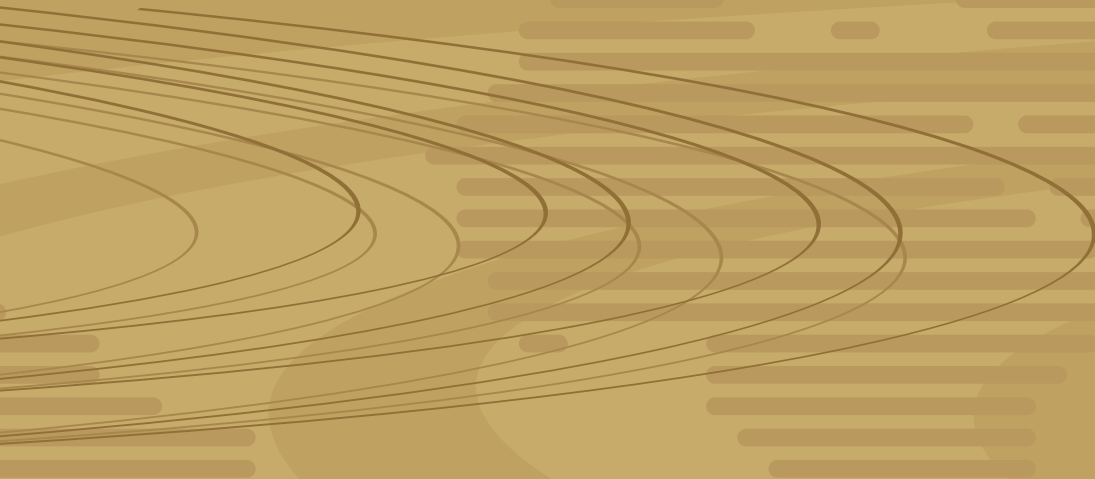




CUPRUM

Mutual Insurance Company



General Information

"CUPRUM" **Mutual Insurance Society** conducts **mutual insurance activities** with regard to nonlife insurance, providing business entities with insurance covers such as: accident insurance, health insurance, property insurance in national and international transportation, insurance against fire and natural forces, insurance against other material damage, general civil liability insurance.

CUPRUM Mutual Insurance Society is the only Polish insurance company using the principle of systematic refund of premiums based on fiscal year settlement of underwriting, offering top quality insurance services with optimisation of the risk to be insured and minimization of costs connected with the insurance cover against said risk.

The mutual insurance activities of CUPRUM rely on two principal qualities:

- **The insured becomes a member of the society** (by signing a mutual insurance contract, an individual or business entity enters into two different legal relationships as far as civil law is concerned: the legal relationship of membership and insurance contracted with the society),
- **The surplus from the underwriting account returns to policyholders as premium refunds or lowers the cost of insurance** for future periods (mutual insurance contracts do not assign the entire risk to the society, which constitutes the basis of partial **refunds of premiums** or premium surcharge). The final cost of the assigned insurance risk depends on the level of loss burden within the society, the costs of running the society and the financial results of reinsurance cessions.

Mutual insurance covers are provided for the benefit of the society's members and not for profit as is the case with joint-stock insurance companies. Mutual insurance covers combine insurance – which allows the transfer of risk from one individual to a group – with self insurance – which allows for partial risk retention by the insured member of a mutual insurance society.

The variable premium system characteristic of mutual insurance and the related premium returns and surcharges constitute the reward for risk and its cost, as much as the practical realization of the mutuality principal.

Origins

The establishment of CUPRUM Mutual Insurance Society resulted from a property insurance analysis at KGHM Polska Miedź S.A. for the period 1989-1993. This analysis revealed the following facts:

- Damages paid during the above-mentioned period covered less than 2% of the amount of insurance premiums paid for asset insurance provided by commercial insurance companies. Thus the net insurance cost (the paid premium, less the received damages) equalled 98% of the premiums paid for insurance,
- The company recorded the accumulation of individual insurance risks up to the amount of about 100 mln PLN, which made it necessary to insure property against chance events,
- The annual cost of property insurance in 1994 amounted to 5 mln PLN. This cost of property insurance was calculated in the course of a tender procedure with the participation of the six biggest commercial insurance companies, whereby the lowest quoted costs for each risk was used.

Mission Statement and Aims

CUPRUM Mutual Insurance Society offers its Members **insurance services of the highest quality** with **optimisation of the risk** to be insured and with **minimization of costs** connected with the insurance cover against the said risk by means of:

1. Providing protection for risks to be covered by a Member of the Society on terms and conditions and in accordance with prices lower than those of commercial insurance companies,
2. Ensuring the security of the insurance activities conducted based on the solvency of the Society thanks to the risk transfer of its members,
3. Assuring the increase of the Society's value, which leads to a systematic increase in the value of shares held by its Members.



The Past

CUPRUM Mutual Insurance Society began carrying out insurance activities in 1994 in Lublin. It was the second Insurance Society based on mutual insurance in Poland. CUPRUM Mutual Insurance Society was founded by KGHM Polska Miedź SA Group and the first Members included the companies of the Group, local businesses and companies cooperating with the Group.

The consistent development of the Society and its stabilization on the Polish insurance market

- extension of insurance activities to providing personal insurance,
- establishment of the second Cooperative Insurance Association organized on the basis of the State Forest NFH organization units,
- fivefold increase in gross premiums,
- increase in financial assets not including investments from less than 1 mln to over 28 mln PLN,
- reaching the investment level of 46.8 mln PLN,
- organising reinsurance and coinsurance programmes for the risks to be covered,
- professionalisation of the Society's staff with regard to insurance activities.

From 2004 to 2008, the operational rules of CUPRUM Mutual Insurance Society based on mutuality made provisions for premium returns for the Society's members, which resulted from settling the underwriting account for each subsequent fiscal year. Throughout its insurance activity, the Society ensured that the insured received their premium return in the amount of the positive underwriting result. Given the total amount of gross premiums for the years 2004-2008, which equalled 232 mln PLN, the amount of premiums returned to the insured on the basis of mutuality principles equalled almost 97 mln PLN. This meant that the members of the Society effectively lowered their insurance costs by over 40% in comparison to the market prices of property insurance.

Throughout that period, the Society recorded the sum of balance surplus at the level of 27,482,000 PLN, which was mainly transferred to increase the initial capital and reserve capital as well as constituting the basis for the financing of the Society's target funds.

The Present

Currently, the Society operates on the basis of a one-branch structure, carrying out activities related to internal acquisition and damage or loss reporting. A modern computer system combined with financial and accounting software is fully adjusted to the needs of the Society – inclusive of the administration of insurance policies and of loss adjustment.



The particular characteristics of the Society's organizational structure allows for the minimisation of costs connected with conducting insurance activities (operating with the best ratio of operational costs to insurance turnover in the Polish nonlife insurance sector) and, consequently, contributes to the lowering of insurance costs incurred by the Society's members.

Total acquisition costs and administration costs of CUPRUM Mutual Insurance Society, in comparison to the gross premiums written, are two times lower than the average of the entire sector and almost four times lower than the average of other mutual insurance companies operating on the Polish insurance market.

The Future

Given its very good financial standing and infrastructure adjusted to the functioning of autonomous insurance groups, CUPRUM Mutual Insurance Society is bound to see a dynamic development of both products and business entities by introducing new relations of mutuality, which include:

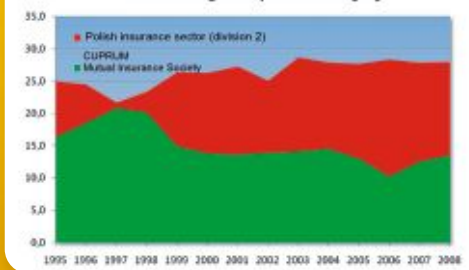
- **heavy industry** (mines, ironworks, mills, power plants, large business organizations),
- **banking and leasing sector** (banks and leasing funds) ,
- **self-government and administrative sector** (multi-unit public institutions, territorial self-government units),
- **professional association** (within the framework of the obligatory civil liability insurance).

To expand the range of insurance products offered targeting the current and future members of CUPRUM Mutual Insurance Society, the broadening of the scope of conducted insurance activities includes direct and indirect **insurance warranties** and **insurance** against various **financial risks**, including **profit loss insurance**.

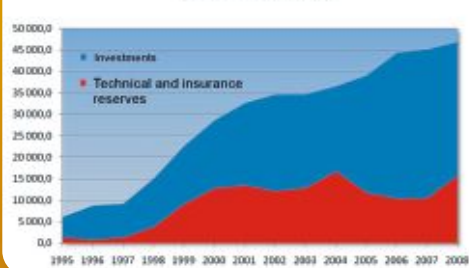
Continuous development of the Society as forecast for the upcoming years will result in the preparation of a **comprehensive insurance offer** for present and future members of CUPRUM Mutual Insurance Society.

The main aim of the predicted development of the Society – using the scale effect – is to radically lower the costs of insurance activities in comparison to insurance turnover. Consequently, apart from lowering the costs of insurance for the Society's members, achieving the aforementioned aim will result in even higher competitiveness compared to the terms and conditions of insurance as provided by commercial insurance companies.

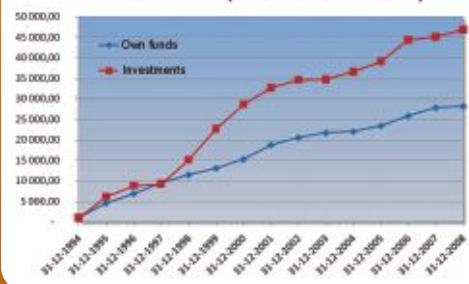
Share of acquisition and administrative costs in written gross premiums [%]



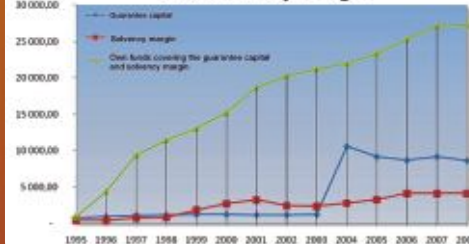
Investments and technical and insurance reserves (in thousands PLN)



Own funds (in thousands PLN)



Own funds to cover the guarantee capital and solvency margin



Our Values



CREDIBILITY

CUPRUM Mutual Insurance Company complies with all security standards specified by laws for insurance companies, including:

- The company's own funds to cover solvency margin amounted to 27.4 mln PLN and exceeded by seven times the solvency margin set as of 31st January 2008 at the amount of 4.1 mln PLN,
- The amount of investment as of the end of 2008 was 46.8 mln PLN and exceeded three times the amount of technical and insurance reserves covered by deductible which was 15.6 mln PLN.

The above security indexes of CUPRUM Mutual Insurance Company business activity are much better than the average performance of the nonlife insurance sector in Poland.

The Company's financial standing is very good and its business activity is secured by effective reinsurance programmes and reinsurance cooperation with other insurance companies.

PROFESSIONALISM

CUPRUM's employees have been providing professional services for the last 15 years. They work as a team of professionals and their education and broad knowledge of many domains allow them to create complex insurance products that meet the requirements of present and future members of the Society.

EXPERIENCE

The specific characteristics of the local market and the requirements of our clients for unique insurance products for heavy industry make CUPRUM Mutual Insurance Society one of the most experienced companies providing services to this sector. Since we have been familiar with the heavy industry sector for many years we can prepare a proper assessment of the risks related to this sector's business activities. Our clients are companies whose business activities require individual insurance. Our experts and specialists prepare individual programmes which guarantee effective insurance protection.

INSURANCE FOR INDUSTRIES

One of the advantages of mutual insurance is adjusting to the particular needs of the insured. Within mutual insurance programmes for entities which insure themselves against risk specific to their business activity it is possible to implement individual and practical insurance solutions to secure types of risk specific for particular industries.

Advantages

One of the biggest advantages for clients insured in a mutual insurance society is a **reduction of insurance cost** which is due to:

- Reduction of profit included in the prices of commercial insurance companies,
- Reduction of remuneration for agents and insurance brokers (significant reduction of acquisition costs),
- Optimizing and adjusting administrative costs of running the Society,
- Minimization of claims settlement,
- Elimination of cases of obtaining compensation under false pretences which in case of commercial companies increase loss ratio,
- Lack of dumping practices for selected clients the cost of which, in the case of commercial insurance companies, are incurred by all insured clients.

To present the benefits which result from insuring a company in the Society the case of KGHM Polska Miedź SA can be analyzed. The costs of insuring assets of this company were significantly lower in the years 1995-2008 than in 1994 which was the last year in which the assets of KGHM Polska Miedź SA and its subsidiaries were insured in a commercial company selected through tender procedures. Since 1994 the value of assets of KGHM Polska Miedź Group have increased five times which has created a proportional increase in the cost of risks to be covered.

In the case of The State Forests NFH the actual insurance cost was reduced twofold.



Forms of Cooperation



Members of the Society form insurance groups with which operational insurance activity is settled individually. This means that particular insurance groups do not participate in covering losses of other insurance groups which function separately. Moreover, it is possible to choose the settlement method of operational insurance activity that is optimal for a particular group.

Depending on the form of cooperation between the Society and insurance groups the underwriting account can be settled as specified below:

1. On the basis of the underwriting result of particular insurance classes for groups, premiums for a given fiscal year may be refunded in the amount of the book surplus of the underwriting account for that fiscal year. When using this principle a premium surcharge is required in the event of negative loss balance in the underwriting accounts of a particular insurance group
2. By activating a positive technical result from the settlement of insurance classes included in technical and insurance reserves which is to cover the refund of premiums and negative results in following years,
3. By reducing the Society's benefits due to mutual insurance for its members. However, this may concern only the insured who are excluded from covering loss by means of premium surcharges.

Alternative Methods of Insurance Risk Transfer

Mutual insurance has become the basis for alternative methods of risk transfer in the form of **captive insurance**, in which a company establishes its own insurance company subsidiary (**captive**) to finance its retained losses in a formal structure.

This form of insurance is dominant in the case of large business organizations (concerns, holdings and groups of companies).

Captive insurance contributes to the rationalization of the process of financing risks of dominant companies by the systematic accumulation of the premiums of these entities. This makes it possible to increase the insurance capacity of the captive, reducing reinsurance cessions and cutting the cost of insuring assets for the founders.

In Poland there are a few alternative risk transfer methods which may be used by groups of members established within mutual insurance companies.

Accumulation of the guarantee capital in the form of a reserve for the premium refund for a selected insurance group enables discounting benefits and using alternative methods of risk transfer.



Membership



CUPRUM Mutual Insurance Society operates on the basis of a personal and capital model in which a member is both a co-owner of the Society and the party insured, whereby:

- Society members have a share in the initial capital and at the same time are the insured,
- Society members do not have share in the initial capital and are protected by insurance covers offered by the Society.

To become a member of the Society an applicant has to submit the Society's member application form and conclude an insurance agreement with the Society. The Management Board of CUPRUM decides about membership of applicants who do not have share in the initial capital and at the General Meeting members who have share in the initial capital are enrolled on the basis of the Management Board's application approved by the Supervisory Board. The minimal amount of declared share in the initial capital is 10,000 PLN.

Both members of the Society who own shares in the initial capital and members who do not have share in the initial capital benefit from the settlement of the underwriting result (premium refund, reserves for premium refund).

CUPRUM Mutual Insurance Society's offer for companies, local governments and corporations includes:

1. Establishing and organizing independent groups of members functioning within the Society,
2. Providing insurance protection for property and personal risks to the Society's members,
3. Efficient claims settlement as well as compensation and benefit payments,
4. Including high-value risks in the reinsurance programme of the Society,
5. Settlement of the operational activity of the Society which enables estimating insurance costs of the Society on the basis of actual loss ratio of the Society's members,
6. Creating insurance products that meet the requirements of the Society's members and settlement of the Society's activities proposed by the Society's members,

Mutual insurance of the Society's assets offered by CUPRUM Mutual Insurance Society contributes to the reduction of the insurance costs by premium refund or reduced insurance prices in subsequent insurance periods.



**Mutual
Insurance Company
"CUPRUM"**

**ul. M.Skłodowskiej-Curie 82
59-301 Lubin, Poland**

**phone + 48 76-727 74 00
fax + 48 76-727 74 10**

**www.tuw-cuprum.pl
e-mail: sekretariat@tuw-cuprum.pl**