Management's Report of PZU for the year 2015

01

1 Brief description of PZU

Powszechny Zakład Ubezpieczeń Spółka Akcyjna ("PZU", "Issuer", "Company") is one of the largest insurance institutions of non-life insurance in Poland with market share of 31.2%[1] and one of the largest insurance institutions of in Central and Eastern Europe.

PZU stands on the forefront of PZU Group (PZU Group, the Group).

The operations of PZU are focused on the 3 business segments: Insurance, Investments, and Healthcare where the Company operates via its subsidiaries.

PZU values, goals, and aspirations

"We ensure peace of mind looking into the future"

PZU aspiration is to gain advantage over its existing and potential competitors by constantly strengthening its market position as a result of the focus on the client satisfaction and loyalty.

PZU values

Three underlying values of PZU are the following: Transparency, Innovations, and Efficiency. They serve as basis of the PZU's relations with clients, shareholders, employees, and all interested parties.

Transparency – No fine print

PZU offers to its clients products with no fine print – there are no hidden charges or understated limitations and exclusions of liability. The terms and conditions of products offered by PZU are provided in a clear and understandable language. This helps to avoid any misunderstandings and make sure that the client knows what to expect in the process of fulfilling obligations by PZU.

Innovations

In the light of dynamically changing environment, growing expectations of the clients and stronger competition, PZU is constantly striving for improving its offer and internal processes. The Strategy of Innovation was implemented in PZU Group to ensure that our long-term goals for 2015 and known and understood by everyone in our organization.

Our Strategy of Innovation focuses on promoting cultural patterns that facilitate innovation, including openness to change, thinking outside the box, and creating a space for experiments, with a strong accent on a "try and test" method that allows for new operating methods, and – as a result – new proposals for our clients. We follow the Strategy i.a. by recruiting right personnel who do their best to challenge existing patterns of behavior and old processes, while working on achieving long-term business goals. At the same time, a process of evaluating innovative processes was put in place. The assessment is carried out by means of introducing measures, such as the number of innovations in total volume of presented ideas, or the number of innovations realized versus the total number of innovations, the value of savings and additional income gained as the result of implementing innovative solutions.

[1] PZU's share calculated taking into account PZU's inward reinsurance towards Link4

VALUE FOR CLIENTS

OUR TARGETS

- orientation toward client
- profitability
- growth
- Committed Employees

DEVELOPMENT STRATEGY

INSURANCE | INVESTMENTS | HEALTH

- We ensure to Customers peace of mind and a sense of security
- We offer the best quality products at an attractive price
- We inspire our Employees
- We are Market Watchdog

OUR VALUES

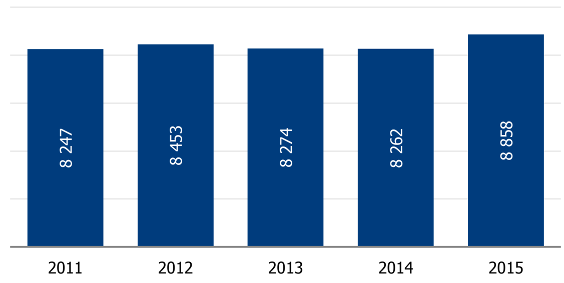
WE ARE FAIR — WE ARE EFFECTIVE — WE ARE INNOVATIVE

Innovative products set new market standards. Since 2015, several PZU branches provide customer service in sign language. In 2014, PZU was the first insurance company to introduce direct claims handling process. While using PZU services, the clients can take advantage of a modern fleet that consists of 300 replacement hybrid vehicles. By promoting ecological solutions in the claims handling process, PZU offers to its clients an option to receive and keep a free bike instead of using a replacement car. With our corporate clients in mind, PZU Lab was established which helps the clients improve their risk management processes and enables them to decrease a possibility that the events covered by the insurance policy will take place, which in turn lowers the policy's price. PZU serves as a "market watchdog" and the state-of-the-art products it offers set exceptionally high standards in the field of client relations.

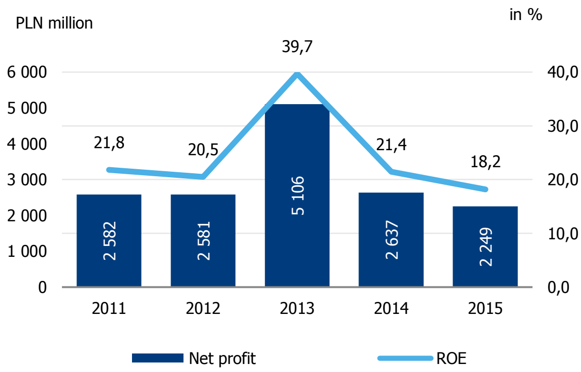
Efficiency

Operational efficiency is an indispensable condition for building a competitive market offer, as well as fulfilling PZU obligations towards its shareholders, employees, suppliers, and other business partners. One of the key projects that aim at increasing operational efficiency is the Everest platform – a system that has been implemented since 2014 in non-life insurance. High operational efficiency, along with the wide scope of business, enable PZU to achieve cost efficiency at the level which is inaccessible to other market participants. By combining exceptional cost efficiency with innovative offer, PZU serves as a "market watchdog" – an industry leader that ensures high standards of the market offer.

Gross written premium (PLN million)



Net profit (PLN million) and ROE (%)



Clients

Almost 16 milions clients in Poland use products and services of PZU (and PZU Życie). The 2015 surveys showed that the satisfaction level among PZU clients who benefited from claims handling by PZU or received payment of benefits from PZU Życie within the last 12 months was 7 p.p. higher than that of the competition. The Net Promoter Score (NPS) among the clients of PZU (and PZU Życie) was 11%[2].

PZU is consequently trying to stay close to its current and potential clients – to their needs, ambitions, and aspirations. All undertaken activities – from insurance product concepts, through customer communication channels, to the activity in scope of Social Business Responsibility, are designed to adapt PZU's offer to demands of its clients as closely as possible. PZU aims to address demands as best as it can at every level of mutual relations – from the choice of insurance products, through preferred communication and sales channels, to issues associated with claims handling and benefits payments.

[2] Monthly survey carried out by GFK Polonia at the request of PZU. Presented data constitute an accumulated result of monthly assessments from January to December 2015

PZU applies Big Data tools and methods in its activity to support segmentation and profiling of the clients (both individual and corporate), identification of factors contributing to client resignations, or improved handling of customer demands through application of prediction models.

the Group pays high annual dividends, which compose a considerable TSR component, according to the preferences of its shareholders.

KPI	2015	2014	2013	2012	2011
ROE	18.2%	21.4%	39.7%	20.5%	21.8%
Combined ratio (COR)	93.2%	94.7%	87.3%	92.3%	94.9%
*Dividend yield**	8.8%	7.0%	11.1%	5.1%	8.4%

** Advance dividend calculated in the payment year*

Product Offer

PZU's offer is the most extensive insurance offer on the Polish market. It covers over 200 types of insurance products addressed to all Customer Segments.

Sales and customer service channels

An important element of the PZU's offer is the biggest network of own branches and other options for communication between the clients and PZU on Polish market. Besides 414 own branches, PZU offers over 6,500 exclusive agents, over 3,100 multiagencies, almost 1,000 insurance brokers, direct channels (internet, call centre), and a sales network of 8 partner banks and 6 other strategic partners.

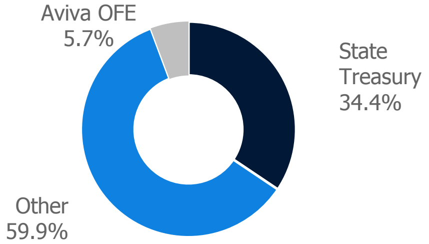
Value for shareholders

PZU has been quoted on the Warsaw Stock Exchange since 2010. The value of PZU's first public offer (IPO) PZU was almost PLN 8.1 billion. It was the biggest IPO in the history of the Polish capital market, the biggest offer in Central and Eastern Europe from the beginning of the economic transformation, and the biggest IPO in all of Europe since 2007.

The key shareholder of PZU is still the Ministry of the State Treasury, which represents 34.4% of the share capital. The remaining shareholders are both Polish and foreign institutional investors (various investment and pension funds) and an extensive group of individual investors (in IPO alone, PZU shares were acquired by over 250 thousand individual investors).

The main ratio serving to measure the effectiveness of the Group's value building used in communication with the capital market is TSR (*Total Shareholder Return*). Due to the care for generation of high free cash flows,

PZU shareholding structure as at na 31.12.2015*



**as per the Current Report 3/2016*

In 2015, PZU paid almost PLN 2.6 billion as dividend for the dividend rate of 8.8% (calculated from the share price at the end of 2015, i.e. PLN 34.0 – before stock split). Since its IPO, PZU has already paid out nearly PLN 15 billion in dividends, while the total shareholders return (TSR) from investment in PZU shares amounted to 64.2%.

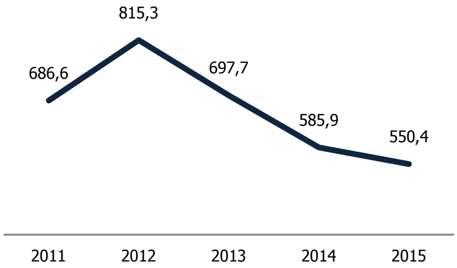
Strong capital position

PZU holds exceptionally high capital security ratios in comparison to other insurance groups. And so, in accordance with the regulations of Solvency I, PZU held a 550.4% ratio of solvency margin coverage with own funds at the end of 2015.

As of 1 January 2016, the Act on Insurance and Reinsurance Activity of 11 September 2015 introduced new capital requirements – Solvency II – into the Polish legal systems. In accordance with the new act, calculation of the capital requirement is based on the following risks: market, underwriting (insurance), counterparty insolvency, catastrophe, and operating. PZU has not published the result concerning the solvency margin pursuant to Solvency II as per units. As per the estimates at the end of the third quarter of

2015, the solvency ratio (calculated according to the Solvency II standard formula) for PZU Group was assessed at a level of 296.1%[3]. Ratios as high as these place PZU Group among insurance groups with top capital strength.

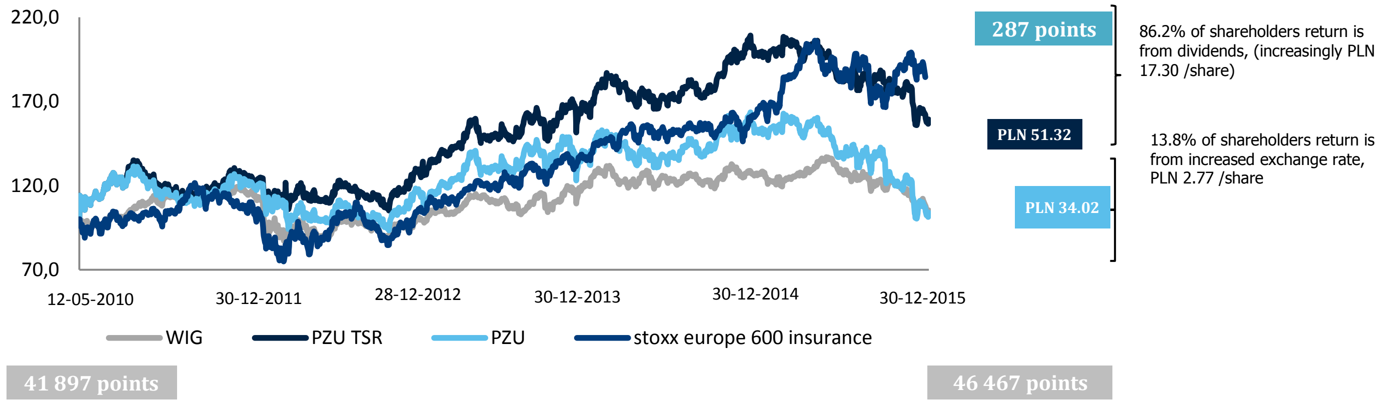
Solvency as per Solvency I (in %)



Since 2009, PZU is subject to regular ratings by Standard & Poor’s. On 21 January 2016, Standard & Poor's rating of PZU was lowered from A to “A-“ with negative rating outlook. The decision to lower the rating of PZU resulted from the lowering of Poland’s rating from “A-” to “BBB+” with “negative” outlook one week before and had no association with the situation of the company, the activity of which presents a very high capitalization and security level. According to the rating methodology, PZU’s rating can only be one grade above that of its country, therefore the maximum possible S&P rating for PZU is "A -".

[3] Data not subject to audit

PZU share prices since its IPO on WSE (12.05.2010=100) until 31.12.2015



PZU TSR – total shareholder return, includes the dividend paid by PZU

Main financial data of PZU for 2011–2015 (PLN milion)

Data from the profit and loss statement	2015	2014	2013	2012	2011
Gross written premiums	8,858	8,262	8,274	8,453	8,247
Net earned premiums	7,898	7,903	8,108	8,277	7,906
Net claims and benefits	5,037	5,231	5,047	5,473	5,387
Acquisition expenses, including reinsurance commission	1,571	1,523	1,367	1,495	1,485
Administrative expenses	754	729	663	676	634
Technical result	636	564	1,062	640	332
Net investment income	2,024	2,568	4,633	2,473	2,844
Gross profit (loss)	2,476	2,855	5,391	2,924	2,742
Net profit (loss)	2,249	2,637	5,106	2,581	2,582
Total assets	36,358	34,630	30,137	29,913	27,398
Financial assets	32,356	31,031	27,609	27,591	24,883
Equity	12,379	12,329	12,260	13,453	11,745
Technical provisions	17,540	16,861	15,913	14,933	13,895

The most important events in 2015

Non-life insurance	Gross written premium at PLN 8,858.0 million, a 7.2% raise in relation to 2014. Growth of premium in motor insurance resulting from inward reinsurance agreements concluded with newly acquired subsidiaries. Leader on the Polish non-life insurance market with share of 31.2%[4] (after 3 quarters of 2015). Market leader with a share of 35.6%[4] on the motor insurance market (after 3 quarters of 2015).
Infrastructure	Completed stage I of implementing the new Everest IT system for non-life insurance policies. Providing the system to almost 19 thousand target users. Launch of direct claims handling for PIU settlements. Creation of own fleet of replacement cars used for claims handling purposes composed of 300 hybrid vehicles.
Human resources management	Average annual employment of approximately 7.8 thousand employees calculated as FTEs. Employment restructuring in PZU and PZU Życie. VI place in the Employer of the Year ranking organized by AIESEC. Implementation of the Innovation Strategy – promotion of pro-innovation cultural models. Extensive training and development program for employees - SmartUp, TalentUp, MBA.
Financial results and safety of operations	Net profit at PLN 2,248.5 million, i.e. 14.7% lower than in 2014, mainly due to the lower dividend from PZU Życie. Return on equity 18.2% – a decline of 3.2 p.p. compared with 2014. Dividend payment from PZU profit in 2014 PLN 2,590.6 million. Maintenance of solvency ratios which are higher than the average for the sector.

[4] PZU's share calculated taking into account PZU's inward reinsurance towards Link4

02

2 The external environment in 2015

Contents:

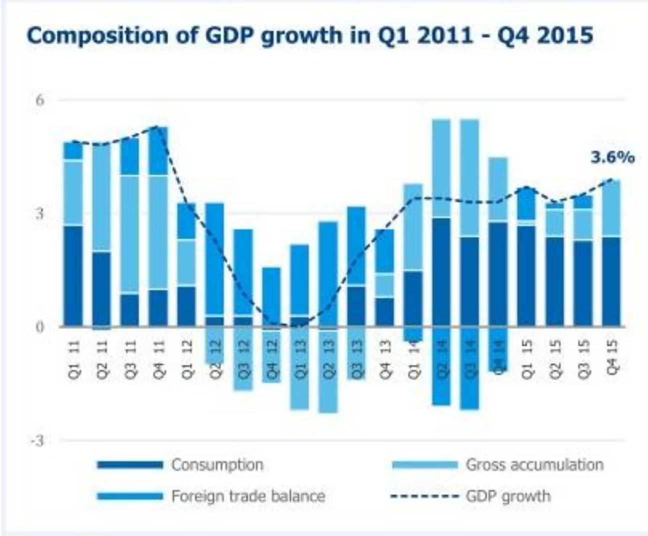
2.1 Main trends in the Polish economy

Gross Domestic Product

The real GDP growth in Poland in 2015 reached 3.6%, compared with 3.3% year-on-year. The quarterly GDP growth pace remained at the level of 3.3%–3.9% year-on-year.

Domestic demand continued to be the key factor contributing to the economic growth, even though it grew less rapidly than in 2014 (3.3% vs. 4.9%). Improved situation on the labor market, as well as relatively stable real remuneration growth accelerated the dynamics of household consumption to 3.1%, compared with 2.6% in 2014. Savings increased as well. The pace of household consumption growth was exceptionally stable in 2015. The public consumption growth slightly decreased and reached 3.5% versus 4.9% in 2014. In 2015, growth of investments in tangible assets was lower than in the previous year – approximately 6.1% compared with 9.8%. Good financial condition of enterprises along with steady economic growth, relatively stable capacity utilization level, high availability and low cost of credit jointly created favorable conditions for investment development. On the other hand, uncertain forecasts on demand and increased volatility on financial markets induced the companies to remain prudent. At the same time, weakened public investment dynamics may have resulted from entering in a transitory period between two European Union financial perspectives, i.e. for the years 2007–2013 and the years 2014–2020. Unlike in 2014, the change in inventories adversely affected domestic demand and GDP dynamics in 2015.

In 2015, export grew slightly more dynamically than import. As a result, the impact of net export on GDP growth in 2015 was only slightly positive (0.4 p.p.), whereas in 2014 the net export decreased the real GDP growth by 1.5 p.p.



The labor market and consumption

Favorable tendencies were observable on the labor market in 2015. The recorded unemployment rate systematically dropped to reach the lowest level since the end of 2008 (9.8% in December compared with 11.4% at the end of 2014.) In 2015, the average monthly employment in the enterprise sector grew by nearly 77 thousand people and its annual dynamics reached 1.4% year-on-year in December 2015 compared with 1.1% year-on-year at the end of 2014.

In the light of deflation, the pressure on salary increases remained limited. The average monthly remuneration in the enterprise sector grew in 2015 by 3.2%, that is the same as the year before. However, due to the dropping consumer price index (CPI), the real salary increase was the highest since 2008. With consideration of the price changes, the average monthly remuneration in the enterprise sector was 4.2% in 2015 in comparison to 3.2% the year before. Similarly to 2014, remuneration in the enterprise sector in 2015 grew faster than in the state-budget units. The average monthly real dynamics of the remuneration fund in this sector in 2015 was on average 5.6% year-on-year and was the biggest in 7 years. The real growth of disposable gross remuneration was also considerably larger than in 2014. The consumer financial condition indicators also systematically improved. The consumer sentiment index prepared by the Polish Statistical Office (GUS) was the highest since 2008.

The improving financial situation of households and more favorable labor market contributed to a growing consumption and savings of households. The individual consumption dynamics accelerated in 2015 to reach 3.1% compared with 2.6% year-on-year.

Inflation, monetary policy and interest rates

In 2015, CPI was lower by an average of 0.9% annually. After hitting the minimum in February (-1.6% year-on-year), the annual CPI was slowly dropping to reach -0.5% year-on-year towards the end of the year.

Decrease in consumer prices resulted mainly from global processes – global prices of oil and other resources strongly dropped, food prices remained low, and so did the inflation level in Poland's key trade partners. At the same time, no demand pressure on price growth was observable in the country, while production price decreased and limited remuneration pressure continued. Net inflation (CPI excluding food and energy prices) amounted in 2015 to an annual average of only 0.3% compared with 0.6% in 2014.

In such conditions, in March 2015 the Monetary Policy Council lowered interest rates by 50 bps, including the reference rate, which was decreased to 1.5%. The decision was justified with prolonged deflation and higher risk of inflation remaining significantly below the target in the medium term. The Monetary Policy Council also pointed that the process of monetary policy easing has been completed. No changes in interest rates were introduced till the end of the year. As per the Monetary Policy Council assessments dated December 2015, the National Bank of Poland's decision to leave the interest rates at the hitherto level resulted in the fact that the Polish economy continued to grow sustainably and macroeconomic balance was maintained.

Public finance

Originally, the 2015 budget provided for a deficit of PLN 46.08 billion. In December, the original budget was amended to increase the deficit planned for 2015 to PLN 49.98 billion. This amount is much higher than PLN 29.98 billion recorded in 2014.

Poland had no difficulties in acquiring market financing. At the end of 2015, approximately 20% of borrowing needs planned for 2016 had been financed.

2.2 Financial markets situation

A number of events that had a considerable impact on the financial markets took place in 2015. In late January, the European Central Bank announced its quantitative easing program and begun to buy treasury bonds of Eurozone states. Consequently, the German 10-year bond yields were decreasing in subsequent months to the lowest historical levels, and temporarily amounted to less than 0.1%. Simultaneously, stock exchange indexes were exceptionally high. Both shares and treasury bonds were more expensive also on the Polish market.

The expected increase of interest rates by the US Federal Reserve in 2015, contrasted with an extraordinary easing of monetary policy in the Eurozone, resulted in a significant strengthening of US dollar versus the common European currency. Different monetary policy and approach to economic perspectives in the Eurozone and the USA contributed to a larger difference between the German and US 10-year treasury bond yields that reached the highest level in years.

The release of Swiss franc exchange rate by the Swiss central bank in mid-January was another significant event in early 2015. The minimum EUR/CHF exchange rate of 1.20 was abolished. This decision resulted in a rapid strengthening of the Swiss currency also versus the PLN.

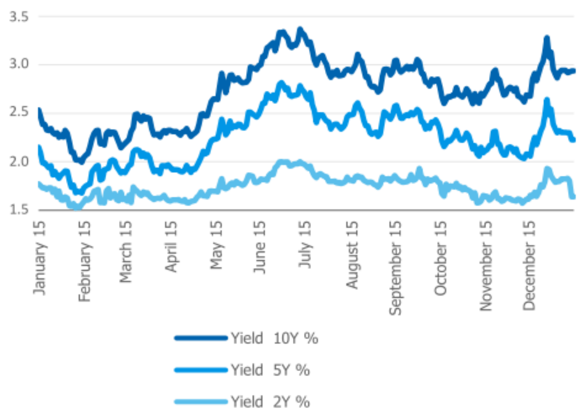
The Monetary Policy Council's decision to lower the National Bank of Poland reference rate to 1.50% in March 2015, which ended the monetary policy easing cycle, was exceptionally significant for the Polish treasury bonds with shorter maturity periods.

In late April and early May 2015, situation on the financial markets begun to change fundamentally. Prices of shares and bonds started to drop, especially in Europe. Quieting down the fears of strengthening deflation in Eurozone contributed to a change on the interest rate market. A higher risk aversion on financial markets, e.g. due to the problematic situation in Greece and the Russian-Ukrainian conflict, adversely influenced the situation on stock market. The tension escalated in late June 2015 when the Greek Prime Minister A. Tsipras held a referendum on accepting the terms and conditions of the aid scheme for the country.

Following significant fluctuations in the first half of 2015, the Polish 10-year treasury bond yields reached the lowest and the highest level in the year at the same time. They first dropped from 2.54% to 2.00% in late January and then increased to 3.37% at the end of June. In late April and early May, the WIG index exceeded the value of 57 thousand points, growing by nearly 12% since the end of 2014. The bond rate drop in the second half of May and June significantly removed the increase they had recorded before.

Three key issues influenced the financial market trends in August and September 2015. First of all – the situation in China where the prices on the stock market collapsed in mid-August 2015 to cause strong global turbulence. Secondly – a possibility that the European Central Bank would extend and

Treasury bond yields in 2015

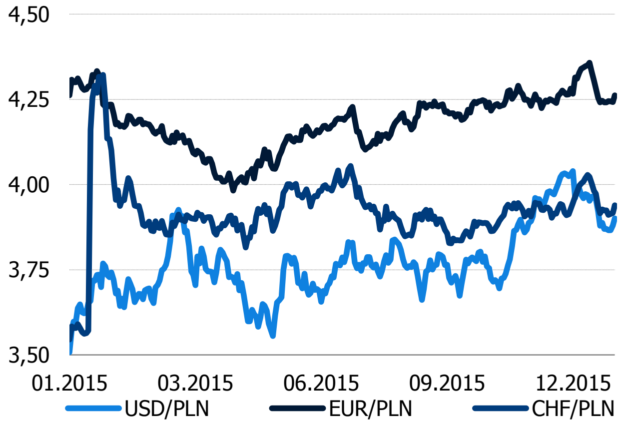


prolong quantitative easing scheme which was due to finish by September 2016. Thirdly – it was expected that the Federal Reserve would decide on the potential interest rates increase in the USA, which eventually did not take place in September.

In Q3 2015, the gradient of the Polish yield curve significantly dropped and flattened. Externally, low yields were maintained as a result of monetary policy applied by ECB and Fed, which proved milder than expected. What is more, a persistently low inflation in Poland and expected result of Polish production suggested that mild monetary policy in Poland would be maintained.

That period proved unfavorable for the stock market. Share prices decreased not only in Poland, but also globally. Initially, the decreases resulted mainly from concerns related to the situation of Greece. They grew stronger along with the deteriorating economic and market situation in China and their potential implication for the global economy, especially "emerging markets". An additional burden for several companies on the Polish market – especially from the banking sector – were the media announcements of potential statutory changes, which might have negative effects on such companies' operations (including the so-called financial institution assets tax) and were likely to be introduced after parliamentary elections in October 2015. REGULATIONS ON THE INSURANCE AND FINANCIAL MARKETS IN POLAND SECTION 2.3

PLN rate in 2015



Decreases in WSE indexes escalated in the last months of 2015. WIG20, an index of the largest companies, reached nearly 1700 points for the first time since 2009. After the peak in May, WIG dropped by nearly 24%. Several factors contributed to that situation. The US central bank increased in December the federal funds rate by 25 bp.

That had been the first increase since 2006. The European Central Bank eased its monetary policy in December; however, the easing's scale was narrower than expected by the market. At the same time, the concerns related to the situation on emerging markets grew stronger. Raw material prices were going down. External risks and announcement of regulatory changes to affect e.g. the banking sector proved to be an additional burden for the Polish stock market, especially the WIG20 index.

The same factors had a strong influence on the Polish treasury bond market and led to the Polish yield curve growing steeper. In Q4 2015, the Polish 10-year treasury bonds yields slightly increased. At the same time, interest rates in Poland were expected to decrease, which led to a lower yield for bonds with shorter maturity dates.

Finally, in entire 2015 the Polish one-year treasury bonds yield dropped by approximately 30 bps to around 1.50%. Five and ten-year bonds yield increased by approximately 10 and 40 bps, respectively. A difference between 10-year and one-year bonds yield increased by around 70 bps. Correlation between the yield in Poland and yields on key global markets, such as Germany or the USA, remained high.

At the same time, WIG20 stock index dropped by nearly 20%, whereas WIG decreased by less than 10% in 2015.

The currency market in 2015 was dominated by the trend of the strong appreciation of the US dollar to the euro, which was, however, less clear than in 2014. Still, the euro lost as much as 10.2% to the US dollar. The PLN to USD exchange rate also changed – the dollar cost 11.2% more than at the end of 2014. The PLN significantly weakened in relation to the Swiss franc and dropped by 11.1%. Yet, the Polish currency remained stable towards the euro.

2.3 Regulations on the insurance market in Poland

2015 was another year to witness intense preparations for implementation of the requirements of Solvency II directive GLOSSARY (Directive 2009/138/EC of the European Parliament and the Council dated 25 November 2009 on the taking-up and pursuit of the business of insurance and reinsurance), which bind insurance and reinsurance companies as of 1 January 2016. The new scheme concentrates on capital requirements and risk borne by insurance and reinsurance companies.

In 2015, there were also ongoing works on the new Act on Insurance and Reinsurance Activity in connection with the implementation of Solvency II.

The Act on Insurance and Reinsurance dated 11 September 2015 – most of the provisions become effective as of 1 January 2016. A *vacatio legis* principle is applied to some provisions (e.g. provisions on contracts on third party's account which come into force on 1 April 2016; from that day, provisions on insurance with insurance capital fund will also apply; a provision allowing insurers to acquire voluntary pension funds directly or via agents will come into effect on 1 August 2016.) The Act has following objectives:

- to introduce a new solvency scheme applicable to insurance and reinsurance companies, similar to the regulations on capital requirements for banks (adaptation of EU provisions of Solvency II) GLOSSARY. The system is founded on the three segments: the first segment specifies capital requirements – higher capital requirements will be applied that will reflect specific risk profile of a given insurance or reinsurance company; the second specifies quality requirements concerning management system and supervision process; the third concerns information obligations of insurance and reinsurance companies.
- to reinforce right of the insured in the contracts on third party's account – especially in group insurance (i.a. an obligation to provide the insured with information on contractual terms and conditions, providing the insured and her/his heirs with information related to the claims handling process).
- to impose on insurance companies an obligation to analyze the needs, knowledge and experience level, as well as financial standing of the policyholder or the insured prior to concluding an investment policy. The clients are also entitled to withdraw from unit-linked insurance contracts for a longer period of time (besides the right to withdraw provided for in the Civil Code GLOSSARY) and at a lower cost (60 days following receipt of the information provided for in the Act, while the maximum early termination fee may not exceed 4% of premiums paid).
- to change the manner of remunerating insurance agents and handling charges for unit-linked products and structured products. While setting the remuneration of the agent, an insurance company should follow the rule of even spreading in time of an insurance agent's commission (in the case of contracts concluded for more than 5 years, the commissions should be spread over a minimum period of 60 months.)
- to grant new entitlements to the Polish Financial Supervision Authority (PFSA) GLOSSARY (a supervisory body may e.g. prohibit or limit trading, distribution, or sale of selected investment policies) The Polish Financial Supervision Authority may also issue recommendations within a scope necessary to implement guidelines and recommendations of European Insurance and Occupational Pensions Authority, as well as to prevent infringement of intersts of insured, policyholders, beneficiaries or entitled under insurance contracts.To maintain an obligatory

participation of insurers in the Polish Chamber of Insurance (PIU) GLOSSARY.

- to introduce a number of regulations concerning strictly operations of insurance and reinsurance companies on the Polish insurance market.

In 2015, the PFSA released recommendations concerning the following fields: flood risk management in the insurance sector, insurance distribution, motor insurance claims handling, reinsurance inwards/ retrocession, IT management and IT security. The recommendations fall under the “comply or explain” rule. Institutions under supervision may not follow the principles included in the recommendations; 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. At the same time, in accordance with its statutory entitlement, PFSA is working on further recommendations, i.a. concerning a product adequacy test and product management system.

The Act on Claims Handling by Financial Market Entities and Financial Ombudsman dated 5 August 2015 contains a number of provisions that increase protection mainly of financial institution clients (banks, insurance companies, pension funds). The Act specifies terms and conditions for handling claims reported by consumers. The Act appoints a Financial Ombudsman, a new function to replace the Insurance Ombudsman. The Financial Ombudsman represents interests of financial institution clients (i.a. she/he will hear clients’ complaints and applications, is entitled to impose fines of up to PLN 100 thousand on financial institutions which fail to observe deadlines for claims handling, etc., may lead mediation proceedings, as well as initiate and organize education and information activities related to client rights protection). It needs to be added that it is mandatory for a financial market entity to participate in mediation proceedings.

Apart from the above-mentioned acts, PSFA requirements and works related to implementing the requirements of Solvency II Directive, other regulations were also implemented in 2015, which had or will have an impact on the operations of PZU Group. Some of them are listed below:

The Act on amending the Act on the Protection of Consumers and Competition and Code of Civil Procedures Act dated 10 June 2014, which became effective as of 18 January 2015. The Act introduced several changes to the Polish anti-trust law aimed to strengthen the domestic system for the protection of competition and consumers. The main objectives of the amendments are the following: to improve the detection of competition limitation, the effectiveness of the detection and accountability of entrepreneurs entering illegal agreements, and strengthen the positions of the weaker players on the market. Changes were introduced as to the obligation to notify about the intention of concentration in instances of acquiring control of an entrepreneur or purchasing the property of another entrepreneur.

Amendments to the Act on the protection of consumers and competition and several other acts dated 5 August 2015. The aim of the amendment is i.a. a more efficient combating unfair market practices in financial service sector, i.e. offering a client a product which does not suit his/her needs (so-called *misspelling*.) As per the Act, the President of the Office of Competition and Consumer Protection GLOSSARY, through issuing an administrative decision, will settle on an inadmissible nature of a provision included in a template contract and forbid its further use. The proceedings in this respect are to be conducted by the President of the Office of Competition and Consumer Protection and such a procedure will replace supervision of provisions included in a template contract which had been conducted by the Court of Competition and Consumer Protection. The decision of the President of the Office of Competition and Consumer Protection will be published on the Office’s website, whereas the existing nature of a register of prohibited (abusive) clauses will be maintained for a period specified in the Act.

The Act amending the Corporate Income Act, Personal Income Tax Act, and several other acts dated 29 August 2014, which has been in force as of 1 January 2015, amended i.a. the regulations concerning thin capitalization and limited the exemption of revenues acquired from investment-oriented life insurance – structured products. Tax does not apply to revenue from endowment insurance for which a technical rate is applied to establish the technical provision. The Act simplified also the calculation of taxable revenue from premium investment as the difference between the benefit amount and the premium paid to the insurance company.

The Act amending the Act on Crop and Livestock Insurance dated 26 June 2015 provides fruit and vegetable producers with insurance with premiums subsidized from the state budget if insurance companies apply tariff rates higher than 6% of the sum of insured crop. The new provisions take into account amended rules for granting public aid specified in the UE guidelines on the state's aid in agriculture and forestry sector and in rural regions in the years 2014–2020, which refer to the aid in financing insurance premiums. The newly introduced solution is meant to expand insurance protection of crop by a growing number of concluded insurance contracts.

The Act amending Act on Mandatory Insurance, the Insurance Guarantee Fund and the Polish Motor Insurers' Bureau dated 25 September 2015 introduces a provision stating that a claim for compensation resulting from TPL insurance of owners of motor vehicles may be reported exclusively with the court competent for place of residence or register office of the party injured in the event that caused the damage in question, or the court competent for the place where such an event occurred. The aim of the amendment is to limit concentration of court proceedings related with seeking compensation resulting from TPL insurance of owners of motor vehicles.

The Act amending Act on the Financial Market Supervision and several other acts dated 5 August 2015. The aim of the Act is to increase protection of consumers using financial services provided e.g. by consumer credit institutions which are not obliged to hold a PFSA GLOSSARY permit for such operations.

The Act dated 9 October 2015 on amending the Corporate Income Tax Act, Personal Income Tax Act, and several other acts. The Act has been effective as of 1 January 2016 and implements the Polish legal system to the three directives of EU Council: 2014/48/EU dated 24 March 2014, 2014/86/EU dated 8 July 2014, and 205/121/EU dated 27 January 2015. The most important amendments include: with relation to income on sale of securities (tax obligation due to paid sale of securities arises upon making such a transaction), with relation to tax on dividends, a so-called "tax evasion clause" (taxpayer is not exempt from tax on dividend or revenues from share in profit of related entities if the transaction does not reflect economic reality and its objective or one of key objectives was tax evasion or avoidance), with relation to transfer pricing (some taxpayers who enter transactions with related entities will be obliged to prepare substantially extended documentation on transfer pricing), with relation to interest tax (changes in this respect aim to efficiently tax profit on savings in a form of interests paid across borders).

The Act amending Accounting Act and several other acts dated 23 July 2015. New regulations introduce to the Polish legal system Directive 2013/34/EC of the European Parliament and the Council dated 26 June 2013 on annual financial statements, consolidated financial statements and related reports of some entity types. The Act has been effective as of 23 September 2015, except for Article 1 point 1 and Article 5 which came into force on 1 January 2016.

The Act on Tax on Some Financial Institutions dated 15 January 2016. In accordance with the Act, as of February 2016 banks (domestic, branches of foreign banks, branches of credit institutions), insurance and reinsurance companies, cooperative saving and credit institutions, and lending companies will be subject to so-called financial institution tax annually amounting to 0.44% of their assets' value. For banks and cooperative saving and credit institutions, the value of tax-free assets is PLN 4 billion. For insurers this amount is PLN 2 billion, and PLN 200 million for lending companies. The limits of assets' value beyond which insurance and reinsurance companies will be subject to tax are specified for entire capital group and not respective companies.

Judicial decisions and the Prohibited Clauses Register.

On 9 September 2015, the Supreme Court (File no. III SZP 2/15) issued a resolution where it stated that, when seeking from the insurer claims resulting from TPL insurance of owners of motor vehicles, the injured party who is a natural person that does not conduct business activity is not deemed a consumer within the meaning of Article 24 in conjunction with Art 4 point 12 of the Act on the Protection of Consumers and Competition dated 17 February 2007, in conjunction with Article 22(1) of the Civil Code GLOSSARY. In its resolution III CZ 5/11, the Supreme Court pointed out that "a person injured by the insured (perpetrator) cannot be deemed a consumer as he/she does not conclude an agreement, and filing a claim against perpetrator and using the actio directa rule towards the insurer do not constitute a legal transaction within the meaning of Article 221 of the Civil Code."

The projected legal regulations may have significant influence on insurance and reinsurance operations.

Insurance Distribution Directive (IDD) of the European Parliament and the Council. On 24 November 2015, the European Parliament approved Insurance Distribution Directive (IDD). The directive should be soon officially adopted by the Council. Member states will then have 2 years to implement the directive's provisions into their legal systems. During that time, implementing acts provided for in the Directive will be drafted. The new directive will substitute the previous Directive 2002/92/EC of the European Parliament and the Council dated 9 December 2002 on insurance mediation.

2.4 Macroeconomic factors which can affect the operations of the Polish insurance sector and the operations of PZU in 2016

The Polish economy has so far proved resistant to global threats to GDP growth that grew more significant in the second half of 2015. They include, first of all, economic slowdown in China and on key emerging markets and related drop in dynamics of global trade. We assume that the GDP growth in 2016 may turn out only slightly below the 2015 level, even though the end-of-year data let us hope for a better result.

The factors that affect domestic demand, i.e. key driver of GDP growth vs. external threats, are likely to remain favorable. In the second half of 2015, enterprises intensified their recruitment efforts, even though at the end of the year it could have resulted from the plan to apply social security contributions to mandate contracts in early 2016. Real revenues of households are on a solid, stable increase. The unemployment rate continues to fall systematically and the employees' bargaining position is improving. It is therefore expected that the pace of nominal growth of remuneration will accelerate, despite the persistently low inflation rate which favors a milder pressure on salary increase. Taking into consideration a very low inflation, that is likely to be close to zero in 2016, low interest rates, and higher social transfers (the 500+ program), we estimate that the consumption dynamics may reach some 4.0%.

In 2016, the investment level is likely to grow at a solid pace, yet slower than in 2015. The capacity utilization level is relatively high and good financial standing of enterprises and low interest rates will facilitate financing of investments. Moreover, residential housing investments are expected to increase relatively fast. Yet, increasingly negative confidence concerning i.a. demand forecasts, highlighted by enterprise sector, may prove to be a factor that limits investment demand. What is more, the cycle of investment growth in enterprises will be rather advanced in 2016. However, the effects of the new bank tax on crediting the economy are yet unknown. It is expected that investment in infrastructure will grow throughout the year, even though funds granted within European Union financial perspectives 2007–2013 are almost finished and the new projects will enter the implementation phase.

It seems that macroeconomic factors regarding sales of household-oriented insurance may be slightly better than in 2015, taking into account the increase in real income, improving situation on labor market and higher savings. Conditions for corporate insurance sales, implied by the increased GDP and financial standing of companies, may be similar to those observable the year before.

The economic growth in Poland may be negatively impacted mainly by the external situation, mainly by decelerated GDP growth of emerging markets, including China. There is a growing concern that in such conditions the drop in resource prices and tightened monetary policy in the US may lead to a financial crisis in developing countries, where domestic companies have been exceptionally willing to increase their USD debt in the recent years. Uncertainty results also from the situation in Greece, Ukraine, refugee crisis in Europe, and ISIS (Islamic State) operations. No major signs of impact of developing economies on economic growth are at the moment observable both on the US market and in Eurozone, including the German market, that is the most important from Poland's perspective. We expect that the 2016 GDP growth in Eurozone will be at least similar to that of last year. However, provided that the crisis hits emerging markets, a slowdown in Poland's GDP growth is to be expected.

Due to the above-mentioned threats and relatively high risk aversion, we expect that in 2016 prices on the global (and, consequently, Polish) markets will continue to fluctuate. This may have negative impact on investment income. If the weakness of PLN continues, this may result in the higher costs of motor insurance due to growing spare parts prices. The drop in oil prices towards the end of 2015 and in early 2016 caused a significant fall in fuel prices in Poland. As a result, provided that the consequences of PLN weakness are inflationary, sector taxes are introduced and food prices grow, the average annual inflation rate in 2016 can only slightly exceed zero. The low fuel prices may produce a higher claims ratio for motor insurance. We estimate that the new Polish Monetary Policy Council will remain interest rates of the National Bank of Poland unchanged in the next year, even though due to the prevailing low inflation and likely easing of monetary policy by ECB the rates are more probable to be lowered. However, the interest rates will remain low, which will continue to produce a difficulty in achieving a guaranteed rate of return in life insurance.

Forecasts for the Polish economy	2016*	2015	2014	2013	2012
Real GDP growth in % (year-on-year)	3.5	3.6	3.3	1.3	1.6
Increase in individual consumption in % (year-on-year)	3.8	3.1	2.6	0.2	0.8
Increase in gross expenditure on fixed assets in % (year-on-year)	4.9	6.1	9.8	(1.1)	(1.8)
Increase in prices of consumer goods and services in % (year-on-year, year end)	1.1	(0.5)	(1.0)	0.7	2.4
Nominal wage growth in domestic economy in % (year-on-year)	4.5	3.2	3.2	3.7	3.7
Rate of unemployment in % (end of the year)	9.0	9.8	11.4	13.4	13.4
NBP base rate in % (end of the year)	1.50	1.50	2.00	2.50	4.25
Average annual EUR/PLN exchange rate	4.35	4.18	4.19	4.20	4.19
Average annual USD/PLN exchange rate	3.98	3.77	3.16	3.16	3.26

Source: PZU Macroeconomic Analysis Office

*Forecast as at 29 February 2016

03

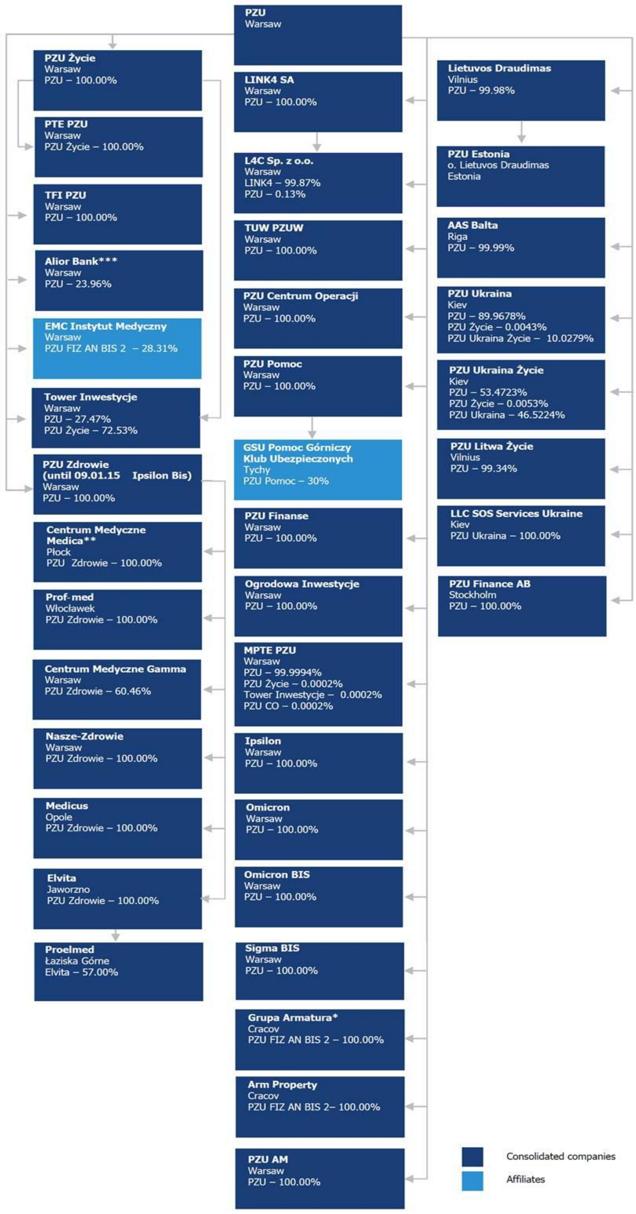
3 PZU’s activities

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 clients within OPF and investment funds.

Structure of PZU Capital Group (as at 31 December 2015)



* Grupa Armatura included the following entities: Armatura Kraków SA, Armatoora SA, Armatura Tower sp. z o.o.(subsidiary company), Aquaform SA, Aquaform Badprodukte GmbH, Aquaform Ukraine TOW, Aquaform Romania SRL, Morehome.pl sp. z o.o.
** Grupa Centrum Medyczne Medica includes the following entities: Centrum Medyczne Medica Sp. z o.o., Sanatorium Uzdrowiskowe „Krystynka" Sp. z o.o. i Rezo-Medica sp. z o.o.
*** Grupa Alior Bank Medica includes the following entities: Alior Bank SA, Alior Services sp. z o.o. , Centrum Obrotu Wierzytelnościami sp. z o.o., Alior Leasing sp. z o.o., Meritum Services ICB SA , Money Makers SA , New Commerce Services 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 the entities making up PZU Group. The companies provide mutual services both under market conditions and based on the internal cost allocation model (in the scope of the Tax Capital Group) due to the expertise of selected companies and by taking advantage of the Tax Capital Group

Detailed information on changes in the PZU organizational structure have been presented in Management Report of PZU Group WWW.PZU.PL/RELACJE-INWESTORSKIE/RAPORTY-OKRESOWE-BIEZACE/OKRESOWE

3.2 PZU – activity on the Polish non-life insurance market

Market situation

The non-life insurance market in Poland measured by the gross written premium grew by an annual average of 3.6% over the first three quarters of the past 5 years. The non-life insurance market in three quarters of 2015 increased by a total of PLN 471.5 million (+2.4%). The growth of sales of accident and illness insurance (by PLN 257.9 million, +17.6% year-on-year, + PLN 154.2 million of which concerns direct business) and motor own damage insurance (by PLN 180.5 million, +4.6%, + PLN 109.4 million of which concerns direct business) mainly as a consequence of average premium growth, had the greatest impact on the premium growth. Furthermore, there was growth recorded in sales of TPL insurance (by PLN 134.7 million, +8.9%, +PLN 78.7 million of which concerns direct activity) and property

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

	1 January - 30 September 2015			1 January - 30 September 2014		
	PZU*	Market	Market without PZU	PZU	Market	Market without PZU
Motor own damage insurance	1,642	4,098	2,457	1,492	3,918	2,426
MTPL	2,320	6,169	3,849	1,979	6,088	4,109
Other products	2,663	9,786	7,123	2,684	9,576	6,892
TOTAL	**6,625**	**20,054**	**13,429**	**6,155**	**19,582**	**13,427**

Source: PFSA www.knf.gov.pl. Quarterly Bulletin. Insurance Market 3/2015, Insurance Market 3/2014, PZU data

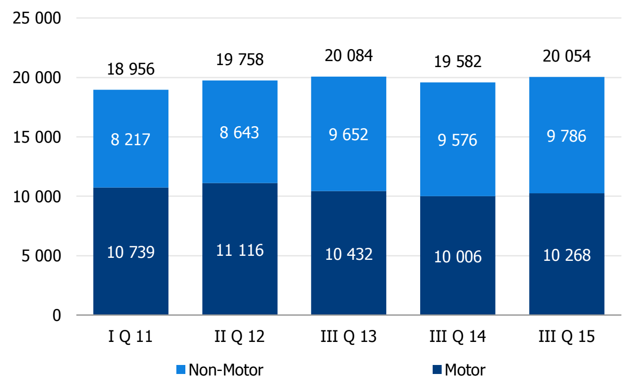
**including Link4, which contributed to the Group's result from the moment of acquisition, i.e. 15 September 2014*

insurance (by PLN 107.5 million, +2.5%, including a PLN 166.0 million activity growth on indirect business). The drop in premiums was most visible in insurance of financial losses (drop by PLN 278.0 million, -29.5%, PLN 323.1 million of which concerns direct business), credit and guarantee insurance (drop by PLN 100.0 million, -15.0%, PLN 96.0 million of which concerns direct business), as well as marine, aviation, and transport insurance (drop by PLN 63.9 million, -22.0%, PLN -53.7 million of which concerns direct business).

The whole of the non-life insurance market in three quarters of 2015 generated a net profit of PLN 2.0 billion (drop by 34.2% compared with the same period of the previous year). Excluding the dividend from PZU Życie, the net profit of the non-life insurance market dropped by PLN 0.76 billion (-45.6%). The technical result of the non-life insurance market dropped by PLN 623.5 million, i.e. by 60.2% to the level of PLN 411.6 million. This change was affected to the greatest extent by the drop of the technical result in MTPL insurance (- PLN 446.9 million) as a result of the ongoing pricing competition.

Low profitability in motor insurance in the last three quarters of 2015 could be compared to the lowest results from 2010.

Written premium of non-life insurance companies in Poland (PLN million)



Source: PFSA(www.knf.gov.pl). Quaterly Bulletin. Insurance market 3/2015. Quaterly Bulletin. Insurance market 3/2014, Insurance market 3/2013, Insurance market 3/2012,RInsurance market 3/2011, Insurance market 3/2010.

insurance companies, on aggregate, estimated the value of net technical provisions at PLN 41.0 billion, which represented an increase of 2.9% compared with the end of 2014.

Technical results	1 January - 30 September 2015			1 January - 30 September 2014		
	PZU*	Market	Market without PZU	PZU	Market	Market without PZU
Motor own damage insurance	18	(56)	(74)	164	253	88
TPL	(157)	(597)	(439)	107	(150)	(257)
Other products	553	1,064	510	434	932	498
TOTAL	**414**	**412**	**(3)**	**706**	**1 035**	**329**

Source: PFSA www.knf.gov.pl. Quarterly Bulletin. Insurance Market 3/2015, Insurance Market 3/2014

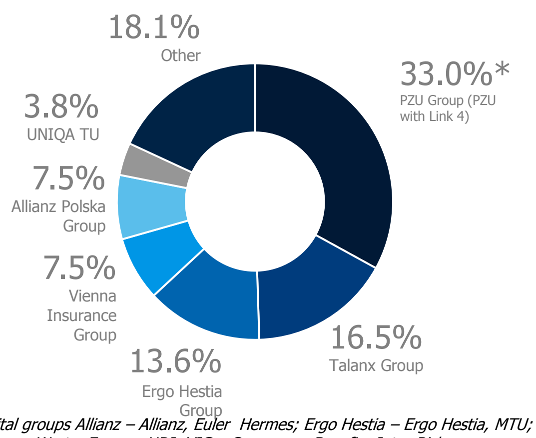
**including Link4, which contributed to the Group's result from the moment of acquisition, i.e. 15 September 2014*

The drop of the technical result in MTPL insurance resulted mainly from the lower earned premium (-PLN 319.2 million, i.e. -5.8%) and higher claims and benefits (+PLN 88.8 million, i.e. +2.0%, while the drop of the result in the motor own damage group stemmed mainly from the higher amount of benefits and claims (+PLN 289.2 million, i.e. +11.4%) and costs of insurance activity (+PLN 45.5 million, i.e. +4.7%).

Simultaneously, a profitability decline was recorded in the insurance for damage caused by forces of nature group (PLN -65.2 million on direct business) and casco insurance for maritime and inland navigation (PLN -25.8 million for direct business).

The value of investments of non-life insurance companies at the end of the third quarter of 2015 (excluding subsidiary investments) was PLN 51.1 billion and rose by 1.0% from the end of 2014. The instruments issued or guaranteed by the State Treasury and local authorities composed 49.8% of the aforementioned investment portfolio. Non-life

Non-life insurance companies - share in gross written premium for 3 quarters of 2015 (%)



Capital groups Allianz – Allianz, Euler Hermes; Ergo Hestia – Ergo Hestia, MTU; Talanx – Warta, Europa, HDI; VIG – Compensa, Benefia, Inter-Risk
Source: PFSA Quaterly Bulletin. Insurance market 3/2015
**PZU' Group's share calculated taking into account PZU's inward reinsurance towards*

PZU's activities

Over the past years, PZU has controlled approximately 1/3 of the non-life insurance market. After three quarters of 2015, PZU had a 31.2%[5] share in the non-life insurance market compared with 31.4% after three quarters of 2014.

PZU had a strong market position in motor insurance (with a share of 35.6%[5]). The share was 38.4%[5] for motor own damage insurance and 33.8%[5] for MTPL.

After the first three quarters of 2015, the share of PZU's technical result in the market's technical result was 110.2%, which, along with the market share of 31.2%, confirms the high profitability of PZU insurance.

PZU offers a wide range of non-life insurance products in all insurance groups. At the end of 2015, PZU's offer included over 200 insurance products. Motor insurance is the largest group of products offered by PZU, both in terms of the number of insurance contracts and the gross written premium.

In the changing conditions and in the face of new needs of the clients, PZU introduced new solutions to its insurance offer in 2015.

In mass client insurance:

- PZU Auto Ochrona Prawna (PAOP, PZU Car Legal Protection) was introduced, under which PZU organizes or covers the costs of protection of the insured party and immediate family's legal interests. PAOP guarantees legal consulting, legal representation, coverage of court costs in cases associated with vehicle possession, including vehicle traffic and use. The insurance comes in two options: Komfort and Super (Comfort and Super);
- PZU Dom (PZU Home) home insurance was made more attractive by introducing additional Legal Protection insurance. Due to the new solution, clients received actual legal assistance for themselves and their relatives in the instances when the tenant refuses to pay the rent, the home improvement crew fails to meet the contract, the seller fails to deliver the goods ordered online, and many others. Similar to the Auto product, the insurance comes in two options: Komfort and Super.

In the Corporate Client Division, 2015 was the first year to witness the operation of a new approach to sales and management, which is associated with the strategic project of transforming the corporate sales model. The implementation of the new solution is planned to translate into development of corporate business in the key areas.

A new product was introduced in the corporate client segment – guarantee of payment for shares purchased as a result of a squeeze-out – this offer is mainly for entities with a strong financial and market position. The first such guarantee covers PLN 700 million.

In the scope of financial insurance for corporate clients, PZU took part in large Polish modernization projects, including the ones in power engineering and infrastructure, by issuing security guarantees. A platform was launched to handle financial liability insurance - PZU Gepard. The platform is designed for corporations and small and medium enterprises insuring financial liabilities at PZU.

PZU cooperated with 8 banks and 6 strategic partners in the scope of protective property insurance in 2015. The partners of PZU are the leaders in their fields and have customer bases with great potential to expand the offer with successive bancassurance and strategic partnership products:

- 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;
- the sales of protective non-life insurance in the scope of the bancassurance channel covered mainly the insurance of buildings, structures, residences, and insurance dedicated for payment cards.

Factors, including risks and dangers, which will impact the activities in the non-life insurance sector in 2016

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 2016 include:

- possible slowdown of economic growth in Poland resulting from deteriorating external conditions. 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

[5] PZU share calculated with consideration of inward reinsurance of PZU towards Link4

other non-life insurance. The poorer 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 introduced asset tax and stricter requirements of Recommendation S GLOSSARY on good practices regarding the management of credit exposures collateralized with mortgages;
- decisions of supreme courts in the scope of monetary compensation from to the closest relative from the TPL insurance of owners of motor vehicles for damage resulting from the violation of his or her personal welfare even if the the damage took place before 3 August 2008;
- • potential raise of claims handling costs resulting from the implementation of further recommendations concerning claims handling by the PFSA;
- raise of spare parts prices with effect on claims handling costs resulting from the successive drop of PLN against the euro;
- implementation of the Solvency II requirements based on risk evaluation from January 2016 may change the operating model of selected areas of the insurance companies on the market (e.g. the pricing policy);
- further regulations or financial burdens imposed on insurers – e.g. a possible reinstatement of the so-called “Religa tax” (i.e. compulsory fee payable to NFZ from every MTPL policy).

04

4 Business strategy

Contents:

4.1 Key development directions of PZU Group in the years 2016–2020.

"Strategy is fundamentally management of change"
Prof. Arnoldo C. Hax, MIT Sloan School of Management

Dynamically changing business and legal environment forces the Group to strike a balance between pursuing previously determined strategic operations and searching for innovative solutions by means of thorough data analysis and skillful experimentation.

Development directions of PZU Group in the years 2016-2020:

- Staying client-centric – *We are here to ensure our clients' peace of mind and security. Our Clients can always rely on us.* The Group's mission in practice translates into transforming PZU from a product-centered organization into a company that focuses on the clients' needs;
- Strengthening the position of a leader at the insurance market in Poland;
    - Retail Client Area – maintaining the market leadership by using the comprehensive offer that fits the needs of relevant client segments and the strategy of two brands (PZU and Link4);
    - Corporate Client Segment:
      - (in non-life insurance) strengthening the position of a market leader, especially in Mid-Corpo client segment, and achieving the status of a business partner with strong expertise that provides not only insurance products, but also guidelines and support to the clients at every stage of risk management process;
    - (in life insurance) maintaining the position of market leader along with high profitability, irrespective of strong competition pressure;
- Foreign operations:
    - Dynamic increase in profits generated by foreign operations in PZU Group's profits;
    - Concentration on profitability and achieving high return on investment.
- Development of auxiliary insurance offer by introducing the following:
    - Customer asset management;
    - Health insurance.

The insurance sector undergoes numerous changes and transformations, which result in the insurers focusing on client's needs. The important direction of changes consists in creating products whose terms of conditions are simple and transparent and that the clients can easily compare. Competing under demanding market conditions forces the insurers to endlessly strive to expand and improve through optimizing the applied business models and extensive application of the analytical tools that use *Big Data*.

Further development of PZU Group will progress under conditions determined by the following main trends and factors:

1. Low interest rates

In the next few years, PZU Group will operate in the environment where low interest rate will prevail. The forecasts concerning inflation in both Poland and the Eurozone indicate no considerable probability of the inflation growth to the level of 2% earlier than near the end of the Strategy's horizon. This situation will continue to produce a difficulty in achieving a guaranteed rate of return in life insurance, and also it will have a considerable impact on the formation of the rates of return demanded by the investors, which are possible to achieve by investment and pension funds. MACROECONOMIC FACTORS CHAPTER 2.4

2. Growing regulative requirements

Solvency II

The regulations of the Solvency II directive GLOSSARY establishing the requirements concerning key financial parameters of insurance activity came into effect on 1 January 2016. The new regulations change the way of establishing the capital solvency requirement for insurance companies. According to the new regulations, these requirements will be established separately for insurance (underwriting), market and operating risk. By tightening regulative requirements, the Directive considerably changes the insurance market. Its implementation affects both premium calculation and changes to the internal processes of insurance companies, mainly in the scope of risk management. According to the new regulations, insurers are obliged to report the new extended information scopes to superior institutions and make them public. Resulting from the implemented changes, certain companies will face the need for capital injection or limitation of their operating scope. **REGULATIONS ON THE INSURANCE MARKET IN POLAND CHAPTER 2.3**

Asset tax

The tax on assets of financial institutions came into effect in Poland as of 1 February 2016. For insurers, the tax rate is 0.44% of the collected assets. This tax will cover many insurance companies operating in Poland, but the biggest part of its generated revenue will come from the tax on PZU Group's assets. It is estimated that PZU tax may amount to approx. PLN 150-160 millions. **REGULATIONS ON THE INSURANCE MARKET IN POLAND CHAPTER 2.3**

Changes to the act on insurance activity

The changes to the Act on Insurance Activity also came into effect in early 2016. The implemented changes are mainly oriented towards formation of relations with clients. In this case, the changes will mostly affect life insurers, including the requirement to keep detailed analyses of the client's needs in sales of products with investment capital funds and providing the client with appropriate recommendations and guidelines. The regulations on paying commission to insurance agents have changed, which will lead to changes in the sales of insurance products, especially through agents. **REGULATIONS ON THE INSURANCE MARKET IN POLAND CHAPTER 2.3**

3. Client’s expectations

In recent years, financial products, especially life insurances, became so complicated that clients tend to search for simpler and more transparent solutions, the so-called products without fine print. The products whose structure will be clear and understandable, regardless of the level of clients’ economic knowledge. Product transparency means e.g. a shift from comprehensive solutions combining elements of insurance and investment.

Meanwhile, in the case of non-life insurance products there is a constant pressure on price, which forces the insurers to compete not only on the scope of a basic service, but also the scope of additional services (assistance, direct claims handling, concierge). This requires the insurers to develop both comprehensive and flexible approach to the pricing of offered services.

4. Strong demographic trends and resulting changes in purchasing behavior

The strong demographic trends will lead to quick changes in the age structure of the society and, simultaneously, to the purchasing behavior of the Group’s clients. The number of people aged 60 and up, mostly still professionally active, with broad and diverse needs for all kinds of insurance (including medical insurance) and saving products (asset management) will quickly rise, especially throughout the realization of the main directions of the Group’s development horizon. Simultaneously, there will be more “millennials” entering the labor market with lifestyles, preferences and purchasing behaviors considerably different from their parents. This generation is much more used to all forms of digitalization in various aspects of life (including use of financial and insurance products). This forces the insurers, PZU included, to offer the products, as well as claims and benefits handling, through mobile channels, with the application of internet marketing and social media.

5. Growing importance of digital and mobile channel issues

The next few years are often referred to as the period of “rapid digitalization”. It is expected that extensive use of new digital technologies will be one of the strongest trends up to the year 2020, in the scope of both the projected changes in the operating activity of insurance companies and the formation of their relations with the clients. It is expected that developed markets will see a very quick growth in the number of clients using digital channels to contact insurers within the next five years. Consequently, it will be necessary to adapt relations with the clients, but it will also be easier to decompose the value chain of insurance companies because of the escalated competition and transparent prices. At present, none of the companies operating in the financial sector should neglect remote channels as a form of distribution and client service.

6. Greater potential to adapt to the client’s needs by using *Big Data*

The combination of the rising role of digital channels in client relations and rapidly growing analytical potential creates a unique opportunity for companies operating in the financial sector – especially insurance companies. However, numerous changes in business processes and investments in the solutions allowing for collecting and processing vast amount of data are essential, as well as tools for modeling and analyzing client behavior, which will enable the application of historical data collected by the companies. The use and development of the above-mentioned tools allow for a more effective client segmentation, which in turn translates into a more flexible adjustment of the offer to the needs, as well as optimization of sales and marketing costs of an insurance company.

4.2 Realization of key projects and initiatives in 2015

Poniżej zaprezentowano działania zrealizowane zarówno przez PZU jak i przez spółki z Grupy PZU w 2015 roku:

Realized activities in 2015

Business areas	Summary of the achievements of 2015
Insurance	1. PZU retained the top position on the non-life insurance market. According to PFSA data for the third quarter of 2015, PZU's market share was 31.2%[6] (a drop of 0.2 p.p. year-on-year). 2. Link4's share in the non-life insurance market rose from 1.6% at the end of the third quarter of 2014 to 1.9% at the end of the third quarter of 2015. 3. Retaining the top position in life insurance with regular premium after the third quarter of 2015 with a 43.9% market share (up from last year's 42.9%). Following the third quarter of 2015, PZU had a 29.1% share in the entire life insurance market. 4. PZU Group is still the leader of the Lithuanian and Latvian markets. In 2015, the share in the Lithuanian non-life insurance market was 31.1% and the share in the Latvian market following three quarters of 2015 was 25.1%. In both cases, the market share grew from the previous year. PZU's 2015 share in Estonian market was 13.8%. Both Ukrainian companies improved their market share and positions from the previous year. After three quarters of 2015, the non-life company is in 7th place with market share of 2.7% while the life company is in 4th place with market share of 8.6%, retaining a positive financial result despite the difficult business conditions. 5. The sale of PZU Lithuania was concluded on 30 September 2015. The company was purchased by the Norwegian Gjensidige Forsikring ASA. The final sale price was EUR 66 million. 6. On 3 November 2015, PFSA approved PZU's establishment of TUW – Polski Zakład Ubezpieczeń Wzajemnych. The new entity will provide hospitals with effective insurance coverage based on active risk management.
Investments	1. By the end of 2015, the value of the assets managed by (AuM) TFI PZU was PLN 28.3 billion, which constituted 11.2% of the assets obtained by domestic investment funds, thus placing it second among all companies affiliated under the Chamber of Fund and Asset Management. 2. Growth of managed assets of external clients from PLN 6.0 billion at the end of 2014 to PLN 6.8 billion at the end of 2015. At the end of 2015, the share of assets of external TFI PZU clients in TFI market assets (with exception of non-public assets) was 5.1% (4.7% at the end of 2014). 3. TFI PZU retained the top position in the segment of employee pension programs among all domestic investment fund institutions as it managed assets with value of PLN 3.2 billion (PPE – Employee Pension Plan, PPO – Employee Saving Program, ZPI – Corporate Investment Program) – AuM growth from 6.2% at the end of 2014. 4. The revenue of TFI PZU for 2015 amounted to PLN 172.6 million, a growth of almost 18.1% year-on-year.

6 PZU share calculated taking into account PZU's inward reinsurance towards Link4.

Health	1. PZU Zdrowie was established and received all medical assets (directly or indirectly). 2. PZU Zdrowie purchased shares in the following medical companies: Nasze Zdrowie (2015), Medicus w Opolu (2015), CM Gamma (2015) and CM Cordis (2016); additionally, CM Medica bought REZO-MEDICA (2015). 3. The gross written premium from group health insurance rose by 46% from 2014.

Factors conditioning implementation	Summary of activity and achievements in 2015
Effective distribution and customer service	1. Continued implementation associated with the introduction of a new policy system (Everest Platform) to improve PZU's flexibility and competitiveness. In 2015, remaining non-life products and first corporate insurances were introduced. For the most part of 2015, external sales channels (multiagents, dealers, brokers) and remote channels were preparing to work with the new system. 2. Continued implementation of innovative PZU Branches – well-visible and common for the entire Group. In 2015, 45 PZU Branches were activated and 151 Branches operating under the new model have been opened since the launch of the process. 3. Continued work aimed to consolidate and improve the visualization standard of Exclusive Agent offices. In 2015, 635 offices in the new standard were opened. From the start of the project, 866 offices in the new standard were opened. 4. There is ongoing work on the target sales support operating system.
A socially responsible organization	1. In 2015, the key way to promote active lifestyles and health prevention among Poles was PZU Group's involvement in running initiatives. PZU served as the strategic partner of numerous sports events, including the PZU Warsaw Marathon. 2. In scope of activation of local communities, PZU Group organized PZU Trasy Zdrowia – green areas specifically designed for physical exercise – in several municipalities throughout Poland. 3. As a patron of culture, PZU was involved in the preservation of Polish cultural heritage, supporting the Royal Castle in Warsaw, Royal Łazienki Museum, National Museum in Kraków, National Museum in Warsaw, and Grand Theatre—National Opera. 4. In 2015, PZU Foundation realized another edition of the campaign "Kochasz? Powiedz STOP Wariatom Drogowym" (If you love, say STOP to reckless drivers). Its main objective was to improve road safety by promoting responsible attitudes among drivers.
Effective claims handling and operations, flexible IT	1. 84% of PZU Group's clients are satisfied with claims and benefits handling (satisfaction survey on a sample of 4.7 thousand clients conducted in the fourth quarter of 2015). 2. The regulations concerning claims paid from TPL insurance drafted by PIU (Polish Chamber of Insurance) came into effect on 1 April 2015. PZU is the initiator of the Direct Claims Handling program. 3. There was ongoing work aimed to implement the advanced fraud detection

	system. The first implementation of the tool for motor insurance is planned for April 2016. 4. A new human resources and salaries system has been implemented as the first step towards standardization and improvement of HR processes in the whole company. 5. In order to optimize the costs, the next stage of the restructuring program in PZU and PZU Życie has been carried out. On 8 April 2015, the Management Boards of PZU and PZU Życie declared their intention to conduct collective redundancies in accordance with the Act on the specific principles of terminating labor relationships for reasons not attributable to employees dated 13 March 2003. The restructuring took place in the second quarter of 2015. It covered 267 people in PZU and PZU Życie, including the employment reduction which pertained to 134 PZU and PZU Życie employees.
Effective capital and investment policy and integrated risk management system	1. 18,318,473 shares of Alior Bank, which compose 25.19% of the share capital, have been acquired. The total value of the transaction is PLN 1.63 billion. Two of the total projected 3 share tranches were cleared in 2015. The final one was cleared in March 2016. 2. Cooperation has been established with the National Center for Research and Development, which will see PZU Group take part in the setting up of venture capital funds for the sector of new technologies. 3. PZU Finance AB (a 100% subsidiary of PZU) issued eurobonds for the amount of EUR 350 million. The bonds bear interest at a fixed interest rate of 1.375% per year and the interest will be paid once a year. The redemption of the bonds will take place on 3 July 2019. 4. All of the Group's insurance companies were adjusted to fulfill the requirements of the Solvency II directive. 5. In accordance with the GSM decision, the dividend of PLN 2.59 billion, i.e. PLN 30.0 per share before stock split, was paid on 21 October 2015. 6. A split of PZU shares in relation of 1:10 took place on 30 November 2015. The shareholders retained their share in PZU ownership and rights from before the split.

Key strategic goals	Aspirations
Stabilization of financial results	• Profitable insurance business • Active management of investment portfolio • Cost discipline through, among others, fixed costs reduction
Realization of strategy and strategic initiatives	• Expansion of PZU Zdrowie – further development of health insurance offer along with accompanying health care services • Dynamic international expansion regarding insurance • Building the position of a leading company managing assets – surge growth of market share in the asset management in Poland
PZU as the most technologically advanced company in Europe	• Building the best competences on the market regarding Big Data in order to improve product per client (CRM), underwriting and processes • Selling up of an ecosystem enabling effective management of client risk (from counseling to insurance products)

05

5 Organization, infrastructure and human resources

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 2015, PZU Group distribution network included:

- exclusive agents – PZU own agency network consisted of 6,554 exclusive agents, including individuals performing agency activities. The agency channel conducts sales of mainly mass client insurance, especially motor and non-life insurance, as well as individual insurance (life insurance);
- multiagencies – 3,161 multiagencies work with PZU Group to make sales mainly to the mass client (this channel is used to sell all types of insurance, especially motor insurance and non-life insurance);
- insurance brokers –- PZU, in particular the Corporate Customer Division, cooperated with 965 insurance brokers;
- PZU employees – thousands of PZU employees sold insurance (primarily to corporate and group customers) at their own branch offices that underwent a makeover in 2014. They are well-advertised, located in attractive venues, have no architectural barriers, and provide convenient access to all clients
- bancassurance and strategic partnership programs – PZU cooperated with 8 banks and 6 strategic partners in scope of protective insurance in 2015. The partners of PZU 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 or contact us:

- via the Internet;
- by telephone via the Contact Centre;
- in person at any branch of their choice;
- in a garage belonging to the PZU Repair Network (in the case of motor claims);
- in the PZU Pomoc mobile office;
- in writing (sent by post, e-mail or fax).

Claims and benefits handling process is conducted at 8 Regional Claims Centers located throughout the country and at the central unit – the Operational Center for Claims and Benefits. Since the process is based mainly on electronic information and the service is performed at a location which is not connected with the place of residence of the insured or the place of the event, the company has implemented the model of an equal workload of individual claims handling units that is automated within the SLS system. The process of handling certain types of claims has been centralized; this results in a higher specialization level and boosts customer satisfaction. The centralization has been introduced i.a. in the following fields: personal claims handling, claims concerning theft of vehicles belonging to individuals, claims handling under the direct claims handling service **GLOSSARY**.

As the first company to start in April 2014 the direct claims handling (BLS) process GLOSSARY on the Polish insurance market, PZU continues to handle claims under that scheme. It realizes it in two forms: individually and under an agreement. By the end of 2015, BLS agreement – drafted by PIU (Polish Chamber of Insurance) GLOSSARY – encompassed eight insurance companies, including PZU, which together represent nearly 70% of the motor TPL insurance measured at gross written premium level. Direct claims handling (BLS) under the agreement was implemented in April 2015. Introducing the BLS agreement helped to simplify the settlement of paid claims and claims handling costs between the insurers based on lump-sum schemes. PZU maintained also its earlier BLS solution for its clients who suffered damage at insurance companies that are not parties to BLS.

Under cooperation contracts concluded with the largest network of companies on the Polish market, PZU provides car rental, towing, and parking services. PZU actively offers its help in organization of the above services to all customers.

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.

In 2015, PZU continued cooperation with garages in the field of post-accident vehicle repairs. The cooperation with PZU Pomoc Repair Network is intended to ensure the highest quality and repair service standards to all customers who suffered damage. Every client that commissions a vehicle repair at a garage within the PZU network receives a Quality Certificate confirming the top quality of conducted works.

PZU continues to develop its offer when it comes to the management of objects that are left after a damage by providing the clients with an option to sell them on the Pomoc Online platform. The clients are offered to sell the remaining parts at the highest purchase bid price by reliable entities cooperating with the platform administrator.

In order to improve the non-life claims handling process, in 2015 the company continued to organize training sessions which followed the British standards of best practice in claims handling addressed to employees handling non-life claims of corporate clients.

For the customer, claims handling process is the moment of truth in contacts with the insurer and an opportunity to test the quality of the purchased product. Satisfying his or her expectations in the claims handling process is the key to building his or her ties with PZU. Therefore, in 2015 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. A process of implementing a Self-handling service was started; the service allows the victim to estimate the amount of compensation in motor and non-life claims and at workshops that repair equipment damaged during overload. Moreover, in 2015 PZU commenced a large-scale introduction of simplified solutions in contacts with clients, e.g. by resigning from traditional letters and a wider use of telephone and electronic communication, but first and foremost by making the language of its correspondence simpler and user-friendly.

Another innovative move was to appoint the Assistance Providers under the name of Organizatorzy Pomocy Poszkodowanym w Wypadkach [Providers of Assistance to Accident Victims]. These are mobile employees who meet with the victims in their houses and determine the actual life situation and the needs related to the accident they suffered from and for which PZU is liable. Provided assistance includes, among others, organization of medical, social, vocational and psychological rehabilitation in a broad sense. Assistance Providers advise on how to adjust place of residence to meet the needs of a disabled person, as well as how to choose proper systems compensating for dysfunctions and disabilities. They also provide assistance in completing all the formalities connected with claims handling. They assist in obtaining benefits and establishing contacts with government institutions (PFRON [National Disabled Persons Rehabilitation Fund], ZUS [Social Insurance Institution], KRUS [Farmer's Social Security Fund], MOPS [Municipal Social Services Center] and MOPR [Municipal Family Support Center]). They also provide psychological support to the immediate family members of the victim.

As an innovation-driven company, PZU provided its clients with an access to a mobile application which allows the insured to select the type of claim handling or accident insurance benefits at any given time. The service was addressed to the clients who often find it difficult to pick up the phone during working hours or need more time to think about the proposed claim payment. The tool allows the insured to easily and conveniently participate in the decision-making process concerning the contribution payment, and speeds us the entire process by a quick contact with the Consultant.

The company is focusing on service improvement, therefore, it strongly appreciates customer feedback. Customer satisfaction surveys are conducted via the application. The customers' replies suggest that the clients are highly satisfied with the change. The insured perceive the change in a positive way and point out to the improved claims handling process and accident insurance benefits.

Another example of a pro-customer activity implemented by PZU in 2015 is a visual representation of claims handling stages in the Online Claim/Issue Status. After logging to his or her claim/issue at www.pzu.pl , the Client can learn how many stages the

PZU claims handling process involves, become familiar with every stage, and check his or her claim/issue status, as well as see which activities have already been realized. Additionally, the client can freely change notification settings concerning his or her claim/issue so that the system sends a status update to a designated email address or phone number.

The www.pzu.pl website features also a video with tips related to online claims handling. Short videos depict PZU employees showing the clients how to quickly file a claim, change its status, or how to use the accident insurance in the case of an accident. PZU – Video tips – Online claims handling

The quality of claims handling process and benefits payment at PZU is highly valued by the clients. At the end of Q4 2015, satisfaction rate reached 84%[7]. Meanwhile, NPS (Net Promoter Score), a recommendation index being the difference between the proportion of promoters and critics participating in the survey for claims handling sector amounted to 20%, while 46% of consumers surveyed indicated that they were active promoters of PZU.

IT and operations

Everest Platform is a state-of-the-art tool that facilitates sales of non-life insurance, assessment of insurance risk, and management of policies and settlement, which has been implemented by PZU since 2014. By using the platform, the Group will be able to distribute information faster, which will enable the agents to better recognize and understand the needs of clients from different sectors. Introducing improved and more advanced solutions to the working environment of the Group's agents and employees, Everest platform helps boost operational effectiveness, which in turn increases possibilities of presenting a competitive offer to the clients.

In 2014, according to the assumed schedule, PZU introduced motor, household, and some property products into the new system. In 2015, remaining non-life products and first corporate insurances were introduced. For the most part of 2015, external sales channels (multiagents, dealers) were prepared to work with the new system. Pre-implementation and information meetings for future users of the Everest platform, as well as training to prepare staff for working with the systems, were held in all external sales channels. Pilot programs were initiated to test if the conditions for smooth and timely implementation have been met. At the same time, in April and June 2015, surveys were held to check the satisfaction level of the users and learn their opinion on the new system.

At the moment, there are over 18 thousand users working at the Everest platform, including all branch employees, exclusive agents, partner agents, and office workers. More than 13 million policies have been issued in the new system so far, including over 8 million in 2015 alone. The full implementation of the new policy system is planned to be finished in the third quarter of 2016.

In 2015, in addition to operating activities and working on the Everest project, the Technology Division implemented internal strategic initiatives, which consisted of the development of a series of activities supporting key business initiatives, especially the following:

- as an adjustment of the IT and security system to requirements of external acts, the process of Polish Financial Supervision Authority (KNF) requirements implementation is highly advanced and will allow to satisfy the requirements as planned until the end of 2016;
- IT systems were adjusted to report in accordance with requirement of Solvency II directive GLOSSARY;
- in the field of reporting, the Baltic companies were subject to periodical reporting and the management information system was extended to cover PZU Group subsidiaries;
- using agile methodology of software development was continued and extended.

5.2 Human resources management

Level of employment

In 2015, the average annual PZU employment of approximately 7.8 thousand employees calculated as FTEs.

On the 8th of April 2015, the Management Boards of PZU and PZU Życie declared their intention to conduct collective redundancies in accordance with the Act on the specific principles of terminating labor relationships for reasons not attributable to employees dated on the

[7] Change in sample selection metodology Since 2015 survey

13th of March 2003. The restructuring took place in the second quarter of 2015. It covered 267 people in PZU and PZU Życie, including the employment reduction which pertained to 134 PZU and PZU Życie employees.

The people who were dismissed or who did not accept the changes in the terms and conditions of employment (the same as during all stages of employment restructuring, namely in 2010–2014) were offered more favorable conditions of leaving than those provided for by law in similar situations. The amount of additional redundancy payment depended on the length of service with PZU Group and the salary of each employee.

Salary policy

In 2015, PZU continued its remuneration and recruitment policy which covers all internal principles concerning salaries for relevant groups of employees; Such principles are determined in accordance with the generally applicable rules of law, PZU internal regulations and corporate governance.

The main premises of PZU's remuneration policy include:

- awarding and retaining best talents by offering a competitive remuneration scheme, as well as trainings and career development options;
- planning replacements at positions within PZU Group by development of career paths and programs for workers and managerial staff;
- recruiting the best employees (including young talents) by building an image of the company as an employee of choice, by effective recruitment and selection process;
- supporting non-professional activities of PZU employees, i.e. by engaging them in the Group's CSR actions, such as employee volunteering program.

The remuneration scheme includes the nature and scope of the company's operations, its functioning sectors, as well as market practices. A part of remuneration subject to variations is developed on the basis of the above-mentioned factors and depends on the group of employees it concerns. The applicable remuneration policy is based on a performance result management system, competence assessment and on-going adjustment of the remuneration scheme to changing conditions. This applies especially to the variable part of remuneration and extra benefits.

The PZU Group remuneration system is based on an annual employee assessment which constitutes a part of modern motivational system and awarding the best personnel. The annual competence assessment system and the quarterly target determination and settlement system covers the following:

- "Płacimy za wyniki" (We pay for results) – a new performance management system – a quarterly assessment of target achievement (adjusting targets to managerial level and business specifics), whereas achievement level of quarterly targets translates into the bonus amount;
- "Ocena DNA PZU" (PZU DNA appraisal) – a competence assessment model for employees and leaders;
- "Roczna ocena pracownika" (Annual performance review) – employee development plan based on the analysis of target achievement and competence assessment.

The solutions applied within the remuneration policy allowed to develop a relation between effectiveness and competence level and pay rises, development choices and promotions. They constitute a tool for managers that helps to manage targets/tasks/motivation of their teams, as well as identify and develop employees with exceptional competence levels.

Recruitment, training and building an image of an employer of choice

In 2015, a new recruitment module was successfully implemented in HRM (Saba Enterprise) application already used by the company. From 2015, by the time a job application has been accepted, the entire recruitment process takes place in a user-friendly HRM application interface which keeps the participants of the process posted about their application status. For the first time in history of recruitment at PZU, an extensive database was used which is accessible to all recruiters and improves documentation management as well as has an option to preview the candidates' applications. The recruiters may also automatically publish job offers in several locations and thus monitor effectiveness of selected candidate acquisition channels. The HRM system helps them not only save time spent on application posting and selecting job applications, but also improves security of stored data. The changed functionality helps also to build a positive image of PZU Group as an employer among candidates applying for a job at PZU. One of the key benefits of introducing the HRM recruitment module for the candidates is an option to receive an update on their recruitment project status via emails with invitations to an interview, notifications on delays in the recruitment process, or a thank you note for the participation in the process.

PZU has also 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 or her opinion on working for PZU Group and the reasons of their decision to change employer.

The following have been organized in 2015 to support employees in improving their skills, which are required at the given work post:

- PLUS training program (Professionalism – People – Skills – Trainings) - trainings are selected for the employee on the basis of his DNA appraisal (PZU competence model) which have the objective of developing the weak spots. Every program contains several training modules which develop competences in all fields, such as client, result, responsibility, development, cooperation.
- Menedżer 2.0 (Manager 2.0) program which focuses on the development of mid-level management (over 1,500 managers) in building managerial thinking, team engagement, business effectiveness of a team, as well as coaching skills indispensable at a managerial position. An interactive and gamified Inspiratorium Menedżer 2.0 (Inspiration Space Manager 2.0) platform is a continuation and extension of stationary trainings. The platform uses state-of-the-art trends to combine elements and mechanisms known from games to support development of a habit to pursue self-education and knowledge acquisition, as well as social network mechanisms to create an interactive space for sharing knowledge, experience, ideas, and inspirations;
- Lider 2.0 program, 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 trainings - postgraduate studies and specialized forms of professional development, language courses;
- "Świadoma siebie" (A self-conscious me) – development program for women within "Kobiety PZU" (PZU Women) Association.

Every employee at PZU and PZU Życie benefited from an average of 27 hours of classroom trainings in 2015.

In addition, three projects were continued as a part of the development of the new organizational culture:

- Otwarte PZU [Open PZU] - a program designed to build employees' awareness in the area of openness. The aim of the project is to build innovative attitudes. The program objective is to promote: direct and simple communication, feedback providing strategies, team cooperation, partner relations and research of innovative solutions;
- TalentUp – a talent-building program addressed to specialists which aims to prepare the employees to work more important roles within the organization;
- SmartUp – a General MBA development program addressed to managers and directors who exhibit high potential. It has been designed in cooperation with the Warsaw University of Technology Business School.

An internal coaching project was initiated. The project is addressed to mid-level managers and project leaders and is conducted by employees having appropriate preparation in various business fields.

PZU continues also large-scale activities promoting its brand as an employer, which are addressed to students and professionals. Year 2015 started with a uThoruj sobie drogę na staż (Your way to internship) recruitment campaign; as a result, over 100 students from the entire country joined the company. The company's spring campaign actions were recognized by the jury at EB Excellence Award and EB Stars competitions. Popular social competitions, i.e.

[Studencki Projekt Roku](#) (Student Project of the Year) and Inwestycja w Przyszłość (Investment in the Future), were continued to support the most active students and most popular academic projects.

PZU experts shared their knowledge and experience at a number of business presentations and trainings for students (i.a. during Dni Otwartego Biznesu w PZU (Open Business Days at PZU)),and all image activities were supported by active and creative PZU Group Ambassadors and Advisors.

Ambasadorzy i Doradcy Grupy PZU.

The year ended with the #najlepszastrona (#bestside) image campaign, which received another prestigious award, EBKreator. The awarded campaign is based, among others, on the new Instagram profile @pzukariera which is the third social media channel to openly communicate as an employer, alongside with Facebook and LinkedIn.

5.3 Marketing

In 2015, PZU Group made wide-ranging advertising campaigns, including:

- Campaign to promote motor TPL insurance with Direct Claims Handling (BLS) service. The aim of the campaign was to present benefits from holding motor insurance with BLS at PZU. The campaign featuring Marcin Dorociński included TV spots and online activities at tylkospokoj.pl;
- "Kochasz? Powiedz STOP Wariatom Drogowym" (If you love, say STOP to reckless drivers) social campaign. 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 to remind drivers to drive safely. The second stage of the campaign carried out in 2015 was focused on the initiative for active pedestrian crossings and attracting attention to the fact that responsibility on the road falls to both the driver and the pedestrian. The message is expressed in the following slogan: "If you love, watch out for the pedestrians. They can be your loved ones." In 2015, PZU built active pedestrian crossings in 20 Polish municipalities;
- Loteria OC (TPL Lottery) campaign. A campaign addressed to clients who have TPL insurance in PZU. The lottery included the following sponsored awards: 12 passenger cars and 360 bicycles. Additionally, as a part of a special offer, holders of TPL insurance at PZU could pay less for filling their tanks at LOTOS and LOTOS Optima petrol stations due to special discount cards.
- Niestraszki (Fear-nots) campaign. The first edition of a new PZU campaign, "Niestraszki w pakiecie" (Fear-nots in a pack), was initiated in December. The campaign features 5 Fear-nots – funny, yet smart characters with an educational mission, i.e. to teach children the rules of security.

In 2015, PZU made also advertising campaigns with a narrower range, including:

- EMPLOYER BRANDING campaign – the aim of the campaign was to promote the employer's brand. It featured two editions in 2015: the spring edition targeted to students and graduates at the largest universities in Poland, and the fall edition was addressed to professionals.

In 2015, PZU continued to introduce unified visual standards for exclusive agents' offices, both when it comes to signage and fit-out of the premises. A process of external branding of multiagents was commenced. Nearly 250 multiagency offices were branded in 2015.

Ongoing and long-term actions to support sales of non-life insurance were conducted, dedicated to PZU and PZU Życie agents. Activities covered BTL support were addressed to branches and agents' offices. A mobile stand was organized and PZU representatives were present at 12 outdoor events in Poland. PZU equipped its agents in branding materials, which guaranteed that the company was present at local events realized by field agents.

PZU implemented also ATL actions, i.e. 4 campaigns consisting in covering shop windows in branches and agents' offices. Nearly 190 shop windows were covered in Poland.

In 2015, PZU marketing campaigns received a number of awards, i.a.:

- KTR (Klub Twórców Reklamy [Club of Advertisement Creators]), Platinium Magellan Award – "Kochasz? Powiedz STOP Wariatom Drogowym" (If you love, say STOP to reckless drivers) PZU Foundation social campaign;
- KTR, Silver award – "Telewizor" (TV Set), a PZU housing campaign of 2014
- KTR, double Bronze award – „Ulubiona zabawka" (Favorite toy) Project – (categories: Loyalty Program&Direct);
- Innovation Award 2015 – distinction for "Ulubiona zabawka" (Favorite toy) project (category: Insight).

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6 Financial results

Contents:

6 Financial results

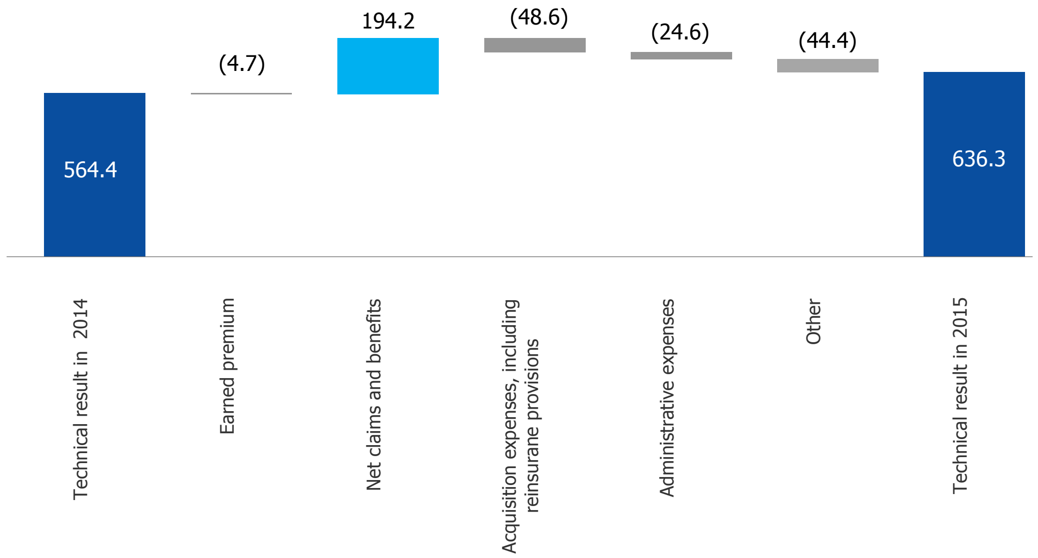
6.1 Key factors affecting the achieved financial results

In 2015, PZU achieved the technical result of PLN 636.3 million, a 12.7% growth from the PLN 564.4 million in the previous year. The net profit amounted to PLN 2,248.5 million, compared with PLN 2,636.7 million in 2014 (a drop of 14.7%). Without the dividend obtained from PZU Życie, the net profit of PZU was PLN 558.3 million and was PLN 18.4 million lower than in 2014.

Within particular items of the net result, PZU recorded:

- growth of the gross written premium to PLN 8,858.0 million, i.e. 7.2% compared to the previous year, mainly in motor insurance, resulting from higher sales of motor insurance offered by PZU and the coverage of Link4 and Baltic states companies with the inward reinsurance program (effect eliminated at the level of consolidation of PZU Group's results) and in insurance of financial losses resulting from establishment of long-term inward reinsurance cooperation with a new client. After accounting for the share of reinsurers and the change in provision for unearned premium, the net premium earned amounted to PLN 7,898.0 million, which was 0.1% lower than in 2014;
- lower claims and benefits at PLN 5,036.6 million, a drop of 3.7% from 2014. The change was recorded mainly in TPL insurance and resulted from the lower level of claims provisions for previous years damage. Simultaneously, the comparability of the results is influenced by the recognition of the rise of claims provisions for compensation for pain and suffering for damage occurred in previous years in the 2014 result;
- lower net investment result by PLN 544.1 million, mainly due to the lower dividend from PZU Życie;
- higher acquisition expenses (growth of PLN 48.6 million) resulting mainly from higher inward reinsurance commission (effect of the conclusion of agreements with the Group's subsidiaries) and indirect acquisition expenses (including sales-assisting activity aimed to improve effectiveness of the sales network). Furthermore, there was a growth of direct acquisition expenses, which resulted from the change to the sales channel mix (higher share of the multiagency and dealers channel);
- growth of administrative expenses to PLN 753.7 million from PLN 729.1 million in 2014 associated mainly with the expansion and initial usage of the Everest Platform (policy system for non-life insurance), strategic projects aimed to improve customer service, and implementation of the new operating model for corporate insurance sales networks.

PZU's technical result in 2015 (PLN million)



Basic amounts of the profit and loss account PLN million	2015	2014	2015/2014 PLN million	 in %
Gross written premiums	8,858.0	8,261.8	596.3	7.2%
Net earned premiums	7 898.0	7,902.6	(4.7)	(0.1)%
Net claims and benefits	(5,036.6)	(5,230.9)	194.2	(3.7)%
including paid gross claims and benefits	(5,135.2)	(4,427.3)	(708.0)	16.0%
Acquisition expenses, including reinsurance commission	(1,571.5)	(1,522.9)	(48.6)	3.2%
Administrative expenses	(753.7)	(729.1)	(24.6)	3.4%
Technical result	636.3	564.4	71.9	12.7%
Net investment result	2,024.0	2,568.0	(544.1)	(21.2)%
Gross profit (loss)	2,475.9	2,854.5	(378.6)	(13.3)%
Net profit (loss)	2,248.5	2,636.7	(388.2)	(14.7)%

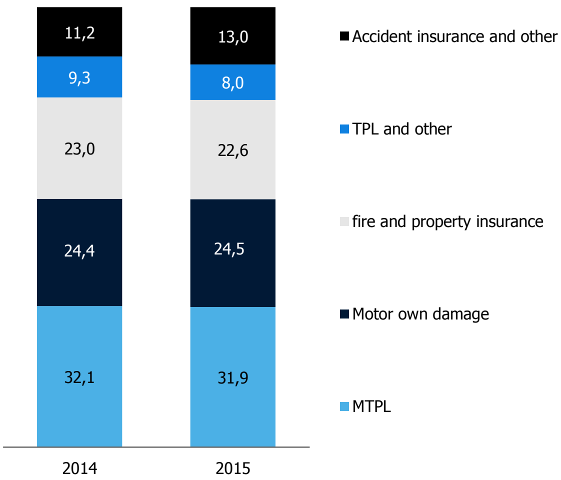
6.2 Gross written premium

Premiums

Gross written premiums in 2015 amounted to PLN 8,858.0 million, which means an increase by 7.2% compared to last year. They comprised mainly:

- MTPL insurance premiums comprised 31.9% of the PZU's insurance portfolio (32.1% in the prior year). In 2015, their value was 6.6% higher than in the prior year, which resulted mainly from the inclusion of Link4 and Baltic states companies in the inward reinsurance program;
- motor own damage insurance premiums with 24.5% share in PZU's total gross written premium (i.e. 0.1 p.p. higher than in corresponding period of the previous year) – growth resulting from higher insurance numbers;
- fire and property insurance premiums comprising 22.6% PZU's premium portfolio. In 2015, their value dropped by 0.4% and their value was up by 5.2% from the previous year – resulting from the acquiring of several large clients and entering into contracts for the periods longer than one year;
- accident and other insurance premiums, which had a 13.0% share, (a growth of 1.8 p.p. from 2014). This insurance category recorded growth in the value of insurance of financial losses, resulting from long-term cooperation established with a new Client under an obligatory amount inward reinsurance agreement.

PZU's gross written premium structure (in %)



6.3 Net investment result

In 2015 PZU's investment activity focused on preserving the diversification of the investment portfolio with the simultaneous optimization of investment activity profitability.

In 2015, PZU's net investment result according to PAS amounted to PLN 2,024.0 million compared with PLN 2,568.0 million in 2014 (drop of 21.2%). Excluding the dividend received from PZU Życie, PZU's net investment activity result amounted to PLN 333.8 million, compared with PLN 508.0 million in the previous year.
The following factors had the greatest impact on the decline in the result:

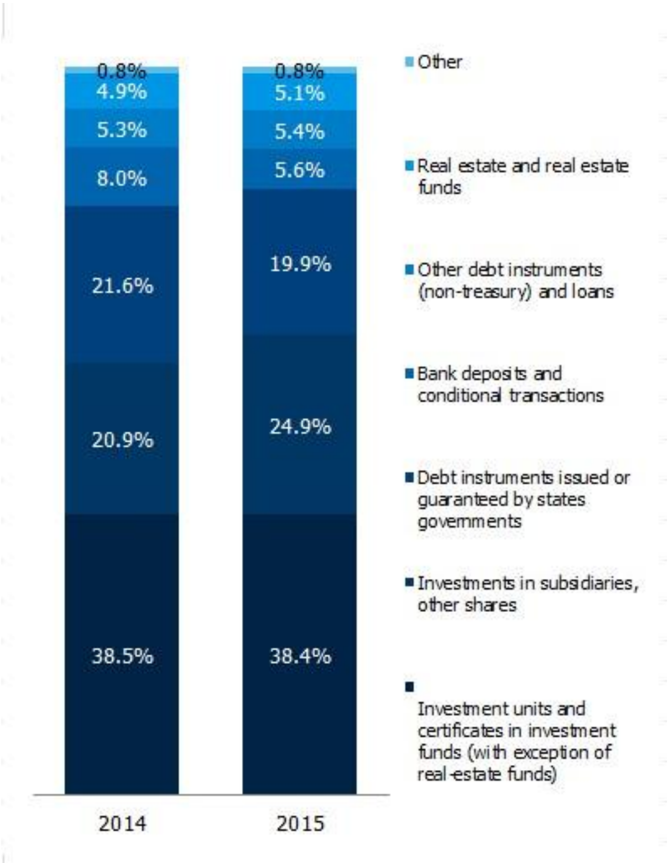
- lower dividend received from PZU Życie;
- weaker performance of derivatives purchased mainly for trading purposes aiming at appropriate investment portfolio risk management;
- weaker performance of currency instruments.

The impact of the above factors was partially balanced by the one-off event associated with the PLN 58.8 million gained from the sale of PZU Lithuania shares.

The sale of PZU Lithuania was an element of the expansion into the Baltic states, which started in 2014. At the same time, branches of PZU Lithuania were transferred to AAS Balta and Lietuvos Draudimas, which contributed to the growth in the valuation of entities mentioned above through revaluation reserve.

At the end of 2015, the value of PZU investments portfolio amounted to PLN 32,356.0 million, compared with PLN 31,030.9 million as at the end of 2014.

Financial asset structure (in %)[8]



The biggest part of PZU's investment portfolio was composed of investment fund units and certificates managed by TFI PZU (with the exception of real-estate funds). The fund portfolios consisted mainly of treasury bonds valuated at fair value as well as non-treasury bonds and quoted shares, where in 2015 the share of quoted shares declined considerably in favor of non-treasury bonds, which resulted from the reallocation of assets in fund's portfolio managed by TFI PZU between PZU and PZU Życie.

A considerable part of PZU's investment portfolio was composed of investments in subsidiaries and other shares and stock kept directly on the balance sheet. Their share amounted to 24.9% compared to 20.9% at the end of 2014. The growth resulted mainly from the acquisition of Alior Bank shares in 2015. The stock of PZU Życie had the greatest share in this investment class.

As at 31 December 2015, the share of debt securities issued or guaranteed by governments of states kept directly on the balance sheet dropped from 21.6% to 19.9%, which resulted from the limited level of reinvestment associated with the low interest rate level.

PZU did not apply security accounting in 2015.

6.4 Claims and technical provisions

In 2015, the total net amount of claims and benefits and increase in technical provisions of PZU amounted to PLN 5,036.6 million. In relation to 2014, the value of claims including the change of provisions was lower by 3.7%. The following factors also contributed to the change in the net value of claims and benefits:

- lower claims ratio in TPL insurance, resulting from lower level of claims provisions for previous years damage;
- lower level of claims in property and agricultural insurance (including mass claims);
- lower claims and benefits level in motor insurance, resulting from two factors:
  - the rise of claims provisions for compensation from pain and suffering for damage occurred in previous years in 2014;
  - negative impact of the higher average payment and more claims reported in 2015 (resulting from the strong price pressure continuing since 2013).

6.5 Acquisition expenses and administrative expenses

In 2015, acquisition expenses without reinsurance commissions amounted to PLN 1,572.3 million and increased by 4.0% from 2014. This growth resulted mainly from higher inward reinsurance commission (effect of the conclusion of inward reinsurance agreements with the Group's companies) and indirect acquisition expenses, including sales-assisting activity aimed to improve effectiveness of the sales network. Furthermore, there was a growth of direct acquisition expenses, which resulted from the change to the sales channel mix (higher share of the multiagency and dealership channel).

[8] Respective categories of investments are presented excluding investment fund portfolios which are presented in the separate line.

In 2015, PZU administrative expenses were at the level of PLN 753.7 million, which was 3.4% higher than in the previous year. This resulted mainly from the expansion and initial usage of the Everest Platform (policy system for non-life insurance) and strategic projects aimed to improve customer service, including implementation of the new operating model for corporate insurance sales networks.

6.6 Other operating and technical expenses/income result

The 2015 balance of technical revenue and expenses was negative and amounted to PLN 113.4 million. The result was down by PLN 1.1 million from 2014, resulting from the change in value of appropriations updating the value of receivables.

In 2015, the balance of other net operating income and expenses was positive and amounted to PLN 19.3 million compared with the negative balance of PLN 74.0 million in 2014. As of mid- 2014, the balance of other operating costs was encumbered with the costs of interest and change in valuation of exchange differences from the loan taken from PZU Finance AB for the total amount of EUR 850 million (EUR 500 million in July 2014 and EUR 350 million in October 2015). In 2015, the costs of interest and exchange differences from the loan taken from PZU Finance AB (publ.) amounted to PLN 49.7 million, i.e. 34.7% lower than in 2014, which resulted from lower exchange differences.

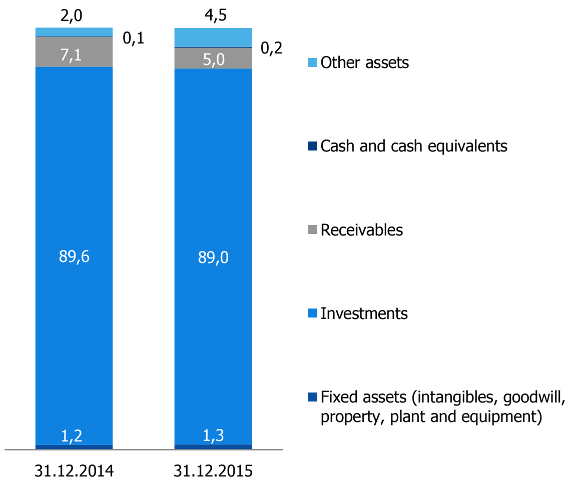
6.7 Structure of assets and liabilities

As at 31 December 2015, the total assets of PZU amounted to PLN 36,358.4 million and was 5.0% higher than at the end of 2014.

Assets

Investments composed the main element of PZU's assets and reached the total value of PLN 32,356.0 million (a 4.3% growth from the end of 2014), 89.0% of PZU's total assets compared to 89.6% at the end of the previous year. With exception of investments in subsidiaries, this level was 1.0% lower. The growth of investment value in subsidiaries resulted mainly from the 2015 acquisition of Alior Bank shares.

PZU's assets structure (in %)



PZU's receivables amounted to PLN 1,801.9 million and composed 5.0% of assets. In comparison, their value at the end of 2014 was PLN 2,437.8 million (7.1% of PZU's assets). The comparable state resulted from the recognition of receivables from PZU Życie for the dividend in amount of PLN 730 million in the 2014 results.

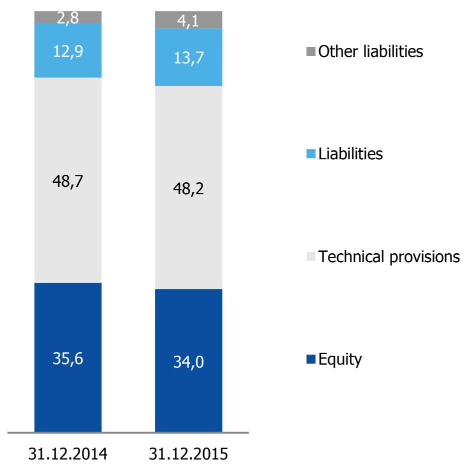
Non-current assets – in the form of intangible assets, goodwill and property, plant and equipment – were recognized in the balance sheet at PLN 493.1 million. They comprised 1.3% of total assets.

As at 31 December 2015, PZU held cash and cash equivalents of PLN 65.1 million (0.2% of the assets). A year earlier, they amounted to PLN 47.0 million.

Liabilities

At the end of 2015, the main component of PZU's liabilities was technical provisions. They amounted to PLN 17,540.5 million, which represented 48.2% of liabilities. Their share in the balance sheet was at a level similar to the previous year, but their value increased by PLN 679.3 million, mainly due to the higher premium provisions in motor and financial insurance.

PZU's liabilities structure (in %)



At the end of 2015, equity amounted to PLN 12,378.7 million and composed 34.0% of the liabilities (drop by 1.6 p.p.).

The balance of other liabilities and special funds at the end of 2015 amounted to PLN 5,109.8 million, composing 14.1% of PZU's liabilities. The balance value rose by 11.1% from the previous year.

Cash Flow Statement

The net cash flows from operating activity at the end of 2015 amounted to PLN 379.8 million and dropped by PLN 424.3 million compared with the previous year.

Off-balance sheet items

Contingent receivables amounted to PLN 30,527.5 million and grew by PLN 20,681.5 million from the previous year. They included the following:

- receivables from security of loans, guarantees, etc. in total amount of PLN 18,868.8 million (balance growth by PLN 17,651.1 million from the end of the previous year);
- bills due to guaranteed insurance in amount of PLN 7,683.0 million (drop of PLN 109.7 million from the balance at the end of 2014) and
- bank guarantees and sureties (bid bonds and contractual guarantees) required for tenders for insurance services in amount of PLN 12.4 million.

The balance of conditional obligations rose by PLN 2,291.7 million from the previous year. Growth was recorded mainly in granted guarantees and sureties, which included the guarantee granted to subsidiary PZU Finance AB. The guarantee covers all liabilities of the issuer resulting from the bonds issued in July 2014 and in October 2015. According to issuing conditions, the date for bond maturity and thus guarantee was set for July 2019.

Credits and loans incurred and granted

At the end of 2015, PZU's debt ratio grew to 22.6%[9].

On 19 October 2015 the Issuer took a loan from PZU Finance AB (publ) with a total amount of EUR 350 million with an interest rate of 1.425% per year. The loan is to be paid back on 28 June 2019. The loan was granted at arm's length.

On 23 March 2015, PZU granted a limit to the PZU Zdrowie loan at maximum PLN 200 million. The first tranche of the loan in amount of PLN 90 million was implemented on 26 March 2015 and the second tranche in amount of PLN 40 million was implemented on 29 September 2015. The loan is interest-free. It will be paid off in 120 equal installments with deadline of 31 December 2030.

6.8 Share of the business segments in the PZU's results

For management purposes, PZU has been divided into the following business 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 to large business entities.
- mass-market insurance (non-life). This segment comprises property, accident, general liability and motor insurance. PZU provides the insurance to individuals and entities from the SME sector.

Corporate insurance

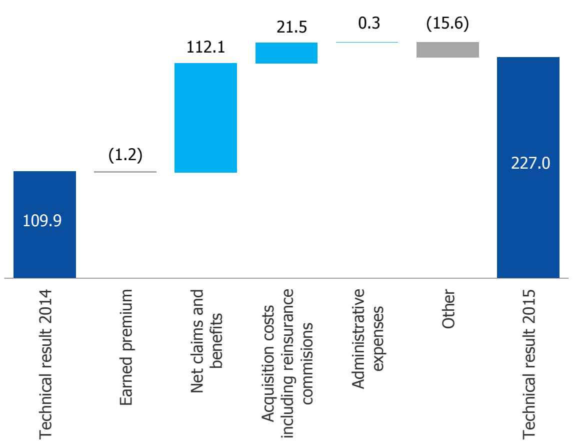
In 2015, the technical result of the corporate insurance segment reached PLN 227.0 million, which is 106.5% more than in the prior year.

[9] Debt ratio calculated as Liability due to obtained loans/(Equity + Liability due to obtained loans)

The 2015 results of this segment was determined by the following factors:

- earned premium at a level similar to the previous year (0.1% drop) and simultaneous drop in gross written premium by 2.0% compared with 2014. In 2015, there were noticed lower sales in the TPL insurance group (drop of PLN 88.2 million), resulting from the finalization of several large tenders conducted by medical entities in December 2014 (with no effect on the premium earned in 2014) and the casco insurance group for rail vehicles (PLN 13.7 million) and guarantees (PLN 9.9 million). The decline in the gross written premium was partially offset by the increased sales of motor own damage insurance, resulting from higher insurance numbers, and in the group of insurance against fire and damage to property (+7.1%), resulting from the acquisition of several strategic Clients and entering into contracts for the period longer than one year;
- 11.7% decline in net claims and benefits from the previous year, which, considering a 0.1% drop of the net premium earned, means that the claims ratio improved 7.6 p.p.

Technical result of corporate segment (PLN million)



The decline was recorded mainly in TPL insurance (lower level of provisions for previous years claims) and insurance for damage caused by forces of nature (lower claims ratio). The effect is partially offset by increased claims and benefits in motor insurance (+11.2% year-on-year) resulting from higher average claim payment and higher number of reported claims;

- decline in acquisition expenses by PLN 21.5 million, i.e. 7.4 % compared with 2014, resulting from higher level of deferred acquisition, partially offset by the increase in commission from inward reinsurance and indirect acquisition costs;
- administrative expenses at a level similar to that of the previous year (0.2% drop). The 2015 expenses were determined by the implementation of changes in client relations management, including mainly implementation of a new model of the corporate insurance sales network.

Mass client insurance

In 2015, the technical result in the mass client insurance segment amounted to PLN 409.3 million (a 9.9% decrease compared with the prior year).

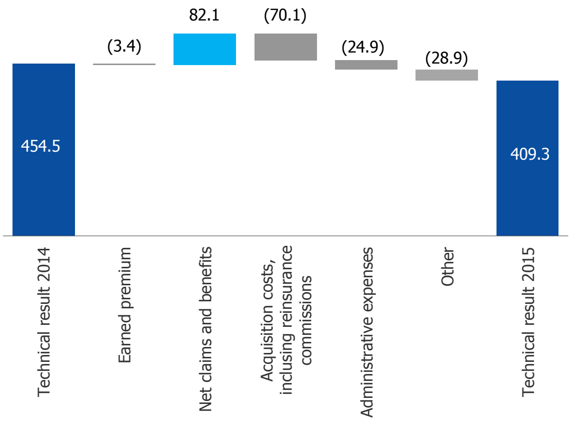
This result was determined by the following factors:

- earned premium of PLN 6,442.9 million (0.1% drop). Simultaneously, the gross written premium rose by 9.8% from the previous year, mainly in motor insurance (+7.2%). There was a higher premium recorded in the group of insurance of financial losses (due to long-term cooperation with a new Client under an obligatory amount inward reinsurance agreement) and insurance for damage caused by forces of nature (+8.1%). Furthermore, the premium growth also resulted from the coverage of Link4 and Baltic states companies with the inward reinsurance program (effect eliminated at the consolidation of PZU Group's results);
- net claims and benefits amounted to PLN 4,191.5 million, i.e. dropped by 1.9% from 2014, mainly due to the lower level of claims in MTPL insurance (recognition of increase of Claims provisions for compensation for pain and suffering for damage occurred in previous years in 2014 result) and agricultural insurance (lower level of mass claims). Simultaneously, there was a growth in claims and benefits in motor own damage insurance (+13.5% year-on-year), which resulted from higher dynamics of reported and paid claims;
- acquisition expenses amounted to PLN 1,303.7 million, 5.7% higher than those of the previous year. The main growth was in inward reinsurance commission (effect of the conclusion of inward

reinsurance agreements with the Group's companies) and indirect acquisition expenses (including sales-assisting activity aimed to improve effectiveness of the sales network). Furthermore, there was a growth of direct acquisition expenses, which resulted from the change to the sales channel mix (higher share of the multiagency and dealership channel);

- administrative expenses which amounted to PLN 629.4 million, increased by 4.1% compared with 2014. The higher expenses were associated with the expansion and initial usage of the Everest Platform (policy system for non-life insurance) and other strategic projects aimed to improve client service by tied agents and develop distribution channels.

Technical result of mass client segment (PLN million)



6.9 Operating efficiency ratios

In 2015, PZU's return on equity amounted to 18.2%. ROE was 3.2 p.p. lower than in the previous year.

On average, the 2013-2015 return on equity (ROE) was 26.4%.

One of the basic efficiency and operating measures of an insurance company is the combined ratio (COR), which PZU has maintained at a level evidencing high profitability in recent years.

The operating efficiency ratios are presented in **APPENDIX**.

Key profitability ratios of PZU Group	2015	2014	2013	2012	2011
Return on Equity (ROE) *(annualized net profit / average equity) x 100%*	18.2%	21.4%	39.7%	20.5%	21.8%
Return on assets (ROA) *(annualized net profit / average assets) x 100%*	6.3%	8.1%	17.0%	9.0%	9.6%
Administrative expenses ratio *(administrative expenses / premium earned net of reinsurance)*	9.5%	9.2%	8.2%	8.2%	8.0%
Return on Sales *(net income / gross written premium) x100%*	25.4%	31.9%	61.7%	30.5%	31.3%

	Operating efficiency ratios	2015	2014	2013	2012	2011
1	Gross claims ratio *(Gross claims including the change in technical provisions/gross written premium) x 100%*	61.2%	65.5%	61.2%	66.4%	66.7%
2	Claims ratio net of reinsurance *(claims and benefits net/net premium earned) × 100%*	63.8%	66.2%	62.2%	66.1%	68.1%
3	Insurance activity costs ratio *(Costs of insurance activity/premium earned net of reinsurance) x 100%*	29.4%	28.5%	25.0%	26.2%	26.8%
4	Acquisition expenses ratio* *(Acquisition expenses/premium earned net of reinsurance)x 100%*	19.9%	19.3%	16.9%	18.1%	18.8%
5	Administrative expenses ratio *(Administrative expenses/premium earned net of reinsurance) x 100%*	9.5%	9.2%	8.2%	8.2%	8.0%
6	Combined ratio (COR) *(claims + costs of insurance activity/premium earned net of reinsurance)* *x 100%*	93.2%	94.7%	87.3%	92.3%	94.9%

including reinsurance commission

07

7 Risk management

Contents:

7.1 Risk management

Risk management in PZU aims to:

- increase the value of PZU through active and conscious management of the amount of exposure at risk;
- prevent taking risk at a level which could threaten the financial stability of PZU.

PZU's risk management is integrated the level of the entire 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 the integrated system 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 ensures business objectives of the whole PZU Group.

They include, among others:

- systems of limits and restrictions of the acceptable risk level, including the level of risk appetite;
- processes of identification, measurement and assessment, monitoring and control, reporting and management actions with respect to individual risks;
- risk management organizational structure, in which Management Boards and Supervisory Boards of companies, as well as dedicated Committees, play the key roles.

The risk management system of PZU Group is based on:

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

The risk management organizational 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 and through the appointed Auditing Committee;
- 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;
- Committees which make decisions on reducing the level of individual risks in order to keep overall risk within the limit determined by the risk appetite. The Committees implement the procedures and methodologies for mitigating individual risks and accept their limits.

Fourth level of competence relates to operational actions and is divided between the three lines of defense:

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

The diagram below illustrates the organizational structure of the risk management system in every insurance company of PZU Group.

The details concerning the risk management system, risk appetite, and risk management process, are presented in Management Report of PZU Group chapter 7.

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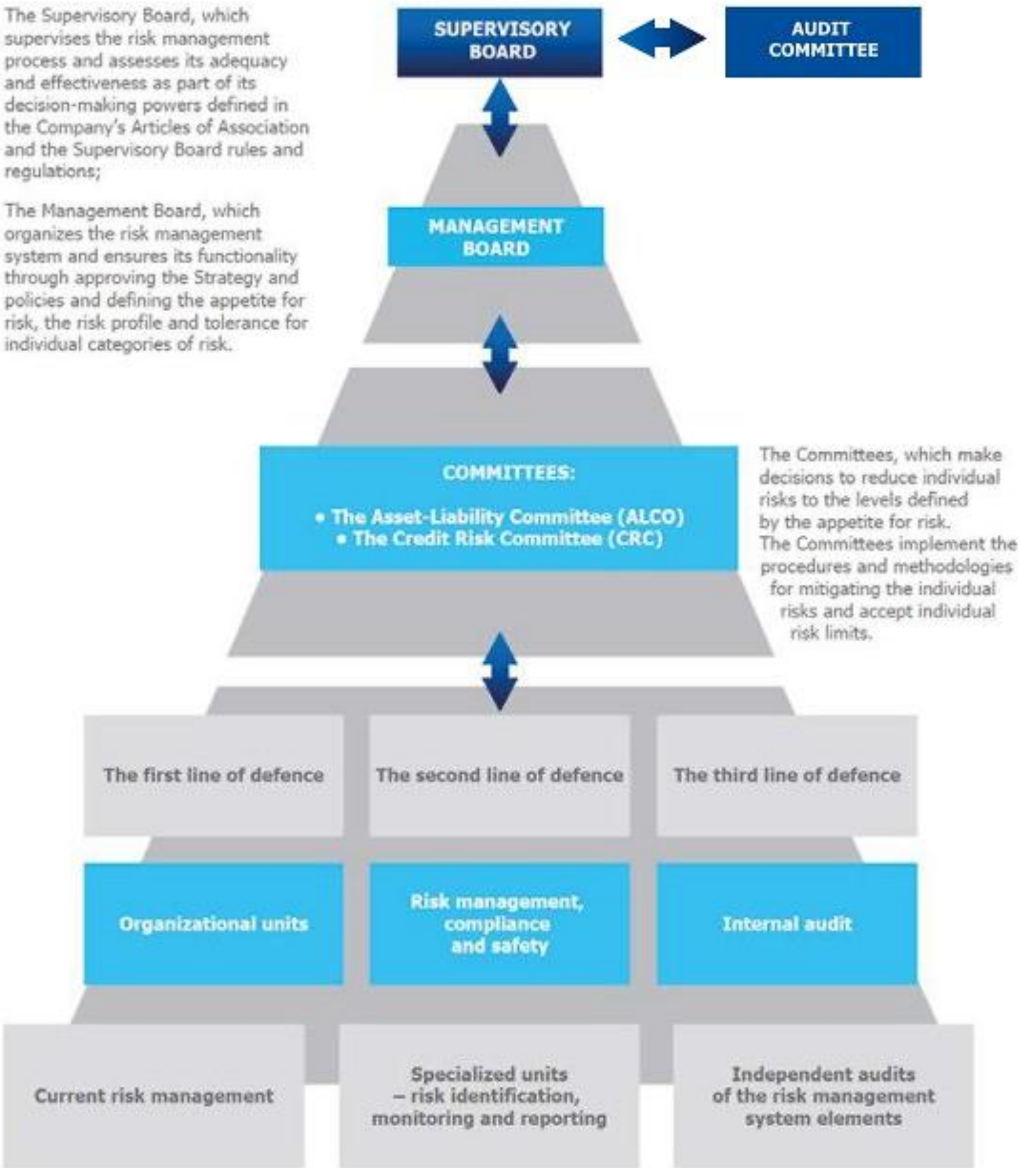

The Supervisory Board, which supervises the risk management process and assesses its adequacy and effectiveness as part of its decision-making powers defined in the Company's Articles of Association and the Supervisory Board rules and regulations;
The Management Board, which organizes the risk management system and ensures its functionality through approving the Strategy and policies and defining the appetite for risk, the risk profile and tolerance for individual categories of risk.
SUPERVISORY BOARD
AUDIT COMMITTEE
MANAGEMENT BOARD
COMMITTEES:
• The Asset-Liability Committee (ALCO)
• The Credit Risk Committee (CRC)
The Committees, which make decisions to reduce individual risks to the levels defined by the appetite for risk. The Committees implement the procedures and methodologies for mitigating the individual risks and accept individual risk limits.
The first line of defence
The second line of defence
The third line of defence
Organizational units
Risk management, compliance and safety
Internal audit
Current risk management
Specialized units – risk identification, monitoring and reporting
Independent audits of the risk management system elements

7.2 Reinsurance activity

Reinsurance cover in scope of PZU secures the insurance activity, reducing the consequences of the occurrence of catastrophic events which could adversely affect the financial standing of insurance companies. This task was performed through realization of mandatory reinsurance contracts along with supplementary facultative reinsurance.

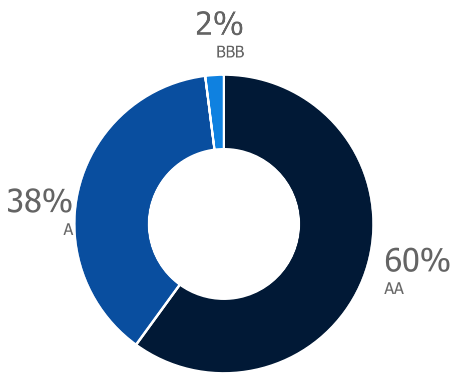
PZU uses the reinsurance contracts it concludes to mitigate its exposure to catastrophic losses (e.g. flood, hurricane) through, among other things, a catastrophic non-proportional excess of loss contract and to the consequences of large one-off losses by non-proportional excess of loss contracts protecting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

PZU's risk is also mitigated through reinsurance of the financial insurance portfolio.

In 2015, the main partners providing treaty reinsurance cover to PZU were Swiss Re, Hannover Re, Scor, Munich Re, and Lloyd's. As per S&P/AM Best, ratings of PZU reinsurance partners are high, which is an evidence of reinsurer's good financial standing and guarantees security to the Company.

PZU’s activity in the area of inward reinsurance includes other insurance companies of PZU Group. Further engagement in the protection of Baltic companies and Link4 resulted in an increase of the associated 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 premium from PZU's mandatory contracts as per Standard & Poor's rating



7.3 Capital management

In the context of capital requirements, the old system, i.e. Solvency I, was in effect in the European Union until the end of 2015 GLOSSARY.

In turn, on 1 January 2016, the new Solvency II system concerning capital requirements was introduced into the Polish legal system with the Act dated 11 September 2015 on insurance activity. SECTION 2.4. REGULATIONS ON THE INSURANCE AND FINANCIAL MARKETS IN POLAND SECTION 2.3.

PZU has a solid capital base, which is much higher than capital requirements of both Solvency I and Solvency II.

At the end of 2015, the solvency margin coverage ratio according to Solvency I amounted to 550.4%, while the assets to technical provisions ratio amounted to 110.5%. The details are presented in the APPENDIX. With the introduction of Solvency II, insurance companies are no longer obliged to hold assets for coverage of technical insurance provisions.

From the perspective of requirements according to Solvency II, PZU prepared an estimate calculation of the capital requirements and own funds based on the data of 30 September 2015, establishing that the level of own funds is several times higher from the capital requirement.

PZU has only published solvency ratios for PZU Group. As at the end of the third quarter of 2015, the Solvency II ratio (calculated according to the standard formula) amounted to 296.1%. Ratios as high as these place PZU Group among insurance groups with top capital strength.

Calculation of own funds for solvency margin coverage as per Solvency I	2015	2014	2013	2012	2011
PZU's solvency margin coverage with own funds	550.4%	585.9%	697.7%	815.3%	686.6%

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8 PZU on capital and debt market

Contents:

8.1. PZU's share prices and capital market ratios

High geopolitical risk on the European countries was reflected in a high volatility of main indexes on the

Warsaw Stock Exchange. Throughout 2015, the most important Polish index, WIG20, remained at levels exceeding 2,500 bps; however, during the last session in the year, its value amounted to only 1,859 points, which was a drop of 19.7% compared to 2014. The WIG index was slightly better and fell by 9.6% year-on-year. Small companies turned out to be the most resistant to decreases – the sWIG80 index gained 9.1% year-on-year. By comparison, the same index ended the year 2014 with a decrease of more than 15.5%.

The shares of PZU were first traded on Warsaw Stock Exchange on 12 May 2010. Since its IPO, the company has been included in the WIG20, WIG, WIG30, WIG-Poland, and WIGdiv indexes. Since 2012, PZU shares have been also included in the sustainable development indexes, RESPECT and CEERIUS **SŁOWNIK**.

The detailed analyses of 2015 share indexes compared to the economic events is presented in the Management Report of PZU Group.
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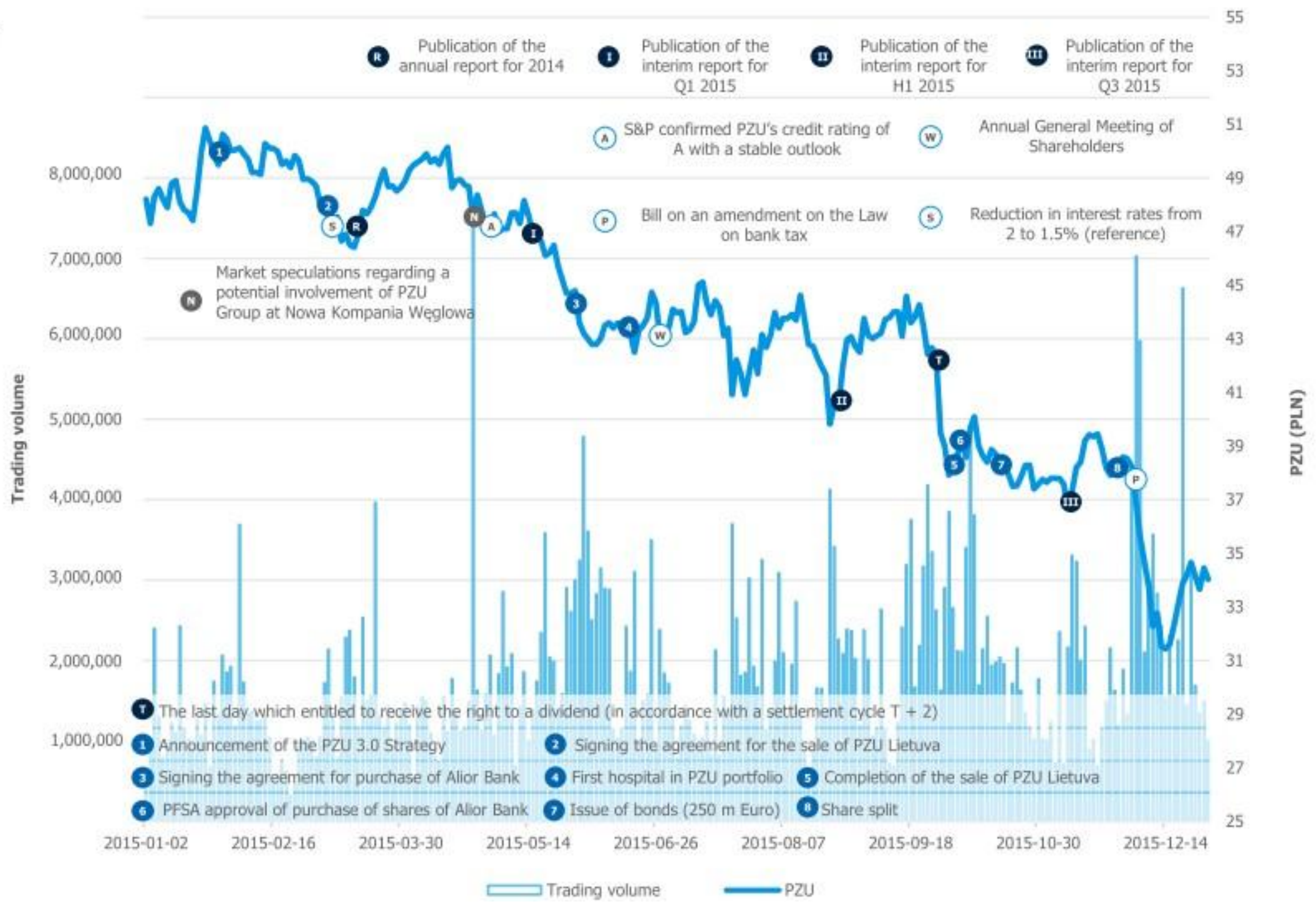
Events that influenced PZU share prices in 2015



Capital market ratios for PZU shares *Calculated based on PZU data (PAS)*	31 December 2015	31 December 2014	31 December 2013	31 December 2012	31 December 2011
P/BV Market price per share / book value per share	2.37	3.40	3.16	2.81	2.27
BVPS Book value per share	14.34	14.28	14.20	15.58	13.60
P/E Price per share / profit per share	13.07	15.92	7.59	14.62	10.33
EPS (PLN) EPS (PLN) Owners' profits (losses) per share / number of shares	2.60	3.05	5.91	2.99	2.99

8.2. 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".

RI vision: PZU creates value through active communication with capital market participants. We build trust and care for good relations.

More information concerning investor relations and shareholder structure is presented in the Management Report of PZU Group. WWW.PZU.PL/RELACJE-INWESTORSKIE/RAPORTY-OKRESOWE-BIEZACE/OKRESOWE

8.3. Analysts' recommendations

In 2015, recommendations for PZU shares were issued by 18 domestic and foreign financial institutions. In total, the sell-side analysts issued 28 recommendations. Positive and neutral recommendations dominated (92.9% of total recommendations issued.) The median of target prices (TP) from the recommendations valid in December 2015 amounted to PLN 43.00 and was lower by 13.5% compared with median as at the beginning of the year. Analogically, the maximum target price was PLN 49.80* (Price after a 1:10 stock split) and was 5.5% lower, compared to the maximum target price from January 2015.

The summary of statistics of recommendations for PZU and the analyst list (sell-side) is presented in the Management Report of PZU Group.WWW.PZU.PL/RELACJE-INWESTORSKIE/RAPORTY-OKRESOWE-BIEZACE/OKRESOWE

8.4. Dividend policy

In May 2014, there was an update the Capital Structure and Dividend Policy of PZU Group for the years 2013-2015 (Policy) approved in 2013. Due to introduced changes, the advance payment for the dividend expected at the end of 2013 financial year of 19 November 2013 in the amount of PLN 1,727 million, i.e. PLN 20.00 per share (before stock split), was recognized as part of the payment from PZU Group's 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 (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 not 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;
- maintaining the equity level corresponding to Standard & Poor's AA rating;
- providing funds for development and acquisitions in upcoming years;
- no share issues by PZU in the upcoming years.

The policy assumes dividend payment calculated based on:

- 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;
- surplus capital, where the total amount of dividends paid from surplus capital in 2013-2015 cannot exceed PLN 3 billion.

PZU plans to amend its capital and dividend policy aiming at addressing the requirements of Solvency II.

Payment of dividends for 2014

On 30 June 2015, the General Shareholders' Meeting of PZU adopted the resolution on distribution of the net profit for the year ended 31 December 2014 in which it decided to allocate to the dividend payment the amount of PLN 2,590.6 million, that is PLN 30.00 (before stock split) per share. 30 September 2015 was chosen as the date according to which the list of shareholders entitled to the payment was established. Dividend was paid on 21 October 2015.

Payment of dividends for 2015

On 1 December 2015 the PFSA issued a recommendation regarding the payment of dividend from 2015 profit. The supervisory body recommends that the insurance companies continue their prudent dividend policy using the generated profit to enhance their capital standing.

Similarly to previous years, as per the supervisory body's recommendation dividend should be paid by insurance companies meeting designated financial criteria. At the same time, the payment of a dividend should be limited to a maximum of 75% of the profit generated in 2015, whereas the coverage ratio of capital requirements as per Solvency II after dividends should remain at a level of at least 110%. At the same time, the supervisory body allowed the payment of dividend from the entire profit generated in 2015, among others, as long as the capital requirements cover as per Solvency II after exclusion of projected dividends stays at the level equal or higher than 150%.

By the date of preparing this Report on the activities of PZU Group, the Management Board had not adopted a resolution concerning distribution of profit for 2015.

8.5. Rating

PZU is regularly rated by Standard & Poor's Ratings Services (S&P). The rating assigned to PZU 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.

On 27 April 2015, Standard & Poor's Rating Services confirmed the financial strength rating of PZU and PZU Życie at the "A" level and maintained a stable level of outlook for both companies.

On 18 December 2015, Standard & Poor's Rating Services put PZU on its CreditWatch Negative list, as a result of resignation of the Chairman of the Management Board, uncertainty as to the future strategy, and capability to pass the stress test of hypothetical bankruptcy of issuer's country in connection with PZU investment in consolidation of bank assets in Poland.

On 21 January 2016, Standard & Poor's Rating Services lowered the financial strength rating of PZU and PZU Życie to the "A-" level with negative outlook for both companies. The decision to lower PZU rating was a consequence of S&P's downgrading Poland's rating. Such a move did not result from a change in PZU financial standing.

PZU rating	Current		Past	
Company name	Rating and outlook	Date of awarding/updating	Rating and outlook	Date of awarding/updating
PZU				
Financial strength rating	A- /Watch Neg/	21 January 2016	A /stable/	27 April 2015
Credit rating	A- /Watch Neg/	21 January 2016	A /stable/	27 April 2015
PZU Życie				
Financial strength rating	A- /Watch Neg/	21 January 2016	A /stable/	27 April 2015
Credit rating	A- /Watch Neg/	21 January 2016	A /stable/	27 April 2015

09

9 Corporate governance

Contents:

9.1 Corporate governance principles applied by PZU

Since the IPO of PZU on a regulated market the Issuer has followed the corporate governance principles laid down in Good Practices of Companies quoted on WSE.

The document was accepted by WSE Council on 4 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 quoted on WSE of 21 November 2012 was effective from 1 January 2013 to 31 December 2015. On 13 October 2015, a new set of corporate governance rules under the name of "Good Practices of Companies quoted on WSE 2016" was accepted by the resolution of WSE Council. The new rules are in force as at 1 January 2016.

The current contents are available on the website devoted to corporate governance of WSE-quoted entities **WWW.CORP-GOV.GPW.PL** as well as 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 8 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: **www.piu.org.pl**

Further, stakeholder relations are based on our internal PZU Code of Good Practices. The document is available on the website: **www.pzu.pl**

On 22 July 2014, Polish Financial Supervision Authority issued Corporate Governance Rules for Supervised Institutions ("Rules").

The rules and information on how to use them can be found on the PZU website:

http://www.pzu.pl/grupa-pzu/pzu-sa/zasady-ladu-korporacyjnego

9.2 Application of Good Practices of Companies quoted on WSE

In 2015, PZU complied with the principles included in Good Practices of Companies quoted on WSE except for the one referred to in Section IV pt. 10 and Section I pt. 5, I pt. 9 and I pt. 12.

With regard to the principle referred to in Section IV pt. 10, regarding enabling shareholders to exercise voting rights personally or by proxy on 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 pt. 10 was submitted by the Issuer on 29 January 2013.

The following issues mentioned in section I of Good practices of companies quoted on WSE defining "Recommendations concerning good practices of companies quoted on WSE" should be emphasized:

- as for the recommendation included in Section I pt. 5 concerning the policy of remunerating members of management and supervisory bodies, remunerations of members of the Supervisory Board for participation in the works of the Board are determined by the General Shareholders' Meeting and those of the Management Board are set based on a resolution of the Supervisory Board;
- 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 14 December 2004 fostering an appropriate regime for the remuneration of directors of quoted companies (2004/913/EC), supplemented by recommendation of EC of 30 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 rule mentioned above

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 **GLOSSARY** information, the Issuer discloses information regarding remuneration, awards or profits 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 gender, are not taken into account;
- with regard to the recommendation referred to in Section I pt. 12, regarding enabling shareholders to exercise voting rights personally or by proxy on General Shareholders' Meetings using IT tools to allow mutual real-time communication and participation in discussions during the meeting of 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 Shareholders' Meeting, and therefore the appropriate application of the above rule. Moreover, in our view, rules 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 referred to in Article 29.3 of the Regulations of WSE with respect to corporate governance principles set forth in Section I of Good practices of companies quoted on WSE, in accordance with the resolution 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.

9.3 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.

The Management Board and the Supervisory Board of PZU announced the decision on implementing the Principles during the General Shareholders' Meeting that took place on 30 June 2015. The General Shareholders' Meeting of PZU declared that while acting within its mandate it will follow the Corporate Governance Rules in the wording of Polish Financial Supervision Authority of 22 July 2014 with the exception of the rules that the General Shareholders' Meeting of PZU decided to waive.

Detailed information about the application of the Principles by PZU can be found on PZU's website. That includes the principles whose application is partial, that is:

- principle specified in § 8. 4. Principles facilitating the participation of all shareholders in the General Shareholders' Meeting, e.g. 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 Issuer 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 Shareholders' 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;
- principle specified in § 21. 2. Principles which state 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 By-laws 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 office 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 of the principle may raise doubts about the potential conflicts of law relating to shareholders' rights;

- principle specified in § 49.3 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 labor law, the activities related to the labor 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.

The General Shareholders' Meeting of PZU decided against implementing the following principles:

- rule specified in § 10.2 in the following wording: "Introduction of personal entitlements or other special entitlements for shareholders of a supervised institution should be justified and serve realization of the objectives of this supervised institution. Having such entitlements by a shareholders should be reflected in a basic act regulating operation of the institution."
  - waiver from applying the principle is justified by the unfinished privatization of the Company carried out by the State Treasury;
- principle specified in § 12.1 in the following wording: "The shareholders are responsible for providing immediate capital injection to the supervised institution in a situation in which it is necessary for maintaining the own capitals of the supervised institution on a level required by the legal or supervisory regulations and also when it is required for the reasons concerning safety of the supervised institution."
  - waiver from applying the principle is justified by the unfinished privatization of the Company carried out by the State Treasury;
- principle specified in § 28.4 in the following wording: "A decision-making authority shall assess whether the agreed remuneration policy is beneficial to the development and safety of the supervised institution."
  - waiver from applying the principle is justified by the scope of application of the remuneration policy assessed by the decision-making authority being too broad. The remuneration policy for persons performing key functions and not being the members of the supervisory body or governing body should be assessed by their employer or principal, which is the Company represented by the Management Board and controlled by the Supervisory Board.

Moreover, the following rules do not apply to PZU:

- rule specified in § 11.3 in the following wording: "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 the following wording: “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 are both an internal audit unit and a compliance unit at PZU;
- rule specified in § 52.2 in the following wording: “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 are both an internal audit unit and a compliance unit at PZU;
- the 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.

9.4 Control system applied during preparation of the financial statements

Financial statements are prepared within the PZU Finance Division including PZU Head Office (including 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.

Audit Committee

As per the By-laws, the Supervisory Board of PZU appoints three members of the Audit Committee. At least one of them 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. 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.

A statutory 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

Fee of the entity authorized to audit financial statements	1 January–31 December 2015	1 January–31 December 2014
Statutory audit of annual separate/consolidated financial statements	1,488	714
Other attestation services including review of separate/consolidated financial statements	248	248
Tax advisory services	-	-
Other services	27	27
Total	**1,763**	**989**

separate and consolidated financial statements.

9.5 Entity authorized to audit financial statements

On 18th February 2014, the Supervisory Board of PZU appointed KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k. with the registered office in Warsaw, ul. Inflancka 4A, 00-189 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: 31 December 2014, 31 December 2015 and 31 December 2016, with an option to extend the agreement for further two financial years ending, respectively, on 31 December 2017 and 31 December 2018.

Former cooperation of PZU with KPMG Audyt included mostly tax advisory services.

9.6 Share capital and shareholders of PZU; stock held by members of its authorities

On 30 June 2015, the General Shareholders' Meeting of PZU adopted the resolution on splitting all shares of PZU by decreasing the nominal value of each PZU share from PLN 1 to PLN 0.1 and increasing the number of PZU shares which constitute the share capital from 86,352,300 to 863,523,000. The split of shares was performed through the exchange of all shares in 1:10 ratio. The split of shares had no influence on the share capital of PZU.

On 3 November 2015, the District Court for the capital city of Warsaw, XII Economic Division of the National Court Register recorded the appropriate change to the By-laws of PZU.

On 24 November 2015, the Management Board of the National Depository for Securities adopted at the request of PZU a resolution No. 789/15 on determining the day of 30 November 2015 as the day of splitting 86,348,289 PZU shares with the face value of PLN 1 each to 863,482,890 PZU shares with the face value of PLN 0.10 each.

Therefore, the share capital of PZU is divided into 863,523,000 ordinary shares with the face value of PLN 0.10 each, giving right to 263,523,000 votes on the General Shareholders’ Meeting.

In accordance with the current report No. 3/2016, on the Extraordinary General Shareholders' Meeting of PZU S.A. on 7 January 2016 the shareholders of PZU with significant share packages were as follows: the State Treasury holding 297,420,578 shares, i.e. 34.44% of the share capital of PZU and the right to 297,420,578 votes at the General Shareholders' Meeting, and Aviva Otwarty Fundusz Emerytalny Aviva

BZ WBK holding 49,156,660 shares, i.e. 5.69% of the share capital of PZU and the right to 49,156,660 votes at the General Shareholders' Meeting.

There were no significant changes in the ownership structure of blocks of PZU shares in 2015.

The Management Board of the Company 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.

From 2013 to 2015, no employee stock ownership plans existed in PZU.

In line with the PZU By-laws 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 Shareholders' 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:

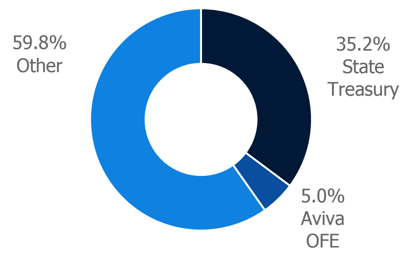
- shareholders who held shares entitling to more than 10% in the total number of votes in the Company as at the date of adopting a resolution of the General Shareholders’ Meeting;
- shareholders co-acting with shareholders defined in the point above based on agreements concerning joint voting rights 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 By-laws.

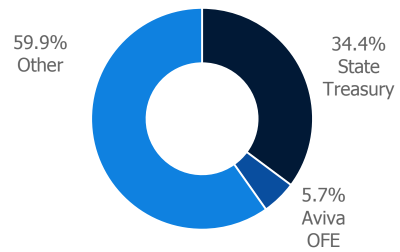
In case of any interpretation doubts with respect to the voting restrictions, Article 65.2 of the Civil Code will apply. **GLOSSARY**

In line with the PZU’s By-laws, the above voting restrictions will expire as of 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 than 10% in the total number of votes in the Company, drops below 5% of the share capital.

PZU's shareholding structure as at 31.12.2014



PZU's shareholding structure as at 31.12.2015*



**as per the Current Report 3/2016*

Information concerning the number of held PZU shares is presented in the table below.

Shares or share entitlements of PZU's managers and supervisors

No.		Number of shares/share entitlements as at the issuance date of this Management's Report (i.e. 14 March 2016)	Number of shares/share entitlements at the issuance date of the Management's Report (i.e. (i.e. 17 March 2015)	Change between the dates
	Management Board			
1	Michał Krupiński	-	n/a	n/a
2	Przemysław Dąbrowski	-	-	-
3	Roger Hodgkiss	-	n/a	n/a
4	Beata Kozłowska-Chyła	-	n/a	n/a
5	Dariusz Krzewina	-	-	-
6	Robert Pietryszyn	-	n/a	n/a
7	Paweł Surówka	-	n/a	n/a
8	Andrzej Klesyk	n/a	-	n/a
9	Tomasz Tarkowski	n/a	800	n/a
10	Ryszard Trepczyński	n/a	-	n/a
	Group Directors			
1	Tomasz Karusewicz	-	n/a	n/a
2	Sławomir Niemierka	-	-	-
3	Roman Pałac	-	n/a	n/a
4	Tobiasz Bury	n/a	500	n/a
5	Rafał Grodzicki	n/a	-	n/a
6	Przemysław Henschke	n/a	-	n/a
	Supervisory Board			
1	Paweł Kaczmarek	-	n/a	n/a
2	Marcin Gargas	-	n/a	n/a
3	Maciej Zaborowski	-	n/a	n/a
4	Marcin Chludziński	-	n/a	n/a
5	Eligiusz Krześniak	-	n/a	n/a
6	Alojzy Nowak	-	-	-
7	Jerzy Paluchniak	-	n/a	n/a
8	Piotr Paszko	-	n/a	n/a
9	Radosław Potrzeszcz	-	n/a	n/a
10	Aleksandra Magaczewska	n/a	-	n/a
11	Zbigniew Ćwiąkalski	n/a	-	n/a
12	Tomasz Zganiacz	n/a	-	n/a
13	Zbigniew Derdziuk	n/a	-	n/a
14	Dariusz Filar	n/a	-	n/a
15	Dariusz Kacprzyk	n/a	-	n/a

16	Jakub Karnowski	n/a	280	n/a
17	Maciej Piotrowski	n/a	-	n/a
Total		**-**	**1580**	

9.7 By-laws of PZU

Amendments to the By-laws

The By-laws of 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 **GLOSSARY** such change must be approved by the FSA and then recorded in the National Court Register.
The Supervisory Board can approve the unified amended text of the By-laws.

On 30 June 2015, the General Shareholders' Meeting of PZU adopted amendments to the By-laws of PZU.

Then, on 18 September 2015, the Supervisory Board of PZU adopted a resolution regarding the wording of the consolidated amended By-laws of PZU. On 3 November 2015, the By-laws were recorded in the National Court Register.

9.8 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 By-laws.

The By-laws 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 By-laws.

The competencies of the General Shareholders' Meeting, in addition to those specified in the Commercial Companies Code and the By-laws of PZU, include passing resolutions concerning the following:

- examination and approval of the Management Board report on the issuer's activities, financial statements for the previous financial year and acknowledgement of the fulfillment 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 merger 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 By-laws, a majority of three fourths of votes is required to pass the General Shareholders' Meeting's resolutions on the following:

- amendments in the By-laws;
- 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 By-laws.

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 19 July 2005, i.e. in the form of current reports. Such announcement should be made no 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.

Ballots are open. 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 By-laws.

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 By-laws. 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 GLOSSARY. Furthermore, at least one member of the Supervisory Board should meet the independence criteria specified in the By-laws (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 By-laws have been met and inform the Company when the criteria are no longer met. In addition, the By-laws 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 1 January 2015:

- 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 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.

On 30 June 2015, Tomasz Zganiacz's mandate of a member of the Supervisory Board expired.

On 30 June 2015, with effect on 1 July 2015, the General Shareholders' Meeting of PZU established the composition of the Supervisory Board of PZU of the new term as follows: Dariusz Kacprzyk, Dariusz Filar, Aleksandra Magaczewska, Zbigniew Ćwiąkalski, Jakub Karnowski, Maciej Piotrowski, Alojzy Nowak, Zbigniew Derdziuk, Paweł Kaczmarek. On 8 July 2015, the Supervisory Board of PZU entrusted the function of the Chairperson of the Board to Zbigniew Ćwiąkalski, the function of the Deputy Chairperson of the Board to Paweł Kaczmarek, and the function of the Secretary of the Board to Dariusz Filar.

Therefore, since 8 July 2015, composition of the Supervisory Board of PZU was as follows:

- Zbigniew Ćwiąkalski – Chairman of the Board;
- Paweł Kaczmarek – Deputy Chairman of the Board;
- Dariusz Filar – Secretary of the Board;
- Zbigniew Derdziuk – Member of the Board;
- Aleksandra Magaczewska – Member of the Board;
- Dariusz Kacprzyk – Member of the Board;
- Jakub Karnowski – Member of the Board;
- Alojzy 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 1 July 2015 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. On 7 January 2016, the Extraordinary General Shareholders' Meeting of PZU removed the following people from the Supervisory Board: Zbigniew Ćwiąkalski, Zbigniew Derdziuk, Maciej Piotrowski, Dariusz Kacprzyk, Jakub Karnowski, Aleksandra Magaczewska, Dariusz Filar. Simultaneously, on 7 January 2016, it appointed the following people to the Supervisory Board of PZU: Piotr Paszko, Marcin

Chludziński, Marcin Gargas, Maciej Zaborowski, Eligiusz Krześniak, Radosław Potrzeszcz, Jerzy Paluchniak.

On 19 January 2016, the Supervisory Board of PZU entrusted the function of the Chairperson of the Board to Paweł Kaczmarek, the function of the Deputy Chairperson of the Board to Marcin Gargas, and the function of the Secretary of the Board to Maciej Zaborowski.

Therefore, since 19 January 2016, composition of the Supervisory Board of PZU was as follows:

- Paweł Kaczmarek – Chairman of the Board;
- Marcin Gargas – Deputy Chairman of the Board;
- Maciej Zaborowski – Secretary of the Board;
- Marcin Chludziński – Member of the Board;
- Eligiusz Krześniak – Member of the Board;
- Alojzy Nowak – Member of the Board;
- Jerzy Paluchniak – Member of the Board;
- Piotr Paszko – Member of the Board;
- Radosław Potrzeszcz – Member of the Board.

Competencies

The Supervisory Board exercises constant supervision over the Company's activities in all aspects of its business.

In accordance with the By-laws, the powers of the Supervisory Board include:

- review of the Management Board's report on the activities of the Company 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 Chairman 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 By-laws;
- 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 By-laws stipulate that the Supervisory Board should meet at least once every quarter.
The Supervisory Board may delegate its members to fulfill 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 By-laws stipulate that a vote may be cast in writing through another member of the Supervisory Board.

In accordance with the By-laws, 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 Chairman 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 By-laws 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 function as part of the Supervisory Board of PZU:

- Audit Committee;
- Promotion and Compensation Committee;
- Strategy Committee.

The By-laws provide for appointing an Audit Committee by the Supervisory Board. The Committee is composed of three members, including at least one independent member 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 3 June 2008. Composition of the Audit Committee as at 1 January 2015:

- 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**.

In relation to the appointment of the Supervisory Board of PZU of the new term on 1 July 2015 by the General Shareholders' Meeting of PZU, at the session of 8 July 2015 the Supervisory Board of PZU established the following composition of the Audit Committee:

- Dariusz Filar – Chairman of the Committee;
- Dariusz Kacprzyk – Member of the Committee;
- Paweł Kaczmarek – Member of the Committee.

As at 31 December 2015, the composition of the Committee did not change.

In relation to the changes in the composition of the Supervisory Board of PZU, on 19th January 2016 the Supervisory Board of PZU established the following composition of the Audit Committee:

- Marcin Chludziński – Chairman of the Committee;
- Jerzy Paluchniak – Member of the Committee;
- Paweł Kaczmarek – Member of the Committee.

In accordance with the Regulations of the Supervisory Board, once the Company's shares are quoted on the regulated market, as understood by the Act on Trading in Financial Instruments of 29 July 2005, the Supervisory Board may appoint a Promotion and Compensation Committee.

In accordance with the By-laws, 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 4 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 1 January 2015:

- Zbigniew Ćwiąkalski – Chairman of the Committee;
- Zbigniew Derdziuk – Member of the Committee;
- Dariusz Filar – Member of the Committee;
- Maciej Piotrowski – Member of the Committee;

- Tomasz Zganiacz – Member, of the Committee.

In relation to the appointment of the Supervisory Board of PZU of the new term on 1 July 2015 by the General Shareholders' Meeting of PZU, at the session of 8 July 2015 the Supervisory Board of PZU established the following composition of the Promotion and Compensation Committee:

- Zbigniew Ćwiąkalski – Chairman of the Committee;
- Zbigniew Derdziuk – Member of the Committee;
- Dariusz Filar – Member of the Committee;
- Maciej Piotrowski – Member of the Committee;
- Paweł Kaczmarek – Member of the Committee.

As at 31 December 2015, the composition of the Promotion and Compensation Committee did not change.

In relation to the changes in the composition of the Supervisory Board of PZU, on 19th January 2016 the Supervisory Board of PZU decided that the Promotion and Compensation Committee should consist of 4 people, while simultaneously establishing the following composition of the Committee:

- Radosław Potrzeszcz – Chairman of the Committee;
- Marcin Gargas – Member of the Committee;
- Paweł Kaczmarek – Member of the Committee;
- Piotr Paszko – Member of the Committee.

The Committee is dissolved once five members of the Supervisory Board are elected in a vote cast 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 4 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 Audit Committee as at 1 January 2015:

- Alojzy Nowak – Chairman of the Committee;
- Zbigniew Derdziuk – Member of the Committee;
- Aleksandra Magaczewska – Member of the Committee;
- Jakub Karnowski – Member of the Committee;
- Maciej Piotrowski – Member of the Committee;

In relation to the appointment of the Supervisory Board of PZU of the new term on 1 July 2015 by the General Shareholders' Meeting of PZU, at the session of 8 July 2015 the Supervisory Board of PZU established the following composition of the Strategy Committee:

- Alojzy Nowak – Chairman of the Committee;
- Zbigniew Derdziuk – Member of the Committee;
- Aleksandra Magaczewska – Member of the Committee;
- Jakub Karnowski – Member of the Committee;
- Maciej Piotrowski – Member of the Committee;

As at 31 December 2015 the composition of the Committee did not change.

In relation to the changes in the composition of the Supervisory Board of PZU, on 19th January 2016 the Supervisory Board of PZU decided that the Strategy Committee should consist of 6 people, while simultaneously establishing the following composition of the Committee:

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

Management Board

Composition

In accordance with the By-laws 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 Chairman of the Management Board, are appointed and dismissed by the Supervisory Board. The CEO 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.

Since 1 January 2015, composition of the Management Board was as follows:

- Andrzej Klesyk - Chairman of the Management Board;
- Przemysław Dąbrowski - Member of the Management Board;
- Dariusz Krzewina – Member of the Management Board;
- Tomasz Tarkowski – Member of the Management Board;
- Ryszard Trepczyński – Member of the Management Board.

On 30 June 2015, Ryszard Trepczyński's mandate of a member of the Supervisory Board expired, and on 1 July 2015, the Supervisory Board of PZU established the following composition of the Management Board of the new term:

- Andrzej Klesyk – Chairman of the Management Board;
- Przemysław Dąbrowski – Member of the Management Board;
- Rafał Grodzicki – Member of the Management Board;
- Dariusz Krzewina – Member of the Management Board;
- Tomasz Tarkowski – Member of the Management Board.

On 1 September 2015, the Supervisory Board of PZU appointed Witold Jaworski as a Member of the Management Board of PZU.

Therefore, since 1 September 2015, composition of the Management Board was as follows:

- Andrzej Klesyk – Chairman of the Management Board;
- Przemysław Dąbrowski – Member of the Management Board;
- Rafał Grodzicki – Member of the Management Board;
- Witold Jaworski – Member of the Management Board;
- Dariusz Krzewina – Member of the Management Board;
- Tomasz Tarkowski – Member of the Management Board.

On 8 December 2015, Andrzej Klesyk and Witold Jaworski submitted a statement of resignation coming into effect on 9 December 2015, and the Supervisory Board of PZU entrusted temporary performance of duties of CEO to Dariusz Krzewina.

As at 31 December 2015, composition of the Management Board was as follows:

- Dariusz Krzewina – acting as Chairman of the Management Board;
- Przemysław Dąbrowski – Member of the Management Board;
- Rafał Grodzicki – Member of the Management Board;
- Tomasz Tarkowski – Member of the Management Board.

The current term of the Management Board of PZU started on 1 July 2015 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.

The Management Board exercises all management rights which have not been reserved by the provisions of law or provisions of the By-laws 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 2 October 2012, amended with a Resolution of the Board of 8 April

2013, and approved by a resolution of the Supervisory Board of 16 April 2013.

On 19 January 2016, Rafał Grodzicki i Tomasz Tarkowski submitted a statement of resignation, and the Supervisory Board of PZU established the following composition of the Management Board:

- Michał Krupiński – Chairman of the Management Board;
- Roger Hodgkiss – Member of the Management Board;
- Beata Kozłowska-Chyła – Member of the Management Board;
- Robert Pietryszyn – Member of the Management Board;
- Paweł Surówka – Member of the Management Board, appointed on 20 January 2016.

Therefore, since 19 January 2016, composition of the Management Board has been as follows.

- Michał Krupiński – Chairman of the Management Board;
- Przemysław Dąbrowski – Member of the Management Board;
- Roger Hodgkiss – Member of the Management Board;
- Beata Kozłowska-Chyła – Member of the Management Board;
- Dariusz Krzewina – Member of the Management Board;
- Robert Pietryszyn – Member of the Management Board;
- Paweł Surówka – Member of the Management Board (appointed on 20 January 2016).

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 Report on the activities of the company;
- 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 CEO 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 CEO 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 Chairman of the Management Board or a person designated to administer the work of the Management Board during their absence.

Resolutions of the Management Board are adopted by an absolute majority of votes and in the event of a voting tie the CEO 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 By-laws also provide that the meetings of the Management Board may be held using means of direct distant communication.

The Chairman 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 CEO.

The By-laws of PZU do not provide for any special rights of the Management Board concerning decisions to issue or redeem shares.

Group Directors

Positions of PZU Group Directors were established at PZU in relation to the implementation of the management model, according to which Members of the Management Board of PZU Życie as PZU Group Directors are in charge of the same business areas and functions in both companies. The positions of PZU Group Directors are established based on Organizational Regulations of PZU (paragraph 20, item 3).

As at 1 January 2015, PZU Group Directors were the following:

- Rafał Grodzicki;
- Przemysław Henschke;
- Sławomir Niemierka
- Tobiasz Bury.

On 1 July 2015, the Supervisory Board of PZU appointed Rafał Grodzicki as a Member of the Management Board of PZU.

As at 31 December 2015, PZU Group Directors were the following:

- Tobiasz Bury;
- Przemysław Henschke;
- Sławomir Niemierka

On 29 January 2016, Tomasz Karusewicz was appointed a Director of the Group, and on 15 February 2016 Roman Pałac also was appointed to perform this function. Moreover, on 29 January the following people ceased to hold the position of Director of the Group: Tobiasz Bury and Przemysław Henschke.

As at the date of preparation of this Report on the activities, the following people have been performing the role of a Director of PZU Group:

- Sławomir Niemierka;
- Tomasz Karusewicz;
- Roman Pałac.

9.9 Remuneration of the members of the Group's bodies

Employment contracts concluded with 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 2014–2015, 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.

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.

The value of remuneration paid to the Members of the Management and Supervisory Boards are presented in the 2015 Financial Report.

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10 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 financial statements of PZU and comparable data 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 result of PZU and the management report of PZU presents a true picture of its development and achievements, including a description of the main risks and threats.

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 Spółka z ograniczoną odpowiedzialnością sp. k. - which audited the financial statements was selected in accordance with the provisions of law and that the entity and certified auditors who audited the financial statements met the requirements to express an unbiased and independent opinion on the audited financial statements, in accordance with the applicable provisions of law and professional standards.

Cooperation with international public institutions

PZU cooperates with the EIOPA (European Insurance and Occupational Pensions Authority) in the context of Solvency II.

Information on significant contracts concluded between shareholders

The Management Board of the Company has no knowledge about agreements concluded between the shareholders up to the publication date of this Management's Report of PZU, which may result in changes in the proportion of shares held by the shareholders. which could result in future changes in proportions of shares held by the existing shareholders.

Information on significant contracts concluded

On 16 October 2015, PZU issued a guarantee in relation to the liabilities of PZU Finance AB (publ) arising from the bonds issued by the company in the total value of EUR 350 million. 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 19 October 2015, the Issuer took a loan from PZU Finance AB (publ) with a total value of EUR 350 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 16 October 2015, PZU issued a guarantee in relation to the liabilities of PZU Finance AB (publ) arising from the bonds issued by the company in the amount of 350 million EUR. 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 19 October 2015, the Issuer took a loan from PZU Finance AB (publ) with a total value of EUR 350 million and the interest rate of 1.425% per year. The loan is to be paid back on 28 June 2019. The loan was granted at arm's length. PZU Group 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.

Tax Capital Group

On 25 September 2014, a new Tax Capital Group agreement was signed, covering the following 13 PZU Group's companies: PZU, PZU Życie, Link4 Towarzystwo Ubezpieczeń SA, PZU Centrum Operacji SA, PZU Pomoc SA, Ogrodowa-Inwestycje Sp. z o.o., Ipsilon Sp. z o.o., PZU Asset Management SA, TFI PZU SA, Ipsilon Bis SA, PZU Finanse Sp. z o.o., Omicron SA, Omicron Bis SA. The tax capital group was established for a 3-year period - between 1 January 2015 and 31 December 2017.

PZU is the dominating and representing company of the tax capital group. In accordance with art. 25 section

1 of the CIT act, the tax capital group makes monthly settlements with the Treasury Office. PZU makes advance payments to the Treasury Office in scope of CIT owed from all companies, while PZU Życie provides PZU with advance CIT payments concerning the business activity of PZU Życie.

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 repay liabilities and definition of possible threats and activities, undertaken or planned by the Issuer to counteract these threats

The financial position of the Issuer is very good. It meets all the security requirements imposed by the Act on Insurance Activity and the Polish Financial Supervision Authority. A stable rating outlook of PZU confirms that the Issuer has a strong business position, high levels of equity and is a competitive entity in the insurance market.

Disputes

In 2015 and by the date of signing of this Management's Report of PZU Capital Group, PZU did not take part in any 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 of court cases and proceedings before the President of the Office of Competition and Consumer Protection (OCCP) is included in the financial statements of PZU for 2015.

As at 31 December 2015, the total value of all 82,781 cases heard by courts, bodies competent to hear arbitration proceedings or public authority bodies involving PZU was PLN 3,406.6 million. The amount includes PLN 2,930.3 million of liabilities and PLN 476.3 million of receivables of PZU, which accounted for 23.66% and 3.85% of the equity of PZU calculated in line with PAS, respectively.

This Management Report of PZU for 2015 includes 96 pages with sequential numbers.

Signatures of Members of PZU Management Board

Michał Krupiński – Chairman of the Management Board

Przemysław Dąbrowski – Member of the Management Board

Roger Hodgkiss – Member of the Management Board

Beata Kozłowska-Chyła – Member of the Management Board

Dariusz Krzewina – Member of the Management Board

Robert Pietryszyn – Member of the Management Board

Paweł Surówka – Member of the Management Board

Warsaw, 14 March 2016

Appendix: Financial data

Data from the profit and loss statement (in PLN '000)	2015	2014	2013	2012	2011
Gross written premiums	8,858,036	8,261,752	8,273,900	8,453,498	8,247,241
Net earned premiums	7,897,960	7,902,639	8,108,036	8,277,136	7,906,271
Claims and benefits	5,036,629	5,230,864	5,047,077	5,473,011	5,386,563
Acquisition expenses, including reinsurance commission	1,571,480	1,522,886	1,366,807	1,494,696	1,484,866
Administrative expenses	753,737	729,142	662,694	676,296	633,907
Technical result	636,334	564,429	1,061,855	640,118	332,297
Net investment result	2,023,981	2,568,038	4,633,302	2,472,660	2,843,963
Gross profit (loss)	2,475,921	2,854,524	5,390,880	2,924,381	2,741,606
Net,profit,(loss)	2,248,522	2,636,733	5,106,345	2,580,720	2,582,303

Main balance sheet items (in PLN '000)	31 December 2015	31 December 2014	31 December 2013	31 December 2012	31 December 2011
ASSETS, including:	**36,358,361**	**34,629,778**	**30,136,572**	**29,913,216**	**27,397,857**
Financial assets	32,356,048	31,030,939	27,609,398	27,591,485	24,882,946
Receivables	1,801,903	2,437,819	1,496,637	1,473,952	1,487,399
LIABILITIES, including:	**36,358,361**	**34,629,778**	**30,136,572**	**29,913,216**	**27,397,857**
Equity	12,378,733	12,328,724	12,259,761	13,452,581	11,745,410
Technical provisions	17,540,493	16,861,181	15,912,942	14,933,110	13,895,347
Other liabilities and special funds	5,109,816	4,598,574	1,280,359,	810,652	826,280
Accruals and deferred income	856,403	576,129	518,282	498,518	517,914

Assets to cover PZU technical provisions (in PLN '000)	2015	% of technical provisions	Maximum limit %
A. Technical provisions	**18,577,330**	**100.0%**	
B. Assets to cover technical provisions, total	**20,535,296**	**110.5%**	
1. Debt issued or guaranteed by the State Treasury and international organizations to which the Republic of Poland belongs without any limitations	6,841,108	36.8%	without limitations
2. Bonds issued or guaranteed by local authorities or associations of local authorities without any limitations	26,251	0.1%	without limitations
3. Other fixed revenue instruments	541,460	2.9%	10%
4. Investment fund units	6,843,761	36.8%	40%
5. Mortgage loans	917,623	4.9%	25%
6. Non-mortgage loans	200,901	1.1%	5%
7. Investment certificates in investment funds	1,801,248	9.7%	10%
8. Property or its part excluding property or its part for own use	41,056	0.2%	25%
9. bank deposits	1,391,806	7.5%	without limitations
10. Receivables	336,900	1.8%	25%
11. receivables from the State Budget	63,641	0.3%	without limitations
12. Tangible assets, other than property, if amortized using the prudence principle	118,398	0.6%	5%
13. Cash	4,397	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 without any limitations	845,148	4.5%	without limitations
15. Reinsurers' share in technical provisions	518,419	2.8%	25%
16. Mortgage bonds	43,179	0.2%	10%
C. Surplus (shortage) of assets covering technical provisions	**1,957,966**	**10.5%**	

One-off events in PZU (in PLN million)	2015	2014	2013	2012	2011
Change in the rates for annuity provision				(234.2)	
Provisions for employee benefits due to the termination of the Collective Bargaining Agreement				147.8	
Technical result on contract bonds Insurance in the corporate insurance segment				(93.2)	
Provision for the Office of Competition and Consumer Protection penalties					(67.9)
Reinsurance settlements in the scope of the Green Card cover			53.2		(91.8)
Claims and benefits arising from snowfall and flood damages					
Dividend financing costs					

Appendix: Glossary

Act on Insurance Activity – Ustawa z dnia 11 września 2015 roku o działalności ubezpieczeniowej Act on Insurance and Reinsurance Activity of 11 September 2015 (Journal of Laws of 2015, item 1844); the majority of its provisions have been effective as of 1 January 2016. The Act introduces the Solvency II requirements to the Polish legal systems.

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 companies and institutions to operate under highly competitive environment of European Union member states.

Act on statutory auditors – Act on statutory auditors and their self-governing body, auditing firms and on public oversight of 7 May 2009 (Journal of Laws of 2009, No. 77, item 649, as amended).

BLS (direct claims handling) – a system of handling a claim by an insurance company which issued MTPL insurance policy of the injured party, not the perpetrator. It has been operating in Poland since 1 April 2015 under PIU (Polish Chamber of Insurance). Once the claims handling process is finished, the insurance companies settle the amount as a lump-sum via the Polish Chamber of Insurance (PIU).

cedent – a person assigning a liability to a buyer.

CEERIUS (CEE Responsible Investment Universe) – is an index of Wiener Börse for Central and Eastern European (CEE) companies. It consists of companies that meet quality criteria in the social and ecological area.

Civil Code – Act of 23 April 1964 – Civil Code (Journal of Laws No. 16 of 1964, item 93, as amended).

Code of Commercial Companies – Act of 15 September 2000 – Code of Commercial Companies (Journal of Laws of 2000, No. 94, item 1037, as amended).COR - Combined Ratio – combined ratio calculated for the non-life sector (class II). It is the ratio of all the insurance expenses related to insurance administration and payment of claims (i.e. the costs of claims, acquisition and administration) to earned premium in a given period.

CSR – **Corporate Social Responsibility** – a concept according to which, upon drafting its strategy budowania strategii , a company voluntarily includes in its social interests and environment protection issues, as well as relations with various interest groups interesariuszy.

earned premium – a written premium in a given period giving consideration to the settlement of revenues (premiums) over time through movement in premium provision.

Everest-– a system for managing non-life insurance which is being implemented in PZU.

free float – a public company's shares that 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.

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 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 cedent.

OCCP – Office of Competition and Consumer Protection. www.uokik.gov.pl

Ordinance on Current and Periodic Information – the 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 (Journal of Laws of 2009, No. 33, item 259).

outward reinsurance – reinsurance activity entailing an insurer (cedent) yielding a portion of the executed insurance contracts to a reinsurer/reinsurers in the form of a reinsurance contract.

WSE – Warsaw Stock Exchange

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

PIU (Polish Chamber of Insurance) – insurance economic local authority which gathers all insurance companies operating in Poland.

profit margin in group and individually continued insurance (in PZU Życie) – a ratio calculated as the ratio of the operating profit to gross written premium in the group and individually continued insurance segment, net off one-off effects such as, for instance, the conversion effect, namely the conversion of long-term contracts into short-term contracts 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.

RESPECT Index – index of companies quoted on the Warsaw Stock Exchange which are characterized by a responsible and stable way of management and high quality of reporting, investment relations level and information governance.

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 operating in the European Union from the 1970s to 31 December 2015.

Solvency II – capital requirements for European insurance companies based on the risk undertaken. The requirements have been effective as of 1 January 2016.

Solvency Capital Requirement, SCR – a capital requirement calculated as per Solvency II provisions. Calculation of the capital requirement is based on the calculation of the following risks: market, actuarial (insurance), counterparty insolvency, catastrophe, and operating risk, and afterwards undergoes a diversification analysis. The ratio can be calculated under a standard formula or, once an applicable permit of a supervisory body has been obtained, using a whole or partial internal model of the company.

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 (under Solvency I) specifying the level of capital security for the business conducted by an insurer; by law, this ratio should be above 100%.

solvency ratio – a statutory ratio (under Solvency II) specifying the level of capital security for the business conducted by an insurer; by law, this ratio should be above 100%.

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.

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 recommendation – a recommendation of PFSA concerning good practices in scope of exposures collateralized with mortgages.

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 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 28 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 31 January of every year.

TSR – Total shareholder return (market price of shares at end of the period - market price of shares at the beginning of the period + dividend paid in the period) / market price of shares at beginning of the period.

Underwriting – the process of selecting and classifying risks declared for insurance to estimate and accept, according to suitable terms and conditions, or reject an insurance risk.

unit-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.

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.

These Financial Statements contain forward-looking statements concerning the strategic operations.
Such forward-looking statements are exposed to both known and unknown types of risks, involve uncertainties and are subject to other significant factors which may cause that the actual results, operations, or achievements of PZU considerably differ from future results, operations, or achievements expressed or implied in the forwards-looking statements. The statements are based on a number of assumptions concerning the current and future business strategy of PZU and the external environment in which the PZU will operate in the future. PZU expressly waives any and all obligations or commitments concerning distribution of any updates or adjustments to any of the assumptions contained in these Financial Statements of PZU, which shall aim to reflect the changes in PZU expectations or changes in events, conditions, or circumstances on which a given assumption has been made, unless provisions of the law provided otherwise. PZU stipulates that the forward-looking statements do not constitute a guarantee as to the future results, and the company's actual financial standing, business strategy, management plans and objectives concerning the future operations may considerably differ from those presented or implied in such statements contained in these Financial Statements of PZU. Moreover, even if the PZU financial standing, business strategy, management plans and objectives concerning the future operations comply with the forward-looking statements contained in these Financial Statements of PZU, such results or events may not be treated as a guideline as to the results or events in the subsequent periods. PZU does not undertake to publish any updates, changes, or adjustments to information, data or statements contained in these Financial Statements of PZU if the strategic operations or plans of PZU shall change, or in the case of facts or events that shall affect such operations or plans of PZU, unless such an obligation to inform resulted from applicable provisions of the law.
PZU is not liable for the effects of decisions made following the reading of the Financial Statements of PZU.
At the same time, these Financial Statements of PZU may not be treated as a part of a call or an offer to purchase securities or make an investment. The Financial Statements of PZU does not constitute also an offer or a call to effect any other transactions concerning securities.