Management's Report of PZU Capital Group for the First Half of 2015

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~16 million
PZU Group's customers in Poland

Ranked 1st
in Poland in terms of gross written premium in non-life insurance

9.2 thous.
agents in own agency network

13.2%
share in the open-end pension fund market, by assets value

PLN 1.3 bn
Group net profit in H1 2015

Ranked 1st
in Poland in terms of gross written premium in life insurance

PLN 28.3 bn
assets accumulated in investment ifunds

32.8%
share in non- life insurance market in Poland after Q1 2015

21.1%
return on equity H1 2015

Ranked 1st
in Lithuania and Latvia in terms of gross written premium in non-life insurance

42.7%
share in life insurance market in Poland, by regular premium after Q1 2015

90.7%
combined ratio (COR) in non-life insurance

Letter from the CEO

Andrzej Klesyk CEO of PZU

Improved scale of international activity and sales under the new brand Link4 in the first half of this year allowed PZU Group to accumulate PLN 9,126 million in written premiums.

It was an increase by 8.2% as compared to the first half of the previous year

Dear All,

On behalf of the Management Boards of PZU Group companies, I am pleased to present you with the Management's Report for the first half of 2015.

The first six months of this year saw the initial phase of implementation of the new strategy PZU 3.0, adopted for the period 2015-2020. The strategy is based around three key business areas – insurance, health and investment – while focusing on maintaining a high return on equity. The past six months have shown that PZU Group is highly motivated to achieve these goals.

I am very proud of the fact that we remain among the most profitable financial institutions in this part of Europe. Thanks to foreign insurance company acquisitions in 2014, we are leaders in the insurance market not only in Poland, but also in the Baltic states.

In the area of investments, PZU maintains a leading position in terms of the value of net assets acquired. At the end of June 2015 TFI PZU was managing PLN 28.3 billion, a figure which has been growing continuously for several years. We are also leaders in the Employee Pension Program sector.

In our newest business area, health, we have witnessed a growth in gross written premiums from group and continued insurance, with an increase by 49.4% compared to the first half of 2014. PZU Zdrowie is continually expanding its network of health care facilities through further acquisitions of modern entities. In terms of formal procedures of note, the period also saw the setup of PZU Zdrowie, which will provide a platform to broaden the scope of medical services.

In the first half of the year PZU Group has witnessed some major events. At the end of May we signed a preliminary agreement for the acquisition of 25.25% of Alior Bank shares. This is a very important step towards PZU's growth and revenue diversification, as well as the generation of additional value for shareholders.

As in previous years, PZU has not forgotten about their investors. In October this year, PZU will pay out dividends of PLN 2.59 billion. In order to increase the availability of shares to individual investors, PZU has decided to split the shares. The nominal value of each share will be reduced from PLN 1 to PLN 0.10.

Improved scale of international activity and sales under the new brand Link4 in the first half of this year allowed PZU Group to accumulate PLN 9,126 million in written premiums. This result is even more gratifying in the face of the fact that the first half of the year was particularly demanding in terms of conducting business in insurance and investments, due to a higher loss ratio in several insurance categories and a decline in valuation of debt instruments. Despite these adverse conditions, we managed to generate a profit of PLN 1,322 million (compared to PLN 1,720 million in the same period last year).

The company has also continuously provided a high return on equity. ROE in the first half of 2015 was 21.1%, lower by 6.4 p.p. than the same period in 2014.

We are entering the second half of 2015 with the conviction that we are on the right track to further success of the company. I can assure you that the coming months and years will be a period of consistent implementation of the new strategy and the accomplishment of our business objectives.

I would like to take this opportunity to thank all staff and agents for their efforts in building the value of PZU.

Yours faithfully,

Andrzej Klesyk

Prezes Zarządu PZU

We are

number 1 insurer in Poland

and a leader on non-life insurance market in Lithuania and Latvia

Warsaw
Poland

01

Brief overview of PZU Group

The Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group SA (PZU Group) is one of the largest financial institutions in Poland and in Central and Eastern Europe.

PZU Group is led by PZU , a Polish insurance company. Offering a comprehensive range of insurance services, PZU Group satisfies the fundamental needs of nearly 16 million customers in Poland in the area of security and stability. PZU Group is also an important player on other segments of the Polish financial market, such as investment fund companies, open pension funds, and employee pension plans. PZU Group also ranks first in the non-life insurance market in Lithuania and Latvia. It also offers an increasingly broad range of health-related services.

Brief overview of PZU Group

32.8 %
Leader in the non-life insurance market in Poland - market share

42.7 %
Leader in the life insurance market in Poland - share in the regular premium

12.3 %
Share in total investment funds' assets

13.2 %
Third place in the open pension fund market – share in open pension fund assets

30.3 %
Leader in non-life insurace in Lithuania (30.3% - LD) and Latvia (25.3%)

The Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna (PZU Group) is one of the largest financial institutions in Poland and in Central and Eastern Europe. The Group is led by PZU SA (PZU, Issuer).

PZU Group is the leader in both non-life and life insurance in the Polish market. PZU is the most recognizable insurance brand in Poland among Customers purchasing an insurance policy.

Innovativeness, ethics in operation and adaptation to the increasingly demanding market conditions constitute the basis for PZU's rapid expansion. With improved customer service and new solutions, as well as the use of two brands, one of which is the acquired leader of the direct insurance market, Link4, PZU Group aims to reach out to a wider customer base.

PZU Group is also an important player on other segments of the Polish financial market, such as investment funds, open pension funds, and employee pension plans.

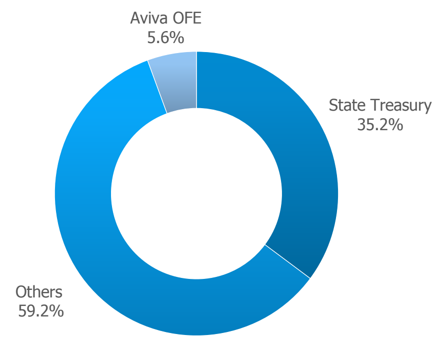
PZU Group is also expanding its operations in health care. Other than the health insurance offer, the customers can also take advantage of the company's own health care facilities as well as a chain of partner health care facilities (approximately 1,500 in total).

With each year, PZU Group expands its operations in Central and Eastern Europe. PZU Group also ranks first in terms of written premiums in the non-life insurance market in Lithuania and Latvia.

PZU on the capital and debt market
Since 2010, PZU is quoted on the Warsaw Stock Exchange (WSE).

PZU's strategic investor is the State Treasury, which, at the end of the first half of 2015, held a 35.2% share of the Issuer's share capital.

PZU shareholder structure as at 30.06.2015



Source: Current report 76/2015 published 1 July 2015

PZU has been distributing the profit generated to its shareholders since the start of its quotation. The Issuer has a clearly defined dividend policy. The main objective of PZU Group's "Capital and Dividend Policy for the Years 2013–2015", which was adopted in August 2013 and updated in May 2014, is to reduce the cost of capital by optimizing the balance sheet structure through the conversion of equity to cheaper external capital, while maintaining a high level of security and development funding.

The dividends paid out of the profits for 2010–2014 give PZU's shareholders high dividend yields compared with other large stock market companies. On 30 June 2015, the General Shareholders' Meeting of PZU adopted a resolution on distributing the net profit of PZU for the year 2014. One of its provisions concerned the payment of dividends in the amount of PLN 30 per share. The dividend payment date was set at 21 October 2015.

PZU – strong Customer orientation
PZU Group's products accompany individual customers at all stages of life and every stage of development of companies. PZU Group not only ensures comprehensive insurance protection in all the crucial areas of private and economic life, but also offers various possibilities of multiplying one's savings, including amassing funds for a complementary pension. It also offers a continually expanding range of health care services.

PZU Group also supports the Polish economy as it insures large infrastructural projects such as investments in the energy industry and construction and modernization of railway lines.

PZU Group is an innovator on the Polish financial market. It was the first institution in Poland to set up a Voluntary Pension Fund and to propose Individual Retirement Security Accounts. It is a precursor in the development of health insurance and was first to introduce medicine insurance to the Polish market.

PZU's customers have access to the largest sales and service system among Polish insurers. It includes 413 branches, 9.2 thousand exclusive agents, and 3 thousand multiagencies and electronic distribution channels (call center, the Internet). It is also implementing a modern IT system, with a view to building closer relationships with the multi-million group of its customers – the Everest platform.

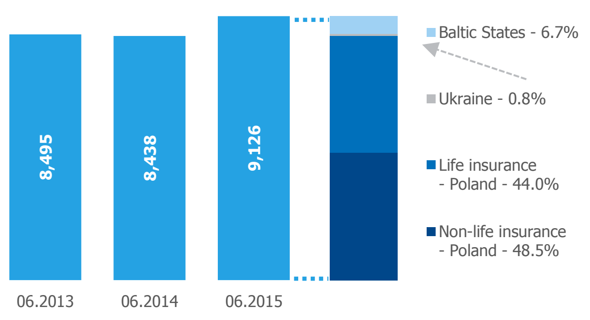
Protection of property and securing third-party property against damage	Accident cover	Savings	Securing the future of the family	Preparations for retirement	Health care
• Motor TPL and Motor own damage • Other property insurance • Financial insurance	• Accident insurance • Assistance services	• Structured products • Participation units in investment funds	• Group and individually continued protection products • Individual protection insurance	• Pillar II of the pension system – open-ended pension funds • Pillar III of the pension system (employment pension products-EPP, individual pension accounts – IKE and individual pension security accounts – IKZE)	• Health insurance • Medicine insurance • Health care services: general health care and additional services packages

KPI	1 January - 30 June 2015	1 January - 30 June 2014	1 January - 30 June 2013
ROE	21.1%	27.5%	24.3%
COR	90.7%	86.1%	82.3%
Group insurance profit margin*	20.4%	24.4%	22.3%

* ratio measured to the gross written premium of the group and individually continued insurance segment, excluding one-off effects

Brief overview of PZU Group

Gross written premium (PLN million)

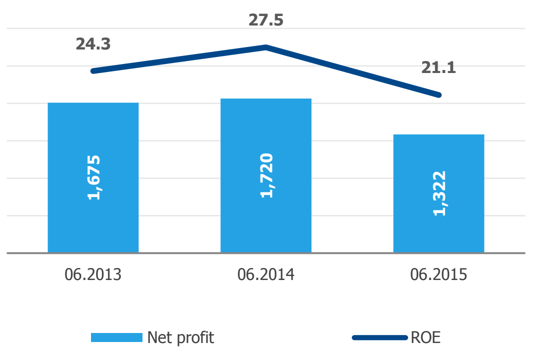


PZU strives to preserve the highest service standards, which cover regular and advanced surveys concerning customer satisfaction. As of the end of June 2015[1], they showed that PZU customer satisfaction level, who experienced the claims handling process or received a payment of benefits in the last 12 month period, was 9 p.p. higher than PZU competitors. The PZU clients NPS (Net Promoter Score) was 11%.

PZU – high operational efficiency

The financial results achieved by PZU Group in recent years place it among the most profitable financial institutions in the country. They simultaneously contribute to high performance ratios. In the first half of 2015, the rate of return on capital was 21.1%. In the first half of 2015, the combined ratio (COR) GLOSSARY for non-life insurance was 90.7%.

Net profit (in PLN million) and ROE (in %)



[1] Survey is carried out on a monthly basis by GFK Polonia on request by PZU. Cummulated data from January till June 2015

PZU Group complies with all safety standards of business. As at 30 June 2015, equity amounted to PLN 11,853.1 million and the solvency margin coverage ratio (pursuant to Solvency I) of PZU Group amounted to 251.6%.

PZU's insurance portfolio is not exposed to high concentration risk. This results from the considerable portfolio diversity. It largely consists of a substantial share of premiums obtained from the mass market (non-life insurance) and group insurance customer (with moderate sum of insurance)

PZU Strategy 3.0

In January 2015, the new PZU Business Strategy – PZU 3.0 was adopted.

It assumes further expansion of PZU Group until the year 2020 based on the following three strong pillars:

- Insurance – using two different brands (PZU and Link4), the Group will expand its share in the Polish non-life insurance market to at least 35% in the year 2020. It will retain its position of 43% measured with the share in regular premiums on the life insurance market. Simultaneously, it will become one of the three biggest insurance companies in Central and Eastern Europe (in the countries where it is already present). Furthermore, the Group will consider the possibilities of further acquisitions on prospective markets.
- Asset management – thanks to its offer of products with above-average investment results, the Group will become the leader in customer asset management in Central and Eastern Europe. It will retain the leading position on the Polish investment fund market and intends to hold at least 11.5% of share in TFI assets in the year 2020 (after the deduction of PZU Group's assets allocated in investment funds).
- Health care – PZU Group intends to become the biggest integrated coordinated health care operator on the Polish market. The complex offer will cover ambulatory care, prevention, hospitalization, rehabilitation, and long-term care.

The high operating effectiveness will increase the value for the stockholders. Despite operating under the conditions of low interest rates with an unfavorable effect on net profit on investing activities, the 2020 rate of return on capital will exceed 20%.

On 30 May 2015, PZU announced the conclusion of a preliminary agreement for purchase of 25.25% of shares of Alior Bank 3.8 Other segments of activity

PZU socially responsible

Social responsibility – of the whole firm and every employee – is the foundation of all PZU's activities and a prerequisite for sustainable development.

The entities composing PZU Group have a common operating philosophy, which stresses the following three basic values:

- We are Fair.
- We are Effective.
- We are Innovative.

The CSR GLOSSARY activities undertaken in support of the business objectives apply to the following areas:

Client relations – the Group enforces the "Good Practices in PZU code", which establishes the standards for ethical business operations. In order to learn the needs and opinions of the customers, we conduct surveys, take advantage of social media, analyze complaints, and conduct quality audits of our communication with the customers.

Activities for the community and hence concern for financial awareness and comprehensive safety; The Group sponsors numerous education-oriented ventures, such as Akcjonariat Obywatelski [Civic Shareholding], Akademia Liderów Rynku Kapitałowego [Academy of Capital Market Leaders], and Droga na Harvard [Road to Harvard]. In 2015, the Group also continued a nationwide campaign to stop road rage, "Stop wariatom drogowym". This year's edition was also titled "Uważaj na pieszych. To mogą być Twoi najbliżsi [Watch out for pedestrians. They can be your loved ones]". It also participates in numerous philanthropic campaigns through PZU Foundation.

Employee relations – building performance-oriented organizational culture. The year 2014 included the third employee commitment survey. The results of this survey serve as the foundation for the development of the Group's programs oriented on building organizational culture.

Lider 2.0 [Leader 2.0], Menedżer 2.0 [Manager 2.0] and PLUS are the three main company-wide programs addressed to the Group's employees from various positions.

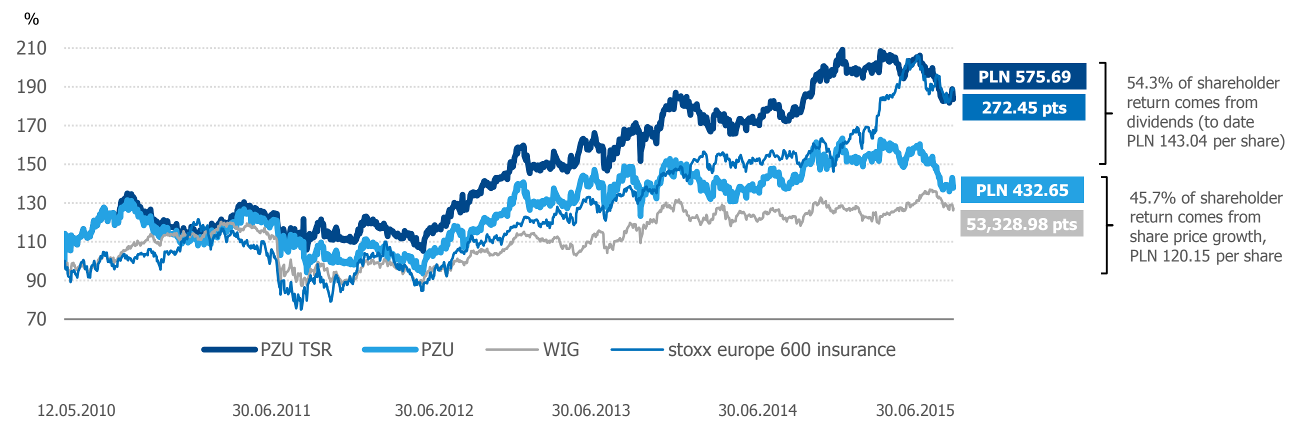
In 2014, two groups of employees with high potential for development were selected and included in the PZU Talnet talent network. This year, PZU is launching two development programs, TalentUp and SmartUp, addressed to these groups with the aim of promoting direct and simplified communication, teamwork and inspiring employees to seek innovative solution.

Impact on the environment – PZU Group's activities take two forms: of responsible internal resource management and of building environmental sensitivity and awareness among stakeholders: employees, customers, business partners, suppliers and representatives of local communities.

The confirmation of the highest standards at PZU Group regarding CSR is PZU's presence in the RESPECT Index of socially responsible companies dedicated to the companies quoted on the WSE in Warsaw, as well as in the CEERIUS (CEE Responsible Investment Universe) sustainable development index on the stock exchange in Vienna.

Both PZU and PZU Życie have had a Standard&Poor's rating of financial strength at the "A" level since 2009. It is one of the top ratings available for a Polish company.

PZU's share price on the Warsaw Stock Exchange from the IPO to 06.2015

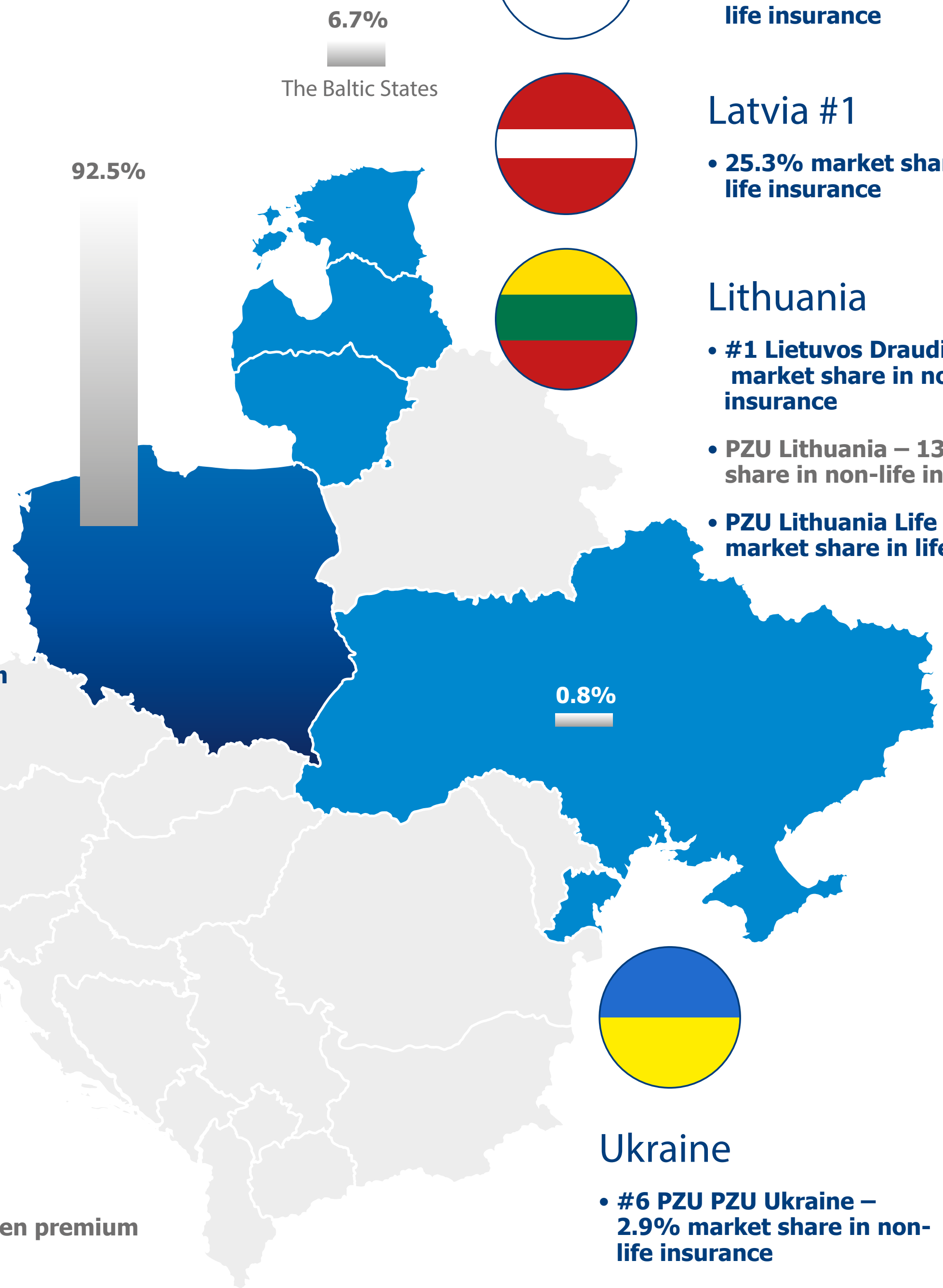


PZU TSR – total shareholder return rate, takes into account dividend paid out by PZU

Main consolidated financial data of PZU Capital Group for 2015 - 2013 (in PLN million)

	1 January – 30 June 2015	1 January – 30 June 2014	1 January – 30 June 2013
Gross written insurance premiums	9,126.5	8,437.9	8,495.3
Income from commissions and fees	103.2	123.1	143.2
Net investment result	1,057.8	1,370.5	969.1
Net insurance claims and benefits	(6,006.4)	(5,418.1)	(5,459.4)
Acquisition costs	(1,130.8)	(1,036.4)	(972.7)
Administrative expenses	(822.1)	(702.3)	(641.3)
Operating profit	1,637.0	2,235.7	2,145.4
Net profit	1,321.5	1,720.4	1,675.5
Total assets	66,079.7	63,821.8	62,602.2
Financial assets	54,601.6	55,627.7	54,329.4
Equity	11,853.1	11,917.3	13,288.6
Technical provisions	40,734.4	38,506.4	36,518.1

International operations of PZU Group



Gross written premium

Poland #1

- **PZU – 31.0% market share in non-life insurance**
- **PZU Życie – 42.7% market share in life insurance by regular premium**
- **Link4 – 1.8% market share in non-life insurance**

Estonia #4

- **13.9% market share in non-life insurance**

Latvia #1

- **25.3% market share in non-life insurance**

Lithuania

- **#1 Lietuvos Draudimas – 30.3% market share in non-life insurance**
- **PZU Lithuania – 13.0% market share in non-life insurance**
- **PZU Lithuania Life – 4.5% market share in life insurance**

Ukraine

- **#6 PZU PZU Ukraine – 2.9% market share in non-life insurance**
- **#4 PZU Ukraine – 8.9% market share in life insurance**

The most important events in the first half of 2015

01 Non-life insurance - Poland

PZU: Gross written premium (according to IFRS) at PLN 4,242.1 million accounts for a decrease of 1.2% in relation to the first half of 2014. Decline in non-motor insurance, in particular in TPL insurance for corporate customers, partially offset by an increase in motor insurance premiums.

Leading position in the non-life insurance market with a share of 31.0%, in the motor insurance market with a share of 34.7% (after the first quarter of 2015).

Link4: Gross written premium at PLN 250.9 million accounts for an increase of 23.6% in relation to the first half of 2014.

Market share of 1.8% (after the first quarter of 2015).

02 Life insurance - Poland

Gross written premium (according to IFRS) at PLN 4,018.0 million. An increase of 2.8% compared with 2014 due to the development of group and continued protection insurance, health insurance riders, higher average payments made to IKE, as well as high sales of individual protection products.

Life insurance market share of 28.4%, including 42.7% in regular premiums (after the first quarter of 2015).

03 Investment funds

Net asset value of PLN 28.3 billion at the end of June 2015, which represented 12.3% of the assets held by domestic investment funds.

Net third-party client asset value of PLN 6.9 billion, annual net growth of PLN 2.0 billion.

Maintenance of the leading position in the Employee Pension Program (EPP) market.

04 Pension funds

Third place on the market with a share of 13.2% by net asset value.

Maintenance of the leading position in the Individual Pension Security Accounts market among the voluntary pension funds.

05 Health care

Establishment of an own medical network and the acquisition of Rezo-Medica sp. z o.o. through CM Medica.

Acquisition of the first hospital facility by purchasing 54.95% of the shares in Centrum Medyczne Gamma in Warsaw. The hospital is one of the most modern private hospitals in Poland specializing in orthopedics.

Cooperation with approximately 1,500 health care facilities.

Providing general health care services for the population of Płock, Włocławek, and Upper Silesia in scope of contracts with NFZ.

Offering medical services toTauron Group and PKN Orlen Group and sanatorium care in Ciechocinek and Ustroń.

06 Foreign operations

Firm strengthening of the insurance position in Central and Eastern Europe resulting from the acquisition of new entities: Lietuvos Draudimas AB (Lithuania), AAS Balta (Latvia) and Codan Forsikring A/S (Estonia).

Lithuania: Lietuvos Draudimas (the leader of the Lithuanian market) in the first half of 2015, acquired the premium of EUR 62.4 million and had a 30.3% market share. PZU Lithuania acquired a premium in the amount of EUR 26.7 million (third in the market with a share of 13.0%). According to the recommendations of the Lithuanian authority in relation to the acquisition of Lietuvos Draudimas, on 2 February 2015 PZU Group entered a conditional agreement for the sale of PZU Lithuania to the Norwegian insurance company Gjensidige Forsikring ASA. In the first half of 2015, PZU Lithuania Life acquired a premium in the amount of EUR 4.8 million (a 4.5% share in the life insurance market).

Latvia: In the first half of 2015, PZU Group operated through AAS Balta, which entered the Group in June 2014, and through the PZU Lithuania branch acquired by AAS Balta in May 2015. In the first half of 2015, the share of AAS Balta (including the branch in Latvia) in the non-life insurance market amounted to 25.3%. The total gross written premium amounted to EUR 33.8 million.

Estonia: The Group operates in Estonia through the Lietuvos Draudimas branch, which was acquired from PZU Lithuania in May 2015. It was established as a result of the merger of two entities: the Lithuanian PZU branch and the Codan Forsikring A/S branch which was acquired in 2014. The premium collected in the first half of 2015 amounted to EUR 19.3 million, while the share of the gross written premium in the Estonian market amounted to 13.9%.

Ukraine: In the first half of 2015, the value of the non-life insurance premium acquired by PZU Group was UAH 344.9 million, which constitutes a 71.1% increase compared with the corresponding period of the previous year. The higher premium resulted from, among other things, an increase in tariffs in the local currency due to a strong depreciation of UAH. After the first quarter of 2015, PZU Ukraine held a 2.9% share in the non-life insurance market. The gross written premium collected by PZU Ukraine Life amounted to UAH 84.7 million and was 21.4% higher than in the first half of 2014. The company placed fourth in the market with a share of 8.9%.

07 Financial results and safety of operations

Net profit of PLN 1,321.5 million, i.e. lower by 23.2% than in the first half of 2014, mainly due to a weaker net investment result associated with a decrease in the valuation of debt instruments.

Return on capital 21.1% – a decline of 6.4 p.p. compared with the first half of 2014.

PLN 2,590.6 million of PZU's 2014 profit proposed as dividend.

Maintenance of high solvency ratios.

Conclusion of a preliminary agreement for purchase of 25.25% of shares of Alior Bank on 30 May 2015.

02

External environment in the first half of 2015

Good results of PZU Group in the insurance area under stable growth of the Polish economy.

Contents:

External environment in the first half of 2015

2.1 Main trends of the Polish economy

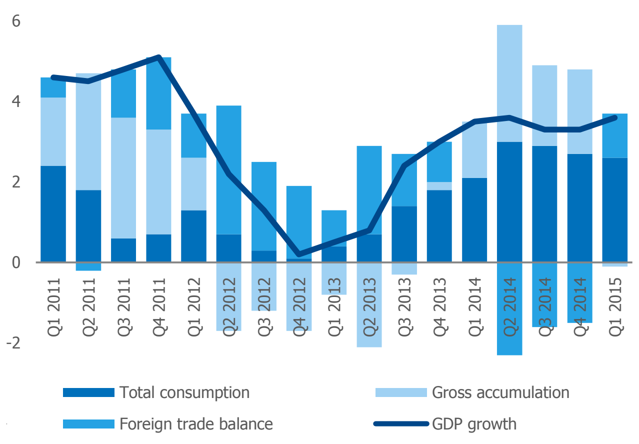
Gross Domestic Product

In the first quarter of 2015, the rate of GDP growth accelerated to 3.6% year-on-year compared with 3.3% year-on-year in the third and fourth quarter of 2014. The dynamics of domestic demand in the first quarter has decreased significantly – from 5.0% year-on-year in the last quarter of 2014 to 2.5% year-on-year. The reason behind this trend was a decline in inventories that subtracted 1.5 p.p. from the annual GDP growth. However, the gross fixed capital formation increased by as much as 11.4% year-on-year compared with 8.6% year-on-year in the previous quarter. It was mainly due to private investment. The most important factor of the economic growth in the first quarter was household consumption, with the rate of 3.1% year-on-year that slightly accelerated, compared with the previous quarter. The positive impact of net exports in the first quarter was surprisingly high (1.1 p.p.). A significant increase in the volume of exports (8.0% year-on-year) was accompanied by weaker growth of imports (up to 6.0% year-on-year).

According to the flash estimate, the GDP growth in the second quarter of 2015 amounted to 3.3% year-on-year. The growth of industrial output has somewhat weakened in the second quarter, decreasing to 3.9% year-on-year from 5.3% year-on-year in the first quarter. In turn, the growth rate of construction and assembly output increased to 2.4% year-on-year compared with 1.3% year-on-year in the first quarter. The growth of retail sales at constant prices in the second quarter (4.3% year-on-year) was slightly higher than in the previous quarter.

In the second quarter, a respectable increase in private consumption and investment was continued. The decrease in the rate of unemployment and a solid advance of the real household income create favorable conditions to maintain the current consumption growth rate. The ongoing moderate recovery of the euro zone favors the growth of Polish exports. Better demand prospects, relatively high capacity utilization, continued good financial standing of companies and low-interest credits motivate business investments.

Structure of GDP growth in 2011-Q1 2015



The labor market and consumption

The situation on the labor market has been improving steadily in the first half of 2015. The registered unemployment rate in the analyzed period decreased significantly – in June it amounted to 10.3% and was lower by 0.8 p.p. compared with December 2014. The average monthly paid employment in the enterprise sector in the first half of 2015 increased by 28,700 people compared with 35,100 people in the first half of 2014, while the annual growth of employment in June 2015 amounted to 0.9% year-on-year compared with 1.1% year-on-year in December last year.

In the first half of 2015, despite the improving situation in the labor market, the pressure on wage growth under conditions of deflation remained limited. The average rate of increase in monthly salaries in the national economy amounted to 4.1% year-on-year and 3.1% year-on-year in the first and second quarter of 2015, respectively, compared with 3.1% year-on-year in the fourth quarter of 2014. The decrease in prices, however, led to a faster acceleration of real wage growth in the national economy – to 5.8% year-on-year and 4.0% year-on-year, respectively, compared with 3.8% in the fourth quarter of the previous year. The average monthly real dynamics of the remuneration fund in enterprises in the first half of 2015 amounted to 6.0% year-on-year compared with 4.9% year-on-year in the second half of 2014 and was the highest in the last 6 years.

The continued improvement on the labor market and a considerable, real increase in household income supported a growth of consumption. An increase in savings was also observed. In the first quarter of 2015, the dynamics of individual consumption amounted to 3.1% year-on-year and is expected to remain at a comparable level in the second quarter of the current year.

Inflation, monetary policy and interest rates

In the first half of 2015, the deflation has intensified: the prices of goods and services (CPI) decreased by 1.2% year-on-year compared with the decline of 0.5% year-on-year in the second half of 2014. The lowest CPI was observed in February (-1.6% year-on-year) and since then, the deflation has been steadily weakening (-0.8% year-on-year as of June). The continued deflation of prices of goods and services was the result of low fuel and food prices, as well as the lack of cost pressures, a moderate increase in demand and low inflation in Poland's external environment. Net inflation (excluding food and energy prices) remained relatively stable last year and in average was close to 0.4% year-on-year. The inflationary expectations over the last 12 months have also remained extremely low – slightly higher than zero.

In the first two months of 2015 the monetary policy parameters remained stable. In March, interest rates were lowered by 50 basis points, including a decrease of reference rate to 1.50%. The reason for this decision was the prolonging deflation and a significant risk of inflation remaining below the target in the medium term. The Monetary Policy Council also pointed that the process of monetary policy easing has been completed. In the second quarter of 2015, no changes have been consistently made to the level of interest rates. The Monetary Policy Council indicated that the continued stable economic growth in relation to the improved economic situation of the euro zone and a favorable position of the domestic labor market conditions limit the risk of undershooting the central bank target over the medium term.

Public finances

The state budget deficit following the month of June in the current year reached PLN 26.1 billion, which accounts for 57% of its expected amount for 2015. Its level is currently slightly lower than the one projected in the schedule – mainly due to decreased expenses. The budget revenues in the second quarter of 2015 were more than 4% lower than expected in the government's schedule. Over the first months of 2015, the budget revenues temporarily dropped due to changes in tax regulations. In total, in the first half of 2015, the revenues proved to be lower than expected by approximately PLN 3.2 billion.

Poland's GDP growth in Q1 2015

3.6 %

▲+0.1 p.p.y/y

Unemployment rate in Poland in June 2015

10.3 %

▼-1.7 p.p.y/y

Inflation in Poland at the end of June 2015

-0.8 %

▼-1.1 p.p.y/y

Real remuneration dynamics in enterprises in H1 2015

5.0 %

▲+1.3 p.p.y/y

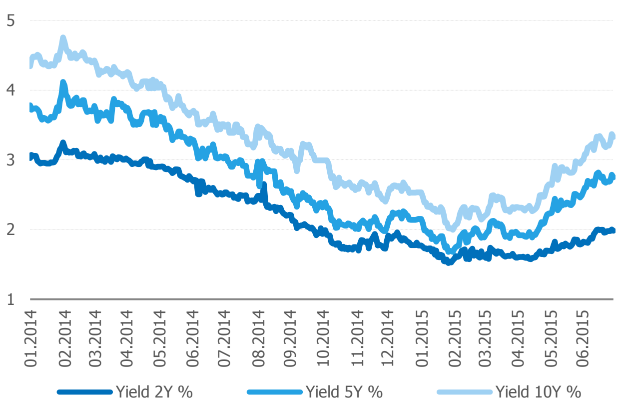
2.2 Financial markets situation

Following significant fluctuations in January, the levels of Polish stock exchange indices continued growing until May in the current year. In mid-May, the WIG index exceeded the value of 57 thousand points, reaching its highest level since 2007. Higher stock prices were stimulated by quantitative easing in the euro zone and favorable data concerning the Polish economy and its external environment. The situation was significantly changed by the economic downturn of Greece, the escalation of which led to a significant increase of risk aversion in financial markets. The declines in indices in the second half of May and in June significantly overshadowed the increases generated in the previous months. Ultimately, in the period between the end of December 2014 and the end of June in the current year, the WIG index increased by 3.7%, while the WIG20 index raised by as little as 0.1%.

By the end of April in the current year, the yields of Polish treasury bonds were characterized by relatively strong fluctuations, without, however, a clearly defined direction. On the one hand, they were influenced by a low inflation environment and quantitative easing within the euro zone, which contributed to a temporary decline in the 10-year German government bond yields below 0.10%. On the other hand, the increase in yields in Poland was influenced by better prospects for the economic growth and temporary periods of increased risk aversion in financial markets that were caused, among other things, due to the problems faced by Greece and the Ukrainian-Russian conflict. In the case of the Polish treasury bonds with shorter maturity periods, the decision of the National Bank of Poland to cut interest rates in Poland by 50 basis points in March this year was also significant.

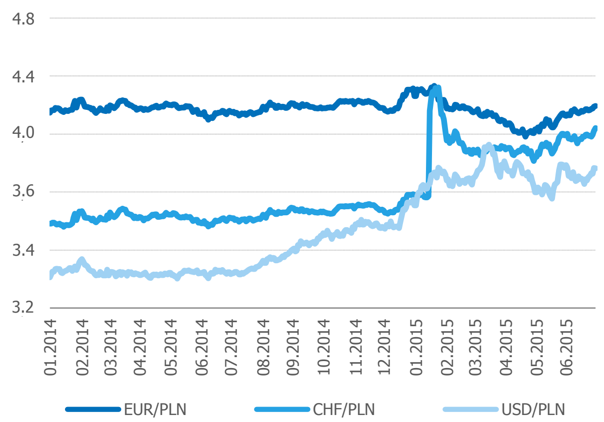
The end of April and the beginning of May this year brought a fundamental change of the treasury bond market situation. In most markets, especially in Europe, a significant increase in yields was recorded. The probable reason behind this was an increase of the inflation in Germany and credit growth in the euro zone under conditions of reduced market liquidity. The impact of quantitative easing in the euro zone lost its advantage over other issues important for the bond market. During this period in Poland, a period of increases in government bond yields also started. These increases, especially in case of debt securities with longer maturities, were influenced by the financial problems of Greece and the associated increase in markets' risk aversion. Ultimately, the Polish yield curve from the beginning of December 2014 to the end of June 2015 moved up by 21 basis points for 2-year treasury bonds and 60 and 79 basis points for 5- and 10-year bonds, respectively.

Treasury yields in 2014 and H1 2015



In the first half of 2015, the US dollar significantly strengthened, both in relation to the Polish zloty and the euro. The USD/PLN rate increased by as much as 7.3% at the end of June, compared with the end of 2014. As a result of lifting the cap on the Swiss franc, this currency has also gained significant value in Poland. The CHF/PLN rate increased by as much as 14.0% in the analyzed period. Simultaneously, the Polish zloty slightly strengthened in relation to the euro – the EUR/PLN rate decreased by 1.6%.

PLN exchange rate in 2014 and H1 2015



2.3 External environment in the Baltic states and Ukraine

Lithuania

The growth rate of the Lithuanian economy dropped due to difficult external conditions. The Bank of Lithuania has revised its forecast for the real GDP growth, decreasing it to 2.0% (previous forecast: 2.7%), mainly due to worse-than-expected export results. Lithuania's exports to Russia dropped by approximately a quarter in the first months of 2015, compared with the last months of 2014 as a result of the Russian embargo on selected products from the European Union, deterioration of the economic situation in Russia and a substantial depreciation of the ruble.

According to the data of the Department of Statistics, in the first half of 2015, GDP increased by 1.4% compared with the corresponding period of 2014. In the second quarter of 2015, Lithuania's GDP increased by 0.6%, improving since the first quarter when a decrease of 0.5% was recorded on a quarterly basis.

In June 2015, the monthly deflation amounted to 0.1%. The annual rate of deflation in June reached 0.5%, compared with June of the previous year.

According to the data of the Bank of Lithuania, the value of the gross written premiums in the non-life insurance sector was EUR 205.7 million in the first half of 2015 and was higher by 4.0% compared with the same period of the previous year. The gross written premium of life insurance companies amounted to EUR 106.6 million, 11.2% higher than in the previous year.

Latvia

In the first quarter of 2015, the Latvian economy recorded a GDP growth of 2.0% year-on-year. The main growth accelerator was domestic consumption. Simultaneously, in the first quarter of 2015, the balance of foreign trade in terms of commodity turnover improved, exports increased by 2.7% and imports decreased by 1.8%.

In June 2015, the annual inflation rate dropped to 0.6%. The decrease was due to the expected reduction in energy prices and a higher-than-expected seasonal drop in prices of vegetables and clothing products.

The situation on the labor market improved as well. In the first quarter of 2015, 10.2% of professionally active individuals sought employment (the rate was slightly lower than in the euro zone).

In 2015, the condition of the insurance sector in Latvia was good. In the first half of 2015, the value of the gross written premiums in the non-life insurance market was EUR 133.1 million, which constitutes a 7.4% growth compared with the corresponding period of the previous year.

Estonia

The economic growth in Estonia is accelerating, however its rate is still slower than before the crisis. GDP in the first quarter of 2015 decreased by 0.3% compared with the fourth quarter of 2014, yet compared with the corresponding period of the last year, it recorded a 1.2% increase. The GDP growth was significantly impacted by a rapid increase in private consumption. Unemployment in 2015 continues to decline. In the first quarter, the unemployment rate amounted to 6.6%, i.e. was lower by 0.8% than in 2014.

In the first half of 2015, the non-life insurance companies and branches of foreign companies of this insurance sector operating in Estonia collected the total premiums of EUR 136.9 million, while EUR 30.3 million or 22.1% of which were acquired by the branches of foreign insurance companies operating in Estonia.

Ukraine

Since 2014, political and economic situation in Ukraine has been unstable. This fact is linked with the following factors that influence the Ukrainian insurance market:

- high inflation rate and strong dynamics of local currency (Ukrainian hryvnia) depreciation vs. US dollar and euro
- collapse of domestic demand
- problems in the banking sector (fall of Delta Bank, the fourth largest bank in Ukraine – temporary administration was introduced on 3 March 2015)

According to the data of the Central Statistical Office of Ukraine, GDP dropped by 17.2% compared with the first quarter of 2014 (compared with the fourth quarter of 2014, GDP dropped by 5.3%). After the first six months of 2015, industrial production dropped by 20.5%, compared with the level of industrial production in the corresponding period of 2014. The inflation in June increased by 57.5 p.p. compared with the corresponding period of 2014 (in total, in the first half of 2015, it increased by 40.7 p.p.), which resulted from the administratively regulated prices and the depreciation of the UAH. After five months, a positive foreign trade balance (USD 909.2 million) was recorded, which resulted from a 38.8% drop in import (with a simultaneous 35.9% drop in export).

The gross written premiums on the non-life insurance market in the first quarter of 2015 was UAH 5.6 billion and was higher by 19.4% than in the corresponding period of the previous year, which was a result of an increase in the sums of insurance due to a depreciation of UAH, as well as an increase in inflation and tariffs for compulsory insurance. On the other hand, life insurance companies collected UAH 468.2 million gross written premiums in three months of 2015, which was 16.3% less than in the corresponding period of 2014.

2.4 Macroeconomic factors which can affect the operations of the Polish insurance sector and the operations of PZU Group in 2015

An increase in employment and the related drop in unemployment, as well as robust growth of real income of households and an increase in their savings create favorable conditions for maintaining stable growth in consumption and simultaneously develop demand for insurance. The ongoing moderate recovery of the euro zone should favor the growth of industrial production and Polish exports. Better demand prospects, relatively high capacity utilisation, and continued good financial standing of companies should motivate business investments. More public investment financed with EU funds should also take place. The increase in economic activity in 2015 creates also favorable conditions for insurance sales in the corporate segment.

The economic growth in Poland may be negatively impacted mainly by a potential deterioration of the external situation, in particular a slower economic recovery in the euro zone.
In addition, the situation in the Polish financial markets, which have a significant impact on the financial results of PZU Group, may be mainly affected by external risk factors.

The main risks include a potential failure to negotiate another aid program for Greece. Although the economic significance of this country is low, its exit from the euro zone may have a negative impact on financial markets and political situation in Europe. The prospects of China's economic growth and its situation on financial markets remain uncertain. In addition, the potential escalation of the ongoing Ukrainian-Russian conflict could have a negative impact on the Baltic states.

Forecast for the Polish economy	2015*	2014	2013	2012	2011
Real GDP growth in % (year-on-year)	3.8	3.4	1.7	1.8	4.8
Individual consumption growth in % (year-on-year)	3.3	3.1	1.1	1.0	3.0
Increase in gross expenditure on fixed assets in % (year-on-year)	8.8	9.2	0.9	(1.5)	9.3
Price increase in % (year-on-year, end of year)	0.4	(1.0)	0.7	2.4	4.6
Nominal wage growth in domestic economy in % (year-on-year)	4.3	3.4	3.7	3.7	5.6
Unemployment rate in % (end of year)	10.2	11.5	13.4	13.4	12.5
NBP base rate in % (end of year)	1.50	2.00	2.50	4.25	4.50
Average annual EUR/PLN exchange rate	4.14	4.19	4.20	4.19	4.12
Average annual USD/PLN exchange rate	3.76	3.16	3.16	3.26	2.96

* Forecast 16 July 2015
Source: PZU Macroeconomic Analysis Office

03

Activity of PZU Group

PZU Group offers a wide range of financial services for individual clients and small and medium-sized enterprises as well as large corporations. PZU customers can benefit from insurance protection and asset management. The PZU brand is increasingly associated with Health. We are constantly expanding the range of services in this field.

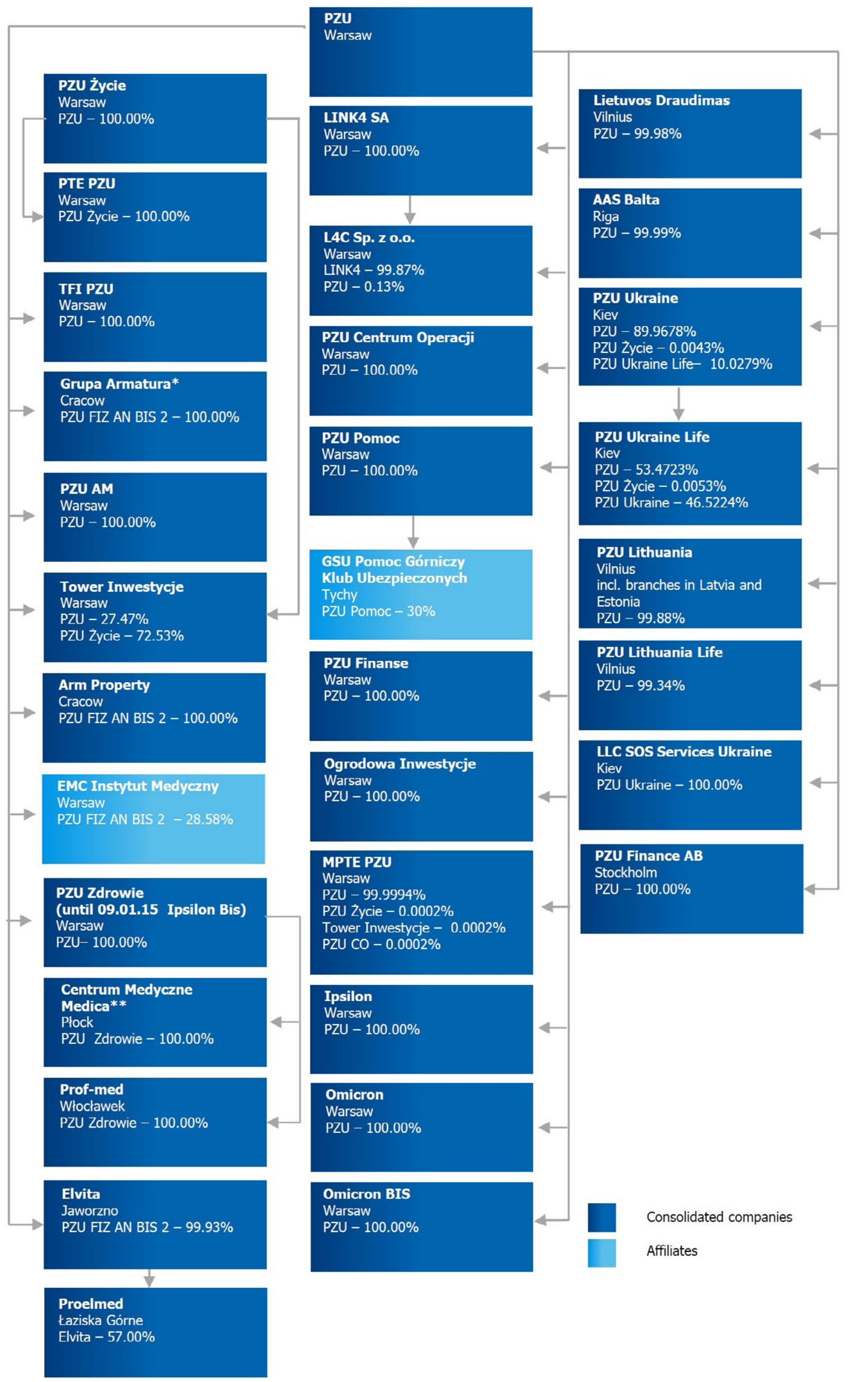
Coments:

1. Structure of PZU Capital Group
2. PZU and Link4 – activity in the Polish non-life insurance market
3. PZU Życie – activity in the life insurance market in Poland
4. PTE PZU – activity in the pension fund market
5. TFI PZU – activity in the investment fund market
6. Foreign activity of PZU Group
7. PZU Zdrowie – activity in the health care market
8. Other segments of activity

3.1 Structure of PZU Capital Group

PZU Group conducts various activities in the area of insurance and finance. The Group's companies provide services in life insurance, other non-life insurance, health insurance, and asset management for customers within the open pension fund and investment funds. The PZU Group companies offer also medical services.

Structure of PZU Group (as at 30 June 2015)



* As at 30 June 2015, Grupa Armatura included the following entities: Armatura Kraków SA, Armatoora SA, Armaton SA, Armatura Tower sp. z o.o., Aquaform SA, Aquaform Badprodukte GmbH, Aquaform Ukraine TOW , Aquaform Romania SRL, Morehome.pl sp. z o.o.
** Grupa Centrum Medyczne Medica includes the following entities: Centrum Medyczne Medica Sp. z o.o., Sanatorium Uzdrowiskowe "Krystynka" Sp. z o.o. and Rezo-Medica sp. z o.o.
The structure does not cover investment funds.

By performing control functions in the supervisory authorities of the companies, PZU – as the parent company – makes key decisions regarding both the scope of activities and the finances of the entities making up the Group. The companies provide mutual services both under market conditions and based on the internal cost allocation model (in scope of the Tax Capital Group) thanks to the expertise of selected companies and by taking advantage of the Tax Capital Group.

The following changes took place in the structure of PZU Group in the first half of 2015 and until the release of this report:

- at the beginning of 2015, an agreement on the acquisition of PZU Lithuania by the Norwegian company Gjensidige Forsikring ASA was signed. 3.6 Foreign activity of PZU Group
- in relation to the implementation of the development strategy for medical insurance, in 2015 PZU Group was expanded through the acquisition of 100% of shares of Rezo-Medica sp. z o.o. and 54.95% of shares of a modern hospital – Centrum Medyczne Gamma 3.7 PZU Zdrowie – activity in the health care market
- as part of capital investment, on 30 May 2015 a preliminary share purchase agreement of Alior Bank shares representing 25.25% of the Bank's share capital was concluded. 3.8 Other segments of activity
- pursuant to an agreement signed on 15 January 2015, Armatura Kraków SA and Armatoora SA (Purchasers), PZU's subsidiaries, acquired shares in Aquaform SA from Saniku SA and Shower Star B.V (Sellers). 3.8 Other segments of activity

3.2 PZU and Link4 – activity in the Polish non-life insurance market

Situation on the market

The gross written premiums in the non-life insurance market in the first quarter of 2015 increased by PLN 154.3 million (+ 2.2%) compared with the corresponding period of the previous year. The biggest impact on the higher level of premiums had increased sales of accident and sickness insurance (by PLN 147.5 million, + 33.3% year-on-year) and insurance of claims caused by forces of nature and other damages to property (by PLN 73.7 million, + 4.1%), mainly as a result of higher premiums from indirect activities (increase of PLN 97.7 million, +99.9% year-on-year).

Furthermore, the positive impact on the growth of the entire non-life insurance market had significantly higher sales of motor own damage insurance (by PLN 77.8 million, +5.7%) and insurance of assistance (increase of PLN 15.0 million, +11.7%). The decline was most noticeable in MTPL insurance (premiums lower by PLN 56.5 million compared with the corresponding period of the previous year), as a result of continued intense price competition. In addition, a significant decrease in sales was recorded in marine, aviation and transport insurance (total drop of PLN 32.2 million, -25.7%), credit and guarantee insurance (by PLN 25.6 million, -11.5%) and insurance covering miscellaneous financial risks (by PLN 24.7 million, -9.7%).

The whole of the non-life insurance market in the first quarter of 2015 generated a net profit of PLN 398.9 million (-26.7% compared with the same period of the previous year). The technical result of the non-life insurance market, which largely does not include investment income, after the first quarter of

3.0 %
average annual growth of gross written premium on non-life insurance market in Q1 2011-2015

PLN 7.2 billion
gross written premium of non-life insurance companies after Q1 2015

PLN 0.4 billion
technical result of non-life insurance companies after Q1 2015

PLN 51.3 billion
value of deposits of non-life insurance companies at the end of Q1 2015

PZU:
Insurance, Investments, Health

Protection of property and securing third party property against damage

MTPL and motor own damage insurance

Other non-life insurance

Financial insurance

Accident cover

Accident insurance

Assistance services

Securing the future of the family

Group and individually continued protection products

Individual protection insurance

Preparations for retirement

Pillar II of the pension system – open-ended pension funds

Pillar III of the pension system (employment pension products - EPP, individual pension accounts – IKE and individual pension security accounts – IKZE)

Increasing savings

Participation units in investment funds

Structured product

Health care

Health insurance

Medicine insurance

Healthcare services: general health care and additional services packages

9.2 ths
exclusive agents

413
branches

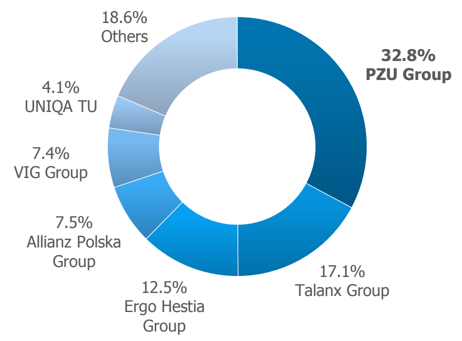
3.0 ths
multiagencies

Internet
call centre,

We provide peace of mind and a sense of safety for

~16 m Customers in Poland

Non-life insurance companies – share in gross written premium in Q1 2015

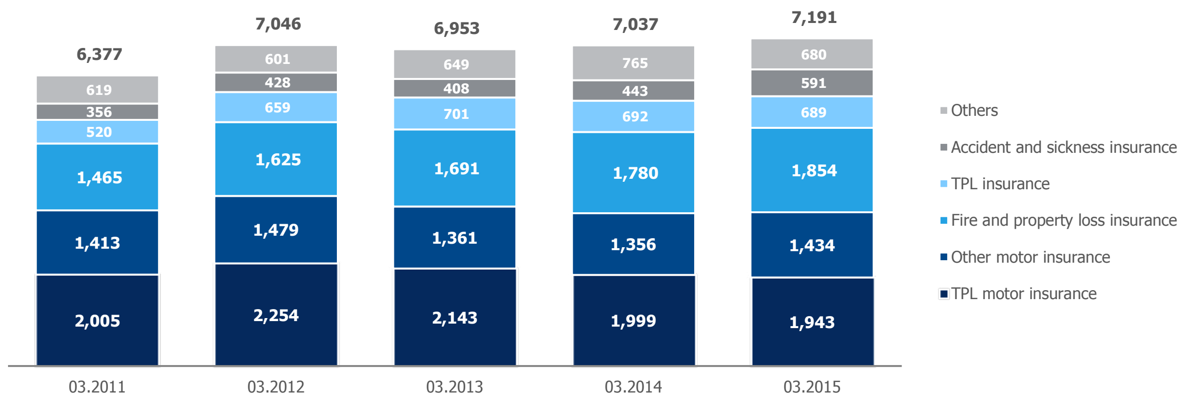


Capital groups: Allianz – Allianz, Euler Hermes; Ergo Hestia – Ergo Hestia, MTU; Talanx – Warta, Europe, HDI; VIG – Compensa, Benefia, Inter-Risk; PZU – PZU, Link4
Source: PFSA Quarterly Bulletin. Insurance market 1/2015

2015 dropped by PLN 110.8 million, i.e. by 22.2% to the level of PLN 388.4 million. This change was mostly influenced by a decline in the technical result of motor insurance, including motor own damage insurance – by PLN 101.1 million and MTPL – by PLN 43.2 million. Significant positive changes were recorded in TPL insurance (increase of PLN 93.0 million) and insurance of miscellaneous financial risks (increase of PLN 27.2 million).

The drop in the technical result in the group of motor insurance resulted mainly from higher claims and benefits in motor own damage insurance (increase of PLN 75.9 million, +9.1%) and lower earned premium in MTPL insurance (PLN 97.2 million, i.e. -5.3%). Furthermore, the maintaining low level of the average premium, which resulted from the

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



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

	1 January – 31 March 2015			1 January – 31 March 2014		
	PZU*	**Market**	**Market without PZU**	**PZU**	**Market**	**Market without PZU**
Motor own damage insurance	555	1,434	879	508	1,356	848
MTPL insurance	711	1,943	1,231	667	1,999	1,332
Other products	1,095	3,814	2,719	1,107	3,682	2,575
TOTAL	**2,362**	**7,191**	**4,829**	**2,282**	**7,037**	**4,755**

* includes Link4, which has been contributing to the Group's result since its acquisition, i.e. 15 September 2014
Source: PFSA Quarterly Bulletin (www.knf.gov.pl). Insurance Market1/2015. Data collected by PZU

strong price competition ongoing since 2013 also had negative impact on the profitability of this group.

The total value of investments and deposits of non-life insurance companies at the end of the first quarter of 2015 (excluding investments in subsidiaries) was PLN 51.3 billion which was a 1.2% increase since the end of 2014. The securities issued or guaranteed by the State Treasury and local governments constituted 49.0% of the aforementioned investment portfolio.

Non-life insurance companies, on aggregate, estimated the value of technical provisions at PLN 40.6 billion, which represented an increase of 1.9% compared with the end of 2014.

Activities of PZU Group

Within PZU Group, activities on the non-life insurance market in Poland are conducted by the parent company in the Group, i.e. PZU and Link4.

Over the past years, PZU has been managing approximately 1/3 of the non-life insurance market. After the first quarter of 2015, PZU (together with Link4) had a 32.8% share in the non-life insurance market compared with 32.4% after the first quarter of 2014.

PZU had a strong market position in motor own damage insurance with a share of 38.7% and in MTPL insurance with a share of 36.6%.

After the first quarter of 2015, the share of PZU's (including Link4) technical result in the market's technical result was 87.9%, which, with a market share of 32.8% calculated using the gross written premium confirming high level of profitability of insurance.

PZU offers a wide range of non-life insurance products, including motor, property, personal, agricultural insurance, as well as third-party liability insurance. PZU's product range encompassed 200 insurance products at the end of the first quarter of 2015. Motor insurance is the most important group of products offered by PZU, both in terms of the number of valid insurance contracts and the share of the premium to the total value of gross written premiums.

In the first half of 2015, with customers in mind, PZU made changes to its product offering, which included basic categories of insurance products addressed to all customer segments.

With the implementation of Platforma Everest, it can quickly respond to customer needs. In 2015, among other things, a comprehensive "Auto + Dom" offer was introduced and the catalogue of risks that can be covered by PZU Firma insurance products and agricultural risks was modified.

In turn, a new business model that was prepared in 2014 was introduced in the Corporate Client Division. Changes were made, among other things, to the organizational structure, the operating model, and there was implementation of several sales tools aimed to improve the effectiveness of the sales network in the long run.

Within financial insurance, PZU was consistently active in the areas such as: energy and electrical energy industry and infrastructure.

Non-life insurance market – technical results (PLN million)

	1 January – 31 March 2015			1 January – 31 March 2014		
	PZU*	Market	Market without PZU	PZU	Market	Market without PZU
Motor own damage insurance	20	5	(15)	59	106	47
MTPL insurance	27	(59)	(87)	84	(16)	(100)
Other products	294	443	149	223	409	186
TOTAL	**341**	**388**	**47**	**366**	**499**	**133**

* includes Link4, which has been contributing to the Group's result since its acquisition, i.e. 15 September 2014
Source: PFSA Quarterly Bulletin (www.knf.gov.pl). Insurance Market 1/2015. Data collected by PZU

An online insurance management platform, PZU Gepard, was launched for the corporate segment clients and small and medium-sized entities that use PZU's insurance of financial receivables. With this new solution, the clients gained access to submitted applications and granted limits, and can generate report and charts regarding the insured portfolio.

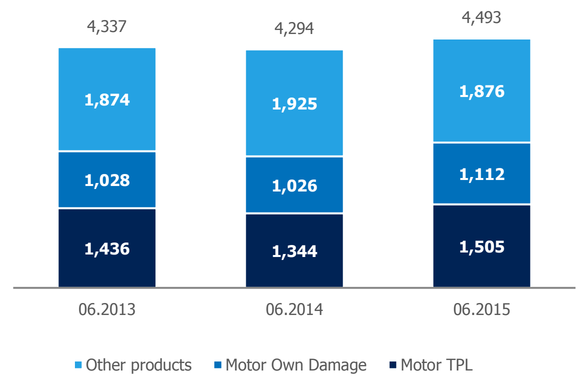
In cooperation with Alior Bank, "Master of Business Administration" (MBA) – "Kredyt Top MBA" product addressed to students was introduced, where the standard collateral required from the client by the bank was replaced with the loan repayment risk insurance concluded between Alior Bank and PZU. The Kredyt TOP MBA insurance is the first offer in the market that allows Polish students fund their education under the world's top MBA program and fixed charges resulting from agreements concluded with relevant universities.

PZU Group cooperated with 7 banks and 6 strategic partners in scope of non-life insurance in the first half of 2015. The partners of PZU Group are the leaders in their fields and have customer bases with great potential, making it possible to expand the offer to include new products within bancassurance and Strategic Partnership Programs.

The cooperation in scope of strategic partnerships concerned mainly the companies operating in telecommunications and energy, which were used to offer insurance of electronic equipment and assistance services.

The sales of non-life insurance in the scope of the bancassurance channel covered mainly the insurance of buildings, structures, residences, and payment card insurance.

Gross written premium of PZU (PLN million)*



* includes Link4, which has been contributing to the PZU Group's results since the moment of its acquisition, i.e. 15 September 2014

In the first half of 2015, PZU collected gross written premiums of PLN 4,242.1 million, i.e. 1.2% lower than in the corresponding period of the previous year (including Link4, gross written premiums increased by 4.6%). At the same time, its structure changed in comparison with the first half of 2014 and, therefore:

- value of MTPL insurance was PLN 1,352.8 million, which was 0.7% higher than in the corresponding period of the previous year. This represented 31.9% of the overall portfolio, i.e. its share increased in comparison with the first half of 2014 by 0.6 p.p. The increase in the value of MTPL insurance at PZU resulted mainly from the increase in the number of policies, despite the drop in average premium value (strong market competition);
- PZU collected PLN 1,065.2 million from motor own damage insurance, which was 3.9% more than in the first half of the previous year. The share of motor own damage insurance in the total portfolio increased by 1.2 p.p. to 25.1%;

32.8 %
PZU and Link4 share in non-life insurance market after Q1 2015,

36.6 %
PZU with Link4 share in MTPL insurance market after Q1 2015

38.7 %
PZU with Link4 share in MOD insurance market after Q1 2015

87.9 %
PZU and Link4 share in technical result of the non-life insurance market after Q1 2015

- drop in the sales of insurance, including: TPL insurance for corporate customers and contractual guarantees, a 5.3% drop in written premiums from non-motor products. As a result, the share of gross premiums from non-motor insurance to the total premium dropped to the level of 43.0% (44.8% in the first half of 2014).

In the first half of 2015, PZU settled gross claims and benefits amounting to PLN 2,401.5 million, which was 13.0% more than in the previous year.

In the analyzed period, PZU generated a net profit of PLN 1,404.4 million in accordance with the Polish GAAP, of which PLN 1,065.2 million was from the dividend from PZU Życie.

Link4, which is owned by PZU Group since 15 September 2014, is the leader of the Polish direct insurance market and offers a wide range of non-life insurance, which covers motor insurance, property insurance, personal insurance, and TPL insurance.

Motor insurance is the most important group of products offered by Link4, both in terms of the number of valid insurance contracts, as well as the share of the premium to the total value of gross written premiums.

Link4 cooperated with banks and several strategic partners in the scope of protection insurance in the first half of 2015. The sales of protection non-life insurance in scope of the bancassurance channel covered mainly the accident insurance, motor insurance, and travel insurance.

In the first half of 2015, Link4 collected gross written premiums of PLN 250.9 million, most of which is composed of motor insurance as follows:

- value of MTPL insurance was PLN 152.1 million, which composed 60.6% of the entire portfolio;
- value of the motor own damage insurance premium was PLN 47.2 million, which represented 18.8% of the entire insurance portfolio.

Factors, including risks and dangers, which will impact activity in the non-life insurance sector in 2015

Apart from events of a catastrophic nature (such as floods, drought and spring frost), the main factors which can affect the situation of the non-life insurance sector in 2015 include:

- potential slowdown of the economic growth in Poland resulting from the deteriorating external conditions – the Russian-Ukrainian conflict and the slowdown of economic growth in the euro zone. In consequence, the worse financial standing of households can lead to a decline in sales of motor policies (as a result of lower new car sales), lower sales of mortgage loans and the related borrower insurance, as well as lower demand for other property insurance. The worse financial standing of businesses can result in a growth in credit risk and an increase in the level of claims in the financial insurance portfolio;
- reduction in the development of mortgage loan campaigns as a result of the stricter requirements of S Recommendation on good practices regarding the management of credit exposures collateralized with mortgages;
- price pressure from the competition;
- decisions of supreme courts in scope of monetary compensation to the closest relative from the MTPL insurance of owners of motor vehicles for pain and suffer claims resulting from the violation of his or her personal welfare, even if the victim died before 3rd August 2008;
- implementation of the Solvency II requirements since January 2016, which are based on risk evaluation and may change the operating model of selected areas of the insurance companies on the market (e.g. the tariff policy).

3.3 PZU Życie – activity in the life insurance market in Poland

Market situation

The life insurance market in Poland measured by the gross written premium increased to PLN 7.2 billion in the first quarter of 2015, which means a change by 3.7%, i.e. PLN 258 million, compared with the corresponding period of 2014. As a result, the market recorded an increase in gross written premium, after a series of declines in the first quarters of 2014 and 2013, when the growth rate amounted to -14.0% and -14.5%, respectively.

It should be noted that the increase in the premium year-on-year does not apply only to the regular premium (growth of PLN 120 million, i.e. 2.9% compared with the corresponding period of 2014), but also to the single premium. The growth rate of the single premium increased by +4.9%, i.e. by PLN 138 million. Such a good performance is a result of an increase in the sales of unit-linked products (+15.8% year-on-year, PLN 497.8 million), including the single premium ones.

Low interest rate environment encourages clients to search for products with higher yields than the ones offered in deposit products. Another factor which leads to increasing customer interest in unit-linked products may be legislative changes (introduction of the capital gain tax on short-term deposit products, effective from 1 January 2015).

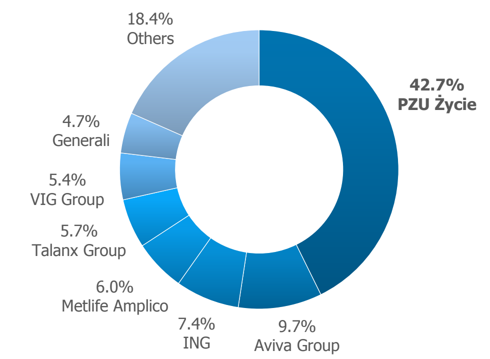
Due to the above, the share of the bancassurance channel in the gross written premium of insurance companies is reducing quarter to quarter since 2013. This share amounted to 39.0%[1] in the first quarter of 2015 and dropped compared with the corresponding period of 2014 by 1.6 p.p.

[1] PIU data (www.piu.org.pl), The bancassurance market after the first quarter of 2015

The gradual decrease in the attractiveness of employee pension programs (EPP) on the life insurance market carried out in this form is noticeable. However, much like in previous years, the most common form of EPP were insurance programs. In 2014, they accounted for 66.0%[2] of all employee pension programs.

At the end of 2014, EPPs (carried out in any form) recorded a 9.0% growth in assets, compared with the previous year, amounting to nearly PLN 10.3 billion. By the end of 2013 almost 2.4% of Polish employees were covered by EPP, which means that the market still holds great growth potential.

Life insurance companies – share in regular gross written premium in Q1 2015



Capital groups: Talanx - Warta, Europa, Open Life, VIG - Compensa Życie, Polisa Życie, Skandia Życie, Benefia (merged with Compensa Życie on 30 September 2014); Aviva - Aviva TUnŻ, BZ WBK-Aviva TUnŻ
Source: PFSA Quarterly Bulletin. Insurance market 1/2015

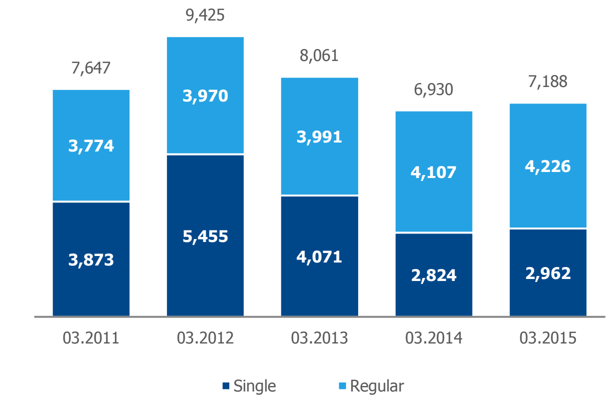
[2] KNF [PFSA] report, Employee Pension Programs (EPP) in 2014, June 2015

Life insurance market – gross written premium (PLN million)

	1 January – 31 March 2015			1 January – 31 March 2014		
	PZU Życie	Market	Market without PZU Życie	PZU Życie	Market	Market without PZU Życie
Regular premium	1,806	4,226	2,420	1,755	4,107	2,352
Single premium	237	2,962	2,725	368	2,824	2,456
TOTAL	**2,043**	**7,188**	**5,145**	**2,123**	**6,930**	**4,807**

Source: PFSA(www.knf.gov.pl) Quarterly Bulletin. Insurance market 1/2015. Data collected by PZU Życie

Gross written premium recorded by life insurance companies in Poland (PLN million)



Source: PFSA Quarterly Bulletin. Insurance market 1/2015

In the first quarter of 2015, a net technical result generated by life insurance companies was lower by PLN 162.4 million (-20.8%) than in the corresponding period of 2014 and amounted to PLN 619.2 million. The weaker result was due to lower yields in all groups, in particular unit-linked insurance products (Class III) – a decrease in the technical result of PLN 82.4 million (-50.4%) and in life insurance (Class I) – a decrease by PLN 58.1 million (-33.8%).

In the first quarter of 2015, life insurance companies generated a net result of PLN 667.9 million, 6.1% (PLN 38.5 million) higher compared with the same period in 2014.

PZU Życie's activities

PZU Życie SA (PZU Życie) operates on the life insurance market within PZU Group. The Company offers a wide range of life insurance products, including group and individual protection insurance, investment insurance and pension products.

In the first quarter of 2015, PZU Życie collected 28.4% of the gross written premiums of the life insurance companies. In comparison, in the corresponding period of 2014, the Company had a 30.6% share in the market. Simultaneously, PZU Życie continued to remain the decisive leader in the regularly paid premium segment. During the first three months of 2015, it obtained 42.7% of such premiums of all insurance companies.

In the first quarter of 2015, PZU Życie's technical result constituted the majority of the result obtained by all life insurance companies (60.9% compared with 56.9% last year) and amounted to PLN 377.2 million. This is evidenced by the high profitability of the products offered. The margin in PZU Życie's technical result on a written premium was nearly four times higher than the margin obtained by all the other companies offering life insurance together (18.5% compared with 4.7%).

In the first half of 2015, PZU Życie's product range was adjusted to the new legal regulations, including the guidelines on insurance distribution and Recommendation U issued by PFSA, as well as to the changing needs of our Clients and competition activities.

The 2015 changes in the offer include the following:

- individual protection insurance – the provisions of the general terms of insurance and premiums were modified due to new legal regulations and the requirement to adjust the new technical rates to the maximum technical rate announced by the PFSA;
- banking protection insurance – on 28 March 2015, the general conditions concerning individual credit life insurance with Bank Millenium S.A., previously offered as group insurance, were adapted. In this new individual insurance product, Bank Millenium S.A. is no longer an insuring party to the insurance contract;
- group protection insurance – a list of surgical procedures were modified as part of riders to insurance; in general terms of insurance: P Plus Group Employee Insurance and Pełnia Życia and the right to individually continued insurance, provisions that might have raised doubts of interpretation were clarified; general conditions concerning the Karta Apteczna insurance were changed to enable the clients to receive benefits with the use of the card in all pharmacies;
- health insurance – the process of developing a network of health care facilities was continued and, currently, their number amounts to approximately 1,500. The process of adjusting health insurance to both market expectations and the changing legal and regulatory environment was carried out;
- pension products – the group Pogodna Przyszłość insurance was modified by changing the investment platform; the previous PZU Życie own funds with weekly valuation were replaced with PZU TFI with daily valuation;
- investment programs – 5 subscriptions for the Świat Zysków structured insurance, allowing the clients to access unique investment strategies, were successfully carried out.

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

	1 January – 31 March 2015			1 January – 31 March 2014		
	PZU Życie	Market	Market without PZU Życie	PZU Życie	Market	Market without PZU Życie
Written premium	2,043	7,188	5,145	2,123	6,930	4,807
Technical result	377	619	242	444	782	337

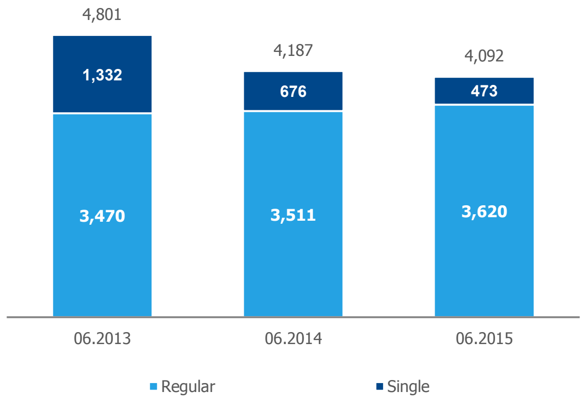
Source: PFSA (www.knf.gov.pl) Quarterly Bulletin. Insurance market 1/2015. Data collected by PZU Życie

In the first six months of 2015, in accordance with the Polish GAAP, PZU Życie collected gross written premiums of PLN 4,092.3 million, i.e. 2.3% less than in the previous year. The vast majority of the company's premium came from insurance paid on regular basis. It represented 88.5% of the gross written premiums (as opposed to 83.8% in the previous year). It primarily included the written premium from group insurance and individually continued insurance which was used by approximately 12 million Poles.

In the first half of 2015, PZU Życie settled claims and benefits at the amount of PLN 3,202.4 million, which was 10.1% less than in the previous year.

In the analyzed period, PZU Życie generated a net profit of PLN 856.2 million in accordance with the Polish GAAP.

Gross written premium of PZU Życie (PLN million)



Factors, including risks and dangers, that will impact activity in the life insurance sector in 2015

The situation on the life insurance market in 2015 will primarily be affected by:

- low interest rates, which reduce the profitability of investments made from the received premiums;
- economic climate on the capital markets which is difficult to predict and which determines the attractiveness of unit-linked insurance products;
- guidance in scope of insurance distribution released by the supervising authority as well as the final wording of the provisions of the new act on insurance activity in this scope, which affect both the product structure and the entire insurance agency sector;

2.9 %

average annual growth in gross written premium on life insurance market with regular premium in the first quarters 2011-2015

3.7 %

annual growth in gross written premium on life insurance market after Q1 2015

PLN 0.6 billion

technical result of life insurance companies after Q1 2015

6.1 %

growth in total net result of life insurance companies after Q1 2015

- UOKiK [OCCP, the Office of Competition and Consumer Protection] rulings in scope of unit-linked fund products;
- implementation of the Solvency II requirements since January 2016, which are based on risk evaluation and may change the operating model of selected areas of the insurance companies on the market (e.g. the tariff policy).

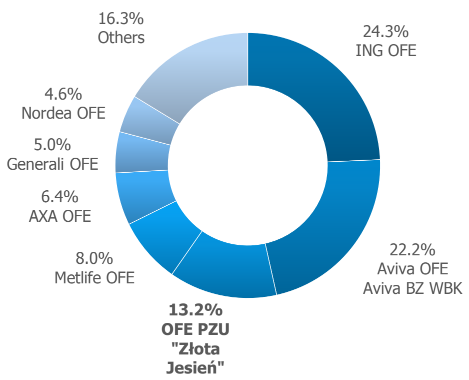
3.4 PTE PZU – activity in the pension fund market

Market situation

In June 2015, the net assets of open-ended pension funds were at a level of PLN 153.7 billion and increased by 1.0% with respect to the end of June 2014.

The activities of open-ended pension funds and their assets in 2014 and 2015 were particularly affected by the changes made in the legal regulations.

Open-end Pension Funds – share in net assets as at 30.06.2015



Source: PFSA , Monthly data on OPF market, June 2015 data

Activity of PTE PZU

The OFE PZU Złota Jesień (Open Pension Fund, OPF), which is managed by PTE PZU SA (PTE PZU), is one of the largest players on the pension funds market in Poland. At the end of June 2015, OPF 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 2,217.4 thousand members, i.e. 13.4% of all participants of open-ended pension funds belonged to PZU Złota Jesień;
- net assets were at a level of PLN 20,298.3 million, or, in other words, they represented 13.2% of the total value of net assets of the open-ended pension funds operating in Poland.

In the first half of 2015, the Social Insurance Institution transferred to PZU OPF PLN 152.6 million in premiums, i.e. 79.5% less than in the corresponding period of 2014. The decrease in premiums was mainly due to the introduction of a voluntary transfer of premiums to the OPF and also, to a much lesser extent, to the so-called „slider", as a result of which members who qualify to be in the slider do not transfer premiums to the OPF.

PTE PZU also manages the PZU Voluntary Pension Fund. At the end of June, the fund held 56.5 thousand IKZE accounts, in which assets worth PLN 11.2 million were kept. In the first half of 2015, the rate of return was 8.9%. This means that PTE PZU maintained its leading position in the voluntary pension fund segment.

42.7 %

PZU Życie share in life insurance market after Q1 2015 (as per regular premium)

18.5 %

PZU Życie technical result margin after Q1 2015

x 4

PZU Życie technical result margin on a written premium was nearly four times higher than the margin obtained by all the other companies offering life insurance

PLN 101.7 billion

value of deposits of life insurance companies at the end of Q1 2015

Factors, including risks and dangers, that will impact activity of the pension funds in 2015

The main challenges for the pension funds market are:

- economic climate on the capital market and, in particular on the WSE, affecting the value of the assets of the funds and the level of fees collected by the PTE for management;
- currency risk, in relation to an increase in the share of foreign assets in the Fund's portfolio;
- low interest in open funds of new labor market participants.

3.5 TFI PZU – activity in the investment fund market

Market situation

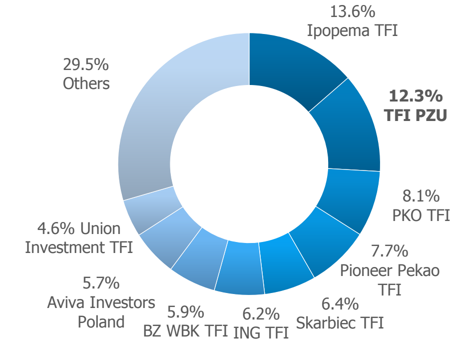
Despite a difficult situation on the stock market as well as the debt market, at the end of June 2015, the assets of the entire investment fund market reached PLN 229.8 billion, i.e. they increased by 9.9% compared with the end of the year. The 12-month growth amounted to 13.3%.

A significant impact on the growth of assets of the entire market had an increase in customer interest in investment funds in the first half of 2015. At that time, the balance of sales of the solutions offered by the domestic Investment Fund Association (TFI) amounted to PLN 18.1 billion, of which nearly PLN 10.2 billion was transferred to non-retail funds addressed to a narrow target group of clients.

In the first half of 2015, the most popular solutions among domestic investors were equity solutions and absolute rate of return funds. In contrast, the least popular were debt solutions, which was due to worse conditions on the debt securities market.

As a result of the abovementioned trends, in the first half of 2015, the following funds recorded the highest growth: commodity funds (+35.7%), absolute rate of return funds (+28.7%) and equity funds (+14.9%).

Mutual fund companies – share in net assets as at 30.06.2015



Source: Analizy Online

Activity of TFI PZU

PZU SA (TFI PZU) carries out the operations on the investment fund market in scope of PZU Group. It offers products and services to both individual clients and institutional customers, as well as additional investment/savings programmes within pillar III of the social insurance system, including IKE, Specialized investment programmes, Employee Pension Programmes (EPP) and Corporate Investment Programmes (CIP).

At the end of June 2015, TFI PZU had 25 funds and sub-funds in its portfolio, of which 17 were also offered to customers from outside PZU Group. At the end of 30 June 2015, TFI PZU had accumulated net assets of a value of PLN 28.3 billion,

PLN 153.7 billion

net assets of open-ended pension funds at the end of June 2015

+3.6 %

average increase in open-ended fund participation units in H1 2015

PLN 229.8 billion

net assets of investment funds at the end of June 2015

PLN 18.1 billion

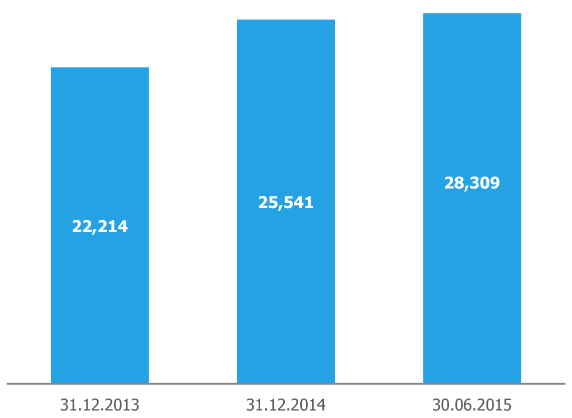
balance of sales of domestic TFI investment funds in H1 2015 which means a growth of 10.8% compared with the situation at the end of 2014.

TFI PZU also remains the leader in the segment of employee pension programs among all institutions operating on this market (not only investment funds), accumulating assets worth more than PLN 3.1 billion in the first six months of the current year. The premiums collected from the participants of EPPs managed by TFI PZU exceeded PLN 248 million in that period.

TFI PZU's asset growth in the first half of 2015 was primarily due to:

- active sales of funds and sub-funds;
- introduction of new products;
- investment results generated by fund managers.

Net assets value of TFI PZU (PLN million)



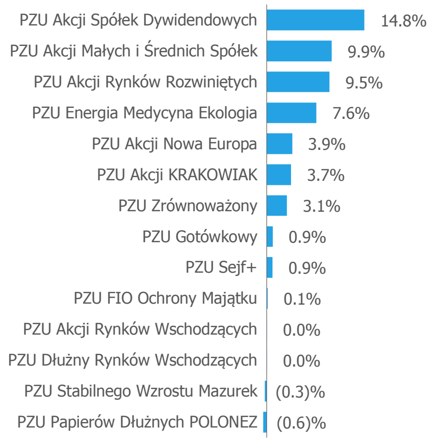
Source: Analizy Online

Factors, including risks and dangers, that will impact activity in the investment funds in the second half of 2015

The condition and results of the investment fund market will primarily depend on:

- operations of central banks;
- situation of major economies in the world;
- economic climate on capital markets (including the prices of raw materials);
- attractiveness of traditional bank deposits and profitability of securities.

Rates of return on TFI PZU investment funds in H1 2015



Source: Analizy Online

3.6 Foreign insurance activity

Lithuanian market

According to the data of the Bank of Lithuania, the value of the gross written premiums of non-life insurance companies was EUR 205.7 million in the first half of 2015 and was higher by 4.0% compared with the same period of the previous year.

The main generator of the market's gross written premium was property insurance (premium growth of 9.1%) voluntary health insurance (increase of 27.1%). Motor insurance, however, recorded a slight decline (of 0.4%), while motor own damage increased by 4.5% and MTPL decreased by 3.5%.

11 companies were operating in Lithuania in the non-life insurance sector at the end of June (including 9 branches of insurance companies registered in other EU member states). The three biggest companies in terms of the market share were: Lietuvos Draudimas (30.3%), BTA (13.4%) and PZU Lietuva (13.0%). In the near future, significant changes will likely occur in this market as a result of the merger of PZU Lithuania and Gjensidige, companies that could potentially become the second player in the market.

According to the data of the Central Bank of Lithuania, in the first half of 2015, the gross written premium of life insurance companies was EUR 106.6 million, which constituted a 11.2% increase compared with the corresponding period of the previous year. Positive growth rate of both the single premium (14.1%) and the regular premium (10.6%).

The structure of life insurance was dominated by unit-linked insurance, representing 70.0% of the value of the premium. Traditional life insurance accounted for 22.4% of the total premium.

9 companies were operating in the life insurance sector at the end of June 2015 (including 4 branches of insurance companies registered in another EU member state). The Lithuanian life insurance market is highly concentrated – the share of the total gross premiums of the three largest life insurance companies amounted to 61.8%.

Latvian market

The Latvian non-life insurance market increased by EUR 9.2 million (7.4%) amounting to EUR 133.1 million in the first half of 2015 compared with the corresponding period of the previous year.

The main generator of the market's increase in gross written premiums was health insurance (premium growth of EUR 3.5 million) and motor insurance (premium growth of EUR 3.1 million). The following forms of insurance had contributed the most to the better results: health insurance by EUR 3.5 million (+14.3%), motor own damage insurance by EUR 1.8 million (+ 5.7%), MTPL by EUR 1.4 million (+5.4%), general TPL by EUR 1.0 million (+18.1%).

Estonian market

In the first half of 2015, the non-life insurance companies and branches of foreign companies of this insurance sector operating in Estonia collected the total premiums of EUR 136.9 million, EUR 30.3 million or 22.1% of which were acquired by the branches of foreign insurance companies operating in Estonia. In 2015, the Estonian non-life insurance market continues to grow. The premiums in the non-life insurance sector increased by 5.5%, compared with the corresponding period of the previous year.

Regarding the product structure, motor own damage insurance (34.0%) and MTPL insurance (25.6%), as well as property insurance (15.1%) had the highest market shares.

12 companies were operating in Estonia in the non-life insurance sector at the end of June 2015 (including 3 branches of insurance companies registered in another EU member state).

Capital changes of PZU Group in the Baltic states

On 2 February 2015, share purchase agreement concerning shares of PZU Lithuania was signed, under which Gjensidige Forsikring ASA with the registered office in Oslo (Norway) acquired 1,761,941 ordinary registered shares with the nominal value of LTL 100 (EUR 28.96) each, representing a total of 99.879% of the share capital of PZU Lithuania.

Waiver of the preemptive right by the minority shareholder of PZU Lithuania in relation to the shares of PZU Lithuania in favor of PZU is required to close the transaction. All other conditions precedent have been met.

The price of the shares will amount to EUR 54 million adjusted by the net differences in the assets. The conditions precedent should be fulfilled by 30 November 2015.

Activity of the PZU companies in the Baltic states

In the first half of 2015, Lietuvos Draudimas (the leader of the Lithuanian market) acquired the gross written premium of EUR 62.4 million, 6.3% higher than in the corresponding period of the previous year. The growth of the written premium resulted mainly from increased insurance sales in the individual client segment (by 7.2%), specifically in motor and property insurance. The corporate customer segment recorded a 5.1% growth due to higher sales of motor insurance.

At that time, PZU Lietuva – „PZU Lithuania" collected gross written premiums of EUR 26.7 million, a decrease of 3.8% compared with the first half of the previous year.

The premium acquired by UAB PZU Lietuva Gyvybės Draudimas – „PZU Lithuania Life" was EUR 4.8 million, which was 13.3% more than in the previous year. The highest sales growth was recorded in endowment insurance as well as unit-linked insurance.

After the first half of 2015, Lietuvos Draudimas occupied the leading position in the non-life insurance market with a market share of 30.3% (29.6% in the previous year). PZU Lithuania occupied the third position with its market share of 13.0% (14.0% in the first half of the previous year).

However, PZU Lithuania Life's share of the life insurance market was 4.5% (compared with 4.4% in the first half of the previous year).

In the first half of 2015, PZU Group operated in Latvia through AAS Balta – the market's dominant entity, which entered the Group in June of 2014 – and through PZU Lithuania, which was opened in 2012 and taken over by AAS Balta in May 2015. The total gross written premium both entities amounted to EUR 33.8 million, 14.7% higher than in the corresponding period of the previous year. The share of both entities in non-life insurance market was 25.3%.

PZU Group operates in Estonia through the Estonian branch of Lietuvos Draudimas which was acquired from PZU Lithuania in May 2015 and established as a result of merger of two entities: PZU Lithuania which was registered in 2012, and the Estonian branch, which was purchased in 2014 and previously operated under the Codan brand. The premium collected in the first half of 2015 amounted to EUR 19.3 million, while the share of the gross written premium in the Estonia market amounted to 13.9%.

Ukrainian market

In the first quarter of 2015, the Ukrainian insurance market recorded an increase of 15.7%. The gross written premiums on the non-life insurance market in the first quarter of 2015 was UAH 5.6 billion and was higher by 19.4% than in the corresponding period of the previous year. The growth was mainly due to an increase in insurance sums resulting from the depreciation of the local currency, higher inflation and increased tariffs for compulsory insurance. Cargo and luggage insurance (187.8%), voluntary property insurance (4.9%), financial risk insurance (25.5%), and aviation insurance (89.0%) recorded higher sales. A decrease was recorded in the sales of accident insurance (64.3%) and insurance against fire (8.8%). In scope of motor insurance, there was a 20.7% growth recorded in premiums, including the Green Card product (112.1%), motor own damage (11.5%) and MTPL (14.7%), whereas the number of signed MTPL contracts decreased by 12.9%. As a result of these trends, motor insurance premiums accounted for 29.4% of the value of the premium actually obtained by insurers during the first quarter of 2015 (i.e. 0.3 p.p. more than in the corresponding period of the previous year). In turn, life insurance companies collected UAH 468.2 million gross written premiums in the first quarter of 2015, which was 16.3% less than in the corresponding period of 2014.

Within the written premium structure 93.0% came from individual clients (16.1% more than in the corresponding period of 2014), with a 5.4% decline of the total number of insured individual clients compared with the previous year (the unstable political, financial, and economic situation of Ukraine and the impoverishment of the Ukrainian society led to an early termination of life insurance contracts).

On the one hand, the Ukrainian insurance market is fragmented as it was composed of 385 insurance companies as at the end of March 2015 (of which 55 were providing life insurance). On the other hand, the TOP 100 non-life insurance companies generated 96.6% of the entire market's gross written premium and the TOP 20 life insurance companies generated 99.1% of the written premium.

In 2015, as in the previous year, the Ukrainian insurance market was experiencing difficult conditions associated with the state's weakened economy and the armed conflict in the east, low client activity, devaluation processes, and the decline of banking liquidity. The market continued to present a high level of costs associated with the sales of insurance products, problems with preservation of current liquidity of some insurance companies, and the reduced confidence among individual clients, which entailed the problems associated with the liquidity of a part of the banking system. As a result of these events, a reorientation of clients towards companies with a share of western capital that began already in 2014 was noticeable (if previously the key criterion of selecting an insurer was its price, currently the most important factor is credibility and solvency).

On the Ukrainian market, PZU Group conducts its insurance business through two companies: PZU Ukraine (in terms of non-life insurance) – „PZU Ukraine" and PrJSC IC PZU Ukraine Life (life insurance) – „PZU Ukraine Life". In addition, LLC SOS Services Ukraine performs assistance functions.

In the first half of 2015, the total gross value of PZU Group's gross written premiums in non-life insurance in PZU Ukraine amounted to UAH 344.9 million, i.e. it was 71.1% higher than in the corresponding period of the previous year. This increase arose from both the increase in the premium obtained through external entities (banks, travel agencies), as well as through its own distribution channels. Travel insurance, Green Cards, corporate insurance and motor insurance played a particularly important role in the growth in written premiums.

During the first quarter of 2015, PZU Ukraine had obtained 2.9% (growth of 1.1 p.p. in relation to the first quarter of 2014) of the gross written premium on the Ukrainian non-life insurance sector, which gave it the sixth place in the market. Meanwhile, the leader's share was 5.5%.

The written premium collected by PZU Ukraine Life in 2015 amounted to UAH 84.7 million and was 21.4% higher than in the first half of the previous year. This growth was mainly achieved in the bancassurance channel as a result of sales of endowment policies.

On the life insurance market, PZU Ukraine Life held the fourth place after the first quarter of 2015 (it occupied the seventh place after the first quarter of 2014), with a market share of 8.9% (a 2.1 p.p. growth in comparison to the previous year). The leader's share was 18.1%.

It should also be noted that the written premium in the reporting currency for both companies was lower than last year under the conditions of strong currency depreciation. The written premium collected by both PZU Ukraine companies in the first half of 2015 amounted to PLN 77.1 million and was 3.6% lower than in the first half of the previous year.

3.7 PZU Zdrowie – activity in the health care market

Medical services market

The Polish medical services market holds great growth potential. Its current value (including drug sales) exceeds PLN 100 billion, including NFZ expenditures exceeding PLN 70 billion and remaining private expenditures estimated at over PLN 30 billion.

Considering the above, PZU Group made the decision to intensify the operations oriented towards real presence on the health services market. The development will include successive acquisitions of health care facilites. The systematic acquisition of the successive entities, which began in 2014, will increase the scope of the realised benefits.

Activity of the companies (medical services)

The chain of PZU Group's health care facilities offers the following:

- medical services for the local population of Płock, Włocławek, and cities of Upper Silesia in scope of NFZ contracts covering general health care and ambulatory special care;
- medical services in company clinics for employees of Tauron Group and PKN Orlen Group (mainly chemical plants, power plants, heat and power plants, and mines);
- services in scope of additional medical packages for employees of Tauron Group and PKN Orlen Group and corporate and individual customers in Płock, Włocławek, and cities of Upper Silesia;
- sanatorium and rehabilitation services in Ciechocinek and Ustroń.

Mergers of PZU Group's companies in the medical services field

The changes to the capital structure of PZU Group made in 2015 and until the release of this Management's Report listed below aimed to realize the strategy associated with building the network of medical health insurance centers:

- PZU Zdrowie started operations on 9 January 2015. This company is intended to serve as the platform for the development of medical services under PZU Group. The company was created from the transformation of Ipsilon Bis SA, which had no previous record of operations.

30.3 %

Lietuvos Draudimas share in gross written premium in non-life insurance in Lithuania after H1 2015

25.3 %

PZU share in gross written premium in non-life insurance in Latvia after H1 2015

13.9 %

PZU share share in gross written premium in non-life insurance in Estonia after H1 2015

8.9 %

PZU Ukraine Life share share in gross written premium in life insurance after Q1 2015

- On 23 April 2015, the transaction as a result of which CM Medica acquired 100% shares in Rezo-Medica sp. z o.o.
- On 29 July 2015, PZU FIZ AN BIS 2 acquired 29,278 shares in Centrum Medyczne Gamma sp. z o.o. representing 54.95% of its share capital. Until the date of issuing this Management's Report, no capital increase was registered.

3.8 Other segments of activity

PZU Pomoc

The core activities of PZU Pomoc SA (PZU Pomoc) are, in particular:

- organizing assistance type services involving the provision of assistance to the customer;
- renting and leasing motor vehicles;
- conducting on-line auctions and e-commerce;
- managing loyalty programs;
- managing post-accident property;
- activities in medical support.

At the end of the first half of 2015, the company was working with approximately 1,500 health care facilities throughout the country and had the leading position on the market of intermediation in the sale of damaged vehicles through an on-line auction platform.

PZU Pomoc owns 300 hybrid Toyota Auris cars, making it the first such fleet of replacement vehicles in Poland.

In the first half of the current year, the Division Plan for the company was prepared and approved, on the basis of which the Oddział Zdrowie [Health Branch] was established.

Since June 2012, PZU Pomoc held 30% of the shares in GSU Pomoc Górniczy Klub Ubezpieczonych [GSU Mining Assistance Insured Club]. Discount, incentive and loyalty programs addressed to the mining industry are being developed within this entity.

PZU CO

The statutory activities of PZU CO include conducting business regarding the provision of:

- ancillary services related to insurance and pension funds;
- permanent intermediation in the conclusion of insurance contracts, financial and investment contracts and assistance agreements;
- Contact Centre;
- Data Centre;
- printing services;
- IT services;
- accounting bookkeeping;
- human resources and salaries.

PZU Finance AB

PZU Group's operations on the debt market are realized through PZU Finance AB in Stockholm (Sweden). The company was established in 2014 and is a 100% subsidiary of PZU. Its main operating field is collection of loan funds through issue of bonds or other debt instruments and providing financing for the companies within PZU Group.

On 3 July 2014, PZU Finance AB issued five-year eurobonds for the amount of EUR 500 million. 7.2 Debt Financing

Ogrodowa-Inwestycje

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

PZU Finanse

PZU Finanse Sp. z o.o. is a service providing company responsible for maintaining accounting books of subsidiaries of PZU Group (excluding PZU and PZU Życie).

For the year 2015, the following was scheduled:

- development and maintenance of the financial and accounting system, including the system of electronic document circulation;
- accounting services for the PZU Group companies (TFI PZU, PZU AM, PZU Pomoc, PZU CO and PZU Zdrowie);
- transfer of knowledge and process recognition in future companies of PZU Group with the view to take control of the accounting records both in 2015 and in subsequent years.

Armatura Group

PZU Group has held an equity stake in Armatura Kraków S.A. (Armatura Kraków) since October 1999. Since 2014, the PZU FIZAN BIS 2 fund owns directly 100% of shares of the company.

Armatura Kraków SA (Armatura Kraków) is the dominant entity in the Armatura Group. The Armatura group includes: Armatura Kraków SA, Armatoora SA (Armatoora), Armaton SA, Aquaform SA (Aquaform), Aquaform Ukraine and Aquaform Romania. The Armatura Group conducts its business outside the area of financial and insurance services. It is a leading manufacturer in the sanitary and heating sector 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 and sanitary ware, as well as bathtubs, shower basins and bathroom furniture.

Since 10 March 2014, the shares of Armatura Kraków SA are not quoted on the Warsaw Stock Exchange.

The following changes took place in the capital structure of Armatura Group in 2015:

On 15 January 2015, Armatura Kraków and Armatoora purchased 8,421,053 of shares in Aquaform SA. Subsequently, under share purchase agreement signed on 31 March 2015 and 14 May 2015 for the shares of Aquaform SA, Armatura Kraków purchased from non-controlling shareholders additional 1,578,947 shares in Aquaform SA. Armatura Kraków and Armatoora SA hold a total of 100% shares in Aquaform SA's capital, i.e. 100% votes at the General Shareholders' Meeting.

PZU became also an indirect owner of Aquaform Badprodukte GmbH, Aquaform Romania SRL, Aquaform Ukraine TOW and Morehome.pl sp. z o.o., that is subsidiaries of Aquaform SA.

Alior Bank

Under preliminary share purchase agreement for the shares of Alior Bank SA ("Alior Bank") signed on 30 May 2015, PZU will purchase 17,818,473 shares of Alior Bank from Alior Lux S.à.r.l. & Co. S.C.A and 500,000 shares of Alior Bank from Alior Polska sp. z o.o., i.e. in total 18,318,473 shares which constitute 25.25% of Alior Bank's share capital and the total number of votes at the Bank's general shareholders' meeting.

Having fulfilled the conditions specified in the purchase agreement, the shares of Alior Bank will be acquired by PZU in three installments. The price per share shall amount to PLN 89.25, with the total value of PLN 1,634.9 million. On 6 August 2015, the President of the Office of Competition and Consumer Protection ("OCCP") agreed for the acquisition of Alior Bank by PZU. For the transaction to be completed, the following documents, among others, are required:

- lack of objection of the Polish Financial Supervision Authority ("PFSA") in relation to the purchase of the shares of Alior Bank by PZU (concerns solely the first installment);
- approval of the Anti-monopoly Office of Ukraine (concerns solely the first installment).

Alior Bank is a universal bank with innovative products and a high ROE ratio (amounting to 12.4% in 2014). In addition, Alior Bank has developed an effective operational platform – the Cost/Income ratio amounted to 49.4% in 2014 and was among the lowest in the banking market in Poland.

By the end of the June 2015, the value of loans granted to customers by Alior Bank Group amounted to PLN 28.3 billion, while the balance of deposits obtained from customers amounted to PLN 29.8 billion.

Our business is based on three pillars:

insurance, asset management and health care

04

Development strategy

The PZU Strategy for the years 2015-2020 – PZU 3.0 – was approved in January 2015.
The activities carried out in the first half of the current year prove that Strategy 3.0 was implemented with strong determination.

Contents:

4.1 The implementation of the PZU 3.0 Strategy for the years 2015-2020

Business pillars	Summary of actions and achievements in the first half of 2015
Insurance	1. PZU remained the leader on the Polish non-life insurance market. According to the data collected by PFSA, in the first quarter of 2015 the share of PZU in the market amounted to 31.0% (decrease by 1.4 p.p. year-on-year) 2. Increase in the non-insurance market share of Link4 from 1.4% at the end of the first quarter of 2014 to 1.8% at the end of the first quarter of 2015. 3. Maintaining its leading position in life insurance with regular premiums and 42.7% market share in the first quarter of 2015, just as in the previous year. In the first quarter of 2015, the share of PZU in the entire life insurance market was 28.4%. 4. In the first half of 2015, PZU maintains its leading position in the Lithuanian and Latvian market, with a share of 30.3% (LD) and 25.3% in the non-life insurance segment, respectively. The share of PZU Group in the Estonian market amounted to 13.9% in the first half of 2015. 5. In March 2015, an application to establish Polski Zakład Ubezpieczeń Wzajemnych was submitted to PFSA.The new entity will provide hospitals with insurance. 6. PZU signed an agreement with Gjensidige Forsikring concerning the sale of shares of PZU Lithuania. The sale price is EUR 54 million plus the amount that will reflect the significant economic changes in the company that took place in the period between the date of valuation and the date closing the transaction.
Investments	1. TFI PZU is one of the leaders in terms of the net asset value of the funds managed. At the end of June 2015, the value of assets managed by TFI PZU was PLN 28.3 billion which represented 12.3% of the assets held by domestic investment funds. 2. Increase in assets managed by external clients from PLN 6.0 billion at the end of 2014 to PLN 6.9 billion at the end of the first half of 2015. The share of assets of TFI PZU's external clients in the assets of the investment fund market (excluding the non-public assets) was 5.0% at the end of the first half of 2015 (4.7% at the end of 2014). 3. TFI PZU remained the leader in the segment of employee pension programs among all the domestic investment funds, managing assets worth PLN 3.1 billion (PPE, PPO, ZPI), which represents a 3.4% increase compared with the end of 2014.
Health	1. 49.4% increase in the gross written premium in group and continued health insurance compared with the first half of 2014. 2. Acquisition of the first hospital facility by purchasing 54.95% of the shares in Centrum Medyczne Gamma in Warsaw. The hospital is one of the most modern private hospitals in Poland specializing in orthopedics. 3. Purchase of 100.0% of the shares in Rezo-Medica sp. z o.o.by the CM Medica subsidiary. 4. Establishment of PZU Zdrowie SA, where all the medical assets will be eventually transferred.
Conditions for implementation	**Summary of actions and achievements in the first half of 2015**
Efficient distribution and customer service	1. The process of implementing a network of modern, highly visible PZU Branches, which are uniform throughout the Group, was continued. In the first half of 2015, 14 PZU Branches have been opened and since the beginning of the project – 120. All operate as part of the new model. 2. Consolidation and improvement of visualization standard of Exclusive Agents' offices was continued. In the first half of 2015, 304 offices designed in the new standard were opened. In total, since the beginning of the project, 523 offices designed in the new standard were opened.
Socially responsible company	1. Following the success of the last year's edition of PZU Trasy Zdrowia [Routes of Health], the program was continued and in the first half of 2015, locations where another 30 routes of health would be opened were selected. 2. As part of „PZU z kulturą 2015 [PZU with Culture]" contest, 35 subsidies were granted to community organizations for their contribution to the area of cultural education. 3. the „Stop Wariatom Drogowym [Stop Road Rage]" social campaign organized by PZU Foundation was awarded in the Social Campaign of the Year 2014 contest. The aim of the campaign was to encourage passengers to pay attention to the way their close ones drive vehicles. Over 4 million hearts were made for the purposes of the campaign.
Effective claims handling, efficient operations and flexible IT	1. Introduction of new functions of the PZU's policy system 'Everest'. 2. New features streamlining the claims and benefits handling process for PZU clients and improving the efficiency of internal processes were introduced. 3. In July 2015, the implementation of the next edition of Everest policy system was completed. In included new products (Flota [Fleet], Ochrona Prawna PZU DOM [HOME Legal Protection]) and changes in the previous features and products. The implementation of external distribution channels and own corporate sales channels was initiated. 4. In the period between 4 May and 2 June 2015, the employment restructuring process was completed at PZU and PZU Życie. The total number of employees subject to changes (in terms of working and dismissals conditions) amounted to 269 employees. 136 employment contracts were terminated.
Effective capital and investment policy and an integrated risk management system	1. Conclusion of a preliminary agreement for purchase of 18,318,473 shares of Alior Bank, representing 25.25% of the share capital. Total value of transaction: PLN 1.63 billion. 2. Continuation of the work aimed at preparing PZU Group for complying with the regulatory requirements related to the Solvency II Directive. 3. On 30 June 2015, the General Shareholders' Meeting decided on the payment of the dividend in the amount of PLN 2.59 billion, i.e. PLN 30 per share. The ex-dividend date was set for 30 September 2015. 4. On 30 June 2015, the General Shareholders' Meeting adopted a resolution on the PZU's share split by reducing the nominal value of each PZU share from PLN 1 to PLN 0.10. The aim of the share split is primarily to increase the availability of shares for investors and diversify the shareholders' base.

05

Consolidated financial results

Net profit of PLN 1.3 billion and the return on capital of 21.1% place us among the most profitable financial institutions both in the country and in Europe. Our financial results already show the effects of our development efforts – our position as the leader of Polish insurance has strengthened and we continue to expand on the international market.

Contents:

Consolidated financial results

5.1 Key factors affecting the financial results achieved

PZU Group achieved profit before tax in the first half of 2015 at a level of PLN 1,619.0 million compared with PLN 2,176.2 million in the prior year (decrease of 25.6%). Net profit attributable to the shareholders of the parent company amounted to PLN 1,321.6 million, compared with PLN 1,720.4 million in 2014 (a 23.2% decrease).

Excluding one-off events[1] , the net result fell by 23.8% compared with the previous year.

In the first half of 2015, the operating profit amounted to PLN 1,637.0 million and was lower by PLN 598.7 million compared with the corresponding period of the previous year. This change was brought about, in particular, by:

- growth of gross written premiums due to increasing activity in foreign markets, premiums acquired by Link4 and the development of group protection insurance, partially offset by a drop in premiums from TPL insurance;
- drop of PLN 144.1 million in profitability in the mass client insurance segment compared with the first half of 2014. Decrease of profitability mainly associated with an increase in the level of claims in motor insurance;
- decrease in profitability in the area of group and individually continued insurance by PLN 115.5 million, excluding the conversion effect. Decrease in profitability mainly due to an increase in the loss ratio arising from a higher mortality ratio in protection products, confirmed by the CSO [GUS] data;
- lower net investment result related to an increase in treasury bond yields, partially offset by better profit on equity and derivative instruments;
- development activities aimed at implementing Strategy 3.0.

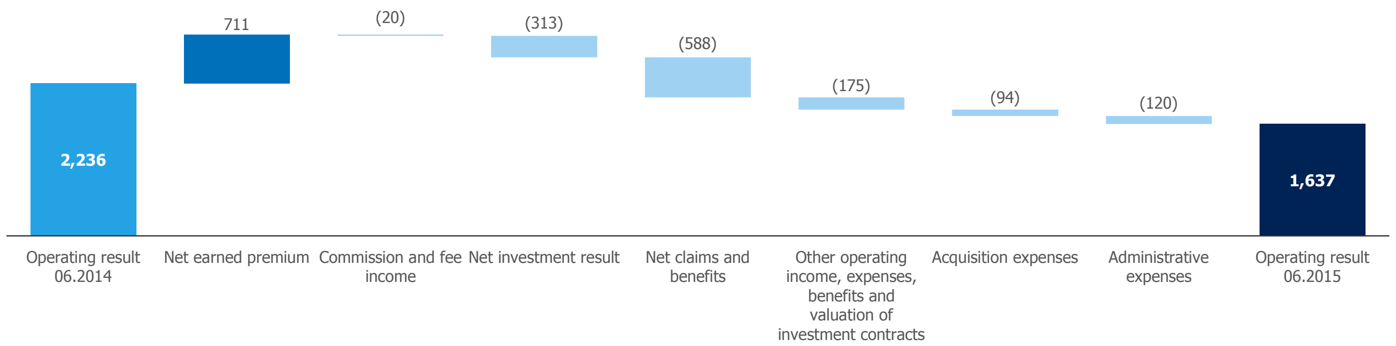
The year-on-year comparability of results is influenced by an expansion of activities in Poland and the Baltic states in 2014. In the previous year, the acquired companies have contributed to the results of PZU Group from the date of their acquisition (the first of acquired companies, AAS Balta, since 30 June 2014), whereas in the current year's results, they have been recognized since 1 January and, compared with 2014, contribute to higher levels of particular items of the net result, and assets and liabilities.

[1] One-off events include the effect of the conversion of long-term insurance contracts into annual renewable contracts in type P group cover.

Within particular items of the operating result, PZU Group recorded:

- increase in gross written premiums to PLN 9,126.5 million. Compared with the previous year, the premiums were higher by 8.2%, mainly due to the growth of its foreign operations and the premium obtained from Link4. After accounting for the share of reinsurers and the change in unearned premiums reserve, the net premium earned amounted to PLN 8,743.9 million , which was 8.9% higher than in the first half of 2014;
- lower net investment result, in particular due to a decrease in the price of debt instruments. Net investment result amounted to PLN 1,057.8 million, namely 22.8% lower than in the corresponding period of 2014;
- higher amount of claims and benefits. Claims and benefits amounted to PLN 6,006.4 million, which accounts for an increase of 10.9% compared with 2014, mainly due to a higher loss ratio in protection products as a result of a strong increase in mortality ratio compared with the previous year (data collected by the Central Statistical Office in Poland) and an increase in the level of claims in motor insurance;
- higher acquisition costs (increase of PLN 94.4 million) due to an increase in indirect acquisition costs, a growing protection product portfolio, including high sales of new agreements and riders, as well as further increase of the broker and agency channels' share in the portfolio;
- increase in administrative expenses to the level of PLN 822.1 million compared with PLN 702.3 million in the first half of 2014, related mostly to expenses of newly acquired companies and higher costs of the strategy 3.0 implementation concerning the development of key areas of PZU Group, i.e. Retail and Corporate Customer Area, PZU Zdrowie [PZU Health], distribution and operational support;
- higher negative balance of other operating incomes and expenses in the amount of PLN 293.0 million mainly due to the amortization of intangible assets identified as a result of the acquisition of insurance companies.

Operating result of PZU Group in H1 2015 (PLN million)



Basic amounts from the consolidated income statement	1 January – 30 June 2015	1 January – 30 June 2014	1 January – 30 June 2013	% change / H1 2015/H1 2014
	in PLN million	in PLN million	in PLN million	in %
Net earned premiums	8,743.9	8,032.6	8,177.2	8.9
Income from fees and commissions	103.2	123.1	143.2	(16.2)
Net investment result	1,057.8	1,370.5	969.1	(22.8)
Other operating income and expenses, benefits and measurements of investment contracts	(308.6)	(133.7)	(70.8)	130.7
Net claims	(6,006.4)	(5,418.1)	(5,459.4)	10.9
Acquisition costs	(1,130.8)	(1,036.4)	(972.7)	9.1
Administration expenses	(822.1)	(702.3)	(641.3)	17.1
Operating result	1,637.0	2,235.7	2,145.4	(26.8)
Finance costs	(18.0)	(59.8)	(37.8)	(69.9)
Share of net profits (losses) of entities accounted for under equity method	(0.0)	0.2	1.9	-
Gross profit (loss)	1,619.0	2,176.2	2,109.4	(25.6)
Tax	(297.4)	(455.8)	(433.9)	(34.7)
Net profit (loss)	1,321.5	1,720.4	1,675.5	(23.2)
Net profit (loss) attributable to equity holders of the parent entity	1,321.6	1,720.4	1,675.1	(23.2)

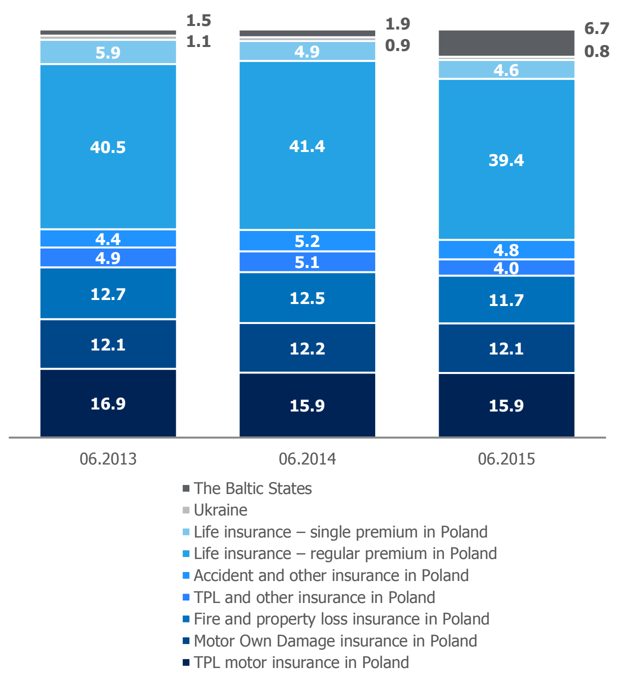
5.2 Income

Premiums

In the first half of 2015, PZU Group collected gross premiums of PLN 9,126.5 million, i.e. 8.2% more than in the corresponding period of 2014. They comprised mainly:

- regular life insurance premiums, which had a 39.4% share of the total gross written premium (41.4% in the first half of 2014). Their value was higher by 2.9% compared with the previous year mainly due to the development of group and continued protection insurance, health insurance riders, higher average payments made to IKE, as well as high sales of individual protection products;
- MTPL insurance accounted for 15.9% of the Group's insurance portfolio, similarly as in the first half of 2014. In the first half of 2015, its value was 8.0% higher than in the prior year. This was the effect of recognized premiums obtained in 2015 from Link4;
- motor own damage insurance premiums had a 12.1% share in the total gross written premiums of the Group (i.e. 0.1 p.p. less than in the previous year), whereas the value of this group of insurance increased by PLN 81.7 million as a result of recognized premiums obtained in 2015 from Link4 and an increase in the number of insurance policies partially offset by lower average premiums;
- premiums from other TPL insurance accounted for 4.0% of the Group's insurance portfolio, their share in the total premiums decreased by 1.1 p.p. and their value dropped by PLN 72.4 million, mainly due to the completion in December 2014 of several large tenders conducted mostly by medical entities and the conclusion of agreements in December 2014 with these entities for 2015 insurance;
- insurance against fire and damage to property – this type of insurance represented 11.7% of total premiums. Its value increased by 1.3% compared with the prior year, mainly in household insurance;
- accident insurance premiums and other premiums, which had a 4.8% share, which meant a 0.4 p.p. drop compared with the first half of 2014;
- premiums from life insurance with a single premium, where the written premium represented 4.6% of the Group's total premiums (compared with 4.9% in the first half of 2014). It resulted in particular from the absence of sales in the current year of structured and deposit products in cooperation with banks;
- premiums obtained in Ukraine and in the Baltic states, their share in the Group's premium amounted to 7.5% and increased in comparison with the first half of 2014 by 4.7 p.p. as a result of PZU's expansion in the Baltic states.

Structure of gross written premium of PZU Group in H1 2015 (%)



Income from fees and commissions

Fee and commission income in the first half of 2015 contributed PLN 103.2 million to PZU Group's result, which is 16.2% lower than in the prior year.

Fee and commission income comprised mainly:

- asset management fee from the Złota Jesień open pension fund assets. It amounted to PLN 51.1 million (a drop of 16.7% compared with the first half of the previous year as a result of statutory transfer on 3 February 2014 of a portion of the assets of open pension funds (OFE) to the Social Insurance Institution (ZUS) corresponding to 51.5% of the units on the account of every member of the OFE PZU);
- income and fees from investment funds and investment fund management companies of PLN 41.5 million, i.e. PLN 2.9 million more than in the previous year, mainly as a result of the increase in sales of fund units through the external channel;
- commission on pension insurance administration fees. This amounted to PLN 2.6 million, namely 16.9% of their prior year's value. The decrease was related to the statutory reduction of the fee on the premiums from 3.5% to 1.75%, effective from 1 February 2014, and the decision of the insured concerning the further transfer to the open-ended pension funds of the contribution at the new level of 2.92% with respect to future contributions.

Net investment result

In the first half of 2015, PZU Group achieved the net investment result at a level of PLN 1,057.8 million compared with PLN 1,370.5 million in the corresponding period of 2014 (decrease of 22.8%). Lower results in the first half of 2015 were due mainly to an increase in the Polish treasury bond yields across the whole yield curve compared with the decrease in the corresponding period of the previous year which resulted in a lower level of income on the interest-bearing financial assets by PLN 584.4 million as compared with the same period of the previous year.

The abovementioned decrease was partially offset by:

- higher valuation of equity instruments on capital markets by PLN 96.3 million – increase in WIG index by 3.7% in the first half of 2015 compared with 1.3% in the first half of 2014;
- better results achieved on derivatives in the analyzed period of 2015 compared with the corresponding period of the previous year.

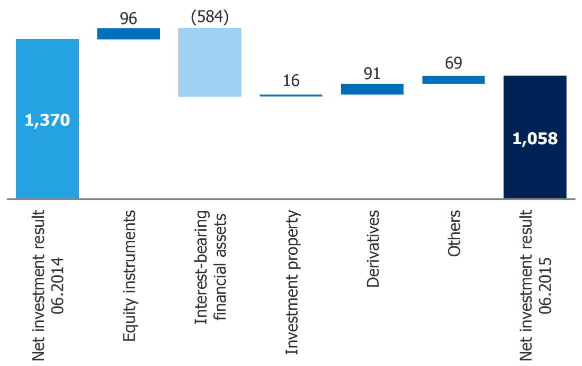
Net investment result does not cover financial costs associated mainly with sell-buy-buck transactions and the issue of own debt securities. In the first half of 2015, such costs amounted to PLN 18.0 million and were lower by PLN 41.8 million than in the similar period last year as a result of recognition of positive foreign exchange differences on own debt securities denominated in euro.

As at the end of June 2015, the value of PZU Group's investments portfolio[2] amounted to PLN 53,216.9 million compared with PLN 53,958.7 million as at the end of 2014.

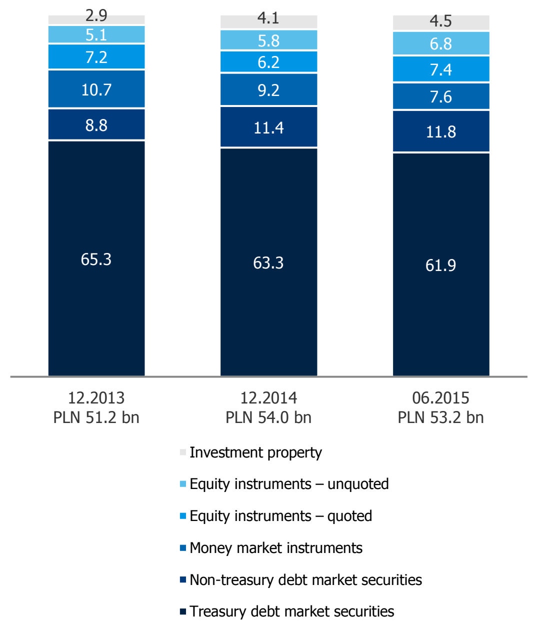
Investing activities of the Group are conducted in compliance with the statutory requirements, ensuring an appropriate degree of safety, liquidity and profitability. For this reason, treasury debt securities accounted for over 60% of the investment portfolio, both as at 30 June 2015 and as at 31 December 2014.

[2] The investment portfolio covers financial assets (including investment products), investment property and financial liabilities (negative valuation of derivative instruments and liabilities from sell-buy-back transactions).

Change in the net investment result (PLN million)



Structure of financial assets (%)[3]



A significant share of the money market instruments was caused by, among other things, transactions concluded in the interbank market in order to increase the efficiency of investing activities and adjust the investment portfolios to their benchmarks.

[3] Derivatives related to the interest rate, foreign exchange rates and prices of securities are presented, respectively, in the following categories: Debt instruments – treasury, Money market instruments and Quoted and non-quoted equity instruments.

The result on other operating income and expenses

In the first half of 2015, the balance of other net operating income and expenses was negative and amounted to PLN 293.0 million compared with the also negative balance for 2014 of PLN 127.7 million. The following factors had an impact on this result:

- increase of other operating expenses, including mostly the expenses resulting from the amortization of intangible assets identified as a result of the acquisition of insurance companies, which took place in 2014, and medical companies in the total amount of PLN 106.7 million;
- higher outflow due to prevention activities.

5.3 Claims and technical provisions

In the first half of 2015, the net value of claims and benefits, as well as the increase in PZU Group's provisions amounted to PLN 6,006.4 million. Compared with the corresponding period of the previous year, the value of claims including the change in provisions was higher by 10.9%. The following factors also contributed to the increase in the net value of claims and benefits:

- increase in the group protection insurance portfolio, including health insurance with higher loss ratio – an increase in the mortality ratio confirmed by the CSO [GUS] data for the entire population;
- higher sales and income from investing activities in individual unit-linked products, both in the Group's own channel and bank channels (above factors are partially offset by an increase in higher surrenders in this portfolio);
- higher loss ratio in motor insurance as a result of an increase in average claims and an increase in the number of reported claims.

On the other hand, the following contributed to the decrease in the net value of claims and benefits:

- decrease in technical provisions in relation to the decision made by PZU Życie within the framework of annually setting the rules for possible indexation of clients' sums insured in continued insurance to modify these rules as of the outset of 2016;
- absence of sales in the current year of individual structured and deposit products in cooperation with banks;
- decrease in provisions for claims from previous years in TPL insurance and claims caused by forces of nature in the corporate insurance segment.

5.4 Acquisition costs and administrative expenses

In the first half of 2015, acquisition costs amounted to PLN 1,130.8 million and increased by 9.1% compared with 2014. The main reasons for the increase were the following:

- increase in indirect acquisition costs in the mass client segment;
- high sales of new individual protection products and additional sales of riders to continued insurance, as well as further increase of the broker and agency channels' share in the portfolio in group protection insurance;
- start of consolidation of the insurance companies acquired in 2014.

Simultaneously, the decrease in acquisition costs was influenced by higher deferred costs.

In the first half of 2015, the Group's administrative expenses were at a level of PLN 822.1 million, which was 17.1% higher than in the prior year. The following factors had an impact on their level:

- inclusion of the administrative expenses covered by the newly-acquired insurance companies in the results of PZU Group;
- higher costs of the strategy 3.0 implementation concerning the development of key areas of PZU Group, i.e. Retail and Corporate Customer Area, PZU Zdrowie [PZU Health], distribution and operational support.

Simultaneously, compared with the previous year, a positive effect in the pension insurance segment was recorded as a result of higher costs in 2014 related to additional payments to the Guarantee Fund (statutory increase in the required level of funds from 0.1% to 0.3% of the net assets value ("NAV") of the open pension funds).

5.5 Structure of assets and liabilities

As at 30 June 2015, total assets of the PZU amounted to PLN 66,079.7 million and was by 2.2% lower in comparison with the end of 2014.

Assets

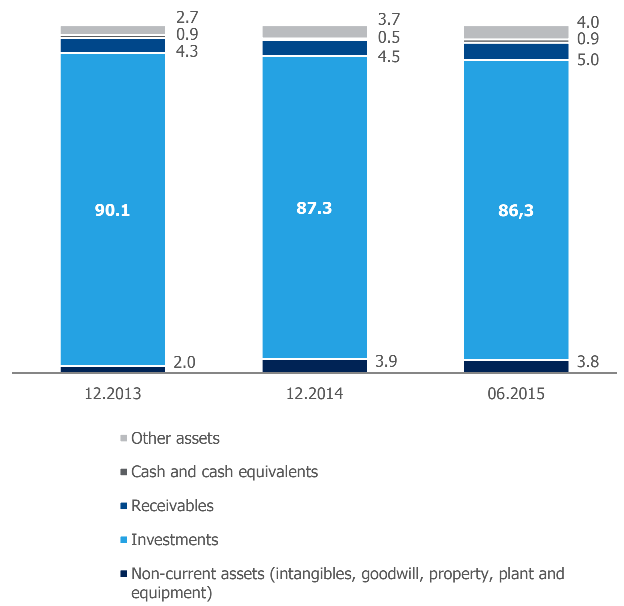
The key components of the Group's assets were investments (financial assets and investment property). In total, these assets amounted to PLN 56,995.3 million and were 3.4% lower than at the end of the prior year.

They represented 86.3% of the Group's total assets compared with 87.3% at the end of 2014. The decrease in the value of investments was mainly caused by:

- lower measurement of interest-bearing financial assets;
- payment made in January 2015 of the second installment of the dividend for 2013 in the amount of PLN 1,468.0 million.

PZU Group's receivables, including receivables from insurance contracts, amounted to PLN 3,300.7 million, i.e. they represented 5.0% of the total assets. In comparison, at the end of 2014, they amounted to PLN 3,068.8 million (4.5% of the Group's assets), while their increase arose mainly from transactions regarding financial instruments which had not been settled.

Sructure of PZU Group's assets (%)



Non-current assets – in the form of intangible assets, goodwill and property, plant and equipment – were recognized in the financial statements at PLN 2,537.7 million. They comprised 3.8% of total assets. Their balance has decreased in the first half of 2015 by 4.5% compared with 2014 mainly due to amortization of intangible assets obtained as a result of the acquisition of companies (customer relations, broker relations, future profits from the purchased insurance contracts portfolio) in the amount of PLN 106.7 million.

As at 30 June 2015, PZU Group's cash and cash equivalents amounted to PLN 599.0 million (0.9% of the assets). At end of 2014, they amounted to PLN 324.0 million.

An amount of PLN 526.1 million in the category of assets held for sale is caused by the conducted sale of PZU Lithuania.

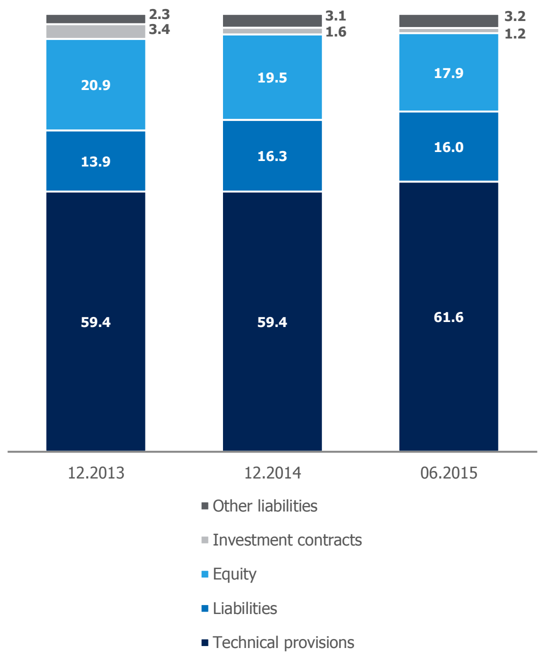
Liabilities

At the end of the first half of 2015, the main component of PZU Group's equity and liabilities were technical provisions. They amounted to PLN 40,734.4 million, which represented 61.6% of liabilities and increased compared with the end of 2014 by PLN 567.5 million. This change was caused, in particular, by:

- development of the unit-linked products (sale and high investment result) and the portfolio of continued insurance (ageing portfolio and increasing insurance sums);
- drop in provisions for claims in the corporate insurance segment in the group of TPL insurance as a result of the review of claims from previous years.

Investment contracts amounted to PLN 789.0 million compared with PLN 1,108.1 million as at the end of 2014. This decrease was mainly caused by lower value of investment contracts arising from payments of subsequent tranches in short-term life endowment products of an investment nature, both through the Group's own and through the bancassurance channel, as well as surrenders of unit-linked products.
In effect, their share in the structure of liabilities and equity dropped from 1.6% as at the end of 2014 to 1.2% as at the end of the first half of 2015.

Structure of PZU Group's liabilities (%)



At the end of the first half of 2015, equity amounted to PLN 11,853.1 million and remained at a level lower than at the end of 2014 (a 10.0% decrease). The change resulted in particular from the distribution of profit for 2014, including the allocation of PLN 2,590.6 million to dividend payment, partially offset by the profit generated in the first half of 2015 in the amount of PLN 1,321.5 million.

The balance of other liabilities and provisions as at the end of the first half of 2015 amounted to PLN 12,703.2 million and covered, in particular, the following items:

- liabilities due to sell-buy-back transactions in the amount of PLN 3,309.4 million;
- dividend liabilities to the shareholders for the profit from 2014 in the amount of PLN 2,590.6 million;
- liabilities arising from issuance of debt securities in the amount of PLN 2,109.9 million;
- liabilities to participants in consolidated investment funds in the amount of PLN 602.6 million and due to direct insurance in the amount of PLN 721.1 million.

Cash Flow Statement

Total net cash flows as at the end of the first half of 2015 amounted to PLN 271.4 million and increased by PLN 554.1 million compared with the end of 2014.

5.6 Results of operating segments

Definition of operating segments

For management purposes, PZU Group has been divided into the following industry segments:

- corporate insurance (non-life insurance). This segment encompasses a wide range of non-life insurance, general liability and motor insurance, which are adapted to customer needs and, with individually valued risks, offered by PZU and Link4 to large business entities;
- mass client insurance (non-life insurance). This segment comprises non-life, accident, TPL and motor insurance. PZU and Link4 provide the insurance to individuals and entities from the SME sector;
- life insurance – group and individually continued. PZU Życie offers this insurance to groups of employees and other formal groups (e.g. trade unions). People who have a legal relationship with the insured (for instance an employer or a trade union) may enroll in the insurance; and individually continued insurance in which the insured acquired the right to individual continuation during the group phase. It includes the following types of insurance: protection, investment (which however are not investment contracts) and health insurance;
- individual life insurance. PZU Życie provides this to individual customers. The insurance contract relates to a specific insured, subject to the assessment of the individual risk. This group comprises protection, investment (other than investment contracts) and health insurance products;
- investments – comprises investment activity conducted with PZU Group's own funds defined as the surplus of investments over technical provisions in the insurance companies within PZU Group with their registered offices in Poland (PZU, Link4 and PZU Życie) increased by the surplus of income exceeding the risk-free rate from investments matching the value of technical provisions in insurance products, i.e. the surplus of investment income over the income allocated to insurance segments according to transfer prices. Additionally, the Investment segment includes income earned on other excess funds in PZU Group;
- pension insurance. Activity conducted by PTE PZU;
- Ukraine. This includes both non-life and life insurance;
- Baltic states. Non-life and life insurance products provided by PZU in Lithuania, Latvia and Estonia;
- investment contracts. These include PZU Życie products which do not result in a transfer of significant insurance risk and do not satisfy the definition of an insurance contract. They include some products with a guaranteed rate of return and some products in the form of a unit-linked policy;
- other. This encompasses consolidated entities not classified in any of the segments above.

Corporate insurance

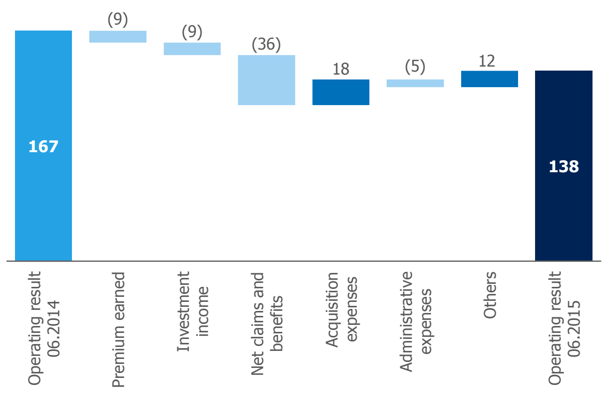
In the first half of 2015, the corporate insurance segment (combining PZU and Link4) earned an operating profit of PLN 138.1 million, which is 17.4% less than in the corresponding period of the previous year. Excluding Link4, in the first half of 2015, the operating profit in the corporate segment was PLN 144.9 million.

The consolidation of Link4 initiated in September 2014 contributed to the increases in particular items in the operating result in the first half of 2015 compared with the corresponding period of the previous year.

The following factors primarily had a key impact on this segment result in the first half of 2015:

- decrease in the premium earned by 1.2% with a simultaneous decrease in the gross written premium by 16.6% compared with the first half of 2014. Lower sales were recorded mainly in insurance against fire and other damage to property, and TPL, as a result of the completion in December 2014 of several large tenders conducted mostly by medical entities and the conclusion of agreements with these entities for 2015 insurance (without affecting the level of premiums earned in 2014). The drop in the sales was partially offset by an increase in the sales of motor own damage insurance (+5.8%), which was the result of an increase in the number of insurance policies partially offset by a decrease in the average premium;
- increase in the net value of claims and benefits of PLN 36.1 million (+8.7%), which, considering a 1.2% decline in the net premium earned, means that the loss ratio increased by 5.7 p.p. The increase was mainly recorded in the group of motor insurance as a result of the higher average claim payment and an increase in the number of reported claims. This effect was partially offset by lower provisions for claims from previous years in the group of TPL insurance and claims caused by forces of nature. In the first half of 2015, the loss ratio in corporate insurance amounted to 62.6% compared with 56.9% in the corresponding period of the previous year;
- decline in the investment income allocated to the segment at transfer prices by 13.9% to the level of PLN 57.6 million due to lower market interest rates as well as a decrease in the euro exchange rate;
- decrease in acquisition costs of PLN 18.4 million, i.e. 12.4% compared with the first half of 2014 as a result of higher deferred costs, partially offset by an increase in indirect acquisition costs and inward reinsurance commissions;
- increase in administrative expenses to the level of PLN 62.9 million, i.e. 9.6%, compared with the corresponding period of the previous year, as a result of implementation of strategies aiming to change the philosophy of customer relations management and developing the key areas of PZU Group, i.e. Retail and Corporate Customer Area (including the SME segment), distribution and operational support.

Operating profit of the corporate segment (PLN million)



Mass client insurance

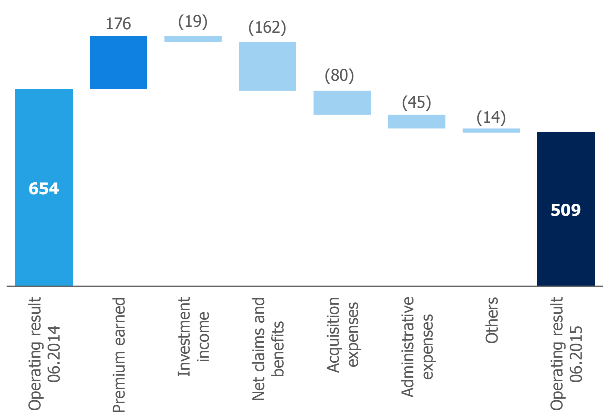
In the first half of 2015, the operating profit in the mass client insurance segment amounted to PLN 509.4 million (a 22.1% decrease compared with the corresponding period of 2014). Excluding Link4, in the first half of 2015, the operating profit in the mass client segment was PLN 523.2 million.

The consolidation of Link4 initiated in September 2014 contributed to the increases in particular items in the operating result in the first half of 2015 compared with the corresponding period of the previous year.

The following factors had a key impact on this segment result in the first half of 2015:

- gross written premium was PLN 3,689.0 million, i.e. it increased by 10.8 % compared with the previous year (after excluding Link4's share, a 3.9% increase); the motor insurance premium was higher by 12.3% (excluding premium from Link4, an increase by 2.7% year-on-year). In addition, higher sales were recorded in the group of insurance covering claims caused by the forces of nature (+6.9%), including household insurance (PZU DOM [PZU HOME]) and accident insurance (+18.7%). These increases were partially offset by lower premiums in miscellaneous financial loss insurance;
- investment income allocated at transfer prices to the mass client insurance segment amounted to PLN 255.4 million (decrease by 6.9% compared to the first half of 2014), as a result of lower market interest rates and a decrease in the euro exchange rate;
- claims and benefits were at the level of PLN 2,048.4 million, i.e. they increased by 8.6% in relation to the first half of 2014 (after excluding Link4's share, a 1.5% increase). A deterioration of the results with respect to the previous year was brought about by higher amount of claims and benefits in the motor insurance group, determined mainly by an increase in average claims and a higher number of reported claims. The adverse events were partially offset by a lower level of claims caused by forces of nature in agricultural and non-life insurance (frosts, flash flooding);
- acquisition costs amounted to PLN 662.5 million, i.e. they were higher by 13.7% than in the first half of 2014; mainly as a result of an increase in indirect acquisition costs and inward reinsurance commissions. In addition, an increase was recorded in the share written premium commissions as a result of the sales-related activities performed in the channel of multiagency sales, which were conducted in order to enhance effectiveness of the sales network, and changes in the commission rates introduced in the second half of 2014;
- administrative expenses in the segment amounted to PLN 318.1 million, which represents an increase compared with the previous year of 16.6%, mainly due to higher costs of the strategy 3.0 implementation concerning the development of key areas of PZU Group, including an ecosystem supporting customer loyalty and involvement. These initiatives will enable PZU maintain its undisputed leading position in setting the standards for the entire market.

Operating profit of the mass segment (PLN million)



Group insurance and individually continued insurance – life insurance

The operating profit of the group and individually continued insurance amounted to PLN 727.3 million and was 13.5% lower than in the previous year. This was a result of:

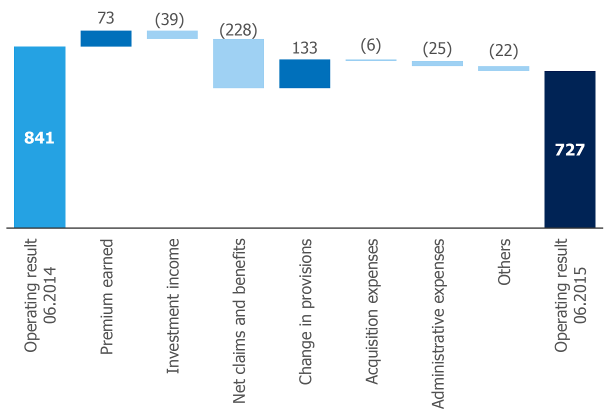
- increase in gross written premiums to PLN 72.1 million (+2.2%) was mainly caused by:
  - development of group protection insurance (an increase in average premium and the number of insured, including high sales of new policies);
  - acquisition of premiums in group health insurance (new customers in outpatient insurance and sales of drug product variants);
  - sales of additional insurance and an increase in the sum insured in individually continued products.

  Positive effects were partially offset by a decrease in premiums in unit-linked products, resulting from the transfer of agreements of PZU employees' EPP to the EPP conducted by TFI PZU;
- investment income – comprising income allocated according to transfer pricing and income from investment-type products – amounted to PLN 332.2 million, i.e. it declined by 10.5%, both as a result of a decline in the income allocated according to transfer pricing due to lower market interest rates which are used as the basis for calculating income on portfolios replicating insurance liabilities, and lower income on unit-linked products as a result of a decline in treasury bond prices as compared with increases in the previous year;
- net insurance claims and benefits amounted to PLN 2,417.9 million (a 10.4% increase);

  This change was caused, in particular, by:
  - strong increase in the mortality ratio in the protection insurance compared with the previous year confirmed by the Polish Central Statistical Office for the entire population – an increase in the mortality ratio for the subsequent six months ended in May 2012, 2013, 2014 and 2015 amounted to 0.513%, 0.543%, 0.502% and 0.518%, respectively; significant annual variation is noticeable;
  - higher disbursements on endowment in short-term endowment products in the bancassurance channel – reaching the maturity dates of the policies; without affecting the result – offset by a change in technical provisions.
- Increase in other net technical provisions amounted to PLN 28.3 million. The increase in provisions was by PLN 132.8 million lower than in the previous year. The main reason was a smaller increase in the provisions for individually continued products – an increase in the mortality ratio (the death of a Client requires the payment of benefits and, simultaneously, a release of a technical provision), as well as an increase in the share of the new participants of the portfolio, following the modification allowing for establishing lower initial technical provisions. In addition, PZU Życie, within the framework of annually setting the rules for possible indexation of clients' sums insured in continued insurance, modified these rules as of the outset of 2016; This had a positive impact on the level of technical provisions in this portfolio. There was also a higher decrease of provisions in short-term endowment products in the bancassurance channel compared with the previous year – the endowment of the subsequent tranches in the face of the lack of sales of new contracts. Moreover, a slightly higher rate of conversion of long-term contracts into annual renewable contracts in type P group cover also affected the level of these provisions. As a result, provisions of PLN 47.4 million were released, i.e. PLN 2.2 million more than in the corresponding period of 2014;
- acquisition costs amounted to PLN 180.9 million , i.e. they increased by 3.4%. The factors determining an increase in direct and indirect acquisition costs were: high sales of riders to continued protection insurance (remuneration for intermediaries, costs of shipping the offer to the Clients and related indirect costs), and in group protection insurance (including health insurance), an increase of the contract portfolio and the broker and agency channels' share in the portfolio;
- administrative expenses of the segment amounted to PLN 284.3 million and increased compared with the previous year by 9.6%, mainly due to higher costs of the strategy 3.0 implementation concerning the development of key areas of PZU Group, i.e. Retail (including the SME segment) and Corporate Customer Area, PZU Zdrowie [PZU Health], distribution and operational support;
- year-on-year decline of the result in other revenues and costs by PLN 21.8 million was caused by the prevention fund write-off (the write-off was absent in the previous year, eliminated at the level of the consolidated result) and higher costs related to PZU Życie funding the premium (higher promotional sales of additional insurance policies to individually continued insurance).

After excluding from the segment's result the one-off effect related to the effect of conversion of long-term contracts into renewable contracts in type P, the operating profit amounted to PLN 679.9 million in the first six months of 2015, compared with PLN 795.4 million in the corresponding period of 2014 (a 14.5% decrease). The lower result was mainly due to a higher loss ratio of the protection insurance portfolio as a result of higher mortality ratio.

Operating profit of the group and individually continued insurance segment (PLN million)



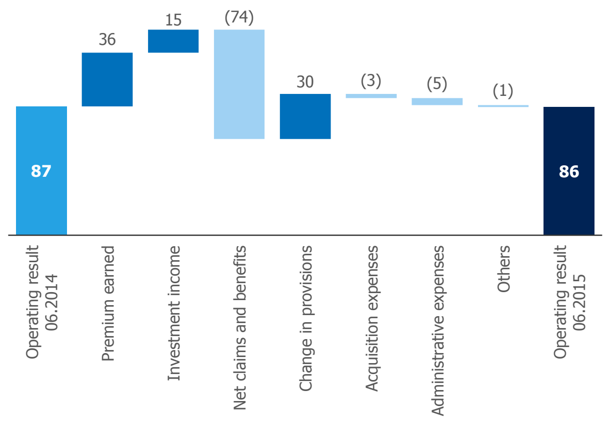
Individual insurance

In the first half of 2015, the operating result of the individual life insurance segment amounted to PLN 86.3 million, i.e. it was 0.7% lower than in the previous year. The main factors affecting the level of the segment's operating results were:

- increase in gross written premiums by PLN 36.9 million (+5.7%) compared with the first half of 2014 resulted from:
  - higher average payments made to IKE;
  - increase in the sales of unit-linked products in cooperation with banks;
  - record subscriptions for structured products in the Group's own channel;
  - high sales of protection products, as a result of a changes in the commission system and a more attractive offer thank to the introduction of a new additional "PZU Pomoc od Serca [Help from the Heart]" insurance.

  A negative effect had the withdrawal of the Plan na Życie [Plan for Life] savings product with a protection component and the absence in the current year of the sales of structured and deposit products in cooperation with banks;
- investment income allocated according to transfer pricing and income from investment-type products. In the individual insurance segment the income increased year-on-year by PLN 15.5 million to the level of PLN 198.3 million, mainly in unit-linked products in the bancassurance channel due to a more dynamic growth of the WIG index (3.7% in the first half of 2015 as compared to 1.3% in the first half of 2014). The income allocated according to transfer pricing decreased slightly;
- value of net claims and benefits which amounted to PLN 382.6 million, i.e. they increased by 23.9% compared with the corresponding period of 2014. This increase is caused by higher disbursements on endowments in structured products in the bancassurance channel (reaching the maturity dates of the policies) and higher surrender of unit-linked products sold through the Group's own channels (the withdrawal of PZU from charging for earlier surrender in the Plan na Życie [Plan for Life] product), as well as in the bancassurance channel (increase in the portfolio size on a year-on-year basis). The negative impact of these factors on the operating result (except for charges for earlier surrender) was offset by an adequate change in technical provisions;
- increase in other net technical provisions was lower than in the previous year by PLN 30.4 million. The change was connected with lower provisions in structured bank products, which was the result of lack of sales of these products in the current year and simultaneous higher disbursements on endowments of policies. A similar effect was recorded in unit-linked products, mainly in the Plan na Życie [Plan for Life] savings product with a protection component and regular premium (withdrawal from sale and charges for early surrender leading to an increase in the value of surrenders);
- acquisition costs amounted to PLN 65.8 million, i.e. they increased by 4.6% compared with the corresponding period of 2014. This was caused foremost because of the increased cost of the agency network's commission, which was the result of a change in the remuneration policy, and which contributed also to a higher volume of new sales of protection products and, in the case of unit-linked insurance in the bancassurance channel, to changes in the contract's terms and conditions and an increase in assets that impact a portion of the remuneration. The above-mentioned effects were offset by a lower sales commission which was caused by a withdrawal of the Plan na Życie [Plan for Life] savings product with a protection component and regular premium;
- administrative expenses in the segment amounted to PLN 30.5 million, which represents an increase compared with the previous year of PLN 4.7 million, mainly due to higher costs of the strategy 3.0 implementation concerning the development of key areas of PZU Group such as Retail Customer Area, including increased efforts of the agency network to improve the quality of services related to individual products, as well as increased marketing expenses in this segment;
- changes in the "other revenue and expenses" category (expenses higher by PLN 1.4 million) as a result of the prevention fund write-off in the current year (the write-off was absent in the previous year).

Operating profit of the individual insurance segment (PLN million)



Investments

Income from the investments segment comprises investment activity conducted with PZU Group's own funds defined as the surplus of investments over technical provisions in the insurance companies within PZU Group with their registered offices in Poland (PZU, Link4 and PZU Życie) increased by the surplus of income exceeding the risk-free rate from investments matching the value of technical provisions in insurance products, i.e. the surplus of investment income over the income allocated to insurance segments according to transfer pricing.

Additionally, the investments segment includes income earned on other excess funds in PZU Group.

Income on operating activities in the investments segment (exclusively external transactions) amounted to PLN 167.5 million in the first half of 2015 and was 53.3% lower than in the corresponding period of the previous year.

Pension insurance

In the first half of 2015, the operating profit in the pension insurance segment amounted to PLN 39.5 million, i.e. it increased by 36.4% compared with the first half of 2014. This was the result of:

- fee and commission income which amounted to PLN 56.8 million, i.e. it dropped by 26.2% compared with the prior year. This change was mainly due to:
  - lower management fee by PLN 6.2 million as a result of the transfer of a portion of the assets of OFE, dated 3 February 2014, to ZUS in the amount corresponding to 51.5% of the units on the account of every member of the OFE PZU and the introduction of the "slider" mechanism;
  - decrease of PLN 12.9 million in fee income from premiums due to, among other things, the decision of the insured regarding further transfer of their premiums in the newly established amount of 2.92%, in respect to the future premiums, to open pension funds, the statutory decrease in the fees on premiums from 3.5% to 1.75%, effective since 1 February 2014, and the lack of premiums for those in the "slider";
- acquisition costs amounted to PLN 1.5 million, i.e. they were 56% lower than in the previous year. It resulted from open pension fund information activities carried out in 2014;
- administrative expenses amounted to PLN 20.6 million, i.e. were 59.1% lower than in the corresponding period of the previous year. In particular, the costs of maintaining pension fund registers declined by PLN 6.3 million due to lowering the fee for the management of OFE PZU member accounts since 1 February 2014 and the withdrawal from the additional remuneration for the transfer agent in connection with the fulfillment of assumptions on improving the quality of provided services. The fees on premiums transferred by ZUS to OPF were lowered by PLN 2.9 million due to statutory changes in the amount of fees and premiums and marketing expenses were lowered by PLN 1 million (educational and advertising campaign concerning the open pension funds carried out in 2014). What is more, the costs of obligatory additional payments to the Guarantee Fund in the Central Securities Repository of Poland decreased by PLN 18.7 million (mainly the result of a statutory change; adjustment was performed through payment in 2014 to the required level from 0.1% to 0.3% of the assets of the open pension fund).

Consolidated financial results

Baltic states

As there were new companies acquired by PZU Group in this region, the data for this segment for the first half of 2015 take into account the data from all companies, including the newly-acquired ones. 3.6 Foreign insurance activity. For the first half of 2014, on the other hand, only the data of the companies which had been consolidated so far were presented: non-life and life companies (PZU Lithuania and PZU Lithuania Life).

PZU Group generated an operating profit in the amount of PLN 16.7 million in the Baltic states in the first half of 2015, compared with PLN 4.1 million of the operating profit in the previous year. The gross result amounted to PLN 5.2 million.

This result arose from the following factors:

- increase in gross written premium. It amounted to PLN 608.1 million, and included PLN 476.7 million, i.e. 78.4% of the companies which had not been consolidated in the previous year. For comparison purposes, in the first half of the previous year, the written premium in the segment amounted to PLN 158.6 million;
- increase in the net investment result. In the first half of 2015, the result amounted to PLN 16.6 million and was higher by 95.1% than in the coresponding period of the previous year;
- increase in net claims and benefits. They amounted to PLN 343.3 million, with the share of claims and benefits of the companies that were not consolidated in the previous year in the total claims and benefits amounting to 74.4%;
- increase in acquisition costs. The respective costs of the segment amounted to PLN 128.1 million, including PLN 99.3 million of acquisition costs incurred by the companies acquired in 2014. The increase in acquisition costs resulted mainly from an increase in sales of insurance;
- increase in administrative expenses. They amounted to PLN 78.1 million, while the expenses of the newly-acquired companies amounted to PLN 59.1 million, i.e. 75.7%.

Ukraine

Taking into account the significant depreciation of the currency in Ukraine, data in this segment are presented in the currency in which the companies report their results.

In the first half of 2015, the Ukraine segment earned an operating profit of UAH 1.0 million, compared with the loss in the amount of UAH 15.8 million in the previous year.

Change in the segment's results was the effect of:

- increase in the gross written premium. The increase amounted to UAH 429.7 million and increased by 58.3% in comparison with the previous year. The sales of Zielona Karta [Green Card] (increased rates),travel and accident insurance improved. Taking into account the depreciation of the currency, the written premium showed a reverse trend (a fall by PLN 2.8 million);
- increase in the net investment result. This segment earned UAH 151.1 million in this respect, which is 178.4% more than in the corresponding period of the previous year. The increase in liquid assets and higher profitability of investments had a positive impact on this income;
- significant increase in claims and benefits. The segment recognized UAH 264.6 million, i.e. 51.8% more claims and benefits than in the first half of the previous year. The increase was mainly caused by the increase in the payments of benefits from investment insurance in the life insurance company, which amounted to UAH 172.9 million. In the first half of 2015, the non-life company disbursed UAH 97.8 million in claims, i.e. 27.7% more than in the corresponding period of the previous year.
- increase in acquisition costs. They amounted to UAH 119.7 million compared with UAH 85.2 million in the prior year. Their level was the result of an increase in the written premium for the non-life, motor and travel insurance which are characterized by higher commission charges;
- increase in administrative expenses. They amounted to UAH 54.2 million. For comparison purposes, in the first half of 2014, the administrative expenses of the segment amounted to UAH 47.2 million. Simultanously, the administrative expenses ratio calculated with net premium earned improved and amounted to 18.8% (a decline by 1.1 p.p. compared with the previous year).

In the reporting currency the written premium amounted to PLN 74.3 million and was lower by 3.6% in the first half of 2015, compared with the previous year. The segment's gross result decreased to PLN 1.6 million (from PLN 4.0 million in the first half of the previous year).

Investment contracts

The consolidated statements present the investment contracts in accordance with the requirements of IAS 39.

The results of investment contracts segment are presented as per the Polish GAAP, which means that, among others, the following items were included: gross written premiums, paid benefits and change in technical provisions. The above categories are eliminated on the consolidated level.

PZU Group earned PLN 1.8 million of operating profit compared with PLN 11.1 million in the prior year (decrease of 83.8%) on investment contracts, i.e. PZU '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 some unit-linked products).

The following had an impact on the results of the segment during the period of six months of 2015:

- gross written premium from investment contracts decreased in the first half of 2015 by PLN 203.7 million (-73.3%) compared with the corresponding period of 2014 and amounted to PLN 74.3 million. Changes in gross written premiums were mainly caused by:
    - lower sales of short-term endowment products in the Group's own channels,
    - withdrawal of short-term endowment products in the bancassurance channel.

  In both cases, the reason was low profitability of such contracts for the Clients following a decline in market interest rates to a record low level and the introduction of a tax on capital gains for such policies;
- deterioration in investment income. It amounted to PLN 22.5 million, which means it was lower by 11.4% than in the corresponding period of 2014, mainly in short-term endowment products through the Group's own and the bancassurance channel due to a decline in the investments level;
- lower amount of net insurance claims and benefits resulting from lower disbursements on endowments in short-term endowment products in the bancassurance channel (the last year's tranches had a high value; the sales were lower in subsequent periods; no impact on the result – similar effect on the change in technical provisions). These amounted to PLN 401.8 million, i.e. they were 62.2% lower than in the previous year;
- lower negative balance of net technical provisions. This amounted to PLN 316.8 million compared with PLN 786.6 million in the previous year. This difference arose from the changes in the cover portfolio of short-term endowment products of an investment nature, mainly through the bancassurance channel, i.e. significantly lower endowments following the withdrawal of the offer;
- lower acquisition costs. These amounted to PLN 5.1 million, i.e. they were 50.8% lower than in the prior year. It was a result a significant decline in sales and the value of assets in unit-linked products in the bancassurance channel (part of the bank's remuneration is dependent upon the level of assets);
- lower administrative expenses. These amounted to PLN 4.6 million and declined by 12.0% compared with 2014 – the result of a decrease in the contracts portfolio.

Profitability ratios

In the first half of 2015 PZU Group's return on equity was 21.1%. ROE was 6.4 p.p. lower than in the previous year. The profitability ratios achieved in 2015 by PZU Group exceed the levels achieved by the whole market (according to the data for the first quarter of 2015).

Operating efficiency ratios

One of the key operating ratios of an insurance company is the combined ratio (COR), which is calculated for the non-life sector (Sector II) because of its specific nature.

The combined ratio of PZU Group (for non-life insurance) remains in the last few years at a level which guarantees high profitability. In the first half of 2015, the ratio amounted to 90.7%.

Key profitability ratios of PZU Group	1 January – 30 June 2015	1 January – 30 June 2014	1 January – 30 June 2013
Return on Equity (ROE) (annualised net profit / average equity) x 100%	21.1%	27.5%	24.3%
Return on assets (ROA) (annualised net profit / average assets) x 100%	4.0%	5.4%	5.7%
Administrative expense ratio (administrative expenses / premium earned net of reinsurance) x 100%	9.4%	8.7%	7.8%
Return on Sales (net revenue / gross written premium) x 100%	14.5%	20.4%	19.7%

	Operating efficiency ratios	1 January – 30 June 2015	1 January – 30 June 2014	1 January – 30 June 2013
1.	**Claims ratio gross** (Claims gross along with change in technical reserves/written premium gross) x 100%	66.7%	64.9%	64.2%
2.	**Claims ratio net of reinsurance** (net claims / net premium earned) × 100%	68.7%	67.5%	66.8%
3.	**Insurance activity costs ratio** (Costs of insurance activity/ premium earned net of reinsurance) x 100%	22.3%	21.6%	19.7%
4.	**Acquisition expenses ratio** (acquisition expenses / premium earned net of reinsurance) x 100%	12.9%	12.9%	11.9%
5.	**Administrative expense ratio** (Administrative expenses / premium earned net of reinsurance) x 100%	9.4%	8.7%	7.8%
6.	**Combined ratio in non-life insurance** [(claims + costs of insurance activity) / premium earned net of reinsurance] x 100%	90.7%	86.1%	82.3%
7.	**Operating profit margin in life insurance** (operating profit / gross written premium) x 100%	20.1%	23.3%	21.8%

PZU holds a

rating above Poland's foreign currency sovereign rating

for debt in a foreign currency.

Warsaw
Poland

06

Risk management

We devote a lot of time to the care and continued development of advanced procedures of risk management. We consider them to be fundamental, as, all in all, we want our Clients to feel secure and calm and our results to remain predictable. We are the ones who should concentrate on the risk that our Clients might bear and they should be able to completely rely on our expertise.

Contents:

6.1 Introduction

One of the strategic objectives of PZU Group is to establish an integrated, coherent and effective risk management system, as well as consistent principles concerning risk management in insurance companies of the capital group, in accordance with the requirements of the Solvency II system and in a way allowing it to be controlled from within the Group. As the parent entity, PZU supervises the risk management process within PZU Group and establishes uniform standards of risk management system organization for all the companies within the Group. In turn, each of the companies individually adopts its own internal documents on strategy, policy and procedures. The risk management process is independently implemented by individual companies of PZU Group, which are at the same time responsible for its appropriateness and efficiency, in accordance with binding regulations.

The risk management function of PZU Group is carried out by risk units of individual companies, in particular by PZU's Risk Office, which prepare and update appropriate internal regulations related to risk management, as well as regularly carry out various tasks associated with the risk management process, in particular:

- develop the risk management strategies and the individual risk category policies;
- develop methodologies for measuring and managing various risks;
- design tools supporting the risk management process;
- identify, measure, assess, monitor and control risks;
- draw up inspection reports and monitor the usage of limits and restrictions;
- develop proposals for network of limits and restrictions;
- draw up risk information for the purposes of supervisory authorities and rating agencies;
- carry out stress tests.

6.2 Risk management objective

Risk management aims to:

- increasing the value of PZU Group through active and conscious change in the amount of risk assumed;
- preventing acceptance of risk at a level which could threaten the financial stability of PZU Group.

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

The main elements of risk management are consistent for all companies of PZU Group and implemented in a way which ensures the implementation of both strategic plans of individual companies and business objectives of the whole PZU Group.

They include, among others:

- systems of limits and restrictions of the acceptable risk level, including the level of appetite for risk;
- processes of identifying, measuring and assessing, monitoring and controlling, reporting and managing actions with respect to the individual risks;
- organizational structure of risk management, in which Management Boards and Supervisory Boards of companies, as well as dedicated Committees, play the key role.

6.3 Risk management system

The risk management system of PZU Group is based on:

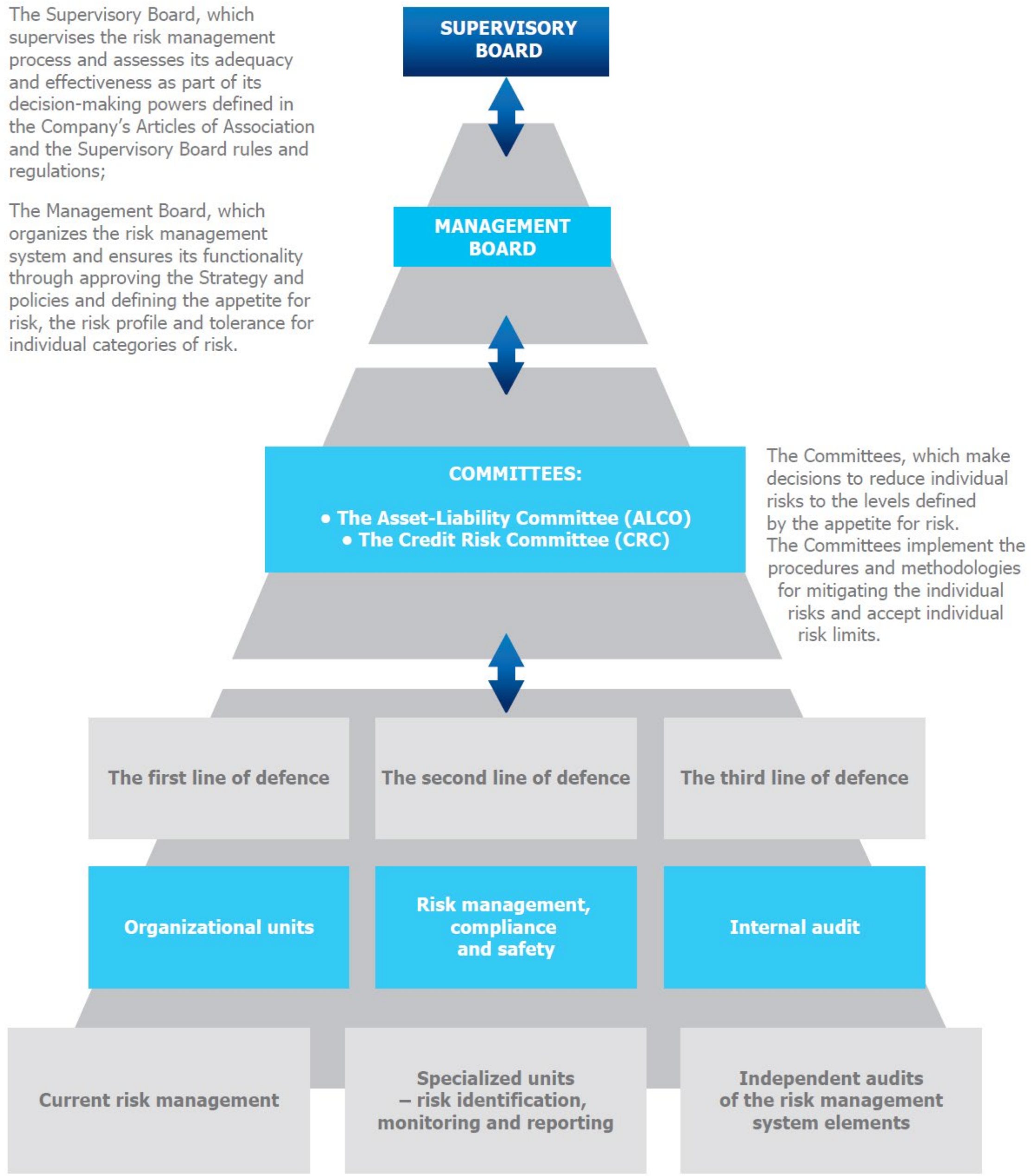
- organizational structure – including division of responsibilities and tasks performed by statutory bodies, committees as well as individual organizational units in the risk management process;
- risk management process, including the methods of identification, measurement and assessment, monitoring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

The risk management system organizational structure is consistent in PZU Group and in individual companies and includes four competence levels.

The first three are as follows:

- the Supervisory Board, which supervises the risk management process and assesses its adequacy and effectiveness as part of its decision-making powers defined in the given company's By-laws and the Supervisory Board rules and regulations;
- the Management Board, which organizes the risk management system and ensures its functionality through approving the strategy and policies and defining the appetite for risk, the risk profile and tolerance for individual categories of risk;
- the Committees which make decisions on reducing individual risks to a level determined by the risk appetite. The Committees implement the procedures and methodologies for mitigating the individual risks and accept individual risk limits.

Structure of the risk management system



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

- the first line of defense – ongoing risk management at the business unit and organizational unit level and decision-making as part of the risk management process;
- the second line of defense – denotes risk management by specialized units responsible for risk identification, assessment, measurement, monitoring and reporting as well as controlling limits;

- the third line of defense – comprises internal audit, which conducts independent audits of the elements of the risk management system, as well as control activities embedded in the activities of individual companies.

6.4 Risk appetite

The risk appetite has been defined as the risk that individual companies are prepared to accept in pursuit of its business goals. The measure of risk appetite is the level of potential financial loss, decrease in the value of assets or an increase in the value of liabilities in the period of one year.

The level of risk appetite is defined as the minimum capital requirement coverage ratio. The risk appetite determines the maximal level of acceptable risk when setting limits and restrictions for individual partial risks and the level which, when exceeded, results in taking specific management measures necessary to limit further risk growth. The risk unit reviews the level risk appetite every year.

The risk profile involves quantitative limits which define the risk appetite more precisely. Tolerance limits are additional limits introduced for individual risk types to mitigate the potential risk.

The way of determining the risk appetite and risk limits is the same in all insurance companies of PZU Group. The Management Board in each company determines the risk appetite, the risk profile and tolerance limits which reflect its strategic plans and objectives of the entire PZU Group. Such an attitude ensures appropriateness and efficiency of the risk management system in the Group and prevents risk acceptance at a level which could pose a threat to the financial stability of individual companies or the entire PZU Group. The PZU Management Board is responsible for determining the appropriate risk level for each company, whereas the risk unit reviews the level of risk appetite once a year and all the activities are coordinated at PZU Group level.

6.5 Risk management process

Two levels are distinguished in the risk management process:

- PZU Group level – it ensures that PZU Group implements its business objectives in a safe way which is adjusted to the scale of risk involved. This level involves the monitoring of limits and specific types of risk occurring in business lines, e.g. collective catastrophe risk, entire exposure of PZU Group to financial risk or counterparty risk. PZU Group ensures support in the implementation of coherent risk management standards and monitors their implementation. Dedicated employees of PZU Group cooperate with Management Boards of the companies and with management of such areas as finance, risk, actuary, reinsurance, investment;
- company level – it ensures that the company implements its business objectives in a safe way which is adjusted to the scale of risk involved. This level involves the monitoring of limits and specific types of risk occurring in the given company and implementation of the risk management process at the level of the single company (both in terms of local legal regulations and standards of PZU Group).

6.6 Risk profile of PZU Group

The risk profile did not change significantly in the first half of 2015. Due to the dominant share of PZU and PZU Życie in the activities of PZU Group, apart from risks specific to insurance companies, no other specific risks are identified at the group level.

The main types of risks incurred by PZU Group include insurance risk, market risk, credit risk, concentration risk, operational risk and compliance risk.

Insurance risk

JIt is the risk of a loss or an adverse change in the value of insurance liabilities as a result of improper assumptions regarding valuation and the establishment of provisions.

The process of risk identification starts with the idea of creating an insurance product and it lasts until the liabilities

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 assessment and measurement

Risk assessment and measurement 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, which are performed by dedicated units.

Reporting

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

Management activities

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.

relating to it expire. Insurance risk identification is carried out, i.a. by means of:
- analysis of general insurance terms in terms of the accepted risk and compliance with generally applicable provisions of law;
- monitoring of the existing products;
- analysis of the policy relating to underwriting, tariffs, provisions and reinsurance, as well as the claims handling process and benefits.

Insurance risk assessment involves recognizing the degree of exposure or a group of exposures related to the possibility of incurring a loss and analysing the risk elements in order to make a decision on whether PZU should accept a risk for insurance and assume liability. The aim of the risk assessment (underwriting GLOSSARY) is the assessment of future claims and the reduction of anti-selection.

Insurance risk measurement is based in particular on:
- analysis of selected ratios;
- scenario method – analysis of impairment arising from an assumed change in risk factors;
- factor method – a simplified version of the scenario method, reduced to one scenario per risk factor;
- statistical data.

Monitoring and controlling of insurance risk includes the analysis of the level of risk by means of a set of reports including selected ratios.

The reporting aims to ensure efficient insurance risk communication and supports insurance risk management at various decision-making levels from the employee level to the Supervisory Board. The frequency of individual reports and the scope of information are tailored to meet the information needs at different decision-making levels.

Management actions envisaged in the insurance risk management process are carried out, in particular by:
- specifying the level of tolerance to insurance risk and monitoring thereof;
- business decisions and sales plans;
- calculating and monitoring the adequacy of technical provisions;
- tariff strategy, as well as monitoring existing estimates and assessing the adequacy of the premium;
- the process of assessment, measurement and acceptance of insurance risk;
- the use of insurance risk mitigation tools, including, in particular, reinsurance and prevention.

Furthermore, in order to reduce the insurance risk associated with the ongoing activities the following actions, in particular, are undertaken:
- definition of the scopes of liability in the general terms of insurance;
- reinsurance activities;
- adequate tariff policy;
- application of appropriate methodology of provisions calculation;
- appropriate underwriting process;
- appropriate claims handling process;
- sales decisions and plans;
- prevention.

Market risk

This is a risk of a loss or an adverse change in the financial situation, which directly or indirectly arises from fluctuations and changes in market prices of assets, liabilities and financial instruments.

The identification of market risk involves recognizing the actual and potential sources of such risk. In the case of assets, the market risk identification process begins when a decision is made to commence transactions on a given type of financial instrument. The units which decide to start transactions on a given type of financial instrument prepare a description of the instrument, including, in particular, a description of the risk factors, and submit it to the unit responsible for risk-related issues, which identifies and assesses the market risk on this basis.

The process of identifying market risk related to insurance liabilities starts simultaneously with the process of creating an insurance product and involves identifying the relationship between the amount of financial flows associated with this product and the market risk factors. Identified market risks are assessed in terms of materiality, i.e. based on whether the materialization of a risk would be related to a loss that could affect the financial position.

The market risk is measured using the following measures of risk:
- VaR, i.e. Value at Risk – a risk measure quantifying the potential economic loss, which will not be exceeded over a period of one year with a 99.5% probability under normal market circumstances;
- exposure and sensitivity measures;
- accumulated monthly loss.

The following stages of the market risk measurement process can be distinguished:
- collection of information on assets and liabilities that generate market risk;
- calculation of the value of the risk.

The risk measurement is performed:
- for the measures of exposure and sensitivity of instruments;
- when using a partial internal model.

Monitoring and controlling of the market risk involves analyzing the risk levels and the utilization of limits.

Reporting consists of communicating the level of market risk and the effects of monitoring and controlling to the different decision-making levels. The frequency of individual reports and the scope of information are tailored to meet the information needs at different decision-making levels.

Management actions regarding market risk include, in particular:
- concluding transactions to mitigate market risk, such as selling a financial instrument, closing a derivative and purchasing a hedging derivative;
- diversifying the portfolio of assets, in particular with respect to market risk categories, maturities of instruments, concentration of exposure in one entity, geographical concentration;
- setting market risk restrictions and limits.

The setting of limits is the main management tool for maintaining risk positions within acceptable risk tolerance levels. The structure of limits for the individual market risk categories and the organizational units is defined by dedicated Committees in line with the risk tolerance determined by the Management Board.

Credit and concentration risk

Credit risk is the risk of loss or unfavorable change of the financial standing resulting from fluctuations of reliability and creditworthiness of issuers of securities, counterparties and debtors, which materializes in their failure to perform or an increase in credit spread.

Concentration risk is a risk arising from lack of diversification in the portfolio of assets or from too high exposure to the risk of default by a single entity or group of related entities.

Identification of the credit and concentration risk takes place at the stage of making a decision to invest in a new type of financial instrument or the credit exposure to a new entity. Identification is based on an analysis of whether a given investment is related to credit or concentration risk, on which its level and volatility depends. The actual and potential sources of credit and concentration risk are identified.

The risk assessment is based on estimating how probable it is that the risk will occur and potential impact of such occurrence on the financial condition.

Credit risk assessment of an entity is based on internal credit ratings (rating approach differs depending on an entity type) derived from quality and quantity analysis. Ratings provide a basis for limit-setting. The ratings are updated for credit quality monitoring purposes.

The assessment of reinsurers' creditworthiness is conducted on the basis of market data, information obtained from external sources such as external rating agencies, as well as using an internal model. The model divides reinsurers into several classes, depending on the level of risk assessed. Only those entities whose risk is lower than the defined cut-off point are accepted. The acceptance process is not automatic and analyses are supplemented with assessments conducted by reinsurance brokers.

Credit risk is measured with the use of the following tools:
- exposure measures (the amount of the gross and net credit exposure and maturity-weighted net credit exposure);
- VaR.

Concentration risk measurement for a single entity is calculated as the product of the following two values:
- amount of exposure to this entity over the excessive concentration level;
- concentration risk ratio set for every internal rating.

The total concentration risk is measured as the sum of concentration risks of individual entities. In the case of related entities, concentration risk is specified for all related entities cumulatively.

Monitoring and controlling of the credit and concentration risk involve analysing the current risk level, assessing creditworthiness and determining the level of utilization of the limits set.

Monitoring is conducted for:
- financial insurance exposures;
- reinsurance exposures;
- exposure limits and VaR limits.

Reporting consists of communicating the level of credit and concentration risk and the effects of monitoring and controlling to the different decision-making levels. The frequency of individual reports and the scope of information are tailored to meet the information needs at different decision-making levels.

Management actions with respect to credit risk and concentration risk include, in particular:
- setting limits of exposure to a single entity, group of entities, sectors or states;
- diversifying a portfolio of financial assets and insurance, mainly with respect to the state and sector;
- accepting security;
- oncluding transactions aimed at mitigating credit risk, such as selling a financial instrument, closing a derivative or purchasing a hedging derivative, restructuring of the granted debt;
- reinsuring a financial insurance portfolio;

The structure of credit and concentration risk limits for the individual issuers is determined by dedicated Committees in line with the risk tolerance.

Operational risk

Is a risk of loss resulting from incorrect or erroneous internal processes, human actions, operation of systems or external factors.

Identification of the operational risk is carried out, in particular, by means of:
- collecting and analyzing information on operational risk incidents;
- operational risk self-assessment.

Assessment and measurement of the operational risk is carried out by means of:
- identifying the results of operational risk incidents;
- estimating the results of potential operational risk incidents which may occur in the course of business activity.

Monitoring and controlling of the operational risk is carried out mainly by the established operational risk indicators which make it possible to assess the change of the operational risk level over time, and the factors that influence the risk level in business activities.

Reporting consists of communicating the level of operational risk and the effects of monitoring and control to the different decision-making levels. The frequency of individual reports and the scope of information are tailored to meet the information needs at different decision-making levels.

Management actions in response to the identified and assessed operational risk involve, in particular:
- reducing risk by taking actions aimed at minimizing the risk, i.a. by strengthening the internal control system and introducing additional control mechanisms, including:
  - limiting the competence,
  - Fulfillment of the so-called „four eyes principle”,
  - separation of functions and tasks,
  - automated control of IT systems supporting the implementation of processes;
- risk transfer – in particular by means of concluding an insurance agreement;
- avoiding risk by not engaging in or withdrawing from particular business activity when excessive operational risk is detected and its restriction would be too costly to make the venture profitable;
- risk acceptance – approval of the consequences of a possible materialization of the operational risk, if its level does not exceed the tolerance level for operational risk.

The business continuity plans were implemented in the key companies of PZU Group. The companies tested also the actions that secure the correct operation of processes which are of key importance to these companies in the case of failure.

Compliance risk

It is a risk associated with non-compliance or violation of the provisions of law, internal regulations and the adopted standards of conduct, including ethical standards by the companies of PZU Group or related entities. As a result, PZU Group or entities acting on its behalf may incur legal sanctions, financial loss or loss of reputation or credibility.

Compliance risk is identified and assessed for the individual internal processes by the managers of entities or organizational units, in line with the demarcation of reporting responsibilities. Additionally, the compliance unit identifies compliance risk on the basis of information acquired by itself regarding entries in the register of conflicts of interest, gifts, benefits and irregularities, as well as the enquiries received.

Compliance risk is assessed and measured by determining the effects of materialization of the following risks:
- financial, resulting from administrative penalties, court verdicts, contractual penalties, damages etc.
- intangible, such as loss of reputation, including damage to the PZU Group’s image and brand.

Compliance risk is monitored mainly through:
- Compliance analyses;
- system analysis of quarterly reports received from the managers of the organizational units;
- the review of the regulatory requirements;
- participation in legislative work on amending the generally applicable regulations;
- participation in the activities of professional organizations;
- coordination of external control processes;
- coordination of reporting requirements arising from the stock exchange regulations and the law;
- review of the recommendations of the compliance unit;
- systemic and periodical monitoring of compliance events on the PZU level on the basis of information provided by the PZU Group companies.

Management actions taken in response to the compliance risk comprise in particular:
- acceptance of risk, e.g. in connection with legal or regulatory changes;
- mitigation of risk, including adjustment of procedures and processes to regulatory requirements, issuing opinions and drafting internal regulations from the point of view of compliance, participating in the process of agreeing marketing activities;
- avoiding risk through the prevention of involvement in activities which do not comply with the regulatory requirements or good market practices or which could have an adverse effect on their image.

6.7 Reinsurance activity

Reinsurance cover in PZU Group secures the insurance activity, reducing the consequences of the occurrence of catastrophic phenomena which could adversely affect the financial standing of insurance companies. This task was performed through obligatory reinsurance contracts supplemented with optional reinsurance contracts.

Reinsurance contracts – PZU

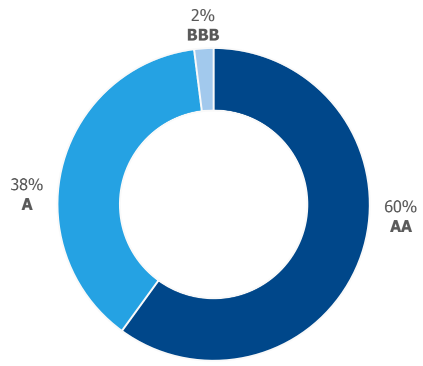
PZU uses the reinsurance contracts it concludes to mitigate its exposure to catastrophic losses (e.g. flood, hurricane) among other things through a catastrophic non-proportional excess loss contract and to the consequences of large one-off losses in non-proportional reinsurance contracts protecting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

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

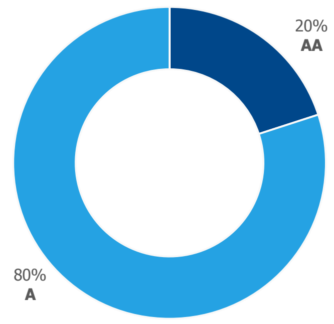
The main partners that provided PZU with the obligatory reinsurance cover in 2015 included: Swiss Re, Hannover Re, Scor, Munich Re, and Lloyd’s. Reinsurance partners have high S&P/AM Best ratings, which gives the company the certainty of the reinsurer’s good financial standing.

PZU’s activity in the area of inward reinsurance includes foreign companies of PZU Group. As a result of the new acquisitions, in 2014 and 2015, the commitment to the protection of subsidiaries increased, and so did the related written premium. In addition, PZU obtains a written premium from inward reinsurance from activity on the domestic and foreign market, mainly through optional reinsurance.

Reinsurance premiums under PZU's obligatory contracts, by Standard & Poor's rating



Reinsurance premiums under PZU Życie's obligatory contracts, by Standard & Poor's rating



Reinsurance contracts – PZU Życie

Outward reinsurance contracts concluded by PZU Życie protect PZU Życie's portfolio against the accumulation of risks (catastrophic treaty) and high individual benefits.

QBE, RGA, Partner Re and Arch Re are the partners which provide reinsurance cover to PZU Życie. Reinsurance partners have high S&P ratings, which gives PZU Życie the certainty of the reinsurer's good financial standing.

Reinsurance contracts of foreign companies of PZU Group and Link4

Other insurance companies of PZU Group, that is PZU Ukraine, Lietuvos Draudimas, AAS Balta and Link4, have reinsurance cover that matches their business profile and their financial standing. Every significant insurance portfolio is secured by an obligatory contract. Reinsurance cover is provided mostly by PZU, which transfers a part of the assumed risk outside of the Group.

07

PZU on capital and debt market

Since PZU's floatation on the Warsaw Stock Exchange in May 2010, our share price has been rising faster than the major market indices. We pay dividends to our investors on annual basis. We create the value of PZU also through active communication with capital market participants. We build trust and take care of good relations.

Contents:

PZU on capital and debt market

7.1 PZU share prices

PThe shares of PZU were first traded on Warsaw Stock Exchange on 12 May 2010. The Company is among the largest quoted on WSE and has been included in WIG20 since its IPO.

PZU was also included in the following indices: WIG, WIG30, WIG-Poland RESPECT Index and WIGdiv. Since 2012, PZU's shares are also included in the sustainable development index CEERIUS (CEE *Responsible Investment Universe*). GLOSSARY OF TERMS.

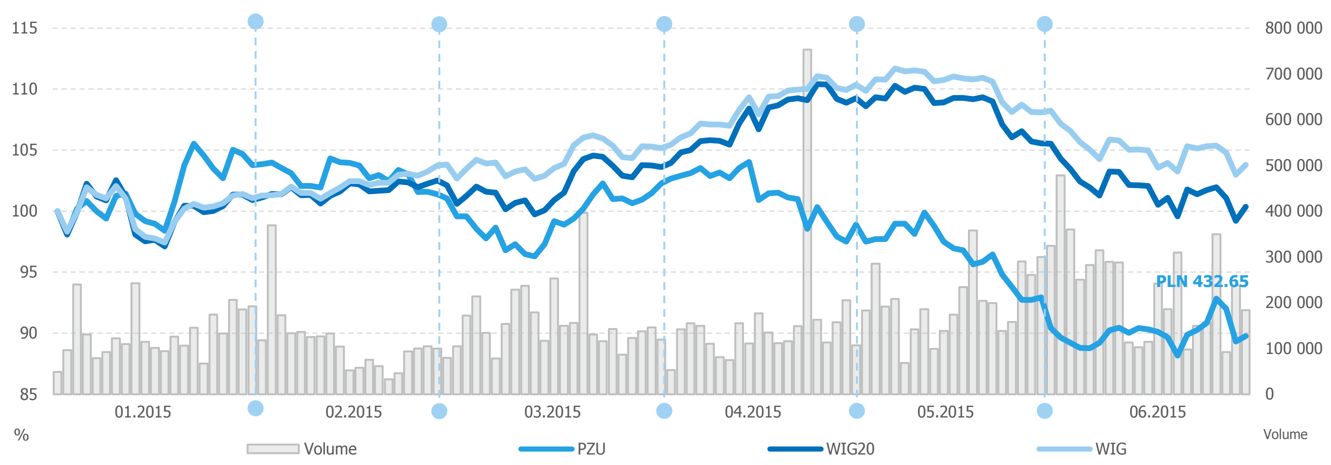
The first half of 2015 was strongly pressured by negative macroeconomic factors resulting from, among other things, the ongoing Russian-Ukrainian conflict, destabilized Greek economy and concerns about the exit of this country from the euro zone. The atmosphere has worsened following the decision of the Swiss National Bank to deregulate its currency, which led to its destabilization. The increased risk related to loans taken out in Swiss francs resulted in a decrease of the Stock Exchange valuation of banks that have a significant share in the main stock indices.

On the other hand, the market was positively stimulated by the initiated purchasing of debt securities (within the EBC framework), following the model of quantitative easing used by FED until 2014. An increased volume of lending contributed to the improvement of market forecasts (inflation, GDP) and directed the attention of investors to the stock market. The decision of major central banks on maintaining low or negative interest rates also had a positive impact on the market. This could be also observed in Poland where NBP, the National Bank of Poland, has taken action to stop the deflation through lowering interest rates from 2% to a record level of 1.5%.

In the first half of 2015, PZU share price was strongly affected by variable behavior of investors and in the analyzed period ranged from PLN 425 (19 June) to PLN 508.65 (23 January) at the end of the trading session. The closing share price of PZU shares at the session of 30 June 2015 amounted to PLN 432.65, which means a decrease by 2.5% compared with the share price in the similar period in 2014 (PLN 443.75). At the same time, the broad market index WIG increased by 2.68%.

At the end of the first half of 2015, market valuation of PZU shares amounted to PLN 37.36 billion. Share/Book Value ratio was 3.15.

Evolution (%) and volume of PZU's share price



PZU quotations and capital market ratios	1 January – 30 June 2015	1 January – 30 June 2014	1 January – 30 June 2013
P/BV Market price per share / book value per share	3.15	3.22	2.66
BVPS Book value per share	137.26	138.00	152.96
P/E Market price per share / net profit per share	28.27	22.27	21.12
EPS (PLN) Profits (losses) per share / number of shares DY	15.30	19.92	19.40

* to diluted weighted average number of ordinary shares in issue

PZU share statistics	1 January – 30 June 2015	1 January – 30 June 2014	Dynamics
Maximum rate of shares [PLN]	508.7	462.3	10.04%
Minimum rate of shares [PLN]	425.0	409.0	3.91%
The exchange rate at the last session [PLN]	432.7	443.8	(2.50)%
Average rate per session [PLN]	475.2	433.7	9.58%
Value of the volume [PLN 000]	9,661,078.6	8,893,959.3	8.63%
Average value of the volume per session [PLN 000]	78,545.4	72,308.6	8.63%
Number of transactions	348,606.0	324,194.0	7.53%
Average number of transactions per session	2,834.2	2,635.7	7.53%
Trading volume	20,553,386.0	20,555,058.0	(0.01)%
Average trading volume per session [item]	167,100.7	167,114.3	(0.01)%
Capitalization at the end of the period [PLN 000]	37,360,323.0	38,318,833.0	(2.50)%

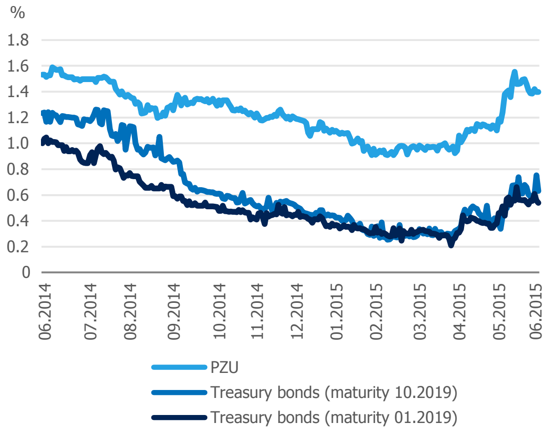
7.2 Debt financing

On 3 July 2014, PZU Finance AB (a 100% subsidiary of PZU) issued five-year eurobonds for the amount of EUR 500 million[1]. The redemption of the bonds will take place on 3 July 2019. The liabilities arising from the bonds were secured by a guarantee granted by PZU. The issue price of one bond with a nominal value of EUR 100,000 amounted to EUR 99,407. Standard & Poor's awarded these bonds a senior unsecured rating at "A-", that is, an investment grade.

The bonds are quoted on the regulated market of the Irish Stock Exchange (Official List, Main Securities Market) and the Warsaw Stock Exchange Catalyst ASO/Bondspot market. The bonds bear interest at a fixed interest rate of 1.375% per year and the coupon is paid once a year. As at the issue date it was the lowest coupon obtained in the region of Central and Eastern Europe and the lowest margin in the region since 2007.

[1] On 7 July 2014, there was a loan agreement on which basis PZU Finance AB granted PZU a loan in the total amount of EUR 500 million..

PZU's bond yields compared to treasury bond maturing in 2019 year (euro)



The issue of eurobonds constituted the implementation of the PZU Group's investment strategy in the scope of the management of the matching of assets and liabilities in euro.

7.3 Equity management

Capital requirements

PZU Group has a solid capital base, which is much higher than the capital requirements and the average values for the insurance sector in Poland.

In accordance with the Act on Insurance Activity, an insurance company with its registered office on the territory of Poland is obliged to maintain its own funds at an amount of no less than the solvency margin and no less than the guarantee capital. Because of the lack of regulations defining the calculation of the solvency margin and the amount of own funds for the group, PZU applies a ratio calculated on the basis of the statutory solvency margins and own funds (using Solvency I rules) of insurance companies, taking into account consolidation adjustments.

PZU and PZU's statutory solvency margins and own funds were calculated on the basis of Polish accounting standards and the requirements of the Regulation of 28 November 2003 on the method of calculating the solvency margin and the minimum amount of guarantee capital for insurance categories and groups (Journal of Laws no. 211 of 2003, item 2060 as amended).

The capital requirement calculation model will be changed when Solvency II enters into force.

Capital and dividend policy

The capital and dividend policy of PZU Group for the years 2013-2015 („Policy", adopted in 2013 and updated in 2014) assumes that the dividend payment calculated based on the consolidated net profit and capital surplus, where the total dividend to be paid out based on capital surplus 2013 – 2015 cannot exceed PLN 3 billion.

Key principles of the capital policy are the following:

- focus on TSR – Total Shareholder Return;
- maintaining a safe level of own funds. Assuming maintenance of:
  - PZU Group's Solvency I margin coverage ratio of ca. 400% and solvency margin coverage with own funds excluding subordinated debt of at least 250%;
  - equity level corresponding to Standard & Poor's AA rating;
- providing funds for development and acquisitions in upcoming years.

500 mln euro bond issue value

3 July 2019 redemption date

A- (S&P) issue rating

99.407% issue price

1.375% fixed interest rate

Calculation of own funds to cover the required solvency margin (Solvency I)	1 January - 30 June 2015	1 January - 30 June 2014	1 January - 30 June 2013
Own funds of PZU Group (in millions of PLN)	8,771	10,094	11,708
Solvency margin of PZU Group (in millions of PLN)	3,486	3,273	3,220
Coverage of solvency margin by own funds at PZU Group	251.6%	308.4%	363.6%
PZU own funds (in millions of PLN)	6,654	8,190	9,858
Coverage of solvency margin by own funds at PZU	486.0%	598.2%	720.0%
PZU Życie own funds (in millions of PLN)	3,510	3,750	3,404
Coverage of solvency margin by own funds at PZU Życie	195.4%	211.6%	193.7%

In the next few years the Management Board does not intend to increase the share capital through the issue of shares.

In 2013, PZU shareholders received PLN 1.7 billion from so-called capital surplus.

The value of the dividends paid in the recent years is presented below:

Distribution of profit for 2014

On 30 June 2015 the General Shareholders' Meeting of PZU adopted the resolution on distribution of the net profit of PZU for the year ended 31 December 2014, in which it decided to distribute the profit in the amount of PLN 2,636.7 million in the following way:

- to allocate the amount of PLN 2,590.6 million to the dividend payment, i.e. PLN 30.00 per share,
- to transfer PLN 36.2 million to the supplementary capital;
- to allocate PLN 10.0 million to the Company's Social Benefits Fund.

	2015	2014	2013
Consolidated net profit of PZU Group (in PLN million)	No data	2,967.6	3,295.0
Standalone PZU income (in PLN million)	No data	2,636.7	5,106.3
Dividend for the year (in PLN million)	No data	2,590.6	4,663.0
Dividend per share per year (in PLN)*	No data	30.00	54.00
Dividend as at the dat of establishing dividend right (in PLN)	30.00	34.00	49.70
Dividend payout ratio from the consolidated result for the year*	No data	87.3%	89.1%
Dividend rate in the year (%)**	6.9%	7.0%	11.1%
TSR (Total Shareholders Return)***	(4.8)%	15.8%	14.1%

* dividend from surplus capitals paid in 2013 (PLN 20.00 per share) has not been considered in the dividend payout ratio
** rate calculated as dividend as at the ex-dividend date versus share price at the end of the given year; In 2015 – share price as at 30 June 2015
*** rate calculated as a sum of change of 1 share price and dividend as at the ex-dividend date In the period divided by the share price as at the beginning of the period; In 2015, change In share price Is calculated from 1 January to 30 June 2015

30 September 2015 was chosen as the date according to which the list of shareholders entitled to the dividend payment for the year ended 31 December 2014 was established. The dividend payment date was set at 21 October 2015.

7.4 Rating

PZU and PZU Życie are regularly rated by Standard & Poor's Ratings Services (S&P). 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 outlook, i.e. an assessment of the future position of the Company in the event of specific circumstances.

As at the date of the report on activities, PZU and PZU Życie had financial strength rating and the credit rating on the A level (granted by S&P on 16 July 2009).

As at the date of this Report on activities, long-term credit rating of Poland in the local currency as at the date of the report was A with a stable outlook, while the credit rating in a foreign currency was A- with a stable outlook.

In the announcement of 27 April 2015, the S&P agency confirmed PZU's rating position at the level of „A" with a stable outlook. It means that PZU currently has the financial strength rating higher than the rating for Poland for debt in foreign currency.

Rating of PZU

	Currently		Previously	
Company name	**Rating and outlook**	**Date on which the rating was awarded / updated**	**Rating and outlook**	**Date on which the rating was awarded / updated**
PZU				
Financial strength rating	A /stable/	27th April 2015	A /stable/	25th March 2014
Credit rating	A /stable/	27th April 2015	A /stable/	25th March 2014
PZU Życie				
Financial strength rating	A /stable/	27th April 2015	A /stable/	25th March 2014
Credit rating	A /stable/	27th April 2015	A /stable/	25th March 2014

Rating of the Republic of Poland

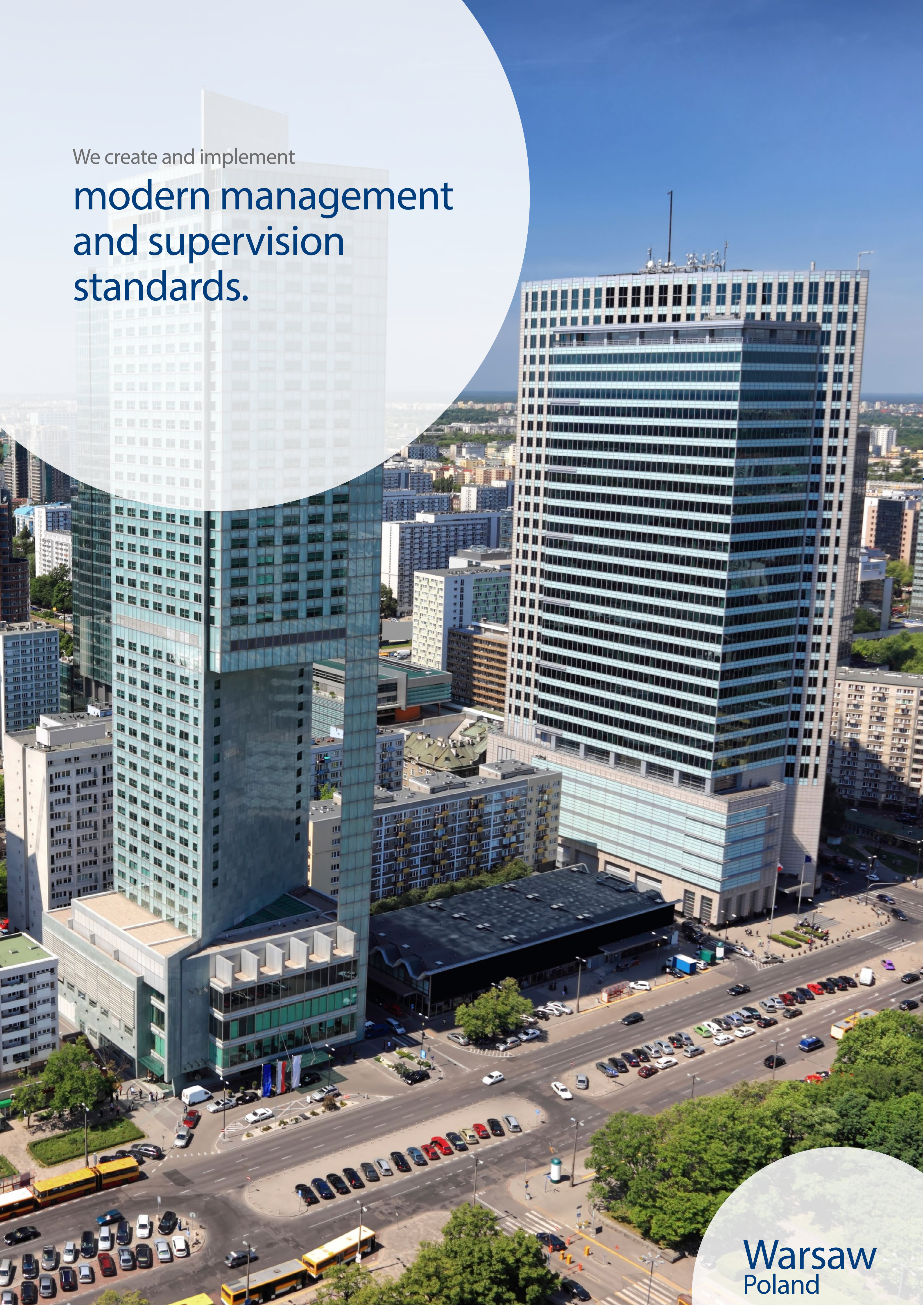
	Currently		Previously	
Country	**Rating and outlook**	**Date on which the rating was awarded / updated**	**Rating and outlook**	**Date on which the rating was awarded / updated**
Republic of Poland				
Credit rating (long-term in local currency)	A /positive/	6th February 2015	A /stable/	8th August 2014
Credit rating (long-term in foreign currency)	A- / positive /	6th February 2015	A- /stable/	8th August 2014
Credit rating (short-term in local currency)	A-1 / positive /	6th February 2015	A-1 /stable/	8th August 2014
Credit rating (short-term in foreign currency)	A-2 / positive /	6th February 2015	A-2 /stable/	8th August 2014

7.5 Schedule

Schedule of main corporate events in 2015

15th January	Payment of the second tranche of the dividend for 2013 PLN 17 per share
17th March	Annual report 2014
13th May	Report for the first quarter of 2015
29th - 31st May	19th WallStreet Conference for individual investors
26th August	Report for the first half of 2015
30th September	Settling dividend date for 2014
21st October	Payment of dividend PLN 30 per share
10th November	Report for the third quarter of 2015

MORE



8

Corporate governance

We understand that being the market leader, our role is to set the highest standards for the whole industry.

We do it by improving numerous rules and good practices used in our organization. We believe that we can offer these wise changes to the world that surrounds us.

Contents:

8.1 Entity authorized to audit financial statements

On 18 February 2014 the Supervisory Board of PZU appointed KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. with the registered office in Warsaw, ul. Inflancka 4a, 00-189 Warsaw, entered on the list of entities authorized to audit financial statements under no. 3546 by the National Chamber of Statutory Auditors as the entity authorized to audit financial statements, with whom an agreement on audit and review of financial statements will be concluded.

The scope of the agreement will include:
- audit of annual separate financial statements of PZU and of annual consolidated financial statements of PZU Group;
- review of interim separate financial statements of PZU and of interim consolidated financial statements of PZU Group.

The work referred to above will include three subsequent financial years ending, respectively, on: 31 December 2014, 31 December 2015 and 31 December 2016 with an option to extend the agreement for further two financial years ending, respectively, on: 31 December 2017 and 31 December 2018.

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

8.2 PZU share capital and shareholders; stock held by members of its authorities

The share capital of PZU is divided into 86,352,300 ordinary shares with the face value of PLN 1 each, giving right to 86,352,300 votes on the General Shareholders' Meeting.

On 30 June 2015, the General Shareholders' Meeting adopted a resolution on the PZU's share split by reducing the nominal value of each PZU share from PLN 1 to PLN 0.10 and increasing the number of PZU shares of the share capital from 86,352,300 to 863,523,000. The distribution of shares will take place though the exchange of all the shares in a 1:10 ratio. The distribution of shares does not affect the share capital of PZU.

The split is planned for November.

The aim of the share split is primarily to increase the availability of shares for individual investors and diversify the shareholders' base.

Shareholding structure

In the period from 1 January 2015 until the date of the drafting of this Report, no significant changes occurred in the ownership structure of large blocks of shares of PZU.

As at the date of the drafting of this Report, PZU's shareholders structure including shareholders holding over 5% of the votes at the Shareholders' Meeting is as follows:

Shareholding structure – as at 30th of June 2015

Shareholders	Number of shares and votes at General Shareholders' Meeting	Share in the share capital and votes at the General Shareholders' Meeting
State Treasury	30,385,253	35.19%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	4,842,000	5.61%
Other shareholders	51,125,047	59.20%
Total	**86,352,300**	**100.00%**

*Source: Current report 76/2015 published 1 July 2015; AVIVA Otwarty Fundusz Emerytalny Aviva BZWBK exercised its voting right with 5.61% of total votes at PZU Ordinary Shareholder Meeting held on 30 June 2015.

The Management Board of the Company has no knowledge about concluded agreements which may result in changes in the proportion of shares held by the shareholders.

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

In 2014 and 2015 no employee stock ownership plans existed in PZU.

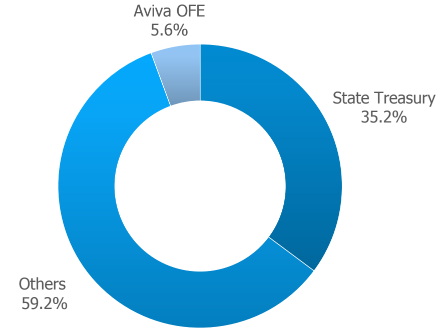
In line with By-laws of PZU the voting right of the shareholders was restricted in a way that none of them can exercise more than 10% of the total number of votes at PZU at the date of the general meeting, with the reservation that for the purpose of determining the obligations of parties acquiring material blocks of shares provided for in the Act on Public Offering and the Act on Insurance Activity, such voting restrictions are considered non-existent. The restrictions do not apply to:
- Shareholders who held shares entitling to more than 10% in the total number of votes in the Company as at the date of adopting a resolution of the General Shareholders' Meeting;
- Shareholders co-acting with shareholders defined in the point above based on agreements concerning joint voting rights attached to the shares.

For the purposes of voting rights restrictions, the votes of the shareholders being parent companies or subsidiaries will be added up in line with the principles specified in the company's By-laws.

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

In line with By-laws of PZU, the above voting restrictions will expire starting from the moment when a share of a shareholder who, at the date of adopting a resolution of the shareholders' meeting introducing the restriction, held shares entitling him or her to more than 10% in the total number of votes in the Company, drops below 5% of the share capital.

PZU shareholder structure as at 30.06.2015



Source: Current report 76/2015 published 1 July 2015

Shares or rights to shares held by management and PZU supervisory personnel

No.	Body / Name and surname	Number of shares / rights to shares as at the date of submitting this annual report	Number of shares / rights to shares as at the date of submitting this annual report	The resulting change in the period between these dates
Management Board				
1.	Andrzej Klesyk	-	-	-
2.	Przemysław Dąbrowski	-	-	-
3.	Rafał Grodzicki*	-	-	-
4.	Dariusz Krzewina	-	-	-
5.	Tomasz Tarkowski	80	80	-
Group Directors				
1.	Tobiasz Bury	50	50	-
2.	Przemysław Henschke	-	-	-
3.	Sławomir Niemierka	-	-	-
Supervisory Board				
1.	Zbigniew Ćwiąkalski	-	-	-
2.	Paweł Kaczmarek	-	-	-
3.	Dariusz Filar	-	-	-
4.	Zbigniew Derdziuk	-	-	-
5.	Dariusz Kacprzyk	-	-	-
6.	Jakub Karnowski	71	28	43
7.	Aleksandra Magaczewska	-	-	-
8.	Alojzy Nowak	-	-	-
9.	Maciej Piotrowski	-	-	-
Total		**201**	**158**	**43**

*Appointed for the joint term started on 1 July 2015

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Representations of the Management Board

Representations of the Management Board

Truth and fairness of the presented financial statement
The Management Board of PZU declares that to the best of their knowledge, the interim financial statements and comparable data of PZU Group have been prepared in accordance with the applicable accounting principles and provide a true, fair and clear view of the economic and financial position and the financial profit or loss of the Group and the Report on activities of PZU Group presents a true picture of its development and achievements, including a description of the main risks and threats.

Appointment of the entity authorized to audit financial statements
The Management Board of PZU represents that the entity authorized to audit financial statements – KPMG Audyt Spółka z graniczoną odwiedzialnością sp. k. – which audited the interim consolidated financial statements was selected in accordance with the provisions of law, and that the entity and certified auditors which audited the financial statements met the requirements to express an unbiased and independent opinion on the audited interim consolidated financial statements, in accordance with the applicable provisions of law and professional standards.

Related party transactions
On 7 July 2014 the Issuer took a loan from PZU Finance AB with a total value of EUR 500 million and the interest rate of 1.425% per year. The loan is to be paid back on 28 June 2019. The loan was granted at arm's length.

PZU Group's companies provide services to each other, as part of their capital and business ties. With the exception of the companies of Tax Capital Group, transactions are concluded at arm's length.

On 23 March 2015, PZU concluded an agreement concerning the interest-free cash loan granted to PZU Zdrowie for the maximum amount of PLN 200 million, payable no later than on 31 December 2030. On 24 March 2015, the first installment of the loan was paid in the amount of PLN 90 million.

Seasonal or cyclical business
Operations of PZU are not of a seasonal or cyclical nature to the extent that would justify application of the suggestions presented in International Financial Reporting Standards.

Evaluation of financial resources management including the ability to repay liabilities and definition of possible threats and activities, undertaken or planned by the issuer to counteract these threats
The financial position of the Issuer is very good. It meets all the security requirements imposed by the Act on Insurance Activity and the PFSA. A stable rating outlook of PZU confirms that the Issuer has a strong business position, high levels of equity and is a competitive entity in the insurance market.

Disputes
In the first half of 2015 and by the date of preparation of the report on the activities, PZU Group did not take part in any proceedings before court, body competent to hear arbitration proceedings or public authority body concerning liabilities or receivables of PZU or its direct and indirect subsidiaries with the value of at least 10% of the equity of PZU.

As at 30 June 2015, the total value of all 77,323 cases heard by courts, bodies competent to hear arbitration proceedings or public authority bodies involving the PZU Group entities was PLN 3,322.4 million. The amount includes PLN 2,808.5 million of liabilities and PLN 513.9 million of receivables of the PZU Group companies, which accounted for 25.31% and 4.63% of the equity of PZU calculated in line with PAS, respectively.

This Report on the Activities of PZU Capital Group for the first half of 2015 includes 99 pages with sequential numbers.

Signatures of PZU Management Board Members

Andrzej Klesyk – CEO

Przemysław Dąbrowski – Member of the Management Board

Rafał Grodzicki – Member of the Management Board

Dariusz Krzewina – Member of the Management Board

Tomasz Tarkowski – Member of the Management Board

Warszawa 25 August 2015

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Appendix: Financial data

Appendix: Financial data

Basic amounts from the consolidated income statement for the first halves of 2013-2015 (PLN 000)	1 January - 30 June 2015	1 January - 30 June 2014	1 January - 30 June 2013
Gross written premiums	9,126,450	8,437,893	8,495,251
Net earned premiums	8,743,913	8,032,599	8,177,240
Revenue from commissions and fees	103,196	123,133	143,178
Net investment result	1,057,756	1,370,464	969,097
Other operating income and expenses, benefits and measurements of investment contracts	(308,621)	(133,749)	(70,756)
Net claims and benefits	(6,006,361)	(5,418,087)	(5,459,405)
Acquisition costs	(1,130,808)	(1,036,364)	(972,660)
Administration expenses	(822,062)	(702,275)	(641,314)
Operating profit/(loss)	1,637,013	2,235,721	2,145,380
Financial expenses	(18,027)	(59,813)	(37,826)
Share in net profit (loss) of companies measured using the equity method	(32)	245	1,856
Profit/(loss) before tax	1,618,954	2,176,153	2,109,410
Net profit (loss) including	1,321,527	1,720,361	1,675,462
Shareholders' profit (loss)	1,321,593	1,720,351	1,675,094
Non-controlling interest profit (loss)	(66)	10	368
Basic and diluted weighted average number of ordinary shares*	86,351,949	86,351,949	86,352,300
Number of issued shares	86,352,300	86,352,300	86,352,300
Basic and diluted PZU Group's profit per ordinary Issuer's share (in PLN)	15.30	19.92	19.40
Net profit of PZU (Issuer)	1,404,401	1,899,372	4,679,913
Basic and diluted profit of the Issuer per ordinary share (in PLN)	16.26	22.00	54.20

*including shares of consolidated funds

Assets (PLN 000)	June 2015	December 2014	December 2013
Intangible assets	778,596	868,692	308,726
Goodwill	765,725	785,663	8,519
Property, plant and equipment	993,350	1,001,609	927,281
Investment property	2,393,702	2,236,062	1,474,770
Entities measured using the equity method	66,308	66,311	48,595
Financial assets	54,601,635	56,759,976	55,085,728
Receivables, including insurance receivables	3,300,655	3,068,813	2,671,964
Reinsurers' share in technical provisions	707,664	753,115	526,605
Estimated subrogations and salvages	122,187	127,262	129,950
Deferred tax asset	26,324	26,957	16,949
Current income tax receivables	4,629	368	34,895
Deferred acquisition costs	897,031	712,066	609,819
Other assets	296,813	235,250	195,449
Cash and cash equivalents	598,989	324,007	569,157
Assets held for sale	526,126	606,610	178,897
Total assets	**66,079,734**	**67,572,761**	**62,787,304**

Appendix: Financial data

Equity (PLN 000)	June 2015	December 2014	December 2013
Share capital	86,352	86,352	86,352
Supplementary capital	9,926,759	9,678,921	8,855,999
Revaluation reserve	222,166	248,543	242,297
Actuarial gains and losses concerning provisions for employee benefits	(6,143)	(6,179)	902
Own shares	(110)	(110)	(110)
Other reserves	66	66	-
Foreign exchange differences from translation – subsidiaries	(58,503)	(35,450)	(37,737)
Retained earnings	360,060	226,462	2,397,137
Net profit	1,321,593	2,967,731	3,293,496
Interim dividends and other charges to net profit (negative)	-	-	(1,727,046)
Non-controlling interest	883	1,292	16,341
Total equity	**11,853,123**	**13,167,628**	**13,127,631**

Liabilities (PLN 000)	June 2015	December 2014	December 2013
Technical provisions	40,734,374	40,166,885	37,324,416
Unearned premiums and unexpired risk reserve	5,466,551	5,250,103	4,540,011
Life insurance provision	16,250,809	16,281,625	16,048,191
Provisions for outstanding claims and benefits	7,768,739	7,770,351	6,586,781
Provisions for the capitalized value of annuities	6,020,636	5,997,595	5,761,332
Provisions for bonuses and rebates for the insured	3,221	2,291	2,893
Other technical provisions	418,937	439,364	477,987
Unit-linked technical provision	4,805,481	4,425,556	3,907,221
Investment contracts	789,029	1,108,107	2,121,037
Provisions for employee benefits	129,732	120,070	123,380
Other provisions	194,645	191,206	192,906
Provision for deferred income tax	314,985	398,433	255,399
Derivative instruments	469,044	625,844	237,749
Liabilities arising from issuance of debt securities	2,109,880	2,127,527	-
Other liabilities, including current income tax	9,231,446	9,415,047	9,404,786
Liabilities directly associated with non-current assets classified as held for sale	253,476	252,014	-
Total liabilities	**54,226,611**	**54,405,133**	**49,659,673**
Total equity and liabilities	**66,079,734**	**67,572,761**	**62,787,304**

Appendix: Financial data

One-off events in PZU Group (PLN million)	June 2015	June 2014	June 2013
Conversion effect	47.4	45.2	84.1
Fund consolidation commenced	-	-	172.7
Insurance settlements	-	-	53.2
Additional payments to the Guarantee Fund	-	(20.9)	-
Performance on contract guarantees	-	-	(1.2)

Operating efficiency ratios	1 January - 30 June 2015	1 January - 30 June 2014	1 January - 30 June 2013
1. **Claims ratio gross** (Claims gross along with change in technical reserves/written premium gross) x 100%	66.7%	64.9%	64.2%
2. **Claims ratio net of reinsurance** (net claims / net premium earned) × 100%	68.7%	67.5%	66.8%
3. **Insurance activity costs ratio** (Costs of insurance activity/ premium earned net of reinsurance) x 100%	22.3%	21.6%	19.7%
4. **Acquisition expenses ratio** (acquisition expenses / premium earned net of reinsurance)x 100%	12.9%	12.9%	11.9%
5. **Administrative expense ratio** (Administrative expenses / premium earned net of reinsurance) x 100%	9.4%	8.7%	7.8%
6. **Combined ratio in non-life insurance** (claims + costs of insurance activity) / premium earned net of reinsurance x 100%	90.7%	86.1%	82.3%
7. **Operating profit margin in life insurance** (operating profit / gross written premium) x 100%	20.1%	23.3%	21.8%

Data from the income statement – corporate insurance (non-life insurance) (PLN 000)	1 January - 30 June 2015	1 January - 30 June 2014	1 January - 30 June 2013	% change / H1 2015/H1 2014
Gross written premiums	803,964	964,106	956,163	(16.6)%
Net earned premiums	721,877	730,394	786,173	(1.2)%
Investment income	57,558	66,823	79,280	(13.9)%
Net claims and benefits	(451,844)	(415,748)	(406,143)	8.7%
Acquisition costs	(130,508)	(148,926)	(151,863)	(12.4)%
Administrative expenses	(62,857)	(57,370)	(50,297)	9.6%
Reinsurance commission and share in profits	10,867	7,430	3,151	46.3%
Other	(6,972)	(15,389)	(23,943)	(54.7)%
Operating profit/(loss)	**138,121**	**167,214**	**236,358**	**(17.4)%**
Acquisition costs ratio (including reinsurance commission)*	16.6%	19.4%	18.9%	(2.8) p.p.
Administrative expenses ratio*	8.7%	7.9%	6.4%	0.8 p.p.
Loss Ratio*	62.6%	56.9%	51.7%	5.7 p.p.
Combined ratio (COR)*	87.9%	84.1%	77.0%	3.8 p.p.

* ratios calculated with net premium earned

Data from the income statement – mass client insurance (non-life insurance) (PLN 000)	1 January - 30 June 2015	1 January - 30 June 2014	1 January - 30 June 2013	% change / H1 2015/H1 2014
Gross written premiums	3,688,996	3,330,302	3,380,840	10.8%
Net earned premiums	3,376,836	3,200,662	3,261,441	5.5%
Investment income	255,413	274,471	302,254	(6.9)%
Net claims and benefits	(2,048,379)	(1,886,664)	(1,995,488)	8.6%
Acquisition costs	(662,540)	(582,785)	(542,357)	13.7%
Administrative expenses	(318,125)	(272,801)	(231,398)	16.6%
Reinsurance commission and share in profits	(1,737)	(1,349)	75,454	28.8%
Other	(92,029)	(77,966)	(115,882)	18.0%
Operating profit/(loss)	**509,439**	**653,568**	**754,024**	**(22.1)%**
Acquisition costs ratio (including reinsurance commission)*	19.7%	18.3%	14.3%	1.4 p.p.
Administrative expenses ratio*	9.4%	8.5%	7.1%	0.9 p.p.
Loss Ratio*	60.7%	58.9%	61.2%	1.8 p.p.
Combined ratio (COR)*	89.8%	85.7%	82.6%	4.1 p.p.

* ratios calculated with net premium earned

Data from the income statement – group and individually continued insurance (PLN 000)	1 January - 30 June 2015	1 January - 30 June 2014	1 January - 30 June 2013	% change / H1 2015/H1 2014
Gross written premiums	3,337,934	3,265,802	3,198,857	2.2%
Group insurance	2,369,298	2,311,184	2,252,122	2.5%
Individually continued insurance	968,636	954,618	946,735	1.5%
Net earned premiums	3,337,850	3,264,495	3,197,595	2.2%
Investment income	332,177	371,257	309,899	(10.5)%
Net claims and benefits	(2,417,924)	(2,190,111)	(2,206,679)	10.4%
Change in the balance of other technical provisions net of reinsurance	(28,301)	(161,141)	(58,645)	(82.4)%
Acquisition costs	(180,934)	(174,922)	(156,434)	3.4%
Administrative expenses	(284,303)	(259,480)	(258,976)	9.6%
Other	(31,315)	(9,479)	(28,897)	230.4%
Operating profit/(loss)	**727,250**	**840,619**	**797,863**	**(13.5)%**
Operating profit (loss) excluding one-off events	**679,863**	**795,399**	**713,759**	**(14.5)%**
Acquisition costs ratio*	5.4%	5.4%	4.9%	-
Administrative expenses ratio*	8.5%	7.9%	8.1%	0.6 p.p.
Operating profit margin**	20.4%	24.4%	22.3%	(4.0) p.p.

* ratios calculated with gross premium written
** ratios calculated as per gross written premium, without one-off effects

Data from the income statement – individual insurance (PLN 000)	1 January - 30 June 2015	1 January - 30 June 2014	1 January - 30 June 2013	% change / H1 2015/H1 2014
Gross written premiums	680,111	643,260	744,794	5.7%
Net earned premiums	681,028	644,884	747,271	5.6%
Investment income	198,261	182,775	88,866	8.5%
Net claims and benefits	(382,602)	(308,899)	(295,543)	23.9%
Change in the balance of other technical provisions net of reinsurance	(312,011)	(342,446)	(402,024)	(8.9)%
Acquisition costs	(65,782)	(62,882)	(53,684)	4.6%
Administrative expenses	(30,466)	(25,814)	(22,306)	18.0%
Other**	(2,138)	(761)	4,859	180.9%
Operating profit/(loss)	**86,290**	**86,857**	**67,439**	**(0.7)%**
Acquisition costs ratio*	9.7%	9.8%	7.2%	(0.1) p.p.
Administrative expenses ratio*	4.5%	4.0%	3.0%	0.5 p.p.
Operating profit margin*	12.7%	13.5%	9.1%	(0.8) p.p.

* ratios calculated with gross premium written
** from 4Q 2013 chance in kickback benefits upon the PFSA's request

Data from the income statement – investment contracts (PLN 000)	1 January - 30 June 2015	1 January - 30 June 2014	1 January - 30 June 2013	% change / H1 2015/H1 2014
Gross written premiums	74,297	277,958	857,718	(73.3)%
Group insurance	1,537	42,701	671,320	(96.4)%
Individually continued insurance	72,760	235,257	186,398	(69.1)%
Net earned premiums	74,286	277,983	858,201	(73.3)%
Investment income	22,476	25,366	24,479	(11.4)%
Net claims and benefits	(401,835)	(1,062,808)	(953,153)	(62.2)%
Change in the balance of other technical provisions net of reinsurance	316,844	786,553	92,193	(59.7)%
Acquisition costs	(5,116)	(10,393)	(8,422)	(50.8)%
Administrative expenses	(4,562)	(5,185)	(5,034)	(12.0)%
Other	(289)	(408)	6,271	(29.2%)
Operating profit/(loss)	**1,804**	**11,108**	**14,535**	**(83.8)%**
Operating profit margin*	2.4%	4.0%	1.7%	(1.6) p.p.

* ratios calculated with gross premium written

Appendix: Financial data

Data from the income statement – Ukraine segment (PLN 000)	1 January - 30 June 2015	1 January - 30 June 2014	1 January - 30 June 2013	% change / H1 2015/H1 2014
Gross written premiums	74,291	77,099	90,928	(3.6)%
Net earned premiums	49,860	67,209	80,270	(25.8)%
Net investment result	26,119	15,413	11,788	69.5%
Net claims and benefits	(45,743)	(49,508)	(37,845)	(7.6)%
Acquisition costs	(20,696)	(24,187)	(28,896)	(14.4)%
Administrative expenses	(9,372)	(13,406)	(16,906)	(30.1)%
Operating profit/(loss)	**168**	**(4,479)**	**8,411**	-
Gross profit**	**1,571**	**3,977**	**7,798**	**(60.5)%**
Exchange rate UAH/PLN	0.1729	0.2840	0.3947	(39.1)%
Acquisition costs ratio*	41.5%	36.0%	36.0%	5.5 p.p.
Administrative expenses ratio*	18.8%	19.9%	21.1%	(1.1) p.p.

* ratios calculated with net premium earned
**operating profit (loss) including other revenues and operating costs

Data from the income statement – Baltic states segment (PLN 000)	1 January - 30 June 2015	1 January - 30 June 2014	1 January - 30 June 2013	% change / H1 2015/H1 2014
Gross written premiums	608,058	158,572	125,139	283.5%
Net earned premiums	549,544	126,016	105,233	336.1%
Net investment result	16,607	8,514	1,449	95.1%
Net claims and benefits	(343,267)	(79,211)	(65,481)	333.4%
Acquisition costs	(128,087)	(35,483)	(32,433)	261.0%
Administrative expenses	(78,143)	(15,702)	(12,119)	397.7%
Operating profit/(loss)	**16,654**	**4,134**	**(3,351)**	**302.9%**
Gross profit**	**5,181**	**3,437**	**(4,122)**	**50.7%**
Exchange rate EUR/PLN	4.1341	4.1784	4.2140	(1.1)%
Acquisition costs ratio*	23.3%	28.2%	30.8%	(4.9) p.p.
Administrative expenses ratio*	14.2%	12.5%	11.5%	1.7 p.p.

* ratios calculated with net premium earned
**operating profit (loss) including other revenues and operating costs

Data from the income statement – pension segment (PLN 000)	1 January - 30 June 2015	1 January - 30 June 2014	1 January - 30 June 2013	% change / H1 2015/H1 2014
Revenues	56,751	76,851	101,668	(26.2)%
Net investment result	4,428	5,425	6,063	(18.4)%
Acquisition costs	(1,468)	(3,337)	(8,300)	(56.0)%
Administrative expenses	(20,623)	(50,394)	(34,798)	(59.1)%
Other	387	401	(22)	(3.5)%
Operating profit/(loss)	**39,475**	**28,946**	**64,611**	**36.4%**

Investment segment (external transactions) (PLN 000)	1 January - 30 June 2015	1 January - 30 June 2014	1 January - 30 June 2013	% change / H1 2015/H1 2014
Total	**167,523**	**359,030**	**348,871**	**(53.3)%**

Appendix: Glossary of terms

Act on Insurance Activity – Act on Insurance Activity of 22nd May 2003 (Journal of Laws of 2003, No. 124, item 1151, as amended).

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

ATI (Accounting and Tax Institute)– the task of the Institute is to improve the professional qualifications of financial, accounting and management personnel, setting the standards of financial reporting, creating changes in tax and accounting law, disseminating good practices in business, and thus better preparing Polish good practices.

blue chip – a name for a large public company enjoying the confidence of investors and a good financial standing. Blue chip companies are characterised by high capitalization and liquidity and a relatively stable exchange rate. In Poland, the companies included in the WIG20 index can be considered blue chip companies.

ceding company – a person assigning a liability to a buyer.

CEERIUS (CEE Responsible Investment Universe) – is an index of Vienna Stock Exchange for Central and Eastern European (CEE) region. Consist of companies fulfilling criteria related to social and ecological matters.

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

CSR – Corporate Social Responsibility

Code of Commercial Companies – Act of 15th September 2000 – Code of Commercial Companies (Journal of Laws of 2000, No. 94, item 1037, as amended).

COR – Combined Ratio – a combined expense ratio calculated for the non-life insurance sector (group II). It is the ratio of all the expenses related to insurance administration and payment of claims to earned premium in a given period. The combined ratio should not exceed 100% as that would signify that the revenues from the sales of insurance are insufficient to cover claims and claims handling expenses.

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

embedded value – an actuarial valuation method referring to the value of shareholders' profits that will be generated by the in-force insurance contracts in an insurance company's portfolio. This method incorporates shareholder risk arising from the uncertainty concerning the timing and amount of future expected profits.

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

free float – a public company's shareholders who are not locked-in. It is the ratio of the number of shares not held by large investors to the total number of outstanding shares. In other words, all the publicly-traded shares that are freely available.

gross written premium – a gross amount of premiums (without including the reinsurers' share) due on the insurance contracts executed in a financial year, regardless of the term of liability established by these contracts.

insurance agent – an entrepreneur performing agency activities under an agreement concluded with the insurance company. The agents' activities focus on: customer acquisition, concluding insurance contracts, participating in the administration and performance of insurance contracts and organizing and supervising the agency activities of the agency.

insurance broker – an entity authorized to pursue brokerage activities. A broker performs activities in the name of or on behalf of a person or entity seeking insurance coverage.

inward reinsurance – reinsurance activity entailing a reinsurer or reinsurers accepting a portion of the insurance or groups of insurance yielded by the ceding company.

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

Ordinance on Current and Periodic Information – the Ordinance of the Minister of Finance of 19th February 2009 on current and periodic information submitted by issuers of instruments and conditions for recognizing as equivalent information required by the laws of a non-member state (Journal of Laws of 2009, No. 33, item 259).

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

Payout ratio – a dividend payout ratio, i.e. the quotient of the dividend paid and the company's net result stated as a percentage.

PFSA – Polish Financial Supervision Authority. www.knf.gov.pl

profit margin in group and continued insurance in PZU Życie – an indicator calculated as the ratio of the result to gross written premium in the group and individually-continued insurance segment, net of one-off effects such as, for instance, the conversion effect, namely the conversion of long-term contracts into short-term contracts (according to Polish Accounting Standards) and changes to technical rates, namely the rate used to discount technical provisions.

reinsurance – yielding all or a portion of an insured risk or a group of risks along with the commensurate portion of the premiums to some other insurance company – a reinsurer. As a result of reinsurance, there is a secondary split of the risks making it possible to minimize the risks to the insurance market.

risk-free rate – the rate of return on risk-free financial instruments. PZU's risk-free rate is based on yield curves for treasury instruments, and it is also the basis for setting transfer prices in settlements between operating segments.

Solvency I – the solvency margin for insurance companies. The system was introduced in the European Union in 1970s.

Solvency II – capital requirements for European insurance companies based on the risk undertaken. The requirements become effective on 1st January 2016.

solvency margin – the amount of an insurance undertaking's shareholder funds no lower than the minimum guarantee fund which is required to ensure that the undertaking remains liquid.

solvency margin coverage ratio – a statutory ratio specifying the level of capital security for the business conducted by an insurer; by law, this ratio should be above 100%.

STOXX® Europe 600 Insurance – the index representing 39 companies engaged in insurance activities of the selected 600 companies from 18 European countries.

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

S&P rating – a credit risk assessment performed by Standard & Poor's. An A rating means that issuers of debt instruments have a high capability of servicing their obligations giving consideration to the emergence of factors diminishing that capability.

technical provisions – provisions which should ensure full coverage of all current and future liabilities that may arise from insurance contracts. Technical provisions include in particular: provision for unearned premiums, provision for unpaid claims and provision for unexpired risks, provision where the investment risk is born by the policyholders, provision for bonuses and rebates for the policyholders.

technical rate – the interest rate used to discount technical provisions in life insurance and provisions for capitalized annuities in third party liability insurance.

According to the Finance Minister's Ordinance of 28th December 2009 on the special accounting standards for insurance and reinsurance undertakings, the technical rates used by an insurance undertaking may not be higher than 80% of the weighted-average rate of return on investments covering technical provisions during the most recent three financial years.

PFSA calculates and announces the maximum technical rate by 31st January of every year.

Thomson Reuters Extel – a survey performed for 15 years by Thomson Reuters, is recognized as one of the key industry rankings and the source of knowledge of good practices on the capital market, including communication with investors.

High standards and quality of the survey are confirmed by external auditor.

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

unit-fund – fund related to life insurance where the investment risk is borne by the policyholders

U Recommendation – a recommendation of PFSA concerning good practices in scope of bancassurance.

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

WIBOR6M – a reference interest rate on a six-month-long loan on the Polish interbank market.

WIG20TR – the WIG20 index including the dividends paid by companies.

WSE - Warsaw Stock Exchange in Warsaw