2016 PZU Group Management Report

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Photos from the event, co-organized by the PZU Group - „Bezpieczna Zima z GOPR" [Safe Winter with GOPR] were used in the Report.

CEO Letter to Shareholders

Michał Krupiński Chairman of the Management Board of PZU

By 2020, we want to be perceived as a stable, strong, highly profitable, and innovative financial center providing insurance, health, asset management, and banking products.

Dear Shareholders,

on behalf of the management boards of the PZU Group companies, I am pleased to present to you the Management's Report for 2016.

At the beginning of the year, the PZU Management Board, under my leadership, reviewed the operations of the entire Group. We identified potential risks and established new operating directions. We set ambitious goals based on both the development of core insurance activity, and complementary ventures such as investments in the banking sector, asset management, and health care, which will provide the generation of high growth dynamics and exceptional profits.

In implementing the strategic direction for the development of the PZU Group, our main plans include the growth of the scale and profitability of activities, and the implementation of innovative solutions based on a digital operating model. There will be considerable support for new technologies provided by the Witelo fund, which was established in the second half of 2016 to support the development of an ecosystem that allows for the growth of Polish entrepreneurship and investments in Polish start-ups that will, with time, raise the potential of innovative solutions applicable directly to the PZU Group.

The ambitions presented in Strategy 2020 include numerous options that are associated with the Government's Capital Accumulation Program. When these changes take effect, we will be able to offer attractive and efficient investment tools to our clients. We want to actively contribute to growth of the savings of Poles.

As we implement the adopted strategy, we will stay true to our values. We want to develop the PZU Group based on a foundation of rational and responsible financial, human, social, environmental, and intellectual capital management.

I can say with satisfaction that we were able to observe the first effects of these operations as early as 2016. The PZU Group is starting 2017 with a balance sheet of PLN 125 billion, which will grow considerably before the year is over, to roughly PLN 300 billion (i.e. almost three times the amount from 2015) after the acquisition of shares in Bank Pekao is finalized. Once this transaction is finalized, PZU will become the largest financial group in Central and Eastern Europe, and the leader in insurance, banking and asset management. I am convinced that the existence of such a strong financial institution with its registered office in Warsaw will significantly impact the financial stability and prospects for the responsible development of the Polish economy.

Besides our acquisitions in the banking sector (other than the purchase of shares in Bank Pekao, we also provided financial support to Alior Bank for the acquisition of separated business of Bank BPH), we did everything in our power to return our core insurance business to the proper development path.

By taking advantage of the improving market situation, competitive advantages, and efficient sales structures, we were able to meet the market with a very well prepared offer for motor insurance. In effect, we sold over 700 thousand more MTPL insurance policies and our market share rose by 3 p.p. y/y. We also expanded the activity of TUW PZUW in the corporate insurance segment. The competitive product offer, which was prepared in the form of mutual insurance, was very well accepted by hospitals, local authorities, and state-owned companies. In effect, non-life insurance premiums grew by 20.4% y/y, to PLN 11 billion. The scale building process also includes 3 new acquisitions in the health area. We are already working with approximately 1,800 establishments and providing our products to 1.3 million clients, i.e. 300 thousand more than at the end of 2015.

After the intensive growth of the written premiums in 2016, I expect that we will continue to improve the profitability of our activity in 2017, including that of the motor insurance segment. We will be able to do this thanks to i.a. a consistent cost discipline, which saved the Group almost PLN 80 million in 2016 alone. We will also support processes by implementing innovative solutions. Last year alone, we implemented claim self-service, which allows the client to monitor the whole process via mobile channels.

The PZU Group has all the components to become one of the most innovative groups in Europe. Specifically, we want to use Big Data to a greater extent in quotation and sales. We will develop electronic distribution and service channels. We will use the potential of cross-selling in insurance and banking products. We will implement effective know-how transfer within the PZU Group through local innovation centers: LINK4, Alior Bank, and selected foreign companies. We are looking at the telematic solutions tested by LINK4; if the project turns out to be a success, we will introduce these solutions throughout the Group.

In 2016 we achieved an unprecedented profit margin (25.8%, + 3 p.p. y/y) in group and individually continued insurance. Despite emerging competition, we have no plans to lose in this area of operations, which is key to our profitability. In 2017 we will introduce new products that will raise our profile among small and medium enterprises. We will also introduce the offer of additional insurance coverage for millions of our life insurance clients.

By 2020, we want to be perceived as a stable, strong, highly profitable, and innovative financial center providing insurance, health, asset management, and banking products. In effect, the investment attractiveness of PZU will grow for both dividend investors as well as investors searching for growth companies with high potentials for generating capital gains on the market share valuation.

At this point, I would like to thank our employees and agents for their efforts in building PZU value. I would also like to thank the Supervisory Board for the trust and cooperation during Group Strategy realization.

Yours faithfully,

Michał Krupiński
Chairman of the Management Board of PZU

Chairman ot the Supervisory Board Statement

Paweł Górecki Chairman of the PZU Supervisory Board

The year 2016 saw many changes in the PZU Group, which are making it a bigger and stronger entity, with a growing prominence in the Polish economy. The past 12 months were also important from the perspective of the Group's focus on long-term development and the building the value for shareholders.

Ladies and Gentlemen,

The year 2016 saw many changes in the PZU Group, which are making it a bigger and stronger entity, with a growing prominence in the Polish economy. The past 12 months were also important from the perspective of the Group's focus on long-term development and the building the value for shareholders.

The PZU Group's Strategy 2020 was presented in August 2016, while the Capital and Dividend Policy was presented in October. According to the chosen plan, PZU will continue to provide an attractive stream of dividends at no less than 50% of the consolidated net profit. The remaining capital will serve to accelerate growth through organic investments as well as mergers and acquisitions. The PZU Management Board wants to create one of the most innovative insurance groups in Europe.

A fundamental event for PZU in 2016 was the signing of the agreement with UniCredit S.p. A. to purchase 32.8% of Bank Pekao S.A. shares for a total amount of PLN 10.6 billion, in consortium with PFR. The finalization of this transaction will open a path for PZU Group to a more extensive use of bank synergies, to be able to ensure more efficient use of surplus capital, and will make PZU the biggest asset manager in Poland. From the perspective of the Management Board, we see the negotiated price as positive, as it included a several-percent discount in relation to, both the sale price of 10% shares in Bank Pekao by UniCredit in July 2016 and the average price of Pekao shares on the Warsaw Stock Exchange, over the last six months before the agreement's signing. The settled price was also positively verified by the market. Within just a few months of the conditions being announced, the market valuation of Bank Pekao's shares grew by almost 20%, while S&P Global Ratings confirmed the financial strength rating and credit strength rating of PZU at A-, one grade higher than Poland's rating for debt in foreign currencies.

2016 was not an easy year for the motor insurance business. On the one hand, after the tremendous losses recorded in past years by the insurance industry in this market segment, the motor insurance pricing trend reversed in 2016. On the other, there were numerous factors contributing to a decrease in the loss ratio; including more payments in TPL insurance claims from before 2008, PFSA's introduction of pro-client guidelines concerning claims handling, more claims concerning replacement cars and car repair costs, judgments by the Supreme Court associated with i.a. the introduction of VAT in estimated cost settlements and treatment cost reimbursement, as well as a growing activity of insurance claim agencies. Despite these problems, the effective use of a competitive advantages allowed the PZU Group to improve its position and record a growth of over 20% in non-life insurance premium to PLN 11 billion, and strengthen its leadership in Poland where its market share grew by 3 p.p. y/y to 36.0%.

From the beginning of 2017, we have witnessed improvements in the economic situation: rising GDP, dropping unemployment, rising household consumption, and a clear capital markets recovery. This situation will benefit the realization of the chosen strategic objectives. I am certain that PZU will continue to generate high added value for its shareholders, clients, and employees with its strong foundations and high safety ratios.

Yours faithfully,

Paweł Górecki

Chairman of the PZU Supervisory Board

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Brief overview of PZU Group

For over 200 years, the core of PZU Group is insurance activity, which aims to ensure a sense of peace and security for our clients through the offered comprehensive insurance protection in all crucial areas of private, public, and economic life.

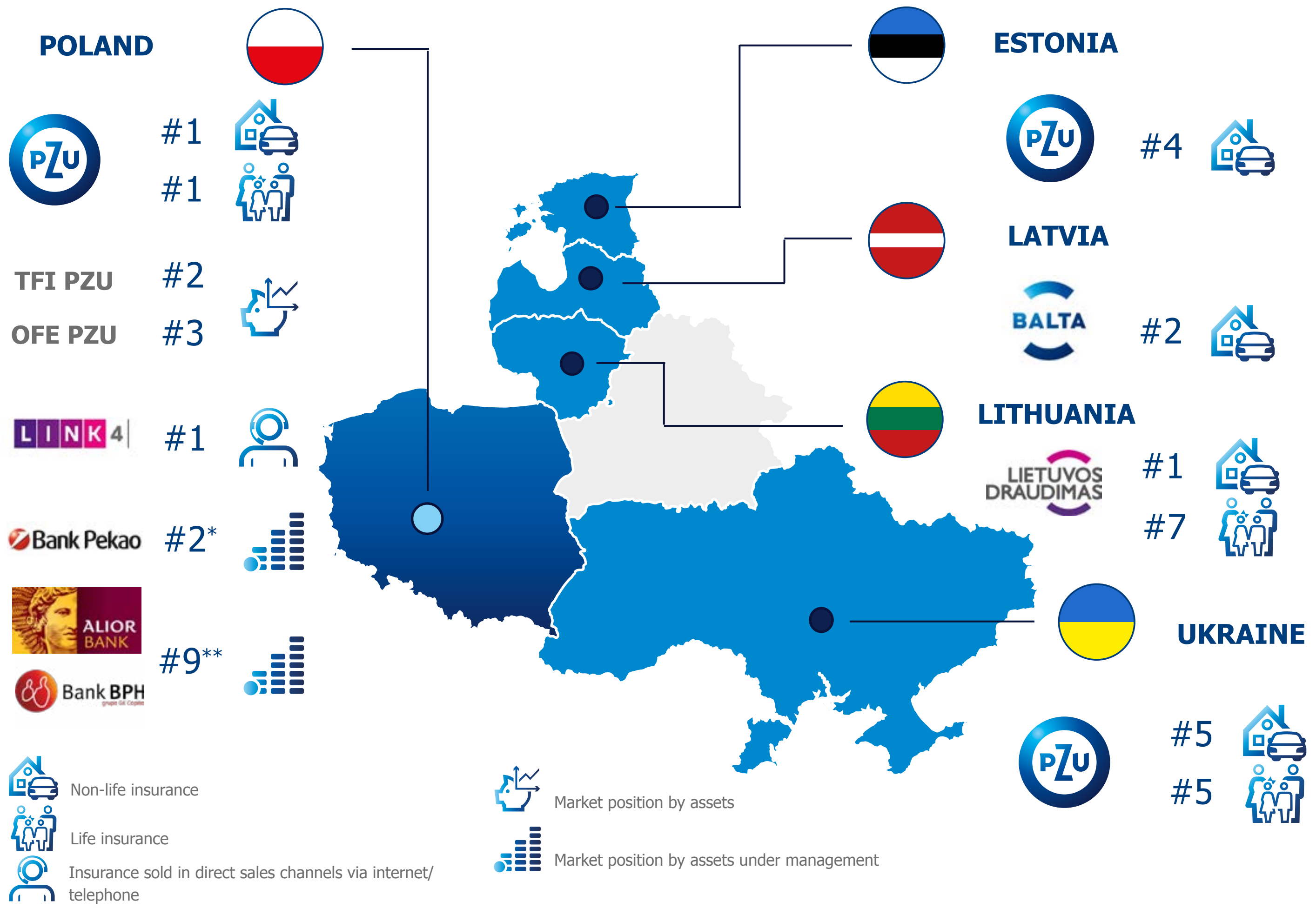
PZU Group is one of the largest financial institutions in Poland and in Central and Eastern Europe. The Group is led by Powszechny Zakład Ubezpieczeń S.A. (PZU) – a company quoted on the Warsaw Stock Exchange. The history of the PZU brand goes back to 1803 when the first Polish insurance company was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

For over 200 years, the core of PZU Group is insurance activity, which aims to ensure a sense of peace and security for our clients through the offered comprehensive insurance protection in all crucial areas of private, public, and economic life.

As it searches for new directions of development and responds to the needs of its clients, PZU Group is expanding in the field of investments and health. Furthermore, PZU Group's strategy for the years 2016–2020, which was released on 24 August 2016, was followed by attempts to raise investments in the banking sector. In 2015, PZU Group initiated the process by purchasing 25.19% of shares in the share capital of Alior Bank SA (Alior Bank). The next step saw Alior Bank acquire a part of Bank BPH, including its core operations (without its mortgage loans portfolio and Investment Trust Company).

While monitoring potential objectives fitting PZU Group's strategy of building a large-scale and profitable bank group, PZU announced in December 2016 that it had signed an agreement with UniCredit for purchase of 20% of the shares of Bank Pekao S.A. (together with the PFR Polish Development Fund – 32.8%). When the transaction is finalized, PZU will become the largest financial group in Central and Eastern Europe as the leader in insurance, banking, and asset management.

PZU's activities



* the purchase of a share package of Pekao from Unicredit hasn't been finalized by the day of the presentation of the annual report
** 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
- Motor insurance
- Non-life insurances
- Insurances for enterprises
- Agricultural insurances
- Financial insurances
- Tourism insurances

Protection of the future
- Group and individually continued protection products
- Individual life insurance

Health care
- Health insurance
- Medicine insurance
- Health care services: general health care and additional services packages

Increasing savings
- Participation units TFI
- Pillar II of the pension system (OFE)
- Pilar III of the pension system (employment pension products - EPP, individual pension accounts – IKE, and individual pension security accounts – IKZE)

Bank products
- Savings and checking accounts
- Terms deposits
- Credits and loans

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.

Brief overview of PZU Group

NON - LIFE INSURANCE

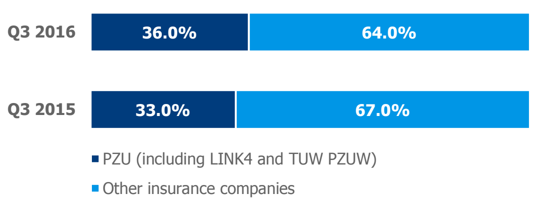
Dynamic increase in gross written premium

The changes in the motor insurance market (especially growth of insurance prices) and dynamic developement of TUW PZUW allowed for the increase of gross written premium at the end of 2016 to:

PLN 11 billion (+20.4% y/y)

PLN 9.1 billion in 2015; PLN 8.4 billion in 2014

Market share (+3.0 p.p. y/y)



LIFE INSURANCE

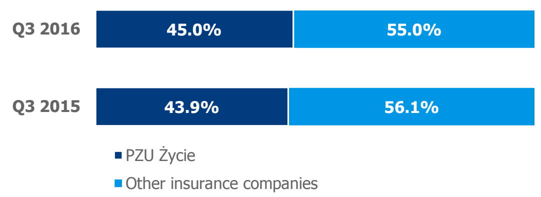
Maintaining high profitability of life insurance

PZU operates its portfolio efficiently based on its unique know-how while preserving high flexibility of the range and cost of protection for more than 11 million life insurance clients. Because of this, it was able to maintain a high margin in the key segment of group and individually continued insurance in 2016: **25.8%*** (+3.3 p.p. y/y)

22.4% in 2015; 25.9% in 2014

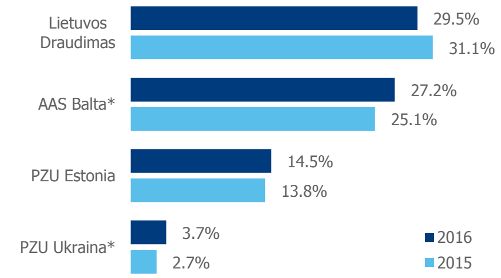
* excluding conversion effect

Share in periodical premiums market (+1.1 p.p. y/y)



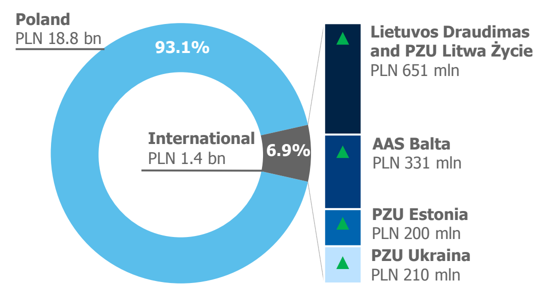
FOREIGN ACTIVITY

Share in the non-life insurance market



* after Q3 2016

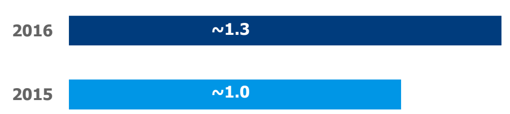
Contribution to the PZU Group's gross written premium



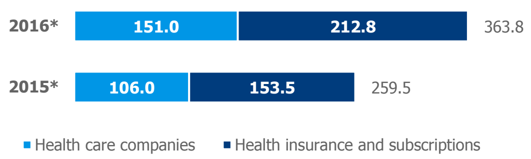
HEALTH

In 2016, PZU Zdrowie acquired three more medical entities (CM Cordis, Polmedic, and Artimed NZOZ). PZU Zdrowie also successively expanded cooperation with health care establishments (approximately 1,800 establishments in 2016), which produced growth of the gross written premium on health insurance by 38% from 2015.

Number of clients (million)



Revenue of PZU Zdrowie (PLN million)



* data on an annual basis regardless of the moment of the purchase; revenues of the branches – presented in the same way like in the case of other branches, ie., including revenues from PZU Zdrowie

INVESTMENT FUNDS

Maintaining second place on the market in terms of assets under management

TFI's flexible offer allowed for maintenance of leadership on the market of Employee Pension Programs (EPPs). At the end of December 2016, TFI PZU was handling the total of 122 programs for 123.5 thousand people with total net assets almost:

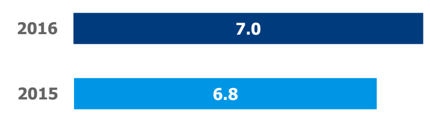
PLN 4 billion (+17.2% y/y)

PLN 3 billion in 2015; PLN 3 billion in 2014

Assets under management (+2.8 % y/y)

At the end of December of 2016, TFI PZU was managing net assets of PLN 22 billion, including PLN 7 billion in assets obtained from external clients, up by 2.8% year-on-year.

Third party assets (PLN billion)



PENSION FUNDS

Maintaining third place on the market in terms of assets under management

OFE PZU maintained its leadership in number of members on the Individual Pension Security Accounts (IKZE) market among the voluntary pension funds. It also recorded the highest rate of return out of all DFE on the market, i.e.

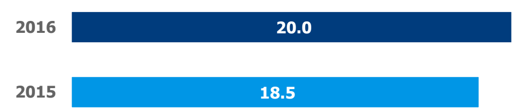
16.2% (+7.1 p.p. y/y)

9.1% in 2015; 3.6% in 2014

Assets under management (+8.0% y/y)

NAt the end of 2016, TFI PZU was managing net assets of over PLN 20 billion, i.e. a growth of 8.0%.

Third party assets (PLN billion)



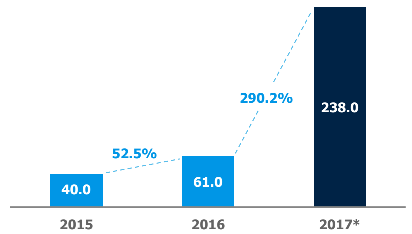
BANKING

In 2016, PZU increased involvement in the banking sector through Alior Bank's acquisition of an independent part of Bank BPH. Alior Bank's contribution to the operating result of the Group in 2016 amounted to:

PLN 691 million

Furthermore, on 8 December 2016, PZU concluded an agreement with UniCredit to purchase 20% of Bank Pekao S.A. shares (together with the PFR Polish Development Fund – 32.8%).

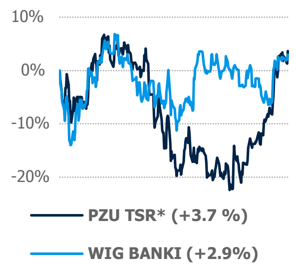
Bank assets in PZU Group



*estimated value of bank assets in PZU Group after the finalization of the agreement for purchase of Pekao shares from UniCredit (data at the end of 2016)

PZU SHARES

Rate of return of PZU shares in 2016

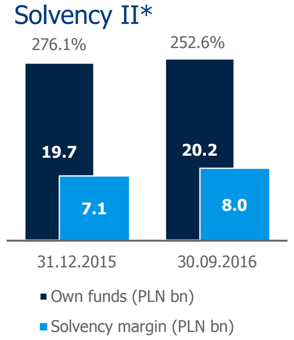


*	2016	2015
TSR	3.7%	-23.8%
DY	6.3%	8.8%
DPS	2.1	3.0
EPS	2.3	2.7
C/Z	14.8	12.5
C/WK	2.2	2.3

* shortcuts explained in Glassary of terms

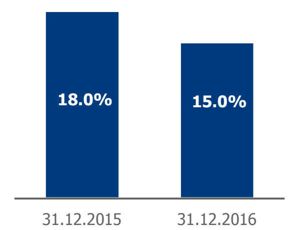
SOLVENCY II/PZU GROUP'S ROE

Solvency II*



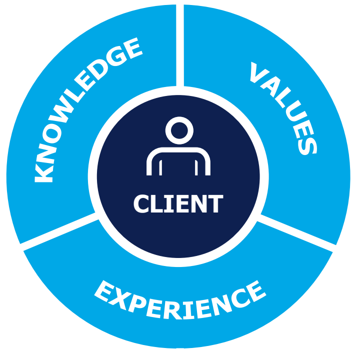
* non audited data

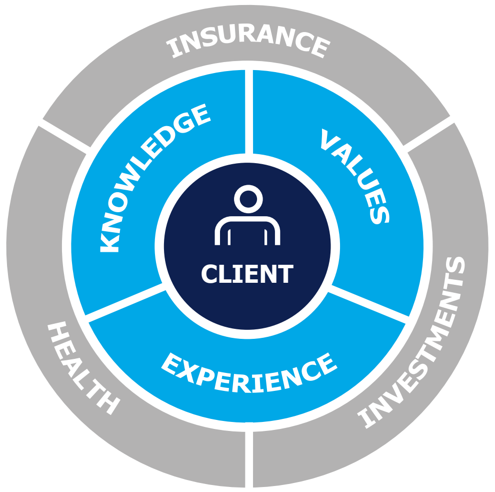
ROE*

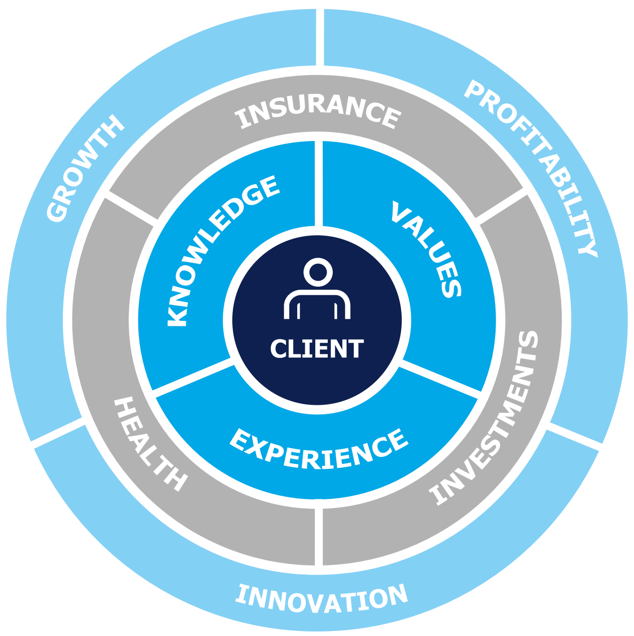


* parent comapany ROE

Brief overview of PZU Group







As a mature and reliable organization, PZU Group makes all efforts to ensure that its operations are performed in line with rational and responsible management of capital : financial, human, social, environmental, and intellectual. The Management Board intends to offer products and services that are most suitable to meet the needs, ambitions, and aspiration of the clients. CHAPTER 9. CORPORATE SOCIAL RESPONSIBILITY. All processes – from insurance product concepts, through customer communication channels, to the activity in the scope of Corporate Social Responsibility, are designed to adapt PZU's offer to satisfy the demands and preferences of the stakeholders. At the same time, the Group initiates actions to increase consistency of the offer. Thus, PZU Group Strategy 2020 clearly defines and presents the goals in the area of health and investments. CHAPTER 4.5 DEVELOPMENT DIRECTIONS OF PZU GROUP

Human capital plays an important role in the long-term development of the Group. This is why the Management Board continues to strive to ensure the best possible conditions for the development of the employees and carry their involvement over onto good relations with clients and high quality of provided services.

In accordance with the adopted guidelines, the strategic objectives specified in PZU Group Strategy 2020 will be realized in a client-centric environment. That philosophy continues to be implemented at every stage of the process of creating services and products. The implementations will be accelerated by the development of a digital operating model, which will make it easier to build customer relations and manage customer experience. CHAPTER 4.4 MAIN STRATEGIC OBJECTIVES. It is also planned to implement innovative self-service and sale processes, as well as CRM (Customer Relations Management) tools in order to ensure that the ambitious plans defined in Strategy 2020 translate into solid results and PZU Group becomes that most innovative company in Central and Eastern Europe.

How we create value in PZU

Financial indicators

PLN 2.08
dividend per share from 2015 profits

PLN 20.2 bn
gross written premium

PLN 12 bn
claims and benefits paid

PLN 1.95 bn
parent company net profit

PLN 77 mln
prevention fund expenses

PLN 691 mln
banking segment operating result

3.7%
total shareholder return (TSR)

PLN 28.7 bn
market capitalization

PLN 2.3 bn
PZU brand market value

40.2%
PZU Zdrowie revenues dynamic

PLN 14.6 mln
donations given by PZU Foundation to support **414** projects

Chapter: 6, 8, 9

Nonfinancial indicators

24.5%
women serving in Board Management and Supervisory Boards (including PZU subsidiaries)

49%
employee commitment index (2014)

70%
reduction of paper consumption thanks to Everest Platform implementation

89%
spontaneous PZU brand recognition

5,500 hours
spent volunteering

7%
NPS for retail clients

9.1 p.p. higher than competitors

82%
clients satisfied with claims handling process

since **2012**
PZU shares have been included in sustainable development RESPECT index

Chapter: 4, 5, 8, 9

Business Model

Insurance

Investment activity

Health

Asset Management

Banking

Chapter: 5

Foundation of business

PLN 125 bn
assets; after closing the purchase transaction of a stake in Pekao Bank, will rise up to approx.
PLN 300 bn

PLN 20.2 bn
own funds Solvency II (09.2016)

PLN 50.4 bn
investment portfolio (excl. Alior Bank)

PLN 8.2 bn
invested in banking sector in 2015-2017

PLN 200 mln
spent on investments i.a. in polish start-ups by Witelo fund

13,824 hours
PZU i PZU Życie employees spent on trainings about innovations

27 thous.
employees including
10.8 thous.
in PZU and PZU Życie

200 years
tradition in insurance

16 mln clients
(*Big Data, know-how*)

8,758
agents in Poland
1,800 in Baltic States and Ukraine

1,800
outpatient clinics that PZU Zdrowie cooperates with

1,772
Alior Bank branches - banking infrastructure

Chapter: 3, 5, 6

Main consolidated financial data of PZU Group for 2012–2016 (in PLN million)

	2016	2015	2014	2013	2012
Gross written premiums	20,219	18,359	16,885	16,480	16,243
Net revenue from commissions and fees	523	243	351	299	237
Net investment result	3,587	1,739	2,647	2,479	3,613
Net insurance claims and benefits	(12,732)	(11,857)	(11,542)	(11,161)	(12,219)
Acquisition costs	(2,613)	(2,376)	(2,147)	(2,016)	(2,000)
Administrative expenses	(2,843)	(1,658)	(1,528)	(1,406)	(1,440)
Interest costs	(773)	(117)	(147)	(104)	(127)
Operating profit	3,034	2,940	3,693	4,119	4,039
Net profit	2,417	2,343	2,968	3,295	3,254
Net profit attributed to the parent company	1,947	2,343	2,968	3,293	3,255
Total assets	125,345	105,397	67,573	62,787	55,910
Financial assets	105,300	89,229	56,760	55,086	50,423
Equity	17,127	15,118	13,168	13,128	14,269
Technical provisions	42,194	41,280	40,167	37,324	35,401

* restated data for the period 2012-2015.

Characteristic feature of the PZU Group's business is its utmost security. This is evidenced by both high capital adequacy ratios and the A- rating assigned by S&P Global Ratings. The above rating is one notch above foreign currency sovereign rating on Poland. SECTION 8.8 RATING

"The affirmation and removal from CreditWatch reflect our view of the group's revised business strategy announced in August 2016 after a change in the management board, as well as our view of the group's future banking strategy in Poland. […] We believe that PZU will continue to pass our hypothetical sovereign foreign currency default stress test. We therefore rate PZU one notch higher than our foreign currency sovereign rating on Poland." – explained S&P analysts in the report dated 31.10.2016.

On 22 December 2016, after the announcement of the contract for purchase of Bank Pekao shares, the S&P analysts affirmed the high rating for PZU.

A-

S&P
insurer financial strength and counterparty credit rating

Selected awards and prizes

In 2016, PZU Group received numerous awards and prizes. Some of them are listed below.

AWARDS:

Service Quality:

- "Insurance Manager of the Year 2016" for **Michał Krupiński**, CEO of PZU
- for PZU "Best Service Quality in Outlets and Remote Communication Channels"
- PayU Lab Award in eCustomer Experience in insurance for LINK4
- "Customer-friendly Insurance Company 2016" for PZU

Products and innovations:

- for Link4 in category of: motor insurance
- for TFI PZU for the best fund: PZU Zrównoważony
- Innovative company for IT solution introduced jointly with Naviexpert – "Safe drive with LINK4".
- for Alior Bank for "Virtual Consultant" project - an artificial intelligence system supporting remote communication with clients

Marketing:

- 6 distinctions for the "Fear-nots" campaign
- PZU "Fear-nots" campaign and Link4 "It was all about that"

Investor Relations

- First place for: annual online report; 2015 PZU annual report, 2015 Management's activity report
- 3 place in the Best IR Professionals in Poland ranking for PZU

HR awards:

- Top Employers Poland for PZU
- Top Quality HR for PZU
- Top Quality Practices and Internships for PZU
- Best Employer of the Year in the Large Enterprise category for LINK4
- Best Employer in Latvia for AAS Balta

SCHEDULE

31 MARCH

acquisition of Bank BPH's assets by Alior Bank
Increaed engagement of PZU Group in the banking sector as a result of the acquiring by Alior Bank (PZU subsidiary) a separated part of Bank BPH. Due to the merger, Alior Bank was promoted to the 9th place among the largest banks in Poland in terms of asset value.

26 SEPTEMBER

foundation of Witelo fund
Foundation of the Witelo fund in cooperation with bussines partners, its objective is to invest in the leading global VC funds.

30 NOVEMBER

acquisition of Polmedic in Radom
Polmedic offers both basic and specialist health care, advanced diagnostics, and one-day- surgery. The center provides services to NFZ patients, commercial patients, and holders of company health care packages.

21 DECEMBER

acquisition of Artimed in Kielce
Artimed offers a comprehensive scope of services, including standby surgeons and orthopedists. The center provides services to commercial patients, holders of health care insurance, and NFZ patients.

01 FEBRUARY

acquisition of Centrum Medyczne Cordis in Poznań
CM Cordis offers innovative diagnostic equipment and extensive range of specializations (including cardiology and cardiac surgery). The center provides services to commercial patients and holders of insurance and health care packages.

24 AUGUST

publication of PZU Strategy 2020
Approval of PZU Group Strategy 2016-2020 by the Management Board and Supervisory Board. The Management Board specified three key strategic directions: profitability, growth, and innovation. They are planned to be realized both in the insurance sector, and the complementary areas that exhibit high potential for growth, that is asset management and health care.

04 OCTOBER

publication of PZU Dividend Policy 2016-2020
Approval of PZU Dividend Policy 2016-2020 by the Management Board and Supervisory Board. In accordance with the new guidelines, it was approved that at least 50% profit will be paid out as dividend, 20% will be allocated to organic growth, and not more than 30% will go towards financing strategic mergers and acquisitions.

08 DECEMBER

execution of a contract for purchase of 20% Pekao Bank shares
Execution, in cooperation with PFR, of a contract for the acquisition of 32.8% of Pekao Bank shares at the total price of PLN 10.6 billion (price per share – PLN 123.00). It was one of the largest transactions performed in the bank sector in Europe in the recent years.

02

External environment

A considerable real economic growth rate, an increase in real household income, and a better-than-expected labor market situation created favorable conditions for the development of PZU's business activities.

Contents:

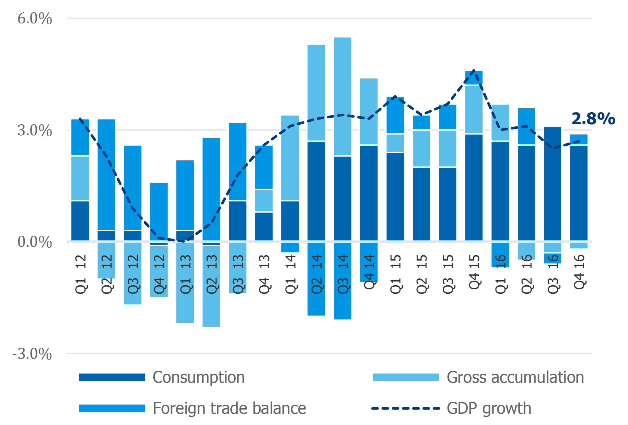
2.1 Main trends in the Polish economy

Gross Domestic Product

The GDP growth in 2016 amounted to 2.8%. Domestic demand remained the most important driver of growth.

A much-better-than-expected labor market situation and a significant increase in real household income led to the acceleration of household consumption growth to 3.6%, compared with 3.2% in 2015. The rate of the public consumption growth was also higher than in 2015. However, the investments fell in the same period by 5.5%. This decrease concerned mostly public investments – including investments of local governments. It was connected with the reduction of investments co-funded with the EU, as a result of the end of the previous EU financial perspective and prolonged waiting for the disbursement of funds under the new financial perspective. Large companies whose shares are held by the State Treasury or companies controlled by local governments also contributed to the decrease in investments (energy, public services). The investment growth rate of other companies also decreased, which was influenced by uncertainty regarding future economic conditions or regulations. The impact of inventories and net exports on the GDP growth in 2016 was positive, although only slightly so in the case of the latter.

GDP growth decomposition in 2012-2016



The labor market and consumption

The situation on the labor market improved significantly in 2016. The registered unemployment rate fell to the lowest level since mid-1991 and amounted to 8.3% at the end of December. It is 1.4 p.p. lower than the year before. According to LFS[1], the unemployment rate declined in the fourth quarter to 5.5% year-on-year, while the seasonally adjusted unemployment rate according to EU statistics amounted to 5.9% in December 2016, which gave Poland the ninth place among the European Union Member States (the EU average is 8.2%).

The number of persons employed in the national economy in the first three quarters of 2016 increased by 198 thousand people compared with the corresponding period of the previous year (2.4% year-on-year). On the other hand, the growth rate of average employment in the enterprise sector stabilized in the last months of 2016 – it amounted to 3.1% year-on-year in December. The number of employed persons increased also according to the LFS statistics. At the same time, the number of people employed on the basis of employment contracts also grew. The latest economic climate surveys confirm that labor demand has not decreased. However, there are growing problems with finding suitable candidates – adverse demographic trends contribute to a reduction in the number of working age people. According to the Central Statistical Office (CSO), at the end of the third quarter of 2016, the number of vacancies in entities employing at least 1 person (95.5 thousand people) was higher by as much as 30.5% compared with the corresponding quarter of 2015. According to the Quick Monitoring Survey conducted by the National Bank of Poland (NBP), almost a third of all respondents reported open vacancies at the end of the third quarter. More than a third of all enterprises reported having problems finding employees.

Despite the improvement on the labor market, there was no visible increase of the nominal growth of remuneration in 2016, although surveys from the turn of the year indicate higher remuneration pressure. The average monthly remuneration in the national economy increased by 3.6%, and in the enterprise sector alone by 3.8%.

The financial situation of households improved greatly in 2016, which was, to a large extent, due to the funds from the "Family 500+" program, which started to be distributed in the second quarter. The real growth of the remuneration fund in enterprises was the highest in 8 years (7.7%). In the face of growing employment security and the growth in real income, the consumer confidence indicator published by the CSO reached at the end of 2016 a level similar to the record level from 9 years ago.

[1] LFS (Labor Force Survey) – a survey of the labor market situation conducted every quarter by the Central Statistical Office.

In such conditions, in the third quarter of 2016, the seasonally adjusted quarterly growth of household consumption was the biggest in the recent years (+1.4% quarter-on-quarter). The annual consumption dynamics rose to 3.9% year-on-year from the 3.3% year-on-year in the second quarter of 2016. In the fourth quarter consumption dynamics increased up to 4.2% year-on-year basis. Consumption increased by 3.6% throughout 2016.

Inflation, monetary policy, and interest rates

2016 was another year of falling consumer prices (CPI) annual average fell by 0.6%, compared with the 0.9% decrease in 2015. Deflation (year-on-year) began to decline in the last months of the year to finally fade completely in November. In December, the inflation rate amounted to 0.8% year-on-year.

The annual average decline in prices in 2016 happened mainly due to the very low prices of fuels and energy. However, the net inflation rate also declined (-0.2% – CPI excluding the prices of food and energy), indicating the lack of inflationary pressure in the face of a negative output gap, moderate average nominal remuneration dynamics, and weak growth in prices abroad. However, at the end of the year, the annual dynamics of consumer prices began to grow, which was caused by an increase in global fuel prices (as well as food prices in November and December), with the prices being lower and decreasing in the previous year.

The Monetary Policy Council did not change interest rates in 2016 and January 2017. They remained at the level established in March 2015 – the reference rate is currently 1.5%. According to the Monetary Policy Council, the current level of interest rates is conducive to keeping Polish economy on the path of sustainable growth and preserving its macroeconomic stability.

Public finance

According to initial estimates, the state budget deficit for 2016 was approximately PLN 46.3 billion, which is considerably less than the planned PLN 54.7 billion. The Ministry of Finance estimated initially that the public finance sector deficit in 2016 amounted to 2.8–2.9% of GDP. Poland had no problems in obtaining debt financing – approximately 26% of borrowing needs planned for 2017 have already been financed at the end of 2016.

2.2 Financial markets situation

2016 was another year of dynamic changes in the situation on financial markets. The first weeks of 2016 were very bad for the stock market, especially in Europe. Polish stock indices compared to Europe rather favourably, although WIG and WIG20 also registered losses. The declines on the Polish stock market resulted mainly from the situation on the global markets.

Polish 10-year treasury bonds also lost some of their value at the beginning of the year in connection with the increase in risk aversion on financial markets, as well as circumstances which were Poland-specific. These included, among others, a worse assessment of the fiscal outlook of Poland by the European Commission and the downgrading of the country by the rating agency Standard & Poor's.

In that period in Poland, the interest rate market priced in a 25 bps reduction of the reference rate, which was driven, among others, by a very low rate of inflation and an accommodative monetary policy path communicated by major central banks.

The European Central Bank (ECB) eased monetary policy in March in reaction to the prolonged deflation and the risks to economic growth. A decision was made to increase the monthly scale of purchase of securities within the framework of the quantitative easing program, to expand purchases in order to include also non-bank corporate bonds and to extend the program until March 2017. The deposit rate and the refinancing rate of the ECB were reduced. Simultaneously, the ECB, as part of the quarterly TLTRO[2] z , offered banks cheap and long-term loans whose interest rates depended on the involvement in the financing of the economy. This easing of the monetary policy was more far-reaching than it was expected by the market at that point.

Thanks to, among others, the decisive actions of the ECB, favorable macroeconomic data from the United States, and accommodative Fed rhetoric, there was an improvement in the financial market sentiment in March and an increase in risk appetite among investors. The downward prices trend on the Polish financial market was stopped. Besides global factors, the share prices received support from a very good reading of the economic growth in Poland for the fourth quarter of 2015.

[2] TLTRO (targeted longer-term refinancing operations)

The yields were supported by the reduction of the global uncertainty and the decline in the risk premium for Poland, which, however, continued to remain high.

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

In the last weeks of the first half of 2016, financial markets, especially in Europe, experienced the influence of the fear that the citizens of Great Britain would vote to exit from the European Union – the so-called Brexit. The share prices were falling and there was high market volatility. The increased risk aversion on global markets produced increased variance of the Polish treasury bond yields. The slope of the Polish yield curve significantly flattened due to the upward shift of its short end, which resulted from, among other things, a reduction in expectations of a possible interest rate cuts in Poland. The difference between yields of Polish and German 10-year treasury bonds remained for most of June at the level of more than 300 bps – such a persistent increase above this level occurred for the first time since the end of 2012.

When the people of Great Britain voted for Brexit, their decision was a big shock for stock markets. However, in the subsequent calm, indices made up for the losses in the third quarter of 2016. This resulted from the fact that the first effects of Brexit turned out to be less severe than expected. Furthermore, the ECB and the Fed maintained lax monetary policy and, additionally, market expectations indicated its milder than previously assessed future course. The Polish broad market index, WIG, recorded in the third quarter of 2016 a considerable increase, but WIG20 index lost in value. This discrepancy can be explained by specific risks significant for large Polish stock market companies, for example financial or energy enterprises. Still, it should be noted that the August publication of a presidential draft of the act concerning the issue of mortgage loans in Swiss francs had a positive impact on the bank share prices, as it was received as lenient towards lenders.

In July and August, when the market calmed down after the Brexit shock, Polish 10-year treasury bonds gained in value, which was further supported by a short-lived increase in probability of another reduction of interest rates in Poland. Later the Polish 10-year treasury bond yields returned to the path of growth, which was driven by, among other things, a gradual increase in yields in the USA.

The last several months of the year were heavily influenced by the US presidential election. Pre-election movements on the financial markets indicated that a potential victory of Donald Trump may result in an increase in risk aversion, a decline in share prices, and the inflow of funds and assets to the countries considered to be „safe havens”. The election of Donald Trump as the US President came as a great surprise, but the reaction of financial markets to this election result was even more unexpected. After initial weakening of the US dollar and decreases in stock indices in the US, markets soon returned to their starting points. This could have been a result of the first speech of Donald Trump in his new role as the President-elect, which reflected the „mainstream” tone of the Republican Party. From then onwards, all price movements on global markets started to price in a so-called reflation scenario, which assumes a fiscal impulse in the US, leading to acceleration of economic growth and increase of inflation, and being at the same time conductive to the Fed raising interest rates and to the rise in US Treasury bonds yields. This scenario was made more probable when the Fed increased the reference rate in December by 25 bps.

Under these circumstances, the increase in Polish treasury bond yields could have been largely a result of the increase in country risk premium, which was also connected with again in premium increase for emerging markets. It can be also attributed to the phenomenon known as „repatriation” of capital, returning to the US.

The US presidential election was nevertheless not the only significant event. In December, the ECB decided to prolong the period of quantitative easing in the Euro zone. The ECB decision led to the yield curve steepening in Germany. On the one hand, the start of purchase of securities with yields lower than the ECB deposit rate and minimum maturities of 1 year resulted in a fall in yields at the short end of the yield curve. On the other hand, reduction of the total monthly volume of purchases lowered the prices of long-term securities.

In 2016, the GDP of Poland grew by

2.8%

with the main factor of economic growth still being domestic demand

The 2016 rate of registered unemployment rate was the lowest since 1991, it was at

8.3%

in December and dropped in 2016 by

1.4 p.p.

The inflation rate Poland in December 2016 reached

0.8% y/y

despite the fact that most of the year was subject to deflation

The average monthly remuneration in the national economy increased by

3.6%

In 2016, the GDP of Lithuania grew by

2.2% y/y

which was due mainly to improved export

The GDP growth projection for Latvia in Q4 of 2016 was

0.8% y/y

the weaker growth of the Latvian economy resulted from considerable decline of investments

In Q4 of 2016, the Estonian economy recorded a GDP growth of 2.7% quarter-on-quarter, which corresponds to annualized growth of roughly

1.6%

the growth resulted mainly from domestic demand

In Q4 of 2016, the Ukrainian GDP grew by

4.7% y/y

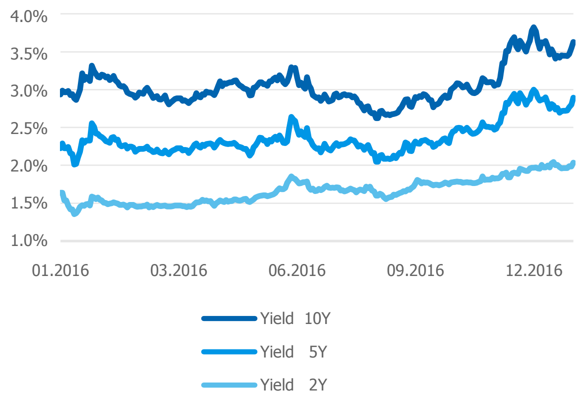
the year 2016 produced the first signs of improvement in economy and politics

Another important event was the Italian constitutional referendum which took place in early December. There was increased volatility and risk aversion on European markets before the referendum. However, its negative result did not have any serious negative market consequences. On the contrary, as it often happened with significant political events of 2016, the end of the period of uncertainty brought about a positive market rebound.

As a result, stock markets entered a phase of substantial growth in the last months of the year. Ultimately, the WIG index rose by 11.4% and the WIG20 index increased by 4.8% in 2016. The Polish yield curve became significantly steeper. The yield of Polish one-year treasury securities remained almost unchanged, reaching level slightly lower than 1.45%. The yield of two-year treasury bonds increased by 40 bps, while the yields on 5- and 10-year bonds went up by about 60–70 bps. At the end of 2016, the 10-year treasury bonds yield amounted to about 3.60%.

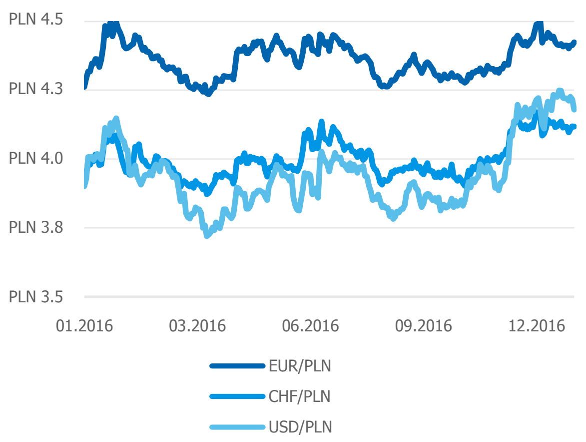
According to the Ministry of Finance, the share of foreign investors in treasury bonds issued on the domestic market decreased from 39.5% at the end of 2015 to 32.8% at the end of 2016.

Treasury bond yields in 2016



The foreign exchange market was highly volatile in 2016. It was not until September that the trend of a strong appreciation of the US dollar to the euro became noticeable. In the end, the EUR/USD exchange rate fell in 2016 by 2.9%. At the same time, the PLN weakened against major world currencies. Throughout 2016, the dollar exchange rate expressed in PLN grew by as much as 7.1% to 4.18 PLN, while the euro was worth about 4.42 PLN at the end of 2016 (up by 3.8%). The PLN weakened also in relation to the Swiss franc by 4.5% (the CHF/PLN exchange rate increased to about 4.12 PLN).

PLN exchange rate in 2016



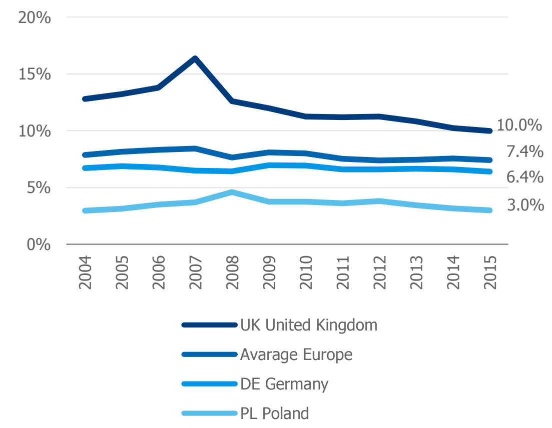
2.3 Insurance sector in Poland and in the Baltic states compared with Europe[3]

In 2015, a statistical European spend EUR 2,010 on insurance (density index), while an average Pole spent EUR 329 (i.e. PLN 1,378), that is 6 times less. Whereas a statistical Latvian (PZU Group operates in Latvia through AAS Balta, the second biggest on the market) spent 112 euro on insurance and an Estonian – 275 euro (PZU operates in Estonia through a branch of Lietuvos Draudimas – PZU Estonia).

Analyzing the level of the premium compared with GDP (penetration ratio), Poland is below the European average. This indicator for Poland is almost 2.5 times lower than the European average. Central and Eastern European countries such as Estonia and Latvia, in which PZU operates, have a ratio of 1.8% and 0.9% accordingly, which, from the point of view of market development, opens up huge opportunities for sales growth.

[3] „Total Premiums and Claims 2015" report published by the Insurance Europe of 30 August 2016, www.insuranceurope.eu

Penetration ratio (%)



2.4 Regulations on the insurance and financial markets in Poland

2016 was the first year in which insurance and reinsurance companies operated in the regime the requirements of the Solvency II Directive GLOSSARY, whose requirements have been implemented in the new Act dated 11 September 2015 on the Insurance and Reinsurance Activities and Implementing Regulations. The vast majority of provisions of this act came into force on 1 January 2016.

On the basis of that law, the Polish Financial Supervision Authority has issued Recommendations for insurance companies regarding:

- product adequacy tests – they apply in particular to life insurance contracts, if they are unit-linked, life insurance contracts in which the provision of insurance is determined based on certain indexes or other basis values;
- product management system – they provide a framework for the proper organization of the product management process covering the full product life cycle (from its design until its withdrawal from the market), as well as identification, measurement, monitoring, management and reporting of risks associated with this process;
- process of determining and paying compensation for non-material damage from the TPL insurance of motor vehicles owners – they indicate the PFSA expectations concerning sound and prudent management of the process for determining and paying compensation for non-material damage, including risks associated with this process.

The Act on Tax on Some Financial Institutions dated 15 January 2016. In accordance with the Act, as of February 2016, banks (domestic, branches of foreign banks, and branches of credit institutions), insurance and reinsurance companies, cooperative saving and credit institutions, and lending companies were subject to the so-called financial institution tax annually amounting to 0.44% of their assets' value. For banks and cooperative saving and credit institutions, the value of tax-free assets is PLN 4 billion. For insurers this amount is PLN 2 billion, and PLN 200 million for lending companies. The limits of assets' value beyond which insurance and reinsurance companies are subject to tax are specified for entire capital group and not respective companies.

Other regulations aimed at implementing EU legislation were also implemented in 2016:

- Act dated 9 October 2015 amending the Personal Income Tax Act , Corporate Income Tax Act, and Several Other Acts. The main concept of the Act is to seal up tax system, clarification of the regulation in the way it eliminates questions concernin interpretation and limit the phenomena of tax avoidance. The most important amendments relate to: exclude from the exemption from CIT of closed-end funds revenues (polish closed-end funds FIZ and comparable european union funds) as well as revenues from selling their shares and certain other revenues related to participation in such entities (including interests); introduction of tax rules related to contribution assets not constituting (organized part) companies in the market value; dependence of the exemption from tax on interest payments and royalties on the fulfillment by the recipient the actual status of the owner; introduction of so called „tax avoidance clause";
- Act dated 5 September 2016 on Trust Services and Electronic Identification. The Act imposes on qualified trust service providers an obligation to conclude TPL contracts for damage caused to trust service users during the provision of these services;
- Act dated 23 September 2016 on Out-Of-Court Settlement of Consumer Disputes. The aim of the Act is to provide customers with a possibility to submit requests for resolving disputes with traders to entities offering independent, impartial, transparent, effective, and fast alternative dispute resolution procedures, that is, to create a system of out-of-court settlement of consumer disputes (ADR).

The changes went beyond the implementation of EU legislation, including also several amendments to Polish law which had or will have an impact on the operations of PZU Group. Some of them are listed below:

The Act dated 15 May 2015 – Restructuring Law. The two main goals of this act are: effective satisfaction of creditors and helping indebted companies stay in business. The provisions of the Act introduced for example new forms of restructuring proceedings: concerning arrangement approval, accelerated arrangement, arrangement and reorganization proceedings.

The Act dated 9 June 2016 on the Terms of Setting the Remuneration of Managers of Certain Companies. The Act sets the terms of setting the remuneration of members of management and supervisory bodies of the companies whose shares are held by the State Treasury.

The Act dated 10 June 2016 amending the Act on Medical Activity and Several Other Acts. The legislator abolished the obligation for the health care institution running a hospital to have an insurance against medical events, as defined in the Act on Patients' Rights and Patients' Rights Ombudsman.

The Act dated 15 December 2016 amending of the Act on Insurance of Agricultural Crops and Livestock. The Act came into force on 1 January 2017. It aims to improve the insurance system in agriculture. Tariff rates for packages with premiums subsidized from the state budget will be introduced to fulfill this goal, and there will be a significant increase in the budgetary reserve for this purpose in the coming years.

An EU legislative package on fraud prevention on the capital market, which came into force on 3 July 2016, is to improve investor protection and increase confidence in the European financial markets. The basis of the package is formed by: Regulation (EU) No. 596/2014 of the European Parliament and of the Council dated 16 April 2014 on market abuse (MAR) and Directive 2014/57/EU of the European Parliament and of the Council dated 16 April 2014 on criminal sanctions for market abuse (MAD). The EU regulations introduce a whole new confidential information regime in public companies, whose main feature will be a single definition of confidential information. The regulatory package will influence the creation of a uniform communication policy of public companies. Criminal sanctions for market abuse provided in the Directive are an important part of the package. The Directive introduces common definitions for such offences as: insider dealing, unlawful disclosure of inside information and market manipulation, and sets maximum penalties for committing such offences.

Ordinance of the Minister of Development and Finance dated 5 October 2016 on the documents related to the conclusion and implementation of insurance contracts prepared in electronic form. The Ordinance defines a detailed way of creating, recording, storing and securing documents related to the conclusion and implementation of insurance contracts with the help of an electronic signature or seal.

On 16 November 2016, the Parliament (Sejm) passed the act lowering the retirement age to 60 for women and 65 for men from 1 October 2017. It will have the effect of increasing payments of pension benefits from both the Social Security Fund (FUS) and the Open Pension Funds (OFE) in connection with the insured reaching an age of 10 years less than retirement age (the so-called slider mechanism).

The PFSA Recommendations for the banking sector
In May 2016, the PFSA issued a new version of Recommendation C (replacing Recommendation C of 2002) on the management of concentration risk, issued based on Article 137 paragraph 1 point 5 of the Act dated 29 August 1997 – Banking Law. In its new version, Recommendation C supplements and further develops provisions concerning issues related to the concentration risk management in banks, caused by developments in the banking sector, the acquisition of new experiences by both banks and financial supervision, as well as development of European regulations over the past several years. It is addressed to all banks regardless of the consolidation.

In addition, from 1 January 2016, in accordance with the provisions of Recommendation S of the PFSA, banks are supposed to require bigger own contribution from their clients applying for mortgage loans. The minimum amount committed by the borrower is to correspond to 15% of the property value, whereby it is imperative for the client to provide a 10% own contribution in cash, and the missing 5% can be secured, for example, by the means of the savings accumulated on individual pension accounts (IKE) and individual pension security accounts (IKZE). From January 2017, the ratio rise up to 20%.

The projected legal regulations which may have significant influence on the operations of PZU Group
The legislative works on a draft law on insurance distribution implementing into the domestic legal order the provisions of the Directive (EU) of the European Parliament and of the Council dated 20 January 2016 on insurance distribution (IDD – Insurance Distribution Directive) are currently still in progress. European Union Member States should carry out the implementation of the Directive by 23 February 2018. The IDD Directive increases client protection regardless of the distribution channel the clients use to purchase insurance products, as well as it improves their confidence in insurance companies. According to the IDD, the clients should receive a product which is adjusted to their needs and capabilities. The new rules are subject to severe administrative sanctions applied in case of a breach of any obligations or rules governing the sale.

The Responsible Development Plan announced by the government provides changes in, inter alia, the current pension system. The reform resulting from the statutory review of the pension system envisages in particular a transfer of 25% of the funds from the Open Pension Funds to the Demographic Reserve Fund and 75% of funds to the newly created Individual Pension Accounts managed by General Pension Companies transformed into Investment Funds. The liquidation of the Open Pension Funds is also to be accompanied by the introduction of a new, comprehensive system of non-compulsory II pillar employee pension programs in the enterprise sector – Employee Capital Plans where premiums will be contributed by both the employer and the employee, and the funds will be managed by the Investment Funds.

2.5 External environment in the Baltic states and Ukraine

Lithuania
Many significant changes took place in Lithuania last year. For some sectors whose situation in 2015 was less positive, 2016 turned out to be a much better year, while in other sectors the situation deteriorated. Therefore, the economy as a whole recorded only a small growth rate – according to the publication of the Bank of Lithuania, the GDP growth amounted to 2.2% year-on-year, mainly due to improved export situation. Significant changes were noticeable also on the labor market. Employment grew, but the market lacks skilled workers, which is why the pressure on salaries remains quite strong.

In contrast to the previous year, inflation in 2016 was positive, was amounted to 0.9%. According to forecast it will amount to 1.9% in 2017. Just as in the previous years, the dynamics of prices will be determined mainly by the changing global trends in commodity prices. Global prices of energy sources had been falling until the beginning of 2016 when the trend reversed and they began to grow again. In 2016, food prices in Lithuania indicated a slight growing trend, and they are expected to continue rising. This year, the base inflation, which includes the prices of services and industrial goods, was higher than the headline inflation; however, in contrast to the previous two years, their growth was halted.

Latvia
The projection of the GDP growth in the fourth quarter of 2016 amounted to 0.8%. The weaker growth of the Latvian economy is a result of a significant decline in investment. The main reason for the fall in investment is an investment gap in the structural measures of the European Union, which leads to, among others, the lower level of residential construction and infrastructure construction. Despite a slow growth of remuneration, the domestic consumption remains stable. In the first ten months of 2016, export declined by 1.7% year-on-year, mainly due to the negative impact of lower exports of mineral products, mechanical and electrical equipment, metal products, and textiles. The decline in export and increase in import had a negative impact on the trade balance for 10 months of 2016.

The inflation rate in 2016 grew faster than expected – 2.2% year-on-year. Changes in oil prices and rising food prices had the biggest influence on the increase in inflation. The situation on the labor market has been improving over the last few years, which had a positive impact on economic growth in general – the unemployment rate is gradually decreasing, and the employment rate is increasing.

Estonia
According to preliminary estimates of the Estonian Statistical Office, in 2016, the Estonian economy recorded a 1.6% GDP growth year-on-year and 2.7% growth in fourth quarter. So far, the increase was driven mainly by domestic demand. The situation changed in the third quarter, in which export became more important driver of growth. Further significant remuneration increases, high employment rate and more

optimism resulted in households being both more able and more willing to increase their consumer spending.

The decline in consumer prices, which started in 2014, continued in the first half of 2016. In the third quarter, prices began to rise year-on-year as a result of the end of earlier declines in energy prices. At the same time, the full impact of tax changes introduced at the beginning of 2016 began to be noticeable, which increased the inflation to 1.0% until September. The change in consumer price index (CPI) amounted to 0.1% year-on-year (-0.5% in the fourth quarter of 2015). The year-on-year change in the consumer price index was influenced mainly by alcoholic beverages and tobacco products. The unemployment rate remains stable, at 6.8% in 2016 (6.4% in 2015).

Ukraine

After two years of recession, 2016 brought the first signs of improving economic and political situation. In the fourth quarter of 2016, Ukraine's GDP grew by 4.7% compared with the corresponding period in 2015. In 2016, the index of industrial production grew by 2.4% compared with previous year. The inflation increased by 12.4% in December of 2016 compared with December 2015. It should also be noted that in 2015 the annual inflation rate amounted to 43.4%, which was the record inflation level in the last 20 years. The growth of administratively regulated prices (gas, electricity, water) was the main factor influencing the inflation rate.

In 2016, a positive foreign goods and services trade balance (USD 337 million) was recorded, which resulted from a 4.1% drop in export with a simultaneous 3.7% increase in import. Turnover of retail and catering companies in Ukraine increased by 4.0% compared with the 2015 levels.

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

We expect that 2017 will be better than 2016 for the growth of the Polish economy, and thus also for the insurance industry. The GDP growth can amount to approximately 3.5%. Entering the implementation phase of the investments co-financed with EU funds will be of key importance. It will allow to revive investments in a significant way and, with a steady, solid growth in consumption, to boost the GDP growth. Improvement of external conditions – foremost, a bigger growth of global trade turnover and a better situation in the global industry – should help Polish exports and industrial production. Our forecast assumes that the labor market situation will continue to improve. However, the increase in employment and a decline in the unemployment rate will be slower than in 2016 – due to the fact that Poland is getting close to the state of „unemployment equilibrium" and limits of labor supply. The increase in inflation may be the signal for the increase in remuneration pressure.

It seems that the biggest risks for this scenario are related to the external situation. The most dangerous risk seems to be related to a rise of protectionism in the global economy, which would lead to a slowdown in world trade and GDP. There will be a series of elections in the major EU countries in 2017, which means a potential threat to preservation of coherence of the European Union, and, furthermore, for sure – a temporary increase in uncertainty associated with said elections. It is difficult to fully predict economic and market consequences of the probable strategy of „hard Brexit". Risks associated with the problems of European banks and Greece also remain relevant. Higher US interest rates and a strong dollar increase the risk of financial turmoil in emerging markets. The risk of a financial crisis in China, as well as geopolitical risks, still remain. Internal factors which could limit the growth of GDP include such issues as an increasingly noticeable problems with recruiting suitable employees, a possible prolonging of stagnation in private investments, or a sharper than expected rise in inflation, eroding real revenues of households.

Inflation will increase rapidly at the beginning of 2017 in response to a gradual disappearing of the effects of a sharp fall in fuel prices (and, partially, food) in the previous year and its annual average may amount to approximately 2% year-on-year. We expect stabilization of the NBP interest rates in 2017.

The prospect of the NBP real negative reference rate, with accelerating GDP growth, especially at the end of 2017, will force the Council to consider increasing the interest rates.

We estimate that the state budget deficit and the general government deficit (2.9% of GDP) planned for 2017 can be implemented – especially with a probable buffer in the form of another, much higher than expected payment from the profit of NBP. In the context of the deficit of the entire sector, the risk is associated with an increase in the deficit of local governments due to the beginning of their investments. At the same time, the implementation of the announced transfer of 25% of the funds from the Open Pension Funds to the Demographic Reserve Fund would temporarily help to reduce the general government deficit below 3% of GDP.

The prospect of higher inflation and economic growth should promote the growth of government bond yields, which in the long term is beneficial for PZU Group, although in the short term it may adversely affect the investment income. However, there are many risk factors which will increase the volatility of financial markets in 2017. Political decisions or election results in key EU countries, which are difficult to predict, may turn out to have particularly painful effects. They may significantly change the outlook for the various asset classes in the financial markets.

Data for the Polish economy	2017*	2016	2015	2014	2013
Real GDP growth in % (y/y)	3.5	2.8	3.9	3.3	1.4
Increase in individual consumption in % (y/y)	3.5	3.6	3.2	2.6	0.3
Gross fixed capital formation in % (y/y)	4.9	(5.5)	6.1	10.0	(1.1)
Increase in prices of consumer goods and services in % (y/y, end of period)	1.9	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)	7.6	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

* Forcast as at 15 February 2017
Source: PZU Macroeconomic Analysis Office

03

Activity of PZU Group

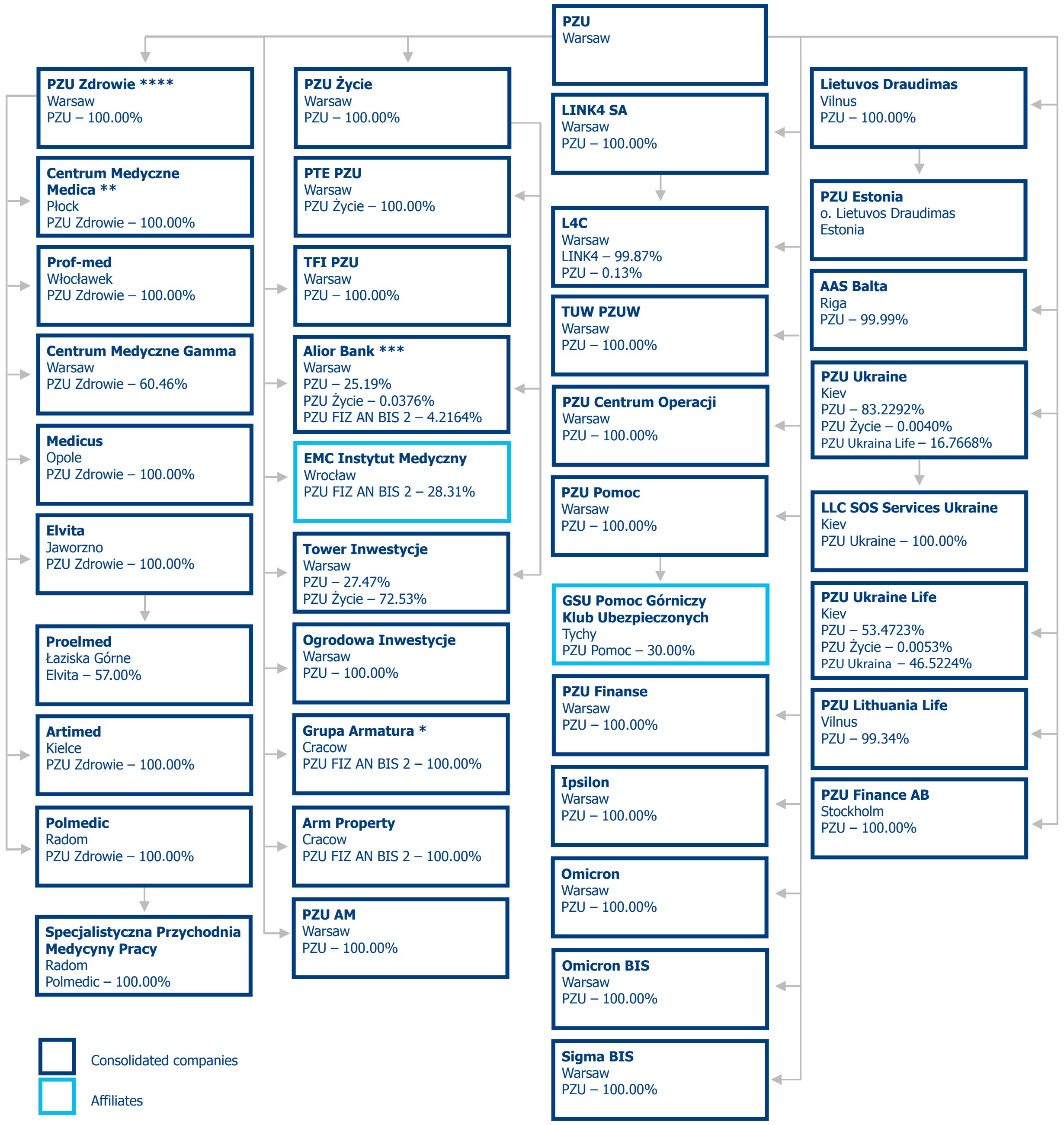
We are strengthening our leadership in financial services. The PZU Group brand includes: insurance, banks, investment and pension funds, and medical services.

Contents:

3.1 Structure of PZU Capital Group

PZU Group conducts various activities in the area of insurance and finance. In particular, PZU Group's entities provide services in life insurance, non-life insurance, health insurance and asset management for clients within OPFs and investment funds, as well as banking services, thanks to the investment in Alior Bank.

Structure of PZU Capital Group (as at 31 December 2016)



* Armatura Group included the following entities: Armatura Kraków SA, Armatoora SA, Aquaform SA, Aquaform Badprodukte GmbH, Aquaform Ukraine TOW, Aquaform Romania SRL, Morehome.pl sp. z o.o.
** 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.
*** 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.
**** within PZU Zdrowie 2 branches are operating: CM Nasze Zdrowie in Warsaw and CM Cordis in Poznan.
The structure does not cover investment funds and entities in liquidation.

Through its representatives in the supervisory bodies of the companies and voting during General Shareholders' Meetings, PZU – as the parent company – influences defining strategic directions regarding both the scope of activities and the finances of the entities making up PZU Group. The companies provide mutual services both under market conditions and based on the internal cost allocation model (in the scope of the Tax Capital Group) due to the expertise of selected companies and by taking advantage of the Tax Capital Group.

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

- On 8 December 2016, PZU and PFR concluded an agreement with UniCredit S.p.A. to purchase 32.8% of Bank Pekao S.A. shares for the total amount of PLN 10.6 billion. The purchase price per share amounts to PLN 123. It is one of the largest transactions performed in the banking sector in Europe in the recent years. CHAPTER 3.4 BANKING
- On 11 March 2016, as part of the engagement in the banking sector, the acquisition of the third tranche of Alior Bank shares was settled. As a result of the transaction, PZU held directly 25.2% of the shares in the share capital of Alior Bank, while indirectly – through PZU Życie and controlled investment funds – it held 4.2% of the shares in the share capital of Alior Bank. In addition, 16,525,801 Series I shares of Alior Bank were taken up in a closed subscription performed through the public offer in observance of the pre-emptive right on the account of the existing shareholders of the bank. CHAPTER 3.4 BANKING
- On 31 March 2016, Alior Bank signed with GE Investment Poland Sp. z o.o., DRB Holdings B.V. and Selective American Financial Enterprises LLC the sale of shares and division agreement, which concerned the acquisition of the core activity of Bank BPH. The transaction was financed by the public issue of new Alior Bank shares in observance of the pre-emptive right. A legal merger of Alior Bank with a separated part of Bank BPH took place on 4 November 2016. CHAPTER 3.4 BANKING
- PZU Zdrowie purchased shares in the following medical companies: CM Cordis (2016), Polmedic Sp. z o.o. (2016), and it indirectly became the owner of Specjalistyczna Przychodnia Medycyny Pracy, Artimed (2016). Moreover, in 2016, the merger of Nasze Zdrowie Sp. z o.o. and Centrum Medyczne Cordis Sp. z o.o. with PZU Zdrowie took place. CHAPTER 3.7 PZU ZDROWIE – MEDICAL SERVICES
- On 16 June 2016, Armatura Kraków sold all shares of Armatura Tower Sp. z o.o. to Pawo Borek Sp. z o.o. This company is no longer an Armatura Group company. CHAPTER 3.9 OTHER AREAS OF ACTIVITY

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

Situation on the market

The non-life insurance market in Poland measured by the gross written premium in the first three quarters of 2016 increased by a total of PLN 2,841 million (+14.2%) compared with the corresponding period of the previous year. Increased sales of MTPL insurance (by PLN 2,141 million, +34.7%) and motor own damage insurance (by PLN 694 million, +16.9%), mainly as a result of substantial growth in premium average (which is a consequence of cyclical increases that are being introduced since 2015 as an answer to persistently negative results of the motor insurance market) and higher premiums from indirect business (increase in MTPL of PLN 192 million year-on-year), had the biggest impact on the higher level of premiums.

Furthermore, there was a growth recorded in sales of property insurance (by PLN 256 million, +5.9%, PLN 135 million of which concerns indirect business) and insurance of assistance (by PLN 146 million, +31.1%, including a PLN 142 million growth on direct business), which was mainly a consequence of raise in growth rate of premium from motor insurance.

The drop in premiums was most visible in TPL insurance (drop by PLN 196 million, -11.8%, PLN 161 million of which concerns direct business), legal protection insurance (drop by PLN 113 million, -73.2%, PLN 113 million of which concerns direct business), as well as accident and illness insurance (drop by PLN 77 million, -4.5%, PLN 107 million of which concerns direct business).

The whole of the non-life insurance market in the first three quarters of 2016 generated a net profit of PLN 1,233 million (drop by 37.3% compared with the same period of the previous year). Excluding the dividend from PZU Życie, the net profit of the non-life insurance market grew by PLN 131 million (47.3%). After the first three quarters of 2016, the technical result of the non-life insurance market dropped by PLN 212 million, i.e. by 51.9% to the level of

PLN 196 million. This change was affected to the greatest extent by the drop of the technical result in MTPL insurance (PLN -251 million) and in the group of property insurance (PLN -201 million). Some positive changes were recorded in the group of accident and illness (increase by PLN 87 million), motor own damage (increase by PLN 83 million) and TPL insurance (increase by PLN 80 million).

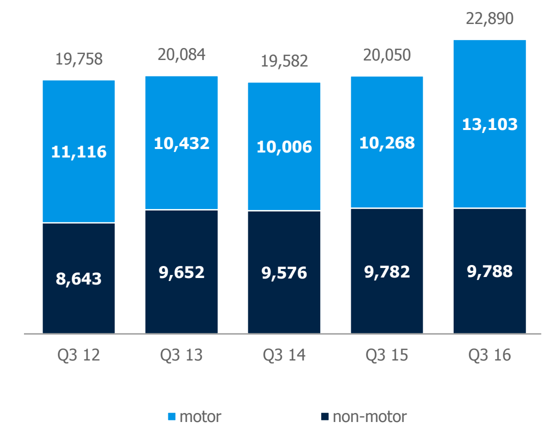
The drop of the technical result in MTPL insurance derived mainly from higher dynamics of claims and benefits (increase of PLN 564 million, +12.3%), if compared with the dynamics of net earned premium (growth by PLN 493 million, +9.5%), which resulted predominantly from the implementation of the PFSA recommendations causing raise in average payment as well as from strong price competition ongoing in recent years.

Simultaneously, a technical result decline was recorded in the group of insurance for damage caused by forces of nature (PLN -246 million on direct business) as a result of numerous claims in agricultural insurance which were caused by frost and hail.

The value of investments of non-life insurance companies at the end of Q3 2016 (excluding subsidiary investments) was PLN 53,064 million and rose by 1.9% from the end of 2015.

Non-life insurance companies, on aggregate, estimated the value of net technical provisions at PLN 43,343 million, which represented an increase of 3,9% compared with the end of 2015.

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



Source: PFSA (www.knf.gov.pl). Quarterly Bulletin. Insurance Market 3/2016. Insurance Market 3/2015, Insurance Market 3/2014, Insurance Market 3/2013, Insurance Market 3/2012.

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

Gross written premium	1 January-30 September 2016			1 January-30 September 2015		
	PZU*	Market	Market without PZU	PZU	Market	Market without PZU
Motor own damage insurance	2,054	4,793	2,739	1,642	4,098	2,457
MTPL	3,364	8,310	4,945	2,320	6,169	3,849
Other products	2,812	9,788	6,976	2,663	9,782	7,119
TOTAL	**8,230**	**22,890**	**14,660**	**6,625**	**20,050**	**13,425**

Source: PFSA (www.knf.gov.pl). Quarterly Bulletin. Insurance market 3/2016, Insurance market 3/2015, data of PZU
* including LINK4 and TUW PZUW

PZU Group's share in the non-life insurance market after Q3 of 2016 reached

36.0%,

including Link4 share of

2.2%

PZU's share in the motor insurance market reached

37,3%

after Q3 of 2016

Share of PZU's technical result in the market's technical result was

169.7%,

which, with the market share of

33.3%

calculated using the gross written premium, confirms the high PZU's insurance profitability level

The technical result of the non-life insurance market after Q3 of 2016 was lower by

PLN 212.4 million

than in 2015 - this change was affected to the greatest extent by the drop in the technical result on Motor TPL insurance and fire and other tangible damage insurance

Share of PZU Życie in periodical gross written premium was

45.0%,

after Q3 of 2016, which is PZU Życie's competitive advantage in the market

Share of PZU Życie in the life insurance segment (group I) was

67.1%

for the periodical premium after Q3 of 2016

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

20%

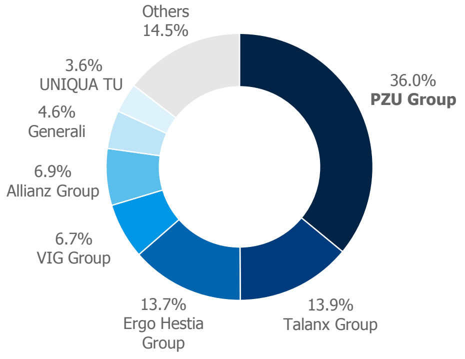
after Q3 of 2016, which was more than two times higher than the margin obtained by all other companies offering life insurance in total

PZU Życie generates over

50%

of both the technical result and net result of the life insurance market in Poland

Non-life insurance companies - share in gross written premium for 3 quarters of 2016 (%)



Capital groups: Allianz – Allianz, Euler Hermes; Ergo Hestia – Ergo Hestia, MTU; Talanx – Warta, Europa, HDI; VIG – Compensa, Benefia, Inter-Risk
Source: PFSA Quarterly Bulletin. Insurance Market 3/2016
* The share of PZU Group calculated including the inward reinsurance of PZU to LINK4 and TUW PZUW

PZU's activities

PZU, being the parent entity of PZU Group, offers a wide range of non-life insurance products, including motor, property, personal and agricultural insurance, as well as third party liability insurance. PZU has been controlling over 1/3 of the non-life insurance market by offering over 200 insurance products, of which the most important is motor insurance, with its share in the market amounting to 37.3% after the first three quarters of 2016, compared with 35.6% after the first three quarters of 2015.

After the first three quarters of 2016, the share of PZU's technical result in the market's technical result was 169.7%, which, with the market share of 33.3% calculated using the gross written premium, confirms the high level of profitability of the insurance.

In the changing conditions and in the face of new needs and interests of the clients, PZU introduced new solutions to its insurance offer in 2016. In the mass client insurance:

- PZU DOM [PZU HOME] product was introduced to online sales of household insurance, offering, among others, protection from all risk, which covers also the damage caused by uncommon and unpredictable events. The offer was accompanied by „Od Wszystkich Ryzyk" [From all risks] marketing campaign conducted through i.a. TV, radio, and social media;
- existing offer of personal insurance was made more attractive by broadening the catalogue of additional benefits and introducing to the market a new comprehensive PZU Edukacja [PZU Education] product for educational establishments as well as individual client;
- offer of general TPL insurance was extended in terms of the scope of responsibility by the addition of clauses covering environmental damage, damage due to package and label defects, and damage resulting from providing IT services;
- in order to approach the clients' need, online sales of the PZU Wojażer insurance were launched, which was accompanied by Spokojny Wypoczynek [Peaceful leisure] campaign basing on activities using the Internet.

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

	1 January-30 September 2016			1 January-30 September 2015		
Technical results	**PZU***	**Market**	**Market without PZU**	**PZU**	**Market**	**Market without PZU**
Motor own damage insurance	62	27	(36)	18	(56)	(74)
MTPL insurance	(232)	(848)	(616)	(157)	(596)	(439)
Other products	477	1,017	540	553	1 061	508
TOTAL	**308**	**196**	**(111)**	**414**	**409**	**(5)**

Source: PFSA (www.knf.gov.pl). Quarterly Bulletin. Insurance market 3/2016, Insurance market 3/2015, data of PZU
* including LINK4 and TUW PZUW

In corporate insurance segment, the majority of changes concerned regular introducing the products dedicated to corporate client to service and sales through the Everest system of, including:

- change in the approach towards pricing by implementing the model basing on the size of the fleet, which replaced the previous one that depended on the client's segment;
- modification of the existing distribution model, which allows the agents and multiagents to offer and sale basic non-motor products on their own by using the Everest platform;
- starting the works on extending the existing offer with new risks, including cybernetic risk incurred by enterprises.

In terms of financial insurance, PZU consequently supported Polish economy by granting insurance guarantees in its key areas, such as energy, infrastructure, and road construction. Among the main initiatives of 2016 were:

- increasing efficiency of the cooperation with SME sector by simplifying and accelerating the decision process – new rules for guarantee sales to the clients with guarantee exposure of up to PLN 1.5 million were introduced;
- conducting activities aiming at increasing the market share concerning financial liability insurance – in H1, an agreement was concluded with a large entity from the fuel sector.

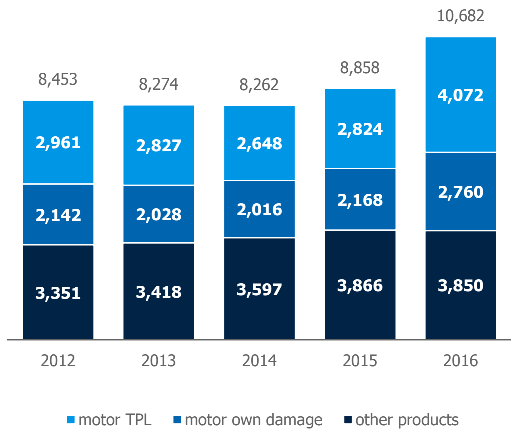
In 2016, PZU cooperated with 8 banks and 8 strategic partners. The partners of PZU are the leaders in their fields and have customer bases with great potential to expand the offer with successive products. The cooperation in the scope of strategic partnership concerned mainly the companies operating in telecommunications and energy, which were used to offer insurance of electronic equipment and assistance services. The sales of protective non-life insurance performed within bancassurance covered mainly the insurance of buildings, structures and residences, as well as insurance dedicated for payment cards.

In 2016, PZU collected gross written premium of PLN 10,682 million, which was 20.6% more than in the previous year. At the same time, the sales structure changed only slightly:

- value of MTPL insurance was PLN 4,072 million, which was 44.2% higher than in the previous year. It composed 38.1% of the entire portfolio, and its share grew by 6.2 p.p. from 2015. The increase in sales resulted mainly from substantial growth of average premium (a consequence of cyclical increases that are being introduced since 2015) and higher number of insurances;
- PZU collected premiums amounting to PLN 2,760 million from motor own damage insurance, which is 27.3% more than in the previous year. Share of motor own damage insurance in the overall portfolio grew by 1.4 p.p. to 25.8% in comparison with 2015;
- share of gross premiums from non-motor insurance in total premium increased to 36.0% (as compared with 43.6% in 2015). The value of gross written premium dropped by 0.4% year-on-year to PLN 3,850 million

In 2016, PZU generated a net profit of PLN 1,593 million, of which PLN 825 million was from the dividend from PZU Życie.

The gross written premium in PZU (PLN million)



Activities of LINK4

LINK4 is the leader of the Polish direct insurance market and offers a wide range of non-life insurance, which covers motor insurance, property insurance, personal insurance, and third party liability insurance.

Motor insurance is the most important group of products offered by LINK4, both in terms of the number of binding insurance contracts and the premium share in the total gross written premiums. During the previous two years, LINK4, by introducing innovative solutions made many changes to its product offer, which were intended to adapt the offer to the changing market demands and trends. In 2016, the most important activities related to the change in product offer were:

- start of cooperation with PAYBACK loyalty program, which allows to collect points for purchasing LINK4 products and to pay for insurance with the points collected;

- introduction of a solution facilitating concluding insurance contracts, which consists of decreasing the number of declarative data and replacing them with confirmed data coming from external Insurance Guarantee Fund bases (the project: „short calculator”).

In case of business client insurance, the strategic decision was made to transfer the corporate client service to PZU. Taking into account definitely greater experience in quotation and amount of regulatory capital, from Q2 2016 the insurances for corporate clients are offered under the PZU brand.

In 2016, LINK4 collected gross written premium of PLN 729 million, most of which concerned motor insurance, respectively:

- value of the MTPL insurance was PLN 558 million, which constitutes 76.6% of the entire portfolio;
- value of the motor own damage insurance premium was PLN 110 million, which composes 15.1% of the entire insurance portfolio.

Activities of TUW PZUW

Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych (TUW PZUW) has been active on the insurance market since 29 February 2016, when it started its insurance business by concluding its first insurance contract. The offer of TUW PZUW covers the products for enterprises from different industries, both medical establishments (hospitals and outpatient clinics) and larger economic entities (i.a. local governments and private companies). The entities cooperating under the TUW model are able to distribute the risk in the scope of mutual relations adapted to the specifics of a given group of medical entities, which will reduce the costs of insurance premium. The Company has 76 members for which 25 mutual relations for members have been created.

In 2016, TUW PZUW collected gross written premium of PLN 138 million, most of which concerned property insurance, including:

- insurance for damage caused by forces of nature – PLN 88 million, which constitutes 64.0% of the entire portfolio;
- insurance for other tangible damage – PLN 21 million, which constitutes 15.1% of the entire portfolio;
- assistance – PLN 10 million, which constitutes 7.1% of the entire portfolio; and
- third-party liability insurance – PLN 9 million with the share in portfolio of 6.2%.

The insurance portfolio offered by TUW PZUW is covered by a substantial reinsurance in PZU.

Factors, including risks and dangers, which will impact the activities in the non-life insurance sector in 2017

Apart from events of a catastrophic nature (such as floods, drought and spring frost), the main factors which can affect the situation of the non-life insurance sector in 2017 include:

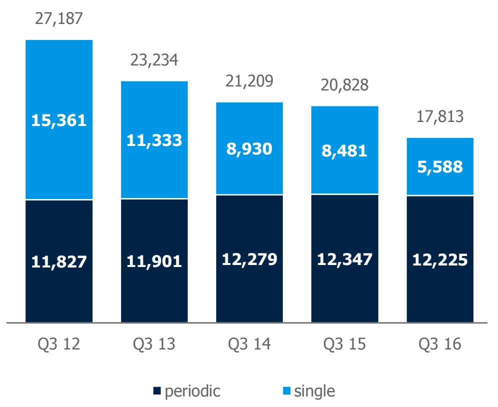
- the potential slowdown of the economic growth in Poland resulting from the deteriorating external conditions entailing expected unprecedented lack of investment growth and declined perspectives of economic growth. In consequence, the limitation of household spending, including purchase of motor policies (as a result of lower new car sales), lower sales of mortgages and the mortgage related insurance, as well as lower demand for other non-life insurance. The poorer financial standing of businesses can result in a growth in credit risk and an increase in the level of claims in the financial insurance portfolio;
- stronger than expected inflation growth not compensated with growth of nominal salaries entailing decline in dynamics of real remuneration and limited household expenses – including those for non-life insurance;
- prospect of higher inflation and economic favoring growth of government bond yields, which in the long term is beneficial for PZU Group, although in the short term, it may adversely affect the investment income. Numerous risk factors escalating volatility on financial markets in 2017 and potentially serious effects of unpredictable political decisions or election results in key European Union countries, which may considerably alter perspectives of individual asset classes on financial markets;
- decisions of supreme courts in the scope of monetary compensation from the MTPL insurance of owners of motor vehicles to the closest relative of a person for pain and suffer claims resulting from the violation of his or her personal welfare even if the damage took place before 3 August 2008;
- potential raise of claims handling costs resulting from the implementation of further recommendations of PFSA concerning claims handling, especially personal claims;
- raise of spare parts prices with effect on claims handling costs resulting from the successive drop of PLN against EUR;
- further regulations or financial burdens imposed on insurers – e.g. a possible reinstatement of the so-called Religa tax (i.e. compulsory fee payable to NFZ from every MTPL policy).

3.3 Life insurance market (PZU Życie)

Market situation

After the first three quarters of 2016, the life insurance market in Poland measured by the gross written premium amounted to PLN 17,813 million, which means that it has declined by an annual average of 6.2% over the past 5 years. The premium collected during the first three quarters of 2016 was simultaneously lower by 14.5% than in the corresponding period of the previous year, which is a continued decline after a series of increases that ended in 2012, stimulated mainly by the single premium in investment products.

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



Source: PFSA (www.knf.gov.pl). Quarterly Bulletin. Insurance market 3/2016, Insurance market 3/2015, Insurance market 3/2014, Insurance market 3/2013, Insurance market 3/2012

Life insurance market – gross written premium (PLN million)

gross written premium	1 January-30 September 2016			1 January-30 September 2015		
	PZU Życie	**Market**	**Market without PZU Życie**	**PZU Życie**	**Market**	**Market without PZU Życie**
Periodical premium	5,501	12,225	6,724	5,421	12,347	6,927
Single premium	496	5,588	5,092	649	8,481	7,832
TOTAL	**5,997**	**17,813**	**11,816**	**6,069**	**20,828**	**14,759**

Source: PFSA (www.knf.gov.pl), Quarterly Bulletin. Insurance market 3/2016, Insurance market 3/2015, data of PZU Życie

It should be noted that the premium decline year-on-year applied mainly to the single premium (a decline of PLN 2,893 million, i.e. 34.1% year-on-year, and from 2012, which was a record year in this matter, it has been a decline of PLN 9,773 million, i.e. 63.6%), mainly in the bancassurance channel. The dynamics for the corresponding period of 2014 were also negative at -5.0%.

The reasons of the lower single premiums in the recent years include changes of the situation of the capital market and in the legal environment. The record low interest rates reduced the profitability of short-term endowment policies (the so-called polisolokaty) thereby generating greater interest in other investment products. Additionally, a tax on revenue from short-term endowment products with fixed rate of return and index-based return was introduced on 1 January 2015, which also reduced customer interest in such products and, eventually, led to removing them – especially the former – from the offer of insurers. In the last year, the further guidelines of the supervisory body and, once again, the situation on the financial market and related to it decrease of client’s interest in this form of saving led to a considerable reduction of sales of the unit-linked products – a year-on-year decline of PLN 2,603 million, i.e. 25.5%.

The result of the changes taking place on the market was the rising prominence of the periodical premium over the single premium, which is PZU Życie’s competitive advantage on the market. In the first three quarters of 2016, the premium of this type was lower by PLN 122 million, i.e. 1.0% in comparison with the corresponding period of 2015, but the interim growth amounts to 1.9% since 2011.

The total technical result achieved by life insurance companies in the first three quarters of 2016 was higher by PLN 50 million (2.4%) than in the corresponding period of 2015 and amounted to PLN 2,174 million. The improved performance is the effect of higher profitability, recorded especially in accident and illness insurance (class V) – year-on-year increase in the result by PLN 68 million (5.6%, mainly the influence of decrease in acquisition costs along with simultaneous growth in revenues).

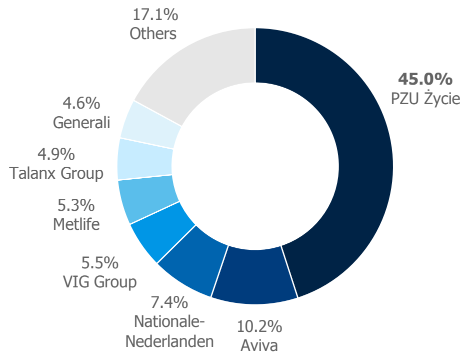
During this period, life insurance companies generated the net result of PLN 1,745 million, which constituted a year-on-year drop of 26.3% (by PLN 622 million). This drop results mainly from the investment results of insurers, concerning mainly excess funds of these companies, which were lower than in the corresponding period of 2015. In addition, it is also a result of the introduction of the tax on financial institutions, the so-called financial institution tax, which is in effect from February 2016.

The value of investments of life insurance companies at the end of the third quarter of 2016 was PLN 41,466 million, which means a drop by 0.7% compared with the end of 2015. Meanwhile, positive result on investments contributed to increasing the net unit-linked assets (1.5% growth to PLN 56,270 million).

PZU Życie's activities

PZU Życie SA (PZU Życie) operates on the Polish life insurance market within PZU Group. The Company offers a wide range of life insurance products, which, for management purposes, are reported and analyzed by three segments: group and individually continued insurance, individual insurance, and investment contracts.

Life insurance companies - share in periodical gross written premium for 3 quarters of 2016 (in %)



Capital groups: Talanx - Warta, Europa, Open Life; VIG - Compensa Życie, Polisa Życie, Skandia Życie; Aviva - Aviva TUnŻ, BZ WBK-Aviva TUnŻ
Source: PFSA Quarterly Bulletin. Insurance market 3/2016

PZU Życie collected 33.7% of the gross written premium of all life insurance companies in the first three quarters of 2016, which means a substantial growth in comparison with last year's market share (+4.5 p.p.). The main reason was the lower than market average share in the company's portfolio of the single payment premium, of which the written premium dropped significantly.

At the same time, PZU Życie continued to remain the unquestionable leader in the periodical premium segment. During the first three quarters of 2016, it obtained 45.0% of such premiums of all insurance companies, which means a growth of share in this market segment by 1.1 p.p. in comparison with the previous year and the biggest share in the market since 2010. The annual dynamics of the gross written premium of PZU Życie in this segment amounted to 1.5%, with the negative dynamics of other market participants at a level of -2.9%. One of the main factors was dynamic development of health insurance portfolio. PZU Życie insures around 1,3 million Poles with the products of this kind. In 2016, for the first time PFSA published data which make it possible to show in a form of a matrix PZU's share exclusively in the life insurance segment (class I) for the periodical premium, and after Q3 2016 the share amounted to 67.1%. For the same group of risks, the share in the market, taking into account the way of concluding the agreement, was 66.7% for group agreements and 38.9% for individual agreements during the analyzed period.

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

gross written premium vs. technical result	1 January-30 September 2016			1 January-30 September 2015		
	PZU Życie	Market	Market without PZU Życie	PZU Życie	Market	Market without PZU Życie
Written premium	5,997	17,813	11,816	6,069	20,828	14,759
Technical result	1,201	2,174	973	1,311	2,124	813
Profitability	20.0%	12.2%	8.2%	21.6%	10.2%	5.5%

Source: PFSA (www.knf.gov.pl). Quarterly Bulletin. Insurance market 3/2016, Insurance market 3/2015, data of PZU Życie

PZU Życie's technical result constituted the majority of the result achieved by all life insurance companies. This is the evidence of the high profitability of the products offered. PZU Życie's technical result margin on gross written premium was more than two times higher than the margin obtained by all other companies offering life insurance in total (20.0% compared with 8.2%).

In the face of the risks related to civilization diseases and loss of income source in difficult life situations, PZU Życie consistently extends its offer of protection insurance in both individual and group insurance. In addition, in connection with the amendment to the Act on Insurance and Reinsurance Activity, life insurance products offered by PZU Życie SA from 1 January 2016 were adjusted to the new legal requirements.

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

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

In 2016, in scope of health products, the product offer of PZU Życie was adapted to current and future market needs and expanded with innovative service solutions. Changes in the product offer include the following:

- launching pilot outpatient care insurance for small enterprises, the so-called SOHO clients (small office/home office), who run their businesses on their own or hire no more than one employee. The offer is available in two scopes: in sponsored version and with co-payment for medical services. The product permits access to medical consultations and diagnostic investigation;
- implementing the new offer of group insurance for children and youth aged 6–16 who take part in team sports. The offer addresses the needs concerning orthopedic supplies and treatment related to fracture, dislocation, sprain or rupture of joints and ligaments, as well as injuries to muscles and tendons. Besides medical consultations, the catalogue of medical services covers diagnostics, orthopedic supplies, rehabilitation, and surgeries;
- starting the sales of the new product, „Z Miłości do Zdrowia" [For the love of health]. This individual product was created as an answer to changing preferences of the clients and in the face of the risk of serious civilization

diseases. It allows PZU Życie to provide comprehensive medical and diagnostic care, rehabilitation, psychological support, and help of a caregiver in case of such diseases as cancer, stroke, or heart attack.

Moreover, there was a number of service changes, which include:
- monitoring and controlling the quality of service in medical establishments by regular testing the satisfaction of the patients, introducing the analysis of Customer Satisfaction Score and Net Promoter Score, as well as performing a Mystery Shopping test (for the main health care providers it is -80% on the scale of client service). The indicators will be used to verify the assumptions of quality scoring, thus supporting the process of guiding the patients to the best medical establishments;
- expanding the network of medical establishments available to health insurance clients to the amount of approximately 1,800, with simultaneous optimization and control of purchase costs of medical benefits;
- increasing the number of pharmacies supporting medicine insurance in a non-cash form (medicine card) from 4,270 to 6,125 as at 1 January 2017.

In 2016, in the area of investment-type insurance the following changes, among others, were made:
- from 1 April 2016, in connection with the amendment to the Act on Insurance and Reinsurance Activity, a detailed analysis of the client's needs in unit-linked and structured insurance is conducted, on the basis of which the client receives appropriate recommendations;
- implementation of new unit-linked insurance with single premium, Program Inwestycyjny WORLD [WORLD Investment Program] performed in cooperation with Millenium Bank. Due to the above, the sales of the Multicurrency Investment Program were discontinued;
- implementation of a new unit-linked insurance with single premium, Multi Kapitał [Multicapital], performed in cooperation with Alior Bank, with sales starting on 2 January 2017;
- removal of a short-term life and endowment insurance „Pewny Zysk" [Sure profit] from the offer from 1 June 2016 due to declining market conditions, including lingering historically lowest interest rates and, resulting from that, low attractiveness of the products to the clients.

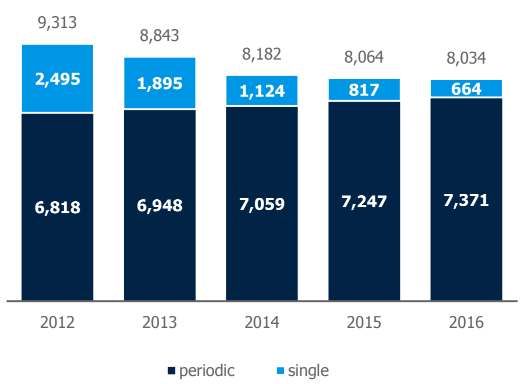
Furthermore, there were 10 Świat Zysków subscriptions, which were very popular among structured insurance clients. Individual subscriptions offered diverse investment strategies, which adapted to the changing market conditions. Besides the payout of the guaranteed capital, certain closed subscriptions concluded with a payout of the profit.

The bank channel saw continuation of the cooperation with two banks – Millenium Bank and PKO Bank Polski S.A. – in the scope of protection life insurance. Insurance offered to borrowers secures the payment of a credit/mortgage granted by the bank in case of borrower's death.

In whole 2016, in accordance with Polish Accounting Standards, PZU Życie collected gross written premiums of PLN 8,034 million, which was 0.4% less than in the previous year. The vast majority of the Company's premium was from periodical premium products. It represented 91.7% of the gross written premiums (as opposed to 89.9% in the previous year). It primarily included the written premium from group insurance and individually continued insurance, which had more than 11 million customers in Poland.

During the same reporting period, in accordance with Polish Accounting Standards, PZU Życie achieved technical result amounting to PLN 1,871 million and net profit of PLN 1,434 million.

The gross written premium of PZU Życie (PLN million)



Factors, including risks and dangers, which will impact the activities in the life insurance sector in 2017

The situation on the life insurance market in 2017 will primarily be affected by:
- prospect of higher inflation and faster economic development favoring growth of government bond yields, which in the long term is beneficial for PZU Group, although in the short term, it may adversely affect the investment income;
- potentially serious effects of unpredictable political decisions or election results in key European Union countries, which may considerably alter perspectives of individual asset classes on financial markets;
- declined business climate on the capital markets reducing attractiveness of products, especially unit-linked ones;
- change of previous rates of mortality, fertility, and morbidity;
- emerging role of so-called insurance claim companies into claims filed in previous years;
- no precisely established range of exemptions concerning e.g. insurance services or medical services in the amended Act on VAT;
- changes on the individual insurance market caused by modifications to products in accordance with Council Directive 2004/113/EC and the judgment of the Court of Justice of the European Union (judgment in case C-236/09 (Test-Achats), of 1 March 2011) with potential considerable impact on the value of new sales and the technical result;
- bill of the law on insurance distribution – adaptation of insurance companies to new regulations resulting from the need to implement into the domestic legal order the provisions of the Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (EU Official Journal L 26 of 02.02.2016, p. 19) so-called IDD.

3.4 Banking activity (Alior Bank, Bank Pekao)

Signing the Pekao S.A. share purchase agreement

On 8 December 2016, PZU and PFR concluded an agreement with UniCredit to purchase 32.8% of Bank Pekao shares for the total amount of PLN 10.6 billion. The purchase price per share amounts to PLN 123. It is one of the largest transactions performed in the bank sector in Europe in the recent years. Purchase of shares of Bank Pekao was associated with PZU's aspirations expressed in the strategy of the Group until the year 2020, which assumes achieving the assets amounting to at least PLN 140 billion in bank sector and PLN 50 billion in management on behalf of third parties. PZU and PFR will cooperate in order to ensure effective realization of the Bank Pekao development strategy, while maintaining the current low-risk profile of the bank, sound profitability level and stable long-term policy concerning dividend payout from the result.

PZU and PFR concluded an agreement, which aims at: (i) building the long-term value of Bank Pekao, (ii) pursuing the policy to provide development, financial stability and effective yet prudent bank management towards the bank, as well as (iii) providing adequate standards of corporate governance for the bank. The point of the agreement was to set the rules of cooperation between PZU and PFR after the realization of Bank Pekao share purchase from UniCredit and the obligations of bank's shareholders, especially in terms of determining the method of exercising the joint voting rights attached to Bank Pekao shares, as well as to manage the common long-term policy for the bank's activity in order to achieve the abovementioned goals. Especially PZU and PFR mutually agreed to vote „for" adopting the resolutions concerning distribution of profit and dividend payout according to the rules and within the limits determined by the applicable provisions of law and PFSA's recommendations and in line with the current practices of the bank.

Acquisition of the separated part of Bank BPH by Alior Bank

On 31 March 2016, ended the negotiations which resulted in Alior Bank signing with GE Investments Poland Sp. z o.o. ("GEIP"), DRB Holdings B.V. and Selective American Financial Enterprises, LCC (GE Capital Group) the sale of shares and division agreement, which concerned the acquisition of the separated part of Bank BPH. The transaction did not involve the purchase of the mortgage portfolio denominated in CHF, other foreign currencies and PLN, and the purchase of BPH TFI. The acquisition of the separated part of Bank BPH is in line with Alior Bank's development strategy and is a significant step in the process of bank sector consolidation.

As a result of making an entry in the National Court Register, a legal merger of Alior Bank with the separated part of Bank BPH took place on 4 November 2016. This means that all other products for individual clients and products for business clients were transferred to Alior Bank, and their owners became the clients of Alior Bank.

The acquisition of the separated part of Bank BPH is consistent with Alior Bank's development strategy assuming growth basing on organic development and acquisitions. Due to the merger, Alior Bank was promoted to the 9th place among the largest banks in Poland in terms of asset value. At the end of December 2016, the amount of Alior Bank assets and the separated part of Bank BPH was PLN 46 billion and PLN 15 billion, respectively, which is PLN 61 billion in total.

Issue of Alior Bank shares

Acquisition of the separated part of Bank BPH was preceded by the issue of Alior Bank shares. The public offering of Alior Bank covered 56,550,249 new shares, whose issue price was set at PLN 38.90 per share. The issue was performed in observance of the pre-emptive right on the account of the existing shareholders of the bank. The value of the performed subscription amounted to PLN 2.2 billion, of which PZU's involvement amounted to PLN 642 million. Hence, it has been the biggest public offering on the Warsaw Stock Exchange since 2013, and, simultaneously, the largest issue of shares with the pre-emptive right since 2009.

Market situation

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

As at the end of 2016, there were 36 domestic banks, 558 cooperative banks, and 27 branches of credit intuitions operating on the Polish market. The number of commercial banks dropped from the end of 2015 by 2 banks. It should be expected that the trend of consolidation in the bank industry will continue in 2017 due to the need for reaching an appropriate scale of activity to maintain operating effectiveness in the perspective of regulative costs and scale of investment expenditures required in association with the ongoing technological revolution, which imposes changes to the bank product and service distribution model.

In 2016, similarly to the previous years, the banking network diminished (by 0.2% to 14,434 locations) and the employment level dropped by 1.2%.

Between January and December of 2016, the banking sector generated a net profit of PLN 13.9 billion from the PLN 11.2 billion in the corresponding period of the previous year (up by 24.3%).

The net result of the sector was determined mainly by the growth of result on banking activity (to PLN 59.3 billion, i.e. up by 6.1% from 2015), which was produced by the considerable growth of the interest result (by 7.6%) with simultaneous decline of the result of fees and commissions (by 5.4%).

The interest result grew mainly due to the banks' adaptations in the deposit and credit policy to the environment of low interest rates. There was a strong drop of interest costs (by 9.4% y/y) with simultaneous moderate growth of revenue from interest (by 2% y/y).

The considerable growth from other banking activity is mainly due to the settlement of the transaction covering the sale of shares in VISA Europe in Q2 of 2016 (additional revenue of PLN 2.5 billion).

The higher operating costs of banks in 2016 compared to 2015 was determined mainly by the growth of employee costs (by 2.7% to PLN 15.6 billion) and growth of general management costs associated mainly with the introduction of the tax on certain financial institutions (the so-called bank tax) on 1 February, which was partially offset with additional payment to BFG in December of 2015.

The total value of assets of the banking sector as at the end of 2016 reached PLN 1,711.3 billion and was 7.0% (i.e. PLN 111.3 billion) higher than at the end of 2015. The main areas of asset growth included the portfolio of assets available for sale and credits while the main areas in liabilities were deposits from households and the budget sector.

The value of equity in the banking sector for capital ratios measured in accordance with CRR regulations amounted to PLN 172.3 billion at the end of September 2016 and rose by 15.4% from the end of September of 2015. The growth was related to the decision of certain banks to retain 2015 profits, exclude the financial data of Sk Bank from reporting, and new emissions of shares.

The total capital ratio of the banking sector reached 17.58% at the end of September 2016 (a growth by just over 2 p.p. compared with the end of September 2015) and the Tier I core capital ratio amounted to 16.01% at the end of the above-mentioned period (an increase by roughly 1.8 p.p. from the end of March of 2015).

Activity of Alior Bank

Alior Bank is a universal bank that is recognizable for its state-of-the-art solutions and a wide product offer. In 2016, Alior Bank Group generated PLN 618 million in net profit per shareholders of the parent entity and reached ROE of 12.7% (including one-off events).

The produced financial result was determined by the Bank's operating activity driven by organic growth of the balance total resulting from credit sales (net organic growth of consumer credits in 2016 amounted to PLN 6.9 billion) and the acquisition of the separated part of Bank BPH (entailing growth of the credit portfolio by PLN 8.5 billion).

Due to the consolidation of the financial results of Alior Bank with the financial results reached by the separated part of Bank BPH between 4 November and 31 December of 2016, the revenue of Alior Bank grew by PLN 133 million and its operating costs grew by PLN 81.3 million.

Furthermore, the revenue takeover saw Alior Bank raise its profit with the acquisition of the separated part of Bank BPH, raising its revenue in 2016 by PLN 508 million. Simultaneously, the decision was made to establish a restructuring provision of PLN 268 million in the 2016 financial result.

The main source of the Group's income in 2016 was the net interest result, which, despite pressure of low interest rates and thanks to the dynamic growth of the credit operation resulting from the merger with the separated part of Bank BPH and organic development combined with efficient management of the Bank's price policy, grew annually by PLN 445 million to PLN 1,946.0 million, i.e. by 29.6%.

The Group also recognizes the result from fees and commissions as a major source of income in 2016 as it reached PLN 331.1 million (a minimum year on year drop) and had the share of 10.4% in the income generated in 2016. Furthermore, the Group's revenue generated in 2016 was considerably impacted by the result on trading activity, which composed 10.1% of revenue, specifically the result generated with transactions on the currency market and interest rate transactions made for the benefit of the clients.

The 2016 Costs/Income index was 49.1% compared to 51.1% in 2015 (excluding one-off events associated with the merger with the separated part of Bank BPH).

Considering the effective implementation of processes crowned by the acquisition of the separated part of Bank BPH on 4 November of 2016 with simultaneously operated business activity considerably raising the operating scale of Alior Bank, the Management Board sees the operating activity of 2016, the acquisition and progress of process aimed at the operating fusion with the separated part of Bank BPH, and the 2016 financial results as positive. According to the Alior Bank Management Board, they are stable foundations for consistent and safe development of the Bank in the upcoming years.

Products and services

The activity of the Bank is performed within different units, which offer certain products and services intended for certain segments of the market. At present, the Bank is managing its activity in the following industry segments:

- individual client (retail segment) – intended for the market of mass client, meaning wealthy and very wealthy clients, to whom the Bank offers whole range of bank products and services and brokerage products offered by the Broker Office of Alior Bank S.A, especially credit products, deposit products and investment funds, personal accounts, bancassurance products, transaction services, and foreign currency products;
- business client (business segment) – for SMEs and large corporate clients, to whom the Bank offers full scope of bank products and services, especially credit products, deposit products, current and secondary accounts, transaction services, and treasury products;
- treasury activity – includes operations on interbank markets and involvement in debt securities. This segment reflects the results of managing the global position (liquidity position, interest rates position and currency position resulting from bank operations).

New products and services

In April 2016, Alior Bank also extended the scope of cooperation with BGK under the de minimis program, introducing the POIG BGK guarantee for financing innovative projects with recognition of their character in terms of needs of financing current and investment activity. Thanks to this, the entrepreneurs planning investments in new technological enterprises can count on getting a credit within their current account intended for current financing as well as an investment credit, and the payment is secured with POIG BGK guarantee.

Activity of PZU Group

In addition, in June 2016, Alior Bank provided a new website for entrepreneurs, zafirmowani.pl, thus offering its clients additional services, such as free application which allows them to keep simplified accounts on their own (Income and Disbursement Register), or invoicing system. In addition, thanks to cooperating partners, the website presents special offerings for the clients and publishes articles and manuals related to certain aspects of managing business. Thanks to social functionalities, it allows establishing relations between registered entrepreneurs and giving recommendations under shared economic operations. The new tool will support the entrepreneurs in terms of accessing new internet tools, enhance exchange of information related to changes of regulations within business environment, as well as provide a new form of establishing business relations.

New relevant operations

On 7 August 2015, Alior Bank signed an agreement with Romanian service provider Telekom Romania Mobile Communications from Deutsche Telkom Group. Hence, the Bank extended its strategic alliance with global telecommunications operator with another market from Central Europe.

On 14 January 2016, the National Bank of Romania (Romanian bank regulator) registered Alior Bank S.A. Varsovia – Sucursala Bucuresti as a branch of foreign credit institution within the meaning of Directive 2013/36/EU, under the number RB-PJS-40-071/14.01.2016. Therefore, one of the conditions included in the agency agreement with Telekom Romania Mobile Communications was fulfilled.

In 2016, with the decision of the Polish Financial Supervision Authority, Alior Bank acquired SKOK Powszechna and SKOK Wyszyńskiego. The decision of the committee means that the Management Board of Alior Bank SA is responsible for managing the assets of SKOK Powszechna and SKOK Wyszyńskiego. SKOK named after Cardinal Stefan Wyszyński had 34 thousand members, over PLN 180 million in deposits and has a network of 20 branches, while SKOK Powszechna – 23 thousand members and PLN 42 million in deposits, respectively.

On 13 March 2017 Alior Bank announced its strategy for the years 2017 -2020 - „Digital disruptor”. It assumes a further increase in the importance of innovation in the development of the bank, through ia. implementation of cutting-edge technology solutions to support the customer and the employee. In addition, Alior Bank intends widely used the digital revolution on other places of action- setting trends in modern banking.

Factors, including risks and dangers, which will impact the activities of Alior Bank in 2017

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

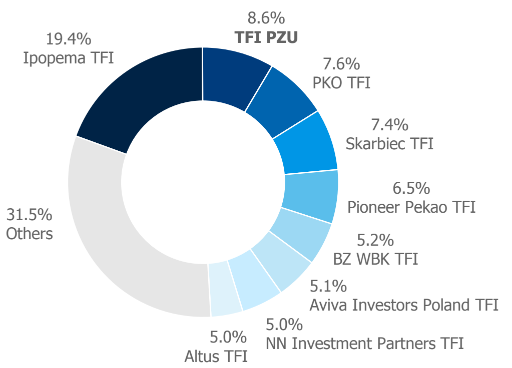
- new tax burden applicable as of 1 January 2016 resulting from the tax on certain financial institutions CHAPTER 2.4 REGULATIONS ON THE INSURANCE MARKET;
- the Financial Stability Committee's adoption of the resolution on recommendations for restructuring the house credit portfolio in foreign currencies in January of 2017.
- several risk factors in the external environment of the Polish economy;
- gradual raising of contributions paid by Banks to BFG over the past several years;
- macroeconomic situation in the Polish economy – increase in the Gross Domestic Products, as well as the employment and salary level, accompanied by historically low interest rates and low energy materials, positively affects the level of generated volume of credits and quality of credit portfolio.

3.5 Investment fund market (TFI PZU)

Market situation

At the end of 2016, the funds managed by domestic investment funds amounted to PLN 259 billion, in comparison with PLN 252 billion at the end of the previous year – which means a growth by almost 2.7%.

Investments funds - share in assets as at 31.12.2016 (in %)



Source: IZFiA

TFI PZU managed net assets of over **PLN 22 billion,** for a market share of **8.6%**

OFE PZU Złota Jesień held **13.0%** of the total value of assets of open pension funds operating in Poland, making it the third-biggest pension fund in 2016

Lietuvos Draudimas is the leader in the Lithuanian non-life insurance market with a market share of **29.5%** at the end of 2016

AAS Balta is among the leaders of the Latvian non-life insurance market with a market share of **27.2%** after Q3 of 2016

Lietuvos Draudimas held **14.5%** of the Estonian non-life insurance market in 2016

Over the first three quarters of 2016, PZU Ukraine obtained **3.7%** of the gross written premium in the Ukrainian non-life insurance sector, while PZU Ukraine Life obtained **8.5%** of the life insurance market

Alior Bank, as a result of acquiring separated part of Bank BPH, was **9th** on the market concerning gathered assets

In the segment of health insurance and health care services provided by PZU Group, the clients have almost **1,800** establishments at their disposal

In 2016, according to the estimates of Analizy Online, the balance of payments and withdrawals from retail funds offered by TFI on the domestic market amounted to almost PLN 5 billion. Clients showed highest interest in the absolute rate of return funds (with inflows of over PLN +3 billion), cash and monetary funds (payments to which amounted to nearly PLN +3 billion), and debt funds (nearly PLN +2 billion). The stock funds proved to be the worst, with balance of redemptions of PLN -3 billion.

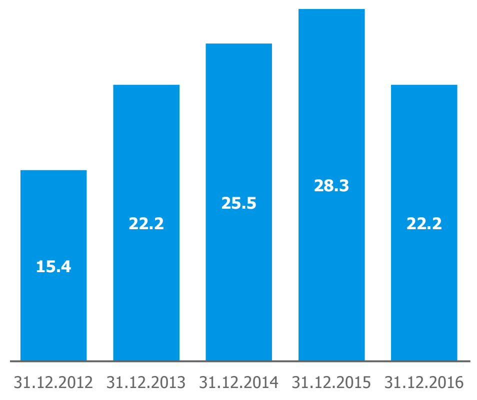
Activities of TFI PZU

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

At the end of 2016, TFI PZU had 29 funds and sub-funds in its portfolio, of which 22 were offered to clients from outside PZU Group.

At the end of 2016, TFI PZU managed net assets of over PLN 22 billion giving a market share of 8.6%. This makes TFI PZU one of the biggest Investment Funds in Poland – as at 31 December 2016, it was classified in the second place according to the report of the Fund and Asset Management Chamber (IZFiA). TFI PZU is also the leader in the segment of employee pension programs among institutions operating on this market – with net assets worth nearly PLN 4 billion.

Net assets of TFI PZU (PLN billion)



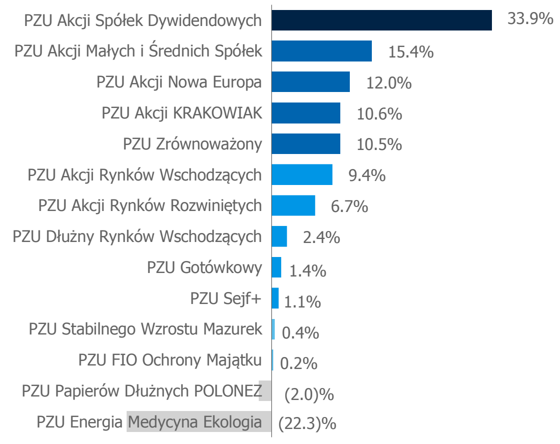
Source: IZFiA

A drop in the total value of the net assets of TFI PZU recorded at the end of 2016 resulted mainly from redemptions made by PZU Group within FIZ Dynamiczny fund (PLN -1 billion) and SFIO Universum fund (PLN -6 billion).

However, in 2016, without taking into consideration the effect mentioned above, TFI PZU recorded a growth in the value of assets of external clients, which resulted mainly from:

- active sales of funds and sub-funds – with a notable distinction of funds including share components,
- increasing effectivity of cooperation with distributors,
- introducing new Employee Pension Programs and Group Pension Programs,
- investment results generated by the fund managers.

Rates of return from investment funds of TFI PZU in 2016 (in %)



Source: IZFiA

Factors, including risks and dangers, which will impact the activities of investment funds in 2017

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

- political situation – including the results of elections in Germany and France,
- activity of central banks – mainly the American Fed (expected raises in interest rates) and European Central Bank (another round of quantitative easing),
- economic climate on the global capital market,
- local factors – the future of OPFs or inflation (which influences i.a. attractiveness of bank deposits and profitability of instruments).

3.6 Foreign activity

Lithuanian market

According to the Bank of Lithuania, the value of gross written premium on the non-life insurance market amounted to EUR 463 million in 2016 and was 13.2% higher than in the previous year.

The market dynamics was generated mostly by motor insurance (composing 58.0% of the market) with gross written premium growth by 16.0%. Motor TPL insurance grew by 14.7%, while motor own damage insurance grew by 18.0%. The higher written premium in motor insurance comprises mainly a growth in the average premium. The number of new insurance policies only grew by 4.0% in comparison with 2015. Also higher sales of property insurance (comprising 20.9% of the market) made a relevant impact on market development – the written premium grew by 14.7% in comparison with 2015.

Twelve companies were operating in the non-life insurance sector at the end of May 2016 (including 9 branches of insurance companies registered in other EU member states).

The largest insurance company in Lithuania in terms of total gross written premiums from non-life insurance remains Lietuvos Draudimas. At the end of 2016, the market share of this company was 29.5%. Taking into account recent acquisitions, the total share of the four largest companies in the non-life market was 81.2%.

The 2016 gross written premium collected by Lithuanian life insurance companies amounted to EUR 247 million, which means a growth by 4.6% in comparison with the previous year. Only in December there was EUR 31 million in the written premium, which had been influenced by legislative changes limiting tax exemption to EUR 2 thousand starting in 2017. In the future these changes may substantially influence the written premium from the single-premium insurance.

The structure of life insurance was dominated by unit-linked insurance representing 71.9% of the premiums. Traditional life insurance accounted for 20.7% of the written premium.

At the end of 2016, 8 companies were active in the life insurance sector. The Lithuanian life insurance market is highly concentrated. At the end of the year, the share of total gross written premiums of the three largest life insurance companies amounted to 62.6%.

Latvian market

Latvian non-life insurance market recorded gross written premium in the amount of EUR 206 million at the end of Q3 2016. It was EUR 11 million more than in the corresponding period of the previous year, i.e. growth by 5.4%.

Motor insurance had the biggest share in the market measured at gross written premium level. Motor own damage insurance accounted for 25.2% of the market, and for motor TPL it was 21.1%. Health and property insurances also have a significant position in the product structure (20.4% and 19.1% share in the market, respectively). Health insurances present high dynamics – in comparison with the first three quarters of 2015, the written premium rose by 13.9%.

In 2016, 15 insurance companies were operating on domestic non-life insurance market, and 4 biggest ones held the approximate share of 65.4%.

Estonian market

In 2016, non-life insurance companies conducting operations in Estonia recorded a growth in gross written premium of 8.4% in comparison with 6.7% in 2015. The gross written premium amounted in total to EUR 302 million, of which EUR 76 million, i.e. 25.2%, were collected by the branches of foreign insurance companies operating in Estonia.

The structure of non-life insurance in 2016 was dominated by motor insurance, which accounted for 59.8%, whereby the share of motor own damage insurance was 33.7%. Property insurance amounts to 26.3% of the gross written premium on the market.

13 companies were operating in the non-life insurance sector at the end of 2016 (including 4 branches of foreign insurance companies), of which 4 largest companies held the market share of 69.8%.

Activities of PZU companies in the Baltic states

From November 2014, PZU Group has been operating on the Lithuanian non-life insurance market through Lietuvos Draudimas, which from May 2015 is the owner of a branch of PZU Estonia. The acquisition of Lietuvos Draudimas was conditioned by the sale of PZU Lithuania – the disinvestment took place on 30 September 2015.

Activity of PZU Group

Lietuvos Draudimas is the leader of Lithuanian non-life insurance with the market share of 29.5%. In 2016, it recorded a growth of the gross written premium by 7.4% compared with the previous year and reached the level of EUR 137 million. The greatest growth was recorded in property (9.9% year-on-year) and motor (7.2% year-on-year) insurance.

The life insurance activity in Lithuania is carried out by UAB PZU Lietuva Gyvybës Draudimas – „PZU Lithuania Life". The acquired written premium amounted to EUR 12 million, a 14.3% growth from the previous year. The greatest sales growth was recorded in life and endowment insurance, which rose by 17.1% from 2015 The share of PZU Lithuania Life in the life insurance market was 4.8% (up from 4.4% in 2015).

In Latvia, PZU Group conducts business through AAS Balta – one of the leaders on the market – which entered the Group in June 2014 and, subsequently, acquired the PZU Lithuania branch operating on the Latvian market since 2012 (in May 2015). At the end of Q3 2016, the share of both entities in the non-life insurance market was 27.2%, and the total gross written premium was EUR 56 million.

From May 2015, the entity conducting business in Estonia is a branch of Lietuvos Draudimas and was established through the merger of two entities – the branch of PZU Lithuania, registered in 2012, and the Estonian branch, acquired in 2014, which had been operating under the Codan brand. In 2016, the share in the Estonian non-life insurance market was 14.5% (13.8% in 2015). The acquired gross written premium was EUR 44 million.

Ukrainian market

The Ukrainian insurance market recorded a growth of the gross written premium by 14.4% after the first three quarters of 2016, reaching the level of UAH 25 billion. The premium collected due to non-life insurance amounted to UAH 23 billion, a growth by 13.1.% in comparison with Q3 2015. This growth resulted mainly from the raise of insurance sums, which was caused by depreciation of the local currency, rising inflation, and the statutory increase in compulsory insurance rates. Motor insurance (29.7% share in the market) recorded increase in written premium of 19.0%, including the growth in the Green Card insurance by 21.3%. Life insurance companies collected gross written premium of UAH 2 billion in the corresponding period, which was 32.2% more than in Q3 2015.

The Ukrainian insurance market is fragmented, as it was composed of 323 insurance companies as at the end of September 2016 (of which 43 were providing life insurance). Regardless the still-enormous number of insurance companies, the TOP 100 largest non-life insurance companies generated 97.0% of the entire market's gross written premium, and the TOP 20 largest life insurance companies generated 99.4% of the written premium.

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

In 2016, the gross written premium in non-life insurance market for PZU Ukraine amounted to UAH 1 billion, i.e. it was 40.2% higher than in the previous year. This increase arose from both the growth in the premium obtained through external entities (banks and travel agencies) and through its own distribution channels. Motor insurance, Green Card insurance, tourism insurance, and corporate non-life insurance played a particularly important role in the growth in written premiums. The gross written premium collected by PZU Ukraine Life in 2016 amounted to UAH 240 million and was 34.7% higher than in 2015. This growth was achieved primarily in the bancassurance and brokerage channel, mainly thanks to the sales of life and endowment insurance.

During the first three quarters of 2016, PZU Ukraine had obtained 3.7% (growth of 1.0 p.p. in relation to three quarters of 2015) of the gross written premium on the Ukrainian non-life insurance sector, achieving the fifth place on the market. In turn, on the life insurance market, PZU Ukraine Life held the fifth place after the first three quarters of 2016, with a market share of 8.5% (0.1 p.p. drop in comparison with the previous year).

3.7 Medical services (PZU Zdrowie)

Health in PZU

In 2014, PZU Group made the decision to expand its medical services and health insurance. The expansion included establishment of PZU Zdrowie to serve as the platform integrating acquired medical service companies and managing health subscribers.

PZU Zdrowie was created from the transformation of Ipsilon Bis SA, which had had no previous record of operations.

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

- medical services for the local population of Płock, Włocławek, cities of Upper Silesia, as well as Opole, Warsaw, Radom and Kielce in scope of NFZ contracts covering general health care and ambulatory special care;
- services in scope of additional health care packages for corporate and individual customers in Płock, Włocławek and cities of Upper Silesia, Opole, Warsaw, Poznan, Radom, and Kielce;
- medical services for people who have health insurance in PZU Życie and for commercial patients.

In 2016, PZU Zdrowie implemented project consisting in:

- development and implementation of patient service standards in medical centers owned by PZU Zdrowie;
- development of IT solutions indispensable to facilitate medical and operational processes of the PZU Zdrowie establishments (implementation of Assistance system and Portal Świadczeniodawcy website);
- development of a model for medical partners network management;
- development of a manual and branding of own establishments.

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

Due to the building of the health care center and health insurance networks, PZU Group was expanded by the following companies in 2016 and until the release of this report:

- CM Cordis (100% shares, from 1 February 2016) – provides specialized services for patients in Poznan;
- Polmedic (100% shares, from 30 November 2016) – provides health care services in Radom;
- Artimed NZOZ (100% shares, from 21 December 2016) – provides medical services to citizens of Kielce.

The total cost of purchase of the aforementioned companies was PLN 41 million in 2016 and the goodwill recognized in the consolidated financial statements amounted to PLN 32 million.

In 2016, the merger of Nasze Zdrowie Sp. z o.o. and CM Cordis Sp. z o.o. with PZU Zdrowie SA took place.

3.8 Pension funds market (PTE PZU)

Market situation

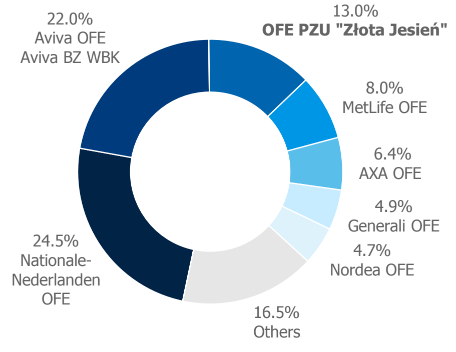
At the end of 2016, the net assets of open pension funds were at the level of PLN 153 billion and grew by 9.2% with respect to the end of the previous year.

Activities of PTE PZU

The OFE PZU Złota Jesień (Open Pension Fund, OPF), which is managed by PTE PZU , is one of the largest players on the pension funds market in Poland. At the end of 2016, OFE PZU was the third largest pension fund, both in terms of the number of members, as well as in terms of net asset value:

- Fund had 2,188.1 thousand members, i.e. 13.3% of all participants of open pension funds;
- net assets were at the level of PLN 20 billion, or, in other words, they represented 13.0% of the total value of assets of the open pension funds operating in Poland.

Open Pension Funds - share in net assets as at 31.12.2016 (in %)



Source: PFSA, monthly data on the OFe market, data for December 2016

In 2016, the Social Insurance Institution (ZUS) transferred PLN 300 million in premiums to OFE PZU, which was 1.5% more than in the previous year.

At the end of 2016, Dobrowolny Fundusz Emerytalny PZU (PZU Non-compulsory Pension Fund) held 56.9 thousand IKZE accounts, which accounted to assets worth PLN 26 million. As a result, it maintained its position as one of the leaders in the non-compulsory pension funds segment. The 2016 rate of return was 16.2%.

Factors, including risks and dangers, which will impact the activities of pension funds in 2017
The main challenges for the pension funds market in 2017 are:

- business climate on the capital market and, in particular, on the WSE, affecting the value of the assets of open pension funds and the level of management fees collected by PTEs;
- reform of pension system in Poland and results of the statutory review of the pension system, as well as legal risks related to these matters, especially the assumed transfer of 75% of the funds from OPF to newly-created IKE and 25% of funds from OPF to the Demographic Reserve Fund;
- pension funds preparing for organizational and legal changes resulting from the transformation of open pension funds into investment funds composed of Polish shares and pension funds into investment funds;
- possibilities arising due to the realization of the assumptions determined in the Plan of Capital and Strategy Building for Responsible Development, whose performance will depend on developing detailed solutions and indispensable legislative changes coming into effect;
- active participation in the works for the implementation of solutions improving the effectivity of operations of pillar III and increasing its attractiveness, as well as shaping social awareness in terms of the needs related to making additional savings for future pensions.

3.9 Other areas of activity

PZU Pomoc
PZU Pomoc SA (PZU Pomoc) is an ancillary company for PZU Group's subsidiaries established to provide assistance services to clients in scope of claims handling.

At the end of 2016, the company held the leading position on the market of intermediation in the sale of damaged vehicles through an online auction platform.

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

PZU CO
PZU CO an ancillary company for PZU Group's subsidiaries established to provide services in the following areas: printing, IT, Data Center, Contact Center, insurance and pension fund assistance, permanent intermediation in the conclusion of insurance contracts, financial and investment contracts and assistance agreements, and human resources and salaries services.

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

On 16 October 2015, PZU Finance AB emitted five-year Eurobonds in the amount of EUR 350 million. These bonds were assimilated and, together with the Eurobonds at value of EUR 500 million issued by PZU Finance AB (publ.) on 3 July 2014, they constitute one series, a so-called tap issue.
CHAPTER 8.3 DEBT FINANCING

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

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

Armatura Group
PZU Group has held an equity stake in Armatura Kraków S.A. (Armatura Kraków) since October 1999. At this time, 100% of the shares of Armatura Kraków are owned by the PZU FIZ AN BIS 2 investment fund.

Armatura Kraków SA (Armatura Kraków) is the parent entity in the Armatura Group. The Armatura Group includes: Armatura Kraków SA, Armatoora SA, Aquaform SA, Aquaform Bauprodukte, Aquaform Ukraine, Aquaform Romania, Morehome.pl. The Armatura Group conducts its business outside the area of financial and insurance services. It is the leading manufacturer in the plumbing and heating sector in Poland. The entities composing Armatura Group specialize in manufacturing of bathroom and kitchen taps, aluminum central heating radiators, a wide range of valves, and sanitary ware.

On 29 June 2015, Armatura Kraków sold Arm Property Sp. z o.o. to PZU FIZAN BIS 2 and thus ended the restructuring of Armatura Kraków Group's non-productive assets.

On 1 June 2016, Morehome.pl suspended business activities for the period of 24 months.

04

Business strategy

We listen carefully, care and anticipate – that is why every day brings us closer to fulfilling needs and expectations of our clients.

Contents:

4.1 Summary of PZU Group Strategy 2020

2016 saw a number of changes in the composition of the corporate bodies of the PZU Group companies (CHAPTER 10. CORPORATE GOVERNANCE). The new Management Board of PZU led by Michał Krupiński reviewed and updated the existing strategy. The Management Board identified areas where it saw a potential for continuation of activities performed to date, space for improvement, as well as new ambitious initiatives that, in the long haul, would result in creating competitive advantages of PZU and goodwill for its shareholders. The results of the strategy overview confirmed that insurance should continue to be the Group's core business. Moreover, a greater potential for development of PZU Group's business was identified in health care and investments. In addition, as far as the realization of long-term development perspectives is concerned, a decision was made to invest in the banking sector in Poland.

We are planning to concentrate on the area which has been a cornerstone of PZU identity for over 200 years – that is insurance business. We should put all our effects in offering to our clients the best and most innovative insurance products which protect their future, health, and property. That is why in everything we do, we will concentrate on ensuring that our core business is highly profitable, stable, and future-oriented." – Michał Krupiński, 15 March 2016.

The PZU Group strategy 2016-2020 published on 24 August 2016 was developed on the basis of the following core values: profitability, growth, and innovation. The Management Board's intention was to increase profitability of insurance activity and develop innovative tools for business management and customer service. The strategic goals took a form of ambitious growth initiatives, also related to such areas as PZU Zdrowie, PZU Inwestycje, and banking sector. The process of achieving these goals was planned in a way that allows PZU to secure means for further sustainable development and providing attractive dividend in the long term. Maintaining a high return on equity ratio (ROE) is the key to the strategy's success.

"PZU Group Strategy 2020 – Profitability, Growth, Innovation"

Development directions of PZU Group 2016-2020

"Today, PZU is one of the most profitable companies in the insurance sector. However, we realize that, in order to ensure high profitability for our investors in the future and considering rapid technological changes, we also need to invest in our own development. We need to constantly develop and stay focused on the clients and their changing needs." – Michał Krupiński, 24 August 2016.

Key strategic directions 2020

Focus of the high profitability of insurance activity coupled with simultaneous growth in selected market segments

Reduce fixed costs by PLN 400 million till the end of 2018

Effectively pursue growth initiatives in health and investments

Build a large and profitable banking group

Create one of the most innovative insurance groups in Europe

All goals included in the Strategy were quantified and are seasonally monitored by means of precisely specified measures that allow for on-going monitoring and correction of assumptions made. CHAPTER 4.7. SELECTED MEASURES OF PZU GROUP STRATEGY 2020

Key changes made to PZU Strategy 3.0 adopted in January 2015 concerned the following:

- increased focus on profitability of the Group's core business (insurance), e.g. by reducing fixed costs by PLN 400 million by 2018;
- accelerating PZU Group growth rate, including development of the following areas: Zdrowie and Inwestycje;
- including in PZU Group Strategy a plan for investment in the banking sector;
- increased role of innovation in PZU Group as a tool for achieving goals regarding profitability and growth.

Capital and dividend policy as an integral part of PZU Group Strategy

On 4 October 2016, Group Strategy was supplemented with Capital and dividend policy of PZU Group for 2016-2020. In line with the presented assumptions, maximum 20% of profit could be set aside for organic development, and no more than 30% on financing strategic mergers and acquisitions. That means that every year the Management Board recommends that the General Shareholders' Meeting (after obtaining an opinion from the Supervisory Board) allocates at least 50% of net profit for dividend for shareholders. Should the budget allocated for acquisition be not used in a given financial year, it can be used for payment of dividend for shareholders. CHAPTER 8.7 PZU GROUP'S CAPITAL AND DIVIDEND POLICY

"Dividend policy is an important element of PZU Strategy 2020. The Management Board's goal is for PZU to be a company that pays attractive dividends in the future. We will achieve that by investing in organic development and innovations, and by realizing our strategic goals in the area of mergers and acquisitions. Every year, we want to allocate at least 50% of profit for dividends. (..) We will develop Group in a way that ensures increasing dividends to all PZU SA shareholders" – Michał Krupiński, 4 October 2016

The goal of capital and dividend policy is to focus on the shareholder return. It is based on efficient capital management, maximizing return on equity for parent company shareholders (especially by maintaining security level and capital resources for strategic development realized by mergers and acquisitions), maintaining target Solvency II ratio at 200% and leverage ratio at 35% or less, and assuming that PZU will not issue shares as long as the policy is in place.

4.2 Basic strategic assumptions

The PZU Group Strategy 2020 was created with the following assumptions concerning the condition of the Polish economy and insurance sector, including especially:

- moderate pace of economic growth in Poland (approximately 3.0-3.5% annually);
- increased inflation as of 2017;
- higher interest rates as of 2017;
- changes in shopping preferences – growing importance in the direct channel (mobile devices) and price comparison engine market that are based on ad-hoc shopping decision-making;
- introduction of regulative changes, including the following:
  - improving structure of the unit-linked life insurance market,
  - implementing the recommendation regarding a standard payment of compensation resulting from non-property claim under a MTPL insurance policy,
  - introducing by early 2018 the MiFID II directive that recommends transparency in commissions paid in the sales of inter alia investment products;
- stable perspectives in the development of property and motor insurance – decreased intensity of the price war in motor insurance and improved profitability in MTPL segment;
- stable growth in investment fund market – increased importance of low-cost (from the client's perspective) and long-term investment products;
- growing (double-digit) potential in health insurance and prepaid health packages.

4.3 Core values of the strategy

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; we control the costs and ensure that the processes are smooth.
- We are Innovative – we continually adapt to the changing needs of the client; we proactively search for ways to improve our business.

The strategy of PZU Group is customer-focused. Our commitment to stay client-centric is clearly visible in the adopted strategic mission – „We are here to provide our clients with peace of mind and safety. Our clients can always rely on us". We want to accompany our clients everywhere they go to stay ahead of their needs just the way they expect us to. In practice, it translates into transforming PZU from a product-centered organization into a company that focuses on the clients' needs.

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.

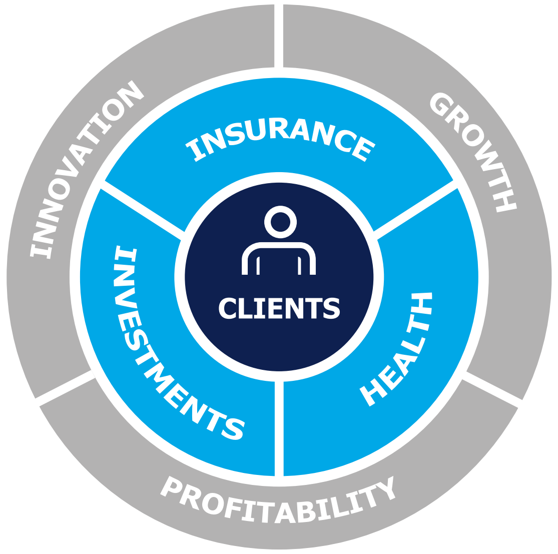
Sustainable development

- **Customer needs are our priority**
- **Reliable business partner**
- **Responsible employer**
- **Social commitment**
- **Compliance culture**
- **Savings for the environment**

ETYKA

Sustainable development

Realization of our strategic assumptions depend on proper capital management – financial, human, social, environmental, and intellectual. The Management Board follow one basic rule: increasing goodwill of PZU should stay in line with the interests of its environment and be based upon sustainable and responsible use of resources. CHAPTER 9. CORPORATE SOCIAL RESPONSIBILITY



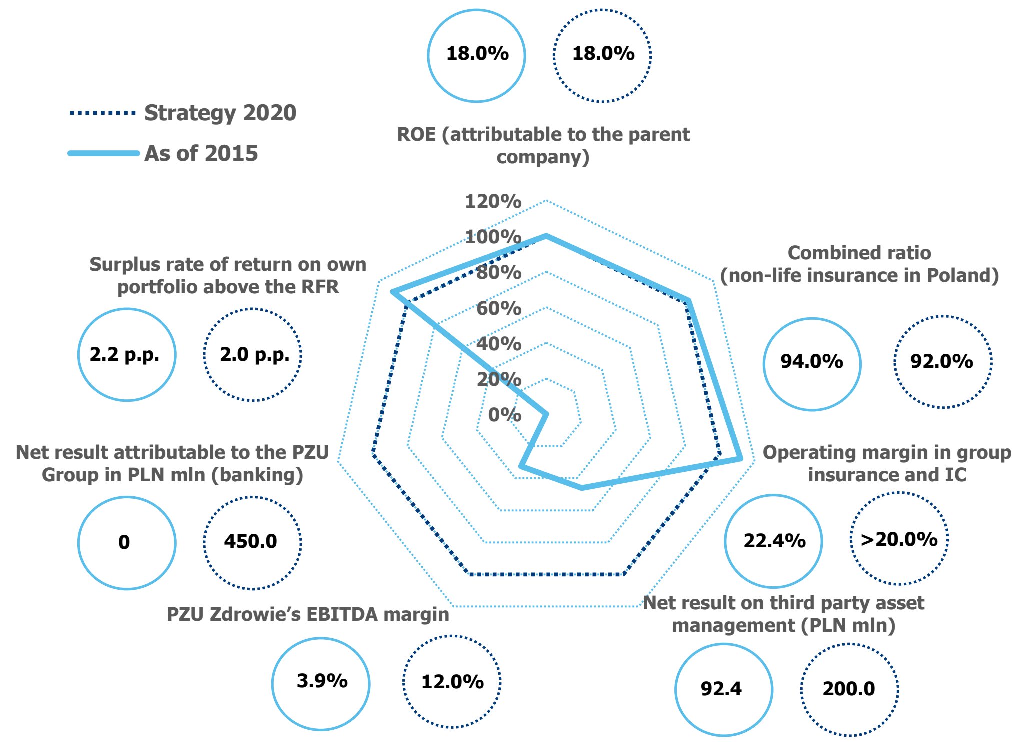
4.4 Main strategic objectives

In August 2016, the new Management Board and Supervisory Board of PZU approved the updated PZU Group Strategy 2016-2020. The Management Board specified three key strategic directions: profitability, growth, and innovation. They are planned to be realized both in the core insurance sector, and the complementary areas that exhibit high potential for growth, that is asset management and health care. At the same time, the Management Board declared that the realization of the assumption should result in boosting investment attractiveness of PZU not only for dividend investors, but also investors who search for growing companies, with a high potential to generate capital gains on market valuation of the share.

Profitability

The most important goal of PZU Group when it comes to profitability is to achieve ROE (of a parent company) at least 18%. Reaching such a target is to a large extent correlated with the growth initiatives (below). The initiative to reduce fixed costs in insurance business in Poland (PZU and PZU Życie) by PLN 400 million by the end of 2018 also contributes to realization of this goal.

PZU Group Strategy 2020 (business profitability)



Growth
In the insurance sector, PZU Group plans the largest growth in such market areas where PZU's share was lower than the natural level of approximately 30%. In complementary business sectors covered by PZU Strategy 2020, the growth will be realized by organic development and acquisitions, which will help achieve gains and profits dynamics higher than the market average.

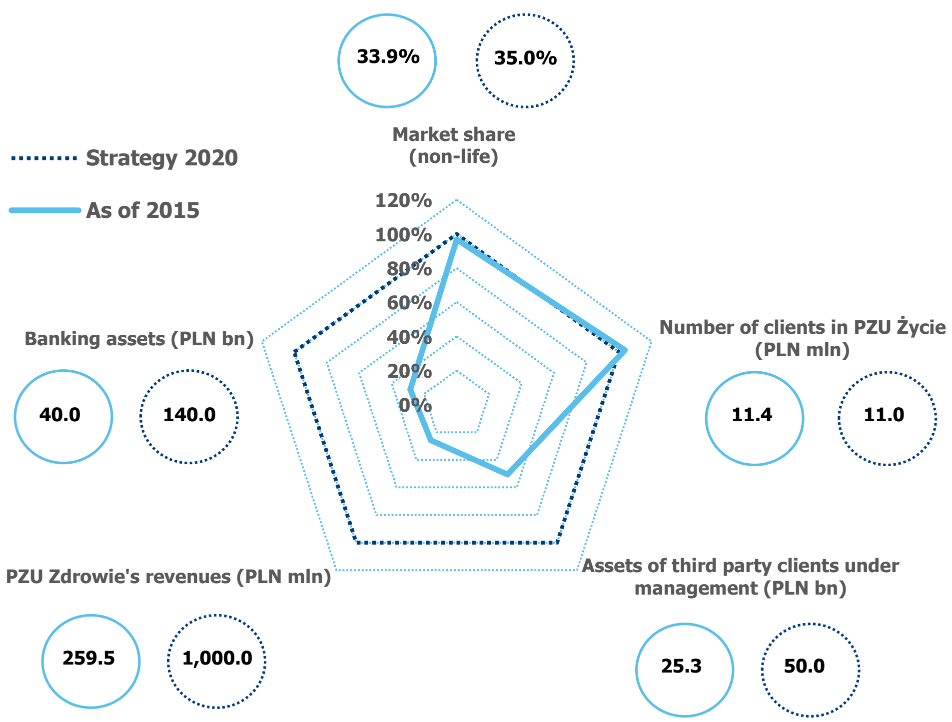
Innovations
Innovation is an important part of the Strategy. On the one hand, innovation is our ambition as we aim to transform PZU into one of the most innovative insurance groups in Europe. On the other hand, it accelerates the realization of the other key strategic targets: growth and profitability.

Creating innovation-driven culture in PZU Group will be realized especially by means of the following activities:
- use of Big Data in quotation, sales, and service;
- development of electronic distribution and service channels;
- implementation of effective know-how and technologies inside PZU Group by regional innovation centers: LINK4, Alior Bank and selected foreign companies;
- providing innovative risk management solutions in large-scale businesses (PZU Lab)
- development of innovation-driven culture that will support the process of generating new solutions by the employees.

Implementation of the above projects will allow for building a comprehensive digital operational model in PZU Group that will boost flexibility in the entire organization to meet the changing needs of the clients and improve the company's position in the young clients and premium clients segment. Comprehensive and multi-channel distribution and Customer service, including further development of CRM (Customer Relationship Management) tools and using available client data, will result in customizing the Group's offer to individual client needs. Using efficient analytical tools and Big Data will make it possible to manage the portfolio on the basis of actual risk profile of a given client and use advanced price management methods in property insurance. As the expectations continue to grow, PZU plans to implement self-service processes and new forms of sale wherever required.

The Group sees a high potential for growth in health care, old age pension, and property products. A 360° overview of the client and using additional interactions will allow for sales of

PZU Group Strategy 2020 (business size)



products and services that better fit the clients' needs, as well as cross-selling GLOSSARY. In the long term, such activities should translate into an increased number of products held by the client. A so-called productization of a retail client in PZU Group should increase to 1.64 by 2020.

PZU Group will proactively support the creation an ecosystem that boosts Polish entrepreneurship and innovations, by providing the following:
- support Polish entrepreneurs and scholars by own initiatives of PZU Group and cooperation with other projects that promote innovativeness (e.g. Witelo fund);
- identifying and supporting external initiatives that are synergic and complementary with PZU Group's activities;
- financial support for initiatives of entrepreneurs provided on commercial basis, including via Venture Capital GLOSSARY.

4.5 Development directions of PZU Group

The PZU strategy was diversified in a manner allowing for both generating stable and predictable cash flows (property and life insurance) and obtaining exceptional profits from complementary operations (asset management and health care). Investment activity, including in the banking sector, is also a part of the strategy of determining the scale of PZU Group. In the long-term, this approach should allow the shareholders to obtain the expected rate of return from the PZU shares, while maintaing at the same time a moderate level of risk.

Non-life insurance
The aim of the strategy of PZU Group is to strengthen its leadership position on the non-life insurance market in Poland, as well as the improvement of profitability (combined ratio) in this segment.

Retail client
Almost 16 million clients in Poland have put their trust in PZU Group, which is why the retail client segment is an extremely important area for the Group from the point of view of maintaining high level of customer satisfaction, especially by means of appropriate and dynamic adaptation of services and products to rapidly changing needs.

2020

92%

Profitability of non-life insurances (COR)

The aim of PZU is to maintain its leading position in the market by improving price and profitability management by channels and strategies of two brands in Poland (PZU and LINK4). The Management Board of PZU intends to implement these goals by means of, for example:
- permanent restoration of profitability of motor insurance and an increase of the activity on the market of profitable non-motor insurance by means of better recognition of the needs of the client and a flexible price policy;
- focusing on maintaining the scale and the growth in internal sales channels (exclusive agents, branches) and improving profitability of external channels by means of better adoption of costs of service to the potential of the distributor and management of profitability in the channels;
- use of the cross-selling potential of PZU Group by means of comprehensive management of PZU Group's offer (non-life insurance, life insurance, investments, health, and pension) – development of CRM tools supporting all retail sales channels, including direct ones;
- implementation of product innovations on the basis of new technological developments.

Alternative channels for reaching new clients
In order to reach the biggest possible number of retail clients, PZU Group makes use of its two brands – PZU and LINK4 – which have different positions and offers. The complementary offer of LINK4 supports the position of PZU Group in the multiagency channel and on comparison websites. The strategy in this area provides for a systematic exchange of market and organization know-how, including the creation of a joint competence center focusing on price management and an internal innovation center, where LINK4 will function as a low-cost environment for testing new solutions in PZU Group.

Corporate client

The strategy provides for a dynamic growth of PZU Group in individual business lines within the corporate client segment and Mid-Corpo segment (medium-sized corporations operating on the Polish market). PZU Group will be a business partner with strong expertise that provides its clients not only with insurance products, but also advice, at every stage of risk management process.

It is planned to increase the scale of cooperation with hospitals, local authorities and state-owned companies through development of Towarzystwa Ubezpieczeń Wzajemnych Polskiego Zakładu Ubezpieczeń Wzajemnych (TUW PZUW).

Improvement of PZU Group's position in the corporate client segment (non-life insurance) will be carried out by means of:
- implementation of system solutions which enable optimal management of the portfolio of corporate clients, including profitability management in the segment and dynamic development of sales of non-motor products;
- dynamic business growth in the Mid-Corpo segment, both in motor insurance and in non-motor insurance (medium-sized corporations operating in the Polish market);
- development of cooperation with hospitals, local authorities and state-owned companies by means of creation of a dedicated insurance coverage offer (almost PLN 500 million in premiums of TUW PZUW in 2020);
- implementation of advanced risk management consulting services (PZU Lab).

Life insurance

As far as the group and individually continued insurance segment is concerned, the aim is to maintain the volume of clients and its high profitability at the level of, at least, 20%, despite strong competition pressure. This objective will be implemented by, among other things:
- active management of profitability within the portfolio of clients;
- development of the offer in terms of products, processes and distribution, with particular emphasis on the SME segment (Small and Medium Enterprises);
- development of service processes applying new technologies and gradual introduction of self-service to group and individually continued insurance;
- increase of the effectiveness of cross/up selling GLOSSARY in the scope of property and life insurance;
- development of sales of individual protection life insurance.

2020

> 20%

Operating margin in group and individual continued insurance

Investments

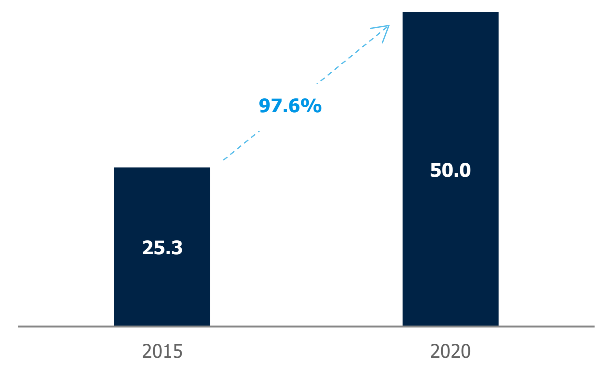
Asset management for clients

PZU Group's asset management operations are carried out under the PZU Inwestycje (PZU Investment) brand. PZU wants to become the leader in asset management in Central and Eastern Europe. By 2020, PZU Inwestycje will manage assets worth nearly PLN 100 billion, with the assets of external clients reaching the value of at least PLN 50 billion (TFI and OFE). The contribution of the external asset management business to the financial result of PZU Group will also increase to PLN 200 million. These objectives will be achieved thanks to, among other things:
- new products and widespread availability of the products of PZU Inwestycje in Poland, including through own distribution channels (e.g. Internet);
- providing clients with a possibility of participating in PZU Group's own investments;
- TFI PZU having a significantly higher share on the Polish market – an increase in the share in the assets of the capital market funds by at least 1 bp each year;
- development by means of sector consolidation in Poland.

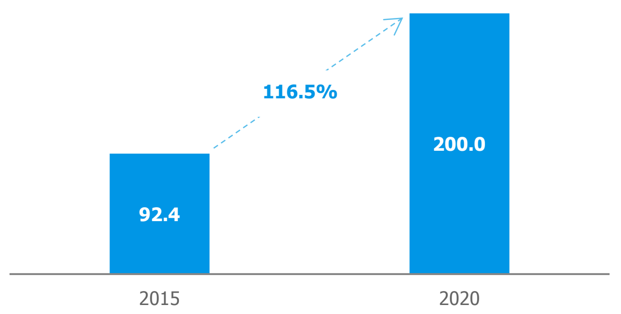
A potential purchase of shares in Pioneer Pekao Investment Management SA, Pekao Pioneer PTE S.A. and Dom Inwestycyjny Xelion sp. z o.o. – as one of the consequences of signing the agreement for purchase of Pekao Bank shares (CHAPTER 3.4 BANKING ACTIVITY) – will make it easier to achieve strategic goals of PZU in the scope of asset management. Incorporation of these entities into the structure of PZU Group in 2017 will translate into an increase in assets managed by PZU by about PLN 19 billion.

In the Strategy 2020, PZU Group also sees in the area of asset management a potential to increase savings of Poles. In July 2016, the government announced its Capital Accumulation Programme which is a comprehensive plan to build a voluntary capital savings scheme and long-term investment products in Poland. The program aims to increase the financial safety of Poles, as well as the stability of the public finance system, and to develop local capital market and improve the development potential of the economy. The program includes the creation of universal, voluntary employee and individual capital schemes within the pillar III pension system, public real estate funds, new type of treasury bonds in the form of premium bonds and infrastructure bonds, as well as lowering tax on capital gains from long-term investments (longer than 12 months).

Assets of third party clients under management (PLN bn)



Net result on third party asset management (PLN mln)



In this context, the Capital Accumulation Programme constitutes great potential for implementation of sales of insurance products (the details of this program are to be provided by the end of 2017). If this scenario begins to be implemented, PZU Group will offer its clients attractive and effective investment tools, which will, among other things, make it easier for them to access global markets. PZU Inwestycje is well positioned to become the leader of pension and savings programs.

Investment activity

PZU Group's strategy in the area of investment also defines the return on the investment of own funds. The achievement of this objective has been quantified as the average annual profitability (by 2020) over the risk-free-rate (RFR) (calculated as the difference between annual, accounting rate of return on deposits invested at the expense and risk of PZU and PZU Życie, that is, among other things, without portfolio of subsidiaries and investment products at the client's risk, and the average annual level of WIBOR6M).

The increase in investment efficiency, implemented with the assumed level of risk appetite, will be achieved, among others, through:
- greater diversification of the asset portfolio (market, credit, sectoral, geographical and currency diversification);
- optimization of asset classification;
- increasing the efficiency of investment processes determining the medium and long-term shape of the investment portfolio;
- opportunistic use of non-banking niche of enterprise financing (e.g. during M&A transactions) in order to improve the return/risk profile;
- implementation of a new front-office system which allows for the automatic support of the full cycle (except accounting) of asset management.

2016 - 2020

> 2 p.p.

Surplus of profitability ratio in own portfolio above RFR

Business strategy

The Strategy was created taking into account the following principles:

- securing the payment of insurance liabilities;
- investment prudence (in accordance with the prudent person principle defined in Solvency II Directive),
- long-term diversification of risk in the portfolio;
- reduction of volatility of the investment result and ensuring stability of the dividend policy.

Health

By 2020, PZU Zdrowie will become the leading integrated coordinated health care operator. This means that it will provide clients with a full range of services in the field of health care. The main objectives in this area of strategy are:

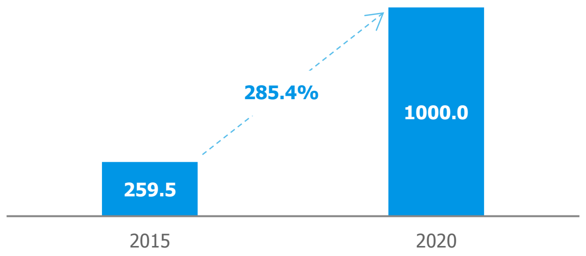
- creation of a comprehensive offer of health insurance supplemented with medical subscriptions and services based on a fee-for-service model;
- providing unique and client-friendly service based on a network of medical establishments, divided according to the parameters of quality and cost effectiveness, supplemented by its own network;
- creation of modern tools of cooperation with a network of subcontractors (portal for the health care providers, development of the assistance system, a communication bus with establishments, and on-line calendars);
- creation of a portal for the client offering self-service functions in an external and own network, and, at the next stage, enabling the purchase of medical services in a nationwide network of PZU Zdrowie by all people insured in PZU Group;
- integration of a network of own establishments and strengthening its market position – promotion of PZU Zdrowie brand and maximization of revenues.

The implementation of these assumptions will be carried out on the basis of:

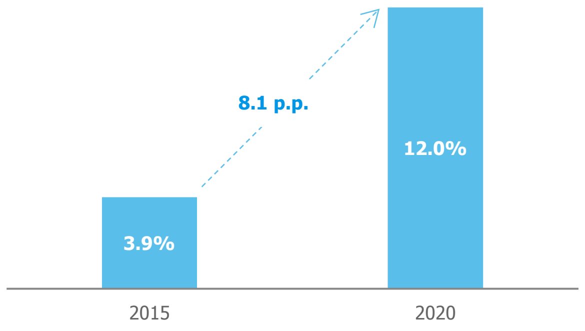
- development of the offer on the basis of key advantages of PZU Group: a database of 16 million clients, a strong sales network and a high level of brand recognition;
- continuation of the implementation of the acquisition plan – purchase of medical establishments with stable profitability and generating synergy effects (assumptions concerning acquisition costs: PLN 330 million by 2020).

The growing scale of business will be reflected in a systematic improvement of profitability of PZU Zdrowie, and the planned increase in the revenues of PZU Zdrowie will allow it to come significantly closer to the leaders of the private health care market in Poland.

PZU Zdrowie's revenues (PLN million)



PZU Zdrowie's EBITDA margin

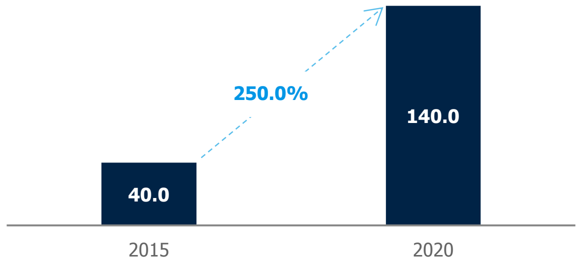


Banking

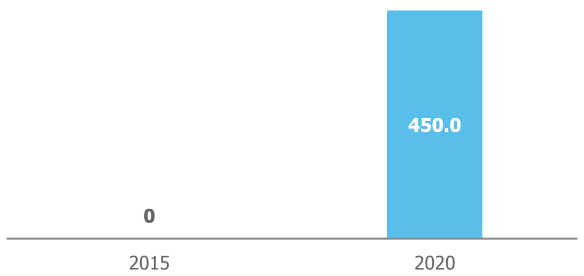
In line with the strategic objectives, by 2020, the contribution of the banking segment to the financial result of PZU Group will increase to PLN 450 million, and bank assets will reach the level of PLN 140 billion. In connection with the announced purchase transactions of a stake in Bank Pekao this measures will be achieved and exceeded already in 2017. PZU Group treats the involvement in the banking sector primarily as a form of investment. The Management Board of PZU is aware of the attractiveness of investment in this sector, in particular in:

- long-term growth prospects (low level of debt in the form of loans, a steady economic growth and stable profitability with moderate risk) and
- low level of consolidation, which provides an opportunity to adopt a strategic market position and build a scale which allows to obtain high rates of return in the long term.

Banking assets (PLN billion)



Net result attributable to the PZU Group in PLN million (banking)



PZU wants to participate in the growth of the Polish banking sector, which is why a project had been developed which included on-going monitoring of possible objectives which could fit within the strategic plans of PZU Group.

Involvement in banks

In accordance with the agreement of 30 May 2015, PZU Group is a shareholder of Alior Bank, with a share of 29.45%. Alior Bank constituted a consolidation platform during the purchase of a part of Bank BPH which included its core operations, without its mortgage loans portfolio and the Investment Trust Company. The agreement for the purchase of shares of Bank BPH was signed on 31 March 2016. PZU supported Alior Bank financially in this transaction as a shareholder. A legal merger of Alior Bank with a separated part of Bank BPH took place on 4 November 2016. Operational merger should be completed in 2017. After the merger, the bank's assets will amount to approx. PLN 61 billion, which will put Alior Bank on the ninth place in the banking sector. (CHAPTER 3.4 BANKING ACTIVITY).

In December 2016, PZU announced signing of an agreement with UniCredit concerning a potential purchase of 20% of shares of Bank Pekao (together with the Polish Development Fund (PFR) – 32.8%). Bank Pekao is the second largest bank in Poland in terms of the size of assets. The transaction should be completed in the second quarter of 2017 upon fulfillment of the precedent conditions specified in the sale agreement, which include, in particular, obtaining approvals of antitrust authorities in Poland and Ukraine and approvals or decisions of the Polish Financial Supervision Authority. The aim of PZU is consolidation of Pekao in the financial statements (CHAPTER 3.4 BANKING ACTIVITY).

"When the transaction is finalized, PZU will become the largest financial group in Central and Eastern Europe as the leader in insurance, banking and asset management. I am convinced that the existence of such a strong financial institution with the registered office in Warsaw will significantly affect the financial stability and prospects for responsible development of the Polish economy. Thanks to its strength and scale, this institution will have a unique opportunity to create value for our shareholders, clients and employees." – Michał Krupiński, 8 December 2016

The investment in share package of Bank Pekao constituted for PZU a more effective way of using the surplus capital in comparison with possible return on existing investment activity. The agreed purchase price in the amount of PLN 123 per share was very attractive. The price to book ratio was about 1.3x on the basis of the book value of Bank Pekao (on the date of the planned closing of the transaction). The purchase price was 2.4% lower compared with the price of the sale of 10% stake in Bank Pekao by UniCredit in July 2016 and 3.3% lower than the average price of Pekao shares on the WSE during the last six months (before signing the agreement on 8 December 2016.). It is expected that both ROE and earnings per share (EPS) will increase for PZU Group in 2017-2018 when the transaction is finalized.

At the same time, with the closing of the transaction concerning the purchase of shares of Bank Pekao, the level of assets from banking activities[1], as defined in the 2020 Strategy of PZU Group (PLN 140 billion), will be exceeded, which will result in the revision of the assumptions, in particular in the areas of banking and asset management. Therefore, in 2017, some of the measures of strategy implementation are planned to be updated. CHAPTER 4.7. SELECTED MEASURES OF PZU GROUP STRATEGY 2020

Cooperation potential in the banking model

PZU Group is committed to increasing the value of Alior Bank and Bank Pekao. Both bankswill remain separate. There are no plans to combine these two entities because they represent two different business models. Alior Bank is a young, rapidly growing bank which is open to innovation and has ambitions to determine the new directions of development of the Polish banking sector. In contrast, Bank Pekao is the second largest bank in Poland with a long history and a strong capital position, achieving some of the best results in the sector and offering attractive returns from just dividends alone.

PZU plans to generate additional value from these investments also on the level of cooperation in the field of cross-selling of insurance products through a network of branches/clients of Bank Pekao and Alior Bank and asset management, which will result in the revenue growth for both PZU and the banks. The sale of bank products to PZU clients will likely also result in potential synergies. Thanks to these acquisitions, PZU Group will be able to become the leader of diversified financial services in Poland.

[1] After the merger with BPH, Alior Bank's assets plus assets of Bank Pekao amount to about PLN 238 billion.

	PZU	Bank Pekao	ALIOR BANK
Number of clients (in millions)	~16 million	~ 5.4 million	~ 4.1 million
Number of branches	414	928	1,772

Source: own analysis based on financial the statements for the period from 1 January 2016 - 31 December 2016.

4.6 Realization of key projects and initiatives in 2016

in 2016, the Group achieved the following objectives in specific Business Fields:

Activities realized in 2016

Key areas	Summary of activities and achievements in 2016
Insurance	1. PZU strengthened its leading position on the non-life insurance market. According to PFSA data for the third quarter of 2016, PZU's market share (direct business) was 33.0% (an increase by 1.6 p.p. year-on-year). 2. The share of LINK4 in non-life insurance market amounted to 2.2% at the end of the third quarter of 2016 (an increase by 0.3 p.p. year-on-year). 3. PZU retained its top position in life insurance with periodical premium after the third quarter of 2016 with a 45% market share (up from last year's 43.9%). Following the third quarter of 2016, PZU Życie had a 33.7% share in the entire life insurance market (an increase by 4.5 p.p. year-on-year). 4. Strengthen the market position in Lithuania and Latvia. Market share in Lithuanian non-life insurance market was 29.5% (decrease of 1.6 p.p. comparing to previous year), while the share in the Latvian market grew by 2.0 p.p. at the end of third quarter of 2016 and amounted to 27.2%. The market share in life Lithuanian market amounted to 4.8% (increase by 0.4 p.p.). The share of PZU Group in the Estonian non-life market amounted to 14.5% in 2016 and recorded growth by 0.6 p.p. The Ukrainian non-life company recorded after the third quarter of 2016 an increase in the market share (3.7%) by 1.0 p.p. compared to the same period of previous year, while the life company registered a decline in the market share (8.5% vs 8.6% y/y). 5. Continuation of implementation associated with the introduction of a new policy system (project Everest) which should improve PZU's flexibility and competitiveness. In April 2016, another version of the system was implemented, which included making further products available (inter alia: general agreements, Cargo, D&O) and introducing changes to existing functionalities and products. Moreover, other external distribution channels were implemented, including the multiagents and bancassurance channel, the implementation of own corporate sales channel was completed, and the portal "moje.pzu.pl" with the online sales functionality was launched. Sales carried out via off-line channels was transferred in the last quarter of 2016 to the Everest platform (among others: motor and non-life leasing, central dealers, and financial insurance). 6. Active presence on the insurance market since 29 February 2016, when it started its insurance business by concluding its first insurance contract, and the further dynamic development, confirmed a market share of 0.5% in the first year of operation. 7. The analytic tool for pricing was implemented, which will be used for increasing the effectiveness of communication tariffs. 8. The agreements on research and development cooperation were signed with the Warsaw University of Technology as part of the "Scientific Council". 9. Implementation of IT solutions improving life customers service efficiency. 10. Completion of the process of implementation of innovative PZU Branches – well-visible and common for the entire Group. There are altogether 190 Branches functioning within this new model. 11. Completion of work aiming to consolidate and improve the visualization standard of Exclusive Agent offices. From the start of the project, 1143 offices in the new standard were opened. 12. The development of a product providing continuous technological protection has begun, accompanied by insurance protection from the effects of cyber-attacks.

Activities realized in 2016

Investments	1. TFI PZU ranked second in the market in terms of the value of managed net assets. At the end of 2016, the value of AuM TFI PZU amounted to PLN 22 billion, which constituted 8.6 % of the assets obtained by domestic investment funds. 2. Growth of the volume of the managed assets of external clients from PLN 6.8 billion at the end of 2015 to PLN 7.0 billion at the end of 2016. At the end of 2016, the share of assets of external TFI PZU clients in TFI market assets (with exception of non-public assets) was 4.8% (4.6% at the end of 2015). 3. TFI PZU was the leader in the segment of employee pension programs among domestic investment funds. At the end of 2016, TFI PZU managed assets with value of almost PLN 4.0 billion (EPP – Employee Pension Plan, GPE – Group pension Plans, PPO – Employee Saving Program, ZPI – Corporate Investment Program) – AuM growth by 17.2% compared with the end of 2015. 4. The value of net assets of OFE PZU Złota Jesień at the end of 2016 amounted to PLN 20.0 billion. 5. The net profit of PTE PZU at the end of 2016 amounted to PLN 60.3 million. 6. The Witelo fund was also established in cooperation with business partners. The fund will invest assets in the top venture capital funds in order to promote Poland as a place for investments and implementation of innovative projects. 7. Preparation of a new investment strategy including strategic allocation of assets, organization and processes linked to the management of the investment portfolio of PZU Group. 8. Works related to the implementation of business initiatives aimed at developing cooperation between Alior Bank and PZU.
Health	1. At the end of 2016, the revenues of PZU Zdrowie amounted to PLN 363.8 million, which means a 40.2% increase year-on-year. 2. The gross written premium from group health insurance rose by 38.4% compared with 2015. 3. Three medical entities (CM Cordis, Polmedic and Artimed NZOZ) were acquired by PZU Zdrowie. 4. The works on the implementation of the tool for the cooperation with medical establishments. 5. Implementation of tools for management of the network of medical establishments, both PZU Zdrowie's own establishments and ones which cooperate with it, as well as tools for management of client traffic on the medical hotline. 6. Works have begun on providing medical hotline consultants with a way of communicating on-line in the scope of arranging medical benefits with a distributed network of medical establishments
Banking	1. The acquisition of the third tranche of Alior Bank shares was settled. As a result of this transaction, PZU Group has the controlling package, i.e. 29.45%. 2. The declaration of backing from PZU in relation to the conclusion and implementation of the Sale of Shares and Division Agreement by Alior Bank, a subsidiary of PZU. The agreement concerned the acquisition of independent area of activity of Bank BPH. The assets of the merged banks (Alior Bank and Bank BPH) will reach the value of PLN 61 billion. 3. The agreement concerning the purchase of 32.8% of shares of Bank Pekao S.A by PZU Group and the Polish Development Fund (PFR) was signed.Under the agreement, PZU Group will purchase approx. 20% of the shares, while PFR (Polski Fundusz Rozwoju S.A.) will acquire 12.8% shares of the bank. 4. The contribution of the banking segment to the operating result of PZU Group amounted to PLN 691 million at the end of 2016.

Activities realized in 2016

Support factors	Summary of activities and achievements in 2016
Effective handling and operations, flexible IT	1. 82% of PZU Group's clients are satisfied with claims and benefits handling (satisfaction survey on a sample of 4.3 thousand clients conducted in the fourth quarter of 2016). 2. Work was conducted on the implementation of the Fraud Detection System for motor insurance. 3. Implementation of a new human resources and salaries system, including self-service portal for the employees, was completed – the first step towards standardization and improvement of HR processes in the whole company. 4. Implementation of an application for self-handling of claims by clients. 5. Commencement of works on modernization of the infrastructure of data warehouses. 6. Implementation of works related to transforming PZU from a product-centered organization into a company organized in accordance with client segmentation. 7. Commencement of works on a self-service portal including all products of PZU Group. 8. Continuation of process related to the sale of real estate which is unnecessary from the point of view of the statutory activities of PZU and PZU Życie.
Socially responsible organization	1. PZU continued to follow the action lines adopted for social activities – safety, health and active lifestyle, the national heritage. 2. PZU Group's involvement in running initiatives is the key way to promote active lifestyles and health prevention among Poles. PZU served as the strategic partner of, among others, the PZU Warsaw Marathon, PZU Warsaw Half-Marathon, PZU Gdynia Half-Marathon and the PZU Cracovia Royal Half-Marathon. All running events sponsored by PZU were accompanied by a "Podziel się kilometrem" ("Share Your Kilometer") charity action, which encourages Poles to help others through their own physical activity. 3. PZU is a patron of culture – it is involved in the preservation of Polish cultural heritage, supporting the Royal Castle in Warsaw, Royal Łazienki Museum, Warsaw Uprising Museum, National Museum in Kraków, National Museum in Warsaw, National Theatre and Grand Theatre—National Opera. 4. A new prevention agreement was signed with rescue service, GOPR. The agreement will remain in force until 2019. The funds transferred by PZU will be used to purchase among others new quads and expedition backpacks for all rescue teams in southern Poland
Culture of cost effectiveness	1. The decrease in administrative costs of of insurance segments in Poland amounted at the end of 2016 to PLN 26 million, that is, -1.8% year-on-year. 2. Improvement of the administrative cost index for insurance segments in Poland by 0.7 p.p., at the end of 2016, the index amounted to 8.1 % 3. Improvement of the administrative cost index in foreign companies by 2.9 p.p., at the end of 2016. The index amounted to 11.0%
Capital and investment policy, and integrated risk management system	1. The payment of the dividend in the amount of PLN 1.80 billion, i.e. PLN 2.08 per share. 2. Confirmation of the Capital and Dividend Policy of PZU Group for the years 2016–2020, in accordance with which the annual dividend payout ratio will amount to not less than 50% of net profit. 3. The S&P Global Ratings rating of PZU and PZU Życie remains at the level of A-, which is one note higher than the rating of the country. 4. Effective and adequate adaptation of risk management system and compliance to the changing organizational structure of PZU Group and legislative environment.

4.7 Key metrics of the Strategy for 2016-2020

ROE[1]

2015	2016	2020 S
18%	15.0%	18%

NON-LIFE INSURANCE | **LIFE INSURANCE** | **INVESTMENTS** | **HEALTH** | **BANKING**

BUSINESS SIZE

NON-LIFE INSURANCE – PZU Group's market share[2]

2015	2016	2020 S
33.9%	35.9%[12]	35%

LIFE INSURANCE – Number of clients in PZU Życie (million)

2015	2016	2020 S
11.4	11.2	11

INVESTMENTS – Assets of third party clients under management (PLN bn)

2015	2016	2020 S
25.3	27	50

HEALTH – Revenues (PLN mln)

2015	2016	2020 S
259.5	363.8[7]	1,000

BANKING – Assets (PLN bn)

2015	2016	2020 S
40	61	140

BUSINESS PROFITABILITY

NON-LIFE INSURANCE – Combined ratio[3]

2015	2016	2020 S
94%	95%	92%

LIFE INSURANCE – Insurance margin in group and individual continuation

2015	2016	2020 S
22.4%	25.8%	>20%

INVESTMENTS – Net result on third party asset management (PLN mln)

2015	2016	2020 S
92.4	83.8	200

HEALTH – EBITDA Margin[6]

2015	2016	2020 S
3.9%	7.2%	12%

BANKING – Net financial result attributed to the PZU Group (PLN mln)

2015	2016	2020 S
-	193	450

Cutting fixed expenses (PLN mln)

2015	2016	2018 S
-	78	400

Surplus rate of return on its own portfolio above the RFR

2015	2016	2020 S[4]
2.2 p.p.	0.6 p.p.	2.0 p.p.

GROUP OBJECTIVES

Solvency II solvency ratio[5]

2015	2016	2020 S
276%	253%[11]	>200%

NPS for Retail Client vs. competition

2015	2016	2020 S
+8.6 p.p.	+9.1 p.p.[8]	> competition

Number of products per Retail Client

2015	2016	2020 S
1.49	1.51	1.64

Employee commitment index

2015	2016	2020 S
49%[9]	n/a[10]	55%

1 ROE attributable to the parent company
2 Direct business
3 PZU jointly with PZUW TUW and LINK4
4 Average during the Strategy implementation
5 Own funds after subtracting anticipated dividends and asset taxes
6 Net of transaction costs
7 Data on the annual basis regardless of the acquisition date; establishment's revenue are presented as managed, in the same way as the other branches, i.e. including PZU Zdrowie
8 Average surplus of period: Q1, Q2, Q3, Q4 of 2016
9 Value of the meter after 2014 – the last measurement
10 Lack of the research in 2016
11 Data after three quarters of 2016, unaudited
12 Data after three quarters of 2016

05

Organization, infrastructure and human resources

Even though PZU Group is constantly changing, the core of the business remains insurance. The main business model based on effective sales channels and efficient claims handling revolves around insurance.
Simultaneously, over the past few years, PZU's operations have also included a chain of health care centers and recently banking operations – the PZU Group segment expanded under independent brands.

Contents:

5.1 PZU Group's business model

The main business model of PZU Group includes the following:

- insurance – still the main and primary pillar of PZU Group's activity. Each day, PZU ensures that the offered products match the needs of the clients and the quality of customer services concerning events covered by insurance is at the top possible level;
- investment activity – the collected premium is invested according to the „prudent investor" rule. This means that all funds are invested in a way ensuring security, quality and liquidity with preservation of profitability.

The main areas of activity also include:

- investments – under the PZU Inwestycje brand (by TFI PZU and PTE PZU), we offer numerous investments, savings, and retirement plans;
- banking – we treat our activity in the banking sector as an investment because, as the Group, we want to take part in the growth of the Polish banking sector and use investment profits to generate value for shareholders. Alior Bank was chosen because of its high operating efficiency and innovation;
- health – Group offers health insurance and private health care packages by PZU Zdrowie activity. The company focuses on implementation of solutions aimed at e.g. reducing the time required to wait for doctor's appointment, high-tech treatments and range of services. The key areas with the biggest impact on the results of PZU Group are listed below.

5.2 Business model – insurance

Sales channels

The organization of the PZU sales network guarantees sales effectiveness, while simultaneously assuring high quality of the provided services. PZU Group has the largest network of sales and service branches on the Polish market.

At the end of 2016, PZU Group distribution network included:

- exclusive agents – PZU's own agency network in Poland consisted of 8,758 exclusive agents, including natural persons performing agency activities. The agency channel conducts sales mainly in the mass client insurance segment, especially motor and non-life insurance, as well as individual insurance (life insurance). The Group's agency network was composed of approximately 1,100 agents in the Baltic states (PZU Group operates on the non-life insurance market of Lithuania, Latvia and Estonia through, appropriately, Lietuvos Draudiamas, AAS Balta, and PZU Estonia branch of Lietuvos Draudimas, and on the life insurance market through Lietuva GD) and almost 700 agents in Ukraine (where PZU operates on both the non-life and life insurance markets through, appropriately, PZU Ukraine and PZU Ukraine Life).
- multiagencies – 3,232 multiagencies work with PZU Group on the Polish insurance market to make sales mainly to the mass client (this channel is used to sell all types of insurance, especially motor insurance and non-life insurance) as well as individual life insurance. The Group's companies cooperate with 2 multiagencies in the Baltic states and 10 multiagencies in Ukraine.
- insurance brokers – PZU, in particular the Corporate Customer Division, cooperated with about 1,100 insurance brokers in Poland. The Group's companies worked with over 300 brokers in the Baltic states, where the broker channel is one of the main insurance distribution channels, and with approximately 40 brokers in Ukraine.
- bancassurance and strategic partnership programs – PZU Group cooperated with 15 banks and 17 strategic partners in Poland in scope of protective insurance in 2016. The partners of PZU Group are the leaders in their fields and have customer bases with great potential. The cooperation in the scope of strategic partnerships concerned mainly the companies operating in telecommunications and energy, which were used to offer insurance of electronic equipment and assistance services. In Baltic states, PZU cooperated with 3 banks and 14 strategic partners. It ao cooperated with 6 banks and 3 strategic partners in Ukraine.

Claims handling

For the customer, claims handling process is the moment of truth in contacts with the insurer and an opportunity to test the quality of the purchased product. Satisfying his or her expectations in the claims/issue handling process is the key to building client ties with PZU. Because of this, PZU Group took numerous activities in 2016 to improve and shorten the process.

In Poland, claims and benefits are handled in 6 competence centers, which operate nationwide. This is based mainly on electronic information and is not connected with the place of

Distribution network

share in PZU Group gross written premium (%)	93% Poland		6% Baltic states	1% Ukraine
	non-life insurance	life insurance		
Employees	✕✕	✕✕✕	✕	✕✕✕
Exclusive agents	✕✕✕	✕	✕✕✕	✕
Multiagencies / Brokers	✕✕✕	✕	✕✕	✕✕✕
Direct	✕✕	✕	✕	✕
Banks	✕	✕✕	✕	✕✕
Strategic partners	✕		✕	✕✕✕

Scale from 1 to 3, where 3 means the highest share in gross written premium.

How to report a claim?

	Poland	Baltic states	Ukraine
Internet	✓	✓	
Call center	✓	✓	✓
In person at any branch	✓	✓	✓
in a garage belonging to the PZU Repair Network	✓	✓	✓
in the mobile office	✓		✓
by post, e-mail or fax	✓	✓	✓

residence of the insured or the place of the event. Competence centers handle certain types of claims; this results in higher specialization level and boosts customer satisfaction. Such units specialize, among others, in handling of motor, property and personal claims, corporate client claims, benefits, claims consisting in a complete theft of vehicles belonging to natural persons, and claims under the BLS service (direct claims handling). A separate entity provides technical support for motor and property claims. There is a similar claims handling model in PZU Estonia, where there are 3 competence centers. Only handling of specific claims like bodily injury claims, major property claims, and marine claims is centralized. The claims handling process in the remaining Group's companies operating in the Baltic states and Ukraine is fully centralized.

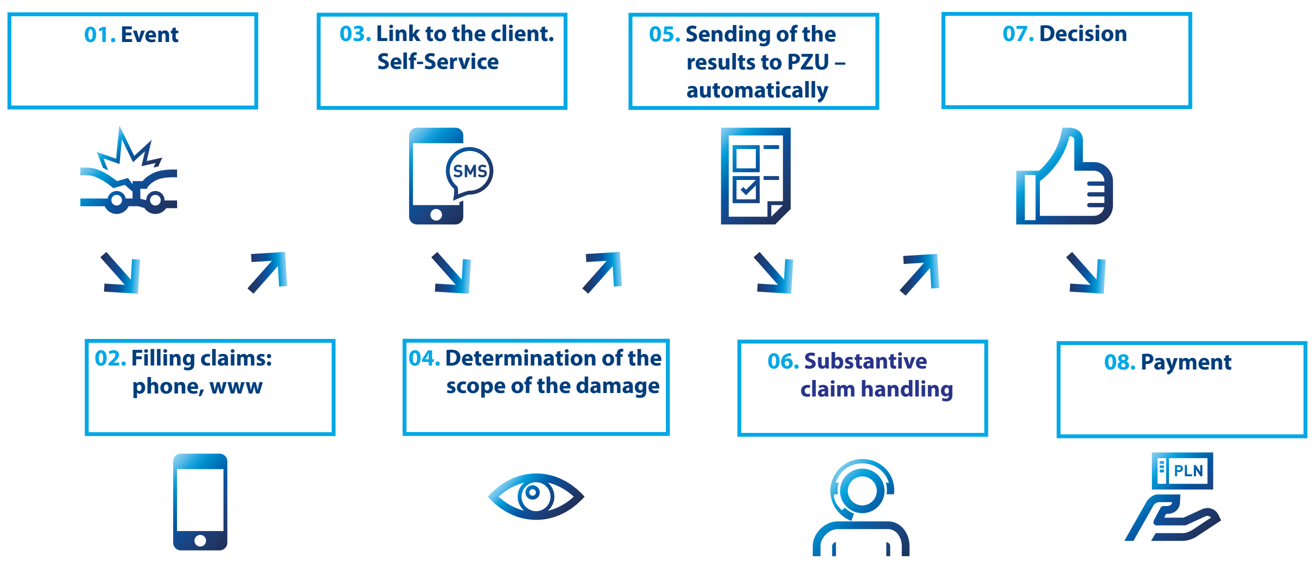
In 2014, PZU became a BLS pioneer on the Polish insurance market. At present, the Company realizes it in the two following forms: individually and under an agreement. By the end of 2016, the BLS agreement drafted by PIU encompassed eight insurance companies, including PZU. Together, they represent nearly 70% of the motor TPL insurance market measured at gross written premium level. The agreement introduced in April 2015, which bases on lump-sum schemes, considerably simplified the settlement of paid claims between the insurers. PZU also maintained its earlier BLS solution for its clients who suffered damage at the hands of the people insured at insurance companies that didn't join the agreement. PZU was also a BLS pioneer on the Ukrainian market. PZU Ukraine made the first such payout in December 2016. The BLS agreement drafted by the Ukrainian motor office now covers 17 insurance companies. Together, they represent nearly 80% of the TPL insurance market measured at gross written premium level. In Estonia, direct claims handling is regulated by the act on TPL insurance from early 2015. In Latvia, a client who wants to take advantage of direct claims handling must purchase an insurance supplement.

PZU created the largest network of companies on the Polish market that provide car rental, towing, and parking services. From 2015, Lietuvos Draudimas is the only insurer in Lithuania providing such services to both motor own damage and motor TPL insurance holders. PZU was the first to introduce its own fleet of replacement cars to the Polish insurance market. The offer covers 300 hybrid Toyota Auris cars, which guarantee comfort and safe and ecological use. This provides a high replacement car availability standard according to market rates to all PZU clients.

In 2016, PZU Group continued cooperation with garages in the field of post-accident vehicle repairs in countries where operates. Every client who commissions a vehicle repair at a PZU Pomoc garage in Poland receives a Quality Certificate confirming that the repair met high quality standards. PZU continues to develop its offer when it comes to the management of objects that are left after a damage that can be sold on the Pomoc Online platform. The clients receive an offer to sell the remains for the highest obtained purchase offer from credible entities, who are permanently working with the platform administrator (a similar solution is available for the clients of PZU Estonia).

In addition, PZU is implementing claim self-service, which is activated personally by the client with the link received via text message or email. In case of accident claims or benefits, the client accepts or rejects the proposed amount of the benefit. In motor and property claims as well as at workshops that repair equipment damaged during overload, the client – prior to deciding – can estimate the amount of compensation on his/her own in several steps. The information is sent online to

Self-service claim process



the Issue Consultant, who realizes the payment. The service allows easy and convenient participation in the decision-making process concerning the payment, and speeds up the entire process, thus shortening the period of waiting for money. Client satisfaction surveys conducted among the PZU Życie clients show that the insured perceive the service in a very positive way. In 2016, over 30% of the clients whose issues qualified for this form of service decided to use it. PZU's companies in the Baltic states are introducing similar improvements.

In 2016, PZU introduced a number of simplified solutions to contact the clients, e.g. it resigned from traditional letters, popularized contact over the telephone and electronic means of communication, but first and foremost it made its correspondence simpler and more user-friendly.

Visual representation of claims handling stages in the Online Claim/Issue Status – available for the Group's clients in Poland is also very helpful tool for the clients. After logging to his or her claim/issue at www.pzu.pl, the client can learn how many stages the PZU customer service process involves, become familiar with every stage, and check his or her claim/issue status, as well as see which activities have already been realized. Moreover, the www.pzu.pl website features also a video with tips related to online claims handling. Short videos depict PZU employees showing the clients how to quickly file a claim, change its status, or how to use the accident insurance in case of an accident. PZU – Video tips – Online claims handling

Another innovative move that supports the process of personal claims handling from TPL insurance was to appoint the Assistance Providers under the name of Organizatorzy Pomocy Poszkodowanym w Wypadkach [Providers of Assistance to Accident Victims]. These are mobile employees who meet with the victims in their houses in Poland and determine the actual life situation and the needs related to the accident they suffered from and for which PZU is liable. Assistance Providers shall explain to accident victims their laws and tell them which documents they have to present. For people who have suffered serious damage, they shall organize broadly defined medical, social and vocational rehabilitation. They advise on how to adjust place of residence to meet the needs of a disabled person, as well as how to choose proper systems compensating for dysfunctions and disabilities. They assist in obtaining the benefits from governmental institutions (from PFRON [National Disabled Persons Rehabilitation Fund], ZUS [Social Insurance Institution], KRUS [Farmer's Social Security Fund], MOPS [Municipal Social Services Centre], and MOPR [Municipal Family Support Centre]).

Another innovation which is being developed by PZU is the creation of a system for crops claims handling by using aerial and satellite photographs. It is significantly important in a situation in which a larger number of crops damages occur in a short period of time. With this solution PZU will shorten the process during which the clients are waiting for decision concerning the claim.

An important area of activity within the processes of claims and benefits handling is prevention of insurance frauds. PZU continues to improve solutions limiting payments of unduly benefits and impeding practices of clients providing both false documentation during reporting the claim and untrue declarations concerning their health, as well as simplifying many processes.

Innovations

In recent years, PZU has been intensively working on implementing innovative solutions to improve the customer experience as much as possible. This objective is supported by the Laboratory of Innovation, which was established at the end of 2013. The Laboratory of Innovation is currently working on implementing an innovation strategy for all of PZU Group, which covers building a culture of innovation and cooperation with other Group's companies, including LINK4, Alior Bank and foreign insurance companies.

One of the Group's biggest innovative operations is the PZU Everest Platform. This is the biggest IT project in the CEE region and the Group's biggest business transformation. The Platform is a state-of-the-art tool that facilitates sales of non-life insurance, assessment of insurance risk, and management of policies and settlement, which PZU has been implementing since 2014. The implementation of the Everest platform in all channels will end in Q1 2017. The platform lets the Group distribute information faster and, consequentially, allows the agents to better recognize and understand the needs of clients from different sectors. As it improves and modernizes the working environment of the Group's agents and employees (reduction of paper consumption by 70% from before implementation), the Everest platform helps raise operating efficiency, which additionally expands the potential for presenting a competitive offer to the clients.

PZU's own agency network consisted of **8,758** exclusive agents, including natural persons performing agency activities.

the agency network included roughly **1,100** in the Baltic states and almost **700** agents in Ukraine

There are **3,232** multiagencies working with PZU Group on the Polish insurance market

the Group cooperates with **2** multiagencies in the Baltic states and **10** multiagencies in Ukraine

PZU worked with **1,100** insurance brokers in Poland

the Group's companies worked with slightly over **300** brokers in the Baltic states, where the broker channel is one of the main insurance distribution channels, and with approximately **40** brokers in Ukraine

PZU Group worked with **15** banks in Poland

PZU cooperated with **3** banks in the Baltic states and with **6** in Ukraine

At the end of 2016, Alior Bank together with Bank BPH, had **1,128** establishments, including **342** traditional bank departments

In 2016, the average annual employment in PZU Group amounted to **27.0 thousand** people (calculated as FTEs), including **10.8 thousand** employed by PZU and PZU Życie

Over **30%** of the PZU Życie's clients whose issues qualified for self-service decided to take advantage of it

In 2016, the employees has access to over **100** e-learning trainings

Last year, over 13 thousand agents were implemented following pilot tests in external distribution channels (multiagents, dealers). The Everest platform was implemented also in the bancassurance channel and corporate client segment.

The expansion of the product offer made available to the agents continued under the framework of the Everest platform development – in 2016 new and enhanced products were introduced, addressing the needs of corporate segment clients and small and medium-sized enterprises. The final quarter of 2016 the transfer of sales realized through offline channels to the platform was made (including motor and non-life leasing, bancassurance, and financial insurance).

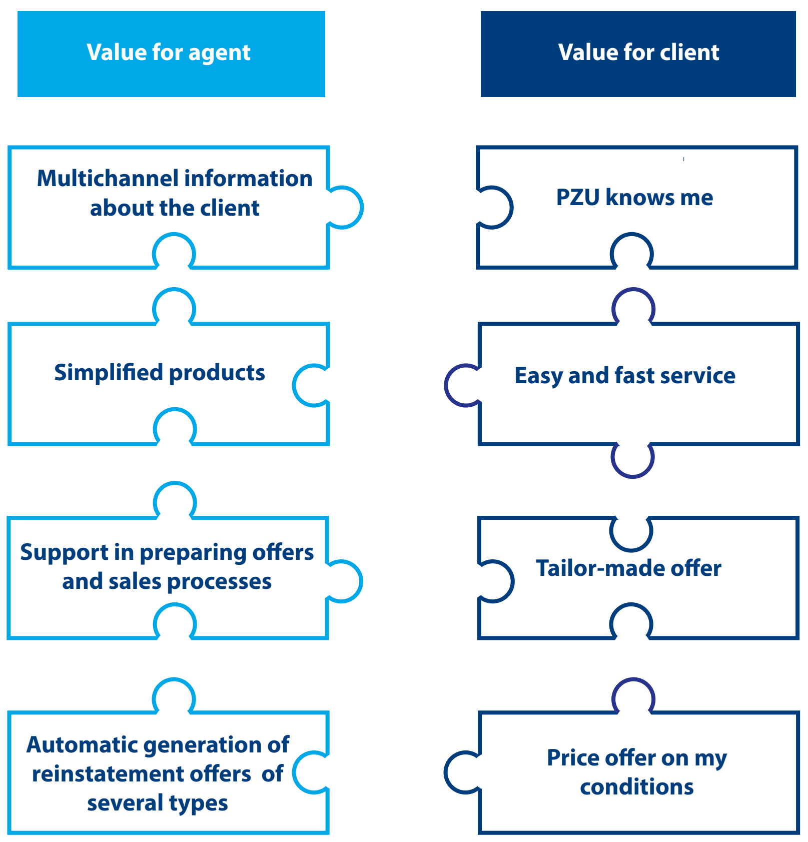
PZU Group continues to work on more innovations and started the development of the PZU GO Self Service platform for the individual client at the end of 2016. The platform will provide online access to the products and services (purchase of insurance, medical services, and investment or savings products) offered by all of the Group's companies and to their features in the future (filing claims, making doctor's appointments, checking investment funds quotation or other entities, or paying premiums). Meanwhile, the Group will have aggregated information about its clients and will be able to distribute information and identify individual needs quicker.

"Innovation distinguishes between a leader and a follower"

Steve Jobs, founder of APPLE

In turn, last year, LINK4 introduced a solution promoting safe driving and eco driving for individual clients and mini fleets. Thanks to the established cooperation with a distributor of GPS navigation in mobile phones, the company adds a one-year license for the navigation system and its section, „Safe Driving with Link4", to the purchased policy (during the promotional period).

Benefits of the Everest Platform launching



5.3 Business model – banking

Alior Bank is an innovative and universal savings and loan bank for private persons, legal entities, and other domestic and foreign entities. The bank's activity covers bank account maintenance, granting financial credits and loans, issuing securities, and foreign currency exchange. The bank also offers brokerage services, financial consultants and agents, arrangement of corporate obligation issues, and other financial services.

Distribution channels

At the end of 2016, Alior Bank had 286 branches, including 7 Private Banking centers and 11 Regional Business Centers. Moreover, the Alior Bank distribution network grew by 56 branch offices and 291 partner branches as a result of acquiring separated part of Bank BPH and its 505 partner branches (franchise). The bank's products were also offered by approximately 3 thousand financial agents and 10 thousand installment agents.

Alior Bank also used distribution channels based on an innovative IT platform covering the following: online banking, mobile banking, and telephone service centers.

The bank's offer was also available at financial agents' like Expander, Open Finance, Sales Group, Dom Kredytowy Notus. Although the available offer differs between agents, it is generally composed of cash loans, consolidation credits, mortgage credits, and installment credits.

The aforementioned distribution network is supported by 573 service points, which offer the bank's products under the brand T Mobile Banking Services provided by Alior Bank. As at 31 December 2016, there were 77 dedicated T Mobile Banking Services branches providing full banking services in scope of the aforementioned service points, where the clients may use such banking products as: loan, credit card, overdraft, deposits, foreign currency accounts, bank account for individual customers and corporate customers.

At the end of last year, the bank had 71 points in Tesco markets, which offered credit products under the Tesco Finances brand. The bank plans to strengthen its cooperation with Tesco by expanding the sales network with more locations in the partner's stores and gradually growing the portfolio of products and services available for the supermarket's clients.

T-Mobile Banking Services

Cooperation with T-Mobile resulted in an extensive increase in revenues and lending action in 2016. The credit sales grew by 94% y/y, and revenues – by 60% y/y. 9 times more credit cards were sold than in the previous year, which resulted in a volume growth by 530% y/y. The procedure of financing headphones encompassed over 112 thousand communication devices. In October, T-Mobile Usługi Bankowe launched a completely new mobile banking application. Developed in a strict compliance with the mobile first rule, it offers all functions of traditional e-banking.

Innovations

Alior Bank has been focusing on innovations from its very begginig. The Innovation Lab team, which was established in 2015 and is responsible for developing the bank's innovations, supports the search for and implementation of innovative solutions. The results of the group's work include the Trusted Advice mobile application, which was designed for the private banking client and provides top service convenience. The Trusted Advice was first presented at the Mobile World Congress in Barcelona.

The success of Trusted Advice has motivated further activity aimed at using tablets to create a new form of customer service and optimize the working environment of bankers. The project's transformation is planned to cover the whole sales network by June 2017.

Over the course of 2016, Alior Bank also received numerous awards for its innovations. One of them was the Dronn project, which took first place in the „Retail Banker International" contest in the category of „Best technology used in direct customer service".

Dronn, or Virtual Consultant, is an artificial intelligence system supporting remote communication with clients. The "Virtual Consultant" combines automatic speech detection, semantic analysis, speech synthesis, natural speech transformation, and biometric voice identification. The Virtual Consultant is an artificial intelligence system – a virtual representative of the Bank designed to converse with the clients in a cohesive manner, i.e. respond to answers and ask appropriate questions. Alior Bank uses it in debt recovery to encourage clients to pay their debts and in marketing research.

5.4 Human resources management

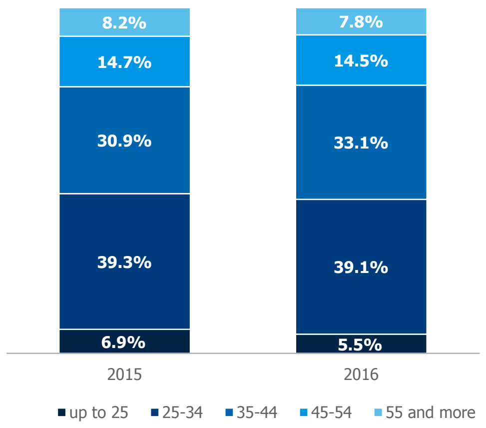
Level of employment

In 2016, the average annual PZU Group employment calculated as FTEs amounted to 27.0 thousand, where 10.8 thousand people were employed by PZU and PZU Życie and 10.2 thousand by Alior Bank.

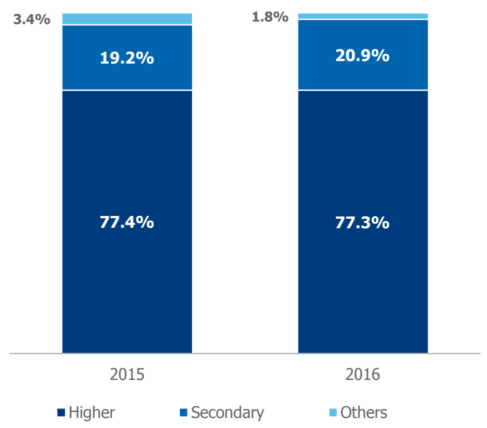
As at the end of 2016, most of PZU Group's[1] employees were women, who represented nearly 65% of the total number of employees. Over 77% of the employees had college education. The employee age structure also remains stable. As at the end of the year about 77% of the employees were under 44 years old at the end of the year.

[1] Applies to selected companies from the group: PZU, TUW PZUW, Link4, PZU Życie, Alior Bank, TFI PZU, PTE PZU, Lietuvos Draudimas, branch of Lietuvos Draudimas PZU Estonia, AAS Balta, PZU Lithuania Life, Ukraine, Ukraine Life

Employment in selected companies of PZU Group accoridng to age (in %)



Employment in selected companies of PZU Group according to the level of education (in %)



On 9 March 2017, the Management Boards of PZU and PZU Życie decided to continue restructuring of employment in PZU and PZU Życie. The Management Boards of PZU and PZU Życie addressed the trade unions operating at PZU and PZU Życie to start working on agreements concerning group releases.

The restructuring of employment in PZU and PZU Życie is planned for the period between 24 March and 18 December 2017. The restructuring process will cover up to 1,944 people with estimations seeing 956 employees of PZU and PZU Życie from various professional groups subject to employment reduction.

The costs associated with payment of benefits to employees released due to employment restructuring are assessed in the budgets of PZU and PZU Życie for 2017 and will be included in the annual consolidated financial statements of PZU Group for 2017.

The ultimate number of people covered by the employment restructuring process and the associated costs and savings will be known following PZU and PZU Życie's conclusion of consultation with trade unions.

Simultaneously, on 25 November 2016, the Management Board of Alior Banku decided to launch the restructuring process. The considered restructuring process may take until the end of 2017 and cover no more than 2,600 employees.

Salary policy

PZU's salary policy aims to provide employees with remuneration appropriate to the performed job, competences, and skills and encourage the implementation of the Group's long-term objectives. It also aims to prevent conflicts of interest and eliminate potentially negative influence of remuneration systems on risk management.

Remunerations in PZU Group are shaped with respect to employee's scope of tasks and level of responsibility, and their market competitiveness is evaluated annually. An important element of the remuneration scheme is the variable, which is subject to restrictions in terms of the maximum amount possible to be granted – it is covered by the determined percentage relation to fixed base remuneration. The basis for determining the total amount of the remuneration subject to variations is the evaluation of performance of a given employee (taking into account financial and non-financial criteria) and given organizational unit, combined with the Group's results. A part of remuneration subject to variations is developed on the basis of the above-mentioned factors and depends on the group of employees it concerns.

Moreover, as part of the remuneration system, PZU offers its employees very rich additional benefits package, as well as it supports non-professional activities of the PZU Group's employees (i.a. through the PZU Sport Team or employee volunteering program). CHAPTER 9 CORPORATE SOCIAL RESPONSIBILITY

Recruitment, training and building the image of an employer of choice

The following have been organized in PZU in 2016 to support employees in improving their skills, which are required at the given work post:

- e-learning – employees and managerial staff have an access to a broad catalogue of e-learning training, which they can use without any limitations. The training was provided in various multimedia and engaging forms: e-learning, educational animation, e-books, simulations, and educational games. In total, the employees have access to over 100 different trainings;
- Menedżer 2.0 [Manager 2.0] program which focused on the development of mid-level management (over 1,500 managers) in building managerial thinking, team engagement, business effectiveness of a team, as well as coaching skills indispensable at a managerial position. An interactive and gamified Inspiratorium Menedżer 2.0 [Inspiration Space Manager 2.0] platform was a continuation and extension of stationary trainings. The platform uses state-of-the-art trends to combine elements and mechanisms known from games to support development of a habit to pursue self-education and knowledge acquisition, as well as social network mechanisms to create an interactive space for sharing knowledge, experience, ideas, and inspirations; in 2016, the main focus of the program was to build team effectiveness and using coaching skills in pursuing managerial tasks;
- Lider 2.0 [Leader 2.0] program, the aim of which was to strengthen the competence of senior managers in the role of all-round leaders. In 2016, the main focus of the program was to boost innovation. It consisted of two parts: individual sessions and classroom trainings organized as group workshops;
- „Challenges in management" program – a program dedicated for new managers. The objective of the trainings was to provide a basic set of managerial skills indispensable for successful fulfillment of managerial tasks;
- PLUS training program (Professionalism – People – Skills – Trainings) – trainings are selected for the employee on the basis of his/her DNA appraisal (PZU competence model), which have the objective of developing the key competences. Every program contained several training modules which develop competences in such fields as: client, result, responsibility, development, cooperation. The training cafeteria included 12 thematic fields. The program included a range of 2-day classroom training, supplemented with interactive forms of development. In 2016, 2,600 employees in total participated in trainings organized within the program;
- there were also numerous workshops to provide an opportunity for sharing experiences and raising competences among the Groups in Poland (PZU, LINK4) and foreign insurance companies, which covered finances, mass sales, claims and benefits handling, and marketing.

> *" When bosses will learn how to manage relationships and employee teams, understand the motivations of people, then not much will they need to give the development of the right gear."*
>
> *Ireneusz Kaczmarczyk, PhD, sociologist*

In its highly-awarded campaign „PZU Przyciągamy Najlepszych (2014-2017)" [PZU. We attract the Best (2014–2017)] the Company continues also comprehensive activities promoting its brand as an employer, which are addressed to students and professionals. Last year, the campaign was held under the name of „Praca w PZU dobrze wróży" [Work at PZU is a Good Omen], the core of which was a recruitment and image-building video.

Popular social competitions, i.e. Studencki Projekt Roku [Student Project of the Year] and Inwestycja w Przyszłość [Investment in the Future], were continued in 2016 to support the most active students and most popular academic projects. PZU experts shared their knowledge and experience at a number of business presentations and trainings for students (i.a. Dni Otwartego Biznesu w PZU [Open Business Days at PZU]), and all image activities were supported by active and creative PZU Group Ambassadors and Advisors.

In 2016, the image-building activities of the Company as an employer gained recognition at the EB Kreator, EB Excellence Award and EB Stars competitions, and two independent surveys by HRM Group and Goldman Recruitment declared PZU Group as the undisputed leader in employer brand management in Poland. Current projects can be followed on the Facebook, LinkedIn and Instagram career websites.

5.5 Management of PZU Group's brands

PZU is the most recognizable brand in Poland. The PZU brand's result is 89% in spontaneous brand recognition surveys and 100% in assisted brand recognition surveys[2].Although it is associated mainly with insurance, PZU Group covers multiple brands. They have different visual systems, target groups, and business models.

The dominating brand is the corporate brand of PZU, which underwent a visual transformation in 2012. The brand promotes PZU Group as well as most of its companies operating on the Polish market (PZU, PZU Życie, PTE PZU, TFI PZU, PZU Pomoc, PZU Zdrowie, PZU Centrum Operacji) and some foreign companies – those in Ukraine and the branch in Estonia.

The architecture of PZU Group also includes the brand group of the so-called PZU family. The family is composed of companies with names not referring to the dominating brand, including AAS Balta and TUW PZUW. However, their logos are visually similar to the corporate brand. These companies also apply similar visual identification systems.

The final architecture level is the group of independent brands. This category includes PZU Group's brands with names and visualizations different from the corporate brand, such as Lietuvos Draudimas and LINK4. Both companies hold high brand recognition of 98% appropriately on the Lithuanian and Polish markets.

Architecture of PZU Group's brands („corporate umbrella" model)

[2] Gfk Polonia survey, 2016

06

Consolidated financial results

2016 was a period of dynamic sales growth in PZU Group (gross written premium increased by 10.1% year-on-year), strengthening the leading position in the Polish insurance business, and maintaining high profitability in life insurance. As a result of strategic activities, the involvement in banking sector increased – Alior Bank's contribution to the Group's operating result in 2016 amounted to PLN 691 million, and administrative expenses for insurance business in Poland were limited.

Contents:

6.1 Key factors affecting the achieved financial results

In 2016, PZU Group achieved gross profit at the level of PLN 3,031 million compared with PLN 2,944 million in the prior year (up by 3.0%). Net profit attributable to the shareholders of the parent company amounted to PLN 1,947 million, compared with PLN 2,343 million in 2015 (down by 16.9%).

Excluding one-off events[1] the net result declined by 8.9% compared with the last year. The operating profit for 2016 amounted to PLN 3,034 million, up by PLN 94 million from the result for 2015.

The main reasons for the change were the following:

- growth of the motor insurance gross written premium in mass client and corporate client segments resulting from growth of the average premium and number of insurances and increase in group and individually continued insurance, specifically in Health;
- decreased profitability in the corporate insurance segment resulting from higher claims ratio;
- higher profitability in the group and individually continued insurance segment associated mainly with increased insurance portfolio and decreased claims ratio of protection products;
- profitability in the mass client insurance segment at a similar level to the previous year – increased claims ratio in agriculture insurance resulting from a number of claims caused by force majeure (adverse effects of wintering) compensated with increased net premium earned;
- lower net investment result (excluding banking activity) mainly due to decline in share prices of Azoty Group from the long-term shares portfolio;
- introduction of the tax on financial institutions effective as of 2016;
- decrease of administrative expenses in insurance activity segments in Poland due to maintenance of cost discipline.

[1] One-off events consist of: effect of long-term insurance contracts into annual renewable contracts in type P group, claims in agricultural insurance higher than the average during the most recent 3 years, update of assumptions concerning future payments applied in the calculation of reserves, profit from the bargain acquisition of the separated part of Bank BPH, the cost of restructuring provision in Alior Bank, and for the previous year - result on the sale of PZU Lithuania, impact on the profit and loss account due to consolidation of Alior Bank.

The year on year comparable results and total assets were considerably influenced by the start of the consolidation of Alior Bank in December of 2015 and Alior Bank's purchase of a specific segment of Bank BPH covering its core activity. The banking segment contributed to the operating result of PZU Group in 2016 with the amount of PLN 691 million. The total assets of PZU Group rose by approximately PLN 20 billion and the minority shares increased by almost PLN 2 billion (as at 31 December 2016) mainly due to the consolidation of Alior Bank with the separated part of Bank BPH, which took place on 4 November 2016.

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

- growth of the gross written premium to PLN 20,219 million. The premium was higher by 10.1% than in the previous year, mainly in motor insurance in mass client and corporate client segments resulting from growth of the average premium and number of insurances and increase in group and individually continued insurance, specifically in Health. After accounting for the share of reinsurers and the change in provision for unearned premium, the net premium earned amounted to PLN 18,625 million, which was 7.1% higher than in 2015;
- higher net investment result thanks to the revenue on investments generated by the banking activity – the launch of the consolidation of Alior Bank and merger of Alior Bank with separated part of BPH. Net investment result amounted to PLN 3,587 million and was 106.3% higher than in 2015. With exception of banking activity, the level of net investment result was lower than in the corresponding period of the previous year, mainly due to decline in share prices of Azoty Group from the long-term shares portfolio and negative exchange differences of own debt securities offset by increase of assets denominated in EUR and by the improved result on quoted equity instruments, specifically the improved financial condition of WSE;
- increase in interest-bearing costs to PLN 773 million, compared with PLN 117 million achieved in the previous year, mainly caused by the launch of the consolidation of Alior Bank, the merger of Alior Bank with core activity of BPH, and the issuance of own debt instruments amounting to EUR 350 million in October 2015;
- higher amount of claims and benefits. These amounted to PLN 12,732 million, i.e. they were 7.4% higher than in 2015. The growth applied mainly to the subsidized crop and livestock insurances in the mass client segment in H1 2016, as an effect of a number of claims caused by force of nature (adverse effects of wintering);
- higher acquisition costs (growth by PLN 237 million) in both mass and corporate client segment related mainly to higher sales;
- increase of the administrative expenses to PLN 2,843 million, in comparison with PLN 1,658 million in 2015, resulted from the launch of the consolidation of Alior Bank and the merger of Alior Bank with separated part of BPH. At the same time, a drop in administrative expenses by PLN 26 million, compared with the previous year, was recorded in the insurance activity segments in Poland;
- higher negative balance of other net operating income and expenses amounting to PLN 740 million, mainly as a result of the launch of the consolidation of Alior Bank, merger with separated part BPH, and introduction of the tax on financial institutions – PZU Group was encumbered (both in its insurance and banking activity) with this tax in the amount of PLN 395 million in 2016.

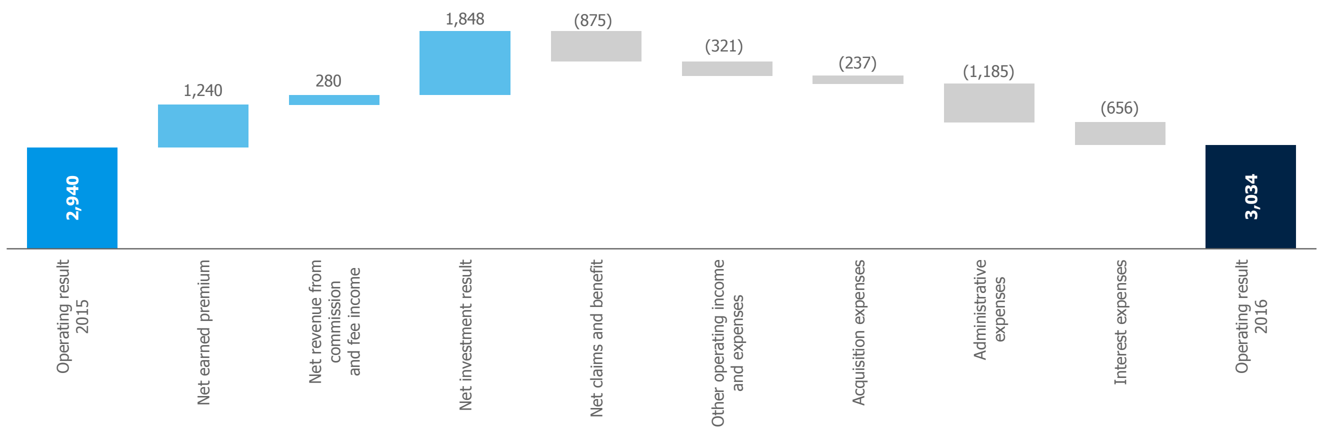
"Making money isn't hard in itself... What's hard is to earn it doing something worth devoting one's life to."

Carlos Ruiz Zafon, pisarz

Basic amounts from the consolidated profit and loss account	2016	2015	2014	2013	2012
	PLN million	PLN million	PLN million	PLN million	PLN million
Gross written premiums	20,219	18,359	16,885	16,480	16,243
Net premiums earned	18,625	17,385	16,429	16,249	16,005
Net revenue from commissions and fees	523	243	351	299	237
Net investment result	3,587	1,739	2,647	2,479	3,613
Net insurance claims and benefits	(12,732)	(11,857)	(11,542)	(11,161)	(12,219)
Acquisition costs	(2,613)	(2,376)	(2,147)	(2,016)	(2,000)
Administrative expenses	(2,843)	(1,658)	(1,528)	(1,406)	(1,440)
Interest costs	(773)	(117)	(147)	(104)	(127)
Other income and operating expenses	(740)	(419)	(370)	(220)	(31)
Operating profit	3,034	2,940	3,693	4,119	4,039
Gross profit (loss)	3,031	2,944	3,692	4,120	4,039
Income tax	(614)	(601)	(724)	(826)	(785)
Net profit (loss)	2,417	2,343	2,968	3,295	3,254
Net profit (loss) attributable to owners of equity of parent company	1,947	2,343	2,968	3,293	3,255

* restated data for the period 2012-2014.

Operating result of PZU Group in 2016 (PLN million)



6.2 Income

Premiums

In 2016, PZU Group collected gross premiums of PLN 20,219 million, i.e. 10.1% more than in 2015. Within particular segments, the following trends were recorded:

- sales in mass-client segment higher by PLN 1,433 million (excluding premium between segments) compared with 2015, including in particular motor insurance, as a result of an increase in average premium and the number of insurance policies;
- higher sales in the corporate client segment than in 2015 by PLN 371 million (excluding premium between segments), including mainly within motor insurance due to the increased average premium and number of insurance policies and in fire and non-life insurance as well as other TPL (resulting from the acquisition of several individually significant agreements);
- growth of sales in the group and individually continued insurance segment – periodical premium higher by PLN 86 million, mainly due to the development of group protection insurance (an increase in average premium and the average number of additional insurances) and acquisition of the premium in group health insurance (new clients in ambulatory insurance);
- in individual insurance segment, premium lower by PLN 60 million compared with the previous year, mainly in individual unit-linked products in the bancassurance channel;
- increase in written premium collected by foreign companies by PLN 31 million compared with 2015, including mainly the development of sales in the Baltic states segment offset by the disinvestment of PZU Lithuania in September 2015.

Net revenue from commissions and fees

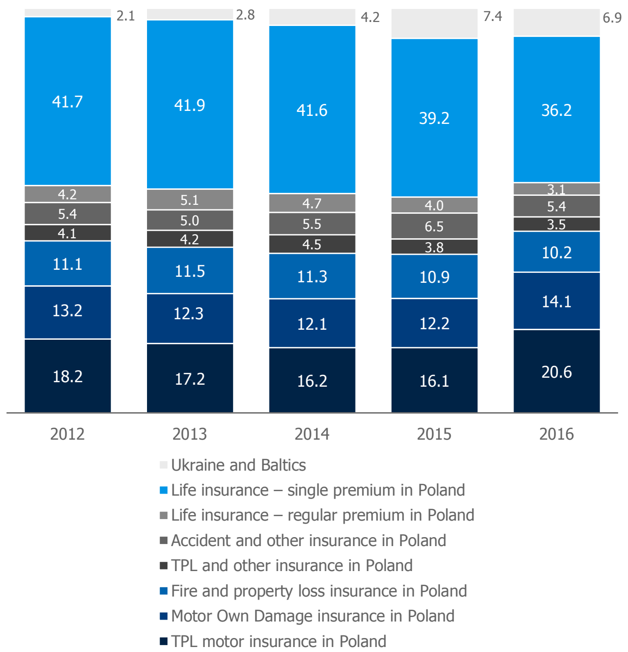
Fee and commission net revenue in 2016 contributed PLN 523 million to PZU Group's result, which is PLN 280 million more than in the prior year. Fee and commission revenue comprised mainly:

- fee and commission net revenue paid for the banking activity in the amount of PLN 330 million, including mostly: brokerage commissions, revenues and expenses related to handling bank accounts and payment and credit cards, remuneration for insurance policy sale intermediation;
- OFE Złota Jesień asset management fees. These amounted to PLN 93 million (drop of 7.9% in comparison with the previous year resulting from PZU's OPF net assets decline);
- income and fees from investment funds and fund management companies of PLN 102 million, i.e. PLN 13 million less than in the previous year, mainly in relation to the change in the number of the funds included in consolidation as compared with the corresponding period.

Insurance segment (PLN million) local accounting standards	Gross written premium (externally)				
	2016	2015	2014	2013	2012
TOTAL	**20,219**	**18,359**	**16,885**	**16,480**	**16,243**
Non-life insurance – Poland (externally written premium)	**10,878**	**9,074**	**8,367**	**8,269**	**8,451**
Mass client insurance	**8,742**	**7,309**	**6,560**	**6,534**	**6,614**
Motor TPL	3,635	2,595	2,373	2,453	2,567
Motor own damage	2,147	1,727	1,579	1,549	1,598
Other products	2,960	2,987	2,608	2,531	2,449
Corporate insurance - Poland	**2,136**	**1,765**	**1,807**	**1,735**	**1,838**
Motor TPL	532	367	354	372	394
Motor own damage	712	510	461	479	544
Other products	892	888	992	885	899
Total life insurance – Poland	**7,949**	**7,923**	**7,808**	**7,745**	**7,454**
Group and continued insurance – Poland	**6,775**	**6,689**	**6,539**	**6,415**	**6,364**
Individual insurance – Poland	**1,174**	**1,234**	**1,269**	**1,330**	**1,090**
Total non-life insurance – Ukraine and Baltic states	**1,305**	**1,288**	**632**	**388**	**338**
Ukraine non-life insurance	**173**	**138**	**133**	**157**	**142**
Baltic states non-life insurance	**1,132**	**1 150**	**499**	**230**	**196**
Total life insurance – Ukraine and Baltic states*	**88**	**74**	**78**	**78**	**-**
Ukraine life insurance*	**37**	**31**	**41**	**47**	**-**
Lithuania life insurance*	**51**	**43**	**37**	**32**	**-**

* consolidated since 1 January 2013

Structure of the Group PZU's gross written premium (in %)



Net investment result and interest expenses

In 2016, PZU Group's net investment result amounted to PLN 3,587 million compared with PLN 1,739 million in 2015 (increase of 106.3%). The higher result is mainly the effect of including the banking sector activity (i.a. interest income, including the one from loans, and trading income), due to the commencement of Alior Bank consolidation.

After taking into account interest expenses and excluding the contribution of Alior Bank and Azoty Group's share package, net investment result in 2016 amounted to PLN 1,454 million and was higher than the result of the previous year by PLN 74 million, mainly due to the following factors:

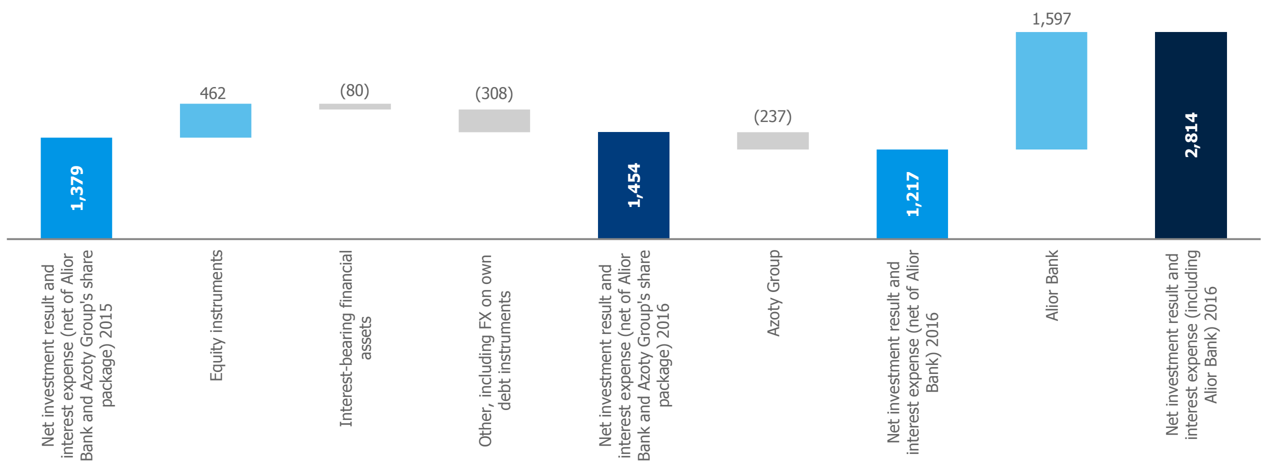
- higher result on equity instruments, especially because of the upturn on WSE – the WIG index grew by 11.4% compared with the drop of 9.6% in the corresponding period of the previous year;
- drop in revenue from interest-bearing financial assets at fair value mainly due to decrease in value of Polish treasury bonds – resulting primarily from changed perspectives for global interest rates;
- lower portfolio of bonds held until maturity resulting from temporarily lower level of reinvestments in the environment of low interest rates;
- high level of negative exchange differences on own debt securities resulting from appreciation of EUR exchange rate against PLN is balanced with simultaneous increase in value of the assets portfolio denominated in EUR.

As at the end of 2016, the value of PZU Group's investments portfolio[2] excluding the contributions of Alior Bank amounted to PLN 50,407 million compared with PLN 52,248 million as at the end of 2015.

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

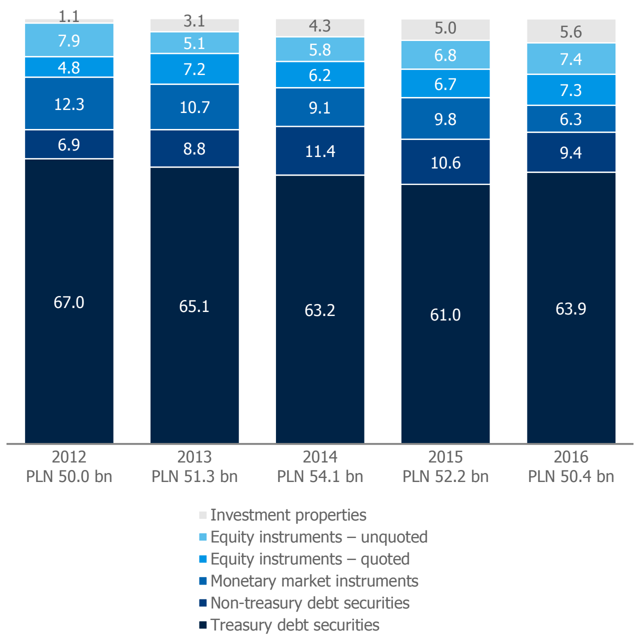
[2] Investment portfolio consists of financial assets (along with investment products, excluding loan receivables from clients), investment property (including the part recognized under Assets held for sale), negative measurement of derivatives, and liabilities from sell-buy-back transactions.

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



In 2016, PZU Group's investment activity focused on continuing realization of strategic objectives, including optimization of investment activity profitability through increased diversification of the investment portfolio.

Structure of the investment portfolio excluding the contributions of Alior Bank* (in %)



* Derivative instruments based on interest rates, currency exchange rates and prices of securities are presented in the category Debt market instruments – treasury, Money market instruments, and Quoted and non-quoted equity instruments.

Other operating income and operating expenses result

In 2016, the balance of other net operating income and expenses was negative and amounted to PLN 740 million compared with the also negative balance for 2015 of PLN 419 million. The following factors affected this result:

- inclusion of Alior Bank in the results of PZU Group and merger of Alior Bank with separated part of BPH, including recognition of restructuring costs reserve associated with said merger in 2016 in the amount of PLN 268 million;
- introduction of the tax on financial institutions – PZU Group was encumbered (both in its insurance and banking activity) with this tax in the amount of PLN 395 million in 2016;
- recognition of the costs of depreciation of intangible assets identified as a result of the acquisition of Alior Bank shares by PZU amounting to PLN 46 million and separated part of BPH (PLN 2 million)

The above factors were partially compensated with:

- profit from the bargain acquisition of the separated part of Bank BPH for PLN 508 million, including the following: difference between the purchase price and the acquired net assets according to the accounting value of PLN 282 million; fair value measurement of asset and liability components in the amount of PLN 313 million;
- PLN 119 million lower costs of depreciation of intangible assets identified as a result of the acquisition of insurance and health care companies.

6.3 Claims and technical provisions

In 2016, the total net amount of claims and benefits and increase in provisions of PZU Group amounted to PLN 12,732 million. In relation to the corresponding period of the previous year, the value of claims together with the change in provisions was higher by 7.4%. The following factors also contributed to the change in the net value of claims and benefits:

- increase in the value of claims and benefits in the group of insurance for other material damage in the mass client segment, including mainly the subsidized crop and livestock insurances as an effect of the number of claims caused by force of nature (adverse effects of wintering), which occurred in H1 2016;
- increase in the value of claims and benefits in motor TPL insurance in mass client segment resulting mainly from the increased insurance portfolio.

In turn, the declined value of net benefits and compensations was determined by the lower growth of mathematical provisions in successive tranches of the individual structured product offered in PZU's own network associated with the 2016 decline of gross written premium revenue following the record-setting previous year.

6.4 Acquisition costs and administrative expenses

In 2016, acquisition costs grew by PLN 237 million compared with the same period of the previous year and reached PLN 2,613 million.

The increase concerned mainly direct acquisition costs and was the result of higher sales in the mass and corporate client segment.

In 2016, the Group's administrative expenses were at the level of PLN 2,843 million, which was 71.5% higher than the PLN 1 658 million in the previous year. The increase was mainly a result of the launch of the consolidation of Alior Bank, due to which PZU Group's expenses grew by PLN 1,199 million. Simultaneously, there was a recorded positive effect from the previous year in the insurance activity segments in Poland in relation to maintaining strict cost discipline – a drop in administrative expenses by PLN 26 million in reference to costs of property, marketing partially compensated with the change in presentation of remuneration for administrative activities in bancassurance contracts in the amount of approximately PLN 78 million yoy (earlier included in the acquisition costs). In the Baltic states and Ukraine drop by PLN 34 million, mainly due to the disinvestment of PZU Lithuania in H2 2015.

6.5 Structure of assets and liabilities

As at 31 December 2016, the total assets of PZU Group amounted to PLN 125,345 million and were 18.9% higher than at the end of 2015. The growth resulted mainly from the consolidation of Alior Bank with the separated part of Bank BPH.

Assets

The key components of the Group's assets were investments (financial assets and investment property).

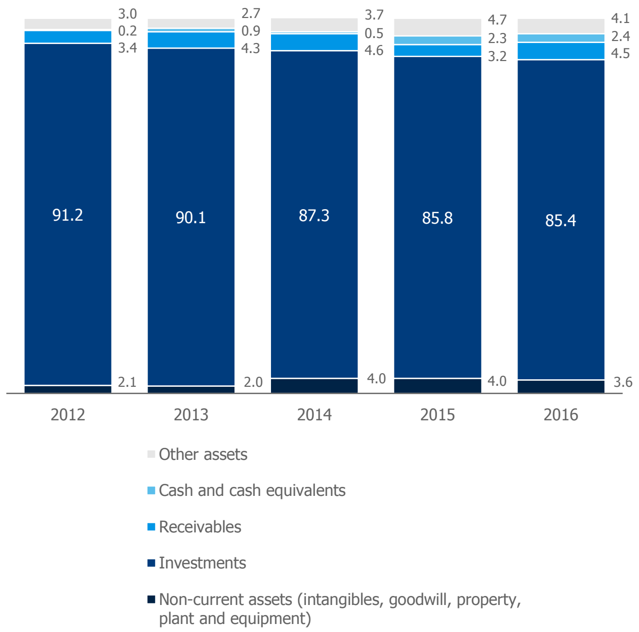
In total, these assets amounted to PLN 107,038 million and were 18.4% higher than at the end of the prior year. They represented 85.4% of the Group's total assets compared with 85.8% at the end of 2015. The increase in the value of investments applied mainly to banking activity and was associated with the merger of Alior Bank with the separated part of Bank BPH and the development of credit activity – the growth in loan receivables from clients by PLN 14,775 million and exposure to debt instruments greater by PLN 4,634 million (resulting inter alia from the issuance of shares performed on 10 June of the current year by Alior Bank in the total amount of PLN 2.2 billion and the growth in deposits for non-bank customers).

PZU Group's receivables, including the receivables from insurance contracts and current income tax, amounted to PLN 5,703 million, i.e. represented 4.5% of the assets. By comparison, at the end of 2015, they amounted to PLN 3,338 million (3.2% of the Group's assets), and their growth resulted mainly from the unsettled transactions in financial instruments.

Non-current assets – in the form of intangible assets, goodwill and property, plant and equipment – were recognized in the statement of financial position at PLN 4,513 million. They comprised 3.6% of total assets. Their balance rose in 2016 by 6.8% from 2015, mostly in the material fixed asset categories associated with the acquisition of separated part of BPH.

As at 31 December 2016, PZU Group's cash and cash equivalents amounted to PLN 2,973 million (2.4% of the assets). At the end of 2015, their value reached PLN 2,440 million, and the higher balance resulted from commercial strategy consisting in liquidity of portfolio denominated in euro for which it was decided to leave cash in the current bank account due to the fact that making deposits with negative interest rate prove unprofitable. At the same time, a decrease in cash accumulated by Alior Bank in the central bank was recorded.

Structure of assets in PZU Group (in %)



Balance of assets for sale amounting to PLN 1,189 million pertained to the part of the portfolio of investment property held for sale.

Liabilities

Just like in the case of asset structure, the structure of liabilities at the end of 2016 experienced considerable changes resulting from further development of activity in the banking sector. The share of technical and insurance provisions in the balance total dropped from 39.2% at the end of 2015 to 33.7% at the end of 2016.

At the end of 2016, the level of technical and insurance provisions rose by PLN 914 million, specifically due to the following:

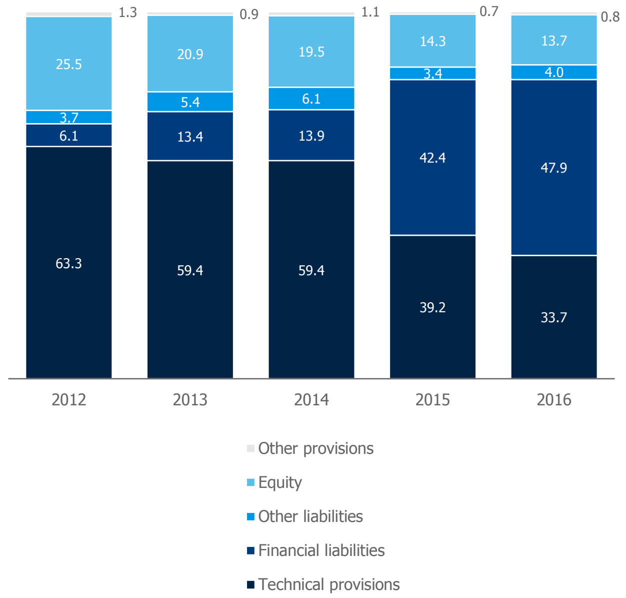
- increase in premium provisions in non-life insurance resulting mainly from the development of sales of motor insurance in Poland;
- higher technical and insurance provisions in individual and group unit-linked products, offered in both own and bancassurance channel resulting from the positive results of investment activity and sales exceeding the level of paid benefits;
- growth in damage provisions in motor insurance in Poland associated with the development of the portfolio.

The growth of technical and insurance provisions was partially compensated with the following:

- in life insurance in Poland with lower provisions in structured and deposit bank products in relation to the end of insurance period of subsequent product tranches and no sales;
- declining provisions in individual protection insurance associated with the fading oldest agreements with high unit provisions.

At the end of 2016, consolidated equity amounted to PLN 17,127 million and increased from the end of 2015 (13.3% growth). The growth of the consolidated equity pertained to minority shares, which, inter alia in relation to the issuance of shares by Alior Bank in H1 2016 and the merger with the separated part of bank BPH, amounted to PLN 4,117 million and increased by 87.6% from the end of 2015. The capital falling to the shareholders of the parent entity was maintained at a level similar to that of the previous year at PLN 13,010 which is the result of the distribution of profit for 2015, including allocating PLN 1,796 million to the dividend payment, partially offset by the result for 2016 in the amount of 1,947 (profit attributable to owners of equity of parent company).

Structure of liabilities in PZU Group (in %)



The biggest component of liabilities at the end of 2016 covered financial liabilities, the share of which rose from 42.4% in 2015 to 47.9% in 2016. Their balance amounted to PLN 60,030 million and included:

- liabilities of PLN 51,241 million towards the clients (resulting mainly from deposits – growth associated with the development of banking activity);
- investment contracts in the amount of PLN 396 million compared with PLN 546 million at the end of 2015. The PLN 150 million decline in value from 2015 is related inter alia to the withdrawal of such products from the offer;
- liabilities from issuance of own debt instruments for the total amount of PLN 3,680 million (in total EUR 850 million);
- subordinated liabilities of Alior Bank due to the loan and issued obligations with nominal value of PLN 1,027 million at the end of 2016. The PLN 268 million growth in liabilities from 2015 was associated with successive issues of bonds by Alior Bank in 2016;

- liabilities from sell-buy-back transactions amounting to PLN 178 million at the end of 2016 – considerable drop from the 2015 balance of PLN 3,794 million.

The balance of other liabilities and provisions at the end of 2016 amounted to PLN 5,994 million compared with PLN 4,304 million at the end of 2015. The growth concerned mainly liabilities from unsettled transactions in financial instruments in the amount of PLN 932 million.

Cash Flow Statement
Total net cash flows as at the end of 2016 amounted to PLN 480 million and decreased by PLN 1,611 million compared with the previous year. This decline concerned mainly net financial flows on investment activity.

Significant off-balance items
Conditional assets of PZU Group as at the end of 2016 amounted to PLN 40 million, a considerable amount of which constituted guarantees issued by Bank Millennium SA for PZU and PZU Życie. Under the guarantee line agreement of 7 October 2013 between PZU and Bank Millennium SA, the bank extended bank guarantees (bid bonds and contractual guarantees) to PZU's organizational entities appearing in the procurement proceedings for insurance services and proper execution of a rental agreement for non-residential premises.

The value of conditional liabilities as at the end of 2016 amounted to PLN 16,364 million.

The significant year-on-year growth resulted mainly from the development of activity in the banking segment. The value of conditional liabilities provided to Alior Bank clients amounted to PLN 14,484 million. The balance of conditional liabilities of PZU Group was composed of PLN 12,979 million in conditional liabilities from renewable limits in checking and savings accounts and credit cards and PLN 1,514 million in granted sureties and guarantees.

Moreover, the balance of conditional liabilities includes also claims toward which no provisions have been created, including insurance-related claims. The 2016 balance of conditional liabilities from claims amounted to PLN 624 million and included PLN 169 million of claims for compensation due to disqualification from right to the dividend specified in point 48.1 of the Consolidated Financial Statements for 2016.

6.6 Share of industry segments in the result

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

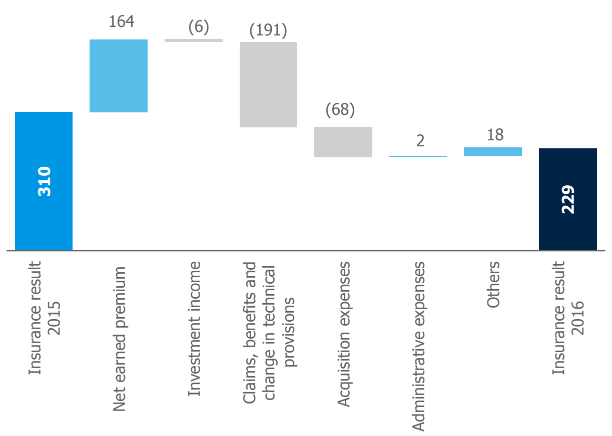
- corporate insurance (non-life) – this segment encompasses a wide range of non-life insurance, general liability and motor insurance, which are adapted to client needs and, with individually valued risks, offered by PZU, TUW PZUW and LINK4 to large business entities;
- mass insurance (non-life) – composed of non-life, accident, TPL, and motor insurance products. PZU and LINK4 provide the insurance to individuals and entities from the SME sector;
- life insurance: group and individual continued – PZU Życie offers this insurance to groups of employees and other formal groups (e.g. trade unions).
  Individuals who have a legal relationship with the policyholder (for instance an employer or a trade union) may enroll in the insurance and individually continued insurance in which the policyholder acquired the right to individual continuation during the group phase. It includes the following types of insurance: protection, investment (excluding, however, investment contracts), and health insurance;
- individual life insurance – PZU Życie offers this insurance to individual clients. The insurance contract relates to a specific insured, subject to the assessment of the individual risk. This group comprises protection, investment (other than investment contracts) and health insurance products.
- investments – reported according to PAS – covering investment activity conducted with the use of PZU Group's own funds defined as the surplus of investments over technical provisions in the PZU Group insurance companies seated in Poland increased by the surplus of investment income exceeding the risk-free rate from investments matching the value of technical and insurance provisions in the insurance products of PZU, LINK4, and PZU Życie, i.e. the surplus of investment income over income allocated to insurance segments at transfer prices of PZU, LINK4, and PZU Życie. Additionally, the investments segment includes income earned on other excess funds in PZU Group (including consolidated investment funds);
- Baltic states segment – non-life and life insurance products provided in Lithuania, Latvia, and Estonia;
- investment contracts – including PZU Życie products which do not transfer significant insurance risk and do not meet the definition of an insurance contract. They include some products with a guaranteed rate of return and some unit-linked products;
- other – this encompasses consolidated entities not allocated to any of the segments above.

Corporate insurance
In 2016, the corporate insurance segment (composed of PZU, LINK4, and TUW PZUW) amounted the insurance result of PLN 229 million, 26.1% less than in the corresponding period of the previous year.

The following factors primarily had a key impact on this segment result in 2016:

- 11.1% growth of the net earned premium and simultaneous increase in the gross written premium by 22.2% compared with 2015, recorded mainly in:
  - motor insurance resulting from the growing number of insurances and the growth of the average premium,
  - group of insurance against fire and damage to property and TPL resulting from acquisition of several individually significant agreements (including TUW PZUW being joined by several major entities in the coal and energy sectors);
- 21.9% increase in insurance net claims and benefits in comparison with the corresponding period of 2015, which, considering a 11.1% increase of the net premium earned, means that the loss ratio increased by 5.7 p.p. to the level of 64.7%. The growth was recorded mainly in the group of insurance of various financial risks and general liability (submission of several major claims). Despite of a higher claims value, this effect was partially compensated with improved claims ratio in the MTPL group;
- 5.0% decline in the investment income allocated to the segment at transfer prices to PLN 115 million, which was dictated by the lower level of market interest rates partially balanced with appreciation of the exchange rate of EUR towards PLN;
- growth of acquisition expenses (not including reinsurance commissions) by PLN 73 million, i.e. by 25.3 % compared with 2015, resulting from higher direct acquisition costs is the result of considerably higher sales dynamics;
- slight drop in administrative expenses to PLN 125 million, i.e. by 1.6% from the previous year mainly as a result of limiting the expenses due to the application of cost discipline e. g. in the scope of property and marketing costs.

Insurance result in the corporate segment (PLN million)

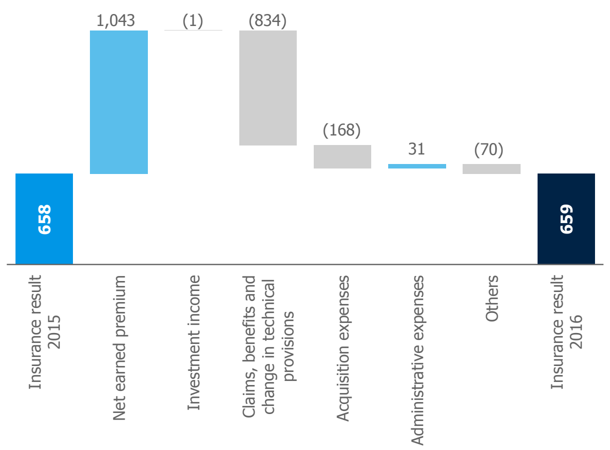


Mass client insurance
In 2016, the insurance result in the mass client insurance segment amounted to PLN 659 million, i.e. 0.2% higher than in the prior year. The individual components of the insurance result were as follows:

- 15.4% growth of the net earned premium to PLN 7,836 million with simultaneous growth of the gross written premium by 19.9% year-on-year (with the exception of the premium from the Group's subsidiaries, +19.6% year on year) resulted mainly from the following:
  - growth in motor insurance sales as the effect of increased average premium, which results from the changes to the average prices of insurance introduced gradually from the end of 2015, and a higher number of insurance offered by both PZU and LINK4.;
  - upselling of additional insurance, including insurance of assistance, offered mainly in the package with motor insurance,
  - increase in other tangible damage and general liability insurance, including in PZU Dom household insurance partially reduced by the lower sales of agricultural insurance (effect of strong market competition);
- growth in the value of net claims and benefits in 2016 by 18.8%, which, with the net earned premium higher by 15.4%, is reflected in the growth of the claims ratio by 1.9 p.p. compared with 2015. The change is mainly shaped by
  - increase in the value of claims and benefits in crop and livestock insurances as a result of a number of claims caused by force majeure occurring in H1 2016 (claims from adverse effects of wintering were over

PLN 230 million higher than the average during the last 3 years),
- increase in the level of claims and benefits in MTPL insurance resulting mainly from the increased insurance portfolio;
- investment income allocated to the mass insurance segment at transfer prices amounted to PLN 517 million, i.e. dropped year on year by 0.2%, which was dictated mainly by the lower level of market interest rates partially balanced with appreciation of the exchange rate of EUR towards PLN;
- in 2016, acquisition expenses in the mass insurance segment grew by PLN 168 million (12.1%) from the same period of the previous year and reached PLN 1,551 million. The change in acquisition costs was determined by the higher level of direct acquisition costs (including the effect of the rising insurance portfolio). Simultaneously, bank insurance recorded a drop of direct acquisition costs, which resulted from the changes in bancassurance agreement settlements with banks – from 1 April, in accordance with the requirements of the Act on Insurance Activity, the rules of remuneration for insurers concerning group agreements were changed;
- administrative expenses in this segment reached PLN 634 million, which means a drop in comparison with the previous year by 4.7% or PLN 31 million, mainly as the result of limiting expenses due to the application of cost discipline inter alia in the scope of marketing and property costs partially compensated with the change in bancassurance group contracts and as a result recognition of remuneration for administrative activities in the amount of approximately PLN 50 million.

Insurance result in the mass segment (PLN million)



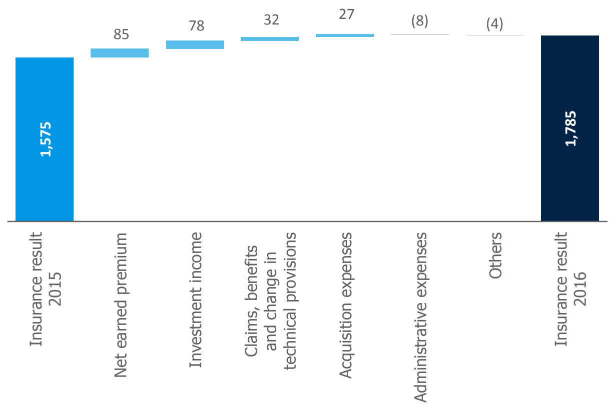
Group insurance and individually continued insurance

The insurance result in the segment of group and individually continued insurance amounted to PLN 1,785 million and was 13.3% higher than in the previous year. The individual components of the insurance result were as follows:
- growth of the gross written insurance premium by PLN 86 million (+1.3%) was primarily due to:
  - development of group protection insurance (growth of the average premium and average number of additional agreements per insured person),
  - acquisition of premium in group health insurance (new clients in ambulatory insurance and sales of drug product versions); PZU insures about 1.3 million clients with products of this kind,
  - additional riders up-sale and rise of the insurance sum in individually continued products;
- investment income – comprising revenue allocated according to transfer prices and income from investment-type products – amounted to PLN 680 million, i.e. it increased year on year by 13%, mainly because of the higher revenue from unit-linked products (mainly EPP pension insurance) resulting from the upturn on the stock market – the WIG index rose by 11.4% compared with the 9.6% drop in the corresponding period of the previous year. The income allocated according to the transfer prices slightly declined;
- slight year-on-year changes in claims and benefits and the changes to other net technical provisions, which closed in 2016 with the amount of PLN 4,686 million (year-on-year drop by 0.7% or PLN 32 million). The change resulted mainly from the following:
  - higher growth of provisions in the EPP pension insurance portfolio resulting from considerably improved 2016 investment results at stable written premium and lower paid transfers,
  - lower rate of conversion of long-term contracts into annual renewable contracts in type P group. As a result, provisions of PLN 40 million were released, i.e. PLN 35 million less than in the corresponding period of 2015,
  - increase in the value of health care services as the result of dynamic development of the health care products portfolio,

  The factors that determine decreasing of this reporting segment are:
  - as the result of the level of adjudged benefits for permanent health impairment, the assumptions concerning future payments in this area used in the calculation of provisions were verified and updated, allowing for release in 2016 provisions of PLN 216 million, mainly in continued insurance,
  - lower level of compensation and benefits, mainly resulting from death and permanent health impairment in individually continued insurance;
- acquisition costs in the group and individually continued insurance segment in 2016 amounted to PLN 329 million, a PLN 27 million (7.6%) drop in comparison with the corresponding period of the previous year. Factors determining the level of direct and indirect acquisition costs included modification in the agency agreement in the bancassurance channel, due to which the presentation of remuneration for agency activities comprising of the participation in administrating the protection insurance agreements was adjusted (a transfer from the acquisition costs to the administrative expenses of the amount PLN 28 million);
- PLN 8 million (1.4%) higher administrative expenses in 2016 in comparison with the corresponding period of 2015 resulted mainly from the change in the agency agreement in the bancassurance channel and, in effect, the adjustment of the presentation of remuneration for agency activities comprising of the participation in administrating protection insurance agreements (PLN 28 million earlier included in the acquisition costs). The abovementioned negative factor has been balanced out through limiting the expenses due to the application of cost discipline inter alia in the scope of property and sales support costs.

After excluding the one-off effect related to the conversion of long-term contracts into type P renewable contracts, the segment's 2016 insurance result amounted to PLN 1,745 million, compared with PLN 1,500 million in the corresponding period of 2015 (up by 16.3%). The simultaneous exclusion of the one-off factor of update of assumptions concerning future payments for permanent health impairment used in the calculation of provisions in individual continued insurance produced the 2016 result of PLN 1 529 million, a year on year growth of 1.9%. The main causes of improvement include rising insurance portfolio, lower claims ratio of the protection portfolio, and cost discipline.

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



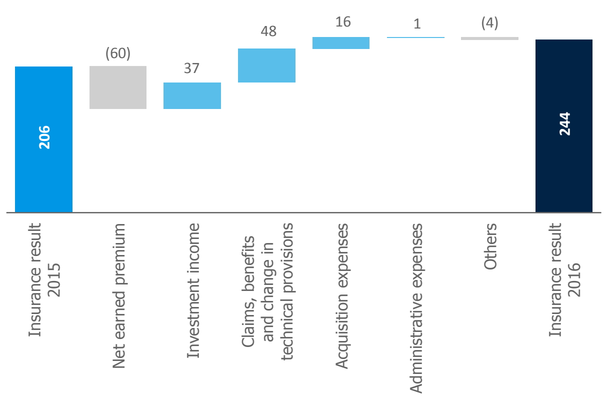
Individual insurance

In 2016, the result in insurance of the individual life insurance segment amounted to PLN 244 million, i.e. it was 18.4% higher than in the prior year. The main factors affecting the level of the segment's profit on insurance were:
- gross written premium drop of PLN 60 million (-4.9%) from 2015 resulted from the following:
  - lower value of the structured product subscriptions in own channel in comparison with 2015, which was record-breaking in this respect,
  - lower average deposits to the accounts of unit-linked insurances offered through Millennium Bank,
  - further decline in the deposits to the unit-linked Plan na Życie [Plan for life] product, which was withdrawn from sales in the end of 2014.

  Positive results were brought by:
  - higher deposits to IKE accounts, especially in Q4 2016;
  - high sales of individual protection products, especially in PZU Group's branches;
  - introduction of a new unit-linked product into the own channel offer in the end of 2015: Cel na Przyszłość [Future goal];
- investment income consists of income allocated according to transfer pricing and income from investment products. In the individual insurance segment the income grew by PLN 37 million year-on-year to the amount of PLN 288 million, mainly due to the better performance recorded on IKE and the investment units in unit-linked products in the bank channel. The income allocated according to the transfer prices slightly declined;

- value of net insurance claims and benefits with change of other net technical provisions amounted to PLN 1,043 million, i.e. they dropped 4.4% in comparison with the corresponding period of 2015. This resulted mainly from the declined value of mathematical provisions in successive tranches of the individual structured product offered in PZU's own network associated with the 2016 decline of gross written premium revenue following the record-setting previous year. Simultaneously, this effect was partially compensated with higher growth of reserves in unit-linked products like IKE and Cel na Przyszłość, which resulted from good sales results, improved investment results, and moderate level of surrenders;
- significant decline in acquisition costs in this segment (by PLN 16 million, i.e. 13.0%) resulted mainly from the modification of the remuneration system in the agency network (more even distribution over time applied to the costs of concluding the agreements), lower year-on-year sales of the new protection products agreements in this channel, and, to a lesser extent, lower sales of unit-linked insurance in the bancassurance channel;
- administrative expenses in this segment reached PLN 59 million, which means a drop in comparison with the previous year by PLN 1 million or 1.7%, mainly as a result of improved effectiveness of the agency network in terms of handling the individual products and, in addition limiting the expenses due to the application of cost discipline, inter alia in the scope of the costs of property and sales support.

Insurance result of the individual segment (PLN million)



Investments

The revenue of the investments segment constitutes of investment activity conducted with the use of PZU Group's own funds defined as the surplus of investments over technical provisions in the PZU Group insurance companies seated in Poland (PZU, LINK4, and PZU Życie) increased by the surplus of investment income exceeding the risk-free rate from investments matching the value of technical and insurance provisions in the insurance products of PZU, Link4, and PZU Życie, i.e. the surplus of investment income of PZU, LINK4, and PZU Życie over income allocated to insurance segments at transfer prices.

Additionally, the investments segment includes income earned on other excess funds in PZU Group (including consolidated investment funds).

The operating profit of the investments segment (external operations only) amounted to PLN -570 million and was lower than in 2015 mainly due to result of Azoty Group's share package, which was lower by PLN 479 million, and the continued low level of interest rates.

Banking sector

As at the end of December 2016, PZU, along with its subsidiaries, was in possession of 29.45% of the equity of Alior Bank. On 18 December 2015, Alior Bank was subjected to consolidation, while the banking segment constituting a part of PZU Group's results was separated on 1 January 2016. The comparison with 2015 presented below only aims to discuss tendencies, as the result of the bank has been contributing to the result of PZU Group since the beginning of 2016.

Business activity of Alior Bank in H1 2016 faced mainly a dynamic growth of the total assets - by PLN 21.2 billion to PLN 61.2 billion (i.e. by 53% year-on-year).

The main factors generating growth of Alior Bank total assets were produced by assets, receivables from clients – y/y growth by PLN 14.8 billion (including the impact of consolidation of the results of the separated part of Bank BPH at PLN 9.2 billion) – and financial assets for sale – y/y growth by PLN 5.1 billion or 120%, and the main determinants of liabilities included client deposits – growth by PLN 17.7 billion (including the impact of consolidation of the results of the separated part of Bank BPH at PLN 12.7 billion) and capitals – growth by PLN 2.7 billion (resulting mainly from the raise of capital based on issuance of series I shares and accumulation of produced profits).

In 2016, the banking segment recorded operating profit (not including amortization of intangibles obtained with the acquisition of Alior Bank) at the level of PLN 691 million, up from 2015 by PLN 305 million. At the same time, due to the 29.45% of shares in the bank's equity held by PZU Group, in 2016 year the banking segment contributed PLN 204 million to the result attributed to the parent entity (not including amortization of intangibles obtained with the acquisition of Alior Bank).

The result on interest is the main component of the Alior Bank group's income, constituting 61% of said income. Its annual growth of 29.6% resulted from the organic growth of the volume of credits for clients and the accompanying growth of the client deposit base, as well as the acquisition of the separated part of Bank BPH. The adequately maintained price policy of both deposit and credit products in the conditions of the Bank's operation in an environment of low interest rates also had positive impact on the level of generated interest revenue.

The Group's profitability measured with net interest margin (NIM) was maintained in 2016 at the high level of 4.1% and, compared with the interest margin recorded in 2015, was lower by 50 bps. The reduced margin resulted mainly from the consolidation of the results of the separated part of Bank BPH (the consolidation covered the interest result of the separated part of Bank BPH for only the period between 4 November 2016 and 31 December 2016) and the changes in asset structure based on growth of assets available for sale in the bank's total assets from 10.6% at the end of 2015 to 15.3% at the end of 2016.

At the same time, the average interest rate of loans grew by 0.09 p.p. to 6.11%. In the same period, the average cost of deposits decreased to 1.46%, i.e. by 0.27 p.p.

In 2016, the average WIBOR 3M rate amounted to 1.70% and was 0.4 p.p. lower than the average from 2015.

The result from impairment losses (included in the net investment result) in 2016 amounted to PLN -800 million. Therefore, the impairment losses dropped by approx. PLN 128 million in comparison with the corresponding period of the previous year and resulted mainly from the growth in the allowances for receivables from the clients of the non-financial sector.

The fee and commission result of 2016 remained almost the same as in the corresponding period of the previous year and amounted to PLN 331 million (-0.2% compared to 2015). The commission result was composed of PLN 591 million of commission income (year on year growth of 8.2%) and PLN 260 million of commission costs (y/y growth of 21.3%).

The main component of fee and commission income is commission associated with credits, accounts, transfers, deposits, payouts, loans, etc. The 2016 general administrative expenses amounted to PLN 1 567 million and were 41.4% higher, due mainly to the consolidation of the results of the separated part of Bank BPH and recognition of the restructuring provision of PLN 268 million in costs. Simultaneously, the total value of costs suffered by the separated part of Bank BPH in 2016 amounted to approximately PLN 37 million.

The cost to income ratio (C/I) amounted to 49.1% and was 2 p.p. lower than in the corresponding period of the previous year (in both excluding one-off's events).

The financial asset tax also had considerable influence on the level of the operational profit of the banking sector. Bank tax charge in Alior Bank amounted to PLN 131 million in 2016.

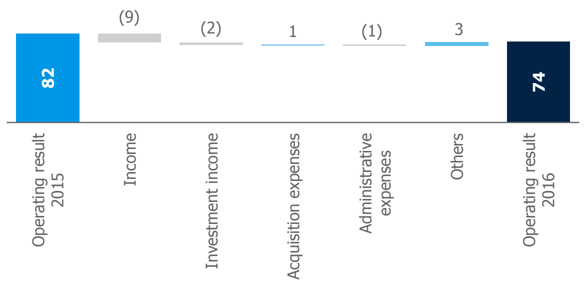
Pension insurance

In 2016, the operating profit in the pension insurance segment amounted to PLN 74 million, i.e. it dropped by 8.7% compared with 2015. This was a result of:

- fee and commission revenue, which exceeded PLN 110 million, i.e. dropped by 6.8% from the previous year. This change was the result of:
  - decrease of PLN 7 million in the management fee resulting from a decline in PZU OPF average net assets,
  - decline in revenue resulting from a lower return of funds from the Guarantee Fund by PLN 2 million,
  - PLN 1 million increase in revenue from due to the withdrawal of funds from the reserve account;
- net investment revenue amounted to almost PLN 5 million and was lower by PLN 2 million due to the drop in financial assets;

- acquisition and handling costs amounted to almost PLN 4 million, i.e. they were 29.7% higher than in the previous year. This resulted from the informational activity conducted by OPF in 2016;
- administrative expenses amounted to almost PLN 41 million, i.e. were 2.6% higher than in the previous year. This change mainly resulted from:
  - higher payments deposited in the Guarantee Fund by PLN 5 million,
  - drop in costs of provisions for sending the annual information to members of OFE PZU in 2016 by almost PLN 3 million due to the new distribution form (online account),
  - drop of personnel costs resulting mainly from lower average employment and lower bonus remuneration costs.
- the operating income grew by PLN 3 million due to the collection of the motivational fee (PLN 2 million), revaluation of the provision for return of fees from premiums overpaid by ZUS (almost PLN 1 million), and release of provisions for sending the annual fund information for 2015 (PLN 1 million);
- other operating costs dropped by over PLN 2 million due to the revaluation of the provision for the return of fees from premiums overpaid by ZUS.

Operating profit in the pension insurance segment (PLN million)



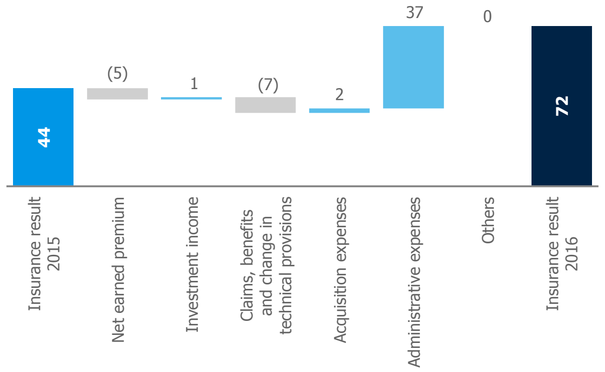
Baltic states

Up to 30 September 2015, the Baltic states segment's results included PZU Lithuania, which has considerable effect on the comparability of the 2015–2016 financial information.

PZU Group generated a positive result on insurance in the amount of PLN 72 million in the Baltic states in 2016 compared with PLN 44 million in the previous year. This result was determined by the following factors:

- drop in gross written premium. It amounted to PLN 1,183 million compared with PLN 1,193 million in the previous year, and the 2015 premium collected by PZU Lithuania reached PLN 231 million. Excluding the contribution of PZU Lithuania, the non-life insurance premium grew year-on-year by PLN 146 million (i.e. 14.8%). This dynamic premium growth was made possible by the higher motor insurance rates in the region, increased property insurance premium especially in Lithuania where the company activated sales, and considerable growth of the written health insurance premium in Latvia. The life insurance premium rose by PLN 8 million (i.e. 19.5%);
- higher investment income. In 2016, the result amounted to PLN 23 million, up by 4.5% from the previous year;
- increase in net claims and benefits. They amounted to PLN 694 million and were PLN 7 million higher than in the previous year – the value of claims and benefits of PZU Lithuania in the previous year amounted to PLN 149 million. The non-life insurance claims ratio reached the level of 62.0%, up by 0.4 p.p. from the previous year. It was, inter alia, due to the increase in large losses and higher rate of losses (resulting mainly from unfavorable weather conditions in winter of 2016). In life insurance, the value of benefits amounted to PLN 41 million, 40.1% higher than in the previous year due to higher provisions on client risk;
- drop in acquisition costs. The segments expenses for this purpose amounted to PLN 251 million. The acquisition cost ratio from the net earned premium dropped by 0.1 p.p. to 22.7%. Following the elimination of the contribution of PZU Lithuania in 2015 (PLN 48 million), the acquisition costs rose year-on-year by 22.5%, i.e. at a level similar to the growth of the gross written premium;
- decrease in administrative expenses. They amounted to PLN 110 million, down by 25.2% from the previous year – the total administrative expenses of PZU Lithuania in 2015 amounted to PLN 30 million. The dropping costs were accompanied by reduction of the administrative expenses indicator, which amounted to 10.0%, a drop of 3.3 p.p. from 2015. Without the contribution of PZU Lithuania, the declined costs in the Baltic states segment was still visible at 6.4% year-on-year (with simultaneous drop of the indicator by 0.6 p.p.). Lowering of administrative expenses was possible due to maintaining cost discipline, mainly in the IT area.

Insurance result of the Baltic states segment (PLN million)



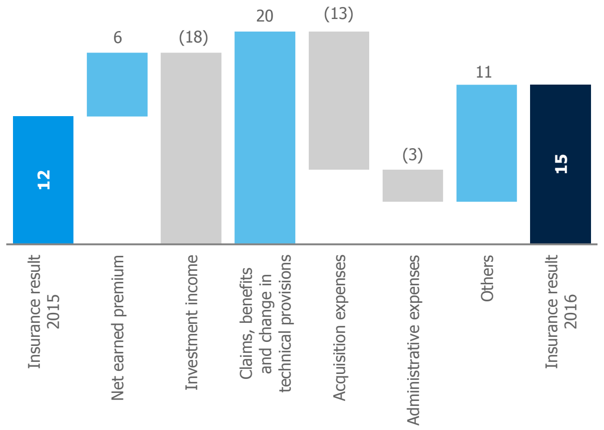
Ukraine

In 2016, the Ukraine segment closed the year with a positive result on insurance at PLN 15 million, compared with PLN 12 million in the previous year.

The change in the segment's result was determined by:

- increase in the gross written premium. The premium amounted to PLN 210 million and increased by PLN 41 million (i.e. 24.3%) in comparison with the previous year. The growth of the non-life insurance premium (25.4% year-on-year) was experienced mainly in property insurance due to establishment of a new contract with a major corporate client and in motor insurance due to the raise of insurance sums and raise of mandatory insurance rates. The life insurance premium rose by PLN 6 million (i.e. 19.4%);
- lower revenue from investing activities. This segment earned PLN 23 million in this respect, 43.9% less than in 2015, which was caused by the positive currency rate differences in the portfolio of investments denominated in USD that were recognized in investment revenues in the previous year;
- decrease in net claims and benefits. They amounted to PLN 54 million, i.e. 27.0% lower than in the previous year. Meanwhile, the drop was related mainly to the lower benefit payments in the life insurance company, which amounted to PLN 21 million, a drop of 48.9% from 2015. The claims ratio from the net earned premium slightly rose in non-life insurance (by 0.2 p.p.) to 45.1%;
- increase in acquisition costs. They amounted to PLN 60 million compared with PLN 47 million in the prior year. The level of growth resulted from the growth in the written premium;
- increase in administrative expenses. They amounted to PLN 24 million. For comparison purposes – in 2015, the administrative expenses of the segment amounted to PLN 21 million. Their increase was related, inter alia, to indexation of remuneration, UAH devaluation, and inflation. The administrative expenses ratio from the net earned premium rose by 1.6 p.p. to 22.0%.

Insurance result of the Ukraine segment (PLN million)



Investment contracts

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

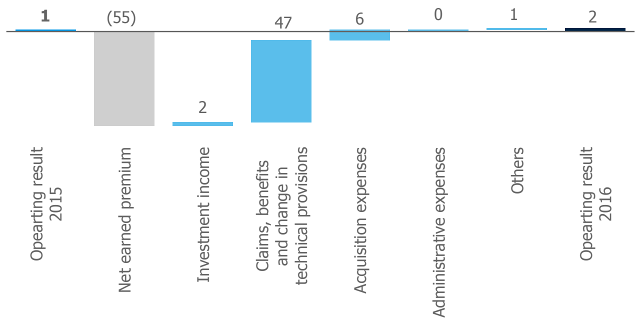
The results of investment contracts segment are presented as per the Polish Accounting Standards, which means that the following items were included: gross written premiums, paid benefits, and change in technical provisions, among others. The above categories have been eliminated for the purpose of the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

PZU Group earned PLN 2 million of operating result compared with PLN 1 million in the previous year (increase of 100%) on investment contracts, i.e. PZU Życie's products which do not transfer significant insurance risk and which do not meet the definition of an insurance contract (such as some products with a guaranteed rate of return and some unit-linked products).

The following had impact on the results of investment contracts segment in 2016:

- gross written premium from investment contracts dropped by PLN 55 million (-39.0%) from the corresponding period of 2015 to PLN 86 million. The main reasons for the changes in the gross written premium included the removal of the short-term life and endowment products from the offer starting with June 2016;
- improved investment income. It amounted to PLN 18 million, i.e. was 12.5% higher than in the corresponding period of 2015, mainly due to improved interest rates in IKZE and funds in the unit-linked products in the bancassurance channel balanced with a lower level of investments in short-term life and endowment products; simultaneously, the declined unit-linked product assets had negative impact on the reduction of the management fee also covered in this reported item;
- PLN 47 million lower value of net insurance claims and benefits and change of other net technical provisions resulting from the considerable drop in payments from gross written premium in short-term life and endowment products in own channel resulting from withdrawal of the product from the offer with June of 2016 (no significant effect on the result – corresponding effect in revenue). These amounted to PLN 89 million, i.e. they were 34.6% lower than in the prior year;
- lower acquisition costs. These amounted to PLN 4 million, i.e. they were 60.0% lower than in the prior year. This resulted from the lack of new sales and declined asset value in unit-linked products of the bancassurance channel (some of the bank's remuneration is determined by the level of assets), and, additionally, from the lower engagement of the own network in sales of short-term investment endowments as well as, beginning in June, the withdrawal of the products of this type from the offer;
- no changes in administrative expenses. Similarly to 2015, they closed at PLN 9 million.

Operating profit of investment contracts segment (PLN million)



Profitability ratios

In 2016, the return on equity of the dominating entity (PZU) was 15.0%. ROE was 3.0 p.p. lower than in the previous year. The profitability ratios achieved in 2016 by PZU Group exceed the levels achieved by the whole market (according to the data for three quarters of 2016).

Operating efficiency ratios

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

The combined ratio of PZU Group (for non-life insurance) remains in the last few years at a level which guarantees high profitability. In 2016, the ratio grew mainly due to the with higher claims ratio in agricultural insurance resulting from numerous damages caused by forces of nature (adverse effects of wintering).

	Operating efficiency ratios	2016	2015	2014	2013	2012
1.	**Claims ratio gross** (gross claims and benefits with change in status of gross provisions/gross written premium) x 100%	63.7%	66.9%	69.5%	67.9%	76.2%
2.	**Claims ratio net of reinsurance** (net claims paid/net premium earned) × 100%	68.4%	68.2%	70.3%	68.7%	76.3%
3.	**Insurance activity costs for insurance segments ratio** (Costs of insurance activity/premium earned net of reinsurance) x 100%	22.5%	23.3%	22.2%	20.5%	21.0%
4.	**Acquisition costs ratio for insurance segments** (Acquisition costs/premium earned net of reinsurance) x 100%	14.3%	14.1%	13.4%	12.3%	12.1%
5.	**Administrative expenses ratio for insurance segments** (Administrative expenses/premium earned net of reinsurance) x 100%	8.3%	9.2%	8.8%	8.1%	8.9%
6.	**Combined ratio in non-life insurance** (claims + costs of insurance activity) / premium earned net of reinsurance x 100%	94.9%	94.5%	95.7%	87.8%	92.8%
7.	**Operating profit margin in life insurance** (operating profit/gross written premium) x 100%	25.3%	22.3%	24.4%	22.3%	19.8%

Key profitability ratios of PZU Group	2016	2015	2014	2013	2012
Return on Equity (ROE) – falling to the dominating entity (annualized net profit / average equity) x 100%	15.0%	18.0%	22.6%	24.1%	24.1%
Return on Equity (ROE) – consolidated (annualized net profit / average equity) x 100%	15.0%	16.6%	22.6%	24.1%	24.0%
Return on Assets (ROA) (annualized net profit / average assets) x 100%	2.1%	2.7%	4.6%	5.6%	6.0%
Return on Sales (net revenue / gross written premium) x100%	12.0%	12.8%	17.6%	20.0%	20.0%

07

Risk management

We devote a lot of time to a continued development of advanced risk management procedures. We consider them to be fundamental, because all we want for our Clients is to feel secure and calm, while our results remain predictable.

Contents:

7.1 Risk management objective

Risk management aims to:

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

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

The main elements of an integrated risk management system are consistent for all insurance companies of PZU Group and implemented in a way which ensures the realization of strategic plans of individual companies and secures business objectives of the whole PZU Group. They include, among others:

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

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

- processes, methods, and procedures that enable risk measurement and management;
- segregation of duties in the risk management process;
- scope, terms and conditions, and frequency of reporting on risk management.

PZU supervises the PZU Group risk management system under cooperation agreements with PZU Group entities and on the basis of information provided as per such agreements. It also manages PZU Group aggregated risk, especially as far as the capital requirements are concerned.

Moreover, there exist the processes in PZU Group that help ensure effectiveness of risk management on the Group level. Risk management rules in the PZU Group subsidiaries include recommendation of PZU (parent company) concerning the organization of risk management system in subsidiaries in both insurance and banking sector.

The management boards of the PZU Group entities are responsible for performing their duties in line with generally applicable regulations of domestic and international law, especially for implementing adequate and effective risk management system.

Supervisory Boards exercise supervisions over risk management systems in particular regulated entities. In its subsidiaries, including Alior Bank, PZU designates its representatives to join the supervisory boards.

7.2 Risk management system

The risk management system of PZU Group is based on:

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

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

The first three are as follows:

- Supervisory Board, which oversees 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, as well as through the appointed Audit Committee;
- Management Board, which organizes the risk management system and ensures its functionality through approving the strategy and policies and defining the risk appetite, the risk profile and tolerance for individual kinds of risk;
- Committees which make decisions to reduce individual risks to a levels determined by the risk appetite. Committees implement the procedures and methodologies for mitigating individual risks and accept their limits.

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

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

Established in 2016, the PZU Group Risk Committee supports (both Supervisory Boards and Management Boards of subsidiaries) in implementing effective risk management system which is consistent within the entire PZU Group. The objective of the PZU Group Risk Committee is to coordinate the actions and exercise supervision over risk management systems and processes present in PZU Group..

7.3 Risk appetite

The risk appetite is defined in PZU Group as the amount of risk taken in order to achieve business objectives and it is measured by the level of potential financial losses, decrease in the value of assets or an increase in the value of liabilities in a one-year period.

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

The 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.

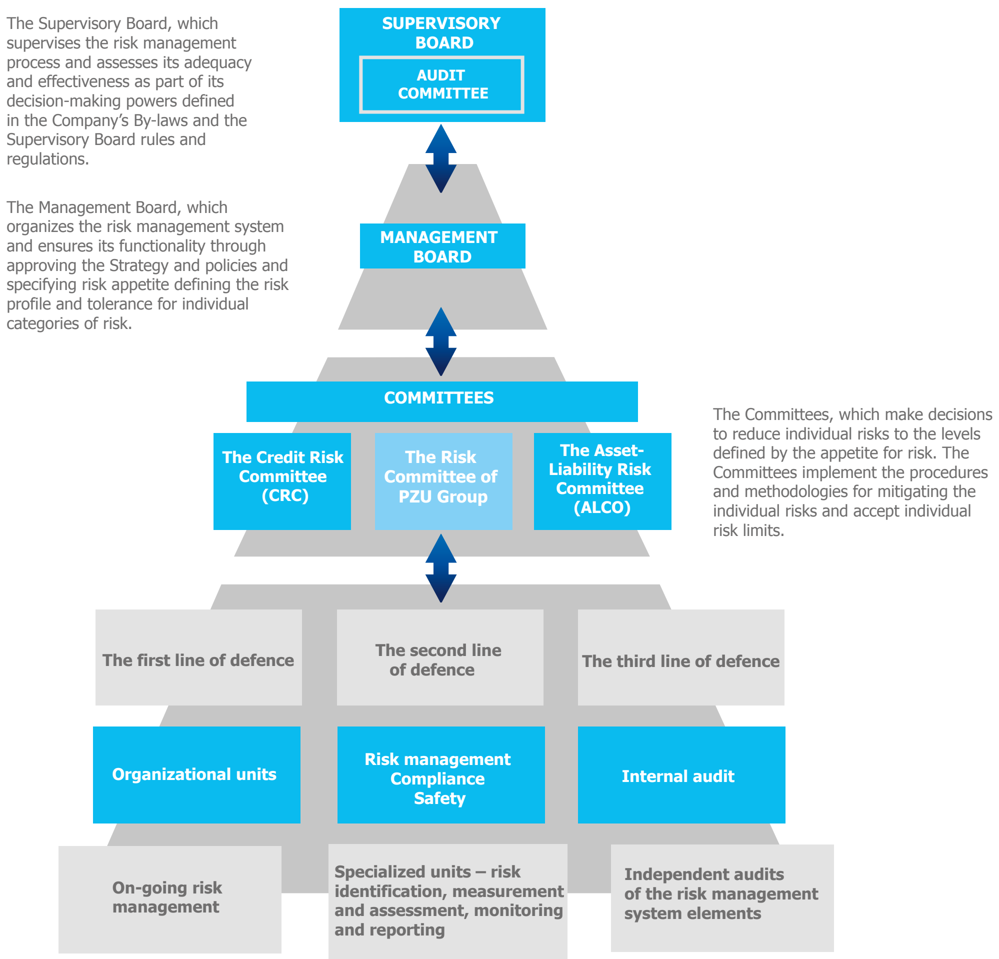
In all insurance PZU Group companies, the process of determining the risk appetite and limits for individual categories of risk that is in line with the group process was implemented. The Management Board in each company determines the risk appetite, risk profile, and tolerance limits which reflect its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

7.4 Risk management process

Two levels are distinguished in the risk management process:

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

Organizational structure of risk management system



7.5 Risk profile of PZU Group

The main types of risks incurred by PZU Group include underwriting risk, market risk, credit risk, concentration risk, operational risk, and compliance risk. The main risks associated with the activity of Alior Bank include the following: credit risk, operational risk, and market risk (covering interest rate, liquidity, foreign currency, and commodity price risk). The overall risk of Alior Bank constitutes approximately 9% of the total risk of PZU Group, whereas the credit risk makes up the largest contribution.

Underwriting risk

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

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

- analysis of general insurance terms in respect of the accepted risk and compliance with generally applicable provisions of law;
- analysis of general/specific insurance terms or other agreement templates in respect of the underwriting risk accepted under such agreements;
- recognition of potential risks related to a given product, performed in order to measure and monitor them in the future;
- analysis of the influence of introducing new insurance products on capital requirements and the Company's risk margin calculated according to the standard formula;
- verification and validation of changes to products;
- assessment of underwriting risk viewed in the framework of similar existing products;
- monitoring of existing products;
- analysis of the policy relating to underwriting, tariffs, provisions, and reinsurance, as well as the claims and benefits handling process.

Underwriting risk assessment involves recognizing the degree of exposure or a group of exposures related to the possibility of incurring a loss and analyzing the risk elements in order to make a decision on whether PZU should accept a risk for insurance and assume liability. The aim of the risk assessment (underwriting) is the assessment of future claims and the reduction of anti-selection. Underwriting risk assessment covers also actions related to reinsurance of the largest and the highest risks.

Underwriting risk measurement is based in particular on:

- analysis of selected ratios;
- scenario method – analysis of impairment arising from an assumed change in risk factors;
- factor method – a simplified version of the scenario method, reduced to one scenario per risk factor;
- statistical data;
- exposure and sensitivity measures;
- expertise of company's staff.

Monitoring and controlling the underwriting risk involve regular analyses of the risk level and determination of the utilization level of the agreed risk tolerance thresholds and limits specified in the Risk management strategy in PZU Group.

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

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

- specifying the level of tolerance to underwriting risk and monitoring thereof;
- business decisions and sales plans;
- calculating and monitoring the adequacy of technical provisions;
- tariff strategy, as well as monitoring existing estimates and assessing the adequacy of the premium;
- process of assessment, measurement and acceptance of underwriting risk;
- use of underwriting risk mitigation tools, including, in particular, reinsurance and prevention.

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

- definition of the scopes of liability in the general/specific terms of insurance or other agreement templates in the financial insurance sector;
- definition of the exclusions of liability in the general/specific terms of insurance or other agreement templates in the financial insurance sector;
- definition of the scopes of liability and exclusions in the general terms of insurance;
- reinsurance activities;
- adequate tariff policy;
- application of appropriate methodology of provisions calculation;
- appropriate underwriting procedure;
- appropriate claims handling procedure;
- sales decisions and plans;
- prevention.

Market risk

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

The nature of the process of credit spread risk management and concentration risk varies from management process of other subcategories of market risk and has been defined in the next section (Credit and concentration risk) along with the process of managing counterparty insolvency risk.

Market risk in PZU Group originates from three key sources:

- matching of assets and liabilities (ALM portfolio);
- strategic allocation of assets, i.e. determining an optimum medium-term structure of assets (AA portfolios).
- banking activity at Alior Bank – as a result of which PZU Group significantly increased exposure to interest rate risk and credit risk.

The investment activity in PZU Group entities is regulated in a number of documents approved by the Supervisory Boards, the Management Boards and dedicated Committees.

The identification of market risk involves recognizing the actual and potential sources of such a risk. In the case of assets, the market risk identification process begins when a decision is made to commence transactions on a given type of financial instrument. The units which decide to start transactions on a given type of a financial instrument prepare the description of the instrument, including, in particular, the description of the risk factors. The description is then submitted to the risk management unit which uses it to identify and assess the market risk.

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

The market risk is measured using the following measures of risk:

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

The following stages of the market risk measurement process can be distinguished:

- collection of information on assets and liabilities that generate market risk;
- calculation of the value of the risk.

The risk measurement is performed:

- for the measures of exposure and sensitivity of instruments;
- when using a partial internal model.

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

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

Management actions regarding market risk include, in particular:

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

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

Credit risk and concentration risk

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

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

Identification of the credit and concentration risk takes place at the stage of making a decision to invest in a new type of financial instrument or the credit exposure to a new entity.

Identification is based on an analysis of whether a given investment is related to credit or concentration risk, on which its level and volatility depends. The actual and potential sources of credit and concentration risk are identified.

Risk assessment is based on estimating how probable it is that the risk occurs and a potential impact of such an occurrence on the financial standing.

Credit risk is measured with the use of the following tools:

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

Concentration risk for a single entity is calculated in accordance with the standard formula.

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

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

Monitoring is conducted for:

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

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

Management actions with respect to credit risk and concentration risk include, in particular:

- setting limits of exposure to a single entity, group of entities, sectors or states;
- diversifying a portfolio of financial assets and insurance, mainly with respect to the state, sector;
- accepting collateral;
- concluding transactions aimed at mitigating credit risk, such as selling a financial instrument, closing out a derivative

transaction or purchasing a hedging derivative, restructuring of the granted debt;
- reinsuring a financial insurance portfolio.

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

In the banking activity, credit products are granted in accordance with appropriate crediting methodologies depending on the client segment and product type. Client's creditworthiness is assessed prior to issuing a decision on granting a credit product using a credit process support system and the following tools: scoring or rating; external information (such databases as CBD DZ, CBD BR, BIK, BIG) and Alior Bank's internal databases. Credit products are issued pursuant to applicable operating procedures that indicate appropriate activities to be performed as part of the credit process, as well as entities in charge and tools to be used.

To minimize credit risk, a collateral is established; the collateral is adjusted to the credit risk incurred and flexible with respect to the situation of the client. The establishment of a collateral does not exempt from the duty to examine the client's creditworthiness.

The value of collaterals considered when determining impairment losses with respect retail and business credits in 2016 amounted to PLN 1,277 million (in 2015: PLN 994 million). In the case of credits for which no impairment was reported in 2016, it amounted to PLN 15,456 million (in 2015: PLN 13,600 million). The impact of non-recognition of collateral value on the level of impairment losses as at 31 December 2016 would amount to PLN 183 million (PLN 124 million as at 31 December 2015) for impairment losses and PLN 78 million (PLN 97 million as at 31 December 2015) for IBNR respectively.

Whereas, credit scoring is a tool supporting credit decisions for individual clients and microenterprises, whereas credit rating is applied to the segment of small, medium-sized and large enterprises.

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

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

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

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

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

Management actions in response to identified and assessed operational risk involve in particular:
- reducing risk by taking actions aimed at minimizing the risk, i.a. by strengthening the internal control system;
- risk transfer – in particular by means of concluding an insurance agreement;
- avoiding risk by not engaging in or withdrawing from particular business activity when excessive operational risk is detected and its restriction would be too costly to make the venture profitable;
- risk acceptance – approval of consequences of a possible materialization of operational risk if its level does not exceed the tolerance level for operational risk.

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

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

Compliance risk management process at the PZU and PZU Życie level concerns both the systemic operations, realized by the Compliance Bureau, and ongoing compliance risk management, for which responsible are the managers of the entities and organizational units of the Companies. Compliance risk is identified and assessed for individual internal processes of PZU and PZU Życie in line with the division of reporting responsibilities. Additionally, the Compliance Bureau identifies risks on the basis of legislative process, entries in the register of conflicts of interest, gifts, benefits and irregularities, as well as the enquiries it receives.

Among systemic operations, the following should be noted:
- development and implementation of systemic assumptions and internal regulations coherent with them;
- recommendation of solutions concerning the method for coherent compliance function realization and systemic compliance risk management to other entities of PZU Group;
- monitoring of the compliance risk management process comprising in particular: performance of compliance risk analyses, review of the implementation of guidelines concerning compliance risk management provided by external entities;
- providing consultation, interpretation, and guidelines in the scope of application of adopted standards of conduct and compliance risk management;
- planning and realization of training, as well as conducting internal communication in scope of compliance assurance;
- preparing reports and information in scope of compliance risk.

In turn, the operations related to the ongoing management mean, among others:
- compliance risk identification and assessment within the supervised area;
- compliance risk measurement;
- defining hedging instruments and instruments limiting the number and scale of occurring irregularities;
- reporting threats and compliance risk events to the Compliance Bureau;
- performing mitigating activities;
- constant compliance risk monitoring.

In addition, at the PZU level, the Compliance Bureau cares for coherent and uniform standards of compliance solutions in all PZU Group entities, as well as it monitors compliance risk at the PZU Group level.

In 2016, the PZU Group companies continued to adapt their compliance systems to standards set by PZU; the insurance companies subject to the Solvency 2 regime additionally concentrated on adapting their business operations to the requirements of the directive.

The compliance units are responsible for delivering complete information on compliance risk at the Group's companies. Such units assess and measure compliance risk and take appropriate remedial actions which will mitigate the materialization of such a risk.

PZU Group companies deliver up-to-date information on compliance risk to the PZU and PZU Życie Compliance Bureau. The Compliance Bureau conducts i.a. the following actions:
- analysis of monthly and quarterly reports received from compliance units from the Group companies;
- assessment of impact of the companies' compliance risk on PZU Group;
- analysis of implementation of recommendations given to the companies with regards to realizing the compliance function;
- supporting compliance units at PZU Group companies at compliance risk assessment process;
- reporting to the Management Board and Supervisory Board of PZU.

Compliance risk covers especially the risk of non-compliance of PZU Group companies' operation with a changing legal environment. The risk may be materialized as a result of absence of clear and unambiguous provisions or any provisions at all, i.e. the so-called legal loophole. This may cause irregularities in PZU Group operations, which may in turn contribute to a cost increase (e.g. due to financial penalties), as well as higher risk of reputation loss, and – what follows – deteriorated credibility of the Group on the market (and a potential possibility to suffer financial loss).

Due to a wide scope of PZU Group's operations, reputation loss risk is also influenced by the risk of court proceedings of variable value which pertain mostly to insurance companies within the Group.

Compliance risk in the Group's companies is identified and assessed for the individual internal processes by the managers of organizational units of such companies, in line with the division of reporting responsibilities. Additionally, the compliance units in PZU Group companies identify risks on the basis of entries in the register of conflicts of interest, gifts, benefits and irregularities, as well as the enquiries received.

Compliance risk is assessed and measured by determining the effects of materialization of the following risks:

- financial, resulting i.a. from administrative penalties, court verdicts, Office of Competition and Consumer Protection (UOKiK) decisions, contractual penalties, and damages.
- intangible, such as loss of reputation, including damage to PZU Group's image and brand.

Compliance risk is monitored mainly through:

- analysis of reports received from the managers of the entities and organizational units;
- monitoring of regulatory requirements and compliance of PZU Group companies' operation to a changing legal environment;
- participation in legislative work on amending the generally applicable regulations;
- participation in the activities of professional organizations;
- coordination of external control processes;
- coordination of fulfilling the reporting requirements arising from the stock exchange regulations (PZU) and the statutory law;
- popularizing knowledge on competition and consumer protection law in PZU Group among the employees and adopting it to the fields they operate in;
- monitoring of anti-trust rulings and proceedings conducted by the President of the Office of Competition and Consumer Protection;
- review of the recommendations of PZU Group's compliance unit;
- ensuring coherent realization of compliance function in PZU Group.

Management actions taken in response to the compliance risk comprise in particular:

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

Under compliance risk mitigation on a system and current level, among others the following mitigating activities have been implemented:

- current realization of effective compliance function as one of the key functions in the management system at the PZU Group companies;
- participating in consultations with legislative and supervision bodies (PZU Group's supervised companies) upon drafting regulations (public consultation);
- delegating representatives of PZU Group's supervised companies to participate in committee works at supervision bodies;
- conducting implementation projects for new regulations;
- training employees of the Group's companies in the field on new regulations, standards of conduct, and recommended remedial actions;
- issuing opinions on internal regulations of PZU Group companies and recommending potential changes with regards to compliance with legal provisions and accepted standards of conduct;
- verification of procedures and processes with regards to compliance with legal provisions and accepted standards of conduct;
- advance adjustment of documentation to upcoming changes of legal requirements;
- systemic supervision of PZU over realization of compliance function in PZU Group companies.

7.6 Sensitivity to risk

Risk related to financial assets

Table on page 121 presents the results of the analysis of the net financial result and PZU Group's revaluation reserve sensitivity to changes in interest rate risk, exchange risk, and equity instruments price risk. The analysis does not take into account the effect of changing interest changes for insurance or investment contracts presented as liabilities and Alior Bank receivables from customers.

Financial assets exposed to exchange risk include deposit transactions and debt instruments used to hedge payments from technical provisions denominated in foreign currencies, exposures to equity instruments listed on stock exchanges other than WSE, investment fund units and certificates, exposures to derivatives denominated in foreign currencies and financial assets of consolidated foreign insurance companies.

Risk pertaining to technical rates and mortality

Table on page 121 shows a sensitivity analysis of the net result and equity to changes in the assumptions used to calculate the capitalized annuities. The analysis does not take into account the impact of changes in valuation of the deposits taken into consideration in calculation of the reserve on the net financial result and equity.

Sensitivity of assets portfolio (PLN million)	Change of risk factor	31 December 2016		31 December 2015	
		Impact on net financial result	Impact on revaluation reserve	Impact on net financial result	Impact on revaluation reserve
Interest rate risk	drop by 100 bps	334	36	601	149
	increase by 100 bps	(316)	(34)	(548)	(142)
Foreign currency risk	increase by 20%	143	103	89	15
	drop by 20%	(143)	(103)	(89)	(15)
Equity instruments risk	increase by 20%	595	308	545	207
	drop by 20%	(595)	(308)	(545)	(207)

sensitivity of provisions	Impact of assumptions on:			
	net financial result		equity	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Change in assumptions used to calculate the provisions for capitalized annuities net of reinsurance in non-life insurance (PLN million)				
Technical rate – increase by 0.5 p.p.	398	412	398	412
Technical rate – decrease by 1.0 p.p.	(1,030)	(1,064)	(1,030)	(1,064)
Mortality 110% of existing value	124	127	124	127
Mortality 90% of existing value	(138)	(142)	(138)	(142)
Change in assumptions for annuities in life insurance (PLN million)				
Technical rate – decrease by 1 p.p.	(29)	(32)	(29)	(32)
Mortality 90% of existing value	(11)	(12)	(11)	(12)
Change in assumptions for provisions for insurance and investment contracts with DPF in life insurance, excluding annuities (PLN million)				
Technical rate – decrease by 1 p.p.	(2,112)	(2,157)	(2,112)	(2,157)
Mortality 110% of existing value	(891)	(902)	(891)	(902)
110% of morbidity and injury rates	(153)	(179)	(153)	(179)

Banking activity

Estimates of the BPV for Alior Bank, which determines the estimated change in measurement of a given transaction/item due to a parallel shift of a yield curve by 1 bp are presented in the tables below.

In order to measure currency risk, Alior Bank applies a Value at Risk model which means a potential loss of value on the foreign exchange currency positions held, simultaneously maintaining the assumed confidence level and position holding period. To determine VaR, Alior Bank applies a variance and covariance method, maintaining a 99% confidence level. The value is determined daily for given areas responsible for risk taking and managing, separately and jointly. As at 31 December 2016, maximum loss on currency portfolio held by the Bank (managed under a business accounting book), determined on the basis of VaR in a 10-day horizon, could amount to PLN 280 thousand (PLN 106 thousand as at 31 December 2015), at the 99% confidence level assumed.

The risk was more extensively presented in the Alior Bank financial statements.

7.7 Reinsurance activity

Reinsurance cover in PZU Group secures insurance activity, reducing the consequences of the occurrence of catastrophic events which could adversely affect the financial standing of insurance companies. This objective was realized through mandatory reinsurance contracts supplemented with facultative reinsurance.

Reinsurance contracts of PZU

PZU uses concluded reinsurance contracts to mitigate its exposure to catastrophic losses (e.g. flood, hurricane) through, among others, a catastrophic non-proportional excess of loss contract and to the consequences of large one-off losses by non-proportional excess of loss contracts protecting property, technical, marine, aviation, TPL and MTPL portfolios. PZU's risk is also mitigated through reinsurance of the financial insurance portfolio.

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

PZU's activity in the area of inward reinsurance includes other PZU Group's insurance companies. Further commitment to the protection of Baltic companies and LINK4 resulted in an increase in the related written premium.

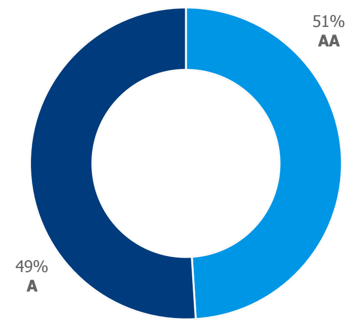
At 31 December 2016 (PLN thousand)

Currency	up to 6 months	6 months - 1 year	1 year - 3 years	3-5 years	5-10 years	Total
PLN	(19)	305	605	111	(433)	569
Other currencies	(6)	9	(40)	(44)	(36)	(117)
Total	**(25)**	**314**	**565**	**67**	**(469)**	**452**

At 31 December 2015 (PLN thousand)

Currency	up to 6 months	6 months - 1 year	1 year - 3 years	3-5 years	5-10 years	Total
PLN	(192)	17	370	(140)	30	85
Other currencies	(13)	(5)	(27)	(21)	(6)	(72)
Total	**(205)**	**12**	**343**	**(161)**	**24**	**13**

Reinsurance share from PZU obligatory contracts as per S&P/AM Best rating



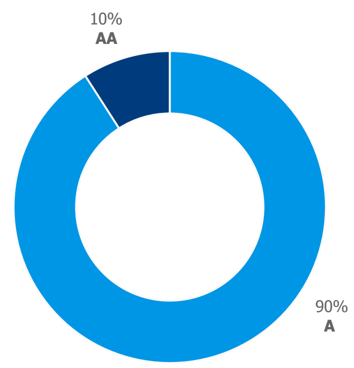
In addition, PZU obtains gross written premium from inward reinsurance from activity on the domestic and foreign market, mainly through optional reinsurance.

Reinsurance contracts – PZU Życie

Outward reinsurance contracts concluded by PZU Życie protect PZU Życie's portfolio against the accumulation of risks, as well as protect individual policies with higher sums insured.

QBE, RGA, and Mapfre are the partners providing reinsurance cover to PZU Życie. As per S&P, ratings of the reinsurance partners are high, which is an evidence of reinsurer's good financial standing and guarantees security to the Company.

Reinsurance share from PZU Życie obligatory contracts as per S&P rating



Reinsurance contracts of foreign companies of PZU Group and LINK4 and TUW PZUW

Other insurance companies of PZU Group, i.e. PZU Ukraine, Lietuvos Draudimas, Lietuvos Draudimas branch in Estonia, AAS Balta, LINK4, and TUW PZUW have reinsurance cover that matches their business profile and financial position. Every significant insurance portfolio is secured by a treaty contract. The reinsurance cover is provided mainly by PZU, which transfers a portion of the accepted risk outside the Group.

7.8 Capital management

PZU Group aims to effectively manage the capital and maximize the rate of return for the shareholders of the parent company, especially alongside with ensuring a steady safety level and maintaining capital funds for strategic development through acquisitions.

On 3 October 2016, the Supervisory Board of PZU adopted a resolution regarding the confirmation of the Capital Structure and Dividend Policy of PZU Group for the years 2016–2020. The introduction of the Policy results from the implementation of Directive 2009/138/EC of the European Parliament and the Council dated 25 November 2009 on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II), as amended, the Act on Insurance and Reinsurance dated 11 September 2015, and the expiry of "The Capital Structure and Dividend Policy of PZU Group for the years 2013–2015" updated in May 2014.

The capital management policy bases on the following rules:

- PZU Group's capital management (including surplus capital) at the level of PZU as a dominant entity;
- maintaining target solvency ratios at the level of 200% for PZU Group, PZU, and PZU Życie SA (according to Solvency II);
- maintaining PZU Group's leverage ratio at a level no higher than 0.35;
- providing funds for development and acquisitions in the upcoming years;
- no share issues by PZU in the period of the Policy being in effect.

Solvency ratio	Q3 2016	2015
Solvency II		
PZU Group*	252.6%	276.1%
PZU*	266.3%	284.4%
PZU Życie*	458.8%	477.3%
CRR - Alior Bank		
total solvency ratio	13.7%**	12.5%
Tier 1	11.3%**	9.7%

* non audited data
**at the end of 2016

As at the end of the third quarter of 2016, the solvency ratio (calculated according to the Solvency II standard formula) amounted to 252.6% [1]. Ratios as high as these place PZU Group among insurance groups that have top capital strength.

In Alior Bank, solvency ratio and Tier 1 ratio have been calculated on the basis of the Regulation (EU) No 575/2013 of the European Parliament and of the Council dated 26 June 2013 on prudential requirements for credit institutions and investment firms (CRR Regulation), as well as particular risks identified upon internal capital adequacy assessment process (ICAAP).

[1] Data non-audited.

08

PZU on capital and debt market

In 2016, PZU shares were the subject of over a million transactions, the trading value reached PLN 16.8 billion, the average spread was only 9 bps, and the trading volume was composed of 106.4% of shares in free float, which places PZU among the leaders of the most liquid shares on WSE

Contents:

8.1 Share and bond market

In 2016, the domestic and global policy was the main factor determining the prices of shares and bonds. The capital markets were stimulated by the decisions of central banks to a lesser degree than in 2015. ECB (European Central Bank) and the Fed (United States Federal Reserve System) maintained a lax monetary policy and, additionally, market expectations indicated its milder than previously assessed.

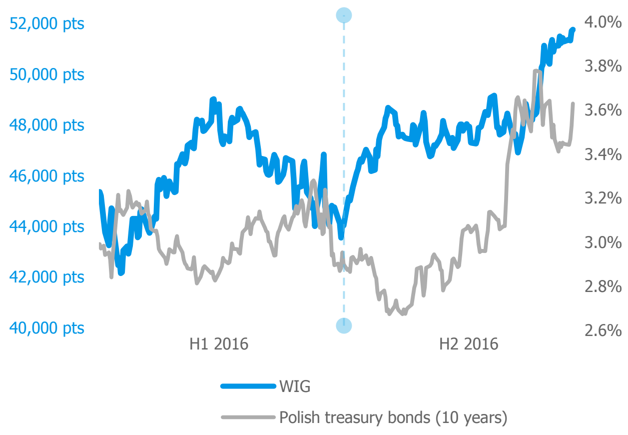
In January of 2016, the Polish capital market was shaken up by the unprecedented decision of the S&P Global Ratings to lower Poland's rating and assign a negative outlook. CHAPTER 8.8 RATING This entailed depreciation of the Polish currency (EUR denominated in PLN rose to its highest levels in 4 years), higher yield of Polish debt, and decreases on the stock exchange. In early December of 2016, S&P saw Poland in a more favorable light concerning areas like credibility of the economic policy and conditions of public finances and thus raised the rating outlook to stable.

WSE investors were worried by the announced reform of pillar II of the pension system (open pension funds) and successive scenarios concerning the banking system's burden resulting from the revaluation of frank credits, which had a negative impact on the major Warsaw index WIG20 heavy weighted in banks.

In June of 2016, the global capital and currency markets experienced major turbulences associated with the United Kingdom's decision to exit the European Union. Furthermore, the situation on the Polish stock exchange did not benefit from global factors including, among others, concerns with the dynamics of further raise of interest rates by the Fed in the USA, the immigration crisis and its consequences in the European Union, the economic slowdown in China, the deteriorating situation in Russia, the continuing conflict in the Middle East, or the consequences of the attempted coup d'état in Turkey.

The end of 2016 saw an outflow of capital from treasury bonds and growths on the Polish stock market. After over one-year consolidation, the price of 10-year treasury bonds (profitability between 2.6%–3.3%) suddenly dropped and moved profitability up to 3.6% (quarter-on-quarter growth of 71 bps). During the same time, WIG20 saw the quarter-on-quarter growth of 13.9% to 1,947.92 points. The improving

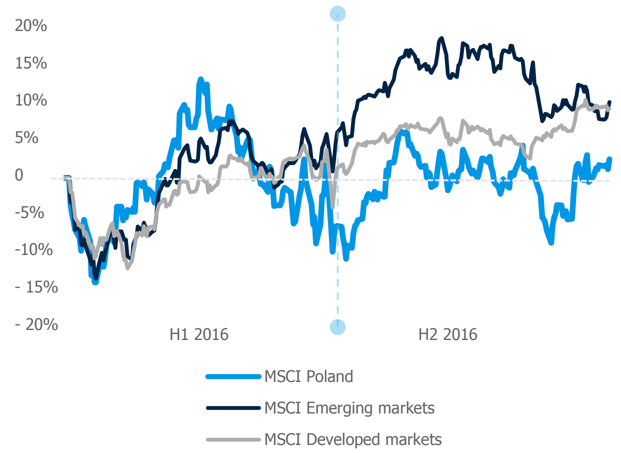
WIG / Treasury bonds (10 years)



Source: Reuters

situation on the stock markets was supported by speculations on a potentially greater than expected stimulation of American economy (the so-called reflation, which assumes the existence of a fiscal impulse in the US which leads to acceleration of economic growth and increase of inflation, as well as simultaneous raise of interest rates by the Fed and growth in the profitability of US Treasury bonds) resulting from Donald Trump's victory in the United States presidential election. CHAPTER 2.2 FINANCIAL MARKETS SITUATION

MSCI IMI*

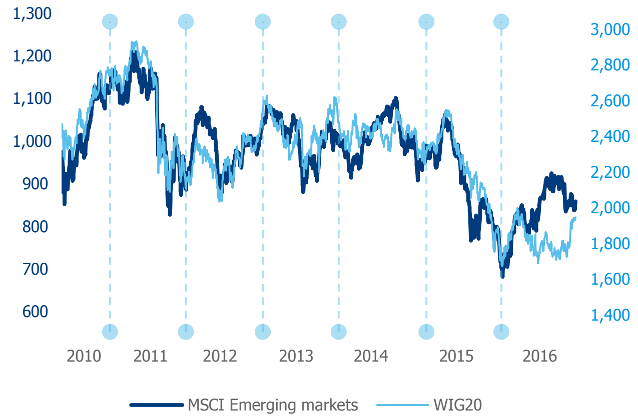


* MSCI IMI, gross (USD): the index recognizes small, medium, and big companies and dividend reinvestments

Source: Reuters

In 2016, MSCI Poland presented high fluctuation when compared with the MSCI of Emerging Markets. The reasons included the weighing of the financial companies in this portfolio (47.6% at the end of 2016; including PZU weight of 9.9%), which experienced major pressure from e.g. statutory regulations. At the end of 2016, the MSCI of Emerging Markets rose by 10.3% year-on-year, i.e. by 1.5 p.p. more than the MSCI of developed markets. MSCI Poland also followed this trend and recorded growth of 3.2% year-on-year.

Correlation of WIG20 with MSCI Emerging Markets 05.2010-2016



Source: Reuters

The long-term correlation of WIG and MSCI of emerging markets (between May 2010 and the end of 2016) reached 88.9%. This factor was at 92.0% in 2015 and dropped to almost zero in 2016. Finally, by the end of 2016, the inflow of capital on the Polish exchange once again moved WIG20 closer to the MSCI of Emerging Markets once again.

8.2 PZU share prices

PZU shares were first traded on the Warsaw Stock Exchange on 12 May 2010. Since its IPO, the company has been included in the WIG20, WIG, WIG30, WIG-Poland, and WIGdiv indexes. Since 2012, PZU shares have been also included in the RESPECT sustainable development index (presence confirmed on 14 December 2016).

Stock split

On 30 November 2015, PZU split its shares, the operation consisted in decreasing the nominal value of shares from PLN 1 to PLN 0.1. The operation was purely technical (i.e. without any influence on share capital). Following the split, the share price decreased 10 times and the number of shares increased 10 times. The main objective of the split was to make the PZU shares more accessible to individual investors as well as to diversify the shareholder structure.

WSE indexes

In 2016, the most important Polish index, WIG20, fluctuated in the range of 1674-1999 points, closing the final session of the year at a level close to the year's maximum, i.e. 1,947 points (up by 4.8% year-on-year). The broad WIG market index closed 2016 by recording 51,754 points, up by 11.4% year-on-year, thus confirming the greater strength of small and medium enterprises quoted on WSE (mWIG gained 18.2% year-on-year). The RESPECT Index also presented high dynamics and closed at 10.9% higher than in 2015.

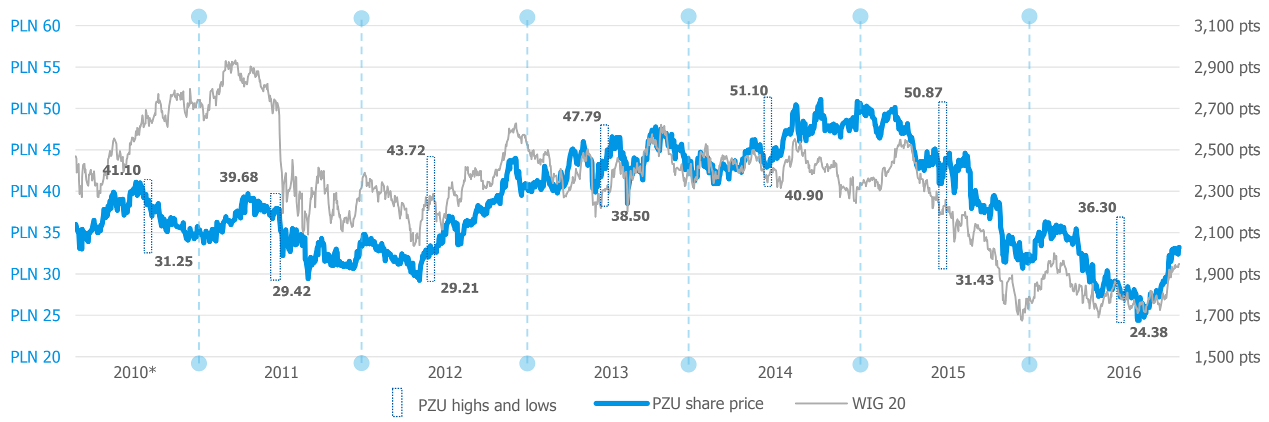
PZU share prices

In 2016, PZU shares remained among the top most liquid companies on WSE. With capitalization amounting to PLN 28.7 billion, at the end of 2016 PZU was the sixth company with regard to capitalization of domestic companies. PZU's share in the trading of the whole exchange reached 8.9% (4th place).

In 2016, the maximum PZU share price (calculated at session end) amounted to PLN 36.30. The price reached its bottom soon after the dividend (PLN 2.08 per share) from 2015 profit was cut off from the share price on 30 September 2016. The price per share at the end of this session was PLN 24.38, a historical low since PZU's debut on the exchange.

In the first half of 2015, WIG20 experienced a downward trend, which entailed a decline in the price of PZU. There was a strong attempt at reversing this trend in the fourth quarter of 2016, which saw PZU grow by 36.2% quarter-on-quarter, i.e. considerably more than WIG20 and WIG, which rose appropriately by 13.9% and 9.9% quarter-on-quarter. Consequentially, the volatility of PZU share prices in all of 2016 (recognized as the quotient of the standard deviation from the period's average price) was 10.3%, only 68 bps lower than in 2015. In 2016, PZU's systematic risk expressed by the Beta coefficient (PZU price compared with WIG for daily changes) was 1.18 (1.07 in 2015). At the last session of 2016, WIG20 recorded growth of 4.8% year-on-year while PZU's shares were quoted at a similar level to that of the end of 2015, i.e. PLN 33.21 (-2.4% year-on-year).

Min/max PZU share prices following the session end in the years 2010-2016



* Share prices from 12 May 2010 (PZU's IPO on WSE).
Source: Reuters

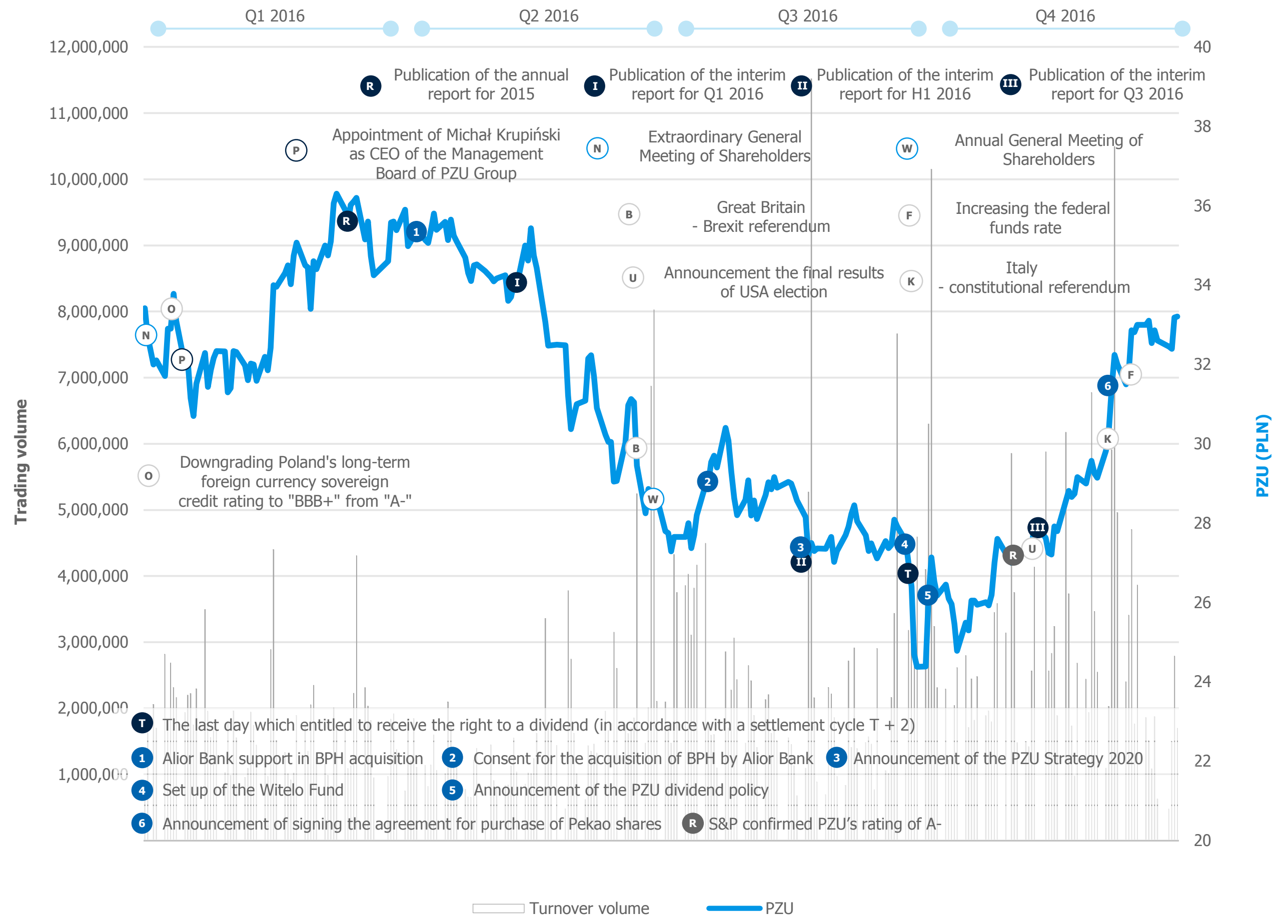
The total rate of return for shareholders in 2016 reached 3.7% (for comparison, its value at the end of 2015 was negative: -23.8%). The dividend rate (calculated in relation to the share price at the end of 2016, i.e. PLN 33.21) was 6.26% (PLN 2.08 of dividend per share), which is almost twice as high as the average for WIG20 and WIG Banks, which were at appropriately 2.8% and 3.1%[1].

In 2016, PZU's shares retained high liquidity. The average spread of the year reached only 9 bps (the average for the top 20 companies with the biggest trading value was 18 bps). The average number of transactions involving PZU shares per session was 4,169 (a 25.3% increase year-on-year). The highest trading volume, i.e. 11.5 million units, was recorded on 24 August 2016 (with 1.1% growth of the share price at the end of the session), i.e. on the day of announcement of the PZU Group Strategy for the years 2016–2020. For comparison purposes, the highest trading value in 2015 (at a single session) did exceed 7.7 million share units. The announcement of the dividend policy (4 October 2016) was accompanied by strong emotions as well. On 4–5 October 2016, the total turnover reached 16.5 million shares and the price rose by 11.3% in total.

In 2016, investors discounted the uncertainty associated with PZU's potential involvement in the consolidation of assets of the banking sector in Poland and the possible maintenance of attractive dividends from PZU. The anxiety went down when PZU announced its dividend policy (4 October) CHAPTER 8.7 PZU GROUP'S CAPITAL AND DIVIDEND POLICY and its purchase of a share package of Bank Pekao (8 December) CHAPTER 4.5 PZU GROUP'S DIRECTIONS OF DEVELOPMENT / BANKING. The PZU Management Board declared that it wanted to continue to provide its shareholders with an attractive stream of rising dividends and that it had no plans for changes in Bank Pekao, neither in the Management Board nor in the Bank's dividend policy and strategy. After the exchange session on 8 December, the value of PZU grew by PLN 716.7 million (+2,6%) at a high trading volume of 10.5 million shares.

[1] 2016 WSE Statistical Bulletin

Factors influencing the exchange rate of PZU shares in 2016



Codes Quick Response (QR) for online transmission

Annual General Meeting of Shareholders

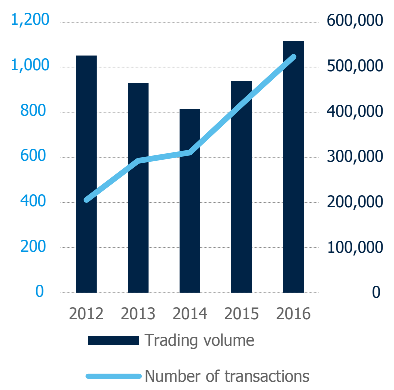
Announcement of the PZU Strategy 2016-2020

Announcement of the PZU dividend policy

Announcement of signing the agreement for purchase of Pekao shares

PZU on capital and debt market

PZU trading volume / number of transactions

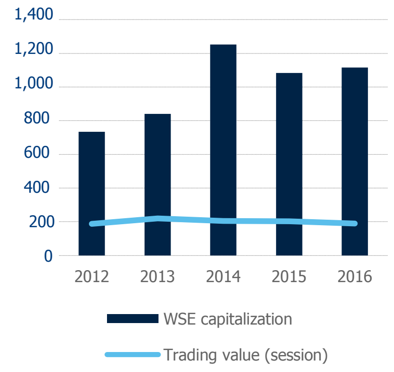


in PLN bn

PZU capitalization/ trading value

in PLN bn

WSE capitalization / trading value



in PLN bn

PZU share statistics	2016	2015	2014	2013	2012
Maximum rate of shares (PLN)	36.30	50.87	51.10	47.79	43.72
Minimum rate of shares (PLN)	24.38	31.43	40.90	38.50	29.21
Exchange rate at the last session of the year (PLN)	33.21	34.02	48.60	44.90	43.70
Average rate per session (PLN)	30.76	43.72	45.22	43.22	34.61
Value of the volume (PLN million)	16,754.98	20,144.56	18,400.72	19,970.38	18,152.22
Average value of the volume per session (PLN million)	66.8	80.3	73.9	80.9	73.2
Number of transactions (item)	1,046,398	835,471	621,224	585,205	411,635
Average number of transactions per session	4,169	3,329	2,495	2,369	1,660
Trading volume	558,496,833.0	470,048,842.0	407,247,220.0	464,899,980.0	525,648,380.0
Average trading volume per session (item)	2,225,086.9	1,872,704.5	1,635,531.0	1,882,186.2	2,119,549.9
Capitalization at the end of the period (PLN million)	28,677.6	29,377.1	41,967.2	38,767.9	37,736.0

Ratios

As at the end of 2016, the capitalization of WSE companies rose by 7.8% year-on-year to PLN 557 billion (including 19 new entities that had their IPOs lunched in 2016). The P/E ratio for the banking industry (the most adequate comparison for PZU on WSE) was 11.7 while the P/BV was 0.76[2]. PZU's P/E ratio was 14.7 and its P/BV was 2.2.

[2] http://www.gpw.pl/analizy_i_statystyki

Capital market ratios for PZU shares*	2016	2015	2014	2013	2012
P/BV Market price per share / book value per share	2.20	2.27	3.19	2.95	2.64
BVPS Book value per share	15.07	14.97	15.25	15.20	16.52
P/E Price per share / profit per share	14.73	12.54	14.14	11.77	11.60
EPS (PLN) Net profits (losses) of owners / number of shares	2.25	2.71	3.44	3.82	3.77

* calculation based on PZU Group's data (according to IFRS)

8.3 PZU and Alior Bank debt financing

PZU

PZU Group (through its 100% subsidiary, PZU Finance AB) issued Eurobonds to the total amount of EUR 850 million (download the prospectus), which are quoted on the Official List of the Irish Main Securities Market and the Catalyst ASO GPW/Bondspot market. The quoted bond series (PZU0719) is composed of two assimilated series (under one ISIN code: XS1082661551) with nominal value of EUR 500 million and EUR 350 million issued on 3 July 2014 and 16 October 2015, respectively.

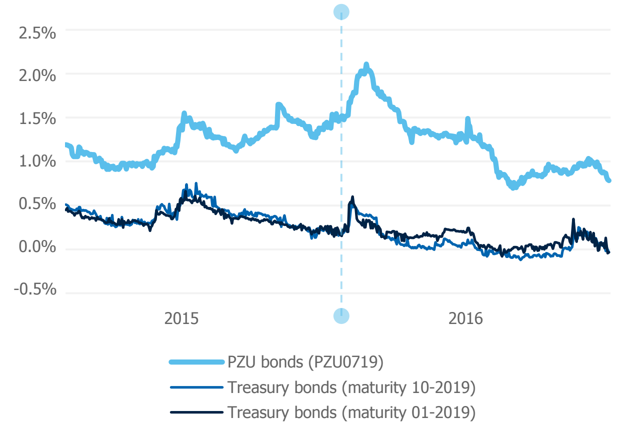
The liabilities arising from the bonds were secured by a guarantee granted by PZU. The bonds bear interest at a fixed interest rate of 1.375% per year and the coupon is paid once a year. The redemption date falls on 3 July 2019.

The issue of Eurobonds constituted the implementation of PZU Group's investment strategy in the scope of the management of the matching of assets and liabilities denominated in euro. The funds from the issue were planned to be used to increase the involvement of investment portfolio in investments denominated in euro, manage FX position, and use of debt financing, which is cheaper than equity.

PZU Group's debt ratio as at 31 December 2016 amounted to 28.1%[3].

[3] PZU Group's leverage ratio – quotient of the debt from long-term financial liabilities (excl. loan commitments) and the sum of: debt from long-term financial liabilities and PZU Group's equity less: the value of intangible assets, deferred acquisition costs and deferred tax assets, which have been presented in consolidated financial statements of PZU Group.

PZU bond yield to maturity (YTM)



Source: Reuters

Moreover, as at 14 March 2017 PZU Supervisory Board approved the request of the PZU Management Board to the PZU General Shareholders Meeting regarding the adoption of the resolution on the issue of subordinated debt with a total par value not higher than PLN 3 bn.

Alior Bank

To ensure a secure level for the coefficients of capital adequacy, Alior Bank issues debt instruments on a regular basis. As at 31 December 2016, Alior Bank enforced the following debt capital acquisition programs:

- Emission of own bonds with maximum value of PLN 2 billion;
- Public Program of Subordinated Bond Emission with maximum value of PLN 800 million.

The aforementioned Public Program of Subordinated Bond Emission saw Alior Bank issue the following in 2016:

Series name	Abbreviated name	ISIN	Nominal series value	Currency	Issue date	Redemption date	Bond type
P1A	ALR0522	PLALIOR00151	150,000,000	PLN	2016-04-27	2022-05-16	subordinated
P1B	ALR0524	PLALIOR00169	70,000,000	PLN	2016-04-29	2024-05-16	subordinated

As at 31 December 2016, Alior Bank held the following obligations in bond form (presented cumulatively according to issue date):

Series name	Abbreviated name	ISIN	Nominal series value	Currency	Issue date	Redemption date	Bond type
B	ALR0421	PLMRTMB00026	67,200,000	PLN	2013-04-29	2021-04-29	subordinated
F	ALR0924	PLALIOR00094	321,700,000	PLN	2014-09-26	2024-09-26	subordinated
C	ALR1022	PLMRTMB00034	80,000,000	PLN	2014-10-21	2022-10-21	subordinated
G	ALR0321	PLALIOR00102	192,950,000	PLN	2015-03-31	2021-03-31	subordinated
H	ALR0617	PLALIOR00110	192,800,000	PLN	2015-06-30	2017-06-30	common
H1	ALR0617	PLALIOR00110	57,200,000	PLN	2015-06-30	2017-06-30	common
I	ALR1221	PLALIOR00136	150,000,000	PLN	2015-12-04	2021-12-06	subordinated
I1	ALR1221	PLALIOR00136	33,350,000	PLN	2015-12-04	2021-12-06	subordinated
EUR001	n/d	n/d	10,000,000	EUR	2016-02-04	2022-02-04	subordinated
P1A	ALR0522	PLALIOR00151	150,000,000	PLN	2016-04-27	2022-05-16	subordinated
P1B	ALR0524	PLALIOR00169	70,000,000	PLN	2016-04-29	2024-05-16	subordinated

All aforementioned subordinated bond series are qualified by Alior Bank as capital instruments of Tier II, which is discussed in art. 63 of CRR.[4]

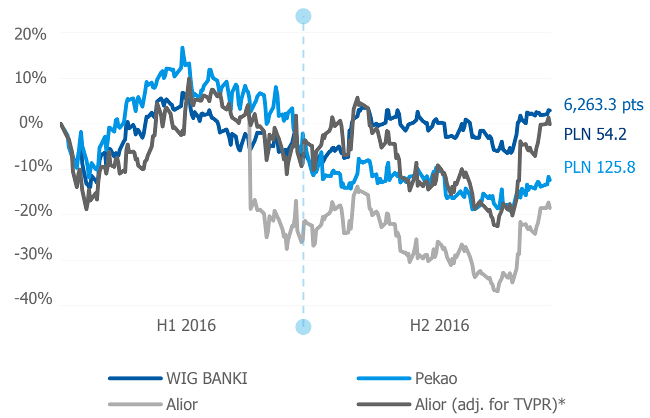
8.4 Banking sector on WSE

Banks in PZU Group

Due to PZU's strong involvement in the banking sector (CHAPTER 4. STRATEGY), the situation of banks on WSE turned into a material factor which may determine the assessment of PZU on the stock exchange.

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

Banks on WSE in 2016



* Theoretical value of pre-emptive rights

WIG Banks[5]

In 2016, low interest rates, bank tax, mortgage credit requirements, and geopolitical risk caused the ratings of banks to stay under the pressure of the demand segment of the market. Regardless, the WIG Banks rose at the end of 2016 by 2.9% year-on-year (the total weight of Pekao and Alior Bank in the portfolio of said index reached approximately 32.0%).

„We create the value of PZU through active communication with capital market participants. We build and take care of good relations."

In 2016, the assessment of Bank Pekao had a negative effect on WIG Banks. At the last session of 2016, the price of the Bank shares was PLN 125.8, down by 12.3% year-on-year. However, from the perspective of the concluded agreement, assuming the price of PLN 123, which will be paid by PZU to UniCredit for Pekao shares (CHAPTER 3. PZU GROUP'S ACTIVITY), the assessment of the negotiated package (20% in the Bank's capital) rose by 2.3% (i.e. PLN 147.0 million) at the end of 2016.

Analyses of Alior Bank share prices in 2016 should recognize the issue of shares (for the purposes of purchasing the basic activity of Bank BPH). From the technical point of view, the transaction had a direct impact on the quotation of shares on WSE, i.e. the „Theoretical Value of Pre-Emptive Right[6]" in the amount of PLN 12.4 per share was cut from the shares of Alior Bank on 19 May 2016. After the adjustment of the historical price with the cut value, the annual rate of return on Alior Bank shares was -0.1%.

[5] Total return index (during its calculation both the prices of shares included in the index and the income from dividend and pre-emptive right is taken into account)
[6] https://www.gpw.pl/prawa_poboru_instrumenty

8.5 PZU investor relations

In order to meet the highest information governance requirements for public companies and fulfill the information needs of different groups of stakeholders, the PZU Management Board undertakes various investor relations activities aimed at improving transparency of the company. Therefore, PZU consistently applies „Principles for PZU to Conduct its Information Policy for Capital Market Participants".

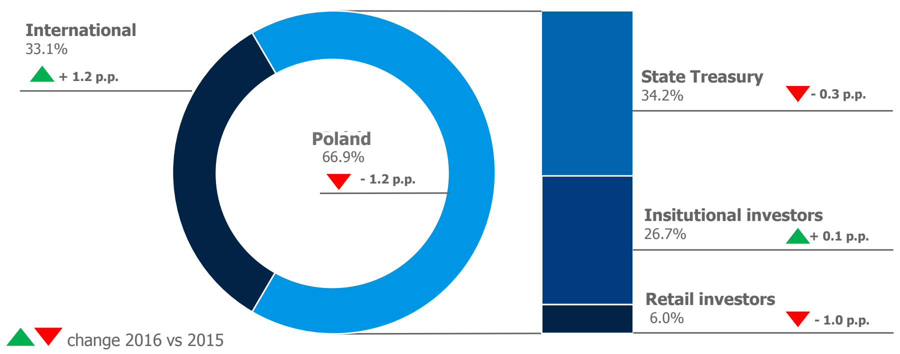
PZU shareholding structure

As at 31 December 2016, the shareholders of PZU with significant share packages were as follows: the State Treasury of the Republic of Poland (34.2% of the share capital) and Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK (5.1% of the share capital) CHAPTER 10.6 PZU SHARE CAPITAL AND SHAREHOLDERS.

According to the surveys conducted at the end of 2016, the shareholding structure of PZU remained stable. The foreign investors' share increased by 1.2 p.p. to 33.1%. The change in this group resulted mainly from the North American capital, the share of which rose by 2.1 p.p. year-on-year to 12.0%. The higher weight of foreign investors is also confirmed by WSE data[7] concerning trading on the whole market, which shows that their share (in the stock market) at the end of 2016 was 53% (+2 p.p. year-on-year), while the share of

[7] Source: https://static.gpw.pl/pub/files/inwestorzy_w_obrotach_GPW_prezentacja.pdf

PZU shareholding structure – key investor groups

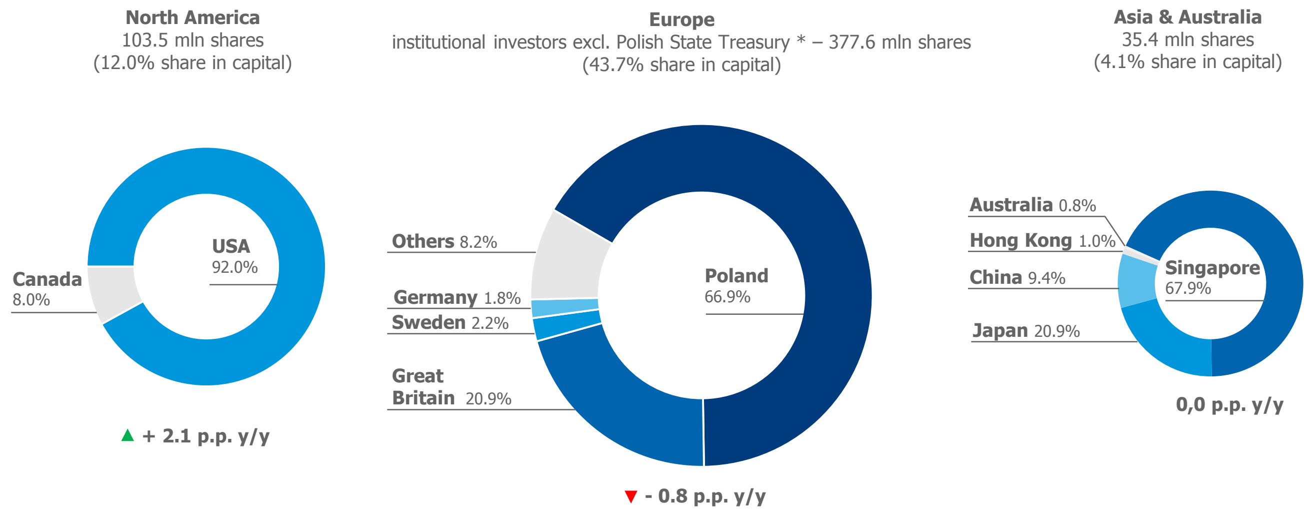


Polish institutional investors dropped to 34% (-3 p.p. year-on-year).

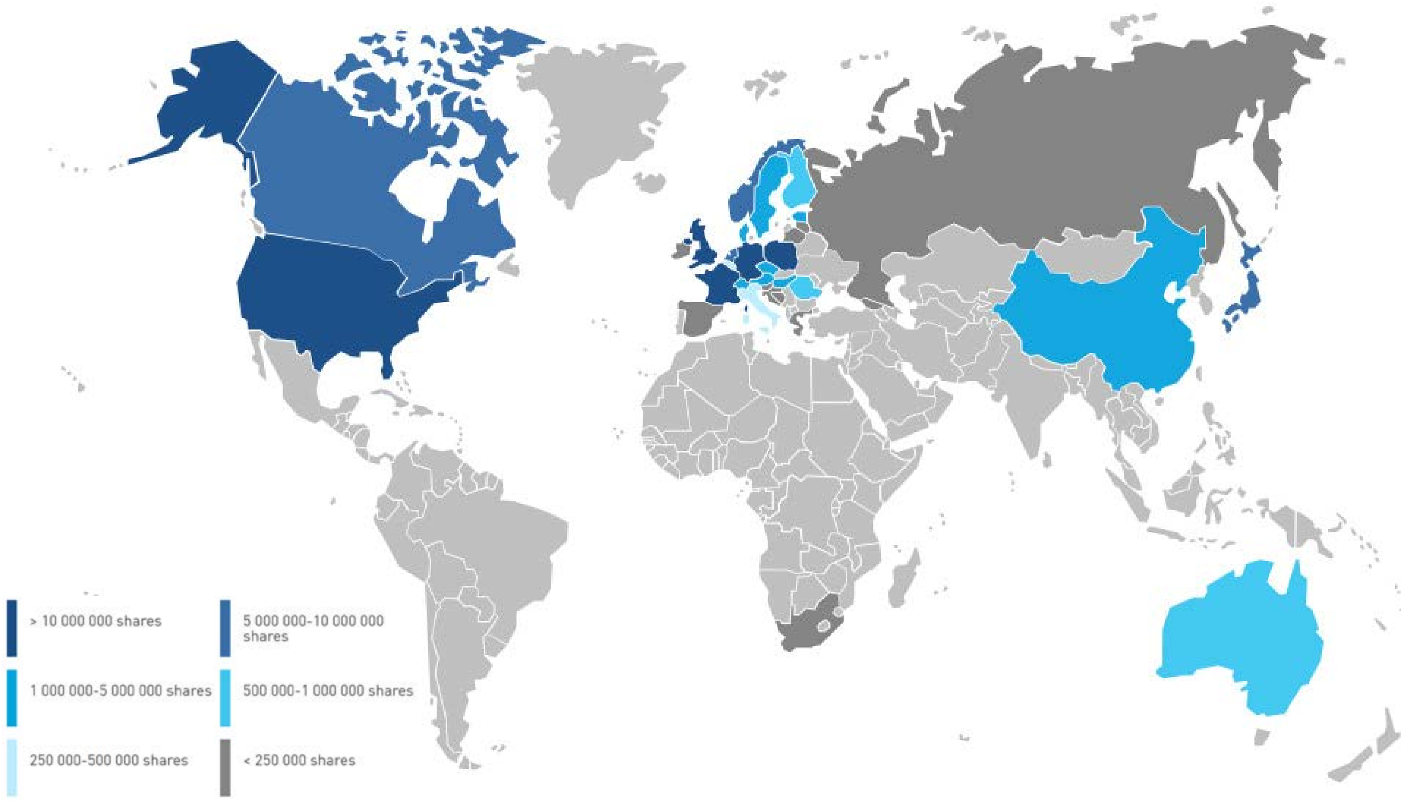
The share of European (with the exception of the State Treasury) institutional investors (in PZU share structure in 2016) slightly dropped, i.e. by 0.8 p.p. to 43.7%. The most important changes in this group (in a relative depiction) include the growth of the share of Polish investors by 2.9 p.p. (to 66.9%) and the rising activity of the investors from Great Britain, whose share rose from 19.5% to 20.9%.

The share of Polish institutional investors remained at a level similar to that of 2015, i.e. at 26.7% (up by 0.1 p.p. year-on-year). This included both OPF and TFI raising their share by a few bps. As at the end of 2016, their share amounted to 19.1% and 5.3%, respectively.

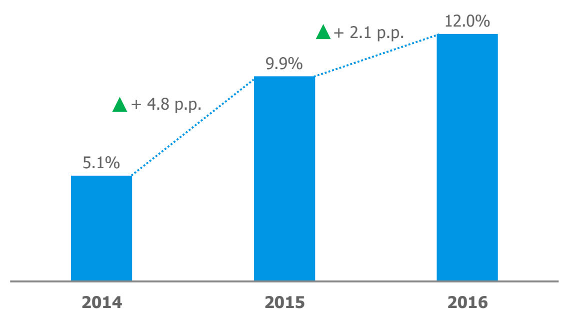
Geographical structure of PZU shareholding



change 2016 vs 2015 * Polish State Treasury – 34.2% share in capital



North America investors 2014-2016



Individual investors composed roughly 6% of PZU shareholding in 2016, i.e. 1 p.p. less than in 2015. The low involvement of this group reflects the structural trends of the Polish capital market. In 2016, the share of individual investors in the trading of shares on WSE reached only 13% (much like in the years 2014–2015); for comparison purposes, the 2010 (the year of PZU's IPO GLOSSARY) share of this group in trading was roughly 20%.

The share of individual investors located outside of Poland remained the same level as in 2015, at 1.1%.

Communication with capital market participants

The financial performance of PZU Group (for 2015, Q1 2016, H1 2016 and Q3 2016) was presented and discussed by the PZU Management Board during meetings with capital market analysts (the meetings were also broadcasted live online at all times). PZU also held dedicated meetings with live online transmissions from the following events:

- 24 August 2016 – announcement of the 2016–2020 strategy
- 4 October 2016 – announcement of PZU's capital and dividend policy
- 8 December 2016 – announcement of signing the agreement to purchase package of shares of Bank Pekao from UniCredit

In 2016, PZU once again presented its most important events, achievements, and plans as an annual online report at http://raportroczny2015.pzu.pl. The report was awarded the highest distinction for the best annual online report in a prestigious competition held by the Polish Institute of Accounting and Taxes.

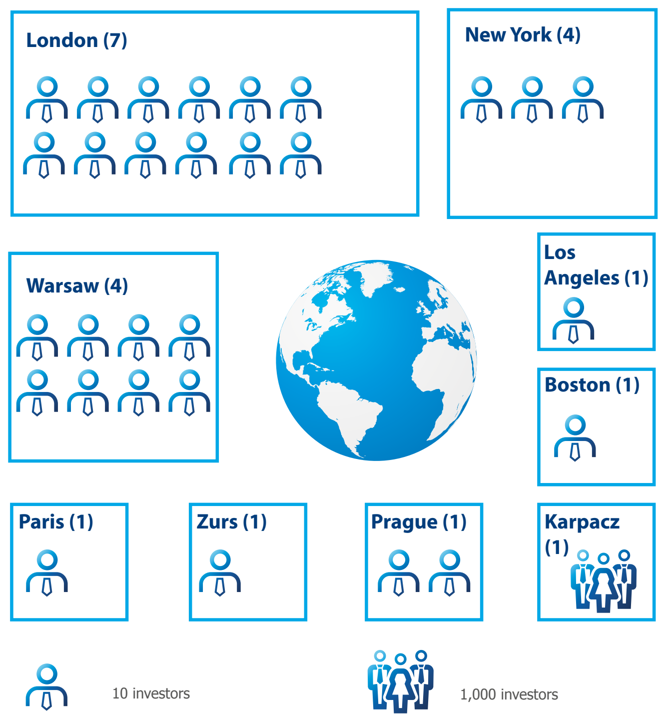
Activities aimed at institutional investors

In 2016, representatives of PZU participated in:

- 2 non-deal road shows in London and New York/Boston;
- 15 financial conferences held abroad with global institutional investors in attendance;
- 5 conferences for institutional investors in Warsaw;
- numerous investor meetings at the company's seat; 1on1, group meetings, and teleconferences.

In 2016, PZU organized 163 meetings with nearly 288 institutional investors and over 132 meetings and teleconferences with analysts issuing recommendations concerning PZU shares.

Investment centers visited in 2016 (number of visits)



Activities aimed at individual investors

In 2016, PZU actively supported individual investors, specifically by providing credible and relevant information on the activity of PZU, the insurance industry, and financial markets. In this range, PZU both realized the projects oriented to improve communication (including the online report, newsletter, factsheet) and was pro-active in providing direct access to the Company's representatives, including:

- participation in Poland's biggest conference for individual investors organized by Individual Investors' Association, named 20th Wall Street Conference in Karpacz (over 1,000

registered investors) – the largest meeting of individual investors in Central and Eastern Europe;
- organization of 4 on-line chats with individual investors, in which the Member of the PZU Management Board of who is in charge of Finance Division in PZU Group also participated, after each publication of the results.

In 2016, PZU took part in the „10 na 10 – komunikuj się skutecznie” [Ten out of Ten: Effective Communication] program aimed at creating high communication standards for quoted companies to reach individual investors.

Awards and prizes for IR activities

Activities of PZU regarding investor relations are highly appreciated both by investors, analysts, and media. In 2016, PZU received the following awards and prizes in this area:

- First place for the annual online report (for the second year running) in the „Banks and financial institutions” category in the Best Annual Report competition organized by Polish Institute of Accounting and Taxes (IRIP). In the general classification of the Best Annual Report 2015, which is composed of the total assessment of the consolidated financial report, the management board report from the Group's operations, and the online report, PZU came third;

- Third place for the President of the Management Board Michał Krupiński in the top CEO ranking for investor relations in Poland and Central and Eastern Europe in the Extel 2016 survey;
- Third place (for both PZU and individually for the Head of Investor Relations - Piotr Wiśniewski) in the top investor relations in Poland ranking in the Extel 2016 survey; The Extel survey included 16 thousand people from investment environment from 75 countries. 5.5 thousand individuals and over 1.5 thousand companies were subject to the survey in the field of investors relations conducted by representatives of brokerage houses and investment analysts. All data used for drafting the ranking were subject to an external audit which ensures their credibility and correctness.
- Honorable mention by Individual Investors' Association in the „10 na 10 – komunikuj się skutecznie” [Ten out of Ten: Effective Communication] program for preservation of high standards of communication with the capital market;
- Business Sharks award (at the first Capital Market Forum) in two categories: „Debut of the last 25 years” and „Dividend-yielding company”.

IR aims for 2017

The main aims for PZU's Investor Relations in 2017 are:

- strengthening good relations between the PZU Management Board and investors;
- ensuring understanding and approval for the PZU 3.0 strategy among the investors and analysts;
- providing a broad market for PZU shares and bonds – by continuing pro-investor activities aiming to create a diversified (geographically, numerically, and in terms of their profiles) group of investors who know the company and are well-informed;
- ensure wide coverage for PZU shares by analysts of investment banks and brokerages (sell-side) and ensure fair valuation of PZU shares by providing analysts with high-quality information on the activities of PZU, industry trends, factors affecting the financial results and feedback on the analysis of the issued recommendations;
- creating standards of investor relations for other quoted companies to follow;
- providing the PZU Management Board with regular feedback on perception of PZU among capital market participants and wide knowledge on existing and potential shareholders of the company;
- monitoring investors' sentiment towards PZU shares and changes in shareholding structure in order to apply the most adequate IR actions and tools and IR plans effectiveness assessment.

Dividend yield for PZU's shares

6.3%

dividend per share paid in 2016

PLN 2.08

P/E ratio (Price to Earnings) for PZU's shares at the end of 2016

14.7

P/BV (Price to Book Value)

2.2

Market capitalization

PLN 28,677 million

Average PZU's shares trading volume per session

PLN 66.8 million

average number of transactions per session

4,169

Share of foreign investors in PZU's shareholder base at the end of 2016

33.1%

share of North America based investors

12%

Share of Polish OPF in PZU's shareholder base

19.1%,

Share of TFI (mutual investment funds)

5.3%

Number of participated conferences for institutional investors

15 international

5 domestic

2

non deal roadshows in London and New York/Boston

Number of sell-side recommendations for PZU's shares at the end of 2016

9 BUY

4 HOLD

maximum target price

PLN 42.4

average target price

PLN 34.5

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

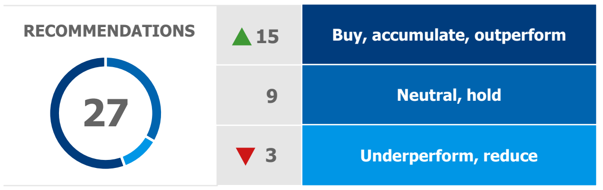
A-

since 2014 the rating is one notch above foreign currency sovereign rating on Poland

8.6 Analysts' recommendations for PZU shares

In 2016, recommendations for PZU shares were issued by 16 domestic and foreign financial institutions. In total, the sell-side analysts GLOSSARY issued 27 recommendations. Positive (55.6%) and neutral (33.3%) recommendations formed the majority of opinions.

Distribution of recommendations and target prices (TP) issued in 2016

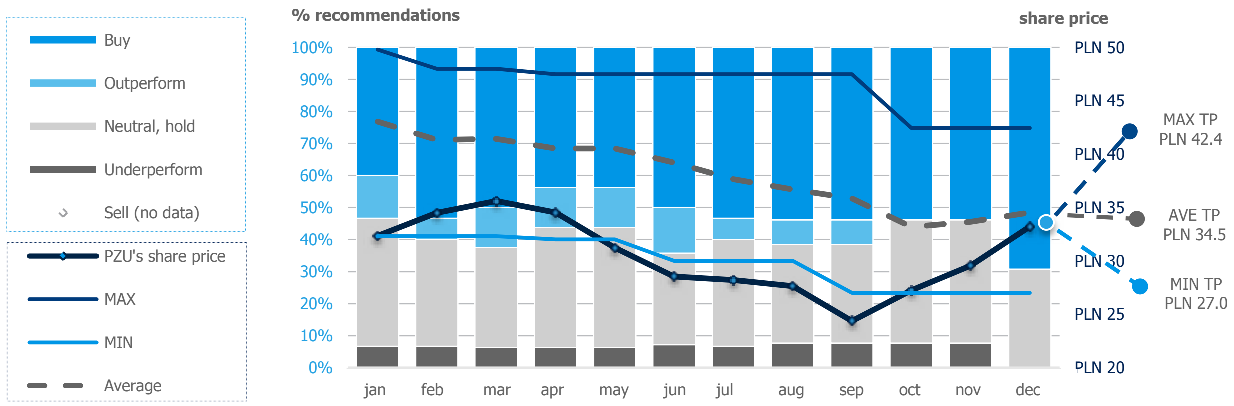


The biggest impact on the assessment of PZU shares by analysts in 2016 was made by the projections and premises concerning the new strategy, dividend policy, investments in the banking sector (specifically following the personal changes in the Management Boards of PZU Group's companies) as well as projected changes in profitability resulting from the high dynamics of tariffs on the motor insurance market, and the expectations toward investment results derived from the high volatility of capital markets.

There were 13 relevant recommendations at the end of 2016 (9 sell and 4 hold). The median of their target prices (TP) amounted to PLN 36.00 and was lower by 16.3% compared with the price median at the beginning of the year. The maximum target price was PLN 42.4 and was 14.8% lower than the maximum target price from January 2016 and, simultaneously, higher by 27.8% than the price of PZU shares at the final session of 2016.

	2016-12-31	2016-01-01	change	Deviation of recommended prices from share price
Maximum target price	PLN 42.4	PLN 49.8	-14.8%	27.8%
Median target price	PLN 36.0	PLN 43.0	-16.3%	8.4%
Average target price	PLN 34.5	PLN 42.7	-19.1%	4.0%
Minimum target price	PLN 27.0	PLN 35.0	-22.9%	-18.7%

Analysts' expectations towards PZU share price in 2017 on the basis of recommendation updated as at the end of December 2016



On average, analyst recommendations in 2016 were higher by 19.7% than the PZU market assessment. This difference started to quickly diminish in the second half of the year. In October of 2016, the ratings of PZU shares exceeded the minimum recommended target price, which was associated, among others, with the positive reception of the PZU dividend policy for the years 2016–2020. The further dynamic growth of share prices raised the average analyst assessment only by 4.0% above the market assessment of PZU shares on WSE in December 2016, following the announced intention to purchase the package of shares of Bank Pekao. The spread between the highest and the lowest target prices also experienced a considerable decline, which can be interpreted as a sign of declining uncertainty. The end of the year also saw lower polarization of the given recommendations. The clearly higher uncertainty at the beginning of the year was demonstrated in the wider range of recommendations, i.e. overweight and underweight. The only recommendations left in December 2016 were to buy (69.2%) and neutral (30.8%).

Institutions issuing recommendations for PZU shares in 2016

POLAND

Institution	Analyst	Contact details
Deutsche Bank	Marcin Jabłczyński	+48 22 579 87 33 marcin.jablczynski@db.com
DM BH (Citi)	Andrzej Powierża	+48 22 690 35 66 andrzej.powierza@citi.com
DM mBank	Michał Konarski	+48 22 697 47 37 michal.konarski@mdm.pl
DM PKO BP	Jaromir Szortyka	+48 22 580 39 47 jaromir.szortyka@pkobp.pl
DM Trigon	Maciej Marcinowski	maciej.marcinowski@trigon.pl
Haitong Bank	Kamil Stolarski	+48 22 347 40 48 kstolarski@espiritosantoib.pl
Ipopema Securities	Łukasz Jańczak	+48 22 236 92 30 lukasz.janczak@ipopema.pl

FOREIGN COUNTRIES

Institution	Analyst	Contact details
Credit Suisse*	Richard Burden	+44 20 7888 0499 richard.burden@credit-suisse.com
ERSTE	Thomas Unger	+43 50 1001 7344 thomas.unger@erstegroup.com
HSBC	Dhruv Gahlaut	+44 20 7991 6728 Dhruv.gahlaut@hsbcib.com
JP Morgan	Michael Huttner	+44 20 7325 9175 michael.huttner@jpmorgan.com
Raiffeisen Centrobank	Bernd Maurer	+43 1 51520 706 maurer@rcb.at
Societe Generale	Jason Kalamboussis	+44 207 762 4076 jason.kalamboussis@sgcib.com
UBS	Michael Christelis	+27 11 322 7320 michael.christelis@ubs.com

* till June 2016

8.7 PZU Group's capital and dividend policy

On 3 October 2016, the Supervisory Board of PZU adopted a resolution to pass the PZU Group's capital and dividend policy for 2016–2020 („Policy").

The introduction of the Policy was the effect of the 1 January 2016 implementation 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 Act on Insurance and Reinsurance Activity of 11 September 2015, and the end of the „Capital Structure and Dividend Policy of PZU Group for the years 2013–2015", which was updated in May of 2014.

According to the Policy, PZU Group is aiming towards:

- effective capital management through optimization of capital use from the perspective of the Group;
- maximizing the rate of return for the shareholders of the parent company, especially alongside with ensuring a steady safety level and maintaining capital funds for strategic development through acquisitions;
- ensuring enough funds to cover the Group's liabilities towards its clients.

The capital management policy is based on the following rules:

- PZU Group's capital management (including surplus capital) at the level of PZU as the dominant entity;
- maintaining target solvency ratios at the level of 200% for PZU Group, PZU, and PZU Życie SA (in accordance with Solvency II);
- maintaining PZU Group's leverage ratio at a level no higher than 35%;
- providing funds for development and acquisitions in the upcoming years;
- no share issues by PZU in the period of the Policy being in effect.

The capital management policy of PZU Group and PZU is based on the following rules:

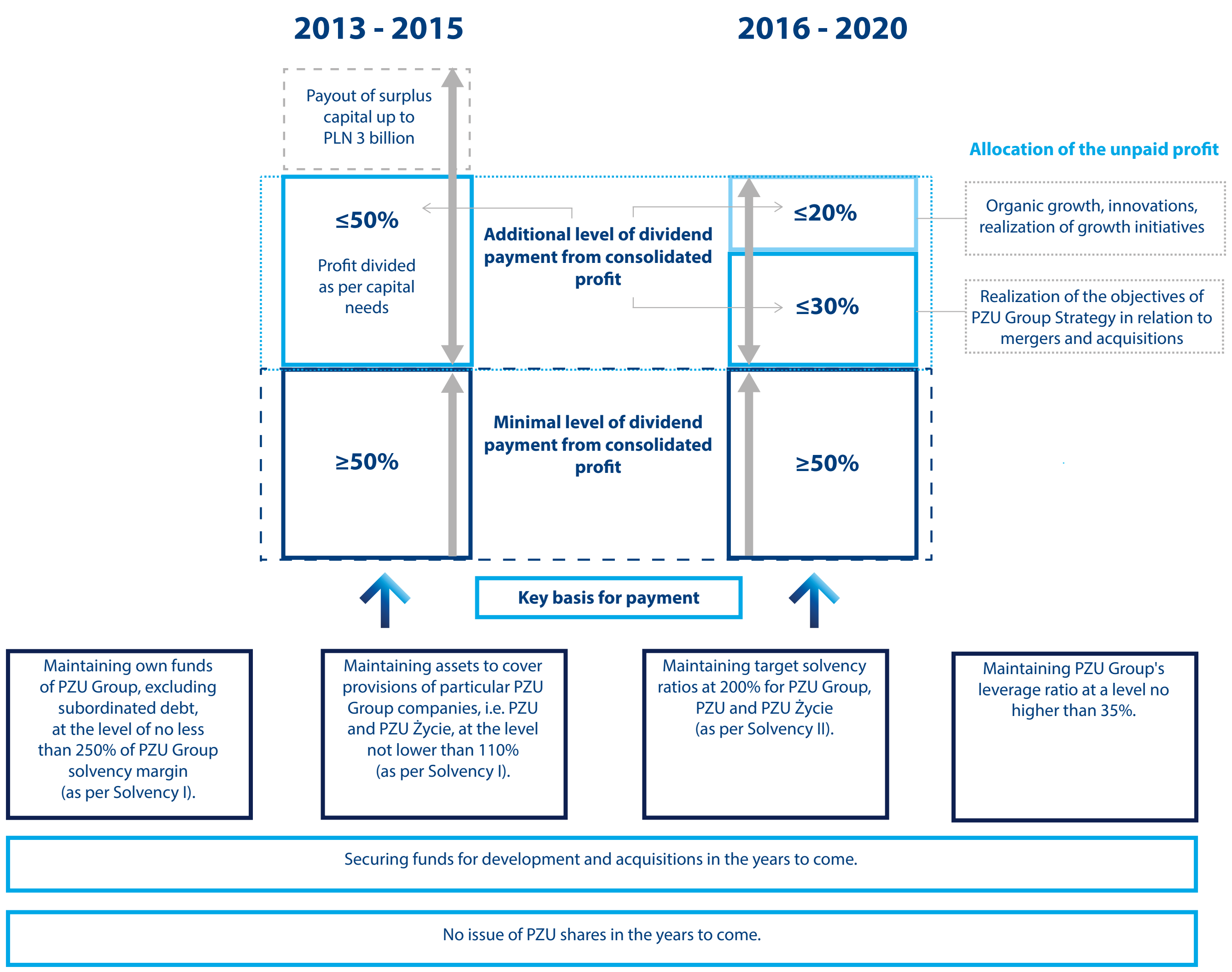
- PZU Group aims to effectively manage the capital and maximize the rate of return for the shareholders of the parent company, especially alongside with ensuring a steady safety level and maintaining capital funds for strategic development through acquisitions;
- the dividend amount proposed by the Management Board of the dominating entity paid out by PZU for the given financial year is established based on the consolidated financial result of PZU Group assigned to the dominating entity, where:
  - no more than 20% will raise the profits detained for purposes of organic development, innovation, and realization of growth initiatives (supplementary capital);
  - no more than 50% is subject to payout in scope of annual dividend;
  - the remaining part will be paid out as annual dividend or raise detained profits (supplementary capital) if the given year includes realization of important expenditures associated with performance of the premises in PZU Group's Strategy, specifically concerning fusion and acquisition transactions;

  with reservation of below points ;
- according to the plans of the Management Board and own evaluation of risks and solvency of the dominating entity, the own funds of the dominating entity and PZU Group following declaration or payout of the dividend remain at a level ensuring fulfillment of the conditions specified in the capital policy;
- recommendations of the authority supervising the dividend are taken into consideration for dividend determination.

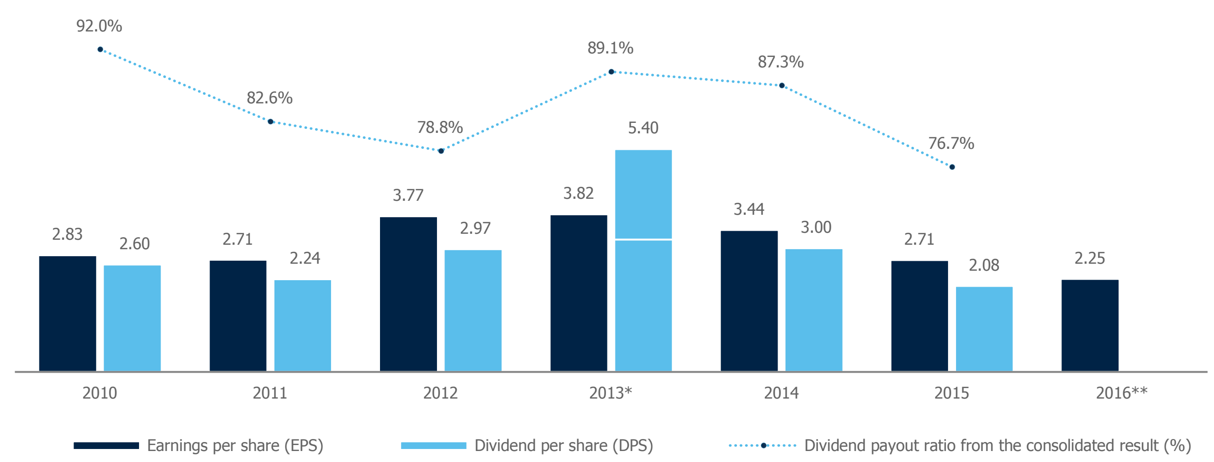
Payout of dividend for 2015

On 30 June 2016, the General Shareholders' Meeting of PZU adopted the resolution on the distribution of the net profit for the year ended 31 December 2015, in which it decided to allocate to the dividend payment the amount of PLN 1,796,127,840.00, i.e. PLN 2.08 per share. 30 September 2016 was chosen as the date according to which the list of shareholders entitled to the payment was established. Dividend was paid on 21 October 2016.

Dividend and capital policy of PZU Group

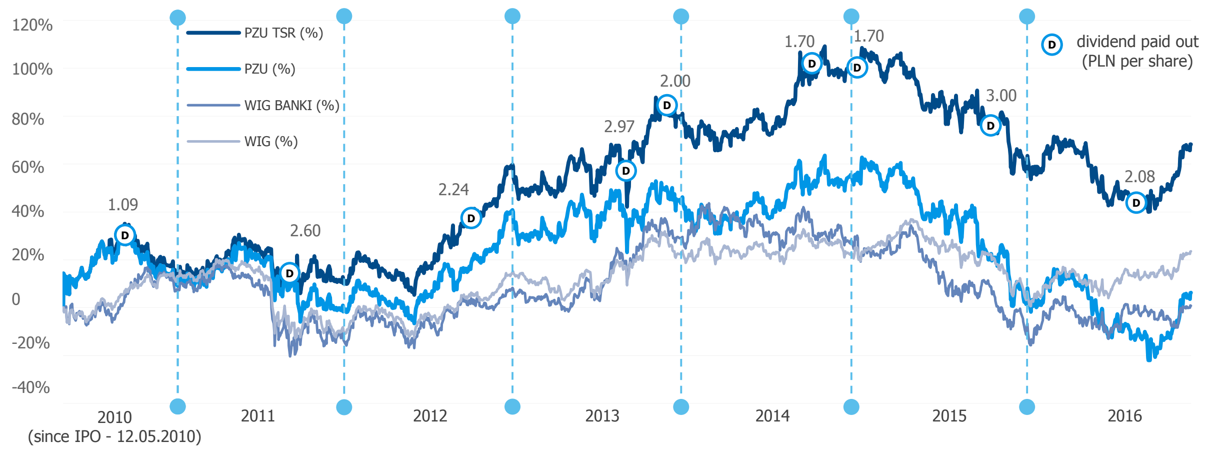


2010–2016 profit and dividend per PZU share

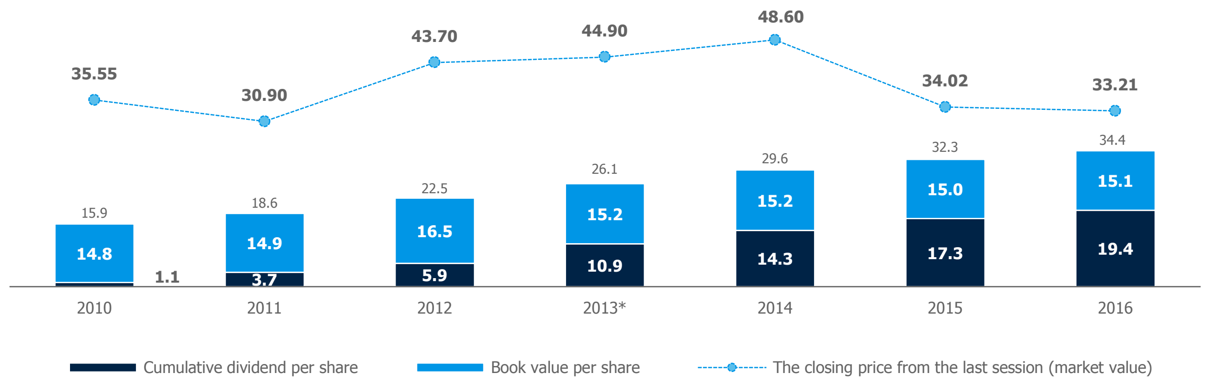


* dividend from surplus capitalspaid in 2013 (PLN 2.00 per share)
** By the date of preparing this Management Report of PZU Group, the Management Board had not adopted a resolution concerning distribution of profit for 2016.

Payouts of PZU's dividends and Total Shareholder Return - TSR (2010–2016)



Book value per share and gross accumulated dividend per PZU share (PLN)



* dividend from surplus capital was paid in 2013 (PLN 2.00 per share)

PSFA recommendation for payout of dividend for 2016
Similarly to previous years, on 6 December, the Polish Financial Supervision Authority presented an opinion concerning the dividend policy of banks, insurance and reinsurance companies, pension funds, brokerage houses, and investment funds in 2017 (download).

As per the supervisory institution's recommendation, the dividends should be paid only by the insurance companies that meet specific financial criteria. At the same time, the dividend payment should be limited to the maximum of 75% of the 2016 profit, maintaining the capital requirement coverage for the quarter concerning the dividend payout at minimum 110%. Simultaneously, PFSA permits dividend payment equal to the total profit of 2016 as long as the coverage of the capital requirement (after subtraction of the projected dividends from equity) at the end of 31 December 2016 and for the quarter concerning the dividend payout is at the level of minimum 175% for companies operating in section I and at least 150% for companies operating in section II.

By the date of preparing this Management Report of PZU Group, the Management Board had not adopted a resolution concerning distribution of profit for 2016.

Dividend paid by PZU from profit for 2012–2016 financial years

	2016	2015	2014	2013	2012
Consolidated net profit of PZU Group (in PLN million)*	2,417	2,343	2,968	3,295	3,254
Standalone income of PZU (in PLN million)	1,593	2,249	2,637	5,106	2,581
Dividend paid per year (in PLN million)	n/a****	1,796	2,591	4,663	2,565
Dividend per share per year (in PLN)	n/a****	2.08	3.00	5.40**	2.97
Dividend as at the date of establishing dividend right (in PLN)	2.08	3.00	3.40	4.97	2.24
Dividend payout ratio from the consolidated result for the year**	n/a****	76.7%	87.3%	89.1%**	78.8%
Dividend rate in the year (%) ***	6.3%	8.8%	7.0%	11.1%	5.1%
TSR (Total Shareholders Return)	3.7%	(23.8)%	15.8%	14.1%	48.7%

* profit attributed to the owners of the dominating company
** 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
**** by the date of preparing this Management Report of PZU Group, the Management Board had not adopted a resolution concerning distribution of profit for 2016.

8.8 Rating

Issuer's rating
Since 2004 PZU and PZU Życie are regularly rated by S&P Global Ratings (S&P). The rating assigned to PZU and PZU Życie results from an analysis of the financial information, competitive position, management and corporate strategy as well as the financial situation of the country. It also includes outlook, i.e. an assessment of the future position of the Company in the event of specific circumstances. From 25 March 2014 onwards, the rating of PZU is one notch above foreign currency sovereign rating on Poland. .

On 21 January 2016, S&P lowered the financial strength rating of PZU from grade „A" to „A-" with negative outlook. The decision to lower the rating of PZU was the consequence of the decision to lower the rating of Poland and did not result from the change to the Company's financial situation.

On 31 October 2016, S&P maintained the long-term credit rating and financial strength rating of PZU and PZU Życie at „A-" with negative outlook, simultaneously removing it from the „watched" list on which is was placed on 18 December 2015.

On 22 December 2016, S&P confirmed the financial strength rating and credit strength rating of PZU and PZU Życie at „A-". The rating outlook remained negative. The rating was confirmed after PZU Group's release of information on 8 December 2016 on agreeing to the purchase of 20% of the shares of Bank Pekao.

Poland's rating
On 15 January 2016, S&P downgraded Poland's rating from „A-" to „BBB+" for long-term liabilities in foreign currencies and from „A/A-" to „A-1/A-2" respectively for long- and short-term liabilities in local currency. At the same time, the outlook was changed from positive to negative. On 2 December 2016, the rating outlook was raised to stable.

Eurobonds rating
On 20 June 2014, S&P awarded a rating of „A-" for unsecured debt to the Eurobonds issued by PZU Finance AB. In October 2015, PZU bonds valued at EUR 350 million were issued. These bonds were assimilated and, together with the Eurobonds at value of PLN 500 million issued by PZU Finance AB (a public company) on 3 July 2014, they constitute one series, a so-called tap issue. On 12 October 2015, S&P analysts awarded a rating of „A-" to the new issue. On 21 January 2016, as a result of downgrading the rating of PZU (followed by the downgrade of Poland), the rating of Eurobonds issued by PZU Finance AB was lowered to the level of „BBB+". It continues to be a so-called investment rating.

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 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 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 12 April 2016.

Rating of Alior Bank

Rating of Alior Bank	Rating (Fitch)
Long-Term Foreign Currency IDR	**BB /stable/**
Short-Term Foreign Currency IDR	B
National Long-Term Rating: BBB+(pol)	BBB+(pol) /stable/
National Short-Term Rating: F2(pol)	F2(pol)
Viability Rating (VR)	bb
Support Rating	5
Support Rating Floor	'No Floor'

PZU on capital and debt market

Calendar of major corporate events in 2017

18 JANUARY
Extraordinary General Meeting

15 MARCH
2016 Annual report

17 MAY
Report for Q1 2017

2-4 JUNE
21 WallStreet Conference for individual investors

24 AUGUST
Report for H1 2017

15 NOVEMBER
Report for Q3 2017

MORE

09

Corporate social responsibility

We are a part of our world. We believe that the necessary elements of responsible business and foundations for developing the value of an innovative company include understanding of the expectations of our clients and other stakeholders, care for our employees, and involvement in social activity and environment protection.

Contents:

PZU Group is the leader of the Polish insurance market and one of the largest financial institutions in Central and Eastern Europe. Being the leader is an obligation to act responsibly, but PZU also sees it as a conscious choice and voluntary strategy. The management board wants to act as not just an entrepreneur but also as an active citizen who reacts to social problems and challenges. Group's rising value complies with the interests of its environment and is based upon sustainable and responsible use of resources. Realization of the PZU 2020 strategy based on the proper capital management – financial, human, social, environmental, and intellectual. CHAPTER 4. BUSINESS DEVELOPMENT STRATEGY

The long-term sustainable approach to business is confirmed by PZU's presence in the RESPECT Index of socially responsible companies (Warsaw Stock Exchange index). CHAPTER 8. PZU ON THE CAPITAL AND DEBT MARKET

PZU's mission is to provide our clients with peace of mind and sense of security. This would never be possible without their trust. It is the foundation of relations, because the client buys a promise of PZU's assistance in difficult situations. But PZU's activity affects not only its clients. Its employees, shareholders, suppliers, and the local communities covered by its operations are equally important. They should all know that they can rely on PZU.

„We see all human beings as important and we want to create a better future for everyone"

Ethics, regarding the firm as a whole and its individual employees, is the foundation of all activities performed by PZU Group and the prerequisite of sustainable development. PZU is doing everything in its power to have ethical conduct reflected in all activities of Group's employees. PZU wants to create a corporate culture based on fairness, honesty, and respect. The benchmarks for all ethical matters are the formal documents (Good Practices in PZU) and the adopted three main values:

- we are fair – our rules are clear and our offer is transparent and satisfies the real expectations of the clients;
- we are innovative – we keep searching for the ways to improve and continually adapt to the changing needs of the clients;
- we are effective – we control the costs, ensure that the processes are smooth, and offer friendly customer service and competitive prices to our clients.

These values compose the common operating philosophy and serve as the foundation of PZU Group's 2020 strategy CHAPTER 4. STRATEGY OF DEVELOPMENT. The good practices have been adopted and applied by most of Group's companies, including all insurance companies (PZU, PZU Życie, LINK4, Lietuvos Draudimas, PZU Lithuania Life, ASS Balta, PZU Estonia, PZU Ukraine, PZU Ukraine Life).

Sustainable development and social responsibility in business are at the same time the way to build the best value offer for the clients of PZU Group, as well as the most accurate answer to the needs of other stakeholders. The CSR GLOSSARY activities undertaken in support of business objectives build the brand's reputation, its image, and social capital.

In its day-to-day operations, PZU Group complies with the following four standards:

- we address the needs – we provide top quality products which are best fitted to the expectations of our clients;
- we value our people – we continuously develop the skills and competences of our staff to create good conditions to boost their personal interests;
- we support the society – we strive to establish stable, long-term relations with the local communities by supporting initiatives that have a positive impact on the environment;
- we care for the natural environment – we take responsibility for the environment where we operate.

9.1 We address the needs

For over 200 years, PZU Group has done its best to meet expectations and keep its customer services at the highest level. We respect all principles included in the Code of Good Insurance Practices introduced by the Polish Chamber of Insurance.

Client relations

In order to ensure safety and guarantee top quality cooperation to our clients and other stakeholders, PZU is constantly analyzing data from all available communication channels and other information sources. The conclusions drawn from such analyses allow us to continually improve our business processes and relations with our clients. The tools used by PZU to analyze the clients' needs and expectations include the following:

- client satisfaction surveys – PZU and PZU Życie hold regular and advanced surveys concerning customer satisfaction and loyalty. PZU Group conducts satisfaction surveys during every process and in every sales channel. That helps us to gain even better understanding of the market. The surveys were carried out among over 40 thousand participants and their results allowed not only to better determine the clients' needs but also indicate organizational strengths and identify the areas for improvement and change. The 2016 surveys showed that the satisfaction level among PZU clients who benefited from the claims handling process managed by PZU Group or received payment of benefits within the last 12 months was 8 p.p. higher than at the competitors. The Net Promoter Score (NPS) GLOSSARY among Group's clients was at the level of 7%[1]. Among LINK4 clients, NPS amounted to 6% and was by 4 p.p. higher than that of the competition on the direct market[2] GLOSSARY.;
- customer service quality survey – PZU regularly examines the quality of customer service in PZU branches and through PZU agents and partners. Conclusions from these observations are used to prepare training programs in customer service, including training for the agents and partners, in order to ensure constant improvement of the service quality;
- meetings with clients – PZU regularly meets with its clients and asks for their opinions concerning service quality, manners of communicating with them, marketing materials, or social activity; In PZU, the client's opinion serves as an important element in building the offer and service standards;
- social media and clients' complaints – PZU communicates with all stakeholders e.g. via expert blogs or social media, such as Facebook, Twitter, Linkedin or Instagram. Such platforms enable better communication with a diversified audience and thus allow for better identification of the areas for improvement. On the other hand, using modern communication channels strengthens the image of PZU as a customer-friendly and contemporary company, which welcomes comments and encourages discussion with its stakeholders. "We want to be where our clients are";
- audits of the quality of communication with clients – PZU audits the language of communication with the clients together with the Department of Plain Polish Language at the University of Wrocław. It checks whether the communication is effective, friendly, and understandable, and also whether the language used is the same as the one the client writes in. In this case, it is important to study communication in the social media, which is gaining popularity as a communication channel;
- data mining models – advanced analytics supported by the practical business know-how of experts allowed for the development of models which effectively find information in data warehouses. Data mining models directly support all marketing and sales processes.

When providing our clients with best possible access to our services, PZU Group also tries to support local communities. Most PZU branches are located in towns up to 15 thousand inhabitants and significantly contribute to the development of the towns and their communities. Striving for high accessibility of its products and services, PZU – as the first insurer in Poland – has introduced customer service in Polish Sign Language in some of its branches. The service is provided in collaboration with Migam.org and facilitates a video connection with a translator via a tablet. The service is already operating in eight selected branches SEE. The solution implemented by PZU allows for a better and more comfortable service for the deaf and hard of hearing.

[1] Monthly survey realized by GFK Polonia on the order of PZU. Presented data are an accumulated result of monthly measurements in the period between January and December, 2016.
[2] Monthly survey realized by GFK Polonia on the order of PZU. Presented data are an accumulated result of monthly measurements in the period between January and December, 2016.

Relations with service providers

PZU focuses greatly on establishing good relations with its service providers and cooperators. In particular, Group focuses on ensuring best possible cooperation with its agents, providing them with support programs, training (e.g. Agent's Academy) and a new internal communication portal within the network of Group's agents. Candidates for agents are trained as well. On the other hand, PZU expects its suppliers, cooperators, and agents to respect all valid regulations pertaining to their scope of operations and clearly communicates this expectation to all its partners.

Cooperation with the industrial sector

The dynamically developing market environment forces continuous improvement of own products and processes and the adaptation of development strategies. Polish enterprises expect their insurance companies to offer excellent service and innovative solutions adapted to their demands. The PZU Lab research and development center has been established to meet these demands and resulted directly from PZU Group's strategy, which concentrates on development and innovative solutions. The project is aimed to increase the awareness of Polish companies in the scope of risk management and promotion of "good practices" among the clients. PZU wants to be a business partner with a strong expert position to not only provide insurance products but also advise its clients at every risk management stage.

Information security in PZU Group and in relations with stakeholders

PZU takes utmost care of the security of information it processes, including that entrusted by its clients and other stakeholders. As the leader of the Polish insurance market, PZU pays particular attention to protecting the information of its clients. It follows personal data protection regulations and all legal requirements concerning the legality of the processed personal details, database registration, and security of the IT systems used to process personal information.

PZU Group has internal procedures regulating the security of information, including the personal data of clients. In its relations with its agents, associates, and other cooperators, PZU requires that the top standards for protection of the interests of its clients are implemented, specifically when it comes to the legality of the data processing.

The Everest platform – the next step toward perfect relations with the clients

By implementing the new IT system, PZU Group has provided the sales team with knowledge allowing for better and faster understanding of the clients' needs in order to prepare comprehensive offers. More information in CHAPTER 5.2 BUSINESS MODEL – INSURANCE.

9.2 We hold our people in high esteem

A motivating work environment

PZU does everything in its power to create a working environment which assists the employees in finding and strengthening their motivation, and thus raising the value of their work, and in reaching top effectiveness in the interest of the clients, shareholders, and the entire environment of the Organization. PZU sees an effective and motivated staff as the most important element of realizing its strategic objectives. Consistent strengthening of the intellectual and social capital by developing the talents of Group's employees is directly reflected in the growth of the main effectiveness indexes and is one of the key conditions to guarantee future increase in the company's value.

The project of building the corporate culture of PZU Group's Contact Center is a good example. The initiative was started in 2015. It assumes the development of a unique organizational culture of the Contact Center unit to distinguish it in the company, yet to have it compliant with the values of PZU Group. A friendly space with an inspiring atmosphere was created to provide the opportunity for realizing passions and sharing experiences. All initiatives are grassroots – designed, planned, and realized by employees, e.g. initiatives under the "People with Passion" program, including sign language courses conducted by an individual who is hard of hearing, photography courses organized by photographers, a rafting trip organized by tourism enthusiasts, or an Excel course organized by a fan of the program. These events are attended in each instance

" You have to create an attractive environment where the people are interested in the history they are creating"

Carlos Goshn. CEO Renault/Nissan

Our prevention of insurance accidents and their consequences saw us support

over 2,600

prevention campaigns

We implemented

66

employee volunteer projects for

8,336 beneficiaries,

including 660 animals

707 of our employees

volunteered and invited 255 people from outside of PZU to their projects

we spent

5,500

hours volunteering

Over

50,000

fans

have the Alior Bank fan card, which acts as ID, replaces traditional paper tickets, and also serves as a pre-paid card

During the running competitions we sponsored, we collected

PLN 158,100

in the **Podziel się Kilometrem** [Share a Kilometer] zones

to help

13

beneficiaries

The satisfaction of our clients with claims handling or benefit payments was

9.1 p.p.

higher than that of the competition

Thanks to abandoning paper press –

– **16** dailies, **48** weeklies and biweeklies, **79** monthlies, and **11** quarterlies

– we were able to reduce

13

tons of paper annually

by several dozen people and the project supports their organization by providing tools and communication. The initiatives are carried out in the following 4 areas:

- involvement – initiatives building satisfaction and involvement of the employees (team building), e.g. soccer tournament, theater review (the Contact Center groups prepared plays for children with admission based on materials and toys for foster homes), Different Dress Code (themed days with attractions and dressing up), contests;
- development of competences – initiatives building and developing the competences and talents of the employees, e.g. open courses (creative thinking, ways to fight stress, cooperation), development program for leaders, development program for selected consultants;
- communication – initiatives improving internal communication and allowing for getting to know one another, e.g. "Communicate to start the day" breakfast with the management or executives, dedicated mailing and contact box, internal intranet website, periodical ZOOM satisfaction surveys for feedback, cohesive communication management outside of the Contact Center;
- working conditions – initiative aimed to improve the comfort of work at the Contact Center, including changes to the arrangement, creation of diverse space by its users, and modification of performance-based reward systems allowing for raising remuneration based on the achieved results with consideration of the specific nature of a given helpline.

Equal opportunity policy

According to the good practices, all PZU's employees have equal opportunities. This rule applies to the relations in all processes – from recruitment, through evaluation of results, promotions, professional development, to attendance in training courses. Our employees have equal opportunities and potential – their gender, age, proficiency, religious beliefs, political opinions, ethnic origin, sexual orientation, and form of employment are insignificant.

Everyone can take advantage of the internal training courses and opportunities for career development. The recruitment process includes consideration of all applications which meet the expectations and requirements regarding knowledge, skills, and abilities.

Enforcement of these rules allows for clear association of effectiveness with raises, a developmental offer, and promotions, and has also provided the managers with tools to manage employee motivation. What is equally important, all employees take active part in assessment, have the opportunity to share their opinions with their superiors, and take responsibility for their individual development.

Personal and professional development

Initiatives focused on personal development and increased job satisfaction strengthen employee motivation and establish a foundation for Group's market success. Many programs were launched over the course of 2016 in the scope of personal and professional support for employees to assist the development of their skills in required areas. The examples of such initiatives include the PLUS program and the Manager 2.0 and Leader 2.0 programs for managers. CHAPTER 5.4 HUMAN RESOURCES MANAGEMENT.

Employee involvement

A committed employee of PZU is a person who thinks about the aims of their actions, their consequences for the company and its clients, and also the ways to cooperate with others in order to build an even more successful business. To turn PZU into a friendlier workplace, the employees and their superiors have come up with a list of activities to potentially help out the process. One of the most popular initiatives was the establishment of the Sport Team. Today, the Association includes 11 active Sport Team units: running, cycling, skiing, squash, volleyball, CrossFit, soccer, sailing, basketball, table tennis, and triathlon, with plans for two more: dancing and Nordic walking. In total, they include almost 800 people – the employees of PZU Group (PZU / PZU Życie / PZU CO / PTE PZU / TFI PZU / PZU Pomoc / PZU Zdrowie) in the following cities: Warsaw, Łódź, Poznań, Opole, Wrocław, Katowice, Kraków, Rzeszów. The PZU Sport Team is regularly among the leaders in amateur tournaments and open events, as well as those organized for employees of different corporations. The biggest accomplishments of 2016 included:

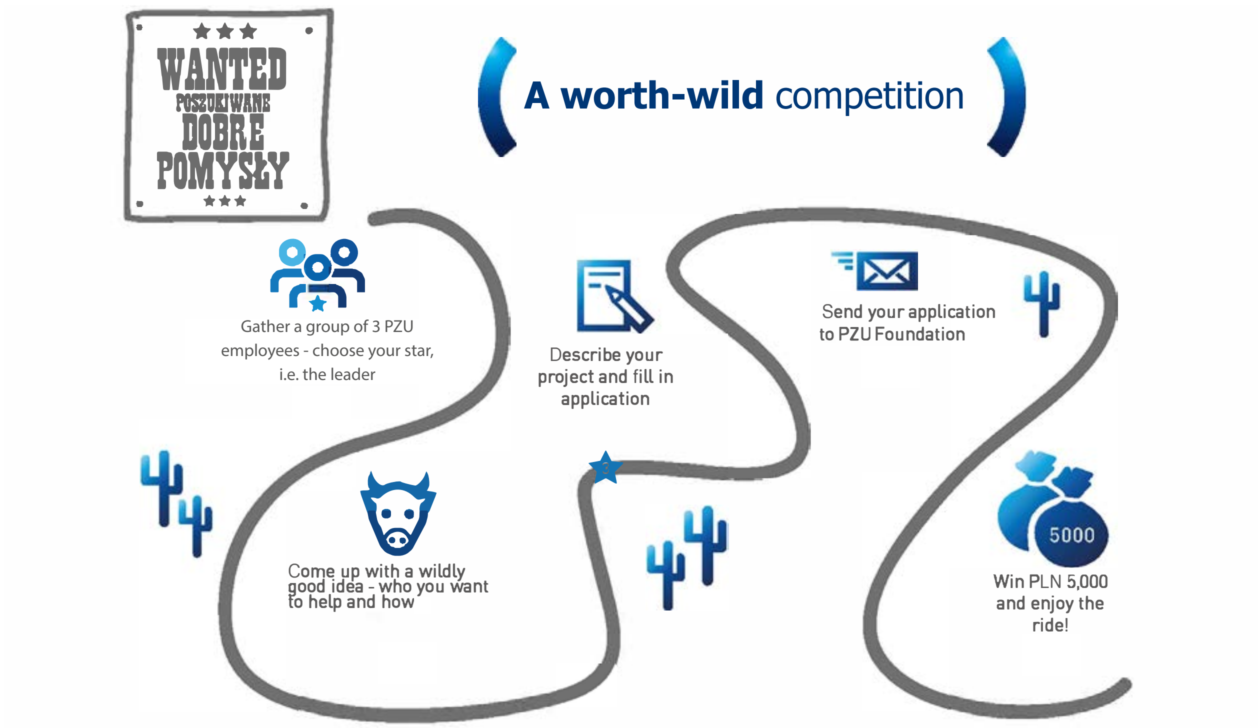
- first and second place in the 38th Warsaw Marathon in the category of "Insurance workers – women" and the eleventh place in the category of "Insurance workers – men",
- second place in Eikiden 2016 in the category of insurance companies,
- promotion to Let's Go League 1 (soccer) and the second place in Let's Go League 1,
- first place (soccer) in the Capital Market Olympiad in Zakopane,
- first place (soccer) in the Izabelin Indoor Championships,
- second place and individual awards for the best shooter and best playmaker in the Bank and Finances Indoor League,
- first place in the 9th sailing regatta of Lewiatan Confederation in both the 24/25-foot yacht category and general classification.

Volunteers among employees

PZU Group encourages its employees to perform active volunteer work and support their local communities and organizations. Their activity helps build permanent and long-lasting relations, which have a positive effect on all of Group's structures.

In 2016, the volunteering employees helped realize 66 projects for the benefit of over 8 thousand people. Most campaigns were dedicated to children, specifically those suffering from incurable diseases, the residents of educational care facilities, and those from poor families. PZU's employees also remember about animals and have provided support to over six hundred of them, mainly cats and dogs, by buying them food and fittings, fixing their cages and yards, but mainly by spending time with them.

The members of PZU's Management Board are also involved in volunteering. They offered sweets, books, and toys to the children of the Rehabilitation Ward of the Masovian Center of Neuropsychiatry in Zagórze for Christmas Eve of 2016.



The most important project of 2016 was the contest for PZU employees and agents titled "Wolontariat to radość działania" [Volunteering is the Joy of Life].The main prize in the contest was a PLN 5 thousand grant for the realization of original projects. In 2016, the volunteering employees helped to carry out 40 projects for the benefit of local non-governmental organizations and the ones they support.

9.3 We support the community

Social involvement is a very important aspect of PZU Group's operations. This activity is based on the premise that social activity should result directly from the operations of PZU, from what it impacts. In its day-to-day operations, Group insures the property and actions of its clients to provide peace of mind and a sense of security. Because of this, it is only natural to assume responsibility for the improvement of safety in Poland and promotion of responsible and safe behaviors. The social activity is conducted under the slogan: "We support that which is important". PZU listens to its clients, the local communities they participate in, and various organizations, and subsequently decides with them on what to support both financially and by sharing the knowledge and experience of its employees. It builds long-term relations with its partners to make sure that the initiatives it supports are being continuously improved.

With support from the PZU Foundation and the preventive fund, PZU promotes a healthy lifestyle, educates in the scope of safety, supports the development of medical science, and carries out a philanthropic activity, which is a permanent element of Group's social involvement strategy.

Prevention

In terms of prevention, PZU undertakes numerous initiatives aimed to improve safety and minimize the probability of occurrence - or its potential consequences – entailing the need to handle various types of claims.

PZU Group has been supporting the Police and the Voluntary and Professional Fire Departments for years by providing funds for firefighting and flood prevention equipment as well as professional training courses. The "PZU Safe Homes" teach preschoolers and children attending school how to behave in a safe manner (moving in a smoke-filled space, obeying traffic and evacuation signs, saving themselves and others instead of things).There are seven such establishments operating in three voivodeships: Mazowieckie, Małopolskie, and Podkarpackie. Thanks to the cooperation with the "Misie Ratują Dzieci" [Bears Save Children] association, children injured in traffic accidents receive comprehensive rehabilitation and psychological care at the Therapy Center in Dźwirzyno near Kołobrzeg. The children hurt in traffic accidents and collisions receive Bear Rescuer mascots, which are funded by PZU, from the rescue services.

Group also uses the prevention fund to support the activity of rescue organizations – Mountain Volunteer Search and Rescue [Polish: Górskie Ochotnicze Pogotowie Ratunkowe (GOPR)] and Water Volunteer Search and Rescue [Polish: Wodne Ochotnicze Pogotowie Ratunkowe (WOPR)] – by contributing to equipment purchases, raising rescuers' qualifications, and educational campaigns. It is actively involved in the initiatives of the Polish Freeskiing Association, which regularly organizes non-commercial avalanche course. These courses are conducted by experienced mountain rescuers under the scientific patronage of the head of the Tatra Volunteer Search and Rescue [Polish: Tatrzańskie Ochotnicze Pogotowie Ratunkowe (TOPR)].They have been attended by almost 1,500 people so far. PZU also promotes the Avalanche ABC, a project of TOPR and TPN [the Tatra National Park], which teaches conscious planning of trips and avalanche control. PZU Group has also signed a new prevention agreement with GOPR, which will be in effect until 2019. It will see the insurer donate money for the purchase of 7 quads and 700 hiking backpacks for GOPR in 2017 for all rescue groups in southern Poland.

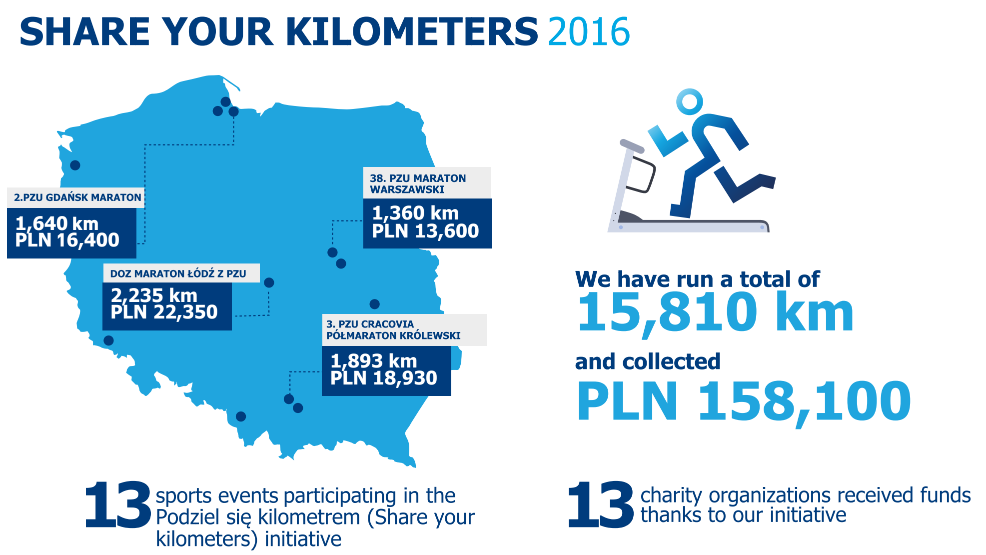
PZU has also been conducting the "Niestraszki" [Fear-nots] program since 2015 in the form of an extensive educational platform. The program enables children to have fun while learning. Together with the Fear-nots, they learn about the world and its hazards. They create animated stories with a moral and attend educational plays. There are also audiobooks, coloring books, games, and exercises available at niestraszki.pzu.pl, as well as contests and advice for parents. In 2016, the Fear-nots helped out in extensive campaigns aimed to educate children about responsible behavior at home, on the road, on trips, or online. The Fear-nots informed about important things, thus helping parents with teaching their children the rules of safety. The activities performed in this respect included:

- Sceny Kulturalne [Culture scenes] – PZU, being the partner of the undertaking, realized the greatest and the most visible summer project on the Polish coast, supporting parents' efforts in the education of their children. This included all-day animations and activities for kids focused on the subject of safety. Each day in the Fear-not safety zone had a different patron – on Stach Trach Day, the children learned about safety on the road through games; on Julek Pechulek Day, they learned about safety on vacation; Tadek Niekradek was the patron of safety at home, Zuzka Wiruska was the patron of safety at sea, and on Lola Pola Day children were taught how to save money, water, and electricity. Together, they all gave the instructions on how to safely use the Internet. As a part of the project, 70 free educational theatrical performances titled "Przygody Niestraszków" [The Adventures of Fear-nots] were held, which gathered over 28 thousand viewers.
- Bezpieczne wakacje [Safe vacation] – PZU not only educates but also actually helps parents make sure that their children are safe. During summer holidays, the biggest nationwide survey concerning the knowledge about safety among parents and children was conducted in the largest coastal towns. The survey was used to draw up a report, which confirmed that parents need our support in educating their children. Concerned about the safety of children, PZU also gave away over 3,500 thousand of "niezgubki" [lose-me-not] wristbands and created special application, which will both prevent the children from getting lost in crowds.
- Warsztaty z Duckie Deck [Workshops with Duckie Deck] – PZU engaged in a special educational project for children which combined modern technologies and fun. 26 workshop days were realized in the largest cities all over Poland in the period between April and December. They engaged over 100 thousand children and parents, and over 1,200 children participated in the Fear-nots workshops on creating animated movies.
- TVP ABC – in December, PZU, in cooperation with TVP ABC, realized an educational program for children. It was aimed at raising children's awareness in the scope of safe behaviors.

Pro-health activity

In 2016, both PZU and PZU Życie cooperated with the hospitals, non-government organizations and media that carried out health-related projects and contributed to the purchases of medical equipment.

The pro-health prevention is aimed to minimize the negative effects of various incidents by spreading knowledge about safety and health promotion through mass running events supported by PZU and other campaigns.



The running events sponsored by PZU were accompanied with the charity campaign "Podziel się kilometrem" [Share a kilometer], which encouraged Poles to help others through their personal physical activity. According to the promoted slogan, everyone had to cover a given distance on a mechanical treadmill, cross-trainer, or exercycle. For every covered kilometer, PZU donated PLN 10 to charity. The campaign was open to everyone and there were special devices prepared for children.

PZU engages in the creation of solutions saving the lives of Poles and activating the community to provide help. PZU Group's cooperation with the Polish Coalition of Oncology Patients allowed for the introduction of ONKOfundusz – a nationwide social portal to support people with tumors – in 2016. The website will connect donors with the patients seeking funds for additional therapy and rehabilitation and will supplement public funding for oncologic therapy.

In 2016, PZU also provided support for the 6th International Onco-Olympic Games. This is the only athletic event in the world for young competitors suffering from tumors. For such children and youth, participation in the games means that they can return to their normal lives after the long treatment process. Over the time of the games, 300 child patients from oncology wards in Poland and selected ones in Lithuania, Romania, Slovakia, Turkey, and Ukraine competed for Olympic medals in track and field, swimming, archery, soccer, badminton, and table tennis. The event was initiated and organized by Fundacja Spełnionych Marzeń [the Foundation of Fulfilled Dreams].

Culture and art

In 2016, PZU acted as a sponsor and patron of national and local cultural events and focused on initiatives associated with the Polish national and cultural heritage. Group supports the Royal Castle in Warsaw, the Royal Museum, and the National Museum in Kraków. For many years, PZU has contributed to the purchases of museum exhibits and provided promotional and conceptual support. As a Patron of the Polish Culture, Group also actively participated in the organization of Noc Muzeów [Night of Museums], preparing special PZU zones offering non-standard promotion of art and culture. In 2016, Group's support was also offered to the 19th Century Arts Gallery at the National Museum in Warsaw. As the patron of the Museum, PZU wants to improve the security of both its priceless collections and visitors. PZU Group was also the patron of the celebrations commemorating the anniversary of the Warsaw Uprising and, since 2015, it has also served as the patron of the Warsaw Uprising Museum, thus contributing to preserving the memory of this special event in the Polish history.

For more information about selected programs and projects, visit PZU's website PZU.

PZU Foundation

Since 2004, the PZU Foundation has carried out charity activities of PZU Group, which are an element of its corporate community involvement strategy. The aim of the Foundation is to promote education of children and teenagers, fostering talents and creating equal opportunities for people who are, for various reasons, disadvantaged, as well as to increase the access to cultural assets and social life, that is, a broadly understood development of civil society. According to its motto: "Blisko ludzi i ich potrzeb" [Close to the people and their needs], it subsidizes projects carried out by non-governmental organizations and institutions throughout Poland and abroad, providing scientific, organizational, and financial support. The operations of the PZU Foundation are focused on the following areas: education, health care and social assistance, culture and history, and safety.

In 2016 PZU Foundation donated grants totaling PLN 14.6 million for subsidizing 414 projects carried out by non-governmental organizations and institutions from across the Poland.

The PZU Foundation cooperates with Krajowy Fundusz na rzecz Dzieci [the Polish Children's Fund], which has been supporting talented youth for the past 30 years by providing free access to the Fund's activities and subsidizing selected ventures for the benefit of their intellectual development.

The PZU Foundation is also the main partner of the "BohaterON – włącz historię" [HeroON-turn on the history] project, which is realized together with the ROSA Foundation. The initiative aims to commemorate and honor those who took part in the Warsaw Uprising. Through its involvement in this project, the PZU Foundation sees an opportunity to build a dialogue between generations and recall the approach of the Warsaw Uprising insurgents, whose experience serves as a valuable history lesson. This is also an opportunity to preserve the timeless nature of patriotism and develop national awareness, which are among the main objectives of the Foundation.

9.4 We care about the environment

Due to the financial nature of PZU Group's operations (CHAPTER 3. PZU GROUP'S OPERATIONS), its direct impact on the natural environment is limited. PZU's initiatives take two forms: of responsible internal resource management and of building environmental sensitivity and awareness among stakeholders - employees, clients, business partners, suppliers, and representatives of local communities. For example, PZU offers an insurance guarantee for removal and liquidation of negative effects in and damage to the environment. The object of the guarantee is PZU's obligation to pay the specified amount in situations in which the entity that applied for it has failed to remove the negative effects in the environment produced as the result of their operations and has not paid all or some of the liabilities resulting from the costs suffered in association with repairing the environmental damage. This product, which is an economic stimulator, supports pro-ecological activity of enterprises, the operations of which expose them to costs resulting from the need to return the environment to its initial condition.

The criteria of ecology and environment protection are the main determinants of PZU Group's decisions and actions in the range of administration, logistics, and real-estate management. PZU's effective purchasing policy also adopts the requirement of obligatory inclusion of ethical, social, and environmental clauses in its agreements.

Selected initiatives in environmental management:

- „rower zastępczy" [replacement bicycle] – in the scope of this initiative, since the year 2012, PZU has offered their clients who were involved in traffic collisions requiring repairs of their vehicles a choice between a replacement car and a bicycle they can keep. The objective of this innovative offer is to promote a healthy lifestyle, but it also reflects the company's care for the environment;

- introducing hybrid cars to the fleet – the drive complies with the highest standard of combustion EURO 5 binding in the European Union, whereas cars, with proper driving techniques, use only about 4 l/100 km in a city;
- economic management of resources and raw materials – electronic data carriers and limiting the use of paper in business are important aspects of this activity. In recent years, equipment such as new printers which automatically print on two sides and the use of irrelevant office materials for office printing have allowed us to reduce paper consumption. Abandonment of paper press - 116 dailies, 48 weeklies and biweeklies, 79 monthlies, and 11 quarterlies – has helped reduce the annual paper consumption by 13 tons. In order to reduce power consumption, we install energy-saving lighting and heating systems. We also focus on responsible waste management and strive to achieve the full recycling level;
- choice of the back office headquarters with attention to ecological aspects – the Konstruktorska Business Center building, which houses PZU's back office, is powered entirely by energy from renewable sources and offers over 30 locations for charging electric cars. The building was designed with special attention devoted to environment protection – it has the BREEAM certificate GLOSSARY. The categories evaluated for the certificate include air quality, energy and water consumption, low waste levels, use of eco-friendly materials, and providing good working conditions;
- employee education – key initiatives in this area include: campaigns regarding use of consumables, recycling, e.g. involving employees in collection of mobile phones and environmental campaigns.

9.5 Selected initiatives of social responsibility of business in other companies of PZU Group

Insurance companies in the Baltic states and LINK4

The awareness of responsible actions is also high among PZU Group's other insurance companies (specifically those in the Baltic states and LINK4). The positions of AB Lietuvos Draudimas and AAS BALTA – the leaders of the insurance markets in Lithuania and Latvia respectively – also entail obligations, just like the role of PZU in Poland. But a responsible action is mainly the way of thinking introducing the standards of corporate responsibility into everyday activity. Most CSR GLOSSARY operations are conducted in the following areas:

- creation of a friendly workplace,
- activities to contribute to the broad concept of safety, specifically traffic safety,
- support for local communities,
- promotion of a healthy and active lifestyle,
- protection of the natural environment.

AB Lietuvos Draudimas

The mission of AB Lietuvos Draudimas is to be a "trusted expert and leader who sets new trends on the non-life insurance market and regularly creates and provides innovative solutions for all Lithuanian residents and enterprises". The company is a socially responsible enterprise and employer. Its CSR GLOSSARY activity in 2015 covered the following key projects: "Stwórzmy bezpieczny świat" [Let's create a safe world] (improving traffic safety), "Wsparcie społeczności lokalnych" [Support for local communities] (initiatives strengthening the sense of identification with local communities, employee volunteering), "Razem tworzymy historię" [Linking history] (support for national pride projects, promotion of modern heritage, financial education, social integration of youth). By supporting and taking part in various campaigns, the company is trying bring together as many people as it can and organize them around a common objective to solve problems, protect the community, and stimulate changes contributing to the creation of both a safer future and balanced society.

In 2016, Lietuvos Draudimas took part in the following social campaigns:

- „Zero agresji" [Zero road range] – campaign motivating reduction of road rage. 85 special road signs were installed in 25 Lithuanian cities by the end of 2015. The year 2016 included the social experiment aimed to demonstrate how important it is to be polite when driving a car.

- „Chroń mnie" [Protect me] – every September, the schoolchildren of all schools are insured by Lietuvos Draudimas against the consequences of unfortunate traffic accidents. The campaign has been organized since year 2000 together with the local communal centers, which provide special signs to pedestrian crossings near schools. In the past 10 years, the number of traffic collisions in Lithuania involving children has been reduced three times.

- „Kup ubezpieczenie mienia - zasadź drzewo" [Insure your property – plant a tree] – its main objective is to plant about 50 thousand trees. In response to the needs of its clients, the company has also launched an online self-service portal and actively encourages communication with the use of innovative tools. The remote administration of the client accounts on the portal reduces paper printouts, the number of paper invoices and documents, shortens the response time, and considerably improves the claims handling process.

AAS BALTA

As the leader of the insurance market and a responsible employer, AAS BALTA wants to actively participate in the life of the Latvian community. In 2016, the company's volunteering employees supported six social projects on a national scale. AAS BALTA contributes to the programs promoting safe behavior in everyday life. To promote traffic safety, it organizes an annual contest for entrepreneurs under the slogan: "Safest Corporate Vehicle Fleet". The "Safety in beaches" project included an educational campaign concerning the rules of safety near water and on all public beaches in Riga, whereas information signs promoting safe behavior were placed throughout the commune. The company has been supporting the "Honor families 3+" program for the past three years. This is a national support program for Latvian families with three or more children. The company also cooperates with the state blood donation center, takes part in numerous charity and sponsored campaigns, and supports animal shelters and tree planting campaigns.

In 2016, AAS BALTA received the Gold Category in the Latvian index of sustainable development [InCSR] and was one of only 24 companies in Latvia to receive the title of the "Company friendly to families". This prestigious award is presented by the Ministry of Labor and Social Policy to companies which promote balance between professional and family life and create friendly workplaces.

LINK4

LINK4 is a pioneer and leader in the field of direct insurance in Poland. It also expands its activity through other channels of distribution. According to the company's mission, its employees "transform their passions into friendly and innovative solutions for the safety of their clients". The company wants to set the trends for the future of the insurance market. To ensure security and top quality, the employees spend a lot of time making an analysis of the client needs, adjusting products, and studying satisfaction and service quality. LINK4 was the first direct insurance agency to receive the ISO 9001:2001 certificate in claims handling.

As a responsible employer, the company creates a friendly workplace for its employees to let them develop and raise their qualifications. LINK4 has numerous development and motivation programs. They include events aimed to integrate the employees and their families, e.g. the company has a day for children during every winter break, a family picnic with presents for children organized every summer, and offers parents an additional day off for the first day of school and kindergarten in September. LINK4 also has a permanent place for children in its HR department, where classes such as yoga are held. Other interesting campaigns include: healthy days with seasonal fruit and "occasional gifts". The special events held for the employees last year were accompanied by additional attractions, including a photo booth, ice cream, or hot chocolate served at the office.

When LINK4 signed the Diversity Card in 2016, it joined the international initiative supporting diversity in the workplace.

LINK4 engages in various social activities. It actively supports the operations of the Bartek Kruczkowski Foundation "Organiści" promoting organ transplantation in Poland and the activities of Fundacja Dzieciom "Zdążyć z Pomocą" [the Foundation for Children "Help on Time"]. The company organizes numerous charity campaigns involving its employees. Last year, the company's managers took part in the renovation of the gym at the association for the disable in Żelechów and in art workshops for the disable, as well as once again in the blood drive of Centrum Krwiodawstwa i Krwiolecznictwa [Center for Blood Donation and Haemotherapy]. The charity campaigns have also been initiated by the employees. They organized the pre-holiday fair, took part in Szlachetna Paczka [Noble Gift], and collected money for an animal shelter last year. The employees also collected money for their colleagues who had found themselves in a difficult life situation.

In 2016, LINK4 also provided support for the interesting grassroots project "Serce Twojego samochodu" [The Heart of Your Car]. The initiative was started by four graduates of the class with additional medical rescue program from the LXXV Jan III Sobieski High School in Warsaw, who decided to intervene and make first-aid kits mandatory in cars. They organized a campaign and handed out first aid kits to drivers to make them aware that this small box can actually save a lot of lives.

The company was also involved in the celebrations of the 72nd anniversary of the outbreak of the Warsaw Uprising. In August 2016, the company conducted the informational campaign "Pamiętamy" [We Remember] mainly in the online media and press.

Standards of social responsibility in Alior Bank

Alior Bank pays great attention to applying standards of social responsibility in its everyday operations. Its priorities are good relations with its clients and employees. The bank engages in educational, cultural, charity, and sponsorship activities.

From its very start Alior Bank has been customer-oriented through its consulting services based on advantages and adaptation of products to customer expectations. This approach lets Alior Bank play a leading role in the Polish bank sector in the scope of maintaining and promoting high service standards, which has been confirmed by numerous awards and distinctions.

Its employees are considered as important capital of Alior Bank. The new HR strategy assumes the improvement of employee experiences throughout the whole employment cycle and building of an organizational culture supporting the transformation process. The employees can become experts in selected fields or team management, consequently developing their management skills. The dialogue serving to build relations with the employees included the internal survey "Alior Bank pod lupą" [Alior Bank under a magnifying glass]. It aimed to diagnose the current organizational culture of the bank, preferences concerning the employee offer, and evaluation of the quality of tools and processes. The obtained conclusions have allowed for the verification of the previous activity and development of the staff policy on local levels and the level of the whole bank.

The employee benefits offered in 2016 by Alior Bank focused on the following three aspects: support for the families of the employees, promotion of active sports, and inspiring the professional development of women.

During the 2016 winter break, the children of the employees of the Centers in Warsaw, Kraków, and Gdańsk had the opportunity to attend a day camp. The event allowed parents to work more comfortably in the daytime. In May and June 2016, Gdańsk, Kraków, and Warsaw hosted picnics for Alior Bank employees and their families. They served as an excellent opportunity to get to know one another and integrate the teams through snacks and athletic games, also for the employees of the dispersed sales networks of Alior Bank in these regions.

To support the athletic initiatives of its employees, the Bank has 11 sports divisions. Each of them associates a group of employees around the idea of active competition in a given sport and its promotion among a wider audience.

The 2016 initiatives also included continuation of the professional development program for women. Its main objective is to build organizational culture where women can take full advantage of their potential by sharing their experiences and transferring knowledge.

As an institution stressing the importance of corporate responsibility, Alior Bank has been supporting local communities for years and engaging in numerous initiatives. Such activities aim not only to assist in the realization of individual projects but also promote information about social responsibility and sustainable development among the Bank's employees, clients, business partners, and shareholders. The employees often submit projects of their own initiative which they believe are important and reflect the values represented by the bank. As a result, more and more internal initiatives are combined with external campaigns each year.

The bank engages in educational programs directed to various age groups, including children. In January 2016 the Bank launched the pilot educational classes conducted by Alior Bank experts to promote matters associated with entrepreneurship and finances in cooperation with the Ekomini Foundation in one of the elementary schools in the Dolnośląskie Voivodeship.

In April 2016, Alior Bank once again provided support for the "Czytam w podróży" [Reading en route] campaign promoting reading and the works of Zbigniew Herbert. Hundreds of volunteers joined last year's event and handed out bookmarks with a poem of one of the top Polish poets of the 20th century in public transit, at bus stops and train stations. The cooperation with the Zbigniew Herbert Foundation saw the active participation of Alior Bank employees. In over 320 branches, they handed out bookmarks promoting the works of the author of "Mr. Cogito" and encouraging reading on the way to school, work, or a dream vacation place.

Alior Bank was the patron of the 2nd edition of the "Stolica Języka Polskiego" [The Capital of the Polish Language] festival in Szczebrzeszyn, which took place at the turn of July and August 2016. The event, which promoted classic and contemporary Polish literature as an essential element of the social and national identity, reached the rank of one of the most important literary festivals in Poland. Its second edition was attended by 12 thousand people. Alior Bank was also the patron of the concert performed by Zbigniew Wodecki and the Mitch&Mitch Orchestra and Choir.

In 2016, Alior Bank became the benefactor of the holiday illumination on Warsaw's Nowy Świat. The bank handled the special appearance of the representative street for the second time. Thanks to the illumination, the residents of Warsaw and tourists were able to stroll along Nowy Świat and look at the unique holiday decorations until early February.

For Christmas, Alior Bank also organized the charity campaign titled "Świeć przykładem – pomóż dzieciom" [Set a good example – help the children]. The dedicated website saw the holiday star lit up 50 thousand times to provide financial support of PLN 50 thousand for five selected foster care centers in Gdańsk, Kraków, Krasnystaw, Szczecin, and Warsaw.

Alior Bank once again joined "Mikołajkowy Blok Reklamowy" [Santa's Advertising Block] – a charity campaign organized by the Polsat Foundation. The holiday spot of the bank promoting a new form of credit was aired in the advertising block, the profits from which went to the children that the Foundation supports. "Mikołajkowy Blok Reklamowy" was watched in 2016 by over 6 million viewers. PLN 1,2 million was collected and it will all go to the treatment and rehabilitation of sick children.

In 2016, for the second time in a row, Alior Bank became a sponsor and partner of Smogathon, an event organized to fight environmental pollution with the use of various technologies developed by different fields of science and business. Another initiative of the Bank was the sponsorship of the first programming competition in Poland which combined the new technologies with the world of culture -"HackArt". The competition was organized in cooperation with the best cultural institutions in Warsaw: the Syrena Theatre, the Zachęta Art Gallery, the Museum of Warsaw and the Sinfonia Varsovia orchestra.

As the official sponsor of the Polish National Soccer Team, Alior Bank continues its cooperation with the Polish Soccer Association. In 2016, over 50 thousand fans were holders of the Bank's Fan Card, which serves as an identification card and replaces traditional paper tickets. It also serves as a pre-paid payment card. This is a key element associated with the multimedia platform "Łączy nas piłka" [Soccer unites us]. Alior Bank is one of its official partners.

For more information concerning campaigns and programs in which Alior Bank was involved in 2016, please read the Alior Bank annual report.

10

Corporate governance

We understand that our duty as a leader is to set the highest standards for the entire industry.
We fulfill this role not only by complying with a number of codes, but also by working on their continuous improvement. We believe that to be a part of wise changes that we can make in the world that surrounds us.

Contents:

10.1 Corporate governance principles applied by PZU

Since the IPO of PZU on a regulated market, the Issuer has followed the corporate governance principles laid down in Good Practices of Companies quoted on WSE.

The document was accepted by WSE Council on 4 July 2007 and has undergone several modifications since then. The document accepted by the Resolution of WSE Council regarding amendments to the Good Practices of Companies Quoted on WSE of 21 November 2012 was effective between 1 January 2013 and 31 December 2015.

On 13 October 2015, a new set of corporate governance rules under the name of "Good Practices of Companies quoted on WSE 2016" was accepted by the resolution of WSE Council. The new rules are in force as at 1 January 2016.

The current contents are available on the website devoted to corporate governance of WSE-quoted entities WWW.CORP-GOV.GPW.PL and on the PZU's corporate website (www.pzu.pl) in the section dedicated to PZU's shareholders – "Investor Relations".

Code of Good Insurance Practices adopted on 8 June 2009 by the General Meeting of the Polish Chamber of Insurance ("PIU"), an organization associating insurance companies operating in the Polish market is another document determining the manner of business operations and of developing relations with stakeholders. The document is available on the website: http://piu.org.pl.

Further, the relations with stakeholders are based on our internal PZU Code of Good Practices. The document is available on the website: http://www.pzu.pl.

On 22 July 2014, Polish Financial Supervision Authority issued Corporate Governance Rules for Supervised Institutions ("Rules").

The rules are a set of guidelines, which should be used by supervised entities from 1 January 2015 under the applicable law and with respect to the principle of proportionality.

The rules and information on how to use them can be found on the PZU website: http://www.pzu.pl/grupa-pzu/pzusa/zasady-ladu-korporacyjnego.

10.2 Application of Good Practices of Companies Quoted on WSE

In 2016, PZU followed the recommendations and regulations expressed in the Good Practices of Companies Quoted on WSE, except for recommendation IV.R.2 which refers to enabling the shareholders to participate in general shareholders' meeting using electronic means of communication, especially by:

- real-time broadcast of the general shareholders' meeting,
- mutual real-time communication which allows shareholders to speak at the general shareholders' meeting, while physically being in a different location than the place where the meeting is held,
- exercising, in person or via proxy, voting right at the general shareholders' meeting.

At the moment, the PZU shareholders can watch a broadcast of the general shareholders' meeting. The company, however, has not made a decision to introduce a so-called e-GSM. PZU believes that there is a number of technical and legal factors which may obstruct the proper course of general shareholders' meeting. The legal concerns refer to the possibility of identification of shareholders and checking relevant documents of GSM participants. The risk related to technical problems, such as the Internet connection or a potential external interference with IT systems, may disturb the operations of the general shareholders' meeting and raise doubts as to the effectiveness of resolutions adopted in the course of such a meeting. If such risks materialize, this may impact proper application of the relevant principle as a whole.

Moreover, the following rules do not apply to PZU:

- Rule I.Z.1.10 that refers to presenting on PZU's corporate website financial forecasts – provided that the company has decided to publish them – published at least over the last 5 years, along with the information on the degree of their materialization, because as at these financial statements PZU SA was not publishing financial forecasts and estimations;
- Rule III.Z.6 that refers to non-distinguishing of an internal auditing function in a company's organization, because such a function was distinguished in PZU's organization;
- Recommendation IV.R.3 that refers to a situation where securities issued by a company are traded in several different countries (or on several markets) and in different legal systems, because PZU's securities are traded exclusively on the Polish market.

Information on the PZU' s application of recommendations and rules included in Good Practices of Companies quoted on WSE 2016 was published by the Company on 24 March 2016.

10.3 Application of Corporate Governance Principles to Supervised institutions

The Management Board and the Supervisory Board of PZU declared their readiness to apply the Principles to the furthest objectively possible extent, taking into account the principle of proportionality and the "comply or explain" rule, arising from their content. These statements of the Management Board and the Supervisory Board of PZU were confirmed by their appropriate resolutions.

The Management Board and the Supervisory Board of PZU announced the decision on implementing the Principles during the General Shareholders' Meeting that took place on 30 June 2015. The General Shareholders' Meeting of PZU declared that while acting within its mandate it will follow the Corporate Governance Rules in the wording of Polish Financial Supervision Authority of 22 July 2014 with the exception of the rules that the General Shareholders' Meeting of PZU decided to waive.

Detailed information about the application of the Principles by PZU can be found on PZU's website. That includes the principles whose application is partial, that is:

- rule specified in § 8 section. 4. the Principles, facilitating the participation of all shareholders in the General Shareholders' Meeting, e.g. by ensuring the active electronic participation in meetings; it should be emphasized that the current shareholders of PZU can follow the broadcast of the meeting, but the Company decided not to introduce the so-called e-GSM; in the assessment of PZU, there are many technical and legal factors that could affect the proper conduct of the General Shareholders' Meeting. The legal concerns are related to the possibility of identifying shareholders and inspecting the ID cards of the GSM's participants; the risk of technical problems, e.g. with the Internet connection or a potential intrusion into information systems, can disrupt the work of the General Shareholders' Meeting and raise doubts about the effectiveness of the resolutions adopted during the meeting; the occurrence of the above-mentioned risks may affect the correct application of the principle in full;
- rule specified in § 21 section. 2. Principles which state that in the composition of the supervisory body there should be a separate function of a chairperson who manages the works of the supervisory body and that the choice of the chairperson of the supervisory body should be made based on the experience and team leadership skills, taking into account the criterion of independence; it must be emphasized that, in accordance with the Code of Commercial Companies GLOSSARY and the By-laws of PZU, there is a separate function of a chairperson in the Supervisory Board of PZU; the composition of the Supervisory Board of PZU, including the office of the chairperson, are shaped according to the criterion of independence set out in the Act on statutory auditors GLOSSARY; the election of the chairperson of the Supervisory Board is made on the basis of their knowledge, experience and skills, which confirm that the chosen person has the competencies necessary for the proper performance of their supervising duties; the application of the criterion of independence in the case of the chairperson in accordance with the PFSA's explanation of the principle may raise doubts about the potential conflicts of law relating to shareholders' rights;
- rule specified in § 49 section 3 of the Principles concerning appointment and dismissal in supervised institutions of the person heading the internal audit unit or the person heading the compliance unit, it should be noted that PZU complies with the principles specified in § 14 of the Principles fully, which means that PZU's Management Board is the only one entitled to and responsible for management of the operations of the company; furthermore, in accordance with the provisions of the labor law, the activities related to the labor law are performed by the governing body; in view of the above, PZU adopted a solution according to which the decision about appointment and dismissal of the person heading the internal audit unit is made, taking into account the opinion of the Audit Committee of the Supervisory Board; the same applies to the appointment and dismissal of the person heading the compliance unit; the Management Board consults the Audit Committee about such decisions.

The General Shareholders' Meeting of PZU refrained from fulfilling the following principles:

- rule specified in § 10.2 in the following wording: "Introduction of personal entitlements or other special entitlements for shareholders of a supervised institution should be justified and serve realization of the objectives

of this supervised institution. Having such entitlements by shareholders should be reflected in a basic act regulating operation of the institution."
- derogation from applying the principle is justified by the unfinished privatization of the Company carried out by the State Treasury;

- rule specified in § 12.1 in the following wording: "The shareholders are responsible for providing immediate capital injection to the supervised institution in a situation in which it is necessary for maintaining the own capitals of the supervised institution on a level required by the legal or supervisory regulations and also when it is required for the reasons concerning safety of the supervised institution."
  - derogation from applying the principle is justified by the unfinished privatization of the Company carried out by the State Treasury;
- rule specified in § 28.4 in the following wording: "A decision-making authority shall assess whether the agreed remuneration policy is beneficial to the development and safety of the supervised institution."
  - waiver from applying the principle is justified by the scope of application of the remuneration policy assessed by the decision-making authority being too broad. The remuneration policy for persons performing key functions and not being the members of the supervisory body or governing body should be assessed by their employer or principal, which is the Company represented by the Management Board and controlled by the Supervisory Board.

Moreover, the following rules do not apply to PZU:

- rule specified in § 11.3 in the following wording: "In the event that the decision concerning a transaction with a related party was made by the General Shareholders' Meeting, all shareholders should have access to any information necessary for assessment of the terms on which the transaction is to be executed and its impact on the situation of the supervised institution."
  – in PZU the General Shareholders' Meeting does not make decisions concerning transactions with related parties;
- rule specified in § 49.4 in the following wording: "In a supervised institution, where there is no internal audit unit or compliance unit, the entitlements referred to in items 1–3 shall be held by the people responsible for performance of those functions."
  – there is both an internal audit unit and a compliance unit at PZU;
- rule specified in § 52.2 in the following wording: "In a supervised institution, where there is no audit unit or compliance assurance unit, and where no unit responsible for that area has been appointed, the information referred to in item 1 shall be submitted by the people responsible for fulfilling those functions."
  – there is both an internal audit unit and a compliance unit at PZU;
- the rules specified in Chapter 9 – Execution of Rights Resulting from Assets Acquired at Client's Risk, as PZU offers no products which involve managing assets at client's risk.

10.4 Control system applied during preparation of the financial statements

Financial statements are prepared within the PZU Finance Division including PZU Head Office (with the Accounting Office) and central units operating based on applicable regulations. PZU Finance Division is supervised by a Member of the Management Board of PZU.

The elements which facilitate completing the process are the accounting principles (policy), the chart of accounts with a commentary and other detailed internal regulations approved by the Management Board of PZU specifying the key rules of recording business events in PZU and dedicated reporting systems.

Data is prepared in the source systems using formal operating and acceptance procedures which specify the competencies of individual persons.

The reporting process is controlled by appropriately qualified, skilled and experienced staff.

PZU monitors the changes in the external regulations concerning e.g. the accounting policy (procedures) and reporting requirements of insurance undertakings and carries out appropriate adaptation processes.

The accounting records are closed and financial statements are prepared in accordance with detailed schedules, including the key activities and control points with assigned liability for timely and correct completion.

The key controls during preparation of the financial statements include:

- controls and permanent monitoring of the quality of input data, supported by the financial systems with defined rules of data correctness, in accordance with PZU internal regulations concerning the control of correctness of the accounting data;
- data mapping from the source systems to financial statements supporting appropriate presentation of data;
- analytical review of financial statements by specialists to compare them with the business knowledge and knowledge about business transactions;
- formal review of the financial statements to confirm compliance with the valid legal regulations and market practice in terms of required disclosures.

PZU internal audit periodically reviews the organization and the process of preparing the financial statements.

Activities within the consolidated financial reporting are coordinated through the organizational structure of the Finance Division in the PZU and PZU Życie Head Offices, which is shared, i.e. organized based on a personal union. PZU controls all the consolidated subsidiaries through Management Boards and Supervisory Boards of the companies.

The process of consolidated financial reporting is regulated by a number of internal acts. The acts regulate the accounting principles (policy) adopted by PZU Group and applied accounting standards. Additionally, the process is also subject to detailed schedules including the key activities and control points with assigned liability for timely and correct completion.

Audit Committee

The Supervisory Board of PZU appoints three members of the Audit Committee. At least one of them must be an Independent Member and at least one must be qualified in accounting or auditing, as understood by the Act on Statutory Auditors and Their Self-Governing Body, Auditing Firms and on Public Oversight. The Audit Committee is an advisory and consultative body to the Supervisory Board and is appointed to improve the effectiveness of the supervision of the correctness of financial reporting, effectiveness of internal control, including internal audit and risk management, exercised by the Supervisory Board.

A statutory auditor appointed by the Supervisory Board of PZU based on the recommendation of the Audit Committee reviews interim separate and consolidated financial statements of PZU and audits its annual separate and consolidated financial statements.

10.5 Entity authorized to audit financial statements

On 18 February 2014, the Supervisory Board of PZU appointed KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k. with the registered office in Warsaw, ul. Inflancka 4A, 00-189 Warsaw, entered on the list of entities authorized to audit financial statements under No. 3546 by the National Chamber of Statutory Auditors as the entity authorized to audit financial statements.

The scope of the agreement includes in particular:

- audit of annual separate financial statements of PZU and of annual consolidated financial statements of PZU Group;

Fee of the entity authorized to audit financial statements	1 January–31 December 2016	1 January–31 December 2015
statutory audit of annual financial statements	1,365	1,488
other attestation services	1,350	248
tax advisory services	-	
other services	27	27
Total	**2,742**	**1,763**

- review of interim separate financial statements of PZU and of interim consolidated financial statements of PZU Group.

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

10.6 Share capital and shareholders of PZU, stock held by members of its authorities

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

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

On 24 November 2015, the Management Board of the National Depository for Securities adopted at the request of PZU a resolution No. 789/15 on determining the day of 30 November 2015 as the day of splitting 86,348,289 PZU shares with the face value of PLN 1 each to 863,482,890 PZU shares with the face value of PLN 0.10 each.

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

On 27 April 2016, a notice from the Ministry of Treasury was delivered to PZU that informed about a decrease in State Treasury's share in the total number of votes and share capital of PZU. As per the above notice, that share amounted to 34.19% as at 31 March 2016.

As per the current report no. 17/2017, at the PZU SA Ordinary Shareholders' Meeting that was opened on 18 January 2017 and continued on 8 February 2017, the following shareholders held the majority share packages: State Treasury that held 295 217 300 of shares, which constituted 34.19% of PZU share capital and translated into 295 217 300 votes at General Shareholders' Meeting, and Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK that held 44 260 000 of shares, which constituted 5.13% of PZU share capital and translated into 44 260 000 votes at General Shareholders' Meeting.

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

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

From 2013 to 2016, no employee stock ownership plans existed in PZU.

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

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

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

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

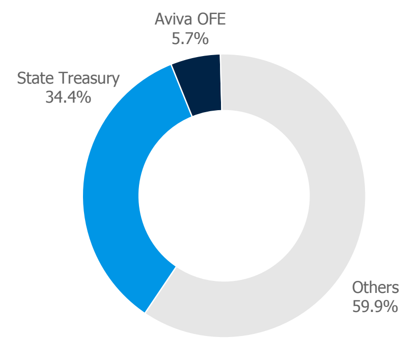
In line with the PZU's By-laws, the above voting restrictions will expire when a share of a shareholder who, at the date of adopting a resolution of the shareholders' meeting introducing the restriction, held shares entitling him to more than 10% in the total number of votes in the Company, drops below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

Shares or rights to shares held by persons managing or supervising

Neither as at the date of conveying this Management Report, nor as the date of conveying the PZU Group Management Report for 2015 (i.e. 15 March 2016) did any of the members of the Management Board or the Supervisory Board or the Directors of the PZU Group hold any PZU shares or rights to PZU shares.

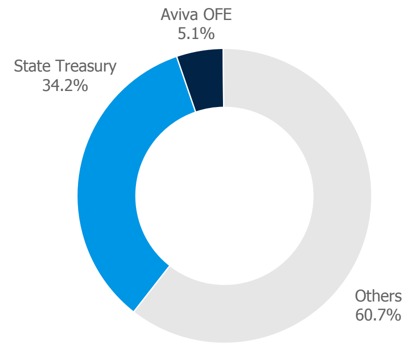
Votes from shares of PZU are not restricted.

PZU shareholding structure as st 31 December 2015



Source: current report no. 3/2016

PZU shareholding structure as at 31 December 2016



Source: current report no. 17/2017

10.7 By-laws of PZU

Amendments to the By-laws

The By-laws of PZU can be amended by the General Shareholders' Meeting in the form of a resolution passed by a majority of three fourths of votes. In cases specified in the Act on Insurance Activity GLOSSARY such change must be approved by the PFSA and then recorded in the National Court Register. The Supervisory Board can approve the unified amended text of the By-laws.

10.8 General Shareholders' Meeting, Supervisory Board and Management Board

General Shareholders' Meeting

The General Shareholders' Meeting is the highest body of PZU. The general operational principles and the rights of the General Shareholders' Meeting have been determined by the Code of Commercial Companies and the By-laws.

The By-laws are available on PZU's corporate website (WWW.PZU.PL) in the "Investors relations" section, tab: "Company".

The General Shareholders' Meeting did not issue its Regulations.

The General Shareholders' Meeting is a body authorized to make decisions concerning issues related to the organization and operations of the issuer. Resolutions of the General Shareholders' Meeting are adopted by an absolute majority of votes, except for cases specified in the Code of Commercial Companies or the By-laws.

The competencies of the General Shareholders' Meeting, in addition to those specified in the Commercial Companies Code and the By-laws of PZU, include passing resolutions concerning the following:

- examination and approval of the Management Board report on the issuer's activities, financial statements for the previous financial year and acknowledgement of the fulfillment of duties by members of the company's authorities;
- profit distribution or loss coverage;
- making decisions concerning claims for redressing damage inflicted upon formation of the Company or exercising management or supervision;

- disposal of the enterprise or its organized part or its lease or establishment of a limited property right;
- redemption of shares or issue of bonds;
- creating reserve capitals and making the decision whether to use them and, if so, how;
- division of the Company, its combination with another company, its liquidation or dissolution;
- appointing and dismissing members of the Supervisory Board, subject to the right granted to the State Treasury to appoint and dismiss one member of the Supervisory Board;
- establishing the rules of remunerating members of the Supervisory Board;
- acquisition or disposal by the issuer of real property, perpetual usufruct or share in real property or in perpetual usufruct with a value exceeding the equivalent of a gross amount of EUR 30.0 million (thirty million euro).

In accordance with the By-laws, a majority of three fourths of votes is required to pass the General Shareholders' Meeting's resolutions on the following:
- amendments to the By-laws;
- decrease in the share capital;
- disposal of the enterprise or its organized part or its lease or establishment of a limited property right.

A majority of 90% of votes at the General Shareholders' Meeting is required to pass resolutions relating to the following:
- preference shares;
- Issuer's business combination by transferring all its assets to another company;
- its merger by forming a new company;
- dissolving the Company (also as a result of moving its seat or the head office abroad);
- its liquidation, transformation or reduction in the share capital through redemption of a portion of shares without a similar capital increase.

The General Shareholders' Meeting is held:
- as an Ordinary General Shareholders' Meeting, which should be held within six months from the end of each financial year;
- as an Extraordinary General Shareholders' Meeting, which is convened in cases specified in the generally applicable law and the By-laws.

The General Shareholders' Meetings are held in Warsaw and convened by placing an appropriate announcement on PZU's website in accordance with the method for providing current information specified in the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies of 19 July 2005, i.e. in the form of current reports. Such announcement should be made no later than 26 days before the date of the General Shareholders' Meeting. From the date of convening the General Shareholders' Meeting the announcement with materials presented to shareholders at the General Shareholders' Meeting are available on PZU's corporate website (WWW.PZU.PL) in section "Investors relations", tab "General Shareholders' Meeting". A duly called General Shareholders' Meeting is deemed valid regardless of the number of attending shareholders or number of represented shares. Ballots are open. The secret ballot vote is used when appointing and dismissing members of the Issuer's bodies or liquidators, in cases of their personal responsibility towards the issuer and in personal cases, except when an open ballot method is required by the applicable law, upon request of any shareholder present or represented at the General Shareholders' Meeting. The rights of the shareholders and the method of exercising thereof at the General Shareholders' Meeting are specified in the Code of Commercial Companies GLOSSARY and the By-laws. Only persons who were shareholders of the issuer 16 days before the date of the General Shareholders' Meeting have the right to participate in the Meeting (date of registration of attendance at the Meeting). Shareholders may attend the General Shareholders' Meeting and exercise the right to vote personally or through a proxy. The power of attorney to participate in the General Shareholders' Meeting and to exercise the voting right may be granted in writing or in an electronic form. One share of PZU gives the right to a single vote at the General Shareholders' Meeting, including restrictions with respect to exercising the voting rights described in the Company's By-laws. The shareholder has the right to vote in a different manner under each share held.

During the General Shareholders' Meeting each shareholder may provide resolution drafts concerning items on the agenda.

In accordance with the Code of Commercial Companies, detailed procedures concerning participation in the General Shareholders' Meeting and exercising the voting rights are always presented in an announcement of the General Shareholders' Meeting published on the date of convening the Shareholders' Meeting on PZU's corporate website (WWW.PZU.PL), section "Investors relations", tab "General Shareholders' Meeting".

Composition, powers and functioning of the Supervisory Board

Composition

The Supervisory Board is composed of seven to eleven members. The number of members is specified at the General Shareholders' Meeting.

Members of the Supervisory Board are appointed by the General Shareholders' Meeting for a shared term which includes three consecutive full financial years.

At least one member of the Supervisory Board must be qualified in accounting or auditing, as understood by the Act on Statutory Auditors GLOSSARY and Their Self-Governing Body, Auditing Firms and on Public Oversight. Furthermore, at least one member of the Supervisory Board should meet the independence criteria specified in the By-laws (Independent Member) concerning e.g. professional and personal relations, especially with members managing or supervising PZU and entities in PZU Group. The Independent Member has to present a written statement that all independence criteria provided for in the By-laws have been met and inform the Company when the criteria are no longer met. In addition, the By-laws give the State Treasury the right to appoint and dismiss one member of the Supervisory Board by way of a written statement submitted to the Management Board. The right will expire once the State Treasury ceases to be the Company's shareholder.

Composition of the Supervisory Board of PZU as at 1 January 2016:
- Zbigniew Ćwiąkalski – Chairman of the Supervisory Board;
- Paweł Kaczmarek – Deputy Chairman of the Supervisory Board;
- Dariusz Filar – Secretary of the Board;
- Zbigniew Derdziuk – Member of the Board;
- Dariusz Kacprzyk – Member of the Board;
- Jakub Karnowski – Member of the Board;
- Aleksandra Magaczewska – Member of the Board;
- Alojzy Nowak – Member of the Board;
- Maciej Piotrowski – Member of the Board.

The criteria of an Independent Member of the Supervisory Board were met by Dariusz Kacprzyk and Dariusz Filar.

On 7 January 2016, the Extraordinary General Shareholders' Meeting of PZU dismissed the following people from the Supervisory Board of the Company, with effect on 7 January 2016: Zbigniew Ćwiąkalski, Zbigniew Derdziuk, Maciej Piotrowski, Dariusz Kacprzyk, Jakub Karnowski, Aleksandra Magaczewska, Dariusz Filar.

Simultaneously, on 7 January 2016, it appointed the following people to the Supervisory Board of PZU: Piotr Paszko, Marcin Chludziński, Marcin Gargas, Maciej Zaborowski, Eligiusz Krześniak, Radosław Potrzeszcz and Jerzy Paluchniak.

On 19 January 2016, Paweł Kaczmarek was appointed Chairman of the Supervisory Board, Marcin Gargas – Deputy Chairman, and Maciej Zaborowski – Secretary of the Board.

Therefore, since 19 January 2016, composition of the Supervisory Board of PZU was as follows:
- Paweł Kaczmarek – Chairman of the Supervisory Board;
- Marcin Gargas – Deputy Chairman of the Supervisory Board;
- Maciej Zaborowski – Secretary of the Board;
- Marcin Chludziński – Member of the Board;
- Eligiusz Krześniak – Member of the Board;
- Alojzy Nowak – Member of the Board;
- Jerzy Paluchniak – Member of the Board;
- Piotr Paszko – Member of the Board;
- Radosław Potrzeszcz – Member of the Board.

Marcin Gargas, Maciej Zaborowski, Marcin Chludziński, Eligiusz Krześniak, Alojzy Nowak, Piotr Paszko and Radosław Potrzeszcz fulfilled the criteria of Independent Members of the Supervisory Board.

On 1 July 2016, Jerzy Paluchniak resigned from his membership in the PZU Supervisory Board as at 1 July 2016. On 1 July 2016, the General Shareholders' Meeting of PZU appointed Piotr Walkowiak as a Member of the Supervisory Board, effective as of 2 July 2016.

Therefore, since 2 July 2016, composition of the Supervisory Board of PZU was as follows:
- Paweł Kaczmarek – Chairman of the Supervisory Board;
- Marcin Gargas – Deputy Chairman of the Supervisory Board
- Maciej Zaborowski – Secretary of the Board;

- Marcin Chludziński – Member of the Board;
- Eligiusz Krześniak – Member of the Board;
- Alojzy Nowak – Member of the Board;
- Piotr Paszko – Member of the Board;
- Radosław Potrzeszcz – Member of the Board;
- Piotr Walkowiak – Member of the Board.

On 7 July 2016, acting under § 20 section 7 of PZU's By-laws, the Minister of Treasury of the Republic of Poland appointed Jerzy Paluchniak as a Member of the Supervisory Board of PZU, and therefore the composition of the Board was as follows:

- Paweł Kaczmarek – Chairman of the Supervisory Board;
- Marcin Gargas – Deputy Chairman of the Supervisory Board;
- Maciej Zaborowski – Secretary of the Board;
- Marcin Chludziński – Member of the Board;
- Eligiusz Krześniak – Member of the Board;
- Alojzy Nowak – Member of the Board;
- Jerzy Paluchniak – Member of the Board;
- Piotr Paszko – Member of the Board;
- Radosław Potrzeszcz – Member of the Board;
- Piotr Walkowiak – Member of the Board.

On 4 August 2016, Piotr Walkowiak resigned from his membership in the PZU Supervisory Board as at 4 August 2016. Therefore, since 5 August 2016, composition of the Supervisory Board of PZU was as follows:

- Paweł Kaczmarek – Chairman of the Supervisory Board;
- Marcin Gargas – Deputy Chairman of the Supervisory Board;
- Maciej Zaborowski – Secretary of the Board;
- Marcin Chludziński – Member of the Board;
- Eligiusz Krześniak – Member of the Board;
- Alojzy Nowak – Member of the Board;
- Jerzy Paluchniak – Member of the Board;
- Piotr Paszko – Member of the Board;
- Radosław Potrzeszcz – Member of the Board.

The current term of office of the Supervisory Board of PZU started on 1 July 2015 and will end after the lapse of three financial years. 2016 was the first financial year of the company. The mandates of members of the Supervisory Board expire not later than on the date of the General Shareholders' Meeting approving the financial statements for the last full financial year of their term.

On 8 February 2017, Eligiusz Krześniak resigned from his membership in the Supervisory Board with immediate effect.

On 8 February 2017, as of 8 February 2017 the Extraordinary Shareholders' Meeting of PZU dismissed from the Supervisory Board of the Company the following members: Marcin Gargas, Piotr Paszko and Radosław Potrzeszcz.

Simultaneously, on 8 February 2017, it appointed the following people to the Supervisory Board of PZU: Agata Górnicka, Łukasz Świerżewski, Paweł Górecki, Bogusław Banaszak.

Therefore, from 9 February 2017 to the date of signing the separate financial statements, the composition of the Supervisory Board of PZU was as follows:

- Paweł Kaczmarek – Chairman of the Supervisory Board;
- Maciej Zaborowski – Secretary of the Board;
- Bogusław Banaszak – Member of the Board;
- Marcin Chludziński – Member of the Board;
- Paweł Górecki – Member of the Board;
- Agata Górnicka – Member of the Board;
- Alojzy Nowak – Member of the Board;
- Jerzy Paluchniak – Member of the Board;
- Łukasz Świerżewski – Member of the Board.

As at 14 March 2017 Paweł Kaczmarek and Maciej Zaborowski resigned from the functions performed at the presidium of the Supervisory Board of PZU and, from the same day, Paweł Górecki was appointed to the function of the Chairman of the Supervisory Board of PZU, Łukasz Świerżewski the Deputy Chairman and Alojzy Nowak the Secretary.

With regard to the above from 14 March 2017 the composition of the Supervisory Board of PZU was as follows:

- Paweł Górecki – Chairman of the Board;
- Łukasz Świerżewski – Deputy Chairman of the Supervisory Board;
- Alojzy Nowak – Secretary of the Board;
- Bogusław Banaszak – Member of the Board;
- Marcin Chludziński – Member of the Board;
- Agata Górnicka – Member of the Board;
- Paweł Kaczmarek – Member of the Board;
- Jerzy Paluchniak – Member of the Board;
- Maciej Zaborowski – Member of the Board.

The PZU's Supervisory Board composition as at 31 December 2016

Name and surname	Term of office of the member of the Supervisory Board of PZU
Paweł Kaczmarek	Deputy Chairman of the Board from 8 July 2015 to 18 January 2016 Chairman of the Board since 19 January 2016 Member of the Board since 30 June 2015
Marcin Gargas	Deputy Chairman of the Board since 19 January 2016 Member of the Board since 7 January 2016
Maciej Zaborowski	Secretary of the Board since 19 January 2016 Member of the Board since 7 January 2016
Marcin Chludziński	Member of the Board since 7 January 2016
Eligiusz Krześniak	Member of the Board since 7 January 2016
Alojzy Nowak	Member of the Board since 7 January 2016
Jerzy Paluchniak	Member of the Board since 7 January 2016 (excluding 2-6 July 2016)
Piotr Paszko	Member of the Board since 7 January 2016
Radosław Potrzeszcz	Member of the Board since 7 January 2016

The PZU's Supervisory Board composition as at 14 March 2017

Name and surname	Term of office of the member of the Supervisory Board of PZU
Paweł Górecki	Chairman of the Board since 14 March 2017 Member of the Board since 8 February 2017
Łukasz Świerżewski	Deputy Chairman of the Board since 14 March 2017 Member of the Board since 8 February 2017
Alojzy Nowaki	Secretary of the Board since 14 March 2017 Member of the Board since 7 January 2016
Bogusław Banaszak	Member of the Board since 8 February 2017
Marcin Chludziński	Member of the Board since 7 January 2016
Agata Górnicka	Member of the Board since 8 February 2017
Paweł Kaczmarek	Member of the Board since 30 June 2015
Jerzy Paluchniak	Member of the Board since 7 January 2016 (excluding 2-6 July 2016)
Maciej Zaborowski	Member of the Board since 7 January 2016

Paweł Górecki – Chairman of the Supervisory Board since 14 March 2017

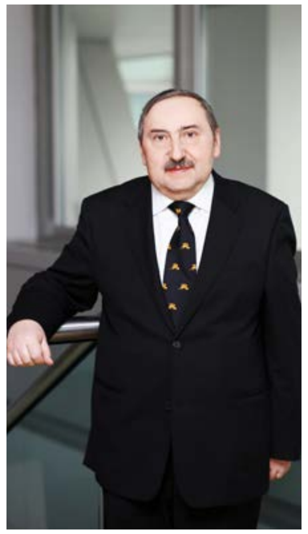
He graduated from the Faculty of Law and Economy at the University of Wrocław and from Post-graduate Studies. Holder of the scientific degree of doctor of laws. Completed judge's and legal adviser's internship, entered on the list of legal advisers. Attended numerous courses and seminars in evidence, civil, and criminal law as well as public entity management and public procurement planning and implementation. Authored dozens of reviewed publications in scope of law published in Polish and foreign science magazines and numerous unpublished legal opinions. Active guest of scientific conferences organized by Polish academic centers. University lecturer. Specializes in handling legal matters for corporations and applying administrative, fiscal, and court and administrative proceedings.

Łukasz Świerżewski – Deputy Chairman of the Supervisory Board since 14 March 2017

Graduate from the Faculty of International Relations at the University of Warsaw. Doctor of economics. Obtained degree of doctor from the Collegium of Business Administration at the Warsaw School of Economics. Warsaw School of Economics lecturer for postgraduate studies. Associated with PKO Bank Polski for a period of three years. Jobs there included Director of the Department of Corporate Communication and said department's coordinator of the Strategic Projects and Analysis Group. Previously worked as assistant editor-in-chief of Harvard Business Review Poland and director of a research institute specializing in analyzing management practices of Polish enterprises. Worked as a journalist for Puls Biznesu in the years 1999-2004 in areas such as financial markets and institutions. Author of numerous economic and business publications. Currently serves as the director of the Office of Communication and Promotion and the Press Officer of the Ministry of Finances.

Alojzy Zbigniew Nowak – Secretary of the Supervisory Board since 14 March 2017

In 1984, he graduated from the present Warsaw School of Economics (Foreign Commerce faculty) and in 1992 from University of Illinois at Urbana – Champaign, USA, M.A. in economics. In 1993 completed studies in banking, finance and capital markets at Exeter, UK, and in 1996 economic studies at Free University of Berlin, while in 1997 in International Economics at RUCA. In 2002, he gained the title of Professor of Economics. He has won a number of prestigious awards, including Rector Award for Scientific Achievements (annually since 1997), Award of the Minister of Education for a book "Integracja europejska. Szansa dla Polski?" and a book titled "Banki a gospodarstwa domowe – dynamika rozwoju". He has been a member of scientific organizations and professional editing boards of periodicals, among others Foundations of Management (Member), Journal of Interdisciplinary Economics (Editor in Chief), Yearbook on Polish European Studies, Mazovia Regional Studies, Gazeta Bankowa and a reviewer in PWE S.A. Warszawa editing company. External Reviewer in the PhD programs of the University of Cambridge, Postgraduate School of Management, Grenoble, University of Zululand, RSA. He is a long-term Committee Member of "Teraz Polska" Award. Authored over 300 publications published in Poland and abroad. He gained his professional experience working as the Head of International Business Relations Section at Management Faculty of the University of Warsaw, the Head of National Economy Unit at Management Faculty of the University of Warsaw, the Director of European Center at the University of Warsaw, the Deputy Dean in charge of foreign cooperation at Management Faculty of the University of Warsaw, the Dean at Management Faculty of the University of Warsaw and the Deputy Rector in charge of scientific research and cooperation at the University of Warsaw. Except University of Warsaw he gives lectures in France, UK, USA, Russia, China and South Korea. Further, he worked as: advisor to the Prime Minister, to the Minister of Agriculture, the President of University Sports Association at the University of Warsaw, a Member of the Advisory Committee NewConnect at Management Board of Warsaw Stock Exchange, a Member of the Foundation Council of the National Bank of Poland, the Chairman of the Scientific Council of the National Bank of Poland. Was seated on numerous supervisory boards, including of PTE WARTA S.A., PKO BP S.A., JSW S.A., TFI KBC, and served as President and Vice President Supervisory Board of EUROLOT S.A. Member of National Council of Development to the President of Poland.



Bogusław Banaszak – Member of the Supervisory Board since 8 February 2017

Full professor and Dean of the Law and Administration Faculty (from 2014) at the University of Zielona Góra and professor at the Witelon State University of Applied Sciences in Legnica (from 2005). Over the years 1977-2014, he was employed as an academic at the Faculty of Administration and Economics at the University of Wrocław. In 1998, he received the title of Professor of Law. Over the years 1998–2008, he was a professor of the Faculty of European Law at the University Viadrina Frankfurt (Oder), where he was in charge of the Faculty of Polish Public Law. Over the years 1995-2005, he was a professor at the Wrocław Academy of Management and Marketing. From May 2006 to May 2010, he served as Chair of the Legislative Council to the Prime Minister. Member of said Board since April of 2016. Member of the European Commission for Democracy through Law (so-called Venice Commission) since April of 2016. From April of 2013, served as nominal member of the Group of Independent Experts on the European Charter of Local Self-Government. Member of the editorial committees (boards) of numerous domestic and foreign science magazines and member of several domestic and foreign scientific councils. Furthermore, correspondent member of the Spanish Royal Academy of Moral and Political Sciences (from 2010) and the European Academy of Sciences, Arts and Literature in Paris (from 2004) and member of the Committee for Legal Sciences of the Polish Academy of Sciences (from 2011). Also member of the following: Advisory Board for Human Rights to the Minister of Foreign Affairs (2000-2001), Program Board to the Centre of Electoral Studies at the University of Łódź and the Nicolaus Copernicus University (2008 -2016), Advisory Directorate International at the American Biographical Institute (from 2009). Has been in close cooperation with the legislative forces of the parliament since 1992. Author of dozens of expert studies for supreme public authorities and of several expert studies for business entities. Author of over 300 scientific papers, including monographs, textbooks, commentaries, studies, and articles. Decorated with the following awards: the Polish Gold Cross of Merit (2001), the Knight's Cross of the Order of Polonia Restituta (2008), the Order of Merit of the Federal Republic of Germany Ribbon (2008), the Grand Cross of Merit of the Republic of Austria (2000), the Grand Badge of Merit of the Republic of Austria (2007), the Austrian Cross 1st Class of Honor for Science and Art, and the 1st Class Badge of Righteousness of the World Jurist Association (2011). Also holds honorary degrees from the Pecs University (Hungary – 2004), the Alba Julia University (Romania – 2009), the Pitesti University (Romania – 2010), and the Kyiv University of Law (Ukraine 2011).

Marcin Chludziński – Member of the Supervisory Board since 7 January 2016

Graduate from the Center for European Regional and Local Studies and Faculty of Journalism and Political Science of the University of Warsaw. Since 2004 he has been associated with Invent Grupa Doradztwa i Treningu, and since 2006 he has been holding the position of the President of this company. From 21 January 2016, he has served as the president of the management board in Agencja Rozwoju Przemysłu S.A. He has nine years of experience in managing commercial law companies. The main domain of his activity was financing the investment projects, advising in strategic planning, restructuring processes, and audit and internal controlling. He is a licensed trainer and advisor specializing in strategic and organizational planning and project management. He is also experienced in defining and managing advisory projects in public administration and business. As a lecturer, he cooperates on a regular basis with the University of Warsaw, Collegium Civitas and Lazarski University, and many others. He is entitled to act as a member of the supervisory boards of companies whose shares are held by the State Treasury. He is experienced in supervising municipal heating companies. He published articles on public management in such periodicals as "Rzeczy Wspólne", "W sieci", "Wprost". He developed his personal accomplishments through pro publico bono activities by leading a think tank of the Republican Foundation as a co-author and expert, concerning especially the role the State Treasury companies play in realizing the objectives of the state, managing public sector in the context of focusing on development goals, and supporting national economic expansion through cooperation carried out within public sector. His main professional competencies are: ability to manage a commercial law company concerning the organizational, legal and financial aspects, experience in corporate supervision, skill in conducting processes of reorganization, restructuring, cost optimization and internal control, capacity of guiding horizontal controlling and auditing processes, qualification to define and supervise projects – especially the ones financed with EU funds, possession of the expertise in the field of energy and heating industry, and knowledge about the models of realizing the objectives of the state by the state-owned companies.

Agata Górnicka – Member of the Supervisory Board since 8 February 2017

Holds Master's degree in political sciences from the Faculty of Journalism and Political Sciences of the University of Warsaw. Completed postgraduate media management at Leon Koźmiński Academy in Warsaw. Gained professional experience at Telewizja Polska S.A. in the years 2006–2012, as Project Coordinator at the Bank Zachodni WBK Foundation in the years 2012-2013, as the Assistant to the Chairman of the Management Board at Bank Zachodni WBK S.A. in the years 2013–2014, and later as the Manager of the Office of Management and Supervisory Boards at Bank Zachodni WBK S.A. in the years 2014–2015. Appointed to Director of the Political Cabinet of the Ministry of Development in December of 2015.

Paweł Kaczmarek – Member of the Supervisory Board since 30 June 2015

He graduated from the Faculty of Law and Administration at the University of Łódź. From 1994 to 2014, he worked in the Ministry of Finance. For several years he dealt with legal aspects concerning the issue of public debt: its financing, conversion and restructuring, cooperation with the bodies supervising the capital market to develop regulations applying to broadly understood capital market, and also the state's policy towards small and medium-sized enterprises, with particular consideration of financial support provided by the state. At present, he holds the position of the Director of the State Treasury Department in the Prime Minister's Office. His responsibilities include coordination of execution of State Treasury authorizations in companies and ensuring uniform performance of rights from State Treasury shares, including development of systems solutions for ownership supervision in companies with shares held by the State Treasury, execution of rights from shares held by the State Treasury including consequential personal rights, approval of written instructions for voting prepared by the entity authorized to execute rights from shares held by the State Treasury or state legal persons, organization and supervision of exams to the supervisory board of companies with shares held by the State Treasury, provision of services to the Board for matters of companies with shares held by the State Treasury and state legal persons, evaluation and analysis for ownership supervision and good practices in companies with shares held by the State Treasury, specifically those considered as companies important to state economy, and monitoring implemented strategic investment projects and assumed development paths of government programs and strategies.

Jerzy Paluchniak – Member of the Supervisory Board since 7 January 2016

He is a graduate of the Wrocław University of Economics, the Faculty of Management and Computer Science, specialization in Management and Marketing, major in Business Management. Since November 2003, he has worked as a Certified Internal Auditor (CIA). In December 2005, he achieved the title of Statutory Auditor (No. 10649) and successfully passed all ACCA exams. In 1999–2000, he gained his professional experience as an assistant of a Brand Manager in Zielona Budka Zbigniew Grycan S.A. In 2000, he continued his professional career in audit department of Arthur Andersen/Ernst&Young located in Wrocław, at positions from an assistant to a manager (promoted in 2005). Since 2007 to 7 January 2016, he worked in audit department of KPMG located in Wrocław, where in 2008 he was promoted to a position of Senior Manager. Besides his work as key chartered auditor in financial report audits, worked in management of projects concerning process reviews and audits, implementation of internal audit functions, and investigative projects. Obtained title of Certified Coach at KPMG. He provided job-related training in audit, accounting and personal and interpersonal competencies for the clients and employees of KPMG. Moreover, in his work at the KPMG office located in Wrocław, he was in charge of the activities concerning social responsibility of business. In the years 2016 – 2017 served as Internal Audit director of Tauron Polska Energia S.A. responsible for internal audit in all companies of the Tauron Polska Energia S.A. group, where he made extensive changes to internal audit functions adapting them to the new business model of Tauron Group. Since 2010 he has been a Member of the Regional Council of Chartered Auditors in Wrocław.

Maciej Zaborowski – Member of the Supervisory Board since 7 January 2016

Lawyer. Graduate from the Faculty of Law and Administration at the University of Warsaw. He completed also post-graduate studies in Intellectual Property Law at the Faculty of Law and Administration of the University of Warsaw and post-graduate studies in Law of Evidence at the Faculty of Law and Administration of the Cardinal Stefan Wyszyński University. Also completed legal training in the Warsaw Bar Chamber, concluded with a passed bar exam. He is also a graduate of Center for American Law Studies (shared initiative of the Florida State University and the Faculty of Law and Administration of the University of Warsaw), Leadership Academy for Poland, XVI School for Civic Leaders founded by Zbigniew Pełczyński of Oxford University in Great Britain, and the Academy of Young Diplomats (European Academy of Diplomacy), specialization: Foreign Service. He gained professional experience in several prominent law firms in Warsaw as well as the Embassy of the Republic of Poland in Rome, the Ministry of Justice, and the Sejm of Poland. He was also a member of several supervisory boards. Professional mediator of the Mediation Center to the Supreme Bar Council in Warsaw entered in the register of mediators of the District Court in Warsaw and legal internship lecturer at the Bar Chamber in Warsaw. Currently operates his own legal practice and is a Managing Partner of the Kopeć Zaborowski Adwokaci i Radcowie Prawni sp. p. law firm. From his youngest years, he has been associated with pro publico bono activity, including as President of the Benefactor's Council of Fundacja Odpowiedzialność Obywatelska. Laureate of the prestigious Risings Stars – Lawyers Leaders of Tomorrow contest organized by Gazeta Prawna and Wolters Kluwer publishing.

Competencies

The Supervisory Board exercises constant supervision over the Company's activities in all aspects of its business. In accordance with the By-laws, the powers of the Supervisory Board include:

- a review of the Management Board's report on the activities of the Company and financial statements for the previous financial year in terms of their compliance with the accounting records, documents and facts;
- review of the motions of the Management Board concerning profit distribution or loss coverage;
- presenting the General Shareholders' Meeting with a written report on the results of the review described above and submitting a brief annual assessment of the situation of the Company, including internal controls and key risk management and an annual report on the work of the Supervisory Board;
- concluding, terminating and amending the agreements with members of the Management Board and setting the terms and conditions of remuneration and the amount of remuneration;
- appointing, suspending and dismissing the CEO, members of the Management Board or the entire Management Board, as well as making decision to stop the suspension;
- agreeing to transfer the entire or portion of the insurance portfolio;
- accepting motions of the Management Board concerning acquisition, assumption or disposal of shares in companies, as well as the Company's participation in other entities – the Supervisory Board may specify the amount, terms and conditions and the way in which the Management Board may carry out the activities without the acceptance of the Supervisory Board;
- delegating members of the Supervisory Board to temporarily perform the functions of members of the Management Board who have been dismissed, resigned or cannot perform their functions for other reasons;
- accepting instructions concerning votes being cast by the Company's representatives during the General Shareholders' Meeting of PZU Życie concerning: an increase and decrease in the share capital, bonds issue, disposal and lease of a PZU Życie enterprise or establishment of a usufruct right, division of PZU Życie combination of PZU Życie with a different company, liquidation or termination of PZU Życie;
- selection of the entity authorized to audit the financial statements which will audit the annual financial statements of the Company;
- wording of the consolidated amended By-laws;
- approval of the long-term plans for the development of the Company and annual financial plans drafted by the Management Board;
- approval of the regulations of the Management Board;
- examination and evaluation of issues submitted by the Management Board for discussion during the General Shareholders' Meeting.

Moreover, the Supervisory Board grants consent to:

- acquisition or disposal of a real property, perpetual usufruct or share in the real property or in perpetual usufruct exceeding the equivalent of EUR 3.0 million.
- conclusion of a material agreement by the Company and its related party, as understood by the Ordinance on current and periodic information, excluding standard agreements concluded by the Company on an arm's length basis as part of its operating activities;
- conclusion of the agreement by the Issuer with the underwriter referred to in Article 433.3 of the Code of Commercial Companies;
- advance payment against expected dividend;
- creation and closing of regional and foreign branches.

Mode of operation

The Supervisory Board adopts the regulations of the Supervisory Board specifying its organization and the manner of performing activities. The regulations of the Supervisory Board were adopted by its Resolution of 24 February 2016 and specify its composition and the way in which its members are appointed, the tasks and the scope of its activities and the manner of calling the Supervisory Board and conducting debates.

The By-laws stipulate that the Supervisory Board should meet at least once every quarter. The Supervisory Board may delegate its members to fulfill specific supervising activities on their own and to this effect appoint temporary committees. The scope of responsibility of a delegated member of the Supervisory Board and the committee is specified in a resolution of the Supervisory Board.

Resolutions of the Supervisory Board are adopted by an absolute majority of votes. In the event of a voting tie, the Chairman of the Supervisory Board has the casting vote. The resolutions of the Supervisory Board may be adopted using means of direct distant communication and in a written form.

Additionally, the By-laws stipulate that a vote may be cast in writing through another member of the Supervisory Board.

The resolutions of the Supervisory Board are adopted in an open ballot, except for resolutions concerning appointment of the chairman, Deputy Chairman and the Secretary of the Supervisory Board, delegation of members of the Supervisory Board to temporarily fill in for members of the Management Board and for resolutions with respect to appointing, suspending and dismissing the Chairman of the Management Board, members of the Management Board or the entire Management Board as well and taking decision to stop such suspension which are adopted in a secret ballot. Moreover, a secret ballot may be chosen on request of a member of the Supervisory Board.

The Supervisory Board appoints the Chairman and the Deputy Chairman of the Supervisory Board from its members and it may also select the Secretary of the Supervisory Board.

In accordance with the Regulations of the Supervisory Board, apart from appointing the audit committee and promotion and compensation Committee, provided for in the By-laws to properly perform its supervision, the Supervisory Board may appoint other permanent advisory and consultative committees whose competencies, composition and way of work is specified by regulations adopted by the Supervisory Board. The regulations of the Supervisory Board stipulate that the Supervisory Board and the appointed committees may use the services of experts and advisory companies.

Members of the Management Board, employees of the Company competent for the discussed issue selected by the Management Board and other persons invited by the Supervisory Board may take part in the meetings of the Supervisory Board; however, they cannot cast votes. In specific cases, the Supervisory Board of PZU may also invite members of the management board or a supervisory board of a different company in PZU Group. Moreover, members of the Supervisory Board, upon consent of the Supervisory Board, may select one advisor authorized to take part in the meetings of the Supervisory Board devoted to reports and financial statements, and give their advice, provided that such person respects confidentiality and signs a confidentiality statement.

At present, the following committees function as part of the Supervisory Board of PZU:

- Audit Committee;
- Promotion and Compensation Committee;
- Strategy Committee.

The By-laws provide for appointing an Audit Committee by the Supervisory Board. The Committee is composed of three members, including at least one independent member qualified in accounting or auditing. Detailed tasks and terms and conditions of appointing members of the Audit Committee and its functioning have been specified in a resolution of the Supervisory Board, which views relevant competencies and experience of the candidates for members of the Committee.

In accordance with the Regulations of the Audit Committee adopted by a resolution of the Supervisory Board, the Audit Committee is an advisory and consultative body to the Supervisory Board and is appointed to improve the effectiveness of the supervision of the correctness of financial reporting and of internal control, including internal audit and risk management, exercised by the Supervisory Board. Moreover, the Audit Committee may apply to the Supervisory Board for commissioning specific controls in the Company to be exercised by an internal or external entity.

The Supervisory Board appointed the Audit Committee on 3 June 2008. Composition of the Audit Committee as at 1 January 2016:

- Dariusz Filar – Chairman of the Committee;
- Dariusz Kacprzyk – Member of the Committee;
- Paweł Kaczmarek – Member of the Committee.

Dariusz Filar was indicated by the Supervisory Board as an independent member, having accounting and audit qualifications as defined in Article 86.4 of the Act on Statutory Auditors.

In relation to the changes in the composition of the Supervisory Board of PZU, on 19 January 2016 the Supervisory Board of PZU established the following composition of the Audit Committee:

- Marcin Chludziński – Chairman of the Committee;
- Paweł Kaczmarek – Member of the Committee;
- Jerzy Paluchniak – Member of the Committee.

Mr Jerzy Paluchniak was indicated by the Supervisory Board as a member with qualifications in accounting or auditing as understood by the Act on Statutory Auditors GLOSSARY art. 86 par. 4 and 5 since 19 January 2016. Furthermore, Mr Marcin Chludziński meet the criteria of independence by the Act on

Statutory Auditors art. 86 par. 4 and 5 since 19 January till 18 March 2016.

On 18 March 2016, the PZU Supervisory Board changed the composition of the audit committee into the following:

- Piotr Paszko – Chairman of the Committee;
- Marcin Chludziński – Member of the Committee;
- Jerzy Paluchniak – Member of the Committee.

On 22 July 2016, the PZU Supervisory Board confirmed the composition of the audit committee into the following:

- Piotr Paszko – Chairman of the Committee;
- Marcin Chludziński – Member of the Committee;
- Jerzy Paluchniak – Member of the Committee.

As at 31 December 2016, the composition of the Committee did not change.

In relation to the changes in the composition of the Supervisory Board of PZU Group, on 23 February 2017 the Supervisory Board of PZU Group decided that the Audit Committee should consist of 3 people, while simultaneously establishing the following composition of the Committee:

- Bogusław Banaszak – Chairman of the Committee;
- Marcin Chludziński – Member of the Committee;
- Jerzy Paluchniak – Member of the Committee.

In accordance with the Regulations of the Supervisory Board, once the Company's shares are quoted on the regulated market, as understood by the Act on Trading in Financial Instruments of 29 July 2005, the Supervisory Board may appoint a Promotion and Compensation Committee.

In accordance with the By-laws, detailed responsibilities and the method of appointing members of the Promotion and Compensation Committee, the way it works and remuneration are specified in a resolution of the Supervisory Board. The Committee should include at least one independent member. If the Supervisory Board includes five members elected in a vote, the Promotion and Compensation Committee is not appointed and its tasks are carried out by the entire Supervisory Board.

According to the regulations of the Promotion and Compensation Committee adopted by a resolution of the Supervisory Board of 4 April 2013, it is an advisory and consultative body to the Supervisory Board and is to improve efficiency of the Board's supervisory activities related to establishing the management structure, including organizational issues, remuneration system, remuneration principles and selection of properly qualified staff.

The Supervisory Board decided that the promotion and compensation committee would be composed of 5 persons. Composition of the Promotion and Compensation Committee as at 1 January 2016:

- Zbigniew Ćwiąkalski – Chairman of the Committee;;
- Zbigniew Derdziuk – Member of the Committee;
- Dariusz Filar – Member of the Committee;
- Paweł Kaczmarek – Member of the Committee;
- Maciej Piotrowski – Member of the Committee.

In relation to the changes in the composition of the Supervisory Board of PZU, on 19 January 2016 the Supervisory Board of PZU decided that the Promotion and Compensation Committee should consist of 4 people, while simultaneously establishing the following composition of the Committee:

- Radosław Potrzeszcz – Chairman of the Committee;;
- Marcin Gargas – Member of the Committee;
- Paweł Kaczmarek – Member of the Committee;
- Piotr Paszko – Member of the Committee.

On 18 March 2016, the PZU Supervisory Board changed the composition of the Promotion and Compensation Committee into the following:

- Radosław Potrzeszcz – Chairman of the Committee;;
- Marcin Gargas – Member of the Committee;
- Paweł Kaczmarek – Member of the Committee;
- Eligiusz Krześniak – Member of the Committee.

As at 31 December 2016, the composition of the Promotion and Compensation Committee did not change.

- In relation to the changes in the composition of the Supervisory Board of PZU, on 23 February 2017 the Supervisory Board of PZU decided that the Promotion and Compensation Committee should consist of 3 people, while simultaneously establishing the following composition of the Committee:
- Agata Górnicka – Chairwoman of the Committee;
- Paweł Górecki – Member of the Committee;
- Paweł Kaczmarek – Member of the Committee.

The Committee is dissolved once five members of the Supervisory Board are elected in a vote cast in groups and its rights are then taken by the entire Supervisory Board.

According to the regulations of the Strategy Committee adopted by a resolution of the Supervisory Board of 4 April 2013, it is an advisory and consultative body to the Supervisory Board and is to improve efficiency of the Board's supervisory activities related to consulting of all strategic documents presented by the Management Board (in particular, the Company development strategy) and presenting the Supervisory Board with recommendations on planned investments that materially impact the Company's assets.

Composition of the Audit Committee as at 1 January 2016:

- Alojzy Nowak – Chairman of the Committee;
- Zbigniew Derdziuk – Member of the Committee;
- Jakub Karnowski – Member of the Committee;
- Aleksandra Magaczewska – Member of the Committee;
- Maciej Piotrowski – Member of the Committee.

In relation to the changes in the composition of the Supervisory Board of PZU, on 19 January 2016 the Supervisory Board of PZU decided that the Strategy Committee should consist of 6 people, while simultaneously establishing the following composition of the Committee:

- Alojzy Nowak – Chairman of the Committee;
- Marcin Chludziński – Member of the Committee;
- Marcin Gargas – Member of the Committee;
- Piotr Paszko – Member of the Committee;
- Radosław Potrzeszcz – Member of the Committee;
- Maciej Zaborowski – Member of the Committee.

As at 31 December 2016 the composition of the Committee did not change.

In relation to the changes in the composition of the Supervisory Board of PZU Group, on 23 February 2017 the Supervisory Board of PZU Group decided that the Strategy Committee should consist of 6 people, while simultaneously establishing the following composition of the Committee:

- Alojzy Nowak – Chairman of the Committee;
- Bogusław Banaszak – Member of the Committee;
- Marcin Chludziński – Member of the Committee;
- Agata Górnicka – Member of the Committee;
- Łukasz Świerżewski – Member of the Committee;
- Maciej Zaborowski – Member of the Committee.

Management Board

Composition

In accordance with the By-laws of PZU, the Management Board is composed of three to seven members appointed for a shared term which includes three consecutive full financial years.

Members of the Management Board, including the Chairman of the Management Board, are appointed and dismissed by the Supervisory Board. The CEO of the new term appointed before the end of the current term may apply to the Supervisory Board for appointing other members of the Management Board of the new term before the end of the current term.

Since 1 January 2016, composition of the Management Board was as follows:

- Dariusz Krzewina – acting as Chairman of the Management Board;
- Przemysław Dąbrowski – Member of the Management Board;
- Rafał Grodzicki – Member of the Management Board;
- Tomasz Tarkowski – Member of the Management Board.

On 19 January 2016, Rafał Grodzki and Tomasz Tarkowski resigned from theirs membership in the Management Board as of 19 January 2016, and the PZU Supervisory Board appointed Michał Krupiński, Rogera Hodgkiss, Beata Kozłowska-Chyła, Robert Pietryszyna as Members of the Management Board as of 19 January 2016, and Paweł Surówka as a Member of the Management Board as of 20 January 2016.

Therefore, since 20 January 2016, composition of the Management Board has been as follows:

- Michał Krupiński – Chairman of the Management Board;
- Przemysław Dąbrowski – Member of the Management Board;
- Roger Hodgkiss – Member of the Management Board;
- Beata Kozłowska-Chyła – Member of the Management Board;
- Dariusz Krzewina – Member of the Management Board;
- Robert Pietryszyn – Member of the Management Board;
- Paweł Surówka – Member of the Management Board.

On 18 March 2016, Przemysław Dąbrowski resigned from his membership in the Management Board as of 18 March 2016. On 19 March 2016, Paweł Surówka resigned from his membership in the Management Board as of 19 March 2016. On 19 March 2016, the PZU Supervisory Board appointed

Sebastian Klimek and Maciej Rapkiewicz as Members of the Management Board, effective as of 22 March 2016.

Therefore, since 22 March 2016, composition of the Management Board has been as follows.

- Michał Krupiński – Chairman of the Management Board;
- Roger Hodgkiss – Member of the Management Board;
- Sebastian Klimek – Member of the Management Board;
- Beata Kozłowska-Chyła – Member of the Management Board;
- Dariusz Krzewina – Member of the Management Board;
- Robert Pietryszyn – Member of the Management Board;
- Maciej Rapkiewicz – Member of the Management Board.

On 13 May 2016, Robert Pietryszyn resigned from his membership in the Management Board. Moreover, on 13 May 2016, the PZU Supervisory Board appointed Andrzej Jaworski as a Member of the Management Board, effective as of 14 May 2016.

Therefore, since 14 May 2016, composition of the Management Board has been as follows:

- Michał Krupiński – Chairman of the Management Board;
- Roger Hodgkiss – Member of the Management Board;
- Andrzej Jaworski – Member of the Management Board;
- Sebastian Klimek – Member of the Management Board;
- Beata Kozłowska-Chyła – Member of the Management Board;
- Dariusz Krzewina – Member of the Management Board;
- Maciej Rapkiewicz – Member of the Management Board
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On 23 June 2016, Dariusz Krzewina resigned from his membership in the Management Board, and therefore the composition of the Management Board was as follows:

- Michał Krupiński – Chairman of the Management Board;
- Roger Hodgkiss – Member of the Management Board;
- Andrzej Jaworski – Member of the Management Board;
- Sebastian Klimek – Member of the Management Board;
- Beata Kozłowska-Chyła – Member of the Management Board;
- Maciej Rapkiewicz – Member of the Management Board.

On 30 August 2016, Sebastian Klimek resigned from his membership in the Management Board, and therefore the composition of the Management Board was as follows:

- Michał Krupiński – Chairman of the Management Board;
- Roger Hodgkiss – Member of the Management Board;
- Andrzej Jaworski – Member of the Management Board;
- Beata Kozłowska-Chyła – Member of the Management Board;
- Maciej Rapkiewicz – Member of the Management Board.

As of 17 October 2016 Beata Kozłowska-Chyła resigned from her membership in the Management Board. On 14 October 2016, the Supervisory Board appointed Tomasz Kulik as a Member of the Management Board. Therefore, the composition of the Management Board was as follows:

- Michał Krupiński – Chairman of the Management Board;
- Roger Hodgkiss – Member of the Management Board;
- Andrzej Jaworski – Member of the Management Board;
- Tomasz Kulik – Member of the Management Board;
- Maciej Rapkiewicz – Member of the Management Board.

As at 31 December 2016, composition of the Management Board was as follows:

- Michał Krupiński – Chairman of the Management Board;
- Roger Hodgkiss – Member of the Management Board;
- Andrzej Jaworski – Member of the Management Board;
- Tomasz Kulik – Member of the Management Board;
- Maciej Rapkiewicz – Member of the Management Board.

The current term of the Management Board of PZU started on 1 July 2015 and will last until the end of three consecutive financial years. The mandates of members of the Management Board expire not later than on the date of the General Shareholders' Meeting approving the financial statements for the last full financial year of their term.

The Management Board exercises all management rights which have not been reserved by the provisions of law or provisions of the By-laws for the General Shareholders' Meeting or the Supervisory Board. The Company may be represented by two members of the Management Board acting jointly or one member of the Management Board acting with a commercial proxy. The Management Board adopts its regulations which are approved by the Supervisory Board. The regulations of the Management Board were adopted by the Management Board on 2 October 2012, amended with a Resolution of the Board of 8 April 2013, and approved by a resolution of the Supervisory Board of 16 April 2013.

The regulations of the Management Board determine:

- scope of Management Board's competencies and activities that require approval or confirmation by the Supervisory Board;
- competencies of the CEO and Members of the Management Board;
- principles and organization of Board's activities, including its meetings and decision making procedures;
- rights and obligations of the Members of the Management Board upon dismissal.

In accordance with the regulations of the Management Board, resolutions of the Management Board are especially required for:

- approval of a long-term plan for development and operations of the Company;
- approval of an action and development plan for PZU Group;
- approval of an annual financial plan and a report on its implementation;
- approval of the financial statements for the previous financial year and the management report on the activities of the Company;
- approval of a motion concerning profit distribution or loss coverage;
- determination of premiums in the compulsory and non-compulsory insurance and general non-compulsory insurance terms and conditions;
- determination of the scope and size of outward reinsurance and the tasks for inward reinsurance;
- approval of an annual audit and control plan and a report on its implementation with conclusions;
- determination of the terms and conditions of investments, prevention and sponsoring;
- giving sureties and guarantees (excluding insurance operations) and taking out and giving credit facilities or loans by the Company (excluding credit facilities and loans given from the Company's Social Benefits Fund);
- appointment of a commercial representation.

In accordance with the regulations, meetings of the Management Board are held at least once a fortnight. The work of the Management Board is administered by the CEO whose powers include in particular:

- defining the scope of responsibility of each member of the Management Board;
- calling meetings of the Management Board;
- setting the agenda of the meeting of the Management Board;
- applying to the Supervisory Board for appointing and dismissing members of the Management Board;
- designating a person to administer the work of the Management Board during the absence of the CEO.

Resolutions of the Management Board are adopted only in the presence of the Chairman or a person designated to administer the work of the Management Board during their absence.

Resolutions of the Management Board are adopted by an absolute majority of votes and in the event of a voting tie the CEO has the casting vote. The Management Board, upon consent of the CEO, may adopt resolutions in writing, on paper or in an e-form (i.e. using means of distant communication and a qualified electronic signature). The By-laws also provide that the meetings of the Management Board may be held using means of direct distant communication.

The CEO takes decisions in the form of orders and official instructions. Other Members of the Management Board administer the operations of the Company within the scope specified by the CEO.

The By-laws of PZU do not provide for any special rights of the Management Board concerning decisions to issue or redeem shares.

Michał Krupiński – CEO of PZU since 19 January 2016

Graduated from Warsaw School of Economics. He was awarded a diploma with distinction after the completion of expert studies in Economics at Catholic University in Louvain. Completed an MBA program at Columbia University Graduate School of Business and, what is more, studied at Harvard University. In 2012, was awarded the title of Young Global Leader by the Davos World Economic Forum. He is fluent in the following languages: English, French, German and Spanish. Since 2011, he has been the CEO of Merrill Lynch Polska and Head of Investment Banking for Central and Eastern Europe in Bank of America Merrill Lynch. His responsibilities concern governing and managing the projects centered on mergers and acquisitions and financing in private and public markets. He used to work as a counselor. His advisory activities focused on asset management, investment policy and capital structure, i.a. in banking and insurance sector. Earlier, between 2008 and 2011, he was the Alternate Executive Director – Member of the Board of Directors at the World Bank in Washington. He co-decided on the proposals concerning IBRD loans and guarantees, IDA loans and guarantees, IFC, investment guarantees and strategy and policies of the World Bank. Between 2006 and 2008 he was the Undersecretary of State in the Ministry of State Treasury, where he was responsible i.a. for ownership supervision. He supervised the program of energy sector consolidation.

Roger Hodgkiss – Member of the Management Board in PZU since 19 January 2016 / PZU Życie since 29 January 2016

He has many years of experience in financial services. He graduated with honors from the University of Liverpool as an engineer. He is a Statutory Auditor, certified in the United Kingdom. Between 1998 and 2007, he worked for GE Capital on various management positions concerning finance. In the years 2007–2008, he held the position of the CEO of AAS Balta – the largest insurance company in Latvia. From 2008 to 2009, he worked as Sales Director in Intouch Insurance Group, a holding company part of RSA Group. Since 2009, he has been in the Management Board of Link4 Towarzystwo Ubezpieczeń S.A., and since 2012 has been the CEO. He was awarded prize of "Gazeta Ubezpieczeniowa": the title of Człowiek Roku Ubezpieczeń 2014 (Man of the Year in Insurance).

Andrzej Jaworski – Member of the Management Board of PZU since 14 May 2016 / PZU Życie since 25 May 2016

Graduated in humanities from the Institute of Ethnology and Anthropology of Culture at the Adam Mickiewicz University in Poznań in 1995. Graduate of doctoral studies in political sciences and social studies at ATK in Warsaw in 1999 (Cardinal Stefan Wyszyński University). Completed numerous courses and postgraduate studies, including "Modernes Firmenmanagement: Marketing und Finanzen" (Berlin International Academy) and "The Baltic Sea Environment" (The Baltic University). Furthermore, in 1999, Mr Andrzej Jaworski passed the State Exam for Members of Supervisory Boards of State Treasury Single-Person Companies. Over the years 1999–2003 worked as chief specialist and subsequently Deputy Director for tourism at the Office of the Pomorskie Voivodeship's Marshal. In 2003–2006 served as Vice President and subsequently President of the Management Board of Przedsiębiorstwo Gospodarki Maszynami Budownictwa Warszawa sp. z o.o. In the years 2006–2008, Mr. Andrzej Jaworski held the position of President of the Management Board of Stocznia Gdańsk S.A. He also served as the Chairman of the Supervisory Board of MCSE sp. z o.o., Chairman of the Supervisory Board of KE Energa, and Member of the Supervisory Board of PKP Intercity. Deputy of the Sejm of the Republic of Poland in the 6th and 7th terms. His community services included service as instructor of the independent Polish Organization of Scouts and he initiated the establishment of the first Polish scout troop in Vilnius. For many years, he founded and was active in numerous social organizations and worked for the benefit of the Pomorskie self-government.

Tomasz Kulik – Member of the PZU Management Board since 14 October 2016 / PZU Życie Management Board since 19 October 2016

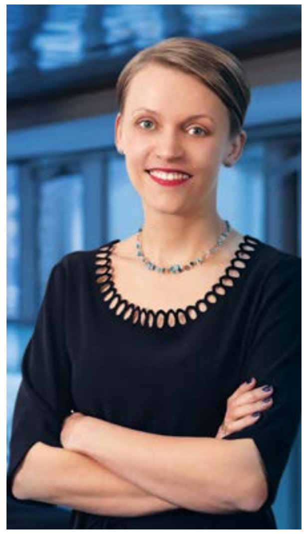
Until appointment to the Management board of PZU, he served as the Director of the Planning and Controlling Office. He prepared the PZU Capital Group's strategy for the years 2016-20 and the capital and dividend policy. He is also on the Management Board of TFI PZU (and formerly on the Management Board of PZU Asset Management) and supervises finances, risk, operations, and IT. As coordinator of the work of the TFI PZU Management Board, he is also responsible for the corporate segment. He has many years of experience in insurance and financial institutions. Graduate of the Warsaw School of Economics. He graduated from MBA studies at the University of Illinois and from the Warsaw-Illinois Executive MBA program. Member of the Association of Chartered Certified Accountants. For most of his career, he has been associated with the Aviva Group (formerly Commercial Union).

Maciej Rapkiewicz – Member of the Management Board of PZU since 22 March 2016/ of PZU Życie since 25 May 2016

Graduated law at the Faculty of Law and Administration of the Łódź University, completed postgraduate studies in business insurance at the Academy of Economics in Kraków, MBA Finance & Insurance at the Łódź University of Technology / Illinois State University, and doctoral studies at the Faculty of Economics of the Institute of Finances, Banking, and Insurance at the Łódź University. In 1998–2009, he was associated with PZU Group as Member of the Management Board (in 2006–2009) and subsequently as Vice President of the Management Board of TFI PZU SA. In 1998-2006, he worked at PZU S.A. in the financial division and took part in strategic projects. Worked at TFI BGK S.A. from 2015, where he served as Member of the Board before his appointment to the Management Board of PZU S.A. (in 2016). He was also the President of the Management Board of ŁSSE S.A., the Director of the Financial Department of TVP S.A., and Member of the Management Board of the Sobieski Institute Foundation. He also operated a business consulting activity. He gained extensive experience as Member of the Supervisory Board of Morizon S.A (2015-2016), President of the Supervisory Board of Dom Invest sp. z o.o. (from 2016), Vice President of the Supervisory Board of Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. in Sochaczew (2013–2016). Authored scientific publications on the financial sector and public finances.

Paweł Surówka – CEO of PZU Życie Management Board since 23 June 2016 and Director in PZU Group since 1 November 2016

Graduate of Universitė Paris I Panthėon Sorbonne and Ecole des Hautes Etudes en Sciences Sociales (EHESS). Completed his main studies at Ludwig Maximilian Universität (LMU) in Munich. Between 2007 and 2013, he worked as a financial advisor at w Bank of America Merrill Lynch. He represented the Bank in the CEE region by building relationships with investors. His activities covered counseling on portfolio management, asset allocation and their diversification, alternative financial instruments and market analysis. From 2013 to 2015, he was a Member of the Management Board of Boryszew S.A., the Office Director in charge of automotive sector development, and the CEO of the subsidiaries from the automotive sector. During his time spent in Boryszew Group, he was responsible for strategic and operational management and supervision over budget policy of the automotive sector. His activities covered preparation and implementation of a business strategy for automotive area. Moreover, he was responsible for mergers and acquisitions performed as a part of expansion policy and disinvestment of Boryszew Group. He also led restructuring processes of the companies from automotive sector. Until January 2016, he was an advisor to the CEO of PKO Bank Polski S.A., and the Director of Corporate Banking and Investments in Germany responsible for opening the first foreign corporate branch of PKO Bank Polski. His activities covered also counseling and financial processing for the largest corporate clients of PKO Bank Polski concerning their expansion and foreign operations. He speaks the following foreign languages: English, French and German.



Aleksandra Agatowska – Member of the Management Board of PZU Życie and Director in PZU Group since 25 March 2016

Graduate of the Jagiellonian University with specialization in Sociology of Economics and Market Research. Previously associated with the private financial sector. Worked for ING Group's companies, including ING Życie, ING Powszechne Towarzystwo Emerytalne, and ING Spółka Dystrybucyjna. Chosen for the Talent Pool program for two percent of the most talented employees and recognized with the award of employee of the year in the Marketing Division. Also worked with the group of the Center of Evaluation and Analyses of Public Policies of the Jagiellonian University. At HDI (the present Warta S.A.), which was a part of the Talanx Group, she coordinated the marketing team in creation and implementation of sales support campaigns. She then was in charge of Marketing Intelligence at Sony Europe and coordinated work in 20 European countries. Recognized with the award of employee of the year in Europe. At Philips S.A., she was in charge of Marketing and Business Intelligence in 17 countries of the region. As an external consultant, she advised on implementation of projects concerning distribution channels of Aviva S.A. In all companies, she implemented original projects in marketing, sales, process management, and product management.

Tomasz Karusewicz – Member of the Management Board of PZU Życie and Director in PZU Group since 29 January 2016

Graduate from the Faculty of Economic Sciences and Management at the University of Szczecin. Specializes in company management. He is also a certified internal auditor and qualified to sit on supervisory boards of State Treasury companies. He gained his experience and vast practical knowledge on functioning of large economic entities during his work in the area of supervision, institutional control and internal audit. As a member of supervisory boards of commercial law companies, he participated in decision-making processes which were strategically vital to current operations of these entities, concerning i.a. such areas as: investments, planning, IT strategy, acquisition, or finance operations. Between 2003 and 2005, he was employed by the Municipal Office of Szczecin. He worked in the internal control unit and subsequently as internal auditor. From 2006 to 2008, he worked in Ciech Group. He was a Member of the Supervisory Board of Ciech S.A. He was also the Deputy Director of the Ownership Supervision Office, where he was performing ownership supervision over the companies of Ciech Group. In addition, he was a Member of the Supervisory Boards of the companies of Ciech Group, i.e. Zakłady Chemiczne Alwernia S.A. and Ciech Polfa Sp. z o.o. From 2007 to 2009, he worked as the Deputy Director of the Foreign Investments Office (Business Development Office) at PZU S.A. Between 2010 and 2012, he worked in Telewizja Polska S.A. At first, as the Deputy Director of the Office of the Management Board and Corporate Issues, then – as the Director of the Audit and Internal Control Office. Moreover, he sat in management boards of many companies, i.a. Enea S.A., IKS Solino S.A., and Zakłady Azotowe w Tarnowie – Mościcach S.A. At present, he is also a member of the supervisory board of the Azoty S.A. Group.

Bartłomiej Litwińczuk – Member of the Management Board of PZU Życie and Director in PZU Group since 19 August 2016

Graduate of the Faculty of Law and Administration at the University of Warsaw. Practices law at the Bar Chamber in Warsaw. As a lawyer, he specialized in civil law. Combines business knowledge with extensive experience resulting from providing legal assistance in cases associated with commercial companies law, copyrights, administrative law, and criminal law. Also served as advisor to the Sejm's Extraordinary Committee for changes to codification. Bartłomiej Litwińczuk is also a member of supervisory authorities of commercial law companies.

Sławomir Niemierka – Member of the Management Board of PZU Życie and Director in PZU Group since 19 March 2012

He graduated from the Faculty of Law and Administration at the University of Warsaw and from Harvard Business School. He has the qualifications of legal advisor. Co-authored a number of publications on financial law and bank supervision. He was an academic teacher at post-graduate courses at Polish Academy of Sciences, the University of Warsaw and the Academy of Insurance and Finance. For many years, he worked in the National Bank of Poland, where he headed the Inspection Office responsible for inspections carried out in banks. Member of a Steering Committee of the General Inspectorate of Banking Supervision in charge of the implementation of the second Basel Accord, supervision over risk models, operational risk and accounting standards. He was in a Team in charge of the development of the risk management system in the National Bank of Poland. As a Member of the Management Board of the Bank Guarantee Fund, he supervised the operational risk management system. He joined PZU Group in 2008 and was appointed the Managing Director in charge of auditing.

Roman Pałac – Member of the Management Board of PZU Życie and Director in PZU Group since 15 February 2016

Graduated from Economy at Warsaw School of Economics. He earned the title of Master of Business Administration (MBA) at London Business School along with the dean's award for the best graduates. He has many years of experience in financial services at home and abroad. In 2003-2007, he worked at a Project Manager in the World Bank where he was responsible for preparing and coordinating the implementation of borrowing programs that were aimed to introduce policies to improve energy efficiency in the CEE countries. He coordinated also the works on a coal industry reform in Poland. In 2009-2016, he has collaborated with The Boston Consulting Group, where he has held the position of a Junior Partner and was responsible for insurance and banking consulting e.g. in the following fields: motor claims handling, organizational changes, business strategy creation, and intensification of sales operations. He took part in several bank mergers where he acted as an expert.

Name and surname (composition of the Management Board as at the end of 2016)	In PZU Group	Scope of responsibility
Michał Krupiński	Chairman of the PZU Management Board since 19 January 2016	Management of PZU Group, corporate management, internal audit, strategies and projects, banking projects, macroeconomic analysis
Roger Hodgkiss	Member of the Management Board of PZU since 19 January 2016 Member of the Management Board of PZU Życie since 29 January 2016	Mass property insurance – sales, products and tariffs, management of PZU branches network and sales channels, bancassurance, agency sales of life products, sales to corporate clients in PZU Życie
Andrzej Jaworski	Member of the Management Board of PZU since 14 May 2016 Member of the Management Board of PZU Życie since 25 May 2016	Health care, real estate
Tomasz Kulik	Member of the Management Board of PZU since 14 October 2016 Member of the Management Board of PZU Życie since 19 October 2016	Finance, actuary
Maciej Rapkiewicz	Member of the Management Board of PZU since 22 March 2016 Member of the Management Board of PZU Życie since 25 May 2016	Risk management
Paweł Surówka	Member of the Management Board of PZU between 20 January 2016 and 19 March 2016 Member of the Management Board of PZU Życie since 29 January 2016 Chairman of the PZU Życie's Management Board since 23 June 2016 (acting as a Chairman from 17 June 2016) Director in PZU Group since 1 November 2016	Investments, PZU Życie: corporate management, internal audit, strategy and projects, investment and protective products, tariffs actuary, macroeconomic analysis
Aleksandra Agatowska	Member of the Management Board of PZU Życie/ Director in PZU Group since 25 March 2016	Marketing, innovations, purchases, customer relation management
Tomasz Karusewicz	Member of the Management Board of PZU Życie/ Director in PZU Group since 29 January 2016	IT, property and life insurance operations
Bartłomiej Litwińczuk	Member of the Management Board of PZU Życie/ Director in PZU Group since 19 August 2016	Security, legal counseling, HR
Sławomir Niemierka	Member of the Management Board of PZU Życie/ Director of the Group since 19 March 2012	Reinsurance, compliance
Roman Pałac	Member of the Management Board of PZU Życie/ Director in PZU Group since 15 February 2016	Claims handling, contact center and post-sales customer service, non-life corporate insurance

10.9 Remuneration of the members of the Group's bodies

Employment contracts concluded with the Members of the Management Board, approved by resolution of the Supervisory Board, do not include compensation for resignation or dismissal from their positions without a valid reason, or if the dismissal results from a business combination through an acquisition of the issuer.

Separate non-competition agreements regulate among others refraining from post-employment competition with PZU in exchange for damages. In 2014–2016, PZU Group companies included in consolidation did not grant any loans or similar benefits to members of their management boards, higher level managers or members of their supervisory boards.

Rules of granting annual bonuses to the Members of the Management Board

The bonuses of the Management Board's Members are dependent on their performance for the financial year. They are awarded by the Supervisory Board after the approval of the financial statements for the year.

The bonus amount depends on the performance of the business area supervised by the given Member of the Management Board; however, the areas that affect business results have much greater impact on remuneration than the support areas.

On 8 February 2017, Extraordinary Shareholders' Meeting of PZU adopted resolution no. 4/2017 on regulations that govern the forming of compensation of Members of the Management Board of Powszechny Zakład Ubezpieczeń Spółka Akcyjna. The next step will be the implementation of the regulation in question by the Supervisory Board of PZU.

Group Directors

Positions of PZU Group Directors were established at PZU in relation to the implementation of the management model, according to which Members of the Management Board of PZU Życie as PZU Group Directors are in charge of the same business areas and functions in both companies. The positions of PZU Group Directors are established based on Organizational Regulations of PZU.

As at 1 January 2016, PZU Group Directors were the following:

- Przemysław Henschke;
- Sławomir Niemierka;
- Tobiasz Bury.

On 29 January 2016, Tomasz Karusewicz was appointed a Director of the Group, and on 15 February 2016 Roman Pałac also was appointed to perform this function. Moreover, on 29 January the following people ceased to hold the position of Director of the Group: Tobiasz Bury and Przemysław Henschke. As of 25 March 2016, Aleksandra Agatowska became the Group Director. On 2 September Bartłomiej Litwińczuk was appointed the Group Director, effective as of 19 August 2016, and on 25 October 2016 Paweł Surówka was appointed the Group Director effective as of 1 November 2016.

As at the date of preparation of this Report on the activities, the following people have been performing the role of a Director of PZU Group:

- Aleksandra Agatowska;
- Tomasz Karusewicz;
- Bartłomiej Litwińczuk;
- Sławomir Niemierka;
- Roman Pałac;
- Paweł Surówka.

Remuneration and other short-term employee benefits paid by other entities of PZU Group (in thousands)	1 January – 31 December 2016		1 January – 31 December 2015	
		including bonuses and special benefits:		including bonuses and special benefits:
Management Board, including:	**9,066**	**-**	**8,124**	**2,862**
Przemysław Dąbrowski [1]	683	-	1,112	371
Rafał Grodzicki [2]	520	-	312	-
Rodger Hodgkiss	634	-	-	-
Andrzej Jaworski	434	-	-	-
Witold Jaworski [3]	436	-	260	-
Andrzej Klesyk [4]	1,950	-	2,970	1,170
Sebastian Klimek [5]	579	-	-	-
Beata Kozłowska-Chyła [6]	634	-	-	-
Michał Krupiński	1,377	-	-	-
Dariusz Krzewina [7]	668	-	1,281	507
Tomasz Kulik [8]	-	-	-	-
Robert Pietryszyn	273	-	-	-
Maciej Rapkiewicz	581	-	-	-
Paweł Surówka	176	-	-	-
Tomasz Tarkowski	121	-	995	332
Ryszard Trepczyński [9]	-	-	1,194	482
Top management (PZU Group Directors), including:	**4,503**	**199**	**3,799**	**1,530**
Aleksandra Agatowska	505	-	-	-
Tobiasz Bury [10]	706	-	1,276	606
Przemysław Dąbrowski	-	-	-	-
Rafał Grodzicki	-	-	624	312
Przemysław Henschke [11]	542	-	936	312
Tomasz Karusewicz	611	-	-	-
Bartłomiej Litwińczuk	241	-	-	-
Sławomir Niemierka	862	199	963	300
Roman Pałac	581	-	-	-
Paweł Surówka [12]	455	-	-	-

Remuneration and other short-term employee benefits paid by other entities of PZU Group (in thousands)	1 January – 31 December 2016		1 January – 31 December 2015	
		including bonuses and special benefits:		including bonuses and special benefits:
Supervisory Board, including:	**1,241**	-	**1,224**	**-**
Marcin Chludziński	119	-	-	-
Zbigniew Ćwiąkalski	3	-	180	-
Zbigniew Derdziuk	2	-	120	-
Dariusz Filar	2	-	132	-
Marcin Gargas	167	-	-	-
Dariusz Kacprzyk	2	-	120	-
Paweł Kaczmarek	191	-	84	-
Jakub Karnowski	2	-	120	-
Eligiusz Krześniak	119	-	-	-
Aleksandra Magaczewska	2	-	156	
Alojzy Nowak	120	-	120	-
Jerzy Paluchniak	118	-	-	-
Piotr Paszko	119	-	-	-
Maciej Piotrowski	2	-	120	-
Radosław Potrzeszcz	119	-	-	-
Piotr Walkowiak	11	-	-	-
Maciej Zaborowski	143	-	-	-
Tomasz Zganiacz	-	-	72	-

[1] including remuneration resulting from competition prohibition clause of PLN 332 thousand
[2] including remuneration resulting from competition prohibition clause of PLN 312 thousand
[3] including remuneration resulting from competition prohibition clause of PLN 195 thousand
[4] including remuneration resulting from competition prohibition clause of PLN 1.350 thousand
[5] including remuneration resulting from competition prohibition clause of PLN 111 thousand
[6] including remuneration resulting from competition prohibition clause of PLN 55 thousand
[7] including remuneration resulting from competition prohibition clause of PLN 55 thousand
[8] including remuneration from PZU Życie only, the amount presented in the next table
[9] including remuneration resulting from competition prohibition clause of PLN 185 thousand
[10] including remuneration resulting from competition prohibition clause of PLN 371 thousand
[11] including remuneration resulting from competition prohibition clause of PLN 312 thousand
[12] including remuneration by virtue of being an Advisor of the PZU Management Board during the period from 24/04/2016 to 31/10/2016

Remuneration and other short-term employee benefits paid by other entities of PZU Group (in thousands)	1 January – December 2016		1 January – 31 December 2015	
		including bonuses and special benefits:		including bonuses and special benefits:
Management Board, including:	**4,266**	**-**	**3,310**	**1,279**
Przemysław Dąbrowski [1]	368	-	799	400
Rafał Grodzicki [2]	280	-	504	168
Rodger Hodgkiss	599	-	-	-
Andrzej Jaworski	208	-	-	-
Witold Jaworski [3]	235	-	138	-
Sebastian Klimek [4]	208	-	-	-
Beata Kozłowska-Chyła [5]	329	-	-	-
Michał Krupiński	-	-	-	-
Dariusz Krzewina [6]	360	-	690	273
Tomasz Kulik	206	-	-	-
Robert Pietryszyn	135	-	-	-
Maciej Rapkiewicz	208	-	-	-
Paweł Surówka	329	-	-	-
Tomasz Tarkowski [7]	801	-	536	179
Ryszard Trepczyński [8]	-	-	643	259
Top management (PZU Group Directors), including:	**2,332**	**107**	**1,546**	**492**
Aleksandra Agatowska	272	-	-	-
Tobiasz Bury [9]	380	-	578	217
Przemysław Henschke [10]	292	-	504	168
Tomasz Karusewicz	329	-	-	-
Bartłomiej Litwińczuk	147	-	-	-
Sławomir Niemierka	599	107	464	107
Roman Pałac	313	-	-	-

[1] including remuneration resulting from competition prohibition clause of PLN 179 thousand (PZU Życie)
[2] including remuneration resulting from competition prohibition clause of PLN 168 thousand (PZU Życie)
[3] including remuneration resulting from competition prohibition clause of PLN 105 thousand (PZU Życie)
[4] including remuneration resulting from competition prohibition clause of PLN 138 thousand (PZU Życie)
[5] including remuneration resulting from competition prohibition clause of PLN 119 thousand (PZU Życie)
[6] including remuneration resulting from competition prohibition clause of PLN 30 thousand (PZU Życie)
[7] including remuneration resulting from competition prohibition clause of PLN 150 thousand (Link 4)
[8] including remuneration resulting from competition prohibition clause of PLN 100 thousand (PZU Życie)
[9] including remuneration resulting from competition prohibition clause of PLN 200 thousand (PZU Życie)
[10] including remuneration resulting from competition prohibition clause of PLN 168 thousand (PZU Życie)

Total estimated value of non-financial benefits granted by PZU and the subsidiaries of PZU (in thousands)	1 January – 31 December 2016	1 January – 31 December 2015
Management Board, including:	**1,057**	**1,224**
Przemysław Dąbrowski	92	191
Rafał Grodzicki	51	129
Rodger Hodgkiss	36	-
Andrzej Jaworski	77	-
Witold Jaworski	39	40
Andrzej Klesyk	56	298
Sebastian Klimek	66	-
Beata Kozłowska-Chyła	105	-
Michał Krupiński	79	-
Dariusz Krzewina	126	209
Tomasz Kulik	76	-
Robert Pietryszyn	51	-
Maciej Rapkiewicz	101	-
Paweł Surówka	54	-
Tomasz Tarkowski	48	178
Ryszard Trepczyński	-	179
Top management (PZU Group Directors), including:	**605**	**600**
Aleksandra Agatowska	97	-
Tobiasz Bury	60	213
Rafał Grodzicki	-	44
Przemysław Henschke	82	167
Tomasz Karusewicz	51	-
Bartłomiej Litwińczuk	51	-
Sławomir Niemierka	171	176
Roman Pałac	93	-
Supervisory Board, including	**-**	**11**
Zbigniew Ćwiąkalski	-	10
Waldemar Maj	-	1

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Miscellaneous

Correctness and reliability of presented financial statements

The Management Board of PZU declares that, to the best of their knowledge, the annual financial statements and comparable data of PZU Group have been prepared in accordance with the applicable accounting principles and provide a true, fair and clear view of the economic and financial position and the financial result of the Group and the management report of PZU Group presents a true picture of its development and achievements, including a description of the main risks and threats.

Selection of the entity authorized to audit financial statements

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

Significant agreements concluded between shareholders

By the date of issuing this Report on the activities of PZU, the Management Board of PZU has no knowledge about any agreements concluded between the shareholders, which could result in future changes in proportions of shares held by the existing shareholders.

Information on significant contracts concluded

On 8 December 2016 PZU and PFR concluded an agreement with UniCredit S.p. A. to purchase 32.8% Bank Pekao S.A. shares for the total amount of PLN 10.6 billion. 3.4 BANKING. On 16 October 2015, PZU issued a guarantee in relation to the liabilities of PZU Finance AB (publ) arising from the bonds issued by the company. 8.3 DEBT FINANCING

Related party transactions other than ones concluded on an market terms

PZU Group companies provide services to each other, as part of their capital and business ties. With the exception of companies of the Tax Capital Group, transactions are concluded on market terms.

Tax Capital Group

On 25 September 2014, a new Tax Capital Group agreement was signed, covering the following 13 PZU Group's 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 capital group was established for a 3-year period - between 1 January 2015 and 31 December 2017.

PZU is the dominating and representing company of the tax capital group. In accordance with art. 25 section 1 of the CIT act, the tax capital group makes monthly settlements with the Treasury Office. PZU makes advance payments to the Treasury Office in scope of CIT owed from all companies, while PZU Życie provides PZU with advance CIT payments concerning the business activity of PZU Życie.

Acquisition of own shares in the reporting year

As an element of its commercial activity, Alior Bank performs transactions involving own shares and futures contracts on PZU shares. As at 31 December 2016 Alior Bank held 18,700 PZU shares.

Loans and credits taken

The companies within PZU Group grant mutual loans to one another. The below table presents the list of loans granted in 2016 to entities related to the issuer (date of granting the loan based on cash-flow):

Amount	date of granting the loan	maturity date	borrower	lender
PLN 250 million	2016-08-25	2016-10-18	PZU	PZU Życie
PLN 400 million	2016-05-27	2016-06-24	PZU	PZU Życie
PLN 350 million	2016-06-24	2016-07-25	PZU	PZU Życie
PLN 350 milion	2016-07-27	2016-08-25	PZU	PZU Życie
PLN 70 million	2016-07-04	2030-12-31	PZU Zdrowie	PZU
PLN 80 million	2016-11-16	2026-12-31	TUW	PZU

Guarantees and sureties issued and granted

On 31 March 2016, a guarantee agreement was concluded between PZU and Alior Bank (Current report no. 18/2016) for the total of PLN 2,5 bn. On 1 July 2016, the guarantee was terminated by Alior Bank.

Information on off-balance sheet items as at the end of 2016 has been presented in CHAPTER 6.5 STRUCTURE OF ASSETS AND LIABILITIES.

Insurance contracts that exceed 25% of the total technical provisions and equity

In 2016, PZU Group did not conclude any insurance contract for a sum of a single risk insured, net of reinsurance, that exceed 25% of the total technical provisions and equity.

Seasonal or cyclical business

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

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

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

Financial forecast

PZU Capital Group did not publish forecasts concerning financial results.

Disputes

In 2016 and by the date of preparation of the report on the activities, PZU Group did not take part in any proceedings before court, body competent to hear arbitration proceedings or public authority body concerning liabilities or receivables of PZU or its direct and indirect subsidiaries with the value of at least 10% of the equity of PZU. The description of court cases and proceedings before the President of the Office of Competition and Consumer Protection (OCCP) is included in the consolidated financial statements of PZU Group for 2016.

As at 31 December 2016, the total value of all 134,769 cases heard by courts, bodies competent to hear arbitration proceedings or public authority bodies involving PZU Group entities was PLN 4,357 million. The amount includes PLN 3,374 million of liabilities and PLN 983 million of receivables of PZU Group companies, which accounted for 27,6% and 8,0% of the equity of PZU calculated in line with PAS, respectively.

This Management Report of PZU Capital Group for 2016 includes 205 pages with sequential numbers.

Signatures of Members of PZU Management Board

Michał Krupiński – Chairman of the Management Board

Roger Hodgkiss – Member of the Management Board

Andrzej Jaworski – Member of the Management Board

Tomasz Kulik – Member of the Management Board

Maciej Rapkiewicz – Member of the Management Board

Warsaw 14 March 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)	2016	2015	2014	2013	2012
Gross written premiums	20,219	18,359	16,885	16,480	16,243
Net earned premiums	18,625	17,385	16,429	16,249	16,005
Net revenue from commissions and fees	523	243	351	299	237
Net investment income	3,587	1,739	2,647	2,479	3,613
Net claims and benefits	(12,732)	(11,857)	(11,542)	(11,161)	(12,219)
Acquisition costs	(2,613)	(2,376)	(2,147)	(2,016)	(2,000)
Administrative expenses	(2,843)	(1,658)	(1,528)	(1,406)	(1,440)
Interest expenses	(773)	(117)	(147)	(104)	(127)
Other operational income and expenses	(740)	(419)	(370)	(220)	(31)
Operating profit (loss)	3,034	2,940	3,693	4,119	4,039
Share in net profit (loss) of entities measured using the equity method	(3)	4	(2)	1	-
Gross profit (loss)	3,031	2,944	3,692	4,120	4,039
Net profit (loss), including:	2,417	2,343	2,968	3,295	3,254
Shareholders' profit (loss)	1,947	2,343	2,968	3,293	3,255
Minority profit (loss)	470	-	-	1	(1)
Basic and diluted weighted average number of ordinary shares*	863,510,930	863,523,000	863,519,490	863,519,490	863,523,000
Number of shares issued	863,523,000	863,523,000	863,523,000	863,523,000	863,523,000
Basic and diluted PZU Group's profit per ordinary Issuer's share (in PLN)	2.25	2.71	3.44	3.81	3.77
Net profit of PZU (issuer)	1,593	2,249	2,637	5,106	2,581
Basic and diluted PZU Group's profit per ordinary Issuer's share (in PLN)	1.84	2.60	3.05	5.91	2.99

*including shares in consolidated funds

Assets (PLN million)	2016	2015	2014	2013	2012
Intangible assets	1,463	1,393	869	309	183
Goodwill	1,583	1,532	769	9	8
Property, plant and equipment	1,467	1,300	1,002	927	992
Investment property	1,738	1,172	2,236	1,475	564
Entities measured using the equity method	37	54	66	49	-
Financial assets	105,300	89,229	56,760	55,086	50,423
Receivables	5,703	3,338	3,085	2,707	1,916
Reinsurers' share in technical provisions	990	1 097	753	527	749
Deferred tax assets	624	369	27	17	14
Deferred Acquisition costs	1 407	1 154	712	610	574
Other assets	871	813	363	325	300
Cash and cash equivalents	2,973	2,440	324	569	137
Non-current assets held for sale and disposal groups	1,189	1,506	607	179	47
Total assets	**125,345**	**105,397**	**67,573**	**62,787**	**55,910**

Appendix: PZU Group's financial data

Equity (PLN million)	2016	2015	2014	2013	2012
Share capital	86	86	86	86	86
Supplementary capital	10,758	9,947	9,679	8,856	8,780
Revaluation reserve	106	241	249	242	363
Actuarial profits and losses related to provisions for employee benefits	3	(4)	(6)	1	-
Treasury shares	(1)	-	-	-	-
Other reserves	5	-	-	-	-
Exchange differences from subsidiaries	(2)	(42)	(35)	(38)	(38)
Retained profits (losses)	108	353	226	2,397	1,743
Net profit (loss)	1,947	2,343	2,968	3,293	3,255
Appropriations on net profit during the financial year	-	-	-	(1 727)	-
Minority interest	4,117	2,194	1	16	79
Total equity	**17,127**	**15,118**	**13,168**	**13,128**	**14,269**

Liabilities (PLN million)	2016	2015	2014	2013	2012
Technical provisions	42,194	41,280	40,167	37,324	35,401
Unearned premium and unexpired risk reserve	7,076	5,856	5,250	4,540	4,537
Life insurance provisions	15,928	16,222	16,282	16,048	15,675
Outstanding claims provisions	8,272	8,264	7,770	6,587	5,878
Provision for annuities	5,673	5,808	5,998	5,761	5,660
Provisions for bonuses and discounts for the insured	5	2	2	3	4
Other technical provisions	323	384	439	478	532
Unit-linked technical provisions	4,917	4,744	4,426	3,907	3,114
Provisions for employee benefits	128	117	120	123	107
Other provisions	367	108	191	193	267
Deferred tax liability	469	509	398	255	358
Financial liabilities	60,030	44,695	9,403	8,399	3,435
Other liabilities	4,997	3,570	3,874	3,365	2,072
Liabilities directly associated with assets qualified as held for sale	33	-	252	-	-
Total liabilities	**108,218**	**90,279**	**54,405**	**49,660**	**41,640**
Total equity and liabilities	**125,345**	**105,397**	**67,573**	**62,787**	**55,910**

Appendix: PZU Group's financial data

One-off events in PZU Group - impact on gross result (PLN million)	2016	2015	2014	2013	2012
Gain on acquisition of the spun-off part of Bank BPH	508	-	-	-	-
Restructuring reserve in Alor Bank	(268)	-	-	-	-
Loss due to the change in fair value of Alior Bank shares purchased within tranche I	-	(176)	-	-	-
Agricultural insurance claims higher than the average of the last 3 years	(237)	-	-	-	-
Update of assumptions concerning future payments applied in the calculation of reserves	216	-	-	-	-
Conversion effect (IAS)	40	75	70	127	207
Result of the sale of PZU Lithuania	-	165	-	-	-
Fund consolidation commencement	-	-	-	173	-
Adjusting the rate of PZU Życie calculated according to IFRS to the PAS level	-	-	-	-	(390)
Reducing the technical rate in PZU Życie	-	-	-	-	(409)
Change in the rates for annuity provision	-	-	-	-	(234)
Release of provisions for employee benefits associated with termination of the Company Collective Bargaining Agreement	-	-	-	-	177
Sales of shares from the AFS portfolio	-	-	-	-	101
Result on contract guarantees	-	-	-	-	(93)
Green Card reinsurance settlements	-	-	-	53	-

	Operating efficiency ratios	2016	2015	2014	2013	2012
1.	**Claims ratio gross** (Gross claims /gross written premium) x 100%	63.7%	66.9%	69.5%	67.9%	76.2%
2.	**Claims ratio net of reinsurance** (net claims paid/net premium earned) × 100%	68.4%	68.2%	70.3%	68.7%	76.3%
3.	**Insurance activity costs ratio in insurance segments** (Costs of insurance activity/premium earned net of reinsurance) x 100%	22.5%	23.3%	22.2%	20.5%	21.0%
4.	**Acquisition costs ratio in insurance segments** (Acquisition expenses/premium earned net of reinsurance) x 100%	14.3%	14.1%	13.4%	12.3%	12.1%
5.	**Administrative expenses ratio in insurance segments** (Administrative expenses/premium earned net of reinsurance) x 100%	8.3%	9.2%	8.8%	8.1%	8.9%
6.	**Combined ratio in non-life insurance** (claims + costs of insurance activity) / premium earned net of reinsurance x 100%	94.9%	94.5%	95.7%	87.8%	92.8%
7.	**Operating profit margin in life insurance** (operating profit/gross written premium) x 100%	25.3%	22.3%	24.4%	22.3%	19.8%

Appendix: PZU Group’s financial data

Data from the profit and loss account – corporate insurance (non-life insurance) (PLN million)	2016	2015	2014	2013	2012
Gross written premiums	2,174	1,779	1,831	1,740	1,840
Net earned premiums	1,641	1,477	1,462	1,556	1,764
Investment income	115	121	136	140	127
Insurance claims	(1,062)	(871)	(964)	(854)	(1,174)
Acquisition costs	(361)	(288)	(306)	(300)	(336)
Administrative expenses	(125)	(127)	(125)	(116)	(108)
Reinsurance commission and share in profits	21	16	16	8	(6)
Other	-	(18)	(2)	(42)	(51)
Insurance profit	**229**	**310**	**217**	**391**	**218**
Acquisition costs ratio (including reinsurance commission)*	20.7%	18.4%	19.8%	18.8%	19.4%
Administrative expenses ratio*	7.6%	8.6%	8.6%	7.4%	6.1%
Claims ratio*	64.7%	59.0%	65.9%	54.9%	66.5%
Combined ratio (COR)*	93.1%	86.0%	94.3%	81.1%	92.0%

* ratios calculated with net premium earned

Data from the profit and loss account – mass-market insurance (non-life insurance)(PLN million)	2016	2015	2014	2013	2012
Gross written premiums	8,833	7,364	6,569	6,534	6,614
Net earned premiums	7,836	6,793	6,563	6,552	6,513
Investment income	517	518	563	557	537
Insurance claims	(5,275)	(4,441)	(4,363)	(4,193)	(4,299)
Acquisition costs	(1,551)	(1,383)	(1,239)	(1,141)	(1,137)
Administrative expenses	(634)	(665)	(617)	(547)	(569)
Reinsurance commission and share in profits	(14)	(14)	(27)	67	(16)
Other	(220)	(150)	(123)	(227)	(230)
Insurance profit	**659**	**658**	**756**	**1,067**	**800**
Acquisition costs ratio (including reinsurance commission)*	20.0%	20.6%	19.3%	16.4%	17.7%
Administrative expenses ratio*	8.1%	9.8%	9.4%	8.3%	8.7%
Claims ratio*	67.3%	65.4%	66.5%	64.0%	66.0%
Combined ratio (COR)*	95.4%	95.7%	95.2%	88.7%	92.4%

* ratios calculated with net premium earned

Appendix: PZU Group’s financial data

Data from the profit and loss account – group and individually continued insurance (PLN million)	2016	2015	2014	2013	2012
Gross written premiums	6,775	6,689	6,539	6,415	6,364
Group insurance	4,829	4,753	4,627	4,518	4,492
Individually continued insurance	1,946	1,936	1,912	1,897	1,872
Net earned premiums	6,776	6,691	6,537	6,414	6,362
Investment income	680	602	713	735	955
Insurance claims and change in other technical provisions net	(4,686)	(4,718)	(4,570)	(4,570)	(4,993)
Acquisition costs	(329)	(356)	(357)	(323)	(318)
Administrative expenses	(585)	(577)	(543)	(546)	(578)
Other	(71)	(67)	(19)	(107)	(56)
Insurance profit	**1,785**	**1,575**	**1,762**	**1,603**	**1,373**
Insurance profit excluding conversion effect	**1,745**	**1,500**	**1,692**	**1,476**	**1,153**
Insurance profit excluding one-off events	**1,529**	**1,500**	**1,692**	**1,476**	**1,561**
Acquisition costs ratio*	4.9%	5.3%	5.5%	5.0%	5.0%
Administrative expenses ratio*	8.6%	8.6%	8.3%	8.5%	9.1%
Insurance profit margin (excl. conversion effect)*	25.8%	22.4%	25.9%	23.0%	18.1%
Insurance profit margin (excl. one-off events)**	22.6%	22.4%	25.9%	23.0%	24.5%

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

Data from the profit and loss account – individual insurance (PLN million)	2016	2015	2014	2013	2012
Gross written premiums	1,174	1,234	1,269	1,330	1,090
Net earned premiums	1,174	1,234	1,267	1,331	1,092
Investment income	288	251	327	322	347
Insurance claims and change in other technical provisions net	(1,043)	(1,091)	(1,250)	(1,339)	(1,199)
Acquisition costs	(107)	(123)	(126)	(110)	(91)
Administrative expenses	(59)	(60)	(53)	(53)	(53)
Other	(9)	(5)	(2)	(11)	9
Insurance profit	**244**	**206**	**163**	**140**	**105**
Acquisition costs ratio*	9.1%	10.0%	10.0%	8.2%	8.3%
administrative expenses ratio*	5.0%	4.9%	4.2%	4.0%	4.9%
Insurance profit margin*	20.8%	16.7%	12.8%	10.5%	9.6%

* ratios calculated with gross premium written

Appendix: PZU Group's financial data

Data from the profit and loss account – investment contracts (PLN million)	2016	2015	2014	2013	2012
Gross written premiums	86	141	374	1,098	1,859
Group insurance	3	3	45	673	1,373
Individually continued insurance	83	138	330	424	486
Net earned premiums	86	141	374	1,099	1,859
Investment income	18	16	44	104	191
Insurance claims and change in the balance of other technical provisions net	(89)	(136)	(376)	(1,157)	(2,014)
Acquisition costs	(4)	(10)	(16)	(18)	(31)
Administrative expenses	(9)	(9)	(10)	(11)	(16)
Other	-	(1)	(1)	(5)	12
Operating profit (loss)	**2**	**1**	**15**	**11**	**1**
Insurance profit margin*	2.3%	0.7%	4.0%	1.0%	0.1%

* ratios calculated with gross premium written

Data from the profit and loss account- banking activity (PLN million)	2016	2015	2014	2013	2012
Net revenue from commissions and fees	330	-	-	-	-
Investment income	2,195	-	-	-	-
Interest costs	(681)	-	-	-	-
Administrative expenses	(1,210)	-	-	-	-
Other	57	-	-	-	-
Total	**691**	**-**	**-**	**-**	**-**

Data from the profit and loss account – pension segment (PLN million)	2016	2015	2014	2013	2012
Other revenues	110	119	271	218	199
Investment income	5	7	12	12	13
Administrative expenses	(41)	(40)	(73)	(78)	(93)
Other	-	(4)	(6)	(15)	(21)
Operating profit (loss)	**74**	**82**	**203**	**137**	**98**

Data from the profit and loss account – Ukraine segment (PLN million)	2016	2015	2014	2013	2012
Gross written premiums	210	169	174	204	142
Net earned premiums	109	103	136	171	103
Investment result	23	41	41	24	18
Net insurance claims	(54)	(74)	(94)	(81)	(54)
Acquisition costs	(60)	(47)	(52)	(62)	(28)
Administrative expenses	(24)	(21)	(28)	(36)	(28)
Other	21	10	-	-	-
Insurance profit	**15**	**12**	**2**	**16**	**10**
exchange rate UAH/PLN	0.1542	0.1722	0.2637	0.3886	0.4001
Acquisition costs ratio*	55.0%	45.6%	38.4%	36.6%	27.2%
Administrative expenses ratio*	22.0%	20.4%	20.7%	21.0%	27.6%

* ratios calculated with net premium earned

Data from the profit and loss account – Baltic states segment (PLN million)	2016	2015	2014	2013	2012
Gross written premiums	1,183	1,193	536	262	196
Net earned premiums	1,104	1,109	477	227	172
Investment result	23	22	15	7	10
Net insurance claims	(694)	(687)	(312)	(139)	(112)
Acquisition costs	(251)	(253)	(115)	(67)	(49)
Administrative expenses	(110)	(147)	(80)	(26)	(19)
Other	-	-	-	-	-
Insurance profit	**72**	**44**	**(16)**	**1**	**2**
exchange rate EUR (LTL)/PLN	4.3757	4.1848	1.2133	1.2196	1.2087
Acquisition costs ratio*	22.7%	22.8%	24.2%	29.6%	28.5%
Administrative expenses ratio*	10.0%	13.3%	16.8%	11.7%	11.0%

* ratios calculated with net premium earned

Investment segment (external) (PLN million)	2016	2015	2014	2013	2012
Total	**(570)**	**506**	**579**	**896**	**1,525**

Appendix: Glossary

Act on Insurance Activity – Act on Insurance Activity of 11 September 2015 (Journal of Laws of 2015, Item 1844), most of provisions effective as of 1 January 2016. The Act introduces the Solvency II requirements to the Polish legislature

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

BLS (direct claims handling) – a system of handling a claim by an insurance company which issued MTPL insurance policy of the injured party, not the perpetrator. It has been operating in Poland since 1 April 2015 under PIU (Polish Chamber of Insurance). Once the claims handling process is finished, the insurance companies settle the amount as a lump-sum via the Polish Chamber of Insurance (PIU)

BREEAM – a certificate that defines the standard for best practices in sustainable design, construction, and use of buildings. It is issued by BRE (Building Research Establishment) Global on the basis of documentation and report drafted by a licensed assessor who cooperates with a design team during the certification process

cedent – a person assigning a liability to a buyer

compensation – the amount of money that the insurer pays out from the insurance in the case of an event covered by the insurance contract

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

Credit scoring – a method of evaluating the reliability of the entity (usually an individual or company) applying for a bank loan. The result of credit scoring is usually depicted in the form of a point - the more points, the higher the credibility of a potential borrower.

cross-selling – a strategy for selling a given insurance product in conjunction with other supplementary insurance product or a product offered by the insurer's partner, e.g. bank. The example of such products are bank and insurance products, such as credit insurance

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

DPS (dividend per share) – a market ratio that determines the value of dividend per share

DY (dividend yield) – dividend per share / share market price

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

EPS (earnings per share) – a market ratio that determines the earnings attributable to a single share

Everest – a system for managing non-life insurance in PZU

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

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

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

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

IPO (Initial Public Offering) – the first public offering of certain securities. The key elements of IPO are: drafting of a prospectus and proceedings before an authority that supervises the process of granting an admission for trading

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

inward reinsurance – reinsurance activity entailing a reinsurer or reinsurers accepting a portion of the insurance or groups of insurance yielded by the cedent.OCCP – Office of Competition and Consumer Protection; Polish anti-trust authority that operates to ensure increased competition, secure business entities exposed to monopoly practices, and protect interest of consumers, ww.uokik.gov.pl

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

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

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

P/BV – market price per share / book value per share

P/E – the company market price per share / profit per share

Prudent person principle – the rule laid down in Article 129. Of Directive of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance Solvency II. The prudent person principle requires (re)insurance undertakings to invest assets in the best interest of policyholders, adequately match investments and liabilities, and pay due attention to financial risks, such as liquidity and concentration risk

PSFA – Polish Financial Supervision Authority; it exercises supervision over the banking sector, capital, insurance, and pension market, supervision over payment institutions and payment services offices, e-money institutions, and cooperative saving and credit institutions, www.knf.gov.pl

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

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

sell side – a part of financial sector that is engaged in creating, promoting and selling shares, bonds, currencies, and other financial instruments; it encompasses investment bankers that act as agents between issuers of securities and investors, as well as market animators that ensure the market's liquidity. Sell side analysts issue analytical reports with investment recommendations and daily comments to the buy side, i.e. the one that manages assets

Solvency Capital Requirement, SCR – a capital requirement calculated as per Solvency II provisions. Calculation of the capital requirement is based on the calculation of the following risks market, actuarial (insurance), counterparty insolvency, catastrophe, and operating risk, and afterwards undergoes a diversification analysis. The ratio can be calculated under a standard formula or, once an applicable permit of a supervisory body has been obtained, using a whole or partial internal model of the company

solvency ratio – a statutory ratio (under Solvency II) specifying the level of capital security for the business conducted by an insurer; by law, this ratio should be above 100%

Solvency II – solvency regime for European insurance companies based on the risk profile. The requirements have been effective as of 1 January 2016

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

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

technical rate – the rate used to discount technical provisions in life insurance and provisions for capitalized annuities in third party liability insurance. According to the Finance Minister's Ordinance of 28 December 2009 on the special accounting standards for insurance and reinsurance undertakings, the technical rates used by an insurance undertaking may not be higher than 80% of the weighted-average rate of return on investments covering technical provisions during the most recent three financial years. PFSA calculates and announces the maximum technical rate by 31 January of every year

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

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

TSR (Total Shareholder Return) – a ratio that describes the total shareholder return from the shares of a given company per annum. It is a sum of return from change in prices of shares in a given company and paid dividend within the period of holding shares by a shareholder, in relation to the value of such shares as at the beginning of a given year; it is expressed in percentage per annum

unit-fund – a separate assets fund which is a reserve made of insurance premiums and is invested in accordance with the insurance contract; a constituting part of unit-linked life insurance, also known as an investment policy,

Up-selling – a commercial technique that consists in offering and selling additional products at a higher price and higher standard to the existing customers

Venture capital – mid- and long-term investments in non-public enterprises in the early stages of development, combined with managerial support, provided by specialized parties (venture capital funds). The objective of a venture capital investment is to generate profit from increased goodwill of the company and re-sell its shares or stocks after a given period

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

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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.