Management Board's Report on the Activity of the PZU SA Group in H1 2017

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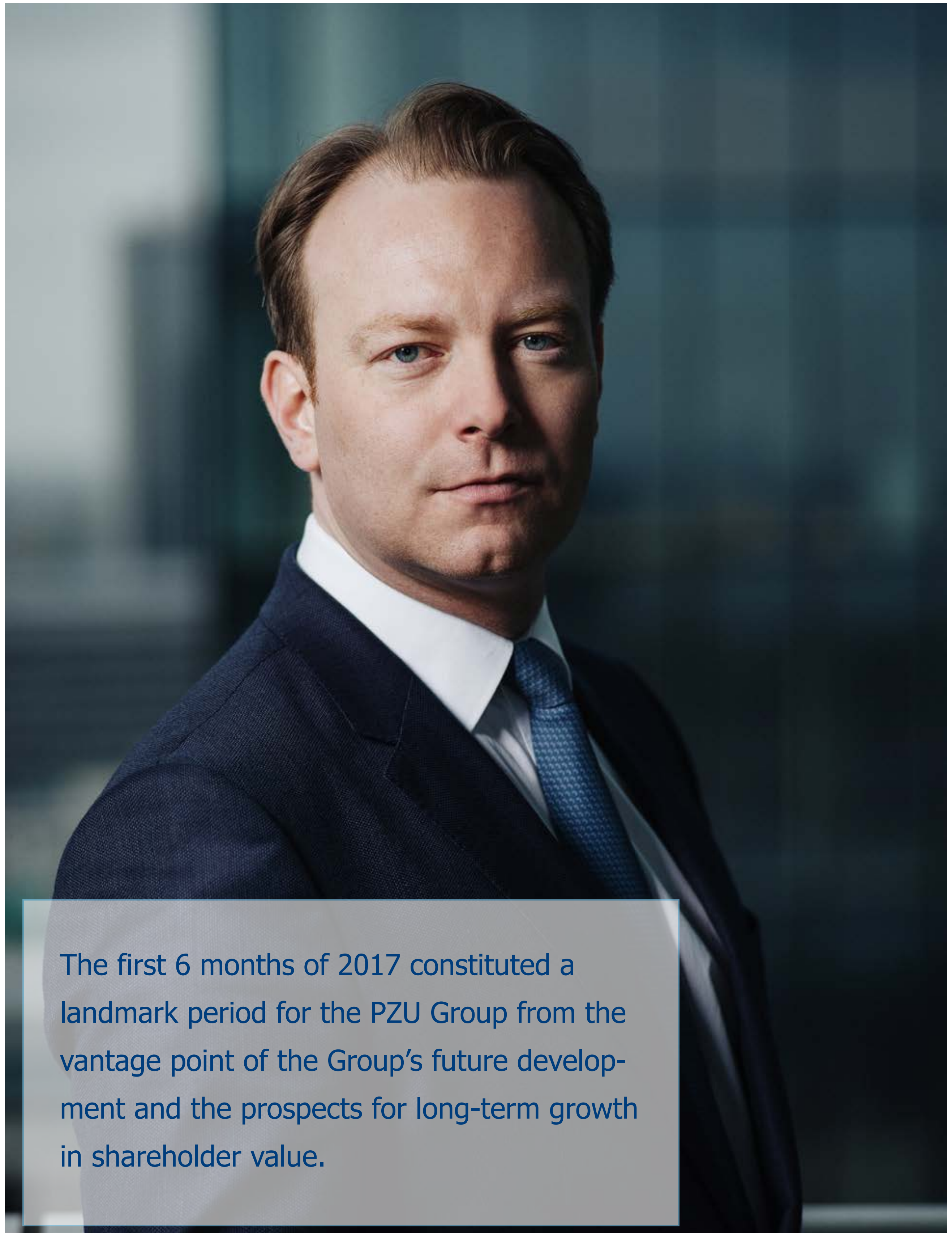
Photographs from CSR activities of PZU Group in 2016 were used in the report.

CEO Letter to Shareholders



The first 6 months of 2017 constituted a landmark period for the PZU Group from the vantage point of the Group's future development and the prospects for long-term growth in shareholder value.

Paweł Surówka Chairman of the Management Board of PZU

Dear Shareholders,

On behalf of the management boards of the PZU Group companies I would like to convey to you our activity report for H1 2017.

The first 6 months of 2017 constituted a landmark period for the PZU Group from the vantage point of the Group's future development and the prospects for long-term growth in shareholder value. On 7 June 2017, PZU finalized the transaction to acquire a 20% equity stake in Bank Pekao (a 32.8% stake jointly with the Polish Development Fund). Following that deal, PZU has become the largest group offering comprehensive financial services in Poland and Central and Eastern Europe with a total balance sheet in excess of PLN 295 billion (assets of PZU, Pekao and Alior Bank). As a result, this has opened the path to pursue many potential synergies on the insurance, banking and investment market. We intend to build the Group's position on this foundation as the service provider of first choice on the financial services market in life and non-life insurance, health care and banking services. In these endeavors, we are focused on satisfying client needs and expectations as best as possible. Ultimately, the measuring stick for attaining these ambitions, and at the same time the common denominator for all these strategic measures will be the number and quality of interactions with our clients.

After finalizing the transaction to acquire an equity stake in Pekao, we conducted the largest issue of subordinated bonds in history in the financial sector in Poland. At the same time, it was the first issue in Poland in compliance with Solvency II requirements. Extensive investor interest enabled us to secure attractively-priced financing from the point of view of the Group's cost of capital and compared to other subordinated issues under way on the Polish market. Consequently, the Group's strong capital position following the transaction to acquire an equity stake in Pekao continued to be impeccable, while the solvency ratio under Solvency II remained above the median solvency ratio for insurance undertakings in Europe.

In H1 2017 we generated very robust performance in our core underwriting business. This was related to the conducive market and regulatory environment and to the proper utilization of the Group's competitive advantages. The Group's transparent tariff policy, optimum utilization of its size and its rigorous cost discipline enabled us to grow sales among new and current clients in life and non-life insurance. As a result, in H1 2017 the PZU Group generated gross written premium of PLN 11.6 billion (i.e. a historic, record-breaking level of gross written premium in the first six months of the year) and operating profit of PLN 2.2 billion (up 109.4% y/y).

In the upcoming periods the Group's major objective will be to strengthen its competitive position on the insurance market, identify and capture new synergies in the banking segment and develop strategic initiatives in health and investments. We are focused on ensuring that these measures are of a fundamental and long-term nature and for their execution to proceed in harmony with the principles of sustainable development.

I would like to thank our employees and all our business partners for their effort to grow PZU's value.

Yours faithfully,

Paweł Surówka

Chairman of the Management Board of PZU

01

PZU Group Overview

For more than 200 years, the identity of the PZU Group had been defined by insurance activity focusing on giving our clients peace of mind and a sense of safety by providing them insurance cover in all of the most important areas of their private, public and business lives.

In seeking out new directions to develop and responding to its clients' needs, the PZU Group has been expanding its activity in Investments, Health and Banking. Following its acquisition of a stake in Bank Pekao S.A. PZU has become the largest financial group offering comprehensive financial services in Poland and Central and Eastern Europe.

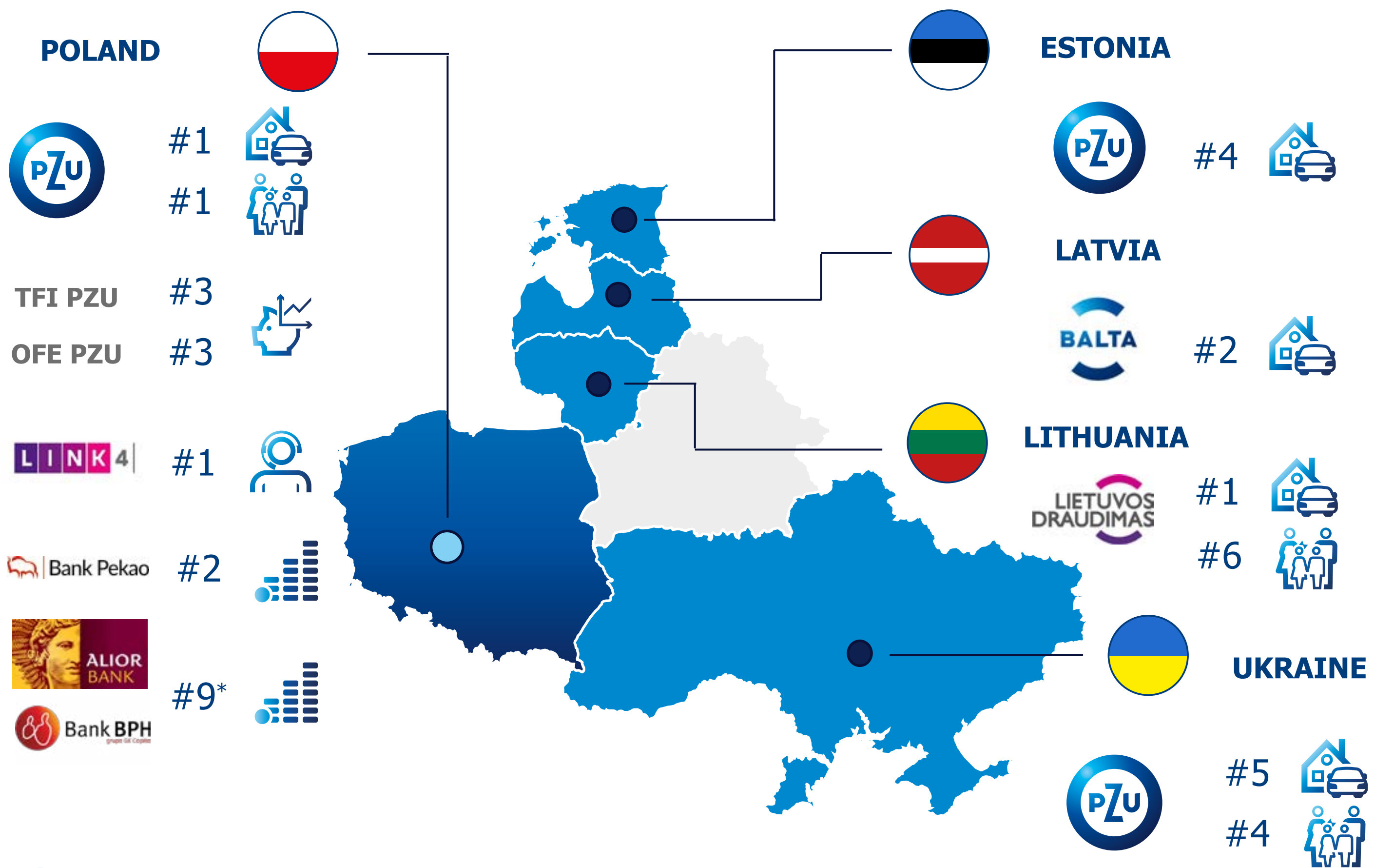
PZU Group Overview

The PZU Group is one of the largest financial institutions in Poland as well as in Central and Eastern Europe. The Group is led by Powszechny Zakład Ubezpieczeń SA (PZU) – a public company listed on Warsaw Stock Exchange S.A. The PZU brand's traditions date back to 1803 when the first insurance company was established in Poland.

For more than 200 years, the identity of the PZU Group has been defined by insurance activity focusing on giving its clients peace of mind and a sense of safety by providing them insurance cover in all of the most important areas of their private, public and business lives.

PZU had been monitoring targets suitable to PZU Group's strategy of building a large-scale and highly profitability banking group and in December 2016 it announced the signing of an agreement with UniCredit to acquire a 20% stake in Bank Pekao (a 32.8% stake jointly with the PFR Polish Development Fund). The transaction was finalized on 7 June 2017. Following this transaction, PZU became the largest group offering comprehensive financial services in Poland and Central and Eastern Europe with total assets of PLN 295 billion (assets of PZU, Pekao and Alior Bank).

PZU's activities



Non-life insurance

Life insurance

Insurance sold in direct sales channels via internet/ telephone

Market position by assets

Market position by assets under management

* assets controlled by Alior Bank

Mission

We are here to provide our clients with **peace of mind** and **safety**. Our clients can always rely on us.

What we do

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 – 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.

~ 16 million clients in Poland

Protection of property	**Protection of the future**	**Health care**	**Increasing savings**	**Bank products**
Motor insurance	Group and individually continued protection products	Health insurance	Participation units TFI	Savings and checking accounts
Non-life insurances	Individual life insurance	Medicine insurance	Pillar II of the pension system (OFE)	Terms deposits
Insurances for enterprises		Health care services: general health care and additional services packages	Pilar III of the pension system (employment pension products - EPP, individual pension accounts – IKE, and individual pension security accounts – IKZE)	Credits and loans
Agricultural insurances				
Financial insurances				
Tourism insurances				

Our values

Common operating philosophy

We are fair

Our offer is clear and satisfies real expectations of our clients; we follow transparent rules in operating the organization

We are effective

We offer friendly customer service and competitive prices to our clients; we control the costs, ensure that processes are smooth

We are innovative

We continually adapt to the changing needs of the clients; we proactively search for ways to improve our business

PZU Group Overview

NON-LIFE INSURANCE

Rapid growth of gross written premium

PLN 6.6 bn (+23.7% y/y)

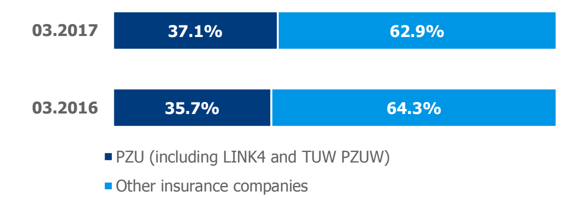
PLN 5.3 bn in H1 2016
PLN 4.4 bn in H1 2015

High profitability achieved in motor insurance measured by COR

95.6% (-6.2 p.p. y/y)

101.7% in H1 2016
105.6% in H1 2015

Market share in direct activity (+1.4 p.p. y/y)



LIFE INSURANCE

Stable growth gross written premium

PLN 4.2 bn (+7.5% y/y)

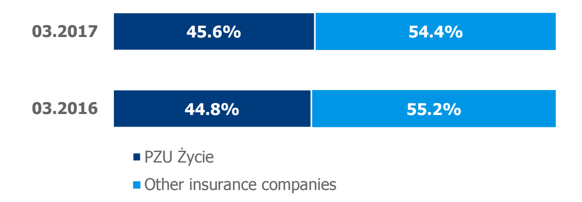
PLN 3.9 bn in H1 2016
PLN 4.0 bn in H1 2015

High profitability maintained in group life and individually continued insurance:

19.2% (-1.7 p.p. y/y)

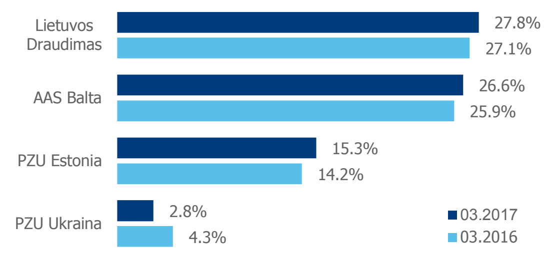
20.9% in H1 2016
20.4% in H1 2015

Market share in regular premium (+0.8 p.p. y/y)

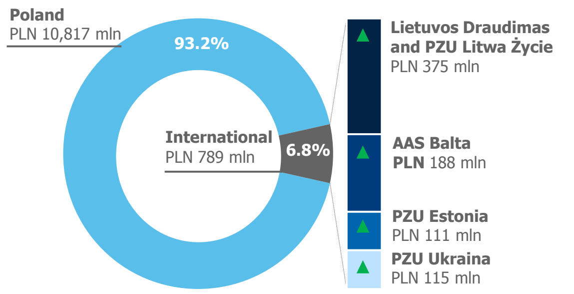


INTERNATIONAL OPERATIONS

Non-life market share



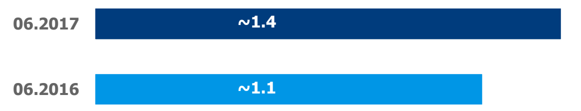
Contribution to Group's gross written premium



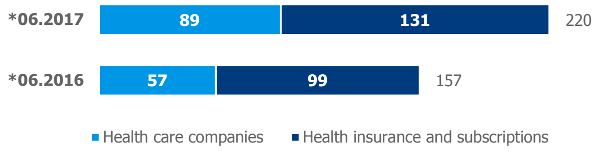
HEALTH

In H1 2017, PZU acquired two additional medical companies (Revimed and NZOZ Trzebinia). PZU has also been gradually expanding cooperation with health care establishments (1,878 units, or 11.3% up y/y in H1 2017), which consequently led to a 30.0% y/y hike in gross written premium in health insurance.

Health insurance (million)



PZU Zdrowie revenues (PLN million)



* H1 data, regardless of the time of acquisition; the revenues of branches - presented in managerial accounting in a corresponding manner to other health care centers, i.e. including revenues from PZU Zdrowie

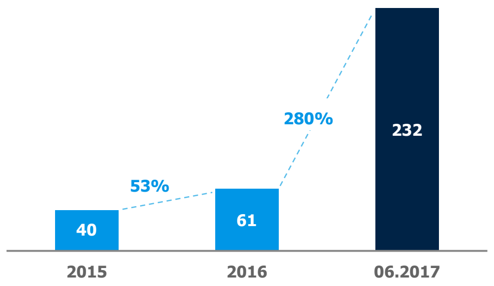
BANKING

In H1 2017, PZU increased its exposure to the banking sector by finalizing the transaction to acquire a 20% equity stake in Pekao S.A.

Consequently, the contribution of the banking segment (Pekao, Alior) to the Group's operating result in H1 2017 was:

PLN 485 million

Banking assets in the PZU Group (PLN bn)



MUTUAL FUNDS

The flexibility of TFI's offer allowed it to retain its leading position on the Employee Pension Plan market. At the end of June 2017, TFI PZU ran a total of 129 programs (+1.6% y/y) for 123.8 thousand people (+3.9% y/y) with total net assets exceeding:

PLN 3.7 bn (+12.1% y/y)

PLN 3.3 bn in June 2016

Assets under Management (+2.8% y/y)

Third position on the market in terms of assets under management

At the end of June 2017, TFI PZU managed net assets of PLN 20,0 billion, of which assets from external clients rose 14.2% y/y to PLN 7.3 billion.

Third party client assets

*As at 30.06.2017 Pekao Bank owned 49% stake in share capital of Pekao Pioneer TFI

PENSION FUNDS

OFE PZU maintained its leading position on the IKZE (individual retirement security account) among voluntary pension funds (VPFs) in terms of the number of members. At the same time, in June 2016 it posted the highest rate of return among all VPFs on the market, i.e.

13.8% (+12.3 p.p. y/y)

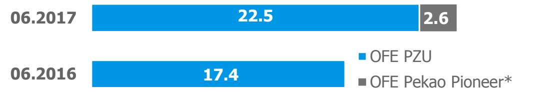
1.5% in H1 2016

Assets under Management (+29.3% y/y)

Third position on the market in terms of assets under management

At the end of June 2017, OFE PZU managed net assets of PLN 22.5 bn, i.e. up by 29.3% y/y.

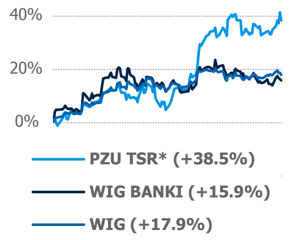
Third party client assets



*As at 30.06.2017 Pekao Bank owned 65% stake in share capital of OFE Pekao

SHARES

Rate of return on PZU shares in H1 2017

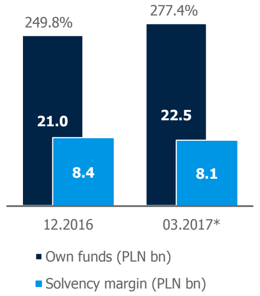


*	06.2017	06.2016
TSR	38.5%	-10.0%
DY	3.1%	7.3%
DPS	PLN 1.4	PLN 2.1
EPS	PLN 1.7	PLN 0.8
P/E	26.6x	37.4x
P/BV	2.9X	2.1x

* Acronyms defined in the glossary

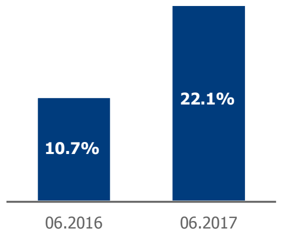
PZU GROUP'S SOLVENCY II/ROE

Solvency II



* non audited data

ROE**



** parent company ROE

PZU Group Overview

PZU Group's consolidated highlights in H1 2015-2017 (PLN million)

	1 January – 30 June 2017	1 January – 30 June 2016	1 January – 30 June 2015
Gross written premium	11,606	9,862	9,126
Net revenues from commissions and fees	498	268	103
Net result on investing activity	3,032	1,405	1,086
Net insurance claims and benefits	(7,214)	(6,165)	(6,006)
Acquisition expenses	(1,412)	(1,252)	(1,131)
Administrative expenses	(2,025)	(1,278)	(822)
Interest expenses	(426)	(346)	(62)
Operating profit	2,199	1,050	1,619
Net profit	1,733	790	1,322
Net profit attributable to the parent company	1,446	660	1,322
Total assets	295,262	112,945	66,056
Financial assets in which:	257,125	93,910	54,602
Credit receivables from clients	162,062	33,526	-
Total equity	34,628	15,601	11,853
Equity attributable to the parent company's shareholders	13,154	11,772	11,852
Technical provisions	43,785	41,702	40,734

Restated data for period 2015-2016

The PZU Group maintains a high level of security in its business. This is corroborated both by its high solvency ratios and by the A- rating awarded by S&P Global Ratings. This is one grade above Poland's sovereign rating for foreign currency-denominated debt. SECTION 7.5 RATING

In connection with the announcement of a PLN 2.25 billion subordinated debt issue on 30 June 2017, on 4 July 2017 S&P Global Ratings updated its evaluation of the Company's standing. After the update PZU's rating remained the same.

A-

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

02

External environment in H1 2017

Continuation of solid GDP growth - consumption grew dynamically in view of the improving situation on the labor market, while the growth rate of investments remained low.

Economic recovery supported the stock market. Very good state budget performance, diminishing political uncertainty in Europe and lower inflation in Q2 2017 contributed to higher Polish bond prices.

In chapter:

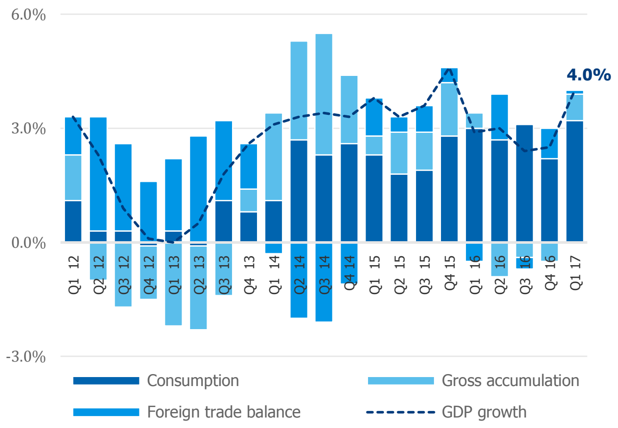
2.1 Main trends in the Polish economy

Gross Domestic Product

The Central Statistical Office (CSO) confirmed that GDP growth in Poland accelerated in Q1 2017 to 4.0% y/y compared to 2.5% y/y in Q4 2016 driven by rising consumption and inventories. The rate of household consumption growth in Q1 2017 (4.7% y/y) was at its highest since the end of 2008 in the context of robust growth in real income and the very good situation on the labour market. Inventories continued to contribute materially to GDP growth (0.7 p.p.). The increase in inventories however was mainly a reaction to the recovering demand and business activity. The poor performance of investments (-0.4% y/y) for which private business investments are "responsible" was a negative surprise. The NBP economic climate survey showed that uncertainty was an obstacle to higher private investments in businesses with a good financial standing; however, some improvement transpired in Q2. The impact on GDP growth exerted by net exports was nearly neutral.

GDP growth in Q2 slowed down slightly. According to the flash estimate of CSO, it amounted to 3.9% y/y. In that period, the pace of retail sales volume slackened to 6.7% y/y from 7.1% y/y one quarter before. However, in H1 retail sales in constant prices rose 6.9% y/y compared to 5.0% y/y in the same period of 2016. At that time, the industrial production growth rate remained solid. In Q2, industrial production rose 4.2% y/y, compared to 7.3% y/y in Q1; however, after eliminating seasonal variations, these growth rates were similar to one another (monthly average of 5.7-5.8% y/y) and markedly higher than in 2016. Construction and installation production accelerated significantly in Q2, increasing on average to 8.1% y/y, compared to 4.7% y/y in Q1. In 2016, construction production was clearly in decline. In Q2 2017, investment growth rate will presumably remain low. The public investment cycle co-funded by the EU was still in an early stage in H1 2017.

GDP growth decomposition in 2012 - Q1 2017



Labor market and consumption

In H1 2017, the labor market conditions improved considerably. In June, the registered unemployment rate was 7.1%, down 1.6 p.p. from the previous year. In that period, the average monthly employment in the corporate sector increased by almost 203 thousand persons, vs. about 127 thousand in the first six months of 2016. The annual growth rate of employment in the corporate sector was 4.3% y/y in June 2017, one of its highest levels since H1 2008. The number of job offers at the end of June was 5.1% higher than the year before. Businesses reported an increasing number of vacancies and rising problems with finding suitable employees. The improvement on the labor market was supported by an excellent business climate. Nevertheless, demographic processes increasingly contribute to cutting the unemployment rate.

Given the improving situation on the labor market, the pace of salary growth rose gradually. In Q1 and Q2 2017, the growth rate of the average monthly salary in the national economy sped up to, respectively 4.1% y/y and 5.0% y/y vs. 3.7% y/y in Q4 2016. The resurgence of inflation contributed to weakening real salary growth in the economy to 2.1% y/y in Q1 2017 compared to 3.4% y/y one quarter earlier. However, in Q2 the growth rate of the average monthly salary in national economy climbed to 3.2% y/y in real terms. In these conditions, the increase in household consumption in Q1 2017 accelerated to 4.7% y/y and was the highest in 8 years. The consumer confidence indicators up to and including June consecutively broke records, remaining at their highest level in the history of the survey (since 1997). Accordingly, consumption in Q2 should at least sustain the growth rate of the previous quarter.

Inflation, monetary policy and interest rates

In H1 2017, the prices of consumer goods and services measured by CPI were up 1.9% y/y, compared to a 0.3% drop y/y in H2 2016. At the outset of the year, inflation visibly increased in connection with the price hike in energy commodities on local and global markets. Inflation subsequently stabilized after the impact of the global commodity price hike subsided, with increasing food prices and gradually rising core inflation associated with economic recovery. Core inflation (net of food and energy prices) in H1 2017 was 0.6% y/y compared to -0.2% y/y in H2 2016.

In the period from January to August 2017, the interest rates of the National Bank of Poland did not change. The reference interest rate remains at the level of 1.5% set in March 2015. The members of the Monetary Policy Council believe that the current level of interest rates is conducive to keeping the Polish economy on a sustainable growth path and allows it to preserve macroeconomic balance.

Public finance

The Polish state budget after June of this year recorded a surplus of PLN 5.9 billion. This excellent mid-year result is a record-breaking. The annual growth rate of indirect tax proceeds decelerated slightly in June but it is still about 20% y/y year-to-date, mainly because of the very high growth of VAT proceeds (about 28% y/y). The large contribution made by the National Bank of Poland's profit lent additional support to state budget income (PLN 8.7 billion).

The Ministry of Finance announced that, after the first half of the year, about 70% of the full-year borrowing needs were financed. The level of liquid funds in Polish zloty and foreign currencies proved to be high at about PLN 80 billion at the end of June.

2.2 Situation on the financial markets

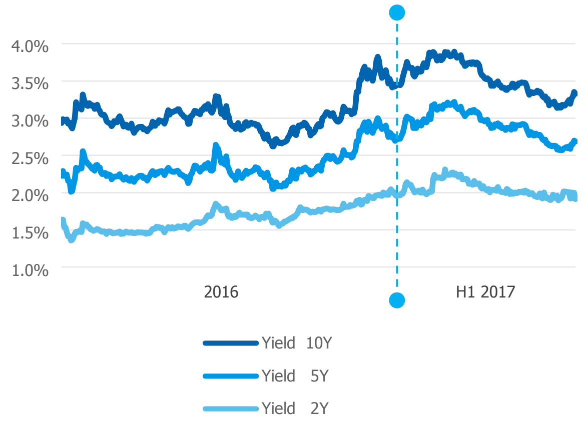
The rapid growth of Polish stock market indices that started at the time of the 2016 US presidential election continued in early 2017. It was accompanied by robust economic data from Poland and the Euro zone that also translated into the financial performance of the companies listed on the Warsaw Stock Exchange. The cautious declarations made by the European Central Bank and the Federal Reserve in respect to the pace of tightening monetary policy also supported the equity market. However, the interest rate hike announced by the Federal Reserve in March contributed to a certain slowing down of the upward trend in stock prices.

At the same time, in Q1 2017, 10-year treasury bond yields in Poland temporarily reached a relatively high level of 3.90% that was last recorded in 2014. However, in subsequent months, diminishing political risk in Europe following the elections in the Netherlands and France, accelerating economic growth in Poland and the ensuing conducive fiscal position contributed to a gradual decline in treasury bond yields in Poland. The prices of Polish treasury securities were also supported by statements made by members of the Monetary Policy Council and A. Glapiński, Governor of the National Bank of Poland, who consistently extinguished expectations of possible hikes in central bank rates.

In May 2017, market volatility increased in connection with, among others, a decline in oil prices that adversely affected emerging markets and higher political risk in the US. Nevertheless, German and US bonds generally increased in value in Q2 2017, driven by the waning prospects for monetary policy tightening as perceived by market participants, among others due to declining inflation. This trend, however, reversed in late June. Statements made by M. Draghi, President of the European Central Bank, led to a noticeable increase in yields of German long-term treasury bonds, also affecting the global market.

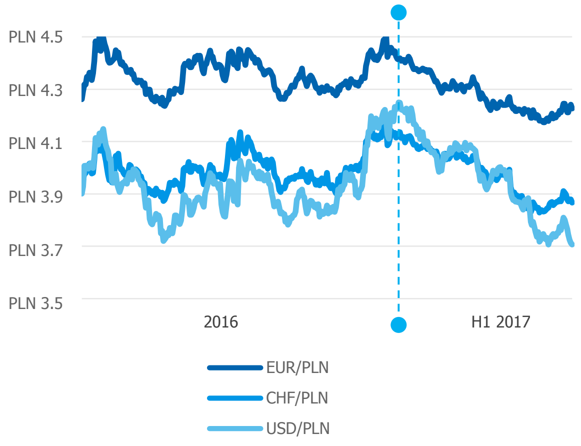
Ultimately, between the end of December 2016 and the end of June of this year, the WIG and WIG20 indices surged upward by approximately 18%. The Polish yield curve from the end of December 2016 to the end of June 2017 clearly shifted downward for longer maturities by about 20 bps for 5-year treasury bonds and by about 30 bps for 10-year treasury bonds (down to about 3.30%). The yield on 2-year bonds fell by roughly 10 bps, while yields of annual treasury securities rose by almost 20 basis points (to about 1.60%). Since May, the difference between yields offered by Polish and German 10-year treasury bonds has been under 300 basis points. According to our estimates, Poland's risk premium declined in H1 2017.

Treasury bond yields in 2016 and H1 2017



The evolution of currency rates in recent months, including PLN rates, was affected by changes in market expectations concerning the future monetary policy in the US and in the Euro zone. In H1 2017, the US dollar clearly weakened vs. the euro, which may be attributed to disappointment with the direction of President D. Trump's policies. The EUR/USD rate rose from about 1.05 to about 1.14, which is approximately 8%. The Polish zloty appreciated vs. the major global currencies. The Polish currency was supported by diminishing political risk in Europe, the robust pace of economic growth in Poland and the Euro zone, as well as the good condition of the Polish state budget. The USD/PLN rate fell by as much as 11% at the end of June of this year compared to the end of 2016. The EUR/PLN and CHF/PLN rates fell in the period under analysis by about 4% and 6%, respectively. The Swiss franc exchange rate has remained under PLN 4 since the end of March.

PLN exchange rate in 2016 and H1 2017



2.3 External environment in the Baltic States and Ukraine

Lithuania

The improvement in global economic conditions accrued relatively quick implications for Lithuanian exporters. Following a period of decline in the last several quarters, the exports of goods increased. As a result, according to the data published by the Bank of Lithuania, the entire economy posted GDP growth of 3.9% in Q1. According to the forecasts, Lithuania's real GDP growth in full-year 2017 will be 3.3%.

Economic growth in Lithuania still largely hinges on domestic demand, especially private consumption driven by intensive changes on the labor market. Last year, salaries rose by approximately 8%. The labor market will continue to support income from labor, thus private consumption will remain an important driver of economic growth. It is expected, however, that income from labor will cease to rise at the current pace, since salary inflation whose growth rate is outpacing labor productivity will curtail the competitiveness of businesses. The decline in income from labor should also cause household spending to decelerate.

Over the last several years, inflation was fairly low in Lithuania. This was partially associated with the global economic environment affecting commodity prices. Their upswing precipitated inflation growth starting at the end of 2016, boosted additionally by higher excise taxes. The global oil price hike had a significant effect on other prices, driving not only fuel prices but also import prices of other commodities that are following an upward trend again. These

In Q1 2017, the GDP of Poland grew by

4.0% y/y

driven by rising
consumption and
inventories

In June, the registered
unemployment rate was

7.1%

and dropped by

1.6 p.p.

from the previous year

Core inflation rate in H1 2017
reached

0.6% y/y

compared to -0.2% y/y
in H2 2016

Household consumption in Q1 2017
accelerated to

4.7 % y/y

and was the highest in
the last 8 years

The GDP of Lithuania grew by

3.9%

in Q1 2017

In Q1 2017, Latvia's GDP growth
accelerated to

4.0%

and was the highest
growth rate recorded
in five years

Estonia's GDP in Q1 2017 rose by

4.4%

from the previous year
and 0.8% on
a quarterly basis

In Q1 2017, Ukraine's GDP growth was
negative at

-0.3%

compared to the previous
quarter (as a result of
seasonality). On a y/y
basis, the economy posted

2.5%

growth

factors have sustained inflation above 3% nearly from the outset of 2017. It was 3.5% in June. According to the Bank of Lithuania's current forecasts, inflation in full-year 2017 will be 3.2%.

Latvia

In Q1 2017, Latvia's GDP growth accelerated to 4.0%. This is the highest GDP growth rate recorded in five years, but the annual figures are expected to be lower. Salary growth (7.2% y/y), lower unemployment and improving consumer sentiment drove the economy. Nevertheless, private consumption and services are the main driver of the economy. Also, for the first time in two years, the upswing in investments has made a positive contribution to GDP y/y following the recovery in private sector investments; to some extent, it also contributed to stronger growth in the construction sector.

In May 2017, exports and imports rose 9.0% and 12.1%, respectively, from the levels seen in April. During the first 5 months of 2017, exports climbed 8% while imports rose 11% y/y. Moreover, imports and exports reported positive growth rates for the seventh month in a row. Exports are expected to grow in subsequent periods as well, supported by the contract signed between the Latvian Railroads and DHL on investments in the logistics system. The contract is expected to lead to the development of connections between the Latvian and Chinese markets.

The annual inflation rate in June was 3.0%. The price of oil in Latvian tanks fell to their lowest level this year. The impact of falling oil prices was offset by higher food prices and a gradual rise in the prices of services. The gradual growth in the prices of services stems from two main factors: rising prices of TPL motor insurance and mobile telephony services.

Estonia

Estonia's GDP in Q1 2017 rose 4.4% from the previous year and 0.8% on a quarterly basis. The growth was driven by a strong surge in exports and investments, while private consumption, which drove the economy in recent years, slowed down. The annual growth of private consumption in constant prices slowed down to 0.6% in the first 3 months of 2017. One of the main reasons for slowing down real growth in private consumption was higher inflation and at the current price levels the deceleration in the growth of spending for private consumption was more moderate.

Despite the strong rise in productivity and greater demand for labor, the growth in average salary slowed down in early 2017. The increasing vacancy rate indicates strong demand for labor and higher employee shortages. The unemployment rate hike in H2 2016 proved to be temporary and the stronger rise in employment drove the unemployment rate down to 5.6% after Q1 2017.

The growth in the prices of consumer goods and services accelerated in H2 2016, reaching 3% in the first quarter of the current year. Inflation accelerated because of internal and external factors. The main reason was linked to higher commodity prices on global markets that, through import prices, affected the consumer prices of energy and food.

Ukraine

In Q1 2017, Ukraine's GDP growth was negative at -0.3% from the previous quarter (as a result of seasonality). On a y/y basis, the economy posted 2.5% growth[1]. A positive growth rate was recorded by most sectors of the real economy (construction +19.4%, retail sales +3.1%, passenger traffic +19.4%), except for industrial and agricultural production (down 1% compared to the corresponding period of the previous year). In June 2017, inflation reached 15.6% but remained within the inflation corridor planned by the National Bank of Ukraine.

In June 2017, the unemployment rate in Ukraine fell compared to the corresponding period of the previous year by 17.8% and in absolute numbers by 58.7 thousand people to 330.2 thousand. Following the minimum salary hike to UAH 3,200 in January 2017, a rise in real salaries was observed in May 2017 by 20.4% compared to May 2016.

The stabilization of the FX market was also conducive to improving the country's economic standing. The hryvnia appreciated in H1 2017, powered by the seasonal rise in exports and favorable pricing on international commodity markets. An additional factor contributing to the stabilization of the local currency was the liberalization of currency and investment regulations by the National Bank of Ukraine.

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[1] Data on GDP, inflation, unemployment, salaries and economic indices are based on information published by the State Statistics Service of Ukraine.

2.4 Macroeconomic factors that can affect the operations of the Polish insurance sector and the PZU Group's activities in 2017

We expect all economic growth drivers, i.e. consumption, investments, exports to support GDP growth in 2017 which may hit approximately 4.0%. Accomodative monetary and fiscal policy also contribute to stimulating domestic demand. As the infrastructural projects co-funded in the new EU financial perspective move to the execution stage, the acceleration of investment growth will be more visible. Given the high utilization of production capacities, good financial standing of businesses, low interest rates and positive demand forecasts, private investments should also begin to rise in time. At the same time, the relatively high annual consumption growth rate will be maintained, even though it may decelerate slightly in the second half of the year since payments under the "Family 500+" program were in full effect one year before. Inflation will remain relatively low and this will make it possible to avoid a sudden erosion in real income.

The risk posed to economic growth and the situation on the financial markets by the elections in the crucial Euro zone countries has diminished significantly. Additionally, protectionism did not increase materially in the global economy, even though such fears were prevalent at the outset of 2017. The consolidation of economic recovery in the Euro zone, the rise in yields of European bonds and the steepening yield curve all contributed to the mitigation of risk of disruptions in the European banking sector.

It is still difficult to predict the overall economic and market consequences of the possible "hard Brexit", even though, so far, the Euro zone economy has seemed immune to the process. Geopolitical threats and the risk of a financial crisis in China persist, although the risk of a "hard landing" seems low in the short term.

Data for the Polish economy	H1 2017	2016	2015	2014	2013
Real GDP growth in % (y/y)	3.9*	2.7	3.8	3.3	1.4
Increase in individual consumption in % (y/y)	4.7**	3.8	3.0	2.6	0.3
Gross fixed capital formation in % (y/y)	(0.4)**	(7.9)	6.1	10.0	(1.1)
Increase in prices of consumer goods and services in % (y/y, end of period)	1.5	0.8	(0.5)	(1.0)	0.7
Nominal wage growth in national economy in % (y/y)	5.0***	3.6	3.5	3.2	3.7
Unemployment rate in % (end of period)	7.1	8.3	9.7	11.4	13.4
NBP base rate in % (end of period)	1.50	1.50	1.50	2.00	2.50

* Flash estimate for Q2 2017
** Data for Q1 2017
*** Data for Q2 2017

Source: Central Statistical Office of Poland

03

PZU Group’s operations

The PZU Group has an extensive array of financial services in its offering for individual clients, small and medium enterprises and large corporations. PZU’s clients have access to insurance cover and financial management.
The PZU Group is also exposed to the banking sector through its controlling stake in Pekao and Alior Bank. These banks offer a range of banking services to individual and business clients by blending the principles of traditional banking with innovative solutions.
The PZU brand is also ever more strongly associated with Health.

In chapter:

3.1 Structure of the PZU Group

The PZU Group conducts various activities in insurance and finance. In particular, the PZU Group companies offer the following services:

- life insurance, non-life insurance, health insurance in Poland, the Baltic States and Ukraine;
- banking services through Pekao and Alior Bank;
- third party asset management under open-end pension funds and mutual funds; and
- medical services (through PZU Zdrowie and medical centers).

PZU SA, as the parent company, makes the key decisions concerning the Group members' scope of business and financials by discharging control functions in their supervisory bodies. As selected companies focus on their specialization and utilize their membership in the Tax Group, these companies render services to one another on chosen markets pursuant to an internal cost allocation model (under the Tax Group).

The following changes transpired in the structure of the PZU Group in H1 2017 up to the date of publication of these financial statements:

- regarding exposure to the banking sector:
  - The transaction to acquire a significant equity stake in Bank Polska Kasa Opieki S.A. from UniCredit S.p.A. was closed on 7 June 2017 by PZU SA acting in consortium with Polski Fundusz Rozwoju S.A. pursuant to the Bank's equity stake purchase agreement. PZU SA reported this agreement in Current Report no. 82/2016 on 8 December 2016 and Current Report no. 28/2017 on 29 March 2017. As a result of executing orders, PZU SA acquired 52,494,007 shares in the Bank representing approximately 20% of the total number of votes and the Polish Development Fund (PFR) acquired 33,596,165 shares in the Bank representing approximately 12.8% of the total number of votes. The share price for each share in the Bank defined in the Agreement is PLN 123, implying a total price of PLN 10,589,091,156 (ten billion five hundred eighty-nine million ninety-one thousand one hundred fifty six zloty) for the entire stake acquired by PZU SA and PFR. The price for the stake acquired by PZU SA is PLN 6,456,762,861 (six billion four hundred fifty-six million seven hundred sixty-two thousand eight hundred sixty-one zloty).
- in connection with executing the growth strategy in Health:
  - In 2017 the PZU Group expanded by acquiring a 100% equity stake in NZOZ Centrum Medyczno-Rehabilitacyjne Revimed and a 95.25% equity stake in NZOZ Trzebinia.

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

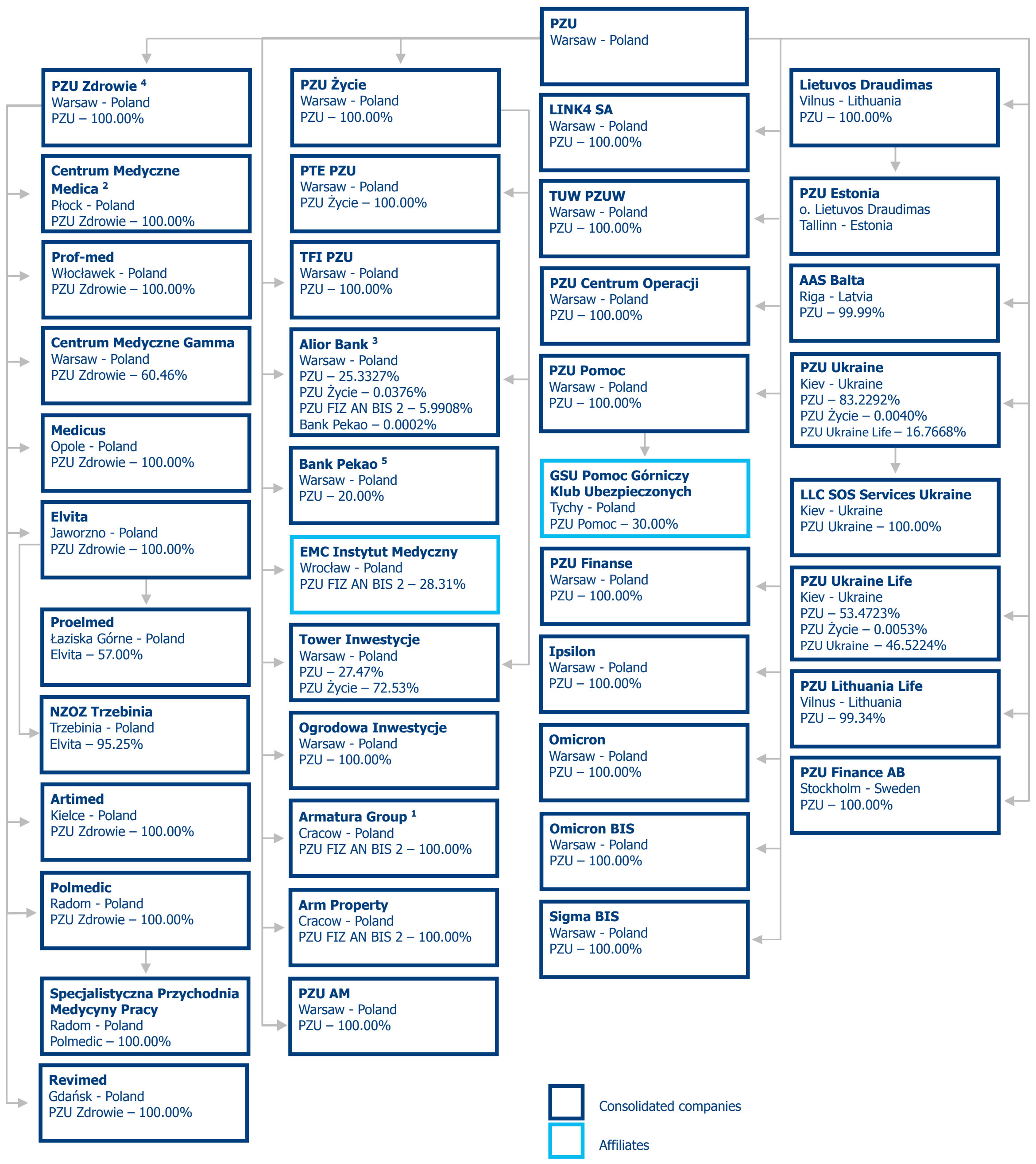
Market situation

Measured by gross written premium in Q1 2017 the non-life insurance market in Poland grew by a total of PLN 2,106 million (up 27.2%) in comparison to the corresponding period of the previous year. The sales growth in motor TPL insurance (up PLN 1,559 million, +59.3%) and motor own damage insurance (up PLN 306 million, +19.2%) made the largest contribution to the higher level of premium, chiefly as the outcome of the higher average premium (the consequence of the regular price hikes rolled out in 2016 as a response to the persistently negative results on the motor insurance market) and the climbing percentage of premium originating from indirect activity (motor TPL insurance up PLN 431 million year on year).

In addition, higher sales of insurance against fire and other physical losses (up PLN 197 million, +11.9%, of which PLN 77 million pertains to indirect activity) and assistance insurance (up PLN 29 million, +14.5%) made a clearly positive contribution to the overall non-life insurance market's growth. A premium slump was visible only in loan and guarantee insurance (premium down PLN 64 million, -25.6% in comparison to the corresponding period of the previous year) as the outcome of the volatile conditions on the financial insurance market.

In Q1 2017 the overall non-life insurance market generated a net result of PLN 539 million, signifying incremental growth of PLN 506 million in comparison with the corresponding period of 2016. In Q1 2017 the technical result of the non-life insurance market rose PLN 608 million to PLN 600 million. The growth in the technical result in motor TPL insurance of PLN 450 million and the class of insurance against fire and other damage to property losses of PLN 188 million made the largest contribution to this change. Adverse changes were posted in general TPL insurance (down PLN 41 million), motor own damage insurance (down PLN 17 million) and accident and illness insurance (down PLN 7 million).

Structure of the PZU Group (as at 30 June 2017)



[1] Armatura Group included the following entities: Armatura Kraków SA, Aquaform SA, Aquaform Badprodukte GmbH, Aquaform Ukraine TOW, Aquaform Romania SRL, Morehome.pl sp. z o.o.

[2] Centrum Medyczne Medica Group includes the following entities: Centrum Medyczne Medica Sp. z o.o., Sanatorium Uzdrowiskowe „Krystynka" Sp. z o.o. i Rezo-Medica sp. z o.o.

[3] Alior Bank Group 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., , Serwis Ubezpieczeniowy Sp. z o.o.

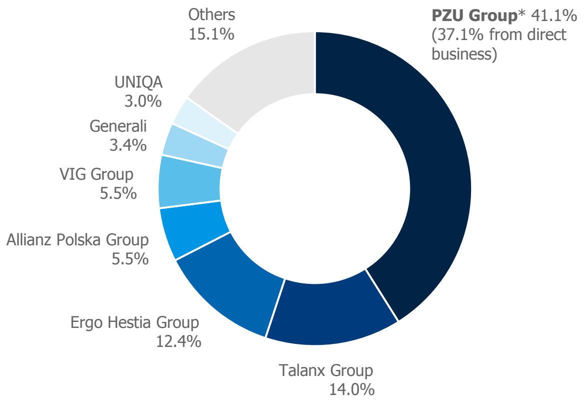
[4] within PZU Zdrowie 2 branches are operating: CM Nasze Zdrowie in Warsaw and CM Cordis in Poznan.

[5] Pekao Bank Group includes following entities: Pekao Bank Hipoteczny SA, Centalny Dom Maklerski Pekao SA, Pekao Leasing sp. z o.o., Pekao Investment Banking SA, Pekao Faktoring sp. z o.o., Pekao Pioneer PTE SA, Centrum Kart SA,
Pekao Financial Services sp. z o.o., Centrum Bankowości Bezpośredniej sp. z o.o., Pekao Property SA, Dom Inwestycyjny Xelion Sp. z o.o., Pioneer Pekao Investment Management SA, Pioneer Pekao TFI SA, CPF Management

The structure does not cover investment funds and entities in liquidation.

PZU Group's operations

Non-life insurance undertakings - percentage of gross written premium in Q1 2017 (in %)

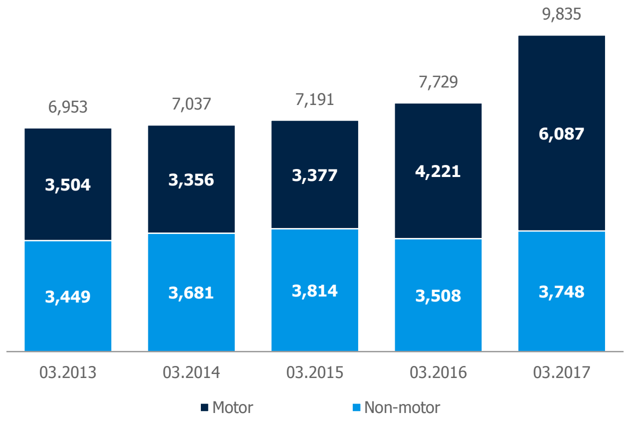


Groups: Allianz – Allianz, Euler Hermes; Ergo Hestia – Ergo Hestia, MTU; Talanx – Warta, Europa, HDI; VIG – Compensa, Benefia, Inter-Risk
Source: KNF's Quarterly Bulletin. Insurance market 1/2017
* PZU Group – PZU, LINK4, TUW PZUW

The spike in the technical result in the class of motor TPL insurance chiefly ensues from the higher earned premium (up PLN 794 million, +44.6%) on the back of the changes made last year to the average premium forming a response to the market's deteriorating results, outpacing growth in claims paid (up PLN 253 million, +14.9%).

At the same time, higher profitability was posted in the class of insurance for damage to property losses caused by hail, frost and other causes (+PLN 210 million on direct activity) as the effect of a significantly lower level of mass claims caused by ground frost and hail precipitation in agricultural insurance.

Gross written premium reported by non-life insurance undertakings in Poland (PLN milion)



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

To respond to client expectations in recent years the PZU Group has extended its offering for retail and corporate clients (by forming a mutual insurer), thereby steadily growing its market share. In Q1 2017 the PZU Group held a 41.1% non-life insurance market share compared to 36.9% in Q1 2016 (37.1% and 35.7%, respectively in direct activity).

The PZU Group holds a strong market position in motor insurance with a market share of 44.7% in motor own damage and 46.8% in motor TPL insurance.

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

Gross written premium	1 January – 31 March 2017			1 January – 31 March 2016		
	PZU	Market	Market net of PZU	PZU	Market	Market net of PZU
MOD	848	1,899	1,051	664	1,593	929
Motor TPL	1,959	4,188	2,229	1,104	2,628	1,524
Other products	1,230	3,748	2,518	1,085	3,508	2,423
TOTAL	**4,037**	**9,835**	**5,798**	**2,853**	**7,729**	**4,876**

Source: KNF's Quarterly Bulletin. Insurance market 1/2017

PZU Group's share in the non-life insurance market after Q1 2017 reached

37.1%,

(direct business)

including LINK4 share of

2.7%

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

39.6%

after Q1 2017

Share of PZU Życie in periodic gross written premium, which is PZU Życie's competitive advantage in the market was

45.6%,

after Q1 of 2017

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

13.8%

after Q1 2017, which was more than two times higher than the margin obtained by all other companies offering life insurance in total

TFI PZU managed net assets of the value over

PLN 20 bn,

which means

7.4%

market share

OFE PZU Złota Jesień held

12.9%

of the total value of assets of open pension funds operating in Poland

Maintaining the leading position of Lietuvos Draudimas in the non-life insurance market in Lithuania

29.4%

market share after H1 2017

Over Q1 2017 PZU Ukraine obtained

2.8%

of the gross written premium in the Ukrainian non-life insurance sector, while PZU Ukraine Life

10.0%

of the life insurance market premium

In Q1 2017 the PZU Group's technical result (PZU together with LINK4 and TUW PZUW) stated as a percentage of the overall market's technical result is 67.2% (the PZU Group's technical result is PLN 404 million while the overall market's technical result is PLN 600 million), illustrating its insurance portfolio's high level of profitability.

The total value of the investments made by non-life insurance undertakings at the end of Q1 2017 (net of the investments made by subordinated entities) was PLN 53,517 million and was up 3.6% compared to the end of 2016.

The non-life insurance undertakings in total estimated the net technical provisions at PLN 46,045 million, signifying 3.2% growth compared to the end of 2016.

PZU's activity

As the PZU Group's parent company, PZU offers an extensive array of non-life insurance products, including motor insurance, property insurance, casualty insurance, agricultural insurance and third party liability insurance. PZU's product range encompassed more than 200 insurance products at the end of H1 2017. Motor insurance is the most important group of products offered by PZU, both in terms of the number of insurance agreements and its premium stated as a percentage of total gross written premium.

In the mass insurance segment PZU promoted the sales of PZU Home insurance (PZU Dom), also via the web, providing a broad range of property protection with an additional package of assistance services to obtain quick assistance from professionals in the event something breaks down at home. This offering was accompanied by two campaigns called „Nie zawsze Ci się upiecze" [You are not always lucky] and „Nie zawsze ujdzie Ci na sucho"[It doesn't always work out], broadcast among others in television, radio and social media and offered in PZU branches and by insurance agents.

Most changes in the corporate insurance segment were associated with the regular launch of products dedicated to corporate clients administered and sold in the Everest System; work was also continued to enrich the offering with new products, inter alia, cyber risks for commercial undertakings.

In its endeavors to diversify its portfolio and augment the returns on cooperation between smaller commercial undertakings, in H1 2017 PZU modified the rules for selling insurance guarantees in financial insurance. It introduced a new policy for extending collateral to clients with an exposure up to PLN 3 million. The most important activities involving changes to the product offering included the launch of a new GAP insurance for financial losses to provide protection against the financial risk incurred by a lessee or borrower in the event of a total loss, thereby enabling PZU to take advantage of the prospective growth of the lease market.

In H1 2017 cooperation was continued with its business partners to date and cooperation was established in bancassurance with Alior Bank. This cooperation involves the performance of agreements with 9 banks and 8 strategic partners. PZU's business partners are leaders in their industries and they have client bases with enormous potential offering an opportunity to extend the offering to include more products. In strategic partnership, cooperation applied mostly to companies operating in the telcom and power sectors through which insurance for electronic equipment and assistance services were offered. Bancassurance sales pertained chiefly to insurance for buildings, structures and residential units as well as insurance dedicated to payment cards.

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

	1 January – 31 March 2017			1 January – 31 March 2016		
Technical results	**PZU**	**Market**	**Market net of PZU**	**PZU**	**Market**	**Market net of PZU**
MOD	(5)	38	44	68	55	(13)
Motor TPL	118	96	(23)	(70)	(354)	(285)
Other products	290	466	176	80	292	211
TOTAL	**404**	**600**	**197**	**79**	**(8)**	**(87)**

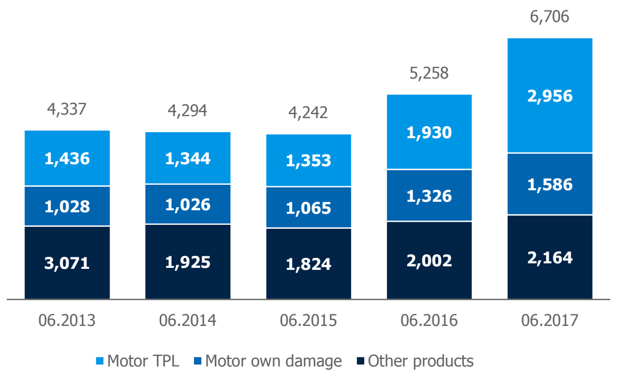
Source: KNF's Quarterly Bulletin. Insurance market 1/2017

In H1 2017 PZU generated gross written premium in the amount of PLN 6,706 million, i.e. 27.6% more than in the corresponding period of the previous year. At the same time, the sales split underwent slight changes:

- TPL motor insurance sales came in at PLN 2,956 million and were up 53.2% (+35.6% in direct activity) above the corresponding period of the previous year. They represented 44.1% of the overall portfolio, extending their percentage by 7.4 p.p. in comparison with H1 2016. The higher value of motor TPL insurance at PZU chiefly ensued from the growth in the average premium and the rising percentage of inward reinsurance from PZU Group companies.
- the PZU Group generated gross written premium of PLN 1,586 million on motor own damage insurance, i.e. 19.6% more than in H1 2016. The percentage held by motor own damage in the overall portfolio fell by 1.6 p.p. to 23.7%;
- the higher level of sales of insurance for other damage to property losses and losses caused by calamities offered mainly to retail clients translating into a higher growth rate in premium for non-motor products coupled with the concurrent decline in its percentage of total premium to 32.3% (versus 38.1% in H1 2016).

In H1 2017 PZU paid gross claims and benefits of PLN 3,209 million, i.e. 2.0% more than in the corresponding period of the previous year.

PZU's gross written premium (PLN million)



In the period under analysis PZU generated a net profit according to Polish Accounting Standards totaling PLN 2,101 million, of which the dividend from PZU Życie accounted for PLN 1,429 million.

LINK4's activity

LINK4 is one of the leaders on the Polish direct insurance market. It offers an extensive range of non-life insurance products, including motor insurance, property insurance, travel insurance and third party liability insurance.

In H1 2017 the main emphasis was placed on analyzing the evolving price context, optimizing tariffs to augment the profitability of the portfolio and developing product and process-related innovations alike. The most important activities linked to modifying its product offering were as follows:

- cooperating with NaviExpert to implement a telematic solution to promote safe driving called "LINK4 Money Returns" – LINK4's clients can receive a bonus in the form of a partial premium rebate for every month of safe driving. As of 26 April, LINK4 offers navigation with this application free of charge along with every motor TPL insurance or package. It uses telematic solutions to assess a driver's driving style;
- launching innovative products offering among others insurance for household pets and ADD insurance along with insurance in the event of complications following tick bites or other insect bites.

In H1 2017 Link4 generated gross written premium totaling PLN 514 million (up 68.2% compared to 2016), with motor insurance constituting the bulk of that:

- motor TPL insurance was PLN 403 million, accounting for 78.4% of the overall portfolio;
- motor own damage was PLN 74 million, accounting for 14.4% of the overall insurance portfolio;
- the insurance premium for property insurance (classes 8 and 9) represented 2.0% of the overall portfolio.

TUW PZUW's activity

Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych [Polish Mutual Insurance Company] has been operating on the insurance market since 29 February 2016 when it launched underwriting operations by selling its first policy.

TUW PZUW offers its clients a flexible insurance program to optimize the costs and scope of insurance. Since 2016 it has been selling and administering insurance for medical centers and large economic agents (such as the following companies: PGE, Enea, Energa, PGG, TAURON), thereby contributing to optimizing the premiums paid by its members.

In H1 2017 the primary emphasis was placed on organizational development, expansion of the team of professionals offering better insurance service to the mutual's members and aligning its offering to its clients' needs. Providing products consistent with prospective and current clients' needs was an important part of development. The most important activities linked to adapting its product offering were as follows:

- jointly marketing with PGE Obrót a new product called „Zdrowa Energia PGE" [Health of PGE Energy] giving a guaranteed fixed price for energy coupled with an assistance service such as from an electrician;
- crafting new general terms and conditions of insurance, including directors and officers insurance;
- extending the offer to include products focusing on another pillar: local governments. In Q1 2017 TUW PZUW provided insurance cover to the first local government in the Lower Poland Region.

In H1 2017 TUW PZUW generated gross written premium totaling PLN 274 million, with non-motor insurance constituting the bulk of that. Its premium was PLN 273 million, accounting for 99.5% of the overall portfolio.

Factors, including threats and risks that will affect the operations of the non-life insurance sector in 2017

Besides chance events (such as floods, droughts and spring ground frost), the following should be treated as the main factors that may affect the situation of the non-life insurance sector in 2017:

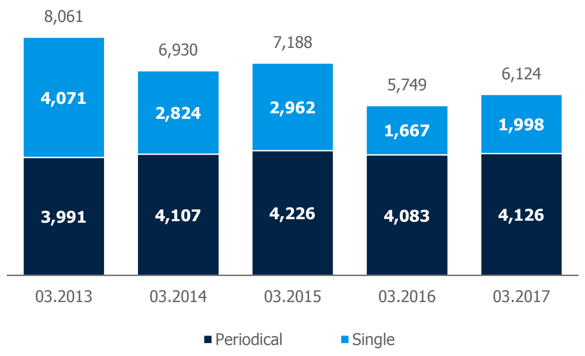
- possible slowdown in economic growth in Poland. A poorer financial standing of companies may result in elevated credit risk and a higher loss ratio on the financial insurance portfolio;
- case law regarding the amount of financial compensation for moral damages under TPL insurance held by owners of motor vehicles to the deceased's closest family members for the suffered injury (art. 446 of the Civil Code);
- possible increase in claims handling costs due to the implementation of the KNF's further guidelines regarding claims handling;
- possible increase in claims handling costs due to the implementation of the VAT tax on the motor claims handling services rendered in favor of insurance companies and their intermediaries;
- increase in the prices of spare parts affecting claims handling costs due to the depreciation of the Polish zloty against the euro;
- implementation of the Insurance Guarantee Fund's liability for personal injury in which the indemnity stated in an insurance agreement hinders the full satisfaction of the injured party's claims;
- emergence of more regulations or financial burdens on insurance undertakings – among others, the possible reinstatement of the "Religa tax" (mandatory fee paid to the National Health Service on every TPL motor insurance policy).

3.3 Life insurance (PZU Życie)

Market situation

Poland's life insurance market measured by gross written premium was worth PLN 6,124 million in Q1 2017 meaning that over the most recent 5 years it contracted on average by 6.6% per annum. At the same time, gross written premium in Q1 2017 was 6.5% higher than in the corresponding period of the previous year.

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



Source: KNF's Quarterly Bulletin. Insurance market 1/2017

The evolution in the level and the growth rate of the life insurance market premium in recent years has been prompted mostly by single premiums in investment products. Attention should be drawn to the fact that the premium expansion for the overall market year on year in Q1 2017 pertained to single premiums to a greater extent (up PLN 331 million, i.e. 19.9% y/y). The growth rate of this part of life insurance market for the corresponding period of 2016 was negative at -43.7%. The single premium cumulative average growth rate in the period under analysis was -16.3%. The changes in circumstances on the capital market and in the legal environment should be considered to be the underlying causes for the gross written premium on single premium business to fall in recent years. The record-breaking low interest rates contributed to the declining profitability of what are known as term deposits packaged as insurance products (polisolokata in Polish), thereby stimulating greater interest in other investment products. Moreover, as of 1 January 2015, a tax was implemented on short-term endowment insurance products offering a fixed yield or a yield defined using an index; this also contributed to constricting client interest in these types of products and ultimately to their retraction, especially of the former, from the insurance undertakings' offering. In subsequent years the regulatory authority's guidelines, including guidelines regarding the level of fees incurred by clients of unit-linked products led to insurance undertakings constricting their offering of these types of products. Last year's improvement in the condition of the equity market facilitated higher sales of unit-linked products, especially ones offering a single payment. This involves clients re-allocating funds among various products, since, among other, the fees charged for surrenders were reduced. This upswing was observed primarily in the bancassurance channel.

The outcome of this market evolution over several years was the expanding significance of periodic premium that constitutes PZU Życie's competitive advantage on the market. In Q1 2017 periodic premium was 1.1% higher compared to the same period in 2016, with a cumulative average growth rate of 0.8% since 2013.

Life insurance market – gross written premium (PLN million)

Gross written premium	1 January - 31 March 2017			1 January - 31 March 2016		
	PZU Życie	Market	Market net of PZU Życie	PZU Życie	Market	Market net of PZU Życie
Periodic premium	1,881	4,126	2,244	1,830	4,083	2,253
Single premium	254	1,998	1,744	153	1,667	1,514
TOTAL	**2,135**	**6,124**	**3,988**	**1,983**	**5,749**	**3,767**

Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Insurance market 1/2017, Insurance market 1/2016, PZU Życie's data

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

Gross written premium versus technical result	1 January - 31 March 2017			1 January - 31 March 2016		
	PZU Życie	Market	Market net of PZU Życie	PZU Życie	Market	Market net of PZU Życie
Gross written premium	2,135	6,124	3,988	1,983	5,749	3,767
Technical result	295	639	344	399	767	368

Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Insurance market 1/2017, Insurance market 1/2016, PZU Życie's data

The total technical result generated by the life insurance undertakings in Q1 2017 was down PLN 128 million (16.6%) from the corresponding period of 2016 to PLN 639 million. The following, in particular, reported a lower result: life insurance (Class I) - down PLN 110 million, i.e. 62.7% chiefly due to the uptick in the frequency of mortality and the decline in investment income and unit-linked insurance (Class III) - technical result down PLN 30 million, i.e. 21.3% due to higher acquisition expenses as an offshoot of higher sales.

In this same period life insurance undertakings generated a net result of PLN 485 million, meaning a 16.2% decline y/y (PLN 93 million). The downturn in the net result was chiefly the outcome of the technical results of the insurers described above being lower than in the corresponding period of 2016.

The total value of the investments made by life insurance undertakings at the end of Q1 2017 was PLN 40,998 million, signifying 0.4% growth compared to the end of 2016. In turn, the gross written premium that outpaced the level of benefits paid and the positive result on investment activity contributed to a higher net asset value of life insurance in which the policyholders bear the investment risk (up 2.4% to PLN 58,345 million).

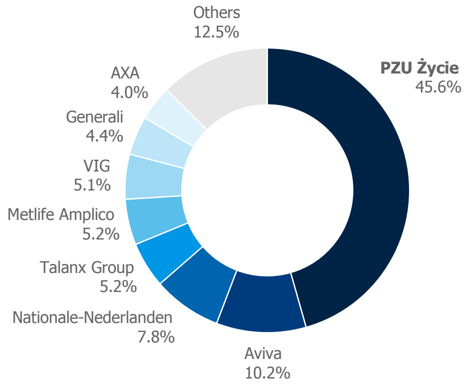
PZU Życie's activity

PZU Życie SA (PZU Życie) does business on the Polish life insurance market on behalf of the PZU Group. It offers a wide range of life insurance products, including group, individual protection and health insurance, investment insurance and pension products.

During Q1 2017 PZU Życie wrote 34.9% of the gross written premium of all life insurance undertakings signifying further growth on top of last year's market share (+0.4 p.p.). The underlying reason for market share expansion was the above-average growth rate among other market players in terms of periodic premium (2.8% versus -0.4%, respectively) and single premium (66.3% versus 15.2%).

At the same time, PZU Życie continued to be the clear leader in the periodic premium segment. In Q1 2017 it generated 45.6% of these types of premiums written by insurance companies, signifying growth of 0.8 p.p. in the market share in this segment and the highest market share level since 2010. The annual growth rate of gross written premium at PZU Życie was 2.8% in this segment, compared to the negative growth rate posted by the other market players who reported an outcome of -0.4%. One of the major factors in this respect was the rapid growth in the health insurance portfolio. PZU Życie now has approximately 1.4 million policies of this type in its portfolio. From the outset of 2016 KNF has also been publishing data making it possible to depict as a matrix PZU's share in just the life insurance segment (class I) for periodic premiums. In Q1 2017 it was 66.0% when measured by gross written premium and it was 75.3% when measured by the number of agreements in force. For this same group of risks, the market share split by the method of execution in the period under analysis was 68.6% for group agreements and 42.2% for individual agreements (when measured by gross written premium).

Life insurance undertaking - percentage of periodic gross written premium in Q1 2017 (in %)



Groups: Talanx – Warta, Europa, Open Life; VIG – Compensa, Polisa-Życie, Vienna Life; Aviva – Aviva, BZ WBK-Aviva
Source: KNF's Quarterly Bulletin. Insurance market 1/2017

PZU Życie's technical result in Q1 2017 accounted for 46.2% of the result generated by all life insurance companies. This evidences the high profitability these products enjoy. PZU Życie's technical result margin on gross written premium substantially exceeded the overall margin generated by the other companies offering life insurance (13.8% versus 8.5%).

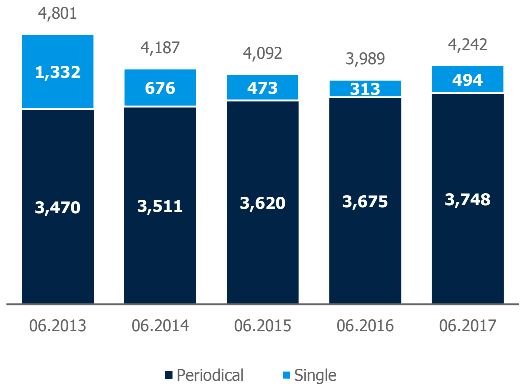
PZU Życie is consistently expanding its offering of protection insurance sold as group insurance and individual insurance.

Work was conducted in H1 2017 on PZU's new group product called In Case of an Accident (W Razie Wypadku) under group protection insurance. This product chiefly targets portfolio clients to sell up additional risks without having to modify existing agreements. The scope of insurance covers an extensive range of accidents making it an attractive proposal for young and active people. This product's sales launch will take place on 1 October 2017.

In terms of health products work has been conducted with an eye to market a new type of rider in H2 2017 giving clients rapid access to medical procedures that are indispensable during treatment or convalescence following an orthopedic injury or a number of severe disorders.

In investment insurance, a new unit-linked insurance product with a single premium called Multi Kapitał was launched in collaboration with Alior Bank in H1 2017 with a sales launch date of 2 January 2017. In addition, 4 subscriptions of the structured insurance product known as World of Profits (Świat Zysków) that has enjoyed tremendous client interest were sold through PZU's branches. Various investment strategies that adapt to volatile market conditions were offered in the individual subscription tranches.

PZU Życie's gross written premium (PLN million)



During H1 2017 PZU Życie generated gross written premium according to Polish Accounting Standards totaling PLN 4,242 million, i.e. 6.4% more than last year. Insurance with periodic payments accounted for the bulk of the company's premium income. It represented 88.3% of gross written premium (compared to 92.1% in the previous year). Above all, this entailed gross written premium on group and individually continued insurance held by approximately 11 million Poles.

In the same reporting period PZU Życie generated a technical result according to Polish Accounting Standards totaling PLN 759 million and net profit according to Polish Accounting Standards totaling PLN 587 million.

Factors, including threats and risks that may affect the operations of the life insurance sector in 2017

The following constitute the major risk factors on the life insurance market in 2017:

- bill on insurance distribution – insurance undertakings adapting to the new regulations following the necessity to implement into the domestic legal order Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (Journal of Laws, UE L 26 of 2 February 2016, page 19), referred to as IDD.
- EU General Data Protection Regulation, i.e. GDPR – insurance undertakings adapting to the Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC.
- final shape of the new pension security system (Capital Accumulation Scheme) that may affect insurers' policy regarding pension products and revenues in this line of business.

3.4 Banking (Pekao, Alior Bank)

Market situation

The Polish banking sector is the largest one in Central and Eastern Europe with assets worth more than PLN 1,750 billion. 35 domestic commercial banks, 556 cooperative banks and 27 branches of credit institutions operated at the end of June 2017 in Poland.

The banking sector's situation in H1 2017 was stable and boosted by the persistently vibrant economy and the operation of banks in a low interest rate environment.

In ther period from January to June 2017 the banking sector generated a net profit of PLN 6.87 billion (down in comparison with the corresponding period of the previous year).

During the first six months of 2017, the result on banking activity continued to be stable (decline of 1.9% y/y). This was caused by the following: robust growth (up 11.1% y/y) in the interest result, growth in the result on commissions and fees (up 9.0% y/y) and the decline in other income (down 51.2% y/y). Banks' operating expenses rose in the first six months of the year by 6.0% y/y. In turn, the costs of risk (provisions and impairment losses) that fell by 14.0% y/y made a positive contribution to the banking sector's result.

At the end of June 2017, the net asset value of the banking sector was PLN 1,750 billion, up 5.3% with respect to June 2016.

At the end of March 2017, the banking sector's own funds for capital multiples was PLN 178.1 billion, up 1.5% from yearend 2016. This growth was associated with KNF's recommendation of maintaining higher capital multiples than in Q1 2016.

The banking sector's total capital multiple at the end of March 2017 was 17.9% (up 0.2 p.p. compared to yearend 2016), while the Tier I capital ratio at the end of this period was 16.5% (up 0.3 p.p. in comparison with the end of December 2016).

Signing of the agreement to acquire shares in Bank Pekao

On 8 December 2016, PZU and PFR signed an agreement with UniCredit to acquire a 32.8% equity stake in Bank Pekao S.A. for a total amount of PLN 10.6 billion. The price also included payment for the rights to receive per-share dividend for 2016, totaling PLN 456 million.The price per share was PLN 123. It is one of the largest transactions in the European banking sector in recent years. The acquisition of shares in Bank Pekao was linked to PZU's aspirations set forth in the Group's strategy to 2020 in which the goal is to amass banking sector assets totaling at least PLN 140 billion and third party assets under management totaling PLN 50 billion. PZU and PFR will collaborate to procure the effective execution of the Bank Pekao's growth strategy while retaining the bank's current low risk profile, robust level of profitability and stable long-term dividend payout policy.

PZU and PFR entered into a memorandum of agreement for the following purposes: (i) building Bank Pekao's long-term value, (ii) implementing a policy to ensure the bank's development, financial stability and prudent management and (iii) ensuring the application of proper corporate governance standards in the bank. The essence of the agreement is to define the rules of cooperation between PZU and PFR following the acquisition of the equity stake in Bank Pekao from UniCredit and the rights and duties of the parties as bank shareholders, in particular pertaining to agreeing on the manner of jointly exercising voting rights on the shares in Bank Pekao and the implementation of a common long-term policy for the bank's business to attain the objectives stated above. In particular, PZU and PFR have undertaken to each other to vote in favor of resolutions on the distribution of profit and the disbursement of dividends, in accordance with the rules and within the boundaries set by the applicable provisions of law and KNF's recommendations and in accordance with the bank's existing practice;

As a result of the settlement on 7 June 2017 of the transaction for PZU SA and PFR S.A. to buy 86,090,172 shares in the bank from UniCredit S.p.A. representing 32.8% of the bank's share capital and entitling them to exercise 86,090,172 votes representing 32.8% of the total number of votes, PZU SA and PFR S.A. jointly exceeded the 25% threshold of the total number of votes in the Bank.

PZU SA and PFR S.A. jointly exceeded the threshold of 25% of the total number of votes in the Bank as a result of the direct acquisition from UniCredit S.p.A. as follows:

- PZU SA acquired 52,494,007 shares in the Bank representing 20% of the Bank's share capital and entitling it to exercise 52,494,007 votes representing 20% of the total number of votes and
- PFR S.A. acquired 33,596,165 shares in the Bank representing 12.8% of the Bank's share capital and entitling it to exercise 33,596,165 votes representing 12.8% of the total number of votes.

Pekao's activity

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

For many years Bank Pekao has been the second largest bank in Poland when measured by the total balance sheet value. At the end of June 2017, the Bank administered 5,533.1 thousand current accounts in PLN, 343.6 thousand mortgage loan accounts and 601.5 thousand Express Loan accounts.

Loans and borrowings measured at their nominal value jointly with securities issued by non-monetary entities totaled PLN 131 billion at the end of June 2017 and were up PLN 5.2 billion, i.e. 4.1% over the end of June 2016 coupled with considerable growth in key strategic areas.

Thanks to the Group's efficient commercial activity in H1 2017 it posted significant growth in loan volumes in loans to retail clients (up 9.7% y/y) and 1.6% y/y growth in corporate loans.

The expansion of its lending activity was almost fully funded with larger volumes of retail deposits that moved up by 8.6% y/y. The ratio of net loans to deposits equal to 92.7% at the end of June 2017 reflects the Bank Pekao S.A. Group's robust liquidity structure. Coupled with its high level of capital reflected by its total capital ratio of 18.0% (Basil III), this enables it to pursue further robust and stable business growth in the operations of the Bank Pekao S.A. Group.

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

- Corporate and Investment Banking - full scope of banking activity catering to medium and large-sized companies, the Bank's exposure to the interbank market, debt securities and other instruments as well as the Pekao S.A. Group's results consolidated using the full method and attributed to corporate and investment banking. This segment's income accounts for approximately 35% of Pekao S.A.'s income and forms a strong pillar in Pekao's business;
- Retail Banking - full scope of banking activity catering to individual clients (except for Private Banking clients), small and micro companies with annual revenues up to PLN 20 million and the Pekao S.A. Group's results consolidated using the full method and profit sharing in the companies consolidated using the equity method and attributed to retail activity;
- Private Banking - full array of banking activity catering to the most affluent individual clients;
- Asset and Liability Management and others – involves supervision and monitoring of cash flow, other centrally-managed areas, results of companies consolidated using the full method and profit sharing in companies measured by the equity method that are not attributed to other segments.

Pioneer TFI

Pioneer Pekao Towarzystwo Funduszy Inwestycyjnych is the oldest mutual fund management company in Poland providing clients modern financial products, thereby offering opportunities to invest in the largest capital markets on the globe. For many years it has been devising savings programs, including programs affording an opportunity to put aside more money for retirement under the third voluntary retirement pillar. Pioneer Pekao TFI also offers a managed account service. At the end of H1 2017 the company had assets under management totaling PLN 17.4 billion, thereby giving it a market share of 6.4%.

Alior Bank's activity

Alior Bank is a universal bank with innovative solutions and an opulent product offering. In H1 2017 the Alior Bank Group generated a net profit of PLN 182 million with a return on equity (ROE) of 5.8%.

Alior Bank, which belongs to the PZU Group, is one of the fastest growing banks in Poland. As at the end of 2016 Alior Bank was in 9th place measured by its balance sheet size among the largest banks in Poland.

Approximately 9.5 thousand employees and its distribution network consisting of 960 branches are engaged in efficiently serving 3.7 million individual clients and 182 thousand companies. In addition, selected Alior Bank products and services are offered in 571 T-Mobile outlets under the framework of their strategic partnership and in 71 Tesco stores. Since 2014 Alior Bank's shares have been in the WIG20 index consisting of the largest and most liquid companies listed on the Warsaw Stock Exchange.

Alior Bank's business activity in H1 2017 enjoyed rapid growth measured by the size of its balance sheet, i.e. 31.5% year on year. This was chiefly driven by the acquisition of assets from the spun-off portion of Bank BPH and organic growth underpinned by sales focusing on cash loans, housing loans and business loans through its proprietary distribution network. Consequently, the total net value of client loans in H1 2017 rose by nearly PLN 15 billion compared to the end of H1 2016, i.e. by 43.8% (and by PLN 0.6 billion, i.e. 1% compared to yearend 2016).

The net interest result was the major source of the Alior Bank Group’s revenues in the first six months of 2017. Despite the pressure exerted by low interest rates, it climbed to PLN 1,380.3 million, i.e. by 61.1% y/y by rapidly expanding its lending activity as a result of the merger with the spun-off portion of Bank BPH and organic growth in combination with effectively managing the Bank’s pricing policy.

The Alior Bank Group can also treat the result on fees and commissions as one of its main sources of revenue in 2017. In H1 2017 it was PLN 235.0 million and it accounted for 12.9% of its revenues. Moreover, the trading result exerted a material impact on the Group’s revenues in 2017. It accounted for 9.4% of its revenues, especially the result generated in connection with the transactions executed for clients on the FX market and interest rate transactions.

In H1 2017 the cost-to-income ratio was 54.6% compared to 47.7% in H1 2016.

The following should be treated as the most important drivers of the Alior Bank Group’s financial results in H1 2017:

- acquisition of the spun-off portion of Bank BPH and the related growth in income resulting from augmenting the Bank’s magnitude of business, the level of cost synergies and the amount of integration costs incurred,
- high level of sales of loan products supported by a good business climate and the low interest rate environment,
- impairment losses related to the Bank’s exposure to companies operating in the renewable energy sources sector.

Products and services

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

- Individual clients (retail segment) – focused on a market consisting of mass clients, affluent and highly affluent clients to whom the Bank offers a full array of bank products and services and brokerage products offered by the Alior Bank S.A. Brokerage House, especially loan products, deposit products and mutual funds, personal accounts, bancassurance products, transaction services and FX products;
- Business clients (business segment) – for small and medium enterprises and large corporate clients to whom the Bank offers a full array of bank products and services, especially loan products, deposit products, current and auxiliary accounts, transaction services and treasury products;
- Treasury operations – involving operations on interbank markets and exposure to debt securities. This segment reflects the results of global position management (liquidity, interest rates and FX position resulting from banking operations).

New products and services

In April 2017 Bank offered a COSME guarantee to clients interested in a loan package. This guarantee secures 80% of the loan principal. From December 2014 the Bank has been developing its services transcending its core scope of services by developing offers with third party products and services. These bundles consist among others of fiscal cash registers and fixed and mobile payment terminals (mPos).

The Banks is also developing its offer to support commercial undertakings in harnessing European Union funds under the 2014-2020 development perspective.

Another new product in the Bank’s offering for business clients is:

- Safe Account – unique combination consisting of a current account for commercial undertakings conducting a sole proprietorship and insurance.
- Combining the iKonto Biznes account application with the Central Records of Business Activity – this makes the process of opening this account simpler and faster. All the commercial undertaking has to do is provide its personal data while its data are automatically downloaded from the Central Records of Business Activity.

In H1 2017 Alior Bank continued its participation i the governmental Family 500+ program to provide regular support to Polish families by enabling the Bank’s clients to fill out and submit their Family 500+ application through Alior Bank’s internet banking system. Furthermore, the Bank retained its dedicated offer for persons submitting applications for a savings account offering an attractive rate of interest on PLN 6 thousand during the first 12 months after the date of opening this account.

Significant new measures

Since 2016 Alior Bank does business in Romania through its branch called Alior Bank S.A. Varsovia – Sucursala Bucuresti.

This branch does its business under a model similar to Alior Bank’s collaboration with T-Mobile Polska S.A. Alior Bank also intends to launch additional lines of business and acquisition channels in Romania on top of its main area of cooperation with this telecom, inter alia: Currency Exchange Bureau, cooperation with brokers, on-line sales and possible cooperation with other partners.

On 13 March 2017 Alior Bank published its strategy for 2017-2020 entitled “Digital Disruptor”. It calls for further growth in the significance of innovation in the bank’s development, among others, by implementing the most sophisticated technological solutions to support clients and employees. Moreover, Alior Bank intends to tap into the digital revolution broadly across all other domains of its business, setting trends in modern banking.

By implementing this strategy, the Bank will be able to maintain the highest net interest margin on the market (4.5%), reduce its C/I ratio to 39% and provide its shareholders with a return on equity ranging from 8% in 2016 to 14% in 2020.

Factors, including threats and risks, which will affect the banks’ operations in 2017

The situation of the banking sector in 2017 will primarily be affected by:

- operation in a stable environment of low interest rates, which puts pressure on the level of net interest margin;
- macroeconomic situation in the Polish economy – a rise in gross domestic product, employment and salaries, coupled with a historically low level of interest rates and low prices of energy fuels have a favorable impact on the sales of loans and the quality of the credit portfolio;
- possible changes of the legal environment, including mainly the legislative solution of the issue of foreign currency residential loans and potentially an obligation to make additional contributions to BFG, may adversely affect the Bank’s profitability in 2017;
- a lower growth rate of the Polish economy and changes in the legal framework for the operation of enterprises may have an adverse impact on the financial standing of the Bank’s selected clients. Alior Bank’s credit portfolio includes exposure to over a dozen projects executed by companies operating on the renewable energy markets;
- changes in the external environment and international events affecting the domestic economy.

3.5 Mutual funds (TFI PZU)

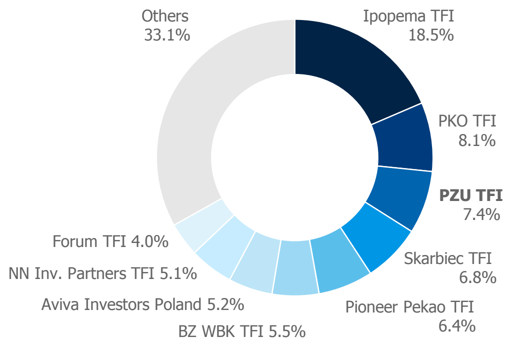
Market situation

As at the end of June 2017, the overall domestic mutual fund market’s assets were PLN 272.2 billion compared to 258.9 billion at the end of 2016, representing an increase by more than 5%.

In H1 2017, according to data provided by Analizy Online, the largest increase in assets was recorded by equity funds: the value of assets accumulated by them increased by nearly PLN 4.3 billion, mainly as a result of management performance. Large increases in assets were also recorded by mixed funds (more than PLN +3.2 billion net), cash and money funds (PLN +2.3 billion net) and debt funds (almost PLN +2 billion net). An inflow of new funds was behind a large portion of the growth in the value of assets in these segments. The worst performers were real estate funds whose movement in assets for the first half-year was slightly negative (PLN -44 million net).

Within the PZU Group, the companies running the operation of mutual funds on the market are Towarzystwo Funduszy Inwestycyjnych PZU (TFI PZU) and Pioneer PEKAO TFI (for more information about the latter company, see the section dealing with the banking segment).

Mutual fund companies – share in net assets as at 30 June 2017 (in %)



Source: Analizy Online

TFI PZU activity

TFI PZU offers products and services for both retail and institutional clients – including additional investment and savings programs forming part of the third pillar of the social security system: Individual Retirement Accounts (IRAs), Specialized Investment Plans, Employee Pension Plans (EPPs) and Company Investment Plans (CIPs).

As at the end of June, TFI PZU offered its clients 30 funds and subfunds, including 23 funds dedicated to clients from outside the Group.

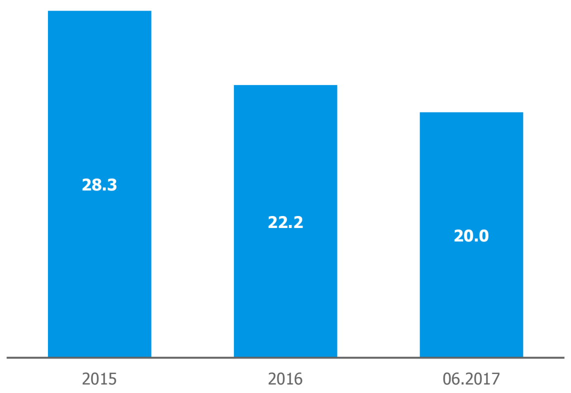
At mid-year 2017, TFI PZU managed net assets worth over PLN 20 billion, representing a 7.4% market share. Accordingly, TFI PZU is among the largest mutual fund companies in Poland – as at 30 June 2017 it was ranked third in Poland according to reports published by IZFiA (Chamber of Fund and Asset Managers). TFI PZU is also a market leader in the employee pension plan segment with net assets of nearly PLN 3.7 billion.

The decline in the total value of TFI PZU's net assets as at the end of June 2017 was mainly caused by write-offs effected by the PZU Group in various funds, mainly FIZ Dynamiczny (PLN -0.9 billion) and PZU Dłużny Rynków Wschodzących (PLN -0.8 billion).

However, without accounting for this effect, in the first half of 2017 TFI PZU recorded an increase in the value of external clients' assets which resulted predominantly from:

- active sales of funds and subfunds – with a particular focus on strategies containing an equity component,
- more effective cooperation with distributors,
- introduction of new Employee Pension Plans and Group Pension Plans,
- investment results generated by fund managers.

TFI PZU's net assets (PLN million)



Source: IZFA

Factors, including threats and risks, which will affect the mutual funds' operations in H2 2017

The condition and performance of the mutual fund market will depend mainly on:

- political situation – including, primarily, the outcome of the election in Germany and concerns about a pre-term election in Italy,
- actions taken by central banks – the departure from the quantitative easing programs as signaled by the Fed, ECB and BoE. The ECB is inclined to phase out this program gradually, while the Bank of England keeps mentioning interest rate hikes more and more often,
- upward trend in the global capital market,
- factors of local significance – the future of open-end pension funds or the rate of inflation (affecting, without limitation, the attractiveness of bank deposits and the yields of treasuries),
- preparations for the implementation of MIFID II regulations and related limitations.

3.6 International insurance operations

Lithuanian market

According to data published by the Bank of Lithuania, the total gross written premium of non-life insurance undertakings after the first six months of 2017 was EUR 278 million or 20.8% higher than in the corresponding period of the previous year.

As in the previous year, the rate of growth in the market was driven predominantly by motor insurance (accounting for 60.3% of the market) where a 28.2% increase in gross written premium was recorded. As a result of increases in insurance premium rates throughout the region, growth in written premium in MTPL insurance accelerated significantly to 33.4%, while written premium in MOD insurance increased by 20.9%.

As at the end of June 2017, there were 12 companies operating in the country's non-life insurance sector (including 8 branches of insurance companies established in other EU member states). Lietuvos Draudimas, according to data for the first half of 2017, solidified its leading position in total gross written premium on non-life insurance. Its market share stood at 29.4%, having increased by 0.7 p.p. compared to the corresponding period of 2016.

In the life insurance sector, the value of gross written premium was EUR 110 million in H1 2017, representing an increase by 9.6% over the premium collected in the corresponding period of the previous year. The increase in sales resulted predominantly from a steady upward trend in regular premiums (by 11.2%). On the other hand, single premiums declined by 7.2% – the lower written premium on one-offs resulted mainly from changes in legislation: at the beginning of 2017 the taxable base exempt from income tax was reduced to EUR 2,000 per year.

In the life insurance structure, unit-linked insurance represented the largest share at 57.5% of written premium. Traditional life insurance accounted for 20.4% of the total premium.

As at the end of June 2017, there were 8 companies operating in the country's life insurance market (including 3 branches of insurance undertakings registered in other EU member states). The Lithuanian life insurance market is highly concentrated – the combined share of the largest three players in the total gross written premium is 59.5%.

Latvian market

According to data published by the Latvian Financial and Capital Market Commission[1], the non-life insurance market recorded a gross written premium of EUR 81 million as at the end of Q1 2017. This represented an increase by EUR 5 million (or 6.3%) compared to Q1 2016.

The main factors contributing to the increase in accumulated gross written premium were motor insurance, which recorded an increase in premiums by EUR 3 million, and property insurance, which recorded an increase in premiums by EUR 1 million. A significant impact on the value growth of the whole insurance market (that is, non-life and life insurance combined) was exerted by health insurance in which written premium increased by EUR 2 million y/y.

In this period, there were 12 insurance undertakings operating on the Latvian non-life insurance market, including one group operating under three independent brand names.

Estonian market

According to data published by the Estonian statistical office[2], in H1 2017 insurance undertakings operating in the non-life insurance market and branches of international companies operating in this market sector in Estonia accumulated a combined written premium of EUR 165 million (in the corresponding period of 2016: EUR 149 million), of which EUR 44 million, or 26.4% (in the first half of the previous year: EUR 36 million, or 24.2%) was acquired by branches of foreign insurance undertakings. In 2017, the Estonian non-life insurance market recorded further growth: total gross written premium increased 10.3% in H1 2017 compared to the corresponding period of the previous year.

Within the product structure, MOD insurance (32.6%, in 2016: 33.4%) and MTPL (27.3%, in 2016: 26.1%) represented the largest market shares.

As at the end of June 2017, there were 13 companies operating in Estonia's non-life insurance sector (including 4 branches of insurance companies established in other EU member states).

Activity of PZU companies in the Baltic states

In H1 2017, Lietuvos Draudimas acquired EUR 82 million worth of gross written premium, that is 23.8% more than in the same period last year. Due to the increased insurance premium rates throughout the region, growth in written premium was driven mainly by an increase in sales of MTPL and MOD insurance in both the mass segment and the corporate segment.

After the first 6 months of 2017, Lietuvos Draudimas was the leader on the Lithuanian non-life insurance market with a market share of 29.4% (28.7% the year before). In turn,

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[1] Financial and Capital Market Commission – the Latvian financial and capital market regulator

[2] Estonia Statistics – the Estonian statistical office affiliated with the Ministry of Finance

the share of PZU Lithuania Life in the life insurance market was 6.0% (compared to 5.5% after the first 6 months of the previous year).

In Latvia, the PZU Group operates through AAS Balta, a company formed by way of a merger of AAS Balta, acquired in 2014, and PZU Lithuania. Total gross written premium was EUR 44 million, representing an increase by 13.5% compared to the corresponding period of the previous year. After Q1 2017, the company was ranked second on the market with a 26.6% share in total gross written premium on the non-life insurance market (compared to 25.9% after the first 3 months of 2016).

In Estonia, the PZU Group runs its business through the Estonian branch of Lietuvos Draudimas, a combination of the Estonian branch of PZU Lithuania acquired in 2015 and a local company operating under the Codan brand acquired in 2014. The premium written in H1 2017 was EUR 26 million, representing a 14.2% increase over the first half of the previous year. In the same period, the Estonian branch's share in the non-life insurance market was 15.4%.

Ukrainian market

In H1 2017, gross premium written in the country's non-life insurance market was UAH 10 billion, up 34.9% from the corresponding period of the previous year. Motor insurance represented 21.7% of gross written premium, or 5.3 percentage points less than in the same period of the previous year.

In Q1 2017, life insurance undertakings collected UAH 633 million in gross written premium, or 4.3% less than in the corresponding period of 2016. Unit-linked insurance represented 65.4% of gross written premium, or 8.3 percentage points more than in the first quarter of the previous year.

The Ukrainian insurance market is highly fragmented – as at the end of March 2017, there were 307 insurance companies operating in the country (39 of which offered life insurance), down 45 compared to the end of March 2016. The top 100 non-life insurance undertakings acquired 98.3% of gross written premium of the whole market, while the top 20 life insurance undertakings acquired 99.8% of gross written premium.

On the Ukrainian market, the PZU Group operates its insurance business via two companies: PrJSC IC PZU Ukraine (a non-life insurance company), referred to as "PZU Ukraine", and PrJSC IC PZU Ukraine Life (a life insurance company), referred to as "PZU Ukraine Life". Additionally, LLC SOS Services Ukraine provides assistance services to its clients.

In H1 2017, the value of gross written premium in PZU Ukraine's non-life insurance was UAH 660 million, up 13.5% from the corresponding period of the previous year. This growth resulted predominantly from an increase in sales of motor insurance and health insurance.

In Q1 2017, PZU Ukraine acquired a 2.8% share in total gross written premium of the Ukrainian non-life insurance market (down 1.5 p.p. compared to Q1 2016), ranking fifth in the market[3].

In H1 2017, gross written premium collected by PZU Ukraine Life was UAH 131 million, up 20.0% from the corresponding period of 2016. This increase was driven mainly by sales in bancassurance and brokerage channels, in particular of endowment insurance.

On the life insurance market, after H1 2017 PZU Ukraine Life ranked fourth with a market share of 10.0% (up 1.1 percentage points from the previous period)[4].

3.7 Medical services (PZU Zdrowie)

Medical services market

According to GUS data published in 2017, the value of the medical services market (including sales of medicines) in 2014 surpassed PLN 109 billion, of which public expenditures amounted to almost PLN 77 billion and private expenditures were estimated at approximately PLN 32 billion.

Operations of PZU Group companies (medical services)

The PZU Group's network of medical centers offers:

- medical services for the local communities of Płock, Włocławek and cities and towns of Upper Silesia, Opole and Warsaw, Radom, Kielce, Pomerania under contracts with the National Health Fund (NFZ) for the provision of primary and outpatient specialist care;
- occupational medicine services in in-company clinics for employees of the Tauron Group and the PKN Orlen Group (mainly chemical plants, power plants, combined heat and power plants and mines);
- services provided within the framework of additional medical packages for employees of the PKN Orlen Group and the Tauron Group as well as corporate and individual clients in Płock, Włocławek and cities and towns in Upper Silesia;
- nursing home and rehabilitation care services in Ciechocinek and Ustroń;
- commercial services offered to individual and institutional clients by CM Gamma Sp. z o.o. (a specialist orthopedic hospital) and CM Cordis Sp. z o.o. (mainly in the field of cardiology).

PZU Zdrowie is a center for the provision of healthcare products addressing client needs by developing a comprehensive product offering based on the PZU Group's current and future sales channels. As an integrated medical operator, PZU Zdrowie operates by relying on its foundation of standards, quality and specialist tools. By creating an integrated network of outlets, the company is gradually implementing a cost-effective and competitive model of patient traffic management. Promoting a healthy lifestyle and healthy behaviours is another key element of the operation of the PZU Zdrowie Group's companies.

Merger of PZU Group companies in the domain of medical services

In order to implement its strategy aimed at creating a network of medical centers and health insurance outlets, the following changes were made to the PZU Group's capital structure in 2017 and the period leading up to the date of this report:

- on 31 May 2017, PZU Zdrowie acquired a 100% stake in NZOZ Centrum Medyczno-Rehabilitacyjne Revimed.
- on 30 June 2017, Elvita Sp. z o.o. acquired a 95.25% stake in NZOZ Trzebinia.

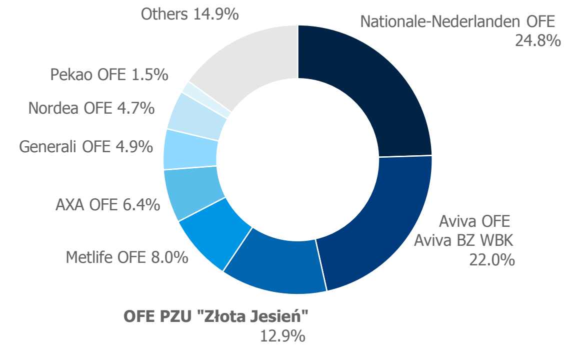
3.8 Pension funds (PTE PZU)

Market situation

At the end of June 2017, the net asset value of open-end pension funds was PLN 175 billion, up 18.8% with respect to the end of the previous year.

The PZU Group is active on the pension fund market through Powszechne Towarzystwo Emerytalne PZU (PTE PZU) and PEKAO Pioneer PTE.

Open-end pension funds – share in net assets as at 30 June 2017 (in %)



Source: KNF, Monthly data on the open-end pension fund market, Data for June 2017

PTE PZU activity

The PZU Złota Jesień Open-End Pension Fund managed by PTE PZU (PTE PZU) is one of the largest players on the pension fund market in Poland. At the end of June 2017, OFE PZU was the third largest pension fund, both in terms of the number of members and net asset value:

- the fund had 2,176.8 thousand members, or 13.3% of all participants in open-end pension funds;
- net assets stood at PLN 22.5 billion, representing 12.9% of the total asset value of
- open-end pension funds operating in Poland.

In the first half of 2017, ZUS transferred PLN 164.21 million worth of contributions to OFE PZU, which was 7.4% more than in the corresponding period of the previous year.

At the end of June 2017, PZU's Voluntary Pension Fund kept 57.0 thousand individual pension security accounts (IKZEs) in

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[3] Rank in the Ukrainian insurance market based on data published in the Ukrainian quarterly journal "Insurance TOP 1(57)2017"

[4] Rank in the Ukrainian insurance market based on data published in the Ukrainian quarterly journal "Insurance TOP 1(57)2017"

which PLN 35 million worth of assets was accumulated. As a result, the fund maintained a leading position in the voluntary pension funds segment. The rate of return generated in the first half of 2017 was 13.8%.

Factors, including threats and risks, which will affect the pension funds' operations in H2 2017
The main challenges facing the pension fund market in 2017 are the following:

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

3.9 Other operating areas

PZU Pomoc
PZU Pomoc SA (PZU Pomoc) pursues the following lines of business in particular:

- leasing and rental of motor vehicles,
- conduct of online auctions and e-commerce,
- management of loyalty programs,
- organization of assistance services involving the provision of necessary assistance to the client,
- management of post-accident property.

As at the end of H1 2017, the company acquired new vendors from outside the PZU Group, observed more intense activity of vendors and held a leading position on the market for sales of damaged vehicles using an online auction platform.

PZU Pomoc owns 282 hybrid Toyota Auris cars which it leases to its network of partners providing assistance services.

Moreover, PZU Pomoc holds a 30% stake in GSU Pomoc Górniczy Klub Ubezpieczonych. Within the framework of this company, discount, incentive and loyalty programs are developed aiming at the mining industry.

PZU CO
The statutory business of PZU CO involves the provision of the following services:

- auxiliary services related to insurance and pension funds;
- ongoing intermediation in the execution of insurance agreements, financial and investment agreements and assistance agreements;
- Contact Center;
- Data Center;
- printing services;
- IT services;
- HR and payroll-related services.

PZU Finance AB
ZU Group's activity on the debt market is realized through PZU Finance AB with its registered office in Stockholm (Sweden). The company was established in 2014 and is a wholly-owned subsidiary of PZU. Its core business is to raise debt financing through the issue of bonds or other debt instruments and provide financing to PZU Group companies.

On 3 July 2014 and 16 October 2015, PZU Finance AB issued Eurobonds for a total of EUR 850 million. DEBT FINANCING SECTION 7.2

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

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

Armatura Group
The 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 a 100% stake in the company.

Armatura Kraków SA (Armatura Kraków) is the parent company of the Armatura Group The Armatura Group is composed of the following companies: Armatura Kraków SA, Aquaform SA, Aquaform Badprodukte GmbH, Aquaform Ukraine TOW, Aquaform Romania SRL and Morehome.pl sp. z o.o. The business of the Armatura Group lies outside the domain of financial and insurance services. The group is a leading manufacturer in the sanitary and heating industry in Poland. The Armatura Group companies specialize in the manufacture of bathroom and kitchen faucets, central heating radiators made of aluminum, a range of valves, sanitary ceramics, bathtubs, shower trays and bathroom furniture.

On 16 June 2016, Armatura Kraków SA sold all the shares it held in Armatura Tower to Pawo Borek sp. z o.o. Thus, Armatura Tower is no longer a member of the Armatura Group.

04

Development strategy

The PZU Group is developing and evolving with its surroundings, while invariably placing its customers' needs and expectations at the center of its value creation process. Strategic measures respond to existing and anticipated market challenges, reflecting its drive to strengthen its strong competitive position.

In chapter:

Development strategy

4.1 Fundamental values

Business philosophy

- We Play Fair – our offer is transparent and satisfies our customers' genuine expectations; we apply clearly-defined rules to our organization's operation.
- We Are Effective – we offer friendly and efficient service and competitive prices; we control our costs and ensure that we have efficient processes.
- We Are Innovative – we constantly adapt to our customers' evolving needs; we actively endeavor to streamline how our company operates.

Clients

- We are here to provide our clients with peace of mind and safety. Our clients can always rely on us.
- We know our client very well and that is why we are able to meet their needs and rational expectations. The scale and efficiency of our operations help us provide premium services at competitive prices.
- Due to its market position, PZU acts as a „market watchdog" – our activities are beneficial for the entire market and the clients, we actively influence the market growth and establish standards in customer service.

Shareholders

- Thanks to the scale of business ensured by our leading position in the Central European Market, we continue to provide exceptional profits to our shareholders.

Employees

- PZU creates a working environment that inspires our staff to do their best while maintaining an optimal work-life balance.

Sustainable development

Implementing strategic assumptions is predicated on responsibly managing capital: financial, human, social, environmental and intellectual. The Management Board follows the guiding principle that PZU's value growth should be aligned to the interests of the environment and rely on sustainable and responsible resource utilization.

Sustainable development

Customer needs are our priority

Reliable business partner

Responsible employer

Social commitment

Compliance culture

Savings for the environment

4.2 Key strategic objectives

Key strategic directions

In August 2016, the PZU SA Management Board and Supervisory Board approved the updated PZU Group Strategy for 2016-2020. The Management Board identified three key strategic directions: profitability, growth and innovation. Their pursuit pertains to the main business pillar of insurance and complementary areas offering high growth potential, namely, asset management and healthcare. At the same time, the Management Board declared that the implementation of the adopted assumptions should increase PZU's attractiveness as an investment target not only for dividend-driven investors but also for investors seeking growth companies with a high potential to generate capital gains on the market valuation of their stock; this is why the Group's strategy includes an option related to the participation in the consolidation of the banking sector.

Profitability

The PZU Group's overriding objective in terms of profitability is to maintain an above-average rate of return attributable to the parent company at 18% (ROE). This objective will be achieved by implementing the growth initiatives presented below.

Growth

In the insurance segment, the PZU Group intends to grow the fastest in the market areas in which PZU's share is below its natural level of approximately 30%. In complementary business pillars covered by the PZU Group's 2020 Strategy (health, asset management), growth will be achieved organically and through acquisitions to generate an above-average growth rate of revenue and profit.

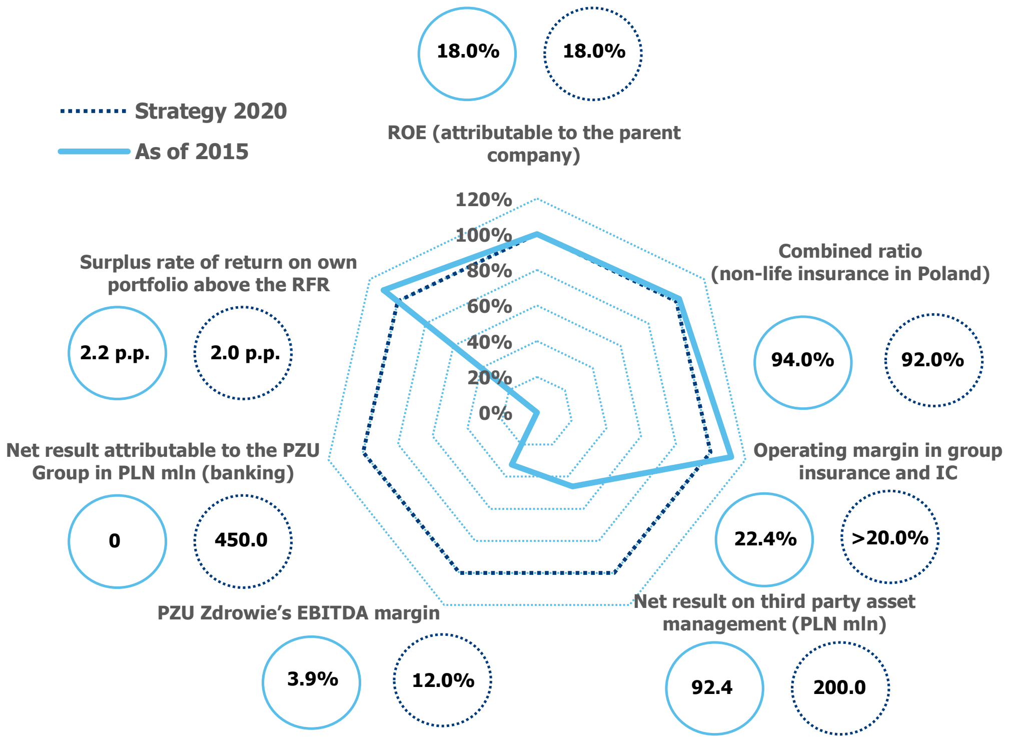
Innovation

Innovation is a very important part of the PZU Group's strategy. It is an ambition from the vantage point of transforming PZU into one of the most innovative insurance groups in Europe and a goal accelerating the implementation of the key strategic directions of growth and profitability.

The innovation culture in the PZU Group will be built in particular by:

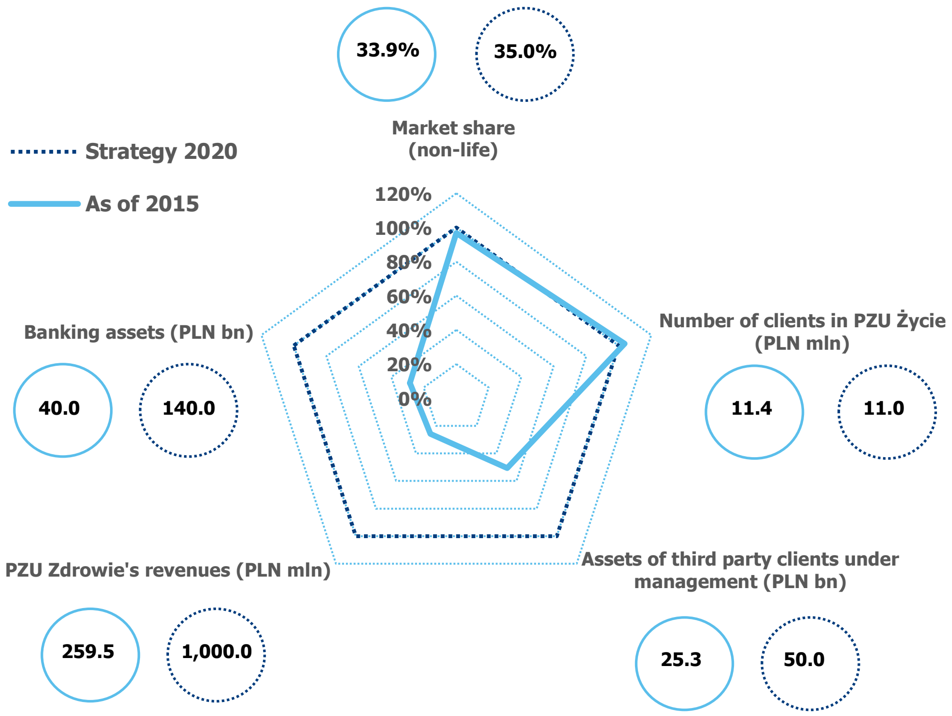
- using Big Data files in the process of quoting, selling and providing customer service;
- developing electronic distribution and service channels;
- implementing an effective transfer of know-how and technological solutions within the PZU Group through local innovation centers: LINK4, Alior Bank and selected international companies;

PZU Group's 2020 Strategy (business profitability)



Development strategy

PZU Group Strategy 2020 (business size)



- supplying innovative solutions for risk management in large businesses (PZU Lab);
- developing a culture of innovation to support the generation of new solutions by employees.

Nearly 16 million clients have placed their trust in the PZU Group. We leverage our experience of more than 200 years and we are changing to respond better to our clients' needs. We accompany our clients in all stages of their life, providing them with peace of mind and a feeling of security by protecting their health, life and property and growing their savings. We want to be wherever our clients are in order to be able to address their needs in the way they expect us to do that.

Implementation of a fully digital operational model will allow us to shape client relations and experiences actively. We will offer self-service solutions in areas in which our clients expect us to do that. Our goal is to digitize client processes fully and use interaction optimally to up-sell better matching products and services to allow us, among others, to position ourselves better in the Young Clients and Premium segments.

The comprehensive multi-channel distribution and customer service, including the upgrade of CRM (customer relationship management) tools and the use of available data on clients will allow us to adjust the PZU Group's offering to their needs better. The use of efficient analytical tools and Big Data sets will support portfolio management based on a given client's actual risk profile and the use of advanced price management methods in non-life insurance. The Group has also noticed the significant growth potential in the sales of health, pension and non-life products.

In the longer term, these activities will translate into clients having more products.

The PZU Group will actively support the formation of an ecosystem facilitating the development of Polish entrepreneurship and innovation, ensuring among others:

- support for Polish entrepreneurs and scientists through the PZU Group's own initiatives or cooperation within other initiatives supporting innovation (e.g. the Witelo fund)
- search for and support of external synergy-related initiatives or ones that are complementary to the actions conducted by the PZU Group
- financial support for the initiatives of entrepreneurs on commercial terms, also via Venture Capital funds.

Growth potential of the banking model

According to the agreement of 30 May 2015, the PZU Group is a shareholder of Alior Bank with a 31.36% shares at the end of H1 2017. In 2016, Alior Bank was the consolidation platform to acquire the spun-off part of Bank BPH. On 23 March 2017, the operational merger of Alior Bank with the acquired part of Bank BPH took place.

On 8 December 2016, PZU announced the signing of an agreement with UniCredit to acquire a 20% shares in Bank Pekao (a 32.8% shares jointly with the PFR Polish Development Fund). This strategic transaction was finalized on 7 June 2017. Following the transaction, PZU became the largest group offering comprehensive financial services in Poland and Central and Eastern Europe with total assets of PLN 295 billion (assets of PZU, Pekao and Alior Bank).

	PZU	Bank Pekao	ALIOR BANK *
Number of clients	~16 millions	~ 5 millions	~ 4 millions
Number of outlets	414	918	960

* including BPH Bank

It is the PZU Management Board's ambition for the PZU Group to become the brand of first choice in life and non-life insurance and in savings, health care and banking services. In Poland the PZU Group will offer a comprehensive array of services:

- insurance services through the largest insurer, PZU,
- banking products through the second largest bank - Pekao and Alior Bank,
- asset management through the largest entity in this sector: TFI PZU, TFI Pioneer, PTE PZU and PTE Pioneer.

The Management Board declares that the initiatives that will be undertaken will be fundamental and long-term in nature. The number and quality of interactions with clients will form the measuring stick for achieving these ambitions while at the same time being the common denominator of all these strategic initiatives.

According to its strategic assumptions, by 2020, the banking segment's contribution to the PZU Group's financial result is supposed to grow to PLN 450 million while banking assets are to hit PLN 140 billion. In connection with the closing of the transaction to acquire a 20% shares in Bank Pekao, the second goal was achieved ahead of plan in 2017. The Company will revise its strategic assumptions in order to harness the potential of the individual business pillars in an optimum manner. The PZU Group's 2020 strategy is to be updated in Q4 2017.

4.3 Pursuit of key projects and initiatives in H1 2017

In H1 2017, the Group pursued the following goals in the individual Business Areas:

Key areas	Recap of actions and achievements in H1 2017
Insurance	1. Consolidation of PZU's leading position on the non-life insurance market. According to the Q1 2017 data from the Polish Financial Supervision Authority, the PZU Group's market share (PZU, LINK4 and TUW PZUW) (direct business) was 37.1% (up 1.4 p.p. y/y). 2. Retention of the leading position in periodical premium life insurance. The market share was 45.6% in Q1 2017 (44.8% last year). PZU Życie's life insurance market share in Q1 2017 was 34.9% (up 0.4 p.p. y/y). 3. Consolidation of market leadership in Lithuania. The Lithuanian company's share of the non-life insurance market was 29.4% at the end of H1 2017 (up 0.7 p.p. compared to the corresponding period of the previous year). The life company also posted an increase in gross written premium (market share edged up 0.4 p.p. y/y) representing 6.0% of the overall life insurance market in Lithuania. In turn, in Q1 2017, the share in the Latvian non-life insurance market was 26.6%, posting growth of 0.7 p.p. y/y. The PZU Group's share in the Estonian non-life insurance market rose 0.9 p.p to 15.4% compared to H1 of the previous year. In Q1 2017 the Ukrainian non-life company recorded a market share decline (2.8%) of 1.5 p.p. y/y in comparison to the corresponding period of the previous year while the life company reported a larger market share (10.0% compared to 9.0% y/y). 4. The development work to implement a new policy system (the Everest Project) has been completed and should improve PZU's flexibility and competitiveness. 5. Work to develop a product for continuous technological protection combined with insurance cover against the effects of cyber attacks was continued. 6. PZU received a prestigious award as a Trusted Brand in 2017 conferred by the "My Company Polska" monthly. The editorial board once again asked businesses to identify the products and services in which they place special trust. PZU has proven to be the unquestionable leader in the insurance industry.
Investments	1. TFI PZU is third on the market in terms of net assets under management. At the end of H1 2017, the value of assets under management by TFI PZU was PLN 20.0 billion, which accounted for 7.4% of the assets in domestic mutual fund companies (TFIs). 2. Assets under management entrusted by external clients climbed from PLN 7.0 billion at the end of 2016 to PLN 7.3 billion at the end of H1 2017. At the end of H1 2017, assets of TFI PZU's external clients represented 4.6% of TFI market assets (excluding privately held assets) (4.8% at the end of 2016). 3. Net assets managed by Pioneer TFI amounted to a level of 17.0 billion giving it a market share of 6,4% (total combined market share of PZU TFI and Pioneer TFI sums up to 13,8%). 4. The net asset value of OFE PZU Złota Jesień at the end of H1 2017 was PLN 22.5 billion. 5. The work to refine the product offering in connection with pension system reform has already been launched. 6. Efforts to implement business initiatives to develop cooperation between Alior Bank and PZU were taken.
Health	1. At the end of H1 2017, PZU Zdrowie's revenues were PLN 220.2 million, signifying growth of 40.5% from the previous year. 2. 30.0% y/y increase in gross written premium for health insurance. 3. Acquisition of 2 medical entities: Revimed by PZU Zdrowie and NZOZ Trzebinia by Elvita. 4. Since the beginning of 2017, five medical centers in Poland operate under the PZU Zdrowie brand. 5. Tools for cooperating with medical centers have been implemented. 6. Work to enable online communication with Medical Hotline consultants to book medical services with an extensive network of medical centers has been continued. 7. The health offering has been extended to include the Zdrowy Biznes product targeting self-employment company and businesses run by two persons. As a result, they and their spouses, partners and children have access to private medical care across Poland.
Banking	1. On 7 June 2017, PZU and PFR finalized the deal to acquire a 32.8% equity shares in Bank Pekao for a total amount of PLN 10.6 billion. The price per share was PLN 123. It is one of the largest transactions in the European banking sector in recent years. This strategic decision has enabled PZU to become the largest financial group in Poland and Central and Eastern Europe. 2. On 27 March 2017, the operational business combination of Alior Bank (a PZU subsidiary) and the acquired part of Bank BPH took place. 3. The banking segment's contribution to the PZU Group's operating result was PLN 485 million at the end of H1 2017.

Supporting factors	Recap of actions and achievements in H1 2017
Efficient service, effective operations, flexible IT	1. 84% of the PZU Group's clients are satisfied with the claims and benefits handling process (satisfaction survey on a sample of 8.7 thousand clients conducted in H1 2017). 2. Work to implement security measures against fraud risk was conducted. 3. Implementation of an application for clients to handle claims on their own. 4. Efforts to implement streamlining improvements in the company involving automation of certain processes using robotic solutions were commenced. 5. Work to modernize the Data Warehouse infrastructure was continued. 6. Work to ensure PZU's compliance with the requirements of the General Data Protection Regulation was conducted. 7. PZU's victory in the ranking organized by the MojeBankowanie.pl portal in the category entitled "Best service in a branch (insurance)". 8. Efforts to develop a self-service portal including products offered by the entire PZU Group. 9. Continuation of the process to sell redundant properties from the standpoint of the statutory activity of PZU and PZU Życie.
Socially responsible organization	1. Continuation of the adopted directions of its social activities: safety, health and an active lifestyle. PZU supports voluntary and professional rescue services alike: Mountain Volunteer Search and Rescue (GOPR), Water Rescue Teams (WOPR), State Fire Brigade (PSP), Volunteer Fire Brigade (OSP), the Police. PZU is also involved in the promotion of safety by supporting TV shows and educational series, such as "I am a mom" or "Life-altering seconds". PZU promotes active lifestyle and disease prevention among Poles by supporting, among others, the PZU Warsaw Marathon, the PZU Warsaw Half Marathon and the PZU Cracovia Royal Half Marathon. All the races sponsored by PZU were accompanied by a charitable campaign entitled "Share a kilometer" to encourage Poles to help others through their own physical activity. 2. PZU supports culture – it contributed to the preservation of Polish cultural heritage by providing its patronage to institutions such as the Royal Łazienki Museum in Warsaw, the Warsaw Uprising Museum, the National Museum in Kraków, the National Museum in Warsaw, the National Theater in Warsaw and the Grand Theater – National Opera in Warsaw, among others.

Cost effectiveness culture	1. At the end of H1 2017, the administrative expenses of insurance segments in Poland increased by PLN 1 million, i.e. by 0.2% y/y 2. The administrative expense ratio in Poland improved 1.1 p.p. to 6.9% at the end of H1 2017. 3. The administrative expense ratio in foreign companies improved by 1.8 p.p. At the end of H1 2017 this ratio was 10.4%. 4. The PZU and PZU Życie Management Boards decided to commence the headcount restructuring process. It will affect all of the company's functional areas. The process is scheduled for completion on 17 December 2017. The downsizing process cannot apply to more than 956 PZU and PZU Życie employees.
Capital and investment policy and integrated risk management system	1. The PZU Shareholder Meeting decided that a dividend of PLN 1.2 billion, or PLN 1.40 per share, will be distributed from the 2016 profit. The record date was set for 29 September and the dividend will be paid on 19 October 2017. 2. S&P affirmed the A- rating for PZU and PZU Życie. This is one notch above Poland's rating. 3. Effective and adequate alignment of the risk management and compliance system to the PZU Group's evolving organizational structure and the legislative environment. 4. On 30 June 2017, PZU raised PLN 2.25 billion in a private subordinated bond issue denominated in Polish zloty. It was the largest issue of subordinated bonds in the history of the Polish financial sector, while at the same time being the first issue in Poland complying with Solvency II requirements.

4.4 Selected measures of the PZU Group's 2020 Strategy

ROE[1]

06.2017	2020 S
22.1%	**18%**

	NON-LIFE INSURANCE	LIFE INSURANCE	INVESTMENTS	HEALTH	BANKING
BUSINESS SIZE	PZU Group's market share[2]	Number of clients in PZU Życie (million)	Assets of third party clients under management (PLN bn)	Revenues (PLN mln)	Assets (PLN bn)
	03.2017	06.2017	06.2017	06.2017 [7]	06.2017
	37.1%	**11.1**	**29.8**	**427.3***	**232**
	2020 S	2020 S	2020 S	2020 S	2020 S
	35%	**11**	**50**	**1,000**	**140**
BUSINESS PROFITABILITY	Combined ratio[3]	Insurance margin in group and individual continuation	Net result on third party asset management (PLN mln)	EBITDA Margin[6]	Net financial result attributed to the PZU Group (PLN mln)
	06.2017	06.2017	06.2017	06.2017	06.2017
	86.5%	**19.2%**	**80.4***	**7.9%**	**153 [11]**
	2020 S	2020 S	2020 S	2020 S	2020 S
	92%	**>20%**	**200**	**12%**	**450**
	Cutting fixed expenses (PLN mln)	Surplus rate of return on its own portfolio above the RFR			
	06.2017	06.2017			
	100.4*	**1.6 p.p. / 2.3 p.p [12]**			
	2018 S	2020 S[4]			
	400	**2.0 p.p.**			

Solvency II solvency ratio[5]	NPS for Retail Client vs. competition	Number of products per Retail Client	Employee commitment index
03.2017	06.2017	06.2017	2017
277%[10]	**+6.5 p.p.[8]**	**1.56**	**35%[9]**
2020 S	2020 S	2020 S	2020 S
>200%	**> competition**	**1.64**	**55%**

GROUP OBJECTIVES

[1] ROE attributable to the parent company

[2] Direct business

[3] PZU jointly with PZUW TUW and Link4

[4] Average in Strategy period

[5] Own funds after subtracting anticipated dividends and asset taxes

[6] Net of transaction costs, project-related parts and amortization of goodwill

[7] Data on an annual basis, regardless of the time of purchase; own outlets and branches including revenues from PZU Zdrowie

[8] Average from Q3 2016 to Q2 2017

[9] Annual survey

[10] Data as at Q1 2017, unaudited

[11] Figures consistent with Pekao's and Alior Bank's FS's for the 12m moving average net of non-recurring events (restructuring costs and the result on the acquisition of BPH)

[12] Including on own debt FX

* 12 month moving average

05

Consolidated financial results

The net profit attributable to the parent company's shareholders more than twice as high as in H1 2016. Increase in gross written premium by 17.7% y/y and consolidation of the leading position in the Polish insurance sector. Greater exposure to the banking sector – consolidation of Pekao.

In chapter:

5.1 Major factors contributing to the financial result

In H1 2017 the PZU Group generated a gross result of PLN 2,198 million compared with PLN 1,049 million in the prior year (up 109.5%). Net profit reached PLN 1,733 million and was PLN 943 million higher compared to the result in H1 2016. Net profit attributable to the parent company's shareholders was PLN 1,446 million compared to PLN 660 million in 2016 (up 119.1%).

The net result of one-off events increased 77.5% compared to last year[1].

The operating profit in H1 2017 was PLN 2,199 million, up by PLN 1,149 million compared to the same period in the previous year. This movement resulted in particular from:

- higher gross written premium in motor insurance in the mass and corporate client segments following an increase in average premium and in individual insurance, in particular unit-linked products in the bancassurance channel;
- the increase in profitability in the mass insurance segment associated mainly with a decrease in the loss ratio in agricultural insurance – in the corresponding period of the previous year, occurrence of numerous losses caused by forces of nature (adverse effects of ground frost) and, to a smaller extent, improvement of profitability in motor TPL insurance;
- lower profitability in the corporate insurance segment, mainly in the non-motor insurance group due to several claims reported with a high unit value;
- decrease in profitability in group and individually continued insurance as a result of the higher loss ratio in protection products associated with the increase in the frequency of events associated with deaths in the first quarter of this year, confirmed by GUS mortality data on the whole population. In the second quarter, the loss ratio returned to the levels observed in the corresponding period of the previous year;
- better performance in the banking activity segment for Alior Bank in connection with the high sales level of credit products supported by good business climate and the low interest rate environment;
- higher investment income, in particular due to better market conditions on the Warsaw Stock Exchange.

The key events in H1 2017 included adding bank Pekao SA to PZU Group's structures. This transaction transformed the PZU Group from being an insurance group into a financial group. The commencement of consolidating Pekao SA in June 2017 materially affected the comparability of the results and total assets and equity and liabilities. The total balance sheet value jumped on this account by roughly PLN 182 billion compared to the coresponding period of previous year, while non-controlling interests totaled PLN 21.5 billion (as at 30 June 2017). Pekao contributed PLN 227 million to the PZU Group's consolidated operating profit and banking activity operating profit in H1 2017.

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

- increase in gross written premium to PLN 11,606 million. When compared to the previous year, premium rose by 17.7%, mainly in the motor insurance group in the mass and corporate client segments following an increase in average premium and in individual insurance, in particular unit-linked products in the bancassurance channel. After considering the reinsurers' share and movement in the provision for unearned premiums, the net earned premium was PLN 10,347 million and was 15.1% higher than in H1 2016;
- higher net result on investing activity, driven by investment income earned on the banking activity following the commencement of consolidation of Pekao, but also without that activity. The net result on investing activity was PLN 3,032 million, rising by 115.8% from the corresponding period of 2016. Investment income excluding banking activity rose mainly because of the better performance posted on listed equity instruments, in particular due to the improved market conditions on the Warsaw Stock Exchange. A positive change was also recorded in comparison to the corresponding period of the previous year due to the improved valuation of the equity stake in Azoty Group in the long-term asset portfolio;
- increase in interest expenses to PLN 426 million vs. PLN 346 million in the corresponding period of the previous year, associated in particular with the commencement of consolidation of Pekao;
- higher level of claims and benefits paid. They amounted to PLN 7,214 million, which means a 17.0% increase compared with 2016. The increase occurred in particular in individual unit-linked products in the bancassurance channel and in motor insurance, as a result of the growing insurance portfolio;
- higher acquisition expenses (a PLN 160 million increase) in both mass and corporate client segments, driven up mainly by higher sales;
- the increase in administrative expenses to PLN 2,025 million from PLN 1,278 million in H1 2016 was associated with the commencement of consolidating Pekao and Alior Bank's merger with the spun-off portion of BPH on 4 November 2016. Administrative expenses of the banking segment rose by PLN 700 million. At the same time, the administrative expenses of the insurance segments in Poland were at a level similar to the last year's figures. The change resulted from the higher expenses incurred in bancassurance products following a change in the rules of settlements with banks under bancassurance agreements, offset by lower expenses of project activity.
- higher negative balance of other operating income and expenses of PLN 601 million. This change was caused mainly by the higher level of tax on financial institutions. The total burden incurred by the PZU Group on account of this tax (in insurance and banking activity) in H1 2017 was PLN 293 million, as compared to PLN 170 million in the corresponding period of 2016 (following the introduction of the tax since February 2016 and commencement of consolidating Pekao). This effect was partially offset by higher revenue on writing off liabilities on account of premium refunds and overpayments.

Key data from the consolidated profit and loss account	1 January - 30 June 2017	1 January - 30 June 2016	1 January - 30 June 2015
	PLN million	PLN million	PLN million
Gross written premium	11,606	9,862	9,126
Net earned premium	10,347	8,986	8,744
Net revenues from commissions and fees	498	268	103
Net investment result	3,032	1,405	1,086
Net insurance claims and benefits	(7,214)	(6,165)	(6,006)
Acquisition expenses	(1,412)	(1,252)	(1,131)
Administrative expenses	(2,025)	(1,278)	(822)
Interest expenses	(426)	(346)	(62)
Other operating income and expenses	(601)	(568)	(293)
Operating profit (loss)	2,199	1,050	1,619
Share of the net profit (loss) of entities measured by the equity method	(1)	(1)	(0)
Profit (loss) before tax	2,198	1,049	1,619
Income tax	(465)	(259)	(297)
Net profit (loss)	1,733	790	1,322
Net profit (loss) attributable to equity holders of the parent	1,446	660	1,322

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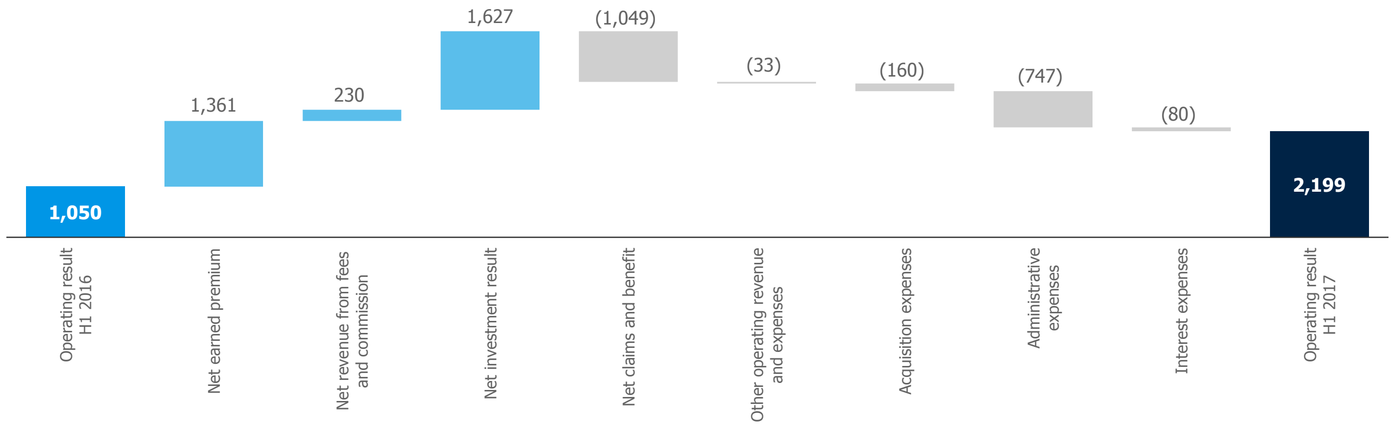
[1] Non-recurring events include the conversion effect caused by converting long-term policies into yearly renewable term agreements in type P group insurance and the claims in agricultural insurance that were higher than the average of the prior 3 years in 2016.

PZU Group's operating result in H1 2017 (PLN million)



5.2 Income

Gross written premium

In H1 2017, the PZU Group collected gross written premiums of PLN 11,606 million, up 17.7% from the corresponding period in 2016. The individual segments recorded the following figures:

- sales in the mass client segment rose by PLN 940 million compared to 2016 (net of intersegment gross written premium), chiefly including motor insurance due to an increase in average premium;
- premium increased in the corporate client segment by PLN 413 million from 2016 (net of intersegment gross written premium), mainly in motor insurance due to the higher number of insurance policies and average premium, insurance against fire and other property losses following the execution of several contracts with high unit values;
- sales increased by PLN 39 million in the group and individually continued insurance segment – the additional premium was received from health insurance concluded as group insurance;
- the premium in the individual insurance segment also rose by PLN 254 million, driven mainly by higher sales of unit-linked products in the bancassurance channel;
- gross written premium by foreign companies also increased as compared to 2016 by PLN 97 million following the development of non-life insurance sales in the Baltic States segment.

Net revenues from commissions and fees

Net revenues from commissions and fees in H1 2017 contributed PLN 498 million to PZU Group's result, or were PLN 230 million higher than in the previous year, mainly because of the commencement of consolidating Pekao.

They included mainly:

- net revenues from commissions and fees for banking segments in the amount of PLN 403 million, including mainly: brokers' commissions, revenues and expenses related to the service of bank accounts, payment and credit cards, fees charged for intermediation in insurance sales);
- income on asset management in OFE Złota Jesień. It was PLN 56 million (up by 21.7% compared to H1 of the previous year, because of the higher average net assets of OFE PZU);
- revenues and payments received from funds and mutual fund companies in the amount of PLN 76 million, or PLN 16 million more than in the previous year, mainly because of a change in the scope of consolidated funds as compared to the corresponding period last year.

Net investment result and interest expenses

In H1 2017, the PZU Group's net investment result[2] was PLN 3,032 million compared to PLN 1,405 million in the corresponding period of 2016 (up 115,8%). The higher result in H1 is above all the effect of the increase in the result achieved on the activity conducted by the banking sector (among others, interest income, also on loans and the

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[2] The net investment result consists of net investment income, net realized result and impairment losses on investments and the net movement in the fair value of assets and liabilities measured at fair value.

Insurance segments (PLN millions), local GAAP	Gross written premium (external)		
	1 January – 30 June 2017	1 January – 30 June 2016	1 January – 30 June 2015
TOTAL	**11,606**	**9,862**	**9,126**
Total non-life insurance – Poland (external gross written premium)	**6,596**	**5,243**	**4,426**
Mass insurance – Poland	5,217	4,277	3,624
Motor TPL	2,350	1,691	1,288
Motor MOD	1,240	1,043	868
Other products	1,627	1,543	1,468
Corporate insurance – Poland	1,379	966	802
Motor TPL	342	222	164
Motor MOD	419	334	240
Other products	618	410	399
Total life insurance – Poland	**4,221**	**3,928**	**4,018**
Group and individually continued insurance – Poland	3,429	3,390	3,338
Individual insurance – Poland	792	538	680
Total non-life insurance – Ukraine and Baltic States	**742**	**650**	**648**
Ukraine non-life insurance	96	89	60
Baltic States non-life insurance	646	561	588
Total life insurance – Ukraine and Baltic States	**47**	**41**	**35**
Ukraine life insurance	19	17	15
Baltic States life insurance	28	24	20

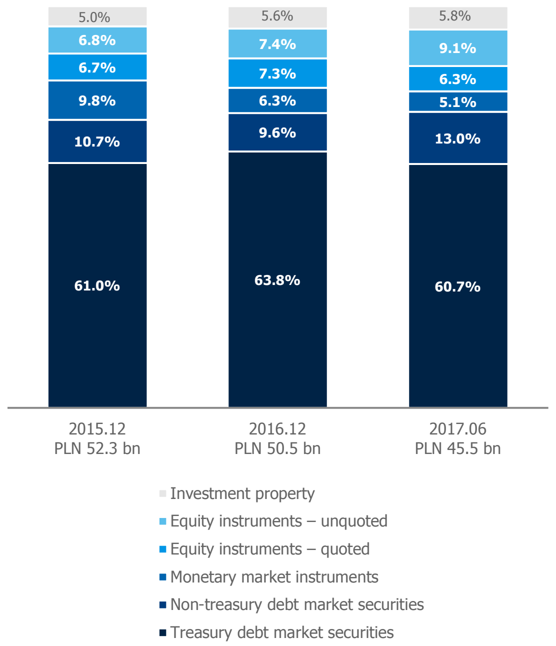
trading result) as a consequence of commencing Pekao SA's consolidation and the merger of Alior Bank with BPH's spun-off operations on 4 November 2016.

After considering interest expenses and excluding the impact of the banking activity, the result earned in H1 2017 was PLN 742 million higher than in the corresponding period of 2016, mainly because of:

- higher result earned on listed equity instruments in particular due to improved market conditions on the Warsaw Stock Exchange – the WIG index is up 17.9% compared to the end of 2016, while a 3.7% decline was recorded in the corresponding period of last year;
- better performance in the portfolio of assets covering investment products by PLN 294 million y/y, including in particular funds in the unit-linked portfolio (even though it does not affect the PZU Group's result) mainly due to the better market condition on capital market as well as higher decline rate in yields of Polish Treasury bonds;
- deterioration of the result on interest-bearing financial assets mainly due to worse foreign exchange result on foreign currency bonds portfolio held primarily to hedge financial liabilities arising from the issue of own debt securities; this effect was balanced by:
    - positive effect of foreign exchange differences on own debt securities due to appreciation of the PLN against the EUR;
    - higher result on the portfolio of bonds measured at market value due to better situation on debt market;
    - better results on corporate debt due to acquisition of high-margin exposures;
    - purchase of 30 year high-yield bonds on the primary market for 2 bn PLN in the held to maturity bond portfolio.

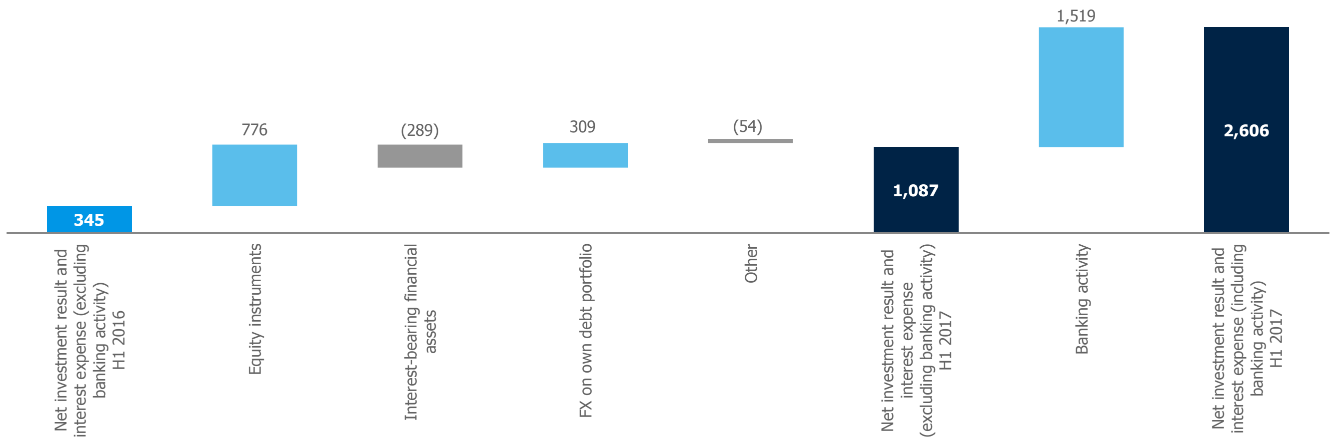
As at the end of June 2017, the value of the PZU Group's investment portfolio[3] was PLN 45,533 million compared with PLN 50,488 million at yearend 2016. The Group conducts its investment activity in accordance with the statutory requirements while maintaining the adequate degree of safety, liquidity and profitability; that is why government debt securities constituted over 60% of the investment portfolio both as at 30 June 2017 and 31 December 2016.

Financial asset structure (in %)*



* Derivatives linked to interest rates, foreign currencies and securities prices, respectively are presented in the categories: Debt market instruments - treasury, Money market instruments and Listed and unlisted equity instruments; NBP bills purchased by banking sector in the Debt market instruments - non-treasury category.

Change of the net investment result following the recognition of interest-bearing costs (PLN million)



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[3] The investment portfolio includes financial assets (including investment products net of loan receivables from clients), investment property, the negative measurement of derivatives and liabilities for sell buy backs.

Lower level of treasury debt instruments is connected with the financing of the Peako acquisition.

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

The high percentage of money market instruments was caused inter alia by entering into transactions on the interbank market to enhance the return on investing activity and to adjust the investment portfolios to their benchmarks.

Result on other operating income and expenses

In H1 2017, the net balance of other operating income and expenses was negative and amounted to PLN 601 million compared with the also negative balance for 2016 of PLN 568 million. The following contributed to this result:

- tax on financial institutions – the PZU Group's liability on account of this tax (in both insurance and banking activity) in H1 2017 was PLN 293 million compared to PLN 170 million in the corresponding period of the previous year. The increase in the liability was caused by the fact that the tax was introduced in February last year and the consolidation of Pekao began in June 2017;
- higher income from written off liabilities on account of premium refunds and payment surpluses,
- expenses were down by PLN 14 million for the amortization of intangible assets recognized as a result of PZU's acquisition of a stake in Alior Bank, insurance and medical companies.

5.3 Claims and technical provisions

Net claims and benefits (including the movement in technical provisions) reached PLN 7,214 million and were 17.0% more than in the corresponding period of the previous year. The following factors contributed to the increase in the category of net claims and benefits:

- higher claims and benefits in motor insurance in the corporate and mass client segments as a result of the development of the insurance portfolio;
- higher level of claims and benefits in catastrophic insurance and in general TPL insurance in the corporate client segment as a result of reporting several high unit value claims;
- in life insurance – significantly higher increases in provisions, predominantly for individual unit-linked products in the bancassurance channel and to a lesser extent the same type of group and individual products offered within PZU's own network (mostly Employee Pension Plans and IKEs). In both cases, this resulted both from an increase in customer deposits to accounts and significantly better results of investment activity in the analyzed period;
- in protection insurance – an increase in the incidence of deaths compared to last year, especially in the beginning of the year, confirmed by statistics published by the Central Statistics Office for the entire population.

On the other hand, the decline in this category of net claims and benefits was caused by the lower level of claims in the group of insurance for other losses to property, mostly for subsidized crop insurance – in the corresponding period of 2016 there were many losses caused by the forces of nature.

5.4 Administrative and acquisition expenses

The Group's administrative expenses in H1 2017 were PLN 2,025 million compared to PLN 1,278 million in H1 2016, i.e. they were up 58.5% over the previous year. The increase resulted mainly from the commencement of Pekao's consolidation and the merger of Alior Bank with BPH's spun-off operations on 4 November 2016. Administrative expenses of the banking segment rose by PLN 700 million. At the same time, the administrative expenses of insurance segments in Poland were at a level similar to last year's figures. The change resulted from the higher expenses incurred in bancassurance products following a change in the rules of settlements with banks under bancassurance agreements, offset by lower expenses of project activity.

In H1 2017 acquisition expenses rose by PLN 160 million compared to the corresponding period of the previous year. This increase was caused in particular by higher sales in the mass client and corporate client segments.

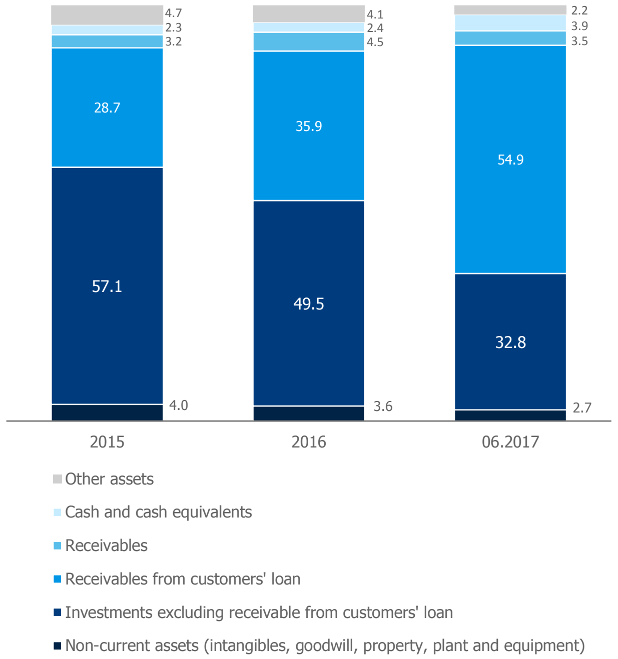
5.5 Asset and liability structure

As at 30 June 2017, the PZU Group's total assets were PLN 295,262 million, up PLN 169,917 million compared to the end of 2016.

Assets

The Group's main assets are investments (financial assets and commercial property). They totaled PLN 258,828 million and were PLN 151,790 million higher than at the end of the previous year. They represented 87.7% of the Group's balance sheet compared with 85.4% at the end of 2016. The increase in the value of investments was associated mainly with the banking activity due to the commencement of Pekao's consolidation. The balance of loan receivables from clients was PLN 162,062 million, increasing by PLN 117,033 million from the end of 2016 (the share in total assets rose from 35.9% at the end of 2016 to 54.9% at the end of H1 2017).

PZU Group's asset structure (in %)



PZU Group's receivables, including receivables under insurance contracts and current income tax were PLN 10,222 million, which represented 3.5% of assets. At the end of 2016, they amounted to PLN 5,703 million (4.5% of the Group's assets) and their increase was caused mainly by the outstanding transactions on financial instruments.

Non-current assets consisting of intangible assets, goodwill and property, plant and equipment were recognized in the statement of financial position in the amount of PLN 8,060 million. They constituted 2.7% of assets. The balance increased in H1 2017 by PLN 3,547 million as compared to 2016 mainly because of the commencement of Pekao's consolidation, including recognition of goodwill related to the bank's acquisition in the amount of PLN 1,711 million.

As at 30 June 2017, the PZU Group held PLN 11,646 million of cash and cash equivalents (3.9% of assets). At the end of 2016, its amount was PLN 2,973 million and the movement was due to Cash and cash equivalents of Pekao.

The balance of the assets held for sale item, which amounted to PLN 1,239 million, referred to the portion of investment property that was held for sale.

Liabilities and equity

At the end of H1 2017 consolidated equity hit PLN 34,628 million, up from the end of 2016 (102.2% growth). The growth in consolidated equity pertained mainly to non-controlling interests that in connection with commencement of Pekao's consolidation in June 2017, among others, reached PLN 21,474 million, increasing more than five-fold from the end of 2016. Equity attributable to the parent company's shareholders rose slightly compared to the year before – as an effect of the distribution of profit for 2016, including allocation of PLN 1,209 million as a dividend, offset by the net result attributable to the parent company generated in H1 2017.

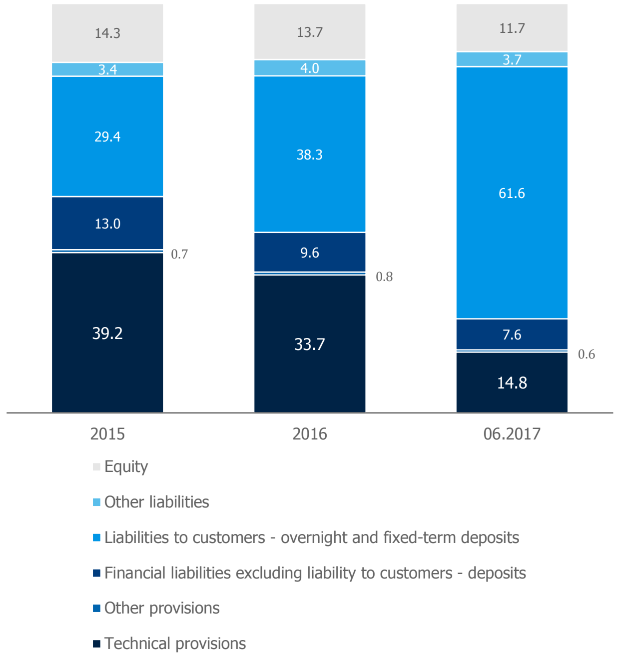
The largest component of liabilities and equity as at the end of H1 2017 was financial liabilities, which increased significantly compared to the end of 2016 from 47.9% to 69.2%, primarily due to the commencement of consolidation of Pekao. The value of this item reached PLN 204,291 million and included in particular:

- liabilities to clients of PLN 185,376 million (predominantly by virtue of deposits held by Pekao and Alior Bank as members of the PZU Group; an increase in current and term deposits by PLN 133,941 million compared to December 2016);
- liabilities under sell-buy-back transactions of PLN 752 million in H1 2017 compared to PLN 178 million in 2016;
- liabilities on the issue of own debt securities of PLN 4,859 million (including Eurobonds issued via the wholly-owned subsidiary PZU Finance AB with the total value of EUR 850 million and certificates of deposit and covered bonds issued by Pekao);
- subordinated debt of PLN 3,267 million. The value of this item increased compared to the end of 2016 due to the issue of subordinated debt by PZU on 30 June 2017 for the total amount of PLN 2,250 million.

As at the end of H1 2017, the value of technical provisions was PLN 43,785 million, which accounted for 14.8% of liabilities and equity (PLN +1,591 million compared to the end of 2016). The movement in this item resulted in particular from:

- higher provision for unearned premiums in non-life insurance resulting mainly from increased sales of motor insurance in Poland;
- higher provisions for unit-linked life insurance products if the policyholder bears the investment risk because of sales exceeding surrenders and a high positive investment result;
- higher mathematical reserves in continued business associated with the indexation of sums insured and aging portfolio.

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



The balance of other liabilities and provisions at the end of H1 2017 was PLN 12,558 million compared to PLN 5,994 million at the end of 2016. The contributors to this increase included, among others: liabilities to PZU shareholders on account of the dividend from the 2016 profit in the amount of PLN 1,209 million, liabilities to Pekao SA's minority shareholders on account of the dividend from the 2016 profit in the amount of PLN 1,822 million and liabilities on account of outstanding transactions on financial instruments in the amount of PLN 1,926 million.

Cash flow statement

At the end of H1 2017, net cash flow reached PLN 8,757 million, PLN 9,501 million more than in H1 2016.

5.6 Contribution made by the operating segments to the result

Definition of operating segments

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

- corporate insurance (non-life). This segment covers a broad scope of property insurance products, liability and motor insurance customized to a client's needs entailing individual underwriting offered by PZU, LINK4 and TUW PZUW to large businesses;
- mass insurance (non-life). It consists of property, accident, liability and motor insurance products. PZU, LINK4 and TUW PZUW provide those products to individual clients and to the small and medium enterprise sector;
- life insurance – group and individually continued insurance. PZU Życie offers it to employee groups and other formal groups. Persons under a legal relationship with the policyholder (for instance employer, trade union) 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 insurance types: protection, investment (which however are not investment contracts) and health insurance;
- individual life insurance. PZU Życie provides those products to individual clients. The insurance agreement applies to a specific insured who is subject to individual underwriting. Those include protection, investment (which are not investment contracts) and health insurance products;
- investments. It is the investment of the PZU Group's own funds, understood as the surplus of investments over technical provisions in the PZU Group insurance companies seated in Poland (PZU, LINK4, TUW PZUW and PZU Życie) plus the surplus of income earned over the risk-free rate on investments reflecting the value of technical provisions in insurance products, i.e. surplus of investment income allocated at transfer prices to insurance segments. Additionally, the investment segment includes income from other free funds in the PZU Group (including consolidated mutual funds);
- pension insurance. Activity conducted by PTE PZU;
- Ukraine segment. Includes both non-life insurance and life insurance;
- Baltic states segment. Includes non-life insurance and life insurance products provided in the territory of Lithuania, Latvia and Estonia;

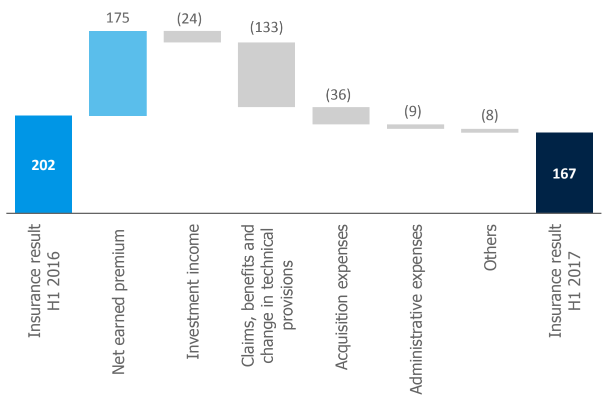
- investment contracts. They include PZU Życie products that do not transfer material insurance risk and do not satisfy the definition of an insurance contract. They include some products with a guaranteed rate of return and some products in the form of a unit-linked insurance product;
- banking activity– reporting according to IFRS – comprising Pekao , Alior Bank and their's subsidiaries;
- others. They include consolidated companies that are not classified in any segment above.

Corporate insurance

In H1 2017, the corporate insurance segment (consisting of PZU, LINK4 and TUW PZUW) generated an insurance result of PLN 167 million, which is 17.3% less than in the corresponding period of the previous year. The level of this segment's results in H1 2017 was affected mainly by the following:

- a 22.1% increase in net earned premium combined with a 34.1% increase in gross written premium, both in comparison to H1 2016. The following movements were observed in sales:
    - premium increased in motor insurance offered to leasing companies and in fleet insurance (mainly motor TPL insurance) as a consequence of the higher average premium and the number of insurance policies;
    - sales growth in fire insurance and other property claims (+70.6% y/y) and other TPL insurance (+15.6% y/y) as the offshoot of signing several high unit value agreements, including enrollment of two large entities from the chemical and coal industries in TUW PZUW;
    - lower sales in insurance for loans and guarantees – in the corresponding period of 2016, a guarantee was extended to a PZU subsidiary, i.e. Alior Bank (the impact exerted by this premium has been eliminated at the consolidated level);
- net claims and benefits surged by PLN 133 million (+30.3%), which, together with a 22.1% increase in net earned premium, means that the loss ratio increase by 3.7 p.p. Growth was recorded mainly in the group of insurance for damage caused by forces of nature and general liability insurance group – several claims were reported with a high unit value, including two claims under inward reinsurance of the PZU Group's foreign companies. This effect was partly offset by the decline in claims in other property insurance and improved profitability of the motor insurance portfolio;
- income from investments allocated to the corporate insurance segment fell y/y, which was dictated in particular by the declining EUR exchange rate vs. PLN compared to the rising exchange rate in the corresponding period of the previous year;
- the PLN 36 million, or 21.4% upswing in acquisition expenses compared to H1 2016 stemming primarily from the considerably higher sales growth rate (+34.1% y/y);
- administrative expenses rose PLN 9 million from the corresponding period of 2016. Higher expenses were recorded mainly in the IT and third party services, which was related to implementing products dedicated to corporate clients to be administered and sold in the Everest system. This effect was partially offset by a decline in project-related expenses.

Insurance result in the corporate segment (PLN million)

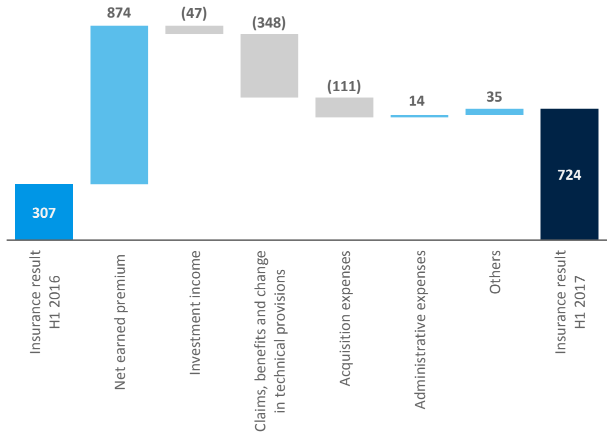


Mass insurance

In H1 2017, the insurance result in the mass insurance segment was PLN 724 million (up 135.8% compared to the corresponding period of 2016). The level of the segment's results in H1 2017 was affected by the following:

- a 24.0% increase in net earned premium combined with a PLN 913 million (+21.2%) rise in gross written premium in comparison to H1 2016, which was driven by:
    - higher motor insurance sales (+30.7% of gross written premium) as an effect of the higher average premium on the coattails of the gradual price hikes (forming a response to deteriorating results in recent years);
    - higher premium for fire and other damage to property insurance (+10.7% of gross written premium y/y), including PZU DOM household insurance and agricultural insurance despite the extensive competition on the market (chiefly subsidized crop insurance) and lower premium in the group of accident and other insurance (-7.0%), in particular various financial risks;
- income from investments allocated to the mass insurance segment by transfer prices fell by 17.1% y/y as compared to H1 2016, mainly as a result of a declining EUR exchange rate vs. PLN vis-à-vis a strengthening exchange rate in the corresponding period of the previous year;
- net insurance claims and benefits rose 14.3%, which when coupled with net earned premium being up 24.0%, translates into the loss ratio improving by 5.3 percentage points. This change resulted mainly from:
    - the lower level of claims in the group of insurance for other losses to property, mostly for subsidized crop insurance – in the corresponding period of 2016 there were many losses caused by the forces of nature;
    - the improving profitability of the motor TPL insurance portfolio following the changes introduced in average price. Effect partially offset by the observed growth in claims frequency;
    - the decline in profitability of motor own damage insurance (higher average loss amount) and general liability insurance.
- acquisition expenses reached PLN 847 million, rising by 15.1% as compared to H1 2016, mainly due to the higher direct acquisition expense (also on the coattails of the growing insurance portfolio). The additional factor that had a positive effect on acquisition expenses was the fact that, according to the requirements of the Insurance Activity Act, the rules for paying consideration to policyholders in group contracts were altered – as of 1 April 2016, these expenses are treated as administrative expenses.
- administrative expenses in this segment amounted to PLN 280 million, or 4.8% less y/y, driven primarily by the lower expenses in project activity and in current operations.

Insurance result in the mass segment (PLN million)



Group and individually continued insurance

The insurance result of the group and individually continued insurance segment was in H1 2017 PLN 682 million and was PLN 45 million (-6.2%) less than in the previous year. The constituent elements of the result were as follows:

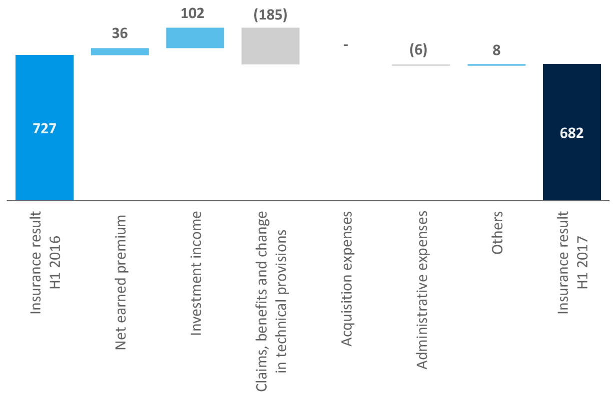
- the increase in gross written premium by PLN 39 million (+1.2%) was mainly due to the following:
    - attracting more premium income in group health insurance products (new clients in outpatient insurance and sales of different options of the medicine product). PZU Życie at the end of Q2 has 1.4 million policies in force;
    - growth in group protection insurance (higher average premium and average number of riders taken out by each insured);
    - up-selling of riders and raising sums insured in individually continued insurance products.
- investment income – including income allocated by transfer prices and income on investment products – was PLN 393 million, increasing 27.5% year on year mainly due to the higher income on unit-linked products (principally employee pension schemes) as a result of better conditions on the equity market – the WIG index surged up by 17.9% compared to a 3.7% decline in the corresponding period of last year. Income allocated by transfer prices remained at a stable level;
- insurance claims and benefits and the net movement in other technical provisions totaled PLN 2,648 million (up 7.5%).

  This change was driven by the following factors in particular:
    - higher number of deaths in protection insurance in Q1 compared to last year and the number of claims paid for that reason. This uptick was justified by the higher number of deaths in the overall population of Poland at the outset of the year as the data published by the Central Statistical Office depict; in Q2, the loss ratios returned to those observed in the corresponding period last year;
    - higher than one year ago growth in technical provisions in Employee Pension Plans (PPE, a third pillar retirement security product) - considerably better than one year ago investment performance coupled with a stable level of client contributions to unit-linked fund accounts;
    - incremental growth in the costs of benefits in health insurance as an effect of the rapid expansion of this contract portfolio;

  - these effects were partially offset by the rate of conversion of long-term contracts into yearly term agreements in type P group insurance exceeding last year's level. Provisions were released for PLN 25 million, some PLN 5 million more than in the corresponding period of 2016.
- acquisition expenses in the group and individually continued insurance segment in H1 2017 were PLN 167 million, remaining at the same level as last year. The factor underlying the reduction in direct and indirect acquisition expenses was the signing of a new agency agreement in the bancassurance channel in Q2 2016 as a result of which the fee for performing agency activities involving participation in the administration of protection insurance agreements is treated as an administrative expense, in contrast to the agreement previously in force that treated it as an acquisition expense. At the same time, growth in acquisition expenses was recorded in health products and group protection products stemming on one hand from the rapid expansion of these types of products and on the other hand from high commission brokerage channels increasing their contribution to revenue.
- administrative expenses were up by PLN 6 million (+2.1%) in H1 2017 compared to the corresponding period of 2016 chiefly on account of the signing of a new agency agreement in the bancassurance channel in Q2 2016 as a result of which the fee for performing agency activities involving participation in the administration of protection insurance agreements is treated as an administrative expense, in contrast to the agreement previously in force that treated it as an acquisition expense. This adverse factor was counterbalanced by cost cutting in project-related activities and in current activity by constantly maintaining cost discipline.

Insurance result, net of the conversion effect on long-term contracts into renewable contracts in type P group insurance fell year on year by PLN 50 million (7.1%) – mainly as a result of the higher number of deaths compared to last year and the number of benefits paid for that reason in H1 of this year. This uptick was justified by the higher number of deaths in the overall population of Poland at the outset of the year as the data published by the Central Statistical Office depict. In Q2, the loss ratios returned to the levels observed in the corresponding period of last year.

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

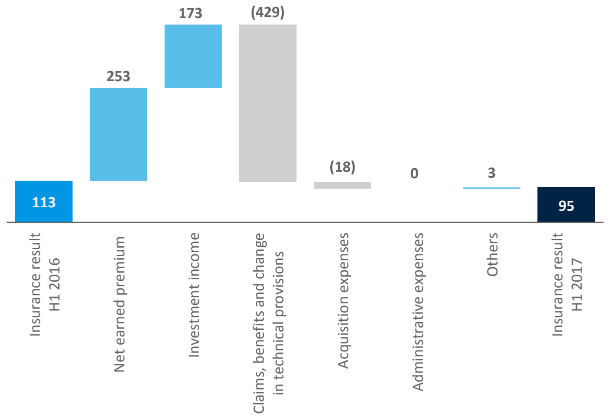


Individual insurance

In H1 2017, insurance result in the individual life insurance segment was PLN 95 million, or 15.9% less than last year. The key drivers of the operating result included:

- the increase in gross written premium in comparison with the first 6 months of 2016 by PLN 254 million (+47.2%) was a result of the following:
  - higher contributions to the unit-linked insurance accounts offered jointly with Bank Millennium;
  - sales launch of a new unit-linked product with Alior Bank at the outset of 2017;
  - higher contributions to the unit-linked insurance accounts offered by PZU Branches, especially IKE individual retirement accounts and the Goal for the Future products;
  - constantly rising level of premiums on protection products in endowments and term insurance – sales continue to climb, especially through PZU Branches
- the result in investing activity consists of income allocated using transfer prices and income on investment products. They rose PLN 173 million to PLN 251 million in the individual insurance segment, mostly on account of the growth in the result on investment products – the effect of higher yields of funds in unit-linked products in the bancassurance channel and better performance recorded in the IKE individual retirement account and the structure product called World of Profit [Świat Zysków]. Income allocated by transfer prices remained at a similar level as in the comparable period of last year;
- net insurance claims and benefits and movement in other net technical provisions were PLN 850 million, i.e. increased 101.9% compared to the corresponding period of 2016. This was caused by significantly higher increases in provisions, predominantly for unit-linked products in the bancassurance channel and to a lesser extent the same type of products offered within PZU's own network (mostly IKEs). In both cases, this resulted both from an increase in customer deposits in unit-linked fund accounts and significantly better results of investment activity in the reporting period;
- acquisition expenses are growing in the segment (by PLN 18 million, or 36.7%) to PLN 67 million. This was driven mainly by a significantly higher volume of sales of unit-linked products in the bancassurance channel with prepaid commissions and, to a lesser extent, by additional expenses resulting from the growing involvement of own network in the acquisition of individual protection products;
- administrative expenses in the segment were PLN 30 million, remaining at the same level as the year before.

Insurance result of the individual insurance segment (PLN million)



Investments

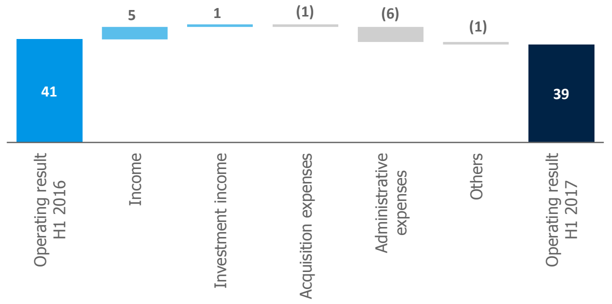
Operating income of the investment segment (based on external transactions only) stood at PLN 126 million in H1 2017, up by PLN 527 million from the corresponding period of last year mainly due to improved market conditions on the Warsaw Stock Exchange.

Pension insurance

In H1 2017, result of the pension insurance segment was PLN 39 million, down 6% from H1 2016. Major drivers of the operating result included:

- revenues from commissions and fees, which totaled more than PLN 61 million, up 8.4% from the previous year. This change resulted from the following:
  - management fee up almost PLN 9 million as a result of the higher average net asset value in OFE PZU;
  - revenues down by more than PLN 4 million on reimbursements from the Indemnity Fund;
- acquisition and administrative expenses stood at over PLN 1 million, having declined by 43.4% from the previous year. This resulted from OFE's information activities in 2016;
- administrative expenses hit almost PLN 24 million, i.e. they were up 36.9% from the previous year. This change resulted predominantly from an increase in expenses due to the payment of contributions to the Indemnity Fund by almost PLN 7 million;
- other operating revenues dropped by nearly PLN 2 million due to last year's receipt of an incentive fee (PLN 2 million) and the reversal of the provision for bonuses for 2016;

Result of the pension insurance segment (PLN million)



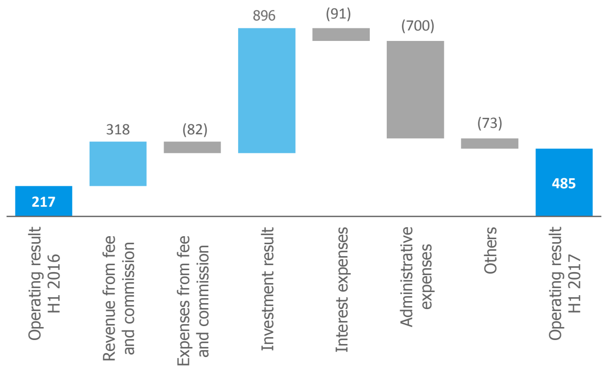
Banking activity

The banking activity segment in the PZU Group is categorized Pekao and Alior Bank.

In the first half of 2017 in the segment of banking activity operating profit (not including amortization of intangible assets acquired in transactions Banks takeover) amounted of PLN 485 million, which means growth by PLN 268 million compared to the first half of 2016. This increase mainly comes from the finalization of the acquisition of Pekao and its consolidation from June 2017.

Consolidated financial results

Result of the banking activity segment (PLN million)



Pekao

As at the end of June 2017, PZU held a 20.00% equity stake in Pekao SA. Since 7 June 2017, Pekao has been fully consolidated and from that date the result of the bank contributed to the banking activity segment.

In H1 2016, Pekao generated PLN 227 million in operating profit (without amortization of intangible assets acquired as part of the Pekao acquisition transaction). At the same time, taking into consideration the 20.00% equity stake held by the PZU Group in the bank, in the same period of this year, Pekao contributed PLN 45 million to the result attributable to the parent company (without amortization of intangible assets acquired in the Pekao S.A. acquisition transaction).

Alior Bank

As at the end of June 2017, PZU along with its subsidiaries held a 31.36% equity stake in Alior Bank.

As at the end of H1 2017, Alior Bank's total balance sheet value surged 31.5% year on year to PLN 61.8 billion. In the same period, net credit receivables from clients increased 43.8% to PLN 49.1 billion, while liabilities to clients went up 36.1% to PLN 51.7 billion. Compared to yearend 2016, the total balance sheet value increased 1%, net credit receivables from clients rose 6.1% and liabilities to clients increased 0.6%.

The main items generating the increase in the total balance sheet value were, on the assets side: receivables from clients (a y/y increase by PLN 14.9 billion to PLN 49.1 billion) and available for sale financial assets (down by PLN 2.0 billion y/y to PLN 6.5 billion), while the following items generated the increase on the liabilities and equity side: client deposits (up by PLN 13.7 billion to PLN 51.7 billion) and equity (an increase by PLN 0.6 billion to PLN 6.4 billion).

In H1 2017, Alior Bank generated PLN 258 million in operating profit (without amortization of intangible assets acquired as part of the Alior Bank acquisition transaction), representing an increase by PLN 41 million compared to H1 2016. At the same time, at the end of June 2017, the PZU Group held 31.36% of the share capital of the bank and Alior Bank contributed PLN 76 million to the result attributable to the parent company (without the amortization of intangible assets acquired in Alior Bank's acquisition).

Net interest income is the main component of the segment, representing 76.0% of its revenue. Its increase by 61.1% year on year was a consequence of both the acquisition of a spun-off portion of Bank BPH and organic growth in the volume of loans granted to clients coupled with the accompanying increase in client deposits. As a result, the size of the net client loan portfolio grew 43.8% year on year and deposits from non-financial clients rose 36.1%. A favorable impact on the level of generated interest income was also exerted by the Bank's conduct of an adequate pricing policy both with respect to deposit products and credit products, in an environment of low interest rates.

In H1 2017, Alior Bank's profitability, as measured by the net interest margin, remained high at 4.8% and was 62 bps higher than the interest margin recorded in H1 2016. The increase in margin was driven, among other factors, by shifting the asset composition involving a decrease in the share of assets available for sale in Alior Bank's total assets from 18.1% in H1 2016 to 10.5% in the corresponding period of 2017 and the continued pursuit of an effective pricing policy. At the same time, the average interest rate on loans went up 12 bps to 6.18%. In the same period, the average cost of deposits decreased to 1.18%, i.e. by 0.81 percentage points.

Net fee and commission income grew 43.8% to PLN 235 million. This result was generated as the difference between commission income of PLN 404 million (up 46.9% year on year) and commission cost of PLN 169 million (up 51.4% y/y).

The main component of income from fees and commissions are commissions charged on loans, accounts, transfers, deposits, withdrawals, borrowings, etc. In H1 2017, they amounted to PLN 205 million and represented 50.8% of income from fees and commissions. Their year-on-year increase resulted predominantly from higher commissions charged for the handling of bank accounts, commissions on transfers, deposits and withdrawals and commissions related to the granting of loans and borrowings.

In H1 2017, operating expenses were PLN 992 million, up by PLN 428 million, or 75.9%, from operating expenses incurred in the corresponding period of the previous year. The foremost reason for the increase in costs in the period under analysis compared to the corresponding period of the previous year is the expenses associated with the process of acquisition of a spun-off portion of Bank BPH.

As a consequence, in H1 2017 the cost-to-income ratio was 54.6% (51.0% without integration costs) compared to 47.7% in H1 2016.

The level of operating profit generated by Alior Bank was also significantly affected by tax on financial assets. In H1 2017, the resulting tax burden was PLN 99 million.

Baltic States

As part of its Baltic operations, the PZU Group offers life and non-life insurance products. Non-life insurance products are offered by entities acquired in 2014: Lietuvos Draudimas in Lithuania, AAS Balta in Latvia and the Estonian branch of Lietuvos Draudimas. Life insurance is sold by UAB PZU Lietuva Gyvybes Draudimas.

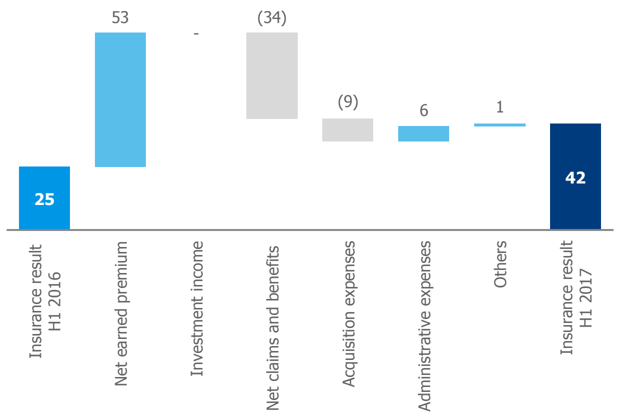
As at the end of June 2017, the share in the Lithuanian non-life insurance market was 29.4%, the share in the life insurance market was 6.0% and the share in the Estonian non-life insurance market was 15.4%. Meanwhile, the share in the Latvian non-life insurance market was 26.6% as at the end of March 2017.

In H1 2017, the PZU Group's business in the Baltic states generated an insurance result of PLN 42 million compared to PLN 25 million in the corresponding period of the previous year.

This result was driven by the following factors:

- increase in gross written premium. It amounted to PLN 673 million, up PLN 88 million compared to the first half of the previous year. Non-life insurance recorded an increase by PLN 84 million, in particular in motor insurance, driven by an upturn in insurance rates in the region. In life insurance, written premium increased by PLN 4 million (or 16.7%). The rate of growth in gross written premium in the Baltic states segment stood at 15.0%;
- maintenance of income from investments at PLN 9 million, i.e. the same level as that achieved in the comparable period last year;
- increase the value of net claims and benefits. They amounted to PLN 366 million and were higher by PLN 34 million (or 10.2%) compared to H1 2016. The loss ratio in non-life insurance stood at 62.2% and was slightly higher (by 0.3 p.p.) than the ratio generated in the corresponding period of the previous year. This year's milder weather conditions than the year before and a lower frequency of losses were offset by several large losses that transpired in the region. In life insurance, the value of benefits was PLN 20 million, up PLN 2 million compared to H1 of last year, in particular due to higher benefit disbursements;
- higher acquisition expenses. They segment's expenditures for this purpose were at PLN 130 million, up 7.4% from the corresponding period of the previous year. At the same time, the acquisition expense ratio calculated based on net earned premium declined 0.5 p.p. compared to the first half of the previous year as a result of an increase in the portfolio share of motor insurance entailing lower commission liabilities;
- lower administrative expenses. They amounted to PLN 55 million. For the sake of comparison, in H1 2016 they reached PLN 61 million. The decline in expenses drove a decrease in the administrative expense ratio which stood at 9.4%, down 2.1 p.p. relative to the same period of the previous year. The lowering of administrative expenses was possible due to the maintenance of cost discipline, notably in the IT area.

Insurance result Baltic states (PLN million)



Ukraine

As part of the Ukrainian operations, the PZU Group offers non-life insurance and life insurance products through the following companies: PZU Ukraine and PZU Ukraine Life.

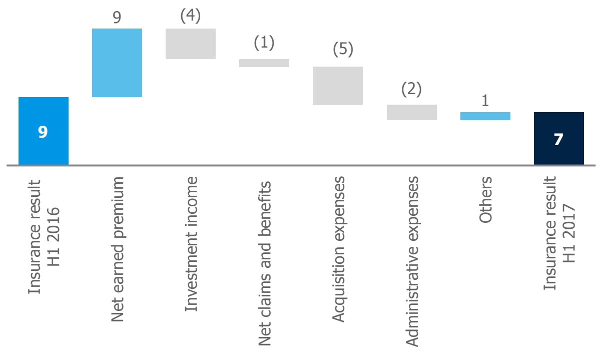
The Ukrainian non-life insurance market share at the end of March 2017 was 2.8%, while the life insurance market share was 10.0%.

The Ukraine segment closed H1 2017 with an insurance result of PLN 7 million, compared to PLN 9 million in H1 2016.

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

- increase in gross written premium. It amounted to PLN 115 million, up PLN 9 million (or 8.5%) compared to the first half of the previous year. In non-life insurance, the increase in written premium was PLN 7 million, driven mainly by growth in motor insurance sales. In life insurance, written premium increased by PLN 2 million, mainly in protection insurance;
- lower investment income. It reached PLN 7 million and was 36.4% lower than in the corresponding period of the previous year, due predominantly to lower income from investments at a client's risk;
- increase in net claims and benefits. Their value was PLN 26 million, up PLN 1 million (or 4.0%) compared to last year. In non-life insurance, net claims and benefits increased by PLN 3 million as a result of the establishment of provisions for large losses which transpired in 2017. In life insurance, the value of benefits decreased due to the reversal of certain provisions for client risk;
- higher acquisition expenses. They stood at PLN 32 million compared to PLN 27 million in H1 2016. The largest increase (by PLN 3 million) was recorded in life insurance, where growth in sales took place in the bancassurance channel which features higher commission liabilities. Growth in non-life insurance was driven mainly by amendments to reinsurance agreements which reduced the reinsurer's share in acquisition expenses;
- increase in administrative expenses. They stood at PLN 12 million. For the sake of comparison, in H1 2016 the segment's administrative expenses amounted to PLN 10 million. The increase in administrative expenses was associated with indexation of salaries and higher real estate maintenance expenses, among other contributing factors. The segment's administrative expense ratio went up 0.3 p.p. to 20.3%.

Insurance result Ukraine (PLN million)



Investment contracts

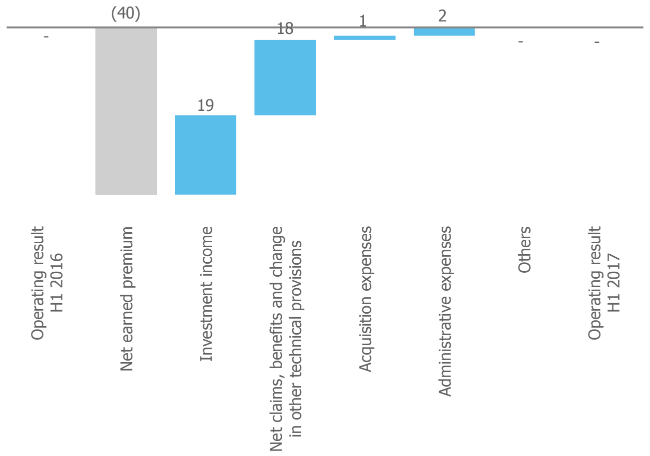
The results of the investment contracts segment are presented according to Polish Accounting Standards, which means that they include, among other things, gross written premium, claims paid and movement in technical provisions. These categories are no longer applied at the consolidated level where investment contracts are recognized in accordance with IAS 39.

On investment contracts, i.e. PZU Życie's products that do not generate any significant insurance risk and do not fulfill the definition of an insurance contract (such as certain guaranteed-yield products and certain unit-linked products), in H1 2017 the PZU Group's operating result was PLN 0 million – the same as the year before.

The segment's performance during the first 6 months of 2017 was driven by the following factors:

- gross written premium generated on investment contracts during H1 2017 decreased by PLN 40 million (-65.6%) compared to the corresponding period in 2016 to PLN 21 million. The changes in gross written premium were caused mainly by the withdrawal of short-term endowment insurance products (term deposits in the form of insurance products) from own channel offering in June 2016;
- result on investing activity in the investment contracts segment improved by PLN 19 million vis-à-vis the previous year, mainly as a result of a better rate of return on individual pension security accounts (IKZEs) and unit-linked funds in the bancassurance channel.
- the cost of insurance claims and benefits together with the movement in other net technical provisions decreased PLN 18 million to PLN 38 million due to the withdrawal, in mid-2016, of short-term endowment products from the range of products offered in own channel (the absence of written premium this year does not generate any growth in technical provisions, while the value of benefits paid to persons reaching the endowment age is offset by a commensurate movement in technical provisions);
- the decrease in acquisition expenses vis-à-vis the previous year was an effect of the lack of new sales and declining value of assets in unit-linked products in the bancassurance channel (a portion of the bank's fee depends on the level of assets) and additionally also a declining involvement of the company's own network in selling short-term investment endowment products following the withdrawal of products of this type from the offering in June 2016;
- administrative expenses totaled PLN 3 million, down 40.0% from the corresponding period of 2016 as a result of a decrease in the portfolio of agreements in this segment.

Operating result of the investment contracts segment (PLN million)



5.7 Profitability and operational efficiency ratios

Profitability ratios

In H1 2017, the PZU Group generated a return on equity of 22.1%. ROE was 11.4 p.p. higher than the year before, primarily due to better results generated on investment activity stemming from the improved market situation on the Warsaw Stock Exchange.

Operational efficiency ratios

The PZU Group's combined ratio has been maintained in recent years at a level ensuring a high profitability of business. In H1 2017, this ratio reached 87.2% and was lower than the year before due to, among other factors, a lower loss ratio in agricultural insurance.

Return on assets for H1 2017 on banking activity amounted 1.0% and 0.6% for Pekao and Alior bank respectively.

Operational efficiency ratios	1 January – 30 June 2017	1 January – 30 June 2016	1 January – 30 June 2015
Return on equity (ROE) – attributable to the parent company (annualized net profit/average equity) x 100%	22.1%	10.7%	21.1%
Return on equity (ROE) – consolidated (annualized net profit/average equity) x 100%	13.4%	10.3%	21.1%
Return on assets (ROA) (annualized net profit/average assets) x 100%	1.6%	2.8%	4.0%

Consolidated financial results

	Operational efficiency ratios	1 January - 30 June 2017	1 January - 30 June 2016	1 January - 30 June 2015
1.	**Gross claims and benefits ratio (simple)** (gross claims and benefits/gross written premium) x 100%	63.6%	63.2%	66.7%
2.	**Net claims and benefits ratio** (net claims and benefits/ net earned premium) x 100%	69.7%	68.6%	68.7%
3.	**Operating expense ratio in the insurance segments** (insurance activity expenses/net earned premium) x 100%	21.1%	22.3%	22.5%
4.	**Acquisition expense ratio in the insurance segments** (acquisition expenses/net earned premium)x 100%	14.0%	14.1%	13.6%
5.	**Administrative expense ratio in the insurance segments** (administrative expenses/net earned premium) x 100%	7.1%	8.2%	9.0%
6.	**Combined ratio in non-life insurance** (net claims and benefits + insurance activity expenses) / net earned premium x 100%	87.2%	93.4%	91.3%
7.	**Operating profit margin in life insurance** (operating profit/gross written premium) x 100%	18.3%	21.2%	20.1%
8.	**Return on assets in Pekao*** (net profit/average total assets) x 100%	1.0%	-	-
9.	**Return on assets in Alior Bank** (net profit/average total assets) x 100%	0.6%	0.7%	-

* data for H1 2017

06

Risk management

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

In chapter:

6.1 Objective of risk management

Risk management in the PZU Group aims to do the following:

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

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

The main elements of the integrated risk management system are aligned to one another in all of the PZU Group's insurance companies. They have been implemented to ensure the execution of the various companies' strategic plans and the overall Group's business objectives. Among others, they include the following:

- systems of limits and limitations on the acceptable level of risk, including the level of risk appetite;
- processes involving the identification, measurement and assessment, monitoring and controlling, reporting and management measures pertaining to various risks;
- risk management organizational structure in which the management boards and supervisory boards of the companies and dedicated committees play a crucial role.

Entities from other financial market sectors are obligated to apply the standards applicable to a given sector. The adopted internal regulations specify among others:

- processes, methods and procedures facilitating risk measurement and management;
- split of duties in the risk management process;
- scope and conditions and the frequency of risk management reporting.

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

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

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

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

6.2 Risk management system

The risk management system in the PZU Group is based on the following:

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

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

The first three entail the following:

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

The fourth decision-making level pertains to operational measures and is divided into three lines of defense:

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

The PZU Group Risk Committee, established in 2016, provides support (to subsidiaries' supervisory boards and management boards) to implement an effective risk management system coherent for the entire PZU Group.

The operational objective of the PZU Group Risk Committee is to coordinate and supervise activities related to the Group's risk management system and processes.

6.3 Risk appetite

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

Risk appetite defines the maximum level of permissible risk while setting limits and restrictions for the various partial risks and the level above which remedial actions are taken to curtail further risk expansion.

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.

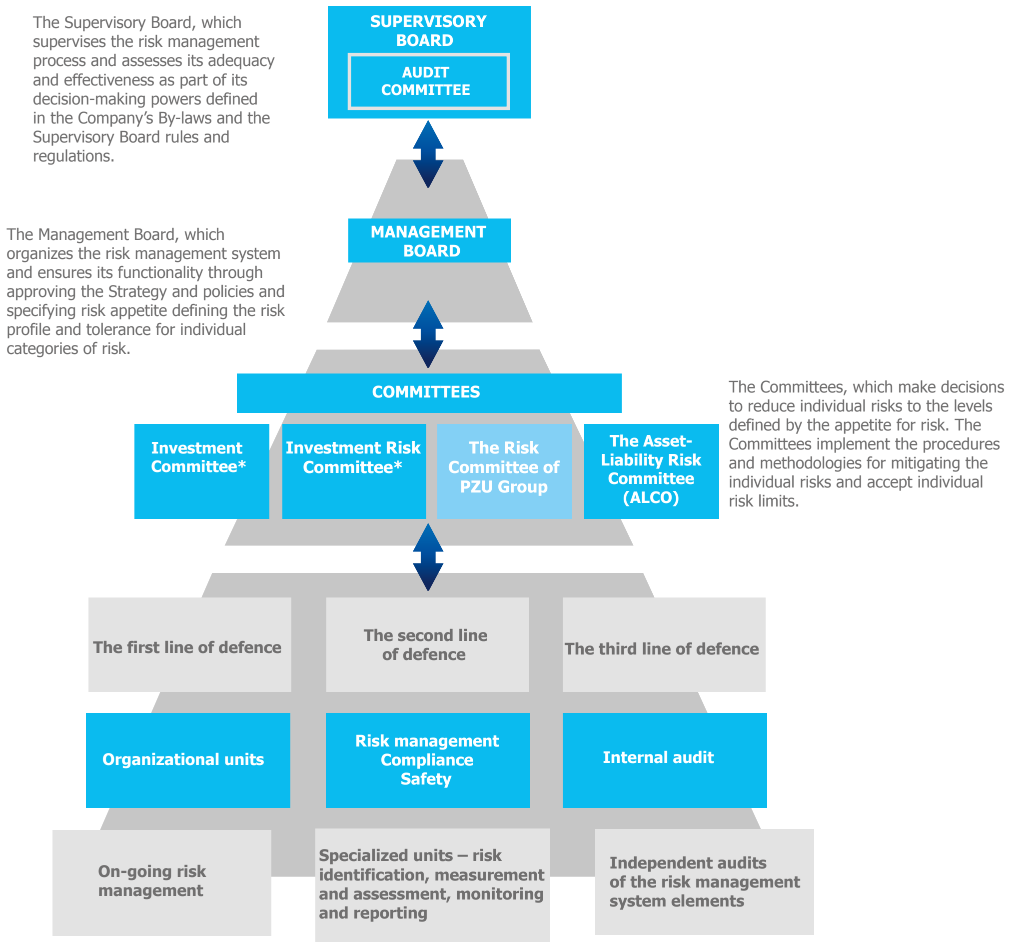
The process of determining the risk appetite and risk limits for each risk category consistent with the Group's process has been implemented in all the insurance companies in the PZU Group. The management board of each company determines the risk appetite, risk profile and tolerance limits reflecting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

6.4 Risk management process

The following two levels have been distinguished in the risk management process:

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

Diagram of the organizational structure for the risk management system



The Supervisory Board, which supervises the risk management process and assesses its adequacy and effectiveness as part of its decision-making powers defined in the Company's By-laws and the Supervisory Board rules and regulations.

The Management Board, which organizes the risk management system and ensures its functionality through approving the Strategy and policies and specifying risk appetite defining the risk profile and tolerance for individual categories of risk.

The Committees, which make decisions to reduce individual risks to the levels defined by the appetite for risk. The Committees implement the procedures and methodologies for mitigating the individual risks and accept individual risk limits.

6.5 PZU Group's risk profile

The major risks to which the PZU Group is exposed include the following: actuarial risk, market risk, credit risk, concentration risk, operational risk and compliance risk. The major risks associated with the operation of banking sector entities include the following risks: credit risk, operational risk and market risk (involving interest rate risk, FX risk and commodity price risk). The overall risk of the banking sector accounts for approximately 28% of the PZU Group's total risk, where the largest contribution is in credit risk.

Actuarial risk

This is the possibility of incurring a loss or unfavorable movement in the value of liabilities that may ensure from the executed insurance agreements and insurance guarantee agreements in connection with improper assumptions regarding the measurement of premiums and establishment of technical provisions.

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

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

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

The measurement of actuarial risk is performed in particular using:

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

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

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* At the end of June 2017 the Credit Risk Committee's powers were divided between the Investment Risk Committee and the Investment Committee. The powers to set the market risk limits were shifted to the Investment Risk Committee..

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

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

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

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

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

Market risk

This is the risk of a loss or unfavorable movement in financial position stemming directly or indirectly from fluctuations in the level and variance of the market prices for assets, credit spread, value of liabilities and financial instruments.

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

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

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

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

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

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

Market risk is measured using the following risk measures:

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

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

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

Risk is measured:

- for instruments' exposure and sensitivity measures;
- using a partial internal model.

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

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

Management actions in respect of market risk involve in particular:

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

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

Credit and concentration risk

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

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

Concentration risk is the risk of a loss resulting from the absence of diversification of a portfolio of assets or from a significant exposure to the risk of default on a liability by a single issuer of securities or a group of related issuers.

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

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

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

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

Credit risk is measured using:

- measures of exposure (gross and net credit exposure and maturity-weighted net credit exposure);
- standard formula.

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

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

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

The following are subject to monitoring:

- exposures to financial insurance;
- exposures to reinsurance;
- exposure limits and VaR limits.

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

Management actions in respect of credit risk and concentration risk involve in particular:

- establishment of limits on exposure to a single entity, a group of entities, a sector or a state;
- diversification of the portfolio of assets and financial insurance;
- acceptance of collateral;
- execution of transactions serving the purpose of mitigation of credit risk, i.e. selling a financial instrument, closing a derivative, purchasing a hedging derivative, restructuring a debt;
- reinsurance of the financial insurance portfolio.

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

Credit risk in banks

Credit risk is one of the basic risks inherent in the banking business. The share of loans and borrowings in a bank's balance sheet makes it an issue of key importance for the bank's financial performance to maintain this share at a safe level. The credit risk management process is centralized and is performed predominantly by Risk Management units existing in the Head Office and in local structures.

Pekao

For the purposes of credit risk management, the Bank makes use of internal rating models depending on the client segment and/or type of exposure. The rating process constitutes an important component of a client's credit risk assessment and of the assessment of risks related to a specific transaction, acting as an initial step in the credit decision-making process, when the subject matter of the decision is either granting a loan or changing the terms of a loan, and in monitoring the quality of the loan portfolio.

Credit risk is measured using three parameters: PD, LGD and EAD. PD is a parameter which refers to the probability of default, i.e. the borrower's failure to fulfill the contractual terms within a one-year horizon, and may pertain to a specific entity or a specific product. LGD (loss given default) is a parameter which indicates the estimated amount of a loss that will be suffered for each transaction of a credit nature as at the date of such default. EAD (exposure at default) is a parameter which reflects the estimated value of credit exposure as at a specific date. The risk parameters applied in the rating models serve the purpose of calculating the expected loss by virtue of credit risk. The value of the expected loss is one of the most significant assessment criteria taken into account by decision-makers in the credit process.

Alior

The Bank sells its credit products in accordance with loan granting methodologies appropriate for a given client segment and type of product. The assessment of a client's creditworthiness preceding a decision on granting a credit product to the client is performed using a system devised to support the credit process, scoring or rating tools, external information (for instance, CBD DZ, CBD BR, BIK and BIG databases) and the Bank's internal databases. The granting of credit products is performed in accordance with the operating procedures adopted by the Bank, the purpose of which is to indicate the proper activities to be carried out in the credit process, the Bank's units responsible for those activities and the tools to be applied.

Operational risk

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

Operational risk is identified in particular by:

- accumulation and analysis of information on operational risk incidents;
- self-assessment of operational risk;
- scenario analyses.

Operational risk is assessed and measured by:

- calculating the effects of the occurrence of operational risk incidents;
- estimating the effects of potential operational risk incidents that may occur in the business.

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

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

Management actions involving reactions to any identified and assessed operational risks involve, in particular:

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

The business continuity plans in PZU Group companies are kept up to date and tested regularly.

Compliance risk

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

The compliance risk management process in PZU Group entities covers both systemic activities carried out by the compliance unit and ongoing compliance risk management activities which are the responsibility of the heads of organizational units or cells in PZU Group entities. The identification and assessment of the compliance risk are performed for each internal process, in accordance with the distribution of responsibility for the reporting process. Moreover, compliance units identify compliance risk on the basis of information arising, for instance, from the legislative process, from notifications to the register of conflicts of interest, gifts and irregularities, and from inquiries received by the compliance units.

The systemic activities include, in particular:

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

In turn, activities related to ongoing risk management, carried out by the heads of organizational units or cells, include in particular:

- identification and evaluation of compliance risk in the supervised area;
- measurement of compliance risk;
- determining the instruments to provide protection and limit the number and scale of irregularities;
- reporting any threats and incidents in the compliance risk area to the compliance unit;
- taking mitigation activities;
- ongoing monitoring of compliance risk.

Moreover, the Compliance Department at PZU level makes efforts aimed at ensuring consistent and uniform standards of compliance solutions in all PZU Group entities and monitors compliance risk throughout the PZU Group.

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

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

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

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

Due to the broad spectrum of the PZU Group's business, reputation risk is also affected by the risk of litigation of varying values of the subject matter of the dispute, which is predominantly inherent in the Group's insurance business.

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

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

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

Compliance risk is monitored, in particular, through:

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

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

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

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

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

In 2017, actions are continued in the area of product compliance in response to a significant increase in the volume of regulatory requirements, including supervisory recommendations in the area of insurance products and aimed at supporting businesses to effectively manage compliance risk in insurance products.

6.6 Reinsurance operations

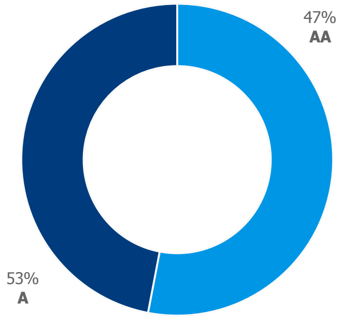
Reinsurance operations

Reinsurance protection in the PZU Group secures insurance activity, limiting the consequences of the occurrence of catastrophic phenomena that could adversely affect the financial standing of insurance undertakings. This task was performed through obligatory reinsurance contracts supplemented by facultaltive reinsurance.

Reinsurance treaties in PZU

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

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



Munich Re, Hannover Re and Lloyd's are among the major partners extending obligatory reinsurance cover to PZU in 2017. PZU's reinsurance partners have high S&P/AM Best ratings. That evidences the reinsurer's robust position and affords the Company security.

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

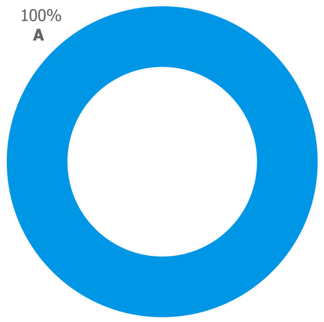
In addition, PZU generates gross written premium on inward reinsurance under its operations on the domestic and international market, mostly through facultative reinsurance.

Reinsurance treaties in PZU Życie

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

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

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



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

6.7 Capital management

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

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

The capital management policy rests on the following principles:

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

As at the end of Q1 2017 the estimated solvency ratio (calculated according to the standard Solvency II equation) was 277.4%[1] and remained above average solvency ratios among the insurance groups in Europe.

As a result of the acquisition of Pekao, the PZU Group's capital adequacy ratio calculated for Tier 1 capital will decrease at the end of June 2017. To mitigate the decline in the PZU ratio on June 30, 2017, it issued subordinated bonds with a nominal value of PLN 2.25 billion. 7.2 DEBT FINANCING OF PZU, BANK PEKAO AND ALIOR BANK

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

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

Solvency ratio	Q1 2017	2016
Solvency II		
PZU Group *	277.4%	249.8%
PZU*	284.4%	274.4%
PZU Życie*	405.8%	396.2%
CRR		
Bank Pekao – total capital adequacy ratio	18.0%**	17.6%
Tier 1	18.0%**	17.6%
Alior Bank – total capital adequacy ratio	13.6%**	13.6%
Tier 1	11.5%**	11.3%

* unaudited data
** as at Q1 2017

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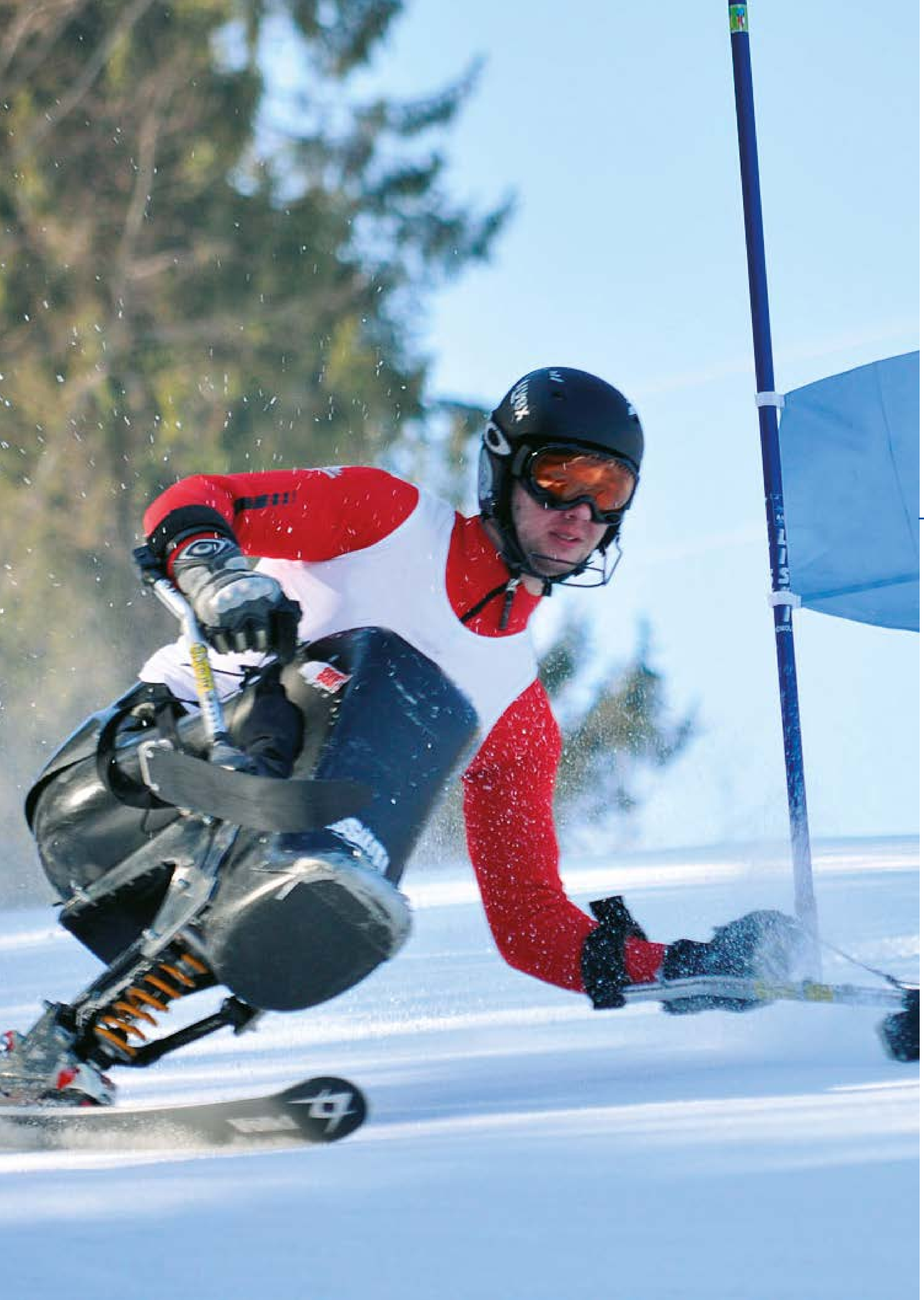
[1] Unaudited data



07

PZU on the capital market and the debt market

In H1 2017, PZU remained among the 5 most liquid companies on WSE's main market with 8.3% of the trading volume in PLN totaling PLN 10.4 billion. The high liquidity resulted in a low spread of 7 b.p., while the average for the top 20 most liquid companies was 17 b.p.

In chapter:

7.1 PZU share price

PZU made its debut on the Warsaw Stock Exchange (WSE) on 12 May 2010. Since then, it has been in WSE's most prominent WIG20 Index (calculated on the basis of the equity portfolio in the 20 largest and most liquid companies listed on WSE's Main Market)[1]. PZU is also in other indices: WIG, WIG30, WIG-Poland, WIGdiv, WIG20TR, MSCI Poland and the sustainable development RESPECT Index (since 2012).

In H1 2017, the PZU stock price was under pressure exerted by local and global macroeconomic factors that are exerting an ever greater impact on the condition of the Polish stock market (since 2015, international investors have been responsible for more than 50% of the trading volume on WSE's main market).

On one hand, investor sentiments were stimulated by the persisting bullish market on the global markets since the 2016 presidential election in the US, solid economic data from Poland and the Euro zone, improving performance of businesses and cautious declarations from key central banks regarding the tightening of monetary policy. On the other hand, however, the market discounted two interest rate hikes in the US and the announced reduction of the FED balance sheet.

In H1 2017, both the WIG20 large cap index and the WIG overall market index performed well, climbing 31.4% and 36.4% y/y, respectively, and 18.1% and 17.9%, respectively, from the beginning of this year. The banking sector, among others, contributed positively to this growth. The WIG Bank index rose 27.7% y/y and 15.9% from

From H2 2016 to the end of Q1 2017, the PZU share price followed the WIG20 index. In Q2 2017 however, PZU performed much better than the benchmark index, generating more than 22.4% q/q relative growth vs. WIG20.

In H1 2017, the PZU share price ranged from PLN 32.82 to PLN 46.78 (at closing prices). The share price volatility (calculated as the ratio of standard deviation to the average price in intraday periods) was 11.0%, 5.0 p.p. higher than in the corresponding period of 2016. PZU's share price at the close of the session on 30 June 2017 was PLN 44.59, signifying 56.2% growth y/y and 34.3% growth since the beginning of 2017.

Market multiples

At the end of June 2017, PZU's P/BV ratio was 2.9, i.e. up 0.8 y/y. In the corresponding period the P/BV ratio for the banking industry (PZU's most suitable peer group on the Warsaw Stock Exchange) was 0.93x. Western European insurance groups have significantly lower multiples with their average P/BV ratio oscillating around 1x.

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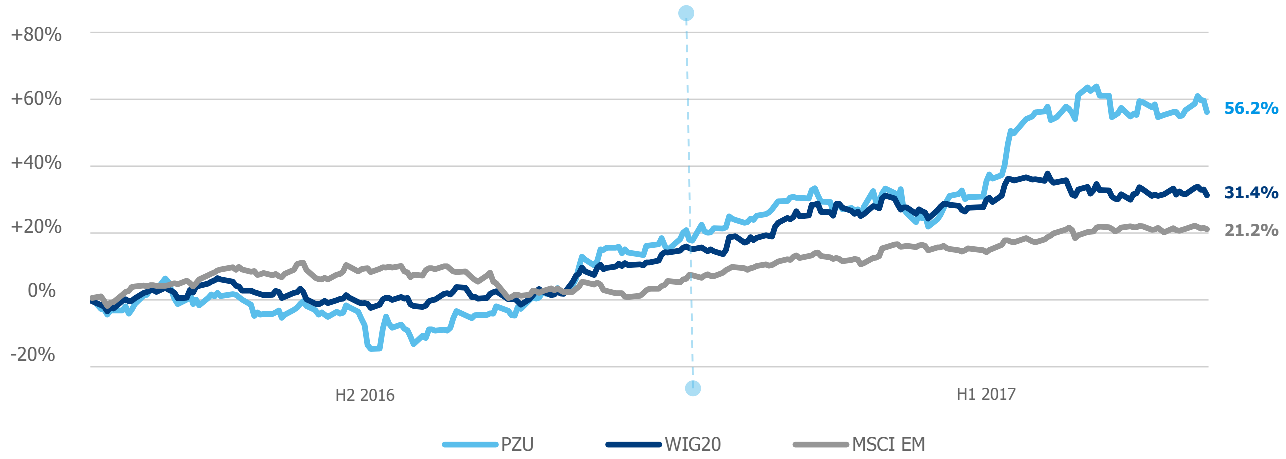
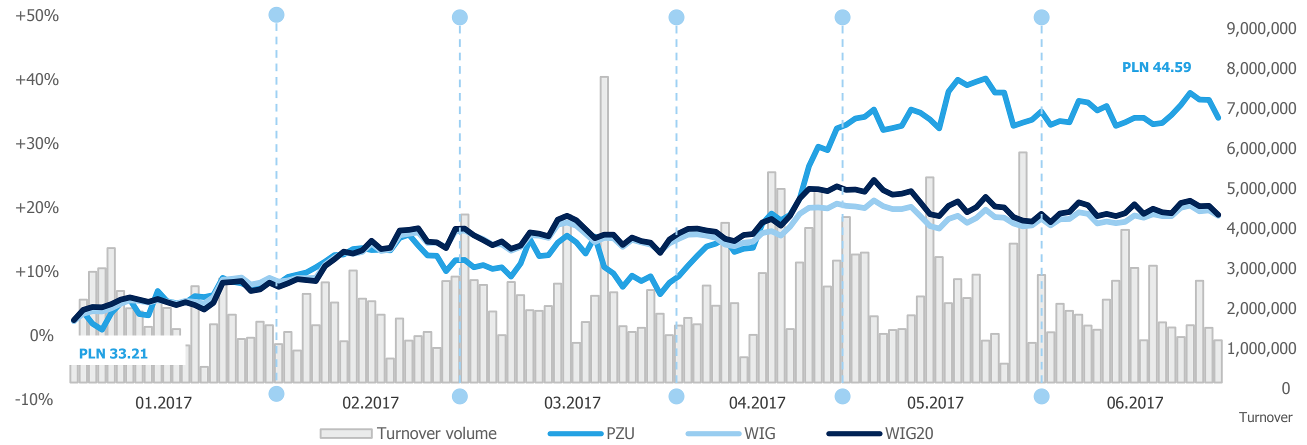
[1] WIG20 is a price index, i.e. only the prices in executed transactions are included; however, it disregards dividend income.

Growth (%) of PZU share price vs. MSCI EM and WIG20

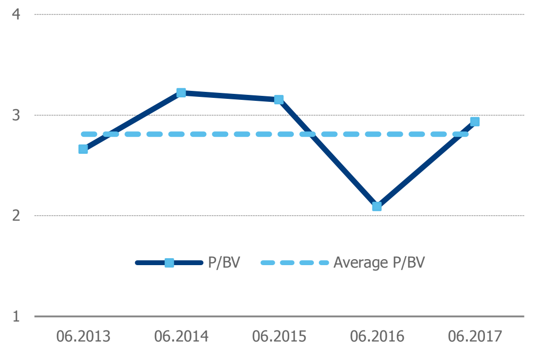


Growth (%) and trading volume of PZU shares vs. WIG and WIG20

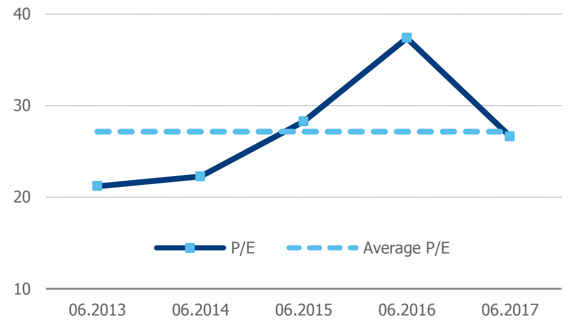


	06.2017	06.2016	06.2015	06.2014	06.2013
P/BV (C/WK) Market share price / book value per share	2.9x	2.1x	3.2x	3.2x	2.7x
BVPS (PLN) Book value per share	15.2	13.6	13.7	13.8	15.3
P/E (C/Z) Market share price / Earnings per share	26.6x	37.4x	28.3x	22.3x	21.2x
EPS (PLN) Earnings / number of shares	1.7	0.8	1.5	2.0	1.9

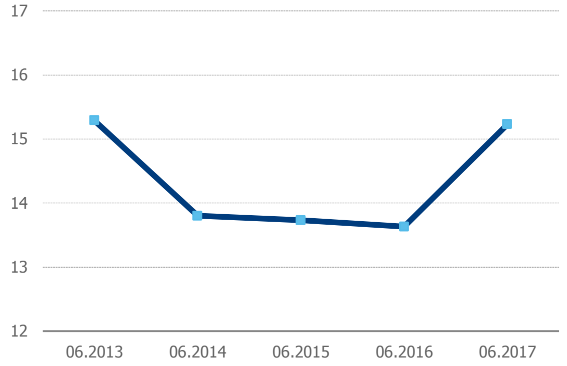
P/BV



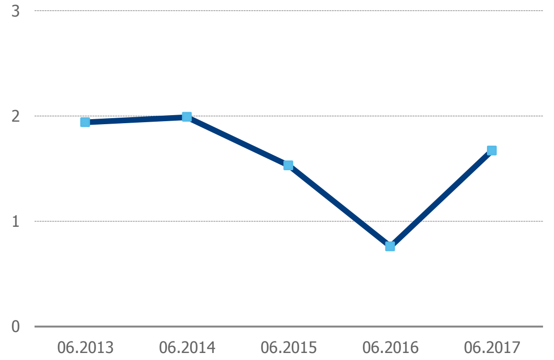
P/E



BVPS



EPS



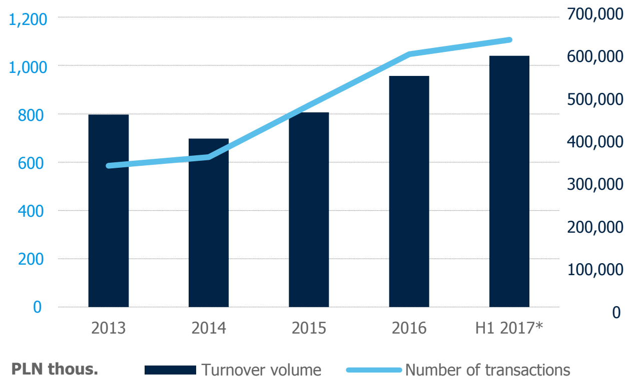
PZU on the capital market and the debt market

Liquidity

In H1 2017, PZU shares were highly liquid. PZU accounted for 8.3% of WSE's trading volume and the average share buy/sell spread was a mere 7 b.p. (while the average for the top 20 most liquid companies was 17 b.p.).

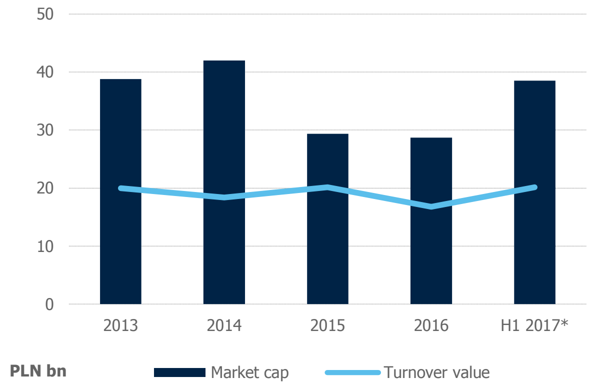
The number of PZU share trades increased even further in H1 2017, up 12.9% (to 527 thousand transactions) and the trading volume rose 22.7% y/y to 262 million shares. As a result, the heightened trading activity and the demand side's prevalence drove PZU's market value up PLN 13.9 billion y/y to PLN 38.5 billion.

Trading volume / number of PZU share trades



*** trailing data (12 m.)**

Capitalization / PZU's trading volume



*** trailing data (12 m.)**

PZU share statistics	H1 2017	H1 2016	H1 2017/ H1 2016	Q2 2017	Q1 2017	Q2 2017 /Q1 2017
Maximum price [PLN]	46.78	36.30	28.9%	46.78	38.10	22.8%
Minimum price [PLN]	32.82	28.25	16.2%	35.44	32.82	8.0%
Last session price [PLN]	44.59	28.55	56.2%	44.59	34.80	28.1%
Average session price [PLN]	39.34	33.22	18.4%	43.02	35.90	19.8%
Trading value [PLN 000]	10,377,513.8	6,982,299.0	48.6%	5,933,195.5	4,444,318.3	33.5%
Average trading value per session [PLN 000]	83,689.6	56,308.9	48.6%	98,886.6	69,442.5	42.4%
Number of transactions [units]	527,016.0	466,812.0	12.9%	284,255.0	242,761.0	17.1%
Average number of trades per session	4,250.1	3,764.6	12.9%	4,737.6	3,793.1	24.9%
Trading volume	261,725,393.0	213,391,299.0	22.7%	138,102,334.0	123,623,059.0	11.7%
Average trading volume per session [shares]	2,110,688.7	1,720,897.6	22.7%	2,301,705.6	1,931,610.3	19.2%
Capitalization at the end of the period [PLN 000]	38,504,490.6	24,653,581.7	56.2%	38,504,490.6	30,050,600.4	28.1%

PZU's dividend yield was

3.1%

dividend per share

PLN 1.40

PZU's P/E ratio (Price/Earnings) at the end of June 2017

26.6x

P/BV (Price/Book Value)

2.9x

and its capitalization was

PLN 38,504 mln

Average trading value per session

PLN 84 mln

and the average number of trades per session

4,250

PZU's maximum share price was

PLN 46.78

its minimum share price was

PLN 32.82

PZU's percentage of WSE's trading activity

8.3%

PZU share's average buy/sell spread

7 bps

Nominal value of PZU's subordinated bond issue

PLN 2.25 bn

interest rate equal to

WIBOR 6M + 1.8%

S&P Financial strength and Credit rating for PZU and PZU Życie at

A-

Since 2014, PZU's rating has remained one notch above Poland's sovereign rating for foreign currency-denominated debt

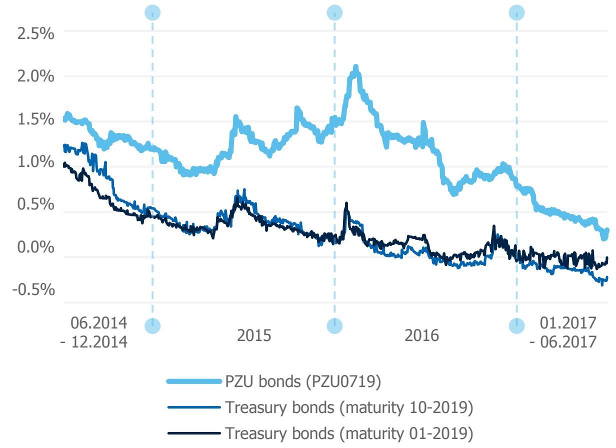
7.2 Debt financing of PZU, Pekao and Alior Bank

PZU

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

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

Yield of PZU's Eurobonds vs. Polish treasury bonds maturing in 2019 (EUR)



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

Also, on 14 March 2017, the PZU Supervisory Board issued a positive opinion on the PZU Management Board's motion to the PZU Shareholder Meeting to adopt a resolution to issue subordinated bonds in a total amount not exceeding PLN 3 billion.

On 30 June 2017, in a private offering, PZU SA issued subordinated bonds with a nominal value of PLN 2.25 billion. Bond redemption will take place on 29 July 2027 with an early repayment option on 29 July 2022. The bonds bear interest at the floating interest rate being the sum of the WIBOR rate for 6M PLN deposits and a 1.8% margin. On the day of records, the demand books grew extremely dynamically and significantly exceeded the original plans. Finally, the Management Board of PZU decided to issue PLN 2.25 bn. In the bookbuilding process, approximately 40 investors, including the European Bank for Reconstruction and Development. Among buyers of issued bonds 54% were investment funds, 21% banks, 13% international institutions, 5% pension funds, 4% insurers and 3% of other entities. As of August 1 2017 the bonds are listed on Catalyst (PZU0727).

It was one of the largest corporate issues in Catalyst history in terms of value and the first issue of subordinated bonds realized by the insurance company in Poland under the Solvency II regime.

The issue was aimed at mitigating the drop in the solvency ratio after the acquisition of Pekao and proceeds from the issue of bonds were included in PZU category 2 own funds.

The PZU Group's debt ratio was 23.6% as at 30 June 2017%[2].

Pekao

Under the mortgage bond program established in 2010, Pekao, acting through its subsidiary Pekao Bank Hipoteczny, issues long-term debt securities secured on its loan portfolio. The issue program is limited to PLN 2 billion. In 2017, Pekao issued no debt securities under the program.

Alior Bank

In order to secure a safe level of capital adequacy ratios, Alior Bank regularly issues debt instruments. As at 30 June 2017, the following debt issue programs were in place in Alior Bank:

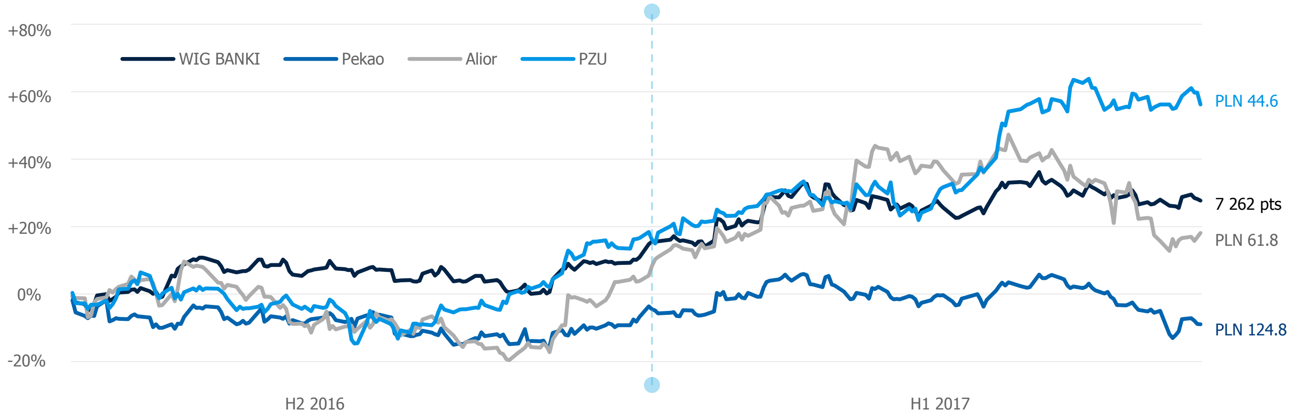
- Own bond issue program capped at PLN 2 billion;
- Public Subordinated Bond Issue Program capped at PLN 800 million.

On August 11, 2017, Alior Bank issued bonds of a nominal value of PLN 250 million in a non-public issue of ordinary bonds. Bonds are unsecured, have floating interest rates, based on WIBOR 6M plus a margin of 1.19%. The bond maturity date will be August 11, 2020.

All the subordinated bond series issued by Alior Bank under these programs are classified as Tier II capital instruments referred to in Article 63 CRR[3].

On August 23rd, 2017, the Alior Bank's Supervisory Board, as requested by the Management Board, approved the opening of the Second Public Bond Issue Program of Alior Bank S.A. and authorized the Bank's Management to repeatedly incur financial liabilities by issuing unsecured, ordinary or subordinated bearer bonds. The aggregate par value of the Bonds issued under the Second Public Issue Program may not exceed PLN 1,2 billion.

WSE-listed banks



7.3 Banking sector on the Warsaw Stock Exchange

WIG Banks Index[4]

2016 was a challenging year for the banking sector, mainly because of the persistently low interest rates, bank levy, legislative risk relating to Swiss franc-denominated mortgage loans and the unstable geopolitical situation. These factors contributed to the low valuation of banks listed on the Warsaw Stock Exchange. Investor sentiments started to improve at the end of 2016. The resulting inflow of capital to WSE-listed banks allowed the WIG Bank index to reach 6,263 points at the end of 2016, compared with roughly 6 thousand at the beginning of 2016. In the first half of 2017, the WIG Bank index continued its strong upward surge, achieving 15.9% growth vs. the end of 2016 (compared to a 6.6% decline in the first half of 2016). As a result, the average P/BV for the WIG Bank index on the last day of June 2017 was 0.93, up by 63.2% y/y.

At the end of H1, the banks comprising the PZU Group (Alior Bank and Pekao) generated more than 13.3% of the trades on WSE's main market and their weight in the WIG Bank index was approximately 30%. The price of Alior Bank's shares at the end of June 2017 was PLN 61.8, i.e. it rose 14.0% from the end of 2016. Bank Pekao recorded an 0.8% decline to PLN 124.8. One must have in mind, however, the adjustment for Pekao's dividend payment from the 2016 profit in the amount of PLN 8.7 per share, which was disbursed on 20 June 2017. Because of the more stringent requirements applied by the Polish Financial Supervision Authority, Bank Pekao was one of just three banks authorized to pay out a dividend in 2017.

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[2] PZU Group's leverage ratio – the quotient of debt on long-term financial liabilities (net of liabilities on deductions) to the sum of the following: debt on long-term financial liabilities and the PZU Group's equity minus intangible assets, deferred acquisition expenses and deferred tax assets carried in the PZU Group's consolidated financial statements

[3] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 – Capital Requirements Regulation, CRR.

[4] Income index (its calculation incorporates the prices of the shares it includes and the income received through dividends and subscription rights)

The correlation between the WIG Bank index and the WIG20 index at the end of June 2017 was 89%, down 2 p.p. y/y. In turn, the beta coefficient (for WIG20) was 1.15, up 0.05 y/y.

7.4 Distribution of the PZU's 2016 net profit

On 29 June 2017, PZU's Ordinary Shareholder Meeting adopted a resolution to distribute PZU's net profit for the financial year ended 31 December 2016, in which it resolved to allocate the profit of PLN 1,593 million as follows:

- PLN 1,209 million to be a dividend payout, i.e. PLN 1.40 per share;
- PLN 369 million to supplementary capital;
- PLN 15 million to increase the Company Social Benefit Fund.

The record date used to determine the list of shareholders eligible to receive the dividend for the financial year ended 31 December 2016 was set for 29 September 2017. The dividend payment date was set for 19 October 2017.

7.5 Rating

Issuer rating

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

On 22 December 2016, S&P affirmed its financial strength and credit strength ratings for PZU and PZU Życie at "A-". The outlook remained negative.

In connection with the announcement of a PLN 2.25 billion subordinated debt issue on 30 June 2017, on 4 July 2017 S&P Global Ratings updated its evaluation of the Company's standing. After the update PZU's rating remained the same.

Dividend paid by PZU from profit for 2013 - H1 2017 financial years

	30.06.2017	2016	2015	2014	2013
Consolidated net profit of PZU Group (PLN mln)	1,733	2,417	2,343	2,968	3,295
Standalone net profit of PZU Group (PLN mln)	2,101	1,593	2,249	2,637	5,106
Dividend paid per year (PLN mln)	n/a	1,209	1,796	2,591	4,663
Dividend per share per year (PLN)	n/a	1.40	2.08	3.00	5.40
Dividend as at the date of establishing dividend right (PLN)	1.40	2.08	3.00	3.40	4.97
Dividend payout ratio from the consolidated result for the year	n/a	50.0%	76.7%	87.3%	89.1%*
Dividend rate in the year (%) **	3.1%	6.3%	8.8%	7.0%	11.1%
TSR (Total Shareholders Return) ***	38.5%	3.7%	(23.8)%	15.8%	14.1%

* dividend from surplus capitals paid in 2013 (PLN 2.00 per share), not included in dividend payout ratio
** the rate calculated as dividend as at the ex-dividend date vs. share price as at the end of the given year (in the H1 2017 to share price as at 30 June 2017)
*** 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; H1 2017 change rate calculated for the period from 1 January to 30 June 2017 year

Poland's rating

	Current		Past	
Country	Rating and outlook	Date of update	Rating and outlook	Date of update
Republic of Poland				
Credit rating (long-term, in local currency)	A- /Stable/	2 December 2016	A- /Negative/	15 January 2016
Credit rating (long-term, in foreign currency)	BBB+ /Stable/	2 December 2016	BBB+ /Negative/	15 January 2016
Credit rating (short-term, in local currency)	A-2	2 December 2016	A-2	15 January 2016
Credit rating (short-term, in foreign currency)	A-2	2 December 2016	A-2	15 January 2016

PZU rating

	Current		Past	
Company name	Rating and outlook	Date of update	Rating and outlook	Date of update
PZU				
Financial strength rating	A- /Negative/	22 December 2016	A- /Watch Neg/	21 January 2016
Credit rating	A- /Negative/	22 December 2016	A- /Watch Neg/	21 January 2016
PZU Życie				
Financial strength rating	A- /Negative/	22 December 2016	A- /Watch Neg/	21 January 2016
Credit rating	A- /Negative/	22 December 2016	A- /Watch Neg/	21 January 2016

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

	Current		Past	
	Rating and outlook	Date of update	Rating and outlook	Date of update
EUR 350 mln to 07/03/2019	BBB+	21 January 2016	A- /Stable/	12 October 2015
EUR 500 mln to 07/03/2019	BBB+	21 January 2016	A- /Stable/	20 June 2014

Rating of Pekao

Pekao co-operates with three leading credit rating agencies: Fitch Ratings, S&P Global Ratings, and Moody's Investors Service. In the case of the first two agencies, the ratings are provided on a solicited basis under relevant agreements, and with respect to Moody's Investors Service, the ratings are unsolicited and they are based on publicly available information and review meetings.

Among banks rated in Poland, Pekao has the highest viability rating assigned by Fitch Ratings, the highest StandAlone Credit Profile rating assigned by S&P Global Ratings, the highest Baseline Credit Assessment as well as long- and short-term counterparty risk ratings assigned by Moody's Investors Service.

Rating (Fitch)	
Long - term	A-
Short - term	F2
Viability Rating (VR)	a-
Support Rating	2
Outlook	stable

Rating (S&P Global Ratings)	
Long – term, in foreign currency	BBB+
Short – term, in foreign currency	A-2
Long – term, in local currency	-
Short – term, in local currency	-
Outlook	stable
Stand - alone credit Profile	bbb+

Rating (Moody's Investors Service Ltd.)	
Long - term deposits	A2
Short - term deposits	Prime-1
Baseline Credit Assessment	baa1
Long-term counterparty risk assessment	A1(cr)
Short-term counterparty risk assessment	Prime-1(cr)
Outlook	stable

Rating of Alior Bank

On 5 September 2013, Fitch Ratings Ltd. rated Alior Bank at grade „BB" with stable outlook. The rating did not change in accordance with the grade assigned on 16 February 2017.

Rating (Fitch)	
Long - term	BB
Short - term	B
Viability Rating (VR)	bb
Support Rating	5
Outlook	stable

7.6 Calendar of major PZU's corporate events in 2017

18 JANUARY

Extraordinary Shareholder Meeting

15 MARCH

2016 Annual Report

12 APRIL

Extraordinary Shareholder Meeting

17 MAY

Q1 2017 Report

2-4 JUNE

21st WallStreet Conference for individual investors

29 JUNE

Ordinary Shareholder Meeting

31 AUGUST

H1 2017 Report

29 SEPTEMBER

Dividend record date

19 OCTOBER

Dividend payment date (PLN 1.40 per share)

15 NOVEMBER

Q1-Q3 2017 Report

MORE

08

Corporate governance

We appreciate that the market leader's role is to set the highest standards for the entire industry.

We fulfill this function by enhancing many rules and best practices employed in our organization. We believe that this is part of the sagacious changes we can contribute to the world that surrounds us.

In chapter:

1. Entity authorized to audit financial statements
2. Share capital and PZU shareholders; shares owned by members of the governing bodies

8.1 Entity authorized to audit financial statements

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

The scope of the agreement encompasses the following in particular:

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

The work referred to above will be done for three subsequent financial years ending, respectively, on 31 December 2014, 31 December 2015 and 31 December 2016 with an option to extend collaboration for another two financial years ending, respectively, on 31 December 2017 and 31 December 2018.

On 17 July 2017 PZU signed an annex to the agreement to extend collaboration for another two years, i.e. 2017 and 2018.

8.2 Share capital and PZU shareholders; shares owned by members of its governing bodies

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

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

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

The purpose of the share split is primarily to increase the availability of shares to retail investors and diversify the shareholder structure.

Shareholder structure

In the period from 1 January 2017 until the date of preparing this Report, one material change took place in the ownership structure of significant shareholdings in PZU. On 29 May 2017 PZU received a notification pertaining to a change in the shareholding of Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK („Aviva OFE"). According to the notification, as a result of transactions to sell PZU shares executed on 24 May 2017, on 26 May 2017 Aviva OFE reduced its PZU shareholding to 4.89% of PZU's share capital, representing 4.89% of the total number of votes at PZU's Shareholder Meeting.

As at the date of preparing this Report, PZU's shareholder structure taking into consideration shareholders holding more than 5% of the votes at the Shareholder Meeting is as follows:

Shareholders	Number of shares	Percentage of share capital	Percentage of votes at the Shareholder Meeting
State Treasury	295,217,300	34.19%	34.19%
Other shareholders	568,305,700	65.81%	65.81%
Total	863,523,000	100.00%	100.00%

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

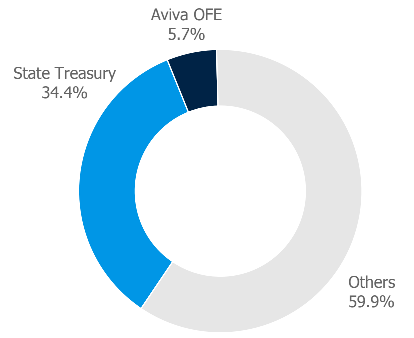
In 2015-2017 PZU did not have any employee share programs.

- According to the Articles of Association, the shareholders' voting rights have been limited in such a manner that no shareholder may exercise more than 10% of the total number of votes in existence in PZU at its shareholder meeting on the date of holding a shareholder meeting subject to the reservation that for the purposes of determining the obligations of the buyers of significant equity stakes contemplated by the Act on Public Offerings and the Insurance Activity Act, such limitation of voting rights shall be deemed not to exist. The limitation of voting rights does not pertain to the following:
- shareholders who on the date of adopting the shareholder meeting resolution implementing this limitation were entitled to shares representing more than 10% of the total number of votes;
- shareholders acting with the shareholders prescribed in the item above pursuant to executed agreements concerning the joint exercise of voting rights to shares.

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

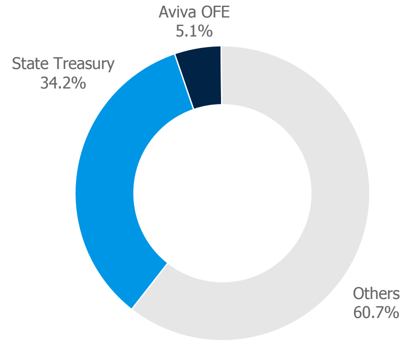
Neither as at the date of conveying this periodic report nor as at the date of conveying the quarterly report for Q1 2017 (i.e. 17 May 2017) did any of the members of the Management Board, the Supervisory Board or the Directors of the PZU Group hold any PZU shares or rights to PZU shares.

PZU shareholding structure as at 31 December 2015



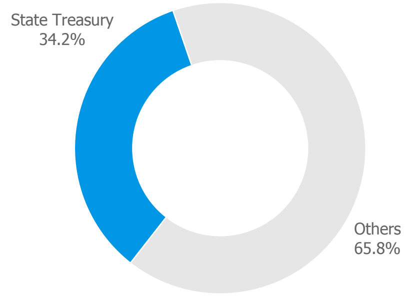
Source: Current Report No. 3/2016

PZU shareholding structure as at 31 December 2015



Source: Current Report 17/2017

PZU shareholding structure as at 30 June 2017



Source: Current Report 42/2017

09

Other

Other

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

Selection of the entity authorized to audit financial statements
The PZU Management Board represents that the entity authorized to audit financial statements – KPMG Audyt Sp. z o.o. sp. k. – auditing the consolidated financial statements, has been selected in compliance with the law and that the company as well as the statutory auditors performing the audit of these statements have fulfilled the conditions for expressing an impartial and independent opinion on the audited consolidated financial statements in accordance with the laws and professional standards in force.

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

Information about significant executed agreements
On 30 June 2017, PZU SA issued subordinated bonds with a nominal value of PLN 2.25 billion. Bond redemption will take place on 29 July 2027 with an early repayment option on 29 July 2022. 7.2 DEBT FINANCING OF PZU, BANK PEKAO AND ALIOR BANK

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

Tax Group
On 25 September 2014, a new Tax Group agreement was signed between 13 PZU Group companies: PZU, PZU Życie, Link4 Towarzystwo Ubezpieczeń SA, PZU Centrum Operacji SA, PZU Pomoc SA, Ogrodowa-Inwestycje Sp. z o.o., Ipsilon Sp. z o.o., PZU Asset Management SA, TFI PZU SA, Ipsilon Bis SA, PZU Finanse Sp. z o.o., Omicron SA, Omicron Bis SA. The tax group was established for a period of 3 years – from 1 January 2015 to 31 December 2017.

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

Purchase of treasury stock in the financial year
Within its commercial activity Bank Pekao SA enters into transactions on PZU shares and futures. As at 30 June 2017, Bank Pekao SA held 7,757 shares in PZU.

Insurance agreements exceeding 25% of the total amount of technical provisions and equity
In H1 2017, the PZU Group did not execute insurance agreements for a net sum insured per risk exceeding 25% of the total amount of technical provisions and equity.

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

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

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

Disputes
In H1 2017 and as at the date of signing this report on the activity of the PZU Group, there are no proceedings pending before a court, a competent body for arbitral proceedings or a public administration authority concerning any liabilities or accounts receivable of PZU or any of its direct or indirect subsidiaries whose unit value represents at least 10% of PZU's equity. A description of lawsuits and proceedings before the President of UOKiK (Office of Competition and Consumer Protection) is found in the consolidated financial statements of the PZU Group for H1 2017.

As at 30 June 2017, the total value of all the 188 686 cases pending before courts, competent bodies for arbitral proceedings or public administration authorities to which PZU Group entities are a party was PLN 178 070 million. PLN 175 344 million of this amount relates to liabilities and PLN 2 726 million to the accounts receivable of PZU Group companies.

This Management Board's Report on the Activity of the PZU Group in H1 2017 has 109 consecutively numbered pages.

Signatures of PZU Management Board Members

Paweł Surówka – President of the Management Board

Roger Hodgkiss – Management Board Member

Tomasz Kulik – Management Board Member

Maciej Rapkiewicz – Członek Zarządu

Małgorzata Sadurska – Management Board Member

Warsaw, 30 August 2017

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Appendix: PZU Group’s financial data

Appendix: PZU Group's financial data

Basic amounts of the consolidated profit and loss account (PLN million)	1 January - 30 June 2017	1 January - 30 June 2016	1 January - 30 June 2015
Gross written premiums	11,606	9,862	9,126
Net earned premiums	10,347	8,986	8,744
Revenue from commissions and fees	498	268	103
Net investment income	3,032	1,405	1,086
Net claims and benefits	(7,214)	(6,165)	(6,006)
Acquisition costs	(1,412)	(1,252)	(1,131)
Administrative expenses	(2,025)	(1,278)	(822)
Interest expenses	(426)	(346)	(62)
Other operational revenues and expenses	(601)	(568)	(293)
Operating profit (loss)	2,199	1,050	1,619
Share in net profit (loss) of entities measured using the equity method	(1)	(1)	-
Gross profit (loss)	2,198	1,049	1,619
Net profit (loss), including:	1,733	790	1,322
Shareholders' profit (loss)	1,446	660	1,322
Minority profit (loss)	287	130	-
Basic and diluted weighted average number of ordinary shares*	863,516,697	863,473,794	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)	1.67	0.76	1.53
Net profit of PZU (issuer)	2,101	990	1,404
Basic and diluted issuer's profit per ordinary share (in PLN)	2.43	1.15	1.63

*including shares in consolidated funds
Restated data for period 2015-2016

Assets (PLN million)	30 June 2017	31 December 2016	31 December 2015
Intangible assets	1,963	1,463	1,393
Goodwill	3,278	1,583	1,532
Property, plant and equipment	2,819	1,467	1,300
Investment property	1,703	1,738	1,172
Entities measured using the equity method	190	37	54
Financial assets	257,125	105,300	89,229
Receivables	10,222	5,703	3,338
Reinsurers' share in technical provisions	1,126	990	1,097
Deferred tax assets	1,586	624	369
Deferred acquisition costs	1,473	1,407	1,154
Other assets	892	871	813
Cash and cash equivalents	11,646	2,973	2,440
Assets held for sale	1,239	1,189	1,506
Total assets	**295,262**	**125,345**	**105,397**

Appendix: PZU Group’s financial data

Equity (PLN million)	30 June 2017	31 December 2016	31 December 2015
Share capital	86	86	86
Supplementary capital	11,827	10,758	9,947
Revaluation reserve	128	106	241
Actuarial profits and losses related to provisions for employee benefits	3	3	(4)
Own shares	-	(1)	-
Other reserves	5	5	-
Exchange differences from subsidiaries	(55)	(2)	(42)
Retained profits (losses)	(286)	108	353
Net profit (loss)	1,446	1,947	2,343
Minority interest	21,474	4,117	2,194
Total equity	**34,628**	**17,127**	**15,118**

Liabilities (PLN million)	30 June 2017	31 December 2016	31 December 2015
Technical provisions	43,785	42,194	41,280
Unearned premium and unexpired risk reserve	8,067	7,076	5,856
Life insurance provisions	15,969	15,928	16,222
Outstanding claims provisions	8,471	8,272	8,264
Provision for annuities	5,680	5,673	5,808
Provisions for bonuses and discounts for the insured	24	5	2
Other technical provisions	303	323	384
Unit-linked technical provisions	5,271	4,917	4,744
Provisions for employee benefits	532	128	117
Other provisions	574	367	108
Deferred tax liability	623	469	509
Financial liabilities	204,291	60,030	44,695
Other liabilities	10,797	4,997	3,570
Liabilities directly associated with assets qualified as held for sale	32	33	-
Total liabilities	**260,634**	**108,218**	**90,279**
Total equity and liabilities	**295,262**	**125,345**	**105,397**

One-off events in PZU Group - impact on gross result (PLN million)	1 January - 30 June 2017	1 January - 30 June 2016	1 January - 30 June 2015
Conversion effect (IAS)	25	20	47
Agricultural insurance claims higher than the average of the last 3 years	-	(236)	-

Appendix: PZU Group’s financial data

Operating efficiency ratios		1 January - 30 June 2017	1 January - 30 June 2016	1 January - 30 June 2015
1.	**Gross claims and benefits ratio (simple)** (gross claims and benefits/gross written premium) x 100%	63.6%	63.2%	66.7%
2.	**Net claims and benefits ratio** (net claims and benefits/net earned premium) x 100%	69.7%	68.6%	68.7%
3.	**Operating expense ratio in the insurance segments** (insurance activity expenses/net earned premium) x 100%	21.1%	22.3%	22.5%
4.	**Acquisition expense ratio in the insurance segments** (acquisition expenses/net earned premium) x 100%	14.0%	14.1%	13.6%
5.	**Administrative expense ratio in the insurance segments** (administrative expenses/net earned premium) x 100%	7.1%	8.2%	9.0%
6.	**Combined ratio in non-life insurance** (net claims and benefits + insurance activity expenses) / net earned premium x 100%	87.2%	93.4%	91.3%
7.	**Operating profit margin in life insurance** (operating profit/gross written premium) x 100%	18.3%	21.2%	20.1%
8.	**Return on assets in Pekao*** (net profit/average total assets) x 100%	1.0%	-	-
9.	**Return on assets in Alior Bank** (net profit/average total assets) x 100%	0.6%	0.7%	-

*data for H1 2017

Data from the profit and loss account – corporate insurance (non-life insurance) (PLN million)	1 January - 30 June 2017	1 January - 30 June 2016	1 January - 30 June 2015
Gross written premiums	1,381	1,030	804
Net earned premiums	967	792	722
Investment income	40	64	58
Insurance claims	(572)	(439)	(452)
Acquisition costs	(204)	(168)	(131)
Administrative expenses	(64)	(55)	(63)
Reinsurance commission and share in profits	13	8	11
Other	(13)	-	(7)
Insurance profit	**167**	**202**	**138**
Acquisition costs ratio (including reinsurance commission)*	19.8%	20.2%	16.6%
Administrative expenses ratio*	6.6%	6.9%	8.7%
Claims ratio*	59.2%	55.4%	62.6%
Combined ratio (COR)*	85.5%	82.6%	87.9%

* ratios calculated with net premium earned

Appendix: PZU Group's financial data

Data from the profit and loss account – mass-market insurance (non-life insurance) (PLN million)	1 January - 30 June 2017	1 January - 30 June 2016	1 January - 30 June 2015
Gross written premiums	5,218	4,305	3,646
Net earned premiums	4,516	3,642	3,336
Investment income	228	275	255
Insurance claims	(2,790)	(2,442)	(2,049)
Acquisition costs	(847)	(736)	(659)
Administrative expenses	(280)	(294)	(318)
Reinsurance commission and share in profits	-	(3)	(2)
Other	(103)	(135)	(92)
Insurance profit	**724**	**307**	**470**
Acquisition costs ratio (including reinsurance commission)*	18.8%	20.3%	19.8%
Administrative expenses ratio*	6.2%	8.1%	9.5%
Claims ratio*	61.8%	67.1%	61.4%
Combined ratio (COR)*	86.7%	95.4%	90.8%

* ratios calculated with net premium earned

Data from the profit and loss account – group and individually continued insurance (PLN million)	1 January - 30 June 2017	1 January - 30 June 2016	1 January - 30 June 2015
Gross written premiums	3,429	3,390	3,338
Group insurance	2,444	2,416	2,369
Individually continued insurance	985	974	969
Net earned premiums	3,426	3,390	3,338
Investment income	393	291	332
Insurance claims and change in other technical provisions net	(2,648)	(2,463)	(2,446)
Acquisition costs	(167)	(167)	(181)
Administrative expenses	(292)	(286)	(284)
Other	(30)	(38)	(31)
Insurance profit	**682**	**727**	**727**
Insurance profit excluding one-off events	**657**	**707**	**680**
Acquisition costs ratio*	4.9%	4.9%	5.4%
Administrative expenses ratio*	8.5%	8.4%	8.5%
Insurance profit margin**	19.2%	20.9%	20.4%

* ratios calculated with gross premium written
** excluding one-offs

Appendix: PZU Group's financial data

Data from the profit and loss account – individual insurance (PLN million)	1 January - 30 June 2017	1 January - 30 June 2016	1 January - 30 June 2015
Gross written premiums	792	538	680
Net earned premiums	793	540	681
Investment income	251	78	198
Insurance claims and change in other technical provisions net	(850)	(421)	(695)
Acquisition costs	(67)	(49)	(66)
Administrative expenses	(30)	(30)	(30)
Other	(2)	(5)	(2)
Insurance profit	**95**	**113**	**86**
Acquisition costs ratio*	8.5%	9.1%	9.7%
Administrative expenses ratio*	3.8%	5.6%	4.5%
Insurance profit margin*	12.0%	21.0%	12.7%

* ratios calculated with gross premium written

Data from the profit and loss account – investment contracts (PLN million)	1 January - 30 June 2017	1 January - 30 June 2016	1 January - 30 June 2015
Gross written premiums	21	61	74
Group insurance	1	1	1
Individual insurance	20	60	73
Net earned premiums	21	61	74
Investment income	21	2	22
Insurance claims and change in the balance of other technical provisions net	(38)	(56)	(85)
Acquisition costs	(1)	(2)	(5)
Administrative expenses	(3)	(5)	(5)
Other	-	-	-
Insurance profit	**-**	**-**	**2**
Insurance profit margin*	0.0%	0.0%	2.4%

* ratios calculated with gross premium written

Data from the profit and loss account- banking activity (PLN million)	1 January - 30 June 2017	1 January - 30 June 2016	1 January - 30 June 2015
Net revenue from commissions and fees	403	167	-
Investment income	1,868	972	-
Interest costs	(391)	(300)	-
Administrative expenses	(1,227)	(527)	-
Other	(168)	(95)	-
Total	**485**	**217**	**-**

Data from the profit and loss account – pension segment (PLN million)	1 January - 30 June 2017	1 January - 30 June 2016	1 January - 30 June 2015
Investment income	3	2	4
Other revenues	61	56	57
Administrative expenses	(24)	(17)	(21)
Other	(1)	-	(1)
Operating profit (loss)	**39**	**41**	**39**

Appendix: PZU Group’s financial data

Data from the profit and loss account – Ukraine segment (PLN million)	**1 January - 30 June 2017**	**1 January - 30 June 2016**	**1 January - 30 June 2015**
Gross written premiums	115	106	74
Net earned premiums	59	50	50
Investment result	7	11	26
Net insurance claims	(26)	(25)	(46)
Acquisition costs	(32)	(27)	(21)
Administrative expenses	(12)	(10)	(9)
Other	11	10	3
Insurance profit	**7**	**9**	**3**
Exchange rate UAH/PLN	0.1459	0.1535	0.1729
Acquisition costs ratio*	54.2%	54.0%	41.5%
Administrative expenses ratio*	20.3%	20.0%	18.8%

* ratios calculated with net premium earned

Data from the profit and loss account – Baltic states segment (PLN million)	**1 January - 30 June 2017**	**1 January - 30 June 2016**	**1 January - 30 June 2015**
Gross written premiums	673	585	608
Net earned premiums	584	531	550
Investment result	9	9	17
Net insurance claims	(366)	(332)	(343)
Acquisition costs	(130)	(121)	(128)
Administrative expenses	(55)	(61)	(78)
Other	-	(1)	-
Insurance profit	**42**	**25**	**17**
Exchange rate EUR in PLN	4.2474	4.3805	4.1341
Acquisition costs ratio*	22.3%	22.8%	23.3%
Administrative expenses ratio*	9.4%	11.5%	14.2%

* ratios calculated with net premium earned

Investment segment (external) (PLN million)	**1 January - 30 June 2017**	**1 January - 30 June 2016**	**1 January - 30 June 2015**
Total	**126**	**(401)**	**168**

Appendix: Glossary of terms

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benefit – sum which an insurer disburses by virtue of insurance in the event of the occurrence of an event contemplated by an insurance agreement

BVPS (Book Value Per Share) – company's book value per share

cedent – person who cedes an account receivable to a buyer

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

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

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

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

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

Everest – system to administer non-life insurance undergoing implementation in PZU

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

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

Insurance Activity Act – Act of 11 September 2015 on Insurance and Reinsurance Activity (Journal of Laws of 2015, Item 1844) constituting implementation of the Solvency II Directive

insurance agent – commercial undertaking conducting agency activity pursuant to an agreement executed with an insurance undertaking. The activity of agents focuses on acquiring customers, entering into insurance agreements, participating in the administration and performance of insurance agreements and organizing and supervising agency activity

insurance broker – entity holding a permit to conduct brokerage activity. Performs activities on behalf or in favor of an entity seeking insurance cover

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

KNF – Polish Financial Supervision Authority

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

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

P/BV (Price to Book Value) – multiple specifying the ratio of the market price to the book value per share

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

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

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

RESPECT Index – index consisting of companies pursuing corporate social responsibility listed on the WSE's main market. The base date for this index is 31 December 2009. The starting value of the RESPECT Index was 1,000 points. It is an income index and its calculation incorporates the prices of the shares it includes and the income received through dividends and subscription rights.

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

S&P rating – credit risk assessment performed by the Standard & Poor's agency Rating A - signifies the high capacity of the issuers of debt securities to service their liabilities giving consideration to the possibility of factors occurring that may contribute to reducing that capacity

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

Solvency II Directive – Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the Taking-up and Pursuit of the Business of Insurance and Reinsurance (Solvency II) as amended.

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

Statutory Auditor Act – Act on Statutory Auditors and their Self Regulation, Entities Authorized to Audit Financial Statements and Public Supervision of 7 May 2009 (Journal of Laws of 2009, Number 77, Item 649 as amended)

sum insured – amount in cash for which an insured object is insured In property insurance the sum insured customarily constitutes the upper limit of an insurer's liability

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

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

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

underwriting – process of selecting and classifying risks declared for the purpose of insurance to estimate and accept under the appropriate conditions or reject

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

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

WIBOR 3M – reference interest rate for a loan for 3 months on the Polish interbank market

WSE – Warsaw Stock Exchange

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 forwardlooking 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.