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

Independent Auditor's Report

To the General Shareholders' Meeting and Supervisory Board of Powszechny Zakład Ubezpieczeń SA

Report on the Audit of the Annual Consolidated Financial Statements

Opinion

We have audited the accompanying annual consolidated financial statements of Powszechny Zakład Ubezpieczeń SA Group (the "Group"), whose parent entity is Powszechny Zakład Ubezpieczeń SA (the „Parent Entity"), which comprise:

— the consolidated statement of financial position as at 31 December 2018,

and, for the period from 1 January to 31 December 2018:

— the consolidated statement of profit or loss;
— the consolidated statement of comprehensive income;
— the consolidated statement of changes in equity;
— the consolidated statement of cash flows;

and

— notes comprising a summary of significant accounting policies and other explanatory information

(the "consolidated financial statements").

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

— give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the financial year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS EU") and the adopted accounting policy;
— comply, in all material respects, with regard to form and content, with applicable laws and the provisions of the Parent Entity's articles of association.

Our audit opinion on the consolidated financial statements is consistent with our report to the Audit Committee dated 12 March 2019.

KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k.

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Basis for Opinion

We conducted our audit in accordance with:

- International Standards on Auditing as adopted by the National Council of Certified Auditors as National Standards on Auditing (the "NSA"); and
- the act on certified auditors, audit firms and public oversight dated 11 May 2017 (Official Journal from 2017, item 1089 with amendments) (the "Act on certified auditors"); and
- regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-listed entities and repealing Commission Decision 2005/909/EC (Official Journal of the European Union L 158 from 27 May 2014, page 77 and Official Journal of the European Union L 170 from 11 June 2014, page 66) (the "EU Regulation"); and
- other applicable laws.

Our responsibilities under those standards are further described in the Auditor's Responsibility for the audit of the consolidated financial statements section of our report.

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

Independence and Ethics

We are independent of the Group in accordance with the Code of Ethics for Professional Accountants ("IFAC Code") issued by the International Ethics Standards Board for Accountants as adopted by the resolutions of the National Council of Certified Auditors, as well as other independence and ethical requirements, applicable to audit engagement in Poland. We have fulfilled all ethical responsibilities resulting from those requirements and IFAC Code. During our audit the key certified auditors and the audit firm remained independent of the Group in accordance with requirements of the Act on certified auditors and the EU Regulation.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. They are the most significant assessed risks of material misstatements, including those due to fraud, described below and we performed appropriate audit procedures to address these matters. Key audit matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon we have summarised our response to those risks. We do not provide a separate opinion on these matters. We have determined the following key audit matters:

Valuation of provisions for outstanding claims and benefits for motor third party liability insurance ("MTPL")

The carrying value of provisions for outstanding claims and benefits for MTPL amounted to PLN 14,323 million as at 31 December 2018 and PLN 13,544 million as at 31 December 2017.

Reference to the consolidated financial statements: Note 41.1.1 of the additional information and notes "Property and personal insurance", Note 41.2.1 of the additional information and notes "Property and personal insurance", Note 41.3 of the additional information and notes "Quantitative data".

Key audit matter	*Our response*
Provisions for outstanding claims and benefits for MTPL constitute a significant element of technical provisions presented in the liabilities of the Group's balance sheet. Our audit focused particularly on among others the following positions:	In the course of the audit we have assessed processes and accounting policies associated with the valuation of provisions for outstanding claims and benefits for MPTL as well as we have analysed the internal control system.

— provisions for the annuities claims that existed before the 31 December 2018 and have been reported to the Entity ("the annuities"),

— provisions for property and casualty claims that existed before the 31 December 2018 but have not yet been reported to the Entity, including provisions for pain and suffer claims ("IBNR").

Valuation of IBNR and the annuities is associated with significant uncertainty regarding estimates, as it requires the Group Management to develop professional judgment, as well as complex and subjective assumptions. The uncertainty in estimates is particularly related to the development of bodily injury claims, including annuities, as well as pain and suffer claims, as a result of the lack of comprehensive information on past occurrence of such type of claims that still burden the risk of payment. Moreover, there is a natural uncertainty about the ultimate loss value, which results among others from demographic factors and the lack of detailed legal solutions regulating the amount of pain and suffer claims.

Relatively insignificant changes in the assumptions may have a significant impact on the valuation of the IBNR and the annuities. The key assumptions are: claims development ratios, discount rates, changes in the amount of future annuity payments, the expected payment period and assumed mortality.

The calculation of IBNR and the annuities requires the implementation of complex formulas and creation of calculation tools that may not work properly and / or to which may be used incorrect/ incomplete data and/ or assumptions. In addition, there is a number of acceptable actuarial methods for determining IBNR (including provisions for pain and suffer claims) and the annuities, for which the assessment of the appropriateness of implementation of particular methods and assumptions requires a significant judgment of the Group Management.

Completeness and quality of data used for Group Management's actuarial calculations were also concerned as an important area of our audit.

Due to the above we have considered the valuation of provisions for outstanding

Our audit procedures performed with the assistance of our own actuarial specialists, included among others:

— assessment of the valuation methods applied by the Parent Entity's Management, with reference to legal and regulatory requirements, including the applicable financial reporting standards;

— testing of the design, implementation and operating effectiveness of key controls embedded in the process of:

- establishing and adjusting actuarial assumptions;
- verification of quality of the data regarding paid and reported claims, used among others in calculation of IBNR;
- verification of quality of the data (i.e. age and sex of annuitants; amount or type of the annuity used for a calculation of the annuities and IBNR);

— recalculation of IBNR and explanation of all significant differences in comparison to the calculations made by the Parent Entity's Management;

— recalculation of the significant annuities and explanations of all significant differences in comparison to the calculations made by the Parent Entity's Management;

— in the area of the Parent Entity's Management 's analyses of the historical utilization of IBNR:

- assessment of the assumptions underlying the analyses;
- assessment of the results of the analyses;
- application of the results in our assessment of methods and key assumptions implemented by the Parent Entity's Management in the valuation of IBNR as at 31 December 2018;

— assessment of the adequacy of key assumptions adopted by the Parent Entity's Management to the valuation of the annuities and IBNR, in particular:

- for claim development ratios, assessment of how it is determined

claims and benefits for MTPL as key audit matter.	based on the historical data regarding reported and settled claims; • for discount rate, comparison of the level of discount rate adopted by the Parent Entity's Management to historical return rate of other investment portfolio and available market data and forecasts; • for a change of value of paid annuities (indexation of annuities), assessment of results of the analysis of historical changes in amount of paid annuities; • for adopted mortality tables, comparison to publicly available data regarding annual number of deaths in Poland in each age bucket; — assessment of the sensitivity of the annuities and IBNR to changes in the key assumptions in the audited period; — analysis of change of value of the annuities and IBNR over time.

Valuation of life insurance provision

The carrying value of life insurance provision amounted to PLN 16,204 million as at 31 December 2018 and PLN 16,060 million as at 31 December 2017.

Reference to the consolidated financial statements: Note 41.1.2 of the additional information and notes „Life insurance", Note 41.2.2 of the additional information and notes „Life insurance", Note 41.3 of the additional information and notes „Quantitative data", Note 41.3.2 of the additional information and notes „Technical provisions – life Insurance".

Key audit matter	*Our response*
The life insurance provision is a significant element of technical provisions recognized in the liabilities of the Group's liabilities. Valuation of the life insurance provision is associated with significant uncertainty regarding the estimates, as it requires the Parent Entity's Management to develop professional judgments and use complex and subjective assumptions to reflect the specifics of insurance risks included in the portfolio of life insurers included in the Capital Group, in particular in long time horizon. These assumptions are treated as input data for valuation models using actuarial methods.	In the course of the audit we have assessed processes and accounting policies associate with valuation of life insurance provision as well as we have analysed the internal control system. Our audit procedures, carried out with the support of our internal actuarial specialists, included, among others: — assessment of the key actuarial assumptions applied by the Parent Entity's Management – discount rates, mortality tables and accident rates, with reference to legal and regulatory

Relatively small changes in the key assumptions may have a significant impact on the valuation of the life insurance provision. The key assumptions concern technical rates, mortality tables and accident rates. In addition, the calculation of the life insurance provision requires the use of complicated calculation formulas and creation valuation tools that may be incorrectly defined and/ or to which incorrect or incomplete data or assumptions may be used. Completeness and quality of data used by the Parent Entity Management for actuarial calculations were also an important area of our audit procedures. For these reasons, the valuation of life insurance provision has been considered by us as a key audit matter.	requirements, including the applicable financial reporting standards; — testing the design, implementation and operating effectiveness of key controls embedded in the process of: • creating and updating actuarial assumptions; • ensuring quality of policy data such as type of insurance, age and sex of the insured, sum and period of the insurance; • calculating the life insurance reserve — assessment of the adequacy of key assumption adopted by the Parent Entity's Management to valuation of life insurance provision as at 31 December 2018, in particular for a technical rate, mortality tables and accident rate by comparison of these assumptions to their historical values and available forecasts or other statistical and market data; — independently recalculating the life insurance provision as at 31 December 2018, for selected key product groups; — assessment of the adequacy of the life insurance provision as at 31 December 2018, in relation to the estimated future liabilities of the Capital Group under life insurance contracts.

Impairment of loans to customers in banking activity

The carrying value of receivables from clients due to credits in banking activity amounted to PLN 182,054 million as at 31 December 2018 and PLN 169,457 million as at 31 December 2017. The carrying value of impairment allowance for losses on loans and advances to customers amounted to PLN 10,461 million as at 31 December 2018 and PLN 8,839 million as at 31 December 2017. Provisions for off-balance sheet commitments amounted to PLN 316 million as at 31 December 2018 and PLN 260 million as at 31 December 2017.

Reference to the consolidated financial statements: Note 33 "Loans to customers" and Note 36 "Impairment of financial assets and receivables" of the additional information and notes.

Key audit matter	*Our response*
Loans and advances to customers are measured at amortised cost less impairment allowances. The procedures to estimate impairment allowance comprise two major phases – identification of the impairment	As part of our audit procedures, we performed a critical assessment of the process and accounting policies regarding the impairment allowances on loans and advances to customers, as well as a critical evaluation of the control environment with

triggers or significant increase of credit risk and measurement of expected credit losses.

Starting form 1 January, for the purpose of impairment allowances calculation the Group applies International Financial Reporting Standard 9 *Financial Instruments* ("IFRS 9"), which replaced IAS 39 *Financial Instruments: Recognition and Measurement*.

The impairment triggers and significant increase of credit risk are identified mainly on the basis of payment delinquencies and the current probability of default as compared to the date of initial recognition of the exposure, while impairment allowances are estimated collectively with the use of statistical methods on the basis of the risk parameters. Risk parameters such as probability of default (PD), loss given default (LGD) or exposure at default (EAD) are determined for individual loan exposures or homogenous groups of exposures on the basis of their historical performance, taking into account the expected macroeconomic conditions.

Impairment loss allowances constitute the estimation of expected credit losses to be incurred during the next 12 months or within the lifetime of the exposure. We assessed this area to be the key audit matter because, taking into consideration the size of the loan portfolio, estimation of expected credit losses has a significant impact on the consolidated financial statements and is associated with uncertainty and requires substantial judgement to be applied by the Management Board of Bank Pekao SA and Alior Bank SA (further called together "Banks"). The main risk area is the failure to identify existing impairment triggers and the significant increase of credit risk as well as the application of inappropriate data to calculate the parameters of statistical model, which may not adequately reflect the expected credit losses existing at a given balance sheet date. In addition, there is a risk of making errors in the process of calculating the impairment allowances.

The category of loan receivables for which the estimation of impairment losses was related to the occurrence of particularly important uncertainty of the estimate are exposures to entities from the renewable energy sector (wind farms). It is related to, among others with high price volatility of renewable energy certificates of origin which

particular attention paid to the automated controls in the Bank's IT systems.

Our audit procedures conducted with the support of our internal credit risk and IT specialists included i.a.:

- critical assessment of the design and implementation of relevant internal controls (including general IT system controls) in the process of the classification of loan exposures into stages and the estimation of expected credit losses (including collateral value monitoring) as well as testing the operating effectiveness of those controls. Our procedures were focused in particular on controls of timely monitoring of debtors' standing and calculation of impairment allowances;
- critical assessment of methodology used for calculating the risk parameters and estimation of impairment allowances using both the individual and collective approach in terms of their compliance with the IFRS 9 requirements and the best market practice;
- analysis of the structure and dynamics of the loan portfolio including quality ratios and provision coverage in order to identify groups of loans with underestimated impairment allowances.

Specific audit procedures for loans and advances to customers assessed using group and portfolio methods:

- including the results of validation carried out by the Management Boards of Banks, review of the results of the impairment model validation process, critical assessment of assumptions and input data used in the estimation of expected credit loss models for specific key credit risk parameters, such as the transfer logic between stages, probability of default (PD) or loss given default (LGD);
- recalculation of selected elements of risk parameters used in the calculation of expected credit losses using statistical methods;
- assessment of the adequacy of the credit losses expected within 12 months by the reference to credit losses actually

are an important source of revenues for these entities.	incurred on homogenous portfolios in the past; — evaluation of the correctness of the credit risk model parameters' assignment to particular customer loans on the basis of homogenous portfolio characteristics, e.g. rating class, past due status; — independent recalculation of expected credit losses using statistical methods; — analysis of the correctness of the allocation of customer loans into stages taking into account the qualitative and quantitative criteria; — assessment of the impact of macroeconomic factors on particular credit parameters of the expected credit loss models and the calculation of expected credit loss allowances. For loans and advances to customers assessed individually: — on the basis of a selected sample of significant loans – assessment of the appropriateness of identification of a significant increase of credit risk and impairment triggers and for impaired assets – critical assessment of relevant assumptions adopted by the Group and independent calculation of impairment allowances. characteristics for homogenous portfolios, i.e. past due status; — independent recalculation, of the impairment incurred but not reported and collective allowances based on credit risk parameters estimated by the Banks

Impact of the first-time adoption of International Financial Reporting Standard 9

The impact of the application of IFRS 9 for the first time on the equity of the capital group as at 1 January 2018 is PLN 1,658 million (negative impact), of which PLN 1,146 million relates to the impact on non-controlling interests.

Reference to the consolidated financial statements: Note 5.2.2 "MSSF 9 – Financial instruments" of the additional information and notes.

Key audit matter	*Our responce*

Implementation of IFRS 9 since 1 January 2018 and new rules for recognition, classification and measurement of financial instruments, required an estimation of the impact of the new standard's adoption on the opening balance as at 1 January 2018 and accounting for the change in the retained earnings as of that date.

The major modifications of classification and measurement of financial instruments are based on the business models adopted by the Group to manage the financial instruments, and the characteristics of contractual cash flows expected from the financial instruments – the SPPI test (solely payments of principal and interest) performed in order to determine whether contractual cash flows represent solely the repayment of principal and interest on the outstanding balance. Regarding the impairment of financial instruments, implementation of the standard required to apply advanced statistical models in order to measure significant increase of credit risk and to estimate expected credit losses for the loan portfolio over the lifetime of the exposure.

We have considered this area a key audit matter, as the application of the new standard required significant changes in business processes, information and reporting systems, and the acquisition of the new data set to be used for the valuation of financial assets. Meeting the classification and measurement criteria and calculation of expected credit losses also requires from the Parent Entity's Management to use substantial judgement. The main risk areas connected to the implementation of the new standard concerned the appropriate definition of business models for the Group's financial assets and interpretation of the results of the SPPI tests as well as estimation of expected credit losses described in more details under "Impairment allowances on financial assets and off-balance sheet commitments".

In case of the Banks, the date of initial recognition of financial instruments is the acquisition date of the Banks. As a result, for the purpose of expected losses calculation, the Parent Entity's Management performs a separate allocation to stages in accordance with IFRS 9. As a consequence the balance of loans of the impairment and provision for the off-balance sheet items recognized by

In addition to the procedures performed for impairment allowances and provisions for off-balance sheet commitments described in the previous key audit matter, our procedures aimed at evaluation of the new standard's adoption, performed with the support of our valuation of financial instruments specialists, included:

— assessment of the methodology applied by the Management of the Banks for the classification and measurement of financial instruments in terms of its compliance with IFRS 9 requirements, as well as the best market practice;

— evaluation of the correctness of assigning financial assets to business models, including the evaluation of the sales of financial instruments that occurred in the audited period;

— independent testing of the correctness of SPPI tests performed by the Group;

— for financial instruments recognized as a result of the Banks' consolidation, assessment of correctness, from the point of view of IFRS 9, of the rules adopted by the Parent Entity's Management for the purposes of allocation to stages, taking into account the structure of the loan portfolio as at the acquisition date and any subsequent credit quality changes. In particular, based on the source data, we performed an independent reconstruction of the loan portfolio allocation to stages as at 31 December 2018 using the principles adopted by the Group;

— assessment of disclosures, including those related to the first-time adoption of IFRS 9 and quantitative and qualitative requirements, relating in particular to credit risk of financial assets.

the Group are not equal to the amounts recognize in the Banks' financial statements.

In addition, IFRS 9 implementation, by amending IFRS 7 Financial Instruments: Disclosures, resulted in an extended scope of disclosures required in the separate financial statements.

Litigations and proceedings before supervisory authorities

Litigations and pending proceedings before supervisory authorities have been described in Note 50 „Legal claims", Note 53.3 „KNF proceedings regarding the imposition of a penalty on Alior Bank" and Note 43 "Other provisions" of the additional information and notes

Key audit matter	*Our responce*
As described in Note 53.3 "KNF proceedings regarding the imposition of a penalty on Alior Bank", Alior Bank is a defendant in the proceeding related to determination of the its responsibility for damage caused by inadequate performance of informational duties to its clients and improper performance of contracts regarding receiving and transferring purchase and sale of orders of investment fund ceritficates managed previously by Fincrea TFI S.A., and currently by Raiffeisen Bank International AG (Joint Stock Company) Branch in Poland („CEF shares") Furthermore, as described in Note 53.3 to the additional information and explanatory notes to the consolidated financial statements, proceedings have been initiated against Alior Bank on 14 September 2018 by the Polish Financial Supervision Authority on the imposition of a fine on Alior Bank in relation to identified distribution irregularities FIZ certificates. As at the date of the audit report, the Polish Financial Supervision Authority did not complete the proceedings regarding the imposition of a fine. We considered this area a key matter due to the fact that the assessment of risk arising from issues described above results in requirement to provide significant judgment and significant estimates by Alior Bank and Parent Entity's Management.	Our audit procedures concerned key assumptions adopted by Alior Bank and Parent Entity's Management in assessing the risk of cash outflows with regard to pending proceedings as well as correctness and completeness of the related disclosures in the financial statements. Our audit procedures included among others: — analysis of the post-control report and review of the correspondence with supervisory authorities regarding the proceedings initiated against Alior Bank. — review of the results of internal control in relation to the process of offering and sale of CEF shares performed by Alior Bank's units through, among others, inspection performed on a sample basis including documents, correspondence with Alior Bank's clients; critical assessment of assumptions made by Alior Bank and the Parent Entity based on our observations of the internal control results — review of the reports prepared by the Legal Department of Alior Bank and the opinions of the Alior Bank's external legal advisors. — verification of the disclosures in the financial statements regarding litigation and administrative proceedings.

Impairment of goodwill

The carrying value of goodwill amounted to PLN 3,871 million as at 31 December 2018 and PLN 3,830 million as at 31 December 2017.

Reference to the consolidated financial statements: Note 26 “Goodwill” of additional information and explanatory notes to the consolidated financial statements.

Key audit matter	*Our responce*
As at 31 December 2018, goodwill in the amount of PLN 3,871 million was recognized in the consolidated financial statements of the Group. Each goodwill was allocated by the Management Board of the Parent Company to the cash-generating units ("CGU") and for each CGU a test for impairment has been performed. These tests consisted of comparing the carrying amount of a given CGU with its recoverable amount, estimated using the value in use which is the present value of future estimated cash flows. Estimation of the recoverable amount is a complex process which requires the Management to develop professional judgement, as well as complex and subjective assumptions. Relatively insignificant changes in the assumptions may have a significant impact on the valuation of the recoverable amount. Key assumptions in the process of valuation of the recoverable amount are: value of the future cash flows, growth rates in the residual period, discount rates including the risk-free rate, risk margin, beta parameter. For the above reasons, impairment of goodwill has been considered by us as a key audit matter.	Our audit procedures, carried out with the support of our internal valuation specialists, included, among others: — assessment of the impairment triggers identification carried out by the Management Board of the Parent Company for individual assets; — assessment of identification of the CGU carried out by the Management Board of the Parent Company, including to which CGU goodwill has been allocated and at the level of which the impairment test for particular assets was carried out; — in relation to the models of value in use measurement applied by the Management Board of the Parent Company: • assessment of whether the models used by the Group to estimate the value in use of individual CGU meet the requirements of applicable reporting standards; • analysis of the recoverable amount calculation models for each CGU (verification of mathematical correctness and logical consistency); • evaluation of the reasonableness of the adopted discount rates by comparing them to existing the risk-free rates, risk margin, beta parameter adapted to the specifics of the business of the tested CGU; • assessment of the forecasted financial results of each CGU by comparing them to historical financial results and the accuracy of budgeting in previous periods; • comparison of residual growth rates after the forecasts to average growth rates applicable to particular business sector, particular country and to historical growth rates,

	including in the light of the discount rates used.

Responsibility of the Management Board and Supervisory Board of the Parent Entity for the consolidated financial statements

The Management Board of the Parent Entity is responsible for the preparation of consolidated financial statements that give a true and fair view of the consolidated financial position of the Group and of its consolidated financial performance in accordance with International Financial Reporting Standards, as adopted by the European Union, the adopted accounting policy, the applicable laws and the provisions of the Parent Entity's articles of association and for such internal control as the Management Board of the Parent Entity determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board of the Parent Entity is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board of the Parent Entity either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

According to the accounting act dated 29 September 1994 (Official Journal from 2018, item 395 with amendments) (the “Accounting Act”), the Management Board and members of the Supervisory Board of the Parent Entity are required to ensure that the consolidated financial statements are in compliance with the requirements set forth in the Accounting Act. Members of the Supervisory Board of the Parent Entity are responsible for overseeing the Group’s financial reporting process.

Auditor’s Responsibility for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with NSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

As part of an audit in accordance with NSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

— identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

— obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

— evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board of the Parent Entity;

— conclude on the appropriateness of the Management Board of the Parent Entity’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report on the audit of the consolidated financial statements to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report on the audit of the consolidated financial statements. However, future events or conditions may cause the Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee of the Parent Entity regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Audit Committee of the Parent Entity with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee of the Parent Entity, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current reporting period and are therefore the key audit matters. We describe these matters in our auditors' report on the audit of the consolidated financial statements unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other information, including the report on activities

Other Information

The other information comprise:

- the report on activities of the Group for the year ended 31 December 2018 (the "Report on activities") prepared together with the report on activities of the Parent Entity ("Report and activities"), including the corporate governance statement, which is a separate part of the Report on activities;
- the separate statement on non-financial information referred to in art. 55 paragraph 2c of the Accounting Act prepared together with the report on non-financial information of the Parent Entity;
- other information described in the paragraph 70.1 of the Decree of the Ministry of Finance dated 29 March 2018 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent of information required by the laws of a non-member state (Official Journal from 2018, item 757) (the "decree") required to be included in the annual report.

(together the "Other information").

Responsibility of the Management Board and Supervisory Board

The Management Board of the Parent Entity is responsible for the Other information in accordance with applicable laws.

The Management Board and members of the Supervisory Board of the Parent Entity are required to ensure that the Report on activities, including the corporate governance statement and the report on non-financial information referred to in art. 55 paragraph 2c of the Accounting Act are in compliance with the requirements set forth in the Accounting Act.

Auditor's Responsibility

Our opinion on the consolidated financial statements does not cover the Other information.

In connection with our audit of the consolidated financial statements, our responsibility was to read the Other information and, in doing so, consider whether the Other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we performed, we conclude that there is a material misstatement in the Other information, we are required to report that fact.

In accordance with the Act on certified auditors our responsibility was to report if the Report on activities was prepared in accordance with applicable laws and the information given in the Report on activities is consistent with the consolidated financial statements.

Moreover, in accordance with the requirements of the Act on certified auditors our responsibility was to report whether the Group included in the statement on corporate governance information required by the applicable laws and regulations, and in relation to specific information indicated in these laws or regulations, to determine whether it complies with the applicable laws and whether it is consistent with the consolidated financial statements and to inform whether the Group prepared a separate report on non-financial information.

Opinion on the Report on activities

Based on the work undertaken in the course of our audit of the consolidated financial statements, in our opinion, the accompanying Report on activities, in all material respects:

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

Furthermore, based on our knowledge about the Group and its environment obtained in the audit of the consolidated financial statements, we have not identified material misstatements in the Report on activities.

Opinion on the statement on corporate governance

In our opinion, the corporate governance statement, which is a separate part of the Report on activities, includes the information required by paragraph 70 subparagraph 6 point 5 of the decree.

Furthermore, in our opinion, the information identified in paragraph 70 subparagraph 6 point 5 letter c-f, h and letter i of the decree, included in the corporate governance statement, in all material respects:

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

Information about the statement on non-financial information

In accordance with the requirements of the Act on certified auditors, we report that the Group has prepared a separate report on non-financial information referred to in art. 55 paragraph 2c of the Accounting Act.

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

Report on other legal and regulatory requirements

Information on compliance with prudential regulations

The Management Board of the Parent Entity is responsible for the Group's compliance with the applicable prudential regulations defined in separate laws, in particular whether the Group has recognised technical provisions for accounting purposes in the amount sufficient to fully cover the amount of current and future liabilities arising from insurance or reinsurance contracts as well as having own funds in an appropriate amount and correct calculation of the solvency margin.

Our responsibility was to inform in our auditor's report whether the Group complies with the applicable prudential regulations defined in separate laws, in particular:

- whether as at 31 December 2018 the Group has recognised technical provisions for accounting purposes referred to in art. 277 of the act on insurance and reinsurance activities dated 11 September 2015 (Official Journal from 2019, item 381, with amendments), in the amount sufficient to fully cover the amount of current and future liabilities arising from insurance or reinsurance contracts
- for life insurance companies within the meaning of the Act of 28 August 1997 on the organization and functioning of pension funds (Journal of Laws of 2017, item 870, as amended) ("Act on the organization and functioning of pension funds") whether such an insurance company correctly calculated the solvency margin and has own funds as referred to in art. 106j paragraph 3 point 3 of that Act, in the amount not lower than the solvency margin and not lower than the guarantee capital.

The audit objective was not to express an opinion on the Group's compliance with the applicable prudential regulations and therefore we do not express such an opinion.

Based on our audit of the consolidated financial statements of the Group, we inform that:

- we have not identified any instances of non-compliance, in the period from 1 January 2018 to 31 December 2018, of the Group with the applicable prudential regulations, defined in separate laws, in particular in respect of the recognition of the technical provisions for the accounting purposes in the amount sufficient to fully cover the amount of current and future liabilities arising from insurance or reinsurance contracts, that could have significant impact on the financial statements of the Entity
- until December 31, 2018, none of the life insurance companies with head office in Poland included in the Capital Group concluded agreements with employee pension funds for accepting contributions referred to in art. 2 para. 4 of the Act on the Organization and Operation of Pension Funds, under which it would take over all biometric risks or guarantees related to the implementation of the foreign employer's retirement program. Thus, the Group was not required to calculate the solvency margin, as well as to have own funds referred to in art. 106j of the Act on the organization and functioning of pension funds.

Statement on services other than audit of the financial statements

To the best of our knowledge and belief, we did not provide prohibited non-audit services referred to in art. 5 paragraph 1 second subparagraph of the EU Regulation and art. 136 of the act on certified auditors.

Services other than audit of the financial statements, which were provided to the Group and entities under the control of the Parent Entity in the audited period are listed in note 53.1 „Remuneration of the auditor firm" of the consolidated financial statements.

Appointment of the audit firm

We have been appointed for the first time to audit the annual consolidated financial statements of the Group by resolution of the Supervisory Board dated 18 February 2014.

Our period of total uninterrupted engagement is 5 years, covering the periods ended 31 December 2014 to 31 December 2018.

On behalf of audit firm

KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.

Registration No. 3546

Signed on the Polish original

Marcin Dymek

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

Signed on the Polish original

Stacy Ligas

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

Warsaw, 12 March 2019