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# Independent Auditor's Report

## To the General Shareholders' Meeting and Supervisory Board of Powszechny Zakład Ubezpieczeń SA

### Report on the Audit of the Annual Financial Statements

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#### Opinion

We have audited the accompanying annual financial statements of Powszechny Zakład Ubezpieczeń SA (the "Entity"), which comprise:

- the introduction to the financial statements;
- the balance sheet as at 31 December 2018;

and, for the period from 1 January to 31 December 2018:

- the technical account of property and casualty insurance;
- the general profit and loss account;
- the statement of changes in equity;
- the cash flow statement;

and

- the supplementary information and explanations

(the "financial statements").

In our opinion, the accompanying financial statements of the Entity:

- give a true and fair view of the financial position of the Entity as at 31 December 2018 and of its financial performance and its cash flows for the financial year then ended in accordance with the accounting act dated 29 September 1994 (Official Journal from 2018, item 395 with amendments) (the "Accounting Act"), related bylaws and the adopted accounting policy;
- comply, in all material respects, with regard to form and content, with applicable laws and the provisions of the Entity's articles of association;
- have been prepared, in all material respects, on the basis of properly maintained accounting records in accordance with chapter 2 of the Accounting Act.

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Our audit opinion on the financial statements is consistent with our report to the Audit Committee dated 12 March 2019.



### Basis for Opinion

We conducted our audit in accordance with:

- International Standards on Auditing as adopted by the National Council of Certified Auditors as National Standards on Auditing (the “NSA”); and
- the act on certified auditors, audit firms and public oversight dated 11 May 2017 (Official Journal from 2017, item 1089 with amendments) (the “Act on certified auditors”); and
- 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 May 2014, page 77 and Official Journal of the European Union L 170 from 11 June 2014, page 66) (the “EU Regulation”); and

- other applicable laws.

Our responsibilities under those standards are further described in the Auditor’s Responsibility for the audit of the financial statements section of our report.

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

### Independence and Ethics

We are independent of the Entity in accordance with the Code of Ethics for Professional Accountants (“IFAC Code”) issued by the International Ethics Standards Board for Accountants as adopted by the resolutions of the National Council of Certified Auditors, as well as other independence and ethical requirements, applicable to audit

engagement in Poland. We have fulfilled all ethical responsibilities resulting from those requirements and IFAC Code. During our audit the key certified auditors and the audit firm remained independent of the Entity in accordance with requirements of the Act on certified auditors and the EU Regulation.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. They are the most significant assessed risks of material misstatements, 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 financial statements as a whole, and in forming our opinion thereon we have summarised our response to those risks. We do not provide a separate opinion on these matters. We have determined the following key audit matters:

#### 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 10,575,134 thousand as at 31 December 2018 and PLN 10,054,181 thousand as at 31 December 2017.

Reference to the financial statements: Note 6.8.3 “Provisions for outstanding claims and benefits”, Note 9.2.1 “Provision for the outstanding claims, Note 9.3 “Provisions for the capitalized value of annuities”.

<i>Key audit matter</i>	<i>Our response</i>
Provisions for outstanding claims and benefits for MTPL constitute the most significant element of technical provisions presented in the liabilities of the Entity’s balance sheet. Our audit focused particularly on among others the following positions:	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.

- provisions for the annuities claims that existed before the 31 December 2018 and have been reported to the Entity ("the annuities"),
- provisions for property and casualty claims that existed before the 31 December 2018 but have not yet been reported to the Entity, 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 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 annuities. The key assumptions are: claims 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 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 Entity's Management.

Completeness and quality of data used for Entity'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

Our audit procedures performed with the assistance of our own actuarial specialists, included among others:

- assessment of the valuation methods applied by the Entity, 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:
  - establishing and adjusting actuarial assumptions;
  - verification of quality of the data regarding paid and reported claims, used among others in calculation of IBNR;
  - 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 Entity;
- recalculation of the significant annuities and explanations of all significant differences in comparison to the calculations made by the Entity;
- in the area of the Entity's analyses of the historical utilization of IBNR:
  - assessment of the assumptions underlying the analyses;
  - assessment of the results of the analyses;
  - application of the results in our assessment of methods and key assumptions implemented by the Entity in the valuation of IBNR as at 31 December 2018;
- assessment of the adequacy of key assumptions adopted by the Entity to the valuation of the annuities and IBNR, in particular:
  - for a claim development ratios, assessment of how it is determined based on the historical data regarding reported and settled claims;
  - for a discount rate, comparison of the level of discount rate adopted by the Entity to historical return rate of other

claims and benefits for MTPL as key audit matter.

- investment portfolio and available market data and forecasts;
- 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;
- 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.

### Valuation of the related parties

The carrying value of the shares in related parties amounted to PLN 15,671,129 thousand as at 31 December 2018 and PLN 15,957,526 thousand as at 31 December 2017.

Reference to disclosures in the financial statements: Note 6.2.2 of the introduction to the financial statements „Shares in related parties”, Note 2.4 of the supplementary information and explanations „Investment in subsidiaries”.

#### *Key audit matter*

As at 31 December 2018, shares in related parties in the amount of PLN 15,671,129 thousand was recognized in the financial statements of the Entity. For each subsidiary, for which goodwill was recognized in the course of valuation using the equity method, a test for impairment has been performed.

These tests consisted of comparing the carrying amount of a given Cash Generating Unit (“CGU”) with its recoverable amount, estimated using the value in use, which is present value of estimated future cash flows.

Estimation of recoverable amount is a complex process which requires the Management Board 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 the recoverable amount estimation are: future value of the 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

#### *Our response*

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 Entity’s Management for individual assets;
- assessment of identification of the CGU carried out by the Entity’s Management, 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 Entity’s Management:
  - assessment of whether the models used by the Entity to estimate the value in use of individual CGU meet the requirements of applicable reporting standards.
  - analysis of the value in use calculation models for each CGU

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analysis from which quotations are derived to determine the fair value.

For the above reasons, valuation of shares in related parties has been considered by us as a key audit matter.

(verification of mathematical correctness and logical consistency);

- evaluation of 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;
- assessment of the forecasted financial results of each CGU by comparing them to historical financial results and the accuracy of budgeting in previous periods;
- 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.

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### Responsibility of the Management Board and Supervisory Board of the Entity for the financial statements

The Management Board of the Entity is responsible for the preparation, on the basis of properly maintained accounting records, of financial statements that give a true and fair view of the financial position of the Entity and of its financial performance in accordance with the Accounting Act, related bylaws, the adopted accounting policy, the applicable laws and the provisions of the Entity's articles of association and for such internal control as the Management Board of the Entity determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management Board of the Entity is responsible

for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board of the Entity either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

According to the Accounting Act, the Management Board and members of the Supervisory Board of the Entity are required to ensure that the financial statements are in compliance with the requirements set forth in the Accounting Act. Members of the Supervisory Board of the Entity are responsible for overseeing the Entity's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with NSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the

economic decisions of users taken on the basis of these financial statements.

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

As part of an audit in accordance with NSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit 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 Entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board of the Entity;
- conclude on the appropriateness of the Management Board of the Entity's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report on the audit of the financial statements to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our

auditors' report on the audit of the financial statements. However, future events or conditions may cause the Entity to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee of the Entity regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Audit Committee of the Entity with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee of the Entity, we determine those matters that were of most significance in the audit of the financial statements of the current reporting period and are therefore the key audit matters. We describe these matters in our auditors' report on the audit of the financial statements unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Other information, including the report on activities

### Other Information

The other information comprise:

- the report on activities of the Entity for the year ended 31 December 2018 prepared together with the report on the activities of the capital group in which the Entity is the parent entity (the “Report on activities”), including the corporate governance statement, which is a separate part of the Report on activities;
- the separate statement on non-financial information referred to in art. 49b paragraph 9 of the Accounting Act prepared together with the separate statement on non-financial information of the capital group in which the Entity is the parent entity;
- the opinion of the actuary supervising the actuarial function on the correctness of the technical provisions disclosed in the financial statements for accounting purposes determined by actuarial methods;
- other information described in the paragraph 70.1 of the Decree of the Minister of Finance dated March 29, 2018 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 2018, item 757) (the “decree”) required to be included in the annual report.

(together the “Other information”).

### Responsibility of the Management Board and Supervisory Board

The Management Board of the Entity is responsible for the Other information in accordance with applicable laws.

The Management Board and members of the Supervisory Board of the Entity are required to

ensure that the Report on activities, including the corporate governance statement and the report on non-financial information referred to in art. 49b paragraph 9 of the Accounting Act are in compliance with the requirements set forth in the Accounting Act.

### Auditor’s Responsibility

Our opinion on the financial statements does not cover the Other information.

In connection with our audit of the financial statements, our responsibility was to read the Other information and, in doing so, consider whether the Other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we performed, we conclude that there is a material misstatement in the Other information, we are required to report that fact.

In accordance with the Act on certified auditors our responsibility was to report 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 financial statements.

Moreover, in accordance with the requirements of the Act on certified auditors our responsibility was to report whether the Entity included in the statement on corporate governance 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 financial statements and to inform whether the Entity prepared a separate report on non-financial information.

### Opinion on the Report on activities

Based on the work undertaken in the course of our audit of the financial statements, in our opinion, the accompanying Report on activities, in all material respects:

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

Furthermore, based on our knowledge about the Entity and its environment obtained in the

audit of the financial statements, we have not identified material misstatements in the Report

#### *Opinion on the statement on corporate governance*

In our opinion, the corporate governance statement, which is a separate part of the Report on activities, includes the information required by paragraph 70 subparagraph 6 point 5 of the decree.

Furthermore, in our opinion, the information identified in paragraph 70 subparagraph 6

#### *Information about the statement on non-financial information*

In accordance with the requirements of the Act on certified auditors, we report that the Entity has prepared a separate report on non-financial information referred to in art. 49b paragraph 9 of the Accounting Act.

on activities.

point 5 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 applicable laws; and
- is consistent with the financial statements.

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

## **Report on other legal and regulatory requirements**

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### **Information on compliance with prudential regulations**

The Management Board of the Entity is responsible for the Entity's compliance with the applicable prudential regulations defined in separate laws, in particular whether the Entity has recognised technical provisions for accounting purposes in the amount sufficient to fully cover the amount of current and future liabilities arising from insurance or reinsurance contracts.

Our responsibility was to inform in our auditor's report whether the Entity complies with the applicable prudential regulations defined in separate laws, in particular whether as at 31 December 2018 the Entity has recognised technical provisions for accounting purposes referred to in art. 277 of the act on insurance and reinsurance activities dated 11 September 2015 (Official Journal from 2019, item 381, with amendments), in the amount sufficient to fully cover the amount of current and future

liabilities arising from insurance or reinsurance contracts.

The audit objective was not to express an opinion on the Entity's compliance with the applicable prudential regulations and therefore we do not express such an opinion.

Based on our audit of the financial statements of the Entity, we inform that we have not identified any instances of non-compliance, in the period from 1 January 2018 to 31 December 2018, of the Entity with the applicable prudential regulations, defined in separate laws, in particular in respect of the recognition of the technical provisions for the accounting purposes in the amount sufficient to fully cover the amount of current and future liabilities arising from insurance or reinsurance contracts, that could have significant impact on the financial statements of the Entity..

### **Statement on services other than audit of the financial statements**

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 of the act on certified auditors.

Services other than audit of the financial statements, which were provided to the Entity in the audited period are listed in note 32.1 „Remuneration of the auditor firm” of the supplementary information and explanations





### Appointment of the audit firm

We have been appointed for the first time to audit the annual financial statements of the Entity by resolution of the Supervisory Board dated 18 February 2014. Our period of total

uninterrupted engagement is 5 years, covering the periods ended 31 December 2014 to 31 December 2018.

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On behalf of audit firm

**KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.**

Registration No. 3546

*Signed on the Polish original*

Marcin Dymek

Key Certified Auditor

Registration No. 9899  
*Limited Liability Partner  
with power of attorney*

Warsaw, 12 March 2019

*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