2016 Management's Report of PZU Capital Group for the First Half

Table of Contents

CEO Statement 4

01 Brief overview of PZU Group 7

02 External environment in the first half of 2016 19
2.1 Main trends in the Polish economy 20
2.2 Financial markets situation 22
2.3 External environment in the Baltic states and Ukraine 23
2.4 Macroeconomic factors, which can affect the operations of the Polish insurance sector and PZU Group's activities in 2016 24

03 Activity of PZU Group 27
3.1 Structure of PZU Capital Group 28
3.2 PZU, Link4 and TUW PZUW – activity on the Polish non-life insurance market 29
3.3 PZU Życie – activity in the life insurance market in Poland 34
3.4 PTE PZU – activities in the pension funds market 38
3.5 TFI PZU – activity on the investment fund market 39
3.6 Foreign investment activity 40
3.7 PZU Zdrowie – activity on the health care market 42
3.8 Alior Bank – banking activity 43
3.9 Other areas of activity 45

04 Business Strategy 47
4.1 Realization of key projects and initiatives in H1 2016 48

05 Consolidated financial results 53
5.1 Key factors affecting the achieved financial result 54
5.2 Income 56
5.3 Claims and technical provisions 59
5.4 Administrative expenses and acquisition costs 59
5.5 Structure of assets and liabilities 59
5.6 Share of industry segments in the result 61
5.7 Profitability and operating efficiency ratios 69

06 Risk management 73
6.1 Introduction 74
6.2 Risk management objective 74
6.3 Risk management system 75
6.4 Risk appetite 76
6.5 Risk management process 76
6.6 Risk profile of PZU Group 77
6.7 Reinsurance activity 81

07 PZU on capital and debt market 85
7.1 PZU share prices 86
7.2 Debt financing 87
7.3 Capital management 88
7.4 Rating 89
7.5 Schedule 92

08 Corporate governance 95
8.1 Entity authorized to audit financial statements 96
8.2 Share capital and shareholders of PZU; stock held by members of its authorities 96

09 Management Board's Representations 99

10 Appendix: PZU financial data 103

Appendix: Glossary of terms 115

Quotes from studies THINKTANK „Współodpowiedzialny Biznes 1989-2014" were used in this report.

CEO Statement

Michał Krupiński CEO of PZU Management Board

The first 6 months brought intensification of activities which in the future will facilitate, among other things, the building of a stable financial result and the boosting of the Group's ability to accommodate to an increasingly volatile market environment.

The second half of 2016 will be devoted to the consistent implementation of strategic initiatives and the realization of business goals.

Dear Shareholders,

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 2016.

The first 6 months brought intensification of activities which in the future will facilitate, among other things, the building of a stable financial result and the boosting of the Group's ability to accommodate to an increasingly volatile market environment. We focused on actions that, in the long term, will allow us to more effectively adapt the investment portfolio to low interest rates, use the potential of new technologies in the sales process and customer service, as well as prepare for upcoming demographic changes.

We also founded Witelo Fund. Its key task is to create an ecosystem in Poland that is friendly to venture capital companies in order to facilitate their accomplishment of innovative projects in our country. Venture capital type companies will become a tool for the allocation of capital accumulated in Witelo Fund. This joint initiative is to become the bridge that connects the Polish ecosystem with the global centers for innovation, which will facilitate the transfer of know-how. The first half of the current year was also important when it came to our activities regarding the consolidation of the banking sector in Poland. In early April, Alior Bank, in which PZU holds 29.2% of share capital, concluded an agreement with GE Capital Group to acquire the core business of BPH Bank. This is another milestone in the process of founding a bank that will become one of the five largest financial institutions in Poland.

Moreover, we extended the operations of Towarzystwo Ubezpieczeń Wzajemnych to include insurance care programmes for entities from outside the health care sector. The new offer provides our Partners with flexible and tailor-made insurance products and allows PZU to build long-term relations with Clients. PZU also commenced the research and development cooperation with Polish universities as part of the "Scientific Council". Close cooperation with the industry allows PZU to precisely identify the needs of entrepreneurs, whereas its ties with universities give the Company an insight into innovative solutions that require commercialization and promotion. These cooperation will continue to provide important stepping stones along the way to the creation of the most innovative insurance group in Europe – and it is the ambition of PZU to attain this goal.

All these events took place in a difficult period for the entire world economy, as the economic environment was put under substantial pressure by the central banks. Investors have voiced their rising concern about the FED's plans to further increase interest rates, which would in turn result in a deceleration of the economic stimulation and GDP growth in China. There were also numerous adverse signals that directly affected the Polish market. They included mainly a lowering of Poland's credit rating, Great Britain's decision to exit the European Union, and continued uncertainty concerning the conversion of the Swiss franc loans in Poland; all of which negatively influenced the entire operations of the Warsaw Stock Exchange.

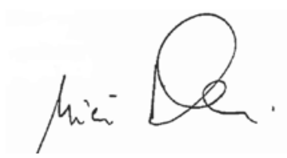
At the operational level, we have increased the effectiveness of price management in the insurance portfolio and the sales structure within the distribution channels. The end of the price war allowed us to increase the prices of offered insurance policies, and this is highly visible at the level of the gross written premium that increased by PLN 735.5 million (8.1% year-on-year) to PLN 9.86 billion in the first half of 2016. In the long run, this will also result in an improved technical yield. Moreover, we increased considerably our share in the non-life insurance market which rose to 37.3%. In future periods, this trend will be supported by, among other things, a dynamically growing TUW PZUW. We are also witnessing an increase in the gross written premium in our most recent business sector, i.e. health care services. The premium growth amounted to 40.5% (year-on-year). We continue to expand our network of health care centers by acquiring state-of-the-art companies and initiating further partnership agreements. At the moment, other than the health insurance offer, customers can already take advantage of nearly 1,700 heath care centers (both those owned by the Company and those included in the chain of partner centers). We see a huge potential for growth in this business sector accompanied by relatively moderate expenditures - even if no additional tax incentives are introduced.

We managed to cut administrative costs of insurance business in Poland by 4.5% year-on-year to PLN 664.4 million. Yet, the net result continued to be negatively affected by a low investment result that remained under the pressure of the outflow of capital from the Warsaw Stock Exchange (WIG index dropped by 16.1% year-on-year).

PZU's capital standing remains strong (Solvency II on the level exceeding 266% as at the end of March 2016), which leaves us considerable flexibility to perform potential acquisitions, both in the banking and the insurance market. Ratios as high as these place PZU Group among insurance groups that have top capital strength. At the same time, I would like to assure you that the ongoing investment projects will not change our approach to the dividend policy. We intend to continue to be the Company which guarantees attractive dividends for its shareholders.

The second half of 2016 will be devoted to the consistent implementation of strategic initiatives and the realization of business goals. I would like to thank all employees and agents for the efforts they have made to create the value we have in PZU.

Yours faithfully,



Michał Krupiński

CEO of PZU Management Board

„Imagine for a moment what would happen if the business community were to stop being involved in social and local initiatives. Life would not only be more impoverished, many driving forces to turn the world into a better place would be lacking.”

Wojciech Romański, THINKTANK

01

Brief overview of PZU Group

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

It is led by PZU, a Polish insurance company. By offering a wide range of insurance services, PZU Group meets the basic needs of almost 16 million customers in Poland in terms of security and stabilization.

At the same time, PZU Group is also an important player in other segments of the financial market.

Brief overview of PZU Group

37.3 %
Leader in the non-life insurance market in Poland – market share

44.8 %
Leader in the life insurance market in Poland – share in the periodical premium

10.6 %
Share in net assets value

12.9 %
Number three in the open pension funds market – share in OFE assets

28.7 %
Leader in non-life insurance in Lithuania (28.7% - LD) and Latvia (25.9%)

The Capital Group of Powszechny Zakład Ubezpieczeń SA (PZU Group) is one of the largest financial institutions in Poland and in Central and Eastern Europe. The Group is led by the Polish insurance company Powszechny Zakład Ubezpieczeń SA (PZU, Issuer) – a company quoted on the Warsaw Stock Exchange. The history of the PZU brand goes back to 1803 when the first Polish insurance company was established.

The operations of PZU Group are focused on 3 business areas: Insurance, Investments, and Healthcare. For many years, PZU Group has ensured comprehensive insurance coverage in all crucial areas of private and economic life by protecting life, property, and health of its clients. The main insurance companies in Poland within the Group are the following: PZU (non-life insurance) and Powszechny Zakład Ubezpieczeń na Życie S.A. (PZU Życie – life insurance).

Since 2014, following the acquisition of Link4, the Group has been operating under two brands: a more traditional one, the PZU brand, and Link4, which is targeted to clients opting for online sales channels.

PZU Group is the leader in both non-life (a 37.3% share in the market) and life insurance (a 44.8% - the highest since year 2010 share in the periodical premiums market) on the Polish market. Moreover, in 2015, PZU set up a Mutual Insurance Company (Towarzystwo Ubezpieczeń Wzajemnych) under the name of Polski Zakład Ubezpieczeń Wzajemnych (TUW PZUW). Since 2016 TUW PZUW sells and services insurance for among others medical establishments and large economic entities (such as: Bogdanka, PGG) and contribute to optimization of premium for its members using reciprocity principle in insurance.

PZU is the most recognizable insurance brand in Poland among the Customers who decide on the purchase of policies.

As part of its investment operations performed under the PZU Inwestycje brand, PZU Group offers a wide range of asset management services, including management of open pension funds and investment funds, as well as savings programs.

PZU Group is also expanding its operations in health care. Other than the health insurance offer, the customers can also take advantage of PZU Group's own health care centers and a chain of partner centers (approximately 1,700 in total).

In recent years, PZU Group has been expanding its operations in Central and Eastern Europe. Thanks to the stage of expansion into the Baltic states finished in 2015, according to the most recent available market data[1], the Group is the leader in terms of the written premium on the non-life insurance market in Lithuania and Latvia.

Concerning the investment activity, the Group purchased considerable shares in the share capital of Alior Bank SA (Alior Bank) in 2015, opening the way to a more comprehensive involvement in bancassurance products and initiatives. In the first half of 2016, PZU paid the third tranche as part of the transaction of the acquisition of the Alior Bank shares.

On 31 March 2016, Alior Bank signed the purchase of shares and division agreement, which concerned the acquisition of basic activity of Bank BPH. For the purpose of financing the acquisition of basic activity of Bank BPH, among others, on 10 June 2016, Alior Bank issued 56,550,249 ordinary Series I bearer shares with a nominal value of PLN 10 each in a closed subscription performed through the public offer in observance of the pre-emptive right on the account of the existing shareholders of the bank. The issue of Alior Bank shares worth PLN 2.2 billion has been the biggest public offering on the Warsaw Stock Exchange since 2013, and, simultaneously, the largest issue of shares with the pre-emptive right since 2009. It met with a high demand, both in Poland and abroad. As part of the issue, PZU Group acquired 16,525,801 Series I shares, increasing its involvement in banking sector.

[1] Market data for 6 months of 2016 in Lithuania, and for the first quarter of 2016 in Latvia

PZU values, goals, and aspirations

VALUE FOR CLIENTS

OUR TARGETS

orientation toward client | profitability | growth | Committed Employees

We ensure to Customers peace of mind and a sense of security

We offer the best quality products at an attractive price

We inspire our Employees

We are Market Watchdog

OUR VALUES

WE ARE FAIR – WE ARE EFFECTIVE – WE ARE INNOVATIVE

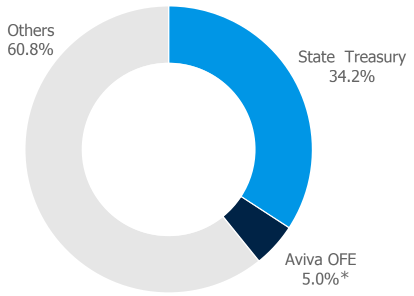
Brief overview of PZU Group

PZU on the capital and debt market

Since 2010, PZU has been quoted on the Warsaw Stock Exchange (WSE).

PZU's strategic investor is the State Treasury, which at the end of H1 2016 held a 34.19% share of the Issuer's share capital.

PZU shareholding structure as at 30.06.2016



*In accordance with the current report No. 35/2016 of 5 July of the current year concerning the list of shareholders holding at least 5% of votes in the General Shareholders' Meeting of PZU SA which started on 30 June of the current year and was continued on 1 July of the current year.

PZU has been distributing the profit generated to its shareholders since the start of its quotation. The dividends paid out of the profits for 2010–2015 give PZU's shareholders high dividend yields compared with other large stock market companies. On 30 June 2016, the General Shareholders Meeting of PZU adopted the resolution on distribution of the net profit for the financial year ended 31 December 2015 in which it decided, inter alia, to allocate the amount of PLN 2.08 per share to the dividend payment.

The dividend payout deadline is set for 21 October 2016. Dividend payout ratio from the consolidated result for the year 2015 was 76.7%.

PZU – strong Customer orientation

PZU Group is consequently trying to stay close to its current and potential clients – to their needs, ambitions, and aspirations. All undertaken activities – from insurance product concepts, through customer communication channels, to the activity in scope of Social Business Responsibility, are designed to adapt PZU's offer to the demands of its clients as closely as possible. The Group aims to address said demands as best as it can at every level of mutual relations – from the choice of insurance products, through preferred communication and sales channels, to issues associated with claims handling and benefits payments. The Group applies Big Data tools and methods in its activity to support segmentation and profiling of its clients (both individual and corporate), identification of factors contributing to client resignations, or improved handling of customer demands through application of prediction models.

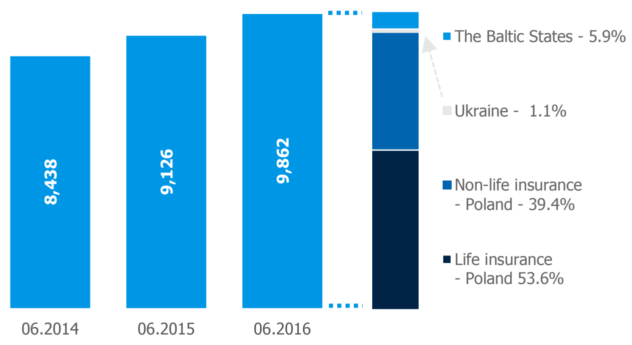
PZU Group's offer is the most extensive insurance and investment offer on the Polish market. It covers over 300 types of insurance and investment products addressed to all Customer Segments.

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 insurance • 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

The Group's insurance products are offered under two complementary brands: the more traditional PZU brand and the Link4 brand, which is associated with direct sales channels. There is a considerable pressure on the innovative profile of the product offer. For several years, the Group has been assigning considerable funds to developing health insurance offer. The Group was the first to introduce medicine insurance on the Polish market.

The Group's offer is completed with a wide range of investment products – open and closed-end investment funds – and pension products – open pension funds, individual pension accounts, individual pension protection accounts with voluntary pension fund, employee pension programs. The Group offers investment solutions adapted to the needs of all investor types, including innovative employee pension programs optimizing tax privileges associated with individual pension accounts (IKE) and individual pension security accounts (IKZE).

Gross written premium (in PLN million)



PZU's customers have access to the largest sales and service system among Polish insurers. It includes: 413 branches, over 9 thousand exclusive agents, 3.2 thousand multiagencies, and electronic distribution channels (call center, the Internet).

PZU strives to preserve the highest standards in customer service, which covers regular and advanced surveys concerning customer satisfaction. In the first half of 2016[2] they showed that the satisfaction level among PZU clients who were involved in the claims handling process managed by PZU Group or received payment of benefits within the last 12 months was 8 p.p. higher than at the competitors. The Net Promoter Score (NPS) among PZU's clients was 9%.

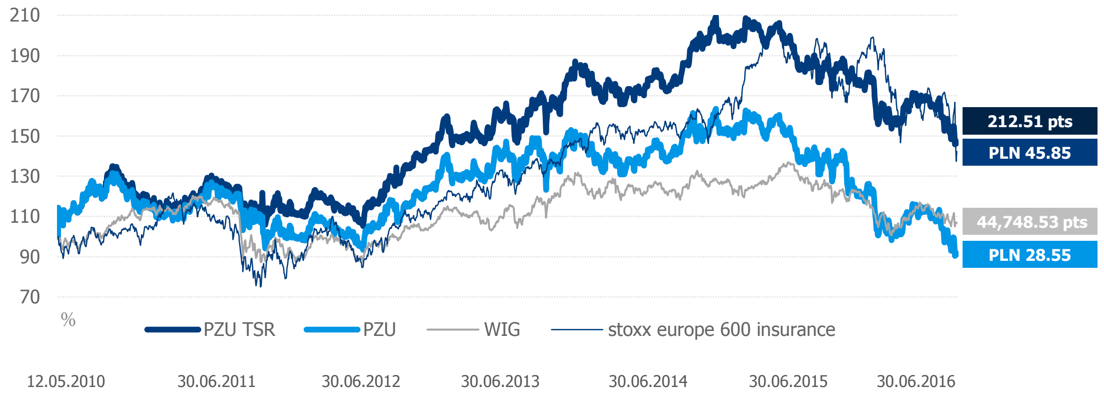
In the second edition of the customer service quality ranking organized by MojeBankowanie.pl portal PZU once again took the leading position among the insurers in terms of both remote communication channels (call center) and direct service at a branch or agent's.

PZU – strong capital position

On 1 January 2016, the Act on Insurance and Reinsurance Activity of 11 September 2015 introduced new capital requirements – Solvency II – into the Polish legal system. In accordance with the new act, calculation of the capital requirement is based on the following risks: market, actuarial (insurance), counterparty insolvency, catastrophe, and operating. As at the end of the first quarter of 2016, the solvency ratio (calculated according to the Solvency II standard formula) amounted to 266.3%. Ratios as high as these place PZU Group among insurance groups with top capital strength.

[2] Research realized monthly by GFK Polonia on the order of PZU. Presented data constitute cumulative result of monthly measurements performed between January and June 2016

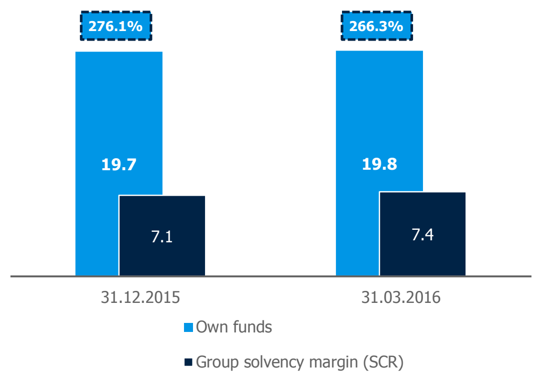
PZU share prices from its IPO on WSE (12.05.2010=100) to 30.06.2016



PZU TSR – total shareholder return, including dividend paid by PZU

Brief overview of PZU Group

Solvency under Solvency II (in PLN billion)*



*Data not audited

PZU socially responsible
As one of the largest financial institutions in Poland and Central and Eastern Europe, PZU Group's activity and development strategy recognize social and environmental issues, as well as ethics. PZU Group does its best to ensure that the initiatives it engages in bring positive results also in the social aspects in all the areas where the company may have an influence on the external environment in a manner that is not strictly related to business. As a mature, responsible company, the Group takes all efforts not only to provide its Clients with the best offer, but also to build a better, safer future together with all its stakeholders.

Sustainable development and social responsibility in business are at the same time the most straightforward way to build the most optimal offer for the clients of PZU Group, as well as the most accurate answer to the needs of its stakeholders.

In its day-to-day operations, the Group follows four rules:
We address the needs – PZU provides products and services to its clients, which are best suited to their expectations,

We value our people – the Group is continuously providing opportunities for its staff to develop their skills and competences, creating good conditions to develop their personal interests,

We support the society – PZU makes efforts to establish stable, long-term relations with the local communities by supporting initiatives that have a positive impact on the environment,

We care for the environment – PZU takes responsibility for the environment where it operates.

Main consolidated financial data of PZU Group for 06.2016–06.2014 (in PLN million)

	1 January - 30 June 2016	1 January - 30 June 2015	1 January - 30 June 2014
Gross written premiums	9,862.0	9,126.5	8,437.9
Revenue from commissions and fees	264.4	103.2	123.1
Net investment income	1,456.1	1,086.0	1,373.6
Net insurance claims	(6,164.4)	(6,006.4)	(5,418.1)
Acquisition costs	(1,252.7)	(1,130.8)	(1,036.4)
Administrative expenses	(1,253.0)	(822.1)	(702.3)
Interest expenses	(396.8)	(61.9)	(69.0)
Operating profit	1,049.9	1,619.0	2,175.9
Net profit	789.8	1,321.5	1,720.4
Net profit attributed to the parent company	659.5	1,321.6	1,720.4
Total assets	112,945.2	66,056.3	63,821.8
Financial assets	93,909.6	54,601.6	55,627.7
Equity	15,600.7	11,853.1	11,917.3
Technical provisions	41,701.7	40,734.4	38,506.4

KPI	1 January - 30 June 2016	1 January - 30 June 2015	1 January - 30 June 2014
ROE	10.7%	21.1%	27.5%
Combined ratio (COR)	93.4%	91.3%	86.0%
Group insurance profit margin*	20.9%	20.4%	24.4%

* ratio calculated with gross written premium of group and individually continued insurance, excluding one-off events

Brief overview of PZU Group

The most important events in H1 2016

01 Non-life insurance – Poland

PZU: Gross written premium (according to IFRS) at PLN 5,257.6 million, a 23.9% increase in relation to H1 2015. Growth of premium in motor insurance (mainly MTPL insurance in the mass client) and other tangible damage.

Leader on the Polish non-life insurance market with a share of 35.5%; 39.8% on the motor insurance market (after Q1 2016).

Link4: Gross written premium at PLN 305.5 million, a 21.8% increase in relation to H1 2015.

Market share of 1.8% (after Q1 2016).

TUW: Gross written premium at PLN 61.7 million, of which 99.6% constitute non-motor insurances offered to large business entities. Market share at a level of 0.03% (after Q1 2016).

02 Life insurance – Poland

Gross written premium (according to IFRS) at PLN 3,927.8 million. A 2.2% drop, compared with the corresponding period of 2015, which resulted from a decrease in sales of unit-linked products in the bank channel. Thanks to the development of protection and medical insurance, the premium in the group and continued insurance segment grows by 1.6% y/y. What also should be emphasized is the y/y growth of the operating profit (excluding one-off events) occurring both in the group and individually continued insurance segment and individual segment amounting to 4.1% and 31.2%, respectively.

Life insurance market share of 34.5%, including 44.8% in periodical premiums (after Q1 2016). For the first time PFSA has published data which allow presenting PZU's share in the life insurance segment (only for group I) for the periodical premium, and it amounts to 67.4%. The written premium on the life insurance market decreased, except for PZU, by 26.8% y/y, including -6.9% for the periodical premium, while the appropriate dynamics of PZU Życie amount to -3.0% and +1.3%.

03 Investment funds

Net assets value of PLN 27.6 billion at the end of June 2016, which constituted 10.6% of the assets managed by domestic investment funds.

The value of external clients' assets at PLN 6.4 billion.

The maintaining of the position of the leader on the Employee Pension Programs market.

04 Pension funds

Third place in the market with a share of 12.9% by net asset value.

Maintaining the position of the leader in the Individual Pension Security Accounts (IKZE) market among the voluntary pension funds.

05 Health care

Creation of own health care chain; in February 2016 PZU purchased CM Cordis Sp. z o.o., which operates on the (commercial) health care market in Poznań. Cooperation with approximately 1,700 health care centers.

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

Offering health care to the Tauron Group and the PKN Orlen Group, and sanatorium care in Ciechocinek and Ustroń.

06 Banking sector

Increase of PZU Group's involvement in banking sector resulting from the settlement of the acquisition of the third tranche of Alior Bank shares and purchase of shares performed through the issue with the pre-emptive right. The total share of PZU and PZU Życie in the equity of Alior Bank amounted to 29.22% at the end of June 2016.

On 31 March of the current year, Alior Bank entered into an agreement concerning the acquisition of independent area of activity of Bank BPH with GE Capital Group. The transaction does not involve the purchase of the mortgage portfolio denominated in CHF, other foreign currencies and PLN, and the purchase of BPH TFI.

07 Foreign operations

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

Lithuania: Over the first half of 2016, Lietuvos Draudimas (the leader on the Lithuanian market) collected premiums amounting to EUR 66.2 million and held a market share of 28.7% six months into the year 2016. In H1 2016, PZU Lithuania Life collected premiums amounting to EUR 5.5 million (a 5.5% share in the life insurance market after six months of 2016).

Latvia: In H1 2016, PZU Group operated through the AAS Balta, which entered the Group in June 2014 and through branch of PZU Lithuania acquired by AAS Balta in May 2015. In H1 2016, AAS Balta (including its Latvian branch) collected premiums on non-life insurance market amounting to EUR 38.9 million, while its share in the market was 25.9% after the first quarter of 2016.

Estonia: The Group acts through the Lietuvos Draudimas branch, which was acquired from PZU Lithuania in May 2015. In H1 2016, the premium collected amounted to EUR 22.8 million, while the share in the gross written premium on the Estonian non-life insurance market was 14.5%.

Ukraine: In H1 2016, PZU Group collected premiums on non-life insurance amounting to UAH 581.5 million (increase by 68.6%, compared with the corresponding period of the previous year). After Q1 2016, PZU Ukraine held a 4.3% share in the non-life insurance market. The gross premium collected by PZU Ukraine Life amounted to UAH 109.9 million and was 29.2% higher than in H1 2015. After Q1 2016, the company was placed fifth on the market with a share of 9.0%.

08 Financial results and safety of operations

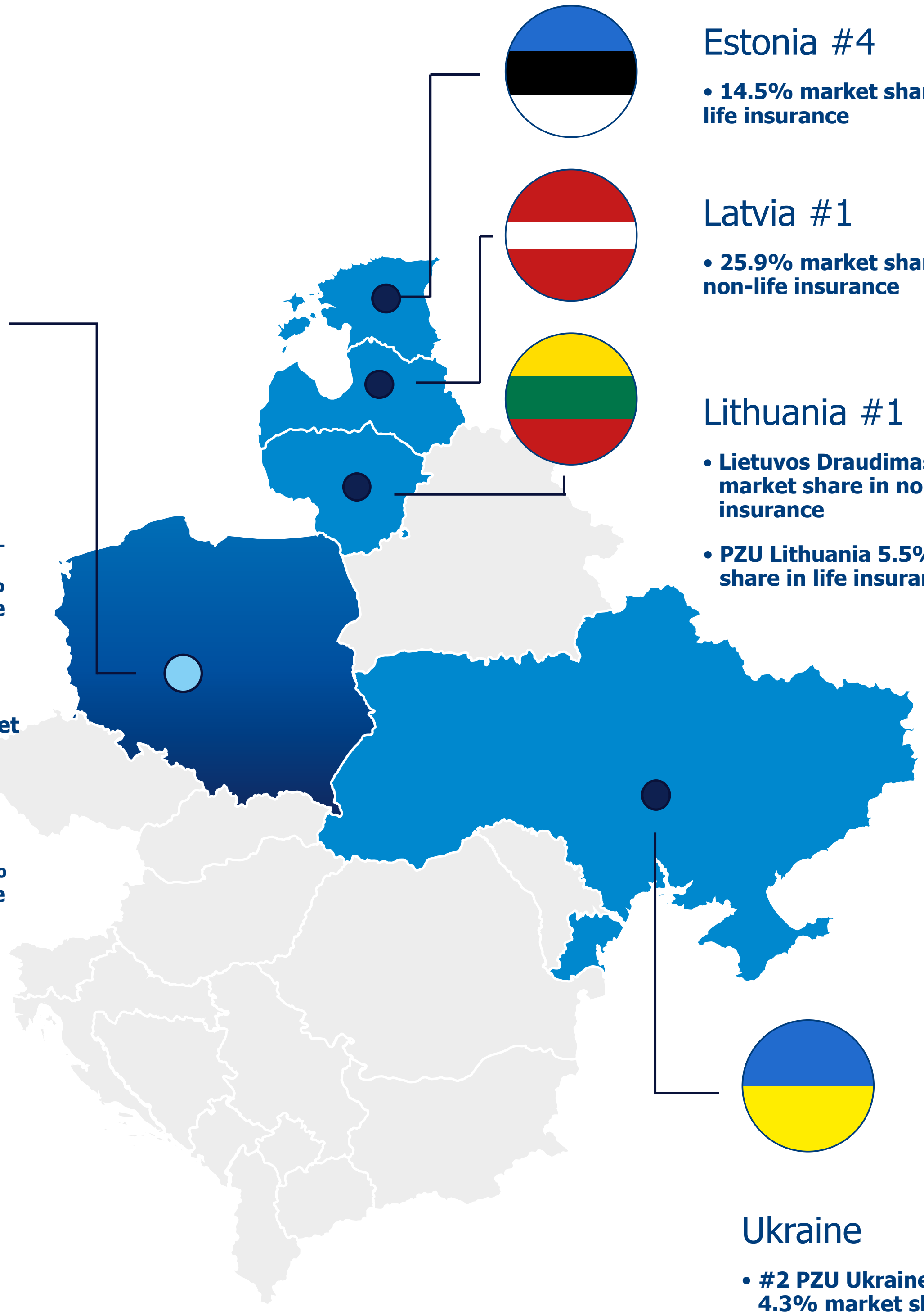
Net profit of PLN 789.8 million, i.e. 40.2% lower than in H1 2015, mostly resulting from worse net result on investing activities due to the decline in the price of equity instruments.

Return on equity 10.7% – a decline of 10.4 p.p. compared with H1 2015.

Amount allocated to dividend payment from PZU profit in 2015 PLN 1,796.1 million.

Maintaining of high solvency ratios.

International operations of PZU Group



Estonia #4

- 14.5% market share in non-life insurance

Latvia #1

- 25.9% market share in non-life insurance

Lithuania #1

- Lietuvos Draudimas 28.7% market share in non-life insurance
- PZU Lithuania 5.5% market share in life insurance

Poland #1

- PZU – 35.5% market share in non-life insurance
- PZU Życie – 44.8% market share in life insurance by periodical premium
- Link4 – 1.8% market share in non-life insurance

Ukraine

- #2 PZU Ukraine 4.3% market share in non-life insurance
- #5 PZU Ukraine 9.0% market share in life insurance

„We cannot solve our problems with the same thinking we used when we created them."

Albert Einstein

02

External environment in the first half of 2016

Continuation of the strong growth of GDP. Improvement of the situation on the labour market favoured consumption growth with a simultaneous weakening of investment dynamics.

Financial markets were characterized by significant volatility, which culminated at the end of June due to the Great Britain's voting whether to leave the European Union.

Contents:

1. Main trends in the Polish economy
2. Financial markets situation
3. External environment in the Baltic states and Ukraine
4. Macroeconomic factors which can affect the operations of the Polish insurance sector and the operations of PZU Group in the 2016

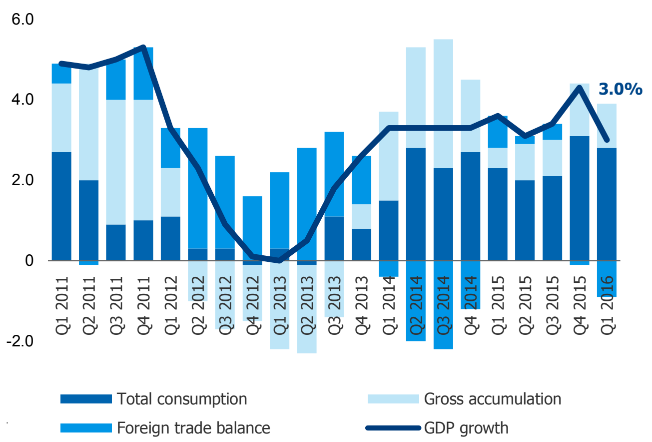
2.1 Main trends in the Polish economy

Gross Domestic Product

According to initial estimations of the CSO, the GDP growth pace in the first quarter of 2016 dropped to 3.0% y/y from 4.3% y/y in the last quarter of 2015. The GDP growth in the first quarter was driven by the domestic demand. A decline in net exports (-0.9 pp) and investments (-0.2 pp) had a negative impact on the GDP dynamics. Gross fixed capital formation was 1.8% y/y lower in comparison with the stable 4.4% y/y growth in the previous two quarters. The investment decline resulted from a strong decline in public investments. Earlier, the survey of the business climate of the National Bank of Poland indicated that the growth of uncertainty had been also a contributing factor to the delay in enterprises' investment projects in the first quarter. Nevertheless, this period was the time of a slight increase in the dynamics of the household consumption, the main factor of the GDP growth in the first quarter. Its annual dynamics, which was surprisingly stable over the past few quarters, rose to 3.2% y/y from the 3.0% y/y in the last quarter of 2015. The increase of inventories was also an important factor maintaining economic growth. The (annual) scale of impact of change in inventories on GDP dynamics amounted to 1.3 pp. The increase of inventories in the first quarter only was closer to the average from the second half of 2015, though.

According to flash estimate of the CSO, the GDP growth in the second quarter of 2016 amounted to 3.1% y/y. Over this period, negative impact on economic growth was attributed to the deep decline of the construction and assembly production, which was mainly caused by the gap in the EU co-funded investments. In June, the seasonally adjusted construction and assembly production decreased for the seventh time in a row and was down by 14.6% comparing to December of 2015 and in comparison to the 1.8% growth in the second half of 2015[1]. Despite its acceleration in the second quarter, the growth pace of the sold industrial production in the first half of 2016 was slightly down – to 4.4% y/y (data not seasonally adjusted). At the same time, thanks to its acceleration in the second quarter, the retail sales dynamics (in fixed prices) rose in the first half of the year to 5.0% y/y.

Composition of GDP growth from 2011- Q1 2016



The labour market and consumption

The situation on the labour market had been improving systematically in the first half of 2016. The registered unemployment rate in June 2016 was equal to 8.8% - the lowest level in nearly 8 years. Compared to the corresponding period of the previous year, the unemployment rate in June in the current year was lower by 1.4 pp. The seasonally adjusted unemployment rate also systematically declined in this period. In the first half of 2016, the average monthly employment in the enterprise sector grew by 127 thousand people compared to 29 thousand in the corresponding period of the previous year. In June, the dynamics of employment in enterprises faced a considerable acceleration, to 3.1% y/y, obtaining the best result in almost 5 years (in December of 2015 it was 1.4% y/y). The employment growth in enterprises in the first half of 2016 was a result of an increased demand for work in the improving economic situation and employment of people formerly working under commission contracts, which became subject to the social security contributions with the start of the year.

The improvement of the conditions on the labour market begins to result in a higher salary dynamics. The annual growth pace of an average monthly salary in the national economy amounted to 3.1% y/y and 4.3% y/y respectively in the first and second quarter of 2016, compared with 3.2% y/y in the fourth quarter of the previous year. Owing to the dropping prices, the real dynamics of remuneration in national economy accelerated to 4.1% y/y and 5.2% y/y (estimate), compared with 3.8% y/y in the fourth quarter of the previous year. The real dynamics of the remuneration fund in this sector in the first half of 2016 was 8.0% y/y and was the highest in nearly 8 years.

The consumption growth benefited from the real growth of household income. The dynamics of individual consumption in the first quarter of 2016 reached 3.2% y/y. Additionally, households received funds from the "Family 500+" program, which came into effect on 1st April 2016. According to the Ministry of Family, Labour and Social Policy, roughly PLN 4.89 billion was paid out to people entitled to the benefit by 1st July 2016.

Inflation, monetary policy, and interest rates

In the first half of 2016 deflation deepened in comparison to the second half of 2015 – the dynamics of the consumer price index (CPI) in this period amounted to -0.9% y/y and -0.6% y/y respectively. The main driver was lower fuel prices. However, the net base inflation rate, which covers less-variable prices, also became negative in the first half of 2016. In that period, the ratio (CPI excluding food and energy prices) amounted to -0.2% y/y compared to +0.3% y/y in the second half of 2015.

Between January and July of 2016, the Monetary Policy Council made no changes to the parameters of the monetary policy. The reference rate is still at 1.5%. According to the Monetary Policy Council, stabilization of interest rates supports the sustained growth of the Polish economy and helps to maintain macroeconomic balance.

Public finance

The state budget deficit after this June was equal to PLN 26.1 billion, constituting roughly 34% of the plan for 2016. It was the lowest deficit since 2007-2009 both in relation to the planned realization and as absolute amount. The annual dynamics of the income from indirect taxes accelerated in June to almost 7%, mainly due to the income from VAT tax. This may be the effect of the 500+ program. At the same time, it should be noted that the favourable budget deficit realization was influenced by the low level of expenditures and the one-off income of PLN 7.1 billion from the auction for reservation of the frequency range of 800 MHz and 2.6 GHz from last February.

The Ministry of Finance announced that over 70% of the net borrowing needs was financed by the end of June 2016. The high level of liquid assets denominated in PLN and foreign currencies was also maintained – it amounted to roughly PLN 56 billion at the end of June.

[1] Calculation based on the data from the Statistical Bulletin No. 6/2016 published by the CSO.

GDP growth in Poland in Q2 2016

3.1 %

+0.0 p.p. y/y

Unemployment rate in Poland at the end of H1 2016

8.8 %

-1.4 p.p. y/y

CPI in Poland in June 2016

-0.8 %

+0.0 p.p. y/y

Real growth rate of salaries in Poland in Q1 2016

4.1 %

-1.7 p.p. y/y

2.2 Financial markets situation

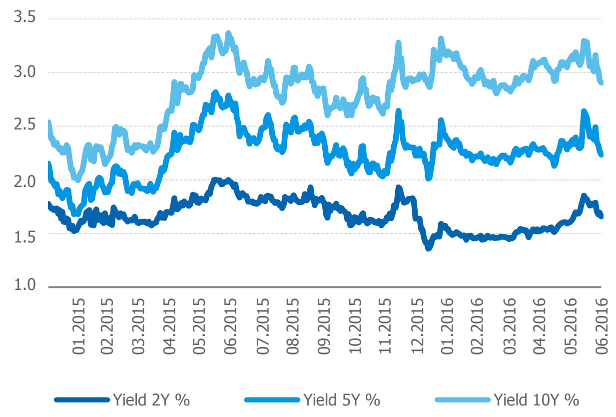
The first weeks of 2016 were very bad for the equity market, especially in Europe. Polish equity indexes performed, compared to Europe, rather favorably, although both WIG and WIG20 lost roughly 5% each. The declines on the Polish equity market resulted mainly from the situation on the global markets. This declining trend reversed as early as in January and the indexes were growing until early April. In addition to favorable global factors, the share prices were supported by a very good economic growth rate publication for the fourth quarter of 2015.

However, the declines returned in early April. They were caused by the surprisingly low reading of GDP dynamics in the first quarter of 2016 and the higher probability of Fed raising the interest rates in mid-2016. In Poland, the weakened valuation of big companies resulting from market and regulatory risks was particularly visible. This concerned mainly banks, shopping chains, or raw material and energy companies. By the end of May 2016, WIG and WIG20 dropped below their level from the end of 2015.

In the last weeks of the first half of 2016, financial markets, especially in Europe, experienced the influence of the potential voting of the citizens of Great Britain concerning its exit from the European Union – the so-called Brexit. The share prices were dropping and the market volatility was high. Brexit shook up the equity markets, but some losses have already been recovered by the end of June. Ultimately, the WIG index dropped by 3.7% and the WIG20 index dropped by 5.8% between the end of December 2015 and the end of last June.

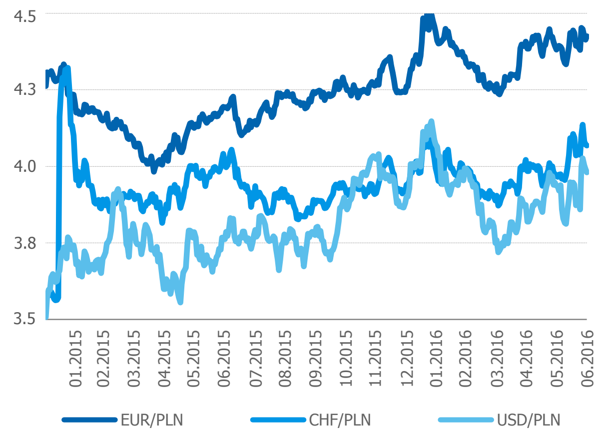
Analyses of the first half of 2016 show that the increased risk aversion on global markets has increased the volatility of the Polish treasury bond market. The gradient of the Polish yield curve significantly flattened due to the upward shift of its short end, which was caused among others by the lowered expectations for the Monetary Policy Council to lower Poland's interest rates. We estimate that the risk premium for Poland continues to be elevated. The difference between the yields of the Polish and German 10-year treasury bonds remained above 300 basis points for almost all of June. It even temporarily exceeded 330 basis points - for the first time since September of 2012.

Treasury bond yields in 2015 and H1 2016



Following the referendum in Great Britain, the yields in Poland recorded a strong spike followed by a drop. Ultimately, the Polish yield curve between the end of December of 2015 and the end of June 2016 rose by 18 basis points for 1-year treasury securities (to 1.66%), 2 basis points for 2-year treasury bonds, and 1 basis point for 5-year bonds. 10-year bonds saw a drop of 3 base points to 2.91%.
In the first half of 2016, the US dollar weakened compared to the euro. The EUR/USD exchange rate rose from roughly 1.09 to roughly 1.11 – i.e. by roughly 2.3%. The PLN value compared to global currencies declined. The USD/PLN exchange rate rose by 2% at the end of June in comparison with the end of 2015. The CHF/PLN and EUR/PLN exchange rates rose in the analyzed period by adequately 3.3% and 3.8%. Swiss franc exchange rate remained over PLN 4 since mid-June. The currency, which has considerably lost in value in the last days of June was the British pound, which was obviously the result of Brexit.

PLN quotation in 2015 and H1 2016



2.3 External environment in the Baltic states and Ukraine

Lithuania
According to Bank of Lithuania the economy of the euro zone continues to be on the rise. The annual GDP growth dynamics, which are based mostly on private consumption and investments, have regularly exceeded 1.5% over the last four quarters. The economic growth entailed improvement of the labour market ratios, household income growth, and higher demand for both imported and domestic goods and services. In turn, this entailed a growth of Lithuanian export. More and more goods are being exported to the euro zone and other European Union member states. Export is also on the rise. The shipping operations of Lithuanian companies have slowed down considerably since Russia imposed trade restrictions, which were multiplied by the effects of the diminishing Russian economy. Nevertheless, by the end of 2015, the Lithuanian shipping industry was once again on the rise. The transport industry is currently an important sector contributing to the stimulation of the Lithuanian economy.

According to the data published at the end of June of 2016, the average annual inflation rate measured by HICP – in light of the projections for 2016 – will reach 0.9 p.p., whereas said index indicated deflation in 2015 (-0.7 p.p.).

According to the data published by the Bank of Lithuania, the value of the gross written premium in non-life insurance reached EUR 230,1 million over the first six months of 2016 and was 11.8% higher from the value in the corresponding period of the previous year. The gross written premium of life insurance companies was EUR 100.1 million, a drop of 6.1% compared to the previous year.

Latvia
In the first quarter of 2016, the Latvian economy recorded a year-on-year GDP growth of 1.5%. The main growth accelerator was domestic consumption. Simultaneously, the country's balance of foreign trade dropped by EUR 441 million in the first quarter of 2016 (a quarter-on-quarter drop of 6.7%), which mostly resulted from reduced foreign demand. Export dropped by 5.4%. The worst results were recorded in machinery and electronic devices, mineral resources, and textiles. Meanwhile, import dropped by 7.9%, mainly in mineral resources, metals, and transport equipment.

In the first half of 2016, the annual inflation rate was -0.6%. This drop resulted from the decline of global market raw material prices from the previous year and the weak growth dynamics of the economies serving as the country's main trading partners.

The situation on the labour market is stabilizing. In the first quarter of 2016, 10.3% of professionally active persons were looking for work (an unemployment rate slightly above that of the euro zone).

The Latvian insurance market is presenting stable development in 2016. In the first quarter of 2016, the value of the gross written premium (from collectively life and non-life insurance) reached EUR 101.9 million, a growth of 4.6% from the corresponding period of the previous year.

Estonia
The economic growth of Estonia is accelerating, but its dynamics are still inferior to those before the crisis. In the first quarter of 2016, the GDP rose by 1.7% from the corresponding period of the previous year. The economic growth was generated mainly by increased net revenue from value-added tax, which resulted mainly from the raise of alcohol and fuel excise tax. In the first quarter of 2016, the GDP growth was based mainly on the raise of added value in the turnover of retail and wholesale trade. Simultaneously, the biggest detriment to the development of the Estonian economy was the decline of added value in the energy sector. The unemployment rate reached 6.5% in the first quarter of 2016, a 0.1% drop from 2015.

Over the first six months of 2016, non-life insurance companies and branches of foreign companies operating in this insurance sector in Estonia collected premiums in the total amount of EUR 149.2 million (EUR 136.9 million in 2015), EUR 36.1 million or 24.2% of which were collected by the branches of foreign insurance companies operating in Estonia (in 2015: EUR 30.3 million or 22.1%).

Ukraine
After the difficult years of 2014 and 2015, when the internal problems and the loss of Crimea pushed Ukraine into a deep recession, the country recorded the first signs of improvement to its political and economic situation in 2016.

In the first quarter of 2016, Ukraine's GDP grew by 0.1% from the first quarter of 2015 (the GDP drop for the whole year 2015 was 9.9%). After the first six months of the year, industrial production rose by 2.0% from the corresponding period of the previous year. In the entire first half of 2016, inflation rose by 4.9 pp. Compared to the corresponding period of 2015, it rose by 18.1%. The main generator of inflation was the raise of administratively regulated prices (gas, water, electricity) and fuel prices.

Over this time, the gross written premium of the non-life insurance market reached UAH 7.6 billion, a 35.4% growth from the first quarter of 2015, which resulted mainly from the higher insurance sums produced by UAH devaluation and rising inflation, as well as the raised mandatory insurance rates.

Life insurance companies collected gross written premium of UAH 661.1 million in the first quarter of 2016, which was 41.2% more than in the corresponding period of 2015.

2.4 Macroeconomic factors, which can affect the operations of the Polish insurance sector and PZU Group's activities in 2016

The result of the British referendum had a strong contribution to rise in the uncertainty in the global economy. The "Brexit" process is currently the key risk factor for the economic growth and the financial market prices in the second half of 2016 and next year in particular. At this time – due to a rather mild reaction of financial markets – the projections of a relatively small impact of the GDP slowdown in Great Britain on the economic growth in the euro zone and in Poland dominate. However, there exists a risk for worse scenarios to take place.

There exists an ongoing uncertainty concerning the impact on the banking sector of the projected regulatory solutions to the franc credit problem. This may result in negative consequences for bank's profits, economic credits, and investments – as well as bank's valuations and thus the changes in equity indexes.

After the voting, which favoured leaving the European Union by Great Britain, the valuations of the European banks have dropped because the financial markets foresee a hard time generating revenue and acquiring capital. One of the conditions for stabilizing the market and economic situation resulting from Brexit is a decisive solution to the problems of the "bad debts" which still remain an issue from the global financial crisis. These problems may also have impact on the Polish financial system and economy due to the higher risk aversion, drop of certain asset prices on financial markets, and the higher CHF/PLN exchange rate.

The demand impulse generated by the improving financial situation of households should reduce the potential negative impact of Brexit on the Polish economic growth and support the demand for insurance products.

The delays in the realization of investment projects financed within the new EU financial perspective are currently having a negative effect on the dynamics of the public investments. The uncertainty and the potential instability of financial markets may contribute to a reduced growth of the private investments.

Other mutually related global risk factors for the situation of the Polish financial markets, which have considerable impact on the financial results of PZU Group, could include the concerns about the financial stability of China, the risk of the strong decline in oil prices with potential negative impact on the situation of indebted developing countries, or geopolitical risks.

GDP growth of Baltic States in Q1 2016 – Lithuania, Latvia, Estonia

2.4 %

1.5 %

1.7 %

Forecast for the Polish economy	H1 2016	2015	2014	2013	2012
Real GDP growth in % (year-on-year)	3.0*	3.6	3.3	1.3	1.6
Increase in individual consumption in % (year-on-year)	3.2*	3.1	2.6	0.2	0.8
Increase in gross expenditure on fixed assets in % (year-on-year)	(1.8)*	5.8	10.0	(1.1)	(1.8)
Increase in prices of consumer goods and services in % (year-on-year, yearend)	(0.8)	(0.5)	(1.0)	0.7	2.4
Nominal wage growth in domestic economy in % (year-on-year)	3.1*	3.2	3.2	3.7	3.7
Unemployment rate in % (end of reporting period)	8.8	9.8	11.4	13.4	13.4
NBP base rate in % (end of reporting period)	1.50	1.50	2.00	2.50	4.25
Average annual EUR/PLN exchange rate	4.37	4.18	4.19	4.20	4.19
Average annual USD/PLN exchange rate	3.91	3.77	3.16	3.16	3.26

* Data for Q1 2016
Source: PZU Macroeconomic Analysis Office

__38%__ of the respondents are of the opinion that the financial industry and the power sector are at present the most sophisticated industries when it comes to CSR and corporate citizenship.

THINKTANK

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 finance management.

The PZU brand is increasingly associated with Health.

Through the controlling package in Alior Bank, PZU Group is also involved in the banking sector. By combining the rules of traditional banking with innovative solutions, the bank offers a number of banking services for both individual and business clients.

Contents:

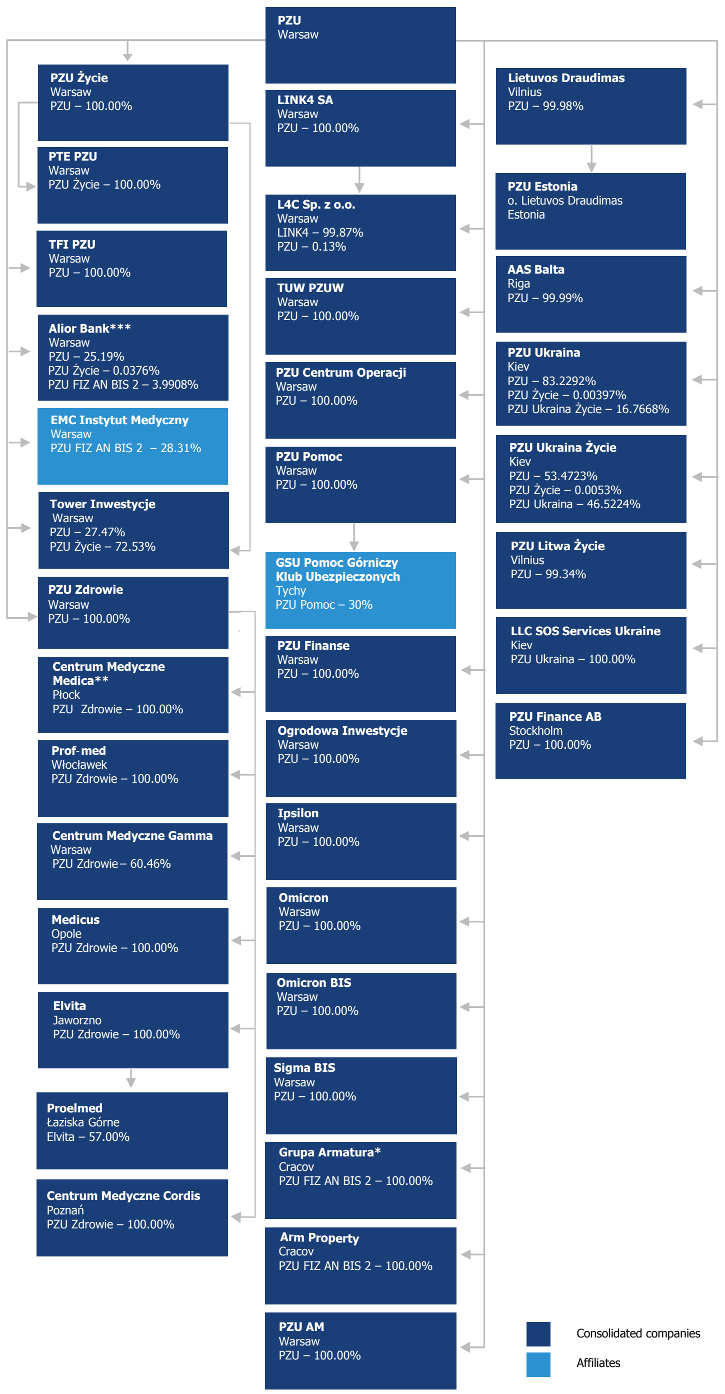
1. Structure of PZU Capital Group
2. PZU, Link4 and TUW PZUW – activity on the Polish non-life insurance market
3. PZU Życie – activity in the life insurance market in Poland
4. PTE PZU – activity in the pension funds market
5. TFI PZU – activity in the investment fund market
6. Foreign investment activity
7. PZU Zdrowie – activity on the health care market
8. Alior Bank – banking activity
9. Other areas of activity

Activity of PZU Group

3.1 Structure of PZU Capital Group

PZU Group conducts various activities in the area of insurance and finance. In particular, PZU Group's entities provide services in life insurance, non-life insurance, health insurance and asset management for clients within OPF and investment funds. The offering of the PZU Group companies includes also banking (through the Capital Group of Alior Bank companies) and medical (through the PZU Zdrowie companies) services.

Structure of PZU Group (as at 30 June 2016)



* Grupa Armatura includes the following entities: Armatura Kraków SA, Armatoora SA, 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.
*** Grupa Alior Bank includes the following entities: Alior Bank SA, Alior Services sp. z o.o. , Centrum Obrotu Wierzytelnościami sp. z o.o., Alior Leasing sp. z o.o., Meritum Services ICB SA , Money Makers TFI SA , New Commerce Services sp. z o.o., Absource Sp. z o.o.
The structure does not cover investment funds and companies in liquidation process.

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

The following changes took place in the structure of PZU Group in H1 2016 and until the release of this report:

- as part of the involvement in the banking sector:
  - transaction of the acquisition of 25.25% of Alior Bank shares was settled through the payment of the third tranche amounting to PLN 341.7 million made by PZU;
  - 16,525,801 Series I shares of Alior Bank were taken up in a closed subscription performed through the public offer in observance of the pre-emptive right on the account of the existing shareholders of the bank; ALIOR BANK – BANKING SECTOR 3.8
- in relation to the realization of development strategy for the Health Area:
  - on 30 June 2016, Nasze Zdrowie Sp. z o.o. merged with PZU Zdrowie;
  - in 2016, PZU Group was enlarged with 100% of shares of CM Cordis Sp. z o.o.
- on 16 June 2016, Armatura Kraków SA sold all shares of Armatura Tower to Pawo Borek sp. z o.o. This company is no longer an Armatura Group company.

3.2 PZU, Link4 and TUW PZUW – activity on the Polish non-life insurance market

Situation on the market

The non-life insurance market in Poland in Q1 2016 increased by a total of PLN 454.3 million (+6.3%) compared with the corresponding period of the previous year. Increased sales of MTPL insurance (by PLN 620.1 million, +31.9%) and motor own damage insurance (by PLN 148.6 million, +10.4%), mainly as a result of increased premium average, gradual market recovery from the price war, and higher premiums from indirect activities (increase in MTPL of PLN 242.4 million y/y), had the biggest impact on the higher level of premiums.

Furthermore, the positive impact on the growth of the entire non-life insurance market had significantly higher sales of insurance of assistance (increase of PLN 54.0 million, +38.0%) and insurance of credits and guarantees (increase of PLN 51.1 million, +25.9%). The decline was most noticeable in fire and other property insurance (premiums lower by PLN 193.1 million, -10.5% 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 the group of accident and illness insurance (total decrease by PLN 98.2 million, -16,6%), TPL insurance (by PLN 85.0 million, -12.3%), and insurance covering miscellaneous financial risks (by PLN 37.0 million, -15.5%).

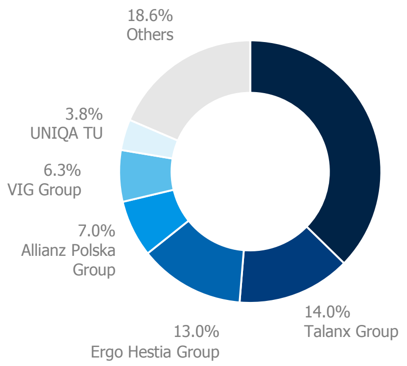
7.6 PLN billion
gross written premium of non-life insurance companies after Q1, 2016

4.5 PLN million
technical result of non-life insurance companies after Q1, 2016

47.5 PLN million
net result of non-life insurance companies (without PZU Życie dividend) after Q1, 2016

78.4 PLN billion
value of assets of non-life insurance companies at the end of Q1, 2016

Non-life insurance companies share in gross written premium for Q1 2016 (%)



Capital groups Allianz – Allianz, Euler Hermes; Ergo Hestia – Ergo Hestia, Talanx - Warta, Europe, HDI; VIG – Compensa, Benefia, Inter-Risk; PZU – PZU, Link4, TUW PZUW
Source: KNF Biuletyn Kwartalny [PFSA Quarterly Bulletin]. Insurance market 1/2016.

The whole of the non-life insurance market in Q1 2016 generated a net profit of PLN 47.5 million (-88.1% compared with the corresponding of the previous year). The technical result of the non-life insurance market, which largely does not include net investment income, after Q1 2016 dropped by PLN 383.8 million, i.e. by 98.8% to the level of PLN 4.5 million. This change was affected to the greatest extent by the drop of the technical result in MTPL insurance by PLN 268.3 million and in the group of fire and other property insurance by PLN 192.3 million. Some positive changes were recorded in motor own damage insurance (increase by PLN 48.3 million), marine, aviation, and transport insurance (increase by PLN 23.8 million), as well as accident and illness insurance (increase by PLN 22.2 million).

The drop of the technical result in MTPL insurance resulted mainly from higher claims and benefits (increase of PLN 215.6 million, +15.2%) and lower earned premium (PLN -11.2 million, i.e. -0.6%), which resulted predominantly from strong price competition ongoing in recent years (imperceptible as of yet results of price increases on the market, ongoing since H2 2015) and the PFSA recommendations causing the increase in average payout.

Simultaneously, a profitability decline was recorded in the group of insurance for damage caused by hail, frost and other causes (PLN -210.0 million on direct business) as a result of numerous claims in agricultural insurance which were caused by frost.

The total value of investments of non-life insurance companies at the end of Q1 2016 (excluding subsidiary investments) was PLN 51.4 billion, and it dropped by 1.4% from the end of 2015.

Non-life insurance companies, on aggregate, estimated the value of net technical provisions at PLN 42.3 billion, which represented an increase of 1.4% compared with the end of 2015.

Market activity 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, and – as of November 2015 – also the Polski Zakład Ubezpieczeń Wzajemnych (TUW PZUW).

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

	1 January - 31 March 2016			1 January - 31 March 2015		
	PZU	Market	Market without PZU	PZU	Market	Market without PZU
Motor own damage insurance	664	1,583	919	555	1,434	879
MTPL insurance	1,104	2,563	1,459	711	1,943	1,231
Other products	1,085	3,499	2,415	1,095	3,814	2,719
TOTAL	**2,853**	**7,645**	**4,792**	**2,362**	**7,191**	**4,829**

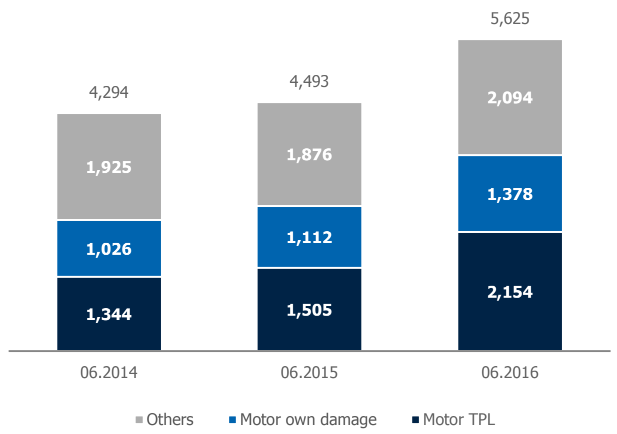
Source: KNF Biuletyn Kwartalny [PFSA Quarterly Bulletin]. Insurance market 1/2016.

Over the past years, PZU Group has collected approximately 1/3 of the gross written premium at the non-life insurance market. After Q1 2016, PZU Group had a share of 37.3% in the non-life insurance market compared with 32.8% after Q1 2015 (36.1% and 34.4%, respectively, from direct activities).

PZU Group had a strong market position in motor own damage insurance, with a share of 41.9%, and in MTPL insurance, with a share of 43.1%.

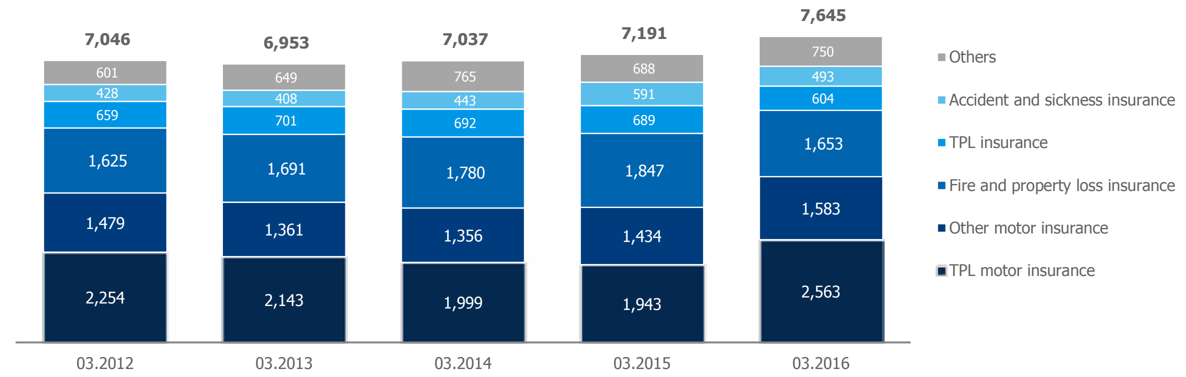
After Q1 2016, the share of PZU Group's (PZU with Link4 and TUW PZUW) technical result in the market's technical result exceeded 100% (technical result of PZU Group was PLN 78.8 million compared with the market's technical result of PLN 4.5 million), which demonstrates high level of profitability of insurance.

PZU's gross written premium (PLN million) (including Link4 and TUW PZUW)



Source: PZU data.

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



Source: KNF Biuletyn Kwartalny [PFSA Quarterly Bulletin]. Insurance market 1/2016, 1/2015, 1/2014, 1/2013.

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

	1 January - 31 March 2016			1 January - 31 March 2015		
	PZU	Market	Market without PZU	PZU	Market	Market without PZU
Motor own damage insurance	68	53	(15)	20	5	(15)
MTPL insurance	(70)	(328)	(258)	27	(59)	(87)
Other products	81	279	198	294	443	149
TOTAL	**79**	**4**	**(75)**	**341**	**388**	**47**

Source: KNF Biuletyn Kwartalny [PFSA Quarterly Bulletin]. Insurance market 1/2016.

Activities of PZU

PZU offers a wide range of non-life insurance products, including motor, property, personal, and agricultural insurance, as well as third party liability insurance. At the end of Q1 2016, PZU's offer included over 200 insurance products. Motor insurance is the most important group of products offered by PZU, both in terms of the number of insurance contracts and the premium share in the total gross written premium.

In the segment of mass client insurance, PZU started online sale of the following insurances: Od Wszystkich Ryzyk [From all risks] version of PZU Dom [PZU Home], and PZU Wojażer. The offer was accompanied by a marketing campaign using i.a. social channels.

In the corporate insurance segment the approach towards pricing was changed by applying a new client segmentation, i.a. in the case of fleet pricing there is a distinction between small, medium and big fleets.

With respect to financial insurance, PZU granted to its subsidiary Alior Bank a guarantee of unfunded insurance credit protection regarding the selected portfolio of credit receivables of the company.

In the area of financial liability insurance, after the implementation of PZU Gepard – a system for managing insurance – PZU consistently takes action for increasing the market share, and in H1 an agreement was concluded with a large entity from the fuel sector.

In H1 2016, PZU cooperated with 8 banks and 7 strategic partners. The partners of PZU Group are the leaders in their fields and have customer bases with great potential. The cooperation in scope of strategic partnerships concerned mainly the companies operating in telecommunications, energy, and electronic equipment distributors, used to offer insurance of property, electronic equipment, and assistance services.

The sales of bancassurance non-life insurance covered mainly the insurance of buildings, structures, residences, and insurance dedicated for payment cards.

In H1 2016, PZU collected gross written premiums of PLN 5,257.6 million, which was 23.9% more than in the corresponding period of the previous year. At the same time, the sales structure slightly changed:

- value of MTPL insurance was PLN 1,929.5 million and it was 42.6% (+29.9% in direct operations) higher than in the corresponding period of the previous year. It constituted 36.7% of the entire portfolio, increasing its share by 4.8 p.p. in comparison with H1 2015. The higher value of PZU MTPL insurance resulted mainly from the greater value of the average premium and expanding the active reinsurance program with the companies of PZU Group in H2 2015;
- PZU collected PLN 1,326.0 million from motor own damage insurance, which was 24.5% more than in H1 2015. Share of motor own damage insurance in the overall portfolio grew by 0.1 p.p. to 25.2%;
- lower level of insurance sales, including: drop in premium from insurance for damage caused by forces of nature offered to mass clients and casco sea vessel insurance offered to corporate clients, which results in lower dynamics of premium from non-motor products. As a result, the share of gross premium from non-motor insurance to the total premium dropped to a level of 38.1% (compared to 43.0% in H1 2015).

In H1 2016, PZU paid gross claims and benefits amounting to PLN 3,146.6 million, which was 31.0% more than in the corresponding period of the previous year.

In the reviewed period, PZU generated a net profit of PLN 990.3 million in accordance with the Polish Accounting Standards, of which PLN 825.0 million was from the dividend from PZU Życie.

Activities of Link4

Link4 is the leader of the Polish direct insurance market and offers a wide range of non-life insurance, which covers motor insurance, non-life and other personal insurance, and TPL insurance.

In H1 2016, the biggest emphasis was put on the analysis of changing price situation and optimization of pricing in both new business and renewals. The most important activities related to the change in product offer were:

- marketing campaign concerning lack of increases on motor own damage product for clients with a low claim ratio;
- solutions promoting safe driving (which Link4 has been successfully developing since 2015) and ecodriving for individual clients – the assumption of the project is to make possible to offer lower policy prices when safe driving is applied;
- transferring corporate client service to PZU. Taking into account the experience in quotation and amount of regulatory capital, from Q2 2016, the insurances for corporate clients are offered under.

In H1 2016, Link4 collected gross written premiums of PLN 305.5 million, most of which concerned motor insurance, respectively:

- value of MTPL insurance was PLN 224.0 million, which constitutes 73.3% of the entire portfolio;
- value of the motor own damage insurance premium was PLN 51.4 million, which composes 16.8% of the entire insurance portfolio.

Activities of TUW PZUW

On 30 November 2015, PFSA approved PZU's establishment of a Mutual Insurance Company under the name of Polski Zakład Ubezpieczeń Wzajemnych (TUW PZUW).

TUW PZUW provides its clients with an insurance program which is flexible and which optimizes the costs and scope of insurance. Since 2016, the company has been selling and handling insurances for i.a. medical establishments and large economic entities (i.a. companies such as: Bogdanka, PGG) while optimizing the premium for its members. In H1 2016, TUW PZUW collected gross written premium of PLN 61.7 million, most of which was non-motor insurance with a premium of PLN 61.4 million, which constituted 99.6% of the entire insurance portfolio.

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

Apart from events of a catastrophic nature (such as floods, drought and spring frost), the main factors which can affect the situation of the non-life insurance sector in 2016 include:

- the potential slowdown of the economic growth in Poland resulting from the deteriorating external conditions, the slowdown of economic growth in the Eurozone and in China. In consequence, the worse financial standing of households can lead to a decline in sales of motor policies (as a result of lower new car sales), lower sales of mortgages and the related mortgage related insurance, as well as lower demand for other non-life insurance. The poorer financial standing of businesses can result in a growth in credit risk and an increase in the level of claims in the financial insurance portfolio;
- decisions of courts in the scope of monetary compensation to the closest relative from the TPL insurance of owners of motor vehicles for damage resulting from the violation

35.5 %
PZU's share in the non-life insurance market after Q1, 2016

1.8 %
Link4's share in the non-life insurance market after Q1, 2016

41.9 %
PZU's share in MOD insurance market in Poland after Q1, 2016

43.1 %
PZU's share in MTPL insurance market in Poland after Q1, 2016

over 9 thousand
PZU and PZU Życie agents

3.2 thousand
multiagencies cooperating with PZU and PZU Życie

1.0 thousand
brokers cooperating with PZU and PZU Życie

413
PZU and PZU Życie branches

of his or her personal welfare even if the event took place before 3 August 2008;

- potential raise of claims handling costs resulting from the implementation of further recommendations concerning claims handling by the PFSA;
- raise of spare parts prices with effect on claims handling costs resulting from the successive drop of PLN against the euro;
- further regulations or financial burdens imposed on insurers – e.g. a possible reinstatement of so-called "Religa tax" (i.e. compulsory fee payable to NFZ from every MTPL policy).

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

Market situation

After Q1 2016, the life insurance market in Poland measured by the gross written premium amounted to PLN 5.7 billion, which means that it has declined by an annual average of 11.6% over the past 5 years. The premium collected during Q1 2016 was simultaneously lower by 20.0% than in the corresponding period of the previous year, which is a continued decline after a series of increases which ended in 2012, stimulated mainly by the single premium in investment products.

It should be noted that the premium decline applied mainly to the single premium (a decline of PLN 1.3 billion y/y, i.e. 43.7% y/y). The dynamics for the corresponding period of 2015 were positive at +4.9%. The reasons of the lower single premiums in recent years include changes of the situation of the capital market and in the legal environment. The record low interest rates reduced the profitability of short-term endowment policies (polisolokaty) thereby generating greater interest in other investment products. Additionally, a tax on revenue from short-term endowment products with fixed rate of return and index-based return was introduced on 1 January 2015, which also reduced customer interest in such products and, eventually, led to removing them – especially the former – from the offer of insurers. In the last year, further guidelines of the supervisory body and, once again, the situation on the financial market and related to it decrease of client's interest in this form of saving led to a considerable reduction of sales of the unit-linked products – a year-on-year decline of PLN 1.2 billion, i.e. 33.1%.

The result of the changes taking place on the market was the rising prominence of the periodical premium over the single premium, which is PZU Życie's competitive advantage on the market. During Q1 2016, the premium of this type was lower by 3.4% in comparison with the corresponding period of 2015, but the average interim growth since 2012 amounts to 0.7%.

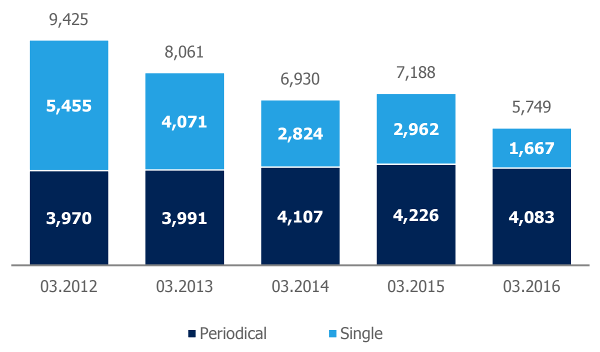
The total technical result achieved by life insurance companies in Q1 2016 was higher by PLN 147.8 million (23.9%) than in the corresponding period of 2015 and amounted to PLN 767.0 million. The improved performance is the effect of higher profitability in all statutory groups, especially life insurance (Group I) – increase of PLN 65.7 million (59.6%; resulting mainly from lower realized claims ratio and decline in acquisition costs) and unit-linked life insurance (Group III) – increase in technical result by PLN 55.0 million (63.3%; a significant decline in acquisition costs along with dropping sales).

Life insurance market – gross written premium (PLN millions)

	1 January - 31 March 2016			1 January - 31 March 2015		
	PZU Życie	Market	Market without PZU Życie	PZU Życie	Market	Market without PZU Życie
Periodical premium	1,830	4,083	2,253	1,806	4,226	2,420
Single premium	153	1,667	1,514	237	2,962	2,725
TOTAL	**1,983**	**5,749**	**3,767**	**2,043**	**7,188**	**5,145**

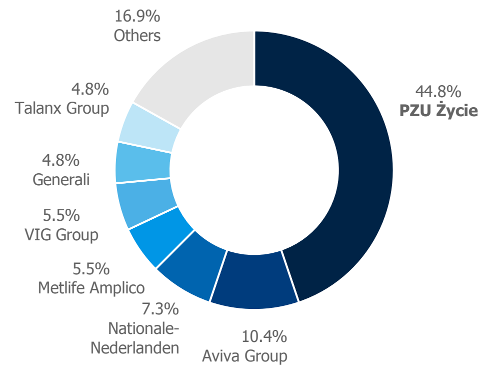
Source: KNF [PFSA] (www.knf.gov.pl). Biuletyn Kwartalny [Quarterly Bulletin]. Insurance market 1/2016 data of PZU Życie

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



Source: KNF Biuletyn Kwartalny [PFSA Quaterly Bulletin]. Insurance Market 1/2016

Life insurance companies — share in gross written premium for 1 quarter of 2016 (%)



Capital groups:Talanx - Warta, Europa, Open Life; VIG - Compensa Życie, Polisa Życie, Skandia Życie; Aviva - Aviva TUnŻ, BZ WBK-Aviva TUnŻ
Source: PFSA Quarterly Bulletin. Insurance market 1/2016

During this period, life insurance companies generated the net result of PLN 578.3 million, which constituted a year-on-year drop of 13.4% (PLN 89.6 million). This drop resulted mainly from the investment results of insurers, which were lower than in the corresponding period of 2015.

The value of investments of life insurance companies at the end of Q1 2016 was PLN 39.8 billion and it dropped by 4.7% compared with the end of 2015. However, high written premium, which exceeded paid benefits, and positive investment activities result contributed to increasing the net assets of life insurance with investment risk falling onto the insurer (0.8% growth to PLN 55.9 billion).

PZU Życie's activities

PZU Życie SA (PZU Życie) operates on the Polish 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.

PZU Życie collected 34.5% of the gross written premium of all life insurance companies in Q1 2016, which means a substantial growth in comparison with last year's market share (+6.1 p.p.). The main reason was lower than market average share in the company's portfolio of the single payment premium, of which the written premium dropped significantly.

At the same time, PZU Życie continued to remain the unquestionable leader in the periodical premium segment. During Q1 2016, it obtained 44.8% of such premiums of all insurance companies, which means a growth of share in this market segment by 2.1 p.p. in comparison with the previous year and the highest market share since year 2010. The annual dynamics of the gross written premium of PZU Życie in

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

	1 January - 31 March 2016			1 January - 31 March 2015		
	PZU Życie	Market	Market without PZU Życie	PZU Życie	Market	Market without PZU Życie
Gross written premium	1,983	5,749	3,767	2,043	7,188	5,145
Technical result	399	767	368	377	619	242

Source: KNF [PFSA] (www.knf.gov.pl). Biuletyn Kwartalny [Quarterly Bulletin]. Insurance market 1/2016 data of PZU Życie this segment amounted to 1.3%, with the negative dynamics of other market participants at a level of -6.9%. For the first time PFSA has published data which allow to present in a form of a matrix PZU's share in the life insurance segment (group I) for the periodical premium, and in Q1 2016 the share amounted to 67.4%. For the same group of risks, the share in the market, taking into account the way of concluding the agreement, was 64.3% for group agreements and 44.3% for individual agreements during the analyzed period.

PZU Życie's technical result constituted the majority of the result achieved by all life insurance companies. This is the evidence of high profitability of the offered products. PZU Życie's technical result margin on gross written premium was more than two times higher than the margin obtained by all other companies offering life insurance in total (20.1% compared with 9.8%).

In the face of the risks related to civilization diseases and loss of income source in difficult life situations, PZU Życie consistently extends its offer of protection insurance in both individual and group insurance.

Since 1 January 2016, the following have been introduced in the group and individually-continued (protection) insurance:

- modified additional group insurance in case of surgical operation. The main changes in the revitalized version of the product include updating the List of Surgical Operations on the basis of the International Classification of Medical Procedures (ICD-9) and increasing the number of surgery classes from 3 to 5. The new version of the product, like the previous one, does not include the condition that the surgery has to be performed in hospital, which makes PZU stand out positively in comparison with the competition;
- additional group insurance in case of surgical operation Plus – the insurance is and addition to the insurance in case of surgical operation mentioned above. The scope of the insurance covers the performance of: surgical operation under general anesthesia, surgical operation during a stay in hospital which lasts longer than 14 days, continuously, or surgical operation related to heart attack/stroke/ malignant cancer. Payment of the benefit will happen also if the surgery (included in the List of Surgical Operations) is performed outside the territory of Poland. Hence, if the abovementioned circumstances apply to the performance of the surgery, the insured shall receive two benefits – one from the insurance in case of surgical operation and another from the insurance in case of surgical operation Plus. The product is an innovation on the market – no insurer has in its offer the option to expand the classic addition in case of surgical operation with the events mentioned above;
- additional group insurance in case of child death caused by a personal accident and in case of death of the insured's parent and death of a parent of the insured's spouse caused by a personal accident. The current offer of PZU Życie includes the products in case of death of the insured's child, parents or in-laws. The introduction of the insurances increasing the benefit paid in case of death of the persons mentioned above due to a personal accident is the answer to clients' expectations, which allows for the option to adjust the offer to better suit their needs;
- in the area of the additional insurance in case of permanent health impairment of the insured caused by a personal accident (for the clients of individual continuation), concluding the agreements with benefits higher than previously (even up to 8% of the insurance sum for 1% of the permanent health impairment) has been made possible.

5.7
PLN billion
gross written premium of life insurance market after Q1, 2016

-3.4
%
drop in life insurance market with periodical premium after Q1, 2016

0.8
PLN billion
technical result of life insurance market after Q1, 2016

0.6
PLN billion
net result of life insurance market after Q1, 2016

In the area of individual insurance, while observing the changing preferences of the clients and in the face of the risk of serious civilization diseases, PZU Życie decided to propose a new product, "Z Miłości do Zdrowia" [From the love of health]. It allows PZU Życie to provide comprehensive medical and diagnostic care, rehabilitation, psychological support, and help of a supervisor in case of such diseases as cancer, stroke, or heart attack.

In H1 2016, in the area of investment-type insurance the following changes, among others, were implemented:

- from 1 April 2016, in connection with the amendment to the Act on Insurance and Reinsurance Activity, a detailed analysis of the client's needs in unit-linked and structured insurance is conducted, on the basis of which the client receives appropriate recommendations;
- short-term life and endowment insurance "Pewny Zysk" [Certain profit] was removed from the offer as at 1 June 2016 due to declining market conditions, including lingering historically lowest interest rates and, resulting from that, low attractiveness of the products to the clients.

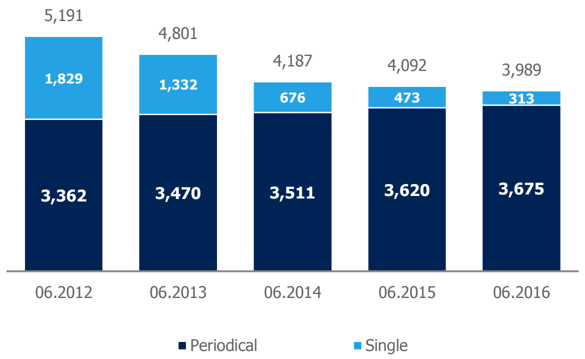
Furthermore, there were 6 Świat Zysków subscriptions, which were very popular among structured insurance clients. Individual subscriptions offered diverse investment strategies, which adapted to the changing market conditions. Besides the payout of the guaranteed capital, certain closed subscriptions concluded with a payout of the profit.

In H1 2016, in accordance with Polish Accounting Standards, PZU Życie collected gross written premium of PLN 3,988.6 million, which was 2.5% less than in the previous year. The vast majority of the company's premium was from periodical premium products. It represented 92.1% of the gross written premium (as opposed to 88.5% in the previous year). It primarily included the written premium from group insurance and individually continued insurance, which had approximately 12 million customers in Poland.

In H1 2016, PZU Życie settled claims and benefits at the amount of PLN 3,163.8 million, which was 1.2% less than in the previous year.

In the analyzed period, PZU Życie generated a net profit of PLN 550.0 million in accordance with the Polish Accounting Standards.

Gross written premium PZU Życie (in PLN million)



Source: PZU data

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

The situation in the life insurance market in 2016 will primarily be affected by:

- low interest rates, which in the long run reduce the profitability of investments made from premiums collected;
- business climate on the capital markets, which is difficult to predict and which determines the attractiveness of products, especially unit-linked ones;

102.7
PLN billion
value of assets of life insurance companies at the end of Q1, 2016

44.8
%
share of PZU Życie in the life insurance market after Q1, 2016 by periodical premium

67.4
%
share of PZU Życie in group I after Q1, 2016 by periodical premium

52.0
%
share of PZU Życie in technical result after Q1, 2016

- guidance in scope of insurance distribution released by the PFSA which affects both the product structure and the entire insurance agency sector;
- UOKiK [OCCP, the Office of Competition and Consumer Protection] rulings in the scope of unit-linked fund products.

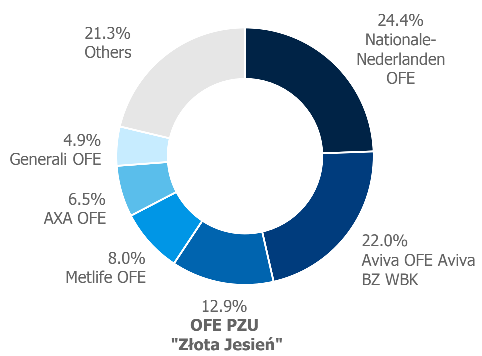
3.4 PTE PZU – activities in the pension funds market

Market situation

In June 2016, the net assets of open pension funds were at a level of PLN 134.9 billion and dropped by 4.0% with respect to the end of 2015.

The activities of open-ended pension funds and their assets in 2015 and 2016 were particularly affected by the changes made in the legal regulations in the previous years (the Act as of 6 December 2013 amending certain other acts concerning the purpose of defining the principles of pension payouts from funds gathered in open pension funds).

Open Pension Funds — share in net assets as at 30.06.2016(%)



Source: PFSA, Monthly data regarding the OPF market OFE, Data for June 2016

Activities 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 2016, OPF of 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 2,199.0 thousand members, i.e. 13.3% of all participants of open pension funds;
- net assets were at a level of PLN 17,363.0 million, or, in other words, they represented 12.9% of the total value of assets of the open-ended pension funds operating in Poland.

The Social Insurance Institution (ZUS) transferred PLN 152.9 million in premiums to OFE PZU Złota Jesień in H1 2016, which was 0.2% more than in the corresponding period of 2015.

PTE PZU also manages the Voluntary Pension Fund of PZU. At the end of June 2016, the fund held 56.6 thousand IKZE accounts, which amounted to PLN 18.7 million in net asset value. The H1 2016 rate of return was 1.5%. As a result, it maintained its position as one of the leaders in the non-compulsory pension funds segment.

Factors, including risks and dangers, which will impact the activities of pension funds in H2 2016

The main challenges for the pension funds market are:

- business climate on the capital market and, in particular, on the WSE, affecting the value of the assets of open pension funds and the level of management fees collected by PTEs;
- foreign currency risk connected with the increase of the foreign assets share in the fund portfolio;
- low level of awareness in the open pension funds among people entering the labor market;
- results of this year's so-called transfer window.

2016 is the year of the so-called transfer window, during which the insured may decide on whether to pay the entire premium to the Social Insurance Institution (ZUS) or divide the premium between ZUS and OPF by filling out an appropriate declaration for ZUS.

The transfer window lasts between 1 April and 31 July 2016. Own data of OPF of PZU and data published by ZUS concerning the OPF market indicate that in the current year the number of declarations concerning premium payment to OPF shall be considerably lower than in the corresponding period of 2014 (year of the last transfer window).

According to data from the end of June 2016, the declarations concerning premium payment to the OPF of PZU were provided by 9.3 thousand people, in comparison with 45.0 thousand in the corresponding period of 2015. Simultaneously, basing on the experience from 2014, we assume bigger dynamics of the inflow of declarations in the last month of the transfer window.

The decisive impact on the worse result in this area in 2016 has the fact that the group of the most active supporters of saving with OPF decided upon paying a part of their premiums to OPF within the transfer window in 2014. Decisions on the continuation of premium payment to OPF are also not necessarily facilitated by poor social awareness of the possibility of choosing OPF and uncertainty regarding further operation of the open pension funds in the reformed pension system in the light of the announcement of their transformation into investment fund associations and transferring part of the OPF assets to the Demographic Reserve Fund.

134.9 PLN billion
net asset value of open-ended pension funds at the end of 1H 2016

16.5 PLN million
members of open-ended pension funds at the end of 1H 2016

261.6 PLN billion
net assets value of mutual funds at the end of 1H 2016

0.5 PLN billion
net inflow to domestic mutual funds at the end of 1H 2016

3.5 TFI PZU – activity on the investment fund market

Market situation

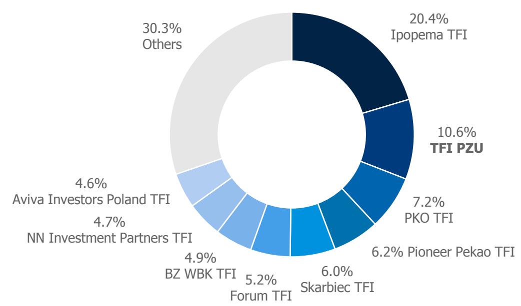
Despite high volatility of the capital market in H1 2016, in the end of June the assets for the whole investment fund market in Poland amounted to over PLN 261.6 billion, which means a growth of +3.7% in comparison with the end of December 2015.

In H1 2016, the balance of public and non-public sales of solutions offered by TFI on the domestic market amounted to almost PLN 0.5 billion (according to the estimates of IZFiA), which is a definite drop, because in the corresponding period of 2015 the value amounted to PLN 8.4 billion. The main reason for this drop was the withdrawal of funds from stock funds as a result of the high uncertainty of markets as well as cash funds and money market funds due to low interest rates.

In terms of value, the biggest gross inflow of assets in the first six months of the current year was recorded by non-public market funds, to which the amount of over PLN 11.2 billion was transferred (of which PLN 10.1 billion was transferred to dedicated funds).

Capital market funds did not attract as much attention of investors and recorded a negative balance of payments (PLN -1.8 billion) over the discussed period. Nevertheless among public funds there were some groups of funds, which recorded a positive balance of payments such as absolute rate of return funds, debt and money market funds.

Fund management companies — share in net assets as at 30.06.2016 (%)



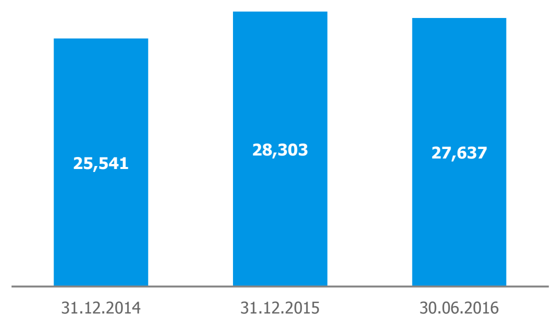
Source: Analizy Online

Activities of TFI PZU

The operations on the investment fund market in scope of PZU Group are carried out by the Fund Management Company PZU SA (TFI PZU). It offers products and services to both mass market and institutional customers, including additional investment/savings programs within pillar III of the social insurance system, including Individual Pension Account (IKE), Employee Pension Programs (EPP) and Corporate Investment Programs (ZPI).

At the end of June 2016, TFI PZU had 26 funds and sub-funds in its portfolio, of which 20 were also offered to clients outside of the PZU Group. According to data from 30 June 2016, TFI PZU gathered net assets valued at PLN 27.6 billion, which was reflected in an aggregate market share of 10.6%. TFI PZU is also the leader in the segment of employee pension programs (EPP), accumulating assets worth more than PLN 3.3 billion at the end of June 2016.

TFI PZU net assets (PLN million)



Source: Analizy Online

Factors, including risks and dangers, which will impact the activities of investment funds in H2 2016
The situation on the investment fund market and fund results will depend on i.a.:

- situation on capital markets;
- operations of central banks;
- standing of the main economies of the world;
- consequences for the financial market after the withdrawal of the United Kingdom from the European Union.

3.6 Foreign investment activity

Lithuanian market
According to the data published by the Bank of Lithuania, the value of the gross written premium in non-life insurance reached EUR 230.1 million over the first six months of 2016, a growth of 11.8% in comparison with the corresponding period of the previous year.

The main factor behind the growth on this market were motor insurances (growth of motor own damage insurance premiums by 16.7% and MTPL insurance premiums by 11.4%).

The June 2016 structure of non-life insurance was dominated by motor insurance, which accounted for 56.8% of the gross written premium (56.0% in the corresponding period of the previous year), whereby the share of MTPL insurance was 33.1% (33.2% in the corresponding period of the previous year).

Twelve companies were operating in the non-life insurance sector at the end of June 2016 (including 10 branches of insurance companies registered in other EU member states). The largest insurance company in Lithuania in terms of total gross written premium from non-life insurance remains Lietuvos Draudimas, whose market share was 28.7% in June 2016. The second place was taken by Gjensidige with market share amounting to 16.2%, and BTA was ranked third with the market share of 14.2%. In the near future the market shall undergo further changes due to the acquisition of BTA by Compensa.

The value of the gross written premium in life insurance reached EUR 100.1 million in the first six months of 2016, a decline of 6.1% in comparison with the premium acquired in the corresponding period of the previous year. Lower gross written premium resulted mainly from lower sales of the single premium insurances (-52.4%). Substantial decrease in single payment premiums resulted mainly from changing the reporting system (according to IFRS, typical investment products are not treated as insurance premiums). Meanwhile, regular premiums increased by 4.2%.

The structure of life insurance was dominated by unit-linked insurance, representing 66.2%. Life and endowment insurance accounted for 25.1% of the premiums.

Eight companies were operating in the life insurance sector at the end of June 2016 (including 3 branches of insurance companies registered in another EU member state). The Lithuanian life insurance market is highly concentrated – the share of total gross written premiums of the three largest life insurance companies amounted to 60.5%.

Latvian market
According to data published by the Financial and Capital Market Commission[1] of Latvia, in Q1 2016 the non-life insurance market recorded the gross written premium amounted to EUR 75.8 million, a growth of EUR 3.9 million (5.5%) in comparison with the corresponding period of the previous year.

The main reason behind the growth of the value of the gross written premium at the non-life insurance market was health insurance (growth of the premium by EUR 2.97 million) and motor insurance (growth of the premium by EUR 0.49 million). The types of insurance which contributed most to the growth of the non-life insurance market were: health insurance with a growth of EUR 2.97 million (+15.4%), land vehicle insurance with a growth of EUR 0.49 million (+3.1%), and MTPL with a growth of EUR 0.48 million (+3.6%).

At the same time, on the Latvian market there were 9 operating insurance companies. The largest insurance company is AAS Balta with the share in non-life insurance market amounting to 25.9%. Further positions are occupied by BTA Baltic (15.5%) and If P&C Insurance AS (12.4%). However, the fulfillment of the conditions for the acquisition of Baltikums and BTA Baltic by Compensa may change the leaders of this market in the upcoming months.

Estonian market
Data published by the Estonia Statistics[2] show that in H1 2016 the insurance companies operating in Estonia recorded the gross written premium in non-life insurance amounting to EUR 149.2 million, a growth of 9.0% in comparison with the corresponding period of the previous year (EUR 136.9 million in H1 2015). EUR 36.1 million of this amount, i.e. 24.2% (EUR 30.3 million, i.e. 22.1% in H1 2015), were collected by the branches of foreign insurance companies operating in Estonia.

Considering the product structure, motor own damage insurance (33.4%; 34.0% in 2015) and MTPL insurance (26.1%; 25.6% in 2015) had the highest market shares.

Thirteen companies were operating in the Estonian non-life insurance sector at the end of June 2016 (including 4 branches of insurance companies registered in another EU member state), in comparison with twelve companies in 2015.

Activities of PZU companies in the Baltic states
In H1 2016, Lietuvos Draudimas (the leader on the Lithuanian market) collected gross written premium amounting to EUR 66.2 million, 6.1% more than in the corresponding period of the previous year. A growth in gross written premium was achieved mainly through increased sale of MOD insurance in the corporate customer segment (increase by 8.6%) and property insurance in individual customer segment (12.3%).

After six months of 2016, Lietuvos Draudimas took the lead on the Lithuanian non-life insurance market with a market share of 28.7% (30.3% in the previous year). However, PZU Lithuania Life's share of the life insurance market was 5.5% (compared with 4.5% after six months of the previous year).

In H1 2016, PZU Group operated in Latvia through AAS Balta a combination of a dominating entity of ASS Balta, which entered the Group in June 2014, with the branch of PZU Lithuania (the sale of PZU Lithuania, excluding Latvian and Estonian branches, was concluded on 30 September 2015). The total gross written premium amounted to EUR 38.9 million, an increase by 15.0% in comparison with the corresponding period of the previous year.

In Estonia, PZU Group was performing its operations through the Estonian branch of Lietuvos Draudimas, a combination of the Estonian branch acquired from PZU Lithuania in May 2015 and a company operating on this market under the name of Codan purchased in 2014. The premium collected in H1 2016 amounted to EUR 22.8 million, an increase by 18.3% in comparison with H1 2015. During that time, the Estonian branch's share in the non-life insurance market was 14.5%.

Ukrainian market
In Q1 2016, the Ukrainian insurance market recorded growth by 35.8%. The gross written premiums on the non-life insurance market in Q1 2016 was UAH 7.6 billion and was higher by 35.4% than in the corresponding period of the previous year. This growth resulted especially from the raise of insurance sums, which stemmed from the depreciation of the local currency and rising inflation, as well as the raise of compulsory insurance rates. Motor insurance held a 27.0% share in the gross written premium in Q1 2016, 2.3 p.p. less than in the corresponding period of the previous year.

Life insurance companies collected gross written premium of UAH 661.1 million in Q1 2016, which was 41.2% more than in the corresponding period of 2015. Investment insurance constituted 57.1% of the gross written premium, 1.8 p.p. less than in Q1 2015.

[1] Financial and Capital Market Commission – Latvian Capital Market Supervision Authority

[2] Estonia Statistics – statistical office of Estonia operating under the Ministry of Finance

On one hand, the Ukrainian insurance market is fragmented, as it was composed of 352 insurance companies as at the end of March 2016 (of which 46 were providing life insurance). On the other hand, the TOP 100 largest non-life insurance companies generated 98.0% of the entire market's gross written premium, and the TOP 20 largest life insurance companies generated 99.2% of the written premium.

In 2016, in spite of the first signs of improvement of the economic situation and stabilization in political situation, the Ukrainian insurance market experienced difficult conditions associated with the state's weakened economy, low client activeness, devaluation processes, and decline of the bank system liquidity. The market continued to present a high level of acquisition expenses, problems with preservation of current liquidity of some insurance companies and reduced confidence among individual customers. In the beginning of 2014, the aforementioned factors caused the customers to choose the insurance companies with western capital share (previously, the determinant of the insurance company was the price – at present it 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 H1 2016, the value of PZU Ukraine's gross written premium in non-life insurance amounted to UAH 581.5 million, i.e. it was 68.6% 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. Tourism insurance, Green Card insurance, corporate property insurance, and motor insurance played a particularly important role in the growth in written premiums.

In Q1 2016, PZU Ukraine obtained 4.3% (growth of 1.4 p.p. in relation to Q1 2015) of the gross written premium on the Ukrainian non-life insurance sector, taking the second place on the market[3].

The gross written premium collected by PZU Ukraine Life in H1 2016 amounted to UAH 109.5 million and was 29.2% higher than in comparison with H1 of the previous year. This growth was achieved primarily in the bancassurance and brokerage channel, mainly thanks to the sales of life and endowment insurance.

In the life insurance market, PZU Ukraine Life held the fifth place[4] after Q1 2016, with a market share of 9.0% (0.1 p.p. growth in comparison with the previous year).

3.7 PZU Zdrowie – activity on the health care market

Medical services market

The Polish medical services market holds great potential for growth. According to CSO (Central Statistical Office), its value (including drugs sales) currently exceeds PLN 106 billion, including public expenditures amounting to almost PLN 75 billion, and private expenditures are estimated at approx. PLN 31 billion.

Activity of the companies (medical services)

The chain of PZU Group's medical centers offers the following:

- medical services for the local population of Płock, Włocławek, cities of Upper Silesia, and Warsaw 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 health care 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;
- commercial services offered to individual and institutional customers by CM Gamma Sp. z o.o. (specialist orthopedic hospital) and CM Cordis Sp. z o.o. (mainly in the aspect of cardiology).

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

- on 1 February 2016, PZU Zdrowie acquired 100% of shares of CM Cordis Sp. z o.o.
- on 30 June 2016, Nasze Zdrowie Sp. z o.o. merged with PZU Zdrowie.

[3] Data concerning the standing on the non-life insurance market based on the Ukrainian Insurance TOP 2(52) 2016 quarterly

[4] Data concerning the standing on the non-life insurance market based on the Ukrainian Insurance TOP 2(52) 2016 quarterly

3.8 Alior Bank – banking activity

Purchase of Alior Bank shares and recognition on the consolidated financial statements of PZU Group

In 2015, according to the preliminary share purchase agreement covering the sale of Alior Bank SA ("Alior Bank") shares from Alior Lux S.à.r.l. & Co. S.C.A and Alior Polska sp. z o.o., PZU acquired in three tranches 18,318,473 shares of Alior Bank, constituting approx. 25.19% of the bank's share capital for the total price of PLN 1,634.9 million (PLN 89.25 per share).

PZU paid the following for specific tranches:

- I tranche 7,244,900 shares (9.96%) for total amount of PLN 646.6 million – 12 October 2015;
- II tranche 7,244,900 shares (9.96%) for total amount of PLN 646.6 million – 18 December 2015;
- III tranche 3,828,673 shares (5.27%) for total amount of PLN 341.7 million – 11 March 2016.

PZU Group has been in control since the acquisition of the second tranche. Consequentially, Alior Bank was subject to consolidation.

Market situation

Polish banking sector is the largest one in the region of Central and Eastern Europe, having the assets amounting to over EUR 1,663 billion. As at the end of June 2016, there were 37 domestic banks, 560 cooperative banks, and 26 branches of credit institutions operating on the Polish market.

The situation in the banking sector in H1 2016 remained stable, which was facilitated by ongoing economic recovery and the banks functioning in the environment of record low interest rates.

Between January and June 2016, the banking sector generated a net profit of PLN 8.02 billion (an increase by 1.1% in comparison with the corresponding period of the previous year).

The value of assets of the banking sector as at the end of June 2016 reached PLN 1,663.0 billion and was 5.5% higher than at the end of H1 2015. The main areas of improvement comprised the assets: loans and other receivables (growth by PLN 50 billion y/y) and financial assets available for sale (growth by PLN 42.7 billion y/y), and the liabilities: deposits (growth by PLN 88.3 billion) and equity (growth by PLN 12.6 billion).

The value of equity in the banking sector for capital ratios reached PLN 165.2 billion as at the end of March 2016 and, in comparison with the end of 2015, it increased by 3.8%. The growth was related to the recommendation of PFSA concerning maintenance of the higher capital ratios, starting with Q1 2016.

Total capital ratio of the banking sector reached 17.08% at the end of March 2016 (a growth by 0.78 p.p. compared with the end of December 2015), and the core capital ratio, Tier I, amounted to 15.68% at the end of the above-mentioned period (an increase by 0.69 p.p. compared with the end of December 2015).

Activity of Alior Bank

PZU Capital Group's Alior Bank is one of the most dynamically growing banks in Poland. As at the end of 2015, Alior Bank was ranked 12th among the largest banks in Poland in terms of total assets.

Efficient service of 3.2 million clients, including 133 thousand of companies, is provided by over 6.5 thousand of employees

28.7 %

share of Lietuvos Draudimas in gross written premium of the non-life market in Lithuania at the end of 1H 2016

25.9 %

share of AAS Balta in gross written premium of the non-life market in Latvia at the end of Q1 2016

14.5 %

share of PZU in gross written premium of the non-life market in Estonia at the end of 1H 2016

4.3 %

share of PZU Ukraine in gross written premium of the non-life market in Ukraine at the end of Q1 2016 and the fourth largest bank distribution network, which includes 804 branches. Moreover, chosen products and services of Alior Bank are offered at 579 T-Mobile points, as part of the strategic partnership of both companies, and 71 establishments of Tesco. Since 2014, Alior Bank shares have been included in the WIG20 index, gathering the largest and most liquid companied quoted on the Warsaw Stock Exchange.

Alior Bank stands out with its high return on equity (9.0% ROE in H1 2016 after clearing the share issue effect in June of this year). Furthermore, Alior Bank has developed an effective operating platform – its H1 2016 Costs / Income index of 47.7%[5] was one of the lowest on the Polish banking market.

According to the state at the end of June 2016, the value of the loans granted to clients by the Alior Bank Group amounted to PLN 34.1 billion, while the balance of liabilities to the clients was PLN 38.0 billion.

On 31 March of the current year, Alior Bank entered into an agreement concerning the acquisition of an independent area of activity of Bank BPH with GE Capital Group. The transaction did not involve the purchase of the mortgage portfolio denominated in CHF, other foreign currencies and PLN, and the purchase of BPH TFI. The price for 87.23% of GE shares in the basic activity of Bank BPH was PLN 1,225 million (subject to adjustments), while the measurement of 100% share in the basic activity of Bank BPH was approx. PLN 1,532 million. It is implied by P/TBV multiplier (price to net tangible assets book value) amounting to 0.93.

For the purpose of financing the acquisition of the basic activity of Bank BPH, on 10 June 2016 Alior Bank issued 56,550,249 ordinary Series I bearer shares with a nominal value of PLN 10 each in a closed subscription performed through the public offer in observance of the pre-emptive right on the account of the existing shareholders of the bank. The new shares with the total value of PLN 2.2 billion entered the portfolios of over 4000 investors from 37 countries. In total, over 500 institutional investors and approximately 3400 natural persons participated in the offer. PZU Group acquired 16,525,801 Series I shares. Taking value into account, the issue of Alior Bank shares has been the biggest public offering on the Warsaw Stock Exchange since 2013, and, simultaneously, the largest issue of shares with the pre-emptive right since 2009.

Factors, including risks and dangers, which will impact the activities of Alior Bank in 2016.

The situation in the banking sector in 2016 will primarily be affected by:

- operating in the environment where very low interest rates prevail, which creates pressure on the level of generated net interest margin;
- macroeconomic situation in the Polish economy – increase in the Gross Domestic Product, as well as the employment and salary level, accompanied by historically low interest rates and low energy materials, positively affects the level of generated volume of credits and quality of credit portfolio;
- potential changes in legal environment, including mainly statutory solutions to the matters related to foreign currency residential loans, possibility of imposing higher payments to BGF funds on banks, as well as potential obligation of paying additional fees to BFG in the future – all these factors may be detrimental to the profitability of the bank in 2016;
- increase in the costs incurred by Alior Bank in H2 2016 and following periods in relation to the acquisition of an independent part of Bank BPH;

5 Data based on the financial statements of Alior Bank for H1 2016

Health care market

100 PLN billion

The chain of the cooperating with PZU Group's health care centres in Poland

1,700

- change in the external environment, including the effect of the United Kingdom leaving the European Union.

3.9 Other areas of activity

PZU Pomoc

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

- renting and leasing motor vehicles,
- conducting on-line auctions and e-commerce,
- managing loyalty programs,
- organizing assistance services involving the customer help,
- managing post-accident property.

At the end of H1 2016, the company acquired new issuers outside PZU Group, and it also recorded higher activity of external issuers, as well as held the leading position on the market of intermediation in the sale of damaged vehicles through an online auction platform.

PZU Pomoc has 293 Toyota Auris hybrid cars, forming the first fleet of replacement cars of this type in Poland. Moreover, PZU Pomoc holds 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.
- 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 funds through issuance of bonds or other debt instruments and providing financing for the companies within PZU Group.

On 3 July 2014 and 16 October 2015, PZU Finance AB issued eurobonds for the total amount of EUR 850 million.
DEBT FINANCING CHAPTER 7.2

Ogrodowa-Inwestycje

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

PZU Finanse

PZU Finanse Sp. z o.o. is a service provider established to keep accounting records for PZU Group's subsidiaries (with exception of PZU SA and PZU Życie SA).

Grupa Armatura

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

Armatura Kraków SA (Armatura Kraków) is the parent entity in the Armatura Group. The Armatura Group includes: Armatura Kraków SA, Armatoora SA, Aquaform SA, Aquaform Badprodukte GmbG, Aquaform Ukraine TOW, Aquaform Romania SRL, Morehome.pl sp. z o.o. The Armatura Group conducts its business outside the area of financial and insurance services. It is the leading manufacturer in the plumbing and heating sector in Poland. The entities composing Armatura Group specialize in manufacturing of bathroom and kitchen taps, aluminum central heating radiators, a wide range of valves, sanitary ware, as well as bathtubs, shower trays and bathroom furniture.

On 16 June 2016, Armatura Kraków SA sold all shares of Armatura Tower to Pawo Borek sp. z o.o. This company is no longer an Armatura Group company.

"Over the first quarter of a century of the free market, the concept of corporate citizenship in Polish companies moved through phases of astonishment, interest and praise. Today, it is a mature concept that has the capacity to alter how companies operate on a mass scale.

THINKTANK

04

Business Strategy

PZU Group develops and evolves along with the world around it. At the very heart of its process of creating value, the Group continues to focus on the clients' needs and expectations. The strategic operations respond to the existing and forecasted market challenges to reflect the strive for a stronger competitive position.

Contents:

1. Realization of key projects and initiatives in H1 2016

4.1 Realization of key projects and initiatives in H1 2016

Business areas	Summary of activity and achievements in H1 2016
Insurance	1. PZU strengthened its top position in the non-life insurance market. According to PFSA data for the first quarter of 2016, PZU's market share was 35.5% (an increase by 4.5 p.p. y/y). 2. Link4's share the in non-life insurance market amounted to 1.8% at the end of the first quarter of 2016 (no change y/y). 3. Retaining the top position in life insurance with periodical premium after the first quarter of 2016 with a 44.8% market share (up from last year's 42.7%). Following the first quarter of 2016, PZU had a 34.5% share in the entire life insurance market. 4. PZU Group is still the leader of the Lithuanian and Latvian markets, with the share in non-life insurance market amounting to 28.7% (after six months of 2016) and 25.9% (after the first quarter of 2016), respectively. The market share of the Lithuanian company dropped by 1.6 p.p. in comparison with the corresponding period of the previous year, while the share in the Latvian market grew by 1.8 p.p. y/y. After the first half of 2016 the share of PZU Group in Estonian market amounted to 14.5%, with an increase by 0.5 p.p. The Ukrainian non-life company recorded an increase in the market share of 1.4 p.p. in comparison with the previous year (the 2nd place with the market share of 4.3% after the first quarter of 2016), while the life company kept its share at a similar level (9.0% after the first quarter of 2016 compared with 8.9% recorded in the corresponding period of the previous year) and occupied the 5th place (in comparison with the 4th place in the corresponding period of the previous year) in the market. 5. Continued implementation associated with the introduction of a new policy system (project Everest) which improves PZU's flexibility and competitiveness. In April 2016, another version of the system was implemented, which included making further products available (inter alia general agreements, Cargo, D&O) and introducing changes to existing functionalities and products. Moreover, other external distribution channels were implemented, including the multiagents channel, the implementation of own corporate sales channel was completed, and the portal "moje.pzu.pl" with the online sales functionality was launched. 6. As of the end of February 2016 TUW PZUW issued first insurance policy. In H1 2016, TUW PZUW acquired, among others, contract with Bogdanka and PGG. 7. The agreements on research and development cooperation were signed with the Warsaw University of Technology as part of the "Scientific Council". 8. In the first half of 2016, the solution introducing a new model of customer service for life insurance clients was implemented. IT-related solutions provided by the project improve customer service quality in the scope of life insurance issues and boost effectivity of many processes taking place within the organization. 9. Continued implementation of innovative PZU Branches – well-visible and common for the entire Group. In H1 2016, 16 PZU Branches were activated and 167 Branches operating under the new model have been opened since the launch of the process. 10. Continued work aimed to consolidate and improve the visualization standard of Exclusive Agent offices. In H1 2016, 277 offices in the new standard were opened. From the start of the project, 1,143 offices in the new standard were opened.

Business areas	Summary of activity and achievements in H1 2016
Investments	1. TFI PZU is ranked second when taking into account the value of net assets under management. At the end of June 2016, the value of AuM TFI PZU was PLN 27.6 billion, which constituted 10.6% of the assets obtained by domestic investment funds. 2. At the end of June 2016, the share of assets of external TFI PZU clients in the investment fund market (with exception of non-public assets) was 4.2% (4.6% at the end of June 2015). The amount of assets under management of external clients was PLN 6.4 billion at the end of June 2016 (PLN 6.9 billion at the end of June 2015). 3. TFI PZU retained the top position in the segment of employee pension programs among all domestic investment fund institutions managing assets that amounted to PLN 3.3 billion as of the end of June 2016 (PPE – Employee Pension Plan, PPO – Employee Saving Program, ZPI – Corporate Investment Program) – AuM growth by 7.3% compared to the end of June 2015. 4. The revenue of TFI PZU for H1 2016 amounted to PLN 82.2 million, a drop of 7,0% in comparison with the corresponding period in the last year. 5. The value of net assets of PZU OFE "Złota Jesień" was PLN 17.4 billion at the end of June 2016. 6. After the first half of 2016, PTE PZU generated a revenue of PLN 56.4 million (including revenue from the reserve account and guarantee fund). 7. Under the cooperation with the National Center for Research and Development, the Witelo fund was established, which aims to invest assets in top venture capital funds in order to promote Poland as a place for investment and the realization of innovative projects.
Health	1. On 1 February 2016, PZU Zdrowie acquired 100% shares of CM Cordis. 2. On 30 June 2016, Nasze Zdrowie merged with PZU Zdrowie. 3. IT works are being carried out in order to enable management of the health care centers network and client traffic on the medical hotline. 4. The works on the implementation of the tool for the cooperation with health care centers were commenced.
Factors conditioning implementation	**Summary of activity and achievements in H1 2016**
A socially responsible organization	1. In the first half of 2016, PZU continued to follow the action lines adopted for social activities – safety, health and active lifestyle, the national heritage. 2. The key way to promote active lifestyle and health prevention among Poles was PZU Group's involvement in running initiatives. PZU served as the strategic partner of, among others, PZU Warsaw Half-Marathon, PZU Gdynia Half-Marathon, or DOZ Łódź Marathon with PZU. 3. As a patron of culture, PZU was involved in the preservation of Polish cultural heritage, supporting the Royal Castle in Warsaw, Royal Łazienki Museum, National Museum in Kraków, National Museum in Warsaw, and Grand Theatre—National Opera.
Effective claims handling and operations, flexible IT	1. 83% of PZU Group's clients were satisfied with claims and benefits handling (satisfaction survey on a sample of 9.1 thousand clients conducted in H1 of 2016). 2. In the first half of 2016, the Fraud Detection System for the area of motor insurance was implemented. 3. The implementation of the new human resources and salaries system, including self-service portal for the employees, was completed. 4. In the first half of 2016, the analytic tool for pricing was implemented.

Factors conditioning implementation	Summary of activity and achievements in H1 2016
Banking sector	1. The acquisition of the third tranche of Alior Bank shares was settled. Resulting from this transaction, PZU Group has the controlling package, i.e. 29.22%. 2. On 1 April 2016, PZU signed the letter of support in relation to the conclusion and realization of the Sale of Shares and Division Agreement by Alior Bank. The agreement concerned the acquisition of independent area of activity of Bank BPH.
Effective capital and investment policy and integrated risk management system	1. On 21 January 2016, S&P changed PZU rating from "A" to "A-", as a result of downgrading Poland's rating to "BBB+" level. The downgrading did not result from a change in the financial standing of PZU. 2. In accordance with the GSM, PLN 1,796.1 million was allocated for the dividend payment from PZU profit for 2015, which means that dividend payout ratio amounted to 76.7% of the consolidated result attributable to parent company.

*"**60%** of large corporates and 40% of small businesses think that the needs of the local community and environmental issues should be taken into consideration when doing business.'*

(badanie CBOS na zlecenie UOKiK) THINKTANK

05

Consolidated financial results

Net profit and return on equity for H1 2016 under the pressure of negative effects of the situation on WSE. Visible effects of development activities in H1 2016 – increase of the gross written premium by 8.1% year-on-year and strengthening of the leader position in Polish insurance, higher involvement in banking sector, decline of the administrative expenses for insurance activity in Poland.

Contents:

1. Key factors affecting the achieved financial result
2. Income
3. Claims and technical provisions
4. Administrative expenses and acquisition costs
5. Structure of assets and liabilities
6. Share of operational segments in the result
7. Profitability and operating efficiency ratios

5.1 Key factors affecting the achieved financial result

In H1 2016, PZU Group achieved gross profit at a level of PLN 1,048.7 million compared with PLN 1,619.0 million in the prior year (decrease of 35.2%). The net profit reached PLN 789.8 million and was PLN 531.7 million lower than the result for H1 2015. Net profit attributable to the shareholders of the parent company amounted to PLN 659.5 million, compared with PLN 1,321.6 million in 2015 (a 50.1% decrease).

Excluding one-off events[1] , the net result fell by 24.8% compared with the last year.

Operating profit for H1 2016 amounted to PLN 1,050.0 million and was lower by PLN 569.1 million compared with the corresponding period of the previous year. The main reasons for the change were the following:

- growth of the gross written premium in motor insurance in the mass and corporate client segment as a result of an increase in average premium and the number of insurance policies, and in group and individually continued insurance, particularly in Health;
- growth in profitability in the corporate insurance segment as an effect of the decline in the value of net claims and benefits, with an increase of the net premium earned;
- drop in profitability in the mass client insurance segment, associated mainly with increased claims ratio in agriculture insurance resulting from a number of claims caused by forces of nature (adverse effects of wintering);
- lower net investment result (banking activity excluded) mainly due to drop in valuation of equity instruments caused, among others, by Brexit and decrease in valuation of stake in Azoty Tarnów from the long term investments portfolio;
- introduction of the tax on financial institutions effective as of 2016;
- cost discipline.

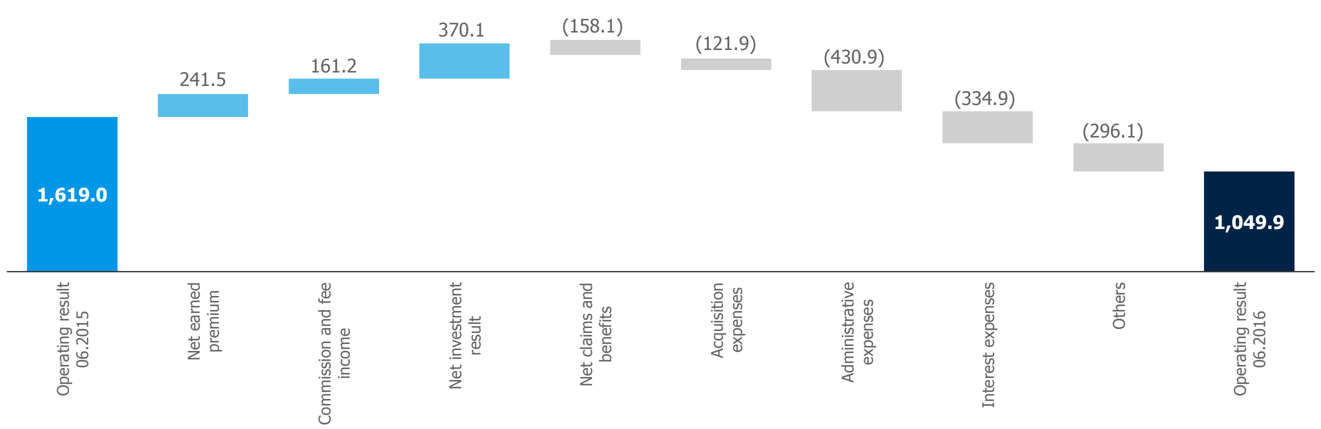
Comparability of the results and total assets y/y was significantly influenced by the commencement of the Alior Bank consolidation in December 2015. The banking activity contributed to the operating result of PZU Group in H1 2016 with the amount of PLN 217.1 million. Total assets of PZU Group increased by approx. PLN 47 billion, and the minority shares increased by PLN 3.8 billion (as of 30 June 2016).

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

- growth of the gross written premium to PLN 9,862.0 million. In comparison with the previous year, the premium was higher by 8.1% mainly in motor insurance in the mass and corporate client segment due to an increase in average premium and number of policies, and in group and individually continued insurance, particularly in Health. After accounting for the share of reinsurers and the change in provision for unearned premium, the net premium earned amounted to PLN 8,985.4 million, which was 2.8% higher than in H1 2015;
- higher net investment result thanks to the revenue on investments generated by the banking activity – the commencement of Alior Bank consolidation. Net investment result amounted to PLN 1,456.1 million and was 34.1% higher than in the corresponding period of 2015. Excluding banking activity, the investment activity revenue was lower than in the corresponding period of the previous year, mainly due to drop in valuation of equity instruments caused, among others, by Brexit and decrease in valuation of stake in Azoty Tarnów from the long term investments portfolio;
- increase in interest expense to PLN 396.8 million, compared with PLN 61.9 million achieved in the corresponding period of the previous year, mainly caused by the commencement of Alior Bank consolidation and the issuance of own debt instruments amounting to EUR 350 million in October 2015;
- higher amount of claims and benefits. These amounted to PLN 6,164.4 million, i.e. they were 2.6% higher than in 2015. The growth applied mainly to the subsidized crop insurances in the mass client segment in Q1 2016, as an effect of a number of claims caused by forces of nature (adverse effects of wintering);
- higher acquisition costs (growth by PLN 121.9 million) in both mass and corporate client segment related mainly to higher sales;
- increase of the administrative expenses to PLN 1,253.0 million, in comparison with PLN 822.1 million in H1 2015, resulted from the commencement of Alior Bank consolidation. At the same time, a drop in administrative expenses by PLN 31.3 million, compared with the previous year, was recorded in the insurance activity segments in Poland;
- higher negative balance of other net operating income and expenses amounting to PLN 589.1 million, mainly as a result of the commencement of Alior Bank consolidation and the introduction of the tax on financial institutions – PZU Group was encumbered (both in its insurance and banking activity) with this tax in the amount of PLN 170.3 million in H1 2016.

[1] One-off events include conversion effect of long-term insurance contracts into annual renewable contracts in type P group and claims in agricultural insurance higher than the average during the last 3 years

Operating profit of PZU Group in H1 2016 (in PLN million)



Basic amounts from the consolidated profit or loss account	1 January – 30 June 2016	1 January – 30 June 2015	1 January – 30 June 2014
	in PLN million	in PLN million	in PLN million
Gross written premiums	9,862.0	9,126.5	8,437.9
Net premiums earned	8,985.4	8,743.9	8,032.6
Net revenue from commissions and fees	264.4	103.2	123.1
Net investment result	1,456.1	1,086.0	1,373.6
Net insurance claims and benefits	(6,164.4)	(6,006.4)	(5,418.1)
Acquisition costs	(1,252.7)	(1,130.8)	(1,036.4)
Administrative expenses	(1,253.0)	(822.1)	(702.3)
Interest costs	(396.8)	(61.9)	(69.0)
Other income and operating expenses	(589.1)	(293.0)	(127.7)
Operating profit (loss)	1,049.9	1,619.0	2,175.9
Gross profit (loss)	1,048.9	1,619.0	2,176.2
Income tax	(259.1)	(297.4)	(455.8)
Net profit (loss)	789.8	1,321.5	1,720.4
Net profit (loss) attributable to holders of parent company	659.5	1,321.6	1,720.4

Restated data for 2014 and 2015

5.2 Income

Premiums

In H1 2016, PZU Group collected gross premiums of PLN 9,862.0 million, i.e. 8.1% more than in the corresponding period of 2015. Within particular segments, the following trends were recorded:

- sales in mass-client segment higher by PLN 652.8 million (excluding premium between segments) compared with 2015, including in particular motor insurance, as a result of an increase in average premium and the number of insurance policies;
- premium in corporate client segment higher by PLN 164.3 million (excluding premium between segments) compared with 2015, including in particular motor insurance, as a result of an increase in average premium and the number of insurance policies, as well as insurance policies for damage caused by the acts of nature;
- growth of sales in the group and individually continued insurance segment – periodical premium higher by PLN 51.9 million, mainly due to the development of group protection insurance (an increase in average premium and the number of insured) and acquisition of the premium in group health insurance (new clients in ambulatory insurance and sales of medicine product versions);
- in individual insurance segment, premium lower by PLN 142.1 million compared with the previous year, mainly in individual unit-linked products in the bancassurance channel;
- increase in written premium collected by foreign companies by PLN 8.6 million compared with 2015, including mainly the development of sales in the Baltic states segment offset by the disinvestment of PZU Lithuania in September 2015.

Revenue from commissions and fees

Fee and commission net revenue in H1 2016 contributed PLN 264.4 million to PZU Group's result, which is PLN 161.2 million more than in the prior year.

Fee and commission net revenue comprised mainly:

- fee and commission net revenue paid for the banking activity in the amount of PLN 163.4 million, including mostly: brokerage commissions, revenues and expenses related to handling bank accounts and payment and credit cards, remuneration for insurance policy sale intermediation;
- OFE Złota Jesień asset management fee. These amounted to PLN 45.6 million (drop of 10.9% in comparison with the first half of the previous year resulting from PZU's OPF net assets decline);
- income and fees from investment funds and fund management companies of PLN 56.0 million, i.e. PLN 14.5 million more than in the previous year, mainly in relation to the change in the number of the funds included in consolidation as compared to the corresponding period.

Net investment result and interest expense

In H1 2016, PZU Group's net investment result[2] amounted to PLN 1,456.1 million compared with PLN 1,086.0 million in the corresponding period of 2015 (increase of 34.1%). The higher result of H1 is mainly the effect of including the banking sector activities (i.a. interest income, including the one from loans, and trading income), due to the commencement of Alior Bank consolidation.

Excluding the consolidated assets of Alior Bank, the result for H1 2016 was PLN 696.0 million lower than in the corresponding period of 2015, mainly due to:

- valuation of stake in Azoty Tarnów from the long term investments portfolio lower by PLN 318,3 million;
- lower result on quoted equity instruments, especially because of the downturn on WSE in connection to Brexit – the WIG index drop of 3.7% from the end of 2015 compared with the growth of 3.7% in the corresponding period of the previous year;
- weaker performance of the portfolio of assets covering the investment products by PLN 179.7 million y/y, including mainly the funds within the unit-linked portfolio, which, however, have no influence on PZU Group's result.

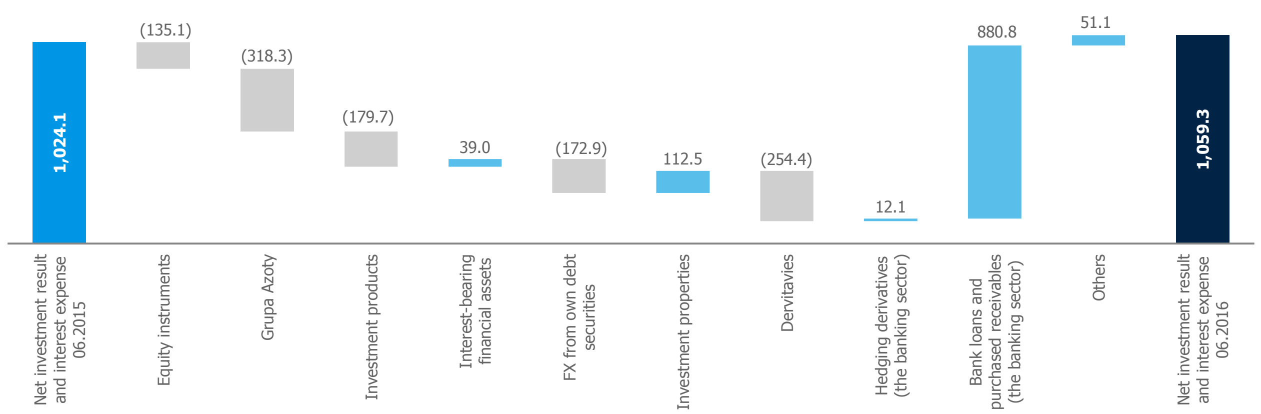
Net investment result does not include interest expense, which in H1 2016 amounted to PLN 396.8 million and was higher by PLN 334.9 million than in the comparable period of the previous year, mainly due to the commencement of Alior Bank consolidation (interest on deposits) and the issuance of own debt instruments amounting to EUR 350.0 million in October 2015.

The result on PZU Group's investment portfolio, following the recognition of interest expense, amounted to PLN 1,059.3 million and was higher than the result for the corresponding period of the previous year by PLN 35,2 million.

[2] Net investment result includes net investment income, net result on realization and impairment losses on investments, as well as net change in the fair value of assets and liabilities measured to fair value.

Insurance segments (in PLN million), local accounting standards	Gross written premiums (external)		
	1 January – 30 June 2016	1 January – 30 June 2015	1 January – 30 June 2014
TOTAL	**9,862**	**9,126**	**8,438**
Non-life insurance – Poland (externally written premium)	**5,243**	**4,426**	**4,293**
Mass insurance Poland	**4,277**	**3,624**	**3,331**
MTPL	1,690	1,288	1,172
Motor own damage	1,043	868	799
Other products	1,543	1,468	1,360
Corporate insurance Poland	**966**	**802**	**963**
MTPL	222	164	172
Motor own damage	334	240	227
Other products	411	399	565
Total life insurance – Poland	**3,928**	**4,018**	**3,909**
Group insurance and individually continued insurance – Poland	**3,390**	**3,338**	**3,266**
Individual insurance – Poland	**538**	**680**	**643**
Total non-life insurance – Ukraine and Baltic states	**650**	**648**	**198**
Ukraine non-life insurance	**89**	**60**	**57**
Baltic states non-life insurance	**561**	**588**	**141**
Total life insurance – Ukraine and Baltic states	**41**	**35**	**38**
Ukraine life insurance	**17**	**15**	**20**
Baltic states life insurance	**24**	**20**	**18**

Change in net investment result (in PLN million)



As at the end of June 2016, the value of PZU Group's investments portfolio[3] amounted to PLN 59,467.9 million compared with PLN 55,411.2 million as at the end of 2015.

Investing activities of the Group are conducted in compliance with the statutory requirements, ensuring an appropriate degree of safety, liquidity, and profitability; therefore, treasury debt instruments accounted for more than 60% of the investments portfolio, both as at 30 June 2016 and 31 December 2015.

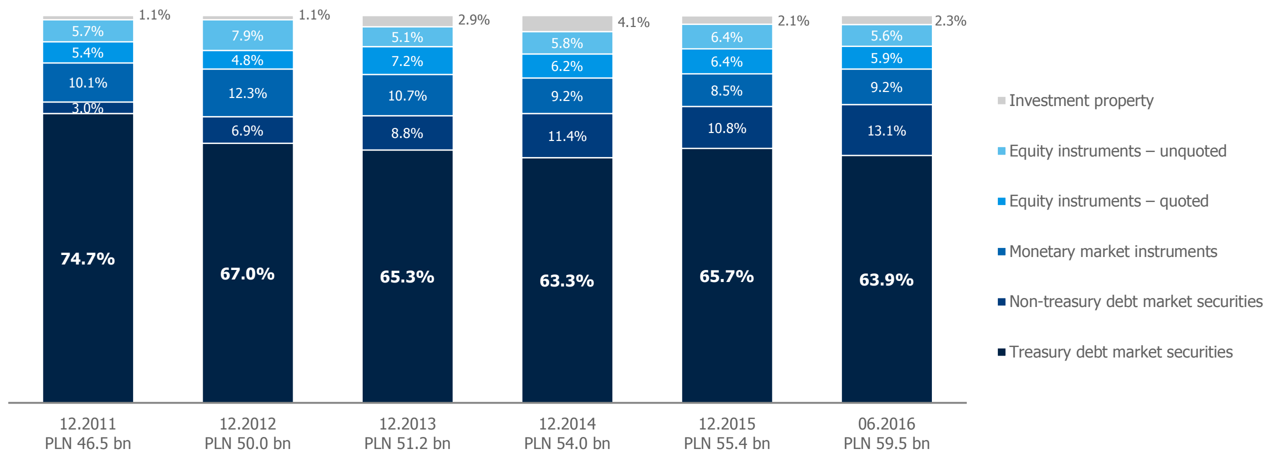
[3] Investment portfolio consists of financial assets (along with investment products, excluding loan receivables from clients), investment property, negative measurement of derivatives, and liabilities from sell-buy-back transactions.

Substantial share of the money market instruments was caused i.a. by executing transactions on the interbank market in order to boost the effectiveness of investment activities and adjust the investment portfolios to their benchmarks.

Other operating income and operating expenses result
In H1 2016, the balance of other net operating income and expenses was negative and amounted to PLN 589.1 million compared with the also negative balance of PLN 293.0 million for 2015. The following factors affected this result:

- including Alior Bank in the results of PZU Group;
- introduction of the tax on financial institutions – PZU Group was encumbered (both in its insurance and banking activity) with this tax in the amount of PLN 170.3 million in H1 2016;
- recognition of the costs of depreciation of intangible assets identified as a result of the acquisition of Alior Bank shares amounting to PLN 22.8 million.

Financial asset structure (in %)*



* Derivative instruments based on interest rates, currency exchange rates, and prices of securities are presented in the category Debt market instruments – treasury, Money market instruments, and Quoted and non-quoted equity instruments, NBP money bills purchased by Alior Bank in the cathergory Non-treasury debt market securities

The abovementioned factors were partially offset by PLN 84.7 million lower costs of depreciation of intangible assets identified as a result of the acquisition of insurance and health care companies.

5.3 Claims and technical provisions

In H1 2016, the total net amount of claims and benefits and increase in technical provisions of PZU Group amounted to 6,164.4 million. In relation to the corresponding period of the previous year, the value of claims together with the change in provisions was higher by 2.6%. The following factors also contributed to the change in the net value of claims and benefits:

- increase in the value of claims and benefits in the group of insurance for other material damage in the mass client segment, including mainly the subsidized crop insurances as an effect of the number of claims caused by forces of nature (adverse effects of wintering), which occurred in Q1 2016;
- increase in the value of claims and benefits in MTPL insurance in mass client segment resulting mainly from the higher average claim payment and higher dynamics of reported claims.

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

- decline in technical provisions related to the negative investment result and lower sales of the unit-linked products in the bancassurance channel;
- lower level of claims in MTPL insurance and insurance guarantees group in the corporate client segment.

5.4 Administrative expenses and acquisition costs

In H1 2016, the Group's administrative expenses were at the level of PLN 1,253.0 million compared with PLN 822.1 million in H1 2015, which means they were 52.4% higher than in the previous year. The increase was mainly a result of the commencement of Alior Bank consolidation, due to which PZU Group's expenses grew by PLN 494.9 million. Simultaneously, there was a recorded positive effect compared with prior year in the insurance activity segments in Poland in relation to maintaining strict cost discipline – a drop in administrative expenses by PLN 31.3 million and in the Baltic states and Ukraine segments (drop by PLN 16.3 million), mainly due to the disinvestment of PZU Lithuania in H2 2015.

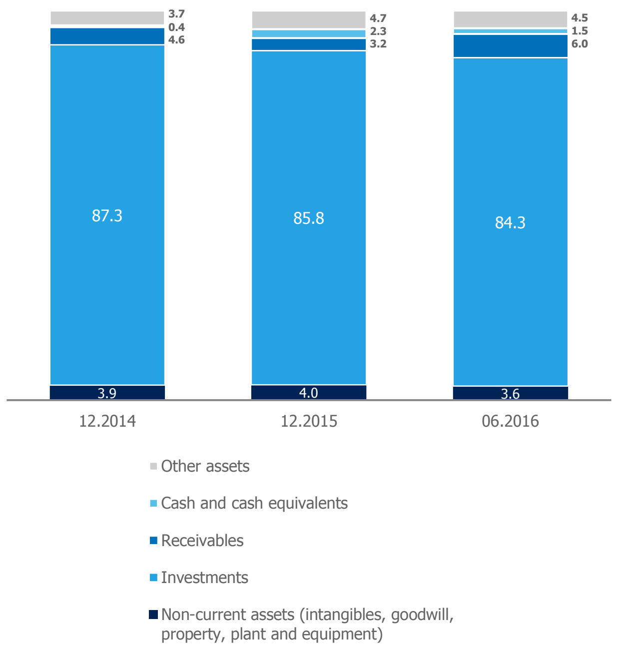
In H1 2016, acquisition costs were PLN 121.9 million higher compared with the same period of the previous year. The increase was mainly a result of higher sales in the mass and corporate client segment.

5.5 Structure of assets and liabilities

As at 30 June 2016, the total assets of PZU Group amounted to PLN 112,945.5 million and were 7.2% higher than at the end of 2015.

Assets
The key components of the Group's assets were investments (financial assets and investment property). In total, these assets amounted to PLN 95,253.4 million and were 5.4% higher than at the end of the previous year. They represented 84.3% of the Group's total assets compared with 85.8% at the end of 2015. The increase in the value of investments applied mainly to Alior Bank and was related to the development of credit activity – the growth in loan receivables from clients by PLN 3,271.8 million and exposure to debt instruments greater by PLN 4,172.1 million (resulting inter alia from the issuance of shares performed on 10 June of the current year by Alior Bank in the total amount of PLN 2.2 billion and the growth in deposits for non-bank customers).

PZU Group structure of assets (in %)



PZU Group's receivables, including the receivables from insurance contracts and current income tax, amounted to PLN 6,773.7 million, i.e. represented 6.0% of the assets. By comparison, at the end of 2015, they amounted to PLN 3,338.1 million (3.2% of the Group's assets), and their growth resulted mainly from the unsettled transactions in financial instruments.

Non-current assets – in the form of intangible assets, goodwill and property, plant and equipment – were recognized in the statement of financial position at PLN 4,110.0 million. They comprised 3.6% of total assets. In H1 2016, their balance dropped by 2.7% in comparison with 2015.

As at 30 June 2016, PZU Group's cash and cash equivalents amounted to PLN 1,708.1 million (1.5% of the assets). At the end of 2015, their value reached PLN 2,439.9 million, and the change in the balance pertained mainly to the means amassed by Alior Bank at the central bank.

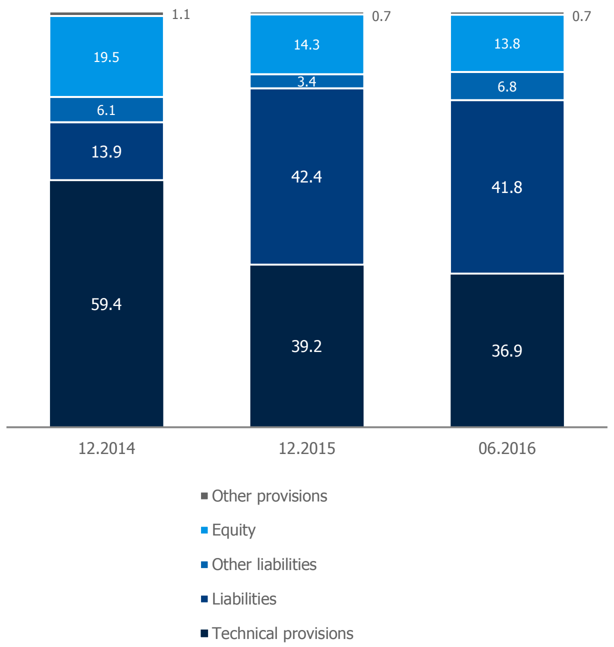
Balance of assets for sale amounting to PLN 1,461.9 million pertained to the part of the portfolio of investment property held for sale.

Liabilities

At the end of H1 2016, the value of technical and insurance provisions amounted to PLN 41,701.7 million, which represented 36.9% of the liabilities (+421.4 million compared with 2015). The change was attributed mainly to the following:

- increase in premium provisions in non-life insurance resulting mainly from the development of sales of motor and agricultural insurance in Poland;
- drop in claim provisions in motor insurance in Poland;
- in life insurance in Poland drop in provisions in structured and deposit bank products in relation to the end of insurance period of subsequent product tranches and no sales;
- lower technical and insurance provisions in individual unit-linked products within the bancassurance channel – the drop results from the negative investment result and benefits exceeding the level of sales;
- increase in technical provisions in continued insurance related to the higher sum of insurance and the aging of the portfolio.

PZU Group structure of liabilities (in %)



At the end of H1 2016, consolidated equity amounted to PLN 15,600.7 million and increased from the end of 2015 (3.2% growth). The growth of the consolidated equity pertained to minority shares, which, inter alia due to the issuance of shares by Alior Bank in H1 2016, amounted to PLN 3,829.5 million and increased by 74.5% from the end of 2015. The capital falling to the shareholders of the parent entity dropped by PLN 1,152.5 million from the previous year, which is a result of the distribution of profit for 2015, including allocating PLN 1,796.1 million to the dividend payment, partially offset by the result for H1 2016.

The biggest component of liabilities at the end of H1 2016 were financial liabilities, the share of which amounted to 41.8%. Their balance amounted to PLN 47,198.5 million and comprised mainly:

- liabilities of PLN 37,912.2 million towards clients (resulting mainly from the deposits of Alior Bank being a part of PZU Group, increase in the deposits by PLN 4,202.0 million in comparison with December 2015);
- liabilities from sell-buy-back transactions amounting to PLN 1,331.9 million in H1 2016 compared with PLN 3,794.3 million in 2015;
- investment contracts in the amount of PLN 450.0 million compared with PLN 545.4 million at the end of 2015. The decline in value is related inter alia to the withdrawal of such products from the offer;
- liabilities from issuance of own debt instruments for the total amount of PLN 3,702.0 million (in total EUR 850 million);
- liabilities subordinated to Alior Bank (balance value of PLN 1,027.7 million at the end of H1 2016).

The balance of other liabilities and provisions at the end of H1 2016 amounted to PLN 8,444.4 million compared with PLN 4,304.7 million at the end of 2015. The growth concerned mainly the liabilities towards the shareholders from the payment of the dividend resulting from the 2015 profit in the amount of PLN 1,796.1 million and the liabilities from the unsettled transactions in financial instruments in the amount of PLN 2,961.8 million.

Cash Flow Statement

Total net cash flows as at the end of H1 2016 amounted to PLN -744.2 million and decreased by PLN 1,015.6 million compared with the H1 of 2015.

5.6 Share of industry segments in the result

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, Link4, and TUW PZUW to large business entities;
- mass-client insurance (non-life insurance). This segment comprises property, accident, general liability, and motor insurance. PZU, Link4, and TUW PZUW provide the insurance to individuals and entities from the SME sector;
- life insurance – group and individually continued. PZU offers this insurance to groups of employees and other formal groups (e.g. trade unions). Individuals who have a legal relationship with the policyholder (for instance an employer or a trade union) may enroll in the insurance and individually continued insurance in which the policyholder acquired the right to individual continuation during the group phase. It includes the following types of insurance: protection, investment (excluding, however, investment contracts), and health insurance;
- individual life insurance. PZU provides it 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. This is investment activity conducted with the use of PZU Group's own funds defined as the surplus of investments over technical provisions in the PZU Group insurance companies seated in Poland (PZU, Link4, TUW PZUW, and PZU Życie) increased by the surplus of investment 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 income allocated to insurance segments at transfer prices. Additionally, the investments segment includes income earned on other excess funds in PZU Group (including consolidated investment funds);
- 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;

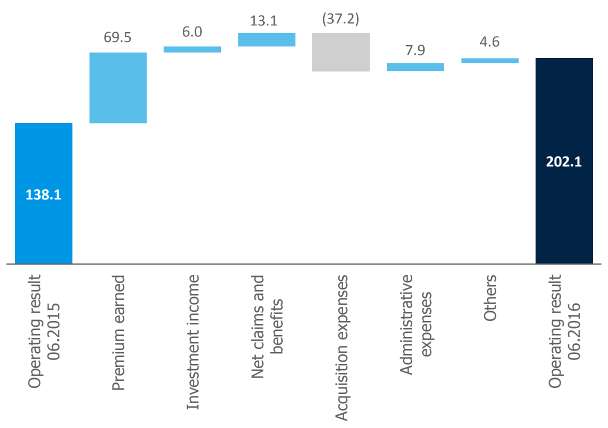
- investment contracts. These include PZU Życie products which do not transfer significant insurance risk and do not satisfy the definition of an insurance contract. They include some products with a guaranteed rate of return and some unit-linked products;
- banking activity – reporting according to IFRS – including Alior Bank along with its subsidiaries;
- other. This encompasses consolidated entities not allocated to any of the segments above.

Corporate insurance

In H1 2016, the corporate insurance segment (composed of PZU, Link4, and TUW PZUW) earned the operating profit of PLN 202.1 million, which is 46.3% more than in corresponding period of the previous year. The following factors had a key impact on this segment result in H1 2016:

- 9.6% growth of the net earned premium and simultaneous increase in the gross written premium by 28.2% compared with H1 2015. Substantially higher sales volumes were recorded mainly in the following factors:
  - motor insurance as a consequence of the increase in average premium and the number of insurance policies;
  - insurance of credits and guarantees – an effect of granting a guarantee to PZU's subsidiary, i.e. Alior Bank (the influence of the premium eliminated at the consolidated level);
  - group of insurance for damage caused by forces of nature and damage to property – conclusion of an agreement with a large entity from the coal industry.
- decline in net claims and benefits value by PLN 13.1 million (-2.9%), which considering a 9.6% increase in the net premium earned, means that the claims ratio decreased by 7.2 p.p. The decline was recorded mainly in the MTPL insurance and insurance guarantees group. This effect was partially offset by the higher amount of claims and benefits in the motor own damage insurance and the group of insurance covering miscellaneous financial risks;
- growth in investment income allocated to the corporate insurance segment y/y, which was dictated mainly by strengthening EUR exchange rate towards PLN in comparison with its weakening in the corresponding period of the previous year;
- increase in acquisition costs by PLN 37.2 million, i.e. 28.5% in comparison with H1 2015, which results mainly from the higher direct acquisition costs (including effect of higher sales);
- drop in administrative expenses by PLN 7.9 million compared with the corresponding period of 2015, mainly as a result of limiting the expenses due to the application of cost discipline inter alia in the scope of property and marketing costs.

Operating profit in the corporate segment (in PLN million)

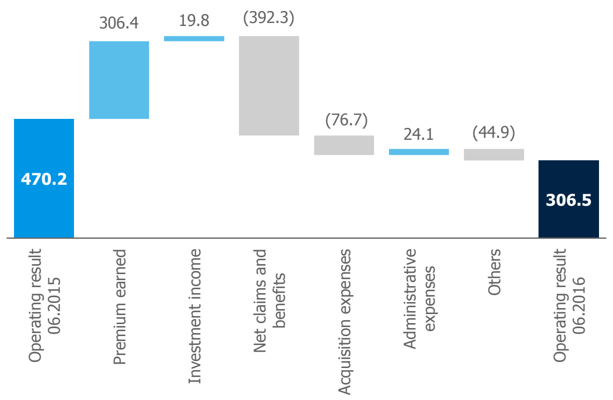


Mass client insurance

In H1 2016, the operating profit in the mass client insurance segment amounted to PLN 306.5 million (a 34.8% drop compared with the corresponding period of 2015). The following factors had a key impact on this segment result in H1 2016:

- 9.2% growth of the net earned premium, with an increase in the gross written premium of PLN 659.0 million (+18.1%) compared with H1 2015, mainly as a result of:
  - growth in motor insurance sales, which results from an increase in the average premium following gradual implementation of price rises;
  - increase in the fire and other damage to property insurance premiums (+6.1% y/y in the gross written premium), including PZU Dom household insurance and agricultural insurance (mainly for subsidized crop insurance), which happened in spite of strong market competition;
- growth in the income from investments allocated at transfer prices to the mass client insurance segment by 7.7% from H1 2015, resulting mainly from strengthening EUR exchange rate towards PLN in comparison with its weakening in the corresponding period of the previous year;
- growth in the value of net claims and benefits in H1 2016 by 19.1%, which with the net earned premium higher by 9.2%, is reflected in the growth of the claims ratio by 5.6 p.p. The change is mainly shaped by:
  - increase in the value of claims and benefits in the group of insurance for other damage to property, mainly the subsidized crop insurances as a result of a number of claims caused by forces of nature occurring in Q1 2016 (claims from negative effects of wintering were PLN 236.4 million higher than the average during the last 3 years);
  - higher amount of claims and benefits in MTPL insurance, resulting mainly from the higher average claim payment and higher dynamics of reported claims;
- acquisition costs amounting to PLN 736.1 million, which means a growth of 11.6% in comparison with the costs incurred in H1 2015, mainly due to higher direct acquisition costs (including the effect of growing sales); at the same time, share of commission in the gross written premium slightly dropped due to the performed sales-assisting activity, aimed to improve the effectiveness of the sales network;
- administrative expenses in this segment reached PLN 294.0 million, which means a drop in comparison with the previous year by 7.6%, mainly as a result of limiting expenses due to the application of cost discipline inter alia in the scope of marketing and property costs.

Operating profit in the mass segment (in PLN million)



Group insurance and individually continued insurance

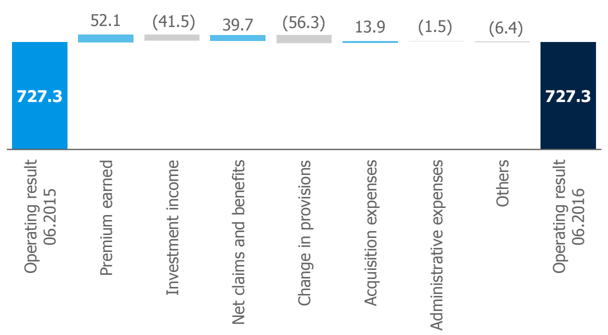
The operating profit of the group and individually continued insurance amounted to PLN 727.3 million and was close to the previous year result. The individual components of the result were as follows:

- growth of the gross written premium by PLN 51.9 million (+1.6%) was primarily due to:
  - development of group protection insurance (growth of the average premium, number of insured parties, and average number of additional agreements per insured person);
  - acquisition of the premium in group health insurance (new clients in ambulatory insurance and sales of drug product versions);
  - additional sale of riders and rise of the insurance sum in individually continued products.
- investment income – comprising revenue allocated according to transfer prices and income from investment-type products – amounted to PLN 290.7 million, i.e. it declined by 12.5%, mainly because of a decline in the revenue from unit-linked products resulting from downturn on the stock market – the WIG index drop by 3.7% compared with the growth by 3.7% in the corresponding period of the previous year. The income allocated according to the transfer prices slightly declined;
- net insurance claims and benefits amounted to PLN 2,378.2 million (a 1.6% decrease).
  The change resulted mainly from the following:
  - decreased mortality rate in protection insurance compared with the previous year, confirmed by the CSO survey on the entire population (increased mortality rate in early 2015);
  - lower level of transfer payments in EPP;
  - the abovementioned effects were balanced out by an increase in the value of health care services, as a result of dynamic development of the health care products portfolio.
- increase in other net technical provisions amounted to PLN 84.6 million. The increase in provisions was PLN 56.3 million higher than in the previous year. The main cause was the higher growth of provisions in individually continued products – lack of the one-off effect of the previous year – PZU Życie, in the scope of the annual process of establishing the rules for possible indexation of the sum insured by the clients in continued insurance, modified the rules in June 2015, which had a positive impact on the level of technical provisions in this portfolio.

Excluding this effect, the higher share among the people entering the portfolio following the modification allowing for the creation of lower initial technical provisions still has a positive influence on the level of this cost in PZU Życie. Moreover, the lower 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 19.5 million were released, i.e. PLN 27.9 million less than in the corresponding period of 2015;

- acquisition costs in the group and individually continued insurance segment in H1 2016 amounted to PLN 167.0 million, a PLN 13.9 million (7.7%) drop in comparison with the corresponding period of the previous year. Factors determining the level of direct and indirect acquisition costs included change in the agency agreement in the bancassurance channel, due to which the presentation of remuneration for agency activities comprising of the participation in administrating the protection insurance agreements was adjusted (a transfer from the acquisition costs to the administrative expenses), and lower y/y cost of sending the offers to the clients as well as related indirect costs in continued products;
- PLN 1.5 million (0.5%) higher administrative expenses in H1 2016 in comparison with the corresponding period of 2015 resulted mainly from the change in the agency agreement in the bancassurance channel and, in effect, the adjustment of the presentation of remuneration for agency activities comprising of the participation in administrating protection insurance agreements (earlier included in the acquisition costs). The abovementioned negative factor has been balanced out through limiting the expenses due to the application of cost discipline inter alia in the scope of property and marketing costs.

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



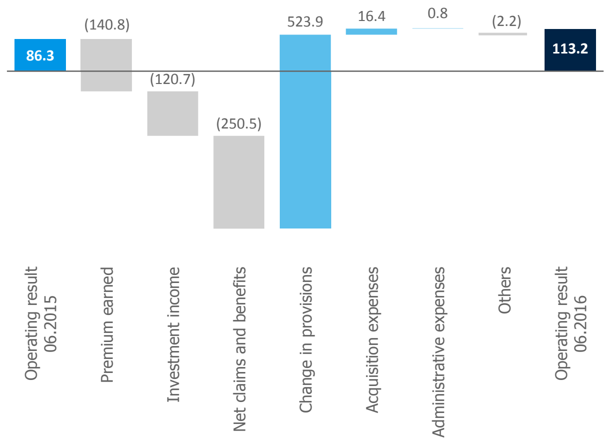
Individual insurance

In H1 2016, the operating profit of the individual life insurance segment amounted to PLN 113.2 million, i.e. it was 31.2% higher than in the prior year. The main factors affecting the level of the segment's operating profit were:

- gross written premium drop of PLN 142.1 million (-20.9%) from the first six months of 2015 resulted from the following:
  - lower average deposits to the accounts of unit-linked insurances offered through Millennium Bank;
  - lower value of the structured product subscriptions in own channel in comparison with the beginning of the previous year, which was record braking in this respect;
  - lower than in the previous year, but still very high average deposits to IKE accounts;
  - further decline in the deposits to the withdrawn from sales Plan na Życie [Plan for life] product

  Positive results were brought by: high sales of individual protection products, especially in PZU Group's branches, and the introduction of Cel na Przyszłość [Goal for the Future], a new unit-linked product, to the offer at the end of 2015;
- investment income consists of income allocated according to transfer pricing and income from investment products. In the individual insurance segment the income dropped by PLN 120.7 million year-on-year to the amount of PLN 77.6 million, mainly due to the weaker performance recorded on the investment units in the unit-linked products in the bank channel. The income allocated according to transfer prices slightly declined;
- value of net insurance claims and benefits amounted to PLN 633.1 million, i.e. they increased by 65.5% in comparison with the corresponding period in 2015. It was a result of increases in terms of both the amount and average value of the surrenders in the unit-linked portfolio in the bancassurance channel and even higher level of endowment of insurance policies in the structured products (maturity dates reached for the subsequent tranches) and long-term capital and protection products. Negative impact of these factors on the operating profit (with the exception of the lack of charges for advance surrender) was offset by the appropriate change to the technical provisions;
- decrease in other net technical provisions in H1 2016 (drop in the period of the first 6 months of the current year by PLN 211.9 million in comparison with the growth by PLN 312.0 million in the last year). This difference was related mainly to the negative investment activity result recorded this year on the bank unit-linked products portfolio (positive result in the previous year) and, at the same time, the lower level of sales and significantly higher level of surrenders in this portfolio;
- significant decline in acquisition costs in this segment (by PLN 16.4 million, i.e. 25.0%) resulted mainly from the lower sales of unit-linked insurance in the bancassurance channel and modification of the remuneration system in the agency network (more even distribution over time applied to the costs of concluding the agreements), as well as y/y lower sales of the new protection products agreements in this channel;
- administrative expenses in this segment reached PLN 29.6 million, which means a drop in comparison with the previous year by 2.7%, mainly as a result of improved effectiveness of the agency network in terms of handling the individual products and, in addition, limiting the expenses due to the application of cost discipline, inter alia in the scope of the costs of property and marketing.

Operating profit of the individual insurance segment (in PLN million)



Investments

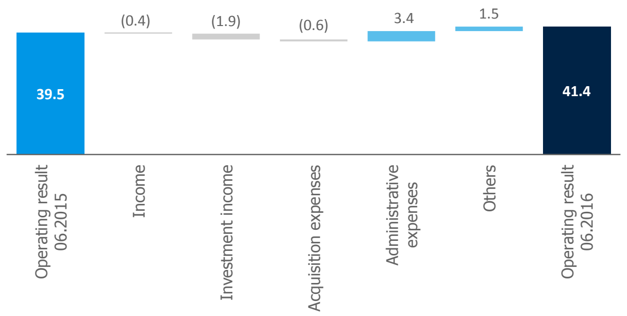
The operating profit of the investments segment (external operations only) amounted to PLN -401.0 million in H1 2016 and was PLN 568.5 million lower than in the corresponding period of the previous year.

Pension insurance

In H1 2016, the operating profit of the pension insurance segment amounted to PLN 41.4 million, i.e. it grew by 5.0% compared with H1 2015. This was a result of:

- fee and commission revenue, which amounted to PLN 56.4 million, i.e. it dropped by 0.6% comparing to the previous year. This change mainly resulted from:
  - decrease of PLN 5.6 million in the management fee, resulting from PZU's OPF net assets decline;
  - increase of PLN 1.3 million in revenue from the reserve account;
  - higher return of overpayments made to the Guarantee Fund in the Central Securities Repository of Poland PLN 3.8 million by resulting from a drop in the value of net assets of PZU's OPF at the end of H1 2016.
- acquisition and handling costs amounted to PLN 2.1 million, i.e. they were 41.2% higher than in the previous year. This resulted from the informational activity conducted in H1 2016;
- administrative expenses amounted to PLN 17.3 million, i.e. were 16.2% lower than in the corresponding period of the previous year. The costs of obligatory additional payments to the Guarantee Fund in the Central Securities Repository of Poland dropped by PLN 1.8 million (lower level of net assets of OPF), personnel costs dropped by PLN 0.5 million, and provisions accrued for costs of sending annual information to the members of OPF dropped by PLN 0.6 million.

Operating profit of the pension insurance segment (in PLN million)



Baltic states

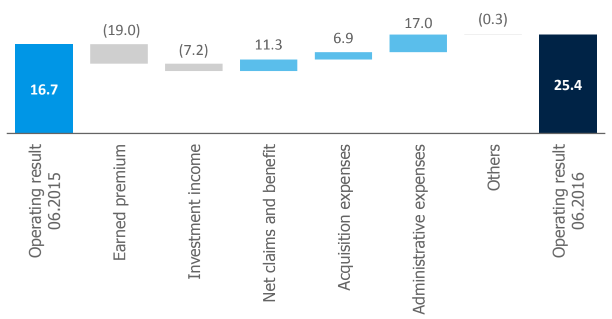
Until 30 September 2015 (closing date of the sale transaction of the Lithuanian company), the segment had included PZU Lithuania, which influenced the comparability of the y/y data.

PZU Group generated an operating profit of PLN 25.4 million in the Baltic states in H1 2016 compared with an operating profit of PLN 16.7 million in the previous year. Gross result amounted to PLN 21.5 million.

The result arose from the following factors:

- decrease in the gross written premium. It amounted to PLN 584.9 million. All insurance companies of the Baltic states segment which at present constitute a part of PZU Group recorded a y/y growth in the gross written premium, which amounted to 17.5% in total;
- drop of the net investment result. In H1 2016, the result amounted to PLN 9.5 million and was 43.1% lower than in the corresponding period of the previous year;
- decrease in net claims and benefits. These amounted to PLN 331.9 million and were 3.3% lower in comparison with H1 2015. In total, in the insurance companies of the Baltic states segment operating on the market of non-life insurance (which were the part of PZU Group at the end of June 2016) claims ratio was higher by 3.6 p.p. y/y. It was, inter alia, due to the increase in large losses and higher rate of losses (a result of unfavorable weather conditions in winter 2016);
- lower acquisition costs. The respective expenses of the segment amounted to PLN 121.2 million and were 5.4% lower than in the corresponding period of the last year. The drop in the acquisition costs resulted mainly from the lower sales of insurance policies;
- decrease in administrative expenses. They amounted to PLN 61.2 million. By comparison, in H1 2015 they amounted to PLN 78.1 million. In all insurance PZU Group companies of the Baltic segment, a lower y/y administrative expenses ratio was recorded mainly due to maintaining cost discipline in the IT area.

Operating profit in the Baltic states segment (in PLN million)



Ukraine

Taking into account the depreciation of the Ukrainian currency, the choice was made to present the data in this segment in the currency in which the companies report their results.

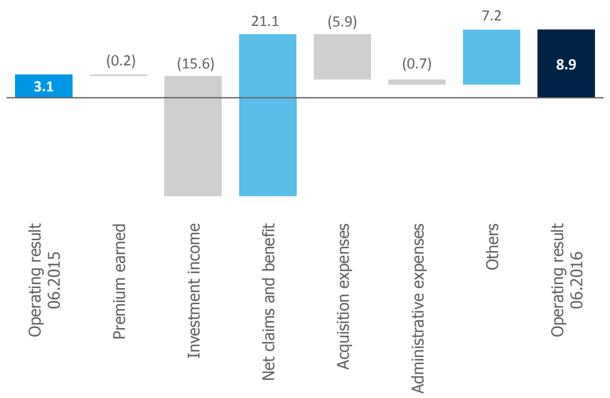
In H1 2016, the Ukraine segment earned an operating profit of UAH 58.0 million, compared with the loss amounting to UAH 17.7 million in the previous year.

The change of the segment result was caused by:

- increase in the gross written premium. The premium amounted to UAH 691.0 million and increased by 60.8% in comparison with the previous year. In non-life insurance, better sales were recorded in all channels: corporate (+109.7%), agency (+41.1%), direct (+33.2%), and alternative (+25.5%). The sales were positively impacted by the dynamics of the written premium in non-life (personal) (+44.4%), agricultural (+107.4%), MTPL (+51.1%), motor own damage (+24.6%), and, predominantly, non-life (property) insurance (+414.2% – an effect of signing a contract with a large corporate client);
- lower net investment result. This segment earned UAH 68.4 million in this respect, which is 54.7% less than in the corresponding period of the previous year, which was caused by the positive currency rate differences in the portfolio of investments denominated in euro that were recognized in investment revenues in H1 2015 (an effect of strong devaluation of the local currency);
- decrease in claims and benefits. They amounted to UAH 160.6 million, i.e. 39.3% less than in the first half of the previous year. Meanwhile, the drop was related mainly to the lower benefit payments in the life insurance company, which amounted to UAH 166.7 million in the first half of the previous year. In H1 2016, the non-life company paid UAH 95.1 million in claims, which caused a 4.4 p.p. decrease in the claims ratio in non-life insurance (mainly due to the lower claims ratio in corporate non-life insurance);
- increase in acquisition costs. They amounted to UAH 173.3 million compared with UAH 119.7 million in the prior year. The amount resulted from the growth in the written premium;
- higher administrative expenses. They amounted to UAH 65.4 million. For comparison purposes, in H1 2015, the administrative expenses of the segment amounted to UAH 54.2 million. Increase in the administrative expenses was related, inter alia, to indexation of remuneration, UAH devaluation, and increased inflation.

In the reporting currency, in H1 2016, the written premium amounted to PLN 106.1 million and was higher by 42.8% compared with the previous year. The operating result of the segment grew to the amount of PLN 8.9 million (from PLN 3.1 million in the first half of the prior year).

Operating profit in the Ukraine states segment (in PLN million)



Banking sector

As at the end of June 2016, PZU, along with its subsidiaries, was in possession of 29.22% of the equity of Alior Bank. On 18 December 2015, Alior Bank was subjected to consolidation, while the banking segment constituting a part of PZU Group's results was separated on 1 January 2016. The comparison with the previous half of 2015 presented below only aims to discuss tendencies, as the result of the bank has been contributing to the result of PZU Group since the beginning of 2016.

Business activity of Alior Bank in H1 2016 faced mainly a dynamic growth of the total assets (29.0% year-on-year vs. 5.5% in the banking sector), which was mainly a result of the organic growth driven by the sales oriented, predominantly, towards residential loans, cash loans and loans to businesses, realized based on own distribution network (in H1 2016, the net value of customer loans grew in comparison with the end of 2015 by PLN 3.2 billion, i.e. 10.4%, amounting to PLN 34,136 million). Thanks to the issue of Series I shares with the pre-emptive right worth PLN 2.2 billion performed in relation to the acquisition of Bank BPH and including the profit generated in 2015 and Q1 2016 in the equity of the Bank, the capital ratio, in spite of the growth of the risk-weighted assets, amounted to 20.93%. It was 8.13 p.p. higher than the capital ratio as at the end of H1 2015.

In the first half of the current year, the banking segment recorded operational profit amounting to PLN 217 million, a PLN 3.1 million drop in comparison with H1 2015. At the same time, due to the 29.22% of shares in the bank's equity held by PZU Group, in the first half of the current year, the banking segment contributed to the result attributed to the parent entity PLN 63.4 million (excluding depreciation of intangible assets obtained during the acquisition of Alior Bank).

Interest profit (included in net investment revenue and interest costs, respectively) amounted to PLN 856.7 million and was 19.4% higher in comparison with the corresponding period of the previous year, i.a. thanks to the larger credit base (+20.4% at the end of June 2016 compared with 30 June 2015). Net interest margin (NIM) in the first half of the year amounted to 4.2% and, compared with the interest margin recorded in H1 2015, was 47 bps lower. The drop in the margin was caused, inter alia, by a change in the asset structure consisting in an increase in the share of the financial assets available for sale to PLN 8.5 billion (i.e. 18.1% of the total assets of the bank). At the same time, the average interest rate of loans grew by 0.13 p.p. to 6.06%. In the same period, the average cost of deposits increased to 3.49%, i.e. by 1.83 p.p. In H1 2016, the average 3-month WIBOR rate amounted to 1.68% and was 0.9 p.p. lower than the average from H1 2015.

In the first half of the current year, the result on account of impairment losses (included under net investment revenue) grew by PLN 44.7 million in comparison with the corresponding period of the previous year and resulted mainly from the growth in the allowances for receivables from the clients of the non-financial sector.

Fee and commission result amounted to PLN 163.4 million in H1 2016, which means a growth by 0.2% in comparison with the corresponding period of the previous year. The result is, inter alia, due to the higher y/y dynamics of the commission expenses in comparison with the dynamics of the commission revenues. Their year-on-year increase resulted mainly from the higher commissions related to the bank account and card handling.

In the first half of the current year, the administrative expenses amounted to PLN 502.1 million and were 6.9% higher mainly due to a growth in personnel costs.

The cost to income ratio (C/I)[4] amounted to 47.7% and was 2.1 p.p. lower than in the corresponding period of the previous year, which was a result of the improved revenue on the banking activity while maintaining cost discipline.

Also the bank tax significantly influenced the level of the operational profit of the banking sector. Bank tax charge in Alior Bank amounted to PLN 52.9 million in H1 2016.

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 Accounting Standards, which means that the following items were included: gross written premiums, paid benefits, and change in technical provisions, among others. The above categories are eliminated for the purpose of the consolidated results.

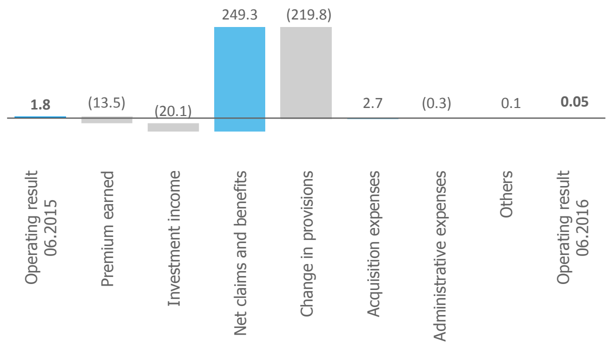
[4] Total costs of activity less capital institutions tax/result on the banking activity ratio (gross profit less costs of activity and result on impairment losses); data in accordance with the presentation in the consolidated financial statements of Alior Bank.

PZU Group earned PLN 0.05 million of operating profit compared with PLN 1.8 million in the previous year (drop of 97.2%) on investment contracts, i.e. PZU Życie's products which do not transfer significant 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 in the first six months of 2016:

- gross written premium from investment contracts dropped in H1 2016 by PLN 13.5 million (-18.2%) from the corresponding period of 2015 to PLN 60.7 million. The main reasons for the changes in the gross written premium included the removal of the short-term life and endowment products from the offer in PZU branches starting with June 2016;
- lower investment income. It amounted to PLN 2.4 million, i.e. was 89.4% lower than in the corresponding period of 2015, mainly due to a drop in the interest rates in the unit-linked product in the bancassurance channel and lower market interest rates in short-term life and endowment products, as well as due to a decline in investments level in both types of the products; including a drop in the management fee by PLN 1.1 million (decline in the assets of the unit-linked products), which was one of the main reasons for the lower result of the whole segment compared with the previous year;
- lower value of net insurance claims and benefits resulting from the considerable drop in endowment payments from short-term life and endowment products in both own and bancassurance channel (last year saw the maturity of tranches of higher value; considerably lower sales in subsequent periods; no effect on the result – corresponding effect in changes to technical provisions). These amounted to PLN 152.6 million, i.e. they were 62.0% lower than in the prior year;
- lower negative balance of net technical provisions. This amounted to PLN 97.0 million compared with PLN 316.8 million in the prior year. The difference arose mainly from the changes in the cover portfolio of short-term investment endowments sold through both own and bancassurance channel, i.e. lower level of endowment with the withdrawal from the offer;
- lower acquisition costs. These amounted to PLN 2.5 million, i.e. they were 51.8% lower than in the prior year. This resulted from the lack of new sales and declined asset value in unit-linked products of the bancassurance channel (some of the bank's remuneration is determined by the level of assets), and, additionally, from the lower engagement of the own network in sales of short-term investment endowments and, beginning in June, the withdrawal of the products of this type from the offer;
- higher administrative expenses. These amounted to PLN 4.9 million and grew by 6.4% compared with 2015 – the result of higher IT costs related to the maintenance of the unit-linked product system.

Operating profit of the investment contracts segment (in PLN million)



5.7 Profitability and operating efficiency ratios

Profitability ratios

In H1 2016, PZU Group's return on equity was 10.7%. ROE was 10.4 p.p. lower than in the previous year. The profitability ratios achieved in H1 2016 by PZU Group were under the pressure of negative effects of the situation on WSE.

Operating efficiency ratios

One of the basic efficiency and operating measure of an insurance company is the combined ratio (COR) which is calculated for the non-life sector because of its specific nature (Section II).

The combined ratio of PZU Group (for non-life insurance) remains in the last few years at the level which guarantees high profitability. In H1 2016, the ratio reached 93.4% and was higher than prior year ratio due to claims and benefits up in agricultural insurance.

Consolidated financial results

Key profitability ratios of PZU Group	1 January – 30 June 2016	1 January – 30 June 2015	1 January – 30 June 2014
Return on Equity (ROE) – parent entity (annualized net profit / average equity) x 100%	10.7%	21.1%	27.5%
Return on Equity (ROE) - consolidated (annualized net profit / average equity) x 100%	10.3%	21.1%	27.5%
Return on assets (ROA) (annualized net profit / average assets) x 100%	1.4%	4.0%	5.4%
Administrative expenses ratio for insurance segments (administrative expenses / premium earned net of reinsurance)	8.2%	9.0%	8.0%
Return on Sales (net revenue / gross written premium) x100%	8.0%	14.5%	20.4%

	Operating efficiency ratios	1 January – 30 June 2016	1 January – 30 June 2015	1 January – 30 June 2014
1.	**Claims ratio gross** (Gross claims and change in gross provisions /gross written premium) x 100%	63.2%	66.7%	64.9%
2.	**Claims ratio net of reinsurance** (net claims/net premium earned) × 100%	68.6%	68.7%	67.5%
3.	**Insurance activity costs ratio (insurance segments)** (Costs of insurance activity/ premium earned net of reinsurance) x 100%	22.3%	22.5%	20.8%
4.	**Acquisition costs ratio for insurance segments** (Acquisition expenses/premium earned net of reinsurance)x 100%	14.1%	13.6%	12.8%
5.	**Administrative expenses ratio for insurance segments** (Administrative expenses/premium earned net of reinsurance) x 100%	8.2%	9.0%	8.0%
6.	**Combined ratio in non-life insurance** (net claims + costs of insurance activity)/ premium earned net of reinsurance x 100%	93.4%	91.3%	86.0%
7.	**Operating profit margin in life insurance** (operating profit/gross written premium) x 100%	21.2%	20.1%	23.3%

„The theory of sustainable development and the practices of companies espousing corporate social responsibility have already been described at length. Now the challenge is to encourage the greatest possible number of Polish corporates, large and small alike, to implement them. ”

Zbigniew Gajewski, Konfederacja Lewiatan

06

Risk management

We consider the constant development of risk management procedures to be of fundamental importance, as, all in all, we want our Clients to feel secure and calm and our results to remain predictable.

Contents:

1. Introduction
2. Risk management objective
3. Risk management system
4. Risk appetite
5. Risk management process
6. Risk profile of PZU Group
7. Reinsurance activity

6.1 Introduction

In PZU Group, the frames of integrated, coherent, and effective risk management system of PZU Group have been established. PZU, as the parent company, oversees the risk management process in PZU Group and sets uniform standards for the organization of the risk management system for all companies in the group. Meanwhile, each company adopts relevant internal documents, such as strategy, policies, and procedures, on its own. Risk management process is implemented autonomously by individual companies of PZU Group, which, thereby, take responsibility for its adequacy and effectiveness in accordance with applicable regulations.

Risk management function is realized in PZU Group by the risk management units of each company, especially by the PZU's Risk Office, which develop the process of risk management by preparing and updating appropriate internal regulations associated with risk management, as well as perform on a regular basis activities associated with the risk management process, in particular:

- prepare risk management strategy and policies for the management of each type of risk;
- develop the methods for measurement and management of each risk;
- design the tools supporting the risk management process;
- identify, measure, and assess, as well as monitor and control the risks;
- prepare test reports and monitor the utilization of limits and restrictions;
- develop the proposed network of limits and restrictions;
- prepare information concerning risk for the supervisory body or rating agencies;
- perform stress tests.

Due to the ongoing works on integrating the risk management system of Alior Bank with the risk management system of PZU Group and relevant provisions of the Banking Law concerning inter alia bank secrecy, the risk management in Alior Bank in the first half of 2016 was performed separately from the risk management performed in other units of PZU Group. Nevertheless, PZU Group can monitor the risk management system of Alior Bank through the Members of the Management Board appointed by PZU.

The main types of risk associated with the activity of Alior Bank include: market risk (covering interest rate, liquidity, foreign currency, and commodity price risk), credit risk, and operational risk.

6.2 Risk management objective

Risk management in PZU Group aims to:

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

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

The main elements of the integrated risk management system are consistent for all insurance companies of PZU Group and implemented in a way which ensures the realization of strategic plans of individual companies as well as business objectives of the entire PZU Group. They also make it possible to control the risk and oversee the risk management system on the level of PZU Group. They include, among others:

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

Companies from other financial market sectors are obliged to follow the standards applicable to a given sector. In internal regulations adopted, they specify among others the following:

- processes, methods, and procedures that enable risk measurement and management;
- division of duties in the risk management process; scope, terms, and conditions, and intervals of drafting reports on risk management.

PZU supervises the PZU Group risk management system under cooperation agreements with PZU Group entities and on the basis of information provided as per such agreements, as well as manages PZU Group aggregated risk.

6.3 Risk management system

The risk management system of PZU Group is based on:

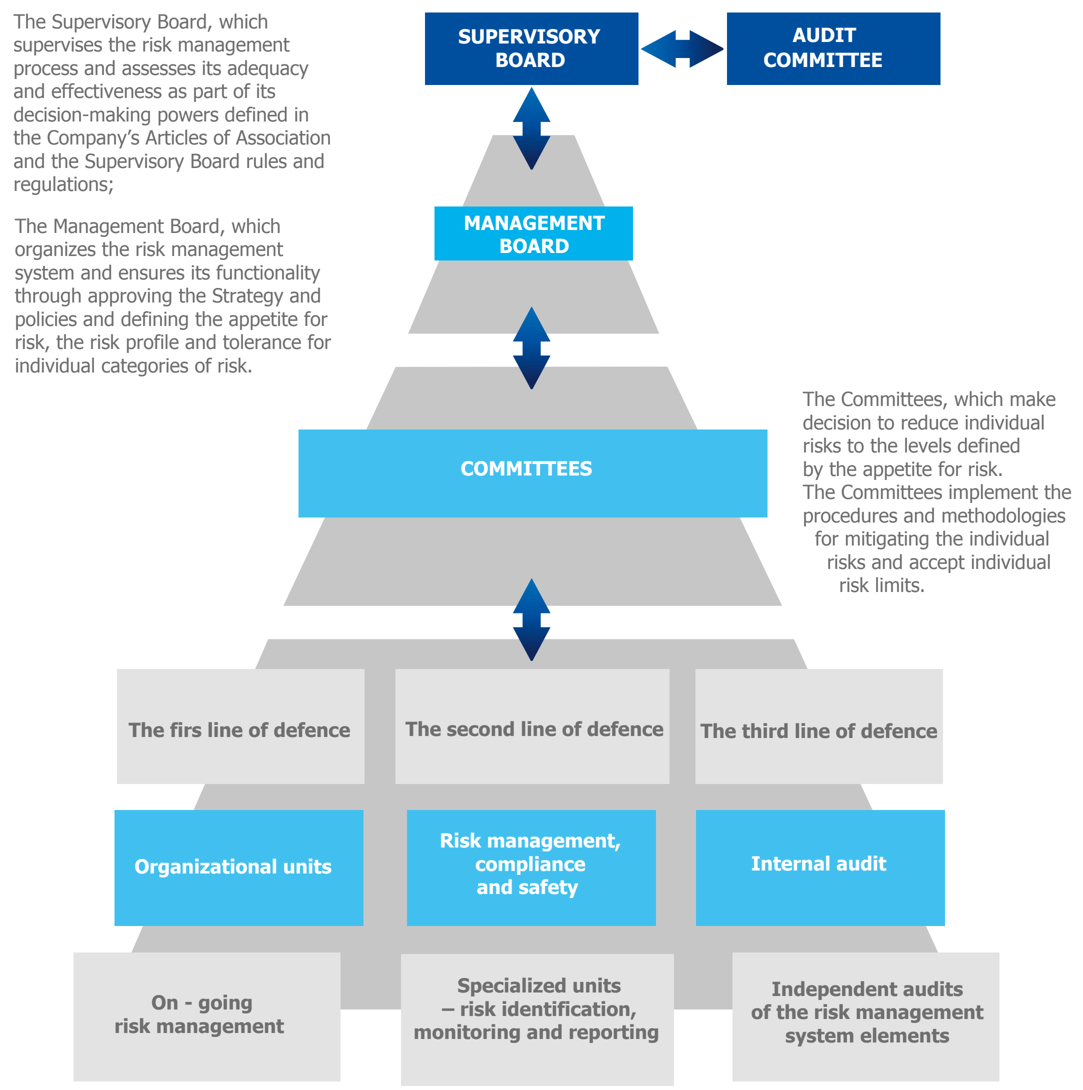
- division of responsibilities and tasks performed by management bodies, committees, as well as organizational units in the risk management;
- risk management process, including the methods of identification, measurement, and assessment, monitoring and control, reporting risk and taking management action.

The division of responsibilities and tasks which constitutes a part of the risk management system is coherent within PZU Group and in individual insurance companies within PZU Group and is realized based on four competence levels identified in individual companies.

The first three are as follows:

- Supervisory Board (including the Audit Committee), which oversees the risk management and assesses its adequacy and effectiveness as part of its decision-making powers defined in the company's Articles of Association and the Supervisory Board rules and regulations;
- Management Board, which organizes the risk management system and ensures its functionality through approving the strategy and policies and defining the risk appetite, the risk profile and tolerance for individual kinds of risk;
- Committees which make decisions on reducing the level of individual risks in order to keep overall risk within the limit determined by the risk appetite. Committees implement the procedures and methodologies for mitigating individual risks and accept their limits.

Organizational structure of risk management system



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

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

In the risk management process in Alior Bank the Management Board and the Supervisory Board of Alior Bank, as well as the Asset and Liability Management Committee, play an active role.

6.4 Risk appetite

The risk appetite is defined in PZU Group as the risk which each company is ready to take during the realization of its own and PZU Group's business objectives. The measure of the risk appetite is the level of potential financial losses, decrease in the value of assets, or increase in the value of liabilities in a one-year period. The level of the risk appetite is defined as the minimum level of the coverage ratio of capital requirements.

The risk appetite determines the maximum level of acceptable risk when setting individual partial risk limits and restrictions which, when exceeded, result in taking actions necessary to limit further risk growth.

The procedure of determining the risk appetite and limits for individual risk categories has been implemented in all insurance companies of PZU Group and is consistent with the group process. The Management Board in each company determines the risk appetite, 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 PZU 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 Management Board is responsible for determining the appropriate risk level for every company, whereas the risk unit reviews the level of risk appetite once a year. All the activities are coordinated at the level of the Group.

6.5 Risk management process

Two levels are distinguished in the risk management process:

- PZU Group level – ensures that PZU Group implements its business objectives in a safe way which is adequate to the degree of risk involved. This level engages the monitoring of limits and risks specific to PZU Group, such as: catastrophe risk, financial risk, counterparty risk, or concentration risk. PZU Group provides support in implementation of the integrated risk management system which encompasses introducing coherent mechanisms, standards, and operational organization of an effective internal control system (with special focus on compliance function), risk management system (especially in the reinsurance field), and security management system at PZU Group, as well as monitors their regular application. Dedicated employees from PZU Group cooperate with the Management Boards of the companies and with the management of such areas as finance, risk, actuary, reinsurance, investment, and compliance, under relevant cooperation agreements;
- solo level – ensures that a given PZU Group entity implements its business objectives in a safe way, adequate to the degree of risk borne by this entity. This level engages the monitoring of limits and specific risk categories present in a given entity and introducing coherent mechanisms, standards, and operational organization of an effective internal control system (with special focus on compliance function), risk management system (especially in the reinsurance field), and security management system to the structure of the integrated risk management system.

The risk management process consists of the following stages:

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

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

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

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

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

6.6 Risk profile of PZU Group

The risk profile did not change significantly in the first half of 2016. Due to the dominant share of PZU and PZU Życie in PZU Group operations and the consolidation of Alior Bank taking place since the end of 2015, no additional specific risks, except for the risks characteristic for the financial sector, are identified at the level of PZU Group.

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

Underwriting risk

It is a risk of loss or an adverse change in the value of liabilities which may arise from insurance contracts and insurance guarantee agreements in relation to improper assumptions regarding premium valuation and establishment of technical and insurance provisions.

The process of underwriting risk identification starts with the idea of creating an insurance product, and it lasts until the liabilities relating to it expire. Actuarial risk identification is carried out, inter alia by means of:

- analysis of general insurance terms in respect 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 and benefits handling process.

Underwriting risk assessment involves recognizing the degree of exposure, or a group of exposures, related to the possibility of incurring a loss and analyzing 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) is the assessment of future claims and the reduction of anti-selection.

Underwriting 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 underwriting 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 actuarial risk communication and supports actuarial risk management at various position 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.

Administration activities in the actuarial risk management process are carried out in particular by:

- specifying the level of tolerance of actuarial 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;
- process of assessment, measurement, and acceptance of actuarial risk;
- use of actuarial risk mitigation tools, including, in particular, reinsurance and prevention.

Furthermore, in order to reduce the actuarial risk associated with the ongoing activities, the following actions, in particular, are undertaken:

- definition of the scopes of liability and exclusions 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

Risk of a loss or an adverse change in the financial standing, which directly or indirectly arises from fluctuations and changes in market prices of assets, credit spread, value of 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 management, 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 cash 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 standing.

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 control of the market risk involves analyzing the risk levels and utilization of limits.

Reporting consists of communicating the level of market 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 regarding market risk include, in particular:

- concluding transactions to mitigate market risk, such as selling a financial instrument, closing out a derivative transaction, 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 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.

Credit risk and concentration risk

Credit risk is the risk of loss or adverse change of the financial standing resulting from fluctuations of reliability and creditworthiness of issuers of instruments, counterparties, and debtors, which materializes in the default of counterparty or an increase in credit spread.

Concentration risk is a risk arising from a lack of diversification in the portfolio of assets or from high exposure to the risk of default by a single issuer of instruments or a group of related issuers.

Identification of the credit and concentration risk takes place at the stage of making the 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 standing.

As a part of the credit risk assessment for a given entity, the internal credit ratings are set (the approach towards setting a rating varies depending on the type of the entity), which are based on the quantitative and qualitative analysis. The ratings are also the basis for setting the limits. In order to monitor the credit quality of specific entities, an update of a rating is done.

The assessment of the reinsurers concerning their credit quality is performed based on market data acquired from external sources, e.g. the external data of rating agencies, and also based on the internal model. The model divides the reinsurers into several classes, depending on the level of estimated risk. Only the entities whose risk is lower than the determined cut-off point are accepted. The acceptance does not happen automatically, and the analysis is supplemented with the assessment performed by the 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 analyzing 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 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 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;
- concluding transactions aimed at mitigating credit risk, such as selling a financial instrument, closing out a derivative transaction 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

It 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;
- scenario analyses.

Assessment and measurement of 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 operational risk is carried out mainly by established operational risk indicators which make it possible to assess the change of operational risk level 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, inter alia by strengthening the internal control system and implement additional control mechanisms, such as:
  - limiting of responsibilities,
  - fulfilment of the so-called four-eye principle,
  - separation of functions and performed tasks,
  - control automation in IT systems supporting realization 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 correct operation of processes covered by the plan in the case of a breakdown.

Compliance risk

Risk that the PZU Group companies or persons related to PZU Group violate or fail to comply with the provisions of law, internal regulations, or standards of conduct, including ethical norms which result or may result in suffering by PZU Group or persons acting on its behalf legal sanctions, financial losses, or loss of reputation or credibility.

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

Compliance risk is assessed by determining the effects of materialization of the following risks:
- financial, resulting inter alia from administrative penalties, court verdicts, contractual penalties, and damages, or from the organization failing to comply with the provisions of national or international law.
- intangible, such as loss of reputation, including damage to PZU Group's image and brand.

Compliance risk in PZU Group is monitored mainly through:
- compliance analyses;
- systemic analysis of mid-year compliance risk assessment reports received from the reporting units;
- review of the regulatory requirements;
- participation in legislative work on amending the generally applicable regulations;
- participation in the activities of professional organizations;
- coordination of reporting requirements arising from the stock exchange regulations;
- giving compliance recommendations;
- systemic, periodical monitoring of compliance events in PZU Group, based on information received from 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;
- reducing of risk, including adjustment of procedures and processes to regulatory requirements, issuing opinions and drafting internal regulations from the point of view of compliance with the provisions of national or international law, 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 events, which could adversely affect the financial standing of insurance companies. This objective was realized through mandatory reinsurance contracts supplemented with facultative reinsurance.

Reinsurance contracts of PZU

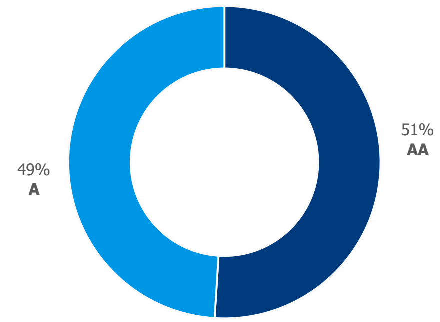
PZU uses the reinsurance contracts it concludes to mitigate its exposure to catastrophic losses (e.g. flood, hurricane) through, among other things, a catastrophic non-proportional excess of loss contract and to the consequences of large one-off losses by non-proportional excess of loss contracts protecting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

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

In 2016, the main partners providing treaty reinsurance cover to PZU were: Munich Re, Hannover Re, Scor and Swiss Re. As per S&P/AM Best, ratings of PZU reinsurance partners are high, which is an evidence of reinsurer's good financial standing and guarantees security to the Company.

PZU's activity in the area of inward reinsurance includes foreign companies of PZU Group. High commitment to the protection of the subsidiaries results in significant 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.

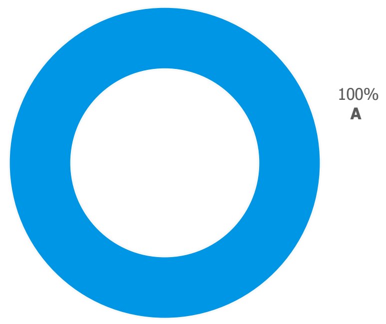
Reinsurance share from PZU obligatory contracts as per Standard & Poor's rating



Reinsurance contracts of 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, and Mapfre are the partners providing reinsurance cover to PZU Życie. Reinsurance partners have high S&P ratings, which gives PZU Życie the certainty of their good financial standing.

Reinsurance share from PZU Życie obligatory contracts as per Standard & Poor's rating



Reinsurance contracts of subsidiaries of PZU Group
Other insurance companies of PZU Group, i.e. PZU Ukraine, Lietuvos Draudimas, AAS Balta, Link4, and TUW PZUW have reinsurance cover that matches their business profile and financial position. Every significant insurance portfolio is secured by a treaty contract. The reinsurance cover is provided mainly by PZU, which transfers a portion of the accepted risk outside the Group.

„Institutional and individual investors should be aware of how the companies in which they want to invest operate. Analyzing non-financial criteria, such as Corporate Social Responsibility indices in particular, may form a part of this process.”

Tomasz Wiśniewski, WSE

07

PZU on capital and debt market

In the first half of 2016, PZU remained among the 5 most liquid companies of WSE's main market, with trading share of 8.2%. The high liquidity is also an attractive spread of 10 bps (with the average for the top twenty most liquid companies being 18 bps).

Contents:

1. PZU share prices
2. Debt financing
3. Capital management
4. Rating
5. Schedule

PZU on capital and debt market

7.1 PZU share prices

PZU has been quoted on the Warsaw Stock Exchange from 12 May 2010. From its debut, it has been a part of the WIG20 index (calculated based on the value of the share portfolio of the 20 biggest and most liquid companies of WSE's main market)[1]. PZU is also a part of the following indexes: WIG, WIG30, WIG-Poland, WIGdiv, WIG20TR, as well as MSCI Poland and MSCI EM (emerging markets). Since 2012, PZU shares have been also included in the sustainable development indexes RESPECT and CEERIUS (CEE Responsible Investment Universe). GLOSSARY

In the first half of 2016, PZU's share prices were under strong influence of macro factors. On 15 January of 2016, the Polish capital market was shaken up by the unprecedented decision of the Standard & Poor's rating agency to lower Poland's rating. 7.4 RATING This entailed depreciation of the Polish currency (EUR denominated in PLN rose to its highest levels in 4 years), higher yield of Polish debt, and decreases on the stock exchange. From the perspective of PZU's ratings, this was associated with a declined market appraisal, mainly due to the increased aversion to investing on the Polish market and rising expectations concerning the risk premium, as well as direct devaluation of some of PZU's assets (exposed to market risk).

Another important event to the Polish capital market was Great Britain's decision to leave the European Union. On 23 June 2016, the British voted to leave the Union's structures (72.2% of authorized voters took part in the referendum – 51.9% voted in favor of exit). This decision entailed serious turbulences on currency and exchange markets. The closing price of the WIG20 index had dropped by 4.5% and PZU's shares lost 5.2%.

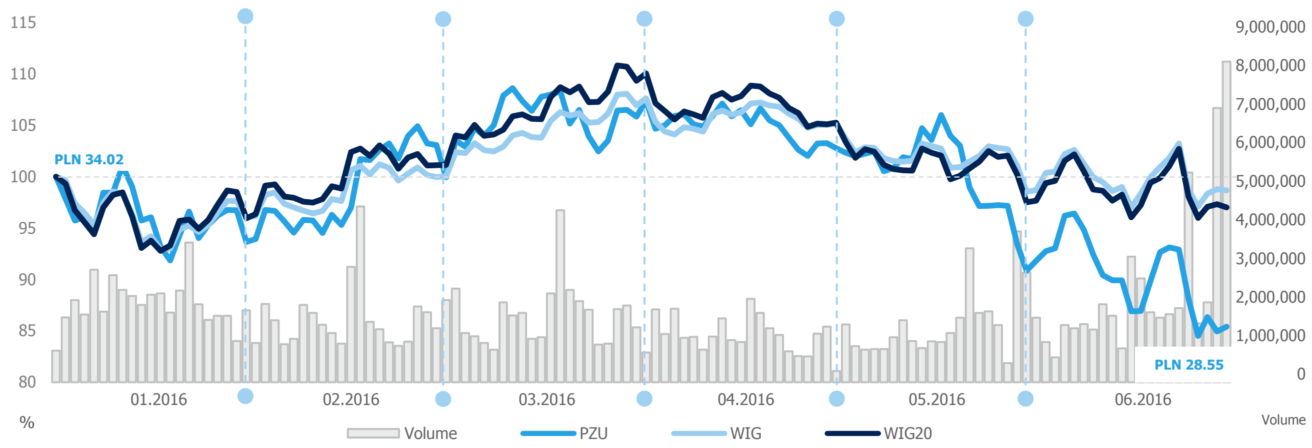
[1] WIG20 is a price index, i.e. it includes exclusively transaction prices and does not take into consideration profits from dividends.

In the second quarter of 2016, the investors remained under the pressure of the uncertainty associated with the planned changes in pillar II of the retirement system (OFE), which is closely related to the Polish exchange market, and the plans of Swiss franc credit conversion.

The first half of 2016 was also difficult for global markets, which were experiencing more negative signals not favoring the mitigation of negative impact of factors with direct influence on WSE. The most important of these include: the rising concerns with further raise of interest rates by FED, the immigration crisis and its consequences in the European Union, the economic slowdown in China, the deteriorating situation in Russia, and the ongoing conflict in the Middle East.

In the first half of 2016, PZU's share fluctuated between PLN 28.25 and PLN 36.30 (closing prices). The volatility of the share prices (recognized as the quotient of the standard deviation from the period's average price) was 6.0%, 1.2 pp higher than in the corresponding period of 2015. The closing price of PZU's shares from the session of 30 June 2016 amounted to PLN 28.55, a 19.80% drop q/q. Over the same time, the WIG20 index dropped by 12.4% and WIG by 8.7%. The reasons for the result of PZU's shares, weaker by 7.4 pp from WIG20, included investor expectations concerning the dividend payment for 2015, which were higher than the amount declared by PZU's Management Board on 20 May 2016.

Trading dynamics (%) and volume of PZU's shares in relation to WIG and WIG20



Źródło: Reuters

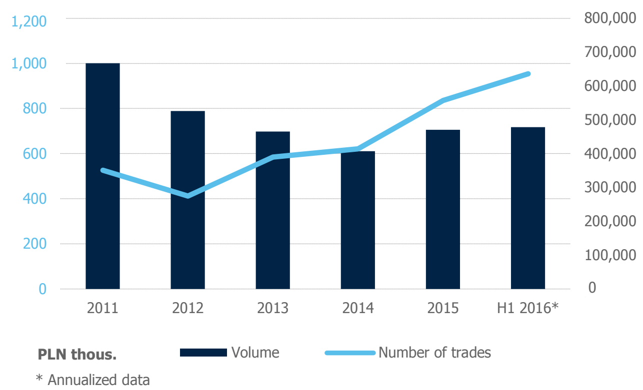
Capital ratios

At the end of the first half of 2016, PZU's capitalization amounted to PLN 24.6 billion, a 34% drop y/y, which was also reflected in the values of P/BV and P/E ratios.

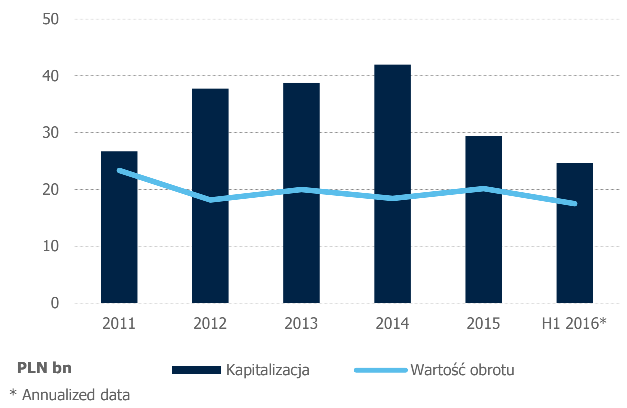
Share liquidity

PZU's shares were very liquid in the first quarter of 2016. PZU share in the trading of WSE was 8.2% and the average spread of share sales/purchases was 10 bps, placing PZU among the top five most liquid entities on WSE. The first half of 2016 saw further growth of transaction number dynamics, which reached 467 thousand, a growth of 33.9% y/y.

Trading volume/number of PZU transactions



Capitalization / PZU trading value



7.2 Debt financing

PZU FINANCE AB (a 100% subsidiary of PZU) issued eurobonds for the total amount of EUR 850 million. 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 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.

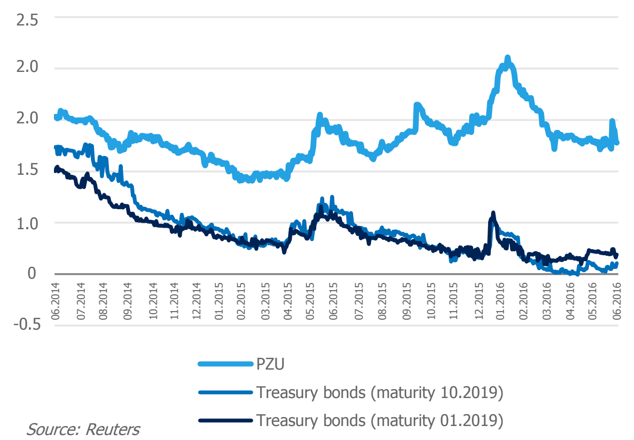
The issue of eurobonds constituted the implementation of PZU Group's investment strategy in the scope of the management of the matching of assets and liabilities denominated in euro.

Capital market ratios for PZU shares	1 January – 30 June 2016	1 January – 30 June 2015	1 January – 30 June 2014
P/BV Market price per share / book value per share	2.09	3.15	3.22
BVPS Book value per share	13.63	13.73	13.80
P/E Market price per share / net profit per share	37.38	28.27	22.27
EPS (PLN) Net profit (loss) per share	0,76	1.53	1.99

*calculation based on PZU Group's data according to IFRS after share split

Statystyka akcji PZU	H1 2016	H1 2015	H1 2016 / H1 2015	Q2 2016	Q1 2016	Q2 2016 / Q1 2016
Maximum share price [PLN]	36.30	50.87	(28.6)%	35.90	36.30	(1.1)%
Minimum share price [PLN]	28.25	42.50	(33.5)%	28.25	30.70	(8.0)%
Exchange share price [PLN]	28.55	43.27	(34.0)%	28.55	35.60	(19.8)%
Average share price per session [PLN]	33.22	47.52	(30.1)%	32.98	33.47	(1.5)%
Value of the volume [PLN thousand]	6,982,299.0	9,661,078.6	(27.7)%	3,370,910.7	3,611,388.3	(6.7)%
Average value of the volume per session [PLN thousand]	56,308.9	78,545.4	(28.3)%	53,506.5	59,203.1	(9.6)%
Number of transactions [item]	466,812.0	348,606.0	33.9%	224,014.0	242,798.0	(7.7)%
Average number of transactions per session	3,764.6	2,834.2	32.8%	3,555.8	3,980.3	(10.7)%
Trading volume	213,391,299.0	205,533,860.0	3.8%	105,400,263.0	107,991,036.0	(2.4)%
Average trading volume per session [item]	1,720,897.6	1,671,007.0	3.0%	1,673,020.0	1,770,344.9	(5.5)%
Capitalization at the end of the period [PLN thousand]	24,653,581.7	37,360,322.6	(34.0)%	24,653,581.7	30,741,418.8	(19.8)%

Yield of PZU eurobonds vs. Polish treasury bonds maturing on 2019 (euro)



Source: Reuters

7.3 Capital 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, which came into effect on 1 January 2016, calculation of the capital requirement is based on the following risks: market, underwriting (insurance), counterparty insolvency, catastrophe, and operating. The assets, liabilities, and consequentially own funds constituting coverage of the capital requirement are appraised in fair value.

850 mln
euro bond issue
value

3 July
2019 redemption
date

BBB+
(S&P)
issue rating

1,375%
fixed interest
rate

The calculation of the capital requirement and own funds according to the terms of Solvency II based on data from 31 March 2016 is presented below.

Distribution of profit from 2015

On 30 June 2016, the General Shareholders Meeting of PZU adopted the resolution on distribution of the net profit of PZU for the financial year ending on 31 December 2015, in which it decided to divide the profit of PLN 2,248,522,454.3 as follows:

- assign PLN 1,796.1 million or PLN 2.08 per share for dividend payout,
- transfer PLN 442.4 million to the supplementary capital,
- assign PLN 10.0 million to raise the Company's Social Benefits Fund.

30 September 2016 was chosen as the date according to which the list of shareholders entitled to other parts of the dividend payment for the financial year ended 31 December 2015 is established. The dividend payout deadline is set for 21 October 2016.

7.4 Rating

Issuer's 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 the financial situation of the country. It also includes outlook, i.e. an assessment of the future position of the Company in the event of specific circumstances. The cooperation between PZU and S&P started in 2004, when PZU and PZU Życie received the financial strength and credit ratings of "A-" (which was raised to "A" in July of 2009).

PZU Group's own funds and solvency ratio (in PLN million)	31 March 2016	31 December 2015
PZU Group's own funds*	19,788.1	19,731.8
Group solvency capital requirement (SCR)	7,430.6	7,146.0
PZU Group's solvency ratio	266.3%	276.1%

*Data decreased by planned dividends and asset tax over 12 subsequent months
Data not audited

Dividend paid by PZU from profit for 2011-2016 financial years

	H1 2016	2015	2014
Consolidated net profit of PZU Group (in PLN million)	b.d.	2,342.2	2,967.6
Standalone income of PZU (in PLN million)	b.d.	2,248.5	2,636.7
Dividend paid per year (in PLN million)	b.d.	1,796.1	2,590.6
Dividend per share per year (in PLN)*	b.d.	2.08	3.00
Dividend as at the date of establishing dividend right (in PLN)	2.08	3.00	3.40
Dividend payout ratio from the consolidated result for the year	b.d.	76.7%	87.3%
Dividend rate in the year (%) **	7.3%	8.8%	7.0%
TSR (Total Shareholders Return) ***	(10.0)%	(23.8)%	15.8%

* historical data was calculated in 1:10 ratio as per stock split
** the rate calculated as dividend as at the ex-dividend date vs. share price as at the end of the given year
*** Rate calculated as the sum of changes in the exchange 1 share and dividends by. date of establish the dividend right in a given period, divided by the share price at the beginning of the period; 2016 change rate calculated for the period from 1 January to 30 June 2016 year.

Current rating

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

Poland's rating

On 15 Januray 2016 roku S&P downgraded the rating of Poland from A- to BBB+ for long-term liabilities in foreign currencies, and from A/A-1 to A/A-2 respectively for long- and short-term liabilities in local currency. At the same time, the outlook was changed from positive to negative. Justifying its decision, the agency indicated that its analysts believe that legislative initiatives initiated by the new government in Poland will weaken sovereignty and effectiveness of key institutions in the country. The change for negative outlook reflects S&P's opinion that further downgrading Poland's rating is likely in the next 24 months if the credibility of monetary policy is endangered and deficit in public finances drops below the expectations of agency analysts.

On 1 July 2016, S&P upheld its previous rating of Poland at BBB+ with negative perspectives.

Eurobond rating

On 20 June 2014, S&P awarded a rating of A- for unsecured debt to the eurobonds of nominal value of EUR 500 million issued by PZU Finance AB.

In October 2015, PZU bonds valued at EUR 350 million were issued. These bonds were assimilated and, together with eurobonds at value of EUR 500 million issued by PZU Finance AB (publ.) on 3 July 2014, they constitute one series, a so-called tap issue. On 12 October 2015, S&P analysts awarded a rating of A- to the new issue. On 21 January 2016, as a result of downgrading PZU rating, the rating of eurobonds issued by PZU Finance AB was lowered to the level of BBB+. It continues to be a so-called "investment rating."

Rating PZU

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

Poland's rating

	Current		Past	
Country	**Rating and outlook**	**Date of awarding / updating**	**Rating and outlook**	**Date of awarding / updating**
Republic of Poland				
Credit rating (long-term, in local currency)	A- /negative/	15 January 2016	A /positive/	7 August 2015
Credit rating (long-term, in foreign currency)	BBB+ /negative/	15 January 2016	A- /positive/	7 August 2015
Credit rating (short-term, in local currency)	A–2 /negative/	15 January 2016	A–1 /positive/	7 August 2015
Credit rating (short-term, in foreign currency)	A–2 /negative/	15 January 2016	A-2 /positive/	7 August 2015

Rating of eurobonds issued by PZU Finance AB (publ)

	Current		Past	
	Rating and outlook	**Date of awarding / updating**	**Rating and outlook**	**Date of awarding / updating**
EUR 350m	BBB+ /Watch Neg/	21 January 2016	A- /stable/	12 October 2015
EUR 500m	BBB+ /Watch Neg/	21 January 2016	A- /stable/	20 June 2014

7.5 Schedule

7 January	Extraordinary Shareholders Meeting
15 March	Annual Report 2015
12 May	Report for Q1 2016
3-5 June	20. Wall Street Conference for individual investors
24 August	Interim Report 2016
30 September	Settling dividend date for 2015
21 October	Payment of dividend (PLN 2.08 per share)
10 November	Reports for Q3 2016

MORE

„Act only according to that maxim whereby you can at the same time will that it should become a universal law without contradiction. Act in such a way that you treat humanity, whether in your own person or in the person of any other, never merely as a means to an end but always at the same time as an end.”

Immanuel Kant

08

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:

1. Entity authorized to audit financial statements
2. Share capital and shareholders of PZU; stock held by members of its authorities

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 its 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 is concluded.

The scope of the agreement 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 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 Share capital and shareholders of PZU; stock held by members of its authorities

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

On 30 June 2015, the General Shareholders Meeting of PZU adopted the resolution on splitting all shares of PZU by decreasing the nominal value of each PZU share from PLN 1 to PLN 0.10 and increasing the number of PZU shares which constitute the share capital from 86,352,300 to 863,523,000. The split of shares was performed through the exchange of all shares in 1:10 ratio. The split of shares had no influence on the share capital of PZU.

On 3 November 2015, the District Court for the capital city of Warsaw, 12th Economic Division of the National Court Register recorded the appropriate change to the By-laws of PZU.

The main objective of the split of shares is to make the shares more accessible to individual investors as well as to diversify the shareholders

Shareholding structure

In the period from 1 January 2016 to the date of preparing this Report, there were no significant changes in the ownership structure of blocks of PZU shares.

As at the date of preparation of this Report, the shareholding structure of PZU, including the shareholders holding more than 5% of votes in the General Shareholders Meeting, is as follows:

Shareholders	Number of shares	Share in share capital	Share in votes on the General Shareholders Meeting
State Treasury	295,217,300	34.19%	34.19%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	43,176,660*	5.00%	5.00%
Remaining shareholders	525,129,040	60.81%	60.81%
Total	863,523,000	100.00%	100.00%

* In accordance with the current report No. 35/2016 of 5 July of the current year concerning the list of shareholders holding at least 5% of votes in the General Shareholders' Meeting of PZU SA which started on 30 June of the current year and was continued on 1 July of the current year.

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

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

In the years 2015-2016, no employee stock ownership plans existed in PZU.

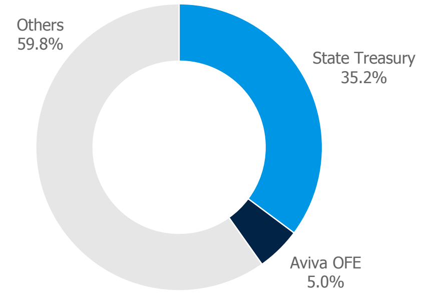
In line with the PZU By-laws, the voting right of the shareholders is restricted in such a way that none of them can exercise more than 10% of the total number of votes at PZU on the date of the General Shareholders Meeting, with the reservation that for the purpose of determining obligations of parties acquiring material blocks of shares provided for in the Act on Public Offering and the Act on Insurance Activity, such voting restrictions are considered non-existent. The restrictions do not apply to:

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

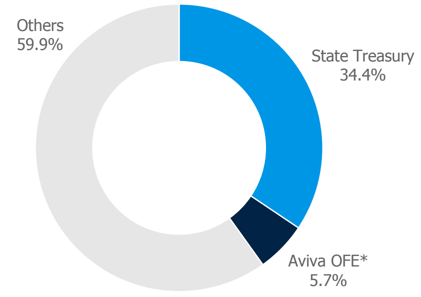
For the purposes of voting rights restrictions, the votes of the shareholders being parent companies or subsidiaries will be added up in line with the principles specified in the By-laws.

Both at the date of this interim report, as well as at the submission date of the quarterly report for the first quarter of 2016 (i.e. 12 May 2016) none of the members of the Management Board, the Supervisory Board or the Directors of PZU Group owned PZU shares or PZU shares entitlements.

PZU shareholding structure as at 31.12.2014

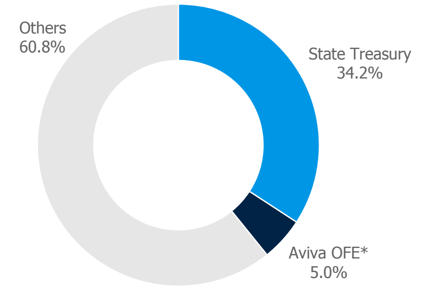


PZU shareholding structure as at 31.12.2015



* In accordance with current report 3/2015

PZU shareholding structure as at 30.06.2016



* In accordance with the current report No. 35/2016 of 5 July of the current year concerning the list of shareholders holding at least 5% of votes in the General Shareholders' Meeting of PZU SA which started on 30 June of the current year and was continued on 1 July of the current year.

„Personal integrity and honesty are the most important. We should talk more about values in public life to lay the foundation for acting with responsibility at every level.”

Andrzej K. Koźmiński

09

Management Board’s Representations

Management Board's Representations

Correctness and reliability of presented financial statements

The Management Board of PZU declares that, to the best of their knowledge, the interim consolidated 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 result of PZU Group and that the management report of PZU Group presents a true picture of its development and achievements, including a description of the main risks and threats.

Selection of the entity authorized to audit financial statements

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

Agreements significant for the operations of PZU Group, including those concluded between shareholders. By the date of preparing this report on the activities of PZU Group, there were no agreements (including any concluded after the end of the financial year) which could result in future changes in proportions of shares held by the existing shareholders.

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 the International Financial Reporting Standards.

Evaluation of financial resources management, including the ability to repay liabilities and definition of possible threats and activities, undertaken or planned by the Issuer to counteract these threats

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

Disputes

In the first half of 2016 and up until 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 2016, the total value of all 129,917 cases heard by courts, bodies competent to hear arbitration proceedings or public authority bodies involving PZU Group entities was PLN 4,861.7 million. The amount includes PLN 3,245.4 million of liabilities and PLN 1,616.3 million of receivables of PZU Group companies, which accounted for 29.13% and 14.51% of the equity of PZU calculated in line with PAS, respectively.

Information on significant contracts concluded

On 31 March 2016, PZU granted to its subsidiary (Alior Bank) a guarantee of unfunded insurance credit protection regarding the selected portfolio of credit receivables of Alior Bank. The unfunded credit protection mitigated Alior Bank's credit risk through imposing on PZU the commitment to pay a specified amount in the event of the default of the borrower or on the occurrence of other specified credit events.

The value of Alior Bank's receivables portfolio covered by the guarantee amounted to PLN 3,104.2 million. After applying a 10% deductible of Alior Bank and limiting PZU's maximum amount of liability arising from a single credit claim to PLN 50 million, the guarantee granted by PZU amounted to PLN 2,548.9 million.

On 1 July 2016, PZU received termination of the aforementioned guarantee from Alior Bank. The guarantee was terminated with immediate effect through terminating the guarantee by the Alior Bank.

On 10 June 2016, Alior Bank issued 56,550,249 ordinary Series I bearer shares with a nominal value of PLN 10 each in a closed subscription performed through the public offer in observance of the pre-emptive right on the account of the existing shareholders of the bank. PZU Group acquired 16,525,801 Series I shares. ALIOR BANK – BANKING ACTIVITY CHAPTER . 3.8

Position of the Management Board of PZU concerning the result forecasts published earlier

PZU Group did not publish result forecasts, either standalone or consolidated.

This Management Report of PZU Capital Group for first half of 2016 includes 101 pages with sequential numbers.

Signatures of Members of PZU Management Board

Michał Krupiński – CEO

Roger Hodgkiss – Member of the Management Board

Andrzej Jaworski – Member of the Management Board

Sebastian Klimek - Member of the Management Board

Beata Kozłowska-Chyła – Member of the Management Board

Maciej Rapkiewicz – Member of the Management Board

Warsaw, 23 August 2016

„Unemployment and poverty will never cease to exist if people are not given the opportunity to pursue personal development, find a job, have access to health care and education. That is why the key to a better "future world" is to inspire individuals to aspire to grow."

Prof. Muhammad Yunusi

10

Appendix: PZU financial data

Appendix: PZU financial data

Basic amounts of the consolidated profit and loss account for H1 in the years 2014-2016 (in PLN thousand)	1 January–30 June 2016	1 January–30 June 2015	1 January–30 June 2014
Gross written premiums	9,861,987	9,126,450	8,437,893
Net earned premiums	8,985,418	8,743,913	8,032,599
Net revenue from commissions and fees	264,389	103,196	123,133
Net investment result	1,456,074	1,085,973	1,373,646
Net claims and benefits	(6,164,436)	(6,006,361)	(5,418,087)
Acquisition costs	(1,252,674)	(1,130,808)	(1,036,364)
Administrative expenses	(1,252,969)	(822,062)	(702,275)
Interest expense	(396,811)	(61,876)	(69,020)
Other income and operating expenses	(589,094)	(292,989)	(127,724)
Operating profit (loss)	1,049,897	1,618,986	2,175,908
Share in net profit (loss) of entities measured using the equity method	(977)	(32)	245
Gross profit (loss)	1,048,920	1,618,954	2,176,153
Net profit (loss), including:	789,844	1,321,527	1,720,361
Shareholders' profit (loss)	659,540	1,321,593	1,720,351
Minority profit (loss)	130,304	(66)	10
Basic and diluted weighted average number of ordinary shares*	863,473,794	863,519,490	863,519,490
Number of shares issued	863,523,000	863,523,000	863,523,000
Basic and diluted PZU Group's profit per ordinary Issuer's share (in PLN)	0.76	1.53	1.99
Net profit of PZU (Issuer)	990,336	1,404,401	1,899,372
Basic and diluted profit per ordinary share (in PLN)	1.15	1.63	2.20

*including shares in consolidated funds
Restated data for 2014 and 2015

Assets (in PLN thousand)	30 June 2016	31 December 2015	31 December 2014
Intangible assets	1,348,008	1,393,168	868,692
Goodwill	1,553,140	1,531,681	769,044
Property, plant and equipment	1,208,856	1,299,788	1,001,609
Investment property	1,343,783	1,171,721	2,236,062
Entities measured using the equity method	53,094	54,065	66,311
Financial assets	93,909,618	89,228,583	56,759,976
Receivables, including under insurance contracts	6,755,190	3,270,793	3,085,432
Reinsurers' share in technical provisions	1,011,361	1,096,852	753,115
Estimated subrogations and recoveries	116,346	114,229	127,262
Deferred tax assets	444,947	369,445	26,957
Current income tax receivables	18,537	67,295	368
Deferred Acquisition costs	1,258,529	1,154,742	712,066
Other assets	753,856	698,964	235,250
Cash and cash equivalents	1,708,065	2,439,863	324,007
Non-current assets held for sale and disposal groups	1,461,897	1,506,048	606,610
Total assets	**112,945,227**	**105,397,237**	**67,572,761**

Restated data for 2014 and 2015

Equity (in PLN thousand)	30 June 2016	31 December 2015	31 December 2014
Share capital	86,352	86,352	86,352
Supplementary capital	10,745,029	9,947,292	9,678,921
Revaluation reserve	174,396	240,677	248,543
Actuarial profits and losses related to provisions for employee benefits	(4,395)	(4,404)	(6,179)
Treasury shares	(1,480)	-	(110)
Other reserves	4,642	22	66
Exchange differences from subsidiaries	(933)	(41,980)	(35,450)
Retained profits (losses)	108,048	353,405	226,462
Net profit (loss)	659,540	2,342,355	2,967,731
Appropriations on net profit during the financial year	-	-	-
Minority interest	3,829,453	2,194,068	1,292
Total equity	**15,600,652**	**15,117,787**	**13,167,628**

Restated data for 2014 and 2015

Liabilities (in PLN thousand)	30 June 2016	31 December 2015	31 December 2014
Technical provisions	41,701,717	41,280,321	40,166,885
Unearned premium and unexpired risk reserve	6,643,022	5,855,996	5,250,103
Life insurance provisions	16,171,767	16,221,886	16,281,625
Outstanding claims provisions	8,078,765	8,264,040	7,770,351
Provision for annuities	5,736,260	5,807,892	5,997,595
Provisions for bonuses and discounts for the insured	3,240	2,662	2,291
Other technical provisions	365,912	383,888	439,364
Unit-linked technical provisions	4,702,751	4,743,957	4,425,556
Provisions for employee benefits	128,189	117,398	120,070
Other provisions	106,039	108,109	191,206
Deferred tax liability	560,192	509,157	398,433
Financial liabilities	47,198,454	44,694,449	9,403,244
Other liabilities, including current income tax	7,649,984	3,570,016	3,873,281
Liabilities directly associated with assets qualified as held for sale	-	-	252,014
Total liabilities	**97,344,575**	**90,279,450**	**54,405,133**
Total equity and liabilities	**112,945,227**	**105,397,237**	**67,572,761**

Restated data for 2014 and 2015

Appendix: PZU financial data

One-off events in PZU Group (in PLN million)	30 June 2016	30 June 2015	30 June 2014
Conversion effect	19.5	47.4	45.2
Additional payments to the Guarantee Fund	-	-	(20.9)
Agricultural insurance	(236.6)	-	-

	Operating efficiency ratios	1 January – 30 June 2016	1 January – 30 June 2015	1 January – 30 June 2014
1.	**Claims ratio gross** (Gross claims and change in gross provisions/ gross written premium) x 100%	63.2%	66.7%	64.9%
2.	**Claims ratio net of reinsurance** (net claims/net premium earned) × 100%	68.6%	68.7%	67.5%
3.	**Insurance activity costs ratio for insurance segments** (Costs of insurance activity/premium earned net of reinsurance) x 100%	22.3%	22.5%	20.8%
4.	**Acquisition costs ratio for insurance segments** (Acquisition costs/premium earned net of reinsurance)x 100%	14.1%	13.6%	12.8%
5.	**Administrative expenses ratio for insurance segments** (Administrative expenses/premium earned net of reinsurance) x 100%	8.2%	9.0%	8.0%
6.	**Combined ratio in non-life insurance** (net claims + costs of insurance activity)/ premium earned net of reinsurance x 100%	93.4%	91.3%	86.0%
7.	**Operating profit margin in life insurance** (operating profit/gross written premium) x 100%	21.2%	20.1%	23.3%

Restated data for 2014 and 2015

Data from the profit and loss account – corporate insurance (non-life insurance) (in PLN thousand)	1 January – 30 June 2016	1 January – 30 June 2015	1 January – 30 June 2014
Gross written premiums	1,030,423	803,993	964,106
Net earned premiums	791,649	722,114	730,394
Investment income	63,580	57,558	66,823
Net insurance claims	(438,978)	(452,071)	(415,748)
Acquisition costs	(167,662)	(130,508)	(148,926)
Administrative expenses	(54,986)	(62,857)	(57,370)
Reinsurance commission and share in profits	8,199	10,867	7,430
Other	283	(6,972)	(15,389)
Operating profit (loss)	**202,085**	**138,131**	**167,214**
Acquisition costs ratio (including reinsurance commission)*	20.1%	16.6%	19.4%
Administrative expenses ratio*	6.9%	8.7%	7.9%
Claims ratio*	55.5%	62.6%	56.9%
Combined ratio (COR)*	82.5%	87.9%	84.1%

* ratios calculated with net premium earned
Restated data for 2014 and 2015

Data from the profit and loss account – mass-market insurance (in PLN thousand)	1 January – 30 June 2016	1 January – 30 June 2015	1 January – 30 June 2014
Gross written premiums	4,304,782	3,645,737	3,330,302
Net earned premiums	3,642,036	3,335,650	3,200,662
Investment income	275,187	255,413	274,471
Net insurance claims	(2,441,809)	(2,049,489)	(1,886,664)
Acquisition costs	(736,119)	(659,439)	(582,785)
Administrative expenses	(293,979)	(318,125)	(272,801)
Reinsurance commission and share in profits	(2,832)	(1,811)	(1,349)
Other	(135,937)	(92,029)	(77,966)
Operating profit (loss)	**306,547**	**470,170**	**653,568**
Acquisition costs ratio (including reinsurance commission)*	20.3%	19.8%	18.3%
Administrative expenses ratio*	8.1%	9.5%	8.5%
Claims ratio*	67.0%	61.4%	58.9%
Combined ratio (COR)*	95.4%	90.8%	85.7%

* ratios calculated with net premium earned
Restated data for 2014 and 2015

Data from the profit and loss account – group and individually continued insurance (in PLN thousand)	1 January – 30 June 2016	1 January – 30 June 2015	1 January – 30 June 2014
Gross written premiums	3,389,841	3,337,934	3,265,802
Group insurance	2,416,143	2,369,298	2,311,184
Individually continued insurance	973,698	968,636	954,618
Net earned premiums	3,389,955	3,337,850	3,264,495
Investment income	290,726	332,177	371,257
Net insurance claims	(2,378,189)	(2,417,924)	(2,190,111)
Change in the balance of other technical provisions net of reinsurance	(84,619)	(28,301)	(161,141)
Acquisition costs	(166,991)	(180,934)	(174,922)
Administrative expenses	(285,822)	(284,303)	(259,480)
Other	(37,721)	(31,315)	(9,479)
Operating profit (loss)	**727,339**	**727,250**	**840,619**
Operating profit (loss) excluding one-off events	**707,830**	**679,863**	**795,399**
Acquisition costs ratio*	4.9%	5.4%	5.4%
administrative expenses ratio*	8.4%	8.5%	7.9%
Operating profit margin**	20.9%	20.4%	24.4%

* ratios calculated with gross premium written
** ratios calculated with gross premium written, excluding one-off events

Appendix: PZU financial data

Data from the profit and loss account – individual insurance (in PLN thousand)	1 January – 30 June 2016	1 January – 30 June 2015	1 January – 30 June 2014
Gross written premiums	537,986	680,111	643,260
Net earned premiums	540,188	681,028	644,884
Investment income	77,563	198,261	182,775
Net insurance claims	(633,058)	(382,602)	(308,899)
Change in the balance of other technical provisions net of reinsurance	211,858	(312,011)	(342,446)
Acquisition costs	(49,340)	(65,782)	(62,882)
Administrative expenses	(29,649)	(30,466)	(25,814)
Other	(4,332)	(2,138)	(761)
Operating profit (loss)	**113 230**	**86 290**	**86,857**
Acquisition costs ratio*	9.2%	9.7%	9.8%
administrative expenses ratio*	5.5%	4.5%	4.0%
Operating profit margin*	21.0%	12.7%	13.5%

* ratios calculated with gross premium written

Data from the profit and loss account - banking activity (in PLN thousand)	1 January – 30 June 2016	1 January – 30 June 2015	1 January – 30 June 2014
Net revenue from commissions and fees	163,419	-	-
Net investment result	1,024,325	-	-
Interest costs	(350,951)	-	-
Administrative expenses	(502,058)	-	-
Other	(117,671)	-	-
Operating profit (loss)	**217,064**	-	-

Data from the profit and loss account – investment contracts (in PLN thousand)	1 January – 30 June 2016	1 January – 30 June 2015	1 January – 30 June 2014
Gross written premiums	60,749	74,297	277,958
Group insurance	1,358	1,537	42,701
Individually continued insurance	59,391	72,760	235,257
Net earned premiums	60,781	74,286	277,983
Investment income	2,381	22,476	25,366
Net insurance claims	(152,561)	(401,835)	(1,062,808)
Change in the balance of other technical provisions net of reinsurance	97,005	316,844	786,553
Acquisition costs	(2,465)	(5,116)	(10,393)
Administrative expenses	(4,856)	(4,562)	(5,185)
Other	(234)	(289)	(408)
Operating profit (loss)	**51**	**1,804**	**11,108**
Operating profit margin*	0.1%	2.4%	4.0%

* ratios calculated with gross premium written

Data from the profit and loss account – pension segments (in PLN thousand)	1 January – 30 June 2016	1 January – 30 June 2015	1 January – 30 June 2014
Revenues	56,383	56,751	76,851
Investment income	2,541	4,428	5,425
Acquisition costs	(2,073)	(1,468)	(3,337)
Administrative expenses	(17,272)	(20,623)	(50,394)
Other	1,859	387	401
Operating profit (loss)	**41,438**	**39,475**	**28,946**

Investment segment (in PLN thousand)	1 January – 30 June 2016	1 January – 30 June 2015	1 January – 30 June 2014
Total	**(401,007)**	**167,523**	**359,030**

Appendix: PZU financial data

Data from the profit and loss account – Baltic states segment (in PLN thousand)	1 January – 30 June 2016	1 January – 30 June 2015	1 January – 30 June 2014
Gross written premiums	584,897	608,058	158,572
Net earned premiums	530,574	549,549	126,016
Net investment result	9,453	16,607	8,514
Net insurance claims	(331,954)	(343,267)	(79,211)
Acquisition costs	(121,173)	(128,087)	(35,483)
Administrative expenses	(61,174)	(78,143)	(15,702)
Other	(315)	25	649
Operating profit (loss)	**25,411**	**16,679**	**4,784**
exchange rate EUR (LTL) in PLN	4.3805	4.1341	1.2102
Acquisition costs ratio*	22.8%	23.3%	28.2%
administrative expenses ratio*	11.5%	14.2%	12.5%

* ratios calculated with net premium earned
Restated data for 2014 and 2015

Data from the profit and loss account – Ukraine segment (in PLN thousand)	1 January – 30 June 2016	1 January – 30 June 2015	1 January – 30 June 2014
Gross written premiums	106,061	74,291	77,099
Net earned premiums	49,626	49,860	67,209
Net investment result	10,503	26,119	15,413
Net insurance claims	(24,649)	(45,743)	(49,508)
Acquisition costs	(26,604)	(20,696)	(24,187)
Administrative expenses	(10 042)	(9,372)	(13,406)
Other	10,070	2,902	-
Operating profit (loss)	**8,904**	**3,070**	**(4,479)**
exchange rate UAH/PLN	0.1535	0.1729	0.2840
Acquisition costs ratio*	53.6%	41.5%	36.0%
administrative expenses ratio*	20.2%	18.8%	19.9%

*ratios calculated with net premium earned
Restated data for 2014 and 2015

Appendix: Glossary of terms

Appendix: Glossary of terms

Act on Insurance Activity – Act on Insurance and Reinsurance Activity dated 11 September 2015 (Journal of Laws of 2015, item 1844) which implements Solvency II Directive.

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

ATI (Accounting and Tax Institute) – the task of the Institute is to improve the professional qualifications of financial, accounting, and management personnel, setting the standards of financial reporting, creating changes in tax and accounting law, disseminating good practices in business, and thus better preparing Polish companies and institutions to operate under the highly competitive environment of the European Union member states.

cedent – a person assigning a liability to a buyer.

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

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

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

COR - Combined Ratio – combined ratio calculated for the non-life sector (class II). It is the ratio of all the insurance expenses related to insurance administration and payment of claims (i.e. the costs of claims, acquisition and administration) to earned premium in a given period.

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

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 – actuarial measurement method which is applied to the value of future profits of shareholders which will be created as a result of insurance contracts that exist in the insurance company's portfolio. This method takes into consideration the shareholder's risk resulting from uncertainty concerning the timing and value of expected future profits.

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

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

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

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

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

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

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

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

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

PZU Group solvency ratio – a level of coverage of the solvency requirement with PZU Group's own funds within the meaning of Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 which supplements Solvency II Directive, "Calculation of the solvency at the level of the Group".

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 II – Directive 2009/138/EC of the European Parliament and the Council dated 25 November 2009 on the taking-up and pursuit of the business of insurance and reinsurance, as amended.

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.

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

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

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

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

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

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

These Financial Statements contain forward-looking statements concerning the strategic operations.

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

PZU Group is not liable for the effects of decisions made following the reading of the Financial Statements of PZU Group.

At the same time, these Financial Statements of PZU Group may not be treated as a part of a call or an offer to purchase securities or make an investment. The Financial Statements of PZU Group does not constitute also an offer or a call to effect any other transactions concerning securities.