2018 Management Board's report on the activity of the PZU Group in H1 2018

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CEO Letter to Shareholders

Paweł Surówka
CEO of PZU

Dear Shareholders,

On behalf of the management boards of the PZU Group companies, I hereby convey to you our activity report for H1 2018.

We kicked off this year by announcing the New PZU strategy. Our ambitious targets through 2020 are focused on modifying the PZU Group's operating model while harnessing the potential we possess in insurance, banking, investments and health care. The initiatives under execution in these areas will enable us to generate cost and revenue-side synergies as well as across the board synergies driven by our technological transformation.

Having regard for the global trends transpiring in the development of Big Data, artificial intelligence and mobile solutions, we want to be certain that we become an organization that actively creates and participates in forward-looking technological changes. This will allow us to retain our competitive edge in the medium and long-term as we compete with other large players on the market as well as with young, dynamic companies operating at the crossroads of technology, finance and insurance.

The execution of the initiatives set forth in the New PZU strategy will make us one of the most innovative institutions in the financial industry in Europe while continuing to be one of the most sound and profitable financial groups in the world. The new operating model will combine all of the PZU Group's activities. This on-going transformation in the direction of becoming a service and advisory company will make it possible to satisfy client needs comprehensively, spanning the protection of life, health, non-life, savings and finance. At the same time, these measures will act as a catalyst to release the overall group's potential, which over the period until 2020 will translate, among other things, into generating an above average return on equity (ROE) in comparison to the industry in general.

In H1 2018, ROE topped 20%, double the average generated by insurers in Europe. This result was possible thanks to pursuing an effective tariff and cost policy. We generated a record-breaking gross written premium when measured on a quarterly basis (PLN 6.1 billion) and for the first six months of the year (PLN 11.9 billion). Moreover, we are maintaining rigorous cost discipline while growing sales. The administrative expense ratio in PZU and PZU Życie in H1 2018 was 6.5% (posting improvement of 0.3 p.p. y/y).

The robust margin in group and individually continued insurance has also contributed to the high level of our ROE. Following a seasonally soft Q1, our operating profit margin reached its strategic level at the end of H1 2018 by surpassing the 20% watermark. We are also continuing to deliver robust profitability in non-life insurance in Poland. Despite having established a provision for claims for general damages (PLN 148 million) in Q1, our combined ratio (COR) was 86.8% at the end of H1 2018.

As a result, the PZU Group wrapped up H1 2018 with a net profit of PLN 2.4 billion (up 38.3% y/y). This outstanding result is also related to the rising contribution made by the bank segment, which was supported operationally by growth in the sales of loans coupled with the persistently low costs of funding.

In subsequent quarters, the Group's primary objective will be to attain its ambitious strategic targets related to developing the key areas of its business operations underpinned by new technologies. In H1 2018 highly-advanced work was in progress on PZU GO, a tool whose underlying concept stemmed from the need to rescue drivers' lives. For in our day-to-day work we are deeply committed to ensuring that the measures we take serve the purpose of building the Group's long-term value while making a genuine contribution to our communities in accordance with the principles of corporate social responsibility.

I would like to extend my thanks to our employees and agents as well as our business partners for their efforts to build PZU's value.

Respectfully,

Paweł Surówka

CEO of PZU

1.

PZU Group Overview

The PZU Group’s ambition is to accompany clients, to make it easier for them to make the right choices to help them protect their future and what they consider to be the most valuable.

PZU Group Overview

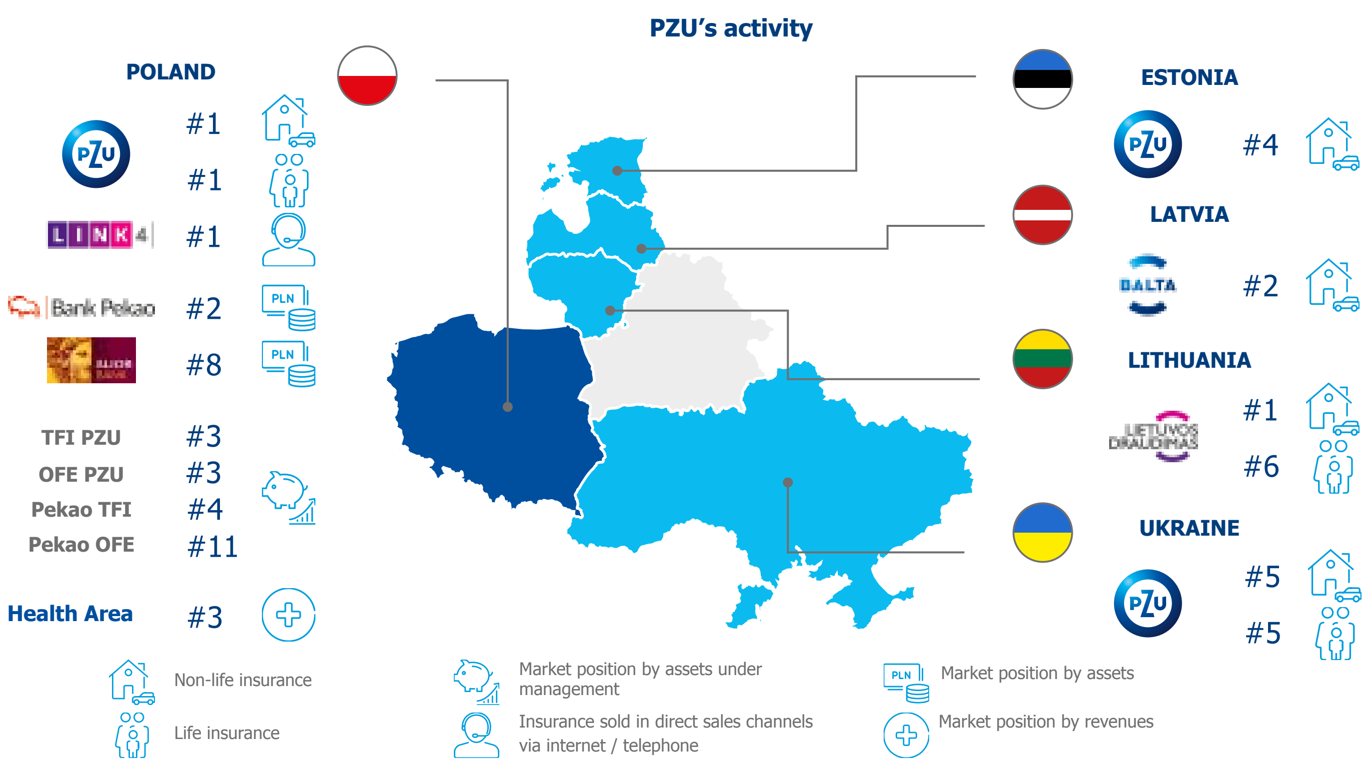
PZU Group
Powszechny Zakład Ubezpieczeń Group (PZU Group, Group) is the largest financial institution in Poland and Central and Eastern Europe. PZU heads up the group and its traditions date back to 1803 when the first insurance company was established in Poland. Since 2010, PZU has been listed on the Warsaw Stock Exchange where it has been one of the large cap blue chips offering the highest amount of liquidity from its floatation.

PZU Group has over PLN 300 billion of assets and it renders services in five countries. According to spontaneous brand recognition surveys, PZU comes in at 88%, while aided brand recognition is 100%, making PZU the best recognized brand in Poland.

Group companies are active not only in life and non-life insurance but also in investment, pension, health care and banking products. They cooperate with various industry leaders in the framework of strategic partnerships by creating tailor-made products for their clients. For instance, by collaborating with companies in the telecommunications industry and the power sector, PZU offers insurance of electronic equipment and assistance services to individuals and businesses. In addition, the Group has kicked off collaboration with LOT and Allegro in the framework of strategic partnerships in 2018.

It is the Group's strategic ambition to pursue a new approach to building client relations, thereby leading to the integration of all operating areas with the client at the focal point. This will make it possible to deliver products that are well-matched to clients at the appropriate time and place and respond to other client needs on a comprehensive basis. This process will be supported by harnessing tools rooted in artificial intelligence, big data and mobile solutions that will contribute to building an entrenched technological advantage in integrated client service.

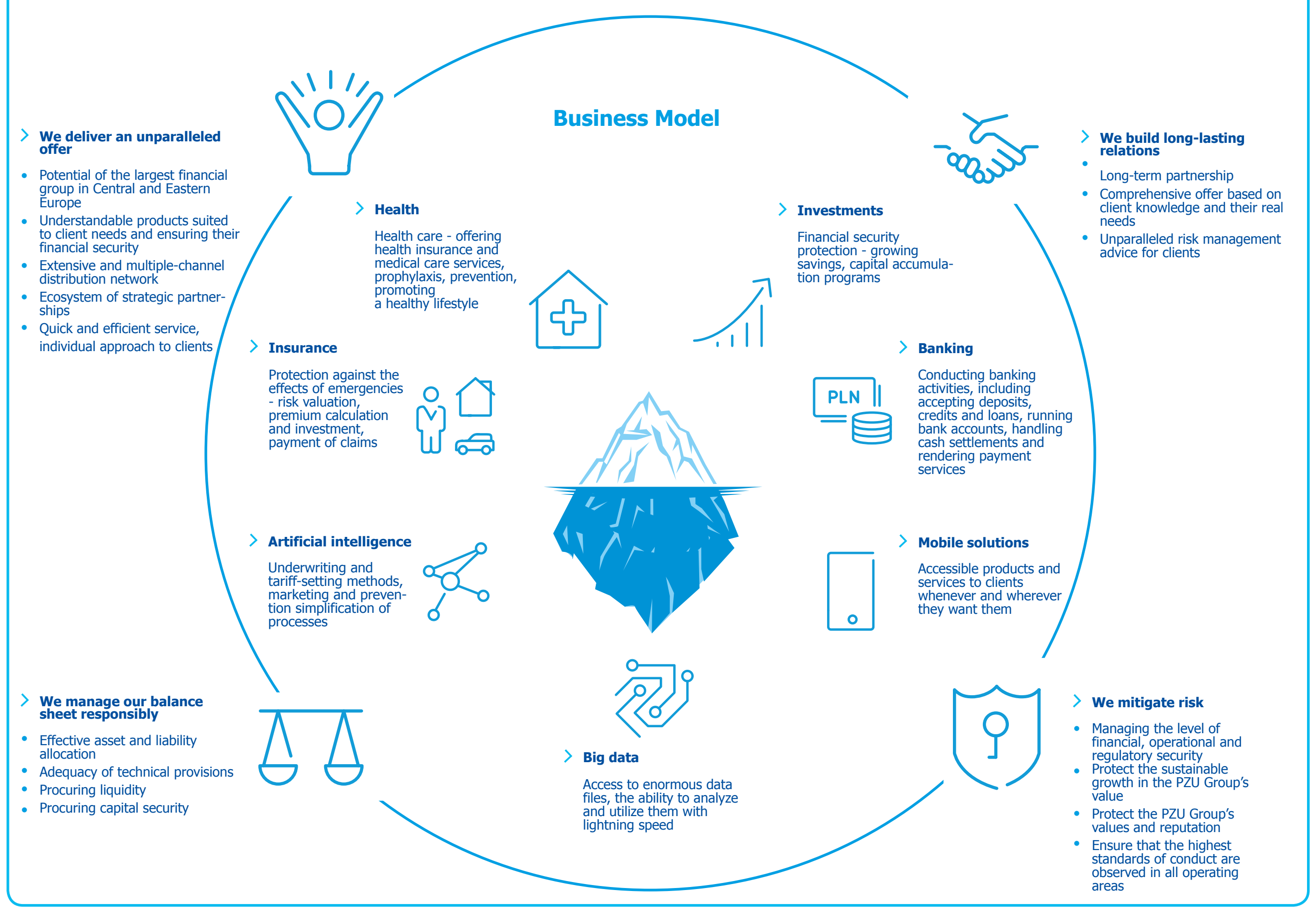
PZU is an organization operating at a large scale. It is also cognizant of the expectations various entities have of it, including investors, clients, employees, partners, industry experts and the social environment from which PZU's employees and clients come. That is also why managing relations with stakeholders and their impact on the business community is accomplished in a deliberate and sustainable manner. PZU is a company that is open to social expectations. In the actions it takes it strives to set trends and construe business solutions responsibly. It also gets involved in actions to benefit the local communities in which the Group's clients function. For the PZU Group, sustainable management is a deliberate choice of how it conducts its business, thereby making it possible to build the company's long-term value in an ethical and transparent manner while giving consideration to stakeholder needs and expectations.



Mission

We help clients care for their future

What we do



Our values

Common business philosophy based on the code of Best Practices

We play fair

Our offer is transparent and satisfies our customers' genuine expectations; we apply clearly-defined rules to our organization's operation

We are effective

We offer friendly and efficient service and competitive prices; we control our costs and ensure that we have efficient processes

We are innovative

We constantly adapt to our clients' evolving needs; we actively endeavor to streamline how our company functions

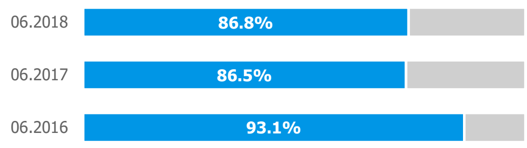
PZU Group Overview

INSURANCE

Non-life insurance in Poland

Gross written premium (PLN billion)

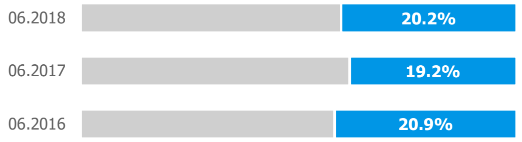
Profitability (combined ratio - COR)



Life insurance in Poland

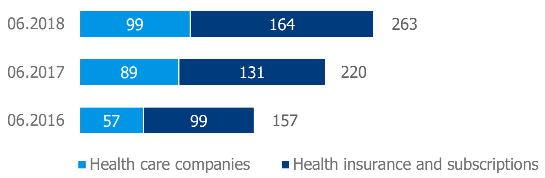
Gross written premium (PLN billion)

Profitability (operating margin)



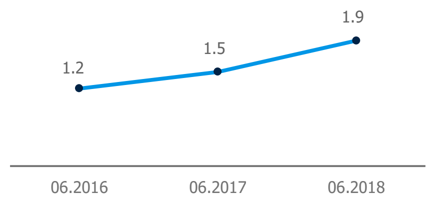
HEALTH

PZU Zdrowie's revenues (PLN million)

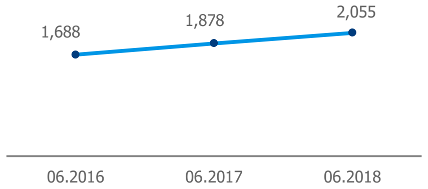


EBITDA margin

Number of agreements (milion)

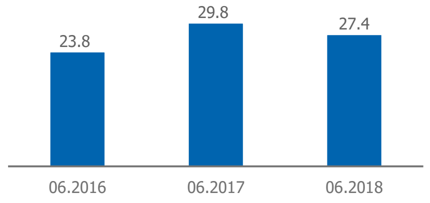


Partnership branches



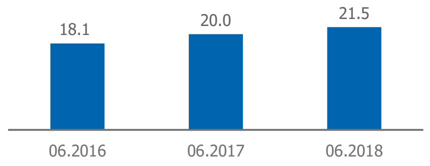
INVESTMENTS

Third Party Assets of TFI and OFE PZU clients (PLN billion)

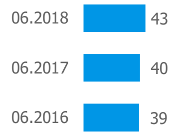


Net result on asset management (PLN million)

Assets of PKO and OFE TFI clients (Pekao)

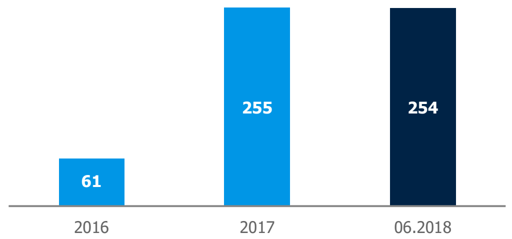


Net result on asset management (PLN million)

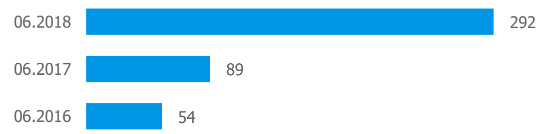


BANKING

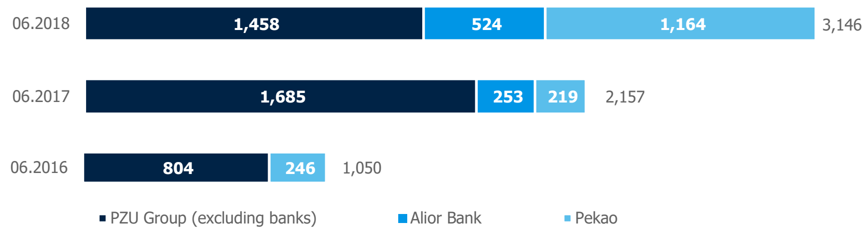
Banking assets in the PZU Group (PLN billion)



Net result attributed to the PZU Group (PLN million)



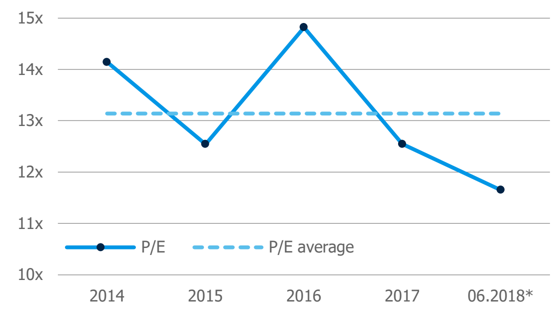
Contribution of the banks to the PZU Group's operating result (PLN million)



PZU Group Overview

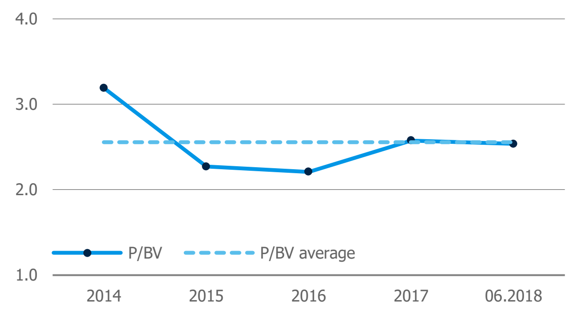
MARKET MULTIPLES

P/E (price to earnings per share)

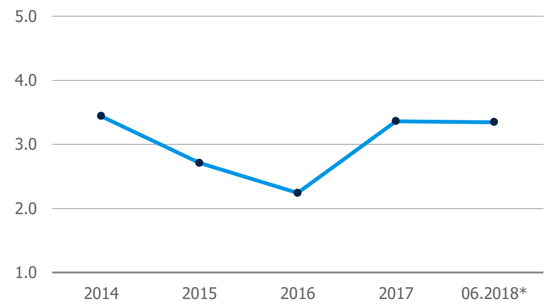


* trailing 12 months

P/BV (price to book value)

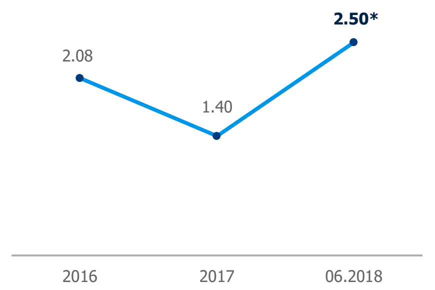


EPS (earnings per share) PLN



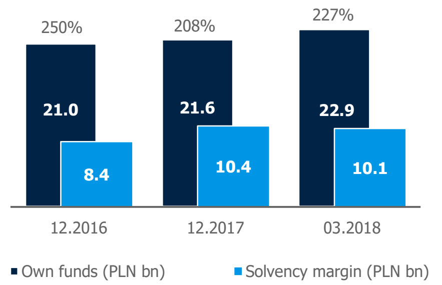
* trailing 12 months

DPS (dividend per share) PLN



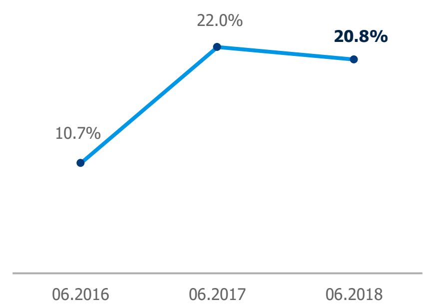
* the dividend will be disbursed on October 3, 2018

Solvency II*



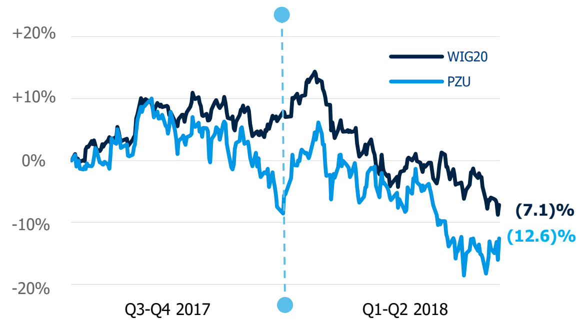
* unaudited data

ROE (Return on equity)*

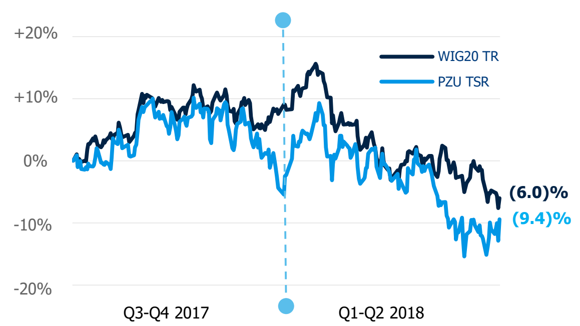


* ROE attributed for the parent company

PZU, WIG20



PZU TSR, WIG20 TR



PZU Group's consolidated highlights for H1 2016-2018 (PLN million)

	1 January - 30 June 2018	1 January - 30 June 2017	1 January - 30 June 2016
Gross written premiums	11,881	11,606	9,862
Revenue from commissions and fees	1,320	510	273
Net investment income	5,256	3,027	1,405
Net insurance claims and benefits	(7,345)	(7,214)	(6,165)
Acquisition costs	(1,519)	(1,412)	(1,252)
Administrative expenses	(3,342)	(2,036)	(1,283)
Interest expenses	(992)	(420)	(346)
Operating profit (loss)	3,146	2,157	1,050
Net profit	2,358	1,705	790
Net profit attributable to the equity holders of the parent company	1,425	1,438	660
Assets in total	321,811	295,967	112,945
Investment financial assets	105,910	92,894	93,856
Receivables from clients due to loans	173,651	160,680	33,526
Consolidated equity	34,612	35,097	15,601
Equity attributable to the equity holders of the parent company	13,280	13,137	11,772
Technical provisions	45,583	43,785	41,702
Financial liabilities	225,470	204,380	47,198

Restated data for 2016-2017.

The PZU Group is characterized by a high level of security of its operations. This is confirmed by both high capital adequacy ratios and the rating of the American rating agency S&P Global Ratings at the level of A-.

On 27 October 2017, the S&P agency upgraded PZU's rating outlook from negative to stable. At the same time, PZU's financial strength rating remained at A-. This is one of the highest possible ratings for a Polish company. In their report, S&P analysts emphasized that: „Group stability and transparency of investments in the banking sector supports the current creditworthiness of the PZU Group in the medium term." Chapter 7.5 RATING

A-

/STABLE/

Financial strength rating and credit rating awarded to PZU by S&P

2.

External environment

Higher than expected GDP growth, accompanied by a very good situation on the labor market and robust real income growth created favorable conditions for PZU's business growth.

In this section:

1. Main trends in the Polish economy
2. Situation on the financial markets
3. External environment in the Baltic States and Ukraine
4. Macroeconomic factors that can affect the operations of the Polish insurance sector and the PZU Group's activities in H2 2018

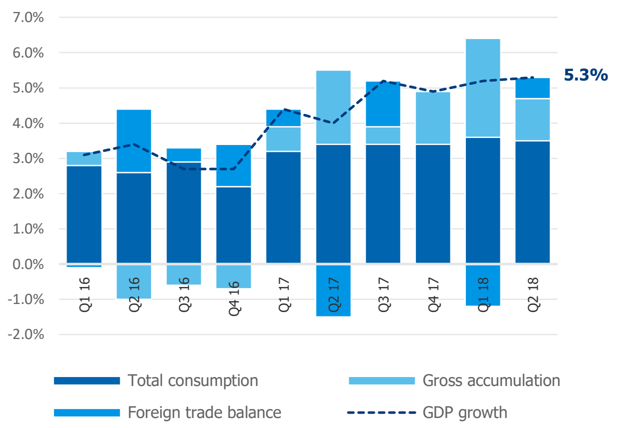
2.1 Main trends in the Polish economy

Gross Domestic Product

GDP growth in Poland accelerated in Q1 2018 to 5.2% y/y, compared to 4.9% y/y in Q4 2017. The largest contribution to GDP growth included: private consumption (it contributed 3.0 p.p. to GDP growth), higher inventories (+1.9 p.p.) and, to a smaller extent, investments (+0.9 p.p.). Net exports had a negative contribution to GDP growth (-1.2 p.p.).

Economic activity data indicates that GDP growth could have exceeded 5% y/y in Q2, with slightly lower growth in consumption and higher investment growth, compared to the previous quarter. The increase in industrial production sold in H1 2018 (6.2% y/y) was only slightly lower than in 2017, while it accelerated in Q2 of this year to 7.0% y/y from 5.5% y/y in the previous quarter. Between January and June of this year, construction and assembly production grew faster than in full year 2017 and was 23.7% higher than last year. The increase in construction production was driven by the execution of infrastructural investments and the rapid growth of production in companies that erect buildings. At the same time, the growth in the volume of retail sales in H1 2018 was slightly lower than in full year 2017 at 6.8% y/y. In the second quarter of this year, the growth of retail sales decelerated slightly vs. the previous quarter; this, however, resulted from the timing of this year's Easter Holidays.

Decomposition of GDP growth in 2016 - 2018 Q2



Sources: Central Statistical Office (GUS) data, forecast of the PZU Macroeconomic Analysis Department for Q2 2018.

Labor market and consumption

In H1 2018, in the midst of excellent conditions for doing business, high demand for work persisted and companies voiced more problems related to job vacancies. In Q1, the growth of average monthly employment in the national economy was 2.8% y/y, meaning it was down from previous quarters. The average monthly headcount in the enterprise sector in H1 2018 rose 3.8% y/y, but the incremental growth in headcount in this period was lower than last year. Adverse demographic trends exerted an ever larger effect on the supply of labor and in Q1 2018 lower economic activity was also recorded. The registered unemployment rate in June 2018 was 5.9% compared to 7.0% last year. The pace at which the unemployment rate is falling has been slowing down recently as it approaches its natural level.

In these conditions, salary growth gradually accelerated. In Q1 2018, the gross average monthly salary in the national economy rose 6.2% y/y thereby outpacing growth in 2017. The gross average monthly salary in the enterprise sector grew faster in H1 2018, up to 7.3% y/y (5.7% in real terms), compared to 5.9% in full year 2017.

The greater security of employment felt by employees and robust real income growth were conducive to maintaining a high growth rate of household consumption. In Q1 2018 it climbed 4.8% y/y in real terms while in Q2 its growth could be just slightly lower. Since May, consumer economic indicators have started to dip slightly, but not enough to depart the historically record-breaking high levels.

Inflation, monetary policy and interest rates

In H1 2018, the average increase in prices of consumer goods and services (CPI) was 1.6% y/y compared to 2.1% y/y in H2 2017. The decline in the annual inflation rate in early 2018 was driven by the attenuating impact exerted by the strong hikes in fuel and food prices at the turn of 2016 and 2017. In Q2 of this year, inflation rose to 1.7% y/y from 1.5% y/y in Q1, supported, among other things, by a strong increase in fuel prices.

Core inflation (CPI after excluding food and energy prices) remained very low in H1 2018, at 0.7% y/y on average, compared to 0.9% y/y in H2 2017. This was caused, among other things, by the prices for certain services being slashed (promotional offers for telecommunications and satellite TV services, lower insurance prices). Core inflation growth is also mitigated by the globalization of production and moderate inflation recorded by Poland's main trading partners.

In the period from January to July 2018, the National Bank of Poland's interest rates did not change. The reference interest rate remained steady at the 1.5% level set in March 2015. According to the Monetary Policy Council's members, the current level of interest rates fosters persistent sustainable growth in Poland and makes it possible to preserve macroeconomic equilibrium.

Public finance

After June this year, the state budget had a surplus of PLN 9.5 billion, the best historical result at this stage of the year. The annual growth of tax revenue accelerated slightly in June and was about 7.9% y/y, cumulatively, driven mainly by the very high growth of direct tax revenues (PIT 16% y/y, CIT 18.1% y/y). The budget's excellent results also benefited from a lower subsidy transferred to the FUS [Social Insurance Fund].

The Finance Ministry reported that at the end of the first half of the year, about 60% of the annual borrowing needs had been financed. The level of liquid funds in PLN and foreign currencies was also high, at roughly PLN 55.7 billion at the end of June.

2.2 Situation on the financial markets

The main central banks continued the policy of careful withdrawal from an ultra- loose monetary policy. This applied mainly to the Fed, which administered two interest rate hikes in H1 2018 while indicating that this process would continue. In early June, ECB decided to end the quantitative easing program at the end of 2018, but balanced the market effect of this decision by announcing a relatively distant date for the first interest rate hike (through summer 2019).

In early 2018, treasury bond yields on the underlying markets continued to post dynamic growth. Higher yields resulted from excellent economic activity data, loosening of fiscal policy in the USA, stronger expectations of interest rate hikes by the Fed and the earlier wrapping up of the quantitative easing (QE) program by ECB. However, from mid-February, driven by concerns about the escalation of the trade conflict between the USA and China and the possible slowdown in economic growth in the Eurozone, the yields of German bonds started to fall. The uptick in yields in the USA lasted until mid-May when they broke through the 3.10% threshold. After that, they started to trend down slowly, driven by the heightened global aversion to risk related to the escalation of trade conflicts.

Global stock market indices continued their strong growth in early 2018. During that time, markets were discounting the positive impact of the US tax reform on the future earnings of US companies. However, early February saw the first significant adjustment in global markets in a long time, driven mainly by investors' fears of accelerated normalization of the FED's monetary policy. In the following months, growth returned to global stock markets, but it was slower and more volatile than before. As a result, the American stock exchange index S&P500 ended the first half of the year up slightly (+1.15%), but the German DAX index declined significantly (-4.92%).

In mid-April, the economic situation on the financial markets of "emerging economies" deteriorated. The strengthening of the US dollar and the rising yields offered by US bonds contributed to the tightening of financial conditions around the world. This coincided with elevated concerns about Iranian oil exports and greater tensions in the Middle East. These factors drove down the currency, bond and equity markets of the "emerging economies". The departure of capital was felt in particular in countries with large balance of payment imbalances, such as Turkey and Argentina.

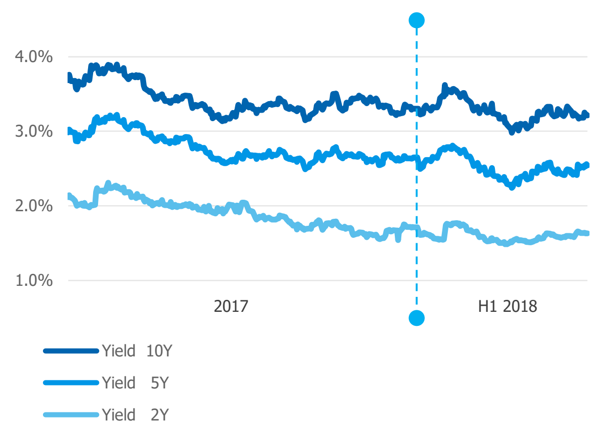
Uncertainty in the financial markets was also exacerbated by the formation of a Euro-sceptic government coalition in Italy, which promised relaxed budgetary discipline. As a result, the yield of Italian 10-year bonds exceeded the 3% threshold for a while, while the spread in relation to German bonds was the highest in five years, amounting to 280 bps. The rising cost of servicing Italy's debt raised concerns about the refinancing of public debt, totaling nearly 132% of GDP.

At the end of January, the yield on Polish 10-year Treasury bonds temporarily shot up to 3.60%, following the underlying markets. The robust data from the Polish economy, that increased the likelihood of inflation growth in the future, could also have contributed to this. In February, however, the yield on Polish 10-year Treasury bonds started to fall (in mid-April it even dipped below 3%). This was caused by several factors. First, the yields of German bond, with which Polish bonds are strongly correlated, fell. Additionally, the expected magnitude of interest rate growth fell in light of much lower than expected inflation readings and the consistently dovish rhetoric of the Monetary Policy Council. At the same time, the credit risk of the Polish economy remained relatively low, among others due to the persistently very good fiscal and payment situation. As a result, the difference between the yields on Polish and German 10-year Treasury bonds in mid-April even dropped below 250 basis points (from 288 basis points at the end of 2017). Despite that, after the downturn on the financial markets of emerging economies, we have observed an outflow of capital also from Poland in Q2. The heightened aversion to risk also resulted from the uncertainty related to US trade policy. As a result, at the end of June Polish 10-year bond yields rose to 3.21% and the spread to German bonds increased to 290 bps.

Between the end of December 2017 and the end of June this year, WIG and WIG20 indices fell 12.22% and 13.23%, respectively. This was caused mainly by the negative sentiment towards emerging economies. The rising cost pressure, including salary pressure, additionally contributed to deterioration in corporate financial results in the first quarter of the year.

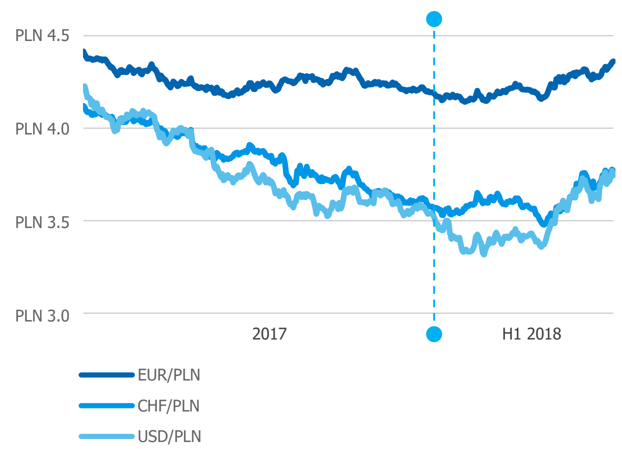
In the first two months of 2018, the US dollar weakened versus the euro, while already in mid-April the US currency started to strengthen visibly. Concerns were starting to grow about economic growth and the sustainability of low inflation in the euro area and the US economy was showing signs of a stronger recovery, justifying the continuing increases in interest rates. The Polish zloty also strengthened until mid-April but then, following the financial market downturn in emerging economies, it began to weaken. When risk aversion grows, investors reduce the share of risky assets in their portfolios without assessing in detail the fundamentals of individual economies, and the Polish currency market is also more liquid in comparison to other economies of the region. At the end of June, the EUR/PLN exchange rate was 4.36, indicating a weakening of the Polish zloty against the EUR by 4.6% in the first half of the year. On the other hand, the USD/PLN exchange rate was PLN 3.74 at the end of June – the Polish zloty weakened by 7.5% in relation to the USD in that period.

Treasury bond yields in 2017 and H1 2018



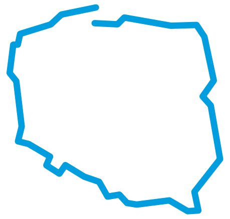
Source: Thomson Reuters, PZU's Department of Macroeconomic Analyses

PLN exchange rate in 2017 and H1 2018



Source: National Bank of Poland, Thomson Reuters, PZU's Department of Macroeconomic Analyses

Poland's GDP growth in Q1 2018 accelerated to



5.2% y/y

due to the high rate of growth in consumption and inventories

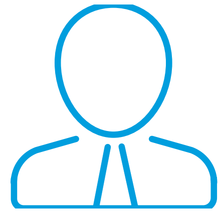
The registered unemployment rate in June 2018 was

5.9%

compared to

7.0%

last year, drawing nearer to its natural level



In H1 2018, the consumer price index (CPI) was up

1.6% y/y

compared to

2.1% y/y

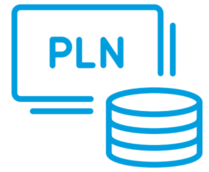
last year

The wage growth in the national economy

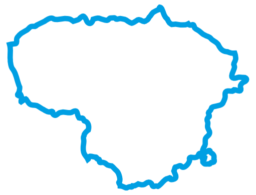
+6.2% y/y

and the good state of the labor market fostered the continued high pace of household consumption growth of

+4.8% y/y in Q1 2018



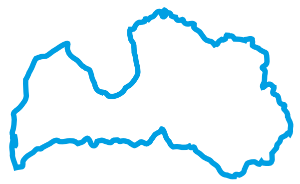
Lithuania's GDP in Q1 2018 climbed



3.7%

on an annual basis

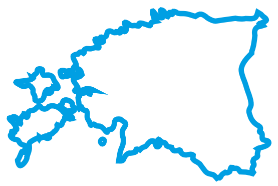
Latvia's annual GDP growth was



4.9%

Q1 2018

Estonia's GDP growth was



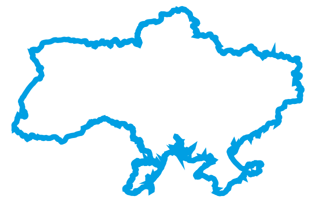
3.6% y/y

in Q1 2018

Ukraine's GDP growth in Q1 2018 rose

3.1%

on an annual basis



2.3 External environment in the Baltic States and Ukraine

Lithuania

Lithuania's GDP rose in Q1 2018 by 0.9% as compared to Q4 2017. In annual terms, GDP growth was 3.7%. In the first quarter of the year, economic activity in the euro area was weaker than expected, although stable. The growth of export of Lithuanian goods, mainly to Western countries, decreased significantly in many groups. This suggests that the slowdown in exports had been affected by foreign demand. An additional factor that slowed down the growth of Lithuania's GDP in Q1 2018 was the deceleration in private consumption growth caused by the declining workforce.

In June 2018, the Consumer Price Index (CPI) was 2.6% on an annual basis. Lithuania is similar to many other countries in that inflation is strongly correlated with price changes on commodity markets. During the first five months of 2018, fuel prices showed a moderate increase. The situation changed in May, when high uncertainty began to affect the prospects for oil supply due to the situation with Iran. This led to an increase in global oil prices, which in turn influenced the general level of consumer prices. The index of service prices (i.e. the prices that are related to Lithuania's economic progress) is relatively more stable.

Latvia

In Q1 2018 Latvia's GDP increased by 4.9% y/y (adjusted for seasonality) and 1.5% quarter over quarter[1]. Despite the positive trend of GDP growth, the growth drivers are not capable of keeping this pace.

Investment activities were the main contributor to GDP growth in Latvia, due to the growth of the construction sector in the first months of 2018. Construction growth was driven mainly by the previously-planned infrastructure improvement projects using EU co-funding and construction projects in the private sector. Benefiting from the stable foreign demand, the value of goods exported by Latvian companies continued to grow and in May it was 8.5% higher than the year before. In the first 5 months of 2018, the exports of goods increased by 9.3% y/y by value. Re-exports and non-recurring transactions strongly contributed to the exports increases in Q1 and in April, which suggests taking careful approach regarding a solid growth trend.

[1] Latvijas Banka Monthly Newsletter, July 2018, Bank of Latvia

In June 2018, the increase in consumer prices (CPI) resulted mainly from higher energy prices. Consumer prices increased 2.8% y/y and 0.6% month over month, respectively.

Estonia

According to data published by the Bank of Estonia[2], GDP growth in the first quarter was 3.6% in annual terms, while quarter over quarter the Estonian economy decreased by -0.1% (data adjusted for seasonality). Even though the growth was slower than in the last quarter, the economy remains strong and actual GDP growth is higher than the potential growth rate.

Estonia's economic growth is supported by the accommodating monetary policy and a positive foreign environment as well as the government's fiscal policy, which led to an increase in expenditures. Despite that, the sentiments among Estonian companies are less optimistic than 6 months earlier, which indicates that GDP growth will be continued more slowly than last year.

The consumer price index (CPI) moved up 4.0% in June 2018 compared to the corresponding period last year and 0.9% in monthly terms. The increase in the consumer price index was driven mainly by fuel prices and increases in real estate maintenance costs, due to higher energy prices and higher rents.

Ukraine

Ukraine's economy has maintained stable growth since the beginning of 2018. According to data published by the Statistics Office of Ukraine, in Q1 2018, GDP grew by 3.1% y/y and by 0.9% q/q.

Solid domestic demand has been the main driver of Ukraine's growth since the year began. Consumer spending has increased, driven by improving labor market conditions, easing of inflationary pressures and improvements in private sector conditions.

This effect was also supported by the increase in capital expenditures carried over from the previous quarter. On the other hand, data from the external sector were less optimistic. In the first quarter exports were negative, though the deterioration of imports was much more pronounced.

[2] Estonian Economy and Monetary Policy, 2/2018, Bank of Estonia

In June 2018, the inflation rate was 9.9% per annum, which was lower than expected by the market (10.1%) and also the lowest inflation level since September 2016. The inflation rate was driven largely by the following factors: lower prices of food, alcohol and tobacco prices and a drop in government-regulated prices (of gas, electricity and water).

2.4 Macroeconomic factors that can affect the operations of the Polish insurance sector and the PZU Group's activities in H2 2018

The GDP growth rate in Poland in H1 2018 – which probably exceeded 5% y/y – proved to exceed the forecasts. In H2 2018, we expect a gradual slowdown of GDP growth, however even then it will remain very high and may approach as much as 5% for the whole year. Consumption growth may be slightly lower than last year, with much higher investment growth. At the same time, inflation will remain relatively low.

Currently, the risk posed to economic growth and to the financial market is mainly related to the possibility of a significant rise in protectionism in global trade. There are also many uncertainties related to the Brexit process and to the activities of the new government in Italy. The risk of a financial crisis in China, albeit inconsequential in the short term, remains, as well as geopolitical risks.

Polish economy highlights	2018*	2017	2016	2015	2014	2013
Real GDP growth in % (y/y)	4.7	4.6	3.0	3.8	3.3	1.4
Individual consumption growth in % (y/y)	4.5	4.8	3.9	3.0	2.6	0.3
Gross fixed capital formation growth % (y/y)	8.0	3.4	(8.2)	6.1	10.0	(1.1)
Consumer price index in % (y/y, annual average)	1.7	2.0	(0.6)	(0.9)	0.0	0.9
Nominal wages and salaries growth in the national economy in % (y/y)	7.0	5.4	3.7	3.5	3.2	3.7
Registered unemployment rate in % (end of period)	5.8	6.6	8.2	9.7	11.4	13.4
NBP's reference rate in % (end of period)	1.50	1.50	1.50	1.50	2.00	2.50

* Forecast of 3 July 2018
Source: PZU's Department of Macroeconomic Analyses

3.

PZU Group's operations

We are strengthening our position as a financial services leader. The PZU Group's brand spans insurance, banking products, mutual funds and pension funds and medical services.

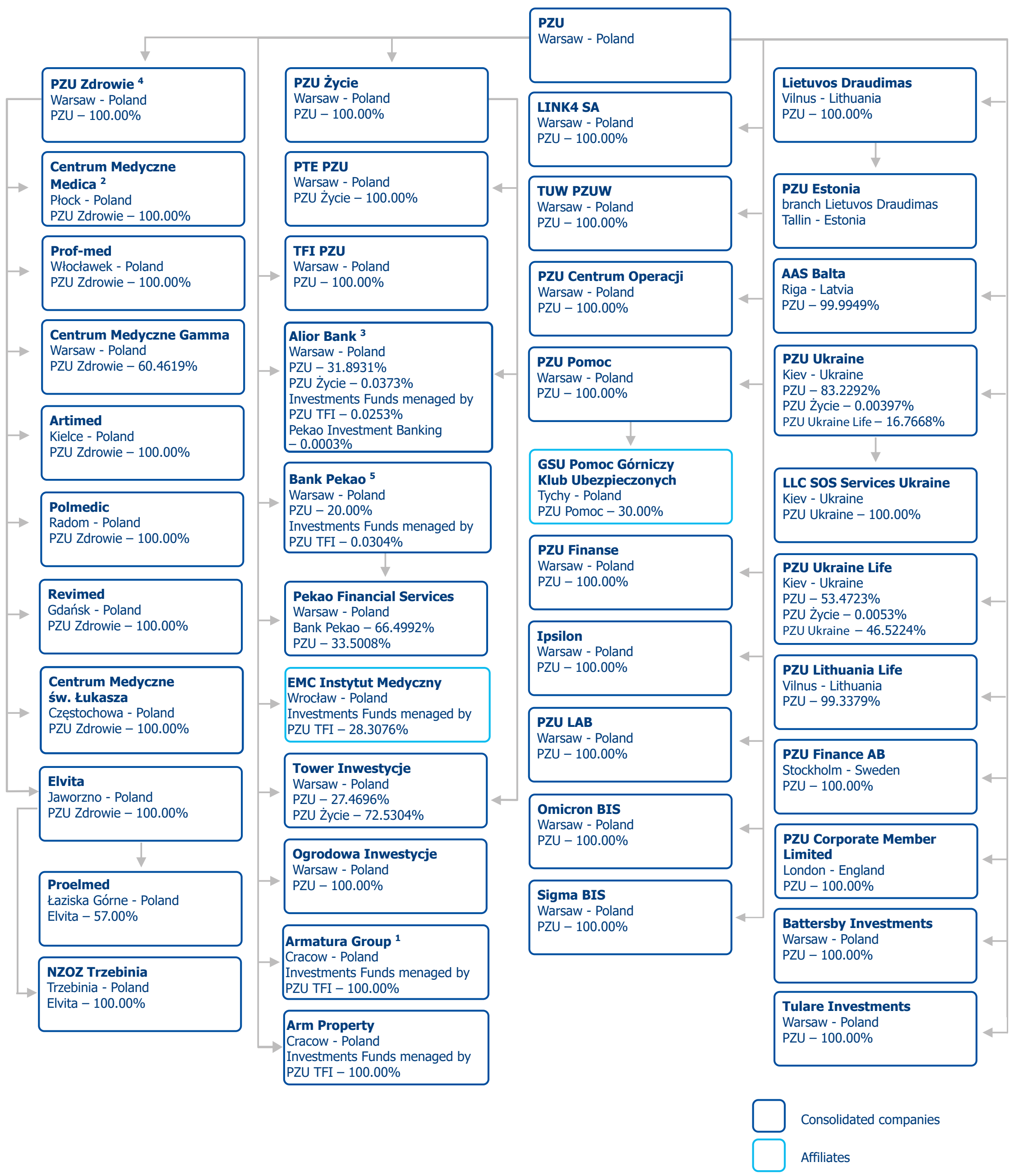
In this section:

1. Structure of the PZU Group
2. Non-life insurance (PZU, LINK4 and TUW PZUW)
3. Life insurance (PZU Życie)
4. Banking (Alior Bank, Bank Pekao)
5. Mutual funds (TFI PZU)
6. International operations
7. Medical services (Health Area)
8. Pension funds (PTE PZU)
9. Other operating areas

3.1 Structure of the PZU Group

The PZU Group conducts various activities in insurance and finance. In particular, the PZU Group companies provide services in life insurance, non-life insurance, health insurance and they manage client assets within its open-ended pension fund and mutual funds, and thanks to its investment in Bank Pekao and Alior Bank they also offer banking services.

Structure of the PZU Group (as at 30 June 2018)



[1] Armatura Group included the following entities: Armatura Kraków SA, Aquaform SA, Aquaform Ukraine TOW, Aquaform Romania SRL
[2] Centrum Medyczne Medica Group includes the following entities: Centrum Medyczne Medica Sp. z o.o., Sanatorium Uzdrowiskowe „Krystynka" Sp. z o.o.
[3] Alior Bank Group includes the following entities i.a.: 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 , Alior TFI SA, New Commerce Services sp. z o.o., Absource Sp. z o.o.
[4] within PZU Zdrowie 3 branches are operating: CM Nasze Zdrowie, CM Cordis, CM Medicus
[5] w within Pekao Bank Group includes the following entities i.a: Bank Pekao SA, Pekao Bank Hipoteczny SA, Centalny Dom Maklerski Pekao SA, Pekao Leasing sp. z o.o., Pekao Investment Banking SA, Pekao Faktoring sp. z o.o., Centrum Kart SA, Pekao Financial Services sp. z o.o., Centrum Bankowości Bezpośredniej sp. z o.o., Pekao Property SA, Dom Inwestycyjny Xelion Sp. z o.o., Pekao Investment Management SA, Pekao TFI SA, CPF Management
The structure does not cover investment funds and entities in liquidation.

PZU – as the parent company – through its representatives in supervisory bodies of subsidiaries and voting at their shareholder meetings, exerts an impact on the selection of strategic directions regarding both the scope of business and the finances of Group members. As selected companies focus on their specialization and utilize their membership in the Tax Group, these companies render services to one another on chosen markets pursuant to an internal cost allocation model (under the Tax Group).

The following changes transpired in the structure of the PZU Group in H1 2018 up to the date of publication of these financial statements:

- an Organized Part of the Business (OPB) was spun off from PZU CO and contributed to Pekao Financial Services (PFS) held by Bank Pekao in June 2018. As a result of this transaction PZU subscribed for a 33.5% equity stake in PFS CHAPTER 3.9 OTHER OPERATING AREAS;
- PZU PTE and Pekao PTE entered into a business transfer agreement on 18 May 2018 encompassing i.a. the operations of Pekao OFE and Pekao DFE, involving the management of Pekao OFE and the management of Pekao DFE CHAPTER 3.8 PENSION FUNDS (PTE PZU);
- PZU Zdrowie acquired an equity stake in Centrum Św. Łukasza CHAPTER 3.7 MEDICAL SERVICES (HEALTH AREA).

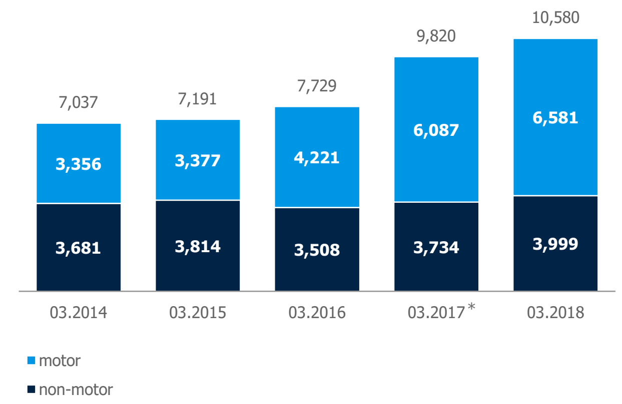
3.2 Non-life insurance (PZU, LINK4 and TUW PZUW)

Market situation

Measured by gross written premium in Q1 2018, the non-life insurance market in Poland grew by a total of PLN 760 million (+7.7%) in comparison to the corresponding period of the previous year, posting growth in nearly every group of insurance (except for groups 16 and 17).

The sales growth in motor TPL insurance (up PLN 238 million, +6.8% on direct activity) and motor own damage insurance (up PLN 236 million, +12.5% on direct activity) made the largest contribution to the higher level of premium, as the outcome of the significantly higher average premium (the consequence of the price hikes rolled out starting in 2016) and the climbing level of premium originating from indirect activity (motor TPL insurance up PLN 24 million year on year).

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

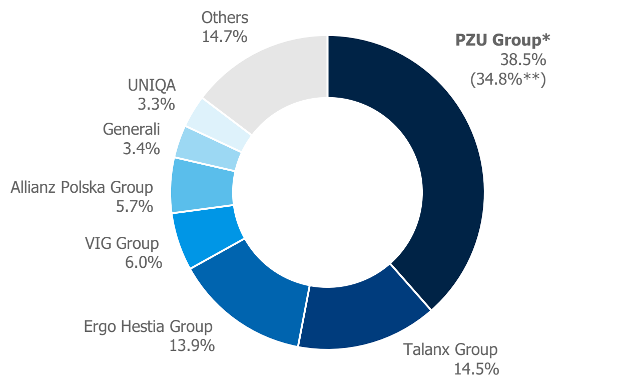


* including growth in written premium in the AXA Group, partly as a result of the transfer, in October 2016, of the business of Liberty Seguros Compania de Seguros y Reaseguros S.A. Poland Branch and the insurance portfolio of Avanssur S.A. Poland Branch to AXA Ubezpieczenia TUiR S.A.

Source: KNF's Quarterly Bulletin. Insurance market 1/2018, Insurance market 1/2017, Insurance market 1/2016, Insurance market 1/2015, Insurance market 1/2014

In addition, markedly higher sales of accident and sickness insurance (up PLN 78 million, +15.2%), TPL insurance (up PLN 67 million, +11.0%) and assistance (up PLN 55 million, +24.0%) made a positive contribution to the overall non-life insurance market's growth. A decline in premium was observable only in legal protection insurance (down PLN 6 million, -17.2%) and various financial risks (down PLN 27 million, -12.2%), chiefly as an outcome of the evolving conditions on the financial insurance market.

Non-life insurance undertakings – percentage of gross written premium in Q1 2018 (in %)



* PZU Group - PZU, LINK4, TUW PZUW
** PZU Group's market share in non-life insurance on direct business
Groups: Allianz – Allianz, Euler Hermes; Ergo Hestia – Ergo Hestia, MTU; Talanx – Warta, Europa, HDI; VIG – Compensa, Benefia, Inter-Risk
Source: KNF's Quarterly Bulletin. Insurance market 1/2018

In Q1 2018 the overall non-life insurance market generated a net result of PLN 588 million, signifying incremental growth of PLN 34 million in comparison with the corresponding period of 2017.

The technical result of the non-life insurance market grown of PLN 91 million to PLN 691 million.

The growth in the technical result in motor own damage insurance of PLN 111 million and in motor TPL insurance of PLN 44 million made the largest contribution to this change. The increase in the technical result in motor insurance chiefly ensues from the higher earned premium (up PLN 764 million, +18.5%) following the price hikes made in recent years that outpaced the growth in claims incurred (up PLN 481 million, +15.6%) despite incorporating the additional provision estimate to cover the claims regarding pain and suffering by the vegetative state.

The largest decline in the technical result was posted in TPL insurance (down PLN 43 million, of which PLN 31 million on direct activity), assistance (down PLN 11 million), credit and guarantee insurance (down PLN 8 million) and marine, aviation and transport insurance (down PLN 4 million).

The following entities in the PZU Group operate on the non-life insurance market in Poland: the Group's parent company, i.e. PZU and LINK4; the Polish Mutual Insurance Undertaking (TUW PZUW) joined them in November 2015.

To respond to client expectations in recent years, the PZU Group has extended its offering for retail and corporate clients (by forming a mutual insurer), thereby sustaining its high market share.

In Q1 2018, the PZU Group had a 38.5% share in the non-life insurance market, compared to 41.1% in Q1 2017 (34.8% and 37.1% on direct activity, respectively), thereby recording a slight dip.

In Q1 2018 the PZU Group's technical result (PZU together with LINK4 and TUW PZUW) stated as a percentage of the overall market's technical result was 58.4% (the PZU Group's technical result was PLN 404 million while the overall market's technical result was PLN 691 million), illustrating its insurance portfolio's high level of profitability.

The total value of the investments made by non-life insurance undertakings at the end of Q1 2018 (net of the investments made by related parties) was PLN 55,359 million, up 3.4% compared to the end of 2017.

The non-life insurance undertakings in total estimated their net technical provisions at PLN 50,625 million, signifying 3.8% growth compared to the end of 2017.

PZU's activity
As the PZU Group's parent company, PZU offers an extensive array of non-life insurance products, including motor insurance, property insurance, casualty insurance, agricultural insurance and TPL insurance. At the end of H1 2018, motor insurance was the most important group of products, both in terms of the number of insurance agreements and its premium stated as a percentage of total gross written premium.

Non-life insurance market - gross written premium and technical result (m PLN)

Gross written premium vs. technical result	1 January – 31 March 2018			1 January – 31 March 2017		
	PZU*	Market	Market net of PZU	PZU*	Market	Market net of PZU
Gross written premium	4,074	10,580	6,506	4,037	9,820	5,783
Technical result	404	691	288	404	600	196

* it contains Link4 and TUW PZUW

Source: KNF's Quarterly Bulletin. Insurance market 1/2018, Insurance market 1/2017, PZU's data

PZU Group's share in the non-life insurance market at the end of Q1 2018 is

34.8%

(direct business),

of which LINK4 has

2.6%

PZU Group's share in the motor insurance market (direct business) is

37.5%

at the end of Q1 2018

PZU Życie's share in periodic gross written premium was

45.9%

at the end of Q1 2018

PZU Życie's technical result margin on its gross written premium was

17.0%

at the end of Q1 2018

TFI PZU managed net assets worth nearly

PLN 20 billion,

signifying a

7.1%

market share

OFE PZU Złota Jesień held

12.9%

of the total net asset value of the open-end pension funds operating in Poland

Lietuvos Draudimas has retained its leadership position on the Lithuanian non-life insurance market with a

29.4%

share at the end of H1 2018

In terms of accumulated assets Pekao was number

2

on the market, while Alior Bank was number

8

Faced with changing market conditions, PZU realigned its offering in H1 2018 to clients' evolving interests and needs by rolling out new products and innovative solutions. In mass insurance, PZU did the following:

- it devised an offering containing more health insurance products branded as PZU Plan na Zdrowie [PZU's Plan for Health] forming a flexible medical care proposal offered to private individuals (also to those engaged in running sole proprietorships), companies and institutions. Depending on the option selected clients receive on top of the underlying insurance a package of health benefits enabling them to customize the scope of medical care to their own needs. This proposal stands out among the ones available on the market as it provides extensive support if health problems arise following an accident – Plan na Zdrowie and W Ciężkiej Chorobie (Critical Illness), W Leczeniu Nowotworu (Cancer Treatment) and in the course of everyday care – W Trosce o Ciebie (Caring for You);
- it launched the sales of the Pewnie na Rower (Feeling Secure on My Bicycle) insurance product in the web that was designed to afford the most extensive protection to cyclists. For the first time ever clients have the possibility of taking out insurance for the cycling season. In practice that means that the cover lasts for 7 months regardless of when they submit their proposal. Clients can insure a new bicycle or a used bicycle up to four years. The insurance is based on bicycle accident insurance. We can add a rider in the form of a cyclist's TPL policy, a bicycle own damage policy, i.e. cover in the event of theft or damage and baggage insurance. The insurance protects the person named in the policy meaning the bicycle user and owner alike, while the TPL and accident insurance cover is effective regardless of whether the bicycle is owned or the insured is using a borrowed bicycle;
- it implemented "fast-track sales" for the PZU Dom [PZU Home] product. This new front-end makes it possible simultaneously to prepare at lightning speed an offer aligned to a client's profile with three different options that have various types of cover. This system is similar to Direct insurance in terms of its simplicity and intuitiveness.

Most of the changes in the corporate insurance segment called for enhancing the effectiveness of collaboration with intermediaries and making the dedicated offer for the clients of leasing companies more attractive. Popularizing the insurance against cyber risks launched in the last quarter of 2017 involved the most important activities related to the product offering. The new insurance offers protection against the adverse effects of hacking attacks, including by taking actions aimed at destroying the attack and restoring the company's normal operations. This offering is targeted especially at those clients who are at risk of data leakage or operational paralysis caused by a cyber-attack.

In financial insurance, PZU was unswerving in its support for the Polish economy by providing insurance guarantees and securing the performance of contracts in such key areas as the power sector, the shipbuilding industry, the construction industry and the science and innovation sector. At the same time, to respond to client expectations in financial insurance, PZU in collaboration with TFI PZU designed a new product (deployment in Q3 2018) combining investments in mutual funds with financial loss insurance to give clients an indemnity in the event of softer investment performance to cover the loss they sustain. This program addresses private individuals and companies that would like to combine their first investment in mutual funds with free-of-charge insurance to cover any possible financial loss.

PZU cooperated with 10 banks and 10 strategic partners in H1 2018. PZU's business partners are leaders in their industries and they have client bases with enormous potential offering an opportunity to extend the offering to include more products, often based on innovative solutions. Starting in 2017, PZU established cooperation with the PZU Group's member banks, namely Alior Bank and Pekao, launching the roll-out of a comprehensive offering via its distribution network. Cooperation with Pekao and Alior Bank enable PZU to offer its clients an extensive array of financial and insurance services at each stage of their lives. In strategic partnerships, cooperation applied mostly to companies operating in the telecom and power sectors through which insurance for electronic equipment and assistance services were offered, e.g. the assistance of an electrician or a plumber. Cooperation with Allegro was kicked off to offer insurance on the e-commerce market.

LINK4's operations

LINK4, which entered the Polish market 15 years ago as the first undertaking offering direct insurance products, continues to be one of the leaders on the direct insurance market. It offers an extensive range of non-life insurance products, including motor insurance, property insurance, personal insurance and TPL insurance.

In H1 2018 the main emphasis was placed on constantly improving its product offer, client service and the development of innovative technologies that involved efforts to cooperate with young insurtech firms, among others. As it focuses on innovative solutions in client relations, LINK4 is constantly adding new functionalities whereby client touchpoints become even more intuitive and straight-forward.

The most important activities associated with modifying its product offering in H1 2018 were as follows:

- launching a line of products unlike any other on the Polish market dedicated to current and future parents. In this new offer current and future parents alike can choose from two types of packages they can utilize in full or they can adapt them to their own needs. In the LINK4 Mama (Mom) package clients can take accident insurance for Moms and TPL in their private life that applies to losses caused to third parties by moms or their children. If they elect to take out one or both of these products at the same time, clients can enrich their insurance bundle with a medical package for mom. Under this bundle LINK4 will organize and cover half the costs of visits to physicians in various specialities, legal assistance and a Rapid Assistance Package with an unlimited 24/7 concierge. The other package called LINK4 Dziecko (Child) can be construed anyway a client likes, by picking any number of products from the offer, including accident insurance Child, a medical package for children and Rapid Assistance Package;
- extending the offer to include a new health product called Wracaj do Zdrowia (Return to Health) offered to clients who hold an accident motor insurance policy in LINK4. Under this insurance clients have access to specialist physicians, ambulatory rehabilitation, selected tests and procedures and specialist diagnostics offered in more than 2 thousand PZU Zdrowie medical centers in more than 500 cities located across the country. Clients who buy this medical package can utilize these health benefits for a year from the day when LINK4 makes its decision;
- enriching the current product offer by aligning it to evolving client expectations (e.g. TPL in private life, extending the territorial range to include Europe, raising the sums insured in travel insurance – the possibility of insuring treatment costs up to PLN 800 thousand) and deploying unrivalled solutions on the market to make LINK4 products more attractive (new functionalities involving weather alerts).

TUW PZUW's activity

2018 marks the third year of TUW PZUW's active operations. It offers its clients a flexible insurance program to optimize the costs and scope of cover. Since 2016, it has been selling and handling insurance products targeting clients from various industries, focusing predominantly on cooperation with large businesses, medical centers (hospitals and clinics) and local government units. Such entities, within the framework of cooperation exercised under TUW's model, are provided with the opportunity to dissipate their risks within the boundaries of mutual benefit societies adjusted to the specific nature of the pertinent group of entities and thereby reducing the costs of their insurance premiums. It has 209 members and 36 mutual benefit societies.

In H1 2018, the primary emphasis was placed on organizational development, expansion of the team of professionals offering better insurance service to the mutual's members and aligning its offering to its clients' needs.
The most important activities associated with modifying its product offering in H1 2018 were as follows:

- launching in the offer:
  - as the first insurer in Poland – a product called Third Party Liability Insurance for the Members of the Governing Bodies of a Medical Treatment Entity. Extending this offer is part of the mutual's expansion onto the market made up by medical entities, especially hospitals that are one of the major axes on TUW PZUW's strategy for the upcoming years. This insurance addresses the overall management of medical treatment entities – including hospitals and clinics – public and private, alike. This product addressed to TUW PZUW's clients who already hold compulsory TPL insurance for a medical treatment entity protects the representatives of the management of medical treatment entities against the financial consequences of erroneous managerial decisions, omissions and procedural violations;
  - comprehensive insurance of cyber risks linked among other things to insuring losses related to the operation of a computer network and computer network safety breaches, also as a result of cyber terrorism;
- obtaining KNF's consent to extend the offer to include statutory class 2, giving the ability to extend PZUW's offer to include another pillar, namely health insurance.

Factors, including threats and risks that will affect the operations of the non-life insurance sector in the latter half of 2018

Besides chance events (such as floods, droughts and spring ground frost), the following should be treated as the main factors that may affect the standing of the non-life insurance sector in H2 2018:

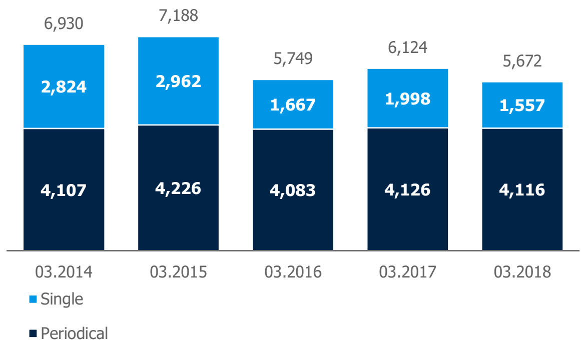
- possible slowdown in economic growth in Poland. A poorer financial standing of companies may result in elevated credit risk and a higher loss ratio on the financial insurance portfolio;
- case law concerning the amounts of general damages paid in cash for the pain and suffering sustained (Article 446 of the Polish Civil Code) under the TPL insurance held by the owners of motor vehicles to the closest family members of persons who have died;
- increase in claims handling expenses due to the implementation of VAT on motor claims handling services rendered in favor of insurance companies and their intermediaries;
- increase in the prices of spare parts affecting claims handling expenses due to the depreciation of the Polish zloty against the euro;
- entry into force of regulatory requirements in the context of the 4th AML Directive (counteracting money laundering and terrorism financing);
- emergence of more regulations or financial burdens on insurance undertakings – among others, the possible reinstatement of the “Religa tax” (mandatory fee paid to the National Health Service on every motor TPL insurance policy).

3.3 Life insurance (PZU Życie)

Market situation

Poland’s life insurance market measured by gross written premium was worth PLN 5,672 million in Q1 2018 meaning that over the most recent 5 years it shrank on average by 6.8% per annum. At the same time, the premium collected in Q1 2018 was 7.4% lower than in the corresponding period of the previous year, which denotes a continuation of the downward trend in the size of the life insurance market, ensuing chiefly from the changes in single premium business in investment products.

Gross written premium reported by life insurance undertakings in Poland (in PLN million)



Source: KNF’s Quarterly Bulletin. Insurance market 1/2018, Insurance market 1/2017, Insurance market 1/2016, Insurance market 1/2015, Insurance market 1/2014

The changes in the level and growth rate of the life insurance market premium in recent years have been prompted mostly by single premiums in investment products. Attention should be drawn to the fact that the premium contraction for the overall market year on year in Q1 2018 pertained to single premiums to a greater extent (down PLN 441 million, i.e. 22.1% y/y). At the same time, the growth rate for the corresponding period of 2017 was positive at 19.9%. The single premium compound average growth rate since Q1 2013 was -17.5%. The changes in circumstances on the capital market and in the legal environment should be considered to be the underlying causes for the gross written premium on single premium business to fall in recent years. The record low interest rates contributed to the decline in the yields offered by term deposits packaged as insurance products, thereby leading to heightened interest in other investment products. Additionally, a tax was introduced as of 1 January 2015 on short-term endowment insurance offering a fixed rate of return or a return based on indexes; this also contributed to reducing client interest in these types of products and ultimately to their retraction, especially the first ones, from the offer of insurance undertakings. In subsequent years the regulatory authority’s guidelines, including guidelines regarding the level of fees incurred by clients of unit-linked products and EU directives regulating the market for these types of products led to insurance undertakings constricting their offering of these types of products.

The outcome of this market evolution over several years was the expanding significance of periodic premium that constitutes PZU Życie’s competitive advantage on the market. Even though the periodic premium was 0.2% lower for the overall market during Q1 2018 compared to the same period in 2017, the compound average growth rate since 2013 was 0.6%. The cause of the decline in periodic premium was the limited sales of unit-linked life insurance (class III, PLN -115 million) coupled with the simultaneous growth in gross written periodic premium in classes I and V.

The total technical result generated by life insurance undertakings in Q1 2018 was up PLN 40 million (16.3%) in comparison with the corresponding period of 2017 and came in at PLN 679 million. Better life insurance results were generated when sold in combination with unit-linked business (class III) and accident and illness insurance (class V) – the result grew y/y by PLN 35 million (31.6%) and PLN 21 million (4.8%), respectively. In the first instance, as a result of the falling level of expenses, chiefly acquisition expenses as the level of revenue slackened. In turn, in the latter instance, the cause was linked to the growing level of business accompanied by sustaining the profitability of the result as a percentage of revenue.

In this same period, life insurance undertakings generated a net result of PLN 470 million, representing a decline of PLN 15 million y/y, i.e. 3.1%. This deterioration of the result was the effect of softer investment performance recorded by insurers than in the corresponding period of 2017, both in terms of investments used to cover liabilities under technical provisions and the insurance undertakings’ free funds.

The total value of the investments made by life insurance undertakings at the end of Q1 2018 was PLN 41,351 million, signifying 1.7% growth compared to the end of 2017. In turn, the payments of claims exceeding the premium level and the negative investment results in this period contributed to a lower net asset value of life insurance in which the policyholder bears the investment risk (down 3.8% to PLN 56,898 million).

Life insurance market – gross written premium (in PLN million)

gross written premium	1 January - 31 March 2018			1 January – 31 March 2017		
	PZU Życie	Market	Market net of PZU Życie	PZU Życie	Market	Market net of PZU Życie
Periodic premium	1,890	4,116	2,226	1,881	4,126	2,244
Single premium	190	1,557	1,367	254	1,998	1,744
TOTAL	**2,079**	**5,672**	**3,593**	**2,135**	**6,124**	**3,988**

Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Insurance market 1/2018, Insurance market 1/2017, PZU Życie’s data

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

gross written premium vs. technical result	1 January - 31 March 2018			1 January – 31 March 2017		
	PZU Życie	Market	Market net of PZU Życie	PZU Życie	Market	Market net of PZU Życie
Gross written premium	2,079	5,672	3,593	2,135	6,124	3,988
Technical result	353	679	326	295	639	344
Profitability	17.0%	12.0%	9.2%	13.8%	10.4%	8.5%

Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Insurance market 1/2018, Insurance market 1/2017, PZU Życie’s data

PZU Życie's activity

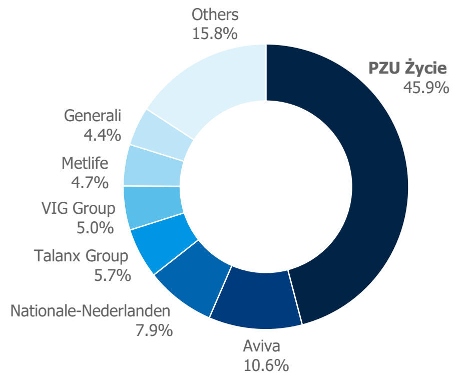
PZU Życie SA (PZU Życie, Company) within the PZU Group does business on the Polish life insurance market. The company offers an extensive range of life insurance products, which for management purposes are reported and analyzed broken down into the following three segments: group and individually continued insurance, individual insurance and investment contracts.

In Q1 2018 PZU Życie wrote 36.7% of the gross written premium of all life insurance undertakings, signifying further growth on top of last year's market share (+1.8 p.p.). The cause of the growth in the share held by PZU Życie was the year on year upward movement in the periodic premium while the other market players saw it dwindle. At the same time, the rate of decline of its single premium business was comparable to what the competition experienced, while its portion of the Company's portfolio is substantially smaller.

PZU Życie continued to be the clear leader in the periodic premium segment. In Q1 2018, it generated 45.9% of these types of premiums written by life insurance undertakings, signifying ongoing growth of 0.3 p.p. in the this segment's market share compared to last year and the highest market share level once again. The year on year growth rate of gross written premium at PZU Życie in this segment was 0.4%, while the other market players taken together posted a negative growth rate of -0.8%. One of the major factors in this respect was the rapid growth in the health insurance portfolio. PZU Życie now has more than 1.6 million policies of this type in its portfolio. From the outset of 2016, KNF has also been publishing data making it possible to depict as a matrix PZU's share in just the life insurance segment (class I) for periodic premiums. In Q1 2018, this share was 64.4% when measured by gross written premium and 72.2% when measured by the number of agreements in force. For this same group of risks, the market share in terms of the method of entering into an agreement in the period under analysis was 66.4% for agreements executed in group form and 42.0% for individual agreements (measured by gross written premium).

PZU Życie's technical result represented more than half the result earned by all life insurance companies. This evidences the high profitability these products enjoy. PZU Życie's technical result margin on gross written premium was nearly two times higher than the overall margin generated by the other companies offering life insurance (17.0% versus 9.2%).

Life insurance undertakings – percentage of periodic written premium in Q1 2018 (in%)



Groups: Talanx – Warta, Europa, Open Life; VIG –Compensa Życie, Polisa Życie, Vienna Life; Aviva – Aviva, BZ WBK – Aviva
Source: KNF's Quarterly Bulletin. Insurance market 1/2018

PZU Życie, as a popular and the largest insurer on the Polish market, continuously expands its product offering by adding new products or modifying existing ones. Changes in the product offering are intended to attract new clients and expand the insurance cover for those already in the portfolio, along with strengthening their loyalty and increasing their satisfaction level. Concurrently, the changes in the offering take into account the changing requirements of the regulatory authority and the growing extent of statutory consumer protection. It should also be pointed out that in many cases such changes are made not only to the product itself but also entail the modernization and simplification of the way in which insurance is offered and sold (processes and front-ends) and enable the client to take advantage of various contact channels to reach the insurance undertaking (e.g. in a branch, by phone, e-mail, client account, person providing technical insurance services in the workplace or through an insurance intermediary, whether tied or external).

In the process of developing its product proposal for business clients PZU focused chiefly on satisfying their individual needs while simultaneously cultivating long-term relations. Work was continued to segment the insurance offer dedicated to various client groups. Marketing research has confirmed the existence of the varied needs of individual segments. This research makes it possible to monitor the insurance market. Observing the strong interest clients take in health products, the insurance offer combining protection products and health products underwent further development.

Product offer development covered more than just how the product is construed, such as aspects related to customer experience in client interactions with PZU. The launch of the direct ability to book doctor's visits is one example of a product service solution.

SOHO clients

Work to offer a comprehensive protection and health proposal was conducted in insurance dedicated to the SOHO segment (small office home office consisting of micro businesses run by 1 or 2-person business entities). The price benefit slated for deployment incoroporating the purchase of two products aims to drive up the number of products per client in the Group's database of clients. Processes enabling clients to enroll in insurance easily and pay protection premiums will be designed under this combined offer.

The products for the SOHO segment are to be offered through extended distribution channels. PZU plans to facilitate the purchase of these types of insurance products also in the PZU branches and through prospective business partners.

SME clients

PZU has enlarged its pilot program of offering a protection and health package in the product offer addressing the SME segment to include more locations, possible price modifications and new insurance cover options. Work is currently underway to roll-out the complete final offer and process-related functionalities for these types of agreements in the entire sales network by the end of 2018. The conclusions following from the pilot program's distribution will chiefly be addressed in the target product. A price benefit in the form of buying comprehensive life and health cover is to be introduced, which according to expectations should ratchet up the number of products per client achieved through the PZU offer. The company is also betting on simpler, system-supported processes to enter into and administer insurance.

Customer Journey research was conducted in the last quarter on a micro business purchasing a group protection policy and on an employee enrolling in that type of insurance. The recommendations flowing from this research will be implemented in the upcoming six month period. They refer to the product offer, marketing materials and processes for buying insurance.

CORPORATE clients

Two new riders to the group protection insurance offer were launched in the corporate client segment in H1 2018:

- medical care in the event of an accident on the way to work or on the job – PZU Regaining Physical Capability – insurance providing access to private medical care, including specialist consultations, diagnostic tests and rehabilitation procedures if the insurable events contemplated by the general terms and conditions of insurance. This product is intended to help insureds regain their physical capabilities after an accident;
- medical care in a critical illness – PZU W Trosce o Zdrowie [PZU Caring for You] – a product providing access to private medical care in the event of a critical illness of the circulatory system, nervous system or malignant neoplasms and meningiomas, especially during the initial days following diagnosis. The insurance scope also includes a guardian to support patients and their families during the entire course of treatment along with the support of a psychologist, making it possible to monitor treatment progress and counter the return of an illness at an early stage while helping people regain their full mental and physical capabilities.

Work will continue to make this protection product even more attractive to the corporate client segment in H2 2018:

- modifying current insurance riders and updating medical definitions and procedures in conjunction with the development of medical technologies and modern methods of specialist treatment;
- devising dedicated protection and medical scopes of cover focusing on employees' specific needs. There are plans to enrich the offer by adding comprehensive support in tough circumstances by tapping into the PZU Group's synergies, not only by paying a benefit but also through medical riders, assistance and medical consultations focused on specific needs.

Individual continuation clients

The pilot program to sell the Continuation for You offer was extended to cover Poland in its entirety in the individual continuation segment consisting of clients who continue their insurance after leaving their jobs. This insurance aims to give a package of benefits close to a group offer, which an insured would like to continue having, and it is our response to the needs clients in the younger age category have.

In addition, PZU launched the sales of another insurance rider within the framework of individual continuation – orthopedic injury providing for private medical care in the event of an orthopedic injury caused by an accident.

Next year there are plans to launch the sales of an insurance rider for individual continuation addressing the risk of critical illnesses linked to the consequenes of a heart attack and stroke.

Furthermore, in connection with the natural product lifecycle, the necessary changes to the current product offer in various client segments were planned. Work was launched in Q2 to modify the medicine insurance offer. New product communication will facilitate greater client appreciation for the scope of insurance cover and the health circumstances in which it will be possible to co-finance the prices of prescription drugs.

The following individual protection insurance product was rolled out in H1 2018:

- accident insurance to be purchased exclusively by Internet - PZU Ja Plus. This new insurance provides for a payout in case of being in a hospital, having a broken bone, permanent disability and accidental death or death in a motor accident. The insurance cover may apply to the insured or to the insured and his/her child or children (the premium is contant regardless of the number of insured children). At the same time, policyholders who have the Large Family Card can count on receiving additional discounts;
- discounts in individual endowment insurance were introduced. Depending on the amount of the regular premium, a discount of several percent can be obtained and it will be in force for the entire term of insurance;
- implementation work continued on individual life insurance for borrowers of cash loans extended by Alior Bank (sales were kicked off in July 2018);
- work was under way on deploying an offer consisting of products sold by Bank Pekao (insurance for the PEX cash loan and for the mortgage loan) with the planned date for commencing sales slated for the latter half of 2018.

The following changes were made to the product offering in investment insurance in H1 2018:

- intense work was under way to develop an offer containing products sold jointly with Bank Pekao. The project work spanned two unit-linked products dedicated to the clients of the Bank's Private Banking Division and Retail Banking Division with a planned deployment date in the latter half of 2018;
- bancassurance unit-linked products (Multi Capital, World Investment Program) were migrated from the previous transfer agent's systems to Pekao Financial Services' systems to enhance the effectiveness of cooperation in the group and optimize service processes;
- 5 subscriptions of the structured insurance product known as World of Profits (Świat Zysków) that has enjoyed tremendous client interest were sold. Various investment strategies that adapt to volatile market conditions were offered in the individual subscription tranches, based on various models of calculating the investment bonus.

In its other initiatives PZU constantly opts for understanding client needs better and better and building long-term client relations. PZU wants to respond swiftly to changes in the environment through a sophisticated offer accompanied by clear and communicative messages by doing the following:

- creating predictive client attrition models and responding swiftly and effectively to symptoms of client dissatisfaction;
- developing a loyalty program;
- using a simple and transparent arrangement and description of its products on new website www.pzu.pl.

In addition, having regard for the legal and regulatory environment and the requirements placed on PZU, its products were adapted to the EU General Data Protection Regulation (GDPR) GLOSSARY. These changes affected the process of selling, implementing and servicing products. Concurrently, work is still in progress to align products to meet the IDD requirements GLOSSARY.

Factors, including threats and risks, that may affect the operations of the life insurance sector in H2 2018

The following constitute the major risk factors on the life insurance market in H2 2018:

- the prospect of a higher inflation rate and economic growth driving an increase in T-bond yields, which in the long term will be beneficial to the PZU Group, although in the short term may adversely affect investment income;
- softer conditions on the capital markets deteriorating the attractiveness of products, especially unit-linked products;
- demographic changes and the aging society and the ensuing changes in the current mortality, fertility and morbidity levels, especially diseases of civilization, i.e. lifestyle diseases;
- constant price pressure in group insurance and the battle for client ownership (and their data), thereby cutting the insurer's margins and fostering entry and exit obstacles for clients to overcome with independent intermediaries;
- changes in trends and client behavior toward customization of proposals and an electronic, swift and paperless method of purchasing and handling insurance, forcing insurance undertakings to adapt to these expectations rapidly;
- the emergence of new competitors and solutions, including the operators of large client bases or insurtech companies;
- entry into force of the Insurance Distribution Directive (IDD) as of 1 October 2018;
- entry into force of regulatory requirements in the context of the 4th AML Directive (counteracting money laundering and terrorism financing);
- the final shape of the new pension security system (Employee Capital Schemes).

3.4 Banking (Bank Pekao, Alior Bank)

Market situation

The standing of the banking sector in H1 2018 continued to be stable underpinned by the persisting vibrance of the economy and the functioning of banks in a low interest rate environment. From January to May 2018 the banking sector generated a net profit of PLN 6.4 billion versus PLN 5.2 billion in the corresponding period of the previous year (up 24.5%).

The sector's net result was shaped predominantly by the improved result on banking operations (to PLN 8 billion, i.e. up 12.9% in comparison with the corresponding period in 2017), caused by significantly higher net interest income growing interest income related to the increase of the credit base, while the level of net fee and commission income decreased.

The net asset value of the banking sector at the end of May 2018 stood at PLN 1,841 billion, up 5.9% (i.e. PLN 91.9 billion) from the end of May 2017.

Gross receivables from the non-financial sector increased 7.0% to PLN 1,121 billion as at the end of May 2018 versus last year. Growth in this area was driven mainly by receivables from enterprises (+6.1% y/y) and receivables from households (+1.7% y/y).

Banks' operating expenses (net of depreciation and provisions) in the period under analysis climbed 5.1% to PLN 14.7 billion year-on-year. This increase was caused by higher employee expenses (up 5.9%) and higher general and administrative expenses (up 4.3%).

The banking sector's own funds for capital ratios, calculated in accordance with the regulations laid down in the CRR Regulation, totaled PLN 200.3 billion at the end of March 2018 (most recent available data), up 12.5% versus the end of March 2017.

The banking sector's overall capital multiple at the end of March 2018 was 18.9% (up 1.0 p.p. compared to the end of March 2017), while the Tier I capital ratio at the end of this period was 17.0% (up 0.6 p.p. in comparison with the end of March 2017).

Significant agreements

Cooperation between Bank Pekao and Alior Bank

On October 23, 2017, Bank Pekao and Alior Bank signed a letter of intent regarding the will to conduct preliminary talks on potential cooperation strategies that could be developed to increase value for shareholders and customers. As a result of the analysis of both banks, an option was chosen to merge Alior Bank with Pekao (under which Alior Bank shareholders would receive shares of the merged bank) for giving the opportunity to generate potentially the greatest additional value for shareholders and negotiations were started in the selection of the optimal combination of Alior Bank with Pekao. On August 7, 2018, the banks reported that they failed to strike an agreement on the conditions for their potential merger and thereby they ended their negotiations.

Cooperation between banks and PZU and PZU Życie

Within the framework of the cooperation between Pekao and Alior Bank with the PZU Group, current activities are divided into 4 areas:

- *Bancassurance*: real estate insurance for borrowers has been introduced in Pekao and Alior Bank, and insurance for a Pekao cash loan is also being sold in online channels. Moreover, the PZU Wojażer travel insurance is being offered by both banks in the remote channel offer;
- Assurbanking: PZU supports the sales of a Pekao account in tens of its branches, while it launched a pilot project in 3 branches on 5 March 2018 where PZU employees are actively offering the Bank's Przekorzystne Konto (Mega Beneficial Account). The disbursement of benefits to PZU

clients in Pekao's Branches (auto-disbursement) was also deployed;

- Cooperation: insurance programs were launched for the banks' employees and special offers on bank products for the employees of PZU Group companies;
- Operational synergies: cost synergies were achieved in the IT, administration and security areas that translated into a real impact on the costs of PZU and Bank Pekao.

Operations of the Pekao Group

The Pekao Group is led by Bank Pekao S.A., a universal commercial bank offering a full range of banking services rendered to individual and institutional clients operating chiefly in Poland. The Pekao Group consists of financial institutions operating on the following markets: banking, asset management, pension funds, brokerage services, transaction advisory, leasing and factoring.

From 2017 Bank Pekao has been part of the PZU Group, one of the largest financial institutions in Central and Eastern Europe. The bank's strategic objectives announced in the new strategy for 2018-2020 "Strength of the Polish Bison" include becoming the leader of profitability in the Polish banking sector through embarking on the path of intelligent growth in a business model based on high efficiency and quality of processes. Business development is based on a strong capital and liquidity position, while maintaining the highest risk management standards and further improvement of cost effectiveness.

In addition, the Bank will realize the available synergies following from the cooperation in the PZU Group, which it announced in 2017. The bank's innovation direction may also be an area for partnerships with technology leaders, other financial institutions and consumer companies.

Products and services

The Bank offers competitive products and services on the Polish market. It features high-level customer service and a developed network of branches and ATMs, as well as a professional call center and a competitive Internet and mobile banking platform for retail and corporate clients, and small and micro businesses.

Client segmentation

The bank's business model is based on client segmentation into the following groups:

- Retail Banking – full scope of banking activity pertaining to retail client service (except for Private Banking clients) and micro firms with annual sales of up to PLN 5 million and the results of the Group companies consolidated using the full method and the shares of profits in companies consolidated using the equity method attributed to retail business;
- Small and Medium Enterprise Banking – full scope of banking activity concerning the service of companies with annual sales ranging from PLN 5 to 50 million, and under PLN 5 million in companies that keep full accounting records;
- Private Banking – full scope of banking activity concerning the service of the most affluent retail clients;
- Corporate and Investment Banking - full scope of banking activity concerning the service of medium and large corporates, the Bank's exposure on the interbank market to debt securities and other instruments as well as the results of the Group's companies consolidated using the full method attributed to corporate and investment activity;
- Asset and Liability Management and others – spans the supervision and monitoring of cash flow, other areas managed centrally, results of companies consolidated by the full method and shares in the profits of companies measured by the equity method that are not attributed to other segments.

Pekao TFI

The Pekao Mutual Fund Company (Pekao TFI) is another member of the Pekao Group. Pekao TFI (formerly Pioneer Pekao TFI) is the oldest mutual fund management company in Poland providing clients modern financial products, offering opportunities to invest in the largest global capital markets. For many years it has been devising savings programs, including programs affording an opportunity to put aside more money for retirement under the third voluntary retirement pillar. Pekao TFI also offers a managed account service. At the end of June 2018, the company had assets under management totaling PLN 19.2 billion, signifying an upswing of PLN 1.8 billion, i.e. 10.2% in comparison to the end of June 2017.

New products and services

From the outset of 2018 Bank Pekao has been pursuing its new growth strategy for 2018-2020 entitled "Strength of the Polish Bison". The basis for the Bank's growth among retail clients is the significant acceleration in the pace of growth in the number of accounts, i.a. thanks to its new offer and its outstanding quality.

In January 2018 the bank launched its new Mega Beneficial Account offer to replace the previous line of Euroaccounts. The Mega Beneficial Account is the bank's main account through which it offers a full array of banking products and services. Moreover, in January 2018 the bank launched a new Savings Account in its offer for retail clients offering an attractive interest rate for their funds and no fees for withdrawals from this account provided that they use the Peopay mobile application.

The bank developed its cooperation with PZU in insurance in H1 2018. Training was delivered to 6.7 thousand branch employees who obtained a license from KNF to sell PZU insurance. It introduced a group insurance product called "PZU-TRAVEL PACKAGE-BUSINESS" for the users of business payment cards issued by Bank Pekao and a general insurance agreement was executed with PZU concerning the risk of mortgage loan amortization. The bank also made available an option to buy voluntary PZU CPI insurance offered in conjunction with a loan application during the "one click" process in the Pekao24 system. Bank clients may avail themselves of the new insurance for buildings and residential units prepared by PZU. In addition to the standard insurance for real estate that can form collateral for the debts of the Bank's borrowers, clients can choose from additional bundles spanning insurance for their household personal property, assistance and third person liability.

In mobile banking the bank launched a 24/7 money exchange counter in its mobile banking platform, the ability to manage cards and BLIK codes in H1 2018. Additionally, in June 2018 the bank was one of the first banks in Poland to deploy Apple Pay and it is the only bank in Poland that enables clients to link

Apple Pay to their personal account through Peopay mobile banking without even having to have a card.

Strategy

PZU PTE's acquisition of the management of Pekao OFE and DFE Pekao is one of the outcomes of the PZU Group acquiring Bank Pekao in 2017. The winding up of Pekao OFE will commence on 1 August 2018 and end on 12 October 2018, and on that day Pekao OFE's assets will be transferred to OFE PZU. In turn, the winding up of DFE Pekao kicked off on 19 May 2018 and is slated to end on 28 September 2018.Pekao Financial Services is rendering Transfer Agent Services for the funds managed by PTE PZU.

Operations of the Alior Bank Group

Alior Bank heads up the group. Alior is a universal deposit and credit bank, providing services to natural persons, legal persons and other domestic and foreign entities. The bank's core business comprises maintaining bank accounts, granting cash loans, issuing bank securities and purchase and sale of foreign currencies. The bank also conducts brokerage activity, provides financial advisory and intermediation services, arranges corporate bond issues and provides other financial services.

Alior Bank is one of the most modern and innovative financial institutions in Poland. It is a place for people who have ideas and business courage to set new banking standards. The bank's offering includes products and services both for individual and business clients, including small and medium enterprises and institutional clients. The bank's offer combines the principles of traditional banking with innovative solutions. As a result, Alior Bank systematically strengthens its market position and for years has been consistently setting new directions of development of the Polish banking.

As at 30 June 2018, Alior Bank catered to 4.1 million retail clients. The higher client number in 2018 resulted from Alior Bank's organic growth.

Products and services

The Bank's operations are conducted by various divisions that offer specific products and services earmarked for specific market segments. At present, the Bank does business in the following segments:

- Individual client (retail segment);
- Business client (business segment);
- Treasury activity.

Due to the uniqueness of the activity conducted in the retail segment, the bank distinguishes three additional retail areas that have a dedicated offer for a separate groups of clients:

- mass clients (persons whose assets in the Bank do not exceed PLN 100 thousand and whose monthly proceeds to their personal account are under PLN 10 thousand);
- affluent clients (persons with monthly proceeds credited to their personal accounts exceeding PLN 10 thousand or holding assets worth more than PLN 100 thousand);
- Private Banking clients (persons with assets worth more than PLN 1 million or investment assets over PLN 0.5 million).

Alior TFI

Alior TFI (formerly Money Makers) operates in the Alior Bank Group. It was established in 2010 and its operations originally focused on asset management services. Alior Bank's cooperation with its subsidiary Alior TFI pertains to three areas: asset management (portfolio management for retail clients/private banking), unit-linked funds, and Alior SFIO sub-fund management. From 5 January 2017, Alior TFI has been listed on the alternative market of the Warsaw Stock Exchange (NewConnect).

In H1 2018 the key new products and services in the Alior Bank Group's offering included:

- deployment of Apple Pay in June enabling iPhone owners to make contactless payments for products and services using their handset. On top of the payment solutions already available, i.e. Android Pay, HCE and BLIK, this heralds another innovative payment solution forming a component of the Digital Disruptor Strategy;
- holding 20 issues with a total nominal value of PLN 621 million within the framework of the first program to issue banking securities;
- preparing a new investment certificate offer for selected Private Banking clients entailing a limited capital guarantee and a conditional early call option known by the name of "autocall". In H1 2018 seven issues of this type were held for a total nominal value of PLN 126 million;
- continuing the agency training program to offer individual insurance policies;
- implementing property insurance in cooperation with PZU to be available to mortgage loan borrowers in Alior Bank;
- rolling out Konto Mocno Oszczędnościowego (Mega Savings Account) that offers more than attractive interest for new funds, namely free-of-charge wire transfers by Internet to one's own checking and saving account in Alior Bank;
- cooperating with BANCOVO to launch the first, fully digital financial intermediation platform;
- PAPERLESS - deploying a solution making it possible to abandon the traditional form of signing contracts.

Alior Bank also cooperates with PZU Group entities to realize cost and revenue synergies. This cooperation may pertain, among others, to innovations, digital channels, IT, real estate, marketing, development projects, procurement and financial products.

Factors, including threats and risks that will affect the banks' operations in H2 2018

The following will primarily affect the standing of the banking sector in H2 2018:

- operation in a stable environment of low interest rates, which puts pressure on the level of the net interest margin generated and Monetary Policy Board's policy going forward;
- high requirements regarding equity and solutions with regard to the latest accounting standards (IFRS9), which are likely to have negative impact on the level of capital accumulated in banks and may lead to increased risk cost volatility;
- possible changes of the legal environment, including mainly the legislative solution of the issue of foreign currency residential loans and potentially an obligation to make additional contributions to BFG, may adversely affect the banking sector's profitability;
- a lower growth rate of the Polish economy and changes in the legal framework for the operation of enterprises may have an adverse impact on the financial standing of selected clients.
- changes in the external environment and international events affecting the domestic economy.

3.5 Mutual funds (TFI PZU)

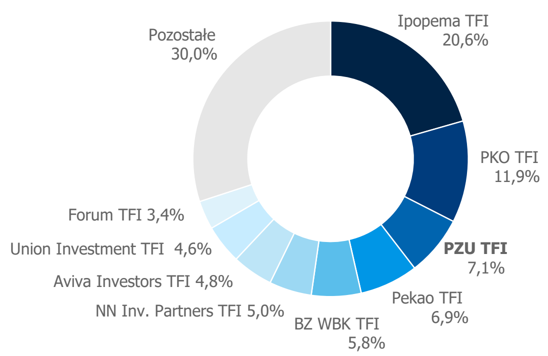
Market situation

As at the end of June 2018, the assets managed by domestic mutual funds slightly exceeded PLN 280 billion compared to PLN 279 billion at the end of December of the year before, representing an increase of 0.4%.

In H1 2018, according to the estimates of the Analizy Online service, the balance of payments to and withdrawals from retail funds offered by TFIs in the domestic market exceeded PLN 1 billion. Chiefly cash and money funds whose assets are the only ones to have recorded a positive net balance of nearly PLN 12 billion enjoyed interest among clients. Other asset classes posted a negative balance. Equity funds sustained the greatest decline (down PLN 4 billion), followed by private equity funds (down nearly PLN 4 billion) and mixed funds (down by more than PLN 1 billion).

Within the PZU Group, there are 3 Mutual Fund Companies operating on the market: TFI PZU, Pekao TFI and Alior TFI.

Mutual fund companies – share in assets as at 30 June 2018 (in %)



Source: Chamber of Fund and Asset Management

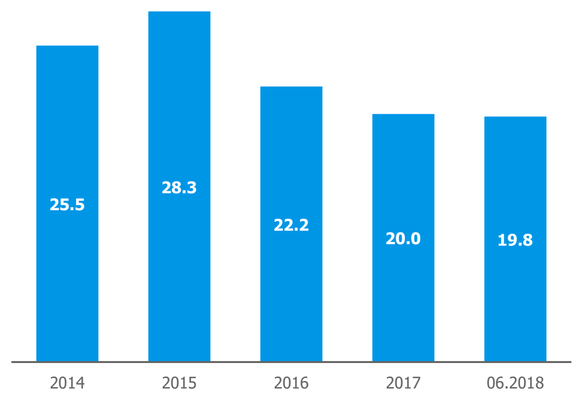
TFI PZU's operations

Towarzystwo Funduszy Inwestycyjnych PZU (TFI PZU) operates on the mutual fund market in the PZU Group. It offers products and services for both retail and institutional clients – including additional investment and savings programs forming part of the third pillar of the social security system: Individual Retirement Accounts (IRAs), Employee Savings Plans (ESPs), Employee Pension Plans (EPPs), Company Investment Plans (CIPs) and Group Pension Plans (GPPs) which additionally offer Individual Retirement Security Accounts (IRSAs).

At the end of June 2018, TFI PZU had 30 funds and sub-funds in its offer, of which 23 were also offered to clients outside the Group.

TFI PZU managed net assets worth nearly PLN 20 billion at the end of June 2018, signifying a 7.1% market share. Accordingly, TFI PZU is among the largest mutual fund companies in Poland – as at 30 June 2018 it was ranked third in Poland according to reports published by IZFiA (Chamber of Fund and Asset Management). TFI PZU is also the market leader in the employee pension plan segment among the institutions operating on this market with net assets of nearly PLN 4 billion.

TFI PZU'S net assets (PLN billion)



Source: Chamber of Fund and Asset Management

Assets under management edged up slightly in H1 2018. The new money flowing into mutual funds in the debt asset class and the money flowing away from funds containing a major equity component were the major factors contributing to this state of affairs.

The most important events in TFI PZU in H1 2018 were as follows:

- introduction of new Employee Pension Plans and Group Pension Plans as well as attracting incomers to the existing ones;

- active sales of subfunds using short-term debt paper: PZU Cash and PZU Safe+;
- launch of 6 new funds under the new PZU SFIO Impulse umbrella fund;
- kick-off of work jointly with the PZU Group's branches on introducing a new PZU Safe+ fund offer including capital protection.

Factors, including threats and risks, that will affect the mutual funds' operations in H2 2018
The condition and performance of the mutual fund market will depend mainly on the following:

- condition of the global economy – risks to economic growth and the prospects of higher inflation;
- development of events in trade relations – their impact on the activity of the US economy and their trade partners as well as the FED's decisions;
- monetary policy – the continuation of the tightening of monetary policy by the US and several smaller developed economies, the continuation of quantitative easing in the euro area coupled with the plans to wrap it up at the end of this year and the interest rate hikes in European monetary union;
- sovereign risk – the government's actions in Italy, the problems encountered by the governing coalition in Germany and the negotiations on the terms for Brexit;
- economic growth in Poland boosted by progress in the execution of investments co-financed with EU funds, coupled with the possible limitation on the pace of growth among its main trading partners;
- evolution of the Monetary Policy Council's views as core inflation gradually grows coupled with the pace of economic growth outstripping its potential and as the monetary policy in the environment becomes more progressively tightened.

3.6 International operations

Lithuanian market
According to the Bank of Lithuania, the gross written premium on the non-life insurance market was EUR 322 million in H1 2018, having shot up by 15.9% compared with the corresponding period of 2017.

Market growth continued to be driven by motor insurance (accounting for 62.7% of the market) whose sales climbed 20.4%. In turn, motor TPL insurance rose 24.8% while MOD insurance grew 13.8%. Higher gross written premium in motor insurance is attributable predominantly to increased average premiums in the market. The gradual deceleration of the growth in this insurance segment is nonetheless visible on a monthly basis.

At the end of H1 2018, there were 12 companies operating in the non-life insurance sector (including 8 branches of insurance companies established in other EU member states).

Lietuvos Draudimas is the largest insurance undertaking in Lithuania measured by total gross written premium in non-life insurance. The company's share in the market at the end of H1 2018 was 29.4%. Considering recent acquisitions, the total combined market share held by the top four players (PZU, VIG, ERGO, Gjensidige) on the non-life insurance market was 82.5%.

The gross written premium collected by Lithuanian life insurance undertakings in H1 2018 was EUR 117 million, signifying 7.1% growth in comparison with H1 of last year. The growing regular premium (9.0%) made a material contribution to the market's positive growth rate. Single premiums (6.1% market share) posted a decline of 16.3% in this same time frame. Unit-linked business GLOSSARY dominated life insurance accounting for 59.8% of the portfolio's value. Traditional life insurance accounted for 18.2% of the gross written premium.

At the end of H1 2018, there were 8 companies operating in the life insurance sector. The Lithuanian life insurance market is highly concentrated. The share held by the three largest life insurance undertakings in total gross written premium was 59.6%.

Latvian market
The Latvian non-life insurance market recorded a gross written premium of EUR 100 million in Q1 2018. This is nearly EUR 19 million more than in the same period of the year before, i.e. 23.6%.

The biggest market share in the non-life insurance market measured by gross written premium, was held by motor insurance whose market position was further strengthened by the price hike on the market. Motor TPL insurance accounted for 25.2% of the market while MOD accounted for 21.5%. Health insurance (24.8% market share) and property insurance (15.1% market share) also had an important position in the product mix.

In Q1 2018, there were 10 insurance companies operating on the domestic non-life insurance market, the top 4 insurance groups held 79.6% of the market.

Estonian market
In H1 2018, non-life insurance undertakings operating in Estonia posted 20.3% growth in gross written premium[1] versus 10.3% in the corresponding period of 2017. In total, gross written premium was EUR 198 million, of which EUR 52 million, i.e. 26.4% was collected by foreign insurance undertakings operating in Estonia.

The composition of non-life insurance in H1 2018 was dominated by motor insurance. They accounted for 59.9%, while MOD accounted 33.2%. Property insurance collected 26.2% of the gross written premium on the market.

At the end of June 2018, there were 13 companies operating in the non-life insurance sector (including 4 branches of foreign insurance companies) among which the top 4 held a combined 71.3% market share.

Activity of PZU companies in the Baltic states
As of November 2014, the PZU Group has been operating in the Lithuanian non-life insurance market through Lietuvos Draudimas, which, as of May 2015, is the owner of the PZU Estonia branch. Lietuvos Draudimas is the leader on the non-life insurance market in Lithuania holding a market share of 29.4%. In H1 2018 it posted a 15.9% upswing in gross written premium compared to the previous year thereby hitting the EUR 95 million. The biggest increase was recorded in motor insurance (19.7% y/y) in connection with the hike of insurance rates in the region.

Life insurance operations in Lithuania are conducted through UAB PZU Lietuva Gyvybės Draudimas – "PZU Lithuania Life". Collected gross written premium was EUR 7 million, representing a 13.1% increase compared to the corresponding period of the previous year. The highest sales growth was recorded in unit-linked business, which was up 26.9% compared to H1 2017. The share held by PZU Lithuania Life in the life insurance market was 6.3% (compared to 6.0% at the end of June 2017).

In Latvia the PZU Group conducts operations through AAS Balta, which became part of the Group in June 2014. At the end of Q1 2018, the total share of the non-life insurance market hit 26.8%. In H1 2018, the gross written premium was EUR 53 million (EUR 44 million in H1 2017).

Since May 2015 the entity conducting operations in Estonia is a branch of Lietuvos Draudimas. The share in the Estonian non-life insurance market in H1 2018 was 20.3%[2]. The collected gross written premium was EUR 30 million (EUR 26 million at the end of June of the previous year).

Ukrainian market
The Ukrainian insurance market in Q1 2018 posted 7.1% growth in gross written premium coming close to UAH 12 billion. The premium written for non-life insurance was UAH 11 billion, signifying 5.2% growth compared to Q1 2017. This growth was the outcome of the positive growth rate in the sales of new cars, raising tariffs in motor insurance and incorporating inflation in sums insured. Motor TPL and MOD insurance (21.4% of the market) recorded a 19.4% increase in gross written premium. In the corresponding period, life insurance undertakings collected gross written premium of UAH 1 billion, signifying 40.2% growth compared to Q1 2017.

[1] As of 1 January 2018, IF P&C Insurance AC (the leader on the Estonian non-life insurance market) started to report total gross written premium, altering the approach taken to-date, based on installments and in that manner it significantly distorted market data. Other market players continue to report in installments, which means that market data are not comparable. At the same time, the Estonian insurance regulatory (EKsL) consented to implementing reporting based on gross written premium as of January 2019.

[2] As of 1 January 2018, IF P&C Insurance AC (the leader on the Estonian non-life insurance market) started to report total gross written premium, altering the approach taken to-date, based on installments and in that manner it significantly distorted market data. Other market players continue to report in installments, which means that market data are not comparable. At the same time, the Estonian insurance regulatory (EKsL) consented to implementing reporting based on gross written premium as of January 2019.

The Ukrainian insurance market is highly fragmented – as at the end of March 2018, there were 292 insurance undertakings operating in the country (32 of them offered life insurance). Despite the number of insurers that continues to be enormous, the top 100 non-life insurance undertakings generated 98.3% of gross written premium, while the top 20 life insurance undertakings generated 99.9% of written premium.

On the Ukrainian market, the PZU Group operates insurance business via two companies: PrJSC IC PZU Ukraine (a non-life insurance company), referred to as "PZU Ukraine", and PrJSC IC PZU Ukraine Life (a life insurance company), referred to as "PZU Ukraine Life". In addition, LLC SOS Services Ukraine performs assistance functions.

In H1 2018, the gross written premium collected by PZU Ukraine was UAH 670 million, i.e. it was 1.5% higher than in the corresponding period of the previous year. The gross written premium collected by PZU Ukraine Life was nearly UAH 194 million, up 47.3% from H1 2017. This growth was mainly achieved in the bancassurance and broker channel, in particular as a result of sales of endowment insurance policies.

In Q1 2018, PZU Ukraine obtained 3.0% (up 0.2 pp compared to Q1 2017) of the gross written premium on the Ukrainian non-life insurance sector, which gave it fifth[3] place on the market. On the life insurance market, in turn, PZU Ukraine Life ranked fifth[4] with a market share of 11.2% (up 0.4 pp compared to the corresponding period of last year) in Q1 2018.

[3] Insurance TOP, Ukrainian insurance quarterly, #2(62)2018
[4] Insurance TOP, Ukrainian insurance quarterly, #2(62)2018

3.7 Medical services (Health)

Market situation

The health market is a business area that is dynamically developing and prospective. The current trends are as follows:

- continuation of the double digit pace of growth in the private health insurance market;
- development of telemedicine and service opportunities through remote channels;
- greater need to provide care to senior citizens;
- increasing awareness of prevention and periodic examinations.

In accordance with PMR data[5]: at the end of 2017, private health care offered under fee-for-service products was worth PLN 16.90 billion. In turn, the value of medical subscriptions was PLN 3.99 billion, while the value of private health insurance climbed to PLN 0.69 billion.

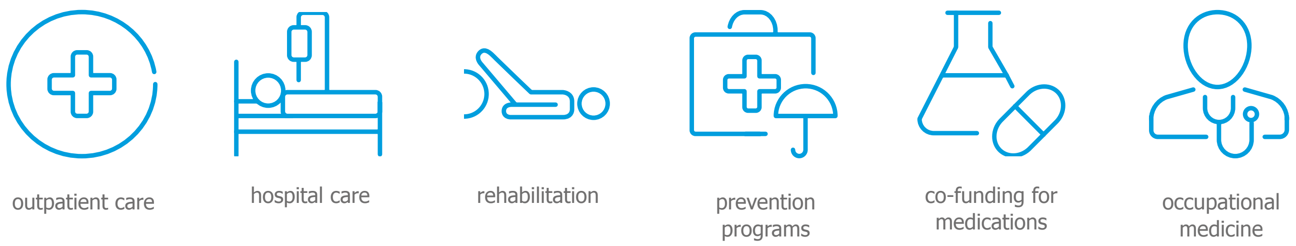
Operations in the Health Area

The Health Area deals with the following:

- sales of health products in the form of insurance (life and health insurance and non-life health insurance) and non-insurance products (occupational medicine, medical subscriptions, partnerships and prevention programs);
- development of the medical infrastructure for the population in Poland to ensure the best accessibility of provided services and execution of revenue targets.

[5] PMR Report entitled „Private Health Care Market in Poland 2018" dated July 2018

In the Health Area the company offers a broad range of health products adapted to the segment and clients' needs:



Corporate client segment (life and health)

The sales of group life and health insurance constitutes the basis for the business operations of the PZU Group's Health Area. The offering is addressed to corporate clients and the SME and micro business segments. Employers may purchase insurance in the sponsored or co-financed model, or negotiate a group offer for their employees.

To satisfy the most demanding requirements of retail clients belonging to the VIP segment, there is a non-standard offer based on the PZU Group's synergies in force. This single offer blends outpatient, hospital, medicine, travel and ADD insurance and a loyalty program.

Product	Coverage
PZU u Lekarza [PZU At the Doctor's]	access to medical services comprising among others: doctor consultations with as many as 35 specialties, up to 400 types of diagnostic tests and outpatient procedures, rehabilitation, dentistry, pregnancy care, with the possibility to expand the offer to include non-standard services to fit the client's needs (e.g. medical transport, spa treatment, assistance of a nurse at home)
PZU w Aptece [PZU at the Pharmacy]	co-funding for covered medications on prescription purchased in any pharmacyin Poland (including in over 7,000 partner pharmacies providing cash-free Pharmaceutical Card service)
PZU w Szpitalu [PZU in the Hospital]	180 hospital procedures in 7 specializations (surgery, urology, ophthalmology, laryngology, gynecology, cardiology, orthopedics)
PZU W Trosce o Zdrowie [PZU Care for Your Health]	rider to group life insurance; access to rehabilitation services in the event of a critical illness
PZU Powrót do Sprawności [PZU Return to Ability]	rider to group life insurance; access to rehabilitation services following an accident on the way to work or an accident on the job

Mass insurance segment (health, non-life insurance)

Mass clients buying non-life policies are offered additional health insurance of assistance nature, ensuring access to specific medical services if an event under the basic policy occurs. From mid July 2018 the non-life insurance product offer also includes insurance providing access to medical care in the event of an accident, critical illness, malignant neoplasm and for everyday matters.

Rider	Coverage
PZU Auto Asystent Zdrowotny [PZU Car Health Assistant]	access to outpatient medical care for the driver and passengers in the event of a road accident
PZU Dom Asystent Zdrowotny [PZU Home Health Assistant]	arranging for and covering the costs of treatment after an accident or sudden illness
Continuation of Treatment after Travel Insurance	access to comprehensive medical care in the event of an accident or sudden illness during travel abroad (among others outpatient care, rehabilitation, surgical procedures, medical transport, support of a medical assistant)
LINK4Mama – Assistance Zdrowie [LINK4Mother – Health Assistance]	access to medical care for women and children in the event of a sudden illness or an accident
LINK4 Wracaj do Zdrowia [LINK4 Come back to Health]	Insurance riders to ADD in Link4. Access to specialist physicians, ambulatory rehabilitation, selected tests and outpatient procedures, X-ray, ultrasound, CT and MRI diagnostics following an unfortunate accident.

PZU Plan na Zdrowie [PZU Plan for Health]	access to medical care (diagnostic tests and doctor consultations) in the event of an unfortunate accident, critical illness, malignant neoplasm and for everyday matters. PZU Plan na Zdrowie consists of the main insurance and 3 insurance riders: Critical Illness, Cancer Treatment, Caring for You. The main insurance in the Plan for Health provides medical care in the event of an accident (including the most frequently occurring broken bones, electrocutions and damages to organs). In the event of encountering health issues following an accident, this insurance affords clients the opportunity to utilize doctor consultations and diagnostic tests for a year. The Critical Illness rider provides health care – doctor consultations and diagnostic tests – following a critical illness, including, a stroke, brain abscess, myocarditis and muscular dystrophy. The Cancer Treatment insurance rider involves medical assistance – doctor consultations, diagnostic tests, second opinion and doctors' council – after diagnosis of a malignant neoplasm, including: a malignant melanoma, malignant neoplasm of the breast, malignant neoplasm of the uterus and a malignant neoplasm of the lungs. Clients also receive financial support under this insurance. The Caring for You insurance rider involves medical care for everyday matters whereby clients can start using it from the first day of insurance cover – for the duration of its term of validity. Clients can choose from 3 scopes of insurance enabling them to select the number and type of medical services they consider to be right for them (roughly 70, 200 or 450 services). This insurance provides among other things for visits to specialists (without a referral), diagnostic tests and rehabilitation procedures.

Retail client segment (life and health)

Retail clients are provided with health care in the form of individual continuation or rider to life insurance. The following is offered as a rider to life insurance continued individually:

Rider	Coverage
PZU Antybiotyk IK [PZU Antibiotic IK], PZU Cztery Pory Roku IK [PZU Four Seasons IK]	co-funding for covered medications on prescription purchased in any pharmacy in Poland (including in over 7,000 partner pharmacies providing cash-free Pharmaceutical Card service)
PZU Uraz Ortopedyczny [PZU Orthopedic Injury]	arranging for and covering the costs of medical services in the event of accidental orthopedic injury

Under individual protection insurance the following rider is offered:

Rider	Coverage
PZU z Miłości do Zdrowia [PZU out of Love for Health]	medical care, rehabilitation, psychological support and assistance in the event of critical illness (infarction, stroke, malignant neoplasm and non-malignant brain tumor).

Non-insurance products

PZU Zdrowie as a medical operator offers health services both to individual clients using proprietary clinics and to corporate clients seeking an alternative to group insurance.

Product	Coverage
Medical Subscription	outpatient care available in the form of a group offer, with the possibility of using medical services in a partner and proprietary network in over 500 Polish cities and as part of individual services and packages in specific proprietary PZU Zdrowie clinics
Occupational Medicine	preliminary, periodic, check-up and final examinations, review of workstations, participation of an occupational medicine physician in company occupational safety and health commissions, supplemented by training on first aid and prevention programs aimed at prevention and diagnostic of occupational diseases
Fit Plus Card	combination of the PZU Zdrowie medical subscription and a sports pass for the Calypso Fitness chain, with an extra PZU Pomoc concierge service
Medical Help	the offer for clients ensuring access to medical services in PZU Zdrowie: doctors appointments, outpatients research and rehabilitation, in case of accident or health breakdown

Achievements in the Health Area

- the service provider network has been extended to include more medical centers, which means that PZU already has over 2,000 centers;
- a new hotline operation model has been rolled out to service clients holding health products, including life insurance and non-life insurance with a health rider. The hotline structures operate in PZU Zdrowie as the Medical Service Management Center (CZUM), which allows for integrated management of client experience and improvement of the service quality, while also testing innovative solutions;
- a tool has been developed further for booking on-line appointments through a direct connection with the calendars of cooperating medical centers. During a single telephone call the client obtains complete information about the appointment made: time, place, clinic. In 2018, PZU Zdrowie was connected to 62 medical centers located across Poland;
- the insurance offer was extended to include the non-life insurance product called PZU Plan for Health providing access to medical care (diagnostic tests and doctor consultations) in the event of an accident, critical illness, malignant neoplasm and for everyday matters;
- the operationalization of this new greenfield medical center built in Warsaw, as well as work on launching further locations.

3.8 Pension funds (PTE PZU)

Market situation

At the end of June 2018, the net asset value of open-end pension funds was PLN 158 billion, down 11.9% versus the end of 2017.

PTE PZU activity

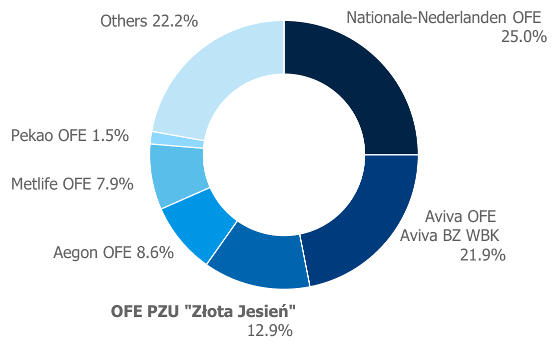
The PZU Złota Jesień Open-End Pension Fund managed by PTE PZU (PTE PZU) is one of the largest players on the pension fund market in Poland. At the end of June 2018, OFE PZU was the third largest pension fund, both in terms of the number of members, as well as in terms of net asset value:

- the fund had 2,114 thousand members, i.e. 13.2% of all participants in open-end pension funds;
- net assets stood at over PLN 20 billion, thereby representing 12.9% of the total asset value of the open-end pension funds operating in Poland.

In H1 2018, the Social Insurance Institution (ZUS) transferred contributions worth PLN 162 million to OFE PZU, i.e. 1.4% less than in the corresponding period of the previous year.

At the end of June 2018, PZU's Voluntary Pension Fund ran more than 66 thousand individual pension security accounts (IKZEs) in which assets worth more than PLN 100 million were accumulated. Consequently, it retained its position as one of the leaders in the segment of voluntary pension funds. The rate of return generated in H1 2018 was -7.4%.

Open-end Pension Funds – percentage of net asset value as at 30 June 2018 (in %)



Source: KNF, monthly data on the OFE market, data for June 2018

On 24 April 2018 KNF consented for PTE PZU to take over the management of Pekao OFE and DFE Pekao. According to KNF's decision the date for commencing the winding up of Pekao OFE is 1 August 2018, while this process will end and the assets of Pekao OFE will be merged with the assets of OFE PZU "Złota Jesień" on 12 October 2018. The winding up of DFE Pekao has been in progress since 19 May 2018 is slated to be completed on 28 September 2018. As a result of this operation, OFE PZU will strengthen its position on the market and its assets under management will grow by more than 10%.

Factors, including threats and risks, that will affect the pension funds' operations in H2 2018

The main challenges facing the pension fund market in H2 2018 are the following:

- the economic climate on the capital market and, in particular on the Warsaw Stock Exchange, affecting the value of assets of the funds and the level of fees collected by pension fund companies for management;
- opportunities arising from the achievement of the objectives specified in the Capital Accumulation Scheme and the Responsible Development Strategy the pursuit of which will depend on the development of detailed solutions and the entry into force of necessary legislative changes;
- active participation in work on the adoption of solutions enhancing the performance of the third pillar and making it more attractive, and influencing the need in public awareness for accumulating additional savings for future retirement.

3.9 Other operating areas

PZU Pomoc

PZU Pomoc provides auxiliary services to PZU Group companies, including:

- managing the PZU repair network – at the end of H1 2018 the company cooperated with 910 repair shops;
- organizing motor assistance services for LINK4;
- conducting salvage auctions after total losses;
- supporting technical claims handling processes in motor claims;
- handling assistance products for PZU and PZU Życie (among others, legal consulting, organization of assistance services etc.);
- managing the PZU Assistance in Life Club loyalty program – at the end of H1 2018 approx. 1.8 million club members could take advantage of insurance discounts and products offered by cooperating companies (rebate programs from partners).

PZU CO

PZU CO is an auxiliary company for PZU Group companies, established to provide the following services: printing, IT, Data Center, Contact Center, auxiliary services related to insurance and pension funds, constant intermediation in the conclusion of insurance contracts, financial and investment agreements, assistance agreements and HR and payroll-related services.

PZU CO is concentrating on developing its operations involving the rendering of intermediation services in the rendering of insurance services, information services, contact center and mass printing services for PZU Group entities. It also participates in projects related to the centralization of the operations conducted by the Group.

An Organized Part of the Business (OPB) was spun off from PZU CO and contributed to PFS held by Bank Pekao in June 2018 in the framework of the cooperation between PZU and Bank Pekao. These efforts aim to optimize the transfer agent services provided to the mutual funds in the PZU Group. As a result of this transaction PZU subscribed for a 33.5% equity stake in PFS.

PZU Finance AB

PZU Group's activity on the debt market is realized through PZU Finance AB with its registered office in Stockholm (Sweden). The company's core business is to raise loan funds through the issue of bonds or other debt instruments and provide financing to PZU Group companies.

PZU Finance AB issued five year Eurobonds worth EUR 350 million on 16 October 2015. These bonds have been assimilated and now form a single series with the tap bonds with a nominal value of EUR 500 million issued by PZU Finance AB (publ) on 3 July 2014. CHAPTER 7.3 DEBT FINANCING

PZU LAB

PZU LAB is a company dealing with advisory services and assistance in implementation of all kinds of solutions improving the security of the strategic corporate clients of PZU and TUW PZUW.

The company cooperates with numerous academic centers and experienced experts (local and foreign). The company constantly seeks new and effective technological solutions allowing to mitigate the risks which particularly impact the insurance activity.

The PZU LAB team has developed methods for cooperation with the existing and prospective clients. First, the engineers identify critical installation sites, simulate critical events such as fire, flooding or explosion, and determine their consequences. Then the possible scenarios and the methods of minimizing them are discussed. This approach signifies an evolution in client relations. PZU ceases to be only a seller of insurance and becomes a risk management advisor.

Tower Inwestycje

Tower Inwestycje conducts work associated with the office and commercial investment project located in a prestigious location in Wrocław at 35 Oławska Street (Plac Dominikański) in a venue occupied for the past several decades by an office building owned by PZU. This investment is partially intended for the PZU Group's needs and partially for lease.

PZU Finanse

PZU Finanse Sp. z o.o. is a service company established for the purpose of keeping accounting ledgers for subsidiaries of the PZU Group (excluding PZU and PZU Życie).

Ogrodowa-Inwestycje

Ogrodowa-Inwestycje Sp. z o.o. (Ogrodowa-Inwestycje) is the owner of the City-Gate office building (located at 58 Ogrodowa Street in Warsaw) and leases office space to external clients and PZU Group companies.

PZU Corporate Member Lmited

PZU Corporate Member Limited is a member of Lloyd's. This company is handled by Argenta Holdings Limited. This agency deals with the ongoing activities of syndicates, invests their funds and employs underwriters.

Grupa Armatura

The PZU Group has held an equity stake in Armatura Kraków S.A. (Armatura Kraków) since October 1999. At present, the mutual fund PZU FIZ AN BIS 2 is the sole owner of Armatura Kraków.

Armatura Kraków SA (Armatura Kraków) is the parent company of the Armatura Group. The business of the Armatura Group lies outside the domain of financial and insurance services. The group is a leading manufacturer in the sanitary and heating industry in Poland. The companies making up the Armatura Group specialize in the manufacture of bathroom and kitchen taps, aluminum central heating radiators, a wide range of valves, ceramic sanitaryware, showers, shower trays and portable room dividers.

4.

PZU 2020 - more than insurance

Client relationships and knowledge is our main value as defined in the new PZU Strategy, whilst our principal product is expertise in addressing client needs to build a stable future.

In this section:

1. New operating model
2. Strategy operationalization
3. Selected measures of the strategy

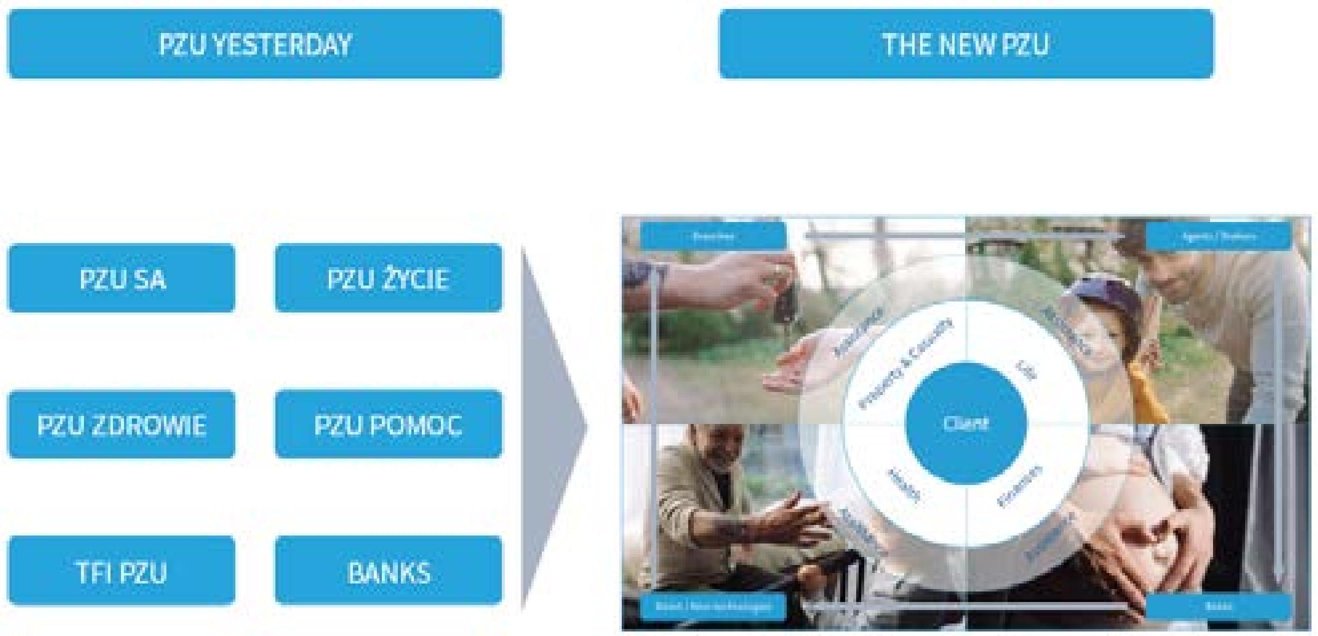
On 9 January 2018 the PZU SA Management Board and Supervisory Board adopted PZU's updated strategy until 2020. The New PZU – More Than Insurance Strategy is altering the operating model of the overall PZU Group, placing emphasis on new aspects and establishing new initiatives to make PZU one of the most innovative and profitable institutions in the financial industry in Europe.

4.1. New operating model

The new operating model brings together all of the PZU Group's activities and integrates them in a client-focused manner: life insurance, non-life insurance, health insurance, investments, pensions, health care, banking and assistance services (SECTION 1 BRIEF DESCRIPTION OF THE PZU GROUP). The main vector of change is our new approach to building client relations. The transformation in the direction of an advisory and service company will make it possible to care for the clients' future and satisfy their needs comprehensively when it comes to life, health and property insurance and savings and finance. This will also contribute to achieving ambitious financial targets and building its position as the most innovative institution in the financial industry. This approach has defined its operating philosophy under its new strategy. As a result, greater potential than posited to date has been identified in the utilization of new technology to analyze and use data. A high capacity for integrated client service and new opportunities and threats related to regulatory and demographic changes were also identified.

The acquisition of a significant equity stake in Bank Pekao has opened up new opportunities for collaboration. This transaction announced in December 2016 was finalized on 7 June 2017. PZU and the Polish Development Fund (PFR) acquired a 32.8% equity stake in Bank Pekao. This strategic investment has enabled PZU to become the largest financial group in Poland and Central and Eastern Europe, with two banks playing an important role on the domestic financial market in its structure. Consequently, PZU has new growth opportunities, especially in terms of integrating services and focusing on clients at every stage of their personal and professional development.

We are changing PZU – we are becoming a lifetime partner



Source: PZU data

Development of cooperation with banks

Action	Insurance sales	Client acquisition by the banks	Savings
Description	Sales of PZU's life and non-life insurance under the bancassurance model to the clients of the Group's banks	Acquisition of the Group's insurance clients by the banks	Achievement of synergies in procurement, IT and real estate
Objective for 2020	1 bn PLN of gross written premium	1 m new clients	Cut costs by 100 m PLN

Source: PZU data

PZU's philosophy of thinking about clients constitutes a departure from the classic model of an insurer's client relations rooted solely in sales and after-sales service. PZU's goal is to establish and maintain relations by delivering products well-matched to clients at the appropriate time and place so as to ensure at the same time that the product's attributes (including its price) are aligned to client needs.

(We help clients care for their future)

The new approach will drive the gradual change in the insurer's model (chiefly involved in the valuation and transfer of risk) toward the model of an advisory and service company (operating on the basis of technological know-how). This will enable clients to optimize their decisions at all stages of their lives. It will ultimately translate into growing trust and loyalty placed in the brand of first choice which PZU will become when it comes to insurance, finance and health services.

The philosophy of how sales networks operate will also change. The PZU Group calls for abandoning "product centricity" in favor of an ecosystem whose overriding objective is to manage client relations skillfully by offering solutions in all venues available to clients. Accurately anticipating the future, understanding client needs and building ever better methods of becoming part of their daily lives are the logical grounds underpinning other initiatives in PZU's new strategy. Among others, these initiatives include radically simplifying our product offering and poising our sales network to offer all our products and services, investing in database integration to procure a full picture of our clients, cross selling, offering a loyalty program and reducing the age of our client base.

PZU 2020 - more than insurance

We are a long-term partner for our clients.

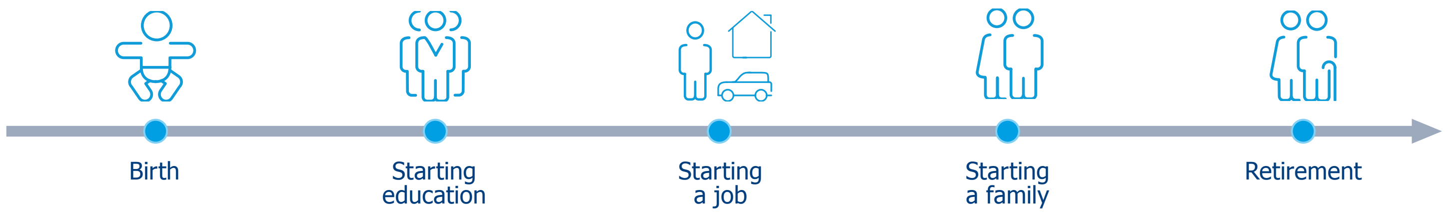
- **Payment of a childbirth benefit**
- **Education: „Diagnostics of the stage of a child's development"**

- **Education: "How to save"?**
- **ADD insurance for school**
- **Travel insurance (school trips)**
- **Bank account (access via a mobile application)**
- **Payment cards**

- **Group life insurance**
- **Health products**
- **Employee Capital Scheme**
- **Car insurance**
- **Loyalty program**

- **Loan to buy a home**
- **Home insurance**
- **Assistance**
- **Term deposit**
- **Mutual funds**
- **Dowry insurance for children**
- **Health product for the entire family**

- **Individual endowment insurance**
- **Riders dedicated to senior citizens**
- **Remote monitoring of the state of health**



Insurance **Health** **Investments** **Retirement**

We help companies grow by offering them a wide array of products supporting their growth

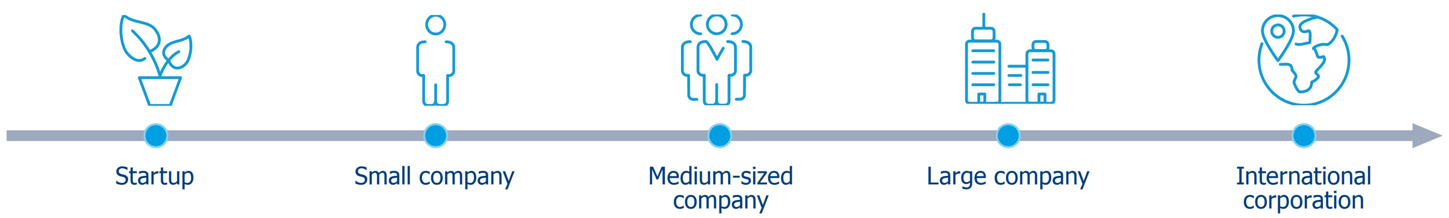
- **Company account**
- **Loans and borrowings to startups**
- **Investments made by the Witelo fund**

- **Package of services supporting operations (e.g. accounting services, security audits, OSH training)**
- **Leasing**
- **Private TPL insurance and legal protection**
- **Motor insurance**
- **Trade credit**
- **Commercial credit insurance**

- **Group life insurance**
- **Health products**
- **Car fleet insurance**
- **Company property insurance**
- **Financial guarantees**
- **Lines of credit**
- **Direct equity investments (private equity, mezzanine)**

- **Handling the IPO process**
- **Debt financing**
- **Conducting mergers and acquisitions**
- **Mutual insurance**
- **Asset management services**

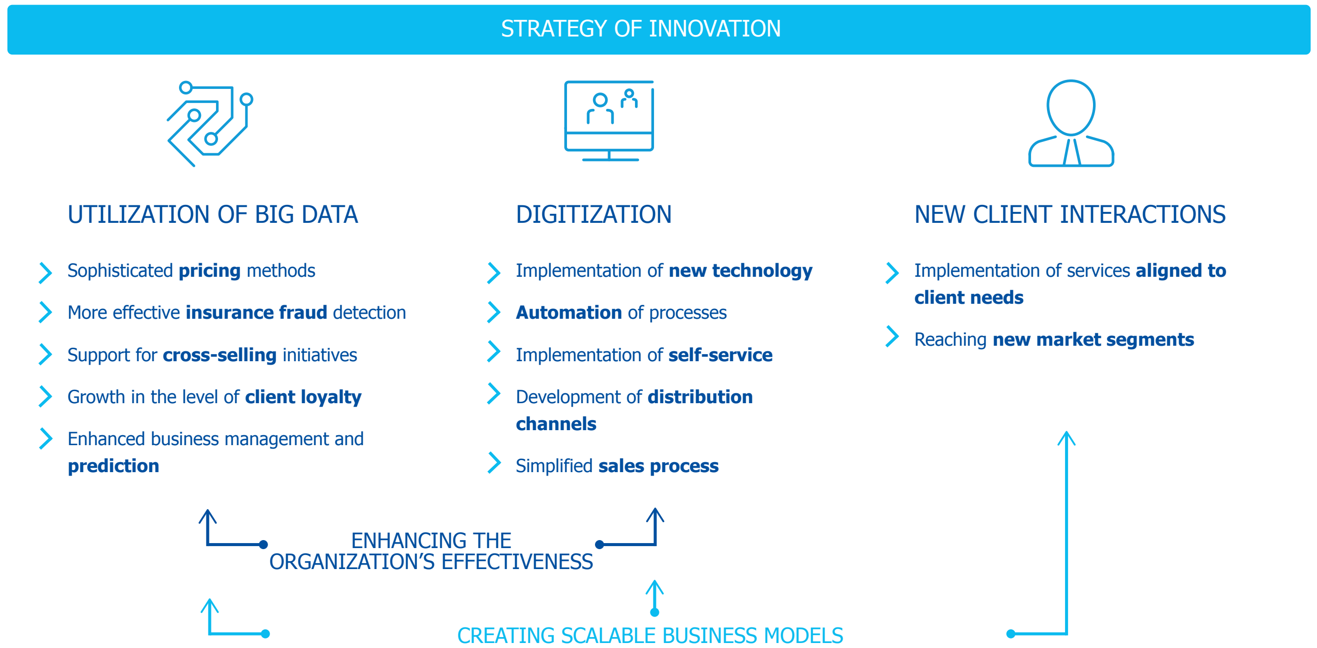
- **Export loans**
- **FX risk hedge**



Insurance **Health** **Investments** **Retirement**

The new approach relies on the technological transformation that will affect almost all the Group's functional areas. At the same time, it will form the basis for integrating all the services offered by Group companies. Achieving a high degree of quality and number of client interactions calls for creating a new model in which the core consists of client knowledge and the skill of building long-term relations. Special emphasis will be placed on analyzing the information the PZU Group has to grasp and use it better. Accordingly, areas in which tools rooted in artificial intelligence, big data and mobile solutions will be used have been defined.

New technologies are changing the insurance industry



Source: PZU data

When it comes to international expansion PZU is betting on organic growth. The Group's ambition is to generate 8% of its total gross written premium on international markets by 2020 and to be the leader on every market where it operates. Its approach to acquisitions will be opportunistic. PZU will monitor the market with an eye to attractive acquisition targets. Insurance companies will be its main targets under the condition of satisfying the following criteria: the company should be in the TOP3 on a given market, it should operate in Central and Eastern Europe and it should generate satisfactory targets concerning the level of profitability. PZU also allows for the acquisition of entities from outside the insurance sector (e.g. asset management companies, banks, health care entities and intermediaries in financial services).

Unleashing the PZU Group's full potential aims to use the capital entrusted by shareholders as best as possible, in a manner that will ensure value growth and sustaining an attractive dividend stream. That is why the PZU Management Board has undertaken to uphold the dividend policy adopted in 2016 calling for a dividend payout ratio of no less than 50% of net profit. The ambitious growth targets that have been defined focus on ramping up cost effectiveness and harnessing the potential of all operating areas and will lead to rapid growth in net profit demonstrated by its ROE surpassing 22% (up to 2020).

PZU is planning its current and future actions based on responsible management in financial, employee, social, environmental, human rights and anti-corruption areas. That is why operating processes in every stage of preparing, distributing and handling products are conducted while taking into account the principles of sustainable development and the best practices adopted by the Group.

Its responsible approach to business is one of the key pillars for building long-term and partnership contacts that will be conducive to building mutual understanding and trust.

Values by which we are guided in our actions

Source: PZU data

The New PZU entails 4 key business areas whose development has been defined on the basis of the most forward-looking economic, technological, regulatory and demographic trends. PZU's long-term ambitious is to gain a leadership position on every one of the markets enumerated below.

Insurance	Market growth correlated to GDP growth and the increasing affluence of the general public New insurance products, e.g. innovative solutions based on telematics and protection against cyberrisk New growth possibilities related to the better usage of data in actuarial and tariff-related processes and in cooperation with clients
Banks	Further anticipated consolidation of the Polish banking sector Forecasted growth rate of deposits nearly twice as high as the pace of GDP growth Rapid development of electronic and mobile banking
Investments	Impact exerted by Employee Capital Schemes on Poles' levels of savings Regulatory changes providing clients a higher level of security and greater transparency Expected consolidation of the Polish asset management market Rising percentage of investment products in the mix of Poles' savings as they accumulate wealth
Health	Continuation of the double digit pace of growth in the private health insurance market Development of telemedicine and customer service opportunities through remote channels Greater need to provide care to senior citizens

4.2 Strategy operationalization

PZU's ambitions will be achieved through 12 key initiatives underpinning the New PZU. The catalyzers for these activities will be better data utilization, higher cross-selling, digitization of processes and additional interactions with clients.

		Strategic initiatives	Ambitions in 2020
Better utilization of data	1	Data base merger and creation of a single joint CRM system in the PZU Group / full client picture (360 degree view)	55% of the clients in PZU SA and 33% of the clients in PZU Życie SA will give marketing consent
	2	Better matched price to risk and pricing optimisation (Taryfikacja 3.0)	92% combined ratio
	3	Implementation of solutions employing artificial intelligence	6 innovative solutions which at least 100 thousand clients of the PZU Group will use
Cross selling growth	4	Development of cooperation with banks	1 m clients acquired for the banks in the PZU Group 1 bn PLN of incremental premium obtained from the bank channel Cut costs by 100 m PLN
	5	Simplifying the product offering, and simple language	10 core products in broad distribution
	6	Conversion of the sales network into multi-product sales network	50% of salespersons sell multiple products in proprietary networks
	7	Development of sales in PZU Health	1 bn in revenues of PZU Health 12% EBITDA margin
	8	Development of sales and consolidation in PZU Investments	65 bn PLN of third party assets under management 200 m PLN of net profit on third party asset management 15% share of assets on the Employee Capital Schemes market[1]
Digitalization of processes	9	Implementation of a new „moje.pzu.pl" portal	5 m accounts established by clients
	10	Development of the direct offering	10 products available in the direct channel 50% market share held by PZU SA and Link4 of non-life insurance sold in the direct channel
Additional interactions with clients	11	Implementation of a loyalty program at the PZU Group level	3 m participants
	12	Integrated service model for SMEs	70% growth of new sales in group insurance to SME clients in PZU Życie 20% growth in the gross written premium generated by non-life insurance dedicated to the SME segment

[1] Objective to be confirmed after the enactment of the Act on Employee Capital Schemes

Source: PZU data

We implement the New PZU Strategy

We are testing solutions to rescue drivers' lives

- Modern solution monitoring driver and passenger **safety** when driving
- A small device cooperating with a **mobile phone application**
- Registers the route taken and events **when driving**
- If an accident transpires – it automatically transmits information **to the PZU Emergency Center** while stating the car's location
- It evaluates drivers' **driving style** and how they travel various routes

PZU

We are working on case handling quality - handling a notification presently takes less than 5 minutes

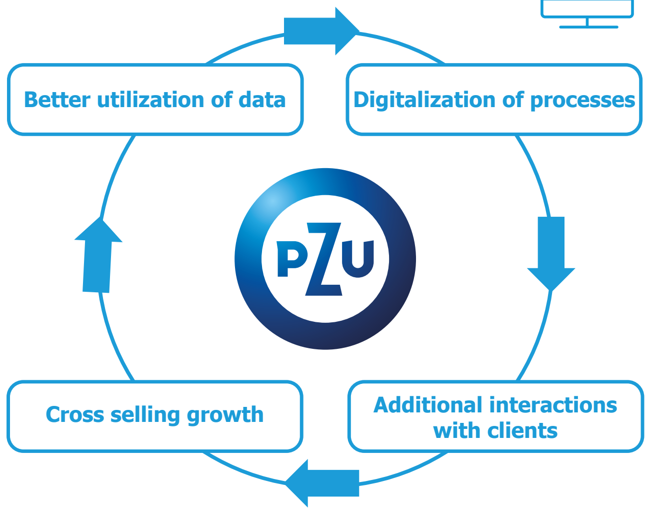
- **It's simple.** Clients provide the data PZU does not have. We download the rest of the data from the Everest system
- **Self-Service forms an integral part of a notification.** We put some clients on a track for them to calculate the amount on their own
- Fully mobile solution

We have launched a new website www.pzu.pl

- Modern design, intuitive navigation

We are working intensively on #mojepzu.pl

- We are migrating 22 million PESEL numbers into a single database



We are striving to enrich our product offering

Ja Plus

- online life insurance policy
- two insurance options
- fixed premium and cover for 5 years
- option to discontinue at any time
- no questions about your health

Ja

Ja + Dziecko

PZU Plan na Zdrowie

- flexible medical care in the case of an accident, illness and for everyday needs
- main insurance policy + at least 1 insurance rider
- nearly 2,100 private medical centers in 500 cities

Main insurance policy

+ Insurance riders

W Ciężkiej Chorobie

W Leczeniu Nowotworu

W Trosce o Ciebie

In responding to our clients' needs we are switching over to straight-forward a communicative style of communication

- We have trained **198** employees in effective communication
- **94%** of these participants say that this training is useful in their day-to-day work
- We have simplified all communication in the recruiting process
- We have modified our payment summons – **1 million** clients receive the new form of this letter every year
- The PZU Client Account service has received its first certificate for using Simple Polish

Source: PZU data

4.3 Selected measures of the strategy

ROE[1]

06.2018	2020
20.8%	>22%

BUSINESS SIZE

Segment	Measure	Base	Value	2020
NON-LIFE INSURANCE	PZU Group's market share [2, 3,]	03.2018	34.8%	38.0%
LIFE INSURANCE	Number of clients in PZU Życie (m)	06.2018	10.9	11.0
INVESTMENTS	Assets under management for third party clients (bn PLN)	06.2018	30	65
HEALTH	Revenues (m PLN)[7, 9]	06.2018	499	1,000
BANKING	Assets (bn PLN)	06.2018	254	>300

BUSINESS PROFITABILITY

Segment	Measure	Base	Value	2020
NON-LIFE INSURANCE	Combined ratio [3]	06.2018	86.8%	92.0%
LIFE INSURANCE	Operating margin in group and individually continued insurance	06.2018	20.2%	>20%
INVESTMENTS	Net result on third party asset management (m PLN)[6, 9]	06.2018	106	200
HEALTH	EBITDA margin [8]	06.2018	7.2%	12.0%
BANKING	Net financial result attributed to the PZU Group (m PLN) [9]	06.2018	597	>900
NON-LIFE INSURANCE	Administrative expense ratio [4]	06.2018	6.5%	6.5%
LIFE INSURANCE	Surplus rate of return on main portfolio above the RFR [10]	06.2018	1.0 p.p.	2.0 p.p.

GROUP OBJECTIVES

Measure	Base	Value	2020
Solvency II solvency ratio [5]	03.2018	227%	>200%
Number of products per client	06.2018	1.5	2.0

[1] ROE attributable to the parent company
[2] Direct business
[3] PZU jointly with TUW PZUW and LINK4
[4] Administrative expenses in PZU and PZU Życie
[5] Own funds after subtracting anticipated dividends and asset taxes within 12 months
[6] Consolidated net result of PZU Investments
[7] Annualized revenues of proprietary centers and branches including revenues from PZU Zdrowie and PZU CG
[8] Net of non-recurring costs; profitability computed using the sum of revenues generated by branches and earned premium
[9] 12 month moving average
[10] The difference between the annual rate of return calculated on the IFRS result on main portfolio taking into account FX from the own debt issue and the average annual WIBOR6M level

5.

Financial Results

Return on equity (ROE) attributed to the parent company at 20.8%. Banks deliver higher contribution to the PZU Group's results. Gross written premium up 2.4% y/y.

In this section:

1. Major factors contributing to the consolidated financial result
2. PZU Group's income
3. PZU Group's claims paid and technical provisions
4. PZU Group's acquisition and administrative expenses
5. PZU Group's asset and liability structure
6. Contribution made by industry segments to the consolidated result

5.1 Major factors contributing to the consolidated financial result

In H1 2018, the PZU Group generated a result before tax of PLN 3,147 million compared with PLN 2,156 million in the previous year (up 46.0%). Net profit reached PLN 2,358 million, i.e. PLN 653 million more than the result in H1 2017. The net profit attributable to parent company shareholders was PLN 1,425 million, compared to PLN 1,438 million in 2017 (down 0.9%).

The net result rose 46.6% compared to last year, net of non-recurring events[1] The operating profit in H1 2018 was PLN 3,146, up by PLN 989 million compared to the result in H1 2017.

Operating profit was driven in particular by the following factors:

- higher gross written premium in motor insurance (result of the upswing in average premium), the execution of several contracts with high unit values and higher sales in foreign companies, in particular in the motor insurance group;
- higher profitability in the corporate insurance segment, due to an increasing earned premium and an increasing loss ratio in motor insurance, while administrative expenses remained flat and the acquisition expense ratio improved;
- increased profitability in group and individually continued insurance as a result of an improvement in the loss ratio in protection products compared to last year and a changed in the mix of individually continued products with different individual provisioning expenses;
- higher profitability in the mass insurance segment, mainly as a result of a higher profitability of the motor insurance portfolio due to a much better loss ratio in motor own damage insurance and deterioration in TPL insurance – as a result of remeasurement of the provision for claims regarding pain and suffering caused by the vegetative state of a relative injured in an accident (Supreme Court ruling);
- better performance in the banking segment at Alior Bank in connection with the high sales level of credit products supported by the good business climate and a low interest rate environment;
- lower result on listed equities, in particular due to softer conditions on the Warsaw Stock Exchange.

[1] Non-recurring events include the effect of converting long-term policies into yearly renewable term business in type P group insurance, and the result on the sale of PZU Lithuania, non-recurring effect of remeasurement of provisions in non-life insurance for claims for general damages due to vegetative state.

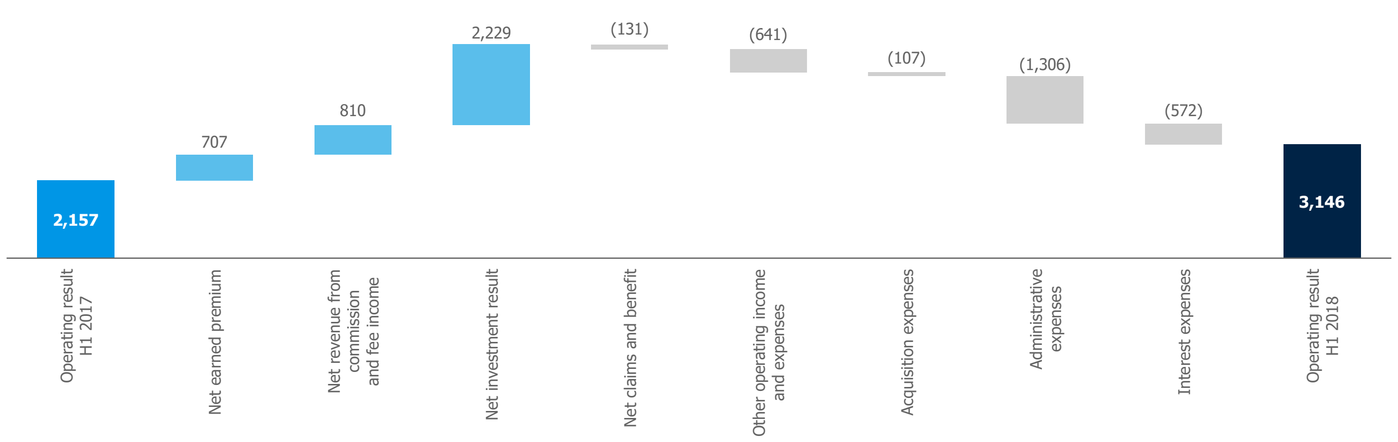
The inclusion of Pekao into the PZU Group's structures in June 2017 materially affected the comparability of the results. Pekao contributed PLN 1,277 million to the banking segment's operating result in H1 2018, compared to PLN 227 million in H1 2017.

In the individual operating result items, the PZU Group posted:

- increase in gross written premium by 2.4% to PLN 11,881 million following higher sales in motor insurance (result of the upswing in average premium), the execution of several contracts with high unit values and higher sales in foreign companies. After considering the reinsurers' share and movement in the provision for unearned premiums, the net earned premium was PLN 11,054 million and was 6.8% higher than in the corresponding period of 2017;
- higher net result on investing activity, including an increase in investment income earned on the banking activity following the commencement of consolidation of Pekao SA in June 2017 and a lower net result on investing activity excluding banking activity. The net result on investing activity was PLN 5,256 million, up 73.6% compared to H1 2017. Income on investing activity, excluding banking business, fell mainly due to the worse performance achieved in listed equities, driven in particular by the deterioration of market conditions on the WSE – the WIG index fell by 12.2% in H1 2018 compared to an increase of 17.9% in the corresponding period of the previous year;
- increase in interest expenses to PLN 992 million vs. PLN 420 million in the corresponding period of the previous year, associated in particular with the commencement of consolidation of Pekao and PZU's PLN 2,250 million issue of subordinated bonds in June 2017;
- higher level of claims and benefits paid. They amounted to PLN 7,345 million, up 1.8% compared to the corresponding period of 2017. The increase was associated in particular with the motor insurance group in the corporate and mass client segments in connection with remeasurement of the provision for claims for general damages for the pain caused by the vegetative state of a relative injured in an accident;
- increase in acquisition expenses by PLN 107 million driven mainly by an increase in direct acquisition expenses in the mass and corporate client segments, which followed from the growing portfolio and the change in the product mix;
- increase in administrative expenses to PLN 3,342 million from PLN 2,036 million in H1 2017 was associated with the commencement of consolidating Pekao in June 2017. Administrative expenses of the banking segment rose by PLN 1,304 million y/y. At the same time, administrative expenses in the insurance activity segments in Poland were PLN 20 million higher than in the corresponding period of the previous year, driven mainly by higher personnel costs pressured by the clear and continuously increasing signs of salary pressures on the market;
- higher negative balance of other operating income and expenses of PLN 1,286 million. The change resulted among others from a higher levy on financial institutions and an increase in Bank Guarantee Fund charges. The PZU Group's liabilities on account of the levy on financial institutions (on both the insurance and banking business) in H1 2018 was PLN 542 million vs. PLN 293 million in the corresponding period of 2017, while the BFG charges rose from PLN 53 million to PLN 277 million (in both cases due to the consolidation of Pekao).

Key data from the consolidated profit and loss account	1 January - 30 June 2018	1 January - 30 June 2017	1 January - 30 June 2016
	PLN million	PLN million	PLN million
Gross written premiums	11,881	11,606	9,862
Net earned premium	11,054	10,347	8,986
Net revenues from commissions and fees	1,320	510	273
Net investment result	5,256	3,027	1,405
Net insurance claims and benefits paid	(7,345)	(7,214)	(6,165)
Acquisition expenses	(1,519)	(1,412)	(1,252)
Administrative expenses	(3,342)	(2,036)	(1,283)
Interest expenses	(992)	(420)	(346)
Other operating income and expenses	(1,286)	(645)	(568)
Operating profit (loss)	3,146	2,157	1,050
Share in net profit (loss) of entities measured by the equity method	1	(1)	(1)
Profit (loss) before tax	3,147	2,156	1,049
Income tax	(789)	(451)	(259)
Net profit (loss)	2,358	1,705	790
Net profit (loss) attributable to equity holders of the parent company	1,425	1,438	660

Operating result of the PZU Group in H1 2018 (PLN million)



5.2 PZU Group's income

Premiums

In H1 2018, the PZU Group collected gross premiums of PLN 11,881 million or 2.4% more than in the corresponding period of 2017. The individual segments recorded the following figures:

- sales in the mass client segment higher by PLN 110 million (net of intersegment gross written premium) compared to H1 2017, chiefly including motor insurance due to an increase in average premium and agricultural insurance (mainly of subsidized crops);
- premium increase in the corporate client segment by PLN 141 million from the corresponding period of 2017 (net of intersegment gross written premium), mainly in motor insurance due to the higher average premium and insurance against fire and other damage to property;
- increase in sales in the group and individually continued insurance segment – acquisition of more contracts in group or continued health insurance products;
- a PLN 103 million drop in premiums in the individual insurance segment compared to the year before, driven mainly by lower payments to accounts in unit-linked products in the bancassurance channel;
- gross premium written by foreign companies also increased as compared to H1 2017 by PLN 113 million, chiefly in motor insurance in the Baltic States segment.

Net revenues from commissions and fees

Net revenues from commissions and fees in H1 2018 contributed PLN 1,320 million to the PZU Group's result, or were PLN 810 million higher than in the previous year, mainly caused by the commencement of Pekao's consolidation.

They included mainly:

- net revenues from commissions and fees in the banking segment of PLN 1,181 million, including mainly: brokers' commissions, revenues and expenses related to the service of bank accounts, payment and credit cards, fees charged for intermediation in insurance sales;
- income on OFE Złota Jesień asset management. It was PLN 64 million (up 14.3% compared to the previous half of 2017, because of the higher average net assets of OFE PZU);
- revenues and fees received from funds and mutual fund companies in the amount of PLN 273 million, or PLN 197 million more than in H1 2017, mainly caused by the commencement of Bank Pekao's consolidation.

Insurance segments (PLN millions), local GAAP	Gross written premium (external)		
	1 January - 30 June 2018	1 January - 30 June 2017	1 January - 30 June 2016
TOTAL	**11,881**	**11,606**	**9,862**
Total non-life insurance – Poland (external gross written premium)	6,847	6,596	5,243
Mass insurance – Poland	5,327	5,217	4,277
Motor TPL	2,352	2,350	1,691
Motor own damage	1,278	1,240	1,043
Other products	1,697	1,627	1,543
Corporate insurance – Poland	1,520	1,379	966
Motor TPL	385	342	222
Motor own damage	422	419	334
Other products	713	618	410
Total life insurance – Poland	4,133	4,221	3,928
Group and individually continued insurance – Poland	3,444	3,429	3,390
Individual insurance – Poland	689	792	538
Total non-life insurance – Ukraine and Baltic States	844	742	650
Ukraine non-life insurance	88	96	89
Baltic States non-life insurance	756	646	561
Total life insurance – Ukraine and Baltic States	57	47	41
Ukraine life insurance	26	19	17
Baltic States life insurance	31	28	24

Investment activity

In 2018, the PZU Group's investment activity focused on the continuation of strategic assumptions, in particular on the optimization of profitability of investment operations through greater diversification of the investment portfolio.

In H1 2018 the net investment result[2], including interest expenses, was PLN 4,264 million, compared to PLN 2,607 million in the corresponding period of 2017 (up by 63.6%). This higher result was driven largely by the commencement of Bank Pekao's consolidation in June 2017.

Excluding the contribution of banking activity, the net investment result after factoring in interest expenses in H1 2018 was PLN 468 million and was PLN 619 million lower than in the previous year. The following factors contributed the most to the income:

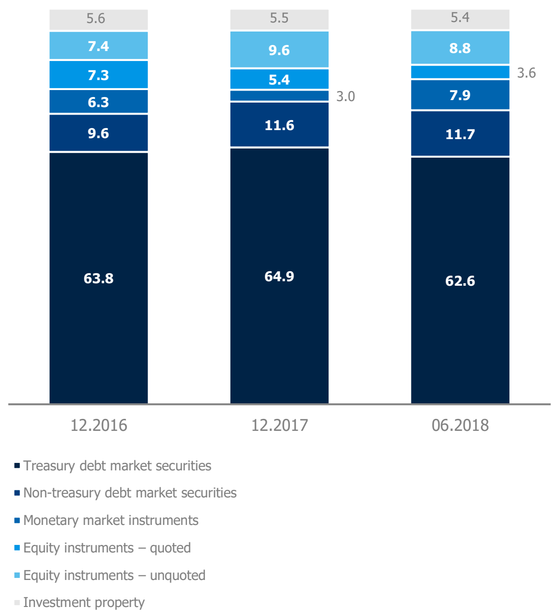
- softer performance on listed equities, driven in particular by the deterioration of market conditions on the WSE – the WIG index fell by 12.2% in H1 2018 compared to 17.9% growth in the corresponding period of the previous year;
- investment income in the portfolio of assets to cover investment products down PLN 327 million y/y, even though it does not affect the PZU Group's overall net result;
- negative impact exerted by the foreign exchange differences on own debt securities in conjunction with the depreciation of the PLN versus EUR following appreciation in the comparable period, partially offset by stronger performance of investments denominated in EUR;
- worse performance on interest-bearing financial instruments driven chiefly by the following:
  - losses incurred in the foreign bonds portfolio after yields rose on their base markets;
  - lower results of the HTM bond portfolio, driven by maturities of the portion of the portfolio with higher yields than can currently be achieved on the market.

As at the end of June 2018, the value of the PZU Group's investment portfolio[3] was PLN 50,068 million compared to PLN 46,164 million as at the end of 2017. Growth of the investment portfolio was caused by increasing receipts from premiums due to business growth and the growing balance of reverse repo transactions and term deposits with credit institutions executed on the interbank market to enhance the return on investing activity and to adjust the investment portfolios to their benchmarks. The increase in the balance of the above transactions is partially offset by growing balance of funds presented in liabilities due under transactions on financial instruments that are recognized outside the investment portfolio.

The Group runs its investment operations in compliance with statutory requirements while maintaining appropriate levels of safety, liquidity and profitability therefore debt treasury securities accounted for over 60% of the investment portfolio.

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

Structure of the investment portfolio (%)



Result on other operating income and expenses

In H1 2018, the balance of other operating income and expenses was negative and stood at PLN 1,286 million, compared to the balance in the corresponding period of 2017, which was also negative at PLN 645 million. The following contributed to this result:

- levy on financial institutions – the PZU Group's liability on account of this levy (in both insurance and banking activity) in H1 2018 was PLN 542 million compared to PLN 293 million in the corresponding period of the previous year. The increase in the liability was caused by the commencement of Pekao's consolidation in June 2017;
- costs of amortization of intangible assets identified as a result of the acquisition transaction up by PLN 126 million (effect of the acquisition of the equity stake in Pekao);
- increase in the BFG charges from PLN 53 million in H1 2017 to PLN 277 million in H1 2018 (as a result of the acquisition of shares in Pekao).

[2] Net investment result includes: net investment income, net result on realization of financial instruments and investments, movement in allowances for expected credit losses and impairment losses on financial instruments and net movement in fair value of assets and liabilities measured at fair value.

[3] The investment portfolio is presented excluding the banking activity and includes financial assets (including investment products net of loan receivables from clients), investment properties (including the portion presented in the class of assets held for sale), the negative measurement of derivatives and liabilities under repurchase transactions.

5.3 PZU Group's claims paid and technical provisions

Net claims and benefits (including the movement in technical provisions) reached PLN 7,345 million and were 1.8% more than in the corresponding period of the previous year. The following factors contributed to the increase in the net claims and benefits category:

- increase in the value of claims and benefits in the motor insurance group in the corporate and mass client segments in connection with remeasurement of the provision for claims regarding pain and suffering caused by the vegetative state of a relative injured in an accident;
- larger number of claims in agricultural insurance in the mass client segment due to the numerous losses caused by negative effects of ground frost and torrential rain and hail in H1 2018.

On the other hand, in life insurance this category of net claims and benefits fell due to a negative investment result in unit-linked products, compared with positive results achieved last year and lower client deposits to accounts in individual unit-linked products in the bancassurance channel.

5.4 PZU Group's acquisition and administrative expenses

In H1 2018, acquisition expenses went up PLN 107 million compared to the corresponding period of the previous year. This increase was driven in particular by an increase in direct acquisition expenses in the mass and corporate client segments, which followed from the growing portfolio and the change in the product mix.

The Group's administrative expenses in H1 2018 amounted to PLN 3,342 million compared to PLN 2,036 million in the corresponding period of 2017, i.e. went up 64.1% from the previous year. The increase resulted mainly from the consolidation of Pekao. Administrative expenses of the banking segment rose by PLN 1,304 million. At the same time, administrative expenses in the insurance activity segments in Poland were PLN 20 million higher than in the previous year, driven mainly by higher personnel costs pressured by the clear and increasing signs of salary pressures on the market. This effect was partially offset by the continuing cost discipline in the remaining areas of current and project activity.

5.5 PZU Group's asset and liability structure

As at 30 June 2018, the PZU Group's total assets were PLN 321,811 million, up PLN 4,353 million compared to the end of 2017.

Assets

As at 30 June 2018, the largest category of the Group's assets were loan receivables from clients. They represented 54.0% of total assets and amounted to PLN 173,651 million, increasing by PLN 4,194 million from the end of 2017.

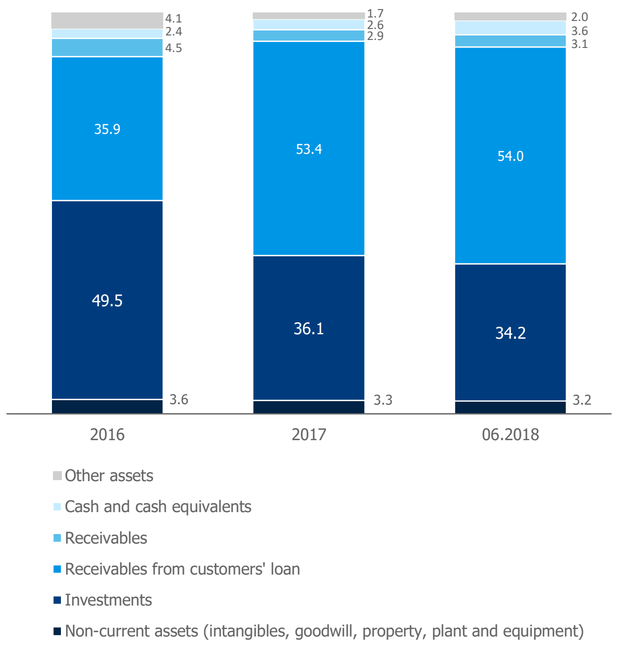
The second largest asset category were investments (investment financial assets, investment property and derivatives), which represented 34.2% of the Group's total assets and amounted to PLN 110,045 million. The decline in the balance in H1 2018 as compared to the end of 2017 by 4,707 was related in particular to the banking activity, among others in connection with the PLN 2,074 million dividend distribution by Pekao on 20 July 2018.

The PZU Group's receivables, including receivables under insurance contracts and current income tax were PLN 9,832 million, which represented 3.1% of its assets. For the sake of comparison, at the end of 2017 they amounted to PLN 9,096 million (2.9% of the Group's assets) and their increase was caused mainly by the outstanding transactions on financial instruments and security deposits.

Non-current assets – in the form of intangible assets, goodwill and property, plant and equipment – were presented in the statement of financial position at PLN 10,240 million. They accounted for 3.2% of the assets. The decline from the end of 2017 by PLN 320 million resulted from, among others, amortization of intangible assets identified as a result of the acquisition of shares in Bank Pekao by PZU and depreciation of tangible non-current assets.

As at 30 June 2018, the PZU Group held PLN 11,505 million of cash and cash equivalents (3.6% of assets). At yearend 2017, this value was PLN 8,239 million and the movement occurred mainly in the cash accumulated by Bank Pekao in connection with payment of the 2017 dividend on 20 July 2018.

PZU Group's asset composition (in %)



Equity and liabilities

At the end of H1 2018, consolidated equity hit PLN 34,612 million, down from the end of 2017 (7.8% drop). The decline in consolidated equity affected in particular non-controlling interests, which fell by PLN 1,629 million reaching PLN 21,332 million driven by the designation of PLN 2,074 million for a dividend payment by Pekao, of which PLN 1,659 million was dividend attributable to minority shareholders, and effects of the application of IFRS 9. Equity attributable to the parent company's shareholders fell by PLN 1,319 million compared to the previous year – as an effect of the distribution of the 2017 profit by PZU, including the allocation of PLN 2,159 million as a dividend and effects of the application of IFRS 9. These factors were partially offset by the net result attributed to the parent company earned in H1 2018.

The largest item of equity and liabilities at the end of H1 2018 were financial liabilities, at 70.1%. The value of this item reached PLN 225,470 million and included in particular:

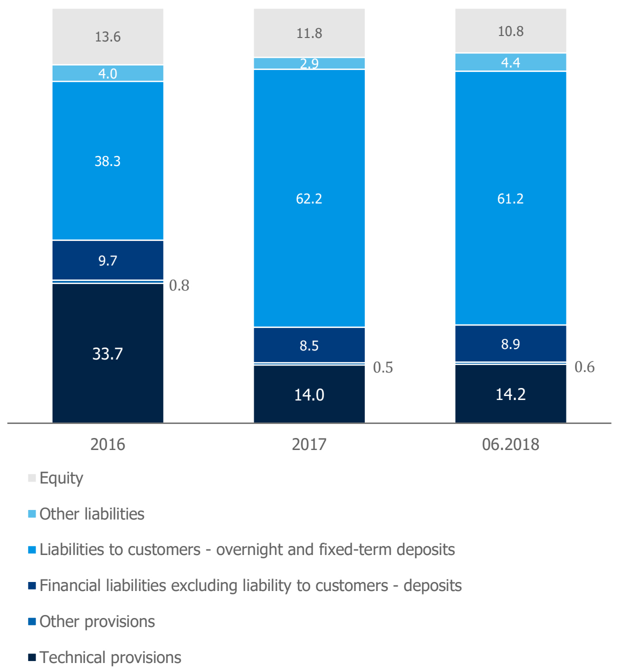
- liabilities to clients of PLN 197,771 million (predominantly by virtue of deposits held by Pekao SA and Alior Bank);
- liabilities under repurchase transactions of PLN 1,552 million in H1 2018 compared to PLN 1,167 million in 2017;
- liabilities on the issue of own debt securities amounting to PLN 10,949 million, including:
  - PLN 5,282 million on bonds, of which EUR 850 million are Eurobonds issued via the wholly-owned subsidiary PZU Finance AB;
  - PLN 4,452 million on deposit certificates issued by Bank Pekao and Alior Bank;
  - PLN 1,215 million on covered bonds issued by Bank Pekao.
- subordinated debt of PLN 5,316 million, including PZU's subordinated bonds issued on 30 June 2017 for the total amount of PLN 2.25 billion.

As at 30 June 2018, the amount of technical provisions was PLN 45,583 million, which accounted for 14.2% of equity and liabilities (+ PLN 1,025 million compared to the end of 2017). The movement in this item resulted in particular from:

- an increase in the provision for unearned premiums in non-life insurance resulting from expanding insurance sales;
- remeasurement of provisions, mainly in motor insurance, for claims regarding pain and suffering by the vegetative state;
- lower provisions in unit-linked life insurance products due to the negative result on investment activity;
- higher mathematical reserves in continued business associated with the indexation of sums insured and the higher average age of the insured.

The balance of other liabilities as at 30 June 2018 was PLN 14,305 million compared to PLN 9,096 million at the end of 2017. The increase was recorded in particular in liabilities on account of outstanding transactions on financial instruments and dividend liabilities to shareholders.

Composition of PZU Group's equity and liabilities (in %)



Cash flow statement

At the end of H1 2018, net cash flows totaled PLN 3,213 million, PLN 5,544 million less than in the previous year. This decline was recorded in particular in net cash flows from operating activities.

5.6 Contribution made by the market segments to the consolidated result

The following industry segments were identified in order to facilitate management of the PZU Group:

- corporate insurance (non-life insurance) – this segment covers a broad scope of property insurance products, liability and motor insurance customized to a client's needs entailing individual underwriting offered by PZU and TUW PZUW to large businesses;
- mass insurance (non-life insurance) – this segment consists of property, accident, liability and motor insurance products. PZU and Link4 provide insurance to individuals and entities from the SME sector;
- life insurance: group and individually insurance – PZU Życie offers it to employee groups and other formal groups. Persons under a legal relationship with the policyholder (e.g. employer, trade union) enroll in the insurance agreement and individually continued insurance in which the policyholder acquired the right to individual continuation during the group phase. It includes the following insurance types: protection, investment (which however are not investment contracts) and health insurance;
- individual life insurance – PZU Życie provides those products to retail clients. The insurance agreement applies to a specific insured who is subject to individual underwriting. These products include protection, investment (which are not investment contracts) and health insurance;
- investments – reporting according to Polish GAAP – the revenues of the investments segment comprise the investments of the PZU Group's own funds, understood as the surplus of investments over technical provisions in the PZU Group insurance companies based in Poland (PZU, Link4 and PZU Życie) plus the surplus of income earned over the risk-free rate on investments reflecting the value of technical provisions of PZU, LINK4 and PZU Życie in insurance products, i.e. the surplus of investment income of PZU, LINK4 and PZU Życie over the income allocated at transfer prices to insurance segments. Additionally, the investment segment includes income from other free funds in the PZU Group (including consolidated mutual funds).
- banking segment – a broad range of banking products offered both to corporate and retail clients by Pekao and Alior Bank;

- Baltic States – includes non-life insurance and life insurance products provided in the territories of Lithuania, Latvia and Estonia;
- investment contracts – include PZU Życie products that do not transfer material insurance risk and do not satisfy the definition of insurance contract. They include some products with a guaranteed rate of return and some products in the form of a unit-linked policy;
- other – include consolidated companies that are not classified in any of the above segments.

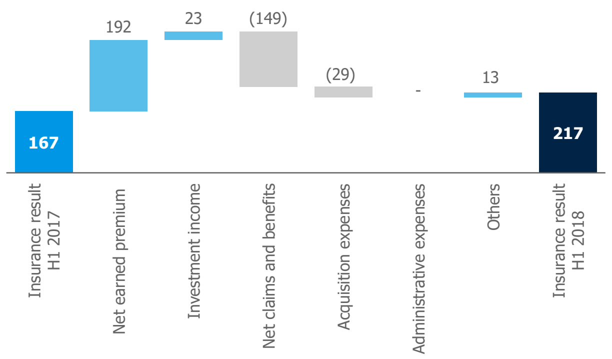
Corporate insurance

The corporate insurance segment (consisting of PZU and TUW PZUW) generated an insurance result of PLN 217 million in H1 2018, i.e. 29.9% more than in the corresponding period of the previous year.

The following factors had a key impact on this segment's performance in H1 2018:

- a 19.9% increase in net earned premium combined with a 10.1% increase in gross written premium, both in comparison to H1 2017. The following movements were observed in sales:
  - higher premiums in motor insurance (+6.3% y/y), both fleet insurance and insurance offered through leasing companies, as a consequence of the higher average premium with a simultaneous decline in the number of insurance policies;
  - premium growth in insurance against fire and other damage to property as the offshoot of signing several high-value agreements;
  - higher sales of TPL insurance as a result of signing of several high-value contracts and the higher premium from the insurance of medical entities in TUW PZUW;
- net claims and benefits surged 26.0% compared to H1 2017, which, together with a 19.9% increase in net earned premium, means that the loss ratio increase by 3.1 p.p. to 62.2%. The increase was recorded mainly in the motor TPL insurance group as a result of increasing annuity benefits, observed increase in the average payment and remeasurement of the provision for claims regarding pain and suffering caused by the vegetative state of a relative injured in an accident. This effect was partially offset by an improved profitability of the portfolio of insurance against fire and other damage to property, due to a much lower level of large claims;
- income from investments allocated to this segment according to transfer prices was up 57.5% to PLN 63 million, which was caused in particular by the 4.6% increase of the EUR exchange rate vs. PLN, compared to a 4.5% depreciation in the corresponding period last year;
- acquisition expenses in the corporate insurance segment (without reinsurance commissions) increased by PLN 29 million, or 14.2% as compared to H1 2017, mainly due to higher direct acquisition expenses. This was driven mainly by portfolio growth and a change in the sales channel mix (increased percentage of premiums originating from insurance offered by leasing companies in the portfolio);
- administrative expenses remained at the same level as in H1 last year, which combined with a higher growth of net earned premium caused an improvement in the administrative expense ratio by 1.1 p.p. to 5.5%.

Insurance result in the corporate insurance segment (PLN million)

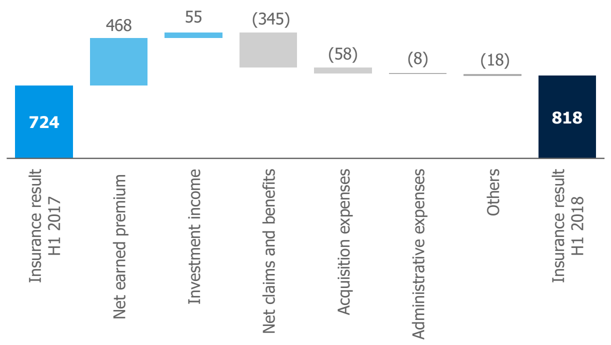


Mass insurance

The mass insurance segment (consisting of PZU, LINK4 and TUW PZUW) generated an insurance result of PLN 818 million in H1 2018, i.e. 13.0% more than in the corresponding period of the previous year. The following factors primarily had a key impact on this segment result in H1 2018:

- a 10.4% increase in net earned premium combined with a 2.5% increase in gross written premium, both in comparison to H1 2017. The following movements were observed in sales:
  - an increase in gross written premium in motor insurance (+1.5%) as an outcome of the higher average premium with a simultaneous decline in the number of insurance policies;
  - higher sales of insurance against fire and other damage to property (+3.8% of gross written premium y/y), including PZU DOM household insurance and agricultural insurance (chiefly subsidized crop insurance) despite the extensive competition on the market,
  - higher gross written premium in the accident and other insurance, in particular assistance and illness insurance.
- higher net insurance claims and benefits by 12.4%, which coupled with a net earned premium increase of 10.4%, translated resulted in the loss ratio increasing by 1.1 p.p. compared to H1 2017. This change resulted mainly from:
  - increase of the loss ratio in the non-motor insurance group, driven mainly by the declining profitability of the portfolio of insurance against fire and other damage to property – due to a higher number of losses caused by adverse consequences of ground frost, torrential rain and hail in comparison to H1 2017;
  - lower loss ratio of the motor insurance portfolio due to a much better loss ratio in Motor Own Damage insurance and deterioration in motor TPL insurance – as a result of remeasurement of the provision for claims regarding pain and suffering caused by the vegetative state of a relative injured in an accident (Supreme Court ruling);
- income from investments allocated to the mass insurance segment according to transfer prices amounted to PLN 283 million, up 24.1% year on year, which was caused in particular by appreciation of the EUR to PLN exchange rate by 4.6%, compared to depreciation of 4.5% in the corresponding period last year;
- acquisition expenses (without reinsurance commissions) reached PLN 905 million, up by 6.8% as compared to H1 2017, mainly due to the higher direct acquisition expense (the changed in the products and sales channels mix and the still growing insurance portfolio);
- administrative expenses in this segment totaled PLN 288 million, up PLN 8 million, or 2.9%, from the year before, driven primarily by an increase in personnel costs as a response to the clear and increasing signs of salary pressures on the market. This effect was partially offset by the continuing cost discipline in the remaining areas of current and project activity.

Insurance result in the mass insurance segment (PLN million)



Group and individually continued insurance

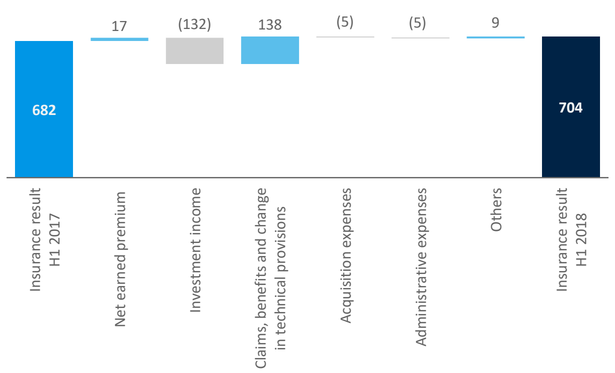
Insurance result in the group and individually continued insurance amounted to PLN 704 million and was PLN 22 million, or 3.2%, higher than in the previous year. Individual elements of the insurance result were as follows:

- gross written premium was PLN 15 million (0.4%) higher than in the corresponding period last year, which resulted primarily from:
  - acquiring further contracts in group health insurance products or individually continued products (new clients in outpatient insurance and sales of different options of the medicine product). At the end of June 2018, PZU Życie had more than 1.6 million in force contracts of this type. A new rider to continued insurance was launched under the name "PZU Uraz ortopedyczny [PZU orthopedic injury]". In case of an accidental orthopedic injury, e.g. fracture, dislocation or sprain, insured will have the assistance of a physiotherapist and an orthopedist. The insured will also be able to use rehabilitation procedures in private medical centers across Poland; The insurance garnered excellent response from the clients – three out of four clients enrolling in individual continuation selected this rider as well;
  - active up-selling of other riders in individually continued insurance products, in particular together with the offering of the basic agreement in PZU branches and in the same time increase of sums insured during the terms of the agreements;

- at the same time, revenues from group protection products still remained under pressure of increased departures from groups (work establishments) due to the legal reduction of the retirement age in Q4 2017.
- the investment result consists of income allocated using transfer prices and income on investment products. In the group and individually continued insurance segment, investment income fell PLN 132 million mainly due to the lower income on unit-linked products as a result of worse conditions on the equity market – the WIG index fell by 12.2% compared to a 17.9% increase in the corresponding period of last year. Income allocated according to transfer prices is subject to slight fluctuation and its level depends largely on the level of technical provisions in protection insurance products.
- insurance claims and benefits and the movement in other net technical provisions totaled PLN 2,510 million, which signifies a y/y decline of PLN 138 million, or 5.2%. This change was driven by the following factor in particular:
  - a decrease in technical provisions in Employee Pension Plans (EPP, a third pillar retirement security product) compared to an increase in the previous year, due to much lower investment results this year, coupled with a stable level of client contributions to and withdrawals from unit-linked insurance accounts;
  - lower than last year increase in mathematical provisions in individually continued products as a result of the previous changes in indexation principles and the share of "old" and "new" continuation both among the persons joining and remaining in the insured portfolio: in the "new" continuation, the unit cost of recognizing mathematical provisions for future benefit payments is lower.
  - lower level of benefits this year in the protection products portfolio;
  - these effects have been partially offset by the slower pace of converting long-term insurance policies into yearly-renewable term business in type P group insurance exerted an influence on the size of the provisions. As a result of the conversion, provisions were released for PLN 10 million, some PLN 15 million less than in the corresponding period of 2017;
  - additionally, the level of medical benefits under health products is increasing following the dynamic growth of this portfolio and a unusually severe influenza season at the end of 2017 and the beginning of 2018;
- acquisition expenses in the group and individually continued insurance segment in H1 2018 were PLN 172 million and increased moderately from the corresponding period of last year (PLN 5 million, or 3.0%). The factor driving these expenses was the increasing remuneration for insurance intermediaries, especially for selling health products as the portfolio increased, and also the cost of communication mailed to clients (mainly offers of individual continuation riders);
- after H1 2018 administrative expenses amounted to PLN 297 million, stabilizing compared to the last year's level. Such a low year-over-year growth (1.7%) was caused mainly by expenditures related to organizational changes in sales divisions and an increase in personnel costs caused by salary pressures on the market.

After excluding the one-off effect related to conversion of long-term contracts into renewable contracts in type P group insurance, the segment's insurance result amounted to PLN 694 million in H1 2018, compared to PLN 657 million in H1 2017 (up 5.6%). This was driven mainly by the lower than last year increase in mathematical provisions in continued products as a result of the previous changes in indexation principles and the share of "old" and "new" continuation both among the persons joining and remaining in the insured portfolio and also by the lower level of benefits in the protection products portfolio this year.

Insurance result of the group and individually continued insurance segment (PLN million)



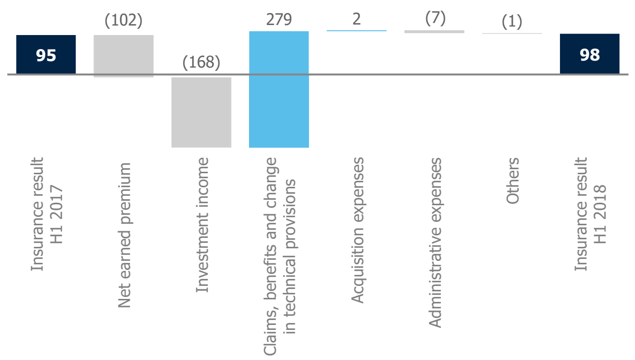
Individual insurance

In 2018, the insurance result in the individual life insurance segment was PLN 98 million, or 3.2% more than last year. The main factors affecting the segment's insurance result are described below:

- decline y/y in gross written premium by PLN 103 million (13.0%) down to PLN 689 million as compared to H1 2017 resulted chiefly from lower contributions to unit-linked accounts in unit-linked products offered jointly with Bank Millennium. At the same time, positive factors were also at play, such as:
  - constantly rising level of premiums on protection products in endowments and term insurance offered in own channels – the level of sales exceeds the value of instances of reaching the endowment age, surrenders, lapses and deaths in the existing portfolio;
  - growth of the insured portfolio in protection products in the bancassurance channel.
- the investment result consists of income allocated using transfer prices and income on investment products. In the individual insurance segment, it fell PLN 168 million y/y mainly due to the lower income on unit-linked products as a result of worse conditions on the equity market – the WIG index fell by 12.2% compared to 17.9% in the corresponding period of last year. At the same time, the segment's income from the management fee charged on assets accumulated in unit-linked products increased by PLN 4.1 million y/y (following an increase in the assets). Income allocated according to transfer prices is subject to slight fluctuation and its level depends largely on the level of technical provisions in protection insurance products.
- net insurance claims and benefits together with the movement in other net technical provisions were PLN 571 million, reflecting an decrease in costs by PLN 279 million compared to the corresponding period of 2017. This was driven mainly by the negative investment result on most unit-linked product portfolios in this period, compared with high, positive results achieved last year. In the product offered in the Bank Millennium network, it additionally resulted from lower client contributions to the accounts. From the operational result point of view, these factors are not significant – they are balanced by other relevant items of the profit and loss account.
- in H1 2018, acquisition expenses in the individual insurance segment stabilized at PLN 65 million. They are just PLN 2 million lower than the year before. Lower commissions on the sale of unit-linked products in the bancassurance channel (due to lower sales) were offset by the increasing costs of sales support and remuneration to intermediaries for selling protection products, in the latter case also in the bancassurance channel.
- administrative expenses in H1 2018 rose to PLN 37 million, or PLN 7 million compared to last year. This was influenced by the strategic investments in the exclusive sales network aimed at increasing sales in this segment and, to a smaller extent, an increasing level of remuneration for the handling of unit-linked products in the bancassurance channel (growing assets of such products).

Another factor contributing to the improvement in the profit margin on the gross written premium was an increased share of protection products in revenues, since they generate much higher margins.

Insurance result of the individual insurance segment (PLN million)



Investments

The revenues of the Investments segment comprise the investments of the PZU Group's own funds, understood as the surplus of investments over technical provisions in the Group insurance companies seated in Poland (PZU, LINK4 and PZU Życie) plus the surplus of income earned over the risk-free rate on investments reflecting the value of technical provisions of PZU, LINK4 and PZU Życie in insurance products, i.e. surplus of investment income of PZU, LINK4 and PZU Życie over the income allocated at transfer prices to insurance segments.

Additionally, the investment segment includes income from other free funds in the PZU Group (including consolidated mutual funds).

Income on operating activities in the investments segment (external operations only) amounted to PLN -317 million and was lower than in the previous year, in particular as a result of worse conditions on the Polish equity market and losses incurred on the Global Macro strategy.

Banking segment / Banking activity
The banking activity segment consists of the following groups: Pekao, from June 2017 (effect of settling the transaction and start of consolidation) and Alior Bank.

In H1 2018, the banking activity segment generated PLN 1,773 million in operating profit (without amortization of intangible assets acquired as part of the acquisition transactions of the banks), which represented an increase of PLN 1,321 million compared to H1 2017. Taking into consideration the commencement of consolidation of Pekao, one of the largest banks in Central and Eastern Europe, all items of the statement of profit or loss and items of the statement of financial position for H1 2018 are significantly higher compared to the previous year.

In H1 2018, Pekao contributed PLN 1,277 million to operating profit (without amortization of intangible assets acquired as part of the Pekao acquisition transaction) in the banking activity segment and Alior Bank contributed PLN 496 million.

The key element of the segment's income is investment income, which in H1 2018 increased to PLN 4,693 million y/y (up 153.4% y/y).

Interest income comprises the following components: interest income, dividend income, trading result and result of impairment losses.

In H1 2018, high sales of credit products were recorded in both Pekao and Alior Bank, among others as a result of good business conditions and a low interest rate environment.

Alior Bank recorded an increase in net interest income (interest income minus interest expenses) by 11.7% as a consequence of organic growth in the volume of loans granted to clients coupled with the accompanying increase in client deposits. As at the end of H1 2018, the size of the net client loan portfolio in Alior Bank grew 8.3% y/y and deposits from non-financial clients rose 15.1%.

Profitability of the banks in the PZU Group measured by the net interest margin amounted to 2.8% for Pekao (for the whole year) and 4.6% for Alior Bank (down 0.2 p.p. y/y). The difference in the level of the indicators results in particular from the structure of the loan receivables portfolio.

The net fee and commission income in the banking activity segment amounted to PLN 1,181 million and was PLN 775 million higher y/y. The improvement in these revenues was driven, in addition to the consolidation of Pekao, by an increase in commissions for services and, as in the case of net interest income, increased sales of loans.

The segment's administrative expenses amounted to PLN 2,540 million and comprised Pekao's expenses in the amount of PLN 1,720 million and Alior Bank's expenses of PLN 820 million. In 2017, Alior Bank recorded an increase in personnel costs, which resulted among others from the pay pressure and the bank's strategy focusing on innovative solutions requiring qualified IT staff.

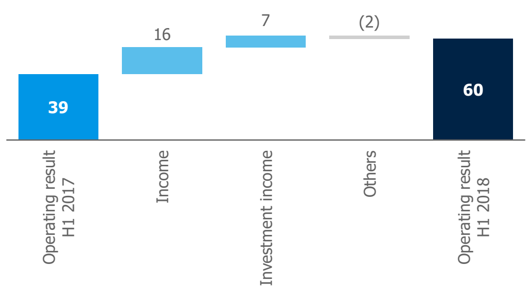
In addition, other contributors to the operating result included other operating income and expenses, where the main components are the BFG fees (PLN 277 million) and tax from other financial institutions (PLN 380 million).

As a result, the Cost/Income ratio DICTIONARY stood at 44% in both banks. On a separate basis, the ratio was 46% for Pekao and 41% for Alior Bank.

Pension insurance
In H1 2018, the operating profit in the pension insurance segment amounted to PLN 60 million, i.e. it increased by 53.8% in comparison to the corresponding period of the previous year. The major drivers of the operating result included the following:

- revenue from commissions and fees, which amounted to more than PLN 70 million, i.e. increased by 25.3% compared with H1 of the previous year. This change was the result of:
  - revenues on reimbursements from the Indemnity Fund in the amount of nearly PLN 10 million;
  - an increase in income from the reserve account by PLN 2.6 million;
  - management fee up by nearly PLN 3 million as a result of the higher average net asset value in OFE.
- acquisition and administrative expenses were more than PLN 1 million, increasing by 32% from H1 of the previous year. This was caused mainly by the costs incurred in connection with the acquisition of Pekao funds in 2018 and expansion of the IKZE sales network;
- administrative expenses hit PLN 17 million, i.e. they were down 29.2% from the previous year. The change was caused mainly by the costs incurred on the payment of contributions to the Indemnity Fund in the amount of PLN 7 million in H1 2017.

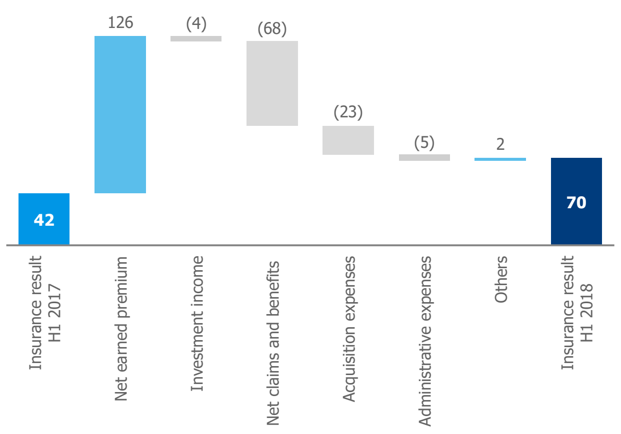
Operating profit in the pension insurance segment (PLN million)



Baltic States
In H1 2018, the PZU Group's business in the Baltic states generated a positive insurance result of PLN 70 million compared to PLN 42 million in the corresponding period of the previous year. This result was shaped mainly by the following factors:

- increase in gross written premium. It amounted to PLN 787 million compared to 673 in the year before. The premium in non-life insurance increased by PLN 111 million y/y (or 17.2%). Such a dynamic growth was possible among others due to the maintenance of the upward movement of motor insurance premiums in the region, increased sales of property insurance mainly in Lithuania following the intensification of sales efforts, and a significant increase in gross written premium in health insurance in both Latvia and Lithuania. Premiums in life insurance increased by PLN 3 million (or 10.7%);
- reduced investment income. In H1, the result was PLN 5 million and was 44.4% lower than in the previous year, primarily as a result of a decline in the value of mutual funds;
- increase in net claims and benefits. They amounted to PLN 434 million and were PLN 68 million higher compared H1 of the previous year. At the same time, the loss ratio in non-life insurance reached 61.0%, 1.3 p.p. lower from the previous year. In life insurance, the value of benefits stood at PLN 20 million, remaining flat from the corresponding period last year;
- higher acquisition expenses. The segment's expenditures for this purpose amounted to PLN 153 million, up by PLN 23 million (or 17.7%) compared to H1 2017. The acquisition expense ratio calculated on the basis of net earned premium dropped by 0.7 p.p. and stood at 21.5%;
- increase in administrative expenses. They amounted to PLN 60 million rising by 9.1% from the corresponding period last year. Despite an increase in incurred expenses, a decrease of the administrative expense ratio was recorded, which dropped by 1.0 p.p. and stood at 8.5%.

Insurance result Baltic States (PLN million)



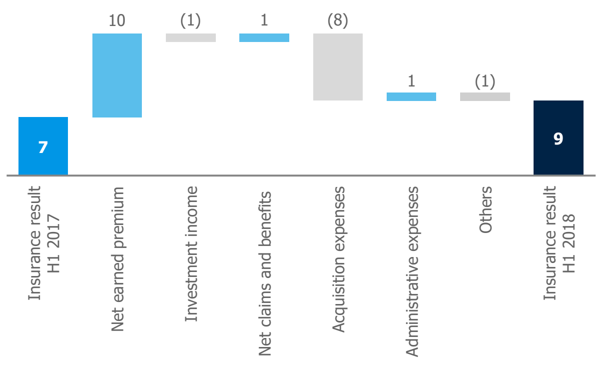
Ukraine

The Ukraine Segment closed H1 2018 with a positive insurance result of PLN 9 million, compared to PLN 7 million in the corresponding period of the previous year.

The change in the result generated by the segment was caused by the following factors:

- decline in gross written premium. It amounted to PLN 114 million, falling by PLN 1 million (or 0.9%) in comparison to the previous year. The decline in the premium amount was caused by a 9.3% depreciation of the Ukrainian hryvnia compared to H1 2017. In the functional currency, the gross written premium increased by 9.1%, including by 1.5% in non-life insurance and by 47.3% in life insurance;
- lower income from investing activities. The segment generated PLN 6 million, which was 14.3% less than in H1 2017. This resulted among others from negative foreign exchange differences in the portfolio of USD-denominated investments;
- decrease in net claims and benefits. These reached PLN 25 million and were 3.8% lower than in the first half of the previous year. In life insurance, the value of benefits paid out stood at PLN 8 million, which was the same level as that in the corresponding period of the previous year. The loss ratio calculated on the basis of the net earned premium in non-life insurance was 38.6%, down 6.4 p.p. compared to the first half of the previous year;
- increase in acquisition expenses. These stood at PLN 40 million compared to PLN 32 million as at the end of H1 2017. Due to the higher commissions burden, expenditures for this purpose in life insurance increased by PLN 5 million (or 45.5%). The segment's acquisition expense ratio went up compared to the corresponding period of the previous year by 3.7 p.p. to 58.0%;
- decrease in administrative expenses. They reached PLN 11 million, down PLN 1 million compared to the first half of the previous year. The administrative expense ratio calculated on the basis of the net earned premium decreased by 4.4 p.p. and stood at 15.9%.

Insurance result Ukraine (PLN million)



Investment contracts

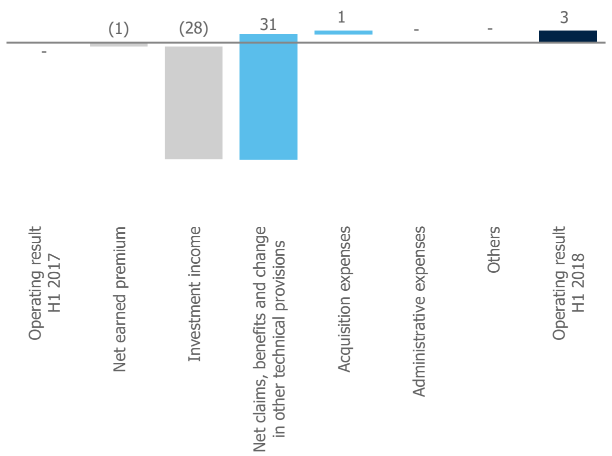
In the consolidated financial statements investment contracts are recognized in accordance with the requirements of IFRS 9.

The results of the investment contracts segment are presented according to Polish Accounting Standards, which means that they include, among other things, gross written premium, claims paid and movement in technical provisions. The above categories are eliminated at the consolidated level.

In H1 2018, the PZU Group earned PLN 3 million of operating profit compared to PLN 0 in the previous year on investment contracts, i.e. PZU Życie's products which do not generate a material insurance risk and which do not meet the definition of an insurance contract (such as some products with a guaranteed rate of return and certain unit-linked products). This result was driven by the following factors:

- gross written premium generated on investment contracts after the first two quarters of 2018 decreased by PLN 1 million to PLN 20 million (-4.8%) compared to the corresponding period in 2017. The changes in gross written premium were caused mainly by modification of the IKZE product at the end of 2017, which allowed newly-signed contracts to be signed as insurance contracts and transferred to the individual insurance segment;
- the result on investing activity in the investment contracts segment fell PLN 28 million vis-à-vis the previous year, mainly as a result of a worse rate of return on equity funds offered as part of individual pension security accounts (IKZEs) and unit-linked funds in the bancassurance channel;
- the cost of insurance claims and benefits together with the movement in other net technical provisions decreased PLN 31 million y/y to PLN 7 million due to the negative investment income in unit-linked products in this segment in the current period, as compared to the high positive performance in the previous year;
- no active contract acquisition was carried out in this segment and therefore no such costs were incurred;
- administrative expenses were PLN 3 million, remaining flat year on year.

Operating result of the investment contracts segment (PLN million)



Profitability ratios

In H1 2018, the return on equity attributable to the parent company (PZU) was 20.8%. ROE was 1.2 p.p. lower than in the previous year. The profitability ratios achieved in H1 2018 by the PZU Group exceed the levels achieved by the whole market.

Operational efficiency ratios

One of the fundamental measures of operational efficiency and performance of an insurance company is COR – Combined Ratio – calculated, due to its specific nature, for the non-life insurance sector (Section II).

The PZU Group's combined ratio (for non-life insurance) has been maintained in recent years at a level ensuring a high profitability of business. In H1 2018, this ratio remained at a low level of 87.2% despite the remeasurement of provisions for claims for general damages due to vegetative state.

	Operational efficiency ratios	1 January - 30 June 2018	1 January - 30 June 2017	1 January - 30 June 2016
1.	**Gross claims and benefits ratio (simple)** (gross claims and benefits/gross written premium) x 100%	63.2%	63.6%	63.2%
2.	**Net claims and benefits ratio** (net claims and benefits/net earned premium) x 100%	66.4%	69.7%	68.6%
3.	**Operating expense ratio in the insurance segments** (insurance activity expenses/net earned premium) x 100%	21.0%	21.1%	22.3%
4.	**Acquisition expense ratio in the insurance segments** (acquisition expenses/net earned premium) x 100%	14.2%	14.0%	14.1%
5.	**Administrative expense ratio in the insurance segments** (administrative expenses/ net earned premium) x 100%	6.8%	7.1%	8.2%
6.	**Combined ratio in non-life insurance** (net claims and benefits + insurance activity expenses) / net earned premium x 100%	87.2%	87.2%	93.4%
7.	**Operating profit margin in life insurance** (operating profit/gross written premium) x 100%	19.2%	18.3%	21.2%
8.	**Cost/Income ratio** - banking operations	44.2%	52.5%	44.7%

Basic performance ratios of the PZU Group	1 January - 30 June 2018	1 January - 30 June 2017	1 January - 30 June 2016
Return on equity (ROE) – attributable to the parent company (annualized net profit/average equity) x 100%	20.8%	22.0%	10.7%
Return on equity (ROE) – consolidated (annualized net profit/average equity) x 100%	13.3%	13.1%	10.3%
Return on assets (ROA) (annualized net profit/average assets) x 100%	1.5%	1.6%	1.4%

6.

Risk management

We devote considerable time to continue developing sophisticated risk management procedures. They are of fundamental importance to us as at the end of the day the goal is for our customers to have safety and peace of mind and for our results to be predictable.

In this section:

1. Objective of risk management
2. Risk management system
3. Risk appetite
4. Risk management process
5. PZU Group's risk profile
6. Reinsurance operations
7. Capital management

6.1 Objective of risk management

Risk management in the PZU Group aims to do the following:
- enhance the PZU Group's value through active and deliberate management of the extent of risk taken;
- prevent the acceptance of risk at a level that could pose a threat to the PZU Group's financial stability.

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

The main elements of the integrated risk management system are aligned to one another in all of the PZU Group's insurance companies. They have been implemented to ensure the execution of the various companies' strategic plans and the overall PZU Group's business objectives. They include the following:
- systems of limits and limitations on the acceptable level of risk, including the level of risk appetite;
- processes involving the identification, measurement and assessment, monitoring and controlling, reporting and management measures pertaining to various risks;
- risk management organizational structure in which the management boards and supervisory boards of the companies and dedicated committees play a crucial role.

Entities from the other financial market sectors are obligated to apply the appropriate standards for a given sector. The adopted internal regulations specify among others:
- processes, methods and procedures facilitating risk measurement and management;
- split of duties in the risk management process;
- scope and conditions and the frequency of risk management reporting.

PZU exercises supervision over the PZU Group's risk management system on the basis of cooperation agreements entered into with other Group entities and the information provided thereunder. It manages risk at the PZU Group level on an aggregate basis, especially with respect to capital requirements.

In addition, the PZU Group has processes to ensure the effectiveness of risk management at the Group level. The risk management rules applicable to the PZU Group's subsidiaries include recommendations issued by PZU (the parent company) regarding the organization of the risk management system in insurance sector and banking sector subsidiaries.

The management boards of PZU Group entities are responsible for fulfilling their own duties in accordance with the generally applicable provisions of national and international law. In particular, they are responsible for the implementation of an adequate and effective risk management system.

Supervision over the risk management systems in each regulated entity is exercised by supervisory boards. PZU designates its representatives to the Supervisory Boards of its subsidiaries, including in particular Alior Bank and Bank Pekao.

6.2 Risk management system

The risk management system in the PZU Group is based on the following:
- organizational structure – comprising a split of duties and tasks performed by statutory bodies, committees and individual organizational units and cells in the risk management process;
- risk management process, including risk identification, measurement and assessment, monitoring and control methods, risk reporting and undertaking management actions.

The organizational structure of the risk management system that is identical across the PZU Group and the PZU Group's various insurance entities has four decision-making levels.

The first three entail the following:
- the Supervisory Board that supervises the risk management process and assesses its adequacy and effectiveness as part of its decision-making powers defined in a given company's articles of association and the Supervisory Board bylaws and through the appointed Audit Committee;
- the Management Board that organizes the risk management system and ensures that it operates by adopting strategies and policies and defining the appetite for risk, the risk profile and tolerance for individual categories of risk;
- Committees, which make decisions to mitigate individual risks to a level determined by the risk appetite. The committees adopt the procedures and methodologies for mitigating various risks and they accept limits to mitigate the various types of risk.

The fourth decision-making level pertains to operational measures and is divided into three lines of defense:
- the first line of defense – entails ongoing risk management at the business unit and organizational unit level and decision-making as part of the risk management process;
- the second line of defense – entails risk management by specialized cells responsible for risk identification, monitoring and reporting and controlling the limits;
- the third line of defense – entails internal audit that conducts independent audits of the elements of the risk management system as well as control activities embedded in operations.

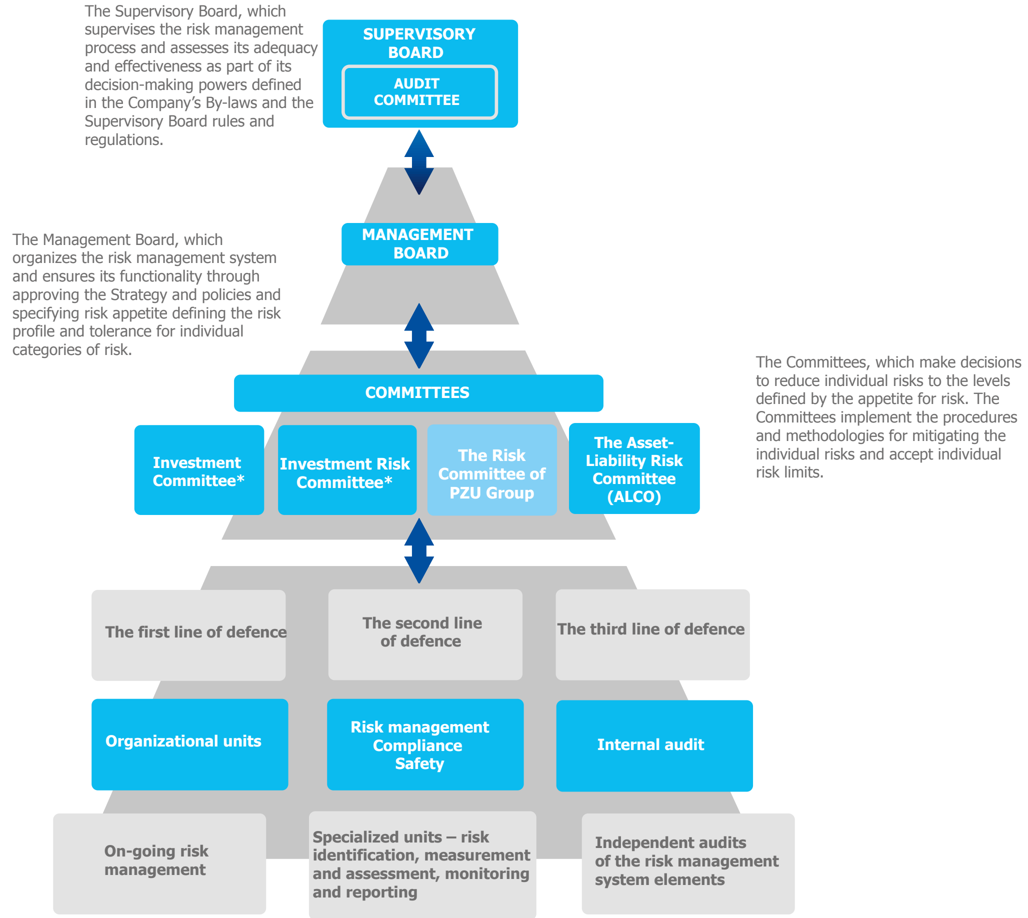
The role of the PZU Group Risk Committee is to provide support to subsidiaries' supervisory boards and management boards in implementing an effective risk management system that is coherent for the entire PZU Group. The operational objective of the PZU Group Risk Committee is to coordinate and supervise activities related to the PZU Group's risk management system and processes.

6.3 Risk appetite

The risk appetite in the PZU Group has been defined as the magnitude of risk undertaken to attain its business objectives, where its measure is the level of potential financial losses, the decline in asset value or the growth in the amount of liabilities within one year.

Risk appetite defines the maximum level of permissible risk while setting limits and restrictions for the various partial risks

Chart of the organizational structure for the risk management system



* At the end of June 2017 the powers of the Credit Risk Committee were split among the Investment Risk Committee and the Investment Committee. The Investment Risk Committee took over the powers to set market risk limits.

and the level above which remedial actions are taken to curtail further risk expansion.

The process of determining the risk appetite and risk limits for each risk category consistent with the Group's process has been implemented in all the insurance companies in the PZU Group. The management board of each company determines the risk appetite, risk profile and tolerance limits reflecting its strategic plans and the objectives of the entire PZU Group. This approach ensures the adequacy and effectiveness of the risk management system in the PZU Group and prevents the acceptance of risk levels that could jeopardize the financial stability of individual companies or the entire PZU Group. The determination of the appropriate level of risk in each company is the Management Board's responsibility, whereas a review of the risk appetite values is conducted once a year by the unit responsible for risk, with all actions being coordinated at the PZU Group level.

Risk appetite is determined on an annual basis also in the PZU Group's banking sector entities. This process is carried out based on the applicable regulatory requirements (including those arising from remedial plans) and good practices. This process is tailored for both banks, taking into consideration the nature and the business and capital structures of both these entities. Risk appetite in banking entities is a topic for consultation with the PZU Group's parent company and the subject matter of opinions issued by the PZU Group Risk Committee with a view to ensuring consistency between the activities carried out by the banks and the strategic plans and objectives of the PZU Group as a whole as well as ensuring the effectiveness of the risk management system at the Group level. Once agreed, the level of risk appetite is then approved by the banking entities' supervisory boards.

The risk management process consists of the following stages:

Identification

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

Risk measurement and assessment

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

Risk monitoring and control

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

Reporting

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

Management actions

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

6.4 Risk management process

Two levels are distinguished in the risk management process:

- PZU Group level – ensuring that the PZU Group attains its business objectives in a safe manner aligned to the magnitude of the risk incurred. Monitored at this level are the limits and risks specific to the PZU Group such as: catastrophic risk, financial risk, counterparty risk and risk concentration. The PZU Group provides support for the implementation of an integrated risk management system, including the introduction of compatible mechanisms, standards and organization of an efficient operation of the internal control system (with particular emphasis on the compliance function), the risk management system (in particular in the reinsurance area) and the security management system in the PZU Group, and also monitors their ongoing application. The PZU Group dedicated personnel cooperates with the Management Boards of companies and managers of such areas as finance, risk, actuarial services, reinsurance, investments and compliance on the basis of pertinent cooperation agreements;
- the entity level – ensuring that the PZU Group entity attains its business objectives in a safe manner appropriate to fit the extent of the risk incurred by that entity. Monitored at this level are the limits and risk categories specific to the company and also, as part of the integrated risk management system, implemented are the mechanisms, standards and organization of an efficient operation of the internal control system (with particular emphasis on the compliance function), the risk management system (in particular in the reinsurance area) and the security management system.

6.5 PZU Group's risk profile

The major risks to which the PZU Group is exposed include the following: actuarial risk, market risk, credit risk, concentration risk, operational risk and compliance risk. The major risks associated with the operation of Alior Bank and Bank Pekao include the following risks: credit risk, operational risk and market risk (involving interest rate risk, FX risk and commodity price risk). The overall risk of the banking sector entities (incorporating the share held by the PZU Group) accounts for approximately 32% of the PZU Group's overall risk, where the largest contribution is in credit risk.

Actuarial risk

This is the likelihood of a loss or an adverse change in the value of liabilities under the existing insurance contracts and insurance guarantee agreements, due to inadequate assumptions regarding premium pricing and creating technical provisions.

Risk identification commences with a proposal to start developing an insurance product, buying a financial instrument, modifying an operating process and also with the moment when some other event occurs that may potentially lead to the emergence of risk in the Company and it is in play until the time when the related liabilities expire. The identification of actuarial risk is performed, among others, as follows:

- analyzing the general terms and conditions of insurance with respect to the risk being undertaken and compliance with the generally binding legal regulations;
- analyzing the general / specific terms and conditions of insurance or other model agreements with respect to the actuarial risk accepted on their basis;
- recognizing the potential risks related to a given product to measure and monitor them at a later time;
- analyzing the impact exerted by the introduction of new insurance products on the Company's capital requirements and risk margin computed using the standard formula;
- verifying and validating modifications to insurance products;
- assessing actuarial risk through the prism of similar existing insurance products;
- monitoring current insurance products in the Company's portfolio;
- analyzing the policy of underwriting, tariffs, technical provisions and reinsurance and the claims and benefits handling process.

Assessing actuarial risk entails recognizing the degree of the threat or the group of threats determining the possibility of a loss emerging and analyzing the elements of that risk in a manner enabling one to make a decision to accept that risk to be insured and for the Company to incur liability. The purpose of underwriting is to assess the future loss ratio and curtail adverse selection. Assessing actuarial risk also involves measures to reinsure the largest risks posing the greatest threat.

The measurement of actuarial risk is performed in particular using:

- analyzing selected ratios;
- scenario method – analyzing the loss of value caused by the implemented change in risk factors;
- factor method – simplified version of the scenario method reduced to a single scenario for a single risk factor;
- statistical data;
- exposure and sensitivity measures;
- expert knowledge of the company's employees.

Monitoring and controlling actuarial risk involves the regular analysis of the level of risk and determining the degree of utilization of the established borderline values of risk tolerance and the limits set forth in the Risk Management Strategy in the PZU Group.

Reporting aims to engage in effective communication regarding actuarial risk and supports management of actuarial risk at various decision-making levels from an employee to the supervisory board. The frequency of each report and the scope of information provided are tailored to the information needs of each decision-making level.

The management actions contemplated in the actuarial risk management process are performed in particular by doing the following:

- defining the level of tolerance for actuarial risk and monitoring it;
- business decisions and sales plans;
- calculating and monitoring the adequacy of technical provisions;
- tariff strategy and monitoring current estimates and assessing the adequacy of the premium;
- process of assessment, valuation and acceptance of actuarial risk;
- application of tools to mitigate actuarial risk, including in particular reinsurance and prevention.

Moreover, to mitigate the actuarial risk inherent in current operations the following actions in particular are undertaken:

- the scopes of liability are defined in the general / specific terms and conditions of insurance or other model agreements in financial insurance;
- the exclusions of liability are defined in the general / specific terms and conditions of insurance or other model agreements in financial insurance;
- reinsurance actions;
- adequate tariff policy;
- application of the appropriate methodology for computing provisions;
- relevant underwriting procedure;
- relevant benefits handling procedure;
- decisions and sales plans;
- prevention.

Market risk

JThis is the risk of a loss or an adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, credit spread, as well as value of liabilities and financial instruments.

The process of managing the credit spread risk and concentration risk has a different set of traits from the process of managing the other sub-categories of market risk and has been described in a subsequent section (Credit and concentration risk) along with the process for managing counterparty insolvency risk.

The market risk in the PZU Group originates from three major sources:

- operations associated with asset and liability matching (ALM portfolio);
- operations associated with active allocation, i.e. designating the optimum medium-term asset structure (AA portfolios);
- banking operations – in conjunction with them the PZU Group has materially increased its exposure to credit risk and interest rate risk.

A number of documents approved by supervisory boards, management boards and dedicated committees govern investment activity in the PZU Group's companies.

Market risk identification involves recognizing the actual and potential sources of this risk. The process of identifying market risk associated with assets commences at the time of making a decision to start entering into transactions on a given type of financial instruments. Units that make a decision to start entering into transactions on a given type of financial instruments draw up a description of the instrument containing, in particular, a description of the risk factors. They convey this description to the unit responsible for risk that identifies and assesses market risk on that basis.

The process of market risk identification associated with insurance liabilities commences with the process of developing an insurance product and involves identification of the relationship between the cash flows generated by that product and the relevant market risk factors. The identified market risks are subject to assessment using the criterion of materiality, i.e. does the materialization of risk entail a loss capable of affecting its financial condition.

Market risk is measured using the following risk measures:

- VaR, value at risk: a measure of risk quantifying the potential economic loss that will not be exceeded within a period of one year under normal conditions, with a probability of 99.5%;
- Solvency capital requirement standard formula;
- exposure and sensitivity measures;
- cumulative monthly loss.

In the case of banking entities suitable measures are employed in accordance with the regulations applicable to this sector and best market practices.

When measuring market risk, the following stages, in particular, are distinguished:

- collecting information regarding assets and liabilities generating market risk;
- calculating the value of risk.

The measurement of risk quantified with the VaR measure is accomplished by using a partial internal model.

Monitoring and control of market risk involves an analysis of the level of risk and of the utilization of the designated limits.

Reporting involves communicating to the various decision-making levels information concerning the level of market risk and the results of monitoring and controlling it. The frequency of each report and the scope of information provided therein are tailored to the information needs at each decision-making level.

Management actions in respect of market risk involve in particular:

- execution of transactions serving the purpose of mitigation of market risk, i.e. selling a financial instrument, closing a position on a derivative, purchasing a derivative to hedge a position;
- diversification of the asset portfolio, in particular having regard for the category of market risk, the maturities of instruments, the concentration of exposure in a single entity, geographic concentration;
- application of market risk limitations and limits.

The application of limits is the primary management tool to maintain a risk position within the acceptable level of risk tolerance. The structure of limits for the various categories of market risk and also for the various organizational units is established by dedicated committees in such a manner that the limits are consistent with risk tolerance.

Credit and concentration risk

Credit risk is the risk of a loss or an unfavorable change in the financial standing resulting from fluctuations in the trustworthiness and creditworthiness of the issuers of securities, counterparties and all debtors, materializing by the counterparty's default on a liability or an increase in credit spread. The following risk categories are distinguished in terms of credit risk:

- credit spread risk;
- counterparty default risk;
- credit risk in financial insurance.

Concentration risk is the possibility of incurring a loss stemming from the failure to diversify an asset portfolio or from large exposure to the risk of default by a single issuer of securities or a group of related issuers.

The credit risk and concentration risk management process consists of the following stages:

- identification;
- measurement and assessment;
- monitoring and control;
- reporting;
- management actions.

Credit risk and concentration risk are identified at the stage of making a decision on an investment in a new type of financial instrument or on accepting credit exposure to a new entity. Such identification involves an analysis of whether the contemplated investment entails credit risk or concentration risk, what its level depends on and what its volatility over time is. Both actual and potential sources of credit risk and concentration risk should be identified.

Risk assessment consists of estimating the probability of realization of a specific risk and estimating the potential impact of its realization on the Company's financial standing.

Credit risk is measured using:
- measures of exposure (gross and net credit exposure and maturity-weighted net credit exposure);
- standard formula.

Concentration risk for a single entity is calculated using the standard formula.

In the case of banking entities suitable measures are employed in accordance with the regulations applicable to this sector and best market practices.

A measure of total concentration risk is the sum of concentration risks for all entities treated separately. In the case of related parties, concentration risk is calculated for all related parties jointly.

Monitoring and control of credit risk and concentration risk involves an analysis of the current risk level, assessment of creditworthiness and calculation of the degree of utilization of existing limits. Such monitoring is performed, without limitation, on a daily and monthly basis.

The following are subject to monitoring:
- exposures to financial insurance;
- exposures to reinsurance;
- exposure limits and VaR limits.

Reporting involves communicating the levels of credit risk and concentration risk and the effects of monitoring and control to various decision-making levels. The frequency of each report and the scope of information provided therein are tailored to the information needs at each decision-making level.

Management actions in respect of credit risk and concentration risk involve in particular:
- establishment of limits on exposure to a single entity, a group of entities, sectors or states;
- diversification of the portfolio of assets and financial insurance, especially with regard to state, sector;
- acceptance of collateral;
- execution of transactions serving the purpose of mitigation of credit risk, i.e. selling a financial instrument, closing a derivative, purchasing a hedging derivative, restructuring a debt;
- reinsurance of the financial insurance portfolio.

The structure of credit risk limits and concentration risk limits for each issuer is established by a dedicated committee in such a manner that the limits are consistent with the adopted risk tolerance and in such a manner that they enable to minimize the risk of 'infection' between concentrated exposures.

In banking activity the provision of credit products is accomplished in accordance with loan granting methodologies appropriate for a given client segment and type of product. The assessment of a client's creditworthiness preceding a decision on granting a credit product to the client is performed using a system devised to support the credit process: a scoring or rating system, external information (for instance, CBD DZ, CBD BR, BIK and BIG databases) and banks' internal databases. The granting of credit products is performed in accordance with the binding operating procedures whose purpose is to indicate the proper activities to be carried out in the credit process, the units responsible for those activities and the tools to be applied. Credit scoring is a tool to support the decision making process regarding loans for retail clients and micro-enterprises, while credit rating has the same role in the segment of small, medium-sized and large enterprises.

To minimize credit risk, security interests are established in line with the level of exposure to credit risk and in accordance with the client's ability to provide the required collateral. The establishment of a security interest does not waive the requirement to examine the client's creditworthiness.

Operational risk

Operational risk is the risk of suffering a loss resulting from improper or erroneous internal processes, human activities, system failures or external events.

Operational risk is identified in particular by:
- accumulation and analysis of information on operational risk incidents;
- self-assessment of operational risk;
- scenario analyses.

Operational risk is assessed and measured by:
- calculating the effects of the occurrence of operational risk incidents;
- estimating the effects of potential operational risk incidents that may occur in the business.

Monitoring and control of operational risk is performed mainly through an established system of operational risk indicators enabling assessment of changes in the level of operational risk over time and assessment of factors that affect the level of this risk in the business.

Reporting involves communicating the level of operational risk and the effects of monitoring and control to various decision-making levels. The frequency of each report and the scope of information provided therein are tailored to the information needs at each decision-making level.

Management actions involving reactions to any identified and assessed operational risks involve, in particular:
- risk mitigation by taking actions aimed at minimizing risks, for instance by strengthening the internal control system;
- risk transfer – in particular by entering into insurance agreements;
- risk avoidance by refraining from undertaking or withdrawing from a particular type of business in cases where too high a level of operational risk is ascertained and where the costs involved in risk mitigation are unreasonable;
- risk acceptance – approval of consequences of a possible realization of operational risk unless they threaten to exceed the operational risk tolerance level.

Compliance risk

Compliance risk is the risk that PZU Group entities or persons related to PZU Group entities may fail to adhere to or violate the applicable provisions of law, internal regulations or standards of conduct, including ethical standards, adopted by PZU Group entities, which will or may result in the PZU Group or persons acting on its behalf suffering legal sanctions, financial losses or a loss of reputation or trustworthiness.

The compliance risk management process at the PZU and PZU Życie level covers both systemic activities carried out by the Compliance Department and ongoing compliance risk management activities which are the responsibility of the heads of organizational units or cells in the foregoing companies. Compliance risk is identified and assessed for each internal process at PZU and PZU Życie, in line with the demarcation of reporting responsibilities. Moreover, the Compliance Department identifies compliance risk on the basis of information obtained from the legislative process, from notifications to the register of conflicts of interest, gifts and irregularities, and from inquiries received by the Department.

The systemic activities include, in particular:
- development and implementation of systemic assumptions and internal regulations consistent with those assumptions;
- recommending to other PZU Group entities (save for the banking entities) solutions for the application of a consistent compliance function and a systemic approach to compliance risk management;
- monitoring of the compliance risk management process, including in particular: performing compliance risk analyses, reviewing the degree of implementation of guidelines provided by external entities in respect of compliance risk management;
- consulting on and issuing interpretations and guidelines for the application of the adopted standards of conduct and compliance risk management;
- planning and delivery of training and internal communication in the field of compliance;
- preparation of compliance risk reports and information.

In turn, activities related to ongoing risk management, include in particular:
- identification and evaluation of compliance risk in the supervised area;
- measurement of compliance risk;
- determining the instruments to provide protection and limit the number and scale of irregularities;
- reporting any threats and events in the compliance risk area to the Compliance Department;
- taking mitigation activities;
- ongoing monitoring of compliance risk.

Moreover, the Compliance Department at the PZU level makes efforts aimed at ensuring consistent and uniform standards of compliance solutions in all PZU Group entities (save for the banking entities) and monitors compliance risk throughout the PZU Group. PZU Group entities have compliance systems aligned to the standards established by PZU.

The provision of full information on compliance risk in Group entities is the responsibility of their compliance units. These units are required to assess and measure compliance risk and take appropriate remedial actions aimed at mitigating the likelihood of realization of this risk.

On an ongoing basis, PZU Group entities provide information on compliance risk to the Compliance Department at PZU and PZU Życie. In turn, the tasks of the Compliance Department include the following:

- analysis of monthly and quarterly reports received from compliance units of each member of the Group;
- assessment of the impact of compliance risk on the PZU Group as a whole;
- analysis of the implementation of recommendations issued to PZU Group entities (save for the banking entities) pertaining to the fulfillment of the compliance function;
- provision of support to compliance units in various PZU Group entities in assessing their own compliance risk;
- preparation of reports for the PZU Management Board and Supervisory Board.

Compliance risk includes, in particular, the risk that the operations performed by PZU Group entities will be out of line with the changing legal environment. This risk may materialize as a result of the absence of clear and unambiguous laws or their non-existence manifesting itself in the form of 'legal loopholes'. This may cause irregularities in the PZU Group's business, which may then lead to an increase in costs (for instance, due to the imposition of financial penalties) and an increase in the level of reputation risk, thus in a drop of the Group's trustworthiness on the market (resulting in a possible financial loss).

Due to the broad spectrum of the PZU Group's business, reputation risk is also affected by the risk of litigation whose value varies, which is predominantly inherent in the Group's insurance entities.

The identification and assessment of compliance risk in the Group's entities is performed for each internal process of these entities by the heads of organizational units, in accordance with the allocation of responsibility for reporting. Moreover, compliance units in PZU Group entities identify compliance risk on the basis of information obtained from notifications to the register of conflicts of interest, gifts and irregularities, and from inquiries sent to them.

Compliance risk is assessed and measured by calculating the effects of risk materialization of the following types:

- financial, resulting, without limitation, from administrative penalties, court judgments, decisions issued by UOKiK, contractual penalties and damages;
- intangible, pertaining to a loss of reputation, including damage to the PZU Group's image and brand.

Compliance risk is monitored, in particular, through:

- analysis of reports obtained from the heads of organizational units and cells;
- monitoring of regulatory requirements and adaptation of the business to the changing legal environment of PZU Group entities;
- participation in legislative work aimed at amending the existing laws of general application;
- performing diverse activities in industry organizations;
- coordination of external control processes;
- coordination of the fulfillment of reporting duties imposed by the stock exchange (in respect of PZU) and by statute;
- increasing the level of knowledge among PZU Group staff in the field of competition law and consumer protection, tailored to the specific business areas;
- monitoring of anti-monopoly jurisprudence and proceedings conducted by the President of UOKiK;
- analysis of the complaints KNF forwards to PZU and PZU Życie in matters related to the protection of clients;
- reviews of the implementation of recommendations issued by the PZU Group's compliance unit;
- ensuring a consistent implementation of the compliance function within the PZU Group.

Management actions in the area of response to compliance risk include in particular:

- acceptance of risks arising, without limitation, from legal and regulatory changes;
- mitigation of risks, including by: adjustment of procedures and processes to changing regulatory requirements, evaluation and design of internal regulations to suit compliance needs, participation in the process of agreeing on marketing activities;
- avoidance of risks by preventing any involvement in activities that are out of compliance with the applicable regulatory requirements or good market practices or activities that may have an unfavorable impact on the entity's image.

As part of efforts aimed at reducing compliance risk at system level and day-to-day level, the following risk mitigation actions are undertaken:

- continuous implementation of an effective compliance function as a key function in the management system of PZU Group entities;
- participation in consultations with legislative and regulatory authorities (supervised entities within the PZU Group) at the stage of development of the regulations (social consultations);
- delegating representatives of the PZU Group's supervised entities to participate in the work of various commissions of regulatory authorities;
- execution of implementation projects for new regulations;
- training of staff in PZU Group entities in new regulations, standards of conduct and recommended management actions;
- issuing opinions on internal regulations of PZU Group entities and recommending possible amendments to ensure compliance with the applicable laws and accepted standards of conduct;
- verifying procedures and processes in the context of their compliance with the applicable laws and accepted standards of conduct;
- anticipating adjustment of documentation to upcoming changes in legal requirements;
- systemic supervision exercised by PZU over the execution of the compliance function in PZU Group entities.

In H1 2018, partly in response to a significant ongoing increase in the volume of regulatory requirements, including supervisory recommendations concerning insurance products, the development of the product compliance function was continued to support business operations to manage compliance risk in insurance products effectively.

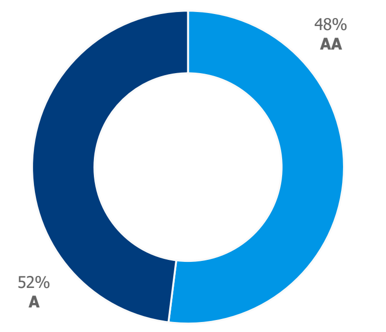
6.6 Reinsurance operations

Reinsurance protection in the PZU Group secures insurance activity, limiting the consequences of the occurrence of catastrophic phenomena that could adversely affect the financial standing of insurance undertakings. This task was accomplished through obligatory reinsurance treaties in conjunction with facultative reinsurance.

Reinsurance treaties in PZU

On the base of the reinsurance treaties it has entered into PZU limits its risk related to catastrophic losses (e.g. floods, cyclones) among others through a catastrophic non-proportional excess of loss treaty and related to the consequences of large single losses under non-proportional reinsurance treaties to protect its portfolios of property, technical, marine, air, third party liability and third party liability motor insurance. PZU's risk is also limited by reinsuring the financial insurance portfolio.

Reinsurance premium under obligatory treaties in PZU according to the Standard & Poor's / AM Best rating



Source: PZU own work

Munich Re, Hannover Re, VIG Re, Scor and Gen Re are among the major partners extending obligatory reinsurance cover to PZU in 2018. PZU's reinsurance partners have high S&P ratings. That evidences the reinsurer's robust financial position and affords the Company security.

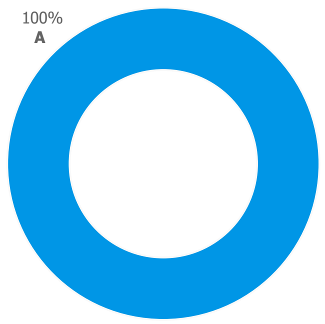
PZU's operations in inward reinsurance involves the PZU Group's other insurance companies. The greater exposure to protection of the Baltic companies, Link4 and TUW PZUW is causing the gross written premium by virtue thereof to rise.

In addition, PZU generates gross written premium on inward reinsurance under its operations on the domestic and international market, mostly through facultative reinsurance.

Reinsurance treaties in PZU Życie
Under the outward reinsurance treaty entered into by PZU Życie, the PZU Życie portfolio is protected against the accumulation of risk and it has protection for individual policies with higher sums insured.

QBE, Mapfre and Nacional De Reaseguros are the major partners that extend reinsurance protection to PZU Życie. Its reinsurance partners have high S&P ratings. That evidences the reinsurer's robust financial position and affords the Company security.

Reinsurance premium under obligatory treaties in PZU Życie according to the Standard & Poor's rating



Source: PZU own work

Reinsurance treaties in the PZU Group's international companies, LINK4 and TUW PZUW
The PZU Group's other insurance companies, i.e. Lietuvos Draudimas, Lietuvos Draudimas Branch in Estonia, AAS Balta, PZU Ukraine, LINK4 and TUW PZUW have reinsurance cover aligned to the profile of their operations and their financial standing. Every material insurance portfolio is secured with the appropriate obligatory treaty. Reinsurance cover is provided for the most part by PZU, which transfers a portion of the accepted risk outside the Group.

6.7 Capital management

The PZU Group endeavors to manage capital effectively and maximize the rate of return on equity for the parent company's shareholders, in particular by maintaining the level of security and retaining capital resources for strategic growth objectives through acquisitions.

On 3 October 2016 the PZU Supervisory Board adopted a resolution to approve the PZU Group's Capital and Dividend Policy for 2016 - 2020. The introduction of this Policy stems from the implementation, as of 1 January 2016, of Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II), as amended, the Insurance and Reinsurance Activity Act of 11 September 2015 and the expiration of the PZU Group's Capital and Dividend Policy for 2013 - 2015 updated in May 2014.

The capital management policy rests on the following principles:

- the PZU Group's capital management (including excess capital) is conducted at the level of PZU as the parent company;
- sustain target solvency ratios at the level of 200% for the PZU Group, PZU and PZU Życie (according to Solvency II);
- maintain the PZU Group's financial leverage ratio at a level no higher than 0.35;
- ensure funds for growth and acquisitions in the coming years;
- PZU will not issue any new shares for the duration of this Policy.

As at the end of Q1 2018, the estimated solvency ratio (calculated according to the standard Solvency II equation) was 227.2% and remained above the average solvency ratio for European insurance groups.

In Bank Pekao and Alior Bank, the capital adequacy ratio and the Tier 1 ratio were computed on the basis of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (CRR Regulation) and also the various types of risk identified in the Internal Capital Adequacy Assessment Process (ICAAP).

Capital adequacy ratio	Q1 2018	2017
Solvency II		
PZU Group*	227.2%	207.5%
PZU*	295.2%	280.3%
PZU Życie*	467.0%	436.9%
CRR		
Pekao Group – total capital adequacy ratio	17.1%	17.1%
Tier 1	16.0%	16.1%
Alior Bank Group – total Tier 1 capital adequacy ratio	15.4%	15.2%
Tier 1	12.1%	12.1%

*unaudited data

Source: PZU, Pekao CG and Alior CG Bank financial statements

7.

PZU on the capital and debt markets

PZU was one of the 5 most liquid companies on WSE's main market in H1 2018 representing 8.1% of trading volume. High liquidity also translates into a low spread between the buy and sell price of 7 basis points compared with a mean of 15 basis points for the twenty most heavily traded companies.

In this section:

1. PZU's share price
2. Banking sector
3. Debt financing
4. Distribution of the 2017 profit
5. Rating
6. Calendar of major corporate events in 2018

7.1 PZU's share price

PZU made its debut on the Warsaw Stock Exchange (WSE) on 12 May 2010. Since its floatation it has been included in WSE's most important index, namely WIG20 (calculated on the basis of the portfolio value of the 20 largest and most heavily traded companies on WSE's Main Market)[1]. PZU also belongs to the following indices: WIG, WIG30, WIG-Poland, WIGdiv, WIG20TR and MSCI Poland as well as the sustainable development RESPECT Index (since 2012).

The Polish market and many other emerging markets were under pressure from global factors in H1 2018. The conduct exhibited by the central banks of key importance to the global economy continued to be at the forefront. The US Federal Reserve (FED) raised interest rates by 25 basis points to 1.75-2.0% on 13 June 2018, while announcing another four rate hikes (versus the three previously announced). This was the second rate hike in 2018 and the seventh one since the end of 2015 (i.e. the beginning of the process of raising interest rates after the financial crisis). At the same time, the FED took measures to reduce its balance sheet, thereby compelling investors to lower their exposure to riskier assets. The European Central Bank (ECB) left interest rates unchanged, while merely announcing that it would start to limit its asset purchases.

[1] WIG20 is a price index, i.e. it is calculated only by using the prices of the transactions related to it, without incorporating dividend income.

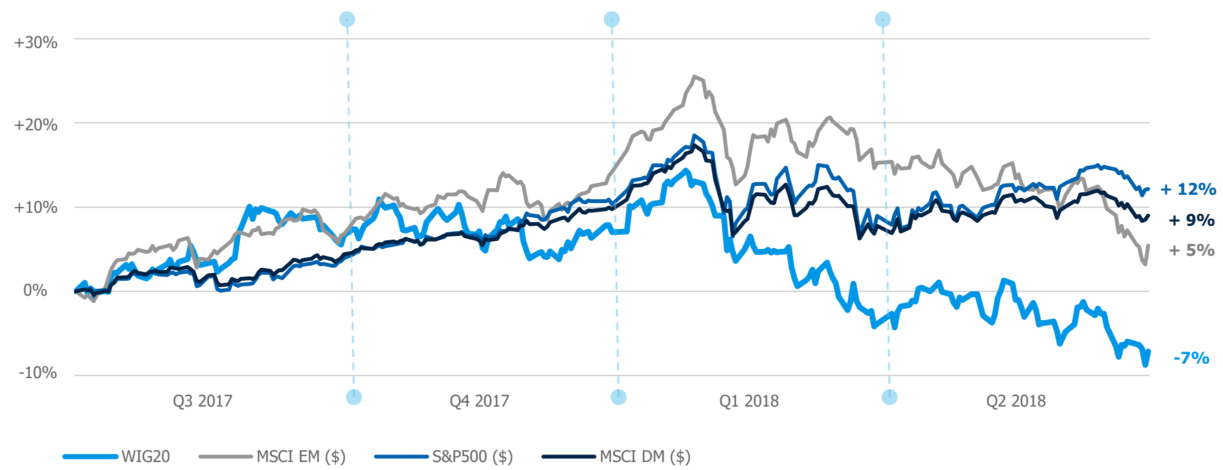
The divergence between the central bank policies pursued by the FED and ECB was a material factor underpinning the strengthening of the US dollar and the upswing in the yields of US bonds. Concerns related to economic growth and the entrenchment of low inflation in the euro area magnified this trend. Against this background, the US economy showed signs of a stronger recovery, justifying the continuing interest rate hikes.

The strong appreciation of the US dollar translated into rising US indices at the expense of capital evaporating from emerging markets, among others. The escalation of the trade conflicts between the US and China and the US and the European Union and the disquieting news related to the political crisis in Italy and Spain also contributed to the falling sentiment toward higher risk assets.

The WIG20 index (denominated in PLN) behaved much worse in H1 2018 compared to emerging markets and developing markets alike. On top of the significant weakening of the Polish zloty against the US dollar, one of the factors that adversely affected the Polish equity market was the shift announced by the FTSE index agency concerning Poland's classification as a developed market.

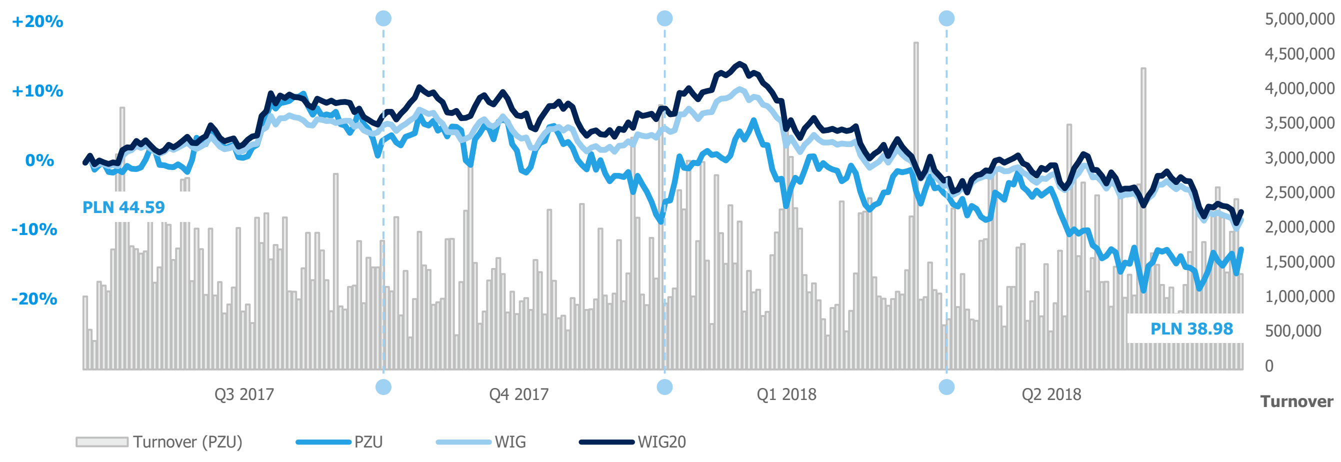
The high level of volatility that emerged on the financial markets in early February 2018 contributed to deteriorating sentiment on the Polish market, too. In H1 2018, according to the estimates of the Analizy Online service, the balance of payments to and withdrawals from retail funds offered by

WIG20 versus the MSCI EM and DM and S&P500 market indices



Source: www.infostrefa.com, www.msci.com

PZU's growth rate (%) and trading volume versus WIG and WIG20



Source: www.infostrefa.com

TFIs on the domestic market exceeded PLN 1 billion. Cash and money funds were the only ones to post a positive net balance of nearly PLN 12 billion. The other asset classes posted a negative balance. Equity funds sustained the greatest decline (down PLN 4 billion), followed by private equity funds (down nearly PLN 4 billion) and mixed funds (down by more than PLN 1 billion) (more in SECTION 3.5 MUTUAL FUNDS (TFI PZU)).

As at the end of H1 2018, the large cap WIG20 index had retreated by 7.1% y/y, while the broad WIG index fell by 8.3% y/y, while they had fallen by 13.2% and 12.2%, respectfully since the outset of 2018. Against this backdrop, PZU behaved relatively better than the market in H1 2018 as it lost 7.5% (+5.7 percentage points better than the WIG20 benchmark index).

PZU's shares traded in a price range of PLN 36.3 – PLN 47.3 in H1 2018 (according to closing prices). The standard deviation for PZU's shares in H1 2018 was 19.2%, i.e. 1.5 percentage points more than in the corresponding period of 2017. Compared to the broad WIG market, PZU's systematic risk expressed by the beta coefficient (PZU's share price versus the WIG index for daily changes) was 1.28 or 0.17 higher in H1 2018 than recorded in H1 2017.

Market multiples

At the end of June 2018 PZU's P/BV ratio was 2.5x. In the corresponding period the P/BV ratio for the banking industry (the most suitable peer group on the WSE for PZU) was 0.84x. Its above average ROE of 20.8% justifies such a large disproporation.

Capital market ratios	06.2018	06.2017	06.2016	06.2015	06.2014
P/BV Share price / book value per share	2.5x	2.9x	2.1x	3.2x	3.2x
BVPS (PLN) Book value per share	15.4	15.2	13.6	13.7	13.8
P/E* Share price / net earnings per share	11.7x	14.2x	14.7x	14.5x	11.5x
EPS (PLN) Net profit (loss) / number of shares outstanding	1.7	1.7	0.8	1.5	2.0

*annualized

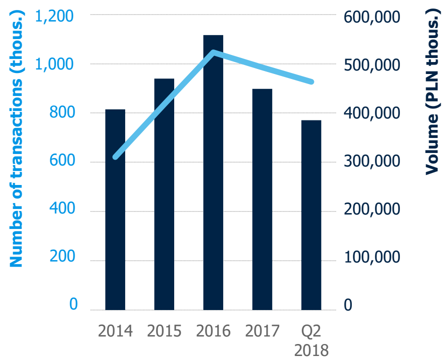
Source: www.infostrefa.com, PZU data

PZU on the capital and debt markets

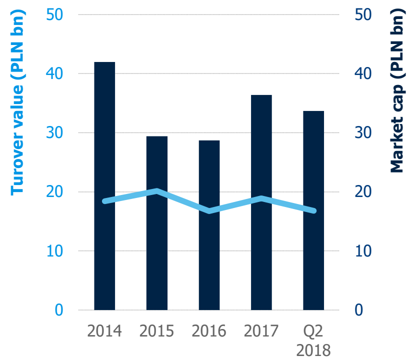
Trading liquidity

PZU's shares were highly liquid in H1 2018. PZU accounted for 8.1% of WSE's overall trading volume, while its average buy/sell spread for shares was a mere 7 basis points (the mean for the twenty most heavily traded companies was 15 basis points). PZU's market value at the end of June 2018 was PLN 33.7 billion (down 12.6% y/y).

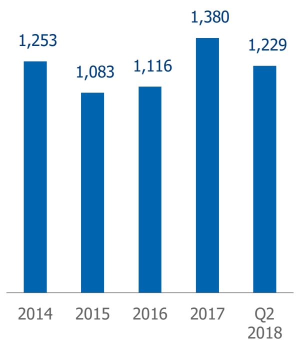
Number of PZU transactions* / PZU's Trading volume*



PZU's PLN volume liquidity* / PZU's capitalization



Capitalization of the Warsaw Stock Exchange



* annualized data (moving)

Source: www.infostrefa.com, www.gpw.pl

Stock-related statistics	H1 2017	H1 2018	H1 2018 / H1 2017	Q1 2018	Q2 2018	Q2 2018 / Q1 2018
Maximum price [PLN]	46.78	47.34	1.2%	47.34	44.00	(7%)
Minimum price [PLN]	32.82	36.31	10.6%	41.55	36.31	(13%)
Closing price on the last trading session [PLN]	44.59	38.98	(12.6%)	41.75	38.98	(7%)
Average trading session price [PLN]	39.34	41.95	6.6%	43.98	39.87	(9%)
PLN volume liquidity [000s of PLN]	10,377,514	8,267,241	(20.3%)	4,369,959	3,897,282	(11%)
Average PLN volume liquidity per session [000s of PLN]	83,690	67,213	(19.7%)	70,483	63,890	(9%)
Number of transactions [units]	527,016	467,930	(11.2%)	248,521	219,409	(12%)
Average number of trades per session	4,250	3,804	(10.5%)	4,008	3,597	(10%)
Trading volume	261,725,393	197,917,506	(24.4%)	99,432,359	98,485,147	(1%)
Average trading volume per session (shares)	2,110,689	1,609,085	(23.8%)	1,603,748	1,614,511	1%
Capitalization at the end of the period [000s of PLN]	38,504,491	33,660,127	(12.6%)	36,052,085	33,660,127	(7%)

Source: www.infostrefa.com

7.2 Banking sector

WSE-listed banks

In H1 2018 the WIG Banks index was in a downward trend, following the downturn in investment sentiment on global markets (SECTION 7.1 PZU'S SHARE PRICE) and the appearance of adverse local factors. At the end of June 2018, the WIG Banks index was 7,129 points, signifying a decline of 0.6% y/y. The P/BV and P/E ratios for the WIG-Banks index were 0.84 and 10.0, respectfully.

Despite Poland's continued, highly robust economic standing in H1 2018, investors discounted the reports published on NBP's ever more distant interest rate hikes, i.e. that there will not be any hikes until mid 2019 or even 2020 if the low inflation scenario prevails. H1 2018 was also a period marked by a plethora of regulatory changes for banks, including, among others, GDPR, MIFID2, PSD2, IFRS9. The amendments to IFRS9 proved to be of particular significance as it accelerated the moment when provisions are recognized and when loans are classified as being at risk. Despite the possibilities of spreading this impact over 5 years, this contributed to deteriorating the balance sheets of banks and less predictability of their results, especially in periods of greater volatility in business conditions. The threat of rising regulatory pressure in connection with CHF-denominated loans also continued to persist.

The banks forming part of the PZU Group (Alior Bank and Pekao) were responsible for more than 12.5% of the trading volume on WSE's main market in H1 2018. Alior Bank's share price at the end of June 2018 was PLN 66.9, i.e. it climbed 8.3% y/y. Similarly, Bank Pekao posted a loss of 9.4%, falling to PLN 113.0.

The correlation between the WIG Banks index and the WIG20 index at the end of June 2018 was 90% (without changes y/y). Beta (versus WIG20) was 0.93, i.e. a decline of 0.22 y/y.

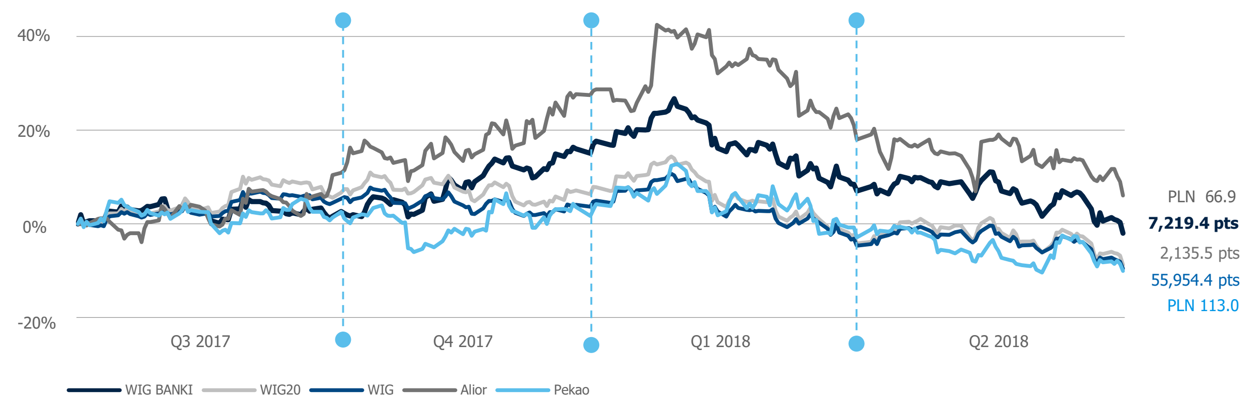
7.3 Debt financing

PZU

PZU bonds: **PLPZU0000037** for PLN 2.25 billion

On 30 June 2017, PZU effected the largest issue of subordinated bonds (in Polish zloty) in the history of the Polish financial sector, while at the same time being the first issue in Poland complying with Solvency II requirements. The bonds worth PLN 2.25 billion bear interest at WIBOR6M + 180 bps. They mature on 29 July 2027, or 10 years after their issuance, with an early redemption option 5 years after the issue date. The bonds are listed on the Catalyst ASO WSE/Bondspot.

WSE-listed banks



Źródło: www.infostrefa.com

The issue was conducted with a view to supplementing PZU's equity, following the acquisition of a 20% stake in Bank Pekao, in order to maintain the Solvency II ratio at a level not lower than 200%, as defined in the PZU Group's Capital and Dividend Policy.

PZU bonds: **XS1082661551** for EUR 850 million

The PZU Group (through its wholly-owned subsidiary, PZU Finance AB) issued Eurobonds totaling EUR 850 million, listed on the Official List, Main Securities Market of the Irish Stock Exchange and on the Catalyst ASO WSE/Bondspot market. The listed series of the bonds (PZU0719) consists of two assimilated series (under a single ISIN code: XS1082661551) with a nominal value of EUR 500 million and EUR 350 million issued on 3 July 2014 and 16 October 2015, respectively.

The liabilities arising from the bonds are secured by a guarantee extended by PZU. The bonds bear interest at a fixed rate of 1.375% per annum. The coupon is paid once a year. The date of maturity is 3 July 2019.

The Eurobond issue implemented PZU Group's investment strategy to manage the matching of assets and liabilities in EUR. The funds obtained from the bond issue were to increase the exposure in the investment portfolio to investments denominated in Euro, manage the FX position and harness debt financing that is less expensive than equity.

Alior Bank

In order to secure a safe level of capital adequacy ratios, Alior Bank regularly issues debt instruments. In 2018 Alior Bank had a debt capital acquisition program in operation called "Second Public Subordinated Bonds Issue Program". Under this program the Alior Bank Supervisory Board, in accordance with a motion submitted by the Bank's Management Board, authorized the Bank's Management Board to draw down financial liabilities repeatedly by issuing unsecured, ordinary or subordinated bonds. The total nominal value of the bonds issued under the Second Public Bond Issue Program may not exceed PLN 1.2 billion.

Alior Bank did not hold any new issues under this program in 2018.

Pekao

Under the covered bonds program established in 2010, Pekao, acting through its subsidiary Pekao Bank Hipoteczny, issues long-term debt securities secured on its loan portfolio. The issue program is limited to PLN 2 billion. Pekao Bank Hipoteczny's covered bonds have been rated by Fitch at A with a negative outlook. In addition, the Pekao Group has subordinated liabilities by virtue of Pekao Leasing's bonds. In October 2017, Pekao placed its first issue of subordinated bonds with a value of PLN 1.25 billion in order to improve its capital ratios. The bonds have a 10-year maturity with an early redemption option five years after the date of issue. The bonds bear interest at a floating rate based on WIBOR6M plus a margin of 1.52%.

7.4 Distribution of the 2017 profit

On 3 October 2016 the PZU Supervisory Board adopted a resolution (Current Report 61/2016 of 4 October 2016) to approve the PZU Group's Capital and Dividend Policy for 2016-2020.

On 5 December 2017 the Polish Financial Supervisory Authority took a stance on the dividend policy of banks, insurance and reinsurance undertakings, universal pension fund management companies, brokerage houses and mutual fund management companies in 2018. As recommended by the regulatory authority, dividends should be paid only by insurance undertakings meeting certain financial criteria. At the same time, the dividend payout should be limited to no more than 75% of the profit earned in 2017, while the coverage of the capital requirement for the quarter in which the dividend was distributed should be maintained at no less than 110%. At the same time, KNF permitted a dividend payout equal to the entire profit earned in 2017 provided that the capital requirement coverage (after expected dividends are deducted from own funds) at the end of 31 December 2017 and for the quarter when the dividend is paid, is at least 175% for insurance undertakings operating in section I and at least 150% for insurance undertakings operating in section II.

On 28 June 2018, PZU's Ordinary Shareholder Meeting adopted a resolution to distribute PZU's net profit for the financial year ended 31 December 2017 in which it resolved to distribute profit of PLN 2,434 million in the following manner:

- PLN 2,159 million as a dividend payout, i.e. PLN 2.50 per share;
- PLN 7 million as an allowance to the Company Social Benefit Fund;
- PLN 20 million to cover retained losses resulting from the final purchase price allocation of the acquisition of the organized part of Bank BPH by Alior Bank;
- PLN 249 million as supplementary capital.

The record date for the financial year ended 31 December 2017 was set for 12 September 2018 and the dividend payout date was set for 3 October 2018.

7.5 Rating

PZU rating

Since 2004, PZU and PZU Życie have undergone regular reviews by the S&P Global Ratings (S&P) rating agency. The rating assigned to PZU and PZU Życie results from an analysis of the financial information, competitive position, management and corporate strategy as well as country financial situation. It also includes a rating perspective (an outlook), namely, an assessment of the future position of the company in the event specific circumstances occur. As of 25 March 2014, PZU's rating is one notch above Poland's rating for foreign currency-denominated debt.

On 27 October 2017, the S&P Global Ratings agency upgraded the rating outlook for PZU and its main subsidiaries from negative to stable. PZU's financial strength and creditworthiness rating stayed at A-.

On 4 July 2017, S&P Global Ratings affirmed the financial strength and creditworthiness ratings for PZU and its main subsidiaries at "A-". The outlook remained unchanged (negative). The rating was affirmed in connection with PZU's announcement of a PLN 2.25 billion subordinated debt issue on 30 June 2017.

Dividend paid by PZU from its earnings in the 2014 – H1 2018 financial years

	H1 2018	2017	2016	2015	2014
Consolidated profit attributable to the parent company (in PLN m)	1,425	2,895	1,935	2,343	2,968
PZU SA's standalone profit (in PLN m)	1,728	2,459	1,573	2,249	2,637
Dividend paid for the year (in PLN m)	n.a.	2,159	1,209	1,796	2,591
Dividend per share for the year (PLN)	n.a.	2.50	1.40	2.08	3.00
Dividend per share on the date of record (PLN)	2.50	1.40	2.08	3.00	3.40
Ratio of dividend payout to consolidated profit attributable to the parent company	n.a.	88.7%	62.1%	76.7%	87.3%
Dividend yield in the year *	6.4%	3.3%	6.3%	8.8%	7.0%
TSR (Total Shareholders Return) **	(1.6)%	31.2%	3.7%	(23.8)%	15.8%

* ratio calculated as dividend as at the record date to the share price at the end of a given year (to the share price on 29 June 2018 in H1 2018)
** ratio calculated as the sum of the change in the share price per share and the dividend on the record date in the period divided by the share price at the beginning of the period; in H1 2018 the change of the share price calculated in the period from 1 January to 29 June 2018
Source: PZU data

On 28 March 2017, S&P Global Ratings affirmed the financial strength and creditworthiness ratings for PZU and its main subsidiaries at "A-". The outlook remained unchanged (negative).

Sovereign rating

On 13 April 2018, S&P Global Ratings affirmed Poland's rating at BBB+/A-2 for long- and short-term liabilities in foreign currencies and at A-/A-2 for long- and short-term liabilities in local currency, respectively. The ratings outlook was raised to positive from stable.

Poland's rating

	Currently		Previously	
Country	Rating and outlook	Updated on	Rating and outlook	Updated on
Republic of Poland				
Credit rating (long-term in local currency)	A- /Positive/	13 April 2018	A- /Stable/	2 December 2016
Credit rating (long-term in foreign currency)	BBB+ / Positive/	13 April 2018	BBB+ /Stable/	2 December 2016
Credit rating (short-term in local currency)	A-2	13 April 2018	A-2	2 December 2016
Credit rating (short-term in foreign currency)	A-2	13 April 2018	A-2	2 December 2016

Source: S&P Global Ratings

PZU rating

	Currently		Previously	
Company name	Rating and outlook	Updated on	Rating and outlook	Updated on
PZU				
Financial strength rating	A- /Stable/	27 October 2017	A- /Negative/	31 October 2016
Credit rating	A- /Stable/	27 October 2017	A- /Negative/	31 October 2016
PZU Życie				
Financial strength rating	A- /Stable/	27 October 2017	A- /Negative/	31 October 2016
Credit rating	A- /Stable/	27 October 2017	A- /Negative/	31 October 2016
TUW PZUW				
Financial strength rating	A- /Stable/	25 June 2018		

Source: S&P Global Ratings

Eurobond rating

On 20 June 2014, Standard & Poor's awarded a rating of A- for unsecured debt for Eurobonds issued by PZU Finance AB. In October 2015, PZU issued bonds in the amount of EUR 350 million. These bonds have been assimilated and now form a single series with the "tap" bonds with the nominal value of EUR 500 m issued by PZU Finance AB (publ) on 3 July 2014. On 12 October 2015, the analysts from S&P set the rating for the new issue also at A-. On 21 January 2016, in connection with the reduction of PZU's rating (following the reduction of Poland's rating), the rating for the Eurobonds issued by PZU Finance AB (publ.) was also downgraded to BBB+. That is still an "investment-grade rating".

Rating of the Eurobonds issued by PZU Finance AB (publ.)

	Currently		Previously	
	Rating and outlook	Updated on	Rating and outlook	Updated on
EUR 350 million	BBB+	21 January 2016	A-	12 October 2015
EUR 500 million	BBB+	21 January 2016	A-	20 June 2014

Źródło: S&P Global Ratings

Alior Bank's rating

On 5 September 2013, Fitch Ratings Ltd. awarded an entity rating to Alior Bank at BB with a stable outlook. On 5 February 2018, Fitch Ratings Ltd. affirmed the entity rating for Alior Bank S.A. at BB, while it changed the outlook from stable to positive.

Rating (Fitch)	
Alior Bank	
Long-Term Foreign Currency IDR:	BB, positive outlook
Short-Term Foreign Currency IDR	B
Viability Rating (VR)	BB
Support Rating	5
Support Rating Floor	'No Floor'

Source: Fitch

Pekao's rating

Bank Pekao cooperates with three leading rating agencies: Fitch Ratings, S&P Global Ratings and Moody's Investors Service. In the case of the first two agencies, the ratings are prepared upon the Bank's commission based on contracts. The Bank however has signed no agreement with Moody's Investors Service and the rating process is conducted on the basis of publicly available information and review meetings.

On 30 June 2018 Bank Pekao's financial creditworthiness ratings were as follows:

Rating (Fitch)	BANK PEKAO	POLAND
Long-term rating (IDR)	A-	A-
Short-term rating	F2	F2
Viability Rating (VR)	a-	-
Support Rating	5	-
Outlook	negative	stable

Source: Fitch

Rating (S&P Global Ratings)	BANK PEKAO	POLAND
Long-Term Foreign Currency Rating	BBB+	BBB+
Long-Term Domestic Currency Rating	BBB+	A-
Short-Term Foreign Currency Rating	A-2	A-2
Short-Term Domestic Currency Rating	A-2	A-2
Standalone rating	bbb	-
Outlook	stable	positive

Source: S&P Global Ratings

Rating (Moody's Investors Service Ltd.)	BANK PEKAO	POLAND
Long-term deposit rating	A2	A2
Short-term deposit rating	Prime-1	Prime-1
Baseline Credit Assessment	baa1	-
Long-term Counterparty Credit Risk Rating	A1(cr)	-
Short-term Counterparty Credit Risk Rating	Prime-1(cr)	-
Outlook	stable	stable

Source: Moody's Investors Service Ltd.

Bank Pekao has the highest Baseline Credit Assessment rating and short- and long-term counterparty credit risk ratings awarded by Moody's Investors Service among the banks rated by this rating agency in Poland.

7.6 Calendar of major corporate events in 2018

09 JANUARY
The New PZU – More Than Insurance Strategy

15 MARCH
PZU Group's financial statements (2017)

16 MAY
PZU Group's financial statements (Q1 2018)

25 – 27 MAY
22nd WallStreet Conference for individual investors

28 JUNE
PZU SA's Ordinary Shareholder Meeting

30 AUGUST
PZU Group's financial statements (Q2 2018)

12 SEPTEMBER
Record date for dividends from 2017 earnings

03 OCTOBER
Dividend payout date of 2017 earnings (PLN 2.50 per share)

15 NOVEMBER
PZU Group's financial statements (Q3 2018)

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Head of Investor Relations Team
email: ir@pzu.pl
tel.: +48 (22) 582 26 23

8.

Corporate governance

We appreciate that the leader's role is to set the highest standards for the entire industry. We discharge this function not only by observing a number of codes but also by working continuously on their improvement. We believe that this is how we can make sagacious changes to contribute to the world that surrounds us.

In this section:

1. Audit firm auditing the financial statements
2. PZU's share capital and its shareholders; shares held by members of its governing bodies

8.1 Audit firm auditing the financial statements

On 18 February 2014, the PZU Supervisory Board selected KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. with its registered office in Warsaw, ul. Inflancka 4A, 00-189 Warsaw, entered by the National Chamber of Statutory Auditors on the list of audit firms under no. 3546 as the entity to audit the financial statements for the years 2014 – 2016, and on 27 April 2017 the PZU Supervisory Board exercised the option of extending this cooperation to include 2017 – 2018.

The scope of the concluded agreement encompasses the following in particular:

- auditing PZU's annual standalone financial statements and the PZU Group's annual consolidated financial statements;
- reviewing PZU's interim standalone financial statements and the PZU Group's interim consolidated financial statements.

In recent years, PZU's additional cooperation with KPMG Audyt has covered, without limitation, audits of solvency and financial standing reports required by the Solvency II Directive.

8.2 PZU's share capital and its shareholders; shares held by members of its governing bodies

On 30 June 2015, PZU's Ordinary Shareholder Meeting adopted a resolution to split all PZU shares by decreasing the par value of each share from PLN 1 to PLN 0.10 and increasing the number of shares making up the share capital from 86,352,300 to 863,523,000. The split was effected by exchanging all the shares at a ratio of 1:10. The share split did not affect the amount of PZU's share capital.

On 3 November 2015 the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register registered the pertinent amendment to PZU's Articles of Association.

On 24 November 2015, at PZU's request, the Management Board of the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych, "KDPW") adopted resolution no. 789/15 on setting 30 November 2015 as the date of splitting 86,348,289 PZU shares with a par value of PLN 1 each into 863,482,890 PZU shares with a par value of PLN 0.10 each.

Accordingly, PZU's share capital is divided into 863,523,000 ordinary shares with a par value of PLN 0.10 each, giving the right to 863,523,000 votes at the Shareholder Meeting.

The following PZU shareholders hold significant stakes in PZU:

- the State Treasury that holds 295,217,300 shares constituting 34.19% of PZU's share capital and giving it the right to 295,217,300 votes at the Shareholder Meeting;
- funds managed by Nationale-Nederlanden PTE: Nationale-Nederlanden Otwarty Fundusz Emerytalny (Open-end Pension Fund, „OFE") and Nationale-Nederlanden Dobrowolny Fundusz Emerytalny (Voluntary Pension Fund, „DFE") that had 43,825,000 shares at PZU's Ordinary Shareholder Meeting held on 28 June 2018, constituting 5.0751% of PZU's share capital and giving it 43,825,000 votes.

The notification pertaining to the movement in the equity stake held in PZU by the open-end pension fund and the voluntary pension fund was transmitted to PZU by Nationale-Nederlanden PTE on 12 June 2018. According to this notification, as a result of a transaction to buy PZU shares settled on 6 June 2018, OFE and DFE increased their shareholding in PZU to 5.03% of PZU's share capital, constituting 5.03% of the total number of votes at PZU's Shareholder Meeting.

The PZU Management Board does not have any information about executed agreements as a result of which changes may transpire in the future in the equity stakes held by its shareholders to date.

PZU did not issue, redeem or repay any debt or equity securities that would provide its shareholders with special control rights.

In 2013 – 2017, PZU did not have any employee share programs in place.

According to the Articles of Association, the shareholders' voting rights have been limited in such a manner that no shareholder may exercise more than 10% of the total number of votes in existence in PZU at its Shareholder Meeting on the date of holding a Shareholder Meeting subject to the reservation that for the purposes of determining the obligations of the buyers of significant equity stakes contemplated by the Act on Public Offerings and the Insurance Activity Act, such limitation of voting rights shall be deemed not to exist. The limitation on voting rights does not apply to the following:

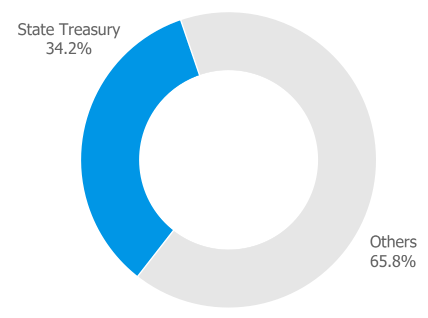
- shareholders who on the date of adopting the Shareholder Meeting resolution implementing this limitation were entitled to shares representing more than 10% of the total number of votes;
- shareholders acting with the shareholders specified in the item above pursuant to executed agreements pertaining to jointly exercising the voting rights attached to shares.

For the purpose of limiting voting rights, the votes of shareholders among whom there is a parent or subsidiary relationship are totaled in accordance with the rules described in the Articles of Association.

In the event of doubt, the provisions regarding the restriction of voting rights are subject to interpretation according to Article 65 § 2 of the Civil Code.

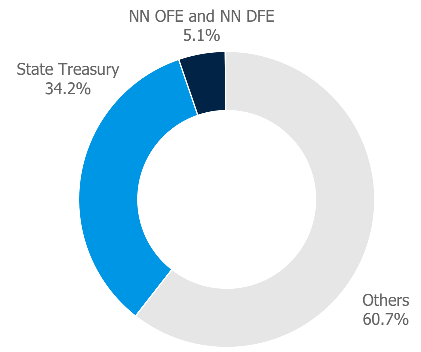
In line with PZU's Articles of Association, these voting restrictions will expire starting from the moment when the equity stake held by the shareholder who held shares giving the right to more than 10% of the total number of votes in PZU when the Shareholder Meeting adopted the resolution drops below 5% of the share capital.

PZU's shareholder structure as at 30 June 2017



Source: Current Report 42/2017

PZU's shareholder structure as at 30 June 2018



Source: Current Report 21/2018

Shares or rights to shares held by members of management or supervisory bodies and PZU Group Directors

Neither as at the date of this Activity Report nor as at the date of the consolidated financial statement for Q1 2018 (i.e. 16 May 2018) did any of the members of the Management Board or the Supervisory Board or the Directors of the Group hold any PZU shares, shares or interests in PZU's related parties or rights to these shares or interests.

9.

Other

Truthfulness and accuracy of the presented financial statements
To the best knowledge of the PZU Management Board, the PZU Group's consolidated financial statements and comparative data have been prepared in line with the prevailing accounting principles, and honestly, accurately and clearly reflect the PZU Group's and the Issuer's assets and financial position as well as their financial result, and that the Management Board's report on the PZU Group's activity shows a true picture of the PZU Group's and the Issuer's development, results and position, including a description of the major threats and risks.

Information about significant agreements between shareholders
The PZU Management Board does not have any information about agreements executed until the date of publication of this Report on the activity of the PZU Group among shareholders as a result of which changes may transpire in the future in the percentages of shares held by its shareholders to date.

Information about significant executed agreements
On 30 June 2017, PZU issued subordinated bonds with a nominal value of PLN 2.25 billion. The bond redemption date is 29 July 2027 with an early repayment option on 29 July 2022. CHAPTER 7.3 DEBT FINANCING

Related party transactions on terms other than on an arm's length basis
Within the framework of equity and business links, PZU Group member companies provide services to one another. With the exception of companies from the Tax Group, the transactions are executed according to the arm's length principle.

Tax Group
The tax group agreement for fiscal years 2018 – 2020 was signed on 20 September 2017. According to the agreement, the tax group consists of PZU, PZU Życie, LINK4, PZU CO, PZU Pomoc, Ogrodowa-Inwestycje, PZU Zdrowie, PZU Finanse, PZU LAB, Ipsilon, Omicron Bis, Tulare Investments and Battersby Investments.

Under the tax group agreement, PZU is the parent company representing the tax group. Pursuant to art. 25 section 1 of the CIT Act, the Tax Group performs settlements with the Tax Office on a monthly basis. PZU makes advance payments to the Tax Office for the CIT tax due from PZU's overall Tax Group, while the member companies transfer the amount they owe in advance payments to PZU's specified bank account.

According to the agreement, the new tax group does not include TFI PZU or Ardea Alba in liquidation, which previously belonged to the Tax Group established for the period of 2015 to 2017.

Purchase of treasury shares in the financial year
Within its trading activity Bank Pekao enters into transactions on PZU shares and futures. As at 30 June 2018 Bank Pekao held 9,769 PZU shares.

As at 30 June 2018 the consolidated funds had 233,000 PZU shares.

Granted and received guarantees and sureties
On 8 November 2017, PZU executed a mandate contract with Alior Bank on periodic granting of insurance guarantees constituting unfunded credit protection and a framework mandate agreement on the periodic granting of counter-guarantees (Current Report No. 64/2017). The maximum exposure limit for guarantees is PLN 5.0 billion (say: five billion Polish zloty) and is in force for a period of 3 years.

Business seasonality or cyclicity
PZU's business is not seasonal or cyclical to an extent that would justify application of the suggestions set forth in the International Financial Reporting Standards.

Assessment of the management of financial resources, including the capacity to satisfy the assumed liabilities and specification of possible threats and actions taken or to be taken by the Issuer to counter these threats
PZU is in very good financial standing and satisfies all the security criteria imposed on it by the Insurance and Reinsurance Activity Act and the Polish Financial Supervision Authority. The Issuer's stable rating outlook confirms that PZU has a strong business position, has a high level of equity and continues to be a competitive player on the insurance market.

Financial forecasts
The PZU Group has not published any forecasts of its financial results.

Disputes
In H1 2018 and up to the date of preparation of this report on the PZU Group's activity, there were no pending proceedings before court, a body competent to hear arbitration proceedings or a public authority body concerning liabilities or receivables of PZU or a direct or indirect subsidiary thereof

whose unit value is at least 10% of PZU's equity. A description of litigation and proceedings before the President of the Office of Competition and Consumer Protection (UOKiK) has been set forth in the PZU Group's consolidated financial statements and PZU's financial statements for H1 2018.

As at 30 June 2018, the total value of all the 226,053 cases pending before courts, competent bodies for arbitral proceedings or public administration authorities to which PZU Group entities are a party was PLN 6,866. PLN 3,794 million of this amount pertains to liabilities while PLN 3,072 million pertains to the accounts receivable of PZU Group companies.

This Management Board's report on the activity of the PZU Group in H1 2018 has 111 consecutively-numbered pages.

Signatures of PZU Management Board Members

Paweł Surówka – President of the Management Board

Roger Hodgkiss – Management Board Member

Tomasz Kulik – Management Board Member

Maciej Rapkiewicz – Management Board Member

Małgorzata Sadurska – Management Board Member

Warsaw, 29 August 2018

10.

Attachment: Glossary of terms

cedent – person who cedes an account receivable to a buyer

COR – *Combined Ratio* – calculated for the non-life insurance sector (section II). This is the ratio of insurance expenses related to insurance administration and the payment of claims (e.g. claims, acquisition and administrative expenses) to the net earned premium for a given period

cross-selling – a sales strategy for selling a given insurance product in combination with a complementary insurance product or an insurer's partner's product, e.g. a bank's product. Bancassurance products such as credit insurance may serve as an example

CSR – **Corporate Social Responsibility** – a concept according to which companies voluntarily take into account social interests and environmental protection as well as relations with diverse groups of stakeholders at the stage of building their strategy

P/BV (Price to Book Value) – wskaźnik określający stosunek ceny rynkowej do wartości księgowej przypadającej na jedną akcję

P/E (Price to Earnings) – multiple specifying the ratio of the company's market price (per share) to earnings per share

DPS (Dividend Per Share) – market multiple specifying the dividend per share

DY (Dividend Yield) – market multiple specifying the ratio of the dividend per share to the market share price

EPS (Earnings Per Share) – market multiple specifying earnings per share

Everest – system to managing non-life insurance in PZU

free float – public company's shares freely available to the investing public. This is the ratio of the number of shares not held by large investors to the total number of shares – in other words, all the freely-available shares that are publicly traded

FUS – Social Insurance Fund established 1 January 1999 by the power of the Act on the Social Insurance System

IDD – Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (Insurance Distribution Directive)

IPO (Initial Public Offering) – public offering of specific securities performed for the first time. One of the most important elements of an initial public offering is the preparation of a prospectus and the proceeding before the institution supervising admission to be traded publicly

Solvency Capital Requirement (SCR) – capital requirement computed in accordance with the Solvency II regulations. The calculation of the capital requirement is based on calculating market, actuarial (insurance), counterparty insolvency, catastrophic and operational risks and is subsequently subject to diversification analysis. This ratio may be computed using the standard formula or, after obtaining the pertinent consent from the regulatory authority, using an insurance undertaking's partial or full internal model

KNF – Polish Financial Supervision Authority [Polish: Komisja Nadzoru Finansowego] supervises the banking sector and the capital, insurance and pension markets; it also supervises payment institutions and the offices of payment services, electronic money institutions and the savings and loans sector, www.knf.gov.pl

profit margin in group and individually continued insurance (in PZU Życie) – indicator computed as the ratio of operating profit to the gross written premium of the group and individually continued insurance segment, net of non-recurring effects such as, for instance, the conversion effect, i.e. the conversion of long-term agreements into yearly renewable term agreements and the change of technical rates, i.e. the discount rate for technical provisions for accounting purposes

Surplus rate of return on main portfolio above the RFR – the difference between the annual rate of return calculated on the IFRS result on the main portfolio (investments of PZU SA and PZU Życie, excluding shares of subordinated companies and investment products) and taking into account FX from the own debt issue (impact of EUR exchange rate change from own debt securities issued within the PZU Group with the exception of the banking segment) and the average annual WIBOR6M level.

NPS (Net Promoter Score) – method for assessing the loyalty of a given company's customers, ratio computed as the difference between a brand's promoters and critics

Payout ratio – dividend payout ratio, in other words the quotient of the dividend paid and the company's net result

PRIIP – Commission Delegated Regulation (EU) 2017/653 of 8 March 2017 supplementing Regulation (EU) No. 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products

reinsurance – transfer to some other insurance undertaking – the reinsurer – of all or part of the insured risk or class of risks along with the pertinent portion of the premiums. As a result of reinsurance, a secondary split of risks transpires to minimize the risks to the insurance market

outward reinsurance – reinsurance activity whereby the insurer (cedent) transfers a portion of the concluded insurance to a reinsurer or reinsurers in the form of a reinsurance agreement

inward reinsurance – reinsurance activity whereby a reinsurer or reinsurers accept a portion of insurance or a class of insurance transferred by a cedent

technical provisions –provisions that should ensure full coverage of current and future liabilities that may result from executed insurance contracts. The following, in particular, are for accounting purposes part of technical provisions: provision for unearned premiums, provision for outstanding claims and benefits, provision for unexpired risks, provision for investment risk borne by policyholders and provision for bonuses and discounts for insureds

GDPR – Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC

CRR Regulation – Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms

Regulation on Current and Periodic Information – Finance Minister's Regulation of 29 March 2018 on Current and Periodic Information Transmitted by Securities Issuers and the Conditions for Recognizing the Information Required by the Regulations of a Non-Member State as Equivalent (Journal of Laws of 2018, item 757, as amended)

credit scoring – method for assessing the credibility of an entity (usually a natural person or a business) applying for a bank loan. The result of credit scoring is ordinarily presented in the form of a score – the higher the number of points, the greater the credibility of a prospective borrower

sell side – part of the financial sector involved in creating, promoting and selling equities, bonds, foreign currencies and other financial instruments; it includes investment bankers who act as intermediaries between securities issuers and investors as well as market makers who provide liquidity on the market. Sell-side analysts release research reports with investment recommendations and daily comments for the buy side, i.e. for asset managers. Research reports pertain to companies that are already public and to companies that are being floated on an exchange or that are conducting additional rights offerings

gross written premium – the amounts of gross written premiums (net of the reinsurer's share) due by virtue of the insurance contracts executed in the reporting period, notwithstanding the term of liability stemming from these agreements

net earned premium – the gross written premium in a given period giving consideration to the settlement of revenues (premiums) over time through movement in the provisions for unearned premiums and the reinsurer's share

Solvency II – a solvency system for European insurance undertakings taking the risk profile into account. These requirements have been in force since 1 January 2016

risk-free rate – rate of return on financial instruments with zero risk. In PZU the risk-free rate is based on the yield curves for treasuries and it is the basis for determining transfer prices in settlements between operating segments

sum insured – amount in cash for which an insured object is insured. In non-life insurance the sum insured ordinarily constitutes the upper limit of the insurer's liability

Attachment: Glossary of terms

TSR (Total Shareholder Return) – measure specifying the total rate of return obtained by shareholders by virtue of holding shares in a given company during an annual period. This measure expresses the sum total of profit stemming from the movement in the share price of a given company and the dividends paid during the time when an investor holds its shares in relation to its share value at the beginning of a given year. It is expressed as a percentage on an annualized basis

Unit-linked – Unit-linked insurance fund, a separate fund consisting of assets constituting a provision consisting of insurance premiums invested in the manner specified in the insurance agreement, a constituent part of unit-linked life insurance also referred to as an investment policy

Statutory Auditor Act – Act of 11 May 2017 on Statutory Auditors and their Self Regulation, Entities Authorized to Audit Financial Statements and Public Supervision (Journal of Laws of 2017, Item 1089 as amended)

UOKiK – Office of Competition and Consumer Protection. The shaping of anti-monopoly policy and consumer protection policy is one of the powers of the President of the Office of Competition and Consumer Protection, inter alia, by conducting anti-monopoly proceedings in cases of practices limiting competition and in cases of practices violating the collective interests of consumers, www.uokik.gov.pl

Insurance Activity Act – Act of 11 September 2015 on Insurance and Reinsurance Activity (Journal of Laws of 2015, Item 1844, as amended), with most regulations in force as of 1 January 2016. This actintroduced Solvency II requirements in the Polish legal system

up-selling – commercial technique involving the offering and selling of additional higher-priced and higher standard services to a current client

venture capital – medium and long-term investments in privately-held businesses in their early stage of development combined with managerial support, conducted by specialized entities (venture capital funds). The purpose of venture capital investments is to generate a profit ensuing from the incremental growth in the value of a business by selling its stock after the elapse of a specific period

VIX – index of the volatility of stock market prices expected by Wall Street investors based on option prices. The higher this index goes, the greater the fear on the market and the greater the opportunities are to buy discounted equities

WIBOR6M – reference interest rate for a loan for 6 months on the Polish interbank market

Cost/Income ratio (C/I; banking sector) – quotient of administrative expenses and the sum of operating income, excluding: the BFG charge, the levy on other financial institutions and the net result on realization and impairment losses on investments

solvency ratio – statutory multiple (under Solvency II) specifying the level of capital security for the operations conducted by an insurer. By law this multiple should be higher than 100%

prudent person principle – principle expressed in article 129 of the Solvency II Directive of the European Parliament and of the Council on the Taking-up and Pursuit of the Business of Insurance and Reinsurance that imposes on insurance undertakings and reinsurance undertakings the requirement of investing assets in the policyholders' best interest, properly matching investments to liabilities and duly incorporating the various types of financial risk, such as liquidity risk and concentration risk