The Committee should include at least one independent member. If the Supervisory Board includes five members elected in a vote, the Promotion and Compensation Committee is not appointed and its tasks are carried out by the entire Supervisory Board.

According to the regulations of the Promotion and Compensation Committee adopted by a resolution of the Supervisory Board of 4th April 2013, it is an advisory and consultative body to the Supervisory Board and is to improve efficiency of the Board's supervisory activities related to establishing the management structure, including organizational issues, remuneration system, remuneration principles and selection of properly qualified staff.

The Supervisory Board decided that the promotion and compensation committee would be composed of five persons. Composition of the Promotion and Compensation Committee as at 1st January 2014:

- Zbigniew Ćwiąkalski – Chairman;
- Zbigniew Derdziuk – Member;
- Dariusz Filar – Member;
- Maciej Piotrowski – Member;
- Tomasz Zganiacz – Member.

As at 31st December 2014 the composition of the Committee had not changed.

The Committee is dissolved once five members of the Supervisory Board are elected in a vote in groups and its rights are then taken by the entire Supervisory Board.

According to the regulations of the Strategy Committee adopted by a resolution of the Supervisory Board of 4th April 2013, it is an advisory and consultative body to the Supervisory Board and is to improve efficiency of the Board's supervisory activities related to consulting of all strategic documents presented by the Management Board (in particular, the company development strategy) and presenting the Supervisory Board with recommendations on planned investments that materially impact the company's assets.

Composition of the Strategy Committee as at 1st January 2014:

- Waldemar Maj – Chairman of the Committee;
- Zbigniew Derdziuk – Member of the Committee;
- Alojzy Zbigniew Nowak – Member of the Committee;
- Maciej Piotrowski – Member of the Committee.

On 14th January 2014 the Supervisory Board added Włodzimierz Kiciński to the Strategy Committee.

On 17th June 2014, the General Shareholders' Meeting of PZU effective from 18th June 2014 removed from the Supervisory Board of PZU Waldemar Maj and Włodzimierz Kiciński. Therefore, on 15th July 2014, the Supervisory Board of PZU established the composition of the strategy committee:

- Alojzy Zbigniew Nowak – Chairman of the Committee;
- Dariusz Kacprzyk – Member of the Committee;
- Aleksandra Magaczewska – Member of the Committee;
- Maciej Piotrowski – Member of the Committee.

On 8th September 2014 the Supervisory Board added Jakub Karnowski to the Strategy Committee.

As at 31st December 2014 the composition of the Committee had not changed.

Management Board

Composition

In accordance with the Statue of PZU, the Management Board is composed of three to seven members appointed for a shared term which includes three consecutive full financial years.

Members of the Management Board, including the President of the Management Board, are appointed and dismissed by the Supervisory Board; however, members of the Management Board are appointed and dismissed by the Supervisory Board at the request of the President of the Management Board. The President of the Management Board of the new term appointed before the end of the current term may apply to the Supervisory Board for appointing other members of the Management Board of the new term before the end of the current term.

Management Board of PZU as at 1 January 2014 consisted of:

- Andrzej Klesyk – Chairman of the Board;
- Przemysław Dąbrowski – Member of the Board;
- Dariusz Krzewina – Member of the Board;
- Barbara Smalska – Member of the Board;
- Tomasz Tarkowski – Member of the Board;
- Ryszard Trepczyński– Member of the Board.

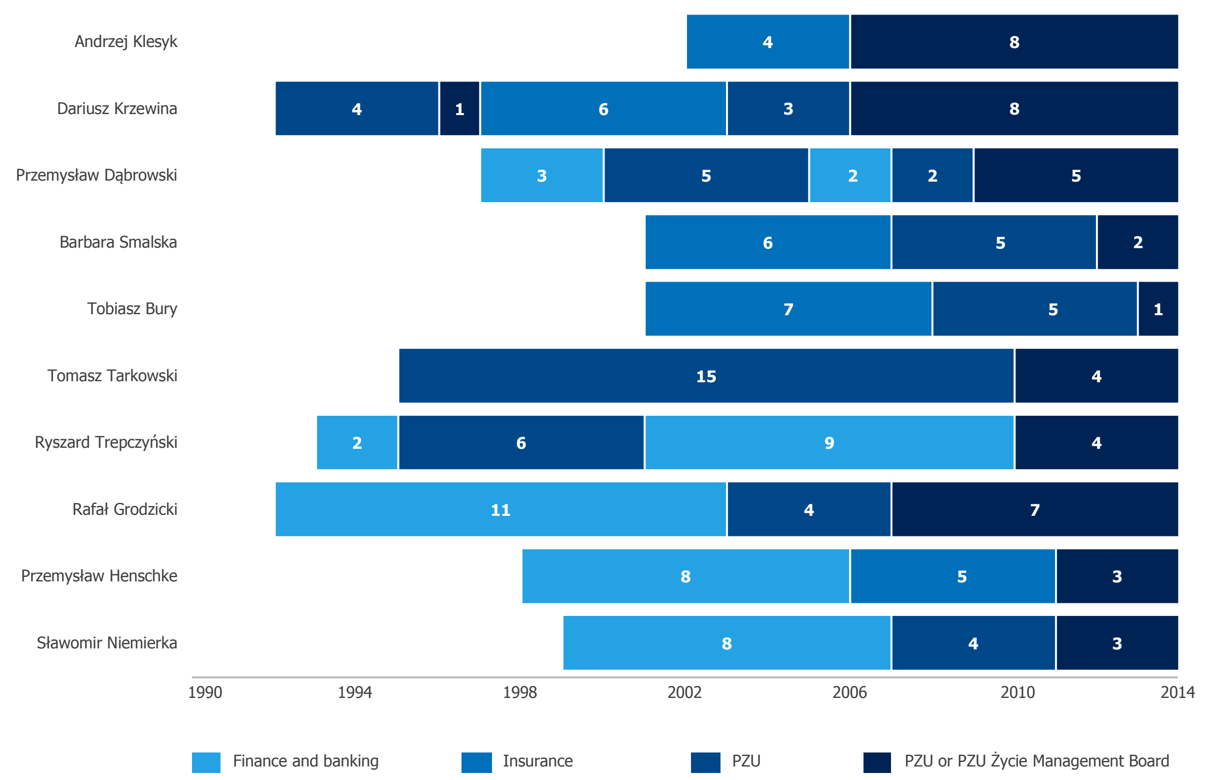
On 6th October 2014, Barbara Smalska resigned from the position of Member of the Management Board of PZU as at 31st December 2014.

Therefore, since 1st January 2015, composition of the Management Board has been as follows:

- Andrzej Klesyk - Chairman of the Board;
- Przemysław Dąbrowski - Member of the Board;
- Dariusz Krzewina – Member of the Board;
- Tomasz Tarkowski – Member of the Board;
- Ryszard Trepczyński – Member of the Board.

The current term of the Management Board of PZU started on 1 July 2011 and will last until the end of three consecutive financial years. The mandates of members of the Management Board expire not later than on the date of the General Shareholders' Meeting approving the financial statements for the last full financial year of their term.

Experience of the Management Board on the financial market and in PZU (in years)



Roles and responsibilites:

Andrzej Klesyk
PZU CEO

Dariusz Krzewina
PZU Życie CEO / PZU

Responsible for:
- corporate management;
- HR;
- corporate and health insurance;
- administration;
- logistic;
- reinsurance;
- bancassurance.

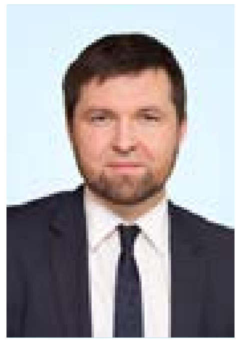
Przemysław Dąbrowski
CFO PZU / PZU Życie

Responsible for:
- accountancy;
- planning;
- controlling;
- accounting operations;
- tax policy;
- debt collection;
- actuaries.

Barbara Smalska
PZU / PZU Życie
(to 31 December 2014)

Responsible for:
- marketing;
- retail insurance;
- agency sales;
- innovations.

Tobiasz Bury
PZU Życie



Responsible for:
- PZU's branches;
- after sales client service.

Tomasz Tarkowski
PZU / PZU Życie

Responsible for:
- claims handling;
- assistance

Ryszard Trepczyński
PZU / PZU Życie

Responsible for:
- investment;
- macro analysis.

Rafał Grodzicki
PZU Życie

Responsible for:
- contact center;
- insurance operations;
- foreign operations.

Przemysław Henschke
PZU Życie

Responsible for IT.

Sławomir Niemierka
PZU Życie

Responsible for:
- risk management;
- security;
- compliance;
- reinsurance.

Andrzej Klesyk – CEO of PZU

Andrzej Klesyk has been the Chairman of the Management Board of PZU 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. Managed a team creating 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 Harvard Business School, USA. He is a member of: the Board of Trustees of the National Museum, the Programme Board of the Institute of Public Affairs, the Geneva Association – a non-profit organisation associating eighty Board Chairmen from top world insurance companies – as well as a member of the European Advisory Board at Harvard Business School. He represents PZU at annual meetings of the World Economic Forum in Davos.

Dariusz Krzewina – CEO of PZU Życie, PZU Management Board Member

Dariusz Krzewina graduated from the Economy and Sociology Department of the University of and post-graduate studies in insurance at Warsaw School of Economics. He has worked in the insurance industry for many years. From September 1993 to August 1998 he was employed in PZU as a Sales Department Head, Deputy Director and Director of the Insurance Office. 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 Ubezpieczenia SA. In August 2004 he was appointed the Director of the Group Insurance Office Director in PZU and since January 2006 he was the Coordinating Director in charge of Corporate Clients. He has been in the Management Board of PZU since March 2007 and since August 2007 he has held the position of the Chairman of the Management Board. From 1 February 2010 to 14 March 2013 Director in PZU Group. Member of the Management Board of PZU from 15 March 2013. He is in charge of corporate governance, HR, corporate insurance, administration and logistics, bancassurance and reinsurance.

Barbara Smalska – PZU / PZU Życie Management Board Member until 31 December 2014

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 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. She joined the Management Board of PZU on 1 February 2013. On 5 February 2013 she was appointed a Director of PZU Group and held the position until 14 March 2013. Member of the Management Board of PZU from 15 March 2013. She was in charge of marketing and innovations

Przemysław Dąbrowski – PZU / PZU Życie Management Board Member

Przemysław Dąbrowski graduated from Warsaw University, Information Technology Department and a Post-Graduate Management Course. He graduated from MBA studies at the University of Illinois and from the Warsaw-Illinois Executive MBA program. He has vast experience in financial management services for the insurance sector, in managing financial investments and large financial transactions. He has knowledge and experience in accounting, tax and actuarial issues.

He started his professional career in 1993. From 1993 to 1998 he worked at Whirlpool Polska Sp. z o.o. as an analyst and financial controller. In 1998-2000 he was the Treasurer at AIG Poland. In the years 2000-2001 he was the Financial Director and a Member of the Management Board of Creative Team SA (the Elektrim Group). From 2001 to 2006 he was the Planning and Controlling Director at PZU. In 2006-2008 he worked at AT Kearney and Accenture as a Manager and a Senior Manager. From October 2008 to March 2009 he held the function of the Director – Financial Division Deputy Head in the Head office of PZU and PZU Życie. From November 2008 to February 2009 he was the Planning and Controlling Director in the Head office of PZU and PZU and in March 2009 he was appointed the Information Management Director in the Head office of PZU and PZU Życie. He has been a Member of the Management Board of PZU since January 2010. He has held the position of a Member of the Management Board of PZU since December 2010. He is in charge of the Financial Division.

Rafał Grodzicki – PZU Życie Management Board Member, PZU Group Director

Rafał Grodzicki graduated from Warsaw School of Economics. He has extensive management experience in the banking and insurance sector gained in numerous Polish and foreign institutions. He joined PZU Group in February 2004 holding the following positions: Director of the SME Insurance Office, Coordinating Director in charge of Agency Network Development and Managing Director in charge of Insurance Products – Head of the Mass Client Function. He has been in the Management Board of PZU Życie since 2008. He became a Director of PZU Group in February 2010. He is in charge of insurance activities, foreign operations (international activities) and the area of business health.

Przemysław Henschke – PZU Życie Management Board Member, PZU Group Director

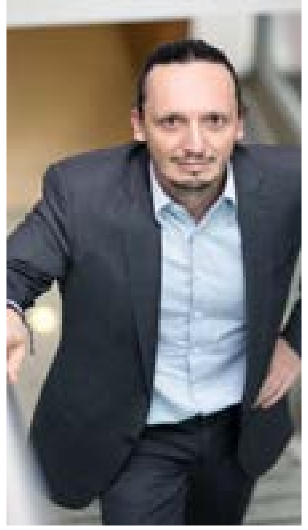
He graduated from Warsaw University of Technology. He has more than 20 years of experience in financial services for the IT industry. He worked as a technology provider (as a Project Manager and an advisor) and also represented clients (IT Architect, CIO). His first important engagement was the implementation project for Handlobank, which he managed as a Project Manager of the provider. 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 Lucas 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 and headquartered in Beirut, he developed an IT strategy and architecture for the group and started the implementation. Przemysław Henschke joined the Management Board of PZU Życie on 3 February 2012. On 7 February 2012 he was appointed a Director of PZU Group. He is in charge of IT.

Sławomir Niemierka – PZU Życie Management Board Member, PZU Group Director

He graduated from the Faculty of Law and Administration at the University of Warsaw and Harvard Business School. He is a qualified legal counsel and a co-authored a number of publications on financial law and bank supervision. 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, where he headed the Inspection Office responsible for inspections carried out in banks. 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 in a Team in charge of the development of the risk management system in the National Bank of Poland. As a Member of the Management Board of the Bank Guarantee Fund, he supervised the operational risk management system. He joined PZU Group in 2008 and was appointed the Managing Director in charge of auditing. On 19 March 2012 he was appointed Member of the Management Board of PZU Życie and the Director of PZU Group. He is in charge of risk management, reinsurance, compliance and safety.

Tomasz Tarkowski – PZU / PZU Życie Management Board Member

Tomasz Tarkowski graduated from the Faculty of Automotive and Construction Machinery Engineering at the Warsaw University of Technology and from the Academy of Finance (formerly Academy of Insurance and Banking). He also completed an Advanced Management Program at IESE Business School University of Navarra and post-graduate studies in road traffic safety, business insurance and management psychology. He has been collaborating with PZU Group since 1996. Initially, he worked in internal control and insurance fraud departments. Since 2002, he specialises in claims handling. He was the Director of the Claims Handling Centre of PZU in Warsaw. In 2007-2011 he was a Member of the Management Board of PZU Ukraine, where he supervised the Claims Handling, product management and risk assessment departments. He has held the position of a Member of the Management Board of PZU since April 2011 and the position of a Member of the Management Board of PZU Życie - since July 2011. He is in charge of Claims Handling and assistance functions.



Ryszard Trepczyński – PZU / PZU Życie Management Board Member

Ryszard Trepczyński graduated from Warsaw School of Economics, the Management and Marketing Department. 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 has experience in managing large and diverse asset portfolios. He participated in building management structures for strategic allocation of assets, liquidity and investment risk. In 1994-1006 he worked as a broker in the Capital Transactions Centre of Bank Handlowy w Warszawie SA. In the years 1996 – 2002 he was employed in the Financial Investment Office of PZU – initially as an Asset Manager and subsequently as the Head of the Debt Instruments Portfolio Management Department. From December 2002 to June 2011, he worked at Pioneer Pekao Investment Management S.A., where he successively held the positions of the Director of Debt Securities Department, Director of the Asset Management Department and the Deputy Chairman of the Management Board in charge of investments. He has held the position of a Member of the Management Board of PZU and PZU Życie since July 2011. He is in charge of the Investment Division.

Tobiasz Bury – PZU Życie Management Board Member, PZU Group Director

Tobiasz Bury graduated from Warsaw School of Economics, Kellogg School of Management w USA and Harvard Business School Advanced Management Program. He joined PZU Group in 2009. He held the position of Director Managing the Agency Network and Director in Charge of Mass Sales in PZU Życie since May 2010, he held the position of the Director Managing the Network in PZU Group and Head of the Network Division in the Group. On this position, he was in charge of the network of branches in PZU and PZU Życie and of client service in the network and in the Client Center of PZU Group. On 16 January 2014 he was appointed a Member of the Management Board of PZU Życie and a Director of PZU Group. He is in charge of mass-market insurance, management of the network of the PZU Branches, sales channels, contact centre services and post-sale support.

The Management Board exercises all management rights which have not been reserved by the provisions of law or provisions of the Statue for the General Shareholders' Meeting or the Supervisory Board.

The company may be represented by two members of the Management Board acting jointly or one member of the Management Board acting with a commercial proxy.

The Management Board adopts its regulations which are approved by the Supervisory Board. The regulations of the Management Board were adopted by the Management Board on 2nd October 2012 and amended with a Resolution of the Board of 8th April 2013 and approved by a resolution of the Supervisory Board of 16th April 2013.

The regulations of the Management Board determine:
- the scope of Management Board's competencies and activities that require approval or confirmation by the Supervisory Board;
- competencies of the Chairman and Members of the Management Board;
- principles and organization of Board's activities, including its meetings and decision making procedures;
- rights and obligations of Board members upon dismissal.

In accordance with the regulations of the Management Board, resolutions of the Management Board are especially required for:
- adoption of a long-term plan for development and operations of the company;
- adoption of an action and development plan for PZU Group;
- adoption of an annual financial plan and a report on its implementation;
- approval of the financial statements for the previous financial year and the Management's Report;
- approval of a motion concerning profit distribution or loss coverage;
- determination of premiums in the compulsory and voluntary insurance and general voluntary insurance terms and conditions;
- determination of the scope and size of outward reinsurance and the tasks for inward reinsurance;
- adoption of an annual audit and control plan and a report on its implementation with conclusions;
- determination of the terms and conditions of investments, prevention and sponsoring;
- giving sureties and guarantees (excluding insurance operations) and taking out and giving credit facilities or loans by the company (excluding credit facilities and loans given from the company's Social Benefits Fund);
- appointment of a commercial representation.

In accordance with the regulations, meetings of the Management Board are held at least once a fortnight.

The work of the Management Board is administered by the President of the Management Board whose powers include in particular:
- defining the scope of responsibility of each member of the Management Board;
- calling meetings of the Management Board;
- setting the agenda of the meeting of the Management Board;
- applying to the Supervisory Board for appointing and dismissing members of the Management Board;
- designating a person to administer the work of the Management Board during the absence of the Chairman.

The work of the Management Board is administered by the President of the Management Board who defines the scope of responsibility of each member of the Management Board.

Resolutions of the Management Board are adopted only in the presence of the President of the Management Board or a person designated to administer the work of the Management Board during their absence and if the meeting is attended by at least half of the members of the Management Board.

Resolutions of the Management Board are adopted by an absolute majority of votes and in the event of a voting tie, the President of the Management Board has the casting vote. The Management Board, upon consent of the Chairman, may adopt resolutions in writing, on paper or in an e-form (i.e. using means of distant communication and a qualified electronic signature). The Statue also provide that the meetings of the Management Board may be held using means of direct distant communication.

The President of the Management Board takes decisions in the form of orders and official instructions. Other members of the Management Board administer the operations of the company within the scope specified by the President of the Management Board.

The Statue of PZU do not provide for any special rights of the Management Board concerning decisions to issue or redeem shares.

10.9 Remuneration of the members of the Group's bodies

Employment contracts concluded with the Chairman and the members of the Management Board, approved by resolution of the Supervisory Board, do not include compensation for resignation or dismissal from their positions without a valid reason, or if the dismissal results from a business combination through an acquisition of the issuer.

Separate non-competition agreements regulate among others refraining from post-employment competition with PZU in exchange for damages. In 2013-2014, PZU Group companies included in consolidation did not grant any loans or similar benefits to members of their management boards, higher level managers or members of their supervisory boards.

Rules of granting annual bonuses to the Members of the Management Board
The bonuses of the Management Board's Members are dependent on their performance for the financial year. They are awarded by the Supervisory Board after the approval of the financial statements for the year.

Compensation and other short-therm employee benefits paid by PZU (PLN 000)	1 January – 31 December 2014		1 January – 31 December 2013	
		including bonuses and special prizes:		including bonuses:
Management Board, including:	**8,226**	**2,812**	**9,503**	**3,024**
Andrzej Klesyk	2,714	914	2,780	980
Przemysław Dąbrowski	1,054	313	1,135	336
Dariusz Krzewina	1,314	534	642	-
Barbara Smalska[1]	1,088	399	593	-
Tomasz Tarkowski	891	228	1,102	336
Ryszard Trepczyński	1,165	424	1,535	736
Bogusław Skuza[2]	-	-	1,716	636
Contracts concluded with high level managers – High level management (Directors of PZU Group), including:	**3,717**	**1,193**	**3,263**	**1,122**
Rafał Grodzicki	936	312	874	250
Przemysław Henschke	936	312	804	180
Dariusz Krzewina[3]	-	-	291	180
Sławomir Niemierka	860	199	863	200
Barbara Smalska[3]	-	-	431[4]	312[5]
Tobiasz Bury	985	370[6]	-	-
Supervisory Board, including:	**1,221**	**-**	**1,224**	**-**
Aleksandra Magaczewska	97	-	-	-
Waldemar Maj	90	-	192	-

Compensation and other short-therm employee benefits paid by PZU (PLN 000)	1 January – 31 December 2014		1 January – 31 December 2013	
		including bonuses and special prizes:		including bonuses:
Zbigniew Ćwiąkalski	168	-	168	-
Tomasz Zganiacz	144	-	144	-
Dariusz Daniluk	57	-	120	-
Zbigniew Derdziuk	120	-	120	-
Dariusz Filar	120	-	120	-
Dariusz Kacprzyk	64	-	-	-
Jakub Karnowski	64	-	-	-
Włodzimierz Kiciński	57	-	120	-
Alojzy Nowak	120	-	120	-
Maciej Piotrowski	120	-	120	-

Compensation and other short-therm employee benefits paid by other entities of PZU (PLN thousands)	1 January – 31 December 2014		1 January – 31 December 2013	
		including bonuses:		including bonuses:
Management Board, including:	**2,942**	**996**	**3,826**	**1,224**
Andrzej Klesyk	-	-	320	-
Przemysław Dąbrowski	599	200	654	255
Dariusz Krzewina	553	133	1,121	561
Barbara Smalska[1]	596	225	327	-
Tomasz Tarkowski	536	179	510	153
Ryszard Trepczyński	658	259	654	255
Bogusław Skuza[2]	-	-	240	-
High level management (Directors of PZU Group), including:	**1,844**	**478**	**2,235**	**1,071**
Rafał Grodzicki	455	119	742	357
Przemysław Henschke	455	119	742	357
Sławomir Niemierka	427	70	751	357
Tobiasz Bury	507	170[6]	-	-

Total estimated valued of benefits in kind allocated by PZU and its subsidiaries (PLN thousands)	1 January – 31 December 2014	1 January – 31 December 2013
Management Board, including:	**1,307**	**1,343**
Andrzej Klesyk	282	251
Przemysław Dąbrowski	186	167
Dariusz Krzewina [3]	217	214
Barbara Smalska[1,3]	205	151
Tomasz Tarkowski	191	181
Ryszard Trepczyński	226	166
Bogusław Skuza[2]	-	213
Management Board, including:	**908**	**401**
Rafał Grodzicki	170	183
Przemysław Henschke	203	55
Sławomir Niemierka	358	163
Tobiasz Bury	177	-

[1] On 06 October 2014, Barbara Smalska resigned from the position as at 31 December 2014
[2] Bogusław Skuza on 27 December 2013 resigned with effective date on 31 December 2013
[3] On 12 March 2013, the Supervisory Board of PZU appointed Dariusz Krzewina and Barbara Smalska to the position of Members of the Management Board effective from 15 March 2013. (additionally Dariusz Krzewina and Barbara Smalska were Directors of PZU Group respectively till 14 March 2013 and from 5 January 2013 till 14 March 2013)
[4] The aforementioned amount includes a bonus for 2012 as well as remuneration for performance of other functions at PZU and PZU Życie until the date of appointment as the Group's Director
[5] Amount representing the value of benefits for 2012 granted during the term of office in PZU and PZU Życie
[6] Amount representing the value of benefits for 2013 granted during the term of office in PZU and PZU Życie

The bonus amount depends on the performance of the business area supervised by the given Member of the Management Board, however, the areas that affect business results have much greater impact on remuneration than the support areas.

Group Directors

Positions of PZU Group Directors were established in relation to the implementation of the management model, according to which members of the Management Board of PZU Życie as Group Directors are in charge of the same business areas and functions in PZU and PZU Życie. The positions of Group Directors are established based on Organizational Regulations of PZU (paragraph 20, item 3).

As at 1st January 2014, Group Directors of PZU Capital Group were the following:

- Rafał Grodzicki;
- Przemysław Henschke;
- Sławomir Niemierka.

On 16th February 2014 the Management Board of PZU appointed Tobiasz Bury Director in PZU Group. On 16th January 2014 Tobiasz Bury was appointed a Member of the Management Board of PZU Życie.

As at 31st December 2014, Group Directors of PZU Capital Group were the following:

- Tobiasz Bury;
- Rafał Grodzicki;
- Przemysław Henschke;
- Sławomir Niemierka.

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Management Board's Representation

Correctness and reliability of presented financial statements
The Management Board of PZU declares that to the best of their knowledge, the consolidated financial statements and comparable data of PZU Group have been prepared in accordance with the applicable accounting principles and provide a true, fair and clear view of the economic and financial position and the financial profit or loss of PZU Group and that the Management's Report of the PZU Capital Group Presents a true picture of the development and achievements as well as the situation of PZU Group including a description of the main threats and risks.

Selection of the entity authorized to audit financial statements
The Management Board of PZU represents that the entity authorized to audit financial statements - KPMG Audyt Sp. z o.o. sp. k. - which audited the consolidated financial statements was selected in accordance with the provisions of law and that the entity and certified auditors which audited the financial statements met the requirements to express an unbiased and independent opinion on the audited consolidated financial statements, in accordance with the applicable provisions of law and professional standards.

Cooperation with international public institutions
Companies of PZU Group cooperate with the EIOPA (European Insurance and Occupational Pensions Authority) in the context of Solvency II.

In addition in 2014, the European Bank for Reconstruction and Development (EBRD) - an international financial institution acquired EUR 40 million of bonds issued by PZU Finance AB DEBT FINANCING SECTION 8.3.

Information about significant agreements for the operations of PZU Group, including those concluded between shareholders
By the date of preparation of this Management's Report of PZU Capital Group there were no agreements (including those concluded after the end of the financial year), which could result in future changes in proportions of shares held by the existing shareholders.

Information on significant contracts concluded
On 3 July 2014 PZU issued a guarantee in relation to the liabilities of PZU Finance AB arising from the bonds issuance. The maximum value of the guarantee was not established.

The guarantee issued by PZU is irrevocable and unconditional and will expire on the expiry of the bondholders' claims against PZU Finance AB. PZU is not entitled to receive any remuneration for the issuance of the guarantee.

On 7 July 2014 the Issuer took a loan from PZU Finance AB with a total value of EUR 500 million and the interest rate of 1.425% per year. The loan is to be paid back on 28 June 2019.

Related party transactions
On 7 July 2014 the Issuer took a loan from PZU Finance AB, as described above. The loan was granted at arm's length.

PZU Group's companies provide services to each other, as part of their capital and business ties. With the exception of companies of the Tax Capital Group, transactions are concluded at arm's length.

Seasonal or cyclical business
Operations of PZU are not of a seasonal or cyclical nature to the extent that would justify application of the suggestions presented in International Financial Reporting Standards.

Evaluation of financial resources management, including the ability to meet incurred liabilities and definition of possible threats and activities, undertaken or planned by the Issuer to counteract these threats
The Issuer has a very good financial position and meets all the security requirements imposed by the Act on Insurance Activity and PFSA. A stable rating outlook of the Issuer confirms that PZU has a strong business position, high level of equity and remains competitive entity in the insurance market.

Disputes
In 2014 and by the date of preparation of this Management's Report of PZU Capital Group there were no proceedings before court, body competent to hear arbitration proceedings or public authority body concerning liabilities or receivables of PZU or its direct and indirect subsidiaries with the value of at least 10% of the equity of PZU.

The description on court cases and proceedings before the President of OCCP are presented in the financial consolidated financial statements of PZU Group for the financial year ended 2014.

As at 31 December 2014, the total value of all 60,623 cases heard by courts, bodies competent to hear arbitration proceedings or public authority bodies involving PZU Group entities was PLN 3,061.7 million. The amount includes PLN 2,518.3 million of liabilities and PLN 543.4 million of receivables of PZU Group companies, which accounted for 20.43% and 4.41% of PZU equity calculated in line with PAS, respectively.

This Management's Report of PZU Capital Group for 2014 includes 171 pages with sequential numbers.

Signatures of Members of PZU SA Management Board

Andrzej Klesyk – CFO of PZU

Przemysław Dąbrowski – Member of the Board

Dariusz Krzewina – Member of the Board

Tomasz Tarkowski – Member of the Board

Ryszard Trepczyński – Member of the Board

Warsaw, 16 March 2015

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Appendix: Financial data

Appendix: Financial data

Basic amounts from the consolidated profit or loss account (PLN thousands)	2014	2013	2012	2011	2010
Gross written premiums	16,884,639	16,480,003	16,243,131	15,279,262	14,541,022
Net earned premiums	16,429,370	16,248,769	16,005,240	14,890,528	14,213,013
Revenue from commissions and fees	350,764	299,169	237,102	281,351	288,037
Net investment income	2,733,518	2,514,555	3,704,729	1,593,826	2,777,774
Other operational revenues and expenses. measurement and benefits from investment contracts	(384,138)	(298,093)	(207,490)	(241,973)	(389,638)
Net insurance claims and benefits	(11,541,708)	(11,161,224)	(12,218,731)	(10,221,122)	(10,384,062)
Acquisition expenses	(2,147,024)	(2,015,938)	(2,000,351)	(1,961,986)	(1,911,255)
Administrative expenses	(1,527,699)	(1,406,480)	(1,440,301)	(1,383,897)	(1,505,784)
Operating profit (loss)	3,913,083	4,180,758	4,080,198	2,956,727	3,088,085
Financial expenses	(219,865)	(61,664)	(41,490)	(49,152)	(58,654)
Share in net profit (loss) of entities measured using the equity method	(1,525)	1,404	x	x,	x
Gross profit (loss)	3,691,693	4,120,498	4,038,708	2,907,575	3,029,431
Net profit (loss) including:	2,967,627	3,294,955	3,253,826	2,343,947	2,439,229
Shareholders' profit (loss)	2,967,731	3,293,496	3,255,181	2,345,424	2,439,231
Minority profit (loss)	(104)	1,459	(1,355)	(1,477)	(2)
Basic and diluted weighted average of ordinary shares*	86,351,949	86,351,949	86,352,300	86,352,300	86,352,300
Number of shares issued	86,352,300	86,352,300	86,352,300	86,352,300	86,352,300
Basic and diluted PZU Group's profit per ordinary Issuer's share (PLN)	34.37	38.14	37.70	27.16	28.25
Net profit of PZU (Issuer)	2,636,733	5,106,345	2,580,720	2,582,303	3,516,709
Basic and diluted Issuer's profit per ordinary share (PLN)	30.53	59.13	29.89	29.90	40.73

*including shares owned by consolidated funds

Data transformed for the year 2013. For 2010-2012 according to approved financial statements.

Assets (PLN thousands)	2014	2013	2012	2011	2010
Intangible assets	868,692	308,726	183,238	166,038	109,067
Goodwill	785,663	8,519	8,474	8,716	8,381
Property, plant and equipment	1,001,609	927,281	992,317	1,055,381	990,411
Investment property	2,236,062	1,474,770	564,404	534,222	441,014
Entities measured using the equity method	66,311	48,595	x	x	x
Financial assets	56,759,976	55,085,728	50,423,076	46,775,359	45,345,032
Receivables, including under insurance contracts	3,068,813	2,671,964	1,835,793	1,734,636	1,734,274
Reinsurers' share in technical provisions	753,115	526,605	749,334	700,713	771,850
Estimated subrogation and salvages	127,262	129,950	121,632	83,117	77,812
Deferred tax assets	26,957	16,949	13,963	8,600	16,645
Current income tax receivables	368	34,895	80,646	8,582	9,958
Deferred acquisition expenses	712,066	609,819	574,489	569,843	540,729
Other assets	235,250	195,449	178,646	246,351	201,681
Cash and cash equivalents	324,007	569,157	136,586	237,724	423,703
Non-current assets held for sale and disposal groups	606,610	178,897	46,962	x	x
Total assets	**67,572,761**	**62,787,304**	**55,909,560**	**52,129,282**	**50,670,557**

Data transformed for the year 2013. For 2010-2012 according to approved financial statements.

Appendix: Financial data

Equity (PLN thousands)	2014	2013	2012	2011	2010
Share capital	86,352	86,352	86,352	86,352	86,352
Supplementary capital	9,678,921	8,855,999	8,780,212	7,711,818	6,296,313
Revaluation reserve	248,543	242,297	363,242	268,831	392,268
Actuarial profits and losses related to provisions for employee benefits	(6,179)	902	x	x	x
Own shares	(110)	(110)	x	x	x
Other reserve capital	66	x	x	x	x
Exchange differences from translation	(35,450)	(37,737)	(38,004)	(32,263)	(38,799)
Retained earnings	226,462	2,397,137	1,743,148	2,403,000	3,624,435
Net profit	2,967,731	3,293,496	3,255,181	2,345,424	2,439,231
Appropriations on net profit during the financial year	x	(1,727,046)	x	x	x
Non-controlling interest	1,292	16,341	79,138	86,343	126
Total equity	**13,167,628**	**13,127,631**	**14,269,269**	**12,869,505**	**12,799,926**

Data transformed for the year 2013. For 2010-2012 according to approved financial statements.

Liabilities (PLN thousands)	2014	2013	2012	2011	2010
Technical provisions	40,166,885	37,324,416	35,400,778	32,522,729	31,822,990
Unearned premium and unexpired risk reserve	5,250,103	4,540,011	4,537,167	4,521,396	4,315,675
Life insurance provisions	16,281,625	16,048,191	15,675,243	14,595,112	14,570,725
Outstanding claims provisions	7,770,351	6,586,781	5,878,445	5,429,481	5,157,080
Provision for annuities	5,997,595	5,761,332	5,660,281	5,088,626	4,862,552
Provisions for bonuses and discounts for the insured	2,291	2,893	4,227	7,192	6,177
Other technical provisions	439,364	477,987	531,617	581,155	614,692
Unit-linked technical provisions	4,425,556	3,907,221	3,113,798	2,299,767	2,296,089
Investment contracts	1,108,107	2,121,037	2,299,147	3,471,772	3,544,515
Provisions for employee benefits	120,070	123,380	107,307	255,576	257,916
Other provisions	191,206	192,906	267,456	322,063	212,559
Deferred tax liability	398,433	255,399	357,557	109,716	404,956
Derivative instruments	625,844	237,749	129,921	93,443	11,730
Debt securities issued	2,127,527	x	x	x	x
Other liabilities, including current income tax	9,415,047	9,404,786	3,078,125	2,484,478	1,615,965
Liabilities directly associated with assets qualified as held for sale	252,014	x	x	x	x
Total liabilities	**54,405,133**	**49,659,673**	**41,640,291**	**39,259,777**	**37,870,631**
Total equity and liabilities	**67,572,761**	**62,787,304**	**55,909,560**	**52,129,282**	**50,670,557**

Data transformed for the year 2013. For 2010-2012 according to approved financial statements.

Assets to cover technical provision in PZU (PLN thousands)

Item	2014		Maximum limit %
	Total	% of technical provisions	
A. Technical provisions	**17,543,431**	**100.0%**	x
B. Assets to cover technical provisions, total	**20,755,548**	**118.3%**	x
1. Debt issued or guaranteed by the State Treasury and international organizations to which the Republic of Poland belongs	7,828,696	44.6%	without limits
2. Bonds issued or guaranteed by local authorities or associations of local authorities	26,252	0.1%	without limits
3. Other fixed revenue instruments	565,582	3.2%	10%
4. Investment fund units	6,646,834	37.9%	40%
5. Mortgage loans	660,869	3.8%	25%
6. Other loans	358,689	2.0%	5%
7. Investment certificates in investment funds	1,749,456	10.0%	10%
8. Property or its part excluding property or its part for own use	76,421	0.4%	25%
9. Bank deposits	1,368,226	7.8%	without limits
10. Receivables	407,735	2.3%	25%
11. Receivables from the State Budget	1,953	0.0%	without limits
12. Tangible assets, other than property, if amortized using the prudence principle	111,520	0.6%	5%
13. Cash	1,064	0.0%	3%
14. Deferred acquisition expenses compliant with the principles of determining provision for unearned premium in section I of the attachment to the Act and in compliance with the unearned premium reserve calculation in section II	568,502	3.2%	without limits
15. Reinsurers' share in technical provisions	341,126	1.9%	25%
16. Mortgage bonds	42,623	0.2%	10%
C. Surplus (shortage) of assets covering technical provisions	**3,212,117**	**18.3%**	x

Assets to cover PZU Życie's the technical provisions, excluding assest where the investment risk is borne by the policyholder (PLN thousands)

Item	2014		Maximum limit %
	Total	% of technical provisions	
A. Technical provisions (excluding assets for life insurance, where the investment risk is borne by the policyholder)	**17,726,655**	**100.0%**	x
B. Assets to cover technical provisions, total	**21,591,014**	**121.8%**	x
1. Debt issued or guaranteed by the State Treasury and international organizations to which the Republic of Poland belongs	14,533,197	82.0%	without limits
2. Bonds issued or guaranteed by local authorities or associations of local authorities	26,252	0.1%	without limits
3. Other fixed revenue instruments	125,472	0.7%	10%
4. Investment fund units	3,767,285	21.3%	40%
5. Investment certificates in investment funds	1,635,825	9.2%	10%
6. Mortgage loans	283,396	1.6%	25%
7. Other loans	244,342	1.4%	5%
8. Bank deposits	905,782	5.1%	without limits
9. Tangible assets, other than property, if amortized using the prudence principle	59,530	0.3%	5%
10. Cash	9,934	0.1%	3%
C. Surplus (shortage) of assets covering technical provisions	**3,864,359**	**21.8%**	x

Total assets to cover PZU Życie's technical provisions, where the investment risk is borne by the policyholder (PLN thousands)

Item	2014		
	Total	% of technical provisions	Maximum limit %
A. Life insurance provision where the (investment) risk is borne by the policyholder	**4,966,674**	**100.0%**	x
B. Total assets	**4,966,674**	**100.0%**	x
1. Securities issued or guaranteed by the State Treasury and international organizations to which the Republic of Poland belongs	1,400,657	28.2%	bez ograniczeń
2. Other fixed income securities	74,243	1.5%	bez ograniczeń
3. Shares	532,202	10.7%	bez ograniczeń
4. Units or certificates in investment funds	2,889,799	58.2%	bez ograniczeń
5. Other variable income securities	150	0.0%	bez ograniczeń
6. Bank deposits	82,138	1.7%	bez ograniczeń
7. Receivables due to financial market transactions	138,880	2.8%	bez ograniczeń
8. Receivables due to financial market transactions	(151,396)	(3.0%)	bez ograniczeń

Total assets to cover PZU Życie's technical provisions (PLN thousands)

Item	2014	
	Total	% of technical provisions
A. Life insurance provision where the (investment) risk is borne by the policyholder	**22,693,329**	**100.0%**
B. Total assets	**26,557,688**	**117.0%**
C. Surplus (shortage) of assets covering technical provisions	**3,864,359**	**17.0%**

One-off events in PZU Group (PLN million)	2014	2013	2012	2011	2010
Assessment of change of the PTE's result due to OFE reform	13.5	x	x	x	x
Conversion effect	69.9	127.1	207.0	406.1	520.3
Fund consolidation commencement	x	172.7	x	x	x
Adjusting the rate of PZU Życie calculated according to IFRS to the PAS level	x	x	(390.1)	x	x
Reducing the technical rate in PZU Życie	x	x	(408.5)	x	x
Change in the rates for annuity provision	x	x	(234.2)	x	x
Release of provisions for employee benefits associated with termination of the Company Collective Bargaining Agreement	x	x	177.0	x	x
Sales of shares from the AFS portfolio	x	x	101.0	x	x
Result on contract guarantees	x	x	(93.2)	x	x
Consolidation of the Armatura Group	x	x	x	118.9	x
Provisions for OCCP* penalties	x	x	x	(67.9)	x
Green Card reinsurance settlements	x	53.2	x	(91.8)	x
Claims arising from snowfall and flood damages	x	x	x	x	(369.4)
High dividend financing costs	x	x	x	x	(58.7)

* OCCP - Office of Competition and Consumer Protection

Appendix: Financial data

	Operating efficiency ratio	2014	2013	2012	2011	2010
1.	**Claims ratio gross** (Claims gross+change in provisions/written premium gross) x 100%	69.5%	67.9%	76.2%	67.9%	75.2%
2.	**Claims ratio net of reinsurance** (net claims paid/net premium earned) × 100%	70.3%	68.7%	76.3%	68.6%	73.1%
3.	**Insurance activity costs ratio** (Costs of insurance activity/premium earned net of reinsurance) x 100%	22.4%	21.1%	21.5%	22.5%	24.0%
4.	**Acquisition expenses ratio** (Acquisition expenses/premium earned net of reinsurance) x 100%	13.1%	12.4%	12.5%	13.2%	13.4%
5.	**Administrative expense ratio** (Administrative expenses/premium earned net of reinsurance) x 100%	9.3%	8.7%	9.0%	9.3%	10.6%
6.	**Combined ratio in non-life insurance** (Claims + costs of insurance activity/premium earned net of reinsurance) x 100%	95.7%	87.8%	92.8%	95.3%	104.5%
7.	**Operating profit margin in life insurance** (Operating profit/gross written premium) x 100%	24.4%	22.3%	19.8%	28.7%	b.d.

Data from the profit or loss statement – corporate insurance (non-life insurance) (PLN thousands)	2014	2013	2012	2011	% change 2014/2013
Gross written premiums	1,831,143	1,740,157	1,839,912	1,823,885	5.2%
Net earned premiums	1,462,260	1,555,752	1,764,459	1,723,966	(6.0)%
Investment income	136,456	140,039	127,357	158,938	(2.6)%
Net insurance claims and benefits	(963,968)	(854,110)	(1,174,033)	(1,254,224)	12.9%
Acquisition expenses	(306,347)	(300,302)	(336,218)	(310,961)	2.0%
Administrative expenses	(125,050)	(115,829)	(107,687)	(104,737)	8.0%
Reinsurance commission and share in profits	16,192	8,022	(5,715)	12,200	101.8%
Other	(2,442)	(42,091)	(50,632)	(30,831)	(94.2)%
Operating profit (loss)	**217,101**	**391,481**	**217,531**	**194,351**	**(44.5)%**
Acquisition costs ratio (including reinsurance commission)*	19.8%	18.8%	19.4%	17.3%	1.0 p.p.
Administrative expenses ratio*	8.6%	7.4%	6.1%	6.1%	1.2 p.p.
Claims ratio*	65.9%	54.9%	66.5%	72.8%	11.0 p.p.
Combined ratio (COR)*	94.3%	81.1%	92.0%	96.2%	13.2 p.p.

* ratios calculated with net premium earned

Appendix: Financial data

Data from the profit or loss statement – mass-market insurance (non-life insurance) (PLN thousands)	2014	2013	2012	2011	% change 2014/2013
Gross written premiums	6,569,484	6,533,743	6,613,586	6,423,356	0.5%
Net earned premiums	6,563,005	6,552,285	6,512,677	6,182,305	0.2%
Investment income	562,821	556,759	537,003	542,502	1.1%
Net insurance claims and benefits	(4,363,412)	(4,192,968)	(4,298,978)	(4,132,339)	4.1%
Acquisition expenses	(1,238,906)	(1,141,493)	(1,136,834)	(1,156,488)	8.5%
Administrative expenses	(617,450)	(546,865)	(568,609)	(529,170)	12.9%
Reinsurance commission and share in profits	(26,506)	66,967	(15,929)	(29,617)	x
Other	(123,072)	(227,414)	(229,682)	(303,792)	(45.9)%
Operating profit (loss)	**756,480**	**1,067,271**	**799,648**	**573,401**	**(29.1)%**
Acquisition expenses ratio (including reinsurance commission)*	19.3%	16.4%	17.7%	19.2%	2.9 p.p.
Administrative expenses ratio*	9.4%	8.3%	8.7%	8.6%	1.1 p.p.
Claims ratio*	66.5%	64.0%	66.0%	66.8%	2.5 p.p.
Combined ratio (COR)*	95.2%	88.7%	92.4%	94.6%	6.5 p.p.

* ratios calculated with net premium earned

Data from the profit or loss statement – group and individually continued insurance (PLN thousands)	2014	2013	2012	2011	% change 2014/2013
Gross written premiums	6,539,082	6,415,178	6,364,007	6,179,053	1.9%
Group insurance	4,627,346	4,518,196	4,491,887	4,349,810	2.4%
Individually continued insurance	1,911,736	1,896,982	1,872,120	1,829,243	0.8%
Net earned premiums	6,537,052	6,414,069	6,362,185	6,178,109	1.9%
Investment income	713,254	735,242	955,194	657,127	(3.0)%
Net insurance claims and benefits	(4,499,360)	(4,299,510)	(4,143,878)	(4,074,495)	4.6%
Change in the balance of other technical provisions net of reinsurance	(70,328)	(270,964)	(848,700)	(109,119)	(74.0)%
Acquisition expenses	(356,627)	(322,765)	(317,716)	(277,703)	10.5%
Administrative expenses	(542,974)	(545,720)	(578,417)	(560,860)	(0.5)%
Other	(19,192)	(106,931)	(55,593)	(33,277)	(82.1)%
Operating profit (loss)	**1,761,825**	**1,603,421**	**1,373,075**	**1,779,782**	**9.9%**
Operating profit (loss) excluding one-off eventsh	**1,691,965**	**1,476,325**	**1,561,157**	**1,349,144**	**14.6%**
Acquisition expenses ratio*	5.5%	5.0%	5.0%	4.5%	0.5 p.p.
Administrative expenses ratio*	8.3%	8.5%	9.1%	9.1%	(0.2) p.p.
Operating profit margin**	25.9%	23.0%	24.5%	21.8%	2.9 p.p.

* ratios calculated with gross premium written
** ratios calculated with gross premium written, excluding one-off events

Data from the profit or loss statement – individual insurance (PLN thousands)	2014	2013	2012	2011	% change 2014/2013
Gross written premiums	1,268,637	1,329,894	1,089,970	572,718	(4.6)%
Net earned premiums	1,267,427	1,330,782	1,091,926	574,821	(4.8)%
Investment income	326,696	321,867	346,956	197,443	1.5%
Net insurance claims and benefits	(638,789)	(626,601)	(604,780)	(649,296)	1.9%
Change in the balance of other technical provisions net of reinsurance	(611,119)	(712,390)	(594,055)	133,908	(14.2)%
Acquisition expenses	(126,442)	(109,519)	(90,824)	(56,104)	15.5%
Administrative expenses	(53,381)	(53,225)	(53,383)	(49,180)	0.3%
Other	(1,641)	(11,057)	8,674	8,543	(85.2)%
Operating profit (loss)	**162,751**	**139,857**	**104,514**	**160,135**	**16.4%**
Aquisition costs ratio*	10.0%	8.2%	8.3%	9.8%	1.8 p.p.
Administrative expenses ratio*	4.2%	4.0%	4.9%	8.6%	0.2 p.p.
Operating profit margin*	12.8%	10.5%	9.6%	28.0%	2.3 p.p.

* ratios calculated with gross premium written

Data from the profit or loss statement – investment contracts (PLN thousands)	2014	2013	2012	2011	% change 2014/2013
Gross written premiums	374,467	1,097,951	1,859,439	3,054,350	(65.9)%
Group insurance	44,829	673,464	1,373,414	2,293,916	(93.3)%
Individually continued insurance	329,638	424,487	486,025	760,434	(22.3)%
Net earned premiums	374,481	1,098,557	1,858,734	3,054,350	(65.9)%
Investment income	43,550	104,495	191,383	(13,956)	(58.3)%
Net insurance claims and benefits	(1,391,718)	(1,329,748)	(3,185,031)	(3,069,661)	4.7%
Change in the balance of other technical provisions net of reinsurance	1,015,526	172,272	1,171,526	72,829	489.5%
Acquisition expenses	(16,466)	(18,318)	(31,215)	(37,500)	(10.1)%
Administrative expenses	(9,716)	(11,377)	(15,978)	(12,172)	(14.6)%
Other	(527)	(4,604)	11,651	20,868	x
Operating profit (loss)	**15,130**	**11,277**	**1,070**	**14,758**	**34.2%**
Operating profit margin*	4.0%	1.0%	0.1%	0.5%	3.0,p.p.

* ratios calculated with gross premium written

Data from the profit or loss statement – Ukraine segment (PLN thousands)	2014	2013	2012	2011	% change 2014/2013
Gross written premiums	173,562	203,640	142,228	120,892	(14.8)%
Net earned premiums	135,921	170,572	103,010	92,394	(20.3)%
Investment income	41,058	24,373	17,741	14,329	68.5%
Net insurance claims and benefits	(94,348)	(80,892)	(53,874)	(48,809)	16.6%
Acquisition expenses	(52,126)	(62,445)	(27,998)	(31,594)	(16.5)%
Administrative expenses	(28,130)	(35,904)	(28,450)	(26,854)	(21.7)%
Operating profit (loss)	**2,375**	**15,703**	**10,429**	**(534)**	x
Gross profit**	**9,321**	**15,625**	**10,570**	**870**	**(40.3)%**
Exchange rate UAH/PLN	0.2637	0.3886	0.4001	0.3716	(32.1)%
Acquisition expenses ratio*	38.4%	36.6%	27.2%	34.2%	1.8 p.p.
Administrative expenses ratio*	20.7%	21.0%	27.6%	29.1%	(0.3) p.p.

* Ratios calculated with net premium earned
**Operating profit (loss) including other revenues and operating costs

Data from the profit or loss statement – Baltic states segment (PLN thousands)	2014	2013	2012	2011	% change 2014/2013
Gross written premiums	536,498	262,289	195,721	164,299	104.5%
Net earned premiums	476,994	227,146	171,833	139,556	110.0%
Investment income	14,617	6,511	9,890	(5,701)	124.5%
Net insurance claims and benefits	(312,216)	(139,087)	(111,653)	(86,453)	124.5%
Acquisition expenses	(115,445)	(67,137)	(49,047)	(40,067)	72.0%
Administrative expenses	(80,239)	(26,490)	(18,861)	(15,049)	202.9%
Operating profit (loss)	**(16,289)**	**943**	**2,162**	**(7,714)**	x
Gross profit**	**(32,073)**	**481**	**1,279**	**(8,171)**	x
Exchange rate LTL/PLN	1.2133	1.2196	1.2087	1.1990	(0.5)%
Aquisition costs ratio*	24.2%	29.6%	28.5%	28.7%	(5.4) p.p.
Administrative expenses ratio*	16.8%	11.7%	11.0%	10.8%	0.4 p.p.

* Ratios calculated with net premium earned
**Operating profit (loss) including other revenues and operating costs

Data from the profit or loss statement – pension segment (PLN thousands)	2014	2013	2012	2011	% change 2014/2013
Revenues	270,565	218,300	199,165	231,638	23.9%
Investment income	11,639	11,580	13,273	12,563	0.5%
Acquisition expenses	(6,349)	(16,776)	(20,212)	(81,559)	(62.2)%
Administrative expenses	(72,838)	(77,923)	(92,967)	(73,091)	(6.5)%
Other	467	2,251	(810)	896	(79.3)%
Operating profit (loss)	**203,484**	**137,432**	**98,449**	**90,447**	**48.1%**

Investment result – investment segment (PLN thousands)	2014	2013	2012	2011	% change 2014/2013
Razem	**578,923**	**896,372**	**1,525,225**	**115,720**	**(35.4)%**

Appendix: Glossary

Act on Insurance Activity – Act on Insurance Activity of 22nd May 2003 (Journal of Laws of 2013, No. 950, item 1151, as amended).

Act on statutory auditors – Act on statutory auditors and their self-governing body, auditing firms and on public oversight of 7th May 2009 (Journal of Laws of 2009, No. 77, item 649, as amended).

ATI (Accounting and Tax Institute)– the task of the Institute is to improve the professional qualifications of financial, accounting and management personnel, setting the standards of financial reporting, creating changes in tax and accounting law, disseminating good practices in business, and thus better preparing Polish good practices.

blue chip – a name for a large public company enjoying the confidence of investors and a good financial standing. Blue chip companies are characterised by high capitalization and liquidity and a relatively stable exchange rate. In Poland, the companies included in the WIG20 index can be considered blue chip companies.

ceding company – a person assigning a liability to a buyer.

CEERIUS (CEE Responsible Investment Universe) – is an index of Vienna Stock Exchange for Central and Eastern European (CEE) region. Consist of companies fulfilling criteria related to social and ecological matters.

Civil Code – Act of 23rd April 1964 – Civil Code (Journal of Laws No. 16 of 1964, item 93, as amended).

CSR – Corporate Social Responsibility

Code of Commercial Companies – Act of 15th September 2000 – Code of Commercial Companies (Journal of Laws of 2000, No. 94, item 1037, as amended).

COR – Combined Ratio – a combined expense ratio calculated for the non-life insurance sector (group II). It is the ratio of all the expenses related to insurance administration and payment of claims to earned premium in a given period. The combined ratio should not exceed 100% as that would signify that the revenues from the sales of insurance are insufficient to cover claims and claims handling expenses.

earned premium – a written premium in a given period giving consideration to the settlement of revenues (premiums) over time through movement in premium provision.

embedded value – an actuarial valuation method referring to the value of shareholders' profits that will be generated by the in-force insurance contracts in an insurance company's portfolio. This method incorporates shareholder risk arising from the uncertainty concerning the timing and amount of future expected profits.

Everest – a system for managing non-life insurance which is being implemented in PZU.

free float – a public company's shareholders who are not locked-in. It is the ratio of the number of shares not held by large investors to the total number of outstanding shares. In other words, all the publicly-traded shares that are freely available.

gross written premium – a gross amount of premiums (without including the reinsurers' share) due on the insurance contracts executed in a financial year, regardless of the term of liability established by these contracts.

GPW - Warsaw Stock Exchange in Warsaw

insurance agent – an entrepreneur performing agency activities under an agreement concluded with the insurance company. The agents' activities focus on: customer acquisition, concluding insurance contracts, participating in the administration and performance of insurance contracts and organizing and supervising the agency activities of the agency.

insurance broker – an entity authorized to pursue brokerage activities. A broker performs activities in the name of or on behalf of a person or entity seeking insurance coverage.

inward reinsurance – reinsurance activity entailing a reinsurer or reinsurers accepting a portion of the insurance or groups of insurance yielded by the ceding company.

OCCP – Office of Competition and Consumer Protection. ww.uokik.gov.pl

Ordinance on Current and Periodic Information – the Ordinance of the Minister of Finance of 19th February 2009 on current and periodic information submitted by issuers of instruments and conditions for recognizing as equivalent information required by the laws of a non-member state (Journal of Laws of 2009, No. 33, item 259).

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 contract.

Payout ratio – a dividend payout ratio, i.e. the quotient of the dividend paid and the company's net result stated as a percentage.

PFSA – Polish Financial Supervision Authority. www.knf.gov.pl

profit margin in group and continued insurance in PZU Życie – an indicator calculated as the ratio of the result to gross written premium in the group and individually-continued insurance segment, net of one-off effects such as, for instance, the conversion effect, namely the conversion of long-term contracts into short-term contracts (according to Polish Accounting Standards) and changes to technical rates, namely the rate used to discount technical provisions.

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 company – 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.

risk-free rate – the rate of return on risk-free financial instruments. PZU's risk-free rate is based on yield curves for treasury instruments, and it is also the basis for setting transfer prices in settlements between operating segments.

Solvency I – the solvency margin for insurance companies. The system was introduced in the European Union in 1970s.

Solvency II – capital requirements for European insurance companies based on the risk undertaken. The requirements become effective on 1st January 2016.

solvency margin – the amount of an insurance undertaking's shareholder funds no lower than the minimum guarantee fund which is required to ensure that the undertaking remains liquid.

solvency margin coverage ratio – a statutory ratio specifying the level of capital security for the business conducted by an insurer; by law, this ratio should be above 100%.

STOXX® Europe 600 Insurance – the index representing 39 companies engaged in insurance activities of the selected 600 companies from 18 European countries.

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.

S&P rating – a credit risk assessment performed by Standard & Poor's. An A rating means that issuers of debt instruments have a high capability of servicing their obligations giving consideration to the emergence of factors diminishing that capability.

technical provisions – provisions which should ensure full coverage of all current and future liabilities that may arise from insurance contracts. Technical provisions include in particular: provision for unearned premiums, provision for unpaid claims and provision for unexpired risks, provision where the investment risk is born by the policyholders, provision for bonuses and rebates for the policyholders.

technical rate – the interest rate used to discount technical provisions in life insurance and provisions for capitalized annuities in third party liability insurance.

According to the Finance Minister's Ordinance of 28th December 2009 on the special accounting standards for insurance and reinsurance undertakings, the technical rates used by an insurance undertaking may not be higher than 80% of the weighted-average rate of return on investments covering technical provisions during the most recent three financial years.

PFSA calculates and announces the maximum technical rate by 31st January of every year.

Thomson Reuters Extel – a survey performed for 15 years by Thomson Reuters, is recognized as one of the key industry rankings and the source of knowledge of good practices on the capital market, including communication with investors.

Appendix: Glossary

High standards and quality of the survey are confirmed by external auditor.

TSR - Total shareholder return (market price of shares at end of period - market price of shares at the beginning of the period + dividend paid in the period) / market price of shares at beginning of period.

unit-fund – fund related to life insurance where the investment risk is borne by the policyholders

U Recommendation – a recommendation of PFSA concerning good practices in scope of bancassurance.

underwriting – the process of selecting and groupifying risks declared for insurance to estimate and accept, according to suitable terms and conditions, or reject an insurance risk.

WIBOR6M – a reference interest rate on a six-month-long loan on the Polish interbank market.

WIG20TR – the WIG20 index including the dividends paid by companies.