Attachment 4 to Resolution No. URN/42/2016
adopted by the PZU SA Supervisory Board on 24 May 2016

# CONCISE ASSESSMENT OF THE COMPANY'S STANDING, INCLUDING AN EVALUATION OF THE INTERNAL CONTROL SYSTEM, COMPLIANCE POLICY RISK MANAGEMENT SYSTEM AND THE INTERNAL AUDIT FUNCTION

The financial results generated by PZU SA in recent years, based on the Polish Accounting Standards, place it among the most profitable financial institutions in the country. At the same time, they contribute to high performance ratios.

In 2015, the return on equity (ROE) was 18.2% and was 3.2 p.p. lower than in the previous year. In 2013-2015, the average return on equity (ROE) was almost 26.4%. COR (combined ratio), one of the fundamental measures of productivity and operating efficiency of an insurance company, has been maintained in PZU SA at a level confirming its high operating profitability in recent years.

PZU SA complies with all business safety standards. As at 31 December 2015, equity amounted to PLN 12,378.7 million (as at 31 December 2014, equity was PLN 12,328.7 million). Compared to other insurance groups, PZU SA keeps exceptionally high capital safety ratios. According to Solvency I regulations, at the end of 2015, PZU SA had the shareholder funds to solvency margin coverage ratio of 550.4%. The PZU SA's solvency coverage ratio (according to Solvency I regulations) exceeded the average for the insurance sector.

On 1 January 2016, the Insurance and Reinsurance Activity Act of 11 September 2015 introduced into the Polish legal system the new capital requirements of Solvency II. According to the new Act, the calculation of the capital requirement is based on market, actuarial (insurance), counterparty insolvency, catastrophic and operational risks.

PZU SA did not publish its results on the solvency ratio according to Solvency II at the standalone level. Based on estimates, as at the end of the third quarter of 2015 the solvency ratio (calculated according to the standard Solvency II formula) for the PZU Group was 296.1%. These high solvency ratios place the PZU Group among the insurance groups with the greatest capital strength.

Since 2009, PZU SA has been subject to rating assessments by Standard & Poor's. On 21 January 2016, PZU SA rating granted by the agency it was downgraded from A to A- with a negative outlook. The decision to downgrade PZU SA's rating was a consequence of the downgrading of the rating of Poland from A- to BBB + with a negative outlook one week earlier and was not connected with the standing of the Company which has a very high level of capitalization and security of its operations. According to the rating rules, PZU SA's rating may only be one degree higher than the rating of the country, hence the maximum rating that S&P may assign to PZU SA is A-.

In 2015, PZU SA recorded a technical result at a level of PLN 636.3 million compared with PLN564.4 million the year before (down 12.7%). The net profit was PLN 2,248.5 million compared to PLN 2,636.7 million in 2014 (down 14.7%). Without taking into account the dividend received from PZU Życie SA, PZU SA's net profit was PLN 558.3 million and was lower by PLN 18.4 million compared to 2014.

In 2015, PZU SA's net result on investing activity according to Polish Accounting Standards was PLN 2,024.0 million compared to PLN 2,568.0 million in 2014 (down 21.2%). After excluding the effect of the dividend received from PZU Życie SA, the net result on investment activity was PLN 333.8 million compared to PLN 508.0 million the year before. The decrease in the result was primarily driven by the following factors:

- lower value of the dividend received from PZU Życie SA;
- softer performance on derivatives acquired chiefly for trading purposes to manage risk appropriately in investment portfolios;
- softer performance on foreign exchange instruments compared to 2014.

The above factors were to a certain extent offset by the one-off event associated with the profit of PLN 58.8 million on the sale of a stake in PZU Lietuva.

The PZU Lietuva sale deal was an element of expansion into the Baltic states commenced in 2014. At the same time, within the framework of those activities, the assets of PZU Lietuva were transferred to AAS Balta and Lietuvos Draudimas, which contributed to an increase in the valuation of these companies through the revaluation reserve.

The main component of PZU SA's assets were deposits which amounted to PLN 32,356.0 million (up 4.3% compared to the end of 2014), which accounted for 89.0% of PZU SA's total assets compared to 89.6% as at the end of the previous year. With the exclusion of investments in subsidiaries, this level was 1.0% lower. The main reason behind the increase in the value of investments in subsidiaries was the acquisition of a stake in Alior Bank S.A. in 2015.

The largest part of the investment portfolio consisted of participation units and investment certificates in the mutual funds managed by TFI PZU SA (excluding real estate funds). A significant part of PZU's investment portfolio consisted of investments in subsidiaries and other shares held directly on the balance sheet, the share of which was 24.9% compared to 20.9% as at the end of 2014. The stake held in PZU Życie SA accounted for the largest share in this class of investments.

As at 31 December 2015, the share of debt securities issued, underwritten or guaranteed by sovereign governments held directly on the balance sheet decreased from 21.6% to 19.9% due to the limited level of reinvestment caused by the low level of interest rates.

As at the end of 2015, the main component of PZU SA's liabilities was technical provisions. They reached the amount of PLN 17,540.5 million, i.e. 48.2% of total liabilities and equity. Their share in the balance sheet was at a similar level to that of the previous year, while in terms of value they increased by PLN 679.3 million, in particular due to higher provisions for unearned premiums in the group of motor and financial insurance.

As at the end of 2015, equity amounted to PLN 12,378.7 million and accounted for 34.0% of liabilities and equity (down 1.6 p.p.).

The following factors had a key impact on PZU SA's financial results in 2015:

- an increase in gross written premium to PLN 8,858.0 million, i.e. 7.2% compared to the year before, mainly in motor insurance as a result of higher sales of insurance offered by PZU SA and the inclusion of Link4 TU SA and the companies in the Baltic states into the inward reinsurance program as well as various financial losses in insurance resulting from the establishment of long-term cooperation with a new client as part of an inward reinsurance deal. After considering the reinsurers' share and movement in the unearned premium reserve, the net earned premium was PLN 7,898.0 million and was 0.1% lower than in 2014;
- a lower level of claims in the amount of PLN 5,036.6 million, down 3.7% compared to 2014. The main change was recorded in the third party liability insurance group as a result of a lower level of provisions for claims compared to the previous years.
- a lower result on investing activity of PLN 544.1 million, mainly due to lower dividends from PZU Życie SA;
- an upswing in acquisition costs (an increase by PLN 48.6 million) mainly related to the increase in commissions from inward reinsurance (the effect of agreements with PZU Group subsidiaries) and in indirect acquisition expenses (including the expenses of sales-related measures to enhance the effectiveness of the sales network). Moreover, higher direct acquisition expenses were recorded as a result of the morphing sales channel mix (multi agent and car dealer channels with a higher share).
- an increase in administrative expenses to PLN 753.7 million compared to PLN 729.1 million in 2014 primarily related to the expansion and service launch of the Everest Platform (target policy administration system for non-life insurance), strategic projects to enhance customer service quality and the implementation of a new model of operation of the corporate insurance sales network.

In the Supervisory Board's assessment, the operations carried out by PZU SA enable the continuation of the Company's further development and the achievement of good financial results in subsequent years. The Company offers a broad range of non-life insurance products. PZU SA's activity in 2016 will be determined by the implementation of the following principal strategic objectives:

- Stabilizing the financial results
- Implementing the strategy and strategic initiatives
- Achieving the highest technological advancement in Europe

In 2015, the Company had in place an internal control system adapted to fit the scale of operations and organizational structure, aimed at ensuring efficiency and effectiveness of the organization's activities, reliability of financial reporting and compliance of PZU SA's actions with the provisions of law and internal regulations.

The internal control system in PZU SA comprises supervision, overall administrative and accounting procedures, organizational structures, reporting systems, solutions implemented in IT systems, the compliance function and other control mechanisms contributing to the attainment of the Company's objectives and security and stability of its operations, implemented to ensure the following in a reasonable manner:

- efficiency and effectiveness of operating activity;
- reliability of information communicated inside and outside the Company and assurance of

availability and reliability of such information, in particular pertaining to financial statements;

- adequacy and effectiveness of risk controls (control operations should be commensurate with the level of risk involved in the operations and processes under control);
- responsible and transparent management of the Company;
- compliance of the Company's activity with laws and internal regulations and the standards of conduct adopted by the Company.

Supervision over the internal control system in the Company comprises:

- supervision exercised by the Supervisory Board;
- the activities of the Company's Management Board involving, without limitation: establishment of an adequate and effective internal control system and periodic assessment of the functioning of the internal control system;
- supervision exercised by the managers of functional divisions, specialist units and organizational cells in their subordinated organizational units.

An important role in this system is played by the PZU SA Supervisory Board Audit Committee. The Committee plays an advisory and opinion-making role for the Supervisory Board and has been appointed to increase the effectiveness of supervisory activities performed by the Supervisory Board in the area of monitoring the Company's financial reporting, financial audit activities in the Company and effectiveness of internal control, internal audit and risk management systems in place. On 1 September 2015, the PZU SA Supervisory Board adopted the updated Audit Committee Bylaws. The amendments were made in particular with a view to adapt the Bylaws to Corporate Governance Rules for KNF Regulated Institutions.

The manager of the division/unit/organizational cell is responsible for the implementation of an effective internal control system in the pertinent area of the Company's operations, in particular for designing and efficient functioning of control actions as integral components of the processes executed. The internal control system and the risk management system are subject to assessment by, among others, the internal audit services which operate in conditions ensuring objectivism and independence. The manager of the internal audit services answers directly to the Management Board President and is authorized to contact the Supervisory Board Chairman and the Audit Committee Chairman directly, in particular in matters concerning audit results. A double reporting system is applied in relation to the results of undertaken actions: to the Management Board and to the Supervisory Board Audit Committee. The Supervisory Board Audit Committee's prior positive opinion is required for an audit plan to be accepted or amended, if applicable. The appointment or dismissal of the manager of PZU SA's audit services requires the Audit Committee's opinion. In addition, the internal audit services in PZU SA are independent of operational functions.

In 2015, an independent evaluation of the internal audit function was carried out. The evaluation confirmed that the internal audit function in PZU SA is compliant with the requirements of Standards of the Institute of Internal Auditors (to the extent applicable to the operation of internal audit in PZU SA) and operates in accordance with best market practices (defined as global financial sector institutions).

In 2015, the audit tasks in PZU SA were performed on the basis of an annual audit plan prepared on the basis of the assessment of the risks existing in individual areas of the Company's operations, which received a positive opinion of the Supervisory Board Audit Committee and was then adopted by a PZU SA Management Board resolution.

Audit results, recommendations issued and their implementation (subject to an effective monitoring process by the Internal Audit Department (BAW)) are presented to the Company's Management Board on an on-going basis and to the Supervisory Board Audit Committee on a periodical (quarterly) basis. BAW prepared an annual report on its activity in 2015, comprising information about the execution of the audit plan and other tasks performed by BAW and an assessment of the internal control system and the risk management system.

In 2015, BAW launched the implementation the Internal Audit Department Strategy for 2015-2020, approved by the PZU SA Supervisory Board Audit Committee and the Company's Management Board. The Strategy assumed, without limitation, that BAW would be involved in the construction of the Company's value and the implementation of business transformation, and would continue to supervise the PZU Group's companies and to support the Company in the implementation of the

Solvency II directive. The Strategy is implemented in accordance with the operational plan, is subject to continuous monitoring and periodic reporting to the PZU SA Supervisory Board's Audit Committee.

BAW coordinates the internal audit function in the PZU Group's key companies, including the companies acquired from RSA Insurance Group plc. In 2015, within the framework of the "Agreement on cooperation on the organization and operation of the internal control system, the internal audit system, the risk management system, the compliance system and the safety management system and reinsurance in the PZU Group" entered into with the PZU Group's key companies, the construction of uniform standards and the exchange of information concerning the internal control system and internal audit services were continued. As in the previous years, on the basis of the aforementioned agreement, internal audit obtains information from PZU SA's subsidiaries regarding the adequacy and effectiveness of their risk management and internal control systems. BAW's key methodological solutions were introduced in the PZU Group's material companies (taking into consideration the formal and legal conditions and specific characteristics of those companies).

The PZU SA Internal Audit Rules and Regulations and Internal Control Rules and Regulations were updated in 2015. The updates were aimed at adapting the Company to the amended Insurance and Reinsurance Act and the Solvency II guidelines.

In the opinion of the Supervisory Board, the internal control system requires further strengthening, especially in the area of procurement purchasing and management of financial investments. The Company's Management Board has launched appropriate actions in this area.

In 2015, the Company had in place a risk management system adapted to fit the scale of its activity and organizational structure. The risk management system was based on the following elements:

- demarcation of responsibilities and tasks performed by the Company's governing bodies, committees and individual organizational units and cells in the risk management process;
- risk management process, including risk identification, measurement and assessment, monitoring and control methods, risk reporting and undertaking management actions.

The division of powers and tasks within the risk management system is based on four competence levels. The first three levels comprise:

- the Supervisory Board which supervises the risk management process and assesses its adequacy and effectiveness as part of its decision-making powers defined in the Company's Articles of Association and the Supervisory Board Bylaws;
- the Management Board which organizes the risk management system through adopting strategies and policies and defining the appetite for risk, the risk profile and tolerance for individual categories of risk;
- the Asset and Liability Management Committee and the Credit Risk Committee which make decisions pertaining to mitigation of individual risks within the frameworks outlined by the appetite for risk. The Committees implement the procedures and methodologies for mitigating the individual risks and accept individual risk limits.

The fourth level pertains to operations where the tasks associated with the risk management process are divided between three lines of defense:

- the first line of defense – ongoing risk management at the business unit and organizational unit level and decision-making as part of the risk management process. Management is responsible for the implementation of an effective risk management in the supervised area of the Company's activity, in particular for designing and efficient functioning of identification and monitoring actions as integral components of implemented processes, ensuring an appropriate response to the risks present;
- the second line of defense – risk management by specialized cells responsible for risk identification, monitoring and reporting and controlling the limits. Within the second line of defense, the units which play an important role in the process are the Risk Department, the Planning and Controlling Department, the Actuarial Department, the Reinsurance Department, the Legal Department, the Compliance Department, the Security Department, the HR Department and the Technology Function;
- the third line of defense comprises internal audit which conducts independent audits of the elements of the risk management system as well as control activities embedded in the Company's activities. This function is performed by the Internal Audit Department.

The risk management process consists of the following stages: identification, measurement and assessment, monitoring and controlling, reporting and management activities.

The basic risk categories identified in the company include: market risk, credit risk, concentration risk, actuarial risk, operating risk and compliance risk. Each risk classified as material is subject to measurement involving definition of the risk measures adequate to the type and availability of data and quantification of risk using established measures or expert assessment taken into account in the measurement of total risk. Within the framework of the risk management processes, reports are delivered at decision-making levels adequate to the type and materiality of the risk. In particular, in accordance with the applicable regulations, reports are submitted to the Company's Supervisory Board, Management Board, Credit Risk Committee and Asset and Liability Management Committee. Managerial actions pertaining to individual risk categories are defined in internal regulations or management standards adopted for such risks. Depending on the risk type and characteristics, these actions can comprise in particular: risk evasion, risk transfer, risk mitigation and acceptance of the risk level, and tools supporting such actions, i.e. limits or a reinsurance program.

As part of performing the Agreements referred to in the section pertaining to the assessment of the internal control system, in 2015 the Risk Department implemented an integrated risk management system in the PZU Group. The execution of the relevant agreements providing the framework for cooperation in, without limitation, the risk management process in the PZU Group enables obtaining and processing information necessary for adequate and effective risk management at the PZU Group level.

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

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

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

Chairman
of the PZU SA Supervisory Board

Paweł Kaczmarek

Warsaw, 24 May 2016