



The Capital Group of Powszechny
Zakład Ubezpieczeń Spółka Akcyjna

**Opinion and Report
of the Independent Auditor
Financial Year ended
31 December 2016**

This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

OPINION OF THE INDEPENDENT AUDITOR

To the General Meeting and Supervisory Board of Powszechny Zakład Ubezpieczeń Spółka Akcyjna

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna ("the Group") whose parent company is Powszechny Zakład Ubezpieczeń Spółka Akcyjna, with its registered office in Warsaw, al. Jana Pawła II 24 ("the Parent Company"), which comprise the consolidated statement of profit or loss and the consolidated statement of comprehensive income for the year ended 31 December 2016, the consolidated statement of financial position as at 31 December 2016, the statement of changes in consolidated equity and the consolidated statement of cash flows for the year ended 31 December 2016 and additional information and notes comprising a summary of significant accounting policies and other explanatory information, hereinafter called 'consolidated financial statements'.

Management's and Supervisory Board's Responsibility for the consolidated financial statements

Management of the Parent Company is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations. Management of the Parent Company is also responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act dated 29 September 1994 (Official Journal from 2016, item 1047 with amendments) ("the Accounting Act"), Management of the Parent Company and members of the Supervisory Board are required to ensure that the consolidated financial statements are in compliance with the requirements set forth in the Accounting Act.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with section 7 of the Accounting Act and International Standards on Auditing as adopted by the resolution dated 10 February 2015 of the National Council of Certified Auditors as National Standards on Assurance. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain

reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the Parent Company, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the accompanying consolidated financial statements of the Group:

- give a true and fair view of the financial position of the Group as at 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union; and
- comply, in all material respects, with applicable regulations that apply to the consolidated financial statements of the Group.

Specific Comments on Other Legal and Regulatory Requirements

Report on the Group's Activities

Management of the Parent Company is responsible for the report on the Group's activities.

Our opinion on the consolidated financial statements does not cover the report on the Group's activities.

As required by the Accounting Act, and the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent of information required by the laws of a non-member state (Official Journal from 2014, item 133 with amendments) (the "Decree") we report that the accompanying report on the Group's activities includes the information required by Art. 49 of the Accounting Act and the Decree and the information is consistent, in all material respects, with the consolidated financial statements. Furthermore, based on our knowledge about the Group and its environment obtained in the audit, we have not identified material misstatements in the report on the Group's activities.

As required by the Accounting Act and the Decree we report that the statement of corporate governance, which is a separate part of the report on the Group's activities, includes the information required by paragraph 91 subparagraph 5 point 4 letter a, b, g, j and k of the Decree. Furthermore we report that the information identified in paragraph 91 subparagraph 5 point 4 letter c, d, e, f, h and i of the Decree, included in the statement of corporate governance, in all material respects:

- has been prepared in accordance with the applicable regulations; and
- is consistent with the information contained in the consolidated financial statements.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546
ul. Inflancka 4A
00-189 Warsaw

Signed on the Polish original

.....
Marcin Dymek
Key Certified Auditor
Registration No. 9899
Limited Liability Partner with power of attorney

Signed on the Polish original

.....
Stacy Ligas
Member of the Management Board of KPMG
Audyt Sp. z o.o., entity which is the General
Partner of KPMG Audyt Spółka z ograniczoną
odpowiedzialnością Sp.k.

Warsaw, 14 March 2017



The Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna

**Report on the audit
of the consolidated financial statements**

**Financial Year ended
31 December 2016**



The Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group

The report on the audit of the consolidated financial statements
for the financial year ended 31 December 2016

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1. General

1.1. Identification of the Group

1.1.1. Name of the Group

The Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna ('the Group').

1.1.2. Name and registered office of the parent company of the Group

Powszechny Zakład Ubezpieczeń Spółka Akcyjna with registered office in Warsaw, al. Jana Pawła II 24 ('the Parent Company')

1.1.3. Registration of the Parent Company in the register of entrepreneurs of the National Court Register

Registration court:	District Court for the Capital City of Warsaw in Warsaw, XII Commercial Department of the National Court Register
Date:	30 April 2001
Registration number:	KRS 0000009831
Share capital as at the end of reporting period:	PLN 86,352 thousand

1.1.4. Management of the Parent Company

The Management Board is responsible for management of the Parent Company.

As at 31 December 2016, the Management Board of the Parent Company was comprised of the following members:

- Michał Krupiński – President of the Management Board,
- Roger Hodgkiss – Board Member,
- Andrzej Jaworski – Board Member,
- Tomasz Kulik – Board Member,
- Maciej Rapkiewicz – Board Member.

In the period from 1 January 2016 until the report preparation date, the following changes took place in the composition of the Management Board of the Company:

- on 19 January 2016 Rafał Grodzicki and Tomasz Tarkowski filed a resignation, with the effect from 19 January 2016, whereas the Supervisory Board of the Parent Company appointed to the Management Board Michał Krupiński, Roger Hodgkiss, Beata Kozłowska-Chyła, Robert Pietryszyn, with the effect from 19 January 2016, and Paweł Surówka, with the effect from 20 January 2016;
- on 18 March 2016 Przemysław Dąbrowski filed a resignation, with the effect from 18 March 2016;
- on 19 March 2016 Paweł Surówka filed a resignation, with the effect from 19 March 2016, whereas the Supervisory Board of the Parent Company appointed to the Management Board Sebastian Klimek and Maciej Rapkiewicz, with the effect from 22 March 2016;
- on 13 May 2016 Robert Pietryszyn filed a resignation, with the effect from 13 May 2016, whereas the Supervisory Board of the Parent Company appointed to the Management Board Andrzej Jaworski, with the effect from 14 May 2016;
- on 23 June 2016 Dariusz Krzewina filed a resignation, with the effect from 23 June 2016;



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- on 30 August 2016 Sebastian Klimek filed a resignation, with the effect from 30 August 2016;
- on 14 Beata Kozłowska-Chyła filed a resignation, with the effect from 17 October 2016, whereas the Supervisory Board of the Parent Company appointed to the Management Board Tomasz Kulik, with the effect from 14 October 2016.

1.2. Key Certified Auditor and Audit Firm Information

1.2.1. Key Certified Auditor information

Name and surname: Marcin Dymek
Registration number: 9899

1.2.2. Audit Firm information

Name: KPMG Audył Spółka z ograniczoną odpowiedzialnością sp.k. ('KPMG Audył')
Address of registered office: ul. Inflancka 4A, 00-189 Warsaw
Registration number: KRS 0000339379
Registration court: District Court for the Capital City of Warsaw in Warsaw, XII Commercial Department of the National Court Register
NIP number: 527-26-15-362

KPMG Audył is entered into the register of audit firms, maintained by the National Council of Certified Auditors, under number 3546.

1.3. Prior period consolidated financial statements

The consolidated financial statements for the financial year ended 31 December 2015 were audited by KPMG Audył and received an unmodified opinion.

The consolidated financial statements were approved at the General Meeting of the Parent Company on 30 June 2016.

The consolidated financial statements were submitted to the Registration Court on 12 July 2016.

1.4. Audit scope and responsibilities

The consolidated financial statements were audited in accordance with the contract dated 26 June 2014, concluded on the basis of the resolution of the Supervisory Board dated 18 February 2014 on the appointment of the auditor.

We conducted our audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2016, item 1047 with amendments) ("the Accounting Act") and International Standards on Auditing as adopted by the resolution dated 10 February 2015 of the National Council of Certified Auditors as National Standards on Assurance. We audited the consolidated financial statements at the Group entities during the period from October to November 2016 (interim audit) and from January to March 2017 (final audit).

Management of the Parent Company is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS') and with other applicable regulations. Management of the Parent Company is also responsible for the report on the Group's activities.



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The report on the audit of the consolidated financial statements

for the financial year ended 31 December 2016

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Our responsibility is to express an opinion and to prepare a report on the audit of the financial statements.

The Management Board of the Parent Company submitted a statement, dated as at the same date as this report, as to the preparation of the consolidated financial statements that give a true and fair view, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the consolidated financial statements.

All required statements, explanations and information were provided to us by Management of the Group and all our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of the Audit Firm.

The Key Certified Auditor and the Audit Firm are independent of the entities within the Group in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants' as adopted by the resolution of National Council of Certified Auditors dated 13 June 2011 ("IESBA Code") and the impartiality and independence requirements as described in Art. 56 points 3 and 4 of the Act on Certified Auditors and their Self-Governance, Audit Firms authorized to Audit Financial Statements and Public Oversight dated 7 May 2009 (Official Journal from 2016, item 1000) and have fulfilled other ethical responsibilities in accordance with these regulations and the IESBA Code.



The Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group

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for the financial year ended 31 December 2016

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2. Financial analysis of the Group

2.1. Summary analysis of the consolidated financial statements

2.1.1. Consolidated statement of profit or loss

	1.01.2016 - 31.12.2016	% gross premium written	1.01.2015 - 31.12.2015	% gross premium written
	PLN million		PLN million	
Gross written premiums	20,219	100.0%	18,359	100.0%
Reinsurer's share in the written premiums	(431)	2.1%	(367)	2.0%
Net written premium	19,788	97.9%	17,992	98.0%
Change in net unearned premium reserve	(1,163)	5.8%	(607)	3.3%
Net earned premiums	18,625	92.1%	17,385	94.7%
Revenue from commissions and fees	808	4.0%	243	1.3%
Net investment income	4,165	20.6%	1,571	8.6%
Net result on realization and impairment losses on investments	(935)	4.6%	(223)	1.2%
Net change in the fair value of assets and liabilities measured at fair value	357	1.8%	391	2.1%
Other operating income	1,388	6.9%	803	4.4%
Claims, benefits and change in technical provisions	(12,888)	63.7%	(12,283)	66.9%
Reinsurer's share in claims, benefits and change in technical provisions	156	0.8%	426	2.3%
Net claims and benefits	(12,732)	63.0%	(11,857)	64.6%
Costs of commissions and fees	(285)	1.4%	0	0.0%
Borrowing costs	(773)	3.8%	(117)	0.6%
Acquisition costs	(2,613)	12.9%	(2,376)	12.9%
Administrative expenses	(2,843)	14.1%	(1,658)	9.0%
Other operating expenses	(2,128)	10.5%	(1,222)	6.7%
Operating profit	3,034	15.0%	2,940	16.0%
Share in net profit (loss) of entities measured using the equity method	(3)	0.0%	4	0.0%
Gross profit	3,031	15.0%	2,944	16.0%
Income tax	(614)	3.0%	(601)	3.3%
Net profit, including:	2,417	12.0%	2,343	12.8%
- profit attributable to equity holders of the parent entity	1,947	9.6%	2,343	12.8%
- profit (loss) attributable to non-controlling interest	470	2.3%	(0)	0.0%



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2.1.2. Consolidated statement of other comprehensive income

	1.01.2016 - 31.12.2016	% net profit	1.01.2015 - 31.12.2015	% net profit
	PLN million		PLN million	
Net profit	2,417	100.0%	2,343	100.0%
Other comprehensive income	(125)	5.2%	5	0.2%
Amounts subject to subsequent transfer to statement of profit or loss:	(135)	5.6%	(4)	0.2%
Measurement of available-for-sale financial instruments	(144)	6.0%	2	0.1%
Exchange differences from translation	40	1.7%	(7)	0.3%
Other comprehensive income of entities measured using the equity method	0	0.0%	1	0.0%
Net cash flows hedge	(31)	1.3%	0	0.0%
Amounts not subject to subsequent transfer to statement of profit or loss:	10	0.4%	9	0.4%
Property reclassified from property, plant and equipment to investment property	3	0.1%	7	0.3%
Actuarial gains and losses from remeasurements of defined benefit liabilities	7	0.3%	2	0.1%
Total net comprehensive income	2,292	94.8%	2,348	100.2%
Comprehensive income attributable to equity holders of the parent entity	1,884	77.9%	2,348	100.2%
Comprehensive income attributable to non-controlling interest	408	16.9%	(0)	0.0%



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2.1.3. Consolidated statement of financial position

ASSETS	31 Dec 2016	%	31 Dec 2015	%
	PLN million	assets	PLN million	assets
Goodwill	1,583	1.3%	1,532	1.5%
Intangible assets	1,463	1.2%	1,393	1.3%
Other assets	871	0.7%	813	0.8%
Deferred acquisition costs	1,407	1.1%	1,154	1.1%
Reinsurer's share in technical provisions	990	0.8%	1,097	1.0%
Property, plant and equipment	1,467	1.2%	1,300	1.2%
Investment property	1,738	1.4%	1,172	1.1%
Companies measured using the equity method	37	0.0%	54	0.1%
Financial assets	105,300	84.0%	89,229	84.7%
Financial instruments held to maturity	17,346	13.8%	17,370	16.5%
Financial instruments available for sale	11,635	9.3%	7,745	7.3%
Financial instruments measured at fair value through profit or loss	21,882	17.5%	20,648	19.6%
Derivatives	72	0.1%	140	0.1%
Loans and receivables	54,365	43.4%	43,326	41.1%
Deferred tax assets	624	0.5%	369	0.4%
Receivables	5,703	4.5%	3,338	3.2%
Cash and cash equivalents	2,973	2.4%	2,440	2.3%
Assets held for sale	1,189	0.9%	1,506	1.4%
Total assets	125,345	100.0%	105,397	100.0%

EQUITY AND LIABILITIES	31 Dec 2016	%	31 Dec 2015	%
	PLN million	assets	PLN million	assets
Equity				
Equity attributable to owners of the parent entity	13,010	10.4%	12,924	12.3%
Share capital	86	0.1%	86	0.1%
Other capitals	10,869	8.7%	10,142	9.6%
Unappropriated profit	2,055	1.6%	2,696	2.6%
Retained earnings	108	0.1%	353	0.3%
Net profit	1,947	1.6%	2,343	2.2%
Non-controlling interest	4,117	3.3%	2,194	2.1%
Total equity	17,127	13.7%	15,118	14.3%
Liabilities				
Technical provisions	42,194	33.7%	41,280	39.2%
Provisions for employee benefits	128	0.1%	117	0.1%
Other provisions	367	0.3%	108	0.1%
Deferred tax liabilities	469	0.4%	509	0.5%
Financial liabilities	60,030	47.9%	44,695	42.4%
Other liabilities	4,997	4.0%	3,570	3.4%
Liabilities directly associated with assets held for sale	33	0.0%	0	0.0%
Total liabilities	108,218	86.3%	90,279	85.7%
Total equity and liabilities	125,345	100.0%	105,397	100.0%



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2.2. Selected financial ratios

	2016	2015	2014
Sales profitability ratio = Net profit (loss) / Gross written premium	12.0%	12.8%	17.6%
Profitability ratio of investment activity = Investment income ¹ / Average investments' value	3.5%	2.4%	4.9%
Gross loss ratio = (Gross claims and benefits paid + change in gross provision for outstanding claims) / Gross earned premium	67.8%	69.2%	72.5%
Net loss ratio = (Net claims and benefits paid + change in net provision for outstanding claims) / Net earned premium	68.4%	68.2%	70.3%
Premium retention ratio = Net written premium / Gross written premium	97.9%	98.0%	97.9%
Claims retention ratio = Net claims and benefits paid / Gross claims and benefits paid	98.8%	96.5%	98.4%
Acquisition cost ratio = Acquisition costs ² / Net earned premium	14.2%	15.4%	13.4%
Administration cost ratio = Administration costs / Net earned premium	14.1%	9.0%	9.0%
Net operating expenses ratio = General costs ³ / Net earned premium	29.3%	23.2%	22.4%
Loans/Liabilities ratio = Loan receivables from clients / Liabilities due to deposits	93.8%	96.8%	n/a

¹ Investment income is calculated as a difference between investments income and costs and include realized as well as accrued investment result. Investment income includes unrealized gains and losses recognized in revaluation reserve in equity (before tax)

² Acquisition costs include accrued amount without the change in deferred acquisition costs.

³ General insurance costs include acquisition costs (with change in deferred acquisition costs) and administration costs.



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3. Detailed report

3.1. Accounting principles

The Parent Company maintains current documentation describing the accounting principles applied by the Group and adopted by the Management Board of the Parent Company.

The accounting principles are described in Note 5 of the additional information and notes to the consolidated financial statements to the extent required by IFRS.

In view of the fact that not all entities being part of the Group apply common accounting principles consistent with the accounting principles applied by the Parent Company, appropriate adjustments to the financial statements of those entities were made to ensure consistency with the accounting principles applied by the Parent Company.

The financial statements of the entities included in the consolidated financial statements were prepared at the end of the same reporting period as the financial statements of the Parent Company.

3.2. Basis of preparation of the consolidated financial statements

The consolidated financial statements of the Group were prepared in accordance with IFRS and with other applicable regulations.

The consolidated financial statements were prepared on the basis of the consolidation documentation.

3.3. Method of consolidation

The method of consolidation is described in Notes 5.2 and 5.4 of additional information and notes to the consolidated financial statements.

3.4. Goodwill arising on consolidation

The method of calculating goodwill arising on consolidation is described in Notes 2.4, 5.5 and 27 of additional information and notes to the consolidated financial statements.

3.5. Consolidation of equity and calculation of non-controlling interest

The share capital of the Group is equal to the share capital of the Parent Company.

Other equity items of the Group are determined by adding the equity balances of subsidiaries included in the consolidated financial statements in the proportion reflecting the Parent Company's share in the subsidiaries' equity as at the end of the reporting period to the corresponding positions of the equity of the Parent Company.

Only equity of subsidiaries arising after the Parent Company obtained control of the subsidiary is included in the equity of the Group.

Non-controlling interests in subsidiaries included in the consolidated financial statements were determined based on the non-controlling interests' share in the subsidiaries' equity as at the end of the reporting period.



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3.6. Consolidation eliminations

Intercompany balances within the Group were eliminated on consolidation.

Sales between entities and other intercompany operating revenues and expenses and financial revenues and expenses were eliminated on consolidation.

The consolidation eliminations were based on the accounting records of subsidiaries consolidated on the full consolidation basis, which have been subject to on audit or other revision procedures, and agreed with information received from the subsidiaries.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
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00-189 Warsaw

Signed on the Polish original

.....
Marcin Dymek
Key Certified Auditor
Registration No. 9899
Limited Liability Partner with power of attorney

Signed on the Polish original

.....
Stacy Ligas
Member of the Management Board of KPMG
Audyt Sp. z o.o., entity which is the General
Partner of KPMG Audyt Spółka z ograniczoną
odpowiedzialnością Sp.k

Warsaw, 14 March 2017