



Powszechny Zakład Ubezpieczeń Spółka Akcyjna

Independent Auditor's Report

Financial Year ended

31 December 2017



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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Annual Financial Statements

We have audited the accompanying annual financial statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna, with its registered office in Warszawa, Jana Pawła II 24 (the "Entity"), which comprise the introduction to the financial statements, the balance sheet as at 31 December 2017, the technical account of property and casualty insurance, the general profit and loss account, the statement of changes in equity, the cash flow statement for the year then ended and the supplementary information and explanations (the "financial statements").

Responsibility of the Management Board and Supervisory Board for the financial statements

The Management Board of the Entity is responsible for the preparation, on the basis of properly maintained accounting records, of financial statements that give a true and fair view in accordance with accounting act dated 29 September 1994 (Official Journal from 2018, item 395 with amendments) ("the Accounting Act") and related bylaws, and other applicable regulations. Management of the Entity is also responsible for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In accordance with the Accounting Act, the Management Board of the Entity and members of the Supervisory Board are required to ensure that the separate financial statements are in compliance with the requirements set forth in the Accounting Act.

Auditor's Responsibility for the audit of the financial statements

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with:

- the act on certified auditors, audit firms and public oversight dated 11 May 2017 (Official Journal from 2017, item 1089) (the „Act on certified auditors”);
- International Standards on Auditing as adopted by the resolution dated 10 February 2015 of the National Council of Certified Auditors as National Standards on Assurance;

- Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-listed entities and repealing Commission Decision 2005/909/EC (Official Journal of the European Union L 158 from 27.05.2014, page 77 and Official Journal of the European Union L 170 from 11.06.2014, page 66) (the “EU Regulation”).

Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the regulations mentioned above will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting a material misstatement resulting from error because fraud may involve collusion, forgery, deliberate omission, intentional misrepresentations or override of internal controls.

The scope of audit does not include assurance on the future viability of the Entity or on the efficiency or effectiveness with which the Management Board has conducted or will conduct the affairs of the Entity.

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

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

The most significant assessed risks of material misstatements

During our audit we identified the most significant assessed risks of material misstatements (the “key audit matters”), including those due to fraud, described below and we performed appropriate audit procedures to address these matters. Key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matters | Our procedures |
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| <p><i>Valuation of provisions for outstanding claims and benefits for motor third party liability insurance ("MTPL")</i></p> | |
| <p><i>The carrying value of provisions for outstanding claims and benefits for MTPL amounted to PLN 10,054,181 thousand as at 31 December 2017 and PLN 9,645,185 thousand as at 31 December 2016.</i></p> | |
| <p><i>Reference to the financial statements: Note 12.8.3 "Provisions for outstanding claims and benefits" on pages 18-19, Note 9.2.1 "Provision for the outstanding claims" on page 127, Note 9.3 "Provisions for the capitalized value of annuities" on page 128-129.</i></p> | |
| <p><i>Provisions for outstanding claims and benefits for MTPL constitute the most significant element of technical provisions presented in the liabilities of the Entity's balance sheet. Our audit focused particularly on among others the following positions:</i></p> | <p><i>In the course of the audit we have assessed processes and accounting policies associated with the valuation of provisions for outstanding claims and benefits for MPTL as well as we have analysed the internal control system.</i></p> |
| <ul style="list-style-type: none"> <i>• provisions for the annuities claims that existed before the 31 December 2017 and have been reported to the Entity ("the annuities"),</i> <i>• provisions for property and casualty claims that existed before the 31 December 2017 but have not yet been reported to the Entity, including provisions for pain and suffer claims ("IBNR").</i> | <p><i>Our audit procedures performed with the assistance of our own actuarial specialists, included among others:</i></p> |
| <p><i>Valuation of IBNR and the annuities is associated with significant uncertainty regarding estimates, as it requires the Management Board to develop professional judgment, as well as complex and subjective assumptions. The uncertainty in estimates is particularly related to the development of bodily injury claims, including annuities, as well as pain and suffer claims, as a result of the lack of comprehensive information on past occurrence of such type of claims that still burden the risk of payment. Moreover, there is a natural uncertainty about the ultimate loss value, which results among others from demographic factors and the lack of detailed legal solutions regulating the amount of pain and suffer claims.</i></p> | <ul style="list-style-type: none"> <i>• assessment of the valuation methods applied by the Entity, with reference to legal and regulatory requirements, including the applicable financial reporting standards;</i> <i>• testing of the design, implementation and operating effectiveness of key controls embedded in the process of:</i> <ul style="list-style-type: none"> <i>○ establishing and adjusting actuarial assumptions;</i> <i>○ verification of quality of the data regarding paid and reported claims, used among others in calculation of IBNR;</i> <i>○ verification of quality of the data (i.e. age and sex of annuitants; amount or type of the annuity used for a calculation of the annuities and IBNR);</i> <i>• recalculation of IBNR and explanation of all significant differences in comparison to the calculations made by the Entity;</i> <i>• recalculation of the significant annuities and explanations of all significant differences in comparison to the calculations made by the Entity;</i> <i>• in the area of the Entity's analyses of the historical utilization of IBNR:</i> |
| <p><i>Relatively insignificant changes in the assumptions may have a significant impact on the valuation of the IBNR and the annuities. The key assumptions are: claims</i></p> | |

| Key audit matters | Our procedures |
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| <p>development ratios, discount rates, changes in the amount of future annuity payments, the expected payment period and assumed mortality.</p> <p>The calculation of IBNR and the annuities requires the implementation of complex formulas and creation of calculation tools that may not work properly and / or to which may be used incorrect/ incomplete data and/ or assumptions. In addition, there is a number of acceptable actuarial methods for determining IBNR (including provisions for pain and suffer claims) and the annuities, for which the assessment of the appropriateness of implementation of particular methods and assumptions requires a significant judgment of the Entity's Management.</p> <p>Completeness and quality of data used for Entity's actuarial calculations were also concerned as an important area of our audit.</p> <p>Due to the above we have considered the valuation of provisions for outstanding claims and benefits for MTPL as key audit matter.</p> | <ul style="list-style-type: none"> ○ assessment of the assumptions underlying the analyses; ○ assessment of the results of the analyses; ○ application of the results in our assessment of methods and key assumptions implemented by the Entity in the valuation of IBNR as at 31 December 2017; ● assessment of the adequacy of key assumptions adopted by the Entity to the valuation of the annuities and IBNR, in particular: <ul style="list-style-type: none"> ○ for a claim development ratios, assessment of how it is determined based on the historical data regarding reported and settled claims; ○ for a discount rate, comparison of the level of discount rate adopted by the Entity to historical return rate of other investment portfolio and available market data and forecasts; ○ for a change of value of paid annuities (indexation of annuities), assessment of results of the analysis of historical changes in amount of paid annuities; ○ for adopted mortality tables, comparison to publicly available data regarding annual number of deaths in Poland in each age bucket; ● assessment of the sensitivity of the annuities and IBNR to changes in the key assumptions in the audited period; ● analysis of change of value of the annuities and IBNR over time. |

| Key audit matters | Our procedures |
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| <p>Valuation of the related parties</p> <p>The carrying value of the shares in related parties amounted to PLN 15,980,453 thousand as at 31 December 2017 and PLN 9,173,109 thousand as at 31 December 2016.</p> <p>Reference to disclosures in the financial statements: Note 12.2.2 of the introduction to the financial statements „Shares in related parties” on pages 10-11, Note 2.4 of the supplementary information and explanations „Investment in subsidiaries” on pages 79-92.</p> | |

| Key audit matters | Our procedures |
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| <p>As at 31 December 2017, shares in related parties in the amount of PLN 15,980,453 thousand was recognized in the financial statements of the Entity. For each subsidiary, for which goodwill was recognized in the course of valuation using the equity method, a test for impairment has been performed.</p> <p>These tests consisted of comparing the carrying amount of a given Cash Generating Unit (“CGU”) with its recoverable amount, estimated based on:</p> <ul style="list-style-type: none"> • value in use which is the estimated present value of the future cash flows, • fair value, for CGUs being entities listed on active markets. <p>Estimation of recoverable amount is a complex process which requires the Management Board to develop professional judgement, as well as complex and subjective assumptions. Relatively insignificant changes in the assumptions may have a significant impact on the valuation of the recoverable amount. Key assumptions in the process of the recoverable amount estimation are: future value of the cash flows, growth rates in the residual period, discount rates including the risk-free rate, risk margin, beta parameter, as well as the market activity analysis from which quotations are derived to determine the fair value.</p> <p>For the above reasons, valuation of shares in related parties has been considered by us as a key audit matter.</p> | <p>Our audit procedures, carried out with the support of our internal valuation specialists, included, among others:</p> <ul style="list-style-type: none"> • assessment of the impairment triggers identification carried out by the Entity’s Management for individual assets; • assessment of identification of the CGU carried out by the Entity’s Management, including to which CGU goodwill has been allocated and at the level of which the impairment test for particular assets was carried out; • in relation to the models of value in use measurement applied by the Entity’s Management: <ul style="list-style-type: none"> ○ assessment of whether the models used by the Entity to estimate the value in use of individual CGU meet the requirements of applicable reporting standards. ○ analysis of the recoverable amount calculation models for each CGU (verification of mathematical correctness and logical consistency); ○ evaluation of reasonableness of the adopted discount rates by comparing them to existing the risk-free rates, risk margin, beta parameter adapted to the specifics of the business of the tested CGU; ○ assessment of the estimated financial results of each CGU by comparing them to historical financial results and the accuracy of budgeting in previous periods; ○ comparison of residual growth rates after the forecasts to average growth rates applicable to particular business sector, particular country and to historical growth rates, including in the light of the discount rates used. • for CGU for which the recoverable amount was measured at fair value: <ul style="list-style-type: none"> ○ assessment of the market activity analysis carried out by the Entity’s Management, from which the |

| Key audit matters | Our procedures |
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| | <p><i>quotations are derived to determine the fair value;</i></p> <ul style="list-style-type: none"> ○ <i>reconciliation of stock quotations to the data used by the Entity, along with analysis of the appropriateness of the control margin.</i> |

Opinion

In our opinion, the accompanying financial statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna:

- give a true and fair view of the financial position of the Entity as at 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with the Accounting Act, related bylaws, and in accordance with the adopted accounting principles (policy);
- have been prepared, in all material respects, on the basis of properly maintained accounting records; and
- comply, in all material respects, with regard to form and content, with applicable laws and the provisions of the Entity’s articles of association.

Report on other legal and regulatory requirements

Report on the activities

Our opinion on the financial statements does not cover the report on the Entity’s capital group activities that was prepared together with the report on the Entity’s activities (the “report on activities”).

The Management Board of the Entity is responsible for the preparation of the report on activities in accordance with the requirements of the Accounting Act and other applicable laws. Furthermore, the Management Board of the Entity and members of the Supervisory Board, are also required to ensure that the report on activities is in compliance with the requirements set forth in the Accounting Act.

Our responsibility was to state, if based on our knowledge about the Entity and its environment obtained in the audit, we have identified material misstatements in the report on the activities and describe the nature of each material misstatement.

In accordance with Act on certified auditors our responsibility was also to determine if the report on activities was prepared in accordance with applicable laws and the information given in the report on activities is consistent with the financial statements. Based on the work undertaken in the course of the audit of the financial statements, in our opinion the accompanying report on activities in all material respects:

- was prepared in accordance with applicable laws, and
- is consistent with the financial statements.

Furthermore, based on our knowledge about the Entity and its environment obtained in the audit, we have not identified material misstatements in the report on activities.

Opinion on corporate governance statement

The Management Board of the Entity and members of the Supervisory Board are responsible for preparation of the corporate governance statement in accordance with the applicable laws.

In connection with the audit of the financial statements, our responsibility in accordance with the requirements of the Act on certified auditors was to report whether the issuer of securities obliged to file a corporate governance statement, constituting a separate part of the report on activities, included information required by the applicable laws and regulations, and in relation to specific information indicated in these laws or regulations, to determine whether it complies with the applicable laws and whether it is consistent with the financial statements.

In our opinion the statement of corporate governance, which is a separate part of the report on the Entity's activities, includes the information required by paragraph 91 subparagraph 5 point 4 letter a, b, g, j, k and letter l of the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent of information required by the laws of a non-member state (Official Journal from 2014, item 133 with amendments) (the "decree"). Furthermore, in our opinion the information identified in paragraph 91 subparagraph 5 point 4 letter c-f, h and letter i of the decree, included in the corporate governance statement, in all material respects:

- has been prepared in accordance with the applicable laws; and
- is consistent with the financial statements.

Information about non-financial statement

In accordance with the requirements of the Act on certified auditors, we report that the Entity has prepared a separate statement on non-financial information referred to in art. 49b paragraph 9 of the Accounting Act together with the separate statement on non-financial information of the Entity's capital group.

We have not performed any assurance procedures in relation to the statement on non-financial information of the Entity and, accordingly, we do not express any assurance thereon.

Independence and the appointment of the audit firm

Our opinion on the audit of financial statements is consistent with our report to the audit committee.

During our audit the key certified auditor and the audit firm remained independent of the Entity in accordance with requirements of the Act on certified auditors, the EU Regulation and the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants' (IFAC) as adopted by the resolutions of National Council of Certified Auditors.

We declare that, to the best of our knowledge and belief, we did not provide prohibited non-audit services referred to in art. 5 paragraph 1 second subparagraph of the EU Regulation and art. 136 of the Act on certified auditors, taking into consideration the transitional provisions of art. 285 of the Act on certified auditors.

The audit of financial statements was conducted based on resolution of Supervisory Board dated 18 February 2014.

Our total uninterrupted period of engagement is four years, beginning from the year ended 31 December 2014.

Information regarding technical provisions for accounting purposes required by the act on certified auditors

Our audit of the Entity's financial statements included audit procedures aimed at identification of instances of violation by the Entity of the applicable prudence regulations stipulated in art. 277 of the act on insurance and reinsurance activities, in particular whether the Entity has established technical provisions for accounting purposes in the amount sufficient to fully cover the amount of current and future liabilities arising from insurance or reinsurance contracts. The Entity's Management is responsible for the Entity's compliance with law and prudence regulations, including those stipulating the method of establishing the technical provisions for accounting purposes.

Based on our audit, we inform that we have not identified any instances of breach of the abovementioned prudence regulations, in particular in respect of the establishment as at 31 December 2017 of technical provisions for accounting purposes in the amount sufficient to fully cover the value of current and future liabilities arising from insurance or reinsurance contracts, that could have a material impact on the financial statements of the Entity.

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

Signed on the Polish original

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

Signed on the Polish original

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

14 March 2018