2017 Management Board's report on the activity of the PZU Group and PZU SA

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Photos of PZU employees are used in the report - „People with passion".

CEO Letter to Shareholders

Paweł Surówka
CEO of PZU

Dear Shareholders,

On behalf of the Management Boards of the PZU Group companies, I hereby convey to you our activity report for 2017.

2017 was an exceptionally intensive period for the financial markets. Investors focused their attention on central banks which kept applying an accommodative monetary policy in an environment of weak inflation. In connection with moderate geopolitical risk, this contributed to growth in all asset classes on global markets.

The robust conditions on developed markets supported valuations on emerging markets where Poland was one of the largest beneficiaries. WIG20 ranked in the top five fastest-growing European stock market indices. Accounting for 8% of the overall Polish stock market's trading volume, PZU was one of the main companies driving this growth to the greatest degree. PZU's market value at the end of 2017 had grown by PLN 7.7 billion y/y to PLN 36.4 billion.

Such a great expression of trust in PZU's shares serves as confirmation for the directions we have taken and the initiatives we are pursuing. In 2017 we placed great emphasis on developing our insurance and banking business and on introducing innovative tools in client service and management. We have implemented important growth initiatives in health and investments. We have set the bar high for our competition, by setting trends and strengthening our position as the largest insurer in Poland, simultaneously contributing to greater stability and enhancing the financial standing of the Polish economy.

The most important transaction last year was the finalization of the acquisition of a 32.8% equity stake in Bank Pekao SA jointly with the Polish Development Fund for a total amount of PLN 10.6 billion. It was one of the largest undertakings of its type in Europe in recent years. This strategic investment has enabled PZU to become the largest financial group in Poland and Central and Eastern Europe.

After finalizing this equity stake acquisition, PZU faced the challenge of adapting to new conditions in a fashion that will not only enable it to achieve its ambitious objectives within the next several years but also build a rock-solid foundation to construct an entrenched technological advantage over the long-run. The gradual change in the insurer's model (chiefly involved in the valuation and transfer of risk) toward the model of an advisory and service company (operating on the basis of technological know-how) constituted the basis for this transformation.

Investments in foundations to guarantee PZU's growth, taking care of its client base and maintaining cost discipline mean that we are capable of effectively managing our capital and generating a high level of earnings while offering the highest standards of service. In 2017 we once again posted an above average, double-digit increase in gross written premium (+13.0%) totaling PLN 22.8 billion and a record-breaking net profit of PLN 4.2 billion (+78.3% y/y).

Taking advantage of the conducive environment and the very strong economic standing, we secured PLN 2.25 billion in a private subordinated bond issue. It was the largest issue of this type of bonds in the history of the Polish financial sector and at the same time the first issue in Poland complying with Solvency II requirements.

The analysts of the American S&P Global Ratings agency also appreciated the systematic improvement in the PZU Group's financial condition. In October 2017 they raised PZU's rating outlook from negative to stable.

The year has also elapsed under the motto of innovation and new technology. The Witello Fund established by PZU to support the building of an ecosystem facilitating the development of Polish entrepreneurship and investments in Polish startups that over time will augment the potential of innovative solutions that may be used directly in the PZU Group will provide material support in this area. In 2017 Witelo entered into agreements with some of the best VC funds in the world: Atomico, Evolution Equity Partners and DN Capital. It is worth emphasizing that Evolution Equity Partners undertook to open an office in Poland (on top of the offices they already have in Switzerland and New York). Thanks to that, the Polish cybersecurity sector has an opportunity to become one of the key competence centers in the world. The new office will be opened in cooperation with PZU. Entrusting funds to VC funds, we have certainty that we will attain our objective of supporting innovative projects in our country. This is an important element of the strategy, namely to make PZU the most innovative group in Central and Eastern Europe.

In 2017 the PZU Group became a member of Lloyd's and closely collaborates with the Argenta Syndicate. Thanks to this investment we received a prestigious certificate entitled „Member of Lloyd's". In this fashion PZU has become a global player. Presence on Lloyd's market means more than prestige; it means access to international brokers and the ability to take advantage of the knowledge of the world's best underwriters and risk engineers.

In 2018 challenges await us that are related to the strategic ambitions we have embraced. Some of them are as follows: radically simplifying our product offering and converting our sales network into a general sales network, investing in database integration to give us a full picture of our clients, cross selling and a loyalty program. Tightening cooperation with the Pekao and Alior banks is also an important issue whereby we will be able to devise comprehensive financial solutions responding to the needs of clients and in various areas and at various life stages.

In conjunction with the ongoing pursuit of these strategic avenues, PZU will retain its position as one of the most stable and profitable financial groups in Europe that will be able to generate an ROE in excess of 22% and pay an attractive dividend while keeping its Solvency II solvency ratio at a minimum level of 200%.

I would like to thank all our employees and agents for the above average commitment to building the #newPZU and the Supervisory Board for their trust and effective cooperation.

Respectfully,

Paweł Surówka,
CEO of PZU

Maciej Łopiński
Chairman of the PZU Supervisory Board

Dear Investors,

2017 was a period of ambitious projects carried out by the PZU Group, whose powerful influence as a national champion is taking on greater significance. The dynamic growth in the Group's results posted in 2017 generates shareholders' earnings and also contributes to the growth of other branches of the polish economy such as finance, trade, car repair, real estate and logistics.

The initiatives completed last year have been endorsed by the entire Supervisory Board and the market. In particular, it is noteworthy that S&P Global Ratings, an American firm, has raised PZU's rating outlook from negative to stable.

One of the most important transactions executed last year from PZU's vantage point undoubtedly contributed to that rating, i.e. the finalization of the acquisition of a 32.8% equity stake in Bank Pekao SA jointly with the Polish Development Fund for a total amount of PLN 10.6 billion. This acquisition confirms the Management Board's determination in pursuing the PZU 2020 strategy calling for a strong footprint in Poland's banking sector. This investment has enabled the PZU Group to become the largest group offering comprehensive financial services in Poland and Central and Eastern Europe with a total balance sheet value in excess of PLN 317 billion.

We stand behind the PZU Group's growing commitment to sustainable development. As a company open to dialogue and social expectations, PZU endeavors to set trends and construe business solutions in line with the expectations of its key stakeholders. At present, PZU is more and more actively getting involved in social projects related to prevention, as well as employee and environmental issues, and in the future, this will drive the formation of its long-term competitive advantage.

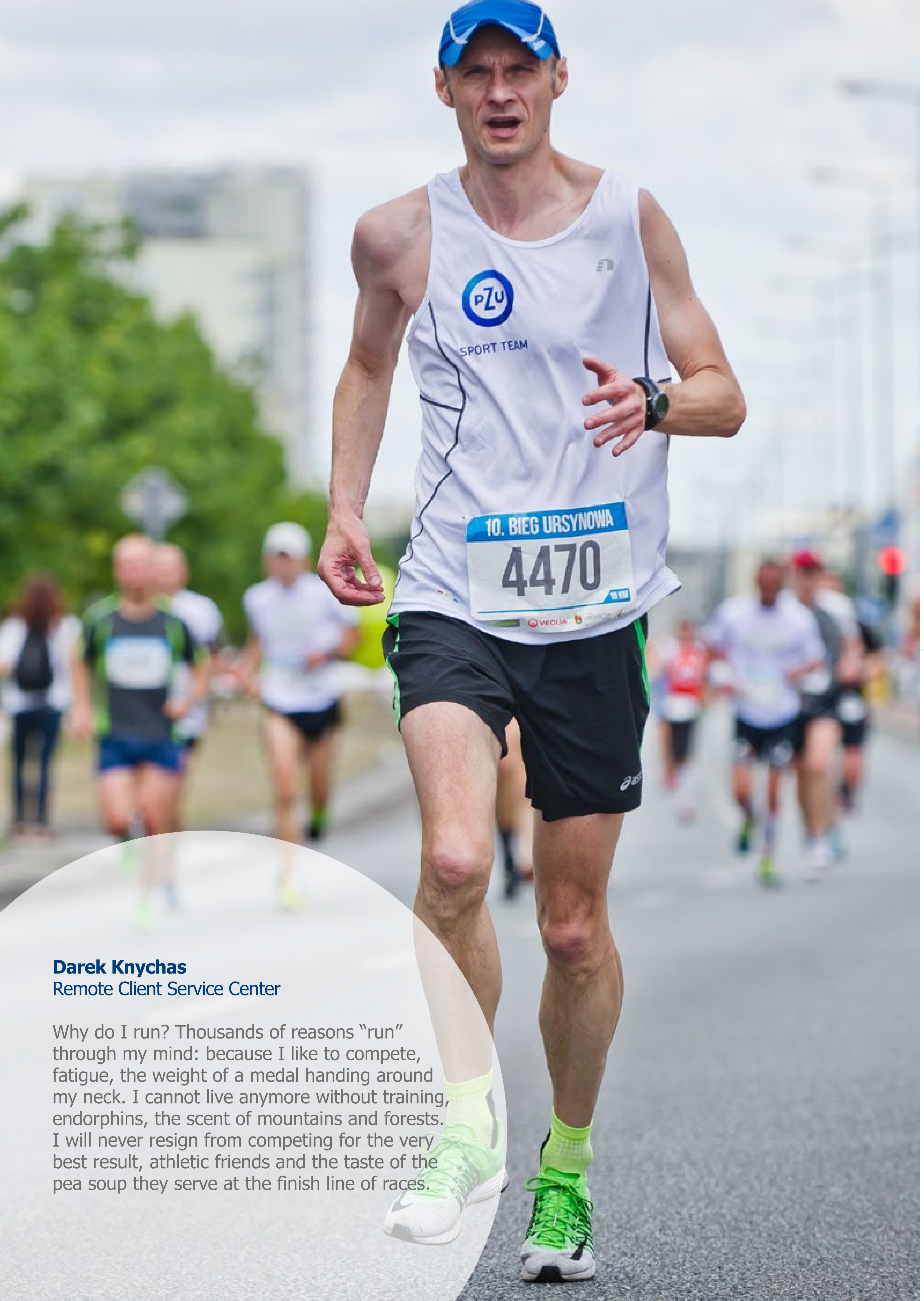
Within the framework of the "New PZU" strategy the detailed indicators and ambitions have been presented as they address material non-financial issues. The implementation of these projects will augment PZU's investment and image-related value while translating into its intrinsic value generated at the level of business profitability.

PZU's prospects for the upcoming years provide ample cause for satisfaction. I am convinced that the Management Board's ongoing persistent actions in the context of the newly-adopted strategy will generate high added value for the shareholders, clients and employees.

Respectfully,

Maciej Łopiński

Chairman of the PZU Supervisory Board



Darek Knychas
Remote Client Service Center

Why do I run? Thousands of reasons "run" through my mind: because I like to compete, fatigue, the weight of a medal handing around my neck. I cannot live anymore without training, endorphins, the scent of mountains and forests. I will never resign from competing for the very best result, athletic friends and the taste of the pea soup they serve at the finish line of races.

1.

PZU Group Overview

The PZU Group's ambition is to accompany clients, to make it easier for them to make the right choices to help them protect their future and what they consider to be the most valuable.

PZU Group Overview

PZU Group

Powszechny Zakład Ubezpieczeń Group (PZU Group, Group) is the largest financial institution in Poland and Central and Eastern Europe. PZU heads up the group and its traditions date back to 1803 when the first insurance company was established in Poland. Since 2010, PZU has been listed on the Warsaw Stock Exchange where it has been one of the large cap blue chips offering the highest amount of liquidity from its floatation.

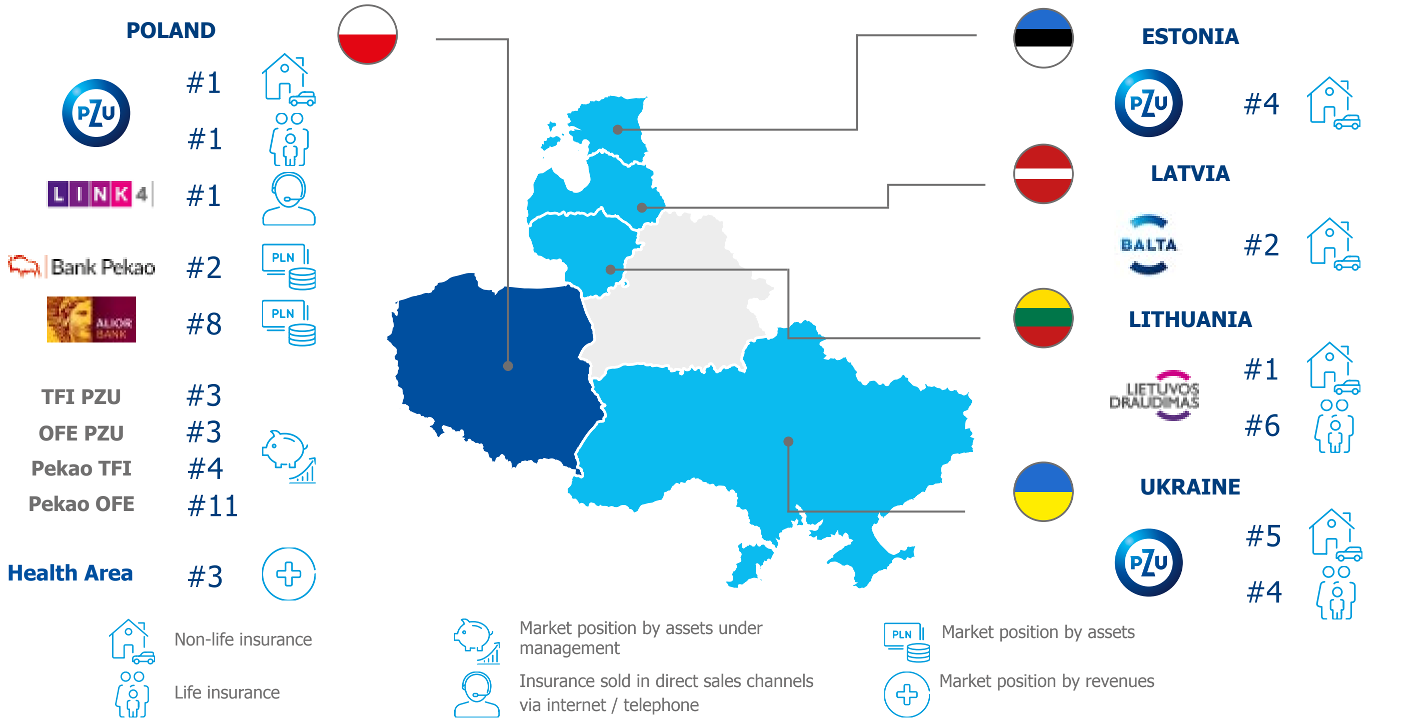
PZU Group has over PLN 300 billion of assets and it renders services in five countries. According to spontaneous brand recognition surveys, PZU comes in at 88%, while aided brand recognition is 100%, making PZU the best recognized brand in Poland.

Group companies are active not only in life and non-life insurance but also in investment, pension, health care and banking products. They cooperate with various industry leaders in the framework of strategic partnerships by creating tailor-made products for their clients. For instance, by collaborating with companies in the telecommunications industry and the power sector, PZU offers insurance of electronic equipment and assistance services to individuals and businesses. In addition, the Group has kicked off collaboration with LOT and Allegro in the framework of strategic partnerships in 2018.

It is the Group's strategic ambition to pursue a new approach to building client relations, thereby leading to the integration of all operating areas with the client at the focal point. This will make it possible to deliver products that are well-matched to clients at the appropriate time and place and respond to other client needs on a comprehensive basis. This process will be supported by harnessing tools rooted in artificial intelligence, big data and mobile solutions that will contribute to building an entrenched technological advantage in integrated client service.

PZU is an organization operating at a large scale. It is also cognizant of the expectations various entities have of it, including investors, clients, employees, partners, industry experts and the social environment from which PZU's employees and clients come. That is also why managing relations with stakeholders and their impact on the business community is accomplished in a deliberate and sustainable manner. PZU is a company that is open to social expectations. In the actions it takes it strives to set trends and construe business solutions responsibly. It also gets involved in actions to benefit the local communities in which the Group's clients function. For the PZU Group, sustainable management is a deliberate choice of how it conducts its business, thereby making it possible to build the company's long-term value in an ethical and transparent manner while giving consideration to stakeholder needs and expectations. The full range of information on the implementation of the principles of corporate social responsibility by the PZU Group, including all legally required non-financial information, is included in the Report on non-financial information of the PZU Group and PZU SA for 2017, which constitutes an annex to this Management Board's Report on the Activity the PZU Group and PZU SA.

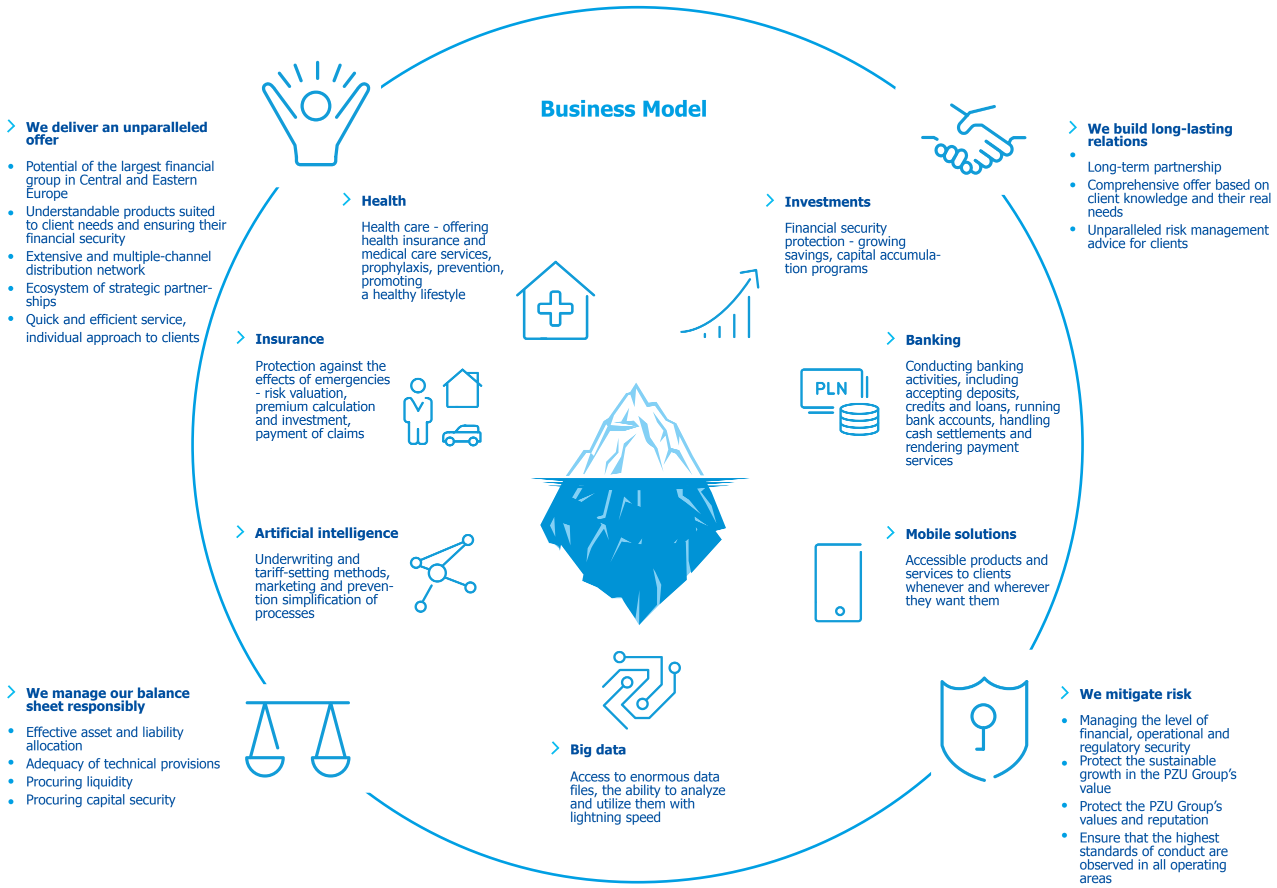
PZU's activity



Mission

We help clients care for their future

What we do



Our values

Common business philosophy based on the code of Best Practices

We play fair

Our offer is transparent and satisfies our customers' genuine expectations; we apply clearly-defined rules to our organization's operation

We are effective

We offer friendly and efficient service and competitive prices; we control our costs and ensure that we have efficient processes

We are innovative

We constantly adapt to our clients' evolving needs; we actively endeavor to streamline how our company functions

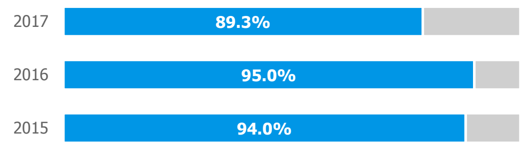
PZU Group Overview

INSURANCE

Non-life insurance in Poland

Gross written premium (PLN billion)

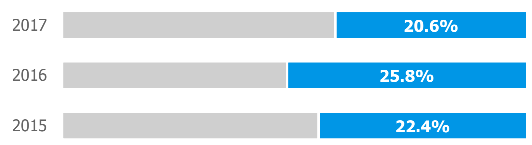
Profitability (combined ratio - COR)



Life insurance in Poland

Gross written premium (PLN billion)

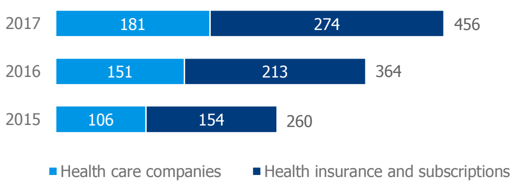
Profitability (operating margin)*



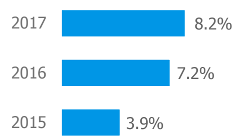
* group and individually continued insurance

HEALTH

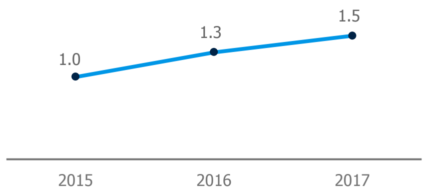
PZU Zdrowie's revenues (PLN million)



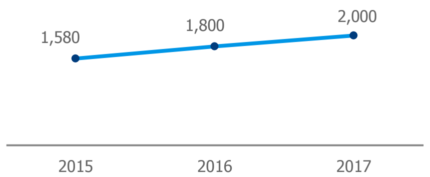
EBITDA margin



Number of agreements (milion)

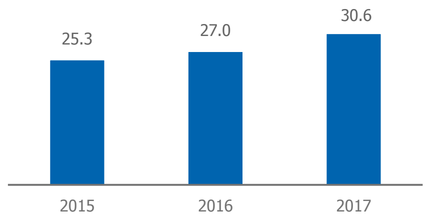


Partnership branches



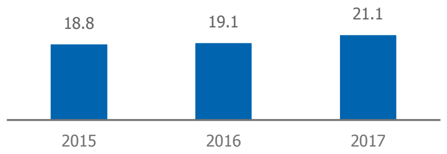
INVESTMENTS

Third Party Assets of TFI and OFE PZU clients (PLN billion)



Net result on asset management (PLN million)

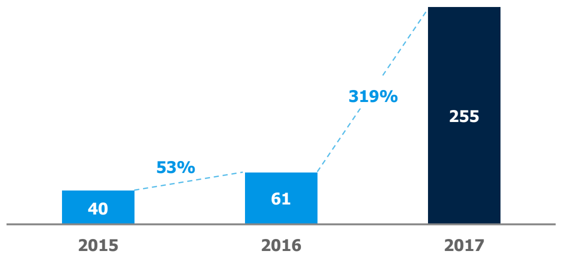
Assets of PKO and OFE TFI clients (Pekao)



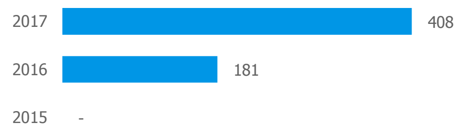
Net result on asset management (PLN million)

BANKING

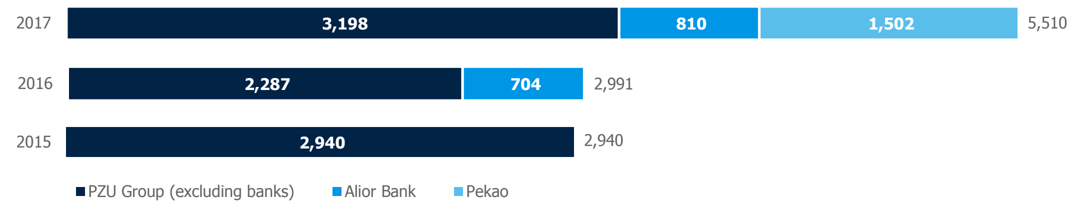
Banking assets in the PZU Group (PLN billion)



Net result attributed to the PZU Group (PLN million)



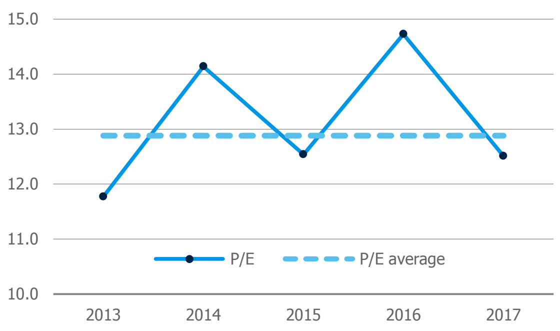
Contribution of the banks to the PZU Group's operating result (PLN million)



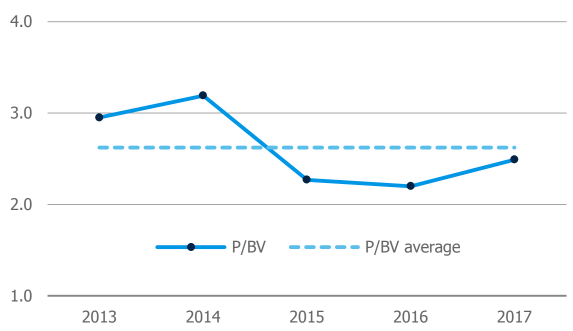
PZU Group Overview

MARKET MULTIPLES

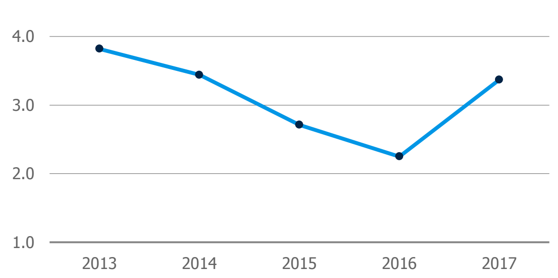
P/E (price to earnings per share)



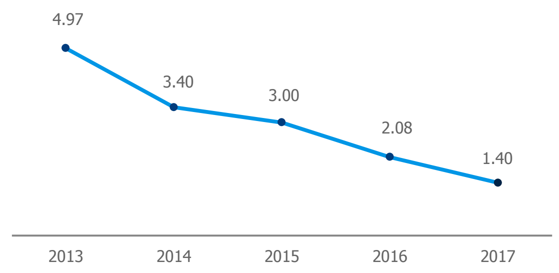
P/BV (price to book value)



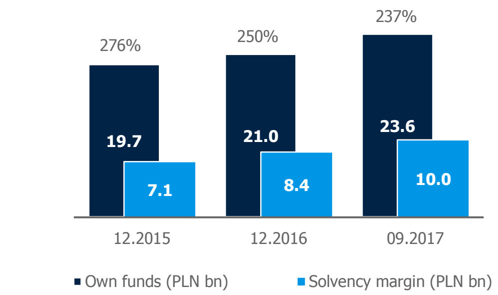
EPS (earnings per share) PLN



DPS (dividend per share) PLN

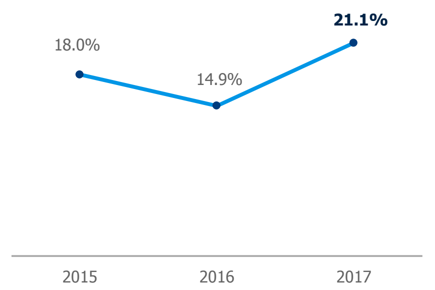


Solvency II*



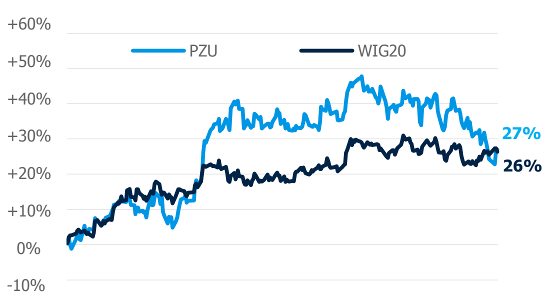
* Unaudited data

ROE (Return on equity)*

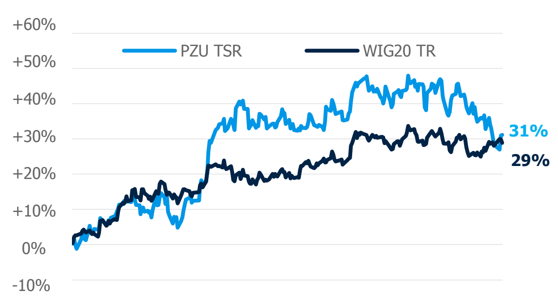


* ROE attributed for the parent company

PZU, WIG20 (2017)



PZU TSR, WIG20 TR (2017)



PZU Group's consolidated highlights for 2013-2017 (PLN million)

	2017	2016	2015	2014	2013
Gross written premium	22,847	20,219	18,359	16,885	16,480
Revenues from commissions and fees	1,784	544	243	351	299
Net investment income	8,502	3,511	1,739	2,647	2,479
Net insurance claims and benefits	(14,941)	(12,732)	(11,857)	(11,542)	(11,161)
Acquisition expenses	(2,901)	(2,613)	(2,376)	(2,147)	(2,016)
Administrative expenses	(5,364)	(2,923)	(1,658)	(1,528)	(1,406)
Interest expenses	(1,365)	(697)	(117)	(147)	(104)
Operating profit	5,510	2,991	2,940	3,693	4,119
Net profit	4,233	2,374	2,343	2,968	3,295
Net profit attributable to the equity holders of the parent company	2,910	1,935	2,343	2,968	3,293
Assets in total	317,405	125,296	105,397	67,573	62,787
Financial assets, including:	281,854	105,286	89,229	56,760	55,086
Receivables from clients due to loans	169,457	44,998	30,254	-	-
Consolidated equity	37,601	17,084	15,118	13,168	13,128
Equity attributable to the shareholders of the parent company	14,622	12,998	12,924	13,166	13,111
Technical provisions	44,558	42,194	41,280	40,167	37,324

Restated data for the period 2013-2016

The PZU Group is characterized by a high level of security of its operations. This is confirmed by both high capital adequacy ratios and the rating of the American rating agency S&P Global Ratings at the level of A-.

On 27 October 2017, the S&P agency upgraded PZU's rating outlook from negative to stable. At the same time, PZU's financial strength rating remained at A-. This is one of the highest possible ratings for a Polish company. In their report, S&P analysts emphasized that: „Group stability and transparency of investments in the banking sector supports the current creditworthiness of the PZU Group in the medium term." Chapter 8.8 RATING

A-

/STABLE/

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

Selected awards and distinctions

The PZU Group received numerous awards and distinctions for the activity in 2017. We present some selected ones below.

AWARDS:

Business:

- PZU: National Treasure
- PZU: Institution of the Year (quality of service in branch offices and remote channels)
- PZU: Trustworthy Brand
- PZU: CIPS (procurement standards)
- PZU Zdrowie: Polish Compass (propagating health)
- PZU: Ethical company
- PZU: Mediation-friendly financial institution
- PZU: Certificate of Straight-forward Polish Wording
- PZU: Golden Earpiece "Organizational improvement""

- LINK4: Client's Golden Laurel
- LINK4: Super brand
- Pekao: Best Corporate Bank in Poland 2017
- Pekao: Best Trade Finance Provider 2017
- Pekao: Best Investment Bank in Poland for 2017 & 2018
- Pekao: Bank of the year 2016 (2017)
- Alior Bank: Company of the Year

Business:

- Alior Bank: Banking Technology Award
- Alior Bank: Best Bank 2017
- Alior Bank: Newsweek's Friendly Bank

Marketing:

- PZU: Panthers

Marketing:

- PZU: Top BRAND (position in the media)
- LINK4: EFFIE AWARDS 2017

Innovations

- Alior Bank: Bank of the Year in Poland
- Pekao: Innovations of the Year (Pekao connect)

IR:

- PZU: The Best Annual Report (distinction for the annual report offering the highest user value)
- PZU: Best IR Professionals in Poland (3rd place)

HR:

- PZU: Top Quality HR
- PZU: Top Quality Internships and Apprenticeships

HR:

- LINK4: Best quality employer
- LINK4: Human Capital Investor
- Pekao: Top Employer 2017
- Pekao: Stars of Banking

CALENDAR

23 MARCH

dismissal of Michał Krupiński from being the CEO of PZU

13 APRIL

Appointment of Paweł Surówka to be the CEO of PZU

07 JUNE

PZU and PFR finalize the acquisition of a 32.8% equity stake in Bank Pekao

29 JUNE

Annual General Meeting of Shareholders

30 JUNE

PZU raises PLN 2.25 billion in a private subordinated bond issue

19 OCTOBER

Payment of a dividend from the profits generated in 2016 (PLN 1.40 per share)

27 OCTOBER

S&P Global Ratings raises PZU's rating outlook from negative to stable

Aneta Czarzasta
Treasury Department

Initially, I treated my adventure with sailing as a way of testing the boundaries of my own capabilities and a way of spending my leisure time. Over time, it turned into a passion interwoven with wind and water. Every sailing trip I take fills me with a feeling of unfettered freedom and independence.

Foto: Wilku, www.sailingevent.pl

2.

External environment

A surprisingly high real economic growth rate, an increase in real household income and an excellent situation on the labor market created favorable conditions for PZU's business growth.

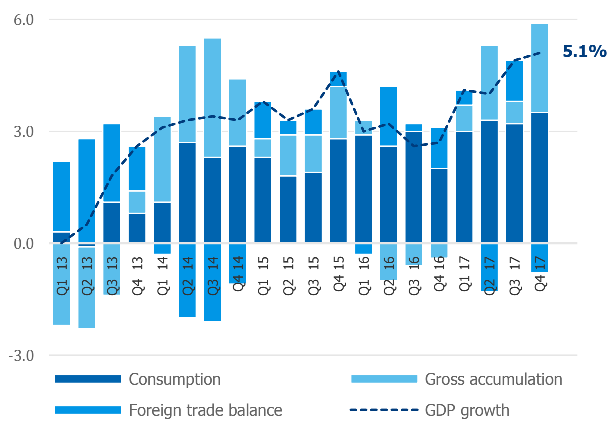
In this chapter:

2.1 Main trends in the Polish economy

Gross Domestic Product

According to preliminary estimates of the Central Statistical Office, in 2017 GDP increased by 4.6% in real terms, which was the strongest growth since 2011. The main driver of economic growth was the 4.8% boost in household consumption, the strongest figures since 2008. Consumption growth was supported by increasing employment, a decline in unemployment and an increase in real income. Investments in fixed assets increased by 5.2% after falling by 7.9% in 2016. Nevertheless, a strong double-digit investment growth rate was recorded only in the last quarter of 2017, when, apart from public investments co-funded by the EU, it was most likely enterprise investments that started to grow more noticeably. The unexpectedly good economic situation in the global economy, especially in the euro area, supported growth of Polish exports and Poland's economic growth. Due to the dynamic growth of domestic demand, providing a strong driver of imports the impact of net exports on GDP growth was slightly negative in 2017. On the other hand, GDP growth in 2017 was supported by the accumulation of inventories.

Decomposition of GDP growth in 2013 - 2017



Source: Central Statistical Office, preliminary estimate of GDP in the fourth quarter of 2017

Labor market and consumption

In 2017 the circumstances on the labor market improved very markedly from an employee point of view. Employment was on the rise and the unemployment rate fell. At the same time, companies experienced greater difficulties with filling vacancies and the salary growth strongly accelerated.

The most readily available information about the labor market comes from the business sector. In 2017, average headcount grew by 257 thousand people, as compared to an increase of 158 thousand in 2016. In December 2017, average monthly headcount in businesses was 4.6% higher than one year before. According to BAEL statistics[1], based on yet incomplete data,the increase in the number of persons employed was, less spectacular according to our estimates amounted to 1.4% y/y in 2017. In the environment of limited supply of labor, businesses most likely sought to stabilize contracts with the personnel previously collaborating on a more flexible basis. The inflow of foreign workers also contributed to employment growth.

Employment growth, demographic trends resulting in a decrease in the number of people in working age and a reduction of retirement age resulted in a rapid decline in the unemployment rate. The registered unemployment rate in December 2017 was 6.6% compared to 8.2% in December 2016.

Under these conditions, an upward trend in salaries in the Polish economy was already clearly visible in 2017. The average monthly salary in the enterprise sector increased from 2016 to 2017 by 5.9% compared to a 3.8% increase in 2016. The average monthly salary in the economy increased by 5.4% in 2017, compared to 3.7% in the previous year. Despite an increase in inflation, this also allowed for a solid real increase in average salary in the economy (3.4%), even though it was slightly lower than in 2016 (4.3%). Employment growth resulted in a strong expansion of the payroll budget in the corporate sector. In December 2017 it was 12.2% higher than in the previous year.

A solid increase in real income in 2017 allowed for a fairly equal and relatively high growth rate of household consumption (4.8% y/y). It was assumed that the impact of transfers made under the "Family 500+" program on the annual consumption growth would expire roughly in mid-2017.

[1] BAEL (Population Economic Activity Survey) is a survey of situation on the labor market conducted by the Central Statistical Office on a quarterly basis.

However, many households started to increase their goods and services purchases with some delay compared to the moment when the benefits were launched. Additionally, record high consumer confidence indicators were recorded in 2017, including increasing job and income security. At the same time, there was a clear increase in income mainly in the lowest earning groups, where the consumption growth effect was relatively the most pronounced.

Inflation, monetary policy and interest rates

In 2017, the consumer price index (CPI) increased on average by 2.0% after a three-year deflation period, compared with -0.6% in 2016. In December 2017 consumption prices were 2.1% higher than in the previous year. Top contributors to the 2017 inflation growth included: increasing food prices (4.6%), housing prices (up by 1.6%) and transportation prices (3.8%). In such a situation, the net inflation rate (CPI net of food and energy prices) rose in 2017 much more slowly than the general consumer price index – by an average annual rate of 0.7%, compared to a decline by 0.2% one year before, pointing to a moderate increase in inflationary pressure. The negative demand gap was only closed in 2017 and inflation was also suppressed by weak price increases abroad.

In 2017 and in January and February 2018, the Monetary Policy Council decided not to change interest rates. They remained flat at the level set in March 2015 – the reference interest rate was 1.5%. According to the Monetary Policy Council, the current level of interest rates is still conducive to keeping the Polish economy on a sustainable growth path and helps it preserve macroeconomic balance.

Public finance

According to the Ministry of Finance estimates, the state budget deficit in 2017 was PLN 25.4 billion, which is much lower than the PLN 59.3 billion planned. The Ministry of Finance estimates on a preliminary basis that at the end of 2017 the ratio of the general government sector debt to GDP fell by more than 2 percentage points compared to the end of 2016 and is roughly 52%, compared to 54.1% of GDP a year earlier. In 2017 Poland had no problems whatsoever in obtaining market financing – 27% of its borrowing needs planned for 2018 had been pre-financed at yearend.

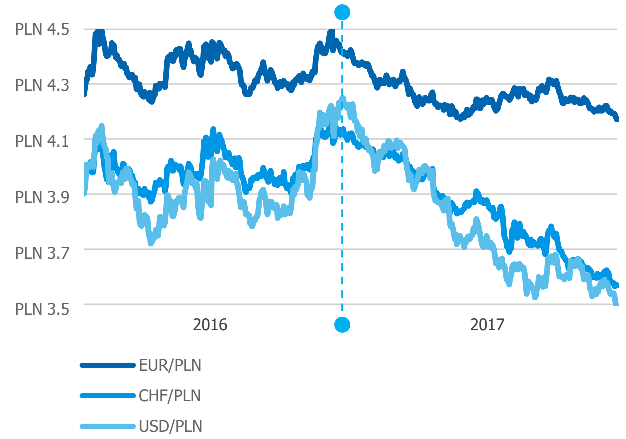
2.2 Situation on the financial markets

2017 was a stellar year for investing on the global financial markets. The upward movement of global stock indices continued despite the fact that the ninth year of the bull market already begun in the United States. Sovereign bond yields on the core markets increased only slightly. The good economic conditions on financial markets were supported by a synchronized global economic recovery and reduction in uncertainty. A series of elections in key European Union countries brought outcomes suppressing the risk of disintegration of the EU and the euro area, and the last months of the year were also marked by a declining risk of a 'hard Brexit'. Nor did the concerns about a significant increase in protectionist policies in the global economy materialize. The positive trends on the financial markets were not disturbed either by the temporary manifestation of other risks in 2017, such as the declaration of independence by Catalonia or an increase in geopolitical risk related to North Korea's nuclear programme. Despite the clear economic recovery, the announced reduction in the ECB net asset purchase programme and the commencement of contraction of the FED balance sheet, the effects of the "quantitative easing" policy still prevailed globally, which, in presence of relatively low inflation, helped to restrain the increases in bond yields on global markets.

In 2017, the Polish stock market was one of the fastest-growing equity markets in the world. In 2017 the WIG index rose 23.2%, while the WIG20 index shot up 26.4%. Faced with the acceleration of global economic growth, declining political risk in Europe and the improvement of economic conditions in Poland, at the beginning of the year we observed increases in all major stock market indices in Poland. Starting roughly at the beginning of the second quarter, certain differences appeared in the paths followed by large and small cap indices. While the large cap index WIG20 gained 13.11% from the beginning of April to year-end (driven mainly by increased valuation of companies in the energy and banking sectors), the sWIG80 small cap index lost 10.90% in that period (even though it rebounded in mid-November).

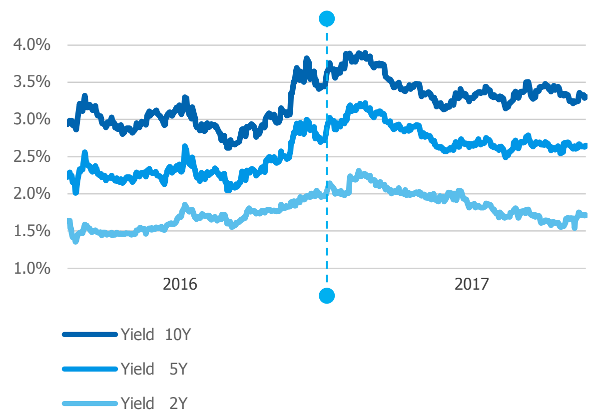
WIG20 and sWIG80 index in 2017

PLN exchange rates



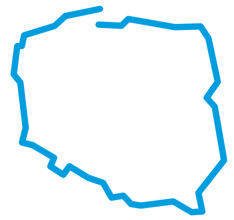
Polish PLN government bonds, except for one-year bonds, also increased in value in 2017. From January to June, in connection with the decreasing uncertainty on global financial market, the unexpectedly high economic growth rate and the improving situation of the state budget in Poland, we could observe a decline in the yield of 10-year government bonds from about 3.90% to roughly 3.15%. From the end of June, the yield of 10-year PLN government bonds varied from 3.15% to 3.51%. In the first half of 2017, the spread between Polish and German 10-year sovereign bonds narrowed down. After a slight rebound in July, the spread stabilized later in the year. Additionally, the Polish yield curve flattered in 2017. The yield of Polish government debt securities with 1-year maturity remained virtually unchanged, reaching slightly more than 1.45% at the end of 2017. The yield on 2-year government bonds decreased over the year by 32 basis points to 1.71%, while the yields on 5-year and 10-year bonds fell by 24 and 33 basis points to 2.65% and 3.30%, respectively.

Treasury bond yields



In 2017, the main currency markets showed a clear trend of the euro appreciating against the US dollar and the Swiss franc. Ultimately, the EUR/USD exchange rate rose by 13.8% in 2017, while the EUR/CHF rose by 9.2%. In that period the Polish zloty appreciated against the major global currencies. Over 2017, the USD/PLN exchange rate fell by as much as 16.7% to about 3.48, while the euro was worth about PLN 4.17 at the end of 2017 (down by 5.7% compared to the end of 2016). Additionally, the Polish zloty appreciated against the Swiss franc by 13.4% (the CHF/PLN exchange rate fell to roughly 3.57).

Poland's GDP growth in 2017 accelerated to



4.6% y/y

due to the high rate of growth in consumption and investments

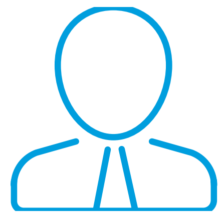
The registered unemployment rate at the end of 2017 was

6.6%

down

1.6 p.p.

from the previous year



At the end of 2017, the consumer price index (CPI) was up

2.1% y/y

Investments expanded in 2017 by

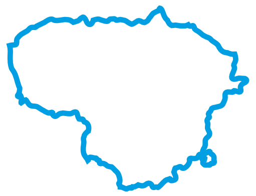
5.2% y/y

following a

7.9% y/y

decline y/y in the previous year

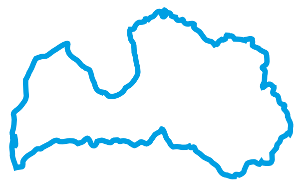
According to the preliminary estimate, Lithuania's GDP grew



3.6%

in real terms in 2017

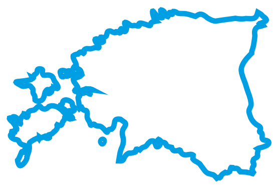
In Q3 2017 Latvia's GDP grew by



6.2%

in real terms and is convergent with the rapid estimate

Estonia's GDP in Q3 2017 rose



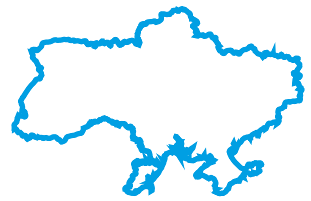
4.2%

from the previous year

In Q3 2017 Ukraine's GDP grew

2.1%

compared to the corresponding period of 2016



2.3 Regulations pertaining to the insurance market and the financial markets in Poland

For the insurance business, 2017 was a year of adaptation to EU regulations, which increased protection of customers and equipped the regulator with powers and resources to effectively control and enforce compliance with the established rules:

The Insurance Distribution Act of 15 December 2017 implements into Polish law the provisions of the Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (Insurance Distribution Directive, or IDD). The act increases the protection of customers concluding insurance agreements, which entails imposing additional requirements on entities offering insurance, mainly reporting obligations. The new rules are supported by strict administrative sanctions applied in the event of breaches of sales obligations and rules. The regulatory authority may impose fines on an insurance undertaking in the amount up to PLN 21,827,500 for specified violations or 5% of the gross written premium reported in the most recent financial statements for the financial year, or twice the amount of benefits obtained or twice the amount of losses avoided as a result of the violation, if they can be determined.

Commission Delegated Regulation (EU) 2017/653 of 8 March 2017 supplementing Regulation (EU) No 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products (PRIIPs). The Regulation requires that a key information document (KID) on an insurance-based investment product must be drawn up and provided to the client. Violations of the Regulation are punishable by severe administrative sanctions. In the solutions adopted in the Act of 29 September 2017 amending the Financial Market Supervision Act and the Insurance and Reinsurance Activity Act, which is used to apply the said regulation, the regulatory authority may impose fines in the amount up to PLN 21,569,000 or 3% of net revenues on the sale of goods and services and financial operations, and, in the case of an insurance undertakings, 3% of the gross written premiums reported in the most recent financial statements for the financial year as approved by the approving body, or twice the amount of benefits obtained or losses avoided as a result of the violation, if they can be determined.

MIFID II/MIFIR

On 3 January 2018, provisions of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments came into effect. They imposed new obligations on financial market entities in respect of, among others, protection of investors, market transparency and corporate governance. The new regulations force changes in the market infrastructure and envisage a number of new powers for the regulators.

Implementation of MiFID II into the national legal system is proposed in the Bill amending the Financial Instruments Trading Act of 29 July 2005 and certain other acts. The bill was submitted to the Council of Ministers for consideration in December 2017. The provisions implementing the MiFID II and Delegated Directives are expected to come into effect at the turn of March and April 2018.

Act of 10 February 2017 amending the Financial Instruments Trading Act and certain other acts. The purpose of the amendment is to implement Directive 2014/57/EU of the European Parliament and of the Council of 16 April 2014 on criminal sanctions for market abuse (market abuse directive, MAD) and adapt the Polish legal order to Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation, MAR). The EU legislation introduces an utterly new regime for the handling of confidential information in public companies; its main element is a uniform definition of confidential information.

Act of 21 April 2017 on actions for damages caused by infringements of the competition law. The Act implements Directive 2014/104/EU of the European Parliament and of the Council of 26 November 2014 on certain rules governing actions for damages under national law for infringements of the competition law provisions of the Member States and of the European Union. The provisions of the act aim to improve effectiveness of action pursuing claims by all those affected by anti-competitive practices.

The Act of 14 December 2017 amending the Insurance and Reinsurance Activity Act, which served the purpose of adapting the Polish law to the EU regulations relating to insurance and reinsurance business. The amendments concern in particular: the operations of internal insurance and reinsurance undertakings, large risks co-insurance contracts concluded by domestic insurance undertakings where the risks are located in the territory of other EU member states, and large risks co-insurance contracts concluded by foreign insurance undertakings where the risks are located in the territory of Poland.

In addition to the implementation of EU regulations, a number of changes were introduced in Polish law that have impacted or will impact the functioning of the PZU Group. Some of those changes are presented below:

Regulation issued by the Minister of Development and Finance of 9 December 2016 on entities authorized to audit financial statements auditing the solvency and financial condition reports of insurance and reinsurance undertakings. It sets out in particular the scope of audit of the solvency and financial condition report of an insurance or reinsurance undertaking, defines disclosure requirements for a statutory auditor's report.

On 1 January 2017, the provisions implementing the Act on Rules for Managing State Property came into effect. The Act abolished the State Treasury Ministry. Most of the Ministry's powers were transferred to the Prime Minister. The Act distinguished a category of companies of significant importance for the state economy, subject to special governance by the Prime Minister. Pursuant to the Act, the Council for companies with State Treasury shareholding and state legal persons was established as an advisory body providing the Prime Minister with comprehensive and professional support in the area of coordination of corporate governance, which includes issuing opinions on candidates for members of corporate bodies of companies with State Treasury shareholding and state legal persons.

The Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision, which aims to strengthen the objectivity and independence of audit firms and statutory auditors and to reduce conflicts of interest between statutory auditors and audit firms on the one hand and audited firms on the other. The Act assumes, among other things, that audit firms will not be able to provide simultaneously tax advisory services to the same clients. At the same time, the Act has created a special list of Public Interest Units (JZP) which includes public companies and financial market institutions burdened with specific obligations. A new model of public supervision over audit firms has also been proposed.

Act of 8 December 2017 on the Supreme Court. Among the various legal solutions introduced by the Act, there is a new appeal measure: an extraordinary petition. The Act stipulates that in a situation where the conditions specified in the Act are satisfied, the filing of an extraordinary petition will be possible against a final non-appealable ruling terminating the proceedings in the case, provided that it is necessary to ensure the rule of law and social justice.

On 1 July 2017, due to the entry into force of the Act of 1 December 2016 amending the VAT Act and Certain Other Acts, exemptions were removed regarding services forming an element of insurance and financial services. As a result of the amendments, services provided by third parties to insurance undertakings are no longer covered by the exemption. Among such services are claims handling services provided separately and not constituting an insurance service or an insurance brokerage service..

In connection with the entry into force of the Act of 9 June 2016 on the Rules for Setting the Compensation of Persons Managing Certain Companies, governing the methods of determining remuneration payable to members of managerial and supervisory bodies in companies with a State Treasury shareholding, in 2017 the Ordinary Shareholder Meeting of PZU SA adopted solutions delineating, in particular, the boundaries for fixed and variable portions of remuneration payable to Management Board members and setting the rules of correspondence between the variable portion of such remuneration and the degree of achievement of management objectives, including improvements in economic and financial indicators.

Drafted legal regulations that may have a significant impact on the PZU Group's business

Legislative work is underway to adapt the provisions of Polish law to Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC, also known as the General Data Protection Regulation, hereinafter referred to as the "GDPR". These new provisions of law will enter into force on 25 May 2018 and will apply to all entities involved in the processing of personal data as part of their business. The new regulations introduce a number of changes and broaden the scope of responsibility of data controllers and data processors. The purpose of these changes is to ensure transparency of information transmitted to the person providing the data and to govern issues related to the right to remove certain data from the database at the request of their provider. These new regulations are also intended to provide natural persons and regulatory authorities with effective tools to react properly to any breaches of the Regulation. In the operations of insurance and reinsurance undertakings, the new regulations will affect processes involving the processing of personal data, both from the legal perspective and in terms of IT systems, and will cover the majority of processes and areas of insurance activity, most notably sales and client service, on-line services, cross-selling, underwriting, marketing, CRM, counteracting insurance fraud and IT systems supporting business processes.

Legislative work is underway on the draft Regulation of the Minister of Investments and Development on the Current and Periodic Information Transmitted by Securities Issuers and the Conditions for Recognizing the Information Required by the Regulations of a Non-Member State as Equivalent. The draft Regulation introduces, without limitation, changes to the list of events subject to current reporting, modifies the management board's statement and adds a statement by the supervisory board in periodic reports.

Employee Capital Accumulation Plans (ECAP – PPK in Polish)

In mid 2018, the government presented a bill for social consultation within the framework of planned pension reform. It calls for introducing Employee Capital Accumulation Plans (ECAP in English or PPK in Polish). ECAP is the newly proposed solution in the pension security system under which employers will be obligated to conduct capital accumulation plans for employees' retirement. It will be launched on 1 January 2019 and it will sequentially apply to companies employing more than 250 persons, small and medium enterprises and public finance sector units. Every employer will have an obligation to establish an ECAP and offer enrollment in it to its employees while employee participation is not mandatory. Employees may retract their enrollment in the plan at any time.

Under ECAPs the base contribution will be made by employers (1.5%) and employees (2.0%). The state is supposed to make an additional contribution to ECAPS in the form of a welcome contribution of PLN 250 plus an annual subsidy of PLN 240. In addition, employees and employers will also have the opportunity to remit an additional contribution. Employees will be able to pay an additional 2%, while employers will be able to pay an additional 2.5%. ECAP assets will be managed by Mutual Fund Investment Companies (TFI) with which a given employer will enter an agreement to run an ECAP. In the PZU Group, the asset manager role will be played by TFI PZU on the basis of the newly-established Umbrella Fund consisting of defined date sub-funds and specialized sub-fund clones from the TFI's current offer.

2.4 External environment in the Baltic States and Ukraine

Lithuania

In 2017, the rate of growth of the Lithuanian economy gained greater momentum owing to the improvement in the global situation. Global demand for investment goods swelled up, significantly improving the result on foreign trade. This growth in investment translated favorably into the development of imports and exports in a number of countries, including Lithuania's key trading partners. Another driver of growth in trade was the improved situation in countries with a heavy dependence on exports of commodities, which benefited from price hikes on the global market (mainly Russia, whose imports affect the results of foreign trade throughout the region). Accordingly, it is estimated that real GDP will increase by 3.6% in 2017 (seasonally adjusted data)[2].

Inflation remained at a higher level, having reached 3.9% at the end of the year. Changes in prices remained affected by the domestic economic situation and shifting trends in the global commodities market. In the last months of 2017, the latter drove hikes in consumer prices above the previously expected levels. This increase was caused by changes in the commodity markets and Lithuania was not the only country affected by them. A similar phenomenon, that is hikes in food and fuel prices, was also observed in other EU countries.

[2] Lithuanian economic review, 12/2017, published by the Bank of Lithuania.

Latvia

The increase in GDP in Q3 2017[3] jwas consistent with the quick estimate and stood at 6.2% y/y (seasonally adjusted data). The improved picture of the Latvian economy in 2017 was driven by progress in almost every sector, including the construction industry, following its last year's slump.

Since the end of 2016, the balance of foreign trade has mirrored the recovery in the global economy. Exports of Latvian goods and services were on the increase. During the first ten months of 2017, exports grew by 9.6% y/y. The continuous improvement in the financial standing of Latvian trading partners and increasing prices throughout the world were the main factors driving the value of exports.

According to data published by the Central Statistical Office of Latvia, the annual inflation rate in December 2017 was 2.2%. On a month-to-month basis, the prices of non-food products decreased slightly, whereas the prices of services increased. The latter hikes were driven by greater demand resulting from a sharp increase in wages. Although the price increases of certain food products remain high in annual terms, in recent months more moderate price hikes and even declines in certain cases have been recorded.

Estonia

In 2017, the Estonian economy, in line with its regional counterparts, grew stronger. According to data published by the Bank of Estonia[4], the annual GDP growth in Q3 was 4.2%. Like in other Baltic states, the spark that pushed the Estonian economy forward was the improvement in the economic situation of Estonia's trading partners and other European economies. According to forecasts presented by the Bank of Estonia, GDP growth in 2017 will surpass 4%, which will be the highest rate of growth in the last six years.

The consumer price index (CPI) moved up 3.4% in 2017[5], compared to the previous year. The annual shift in this indicator was again driven largely by food prices and was heavily affected by price changes in the external environment. Lower production led to higher prices in global markets to the largest extent in dairy products. Increasing energy prices also had their share in the overall impact.

[3] Monthly Newsletter, 01/2018, Bank of Latvia
[4] Estonian economy and monetary policy, 4/2017, published by the Bank of Estonia
[5] Data published by the Estonian Statistical Office

Ukraine

R2017 was a yet another year of improvement in the country's economic and political situation. In Q3 2017, Ukraine's GDP grew 2.1% compared to the corresponding period of the previous year. For the third year in a row, the inflation rate has remained high. In 2017, it stood at 13.7%. The inflation rate was driven largely by the following factors: increases in government-regulated prices (of gas, electricity and water), increases in the minimum wage (twice in 2017) and higher incomes of the population. Adverse weather conditions and poor agricultural production of certain fruits and vegetables also contributed to the increase in inflation.

After 11 months of 2017, a negative balance of foreign trade in goods and services was recorded (USD -5,775 million). This was another offshoot of the unresolved conflict in eastern Ukraine. The loss of control over the resources in the eastern part of the country curtailed Ukraine's export capacity (due to disrupted mining production and electricity generation).

2.5 Macroeconomic factors that can affect the operations of the Polish insurance sector and the PZU Group's activities in 2018

In 2018, the rapid GDP growth in Poland should be continued with maintenance of a robust consumption and a significantly higher rate of growth in investment vis-à-vis 2017. At the turn of 2017 and 2018, projections of economic growth in the euro area were revised upwards. This also improved GDP projections for the Polish economy, even to a level significantly above 4%.

Growth in individual consumption is likely to surpass 4% in 2018. In an environment where demand has an upper hand over supply on the labor market, wages should grow more rapidly. However, manufacturers of goods and providers of services sold internationally may find it difficult to increase wages significantly without compromising their competitiveness. Part of the reason for this is that the inflation rate in major trading partners remains relatively low.

As the infrastructural projects co-funded by the EU move to the execution stage, investments will be clearly on the increase. At the end of 2017, corporate investments also started to grow more noticeably and this trend should continue well into 2018. However, their rate of growth may be under pressure due to problems with finding properly qualified staff.

The rate of growth in GDP in 2018 will again deviate significantly from the potential GDP growth rate (of just above 3%). However, there are currently no clear signs of imbalances in the economy. The average annual CPI in 2018 may still be below the NBP's assumed inflation target (of 2.5%), with the upward trend in core inflation stronger than in 2017, reflecting the boost in wage growth and the rapid growth in demand. However, the subdued annual growth in food prices should dampen the rate of overall inflation in 2018. The overall CPI may oscillate significantly in 2018 due to the base effects on fuel and food prices, reaching approx. 2.5% y/y in the summer. Indications that a series of interest rate hikes may begin at the turn of 2018 and 2019 are supported by the situation on the labor market and by the widening pro-inflationary gap in demand as well as the upcoming commencement of a series of interest rate hikes in the euro area. However, the Monetary Policy Council indicated at the beginning of 2018 the high likelihood of maintaining the NBP rates at the current level for the rest of 2018. A possible temporary decrease in inflation at the end of next year may help the Monetary Policy Council make this decision.

Such macroeconomic developments should be conducive to higher sales of insurance products. At the same time, a number of risks to economic growth – which might also destabilize the financial markets – have weakened. In early 2018, GDP growth in the global economy is unexpectedly strong. The election results in major EU countries have not threatened the coherence of the European Union or the euro area. It also seems that the risk of a "hard Brexit" has subsided. On the other hand, the risk of a financial crisis in China still persists, followed by geopolitical threats such as the challenges around the North Korean nuclear program and U.S.-Iran relations.

Among the internal factors that may push down GDP growth in Poland, there are problems with hiring properly qualified staff, a possible prolongation of stagnation in private investment or a higher than expected increase in inflation eroding real household incomes. However, the likelihood of a major slowdown in GDP growth in 2018 is not high. Fiscal risk in 2018 also seems to be on the low side due to the continued robust GDP growth and the structure of this growth conducive to higher tax receipts.

The prospect of a higher inflation rate and the continuation of above-average economic growth (also around the Polish economy) should drive an increase in government bond yields, which in the long term will be beneficial to the PZU Group, although in the short term may adversely affect the net result on investing activity. The risk of volatility in equity prices has increased significantly. In addition to growing valuations and prospects of a dwindling GDP growth rate after 2018, this is also affected by the risk of a significant correction in the U.S. where the current recovery is already very mature. Despite the high likelihood, as declared by the Monetary Policy Council, that the current levels of interest rates will be maintained, the forecasting of the NBP's monetary policy in 2018 is also a matter of uncertainty. The NBP's inflation projection published in November 2017 points to a risk of stronger inflation after 2018.

Data for the Polish economy	2018*	2017	2016	2015	2014
Real GDP growth in % (y/y)	4.5	4.6	2.9	3.8	3.3
Increase in individual consumption in % (y/y)	4.3	4.8	3.9	3.0	2.6
Gross fixed capital formation in % (y/y)	9.1	5.2	(7.9)	6.1	10.0
Increase in prices of consumer goods and services in % (y/y, end of period) (r/r, koniec okresu)	2.1	2.1	0.8	(0.5)	(1.0)
Nominal wage growth in national economy in % (y/y)	7.0	5.4	3.7	3.5	3.2
Unemployment rate in % (end of period)	5.8	6.6	8.2	9.7	11.4
NBP base rate in % (end of period)	1.50	1.50	1.50	1.50	2.00

* Estimate as of 2nd March 2018
Source: Macroeconomic Analysis Office PZU

Agata Kitowska,
Proprietary Network Management Department

The mere firing up of a motorbike gives me pleasure. I love that sound, the velocity, crossing barriers, setting goals for myself and gaining even better skills. It’s not important where I go, but who accompanies me.

3.

PZU Group’s operations

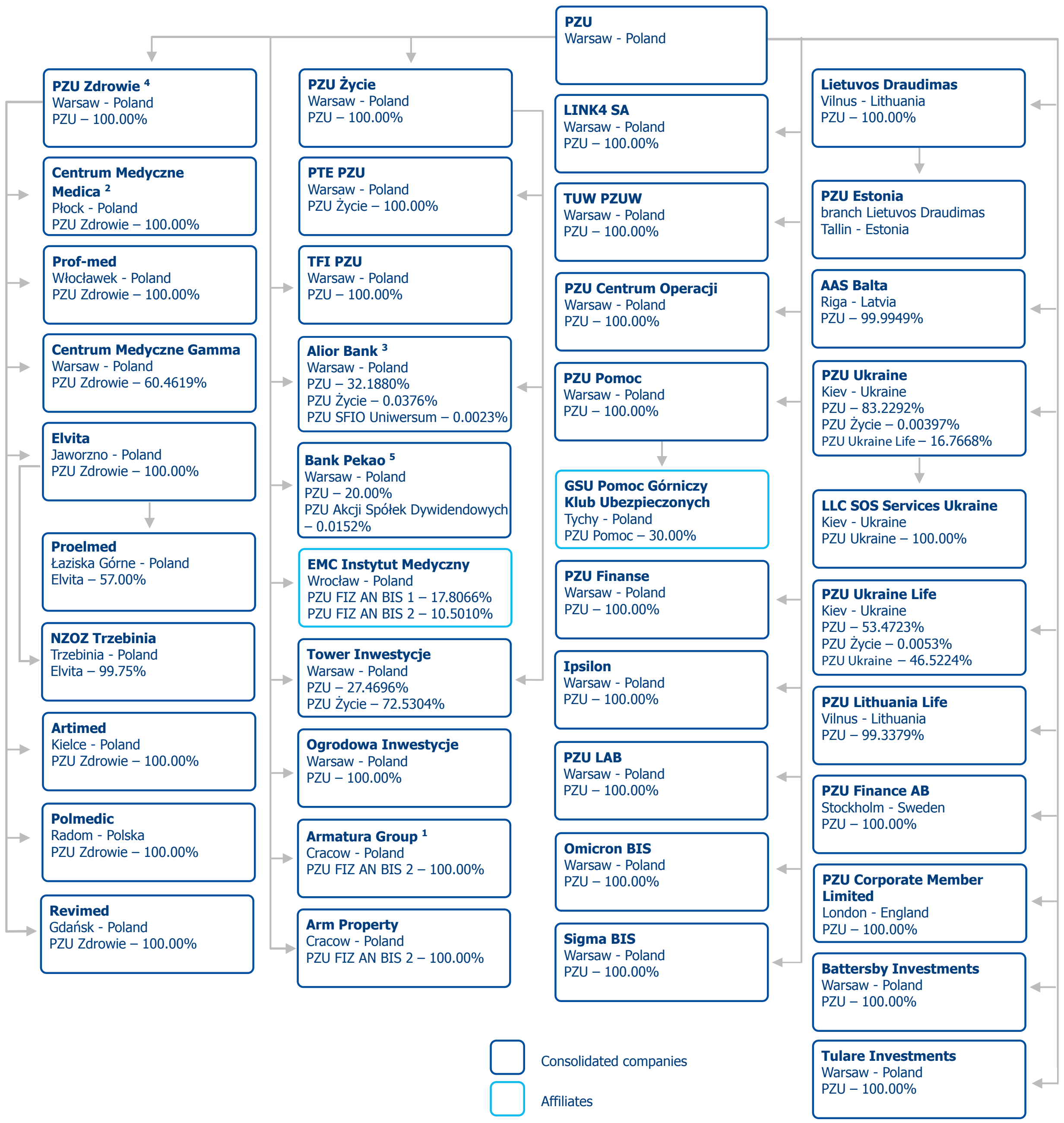
We are strengthening our position as the financial services leader. The PZU Group’s brand spans insurance, banking products, mutual funds and pension funds and medical services.

In this chapter:

3.1 Structure of the PZU Group

The PZU Group conducts various activities in insurance and finance. In particular, the Group's companies provide services in life insurance, non-life insurance, health insurance and they manage client assets within its open-ended pension fund and mutual funds, and thanks to its investment in Bank Pekao and Alior Bank they also offer banking services.

Structure of the PZU Group (as at 31 December 2017)



[1] Armatura Group included the following entities: Armatura Kraków SA, Aquaform SA, Aquaform Badprodukte GmbH, Aquaform Ukraine TOW, Aquaform Romania SRL
[2] Centrum Medyczne Medica Group includes the following entities: Centrum Medyczne Medica Sp. z o.o., Sanatorium Uzdrowiskowe „Krystynka" Sp. z o.o.
[3] Alior Bank Group includes the following entities i.a.: 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.
[4] within PZU Zdrowie 3 branches are operating: CM Nasze Zdrowie, CM Cordis and CM Medicus
[5] within Pekao Bank Group includes the following entities i.a: Pekao Bank Hipoteczny SA, Centalny Dom Maklerski Pekao SA, Pekao Leasing sp. z o.o., Pekao Investment Banking SA, Pekao Faktoring sp. z o.o., Pekao PTE SA, Centrum Kart SA, Pekao Financial Services sp. z o.o., Centrum Bankowości Bezpośredniej sp. z o.o., Pekao Property SA, Dom Inwestycyjny Xelion Sp. z o.o., Pekao Investment Management SA, Pekao TFI SA, CPF Management
The structure does not cover investment funds and entities in liquidation.

PZU – as the parent company – through its representatives in supervisory bodies of subsidiaries and voting at their shareholder meetings, exerts an impact on the selection of strategic directions regarding both the scope of business and the finances of the Group members. As selected companies focus on their specialization and utilize their membership in the Tax Group, these companies render services to one another on chosen markets pursuant to an internal cost allocation model (under the Tax Group).

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

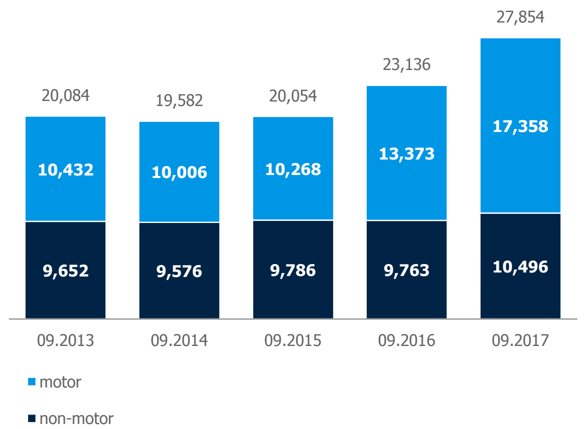
- On 7 June 2017 the deal initiated on 8 December 2016 was settled under which PZU and PFR entered into an agreement with UniCredit S.p.A. to acquire a 32.8% equity stake in Bank Pekao SA for a total amount of PLN 10.6 billion. The price per share was PLN 123. It is one of the largest transactions in the European banking sector in recent years. SECTION 3.4 BANKING.
- On 1 June 2017, the Bank entered into a preliminary agreement to purchase a 51% stake in Pioneer Pekao Investment Management S.A. (PPIM) from Pioneer Global Asset Management S.p.A. The total value of the transaction is EUR 140 million. The agreement was finalized on 11 December. As a result, the bank became PPIM's sole shareholder. SECTION 3.4 BANKING.
- PZU Zdrowie acquired shares in Revimed sp. z o.o. (in 2017). Elvita sp. z o.o. acquired shares in NZOZ Trzebinia sp. z o.o. (in 2017). Additionally, in 2017 the merger between Medicus sp. z o.o. and PZU Zdrowie took place. At the beginning of 2018, PZU Zdrowie acquired shares in Centrum Św. Łukasza sp. z o.o. SECTION 3.7 MEDICAL SERVICES (HEALTH AREA).
- On 4 December 2017, the shareholder meeting adopted a resolution to open the liquidation process of Ardea Alba SA in liquidation (formerly PZU Asset Management SA).
- On 15 September 2017, PZU acquired 100,000 shares in Battersby Investments SA, representing 100% of the share capital and entitling it to 100% of votes at the shareholder meeting, and 100 shares in Tulare Investments sp. z o.o., representing 100% of the share capital and entitling it to 100% of votes at the shareholder meeting.
- On 28 September 2017, PZU acquired shares in PZU Corporate Member Limited, entitling it to 100% of votes at the shareholder meeting. SECTION 3.9 OTHER OPERATING AREAS.

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

Market situation

Measured by gross written premium in the first three quarters of 2017, the non-life insurance market in Poland grew by a total of PLN 4,718 million (+20.4%) in comparison to the corresponding period of the previous year.

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



* including growth in written premium in the AXA Group by PLN 835 million, partly as a result of the transfer, in October 2016, of the business of Liberty Seguros Compania de Seguros y Reaseguros S.A. Poland Branch and the insurance portfolio of Avanssur S.A. Poland Branch to AXA Ubezpieczenia TUiR S.A.

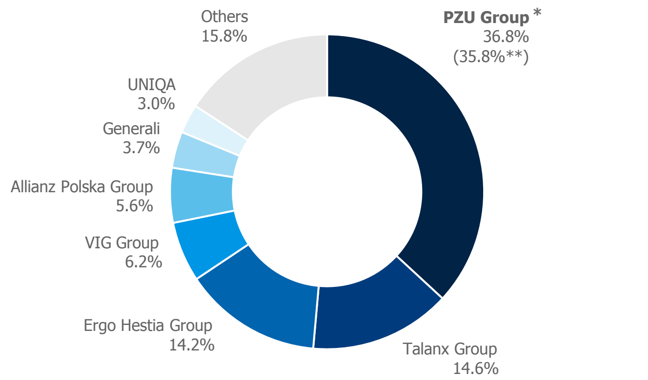
Source: PFSA (www.knf.gov.pl). Quarterly Bulletin. Insurance Market 3/2017, Insurance Market 3/2016, Insurance Market 3/2015, Insurance Market 3/2014, Insurance Market 3/2013.

The sales growth in motor TPL insurance (up PLN 3,174 million, +37.1%) and motor own damage insurance (up PLN 811 million, +16.8%) made the largest contribution to the higher level of premium, chiefly as the outcome of the significantly higher average premium (the consequence of the price hikes rolled out in 2016 as a response to the persistently negative results on the motor insurance market) and the climbing percentage of premium originating from indirect activity (motor TPL insurance up PLN 332 million year on year).

In addition, higher sales of insurance against fire and other physical losses (up PLN 353 million, +7.7%, of which PLN 22 million pertains to indirect activity) and accident and sickness insurance (up PLN 127 million, 7.9%) made a positive contribution to the overall non-life insurance market's growth, chiefly as a consequence of the upswing in the growth rate of motor insurance premiums.

It should be pointed out that, as a result of the transfer of the business of Liberty Seguros Compania de Seguros y Reaseguros S.A. Poland Branch and the insurance portfolio of Avanssur S.A. Poland Branch to AXA Ubezpieczenia TUiR S.A., the whole market grew, partly as a result of the inclusion of the premium generated by Liberty Seguros Compania de Seguros y Reaseguros S.A. Poland Branch to reporting to KNF. Branches of insurance undertakings registered in other EU countries are not required to report their financials to KNF.

Non-life insurance undertakings - percentage of gross written premium in Q1 - Q3 2017 (%)



* PZU Group – PZU, LINK4, TUW PZUW
** The share of PZU Group in the non-life insurance market from direct business at the end of Q3

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 3/2017

In the first three quarters of 2017, the overall non-life insurance market generated a net result of PLN 2,984 million, signifying incremental growth of PLN 1,758 million in comparison with the corresponding period of 2016. Excluding the dividend from PZU Życie, net profit of the non-life insurance market increased PLN 1,154 million (287.8%).

In the first 3 quarters of 2017, the technical result of the non-life insurance market rose PLN 1,326 million to PLN 1,507 million. The growth in the technical result in motor TPL insurance of PLN 1,153 million, in the class of motor own damage insurance of PLN 296 million and assistance services of PLN 31 million made the largest contribution to this change.

The spike in the technical result in the class of motor TPL insurance chiefly ensues from the higher earned premium (up PLN 2,530 million, +43.2%) on the back of the changes made last year to the average premium forming a response to the market's deteriorating results, outpacing growth in claims paid (up PLN 1,089 million, +20.5%).

The largest decrease in technical result was recorded in the class of insurance against fire and other damage to property (down PLN 122 million) and general third party liability insurance (down PLN 65 million) as a result of a slower growth in net earned premium (up PLN 112 million or +2.4%) compared to the rate of growth in claims and benefits (up PLN 314 million or +13.4%), which was largely a consequence of many losses caused by the forces of nature in August (hurricane Xavier) and December (hurricane Grzegorz) 2017.

Non-life insurance market - gross written premium vs. technical result (in PLN million)

Gross written premium vs. technical result	1 January - 30 September 2017			1 January - 30 September 2016		
	PZU*	Market	Market net of PZU	PZU	Market	Market net of PZU
Gross written premium	10,264	27,854	17,590	8,230	23,136	14,905
Technical result	853	1,507	654	308	181	(126)

* it contains LINK4 and TUW PZUW

Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Rynek ubezpieczeń [Insurance market] 3/2017, Rynek ubezpieczeń 3/2016, PZU's data

PZU Group's share in the non-life insurance market at the end of Q3 2017 is

35.8%

(direct business).

Share of LINK4

2.7%

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

38.5%

at the end of Q3 2017

PZU's technical result stated as a percentage of the overall market's technical result is

56.4%,

which when coupled with a

33.2%

market share measured by gross written premium confirms the high profitability of its insurance business.

The technical result of the non-life insurance market was up

PLN 1,326 million

at the end of Q3 2017

PZU Życie's share in periodic gross written premium was

45.8%

at the end of Q3 2017

PZU Życie's life insurance market share (group I) was

65.7%

in periodic premiums at the end of Q3 2017

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

20%

at the end of Q3 2017

PZU Życie delivered more than

50%

of the technical result and of the net result generated by the overall life insurance market in Poland

The following entities in the PZU Group operate on the non-life insurance market in Poland: the Group's parent company, i.e. PZU and Link4; the Polish Mutual Insurance Undertaking (TUW PZUW) joined them in November 2015.

To respond to client expectations in recent years, the PZU Group has extended its offering for retail and corporate clients (by forming a mutual insurer), thereby steadily growing its market share.

After the first three quarters of 2017, the PZU Group had a 36.8% share in the non-life insurance market, compared to 35.6% after the first three quarters of 2016 (35.8% and 35.4% from direct business, respectively), thus recording growth, despite significant changes in the structure of the non-life insurance market affecting the year-on-year comparability of premium levels (including the transfer, in October 2016, of the business of Liberty Seguros Compania de Seguros y Reaseguros S.A. Poland Branch and the insurance portfolio of Avanssur S.A. Poland Branch to AXA Ubezpieczenia TUiR S.A.).

After the first three quarters of 2017, the PZU Group's technical result (PZU together with Link4 and TUW PZUW) stated as a percentage of the overall market's technical result was 56.6% (the PZU Group's technical result was PLN 853 million while the overall market's technical result was PLN 1,507 million), illustrating its insurance portfolio's high level of profitability.

The total value of the investments made by non-life insurance undertakings at the end of Q3 2017 (net of the investments made by subordinated entities) was PLN 52,623 million, up 1.9% compared to the end of 2016.

The non-life insurance undertakings in total estimated their net technical provisions at PLN 47,850 million, signifying 7.3% growth compared to the end of 2016.

PZU's activity

As the PZU Group's parent company, PZU offers an extensive array of non-life insurance products, including motor insurance, property insurance, casualty insurance, agricultural insurance and third party liability insurance. At yearend 2017, motor insurance was the most important group of products offered by PZU, both in terms of the number of insurance agreements and its premium stated as a percentage of total gross written premium.

Against the background of changing market conditions, in 2017 PZU aligned its offering with clients' new interests and needs by rolling out new solutions and products, often with a touch of innovation. In mass insurance, PZU did the following:

- extended its offering to include health insurance products to supplement PZU Auto, PZU Dom and Wojażer travel insurance policies. Depending on the selected option, the client receives a bundle of health benefits in the event of an accident or sudden illness in the form of access to private medical care, including medical consultations, diagnostics and rehabilitation along with advice from a Medical Assistant who will help in planning a specific course of treatment. This offering stands out among its counterparts available on the market due to an efficient organization of the treatment and rehabilitation processes with a guarantee of accessibility owing to the broad network of medical centers, including PZU Zdrowie's own centers;
- introduced a new partnership option in its motor own damage PZU Auto insurance, having properly identified clients' expectations in a market of changing motor insurance prices. Despite a lower premium, this option offers full insurance coverage and a high quality repairs in one of PZU's partner workshops. Along with this option, the possibility of a lump-sum deductible (of PLN 500) has been introduced, significantly lowering the premium. The deductible is fixed and invariable regardless of the value of the loss. The selection of options available in the offering (Optimal, Maintenance and Repair, Partner) along with the application of a deductible provides the opportunity to mold the premium and protection by aligning the insurance with the client's current needs and price-sensitivity without having to forgo motor own damage insurance;
- supplemented the bundle of PZU Dom's residential insurance with a new type of insurance, namely Remote Assistance by an IT Specialist, providing assistance to clients experiencing problems with their computers. In such a situation, the client, over the Internet or using a dedicated application, obtains support from an IT specialist who remotely connects to the client's computer to remove the software defect that prevents its trouble-free use;
- extended its offering of agricultural insurance, including the coverage of movable property in farms by introducing an "all risk" agricultural clause and insurance of structures located on the farm;
- introduced, as the only insurer in Poland, an innovative method of verifying whether a vehicle had been seriously damaged in the past, to an extent rendering its repair economically unjustified or carrying the risk that the damaged vehicle will not be restored to a condition ensuring its safe use. In the process of offering motor own damage insurance, the Everest system will verify online if the vehicle has been entered in the database of over 11 million wrecked automobiles offered for sale in Europe and if the vehicle is found in this database, then the terms of insurance will be established by way of case-specific underwriting;
- deployed a pilot program called PZU Drive as a forerunner of the new offering dubbed PZU GO to be available starting from spring 2018. This was the first step toward adopting solutions on the Polish market that are popular on certain foreign markets and which are rooted in the use of mobile technologies enabling the determination of the premium based on the profile of a specific driver. For the purposes of the pilot deployment, an application was developed which, when installed on a smartphone and used regularly, provides telematic data enabling the provision of information about various driving styles that in practice affect the insurer's exposure to risk. PZU is hopeful that this solution will enable it to lower the premiums charged to "safe" drivers and popularize the Pay How You Drive (PHYD) solution in Poland.

Most changes in the corporate insurance segment were associated with the regular launch of products dedicated to corporate clients administered and sold in the Everest system, with the offering extended by insurance against cyber threats. The new insurance offers protection against the adverse effects of hacking attacks, including by taking actions aimed at destroying the attack and restoring the company's normal operations. This offering is targeted especially at those clients who are at risk of data leakage or operational paralysis caused by a cyber-attack. This insurance provides cover for the costs of extortion, image repair, expert reports and investigative actions.

In the domain of financial insurance, PZU was unswerving in its support for the Polish economy by providing insurance guarantees and securing the performance of contracts in such key areas of the economy as the power sector, the shipbuilding industry, the construction industry and the science and innovation sector. At the same time, reaching out to clients and their expectations, PZU deployed new financial insurance products, such as:

- GAP insurance for financial losses targeted at lessees and borrowers signing agreements with banks or leasing companies. This insurance is against the risk of financial losses caused as a result of a total loss of the lessee's or borrower's vehicle covered by the insurance policy as part of a motor own damage insurance product or under the perpetrator's third party liability insurance;
- Mortgage loan repayment insurance tied to a decrease in the value of the real estate caused by a random event.

In 2017, PZU cooperated with 10 banks and 8 strategic partners. PZU's business partners are leaders in their industries and they have client bases with enormous potential offering an opportunity to extend the offering to include more products, often based on innovative solutions. In 2017, PZU established cooperation with the PZU Group's member banks, namely Alior Bank S.A. and Pekao S.A., launching the roll-out of a comprehensive offering via its distribution network. PZU's cooperation with Pekao S.A. and Alior Bank S.A. will enable the Company to offer its clients an extensive array of both financial and insurance services at each stage of their lives. In strategic partnerships, cooperation applied mostly to companies operating in the telecom and power sectors through which insurance for electronic equipment and assistance services were offered, e.g. the assistance of an electrician or a plumber.

LINK4's activity

LINK4, which entered the Polish market 15 years ago as the first undertaking offering direct insurance products, still remains one of the leaders on the direct insurance market. It offers an extensive range of non-life insurance products, including motor insurance, property insurance, personal insurance and third party liability insurance.

In 2017, the company was focused predominantly on the development of new technologies and innovations, both in terms of products and processes, which turned LINK4 also into a perceived leader in the area of innovations.

The most important activities associated with modifying its product offering in 2017 were as follows:

- a telematic program called LINK4 Kasa Wraca [LINK4 Cash Back] deployed in cooperation with NaviExpert, aimed at promoting and rewarding a safe driving style. By applying such a style, Link4's clients may have part of their premium, up to 30 percent of it, refunded. As of 26 April, Link4 offers navigation with this application free of charge along with every TPL insurance or package. It uses telematic solutions to assess a driver's driving style;
- a short transportation calculator on mobile devices deployed in mid-2017 and a chat bot introduced as a new functionality in these communication channels;
- launching innovative products offering among others insurance for household pets and ADD insurance along with insurance in the event of complications following tick bites or other insect bites;
- completion of roll-out work on Link4Mama [LINK4Mom] and LINK4Dziecko [Link4Child] bundles addressing specific risks related to consequences of accidents and third party liability – insurance offered in cooperation with PZU Zdrowie;
- launch of sales of travel insurance through an insurance policy vending machine which is currently the most innovative channel for sales of insurance policies – the insurance policy vending machine at the Modlin airport near Warsaw offers two insurance options, namely a recommended option and a flexible option enabling the client to tailor the product to his or her specific needs;
- in Q4 2017, enriching the residential insurance offering with smoke detectors proposed for each policy with a premium greater than PLN 210.

TUW PZUW's activity

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

TUW PZUW offers its clients a flexible insurance program to optimize the costs and scope of cover. Since 2016, it has been selling and handling insurance products targeted at clients from various industries, focusing predominantly on cooperation with large enterprises, medical centers (hospitals and clinics) and local government units. Such entities, within the framework of cooperation exercised under TUW's model, are provided with the opportunity to dissipate their risks within the boundaries of mutual benefit societies adjusted to the specific nature of the pertinent group of entities and thereby reducing the costs of their insurance premiums. TUW has 182 members for whom 36 mutual benefit societies have been established.

In 2017, the primary emphasis was placed on organizational development, expansion of the team of professionals offering better insurance service to the mutual's members and aligning its offering to its clients' needs.

The most important activities associated with modifying its product offering in 2017 were as follows:

- jointly marketing with PGE Obrót a new product called "Health of PGE Energy" offering a guaranteed fixed price for energy coupled with an assistance service such as that from an electrician;
- crafting new general terms and conditions of insurance, including directors and officers insurance (D&O);
- extending the offer to include products focusing on another pillar: local governments.

Factors, including threats and risks that will affect the operations of the non-life insurance sector in 2018

Besides chance events (such as floods, droughts and spring ground frost), the following should be treated as the main factors that may affect the situation of the non-life insurance sector in 2018:

- possible slowdown in economic growth in Poland. A poorer financial standing of companies may result in elevated credit risk and a higher loss ratio on the financial insurance portfolio;
- case law regarding the amount of financial compensation for moral damages under TPL insurance held by owners of motor vehicles to the deceased's closest family members for the suffered injury (art. 446 of the Civil Code);
- increase in claims handling costs due to the implementation of VAT on motor claims handling services rendered in favor of insurance companies and their intermediaries;
- increase in the prices of spare parts affecting claims handling costs due to the depreciation of the Polish zloty against the euro;
- adjustment of insurance undertakings to the EU General Data Protection Regulation, i.e. the GDPR – REGULATIONS SECTION 2.3;
- emergence of more regulations or financial burdens on insurance undertakings – among others, the possible reinstatement of the "Religa tax" (mandatory fee paid to the National Health Service on every TPL motor insurance policy).

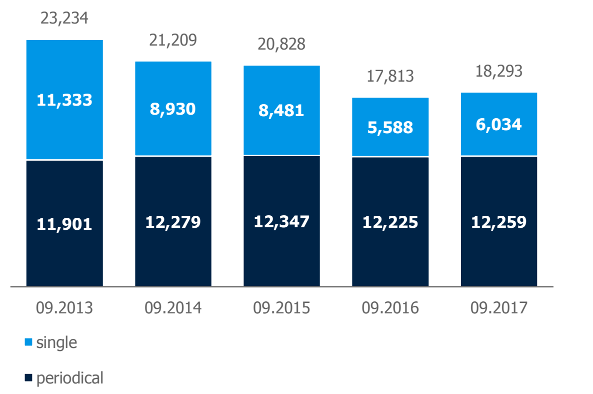
3.3 Life insurance (PZU Życie)

Market situation

Poland's life insurance market in Poland measured by gross written premium was worth PLN 18,293 million in the first three quarters of 2017 meaning that over the most recent 5 years it contracted on average by 7.6% per annum. At the same time, gross written premium in Q1-Q3 2017 was 2.7% higher than in the corresponding period of the previous year, signifying the first year-on-year increase after 4 consecutive years of a downturn in the life insurance market, spurred predominantly by single premiums in products of an investment nature.

The evolution in the level and the growth rate of the life insurance market premium in recent years has been prompted mostly by single premiums in investment products. Attention should be drawn to the fact that the premium expansion for the overall market year on year in the first three quarters of 2017 pertained to single premiums to a greater extent (up PLN 446 million, i.e. 8.0% y/y). The growth rate for the corresponding period of 2016 was negative at -34.1%. The single premium cumulative average growth rate in the period under analysis was -17.0%. The changes in circumstances on the capital market and in the legal environment should be considered to be the underlying causes for the gross written premium on single premium business to fall in recent years. The record-breaking low interest rates contributed to the declining profitability of what are known as term deposits packaged as insurance products (polisolokata in Polish), thereby stimulating greater interest in other investment products. Moreover, as of 1 January 2015, a tax was implemented on short-term endowment insurance products offering a fixed yield or a yield defined using an index; this also contributed to constricting client interest in these types of products and ultimately to their retraction, especially of the former, from the insurance undertakings' offering. In subsequent years the regulatory authority's guidelines, including guidelines regarding the level of fees incurred by clients of unit-linked products led to insurance undertakings constricting their offering of these types of products. Last year's improvement in the condition of the equity market facilitated higher sales of unit-linked products, especially ones

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



Source: PFSA (www.knf.gov.pl). Quarterly Bulletin. Insurance Market 3/2017, Insurance Market 3/2016, Insurance Market 3/2015, Insurance Market 3/2014, Insurance Market 3/2013.

Life insurance market – gross written premium (PLN million)

gross written premium	1 January - 30 September 2017			1 January - 30 September 2016		
	PZU Życie	Market	Market net of PZU Życie	PZU Życie	Market	Market net of PZU Życie
Periodic premium	5,617	12,259	6,642	5,501	12,225	6,724
Single premium	753	6,034	5,281	496	5,588	5,092
TOTAL	**6,370**	**18,293**	**11,923**	**5,997**	**17,813**	**11,816**

Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Insurance market 3/2017, Insurance market 3/2016, PZU Życie's data offering a single payment. This involves clients re-allocating funds among various products, thereby reducing the fees charged for surrenders. This upswing was observed primarily in the bancassurance channel.

The outcome of this market evolution over several years was the expanding significance of periodic premium that constitutes PZU Życie's competitive advantage on the market. In Q1-Q3 2017, periodic premium was 0.3% higher compared to the same period in 2016, with a cumulative average growth rate of 0.7% for the last 5 years.

The total technical result generated by the life insurance undertakings in Q1-Q3 2017 was up PLN 239 million (11.0%) from the corresponding period of 2016 to PLN 2,418 million. This improved performance was caused by higher profitability, especially in life insurance (class I) and accident and sickness insurance (class V) – these classes recorded y/y increases in their bottom line of PLN 133 million (28.7%) and PLN 96 million (7.4%), respectively, driven largely by lower acquisition expenses with a concurrent upswing in revenues, including from deposits, and a lower value of benefits disbursed in class I.

In this same period, life insurance undertakings generated a net result of PLN 1,859 million, representing a PLN 115 million (6.6%) increase y/y. This improved result was, to a large extent, the effect of better investment performance recorded by insurers than in the corresponding period of 2016, both in terms of investments used to cover liabilities under technical provisions and the insurance undertakings' available funds.

The value of the investments made by life insurance undertakings at the end of Q3 2017 was PLN 41,913 million, signifying 2.6% growth compared to the end of 2016. In turn, these positive investment results contributed to a higher net asset value of life insurance in which the policyholders bear the investment risk (up 4.4% to PLN 59,507 million).

PZU Życie's activity

PZU Życie SA (PZU Życie) does business on the Polish life insurance market on behalf of the PZU Group. The company offers an extensive range of life insurance products, which for management purposes are reported and analyzed broken down into the following three segments: group and individually continued insurance, individual insurance and investment contracts.

During Q1-Q3 2017, PZU Życie wrote 34.8% of the gross written premium of all life insurance undertakings, signifying further growth on top of last year's market share (+1.1 p.p.). The expansion of PZU Życie's market share was driven by a higher rate of growth in gross written premium on a y/y basis than that of all its competitors combined, both payable periodically and in the form of a single premium.

At the same time, PZU Życie continued to be the clear leader in the periodic premium segment. In Q1-Q3 2017, it generated 45.8% of these types of premiums written by insurance companies, signifying growth of 0.8 p.p. in the market share in this segment and the highest market share level since 2010. The growth rate of gross written premium at PZU Życie was 2.1% y/y in this segment, compared to the negative growth rate posted by the other market players who reported an outcome of -1.2%. One of the major factors in this respect was the rapid growth in the health insurance portfolio. PZU Życie now has nearly 1.5 million policies of this type in its portfolio. From the outset of 2016, KNF has also been publishing data making it possible to depict as a matrix PZU's share in just the life insurance segment (class I) for

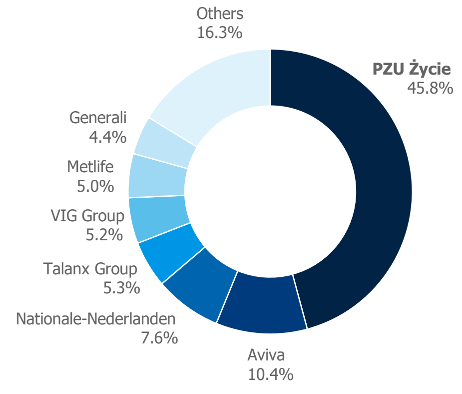
Life insurance market – gross written premium vs. technical result (PLN million)

gross written premium vs. technical result	1 January - 30 September 2017			1 January - 30 September 2016		
	PZU Życie	Market	Market net of PZU Życie	PZU Życie	Market	Market net of PZU Życie
Gross written premium	6,370	18,293	11,923	5,997	17,813	11,816
Technical result	1,245	2,418	1,173	1,201	2,179	978
Profitability	19.6%	13.2%	9.8%	20.0%	12.2%	8.4%

Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Insurance market 3/2017, Insurance market 3/2016, PZU Życie's data

periodic premiums. After Q3 2017, this share was 65.7% when measured by gross written premium and it was 72.9% when measured by the number of agreements in force. For this same group of risks, the market share split by the method of execution in the period under analysis was 68.3% for group agreements and 40.4% for individual agreements (when measured by gross written premium).

Life insurance undertakings - percentage of periodic gross written premium in the first three quarters of 2017 (%)



Groups: Talanx - Warta, Europa, Open Life;VIG - Compensa Życie, Polisa Życie, Vienna Life;Aviva- Aviva, BZ WBK-Aviva
Source: KNF's Quarterly Bulletin. Insurance market 3/2017

PZU Życie's technical result represented more than half the result earned by all life insurance companies. This evidences the high profitability these products enjoy. PZU Życie's technical result margin on gross written premium was two times higher than the overall margin generated by the other companies offering life insurance (19.6% versus 9.8%).

PZU Życie, a well-regarded company and the largest insurer on the Polish market, continuously expands its product offering by adding new products or modifying existing ones. Changes in the product offering are intended to attract new clients and expand the insurance cover for those already in the portfolio, along with strengthening their loyalty and increasing their satisfaction level. Concurrently, the changes in the offering take into account the changing requirements of the regulatory authority and the growing extent of statutory consumer protection. It should also be pointed out that in many cases such changes are made not only to the product itself but also entail the modernization and simplification of the way in which insurance is offered and sold (processes and front-ends) and enable the client to take advantage of various contact channels to reach the insurance undertaking (including in person in the branch, by phone, by e-mail, via the newly deployed client account, via the person providing technical insurance services at the workplace or through an insurance intermediary, either a tied one or an external one).

Under group and individually continued (protection) insurance, the following major changes were made in 2017:

- a new bundle of insurance products called PZU w Razie Wypadku [PZU In Case of an Accident] (WrW) intended to protect the insured against events related to accidents. The choice between the two bundles along with an extensive cover means that this offering is targeted at young and active clients practicing sports or otherwise exposed to events related to accidents. Moreover, this insurance, with a view to make it as comprehensible and clear to the client as possible, was written from the beginning to the end, as the first product in group insurance, using unsophisticated and consumer-friendly language (in cooperation with the Polish Language Faculty of the University of Wroclaw);
- a new protection and health insurance (POZ) bundle combining within a single product both a protective part and a health part, focusing largely on civilizational illnesses (cancers, cardiovascular diseases and neurological diseases). The structure of this product is unique in that it consists of three large modules: My Health, My Family and My Choice, providing the insured with a significant degree of flexibility and a choice of riders within each of these 3 modules. Moreover, it is supported by a very user-friendly proposal system enabling the seller and the client to walk together through the process of creating an individual proposal tailored to the actual specificity and needs of the client. This product is targeted predominantly at companies operating in the SME sector;
- work was continued on segmenting the insurance offering among the selected client groups by focusing on the creation of a simple modular offering tailored to a specific client segment and a specific distribution channel (in implementation of the strategic postulate of the 'strategy of 10 simple products');
- further changes were deployed in the functionalities of the system for selling and proposing insurance products – the transfer of the PZU Ochrona Plus [PZU Protection Plus] product for small groups was launched and the system was completely rebuilt for the purposes of selling the new POZ product (creating modules, selecting options and specific

risks, premium rate calculator and insurance and marketing documentation);

- implemented was the proposal of insurance for persons withdrawing from group policies shaped in the form of the Kontynuacja dla Ciebie [Continuation For You] product providing an alternative to standard individual continuation for insureds aged 50 or under. This product comes with a much more extensive offering of riders which, it is assumed, should reflect as closely as possible the client's insurance at the group phase. In 2017, this solution was tested in PZU's selected branch networks.

In the area of health insurance, PZU Życie's product offering in 2017 was focused on addressing to the largest possible extent the needs of specific client segments, creating solutions enabling an easy inclusion of health insurance agreements to PZU Życie's existing client portfolio, seeking unique market solutions and looking for new strategic partnerships on the market with a view to preparing specialized solutions for specific client groups. Among the solutions that were prepared, the following ones may be distinguished (in addition to the health insurance products described in Section 3.7 MEDICAL SERVICES (HEALTH AREA):

- introducing an offering dedicated to VIP clients based on the PZU Group's extensive spectrum of products and enabling an effective relationship management in this segment. As part of this offering, the following types of insurance products were proposed to the clients: outpatient insurance, hospital insurance, medicine insurance, PZU Wojażer travel insurance, accident insurance and a loyalty program;
- supplementing the offering with two new health riders for group life insurance. These riders provide for healthcare services in the event of a critical illness or a traffic accident or an accident at work:
  - PZU W Trosce o Zdrowie [PZU Care for Your Health] – in the event of a critical illness, access to private medical care is arranged (in privately owned medical centers) during the first few days following the diagnosis. These healthcare services enable monitoring the progress of treatment and early prevention of recurrent illness as well as help the patient return to physical ability;
  - PZU Powrót do Sprawności [PZU Return to Ability] – in the event of a traffic accident or an accident at work, the insured may benefit from healthcare services (provided in privately owned medical centers). In such cases, the medical care is intended to help the patient return to physical ability after an accident;
- developing the offering by adding a new rider to individually continued insurance – insurance against an orthopedic injury caused by an accident. These healthcare services enable the patient to receive rehabilitation treatment in privately owned medical centers;
- continuing the pilot project of outpatient insurance for small businesses, the so-called SOHO (small office/home office) clients, either self-employed or having no more than one employee. This product provides access to medical consultations and diagnostic tests;
- The client account functionality will enable an insured under group insurance to create his or her own account on the website through which the client will have access to his or her data and, additionally, to a number of features making it possible, for instance, to set up medical appointments, report benefits, display a calendar of events, etc. Ultimately, this will serve as the main tool for the client in managing his or her insurance portfolio at PZU.

In the area of unit-linked insurance, the following changes, among others, were introduced in 2017:

- a new unit-linked insurance product with a single premium called Multi Kapitał [Multi Capital] was launched in collaboration with Alior Bank;
- also launched to sales was a modified PZU IKZE individual unit-linked life insurance product. This product was made more attractive by extending the range of available benefits through adding an accidental death benefit;
- 7 subscriptions of the structured insurance product known as Świat Zysków (World of Profits) that has enjoyed tremendous client interest were sold. Various investment strategies that adapt to volatile market conditions were offered in the individual subscription tranches, based on various models of calculating the investment bonus;
- a Key Information Document (KID) was drafted and implemented into the product distribution process in accordance with the objectives pursued by the PRIIP Regulation GLOSSARY. The changes affected the process of selling, implementing and servicing the product.

Factors, including threats and risks, that may affect the operations of the life insurance sector in 2018

The following constitute the major risk factors on the life insurance market in 2018:

- the prospect of a higher inflation rate and economic growth driving an increase in T-bond yields, which in the long term will be beneficial to the PZU Group, although in the short term may adversely affect investment income;
- a downturn on the capital markets deteriorating the attractiveness of products, especially unit-linked products;
- changes in the current mortality, fertility and morbidity levels;
- continued pressure on the prices of group insurance products. A price war is underway along with a war for the possession of clients and their data, resulting in lowering both the insurers' margins and the quality of the products offered to clients accompanied by the creation of barriers to entry and exit for clients at independent intermediaries;
- changes in trends and clients' behaviors toward the customization of proposals and an electronic, swift and paperless method of purchasing and handling insurance, forcing insurance undertakings to rapidly adapt to these expectations;
- the emergence of new competitors and solutions, including the operators of large client bases or insurtech companies;
- changes on the unit-linked insurance market and on the endowment insurance market resulting from the undertakings' adaptation, as of 1 January 2018, to the PRIIP Regulation – SECTION 2.3 REGULATIONS. Regulations pertaining to the insurance market and the financial markets in Poland;
- entry into force, as of 1 October 2018, of the Insurance Distribution Directive (IDD) – SECTION 2.3 REGULATIONS. Regulations pertaining to the insurance market and the financial markets in Poland;
- adjustment of insurance undertakings to the EU General Data Protection Regulation, i.e. the GDPR – SECTION 2.3 REGULATIONS. Regulations pertaining to the insurance market and the financial markets in Poland;
- the final shape of the new pension security system (Employee Capital Plans) – SECTION 2.3 REGULATIONS. Regulations pertaining to the insurance market and the financial markets in Poland

3.4 Banking (Bank Pekao, Alior Bank)

Market situation

The Polish banking sector is the largest one in Central and Eastern Europe with assets worth more than PLN 1,782 billion. 35 domestic commercial banks, 553 cooperative banks and 29 branches of credit institutions operated at the end of December 2017 in Poland.

The banking sector's situation in 2017 was stable and boosted by the persistently vibrant economy and the operation of banks in a low interest rate environment. In 2017, the banking sector generated a net profit of PLN 13.6 billion, as compared to PLN 13.9 billion in the corresponding period of the previous year (down 2.3%). This slump in financial performance was caused chiefly by the sale of an equity stake in VISA Europe. If it had not been for this event, the realized net financial result would have been higher than that generated in the corresponding period of the previous year.

The sector's net result was shaped predominantly by the improved result on banking operations (PLN 24.9 billion, up 4.1% from 2016), caused by significantly higher net interest income (up 12.1%) with a concurrent upswing in the result on fees and commissions (up 9.1%).

The record result on interest in the period from January to December 2017 vis-à-vis the corresponding period of the previous year was caused by a drop in interest expenses (by 2.1% y/y) with a concurrent increase in interest income (by 7.9% y/y). This result was generated owing to both the high interest margin (2.38%) and the growing loan base (primarily in the area of loans granted to businesses and households). The continuing economic recovery, the improved situation on the labor market and consumer sentiment, the good financial standing of the enterprise sector, the record low interest rates and the stable quality of the loan portfolio are contributing to the stable development of lending activity.

The banks' operating expenses (excluding depreciation and provisions) in the period under analysis increased 4.3% to PLN 33 billion year-on-year. This increase was caused by higher employee expenses (up 5.8% to PLN 16.6 billion) and higher general and administrative expenses (up 2.8% to PLN 16.4 billion). It should be pointed out, however, that a clearly observable phenomenon is the continuation of the process of employment and sales network optimization along with the development of electronic banking leading to a gradual headcount reduction and a leaner sales network.

The balance of impairment charges on financial assets in 2017 compared with the previous year went up 7.8% to PLN 8.2 billion.

In 2017, the net asset value of the banking sector was PLN 1,782 billion, up 4.1% (or PLN 70.4 billion) with respect to yearend 2016.

Gross receivables from the non-financial sector increased 3.2% to PLN 1,045 billion as at the end of 2017 vis-à-vis the year before. Growth in this area was driven mainly by receivables from enterprises (+6.1% y/y) and receivables from households (+1.7% y/y).

At the end of September 2017, the banking sector's own funds for capital multiples, calculated in accordance with the regulations laid down in the CRR Regulation, was PLN 187.3 billion, up 8.9% from the end of September 2016.

The banking sector's total capital multiple at the end of September 2017 was 18.65% (up 1.1 p.p. compared to the end of September 2016), while the Tier I capital ratio at the end of this period was 17.22% (up 1.2 p.p. in comparison with the end of September 2016). This increase was driven by the upheld recommendation to keep a strong capital base or, for certain banks, to strengthen it even further.

Material agreements

Acquisition of the equity stake in Bank Pekao

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

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

The essence of the agreement is to define the rules of cooperation between PZU and PFR following the acquisition of the equity stake in Bank Pekao from UniCredit and the rights and duties of the parties as bank shareholders, in particular pertaining to agreeing on the manner of jointly exercising voting rights on the shares and the implementation of a common long-term policy for the bank's business to attain the objectives stated above. In particular, PZU and PFR have undertaken to each other to vote in favor of resolutions on the distribution of profit and the disbursement of dividends, in accordance with the rules and within the boundaries set by the applicable provisions of law and KNF's recommendations and in accordance with the bank's existing practice.

Cooperation between Bank Pekao and Alior Bank

On 23 October 2017, Bank Pekao and Alior Bank signed a letter of intent to commence preliminary talks on potential cooperation strategies that might be developed to increase their value for shareholders and clients. Undertaking preliminary talks and carrying out pertinent analyses, taking into account exchange of information preceded by obtaining the requires authorizations will be aimed at assessing the viability of this cooperation based on different scenarios.

Cooperation between banks with PZU and PZU Życie

In addition, within the framework of cooperation between Pekao, Alior Bank and the PZU Group, current activities are divided into four areas:

- Bancassurance: as part of PZU and PZU Życie, more than 6.1 thousand employees of Bank Pekao have been trained and certified at the OFWCA., and in 2017 Alior Bank was already selling.
- Assurbanking: PZU supports sales of the Pekao Account in several dozen branches, and on 5 March 2018 a pilotage was launched in three branches, where PZU employees actively offer the "Przekorzystne" Account to the Bank.
- Cooperation: on 20 November, the Polish Investment Forum was held and lasted for two days in New York. It is an initiative aimed at supporting the international expansion of Polish companies. The forum was organized by PZU, Bank Pekao SA and J.P. Morgan.
- Operational synergies: Cost synergies were implemented in the areas of IT administration and security that have a real impact on the costs of PZU and Bank Pekao.

Operations of the Pekao Group

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

From 2017 Bank Pekao has been part of the PZU Group, one of the largest financial institutions in Central and Eastern Europe. The bank's strategic objectives announced in the new strategy for 2018-2020 "Strength of the Polish Bison" include becoming the leader of profitability in the Polish banking sector through embarking on the path of intelligent growth in a business model based on high efficiency and quality of processes. Business development is based on a strong capital and liquidity position, while maintaining the highest risk management standards and further improvement of cost effectiveness.

In addition, the Bank will realize the available synergies following from the cooperation in the PZU Group, which it announced in 2017. The bank's innovation direction may also be an area for partnerships with technology leaders, other financial institutions and consumer companies.

Products and services

The bank offers competitive products and services, high-level customer service and developed network of branches and ATMs, providing convenient access throughout Poland, as well as a professional call center and a competitive Internet and mobile banking platform for individual and corporate clients, and small and micro businesses.

Client segmentation

The bank's business model is based on client segmentation into the following groups:

- Retail Banking – providing services to individual clients and micro businesses through a leading network of branches and partner outlets, supported by remote channels;
- Private Banking – providing services to affluent clients and offering investment advisory services in private banking centers and remote channels;
- Small and Medium Enterprises (SME) – newly established segment focused on providing services for one of the fastest growing sectors of economy. Clients are serviced by relationship managers supported by product specialists. The service is provided in universal retail branches and in specialized Business Client Centers. Clients are offered professional products and services tailor-made to their individual needs based on the product solutions tested in corporate banking and adapted to the needs of the SME segment;
- Corporate Banking – client segmentation comprises medium-sized and big corporations (segmentation based on revenues), public sector entities, financial institutions and the commercial property industry. Clients are serviced by relationship managers supported by product specialists, which supports optimization of the level of services and service costs. Relationship managers focus on providing high quality services and efficient customer service, using the best practices and integrated sales management tools.

Pekao TFI

Pekao Mutual Fund Company (Pekao TFI) is another member of the Pekao Group. Pekao TFI is the oldest mutual fund management company in Poland providing clients modern financial products, offering opportunities to invest in the largest capital markets on the globe. For many years it has been devising savings programs, including programs affording an opportunity to put aside more money for retirement under the third voluntary retirement pillar. Pekao TFI also offers a managed account service. At the end of 2017 the company had assets under management totaling PLN 18.4 billion, thereby giving it a market share of 6.6%.

New products and services

Since mid-2017, the Bank's customers have been able to use Pekao24, a new mobile service for mobile phone browsers, which apart from the design change, friendly navigation and intuitive operation, comprises functions known to clients from the Pekao24 application for tablets and from the Internet service: summary of expenditures by category, possibility of taking advantage of the "one click" credit offer and possibility of exchanging currencies at preferential rates. In 2017 the Bank launched further functions – now each service user may view the exchange rates and use a convenient calculator to quickly calculate the conversion. The service also makes it possible to split the debt on the Elastyczna credit card into installments.

The Bank systematically expands the scope of services that can be effected via remote access channels. In 2017 the Bank launched new forms of contact with the clients using chats, video or audio calls, available after logging into the Pekao24

Internet banking. In 2017, Bank Pekao in cooperation with PZU offered the possibility of purchasing insurance via the Pekao24 electronic banking website and the mobile service. The offer comprises the insurance products available in the My PZU portal: PZU Dom, PZU Wojażer, PZU Auto.

In 2017, the Bank signed two agreements with the European Investment Fund (EIF) under the EaSI program (Employment and Social Innovation Program) for loans covered by EIF guarantees for start-ups (companies operating in the market for less than 2 years). The agreements provide for EIF guaranteeing 80% of the principal and interest on the loans for such clients. In addition, the Bank actively participates in the de minimis guarantee program for micro and small businesses, managed by BGK.

Strategy

The key events in 2017 included, primarily:

- adoption of strategic directions for 2018-2020
  on 8 November 2017, Bank Pekao announced adoption of an intelligent growth strategy which will make the bank the leader of profitability and efficiency in Poland. Bank Pekao’s objective is to achieve profitability measured by the Return on Equity ratio of 14% – one of the highest Poland’s banking sector. The Bank intends to generate over PLN 3 billion in net profit in 2020 and reduce the Cost/Income (C/I) ratio to below 40%. The Bank’s current capital standing makes it possible to dynamically increase the scale of business, as assumed, while maintaining a safe level of solvency ratios and simultaneously paying out 100% of the net profit for 2017 and 2018.
- purchase of Pekao PTE
  On October 17, 2017, Pekao acquired a 35% stake in Pekao PTE for a total price of PLN 8 million. As a result of the transaction, Pekao holds a 100% stake in Pekao PTE.
- purchase of PIM and Xelion
  On December 11, 2017, Pekao acquired 14,746 shares of PIM, representing 51% of PIM’s shares and providing 51% of shares in the share capital and in the total number of votes at the General Meeting of PIM. As a consequence, Pekao holds 100% of the equity of PPIM and indirectly 100% of the equity of Pekao TFI. As a consequence, the PZU Pekao recognizes that it obtained control over these companies and included them in consolidation. In addition, on December 11, 2017, Pekao acquired 50% of Xelion shares providing 50% of the total number of votes at the Xelion shareholders’ meeting.

Operations of the Alior Bank Group

Alior Bank heads up the group. Alior is a universal deposit and credit bank, providing services to natural persons, legal persons and other domestic and foreign entities. The bank’s core business comprises maintaining bank accounts, granting cash loans, issuing bank securities and purchase and sale of foreign currencies. The bank also conducts brokerage activity, provides financial advisory and intermediation services, arranges corporate bond issues and provides other financial services.

Alior Bank is one of the most modern and innovative financial institutions in Poland. It is a place for people who have ideas and business courage to set new banking standards. The bank’s offering includes products and services both for individual and business clients, including small and medium enterprises and institutional clients. The bank’s offer combines the principles of traditional banking with innovative solutions. As a result, Alior Bank systematically strengthens its market position and for years has been consistently setting new directions of development of the Polish banking.

TFI PZU managed net assets worth nearly

PLN 20 billion,

signifying a

7.1%

market share

OFE PZU Złota Jesień held

13.0%

of the total net asset value of the open-end pension funds operating in Poland

Lietuvos Draudimas held

31.0%

of the Lithuanian non-life insurance market at the end of 2017

AAS Balta had a

27.2%

share of the Latvian non-life insurance market at the end of Q3 2017

The share held by the branch of Lietuvos Draudimas in the Estonian non-life insurance market was

15.6%

in 2017

During three quarters of 2017, PZU Ukraine attracted

3.3%

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

10.4%

In terms of accumulated assets Pekao was number

2

on the market, while Alior Bank was number

8

Clients have access to more than

2,000

centers in the PZU Group’s health insurance and medical care services segment

As at 31 December 2017, Alior Bank catered to 3.8 million retail clients. The increase in the number of clients in 2017 resulted from Alior Bank’s organic growth and merger with the spun-off portion of Bank BPH.

Products and servicesi

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

- Individual client (retail segment)
- Business client (business segment)
- Treasury activity

Due to the uniqueness of the activity conducted in the retail segment, the bank distinguishes three additional retail areas that have a dedicated offer for a separate groups of clients:

- mass clients (persons who have not been classified as affluent clients or Private Banking clients);
- affluent clients (persons with monthly receipts on personal accounts exceeding PLN 5 thousand or holding assets worth more than PLN 100 thousand);
- Private Banking clients (persons with assets worth more than PLN 1 million or investment assets over PLN 0.5 million).

Money Makers TFI

The Alior Bank Group also comprises Money Makers TFI S.A. (Money Makers). The company was established in 2010 and its operations originally focused on asset management services. Alior Bank’s cooperation with its subsidiary Money Makers pertains to three areas: asset management (portfolio management for retail clients/private banking), unit-linked funds, and Alior SFIO sub-fund management. From 5 January 2017, Money Makers TFI S.A. has been listed on the alternative market of the Warsaw Stock Exchange (NewConect).

In 2017 the key new products and services in the Alior Bank Group’s offering included:

- implementation of the video conference process thanks to which users, without having to leave home, may open an account remotely via a video call;
- implementation of the Konto Jakże Osobiste account – a unique account that flexibly adapts to fit the client’s needs;
- implementation of mobile payments in the HCE technology;
- implementation of the loan sales process in the new Internet banking system;
- implementation of the loan sales process in mobile banking;
- FG POIR (Smart Growth Operational Program Indemnity Fund) guarantee – as of September 2017 the offering has included a FG POIR guarantee addressed to clients executing innovative investment projects. Alior Bank is the first in Poland to grant loans secured by this guarantee;
- Broadband loan – Alior was the first to sign with BGK an agreement on financing access to fast Internet. Based on the loan, it offers clients from the telecommunication industry the so-called broadband loan, i.e. investment financing for development of optical fiber networks. The broadband loan offering will be soon extended to cover liquidity financing for telecommunication companies from the SME sector.

Significant new measures

The key events in 2017 included, primarily:

- On 13 March 2017 Alior Bank published its strategy for 2017-2020 entitled “Digital Disruptor”. By implementing this strategy, the Bank will be able to maintain the highest net interest margin on the market (4.5%), reduce its C/I ratio to 39% and provide Alior Bank’s shareholders with a return on equity from 8% in the first half of 2016 to 14% in 2020.Alior Bank’s objective is to maintain its innovation leadership position in Poland and to become one of the top 5 most innovative banks in Europe. During the next 4 years, in addition to the previously planned expenditures for ongoing IT development and maintenance work, the bank will invest the additional PLN 400 m in innovative technology projects. These expenditures will drive Alior Bank’s digital transformation, in which motivated employees will guide the individual and corporate customers to the digital world, in a safe and friendly manner, which will also be profitable for the shareholders.
- In addition, in 2017, Alior Bank finalized the take-over of the assets of the spun-off portion of Bank BPH. Between 24 and 26 March 2017 it completed the last stage of the merger of the two banks – operational merger, involving transfer of data of over 2,700 thousand clients from the acquired portion of Bank BPH to Alior Bank’s IT systems. The process was completed in less than 5 months of the legal merger and was thus the quickest merger in Poland ever. The total value of the integration costs incurred in 2017 was PLN 77 million.

Alior Bank also cooperates with PZU Group entities to realize cost and revenue synergies. This cooperation may pertain, among others, to innovations, digital channels, IT, real estate, marketing, development projects, procurement and financial products.

Factors, including threats and risks which will affect the banks’ operations in 2018

The situation of the banking sector in 2018 will primarily be affected by:

- operation in a stable environment of low interest rates, which puts pressure on the level of net interest margin;
- high requirements regarding equity and solutions with regard to the latest accounting standards (IFRS9), which are likely to have negative impact on the level of capital accumulated in banks and may lead to increased risk cost volatility;
- possible changes of the legal environment, including mainly the legislative solution of the issue of foreign currency residential loans and potentially an obligation to make additional contributions to BFG, may adversely affect the banking sector’s profitability;
- a lower growth rate of the Polish economy and changes in the legal framework for the operation of enterprises may have an adverse impact on the financial standing of selected clients. Alior Bank’s credit portfolio includes exposure to over a dozen projects executed by companies operating on the renewable energy markets;
- cost of adjustments to numerous regulatory requirements (among others MIFID II, GDPR or PSD II) DICTIONARY.
- changes in the external environment and international events affecting the domestic economy.

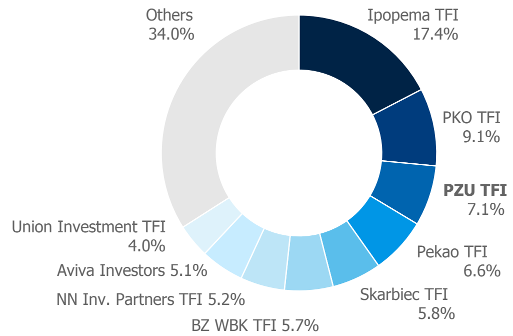
3.5 Mutual funds (TFI PZU)

Market situation

As at the end of December 2017, the overall domestic mutual fund market’s assets were PLN 279 billion compared to PLN 259 billion at the end of the year before, representing an increase by more than 7,7%.

In 2017, according to the estimates of the Analizy Online service, the balance of payments to and withdrawals from retail funds offered by investment funds in the domestic market exceeded PLN 14 billion. The most popular products among clients were cash and money market funds (with inflows of nearly PLN 8 billion and over PLN 9 billion increase in assets), debt funds (with inflows of nearly PLN 4 billion and an asset increase by over PLN 4 billion during the year)

Mutual fund companies - share in assets as at 31 December 2017 (%)



Source: Chamber of Fund and Asset Management

and mixed funds (to which clients paid over PLN 3 billion and whose assets increased by as much as nearly PLN 5 billion).

As a result of good market climate, an increase in assets of over PLN 4 billion was recorded by equity funds, despite clients withdrawals of nearly PLN 1 billion. This was a difficult year for non-public funds – their assets shrank by over PLN 3 billion.

Within the PZU Group, there are 3 Mutual Fund Companies operating in the market: Pekao TFI, Money Makers from the Alior Bank Group. CHAPTER 3.4 BANKING and TFI PZU.

TFI PZU’s operations

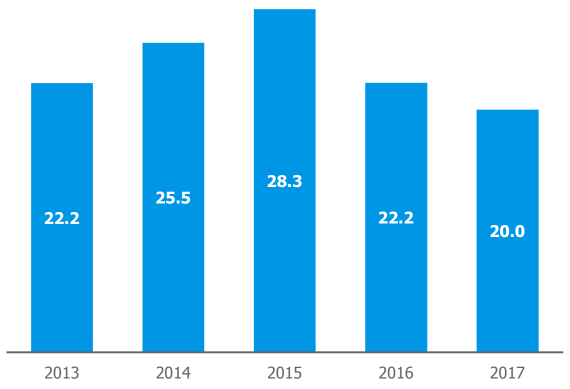
Towarzystwo Funduszy Inwestycyjnych PZU (TFI PZU) operates on the mutual fund market in the PZU Group. It offers products and services for both retail and institutional clients – including additional investment and savings programs forming part of the third pillar of the social security system: Individual Retirement Accounts (IRAs), Specialized Investment Plans, Employee Pension Plans (EPPs), Company Investment Plans (CIPs), and Group Pension Plans (GPPs) which additionally offer Individual Retirement Security Accounts (IRSAs).

At the end of 2017, TFI PZU had 30 funds and sub-funds in its portfolio, of which 23 were also offered to clients from outside the Group.

At the end of December 2017, TFI PZU managed net assets worth nearly PLN 20 billion, representing close to a 7.1%

market share. Accordingly, TFI PZU is among the largest mutual fund companies in Poland – as at 31 December 2017 it was ranked third in Poland according to reports published by IZFiA (Chamber of Fund and Asset Managers). TFI PZU is also a market leader in the employee pension plan segment among the institutions operating on this market with net assets of more than PLN 4 billion.

TFI PZU's net assets (PLN billion)



Source: IZFiA

The decline in the total value of TFI PZU's net assets as at the end of 2017 was mainly caused by withdrawals made by the PZU Group in various funds: PZU FIZ Forte, PZU FIZ Medyczny, PZU Dłużny Rynków Wschodzących and PZU Energia Medycyna Ekologia, as well as withdrawals made by external clients.

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

- active sales of funds and subfunds – with a particular focus on increase of the assets in the PZU FIZ Akord fund based on the Global Macro strategy,
- further increase in the distribution and efficiency of cooperation with distributors,
- introduction of new Employee Pension Plans and Group Pension Plans,
- acquisition of assets of foreign banks.

Factors, including threats and risks, which will affect the mutual funds' operations in 2018

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

- developments in the geopolitical situation – potential military conflicts (Syria, South Korea);
- increasing global protectionism – NAFTA, customs in USA-China trade exchange;
- political situation – including elections in Italy, Brazil, Mexico;
- macroeconomic situation, mainly pace of economic growth and inflation path (wages inflation, if any) in developed countries;
- central bank actions (FED, ECB, Bank of Japan) and pace of monetary policy tightening;
- the economic climate on financial markets.

3.6 International operations

Lithuanian market

According to the Bank of Lithuania, in 2017, the gross written premium of non-life insurance companies was EUR 561 million and increased by 21.2% compared with the previous year.

The market growth rate was largely generated by motor insurance (62.1% of the market) whose sale increased by 29.8%. TPL insurance increased by 38.3% whereas MOD insurance grew by 18.1%. Higher gross written premium in motor insurance is attributable predominantly to increased average premiums in the market.

As at the end of 2017, there were 13 companies operating in the non-life insurance sector (including 9 branches of insurance companies established in other EU member states).

Lietuvos Draudimas continues to be the largest insurance company in Lithuania in terms of total gross written premiums for non-life insurance. The company's share in the market at the end of 2017 was 31.0%. Considering the recent acquisition transactions, the total shares of top four players in the non-life insurance market was 80.5%.

Gross premiums accumulated by Lithuanian life insurance companies was EUR 231 million in 2017, decrease of 6.2% compared to the previous year. The slowdown of the market growth rate was significantly affected by legislative changes limiting the tax relief to EUR 2 thousand as of the beginning of 2017.

In the life insurance structure, unit-linked insurance represented the largest share at 59.2% of the portfolio value. Traditional life insurance accounted for 19.3% of the premium written.

At the end of 2007, there were 8 companies operating in the life insurance sector. The Lithuanian life insurance market is highly concentrated. At the end of the year, the share of the largest three life insurance players in the total gross written premium was 60.4%.

Latvian market

The Latvian non-life insurance market recorded a gross written premium of EUR 237 million as at the end of Q3 2017. This is nearly EUR 31 million, i.e. 14.8%, more than in the same period of the year before.

The biggest share in the non-life insurance market share, measured in terms of gross written premium, was captured by motor insurance, whose market position was additionally strengthened by a price increase in the market. MOD insurance accounted for 24.2% of the market and TPL for 23.7%. Also health insurance (19.3% market share) and property insurance (18.3% market share) had an important position in the product structure.

In 2017, there were 11 insurance companies operating in the domestic non-life insurance market and 64.9% of the market was in the hands of the biggest 4 insurers.

Estonian market

In 2017, non-life insurance companies operating in Estonia recorded an increase in gross written premium by 11.1%, compared to 8.4% in 2016. Total gross written premium was EUR 336 million, EUR 89.4 million, i.e. 26.6%, of which was accumulated by foreign insurance companies conducting operations in Estonia.

The structure of non-life insurance in 2017 was dominated by motor insurance, which accounted for 61.2%, including MOD insurance accounting for 32.7%. Property insurance gathered 25.5% of the gross premium written in the market.

As at the end of 2017, there were 12 companies operating in the country's non-life insurance sector (including 4 branches of foreign insurance companies) among which the biggest 4 companies held 70.1% of the market.

Activity of PZU companies in the Baltic states

As of November 2014, the PZU Group has been operating in the Lithuanian non-life insurance market through Lietuvos Draudimas, which, as of May 2015, is the owner of the PZU Estonia branch.

Lietuvos Draudimas is the leader of non-life insurance market in Lithuania holding a market share of 31.0%. In 2017 it recorded a 27.0% increase in gross written premium compared to the year before, reaching EUR 174 million. The biggest increase was recorded in motor insurance (37.1% y/y) in connection with an increase in the insurance rates in the region.

Life insurance operations in Lithuania are conducted through UAB PZU Lietuva Gyvybės Draudimas – "PZU Lithuania Life". Collected written premium was EUR 14 million, representing an increase by 15.9% compared to the previous year. The highest sales growth was recorded in endowment insurance, which increased by 15.9% compared with 2016. The share of PZU Lithuania Life in the life insurance market was 5.9% (compared with 4.8% in 2016).

In Latvia the PZU Group conducts operations through AAS Balta, which became part of the Group in June 2014, and then (in May 2015) the branch took over the PZU Lithuania branch operating in the Latvian market since 2012. At the end of Q3 2017, the total share of the non-life insurance market reached 27.2% and gross written premium was EUR 65 million (EUR 89 million at the end of 2017).

Since May 2015 the entity conducting operations in Estonia is a branch of Lietuvos Draudimas and was established as a result of merger of two entities – branch of the Lithuanian PZU company registered in 2012 and the Estonian branch acquired in 2014, which conducted operations under the Codan brand. The share in the Estonian non-life insurance market in 2017 was 15.6% (14.5% in 2016). Accumulated gross written premium was EUR 52 million.

Ukrainian market

The Ukrainian insurance market after the first three quarters of 2017 recorded an increase in gross written premium by 26.4%, reaching hryvnia 31 billion. The premium accumulated in non-life insurance was hryvnia 29 billion, signifying 28.5% growth compared to Q3 2016. This increase is attributable mainly to higher tariffs for mandatory insurance, increase in sums insured resulting from depreciation of the local currency and increase in inflation. Motor insurance (34.4% of the market share) recorded an increase in the premium written by 13.6%, including Green Card insurance by 4.0%. In the corresponding period, life insurance companies collected gross written premium of hryvnia 2 billion, signifying 1.7% growth compared to Q3 2016.

The Ukrainian insurance market is highly fragmented – as at the end of September 2017, there were 296 insurance companies operating in the country (34 of which offered life insurance). Despite the still huge number of insurance companies, the top 100 non-life insurance undertakings acquired 97.7% of gross written premium, while the top 20 life insurance undertakings acquired 99.8% of written premium.

On the Ukrainian market, the PZU Group operates insurance business via two companies: PrJSC IC PZU Ukraine (a non-life insurance company), referred to as "PZU Ukraine", and PrJSC IC PZU Ukraine Life (a life insurance company), referred to as "PZU Ukraine Life". In addition, LLC SOS Services Ukraine performs assistance functions.

In 2017, the gross written premium collected by PZU Ukraine was hryvnia 1 288 million, it was 14.9% higher than in the previous year. This increase arose from both the increase in the premium obtained through external entities (banks and travel agencies), as well as through its own distribution channels. Motor insurance played a special role in increasing the written premium – its sales growth rate was 21.8%. In 2016, gross written premium collected by PZU Ukraine Life was hryvnia 300 million, up 25.2% from 2016. This growth was mainly achieved in the bancassurance and broker channel, in particular as a result of sales of endowment policies.

During three quarters of 2017, PZU Ukraine obtained 3.3% (down by 0.4 percentage points compared to the first three quarters of 2016) of the gross written premium on the Ukrainian non-life insurance sector, which gave it fifth[1] place on the market. On the life insurance market, in turn, after three quarters of 2017, PZU Ukraine Life ranked fourth [2] with a market share of 10.4% (up 1.9 percentage points from the previous period).

[1] Insurance TOP, Ukrainian insurance quarterly, #4(60)2017
[2] Insurance TOP, Ukrainian insurance quarterly, #4(60)2017

3.7 Medical services (Health Area)

Market situation

The health market is a business area that is dynamically developing and prospective. The current trends are as follows:

- continuation of the double digit pace of growth in the private health insurance market,
- development of telemedicine and service opportunities through remote channels,
- greater need to provide care to senior citizens,
- increasing awareness of prevention and periodic examinations.

In accordance with PMR[3] data: at the end of 2016, private health care offered under fee-for-service products was worth PLN 15.43 billion, the value of medical subscriptions was PLN 3.62 billion, and the value of private health insurance reached PLN 0.55 billion.

Operations in the Health Area

The Health Area deals with the following:

- sales of health products in the form of insurance (life and health insurance and non-life health insurance) and non-insurance products (occupational medicine, medical subscriptions, partnerships and prevention programs);
- development of the medical infrastructure for the public in Poland to ensure the best availability of provided services and execution of revenue targets.

[3] PMR Report „The health private market in Poland in 2017", August 2017

In the Health Area the company offers a broad range of health products adapted to the segment and clients' needs:

Corporate client segment (health, life)

Sales of group life and health insurance constitutes the basis for the business operations of the PZU Group Health Area. The offer is addressed both to corporate clients and to the SME and micro business segment. Employers may purchase insurance in the sponsored or co-financed model, or negotiate a group offer for their employees.

To meet the highest expectations of individual clients of VIP segment, the non standard offer based on PZU Group synergy was implemented. There were connected in one offer outapatient medical care, hospital, medications, travel and accident insurance and loyalty programme.

Product	Coverage
PZU u Lekarza [PZU At the Doctor's]	access to medical services comprising among others: consultations of as many as 35 specialties, up to 400 types of diagnostic tests and outpatient procedures, rehabilitation, dentistry, pregnancy care, with the possibility to expand the offer to include non-standard services to fit the client's needs (e.g. medical transport, spa treatment, assistance of a nurse at home)
PZU w Aptece [PZU at the Pharmacy]	co-funding for covered medications on prescription purchased in any pharmacy in Poland (including in over 7,000 partner pharmacies providing cash-free Pharmaceutical Card service)
PZU w Szpitalu [PZU in the Hospital]	180 hospital procedures in 7 specializations (surgery, urology, ophthalmology, laryngology, gynecology, cardiology, orthopedics)
PZU W Trosce o Zdrowie [PZU Care for Your Health]	rider to group life insurance; access to rehabilitation services in case of serious disease
PZU Powrót do Sprawności [PZU Return to Ability]	rider to group life insurance; access to rehabilitation services in case of road accident or accident during job

Mass insurance segment (health, non-life insurance)

Mass clients buying non-life policies are offered additional health insurance of assistance nature, ensuring access to specific medical services if an event under the basic policy occurs.

Rider	Coverage
PZU Auto Asystent Zdrowotny [PZU Car Health Assistant]	access to outpatient medical care for the driver and passengers in the event of a road accident
PZU Dom Asystent Zdrowotny [PZU Home Health Assistant]	arranging for and covering the costs of treatment after an accident or sudden illness
Continuation of Treatment after Travel Insurance	access to comprehensive medical care in the event of an accident or sudden illness during travel abroad (among others outpatient care, rehabilitation, surgical procedures, medical transport, support of a medical assistant)
LINK4Mama – Assistance Zdrowie [LINK4Mother – Health Assistance]	access to medical care for women and children in the event of a sudden illness or an accident

Individual client segment (health, life)
Retail clients are provided with health care in the form of individual continuation or rider to life insurance. The following is offered as a rider to life insurance continued individually:

Rider	Coverage
PZU Antybiotyk IK [PZU Antibiotic IK], PZU Cztery Pory Roku IK [PZU Four Seasons IK]	co-funding for covered medications on prescription purchased in any pharmacy in Poland (including in over 7,000 partner pharmacies providing cash-free Pharmaceutical Card service)
PZU Uraz Ortopedyczny [PZU Orthopedic Injury]	arranging for and covering the costs of medical services in the event of accidental orthopedic injury

Under individual protection insurance the following rider is offered:

Rider	Coverage
PZU z Miłości do Zdrowia [PZU out of Love for Health]	medical care, rehabilitation, psychological counseling and assistance in the event of critical illness (infarction, stroke, malignant neoplasm and non-malignant brain tumor).

Non-insurance products
PZU Zdrowie as a medical operator offers health services both to individual clients using proprietary clinics and to corporate clients seeking an alternative to group insurance.

Product	Coverage
Medical Subscription	outpatient care available in the form of a group offer, with the possibility of using medical services in a partner and proprietary network in over 500 Polish cities and as part of individual services and packages in specific proprietary PZU Zdrowie clinics
Occupational Medicine	preliminary, periodic, check-up and final examinations, review of workstations, participation of an occupational medicine physician in company occupational safety and health commissions, supplemented by training on first aid and prevention programs aimed at prevention and diagnostic of occupational diseases
Fit Plus Card	combination of the PZU Zdrowie medical subscription and a sports pass for the Calypso Fitness chain, with an extra PZU Pomoc concierge service
Medical Help	the offer for clients ensuring access to medical services in PZU Zdrowie: doctors appointments, outpatients research and rehabilitation, in case of accident or health breakdown

Achievements in the Health Area

- the medical offer in cooperating clinics has been extended to include ad hoc outpatient care, medical transport, home visits, and mono-specialist clinics have been acquired to offer resonance, tomography and rehabilitation services;
- the service provider network has been extended to include further 260 medical center, which means that PZU already has over 2,000 centers;
- a new hotline operation model has been developed for servicing clients with health products, including life insurance and non-life insurance with a health rider. The hotline structures have been located in PZU Zdrowie as the Medical Service Management Center (CZUM), which allows for integrated management of client experience and improvement of the service quality;
- a tool has been developed for making on-line appointments through a direct connection with the timetables of cooperating medical centers. In 2017, connection with 57 medical centers located throughout Poland was established. During a single telephone call the client obtains complete information about the appointment made: time, place, clinic.

3.8 Pension funds (PTE PZU)

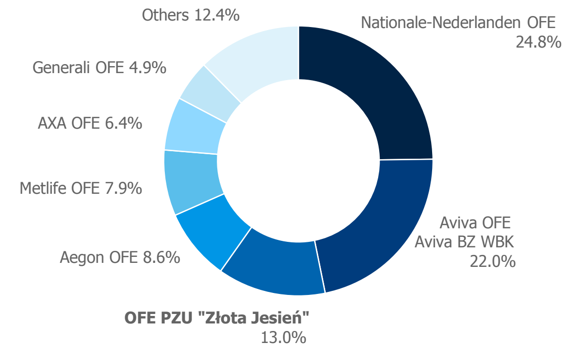
Market situation
At the end of 2017, the net asset value of open-end pension funds was nearly PLN 180 billion, up 17.0% with respect to the end of the previous year.

PTE PZU activity
The PZU Złota Jesień Open-End Pension Fund managed by PTE PZU (PTE PZU) is one of the largest players on the pension fund market in Poland. At the end of 2017, 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:

- the fund had 2,134 thousand members, or 13.3% of all participants in open-end pension funds;
- net assets accounted for over PLN 23 billion, representing 13.0% of the total asset value of open-end pension funds operating in Poland.

During 2017, the Social Insurance Institution transferred to OFE PZU PLN 315 million in premiums, which was 5% more than in the previous year.

Open-end Pension Funds - percentage of net asset value as at 31 December 2017 (%)



Source: PFSA, monthly data on the OFE market, Data for December 2017

At the end of 2017, PZU’s Voluntary Pension Fund kept 59 thousand individual pension security accounts (IKZEs) in which nearly PLN 46 million worth of assets was accumulated. As a result, the fund maintained a leading position in the voluntary pension funds segment. The rate of return generated in 2017 was 14.7%.

Factors, including threats and risks, which will affect the pension funds’ operations in 2018
The main challenges facing the pension fund market in 2018 are the following:

- the economic climate on the capital market and, in particular on the Warsaw Stock Exchange, affecting the value of assets of the funds and the level of fees collected by pension fund companies for management;
- pension system reform and results of the statutory review of the pension system and associated legal risk, in particular the assumed transfer of 75% of the funds from OFE to newly created IRA/IRSA and 25% of the funds from OFE to the Demographic Reserve Fund;
- preparation of pension fund companies for organizational and legal changes arising from transformation of open-end pension funds into mutual funds, and the companies into mutual fund companies;
- opportunities arising from the achievement of the objectives specified in the Capital Formation Plan and the Responsible Development Strategy the pursuit of which will depend on the development of detailed solutions and the entry into force of necessary legislative changes;

- active participation in work on the adoption of solutions enhancing the performance of the third pillar and making it more attractive, and influencing the need in public awareness for accumulating additional savings for future retirement.

3.9 Other operating areas

PZU Pomoc
PZU Pomoc provides auxiliary services to PZU Group companies, including:
- management of the PZU repair network – at the end of 2017 the company cooperated with 890 repair shops,
- organizing motor assistance services for Link4;
- conducting salvage auctions after a total loss;
- supporting technical claims handling in motor claims;
- handling assistance products for PZU and PZU Życie (among others, legal consulting, organization of assistance services etc.);
- managing the loyalty program, PZU Help in Life Club – at the end of 2017 approx. 1.7 million club members could take advantage of insurance discounts and products of cooperating companies (rebate programs from partners).

PZU CO
PZU CO is an auxiliary company for PZU Group companies, established to provide the following services: printing, IT, Data Center, Contact Center, auxiliary services related to insurance and pension funds, constant intermediation in conclusion of insurance agreements, financial and investment agreements, assistance agreements and HR and payroll-related services.

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

On 16 October 2015 PZU Finance AB issued 5-year Eurobonds for EUR 350 million.These bonds have been assimilated and now form a single series with the "tap" bonds with the nominal value of EUR 500 m issued by PZU Finance AB (publ) on 3 July 2014. DEBT FINANCING CHAPTER 8.3.

PZU LAB
PZU LAB is a company dealing with advisory services and assistance in implementation of all kinds of solutions improving the security of the strategic corporate clients of PZU and PZUW.

The company cooperates with numerous academic centers and experienced experts (local and foreign). The company constantly seeks new and effective technological solutions allowing to mitigate the risks which particularly impact the insurance activity.

The PZU LAB team has developed methods for cooperation with the existing and prospective clients. First, the engineers identify critical installation sites, simulate critical events such as fire, flooding or explosion, and determine their consequences. Then the possible scenarios and the methods of minimizing them are discussed. This approach signifies an evolution in client relations. PZU ceases to be only a seller of insurance and becomes a risk management advisor.

Tower Inwestycje
The owners of Tower Inwestycje Sp. z o.o. (formerly PZU Tower) are PZU Życie - 73% shares and PZU - 27% shares.

Currently, the company conducts works associated with the office and commercial investment project located in a prestigious location in Wrocław, at ul. Oławska 35 (Plac Dominikański), in the place occupied for the past several decades by an office building owned by PZU. The investment project is designed partly for PZU Group's needs and partly for lease.

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

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

PZU Corporate Member Lmited
On 28 September 2017, PZU acquired shares in PZU Corporate Member Limited, entitling it to 100% of votes at the shareholder meeting.

The PZU Group expanded its international activity through PZU Corporate Member Limited. The company is a member of Lloyd's.

Lloyd's is an association of over 80 syndicates managed by over 50 agencies.

PZU Corporate Member is serviced by the Argenta Holdings Limited. This agency deals with ongoing activities of the syndicates, invests their funds and employs underwriters.

Grupa Armatura
The PZU Group has held an equity stake in Armatura Kraków S.A. (Armatura Kraków) since October 1999. At present, PZU FIZ AN BIS 2 is the sole owner of Armatura Kraków.

Armatura Kraków SA (Armatura Kraków) is the parent company of the Armatura Group. The Armatura group includes Armatura Kraków SA, Aquaform SA, Aquaform Bauprodukte, Aquaform Ukraine, Aquaform Romania, Morehome.pl. The business of the Armatura Group lies outside the domain of financial and insurance services. The group is a leading manufacturer in the sanitary and heating industry in Poland. The companies making up the Armatura Group specialize in the manufacture of bathroom and kitchen taps, aluminum central heating radiators, a wide range of valves and sanitaryware.

Arkadiusz Łukasik
Accounting Department

Sometimes, I have the impression that I was born in a bicycle saddle. A bicycle is a part of me. I rest and relax when I'm on a bike. And it's of no consequence whether I'm on an ordinary trip around the neighborhood or participating in a race during which the physical expenditure is sometimes enormous.

4.

PZU 2020 - More Than Insurance

Our client relationships, and our knowledge of our clients, are becoming our main value defined in strategy – "New PZU", while our chief product is our acumen in addressing client needs to build a stable future.

In this chapter:

4.1 Recap of Group Strategy "The New PZU – More Than Insurance"

On 13 April 2017 the PZU Supervisory Board entrusted Paweł Surówka, the CEO of PZU Życie up to that time with serving in the capacity of the President of the Management Board of PZU SA (CHAPTER 9 Corporate Governance). Under new leadership the PZU Management Board reviewed and updated its strategy.

The main vector of change became the new approach to building client relations, leading to the integration of all the company's areas around clients. The transformation in the direction of an advisory and service company will make it possible to care for the clients' future and satisfy their needs comprehensively when it comes to life, health and property insurance and savings and finance. This will also contribute to achieving ambitious financial targets and building its position as the most innovative institution in the financial industry. This approach has defined its operating philosophy under its new strategy. As a result, greater potential than posited to date has been identified in the utilization of new technology to analyze and use data. A high capacity for integrated client service and new opportunities and threats related to regulatory and demographic changes were also identified.

The acquisition of a significant equity stake in Bank Pekao has opened up new opportunities for collaboration. This transaction announced in December 2016 was finalized on 7 June 2017. PZU and the Polish Development Fund (PFR) acquired a 32.8% equity stake in Pekao from the Italian UniCredit for PLN 10.6 billion. It was one of the largest transactions in the European banking sector in recent years. This strategic investment has enabled PZU to become the largest financial group in Poland and Central and Eastern Europe, with two banks playing an important role on the domestic financial market in its structure. Consequently, PZU has new growth opportunities, especially in terms of integrating and focusing its services on clients at every stage of their personal and professional development.

"This transaction is a milestone for PZU. This deal has changed us, it has opened up new horizons, it has made us the largest financial company in Central and Eastern Europe."– Paweł Surówka, CEO of PZU, 9 January 2018

PZU faced the challenge of adapting to new conditions in a fashion that will not only enable it to achieve its ambitious objectives within the next several years but build a rock-solid foundation to construct an entrenched technological advantage over the long-run.

"We do not want to defend the market positions we have taken as has been the case till now; rather, we want to develop in new areas. We have to define anew our mission and our client relations." – Paweł Surówka, CEO of PZU, 1 December 2017

New technologies are changing the insurance industry

The new approach will drive the gradual change in the insurer's model (chiefly involved in the valuation and transfer of risk) toward the model of an advisory and service company (operating on the basis of technological know-how). This will enable clients to optimize their decisions at all stages of their lives. This will ultimately translate into growing trust and loyalty placed in the brand of first choice which PZU will become when it comes to insurance, finance and health services.

"PZU will be a company predicated on working on data. An advisory and consulting company that specializes in risk management pertaining to its clients. (...) A partner for their entire lifetime that will advise clients on all their most important decisions." – Paweł Surówka, CEO of PZU in Forbes, February 2018

The PZU Group Strategy for 2017-2020 published on 9 January 2018 and entitled "The New PZU – More Than Insurance" is also our response to the ongoing social and technological changes that are diametrically affecting the insurance industry. PZU's goal is to take advantage of the opportunities ensuing from the transformation of the insurance market, address our current clients' needs better and enhance their satisfaction as well as reach those segments that value digital solutions.

"I dream of a PZU that functions in a teenager's mobile handset. (...) If PZU becomes a "great" company for young people, that will mean that we have won the future." – Paweł Surówka, Prezes PZU dla Forbes, February 2018

The new approach relies on the technological transformation that will affect almost all the Group's functional areas. At the same time, it will form the basis for integrating all the services offered by Group companies.

"We want to become the most innovative financial company across Europe. We are betting on cooperation with entities that are engaged in innovation. We attempt to support startups and funds investing in new technologies. Our new strategy will show how we intend to tap into new technologies to pursue our "legacy insurance business." – Paweł Surówka, CEO of PZU, 8 December 2017

Unleashing the PZU Group's full potential aims to use the capital entrusted by shareholders as best as possible, in a manner that will ensure value growth and sustaining an attractive dividend stream. That is why the PZU Management Board has undertaken to uphold the dividend policy adopted in 2016 calling for a dividend payout ratio of no less than 50% of net profit (CHAPTER 8.7 CAPITAL AND DIVIDEND POLICY). The ambitious growth targets that have been defined, focus on ramping up cost effectiveness and harnessing the potential of all operating areas will lead to rapid growth in net profit demonstrated by its ROE surpassing 22% (up to 2020).

"We would like for investors to esteem PZU for its discipline and how predictable it is in sharing its profits, and also for them to perceive the element of growth that flows from all the initiatives listed above. PZU will continue to be one of the most stable and profitable financial groups in the world." – Paweł Surówka, CEO of PZU in Forbes, February 2018

When it comes to international expansion PZU is betting on organic growth. The Group's ambition is to generate by 2020 8% of its total gross written premium on international markets and to be the leader on every market where it operates. Its approach to acquisitions will be opportunistic. PZU will monitor the market with an eye to attractive acquisition targets. Insurance companies will its main targets under the condition of satisfying the following criteria: the company should be in the TOP3 on a given market, it should operate in Central and Eastern Europe and it should generate satisfactory targets concerning the level of profitability. PZU also allows for the acquisition of entities from outside the insurance sector (e.g. asset management companies, banks, health care entities and intermediaries in financial services).

4.2 New operating model

PZU has approximately PLN 300 billion of assets under management and it renders services to 22 million clients in five countries. The Group companies are active not only in life and non-life insurance but also in investment, pension, health care and banking products. Moreover, it renders assistance services to retail clients and businesses through strategic partnerships. The magnitude and variety of operations paint the larger picture of what PZU is. It is a powerful financial institution, but above all it is a group of service companies whose operating foundation is the trust of its clients.

"By defining the PZU Group's mission anew, we have drawn conclusions from our own experience on one hand while pointing to the direction in which the entire industry will move on the other hand. We would like to do something different from the classical client relation model insurers follow in which the only contact clients have with their insurer after buying a policy is when a claim occurs. We want to do considerably more and effectively help clients solve their problems in many areas and during every stage of life. PZU's new approach to building client relations are in the heart of this change.

(...) PZU's clients make many important decisions that greatly influence their future security on top of their attempts to afford themselves, their loved ones, their firms and their employees insurance cover in their daily lives. The PZU Group wants to be part of all that – we want to help our clients make wise choices to protect their lives, health, assets, savings and finances. We want to give them tools to help them protect what is the most valuable to them. The New PZU is much more than insurance." – Paweł Surówka, CEO of PZU, 9 January 2018

The PZU Group's new mission has been defined in this spirit.

(We help clients care for their future)

PZU's philosophy of thinking about clients constitutes a departure from the classic model of an insurer's client relations rooted solely in sales and after-sales service. PZU's goal is to establish and maintain relations by delivering products well-matched to clients at the appropriate time and place so as to ensure at the same time that the product's attributes (including its price) are aligned to client needs.

Ultimately, PZU intends to unite all the company's areas under a client focus so as to be able to address client needs comprehensively. Achieving a high degree of quality and number of client interactions has required the creation of a new model in which the core is client knowledge and the skill of building long-term relations. Special emphasis will be placed on analyzing the information the PZU Group has to grasp and use it better. To this end, areas in which tools rooted in artificial intelligence, big data and mobile solutions will be used have been defined.

"Defining PZU as a company that helps clients on an everyday basis calls for considerable investments in the overall Group's growth. Our client relationships and our knowledge of our clients are becoming our main value, while our chief product is our acumen in addressing client needs to build a stable future. That is why we devote so much space in this strategy to initiatives that will enrich our client knowledge and assist us in reaching clients even more quickly."– Paweł Surówka, CEO of PZU, 9 January 2018

The philosophy of how sales networks operate will also change. The PZU Group calls for abandoning "product centricity" in favor of an ecosystem whose overriding objective is to manage client relations skillfully by offering solutions in all venues available to clients. Accurately anticipating the future, understanding client needs and building every better methods of becoming part of their daily lives are the logical grounds underpinning other initiatives in PZU's new strategy. Among others, these initiatives include radically simplifying our product offering and poising our sales network to offer all our products and services, investing in database integration to procure a full picture of our clients, cross selling, offering a loyalty program and reducing the age of our client base. Tightening cooperation with the Alior and Pekao SA banks is also an important issue whereby we will be able to devise comprehensive financial solutions responding to the needs of retail clients and small and medium-sized companies. (more: CHAPTER 4.4. STRATEGY OPERATIONALIZATION)

We are changing PZU – we are becoming a lifetime partner

PZU YESTERDAY

PZU SA | PZU ŻYCIE
PZU ZDROWIE | PZU POMOC
TFI PZU | BANKS

THE NEW PZU

We will be a long-term partner for our clients.

Birth
- Payment of a childbirth benefit
- Education: „Diagnostics of the stage of a child's development"

Starting education
- Education: "How to save"?
- ADD insurance for school
- Travel insurance (school trips)
- Bank account (access via a mobile application)
- Payment cards

Starting a job
- Group life insurance
- Health products
- Employee Capital Scheme
- Car insurance
- Loyalty program

Starting a family
- Loan to buy a home
- Home insurance
- Assistance
- Term deposit
- Mutual funds
- Dowry insurance for children
- Health product for the entire family

Retirement
- Individual endowment insurance
- Riders dedicated to senior citizens
- Remote monitoring of the state of health

Insurance | Health | Investments | Retirement

We help companies grow by offering them a wide array of products supporting their growth.

Startup
- Company account
- Loans and borrowings to startups
- Investments made by the Witelo fund

Small company
- Package of services supporting operations (e.g. accounting services, security audits, OSH training)
- Leasing
- Private TPL insurance and legal protection
- Motor insurance
- Trade credit
- Commercial credit insurance

Medium-sized company
- Group life insurance
- Health products
- Car fleet insurance
- Company property insurance
- Financial guarantees
- Lines of credit
- Direct equity investments (private equity, mezzanine)

Large company
- Handling the IPO process
- Debt financing
- Conducting mergers and acquisitions
- Mutual insurance
- Asset management services

International corporation
- Export loans
- FX risk hedge

Insurance | Health | Investments | Retirement

Sustainable development
PZU is planning its current and future actions based on responsible management in financial, employee, social, environment, human rights and anti-corruption areas (REPORT ON NON-FINANCIAL INFORMATION OF THE PZU GROUP AND PZU SA FOR 2017) Representation concerning non-financial information). That is why operating processes in every stage of preparing, distributing and handling products are conducted while taking into account the principles of sustainable development and the best practices adopted by the Group.

Its responsible approach to business is one of the key pillars for building long-term and partnership contacts that will be conducive to building mutual understanding and trust.

Values by which we are guided in our actions

4.3. Main business objectives

"The New PZU – More Than Insurance" strategy stands on three fundamental principles: knowledge, accessibility and simplicity. They represent a material qualitative change related to our client approach. This change, however, also has a very specific economic and financial dimension.

The New PZU entails 4 key business areas whose development has been defined on the basis of the most forward-looking economic, technological, regulatory and demographic trends. PZU's long-term ambitious is to gain a leadership position on every one of the markets enumerated below.

Insurance	Market growth correlated to GDP growth and the increasing affluence of the general public New insurance products, e.g. innovative solutions based on telematics and protection against cyberrisk New growth possibilities related to the better usage of data in actuarial and tariff-related processes and in cooperation with clients
Banks	Further anticipated consolidation of the Polish banking sector Forecasted growth rate of deposits nearly twice as high as the pace of GDP growth Rapid development of electronic and mobile banking
Investments	Impact exerted by Employee Capital Schemes on Poles' levels of savings Regulatory changes providing clients a higher level of security and greater transparency Expected consolidation of the Polish asset management market Rising percentage of investment products in the mix of Poles' savings as they accumulate wealth
Health	Continuation of the double digit pace of growth in the private health insurance market Development of telemedicine and customer service opportunities through remote channels Greater need to provide care to senior citizens

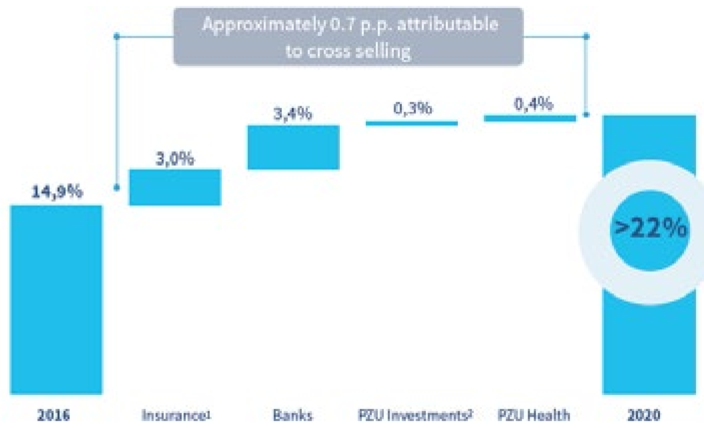
To attain its business objectives, PZU will substantially hone its skills in data management and mining to bolster client relations and enhance its ability to reach its clients through all available channels. This will considerably ramp up the number of products per client while making a material contribution to grow new sales.

Number of products per client in PZU and PZU Życie

PZU 2020 - More Than Insurance

Concurrently, PZU will augment its operating agility, the precision with which it sets its rates and its cost advantage, which, when taken together, will translate into a higher ROE (return on equity) up to above 22%, i.e. it will be nearly twice as high as the mean for insurance companies in Europe.

Contribution of the various lines of business to ROE growth



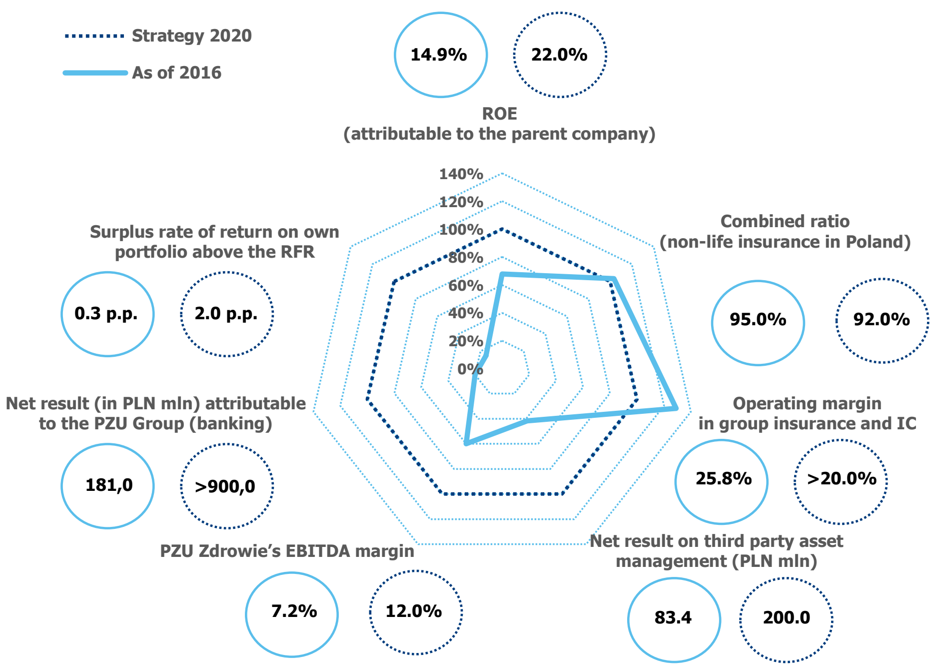
- Streamlining processes in insurance activities, including better price to risk matching, and also by improving the investment result (benefits from Project Alpha)
- Growth in the banking segment's contribution as the banks generate a higher net result and deliver synergy effects with PZU
- Higher volume of assets under management and merger of the investment fund management companies (TFI) within the PZU Group to facilitate achievement of synergies
- High growth rate in the number of health clients stemming from greater sales activity and reaching new market segments

We will develop all lines of business, while retaining our ability to generate an above average level of profitability

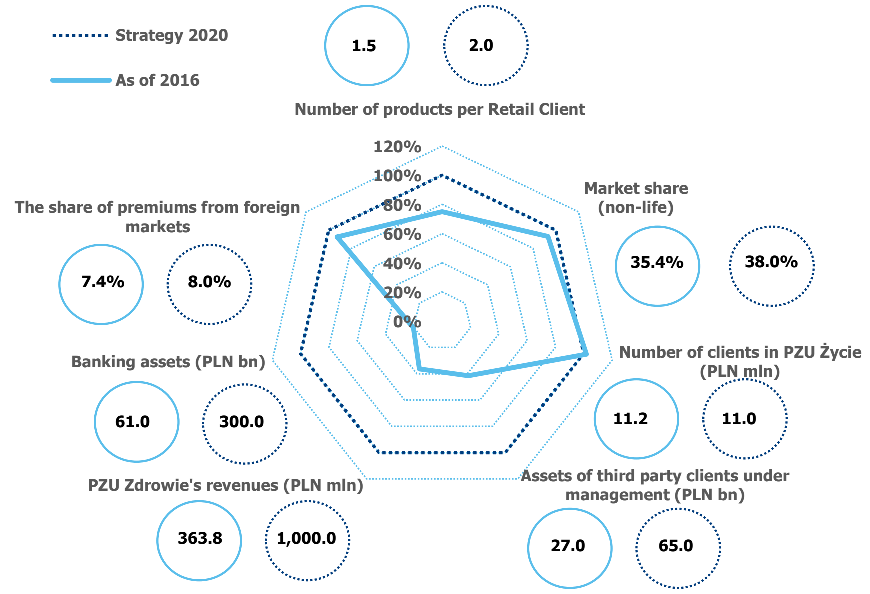
[1] Taking into account the investment activity in our own portfolio and net of the health insurance presented by PZU Zdrowie
[2] Pertains to third party asset management (giving consideration to all PZU Group entities)

"The new strategy contains very ambitious objectives. In relation to 2016 (the most recently completed year), we are driven by our ambition to increase the Group's ROE by more than 7 p.p. to more than 22% in 2020. We will generate one billion PLN in insurance premiums through our cooperation with banks. We will attract one million new clients for our banks. It is our wish to create a relationship that will be beneficial to both parties. We will materially grow our revenues in the health segment to one billion PLN in 2020. By consolidating the asset management market and growing our clients' savings, we will more than double the value of our portfolio, thereby reaching the watermark of 65 bn PLN in assets under management." – Tomasz Kulik, CFO of the PZU Group, 9 January 2018

The New PZU 2020 (profitability objectives)



The New PZU 2020 (growth objectives)



The New PZU means new ambitions

Data collection and management	Utilization of artificial intelligence in all processes related to setting retail tariffs
Client relations	50% of the multi-product salespersons in proprietary networks 10 core products in broad distribution 50% share of insurance sales on the direct market
Number of products per client	2 products per client
New sales	1 bn PLN of incremental premium from cooperating with the banks in the PZU Group 1 m clients acquired for the banks in the PZU Group 1 bn PLN in revenues of PZU Zdrowie 70% growth of new sales in group insurance to SME clients in PZU Życie
Operating efficiency	Time-to-market - 5 months on average to implement changes to IT systems 92% combined ratio in non-life insurance[1] 6.5% administrative expense ratio in insurance activity[2]
Group profitability	>22% return on equity (ROE)

[1] PZU jointly with TUW PZUW and LINK4
[2] This indicator pertains to PZU and PZU Życie

PZU's ambitions will be achieved through 12 key initiatives (CHAPTER 4.4 STRATEGY OPERATIONALIZATION). Better data utilization, process digitalization, additional client interactions with clients and more extensive cross-selling will act as a catalyst for these efforts.

4.4 Strategy operationalization

12 key initiatives form the foundation of the New PZU. The key operational performance indicators and the initiatives to support their execution have been described below.

		Strategic initiatives	Ambitions in 2020
Better utilization of data	1	Data base merger and creation of a single joint CRM system in the PZU Group / full client picture (360 degree view)	55% of the clients in PZU SA and 33% of the clients in PZU Życie SA will give marketing consent
	2	Better matched price to risk and pricing optimisation (Taryfikacja 3.0)	92% combined ratio
	3	Implementation of solutions employing artificial intelligence	6 innovative solutions which at least 100 thousand clients of the PZU Group will use
Cross selling growth	4	Development of cooperation with banks	1 m clients acquired for the banks in the PZU Group 1 bn PLN of incremental premium obtained from the bank channel Cut costs by 100 m PLN
	5	Simplifying the product offering, and simple language	10 core products in broad distribution
	6	Conversion of the sales network into multi-product sales network	50% of salespersons sell multiple products in proprietary networks
	7	Development of sales in PZU Health	1 bn in revenues of PZU Health 12% EBITDA margin
	8	Development of sales and consolidation in PZU Investments	65 bn PLN of third party assets under management 200 m PLN of net profit on third party asset management 15% share of assets on the Employee Capital Schemes market[1]
Digitalization of processes	9	Implementation of a new „moje.pzu.pl" portal	5 m accounts established by clients
	10	Development of the direct offering	10 products available in the direct channel 50% market share held by PZU SA and Link4 of non-life insurance sold in the direct channel
Additional interactions with clients	11	Implementation of a loyalty program at the PZU Group level	3 m participants
	12	Integrated service model for SMEs	70% growth of new sales in group insurance to SME clients in PZU Życie 20% growth in the gross written premium generated by non-life insurance dedicated to the SME segment

[1] Objective to be confirmed after the enactment of the Act on Employee Capital Schemes

#1 Joint CRM

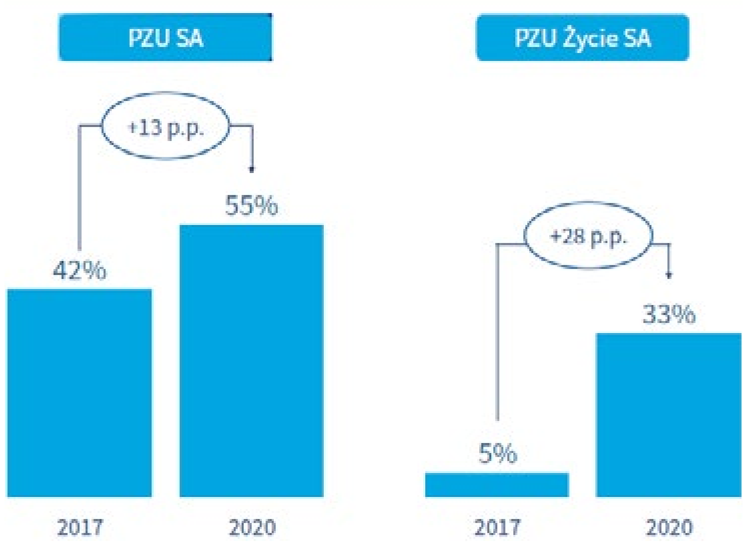
The combination of PZU's databases under a single CRM (customer relationship management) system will make it possible to customize the offer to client needs more effectively in terms of quality and costs alike. This will also accelerate the purchase process while streamlining service-related processes. Clients will be able to manage their products in the entire PZU Group quickly and easily (on their own or by using the support of advisors).

Having a full client picture (360 degree view) will assist us in cultivating client relations while enabling us to standardize processes, grasp client needs better, underwrite risk in an optimum fashion, pursue more effective cross-sales efforts and manage the sales network more efficiently.

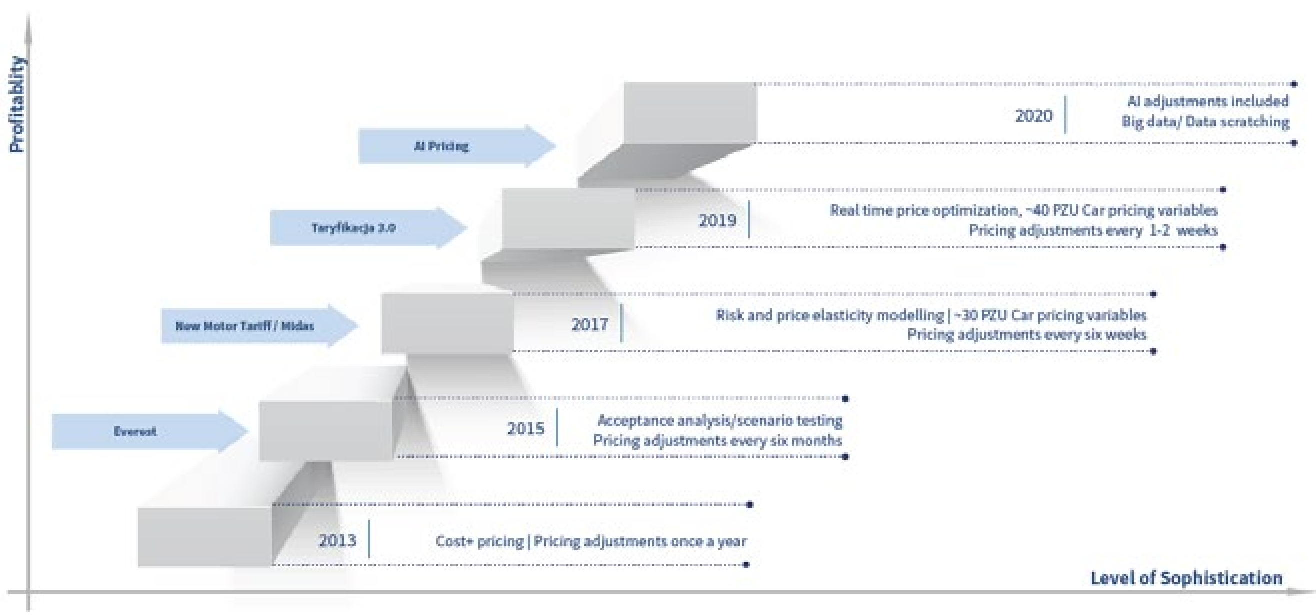
#2 More effective tariff setting

The Everest sales platform began to operate in 2015, allowing PZU to adapt its tariffs every 6 months (previously once a year). In 2017 this process was truncated to approximately 6 weeks. By the end of 2019 tariffs will be subject to optimization in real time, while the models themselves will undergo adjustment once every 1-2 weeks. This will open the path to the more extensive utilization of artificial intelligence models in tariff processes in 2020.

Percentage of marketing consents and client contact data obtained in PZU and PZU Życie



Better matched price to risk and price optimisation (Tariff setting 3.0)



#3 Artificial intelligence

PZU intends to utilize the know-how and the best technological solutions in operation within the PZU Group while actively looking for new solutions enabling it to construe permanent advantages. Collaboration with the startup community (insurtech, fintech, technological firms) will act as one of the sources. The first business areas to benefit from these changes will be as follows: setting tariff rates and risk management, sales, client retention and claims administration as well as medical diagnostics.

In 2018 PZU was the first insurer in Europe to introduce **PZU GO** – an innovative telematic solution designed to improve driver safety. A mobile application combined with a small beacon device will automatically call for assistance in the event of a collision or accident.

PZU GO is a telematic application for a smartphone connected to a beacon attached to a car's windshield. A set of sensors makes it possible to detect an emergency situation and dispatch a signal to PZU's alarm center that will make contact with the driver in question to furnish the requisite support. If it is not possible to make contact with the car driver, rescue services will be sent to the accident site. Additionally, under partnership programs, PZU GO will also provide a benefit package for drivers with a PZU policy and in the future also cheaper motor insurance policies for the best of them. The beacon is capable of operating on a single battery for three years.

PZU is betting on the utilization of pioneering solutions in patient services and telemedicine, too. A medical diagnostics service employing artificial intelligence is slated to be launched under the name of symptom checker to facilitate rapid diagnosis of a disorder and putting the patient in question on the right treatment. The technology used by PZU is being developed by a team of experts based on recognized Polish and international medical sources. It taps into knowledge concerning specific medical cases and it combines this knowledge with medical data and a given patient's symptoms to find the most probable solution. This system is constantly learning and is undergoing improvement. It is subject to close supervision by a group of experts. Even so, its initial diagnosis is accurate in 90% of the cases it handles.

STRATEGY OF INNOVATION

UTILIZATION OF BIG DATA

- Sophisticated **pricing** methods
- More effective **insurance fraud** detection
- Support for **cross-selling** initiatives
- Growth in the level of **client loyalty**
- Enhanced business management and **prediction**

DIGITIZATION

- Implementation of **new technology**
- **Automation** of processes
- Implementation of **self-service**
- Development of **distribution channels**
- Simplified **sales process**

NEW CLIENT INTERACTIONS

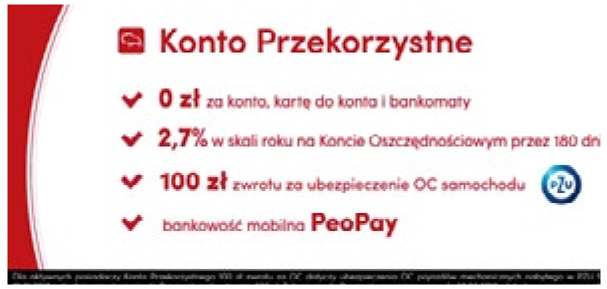
- Implementation of services **aligned to client needs**
- Reaching **new market segments**

ENHANCING THE ORGANIZATION'S EFFECTIVENESS

CREATING SCALABLE BUSINESS MODELS

#4 Cooperation with banks

Cooperation with the banking segment will form a plane for PZU to build lasting client relations. Its ambitious targets entail the sales of insurance to the clients of Bank Pekao and Alior Bank as well as PZU bringing insurance clients as new clients to these banks. The potential to generate cost savings has also been identified as a result of creating an integrated real estate administration system and a joint procurement model.



Bancassurance

- Boost sales by utilizing bank channels in line with client preferences
- Dedicated product offering for various segments, including retail clients and SMEs
- Availability of insurance products linked to bank products (insurance for loans and borrowings, personal bank account)
- Implementation of an insurance offer to supplement the offering of banking products (life insurance, health insurance, assistance)
- Broad offering of investment products (TFI), pension products (ECS, IRA, IRSA) and unit-linked products dedicated to the premium segment

Assurbanking

- Offering bank products in the course of insurance-related contacts (sales and service), including "lead generation" through PZU's sales network
- Sales efforts directed to PZU's clients in connection with the occurrence of specific life events such as childbirth, the purchase of a car, a motor claim or a property claim
- Special offers for PZU clients (discounts / cash back) and strategic partnerships

Development of cooperation with banks

Bank Pekao | PZU | Alior Bank

Action	Insurance sales	Client acquisition by the banks	Savings
Description	Sales of PZU's life and non-life insurance under the bancassurance model to the clients of the Group's banks	Acquisition of the Group's insurance clients by the banks	Achievement of synergies in procurement, IT and real estate
Objective for 2020	1 bn PLN of gross written premium	1 m new clients	Cut costs by 100 m PLN

The PZU Group's long-term strategic objective is to retain its leading position in the banking sector in Poland. By 2020 the Group will have at least 300 bn PLN in assets, while the banking segment's net financial result will form a contribution to the PZU Group's result of at least 900 m PLN.

Strategic partnerships

Cooperation under a banking model, its strong market position, brand recognition and its strategic objective of creating an ecosystem in which the overriding objective is to manage client relations skillfully by offering clients solutions in all venues accessible to clients will contribute to intensifying activities in strategic partnerships with companies operating on the Polish market.

On 9 January 2018 (i.e. the date of publishing the "New PZU" strategy) PZU reported that it has established cooperation with PLL LOT and Allegro.

PZU's strategic cooperation with PLL LOT rests on two pillars. The first one is for PZU to furnish a full spectrum of insurance and services customized to the needs and expectations of PLL LOT's clients during their travels. This will entail travel insurance, other assistance and concierge services in channels for the distribution of PLL LOT's air tickets. Travel insurance will be embellished with elements related to medical services. The second area of PZU's strategic partnership with PLL LOT will involve extensive corporate collaboration.

PZU also entered into a strategic partnership with Allegro - the internet sales leader in Poland. Cooperation will involve several elements. The most important ones will be the sales and distribution of innovative, fully digital insurance products customized to the specific nature of the needs of buyers and sellers on the allegro.pl service. PZU intends to conduct technological and service-related integration with Allegro's processes. Matters related to service and claims handling will be the next areas of cooperation.

#5 Simplifying the product offering

PZU will simplify its product offering in respect of the number of products and the language used (straightforward language). This will make it possible for general sales people (#6 below) to sell effectively while helping clients choose the right product. Our offer (also available in the Internet) will consist of 10 widely distributed products.

#6 Converting the sales network into a general sales network

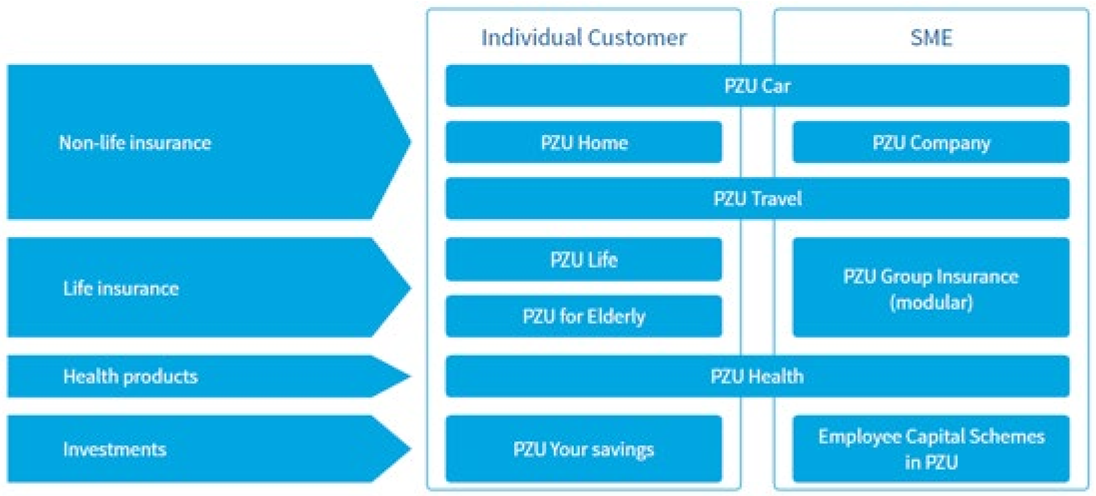
PZU will utilize the potential of the financial market's largest proprietary distribution network. By 2020 our general sales proprietary network operating in Poland under the PZU brand (i.e. channels fully controlled by the PZU Group: branches, tied agents in life and non-life insurance and the corporate sales network) will consist of approximately 5 thousand general sales people (i.e. 50% of the Group's proprietary network). A general salesperson will offer at least 3 of the 5 lines of business (life insurance, non-life insurance, medical care, investment products, banking products).

#7 Development of sales in PZU Zdrowie

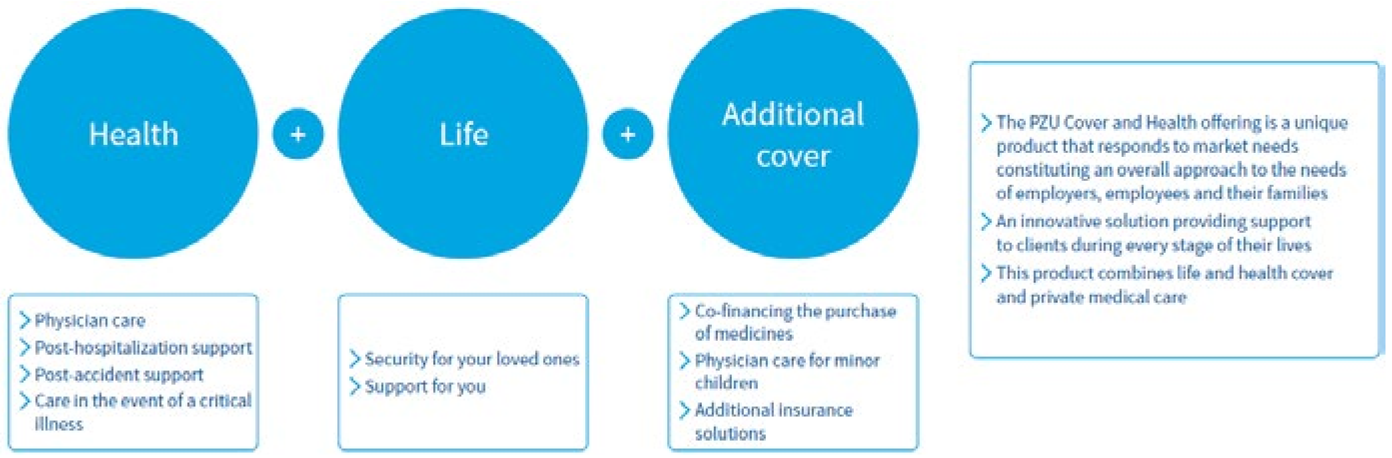
In Health the PZU Group intends to grow sales by developing new health insurance products and expanding its "traditional" offering to include unique riders. Additional support will be provided by making the sales network more active and tapping into the full potential of the of the PZU Group's client base. The plan is for PZU to administer 4 million health insurance agreements in 2020; this area's revenues will hit the PLN 1 billion, while its EBITDA margin will be equal to 12%.

We will build a lasting competitive edge by employing modern patient service processes giving consideration to the best-in-class market practices, innovative technological and medical solutions and high quality of service standards, including VIP care. We will continue to develop our proprietary branch network, among others, by pursuing greenfield projects and M&A efforts.

Simplifying the product offering, and simple language



We will offer unparalleled solutions blending insurance cover with medical care



PZU will build a new patient care model providing for optimum quality and the utilization of new technology. Patients will have their symptoms checked quickly, their diagnosis will be confirmed along with their treatment plan. Mobile solutions and artificial intelligence (symptom checker) will offer convenience while immediately solving problems. PZU developed a platform in cooperation with a Polish technology start-up, which is available on the patient portal, in an application and also in the form of a dedicated solution for medical hotline employees. The purpose of the platform is to conduct a patient check-up, which is very similar to when a physician conducts an examination, followed by presenting the most probable solution and defining the next steps. This may be phone consultation, video consultation or a chat with a doctor or a visit in a clinic to with a specific specialist. However, in many cases such a discussion with a patient may come to an end with advice being given or a prescription being sent, without needing to leave home.

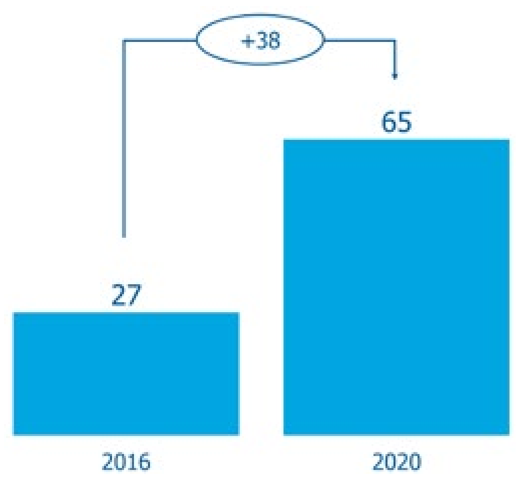
On top of a rapid diagnosis, PZU will give a guarantee of there being no waiting lines to see a physician. The waiting time to see a primary care physician should be no longer than 2 days, while the waiting time to see a specialist should be no longer than 5 days. This will be possible, among other things, thanks to our expanded medical network consisting of proprietary and partnership centers – a total of 2,000 centers in 500 cities. PZU also offers the possibility of being treated by a physician outside the network, and of having tests on the basis of a booking given by physicians from outside PZU Zdrowie's network.

Prophylactics and prevention coupled with encouraging people to lead a healthy lifestyle are an important aspect of the operation of PZU Zdrowie. Prevention campaigns are supposed to augment the effects while minimizing the consequences of possible damages. Every year PZU checks which dangers pose the greatest threat to Poles. For that and other reasons, it organizes testing of children in schools and it invests in educating people about health care. It also helps organize care for senior citizens, it provides support for innovative methods to detect tumors and it collaborates effectively with oncology centers.

#8 Development of sales and consolidation in PZU Investments

PZU will roll out a uniform asset management structure in the PZU Group making it possible, among others, to achieve

Third party assets (PLN billion)



cost synergies (one investment product "factory"). The development of new investment products (inter alia, lifecycle funds and low-cost passive funds) and of new distribution channels (direct), also entering international markets is also being planned.

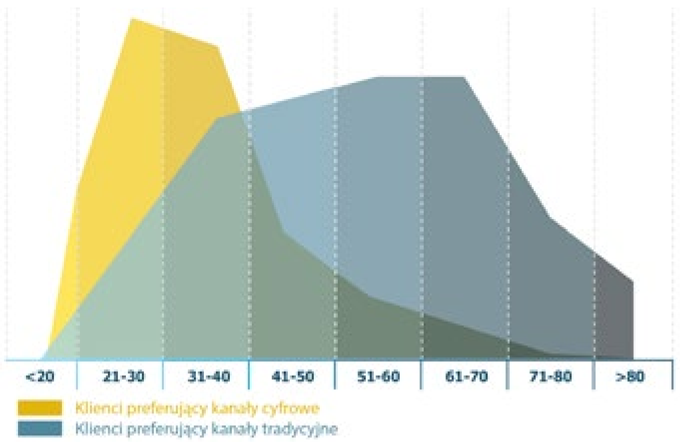
PZU will utilize the changes ensuing from the reform of the pension system - Employee Capital Schemes in which it intends to attract a 15% market share measured by market assets.

In 2020 the third party assets under management in the PZU Group will expand to PLN 65 billion, while the net result on third party asset management will hit the level of PLN 200 million.

#9 Implementation of a new „moje.pzu.pl" portal
PZU will radically change client interactions with its current client portfolio (11 m clients in life insurance and 6 m clients in non-life insurance) by integrating all its services under a single portal called "moje.pzu.pl". It will be a one-of-a-kind dashboard enabling clients to familiarize themselves with their insurance cover at any given moment in time, manage their health cover and appointments and manage their investments - also to include banking in the future. 5 million clients will open an account in the „moje.pzu.pl" portal by 2020.

The ability to enter into an agreement through the online channel will mean that this portal / application will ultimately be used by all PZU clients.

Reaching clients who prefer digital channels



#10 Development of the direct offering
PZU will develop the best sales site in the online channel among European insurers. Transparent and straight-forward products (#5 above) will be offered through this service, while PZU will be the unchallenged leader in the direct sales channel with a market share of at least 50%.

#11 Loyalty program
PZU will launch a loyalty program for the overall Group spanning all its products. The points collected by using these services as well as other activities (among others having a claim-free history and referring the program to a friend) may be converted into products and services from our partners. The program is supposed to make it possible to share points with family members and hold auctions among the participants. This program will make it possible to grow the number of client interactions while expanding its range and reach to find new target client groups (also the possibility of attracting young clients) and customizing its offering better. This is also tantamount to building client relations that do not always have to end in the form of a sale. Club members will be encouraged to get involved in activities to benefit the local communities in which they live. They will have the possibility, for example, of voting for projects under the program entitled "Helping is Power" - a nationwide prevention campaign addressed to local communities. PZU will get involved in particular in those initiatives that obtain extensive endorsement among club members.

Pomoc to Moc

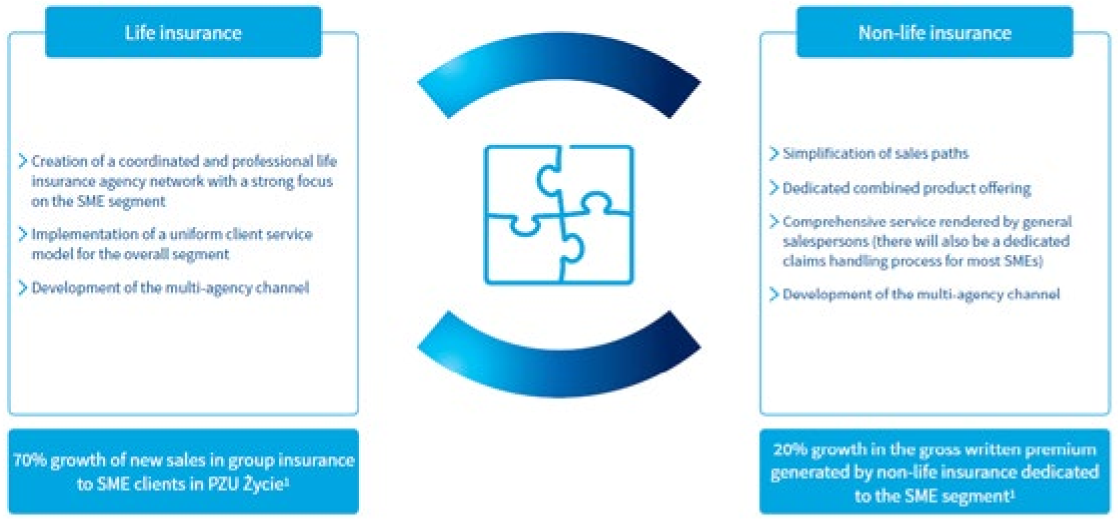
www.pomoctomoc.pl

The number of participants in PZU's loyalty program in 2020 will be 3 million.

#12 Integrated service model for SMEs
PZU will ramp up sales of group and property insurance to the small and medium enterprise segment (SME). Activities will be concentrated on reorganizing and unifying the sales and service model, developing its multi-agency channel and creating dedicated product offerings for the SME segment.

This new approach will facilitate 70% growth of new sales in group insurance to SME clients in PZU Życie and 20% growth of gross written premium on property insurance dedicated to the SME segment.

Integrated service model for SMEs



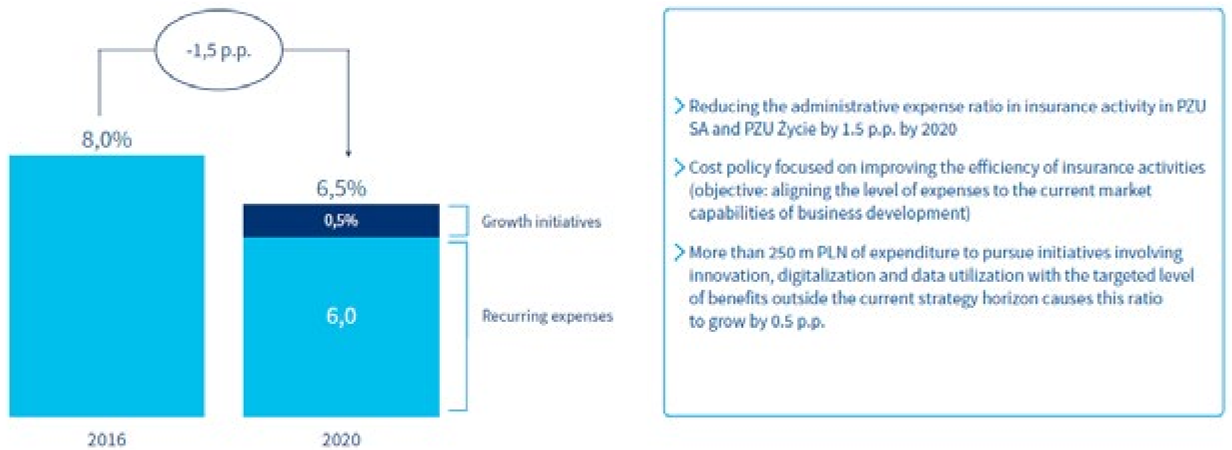
[1] Value generated in 2020 compared with 2016

4.5 Support for strategy implementation

Support for the execution of the New PZU strategy will come not only from unleashing data potential and utilizing data analysis tools to a greater extent but also from augmenting the effectiveness of cooperation between business and IT, thereby truncating implementation processes. In 2020 the overall time-to-market (GLOSSARY) in IT for large priority changes (such as for instance a new product) should not surpass 6 months, while for small priority changes (e.g. a product rider) – it should be no more than 4 months. PZU will maintain the highest level of quality of claims and benefits handling whereby it will shorten the time to perform processes. The key will be as follows: (i) understandable service processes enabling clients to participate in the process of handling insurable events (online access to case status, arranging for inspections in line with expectations); (ii) implemented and tested procedures for emergency claims handling in crisis situations (e.g. storms); (iii) the ability to align resources rapidly (human and technical resources) to the magnitude of need expressed by the number of contacts.

Greater cost effectiveness in underwriting activity
Strong cost discipline and the future benefits ensuing from deploying innovative solutions should contribute to cutting costs up to 2020 by at least 1.5 p.p. (compared to 2016) and retaining PZU's profitability advantage.

Administrative expense ratio - the ratio of administrative expenses to net earned premium in PZU and PZU Życie (%)



4.6 Pursuit of key projects and initiatives in 2017

In 2017, the Group pursued the following goals in the individual business areas:

Actions performed in 2017

Key areas	Recap of actions and achievements in 2017
Insurance	1. Maintaining PZU Group's leadership position on the non-life insurance market. According to the Q3 2017 data published by the Polish Financial Supervision Authority, the PZU Group's market share (direct business) was 35.8% (unchanged y/y). 2. LINK4's non-life insurance market share was 2.9% at the end of Q3 2017 (up 0.6 p.p. y/y; direct business). 3. Maintaining the leading position in life insurance with periodic premium. Market share was 45.8% after the third quarter of 2017 (a year earlier 45.0%). In the whole life insurance market, PZU Życie's share after the third quarter of 2017 was 34.8% (up by 1.1 p.p. y/y). 4. Strengthening the position of the market leader in Lithuania and Latvia. The share of the Lithuanian company in the non-life insurance market amounted to 31.0% (increase by 1.6 pp compared to the previous year), while the share in the Latvian market after the third quarter of 2017 remained at a similar level and amounted to 27.2%. The share in the Lithuanian life insurance market was 5.9% (up by 1.1 pp). The share of the PZU Group on the Estonian non-life insurance market in 2017 was 15.6%, up by 1.1 pp. After the third quarter of 2017, the Ukrainian non-life company recorded a decline in its market share (3.3%) by 0.4 pp. compared to the same period of the previous year, while the life company registered an increase in the share (10.4% vs. 8.5% y/y). 5. Completion of work to deploy the policy administration system (the Everest Project) translating into improvement in PZU's competitiveness. 6. Development of TUW PZUW's operations confirmed by its market share of 0.9% at the end of Q3 2017 (up 0.4 p.p. y/y). 7. The PZU Group became a member of Lloyd's and closely collaborates with the Argenta Syndicate. PZU received a prestigious certificate entitled „Member of Lloyd's". 8. Extending works aiming at the use of telematics in the PZU Group. After the solutions implemented in LINK4, start work on the PZU GO project, which aims to improve the safety of drivers. 9. Commencement of works aimed at introducing innovative solutions in the scope of tariffication and sales support in PZU. 10. Commencement of implementation of advanced risk management consulting services through PZU Lab. 11. PZU won the Polish Radio's Economic Prize in the "National Treasure" category awarded to businesses that stood out in the past year on the market place and contributed to promoting Poland on the international arena. 12. PZU received a prestigious award as a Trusted Brand in 2017 conferred by the "My Company Polska" monthly for products and services that feature a special degree of trust according to commercial undertakings.

Actions performed in 2017

Investments	1. TFI PZU ranked third on the market in terms of net asset value under management. At the end of 2017, the value of TFI PZU AuM amounted to PLN 19.8 billion, which accounted for 7.1% of assets collected by domestic TFI. Pekao TFI in fourth place on the market in terms of net asset value in management. At the end of 2017, the value of Pekao TFI AuM amounted to over PLN 18.4 billion, which was 6.6% of assets accumulated by national TFI. 2. Increase in the size of assets under the management of external clients from PLN 7.0 billion at the end of 2016 to PLN 7.3 billion at the end of 2017. The share of assets of external clients of TFI PZU in TFI market assets (excluding non-public assets) at the end of 2017 was 4.3%. 3. TFI PZU is the market leader in the employee pension plan segment among domestic mutual fund companies. At the end of 2017 TFI PZU had PLN PLN 4.2 billion in assets under management (PPE, GPE, PPO, ZPI) – 13.1% growth of AUM compared to the end of 2016. 4. The net asset value of OFE PZU Złota Jesień at the end of 2017 was PLN 23.3 billion. Moreover, OFE PZU „Złota Jesień" achieved the highest rate of return in 2017 from all Pension Funds at the level of + 20.9% y/y. Net asset value of Pekao OFE at the end of 2017 at PLN 2.7 billion. 5. Net profit of PTE PZU at the end of 2017 at PLN 70.8 million. 6. A new strategy for managing the investment portfolio for the PZU Group's account and at its risk has been devised. 7. Kick-off of preparations to modify PZU's offer with an eye to the future changes to the pension system (Capital Accumulation Program).
Health	1. At the end of 2017, PZU Zdrowie's revenues were PLN 455.6 million, signifying growth of 25.2% from the previous year. 2. 27.1% growth in gross written premium in group health insurance in comparison with 2016. 3. Acquisition of shares in Revimed by PZU Zdrowie and purchase of shares by Elvita in NZOZ Trzebinia in 2017. PZU Zdrowie merged with Medicus in Opole also in 2017. In addition, in January 2018, PZU Zdrowie acquired shares in Centrum Św. Lukasza. 4. Implementation of a tool to manage the proprietary medical center network and the centers cooperating with PZU Zdrowie and to manage client traffic on the medical hotline. 5. Performance of work on implementing a functionality enabling online communication with Medical Hotline consultants to book medical services with an extensive network of medical centers. 6. Providing by PZU Zdrowie a new service supporting remote medical consultations by phone and the Internet. Clients will be able to discuss their test results, discuss disquieting troubles and the medicine they are taking, learn about preventively caring for their health, receive a booking for tests and a prescription for medicines they take on a long-term basis, all in comfortable conditions by phone, chat or video chat. 7. PZU Zdrowie won the prestigious Polish Compass 2017 award as a distinction for persons and institutions that have made a special contribution to the development of the national economy in recent years.

Actions performed in 2017	
Banking	1. On 7 June 2017, PZU and PFR finalized the deal to acquire a 32.8% equity stake in Bank Pekao SA for a total amount of PLN 10.6 billion. The price per share was PLN 123. It was one of the largest transactions in the European banking sector in recent years. This strategic investment has enabled PZU to become the largest financial group in Poland and Central and Eastern Europe. 2. An increase in the value of banking assets held by the PZU Group to the level of PLN 255 billion at the end of 2017. 3. The banking segment's contribution to the PZU Group's operating result was PLN 2,487 m at the end of 2017. 4. Continuation of work aimed at achieving revenue and cost synergies resulting from cooperation between PZU and banks within the group (Alior Bank, Pekao).
Supporting factors	**Recap of actions and achievements in 2017**
Socially responsible organization*	Social commitment The strategic pillars for PZU's social commitment are as follows: safety (road safety, public safety and local safety), health, culture and national identity. Safety - leading area, actions involving road safety are under way: • education and training for users of the roads: conferences, hardware purchases, sharing experience and providing support in the form of expert knowledge, • remedying the aftermath of accidents: support for injured parties, i.e. providing psychological care to the children of injured parties in accidents in collaboration with non-governmental organizations – Teddy Bears Rescue Children Association (Stowarzyszeniem Misie Ratują Dzieci), Suddenly Alone Foundation (Fundacją Nagle Sami), Disabled Drivers Assistance Association – SPiNKa (Stowarzyszenie Pomocy Niepełnosprawnym Kierowcom – SPiNKa), • social campaigns and prevention campaigns (prevention campaigns to enhance safety in road traffic: television programs concerning safety, nationwide projects promoting safe conduct on the road). Health - area referring to activity in life and health insurance and health services. Promoting a healthy and active lifestyle best illustrated by supporting large-scale running events (PZU Warsaw Marathon, PZU Warsaw Half-Marathon, PZU Cracovia Marathon, PZU Cracovia Half-Maraton, among others). This also involves caring about Poles' health and lives, i.e. supporting organizations focused on a health agenda (helping hospitals and health care centers, hospices, foundations and other entities involved in rescuing life and health). PZU continues to be a patron of Polish culture by pursuing actions to protect national heritage and instill modern patriotism. Above all, this means patronage of the most outstanding institutions of culture in Poland: the National Museum in Warsaw, the National Museum in Kraków, the Warsaw Uprising Museum, the Royal Lazienki Park Museum, the National Theater and the Great Theater – the National Opera. It also means undertaking nationwide campaigns to disseminate national culture and arts. Another dimension of our activity involves supporting modern patriotism and building national identity.

Actions performed in 2017	
Efficient service, effective operations, flexible IT	1. 82% of the PZU Group's clients are satisfied with the claims and benefits handling process (satisfaction survey on a sample of 4.4 thousand clients conducted in Q4 2017). 2. Launch of a new version of the web-based application "Self-Service Claims" making it possible to conduct an inspection and calculate the claim to be paid quick and simple. The entire process takes 5 minutes on average, while the person holding the record received the claim payment a mere 54 minutes after registration in PZU's system. 3. Work was launched to automate and optimize the claims and benefits handling process based on solutions employing robotics. 4. Continuation of work to enhance procurement efficiency. 5. Work continued on deploying a Fraud Identification System in motor insurance. 6. Continuation of the process to sell redundant properties from the standpoint of the statutory activity of PZU and PZU Życie. 7. PZU was recognized as the Institution of the Year for its service in branch offices and remote channels. This distinction awarded by the mojebankowanie.pl portal promotes companies delivering the highest quality of service to their clients. 8. EFMA, a European organization conferred the Insurance Innovation of the Month award to PZU. Poland's largest insurer was recognized for its innovative method of catering to the needs of deaf and hard of hearing clients. PZU was the first company in Europe to launch three party video connections via the web with a sign language consultant in 2017.
Cost effectiveness culture	1. Administrative expenses in the underwriting segments in Poland fell PLN 10 m at the end of 2017, i.e. –0.7% y/y. 2. The administrative expense ratio in the underwriting segments in Poland improved 1.1 p.p. at the end of 2017 to 7.0%. 3. The administrative expense ratio in the international companies improved by 1.3 p.p. At the end of 2017 this ratio was 9.8%. 4. Commencement of the downsizing process (Management Boards of PZU SA and PZU Życie SA) that concerned all of the company's functional areas.
Capital and investment policy and integrated risk management system	1. Disbursement of a dividend in the amount of PLN 1.2 billion, i.e. PLN 1.40 per share. The dividend yield was 3.3%. 2. S&P Global Ratings, a US-based rating agency raised PZU's rating outlook from negative to stable. At the same time, PZU's financial strength rating stayed at A-. This is one of the highest possible ratings for a Polish company to receive. 3. PZU raised PLN 2.25 billion in a private subordinated bond issue denominated in Polish zloty. It was the largest issue of subordinated bonds in the history of the Polish financial sector, while at the same time being the first issue in Poland complying with Solvency II requirements. The bonds are listed on the Catalyst market. PZU has been awarded the prize awarded by the Warsaw Stock Exchange for the biggest value of its debut on Catalyst in 2017.

* The full range of information on the implementation of the principles of corporate social responsibility by the PZU Group, including all legally required non-financial information, is included in the Report on non-financial information of the PZU Group and PZU SA for 2017, which constitutes an annex to this Management Board's Report on the Activity the PZU Group and PZU.

4.7 Key financial indicators of the PZU Group's Strategy 2020

ROE[1]

2016	2017	2020
14.9%	21.1%	>22%

BUSINESS SIZE

Segment	Indicator	2016	2017	2020
NON-LIFE INSURANCE	PZU Group's market share[2,3,4]	35.4%	35.8%	38.0%
LIFE INSURANCE	Number of clients in PZU Życie (m)	11.2	11.0	11.0
INVESTMENTS	Assets under management for third party clients (bn PLN)	27	31	65
HEALTH	Revenues (m PLN)[8]	364	456	1,000
BANKING	Assets (bn PLN)	61	255	>300

BUSINESS PROFITABILITY

Segment	Indicator	2016	2017	2020
NON-LIFE INSURANCE	Combined ratio[3]	95.0%	89.3%	92.0%
LIFE INSURANCE	Operating margin in group and individually continued insurance	25.8%	20.6%	>20%
INVESTMENTS	Net result on third party asset management (m PLN)[7]	83	95	200
HEALTH	EBITDA margin[9]	7.2%	8.2%	12.0%
BANKING	Net financial result attributed to the PZU Group (m PLN)	181	408	>900
	Administrative expense ratio[5]	8.0%	6.8%	6.5%
	Surplus yield on its own portfolio above the RFR[10]	0.3 p.p.	1.9 p.p.	2.0 p.p.

GROUP OBJECTIVES

Indicator	2016	2017	2020
Solvency II solvency ratio[4,6,11]	250%	237%	>200%
Number of products per client	1.5	1.5	2.0

[1] ROE attributable to the parent company
[2] Direct business
[3] PZU jointly with TUW PZUW and LINK4
[4] Data at the end of Q3 2017
[5] Administrative expenses in PZU and PZU Życie
[6] Own funds after subtracting anticipated dividends and asset taxes
[7] PZU Investments' consolidated net result
[8] Annualized revenues of proprietary centers and branches including revenues from PZU Zdrowie
[9] Net of non-recurring costs; profitability computed using the sum of revenues generated by branches and earned premium
[10] Economic result on investment activity including FX on own debt
[11] Data at the end of Q3 2017, unaudited data

Łukasz Tułak
Engineering Underwriting Team

I like traveling and the possibility of combining pleasure with utility. India was the adventure of my life. I will never forget the scent of seasons or the depth of color. I will always remember the amazing people I met there and the children I managed to help. I am elated that I had the chance to make even just a small contribution to improving their lot in life by building homes and schools for them. Spending time with them has altered my worldview.

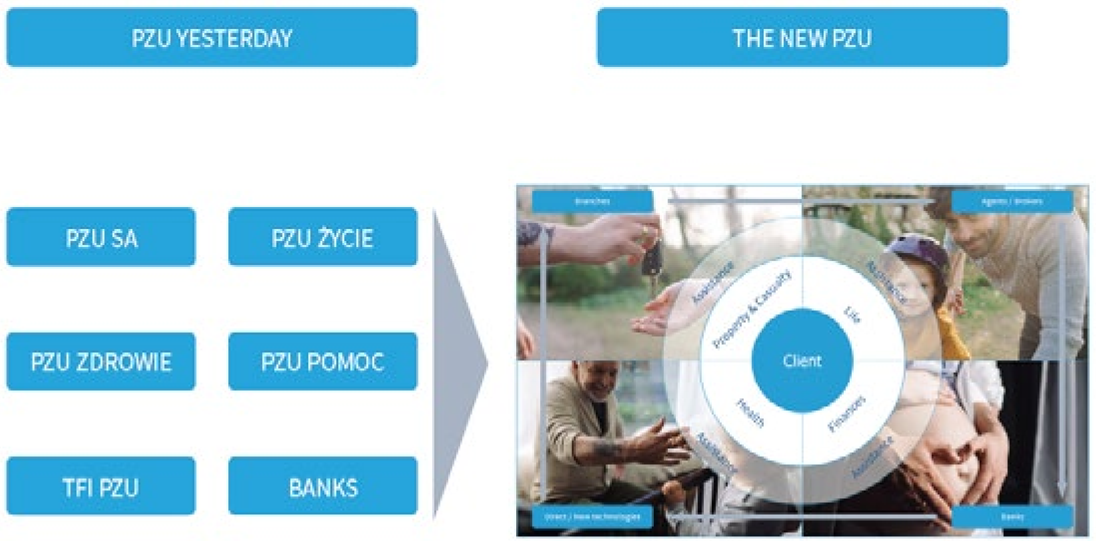
5.

Operating model - distribution, innovation

Along with the new Strategy for 2017-2020, the Group's business model will also be modified assuming a shift from an insurer's model (chiefly involved in the valuation and transfer of risk) toward the model of a service company (an advisory company operating on the basis of technological know-how). This will enable clients to optimize their decisions at all stages of their lives. It will ultimately translate into growing trust and loyalty placed in the brand of first choice which PZU will become when it comes to insurance, finance and health services.

In this chapter:

5.1 PZU Group



On 9 January 2018, PZU published its Strategy for 2017-2020 entitled "The New PZU – More Than Insurance", CHAPTER 4 "STRATEGY", with one of its objectives being to modify the Group's business model from being an insurer's model (chiefly involved in the valuation and transfer of risk) to being a service company's model. More information about the Group's new business is provided in REPORT ON NON-FINANCIAL INFORMATION OF THE PZU GROUP AND PZU SA FOR 2017.

5.2 Insurance

Distribution channels

PZU's sales network is organized in a manner that ensures sales effectiveness along with high quality services. In Poland, the PZU Group boasts the insurance market's most extensive network of sales and service outlets.

At yearend 2017, the PZU Group's distribution network included the following:

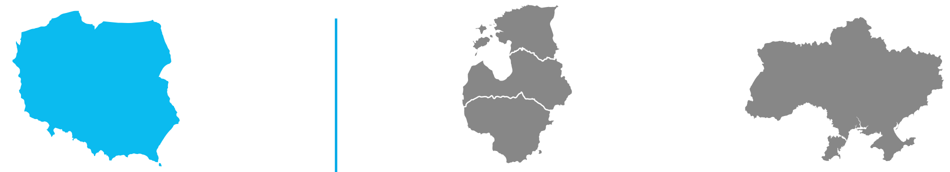
- tied agents – the PZU Group's own agency network in Poland consisted of 8,521 tied agents along with individuals performing agency activities (of which PZU: 6,776). Sales are conducted through the agency channel predominantly in the mass client segment, particularly of motor and non-life insurance as well as individual insurance (life insurance). In the Baltic states (the PZU Group is active on the non-life insurance market in Lithuania, Latvia and Estonia through Lietuvos Draudimas, AAS Balta and Lietuvos Draudimas' PZU Estonia branch, respectively, while on the life insurance market it is active through PZU Lietuva GD), the Group's agency network consisted of approx. 1,200 agents, while in Ukraine (where PZU is active on the non-life insurance market and on the life insurance market through PZU Ukraine and PZU Ukraine Life, respectively) it had approx. 800 agents.
- multiagencies – on the Polish insurance market, the PZU Group cooperates with 3,149 multiagencies (of which PZU: 3,149). They perform sales operations targeted mainly at the mass market (insurance of all types is sold through this channel, especially motor insurance and non-life insurance as well as individual life insurance). In turn, in the Baltic states the Group companies cooperate with 10 multiagencies and in Ukraine with 11 multiagencies.
- insurance brokers – in Poland, the Group, in particular PZU's Corporate Client Division, cooperated with almost 1,200 insurance brokers (of which PZU: 1 100). In the case of the Baltic states, where the brokerage channel a major insurance distribution channel, the Group companies cooperated with over 350 brokers, whereas in the Ukrainian companies cooperated with approx. 40 brokers.
- bancassurance and strategic partnership programs – in the area of protective insurance, in 2017 the PZU Group cooperated in Poland with 11 banks (of which PZU: 10) and 18 strategic partners (of which PZU: 8). The PZU Group's business partners are leaders in their industries with client bases offering enormous potential. In strategic partnership, cooperation applied mostly to companies operating in the telecom and power sectors through which insurance for electronic equipment and assistance services was offered.

In the Baltic states, PZU cooperated with 3 banks and 14 strategic partners. In Ukraine, the respective numbers were 7 banks and 6 strategic partners.

Claims and benefits handling

For clients, claims handling is the 'moment of truth' when the quality of the product purchased from an insurer is tested. Satisfying client expectations during the claim handling/case handling process is the key to building PZU's client

Distribution network



share in PZU Group gross written premium (%)	93% Poland		6% Baltic States	1% Ukraine
	non-life insurance	life insurance		
Employees	XX	XXX	XX	XXX
Exclusive agents	XXX	X	XX	X
Multiagencies / Brokers	XXX	X	XXX	XXX
Direct	XX	X	X	X
Banks	X	XX	X	XX
Strategic Partners	X		X	XXX

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

relationships. For this reason, the PZU Group took a number of measures in 2017 to streamline and shorten this process.

In Poland, claims and benefits handling is carried out in 6 competence centers operating across the country. It is founded predominantly on electronic information and is not tied to the insured's place of residence or the insurable event. The competence centers handle specific types of damage, which is conducive to stricter specialization and boosts client satisfaction. These units specialize, without limitation, in handling claims arising from property, motor or personal damage, claims reported by corporate clients, benefits, damage involving in the theft of personal vehicles or claims handled as part of the direct claims handling (DCH) service. A separate unit deals with technical issues related to claims arising from motor or property damage. A similar claims handling model is in place at PZU Estonia where there are 3 competence centers. Centralized among them is only the handling of certain types of damage, such as personal injuries, large property damages and marine damages. In other Group companies operating in the Baltic states and Ukraine, the claims handling process is entirely centralized.

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	✓	✓	✓

PZU was the pioneer of DCH on the Polish insurance market. Currently, DCH is executed in two forms: at an individual level or under the agreement worked out by PIU. At the moment, DCH is provided by entities accounting for nearly 70% of the motor TPL insurance market, as measured by gross written premium. The said agreement, which is based on a lump-sum approach, has dramatically simplified the settlement of claim payments between insurers. PZU also maintained its own DCH solution previously introduced for clients injured by insureds in establishments that did not sign the agreement. On the Ukrainian market, PZU was also the pioneer of DCH. PZU Ukraine paid out the first claim in this form in December 2016. The DCH agreement worked out by the Ukrainian motoring association currently covers 17 insurance undertakings. They account for almost 80% of the TPL insurance market, as measured by gross written premium. In Estonia, direct claims handling has been regulated by the provisions of the TPL Insurance Act since the beginning of 2015. In turn, clients in Latvia who wish to take advantage of direct claims handling must purchase a rider on their insurance.

PZU has built Poland's largest network of centers that arrange replacement vehicle rental services, roadside assistance services and parking services. A network of centers offering similar services is also being developed in the Baltic states. Currently, clients of Lietuvos Draudimas in Lithuania and the Lietuvos Draudimas branch in Estonia may benefit from replacement vehicle rental services and roadside assistance services. Moreover, since 2015, Lietuvos Draudimas as the only insurer in Lithuania has been arranging such services for holders of TPL insurance.

2017 was another year of cooperation with repair shops in the area of post-accident vehicle repairs in countries covered by the PZU Group's insurance business. PZU has created Poland's largest network of cooperating repair shops enabling the Company to control the quality and speed of service already at the claim handling stage. Owing to this, every client who orders a repair in the PZU Pomoc repair network receives a Quality Certificate guaranteeing that the repair has been performed in accordance with the highest standards. PZU continues to develop its proposal to assist clients in managing damage remains by selling them on the Online Assistance platform. Clients are presented with a proposal to sell their damage remains for the highest purchase offer obtained from reliable entities that cooperate regularly with the platform administrator (a similar solution is also available to clients of the Estonian Lietuvos Draudimas branch).

Additionally, PZU has implemented a self-claim handling process activated by the client via a link sent by a text message or e-mail. In accident claims or benefits, the client may freely accept or reject the proposed amount of the benefit. In motor and property damage and in centers repairing devices damaged by a power surge, the client may also, prior to making a decision, assess on his or her own in a few steps the amount of indemnification payable. Such information is then forwarded online to the Case Manager who initiates the payment. This service enables the client to participate in the payout decision in a simple and convenient manner and accelerates the process itself by reducing the waiting time for the disbursement of the benefit. In 2017, the Company also introduced the possibility of calculating the amount of indemnification for a damaged vehicle at the claim reporting stage. Satisfaction surveys carried out among PZU clients reveal the fact that insureds are of a very favorable opinion about this service. Similar improvements are being introduced by the PZU companies in the Baltic states.

PZU keeps working on improving communication with its clients. Traditional letters are being replaced by electronic and telephone forms of contact. Moreover, efforts are being made to adapt all communication, e-mails and text messages for clients to the principles of a simple language so that the information provided to the clients is clear and comprehensible.

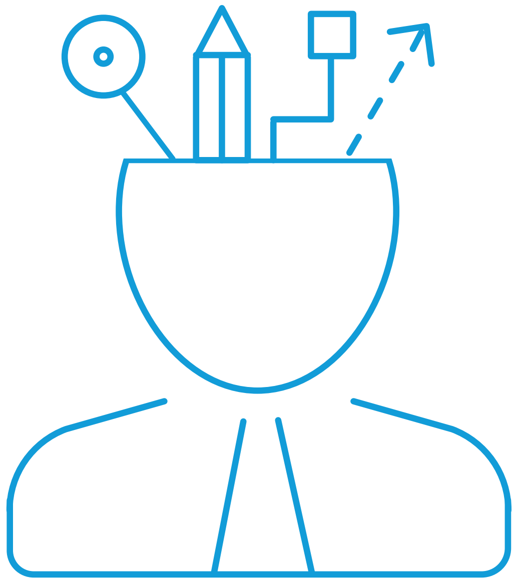
Visualizing distinct case handling stages in the form of an Online Case/Claim Status report available to the Group's clients throughout Poland is a great convenience to clients. By visiting the www.pzu.pl website and logging into the claim/case, clients may find out in exactly how many steps PZU will carry out the claim handling process, what it will involve, what the current stage of the case is and what has already been done. Also available on www.pzu.pl are video tips on how to handle the claim online. Short videos featuring PZU employees explain to clients how to report a case in a few simple steps and then how to check the status of the case or how to take advantage of the accident policy in case of an accident. PZU - Wideoporada [PZU Video Advice] – Claims handling over the Internet

Operating model - distribution, innovation

An innovative solution that supports the handling of personal injuries under TPL insurance is the Team to Organize Assistance for Accident Victims (PZU Client Relationship Manager). These are mobile members of staff who visit accident victims directly in their homes to determine the actual standard of living of the victim and in consultation with the victim assess his/her needs arising from the accident for which PZU is liable under TPL insurance. For severely injured accident victims, PZU Client Relationship Managers arrange a broad array of medical, social and occupational rehabilitation and psychological support. They provide advice to persons who have become disabled as a result of an accident on how to adapt the closest environment to the needs of a disabled person and how to properly select devices that compensate for dysfunctions or disability. PZU Client Relationship Managers explain to accident victims the rights they have and what documents they should produce. The most severely injured children are provide with comprehensive and long-term support aimed at regaining physical fitness and reducing the adverse consequences of post-traumatic stress.

In 2017, pre-claims handling was introduced, involving the initiation of contacts with the client even prior to reporting a claim. The process was received with appreciation by clients who were favorably surprised by the insurer's interest almost immediately after the event. For instance, clients were offered the possibility of covering the costs of replacement housing in situations where they had to leave their home due to an explosion or fire or the possibility of using specialists as part of the Assistance service.

Another innovative solution in the claims handling area is the use of the 3D software technology (the processing of two-dimensional photos into a 3D spatial model) to create damage documentation. The results have shown that especially in damages caused in hardly accessible places or large-scale damages PZU may improve the safety of employees and obtain a detailed 3D model of the damage site. In 2018, this technology will be used for the first time in specific damage cases.



An invariably significant area of operation in claims and benefits handling is the prevention of insurance fraud. PZU keeps improving the solutions that curtail the payment of undue benefits, hinder the practices of clients counterfeiting documentation filed during the submission of a claim or statements regarding their health status and simplify a number of processes.

Innovations

In recent years, the PZU Group has been very active in implementing innovative solutions. Activities in this area are supported by the Innovation Laboratory – a unit created with a view to verifying the latest technological trends and testing new solutions across the organization. Modern solutions are being created both internally and in cooperation with the best start-up companies in the respective fields. The first few of them have already been recognized in the international arena (e.g. with the "Insurance Innovation of the Month" prize awarded by the international organization EFMA for the Migam Project enabling the provision of comprehensive remote services to deaf and hearing-impaired clients). Moreover, a portal called Idea Generator has been launched to enable the exchange of ideas and inspirations between employees.

In November 2017, the PZU Management Board adopted the Innovation Strategy developed by the Innovation Laboratory. The purpose of the Strategy is to help pursue the PZU Group's mission and strategy and maintain the high level of competitiveness in the new technological environment. The Strategy points to three specific areas in which PZU should be especially active while seeking innovation: the use of Big Data, digitalization and new interactions with clients. The Strategy also defines a model-based process of the creation and deployment of innovations.

To date, one of the biggest innovations has been the PZU Everest Platform. It is largest IT project in Central and Eastern Europe and at the same time the Group's largest business transformation. The Platform is a state-of-the-art tool for sales of non-life insurance, underwriting and management of policies and settlements, the roll-out of which was

The PZU Group's agent network consisted of

8,521

tied agents

In the Baltic States the agent network numbered approximately

1,200

agents, while in Ukraine there were roughly

800

agents

Nearly

3,150

multi-agencies collaborate with the PZU Group on the Polish insurance market

In the Baltic States the Group cooperates with

10

multi-agencies while in Ukraine it cooperates with

11

multi-agencies

In Poland the PZU Group cooperated with nearly

1,200

insurance brokers

In the Baltic States the companies cooperated with more than

350

brokers, while the Ukrainian companies cooperated with roughly

40

brokers

In Poland the PZU Group cooperated with

11

banks. In turn, in the Baltic States PZU cooperated with

3

banks, and with **7** in Ukraine

BANK

At the end of 2017 Bank Pekao had

851

branches while Alior Bank had

905

proprietary and partnership branches

commenced by PZU back in 2014. The full roll-out process in all channels was completed in Q1 2017. Currently, the Everest Platform is visited by over 35,000 users (agents, multi-agents and PZU employees).

In 2017, work was continued on the Self-Service platform for retail clients with a view to developing the current moje.pzu.pl website. The purpose of the Platform is to provide clients with online access products and services offered by all Group companies (purchase of insurance products, medical services, investment products or savings products) and their subsequent use (reporting claims, setting up a medical appointment, checking the valuation of mutual fund units or other products, paying premiums). On the other hand, after the platform is implemented, having aggregated information about its customers, the Group will be able to distribute information faster and recognize their individual needs.

In January 2018 when the Strategy 2017-2020 was announced, PZU was the first insurer in Europe to introduce PZU GO, an innovative telematics solution designed to improve driver safety. A mobile application combined with a small beacon device will automatically call for assistance in the event of a collision or accident. Additionally, under partnership programs, PZU GO will also provide a benefit package for drivers with a PZU policy and in the future also cheaper motor insurance policies for the best of them.

LINK4 is the Group's brand known for a long time for its innovative approach to motor insurance. In its efforts to increase the safety of Polish road users, the Company also uses telematic solutions. For every motor policy purchased, it offers a free NaviExpert navigation service that it uses to analyze the driver's driving style. LINK4 wants to promote and reward those, whose driving style it considers to be smooth and safe; the reward is zlotys that accumulate on the client's account and are then returned by the company to the client after the end of the one-year settlement period. The ability to receive a partial premium refund motivates drivers to improve their driving style, the additional benefit being the savings on fuel and consumption of car parts, but primarily the safety of the users of Polish roads.

Since weather conditions atypical for our climate (storms, flooding rain, tornadoes) have increased, the company, in cooperation with Skywarn Poland – Polish Storm Hunters, has developed weather alerts. The weather warning system must assist clients in preparing for adverse weather conditions and reduce the level of losses. Starting on 1 January 2018, clients holding house or apartment insurance will receive a text message with a warning of the anticipated dangerous weather conditions. In addition to information about the approaching threat, the text message will also contain a link to the mobile version of the website, where clients will find tips on how to prepare and how to deal with the upcoming danger.

5.3 Banking

Pekao

Distribution channels

The Bank offers its customers a wide distribution network with branches and ATMs conveniently located throughout Poland. At the end of December 2017, Pekao had 851 own branches and 1,745 own ATMs.

At the end of December 2017, the Bank administered 5,669.3 thousand current accounts in PLN, 354.1 thousand mortgage loan accounts and 620.8 thousand Express Loan accounts.

Bank Pekao S.A. is one of the electronic banking leaders on the Polish market. In its electronic banking operations, the bank offers its customers a full range of solutions such as: web and mobile sites, a mobile app for phones and tablets and PeoPay mobile payments. Since mid-2017, the Bank's customers have been able to use Pekao24, a new mobile site for mobile phone browsers, which apart from the design change, friendly navigation and intuitive operation offers features known to customers from the mobile application on tablets and internet service.

Innovations

In 2017, Bank Pekao launched a new PeoPay mobile app, a single application for banking and paying. This application had been designed together with the customers and offers all the functions they need. This is the first app in Poland that uses biometrics to confirm transactions, supports payments abroad in foreign currencies and allows users to pay for web-based shopping directly in their phones.

What makes PeoPay different is, among others, that it offers login, authorization of Internet transfers and payments all with a fingerprint, support for multiple currencies, i.e. the ability to pay abroad in a foreign currency or payments made by phone without having to give codes or log into the web banking system.

Pekao's innovative projects were appreciated by the jury of the Innovation of the Year 2017 competition conducted under the auspices of the Faculty of Technical Sciences of the Polish Academy of Sciences and the FIRE Innovation Center Foundation. The jury awarded the prestigious title to Pekao Connect, the integration service between the PekaoBiznes24 transaction platform and the company's financial and accounting systems.

To implement the strategy of acquiring young customers, the bank focused on expanding long-term cooperation with the largest institutions of higher learning in Poland and various educational initiatives throughout Poland.

In Q3 2017, contracts were signed with four successive universities to issue Electronic Student IDs with a payment functions. The "Family Dream Journey" contest was also launched, supporting parents in opening accounts for children and youth at Bank Pekao S.A. In Q3 2017, the Bank opened nearly 40,000 new savings accounts: Mój Skarb, Eurokonto Kieszonkowe and Eurokonto Intro.

Alior Bank

Distribution channels

At the end of 2017, the bank had 905 outlets (248 traditional branches, including 7 Private Banking branches, 12 Regional Business Centers and 638 partner outlets). The bank's products were also offered in the chain of 10 Mortgage Centers, 10 cash centers and a network of roughly 10 thousand intermediaries.

Alior Bank also used distribution channels based on a modern IT platform incorporating: online banking, mobile banking, call centers and DRONN. The bank uses the Internet, including Internet banking, to enter into agreements for: savings and checking accounts, currency accounts, savings accounts, deposits, debit cards and brokerage accounts. These channels are also used to accept applications for credit products: cash loans, credit cards, overdraft limits and mortgage loans. Using the Internet, the bank also offers installment loans in an on-line process and offers services of a currency exchange office.

Alior Bank's traditional branches are located in the largest cities throughout Poland, offering the full range of the Bank's products and services and constituting their main distribution channel. Partner outlets on the other hand are located in smaller towns and in selected locations in Poland's major cities, offering a broad range of services and deposit and credit products for retail and business customers.

Cooperation between the bank and its partner outlets is based on an outsourcing agency agreement. Under these agency agreements, agents provide exclusive agency services to the Bank in respect to the distribution of products. These services are provided in locations owned or leased by agents approved by the Bank.

The bank's products were also offered in financial intermediary chains, such as Expander, Open Finance, Sales Group, Dom Kredytowy Notus, Fines, DFQS, GTF and others. The range of products available from financial intermediaries varies depending on the partner, mainly cash loans, consolidation and mortgage loans and instalment loans.

On 31 October 2017, the Bank terminated the cooperation agreement with the TESCO retail chain concerning the "TESCO Finance" project. As of 1 November 2017, Tesco Finance locations no longer offer Alior Bank's product contracts and instructions for previously concluded contracts may no longer be submitted. The existing customers, will now be serviced by the chain of Alior Bank's own branches.

Innovations

The business objective of Alior Bank is to maintain its innovation leadership position in Poland and to become among most innovative banks in Europe.

During the next four years, in addition to the previously planned expenditures for ongoing IT development and maintenance work, Alior Bank will invest the additional PLN 400 million in innovative technology projects. These expenditures will drive Alior Bank's digital transformation, in which motivated employees will guide the individual and corporate customers to the digital world, in a safe and friendly manner, which will also be profitable for the shareholders.

In early 2017, Alior Bank was the first bank in Poland to offer its partners mobiRATY – a mobile app to enter loan applications and sign loan agreements fully electronically. This innovative solution was recognized internationally and was awarded the main prize in the Banking Technology competition in the Best Use of IT for Lending category.

banking technology AWARDS 2017

Operating model - distribution, innovation

The Alior Bank's new Innovation Management Model will support the use of modern technologies to bridge customer needs with the bank's strategy. This will make life easier for clients while ensuring high profitability for the bank.

Alior Bank has also established the Fintech Department, a new unit responsible for seeking fintechs globally and for launching partnerships with those that are the best match with the bank's strategy. Its goal is to launch cooperation with 20 companies by 2020 and establish the perception of the bank as the partner of first choice for European fintechs.

5.4 Health

Distribution channels

Health products – in the form of life and health and property insurance and non-insurance products – benefit from synergies within the PZU Group and are distributed through virtually all sales channels, however based on the corporate and agency chain of PZU and PZU Życie.

Medical infrastructure

PZU Zdrowie cooperates with 2,000 partner outlets in more than 500 towns and cities in Poland.

At the same time, it has been consistently developing its own network of 60 outlets, among others Warsaw, Gdańsk, Poznań, Katowice, Częstochowa, Radom, Płock and Opole, which in aggregate employ more than 1,200 doctors.

Wide medical infrastructure guarantees rapid appointments; in the case of basic medical care (POZ) a visit is offered within a maximum of 2 business days, and in the case of specialists within a maximum of 5 business days.

Contact channels

Appointments for a medical service can be arranged through:

PZU Zdrowie partner outlets in Poland

Innovations

In 2017, PZU Zdrowie implemented projects consisting of the following:

- development and implementation of patient service standards in Medical Centers owned by PZU Zdrowie,
- development of IT solutions necessary to support the medical and operational processes of PZU Zdrowie outlets (implementation of the Assistance system, the Provider Portal, the Client Account),
- update of the scoring model for the service providers' network and the patient targeting,
- development of rules concerning the branding of own outlets.

PZU Zdrowie conducts a pilot of patient handling using new technologies and telemedicine. Symptom checker – is a platform developed in cooperation with a Polish technology start-up, which is available on the patient portal, in an app and also in the form of a dedicated solution for medical hotline employees. The purpose of the platform is to conduct an interview with a patient, which is very similar to a

24h call centre 801 405 905

Application form of appointment on pzu.pl

Application form of request phone calling from pzu.pl

Mobile application PZU Pomoc

SMS with text: „WIZYTA" for 4102

Distribution channels

	Group insurance	Mass insurance	Individual insurance	Non-insurance products
Corporate sales	✓	✓		
Tied agents	✓	✓		
Multi-agencies/ Brokers/Dealers	✓	✓		✓
PZU Branch	✓	✓	✓	
Direct (mailing)			✓	
Strategic partners		✓		✓
PZU Zdrowie employees (corporate network and outlets)				✓

Facilities for patients

- We guarantee time limit for medical appointments – the availability deadlines are stated in the general terms and conditions of insurance;
- Our patients can benefit from services throughout Poland;
- We are a medical guide for our patients – our 24-hour hotline serves as a medical guide in many cases and coordinates the treatment of patients;
- We provide remote medical care – our patients can use a phone, chat or video chat to consult an internist, pediatrician, endocrinologist, diabetologist, cardiologist or a midwife. During remote consultation they can discuss their ailments, test results and receive prescriptions for medicines taken permanently and referrals to examinations;
- We do not require referrals to visit specialists and we also honor referrals from doctors from outside the network;
- We also allow our patients to get treatment from doctors from outside our network: through the reimbursement option clients may use medical services included in the coverage outside of our network.

physician interview, and then presentation of a most probable solution and indication of further steps. This may be phone consultation, video consultation or a chat with a doctor or a visit in a clinic to with a specific specialist. However in many cases such a discussion with a patient may end with an advice or a prescription sent without any need to leave home.

5.5 Management of the PZU Group's brands

PZU is the most recognizable brand in Poland. According to spontaneous awareness studies, recognition of the PZU brand reaches 88%, while prompted brand awareness is 100%.[1] Even though it is associated mainly with insurance, the PZU Group umbrella contains several brands. They differ in terms of the visual systems used, target groups and business models.

The dominating brand is the PZU corporate brand. This brand is used to identify the PZU Group itself 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), as well as some of the international companies – the Ukrainian companies and the branch in Estonia.

In the PZU Group's architecture there is also a group of so-called PZU family brands. The family consists of companies whose names do not refer to the dominant brand, such as AAS Balta i TUW PZUW. However, their logos look similar to the corporate brand. These companies also use similar visual identification systems.

The last level of brand architecture is the independent brands group. This category includes the brands within the PZU Group, the names and visualization of which differ from the corporate brand, such as Lietuvos Draudimas and LINK4. Both companies are distinguished by their high prompted brand awareness on the Lithuanian and Polish markets, at 98% and 97% respectively.

[1] Study conducted by the Gfk Polonia institute, 2017

PZU Group brand architecture (the "corporate umbrella" model)

Tomasz Zaborowski
Client Relations Management Department

I am active in physical therapy, massages and coordinating the Nordic walking section in the PZU Sport Team. I encourage others to be active, I show them how much satisfaction physical activity can bring. I have a host of ideas up my sleeve, though time has become a deficit product.

Foto: Chris MajkowskiFoto.com

6.

Financial Results

Net profit attributable to the parent company's shareholders nearly PLN 1 billion higher than the value generated in 2016. Increase in gross written premium by 13.0% y/y and consolidation of the leading position in the Polish insurance sector. Greater exposure to the banking sector – commencement of Pekao's consolidation.

In this chapter:

6.1 Major factors contributing to the consolidated financial result

In 2017, the PZU Group generated a result before tax of PLN 5,526 million compared with PLN 2,988 million in the previous year (up 84.9%). Net profit reached PLN 4,233 million and was PLN 1,859 million more than in 2016. Net profit attributable to the parent company's shareholders was PLN 2,910 million compared to PLN 1,935 million in 2016 (up 50.4%).

The net result increased 97.5% compared to last year, net of non-recurring events.[1] The operating profit in 2017 was PLN 5,510 up by PLN 2,519 million compared to 2016.

Operating profit was driven in particular by the following factors:

- higher gross written premium in motor insurance in the mass and corporate client segments following an increase in average premium and in individual insurance, in particular unit-linked products in the bancassurance channel;
- the increase in profitability in the mass insurance segment associated mainly with a decrease in the loss ratio in agricultural insurance – in the corresponding period of the previous year, occurrence of numerous losses caused by forces of nature (adverse effects of ground frost) and, to a smaller extent, improvement of profitability in motor insurance;
- lower profitability in the corporate insurance segment, mainly in the non-motor insurance product group following the reporting of a few claims with high unit values;
- the decrease in profitability in group and individually continued insurance as a result of a higher loss ratio in protection products driven by the increase in the frequency of events associated with deaths in Q1 2017 and as a result of the absence of the non-recurring factor from 2016 involving an update in the assumption on future disbursements applied to the calculation of provisions;
- better performance in the banking segment: Alior Bank in connection with the high sales level of credit products supported by good business climate;
- higher investment income on equity portfolios due to an upswing on the Warsaw Stock Exchange, including a higher valuation of the stake held in the Azoty Group.

The key events in 2017 included adding the Bank Pekao (hereinafter: Pekao) group to the PZU Group's structures. This transaction transformed the PZU Group from being an insurance group into a financial group. The commencement of consolidating Pekao in June 2017 materially affected the comparability of the results and the total balance sheet value. The total balance sheet value jumped on this account by roughly PLN 192 billion compared to the previous year, while non-controlling interests totaled PLN 23.0 billion (as at 31 December 2017). Since the consolidation of Pekao commenced in June 2017, it contributed PLN 1,502 million and PLN 1,750 million to the operating result of the PZU Group and the bank segment respectively.

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

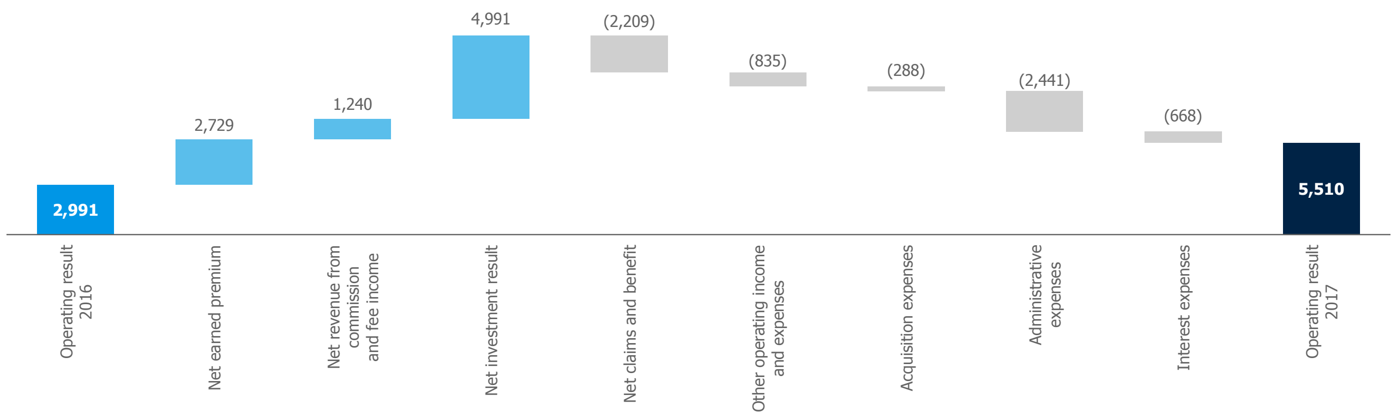
- increase in gross written premium to PLN 22,847 million. When compared to the previous year, premium rose by 13.0%, mainly in the motor insurance group in the mass and corporate client segments following an increase in average premium and in individual insurance, in particular unit-linked products in the bancassurance channel. After considering the reinsurers' share and movement in the unearned premium reserve, the net earned premium was PLN 21,354 million and was 14.7% higher than in 2016;
- higher net result on investing activity, including an increase in investment income earned on the banking activity following the commencement of consolidation of Pekao SA, but also a higher net result on investing activity excluding banking activity.
  The net result on investing activity was PLN 8,502 million, up 142.2% compared to 2016. Investment income excluding banking activity rose mainly because of the better performance posted on listed equity instruments, in particular due to the improved market conditions on the Warsaw Stock Exchange. A positive change was also recorded in comparison to the corresponding period of the previous year due to the improved valuation of the equity stake in Azoty Group in the long-term asset portfolio;
- increase in interest expenses to PLN 1,365 million vs. PLN 697 million in the corresponding period of the previous year, associated in particular with the commencement of consolidation of Pekao and PZU's PLN 2,250 million issue of subordinated bonds in June 2017;
- higher level of claims and benefits paid. They amounted to PLN 14,941 million, which means a 17.3% increase compared with 2016.
  The increase occurred in particular in the class of insurance against losses caused by the forces of nature, individual unit-linked products in the bancassurance channel and in motor insurance, as a result of the growing insurance portfolio;
- higher acquisition expenses (a PLN 288 million increase) in both mass and corporate client segments, driven up mainly by higher sales;
- the increase in administrative expenses to PLN 5,364 million from PLN 2,923 million in 2016 was associated with the commencement of consolidating Pekao and Alior Bank's merger with the spun-off portion of BPH on 4 November 2016. Administrative expenses of the banking segment rose by PLN 2,464 million. At the same time, the administrative expenses of the insurance segments in Poland were PLN 10 million lower compared to the previous year. The change resulted from lower expenses of project activity partially offset by the higher expenses incurred in bancassurance products following a change in the rules of settlements with banks under bancassurance agreements;
- higher negative balance of other operating income and expenses of PLN 1,559 million. This change was caused mainly by the higher level of levy on financial institutions. The total burden incurred by the PZU Group on account of this tax (in insurance and banking activity) in 2017 was PLN 822 million, as compared to PLN 395 million in 2016 (as a result of the commencement of consolidating Pekao and the introduction of the tax since February 2016). Moreover, in 2016, a non-recurring gain was recognized on the bargain acquisition of a spun-off portion of BPH in the amount of PLN 465 million, partially offset by the restructuring provision at Alior Bank in the amount of PLN 268 million.

Key data from the consolidated profit and loss account	2017	2016	2015	2014	2013
	PLN million	PLN million	PLN million	PLN million	PLN million
Gross written premium	22,847	20,219	18,359	16,885	16,480
Net earned premium	21,354	18,625	17,385	16,429	16,249
Net revenues from commissions and fees	1,784	544	243	351	299
Net investment result	8,502	3,511	1,739	2,647	2,479
Net insurance claims and benefits	(14,941)	(12,732)	(11,857)	(11,542)	(11,161)
Acquisition expenses	(2,901)	(2,613)	(2,376)	(2,147)	(2,016)
Administrative expenses	(5,364)	(2,923)	(1,658)	(1,528)	(1,406)
Interest expense	(1,365)	(697)	(117)	(147)	(104)
Other operating income and expenses	(1,559)	(724)	(419)	(370)	(220)
Operating profit (loss)	5,510	2,991	2,940	3,693	4,119
Share in net profit (loss) of entities measured by the equity method	16	(3)	4	(2)	1
Gross profit (loss)	5,526	2,988	2,944	3,692	4,120
Income tax	(1,293)	(614)	(601)	(724)	(826)
Net profit (loss)	4,233	2,374	2,343	2,968	3,295
Net profit (loss) attributable to equity holders of the parent company	2,910	1,935	2,343	2,968	3,293

* restated data for the period 2013 - 2016

[1] Non-recurring events include the conversion effect caused by converting long-term policies into yearly renewable term agreements in type P group insurance, claims caused by weather conditions (storms), which were higher than the average of the last 3 years, claims in agricultural insurance, which were, in the comparable period, higher than the average of the last 3 years, updated assumptions as to future disbursements applied to the calculation of provisions, profit from the bargain purchase of a spun-off portion of BPH, cost of the restructuring provision in Alior Bank.

Operating result of the PZU Group in 2017 (PLN million)



6.2 PZU Group's income

Premiums

In 2017, the PZU Group collected gross premiums of PLN 22,847 million or 13.0% more than in 2016.The individual segments recorded the following figures:

- sales in the mass client segment higher by PLN 1,287 million (net of intersegment gross written premium) compared to 2016, chiefly including motor insurance due to an increase in average premium and the quantity of policies;
- premium increased in the corporate client segment by PLN 537 million from 2016 (net of intersegment gross written premium), mainly in motor insurance due to the higher average premium and number of insurance policies, insurance against fire and other damage to property following the execution of several contracts with high unit values;
- sales increased by PLN 80 million in the group and individually continued insurance segment – the additional premium was received from health insurance concluded as group insurance;
- the premium in the individual insurance segment also rose by PLN 490 million, driven mainly by higher sales of unit-linked products in the bancassurance channel;
- gross premium written by foreign companies also increased as compared to 2016 by PLN 234 million, chiefly in motor insurance, driven by higher tariffs in the Baltic States.

Net revenues from commissions and fees

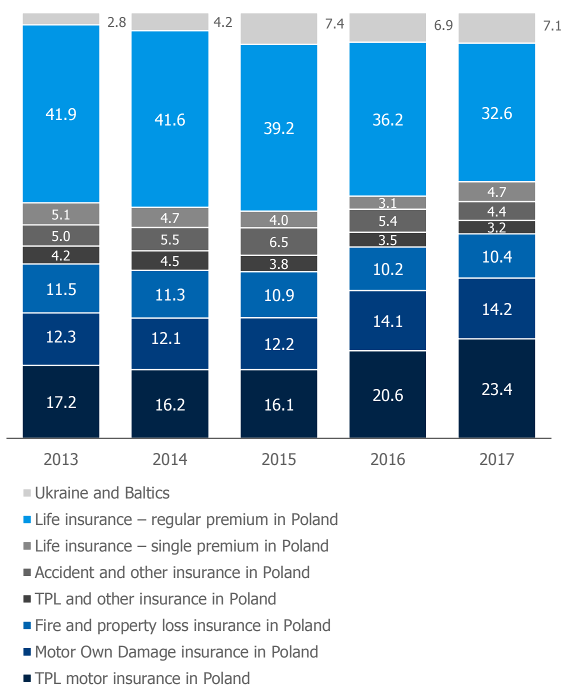
Net revenues from commissions and fees in 2017 contributed PLN 1,784 million to the PZU Group's result, or were PLN 1,240 million higher than in the previous year, mainly caused by the commencement of Pekao's consolidation.

They included mainly:

- net revenues from commissions and fees in the banking segment of PLN 1,605 million, including mainly: brokers' commissions, revenues and expenses related to the service of bank accounts, payment and credit cards, fees charged for intermediation in insurance sales;
- income on asset management in OFE Złota Jesień. It was PLN 120 million (up 29.0% compared to the previous year, because of the higher average net assets of OFE PZU);
- revenues and fees received from funds and mutual fund companies in the amount of PLN 277 million, or PLN 166 million more than in the previous year, mainly caused by the commencement of Bank Pekao's consolidation.

Insurance segments (PLN millions), local GAAP	Gross written premium (external)				
	2017	2016	2015	2014	2013
TOTAL	**22,847**	**20,219**	**18,359**	**16,885**	**16,480**
Total non-life insurance – Poland (external gross written premium)	12,702	10,878	9,074	8,367	8,269
Mass insurance – Poland	10,029	8,742	7,309	6,560	6,534
Motor TPL	4,606	3,635	2,595	2,373	2,453
Motor own damage	2,406	2,147	1,727	1,579	1,549
Other products	3,017	2,960	2,987	2,608	2,531
Corporate insurance – Poland	2,673	2,136	1,765	1,807	1,735
Motor TPL	735	532	367	354	372
Motor own damage	848	712	510	461	479
Other products	1,090	892	888	992	885
Total life insurance – Poland	8,519	7,949	7,923	7,808	7,745
Group and individually continued insurance – Poland	6,855	6,775	6,689	6,539	6,415
Individual insurance – Poland	1,664	1,174	1,234	1,269	1,330
Total non-life insurance – Ukraine and Baltic States	1,527	1,305	1,288	632	388
Ukraine non-life insurance	181	173	138	133	157
Baltic States non-life insurance	1,346	1,132	1,150	499	230
Total life insurance – Ukraine and Baltic States	100	88	74	78	78
Ukraine life insurance	42	37	31	41	47
Baltic States life insurance	58	51	43	37	32

Structure of gross written premium at PZU Group (%)



Net investment result and interest expenses

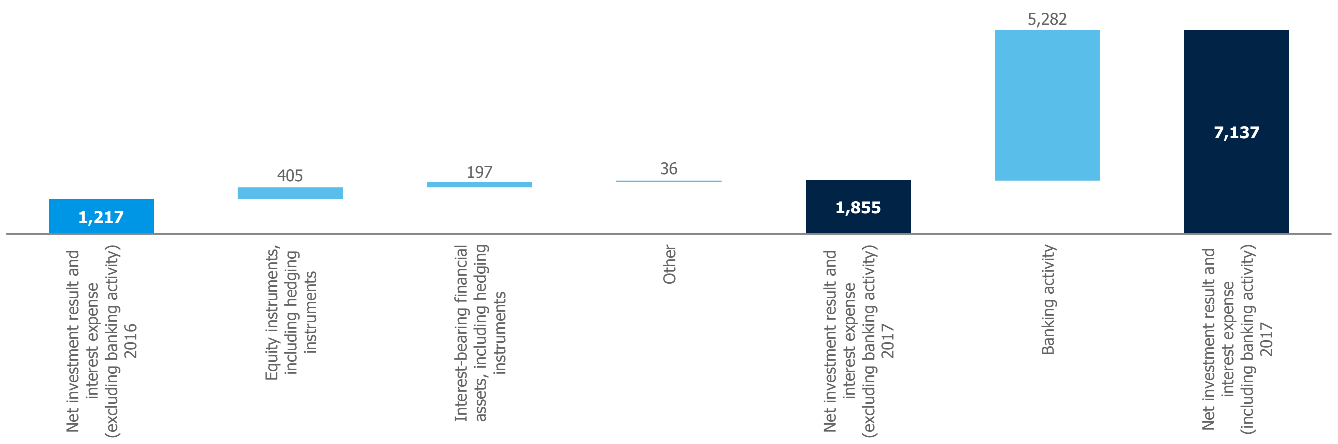
In 2017, the PZU Group's investment activity focused on the continuation of strategic assumptions, in particular on the optimization of profitability of investment operations through greater diversification of the investment portfolio, as well as ensuring financing for the transaction of PZU's acquisition of an equity stake in Bank Pekao.

In 2017, the PZU Group's net investment result was PLN 8,502 million compared to PLN 3,511 million in 2016 (up 142.2%). This higher result was caused largely by the commencement of Pekao's consolidation.

The net investment result (after factoring in interest expenses and precluding the impact exerted by banking activity) in 2017 was PLN 1,855 million. It was higher than last year's result by PLN 638 million, which was primarily due to the following drivers:

- higher result earned on listed equity instruments in particular due to improved market conditions on the Warsaw Stock Exchange – the WIG index went up 23.2% in 2017 compared to 11.4% the year before, including a better performance of the stake in the Azoty Group;
- better performance on interest-bearing financial instruments driven chiefly by:
  - better performance of non-treasury debt market instruments due to the acquisition of high-margin exposures for the portfolio,
  - decreases in the yields on Polish T-bonds,
  - purchase of high-yield government bonds on the primary market for PLN 2 billion for the held-to-maturity bond portfolio,
  - positive impact exerted by the foreign exchange differences on own debt securities in conjunction with the appreciation of the PLN versus EUR following depreciation in the comparable period, partially offset by weaker performance of investments denominated in EUR,

Movement in net investment result after factoring in interest expenses and factoring out the impact of banking operations (PLN million)



- decrease in the valuation of real properties, in particular due to the appreciation of PLN against the euro, partially offset by better performance of derivatives hedging these positions;
- performance in the portfolio of assets to cover investment products up PLN 174 million y/y, including in particular funds in the unit-linked portfolio, even though it does not affect the PZU Group's total result.

As at the end of 2017, the value of the PZU Group's investment portfolio[2], excluding the impact of banking activity, was PLN 46,164 million compared to PLN 50,488 million as at the end of 2016. The drop in the balance of deposits was driven in particular by the funding of PZU's acquisition of the equity stake in Bank Pekao.

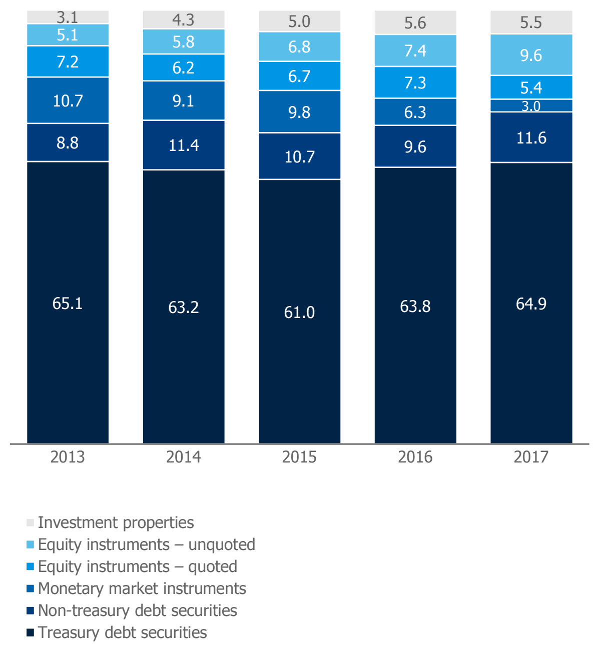
The Group runs its investment operations in compliance with statutory requirements while maintaining appropriate levels of safety, liquidity and profitability. Debt treasury securities accounted for over 60% of the investment portfolio, net of the impact of banking activity, both as at 31 December 2017 and 31 December 2016. The increase in the volume of non-treasury debt market instruments resulted from the persistently implemented investment policy aimed at achieving a greater diversification of the investment portfolio. The lower level of monetary market instruments is associated with funding the acquisition of the equity stake in Pekao.

Result on other operating income and expenses

In 2017, the balance of other operating income and expenses was negative and stood at PLN 1,559 million, compared to the balance in 2016, which was also negative at a level of PLN 724 million. The following contributed to this result:

- levy on financial institutions – the PZU Group's liability on account of this levy (in both insurance and banking activity) in 2017 was PLN 822 million compared to PLN 395 million in the corresponding period of the previous year. The increase in the liability was caused by the commencement of Pekao's consolidation in June 2017 and the introduction of the tax in February of last year;
- costs of amortization of intangible assets identified as a result of the acquisition transaction up by PLN 188 million (effect of the acquisition of the equity stake in Pekao);
- lower level of other operating income associated with last year's recognition of a gain on the bargain acquisition of a spun-off portion of BPH in the amount of PLN 465 million;
- recognition in 2016 of the cost of the restructuring provision associated with the merger of Alior Bank with the spun-off portion of BPH in the amount of PLN 268 million.

Structure of the portfolio of investments net of the impact of banking activity* (%)



* Derivatives linked to interest rates, foreign currencies and securities prices, respectively are presented in the categories: Debt market instruments - treasury, money market instruments and listed and unlisted equity instruments.

[2] The investment portfolio includes financial assets (including investment products net of loan receivables from clients), investment property (including the portion presented in the class of assets held for sale), the negative measurement of derivatives and liabilities under sell-buy-back transactions.

6.3 PZU Group's claims paid and technical provisions

Net claims and benefits (including the movement in technical provisions) reached PLN 14,941 million and were 17.3% more than in the corresponding period of the previous year. The following factors contributed to the increase in the net claims and benefits category:

- higher claims and benefits in motor insurance in the corporate and mass client segments as a result of the development of the insurance portfolio;
- the higher level of the loss ratio in insurance for losses caused by calamities in the mass client and corporate client segments due to the occurrence of an above-average number of claims resulting from weather phenomena (hurricanes, hail storms). Higher level of claims in the corporate client segment in general TPL insurance and fire insurance after several claims with high unit value were reported;
- in life insurance – higher amounts paid by clients to their accounts and significantly improved results of investing activity in the period under analysis for individual unit-linked products in the bancassurance channel and to a lesser extent the same type of group and individual products offered within PZU's own network (mostly IRAs);
- in protection insurance – an increase in Q1 2017 in the incidence of deaths compared to last year, confirmed by statistics published by the Central Statistical Office [GUS] for the entire population. In the subsequent quarters of 2017, the loss ratios returned to the levels observed in the corresponding period of the previous year;
- non-recurring effect of updating the assumptions as to future disbursements applied to the calculation of provisions recognized in 2016 in the continued insurance class.

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

6.4 PZU Group's acquisition and administrative expenses

In 2017, acquisition expenses went up PLN 288 million compared to the corresponding period of the previous year. This increase was caused in particular by higher sales in the mass client and corporate client segments.

The Group's administrative expenses in 2017 were PLN 5,364 million compared to PLN 2,923 million in 2016, i.e. went up 83.5% over the previous year. This growth resulted largely from the commencement of Pekao's consolidation and the merger of Alior Bank with BPH's spun-off operations on 4 November 2016. Administrative expenses of the banking segment rose by PLN 2,464 million. At the same time, the administrative expenses of the insurance segments in Poland were PLN 10 million lower compared to the previous year. The change resulted from the lower expenses of project activity offset by higher expenses incurred in bancassurance products following a change in the rules of settlements with banks under bancassurance agreements.

6.5 PZU Group's asset and liability structure

As at 31 December 2017, the PZU Group's total assets were PLN 317,405 million, up PLN 192,109 million compared to the end of 2016. This increase was driven predominantly by the commencement of Pekao's consolidation.

Assets

The Group's main assets are investments (financial assets and commercial property). They totaled PLN 284,208 million and were PLN 177,184 million higher than at the end of the previous year. They represented 89.5% of the Group's balance sheet compared with 85.4% at the end of 2016. The increase in the value of investments was associated mainly with the banking activity due to the commencement of Pekao's consolidation. The balance of loan receivables from clients was PLN 169,457 million, up by PLN 124,459 million from the end of 2016 (the share in total assets rose from 35.9% at the end of 2016 to 53.4% at the end of 2017).

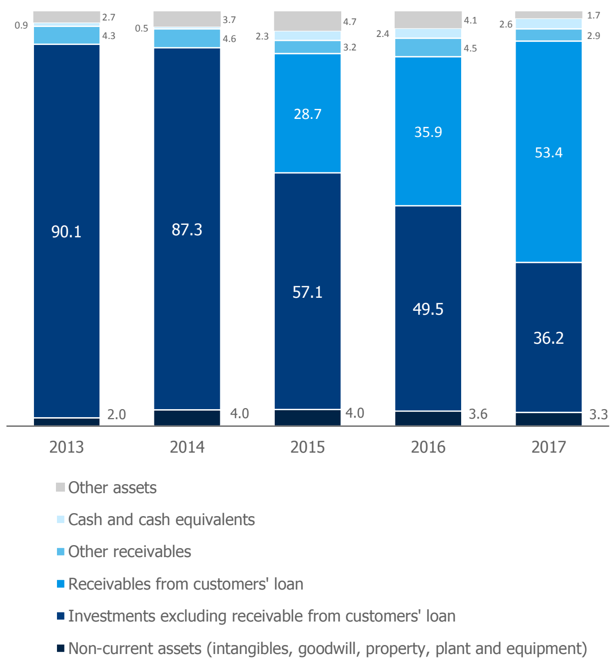
The PZU Group's receivables, including receivables under insurance contracts and current income tax were PLN 9,096 million, which represented 2.9% of its assets. For the sake of comparison, at the end of 2016 they amounted to PLN 5,664 million (4.5% of the Group's assets) and their increase was caused mainly by the outstanding transactions on financial instruments and security deposits.

Non-current assets consisting of intangible assets, goodwill and property, plant and equipment were recognized in the statement of financial position in the amount of PLN 10,521 million. They accounted for 3.3% of the assets. The balance increased in 2017 by PLN 6,008 million as compared to 2016, mainly because of the commencement of Pekao's consolidation, including recognition of goodwill related to the bank's acquisition in the amount of PLN 1,586 million and intangible assets identified as a result of PZU's acquisition of the equity stake in Bank Pekao.

As at 31 December 2017, the PZU Group held PLN 8,239 million of cash and cash equivalents (2.6% of assets). At yearend 2016, this value was PLN 2,973 million and the movement occurred mainly in the cash accumulated by Bank Pekao.

The balance of the assets held for sale item, which stood at PLN 317 million, decreased by PLN 872 million compared to the previous year due to changes in the classification of a portion of the investment property portfolio.

PZU Group's asset structure (%)



Liabilities and equity

At yearend 2017, consolidated equity hit PLN 37,601 million, up from the end of 2016 (120.1% growth). The growth in consolidated equity pertained mainly to non-controlling interests that in connection with commencement of Pekao's consolidation in June 2017, among other factors, reached PLN 22,979 million, increasing more than five-fold from the end of 2016. Equity attributable to the parent company's shareholders rose by PLN 1,624 million compared to the end of the previous year – as an effect of the net result attributable to the parent company generated in 2017, partially offset by of the distribution of profit for 2016, including the allocation of PLN 1,209 million as a dividend.

The largest component of liabilities and equity as at the end of 2017 was financial liabilities, which increased significantly compared to the end of 2016 from 47.9% to 70.7%, primarily due to the commencement of Pekao's consolidation. The value of this item reached PLN 224,507 million and included in particular:

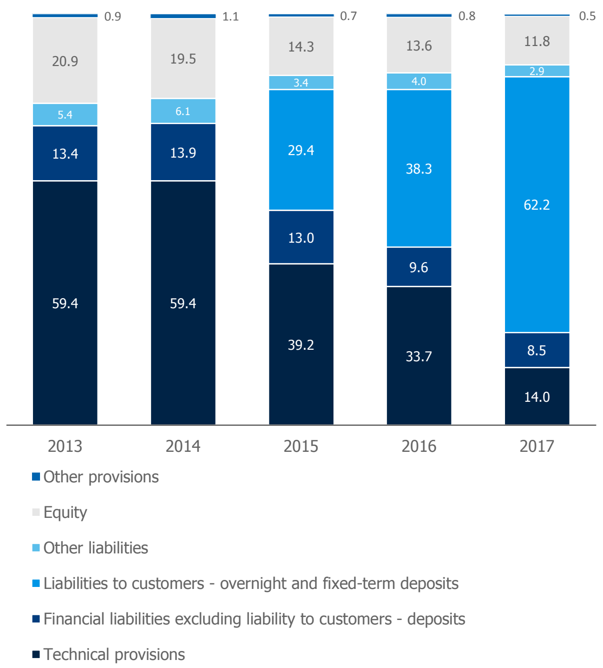
- liabilities to clients of PLN 198,163 million (predominantly by virtue of deposits held by Pekao SA and Alior Bank; an increase in current and term deposits by PLN 149,458 million compared to December 2016);
- liabilities under sell-buy-back transactions of PLN 1,167 million in 2017 compared to PLN 178 million in 2016;
- liabilities on the issue of own debt securities amounting to PLN 9,567 million, including:
  - PLN 3,821 million on bonds, of which EUR 850 million are Eurobonds issued via the wholly-owned subsidiary PZU Finance AB;
  - PLN 4,498 million on deposit certificates issued by Bank Pekao and Alior Bank;
  - PLN 1,248 million on covered bonds issued by Bank Pekao.
- subordinated debt of PLN 5,319 million. The value of this item increased compared to the end of 2016 due to the issue of subordinated debt by PZU on 30 June 2017 for the total amount of PLN 2.25 billion, by Pekao in October 2017 for the amount of PLN 1.25 billion and by Alior Bank in October 2017 for the amount of PLN 600 million. SECTION 8.3 DEBT FINANCING

As at the end of 2017, the value of technical provisions was PLN 44,558 million, which accounted for 14.0% of liabilities and equity (PLN +2,364 million compared to the end of 2016). The movement in this item resulted in particular from:

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

The balance of other liabilities and provisions at the end of 2017 was PLN 10,739 million compared to PLN 5,988 million at the end of 2016. The contributors to this increase included, among others, liabilities toward banks on account of payment documents settled in interbank clearing systems in the amount of PLN 2,125 million and liabilities on account of outstanding transactions on financial instruments in the amount of PLN 1,772 million.

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



Cash flow statement

At the end of 2017, net cash flow reached PLN 5,343 million, PLN 4,863 million more than in the previous year. This growth was caused, in particular, by net cash flows on operating activity.

Material off-balance sheet items

At the end of 2017, the value of contingent liabilities stood at PLN 58,978 million. This major increase compared to the previous year resulted from business development in the banking segment, including the commencement of Pekao's consolidation. The value of contingent liabilities granted to the clients of Alior Bank and Bank Pekao was PLN 57,836 million. The balance of the PZU Group's contingent liabilities consisted in particular of PLN 14,536 million in contingent liabilities by virtue of overdraft limits and credit cards, PLN 29,586 million in tranche-based loans and PLN 7,574 million in awarded guarantees and sureties.

Moreover, the balance of contingent liabilities included guarantees for the underwriting of securities in the amount of PLN 3,492 million (bonds covered by Pekao's underwriting).

6.6 Contribution made by the market segments to the consolidated result

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

- corporate insurance (non-life insurance) – this segment covers a broad scope of property insurance products, liability and motor insurance customized to a client's needs entailing individual underwriting offered by PZU, TUW PZUW to large businesses;
- mass insurance (non-life insurance) – this segment consists of property, accident, liability and motor insurance products. PZU and LINK4 provide insurance to individuals and entities from the SME sector;
- life insurance: group and individually insurance – PZU Życie offers it to employee groups and other formal groups. Persons under a legal relationship with the policyholder (e.g. employer, trade union) enroll in the insurance agreement and individually continued insurance in which the policyholder acquired the right to individual continuation during the group phase. It includes the following insurance types: protection, investment (which however are not investment contracts) and health insurance;
- individual life insurance – PZU Życie provides those products to retail clients. The insurance agreement applies to a specific insured who is subject to individual underwriting. These products include protection, investment (which are not investment contracts) and health insurance;
- investments – reporting according to Polish GAAP – the revenues of the investments segment comprise the investments of the PZU Group's own funds, understood as the surplus of investments over technical provisions in the PZU Group insurance companies based in Poland (PZU, LINK4 and PZU Życie) plus the surplus of income earned over the risk-free rate on investments reflecting the value of technical provisions of PZU, LINK4 and PZU Życie in insurance products, i.e. the surplus of investment income of PZU, LINK4 and PZU Życie over the income allocated at transfer prices to insurance segments. Additionally, the investment segment includes income from other free funds in the PZU Group (including consolidated mutual funds).
- Banking segment – a broad range of banking products offered both to corporate and retail clients by Pekao and Alior Bank.
- Baltic States segment – includes non-life insurance and life insurance products provided in the territories of Lithuania, Latvia and Estonia;
- investment contracts – include PZU Życie products that do not transfer material insurance risk and do not satisfy the definition of insurance contract. They include some products with a guaranteed rate of return and some products in the form of a unit-linked insurance product;
- other – include consolidated companies that are not classified in any of the above segments.

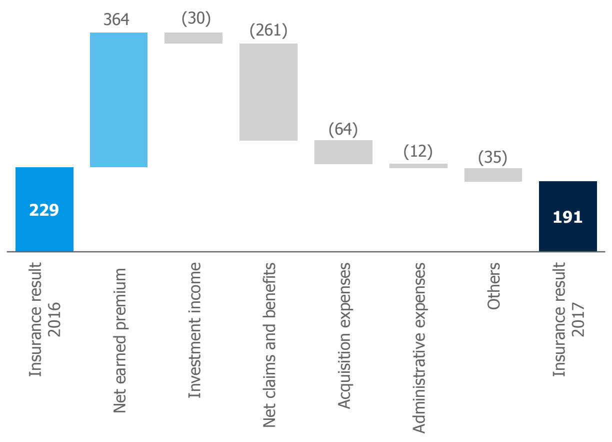
Corporate insurance

The corporate insurance segment (consisting of PZU and TUW PZUW) generated an insurance profit of PLN 191 million in 2017, i.e. 16.6% less than in the corresponding period of the previous year.

The following factors had a key impact on this segment's performance in 2017:

- a 22.2% increase in net earned premium combined with a 25.9% increase in gross written premium, both in comparison to 2016. The following movements were observed in sales:
    - higher premiums from motor insurance, both fleet-based and offered to leasing companies, as a result of an increase in the average premium and the number of insurance policies;
    - sales growth in fire insurance and other property claims and other TPL insurance as the offshoot of signing several high unit value agreements, including enrollment of two large entities from the coal and power industries in TUW PZUW;
    - development of the assistance and accident insurance portfolio as a result of expanding cooperation with strategic partners;
- net claims and benefits surged 24.6% compared to the corresponding period of 2016, which, together with a 22.2% increase in net earned premium, means that the loss ratio increase by 1.3 p.p. to 66.0%. The higher loss ratio in the class of insurance against losses caused by the forces of nature and TPL was attributable largely to numerous damages caused by the forces of nature in August (Hurricane Xavier) and December (Hurricane Greg) and the reporting of several large claims. This effect was partly offset by the improved profitability of the motor insurance portfolio.
- income from investments allocated to this segment fell 26.1% to PLN 85 million, which was caused in particular by the declining EUR exchange rate vs. PLN;
- the PLN 64 million, or 17.7%, upswing in acquisition expenses (net of reinsurance fees) compared to 2016 stemming primarily from the considerably higher sales growth rate (+25.9%);
- growth in administrative expenses to PLN 137 million, or 9.6%, compared with the previous year. Higher expenses were recorded mainly in the IT and third party services, which was related to implementing products dedicated to corporate clients to be administered and sold in the Everest system. This effect was partially offset by a decline in project-related expenses.

Insurance result in the corporate insurance segment (PLN million)

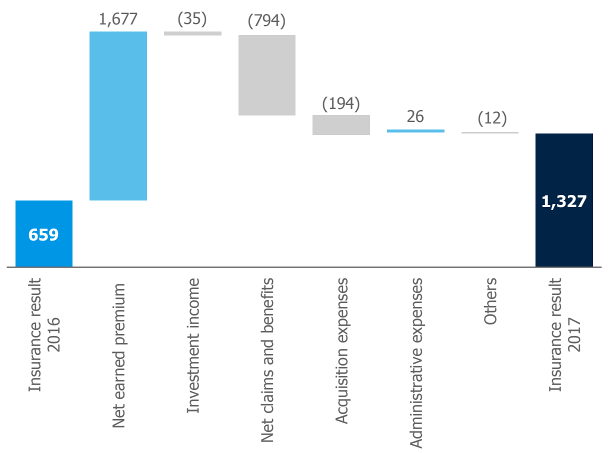


Mass insurance

In 2017, the net result of the mass insurance segment was PLN 1,327 million, almost twice as much as in 2016 (+101.4%). The following factors drove this segment's performance in 2017:

- a 21.4% increase in net earned premium to PLN 9,513 million combined with a PLN 1,235 million (+14.0% y/y) rise in gross written premium in comparison to 2016, driven by a combination of the following:
  - rising motor insurance sales (+21.1%) as an effect of the gradually introduced in 2016 increases in the average premium on the coattails of price hikes forming a response to deteriorating results of the whole market in Poland in recent years;
  - higher premium from insurance against fire and other damage to property (+14.3% of gross written premium y/y), including PZU DOM household insurance and agricultural insurance despite the extensive competition on the market (chiefly subsidized crop insurance), and
  - lower premium in the group of accident and other insurance, in particular various financial risks as a consequence of the termination of cooperation with a large strategic partner.
- higher net insurance claims and benefits in 2017 by 15.1%, which when coupled with net earned premium being up 21.4%, translated into the loss ratio improving by 3.5 percentage points compared to 2016. This change resulted mainly from:
  - the lower level of claims in the group of insurance for other damage to property, mostly for subsidized crop insurance – in the corresponding period of 2016 there were many losses caused by frost and winterkill;
  - the improving profitability of the motor insurance portfolio, in particular Motor TPL insurance, following the changes introduced in the tariff. This effect was partially offset by the observed growth in the average claim;
  - decrease in the profitability of insurance against damage caused by the forces of nature and general third party liability insurance, which was largely a consequence of the losses caused by the August and December 2017 hurricanes
- income from investments allocated to the mass insurance segment according to transfer prices amounted to PLN 482 million, down 6.8% year on year, which was caused in particular by the declining EUR exchange rate vs. PLN;
- acquisition expenses reached PLN 1,745 million, rising by 12.5% as compared to 2016, mainly due to the higher direct acquisition expense (also on the coattails of the growing insurance portfolio). The additional factor that had a positive effect on acquisition expenses was the fact that, according to the requirements of the Insurance Activity Act, the rules for paying consideration to policyholders in group contracts were altered – as of 1 April 2016, these expenses are treated as administrative expenses.
- administrative expenses in this segment amounted to PLN 608 million, down by PLN 26 million, or 4.1% less, than the year before, driven primarily by the cost discipline both in current activity and in project activity.

Insurance result in the mass insurance segment (PLN million)



Group and individually continued insurance

Insurance result in the group and individually continued insurance amounted to PLN 1,450 million and was PLN 335 million, or 18.8%, lower than in the previous year. Individual constituent elements of the insurance result were as follows.

Gross written premium was higher than in the corresponding period of the previous year by PLN 80 million (1.2%), which was mainly the result of the following:

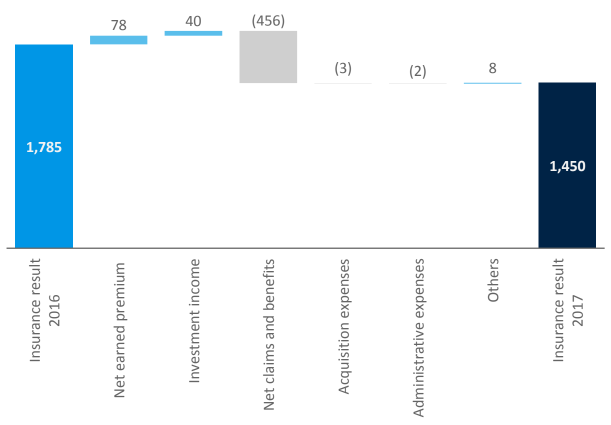
- attracting more premium income in group health insurance products or individually continued products (new clients in outpatient insurance and sales of different options of the medicine product);
- growth in group protection insurance (higher average premium and average number of riders taken out by each insured);
- active up-selling of riders in individually continued products, including, in particular, along with offering basic agreements in PZU branches, and raising sums insured during the term of the existing agreements.

The investment result consists of income allocated using transfer prices and income on investment products. In the group and individually continued insurance segment, investment income rose PLN 40 million mainly due to the higher income on unit-linked products (principally employee pension schemes) as a result of better conditions on the equity market – the WIG index surged up by 23.2% compared to 11.4% in the corresponding period of last year. Income allocated by transfer prices remained at a similar level as in the comparable period of last year.

Insurance claims and benefits and the net movement in other net technical provisions totaled PLN 5,142 million (up 9.7% y/y). This change was driven by the following factors in particular:

- in December 2016, as a consequence of the level of benefits awarded for permanent dismemberment falling in recent years, the assumptions were checked and updated for expected future payments for this purpose used to calculate provisions for this risk and this made it possible at the time to reverse 216 m PLN in provisions, mostly in continued insurance; there was no factor like that in 2017;
- higher number of deaths in Q1 2017 compared to last year and the number of claims paid for that reason in protection insurance. This uptick was justified by the higher number of deaths in the overall population of Poland at

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



the outset of the year as the data published by the Central Statistical Office depict. In subsequent quarters the loss ratios returned to the levels observed in the corresponding periods of last year. This effect was partly offset by reversal of mathematical provisions in individually continued products after the insured's death;
- incremental growth in the costs of benefits in health insurance as an effect of the rapid expansion of this contract portfolio;
- slightly slower pace of converting long-term insurance policies into yearly-renewable term business in type P group insurance. As a result of the conversion, in 2017 provisions were released for PLN 35 million, i.e. PLN 5 million less than in the corresponding period of 2016.

Acquisition expenses in the group and individually continued insurance segment in 2017 were PLN 332 million, increasing by PLN 3 million (0.9%) compared to the corresponding period of last year. The factor determining the increase in these expenses was the expanding portfolio of group protection and health products with a concurrent increase in the share of revenues generated in this portfolio by high-commission brokerage channels. This effect was simultaneously offset as a result of the signing of a new agency agreement in the bancassurance channel in Q2 2016 as a result of which the fee for performing agency activities involving participation in the administration of protection insurance agreements is treated as an administrative expense, unlike to the agreement previously in force that treated it as an acquisition expense.

Administrative expenses in 2017 remained at a level similar to that recorded in 2016. The PLN 2 million (0.3%) change was caused mainly by:

- the signing, in Q2 2016, of a new agency agreement in the bancassurance channel as a result of which the fee for performing agency activities involving participation in the administration of protection insurance agreements is treated as an administrative expense, unlike to the agreement previously in force that treated it as an acquisition expense, including increasing level of this sale y/y;
- this adverse factor was counterbalanced by cost cutting in project-related activities and in current activity by constantly maintaining cost discipline.

After excluding the one-off effect related to conversion of long-term contracts into renewable contracts in type P group insurance, the segment's insurance result amounted to PLN 1,415 million in 2017, compared with PLN 1,745 million in 2016 (a 18.9% decline). As a result of excluding a non-recurring factor from the end of 2016, update of the assumptions regarding expected future disbursements on account of permanent dismemberment used in the calculation of provisions in individual continuation, the result in 2017 dropped y/y by PLN 114 million, or 7.5%, driven mainly by the increase in the number of deaths and as a consequence the number of benefits paid in Q1 for that reason compared to previous year. This uptick was justified by the higher number of deaths in the overall population of Poland at the outset of the year as the data published by the Central Statistical Office depict. In subsequent quarters the loss ratios returned to the levels observed in the corresponding periods of last year.

Individual insurance

In 2017, the insurance result in the individual life insurance segment was PLN 209 million, or 14.3% less than last year. The main factors affecting the segment's insurance result are described below.

The growth in gross written premium of PLN 490 million (41.7%) to PLN 1,664 million compared to 2016 was the result of the following:

- higher contributions to the unit-linked insurance accounts offered jointly with Bank Millennium;
- sales launch of a new unit-linked product with Alior Bank at the outset of 2017;
- higher contributions to the unit-linked insurance accounts offered by PZU branches, especially IRA and the Goal for the Future products;
- constantly rising level of premiums on protection products in endowments and term insurance – the volume of sales is greater than the number of instances of reaching the endowment age, surrenders, lapses and deaths in the existing portfolio.

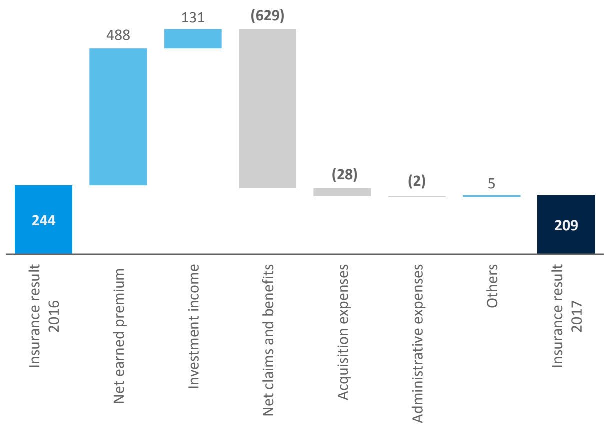
The investment result consists of income allocated using transfer prices and income on investment products. They rose PLN 131 million y/y in the individual insurance segment, mostly on account of the growth in the result on investment products – this was predominantly the effect of higher yields of funds in unit-linked products, in particular in the bancassurance channel, and better performance recorded in the IRA individual retirement account product. Income allocated by transfer prices remained at a similar level as in the comparable period of last year.

Net insurance claims and benefits together with the movement in other net technical provisions were PLN 1,672 million, reflecting an increase in costs by PLN 629 million compared to 2016. This was caused by significantly higher increases in provisions, predominantly for unit-linked products in the bancassurance channel and to a lesser extent the same type of products offered within PZU's own network (mostly IRAs). In both cases, this resulted both from an increase in customer deposits in unit-linked fund accounts and significantly better results of investment activity in the reporting period. Additionally, in 2017 the level of reversals of provisions for the restatement of benefits and litigation in the old annuity portfolio in its run-off phase was lower than in the year before.

In 2017, acquisition expenses increased in the individual insurance segment by PLN 28 million to PLN 135 million. This was driven by a significantly higher volume of sales of unit-linked products in the bancassurance channel with prepaid commissions and, to a lesser extent, by additional expenses resulting from the growing involvement of own network in the acquisition of individual protection products.

Administrative expenses in 2017 remained at a similar level as the year before, i.e. at PLN 61 million compared to PLN 59 million in the previous year.

Insurance result in the individual insurance segment (PLN million)



The main factor contributing to the decline in the segment's operating result is still the increase in commissions for unit-linked products in the bancassurance channel and increase of the share of investment products generating a much lower margin in the segment's revenues.

Investments

The revenues of the Investments segment comprise the investments of the PZU Group's own funds, understood as the surplus of investments over technical provisions in the PZU Group insurance companies seated in Poland (PZU, LINK4 and PZU Życie) plus the surplus of income earned over the risk-free rate on investments reflecting the value of technical provisions of PZU, LINK4 and PZU Życie in insurance products, i.e. surplus of investment income of PZU, LINK4 and PZU Życie over the income allocated at transfer prices to insurance segments.

Additionally, the investment segment includes income from other free funds in the PZU Group (including consolidated mutual funds).

Income on operating activities in the investments segment (excluding external operations) amounted to PLN 111 million and was higher than in the previous year, in particular as a result of better climate in the Polish equity and bond market, and acquisition of high-margin exposures to debt portfolios.

Banking activity

The banking activity segment consists of the following groups: Pekao, from June 2017 (effect of settling the transaction and start of consolidation) and Alior Bank.

In 2017, the banking activity segment generated PLN 2,487 million in operating profit (without amortization of intangible assets acquired as part of the bank acquisition transactions), representing an increase by PLN 1,839 million compared to 2016. Taking into consideration the commencement of consolidation of Pekao, one of the largest banks in Central and Eastern Europe, all items of the statement of profit or loss and items of the statement of financial position for 2017 are significantly higher compared to the previous year.

In 2017, Pekao has contributed PLN 1,750 million to operating profit (without amortization of intangible assets acquired as part of the Pekao acquisition transaction) in the "Banking activity" segment and Alior Bank contributed PLN 737 million.

The key element of the segment's income is investment income, which in 2017 increased to PLN 6,506 million y/y (up 207.0% y/y).

Interest income comprises the following components: interest income, dividend income, trading result and result of impairment losses.

In 2017 very high sales of credit products were recorded in Pekao and Alior Bank, among others thanks to the favorable economic climate and the low level of interest rates.

Alior Bank recorded an increase in net interest income (interest income minus interest expenses) by 46.0% as a consequence of acquisition of a spun-off portion of Bank BPH and organic growth in the volume of loans granted to clients coupled with the accompanying increase in client deposits. As at the end of 2017, the size of the net client loan portfolio in Alior Bank grew 10.9% y/y and deposits from non-financial clients rose 12.2%.

Profitability of the banks in the PZU Group measured by the net interest margin amounted to 2.8% in Pekao (for the whole year) and 4.6% in Alior Bank (up 0.5 p.p. y/y). The difference in the level of the indicators results in particular from the structure of the loan receivables portfolio (Pekao Bank – over

40% of the housing loan portfolio and Alior Bank – over 35% of consumer loans).

The net fee and commission income in the banking activity segment amounted to PLN 1,605 million and was PLN 1,254 million higher y/y. As in the case of the net interest income, the increase in loan sales contributed to improvement of the above figures.

The segment's administrative expenses amounted to PLN 3,754 million and comprised Pekao's expenses in the amount of PLN 1,917 million (for 7 months) and Alior Bank's expenses – PLN 1,837 million. In 2017, Alior Bank recorded an increase in personnel costs, which resulted among others from the pay pressure and the bank's strategy focusing on innovative solutions requiring qualified IT staff.

In addition, other contributors to the operating result included other operating income and expenses, where the main components are the BFG fees (PLN 101 million) and tax from other financial institutions (PLN 513 million).

As a result, the Cost/Income ratio DICTIONARY stood at 48% in both banks. The ratio was 46% for Pekao and 49% for Alior Bank.

As part of consolidation adjustments pertaining to the banking segment, the following items should be highlighted in 2017:

- elimination of PLN 414 million on account of fair value restatement of previously owned shares, associated with acquisition of the remaining shares in Pekao TFI (formerly: PPIM) and Dom Inwestycyjny Xelion.
- the effect of reversal of the positive result on sales of NPL loans by Bank Pekao in the amount of PLN 143 million.

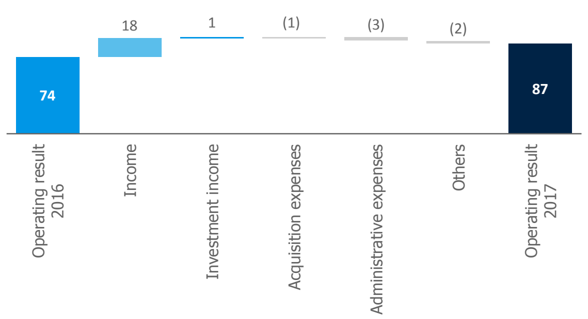
Both of the above values were allocated to the Bank Pekao purchase price.

Pension insurance

In 2017, the operating profit in the pension insurance segment amounted to PLN 87 million, i.e. it increased by 17.5% compared with 2016. The major drivers of the operating result included the following:

- commission and fee income shot up 16.0% compared to the previous year and stood at PLN 128 million. This change was the result of:
    - management fee up by PLN 18 million as a result of the higher average net asset value in OFE PZU;
    - revenues down by PLN 3 million on reimbursements from the Indemnity Fund;
    - increase in income on withdrawal of funds from the reserve account by PLN 2 million.
- acquisition and administrative expenses stood at nearly PLN 3 million, having declined by 28.2% from the previous year. This resulted from OFE's information activities in 2016;
- administrative expenses hit PLN 44 million, i.e. they were up 8.2% from the previous year. This change resulted mainly from increased costs:
    - due to the payment of contributions to the Indemnity Fund by over PLN 2 million; and
    - personnel costs mainly due to higher bonus costs and changes in the employment structure.
- other operating income dropped by nearly over PLN 3 million due to the business events that took place in 2016, i.e.: receipt of the incentive bonus (PLN 2 million), restatement of the provision for refund of contributions overpaid by ZUS and reversal of the provision for mailing the annual fund information for 2015 (PLN 1 million).

Operating profit in the pension insurance segment (PLN million)

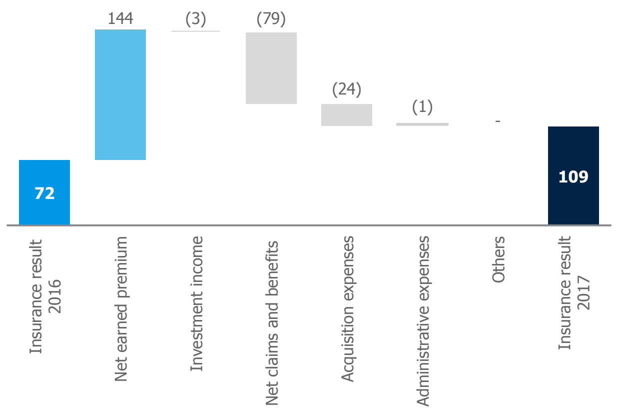


Baltic States

In 2017, the PZU Group's business in the Baltic states generated a positive insurance result of PLN 109 million compared to PLN 72 million in the previous year. This result was shaped mainly by the following factors:

- increase in gross written premium. It amounted to PLN 1,404 million compared to 1,183 in the year before. The premium in non-life insurance increased by PLN 214 million y/y (or 18.9%). Such a dynamic increase was possible among others thanks to increase in the motor insurance premiums in the region, increase in the sale of property insurance – both in Lithuania and in Latvia, where the entities intensified their sales, and significant increase in the premium written in health insurance in Latvia. Premiums in life insurance increased by PLN 7 million (or 13.7%);
- decrease in investment income. In 2017 the result stood at PLN 20 million and was 13.0% lower than in the year before, primarily as a result of lower increase of investment property prices;
- increase in net claims and benefits. They amounted to PLN 773 million and were higher by PLN 79 million compared to the year before. At the same time the loss ratio in non-life insurance stood at 61.2%, down 0.8 p.p. from the previous year. In life insurance the value of benefits stood at PLN 45 million and was 9.8% higher than in the previous year;
- higher acquisition expenses. They segment's expenditures for this purpose were at PLN 275 million. The acquisition expenses growth rate was lower than the premium growth rate and stood at 9.6% y/y. The acquisition expense ratio calculated on the basis of net earned premium dropped by 0.7 p.p. and stood at 22.0%;
- slight increase in administrative expenses. They were PLN 111 million, increasing by 0.9% from the previous year. Despite an increase in incurred expenses, a decrease in the administrative expense ratio was recorded, standing at 8.9%, down 1.1 p.p. relative to 2016. The lowering of administrative expenses was possible due to the maintenance of cost discipline, notably in the IT area.

Insurance result in the Baltic States segment (PLN million)



Ukraine

The Ukraine Segment closed 2017 with a positive insurance result of PLN 11 million, compared to PLN 15 million last year.

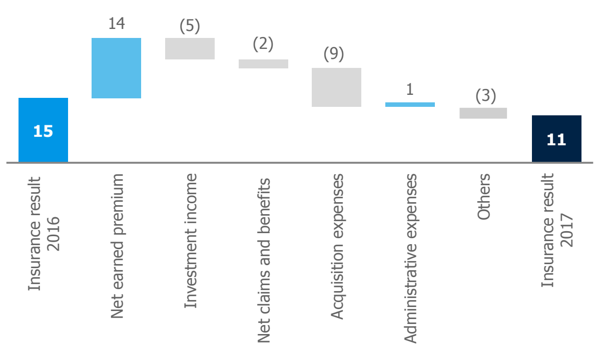
The change in the result generated by the segment was caused by the following factors:

- growth of gross written premium. It amounted to PLN 223 million and increased compared to the previous year by PLN 13 million (or 6.2%). The increase in non-life insurance premiums (4.6% y/y) occurred primarily in motor insurance, both as a result of increasing sums insured and tariffs in mandatory insurance. Premiums in life insurance increased by PLN 5 million (or 13.5%);
- lower income from investing activities. The segment generated PLN 18 million, which was 21.7% less than in 2016. This resulted from, among others, positive foreign exchange differences in the portfolio of USD-denominated investments including in investment income in the previous year;
- increase in net claims and benefits. These reached PLN 56 million and were 3.7% higher than in the previous year. In life insurance the value of benefits paid decreased in relation to the previous year by PLN 4 million (or 19.0%). The loss ratio calculated on the basis of the net earned premium in non-life insurance was 47.0%, up 2.4 p.p. compared to the previous year;
- increase in acquisition expenses. They stood at PLN 69 million compared to PLN 60 million in the previous year. Due to the higher commission burden, expenditures for

this purpose in life insurance increased by PLN 6 million (or 31.6%). The segment's acquisition expense ratio went up compared to the previous year by 1.1 p.p. to 56.1%;

- decrease in administrative expenses. They amounted to PLN 23 million, down PLN 1 million compared to the previous year. The administrative expense ratio calculated on the basis of the net earned premium decreased by 3.3 p.p. and stood at 18.7%.

Insurance result in the Ukraine segment (PLN million)



Investment contracts

In the consolidated financial statements investment contracts are recognized in accordance with the requirements of IAS 39.

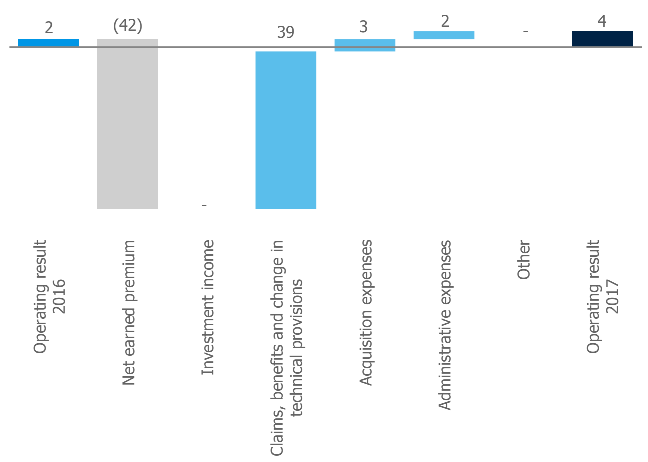
The results of the investment contracts segment are presented according to Polish Accounting Standards, which means that they include, among other things, gross written premium, claims paid and movement in technical provisions. The above categories are eliminated at the consolidated level.

In 2017 the PZU Group earned PLN 4 million of operating profit compared with PLN 2 million in the previous year (increase of 100.0%) on investment contracts, i.e. PZU Życie's products which do not generate a material insurance risk and which do not meet the definition of an insurance contract (such as some products with a guaranteed rate of return and certain unit-linked products). This result in 2017 was driven by the following factors:

- gross written premium generated on investment contracts in 2017 decreased by PLN 42 million (-48.8%) compared to the corresponding period in 2016 to PLN 44 million. The changes in gross written premium were caused mainly by the withdrawal of short-term endowment insurance products (term deposits packaged as insurance products) from own channel offering in June 2016;
- result on investing activity in the investment contracts segment remained on an unchanged level vis-à-vis the previous year, i.e. at PLN 18 million;
- the cost of insurance claims and benefits together with the movement in other net technical provisions decreased PLN 39 million y/y to PLN 50 million due to the withdrawal, in mid-2016, of short-term endowment products from the range of products offered in the own channel (the absence of written premium as opposed the previous year does not generate any growth in technical provisions, while the value of benefits paid to persons reaching the endowment age is offset by a commensurate movement in technical provisions);
- the decrease in acquisition expenses vis-à-vis the previous year was an effect of the lack of new sales and declining value of assets in unit-linked products in the bancassurance channel (a portion of the bank's fee depends on the level of assets) and additionally also a declining involvement of the company's own network in selling short-term investment endowment products following the withdrawal of products of this type from the offering in June 2016;
- administrative expenses totaled PLN 7 million, down 22.2% from the corresponding period of 2016 as a result of a decrease in the portfolio of agreements in this segment.

Summing up, the increase in the segment's operating result was driven mainly by the lower operating expenses allocated to the products of this segment.

Operating result in the investment contracts segment (PLN million)



Profitability ratios

In 2017 the return on equity attributable to the parent company (PZU) was 21.1%. ROE was 6.2 p.p. higher than in the prior year. The profitability ratios achieved in 2017 by the PZU Group exceed the levels achieved by the whole market (according to the data for three quarters of 2017).

Operational efficiency ratios

One of the fundamental measures of operational efficiency and performance of an insurance company is COR – Combined Ratio – calculated, due to its specific nature, for the non-life insurance sector (Section II).

The PZU Group's combined ratio (for non-life insurance) has been maintained in recent years at a level ensuring a high profitability of business. In 2017, the ratio declined mainly due to the lower loss ratio in agricultural insurance as a result of the occurrence of numerous losses caused by forces of nature (adverse effects of ground frost) in 2016.

The operating efficiency ratios, broken down into individual segments, were presented in the ATTACHMENT.

Operational efficiency ratios		2017	2016	2015	2014	2013
1.	**Gross claims and benefits ratio (simple)** (gross claims and benefits/gross written premium) x 100%	67.3%	63.7%	66.9%	69.5%	67.9%
2.	**Net claims and benefits ratio** (net claims and benefits/net earned premium) x 100%	70.0%	68.4%	68.2%	70.3%	68.7%
3.	**Operating expense ratio in the insurance segments** (insurance activity expenses/net earned premium) x 100%	21.1%	22.5%	23.3%	22.2%	20.5%
4.	**Acquisition expense ratio in the insurance segments** (acquisition expenses/net earned premium) x 100%	14.0%	14.3%	14.1%	13.4%	12.3%
5.	**Administrative expense ratio in the insurance segments** (administrative expenses/ net earned premium) x 100%	7.2%	8.3%	9.2%	8.8%	8.1%
6.	**Combined ratio in non-life insurance** (net claims and benefits + insurance activity expenses) / net earned premium x 100%	89.6%	94.9%	94.5%	95.7%	87.8%
7.	**Operating profit margin in life insurance** (operating profit/gross written premium) x 100%	19.3%	25.3%	22.3%	24.4%	22.3%
8.	**Cost/Income ratio** - banking operations	47.7%	44.4%	-	-	-

Basic performance ratios of the PZU Group	2017	2016	2015	2014	2013
Return on equity (ROE) – attributable to the parent company (annualized net profit/ average equity) x 100%	21.1%	14.9%	18.0%	22.6%	24.1%
Return on equity (ROE) – consolidated (annualized net profit/average equity) x 100%	15.5%	14.7%	16.6%	22.6%	24.1%
Return on assets (ROA) (annualized net profit/average assets) x 100%	1.9%	2.1%	2.7%	4.6%	5.6%

6.7 Issuer's financial results – PZU (Polish GAAP)

In 2017, the issuer recorded a technical result at a level of PLN 1,218 million compared to PLN 537 million in the preceding year, which signifies an over double increase in the result year on year. Net profit was PLN 2,434 million compared to PLN 1,573 million in 2016 (up 54.7%). Without taking into account the dividends received from PZU Życie, PZU's net profit was PLN 1,005 million and was higher by PLN 256 million compared to 2016.

In the individual net result items, PZU recorded:

- an increase in gross written premium to PLN 12,433 million, or 16.4%, compared to the previous year, mainly in motor insurance as a result of an increase in the average premium (driven by a gradual shift in the average price) and in insurance of property damage. After consideration of the reinsurers' share and the movement in the provision for unearned premiums, net earned premium was PLN 11,181 million, up 21.4% from 2016;
- a higher level of claims and benefits totaling PLN 7,169 million, up 16.6% compared to 2016. The main change was recorded in the motor insurance group driven by growth of the insurance portfolio and in the insurance against damages caused by the forces of nature;
- the net investment result, higher by PLN 95 million, as a result of a higher dividend from PZU Życie offset by the one-off effect of realization of the result of valuation of participation units in the Universum PZU Specialist Open-end Mutual Fund (PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Universum) in 2016, which until redemption of the units was captured through a change of the revaluation reserve;
- higher acquisition expenses (an increase by PLN 270 million), mainly due to an increase in direct acquisition expenses driven by the growing insurance portfolio. The additional factor that had a positive effect on acquisition expenses was the fact that, according to the requirements of the Insurance Activity Act, the rules for paying consideration to policyholders in group contracts were altered – as of 1 April 2016, these expenses are treated as administrative expenses;
- a decrease in administrative expenses to PLN 693 million compared to PLN 724 million in 2016, primarily as a result of the application of cost discipline measures both in current and in project activities.

In 2017 PZU collected gross written premium of PLN 12,433 million, i.e. 16.4% more than in 2016. They comprised mainly:

- motor TPL insurance premiums, accounting for 42.4% of PZU's insurance portfolio (38.1% in the prior year). In 2017, their value was 29.4% higher than in the previous year, mainly as an effect of increase in the average premium as a result of the tariff changes introduced in 2016 and higher number of insurance policies;
- Motor own damage insurance premiums with a 25.3% share of PZU's total gross written premium (i.e. 0.6 p.p. less than in the corresponding period of the previous year) - increase (+13.8% y/y) associated with a higher number of insurance and gradual introduction of increases;
- insurance against fire and property damage premiums, accounting for 19.2% of PZU's premium portfolio. In 2017 their share in the insurance portfolio did not change, but their value was 16.7% higher in relation to the previous year – the effect of higher sales of agricultural insurance (in particular subsidized crops) and household insurance;
- accident and other insurance premiums. Their share amounted to 7.3% (a decline of 3.1 p.p. compared with 2016). This insurance category recorded a decline of the premiums on assistance insurance and various financial risks insurance, as a result of TUW PZUW being joined by several existing strategic partners and ending cooperation with a large entity (client) under an obligatory quota share inward reinsurance treaty.

In 2017, PZU's investment activity focused on the continuation of strategic assumptions, in particular on the optimization of profitability of investment operations through greater diversification of the investment portfolio, as well as ensuring financing for the transaction of purchase of shares in Bank Pekao.

In 2017, the result on PZU's investment activity was PLN 1,973 million compared to PLN 1,878 million in 2016. After netting out the effect of the dividend received from PZU Życie, the net investment result was PLN 544 million compared to PLN 1,053 million the year before. The decline of the result was driven mainly by the one-off effect of the result realized in 2016 on participation units in the Universum PZU Specialist Open-end Mutual Fund (PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Universum) in the amount of PLN 764 million, which until redemption of the units was captured through a change of the revaluation reserve.

In December 2017, the value of PZU SA's investment portfolio was PLN 36,576 million compared to PLN 31,375 million at year end 2016. The increase in the portfolio value resulted primarily from PZU's issue of PLN 2,250 million subordinated bonds in June 2017, higher cash flows in connection with the dynamic development of the insurance portfolio, and the investment resulted generated. Compared to the year before, the share of debt securities and other fixed income securities decreased, driven mainly by reaching the maturity of part of the bond portfolio in 2017.

In 2017 PZU did not apply hedge accounting.

In 2017, net claims and benefits and the incremental growth in PZU's provisions totaled PLN 7,169 million, i.e. 16.6% growth compared to 2016.

The following factors contributed to the change in the net value of claims and benefits:

- higher claims and benefits in motor insurance resulting from development of the insurance portfolio and higher frequency of motor TPL losses with simultaneous increase of the average claims;
- the higher loss ratio in the group of insurance caused by the forces of nature and TPL insurance attributable largely to numerous losses caused by the forces of nature in August (Hurricane Xavier) and December (Hurricane Greg) and reporting of several large claims (inter alia under inward reinsurance with the Group companies);
- the lower level of claim in the group of insurance for property, damage including lower level of claims under crop insurance – in the corresponding period of 2016 there were numerous losses caused by frost and winterkill;

During the year, acquisition expenses (excluding reinsurance commissions) amounted to PLN 2,138 million and increased by 15.2% compared with the year before. This increase resulted predominantly from an increase in direct acquisition expenses (commissions) which were mainly the consequence of higher sales.

In 2017, PZU's administrative expenses were at PLN 693 million, which was 4.3% lower than in the prior year. Their level was driven primarily by maintaining the cost discipline in current activities and optimization of the costs of project activity.

The balance of other technical income and expenses in 2017 was negative and stood at PLN 177 million. Compared to 2016, the company recorded a result that was PLN 8 million worse, driven by significantly higher write-offs and impairment losses.

In 2017, the net balance of other operating income and expenses was negative and amounted to PLN 217 million compared with the also negative balance for 2016 of PLN 362 million. Starting in mid-2014 the balance of other operating expenses was charged with the interest expense and change of the valuation on account of foreign exchange differences on the loan taken from PZU Finance AB for the total amount of EUR 850 million (EUR 500 million in July 2014 and EUR 350 million in October 2015). In 2017 revenues on account of foreign exchange differences on the loan received from PZU Finance AB (publ.) amounted to PLN 217 million compared to the 2016 cost amounting to PLN 138 million. Additionally, the level of other operating expenses was significantly impacted by the tax on assets – the resulting charge in 2017 was PLN 178 million (increase by PLN 30 million compared to 2016).

On 31 December 2017, PZU's total balance sheet value amounted to PLN 42,388 million and was 13.6% higher as at the end of 2016.

The main component of PZU's assets were investments which amounted to PLN 36,576 million (up 16.6% compared to the end of 2016), which accounted for 86.3% of PZU's total balance sheet value compared to 84.1% as at the end of the previous year. With the exclusion of investments in subordinated entities, this level was 9.3% lower. The main reason behind the increase in the value of investments in subordinated entities was the acquisition of a stake representing approx. 20% of the total number of votes in Pekao in July 2017.

PZU's receivables stood at PLN 2,315 million and accounted for 5.5% of assets. For comparison, at the end of 2016, they amounted to PLN 2,252 million (6.0% of PZU's assets). The biggest increase was recorded in the value of receivables on direct insurance, as a result of the dynamic increase of the insurance portfolio (mainly motor insurance). Non-current assets – in the form of intangible assets, goodwill and property, plant and equipment – were disclosed in the balance sheet at PLN 463 million. They constituted 1.1% of assets.

As at 31 December 2017, PZU's cash amounted to PLN 982 million (2.3% of assets). A year earlier, they amounted to PLN 1,148 million.

At the end of 2017, technical provisions were the main component of PZU's equity and liabilities. They reached the amount of PLN 19,969 million, i.e. 47.1% of equity and liabilities. Their share in the balance sheet decreased by 3.0 p.p. compared to 2016, while in terms of value they rose by PLN 1,254 million, in particular due to higher provisions for unearned premiums in the group of motor insurance.

As at the end of 2016, equity amounted to PLN 13,583 million and accounted for 32.0% of equity and liabilities (down 0.5 p.p.).

Contingent receivables amounted to PLN 4,616 million, up PLN 259 million compared to the year before. They comprised among others: guarantees and sureties received, bills of exchange issued on account of granted insurance guarantees and other contingent receivables comprising mainly securities in the form of mortgage on the debtor's assets and other contingent receivables.

The balance of contingent liabilities dropped by PLN 145 million compared to the year before. The decline was recorded mainly in the granted guarantees and sureties line item (which shows, among others, the guarantee granted to a subsidiary PZU Finance AB) and other liabilities, which show mainly liabilities on account of unpaid loan tranches.

In 2017, PZU generated a return on equity of 18.9%. ROE was up by 6.1 p.p. compared to the previous year.

In 2014 - 2017, the average return on equity (ROE) was 17.9%.

COR (combined ratio) was one of the fundamental measures of productivity and operating efficiency of an insurance company; in PZU SA it has been maintained at a level confirming its high operating profitability in recent years.

Operational efficiency ratios are presented below.

	Operating efficiency ratios	2017	2016	2015	2014	2013
1.	**Gross claims and benefits ratio (simple)** (gross claims and benefits/gross written premium) x 100%	60.9%	58.8%	61.2%	65.5%	61.2%
2.	**Net claims and benefits ratio** (net claims and benefits/net earned premium) x 100%	64.1%	66.7%	63.8%	66.2%	62.2%
3.	**Insurance activity expense ratio** (insurance activity expenses/net earned premium) x 100%	25.2%	27.9%	29.4%	28.5%	25.0%
4.	**Acquisition expense ratio*** (acquisition expenses/net earned premium) x 100%	19.0%	20.1%	19.9%	19.3%	16.9%
5.	**Administrative expense ratio** (administrative expenses/net earned premium) x 100%	6.2%	7.9%	9.5%	9.2%	8.2%
6.	**Combined ratio (COR GLOSSARY)** (net claims and benefits + insurance activity expenses) / net earned premium x 100%	89.3%	94.7%	93.2%	94.7%	87.3%

* after taking into account reinsurance commissions received

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PZU's core profitability ratios	2017	2016*	2015	2014	2013
Return on equity (ROE) (annualized net profit/average equity) x 100%	18.9%	12.8%	18.2%	21.4%	39.7%
Return on assets (ROA) (annualized net profit/average assets) x 100%	6.1%	4.3%	6.3%	8.1%	17.0%

* Restated data

Aneta Suder
Group Network Division

My passion has taught me that you have to rely on your team, whether in private life or at work. When I see "jump", I never think in the category of "me" as a single person. It is not possible to achieve anything in this sport if you act alone.

7.

Risk management

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

In this chapter:

7.1 Objective of risk management

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

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

The main elements of the integrated risk management system are aligned to one another in all of the PZU Group's insurance companies. They have been implemented to ensure the execution of the various companies' strategic plans and the overall PZU Group's business objectives. They include the following:
- systems of limits and limitations on the acceptable level of risk, including the level of risk appetite;
- processes involving the identification, measurement and assessment, monitoring and controlling, reporting and management measures pertaining to various risks;
- risk management organizational structure in which the management boards and supervisory boards of the companies and dedicated committees play a crucial role.

Entities from other financial market sectors are required to apply the standards applicable to a given sector. The adopted internal regulations specify among others:
- processes, methods and procedures facilitating risk measurement and management;
- segregation of duties in the risk management process;
- scope and conditions and the frequency of risk management reporting.

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

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

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

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

7.2 Risk management system

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

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

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

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

The role of the PZU Group Risk Committee is to provide support to subsidiaries' supervisory boards and management boards in implementing an effective risk management system coherent for the entire PZU Group. The operational objective of the PZU Group Risk Committee is to coordinate and supervise activities related to the PZU Group's risk management system and processes.

7.3 Risk appetite

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

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

The risk management process consists of the following stages:

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

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

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

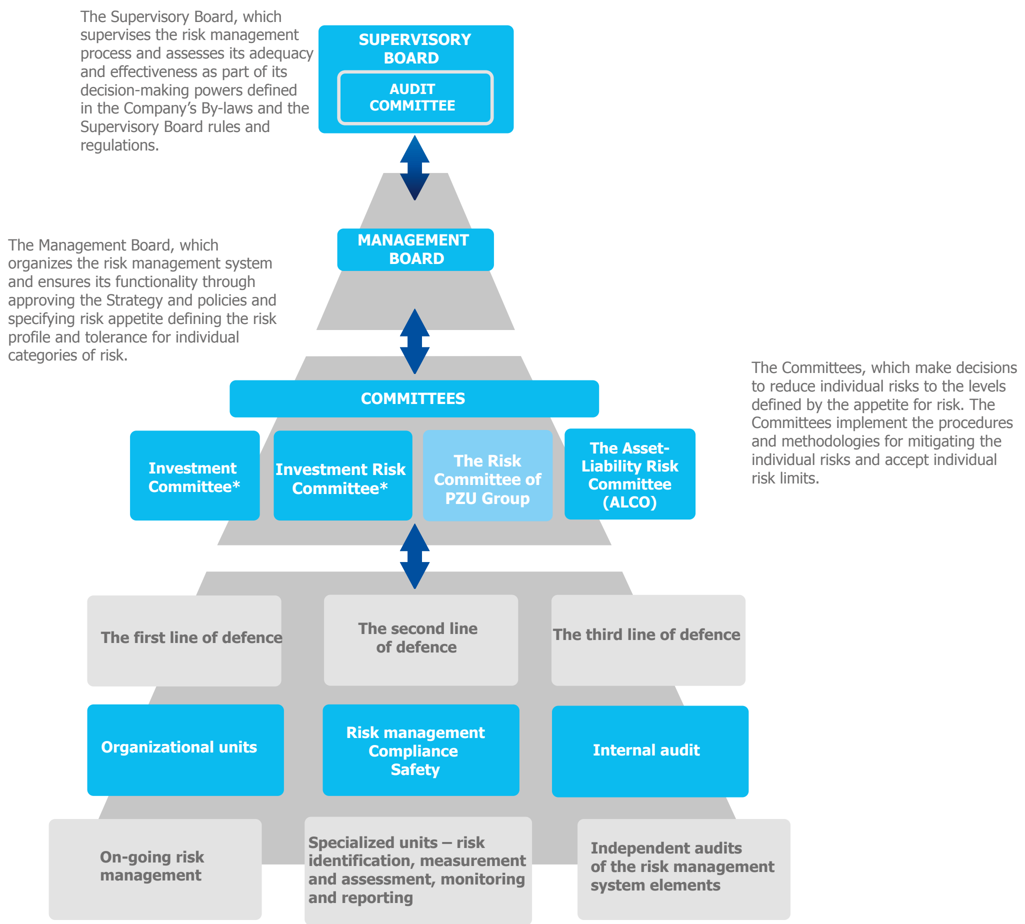
Reporting
Allows efficient risk communication and supports risk management at various decision-making levels.

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

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

Risk appetite is determined on an annual basis also in the PZU Group's banking sector entities. This process is carried out based on the applicable regulatory requirements (including those arising from remedial plans) and good practices. This process is tailored for both banks, taking into consideration the nature and the business and capital structures of both these entities. Risk appetite in banking entities is a topic for consultation with the PZU Group's parent company and the subject matter of opinions issued by the PZU Group Risk Committee with a view to ensuring consistency between the activities carried out by the banks and the strategic plans and objectives of the PZU Group as a whole as well as ensuring the effectiveness of the risk management system at the Group level. Once agreed, the level of risk appetite is then approved by the banking entities' supervisory boards.

Chart of the organizational structure for the risk management system



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

7.4 Risk management process

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

- 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 also monitors their ongoing application. The PZU Group dedicated personnel cooperates with the Management Boards of companies and managers of such areas as finance, risk, actuarial services, reinsurance, investments and compliance on the basis of pertinent cooperation agreements;
- the entity level – ensuring that the PZU Group entity attains its business objectives in a safe manner appropriate to fit the extent of the risk incurred by that entity. Monitored at this level are the limits and risk categories specific to the company and also, 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.

7.5 PZU Group's risk profile

The major risks to which the PZU Group is exposed include the following: actuarial risk, market risk, credit risk, concentration risk, operational risk and compliance risk. The major risks associated with the operation of Alior Bank and Bank Pekao include the following risks: credit risk, operational risk and market risk (involving interest rate risk, FX risk and commodity price risk). The overall risk of the banking sector entities accounts for approximately 32% of the PZU Group's total risk, where the largest contribution is in credit risk.

Actuarial risk

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

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

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

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

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

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

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

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

Moreover, to mitigate the actuarial risk inherent in current operations the following actions in particular are undertaken:
- the scopes of liability are defined in the general / specific terms and conditions of insurance or other model agreements in financial insurance;
- the exclusions of liability are defined in the general / specific terms and conditions of insurance or other model agreements in financial insurance;
- reinsurance actions;
- adequate tariff policy;
- application of the appropriate methodology for computing provisions;
- relevant underwriting procedure;
- relevant benefits handling procedure;
- decisions and sales plans;
- prevention.

Market risk

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

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

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

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

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

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

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

In the case of banking entities suitable measures are employed in accordance with the regulations applicable to this sector and best market practices.

When measuring market risk, the following stages, in particular, are distinguished:
- collecting information regarding assets and liabilities generating market risk;
- computing the value of the risk.

Risk is measured:
- for instruments' exposure and sensitivity measures;
- using a partial internal model.

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

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

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

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

Credit and concentration risk

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

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

The credit risk and concentration risk management process consists of the following stages:
- identification;
- measurement and assessment;
- monitoring and control;
- reporting;
- management actions.

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

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

Credit risk is measured using:
- measures of exposure (gross and net credit exposure and maturity-weighted net credit exposure);
- standard formula.

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

In the case of banking entities suitable measures are employed in accordance with the regulations applicable to this sector and best market practices.

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

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

The following are subject to monitoring:
- exposures to financial insurance;
- exposures to reinsurance;
- exposure limits and VaR limits.

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

Management actions in respect of credit risk and concentration risk involve in particular:
- establishment of limits on exposure to a single entity, a group of entities, sectors or states;
- diversification of the portfolio of assets and financial insurance, especially with regard to state, sector;
- acceptance of collateral;
- execution of transactions serving the purpose of mitigation of credit risk, i.e. selling a financial instrument, closing a derivative, purchasing a hedging derivative, restructuring a debt;
- reinsurance of the financial insurance portfolio.

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

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

To minimize credit risk, security interests are established in line with the level of exposure to credit risk and in accordance with the client's ability to provide the required collateral. The establishment of a security interest does not waive the requirement to examine the client's creditworthiness.

In turn, credit scoring is used as a tool supporting the decision-making process regarding loans for retail clients and micro-enterprises, while credit rating has the same role in the segment of small, medium-sized and large enterprises.

Operational risk

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

Operational risk is identified in particular by:
- accumulation and analysis of information on operational risk incidents;
- self-assessment of operational risk;
- scenario analyses.

Operational risk is assessed and measured by:
- calculating the effects of the occurrence of operational risk incidents;
- estimating the effects of potential operational risk incidents that may occur in the business.

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

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

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

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

Compliance risk

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

The compliance risk management process at the PZU and PZU Życie level covers both systemic activities carried out by the Compliance Department and ongoing compliance risk management activities which are the responsibility of the heads of organizational units or cells in the Companies. Compliance risk is identified and assessed for each internal process at PZU and PZU Życie, in line with the demarcation of reporting responsibilities. Moreover, the Compliance Department identifies compliance risk on the basis of information obtained from the legislative process, from notifications to the register of conflicts of interest, gifts and irregularities, and from inquiries received by the Department.

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

In turn, activities related to ongoing risk management, include in particular:
- identification and evaluation of compliance risk in the supervised area;
- measurement of compliance risk;
- determining the instruments to provide protection and limit the number and scale of irregularities;
- reporting any threats and events in the compliance risk area to the Compliance Department;
- taking mitigation activities;
- ongoing monitoring of compliance risk.

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

In 2017 the PZU Group entities had compliance systems adapted to the standards designated by PZU.

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

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

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

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

Due to the broad spectrum of the PZU Group's business, reputation risk is also affected by the risk of litigation whose value varies, which is predominantly inherent in the Group's insurance companies.

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

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

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

Compliance risk is monitored, in particular, through:

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

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

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

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

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

In 2017, partly in response to a significant increase in the volume of regulatory requirements, including supervisory recommendations in the area of insurance products, the development of the product compliance function was continued, aiming at supporting business operations to effectively manage compliance risk in insurance products.

7.6 Sensitivity to risk

Risk pertaining to financial assets

The table on page 137 summarizes the results of analysis of the sensitivity of the PZU Group's net financial result and equity to changes in interest rate risk, foreign exchange risk and equity instruments price risk. This analysis does not take into account the impact of changes in interest rates on the insurance agreements presented in the liabilities or the investment contracts and receivables of bank's from its clients and loans to customars.

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

Sensitivity of the asset portfolio (PLN million)	Change of the risk factor	31 December 2017	31 December 2016
		Impact on the net financial result and equity	Impact on the net financial result and equity
Interest rate risk	decrease by 100 bp	1,244	542
	increase by 100 bp	(1,169)	(522)
Exchange risk	increase by 20%	(183)	(381)
	decrease by 20%	259	381
Equity instruments price risk	increase by 20%	350	527
	decrease by 20%	(350)	(527)

Risk pertaining to technical rates and mortality

In the table on page 139, a sensitivity analysis is presented of the net result and equity to changes in the assumptions used to calculate the provision for the capitalized value of annuities. This analysis does not take into account the impact of changes in the valuation of deposits taken into consideration in the calculation of the provision on the net financial result and equity.

Banking activity

Interest rate risk

Interest rate risk is defined as the risk of the level of market interest rates exerting an adverse impact on the current result or the net present value of the Bank's capital. When managing the interest rate risk in banking book, banks endeavor to secure the economic value of their capital while achieving their intended interest result target within the accepted limits.

The table below depicts the estimated change in the valuation of a given transaction/item as a result of a parallel shift in the yield curve from a given point by 1 basis point (BPV)

BPV (PLN thousand) (shift by 1 basis point)	**31.12.2017**	**31.12.2016**
Pekao	437	n/a
Alior Bank	537	452

Foreign exchange risk

The fundamental measure of foreign exchange risk in both banks is the Value at Risk (VaR) model to designate the potential value of a loss on currency positions due to changes in exchange rates, while maintaining the assumed confidence level equal 99% and the period in which the position is kept. This value is calculated daily for all areas responsible for risk taking and risk management, both on an individual and collective basis.

VaR 10 day-FX risk-trading book (PLN thousand)	**31.12.2017**	**31.12.2016**
Pekao	2,337	n/a
Alior Bank	157	280

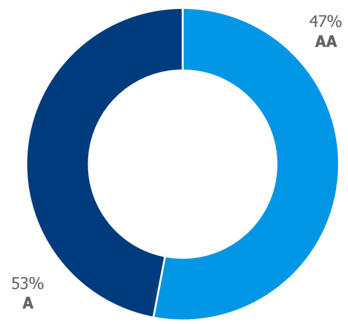
7.7 Reinsurance operations

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

Reinsurance treaties in PZU

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

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



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

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

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

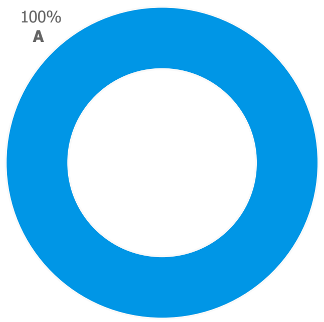
sensitivity of reserves	Impact of changes in assumptions on the net financial result and equity	
	31 December 2017	**31 December 2016**
Changes in the assumptions to the net capitalized annuities in non-life insurance (in PLN m)		
Technical rate - increase by 0.5 p.p.	407	398
Technical rate - decrease by 1.0 p.p.	(1,051)	(1,030)
Mortality at 110% of the currently assumed rate	127	124
Mortality at 90% of the currently assumed rate	(141)	(138)
Changes in the assumptions for annuities in life insurance (in PLN m)		
Technical rate - decrease by 1 p.p.	(27)	(29)
Mortality at 90% of the currently assumed rate	(11)	(11)
Changes in the assumptions for reserves in life insurance, excluding annuity insurance (in PLN m)		
Technical rate - decrease by 1 p.p.	(2,092)	(2,112)
Mortality at 110% of the currently assumed rate	(881)	(891)
110% morbidity and accident rate	(148)	(153)

Reinsurance treaties in PZU Życie

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

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

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



Reinsurance treaties in the PZU Group's international companies, Link4 and TUW PZUW

The PZU Group's other insurance companies, i.e. PZU Ukraine, Lietuvos Draudimas, Lietuvos Draudimas Branch in Estonia, AAS Balta, Link4 and TUW PZUW have reinsurance cover aligned to the profile of their operations and their financial standing. Every material insurance portfolio is secured with the appropriate obligatory treaty. Reinsurance cover is provided for the most part by PZU, which transfers a portion of the accepted risk outside the Group.

7.8 Capital management

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

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

The capital management policy rests on the following principles:

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

As at the end of Q3 2017, the estimated solvency ratio (calculated according to the standard Solvency II equation) was 237.3% and remained above the average solvency ratio for European insurance groups.

As a result of the acquisition of Pekao, the PZU Group's solvency ratio calculated for Tier 1 capital decreased as at the end of June 2017. To counteract this decrease, on 30 June 2017 PZU SA issued subordinated bonds with a nominal value of PLN 2.25 billion. Section 8.2 Debt financing of PZU, Bank Pekao and Alior Bank

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

Capital adequacy ratio	Q3 2017	2016
Solvency II		
PZU Group*	237.3%	249.8%
PZU*	320.0%	290.0%
PZU Życie*	491.4%	396.2%
CRR		
Pekao Group – total capital adequacy ratio	17.1%**	17.6%
Tier 1	16.1%**	17.6%
Alior Bank Group – total Tier 1 capital adequacy ratio	15.2%**	13.6%
Tier 1	12.1%**	11.3%

*unaudited data
**as at the end of 2017

Dorota Skibicka,
Reinsurance Department

It didn't take much to persuade me to become physically active because it allows me to test myself and clean my mind. On top of that, it gives a positive "kick" of endorphins. Based on a training regimen consisting of jogging, it is easy to switch to a bicycle, skis or ice skates or even start in a runmageddon or participate in Nordic Walking. At the end of the day, the people you meet thanks to your passions are the most important part of it all.

8.

PZU on the capital and debt markets

During the 12 months of 2017, PZU's market capitalization increased by PLN 7.7 billion. Taking into account the PLN 1.2 billion dividend paid to the shareholders, the annual rate of return on the Company's stock was 31.2%, i.e. 8.0 percentage points higher than the increase in the WIG index.

In this chapter:

8.1 Equity and bond market

In 2017, investors continued to focus their attention on central banks which, in line with expectations, kept applying an accommodative monetary policy in an environment of weak inflation. However, in contrast with the previous year, the financial markets did not undergo any serious turbulence associated with greater risks resulting from geopolitical tensions. A series of elections in key European Union countries brought outcomes suppressing the risk of disintegration of the EU and the euro area, and the last months of the year were marked by a declining risk of a 'hard Brexit'. Nor did the concerns about a significant increase in protectionist policies in the global economy materialize. Of only minor importance to the financial markets were such events such as the proclamation of independence by Catalonia or the escalation of the nuclear program in North Korea. As a result, the economic context fostered many asset classes, and above all equities. However, the rapidly increasing appetite for risk among investors did not ignite a sell-off of safe assets. Yields on 10-year T-bonds of major developed economies ended the year at levels similar to those at the beginning of the year.

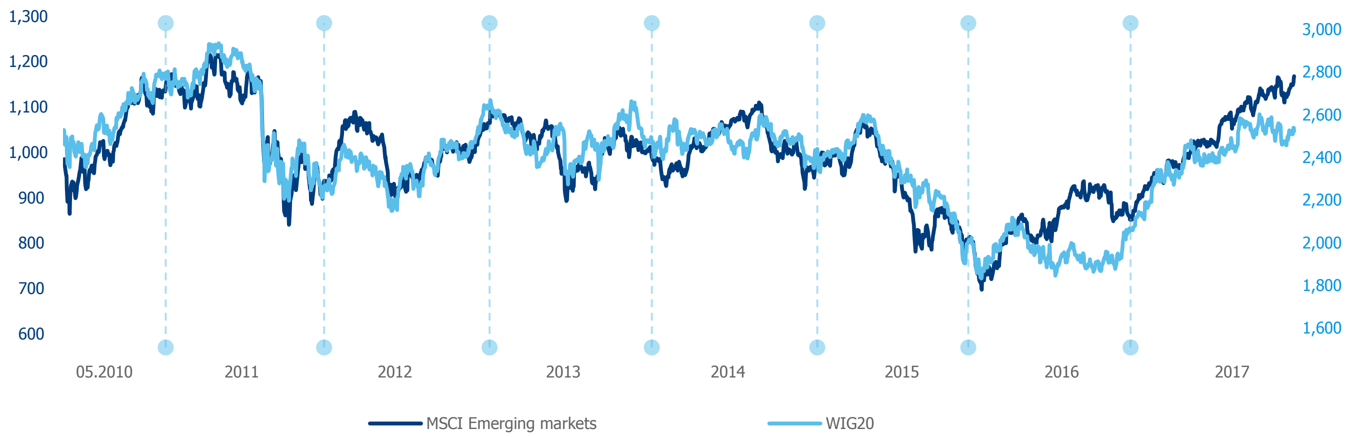
Upward trends on the equity markets persisted in both developed and emerging markets. Most global markets more than made up for the losses suffered after the financial crunch of 2007-2008. In 2017, the MSCI ACWI (All Country World Index), based on stocks from 46 different countries, of which 23 are classified as developed markets and the remaining 23 are considered emerging markets, hiked up 21.6%, setting a record high of 513 points (USD) at the end of the year, which was roughly 20% more than the peaks prior to the collapse of the global economy in 2008-2009. Many economists ascribed this global recovery to the high degree of synchronization between the constituent parts of the world economy, from economic and geographic perspectives alike.

The largest beneficiary of this improved economic situation on the global markets was the United States where the main stock market indices climbed to their historical highs. Downward corrections of stock prices were shallow and limited in coverage, and trading on the stock markets was accompanied by declining volatility (measured by the VIX index – see the GLOSSARY for the Fear Index).

Risk appetite was not weakened even by the Fed's three interest rate hikes in 2017 (to 1.25-1.50%) or the announcement of three more hikes in 2018 of 25 basis points each, or the decision made by the Federal Open Market Committee (FOMC) to launch a balance sheet value reduction program, that is to reverse the effects of the quantitative easing (QE) policy applied in 2008-2013. The economic recovery was backed by fundamental advances as companies kept improving their performance from quarter to quarter. In the wake of these developments, analysts' forecasts for the coming years were more and more optimistic.

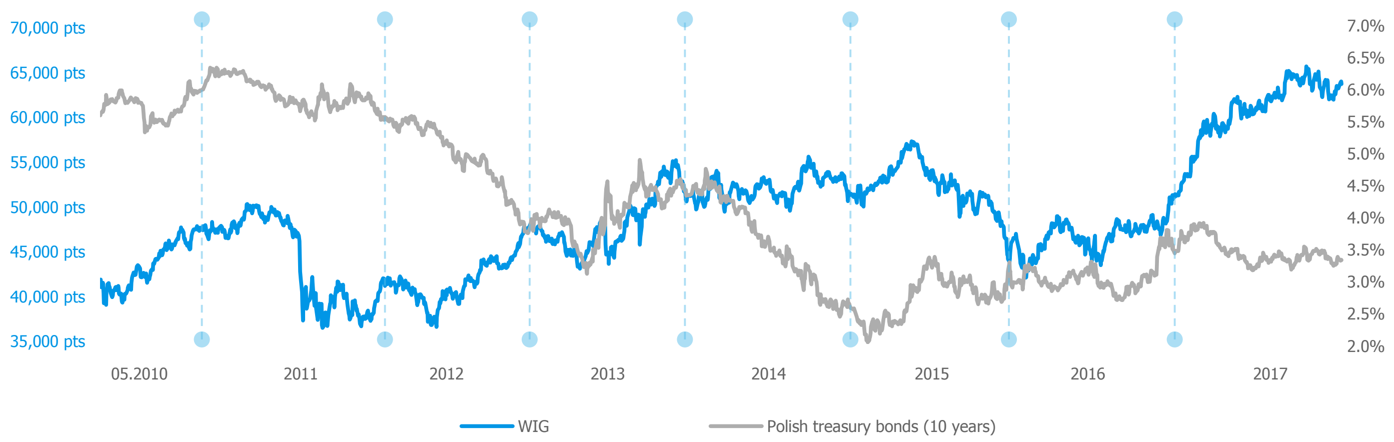
The upturn on developed markets translated into higher valuations on emerging markets (including Poland). In 2017, the dollar-denominated MSCI Emerging Markets index (historically strongly correlated with the WIG20 index) continued the upward trend it embarked on already in 2016,

WIG20 / MSCI Emerging Markets



Source: www.msci.com, www.gpwinfostrefa.pl

WIG / Treasury bonds



Source: www.stooq.pl, www.gpwinfostrefa.pl

recording an increase by 34.3% y/y, or 7.9 percentage points higher than WIG20 (26.4% y/y).

In 2017, Poland was among the top beneficiaries of the growing confidence in emerging markets. WIG20 ranked in the top five fastest-growing European stock market indices. The growth in the valuations of Polish companies was supported by improving economic indicators, including the high rate of economic growth, current account balance, a very low deficit of the state budget (the lowest since 2007-08 in annual terms), increasing wages and the rate of employment, and appreciation of the Polish currency (in 2017, the exchange rate of the U.S. dollar expressed in the Polish zloty declined by 16.8% y/y to approx. PLN 3.48, and the exchange rate of the euro fell by 5.2% y/y to PLN 4.18).

The situation on the Polish debt market was undisturbed by the interest rate hikes, reduced values of central banks' balance sheets, improving macroeconomic indicators or growing appetite for risky asset classes. In H1 2017, yields on 10-year treasury bonds dwindled from 3.9% to 3.2%, and then oscillated between 3.2% and 3.5% in the second half of the year.

Yields on 2-year treasury bonds declined by 32 bps in 2017 to 1.71%, whereas yields on 5-year and 10-year T-bonds decreased by 24 bps and 33 bps, respectively, ending the year at 2.65% and 3.30%. SECTION 2.2 SITUATION ON THE FINANCIAL MARKETS.

8.2 PZU's share price

PZU made its debut on the Warsaw Stock Exchange (WSE) on 12 May 2010. Since day one, it has been included in the following indices: WIG20, WIG, WIG30, WIG-Poland, WIGdiv, WIG20TR and MSCI Poland. Since 2012, the PZU stock has also been taken into account in the sustainable development RESPECT Index (confirmed on 18 December 2017).

Warsaw Stock Exchange indices

In 2017, Poland's key WIG20 index evolved within the range of 1,957-2,552 points (in 2016: 1,674-1,999 points), wrapping up the last session of the year at a level close to the annual high of 2,461 points (up by 26.4% y/y, or with a rate of growth almost six times greater than that in 2016).

In H1 2017, all major WSE indices were on the rise. In the second half of the year, this trend was maintained only by large companies. WIG20 increased by 7.0%, while sWIG80 declined by 9.2%. This, however, did not prevent the WIG index from reaching 67.8 thousand points, a record high, on a par with the level last recorded in 2007. Eventually, WIG ended 2017 at 63.7 thousand points, having improved by 23.2% y/y. The year 2017 was the best one for the Warsaw Stock Exchange since 2012.

PZU's share price

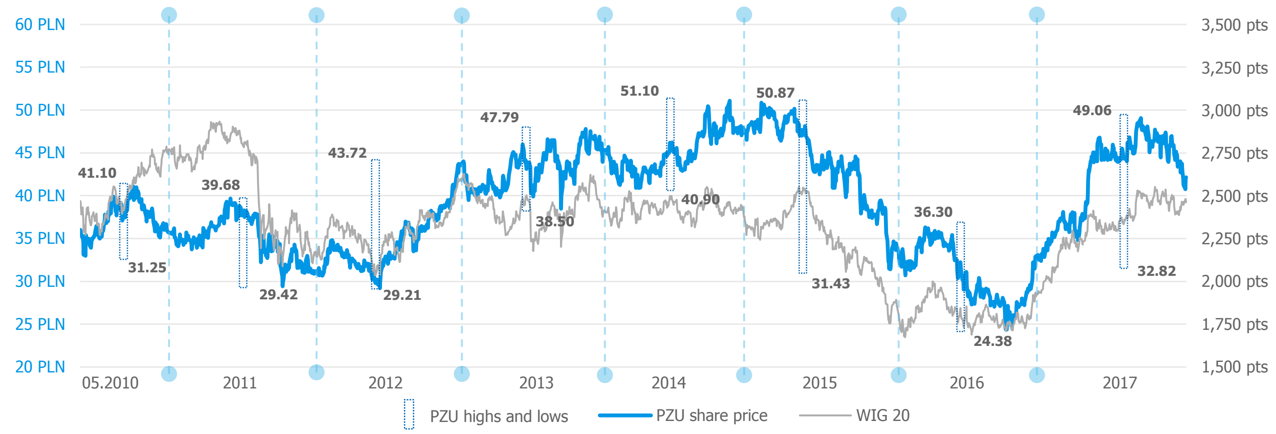
In 2017, PZU's shares remained among the most liquid companies traded on the WSE. With the market capitalization of over PLN 36.4 billion as at the end of 2017, PZU was the fourth largest Polish company listed on the Warsaw Stock Exchange in terms of capitalization, having ranked two places higher than at yearend 2016. PZU's share in the total WSE trade value was 8.0% (ranking 4th).

The maximum price per share of PZU stock in 2017 was PLN 49.06 (at closing prices). The annual price trough of PLN 32.82 was recorded on 5 January 2017.

After adjusting the PZU share price by the disbursed dividends (in accordance with the methodology described on http://stooq.pl/pomoc/?q=9&s=pzu), the price per share of PZU stock in 2017 repeatedly marked new highs, having peaked at PLN 47.72 and thus having beaten the historic record of 2014 by over 13%.

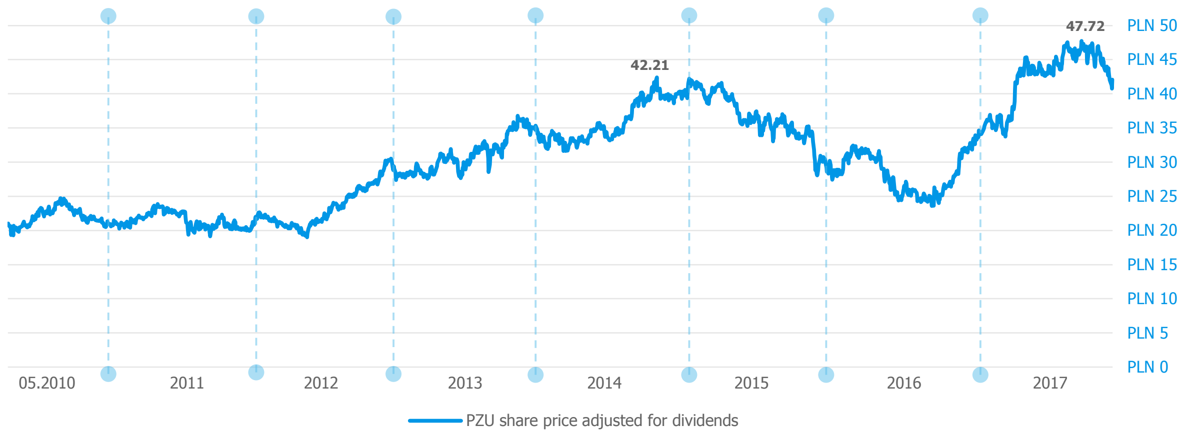
At the beginning of 2017, PZU's share price continued the strong upward trend it embarked on in Q4 2016, having increased by 36.2% q/q, which was much higher than the q/q increases in WIG20 and WIG of 13.9% and 9.9%, respectively. In Q1 2017, the upward trend continued on both PZU and the market's major indices. In Q2 2017, the PZU stock price again performed much better than WIG20, having grown 34.3% since the beginning of the year, compared to 18.1% growth of the WIG20 index. This situation persisted for most of the second half of the year. It was not until Q4 2017 that PZU's shares began to slide towards the main market index. As a result, the rates of growth in WIG20 and PZU's share price (ex-dividends) were similar and stood at approx. 27%.

PZU's min/max share price at session closing from May 2010 to 2017



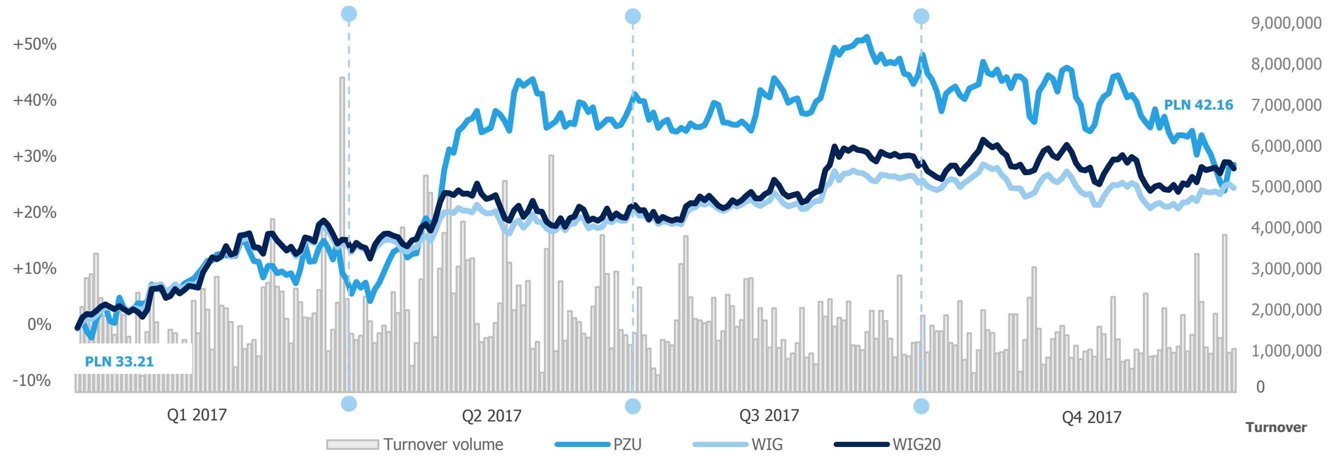
Source: www.gpwinfostrefa.pl

PZU's share price adjusted for dividends paid from May 2010 to 2017*



* in accordance with the algorithm applied on http://stooq.pl
Source: www.stooq.pl

PZU's stock performance compared to WIG i WIG20



Source: www.gpwinfostrefa.pl

In 2017, PZU's stock maintained very high liquidity. The average daily spread on PZU's shares was a mere 7 bps (the lowest on the whole market). PZU's stock accounted for 8.0% of the total market's trading volume in PLN having exceeded PLN 18.9 billion.

The largest daily turnover (of 7.7 million shares) was recorded on the falling (-4.5%) trading session of 23 March 2017. The reason behind this emotional market behavior was the unexpected dismissal of the then CEO Michał Krupiński. Afterwards, in less than two weeks, the PZU stock price returned to its pre-23 March level. A further improvement in investor sentiment came as a result of the appointment of Paweł Surówka to the position of CEO of PZU SA on 13 April 2017. The decision was met with approval by the market, as the PZU stock price expansion attested on heavy trading. The share price increased by nearly 20% in just two weeks, outperforming the WIG and WIG20 indices hands down. In this period, the trading volumes reached 5 million shares per day, which was almost three times more than the daily average. Investors were especially fond of the new CEO's public statements on the continuation of the Company's strategy, including its dividend policy. Later in the year, the better performance of PZU's shares vis-à-vis WIG20 was backed by the improving bottom line, in its insurance and investment business alike.

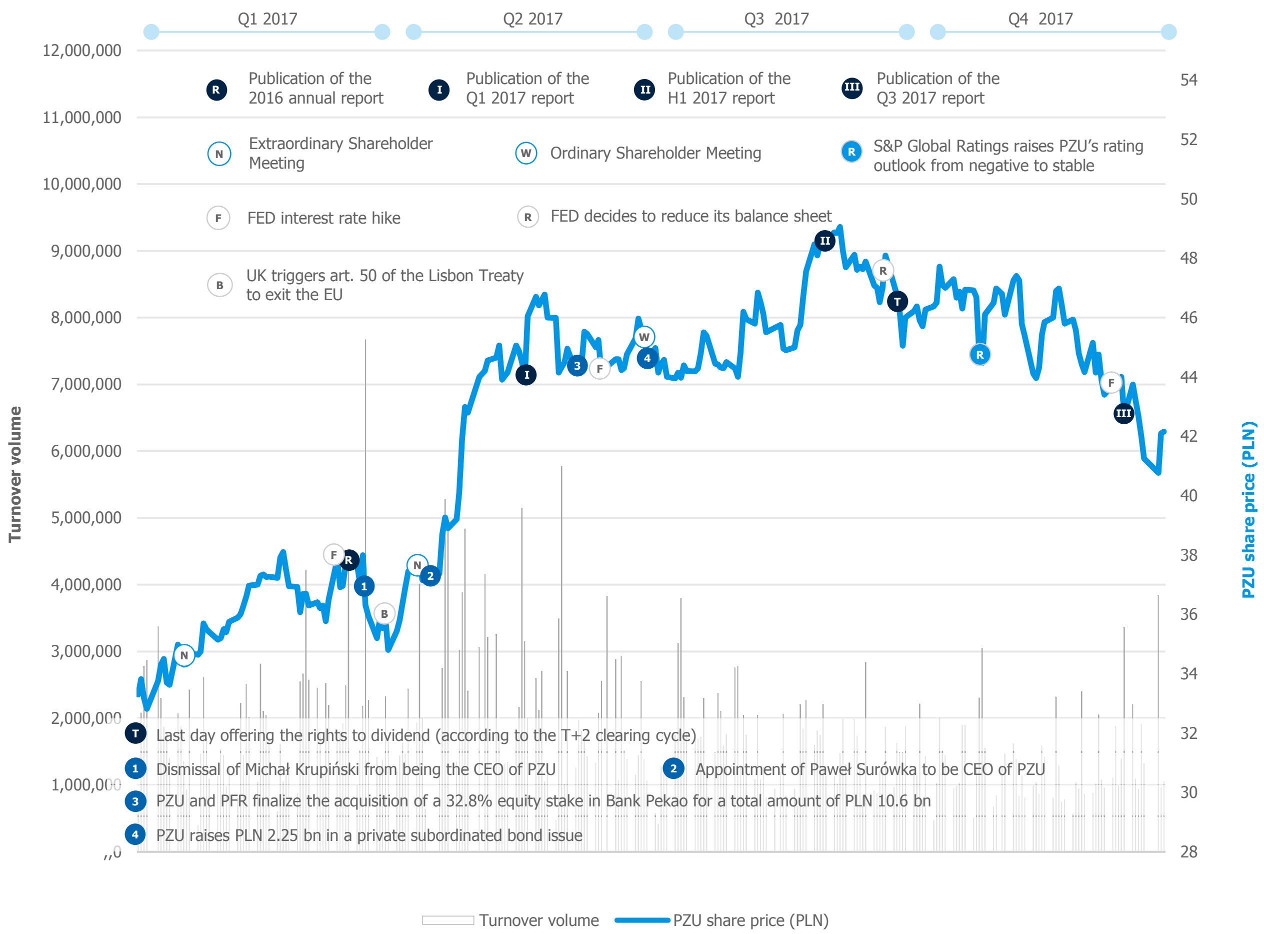
The largest single-session increase in the PZU stock price (+ 4.7%) was recorded on 19 May 2017, that is two days after the publication of the Company's very good financials for Q1 2017.

The stock exchange session of 7 June 2017, when PZU and PFR announced the finalization of the deal to acquire a 32.8% equity stake in Bank Pekao for a total amount of PLN 10.6 billion, proceeded without any turbulence. On 8 December 2016, which was the date when PZU announced the acquisition deal, the PZU stock price increased 2.6% and the trade volume exceeded 10.5 million shares during the session.

In 2017, the value of OTC block trades on PZU shares increased to PLN 581.3 million (from PLN 123.7 million in 2016), which represented approx. 3.1% of the trade value in 2017.

PZU on the capital and debt markets

Factors affecting PZU's share price in 2017



Source: www.gpwinfostrefa.pl

Codes Quick Response (QR) for online transmission

Publication of the 2016 annual report

Publication of the Q1 2017 report

Publication of the H1 2017 report

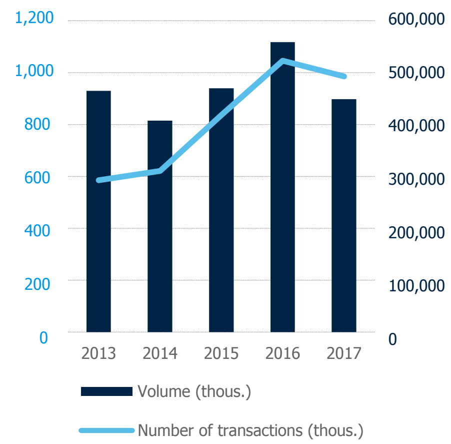
Publication of the Q3 2017 report

Volatility

Compared to the broad WIG market, PZU's systematic risk expressed by the beta coefficient (PZU stock price vis-à-vis the WIG index for daily shifts) in 2017 was 1.06 or 0.12 lower than the historic high recorded in 2016 (1.18). The annualized standard deviation for daily changes in the PZU stock price declined in 2017 by 5.5 percentage points y/y and stood at 23.6%. The value of this statistic for WIG and WIG20 fell by 3.8 p.p. and 3.9 p.p., respectively, to 11.8% and 15.1%.

PZU's total shareholder return, calculated as the stock price difference plus the value of the distributed dividend, was 31.2% as at yearend 2017 (in 2015 and 2016, it was -23.8% and 3.7%, respectively). The dividend yield (calculated using the price per share of PLN 42.16 as at the end of 2017) was 3.3% (a dividend of PLN 1.40 share), which was 1.4 p.p. higher than the average of 1.9% for the WIG20 and WIG Banks indices.

PZU's trading volume / Number of transactions



PZU's capitalization / Trading volume

Warsaw Stock Exchange's capitalization / Trading volume

PZU's stock-related statistics	2017	2016	2015	2014	2013
Maximum price (PLN)	49.06	36.30	50.87	51.10	47.79
Minimum price (PLN)	32.82	24.38	31.43	40.90	38.50
Closing price on the last trading session of the year (PLN)	42.16	33.21	34.02	48.60	44.90
Average session price (PLN)	42.53	30.76	43.72	45.22	43.22
Trading Volume (PLN m)	18,902	16,755	20,145	18,401	19,970
Average trading value per session (PLN m)	75.6	66.8	80.3	73.9	80.9
Number of transactions (units)	985,515	1,046,398	835,471	621,224	585,205
Average number of trades per session	3,942	4,169	3,329	2,495	2,369
Trading volume (units)	448,832,864	558,496,833	470,048,842	407,247,220	464,899,980
Average trading volume per session (shares)	1,795,331	2,225,087	1,872,705	1,635,531	1,882,186
Capitalization at the end of the period (PLN m)	36,406	28,677	29,377	41,967	38,768

Ratios

As at the end of 2017, PZU's shares had a high value of the P/BV ratio of 2.49 i.e. twice the average for European insurance companies. According to analysts, this resulted from the high ROE, which at yearend 2017 was 21.1%.

Capital market ratios for PZU's shares	2017	2016	2015	2014	2013
P/BV Market share price / book value per share	2.49x	2.21x	2.27x	3.19x	2.95x
BVPS Book value per share	16.93	15.05	14.97	15.25	15.20
P/E Price/earnings per share	12.51x	14.73x	12.54x	14.14x	11.77x
EPS (PLN) Equity holders' net profit (loss) / number of shares	3.37	2.24	2.71	3.44	3.82

* calculation using the PZU Group's data (according to IFRS)

8.3 Debt financing

PZU bonds: PLPZU0000037 for a total of PLN 2.25 billion

On 30 June 2017, PZU effected the largest issue of subordinated bonds (denominated in Polish zloty) in the history of the Polish financial sector, while at the same time being the first issue in Poland complying with Solvency II requirements (download the information note here). The bonds with a nominal value of PLN 2.25 billion bear interest at WIBOR6M + 180 bps. The maturity date is 29 July 2027, or 10 years after the issue, with an option of early redemption 5 years after the issue date.

The bonds are listed on the Catalyst ASO WSE/Bondspot.

The issue was effected with a view to supplementing PZU's equity, following the acquisition of a 20% stake in Bank Pekao, in order to maintain the Solvency II ratio at a level not lower than 200%, as defined in the PZU Group's Capital and Dividend Policy.

PZU bonds: XS1082661551 for a total of EUR 850 million

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

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

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

The PZU Group's debt ratio was 27.6%[1] as at 31 December 2017.

[1] PZU Group's leverage ratio – quotient of debt on long-term financial liabilities (excl. banking deposits) to the sum of the following: debt on long-term financial liabilities and the PZU Group's equity minus intangible assets, deferred acquisition expenses and deferred taxation assets carried in the PZU Group's consolidated financial statements.

Alior Bank

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

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

In 2017, under these programs, Alior Bank effected the following issues:

- On 11 August 2017, Alior Bank issued bonds with a nominal value of PLN 250 million in a private issue of ordinary bonds. The bonds are unsecured and bear interest at a floating interest rate based on WIBOR 6M plus a margin of 1.19%. The final maturity of the bonds will be 11 August 2020.
- On 20 October 2017, Alior Bank issued series K and K1 bonds with a nominal value of PLN 400 million and PLN 200 million in a private issue of subordinated bonds. The bonds are unsecured and bear interest at a floating interest rate based on WIBOR 6M plus a margin of 2.7% with a maturity of eight years. However, the Bank may exercise an early repayment option five years after the date of issue.

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

On 23 August 2017, the Supervisory Board of Alior Bank, in accordance with a motion submitted by the Bank's Management Board, gave its consent for the launch of Alior Bank's Second Public Bond Issue Program and authorized the Management Board to repeatedly contract financial liabilities by issuing unsecured, ordinary or subordinated bonds. The total nominal value of the bonds issued under the Second Public Bond Issue Program may not exceed PLN 1.2 billion.

Under the Second Public Bond Issue Program, Alior Bank issued series P2A bonds with a nominal value of PLN 150 million in a public issue of subordinated bonds. The bonds are unsecured and bear interest at a fixed rate of 4.55% in the first interest period, to be followed by a floating rate in the subsequent interest periods, calculated as the WIBOR 6M rate plus a fixed margin of 2.7%. The final maturity of the bonds will be 29 December 2025.

Pekao

Under the covered bonds program established in 2010, Pekao, acting through its subsidiary Pekao Bank Hipoteczny, issues long-term debt securities secured on its loan portfolio. The issue program is limited to PLN 2 billion. Pekao Bank Hipoteczny's covered bonds have been rated by Fitch at A with a negative outlook. As at the end of 2017, 14 series of Pekao Bank Hipoteczny's securities were listed on Catalyst, including six series denominated in EUR. In addition, the Pekao Group has subordinated liabilities resulting from Pekao Leasing bonds in the amount of PLN 99 million.

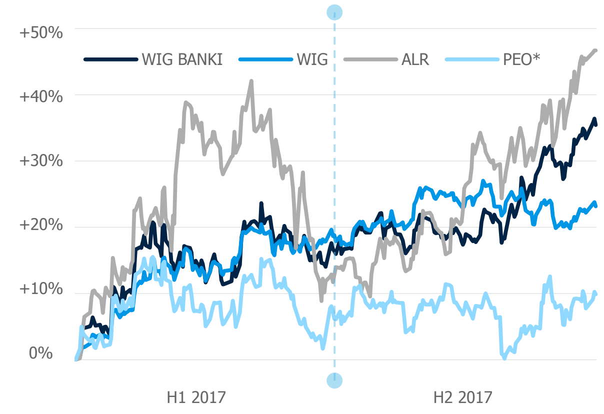
In October 2017, Pekao placed its first issue of subordinated bonds with a value of PLN 1.25 billion in order to improve its capital ratios. The bonds have a 10-year maturity with an early redemption option five years after the date of issue. The bonds bear interest at a floating rate based on WIBOR 6M plus a margin of 1.52%.

8.4 Banking sector on the Warsaw Stock Exchange

Context in the banking sector

In 2017, banks in Poland found themselves at a very fortunate point in the business cycle. On the one hand, the overall economic situation, corporate profits and employment kept improving. On the other hand, the Fed announced three hikes in interest rates and declared future hikes. As a consequence, banks operated in an environment of a low cost of risk and

WSE-listed banks in 2017



* PZU's share price adjusted for dividends (PLN 8.68 per share)

Source: PZU; www.gpwinfostrefa.pl

an outlook for growing interest margins, which translated into both higher profits and across-the-board improvement in analysts' recommendations.

Investors' appetite for banking assets listed in Poland was not weakened even by NBP's statement of no plans for interest rate hikes in 2018. On the other hand, certain factors emerged that were conducive to an upward trend in stock prices, such as a reduction in the risk associated with a currency conversion of Swiss franc-denominated loans due to the sizeable appreciation of the Polish currency or the global trend toward investment in banking assets.

The WIG Banki[2] index jumped up 35.4% y/y, beating WIG by 12 p.p., with only three banks (Pekao, Bank Handlowy and BZ WBK) distributing dividends of PLN 3.5 billion, which was the lowest result since 2009. The dividend yield was 6.7%, 5.5% and 1.4%, respectively.

In 2017, the share prices of the banks controlled by PZU, i.e. Pekao (a member of the PZU Group since 7 June 2017) and Alior Bank (a member of the PZU Group since 18 December 2015), went up by 2.9% and 46.7%, respectively.

[2] It is an income-based index and thus, when it is calculated, it accounts for both the prices of underlying shares and income from dividends and pre-emptive rights.

8.5 PZU's investor relations

Meeting stringent information governance requirements for public companies and fulfilling information needs of different groups of stakeholders, the Management Board of PZU undertakes various investor relations activities aimed at improving transparency in the company and procuring equal access to information. Therefore, PZU has consistently applied the "Principles for PZU to Conduct its Information Policy for Capital Market Participants".

„We are building PZU's value through active communication with our stakeholders while utilizing modern channels of communication. We are building trust and we care about good relations.

PZU shareholder structure

As at 31 December 2017, the only shareholder with a stake in PZU greater than 5% was the State Treasury of the Republic of Poland (34.2% of the share capital) SECTION 9.6 PZU'S SHARE CAPITAL AND SHAREHOLDERS.

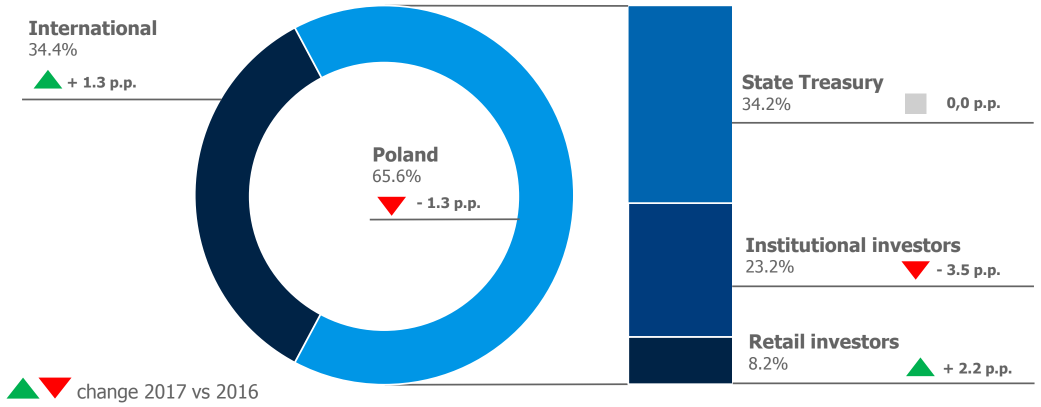
According to a survey carried out at the end of 2017, PZU's shareholder structure remained stable and diversified, with a slight increase in the share of foreign investors (+1.3 p.p.).

In the structure of Polish investors, a significant change took place in the share of retail investors, which increased by 2.2 p.p. up to 8.2% (70.8 million shares). It was a record high comparable to that of PZU's IPO at which retail investors subscribed for more than 70 million shares. This structural change largely reflected the general trend on the WSE. In H1 2017, the share of retail investors in trading on the regulated market increased to 18% (+5 p.p.), the highest level in 5 years. The share of foreign individual investors remained unchanged compared to 2016 and stood at 1.1%.

As at the end of 2017, the share of Polish institutional investors declined by 3.5 p.p., partly caused by a reduction in exposures of open-end pension funds and mutual fund companies. As at the end of 2017, their shares were 18.0% (-1.1 p.p.) and 4.4% (-0.9 p.p.), respectively.

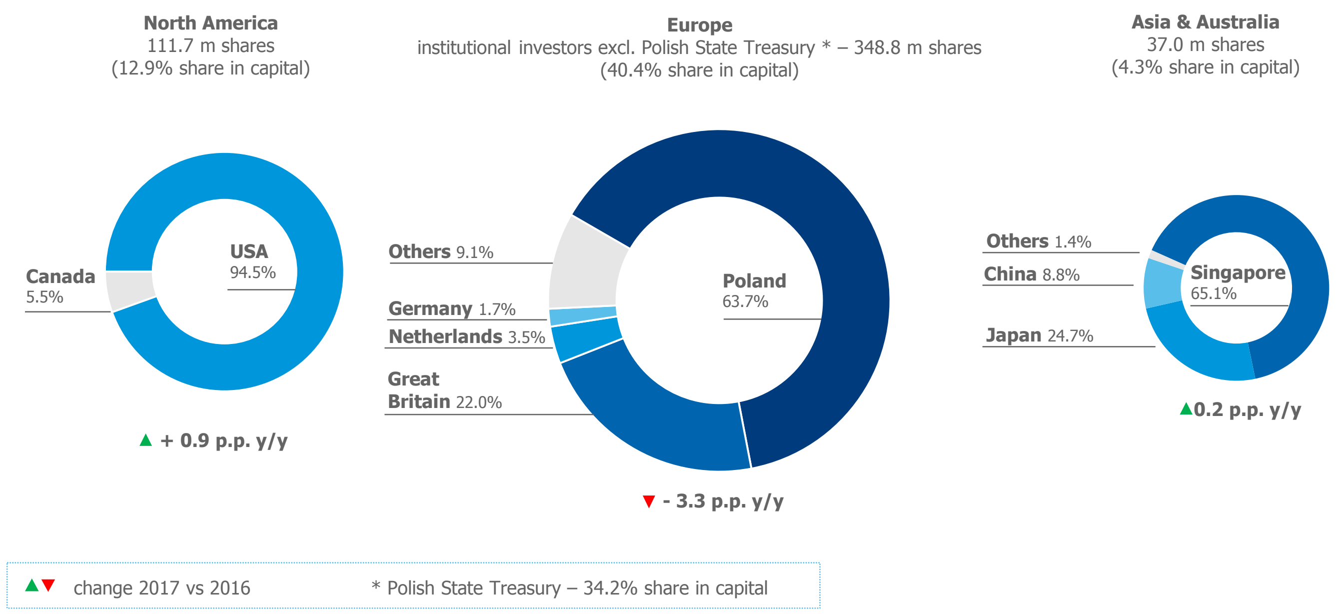
2017 marked another year in a row with an increase in the share of foreign investors in the PZU shareholder structure (+1.3 p.p. in 2017 compared to +1.2 p.p. in 2016). The change in this group of investors was mainly due to capital inflows from North America whose share increased by 0.9 p.p. y/y and stood at 12.9%. A structural change also occurred in this subgroup where investors from the United States strengthened their dominance, accounting for 94.5% of all investors as at the end of the year (+2.5% y/y).

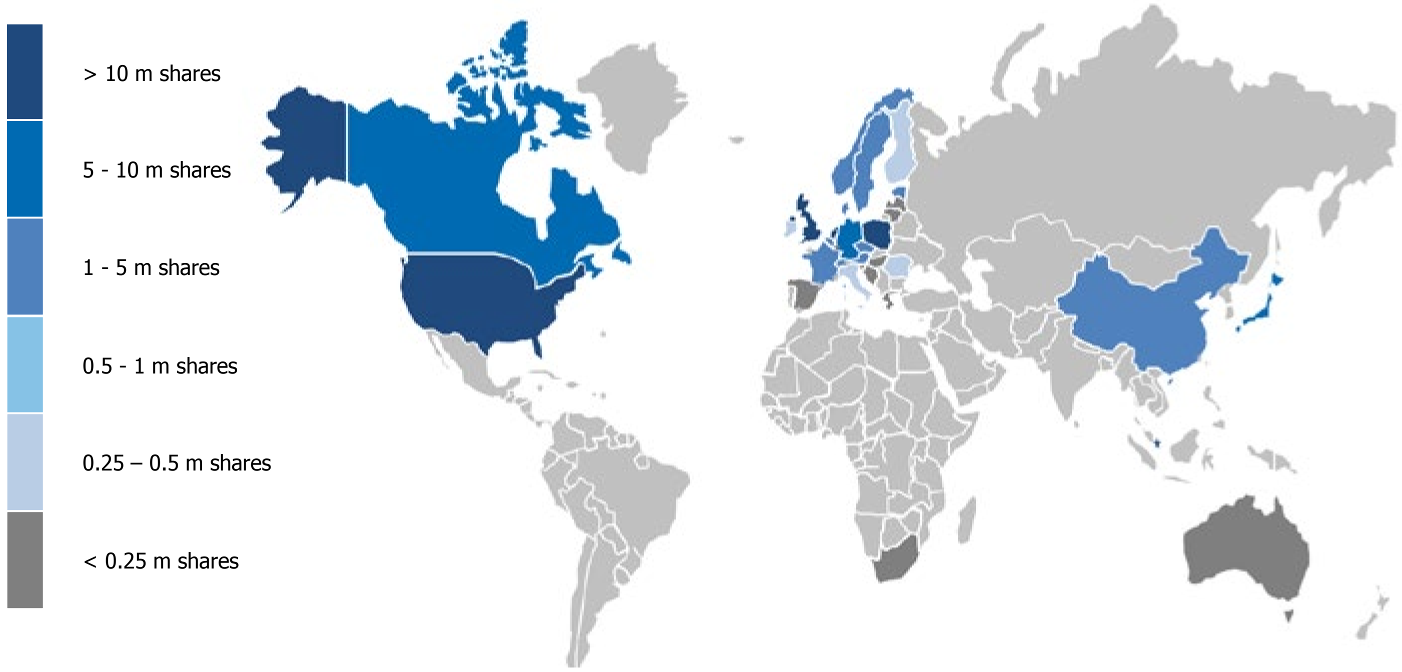
PZU shareholder structure - main investor groups



Source: IPREO

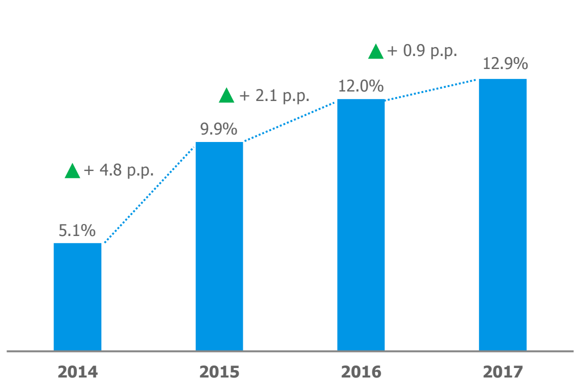
Geographical structure of PZU's shareholders





Source: IPREO

North American investors 2014-2017



As regards European institutional shareholders (excluding the State Treasury of the Republic of Poland), a further increase (+1.1 p.p.) was recorded in UK-based investors whose share as at the end of 2017 was 22.0%. Exposure of investors from the Netherlands also increased: by approx. 2.1 p.p. to 3.5%.

Communication with capital market players

In 2017, PZU broadcasted all key corporate events live, namely:

- PZU Group's financial results (for 2016, Q1 2017, H1 2017 and Q1-3 2017);
- Ordinary Shareholder Meeting;
- two Extraordinary Shareholder Meetings;
- announcement by PZU and PFR of finalization of the transaction to purchase a 32.8% stake in Bank Pekao SA.

In 2017, PZU once again presented its key events, achievements and plans in the form of an online Annual Report at http://raportroczny2016.PZU.pl/. Users were provided with tools that enabled a multi-faceted analysis of corporate and macroeconomic events. The report includes interactive infographics, animations and video materials, which offer a succinct presentation of PZU Group's activity in 2016.

Activities addressed to institutional investors

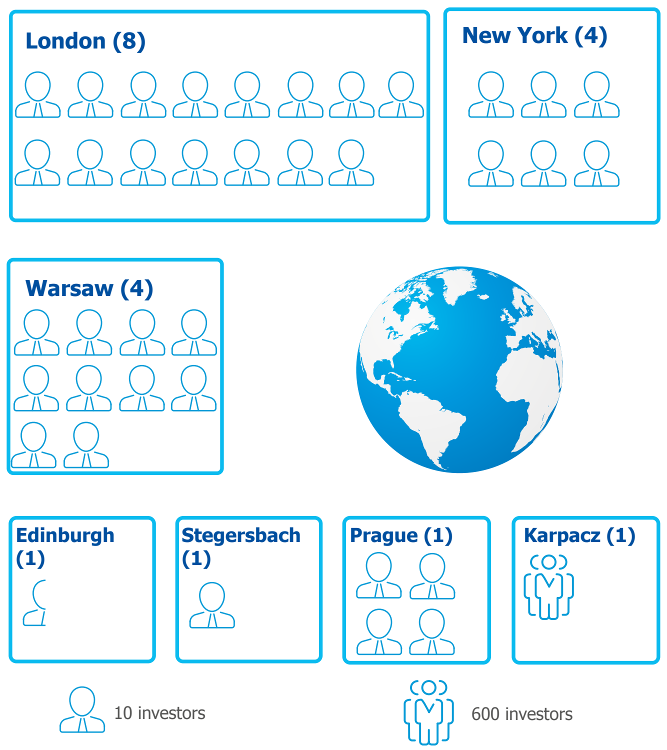
In 2017, PZU representatives participated in the following:

- 3 non-deal roadshows in New York, London and Edinburgh (2 in 2016);
- 12 international finance conferences attended by global institutional investors (15 in 2016);
- 4 conferences for institutional investors held in Warsaw (5 in 2016);
- numerous investor meetings at the company's headquarters: one-on-one, group meetings and conference calls.

During which 161 meetings with 368 managers were held.

Additionally, in 2017 PZU actively met with investors and analysts at the company's headquarters. Approximately 80 meetings and conference calls were held with more than 200 institutional investors and nearly 100 meetings and conference calls with analysts issuing recommendations concerning PZU's shares.

Investment centers visited in 2017 (number of visits)



Activities addressed to retail investors

In 2017, PZU engaged in active dialogue with retail investors, in particular by providing reliable and up-to-date information on the activities of PZU, the insurance industry and financial markets. In this respect, PZU implemented both communication projects (e.g. the online report, a newsletter, a factsheet) and took active steps to enable direct contact

Dividend yield for PZU's shares
3.32%
Dividend per share paid in 2017
PLN 1.40

P/E ratio (Price to Earnings) for PZU's shares at the end of 2017
12.51
P/BV (Price to Book Value)
2.49
Market capitalization
PLN 36,406 million

An average PZU's shares trading volume per session
PLN 75.6 million
Average number of transactions per session
3,942

Share of foreign investors in PZU's shareholder base at the end of 2017
34.4%
share of North America based investors
12.9%

Share of Polish OPF in PZU's shareholder base
18.0%
Share of TFI (mutual investment funds)
4.4%

Number of participated conferences for institutional investors
12 international
4 domestic
3 non deal roadshows in London, New York and Edinburg

Number of sell-side recommendations for PZU's shares at the end of 2017
7 buy
3 hold
maximum target price
PLN 55.4
average target price
PLN 48.9

S&P Financial strength and Credit rating for PZU and PZU Życie at
A- (stable)
since 2014 the rating is one notch above foreign currency sovereign rating on Poland

between investors and the Company's representatives, including, among others:

- for the seventh time, it participated in the largest conference for individual investors organized in Poland by the Association of Individual Investors: the 21st WallStreet Conference in Karpacz, which is the largest meeting of individual investors in Central and Eastern Europe;
- organized four chats with individual investors hosted by a Member of the PZU Management Board in charge of the PZU Group's Finance Division each time after publication of quarterly financial results

Without interruption since 2012, PZU has also been participating in a program conducted by the Association of Individual Investors called "10 of 10: Communicate Effectively) whose purpose is to develop high communication standards between public companies and retail investors.

Prizes and distinctions for IR activities

PZU's investor relations activities are highly regarded by investors, analysts and the media. In 2017, PZU received the following prizes and distinctions in this area:

- award for the highest usefulness of an annual report among banks and financial institutions in the Best Annual Report contest organized by the Institute of Accounting and Taxes (Instytut Rachunkowości i Podatków).
- third place for Tomasz Kulik in the ranking of the best CFOs for investor relations in Poland and Central and Eastern Europe in the Extel 2017 survey;
- third place for the Investor Relations team in the ranking of the best investor relations in Poland in the Extel 2017 survey.

IR objectives in 2018

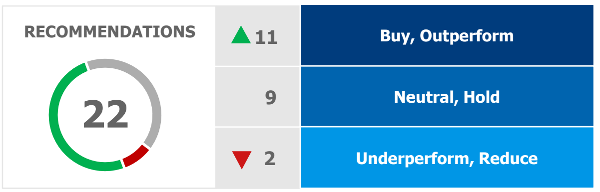
The main objectives of PZU's investor relations function in 2018:

- strengthen good relations between the PZU Management Board and the community of investors;
- ensure understanding and approval for PZU's business strategy among investors and analysts;
- secure a deep and broad market for PZU's shares and bonds by continuing investor-friendly measures to build a diversified base (in terms of geography, numbers and profile) of an appropriate number of well-informed investors familiar with the company;
- ensure broad coverage for PZU shares by sell-side analysts of investment banks and brokerage houses and accurate valuation of PZU shares by providing analysts with high quality information about PZU's operations, industry trends, drivers of financial performance and feedback after analysis of their recommendations;
- setting standards in investor relations that may serve as an example to be followed by other public companies;
- provide the PZU Management Board with regular feedback concerning the perception of PZU among capital market players and broad knowledge of current and potential shareholders of the company;
- monitor investor sentiment towards PZU shares and changes in the shareholder structure in order to adopt the most adequate investor relations measures and tools;
- introduce standards of PZU Group's non-financial reporting.

8.6 Analysts' recommendations regarding PZU's shares

In 2017, PZU stock recommendations were issued by 13 domestic and international financial institutions. In total, sell side analysts GLOSSARY issued 22 recommendations. The greatest percentage of issued recommendations were positive (50%) and neutral (40.1%).

Statistics related to the recommendations issued in 2017

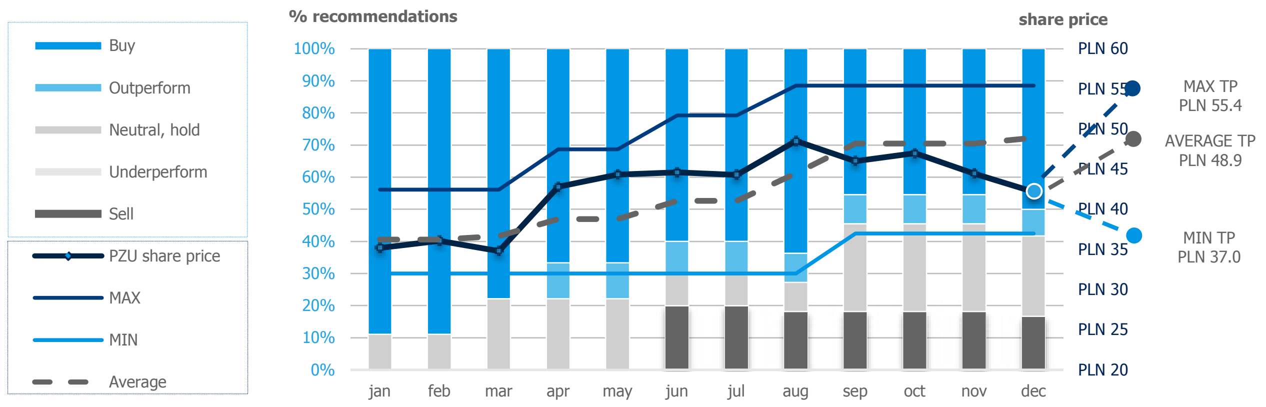


At the end of 2017, PZU had 12 current recommendations (7 buy, 3 hold and 2 sell). The median of their price targets was PLN 51.1 and was 41.8% higher than the median price at the beginning of the year. The maximum target price was PLN 55.4 and was 14.0% higher than the maximum target price at the beginning of January 2017. At the end of 2017, analysts perceived PZU's shares as highly undervalued. Median target price provided by analysts was 21.1% higher than the price at the end of 2017.

Price variance of the recommendations in 2017

	2017-12-31	2017-01-01	change	Price variance of the recommendations from the share price at the end of 2017
Highest target price	55.4	48.6	14.0%	31.4%
Median of the target prices	51.1	36.0	41.8%	21.1%
Average of the target prices	48.9	38.9	25.9%	16.0%
Lowest target price	37.0	30.9	19.7%	(12.2)%

Analysts' expectations towards the price of PZU shares in 2017 based on recommendations in effect at the end of December 2017



In 2017, in their recommendations, analysts focused mostly on evaluating the impact that the growing share of the banking segment in PZU Group has on the company's results and stock market valuation, better prospects in property insurance due to the improved situation on the motor insurance market, sustainability of the high-margin business model of group insurance and individually continued insurance and the impact of the investment result on PZU's profits in connection with the situation on financial markets.

Almost throughout 2016, the spread between the average target price in recommendations and the current share price was roughly 20% above the market price of PZU shares. Following the rapid increase in PZU share prices at the end of 2016, the difference narrowed down to a few percent and only slightly differed from the current share price, also in Q1 2017. In April 2017, the price of PZU shares started to appreciate sharply to about 10% more than the average prices expected by analysts. As a result, analyst valuations also started to trend upward. In August 2017, the maximum target price reached 55.4 (21% above the market price at the time of issuing the recommendation), while the average target price increased to PLN 44.5. In the last quarter of 2017, after a strong increase, the target price was again above the market valuation of PZU shares. At the end of 2017, the average recommendation price was 16% above the market price of the shares at market closing on 31 December 2017.

Institutions issuing recommendations for PZU shares in 2017 (as at the end of December 2017)

POLAND

Institution	Analyst	Contact data
Citi	Andrzej Powierża	+48 22 690 35 66 andrzej.powierza@citi.com
Ipopema	Łukasz Jańczak	+48 22 236 92 30 lukasz.janczak@ipopema.pl
mBank	Michał Konarski	+48 22 697 47 37 michal.konarski@mdm.pl
PKO BP	Jaromir Szortyka	+48 22 580 39 47 jaromir.szortyka@pkobp.pl
Trigon	Maciej Marcinowski	+48 22 4338 375 maciej.marcinowski@trigon.pl
Wood & Company	Marta Jeżewska-Wasilewska	+48 22 222 15 48 marta.jezewska-wasilewska@wood.com

ABROAD

Institution	Analyst	Contact data
Deutsche Bank	Larissa van Deventer	+27 11 775 7049 larissa.van-deventer@db.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	Michał Kużawiński	+48 22 44 19534 michal.kuzawinski@jpmorgan.com
Raiffeisen Centrobank	Bernd Maurer	+43 1 51520 706 maurer@rcb.at
UBS	Michael Christelis	+27 11 322 7320 michael.christelis@ubs.com

8.7 PZU Group's capital and Dividend Policy

On 3 October 2016 PZU Supervisory Board adopted a resolution (Current Report 61/2016 of 4 October 2016) to approve the PZU Group's Capital and Dividend Policy for 2016-2020 ("Policy").

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

In accordance with the Policy, the PZU Group endeavors to do the following:

- manage capital effectively by optimizing the usage of capital from the Group's perspective;
- maximize the rate of return on equity for the parent company's shareholders, in particular by maintaining the level of security and retaining capital resources for strategic growth objectives through acquisitions;
- ensure sufficient financial means to cover the Group's liabilities to its clients.

The capital management policy rests on the following principles:

- the PZU Group's capital management (including excess capital) is conducted at the level of PZU as the parent company;
- sustain target solvency ratios at the level of 200% for the PZU Group, PZU and PZU Życie (according to Solvency II);
- maintain the PZU Group's financial leverage ratio at a level no higher than 35%;
- ensure funds for growth and acquisitions in the coming years;
- PZU will not issue any new shares for the duration of this Policy.

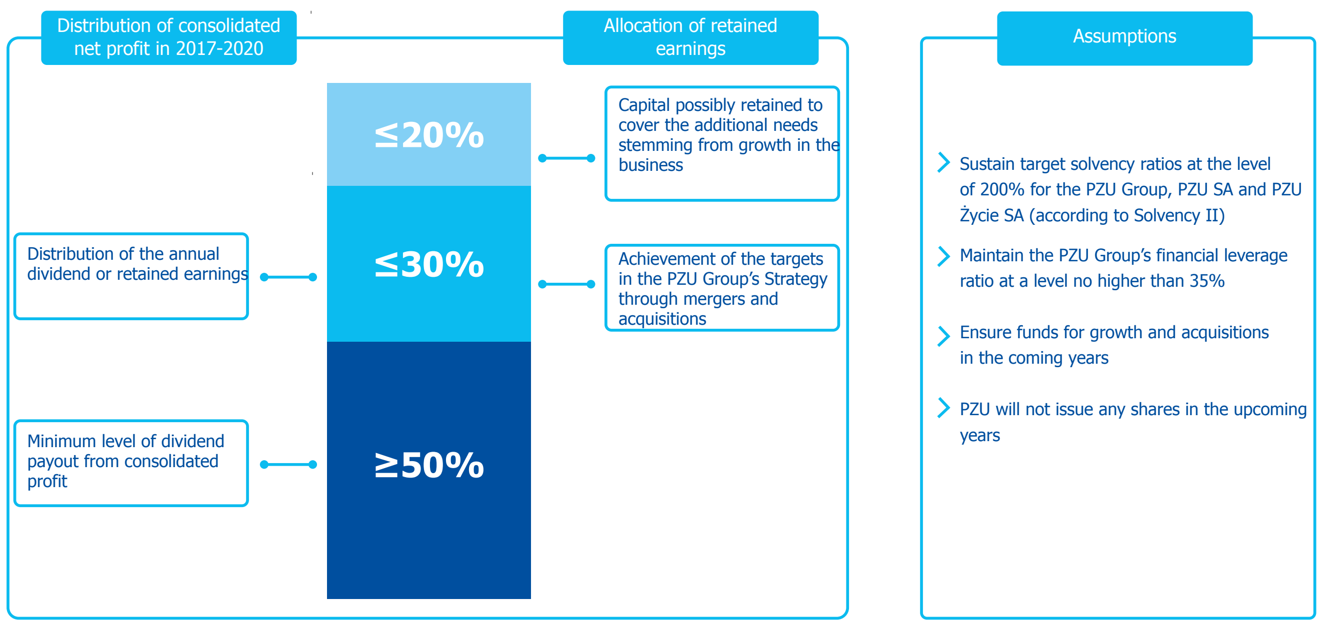
The PZU and PZU Group's dividend policy rests on the following principles:

- The PZU Group endeavors to manage capital effectively and maximize the rate of return on equity for the parent company's shareholders, in particular by maintaining the level of security and retaining capital resources for strategic growth objectives through acquisitions;
- the dividend amount proposed by the parent company's Management Board which PZU pays for a given financial year is determined on the basis of the PZU Group's consolidated financial result attributable to the parent company, where:
  - no more than 20% will be earmarked as retained earnings (supplementary capital) for goals associated with organic growth and innovations as well as execution of growth initiatives;
  - no less than 50% is subject to payment as an annual dividend;
  - the remaining part will be paid in the form of annual dividend or will increase retained earnings (supplementary capital) if in the given year significant expenditures are incurred in connection with execution of the PZU Group Strategy, including in particular, mergers and acquisitions;

with a reservation that:

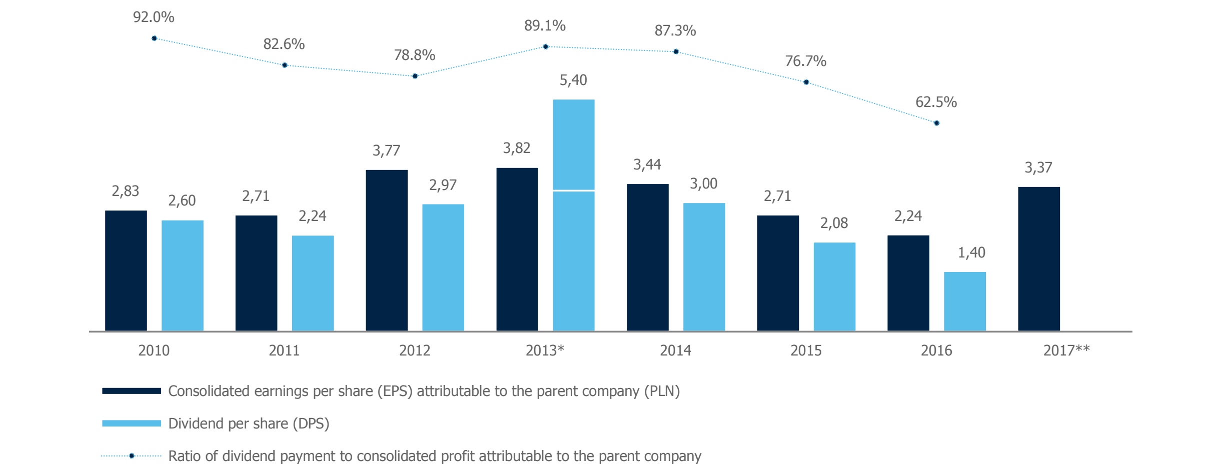
- according to the Management Board's plans and risk and solvency self-assessment of the parent company, the own funds of the parent company and the PZU Group following the declaration or payment of a dividend will remain at a level that will ensure fulfillment of the conditions specified in the capital policy;
- when determining the dividend the regulatory authority's recommendations concerning dividends will be taken into consideration.

PZU Group's Dividend and Capital Policy



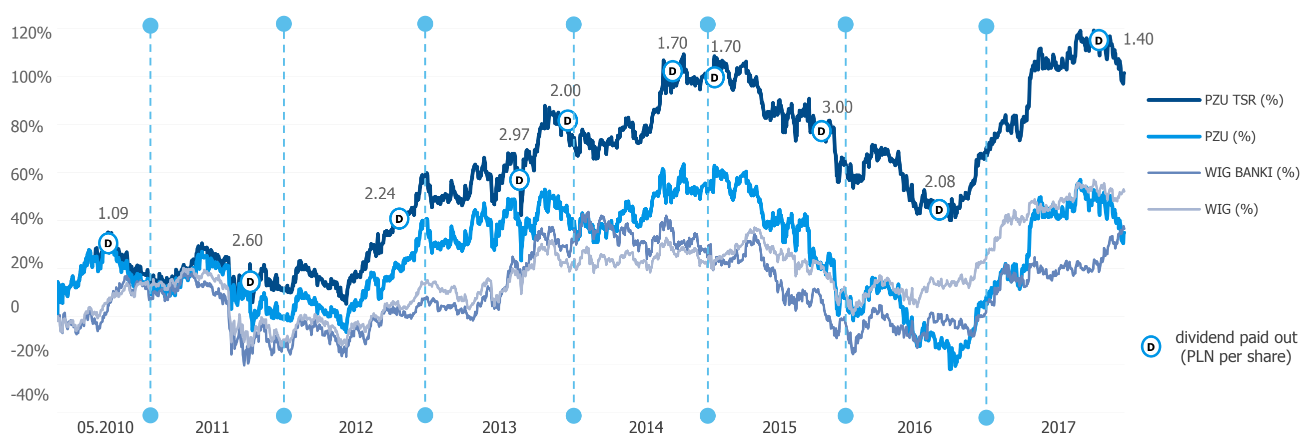
We are consistently pursuing the capital and dividend policy enacted in 2016

PZU's earnings and dividend per share in 2010 - 2017

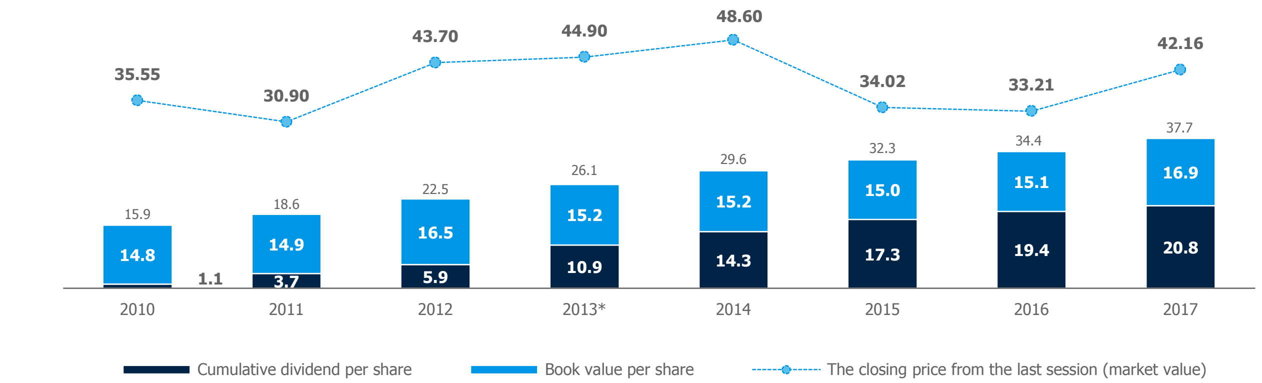


* in 2013 a dividend was paid from excess capital (PLN 2 per share)
** up to the date of preparing this Report on the activities of the PZU Group, the Management Board has not adopted a resolution concerning the proposed distribution of profit for 2017
Source: PZU

Dividend distributions and total shareholder return (TSR) of PZU (2010 - 2017)



Book value per share and gross accumulated dividend per share in PZU (PLN) (2010 - 2017)



* in 2013 a dividend was paid from excess capital (PLN 2 per share)

Payment of a dividend from the profits generated in 2016

On 29 June 2017, PZU's Ordinary Shareholder Meeting adopted a resolution to distribute PZU's net profit for the financial year ended 31 December 2016, in which it resolved to distribute the amount of PLN 1,208,932,200, or PLN 1.40 per share, as dividend. The date on which the list of shareholders entitled to a distribution was 29 September 2017. The dividend was paid on 19 October 2017.

The Polish FSA's recommendation on dividend payments from the profits generated in 2017

As it was the case in previous years, on 5 December 2017 the Polish Financial Supervisory Authority took a stance on the dividend policy of banks, insurance and reinsurance companies, universal pension fund companies, brokerage houses and mutual fund companies in 2018 (download).

As recommended by the supervisory authority, dividends should be paid only by insurance undertakings meeting certain financial criteria. At the same time, the dividend payments should be limited to no more than 75% of the profit earned in 2017, while the coverage of the capital requirement for the quarter in which the dividend was distributed should be maintained at no less than 110%. At the same time, the Polish FSA permits dividend distributions equal to the entire profit earned in 2017 provided that the capital requirement coverage (after expected dividends are deducted from equity) at the end of 31 December 2017 and for the quarter when the dividend is paid, is at least 175% for companies operating in section I and at least 150% for companies operating in section II.

Up to the date of preparing this Report on the activities of the PZU Group, the Management Board has not adopted a resolution concerning the distribution of profit for 2017.

Dividend paid by PZU from its earnings in the 2012 - 2017 financial years

	2017	2016	2015	2014	2013
Consolidated profit attributable to the parent company (in PLN m)	2,910	1,935	2,343	2,968	3,293
PZU SA's standalone profit (in PLN m)	2,434	1,573	2,249	2,637	5,106
Dividend paid for the year (in PLN m)	***	1,209	1,796	2,591	4,663
Dividend per share for the year (PLN)	***	1.40	2.08	3.00	5.40**
Dividend per share on the date of record (PLN)	1.40	2.08	3.00	3.40	4.97
Ratio of dividend payment to consolidated profit attributable to the parent company	***	62.5%	76.7%	87.3%	89.1%*
Dividend yield in the year **	3.3%	6.3%	8.8%	7.0%	11.1%
TSR (Total Shareholder Return) ***	31.2%	3.7%	(23.8)%	15.8%	14.1%

* dividend paid from excess capital in 2013 (PLN 2 per share) not included in dividend payment ratio
** ratio calculated as dividend as at the record date to the share price at the end of the reporting year
*** up to the date of preparing this Report on the activities of the PZU Group, the Management Board has not adopted a resolution concerning the proposed distribution of profit for 2017

8.8 Rating

Issuer rating

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

On 27 October 2017, the S&P Global Ratings agency upgraded the rating outlook for PZU and its main subsidiaries from negative to stable. PZU's financial strength and credit rating stayed at A-.

On 4 December 2017, S&P Global Ratings affirmed the financial strength and credit strength ratings for PZU and its main subsidiaries at "A-". The outlook remained unchanged (negative). The rating was affirmed in connection with PZU's announcement of a PLN 2.25 billion subordinated debt issue on 30 June 2017.

On 28 March 2017, S&P Global Ratings affirmed the financial strength and credit strength ratings for PZU and its main subsidiaries at "A-". The outlook remained unchanged (negative).

Sovereign rating

On Oct. 20, 2017, S&P Global Ratings affirmed its ‚BBB+/A-2' long- and short-term foreign currency sovereign credit ratings and ‚A-/A-2' long- and short-term local currency sovereign credit ratings on Poland.

Poland's rating

	Currently		Previously	
Country	**Rating and outlook**	**Updated on**	**Rating and outlook**	**Updated on**
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

	Currently		Previously	
Company name	**Rating and outlook**	**Updated on**	**Rating and outlook**	**Updated on**
PZU				
Financial strength rating	A- /Stable/	27 October 2017	A- /Negative/	31 October 2016
Credit rating	A- /Stable/	27 October 2017	A- /Negative/	31 October 2016
PZU Życie				
Financial strength rating	A- /Stable/	27 October 2017	A- /Negative/	31 October 2016
Credit rating	A- /Stable/	27 October 2017	A- /Negative/	31 October 2016

Eurobond rating

On 20 June 2014, Standard & Poor's awarded a rating of A- for unsecured debt for Eurobonds issued by PZU Finance AB. In October 2015, PZU issued bonds in the amount of EUR 350 million. These bonds have been assimilated and now form a single series with the "tap" bonds with the nominal value of EUR 500 m issued by PZU Finance AB (publ) on 3 July 2014. On 12 October 2015, the analysts from S&P set the rating for the new issue also at A-. On 21 January 2016, in connection with the reduction of PZU's rating (following the reduction of Poland's rating), the rating for the Eurobonds issued by PZU Finance AB (publ.) was also downgraded to BBB+. That is still an "investment-grade rating".

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

	Currently		Previously	
	Rating and outlook	**Updated on**	**Rating and outlook**	**Updated on**
EUR 350 million till 7 March 2019	BBB+	21 January 2016	A-	12 October 2015
EUR 500 million till 7 March 2019	BBB+	21 January 2016	A-	20 June 2014

Alior Bank's rating

On 5 September 2013, Fitch Ratings Ltd. awarded an entity rating to Alior Bank S.A. at BB with a positive outlook. The rating was maintained at an unchanged level, in line with the agency's decision of 16 February 2017.

On 5 February 2018, Fitch Ratings Ltd. affirmed the entity rating for Alior Bank S.A. at BB, while it changed the outlook from stable to positive.

Rating (Fitch)	
Alior Bank	
Long-term rating	BB
Short-term rating	B
Viability Rating (VR)	bb
Support Rating	5
Outlook	positive

Pekao rating

Bank Pekao cooperates with three leading rating agencies: Fitch Ratings, S&P Global Ratings and Moody's Investors Service. In the case of the first two agencies, the ratings are prepared upon the Bank's commission based on contracts. The Bank however has signed no agreement with Moody's Investors Service and the rating process is conducted on the basis of publicly available information and review meetings.

Bank Pekao has the highest viability rating awarded Fitch Ratings, the highest independent rating awarded by S&P Global Ratings, the highest Baseline Credit Assessment rating and short- and long-term counterparty credit risk ratings awarded by Moody's Investors Service ("Moody's agency") among the banks rated by these agencies in Poland.

On 20 October 2017, Fitch downgraded Pekao's long-term rating outlook from stable to negative and increased its support rating from 2 to 5. According to the agency's release, the change of Pekao's outlook reflects the expectations of a gradual decrease in capital ratios. The change in the support level is an effect of changes in the shareholder structure. Those were the sole changes to Pekao's ratings as presented below.

Rating (Fitch)	
Pekao	
Long-term rating	A-
Short-term rating	F2
Viability Rating (VR)	a-
Support Rating	5
Outlook	negative

Rating (S&P Global Ratings)	
Pekao	
Long-Term Foreign Currency Rating	BBB+
Short-Term Foreign Currency Rating	A-2
Long-Term Domestic Currency Rating	BBB+
Short-Term Domestic Currency Rating	A-2
Outlook	stable
Standalone rating	bbb+

Rating (Moody's Investors Service Ltd.)	
Pekao	
Long-term deposit rating	A2
Short-term deposit rating	Prime-1
Baseline Credit Assessment	baa1
Long-term Counterparty Credit Risk Rating	A1(cr)
Short-term Counterparty Credit Risk Rating	Prime-1(cr)
Outlook	stable

8.9 Calendar of major corporate events in 2018

09 JANUARY

Presentation of „The New PZU – More Than Insurance", update and operationalization of the PZU Group strategy for 2017-2020

15 MARCH

2017 Annual Report

16 MAY

Q1 2018 Report

25 MAY 27

22nd WallStreet Conference for individual investorsh

30 APRIL

H1 2018 Interim Report

15 NOVEMBER

Q1-Q3 2018 Report

Investor Relations Contact:
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MORE

Agnieszka Wiśniewska,
Tied Agents Sales Team

Mountains and rocks contain an unseen magnet that acts as a powerful force of attraction on me at every time of the day, season of the year and regardless of the distance to be covered. Conquering vertical walls involves not only physical difficulties. Above all, it involves overcoming your own weaknesses and fears. Every vertical path traversed and every rock conquered are a source of joy coming from a sense of fulfillment and accomplishment at having beaten what appeared to be impossible. On the other hand, a lack of success is a lesson in humility and gives hope for the future.

9.

Corporate governance

We appreciate that the leader’s role is to set the highest standards for the entire industry. We discharge this function not only by observing a number of codes but also by working continuously on their improvement. We believe that this is part of the sagacious changes we can contribute to the world that surrounds us.

In this chapter:

9.1 Corporate governance principles applied by PZU

Since the day when its shares were admitted to trading on a regulated market, PZU has followed the corporate governance rules laid down in the Best Practices of WSE listed companies.

Since the day when its shares were admitted to trading on a regulated market, PZU has followed the corporate governance rules laid down in the Best Practices of WSE listed companies.

This document was accepted by WSE's Supervisory Board on 4 July 2007 and has undergone several modifications since then. A document entitled "Best Practices of WSE Listed Companies 2016" adopted by a WSE Supervisory Board resolution on 13 October 2015 has been in force since 1 January 2016.

Its current wording is available on the website devoted to the corporate governance of companies listed on WSE (www.corp-gov.gpw.pl) and on PZU's website (www.pzu.pl) in the section dedicated to PZU's shareholders – Investor Relations.

The set of principles expressed in the Best Insurance Practices adopted on 8 June 2009 by the General Assembly of the Polish Chamber of Insurance ("PIU"), an organization whose members are insurance undertakings operating on the Polish market informs how PZU conducts its business operations and shapes relations with its stakeholders. This document is available on the website: http://piu.org.pl.

Furthermore, our own code entitled Best Practices in PZU defines the principles for how we mold relations with our stakeholders. This document is available on our website: http://www.pzu.pl.

On 22 July 2014 the Polish Financial Supervision Authority ("KNF") published Corporate Governance Rules for Regulated Institutions ("Corporate Governance Rules").

The Corporate Governance Rules constitute a set of guidelines that should be applied by regulated entities from 1 January 2015 under the applicable laws giving consideration to the rule of proportionality.

The Corporate Governance Rules and information on how to apply them are available on PZU's website: http://www.pzu.pl/grupa-pzu/pzusa/zasady-ladu-korporacyjnego.

9.2 Application of Best Practices of WSE Listed Companies

In 2017, PZU complied with the recommendations and principles set forth in Best Practices of WSE Listed Companies 2016, except for recommendation IV.R.2. which provides for a possibility for shareholders to participate in a shareholder meeting using means of electronic communication, in particular via the following:
- real-time transmission of the shareholder meeting,
- real-time bilateral communication where shareholders may take the floor during a shareholder meeting from a location other than the shareholder meeting,
- exercising, in person or by proxy, voting rights during a shareholder meeting.

Presently, PZU shareholders may follow the broadcast of the shareholder meeting. However, the Company has not elected to introduce an electronic shareholder meeting. According to PZU, there are many technical and legal factors that may affect the proper course of the shareholder meeting. The legal doubts pertain to the ability to identify shareholders and check the legitimacy of participants in the shareholder meeting. The risk of the occurrence of technical difficulties, e.g. with the internet connection or possible external interference in the IT systems may disrupt the work of the shareholder meeting and evince doubts concerning the efficacy of the resolutions adopted during its course. The appearance of these risks may affect the proper application of this rule to a full extent.

Furthermore, the following rules are not applicable to PZU:
- principle I.Z.1.10, providing for the publication of financial projections, if the company has decided to publish them, published at least in the last 5 years, including information about the degree of their implementation, because, as at the date of publication of this report, PZU has not published any financial projections or estimates;
- principle III.Z.6., concerning cases of non-separation of an internal audit function within the company's organizational structure, because this function has been separated in PZU's organizational structure;
- recommendation IV.R.3., concerning situations where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, because PZU securities are traded only on the Polish market.

Information on the status of PZU's application of the recommendations and rules laid down in the Best Practices of WSE Listed Companies 2016 is available on PZU's website: https://www.pzu.pl/relacje-inwestorskie/dobre-praktyki-gieldowe

9.3 Application of Corporate Governance Rules for Regulated Institutions

The PZU Management Board and Supervisory Board have declared their readiness to apply the Rules to the objectively broadest extent while giving consideration to the rule of proportionality and the rule "comply or explain" stemming from their wording. These declarations were confirmed by the PZU Management Board and Supervisory Board in their respective resolutions.

Information on the application of the Rules was presented by the PZU Management Board and Supervisory Board during PZU's Ordinary Shareholder Meeting held on 30 June 2015. The PZU Ordinary Shareholder Meeting declared that, acting within its powers, it will be guided by the Corporate Governance Rules in the wording issued by the Polish Financial Supervision Authority on 22 July 2014, except for certain specific rules waived by the PZU Ordinary Shareholder Meeting.

Published on PZU's website is detailed information on the application of the Corporate Governance Rules by PZU, including those rules whose application will be partial, namely:
- in respect of the rule laid down in § 8 section 4 of the Corporate Governance Rules concerning the enabling of all shareholders to participate in the Shareholder Meeting, including by procuring the possibility of actively participating electronically in the Shareholder Meeting, it should be noted that, presently, PZU shareholders may follow the broadcast of the Shareholder Meeting, however the Issuer decided not to introduce the so-called e-Shareholder Meeting, because, in PZU's opinion, there are a number of factors of a technological and legal nature which may affect the proper conduct of the Shareholder Meeting. Legal concerns include the possibility of identifying the shareholders and verifying their legitimacy; the risk of the occurrence of technical difficulties, e.g. with the Internet connection or possible external interference in the IT systems, may disrupt the work of the Shareholder Meeting and evince doubts concerning the efficacy of the resolutions adopted during its course; the materialization of the above risks may affect the proper application of this rule to its full extent;
- in respect of the rule laid down in § 21 section 2 of the Corporate Governance Rules according to which within the supervising body there should be a separate function of the chairperson in charge of managing the work of the supervising body, and the selection of the chairperson of the supervising body should be accomplished on the basis of experience and team management skills while giving consideration to the criterion of independence, it should be emphasized that, in accordance with the Commercial Company Code GLOSSARY and PZU's Articles of Association, the function of chairperson has been established within the PZU Supervisory Board; the PZU Supervisory Board's composition and the chairperson's function are shaped in accordance with the criteria of independence stated in the Statutory Auditor Act GLOSSARY; the selection of the Supervisory Board Chairperson is accomplished on the basis of the criterion of knowledge, experience and skills that confirm the competences required to discharge duly the duties of supervision; applying the criterion of independence to the chairperson according to the KNF Office's explanation of this rule may evince doubts concerning a possible collision with the legal regulations pertaining to shareholder rights;
- in respect of the rule laid down in § 49 section 3 of the Corporate Governance Rules concerning the appointment and dismissal, in a regulated institution, of the person managing the internal audit cell and the person managing the compliance cell with the consent of the supervising body or the audit committee, it should be pointed out that PZU applies the rules laid down in § 14 of the Rules to their full extent, which means that the PZU Management Board is the sole body empowered to, and responsible for, managing the Company's activity; moreover, according to the labor law regulations, the managing body exercises labor law activities; on account of the foregoing, PZU has adopted a solution that anticipates that the selection and dismissal of the person managing the internal audit cell is accomplished while taking into account the opinion of the Supervisory Board's Audit Committee; the person managing the compliance cell is appointed and dismissed in an identical manner; in making these decisions, the Management Board obtains the Audit Committee's opinions.

The PZU Ordinary Shareholder Meeting has waived the following rules:

- the rule laid down in § 10 section 2 of the Corporate Governance Rules reading as follows: "The implementation of personal rights or other special rights for shareholders of the regulated institution should be justified and serve the accomplishment of the regulated institution's material operating goals. The possession of such rights by shareholders should be reflected in the wording of the primary governing document of the regulated institution."
  – the waiving of this rule is due to the unfinished process of the Company's privatization by the State Treasury;
- the rule laid down in § 12 section 1 reading as follows: "Shareholders are responsible for recapitalizing without delay a regulated institution in a situation in which it is necessary to maintain the regulated institution's equity at the level required by the legal regulations or oversight regulations as well as when the security of the regulated institution so requires."
  – the waiving of this rule is due to the unfinished process of the Company's privatization by the State Treasury;
- the rule laid down in § 28 section 4 reading as follows: "The decision-making body assesses whether the implemented compensation policy fosters the regulated institution's development and operating security."
  – the waiving of this rule is due to the overly broad scope of the subject matter of the compensation policy subject to assessment by the decision-making body. The compensation policy in respect of persons who discharge key functions but are not members of the supervising body or the managing body should be subject to assessment by such persons' employer or principal, i.e. the Company represented by the Management Board and supervised by the Supervisory Board.

Furthermore, the following rules are not applicable to PZU:

- the rule laid down in § 11 section 3 reading as follows: "In the event that the decision-making body makes a decision concerning a transaction with a related party, all shareholders should have access to all information required to assess the conditions on which it is implemented and its impact on a regulated institution's standing."
  – in PZU, the Shareholder Meeting does not make decisions on transactions with related parties;
- the rule laid down in § 49 section 4 reading as follows: "In a regulated institution in which there is no audit or compliance cell, the rights ensuing from sections 1-3 are vested in the persons responsible for performing these functions."
  – audit and compliance cells operate in PZU;
- the rule laid down in § 52 section 2 reading as follows: "In a regulated institution in which there is no audit or compliance cell or no cell responsible for this area has been designated, the information referred to in section 1 shall be conveyed by the persons responsible for performing these functions."
  – audit and compliance cells operate in PZU;
- the rules laid down in Chapter 9 entitled "Exercising rights from assets acquired at a client's risk", because PZU does not offer products entailing asset management at a client's risk.

9.4 System of control in the process of preparing financial statements

Financial statements are prepared within the PZU Finance Division including the PZU Head Office (including the Accounting Department) and central units operating based on the applicable regulations. The PZU Finance Division is supervised by a PZU Management Board Member.

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 PZU Management Board specifying key rules for recording business events in PZU, the valuation of assets and liabilities and dedicated reporting systems.

Data are prepared in the source systems using formal operating and acceptance procedures which specify the powers of specific persons.

The reporting process is controlled by appropriately qualified, skilled and experienced staff.

PZU monitors changes in external regulations concerning, without limitation, the accounting policy (procedures) and reporting requirements applicable to insurance undertakings and carries out appropriate adaptation processes in these areas.

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 financial systems with defined rules of data correctness, in accordance with PZU's internal regulations governing the control of accuracy of accounting data;
- data mapping from the source systems to financial statements supporting the proper presentation of data;
- analytical review of financial statements by specialists to compare them with the business knowledge and business transactions;
- formal review of the financial statements to confirm compliance with the applicable 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 processes 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 its consolidated subsidiaries through these companies' management boards and supervisory boards.

Consolidated financial reporting is governed by a number of internal regulations concerning the accounting principles (policy) adopted by the PZU Group and applied accounting standards as well as detailed schedules including the key activities and control points with assigned liability for timely and correct completion.

Consolidation packages forwarded by subsidiaries are subjected to:

- verification procedures by a statutory auditor scrutinizing the PZU Group's consolidated financial statements;
- analytical reviews by specialists and, in the case of consolidation packages forwarded by banks, also reconciliation with their published stock exchange disclosures.

Audit Committee

The PZU Supervisory Board appoints the Audit Committee composed of three Supervisory Board Members. The majority of Audit Committee Members, including the Chairperson, satisfy the independence criteria defined in the Act on Statutory Auditors, Audit Firms and Public Supervision of 11 May 2017 (hereinafter: "Statutory Auditor Act") and at least one Member has knowledge and skills in the fields of accounting or audit of financial statements in accordance with the requirements provided for in the Statutory Auditor Act.

The Audit Committee Members have knowledge and skills pertaining to the insurance industry, which is construed as at least one Audit Committee Member having knowledge and skills in the field of insurance or various Audit Committee Members having knowledge of specific branches within this field.

The Audit Committee is an advisory and consultative body to the Supervisory Board of PZU and is appointed to improve the effectiveness of supervision of the correct financial reporting at PZU and the effectiveness of internal control, including internal audit and risk management, exercised by the PZU Supervisory Board.

A statutory auditor appointed by the PZU Supervisory Board, based on a recommendation of the Audit Committee, reviews interim standalone and consolidated financial statements, audits annual standalone and consolidated financial statements and audits annual solvency and financial standing reports required by the Solvency II Directive (for PZU and the PZU Group).

9.5 An auditing company that audits financial statements

On 18 February 2014, the PZU Supervisory Board selected KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. with its registered office in Warsaw, ul. Inflancka 4A, 00-189 Warsaw, entered by the National Chamber of Statutory Auditors in the list of entities authorized to audit financial statements under no. 3546 as the entity authorized to audit financial statements for the years 2014-2016, and on 27 April 2017, the PZU Supervisory Board exercised the option of extending this cooperation to include the years 2017 - 2018.

The scope of the concluded agreement encompasses the following in particular:
- auditing PZU's annual standalone financial statements and the PZU Group's annual consolidated financial statements;
- review of PZU's interim standalone financial statements and the PZU Group's interim consolidated financial statements.

In recent years, PZU's additional cooperation with KPMG Audyt has covered, without limitation, audits of solvency and financial standing reports required by the Solvency II Directive.

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

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

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

On 24 November 2015, at PZU's request, the Management Board of the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A., "KDPW") adopted Resolution No. 789/15 on setting 30 November 2015 as the date of a split of 86,348,289 PZU shares with a par value of PLN 1 each into 863,482,890 PZU shares with a par value of PLN 0.10 each.

Accordingly, PZU's share capital is divided into 863,523,000 ordinary shares with a par value of PLN 0.10 each carrying the right to 863,523,000 votes at the Shareholder Meeting.

Fee charged by the entity authorized to audit PZU financial statements (PLN thousands)	1 January – 31 December 2017	1 January – 31 December 2016
compulsory audit of the annual financial statements / consolidated financial statements	4,950	1,365
other certifying services, including a review of the financial statements / consolidated financial statements	1,793	1,350
tax advisory services	-	-
other services	-	27
Total	**6,743**	**2,742**

Fee charged by the entity authorized to audit PZU Group financial statements (PLN thousands)	1 January – 31 December 2017	1 January – 31 December 2016
audit of the financial statements	7,673	2,120
other certifying services,	3,568	3,440
Total	**11,241**	**5,560**

The State Treasury holding 295,217,300 shares representing 34.19% of the Company's share capital carrying the right to 295,217,300 votes at the Shareholder Meeting is the only PZU shareholder with a significant equity stake.

On 29 May 2017, PZU was notified of a change in the holding of PZU's shares by Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK ("Aviva OFE"), informing the Company that as a result of PZU share purchase transactions executed on 24 May 2017, as at 26 May 2017, Aviva OFE decreased its stake in PZU to 4.89% of PZU's share capital, which represents 4.89% of the total number of votes at the PZU Shareholder Meeting.

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

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

In 2013-2017, PZU did not have any employee share programs in place.

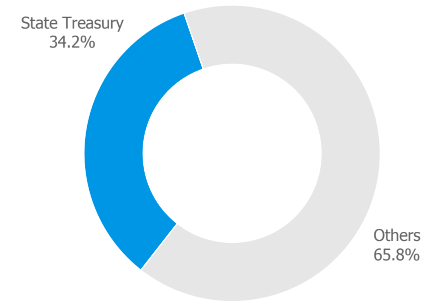
According to the Articles of Association, the shareholders' voting rights have been limited in such a manner that no shareholder may exercise more than 10% of the total number of votes in existence in PZU at its Shareholder Meeting on the date of holding a Shareholder Meeting subject to the reservation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

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

In the event of doubt, the provisions regarding the restriction of voting rights are subject to interpretation according to Article 65 § 2 of the Civil Code GLOSSARY.

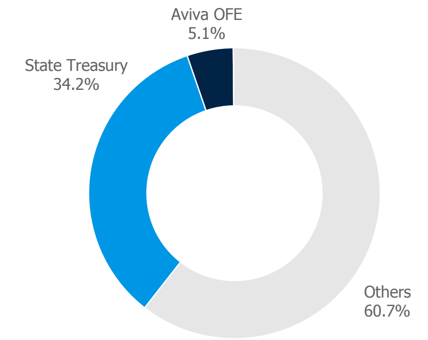
In line with PZU's Articles of Association, the said voting restrictions will expire starting from the moment when a share of a shareholder who, at the date of adopting a resolution of the Shareholder Meeting introducing the restriction, held shares carrying the right to more 10% of the total number of votes in the Company drops below 5% of the share capital.

PZU shareholder structure as at 31 December 2017



Source: current report no. 42/2017

PZU shareholder structure as at 31 December 2016



Source: current report no. 17/2017

Shares or rights to shares held by members of management or supervisory bodies and Directors of the PZU Group

Neither as at the date of this Activity Report nor as at the date of the Activity Report for 2016 (i.e. 15 March 2017) did any of the members of the Management Board or the Supervisory Board or the Directors of the PZU Group hold any PZU shares, and shares in entities related to PZU, entitlements to these shares or shares or rights to PZU shares.

9.7 PZU's Articles of Association

Amendments to the Articles of Association

PZU's Articles of Association may be amended by the Shareholder Meeting provided that a resolution is adopted by a majority of three fourths of the votes, KNF's approval is issued in the cases referred to in the Insurance Activity Act GLOSSARY and the amendments are entered in the National Court Register. The Supervisory Board has the powers to approve the consolidated amended text of the Articles of Association.

9.8 Shareholder Meeting, Supervisory Board and Management Board

Shareholder Meeting

The Shareholder Meeting is PZU's highest corporate body. The general operational principles and the rights of the Shareholder Meeting are laid down by the Commercial Company Code and the Articles of Association.

The Articles of Association are available on PZU's corporate website (www.pzu.pl) in the "Investor relations" section, under the "Company info" tab.

The Shareholder Meeting has not adopted its rules and regulations.

The Shareholder Meeting is a body authorized to make decisions concerning issues related to the organization and operations of the Issuer. Resolutions of the Shareholder Meeting are adopted by an absolute majority of votes, except in cases provided for in the Commercial Company Code or the Articles of Association.

The powers of the Shareholder Meeting, in addition to those specified in the Commercial Company Code or the Articles of Association, include the adoption of resolutions concerning the following:

- examination and approval of the Management Board's report on the Company's activity and the financial statements for the previous financial year and granting a discharge to individual members of the Company's corporate bodies on the performance of their duties;
- reviewing the Management Board's report on representation expenditures and expenditures for legal, marketing, public relations and public communication services and management consulting services;
- distribution of profits or coverage of losses;
- decisions on claims to remedy damages incurred during the incorporation of the Company or in its administration or oversight;
- selling or leasing a business or an organized part thereof or establishing a limited right in rem thereon;
- redemption of shares or issue of bonds;
- establishing reserve capital accounts and making decisions on their allocation or manner of allocation;
- splitting the Company, merging the Company with another company, winding up or dissolving the Company;
- 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 for remunerating members of the Supervisory Board;
- purchase or sale of real estate, perpetual usufruct or a share in real estate or perpetual usufruct the gross value of which exceeds the equivalent of EUR 30.0 million (thirty million euros), subject to § 18a of the Articles of Association.

In accordance with the Articles of Association, the Shareholder Meeting's approval is required for:

- disposal of non-current assets within the meaning of the Accounting Act of 29 September 1994 (Journal of Laws of 2016, items 1047 and 2255) classified as intangible assets, property, plant and equipment or long-term investments, including contribution to a company or a cooperative – if the market value of those assets exceeds 5% of total assets within the meaning of the Accounting Act of 29 September 1994, determined on the basis of the most recent approved financial statements; and also handing those assets over for use to another entity for a period longer than 180 days in a calendar year based on a legal act, if the market value of the subject matter of the legal act exceeds 5% of total assets, whereas the handing over of assets for use in the case of the following:
  - lease, rental and other agreements to hand over an asset for use to other entities against payment, the market value of the subject matter of a legal act is defined as the value of benefits for:
    - one year – if the asset was handed over under agreements signed for an indefinite term,
    - the entire term of the agreement – in the case of agreements signed for a definite term,
  - o lending for use agreements and other agreements to hand over an asset to other entities for gratuitous use, the market value of the subject matter of a legal act is defined as the value of benefits that would be due if a lease or rental agreement was executed instead, for:
    - one year – if the asset is handed over under an agreement signed for an indefinite term,
    - the entire term of the agreement – in the case of agreements signed for a definite term,
- purchase of non-current assets within the meaning of the Accounting Act of 29 September 1994, with the value exceeding:
  - PLN 100 million or
  - 5% of total assets within the meaning of the Accounting Act of 29 September 1994, determined on the basis of the most recent approved financial statements,
- subscription or acquisition of shares in another company, with the value exceeding:
  - PLN 100 million or
  - 10% of total assets within the meaning of the Accounting Act of 29 September 1994, determined on the basis of the most recent approved financial statements,
- disposal of shares in another company, with the value exceeding:
  - PLN 100 million or
  - 10% of total assets within the meaning of the Accounting Act of 29 September 1994, determined on the basis of the most recent approved financial statements.

Shareholder Meeting resolutions concerning the following issues require a three-fourths majority of votes:

- amendments to the Articles of Association;
- decrease in the share capital;
- selling or leasing a business or an organized part thereof or establishing a limited right in rem thereon.

A majority of 90% of votes at the Shareholder Meeting is required to pass resolutions relating to the following:

- preference shares;
- Issuer's business combination by transferring all its assets to another company;
- merger by forming a new company;
- dissolving the Company (also as a result of moving its registered office or the head office abroad);
- liquidation, transformation or reduction in the share capital through the redemption of a portion of shares without a concurrent capital increase.

A Shareholder Meeting is held:

- as an Ordinary Shareholder Meeting which should be held within six months from the end of each financial year;
- as an Extraordinary Shareholder Meeting which is convened in cases specified in the generally applicable law and the Articles of Association.

Shareholder 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 Offerings, 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 not later than twenty-six days before the date of the Shareholder Meeting. From the date of convening the Shareholder Meeting, the announcement with materials presented to shareholders at the Shareholder Meeting are available on PZU's corporate website (www.pzu.pl) in the "Investors relations" section under the "Shareholder Meeting" tab. A duly convened Shareholder Meeting is deemed valid regardless of the number of attending shareholders. Resolutions are passed in an open ballot. A secret ballot is ordered in elections or on motions to dismiss members of the Issuer's corporate bodies or liquidators, in matters concerning their personal liability to the Issuer as well as in other personal matters or, excluding cases when voting by open ballot ensues from a statute, at the request of at least one of the shareholders attending or represented at the Shareholder Meeting. The rights of the shareholders and the method of exercising thereof at the Shareholder Meeting are specified in the Commercial Company Code GLOSSARY and the Articles of Association. Only persons who were shareholders of the issuer sixteen days prior to the date of the Shareholder Meeting have the right to participate in the Meeting (date of registration of attendance at the Meeting). Shareholders may attend the Shareholder Meeting and exercise the right to vote in person or through a proxy. The proxy document to participate in the Shareholder Meeting and exercise the voting right must be granted in writing or electronically. One PZU share gives the right to a single vote at the Shareholder Meeting, subject to restrictions with respect to exercising the voting rights described in the Company's Articles of Association. A shareholder may vote differently from each of the shares held by it.

During the Shareholder Meeting, each shareholder may provide draft resolutions concerning items on the agenda.

In accordance with the Commercial Company Code, detailed procedures concerning participation in the Shareholder Meeting and exercising the voting rights are always presented in an announcement of the Shareholder Meeting published on the date of convening the Shareholder Meeting on PZU's corporate website (www.pzu.pl) in the "Investors relations" section under the "Shareholder Meeting" tab.

Composition, powers and functioning of the Supervisory Board

Composition

In accordance with the Articles of Association, the Supervisory Board is composed of seven to eleven members. The number of Supervisory Board members is specified by the Shareholder Meeting.

Members of the Supervisory Board are appointed by the Shareholder Meeting for a joint term of office which lasts three consecutive full financial years. At least one member of the audit committee appointed by the Supervisory Board must hold qualifications in accounting or financial audit within the meaning of the Act on Statutory Auditors, Audit Firms and Public Supervision. Furthermore, in accordance with the said Act, the majority of the audit committee members should meet the statutory independence criteria (independent member) concerning, without limitation, professional or family ties, especially to managers or supervisors of PZU or PZU Group entities.

The independent member is required to present a written statement that he/she satisfies all the independence criteria provided for in the Articles of Association and is required to inform the Company if such criteria are no longer satisfied. In addition, the Articles of Association 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. This right will expire if the State Treasury ceases to be a Company shareholder. A candidate for a Supervisory Board member named by the State Treasury should meet the requirements set forth in Article 19 of the Act of 16 December 2016 on Rules for Managing State Property.

As at 1 January 2017, the following persons sat on the PZU Supervisory Board:

- Paweł Kaczmarek – Supervisory Board Chairman
- Marcin Gargas – Supervisory Board Deputy Chairman
- Maciej Zaborowski – Supervisory Board Secretary
- Marcin Chludziński – Supervisory Board Member
- Eligiusz Krześniak – Supervisory Board Member
- Alojzy Nowak – Supervisory Board Member
- Jerzy Paluchniak – Supervisory Board Member
- Piotr Paszko – Supervisory Board Member
- Radosław Potrzeszcz – Supervisory Board Member

On 8 February 2017, Eligiusz Krześniak tendered his resignation from membership in the Supervisory Board effective as of 8 February 2017. On 8 February 2017, the PZU Extraordinary Shareholder Meeting dismissed Marcin Gargas, Piotr Paszko and Radosław Potrzeszcz from the Company's Supervisory Board effective as of 8 February 2017. At the same time, on 8 February 2017, the Extraordinary Shareholder Meeting appointed Agata Górnicka, Łukasz Świerżewski, Paweł Górecki and Bogusław Banaszak to the PZU Supervisory Board.

Accordingly, as of 8 February 2017, the composition of the PZU Supervisory Board was as follows:

- Paweł Kaczmarek – Supervisory Board Chairman
- Maciej Zaborowski – Supervisory Board Secretary
- Bogusław Banaszak – Supervisory Board Member
- Marcin Chludziński – Supervisory Board Membery
- Paweł Górecki – Supervisory Board Member
- Agata Górnicka – Supervisory Board Member
- Alojzy Nowak – Supervisory Board Member
- Jerzy Paluchniak – Supervisory Board Member
- Łukasz Świerżewski – Supervisory Board Member

On 14 March 2017, the PZU Supervisory Board entrusted the function of Chairman of the PZU Supervisory Board to Paweł Górecki, the function of Deputy Chairman of the PZU Supervisory Board to Łukasz Świerżewski and the function of Secretary of the PZU Supervisory Board to Alojzy Nowak.

On 23 March 2017, the PZU Supervisory Board decided to second PZU Supervisory Board Member Marcin Chludziński to temporarily act as the President of the PZU Management Board.

On 12 April 2017, effective as of 12 April 2017, the Minister of Development and Finance, acting pursuant to § 20 Section 7 of the PZU Articles of Association, dismissed Jerzy Paluchniak from the position of PZU Supervisory Board Member. At the same time, effective as of 12 April 2017, the Minister of Development and Finance, acting pursuant to § 20 Section 7 of the PZU Articles of Association, appointed Aneta Fałek to the position of PZU Supervisory Board Member. On 12 April 2017, Łukasz Świerżewski tendered his resignation from membership in the PZU Supervisory Board, effective as of 12 April 2017. On 12 April 2017, effective as of 12 April 2017, the PZU Extraordinary Shareholder Meeting dismissed Paweł Kaczmarek from the Company's Supervisory Board and appointed Robert Śnitko and Katarzyna Lewandowska to the PZU Supervisory Board.

On 13 April 2017, the PZU Supervisory Board entrusted the function of being the PZU Supervisory Board Chairman to Katarzyna Lewandowska and the function of PZU Supervisory Board Deputy Chairman to Aneta Fałek.

Accordingly, after the changes in the composition of the PZU Supervisory Board made on 12 April 2017 and the changes in the composition of the presidium of the PZU Supervisory Board made on 13 April 2017, the composition of the Supervisory Board was as follows:

- Katarzyna Lewandowska – Supervisory Board Chairwoman
- Aneta Fałek – Supervisory Board Deputy Chairwoman
- Alojzy Nowak – Supervisory Board Secretary
- Bogusław Banaszak – Supervisory Board Membery
- Marcin Chludziński – Supervisory Board Member
- Paweł Górecki – Supervisory Board Member
- Agata Górnicka – Supervisory Board Member
- Robert Śnitko – Supervisory Board Member
- Maciej Zaborowski – Supervisory Board Member

The current term of office of the PZU Supervisory Board started on 1 July 2015 and will end after the elapse of three full financial years. 2016 was the first full financial year of this term of office. The mandates of members of the Supervisory Board will expire not later than on the date of the Shareholder Meeting approving the financial statements for the last full financial year of their term.

The PZU's Supervisory Board composition as at 31 December 2017

Name and surname	PZU Supervisory Board member's period of holding office
Katarzyna Lewandowska	Supervisory Board Chairwoman since 13 April 2017 (in the Supervisory Board since 12 April 2017)
Aneta Fałek	Supervisory Board Deputy Chairwoman since 13 April 2017 (in the Supervisory Board since 12 April 2017)
Alojzy Nowak	Supervisory Board Secretary since 14 March 2017 (in the Supervisory Board since 30 May 2012)
Bogusław Banaszak	Supervisory Board Member since 8 February 2017
Marcin Chludziński	Supervisory Board Member since 7 January 2016
Paweł Górecki	Supervisory Board Member since 8 February 2017
Agata Górnicka	Supervisory Board Member since 8 February 2017
Robert Śnitko	Supervisory Board Member since 12 April 2017
Maciej Zaborowski	Supervisory Board Member since 7 January 2016

On 8 January 2018, Aneta Fałek tendered her resignation from membership in the PZU Supervisory Board effective as of 8 January 2018. On 8 January 2018, effective as of 8 January 2018, pursuant to § 20 Section 7 of the Articles of Association, the Prime Minister appointed Maciej Łopiński to be a PZU Supervisory Board Member. On 9 January 2018, due to his demise, the mandate of Bogusław Banaszak as a Supervisory Board Member expired.

On 9 January 2018, the PZU Supervisory Board entrusted the function of Chairman of the PZU Supervisory Board to Maciej Łopiński and the function of Deputy Chairman of the PZU Supervisory Board to Paweł Górecki.

On 9 March 2018 PZU's Extraordinary Shareholder Meeting appointed Robert Jastrzębski to the Supervisory Board as of 9 March 2018.

Accordingly, after the changes in the composition of the PZU Supervisory Board made on 8 January 2018 and 9 March 2018, the changes in the composition of the presidium of the PZU Supervisory Board made on 9 January 2018 and the expiration of the mandate of Bogusław Banaszak, the composition of the Supervisory Board is as follows:

The PZU's Supervisory Board composition as at 14 March 2018

Name and surname	PZU Supervisory Board member's period of holding office
Maciej Łopiński	Supervisory Board Chairman since 9 January 2018 (in the Supervisory Board since 8 January 2018)
Paweł Górecki	Supervisory Board Deputy Chairman since 9 January 2018 (in the Supervisory Board since 8 February 2017)
Alojzy Nowak	Supervisory Board Secretary since 14 March 2017 (in the Supervisory Board since 30 May 2012)
Marcin Chludziński	Supervisory Board Member since 7 January 2016
Agata Górnicka	Supervisory Board Member since 8 February 2017
Robert Jastrzębski	Supervisory Board Member since 9 March 2018
Katarzyna Lewandowska	Supervisory Board Member since 12 April 2017
Robert Śnitko	Supervisory Board Member since 12 April 2017
Maciej Zaborowski	Supervisory Board Member since 7 January 2016

Maciej Łopiński

Supervisory Board Chairman

On the Supervisory Board since 8 January 2018

Graduate of the University of Gdańsk. Editor-in-Chief of Tygodnik Gdański, a journalist of Głos Wybrzeża and Tygodnik Czas, among others. A member of parliament in the 7th term of office. Secretary of State in the Office of President Lech Kaczyński in 2005-2010 and in turn in the Office of President Andrzej Duda in 2015-2016. He has many years of experience in company law and corporate governance also gained in supervisory bodies in commercial law companies, among others, KGHM Poland Miedź SA, PZU Asset Management SA, Telewizja Polska SA.

Paweł Górecki

Supervisory Board Deputy Chairman

In the Supervisory Board since 8 February 2017

Graduated from the Faculty of Law, Administration and Economics of the University of Wroclaw. He received the degree of Doctor of Law. He was a legal advisor trainee and a court trainee and has been entered in the registry of legal advisors. A university lecturer. He has authored several dozen peer-reviewed papers on the subject of law published by Polish and international journals and has authored numerous unpublished legal opinions. He has been an active participant of conferences organized by Polish academic centers. He specializes in the providing legal services to companies and applying administrative, fiscal and court-and-administrative procedures.

Alojzy Nowak

Supervisory Board Member

In the Supervisory Board since 30 May 2012

Professor ordinary at the University of Warsaw, a graduate of the Department of Foreign Trade of the Central School of Planning and Statistics. Completed, among others, economics studies at the University of Illinois Urbana-Champaign in the United States and completed studies in banking, finance and capital markets at the University of Exeter in the United Kingdom. Head of the Department of National Economy at the Management Faculty of the University of Warsaw, Director of the European Center of the University of Warsaw, Dean of the Management Faculty of the University of Warsaw. Member of the National Development Council at the President of the Republic of Poland, adviser to the Prime Minister. He has extensive experience in corporate governance, gained, among others, while serving as a member of the supervisory boards of PTE WARTA S.A., PKO BP S.A. and JSW S.A.

Marcin Chludziński

Supervisory Board Member

In the Supervisory Board since 7 January 2016

AGraduate of the European Regional and Local Studies and the Faculty of Journalism and Political Sciences of the University of Warsaw.From 2004, associated with Invent Grupa Doradztwa i Treningu. From 2009, President of the Management Board of Urbino sp. z o.o., a licensed coach and consultant specializing in strategic and organizational planning and project management.He has been working for the University of Warsaw, the Collegium Civitas and the Łazarski University as a lecturer. Has gained extensive experience in corporate governance in companies with a State Treasury shareholding and municipal companies. Author of articles on public management.

Agata Górnicka

Supervisory Board Member

In the Supervisory Board since 8 February 2017

Graduate of the Faculty of Journalism and Political Science at the University of Warsaw and. She has obtained a post-graduate diploma in media management from the Kozminski University in Warsaw. From 2006 to 2012 she was professionally associated with Telewizja Polska S.A., in 2012-2013 she was a Project Coordinator at the Bank Zachodni WBK S.A. Foundation, in 2013-2014 she was an Assistant to the President of the Bank Zachodni WBK S.A. Management Board. From 2014 to 2015, she was the Manager of the Office of the Management Board and Supervisory Board at Bank Zachodni WBK S.A. Since December 2015, she has served as the Director of the Political Office at the Ministry of Development.

Robert Jastrzębski

Supervisory Board Member

In the Supervisory Board since 9 March 2018

Graduate of the Faculty of Law and Administration at the University of Warsaw. In 2001 he obtained the academic degree of doctor of legal sciences in the law, and in 2009 he obtained the academic degree of a habilitated doctor. He is the author of more than 80 academic publications. Winner of awards and distinctions, including, among others, an Award from the Faculty of Law and Administration at the University of Warsaw for outstanding academic achievement. Employed since 2001 by the Faculty of Law and Administration at the University of Warsaw. Since 2015 Head of the Workshop on 20th century Polish law. Member among others of the program council of the magazine Przegląd Ustawodawstwa Gospodarczego (2010) (Business Legislation Review), editorial team of the magazine Zeszyty Naukowe Biura Analiz Sejmowych (2016) (Research Bulletin of the Parliamentary Research Office).

Katarzyna Lewandowska

Supervisory Board Member

In the Supervisory Board since 12 April 2017, she served as the Supervisory Board Chairwoman from 13 April 2017 to 8 January 2018.

Graduated from Warsaw School of Economics. From 1996 to 2017, an employee of the State Treasury Ministry where she gained extensive experience in exercising corporate governance in companies operating in the defense industry, operating in the coal mining industry, managing sea ports and exercising the State Treasury's monopoly in number games and cash lotteries. From March 2017 Deputy Director of the State Treasury Department in the Prime Minister's Office. Member of the Supervisory Board of the LOTOS S.A. Group. Acting Director of the State Treasury Department.

Robert Śnitko

Supervisory Board Member

In the Supervisory Board since 12 April 2017

Graduate of the London School of Economics and Political Science, University of London, School of Oriental and African Studies, University of London, Faculty of Economics at the Radom Technical University. Holder of a Scholarship awarded by the Minister of National Education (Minister of Science and Higher Education), the United Kingdom's Ministry of Foreign Affairs and non-governmental organizations from the United Kingdom and the United States. Ph.D. in economics obtained from the Warsaw School of Economics. Member of the International Institute for Strategic Studies.

Maciej Zaborowski

Supervisory Board Member

In the Supervisory Board since 7 January 2016

Graduated from the Law and Administration Department at the University of Warsaw. Completed post-graduate studies in intellectual property law and postgraduate studies in evidence law. Graduate of the Center for American Law Studies, Leadership Academy for Poland. Advocate and professional mediator of the Mediation Center at the Polish Bar Council. Lecturer of advocate training at the Bar Association in Warsaw. Currently, he runs his own legal practice and is a Managing Partner at the law firm Kopeć Zaborowski Adwokaci i Radcowie Prawni sp.p. He has acquired experience in corporate governance as a member of the supervisory boards in various companies.

Powers

The Supervisory Board continuously oversees the Company's business in all areas of its operation. In accordance with the Articles of Association, the powers of the Supervisory Board include:

- evaluating the Management Board's report on the Company's activity and the financial statements for the previous financial year for compliance with the accounting ledgers and documents as well as the facts,
- evaluating the Management Board's motions to distribute profit or cover loss,
- submitting a written report to the Shareholder Meeting on the results of the evaluation referred to in the foregoing items and submitting a concise annual evaluation of the Company's standing with an assessment of its internal control system and the system for managing significant risks to the Company, and an annual report on the Supervisory Board's work;
- executing, terminating and amending agreements with Management Board members and setting the rules for their compensation;
- appointing, suspending and dismissing the President of the Management Board, Management Board members or the entire Management Board and making decisions to discontinue such suspension;
- granting consent to transferring an insurance portfolio in whole or in part;
- accepting motions submitted by the Management Board to purchase, subscribe to or sell ownership interest and shares in companies and on the Company's participation in other entities – the Supervisory Board may define the maximum amount, the terms and conditions and the procedure that the Management Board may use to conduct the foregoing activities without the obligation to obtain approval from the Supervisory Board, except in cases where the decision in this respect is made by the Shareholder Meeting pursuant to § 18a of the Articles of Association;
- seconding members of the Supervisory Board to perform temporarily the functions of members of the Management Board who have been dismissed, resigned or cannot perform their functions for other reasons,
- accepting instructions for the Company's representatives to vote at Shareholder Meetings of PZU Życie SA in the following matters: increasing or decreasing the share capital, issuing bonds, selling or leasing PZU Życie SA's enterprise or establishing a usufruct right on the enterprise, splitting PZU Życie SA, merging PZU Życie SA with another company, liquidating or dissolving PZU Życie SA;
- selecting an entity authorized to audit financial statements to audit the Company's annual financial statements;
- establishing the consolidated text of the amended Articles of Association;
- approving the Company's long-term development plans and annual financial plans devised by the Management Board;
- approving of the rules and regulations of the Management Board;
- examining and issuing opinions on matters submitted by the Management Board for deliberation at the Shareholder Meeting

Moreover, one of the the Supervisory Board's powers its to give consent to the following:

- acquisition or disposal of real property, perpetual usufruct or share in real property or in perpetual usufruct with a value exceeding the equivalent of EUR 3.0 million;
- executing a material agreement, as construed by the the Regulation on Current and Periodic Information, by the Company with its related party, except for standard agreements executed by the Company on an arm's length basis as part of its operating activities;
- executing an agreement with an underwriter of the kind referred to in Article 433 § 3 of the Commercial Company Code;
- paying out an interim dividend;
- creating and shutting down regional or foreign branches;
- executing an agreement to provide legal, marketing, public relations and public communication services or management consulting services if the total net fee to be paid for such services is greater than PLN 500 thousand annually;
- amending an agreement to provide legal, marketing, public relations and public communication services or management consulting services by increasing the said fee above and beyond the net amount of PLN 500 thousand annually;
- executing an agreement to provide legal, marketing, public relations and public communication services and management consulting services which do not specify the maximum amount of the fee;
- executing a donation or other agreement having a similar effect, the value of which exceeds PLN 20 thousand or 0.1% of total assets within the meaning of the Accounting Act of 29 September 1994, determined on the basis of the most recent approved financial statements;
- executing a debt forgiveness or other agreement having a similar effect, the value of which exceeds PLN 50 thousand or 0.1% of total assets within the meaning of the Accounting Act of 29 September 1994, determined on the basis of the most recent approved financial statements.

Mode of operation

The Supervisory Board adopts the Rules and Regulations of the Supervisory Board which define its organization and manner of acting. The Rules and Regulations of the Supervisory Board were adopted by its Resolution of 14 November 2017, specifying the composition of the Supervisory Board and the way in which its members are appointed, the tasks and the scope of its activities and the manner of convening its meetings and conducting debates.

The Articles of Association stipulate that the Supervisory Board should meet at least once every quarter. The Supervisory Board may delegate its members to fulfil 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.

The Supervisory Board adopts its resolutions by an absolute majority of votes. In the event of a voting tie, the Chairman of the Supervisory Board has the casting vote. Resolutions of the Supervisory Board may be adopted using means of direct remote communication and circular vote. Additionally, the Articles of Association stipulate that a vote may be cast in writing through another member of the Supervisory Board.

Resolutions of the Supervisory Board are adopted in an open ballot, except for resolutions concerning the appointment of the Chairperson, Deputy Chairperson or 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 on appointing, suspending and dismissing the President, members of the Management Board or the entire Management Board as well and making decisions to stop such suspension, which are adopted in a secret ballot. Moreover, a secret ballot may be held at the request of a member of the Supervisory Board.

The Supervisory Board elects from among its members the Chairperson and Deputy Chairperson and may also elect the Secretary from among its members.

In accordance with the Rules and Regulations of the Supervisory Board, apart from appointing the audit committee and the nomination and compensation committee, provided for in the Articles of Association to properly perform its supervision, the Supervisory Board may appoint other permanent advisory and consultative committees whose competencies, composition and manner of operation are laid down in the rules and regulations of the committee in question adopted by the Supervisory Board.

The Rules and Regulations provide for the possibility for the Supervisory Board and its appointed committees to use the services provided by experts and consulting firms.

Members of the Management Board, PZU employees involved in the issue under consideration selected by the Management Board and other persons invited by the Supervisory Board may take part in Supervisory Board meetings without voting rights. In specific cases, the Supervisory Board may also invite members of the management board or supervisory board of other PZU Group member companies. Moreover, members of the Supervisory Board, with the consent of the Supervisory Board, may select no more than 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 a person adheres to the rules of confidentiality and signs a confidentiality undertaking.

At present, the following committees operate as part of the PZU Supervisory Board:

- audit committee;
- nomination and compensation committee;
- strategy committee.

The Articles of Association provide for the appointment of an audit committee by the Supervisory Board. The committee is composed of three members. Pursuant to the Act of 21 June 2017 on Statutory Auditors, Audit Firms and Public Supervision, at least one member of the audit committee appointed by the Supervisory Board should hold qualifications in accounting or financial audit. Furthermore, the majority of the audit committee members should meet the statutory independence criteria (independent member) concerning, without limitation, professional or family ties, especially to managers or supervisors of PZU or PZU Group entities. The detailed tasks and terms and conditions of appointing members of the audit committee and its operation are specified in a resolution of the Supervisory Board which takes into account the relevant competencies and experience of candidates for members of the committee.

In accordance with the rules and 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 effective supervision of the correctness of financial reporting and the effectiveness of internal control, including internal audit and risk management, exercised by the Supervisory Board. Moreover, the audit committee may request the Supervisory Board to commission the performance of specific control activities in the Company, and such commissioned control activities may be performed by an internal unit or an external entity.

The Supervisory Board appointed the Audit Committee on 3 June 2008. Composition of the audit committee as at 1 January 2017:
- Piotr Paszko – Committee Chairman;
- Marcin Chludziński – Committee Member;
- Jerzy Paluchniak – Committee Member.

Marcin Chludziński and Jerzy Paluchniak were indicated by the Supervisory Board as independent members within the meaning of Article 86 Section 4 of the Act on Statutory Auditors and their Self Regulation, Entities Authorized to Audit Financial Statements and Public Supervision, holding accounting or financial audit qualifications.

In connection with the changes in the PZU Supervisory Board, on 23 February 2017 the PZU Supervisory Board resolved that the audit committee will be composed of 3 persons and established the following composition of the committee:
- Bogusław Banaszak – Committee Chairman;
- Marcin Chludziński – Committee Member;
- Jerzy Paluchniak – Committee Member.

Due to the change in the composition of the committee, Bogusław Banaszak was additionally indicated by the Supervisory Board as a member of the audit committee satisfying the requirements provided for in Article 86 Section 4 of the Act on Statutory Auditors and their Self Regulation, Entities Authorized to Audit Financial Statements and Public Supervision.

On 13 April 2017, the PZU Supervisory Board supplemented the composition of the audit committee to include Robert Śnitko as a Committee Member. Following this change, the composition of the audit committee was as follows:
- Bogusław Banaszak – Committee Chairman;
- Marcin Chludziński – Committee Member;
- Robert Śnitko – Committee Member.

On 18 September 2017, the PZU Supervisory Board changed the composition of the audit committee to the following:
- Bogusław Banaszak – Committee Chairman;
- Marcin Chludziński – Committee Member;
- Maciej Zaborowski – Committee Member.

Bogusław Banaszak and Maciej Zaborowski were indicated as independent members within the meaning of Article 129 Section 3 of the Act on Statutory Auditors, Audit Firms and Public Supervision, and Marcin Chludziński was indicated as a member holding accounting or financial audit qualifications.

As at 31 December 2017, the composition of the committee was unchanged.

On 9 January 2018, due to his demise, the mandate of Bogusław Banaszak as the Committee Chairman expired.

In accordance with the Rules and Regulations of the Supervisory Board, once PZU's shares are listed on a regulated market within the meaning of the Financial Instruments Trading Act of 29 July 2005, the Supervisory Board may appoint a nomination and compensation committee.

In accordance with the Articles of Association, detailed responsibilities and the method of appointing members of the nomination and compensation committee, the manner of its operation and remunerations are defined by a Supervisory Board resolution. The committee should include at least one independent member. If the Supervisory Board includes five members elected in a vote, the nomination and compensation committee is not appointed and its tasks are carried out by the entire Supervisory Board.

According to the regulations of the nomination and compensation committee adopted by a resolution of the Supervisory Board of 4 April 2013, the committee is an advisory and consultative body to the Supervisory Board and is appointed to improve the effectiveness of the Supervisory Board's oversight activities related to establishing the management structure, including organizational issues, the remuneration system and principles and the selection of properly qualified staff.

Composition of the nomination and compensation committee as at 1 January 2017:
- Radosław Potrzeszcz – Committee Chairman;
- Marcin Gargas – Committee Member;
- Paweł Kaczmarek – Committee Member;
- Eligiusz Krześniak – Committee Member.

In connection with the changes in the PZU Supervisory Board, on 23 February 2017 the PZU Supervisory Board resolved that the nomination and compensation committee will be composed of 3 persons and established the following composition of the committee:
- Agata Górnicka – Committee Chairwoman;
- Paweł Górecki – Committee Member;
- Paweł Kaczmarek – Committee Member.

In connection with the changes in the PZU Supervisory Board, on 13 April 2017 the PZU Supervisory Board resolved that the nomination and compensation committee will be composed of 3 persons and established the following composition of the committee:
- Aneta Fałek – Committee Chairwoman;
- Paweł Górecki – Committee Member;
- Katarzyna Lewandowska – Committee Member.

As at 31 December 2017, the composition of the committee was unchanged.

In connection with the changes in the PZU Supervisory Board, on 9 January 2018 the PZU Supervisory Board resolved that the nomination and compensation committee will be composed of 3 persons and established the following composition of the committee:
- Paweł Górecki – Committee Chairman;
- Agata Górnicka – Committee Member;
- Katarzyna Lewandowska – Committee Member.

On 13 March 2018 Maciej Łapiński joined to the nomination and compensation committee.

The committee is dissolved once five members of the Supervisory Board are elected by group voting, following which its powers are taken over by the whole Supervisory Board.

According to the rules and regulations of the strategy committee adopted by a resolution of the Supervisory Board of 4 April 2013, the committee is an advisory and consultative body to the Supervisory Board and is appointed to improve the effectiveness of the Supervisory Board's oversight activities related to issuing opinions on all strategic documents presented by the Management Board (in particular, the Company's development strategy) and providing the Supervisory Board with recommendations on planned investments that materially impact the Company's assets.

Composition of the strategy committee as at 1 January 2017:
- Alojzy Nowak – Committee Chairman;
- Marcin Chludziński – Committee Member;
- Marcin Gargas – Committee Member;
- Piotr Paszko – Committee Member;
- Radosław Potrzeszcz – Committee Member;
- Maciej Zaborowski – Committee Member.

In connection with the changes in the PZU Supervisory Board, on 23 February 2017 the PZU Supervisory Board resolved that the strategy committee will be composed of 6 persons and established the following composition of the committee:
- Alojzy Nowak – Committee Chairman;
- Bogusław Banaszak – Committee Member;
- Marcin Chludziński – Committee Member;
- Agata Górnicka – Committee Member;
- Łukasz Świerżewski – Committee Member;
- Maciej Zaborowski – Committee Member.

In connection with the changes in the PZU Supervisory Board, on 13 April 2017 the PZU Supervisory Board supplemented the composition of the strategy committee to include Robert Śnitko as a Committee Member. Following this change, the composition of the strategy committee was as follows:
- Alojzy Nowak – Committee Chairman;
- Bogusław Banaszak – Committee Member;
- Marcin Chludziński – Committee Member;
- Agata Górnicka – Committee Member;
- Robert Śnitko – Committee Member;
- Maciej Zaborowski – Committee Member.

As at 31 December 2017, the composition of the committee was unchanged.

On 9 January 2018, due to his demise, the mandate of Bogusław Banaszak as a Committee Member expired.

On 13 March 2018 Robert Jastrzębski joined to the strategy committee.

Management Board

Composition

In accordance with PZU's Articles of Association, the Management Board is composed of three to seven members appointed for a joint term of office of three consecutive full financial years.

Management Board Members, including the President of the Management Board, are appointed and dismissed by the Supervisory Board. Such appointment takes place following a recruitment procedure aimed at verifying and evaluating the qualifications of the candidates and selecting the best candidate, for a joint term of office of three consecutive full financial years. The President of the Management Board of the new term of office appointed before the current term elapses has the right to submit a motion to the Supervisory Board requesting appointment of the remaining Management Board members of the new term of office before the current term elapses.

A Management Board Member must fulfill all of the following conditions:

- holds a graduate degree or a graduate degree received abroad and recognized in the Republic of Poland pursuant to separate regulations,
- has at least 5-year employment period based on an employment agreement, appointment, selection, nomination, cooperative employment agreement or provision of services on the basis of another contract or conducting business activity on one's own account,
- has at least 3 years of experience on managerial or independent positions or arising from conducting business activity on one's own account,
- in addition to the above requirements, meets other requirements arising from separate regulations, in particular is not in breach of any restrictions or prohibitions for holding an executive position in commercial companies.

A Management Board Member may not be a person who fulfills at least one of the following conditions:

- acts as a social associate or is an employee of an MP's office, senator's office, MP-senator's office or office of a member of European Parliament pursuant to an employment agreement or provides work on the basis of a mandate agreement or other similar agreement,
- is a member of a body of a political party that represents the political party externally and is authorized to incur liabilities,
- is employed by a political party pursuant to an employment agreement or provides work on the basis of a mandate agreement or other similar agreement,
- is an elected official of a company trade union or a company trade union in a group company,
- his/her public or business activity raises conflict of interest with the Company's business.

On 22 March 2017, effective as of 22 March 2017, the PZU Supervisory Board dismissed Michał Krupiński from the position of President of the PZU Management Board and from membership in the Management Board. On 23 March 2017, effective as of 23 March 2017, the Supervisory Board seconded PZU Supervisory Board Member Marcin Chludziński to temporarily act as the President of the Management Board until the President of the Management Board is appointed, for a period of up to 3 months.

Accordingly, from 23 March 2017 the Management Board composition was as follows:

- Marcin Chludziński – temporarily seconded to discharge the function of President of the Management Board;
- Roger Hodgkiss – Management Board Member;
- Andrzej Jaworski – Management Board Member;
- Tomasz Kulik – Management Board Member;
- Maciej Rapkiewicz – Management Board Member.

On 13 April 2017, effective as of 13 April 2017, the Supervisory Board withdrew the secondment of Supervisory Board Member Marcin Chludziński to temporarily act as the President of the Management Board. At the same time, on 13 April 2017, effective as of 13 April 2017, the Supervisory Board appointed Paweł Surówka to the Management Board and entrusted him with acting in the capacity of President of the Management Board.

Accordingly, from 13 April 2017 the Management Board composition was as follows:

- Paweł Surówka – President of the Management Board;
- Roger Hodgkiss – Management Board Member;
- Andrzej Jaworski – Management Board Member;
- Tomasz Kulik – Management Board Member;
- Maciej Rapkiewicz – Management Board Member.

On 29 May 2017, Andrzej Jaworski tendered his resignation from the function of Management Board Member effective as of 29 May 2017.

Accordingly, from 30 May 2017 the Management Board composition was as follows:

- Paweł Surówka – President of the Management Board;
- Roger Hodgkiss – Management Board Member;
- Tomasz Kulik – Management Board Member;
- Maciej Rapkiewicz – Management Board Member.

On 12 June 2017, effective as of 13 June 2017, the Supervisory Board appointed Małgorzata Sadurska to the Management Board and entrusted her with acting in the capacity of Management Board Member.

Accordingly, from 13 June 2017 the Management Board composition was as follows:

- Paweł Surówka – President of the Management Board;
- Roger Hodgkiss – Management Board Member;
- Tomasz Kulik – Management Board Member;
- Maciej Rapkiewicz – Management Board Member;
- Małgorzata Sadurska – Management Board Member.

As at 31 December 2017, the Management Board composition was unchanged.

The current term of office of the PZU Management Board started on 1 July 2015 and will last until the end of three consecutive financial years. The mandates of the Management Board members will expire no later than on the date of the Shareholder Meeting approving the financial statements for the most recent full financial year of the discharge of their functions.

The Management Board exercises any and all rights related to managing PZU which are not otherwise reserved by law or the provisions of the Articles of Association to the Shareholder Meeting or the Supervisory Board. Two Management Board members acting jointly or one Management Board member acting with a commercial proxy are authorized to represent the Company. The Management Board adopts its bylaws which are subject to approval by the Supervisory Board. The Rules and Regulations of the Management Board were adopted by the Management Board on 2 October 2012, amended by Resolution of the Management Board of 8 April 2013 and approved by Resolution of the Supervisory Board of 16 April 2013.

The Rules and Regulations of the Management Board define:

- the scope of the Management Board's powers and activities that require approval or confirmation by the Supervisory Board;
- powers the President of the Management Board and other Management Board members;
- principles and organization of the Management Board's activities, including its meetings and decision-making procedures;
- rights and obligations of Management Board members upon dismissal.

In accordance with the Rules and Regulations of the Management Board, resolutions of the Management Board are especially required for:

- adoption of a long-term plan for the Company's development and operations;
- adoption of an action and development plan for the PZU Group;
- adoption of an annual financial plan and a report on its implementation;
- approval of the financial statements for the previous financial year and the Management Board's report on the Company's activities;
- approval of a motion to distribute profit or cover loss;
- determination of premiums in compulsory and voluntary insurance and the general terms and conditions of voluntary insurance;
- determination of the scope and size of outward reinsurance and the tasks for inward reinsurance;
- adoption of an annual audit and control plan and a report on its implementation with conclusions;
- determination of the terms and conditions of investment, prevention and sponsoring activities;
- granting sureties and guarantees (excluding insurance operations) and contracting or providing credit facilities or loans by the Company (excluding credit facilities and loans granted from the Company Social Benefits Fund);
- appointment of a commercial proxy.

In accordance with the Rules and Regulations, meetings of the Management Board are held at least once a fortnight. The work of the Management Board is headed by the President of the Management Board whose powers include in particular:

- defining the scope of responsibility of each member of the Management Board;
- convening meetings of the Management Board;
- setting the agenda of meetings of the Management Board;
- applying to the Supervisory Board for appointing or dismissing members of the Management Board;
- designating a person to administer the work of the Management Board during the absence of the President of the Management Board.

The work of the Management Board is headed by the President of the Management Board who defines the scope of responsibility for each member of the Management Board.

The Management Board prepares and presents to the Shareholder Meeting a report on representation expenditures and expenditures for legal, marketing, public relations and public communication services and management consulting services.

Resolutions of the Management Board are adopted only in the presence of the President of the Management Board or a person designated to head the work of the Management Board during the President's absence.

Resolutions of the Management Board are adopted by an absolute majority of votes; in the event of a voting tie, the President has the casting vote. The Management Board, with the consent of the President, may adopt resolutions in writing, on paper or in electronic form (i.e. using means of remote communication and a qualified electronic signature). The Articles of Association also provide that meetings of the Management Board may be held using means of direct remote communication.

The President of the Management Board makes decisions in the form of orders and official instructions. Other members of the Management Board administer the operations of t he Company within the scope specified by the President.

PZU's Articles of Association do not provide for any special rights of the Management Board concerning decisions on issuing or redeeming shares.

Presented below are the scopes of responsibility of the Management Board members in office as at the end of 2017:

Name and surname (composition of the Management Board at the end of 2017)	In the PZU Group	Responsibilities (as at the end of 2017)
Paweł Surówka	President of the PZU Management Board since 13 April 2017/ President of the PZU Życie Management Board since 23 June 2016 to 13 April 2017	management and corporate governance in the PZU Group, corporate management, internal audit, administration, strategy and development, innovation, compliance, reinsurance
Roger Hodgkiss	PZU Management Board Member since 19 January 2016 / PZU Życie Management Board Member since 29 January 2016	mass non-life insurance (sales and sales network management, products and tariffs), corporate non-life insurance (sales and sales network management, underwriting, financial insurance), direct sales
Tomasz Kulik	PZU Management Board Member since 14 October 2016 / PZU Życie Management Board Member since 19 October 2016	finance, investments, actuarial affairs
Maciej Rapkiewicz	PZU Management Board Member since 22 March 2016 / PZU Życie Management Board Member since 25 May 2016	risk management
Małgorzata Sadurska	PZU Management Board Member since 13 June 2017 / PZU Życie Management Board Member since 19 June 2017	bancassurance and strategic partnership programs, real estate, supervision over the PZU Group's foreign companies
Roman Pałac	President of the PZU Życie Management Board since 26 April 2017 / PZU Group Director since 15 February 2016	life insurance (products and tariffs, management of sales and agency and corporate sales channels), management of the PZU Branch network, health insurance, claims handling, benefits and remote channels
Aleksandra Agatowska	PZU Życie Management Board Member / PZU Group Director since 25 March 2016	procurement
Tomasz Karusewicz	PZU Życie Management Board Member / PZU Group Director since 29 January 2016	IT, non-life and life operations
Bartłomiej Litwińczuk	PZU Życie Management Board Member / PZU Group Director since 19 August 2016	security, legal services, HR management
Dorota Macieja	PZU Życie Management Board Member / PZU Group Director since 15 March 2017	marketing, customer relationship management, corporate communication

Paweł Surówka

President of the PZU Management Board since 13 April 2017/ President of the PZU Życie Management Board since 23 June 2016 to 13 April 2017

Graduate of Université Paris I Panthéon Sorbonne, Ecole des Hautes Etudes en Sciences Sociales (EHESS) and the Ludwig Maximilian Universität (LMU) in Munich. From 2007 to 2013, he held the position of financial advisor with Bank of America Merrill Lynch. From 2013 to 2015 he served as a Management Board Member in Boryszew SA, Director of the Automotive Sector Development Department and CEO of subsidiaries in the automotive sector. Until January 2016, he was an advisor to the CEO of PKO Bank Polski SA and Director of Corporate and Investing Banking for Germany, he was responsible for opening the first international corporate branch of PKO Bank Polski as well as for advisory and financial services for PKO Bank Polski's top corporate clients.

Roger Hodgkiss

PZU Management Board Member since 19 January 2016 / PZU Życie Management Board Member since 29 January 2016

Roger holds an Honours Degree in Mechanical Engineering from Liverpool University and also qualified as a Chartered Accountant in the United Kingdom. From 1998 to 2007, he worked for GE Capital where he held various managerial positions in finance and operations. From 2007 to 2008 he was the CEO of AAS Balta – the largest insurer in Latvia. From 2008 to 2009 he was the Commercial Director in Intouch Insurance Group, the Joint Venture established by the RSA Group and DIFI to establish Direct Insurance businesses in Emerging Markets. From 2009 he was CEO of Link4 Towarzystwo Ubezpieczeń S.A. He received the prestigious "Man of the Year" award from Gazeta Ubezpieczeniowa in 2014.

Tomasz Kulik

PZU Management Board Member since 14 October 2016 / PZU Życie Management Board Member since 19 October 2016

He graduated from the Warsaw School of Economics. He also completed MBA studies at the University of Illinois and the Warsaw-Illinois Executive MBA program. A member of The Association of Chartered Certified Accountants (ACCA). Through most of his professional career, he was associated with the Aviva Group (former Commercial Union). Prior to his appointment to the PZU Management Board, he served as the Director of the Planning and Controlling Department. He prepared the PZU Group's strategy for the years 2016-2020 and the PZU Group's capital and dividend policy. Member of the TFI PZU SA Management Board in charge of finance, risk, operations and IT. In his capacity as Member of the TFI PZU SA Management Board, he was also responsible for the corporate area.

Maciej Rapkiewicz

PZU Management Board Member since 22 March 2016 / PZU Życie Management Board Member since 25 May 2016

He graduated from the Faculty of Law and Administration at the University of Łódź and completed post-graduate studies in business insurance at the Kraków Academy of Economics, MBA Finance & Insurance at the Łódź University of Technology / Illinois State University, and Ph.D. studies at the Economics Faculty of the Finance, Banking and Insurance Institute of Łódź University. In 2006-2009, Member and then Vice President of the TFI PZU SA Management Board. Since 2015, he has been working for TFI BGK S.A., where he has been discharging the function Management Board Member. President of the ŁSSE S.A. Management Board, Member of the Morizon S.A. Supervisory Board (in 2015-2016), Chairman of the Dom Invest Sp. z o.o. Supervisory Board (since 2016).

Małgorzata Sadurska

PZU Management Board Member since 13 June 2017 / PZU Życie Management Board Member since 19 June 2017

Graduated from the Law and Administration Faculty of the Maria Curie-Skłodowska University in Lublin and completed a post-graduate course in Organization and Management. From 2002 to 2005, she was a Member of the Puławy County Board. From 2005 to 2015, she was a member of the Sejm of the Republic of Poland (of the 5th, 6th and 7th terms). She worked in the Committees on the European Union, Internal Affairs, Special Committee for changes in legal codes, where she acted as the deputy chairwoman of the Committee for two terms of office. She was also member of the National Council of the Judiciary of Poland, Chairwoman of the Supervisory Board of the ZUS Social Insurance Institution. In 2007, she was the Secretary of the State on labor and social policy at the Prime Minister's Office. In 2015-2017, she served as Head of the Chancellery of the President of the Republic of Poland.

Roman Pałac

President of the PZU Życie Management Board since 26 April 2017/ PZU Group Director since 15 February 2016

Graduated in Economics from the Warsaw School of Economics (SGH) and completed MBA studies at the London Business School. Gained extensive experience working for Polish and foreign financial institutions. In 2003-2007, he worked as Project Manager at the World Bank in charge of the preparation and coordination of loan programs aimed at implementing policies intended to improve energy efficiency in countries of Central and Eastern Europe. From 2009 to 2016, he was associated with The Boston Consulting Group where he was responsible for the provision of insurance and banking advisory services related to motor insurance claims handling, business strategy development and sales activation. He also participated as an expert in several bank merger deals.

Aleksandra Agatowska

PZU Życie Management Board Member / PZU Group Director since 25 March 2016

Graduate of the Jagiellonian University majoring in Economic Sociology and Market Research. She gained her professional experience working for ING Życie, ING Powszechne Towarzystwo Emerytalne and ING Spółka Dystrybucyjna. She also collaborated with the team of the Public Policy Evaluation and Analysis Center. For HDI (currently Warta S.A.), she managed the product marketing team, developing and executing sales support campaigns. Then she headed the Marketing Intelligence team at Sony Europe. At Philips S.A. she managed the Marketing and Business Intelligence team in 17 countries of the region. As an external consultant, she advised among others Aviva on the implementation of distribution channel projects.

Dorota Macieja

PZU Życie Management Board Member / PZU Group Director since 15 March 2017

Graduate of Polish philology at the University of Warsaw. Associated with the PZU Group since 2016. As a director, she supervised prevention and sponsoring activities at PZU and PZU Życie SA. In 2010-2016, she coordinated and managed publishing and film production projects. In 2008-2010, she served as deputy director and director of Channel 1 of Telewizja Polska SA. Earlier, in 2007, she headed TVP1's News program. For many years, a journalist working for Tygodnik Solidarność, Wprost and Radio Free Europe. During martial law in Poland, she was associated with the underground publishing house "Wola".

Tomasz Karusewicz

PZU Życie Management Board Member / PZU Group Director since 29 January 2016

Graduate of the Department of Economic Sciences and Management at Szczecin University. Certified internal auditor. In 2006-2008, he worked for the Ciech Group. He served as a member of the Ciech S.A. Supervisory Board and was also Deputy Director of the Corporate Governance Department. A member of the supervisory boards of Zakłady Chemiczne Alwernia S.A. and Ciech Polfa Sp. z o.o. In 2007-2009, the deputy director of the Foreign Investment Department at PZU. In 2010-2012, he worked for Telewizja Polska S.A., initially as Deputy Director of the Management and Corporate Department, then as Director of the Internal Audit and Control Department. He also served as a member of the supervisory boards of Enea S.A. and Zakłady Azotowe w Tarnowie-Mościcach S.A.

Bartłomiej Litwińczuk

PZU Życie Management Board Member / PZU Group Director since 19 August 2016

Graduated from the Faculty of Law and Administration at the University of Warsaw. Advocate at the Bar Association in Warsaw. Practiced as an advocate specializing in civil law. He combines the knowledge of business with extensive experience resulting from his provision of legal assistance services in cases related to commercial company law, copyright law, administrative law and criminal law. He also served as an advisor to the Extraordinary Committee of the Sejm for changes in legal codes. He has acquired experience in corporate governance serving as a member of supervisory bodies of commercial law companies.

9.9 Compensation of the members of governing bodies

The rules for compensating Management Board members are shaped by the Supervisory Board in accordance with resolution 4 adopted by PZU's Extraordinary Shareholder Meeting of 8 February 2017 in the matter of determining the compensation of the Management Board members amended by resolution 38 adopted by PZU's Ordinary Shareholder Meeting of 29 June 2017 in connection with the Act of 9 June 2016 on the Rules for Shaping the Compensation of Persons Managing Some Companies.

The foregoing rules adopted by a Supervisory Board resolution stipulate that the total compensation due to a Management Board member for rendering management services and discharging other obligations ensuing from the Management Services Provision Agreement consists of the following:

- fixed compensation - flat monthly base compensation (for a calendar month) that cannot exceed the reference range established pursuant to art. 4 section 2 of the Act on the Rules for Shaping the Compensation of Persons Managing Some Companies without prejudice to the situations outlined in art. 4 section 3 of the aforementioned act;
- variable compensation - supplementary compensation for a given financial year depending on the extent to which management objectives are attained, within the catalogue of management objectives defined pursuant to the aforementioned act, and which include, among others, growing the company's value and improving its economic and financial ratios. The variable compensation for a given financial year may not exceed 100% of the annual fixed compensation in the previous financial year for which the amount of variable compensation due is to be calculated. In addition, a significant portion of the variable compensation is awarded in the form of deferred variable compensation. Deferred variable compensation is subject to deferral for 3 years. 12, 24 and 36 months, respectively from the date of allocation, a Management Board member may acquire the right to 1/3 of the deferred variable compensation for a given year subsequent to satisfying the conditions defined in the Management Services Provision Agreement.

Moreover, Management Services Provision Agreements entered into with Management Board members and accepted by a Supervisory Board resolution regulate their term of notice and issues related to refraining from engaging in competitive activity to the Company's after their termination in consideration for damages to be paid as determined on the basis of the aforementioned act. In 2016-2017, the PZU Group companies subject to consolidation did not grant any loans or similar benefits to members of their management boards, higher level managers or members of their supervisory boards.

PZU Group Directors

A joint management model is in place at PZU and PZU Życie SA. Under this model, the positions of Directors of the PZU Group exist, the rules governing the establishment of which and the appointment to and dismissal from which are laid down in the Organizational Rules and Regulations of these companies. According to this model, the persons discharging the functions of Management Board members at PZU Życie SA are at the same time employed as directors of the PZU Group at PZU and are in charge of the same business structures and areas at PZU and PZU Życie SA.

As at 1 January 2017, the following persons served as directors of the PZU Group:

- Aleksandra Agatowska;
- Tomasz Karusewicz;
- Bartłomiej Litwińczuk;
- Sławomir Niemierka;
- Roman Pałac;
- Paweł Surówka.

On 15 March 2017, Dorota Macieja was appointed to the position of Director of the PZU Group. On 31 October 2017, Sławomir Niemierka was dismissed from the position of Director of the PZU Group.

The following persons served as directors of the PZU Group throughout 2017 or during part of the year:

- Aleksandra Agatowska;
- Tomasz Karusewicz;
- Bartłomiej Litwińczuk;
- Dorota Macieja;
- Sławomir Niemierka;
- Roman Pałac;
- Paweł Surówka.

Salaries and other short-term employee benefits paid by PZU (in thousands)	1 January – 31 December 2017		1 January – 31 December 2016	
		Including bonuses and special awards:		Including bonuses and special awards:
Management Board, including:	**6,870**	**2,042**	**6,680**	**-**
Paweł Surówka	683	74	176	-
Rodger Hodgkiss	1,171	412	634	-
Tomasz Kulik	319	-	- [1]	-
Maciej Rapkiewicz	1,152	379	581	-
Małgorzata Sadurska	421	-	-	-
Michał Krupiński	2,086 [2]	895	1,377	-
Andrzej Jaworski	945 [3]	282	434	-
Marcin Chludziński	93	-	-	-
Beata Kozłowska-Chyła	-	-	634 [4]	-
Robert Pietryszyn	-	-	273	-
Sebastian Klimek	-	-	579 [5]	-
Przemysław Dąbrowski	-	-	683 [6]	-
Dariusz Krzewina	-	-	668 [7]	-
Tomasz Tarkowski	-	-	121	-
Rafał Grodzicki	-	-	520 [8]	-
High-level managers (PZU Group Directors), including:	**5,138**	**1,381**	**4,503**	**199**
Aleksandra Agatowska	854	254	505	-
Tomasz Karusewicz	1,031	356	611	-
Bartłomiej Litwińczuk	754	122	241	-
Sławomir Niemierka	751	199	862	199
Roman Pałac	986	378	581	-
Dorota Macieja	501	-	-	-
Paweł Surówka	261 [9]	72	455 [10]	-
Tobiasz Bury	-	-	706 [11]	-
Przemysław Henschke	-	-	542 [12]	-

Salaries and other short-term employee benefits paid by PZU (in thousands)	1 January – 31 December 2017		1 January – 31 December 2016	
		Including bonuses and special awards:		Including bonuses and special awards:
Supervisory Board, including:	**1,344**	-	**1,241**	**-**
Paweł Górecki	131	-	-	-
Alojzy Nowak	154	-	120	-
Marcin Chludziński	133	-	119	-
Agata Górnicka	133	-	-	-
Katarzyna Lewandowska	115	-	-	-
Robert Śnitko	105	-	-	-
Maciej Zaborowski	146	-	143	-
Bogusław Banaszak	142	-	-	-
Marcin Gargas	18	-	167	-
Aneta Fałek	114	-	-	-
Paweł Kaczmarek	48	-	191	-
Eligiusz Krześniak	13	-	119	-
Jerzy Paluchniak	39	-	118	-
Piotr Paszko	13	-	119	-
Radosław Potrzeszcz	13	-	119	-
Łukasz Świerżewski	27	-	-	-
Zbigniew Ćwiąkalski	-	-	3	-
Zbigniew Derdziuk	-	-	2	-
Dariusz Filar	-	-	2	-
Dariusz Kacprzyk	-	-	2	-
Jakub Karnowski	-	-	2	-
Aleksandra Magaczewska	-	-	2	-
Maciej Piotrowski	-	-	2	-
Piotr Walkowiak	-	-	11	-

1) in 2016 the remuneration is only received from PZU Życie, the amount presented in the next table
2) including remuneration resulting from competition prohibition clause of PLN 600 thousand
3) including remuneration resulting from competition prohibition clause of PLN 276 thousand
4) including remuneration resulting from competition prohibition clause of PLN 55 thousand
5) including remuneration resulting from competition prohibition clause of PLN 111 thousand
6) including remuneration resulting from competition prohibition clause of PLN 332 thousand
7) including remuneration resulting from competition prohibition clause of PLN 55 thousand
8) including remuneration resulting from competition prohibition clause of PLN 312 thousand
9) remuneration for the period of performing the function of the PZU Group Director until April 12, 2017
10) including remuneration for the Advisor to the Management Board of PZU: PLN 345 thousand PLN in the period of April 24, 2016 - October 31, 2016
11) including remuneration resulting from competition prohibition clause of PLN 371 thousand
12 including remuneration resulting from competition prohibition clause of PLN 312 thousand

Salaries and other short-term employee benefits paid by other PZU Group entities (in thousands)	1 January – 31 December 2017	including bonuses and special awards:	1 January – 31 December 2016	including bonuses and special awards:
Management Board, including:	**2,835**	**801**	**4,031**	**-**
Paweł Surówka	499	214	329	-
Rodger Hodgkiss	491	214	599	-
Tomasz Kulik	840	103	206	-
Maciej Rapkiewicz	446	135	208	-
Michał Krupiński	67 [1]	-	-	-
Andrzej Jaworski	492 [2]	135	208	-
Beata Kozłowska-Chyła	-	-	329 [3]	-
Robert Pietryszyn	-	-	135	-
Sebastian Klimek	-	-	208 [4]	-
Przemysław Dąbrowski	-	-	368 [5]	-
Dariusz Krzewina	-	-	360 [6]	-
Tomasz Tarkowski	-	-	801 [7]	-
Rafał Grodzicki	-	-	280 [8]	-
High-level managers (PZU Group Directors), including:	**3,030**	**706**	**2,332**	**107**
Aleksandra Agatowska	509	137	272	-
Tomasz Karusewicz	604	192	329	-
Bartłomiej Litwińczuk	455	66	147	-
Sławomir Niemierka	539	107	599	107
Roman Pałac	604	204	313	-
Dorota Macieja	319	-	-	-
Tobiasz Bury	-	-	380 [9]	-
Przemysław Henschke	-	-	292 [10]	-
Supervisory Board, including:	**3**	-	**-**	**-**
Ryszard Wawryniewicz	3	-	-	-

[1] remuneration for fulfilling the function of a Member of the SB of Alior Bank in the period of January 1, 2017 - June 14, 2017
[2] including remuneration resulting from competition prohibition clause of PLN 149 thousand (PZU Życie)
[3] including remuneration resulting from competition prohibition clause of PLN 119 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 179 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 (LINK4)
[8] including remuneration resulting from competition prohibition clause of PLN 168 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-cash benefits granted by PZU and PZU's subsidiaries (in thousands)	1 January – 31 December 2017	1 January – 31 December 2016
Management Board, including:	**701**	**962**
Paweł Surówka	62	54
Rodger Hodgkiss	144	36
Tomasz Kulik	76	76
Maciej Rapkiewicz	107	101
Małgorzata Sadurska	15	-
Michał Krupiński	162	79
Andrzej Jaworski	135	77
Beata Kozłowska-Chyła	-	105
Robert Pietryszyn	-	51
Sebastian Klimek	-	66
Przemysław Dąbrowski	-	92
Dariusz Krzewina	-	126
Tomasz Tarkowski	-	48
Rafał Grodzicki	-	51
High-level managers (PZU Group Directors), including:	**924**	**605**
Aleksandra Agatowska	201	97
Tomasz Karusewicz	138	51
Bartłomiej Litwińczuk	151	51
Sławomir Niemierka	147	171
Roman Pałac	168	93
Dorota Macieja	119	-
Tobiasz Bury	-	60
Przemysław Henschke	-	82

9.10 Diversity policy applied to the issuer's administrative, managing and supervising bodies

PZU is a company in which the State Treasury has a shareholding. Accordingly, the persons who sit in its managing bodies are selected in accordance with the statutory regulations applicable to these types of entities.

PZU employs best practices promulgating diversity and it cares about equal treatment for employees.

Respecting human rights is assigned special significance in HR policy when it comes to organizational culture. This involves counteracting mobbing and discrimination, offering equal opportunities to all employees regardless of their professional position in the PZU Group, sex, age, disability, race, religion, nationality, political convictions, union membership, ethnic origin, ethnic origin, denomination, sexual orientation, employment for a specified or unspecified term or on a full-time or part-time basis while respecting the right of assembly and the right to strike.

Respecting individuality, promulgating equal treatment and combating discrimination at work are accomplished in practice by supporting procedures and initiatives:

- countering mobbing – support is given by the Anti-mobbing Procedure contemplating the appointment of an Anti-mobbing Commission to investigate every report of improper conduct that may involve elements of mobbing;
- ensuring equal treatment in employment opportunities and counteracting discrimination – support is given by the "Report an Incident" procedure enabling employees to convey information pertaining to the breach of a rule through the intranet platform.

In addition, e-learning training entitled "Mobbing – legal and psychological aspects" is available to all employees. This training deals not just with mobbing but also discrimination and equal treatment in employment opportunities.

Additionally, elements pertaining to the psychological working environment are part of regular occupational safety and health training offered to employees and managers alike.

PZU provides its employees equal opportunities for development to enhance their skills, being promoted and compensation, while having regard for employees' individual potential, their accomplishments and work performance.

Respecting the personal dignity of employees is an important aspect of organizational culture.

Principles supporting diversity and equal treatment span all career stages in PZU, starting from the recruitment process to the duration of the employment relationship (employment terms, access to training and development-minded activities, opportunities to be promoted) to the termination of cooperation.

PZU confirmed its will to pursue a diversity policy by joining the signers of the Charter of Diversity in 2013.

Tomasz Sokołowicz
Technical Motor and Property Claims
Administration Center

During my childhood the automotive industry was my passion - I had the largest collection of toy cars in my apartment building. Over time, my interests turned into a passion for renovating antique automobiles. Restoring automobiles older than myself to their finest period gives me the greatest amount of pleasure. I am now preparing to renovate my greatest love, a 1980 Ford Capri.

10.

Other

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

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

Cooperation with international public institutions
PZU Group companies cooperate among others with the European Bank for Reconstruction and Development (EBRD) and the European Investment Fund. EBRD acquired PLN 300 million in securities under the subordinated bond issue referred to below.

In 2017 Bank Pekao signed two agreements with the European Investment Fund under the European Employment and Social Innovation Program CHAPTER 3.4 BANKING (PEKAO, ALIOR BANK).

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

Information about significant executed agreements
On 30 June 2017, PZU issued subordinated bonds with a nominal value of PLN 2.25 billion. The bond redemption date is 29 July 2027 with an early repayment option on 29 July 2022. CHAPTER 8.3 DEBT FINANCING

On 8 December 2016, PZU and PFR signed an agreement with UniCredit S.p.A. to acquire a 32.8% equity stake in Bank Pekao S.A. for a total amount of PLN 10.6 billion. CHAPTER 3.4 BANKING (PEKAO, ALIOR BANK).

Granted and received guarantees and sureties
On 8 November 2017, PZU executed a mandate contract with Alior Bank on periodic granting of insurance guarantees constituting unfunded credit protection and a framework mandate agreement on the periodic granting of counter-guarantees (Current Report No. 64/2017). The maximum exposure limit for guarantees is PLN 5 billion (say: five billion Polish zloty) and is in force for a period of 3 years.

Information regarding the off-balance sheet items as at the end of 2017 is set forth in CHAPTER 6.5 ASSET AND LIABILITY STRUCTURE.

Credits and loans incurred
Companies in the PZU Group extend loans to one another. Below is a list of the loans extended in 2017 to the issuer's related entities:

Amount	date granted	maturity date	borrower	lender
PLN 60 m	2017-03-20	2019-03-15	PORTFEL2 PH5 sp. z o.o.	PZU
PLN 20 m	2017-03-20	2019-03-15	2 PB 4 Sp. z o.o.	PZU
PLN 20 m	2017-03-20	2019-03-15	2 PM 1 sp. z o.o.	PZU
PLN 500 m	2017-06-02	2017-06-27	PZU	PZU Życie
GBP 2.5 m	2017-11-29	2021-11-30	PZU Corporate Member Limited	PZU

Tax Group
On 25 September 2014, a Tax Group agreement was signed between PZU Group companies: PZU, PZU Życie, Link4 Towarzystwo Ubezpieczeń SA, PZU Centrum Operacji SA, PZU Pomoc SA, Ogrodowa-Inwestycje Sp. z o.o., Ipsilon Sp. z o.o., Ardea Alba SA in liquidation, TFI PZU SA, PZU Zdrowie SA, PZU Finanse Sp. z o.o., PZU LAB SA, Omicron Bis SA. The Tax Group has been established for a period of 3 years – from 1 January 2015 to 31 December 2017.

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

The tax group agreement for fiscal years 2018-2020 was signed on 20 September 2017. According to the agreement, the tax group will be formed by PZU, PZU Życie, Link4, PZU CO, PZU Pomoc SA, Ogrodowa-Inwestycje sp. z o.o., PZU Zdrowie SA, PZU Finanse sp. z o.o., PZU LAB SA, Ipsilon sp. z o.o., Omicron Bis SA, Tulare Investments Sp. z o.o, Battersby Investments SA.

According to the agreement, the new tax group will not include TFI PZU and Ardea Alba SA in liquidation, which previously comprised the Tax Group established for the period of 2015 to 2017.

Disputes
In 2017 and up to the date of preparation of this report on the activity of the PZU Group and PZU, there were no pending proceedings before court, a body competent to hear arbitration proceedings or a public authority body concerning liabilities or receivables of PZU or a direct or indirect subsidiary thereof whose unit value is at least 10% of PZU's equity. A description of litigation and proceedings before the President of the Office of Competition and Consumer Protection (UOKiK) has been set forth in the PZU Group's consolidated financial statements and PZU's financial statements for 2017.

As at 31 December 2017, the total value of all the 214,133 cases pending before courts, competent bodies for arbitral proceedings or public administration authorities to which PZU Group entities are a party was PLN 6,722 million (of which PZU was a party to 145,931 cases with a total value of PLN 3,474 million). PLN 3,979 million of this amount pertains to liabilities while PLN 2,743 million pertains to the accounts receivable of PZU Group companies, representing 29.3% and 20.2% of PZU's equity, respectively, according to PAS (PLN 3,071 of this amount pertains to liabilities and PLN 403 million of this amount pertains to the Issuer's accounts receivable, representing 22.6% and 3.0% of its equity, respectively, according to PAS).

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

Purchase of treasury shares in the financial year
Within its trading activity Bank Pekao enters into transactions on PZU shares and futures. As at 31 December 2017 Bank Pekao held 100 PZU shares.

PZU did not hold any treasury shares as at 31 December 2017.

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

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

Other

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

Management Board's Report on the Activity of the PZU Group and PZU SA for 2017 has 204 consecutively-numbered pages.

Signatures of PZU Management Board Members

Paweł Surówka – President of the Management Board

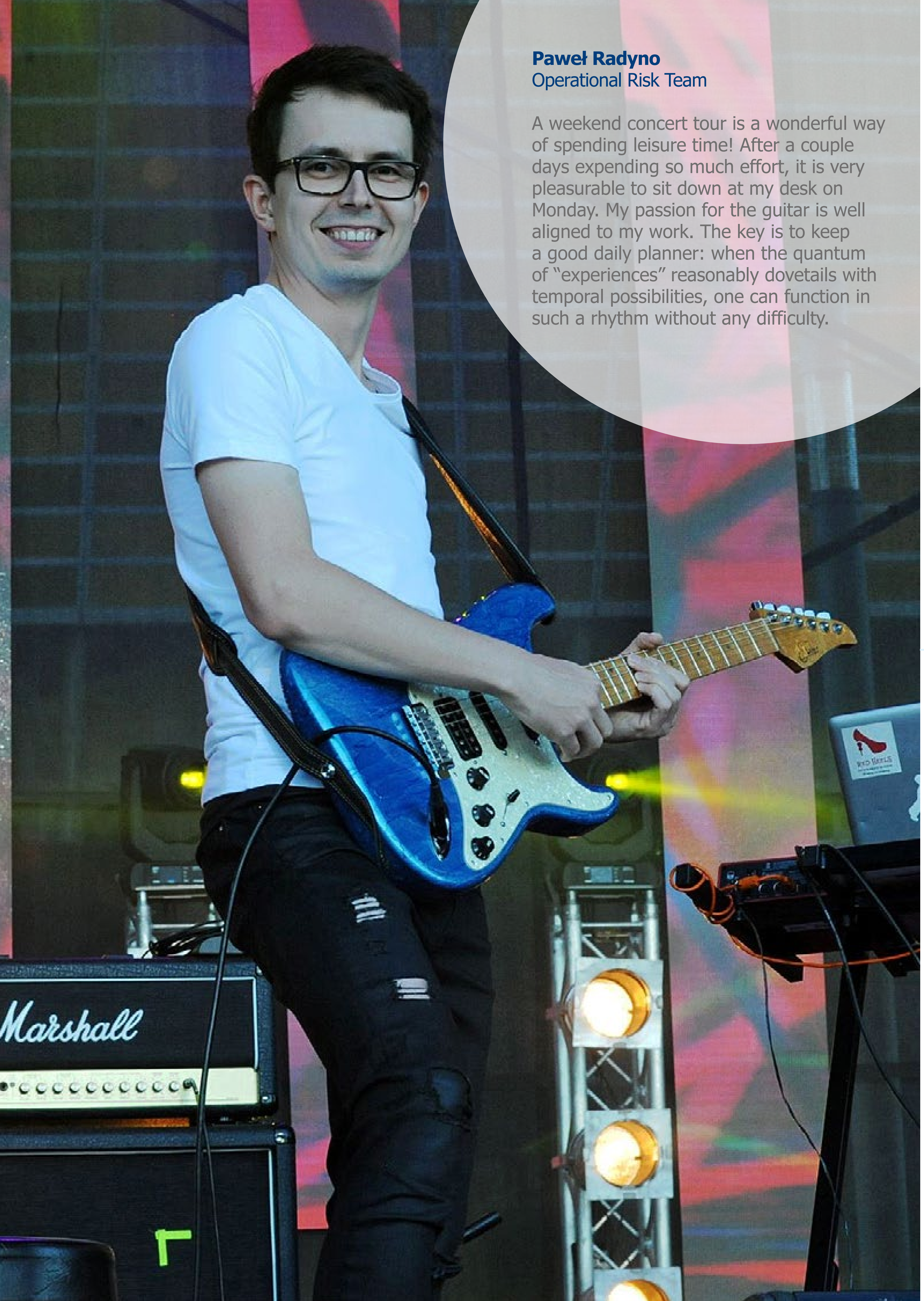
Roger Hodgkiss – Management Board Member

Tomasz Kulik – Management Board Member

Maciej Rapkiewicz – Management Board Member

Małgorzata Sadurska – Management Board Memberu

Warsaw, 14 March 2018



Paweł Radyno
Operational Risk Team

A weekend concert tour is a wonderful way of spending leisure time! After a couple days expending so much effort, it is very pleasurable to sit down at my desk on Monday. My passion for the guitar is well aligned to my work. The key is to keep a good daily planner: when the quantum of "experiences" reasonably dovetails with temporal possibilities, one can function in such a rhythm without any difficulty.

11.

Appendix: PZU Group's financial data

Appendix: PZU Group's financial data

Basic amounts of the consolidated profit and loss account (PLN million)	2017	2016	2015	2014	2013
Gross written premiums	22,847	20,219	18,359	16,885	16,480
Net earned premiums	21,354	18,625	17,385	16,429	16,249
Revenue from commissions and fees	1,784	544	243	351	299
Net investment income	8,502	3,511	1,739	2,647	2,479
Net claims and benefits	(14,941)	(12,732)	(11,857)	(11,542)	(11,161)
Acquisition costs	(2,901)	(2,613)	(2,376)	(2,147)	(2,016)
Administrative expenses	(5,364)	(2,923)	(1,658)	(1,528)	(1,406)
Interest expenses	(1,365)	(697)	(117)	(147)	(104)
Other operational revenues and expenses	(1,559)	(724)	(419)	(370)	(220)
Operating profit (loss)	5,510	2,991	2,940	3,693	4,119
Share in net profit (loss) of entities measured using the equity method	16	(3)	4	(2)	1
Gross profit (loss)	5,526	2,988	2,944	3,692	4,120
Net profit (loss), including:	4,233	2,374	2,343	2,968	3,295
Shareholders' profit (loss)	2,910	1,935	2,343	2,968	3,293
Minority profit (loss)	1,323	439	-	-	1
Basic and diluted weighted average number of ordinary shares*	863,519,608	863,510,930	863,523,000	863,519,490	863,519,490
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)	3.37	2.24	2.71	3.44	3.81
Net profit of PZU (Issuer)	2,434	1,573	2,249	2,637	5,106
Basic and diluted Issuer's profit per ordinary share (in PLN)	2.82	1.82	2.60	3.05	5.91

*including shares in consolidated funds

Data for the period 2015-2016 restated

Assets (PLN million)	2017	2016	2015	2014	2013
Intangible assets	3,443	1,463	1,393	869	309
Goodwill	3,839	1,583	1,532	769	9
Property, plant and equipment	3,239	1,467	1,300	1,002	927
Investment property	2,354	1,738	1,172	2,236	1,475
Entities measured using the equity method	20	37	54	66	49
Financial assets	281,854	105,286	89,229	56,760	55,086
Receivables	9,096	5,664	3,350	3,085	2,707
Reinsurers' share in technical provisions	1,250	990	1,097	753	527
Deferred tax assets	1,577	633	369	27	17
Deferred acquisition costs	1,485	1,407	1,154	712	610
Other assets	692	866	801	363	325
Cash and cash equivalents	8,239	2,973	2,440	324	569
Assets held for sale	317	1,189	1,506	607	179
Total assets	**317,405**	**125,296**	**105,397**	**67,573**	**62,787**

Appendix: PZU Group's financial data

Equity (PLN million)	2017	2016	2015	2014	2013
Share capital	86	86	86	86	86
Supplementary capital	11,824	10,758	9,947	9,679	8,856
Revaluation reserve	157	106	241	249	242
Actuarial profits and losses related to provisions for employee benefits	4	3	(4)	(6)	1
Own shares	-	(1)	-	-	-
Other reserves	5	5	-	-	-
Exchange differences from subsidiaries	(73)	(2)	(42)	(35)	(38)
Retained profits (losses)	(291)	108	353	226	2,397
Net profit (loss)	2,910	1,935	2,343	2,968	3,293
Appropriations on net profit during the financial year	-	-	-	-	(1,727)
Minority interest	22,979	4,086	2,194	1	16
Total equity	**37,601**	**17,084**	**15,118**	**13,168**	**13,128**

Liabilities (PLN million)	2017	2016	2015	2014	2013
Technical provisions	44,558	42,194	41,280	40,167	37,324
Unearned premium and unexpired risk reserve	8,008	7,076	5,856	5,250	4,540
Life insurance provisions	16,060	15,928	16,222	16,282	16,048
Outstanding claims provisions	8,898	8,272	8,264	7,770	6,587
Provision for annuities	5,776	5,673	5,808	5,998	5,761
Provisions for bonuses and discounts for the insured	14	5	2	2	3
Other technical provisions	287	323	384	439	478
Unit-linked technical provisions	5,515	4,917	4,744	4,426	3,907
Provisions for employee benefits	556	128	117	120	123
Other provisions	497	367	108	191	193
Deferred tax liability	638	469	509	398	255
Financial liabilities	224,507	60,030	44,695	9,403	8,399
Other liabilities	9,045	4,991	3,570	3,874	3,365
Liabilities directly associated with assets qualified as held for sale	3	33	-	252	-
Total liabilities	**279,804**	**108,212**	**90,279**	**54,405**	**49,660**
Total equity and liabilities	**317,405**	**125,296**	**105,397**	**67,573**	**62,787**

Appendix: PZU Group's financial data

One-off events in PZU Group - impact on gross result (PLN million)	2017	2016	2015	2014	2013
Higher than the average of the last 3 years, the level of damage caused by atmospheric phenomena (storms)	(170)	-	-	-	-
"Gain on acquisition of the spun-off part of Bank BPH"	-	465	-	-	-
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)	35	40	75	70	127
Result of the sale of PZU Lithuania	-	-	165	-	-
Fund consolidation commencement	-	-	-	-	173
Green Card reinsurance settlements	-	-	-	-	53

	Operational efficiency ratios	2017	2016	2015	2014	2013
1.	**Gross claims and benefits ratio (simple)** (gross claims /gross written premium) x 100%	67.3%	63.7%	66.9%	69.5%	67.9%
2.	**Net claims and benefits ratio** (net claims paid and benefits/net earned premium) × 100%	70.0%	68.4%	68.2%	70.3%	68.7%
3.	**Operating expense ratio in the insurance segments** (insurance activity expenses/net earned premium) x 100%	21.1%	22.5%	23.3%	22.2%	20.5%
4.	**Acquisition expense ratio in the insurance segments** (acquisition expenses/net earned premium) x 100%	14.0%	14.3%	14.1%	13.4%	12.3%
5.	**Administrative expenses ratio in insurance segments** (administrative expenses/net earned premium) x 100%	7.2%	8.3%	9.2%	8.8%	8.1%
6.	**Combined ratio in non-life insurance** (net claims and benefits + insurance activity expenses)/net earned premium) x 100%	89.6%	94.9%	94.5%	95.7%	87.8%
7.	**Operating profit margin in life insurance** (operating profit/gross written premium) x 100%	19.3%	25.3%	22.3%	24.4%	22.3%
8.	**Costs / Income Ratio -** banking activity	47.7%	44.4%	-	-	-

Appendix: PZU Group's financial data

Data from the profit and loss account – corporate insurance (non-life insurance) (PLN million)	2017	2016	2015	2014	2013
Gross written premiums	2,738	2,174	1,779	1,831	1,740
Net earned premiums	2,005	1,641	1,477	1,462	1,556
Investment income	85	115	121	136	140
Insurance claims	(1,323)	(1,062)	(871)	(964)	(854)
Acquisition costs	(425)	(361)	(288)	(306)	(300)
Administrative expenses	(137)	(125)	(127)	(125)	(116)
Reinsurance commission and share in profits	27	21	16	16	8
Other	(41)	-	(18)	(2)	(42)
Insurance profit	**191**	**229**	**310**	**217**	**391**
Acquisition costs ratio (including reinsurance commission)*	19.9%	20.7%	18.4%	19.8%	18.8%
administrative expenses ratio*	6.8%	7.6%	8.6%	8.6%	7.4%
Claims ratio*	66.0%	64.7%	59.0%	65.9%	54.9%
Combined ratio (COR)*	92.7%	93.1%	86.0%	94.3%	81.1%

* ratios calculated with net premium earned

Data from the profit and loss account – mass-market insurance (non-life insurance) (PLN million)	2017	2016	2015	2014	2013
Gross written premiums	10,068	8,833	7,364	6,569	6,534
Net earned premiums	9,513	7,836	6,793	6,563	6,552
Investment income	482	517	518	563	557
Insurance claims	(6,069)	(5,275)	(4,441)	(4,363)	(4,193)
Acquisition costs	(1,745)	(1,551)	(1,383)	(1,239)	(1,141)
Administrative expenses	(608)	(634)	(665)	(617)	(547)
Reinsurance commission and share in profits	(9)	(14)	(14)	(27)	67
Other	(237)	(220)	(150)	(123)	(227)
Insurance profit	**1,327**	**659**	**658**	**756**	**1,067**
Acquisition costs ratio (including reinsurance commission)*	18.4%	20.0%	20.6%	19.3%	16.4%
administrative expenses ratio*	6.4%	8.1%	9.8%	9.4%	8.3%
Claims ratio*	63.8%	67.3%	65.4%	66.5%	64.0%
Combined ratio (COR)*	88.6%	95.4%	95.7%	95.2%	88.7%

* 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)	**2017**	**2016**	**2015**	**2014**	**2013**
Gross written premiums	6,855	6,775	6,689	6,539	6,415
Group insurance	4,878	4,829	4,753	4,627	4,518
Individually continued insurance	1,977	1,946	1,936	1,912	1,897
Net earned premiums	6,854	6,776	6,691	6,537	6,414
Investment income	720	680	602	713	735
Insurance claims and change in other technical provisions net	(5,142)	(4,686)	(4,718)	(4,570)	(4,570)
Acquisition costs	(332)	(329)	(356)	(357)	(323)
Administrative expenses	(587)	(585)	(577)	(543)	(546)
Other	(63)	(71)	(67)	(19)	(107)
Insurance profit	**1,450**	**1,785**	**1,575**	**1,762**	**1,603**
Insurance profit excluding conversion effect	**1,415**	**1,745**	**1,500**	**1,692**	**1,476**
Insurance profit excluding one-off events	**1,415**	**1,529**	**1,500**	**1,692**	**1,476**
Acquisition costs ratio*	4.8%	4.9%	5.3%	5.5%	5.0%
Administrative expenses ratio*	8.6%	8.6%	8.6%	8.3%	8.5%
Insurance profit margin (excl. conversion effect)*	20.6%	25.8%	22.4%	25.9%	23.0%
Insurance profit margin**	20.6%	22.6%	22.4%	25.9%	23.0%

* ratios calculated with gross premium written
** ratio calculated with gross premium written, excl. One-off events

Data from the profit and loss account – individual insurance (PLN million)	**2017**	**2016**	**2015**	**2014**	**2013**
Gross written premiums	1,664	1,174	1,234	1,269	1,330
Net earned premiums	1,662	1,174	1,234	1,267	1,331
Investment income	419	288	251	327	322
Insurance claims and change in other technical provisions net	(1,672)	(1,043)	(1,091)	(1,250)	(1,339)
Acquisition costs	(135)	(107)	(123)	(126)	(110)
Administrative expenses	(61)	(59)	(60)	(53)	(53)
Other	(4)	(9)	(5)	(2)	(11)
Insurance profit	**209**	**244**	**206**	**163**	**140**
Acquisition costs ratio*	8.1%	9.1%	10.0%	10.0%	8.2%
Administrative expenses ratio*	3.7%	5.0%	4.9%	4.2%	4.0%
Insurance profit margin*	12.6%	20.8%	16.7%	12.8%	10.5%

* ratios calculated with gross premium written

Appendix: PZU Group's financial data

Data from the profit and loss account – investment contracts (PLN million)	2017	2016	2015	2014	2013
Gross written premiums	44	86	141	374	1,098
Group insurance	2	3	3	45	673
Individual insurance	42	83	138	330	424
Net earned premiums	44	86	141	374	1,099
Investment income	18	18	16	44	104
Insurance claims and change in the balance of other technical provisions net	(50)	(89)	(136)	(376)	(1,157)
Acquisition costs	(1)	(4)	(10)	(16)	(18)
Administrative expenses	(7)	(9)	(9)	(10)	(11)
Other	-	-	(1)	(1)	(5)
Insurance profit	**4**	**2**	**1**	**15**	**11**
Insurance profit margin*	9.1%	2.3%	0.7%	4.0%	1.0%

* ratios calculated with gross premium written

Data from the profit and loss account-banking activity (PLN million)	2017	2016	2015	2014	2013
Net revenue from commissions and fees	1,605	351	-	-	-
Investment income	6,506	2,119	-	-	-
Interest costs	(1,264)	(605)	-	-	-
Administrative expenses	(3,754)	(1,290)	-	-	-
Other	(606)	73	-	-	-
Total	**2,487**	**648**	**-**	**-**	**-**

Data from the profit and loss account – pension segment (PLN million)	2017	2016	2015	2014	2013
Investment income	6	5	7	12	12
Other revenues	128	110	119	271	218
Administrative expenses	(44)	(41)	(40)	(73)	(78)
Other	(3)	-	(4)	(6)	(15)
Operating profit (loss)	**87**	**74**	**82**	**203**	**137**

Data from the profit and loss account – Ukraine segment (PLN million)	2017	2016	2015	2014	2013
Gross written premiums	223	210	169	174	204
Net earned premiums	123	109	103	136	171
Investment result	18	23	41	41	24
Net insurance claims	(56)	(54)	(74)	(94)	(81)
Acquisition costs	(69)	(60)	(47)	(52)	(62)
Administrative expenses	(23)	(24)	(21)	(28)	(36)
Other	18	21	10	-	-
Insurance profit	**11**	**15**	**12**	**2**	**16**
Exchange rate UAH/PLN	0.1402	0.1542	0.1722	0.2637	0.3886
Acquisition costs ratio*	56.1%	55.0%	45.6%	38.4%	36.6%
Administrative expenses ratio*	18.7%	22.0%	20.4%	20.7%	21.0%

* ratios calculated with net premium earned

Appendix: PZU Group's financial data

Data from the profit and loss account – Baltic states segment (PLN million)	2017	2016	2015	2014	2013
Gross written premiums	1,404	1,183	1,193	536	262
Net earned premiums	1,248	1,104	1,109	477	227
Investment result	20	23	22	15	7
Net insurance claims	(773)	(694)	(687)	(312)	(139)
Acquisition costs	(275)	(251)	(253)	(115)	(67)
Administrative expenses	(111)	(110)	(147)	(80)	(26)
Other	-	-	-	-	-
Insurance profit	**109**	**72**	**44**	**(16)**	**1**
Exchange rate EUR/LTL in PLN	4.2447	4.3757	4.1848	1.2133	1.2196
Acquisition costs ratio*	22.0%	22.7%	22.8%	24.2%	29.6%
Administrative expenses ratio*	8.9%	10.0%	13.3%	16.8%	11.7%

* ratios calculated with net premium earned

Investment segment (external) (PLN million)	2017	2016	2015	2014	2013
Total	**111**	**(570)**	**506**	**579**	**896**

Rafał Bebelski
Communication and Business Event Team
Swimrun is an extremely tough swimming and running race across land and water through lakes, seas, rocks, wetlands and forests on foot and just with the things you have on you. Only the team is of importance, and the wildness of your heart of nature. To me, sport is above all nature, open space and a competition to be first. In swimrun I will be the first Pole to conquer the legendary route in the Norwegian Rockman competition.

11.

Attachment: Glossary of terms

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

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

cedent – person who cedes an account receivable to a buyer

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

cross-selling – a sales strategy for selling a given insurance product in combination with a complementary insurance product or an insurer's partner's product, e.g. a bank's product. Bancassurance products such as credit insurance may serve as an example

CSR – ***Corporate Social Responsibility*** a concept according to which companies voluntarily take into account social interests and environmental protection as well as relations with diverse groups of stakeholders at the stage of building their strategy

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

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

DPS (ang. *dividend per share*) – market multiple specifying the dividend per share

DY (ang. *dividend yield*) – market multiple specifying the ratio of the dividend per share to the market share price

EPS (ang. *earnings per share*) – market multiple specifying earnings per share

Everest – the system to managing non-life insurance in PZU

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

IDD – Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (Insurance Distribution Directive)

IPO (*Initial Public Offering*) – public offering pertaining to specific securities performed for the first time. One of the most important elements of an initial public offering is the preparation of a prospectus and the proceeding before the institution supervising admission to be traded public

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

KNF – Polish Financial Supervision Authority [Polish: Komisja Nadzoru Finansowego] supervises the banking sector and the capital, insurance and pension markets; it also supervises payment institutions and the offices of payment services, electronic money institutions and the savings and loans sector, www.knf.gov.pl

profit margin in group and individually continued insurance (in PZU Życie) – indicator computed as the ratio of operating profit to the gross written premium of the group and individually continued insurance segment, net of non-recurring effects such as, for instance, the conversion effect, i.e. the conversion of long-term agreements into yearly renewable term agreements and the change of technical rates, i.e. the discount rate for technical provisions for accounting purposes

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

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

PRIIP – Commission Delegated Regulation (EU) 2017/653 of 8 March 2017 supplementing Regulation (EU) No. 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products

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

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

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

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

GDPR – Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC

CRR Regulation – Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms

Regulation on Current and Periodic Information – Finance Minister's Regulation of 19 February 2009 on Current and Periodic Information Transmitted by Securities Issuers and the Conditions for Recognizing the Information Required by the Regulations of a Non-Member State as Equivalent (Journal of Laws of 2009, No. 33 Item 259, as amended)

credit scoring – method for assessing the credibility of an entity (usually a natural person or a business) applying for a bank loan. The result of credit scoring is ordinarily presented in the form of a score – the higher the number of points, the greater the credibility of a prospective borrower

sell side – part of the financial sector involved in creating, promoting and selling equities, bonds, foreign currencies and other financial instruments; it includes investment bankers who act as intermediaries between securities issuers and investors as well as market makers who provide for liquidity on the market. Sell-side analysts release research reports with investment recommendations and daily comments for the buy side, i.e. for asset managers. Research reports pertain to companies that are already public and to companies that are being floated on an exchange or that are conducting additional rights offerings

gross written premium – a gross amount of premiums (without including the reinsurers' share) due by virtue of the insurance agreements executed in the reporting period, notwithstanding the term of liability stemming from these agreements

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

Solvency II – a solvency system for European insurance undertakings taking the risk profile into account. These requirements have been in force since 1 January 2016

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

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

UFK – Ubezpieczeniowy Fundusz Kapitałowy, wydzielony fundusz aktywów stanowiący rezerwę tworzoną ze składek ubezpieczeniowych, inwestowany w sposób określony w umowie ubezpieczenia, część składowa ubezpieczenia na życie z ubezpieczeniowym funduszem kapitałowym (UFK), określanej również mianem polisy inwestycyjnej

Statutory Auditor Act – Act of 7 May 1999 on Statutory Auditors and their Self Regulation, Entities Authorized to Audit Financial Statements and Public Supervision (Journal of Laws of 2009, Number 77, Item 649 as amended).

UOKiK – Office of Competition and Consumer Protection. The shaping of anti-monopoly policy and consumer protection policy is one of the powers of the President of the Office of Competition and Consumer Protection, inter alia, by conducting anti-monopoly proceedings in cases of practices limiting competition and in cases of practices violating the collective interests of consumers, www.uokik.gov.pl

Insurance Activity Act – Act of 11 September 2015 on Insurance and Reinsurance Activity (Journal of Laws of 2015, Item 1844, as amended), with most regulations in force as of 1 January 2016. This act introduced Solvency II requirements in the Polish legal system

up-selling – commercial technique involving the offering and selling of additional higher-priced and higher standard services to a current client

venture capital – medium and long-term investments in privately-held businesses in their early stage of development combined with managerial support, conducted by specialized entities (venture capital funds). The purpose of venture capital investments is to generate a profit ensuing from the incremental growth in the value of a business by selling its stock after the elapse of a specific period

VIX – an indicator of volatility of rates on Wall Street expected by investors, based on the valuation of options. The higher its value, the greater the fear in the market and the more opportunities to buy overpriced shares

WIBOR6M – reference interest rate for a loan for 6 months on the Polish interbank market

Cost / Income Ratio (C/I; banking sector) – quotient of a bank's operating expenses to its income: on interest, fees and commissions and tradingji

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

PZU Group's debt ratio (leverage ratio) – quotient of debt on long-term financial liabilities (net of bank deposits) to the sum of the following: debt on long-term financial liabilities and the PZU Group's equity minus intangible assets (including the intangible assets carried in the balance sheets of banks and by virtue of the acquisition of banks, including goodwill), deferred acquisition expenses and deferred tax assets carried in the PZU Group's consolidated financial statements

Prudent Person Principle – principle expressed in article 129 of the Solvency II Directive of the European Parliament and of the Council on the Taking-up and Pursuit of the Business of Insurance and Reinsurance that imposes on insurance undertakings and reinsurance undertakings the requirement of investing assets in the policyholders' best interest, properly matching investments to liabilities and duly incorporating the various types of financial risk, such as liquidity risk and concentration risk

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 Management Board's report on the activity of the PZU Group and PZU, 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 Management Board's report on the activity of the PZU Group and PZU. 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 Management Board's report on the activity of the PZU Group and PZU, 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 Management Board's report on the activity of the PZU Group and PZU 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 Management Board's report on the activity of the PZU Group and PZU.

At the same time, these Management Board's report on the activity of the PZU Group and PZU may not be treated as a part of a call or an offer to purchase securities or make an investment. The Management Board's report on the activity of the PZU Group and PZU does not constitute also an offer or a call to effect any other transactions concerning securities.