Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna

Independent Auditor's Report

Financial Year ended

31 December 2017

This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

INDEPENDENT AUDITOR'S REPORT

To the General Meeting and Supervisory Board of Powszechny Zakład Ubezpieczeń Spółka Akcyjna

Report on the Audit of the Annual Consolidated Financial Statements

We have audited the accompanying annual consolidated financial statements of Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna, with its registered office in Warszawa, Jana Pawła II 24 (the "Group"), which comprise the consolidated income statement and the consolidated statement of comprehensive income for the year ended 31 December 2017, the consolidated statement of financial position as at 31 December 2017, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended 31 December 2017 and additional information and notes comprising a summary of significant accounting policies and other explanatory information (the "consolidated financial statements").

Responsibility of the Management Board of Powszechny Zakład Ubezpieczeń Spółka Akcyjna ("the Parent Company") and Supervisory Board for the consolidated financial statements

The Management Board of the Parent Company is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS EU") and other applicable laws. The Management Board of the Parent Company is also responsible for such internal control necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In accordance with the accounting act dated 29 September 1994 (Official Journal from 2018, item 395) ("the Accounting Act"), the Management Board of the Parent Company and members of the Supervisory Board are required to ensure that the consolidated financial statements are in compliance with the requirements set forth in the Accounting Act.

Auditor's Responsibility for the audit of the consolidated financial statements

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with:

- the act on certified auditors, audit firms and public oversight dated 11 May 2017 (Official Journal from 2017, item 1089) (the „Act on certified auditors");

- International Standards on Auditing as adopted by the resolution dated 10 February 2015 of the National Council of Certified Auditors as National Standards on Assurance;
- Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-listed entities and repealing Commission Decision 2005/909/EC (Official Journal of the European Union L 158 from 27.05.2014, page 77 and Official Journal of the European Union L 170 from 11.06.2014, page 66) (the "EU Regulation").

Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the regulations mentioned above will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting a material misstatement resulting from error because fraud may involve collusion, forgery, deliberate omission, intentional misrepresentations or override of internal controls.

The scope of audit does not include assurance on the future viability of the Group or on the efficiency or effectiveness with which the Management Board of the Parent Company has conducted or will conduct the affairs of the Group.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Group's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management Board of the Parent Company, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The most significant assessed risks of material misstatements

During our audit we identified the most significant assessed risks of material misstatements (the "key audit matters"), including those due to fraud, described below and we performed appropriate audit procedures to address these matters. Key audit matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	Our procedures
Valuation of provisions for outstanding claims and benefits for motor third party liability insurance ("MTPL")	
The carrying value of provisions for outstanding claims and benefits for MTPL amounted to PLN 13,544 million as at 31 December 2017 and PLN 12,551 million as at 31 December 2016. *Reference to the consolidated financial statements: Note 38.1.1 of the additional information and notes "Non-life insurance" on pages 174-176, Note 38.2.1 of the additional information and notes "Non-life insurance" on pages 178, Note 38.3 of the additional information and notes "Quantitative data" on page 180, Note 38.4 of the additional information and notes "Technical provisions – non-life insurance" on pages 181-182.*	

Provisions for outstanding claims and benefits for MTPL constitute a significant element of technical provisions presented in the liabilities of the Group's balance sheet. Our audit focused particularly on among others the following positions:
• *provisions for the annuities claims that existed before the 31 December 2017, and have been reported to the Group ("the annuities"),*
• *provisions for property and casualty claims that existed before the 31 December 2017, but have not yet been reported to the Group, including provisions for pain and suffer claims ("IBNR").*
 	
Valuation of IBNR and the annuities is associated with significant uncertainty regarding estimates, as it requires the Management Board of the Parent Company to develop professional judgment, as well as complex and subjective assumptions. The uncertainty in estimates is particularly related to the development of bodily injury claims, including annuities, as well as pain and suffer claims, as a result of the lack of comprehensive information on past occurrence of such type of claims that still burden the risk of payment. Moreover, there is a natural uncertainty about the ultimate loss value, which results among others from demographic factors and the lack of detailed legal solutions regulating the amount of pain and suffer claims.
 	
Relatively insignificant changes in the assumptions may have a significant impact on the valuation of the IBNR and the
	In the course of the audit we have assessed processes and accounting policies associated with the valuation of provisions for outstanding claims and benefits for MPTL as well as we have analysed the internal control system.
	
	Our audit procedures performed with the assistance of our own actuarial specialists, included among others:
	• *assessment of the valuation methods applied by the Group, with reference to legal and regulatory requirements, including the applicable financial reporting standards;*
	• *testing of the design, implementation and operating effectiveness of key controls embedded in the process of:*
	  o *establishing and adjusting actuarial assumptions;*
	  o *verification of quality of the data regarding paid and reported claims, used among others in calculation of IBNR;*
	  o *verification of quality of the data i.e. age and sex of annuitants; amount or type of the annuity used for a calculation of the annuities and IBNR;*
	• *recalculation of IBNR and explanation of all significant differences in comparison to the calculations made by the Group;*
	• *recalculation of the significant annuities and explanations of all significant differences in comparison to the calculations made by the Group;*

Key audit matters	Our procedures
annuities. The key assumptions are: claim development ratios, discount rates, changes in the amount of future annuity payments, the expected payment period and assumed mortality. *The calculation of IBNR and the annuities requires the implementation of complex formulas and creation of calculation tools that may not work properly and / or to which may be used incorrect/ incomplete data and/ or abovementioned assumptions. In addition, there is a number of acceptable actuarial methods for determining IBNR (including provisions for pain and suffer claims) and the annuities for which the assessment of the appropriateness of implementation of particular methods and assumptions requires a significant judgment of the Parent Company's Management.* *Completeness and quality of data used for Group's actuarial calculations were also concerned as an important area of our audit.* *Due to the above we have considered the valuation of provisions for outstanding claims and benefits for MTPL as key audit matter.*	• *in the area of the Group's analyses of the historical utilization of IBNR :* o *assessment of the assumptions underlying the analyses;* o *assessment of the results of the analyses;* o *application of the results in our assessment of methods and key assumptions implemented by the Group in the valuation of IBNR as at 31 December 2017;* • *assessment of the adequacy of key assumptions adopted by the Group to the valuation of the annuities and IBNR, in particular:* o *for a claim development ratios, assessment of how it is determined based on the historical data regarding reported and settled claims;* o *for a discount rate, comparison of the level of discount rate adopted by the Group to historical return rate of other investment portfolio and available market data and forecasts;* o *for a change of value of paid annuities (indexation of annuities), assessment of results of the analysis of historical changes in amount of paid annuities;* o *for adopted mortality tables, comparison to publicly available data regarding annual number of deaths in Poland in each age bucket;* • *assessment of the sensitivity of the annuities and IBNR to changes in the key assumptions in the audited period;* • *analysis of change of value of the annuities and IBNR over time.*

Key audit matters	Our procedures
Valuation of life insurance provision	
The carrying value of life insurance provision amounted to PLN 16,060 million as at 31 December 2017 and PLN 15,928 million as at 31 December 2016. *Reference to the consolidated financial statements: Note 38.1.2 of the additional information and notes „Life insurance” on pages 176-178, Note 38.2.2 of the additional information and notes „Life insurance” on pages 178-179, Note 38.3 of the additional information and notes „Quantitative data” on page 180, Note 38.5 of the additional information and notes „Technical provisions – life Insurance” on pages 182-183.*	
The life insurance provision is a significant element of technical provisions recognized in the liabilities of the Group's liabilities. *Valuation of the life insurance provision is associated with significant uncertainty regarding the estimates, as it requires the Management Board of the Parent Company to develop professional judgments and use complex and subjective assumptions, including these with a long time horizon. These assumptions are treated as input data for valuation models using actuarial methods.* *Relatively small changes in the key assumptions may have a significant impact on the valuation of the life insurance provision. The key assumptions concern discount rates, mortality tables and accident rates.* *In addition, the calculation of the life insurance provision requires the use of complicated calculation formulas and creation valuation tools that may be incorrectly defined and/ or to which incorrect or incomplete data or assumptions may be used.* *Completeness and quality of data used by the Group for actuarial calculations were also an important area of our audit procedures.* *For these reasons, the valuation of life insurance provision has been considered by us as a key audit matter.*	*In the course of the audit we have assessed processes and accounting policies associate with valuation of life insurance provision as well as we have analysed the internal control system.* *Our audit procedures, carried out with the support of our internal actuarial specialists, included, among others:* • *assessment of the key assumptions applied by the Group – discount rates, mortality tables and accident rates, with reference to legal and regulatory requirements, including the applicable financial reporting standards;* • *testing the design, implementation and operating effectiveness of key controls embedded in the process of:* o *creating and updating actuarial assumptions;* o *verification of quality of data such as type of insurance, age and sex of the insured, sum and period of the insurance;* • *on a selected sample of active policies as at 31 December 2017, independent calculation of the life insurance provision by reperforming the calculation conducted by the Group and explaining any material differences in comparison to the results of the Group's calculation;* • *assessment of the adequacy of key assumption adopted by the Group to valuation of life insurance provision as at 31 December 2017, in particular for a discount rate, mortality tables and accident rate by comparison of these assumptions to their historical values and*

Key audit matters	Our procedures
	available forecasts or other statistical and market data.

Key audit matters	Our procedures
Impairment of loans to customers in banking activity	
The carrying value of receivables from clients due to credits in banking activity amounted to PLN 169,457 million as at 31 December 2017 and PLN 44,998 million as at 31 December 2016. The carrying value of impairment allowance for losses on loans and advances to customers amounted to PLN 8,839 million as at 31 December 2017 and PLN 3,062 million as at 31 December 2016. *Reference to the consolidated financial statements: Note 33.6 of the additional information and notes "Loans" on pages 160-163, Note 33.7 of the additional information and notes "Impairment of financial assets and receivables" on pages 163-169.*	
Loan receivables from clients are measured at amortized cost less any impairment losses. *The impairment losses represent the best estimate of incurred credit risk losses on the receivables from customers at the reporting date.* *We assessed this area as a key audit matter due to its significance for the consolidated financial statements given the size of credit portfolio and impairment allowance for losses and provisions for off-balance sheet liabilities, as well as, the fact that it involves making significant estimates and requires a significant judgement by the Management Boards of Pekao SA and Alior Bank SA ("the Banks"). In particular:* • *for the non-impaired loans assessed individually, there is a risk of not identifying impairment triggers on a timely basis, and therefore incorrect valuation of loans and advances to customers in the financial statements, in particular in relation to the impairment triggers that occurred before loan delinquency;* • *for the impaired loans assessed individually, there is a risk of using inappropriate assumptions in the valuation relating to recovery scenarios, valuation of collaterals, expected future cash flows and their timing;*	*Our audit encompassed procedures aimed at evaluation of the process and the accounting policies for the impairment losses recognition and the provisions for off-balance sheet liabilities, along with the analysis of the internal control system, including application level controls in the Banks' IT systems.* *Our audit procedures performed with support of our internal IT specialists, included among others:* • *evaluation of design and implementation of internal controls in the process of identification of impairment triggers and estimation of impairment losses (individual and group assessment), as well as, testing of operating effectiveness of these internal controls. Our procedures were focused on controls regarding timely monitoring of the situations of the customers and the calculation of the impairment losses;* • *analytical procedures encompassing the structure and dynamics of changes of loan portfolio and risk parameters including the quality of loan portfolio, and the level of impairment losses, in particular with aim to identify portfolios with underestimated impairment losses;* • *analysis of impairment methodology for estimation of risk parameters and impairment losses for both collective portfolios and individual loans in terms of compliance with relevant international*

Key audit matters	Our procedures
• *for the loans assessed collectively, there is a risk of using inappropriate statistical models, data inputs and key assumptions to estimate credit risk parameters, which may not reflect the actual level of incurred losses as at the reporting date. There is also a risk of an error during the impairment allowance calculation process.* *Portfolio of loans to alternative energy producers (wind farms) has been identified as a portfolio, for which the impairment losses calculation involved significantly higher estimation risk. Increased estimation risk arises from high price volatility of green certificates (publicly traded subsidy instrument), which constitute a significant portion of income for entities in this portfolio.*	*financial reporting standards, as well as, the best market practice.* *Specific procedures for loans assessed individually for impairment:* • *independent assessment, for the selected credit files sample, of impairment triggers identification based on the financial standing of a customer, evaluation of the Banks' internal documentation and analysis of compliance with terms and conditions of a loan agreement;* • *for the selected credit files sample, for which impairment triggers have been identified and impairment losses calculated – recalculation of impairment losses and evaluation of key assumptions applied by the Banks, including in particular actual financial standing of the customer, the Banks' strategy towards the given customer and other components of impairment losses calculation, such as value of collateral and timing of expected future cash flows;* • *for selected customers from the alternative energy producers sector – evaluation of Alior Bank SA ("Alior Bank") projections regarding energy prices, green certificates prices, in line with the Alior Bank's strategy regarding the specific customer and the sector.* *Specific audit procedures for loans assessed collectively for impairment:* • *evaluation, taking into account the results of validation of impairment models performed by the Banks, assumptions and data inputs applied in the estimation of key credit risk parameters, such as probability of default (PD), loss given default (LGD), loss identification period (LIP) as well as analysis of validation performed by Banks;* • *evaluation of the adequacy of incurred but not reported allowances by comparison to prior years actual incurred losses observed on particular homogenous portfolios;* • *verification of the appropriateness of application of risk parameters in statistical models based on the credit risk*

Key audit matters	Our procedures
	characteristics for homogenous portfolios, i.e. past due status; • *independent recalculation, of the impairment incurred but not reported and collective allowances based on credit risk parameters estimated by the Banks.*

Key audit matters	Our procedures
Revenue recognition of interests, commissions and fees in banking activity	
Interest income for the period ended 31 December 2017 amounted to PLN 8,265 million and PLN 3,793 million for the period ended 31 December 2016. Revenue from commissions and fees income for the period ended 31 December 2017 amounted to PLN 1,921 million and PLN 590 million for the period ended 31 December 2016. *Reference to the consolidated financial statements: Note 12 of the additional information and notes "Net investment income" on page 130, Note 11 of the additional information and notes "Revenue from commissions and fees" on page 129.*	
Recognition of revenue from interests, commissions and fees requires judgement regarding the classification: • *fees that are an integral part of an effective interest rate (recognized as interest income);* • *fees recognized as the services are provided (recognized over time, recognized in fee and commission income) or;* • *fees earned on the execution of a significant act (recognized upfront in fee and commission income).* *In particular, for the loans and advances to customers, classification of fees related to the origination of financial asset that should be included as an integral part of an effective interest rate requires judgment.* *We assessed this area as a key audit matter due to the significance of interest income and fee and commission income in the financial statements, as well as the fact that they are key element of the Banks' profitability assessment on the core banking activity and require the Management Boards of the Banks' judgement regarding the classification of fees.*	*Our audit procedures included evaluation of internal control environment regarding the classification, recognition and presentation of interest income and fee and commission income. We also assessed key application level controls for revenue recognition in the Banks' IT systems.* *Audit procedures performed aimed at the appropriate revenue recognition of interest income and fee and commission income included among others:* • *analysis of the Banks' accounting policies for revenue recognition in terms of compliance with the requirements of the applicable financial reporting standards for classification, recognition and the effective interest rate calculation;* • *evaluation of the process and design and implementation of key internal controls for calculation of interest income and effective interest rate, as well as, products parametrization;* • *verification of particular categories of fee and commission income in terms of appropriateness of recognition in line with appropriate international financial reporting standards and the Banks' accounting policy;*

Key audit matters	Our procedures
Inappropriate classification and allocation of fees, could result in incorrect recognition of income in terms of amount and timing, in particular if fee is recognized upfront whereas it should be recognized as an integral part of effective interest rate of the asset or there is service condition in next period.	• *analysis, on a sample basis, of appropriateness of classification and recognition of selected individual components of fee and commission income by analysis of contracts and other source documents that specify the Banks' remuneration;* • *analysis of key assumptions and data inputs in the relative fair value model;* • *evaluation of the classification appropriateness of significant fees and commissions;* • *analytical procedures in terms of reasonableness of the amount of interest income by performing a recalculation based on loan balances and effective interest rates by the main categories of interest income.*

Key audit matters	Our procedures
Exercising control over subsidiaries	
Reference to the consolidated financial statements: Note 2.2 of the additional information and notes „ PZU Group's companies and associates" on pages 15-20, Note 2.4 of the additional information and notes "Changes in the scope of consolidation and structure of PZU Group" on page 24-33, Note 5.4.1 of the additional information and notes „Judgments in the exercise of control" on pages 53-54.	
As at 31 December 2017, the Management Board of the Parent Company decided that it exercises control over the Banks in which the Parent Company does not hold the majority of voting rights among the shareholders. In order to confirm the control, the Management Board of the Parent Company conducted an analysis of whether the Group has rights that are sufficient to ensure power, that is, the practical ability to manage significant activities of the Banks. *The above analysis is characterized by a high degree of complexity due to the need to take into account a number of diverse aspects related to the operations of the Banks and the Parent Company. Conducting the above analysis requires the Management Board of the Parent Company to develop professional and subjective*	*Our audit procedures included, among others:* • *assessment of the approach used by the Management Board of the Parent Company to analyze the control over the Banks in the light of the requirements of the applicable financial reporting standards, in particular regarding power in the event of not having the majority of voting rights;* • *assessment of fulfillment of particular triggers analyzed by the Management Board of the Parent Company in the context of their impact on the Parent Company's possession of power over the Banks, including:* o *analysis of concluded shareholders agreements regarding the provisions of common voting at shareholders*

Key audit matters	**Our procedures**
judgments in order to assess the impact on the possession of power over the Banks. *For the above reasons, the control assessment over subsidiaries has been considered by us as a key audit matter.*	*general meetings in accordance with the position of the Parent Company;* o *independent assessment of the historical attendance of shareholders and distribution of votes at general meetings of the Banks;* o *analysis of the composition of the Banks' supervisory and/ or management bodies regarding the presence and number of representatives of the Parent Company in these bodies;* o *assessment of whether the Group has access to economic benefits resulting from its investment in the Banks not available to the other Banks' shareholders by analyzing the undertaken and planned activities of the entities comprising the Group and the Banks in the scope of joint ventures aimed at achieving cost and revenue synergies.* • *analysis of potential limitations of power resulting from the share purchase agreement and other contracts concluded during the acquisition process.*

Key audit matters	**Our procedures**
Purchase price allocation for the acquisition of Bank Pekao SA („Pekao")	
The carrying value of goodwill arising from Pekao acquisition amounted to PLN 1,586 million as at 31 December 2017. *Reference to the consolidated financial statements: Note 2.4.1 of the additional information and notes „Acquisition of Pekao" on pages 24-28, Note 5.6 of the additional information and notes "Acquisition method" on pages 55-58, Note 26 of the additional information and notes „Goodwill" on pages 138-141.*	
As described in note 2.4.1 of the additional information and notes, on 7 June 2017, the transaction of acquisition by the Parent Company of 20% shares in Pekao was finalized. In connection with the obtaining of control over Pekao, the Management Board of the Parent Company performed the purchase price allocation, i.e. the fair value measurement of all acquired identifiable assets and liabilities assumed of Pekao,	*Our audit procedures, carried out with the support of our internal valuation specialists, included, among others:* • *analysis of the share purchase agreement of Pekao shares to confirm that the accounting treatment of the contract applied by the Parent Company Management is appropriate, and to determine the scope of assets and liabilities acquired, whether the Group is*

Key audit matters	Our procedures
including those that were not previously recognized in Pekao's account ledgers. *Fair value measurement of assets and liabilities of Pekao is associated with significant uncertainty regarding the estimates, as it requires the Management Board of the Parent Company to develop professional judgments and use complex and subjective assumptions. Relatively small changes in the key assumptions may have a significant impact on the valuation result. The key assumptions are described in Note 5.6 of the additional information and notes and include, among others:* • *discount rates;* • *costs of credit risk and prepayment rates for performing portfolios;* • *the date and amount of expected cash flows for non-performing portfolios.* *For the above reasons, purchase price allocation has been considered by us as a key audit matter.*	*not subject to any significant contingent liabilities and whether there are no contingent consideration provisions;* • *assessment of the provisional purchase price allocation prepared by the Management Board of the Parent Company, including:* o *assessment of the applied methods of fair value measurement in the light of legal requirements, applicable financial reporting standards and market practices for individual categories of assets and liabilities;* o *assessment of the completeness of the identification of new assets and liabilities resulting from Pekao's operations by analyzing the main products in the context of the existence of significant relationships with customers and/ or distributors;* o *assessment of the applied fair value measurement models in terms of mathematical correctness and logical consistency;* o *assessment of the assumptions used by the Parent Company in fair value measurement models, in particular through:* ✓ *for discount rates, a comparison of the amount adopted by the Parent Company to the value estimated based on available market data,* ✓ *for credit risk costs and prepayment rates for performing portfolios, a comparison with historical values and parameters of expected credit losses used by Pekao for the purpose of implementing IFRS 9, as well as reperforming of the Parent Company's calculation and assessment of significant differences with respect to calculations made by the Parent Company,* ✓ *for the date and amount of expected cash flows for non-performing portfolios, comparison with historical levels and dates of recoveries resulting from the*

Key audit matters	Our procedures
	collection activities conducted by Pekao for similar exposures.

Key audit matters	Our procedures
Impairment of goodwill	
The carrying value of goodwill amounted to PLN 3,839 million as at 31 December 2017 and PLN 1,583 million as at 31 December 2016. *Reference to the consolidated financial statements: Note 26 of the additional information and notes „Goodwill" on pages 138-141.*	
As at 31 December 2017, goodwill in the amount of PLN 3,839 million was recognized in the consolidated financial statements of the Group. Each goodwill was allocated by the Management Board of the Parent Company to the cash-generating units ("CGU") and for each CGU a test for impairment has been performed. *These tests consisted of comparing the carrying amount of a given CGU with its recoverable amount, estimated based on:* • *value in use which is the estimated present value of future cash flows,* • *fair value for CGUs being entities listed on active markets.* *Estimation of the recoverable amount is a complex process which requires the Management to develop professional judgement, as well as complex and subjective assumptions. Relatively insignificant changes in the assumptions may have a significant impact on the valuation of the recoverable amount. Key assumptions in the process of valuation of the recoverable amount are: value of the future cash flows, growth rates in the residual period, discount rates including the risk-free rate, risk margin, beta parameter, as well as the market activity analysis from which quotations are derived to determine the fair value.* *For the above reasons, impairment of goodwill has been considered by us as a key audit matter.*	*Our audit procedures, carried out with the support of our internal valuation specialists, included, among others:* • *assessment of the impairment triggers identification carried out by the Management Board of the Parent Company for individual assets;* • *assessment of identification of the CGU carried out by the Management Board of the Parent Company, including to which CGU goodwill has been allocated and at the level of which the impairment test for particular assets was carried out;* • *in relation to the models of value in use measurement applied by the Management Board of the Parent Company:* o *assessment of whether the models used by the Group to estimate the value in use of individual CGU meet the requirements of applicable reporting standards;* o *analysis of the recoverable amount calculation models for each CGU (verification of mathematical correctness and logical consistency);* o *evaluation of the reasonableness of the adopted discount rates by comparing them to existing the risk-free rates, risk margin, beta parameter adapted to the specifics of the business of the tested CGU;* o *assessment of the estimated financial results of each CGU by comparing them to historical financial results and*

Key audit matters	Our procedures
	the accuracy of budgeting in previous periods; o *comparison of residual growth rates after the forecasts to average growth rates applicable to particular business sector, particular country and to historical growth rates, including in the light of the discount rates used;* • *for CGU for which recoverable amount was measured at fair value:* o *assessment of the market activity analysis carried out by the Management Board of the Parent Company, from which the quotations are derived to determine fair value;* o *reconciliation of stock quotes to the data used by the Group, along with analysis of the appropriateness of the control margin.*

Opinion

In our opinion, the accompanying consolidated financial statements of Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna:

- give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS EU and the adopted accounting principles (policy);
- comply, in all material respects, with regard to form and content, with applicable laws and the provisions of the Parent Company's articles of association.

Report on other legal and regulatory requirements

Report on activities

Our opinion on the consolidated financial statements does not cover the report on the on the Group's activities prepared together with the report on the Parent Entity activities (the "report on activities").

The Management Board of the Parent Company is responsible for the preparation of the report on activities in accordance with the requirements of the Accounting Act and other applicable laws. Furthermore, the Management Board of the Parent Company and members of the Supervisory Board, are also required to ensure that the report on activities is in compliance with the requirements set forth in the Accounting Act.

Our responsibility was to state, if based on our knowledge about the Group and its environment obtained in the audit, we have identified material misstatements in the report on the activities and describe the nature of each material misstatement.

In accordance with Act on certified auditors our responsibility was also to determine if the report on activities was prepared in accordance with applicable laws and the information given in the report on activities is consistent with the consolidated financial statements. Based on the work undertaken in the course of the audit of the consolidated financial statements, in our opinion the accompanying report on activities in all material respects:

- was prepared in accordance with applicable laws, and
- is consistent with the consolidated financial statements.

Furthermore, based on our knowledge about the Group and its environment obtained in the audit, we have not identified material misstatements in the report on activities.

Opinion on corporate governance statement

The Management Board of the Parent Company and members of the Supervisory Board are responsible for preparation of the corporate governance statement in accordance with the applicable laws.

In connection with the audit of the consolidated financial statements, our responsibility in accordance with the requirements of the Act on certified auditors was to report whether the issuer of securities obliged to file a corporate governance statement, constituting a separate part of the report on activities, included information required by the applicable laws and regulations, and in relation to specific information indicated in these laws or regulations, to determine whether it complies with the applicable laws and whether it is consistent with the consolidated financial statements.

In our opinion the statement of corporate governance includes the information required by paragraph 91 subparagraph 5 point 4 letter a, b, j, k and letter l of the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent of information required by the laws of a non-member state (Official Journal from 2014, item 133 with amendments) (the “decree”). Furthermore, in our opinion the information identified in paragraph 91 subparagraph 5 point 4 letter c-f, h and letter i of the decree, included in the corporate governance statement, in all material respects:

- has been prepared in accordance with the applicable laws; and
- is consistent with the consolidated financial statements.

Information about non-financial statement

In accordance with the requirements of the Act on certified auditors, we report that the Parent Company has prepared a separate Group’s statement on non-financial information referred to in art. 55 paragraph 2c of the Accounting Act together with the separate statement on non-financial information of the Parent Company.

We have not performed any assurance procedures in relation to the separate Group’s statement on non-financial information and, accordingly, we do not express any assurance thereon.

Independence and the appointment of the audit firm

Our opinion on the audit of consolidated financial statements is consistent with our report to the audit committee.

During our audit the key certified auditors and the audit firm remained independent of the Parent Company in accordance with requirements of the Act on certified auditors, the EU Regulation and the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants' (IFAC) as adopted by the resolutions of National Council of Certified Auditors.

We declare that, to the best of our knowledge and belief, we did not provide prohibited non-audit services referred to in art. 5 paragraph 1 second subparagraph of the EU Regulation and art. 136 the Act on certified auditors, taking into consideration the transitional provisions of art. 285 of the Act on certified auditors.

The audit of consolidated financial statements was conducted based on resolution of Supervisory Board dated 18 February 2014.

Our total uninterrupted period of engagement is four years, beginning from the year ended 31 December 2014.

On behalf of audit firm
KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546
ul. Inflancka 4A
00-189 Warsaw

Signed on the Polish original
....
Marcin Dymek
Key Certified Auditor
Registration No. 9899
Limited Liability Partner
with power of attorney

Signed on the Polish original
....
Stacy Ligas
Member of the Management Board of KPMG Audyt Sp. z o.o., entity which is the General Partner of KPMG Audyt spółka z ograniczoną odpowiedzialnością sp. k.

14 March 2018