The PZU SA Supervisory Board

Warsaw, 22 May 2024

The PZU SA Supervisory Board announces that on 22 May 2024 resolutions no. URN/109/2024, URN/110/2024, URN/111/2024, URN/112/2024, URN/113/2024, URN/114/2024, URN/115/2024 on the recommendation to discharge the members of the PZU SA Management Board Members for the performance of their duties on the PZU SA Management Board in 2015.

In accordance with the content of the above resolutions, the PZU SA Supervisory Board recommends that the PZU SA Ordinary General Meeting grant discharge to Przemysław Dąbrowski, Rafał Grodzicki, Witold Jaworski, Andrzej Klesyk, Dariusz Krzewina, Tomasz Tarkowski and Ryszard Trepczyński for the period they served on the PZU SA Management Board in 2015.

Powszechny Zakład Ubezpieczeń Spółka Akcyjna

FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 WITH AUDITOR'S OPINION

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.

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Introduction to the financial statement

1. Introduction

Basic information about the Company

Powszechny Zakład Ubezpieczeń Spółka Akcyjna (hereinafter referred to as "PZU", or "the Company") has its registered office in Warsaw at Al. Jana Pawła II 24.

PZU is entered into the Register of Entrepreneurs of the National Court Register at the District Court for the capital city of Warsaw, 12th Business Division of the National Court Register, under KRS number 0000009831.

According to Polish Statistical Classification of Activity (PKD), the core business of the Company includes non-life insurance (PKD 65.12) and according to Statistical Classification of Economic Activities in the European Community (NACE), non-life insurance (EKD 6603).

PZU is the parent entity of the Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna ("PZU Group") and prepares consolidated financial statements.

Period covered by the separate financial statements

The separate financial statements have been prepared for the period of 12 months from 1 January to 31 December 2015.

Format of the separate financial statements of PZU

The separate financial statements of PZU for year 2015 contain financial data presented in line with Attachment No. 3 to the Ordinance of the Ministry of Finance dated 18 October 2005 on the scope of information disclosed in separate and consolidated financial statements as required in prospectuses of listed issuers with registered office on the territory of the Republic of Poland applying Polish accounting principles (Journal of Laws of 2014, Item 300, "Ordinance on financial statements presented in prospectus".)

Going concern

The separate financial statements have been prepared based on the assumption that the Company will operate as a going concern in the foreseeable future, i.e. during the period of at least 12 months following the balance sheet date.

As at the date of signing the separate financial statements, there were no facts or circumstances indicating a risk to PZU's ability to operate as a going concern during the period of 12 months following the balance sheet date due to the intended or forced discontinuation or material limitation of its current activities.

Presentation unit

Unless stated otherwise, all financial data presented in the separate financial statements are expressed in PLN thousand.

Discontinued operations

In 2015 and in 2014, PZU did not discontinue any operations.

Seasonal or cyclical nature of operations

The operations of PZU are neither seasonal nor cyclical in their nature.

2. Selected financial data of PZU

Items from balance sheet	31 December 2015 in PLN thousand	31 December 2014 in PLN thousand	31 December 2015 in EUR thousand	31 December 2014 in EUR thousand
Assets	36,358,361	34,629,778	8,531,822	8,124,669
Share capital	86,352	86,352	20,263	20,259
Total equity	12,378,733	12,328,724	2,904,783	2,892,505
Basic and diluted weighted average number of ordinary shares in issue	863,523,000	863,523,000[1]	863,523,000	863,523,000[1]
Book value per share (in PLN/EUR)	14.34	14.28[1]	3.37	3.35[1]

[1] Comparable data have been adjusted taking into account the new number of shares existing after the split described in Note 7.1.1 of Supplementary information and explanations.

Items from technical account - non-life insurance	31 December 2015 in PLN thousand	31 December 2014 in PLN thousand	31 December 2015 in EUR thousand	31 December 2014 in EUR thousand
Gross written premiums	8,858,036	8,261,752	2,116,717	1,972,155
Technical result on non-life insurance	636,334	564,429	152,058	134,734
Net investment result [1]	2,023,981	2,568,038	483,651	613,014
Net profit (loss)	2,248,522	2,636,733	537,307	629,412
Basic and diluted weighted average number of ordinary shares in issue	863,523,000	863,523,000[2]	86,352,300	863,523,000[2]
Basic and diluted profit per one ordinary share (in PLN/EUR)	2.60	3.05[2]	0.62	0.73[2]

[1] Including "Share in net profit (loss) of related parties measured using the equity method."

[2] Comparable data have been adjusted taking into account the new number of shares existing after the split described in Note 7.1.1 of Supplementary information and explanations.

Items from statements of cash flows	1 January – 31 December 2015 in PLN thousand	1 January – 31 December 2014 in PLN thousand	1 January – 31 December 2015 in EUR thousand	1 January – 31 December 2014 in EUR thousand
Net cash flows from operating activities	379,760	804,109	90,747	191,948
Net cash flows from investment activities	2,259,509	(1,210,503)	539,932	(288,958)
Net cash flows from financing activities	(2,627,138)	381,418	(627,781)	91,048
Total net cash flows	12,131	(24,976)	2,899	(5,962)

3. PLN/EUR exchange rates

The following exchange rates have been applied herein (also for presentation of selected financial data):

EUR/PLN	1 January – 31 December 2015	1 January – 31 December 2014	31 December 2015	31 December 2014
Average rate	4.1848	4.1892	4.2615	4.2623
Highest rate of the period	4.3580	4.3138	n/a	n/a
Lowest rate of the period	3.9822	4.0998	n/a	n/a

The rates are:

- average rates of the National Bank of Poland ruling as at the balance sheet date – for the balance sheet items;
- rates determined as the arithmetic mean of the rates published by the National Bank of Poland, ruling as at the last day of each month of a given period - for the profit and loss account and cash flow statement.

4. Changes in the accounting principles (policy) during the financial year

In 2015, no changes were introduced in the accounting principles (policy).

5. Changes in the method of preparation of the financial statements

In 2015, no changes were introduced to the method of preparation of the financial statements.

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6. Adjustment of errors

In the separate financial statements, no errors were adjusted.

7. Information on significant subsequent events not recognized in the financial statements

7.1 Purchase of the third installment of Alior Bank SA Shares

On 11 March 2016, acquisition of the third installment of Alior Bank SA ("Alior Bank") shares was settled. The acquisition and presentation in the balance sheet as at 31 December 2015 have been further described in Note 2.4.2 of Supplementary information and explanations.

The payment for 3,828,673 third tranche shares was PLN 341,709 thousand. As a result of the acquisition of the third tranche, PZU directly holds a total of 18,318,473 shares of Alior Bank, which constitute 25.1949% of Alior Bank's share capital and the total number of votes at the General Shareholders' Meeting of Alior Bank. Additionally, indirectly, through the investment funds it controls, PZU held 4.0284% of Alior Bank's share capital and the total number of votes at the General Shareholders' Meeting of Alior Bank.

7.2 Act on Insurance Activity

A new Act on Insurance and Reinsurance Activities was published on 10 November 2015 (Journal of Laws, item 1844, of 2015). The act is to implement Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of insurance and reinsurance ("Solvency II"). It comes into force on 1 January 2016. Under the new law, the calculation of the capital requirement is to be based on market, actuarial (insurance), counterparty default, catastrophe and operational risk. Assets, liabilities, and, consequently, own funds, constituting coverage for the capital requirement will be measured at fair value. PZU made a calculation of the estimated capital requirement and own funds according to the principles of Solvency II on the basis of the data as of 30 September 2015 and discovered that its own funds significantly exceed the solvency capital requirement (information not audited).

7.3 Act on Tax on Certain Financial Institutions

An Act on Tax on Certain Financial Institutions was published on 15 January 2016 (Journal of Laws, item 68, of 2016) and is in effect from 1 February 2016. The act imposes taxation on the assets of tax payers such as, for example, insurance companies. In the case of insurance companies, the taxation applies to the surplus of assets whose value exceeds the threshold of PLN 2,000,000 thousand (this limit applies jointly to all taxpayers that are controlled or jointly controlled, directly or indirectly, by one entity or a group of affiliated entities).

The monthly tax rate is 0.0366% of the tax base.

PZU prepared an estimation of the impact of the new tax on its financial results. The result of the estimation shows that the annual impact on financial result will amount to PLN 150-160 million (about PLN 140-150 million for the period between February and December 2016).

8. Significant prior years' events recognized in the financial statements for the current financial year

By the date of the separate financial statements, there were no significant prior years' events that should be included in the separate financial statements.

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9. Significant current year's events significantly changing the structure of balance sheet items and the financial result

Dividend from Powszechny Zakład Ubezpieczeń na Życie

On 29 June 2015, the General Shareholders' Meeting of PZU Życie passed a resolution regarding the appropriation of profit for the financial year 2014 in the amount of PLN 1,931,333 thousand as follows:

- dividend payment: PLN 1,795,174 thousand;
- allocation of PLN 131,159 thousand to the supplementary capital;
- allocation to the Social Benefits Fund: PLN 5,000 thousand.

Given the payment made on 29 January 2015 on the account of advance payments towards the dividend expected at the end of 2014 in the amount of PLN 730,000 thousand, the remaining part of the dividend payable in the year ended 31 December 2014 amounted to PLN 1,065,174 thousand. The dividend date for the remaining part of the dividend payable was set for 14 August 2015, and the payment was made on 19 October 2015.

On 1 December 2015, the Management Board of PZU Życie decided to pay advance payments towards the dividend expected at the end of the year 2015 in the amount of PLN 625,000 thousand. On the same date, the Supervisory Board of PZU Życie granted their consent for the payment. The dividend date was set for 30 December 2015 and the payment was made on 31 December 2015.

Dividends paid

The issue has been described in Note of Supplementary information and explanations.

Changes in significant estimations in financial statements

As of 1 January 2015, PZU extended the scope of costs subject to be deferred in time to include a portion of indirect acquisition costs related to conclusion and renewal of insurance policies, especially costs of operations directly related to sales processes which cannot be classified as direct acquisition costs, mainly costs of operations related to: contract conclusion and underwriting processes in sales units (selected on the basis of work time polls), automatic and manual introduction of policies to production systems (sales register), and contact center operations in the scope of sale of policies.

The above change ensure a better proportionality of incomes and costs (written premium generated by such operations is deferred in time by unearned premium reserve) and has resulted in an increase in gross result in 2015 by PLN 112,031 thousand.

10. Managing and supervisory bodies of PZU

10.1 Management Board of PZU

Since 1 January 2015, the composition of the Management Board of PZU was as follows:

- Andrzej Klesyk – CEO of PZU;
- Przemysław Dąbrowski – Member of the Management Board;
- Dariusz Krzewina - Member of the Management Board;
- Tomasz Tarkowski – Member of the Management Board;
- Ryszard Trepczyński – Member of the Management Board.

With the resolution of 16 March 2015, the Supervisory Board of PZU appointed Andrzej Klesyk as a Member of the Management Board of PZU for the new term and entrusted him the function of the CEO of PZU.

On 24 June 2015, on the request of the CEO of PZU, the Supervisory Board of PZU appointed the following persons as Members of the Management Board of PZU for the new term:

- Przemysław Dąbrowski;
- Rafał Grodzicki;
- Dariusz Krzewina;
- Tomasz Tarkowski.

The appointment was for a common term of office, which started on 1 July 2015. The term lasts for three full subsequent reporting periods. 2016 is the first full reporting period of this term.

Changes in the composition of the Management Board mentioned below have not resulted in modifications of the common term of office.

On 1 September 2015, on the request of the CEO of PZU, the Supervisory Board of PZU appointed Witold Jaworski Member of the Management Board of PZU SA.

On 8 December 2015, Andrzej Klesyk submitted a statement of resignation from the post of CEO of PZU coming into effect as of 9 December 2015. Also on 8 December 2015, Witold Jaworski submitted a statement of resignation from the post of Member of the Management Board of PZU coming into effect as of 9 December 2015.

On 8 December 2015, the Supervisory Board of PZU entrusted temporary performance of duties of CEO of PZU to Dariusz Krzewina coming into effect as of 10 December 2015 and lasting until the appointment of the next CEO of PZU.

On 19 January 2016, Tomasz Tarkowski and Rafał Grodzicki submitted a statement of resignation from the post of Member of the Management Board of PZU coming into effect as of 19 January 2016.

On 19 January 2016, the Supervisory Board of the Company appointed the following persons Members of the Management Board of PZU: Michał Krupiński, Roger Hodgkiss, Beata Kozłowska-Chyła, Robert Pietryszyna, and Paweł Surówka.

Composition of the Management Board of PZU from 19 January 2016 to the date of signing the separate financial statements:

- Michał Krupiński – CEO of PZU;
- Przemysław Dąbrowski - Member of the Management Board;
- Roger Hodgkiss - Member of the Management Board;
- Beata Kozłowska-Chyła - Member of the Management Board;
- Dariusz Krzewina - Member of the Management Board;
- Robert Pietryszyn - Member of the Management Board;
- Paweł Surówka - Member of the Management Board (from 20 January 2016).

10.2 Supervisory Board of PZU

From 1 January 2015 to 30 June 2015, the composition of the Supervisory Board of PZU was as follows:

- Aleksandra Magaczewska – Chairperson;
- Zbigniew Ćwiąkalski - Vice-Chairperson;
- Tomasz Zganiacz – Secretary of the Board;
- Zbigniew Derdziuk – Member;
- Dariusz Filar – Member;
- Dariusz Kacprzyk – Member;
- Jakub Karnowski – Member;
- Alojzy Nowak – Member;
- Maciej Piotrowski – Member.

On 30 June 2015, the General Shareholders' Meeting of PZU appointed the following persons as Members of the Supervisory Board of PZU for the new term:

- Zbigniew Ćwiąkalski (from 8 July 2015 – Chairman);
- Paweł Kaczmarek (from 8 July 2015 – Vice-Chairman);

- Dariusz Filar (from 8 July 2015 – Secretary of the Board);
- Zbigniew Derdziuk – Member;
- Dariusz Kacprzyk – Member;
- Jakub Karnowski – Member;
- Aleksandra Magaczewska – Member;
- Alojzy Nowak – Member;
- Maciej Piotrowski – Member.

The appointment came into effect on 1 July 2015 for the common term of office lasting for three full subsequent reporting periods. 2016 is the first full reporting period of this term.

Changes in the composition of the Supervisory Board mentioned below have not resulted in modifications of the common term of office.

On 7 January 2016, the Extraordinary General Shareholders' Meeting of PZU dismissed the following persons from the Supervisory Board of PZU: Zbigniew Ćwiąkalski, Zbigniew Derdziuk, Maciej Piotrowski, Dariusz Kacprzyk, Jakub Karnowski, Aleksandra Magaczewska, and Dariusz Filar.

On the same day, the Extraordinary General Shareholders' Meeting of PZU appointed the following people as Members of the Supervisory Board: Marcin Chludziński, Marcin Gargas, Eligiusz Krześniak, Jerzy Paluchniak, Piotr Paszko, Radosław Potrzeszcz, and Maciej Zaborowski. The resolutions on dismissing and appointing the Members of the Supervisory Board came into effect on the day of their passing.

Composition of the Supervisory Board of PZU between 7 January 2016 and the date of signing of the separate financial statements:

- Paweł Kaczmarek (from 19 January 2016 – Chairman of the Board);
- Marcin Gargas (from 19 January 2016 – Vice-Chairman of the Board);
- Maciej Zaborowski (from 19 January 2016 – Secretary of the Board);
- Marcin Chludziński – Member;
- Eligiusz Krześniak – Member;
- Jerzy Paluchniak – Member;
- Piotra Paszko – Member;;
- Radosław Potrzeszcz – Member;
- Alojzy Nowak – Member.

10.3 PZU Group Directors

Along with Management Board members, key management personnel in PZU Group includes Group Directors, who are members of the Management Board of PZU Życie.

Group Directors as of 1 January 2015:

- Tobiasz Bury;
- Rafał Grodzicki;
- Przemysław Henschke;
- Sławomir Niemierka.

In relation to the appointment of Rafał Grodzicki as Member of the Management Board of PZU, Rafał Grodzicki was dismissed from the function of Director of PZU Group on 30 June 2015 by the resolution of the Management Board of PZU dated 21 July 2015.

On 29 January 2016, Tobiasz Bury and Przemysław Henschke were dismissed from the post of Director of the Group, and Tomasz Karusewicz was appointed. On 15 February 2016, also Roman Pałac was appointed as Director of the Group.

Composition of the Group Directors from 15 February 2016 to the date of signing the separate financial statements:

- Tomasz Karusewicz;
- Sławomir Niemierka;
- Roman Pałac.

11. Fee of the company authorized to audit financial statements

In line with provisions of point 12a.(b) of "B. Supplementary information and explanations" of Appendix 3 to the Ordinance on financial statements presented in prospectus, information regarding remuneration of the company authorized to audit financial statements is presented in Note 31.1 of Supplementary information and explanations.

12. Accounting principles (policy)

Pursuant to Article 45.1a of the Accounting Act (Journal of Laws of 2013, Item 330, as amended, the "Accounting Act"), financial statements of issuers of securities admitted to trading on the regulated market within the European Economic Area may be prepared in compliance with International Financial Reporting Standards and the related Interpretations published in the form of regulations of the European Commission (henceforth: IFRS).

As the General Shareholders' Meeting of PZU has not taken the decision referred to in Article 45. 1c of the Accounting Act regarding preparation of financial statements in accordance with IFRS, separate financial statements of PZU are drawn up in line with Polish Accounting Standards ("PAS") as defined in the Accounting Act and related bylaws, among others, including:

- Ordinance of the Ministry of Finance dated 28 December 2009 on specific accounting principles in insurance and reinsurance companies (Journal of Laws of 2009, No. 226, item 1825 as amended, 'Ordinance on accounting of insurance companies');
- Ordinance of the Ministry of Finance of 12 December 2001 on detailed principles of recognition, measurement, disclosure, and presentation of financial instruments (Journal of Laws from 2001, No. 149, item 1674 as amended).

Other major legal acts applicable to the separate financial statements include:

- Ordinance of the Minister of Finance of 28 November 2003 on calculation methods and amount of required solvency margin and the minimum guarantee fund for insurance departments and groups (Journal of Laws of 2003, No. 211, Item 2060, as amended);
- The Act of Insurance Activity of 22 May 2003 (Journal of Laws of 2015, Item 1206, as amended, "The Act of Insurance Activity").

For all matters not specified in the Accounting Act and related bylaws on the basis thereof National Accounting Standards and / or IFRS are applied.

12.1 Intangible assets

Intangible assets are recognized if it is likely that in the future they will cause an inflow of economic benefits closely related to such assets and include property rights acquired by PZU and suitable for economic use, classified as non-current assets, with expected useful life exceeding one year, and intended for internal purposes of PZU.

Intangible assets include in particular: computer software, copyrights, licenses and concessions.

Intangible assets are measured at cost, less depreciation and impairment losses.

Intangible assets are amortized in accordance with the straight-line method over their expected useful life and pursuant to a depreciation plan adopted by PZU and corresponding to their estimated economic useful life, with application of annual depreciation rates ranging from 20% to 50%.

If appropriate, following a case-by-case analysis, the company may apply another depreciation rate suitable for the estimated useful life of a given intangible asset. As PZU plans to use the Platforma Everest product system for 10 years, the adopted annual depreciation rate is 10%.

Intangible assets with a unit value of up to PLN 3,500 are expensed in the month of their commissioning.

12.2 Investments

12.2.1. Investments in property

Property investments include: own land, perpetual usufruct of land, buildings and structures, as well as premises, ownership right to cooperative residential or commercial space, construction investments and advance payments for construction investments.

Property investments are measured at acquisition price or manufacturing costs, revalued based on separate regulations (the last revaluation took place on 1 January 1995 and its effects were charged to the revaluation reserve), reduced by depreciation accumulated as at the balance sheet date, including impairment losses.

Property is depreciated in accordance with the straight-line method over its expected useful life and pursuant to a depreciation plan adopted by PZU and corresponding to its estimated economic useful life, with application of annual depreciation rates for key components of this category as presented below. If appropriate, PZU may calculate depreciation rates individually, pursuant to the current depreciation plan. Own land, construction investments and advance payments for construction investments are not depreciated.

Asset type	Rate
Cooperative ownership of residential or commercial space	2.5%
Buildings and structures	1.5 – 10%

12.2.2. Shares in related parties

Shares in related parties are measured using the equity method.

Equity method measurement means that the cost of shares in a related party is increased or decreased by the related party's equity increases or decreases on PZU's share that have occurred from the date of acquiring of control, joint control of significant influence until the balance sheet date. The PZU's share in equity increases and decreases of the related party is adjusted by:

- amortization of goodwill (in accordance with the straight-line method over the period up to 15 years),
- amortization of the difference between the fair value of net assets and their carrying amount pertaining to the given reporting period;

The differences between the fair value of net assets and their carrying amount include mainly intangible assets identified during the purchase price allocation process and other revaluations, such as:

- trademarks – amortized in accordance with the straight-line method, most frequently for a period equal to the period of goodwill amortization;
- insurance - present value of future profits (value in force) – amortized over the term of insurance contracts;
- other remeasurements of fair value of the assets and liabilities of the related parties, which were not measured at fair value;
- deferred tax impact on the related party's equity resulting from the above differences.

The effects of remeasurement of shares in related parties using the equity method are recognized in the following manner:

- remeasurement of shares in related parties to the amount exceeding the cost is charged to the revaluation reserve;
- remeasurement of shares in related parties to the amount below their cost is charged to the profit and loss account;

12.2.2.1. Impairment losses

At the end of each reporting period and every time when impairment triggers are identified, shares in related parties are tested for impairment. Impairment losses are recognized in the profit and loss account.

12.2.3. Financial instruments

Financial instruments are classified at the time of the acquisition to the following categories:

- financial assets and liabilities held for trading;
- financial assets held to maturity;
- loans and receivables;
- financial assets available for sale.

Financial assets and liabilities are recognized in the balance sheet when PZU becomes a party to a binding contract under which it incurs risk and enjoys benefits related to a given financial instrument. For transactions concluded on an organized market, the purchase or sale of financial assets and liabilities are recognized as at the trade date.

Financial instruments are initially recognized at fair value adjusted by transaction costs directly attributable to the purchase or sale of a given financial instrument. The fair value of a financial instrument upon initial recognition is usually its transaction price, unless the nature of the financial instrument provides otherwise.

For financial instruments generating interest, interest is calculated beginning from the day after the transaction settlement date.

The fair value of debt securities includes interest accrued as at the balance sheet date, in compliance with the terms of the issue, taking into account the total interest purchased but not settled as well as interest accrued but unpaid.

Release of financial instruments follows the FIFO (First In, First Out) method.

Fair values of financial instruments are determined based on publically available quotations from an active market; when no such quotations are available, the valuation models are applied that use public quotations of financial instruments, interest rates and stock market indexes.

Shares whose fair value cannot be reliably estimated are exempted from this rule. They are measured at cost less any impairment losses.

12.2.3.1. Financial instruments held for trading

Financial assets held for trading include those acquired for the purpose of obtaining economic benefits resulting from short-term price fluctuations and other market factors, or from a short life of the acquired instrument, as well as derivatives, unless classified as hedging instruments.

Financial instruments held for trading include also obligations to provide borrowed securities and other financial instruments if the company concludes a short sale contract.

Financial assets classified as held for trading are not reclassified to other categories.

Financial instruments held for trading are measured at fair value.

Derivatives

Derivative instruments are recognized at fair value on the date of the transaction and subsequently measured at fair value.

For derivatives traded on an active market, fair value shall be the closing price on the trading date.

The fair value of derivatives not quoted on an active market, including forwards and interest rate swaps (IRS), is determined using the discounted cash flows model. Interest rate yield curves associated with a particular type of financial instrument and currency, constructed on the basis of available market data are used to discount cash flows.

Derivative instruments are recognized in the balance sheet in assets as "Other investments" or in liabilities as "Other liabilities."

Changes in the fair value of derivatives not classified as hedging instruments are charged to the profit and loss account of the reporting period.

12.2.3.2. Financial assets held to maturity

Financial assets held to maturity include those not classified as loans and receivables, for which concluded contracts determine the date of nominal value payment and the right to economic benefits obtainable within pre-defined deadlines – e.g. interest, in a fixed or determinable amount, provided that PZU intends and is able to maintain these assets (in particular debt securities) to their maturity.

The classification is mainly based on a judgment of the Management Board of PZU, which, making the assessment, assesses its intentions and ability to hold these financial instruments to maturity. The assessment is based on an analysis of material and financial position as well as possible mismatch of assets and liabilities of PZU.

Financial assets held to maturity are measured at amortized cost less any impairment losses.

12.2.3.3. Loans and receivables

Loans and receivables include financial assets arising from cash issued directly to the other party of a contract, regardless of their maturity.

Loans include also buy sell-back transactions described in Note 12.2.3.6 and term deposits at credit institutions regardless of their maturity.

Loans, including term deposits and receivables, are recognized at amortized cost less impairment losses.

Accrued and received interest on term deposits at credit institutions, pertaining to the reporting period, are presented under "Investment income arising from term deposits at credit institutions" in the general profit and loss account.

12.2.3.4. Financial assets available for sale

Financial assets available for sale include those not classified to the above categories, i.e.:

- financial instruments held for trading;
- financial assets held to maturity;
- loans and receivables.

Financial assets held for trading are measured at fair value, and if it cannot be reliably determined, at cost less any impairment losses.

The difference between the fair value of financial assets available for sale and their cost, and in the case of debt instruments their amortized cost, is charged to the revaluation reserve.

The effects of remeasurement of debt instruments to their amortized cost are recognized in the profit and loss account.

In case the instruments available for sale are impaired, revaluation losses previously recognized in the revaluation reserve are charged to the general profit and loss account.

If the reason for impairment losses no longer exists, the equivalent of total or part of the previous impairment losses are reversed through the general profit and loss account.

12.2.3.5. Deposits with ceding undertakings

Deposits with cedants include claims and premium deposits retained by insurers for which PZU provides reinsurance coverage. They represent a part of PZU receivables, however, retained as collateral of future claims.

Deposits with cedants are measured at the amount due, determined in accordance with the terms and conditions of a reinsurance contract, and in the case when the deposit is a financial instrument, including also measurement of the instrument and impairment losses.

12.2.3.6. Acquisition and sale of financial instruments with substance different than the legal aspects

According to PZU opinion, buy-sell-back and sell buy-back transactions do not mean transfer of rights and obligations related to the given financial instrument. The above transactions are classified as loans or liabilities, respectively. These transactions are measured at amortized cost.

12.2.3.7. Impairment of financial assets

As at the end of each financial year, potential existence of objective evidence for impairment of a financial asset or a group of financial assets is tested.

In the case of existence of any objective evidence for impairment resulting from events following the initial recognition of financial assets and resulting in a decrease in expected future cash flows, appropriate impairment losses are recognized. Expected impairment losses resulting from future events, irrespective of their probability, are not recognized.

Objective evidence for impairment includes information concerning the following events:

- material financial difficulties of the issuer or debtor;
- breach of the terms and conditions of the contract (such as outstanding interest or principal repayment);
- special facilities given to the debtor resulting from financial difficulties of the debtor which otherwise would not have been given;
- high probability of bankruptcy or other financial reorganization of the debtor;
- disappearance of an active market for a given financial instrument due to financial difficulties of the issuer;
- availability of data indicating measurable decrease in estimated future cash flows related to the group of financial assets since their initial recognition, despite lack of evidence indicating impairment of a single financial asset, including:
  - adverse changes concerning the status of the debtors' payments in the group (e.g. an increase in the amount of outstanding payments) or
  - unfavorable changes of the economic situation in the industry, region, etc., which lead to deterioration in the debtor's solvency;
- significant or prolonged decrease in the fair value of an investment in an equity instrument below the acquisition cost;
- unfavorable changes in the technological, market, economic, legal or other situation affecting the issuer of the equity instruments which indicate that the costs of investment in the equity instrument may not be recovered.

In the case of impairment evidence for financial instruments available for sale, losses initially recognized under revaluation reserve are charged to the profit and loss account.

Impairment losses on assets held to maturity and loans are determined as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted using the initial effective interest rate (original effective interest rate).

Impairment losses on equity instruments quoted on regulated markets, participation units in open investment funds and investment certificates issued by closed investment funds classified as available for sale are recognized if at least one of these two conditions is met:

- adverse difference between the current value and the cost or the remeasured amount (decreased by previous impairment losses) represents at least 30% of the cost, or the remeasured amount;
- fair value of the asset as of the end of each of 12 consecutive months is lower than the cost or the remeasured amount (decreased by previous impairment losses).

Impairment losses are not recognized if it is concluded that the aforesaid events may be reversed within 6 months of the end of the financial year or there are any other indications that the decreases may be temporary in nature.

12.2.3.8. Foreign investments

Foreign investments are investments outside the territory of Poland.

Their location is determined by the country of the issuer – for assets quoted on regulated markets or their redemption place – for other investments, in particular:

- the country of the registered office of the issuer, borrower or debtor – for debt securities, loans and receivables and other financial instruments with a guaranteed rate of return;
- registered office of the company – for equity instruments with the right to interest in the equity;
- the country of the registered office of the fund manager – for participation units and investment certificates of investment funds or other investment vehicles.

12.3 Receivables

Receivables are recorded at the value determined when they occur. As at the balance sheet date, receivables are recognized at the amount due less any impairment losses. Impairment losses on doubtful receivables are based on an analysis of the economic and financial position of the debtors, ageing analysis of receivables and their historical recoverability including the probability of payment.

12.3.1. Insurance receivables

Direct insurance receivables include receivables from policyholders for premiums paid in installments and overdue premiums; receivables from insurance intermediaries, i.e. insurance brokers, agents and other intermediaries, as well as other receivables.

12.3.1.1. Receivables from policyholders

PZU reviews receivables from policyholders in order to determine whether there are any impairment triggers.

In case the individual approach was not applied, impairment is estimated on a collective basis and the resulting impairment losses are of general nature.

The general impairment losses are estimated on the basis of the model built for individually insignificant receivables. In the model, the impairment is determined on the basis of a collective assessment in relation to the policyholders grouped according to similar characteristics of the credit risk.

Receivables due are subject to age analysis, depending on their overdue period. Receivables due are reduced by the value of the receivables subject to individual impairment losses. The general impairment losses are calculated for each overdue period based on unrecoverability ratios that are determined on the basis of a historical analysis.

For receivables not yet due, the share of receivables that will not be eventually paid is determined on the basis of a historical analysis. The amount determined in this way is reduced by the value of the receivables subject to individual impairment losses. For the resulting amount of receivables not yet due impairment losses are determined based on the unrecoverability ratios of receivables due in the shortest overdue period.

Impairment losses for insurance receivables are recognized in other technical expenses.

12.3.2. Reinsurance receivables

Reinsurance receivables include receivables due to cedants, reinsurers and reinsurance brokers resulting from inward reinsurance, outward reinsurance and retrocession. The receivables are related mainly to the reinsurers' share in claims paid, reinsurers' commission and share in reinsurers' profits.

Impairment losses on reinsurance receivables are recognized in other technical expenses.

12.3.3. Other receivables

Other receivables include, among others, receivables from due dividend, receivables from the State Budget and receivables from claims representative services.

Impairment losses on other receivables are recognized in other operating expenses.

12.4 Tangible assets

Tangible assets include tangible assets excluding property classified as investments, with expected useful life over one year, complete, suitable for use and designated for the company's purposes.

They include in particular:

- machines, devices, vehicles, IT equipment and other;
- leasehold improvements.

Tangible assets are measured at cost less accumulated depreciation and impairment losses. Tangible assets are depreciated beginning from first day of the month following the month of commissioning in accordance with straight-line method over their projected useful life and pursuant to a depreciation plan adopted by PZU and corresponding to their estimated economic useful life, with application of annual depreciation rates for key components of this category as presented below. If appropriate, PZU may calculate depreciation rates individually, pursuant to the applied depreciation plan.

Asset type	Depreciation rate for key components of this category
Machines and technical devices	10% - 40%
Vehicles	14% - 33%
IT equipment	20% - 40%
Other non-current assets	7% - 20%

Tangible assets with a unit value of up to PLN 3,500 are expensed in the month of their commissioning.

12.5 Cash

Cash includes mainly cash in hand and at bank as well as promissory notes, third-party checks and cash in transit.

Cash is recognized at face value.

12.6 Prepayments and accruals

Prepayments and accruals include paid and accrued costs, in its entirety or in part pertaining to periods after the balance sheet date and include in particular costs related to insurance premiums which will be earned in later periods (i.e., among other things, acquisition costs, costs of obligatory payments, provided that they have a material impact on the financial statements).

In property insurance, acquisition commissions and a portion of indirect acquisition costs related to conclusion and renewal of insurance policies are subject to be deferred in time, especially costs of operations directly related to sales processes which cannot be classified as direct acquisition costs, mainly costs of operations related to: contract conclusion and underwriting processes in sales units (selected on the basis of work time polls), automatic and manual introduction of policies to productions systems (sales register), and call center operations in the scope of sale of policies.

12.6.1. Deferred tax assets

Deferred tax assets are presented after offsetting with the provision for deferred tax liabilities.

12.6.2. Prepayments

Costs (including i.a. IT costs, cost of obligatory payments imposed by legal regulations) are recognized over time, proportionally to the passing time or to the amount of benefits, if their impact on the financial statements is material.

Prepayments include, among other things, accrued reinsurance income resulting from past events that will be settled in accordance with the contractual terms in the future.

12.6.3. Accruals

Accruals include costs and investments outlays pertaining to the current reporting period paid in the following period, which have not been recognized as liabilities or provisions, including in particular costs of acquisition, obligatory fees and reinsurance outwards.

Reinsurance accruals include accrued costs from past events that will be settled in accordance with the contractual terms in the future.

12.6.4. Deferred income

Deferred income includes, among other things, deferred reinsurance commissions settled in proportion to the premium earned on the reinsurers' share.

12.7 Equity

12.7.1. Share capital

The share capital is recognized at the nominal value and is recorded in the National Court Register.

12.7.2. Supplementary capital

The supplementary capital is created and distributed in line with the provisions of the Code of Commercial Companies (Journal of Laws of 2013, Item 1030, as amended, "KSH") and the By-laws of PZU.

Supplementary capital is created from prior year net profit distribution and a portion of revaluation reserve transferred upon disposal or liquidation of previously revalued tangible assets.

12.7.3. Revaluation reserve

The item includes the effects of:

- remeasurements of shares in related parties (above cost only) along with the corresponding deferred tax effect;
- remeasurements available-for-sale investments (above and below cost and, for debt instruments, amortized cost), along with the corresponding deferred tax effect;
- revaluation of tangible assets in line with relevant regulations. The last revaluation took place on 1 January 1995.

12.7.4. Retained earnings (accumulated loss)

The item includes retained net profit/ (loss) from previous years, including the effect of the changes in the accounting principles, which was not appropriated by the General Shareholders' Meeting.

12.8 Technical provisions

Technical provisions are created in order to cover current and future claims that may result from concluded insurance contracts and inward reinsurance contracts. Provisions are created in line with the prudence concept. In the event that available information does not allow for the calculation of technical provisions for inward reinsurance by the methods mentioned below, the technical provisions are created in the amount documented by the cedants.

12.8.1. Unearned premiums reserve

Unearned premiums reserve covers costs which may be incurred after the end of the reporting period and which result from the insurance contracts concluded until the end of the reporting period.

Unearned premiums reserve is created as written premium for future financial years, in proportion to the period which the written premium covered. Unearned premiums reserve is determined individually as at the end of each reporting period, accurate to one day.

In the case of insurance groups with non-linear spread of risk over time, unearned premiums reserve is created in the amount corresponding to the spread of the risk over time based on statistical layouts.

The share of reinsurers in unearned premiums reserve is determined in line with the conditions specified in relevant reinsurance contracts, in the amount proportional to the reinsurance coverage attributable to periods after the end of a given reporting period.

12.8.2. Unexpired risks reserve

Unexpired risks reserve complements the unearned premiums reserve and covers future claims, benefits and costs relating to insurance contracts which do not expire on the last day of the reporting period.

Unexpired risks reserve is determined for individual insurance classes as at the end of each reporting period.

The overall unexpired risks reserve is determined for insurance classes with the claims ratio for the current period exceeding 100%, as the difference between the product of the unearned premiums reserve and the claims ratio for the current reporting period and the unearned premiums reserve – for the same insurance period. The share of reinsurers in the unexpired risks reserve is determined in line with the conditions specified in relevant reinsurance contracts.

12.8.3. Outstanding claims provision

Outstanding claims provision includes:

- provision for reported but not paid claims (including the part for the capitalized value of annuities);
- provision for incurred but not reported claims (including the part for the capitalized value of annuities);
- provision for claims handling costs.

All the above provisions with the exception of the part for the capitalized value of annuities are recognized at the nominal value, i.e. without discounting.

Provisions for the capitalized value of annuities are discounted.

12.8.3.1. Provision for claims reported but not paid

The provision for claims reported but not paid ("RBNP" or "Provision I") is determined based on an individual approach by claim handling units or, if obtained information disallows determining the provision amount, as the amount of average claim determined with an actuarial method. The provision includes the deductible, expected increase in the prices of goods and repair services and may not exceed the sum insured and the guaranteed sum. The provision is revalued immediately after receiving information which impact its amount by individual assessment or estimated losses and claims.

12.8.3.2. Provision for claims incurred but not reported

The provision for claims incurred but not reported (hereinafter referred to as "IBNR" or "Provision II") is created for claims and benefits which have not been reported by the end of the reporting period as at which the provision is recognized. IBNR is calculated using the loss triangles: the generalized Chain Ladder method, and if the number of claims or their value is insignificant – using the Bornhuetter-Ferguson method, broken down by the accident years. Both claims paid and reported are the basis for building the annual loss triangles.

12.8.3.3. Provision for claims handling expenses

The provision for claims handling expenses is determined at the end of each reporting period as the total of provision for direct and indirect claims handling expenses.

The provision for direct claim handling costs for claims reported is calculated on an individual basis by operating units, whereas for claims incurred but not reported is calculated using generalized Chain Ladder (based on loss triangles broken down into accident years).

The provision for indirect claims handling expenses is recognized using the actuarial method as the product of (1) the share of indirect claims handling expenses in claims paid and direct claims handling expenses, and (2) the sum of RBNP, IBNR and the provision for direct claims handling expenses.

12.8.3.4. Provisions for the capitalized value of annuities

The provisions for the capitalized value of annuities is calculated individually as the present value of annuity (life-long or periodic), paid in advance.

As regards life-long annuities, the period during which annuity claims are paid is determined based on the Polish life expectancy tables, published by the Central Statistical Office. Additionally, calculation of the provision for capitalized value of annuities includes the cost of their future management in the amount of 3% of the value of paid claims.

When calculating a provision for capitalized value of annuities, estimated future increase of an average annuity is based on historical data taking into account other information that may result in an increase in the value of annuities in the future (for instance, increased insurance awareness, legislation changes etc.).

As at 31 December 2015 and 31 December 2014, the technical interest rate applied to all annuities was 3.6% and, based on the forecasted inflation rate and the remuneration growth rate, a growth rate used for annuities was 3.9%.

As at the end of each reporting period provisions for the capitalized value of annuities are created, by means of the actuarial method, for claims incurred after 31 December 1990 and not reported as annuities until the balance sheet date (annuity IBNR).

As at the end of each reporting period the value of additional provision for costs resulting from increased annuity benefits from the so-called old portfolio is determined. Reassessment is carried out only for those annuitants for whom the provision was calculated as at the end of 1997 and whose benefits at the end of the reporting period are lower than a predefined percentage of the present value of average remuneration for the years 1960-1990. For the difference between the satisfactory and actual amounts, a provision for capitalized value of annuities is calculated in line with current principles.

12.8.3.5. Reinsurers' share in technical provisions

The share of reinsurers in outstanding claims provisions is determined in line with provisions of relevant reinsurance contracts.

12.8.4. Risk equalization reserve

Risk equalization reserve is recognized at the amount ensuring equalization of future fluctuations in the claims ratio, net of reinsurance, in accordance with the Ordinance.

12.8.5. Provision for bonuses and discounts (provision for profit sharing)

The provision is created for the insurance contracts that assume an increase in future benefits, including the insurer profit sharing for the insured.

The amount of the provision at the end of the reporting period is determined based on currently expected final amount of the increase in the benefit (or decrease in the premium) directly proportional to the premium earned at the end of the reporting period.

12.8.6. Expected subrogations and salvages

When estimating future claims and benefits, PZU estimates, using the actuarial method, the value of expected, future refunds of expenses as a result of assumption of claims against third parties (subrogations), rights to the insured property (salvages) and subsidies to cover part of claims due to agricultural producers for losses caused by drought, payable to the Company in accordance with the provisions of the Act on insurance of agricultural crops and livestock (Journal of Laws of 2005, No. 150, Item 1249, as amended). When estimating the amount of subrogation, salvages and subsidies, collection costs are included.

The basis for establishing future subrogations and salvages are the annual triangles of received subrogations and salvages. The value of future subrogations and salvages is calculated with the use of a generalized Chain Ladder method, broken down by the accident years.

When estimating the value of future reimbursements resulting from the acquisition of claims against third parties and ownership rights in insured properties, the share in the sum of the received and estimated subrogations and salvages in the cost of claims and benefits of the year in which the damage occurs cannot exceed the arithmetic mean of the share of the received subrogations and salvages in the cost of claims from three consecutive years in which the damage occurs, immediately preceding the year for which the calculations are made.

12.9 Other provisions

"Other provisions" include provisions for certain or highly probable future costs arising from past events, with uncertain amount or payment deadline, that can be reliably estimated. In particular, provisions are created for retirement benefits, unused paid vacation, losses on business transactions in progress, guarantees and sureties granted, losses arising on pending litigations and third party claims.

"Other provisions" include also the provision for deferred tax liability compensated against deferred tax assets.

The costs of creating provisions are charged to other technical costs, net of reinsurance, other operating expenses or administrative expenses, respectively, depending on the type of future liability.

12.9.1. Provision for retirement and disability benefits

Pursuant to the Labor Code of 26 June 1974 (Journal of Laws of 2014, Item 1502, as amended), the employees of PZU are entitled to a retirement or disability benefit in the amount of a monthly salary at the time when they retire or are granted the right to disability allowance due to inability to work, respectively.

The costs of retirement or disability benefits are estimated using the actuarial methods and recognized on an accrual basis using the projected unit credit method.

Actuarial gains and losses are recognized in full in the period in which they occur.

12.9.2. Provision for unused paid vacation

The provision for unused paid vacation is calculated using liability method based on the difference between the actual use of vacation days and the status that would occur had vacation been used proportionally to the passage of time in the entitlement period, in line with the valid legal regulations.

12.9.3. Provision for death benefits

Pursuant to the Labor Code, in the event of death of an employee while in service or during period in which sickness benefit is collected, the family is entitled to a death benefit, the amount of which depends on the employee's years in service with the employer and is an equivalent of the employee's salary for the period ranging from one to six months.

Provision for death benefits is measured at the present value of discounted cash flows.

12.10 Liabilities and special funds

12.10.1. Liabilities due to reinsurers' deposits

Liabilities due to reinsurers' deposits are recognized at the amount due, in line with concluded reinsurance contracts.

12.10.2. Liabilities arising from issue of own debt securities and obtained loans

Liabilities arising from issue of debt securities and obtained loans are recognized at amortized cost.

12.10.3. Other liabilities

Liabilities are recognized at the amount due.

12.10.4. Special funds

Special funds include:

- the balance of the Social Benefits Fund, created in line with the relevant regulation as an expense. The Social Benefits Fund is also increased by allocation of net profit pursuant to the resolutions of the General Shareholders' Meeting;
- balance of the Prevention Fund, created from expensed charges, in line with the Insurance Act and the By-laws of PZU.

The balance of special funds is increased by investment income generated by the funds' assets.

12.11 Revenue from insurance activities

Revenues from gross premiums written are recognized starting from the date of concluded insurance contract, regardless of the date of inception of insurance coverage.

The reinsurers' share in premiums has been determined for the insurance groups with reinsurance coverage, in the amount which - pursuant to relevant reinsurance treaties - corresponds to the ceded premium.

12.12 Investment income and losses

12.12.1. Income from property and property maintenance costs

Income from property considered as investments, such as rent and lease payments and other revenues related to the management of the property, are recognized under "Investment income from property" in the general profit and loss account.

Investment property maintenance costs are recognized under "Property maintenance costs" in the general profit and loss account.

Own property maintenance costs are recognized in the technical account of non-life insurance "Administrative expenses" in the proportion resulting from space used by PZU.

12.12.2. Income and losses from debt securities

The remeasurement result on debt securities to amortized cost is recognized as income from debt securities.

The difference between fair value as at the balance sheet date and amortized cost is recognized as follows:

- in the case of debt securities (not relevant for the calculation of the provisions for the capitalized value of annuities and bonuses and discounts) recognized as available-for-sale investments - under "Revaluation reserve";
- in the case of debt securities classified as held-for-trading investments - under "Unrealized gains on investments" or "Unrealized losses on investments."

Profits/losses on sale/redemption of debt securities are disclosed under "Gain on realization of investments"/"Loss on realization of investments."

12.12.3. Income and losses on shares, participation units and investment certificates of investment funds

Unrealized gains and losses on valuation of shares, participation units and investment certificates of investment funds classified as investments held for trading are recognized as the difference between the fair value and the cost or the carrying amount at the end of the previous reporting period (in the case the securities were acquired in prior years) under "Unrealized gains/losses on investments."

Unrealized gains and losses on valuation of shares, participation units and investment certificates of investment funds classified as investments available for sale (not relevant to the calculation of the technical provisions) are recognized in the revaluation reserve.

Gains/losses on sale of shares, participation units and investment certificates of investment funds are disclosed under "Gains/losses on realization of investments."

Impairment losses on investments recognized in the reporting period are recognized under "Loss on revaluation of investments" and revenue from reversal of the impairment losses recognized in prior periods are recognized under "Gain on revaluation of investments."

Dividend revenue is recognized at gross amounts as at the date the right to dividend was established.

12.12.4. Interest income from term deposits at credit institutions

Interest income from deposits at credit institutions is recognized on an accrual basis, i.e. all interest for the reporting period is recognized irrespective of the date when it was received. If the deposit matures after the balance sheet date, interest is determined using the effective interest rate from the date following the investment date to the balance sheet date (inclusive).

12.12.5. Net investment (including costs), transferred from the general profit and loss account

Investment income included in calculation of the provision for capitalized value of annuities and provisions for bonuses and rebates are transferred from the general profit and loss account to the technical account of non-life insurance.

Due to the fact that the insurer's own funds and those from the insurance fund are invested jointly and the investments are not separated, the investment income to be transferred from the general profit and loss account to the technical account of non-life insurance are calculated as the product of the provision for capitalized value of annuities at the beginning of the month and the return ratio of the treasury bonds held to maturity in a given month, including relevant investment costs.

12.12.6. Investment costs

Investment costs include internal and external costs arising from the investment activity, i.e. investment management costs, bank fees, broker commissions, depreciation and maintenance of property, except for the costs of depreciation and maintenance of own properties, which are classified as administrative expenses.

12.13 Costs of claims and benefits

The costs of the reporting period include all costs of claims and benefits paid for accidents and losses which took place during the reporting period and in the prior periods, including direct and indirect claims handling expenses and a change in the provisions for outstanding claims and benefits, less all received subrogations, salvages and subsidies as well as a change in the balance of estimated subrogations, salvages and subsidies.

The reinsurers' share in claims and benefits is determined for the insurance groups with reinsurance coverage, in the amount which - pursuant to the conditions of the relevant reinsurance contracts valid in the reporting period - corresponds to the expected participation of the reinsurers in claims and benefits paid.

Claims handling costs include direct and indirect costs related to activities which aim at settlement of reported claims or support activities aimed at settlement of such claims.

12.14 Costs of insurance activities

Costs of insurance activity are recognized on the accrual basis proportionally to the revenues.

12.14.1. Acquisition costs

Acquisition costs include expenses related to conclusion and extension of insurance contracts. Direct acquisition costs include insurance agent commission costs, payroll costs related to conclusion of insurance contracts, costs of attestation, studies, and research regarding the accepted risk. Indirect acquisition costs include advertisement and promotion of insurance products and costs related to analysis of applications and issuing policies.

The costs of commission are recognized in the same period when the premiums (serving as the basis for commission calculation) are recognized, regardless of the actual time of the commission payment.

Acquisition costs are deferred in line with the principles applicable at the determination of the unearned premiums reserve by transferring a relevant cost portion to the "Deferred acquisition costs" item. Deferred acquisition costs are then amortized through the technical account during the period of the insurance coverage. A change in deferred acquisition costs adjusts the acquisition costs item.

The deferred acquisition costs are tested for impairment by their inclusion in calculation of the unexpired risks reserve.

12.14.2. Administrative expenses

Administrative expenses include the costs of insurance activity, not classified as acquisition costs, costs of claims and benefits and investment costs related to the collected premiums, managed portfolio of insurance contracts, reinsurance contracts and general and administrative expenses of the insurance company.

The costs of insurance activity are adjusted by the value of reinsurance commission and share in reinsurers' and retrocessionaries' profits, received or receivable from brokers and reinsurers (under reinsurance outwards or retrocession). The value of reinsurance commission received or receivable is adjusted by the value of deferred reinsurance commission in the part concerning future reporting periods.

12.15 Foreign currency transactions

Assets and liabilities denominated in foreign currencies are translated as at the balance sheet date at the average exchange rate of the National Bank of Poland as at that date.

Business transactions denominated in foreign currencies are recognized in the accounting records as at their conclusion date at the average exchange rate determined for the given currency as at the date directly preceding the transaction, unless another rate has been stated in a customs application or another binding document.

12.16 Income tax

Income tax recognized in the profit and loss account includes current and deferred portion.

Current corporate income tax liabilities are calculated in accordance with the tax regulations applicable in Poland.

The deferred portion recognized in the profit and loss account is the difference between the balance of deferred tax liability and deferred tax assets as at the beginning and end of the reporting period; deferred tax liability and deferred tax assets for transactions charged to equity are charged to equity.

Deferred tax liability and assets are determined using the balance sheet method, using the tax rates which - according to predictions - will apply at the time when the asset is recovered or liability settled, in line with the tax law provisions applicable in Poland, issued by the balance sheet date.

PZU, as a company governed by the Polish tax regulations, can effectively offset tax liabilities and receivables by paying a net CIT amount. Therefore, deferred tax assets and liability are presented in the financial statements after compensation.

13. Significant differences between PAS and IFRS – indication, explanation and qualifications

Since PZU prepared its first consolidated financial statements of PZU Group according to IFRS for the year ended 31 December 2005 and presented therein comparable date for the previous year, 1 January 2004 is assumed as the date of transition to IFRS of PZU Group. Based on Point 17 of Appendix D to IFRS 1, indication, explanation and quantification of material differences between PAS and IFRS are presented upon the assumption that PZU hypothetically transitioned to IFRS for separate financial statements purposes as at 1 January 2004 (to calculate differences between IFRS and PAS presented below) despite the fact that PZU does not prepare separate financial statements in line with IFRS.

Description of significant differences between PAS and IFRS that would materially impact financial result or equity in the separate financial statements of PZU prepared in line with IFRS are presented below.

13.1 Valuation of related parties

Under PAS, shares in related parties are measured using the equity method, described in detail in Note 12.2.2 of the Introduction to the financial statements.

In line with IAS 27, in separate IFRS financial statements shares in related parties would be measured at cost less any impairment losses.

In accordance with IAS 39.66, impairment losses recognized on unquoted equity instruments not measured at fair value (if the fair value cannot be reliably determined) cannot be reversed.

13.2 Valuation of property

Under the Ordinance on accounting of insurance companies, all property (both own and investment) is measured at cost less accumulated depreciation and any impairment losses.

As at the date of transition to IFRS (i.e. 1 January 2004), the manufacturing cost of own properties was determined and the difference was charged to the not appropriated result from previous years. In subsequent periods, this leads to a difference in the net book value and accumulated depreciation of the property.

In accordance with IFRS, investment property is measured at fair value as at the balance sheet date and any changes in the fair value during the reporting period are charged to the profit and loss account of the reporting period.

If own property is reclassified to investment property measured at fair value, depreciation is continued until the reclassification date, and the difference between the carrying amount and the fair value, determined as at that date, is charged to other comprehensive income.

13.3 Revaluation reserve – property, plant and equipment

Pursuant to the provisions of the Accounting Act and based on separate regulations concerning revaluation of property, plant and equipment in 1995, property, plant and equipment was revalued in the Polish accounting records and the effects of revaluation were charged to revaluation reserve. The revaluation does not meet the requirements of IAS 29.

13.4 Risk equalization reserve – non-life insurance

The Ordinance on accounting of insurance companies regulates the principles of creating and using risk equalization reserve. The provision does not refer to specific liabilities resulting from concluded insurance contracts. In accordance with PAS, the change in the provision is the current period expense; in accordance with IFRS it is allocation of net profit.

13.5 Prevention Fund

Pursuant to the Act on Insurance Activity, PZU may contribute to the Prevention Fund and recognize those contributions in the current period expenses. Under the Ordinance on accounting of insurance companies, the fund is disclosed as liabilities and special funds.

Pursuant to the provisions of IAS 37, such funds must not be created through charges to the current period expenses and they may be recognized as allocation of net profit. Prevention costs are recognized when incurred.

13.6 Impairment losses on equity instruments classified as available for sale

For certain equity instruments classified as available for sale, impairment losses were recognized.

In accordance with IAS 39.69, impairment losses on unquoted equity instruments classified as available for sale cannot be reversed through profit or loss.

Pursuant to the provisions of the Accounting Act, if the reason for impairment losses no longer exists, the total or part of the previous impairment losses increases the value of the given asset and is recognized under gain on revaluation of investments.

13.7 Social Benefits Fund

If the General PZU Shareholders' Meeting decides to assign a portion of net profit for the previous year to the Social Benefits Fund maintained by PZU the fact is recognized, in accordance to PAS, as part of profit appropriation in the year in which the appropriation took place.

The above transaction meets the definition of a cost in IFRS and pursuant to the provisions of IAS 1 it is expensed in the consolidated profit and loss account for the financial year when a portion of net profit for the previous year was allocated to the Social Benefits Fund.

13.8 Actuarial gains and losses from remeasurements of defined benefit liabilities

In accordance with PAS, determination of provisions for retirement and death benefits includes recognition of actuarial gains and losses resulting from changes in demographic and financial assumptions. Under PAS, the aforesaid gains and losses impact the financial result for the period.

In accordance with IAS 19, actuarial gains and losses resulting from changes in demographic and financial assumptions are charged to other comprehensive income.

13.9 Differences due to deferred tax

For all the differences between PAS and IFRS, as described above, the deferred tax effect was calculated and included in calculation of all presented adjustments, if relevant.

13.10 Reconciliation of equity and net financial result prepared in line with PAS and IFRS

Description	Note	Net profit 1 January – 31 December 2015	Equity 31 December 2015	Net profit 1 January – 31 December 2014	Equity 31 December 2014
Financial statements in accordance with PAS		**2,248,522**	**12,378,733**	**2,636,733**	**12,328,724**
Valuation of related parties[1)]	13.1	(60,508)	(3,838,547)	62,055	(3,840,475)
Valuation of property	13.2 13.3	(14,677)	114,477	(15,849)	123,969
Risk equalization reserve – non-life insurance	13.4	29,279	512,707	5,461	483,427
Prevention Fund	13.5	14,616	38,303	(18,583)	23,687
Impairment losses on equity instruments classified as available for sale	13.6	-	-	(3)	-
Social Benefits Fund	13.7	(10,000)	-	(10,000)	-
Actuarial gains and losses from remeasurements of defined benefit liabilities	13.8	(1,301)	-	4,571	-
Other		(1,200)	979	(1,559)	2,180
Total adjustments		**(43,791)**	**(3,172,081)**	**26,093**	**(3,207,212)**
Financial statements in accordance with IFRS		**2,204,731**	**9,206,652**	**2,662,826**	**9,121,512**

[1)] PZU has never prepared and does not prepare separate financial statements in line with IFRS. For the purpose of this note it has been assumed that investments in related parties are measured, in line with IFRS 27 Separate financial statements, at acquisition price, less impairment losses.

Balance sheet and off-balance sheet items

Assets	Note	31 December 2015	31 December 2014
I. Intangible assets, including:	**I.1**	**362,167**	**283,999**
- goodwill		-	-
II. Investments	**I.2**	**32,356,048**	**31,030,939**
1. Property	2.3	475,812	492,420
2. Investments in related parties, including:	2.4	8,040,778	6,473,390
- investments in related parties measured using the equity method		7,463,908	6,393,416
3. Other financial investments	2.5	23,839,458	24,065,129
4. Deposits with cedants		-	-
III. Net unit-linked assets		**-**	**-**
IV. Receivables	**3**	**1,801,903**	**2,437,819**
1. Insurance receivables	3.1	1,433,828	1,398,967
1.1. From related parties		2,419	110
1.2. From other entities		1,431,409	1,398,857
2. Reinsurance receivables	3.2	40,929	19,651
2.1. From related parties		2,452	194
2.2. From other entities		38,477	19,457
3. Other receivables	3.3	327,146	1,019,201
3.1. Receivables from the State Treasury		63,641	1,953
3.2. Other receivables		263,505	1,017,248
a) from related parties		37,127	803,507
b) from other entities		226,378	213,741
V. Other assets	**4**	**195,984**	**171,650**
1. Property, plant and equipment	4.1	130,908	124,649
2. Cash	4.2	65,076	47,001
3. Other assets		-	-
VI. Accruals	**5**	**1,642,259**	**705,371**
1. Deferred tax assets	5.1	-	-
2. Deferred acquisition costs		957,179	568,502
3. Accrued interest and rent		-	-
4. Other prepayments	5.2	685,080	136,869
Total assets		**36,358,361**	**34,629,778**

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Equity and liabilities	Note	31 December 2015	31 December 2014
I. Equity	**7**	**12,378,733**	**12,328,724**
1. Share capital	7.1	86,352	86,352
2. Called up share capital (negative value)		-	-
3. Treasury shares (negative value)		-	-
4. Supplementary capital (fund)	7.3	4,446,348	4,408,306
5. Revaluation reserve (fund)	7.4	5,597,511	5,197,333
6. Other reserve capital		-	-
7. Retained earnings (losses)		-	-
8. Net profit/ (loss)		2,248,522	2,636,733
9. Appropriations of net profit during the financial year (negative value)		-	-
Subordinated liabilities		**-**	**-**
Technical provisions	**1**	**18,673,869**	**17,657,194**
IV. Reinsurers' share in technical provisions (negative value)	**1**	**(1,037,301)**	**(683,893)**
V. Expected subrogations and salvages (negative value)	**9**	**(96,075)**	**(112,120)**
1. Expected subrogations and salvages (gross)		(96,539)	(113,763)
2. Reinsurers' share in expected subrogations and salvages		464	1,643
VI. Other provisions	**10**	**472,916**	**265,170**
1. Provisions for pension and other statutory employee benefits	10.1	50,287	72,667
2. Deferred tax liability	10.2	349,003	92,577
3. Other provisions	10.3	73,626	99,926
VII. Liabilities due to reinsurers' deposits		**-**	**-**
VIII. Other liabilities and special funds	**11**	**5,109,816**	**4,598,574**
1. Insurance liabilities	11.1	344,541	325,424
1.1. To related parties		912	783
1.2. To other entities		343,629	324,641
2. Reinsurance liabilities	11.2	81,038	67,650
2.1. To related parties		1,883	-
2.2. To other entities		79,155	67,650
3. Liabilities arising from issue of debt securities and obtained loans	11.3	3,611,636	2,127,155
4. Liabilities to credit institutions	11.4	-	-
5. Other liabilities	11.5	928,469	1,956,784
5.1. Liabilities to the State Treasury		50,783	40,502
5.2. Other liabilities		877,686	1,916,282
a) to related parties		46,427	8,192
b) to other entities		831,259	1,908,090
6. Special funds	11.7	144,132	121,561
IX. Accruals	**12**	**856,403**	**576,129**
1. Cost accruals		821,516	550,075
2. Negative goodwill		-	-
3. Deferred income		34,887	26,054
Total equity and liabilities		**36,358,361**	**34,629,778**

Book value	12,378,733	12,328,724
Number of shares	863,523,000	863,523,000[1]
Book value per share (in PLN)	14.34	14.28[1]
Diluted number of shares	863,523,000	863,523,000[1]
Diluted book value per share (in PLN)	14.34	14.28[1]

[1] Comparable data have been adjusted taking into account the new number of shares existing after the split described in Note 7.1.1 of Supplementary information and explanations.

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Off-balance sheet items	Note	31 December 2015	31 December 2014
1. Contingent assets, including:	**14.1**	**30,527,497**	**9,846,030**
1.1. Guarantees and sureties received		12,408	12,552
1.2. Other[1)]		30,515,089	9,833,478
2. Contingent liabilities, including:	**14.2**	**4,642,447**	**2,350,745**
2.1. Guarantees and sureties given		3,651,485	2,152,111
2.2. Accepted and endorsed promissory notes		-	-
2.3. Buy sell-back assets		-	-
2.4. Other liabilities collateralized by the Company's assets or revenue		-	-
2.5. Disputed claims not acknowledged by the insurer and brought to court by creditors		575,148	198,357
2.6. Other		415,814	277
3. Reinsurance collateral for the insurance company		**-**	**-**
4. Reinsurance collateral pledged by the insurance company for cedants		**-**	**-**
5. Third-party assets not recognized in the company's assets		**136,477**	**123,161**
6. Other off-balance sheet items		-	**-**
Total off-balance sheet items		**35,306,421**	**12,319,936**

Own funds	13	7,838,829	7,981,468
Solvency margin	13	1,424,278	1,362,353
Surplus (shortage) of own funds to cover the solvency margin	13	6,414,551	6,619,115
Technical provisions[2)]		18,577,330	17,543,431
Assets to cover technical provisions		20,535,296	20,755,548
Surplus (shortage) of assets to cover technical provisions		1,957,966	3,212,117

[1)] The item includes: collaterals received in the form of assignment of debtor's assets, mortgage on debtor's assets, promissory notes related to granted insurance guarantees, other promissory notes, other contingent receivables, etc.
[2)] Including expected subrogations and salvages (gross).

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Technical account – non-life insurance

Technical account – non-life insurance	Note	1 January - 31 December 2015	1 January - 31 December 2014
I. Premiums (1-2-3+4)		**7,897,960**	**7,902,639**
1. Gross written premiums	15	8,858,036	8,261,752
2. Reinsurers' share in written premium		293,494	281,468
3. Change in unearned premiums reserve and unexpired risks reserve, gross		709,055	159,223
4. Reinsurers' share in change in unearned premiums reserve		42,473	81,578
Net investment (including costs), transferred from the general profit and loss account		**256,955**	**266,032**
Other technical revenue net of reinsurance		**213,649**	**143,758**
IV. Claims and benefits (1+2)	**18**	**5,036,629**	**5,230,864**
1. Claims paid net of reinsurance		5,060,585	4,366,167
1.1. Gross claims paid		5,135,220	4,427,251
1.2. Reinsurers' share in claims paid		74,635	61,084
2. Change in outstanding claims provision, net of reinsurance		(23,956)	864,697
2.1. Change in outstanding claims provision, gross		288,158	985,966
2.2. Reinsurers' share in change in outstanding claims provision		312,114	121,269
V. Changes in other technical provisions, net of reinsurance		**-**	**-**
1. Change in other technical provisions (gross)		-	-
2. Reinsurers' share in change in other technical provisions		-	-
VI. Bonuses and rebates net of reinsurance, including change in provisions		**7,191**	**2,325**
VII. Costs of insurance activities	**21**	**2,325,217**	**2,252,028**
1. Acquisition costs, including:	21.1	1,572,330	1,511,908
- change in deferred acquisition costs		(388,677)	(48,197)
2. Administrative expenses	21.2	753,737	729,142
3. Reinsurers' commissions and share in reinsurers' profit		850	(10,978)
VIII. Other technical charges – net of reinsurance		**327,046**	**256,040**
IX Changes in risk equalization reserve		**36,147**	**6,743**
X. Technical result on non-life insurance		**636,334**	**564,429**

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General profit and loss account

General profit and loss account	Note	1 January - 31 December 2015	1 January - 31 December 2014
I. Technical result on non-life insurance or life insurance		**636,334**	**564,429**
II. Investment income		**2,505,084**	**2,963,887**
1. Investment income from property		5,854	6,215
2. Income from investments in related parties		1,708,564	2,093,953
2.1. Arising from shares		1,704,309	2,090,212
2.2. Arising from loans and debt securities		4,255	3,741
2.3. Arising from other investments		-	-
3. Income from other financial investments		377,268	469,524
3.1. Arising from shares, other variable income securities as well as participation units and investment certificates of investment funds		13,884	11,670
3.2. Arising from debt securities and other fixed income securities		310,169	328,612
3.3. Arising from term deposits at credit institutions		1,344	58,677
3.4. Arising from other investments		51,871	70,565
4. Gain on revaluation of investments		534	5,230
5. Gain on realization of investments		412,864	388,965
Unrealized gains on investments		**181,605**	**266,653**
IV. Net investment income (including costs) transferred from the technical account of life insurance		-	-
V. Investing activities costs		**391,054**	**301,637**
1. Property maintenance costs		9,706	9,146
2. Other investing activities costs		13,051	14,738
3. Loss on revaluation of investments		21,349	7,386
4. Loss on realization of investments		346,948	270,367
VI. Unrealized losses on investments		**218,407**	**298,810**
VII. Net investment income (including costs) transferred to the technical account of non-life insurance		**256,955**	**266,032**
VIII. Other operating income	**22**	**303,853**	**146,489**
IX. Other operating expenses	**23**	**284,539**	**220,455**
X. Operating profit (loss)		**2,475,921**	**2,854,524**
XI. Extraordinary gains		-	-
XII. Extraordinary losses		-	-
XIII. Gross profit (loss)		**2,475,921**	**2,854,524**
XIV. Income tax	**25**	**174,152**	**155,736**
a) current portion		26,603	167,041
b) deferred portion		147,549	(11,305)
XV. Other statutory reductions in profit (increases of loss)		-	-
XVI. Share in net profit (loss) of related parties measured using the equity method	**1**	**(53,247)**	**(62,055)**
XVII. Net profit (loss)		**2,248,522**	**2,636,733**

Net profit (loss)	2,248,522	2,636,733
Weighted average number of ordinary shares	863,523,000	863,523,000[1)]
Profit (loss) per ordinary share (in PLN)	2.60	3.05[1)]
Weighted average diluted number of ordinary shares[1)]	863,523,000	863,523,000[1)]
Diluted profit (loss) per ordinary share (in PLN)[1)]	2.60	3.05[1)]

[1)] Comparable data have been adjusted taking into account the new number of shares existing after the split described in Note 7.1.1 of Supplementary information and explanations
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Statement of changes in equity

Statement of changes in equity	1 January - 31 December 2015	1 January - 31 December 2014
I. Equity at the beginning of the period	12,328,724	12,259,761
a) changes in the accounting principles (policy)	-	-
b) errors adjustments	-	-
I.a. Equity at the beginning of the period, after restatements	**12,328,724**	**12,259,761**
1. Share capital at the beginning of the period	**86,352**	**86,352**
1.1. Changes in share capital	-	-
a) increases	-	-
b) decreases	-	-
1.2. Share capital at the end of the period	**86,352**	**86,352**
2. Called up share capital at the beginning of the period	**-**	**-**
2.1. Changes in called up share capital	-	-
a) increases	-	-
b) decreases	-	-
2.2. Called up share capital at the end of the period	**-**	**-**
3. Treasury shares at the beginning of the period	**-**	**-**
3.1. Changes in treasury shares	-	-
a) increases	-	-
b) decreases	-	-
3.2. Treasury shares at the end of the period	**-**	**-**
4. Supplementary capital at the beginning of the period	**4,408,306**	**3,974,327**
4.1. Changes in supplementary capital	38,042	433,979
a) increases (due to):	38,042	433,979
- profit distribution (above the statutory value)	36,164	433,321
- revaluation reserve – sale of fixed assets	1,878	658
b) decreases	-	-
4.2. Supplementary capital at the end of the period	**4,446,348**	**4,408,306**
5. Revaluation reserve at the beginning of the period	**5,197,333**	**4,819,783**
- changes in the accounting principles (policy)	-	-
5.1. Changes in revaluation reserve	400,178	377,550
a) increases (due to):	673,567	677,291
- remeasurement of financial investments	664,996	677,291
- reclassification of impairment losses on investments available for sale	8,571	-
- other increases, including release of impairment losses	-	-
b) decreases (due to)	273,389	299,741
- remeasurement of financial investments	271,511	299,037
- sale of fixed assets	1,878	658
- other	-	46
5.2. Revaluation reserve at the end of the period	**5,597,511**	**5,197,333**
6. Other reserve capital at the beginning of the period	**-**	**-**
6.1. Changes in other reserve capitals	-	-
a) increases	-	-
b) decreases	-	-
6.2. Other reserve capital at the end of the period	**-**	**-**
7. Retained earnings (losses) at the beginning of the period	**2,636,733**	**3,379,299**
7.1. Retained earnings at the beginning of the period	**2,636,733**	**3,379,299**
a) changes in the accounting principles (policy)	-	-
b) errors adjustments	-	-
7.2. Retained earnings at the beginning of the period, after restatements	**2,636,733**	**3,379,299**
a) increases	-	-
b) decreases	2,636,733	3,379,299

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- reclassification to supplementary capital	36,164	433,321
- dividend payment	2,590,569	2,935,978
- allocation to the Social Benefits Fund	10,000	10,000
7.3. Retained earnings at the end of the period	**-**	**-**
7.4. Retained losses at the beginning of the period	**-**	**-**
a) changes in the accounting principles (policy)	-	-
b) errors adjustments	-	-
7.5. Retained losses at the beginning of the period, after restatements	**-**	**-**
a) increases	-	-
b) decreases	-	-
7.6. Retained losses at the end of the period	**-**	**-**
7.7. Retained earnings (losses) at the end of the period	**-**	**-**
8. Net result	**2,248,522**	**2,636,733**
a) net profit	2,248,522	2,636,733
b) net loss	-	-
c) appropriations of profit	-	-
Equity at the end of the period	**12,378,733**	**12,328,724**
III. Equity, including the proposed profit appropriation (loss coverage)	**12,378,733**	**12,328,724**

"Equity, including the proposed profit appropriation (loss coverage)" has been presented regarding the issue described in Note 7.2.2 of Supplementary information and explanations.

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Cash Flow Statement

Cash Flow Statement	Note	1 January - 31 December 2015	1 January - 31 December 2014
A. Cash flows from operating activities			
I. Inflows		**9,571,857**	**9,155,722**
1. Inflows from insurance operations and inward reinsurance		**8,613,380**	**8,389,086**
1.1. Inflows from insurance premiums. gross		8,459,119	8,250,782
1.2. Inflows from subrogations and salvages and claim refunds		119,939	108,120
1.3. Other inflows from direct business		34,322	30,184
2. Inflows from reinsurance outwards		**87,338**	**61,026**
2.1. Reinsurers' payments due to their share in claims		65,993	54,763
2.2. Inflows from reinsurance commissions and share in reinsurers' profits		21,327	6,232
2.3. Other inflows from reinsurance outwards		18	31
3. Inflows from other operating activities		**871,139**	**705,610**
3.1. Inflows from claims representative services		194,355	183,762
3.2. Disposal of intangible assets and fixed assets other than investments		3,453	2,562
3.3. Other inflows	27	673,331	519,286
II. Outflows		**9,192,097**	**8,351,613**
1. Outflows for insurance operations and reinsurance outwards		**7,530,796**	**6,687,994**
1.1. Refunds of gross premiums		156,921	160,062
1.2. Gross claims paid		4,405,539	3,771,911
1.3. Outflows due to acquisition costs		1,185,199	1,115,888
1.4. Administrative outflows		1,424,266	1,362,861
1.5. Payments due to handling claims and costs of subrogations collection		206,305	155,280
1.6. Paid commissions and profit sharing due to inward reinsurance		34,776	6,647
1.7. Other outflows for insurance operations and inward reinsurance		117,790	115,345
2. Payments due to reinsurance outwards		**264,798**	**219,739**
2.1. Premiums paid to reinsurers		264,325	219,421
2.2. Other outflows due to reinsurance outwards		473	318
3. Outflows for the other operating activities		**1,396,503**	**1,443,880**
3.1. Outflows from claims representative services		484,799	453,015
3.2. Acquisition of intangible assets and fixed assets other than investments		170,395	161,128
3.3. Other operating outflows	27	741,309	829,737
III. Net cash flows from operating activities (I-II)		**379,760**	**804,109**
B. Cash flows from investment activities			
I. Inflows		**168,572,509**	**212,221,437**
1. Disposal of property		34,766	20,725
2. Disposal of shares in related parties		281,073	-
3. Disposal of shares in other entities and participation units and investment certificates of investment funds		12,976	140,654
4. Redemption of debt securities issued by related parties and repayment of loans taken out by those entities		37,448	105,000
5. Redemption of debt securities issued by other entities		8,001,193	8,541,245
6. Withdrawal of term deposits at credit institutions		95,747,370	96,709,115
7. Inflows from other investments		61,969,168	105,273,064
8. Inflows from property		7,955	8,200
9. Interest received		22,003	52,428

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10. Dividends received		2,434,351	1,360,261
11. Other inflows from investments		24,206	10,745
II. Outflows		**166,313,000**	**213,431,940**
1. Acquisition of property		-	-
2. Acquisition of shares in related parties		1,414,544	1,412,626
3. Acquisition of shares in other entities and participation units and investment certificates of investment funds		75,540	298,550
4. Acquisition of debt securities issued by related parties and granting loans to those entities		130,000	327,193
5. Acquisition of debt securities issued by other entities		7,418,486	7,885,670
6. Term deposits at credit institutions		95,783,100	97,839,671
7. Acquisition of other investments		61,430,307	105,610,348
8. Outflows for maintenance of property		56,377	55,142
9. Other investments outflows		4,646	2,740
III. Net cash flows from investing activities (I-II)		**2,259,509**	**(1,210,503)**
C. Cash flows from financing activities			
I. Inflows		**13,604,842**	**3,670,304**
1. Net inflows from issue of shares and capital contributions		-	-
2. Loans and borrowings and issues of debt securities		13,604,842	3,670,304
3. Other financial inflows		-	-
II. Outflows		**16,231,980**	**3,288,886**
1. Dividends		4,058,605	1,468,139
2. Profit distribution payments other than dividend		-	-
3. Acquisition of treasury shares		-	-
4. Repayment of credit facilities and loans and redemption of debt securities		12,144,251	1,820,733
5. Interest on credit facilities, loans and issued debt securities		29,124	14
6. Other financial outflows		-	-
III. Net cash flows from financing activities (I-II)		**(2,627,138)**	**381,418**
D. Total net cash flows (A.III+/-B.III+/-C.III)		**12,131**	**(24,976)**
E. Balance sheet change in cash and cash equivalents, including:		**18,075**	**(28,008)**
- change in cash due to exchange differences		5,944	(3,032)
F. Cash at the beginning of the period		**47,001**	**75,009**
G. Cash at the end of the period (F+/-E), including:		**65,076**	**47,001**
- cash not available for use	27.1	60,646	45,167

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Technical accounts – direct insurance

Technical account – total direct insurance

Item	1 January - 31 December 2015	1 January - 31 December 2014
I. Premiums (1-2-3+4)	**7,757,001**	**7,857,787**
1. Gross written premiums	8,262,970	8,139,124
2. Reinsurers' share in written premium	219,060	220,626
3. Change in unearned premiums reserve and unexpired risks reserve, gross	314,918	98,990
4. Reinsurers' share in change in unearned premiums reserve	28,009	38,279
II. Net investment (including costs), transferred from the general profit and loss account	**256,955**	**266,032**
III. Other technical revenue net of reinsurance	**210,680**	**141,126**
IV. Claims and benefits (1+2)	**4,926,554**	**5,190,264**
1. Claims paid net of reinsurance	5,023,863	4,342,031
1.1. Gross claims paid	5,085,970	4,391,907
1.2. Reinsurers' share in claims paid	62,107	49,876
2. Change in outstanding claims provision, net of reinsurance	(97,309)	848,233
2.1. Change in outstanding claims provision, gross	(84,141)	970,095
2.2. Reinsurers' share in change in outstanding claims provision	13,168	121,862
V. Changes in other technical provisions, net of reinsurance	**-**	**-**
1. Change in other technical provisions (gross)	-	-
2. Reinsurers' share in change in other technical provisions	-	-
VI. Bonuses and rebates net of reinsurance, including change in provisions	**2,501**	**908**
VII. Costs of insurance activities	**2,266,013**	**2,235,788**
1. Acquisition costs, including:	1,543,172	1,503,496
- change in deferred acquisition costs	(161,945)	(48,197)
2. Administrative expenses	723,691	721,314
3. Reinsurers' commissions and share in reinsurers' profit	850	(10,978)
VIII. Other technical charges – net of reinsurance	**318,847**	**251,904**
IX Changes in risk equalization reserve	**33,619**	**7,867**
X. Technical result on non-life insurance	**677,102**	**578,214**

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Technical account - direct insurance

GROUP 1 – Accident insurance, including industrial injury and occupational disease

Item	1 January - 31 December 2015	1 January - 31 December 2014
I. Premiums (1-2-3+4)	**436,487**	**438,399**
1. Gross written premiums	428,767	436,423
2. Reinsurers' share in written premium	67	101
3. Change in unearned premiums reserve and unexpired risks reserve, gross	(7,807)	(2,049)
4. Reinsurers' share in change in unearned premiums reserve	(20)	28
II. Net investment (including costs), transferred from the general profit and loss account	**-**	**-**
III. Other technical revenue net of reinsurance	**1,415**	**7,434**
IV. Claims and benefits (1+2)	**134,675**	**128,216**
1. Claims paid net of reinsurance	140,255	141,989
1.1. Gross claims paid	140,255	141,989
1.2. Reinsurers' share in claims paid	-	-
2. Change in outstanding claims provision, net of reinsurance	(5,580)	(13,773)
2.1. Change in outstanding claims provision, gross	(5,578)	(13,772)
2.2. Reinsurers' share in change in outstanding claims provision	2	1
V. Changes in other technical provisions, net of reinsurance	**-**	**-**
1. Change in other technical provisions (gross)	-	-
2. Reinsurers' share in change in other technical provisions	-	-
VI. Bonuses and rebates net of reinsurance, including change in provisions	**1**	**-**
VII. Costs of insurance activities	**153,930**	**169,974**
1. Acquisition costs, including:	101,106	109,649
- change in deferred acquisition costs	5,450	(1,110)
2. Administrative expenses	52,846	60,332
3. Reinsurers' commissions and share in reinsurers' profit	22	7
VIII. Other technical charges – net of reinsurance	**6,636**	**2,535**
IX Changes in risk equalization reserve	**-**	**-**
X. Technical result on non-life insurance	**142,660**	**145,108**

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Technical account - direct insurance

GROUP 2 – Sickness insurance

Item	1 January - 31 December 2015	1 January - 31 December 2014
I. Premiums (1-2-3+4)	**8,323**	**9,462**
1. Gross written premiums	8,337	9,461
2. Reinsurers' share in written premium	2	4
3. Change in unearned premiums reserve and unexpired risks reserve, gross	10	(5)
4. Reinsurers' share in change in unearned premiums reserve	(2)	-
II. Net investment (including costs), transferred from the general profit and loss account	**-**	**-**
III. Other technical revenue net of reinsurance	**11**	**31**
IV. Claims and benefits (1+2)	**3,705**	**3,899**
1. Claims paid net of reinsurance	3,946	3,928
1.1. Gross claims paid	3,946	3,908
1.2. Reinsurers' share in claims paid	-	(20)
2. Change in outstanding claims provision, net of reinsurance	(241)	(29)
2.1. Change in outstanding claims provision, gross	(241)	(29)
2.2. Reinsurers' share in change in outstanding claims provision	-	-
V. Changes in other technical provisions, net of reinsurance	**-**	**-**
1. Change in other technical provisions (gross)	-	-
2. Reinsurers' share in change in other technical provisions	-	-
VI. Bonuses and rebates net of reinsurance, including change in provisions	**-**	**-**
VII. Costs of insurance activities	**2,925**	**3,438**
1. Acquisition costs, including:	1,862	2,228
- change in deferred acquisition costs	(6)	-
2. Administrative expenses	1,063	1,210
3. Reinsurers' commissions and share in reinsurers' profit	-	-
VIII. Other technical charges – net of reinsurance	**105**	**19**
IX Changes in risk equalization reserve	**-**	**-**
X. Technical result on non-life insurance	**1,599**	**2,137**

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Technical account - direct insurance

GROUP 3 – Own damage insurance of land vehicles other than rail vehicles

Item	1 January - 31 December 2015	1 January - 31 December 2014
I. Premiums (1-2-3+4)	**2,024,744**	**1,986,810**
1. Gross written premiums	2,142,681	2,010,892
2. Reinsurers' share in written premium	24,076	26,898
3. Change in unearned premiums reserve and unexpired risks reserve, gross	92,941	(1,942)
4. Reinsurers' share in change in unearned premiums reserve	(920)	874
II. Net investment (including costs), transferred from the general profit and loss account	**-**	**-**
III. Other technical revenue net of reinsurance	**44,890**	**12,982**
IV. Claims and benefits (1+2)	**1,474,670**	**1,296,224**
1. Claims paid net of reinsurance	1,421,815	1,310,792
1.1. Gross claims paid	1,423,920	1,311,958
1.2. Reinsurers' share in claims paid	2,105	1,166
2. Change in outstanding claims provision, net of reinsurance	52,855	(14,568)
2.1. Change in outstanding claims provision, gross	53,104	(14,304)
2.2. Reinsurers' share in change in outstanding claims provision	249	264
V. Changes in other technical provisions, net of reinsurance	**-**	**-**
1. Change in other technical provisions (gross)	-	-
2. Reinsurers' share in change in other technical provisions	-	-
VI. Bonuses and rebates net of reinsurance, including change in provisions	**290**	**538**
VII. Costs of insurance activities	**545,201**	**513,373**
1. Acquisition costs, including:	406,745	373,949
- change in deferred acquisition costs	(33,983)	(14,129)
2. Administrative expenses	132,845	130,944
3. Reinsurers' commissions and share in reinsurers' profit	(5,611)	(8,480)
VIII. Other technical charges – net of reinsurance	**33,224**	**27,310**
IX Changes in risk equalization reserve	**-**	**-**
X. Technical result on non-life insurance	**16,249**	**162,347**

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Technical account - direct insurance

GROUP 4 – Own damage insurance of rail vehicles

Item	1 January - 31 December 2015	1 January - 31 December 2014
I. Premiums (1-2-3+4)	**4,231**	**4,437**
1. Gross written premiums	970	13,862
2. Reinsurers' share in written premium	604	4,194
3. Change in unearned premiums reserve and unexpired risks reserve, gross	(5,038)	7,294
4. Reinsurers' share in change in unearned premiums reserve	(1,173)	2,063
II. Net investment (including costs), transferred from the general profit and loss account	**-**	**-**
III. Other technical revenue net of reinsurance	**492**	**88**
IV. Claims and benefits (1+2)	**1,530**	**7,075**
1. Claims paid net of reinsurance	8,571	979
1.1. Gross claims paid	8,890	594
1.2. Reinsurers' share in claims paid	319	(385)
2. Change in outstanding claims provision, net of reinsurance	(7,041)	6,096
2.1. Change in outstanding claims provision, gross	(10,004)	9,207
2.2. Reinsurers' share in change in outstanding claims provision	(2,963)	3,111
V. Changes in other technical provisions, net of reinsurance	**-**	**-**
1. Change in other technical provisions (gross)	-	-
2. Reinsurers' share in change in other technical provisions	-	-
VI. Bonuses and rebates net of reinsurance, including change in provisions	**(18)**	**134**
VII. Costs of insurance activities	**1,205**	**1,438**
1. Acquisition costs, including:	1,231	1,225
- change in deferred acquisition costs	860	(1,442)
2. Administrative expenses	202	458
3. Reinsurers' commissions and share in reinsurers' profit	228	245
VIII. Other technical charges – net of reinsurance	**21**	**433**
IX Changes in risk equalization reserve	**212**	**(618)**
X. Technical result on non-life insurance	**1,773**	**(3,937)**

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Technical account - direct insurance

GROUP 5 – Own damage insurance of aircrafts

Item	1 January - 31 December 2015	1 January - 31 December 2014
I. Premiums (1-2-3+4)	**6,396**	**6,071**
1. Gross written premiums	8,323	6,130
2. Reinsurers' share in written premium	1,375	1,077
3. Change in unearned premiums reserve and unexpired risks reserve, gross	1,059	(763)
4. Reinsurers' share in change in unearned premiums reserve	507	255
II. Net investment (including costs), transferred from the general profit and loss account	**-**	**-**
III. Other technical revenue net of reinsurance	**378**	**270**
IV. Claims and benefits (1+2)	**(5,042)**	**7,397**
1. Claims paid net of reinsurance	2,090	1,131
1.1. Gross claims paid	2,090	1,578
1.2. Reinsurers' share in claims paid	-	447
2. Change in outstanding claims provision, net of reinsurance	(7,132)	6,266
2.1. Change in outstanding claims provision, gross	(8,410)	7,285
2.2. Reinsurers' share in change in outstanding claims provision	(1,278)	1,019
V. Changes in other technical provisions, net of reinsurance	**-**	**-**
1. Change in other technical provisions (gross)	-	-
2. Reinsurers' share in change in other technical provisions	-	-
VI. Bonuses and rebates net of reinsurance, including change in provisions	**37**	**106**
VII. Costs of insurance activities	**1,540**	**1,369**
1. Acquisition costs, including:	1,346	1,216
- change in deferred acquisition costs	(237)	117
2. Administrative expenses	194	153
3. Reinsurers' commissions and share in reinsurers' profit	-	-
VIII. Other technical charges – net of reinsurance	**190**	**60**
IX Changes in risk equalization reserve	**320**	**(1,069)**
X. Technical result on non-life insurance	**9,729**	**(1,522)**

Technical account - direct insurance

GROUP 6 – Insurance of vessels in sea and inland navigation

Item	1 January - 31 December 2015	1 January - 31 December 2014
I. Premiums (1-2-3+4)	**16,222**	**13,150**
1. Gross written premiums	21,237	22,107
2. Reinsurers' share in written premium	5,453	7,625
3. Change in unearned premiums reserve and unexpired risks reserve, gross	(1,604)	3,484
4. Reinsurers' share in change in unearned premiums reserve	(1,166)	2,152
II. Net investment (including costs), transferred from the general profit and loss account	**-**	**-**
III. Other technical revenue net of reinsurance	**1,140**	**427**
IV. Claims and benefits (1+2)	**17,460**	**9,568**
1. Claims paid net of reinsurance	10,482	9,128
1.1. Gross claims paid	11,423	9,344
1.2. Reinsurers' share in claims paid	941	216
2. Change in outstanding claims provision, net of reinsurance	6,978	440
2.1. Change in outstanding claims provision, gross	24,562	814
2.2. Reinsurers' share in change in outstanding claims provision	17,584	374
V. Changes in other technical provisions, net of reinsurance	**-**	**-**
1. Change in other technical provisions (gross)	-	-
2. Reinsurers' share in change in other technical provisions	-	-
VI. Bonuses and rebates net of reinsurance, including change in provisions	**-**	**-**
VII. Costs of insurance activities	**4,059**	**3,380**
1. Acquisition costs, including:	3,709	2,969
- change in deferred acquisition costs	202	(926)
2. Administrative expenses	808	758
3. Reinsurers' commissions and share in reinsurers' profit	458	347
VIII. Other technical charges – net of reinsurance	**428**	**660**
IX Changes in risk equalization reserve	**811**	**(267)**
X. Technical result on non-life insurance	**(5,396)**	**236**

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Technical account - direct insurance

GROUP 7 – Goods-in-transit insurance

Item	1 January - 31 December 2015	1 January - 31 December 2014
I. Premiums (1-2-3+4)	**8,443**	**8,730**
1. Gross written premiums	8,428	14,547
2. Reinsurers' share in written premium	1,526	4,351
3. Change in unearned premiums reserve and unexpired risks reserve, gross	(2,067)	3,548
4. Reinsurers' share in change in unearned premiums reserve	(526)	2,082
II. Net investment (including costs), transferred from the general profit and loss account	**-**	**-**
III. Other technical revenue net of reinsurance	**493**	**860**
IV. Claims and benefits (1+2)	**(4,197)**	**2,535**
1. Claims paid net of reinsurance	3,720	1,609
1.1. Gross claims paid	3,720	1,609
1.2. Reinsurers' share in claims paid	-	-
2. Change in outstanding claims provision, net of reinsurance	(7,917)	926
2.1. Change in outstanding claims provision, gross	(7,859)	912
2.2. Reinsurers' share in change in outstanding claims provision	58	(14)
V. Changes in other technical provisions, net of reinsurance	**-**	**-**
1. Change in other technical provisions (gross)	-	-
2. Reinsurers' share in change in other technical provisions	-	-
VI. Bonuses and rebates net of reinsurance, including change in provisions	**5**	**287**
VII. Costs of insurance activities	**3,818**	**4,259**
1. Acquisition costs, including:	2,791	3,097
- change in deferred acquisition costs	(651)	(353)
2. Administrative expenses	1,104	1,249
3. Reinsurers' commissions and share in reinsurers' profit	77	87
VIII. Other technical charges – net of reinsurance	**488**	**412**
IX Changes in risk equalization reserve	**-**	**92**
X. Technical result on non-life insurance	**8,822**	**2,005**

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Technical account - direct insurance

GROUP 8 – Insurance against fire and natural forces, covering damage to property not included in groups 3-7

Item	1 January - 31 December 2015	1 January - 31 December 2014
I. Premiums (1-2-3+4)	**1,046,456**	**1,014,907**
1. Gross written premiums	1,121,316	1,084,178
2. Reinsurers' share in written premium	46,459	53,292
3. Change in unearned premiums reserve and unexpired risks reserve, gross	31,548	22,833
4. Reinsurers' share in change in unearned premiums reserve	3,147	6,854
II. Net investment (including costs), transferred from the general profit and loss account	**-**	**-**
III. Other technical revenue net of reinsurance	**14,641**	**17,825**
IV. Claims and benefits (1+2)	**380,001**	**343,287**
1. Claims paid net of reinsurance	374,830	304,045
1.1. Gross claims paid	382,377	312,567
1.2. Reinsurers' share in claims paid	7,547	8,522
2. Change in outstanding claims provision, net of reinsurance	5,171	39,242
2.1. Change in outstanding claims provision, gross	(4,201)	37,608
2.2. Reinsurers' share in change in outstanding claims provision	(9,372)	(1,634)
V. Changes in other technical provisions, net of reinsurance	**-**	**-**
1. Change in other technical provisions (gross)	-	-
2. Reinsurers' share in change in other technical provisions	-	-
VI. Bonuses and rebates net of reinsurance, including change in provisions	**283**	**(402)**
VII. Costs of insurance activities	**331,293**	**312,085**
1. Acquisition costs, including:	247,168	236,376
- change in deferred acquisition costs	(22,929)	(8,124)
2. Administrative expenses	86,858	78,284
3. Reinsurers' commissions and share in reinsurers' profit	2,733	2,575
VIII. Other technical charges – net of reinsurance	**49,740**	**40,440**
IX Changes in risk equalization reserve	**-**	**-**
X. Technical result on non-life insurance	**299,780**	**337,322**

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GROUP 9 – Insurance against other damage to or loss of property (other than included in groups 3, 4, 5, 6 or 7) due to hail or frost, and any event (e.g. theft), other than those included in group 8

Item	1 January - 31 December 2015	1 January - 31 December 2014
I. Premiums (1-2-3+4)	**668,553**	**694,078**
1. Gross written premiums	744,001	745,404
2. Reinsurers' share in written premium	67,794	41,851
3. Change in unearned premiums reserve and unexpired risks reserve, gross	22,571	13,669
4. Reinsurers' share in change in unearned premiums reserve	14,917	4,194
II. Net investment (including costs), transferred from the general profit and loss account	**-**	**-**
III. Other technical revenue net of reinsurance	**9,375**	**20,480**
IV. Claims and benefits (1+2)	**284,969**	**338,454**
1. Claims paid net of reinsurance	296,464	340,839
1.1. Gross claims paid	307,710	345,381
1.2. Reinsurers' share in claims paid	11,246	4,542
2. Change in outstanding claims provision, net of reinsurance	(11,495)	(2,385)
2.1. Change in outstanding claims provision, gross	(14,568)	(372)
2.2. Reinsurers' share in change in outstanding claims provision	(3,073)	2,013
V. Changes in other technical provisions, net of reinsurance	**-**	**-**
1. Change in other technical provisions (gross)	-	-
2. Reinsurers' share in change in other technical provisions	-	-
VI. Bonuses and rebates net of reinsurance, including change in provisions	**200**	**(585)**
VII. Costs of insurance activities	**256,426**	**266,588**
1. Acquisition costs, including:	166,875	182,467
- change in deferred acquisition costs	(25,425)	(1,583)
2. Administrative expenses	93,216	86,740
3. Reinsurers' commissions and share in reinsurers' profit	3,665	2,619
VIII. Other technical charges – net of reinsurance	**19,668**	**10,774**
IX Changes in risk equalization reserve	**28,922**	**-**
X. Technical result on non-life insurance	**87,743**	**99,327**

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Technical account - direct insurance

GROUP 10 – Motor third-party liability insurance - All liability arising out of the possession and use of self-propelled land vehicles, including carrier's liability

Item	1 January - 31 December 2015	1 January - 31 December 2014
I. Premiums (1-2-3+4)	**2,518,975**	**2,709,143**
1. Gross written premiums	2,642,743	2,634,079
2. Reinsurers' share in written premium	7,912	10,725
3. Change in unearned premiums reserve and unexpired risks reserve, gross	115,304	(84,342)
4. Reinsurers' share in change in unearned premiums reserve	(552)	1,447
II. Net investment (including costs), transferred from the general profit and loss account	**233,806**	**242,036**
III. Other technical revenue net of reinsurance	**127,006**	**63,391**
IV. Claims and benefits (1+2)	**2,258,620**	**2,532,056**
1. Claims paid net of reinsurance	2,337,747	1,876,335
1.1. Gross claims paid	2,369,329	1,903,716
1.2. Reinsurers' share in claims paid	31,582	27,381
2. Change in outstanding claims provision, net of reinsurance	(79,127)	655,721
2.1. Change in outstanding claims provision, gross	(67,992)	680,183
2.2. Reinsurers' share in change in outstanding claims provision	11,135	24,462
V. Changes in other technical provisions, net of reinsurance	**-**	**-**
1. Change in other technical provisions (gross)	-	-
2. Reinsurers' share in change in other technical provisions	-	-
VI. Bonuses and rebates net of reinsurance, including change in provisions	**81**	**192**
VII. Costs of insurance activities	**603,426**	**607,987**
1. Acquisition costs, including:	353,716	341,715
- change in deferred acquisition costs	(48,700)	(2,713)
2. Administrative expenses	242,245	248,314
3. Reinsurers' commissions and share in reinsurers' profit	(7,465)	(17,958)
VIII. Other technical charges – net of reinsurance	**183,234**	**155,950**
IX Changes in risk equalization reserve	**-**	**-**
X. Technical result on non-life insurance	**(165,574)**	**(281,615)**

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Technical account - direct insurance

GROUP 11 – Aircraft liability – All liability arising out of the possession and use of aircraft, including carrier's liability

Item	1 January - 31 December 2015	1 January - 31 December 2014
I. Premiums (1-2-3+4)	**3,359**	**3,672**
1. Gross written premiums	5,450	4,528
2. Reinsurers' share in written premium	1,597	1,012
3. Change in unearned premiums reserve and unexpired risks reserve, gross	780	(489)
4. Reinsurers' share in change in unearned premiums reserve	286	(333)
II. Net investment (including costs), transferred from the general profit and loss account	**62**	**48**
III. Other technical revenue net of reinsurance	**219**	**311**
IV. Claims and benefits (1+2)	**4,243**	**(2,062)**
1. Claims paid net of reinsurance	2,128	445
1.1. Gross claims paid	2,128	445
1.2. Reinsurers' share in claims paid	-	-
2. Change in outstanding claims provision, net of reinsurance	2,115	(2,507)
2.1. Change in outstanding claims provision, gross	2,174	(2,491)
2.2. Reinsurers' share in change in outstanding claims provision	59	16
V. Changes in other technical provisions, net of reinsurance	**-**	**-**
1. Change in other technical provisions (gross)	-	-
2. Reinsurers' share in change in other technical provisions	-	-
VI. Bonuses and rebates net of reinsurance, including change in provisions	**-**	**(60)**
VII. Costs of insurance activities	**1,667**	**1,551**
1. Acquisition costs, including:	1,112	1,121
- change in deferred acquisition costs	(521)	65
2. Administrative expenses	589	455
3. Reinsurers' commissions and share in reinsurers' profit	34	25
VIII. Other technical charges – net of reinsurance	**200**	**80**
IX Changes in risk equalization reserve	**(120)**	**(77)**
X. Technical result on non-life insurance	**(2,350)**	**4,599**

Technical account - direct insurance

GROUP 12 – Liability for ships in sea and inland navigation, arising out of the possession and use of sea and inland vessels, including carrier's liability

Item	1 January - 31 December 2015	1 January - 31 December 2014
I. Premiums (1-2-3+4)	**513**	**520**
1. Gross written premiums	575	583
2. Reinsurers' share in written premium	10	19
3. Change in unearned premiums reserve and unexpired risks reserve, gross	51	46
4. Reinsurers' share in change in unearned premiums reserve	(1)	2
II. Net investment (including costs), transferred from the general profit and loss account	**-**	**-**
III. Other technical revenue net of reinsurance	**6**	**8**
IV. Claims and benefits (1+2)	**398**	**296**
1. Claims paid net of reinsurance	317	190
1.1. Gross claims paid	317	190
1.2. Reinsurers' share in claims paid	-	-
2. Change in outstanding claims provision, net of reinsurance	81	106
2.1. Change in outstanding claims provision, gross	81	106
2.2. Reinsurers' share in change in outstanding claims provision	-	-
V. Changes in other technical provisions, net of reinsurance	**-**	**-**
1. Change in other technical provisions (gross)	-	-
2. Reinsurers' share in change in other technical provisions	-	-
VI. Bonuses and rebates net of reinsurance, including change in provisions	**-**	**-**
VII. Costs of insurance activities	**306**	**284**
1. Acquisition costs, including:	181	164
- change in deferred acquisition costs	(32)	(6)
2. Administrative expenses	125	120
3. Reinsurers' commissions and share in reinsurers' profit	-	-
VIII. Other technical charges – net of reinsurance	**10**	**3**
IX Changes in risk equalization reserve	**(7)**	**5**
X. Technical result on non-life insurance	**(188)**	**(60)**

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Technical account - direct insurance

GROUP 13 - General liability – Liability other than those forms included in groups 10-12

Item	1 January - 31 December 2015	1 January - 31 December 2014
I. Premiums (1-2-3+4)	**650,625**	**648,927**
1. Gross written premiums	676,024	756,291
2. Reinsurers' share in written premium	13,194	22,031
3. Change in unearned premiums reserve and unexpired risks reserve, gross	10,038	88,780
4. Reinsurers' share in change in unearned premiums reserve	(2,167)	3,447
II. Net investment (including costs), transferred from the general profit and loss account	**23,087**	**23,948**
III. Other technical revenue net of reinsurance	**6,689**	**14,551**
IV. Claims and benefits (1+2)	**201,858**	**383,659**
1. Claims paid net of reinsurance	254,633	208,744
1.1. Gross claims paid	256,239	210,481
1.2. Reinsurers' share in claims paid	1,606	1,737
2. Change in outstanding claims provision, net of reinsurance	(52,775)	174,915
2.1. Change in outstanding claims provision, gross	(46,666)	197,748
2.2. Reinsurers' share in change in outstanding claims provision	6,109	22,833
V. Changes in other technical provisions, net of reinsurance	**-**	**-**
1. Change in other technical provisions (gross)	-	-
2. Reinsurers' share in change in other technical provisions	-	-
VI. Bonuses and rebates net of reinsurance, including change in provisions	**2**	**168**
VII. Costs of insurance activities	**200,270**	**187,705**
1. Acquisition costs, including:	147,436	140,145
- change in deferred acquisition costs	(16,998)	(15,808)
2. Administrative expenses	54,221	49,226
3. Reinsurers' commissions and share in reinsurers' profit	1,387	1,666
VIII. Other technical charges – net of reinsurance	**17,137**	**8,748**
IX Changes in risk equalization reserve	**-**	**7,434**
X. Technical result on non-life insurance	**261,134**	**99,712**

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Technical account - direct insurance

GROUP 14 – Credit insurance

Item	1 January - 31 December 2015	1 January - 31 December 2014
I. Premiums (1-2-3+4)	**16,015**	**17,730**
1. Gross written premiums	14,175	14,715
2. Reinsurers' share in written premium	1,630	1,824
3. Change in unearned premiums reserve and unexpired risks reserve, gross	(3,597)	(4,900)
4. Reinsurers' share in change in unearned premiums reserve	(127)	(61)
II. Net investment (including costs), transferred from the general profit and loss account	**-**	**-**
III. Other technical revenue net of reinsurance	**533**	**518**
IV. Claims and benefits (1+2)	**2,808**	**130**
1. Claims paid net of reinsurance	1,290	401
1.1. Gross claims paid	2,650	474
1.2. Reinsurers' share in claims paid	1,360	73
2. Change in outstanding claims provision, net of reinsurance	1,518	(271)
2.1. Change in outstanding claims provision, gross	1,600	(354)
2.2. Reinsurers' share in change in outstanding claims provision	82	(83)
V. Changes in other technical provisions, net of reinsurance	**-**	**-**
1. Change in other technical provisions (gross)	-	-
2. Reinsurers' share in change in other technical provisions	-	-
VI. Bonuses and rebates net of reinsurance, including change in provisions	**312**	**348**
VII. Costs of insurance activities	**4,675**	**6,512**
1. Acquisition costs, including:	1,976	3,434
- change in deferred acquisition costs	(470)	230
2. Administrative expenses	3,264	3,707
3. Reinsurers' commissions and share in reinsurers' profit	565	629
VIII. Other technical charges – net of reinsurance	**80**	**96**
IX Changes in risk equalization reserve	**1,505**	**1,547**
X. Technical result on non-life insurance	**7,168**	**9,615**

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Technical account - direct insurance

GROUP 15 – Suretyship

Item	1 January - 31 December 2015	1 January - 31 December 2014
I. Premiums (1-2-3+4)	**19,639**	**15,494**
1. Gross written premiums	61,075	65,351
2. Reinsurers' share in written premium	26,442	28,651
3. Change in unearned premiums reserve and unexpired risks reserve, gross	23,980	31,892
4. Reinsurers' share in change in unearned premiums reserve	8,986	10,686
II. Net investment (including costs), transferred from the general profit and loss account	**-**	**-**
III. Other technical revenue net of reinsurance	**(830)**	**(846)**
IV. Claims and benefits (1+2)	**9,525**	**9,721**
1. Claims paid net of reinsurance	6,363	6,523
1.1. Gross claims paid	10,667	10,762
1.2. Reinsurers' share in claims paid	4,304	4,239
2. Change in outstanding claims provision, net of reinsurance	3,162	3,198
2.1. Change in outstanding claims provision, gross	5,048	5,452
2.2. Reinsurers' share in change in outstanding claims provision	1,886	2,254
V. Changes in other technical provisions, net of reinsurance	**-**	**-**
1. Change in other technical provisions (gross)	-	-
2. Reinsurers' share in change in other technical provisions	-	-
VI. Bonuses and rebates net of reinsurance, including change in provisions	**-**	**-**
VII. Costs of insurance activities	**9,410**	**10,883**
1. Acquisition costs, including:	5,320	9,237
- change in deferred acquisition costs	(7,393)	(837)
2. Administrative expenses	7,883	8,336
3. Reinsurers' commissions and share in reinsurers' profit	3,793	6,690
VIII. Other technical charges – net of reinsurance	**(557)**	**(262)**
IX Changes in risk equalization reserve	**355**	**774**
X. Technical result on non-life insurance	**76**	**(6,468)**

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Technical account - direct insurance

GROUP 16 – Insurance of various financial risks

Item	1 January - 31 December 2015	1 January - 31 December 2014
I. Premiums (1-2-3+4)	**66,245**	**62,852**
1. Gross written premiums	85,073	82,282
2. Reinsurers' share in written premium	21,103	16,679
3. Change in unearned premiums reserve and unexpired risks reserve, gross	5,008	7,353
4. Reinsurers' share in change in unearned premiums reserve	7,283	4,602
II. Net investment (including costs), transferred from the general profit and loss account	**-**	**-**
III. Other technical revenue net of reinsurance	**3,758**	**1,764**
IV. Claims and benefits (1+2)	**1,129**	**324**
1. Claims paid net of reinsurance	5,111	8,728
1.1. Gross claims paid	6,208	10,686
1.2. Reinsurers' share in claims paid	1,097	1,958
2. Change in outstanding claims provision, net of reinsurance	(3,982)	(8,404)
2.1. Change in outstanding claims provision, gross	(11,292)	58,910
2.2. Reinsurers' share in change in outstanding claims provision	(7,310)	67,314
V. Changes in other technical provisions, net of reinsurance	**-**	**-**
1. Change in other technical provisions (gross)	-	-
2. Reinsurers' share in change in other technical provisions	-	-
VI. Bonuses and rebates net of reinsurance, including change in provisions	**1,308**	**182**
VII. Costs of insurance activities	**47,021**	**45,544**
1. Acquisition costs, including:	44,338	42,586
- change in deferred acquisition costs	(435)	925
2. Administrative expenses	3,647	3,528
3. Reinsurers' commissions and share in reinsurers' profit	964	570
VIII. Other technical charges – net of reinsurance	**3,757**	**3,398**
IX Changes in risk equalization reserve	**1,621**	**-**
X. Technical result on non-life insurance	**15,167**	**15,168**

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Technical account - direct insurance

GROUP 17 – Insurance of legal protection

Item	1 January - 31 December 2015	1 January - 31 December 2014
I. Premiums (1-2-3+4)	**878**	**915**
1. Gross written premiums	3,535	875
2. Reinsurers' share in written premium	-	-
3. Change in unearned premiums reserve and unexpired risks reserve, gross	2,657	(40)
4. Reinsurers' share in change in unearned premiums reserve	-	-
II. Net investment (including costs), transferred from the general profit and loss account	**-**	**-**
III. Other technical revenue net of reinsurance	**1**	**51**
IV. Claims and benefits (1+2)	**549**	**922**
1. Claims paid net of reinsurance	596	732
1.1. Gross claims paid	596	732
1.2. Reinsurers' share in claims paid	-	-
2. Change in outstanding claims provision, net of reinsurance	(47)	190
2.1. Change in outstanding claims provision, gross	(47)	190
2.2. Reinsurers' share in change in outstanding claims provision	-	-
V. Changes in other technical provisions, net of reinsurance	**-**	**-**
1. Change in other technical provisions (gross)	-	-
2. Reinsurers' share in change in other technical provisions	-	-
VI. Bonuses and rebates net of reinsurance, including change in provisions	**-**	**-**
VII. Costs of insurance activities	**1,287**	**710**
1. Acquisition costs, including:	723	416
- change in deferred acquisition costs	(504)	-
2. Administrative expenses	564	294
3. Reinsurers' commissions and share in reinsurers' profit	-	-
VIII. Other technical charges – net of reinsurance	**55**	**3**
IX Changes in risk equalization reserve	**-**	**46**
X. Technical result on non-life insurance	**(1,012)**	**(715)**

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Technical account - direct insurance

GROUP 18 – Insurance of assistance and benefits to persons encountering difficulties while traveling or when away from their place of residence

Item	1 January - 31 December 2015	1 January - 31 December 2014
I. Premiums (1-2-3+4)	**260,897**	**222,490**
1. Gross written premiums	290,260	237,416
2. Reinsurers' share in written premium	(184)	292
3. Change in unearned premiums reserve and unexpired risks reserve, gross	29,084	14,621
4. Reinsurers' share in change in unearned premiums reserve	(463)	(13)
II. Net investment (including costs), transferred from the general profit and loss account	**-**	**-**
III. Other technical revenue net of reinsurance	**463**	**981**
IV. Claims and benefits (1+2)	**159,653**	**128,563**
1. Claims paid net of reinsurance	153,505	125,493
1.1. Gross claims paid	153,505	125,493
1.2. Reinsurers' share in claims paid	-	-
2. Change in outstanding claims provision, net of reinsurance	6,148	3,070
2.1. Change in outstanding claims provision, gross	6,148	3,002
2.2. Reinsurers' share in change in outstanding claims provision	-	(68)
V. Changes in other technical provisions, net of reinsurance	**-**	**-**
1. Change in other technical provisions (gross)	-	-
2. Reinsurers' share in change in other technical provisions	-	-
VI. Bonuses and rebates net of reinsurance, including change in provisions	**-**	**-**
VII. Costs of insurance activities	**97,554**	**98,708**
1. Acquisition costs, including:	55,537	51,502
- change in deferred acquisition costs	(10,173)	(2,503)
2. Administrative expenses	42,017	47,206
3. Reinsurers' commissions and share in reinsurers' profit	-	-
VIII. Other technical charges – net of reinsurance	**4,431**	**1,245**
IX Changes in risk equalization reserve	**-**	**-**
X. Technical result on non-life insurance	**(278)**	**(5,045)**

Warsaw, 14 March 2016

Technical accounts – inward reinsurance

Technical account – total inward reinsurance

Item	1 January - 31 December 2015	1 January - 31 December 2014
I. Premiums (1-2-3+4)	**140,959**	**44,852**
1. Gross written premiums	595,066	122,628
2. Reinsurers' share in written premium	74,434	60,842
3. Change in unearned premiums reserve and unexpired risks reserve, gross	394,137	60,233
4. Reinsurers' share in change in unearned premiums reserve	14,464	43,299
II. Net investment (including costs), transferred from the general profit and loss account	**-**	**-**
III. Other technical revenue net of reinsurance	**2,969**	**2,632**
IV. Claims and benefits (1+2)	**110,075**	**40,600**
1. Claims paid net of reinsurance	36,722	24,136
1.1. Gross claims paid	49,250	35,344
1.2. Reinsurers' share in claims paid	12,528	11,208
2. Change in outstanding claims provision, net of reinsurance	73,353	16,464
2.1. Change in outstanding claims provision, gross	372,299	15,871
2.2. Reinsurers' share in change in outstanding claims provision	298,946	(593)
V. Changes in other technical provisions, net of reinsurance	**-**	**-**
1. Change in other technical provisions (gross)	-	-
2. Reinsurers' share in change in other technical provisions	-	-
VI. Bonuses and rebates net of reinsurance, including change in provisions	**4,690**	**1,417**
VII. Costs of insurance activities	**59,204**	**16,240**
1. Acquisition costs, including:	29,158	8,412
- change in deferred acquisition costs	(226,732)	-
2. Administrative expenses	30,046	7,828
3. Reinsurers' commissions and share in reinsurers' profit	-	-
VIII. Other technical charges – net of reinsurance	**8,199**	**4,136**
IX Changes in risk equalization reserve	**2,528**	**(1,124)**
X. Technical result on non-life insurance	**(40,768)**	**(13,785)**

In 2015, PZU carried out inward reinsurance activities in all accounting classes, except for class 9. In 2014, PZU carried out inward reinsurance activities in all accounting classes, except for classes 8 and 9.

Technical account – inward reinsurance

CLASS 1 – Accidents and sickness (groups 1 and 2)

Item	1 January - 31 December 2015	1 January - 31 December 2014
I. Premiums (1-2-3+4)	**7,844**	**89**
1. Gross written premiums	11,895	1,038
2. Reinsurers' share in written premium	449	859
3. Change in unearned premiums reserve and unexpired risks reserve, gross	3,314	741
4. Reinsurers' share in change in unearned premiums reserve	(288)	651
II. Net investment (including costs), transferred from the general profit and loss account	**-**	**-**
III. Other technical revenue net of reinsurance	**226**	**21**
IV. Claims and benefits (1+2)	**4,424**	**(1)**
1. Claims paid net of reinsurance	-	-
1.1. Gross claims paid	-	-
1.2. Reinsurers' share in claims paid	-	-
2. Change in outstanding claims provision, net of reinsurance	4,424	(1)
2.1. Change in outstanding claims provision, gross	4,424	(1)
2.2. Reinsurers' share in change in outstanding claims provision	-	-
V. Changes in other technical provisions, net of reinsurance	**-**	**-**
1. Change in other technical provisions (gross)	-	-
2. Reinsurers' share in change in other technical provisions	-	-
VI. Bonuses and rebates net of reinsurance, including change in provisions	**-**	**-**
VII. Costs of insurance activities	**2,531**	**116**
1. Acquisition costs, including:	2,475	1
- change in deferred acquisition costs	(401)	-
2. Administrative expenses	56	115
3. Reinsurers' commissions and share in reinsurers' profit	-	-
VIII. Other technical charges – net of reinsurance	**889**	**-**
IX Changes in risk equalization reserve	**-**	**-**
X. Technical result on non-life insurance	**226**	**(5)**

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Technical account – inward reinsurance

CLASS 2 – Motor third party liability insurance (group 10)

Item	1 January - 31 December 2015	1 January - 31 December 2014
I. Premiums (1-2-3+4)	**55,222**	**1,804**
1. Gross written premiums	181,687	14,384
2. Reinsurers' share in written premium	7,873	7,830
3. Change in unearned premiums reserve and unexpired risks reserve, gross	119,162	12,292
4. Reinsurers' share in change in unearned premiums reserve	570	7,542
II. Net investment (including costs), transferred from the general profit and loss account	**-**	**-**
III. Other technical revenue net of reinsurance	**418**	**463**
IV. Claims and benefits (1+2)	**48,508**	**(730)**
1. Claims paid net of reinsurance	376	2,806
1.1. Gross claims paid	376	2,806
1.2. Reinsurers' share in claims paid	-	-
2. Change in outstanding claims provision, net of reinsurance	48,132	(3,536)
2.1. Change in outstanding claims provision, gross	48,132	(3,536)
2.2. Reinsurers' share in change in outstanding claims provision	-	-
V. Changes in other technical provisions, net of reinsurance	**-**	**-**
1. Change in other technical provisions (gross)	-	-
2. Reinsurers' share in change in other technical provisions	-	-
VI. Bonuses and rebates net of reinsurance, including change in provisions	**-**	**-**
VII. Costs of insurance activities	**33,773**	**1,794**
1. Acquisition costs, including:	12,056	231
- change in deferred acquisition costs	(28,532)	-
2. Administrative expenses	21,717	1,563
3. Reinsurers' commissions and share in reinsurers' profit	-	-
VIII. Other technical charges – net of reinsurance	**924**	**7**
IX Changes in risk equalization reserve	**(251)**	**90**
X. Technical result on non-life insurance	**(27,314)**	**1,106**

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Technical account – total inward reinsurance

CLASS 3 – Motor, other groups (group 3)

Item	1 January - 31 December 2015	1 January - 31 December 2014
I. Premiums (1-2-3+4)	**7,385**	**2,429**
1. Gross written premiums	24,986	5,397
2. Reinsurers' share in written premium	132	129
3. Change in unearned premiums reserve and unexpired risks reserve, gross	17,485	2,959
4. Reinsurers' share in change in unearned premiums reserve	16	120
II. Net investment (including costs), transferred from the general profit and loss account	**-**	**-**
III. Other technical revenue net of reinsurance	**1,161**	**39**
IV. Claims and benefits (1+2)	**2,828**	**681**
1. Claims paid net of reinsurance	1,834	364
1.1. Gross claims paid	1,834	364
1.2. Reinsurers' share in claims paid	-	-
2. Change in outstanding claims provision, net of reinsurance	994	317
2.1. Change in outstanding claims provision, gross	994	317
2.2. Reinsurers' share in change in outstanding claims provision	-	-
V. Changes in other technical provisions, net of reinsurance	**-**	**-**
1. Change in other technical provisions (gross)	-	-
2. Reinsurers' share in change in other technical provisions	-	-
VI. Bonuses and rebates net of reinsurance, including change in provisions	**-**	**-**
VII. Costs of insurance activities	**4,523**	**451**
1. Acquisition costs, including:	3,861	66
- change in deferred acquisition costs	(11,110)	-
2. Administrative expenses	662	385
3. Reinsurers' commissions and share in reinsurers' profit	-	-
VIII. Other technical charges – net of reinsurance	**1,225**	**685**
IX Changes in risk equalization reserve	**(18)**	**12**
X. Technical result on non-life insurance	**(12)**	**639**

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Technical account – total inward reinsurance

CLASS 4 – Marine, aviation and transport (groups 4, 5, 6 and 7)

Item	1 January - 31 December 2015	1 January - 31 December 2014
I. Premiums (1-2-3+4)	**3,063**	**4,547**
1. Gross written premiums	5,706	11,779
2. Reinsurers' share in written premium	2,837	6,825
3. Change in unearned premiums reserve and unexpired risks reserve, gross	(2,372)	2,367
4. Reinsurers' share in change in unearned premiums reserve	(2,178)	1,960
II. Net investment (including costs), transferred from the general profit and loss account	**-**	**-**
III. Other technical revenue net of reinsurance	**138**	**290**
IV. Claims and benefits (1+2)	**1,742**	**1,707**
1. Claims paid net of reinsurance	705	540
1.1. Gross claims paid	705	541
1.2. Reinsurers' share in claims paid	-	1
2. Change in outstanding claims provision, net of reinsurance	1,037	1,167
2.1. Change in outstanding claims provision, gross	1,037	1,335
2.2. Reinsurers' share in change in outstanding claims provision	-	168
V. Changes in other technical provisions, net of reinsurance	**-**	**-**
1. Change in other technical provisions (gross)	-	-
2. Reinsurers' share in change in other technical provisions	-	-
VI. Bonuses and rebates net of reinsurance, including change in provisions	**30**	**7**
VII. Costs of insurance activities	**1,039**	**1,459**
1. Acquisition costs, including:	869	1,094
- change in deferred acquisition costs	-	-
2. Administrative expenses	170	365
3. Reinsurers' commissions and share in reinsurers' profit	-	-
VIII. Other technical charges – net of reinsurance	**(7)**	**82**
IX Changes in risk equalization reserve	**-**	**(28)**
X. Technical result on non-life insurance	**397**	**1,610**

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Technical account – total inward reinsurance

CLASS 5 – Fire and other damage to property (groups 8 and 9)

Item	1 January - 31 December 2015	1 January - 31 December 2014
I. Premiums (1-2-3+4)	**49,582**	**29,618**
1. Gross written premiums	133,975	71,676
2. Reinsurers' share in written premium	56,285	35,684
3. Change in unearned premiums reserve and unexpired risks reserve, gross	41,568	32,064
4. Reinsurers' share in change in unearned premiums reserve	13,460	25,690
II. Net investment (including costs), transferred from the general profit and loss account	**-**	**-**
III. Other technical revenue net of reinsurance	**830**	**1,594**
IV. Claims and benefits (1+2)	**27,956**	**33,150**
1. Claims paid net of reinsurance	30,443	9,471
1.1. Gross claims paid	42,971	20,631
1.2. Reinsurers' share in claims paid	12,528	11,160
2. Change in outstanding claims provision, net of reinsurance	(2,487)	23,679
2.1. Change in outstanding claims provision, gross	88,478	22,253
2.2. Reinsurers' share in change in outstanding claims provision	90,965	(1,426)
V. Changes in other technical provisions, net of reinsurance	**-**	**-**
1. Change in other technical provisions (gross)	-	-
2. Reinsurers' share in change in other technical provisions	-	-
VI. Bonuses and rebates net of reinsurance, including change in provisions	**3,957**	**1,268**
VII. Costs of insurance activities	**14,317**	**7,652**
1. Acquisition costs, including:	8,026	3,698
- change in deferred acquisition costs	(4,964)	-
2. Administrative expenses	6,291	3,954
3. Reinsurers' commissions and share in reinsurers' profit	-	-
VIII. Other technical charges – net of reinsurance	**4,481**	**2,613**
IX Changes in risk equalization reserve	**2,479**	**(1,287)**
X. Technical result on non-life insurance	**(2,778)**	**(12,184)**

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Technical account – total inward reinsurance

CLASS 6 – Third party liability (groups 11, 12 and 13)

Item	1 January - 31 December 2015	1 January - 31 December 2014
I. Premiums (1-2-3+4)	**6,641**	**3,367**
1. Gross written premiums	33,108	7,022
2. Reinsurers' share in written premium	1,810	2,133
3. Change in unearned premiums reserve and unexpired risks reserve, gross	24,483	3,043
4. Reinsurers' share in change in unearned premiums reserve	(174)	1,521
II. Net investment (including costs), transferred from the general profit and loss account	**-**	**-**
III. Other technical revenue net of reinsurance	**66**	**33**
IV. Claims and benefits (1+2)	**3,913**	**3,479**
1. Claims paid net of reinsurance	2,447	9,573
1.1. Gross claims paid	2,447	9,573
1.2. Reinsurers' share in claims paid	-	-
2. Change in outstanding claims provision, net of reinsurance	1,466	(6,094)
2.1. Change in outstanding claims provision, gross	1,466	(6,092)
2.2. Reinsurers' share in change in outstanding claims provision	-	2
V. Changes in other technical provisions, net of reinsurance	**-**	**-**
1. Change in other technical provisions (gross)	-	-
2. Reinsurers' share in change in other technical provisions	-	-
VI. Bonuses and rebates net of reinsurance, including change in provisions	**2**	**-**
VII. Costs of insurance activities	**2,405**	**1,434**
1. Acquisition costs, including:	1,715	1,025
- change in deferred acquisition costs	(4,987)	-
2. Administrative expenses	690	409
3. Reinsurers' commissions and share in reinsurers' profit	-	-
VIII. Other technical charges – net of reinsurance	**48**	**481**
IX Changes in risk equalization reserve	**332**	**168**
X. Technical result on non-life insurance	**7**	**(2,162)**

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Technical account – total inward reinsurance

CLASS 7 – Credit and suretyship (groups 14 and 15)

Item	1 January - 31 December 2015	1 January - 31 December 2014
I. Premiums (1-2-3+4)	**4,561**	**556**
1. Gross written premiums	1,826	7,443
2. Reinsurers' share in written premium	463	5,672
3. Change in unearned premiums reserve and unexpired risks reserve, gross	(1,823)	6,887
4. Reinsurers' share in change in unearned premiums reserve	1,375	5,672
II. Net investment (including costs), transferred from the general profit and loss account	**-**	**-**
III. Other technical revenue net of reinsurance	**4**	**79**
IV. Claims and benefits (1+2)	**435**	**(90)**
1. Claims paid net of reinsurance	(2)	45
1.1. Gross claims paid	(2)	45
1.2. Reinsurers' share in claims paid	-	-
2. Change in outstanding claims provision, net of reinsurance	437	(135)
2.1. Change in outstanding claims provision, gross	542	(135)
2.2. Reinsurers' share in change in outstanding claims provision	105	-
V. Changes in other technical provisions, net of reinsurance	**-**	**-**
1. Change in other technical provisions (gross)	-	-
2. Reinsurers' share in change in other technical provisions	-	-
VI. Bonuses and rebates net of reinsurance, including change in provisions	**-**	**-**
VII. Costs of insurance activities	**(603)**	**2,943**
1. Acquisition costs, including:	(718)	2,033
- change in deferred acquisition costs	(1,650)	-
2. Administrative expenses	115	910
3. Reinsurers' commissions and share in reinsurers' profit	-	-
VIII. Other technical charges – net of reinsurance	**3**	**12**
IX Changes in risk equalization reserve	**(14)**	**10**
X. Technical result on non-life insurance	**4,744**	**(2,240)**

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Technical account – total inward reinsurance

CLASS 8 – Assistance (group 18)

Item	1 January - 31 December 2015	1 January - 31 December 2014
I. Premiums (1-2-3+4)	**-**	**-**
1. Gross written premiums	863	-
2. Reinsurers' share in written premium	-	-
3. Change in unearned premiums reserve and unexpired risks reserve, gross	863	-
4. Reinsurers' share in change in unearned premiums reserve	-	-
II. Net investment (including costs), transferred from the general profit and loss account	**-**	**-**
III. Other technical revenue net of reinsurance	**-**	**-**
IV. Claims and benefits (1+2)	**-**	**-**
1. Claims paid net of reinsurance	-	-
1.1. Gross claims paid	-	-
1.2. Reinsurers' share in claims paid	-	-
2. Change in outstanding claims provision, net of reinsurance	-	-
2.1. Change in outstanding claims provision, gross	-	-
2.2. Reinsurers' share in change in outstanding claims provision	-	-
V. Changes in other technical provisions, net of reinsurance	**-**	**-**
1. Change in other technical provisions (gross)	-	-
2. Reinsurers' share in change in other technical provisions	-	-
VI. Bonuses and rebates net of reinsurance, including change in provisions	**-**	**-**
VII. Costs of insurance activities	**1**	**-**
1. Acquisition costs, including:	-	-
- change in deferred acquisition costs	(242)	-
2. Administrative expenses	1	-
3. Reinsurers' commissions and share in reinsurers' profit	-	-
VIII. Other technical charges – net of reinsurance	**-**	**-**
IX Changes in risk equalization reserve	**-**	**-**
X. Technical result on non-life insurance	**(1)**	**-**

Warsaw, 14 March 2016

Technical account – total inward reinsurance

CLASS 10 – Miscellaneous (group 16)

Item	1 January - 31 December 2015	1 January - 31 December 2014
I. Premiums (1-2-3+4)	**6,661**	**2,442**
1. Gross written premiums	201,020	3,889
2. Reinsurers' share in written premium	4,585	1,710
3. Change in unearned premiums reserve and unexpired risks reserve, gross	191,457	(120)
4. Reinsurers' share in change in unearned premiums reserve	1,683	143
II. Net investment (including costs), transferred from the general profit and loss account	**-**	**-**
III. Other technical revenue net of reinsurance	**126**	**113**
IV. Claims and benefits (1+2)	**20,269**	**2,404**
1. Claims paid net of reinsurance	919	1,337
1.1. Gross claims paid	919	1,384
1.2. Reinsurers' share in claims paid	-	47
2. Change in outstanding claims provision, net of reinsurance	19,350	1,067
2.1. Change in outstanding claims provision, gross	227,226	1,730
2.2. Reinsurers' share in change in outstanding claims provision	207,876	663
V. Changes in other technical provisions, net of reinsurance	**-**	**-**
1. Change in other technical provisions (gross)	-	-
2. Reinsurers' share in change in other technical provisions	-	-
VI. Bonuses and rebates net of reinsurance, including change in provisions	**701**	**142**
VII. Costs of insurance activities	**1,218**	**391**
1. Acquisition costs, including:	874	264
- change in deferred acquisition costs	(174,846)	-
2. Administrative expenses	344	127
3. Reinsurers' commissions and share in reinsurers' profit	-	-
VIII. Other technical charges – net of reinsurance	**636**	**256**
IX Changes in risk equalization reserve	**-**	**(89)**
X. Technical result on non-life insurance	**(16,037)**	**(549)**

Warsaw, 14 March 2016

Actuary's opinion

I hereby state that as at 31 December 2015, technical provisions recognized in Powszechny Zakład Ubezpieczeń Spółka Akcyjna based on insurance mathematics method are correct.

Paweł Chadysz

Chief Actuary at PZU

Warsaw, 14 March 2016

Supplementary information and explanations

1. Intangible assets

Intangible assets	31 December 2015	31 December 2014
a) development expenses	-	-
b) goodwill	-	-
c) acquired concessions, patents, licenses and similar items, including:	274,269	232,324
- computer software	270,642	229,340
d) other intangible assets	-	-
e) advance payments for intangible assets	87,898	51,675
Total intangible assets	**362,167**	**283,999**

Total changes in intangible assets	31 December 2015	31 December 2014
a) gross value of intangible assets – opening balance	**560,499**	**475,736**
b) increases (due to)	243,506	171,807
- purchase	141,291	92,059
- transfers	102,215	78,593
-other (including estimations)	-	1,155
c) decreases (due to)	107,233	87,044
- sale	-	-
- liquidation	2,385	8,451
- transfers	102,215	78,593
-other (including estimations)	2,633	-
d) gross value of intangible assets – closing balance	**696,772**	**560,499**
e) accumulated depreciation – at the beginning of the period	**274,777**	**221,319**
f) depreciation for the period (due to)	58,105	53,458
- current year charges	60,489	53,781
- sale	-	-
- liquidation	(2,384)	(323)
- other	-	-
g) accumulated depreciation – at the end of the period	**332,882**	**274,777**
h) impairment losses – at the beginning of the period	**1,723**	**9,835**
- increases	-	16
- decreases	-	8,128
i) impairment losses – at the end of the period	**1,723**	**1,723**
j) carrying amount of intangible assets – closing balance	**362,167**	**283,999**

Intangible assets – ownership structure	31 December 2015	31 December 2014
a) own	362,167	283,999
b) used based on lease, rental or other agreement	-	-
Total intangible assets	**362,167**	**283,999**

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Changes in intangible assets in the year ended 31 December 2015	a) development expenses	b) goodwill	c) acquired concessions, patents, licenses and similar items	- including computer software	d) other intangible assets	e) advance payments and intangible assets under construction	Total intangible assets
a) gross value of intangible assets – opening balance	**-**	**-**	**507,088**	**496,944**	**13**	**53,398**	**560,499**
b) increases (due to)	-	-	102,435	99,156	-	141,071	243,506
- purchase	-	-	220	220	-	141,071	141,291
- transfers	-	-	102,215	98,936	-	-	102,215
-other (including estimations)	-	-	-	-	-	-	-
c) decreases (due to)	-	-	2,385	1,619	-	104,848	107,233
- sale	-	-	-	-	-	-	-
- liquidation	-	-	2,385	1,619	-	-	2,385
- transfers	-	-	-	-	-	102,215	102,215
-other (including estimations)	-	-	-	-	-	2,633	2,633
d) gross value of intangible assets – closing balance	**-**	**-**	**607,138**	**594,481**	**13**	**89,621**	**696,772**
e) accumulated depreciation – opening balance	**-**	**-**	**274,764**	**267,604**	**13**	**-**	**274,777**
f) depreciation for the period	-	-	58,105	56,235	-	-	58,105
- current year charges	-	-	60,489	57,854	-	-	60,489
- sale	-	-	-	-	-	-	-
- liquidation	-	-	(2,384)	(1,619)	-	-	(2,384)
- other	-	-	-	-	-	-	-
g) accumulated depreciation – at the end of the period	**-**	**-**	**332,869**	**323,839**	**13**	**-**	**332,882**
h) impairment losses – at the beginning of the period	**-**	**-**	**-**	**-**	**-**	**1,723**	**1,723**
- increases	-	-	-	-	-	-	-
- decreases	-	-	-	-	-	-	-
i) impairment losses – at the end of the period	**-**	**-**	**-**	**-**	**-**	**1,723**	**1,723**
j) carrying amount of intangible assets – closing balance	**-**	**-**	**274,269**	**270,642**	**-**	**87,898**	**362,167**

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Changes in intangible assets in the year ended 31 December 2014	**a) development expenses**	**b) goodwill**	**c) acquired concessions, patents, licenses and similar items**	**- including computer software**	**d) other intangible assets**	**e) advance payments and intangible assets under construction**	**Total intangible assets**
a) gross value of intangible assets – opening balance	**-**	**-**	**428,164**	**421,375**	**13**	**47,559**	**475,736**
b) increases (due to)	-	-	79,247	75,717	-	92,560	171,807
- purchase	-	-	654	534	-	91,405	92,059
- transfers	-	-	78,593	75,183	-	-	78,593
-other (including estimations)	-	-	-	-	-	1,155	1,155
c) decreases (due to)	-	-	323	148	-	86,721	87,044
- sale	-	-	-	-	-	-	-
- liquidation	-	-	323	148	-	8,128	8,451
- transfers	-	-	-	-	-	78,593	78,593
- other	-	-	-	-	-	-	-
d) gross value of intangible assets – closing balance	**-**	**-**	**507,088**	**496,944**	**13**	**53,398**	**560,499**
e) accumulated depreciation – opening balance	**-**	**-**	**221,306**	**215,924**	**13**	**-**	**221,319**
f) depreciation for the period	-	-	53,458	51,680	-	-	53,458
- current year charges	-	-	53,781	51,820	-	-	53,781
- sale	-	-	-	-	-	-	-
- liquidation	-	-	(323)	(140)	-	-	(323)
- other	-	-	-,	-	-	-	-
g) accumulated depreciation – at the end of the period	**-**	**-**	**274,764**	**267,604**	**13**	**-**	**274,777**
h) impairment losses – at the beginning of the period	**-**	**-**	**-**	**-**	**-**	**9,835**	**9,835**
- increases	-	-	-	-	-	16	16
- decreases	-	-	-	-	-	8,128	8,128
i) impairment losses – at the end of the period	**-**	**-**	**-**	**-**	**-**	**1,723**	**1,723**
j) carrying amount of intangible assets – closing balance	**-**	**-**	**232,324**	**229,340**	**-**	**51,675**	**283,999**

2. Investments

2.1 Geographical structure of investments

Geographical structure of investments as at 31 December 2015	Domestic				Foreign – EU countries				Foreign – other countries				Total			
	Cost	Fair value	Net carrying amount	Impairment loss	Purchase price	Fair value	Net carrying amount	Impairment loss	Purchase price	Fair value	Net carrying amount	Impairment loss	Purchase price	Fair value	Net carrying amount	Impairment loss
I. Property [1]	789,339	707,342	475,812	78,670	-	-	-	-	-	-	-	-	789,339	707,342	475,812	78,670
II. Investments in related parties [2]	2,987,207	6,450,534	6,909,718	7,821	1,106,616	1,117,830	1,117,757	-	176,250	13,303	13,303	-	4,270,073	7,581,667	8,040,778	7,821
III. Other financial investments	20,357,947	23,037,013	22,348,035	33,338	1,162,724	1,414,427	1,411,700	-	81,539	79,723	79,723	-	21,602,210	24,531,163	23,839,458	33,338
1. Shares and other variable income securities	12,572	48	48	12,524	-	-	-	-	-	-	-	-	12,572	48	48	12,524
- measured at fair value	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- measured at cost	12,572	48	48	12,524	-	-	-	-	-	-	-	-	12,572	48	48	12,524
2. Participation units and investment certificates of investment funds	11,718,042	13,606,029	13,606,029	20,814	-	-	-	-	-	-	-	-	11,718,042	13,606,029	13,606,029	20,814
3. Debt securities and other fixed income securities	5,813,303	6,560,352	5,866,954	-	1,093,030	1,098,202	1,095,751	-	81,539	79,723	79,723	-	6,987,872	7,738,277	7,042,428	-
- measured at fair value	245,994	250,778	250,779	-	1,023,408	1,023,326	1,023,326	-	81,539	79,723	79,723	-	1,350,941	1,353,827	1,353,828	-
- measured at cost or at amortized cost	5,567,309	6,309,574	5,616,175	-	69,622	74,876	72,425	-	-	-	-	-	5,636,931	6,384,450	5,688,600	-
4. Shares in joint investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5. Mortgages	884,676	913,253	917,623	-	-	-	-	-	-	-	-	-	884,676	913,253	917,623	-
6. Other loans	544,259	546,349	546,399	-	69,694	70,865	70,589	-	-	-	-	-	613,953	617,214	616,988	-
7. Term deposits at credit institutions	1,385,095	1,391,806	1,391,806	-	-	-	-	-	-	-	-	-	1,385,095	1,391,806	1,391,806	-
8. Other investments	-	19,176	19,176	-	-	245,360	245,360	-	-	-	-	-	-	264,536	264,536	-
IV. Deposits with ceding undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**24,134,493**	**30,194,889**	**29,733,565**	**119,829**	**2,269,340**	**2,532,257**	**2,529,457**	**-**	**257,789**	**93,026**	**93,026**	**-**	**26,661,622**	**32,820,172**	**32,356,048**	**119,829**

[1] The fair value of property results from valuations carried out mainly in 2013-2015, based primarily on the income method.

[2] In the case of related parties measured using the equity method, the presented fair value of investments in related parties was adopted at the level of net assets of those companies assigned to PZU as at the balance sheet date, including unamortized goodwill on the balance sheet date and impairment losses. Potential regular estimations of the fair value of investments in related parties, which would be carried out solely for the purposes of PZU financial reporting, are not carried out mainly due to potential significant and repetitive costs of such activities and a wide margin of discretion and error in relation to the results.

Investment structure as at 31 December 2015	Domestic - net carrying amount	Foreign – EU countries - net carrying amount	Foreign – other countries - net carrying amount	Total
I. Property	**475,812**	**-**	**-**	**475,812**
II. Investments in related parties	**6,909,718**	**1,117,757**	**13,303**	**8,040,778**
- unrestricted, quoted on stock exchange	1,294,327	-	-	1,294,327
- unrestricted, OTC traded	-	-	-	-
- unrestricted, unquoted on regulated market	5,615,391	1,117,757	13,303	6,746,451
- restricted	-	-	-	-
III. Other financial investments	**22,348,035**	**1,411,700**	**79,723**	**23,839,458**
1. Shares and other variable income securities	**48**	**-**	**-**	**48**
- unrestricted, quoted on stock exchange	-	-	-	-
- unrestricted, OTC traded	-	-	-	-
- unrestricted, unquoted on regulated market	48	-	-	48
- restricted	-	-	-	-
2. Participation units and investment certificates of investment funds	**13,606,029**	**-**	**-**	**13,606,029**
- unrestricted, quoted on stock exchange	-	-	-	-
- unrestricted, OTC traded	-	-	-	-
- unrestricted, unquoted on regulated market	13,606,029	-	-	13,606,029
- restricted	-	-	-	-
3. Debt securities and other fixed income securities	**5,866,954**	**1,095,751**	**79,723**	**7,042,428**
- unrestricted, quoted on stock exchange	5,530,013	1,023,326	79,723	6,633,062
- unrestricted, OTC traded	311,760	-	-	311,760
- unrestricted, unquoted on regulated market	25,181	72,425	-	97,606
- restricted	-	-	-	-
4. Shares in joint investments	**-**	**-**	**-**	**-**
- unrestricted, quoted on stock exchange	-	-	-	-
- unrestricted, OTC traded	-	-	-	-
- unrestricted, unquoted on regulated market	-	-	-	-
- restricted	-	-	-	-
5. Mortgages	**917,623**	**-**	**-**	**917,623**
6. Other loans	**546,399**	**70,589**	**-**	**616,988**
7. Term deposits at credit institutions	**1,391,806**	**-**	**-**	**1,391,806**
8. Other investments	**19,176**	**245,360**	**-**	**264,536**
- unrestricted, quoted on stock exchange	-	-	-	-
- unrestricted, OTC traded	-	-	-	-
- unrestricted, unquoted on regulated market	19,176	245,360	-	264,536
- restricted	-	-	-	-
IV. Deposits with ceding undertakings	**-**	**-**	**-**	**-**
Total	**29,733,565**	**2,529,457**	**93,026**	**32,356,048**

Geographical structure of investments as at 31 December 2014	Domestic				Foreign – EU countries				Foreign – other countries				Total			
	Purchase price	Fair value	Net carrying amount	Impairment loss	Purchase price	Fair value	Net carrying amount	Impairment loss	Purchase price	Fair value	Net carrying amount	Impairment loss	Purchase price	Fair value	Net carrying amount	Impairment loss
I. Property [1]	797,186	732,627	492,420	79,219	-	-	-	-	-	-	-	-	797,186	732,627	492,420	79,219
II. Investments in related parties [2]	1,110,010	5,201,088	5,201,384	7,821	1,435,211	1,257,173	1,257,481	-	176,250	14,525	14,525	-	2,721,471	6,472,786	6,473,390	7,821
III. Other financial investments	22,129,568	24,499,310	23,509,840	12,827	318,536	555,167	549,910	-	4,684	5,379	5,379	-	22,452,788	25,059,856	24,065,129	12,827
1. Shares and other variable income securities	12,788	72	72	12,716	-	-	-	-	-	-	-	-	12,788	72	72	12,716
- measured at fair value	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- measured at cost	12,788	72	72	12,716	-	-	-	-	-	-	-	-	12,788	72	72	12,716
2. Participation units and investment certificates of investment funds	11,654,036	12,965,651	12,965,651	111	-	-	-	-	-	-	-	-	11,654,036	12,965,651	12,965,651	111
3. Debt securities and other fixed income securities	7,033,378	8,057,073	7,073,833	-	248,842	267,762	262,803	-	4,684	5,379	5,379	-	7,286,904	8,330,214	7,342,015	-
- measured at fair value	670,681	694,337	694,337	-	179,220	190,381	190,381	-	4,684	5,379	5,379	-	854,585	890,097	890,097	-
- measured at cost or at amortized cost	6,362,697	7,362,736	6,379,496	-	69,622	77,381	72,422	-	-	-	-	-	6,432,319	7,440,117	6,451,918	-
4. Shares in joint investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5. Mortgages	658,300	661,929	660,869	-	-	-	-	-	-	-	-	-	658,300	661,929	660,869	-
6. Other loans	1,406,755	1,413,589	1,408,419	-	69,694	71,706	71,408	-	-	-	-	-	1,476,449	1,485,295	1,479,827	-
7. Term deposits at credit institutions	1,364,311	1,368,226	1,368,226	-	-	-	-	-	-	-	-	-	1,364,311	1,368,226	1,368,226	-
8. Other investments	-	32,770	32,770	-	-	215,699	215,699	-	-	-	-	-	-	248,469	248,469	-
IV. Deposits with ceding undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**24,036,764**	**30,433,025**	**29,203,644**	**99,867**	**1,753,747**	**1,812,340**	**1,807,391**	**-**	**180,934**	**19,904**	**19,904**	**-**	**25,971,445**	**32,265,269**	**31,030,939**	**99,867**

[1] The fair value of property results from valuations carried out mainly in 2013-2014, based primarily on the income method.

[2] In the case of related parties measured using the equity method, the presented fair value of investments in related parties was adopted at the level of net assets of those companies assigned to PZU as at the balance sheet date, including unamortized goodwill on the balance sheet date and impairment losses. Potential regular estimations of the fair value of investments in related parties, which would be carried out solely for the purposes of PZU financial reporting, are not carried out mainly due to potential significant and repetitive costs of such activities and a wide margin of discretion and error in relation to the results.

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Investment structure as at 31 December 2014	Domestic - net carrying amount	Foreign – EU countries - net carrying amount	Foreign – other countries - net carrying amount	Total
I. Property	**492,420**	**-**	**-**	**492,420**
II. Investments in related parties	**5,201,384**	**1,257,481**	**14,525**	**6,473,390**
- unrestricted, quoted on stock exchange	-	-	-	-
- unrestricted, OTC traded	-	-	-	-
- unrestricted, unquoted on regulated market	5,201,384	1,257,481	14,525	6,473,390
- restricted	-	-	-	-
III. Other financial investments	**23,509,840**	**549,910**	**5,379**	**24,065,129**
1. Shares and other variable income securities	**72**	**-**	**-**	**72**
- unrestricted, quoted on stock exchange	-	-	-	-
- unrestricted, OTC traded	-	-	-	-
- unrestricted, unquoted on regulated market	72	-	-	72
- restricted	-	-	-	-
2. Participation units and investment certificates of investment funds	**12,965,651**	**-**	**-**	**12,965,651**
- unrestricted, quoted on stock exchange	-	-	-	-
- unrestricted, OTC traded	-	-	-	-
- unrestricted, unquoted on regulated market	12,965,651	-	-	12,965,651
- restricted	-	-	-	-
3. Debt securities and other fixed income securities	**7,073,833**	**262,803**	**5,379**	**7,342,015**
- unrestricted, quoted on stock exchange	6,736,630	190,381	5,379	6,932,390
- unrestricted, OTC traded	312,017	-	-	312,017
- unrestricted, unquoted on regulated market	25,186	72,422	-	97,608
- restricted	-	-	-	-
4. Shares in joint investments	**-**	**-**	**-**	**-**
- unrestricted, quoted on stock exchange	-	-	-	-
- unrestricted, OTC traded	-	-	-	-
- unrestricted, unquoted on regulated market	-	-	-	-
- restricted	-	-	-	-
5. Mortgages	**660,869**	**-**	**-**	**660,869**
6. Other loans	**1,408,419**	**71,408**	**-**	**1,479,827**
7. Term deposits at credit institutions	**1,368,226**	**-**	**-**	**1,368,226**
8. Other investments	**32,770**	**215,699**	**-**	**248,469**
- unrestricted, quoted on stock exchange	-	-	-	-
- unrestricted, OTC traded	-	-	-	-
- unrestricted, unquoted on regulated market	32,770	215,699	-	248,469
- restricted	-	-	-	-
IV. Deposits with ceding undertakings	**-**	**-**	**-**	**-**
Total	**29,203,644**	**1,807,391**	**19,904**	**31,030,939**

2.2 Change in financial instruments divided by portfolio

Change in financial instruments divided by portfolio for year ended 31 December 2015	Opening balance	Increases, including:		Decreases, including:		Closing balance
		Acquisition	Value increase	Sale or redemption	Value decrease	
a) financial assets held for trading, including:	**266,269**	**2,050,701**	**186,920**	**1,800,182**	**31,602**	**672,106**
Investments in related parties	-	-	-	-	-	-
Shares, stock and other variable income securities, participation units and investment certificates of investment funds	-	-	-	-	-	-
Debt securities and other fixed income securities	17,800	2,013,132	5,588	1,625,441	3,509	407,570
Other investments	248,469	37,569	181,332	174,741	28,093	264,536
b) financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**	**-**
c) loans and receivables, including:	**3,900,913**	**146,273,088**	**38,800**	**146,738,407**	**1,056**	**3,473,338**
Debt securities and other fixed income securities	312,017	-	1,552	1,776	33	311,760
Mortgages	660,869	310,176	23,044	76,466	-	917,623
Loans granted to related parties	79,974	187,810	6,617	39,240	-	235,161
Other loans	1,479,827	49,992,002	869	50,854,693	1,017	616,988
Term deposits at credit institutions	1,368,226	95,783,100	6,718	95,766,232	6	1,391,806
d) financial assets held to maturity, including:	**6,139,901**	**4,108,387**	**98,696**	**4,955,504**	**14,639**	**5,376,841**
Debt securities and other fixed income securities	6,139,901	4,108,387	98,696	4,955,504	14,639	5,376,841
e) financial assets available for sale, including:	**20,231,436**	**11,987,718**	**695,381**	**10,299,614**	**256,970**	**22,357,951**
Investments in related parties	6,393,416	1,746,566	78,542	219,599	193,308	7,805,617
Shares, stock and other variable income securities, participation units and investment certificates of investment funds	12,965,723	75,540	600,582	1,659	34,109	13,606,077
Debt securities and other fixed income securities	872,297	10,165,612	16,257	10,078,356	29,553	946,257
Total	**30,538,519**	**164,419,894**	**1,019,797**	**163,793,707**	**304,267**	**31,880,236**

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Change in financial instruments divided by portfolio for year ended 31 December 2014	Opening balance	Increases, including:		Decreases, including:		Closing balance
		Acquisition	Value increase	Sale or redemption	Value decrease	
a) financial assets held for trading, including:	**1,131,604**	**384,420**	**266,784**	**1,217,686**	**298,853**	**266,269**
Investments in related parties	-	-	-	-	-	-
Shares, stock and other variable income securities, participation units and investment certificates of investment funds	-	-	-	-	-	-
Debt securities and other fixed income securities	1,010,990	223,412	1,128	1,217,686	44	17,800
Other investments	120,614	161,008	265,656	-	298,809	248,469
b) financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**	**-**
c) loans and receivables, including:	**2,220,034**	**199,597,600**	**15,555**	**197,925,867**	**6,409**	**3,900,913**
Debt securities and other fixed income securities	312,263	-	1,780	1,987	39	312,017
Mortgages	-	658,300	2,569	-	-	660,869
Loans granted to related parties	-	78,627	1,347	-	-	79,974
Other loans	1,720,077	101,021,002	7,513	101,268,765	-	1,479,827
Term deposits at credit institutions	187,694	97,839,671	2,346	96,655,115	6,370	1,368,226
d) financial assets held to maturity, including:	**5,621,548**	**996,324**	**110,751**	**572,982**	**15,740**	**6,139,901**
Debt securities and other fixed income securities	5,621,548	996,324	110,751	572,982	15,740	6,139,901
e) financial assets available for sale, including:	**18,118,137**	**8,777,378**	**682,261**	**7,090,616**	**255,724**	**20,231,436**
Investments in related parties	4,957,219	1,579,468	11,049	-	154,320	6,393,416
Shares, stock and other variable income securities, participation units and investment certificates of investment funds	12,264,218	298,550	645,143	144,439	97,749	12,965,723
Debt securities and other fixed income securities	896,700	6,899,360	26,069	6,946,177	3,655	872,297
Total	**27,091,323**	**209,755,722**	**1,075,351**	**206,807,151**	**576,726**	**30,538,519**

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2.3 Investments in property

Investments in property	31 December 2015	31 December 2014
a) own land	29,743	30,073
- by cost	34,516	34,773
- by current value	108,151	91,542
b) land perpetual usufruct right	4,958	7,629
c) buildings and structures	431,340	447,229
- by cost	702,603	711,806
- by current value	451,745	470,827
d) cooperative ownership of premises	6,420	6,583
d) non-current assets under construction	3,351	906
f) advances for construction investments	-	-
Total investments in property	**475,812**	**492,420**

Change in investments in property	31 December 2015	31 December 2014
a) gross value – opening balance	**797,186**	**824,665**
b) increases (due to)	17,797	14,409
- investments	10,121	5,793
- direct purchase	7,676	8,259
- other	-	357
c) decreases (due to)	25,644	41,888
- liquidation	-	-
- sale	17,968	28,883
- donations	-	-
- other	7,676	13,005
d) gross value – closing balance	**789,339**	**797,186**
e) accumulated depreciation – at the beginning of the period	**225,547**	**219,003**
f) depreciation for the period (due to)	9,310	6,544
- current year charges	18,428	19,333
- depreciation of liquidated tangible assets	-	-
- depreciation of tangible assets sold	(9,363)	(12,937)
- depreciation of tangible assets donated	-	-
- other	245	148
g) accumulated depreciation – at the end of the period	**234,857**	**225,547**
h) impairment losses – at the beginning of the period	**79,219**	**90,501**
- increases	73	614
- decreases	622	11,896
i) impairment losses – at the end of the period	**78,670**	**79,219**
j) carrying amount – closing balance	**475,812**	**492,420**

Change in property value for year ended 31 December 2015	Land and perpetual usufruct right	Buildings and structures, commercial space	Right to residential and commercial space	Construction investments	Advances for construction investments	Total property
a) gross value of property – at the beginning of the period	**73,280**	**711,806**	**11,194**	**906**	**-**	**797,186**
b) increases (due to)	**107**	**7,137**	**432**	**10,121**	**-**	**17,797**
- investments	-	-	-	10,121	-	10,121
- direct purchase	107	7,137	432	-	-	7,676
- other	-	-	-	-	-	-
c) decreases (due to)	**1,369**	**16,340**	**259**	**7,676**	**-**	**25,644**
- liquidation	-	-	-	-	-	-
- sale	1,369	16,340	259	-	-	17,968
- donations	-	-	-	-	-	-
- other	-	-	-	7,676	-	7,676
d) gross value of property – closing balance	**72,018**	**702,603**	**11,367**	**3,351**	**-**	**789,339**
e) accumulated depreciation – at the beginning of the period	**29,802**	**191,172**	**4,573**	**-**	**-**	**225,547**
f) depreciation for the period (due to)	**1,666**	**7,270**	**374**	**-**	**-**	**9,310**
- current year charges	2,649	15,499	280	-	-	18,428
- accumulated depreciation of property liquidated	-	-	-	-	-	-
- accumulated depreciation of property sold	(983)	(8,229)	(151)	-	-	(9,363)
- accumulated depreciation of property donated	-	-	-	-	-	-
- other	-	-	245	-	-	245
g) accumulated depreciation – at the end of the period	**31,468**	**198,442**	**4,947**	**-**	**-**	**234,857**
h) impairment losses – at the beginning of the period	**5,776**	**73,405**	**38**	**-**	**-**	**79,219**
- increases	73	-	-	-	-	73
- decreases	-	584	38	-	-	622
i) impairment losses – at the end of the period	**5,849**	**72,821**	**-**	**-**	**-**	**78,670**
j) carrying amount of property – closing balance	**34,701**	**431,340**	**6,420**	**3,351**	**-**	**475,812**

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Change in property value for year ended 31 December 2014	Land and perpetual usufruct right	Buildings and structures, commercial space	Right to residential and commercial space	Construction investments	Advances for construction investments	Total property
a) gross value of property – at the beginning of the period	**78,892**	**726,818**	**10,837**	**3,372**	**4,746**	**824,665**
b) increases (due to)	169	8,090	357	5,793	-	14,409
- investments	-	-	-	5,793	-	5,793
- direct purchase	169	8,090	-	-	-	8,259
- other	-	-	357	-	-	357
c) decreases (due to)	5,781	23,102	-	8,259	4,746	41,888
- liquidation	-	-	-	-	-	-
- sale	5,781	23,102	-	-	-	28,883
- donations	-	-	-	-	-	-
- other	-	-	-	8,259	4,746	13,005
d) gross value of property – closing balance	**73,280**	**711,806**	**11,194**	**906**	**-**	**797,186**
e) accumulated depreciation – at the beginning of the period	**30,312**	**184,550**	**4,141**	**-**	**-**	**219,003**
f) depreciation for the period (due to)	(510)	6,622	432	-	-	6,544
- current year charges	3,071	15,978	284	-	-	19,333
- accumulated depreciation of property liquidated	-	-	-	-	-	-
- accumulated depreciation of property sold	(3,581)	(9,356)	-	-	-	(12,937)
- accumulated depreciation of property donated	-	-	-	-	-	-
- other	-	-	148	-	-	148
g) accumulated depreciation – at the end of the period	**29,802**	**191,172**	**4,573**	**-**	**-**	**225,547**
h) impairment losses – at the beginning of the period	**5,790**	**79,965**	**-**	**-**	**4,746**	**90,501**
- increases	49	527	38	-	-	614
- decreases	63	7,087	-	-	4,746	11,896
i) impairment losses – at the end of the period	**5,776**	**73,405**	**38**	**-**	**-**	**79,219**
j) carrying amount of property – closing balance	**37,702**	**447,229**	**6,583**	**906**	**-**	**492,420**

Property (by purpose)	31 December 2015	31 December 2014
a) used for own purposes	434,756	415,999
b) other	41,056	76,421
Total property (by use)	**475,812**	**492,420**

Investments in property	31 December 2015	31 December 2014
a) short-term	44,976	37,596
b) long-term	430,836	454,824
Total investments in property	**475,812**	**492,420**

Investments in property (by currency)	31 December 2015	31 December 2014
a) in PLN	475,812	492,420
b) foreign currencies (by currency and converted to PLN)	-	-
Total investments in property	**475,812**	**492,420**

Investments in property	31 December 2015	31 December 2014
Value of land in perpetual usufruct not used for own purposes	177	1,077
Total value of land in perpetual usufruct not used for own purposes	**177**	**1,077**

2.4 Investments in related parties

Investments in related parties	31 December 2015	31 December 2014
a) shares in subsidiaries, including:	7,463,908	6,393,416
- long-term investments	7,463,908	6,393,416
b) shares in joint-ventures, including:	-	-
- long-term investments	-	-
c) shares in associates, including:	-	-
- long-term investments	-	-
d) loans granted to subsidiaries, including:	235,161	79,974
- long-term investments	235,161	79,974
e) loans granted to joint-ventures, including:	-	-
- long-term investments	-	-
f) loans granted to associates, including:	-	-
- long-term investments	-	-
g) debt securities of subsidiaries, including:	-	-
- long-term investments	-	-
h) debt securities of joint-ventures, including:	-	-
- long-term investments	-	-
i) debt securities of associates, including:	-	-
- long-term investments	-	-
j) other investments (by type), including:	341,709	-
- long-term investments	341,709	-
Total investments in related parties	**8,040,778**	**6,473,390**

As at 31 December 2015 and 31 December 2014, PZU did not hold any securities in related parties, guaranteed by the State Treasury or international organizations which Poland has joined, or local government.

Investments in related parties measured using the equity method	31 December 2015	31 December 2014
a) shares or stock, including:	7,463,908	6,393,416
- in subsidiaries	7,463,908	6,393,416
- in joint-ventures	-	-
- in associates	-	-
b) loans granted, including:	235,161	79,974
- to subsidiaries	235,161	79,974
- to joint-ventures	-	-
- to associates	-	-
c) debt instruments, including:	-	-
- subsidiaries	-	-
- joint-ventures	-	-
- associates	-	-
d) other (by type), including:	341,709	-
- in subsidiaries	341,709	-
- in joint-ventures	-	-
- in associates	-	-
Total investments in related parties measured with equity method	**8,040,778**	**6,473,390**

Investments in related parties measured using the equity method	31 December 2015	31 December 2014
a) goodwill of related parties	1,290,647	754,806
- subsidiaries	1,290,647	754,806
- joint-ventures	-	-
- associates	-	-
b) negative goodwill of related parties	-	-
- subsidiaries	-	-
- joint-ventures	-	-
- associates	-	-

Changes in goodwill - subsidiaries	31 December 2015	31 December 2014 [2)]
a) gross value of goodwill – at the beginning of the period including:	754,536	6,791
- from UAB DK PZU Lithuania	754	754
- UAB PZU Lietuva Gyvybes Draudimas	81	81
- PrJSC IC PZU Ukraine	4,361	4,361
- PrJSC IC PZU Ukraine Life Insurance	1,595	1,595
- Lietuvos Draudimas AB	436,809	-
- Link4 SA	221,377	-
- AAS Balta	89,559	-
b) increases	676,182	747,745
- Lietuvos Draudimas AB	-	436,809
- Link4 SA	-	221,377
- AAS Balta	-	89,559
- Alior Bank	676,182	-
c) decreases	754	-
- from UAB DK PZU Lithuania	754	-
d) gross value of goodwill – closing balance	1,429,964	754,536
- from UAB DK PZU Lithuania	-	754
- UAB PZU Lietuva Gyvybes Draudimas	81	81
- PrJSC IC PZU Ukraine	4,361	4,361

- PrJSC IC PZU Ukraine Life Insurance	1,595	1,595
- Lietuvos Draudimas AB	436,809	436,809
- Link4 SA	221,377	221,377
- AAS Balta	89,559	89,559
- Alior Bank	676,182	-
e) accumulated amortization of goodwill – opening balance	13,523	6,791
- from UAB DK PZU Lithuania	754	754
- UAB PZU Lietuva Gyvybes Draudimas	81	81
- PrJSC IC PZU Ukraine	4,361	4,361
- PrJSC IC PZU Ukraine Life Insurance	1,595	1,595
- Lietuvos Draudimas AB	1,103	-
- Link4 SA	5,263	-
- AAS Balta	366	-
- Alior Bank	-	-
f) amortization of goodwill for the period	52,791	6,732
- from UAB DK PZU Lithuania[1)]	(754)	-
- Lietuvos Draudimas AB	29,431	1,103
- Link4 SA	14,415	5,263
- AAS Balta	6,324	366
- Alior Bank	3,375	-
g) accumulated amortization of goodwill – closing balance	66,314	13,523
- from UAB DK PZU Lithuania	-	754
- UAB PZU Lietuva Gyvybes Draudimas	81	81
- PrJSC IC PZU Ukraine	4,361	4,361
- PrJSC IC PZU Ukraine Life Insurance	1,595	1,595
- Lietuvos Draudimas AB	30,534	1,103
- Link4 SA	19,678	5,263
- AAS Balta	6,690	366
- Alior Bank	3,375	-
h) carrying amount of goodwill – closing balance	1,363,650	741,013
- from UAB DK PZU Lithuania[1)]	-	-
- UAB PZU Lietuva Gyvybes Draudimas	-	-
- PrJSC IC PZU Ukraine	-	-
- PrJSC IC PZU Ukraine Life Insurance	-	-
- Lietuvos Draudimas AB	406,275	435,706
- Link4 SA	201,699	216,114
- AAS Balta	82,869	89,193
- Alior Bank	672,807	-

[1)] UAB DK PZU Lithuania was sold in 2015, description in detail in Note 2.4.1of Supplementary information and explanations.

[2)] Data transformer due to completed purchase price allocation of Link4 and Lietuvos Draudimas.

Goodwill in the above table relating to related parties is expressed in EUR and converted into PLN for every balance sheet date according to the current exchange rate, except the goodwill of Alior Bank expressed in PLN. Foreign exchange differences from translation and depreciation are disclosed as changes in impairment of goodwill.

Calculation of goodwill – Alior Bank[1)]	**As at the day of purchase of the first installment**	**As at the day of purchase of the third installment**
Assets	36,935,727	39,425,606
New intangible assets identified during the acquisition – trademark (including amortization)	100,000	98,889
Deferred tax from new intangible assets identified during the acquisition – trademark	(19,000)	(18,789)
Liabilities	(33,835,399)	(36,492,766)
Fair value of acquired net assets	**3,181,328**	**3,012,940**
Share in share capital	9.9645%	9.9645%
Fair value of purchased net assets including share in share capital	**317,003**	**300,224**
Fair value of payment made – cash	646,704	646,705
Goodwill	**329,701**	**346,481**

[1)] The amounts resulting from the initial settlement of the purchase price are subject to change as a result of the completion of the process within a maximum period of 12 months from the date of commencing control.

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Change in investments in related parties (by type)	31 December 2015	31 December 2014
a) opening balance	**6,473,390**	**4,957,219**
- shares and stock in related parties	6,393,416	4,957,219
- loans granted	79,974	-
- contribution to share capital	-	-
b) increases (due to)	**2,019,535**	**1,670,491**
- acquisition	1,934,376	1,658,095
- revaluation adjustments	85,159	12,396
- other	-	-
c) decreases (due to)	**452,147**	**154,320**
- sale or redemption	258,839	-
- revaluation adjustments	193,308	154,320
- other	-	-
d) closing balance	**8,040,778**	**6,473,390**
- shares and stock in related parties	7,805,617	6,393,416
- loans granted	235,161	79,974
- contribution to share capital	-	-

Shares and securities in related parties	31 December 2015	31 December 2014
a) listed on the regulated market	1,294,327	-
b) not listed on the regulated market	6,169,581	6,393,416
Total shares and securities in related parties	**7,463,908**	**6,393,416**

Shares, stock and other financial instruments in related parties (long-term investments) by disposability	31 December 2015	31 December 2014
A. Unrestricted, listed on regulated market (carrying amount)	**1,294,327**	**-**
a) stock (carrying amount)	1,294,327	-
- revaluation adjustments (for the period)	1,294,327	-
- opening balance	-	-
- at cost	1,293,409	-
b) bonds (carrying amount):	-	-
- revaluation adjustments (for the period)	-	-
- opening balance	-	-
- at cost	-	-
c) other – by group (carrying amount)	-	-
- revaluation adjustments (for the period)	-	-
- opening balance	-	-
- at cost	-	-
B. Unrestricted, listed on OTC market (carrying amount)	**-**	**-**
a) stock (carrying amount)	-	-
- revaluation adjustments (for the period)	-	-
- opening balance	-	-
- at cost	-	-
b) bonds (carrying amount):	-	-
- revaluation adjustments (for the period)	-	-
- opening balance	-	-
- at cost	-	-
c) other – by group (carrying amount)	-	-
- revaluation adjustments (for the period)	-	-
- opening balance	-	-
- at cost	-	-

C. Unrestricted, not listed on the regulated market (carrying amount)	**6,746,451**	**6,253,791**
a) stock (carrying amount)	5,906,925	5,913,444
- revaluation adjustments (for the period)	(6,519)	1,211,855
- opening balance	5,913,444	4,701,589
- at cost	2,139,476	2,028,028
b) bonds (carrying amount):	-	-
- revaluation adjustments (for the period)	-	-
- opening balance	-	-
- at cost	-	-
c) other – by group (carrying amount)	839,526	340,347
shares in related parties (balance sheet value)	262,656	260,373
- revaluation adjustments (for the period)	2,283	4,743
- opening balance	260,373	255,630
- at cost	261,219	261,219
loans granted (balance sheet value)	235,161	79,974
- revaluation adjustments (for the period)	155,187	79,974
- opening balance	79,974	-
- at cost	230,401	78,627
other investments (balance sheet value)	341,709	-
- revaluation adjustments (for the period)	341,709	-
- opening balance	-	-
- at cost	341,709	-
D. Restricted (carrying amount)	**-**	**-**
a) shares or stock (carrying amount):	-	-
- revaluation adjustments (for the period)	-	-
- opening balance	-	-
- at cost	-	-
b) bonds (carrying amount):	-	-
- revaluation adjustments (for the period)	-	-
- opening balance	-	-
- at cost	-	-
c) other – by group (carrying amount)	-	-
- revaluation adjustments (for the period)	-	-
- opening balance	-	-
- at cost	-	-
Total at cost	**4,266,214**	**2,367,874**
Total opening balance	**6,253,791**	**4,957,219**
Total revaluation adjustments (for the period)	**1,786,987**	**1,296,572**
Total carrying amount	**8,040,778**	**6,253,791**

Shares, stock and other financial instruments in related parties (short-term investments) by disposability	**31 December 2015**	**31 December 2014**
A. Unrestricted, listed on regulated market (carrying amount)	**-**	**-**
a) stock (carrying amount)	-	-
- fair value	-	-
- market value	-	-
- at cost	-	-
b) bonds (carrying amount):	-	-
- fair value	-	-
- market value	-	-
- at cost	-	-

c) other – by group (carrying amount)	-	-
- fair value	-	-
- market value	-	-
- at cost	-	-
B. Unrestricted, listed on OTC market (carrying amount)	**-**	**219,599**
a) stock (carrying amount)	-	219,599
- fair value	-	219,599
- market value	-	219,599
- at cost	-	349,739
b) bonds (carrying amount):	-	-
- fair value	-	-
- market value	-	-
- at cost	-	-
c) other – by group (carrying amount)	-	-
- fair value	-	-
- market value	-	-
- at cost	-	-
C. Unrestricted, not listed on the regulated market (carrying amount)	**-**	**-**
a) stock (carrying amount)	-	-
- fair value	-	-
- market value	-	-
- at cost	-	-
b) bonds (carrying amount):	-	-
- fair value	-	-
- market value	-	-
- at cost	-	-
c) other – by group (carrying amount)	-	-
- fair value	-	-
- market value	-	-
- at cost	-	-
D. Restricted (carrying amount)	**-**	**-**
a) shares or stock (carrying amount):	-	-
- fair value	-	-
- market value	-	-
- at cost	-	-
b) bonds (carrying amount):	-	-
- fair value	-	-
- market value	-	-
- at cost	-	-
c) other – by group (carrying amount)	-	-
- fair value	-	-
- market value	-	-
- at cost	-	-
Total at cost	**-**	**349,739**
Total opening balance	**219,599**	**-**
Total revaluation adjustments (for the period)	**(219,599)** [1)]	**(130,140)**
Total carrying amount	**-**	**219,599**

[1)] The item refers to PZU Lithuania shares subject to the share purchase agreement, described in Note 2.4.1 of Supplementary information and explanations.

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2.4.1. Sale of PZU Lithuania shares

On 2 February 2015, a share purchase agreement of shares of PZU Lithuania was signed, under which Gjensidige Forsikring ASA with its registered office in Oslo (Norway) acquired 1,761,941 ordinary registered shares in PZU Lithuania with the nominal value of EUR 28.96 each, representing a total of 99.879% of the share capital of PZU Lithuania.

The sale of the shares was subject to the fulfillment of the following conditions precedant:

- lack of objection of the Bank of Lithuania regarding the purchase of shares in PZU Lithuania by the purchaser (condition fulfilled on 13 August 2015);
- consent of the Latvian and Estonian antitrust authorities or a written confirmation that such consent is not required (PZU received confirmation concerning the lack of need to obtain such consents on 25 May 2015 and 14 May 2015, respectively);
- consent of the Lithuanian Competition Council (on 7 April 2015, PZU acquired information on fulfillment of this condition);
- completion of the process of separating assets and liabilities of PZU Lithuania related to the operations carried out by the branches of PZU Lithuania in Latvia and Estonia to PZU Group (condition fulfilled on 23 June 2015);
- obtaining the consent of the Bank of Lithuania on the early repayment by PZU Lithuania of a subordinated loan granted to PZU Lithuania by PZU (the approval was granted on 15 July 2015, and the loan was repaid on 16 July 2015);
- consent of the Norwegian Financial Supervision Authority for the purchase of the shares in PZU Lithuania by the purchaser (on 14 May 2015, PZU acquired information on fulfillment of this condition);
- waiver of the preemptive right by the minority shareholder of PZU Lithuania (holding 0.121% of the share capital) in relation to the shares of PZU Lithuania in favor of PZU (condition fulfilled on 30 September 2015);
- consent of the Lithuanian government commission for the purchase of the shares in PZU Lithuania by the purchaser or a written confirmation that such consent is not required (on 14 May 2015, PZU acquired information on fulfillment of this condition).

Closing of the sale transaction of shares of PZU Lithuania and loss of control occurred on 30 September 2015.

Payment for PZU Lithuania shares made on the day the transaction was closed amounted to EUR 65,966 thousand (at the NBP exchange rate established on the day preceding the trade date: PLN 279,921 thousand). Impact of this transaction on the gross financial result of PZU amounted to PLN 58,834 thousand.

On 17 February 2016, the purchase price was adjusted by the difference between the estimated amount of compensation of net assets and the actual amount of compensation of net assets (determined on the basis of the closing balance prepared by the buyer and accepted by PZU). Due to the adjustment, the purchase price was lowered by EUR 349 thousand (at the NBP exchange rate of 31 December 2015: PLN 1,488 thousand).

In addition, the price shall be adjusted by four payments made in 6-month periods, each time in the amount of 1.5% of the amount of excess capital calculated as the difference between the actual equity of PZU Lithuania determined in accordance with the requirements of the Bank of Lithuania and the required PZU Lithuania capital calculated in accordance with the provisions of law and regulations binding PZU Lithuania.

2.4.2. Purchase of Alior Bank shares

Based on the Alior Bank preliminary share purchase agreement of 30 May 2015, PZU acquired 17,818,473 shares in Alior Bank from Alior Lux S.à.r.l. & Co. S.C.A ("Seller 1") and 500,000 shares in Alior Bank from Alior Polska sp. z o.o. ("Seller 2"), i.e. the total of 18,318,473 shares, constituting approximately 25.25% of share capital of Alior Bank and total number of votes at the General Shareholders' Meeting of Alior Bank.

The Alior Bank shares, after fulfilling the conditions included in the purchase agreement, are purchased by PZU in three tranches:

- first – 6,744,900 shares from Seller 1 and 500,000 from Seller 2;
- second – 7,244,900 shares from Seller 1;

- third – 3,828,673 shares from Seller 1.

Price per share is PLN 89.25 and the total price of purchased shares is PLN 1,634,924 thousand.

Transaction realization was subject to the fulfillment of the following conditions precedant, which were also conditions precedant for realization of each tranche(the first three points apply to the first tranche only):

- lack of objection of the Polish Financial Supervision Authority ("PFSA") regarding the purchase of shares in Alior Bank by PZU (on 6 October 2015, PFSA found there are no grounds for objection);
- obtaining the consent of the President of the Office of Competition and Consumer Protection by PZU or considering it obtained (on 6 August 2015, PZU acquired information on fulfillment of this condition);
- obtaining the consent of the Ukrainian anti-monopoly authority by PZU (on 2 September, 2015 PZU acquired the decision about the approval);
- lack of breach of representations and warranties made by the parties to this agreement (condition fulfilled on 9 October 2015);
- lack of unauthorized benefits included in the agreement which were not properly compensated (condition fulfilled on 9 October 2015);
- lack of significant adverse change included in the agreement (condition fulfilled on 9 October 2015);
- lack of breach of representations during the transitional period between the date of signing the agreement and the date of next tranche (condition fulfilled on 9 October 2015);
- acquisition of the organized part of the company of Seller 2 by Alior Bank, including property listed in points a) – d) of the resolution No. 27/2015 of the General Shareholders' Meeting of Alior Bank of 25 May 2015 (condition fulfilled on 31 July 2015).

On 12 October 2015, acquisition of the first tranche of Alior Bank shares was settled. The acquisition of the second tranche was settled on 18 December. The payment for each tranche was PLN 646,705 thousand (PLN 1,293,409 thousand in total). Between 12 October and 18 December 2015, Alior Bank was considered an associate. As at 18 December 2015, the Management Board of PZU made additional analyses of the level of association with Alior Bank and concluded that:

- it holds, both directly and indirectly, 23.9574% (including 4.0284%, indirectly held through its controlled investment funds) of Alior Bank Shares (including potential vote rights resulting from the absolute obligation to purchase the third tranche – 29.2232%) conferring the right to the same number of votes at the General Shareholders' Meeting of Alior Bank;
- only three shareholders hold share packages of over 5% and the remaining shareholding structure is fragmented, what means that only a joint effort of many entities would create a possibility to pass a vote against PZU;
- it would hold a majority of votes on most General Shareholder's Meetings (as a result of attendance and vote result analysis at General Shareholders' Meeting of Alior Bank in 2013-2015);
- PZU requested the appointment of a new member of the Management Board of Alior Bank (previously a Member of the Management Board of PZU) and two Members of the Supervisory Board who are part of key management personnel of PZU;
- undertook investment obligations towards Alior Bank; due to that fact, its exposure to variability of Alior Bank's financial result is greater than it would result from the interest it holds in Alior Bank's capital.

Due to the above, the Management Board of PZU concluded that as of 18 December 2015, it has control over Alior Bank, despite the fact that it does not hold the right to a minimum of 50% of votes at the General Shareholder's Meeting.

At the same time, bearing in mind the obligations arising from the sale agreement for the shares of Alior Bank, in the balance sheet of PZU as of 31 December 2015, 3,828,673 shares from the third tranche of Alior Bank were recognized, which represented 5.2658% of the share capital of Alior Bank and the total number of votes at the General Shareholders' Meeting of Alior Bank, measured at the price arising from the sale agreement, i.e., the total amount of PLN 341,709 thousand, and recognizing corresponding liability in the same amount presented in section 11.5 of the Supplementary information and explanations.

Finalization of the purchase of the third tranche of shares is described in section 7.1 of the Introduction to the financial statements.

Since 12 October 2015, Alior Bank is measured using the equity method in the separate financial statements of PZU.

2.4.3. Loans for subsidiaries

2.4.3.1. Loan granted to PZU Zdrowie SA

On 23 March 2015, a subordinated loan agreement was concluded between PZU and PZU Zdrowie SA covering the amount no greater than PLN 200,000 thousand. The first installment in the amount of PLN 90,000 thousand was released on 26 March 2015, and the second installment in the amount of PLN 40,000 thousand was released on 29 September 2015. The loan bears no interest. The loan should be paid in 120 equal installments, no later than on 31 December 2030. As at 31 December 2015, the amount of loan was PLN 130,000 thousand.

2.4.3.2. Loan granted to Link4

On 12 September 2014, a subordinated loan agreement was concluded between PZU and Link4 covering the amount of PLN 30,000 thousand. The loan should be paid on 15 September 2019 or the following working day, whereas an early repayment is possible only in the event of liquidation of Link4 or with the consent of the PFSA.

The interest rate on the loan was determined on an arm's length basis (6-month WIBOR rate increased by 350 bps.).

As at 31 December 2015, the amount of loan was PLN 31,878 thousand.

List of subsidiaries as at 31 December 2015, financial data included

	a) Entity name (including the status of business)	b) Registered office	c) Company's scope of operation	d) Capital relationship	e) Applied consolidation method/ measurement using the equity method, or indication that the entity is not subject to consolidation/ measurement using the equity method	f) Date of commencing control/ significant impact	g) Value of stock/ shares per cost	h) Total revaluation adjustment [1)]	i) Carrying amount of stock/ shares	j) Percentage of share capital directly or indirectly held by PZU	k) Share in total number of votes at the General Shareholders' Meeting	l) Basis of control/ significant impact other than that referred to in sections j) and k)
1.	Powszechny Zakład Ubezpieczeń na Życie SA ("PZU Życie")	Warsaw	Conducting life insurance activities	subsidiary	full consolidation	18.12.1991	295,088	3,958,465	4,253,553	100.00%	100.00%	n/a
2.	Alior Bank Group	Warsaw	Conducting banking activities	subsidiary [2)]	full consolidation	18.12.2015	1,293,409	918	1,294,327	19.93%	19.93%	n/a
3.	Lietuvos Draudimas AB	Vilnius – Lithuania	Conducting non-life insurance activities	subsidiary	full consolidation	31.10.2014	806,968	40,273	847,241	99.98%	99.98%	n/a
4.	Link4 Towarzystwo Ubezpieczeń SA ("Link4")	Warsaw	Conducting non-life insurance activities	subsidiary	full consolidation	15.09.2014	473,482	(58,375)	415,107	100.00%	100.00%	n/a
5.	Apdrošināšanas Akciju Sabiedrība Balta ("AAS Balta")	Riga – Latvia	Conducting non-life insurance activities	subsidiary	full consolidation	30.06.2014	200,776	(19,208)	181,568	99.99%	99.99%	n/a
6.	Ogrodowa - Inwestycje Sp. z o.o. ("Ogrodowa Inwestycje")	Warsaw	Business and management counselling, activities of holding companies	subsidiary	full consolidation	15.09.2004	142,255	1,284	143,539	100.00%	100.00%	n/a
7.	Tower-Inwestycje Sp. z o.o. (former PZU Tower Sp. z o.o.) ("PZU Tower")	Warsaw	Other financial service activities, except insurance and pension funding	indirect subsidiary	full consolidation	17.08.1999	112,900	4,504	117,404	27.47%	27.47%	n/a
8.	Towarzystwo Funduszy Inwestycyjnych PZU SA ("TFI PZU")	Warsaw	Creation, representing and management of investment funds	subsidiary	full consolidation	27.09.2011	38,403	35,283	73,686	100.00%	100.00%	n/a
9.	PZU Centrum Operacji SA ("PZU CO")	Warsaw	Activities auxiliary to insurance and pension funding	subsidiary	full consolidation	27.09.2011	40,645	(4,296)	36,349	100.00%	100.00%	n/a
10.	UAB PZU Lietuva Gyvybes Draudimas	Vilnius – Lithuania	Conducting life insurance activities	subsidiary	full consolidation	08.04.2004	40,235	(13,285)	26,950	99.34%	99.34%	n/a
11.	Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych ("TUW PZUW")	Warsaw	Conducting non-life insurance activities	subsidiary	full consolidation	20.11.2015	25,850	7	25,857	100.00%	100.00%	n/a
12.	PZU Pomoc SA	Warsaw	Assistance services	subsidiary	full consolidation	18.03.2009	18,566	1,213	19,779	100.00%	100.00%	n/a
13.	PZU Asset Management S.A. ("PZU AM")	Warsaw	Management of third-party securities portfolio on a fee or commission basis	subsidiary	full consolidation	12.07.2001	11,463	(3,591)	7,872	100.00%	100.00%	n/a
14.	PrJSC IC PZU Ukraine	Kiev – Ukraine	Conducting non-life insurance activities	subsidiary	full consolidation	01.07.2005	143,666	(135,539)	8,127	89.97%	89.97%	n/a

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15.	PrJSC IC PZU Ukraine Life Insurance	Kiev – Ukraine	Conducting life insurance activities	subsidiary	full consolidation	01.07.2005	32,584	(27,408)	5,176	53.47%	53.47%	n/a
16.	PZU Zdrowie SA ("PZU Zdrowie")	Warsaw	Provision of medical services	subsidiary	full consolidation	02.09.2011	10,664	(6,263)	4,401	100.00%	100.00%	n/a
17.	PZU Finanse Sp. z o.o.	Warsaw	Other financial service activities, except insurance and pension funding	subsidiary	full consolidation	30.10.2013	2,050	(363)	1,687	100.00%	100.00%	n/a
18.	Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA in liquidation ("MPTE PZU SA")	Warsaw	Development and management of employee pension fund.	subsidiary	full consolidation	13.08.2004	500	(304)	196	100.00%	100.00%	n/a
19.	PZU Finance AB	Stockholm – Sweden	Financing services	subsidiary	full consolidation	02.06.2014	236	514	750	100.00%	100.00%	n/a
20.	Omicron BIS SA	Warsaw	The company does not conduct any lease activity	subsidiary	full consolidation	21.08.2014	150	(14)	136	100.00%	100.00%	n/a
21.	Sigma BIS SA	Warsaw	The company does not conduct any lease activity	subsidiary	full consolidation	19.08.2015	100	(4)	96	100.00%	100.00%	
22.	Ipsilon Sp. z o.o.	Warsaw	Assistance services and provision of medical services	subsidiary	full consolidation	02.04.2009	52	(26)	26	100.00%	100.00%	n/a
23.	Omicron SA	Warsaw	The company does not conduct any lease activity	subsidiary	full consolidation	13.09.2011	100	(19)	81	100.00%	100.00%	n/a
24.	Syta Development Sp. z o.o. in liquidation ("Syta Development")	Warsaw	Acquisition and dispose of real estate, real estate agency services, property administration	subsidiary	unconsolidated	29.04.1996	3,962	(3,962)	-	100.00%	100.00%	n/a
	Total						**3,694,104**	**3,769,804**	**7,463,908**			

[1] "Total revaluation adjustment" shows change in value resulting from measurement using the equity method, including goodwill amortization and impairment losses.

[2] Alior Bank was considered a subsidiary based on the ratios described in Note 2.4.2 of Supplementary information and explanations.

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	a) Entity name (including the status of business)	m) Entity's equity, including:						n) Liabilities and provisions for liabilities, including:		o) Entity's receivables		p) Total entity's assets	r) Revenue from sale	s) Value of stock/ shares not paid by the issuer	t) Dividends received from or due by the entity for the previous financial year
		- share capital	- called up share capital (negative value)	- supplementary capital	- other equity, including: - other equity	- retained earnings (accumulated loss)	- net profit (loss)	- long-term liabilities	- short-term liabilities	- long-term	- short-term				
1.	PZU Życie 2)	295,000	-	2,854,505	51,924	-	1,052,124	3,290	1,094,747	9,810	256,730	27,956,769	8,065,078	-	2,420,174
2.	Alior Bank Group 1) 2)	727,075	-	2,279,843	199,950	(3,657)	309,648	3,622,521	32,831,390	-	484,862	40,003,010	2,944,950	-	-
3.	Lietuvos Draudimas AB 1)	48,541	-	9,707	35,626	338,085	74,736	42,615	96,958	6,068	156,793	1,255,911	638,450	-	-
4.	Link4 2)	111,355	-	273,506	10,557	(208,868)	(19,035)	31,878	193,601	14,112	122,050	881,620	494,939	-	-
5.	AAS Balta 1)	34,182	-	5,488	16,211	94,106	(4,942)	17,809	28,117	-	54,500	442,923	281,101	-	-
6.	Ogrodowa Inwestycje	142,255	-	482	1,550	-	(725)	1,414	3,071	-	1,167	149,508	19,997	-	-
7.	PZU Tower	411,000	-	-	14,649	(10,819)	12,567	-	1,803	-	95	432,671	193	-	-
8.	TFI PZU	13,000	-	27,355	7,981	-	24,894	-	14,415	2	18,689	103,559	172,622	-	9,227
9.	PZU CO	500	-	35,509	170	-	171	-	10,903	-	13,263	59,080	104,209	-	1,102
10.	UAB PZU Lietuva Gyvybes Draudimas 1)	29,309	-	-	2,288	(3,111)	(1,357)	-	1,709	-	119	127,061	43,062	-	-
11.	TUW PZUW	24,900	-	-	-	-	7	-	1,034	-	-	25,942	-	-	-
12.	PZU Pomoc SA	4,886	-	8,439	-	-	4,576	12,036	1,739	-	10,595	34,852	75,619	-	-
13.	PZU AM	5,000	-	2,913	32	-	(72)	-	12	88	37	7,923	-	-	3,806
14.	PrJSC IC PZU Ukraine 1)	7,216	-	658	144,571	(145,726)	2,314	-	53,682	-	36,256	133,188	137,564	-	-
15.	PrJSC IC PZU Ukraine Life Insurance 1)	7,153	-	126	22,072	(21,251)	1,581	-	3,167	-	974	82,997	30,620	-	-
16.	PZU Zdrowie	650	-	10,014	-	(34)	(6,236)	130,000	2,493	-	7,254	147,259	11,860	-	-
17.	PZU Finanse Sp. z o.o.	50	-	-	2,000	(36)	(353)	-	339	-	335	2,144	515	-	-
18.	MPTE PZU SA	693	-	-	-	-	(495)	-	26	-	-	259	-	-	-
19.	PZU Finance AB 1)	219	-	-	15	23	494	3,569,863	48,637	-	72	3,619,250	-	-	-
20.	Omicron BIS SA	150	-	-	-	-	(14)	-	0	-	-	140	-	-	-
21.	Sigma BIS SA	96	-	-	-	-	(4)	-	-	-	-	97	-	-	-
22.	Ipsilon Sp. z o.o.	50	-	-	-	(20)	(4)	-	1	-	-	27	-	-	-
23.	Omicron SA	100	-	-	-	(15)	(7)	-	-	-	-	82	-	-	-
24.	Syta Development	831	-	9,908	(285)	(10,005)	(166)	-	14	-	-	298	-	-	-

Data above are based on unaudited financial statements of the companies, except PZU Życie, PZU Zdrowie, TFI PZU and Alior Bank Group.

1) Data according to IFRS.

2) In case of insurance companies, "revenue from sale" shows gross written premiums and other technical revenue. In the case of Alior Bank, interest income and income from commissions and charges.

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List of related parties as at 31 December 2014, financial data included

	a) Entity name (including the status of business)	b) Registered office	c) Company's scope of operation	d) Capital relationship	e) Applied consolidation method/ measurement using the equity method, or indication that the entity is not subject to consolidation/ measurement using the equity method	f) Date of commencing control/ significant impact	g) Value of stock/ shares per cost	h) Total revaluation adjustment [1]	a) Carrying amount of stock/ shares	j) Percentage of share capital directly or indirectly held by PZU	k) Share in total number of votes at the General Shareholders' Meeting	l) Basis of control/ significant impact other than that referred to in sections j) and k)
1.	Powszechny Zakład Ubezpieczeń na Życie SA ("PZU Życie")	Warsaw	Conducting life insurance activities	subsidiary	full consolidation	18.12.1991	295,088	4,079,506	4,374,594	100.00%	100.00%	n/a
2.	Lietuvos Draudimas AB	Vilnius – Lithuania	Conducting non-life insurance activities	subsidiary	full consolidation	31.10.2014	807,598	(22,696)	784,902	99.98%	99.98%	n/a
3.	Link4 Towarzystwo Ubezpieczeń SA ("Link4")	Warsaw	Conducting non-life insurance activities	subsidiary	full consolidation	15.09.2014	393,917	(2,521)	391,396	100.00%	100.00%	n/a
4.	UAB DK PZU Lithuania ("PZU Lithuania")	Vilnius – Lithuania	Conducting non-life insurance activities	subsidiary	full consolidation	26.04.2002	349,739	(130,140)	219,599	99.88%	99.88%	n/a
5.	Apdrošināšanas Akciju Sabiedrība Balta ("AAS Balta")	Riga – Latvia	Conducting non-life insurance activities	subsidiary	full consolidation	30.06.2014	200,776	(13,894)	186,882	99.99%	99.99%	n/a
6.	Ogrodowa - Inwestycje Sp. z o.o. ("Ogrodowa Inwestycje")	Warsaw	Business and management counselling, activities of holding companies	subsidiary	full consolidation	15.09.2004	142,255	1,415	143,670	100.00%	100.00%	n/a
7.	Tower-Inwestycje Sp. z o.o. (former PZU Tower Sp. z o.o.) ("PZU Tower")	Warsaw	Other financial service activities, except insurance and pension funding	indirect subsidiary	full consolidation	17.08.1999	112,900	1,757	114,657	27.47%	27.47%	n/a
8.	Towarzystwo Funduszy Inwestycyjnych PZU SA ("TFI PZU")	Warsaw	Creation, representing and management of investment funds	subsidiary	full consolidation	27.09.2011	38,403	18,985	57,388	100.00%	100.00%	n/a
9.	PZU Centrum Operacji SA ("PZU CO")	Warsaw	Activities auxiliary to insurance and pension funding	subsidiary	full consolidation	27.09.2011	40,645	(2,596)	38,049	100.00%	100.00%	n/a
10.	UAB PZU Lietuva Gyvybes Draudimas	Vilnius – Lithuania	Conducting life insurance activities	subsidiary	full consolidation	08.04.2004	40,236	(11,910)	28,326	99.34%	99.34%	n/a
11.	PZU Pomoc SA	Warsaw	Assistance services	subsidiary	full consolidation	18.03.2009	18,566	1,869	20,435	100.00%	100.00%	n/a
12.	PZU Asset Management S.A. ("PZU AM")	Warsaw	Management of third-party securities portfolio on a fee or commission basis	subsidiary	full consolidation	12.07.2001	11,463	257	11,720	100.00%	100.00%	n/a
13.	PrJSC IC PZU Ukraine	Kiev – Ukraine	Conducting non-life insurance activities	subsidiary	full consolidation	01.07.2005	143,666	(135,206)	8,460	89.97%	89.97%	n/a
14.	PrJSC IC PZU Ukraine Life Insurance	Kiev – Ukraine	Conducting life insurance activities	subsidiary	full consolidation	01.07.2005	32,584	(26,519)	6,065	53.47%	53.47%	n/a
15.	Ipsilon Bis SA	Warsaw	Provision of medical services	subsidiary	full consolidation	02.09.2011	4,100	(33)	4,067	100.00%	100.00%	n/a
16.	PZU Finanse Sp. z o.o.	Warsaw	Other financial service activities, except insurance and pension funding	subsidiary	full consolidation	30.10.2013	2,050	(34)	2,016	100.00%	100.00%	n/a
17.	Międzyzakładowe	Warsaw	Development and	subsidiary	full consolidation	13.08.2004	500	178	678	100.00%	100.00%	n/a

	Pracownicze Towarzystwo Emerytalne PZU SA in liquidation ("MPTE PZU SA")		management of employee pension fund.									
18.	PZU Finance AB	Stockholm – Sweden	Financing services	subsidiary	full consolidation	02.06.2014	236	13	249	100.00%	100.00%	n/a
19.	Omicron BIS SA	Warsaw	The company does not conduct any lease activity	subsidiary	full consolidation	21.08.2014	150	(3)	147	100.00%	100.00%	n/a
20.	Ipsilon Sp. z o.o.	Warsaw	Assistance services and provision of medical services	subsidiary	full consolidation	02.04.2009	52	(22)	30	100.00%	100.00%	n/a
21.	Omicron SA	Warsaw	The company does not conduct any lease activity	subsidiary	full consolidation	13.09.2011	100	(14)	86	100.00%	100.00%	n/a
22.	Syta Development Sp. z o.o. in liquidation ("Syta Development")	Warsaw	Acquisition and dispose of real estate, real estate agency services, property administration	subsidiary	unconsolidated	29.04.1996	3,962	(3,962)	-	100.00%	100.00%	n/a
	Total						**2,638,986**	**3,754,430**	**6,393,416**			

1) "Total revaluation adjustment" shows change in value resulting from measurement using the equity method, including goodwill amortization and impairment losses.

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	a) Entity name (including the status of business)	m) Entity's equity, including:						n) Liabilities and provisions for liabilities, including:		o) Entity's receivables		p) Total entity's assets	r) Revenue from sale	s) Value of stock/ shares not paid by the issuer	t) Dividends received from or due by the entity for the previous financial year
		- share capital	- called up share capital (negative value)	- supplementary capital	- other equity, including: - other equity	- retained earnings (accumulated loss)	- net profit (loss)	- long-term liabilities	- short-term liabilities	- long-term	- short-term				
1.	PZU Życie [2]	295,000	-	2,723,207	155,054	-	1,201,333	2,602	2,055,289	4,784	353,470	29,503,727	8,183,342	-	2,060,000
2.	Lietuvos Draudimas AB [1]	48,541	-	9,707	35,302	362,131	(24,046)	-	82,194	2,937	96,797	984,753	82,724	-	-
3.	Link4 [2]	111,354	-	201,142	24,922	(208,868)	(22,636)	30,434	30,821	5,327	58,616	668,749	417,235	-	-
4.	PZU Lithuania 1)	216,481	-	-	54,250	(33,883)	(18,125)	-	23,713	-	52,158	670,352	295,680	-	-
5.	AAS Balta 1)	34,182	-	5,488	16,330	111,570	(17,465)	-	23,276	-	48,829	404,991	120,925	-	-
6.	Ogrodowa Inwestycje	142,255	-	2,345	921	-	(1,863)	1,858	3,261	-	1,633	150,719	21,376	-	-
7.	PZU Tower	411,000	-	-	176,216	(11,176)	357	-	68	-	102	580,548	326	-	-
8.	TFI PZU	13,000	-	18,128	7,695	-	18,454	-	17,114	2	29,182	93,458	146,145	-	11,989
9.	PZU CO	500	-	35,509	11	-	2,102	150	11,691	-	12,150	57,445	97,634	-	18,222
10.	UAB PZU Lietuva Gyvybes Draudimas 1)	29,309	-	-	2,318	(3,353)	241	-	1,821	-	196	109,886	37,168	-	-
11.	PZU Pomoc SA	4,886	-	12,695	-	-	2,309	12,017	20,051	-	15,539	54,353	46,495	-	-
12.	PZU AM	5,000	-	5,008	1,475	-	234	-	18	88	62	11,787	37	-	-
13.	PrJSC IC PZU Ukraine 1)	7,216	-	652	147,255	(144,494)	(1,226)	-	27,607	-	16,033	116,839	132,873	-	-
14.	PrJSC IC PZU Ukraine Life Insurance 1)	7,153	-	-	25,315	(25,448)	4,323	-	3,360	-	2,043	107,182	40,690	-	-
15.	Ipsilon Bis SA	100	-	-	4,000	(22)	(12)	-	1	-	-	4,071	-	-	-
16.	PZU Finanse Sp. z o.o.	50	-	-	2,000	-	(36)	-	2	-	1	2,019	-	-	-
17.	MPTE PZU SA	790	-	-	-	-	(120)	-	24	-	79	741	-	-	-
18.	PZU Finance AB 1)	219	-	-	6	-	23	-	701	-	128	2,128,486	-	-	-
19.	Omicron BIS SA	150	-	-	-	-	(3)	-	1	-	-	148	-	-	-
20.	Ipsilon Sp. z o.o.	50	-	-	-	(17)	(4)	-	1	-	-	31	-	-	-
21.	Omicron SA	100	-	-	-	(8)	(6)	-	-	-	-	89	-	-	-
22.	Syta Development	826	-	9,374	(285)	(9,601)	(404)	-	90	-	-	-	591	-	-

[1] Data according to IFRS.
[2] In case of insurance companies, "revenue from sale" shows gross written premiums and other technical revenue.

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Deposits in subsidiaries (currency structure)	31 December 2015	31 December 2014
a) in PLN	6,909,718	5,201,384
b) foreign currencies (by currency and converted to PLN)	1,131,060	1,272,006
b1. LTL thousand	-	836,704
PLN thousand	-	1,032,827
b2. UAH thousand	82,016	64,671
PLN thousand	13,303	14,525
b3. EUR thousand	262,116	52,649
PLN thousand	1,117,007	224,405
b4. SEK thousand	1,614	549
PLN thousand	750	249
Total investments in related parties	**8,040,778**	**6,473,390**

2.5 Other financial investments

Other financial investments	31 December 2015	31 December 2014
a) shares and other variable income securities	48	72
b) participation units and investment certificates of investment funds	13,606,029	12,965,651
c) debt securities and other fixed income securities	7,042,428	7,342,015
d) interests in joint ventures (investments)	-	-
e) mortgages, including:	917,623	660,869
- additionally collateralized with policies	-	-
f) other loans, including:	616,988	1,479,827
- for the insured, with policies as the basic collateral	-	-
- for the insured, not collateralized with policies	-	-
g) term deposits at credit institutions	1,391,806	1,368,226
h) other deposits	264,536	248,469
Total other financial investments	**23,839,458**	**24,065,129**

Change in other investments (by type)	31 December 2015	31 December 2014
a) opening balance	**24,065,129**	**22,134,104**
Shares, stock and other variable income securities, participation units and investment certificates of investment funds	12,965,723	12,264,218
Debt securities and other fixed income securities	7,342,015	7,841,501
Other investments	3,757,391	2,028,385
b) increases (due to)	**163,420,156**	**209,160,582**
- acquisition	162,485,518	208,097,627
- revaluation adjustments	934,638	1,062,955
- other	-	-
c) decreases (due to)	**163,645,827**	**207,229,557**
- sale or redemption	163,534,868	206,807,151
- revaluation adjustments	110,959	422,406
- other	-	-
d) closing balance	**23,839,458**	**24,065,129**
Shares, stock and other variable income securities, participation units and investment certificates of investment funds	13,606,077	12,965,723
Debt securities and other fixed income securities	7,042,428	7,342,015
Other investments	3,190,953	3,757,391

Other financial investments	31 December 2015	31 December 2014
a) short-term	2,533,315	4,084,369
b) long-term	21,306,143	19,980,760
Total other financial investments	**23,839,458**	**24,065,129**

Other financial investments (currency structure)	31 December 2015	31 December 2014
a) in PLN	20,942,131	22,324,996
b) foreign currencies (by currency and converted to PLN)	2,897,327	1,740,133
b1. EUR thousand	603,677	336,555
PLN thousand	2,572,568	1,434,500
b2. USD thousand	33,401	8,948
PLN thousand	130,300	31,384
b3. HUF thousand	4,925,961	16,353,080
PLN thousand	66,998	221,388
b4. other currencies PLN thousand	127,461	52,861
Total other financial investments	**23,839,458**	**24,065,129**

Other financial investments by portfolio qualification	31 December 2015	31 December 2014
a) financial assets held for trading	672,106	266,269
b) loans and receivables	3,238,178	3,820,939
c) financial assets held to maturity	5,376,840	6,139,901
d) financial assets available for sale	14,552,334	13,838,020
Total other financial investments	**23,839,458**	**24,065,129**

Other financial investments – in financial instruments	31 December 2015	31 December 2014
a) issued by the State Treasury or international organizations to which the Republic of Poland belongs	5,828,325	6,104,591
- long-term investments	5,507,730	5,352,044
- short- term investments	320,595	752,547
b) guaranteed by the State Treasury or international organizations to which the Republic of Poland belongs	603,212	602,968
c) issued by the National Bank of Poland	-	-
d) guaranteed by the National Bank of Poland	-	-
e) issued by local government units or their associations, or by the capital city of Warsaw	26,251	26,252
f) guaranteed by local government units or their associations, or by the capital city of Warsaw	-	-
g) other	17,381,670	17,331,318
Total other financial investments – in financial instruments	**23,839,458**	**24,065,129**

Securities (other financial investments)	31 December 2015	31 December 2014
a) listed on the regulated market	6,633,062	6,932,390
b) not listed on the regulated market	6,922,315	6,496,220
Total securities (other financial investments)	**13,555,377**	**13,428,610**

Shares and other variable income securities (carrying amount)	31 December 2015	31 December 2014
a) shares and stock including:	**48**	**72**
- long-term investments	48	72
b) debt securities, including:	-	-

- long-term investments	-	-
c) other (by type)	-	-
Shares and other variable income securities total	**48**	**72**

Change in the balance of investments in shares and other variable income securities (by type)	**31 December 2015**	**31 December 2014**
a) opening balance	**72**	**69**
Shares and other variable income securities	72	69
b) increases (due to)	-	3
- acquisition	-	-
- value adjustment	-	3
- other	-	-
c) decreases (due to)	24	-
-disposal	24	-
- value adjustment	-	-
- other	-	-
d) closing balance	**48**	**72**
Shares and other variable income securities	48	72

The above table does not include participation units and investment certificates of investment funds presented in the balance sheet under II.3.

Shares, stock and other variable income financial instruments (long-term investments) by disposability	**31 December 2015**	**31 December 2014**
A. Unrestricted, listed on regulated market (carrying amount)	**-**	**-**
a) stock (carrying amount)	-	-
- revaluation adjustments (for the period)	-	-
- opening balance	-	-
- at cost	-	-
b) bonds (carrying amount):	-	-
- revaluation adjustments (for the period)	-	-
- opening balance	-	-
- at cost	-	-
c) other – by group (carrying amount)	-	-
mortgage bonds (carrying amount)	-	-
- revaluation adjustments (for the period)	-	-
- opening balance	-	-
- at cost	-	-
open investment fund participation units (carrying amount)	-	-
- revaluation adjustments (for the period)	-	-
- opening balance	-	-
- at cost	-	-
B. Unrestricted, listed on OTC market (carrying amount)	**-**	**-**
a) stock (carrying amount)	-	-
- revaluation adjustments (for the period)	-	-
- opening balance	-	-
- at cost	-	-
b) bonds (carrying amount):	-	-
- revaluation adjustments (for the period)	-	-
- opening balance	-	-
- at cost	-	-
c) other – by group (carrying amount)	-	-
- revaluation adjustments (for the period)	-	-

- opening balance	-	-
- at cost	-	-
C. Unrestricted, not listed on the regulated market (carrying amount)	**13,606,077**	**12,965,723**
a) stock (carrying amount)	48	72
- revaluation adjustments (for the period)	(24)	3
- opening balance	72	69
- at cost	12,572	12,788
b) bonds (carrying amount):	-	-
- revaluation adjustments (for the period)	-	-
- opening balance	-	-
- at cost	-	-
c) other – by group (carrying amount)	13,606,029	12,965,651
closed investment fund's investment certificates (carrying amount)	13,606,029	12,965,651
- revaluation adjustments (for the period)	640,378	701,502
- opening balance	12,965,651	12,264,149
- at cost	11,718,042	11,654,036
loans (carrying amount)	-	-
- revaluation adjustments (for the period)	-	-
- opening balance	-	-
- at cost	-	-
D. Restricted (carrying amount)	**-**	**-**
a) shares or stock (carrying amount):	-	-
- revaluation adjustments (for the period)	-	-
- opening balance	-	-
- at cost	-	-
b) bonds (carrying amount):	-	-
- revaluation adjustments (for the period)	-	-
- opening balance	-	-
- at cost	-	-
c) other – by group (carrying amount)	-	-
- revaluation adjustments (for the period)	-	-
- opening balance	-	
- at cost	-	-
Total at cost	**11,730,614**	**11,666,824**
Total opening balance	**12,965,723**	**12,264,218**
Total revaluation adjustments (for the period)	**640,354**	**701,505**
Total carrying amount	**13,606,077**	**12,965,723**

In 2014–2015, there were neither shares, securities or other variable income financial instruments classified as short-term investments nor shares or short-term securities or providing 5% or more interest in share capital and total number of votes at the General Shareholders' Meeting of the entities other than the presented subsidiaries.

2.5.1. Other loans

Other loans	31 December 2015		31 December 2014	
	Total carrying amount	Reinsurance type	Total carrying amount	Reinsurance type
Buy-sell-back transactions	409,570	Debt securities	1,121,138	Debt securities
Loans secured by assets other than mortgage	207,418	Main mortgages on shares, receivables portfolios, bank accounts, other loans and other	358,689	Main mortgages on shares, receivables portfolios, bank accounts, other loans and other
Total other loans	**616,988**		**1,479,827**	

2.5.2. Debt securities issued by corporations and local government authorities

Debt securities by issuer as at 31 December 2015	Remeasurement method	Purchase price	Total carrying measurement	Measurement at fair value	Impairment loss
WIG companies – Banks	at amortized cost	335,556	336,941	337,427	-
WIG companies – Banks	at fair value	98,472	101,266	101,266	-
Foreign banks	at amortized cost	69,622	72,425	74,876	-
Mortgage banks	at fair value	41,983	43,179	43,179	-
National authorities	at amortized cost	25,000	26,251	29,733	-
Other	at fair value	18,419	17,154	17,154	-
WIG companies – Fuels	at fair value	13,489	13,673	13,673	-
Total		**602,541**	**610,889**	**617,308**	

Debt securities by issuer as at 31 December 2014	Remeasurement method	Purchase price	Total carrying measurement	Measurement at fair value	Impairment loss
WIG companies – Banks	at amortized cost	335,557	337,203	344,677	-
WIG companies – Banks	at fair value	136,224	141,992	141,992	-
Foreign banks	at amortized cost	69,622	72,422	77,381	-
Mortgage banks	at fair value	41,983	42,623	42,623	-
National authorities	at amortized cost	25,000	26,252	30,442	-
WIG companies – Fuels	at fair value	13,489	13,965	13,965	-
Total		**621,875**	**634,457**	**651,080**	

2.5.3. Debt securities issued by state treasuries other than Polish

As at 31 December 2015:

Issuer	Currency	Remeasurement method	Purchase price	Total carrying measurement	Measurement at fair value	Impairment loss
Germany	EUR	at fair value	684,709	680,057	680,057	-
United States	USD	at fair value	80,031	77,843	77,843	-
Romania	EUR	at fair value	52,805	56,754	56,754	-
Hungary	EUR	at fair value	46,872	47,554	47,554	-
Hungary	HUF	at fair value	41,964	40,852	40,852	-
Portugal	EUR	at fair value	36,735	35,565	35,565	-
Spain	EUR	at fair value	31,627	30,451	30,451	-
Iceland	USD	at fair value	1,508	1,880	1,880	-
Total			**976,251**	**970,956**	**970,956**	

As at 31 December 2014:

Issuer	Currency	Remeasurement method	Purchase price	Total carrying measurement	Measurement at fair value	Impairment loss
Romania	EUR	at fair value	31,203	34,424	34,424	-
Iceland	USD	at fair value	4,684	5,379	5,379	-
Total			**35,887**	**39,803**	**39,803**	

2.5.4. Term deposits at credit institutions

Total term deposits in credit institutions (by maturity)	31 December 2015	31 December 2014
a) up to 3 months	752,466	1,368,226
b) over 3 months and up to 1 year	639,340	-
c) over 1 year and up to 5 years	-	-
d) over 5 years	-	-
Total term deposits in credit institutions	**1,391,806**	**1,368,226**

Term deposits at credit institutions (currency structure)	31 December 2015	31 December 2014
a) in PLN	491,756	261,037
b) in foreign currencies with domestic banks (by currency and translated into PLN)	900,050	1,107,189
b1. EUR thousand	206,063	213,127
PLN thousand	878,138	908,412
b2. USD thousand	5,617	2,402
PLN thousand	21,912	8,426
b3. HUF thousand	-	14,060,496
PLN thousand	-	190,351
c) in foreign currencies in foreign banks (by currency and converted to PLN)	-	-
Total term deposits in credit institutions	**1,391,806**	**1,368,226**

2.5.5. Derivatives

Both in 2015 and in 2014, PZU did not apply hedge accounting and had no derivatives to hedge the value of technical provisions.

PZU in its investing activities uses various types of derivatives to manage various types of investment risk. The instruments decrease or increase exposure to specific types of risk. In 2015 and in 2014, PZU used swap transactions, interest rate forwards and exchange rates, as well as, stock index futures, price of commodities and bond prices.

The basic type of risk related to derivatives at PZU is market risk which includes interest rate risk and the risk of fluctuations in the prices of various instruments.

As at 31 December 2015, PZU held the following derivatives and achieved the following results on transactions involving such instruments in 2015:

Risk hedged	Acquisition/ issue purpose	Scope and nature of instrument	Currency	Pricing, maturity, expiry or realization date	Early settlement opportunity – period or day if available	Exchange ability to another asset or liability	Additional collateral related to the instrument, accepted or submitted	Nominal value as at 31 December 2015 in currency thousand in currency thousand	Nominal value as at 31 December 2015 translated into PLN in PLN thousand	Number as at 31 December 2015	Position as at 31 December 2015 (short/ long)	Assets – carrying amount in PLN thousand	Liabilities – carrying amount in PLN thousand	Realized gains/ losses in 2015 in PLN thousand	Unrealized gains/ losses in 2015 in PLN thousand
Interest rate risk	commercial	IRS	HUF	2024-02-24	Yes	None	None	3,500,037	47,604	1	n/a	-	12,798	9,859	(12,798)
Interest rate risk	commercial	IRS	HUF	2024-04-08	Yes	None	None	3,500,037	47,604	1	n/a	9,322	-	(6,551)	9,322
Interest rate risk	commercial	IRS	HUF	2024-04-08	Yes	None	None	3,500,037	47,604	1	n/a	9,557	-	(6,773)	9,557
Interest rate risk	commercial	IRS	PLN	2016-03-09	Yes	None	None	250,000	250,000	1	n/a	-	6,075	6,041	(6,075)
Interest rate risk	commercial	IRS	PLN	2016-03-09	Yes	None	None	250,000	250,000	1	n/a	-	6,050	6,017	(6,050)
Interest rate risk	commercial	IRS	PLN	2018-06-16	Yes	None	None	50,000	50,000	1	n/a	-	2,217	2,047	(2,217)
Interest rate risk	commercial	IRS	PLN	2018-06-16	Yes	None	None	25,000	25,000	1	n/a	-	1,108	1,023	(1,108)
Interest rate risk	commercial	IRS	PLN	2018-06-18	Yes	None	None	70,000	70,000	1	n/a	-	3,150	2,912	(3,150)
Interest rate risk	commercial	IRS	PLN	2024-06-05	Yes	None	None	65,000	65,000	1	n/a	3,075	-	-	(712)
Interest rate risk	commercial	IRS	PLN	2018-07-08	Yes	None	None	25,000	25,000	1	n/a	782	-	(701)	782
Interest rate risk	commercial	IRS	MXN	2017-10-13	Yes	None	None	3,635,000	814,967	1	n/a	5,068	-	-	6,240
Interest rate risk	commercial	IRS	PLN	2016-11-10	Yes	None	None	125,000	125,000	1	n/a	-	184	161	(184)
Interest rate risk	commercial	IRS	PLN	2016-11-12	Yes	None	None	128,000	128,000	1	n/a	-	201	188	(201)
Interest rate risk	commercial	IRS	PLN	2019-12-09	Yes	None	None	25,000	25,000	1	n/a	-	211	128	(211)
Interest rate risk	commercial	IRS	MXN	2017-10-13	Yes	None	None	3,635,000	814,967	1	n/a	-	6,199	-	(6,224)
Interest rate risk	commercial	IRS	PLN	2019-12-19	Yes	None	None	15,000	15,000	1	n/a	-	125	77	(125)
Interest rate risk	commercial	IRS	PLN	2019-12-23	Yes	None	None	10,000	10,000	1	n/a	-	58	27	(58)
Interest rate risk	commercial	IRS	PLN	2019-12-23	Yes	None	None	30,000	30,000	1	n/a	-	175	81	(175)
Interest rate risk	commercial	IRS	HUF	2024-02-24	Yes	None	None	3,326,005	45,237	1	n/a	1,122	-	(473)	1,122
Interest rate risk	commercial	IRS	BRL	2018-01-02	Yes	None	None	266,953	262,975	1	n/a	-	20,505	-	(20,505)
Interest rate risk	commercial	IRS	USD	2023-05-20	Yes	None	None	114,000	444,725	1	n/a	6,474	-	-	6,474
Interest rate risk	commercial	IRS	BRL	2018-01-02	Yes	None	None	256,665	252,841	1	n/a	13,375	-	-	13,375
Interest rate risk	commercial	IRS	MXN	2017-07-21	Yes	None	None	4,200,000	941,640	1	n/a	2,591	-	-	2,591
Interest rate risk	commercial	IRS	BRL	2018-01-02	Yes	None	None	370,260	364,743	1	n/a	-	23,018	-	(23,018)
Interest rate risk	commercial	IRS	BRL	2018-01-02	Yes	None	None	124,740	122,881	1	n/a	-	7,544	-	(7,544)
Interest rate risk	commercial	IRS	BRL	2018-01-02	Yes	None	None	155,019	152,709	1	n/a	-	8,405	-	(8,405)

Interest rate risk	commercial	IRS	AUD	2019-08-12	Yes	None	None	36,600	104,478	1	n/a	151	-	-	151
Interest rate risk	commercial	IRS	AUD	2019-08-14	Yes	None	None	150,000	428,190	1	n/a	457	-	-	457
Interest rate risk	commercial	IRS	ILS	2018-08-14	Yes	None	None	383,000	382,847	1	n/a	458	-	-	458
Interest rate risk	commercial	IRS	ILS	2018-08-14	Yes	None	None	950,000	949,620	1	n/a	1,159	-	-	1,159
Interest rate risk	commercial	IRS	PLN	2017-11-06	Yes	None	None	425,000	425,000	1	n/a	500	-	-	500
Interest rate risk	commercial	IRS	PLN	2025-08-26	Yes	None	None	50,000	50,000	1	n/a	-	806	-	(806)
Interest rate risk	commercial	IRS	BRL	2018-01-02	Yes	None	None	199,063	196,097	1	n/a	9,253	-	-	9,253
Interest rate risk	commercial	IRS	BRL	2018-01-02	Yes	None	None	648,798	639,131	1	n/a	30,157	-	-	30,157
Interest rate risk	commercial	IRS	ZAR	2025-08-25	Yes	None	None	1,150,000	287,155	1	n/a	-	9,049	-	(9,049)
Interest rate risk	commercial	IRS	BRL	2018-01-02	Yes	None	None	196,145	193,222	1	n/a	-	5,393	-	(5,393)
Interest rate risk	commercial	IRS	ZAR	2025-09-11	Yes	None	None	575,002	143,578	1	n/a	3,893	-	-	3,893
Interest rate risk	commercial	IRS	ZAR	2025-09-11	Yes	None	None	575,002	143,578	1	n/a	3,930	-	-	3,930
Interest rate risk	commercial	IRS	AUD	2019-10-23	Yes	None	None	40,000	114,184	1	n/a	-	351	-	(351)
Interest rate risk	commercial	IRS	AUD	2019-10-23	Yes	None	None	107,000	305,442	1	n/a	-	967	-	(967)
Interest rate risk	commercial	IRS	CAD	2025-10-28	Yes	None	None	33,000	92,737	1	n/a	-	27	-	(27)
Interest rate risk	commercial	IRS	HUF	2023-12-19	Yes	None	None	7,049,996	95,887	1	n/a	-	64	(130)	(64)
Interest rate risk	commercial	IRS	CAD	2025-11-09	Yes	None	None	56,000	157,371	1	n/a	-	1,661	-	(1,661)
Interest rate risk	commercial	IRS	PLN	2025-12-08	Yes	None	None	25,000	25,000	1	n/a	11	-	-	11
Interest rate risk	commercial	IRS	HUF	2020-04-30	Yes	None	None	2,000,000	27,202	1	n/a	6,057	-	(4,845)	6,057
Interest rate risk	commercial	IRS	HUF	2020-05-11	Yes	None	None	1,000,000	13,601	1	n/a	-	3,264	2,641	(3,264)
Interest rate risk	commercial	IRS	HUF	2020-05-11	Yes	None	None	1,000,000	13,601	1	n/a	-	3,257	2,635	(3,257)
Interest rate risk	commercial	IRS	RUB	2016-04-13	Yes	None	None	325,000	17,160	1	n/a	-	97	(323)	(97)
Interest rate risk	commercial	IRS	RUB	2016-04-13	Yes	None	None	325,000	17,160	1	n/a	-	106	(314)	(106)
Interest rate risk	commercial	IRS	PLN	2018-07-12	Yes	None	None	112,500	112,500	1	n/a	9,163	-	(8,668)	9,163
Interest rate risk	commercial	IRS	PLN	2018-07-31	Yes	None	None	125,000	125,000	1	n/a	-	9,340	8,791	(9,340)
Interest rate risk	commercial	IRS	ZAR	2022-09-20	Yes	None	None	637,501	159,184	1	n/a	-	10,010	-	(8,168)
Interest rate risk	commercial	IRS	PLN	2017-09-28	Yes	None	None	50,000	50,000	1	n/a	-	2,549	2,356	(2,549)
Interest rate risk	commercial	IRS	PLN	2017-10-02	Yes	None	None	25,000	25,000	1	n/a	-	1,273	1,178	(1,273)
Interest rate risk	commercial	IRS	ZAR	2022-10-03	Yes	None	None	637,501	159,184	1	n/a	9,741	-	-	8,193
Interest rate risk	commercial	IRS	PLN	2017-10-04	Yes	None	None	112,500	112,500	1	n/a	-	5,615	5,193	(5,615)
Interest rate risk	commercial	IRS	PLN	2017-10-09	Yes	None	None	25,000	25,000	1	n/a	-	1,273	1,178	(1,273)
Interest rate risk	commercial	IRS	PLN	2017-10-19	Yes	None	None	50,000	50,000	1	n/a	-	2,434	2,248	(2,434)
Interest rate risk	commercial	IRS	PLN	2017-10-19	Yes	None	None	50,000	50,000	1	n/a	-	2,434	2,248	(2,434)

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Interest rate risk	commercial	IRS	PLN	2017-01-08	Yes	None	None	225,000	225,000	1	n/a	-	4,380	-	(364)
Interest rate risk	commercial	IRS	PLN	2017-01-08	Yes	None	None	225,000	225,000	1	n/a	-	4,380	-	(364)
Interest rate risk	commercial	IRS	USD	2023-01-08	Yes	None	None	44,500	173,599	1	n/a	-	6,809	-	(3,493)
Interest rate risk	commercial	IRS	PLN	2017-01-09	Yes	None	None	250,000	250,000	1	n/a	-	4,671	-	(402)
Interest rate risk	commercial	IRS	USD	2023-01-30	Yes	None	None	25,000	97,528	1	n/a	-	3,928	-	(1,957)
Interest rate risk	commercial	IRS	USD	2023-03-12	Yes	None	None	69,500	271,126	1	n/a	12,464	-	-	5,538
Interest rate risk	commercial	IRS	RUB	2016-04-15	Yes	None	None	325,000	17,160	1	n/a	174	-	311	174
Interest rate risk	commercial	IRS	RUB	2016-04-15	Yes	None	None	325,000	17,160	1	n/a	173	-	312	173
Interest rate risk	commercial	IRS	USD	2023-05-14	Yes	None	None	111,000	433,022	1	n/a	-	17,426	-	(7,868)
Interest rate risk	commercial	IRS	PLN	2017-11-20	Yes	None	None	187,500	187,500	1	n/a	3,733	-	(3,245)	3,733
Interest rate risk	commercial	IRS	PLN	2017-11-20	Yes	None	None	125,000	125,000	1	n/a	2,489	-	(2,164)	2,489
Interest rate risk	commercial	IRS	EUR	2017-06-19	Yes	None	None	95,000	404,843	1	n/a	9,615	-	(7,745)	9,615
Interest rate risk	commercial	IRS	PLN	2023-06-20	Yes	None	None	130,000	130,000	1	n/a	-	9,119	-	857
Interest rate risk	commercial	IRS	BRL	2018-01-02	Yes	None	None	77,664	76,507	1	n/a	-	8,862	-	(6,317)
Interest rate risk	commercial	IRS	USD	2017-07-09	Yes	None	None	128,000	499,341	1	n/a	-	11,763	6,239	(11,763)
Interest rate risk	commercial	IRS	EUR	2017-07-09	Yes	None	None	100,000	426,150	1	n/a	10,939	-	-	1,980
Interest rate risk	commercial	IRS	BRL	2018-01-02	Yes	None	None	78,851	77,676	1	n/a	12,330	-	-	5,462
Interest rate risk	commercial	IRS	CZK	2017-07-29	Yes	None	None	2,500,000	394,250	1	n/a	10,480	-	-	724
Interest rate risk	commercial	IRS	PLN	2017-07-29	Yes	None	None	425,000	425,000	1	n/a	-	17,704	-	(910)
Interest rate risk	commercial	IRS	PLN	2017-01-16	Yes	None	None	225,000	225,000	1	n/a	4,841	-	-	388
Interest rate risk	commercial	IRS	PLN	2017-01-16	Yes	None	None	250,000	250,000	1	n/a	5,456	-	-	424
Interest rate risk	commercial	IRS	CZK	2017-08-03	Yes	None	None	1,225,003	193,183	1	n/a	5,293	-	-	394
Interest rate risk	commercial	IRS	PLN	2017-01-08	Yes	None	None	225,000	225,000	1	n/a	5,398	-	-	377
Interest rate risk	commercial	IRS	PLN	2017-08-19	Yes	None	None	225,000	225,000	1	n/a	-	11,610	-	(752)
Interest rate risk	commercial	IRS	CZK	2017-08-16	Yes	None	None	1,250,000	197,125	1	n/a	5,485	-	-	306
Interest rate risk	commercial	IRS	PLN	2023-09-09	Yes	None	None	130,000	130,000	1	n/a	13,941	-	-	(904)
Interest rate risk	commercial	IRS	BRL	2018-01-02	Yes	None	None	84,996	83,730	1	n/a	-	8,158	-	(7,170)
Interest rate risk	commercial	IRS	BRL	2018-01-02	Yes	None	None	81,213	80,003	1	n/a	-	8,695	-	(6,599)
Interest rate risk	commercial	IRS	PLN	2017-09-17	Yes	None	None	215,000	215,000	1	n/a	11,225	-	-	570
Interest rate risk	commercial	IRS	CZK	2017-10-19	Yes	None	None	1,250,000	197,125	1	n/a	-	4,848	-	(262)
Interest rate risk	commercial	IRS	CZK	2017-10-21	Yes	None	None	1,200,000	189,240	1	n/a	-	4,492	-	(237)
Interest rate risk	commercial	IRS	CZK	2017-10-21	Yes	None	None	1,200,000	189,240	1	n/a	-	4,492	-	(237)
Interest rate risk	commercial	IRS	CZK	2017-10-19	Yes	None	None	1,250,000	197,125	1	n/a	-	4,689	-	(257)

Interest rate risk	commercial	IRS	USD	2017-10-26	Yes	None	None	128,000	499,341	1	n/a	7,701	-	-	5,785
Interest rate risk	commercial	IRS	BRL	2018-01-02	Yes	None	None	179,632	176,955	1	n/a	12,916	-	-	15,911
Exchange rate risk	commercial	FX SWAP	USD	2016-01-11	Yes	None	None	5,500	21,456	1	long	139	-	-	139
Exchange rate risk	commercial	FX SWAP	EUR	2016-01-04	Yes	None	None	80,300	342,198	1	long	2,233	-	-	2,233
Exchange rate risk	commercial	FX SWAP	EUR	2016-01-04	Yes	None	None	2,350	10,015	1	long	38	-	-	38
Exchange rate risk	commercial	FX SWAP	GBP	2016-01-07	Yes	None	None	12,500	72,328	1	long	377	-	-	377
Exchange rate risk	commercial	FX SWAP	EUR	2016-01-07	Yes	None	None	25,000	106,538	1	long	553	-	-	553
Exchange rate risk	commercial	FX SWAP	EUR	2016-01-11	Yes	None	None	3,698	15,760	1	long	142	-	-	142
Exchange rate risk	commercial	FX SWAP	EUR	2016-01-11	Yes	None	None	462	1,970	1	long	18	-	-	18
Exchange rate risk	commercial	FX SWAP	USD	2016-01-11	Yes	None	None	15,200	59,297	1	short	-	267	-	(267)
Exchange rate risk	commercial	FX SWAP	HUF	2016-01-29	Yes	None	None	2,894,420	39,367	1	long	87	-	-	87
Exchange rate risk	commercial	Futures on interest rate	EUR	2016-12-20	Yes	None	None	48,294	205,806	195	short	-	2,306	-	(634)
Exchange rate risk	commercial	Futures on interest rate	EUR	2016-06-20	Yes	None	None	48,421	206,346	195	short	-	1,776	-	(540)
Exchange rate risk	commercial	Futures on interest rate	EUR	2016-03-20	Yes	None	None	48,474	206,574	195	short	-	1,517	-	(478)
Exchange rate risk	commercial	Futures on interest rate	EUR	2017-03-20	Yes	None	None	48,233	205,545	195	short	-	2,525	-	(634)
Exchange rate risk	commercial	Futures on interest rate	EUR	2016-09-20	Yes	None	None	48,358	206,076	195	short	-	2,057	-	(602)
Exchange rate risk	commercial	FX SWAP	DKK	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	2,328	-
Exchange rate risk	commercial	FX SWAP	EUR	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	(32,308)	-
Exchange rate risk	commercial	FX SWAP	HUF	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	(579)	-
Exchange rate risk	commercial	FX SWAP	RUB	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	3	-
Exchange rate risk	commercial	FX SWAP	USD	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	(4,584)	-
Interest rate risk	commercial	IRS	BRL	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	(8,088)	-
Interest rate risk	commercial	IRS	EUR	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	26,092	-
Interest rate risk	commercial	IRS	HUF	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	(3,779)	-
Interest rate risk	commercial	IRS	ILS	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	4,071	-
Interest rate risk	commercial	IRS	PLN	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	(625)	-
Interest rate risk	commercial	IRS	SEK	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	3,890	-
Interest rate risk	commercial	IRS	THB	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	1,471	-

Interest rate risk	commercial	IRS	USD	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	817	-
Exchange rate risk	commercial	Futures on interest rate	EUR	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	3,671	-
Exchange rate risk	commercial	Futures on interest rate	USD	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	(839)	-
Exchange rate risk	commercial	Futures on interest rate	USD	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	(7,230)	-
Index value risk	commercial	Option	EUR	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	(10,188)	-
Index value risk	commercial	Option	JPY	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	(1,820)	-
Index value risk	commercial	Option	USD	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	(4,981)	-
Underlying instruments value risk	commercial	Option	USD	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	(7,889)	-
Exchange rate risk	commercial	Future rates agreements	EUR	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	(707)	-
Exchange rate risk	commercial	Future rates agreements	GBP	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	(175)	-
Exchange rate risk	commercial	Future rates agreements	HUF	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	(87)	-
Exchange rate risk	commercial	Future rates agreements	USD	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	180	-
Interest rate risk	commercial	Future interest rates agreements FRA	PLN	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	(210)	-
TOTAL												**264,536**	**304,467**	**(19,607)**	**(28,567)**

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As at 31 December 2014, PZU held the following derivatives and achieved the following results on transactions involving such instruments in 2014:

Risk hedged	Acquisition/ issue purpose	Scope and nature of instrument	Currency	Pricing, maturity, expiry or realization date	Early settlement opportunity – period or day if available	Exchange ability to another asset or liability	Additional collateral related to the instrument, accepted or submitted	Nominal value as at 31 December 2014 in currency thousand in currency thousand	Nominal value as at 31 December 2014 translated into PLN in PLN thousand	Number as at 31 December 2014	Position as at 31 December 2014 (short/ long)	Assets – carrying amount in PLN thousand	Liabilities – carrying amount in PLN thousand	Realized gains/ losses in 2014 in PLN thousand	Unrealized gains/ losses in 2014 in PLN thousand
Exchange rate risk	commercial	Futures on commodities	USD	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	10,767	-
Exchange rate risk	commercial	Futures on interest rate	EUR	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	(18,839)	-
Exchange rate risk	commercial	Futures on interest rate	USD	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	(17)	-
Exchange rate risk	commercial	Futures on interest rate	EUR	2015-12-20	Yes	None	None	48,518	206,800	195	short	-	873	-	(873)
Exchange rate risk	commercial	Futures on interest rate	EUR	2016-12-20	Yes	None	None	48,294	205,844	195	short	-	1,673	(201)	(1,673)
Exchange rate risk	commercial	Futures on interest rate	EUR	2015-06-20	Yes	None	None	48,579	207,060	195	short	-	613	-	(613)
Exchange rate risk	commercial	Futures on interest rate	EUR	2016-06-20	Yes	None	None	48,421	206,385	195	short	-	1,236	-	(1,236)
Exchange rate risk	commercial	Futures on interest rate	EUR	2016-03-20	Yes	None	None	48,475	206,613	195	short	-	1,039	-	(1,039)
Exchange rate risk	commercial	Futures on interest rate	EUR	2017-03-20	Yes	None	None	48,233	205,584	195	short	-	1,892	-	(1,892)
Exchange rate risk	commercial	Futures on interest rate	EUR	2015-09-20	Yes	None	None	48,553	206,947	195	short	-	736	-	(736)
Exchange rate risk	commercial	Futures on interest rate	EUR	2016-09-20	Yes	None	None	48,358	206,114	195	short	-	1,455	-	(1,455)
Exchange rate risk	commercial	Futures on interest rate	GBP	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	1,319	-
Interest rate risk	commercial	Future interest rates	HUF	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	1,260	-

		agreements FRA													
Interest rate risk	commercial	Future interest rates agreements - FRA	PLN	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	(93)	-
Interest rate risk	commercial	Future interest rates agreements - FRA	ZAR	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	(2,960)	-
Interest rate risk	commercial	Future interest rates agreements - FRA	PLN	2015-06-29	Yes	None	None	125,000	125,000	1	long	211	-	-	211
Interest rate risk	commercial	Future interest rates agreements - FRA	PLN	2015-01-09	Yes	None	None	250,000	250,000	1	long	108	-	-	108
Interest rate risk	commercial	Future interest rates agreements - FRA	PLN	2015-07-09	Yes	None	None	250,000	250,000	1	long	102	-	-	102
Interest rate risk	commercial	Future interest rates agreements - FRA	PLN	2015-01-12	Yes	None	None	250,000	250,000	1	long	110	-	-	110
Interest rate risk	commercial	Future interest rates agreements - FRA	PLN	2015-07-10	Yes	None	None	250,000	250,000	1	long	88	-	-	88
Interest rate risk	commercial	Future interest rates agreements - FRA	PLN	2015-02-16	Yes	None	None	500,000	500,000	1	long	115	-	-	115

Interest rate risk	commercial	Future interest rates agreements - FRA	PLN	2015-11-16	Yes	None	None	500,000	500,000	1	long	294	-	-	294
Interest rate risk	commercial	Future interest rates agreements - FRA	PLN	2015-05-08	Yes	None	None	500,000	500,000	1	long	-	1,581	-	(1,205)
Interest rate risk	commercial	Future interest rates agreements - FRA	PLN	2015-05-19	Yes	None	None	500,000	500,000	1	short	1,862	-	-	1,291
Interest rate risk	commercial	Future interest rates agreements - FRA	PLN	2015-09-28	Yes	None	None	125,000	125,000	1	long	-	590	-	(487)
Exchange rate risk	commercial	Future rates agreements	EUR	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	915	-
Exchange rate risk	commercial	Future rates agreements	EUR	2015-02-27	Yes	None	None	18,000	76,721	1	short	-	1,261	-	(1,261)
Exchange rate risk	commercial	Future rates agreements	EUR	2015-02-27	Yes	None	None	18,000	76,721	1	short	-	859	-	(859)
Exchange rate risk	commercial	Future rates agreements	USD	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	2,027	-
Exchange rate risk	commercial	FX SWAP	EUR	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	(7,726)	-
Exchange rate risk	commercial	FX SWAP	HUF	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	31	-
Exchange rate risk	commercial	FX SWAP	RUB	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	9	-
Exchange rate risk	commercial	FX SWAP	USD	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	(1,056)	-
Exchange rate risk	commercial	FX SWAP	HUF	2015-01-09	Yes	None	None	14,000,000	189,532	1	n/a	1,000	-	-	1,000
Exchange rate risk	commercial	FX SWAP	EUR	2015-01-09	Yes	None	None	2,800	11,934	1	n/a	-	211	-	(211)
Exchange rate risk	commercial	FX SWAP	USD	2015-01-09	Yes	None	None	1,550	5,436	1	n/a	-	236	-	(236)
Exchange rate risk	commercial	FX SWAP	EUR	2015-01-20	Yes	None	None	25,000	106,558	1	n/a	151	-	-	151
Interest rate risk	commercial	IRS	BRL	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	(3,459)	-

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Interest rate risk	commercial	IRS	CZK	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	7,241	-
Interest rate risk	commercial	IRS	EUR	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	2,569	-
Interest rate risk	commercial	IRS	HUF	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	1,334	-
Interest rate risk	commercial	IRS	MXN	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	(1,675)	-
Interest rate risk	commercial	IRS	PLN	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	52,530	-
Interest rate risk	commercial	IRS	SEK	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	14,515	-
Interest rate risk	commercial	IRS	ZAR	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-	(4)	-
Interest rate risk	commercial	IRS	HUF	2024-02-24	Yes	None	None	3,500,000	47,383	1	n/a	-	11,548	673	(11,548)
Interest rate risk	commercial	IRS	PLN	2016-03-07	Yes	None	None	500,000	500,000	1	n/a	7,156	-	-	7,156
Interest rate risk	commercial	IRS	ILS	2017-03-19	Yes	None	None	927,500	837,625	1	n/a	8,640	-	-	8,640
Interest rate risk	commercial	IRS	HUF	2024-04-03	Yes	None	None	3,326,000	45,027	1	n/a	8,027	-	(627)	8,027
Interest rate risk	commercial	IRS	THB	2016-04-07	Yes	None	None	4,180,000	444,334	1	n/a	-	2,870	(691)	(2,870)
Interest rate risk	commercial	IRS	THB	2024-04-07	Yes	None	None	980,000	104,174	1	n/a	9,573	-	907	9,573
Interest rate risk	commercial	IRS	HUF	2024-04-08	Yes	None	None	3,500,000	47,383	1	n/a	7,889	-	(666)	7,889
Interest rate risk	commercial	IRS	HUF	2024-04-08	Yes	None	None	3,500,000	47,383	1	n/a	8,139	-	(666)	8,139
Interest rate risk	commercial	IRS	PLN	2016-03-09	Yes	None	None	250,000	250,000	1	n/a	-	2,871	-	(2,871)
Interest rate risk	commercial	IRS	PLN	2016-03-09	Yes	None	None	250,000	250,000	1	n/a	-	2,846	-	(2,846)
Interest rate risk	commercial	IRS	PLN	2024-06-10	Yes	None	None	25,000	25,000	1	n/a	-	3,313	340	(3,313)
Interest rate risk	commercial	IRS	PLN	2018-06-12	Yes	None	None	50,000	50,000	1	n/a	-	2,510	679	(2,510)
Interest rate risk	commercial	IRS	PLN	2018-06-16	Yes	None	None	50,000	50,000	1	n/a	-	2,607	677	(2,607)
Interest rate risk	commercial	IRS	PLN	2018-06-16	Yes	None	None	50,000	50,000	1	n/a	-	2,549	677	(2,549)
Interest rate risk	commercial	IRS	PLN	2018-06-16	Yes	None	None	25,000	25,000	1	n/a	-	1,275	338	(1,275)
Interest rate risk	commercial	IRS	PLN	2018-06-18	Yes	None	None	70,000	70,000	1	n/a	-	3,633	948	(3,633)
Interest rate risk	commercial	IRS	PLN	2024-06-05	Yes	None	None	65,000	65,000	1	n/a	3,786	-	-	3,786
Interest rate risk	commercial	IRS	PLN	2018-07-08	Yes	None	None	25,000	25,000	1	n/a	801	-	-	801
Interest rate risk	commercial	IRS	PLN	2024-09-04	Yes	None	None	29,000	29,000	1	n/a	-	1,756	-	(1,756)
Interest rate risk	commercial	IRS	PLN	2017-11-07	Yes	None	None	425,000	425,000	1	n/a	2,744	-	-	2,744
Interest rate risk	commercial	IRS	MXN	2017-10-13	Yes	None	None	3,635,000	865,857	1	n/a	-	1,170	-	(1,170)
Interest rate risk	commercial	IRS	SEK	2018-10-31	Yes	None	None	923,750	418,644	1	n/a	2,272	-	-	2,272
Interest rate risk	commercial	IRS	PLN	2016-11-10	Yes	None	None	125,000	125,000	1	n/a	-	170	-	(170)
Interest rate risk	commercial	IRS	PLN	2016-11-10	Yes	None	None	65,000	65,000	1	n/a	-	108	-	(108)
Interest rate risk	commercial	IRS	PLN	2016-11-12	Yes	None	None	128,000	128,000	1	n/a	-	190	-	(190)
Interest rate risk	commercial	IRS	PLN	2019-12-09	Yes	None	None	25,000	25,000	1	n/a	-	172	-	(172)

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Interest rate risk	commercial	IRS	MXN	2017-10-13	Yes	None	None	3,635,000	865,857	1	n/a	26	-	-	26
Interest rate risk	commercial	IRS	HUF	2023-12-19	Yes	None	None	7,050,000	95,443	1	n/a	-	20,498	-	(20,498)
Interest rate risk	commercial	IRS	PLN	2019-12-19	Yes	None	None	15,000	15,000	1	n/a	-	102	-	(102)
Interest rate risk	commercial	IRS	PLN	2019-12-23	Yes	None	None	10,000	10,000	1	n/a	-	37	-	(37)
Interest rate risk	commercial	IRS	PLN	2019-12-23	Yes	None	None	30,000	30,000	1	n/a	-	110	-	(110)
Interest rate risk	commercial	IRS	PLN	2019-12-29	Yes	None	None	15,000	15,000	1	n/a	-	1	-	(1)
Interest rate risk	commercial	IRS	PLN	2019-12-29	Yes	None	None	30,000	30,000	1	n/a	27	-	-	27
Interest rate risk	commercial	IRS	HUF	2020-04-30	Yes	None	None	2,000,000	27,076	1	n/a	5,982	-	(2,946)	5,982
Interest rate risk	commercial	IRS	HUF	2020-05-11	Yes	None	None	1,000,000	13,538	1	n/a	-	3,263	1,709	(3,263)
Interest rate risk	commercial	IRS	HUF	2020-05-11	Yes	None	None	1,000,000	13,538	1	n/a	-	3,256	1,702	(3,256)
Interest rate risk	commercial	IRS	RUB	2016-04-13	Yes	None	None	325,000	19,565	1	n/a	2,058	-	1,156	2,058
Interest rate risk	commercial	IRS	RUB	2016-04-13	Yes	None	None	325,000	19,565	1	n/a	2,040	-	1,190	2,040
Interest rate risk	commercial	IRS	PLN	2018-07-12	Yes	None	None	112,500	112,500	1	n/a	11,053	-	(3,078)	11,053
Interest rate risk	commercial	IRS	PLN	2015-07-13	Yes	None	None	275,000	275,000	1	n/a	-	5,454	3,722	(5,454)
Interest rate risk	commercial	IRS	PLN	2015-07-31	Yes	None	None	275,000	275,000	1	n/a	4,782	-	(2,978)	4,782
Interest rate risk	commercial	IRS	PLN	2018-07-31	Yes	None	None	125,000	125,000	1	n/a	-	11,202	2,292	(11,202)
Interest rate risk	commercial	IRS	ZAR	2022-09-20	Yes	None	None	637,500	193,163	1	n/a	-	1,841	-	5,673
Interest rate risk	commercial	IRS	PLN	2017-09-28	Yes	None	None	50,000	50,000	1	n/a	-	3,495	880	(3,495)
Interest rate risk	commercial	IRS	PLN	2017-10-02	Yes	None	None	25,000	25,000	1	n/a	-	1,753	435	(1,753)
Interest rate risk	commercial	IRS	ZAR	2022-10-03	Yes	None	None	637,500	193,163	1	n/a	1,549	-	-	(5,701)
Interest rate risk	commercial	IRS	PLN	2017-10-04	Yes	None	None	112,500	112,500	1	n/a	-	7,738	1,797	(7,738)
Interest rate risk	commercial	IRS	PLN	2017-10-09	Yes	None	None	25,000	25,000	1	n/a	-	1,759	427	(1,759)
Interest rate risk	commercial	IRS	PLN	2017-10-19	Yes	None	None	50,000	50,000	1	n/a	-	3,402	677	(3,402)
Interest rate risk	commercial	IRS	PLN	2017-10-19	Yes	None	None	50,000	50,000	1	n/a	-	3,402	677	(3,402)
Interest rate risk	commercial	IRS	PLN	2015-01-08	Yes	None	None	225,000	225,000	1	n/a	6,107	-	(5,737)	6,107
Interest rate risk	commercial	IRS	PLN	2015-01-08	Yes	None	None	225,000	225,000	1	n/a	6,107	-	(5,737)	6,107
Interest rate risk	commercial	IRS	PLN	2017-01-08	Yes	None	None	225,000	225,000	1	n/a	-	4,017	-	(4,629)
Interest rate risk	commercial	IRS	PLN	2017-01-08	Yes	None	None	225,000	225,000	1	n/a	-	4,017	-	(4,629)
Interest rate risk	commercial	IRS	USD	2023-01-08	Yes	None	None	44,500	156,070	1	n/a	-	3,316	-	(9,887)
Interest rate risk	commercial	IRS	PLN	2015-01-09	Yes	None	None	250,000	250,000	1	n/a	6,591	-	(6,175)	6,591
Interest rate risk	commercial	IRS	PLN	2017-01-09	Yes	None	None	250,000	250,000	1	n/a	-	4,269	-	(5,109)
Interest rate risk	commercial	IRS	USD	2023-01-30	Yes	None	None	25,000	87,680	1	n/a	-	1,971	-	(5,597)
Interest rate risk	commercial	IRS	USD	2023-03-12	Yes	None	None	69,500	243,750	1	n/a	6,925	-	-	15,949

Interest rate risk	commercial	IRS	RUB	2016-04-15	Yes	None	None	325,000	19,565	1	n/a	-	1,892	(1,405)	(1,892)
Interest rate risk	commercial	IRS	RUB	2016-04-15	Yes	None	None	325,000	19,565	1	n/a	-	1,895	(1,399)	(1,895)
Interest rate risk	commercial	IRS	PLN	2015-05-11	Yes	None	None	250,000	250,000	1	n/a	3,622	-	(2,499)	3,622
Interest rate risk	commercial	IRS	PLN	2015-05-11	Yes	None	None	250,000	250,000	1	n/a	3,622	-	(2,499)	3,622
Interest rate risk	commercial	IRS	USD	2023-05-14	Yes	None	None	111,000	389,299	1	n/a	-	9,558	-	(25,243)
Interest rate risk	commercial	IRS	PLN	2015-05-19	Yes	None	None	250,000	250,000	1	n/a	3,356	-	(2,206)	3,356
Interest rate risk	commercial	IRS	PLN	2015-05-19	Yes	None	None	250,000	250,000	1	n/a	3,356	-	(2,206)	3,356
Interest rate risk	commercial	IRS	PLN	2015-05-19	Yes	None	None	250,000	250,000	1	n/a	3,579	-	(2,423)	3,579
Interest rate risk	commercial	IRS	PLN	2015-05-19	Yes	None	None	250,000	250,000	1	n/a	3,579	-	(2,423)	3,579
Interest rate risk	commercial	IRS	PLN	2017-11-20	Yes	None	None	187,500	187,500	1	n/a	4,729	-	5,206	4,729
Interest rate risk	commercial	IRS	USD	2023-05-21	Yes	None	None	114,000	399,821	1	n/a	8,739	-	-	25,718
Interest rate risk	commercial	IRS	PLN	2017-11-20	Yes	None	None	187,500	187,500	1	n/a	3,153	-	3,471	3,153
Interest rate risk	commercial	IRS	PLN	2015-06-10	Yes	None	None	125,000	125,000	1	n/a	-	2,315	1,689	(2,315)
Interest rate risk	commercial	IRS	PLN	2015-06-10	Yes	None	None	125,000	125,000	1	n/a	-	2,315	1,689	(2,315)
Interest rate risk	commercial	IRS	PLN	2015-06-10	Yes	None	None	125,000	125,000	1	n/a	-	2,321	1,695	(2,321)
Interest rate risk	commercial	IRS	PLN	2015-06-10	Yes	None	None	125,000	125,000	1	n/a	-	2,321	1,695	(2,321)
Interest rate risk	commercial	IRS	PLN	2015-06-18	Yes	None	None	100,000	100,000	1	n/a	-	1,863	1,274	(1,863)
Interest rate risk	commercial	IRS	PLN	2015-06-18	Yes	None	None	100,000	100,000	1	n/a	-	1,863	1,274	(1,863)
Interest rate risk	commercial	IRS	EUR	2017-06-19	Yes	None	None	95,000	404,919	1	n/a	7,642	-	-	7,358
Interest rate risk	commercial	IRS	PLN	2023-06-20	Yes	None	None	130,000	130,000	1	n/a	-	9,976	-	(13,425)
Interest rate risk	commercial	IRS	BRL	2018-01-02	Yes	None	None	77,664	102,493	1	n/a	-	2,544	-	1,661
Interest rate risk	commercial	IRS	PLN	2023-06-28	Yes	None	None	25,000	25,000	1	n/a	4,350	-	(43)	4,350
Interest rate risk	commercial	IRS	USD	2017-07-09	Yes	None	None	128,000	448,922	1	n/a	-	5,891	-	(3,660)
Interest rate risk	commercial	IRS	EUR	2017-07-09	Yes	None	None	100,000	426,230	1	n/a	8,959	-	-	8,108
Interest rate risk	commercial	IRS	BRL	2018-01-02	Yes	None	None	78,851	104,060	1	n/a	6,868	-	-	(1,500)
Interest rate risk	commercial	IRS	CZK	2017-07-29	Yes	None	None	2,500,000	384,250	1	n/a	9,757	-	-	5,509
Interest rate risk	commercial	IRS	PLN	2017-07-29	Yes	None	None	425,000	425,000	1	n/a	-	16,795	-	(17,210)
Interest rate risk	commercial	IRS	PLN	2017-01-16	Yes	None	None	225,000	225,000	1	n/a	4,454	-	-	4,675
Interest rate risk	commercial	IRS	PLN	2015-01-15	Yes	None	None	225,000	225,000	1	n/a	-	5,358	4,888	(5,358)
Interest rate risk	commercial	IRS	PLN	2015-01-15	Yes	None	None	225,000	225,000	1	n/a	-	5,978	5,456	(5,978)
Interest rate risk	commercial	IRS	PLN	2017-01-16	Yes	None	None	225,000	225,000	1	n/a	5,032	-	-	5,134
Interest rate risk	commercial	IRS	CZK	2017-08-03	Yes	None	None	1,225,000	188,283	1	n/a	4,900	-	-	2,722
Interest rate risk	commercial	IRS	PLN	2015-05-19	Yes	None	None	250,000	250,000	1	n/a	-	13,802	10,658	(13,802)

Interest rate risk	commercial	IRS	PLN	2015-06-10	Yes	None	None	250,000	250,000	1	n/a	4,843	-	(3,595)	4,843
Interest rate risk	commercial	IRS	PLN	2015-01-08	Yes	None	None	225,000	225,000	1	n/a	-	5,365	5,014	(5,365)
Interest rate risk	commercial	IRS	PLN	2017-01-08	Yes	None	None	225,000	225,000	1	n/a	5,021	-	-	4,637
Interest rate risk	commercial	IRS	PLN	2017-08-19	Yes	None	None	225,000	225,000	1	n/a	-	10,858	-	(9,333)
Interest rate risk	commercial	IRS	CZK	2017-08-16	Yes	None	None	1,250,000	192,125	1	n/a	5,179	-	-	2,914
Interest rate risk	commercial	IRS	PLN	2023-09-09	Yes	None	None	130,000	130,000	1	n/a	14,844	-	-	14,034
Interest rate risk	commercial	IRS	BRL	2018-01-02	Yes	None	None	84,996	112,169	1	n/a	-	988	-	1,819
Interest rate risk	commercial	IRS	BRL	2018-01-02	Yes	None	None	81,213	107,176	1	n/a	-	2,094	-	1,702
Interest rate risk	commercial	IRS	PLN	2017-09-17	Yes	None	None	215,000	215,000	1	n/a	10,654	-	-	9,023
Interest rate risk	commercial	IRS	CZK	2017-10-19	Yes	None	None	1,250,000	192,125	1	n/a	-	4,586	-	(3,337)
Interest rate risk	commercial	IRS	CZK	2017-10-21	Yes	None	None	1,200,000	184,440	1	n/a	-	4,256	-	(3,236)
Interest rate risk	commercial	IRS	CZK	2017-10-21	Yes	None	None	1,200,000	184,440	1	n/a	-	4,256	-	(3,236)
Interest rate risk	commercial	IRS	CZK	2017-10-19	Yes	None	None	1,250,000	192,125	1	n/a	-	4,432	-	(3,332)
Interest rate risk	commercial	IRS	USD	2017-10-26	Yes	None	None	128,000	448,922	1	n/a	1,916	-	-	3,561
Interest rate risk	commercial	IRS	BRL	2018-01-02	Yes	None	None	179,632	237,060	1	n/a	-	2,995	-	(3,830)
Interest rate risk	commercial	IRS	PLN	2016-01-14	Yes	None	None	200,000	200,000	1	n/a	-	5,612	2,698	(5,612)
Interest rate risk	commercial	IRS	PLN	2016-01-15	Yes	None	None	150,000	150,000	1	n/a	-	4,180	2,023	(4,180)
TOTAL												**248,469**	**275,055**	**79,121**	**(33,154)**

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2.6 Exposure of investment to risks

The risk management objective is to ensure that PZU, when pursuing its business goals, keeps monitoring and managing its portfolios in a safe manner and adequately to the scale of incurred risk.

Key elements of risk management in PZU include:

- risk management organizational structure, in which Supervisory Board, Management Board, ALCO, Credit Risk Committee (the "Committees"), Investment Function and Risk Office play key roles;
- identification, measurement, evaluation, monitoring and reporting processes and management measures regarding each type of risk; the system of limits and restrictions to acceptable risk level determined by the Supervisory Board, Management Board and adequate Committees.

Based on internal regulations of the Company, the Supervisory Board, Management Board and Committees supervise the process of achieving the key risk management objective, i.e. mitigating risk through its active monitoring and management. The risk appetite was determined based on a system of limits, including all material factors related to the investment risk. The key risk management tools used by the Company are:

- Value at Risk limits, the risk measure identifying a potential loss unlikely to be exceeded (99.5% probability that it will not be exceeded) under normal market conditions within one year;
- Basis Point Value limits, i.e. changes in the value of financial instruments and portfolio if interest rate curves move 1 bp up;
- share price risk sensitivity limits including the derivative exposure to the share price risk;
- limit of the maximum position for each foreign currency;
- limit of the global position for each foreign currency;
- position limits for individual foreign currencies;
- exposure limits;
- net credit exposure limits weighted by maturity.

Investment risk reports are prepared on a daily basis for operating purposes and periodically (monthly, quarterly) for management purposes. The periodic reports are addressed mainly to the Supervisory Board, Management Board and Committees.

Below please find information regarding most material market risks in PZU.

2.6.1. Interest rate risk

Interest rate risk is defined as a possibility to incur a loss following changes in the value of financial instruments or assets and fluctuations in the present value of projected cash flows on liabilities following changes in term structure of market interest rates or changing variability of the risk-free rates. The table below presents financial instruments exposed to interest rate risk.

Interest rate risk	31 December 2015 (PLN million)	31 December 2015 (% of financial investments)	31 December 2014 (PLN million)	31 December 2014 (% of financial investments)
Financial instruments in the held for trading and available for sale portfolio	1,353.8	4.2%	890.1	2.9%
Financial instruments in the portfolio of instruments held to maturity portfolio	5,376.8	16.8%	6,139.9	19.8%
Debt securities held in the loans portfolio	311.8	1.0%	312.0	1.0%
Debt and cash investment funds	6,996.2	21.9%	6,806.0	21.9%

2.6.2. Share price risk

Share price risk is defined as a possibility to incur a loss following changes in the value of assets, liabilities and financial instruments as a result of changes in market prices of shares or their volatility.

Share price risk	31 December 2015 (PLN million)	31 December 2015 (% of financial investments)	31 December 2014 (PLN million)	31 December 2014 (% of financial investments)
Financial instruments exposed to the share price risk, including:	7,861.6	24.3%	6,393.4	20.6%
- unquoted shares	6,169.6	19.1%	6,372.9	20.5%
quoted shares	1,294.3	4.0%	-	0.0%
- other investments	341.7	1.1%	-	0.0%
- equity funds	56.0	0.2%	20.5	0.1%

2.6.3. Property risk

Exposure to property price risk results from investing in property and investment certificates of funds that invest in the property sector.

Property risk	31 December 2015 (PLN million)	31 December 2015 (% of financial investments)	31 December 2014 (PLN million)	31 December 2014 (% of financial investments)
Value of investments exposed to property price risk, including:	1,643.3	5.1%	1,526.2	4.9%
- investment certificates in property sector funds	1,167.5	3.6%	1,033.8	3.3%
- property	475.8	1.5%	492.4	1.6%

2.6.4. Credit risk

Credit risk is defined as the risk of loss or unfavorable change of the financial standing resulting from fluctuations of reliability and creditworthiness of issuers of securities, counterparties and debtors, which materializes in their failure to perform or an increase in credit spread.

The tables below present the value of items exposed to the credit risk, broken down by rating categories as at 31 December 2015 and 31 December 2014. The following assumption has been adopted:

- the exposure to credit risk relating to repo transactions has been presented as an exposure towards the issuer of collateral instruments;
- investment ratings adopted are based on Fitch ratings (if these are absent, Standard&Poor's or Moody's are used);

Assets exposed to credit risk as at 31 December 2015 (PLN million)	AAA	AA	A	BBB	BB	lower than BB or no rating	Total
Debt securities	758	-	5,530	428	309	17	7,042
- held to maturity	-	-	5,279	72	25	-	5,376
- available for sale	519	-	251	150	9	17	946
- measured at fair value	239	-	-	45	124	-	408

- loans	-	-	-	161	151	-	312
Bank deposits and repo transactions involving treasury securities	-	-	1,032	769	-	-	1,801
Mortgages	-	-	-	-	-	918	918
Other loans	-	-	-	-	71	372	443
Derivatives	-	15	239	11	-	-	265
Reinsurers’ share in net claim provisions	-	-	-	-	-	-	-
Deposits with ceding undertakings	-	-	-	-	-	-	-
Reinsurance receivables	-	-	-	-	-	-	-
Total assets exposed to credit risk	**758**	**15**	**6,801**	**1,208**	**380**	**1,307**	**10,469**

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Assets exposed to credit risk as at 31 December 2014 (PLN million)	AAA	AA	A	BBB	BB	lower than BB or no rating	Total
Debt securities	-	-	6,962	380	-	-	7,342
- held to maturity	-	-	6,115	25	-	-	6,140
- available for sale	-	-	827	45	-	-	872
- measured at fair value	-	-	-	18	-	-	18
- loans	-	-	20	292	-	-	312
Bank deposits and repo transactions involving treasury securities	-	-	2,218	168	-	103	2,489
Mortgages	-	-	-	-	-	661	661
Other loans	-	-	-	-	71	368	439
Derivatives	-	7	240	1	-	-	248
Reinsurers' share in net claim provisions	-	-	-	-	-	-	-
Deposits with ceding undertakings	-	-	-	-	-	-	-
Reinsurance receivables	-	-	-	-	-	-	-
Total assets exposed to credit risk	**-**	**7**	**9,420**	**549**	**71**	**1,132**	**11,179**

As at 31 December 2015, the maximum potential credit loss for PZU was PLN 548.3 million (as at 31 December 2014: PLN 489.1 million). The amount calculation was based on average accumulated probability ratios regarding insolvency within ten-year horizon for a given rating group published by Standard&Poor's and presented in the table below:

Assets exposed to credit risk as at 31 December 2015	AAA	AA	A	BBB	BB	lower than BB or no rating[1)]
The ratio for the conversion as at 31 December 2015 (%)	0.74	0.82	1.51	4.06	13.74	25.91
The ratio for the conversion as at 31 December 2014 (%)	0.74	0.84	1.59	4.33	14.39	26.97

[1)] In the case of exposure to mortgages with no rating, the ratio of 2% was adopted corresponding to the lowest BBB+ investment rating.

2.6.5. Concentration risk

Concentration risk	31 December 2015 (PLN million)	31 December 2015 (% of financial investments)	31 December 2014 (PLN million)	31 December 2014 (% of financial investments)
Treasury securities issued by the State Treasury of the Republic of Poland together with repo transactions involving such securities	5,870.2	18.3%	7,788.9	25.1%

2.6.6. Currency risk

Currency risk is defined as a possibility to incur a loss following changes in the value of assets, technical provisions net of reinsurance and derivatives resulting from changes or volatility of currency exchange rates.

PZU is exposed to currency risk arising from currency mismatch of technical provisions whose value depends on exchange rates and assets denominated in foreign currencies, in particular: securities, investments in financial institutions, investment fund participation units and derivatives, i.e. fx forward, fx swap, interest/ currency swap with forex rates as underlying instruments, i.e. fx forward, fx swap and interest rate - fx swaps.

Currency risk	**31 December 2015 (PLN million)**	**31 December 2014 (PLN million)**
Amount of assets denominated in foreign currencies	4,028.4	3,012.1
Value of technical provisions denominated in foreign currencies net of reinsurance	437.6	762.5
Liabilities due to loans from PZU Finance AB (publ.) funded from debt securities issued by PZU Finance AB (publ.)	3,611.6	2,127.2
Currency mismatch	(20.8)	122.4

3. Receivables

Geographical structure of receivables	31 December 2015				31 December 2014			
	Domestic	Foreign – EU countries	Foreign – other countries	Total	Domestic	Foreign – EU countries	Foreign – other countries	Total
I. Insurance receivables	**1,428,341**	**3,652**	**1,835**	**1,433,828**	**1,394,646**	**3,875**	**446**	**1,398,967**
1. Receivables from policyholders	1,293,812	2,084	1,835	1,297,731	1,265,883	2,457	446	1,268,786
2. Receivables from intermediaries	113,529	86	-	113,615	107,774	110	-	107,884
3. Other receivables	21,000	1,482	-	22,482	20,989	1,308	-	22,297
II. Reinsurance receivables	**22,644**	**12,995**	**5,290**	**40,929**	**12,514**	**7,137**	**-**	**19,651**
III. Other receivables	**240,711**	**67,004**	**19,431**	**327,146**	**933,483**	**53,238**	**32,480**	**1,019,201**
1. Receivables from the State Treasury	63,641	-	-	63,641	1,953	-	-	1,953
2. Other receivables[1)]	177,070	67,004	19,431	263,505	931,530	53,238	32,480	1,017,248
Total receivables	**1,691,696**	**83,651**	**26,556**	**1,801,903**	**2,340,643**	**64,250**	**32,926**	**2,437,819**

[1)] As at 31 December 2014, other receivables included receivables from PZU Życie from the advance dividend paid as a part of expected dividend at the end of the year 2014 in amount of PLN 730,000 thousand, described in Note 7.2.1 Introduction to the financial statements.

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3.1 Insurance receivables

Insurance receivables	31 December 2015	31 December 2014
a) receivables from policyholders	1,297,731	1,268,786
- from related parties	2,408	40
- domestic	2,408	40
- foreign	-	-
- from other entities	1,295,323	1,268,746
- domestic	1,291,404	1,265,843
- foreign	3,919	2,903
b) receivables from intermediaries, including:	113,615	107,884
- from related parties	11	-
- domestic	11	-
- foreign	-	-
- from other entities	113,604	107,884
- domestic	113,518	107,774
- foreign	86	110
c) other receivables	22,482	22,297
- from related parties	-	70
- domestic	-	70
- foreign	-	-
- from other entities	22,482	22,227
- domestic	21,000	20,919
- foreign	1,482	1,308
Total insurance receivables (net)	**1,433,828**	**1,398,967**
d) impairment losses	533,079	536,891
Total insurance receivables (gross)	**1,966,907**	**1,935,858**

Insurance receivables - with maturity periods after the balance sheet date	31 December 2015	31 December 2014
a) up to 3 months	994,230	890,890
b) over 3 months and up to 1 year	333,453	399,686
c) over 1 year and up to 5 years	106,145	107,633
d) over 5 years	-	758
Total insurance receivables	**1,433,828**	**1,398,967**

Insurance receivables (net)	31 December 2015	31 December 2014
a) from subsidiaries	2,419	110
b) from joint-ventures	-	-
c) from associates	-	-
d) from a major investor	-	-
e) from shareholders in joint-ventures	-	-
f) from parent entity	-	-
g) other	1,431,409	1,398,857
Total insurance receivables	**1,433,828**	**1,398,967**

Insurance receivables (currency structure)	31 December 2015	31 December 2014
a) in PLN	1,433,828	1,398,967
b) foreign currencies (by currency and converted to PLN)	-	-
b1. EUR thousand	-	-
PLN thousand	-	-
b2. USD thousand	-	-
PLN thousand	-	-
Total insurance receivables	**1,433,828**	**1,398,967**

Balance of co-insurance settlements	31 December 2015	31 December 2014
Balance of co-insurance settlements	105,502	173,360

3.2 Reinsurance receivables

Reinsurance receivables	31 December 2015	31 December 2014
a) current receivables from inward reinsurance, including:	9,989	5,334
- from domestic cedants	5,712	4,892
- from foreign cedants	4,277	442
b) current receivables from reinsurance outwards, including:	26,321	14,306
- from domestic reinsurers	16,493	7,622
- from foreign reinsurers	9,828	6,684
c) current receivables from retrocession, including:	4,619	11
- from domestic entities	439	-
- from foreign entities	4,180	11
d) receivables from deferred reinsurance commission	-	-
e) receivables from reinsurers' share in claims paid	-	-
Total reinsurance receivables (net)	**40,929**	**19,651**
f) impairment losses	6,226	5,001
Total reinsurance receivables (gross)	**47,155**	**24,652**

Reinsurance receivables	31 December 2015	31 December 2014
a) from subsidiaries	2,452	194
b) from joint-ventures	-	-
c) from associates	-	-
d) from a major investor	-	-
e) from shareholders in joint-ventures	-	-
f) from parent entity	-	-
g) other	38,477	19,457
Total reinsurance receivables	**40,929**	**19,651**

Reinsurance receivables	31 December 2015	31 December 2014
a) current receivables from inward reinsurance, including:	9,989	5,334
- from cedants being subsidiaries	2,452	194
- from joint-ventures	-	-
- from cedants being associates	-	-
- from a cedants being a major investor	-	-
- from a cedants being shareholders in joint-ventures	-	-
- from a cedants being the parent entity	-	-
b) current receivables from reinsurance outwards, including:	26,321	14,306
- from cedants subsidiaries	-	-
- from joint-ventures	-	-
- from cedants being associates	-	-
- from cedants being a major investor	-	-
- from cedants being shareholders in joint-ventures	-	-
- from cedants being the parent entity	-	-
c) current receivables from retrocession, including:	4,619	11
- from subsidiaries	-	-
- from joint-ventures	-	-
- from associates	-	-
- from a major investor	-	-
- from a shareholder in a joint-ventures	-	-
- from the parent entity	-	-
d) other	-	-
Total reinsurance receivables	**40,929**	**19,651**

Reinsurance receivables (net) - with maturity periods after the balance sheet date	31 December 2015	31 December 2014
a) up to 3 months	33,080	12,830
b) over 3 months and up to 1 year	5,238	4,424
c) over 1 year and up to 5 years	2,611	2,303
d) over 5 years	-	94
Total reinsurance receivables (net)	**40,929**	**19,651**

Reinsurance receivables (currency structure)	31 December 2015	31 December 2014
a) in PLN	22,869	15,935
b) foreign currencies (by currency and converted to PLN)	18,060	3,716
b1. EUR thousand	203	247
PLN thousand	867	1,052
b2. USD thousand	3,523	711
PLN thousand	13,745	2,494
b3. EUR thousand	1,576	-
PLN thousand	732	-
b4. USD thousand	15,117	-
PLN thousand	2,452	-
b5. other currencies	264	170
Total reinsurance receivables	**40,929**	**19,651**

3.3 Other receivables

Other receivables	31 December 2015	31 December 2014
a) receivables from the State Budget	63,641	1,953
b) receivables from guarantees and letters of credit	-	-
c) other receivables, including:	263,505	1,017,248
Receivables from unsettled collateral deposits and investment transactions	76,822	76,739
Settlements of the Social Benefits Fund	57,008	59,705
Receivables from direct claims handling on behalf of other insurance companies	40,401	34,086
Receivables from settlements with the Tax Capital Group (PGK)	29,560	71,809
Settlements of prevention activities	27,035	16,689
Receivables from claims representative services	9,746	9,491
Seizures by a bailiff	6,843	4,543
Retained guarantee deposits	3,537	3,789
Prepayments for suppliers	1,506	2,097
Receivables from shortages and damages	483	1,301
Receivables from PZU Życie from the advance dividend	-	730,000
Total other receivables (net)	**327,146**	**1,019,201**
d) impairment losses	10,159	10,429
Total other receivables (gross)	**337,305**	**1,029,630**

Other receivables	31 December 2015	31 December 2014
a) from subsidiaries	37,127	803,507
b) from joint-ventures	-	-
c) from associates	-	-
d) from a major investor	-	-
e) from shareholders in joint-ventures	-	-
f) from parent entity	-	-
g) other	290,019	215,694
Total other receivables	**327,146**	**1,019,201**

Other receivables by maturity period after the balance sheet date	31 December 2015	31 December 2014
a) up to 3 months	295,834	997,625
b) over 3 months and up to 1 year	14,072	8,606
c) over 1 year and up to 5 years	9,922	12,744
d) over 5 years	7,318	226
Total other receivables	**327,146**	**1,019,201**

Other receivables (currency structure)	31 December 2015	31 December 2014
a) in PLN	258,846	941,407
b) foreign currencies (by currency and converted to PLN)	68,300	77,794
b1. EUR thousand	11,361	10,646
PLN thousand	48,413	45,376
b2. USD thousand	4,740	8,849
PLN thousand	18,493	31,036
b3. CHF thousand	3	
PLN thousand	11	
b4. GBP thousand	239	253
PLN thousand	1,383	1,382
b5. other currencies	-	-
Total other receivables	**327,146**	**1,019,201**

3.4 Other information on receivables

3.4.1. Changes in impairment losses on receivables by type

Changes in impairment losses on receivables by type	31 December 2015	31 December 2014
a) at the beginning of the period (by type of receivable)	**552,321**	**579,824**
impairment losses on insurance receivables	**536,891**	**560,021**
impairment losses on reinsurance receivables	**5,001**	**4,620**
impairment losses on other receivables	**10,429**	**15,183**
b) increases (due to)	**99,095**	**65,068**
impairment losses on insurance receivables	96,094	59,477
impairment losses on reinsurance receivables	3,001	5,591
impairment losses on other receivables	-	-
c) decreases (due to)	**101,952**	**92,571**
- utilized impairment losses	1,426	2,312
impairment losses on insurance receivables	1,178	1,138
impairment losses on reinsurance receivables	-	-
impairment losses on other receivables	248	1,174
- released impairment losses on repayments and other	100,526	90,259
impairment losses on insurance receivables	98,728	81,469
impairment losses on reinsurance receivables	1,776	5,210
impairment losses on other receivables	22	3,580
d) at the end of the period (by type of receivable)	**549,464**	**552,321**
impairment losses on insurance receivables	**533,079**	**536,891**
impairment losses on reinsurance receivables	**6,226**	**5,001**
impairment losses on other receivables	**10,159**	**10,429**

3.4.2. Overdue receivables net

Overdue receivables	31 December 2015	31 December 2014
a) up to 3 months	159,095	122,856
- insurance receivables	136,462	114,035
- reinsurance receivables	20,874	6,265
- other receivables	1,759	2,556
b) over 3 months	181,908	135,342
- insurance receivables	166,746	125,209
- reinsurance receivables	6,537	2,276
- other receivables	8,625	7,857
Total overdue receivables, including:	**341,003**	**258,198**
a) up to 3 months	159,095	122,856
b) over 3 months	181,908	135,342

As at 31 December 2015, overdue receivables net which are overdue for more than 1 year amounted to PLN 88,646 thousand (31 December 2014: PLN 64,464 thousand).

4. Other assets

4.1 Property, plant and equipment

Tangible assets	31 December 2015	31 December 2014
a) technical equipment and machines	41,288	39,605
b) vehicles	56,541	50,823
c) other tangible assets	20,569	21,092
d) tangible assets under construction	12,182	12,529
e) advance payments for tangible assets under construction	-	-
f) inventory	114	156
g) claim salvages	214	444
Total tangible assets	**130,908**	**124,649**

Tangible assets – ownership structure	31 December 2015	31 December 2014
a) own	130,908	124,649
b) leased	-	-
Total tangible assets	**130,908**	**124,649**

Tangible assets (balance sheet) – ownership structure	31 December 2015	31 December 2014
a) own	130,908	124,649
b) used based on lease, rental or other agreement	-	-
Total tangible assets (balance sheet)	**130,908**	**124,649**

Tangible assets (off-balance sheet)	31 December 2015	31 December 2014
a) used based on lease, rental or other agreement, including:	136,477	123,161
lease	136,477	123,161
Total tangible assets (off-balance sheet)	**136,477**	**123,161**

In 2015 and 2014, PZU did not incur costs of manufacturing tangible assets under construction and for internal purposes.

Changes in tangible assets in the year ended 31 December 2015	Technical equipment and machines	Vehicles	Other tangible assets	Tangible assets under construction	Advance payments for tangible assets under construction	Inventories	Claim salvages	Total tangible assets
a) gross value of tangible assets – at the beginning of the period	**288,650**	**84,872**	**61,986**	**12,529**	**-**	**156**	**444**	**448,637**
b) increases (due to)	24,234	18,345	6,047	32,063	-	1,304	866	82,859
- investments	-	-	-	-	-	-	-	-
- direct purchase	6,988	-	3,489	32,063	-	-	-	42,540
- transfers	10,659	18,034	2,496	-	-	-	-	31,189
-other (including estimations)	6,587	311	62	-	-	1,304	866	9,130
c) decreases (due to)	65,709	15,649	5,789	32,410	-	1,346	1,096	121,999
- liquidation	64,163	45	5,195	-	-	-	-	69,403
- sale	944	15,604	85	-	-	-	-	16,633
- transfers	-	-	-	31,189	-	-	-	31,189
- other	602	-	509	1,221	-	1,346	1,096	4,774
d) gross value of tangible assets – at the end of the period	**247,175**	**87,568**	**62,244**	**12,182**	**-**	**114**	**214**	**409,497**
e) accumulated depreciation – at the beginning of the period	**249,045**	**34,049**	**40,894**	**-**	**-**	**-**	**-**	**323,988**
f) depreciation for the period (due to)	(43,158)	(3,022)	781	-	-	-	-	(45,399)
- current year charges	21,854	10,006	6,029	-	-	-	-	37,889
- depreciation of liquidated tangible assets	(64,087)	(19)	(5,169)	-	-	-	-	(69,275)
- depreciation of tangible assets sold	(925)	(13,009)	(79)	-	-	-	-	(14,013)
- other	-	-	-	-	-	-	-	-
g) accumulated depreciation – at the end of the period	**205,887**	**31,027**	**41,675**	**-**	**-**	**-**	**-**	**278,589**
h) impairment losses – at the beginning of the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- increases	-	-	-	-	-	-	-	-
- decreases	-	-	-	-	-	-	-	-
i) impairment losses – at the end of the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
j) carrying amount of tangible assets – at the end of the period	**41,288**	**56,541**	**20,569**	**12,182**	**-**	**114**	**214**	**130,908**

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Changes in tangible assets in the year ended 31 December 2014	Technical equipment and machines	Vehicles	Other tangible assets	Tangible assets under construction	Advance payments for tangible assets under construction	Inventories	Claim salvages	Total tangible assets
a) gross value of tangible assets – at the beginning of the period	**316,317**	**78,515**	**61,218**	**5,161**	**-**	**214**	**246**	**461 671**
b) increases (due to)	20,940	18,866	6,607	32,181	-	366	2 991	81 951
- investments	-	-	-	-	-	-	-	-
- direct purchase	16,605	-	3,238	25,737	-	-	-	45 580
- transfers	4,148	17,296	3,369	-	-	-	-	24 813
-other (including estimations)	187	1,570	-	6,444	-	366	2 991	11 558
c) decreases (due to)	48,607	12,509	5,839	24,813	-	424	2 793	94 985
- liquidation	47,164	54	5,585	-	-	-	-	52 803
- sale	657	12,455	109	-	-	-	-	13 221
- transfers	-	-	-	24,813	-	-	-	24 813
- other	786	-	145	-	-	424	2 793	4 148
d) gross value of tangible assets – at the end of the period	**288,650**	**84,872**	**61,986**	**12,529**	**-**	**156**	**444**	**448 637**
e) accumulated depreciation – at the beginning of the period	**282,169**	**34,322**	**40,986**	**-**	**-**	**-**	**-**	**357 477**
f) depreciation for the period (due to)	(33,124)	(273)	(92)	-	-	-	-	(33 489)
- current year charges	15,096	9,008	5,805	-	-	-	-	29 909
- depreciation of liquidated tangible assets	(47,156)	(54)	(5,571)	-	-	-	-	(52 781)
- depreciation of tangible assets sold	(602)	(10,450)	(109)	-	-	-	-	(11 161)
- other	(462)	1,223	(217)	-	-	-	-	544
g) accumulated depreciation – at the end of the period	**249,045**	**34,049**	**40,894**	**-**	**-**	**-**	**-**	**323 988**
h) impairment losses – at the beginning of the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- increases	-	-	-	-	-	-	-	-
- decreases	-	-	-	-	-	-	-	-
i) impairment losses – at the end of the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
j) carrying amount of tangible assets – at the end of the period	**39,605**	**50,823**	**21,092**	**12,529**	**-**	**156**	**444**	**124 649**

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4.2 Cash

Cash	31 December 2015	31 December 2014
a) cash in hand and at bank	65,076	47,001
b) other cash	-	-
Total cash	**65,076**	**47,001**

Cash not available for use has been described in Note 27.1 of Supplementary information and explanations.

Cash – currency structure	31 December 2015	31 December 2014
a) in PLN	61,864	46,291
b) foreign currencies (by currency and converted to PLN)	3,212	710
b1. EUR thousand	409	123
PLN thousand	1,744	525
b2. USD thousand	376	53
PLN thousand	1,468	185
b3. other	-	81
Total cash	**65,076**	**47,001**

5. Accruals

5.1 Deferred tax assets

Changes in deferred tax assets	31 December 2015	31 December 2014
1. Deferred tax assets at the beginning of the period, including:	**408,388**	**347,521**
a) charged to financial result	**401,078**	**346,015**
b) charged to equity [2)]	**7,310**	**1,506**
c) charged to goodwill or negative goodwill	**-**	**-**
2. Increases	115,725	83,686
a) charged to the financial result for the period in relation to temporary deductible differences (due to)	115,725	77,882
- occurrence of temporary differences, including:	115,725	77,882
accrued expenses	57,885	13,841
financial instruments	57,734	60,485
other provisions	106	3,556
- changes in tax rates	-	-
- unrecognized temporary difference from previous period	-	-
b) charged to the financial result for the period in relation to tax loss (due to)	-	-
c) charged to equity in relation to temporary deductible differences (due to)	-	5,804
- occurrence of temporary differences, including:	-	5,804
financial instruments	,	5,804
- changes in tax rates	-	-
- unrecognized temporary difference from previous period	-	-
d) charged to equity in relation to tax loss (due to)	-	-
e) charged to goodwill or negative goodwill period in relation to temporary deductible differences (due to)	-	-
3. Decreases	65,008	22,819
a) charged to the financial result for the period in relation to temporary deductible differences (due to)	59,891	22,819
- reversed temporary differences, including:	59,891	22,819
insurance receivables	31,231	4,323
financial instruments	19,641	-

other provisions	5,508	3,829
accrued expenses	2,453	11,460
other temporary differences	1,058	3,207
- changes in tax rates	-	-
- impairment losses of deferred tax assets	-	-
b) charged to the financial result for the period in relation to tax loss (due to)	-	-
c) charged to equity in relation to temporary deductible differences (due to)	5,117	-
- reversed temporary differences, including:	5,117	-
financial instruments	5,117	,
- changes in tax rates	-	-
- impairment losses of deferred tax assets	-	-
d) charged to equity in relation to tax loss (due to)	-	-
e) charged to goodwill or negative goodwill period in relation to temporary deductible differences (due to)	-	-
4. Total deferred tax assets at the end of the period	**459,105**	**408,388**
a) charged to financial result	**456,912**	**401,078**
b) charged to equity [2)]	**2,193**	**7,310**
c) charged to goodwill or negative goodwill	**-**	**-**

[1)] Refers to accumulated changes in deferred tax assets for the previous years charged to financial result of the prior year and previous years.
[2)] Refers to revaluation reserve.
[3)] Refers to accumulated changes in deferred tax assets for the previous years charged to financial result of 2015 and previous years.

Deferred tax assets and liabilities are presented after offsetting of the relevant temporary deductible and taxable differences.

Notes on temporary deductible differences	31 December 2015	31 December 2014
a) temporary deductible differences at the beginning of the period, including:	2,149,410	1,829,057
financial instruments	776,807	427,914
accrued expenses	646,088	632,344
insurance receivables	541,902	564,651
other temporary differences	104,016	120,897
other provisions	80,597	83,251
b) temporary deductible differences at the end of the period, including:	2,416,340	2,149,410
financial instruments	950,373	776,807
accrued expenses	937,834	646,088
insurance receivables	377,523	541,902
other temporary differences	98,448	104,016
other provisions	52,162	80,597
temporary deductible differences expiring within one year	2,607,907	2,197,911
temporary deductible differences expiring within more than one year	(191,567)	(48,501)

5.2 Other prepayments

Other prepayments	31 December 2015	31 December 2014
a) reinsurance accruals[1)]	612,964	106,545
b) deferred IT costs	15,167	14,893
c) deferred property-related costs	7,100	9,788
d) other	49,849	5,643
Total other prepayments	**685,080**	**136,869**

[1)] Item "reinsurance accruals" includes mainly gross accrued inward reinsurance premium in the amount of PLN 591,405 thousand (31 December; PLN 102,834 thousand).

6. Changes in impairment losses

Changes in impairment losses in the year ended 31 December 2015.

Item	Impairment losses as at 1 January 2015, including:		Created, including:		Reversed, including:		Utilized, including:		Impairment losses as at 31 December 2015, including:	
	charged to financial result	charged to equity	charged to financial result	charged to equity	charged to financial result	charged to equity	charged to financial result	charged to equity	charged to financial result	charged to equity
I. Intangible assets	**1,723**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,723**	**-**
II. Investments	**96,804**	**3,063**	**20,776**	**-**	**(814)**	**-**	**-**	**-**	**116,766**	**3,063**
1. Property	76,156	3,063	73	-	(622)	-	-	-	75,607	3,063
2. Investments in related parties	7,821	-	-	-	-	-	-	-	7,821	-
3. Other financial investments	12,827	-	20,703	-	(192)	-	-	-	33,338	-
a) shares and other variable income securities	12,716	-	-	-	(192)	-	-	-	12,524	-
b) participation units and investment certificates of investment funds	111	-	20,703	-	-	-	-	-	20,814	-
c) debt securities and other fixed income securities	-	-	-	-	-	-	-	-	-	-
d) interests in joint ventures (investments)	-	-	-	-	-	-	-	-	-	-
e) mortgages	-	-	-	-	-	-	-	-	-	-
f) other loans	-	-	-	-	-	-	-	-	-	-
g) term deposits at credit institutions	-	-	-	-	-	-	-	-	-	-
h) other investments (by type)	-	-	-	-	-	-	-	-	-	-
4. Deposits with ceding undertakings	-	-	-	-	-	-	-	-	-	-
III. Net unit-linked assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
IV. Receivables	**552,321**	**-**	**99,095**	**-**	**(100,526)**	**-**	**(1,426)**	**-**	**549,464**	**-**
1. Insurance receivables	536,891	-	96,094	-	(98,728)	-	(1,178)	-	533,079	-
2. Reinsurance receivables	5,001	-	3,001	-	(1,776)	-	-	-	6,226	-
3. Other receivables	10,429	-	-	-	(22)	-	(248)	-	10,159	-
3.1. Receivables from the State Budget	-	-	-	-	-	-	-	-	-	-
3.2. Other receivables	10,429	-	-	-	(22)	-	(248)	-	10,159	-
V. Other assets, including:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Tangible assets	-	-	-	-	-	-	-	-	-	-
2. Other assets	-	-	-	-	-	-	-	-	-	-
VI. Accruals	**1,909**	**-**	**-**	**-**	**(1,839)**	**-**	**-**	**-**	**70**	**-**
1. Deferred tax assets	-	-	-	-	-	-	-	-	-	-
2. Deferred acquisition costs	-	-	-	-	-	-	-	-	-	-
3. Accrued interest and rent	-	-	-	-	-	-	-	-	-	-
4. Other prepayments	1,909	-	-	-	(1,839)	-	-	-	70	-

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Changes in impairment losses in the year ended 31 December 2014.

Item	Impairment losses as at 1 January 2014, including:		Created, including:		Reversed, including:		Utilized, including:		Impairment losses as at 31 December 2014, including:	
	charged to financial result	charged to equity	charged to financial result	charged to equity	charged to financial result	charged to equity	charged to financial result	charged to equity	charged to financial result	charged to equity
I. Intangible assets	**9,835**	**-**	**16**	**-**	**(8,128)**	**-**	**-**	**-**	**1,723**	**-**
II. Investments	**105,008**	**3,017**	**4,237**	**320**	**(12,441)**	**(274)**	**-**	**-**	**96,804**	**3,063**
1. Property	87,484	3,017	294	320	(11,622)	(274)	-	-	76,156	3,063
2. Investments in related parties	3,878	-	3,943	-	-	-	-	-	7,821	-
3. Other financial investments	13,646	-	-	-	(819)	-	-	-	12,827	-
a) shares and other variable income securities	12,719	-	-	-	(3)	-	-	-	12,716	-
b) participation units and investment certificates of investment funds	927	-	-	-	(816)	-	-	-	111	-
c) debt securities and other fixed income securities	-	-	-	-	-	-	-	-	-	-
d) interests in joint ventures (investments)	-	-	-	-	-	-	-	-	-	-
e) mortgages	-	-	-	-	-	-	-	-	-	-
f) other loans	-	-	-	-	-	-	-	-	-	-
g) term deposits at credit institutions	-	-	-	-	-	-	-	-	-	-
h) other investments (by type)	-	-	-	-	-	-	-	-	-	-
4. Deposits with ceding undertakings	-	-	-	-	-	-	-	-	-	-
III. Net unit-linked assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
IV. Receivables	**579,824**	**-**	**65,068**	**-**	**(90,259)**	**-**	**(2,312)**	**-**	**552,321**	**-**
1. Insurance receivables	560,021	-	59,477	-	(81,469)	-	(1,138)	-	536,891	-
2. Reinsurance receivables	4,620	-	5,591	-	(5,210)	-	-	-	5,001	-
3. Other receivables	15,183	-	-	-	(3,580)	-	(1,174)	-	10,429	-
3.1. Receivables from the State Budget	-	-	-	-	-	-	-	-	-	-
3.2. Other receivables	15,183	-	-	-	(3,580)	-	(1,174)	-	10,429	-
V. Other assets, including:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Tangible assets	-	-	-	-	-	-	-	-	-	-
2. Other assets	-	-	-	-	-	-	-	-	-	-
VI. Accruals	**70**	**-**	**1,839**	**-**	**-**	**-**	**-**	**-**	**1,909**	**-**
1. Deferred tax assets	-	-	-	-	-	-	-	-	-	-
2. Deferred acquisition costs	-	-	-	-	-	-	-	-	-	-
3. Accrued interest and rent	-	-	-	-	-	-	-	-	-	-
4. Other prepayments	70	-	1,839	-	-	-	-	-	1,909	-

6.1 Carrying amount of interests accrued on impaired assets

As at 31 December 2015 and 31 December 2014, no interest accrued on impaired assets occurred.

7. Equity

7.1 Share capital

Share capital structure as at 31 December 2015

Series/ issue	Nominal value per share	Share type	Type of preference	Type of limitation on rights to shares	Number of shares	Face value of series/ issue in PLN	Capital coverage	Registration date	Cum dividend (as at)
A	PLN 0.1	registered	none	none	40,110	4,011	cash	23.01.1997	27.12.1991
A	PLN 0.1	bearer	none	none	604,423,090	60,442,309	cash	23.01.1997	27.12.1991
B	PLN 0.1	bearer	none	none	259,059,800	25,905,980	contribution in kind	31.03.1999	01.01.1999
Total					**863,523,000**	**86,352,300**			

[1] Split of Shares is described in Note 7.1.1of Supplementary information and explanations.

Share capital structure as at 31 December 2014

Series/ issue	Nominal value per share	Share type	Type of preference	Type of limitation on rights to shares	Number of shares	Face value of series/ issue in PLN	Capital coverage	Registration date	Cum dividend (as at)
A	PLN 1	registered	none	none	4,011	4,011	cash	23.01.1997	27.12.1991
A	PLN 1	bearer	none	none	60,442,309	60,442,309	cash	23.01.1997	27.12.1991
B	PLN 1	bearer	none	none	25,905,980	25,905,980	contribution in kind	31.03.1999	01.01.1999
Total					**86,352,300**	**86,352,300**			

Shareholding structure as at 31 December 2015

No.	Shareholder's name	Number of shares and votes	Percentage shares in the share capital and total number of votes at GSM
1.	State Treasury	297,420,578	34,4427%
2.	Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK [1]	49,156,660	5.6926%
3.	Other shareholders	516,945,762	59.8647%
	Total	**863,523,000**	**100.0000%**

[1] According to the current report no 3/2016 regarding shareholders holding at least 5% of votes at the Extraordinary Shareholders' Meeting on 7 January 2016.

Shareholding structure as at 31 December 2014

No.	Shareholder's name	Number of shares and votes	Percentage shares in the share capital and total number of votes at GSM
1.	State Treasury	30,385,253	35.1875%
2.	Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK [1)]	4,317,691	5,0001%
3.	Other shareholders	81,649,356	59.8124%
	Total	**86,352,300**	**100.0000%**

[1)] As at the state after settlement of the exchange transactions on 27 May 2014.

7.1.1. Split of shares

On 30 June 2015, the General Shareholders' Meeting of PZU passed a resolution regarding splitting all shares of PZU by decreasing the nominal value of each PZU share from PLN 1 to PLN 0.1 and increasing the number of PZU shares which constitute the share capital from 86,352,300 to 863,523,000. The split of shares was performed through the exchange of all shares in 1:10 ratio. The split had no influence on the share capital of PZU.

On 3 November 2015, the District Court for the capital city of Warsaw, XII Economic Division of the National Court Register recorded the appropriate change to the By-laws of PZU. In accordance with the resolution of the Management Board of the National Depository for Securities of 24 November 2015, the day of the split was set for 30 November 2015.

7.2 Dividends

7.2.1. Dividend paid from the profit for 2014

On 12 May 2015, the Management Board of PZU applied to the General Shareholders' Meeting for the distribution of the net profit for the year ended 31 December 2015 in the amount of PLN 2,636,733 thousand in the following way:

- PLN 2,590,569 thousand, i.e. PLN 30 per share allocated to dividend payment;
- PLN 36,164 thousand allocated to the supplementary capital;
- PLN 10,000 thousand allocated to the Company's Social Benefits Fund.

On 30 June 2015, the General Shareholders' Meeting of PZU passed a resolution regarding the distribution of the net profit of PZU for the year ended 31 December 2014, in accordance with the application of the Management Board of PZU.

The dividend date was set for 30 September 2015, and the dividend was paid on 21 October 2015.

7.2.2. Proposition of profit for 2015

At the date of signing the separate financial statements, the Management Board of PZU had not adopted a resolution concerning the proposed appropriation of 2015 profit.

7.3 Supplementary capital

Supplementary capital	31 December 2015	31 December 2014
a) share premium	538,139	538,139
b) statutory	28,784	28,784
c) arising from the By-laws, above the statutory amount	3,873,726	3,837,562
d) shareholder contributions	-	-
e) other	5,699	3,821
Total supplementary capital	**4,446,348**	**4,408,306**

7.4 Revaluation reserve

Revaluation reserve	31 December 2015	31 December 2014
a) revaluation of tangible assets	10,616	12,494
b) deferred tax	(361,785)	(252,907)
c) exchange differences from translation of foreign branches	-	-
d) other (by type):	5,948,680	5,437,746
- due to remeasurement of financial investments measured using the equity method	4,042,463	4,103,981
- due to remeasurement of available-for-sale financial investments	1,906,217	1,333,765
Total revaluation reserve	**5,597,511**	**5,197,333**

Revaluation reserve on financial instruments (gross)	1 January - 31 December 2015	1 January - 31 December 2014
1. At the beginning of the period	**5,437,746**	**4,952,733**
2. Increases due to:	653,422	854,194
a) effects of remeasurement of available-for-sale financial assets, including:	653,422	854,194
- remeasurement gains	634,628	843,012
- amounts deducted as at the derecognition date (e.g. sales)	8,213	11,182
- impairment losses transferred to the profit and loss account in case of recognition of impairment	10,581	-
- profits on valuation as at the date of reclassifying assets to available for sale from held to maturity	-	-
- amounts settled upon reclassification of assets to held to maturity (re-reclassified to held to maturity after the tainting period referred to in clause 8.4 of the Ordinance on financial instruments)	-	-
b) arising from hedge accounting:	-	-
- amounts settled for fair value hedges of an interest-bearing financial instrument	-	-
- periodic measurement of hedged items and hedging instruments related to cash flow hedges	-	-
- periodic measurement of hedged items and hedging instruments related to hedges of net assets of foreign entities	-	-
c) other	-	-
d) deferred tax asset and liability determined, revalued and charged to financial result	-	-
3. Decreases due to:	142,488	369,181
a) effects of remeasurement of available-for-sale financial assets, including:	142,488	369,181
- remeasurement losses	112,202	346,489
- amounts deducted as at the derecognition date (e.g. sales)	30,286	22,692
- losses on valuation as at the date of reclassifying assets to available for sale from held to maturity	-	-
- amounts settled upon reclassification of assets to held to maturity (re-reclassified to held to maturity after the tainting period referred to in clause 8.4 of the Ordinance on financial instruments)	-	-
b) arising from hedge accounting:	-	-
- amounts settled for fair value hedges of an interest-bearing financial instrument	-	-
- periodic measurement of hedged items and hedging instruments related to cash flow hedges	-	-
- periodic measurement of hedged items and hedging instruments related to hedges of net assets of foreign entities	-	-
c) other	-	-
d) deferred tax asset and liability determined, revalued and charged to financial result	-	-
4. At the end of the period	**5,948,680**	**5,437,746**

8. Technical provisions

Technical provisions	31 December 2015	31 December 2014
a) unearned premiums reserve:	4,734,129	4,151,052
- gross provisions	5,049,466	4,423,916
- reinsurers' share	315,337	272,864
b) unexpired risks reserve:	84,741	1,236
- gross provisions	84,741	1,236
- reinsurers' share	-	-
c) life insurance provision:	-	-
- gross provisions	-	-
- reinsurers' share	-	-
d) provisions for outstanding claims and benefits:	12,182,768	12,222,769
- gross provisions	12,904,732	12,633,798
- reinsurers' share	721,964	411,029
e) provisions for bonuses and rebates for the insured:	1,958	1,419
- gross provisions	1,958	1,419
- reinsurers' share	-	-
f) risk equalization reserve	632,972	596,825
g) provisions for premium refund to the members	-	-
h) other technical provisions specified in the By-laws	-	-
- gross provisions	-	-
- reinsurers' share	-	-
i) life insurance unit-linked provision:	-	-
- gross provisions	-	-
- reinsurers' share	-	-
Total technical provisions	**17,636,568**	**16,973,301**

Gross technical provisions (currency structure)	31 December 2015	31 December 2014
a) unearned premiums reserve:	5,049,466	4,423,916
- in PLN	5,049,466	4,423,916
- foreign currencies (by currency and converted to PLN)	-	-
b) unexpired risks reserve:	84,741	1,236
- in PLN	84,741	1,236
- foreign currencies (by currency and converted to PLN)	-	-
c) life insurance provision:	-	-
- in PLN	-	-
- foreign currencies (by currency and converted to PLN)	-	-
d) provisions for outstanding claims and benefits:	12,904,732	12,633,798
- in PLN	12,153,294	11,861,563
- foreign currencies (by currency and converted to PLN)	751,438	772,235
d1. EUR thousand	176,331	181,174
PLN thousand	751,433	772,218
d2. USD thousand	1	5
PLN thousand	5	17
e) provisions for bonuses and rebates for the insured:	1,958	1,419
- in PLN	1,958	1,419
- foreign currencies (by currency and converted to PLN)	-	-
f) risk equalization reserve:	632,972	596,825
- in PLN	632,972	596,825
- foreign currencies (by currency and converted to PLN)	-	-
g) provisions for premium refund to the members:	-	-
- in PLN	-	-

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- foreign currencies (by currency and converted to PLN)	-	-
h) other technical provisions specified in the By-laws:	-	-
- in PLN	-	-
- foreign currencies (by currency and converted to PLN)	-	-
i) life insurance unit-linked provision:	-	-
- in PLN	-	-
- foreign currencies (by currency and converted to PLN)	-	-
Total technical provisions	**18,673,869**	**17,657,194**

Reinsurers' share in technical provisions (currency structure)	**31 December 2015**	**31 December 2014**
a) reinsurers' share in unearned premiums reserve:	315,337	272,864
- in PLN	315,337	272,864
- foreign currencies (by currency and converted to PLN)	-	-
b) reinsurers' share in unexpired risks reserve:	-	-
- in PLN	-	-
- foreign currencies (by currency and converted to PLN)	-	-
c) reinsurers' share in life insurance provision:	-	-
- in PLN	-	-
- foreign currencies (by currency and converted to PLN)	-	-
d) reinsurers' share in provision for outstanding claims and benefits:	721,964	411,029
- in PLN	408,118	401,377
- foreign currencies (by currency and converted to PLN)	313,846	9,652
d1. EUR thousand	2,044	2,101
PLN thousand	8,712	8,955
d2. USD thousand	77,238	189
PLN thousand	301,312	663
d3. other	3,822	34
e) reinsurers' share in provision for bonuses and rebates for the insured:	-	-
- in PLN	-	-
- foreign currencies (by currency and converted to PLN)	-	-
f) reinsurers' share in other technical provisions specified in the Articles of association	-	-
- in PLN	-	-
- foreign currencies (by currency and converted to PLN)	-	-
g) reinsurers' share in life insurance unit-linked provision	-	-
- in PLN	-	-
- foreign currencies (by currency and converted to PLN)	-	-
Total reinsurers share in technical provisions	**1,037,301**	**683,893**

8.1 Unearned premiums reserve and unexpired risks reserve

Unearned premiums reserve and unexpired risks reserve	**31 December 2015**	**31 December 2014**
a) unearned premiums reserve:	4,734,129	4,151,052
- gross provisions	5,049,466	4,423,916
- reinsurers' share	315,337	272,864
b) unexpired risks reserve:	84,741	1,236
- gross provisions	84,741	1,236
- reinsurers' share	-	-
Total unearned premiums reserve and unexpired risks reserve	**4,818,870**	**4,152,288**

8.2 Outstanding claims provisions

8.2.1. Gross outstanding claims provision

Gross outstanding claims provision	Gross provisions as at 31 December 2015	Provision for claims relating to the reporting period
Accident and sickness insurance (groups 1 and 2)	117,623	76,858
MTPL (group 10)	9,488,175	1,289,622
Other motor insurance (group 3) 3)	493,726	325,374
Sea, aircraft and transport insurance (groups 4, 5, 6, 7)	65,079	38,479
Fire and other damage to property (groups 8, 9)	553,316	263,079
TPL insurance (groups 11, 12, 13)	1,771,319	278,309
Credit insurance and suretyship (groups 14, 15)	33,020	10,905
Assistance (group 18)	42,359	31,206
Insurance of legal protection (group 17)	2,254	748
Other insurance (group 16)	337,861	234,019
Total provisions for claims and benefits outstanding	**12,904,732**	**2,548,599**

Gross outstanding claims provision	Gross provisions as at 31 December 2014	Provision for claims relating to the reporting period
Accident and sickness insurance (groups 1 and 2)	119,018	69,763
MTPL (group 10)	9,503,799	1,170,079
Other motor insurance (group 3)	451,901	314,920
Sea, aircraft and transport insurance (groups 4, 5, 6, 7)	65,754	22,846
Fire and other damage to property (groups 8, 9)	491,057	211,537
TPL insurance (groups 11, 12, 13)	1,812,901	297,226
Credit insurance and suretyship (groups 14, 15)	28,930	4,059
Assistance (group 18)	36,211	26,303
Insurance of legal protection (group 17)	2,301	691
Other insurance (group 16)	121,926	15,901
Total provisions for claims and benefits outstanding	**12,633,798**	**2,133,325**

8.2.2. Reinsurers' share in outstanding claims provision

Reinsurers' share in outstanding claims provision	Gross provisions as at 31 December 2015	Provision for claims relating to the reporting period
Accident and sickness insurance (groups 1 and 2)	5	3
MTPL (group 10)	222,587	1,696
Other motor insurance (group 3) 3)	611	529
Sea, aircraft and transport insurance (groups 4, 5, 6, 7)	19,251	18,519
Fire and other damage to property (groups 8, 9)	117,468	94,157
TPL insurance (groups 11, 12, 13)	59,785	3,420
Credit insurance and suretyship (groups 14, 15)	12,293	3,692
Assistance (group 18)	-	-
Insurance of legal protection (group 17)	-	-
Other insurance (group 16)	289,964	211,188
Total estimated subrogations, salvages and subsidies	**721,964**	**333,204**

Reinsurers' share in outstanding claims provision	Gross provisions as at 31 December 2014	Provision for claims relating to the reporting period
Accident and sickness insurance (groups 1 and 2)	3	3
MTPL (group 10)	211,434	1,465
Other motor insurance (group 3) 3)	362	297
Sea, aircraft and transport insurance (groups 4, 5, 6, 7)	5,849	3,999
Fire and other damage to property (groups 8, 9)	38,949	6,658
TPL insurance (groups 11, 12, 13)	53,587	8,201
Credit insurance and suretyship (groups 14, 15)	11,447	1,638
Assistance (group 18)	-	-
Insurance of legal protection (group 17)	-	-
Other insurance (group 16)	89,398	11,575
Total estimated subrogations, salvages and subsidies	**411,029**	**33,836**

8.3 Provisions for capitalized value of annuities

8.3.1. Provisions for capitalized value of annuity claims before discounts and gross impairment losses

Provisions for capitalized value of annuity claims before discounts and gross impairment losses	Gross provisions as at 31 December 2015	Reinsurers' share
Accident and sickness insurance (groups 1 and 2)	-	-
MTPL (group 10)	9,117,957	291,894
Other motor insurance (group 3) 3)	-	-
Sea, aircraft and transport insurance (groups 4, 5, 6, 7)	-	-
Fire and other damage to property (groups 8, 9)	-	-
TPL insurance (groups 11, 12, 13)	755,692	3,057
Credit insurance and suretyship (groups 14, 15)	-	-
Assistance (group 18)	-	-
Insurance of legal protection (group 17)	-	-
Other insurance (group 16)	-	-
Total provisions	**9,873,649**	**294,951**

Provisions for capitalized value of annuity claims before discounts and gross impairment losses	Gross provisions as at 31 December 2014	Reinsurers' share
Accident and sickness insurance (groups 1 and 2)	-	-
MTPL (group 10)	9,243,470	254,839
Other motor insurance (group 3) 3)	-	-
Sea, aircraft and transport insurance (groups 4, 5, 6, 7)	-	-
Fire and other damage to property (groups 8, 9)	-	-
TPL insurance (groups 11, 12, 13)	917,256	2,526
Credit insurance and suretyship (groups 14, 15)	-	-
Assistance (group 18)	-	-
Insurance of legal protection (group 17)	-	-
Other insurance (group 16)	-	-
Total provisions	**10,160,726**	**257,365**

9. Expected subrogations, salvages and subsidies

9.1 Estimated subrogations, salvages and subsidies (gross)

Estimated subrogations, salvages and subsidies (gross)	31 December 2015	31 December 2014
Accident and sickness insurance (groups 1 and 2)	-	-,
MTPL(group 10)	38,999	34,764
Other motor insurance (group 3)	48,735	61,008
Sea, aircraft and transport insurance (groups 4, 5, 6, 7)	-	-
Fire and other damage to property (groups 8, 9)	6,468	13,917
TPL insurance (groups 11, 12, 13)	1,370	7
Credit insurance and suretyship (groups 14, 15)	967	4,067
Assistance (group 18)	-	-
Insurance of legal protection (group 17)	-	-
Other insurance (group 16)	-	-
Estimated subrogations, salvages and subsidies, total	**96,539**	**113,763**

9.2 Reinsurers' share in estimated subrogations, salvages and subsidies

Reinsurers' share in estimated subrogations, salvages and subsidies	31 December 2015	31 December 2014
Accident and sickness insurance (groups 1 and 2)	-	-
MTPL(group 10)	37	17
Other motor insurance (group 3)	-	-
Sea, aircraft and transport insurance (groups 4, 5, 6, 7)	-	-
Fire and other damage to property (groups 8, 9)	1	1
TPL insurance (groups 11, 12, 13)	30	-
Credit insurance and suretyship (groups 14, 15)	396	1,625
Assistance (group 18)	-	-
Insurance of legal protection (group 17)	-	-
Other insurance (group 16)	-	-
Total estimated subrogations, salvages and subsidies	**464**	**1,643**

10. Other provisions

10.1 Provisions for pension and other statutory employee benefits

Provisions for pension and other statutory employee benefits	31 December 2015	31 December 2014
a) provisions for pension benefits	12,109	12,245
b) other obligatory employee benefits (by basis):	38,178	60,422
provisions for unused paid vacation	20,787	43,274
provisions for death benefits	17,391	17,148
Total provisions for pension and other statutory employee benefits	**50,287**	**72,667**

Changes in provisions for pension and other obligatory employee benefits	31 December 2015	31 December 2014
a) at the beginning of the period (by basis)	**72,667**	**83,251**
provisions for pension benefits	**12,245**	**9,042**
provisions for unused paid vacation	**43,274**	**36,906**
provisions for death benefits	**17,148**	**14,675**
provisions for post-employment benefits	**-**	**22,628**
b) increases (due to)	2,705	14,634
provisions for pension benefits	373	3,571
provisions for unused paid vacation	1,933	8,514
provisions for death benefits	399	2,549
provisions for post-employment benefits	-	-
c) utilized (due to)	24,949	2,590

provisions for pension benefits	373	368
provisions for unused paid vacation	24,420	2,146
provisions for death benefits	156	76
provisions for post-employment benefits	-	-
d) released (due to)	136	22,628
provisions for pension benefits	136	-
provisions for unused paid vacation	-	-
provisions for death benefits	-	-
provisions for post-employment benefits	-	22,628
e) at the end of the period (by title)	**50,287**	**72,667**
provisions for pension benefits	**12,109**	**12,245**
provisions for unused paid vacation	**20,787**	**43,274**
provisions for death benefits	**17,391**	**17,148**
provisions for post-employment benefits	**-**	**-**

Provisions for pension and other statutory employee benefits (currency structure)	31 December 2015	31 December 2014
a) PLN thousand	50,287	72,667
b) foreign currencies (by currency and converted to PLN)	-	-
Total provisions for pension and other statutory employee benefits	**50,287**	**72,667**

10.2 Deferred tax liability

Deferred tax assets and liabilities are presented after offsetting of the relevant temporary deductible and taxable differences.

Change in deferred tax liability	31 December 2015	31 December 2014
1. Deferred tax liability at the beginning of the period, including:	**500,965**	**344,644**
a) charged to financial result [1)]	**240,748**	**196,990**
b) charged to equity [2)]	**260,217**	**147,654**
c) charged to goodwill or negative goodwill	**-**	**-**
2. Increases	307,144	162,778
a) charged to the financial result for the period in relation to temporary taxable differences (due to)	203,383	50,215
- occurrence of temporary differences, including:	203,383	50,215
accruals	183,477	21,002
other temporary differences	14,508	12,478
financial instruments	5,398	16,735
- changes in tax rates	-	-
- unrecognized temporary difference from previous period	-	-
b) charged to equity in relation to temporary taxable differences (due to)	103,761	112,563
- occurrence of temporary differences, including:	103,761	112,563
financial instruments	103,761	112,563
- changes in tax rates	-	-
- unrecognized temporary difference from previous period	-	-
c) charged to goodwill or negative goodwill period in relation to temporary taxable differences (due to)	-	-
3. Decreases	-	6,457
a) charged to the financial result for the period in relation to temporary taxable differences (due to)	-	6,457
- reversed temporary differences (use of provisions for deferred tax liability), including:	-	6,457
accruals	-	6,457
- changes in tax rates	-	-
- provision release due to inability to use it	-	-
b) charged to equity in relation to temporary taxable differences (due to)	-	-
- reversed temporary differences (use of provisions for deferred tax liability)	-	-
- changes in tax rates	-	-

Change in deferred tax liability	31 December 2015	31 December 2014
- provision release due to inability to use it	-	-
c) charged to goodwill or negative goodwill period in relation to temporary taxable differences (due to)	-	-
4. Total provision for deferred tax liability at the end of the period	**808,109**	**500,965**
a) charged to financial result [3]	**444,131**	**240,748**
b) charged to equity [2]	**363,978**	**260,217**
c) charged to goodwill or negative goodwill	**-**	**-**

[1] Refers to accumulated changes in deferred tax provisions for the previous years charged to financial result of the prior year and previous years.
[2] Refers to revaluation reserve.
[3] Refers to accumulated changes in deferred tax liability charged to the financial result of 2015 and previous years.

Notes on temporary taxable positive differences	31 December 2015	31 December 2014
a) temporary taxable differences at the beginning of the period	2,636,660	1,813,914
financial instruments	1,827,891	1,147,375
accruals	721,059	644,503
other temporary differences	87,710	22,036
b) temporary taxable differences at the end of the period, including:	4,253,199	2,636,660
financial instruments	2,402,409	1,827,891
accruals	1,686,723	721,059
other temporary differences	164,067	87,710
temporary taxable differences expiring within one year	4,089,133	2,489,350
temporary taxable differences expiring within more than one year	164,066	147,310
c) total amount of temporary differences related to investments in related parties, branches and joint investments, for which deferred tax liability was not recognized	-	-

Deferred tax liability (currency structure) [1]	31 December 2015	31 December 2014
a) PLN thousand	349,003	92,577
b) foreign currencies (by currency and converted to PLN)	-	-
Total deferred tax liability	**349,003**	**92,577**

[1] Deferred tax liability is recognized in the net amount reduced by deferred tax assets, presented in Note 5.1 of Supplementary information and explanations.

10.3 Other provisions

Other provisions	31 December 2015	31 December 2014
a) provision for penalties imposed by the Office of Competition and Consumer Protection	56,605	67,892
b) provisions for reinsurance settlements	10,793	17,531
c) provision for restructuring expenses	1,564	7,930
d) provision for disputed claims and potential liabilities under insurance contracts	837	782
e) other provisions	3,827	5,791
Total other provisions	73,626	99,926

Litigations related to fines imposed by the Office of Competition and Consumer Protection have been presented in detail in Note of 29.2 Supplementary information and explanations.

The restructuring process has been presented in detail in Note of 28.1 Supplementary information and explanations.

The position "Provisions for reinsurance settlements" includes only provisions for the share of reinsurers in the technical provisions that are in arrears with payments to PZU or which may in future have problems with settlement of their liabilities.

Changes in other provisions	31 December 2015	31 December 2014
a) at the beginning of the period (by title)	**99,926**	**81,977**
provision for restructuring expenses	**7,930**	**-**
provisions for reinsurance settlements	**17,531**	**4,829**
provision for penalties imposed by the Office of Competition and	**67,892**	**67,892**

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other provisions	**6,573**	**9,256**
b) increases (due to)	13,025	40,935
provision for restructuring expenses	2,508	14,536
provisions for reinsurance settlements	8,531	21,880
provision for penalties imposed by the Office of Competition and Consumer Protection	3	-
other provisions	1,983	4,519
c) utilized (due to)	6,414	8,476
provision for restructuring expenses	5,193	6,606
provisions for reinsurance settlements	-	-
provision for penalties imposed by the Office of Competition and Consumer Protection	-	-
other provisions	1,221	1,870
d) released (due to)	32,911	14,510
provision for restructuring expenses	3,681	-
provisions for reinsurance settlements	15,269	9,178
provision for penalties imposed by the Office of Competition and Consumer Protection	11,290	-
other provisions	2,671	5,332
e) closing balance (by basis)	**73,626**	**99,926**
provision for restructuring expenses	**1,564**	**7,930**
provisions for reinsurance settlements	**10,793**	**17,531**
provision for penalties imposed by the Office of Competition and Consumer Protection	**56,605**	**67,892**
other provisions	**4,664**	**6,573**

Other provisions (currency structure)	31 December 2015	31 December 2014
a) PLN thousand	73,626	99,926
b) foreign currencies (by currency and converted to PLN)	-	-
Total other provisions	**73,626**	**99,926**

Warsaw, 14 March 2016

11. Other liabilities and special funds

Geographical structure of liabilities	31 December 2015				31 December 2014			
	Domestic	Foreign – EU countries	Foreign – other countries	Total	Domestic	Foreign – EU countries	Foreign – other countries	Total
I. Liabilities due to reinsurers' deposits	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
II. Insurance liabilities	**323,920**	**20,136**	**485**	**344,541**	**299,391**	**25,119**	**914**	**325,424**
1. Liabilities to policyholders	122,798	879	37	123,714	133,498	928	10	134,436
2. Liabilities to insurance intermediaries	137,039	53	-	137,092	126,767	32	-	126,799
3. Other insurance liabilities	64,083	19,204	448	83,735	39,126	24,159	904	64,189
III. Reinsurance liabilities	**44,685**	**29,604**	**6,749**	**81,038**	**40,174**	**25,735**	**1,741**	**67,650**
IV. Liabilities arising from issue of own debt securities and obtained loans	**-**	**3,611,636**	**-**	**3,611,636**	**-**	**2,127,155**	**-**	**2,127,155**
V. Liabilities to credit institutions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
VI. Other liabilities	**295,149**	**621,695**	**11,625**	**928,469**	**1,719,096**	**227,535**	**10,153**	**1,956,784**
1. Liabilities to the State Treasury	50,783	-	-	50,783	40,502	-	-	40,502
2. Other liabilities	244,366	621,695[1)]	11,625	877,686	1,678,594	227,535	10,153	1,916,282
Total liabilities	**663,754**	**4,283,071**	**18,859**	**4,965,684**	**2,058,661**	**2,405,544**	**12,808**	**4,477,013**

1) The item represents the liability resulting from purchase of Alior Bank shares in the amount of PLN 341,709 thousand, described in Note 2.4.2 of Supplementary information and explanations.

11.1 Insurance liabilities

Insurance liabilities	31 December 2015	31 December 2014
a) liabilities to policyholders	123,714	134,436
- to related parties	8	7
- domestic	8	7
- foreign	-	-
- to other entities	123,706	134,429
- domestic	122,790	133,491
- foreign	916	938
b) liabilities to insurance intermediaries, including:	137,092	126,799
- to related parties	91	40
- domestic	91	40
- foreign	-	-
- to other entities	137,001	126,759
- domestic	136,948	126,727
- foreign	53	32
c) other insurance liabilities, including:	83,735	64,189
- to related parties	813	736
- domestic	782	601
- foreign	31	135
- to other entities	82,922	63,453
- domestic	63,301	38,525
- foreign	19,621	24,928
Total insurance liabilities	**344,541**	**325,424**

Insurance liabilities	31 December 2015	31 December 2014
a) subsidiaries	912	783
b) joint-ventures	-	-
c) associates	-	-
d) major investor	-	-
e) shareholder in a joint-venture	-	-
f) parent entity	-	-
g) other	343,629	324,641
Total insurance liabilities	**344,541**	**325,424**

Insurance liabilities with maturity periods after the balance sheet date	31 December 2015	31 December 2014
a) up to 3 months	344,541	325,424
b) over 3 months and up to 1 year	-	-
c) over 1 year and up to 5 years	-	-
d) over 5 years	-	-
Total insurance liabilities	**344,541**	**325,424**

Insurance liabilities (currency structure)	31 December 2015	31 December 2014
a) PLN thousand	324,283	300,090
b) foreign currencies (by currency and converted to PLN)	20,258	25,334
b1. EUR thousand	3,666	4,425
PLN thousand	15,621	18,861
b2. USD thousand	215	72
PLN thousand	838	254
b3. GBP thousand	434	782
PLN thousand	2,514	4,272
b4. CHF thousand	53	110
PLN thousand	209	391
b5. other currencies in PLN thousand	1,076	1,556
Total insurance liabilities	**344,541**	**325,424**

11.2 Reinsurance liabilities

Total reinsurance liabilities	31 December 2015	31 December 2014
a) current liabilities due to inward reinsurance, including:	3,330	3,571
- domestic cedants	1,351	3,525
- foreign cedants	1,979	46
b) current liabilities due to reinsurance outwards, including:	66,176	62,581
- domestic reinsurers	34,934	35,534
- foreign reinsurers	31,242	27,047
c) liabilities due to retrocession, including:	11,532	1,498
- domestic retrocessionaries	8,400	1,115
- foreign retrocessionaries	3,132	383
d) reinsurance liabilities premiums settled over time	-	-
Total reinsurance liabilities	**81,038**	**67,650**

Reinsurance liabilities	31 December 2015	31 December 2014
a) current receivables from inward reinsurance, including to:	3,330	3,571
- cedants being subsidiaries	1,883	-
- cedants being joint-ventures	-	-
- cedants being associates	-	-
- a cedant being a major investor	-	-
- a cedant being a shareholder in a joint-venture	-	-
- a cedant being the parent entity	-	-
a) current receivables from reinsurance outwards, including to:	66,176	62,581
- reinsurers being subsidiaries	-	-
- reinsurers being subsidiaries	-	-
- reinsurers being associates	-	-
- a reinsurer being a major investor	-	-
- a reinsurer being a shareholder in a joint-venture	-	-
- a reinsurer being the parent entity	-	-
c) current liabilities to retrocessionaries, including to:	11,532	1,498
- retrocessionaries being subsidiaries	-	-
- retrocessionaries being joint-ventures	-	-
- retrocessionaries being associates	-	-
- a retrocessionary being a major investor	-	-
- a retrocessionary being a shareholder in a joint-venture	-	-
- a retrocessionary being the parent entity	-	-
d) other	-	-
Total reinsurance liabilities	**81,038**	**67,650**

Reinsurance liabilities with maturity periods after the balance sheet date	31 December 2015	31 December 2014
a) up to 3 months	12,904	19,933
b) over 3 months and up to 1 year	27,651	21,846
c) over 1 year and up to 5 years	29,533	23,662
d) over 5 years	10,950	2,209
Total reinsurance liabilities	**81,038**	**67,650**

Reinsurance liabilities (currency structure)	31 December 2015	31 December 2014
a) PLN thousand	66,993	56,567
b) foreign currencies (by currency and converted to PLN)	14,045	11,083
b1. EUR thousand	1,568	1,005
PLN thousand	6,680	4,282
b2. USD thousand	1,374	1,927
PLN thousand	5,362	6,757
b3. UAH thousand	11,609	-
PLN thousand	1,883	-
b4. other currencies	120	44
Total reinsurance liabilities	**81,038**	**67,650**

11.3 Liabilities arising from issue of own debt securities and obtained loans

Liabilities arising from issue of own debt securities and obtained loans	31 December 2015	31 December 2014
a) liabilities convertible to shares of the insurance company	-	-
b) other (by title):	3,611,636	2,127,155
- loans from PZU Finance AB (publ.) funded from debt securities issued by PZU Finance AB (publ.)	3,611,636	2,127,155
Total liabilities due to issue of own debt securities and taking out loans	**3,611,636**	**2,127,155**

Liabilities from issue of own debt securities and obtained loans by maturity period after the balance sheet date	31 December 2015	31 December 2014
a) up to 3 months	-	-
b) over 3 months and up to 1 year	-	-
c) over 1 year and up to 5 years	3,611,636	2,127,155
d) over 5 years	-	-
Total liabilities due to issue of own debt securities and taking out loans	**3,611,636**	**2,127,155**

Liabilities from issue of own debt securities and obtained loans (currency structure)	31 December 2015	31 December 2014
a) PLN thousand	-	-
b) foreign currencies (by currency and converted to PLN)	3,611,636	2,127,155
b1. EUR thousand	847,503	499,063
PLN thousand	3,611,636	2,127,155
Total liabilities due to issue of own debt securities and taking out loans	**3,611,636**	**2,127,155**

11.3.1. Loans from PZU Finance AB (publ.)

On 7 July 2014, PZU took a loan from PZU Finance AB (publ.), with its registered office in Stockholm at the total value of EUR 500,000 thousand and the interest rate of 1.425% per year to be repaid on 28 June 2019.

Funds for the loan were acquired by PZU Finance AB (publ.) on 3 July 2014 from the issue of five-year Eurobonds in the amount of EUR 500,000 thousand with the redemption date of 3 July 2019. The issue price of one bond of a nominal value of EUR 100,000 amounted to EUR 99,407. The margin over mid-swap rate (the curve, which constitutes the average of the bid and ask curves for fixed-coupon bonds corresponding to the period of redemption of the bonds issued by PZU Finance AB (publ.) amounted to 85 bps, which resulted in the bond yield of 1.499%. The bonds were released on the regulated market of the Irish Stock Exchange on the basis of a prospectus approved by the Central Bank of Ireland. The bonds bear interest at a fixed interest rate of 1.375% per year, the coupon is paid once a year and the interest period starts on 3 July.

On 16 October 2015, PZU Finance AB (publ.) issued registered bonds of the total nominal value of EUR 350,000 thousand. The bonds were issued on tap with the installment from 2014 and therefore formed a single series of identical parameters regarding the value of the coupon, interest periods and maturity. The issue price of one bond was EUR 99,218, increased by the interest accrued since 3 July 2015. As at the date of the issue, profitability of the bonds was 1.593%.

The liabilities of PZU Finance AB (publ.) arising from the bonds (including the obligation for payment of the nominal value of bonds and interest on the bonds) were secured with a guarantee provided by PZU to all bondholders. The maximum value of the guarantee was not determined. The guarantee expires at the same time as the bondholders' claims to PZU finance AB (publ.).

The issue of Eurobonds constitutes the implementation of PZU Group's investment strategy in the scope of the management of the matching of assets and liabilities in euro. After having purchased the companies in the Baltic states, a significant value of the Group's assets is dependent on the exchange rate of the euro, which is why it was decided that the issue would be made in this currency.

11.4 Liabilities to credit institutions

There were no liabilities to credit institutions as at 31 December 2015 and 31 December 2014.

11.5 Other liabilities

Other liabilities	31 December 2015	31 December 2014
a) liabilities to the State Treasury	**50,783**	**40,502**
- corporate income tax	40,157	30,100
- personal income tax	8,232	8,021
- VAT	2,192	2,376
- other	202	5
b) other liabilities	**877,686**	**1,916,282**
- liabilities in respect of unsettled investment transactions and collateral deposits [1)]	375,998	46,190
- derivatives measurement – liabilities held for trading	304,467	275,055
- estimated non insurance liabilities	76,173	70,798
- liabilities due to settlements with the Tax Capital Group (PGK)	42,115	536
- Social Security Institution (ZUS) premiums and benefits paid	12,308	12,039
- settlements from direct claims handling	11,113	-
- liability to the Insurance Guarantee Fund (UFG)	9,478	8,564
- retained guarantee deposits	3,683	1,762
- liabilities arising from the reporting fee for Central Register of Vehicles and Drivers (CEPiK)	3,620	3,268
- settlements with shareholders due to dividend	2,982	1,471,120
- liabilities arising from legal representation	2,345	3,407
- other	33,404	23,543
Total other liabilities	**928,469**	**1,956,784**

[1)] This item represents the liability resulting from purchase of Alior Bank shares in the amount of PLN 341,709 thousand, described in Note 2.4.2 of Supplementary information and explanations.

Other liabilities	31 December 2015	31 December 2014
a) subsidiaries	46,427	8,192
b) joint-ventures	-	-
c) associates	-	-
d) major investor	-	-
e) shareholder in a joint-venture	-	-
f) parent entity	-	-
g) other	882,042	1,948,592
Total other liabilities	**928,469**	**1,956,784**

Other liabilities by maturity period after the balance sheet date	31 December 2015	31 December 2014
a) up to 3 months	928,469	1,956,784
b) over 3 months and up to 1 year	-	-
c) over 1 year and up to 5 years	-	-
d) over 5 years	-	-
Total other liabilities	**928,469**	**1,956,784**

All derivatives of PZU are qualified as liabilities held for trading and recognized under Other liabilities with maturity period up to 3 months after the balance sheet date.

Other liabilities (currency structure)	31 December 2015	31 December 2014
a) PLN thousand	686,396	1,803,554
b) foreign currencies (by currency and converted to PLN)	242,073	153,230
b1. EUR thousand	9,679	11,702
PLN thousand	41,246	49,878
b2. USD thousand	11,247	8,260
PLN thousand	43,876	28,968
b3. RUB thousand	3,845	62,907
PLN thousand	203	3,787
b4. BRL thousand	91,950	6,534
PLN thousand	90,580	8,623
b5. ZAR thousand	76,328	6,076
PLN thousand	19,059	1,841
b6. CZK thousand	117,445	114,047
PLN thousand	18,521	17,529
b7. HUF thousand	1,425,189	2,848,648
PLN thousand	19,384	38,565
b8. other currencies in PLN thousand	9,204	4,039
Total other liabilities	**928,469**	**1,956,784**

11.6 Other information regarding liabilities

11.6.1. Liabilities secured on the Company's assets and its related parties

As at 31 December 2015 and 31 December 2014, PZU did not have any liabilities secured on its assets.

11.6.2. Overdue liabilities

As at 31 December 2015 and 31 December 2014 no overdue liabilities occurred.

11.6.3. Liabilities to the State Treasury or local authorities due to acquisition of an ownership title to buildings and structures

As at 31 December 2015 and 31 December 2014, the Company had no liabilities to the State Budget or local government due to acquisition of an ownership title to buildings and structures.

11.7 Special funds

Special funds	31 December 2015	31 December 2014
a) Prevention Fund	47,287	29,243
b) Social Benefits Fund	96,845	92,318
Total special funds	**144,132**	**121,561**

12. Accruals

Accruals	31 December 2015	31 December 2014
a) accruals, including:	**821,516**	**550,075**
- long-term	**-**	**-**
- short-term (by title):	**821,516**	**550,075**
- deferred income and accrued expenses relating to reinsurance	477,149	213,981
- accrued costs of commissions on direct insurance	216,477	202,961
- accrued costs of salaries and wages	70,841	70,501
- accrued costs of bonuses for employees	42,522	51,527
- other accruals	14,527	11,105
b) negative goodwill	**-**	**-**
c) deferred income, including:	**34,887**	**26,054**
- deferred reinsurance commissions	25,663	20,867
- investment income	6,739	-
- land perpetual usufruct right received free of charge	979	2,179
- other	1,506	3,008
Total accruals	**856,403**	**576,129**

Change in accruals and deferred income	31 December 2015	31 December 2014
At the beginning of the period (by title)	**576,129**	**518,282**
accrued expenses	**550,075**	**501,342**
deferred income	**26,054**	**16,940**
a) increases (due to)	1,804,323	867,006
accrued expenses	1,563,079	785,400
deferred income	241,244	81,606
b) decreases (due to)	1,524,049	809,159
accrued expenses	1,291,638	736,667
deferred income	232,411	72,492
Closing balance (by title)	**856,403**	**576,129**
accrued expenses	**821,516**	**550,075**
deferred income	**34,887**	**26,054**

13. Required solvency margin

13.1 Numeric data used to calculate own funds to cover the required solvency margin

Solvency statement	31 December 2015	31 December 2014
1. Assets of the insurance company	36,358,361	34,629,778
2. Assets allocated to cover all expected liabilities	23,979,628	22,301,054
a) subordinated liabilities	-	-
b) technical provisions	17,540,493	16,861,181
c) technical provisions for unit-linked life products	-	-
d) other provisions	472,916	265,170
e) liabilities due to reinsurers' deposits	-	-
f) other liabilities and special funds	5,109,816	4,598,574
g) accruals and deferred income	856,403	576,129
h) any other liabilities of the insurance company not included in items a-g	-	-
3. Intangible assets	362,167	283,999

4. Shares and other deductible assets pursuant to Article 148.2, 2a, 2b of the Act including Article 148.2c and 2d of the Act	5,853,666	6,065,985
a) Shares and other assets used to finance equity of insurance companies in the same insurance capital group, pursuant to Article 148.2 of the Act	5,763,579	6,000,224
b) Shares or assets used to finance equity of other insurance companies, credit and financial institutions as understood by the banking law and investment companies firm which are members of a financial conglomerate pursuant to Article 148.2a of the Act (unless included in item 4a))	-	-
c) held by the insurance company with respect to other insurance companies, credit and financial institutions as understood by the banking law and investment companies pursuant to Article 148.2b of the Act	90,087	65,761
i) subordinated loans granted by the insurance company which meet the conditions specified in Article 148.4.2 of the Act	90,087	65,761
ii) accumulated unpaid dividends due to preference shares	-	-
d) Total amounts in the case of which the supervisory authority agreed not to apply deduction pursuant to Article 148.2c of the Act	-	-
e) Total amounts in the case of which the supervisory authority agreed not to apply deduction pursuant to Article 148.2d of the Act (unless included in item 4d))	-	-
5. Impact of participation of the national insurance company in the insurance capital group on the own funds of the insurance company	2,135,034	2,411,116
6. Deferred tax assets	459,105	408,388
7. In the case of mutual insurance companies, the value of liabilities to the members of the company, provided that the conditions specified in Article 148.3.2 of the Act have been met	-	-
8. Total amounts specified in the decisions of the supervisory authority issued based on Article 148.4.1 of the Act, authorized to be classified as equity	-	-
9. Total amounts specified in the decisions of the supervisory authority issued based on Article 148.4.2 of the Act, authorized to be classified as equity	-	-
10. Total amounts specified in the decisions of the supervisory authority issued based on Article 148.4.3 of the Act, authorized to be classified as equity	-	-
11. Total amounts specified in the decisions of the supervisory authority issued based on Article 148.5 of the Act, authorized to be classified as equity	-	-
12. Value of deposit referred to in Article 113 of the Act	-	-
13. Own funds	**7,838,829**	**7,981,468**
14. Own funds to cover guarantee fund pursuant to Article 148a of the Act	7,838,829	7,981,468
a) Total values resulting from Article 148.3.1-6 and clause 4.1 and 4.2 of the Act including the elements indicated in Article 148.1 2-4 and clause 2a and 2b of the Act	7,838,829	7,981,468
15. Required solvency margin	**1,424,278**	**1,362,353**
16. Minimum amount of the guarantee capital	15,939	15,403
17. 1/3 of the amount of the required solvency margin	474,759	454,118
18. Surplus/ shortage of own funds to cover the solvency margin	**6,414,551**	**6,619,115**
19. Guarantee capital	474,759	454,118
20. Surplus/ shortage of own funds to cover guarantee capital	**7,364,070**	**7,527,350**
a) Difference between the amount indicated in 14a and the guarantee capital	7,364,070	7,527,350

Warsaw, 14 March 2016

13.2 Numeric data used to calculate the required solvency margin for non-life insurance

Required solvency margin	31 December 2015	31 December 2014
1. Premium amount (G) (the higher of (1a-1b+50%*1c) and (1d-1e+50%*1f))	9,198,953	8,642,453
a) Premium written during the last 12 months from direct insurance and inward reinsurance, including reversals, not reduced by reinsurers and retrocessionaries' share	8,857,929	8,261,752
b) Tax included in the premium under 1a	-	-
c) Premium from groups 11, 12 and 13 included in 1a after tax deduction	682,048	761,402
d) Premium written during the last 12 months reduced by change in the unearned premium reserve from direct insurance and inward reinsurance, including reversals, not reduced by reinsurers and retrocessionaries' share	8,177,379	8,102,530
e) Tax included in the premium under 1d	-	-
f) Premium from groups 11, 12 and 13 included in 1d after tax deduction	671,180	673,066
2. PLN equivalent of T1 at the average exchange rate of NBP as per Rate Table 1 of each reporting year (P1)	264,068	255,198
3. Sickness insurance premium amount	-	-
a) up to P1 amount	-	-
b) over P1 amount	-	-
4. Other insurance premium amount	9,198,953	8,642,453
a) up to P1 amount	264,068	255,198
b) over P1 amount	8,934,885	8,387,255
5. Reinsurance rate in percent (H) (5b/5a, not less than 50%)	96.4230%	97.8759%
a) Gross claims and benefits paid during last 36 months net of returns, subrogations and salvages, including the change in the provision for gross unpaid claims and benefits for the period	15,847,862	16,092,774
b) Gross claims and benefits net of reinsurance paid during last 36 months net of returns, subrogations and salvages, including the change in the provision for gross unpaid claims and benefits net of reinsurance for the period	15,280,986	15,750,953
6. Required solvency margin calculated on the basis of premiums ((3a*6%+3b*16%/3+4a*18%+4b*16%)*5)	**1,424,278**	**1,358,416**
7. Comparative period (last 36 or 84 months)	36	36
a) Premium written during the last 12 months from direct insurance and inward reinsurance, including reversals, not reduced by reinsurers and retrocessionaries' share	8,857,929	8,261,752
b) Premium written during the last 12 months from insurance from storm, hail, frost or credit, not reduced by reinsurers and retrocessionaries' share	1,879,491	1,844,297
c) Share ratio of insurance from storm, hail, frost or credit (7b/7a)	21.2182%	22.3233%
8. Average annual claims and benefits amount (J) ((8a - 8b + 8c - 8d + 1/2*(8e - 8f + 8g - 8h))/7)*12	5,443,779	5,575,089
a) Claims and benefits paid from direct insurance and inward reinsurance in the financial year, not reduced by reinsurers and retrocessionaries' share	14,212,764	13,649,825
b) Returns, subrogations and salvages of the financial year	348,410	392,598
c) Outstanding claims provisions as at the last day of the comparative period, not reduced by reinsurers and retrocessionaries' share	12,753,875	12,520,035
d) Outstanding claims provisions as at the first day of the comparative period, not reduced by reinsurers and retrocessionaries' share	10,770,367	9,684,487
e) Claims and benefits paid in groups 11, 12 and 13 included in 8a	692,038	656,089
f) Returns, subrogations and salvages in groups 11, 12 and 13 included in 8b	9,416	4,703
g) Outstanding claims provisions paid in groups 11, 12 and 13 included in 8c	1,736,946	1,807,824
h) Outstanding claims provisions paid in groups 11, 12 and 13 included in 8d	1,452,618	1,194,227
9. PLN equivalent of T2 at the average exchange rate of NBP as per Rate Table 1 of each reporting year (P2)	184,805	178,597
10. Average annual amount of sickness insurance claims	-	-
a) up to P2 amount	-	-
b) over P2 amount	-	-
11. Average annual amount of other insurance claims and benefits	5,443,779	5,671,363
a) up to P2 amount	184,805	178,597
b) over P2 amount	5,258,974	5,492,766
12. Required solvency margin calculated on the basis of average annual amount of claims and benefits ((10a*26%/3+10b*23%/3+11a*26%+11b*23%)*5)	**1,212,628**	**1,281,951**
13. Required solvency margin calculated on the basis of premiums and	**1,424,278**	**1,358,416**

average annual amount of claims and benefits(the higher of the amounts in items 6 and 12)		
14. Required solvency margin as at the same day of the previous year	1,362,353	1,362,353
15. Adjustment ratio (15a/15b, not higher than 1)	99.8022%	100.0000%
a) Change in provision for claims and benefits outstanding, net of reinsurance as at the reporting date	12,086,693	12,110,649
b) Change in provision for claims and benefits outstanding, net of reinsurance as at the date following the same day of the previous year	12,110,648	11,245,952
16. Required solvency margin after adjustment (14 * 15)	**1,359,658**	**1,362,353**
17. Required solvency margin for section II (the higher of the amounts in items 13 and 16)	**1,424,278**	**1,362,353**

14. Off-balance sheet items

14.1 Contingent receivables

Contingent receivables	31 December 2015	31 December 2014
a) guarantees and sureties received	12,408	12,552
b) other (by type)	30,515,089	9,833,478
promissory notes related to granted insurance guarantees	7,682,993	7,792,716
other promissory notes, including:	183,514	183,456
- from subsidiaries	12,944	12,018
- other contingent receivables [1]	22,648,582	1,857,306
Total contingent receivables	**30,527,497**	**9,846,030**

[1] The item "other contingent receivables" includes mainly receivables from loan insurance, guarantees, etc. with a total value of PLN 18,868,819 thousand (31 December 2014: PLN 1,217,686 thousand).

Total contingent receivables (currency structure)	31 December 2015	31 December 2014
a) guarantees and sureties received:	12,408	12,552
- in PLN	12,408	12,552
- in foreign currencies (by currency and translated to PLN)	-	-
b) other (by type)	30,515,089	9,833,478
- in PLN	30,461,554	9,754,918
- in foreign currencies (by currency and translated to PLN)	53,535	78,560
b1. EUR thousand	12,461	18,429
PLN thousand	53,102	78,552
b2. USD thousand	-	2
PLN thousand	-	8
b3. NOK thousand	977	-
PLN thousand	433	-
Total contingent receivables	**30,527,497**	**9,846,030**

14.1.1. Guarantees received

Under the guarantee line agreement of 7 September 2013 between PZU and Bank Millennium SA, the bank extended bank guarantees (bid bonds and contractual guarantees) to PZU in procurement proceedings for insurance services.

The guarantee facility amounts to PLN 15 million and is annually extended for the following year.

As at 31 December 2015, as a part of the line applicable during the period between 21 October 2014 and 20 October 2015, there were 26 active guarantees at the total value of PLN 4,579 thousand.

14.2 Contingent liabilities

Contingent liabilities due to:	31 December 2015	31 December 2014
a) guarantees and sureties granted	3,651,485	2,152,111
b) accepted and endorsed promissory notes	-	-
c) assets with resale obligation	-	-
d) other liabilities secured on assets or revenue	-	-
e) other (by type):	990,962	198,634
disputed claims not acknowledged by the insurer and brought to court by creditors	575,148	198,357
contingency liabilities arising from sub-issue contracts	-	-
- other contingent liabilities [1]	415,814	277
Total contingent liabilities	**4,642,447**	**2,350,745**

[1] As at 31 December 2015, the item "other contingent liabilities" includes mainly liabilities from outstanding loan installments with a total value of PLN 373,923 thousand (31 December 2014: none).

Contingent liabilities (currency structure)	31 December 2015	31 December 2014
a) guarantees and sureties granted:	3,651,485	2,152,111
- in PLN	4,579	6,430
- in foreign currencies (by currency and translated to PLN)	3,646,906	2,145,681
a1. EUR thousand	855,780	503,409
PLN thousand	3,646,906	2,145,681
b) accepted and endorsed promissory notes	-	-
c) assets with resale obligation	-	-
d) other liabilities secured on assets or revenue	-	-
e) other (by type):	990,962	198,634
disputed claims not acknowledged by the insurer and brought to court by creditors	575,148	198,357
- in PLN	575,148	198,357
- in foreign currencies (by currency and translated to PLN)	-	-
other contingent liabilities	415,814	277
- in PLN	415,814	277
- in foreign currencies (by currency and translated to PLN)	-	-
Total contingent liabilities	**4,642,447**	**2,350,745**

The guarantee granted to PZU Finance AB (publ.) was shown in item guarantees and sureties granted and described in Note of of Supplementary information and explanations.

14.3 Other non-balance sheet items

Other non-balance sheet items due to	31 December 2015	31 December 2014
Other non-balance sheet items (by type):	136,477	123,161
third-party assets not recognized in the Company's assets, including:	136,477	123,161
- to subsidiaries	12,543	12,543
Total other non-balance sheet items	**136,477**	**123,161**

Other non-balance sheet items (currency structure)	31 December 2015	31 December 2014
a) PLN thousand	136,477	123,161
b) foreign currencies (by currency and converted to PLN)	-	-
Total other non-balance sheet items	**136,477**	**123,161**

15. Premiums in non-life insurance

Gross written premiums	1 January - 31 December 2015	1 January - 31 December 2014
a) in direct insurance, including:	8,262,970	8,139,124
- from contracts concluded outside Poland, including:	7,677	7,713
- from contracts concluded in EU member states	3,408	6,251
b) in indirect insurance	595,066	122,628
Total gross written premiums	**8,858,036**	**8,261,752**

15.1 Gross written premiums – direct insurance

Gross written premium in direct non-life insurance (by accounting class)	1 January - 31 December 2015	1 January - 31 December 2014
a) accident and sickness insurance (groups 1 and 2)	437,104	445,884
b) MTPL (group 10)	2,642,743	2,634,079
c) other motor insurance (group 3)	2,142,681	2,010,892
d) sea, aircraft and transport insurance (groups 4, 5, 6, 7)	38,958	56,646
e) fire and other damage to property (groups 8, 9)	1,865,317	1,829,582
f) TPL insurance (groups 11, 12, 13)	682,049	761,402
g) credit insurance and suretyship (groups 14, 15)	75,250	80,066
h) assistance (group 18)	290,260	237,416
i) legal protection (group 17)	3,535	875
j) other (group 16)	85,073	82,282
Total gross premiums - direct insurance (by accounting class)	**8,262,970**	**8,139,124**

Total gross earned premiums – direct non-life insurance arising from obligatory TPL insurance by groups	1 January - 31 December 2015	1 January - 31 December 2014
Group 10	2,587,784	2,590,408
Group 11	5,252	4,443
Group 13	305,171	386,397
Total gross earned premiums – direct non-life insurance arising from obligatory TPL insurance by groups	**2,898,207**	**2,981,248**

15.2 Gross written premiums – indirect insurance

Total gross written premiums – indirect non-life insurance	1 January – 31 December 2015	1 January – 31 December 2014
a) accident and sickness insurance (groups 1 and 2)	11,895	1,038
b) MTPL (group 10)	181,687	14,384
c) other motor insurance (group 3)	24,986	5,397
d) sea, aircraft and transport insurance (groups 4, 5, 6, 7)	5,706	11,779
e) fire and other damage to property (groups 8, 9)	133,975	71,676
f) TPL insurance (groups 11, 12, 13)	33,108	7,022
g) credit insurance and suretyship (groups 14, 15)	1,826	7,443
h) assistance (group 18)	863	-
i) legal protection (group 17)	-	-
j) other (group 16)	201,020	3,889
Total gross premiums - indirect insurance (by accounting class)	**595,066**	**122,628**

Total gross earned premiums – indirect non-life insurance arising from obligatory TPL insurance by group	1 January - 31 December 2015	1 January - 31 December 2014
Group 10	179,307	11,710
Group 11	1	319
Group 13	17,529	126
Total gross earned premiums – indirect non-life insurance arising from obligatory TPL insurance by group	**196,837**	**12,155**

16. Gross earned premiums

16.1 Gross earned premiums – direct insurance

Gross earned premium in direct non-life insurance (by accounting class)	1 January - 31 December 2015	1 January - 31 December 2014
a) accident and sickness insurance (groups 1 and 2)	444,901	447,938
b) MTPL (group 10)	2,527,439	2,718,421
c) other motor insurance (group 3)	2,049,740	2,012,834
d) sea, aircraft and transport insurance (groups 4, 5, 6, 7)	46,608	43,083
e) fire and other damage to property (groups 8, 9)	1,811,198	1,793,080
f) TPL insurance (groups 11, 12, 13)	671,180	673,065
g) credit insurance and suretyship (groups 14, 15)	54,867	53,074
h) assistance (group 18)	261,176	222,795
i) legal protection (group 17)	878	915
j) other (group 16)	80,065	74,929
Total gross earned premiums – direct non-life insurance	**7,948,052**	**8,040,134**

Total gross earned premiums – direct non-life insurance arising from obligatory TPL insurance by groups	1 January - 31 December 2015	1 January - 31 December 2014
Group 10	2,479,308	2,677,412
Group 11	4,529	4,960
Group 13	306,756	327,860
Total gross earned premiums – direct non-life insurance	**2,790,593**	**3,010,232**

16.2 Gross earned premiums – indirect insurance

Gross earned premium in indirect non-life insurance (by accounting class)	1 January - 31 December 2015	1 January - 31 December 2014
a) accident and sickness insurance (groups 1 and 2)	8,581	297
b) MTPL (group 10)	62,525	2,092
c) other motor insurance (group 3)	7,501	2,438
d) sea, aircraft and transport insurance (groups 4, 5, 6, 7)	8,078	9,412
e) fire and other damage to property (groups 8, 9)	92,407	39,612
f) TPL insurance (groups 11, 12, 13)	8,625	3,979
g) credit insurance and suretyship (groups 14, 15)	3,649	556
h) assistance (group 18)	-	-
i) legal protection (group 17)	-	-
j) other (group 16)	9,563	4,009
Total gross earned premiums – indirect non-life insurance	**200,929**	**62,395**

Total gross earned premiums – indirect non-life insurance arising from obligatory TPL insurance by groups	1 January - 31 December 2015	1 January - 31 December 2014
Group 10	60,098	2,014
Group 11	159	332
Group 13	810	91
Total gross earned premiums – indirect non-life insurance	**61,067**	**2,437**

17. Reinsurance settlements

Reinsurance settlements	1 January - 31 December 2015	1 January - 31 December 2014
a) insurance premiums received from abroad	54,412	30,758
b) reinsurance premiums transferred abroad	175,048	159,225
c) reinsurance outwards balance	(218,011)	(181,728)
d) inward reinsurance balance	285,233	77,455
e) receivables and liabilities arising from reinsurance outwards, including:	(46,768)	(49,762)
- receivables from reinsurers collateralized with guarantees of financial institutions	-	-
f) receivables and liabilities arising from inward reinsurance, including:	6,659	1,763
- liabilities to cedants collateralized with insurer's guarantees	-	-
- liabilities to retrocedants collateralized with insurer's guarantees	-	-

18. Gross claims and benefits paid

Gross claims and benefits paid	1 January - 31 December 2015	1 January - 31 December 2014
a) from direct insurance, including:	5,085,970	4,391,907
-claims handling costs	546,593	499,444
b) from indirect insurance, including:	49,250	35,344
-claims handling costs	2,803	878
Total gross claims and benefits paid	**5,135,220**	**4,427,251**

18.1 Gross claims and benefits paid

Total gross claims and benefits paid - direct non-life insurance (by accounting class)	1 January - 31 December 2015	1 January - 31 December 2014
a) accident and sickness insurance (groups 1 and 2)	144,201	145,897
b) MTPL (group 10)	2,369,329	1,903,716
c) other motor insurance (group 3)	1,423,920	1,311,958
d) sea, aircraft and transport insurance (groups 4, 5, 6, 7)	26,123	13,125
e) fire and other damage to property (groups 8, 9)	690,087	657,948
f) TPL insurance (groups 11, 12, 13)	258,684	211,116
g) credit insurance and suretyship (groups 14, 15)	13,317	11,236
h) assistance (group 18)	153,505	125,493
i) legal protection (group 17)	596	732
j) other (group 16)	6,208	10,686
Total gross claims and benefits paid - direct insurance (by accounting class)	**5,085,970**	**4,391,907**

Total gross claims and benefits paid - indirect non-life insurance (by accounting class)	1 January - 31 December 2015	1 January - 31 December 2014
a) accident and sickness insurance (groups 1 and 2)	-	-
b) MTPL (group 10)	376	2,806
c) other motor insurance (group 3)	1,834	364
d) sea, aircraft and transport insurance (groups 4, 5, 6, 7)	705	541
e) fire and other damage to property (groups 8, 9)	42,971	20,631
f) TPL insurance (groups 11, 12, 13)	2,447	9,573
g) credit insurance and suretyship (groups 14, 15)	(2)	45
h) assistance (group 18)	-	-
i) legal protection (group 17)	-	-
j) other (group 16)	919	1,384
Total gross claims and benefits paid - indirect insurance (by accounting class)	**49,250**	**35,344**

18.2 Claims handling costs

Total claims handling costs – direct non-life insurance (by accounting class)	1 January - 31 December 2015	1 January - 31 December 2014
a) accident and sickness insurance (groups 1 and 2)	39,882	41,032
b) MTPL (group 10)	258,889	222,439
c) other motor insurance (group 3)	91,326	92,884
d) sea, aircraft and transport insurance (groups 4, 5, 6, 7)	1,278	1,228
e) fire and other damage to property (groups 8, 9)	88,824	84,523
f) TPL insurance (groups 11, 12, 13)	48,014	40,795
g) credit insurance and suretyship (groups 14, 15)	474	631
h) assistance (group 18)	17,535	15,517
i) legal protection (group 17)	50	40
j) other (group 16)	321	355
Total claims handling costs – direct insurance (by accounting class)	**546,593**	**499,444**

Total claims handling costs – indirect non-life insurance (by accounting class)	1 January - 31 December 2015	1 January - 31 December 2014
a) accident and sickness insurance (groups 1 and 2)	-	-
b) MTPL (group 10)	1	1
c) other motor insurance (group 3)	-	-
d) sea, aircraft and transport insurance (groups 4, 5, 6, 7)	-	4
e) fire and other damage to property (groups 8, 9)	1,471	238
f) TPL insurance (groups 11, 12, 13)	478	588
g) credit insurance and suretyship (groups 14, 15)	-	-
h) assistance (group 18)	-	-
i) legal protection (group 17)	-	-
j) other (group 16)	853	47
Total claims handling costs – indirect insurance (by accounting class)	**2,803**	**878**

19. Supplementary data to the technical account – non-life insurance

19.1 Supplementary data to the technical account for the year ended 31 December 2015

Total direct and indirect insurance for the year ended 31 December 2015	Gross written premiums	Gross earned premiums	Gross claims and benefits (paid)	Claims handling costs	Subrogations and salvages	Net inward reinsurance balance	Costs of operations (acquisition and administrative)
Accident and sickness insurance (groups 1 and 2)	448,999	453,482	106,155	39,882	1,836	8,522	159,408
MTPL (group 10)	2,824,430	2,589,964	2,135,955	258,890	25,140	149,056	629,734
Other motor insurance (group 3)	2,167,667	2,057,241	1,393,280	91,326	58,852	(19,535)	544,113
Sea, aircraft and transport insurance (groups 4, 5, 6, 7)	44,664	54,686	27,428	1,278	1,878	(5,671)	12,424
Fire and other damage to property (groups 8, 9)	1,999,292	1,903,605	657,620	90,295	14,857	(58,764)	608,434
TPL insurance (groups 11, 12, 13)	715,157	679,805	217,949	48,492	5,310	10,373	206,069
Credit insurance and suretyship (groups 14, 15)	77,076	58,516	16,800	474	3,959	(17,618)	17,840
Assistance (group 18)	291,123	261,176	136,575	17,535	605	806	97,555
Insurance of legal protection (group 17)	3,535	878	546	50	-	-	1,287
Other insurance (group 16)	286,093	89,628	6,112	1,174	159	53	49,203
Total direct and indirect insurance	**8,858,036**	**8,148,981**	**4,698,420**	**549,396**	**112,596**	**67,222**	**2,326,067**

Direct insurance for the year ended 31 December 2015	Gross written premiums	Gross earned premiums	Gross claims and benefits (paid)	Claims handling costs	Subrogations and salvages	Net inward reinsurance balance	Costs of operations (acquisition and administrative)
Accident and sickness insurance (groups 1 and 2)	437,104	444,901	106,155	39,882	1,836	(496)	156,877
MTPL (group 10)	2,642,743	2,527,439	2,135,580	258,889	25,140	8,334	595,961
Other motor insurance (group 3)	2,142,681	2,049,740	1,391,446	91,326	58,852	(27,715)	539,590
Sea, aircraft and transport insurance (groups 4, 5, 6, 7)	38,958	46,608	26,723	1,278	1,878	(9,772)	11,385
Fire and other damage to property (groups 8, 9)	1,865,317	1,811,198	616,120	88,824	14,857	(132,820)	594,117
TPL insurance (groups 11, 12, 13)	682,049	671,180	215,980	48,014	5,310	(13,585)	203,664
Credit insurance and suretyship (groups 14, 15)	75,250	54,867	16,802	474	3,959	(18,514)	18,443
Assistance (group 18)	290,260	261,176	136,575	17,535	605	184	97,554
Insurance of legal protection (group 17)	3,535	878	546	50	-	-	1,287
Other insurance (group 16)	85,073	80,065	6,046	321	159	(23,627)	47,985
Total direct insurance	**8,262,970**	**7,948,052**	**4,651,973**	**546,593**	**112,596**	**(218,011)**	**2,266,863**

Warsaw, 14 March 2016

Indirect insurance for the year ended 31 December 2015	Gross written premiums	Gross earned premiums	Gross claims and benefits (paid)	Claims handling costs	Subrogations and salvages	Net inward reinsurance balance	Costs of operations (acquisition and administrative)
Accident and sickness insurance (groups 1 and 2)	11,895	8,581	-	-	-	9,018	2,531
MTPL (group 10)	181,687	62,525	375	1	-	140,722	33,773
Other motor insurance (group 3)	24,986	7,501	1,834	-	-	8,180	4,523
Sea, aircraft and transport insurance (groups 4, 5, 6, 7)	5,706	8,078	705	-	-	4,101	1,039
Fire and other damage to property (groups 8, 9)	133,975	92,407	41,500	1,471	-	74,056	14,317
TPL insurance (groups 11, 12, 13)	33,108	8,625	1,969	478	-	23,958	2,405
Credit insurance and suretyship (groups 14, 15)	1,826	3,649	(2)	-	-	896	(603)
Assistance (group 18)	863	-	-	-	-	622	1
Insurance of legal protection (group 17)	-	-	-	-	-	-	-
Other insurance (group 16)	201,020	9,563	66	853	-	23,680	1,218
Total indirect insurance	**595,066**	**200,929**	**46,447**	**2,803**	**-**	**285,233**	**59,204**

19.2 Supplementary data to the technical account for the period of 12 months ended 31 December 2014

Total direct and indirect insurance for the year ended 31 December 2014	Gross written premiums	Gross earned premiums	Gross claims and benefits (paid)	Claims handling costs	Subrogations and salvages	Net inward reinsurance balance	Costs of operations (acquisition and administrative)
Accident and sickness insurance (groups 1 and 2)	446,922	448,235	104,866	41,032	1	919	173,535
MTPL (group 10)	2,648,463	2,720,513	1,706,142	222,440	22,060	10,045	591,823
Other motor insurance (group 3)	2,016,289	2,015,272	1,265,396	92,884	45,958	(29,245)	505,344
Sea, aircraft and transport insurance (groups 4, 5, 6, 7)	68,425	52,495	16,712	1,232	4,278	(6,153)	12,584
Fire and other damage to property (groups 8, 9)	1,901,258	1,832,692	608,536	84,761	14,718	(30,806)	591,519
TPL insurance (groups 11, 12, 13)	768,424	677,044	181,505	41,383	2,199	(23,210)	192,665
Credit insurance and suretyship (groups 14, 15)	87,509	53,630	16,578	631	5,928	(13,479)	27,657
Assistance (group 18)	237,416	222,795	110,631	15,517	655	(292)	98,708
Insurance of legal protection (group 17)	875	915	692	40	-	-	710
Other insurance (group 16)	86,171	78,938	11,758	402	90	(12,052)	46,505
Total direct and indirect insurance	**8,261,752**	**8,102,529**	**4,022,816**	**500,322**	**95,887**	**(104,273)**	**2,241,050**

Warsaw, 14 March 2016

Direct insurance for the year ended 31 December 2014	Gross written premiums	Gross earned premiums	Gross claims and benefits (paid)	Claims handling costs	Subrogations and salvages	Net inward reinsurance balance	Costs of operations (acquisition and administrative)
Accident and sickness insurance (groups 1 and 2)	445,884	447,938	104,866	41,032	1	(118)	173,419
MTPL (group 10)	2,634,079	2,718,421	1,703,337	222,439	22,060	(1,302)	590,029
Other motor insurance (group 3)	2,010,892	2,012,834	1,265,032	92,884	45,958	(34,212)	504,893
Sea, aircraft and transport insurance (groups 4, 5, 6, 7)	56,646	43,083	16,175	1,228	4,278	(16,290)	11,125
Fire and other damage to property (groups 8, 9)	1,829,582	1,793,080	588,143	84,523	14,718	(76,885)	583,867
TPL insurance (groups 11, 12, 13)	761,402	673,065	172,520	40,795	2,199	(19,634)	191,231
Credit insurance and suretyship (groups 14, 15)	80,066	53,074	16,533	631	5,928	(18,844)	24,714
Assistance (group 18)	237,416	222,795	110,631	15,517	655	(292)	98,708
Insurance of legal protection (group 17)	875	915	692	40	-	-	710
Other insurance (group 16)	82,282	74,929	10,421	355	90	(14,151)	46,114
Total direct insurance	**8,139,124**	**8,040,134**	**3,988,350**	**499,444**	**95,887**	**(181,728)**	**2,224,810**

Indirect insurance for the year ended 31 December 2014	Gross written premiums	Gross earned premiums	Gross claims and benefits (paid)	Claims handling costs	Subrogations and salvages	Net inward reinsurance balance	Costs of operations (acquisition and administrative)
Accident and sickness insurance (groups 1 and 2)	1,038	297	-	-	-	1,037	116
MTPL (group 10)	14,384	2,092	2,805	1	-	11,347	1,794
Other motor insurance (group 3)	5,397	2,438	364	-	-	4,967	451
Sea, aircraft and transport insurance (groups 4, 5, 6, 7)	11,779	9,412	537	4	-	10,137	1,459
Fire and other damage to property (groups 8, 9)	71,676	39,612	20,393	238	-	46,079	7,652
TPL insurance (groups 11, 12, 13)	7,022	3,979	8,985	588	-	(3,576)	1,434
Credit insurance and suretyship (groups 14, 15)	7,443	556	45	-	-	5,365	2,943
Assistance (group 18)	-	-	-	-	-	-	-
Insurance of legal protection (group 17)	-	-	-	-	-	-	-
Other insurance (group 16)	3,889	4,009	1,337	47	-	2,099	391
Total indirect insurance	**122,628**	**62,395**	**34,466**	**878**	**-**	**77,455**	**16,240**

Warsaw, 14 March 2016

20. Information regarding claim handling process

Claims handling process in the year ended 31 December 2015 (data for direct insurance)	Average time of claims handling (in days)	Claims incurred during the reporting period from insurance contracts concluded in the reporting period, including:	
		Claims and benefits paid	Outstanding claims and benefits provision set up at the end of the reporting period
Accident and sickness insurance (groups 1 and 2)	7.61	27,187	30,823
MTPL (group 10)	22.76	452,140	503,596
Other motor insurance (group 3)	17.38	571,244	206,394
Sea, aircraft and transport insurance (groups 4, 5, 6, 7)	45.74	7,764	32,962
Fire and other damage to property (groups 8, 9)	14.38	271,978	96,638
TPL insurance (groups 11, 12, 13)	24.60	40,989	134,708
Credit insurance and suretyship (groups 14, 15)	61.24	840	576
Assistance (group 18)	28.71	78,750	22,697
Insurance of legal protection (group 17)	17.65	64	418
Other insurance (group 16)	20.59	1,139	2,666
Total (average)	**16.33**	**1,452,095**	**1,031,478**

Claims handling process in the year ended 31 December 2014 (data for direct insurance)	Average time of claims handling (in days)	Claims incurred during the reporting period from insurance contracts concluded in the reporting period, including:	
		Claims and benefits paid	Outstanding claims and benefits provision set up at the end of the reporting period
Accident and sickness insurance (groups 1 and 2)	8.33	24,587	26,783
MTPL (group 10)	22.43	378,403	424,739
Other motor insurance (group 3)	17.83	511,237	193,177
Sea, aircraft and transport insurance (groups 4, 5, 6, 7)	75.46	4,064	16,934
Fire and other damage to property (groups 8, 9)	14.90	224,449	102,367
TPL insurance (groups 11, 12, 13)	26.42	36,101	145,370
Credit insurance and suretyship (groups 14, 15)	70.00	1,013	2,075
Assistance (group 18)	20.17	58,069	18,784
Insurance of legal protection (group 17)	21.26	160	355
Other insurance (group 16)	22.93	1,495	15,291
Total (average)	**16.48**	**1,239,578**	**945,875**

21. Costs of insurance activities

Costs of insurance activity net of reinsurance	1 January - 31 December 2015	1 January - 31 December 2014
a) direct insurance	2,266,013	2,235,788
b) indirect insurance	59,204	16,240
Total costs of insurance activity, net of reinsurance	**2,325,217**	**2,252,028**

Costs of insurance activities (by type)	1 January - 31 December 2015	1 January - 31 December 2014
I. Administrative expenses	**753,737**	**729,142**
1. internal:	485,281	496,205
a) consumption of materials and energy	29,318	20,095
b) salaries/ wages, social charges and other benefits	399,696	418,950
c) depreciation	51,532	51,616
d) other administrative expenses	4,735	5,544
2. external:	268,456	232,937
a) external services	185,339	147,281
b) commissions for premium collection	21,525	10,031
c) advertisement	41,438	59,406
d) other expenses	20,154	16,219
II. Acquisition costs	**1,572,330**	**1,511,908**
1. internal	343,681	296,006
a) consumption of materials and energy	15,822	16,398
b) salaries/ wages, social charges and other benefits classified as acquisition costs	293,198	253,813
c) direct business commission	-	-
d) depreciation	34,661	25,795
e) other acquisition costs	-	-
2. external:	1,617,326	1,264,099
a) salaries/ wages, social charges and other benefits classified as acquisition costs	-,	-
b) commissions on direct business, including:	1,215,650	1,155,166
- acquisition commissions	548,370	519,645
- policy renewal commissions	635,069	609,725
- insurance and reinsurance contract administration commissions	32,211	25,796
c) indirect business commission	255,889	8,412
d) external services	78,408	63,535
e) advertisement	51,985	21,810
f) other expenses	15,394	15,176
3. change in deferred acquisition costs [1]	(388,677)	(48,197)
III. Claims handling and subrogation collection costs	**549,396**	**500,322**
1. internal	238,091	245,512
a) consumption of materials and energy	10,145	13,015
b) loss appraiser and adjuster remunerations and other remunerations related to claims handling and recourse collection	207,161	210,764
c) depreciation	20,785	21,733
2. external:	311,305	254,810
a) external services	133,998	120,525
b) other expenses	177,307	134,285
IV. Investment costs	**391,054**	**301,637**
1. internal	14,311	13,636
a) consumption of materials and energy	3,026	2,377
b) salaries/ wages, social charges and other employee benefits	8,257	7,879
c) depreciation	3,028	3,380
2. external:	376,743	288,001
a) external services	5,654	6,958
b) other expenses [2]	371,089	281,043

[1] Item "change in deferred acquisition costs" in 2015 recognizes the deferment of indirect acquisition costs in the amount of PLN 112,031 thousand and it's cause is explained in Note 9 of the Introduction to the financial statements.

[2] The item "other expenses" includes, inter alia, loss on realization and revaluation of investments.

21.1 Acquisition costs

Acquisition costs	1 January - 31 December 2015	1 January - 31 December 2014
a) incurred in the financial year, including:	1,961,007	1,560,105
- acquisition commissions on direct insurance	1,215,650	1,155,166
b) carried forward to future financial years	957,179	568,502

21.2 Administrative expenses

Administrative expenses	1 January - 31 December 2015	1 January - 31 December 2014
a) consumption of materials and energy	29,318	20,095
b) external services	185,339	147,281
c) taxes and charges	13,764	10,175
d) payroll	312,319	328,558
e) social charges;	87,377	90,392
f) depreciation	51,531	51,616
g) other, including:	74,089	81,025
advertising	41,438	59,406
commissions for premium collection	21,525	10,031
business trips	4,735	5,544
property insurance	733	862
Total administrative expenses	**753,737**	**729,142**

22. Other operating income

Other operating income	1 January - 31 December 2015	1 January - 31 December 2014
a) financial revenue	1,766	1,877
b) commission on loss adjusting services	6,567	7,320
c) revenue from acquisition activities carried out for open pension funds	-	-
d) other operating income including:	295,520	137,292
revenue from direct claims handling on behalf of other insurance companies	187,992	69,001
positive exchange differences	44,132	21,952
released provisions for employee benefits	22,487	22,628
impairment losses release and provision release for other costs	17,664	8,912
received damages	7,165	3,528
recharged expenses	5,086	5,878
revenue from disposal of tangible assets and investments in progress	1,151	1,069
other	9,843	4,324
Total	**303,853**	**146,489**

Employment restructuring has been described in Note 28.1 in Supplementary information and explanations.

23. Other operating expenses

Other operating expenses	1 January - 31 December 2015	1 January - 31 December 2014
a) financing expenses [1)]	54,493	78,642
b) costs relating to loss adjusting services	174	117
c) costs incurred in connection with acquisition activities carried out for open pension funds	-	-
d) other operating expenses including:	229,872	141,696
costs of direct claims handling on behalf of other insurance companies	192,969	73,101
negative exchange differences	17,037	14,831
rechargeable expenses	4,996	5,900

restructuring costs	2,932	5,809
cost of establishing restructuring provisions	2,508	14,536
provisions created for probable losses	1,983	4,519
donations	1,434	16,076[2)]
sold tangible assets and investments in progress	1,362	872
receivables written off	644	315
penalties, compensations and fines paid	83	426
interest on overdue tax liabilities	70	964
costs of liquidation of pre-numbered forms	34	55
impairment losses on receivables, tangible and intangible assets	-	32
other	3,820	4,260
Total	**284,539**	**220,455**

[1)] The item "financing expenses" includes cost of interest and exchange differences of the loans from PZU Finance AB (publ.) in the amount of PLN 49,655 thousand (in 2014: PLN 75,991 thousand).
[2)] The item "donations" includes the donation in the amount of PLN 15,000 thousand of 2014 for the PZU Foundation.

24. Interest revenue and expense

Both below tables present interest for the financial year determined on accrual basis.

24.1 Interest income calculated with contractual interest rates

Interest income calculated with contractual interest rates in 2015	Interest accrued and realized in 2015	Interest accrued and unrealized in 2015 (by maturity from the balance sheet date)		
		up to 3 months	from 3 to 12 months	over 12 months
a) Investments in related parties	390	-	2,640	-
b) other financial investments, including:	243,867	13,778	106,135	-
- debt securities and other fixed income securities	218,708	9,850	81,611	-
- shares in joint investments	-	-	-	-
- mortgages	9,748	1,941	19,409	-
- other loans	20,778	941	(550)	-
- term deposits at credit institutions	(5,367)	1,046	5,665	-
- other investments	-	-	-	-
c) Deposits with cedants	-	-	-	-
d) Receivables	-	-	-	-
- insurance receivables	-	-	-	-
- reinsurance receivables	-	-	-	-
- other receivables	-	-	-	-
Total interest revenue	**244,257**	**13,778**	**108,775**	**-**

Interest income calculated with contractual interest rates in 2014	Interest accrued and realized in 2014	Interest accrued and unrealized in 2014 (by maturity from the balance sheet date)		
		up to 3 months	from 3 to 12 months	over 12 months
a) Investments in related parties	539	609	-	-
b) other financial investments, including:	348,856	24,982	86,610	-
- debt securities and other fixed income securities	223,868	18,134	86,610	-
- shares in joint investments	-	-	-	-
- mortgages	-	2,569	-	-
- other loans	70,226	364	-	-
- term deposits at credit institutions	54,762	3,915	-	-
- other investments	-	-	-	-
c) Deposits with cedants	-	-	-	-
d) Receivables	-	-	-	-
- insurance receivables	-	-	-	-
- reinsurance receivables	-	-	-	-
- other receivables	-	-	-	-
Total interest revenue	**349,395**	**25,591**	**86,610**	**-**

24.2 Interest expense calculated with contractual interest rates

Interest expenses calculated with contractual interest rates in 2015	Interest accrued and realized in 2015	Interest accrued and unrealized in 2015 (by maturity from the balance sheet date)		
		up to 3 months	from 3 to 12 months	over 12 months
a) Liabilities due to reinsurers' deposits	-	-	-	-
b) Other liabilities, including:	19,001	-	34,990[1)]	-
- insurance liabilities	-	-	-	-
-reinsurance liabilities	-	-	-	-
- liabilities arising from issue of own debt securities and obtained loans	14,665	-	34,990	-
- liabilities to credit institutions	4,336	-	-	-
- other liabilities	-	-	-	-
Total interest expenses in 2015, including:	**19,001**	**-**	**34,990**	**-**
- liabilities held for trading	-	-	-	-
- short-term liabilities	4,336	-	-	-
- long-term liabilities	14,665	-	34,990	-

[1)] The item includes cost of exchange differences of loans from PZU Finance AB (publ.) in the amount of PLN 10,504 thousand.

Interest expenses calculated with contractual interest rates in 2014	Interest accrued and realized in 2014	Interest accrued and unrealized in 2014 (by maturity from the balance sheet date)		
		up to 3 months	from 3 to 12 months	over 12 months
a) Liabilities due to reinsurers' deposits	-	-	-	-
b) Other liabilities, including:	2,353	-	75,991 [1)]	-
- insurance liabilities	-	-	-	-
-reinsurance liabilities	-	-	-	-
- liabilities arising from issue of own debt securities and obtained loans	-	-	75,991	-
- liabilities to credit institutions	2,353	-	-	-
- other liabilities	-	-	-	-
Total interest expenses in 2014, including:	2,353	-	75,991	-
- liabilities held for trading	-	-	-	-
- short-term liabilities	2,353	-	-	-
- long-term liabilities	-	-	75,991	-

[1)] The item includes cost of exchange differences of loans from PZU Finance AB (publ.) in the amount of PLN 59,400 thousand.

25. Income tax

25.1 Tax Capital Group

On 25 September 2014, a new Tax Capital Group (PGK) agreement was signed between the companies of PZU Group, comprising of 13 companies: PZU, PZU Życie, Link4 Towarzystwo Ubezpieczeń SA, PZU Centrum Operacji SA, PZU Pomoc SA, Ogrodowa-Inwestycje Sp. z o.o., Ipsilon Sp. z o.o., PZU Asset Management SA, TFI PZU SA, Ipsilon Bis SA, PZU Finanse Sp. z o.o., Omicron SA, Omicron Bis SA. The TCG was formed for a period of 3 years from 1 January 2015 to 31 December 2017.

PZU is the parent entity and the company representing the PGK in the aforementioned agreement. In accordance with paragraph 25 clause 1 of the CIT Act, the TCG conducts settlements with the Tax Office in monthly cycles. PZU makes tax advances to the Tax Office in respect of corporate revenue tax, due from all companies belonging to the PGK and the said companies transfer the CIT advances related to their business activities to PZU.

On 22 December 2015, the Management Board of PZU consented to the conclusion, with effect from 1 January 2015, of an annex to the Tax Capital Group agreement. Under the annex signed on 21 January 2016, in a situation in which the income of Tax Capital Group will be reduced by a tax loss arising in one or more companies forming Tax Capital Group, the difference between the amount of Tax Capital Group's due tax determined without taking into account the tax losses and the amount of Tax Capital Group's due tax determined after taking into account the tax losses of the companies, will be transferred by PZU, proportionally to each of the companies in which the tax losses were generated. The settlement takes place within 14 days after submitting the CIT-8A declaration for the tax year for which there has been a reduction in tax liabilities of Tax Capital Group.

25.2 Current revenue tax

Current revenue tax	**1 January - 31 December 2015**	**1 January - 31 December 2014**
1. Gross profit (loss) 1)	**2,422,674**	**2,792,469**
2. Difference between the gross profit (loss) and the tax base (by title)	**(2,221,312)**	**(1,952,371)**
2a) Expenses and losses not classified by tax regulations as tax-deductible costs	**530,558**	**760,158**
Accrued reinsurance outwards expenses	42,973	52,714
Accrued investment losses	338,033	392,666
Accrued bonuses and employee benefits provisions	94,758	112,380
Accrued and deferred acquisition costs	(87,815)	32,751
Impairment losses on insurance, reinsurance and recourse receivables	105,585	60,166
Enforcement costs and contractual penalties	3,340	7,072
PFRON charges	6,619	6,383
Donations	1,434	16,076
Accrued costs of external services	13,431	2,969
Recorded receivables	31,783	29,250
Other	(19,583)	47,731
2b) Revenue not included in the tax base	**2,811,975**	**2,753,828**
Accrued investment income	340,470	411,673
Dividends	1,704,309	2,090,225
Other technical income – reversed impairment losses etc.	188,406	156,090
Release of the restructuring and Office of Competition and Customer Protection provision	14,971	-
Accrued revenue from inward reinsurance and outwards	516,870	36,852
Other	46,949	58,988
2c) Other changes in the tax base	**60,105**	**41,299**
Realized investment income from previous years	205,192	184,731
Amounts paid to natural persons under personal service contracts and bonuses, accrued in the previous year	(111,302)	(95,280)
Other costs/ income realized	(33,360)	(32,706)
Income deductions	(425)	(15,446)

3.Tax base	**201,362**	**840,098**
4. Income tax at 19% rate	**38,259**	**159,619**
5. Tax increase, cancelation, exemption, deduction and reduction	**(11,656)**	**7,422**
6. Current income tax disclosed in tax returns for the period, including:	**26,603**	**167,041**
- cost disclosed in the profit and loss account	26,603	167,041
- regarding items increasing or reducing equity	-	-
- regarding items increasing or reducing goodwill	-	-

[1] The item "gross profit (loss)" covers the item "Share in net profit (loss) of related parties measured using the equity method" included in the general profit and loss account.

Income tax by type of activity	1 January - 31 December 2015	1 January - 31 December 2014
Differences between the gross profit (loss) and the tax base	(2,221,312)	(1,952,371)
- due to technical activities	(691,482)	(106,299)
- due to extraordinary profits and losses	-	-
- other	(1,529,830)	(1,846,072)
Tax base	**201,362**	**840,098**

Regulations concerning corporate revenue tax, personal revenue tax, value added tax, and contributions to social security undergo frequent changes. The current regulations contain unclear issues which result in a difference of opinions regarding their legal interpretation, both among competent authorities and between these authorities and enterprises. Tax and other settlements (e.g. concerning customs or foreign currency) may be controlled by authorities competent to levy high fines, and additional liabilities assessed during control bear interest. These phenomena increase tax risk in Poland above the level characteristic of some countries with more advanced tax systems. Tax returns are subject to control over the period of five years. As a result, amounts disclosed in the financial statements may change in subsequent periods, following final determination of their value by tax authorities.

25.3 Deferred tax

Deferred tax recognized in the profit and loss account	1 January - 31 December 2015	1 January - 31 December 2014
- decrease (increase) due to recognizing and reversing of temporary differences	147,549	(11,305)
- decrease (increase) due to change in tax rates	-	-
- decrease (increase) due to previously unrecognized tax losses, allowances or temporary differences from the previous period	-	-
- decrease (increase) due to the impairment of deferred tax assets or inability to use deferred tax liability	-	-
- other deferred tax items (by title)	-	-
Total deferred tax	**147,549**	**(11,305)**

In 2015 and in 2014, no income tax on discontinued operations or extraordinary transactions occurred.

Deferred tax recognized beyond the profit and loss account	1 January - 31 December 2015	1 January - 31 December 2014
Total deferred tax amount:	361,785	252,907
- recognized in equity	361,785	252,907
- recognized in goodwill or negative goodwill	-	-

26. Share in net profit (loss) of related parties measured using the equity method

Share in net profit (loss) of related parties measured using the equity method	1 January - 31 December 2015	1 January - 31 December 2014
Share in net profit (loss) of related parties measured using the equity method, including:	(53,247)	(62,055)
- amortization of goodwill for related parties	(52,791)	(6,732)
- amortization of negative goodwill for related parties	-	-
- amortization of the difference on net asset measurement	(456)	(55,323)

27. Notes to the cash flow statement

"Other inflows from operating activities" include:

Other inflows from operating activities – selected data	1 January - 31 December 2015	1 January - 31 December 2014
Refunds of CIT advances - participation in PGK	492,686	403,983
Reimbursement of excess income tax payments	-	19,712
Inflows to social benefits fund account and employee account	5,833	6,719
Other inflows	174,812	88,872
Other inflows from operating activities total	**673,331**	**519,286**

Other outflows for operating activities – selected data

Advance CIT payments – participation in PGK	1 January - 31 December 2015	1 January - 31 December 2014
Outflows due to CIT advances - participation in PGK	337,751	403,983
Corporate income tax	104,686	227,604
Outflows from social benefits fund account and employee account	49,851	60,887
Donations	1,434	16,076
Other expenses	247,587	121,187
Total other operating costs	**741,309**	**829,737**

27.1 Cash not available for use

The cash flow statement includes cash not available for use, concerning the cash of the Prevention Fund and the Social Benefits Fund. Based on the provisions of Polish law and related internal regulations of PZU, the funds may be spent only for specific purposes - for prevention or social activities, and close control should be exercised over the funds.

28. Other information and explanations

28.1 Employment restructuring process at PZU

On 18 December 2014, Management Board of PZU decided to begin restructuring activities connected to the introduction of new IT systems and operation process automation.

On 8 April 2015, the Management Boards for PZU and PZU Życie announced their intention to carry out group redundancies in accordance with the Act of 13 March 2003 on special principles of employment termination for reasons not related to employees (Journal of Laws of 2003, Item 844, as amended) "the Act laying down special principles applicable to termination of employment contracts").

On 10 April 2015, PZU and their trade unions operating within PZU entered into an agreement setting out the terms and conditions of the employment restructuring process, which concerned to the largest degree the area of property operations and HR. The final version of the document was based on experience gained and solutions developed during similar negotiations in previous years.

Employment restructuring was conducted during the planned period (May – June 2015) and finally encompassed 267 people within PZU, while the employment downsizing applied to 134 employees.

The people who were dismissed or who did not accept the changes in the terms and conditions of employment (just as during all stages of employment restructuring in 2010–2014) were offered more favorable conditions of leaving than those provided for by the law in similar situations (the Act laying down special principles applicable to termination of employment contracts). The amount of additional redundancy pay depended on the length of service with PZU Group and the salary of each employee.

The expenses due in relation to the payment of benefits for the dismissed employees were attributed to restructuring provision, which, as at 31 December 2015, amounted to PLN 1,564 thousand (as at 31 December 2014: PLN 9,354 thousand).

28.2 Situation in Ukraine

Both in 2015 and 2014, Ukraine's political and economic situation was unstable. This was linked to the following factors that influence the Ukrainian insurance market:

- high inflation rate (48.7% year-on-year)and strong dynamics of local currency (Ukrainian hryvnia) depreciation vs. US dollar and euro;
- collapse of domestic demand;
- problems in the banking sector;
- military action in eastern Ukraine (in the Donetsk and Luhansk regions).

In 2015, the Ukrainian economy submerged in crisis. In the third quarter of 2015, according to the data of the Ukrainian Central Statistical Office, the GDP drop was 7.2% year-on-year.

Due to the unstable political and economic situation in the country, the management boards of PZU Ukraine and PZU Ukraine Life Insurance have taken the decisions to mitigate the risk:

- concerning insurance activity, apart from standard exceptions such as: war, terrorism, etc., where insurance coverage does not apply to third-party operations performed in violation of the law. Moreover, it has been decided to temporarily suspended in terms of conclusion and renewal the non-life insurance contracts with natural and legal persons, including property that is subject to lien or mortgage, if the contract is to be executed in Donetsk and Luhansk regions. The same applies to forwarding agent and carrier's liability insurances and cargo insurance if the freight lane passes through the territory of the above mentioned regions.
- cash in current accounts and at bank deposits has been transferred to selected banks operating in Ukraine which have credible foreign majority shareholders and an appropriate ranking.

External influences disturb the functioning of the financial sector and hinder long-term business planning. In such circumstances, the reliability of insurance companies started to be important for the clients. Clients consider the insurance companies with foreign capital as more reliable. This tendency has a positive impact on the level of sales of the Ukrainian companies of PZU Group. Due to portfolio and sales channels diversification, PZU Ukraine and PZU Ukraine Life Insurance are more flexible to market changes and have realized their financial plans for 2015.

The Management Board of PZU in cooperation with the management boards of PZU Ukraine and PZU Ukraine Life Insurance constantly monitors external risks and changes in the Ukrainian legislation. The scenarios to respond to market changes and control mechanisms have been developed. PZU does not intend to withdraw from the Ukrainian market. As at the signing date of the separate financial statements, the Management Board of PZU assumes that the operations of PZU Ukraine and PZU Ukraine Life Insurance will be continued in accordance with the approved objectives. Nevertheless, a continuation of the current unstable business environment could in the future negatively affect the PZU Ukraine and PZU Ukraine Life Insurance results and financial position in a manner not currently determinable. The financial statements reflects the current assessment of the Management Board of PZU in this respect.

28.3 Investment outlays incurred and planned for the 12 months following the balance sheet date

Investment outlays incurred for the current period	2015	2014
Investment outlays incurred, including:	201,628	151,691
- outlays for non-financial non-current assets	52,661	51,373

Investment outlays planned for the 12 months following the balance sheet date [1)]	31 December 2015	31 December 2014
Investment outlays planned for the 12 months following the balance sheet date, including:	194,003	267,059
- outlays for non-financial non-current assets	194,003	267,059

[1)] The data have not been revised by an auditor.

29. Disputes

PZU is a party to a number of court and arbitration disputes and administrative proceedings. The typical court disputes are those related to insurance contracts, employment contracts and contractual obligations. The typical administrative proceedings are related to own property. The proceedings and disputes are typical and repetitive and, usually, individually they are not significant for PZU.

Additionally, PZU is a party to proceedings before the President of the Office of Competition and Consumer Protection.

PZU includes disputed claims in the process of recording technical reserves for known claims taking into account the probability of unfavorable resolution of the dispute and estimating the value of the probable adjudication.

In 2015 and by the date of submission of the separate financial statements, PZU did not take part in any proceedings before court, body competent to hear arbitration proceedings or public authority body concerning liabilities or receivables of PZU or its direct or indirect subsidiary of the value or the total value of at least 10% of the equity of PZU.

As at 31 December 2015, the total value of all 82,380 cases (as at 31 December 2014: 54,562 cases) held by courts, bodies competent to hear arbitration proceedings or public authority bodies involving the PZU Group companies was PLN 3,401,817 thousand (as at 31 December 2014: PLN 2,585,791 thousand). The amount includes PLN 2,925,272 thousand (as at 31 December 2014: PLN 2,270,251 thousand) of liabilities and PLN 476,545 thousand (as at 31 December 2014: PLN 315,540 thousand) of receivables of the PZU Group companies, which constituted 23.63% and 3.85% (as at 31 December 2014, respectively: 18.41% and 2.56%) of PZU equity calculated in accordance with PAS, respectively.

29.1 Resolution of General Shareholders' Meeting of PZU regarding 2006 profit distribution

A petition of 30 July 2007 initiated an action of Manchester Securities Corporation ("MSC"), with the registered office in New York, against PZU regarding cancelation of the General Shareholders' Meeting of PZU's Resolution no. 8/2007 of 30 June 2007 regarding distribution of PZU profit for 2006 as non-compliant with good practices and acting to the detriment of the claimant, a shareholder of PZU.

The debated resolution of the General Shareholders' Meeting of PZU distributed the 2006 profit of PLN 3,280,883 thousand in the following manner:

- PLN 3,260,883 thousand to the supplementary capital;
- PLN 20,000 thousand to the Social Benefits Fund.

In its decision of 22 January 2010, the District Court in Warsaw cancelled the above resolution. PZU used all possible appeal instances, including a cassation appeal to the Supreme Court, which during its session on 27 March 2013 pronounced a judgment whereby the cassation appeal was dismissed. The judgment of the Supreme Court is final and it may not be appealed against.

PZU believes that cancelation of the above GSM resolution does not give rise to shareholders' claim for dividend.

In connection with the validation of the resolution No 8/2007, on 30 May 2012 GSM decided to distribute the profit for 2006 in a manner corresponding to the cancelled resolution No 8/2007. Manchester Securities Corporation objected against the resolution of 30 May 2012, which was recorded in the minutes.

On 20 August 2012, PZU received a copy of complaint lodged by MSC in the District Court in Warsaw, in which the plaintiff requested cancelation of the GSM resolution of 30 May 2012 regarding distribution of 2006 profit with the value of the disputable object determined at PLN 5,054 thousand. PZU responded, requesting dismissal of the entire claim.

On 17 December 2013, the District Court pronounced a judgment whereby the claims were accepted in its entirety and the costs of the proceedings awarded from PZU to Manchester Securities Corporation. On 4 March 2014, PZU appealed against the judgment in its entirety. On 11 February 2015, the Court of Appeal in Warsaw passed a judgment that changed the judgment of the District Court of 17 December 2013 in its entirety, dismissed the action filed by MSC and ordered MSC to pay the costs of the proceedings. The judgment of the Appellate Court of 6 November 2013 is final. MSC filed a cassation appeal on 9 June 2015 against the judgment of the Court of Appeal in its entirety. PZU filed its response to the cassation appeal and appealed to the Supreme Court to refuse accepting the cassation appeal, or dismiss it.

On 16 December 2014, MSC called PZU to pay PLN 264,865 thousand of compensation due to the cancelation of the resolution No 8/2007 of the PZU General Shareholders' Meeting 30 June 2007 on the distribution of profit of PZU for 2006. PZU refused to fulfill the obligation.

On 23 September 2015, PZU received a copy of complaint with attachments regarding the action initiated by MSC against PZU for the payment of PLN 169,328 thousand with statutory interest accrued from 2 January 2015 until the date of the payment. The action includes a claim for compensation for the deprivation of MSC and J.P. Morgan (MSC acquired the claim from J.P. Morgan) as minority shareholders of PZU a share in the profit for the year 2006, in connection with a resolution No. 8/2007 adopted by the General Shareholders' Meeting of 30 June 2007. The case is being handled by the District Court in Warsaw, XX Economic Division. On 18 December 2015, PZU responded by requesting dismissal of the entire claim.

According to the Management Board of PZU, MSC's claims are unfounded. As at 31 December 2015, no changes in the presentation of PZU capitals were made such as may result from cancelation of the resolution of the General Shareholders' Meeting on the distribution of profit for 2006, including "Supplementary capital" and "Retained earnings". The funds allocated to the Social Benefits Fund were not adjusted

29.1.1. Other requests for payment concerning the distribution of profit of PZU for 2006

On 17 December 2014, Wspólna Reprezentacja SA called PZU to pay the amount of PLN 56,281 thousand and the amount of PLN 618 thousand as claims compensation acquired from the shareholders as a response to their deprivation of the right to a share in the profit of PZU. PZU refused to fulfill the obligation.

Apart from the above mentioned documents, the shareholders or the former shareholders presented PZU with a request for payment based on the facts presented above. The parties requesting the payment did not indicate specific amounts, but a number of shares, or simply request the payment. PZU submitted a response in writing indicating that such claims did not exist and they would not be taken into account.

29.1.2. Other legal proceedings concerning the distribution of profit of PZU for 2006

On 19 January 2015, the District Court of Warsaw delivered a copy of a motion with attachments regarding the action initiated by Wspólna Reprezentacja SA for a summons to a conciliation hearing concerning the amount of PLN 56,281 thousand. At the trial held on 19 February 2015, PZU refused to settle.

On 2 February 2015, the District Court of Warsaw delivered a copy of the application of MSC for a summons to a conciliation hearing concerning the amount of PLN 264,865 thousand. The claim covered in the application is tantamount to the request filed by MSC on 16 December 2014. At a trial held on 24 February 2015, PZU refused the conciliation proposal.

PZU was receiving other copies of application for a summons to a conciliation hearing concerning settlement agreements consisting in the payment of the amount due to the share in the profit of PZU for 2006. The proceedings have already ended. PZU refused the conciliation proposal indicating that such claims did not exist and they would not be taken into account.

7 legal actions were initiated against PZU for the payment of dividend or compensation. PZU consistently responds to such requests demanding their cancelation in their entirety. In four proceedings, the District Court for Warszawa-Śródmieście in Warsaw dismissed the actions in their entirety (the judgments are final). In one case, the District Court discontinued the proceedings due to the withdrawal of the complaint (the decision is final).

Warsaw, 14 March 2016

29.2 Anti-trust proceedings of the Office of Competition and Consumer Protection

29.2.1. Fine imposed in 2009 for standard agreement templates

In a decision of 30 December 2009 the President of the Office of Competition and Consumer Protection imposed a fine on PZU in the amount of PLN 14,792 thousand for the use of practices that infringe on the collective interest of consumers consisting in:

- including contractual provisions listed in the Register of prohibited contractual provisions in the standard agreements;
- including contractual provisions which infringe Article 813.1 of the Civil Code by citing the unused sum insured as the condition for the amount of premium reimbursed to the consumer by the insurance company due to unused insurance period whereas the Article does not refer to such condition.

PZU does not agree with the decision and its statement of reasons. After several years of proceedings, on 6 November 2013, the Appellate Court in Warsaw changed the judgment issued by the Court of Competition and Consumer Protection ("SOKiK") of 18 January 2013 through reversal of the decision of the President of the Office of Competition and Consumer Protection dated 30 December 2009 in part, dismissal – as regards the contractual clauses in contravention of Article 813.1 of the Civil Code – of PZU's appeal of 18 January 2010, reduction of fine to PLN 1,644 thousand. The judgment of 6 November 2013 is final and was executed through the payment of PZU of the awarded financial penalty. 23 June 2014, PZU filed a cassation appeal to the Supreme Court against the judgement ON 24 July 2014, PZU received a response of President of Office of Competition and Consumer Protection to its cassation appeal. On 28 January 2015, the Supreme Court issued the decision accepting the cassation appeal for consideration. On 9 September 2015, the Supreme Court pronounced a judgment whereby the cassation appeal of PZU was dismissed The judgment is final and ends legal proceedings.

29.2.2. Fines imposed in 2011

29.2.2.1. Reimbursement of the costs of rental of a replacement car

In a decision of 18 November 2011 the President of the Office of Competition and Consumer Protection imposed a fine on PZU of PLN 11,287 thousand for the use of practices that infringe the collective interest of consumers as set out in Article 24.1 and 24.2 of the Act on competition and consumer protection (Journal of Laws from 2007, No. 50, item 331, as amended) consisting in limitation of the scope of liability of PZU towards consumers that submit claims under the insurers' guarantee liability due to compulsory civil liability insurance of an owner of a motor vehicle by:

- refusing to acknowledge that the loss of the possibility to use the damaged car is a property damage and agreeing to pay damages for the rental of a replacement car only if the injured party presented specific circumstances necessitating the rental of a replacement car;
- leaving out the period necessary for the garage to obtain spare parts from the calculation of the reimbursement for the costs of rental of the replacement car;

and demanded that the practices be discontinued.

The Management Board of PZU does not agree with the decision and its legal and factual statement of reasons. On 5 December 2011, PZU appealed against the decision (thus the decision did not become valid).

At a trial held on 2 December 2013, the District Court in Warsaw passed a judgment whereby PZU's appeal was dismissed and the costs of legal representation were awarded from PZU to the President of the Office of Competition and Consumer Protection. On 23 December 2013, PZU appealed against the decision. At the hearing on 17 December 2014, the Supreme Court issued a decision suspending the proceedings until the

Supreme Court settles the legal issue that raises serious doubts regarding a different case pending before the Appellate Court. At a trial held on 9 September 2015, the Supreme Court ruled in favor of PZU indicating that in relation to the insurer, in an event covered by the compulsory TPL of the motor vehicle owner, the party injured in a traffic accident does not have a status of a consumer. Due to the Supreme Court's consideration of the legal issue mentioned above, the Appellate Court in Warsaw resumed the suspended proceedings and closed the case during the session of 26 January 2016. The announcement of the judgment was postponed to 1 February 2016. In its decision of 1 February 2016, the Appellate Court accepted the appeal of PZU and changed the decision of the District Court in Warsaw in its entirety, annulling the decision of the President of the Office of Competition and Consumer Protection of 18 November 2011 in its entirety, and adjudged the return of proceeding's expenses by the President of the Office of Competition and Consumer Protection in favor of PZU in both instances. The judgment of the Appellate Court is final. On 2 February 2016, PZU filed a motion to deliver the judgment of the Court of Appeal with its justification. The President of the Office of Competition and Consumer Protection filed a similar motion on 3 February 2016.

In the light of the above, PZU released the maintained provision in the amount of PLN 11,290 thousand.

29.2.2.2. Sale of a group accident insurance

In a decision of 30 December 2011 the President of the Office of Competition and Consumer Protection imposed a fine on PZU of PLN 56,605 thousand for the use of practices that limit competition and infringe the prohibition specified in the Article 6. 1.3 of the Act on competition and consumer protection consisting in an agreement concluded by PZU and Maximus Broker Sp. z o.o. with its registered office in Toruń ("Maximus Broker") limiting the competition in the domestic market of accident group insurance for children, youth and staff of educational institutions by dividing the market between the entities – the customers of PZU in the Kujawsko-Pomorskie region were serviced by Maximus Broker in exchange for recommendation of PZU insurance to those customers. The Office demanded to discontinue these practices.

The Management Board of PZU refuses to agree with the facts and legal reasons presented in the decision, because the decision does not consider all the evidence and the legal classification was not correct.

On 18 January 2012, PZU appealed against the decision (thus the decision did not become valid). In the appeal PZU pointed that:

- PZU and Maximus Broker did not conclude any agreement apart from the agreement concerning brokerage fees;
- the President of the Office of Competition and Consumer Protection is wrong in the understanding of insurance contracts concluded via a broker;
- the majority of insurance contracts concluded via Maximus Broker was concluded with insurance companies other than PZU;
- PZU and Maximus Broker cannot and could not carry out competitive activities in their markets.

On 22 October 2012, PZU received a response of the President of the Office of Competition and Consumer Protection to its appeal, to which PZU responded on 5 November 2012. On 27 March 2015, SOKiK pronounced a judgment annulling the decision of the President of the Office of Competition and Consumer Protection of 30 December 2011. On 21 May 2015, the President of the Office of Competition and Consumer Protection filed an appeal. On 24 June 2015, PZU responded to the appeal of the President of the Office of Competition and Consumer Protection.

PZU had a provision for the above fine, whose amount both as at 31 December 2015 and 31 December 2014 was PLN 56,605 thousand.

29.3 Submission of PZU claims to the bankruptcy estate of PBG Capital Group companies

PZU is the creditor of PBG SA ("PBG") and Hydrobudowa Polska SA ("Hydrobudowa") for the issued and realized insurance guarantees (contractual guarantees). The registered offices of both companies are located in Wysogotowo near Poznań.

In 2012, bankruptcy proceedings were initiated against PBG and Hydrobudowa. On 21 September 2012, PZU joined the above proceedings submitting its claims to the bankruptcy estate of both companies.

PBG and Hydrobudowa belong to the same capital group with PBG as the parent. They granted sureties to each other. All claims submitted to the bankruptcy estate of Hydrobudowa in the amount of PLN 100,996 thousand have been therefore submitted in relation to the bankruptcy estate of PBG as well.

Following their verification by the judge-commissioner and the court appointed supervisor, PZU's receivables due from the bankruptcy estate of PBG of PLN 103,014 thousand have been entered into the list of receivables. As at 31 December 2015 and as at 31 December 2014, the sureties amounted to PLN 102,164 thousand and their reduction is due to the expiry of a part of guarantees to which no claims were reported. Due to low probability of claim recoverability, the amount was not recognized in the balance sheet. At the creditors' meeting of 5 August 2015, PZU voted in favor of an agreement, and on 25 August 2015, the judge-commissioner confirmed the voting results and the conclusion of the agreement. On 8 October 2015, the Bankruptcy Court announced its decision, in which it approved the agreement concluded with the creditors. The decision is not final. If the decision on approving the agreement becomes final and legally binding, PZU will receive 21% of the claim in form of cash payments, in accordance with the schedule enclosed in the Agreement Proposals, and in a non-cash form, involving a conversion of 0.491927% of the debt for an issue of new shares.

30. Employment

Average employment, broken down by employee group	1 January – 31 December 2015		1 January – 31 December 2014	
	Average annual employment (in employment contracts)	Average annual number of employees (in people)	Average annual employment (in employment contracts)	Average annual number of employees (in people)
a) Supervisory Board	9	9	9	9
b) Management Board	6	6	6	6
c) Total employment, including:	7,832	9,723	7,856	9,787
- management	387	630	359	637
- advisors	1	2	1	2
- actuaries	3	3	3	3
- other employees	7,441	9,088	7,493	9,145
- including agents on employment contracts	9	7	11	10
d) Number of agents without employment contracts (persons)		8,678		8,571

31. Agreements on audit and review of financial statements

31.1 Fee of the company authorized to audit financial statements

Fee of the company authorized to audit financial statements	1 January - 31 December 2015	1 January - 31 December 2014
a) statutory audit of annual separate/ consolidated financial statements	1,488	714
b) other attestation services, including review of separate/ consolidated financial statements	248	248
c) tax advisory services	-	-
d) other services	27	27
Total	**1,763**	**989**

Warsaw, 14 March 2016

The above table presents the amounts paid or payable to entities authorized to audit financial statements for a given period, increased by VAT and determined on the accrual basis.

31.2 Conclusion dates and term of agreements concluded with an company authorized to audit financial statements

An agreement with KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. concerning the reviews and audits of the separate financial statements of PZU and the consolidated financial statements of PZU Group for the years 2014-2016, with an option to extend the agreement for the years 2017-2018, was concluded on 26 June 2014.

32. Related party transactions

In 2015 and 2014, PZU did not conclude related party transactions which individually or jointly would constitute a significant amount.

32.1 Transactions with Members of the Management Board and Supervisory Board of PZU

In 2015 and in 2014, there were no transactions between PZU and Members of the Management Board of PZU, Members of the Supervisory Board of PZU or persons who are their joint householders, spouses, persons related by blood or affinity up to the second degree, adoptees and adopters and persons under their care or guardianship or other persons personally related to Members of the Management Board of PZU or Supervisory Board of PZU, other than those resulting from concluded non-life insurance contracts, concluded on an arm's length basis.

In 2015 and in 2014, there were no material transactions between PZU and entities in which Members of the Management Board of PZU or the Supervisory Board of PZU, persons who are their joint householders, spouses, persons related by blood or affinity up to the second degree, adoptees and adopters and persons under their care or guardianship would hold directly or indirectly at least 20% of votes at the General Shareholders' Meeting, other than those resulting from concluded non-life insurance contracts, concluded on an arm's length basis.

32.1.1. Unpaid advances, credit facilities, loans, guarantees, sureties or other contracts with performance obligation

In 2015 and in 2014, no unpaid advances, credit facilities, loans, guarantees, sureties or other contracts with performance obligation regarding members of PZU Management Board or Supervisory Board occurred.

32.1.2. Remuneration of Members of the Management Board of PZU, Capital Group Directors and Members of the Supervisory Board of PZU paid, due or potentially due

Remunerations and other employee benefits paid by PZU	1 January – 31 December 2015		1 January – 31 December 2014	
		including bonuses and special benefits:		including bonuses and special benefits:
Management Board, including:	**8,124**	**2,862**	**8,226**	**2,812**
Andrzej Klesyk	2,970	1,170	2,714	914
Przemysław Dąbrowski	1,112	371	1,054	313
Dariusz Krzewina	1,281	507	1,314	534
Tomasz Tarkowski	995	332	891	228
Ryszard Trepczyński [1)]	1,194[2)]	482	1,165	424
Rafał Grodzicki [3)]	312	-	-	-
Witold Jaworski [4)]	260	-	-	-
Barbara Smalska [5)]	-	-	1,088	399
Top management (PZU Group Directors), including:	**3,799**	**1,530**	**3,717**	**1,193**
Rafał Grodzicki [3)]	624	312	936	312

Przemysław Henschke	936	312	936	312
Sławomir Niemierka	963	300	860	199
Tobiasz Bury	1,276	606	985	370[6)]
Supervisory Board, including:	**1,224**	**-**	**1,221**	**-**
Zbigniew Ćwiąkalski	180	-	168	-
Paweł Kaczmarek	84	-	-	-
Dariusz Filar	132	-	120	-
Aleksandra Magaczewska	156	-	97	-
Tomasz Zganiacz	72	-	144	-
Zbigniew Derdziuk	120	-	120	-
Dariusz Kacprzyk	120	-	64	-
Jakub Karnowski	120	-	64	-
Alojzy Nowak	120	-	120	-
Maciej Piotrowski	120	-	120	-
Waldemar Maj	-	-	90	-
Dariusz Daniluk	-	-	57	-
Włodzimierz Kiciński	-	-	57	-

Remunerations and other employee benefits paid by other entities of PZU Group	1 January – 31 December 2015		1 January – 31 December 2014	
		including bonuses:		including bonuses:
Management Board, including:	**3,310**	**1,279**	**2,942**	**996**
Przemysław Dąbrowski	799	400	599	200
Dariusz Krzewina	690	273	553	133
Tomasz Tarkowski	536	179	536	179
Ryszard Trepczyński [1)]	643[2)]	259	658	259
Rafał Grodzicki [3)]	504	168	-	-
Witold Jaworski [4)]	138	-	-	-
Barbara Smalska [5)]	-	-	596	225
Top management (PZU Group Directors), including:	**1,546**	**492**	**1,844**	**478**
Rafał Grodzicki [3)]	-	-	455	119
Przemysław Henschke	504	168	455	119
Sławomir Niemierka	464	107	427	70
Tobiasz Bury	578	217	507	170[6)]

Warsaw, 14 March 2016

Total estimated value of non-financial benefits granted by PZU and the subsidiaries of PZU	1 January – 31 December 2015	1 January – 31 December 2014
Management Board, including:	**1,224**	**1,307**
Andrzej Klesyk	298	282
Przemysław Dąbrowski	191	186
Dariusz Krzewina	209	217
Tomasz Tarkowski	178	191
Ryszard Trepczyński [1)]	179	226
Rafał Grodzicki [3)]	129	-
Witold Jaworski [4)]	40	-
Barbara Smalska [5)]	-	205
Top management (PZU Group Directors), including:	**600**	**908**
Rafał Grodzicki [3)]	44	170
Przemysław Henschke	167	203
Sławomir Niemierka	176	358
Tobiasz Bury	213	177
Supervisory Board, including:	**11**	**-**
Zbigniew Ćwiąkalski	10	-
Jakub Karnowski	1	**-**

[1)] Ryszard Trepczyński was not appointed as a Member of the Management Board of PZU for the new term, which started 1 July 2015.
[2)] Listed amounts include remuneration resulting from competition prohibition clause of PLN 185 thousand (PZU) and PLN 100 thousand (PZU Życie) and remuneration for the notice period.
[3)] Rafał Grodzicki was dismissed from the function of Director of PZU Group on 30 June 2015 and appointed as a Member of the Management Board of PZU for the new term, which started 1 July 2015.
[4)] Witold Jaworski was appointed as a Member of the Management Board of PZU on 1 September 2015.
[5)] On 6 October 2014, Barbara Smalska submitted a statement of resignation effective from 31 December 2014. In 2015, she received remuneration for the notice period and resulting from the competition prohibition clause in the amount of PLN 974 thousand from PZU and PZU Życie and PLN 71 thousand in non-financial benefits.

Remuneration of Members of the Management Board of PZU, Capital Group Directors and Members of the Supervisory Board of PZU paid, due or potentially due	1 January - 31 December 2015	1 January - 31 December 2014
a) Charged to costs	19,827	20,165
b) Resulting from incentive or bonus plans based on issuer's equity	-	-

32.2 Transactions with subsidiaries

Transactions with subsidiaries	1 January - 31 December 2015	1 January - 31 December 2014
1. Gross written premiums, including:	**276,107**	**43,508**
- from Link4	160,686	4,318
- TUW PZUW	47,197	-
- from PrJSC IC PZU Ukraine	44,080	7,144
- from Lietuvos Draudimas AB	16,571	11,473
- from AAS Balta	9,004	5,712
- from Alior Bank	1,708	-
- from UAB DK PZU Lithuania	(4,963)	13,959
2. Dividend revenue, including:	**1,704,309**	**2,090,211**
- from PZU Życie	1,690,174	2,060,000
- TFI PZU	9,227	11,989
- from PZU AM	3,806	-
- PZU CO	1,102	18,222
3. Other revenue, including:	**36,004**	**27,397**
- kick-backs from TFI PZU	13,884	12,908
- receiving shares from PZU Pomoc free of charge	6,604	-
- from reinvoicing costs from related parties	4,384	4,862
- from property due to rentals to related parties	2,978	2,712

- due to impairment losses release for receivables from Syta Development		3,560
4. Gross claims and benefits paid, including:	**6,769**	**9,996**
- for AAS Balta	3,327	-
- for PZU Pomoc SA	1,877	-
- for PrJSC IC PZU Ukraine	1,389	-
- for Link4	158	-
- for UAB DK PZU Lithuania	4	9,996
5. Other expenses, including:	**118,225**	**126,078**
- cost of interest of the loan from PZU Finance AB	39,151	17,165
- IT services rendered by PZU CO	31,112	26,957
- reinsurance commissions payable to Link4	11,004	-
- cost of exchange differences of the loan from PZU Finance AB	9,683	58,826
- rental services by Ogrodowa Inwestycje	5,590	5,050
- reinsurance commissions payable to PrJSC IC PZU Ukraine	5,289	-
- cyclic mass print service by PZU CO	4,108	3,013
- share in profit for PrJSC IC PZU Ukraine	3,163	-
- investment activities costs carried out for TFI PZU	222	4,008

Transactions with subsidiaries	31 December 2015	31 December 2014
1. Receivables, including:	**41,998**	**803,811**
- receivables from settlements within Tax Capital Group	29,560	71,809
- other receivables from Link4	7,009	-
- receivables due to inward reinsurance – premiums from PZU Ukraine	2,450	-
- receivables from PZU Życie from the advance dividend	-	730,000
- deposits receivable due to inward reinsurance – premiums from PZU Lithuania	-	27
2. Liabilities, including:	**3,660,858**	**2,136,130**
- loans from PZU Finance AB (publ.)	3,611,636	2,127,155
- liabilities due to settlements within Tax Capital Group	42,115	536
- liabilities arising from inward reinsurance – to PZU Ukraine	1,276	-
3. Contingent liabilities (off-balance sheet) arising from the promissory notes from PZU Pomoc	**12,944**	**13,158**
4. Contingent liabilities (off-balance sheet) arising from the loan not granted to PZU Zdrowie	**70,000**	**-**

32.2.1. Information on loans from PZU Życie

On 7 August 2013, PZU and PZU Życie entered into a framework agreement concerning concluding cash loans transactions. Cash loans are granted in PLN for a specified period, not longer than 12 months. The total value of cash loans provided by each Party may not exceed PLN 1 billion. Cash loans provided are recognized under "Investments in related parties" in the Company's assets, while those received – under "Liabilities arising from issue of own debt securities and obtained loans" in liabilities.

32.3 Transactions with associates

Neither in 2015 nor in 2014, PZU had any associates.

Signatures of members of the Management Board of PZU SA:

Name	Position	
Michał Krupiński	CEO of PZU	.... (signature)
Przemysław Dąbrowski	Member of the Management Board	.... (signature)
Roger Hodgkiss	Member of the Management Board	.... (signature)
Beata Kozłowska-Chyła	Member of the Management Board	.... (signature)
Dariusz Krzewina	Member of the Management Board	.... (signature)
Robert Pietryszyn	Member of the Management Board	.... (signature)
Paweł Surówka	Member of the Management Board	.... (signature)

Person responsible for bookkeeping

Katarzyna Łubkowska	Director of Accounting Department	.... (signature)

Chief Actuary at PZU

Paweł Chadysz	Vice-Director of the Actuarial Office	.... (signature)

Warsaw, 14 March 2016

TRANSLATION

Powszechny Zakład Ubezpieczeń

Spółka Akcyjna

Opinion and Report of the Independent Auditor

Financial Year ended 31 December 2015

The opinion contains 2 pages
The supplementary report contains 13 pages
Opinion of the independent auditor
and supplementary report
on the audit of the financial statements
for the financial year ended
31 December 2015

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.

OPINION OF THE INDEPENDENT AUDITOR

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

Opinion on the Financial Statements

We have audited the accompanying financial statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna with its registered office in Warsaw, Jana Pawła II 24 ("the Company"), which comprise the introduction to the financial statements, the balance sheet as at 31 December 2015, the revenue account of non-life insurance, the general profit and loss account, the statement of changes in equity and the cash flow statement for the year then ended and the supplementary information and explanations, and:

1) the amount of own funds;
2) the amount of solvency margin;
3) the surplus of own funds to cover solvency margin;
4) the amount of technical provisions;
5) the amount of assets to cover technical provisions;
6) the surplus of assets to cover technical provisions.

Management's and Supervisory Board's Responsibility for the Financial Statements

Management of the Company is responsible for the correctness of the accounting records, the preparation and fair presentation of these financial statements and preparation of the Report on the Company's activities in accordance with the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330 with amendments) ("the Accounting Act") and related bylaws, and other applicable regulations. Management of the Company is also responsible for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act, Management of the Company and members of the Supervisory Board are required to ensure that the financial statements and the report on the Company's activities are in compliance with the requirements set forth in the Accounting Act.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements, and whether the financial statements are derived from properly maintained accounting records based on our audit. We conducted our audit in accordance with section 7 of the Accounting Act and International Standards on Auditing as adopted by the National Council of Certified Auditors as the National Standards on Assurance. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements and the accounting records from which they are derived are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the Company, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements of the Company have been prepared and present fairly, in all material respects, the financial position of the Company as at 31 December 2015 and of its financial performance and its cash flows for the year then ended, in accordance with the accounting principles applicable to the territory of the Republic of Poland as set out in the Accounting Act and related bylaws as well as other binding regulations, are in compliance with the respective regulations and the provisions of the Company's articles of association that apply to the Company's financial statements and have been prepared from accounting records that in all material respects have been properly maintained.

Specific Comments on Other Legal and Regulatory Requirements

Report on the Company's Activities

As required under the Accounting Act we report that the accompanying Report on the Company's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act, by 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) and Attachment No. 6 to the Decree of the Minister of Finance dated 28 December 2009 on specific accounting principles in insurance and reinsurance companies (Official Journal from 2009, No. 226, item 1825) and the information is consistent with the financial statements.

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

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

Warsaw, 14 March 2016

TRANSLATION

Powszechny Zakład Ubezpieczeń

Spółka Akcyjna

Supplementary report
on the audit
of the financial statements
Financial Year ended
31 December 2015

The supplementary report contains 13 pages
The supplementary report
on the audit of the financial statements
for the financial year ended
31 December 2015

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.

Contents

1 General

1.1 General information about the Company

1.1.1 Company name

Powszechny Zakład Ubezpieczeń Spółka Akcyjna further referred to as "the Company".

1.1.2 Registered office

Al. Jana Pawła II 24, 00-133 Warsaw

1.1.3 Registration in the register of entrepreneurs of the National Court Register

Registration court:	District Court for the Capital City of Warsaw in Warsaw, XII Commercial Department of the National Court Register
Date:	30 April 2001
Registration number:	KRS 0000009831
Initial capital as at the balance sheet date:	PLN 86,352 thousand

1.1.4 Management of the Company

The Management Board is responsible for management of the Company.

As at the date of this report, the Management Board of the Company was comprised of the following members:

- Michał Krupiński – President of the Management Board
- Przemysław Dąbrowski – Board Member
- Roger Hodgkiss – Board Member
- Beata Kozłowska-Chyła – Board Member
- Dariusz Krzewina – Board Member
- Robert Pietryszyn – Board Member
- Paweł Surówka – Board Member

In the period from 1 January 2015 until the report preparation date, the following changes took place in the composition of the Management Board of the Company:

- On 30 June 2015 Ryszard Trepczyński's mandate of the Member of the Management Board of PZU expired;
- On 8 December 2015 Andrzej Klesyk and Witold Jaworski filed a resignation, with effect from 9 December 2015, whereas the Supervisory Board of PZU appointed Dariusz Krzewina the Acting President of the Management Board;
- On 19 January 2016 Rafał Grodzicki and Tomasz Tarkowski resigned from the Management Board, thus the Supervisory Board of PZU appointed to the Management Board following persons:

- Michał Krupiński, who was appointed the President of the Management Board;
- Roger Hodgkiss, who was appointed the Member of the Management Board;
- Beata Kozłowska-Chyła, who was appointed the Member of the Management Board;
- Robert Pietryszyna, who was appointed the Member of the Management Board;
- Paweł Surówka, who was appointed the Member of the Management Board since 20 January 2016.

1.2 Key Certified Auditor and audit firm information

1.2.1 Key Certified Auditor information

Name and surname:	Marcin Dymek
Registration number:	9899

1.2.2 Audit firm information

Name:	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. („KPMG Audyt”)
Address of registered office:	ul. Inflancka 4A, 00-189 Warsaw
Registration number:	KRS 0000339379
Registration court:	District Court for the Capital City of Warsaw in Warsaw, XII Commercial Department of the National Court Register
NIP number:	527-26-15-362

KPMG Audyt is entered in the register of entities authorised to audit financial statements, maintained by the National Council of Certified Auditors, under number 3546.

1.3 Prior period financial statements

The financial statements for the financial year ended 31 December 2014 were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. and received an unqualified opinion who expressed an unmodified opinion on those financial statements dated 16 March 2015.

The financial statements for the financial year ended 31 December 2014 were approved at the General Meeting on 30 June 2015 where it was resolved to appropriate the net profit for the prior financial year of PLN 2,636,733 thousand as follows:

- PLN 2,590,569 have been allocated to dividend,
- PLN 36,164 thousand have been allocated to the supplementary capital,
- PLN 10,000 thousand have been allocated to the social fund.

The financial statements for the financial year ended 31 December 2014 were submitted to the Registry Court on 6 July 2015.

1.4 Audit scope and responsibilities

This report of the independent auditor was prepared for the General Meeting and Supervisory Board of the Company and relates to the financial statements comprising: the introduction to the financial statements, the balance sheet as at 31 December 2015, the revenue account of non-life insurance, the general profit and loss account, the statement of changes in equity and the cash flow statement for the year then ended and the supplementary information and explanations, and:

1) the amount of own funds;
2) the amount of solvency margin;
3) the surplus of own funds to cover solvency margin;
4) the amount of technical provisions;
5) the amount of assets to cover technical provisions;
6) the surplus of assets to cover technical provisions.

The financial statements have been audited in accordance with the contract dated 26 June 2014, concluded on the basis of the resolution of Supervisory Board dated 18 February 2014 on the appointment of the auditor.

We conducted the audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330 with amendments) ("the Accounting Act") and International Standards on Auditing as adopted by the National Council of Certified Auditors as the National Standards on Assurance.

We audited the financial statements at the Company during the period from October to November 2015 (interim audit) and from January to March 2016 (final audit).

Management of the Company is responsible for the correctness of the accounting records and the preparation and fair presentation of the financial statements and preparation of the report on the Company's activities in accordance with the Accounting Act and in compliance with the respective bylaws and other applicable regulations.

Our responsibility is to express an opinion and to prepare a supplementary report on the audit of the financial statements and whether the financial statements have been prepared from properly maintained accounting records, based on our audit.

Management of the Company submitted a statement, dated as at the same date as this report, as to the true and fair presentation of the accompanying financial statements, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the financial statements.

All required statements, explanations and information were provided to us by Management of the Company and all our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of KPMG Audyt.

The Key Certified Auditor and KPMG Audyt fulfil the independence requirements as described in Art. 56 points 3 and 4 of the Act on Certified Auditors and their Self-Governance, Audit Firms authorized to Audit Financial Statements and Public Oversight dated 7 May 2009 (Official Journal from 2015, item 1011 with amendments).

2 Financial analysis of the Company

2.1 Summary analysis of the financial statements

2.1.1 Balance sheet

ASSETS	31.12.2015 PLN '000	% of total	31.12.2014 PLN '000	% of total
Intangible assets	**362,167**	**1.0%**	**283,999**	**0.8%**
Investments				
Property	475,812	1.3%	492,420	1.4%
Investment in related parties	8,040,778	22.1%	6,473,390	18.7%
Other financial investments	23,839,458	65.6%	24,065,129	69.5%
	32,356,048	**89.0%**	**31,030,939**	**89.6%**
Receivables				
Insurance receivables	1,433,828	3.9%	1,398,967	4.0%
Reinsurance receivables	40,929	0.1%	19,651	0.1%
Other receivables	327,146	0.9%	1,019,201	2.9%
	1,801,903	**5.0%**	**2,437,819**	**7.0%**
Other assets				
Property, plant and equipment	130,908	0.4%	124,649	0.4%
Cash	65,076	0.2%	47,001	0.1%
	195,984	**0.5%**	**171,650**	**0.5%**
Prepayments				
Deferred acquisition costs	957,179	2.6%	568,502	1.6%
Other prepayments	685,080	1.9%	136,869	0.4%
	1,642,259	**4.5%**	**705,371**	**2.0%**
TOTAL ASSETS	**36,358,361**	**100.0%**	**34,629,778**	**100.0%**

EQUITY AND LIABILITIES	31.12.2015 PLN '000	% of total	31.12.2014 PLN '000	% of total
Equity				
Share capital	86,352	0.2%	86,352	0.2%
Supplementary capital	4,446,348	12.2%	4,408,306	12.7%
Revaluation reserve	5,597,511	15.4%	5,197,333	15.0%
Net profit	2,248,522	6.2%	2,636,733	7.6%
	12,378,733	**34.0%**	**12,328,724**	**35.6%**
Technical provisions	**18,673,869**	**51.4%**	**17,657,194**	**51.0%**
Reinsurers' share in the technical provisions	**(1,037,301)**	**2.9%**	**(683,893)**	**2.0%**
Expected subrogations and salvages				
Expected subrogations and salvages	(96,539)	0.3%	(113,763)	0.3%
Reinsurers' share in expected subrogations and salvages	464	0.0%	1,643	0.0%
	(96,075)	**0.3%**	**(112,120)**	**0.3%**
Other provisions				
Provision for pension and other statutory employee benefits	50,287	0.1%	72,667	0.2%
Deferred tax provision	349,003	1.0%	92,577	0.3%
Other provisions	73,626	0.2%	99,926	0.3%
	472,916	**1.3%**	**265,170**	**0.8%**
Other liabilities and special funds				
Insurance liabiliaties	344,541	0.9%	325,424	0.9%
Reinsurance liabilities	81,038	0.2%	67,650	0.2%
Liabilities arising form issue of debt securities and obtained loans	3,611,636	9.9%	2,127,155	6.1%
Other liabiliaties	928,469	2.6%	1,956,784	5.7%
Special funds	144,132	0.4%	121,561	0.4%
	5,109,816	**14.1%**	**4,598,574**	**13.3%**
Accruals				
Cost accruals	821,516	2.3%	550,075	1.6%
Deferred income	34,887	0.1%	26,054	0.1%
	856,403	**2.4%**	**576,129**	**1.7%**
TOTAL EQUITY AND LIABILITIES	**36,358,361**	**100.0%**	**34,629,778**	**100.0%**

2.1.2 Revenue account of non-life insurance

	1.01.2015 - 31.12.2015 PLN '000	% of premium written	1.01.2014 - 31.12.2014 PLN '000	% of premium written
Premiums				
Gross written premiums	8,858,036	100.0%	8,261,752	100.0%
Reinsurers' share in written premiums	(293,494)	3.3%	(281,468)	3.4%
Change in unearned premiums provision and unexpired risks reserve, gross	(709,055)	8.0%	(159,223)	1.9%
Reinsurers' share in change in unearned premiums reserve	42,473	0.5%	81,578	1.0%
	7,897,960	**89.2%**	**7,902,639**	**95.7%**
Net investment result, (including costs), transferred from general profit and loss	**256,955**	**2.9%**	**266,032**	**3.2%**
Other technical revenue, net of reinsurance	**213,649**	**2.4%**	**143,758**	**1.7%**
Claims				
Claims paid net of reinsurance	(5,060,585)	57.1%	(4,366,167)	52.8%
Gross claims paid	(5,135,220)	58.0%	(4,427,251)	53.6%
Reinsurers' share in claims paid	74,635	0.8%	61,084	0.7%
Change in outstanding claims provision, net of reinsurance:	23,956	0.3%	(864,697)	10.5%
Change in outstanding claims provision, gross	(288,158)	3.3%	(985,966)	11.9%
Reinsurers' share in change in outstanding claims provision	312,114	3.5%	121,269	1.5%
	(5,036,629)	**56.9%**	**(5,230,864)**	**63.3%**
Bonuses and rebates, including change in the provision, net of reinsurance	**(7,191)**	**0.1%**	**(2,325)**	**0.0%**
Costs of insurance activities'				
Acqusition costs	(1,572,330)	17.8%	(1,511,908)	18.3%
Administrative expenses	(753,737)	8.5%	(729,142)	8.8%
Reinsurance commissions and shares in reinsurers profits	850	0.0%	(10,978)	0.1%
	(2,325,217)	**26.2%**	**(2,252,028)**	**27.3%**
Other technical charges, net of reinsurance	**(327,046)**	**3.7%**	**(256,040)**	**3.1%**
Change in risk equalization reserve	**(36,147)**	**0.4%**	**(6,743)**	**0.1%**
Technical result on non-life insurance	**636,334**	**7.2%**	**564,429**	**6.8%**

2.1.3 General profit and loss account

	1.01.2015 - 31.12.2015 PLN '000	% of premium written	1.01.2014 - 31.12.2014 PLN '000	% of premium written
Technical result on non-life insurance	**636,334**	**7.2%**	**564,429**	**6.8%**
Investment income				
Investment income from property	5,854	0.1%	6,215	0.1%
Income from investments in related parties	1,708,564	19.3%	2,093,953	25.3%
Income from other financial investments	377,268	4.3%	469,524	5.7%
Arising from shares, other variable income securities as well as participation units and investment certificates of investment funds	13,884	0.2%	11,670	0.1%
Arising from debt securities and other fixed income securities	310,169	3.5%	328,612	4.0%
Arising from term deposits at credit institutions	1,344	0.0%	58,677	0.7%
Arising from other investments	51,871	0.6%	70,565	0.9%
Gain on revaluation of investments	534	0.0%	5,230	0.1%
Gain on realization of investments	412,864	4.7%	388,965	4.7%
	2,505,084	**28.3%**	**2,963,887**	**35.9%**
Unrealized gains on investments	**181,605**	**2.1%**	**266,653**	**3.2%**
Investment activities costs				
Property maintenance costs	(9,706)	0.1%	(9,146)	0.1%
Other investment activities costs	(13,051)	0.1%	(14,738)	0.2%
Loss on revaluation of investments	(21,349)	0.2%	(7,386)	0.1%
Loss on realization of investments	(346,948)	3.9%	(270,367)	3.3%
	(391,054)	**4.4%**	**(301,637)**	**3.7%**
Unrealized losses on investments	**(218,407)**	**2.5%**	**(298,810)**	**3.6%**
Net investment income, (including costs), transferred to the revenue account of non-life insurance	**(256,955)**	**2.9%**	**(266,032)**	**3.2%**
Other operating income	**303,853**	**3.4%**	**146,489**	**1.8%**
Other operating expenses	**(284,539)**	**3.2%**	**(220,455)**	**2.7%**
Operating profit	***2,475,921***	***28.0%***	***2,854,524***	***34.6%***
Profit before tax	***2,475,921***	***28.0%***	***2,854,524***	***34.6%***
Income tax	**(174,152)**	**2.0%**	**(155,736)**	**1.9%**
Share in net profit of related parties measured using the equity method	**(53,247)**	**0.6%**	**(62,055)**	**0.8%**
Net profit	***2,248,522***	***25.4%***	***2,636,733***	***31.9%***

2.2 Selected financial ratios

2.2.1 Efficiency ratios

	2015	2014	2013
Sales profitability ratio = Net profit (loss) / Gross written premium	25.4%	31.9%	61.7%
Profitability ratio of technical activity = Technical result / Net earned premium	8.1%	7.1%	13.1%
Profitability ratio of investment activity = Investment income[1] / Average investments' value	8.1%	10.6%	7.8%
Gross loss ratio = (Gross claims and benefits paid + change in gross provision for outstanding claims) / Gross earned premium	66.6%	66.8%	61.0%
Net loss ratio = (Net claims and benefits paid + change in net provision for outstanding claims) / Net earned premium	63.8%	66.2%	62.2%
Premium retention ratio = Net written premium / Gross written premium	96.7%	96.6%	97.5%
Claims retention ratio = Net claims and benefits paid / Gross claims and benefits paid	98.5%	98.6%	93.8%
Acquisition cost ratio = Acquisition costs[2] / Gross written premium	22.1%	18.9%	17.8%
Administration cost ratio = Administration costs / Gross written premium	8.5%	8.8%	8.0%
Net operating expenses ratio = General insurance costs / Net earned premium	29.4%	28.5%	25.0%

[1] *Investment income is calculated as a difference between investments income and costs and include realized as well as accrued investment result. Investment income includes unrealized gains and losses recognized in revaluation reserve in equity (before tax)*
[2] *Acquisition costs include accrued amounts without the change in deferred acquisition costs*

2.2.2 Insurance solvency ratios

	2015	2014	2013
Solvency margin	1,424,278	1,362,353	1,362,353
Required guarantee capital	474,759	454,118	454,118
Own assets	7,838,829	7,981,468	9,505,612
Surplus of own assets to cover solvency margin	6,414,551	6,619,115	8,143,259
Surplus of own assets to cover guarantee capital	7,364,070	7,527,350	9,051,494
Solvency margin coverage ratio = Own assets / Solvency margin	550.4%	585.9%	697.7%
Technical provisions coverage ratio = Assets to cover technical provisions / Technical provisions	110.5%	118.3%	115.5%

[3] *Technical provisions adjusted by the expected subrogations and salvages*

3 Detailed report

3.1 Accounting system

The Company maintains current documentation describing the applied accounting principles, adopted by the Management Board, to the extent required by Art. 10 of the Accounting Act.

During the audit of the financial statements, we tested, on a sample basis, the operation of the accounting system.

On the basis of the work performed we have not identified any material irregularities in the accounting system which have not been corrected and that could have a material effect on the financial statements. Our audit was not conducted for the purpose of expressing a comprehensive opinion on the operation of the accounting system.

The Company performed a physical verification of its assets in accordance with the requirements and time frame specified in Art. 26 of the Accounting Act and reconciled and recorded the results thereof in the accounting records.

3.2 Introduction and supplementary information and explanations to the financial statements

All information included in the introduction and the supplementary information and explanations to the financial statements is, in all material respects, presented correctly and completely. The introduction to the financial statements should be read in conjunction with the financial statements.

3.3 Technical provisions

Technical provisions as at 31 December 2015 were established in accordance with "The regulation on setting up of technical provisions in PZU SA" in the amount sufficient to cover expected value of liabilities arising on insurance contracts underwritten until 31 December 2015 as estimated by the Company Management.

The assets covering technical provisions comply with the Art. 154 and 155 of the Act on Insurance Activities dated 22 May 2003 (Official Journal from 2015, item 1206 with amendments) ("the Act on Insurance Activities") and amounted to PLN 20,535,296 thousand, while the gross technical provisions (adjusted by the estimated salvages and subrogations) amounted to PLN 18,577,330 thousand.

3.4 Calculation of the solvency margin, required guarantee capital and own assets as coverage thereof

The Company calculated its solvency margin as at 31 December 2015 and determined the required guarantee capital according to the Decree of Minister of Finance dated 28 November 2003 on the calculation method of the amount of solvency margin and the minimal amount of guarantee capital for insurance lines and groups (Official Journal from 2003, No. 211, item 2060 with amendments).

As at 31 December 2015, the Company presented the surplus of own assets to cover solvency margin in the amount PLN 6,414,551 thousand and the surplus of own assets to cover guarantee capital in the amount of PLN 7,364,070 thousand.

3.5 Report on the Company's activities

The report on the Company's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act, by 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) and Attachment No. 6 to the Decree of the Minister of Finance dated 28 December 2009 on specific accounting principles in insurance and reinsurance companies (Official Journal from 2009, No. 226, item 1825) and the information is consistent with the financial statements.

On behalf of 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.

Warsaw, 14 March 2016

Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna

Consolidated financial statements
for the year ended on 31 December 2015
with auditor's opinion

Table of content

(in PLN thousand)

Consolidated statement of profit or loss

Consolidated statement of profit or loss	Note	1 January - 31 December 2015	1 January - 31 December 2014 (restated) [1)]
Gross written premiums	11	18,359,044	16,884,639
Reinsurer's share in written premiums		(366,702)	(349,912)
Net written premium		**17,992,342**	**16,534,727**
Change in net unearned premiums reserve		(607,471)	(105,357)
Net earned premiums		**17,384,871**	**16,429,370**
Revenue from commissions and fees	12	242,799	350,764
Net investment income	13	1,571,268	1,704,649
Net result on realization and impairment losses on investments	14	(223,239)	427,147
Net change in the fair value of assets and liabilities measured to fair value	15	391,248	515,111
Other operating income	16	803,432	537,633
Insurance claims and change in technical provisions		(12,282,925)	(11,733,228)
Reinsurers' share in claims, benefits and change in technical provisions		425,823	191,520
Net claims and benefits	**17**	**(11,857,102)**	**(11,541,708)**
Interest expense	18	(117,433)	(147,285)
Acquisition costs	19	(2,376,305)	(2,147,024)
Administrative costs	20	(1,657,878)	(1,527,699)
Other operating expenses	22	(1,222,276)	(907,740)
Operating profit		**2,939,385**	**3,693,218**
Share in returns of entities measured using the equity method	2.4.6.1, 34	4,348	(1,525)
Profit before tax		**2,943,733**	**3,691,693**
Income tax	25	(601,537)	(724,066)
Net profit, including:		**2,342,196**	**2,967,627**
- profit attributable to owners of the parent entity		2,342,355	2,967,731
- profit (loss) attributable to non-controlling interest		(159)	(104)
Net profit from continued operations attributable to owners of the parent entity		2,342,355	2,967,731
Net profit (loss) from discontinued operations		-	-
Basic and diluted weighted average number of ordinary shares in issue	24	863,523,000	863,519,490[2)]
Basic and diluted profit (loss) per one ordinary share (in PLN)	24	2.71	3.44[2)]

[1)] Information stating the reason of restatement of data and its influence on statement of profit or loss has been presented in Note 5.1.2.

[2)] Comparatives were restated, taking into consideration the new number of shares, after the split described in Note 43.1

(in PLN thousand)

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income	Note	1 January - 31 December 2015	1 January - 31 December 2014
Net profit		2,342,196	2,967,627
Other comprehensive income	26	5,766	17,193
Amounts subject to subsequent transfer to statement of profit or loss		(3,165)	10,580
Measurement of available-for-sale financial instruments		2,492	8,475
Exchange differences from translation		(6,574)	2,287
Other comprehensive income of entities measured using the equity method		917	(182)
Amounts not subject to subsequent transfer to statement of profit or loss		8,931	6,613
Property reclassified from property, plant and equipment to investment properties		7,201	13,504
Actuarial gains and losses from remeasurements of defined benefit liabilities		1,730	(6,891)
Total net comprehensive income		**2,347,962**	**2,984,820**
- comprehensive income attributable to owners of the parent entity		2,348,136	2,984,916
- comprehensive income attributable to non-controlling interest		(174)	(96)

(in PLN thousand)

Consolidated statement of financial position

Assets	**Note**	**31 December 2015**	**31 December 2014** (restated) [1]	**1 January 2014** (restated) [1]
Goodwill	27	1,506,445	769,044	8,519
Intangible assets	27	1,393,168	868,692	308,726
Other assets	29	698,964	235,250	195,449
Deferred acquisition costs	30	1,154,742	712,066	609,819
Estimated subrogations and recoveries	31	114,229	127,262	129,950
Reinsurers' share in technical provisions	32, 40	1,096,852	753,115	526,605
Tangible assets	32	1,299,788	1,001,609	927,281
Investment properties	33	1,171,721	2,236,062	1,474,770
Entities measured using the equity method	34	54,065	66,311	48,595
Financial assets		89,305,847	56,759,976	55,085,728
Held to maturity	35.1, 36	17,370,126	19,983,689	18,859,902
Available for sale	35.2, 36	7,744,689	2,985,322	1,920,112
Measured at fair value through profit or loss	35.3, 36	20,648,403	19,096,484	19,904,176
Hedging derivatives	8.5.2	139,578	-	-
Loans	35.4, 36	43,403,051	14,694,481	14,401,538
Deferred tax assets	37	349,189	26,957	16,949
Receivables, including insurance receivables	36, 38	3,270,793	3,085,432	2,671,964
Current income tax receivables	39	67,295	368	34,895
Cash and cash equivalents	40	2,439,863	324,007	569,157
Assets held for sale	41	1,506,048	606,610	178,897
Total assets		**105,429,009**	**67,572,761**	**62,787,304**

[1] Information stating the reason of restatement of data and its influence on the consolidated statement of financial position has been presented in Note 5.1.2.

(in PLN thousand)

Consolidated statement of financial position (cont.)

Equity and liabilities	Note	31 December 2015	31 December 2014 (restated)	1 January 2014 (restated)
Equity				
Equity attributable to owners of the parent entity	42			
Share capital	42.1	86,352	86,352	86,352
Other reserves	42.2	10,141,607	9,885,791	9,061,351
Unappropriated result		2,695,760	3,194,193	3,963,587
Retained earnings		353 405	226,462	3,963,587
Net profit		2,342,355	2,967,731	-
Non-controlling interest		2,255,188	1,292	16,341
Total equity		**15,178,907**	**13,167,628**	**13,127,631**
Liabilities				
Technical provisions	43	41,280,321	40,166,885	37,324,416
Provisions for employee benefits	44	117,398	120,070	123,380
Other provisions	45	108,109	191,206	192,906
Deferred tax liabilities	46	509,157	398,433	255,399
Financial liabilities	47	44,487,823	9,403,244	8,398,582
Other liabilities	48	3,678,011	3,819,511	3,311,618
Current income tax liabilities	49	69,283	53,770	53,372
Liabilities directly associated with assets qualified as held for sale	41	-	252,014	-
Total liabilities		**90,250,102**	**54,405,133**	**49,659,673**
Total equity and liabilities		**105,429,009**	**67,572,761**	**62,787,304**

[1)] Information stating the reason of restatement of data and its influence on the consolidated statement of financial position has been presented in Note 5.1.2.

(in PLN thousand)

Statement of changes in consolidated equity

Statement of changes in consolidated equity	Note	Equity attributable to owners of the parent entity										Non-controlling interest	Total equity
		Share capital	Other reserves						Unappropriated result		Total		
			Treasury shares	Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses from remeasurements of defined benefit liabilities	Exchange differences from translation	Retained earnings	Net profit			
Note		42.1		42.2.1	42.2.2			42.2.3				2.3	
Balance as at 1 January 2015		**86,352**	**(110)**	**9,678,921**	**248,543**	**66**	**(6,179)**	**(35,450)**	**3,194,193**	**-**	**13,166,336**	**1,292**	**13,167,628**
Measurement of available-for-sale financial instruments		-		-	2,492	-	-	-	-	-	2,492	-	2,492
Other comprehensive income of entities measured using the equity method	34	-		-	871	-	45	1	-	-	917	-	917
Exchange differences from translation		-		-	-	-	-	(6,559)	-	-	(6,559)	(15)	(6,574)
Actuarial gains and losses from remeasurements of defined benefit liabilities	44	-		-	-	-	1,730	-	-	-	1,730	-	1,730
Property reclassified from property, plant and equipment to investment property		-		-	7,201	-	-	-	-	-	7,201	-	7,201
Total other net comprehensive income		**-**		**-**	**10,564**	**-**	**1,775**	**(6,558)**	**-**	**-**	**5,781**	**(15)**	**5,766**
Net profit (loss)		-		-	-	-	-	-	-	2,342,355	2,342,355	(159)	2,342,196
Total comprehensive income		**-**		**-**	**10,564**	**-**	**1,775**	**(6,558)**	**-**	**2,342,355**	**2,348,136**	**(174)**	**2,347,962**
Other changes, including:		**-**	**110**	**268,371**	**(18,430)**	**(44)**	**-**	**28**	**(2,840,788)**	**-**	**(2,590,753)**	**2,254,070**	**(336,683)**
Profit appropriation	42.1.1	-		248,262	-	(44)	-	-	(2,838,771)	-	(2,590,553)	-	(2,590,553)
Changes in PZU Group's composition and transactions with non-controlling interest	2.4.6.1	-		(388)	-	-	-	28	-	-	(360)	2,254,070	2,253,710
Sale of revalued property		-		20,447	(18,430)	-	-	-	(2,017)	-	-	-	-
Sale of own shares		-	110	50	-	-	-	-	-	-	160	-	160
At 31 December 2015		**86,352**	**-**	**9,947,292**	**240,677**	**22**	**(4,404)**	**(41,980)**	**353,405**	**2,342,355**	**12,923,719**	**2,555,188**	**15,178,907**

(in PLN thousand)

Statement of changes in consolidated equity (cont.)

Statement of changes in consolidated equity	Note	Share capital	Equity attributable to owners of the parent entity									Non-controlling interest	Total equity
			Other reserves						Unappropriated result		Total		
			Treasury shares	Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses from remeasurements of defined benefit liabilities	Exchange differences from translation	Retained earnings	Net profit			
Note		42.1		42.2.1	42.2.2			42.2.3				2.3	
Balance as at 1 January 2014		**86,352**	**(110)**	**8,855,999**	**242,297**	**-**	**902**	**(37,737)**	**3,963,587**	**-**	**13,111,290**	**16,341**	**13,127,631**
Measurement of available-for-sale financial instruments		-	-	-	8,475	-	-	-	-	-	8,475	-	8,475
Other comprehensive income of entities measured using the equity method	34		-	-	-	-	(190)	8	-	-	(182)	-	(182)
Exchange differences from translation	-		-	-	-	-	-	2,279	-	-	2,279	8	2,287
Actuarial gains and losses from remeasurements of defined benefit liabilities	44		-	-	-	-	(6,891)	-	-	-	(6,891)	-	(6,891)
Property reclassified from property, plant and equipment to investment property		-	-	-	13,504	-	-	-	-	-	13,504	-	13,504
Total other net comprehensive income		**-**	**-**	**-**	**21,979**	**-**	**(7,081)**	**2,287**	**-**	**-**	**17,185**	**8**	**17,193**
Net profit (loss)		-	-	-	-	-	-	-	-	2,967,731	2,967,731	(104)	2,967,627
Total comprehensive income		**-**	**-**	**-**	**21,979**	**-**	**(7,081)**	**2,287**	**-**	**2,967,731**	**2,984,916**	**(96)**	**2,984,820**
Other changes, including:		**-**	**-**	**822,922**	**(15,733)**	**66**	**-**	**-**	**(3,737,125)**	**-**	**(2,929,870)**	**(14,953)**	**(2,944,823)**
Profit appropriation		-	-	800,257	-	66	-	-	(3,736,288)	-	(2,935,965)	-	(2,935,965)
Changes in PZU Group's composition and transactions with non-controlling interest		-	-	6,095	-	-	-	-	-	-	6,095	(14,953)	(8,858)
Sale of revalued property		-	-	16,570	(15,733)	-	-	-	(837)	-	-	-	-
At 31 December 2014		**86,352**	**(110)**	**9,678,921**	**248,543**	**66**	**(6,179)**	**(35,450)**	**226,462**	**2,967,731**	**13,166,336**	**1,292**	**13,167,628**

(in PLN thousand)

Consolidated cash flows statement

Consolidated cash flows statement	**Note**	**1 January - 31 December 2015**	**1 January - 31 December 2014** (restated)
Cash flows from operating activities			
Inflows		20,868,278	19,770,097
- inflows from insurance premiums		18,103,916	16,813,033
- inflows from investment contracts		141,088	374,467
- inflows from reinsurance commissions and share in reinsurers profits		23,504	5,801
- inflows from reinsurers share in claims		75,981	57,799
- inflows from claims representative services		196,358	185,909
- inflows from sale of units by investment fund		945,897	1,309,017
- other inflows from operating activities	50	1,381,534	1,024,071
Outflows		(19,596,595)	(17,994,884)
- reinsurance premiums		(336,090)	(281,562)
- commissions paid and profit sharing due to reinsurance inwards		(34,801)	(6,665)
- claims and benefits paid		(10,526,619)	(8,913,766)
benefits paid from investment contracts		(698,661)	(1,389,107)
- acquisition outflows		(2,049,302)	(1,792,914)
- administrative outflows		(2,228,149)	(2,043,079)
- interest payments		(210)	(367)
- income tax payments		(662,131)	(643,411)
- outflows from claims representative services		(495,393)	(463,856)
- outflows from purchase of units by investment fund		(560,757)	(574,396)
- other operating outflows	50	(2,004,482)	(1,885,761)
Net cash flows from operating activities		**1,271,683**	**1,775,213**
Cash flows from investment activities			
Inflows		645,441,193	656,131,136
- disposal of investment property		57,142	46,372
- inflows from investment property		245,718	161,875
- disposal of intangible assets and property, plant and equipment		6,025	11,456
- disposal of shares		4,877,722	5,684,627
- redemption of debt instruments		45,542,373	59,499,048
- inflows from buy sell-back transactions		312,776,047	322,415,856
- withdrawal of term deposits at credit institutions		192,354,486	230,591,875
- inflows from other investments		85,974,398	33,292,748
- interest received		1,413,031	4,273,948
- dividends received		53,325	85,347
- cash inflows due to sale of units and changes in consolidation scope		2,103,681	45,341
- other inflows from investments		37,245	22,643

(in PLN thousand)

Consolidated cash flows statement (cont.)

Consolidated cash flows statement	Note	1 January - 31 December 2015	1 January - 31 December 2014 (restated)
Outflows		(640,588,049)	(657,879,173)
- acquisition of investment property		(311,749)	(674,638)
- outflows for maintenance of investment property		(168,095)	(152,702)
- acquisition of intangible assets and property, plant and equipment		(320,910)	(257,336)
- acquisition of shares		(4,771,041)	(6,309,465)
- acquisition of shares in subsidiaries	2.4.6	(1,347,728)	(1,573,516)
- decrease in cash balance due to sale of units and changes in consolidation scope	2.4.1 2.4.3	(226,584)	(16,108)
- acquisition of debt instruments		(43,041,422)	(60,179,445)
- opening buy sell-back transactions		(312,954,479)	(322,391,282)
- acquisition of term deposits at credit institutions		(191,287,851)	(229,791,689)
- acquisition of other investments		(86,152,061)	(36,528,980)
- other investments outflows		(6,129)	(4,012)
Net cash flow from investment activities		**4,853,144**	**(1,748,037)**
Cash flows from financing activities			
Inflows		373,819,684	368,232,652
- inflows from loans		40,954	10,823
- inflows due to issuance of debt instruments		1,456,955	2,015,447
- opening sell buy-back transactions		372,321,775	366,206,382
Outflows		(377,853,538)	(368,542,449)
- dividends paid to owners of the parent entity	42.1.1.1	(4,058,594)	(1,468,133)
- repayment of loans		(126,389)	(39,815)
- inflows from sell buy-back transactions		(373,634,541)	(367,019,479)
- interest from loans		(4,602)	(14,718)
- interests from issued debt instruments		(28,771)	-
- other financial outflows		(641)	(304)
Net cash flow from financing activities		**(4,033,854)**	**(309,797)**
Total net cash flows		**2,090,973**	**(282,621)**
Cash and cash equivalents at the beginning of the financial year		324,007	569,157
Change in cash due to exchange differences		24,883	37,471
Cash and cash equivalents at the end of the financial year, including:	40	2,439,863	324,007
- not available for use		22,428	31,081

Additional information and notes

1. Introduction

Compliance statement

These consolidated financial statements of the Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna (henceforth: "consolidated financial statements" and "PZU Group", respectively) have been prepared in accordance with International Financial Reporting Standards ("IFRS") published and effective as at 31 December 2015 and endorsed by the European Commission.

Entities of PZU Group maintain their accounting records in accordance with local GAAP:

- in Poland – in accordance with Polish Accounting Standards, with the exception of Alior Bank's Capital Group, Armatura Capital Group and CM Medica, maintaining their accounting records in accordance with IFRS;
- abroad – in accordance with IFRS, with the exception of Lithuanian companies maintaining their accounting records in accordance with Lithuanian accounting standards.

Consolidated financial statements include adjustments made in order to provide compliance with IFRS.

Financial year

The consolidated financial statements have been prepared for the period of 12 months from 1 January 2015 to 31 December 2015.

Financial Statements approval

These consolidated financial statements were signed and authorized for issue by the Management Board of Powszechny Zakład Ubezpieczeń Spółka Akcyjna (PZU, the parent entity) on 14 March 2016 and shall be subject to approval of the Annual General Meeting of Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

Functional and presentation currency

The Polish zloty (PLN) is the PZU functional and presentation currency. Unless expressly stated otherwise, all financial data presented in the consolidated financial statements are expressed in thousand PLN.

The functional currency of companies whose registered offices are located in Ukraine is Ukrainian hryvnia, whereas in the case of the companies whose registered offices are located in Lithuania, Latvia and Sweden it is the euro.

The consolidated financial statements are presented in the Polish zloty (PLN). The Polish zloty is PZU Group's functional and presentation currency.

Going concern assumption

The consolidated financial statements have been prepared based on the assumption that the PZU Group's entities will operate as a going concern during the period of at least 12 months following the balance sheet date. As at the date of signing these consolidated financial statements, no facts and circumstances indicate a risk to PZU Group entities' ability to operate as a going concern during 12 months after closing the reporting year due to the intended or forced discontinuation or significant limitation of its operations.

Discontinued operations

In 2015, the entities in PZU Group did not discontinue any significant type of operations.

Glossary

Below are listed the most important terms and abbreviations used in the consolidated financial statements.

Company names

AAS Balta – Apdrošināšanas Akciju Sabiedrība Balta.

Alior Bank – Alior Bank SA.

Alior Bank Capital Group – Alior Bank along with its subsidiaries: 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 SA, New Commerce Services sp. z o.o.

Armatura Capital Group – Armatura Kraków SA along with its subsidiaries: Armatoora SA, Aquaform SA, Aquaform Badprodukte GmbH, Aquaform Ukraine TOW, Aquaform Romania SRL, Morehome.pl sp. z o.o. oraz jednostką współzależną Armatura Tower sp. z o.o.

CM Medica – Centrum Medyczne Medica sp. z o.o.

Elvita – Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA – Jaworzno III sp. z o.o.

EMC – EMC Instytut Medyczny SA.

Gamma – Centrum Medyczne Gamma sp. z o.o.

Link4 – Link4 Towarzystwo Ubezpieczeń Spółka Akcyjna.

Proelmed – Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.

Prof – Med – Specjalistyczna Przychodnia Przemysłowa Prof-Med sp. z o.o.

PTE PZU – Powszechne Towarzystwo Emerytalne PZU SA.

PZU, the parent entity – Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

PZU CO – PZU Centrum Operacji Spółka Akcyjna.

PZU FIZ AN BIS 2 – PZU FIZ Aktywów Niepublicznych BIS 2.

PZU Lithuania – UAB DK PZU Lithuania.

PZU Ukraine – PrJSC IC PZU Ukraine.

PZU Ukraine Life – PrJSC IC PZU Ukraine Life Insurance.

PZU Życie – Powszechny Zakład Ubezpieczeń na Życie Spółka Akcyjna.

SU Krystynka – Sanatorium Uzdrowiskowe "Krystynka" sp. z o.o.

TFI – Towarzystwo Funduszy Inwestycyjnych PZU SA.

TUW PZUW – Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych.

Other definitions

DPF – discretionary participation features within the meaning of IFRS 4 – Insurance contracts.

Forbearance – tool used to restructure debt, most often taking a form of facilities granted to the debtor by the creditor.

CODM – chief operating decision maker within the meaning of IFRS 8 – Operating segments.

IBNR – Incurred But Not Reported.

Separate financial statements of PZU for 2015 – annual separate financial statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna for 2015, in accordance with PAS, signed by the Management Board of PZU on 14 March 2016.

PFSA – Polish Financial Supervision Authority.

IFRS – International Financial Reporting Standards, published and effective as at 31 December 2015 and endorsed by the European Commission.

TCG – Tax Capital Group established pursuant to an agreement signed on 25 September 2014 and entered into by the following 13 PZU Group companies: PZU, PZU Życie, Link4, PZU CO, PZU Pomoc SA, Ogrodowa-Inwestycje Sp. z o.o., Ipsilon Sp. z o.o., PZU Asset Management SA, TFI PZU SA, PZU Zdrowie SA, PZU Finanse Sp. z o.o., Omicron SA, and Omicron Bis SA. The TCG was formed for a period of 3 years, from 1 January 2015 to 31 December 2017. PZU is the parent entity and the company representing the TCG in the above-mentioned TCG agreement.

Banking Law Act dated 29 August 1997 (i.e. Journal of Laws of 2015, item 128, as amended) and the regulations issued thereunder.

PAS – the Accounting Act of 29 September 1994 (Journal of Laws of 2013, item 330, as amended) and the regulations issued thereunder.

PLET – Polish Life Expectancy Tables published annually by the Central Statistical Office in Poland.

RBNP – Reported But Not Paid.

CRR – regulation of the European Parliament and the Council No. 575/2013 from 26 June 2013 on prudential requirements for credit institutions and investment firms.

Solvency Margin Ordinance – ordinance of 28 November 2003 on the manner of calculation of the solvency margin and the minimum amount of the guarantee capital for insurance sections and classes (Journal of Laws No. 211 of 2003, item 2060, as amended).

Consolidated financial statements – consolidated financial statements of PZU Group in accordance with IFRS for the year ended on 31 December 2015.

Old portfolio – individual life insurance (marriage and life) and annuity assumed from Państwowy Zakład Ubezpieczeń.

Act on Insurance Activity – Act on Insurance Activity of 22 May 2003 (i.e. Journal of Laws of 2015, item 1206 as amended).

Pension Funds Act – Pension Funds Act of 28 August 1997 (i.e. Journal of Laws of 2013, item 989, as amended).

Act on Financial Instututions Tax – act of 15 January 2016 on the tax on certain financial institutions (Journal of Laws of 2016, item 68).

ZUS – Social Insurance Institution.

2. Structure of PZU Group

2.1 PZU

The PZU Group's parent entity is PZU, a joint stock company with its registered office in Warsaw at Al. Jana Pawła II 24.

PZU is entered to the Register of Entrepreneurs of the National Court Register at the District Court for the capital city of Warsaw, XII Business Division of the National Court Register, under KRS number 0000009831.

According to Polish Classification of Business Activity (PKD), the core business of PZU includes other casualty and property insurance (PKD 65.12) and according to NACE, non-life insurance (NACE 6603).

(in PLN thousand)

2.2 PZU Group entities, associates and joint ventures

No.	Name of the company	Registered office	Date of acquisition of control/ significant influence	% of share capital and % of voting rights directly or indirectly held by PZU 31 December 2015	31 December 2014	Scope of business and website
Consolidated subsidiaries						
1	Powszechny Zakład Ubezpieczeń SA	Warsaw	n/a	n/a	n/a	Non-life insurance. http://www.pzu.pl/
2	Powszechny Zakład Ubezpieczeń na Życie SA	Warsaw	18.12.1991	100.00%	100.00%	Life insurance. http://www.pzu.pl/grupa-pzu/pzu-zycie
3	Link4 Towarzystwo Ubezpieczeń SA [1)]	Warsaw	15.09.2014	100.00%	100.00%	Non-life insurance. http://www.link4.pl/
A4	Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych [2)]	Warsaw	20.11.2015	100.00%	n/a	Non-life insurance. http://tuwpzuw.pl/
5	Lietuvos Draudimas AB [3)]	Vilnius (Lithuania)	31.10.2014	99.98%	99.98%	Non-life insurance. http://www.ld.lt/
6	Apdrošināšanas Akciju Sabiedrība Balta	Riga (Łotwa)	30.06.2014	99.99%	99.99%	Non-life insurance. http://www.balta.lv/
7	PrJSC IC PZU Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Non-life insurance. http://www.pzu.com.ua/
8	PrJSC IC PZU Ukraine Life Insurance	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Life insurance. http://www.pzu.com.ua/
9	UAB DK PZU Lithuania [4)]	Vilnius (Lithuania)	26.04.2002	0.00%	99.88%	Non-life insurance.
10	UAB PZU Lietuva Gyvybes Draudimas	Vilnius (Lithuania)	26.04.2002	99.34%	99.34%	Life insurance. https://www.pzu.lt/
Consolidated subsidiaries – Alior Bank Capital Group						
11	Alior Bank SA [5)]	Warsaw	18.12.2015	23.96% [6)]	n/a	Banking services https://www.aliorbank.pl/
12	Alior Services sp. z o.o. [5)]	Warsaw	18.12.2015	23.96%	n/a	Other services excluding insurance and pension funds.
13	Centrum Obrotu Wierzytelnościami sp. z o.o. [5)]	Cracow	18.12.2015	23.96%	n/a	Trading in receivables.
14	Alior Leasing sp. z o.o. [5)]	Wrocław	18.12.2015	23.96%	n/a	Leasing services. https://www.aliorbank.pl/wlasna-dzialalnosc/alior-leasing.html
15	Meritum Services ICB SA [5)]	Gdańsk	18.12.2015	23.96%	n/a	IT services.
16	Money Makers SA [5)]	Warsaw	18.12.2015	14.49% [7)]	n/a	Asset management and managing Alior SFIO subfunds. http://www.moneymakers.pl
17	New Commerce Services sp. z o.o. [5)]	Warsaw	18.12.2015	23.96%	n/a	Auxiliary operations.

(in PLN thousand)

No.	Name of the company	Registered office	Date of acquisition of control/ significant influence	% of share capital and % of voting rights directly or indirectly held by PZU		Scope of business and website
				31 December 2015	31 December 2014	
Consolidated subsidiaries – other units						
18	Powszechne Towarzystwo Emerytalne PZU SA	Warsaw	08.12.1998	100.00%	100.00%	Management of pension funds. http://www.pzu.pl/grupa-pzu/pte-pzu
19	PZU Centrum Operacji SA	Warsaw	30.11.2001	100.00%	100.00%	Auxiliary activities related to insurance and pension funds.
20	Towarzystwo Funduszy Inwestycyjnych PZU SA	Warsaw	30.04.1999	100.00%	100.00%	Establishment, representation and management of investment funds. http://www.pzu.pl/grupa-pzu/tfi-pzu
21	PZU Pomoc SA	Warsaw	18.03.2009	100.00%	100.00%	Assistance services. http://www.pzu.pl/grupa-pzu/pzu-pomoc
22	PZU Finance AB (publ.)	Stockholm (Sweden)	02.06.2014	100.00%	100.00%	Financial services.
23	PZU Finanse Sp. z o.o.	Warsaw	08.11.2013	100.00%	100.00%	The company does not conduct business operations.
24	Tower Inwestycje Sp. z o.o.	Warsaw	27.08.1998	100.00%	100.00%	Other services.
25	Ogrodowa-Inwestycje Sp. z o.o.	Warsaw	15.09.2004	100.00%	100.00%	Acquiring, operating, renting and selling of real property. http://www.ogrodowainwestycje.pl/
26	PZU Zdrowie SA	Warsaw	02.09.2011	100.00%	100.00%	Health care services. http://www.pzu.pl/pzu-zdrowie
27	Centrum Medyczne Medica sp. z o.o.	Płock	09.05.2014	100.00%	100.00%	Health care services. http://cmmedica.pl/
28	Specjalistyczna Przychodnia Przemysłowa Prof-Med sp. z o.o.	Włocławek	12.05.2014	100.00%	96.45%	Health care services.http://cmprofmed.pl/
29	Sanatorium Uzdrowiskowe „Krystynka" sp. z o.o.	Ciechocinek	09.05.2014	99.09%	98.58%	Hospital, rehabilitation and spa therapy services. http://www.sanatoriumkrystynka.pl/
30	Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA – Jaworzno III sp. z o.o.	Jaworzno	01.12.2014	100.00%	98.82%	Health care services. http://www.elvita.pl/
31	Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	Łaziska Górne	01.12.2014	57.00%	57.00%	Health care services. http://www.proelmed.pl/
32	Rezo-Medica sp. z o.o. [8)]	Płock	23.04.2015	100.00%	n/a	Health care services. http://rezo-medica.pl/
33	Centrum Medyczne Gamma sp. z o.o. [8)]	Warsaw	08.09.2015	60.46%	n/a	Health care services. http://www.cmgamma.pl/
34	Nasze-Zdrowie sp. z o.o. [8)]	Warsaw	26.08.2015	100.00%	n/a	Health care services. http://www.nasze-zdrowie.pl/
35	Medicus w Opolu sp. z o.o. [8)]	Opole	30.09.2015	100.00%	n/a	Health care services. http://medicus.opole.pl/
36	Arm Property sp. z o.o.	Cracow	26.11.2014	100.00%	100.00%	Purchase and sales of property.

(in PLN thousand)

No.	Name of the company	Registered office	Date of acquisition of control/ significant influence	% of share capital and % of voting rights directly or indirectly held by PZU		Scope of business and website
				31 December 2015	31 December 2014	
Consolidated subsidiaries – other units - continued						
37	Ipsilon Sp. z o.o.	Warsaw	02.04.2009	100.00%	100.00%	Assistance and health care services.
38	PZU Asset Management SA	Warsaw	12.07.2001	100.00%	100.00%	The company does not conduct business operations.
39	Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA w likwidacji	Warsaw	13.08.2004	100.00%	100.00%	The company does not conduct business operations.
40	Omicron SA	Warsaw	13.09.2011	100.00%	100.00%	The company does not conduct business operations.
41	Omicron Bis SA	Warsaw	28.08.2014	100.00%	100.00%	The company does not conduct business operations.
42	Sigma BIS SA	Warsaw	12.12.2014	100.00%	100.00%	The company does not conduct business operations.
43	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Assistance services.
44	L4C sp. z o.o.	Warsaw	15.09.2014	100.00%	100.00%	The company does not conduct business operations.
Jednostki objęte konsolidacją - Armatura Capital Group						
45	Armatura Kraków SA	Cracow	07.10.1999	100.00%	100.00%	Distribution of products of Armatura Group, administration and management of the Armatura Group. http://www.grupa-armatura.pl/
46	Armatoora SA	Nisko	10.12.2008	100.00%	100.00%	Production and distribution of radiators and sanitary fixtures and fittings.
47	Armaton SA [9)]	Cracow	10.02.2009	n/a	100.00%	Use of free funds, development investments.
48	Aquaform SA [10)]	Środa Wlkp.	15.01.2015	100.00%	n/a	Manufacturing of bathroom fittings.
49	Aquaform Badprodukte GmbH [10)]	Anhausen (Niemcy)	15.01.2015	100.00%	n/a	Wholesale.
50	Aquaform Ukraine TOW [10)]	Zhytomyr (Ukraine)	15.01.2015	100.00%	n/a	Wholesale.
51	Aquaform Romania SRL [10)]	Prejmer (Romania)	15.01.2015	100.00%	n/a	Wholesale.
52	Morehome.pl sp. z o.o. [10)]	Środa Wlkp.	15.01.2015	100.00%	n/a	Retail sale via electronic channels.
Consolidated subsidiaries - investment funds						
53	PZU SFIO Universum	Warsaw	15.12.2009	n/a	n/a	Investment of funds collected from the participants of the fund.
54	PZU FIZ Dynamiczny	Warsaw	27.01.2010	n/a	n/a	As above.
55	PZU FIZ Sektora Nieruchomości [11)]	Warsaw	01.07.2008	n/a	n/a	As above.
56	PZU FIZ Sektora Nieruchomości 2 [11)]	Warsaw	21.11.2011	n/a	n/a	As above.

(in PLN thousand)

No.	Name of the company	Registered office	Date of acquisition of control/ significant influence	% of share capital and % of voting rights directly or indirectly held by PZU		Scope of business and website
				31 December 2015	31 December 2014	
Consolidated subsidiaries - investment funds - continued						
57	PZU FIZ Aktywów Niepublicznych BIS 1	Warsaw	12.12.2012	n/a	n/a	As above.
58	PZU FIZ Aktywów Niepublicznych BIS 2	Warsaw	19.11.2012	n/a	n/a	As above.
59	PZU FIZ Surowcowy	Warsaw	03.09.2015	n/a	n/a	As above.
60	PZU Sejf+	Warsaw	30.09.2015	n/a	n/a	As above.
61	PZU Dłużny Rynków Wschodzących	Warsaw	20.11.2006	n/a	n/a	As above.
62	PZU Akcji Rynków Wschodzących	Warsaw	20.11.2006	n/a	n/a	As above.
63	PZU Akcji Spółek Dywidendowych	Warsaw	20.11.2006	n/a	n/a	As above.
64	PZU FIO Gotówkowy	Warsaw	01.07.2005	n/a	n/a	As above.
65	PZU FIZ Akcji Focus	Warsaw	10.12.2015	n/a	n/a	As above.
Joint ventures in Armatura Capital Group						
66	Armatura Tower Sp. z o.o.	Cracow	08.11.2013	50.00%	50.00%	Execution of construction projects.
Associates						
67	GSU Pomoc Górniczy Klub Ubezpieczonych SA	Tychy	08.06.1999	30.00%	30.00%	Insurance services.
68	EMC Instytut Medyczny SA [12)]	Wrocław	18.06.2013	28.31% [13)]	28.58% [13)]	Health protection, R&D in medical sciences and pharmacy.

1) Information about the acquisition of Link4 is presented in Note 2.4.6.2.
2) Information about the establishment of TUW PZUW is presented in Note 2.4.2.
3) Information about the acquisition of Lietuvos Draudimas AB is presented in Note 2.4.6.3
4) Information about the sale of PZU Lithuania is presented in Note 2.4.1.
5) Information about the acquisition of Alior Banku SA along with its subsidiaries is presented in Note 2.4.6.1
6) Share of PZU Group in Alior Bank's share capital and voting rights at the General Shareholders' Meeting determined on the basis of the number of shares held by PZU (I and II tranche of shares acquired under the transaction specified in2.4.6.1), PZU Życie and consolidated investment funds. The figure does not include shares acquired by PZU under tranche III of the transaction described in 2.4.6.1.
7) Company directly controlled by Alior Bank where it holds 60.49%. The Management Board of PZU stated that PZU Group exercises control over the company.
8) Information about the acquisition of Rezo-Medica sp. z o.o., Centrum Medyczne Gamma sp. z o.o., Nasze-Zdrowie sp. z o.o. and Medicus w Opolu sp. z o.o. is presented in Note 2.4.6.5.
9) Information about the marger of companies within Armatura Group is presented in Note 2.4.5.
10) Information about the acquisition of Aquaform SA along with its subsidiaries is presented in Note 2.4.6.4
11) As at 31 December 2015, the PZU FIZ Sektora Nieruchomości and PZU FIZ Sektora Nieruchorności 2 funds conducted investment operations through special purpose vehicles (included in the consolidation), whose number in particular funds amounted to: 24 and 11, respectively (31 December 2014: 39 and 13). A lower number of SPVs resulted from reorganization and simplification of operating structure, and not limiting operations itself.
12) Information about changing the involvement in EMC Instytut Medyczny SA is presented in Note 2.4.4.
% of voting rights held by PZU differs from the % of share capital and as at 31 December 2015 it amounted to 25.44% (25.41% as at 31 December 2014). The difference between the interest in voting rights and share capital results from the fact that non-controlling interest hold shares preferred as to voting rights.

(in PLN thousand)

But for the companies listed in the table, as at 31 December 2015, PZU Group owned 100% of shares in Syta Development sp. z o.o. in liquidation that is controlled by the official receiver independent from PZU Group and, therefore, the company was not subject to consolidation. The carrying amount of these shares in the consolidated statement of financial position of PZU Group amounted to 0.

2.3 Non-controlling interest

The table below presents the subsidiaries with non-controlling interest:

Name of entity	31 December 2015	31 December 2014
Alior Bank [1]	70.78% [2]	n/a
Centrum Medyczne Gamma sp. z o.o.	39.54%	n/a
Proelmed	43.00%	43.00%
SU Krystynka	0.91%	1.42%
UAB PZU Lietuva Gyvybes Draudimas	0.66%	0.66%
Lietuvos Draudimas AB	0.02%	0.02%
AAS Balta	0.01%	0.01%
Prof-Med	0.00%	3.55%
Elvita	0.00%	1.18%
PZU Lithuania	n/a	0.12%

[1] Alior Bank ownes subsidiaries: 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 SA (non-controlling interest at this entity amounted to 85.51%), New Commerce Services sp. z o.o.
[2] Value of non-controlling interest of Alior Bank was disclosed after taking into account tranche III in the purchase price allocation for Alior Bank as at the day of acquiring control. As at 31 December 2014, the carrying amount of non-controlling interest at Alior Bank was settled at PLN 2,249,609 thousand.

The below table presents consolidated financial data (at provisionally determined fair value) of Alior Bank Group included in the consolidated financial statements.

Assets	31 December 2015
Intangible assets	581,706
Other assets	109,378
Tangible assets	228,955
Financial assets	35,844,054
Available for sale	4,866,713
Measured at fair value through profit or loss	390,569
Hedging derivatives	139,578
Loans	30,447,194
Deferred tax assets	329,184
Receivables, including insurance receivables	484,862
Cash and cash equivalents	2,089,579
Assets held for sale	888
Total assets	**39,668,606**

(in PLN thousand)

Equity and liabilities	31 December 2015
Equity	
Issued share capital and other equity attributable to the owners of the parent entity	
Share capital	727,075
Other reserves	2,479,793
Unappropriated result	(28,413)
Non-controlling interest	1,240
Total equity	**3,179,695**
Liabilities	
Provisions for employee benefits	26,269
Other provisions	8,731
Financial liabilities	35,921,048
Current income tax liabilities	21,776
Other liabilities	511,087
Total liabilities	**36,488,911**
Total equity and liabilities	**39,668,606**

Due to the acquisition of Alior Bank along with its subsidiaries, from 18 December 2015 (the purchase price allocation and goodwill calculation prepared based on the data as of 31 December 2015) the data from the statement of profit or loss and other comprehensive income, as well as from cash flow statement, are not presented since they did not exert any effect on the consolidated financial statements.

In the period when PZU Group controlled Alior Bank, Alior Bank did not pay out dividends.

In 2014, there were no subsidiaries in PZU Group for which non-controlling interest would be material to PZU Group.

2.4 Changes in the scope of consolidation and structure of PZU Group

2.4.1. The sale of PZU Lithuania shares

On 2 February 2015, a share purchase agreement for the sale of PZU Lithuania shares was signed, under which Gjensidige Forsikring ASA with the registered office in Oslo (Norway) acquired 1,761,941 ordinary registered shares with the nominal value of EUR 28,96 each, representing a total of 99.879% of the share capital of PZU Lithuania.

The share of sales was conditional on the meeting of the following conditions precedent:

- lack of objection of the Bank of Lithuania regarding the purchase of shares in PZU Lithuania by the purchaser (the condition was met on 13 August 2015);
- consent of the Latvian and Estonian antitrust authorities or a written confirmation that such consent is not required (PZU received confirmations that such consent is not required on 25 May 2015 and 14 May 2015, respectively);
- consent of the Lithuanian Competition Council (On 7 April 2015, PZU was informed that this condition was fulfilled).
- completion of the process of separating assets and liabilities of PZU Lithuania related to the operations carried out by the branches of PZU Lithuania in Latvia and Estonia to PZU Group (the condition was met on 23 June 2015);
- consent of the Bank of Lithuania on the early repayment by PZU Lithuania of a subordinated loan granted to PZU Lithuania by PZU (the consent in question was granted on 15 July 2015 and the loan was repaid on 16 July 2015;
- consent of the Norwegian Financial Supervision Authority for the purchase of the shares in PZU Lithuania by the purchaser (on 14 May 2015, PZU was informed that this condition was fulfilled);
- waiver of the preemptive right by the minority shareholder of PZU Lithuania (holding 0.121% of the share capital) in relation to the shares of PZU Lithuania in favor of PZU (the condition was met on 30 September 2015);
- consent of the Lithuanian government commission for the purchase of the shares in PZU Lithuania by the purchaser or a written confirmation that such consent is not required (on 14 May 2015, PZU was informed that this condition was fulfilled).

Closing of the sale of shares of PZU Lithuania and a loss of control took place on 30 September 2015, and since that day the consolidation of PZU Lithuania has not been continued.

The payment for the shares of PZU Lithuania made on the date of closing the transaction amounted to EUR 65,966 thousand (in accordance with the NBP's exchange rate from the day preceding the date of the transaction: PLN 279,921 thousand), which included:

- EUR 54,000 thousand of the price offered, and
- EUR 11,966 thousand of the estimated amount of compensation for net assets (the difference between the estimated value of net assets and the notional value of net assets).

On 17 February 2016, the price of acquisition was adjusted by the difference between the estimated amount of compensation for net assets and the actual amount of compensation for net assets (determined on the basis of the closing balance sheet prepared by the buyer and accepted by PZU). As a result of the adjustment, the purchase price was lowered by EUR 349 thousand (in accordance with the NBP's exchange rate of 31 December 2015: PLN 1,488 thousand).

In addition, the price will be adjusted by 4 payments made every 6 months, each in the amount of 1.5% of the amount of excess capital calculated as the difference between the actual equity of PZU Lithuania determined in accordance with the requirements of the Bank of Lithuania and the required PZU Lithuania capital calculated in accordance with the provisions of law and regulations binding PZU Lithuania.

	Settlement of sale (PLN thousand)
Fair value of consideration received (in cash)	278,433
Value of net assets sold	(109,821)
Non-controlling interest	(3,111)
Exchange differences from translation transferred from equity	(18)
Sales result	**165,483**

The profit from the sale of PZU Lithuania shares is recognized in the consolidated statement of profit or loss under "Net result on realization and impairment losses on investments".

The reduction of cash balance of PZU Group by PLN 11,277 thousand is recognized under "decrease in cash inflows from sale of units and due to changes in the consolidation scope" in the consolidated cash flow statement.

2.4.2. Establishment of Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych

On 3 November 2015, PFSA approved the establishment of TUW PZUW, which was registered in the National Court Registered on 20 November 2015 and since that date has been subjected to consolidation.

PZU is the sole founder of TUW PZUW and held 100% of the share capital of TUW PZUW, i.e. 249,000 shares of TUW PZUW of nominal value of PLN 100 each. The share capital of TUW PZUW amounts to PLN 24,900 thousand. PZU also covered the organizational fund of TUW PZUW in the amount of PLN 950 thousand.

Hospitals that cooperate under the TUW PZUW model obtain a possibility to disperse risk as a part of mutual relations suited to the nature of a given group of medical companies, and thus decrease the expenses related to insurance premium. Acting in TUW PZUW as a founding member, PZU will grant to the hospitals, participants in TUW PZUW, support in active risk management and building recommendations on limitations to the risk incurred, e.g. by means of a comprehensive cooperation within medical risk assessment.

2.4.3. Changes in the scope of consolidation of investment funds

The assumptions made by PZU Group upon consolidation of investment funds have been presented in Note 6.1.1.

Due to the fact that PZU Group lost its control over PZU Fundusz Inwestycyjny Zamknięty Forte, the consolidation was ceased on 30 June 2015. It resulted in a reduction of cash balance of PZU Group by PLN 215,307 thousand (in "decrease in cash inflows from purchase of units and due to changes in the consolidation scope" line in the consolidated cash flow statement). After ceasing the consolidation of the investment fund, the participation units in fund of PZU Group are recognized in consolidated financial statements instead of the assets and liabilities of the investment fund.

Due to gaining control over the PZU Sejf+ fund, the fund has been subjected to consolidation since 30 September 2015. It resulted in an increase in cash balance of PZU Group by PLN 1,164 thousand (under "increase in cash balance from purchase of units and due to changes in the consolidation scope" of consolidated cash flows statement) in the consolidated cash flow statement. After the consolidation of the investment fund, its assets and liabilities are recognized in consolidated financial statements instead of the participation units in fund of PZU Group.

In addition, the following newly-established funds have been subjected to consolidation: PZU Fundusz Inwestycyjny Zamknięty Surowcowy (since 3 September 2015) and PZU Fundusz Inwestycyjny Zamknięty Akcji Focus (since 10 December 2015).

2.4.4. Acquisition of shares in EMC Instytut Medyczny SA

On 17 April 2015, PZU FIZ AN BIS 2 entered into a contract providing for the acquisition of 325,124 newly issued shares in EMC (series I) with the nominal value of PLN 4.00 per share and the issue price of PLN 15.80 per share. The total purchase price for the new shares amounted to PLN 5,137 thousand.

On 9 July 2015, the capital increase of EMC was registered, as a result of the issuance of 1,265,822 shares with a nominal value of PLN 4.00 per share and the issue price of PLN 15.80 per share. In accordance with the above mentioned final contract, PZU FIZ AN BIS 2 acquired 325,124 shares (constituting 25.685% of new issue) As a result of the capital increase, PZU FIZ AN BIS 2 has a total of 3,760,762 shares representing 28.31% of the share capital, which entitles it to 25.44% of votes at the General Meeting of Shareholders of EMC.

2.4.5. Combinations of entities under common control

On 26 March 2015, 27 March 2015 and 30 September 2015, an agreement of sale of CM Medica, Prof-Med and Elvita shares between PZU FIZ AN BIS 2 and PZU Zdrowie SA.

On 2 September 2015, the General Meeting of Shareholders of Armatura Kraków SA adopted a decision on the legal merger of Armatura Kraków SA (the acquirer) with Armaton SA (the acquiree), whose sole shareholder was Armatura Kraków SA. The acquisition took place by transferring all the assets of the acquiree to the acquirer.

Both mergers were registered in the National Court Register on 30 September 2015.

The above mentioned transactions did not affect the consolidated financial statements.

2.4.6. Business combinations

Business combination transactions are accounted for using the acquisition method in accordance with IFRS 3 "Business Combinations". Among others, this requires identifying the acquirer, determining the acquisition date, recognizing and measuring the identifiable assets acquired, liabilities assumed measured at fair value as at the acquisition date and any non-controlling interest in the acquiree, as well as recognizing and measuring goodwill.

Detailed accounting policies concerning the settlement of the acquisition transactions are presented in Note 5.4.

Acquisition of insurance companies is part of the development strategy pursued by PZU Group, with international expansion and strengthening the position of PZU in Poland at its core. The goodwill recognized in the consolidated financial statements is an outcome of the planned achievement of value added resulting from synergy in the area of operations, IT solutions, and offer for Clients. A strong position of the acquired companies on the local markets is another argument in favor of the recognition of goodwill. Moreover, in the case of Link4, as a result of using additional brand in Poland, it is planned to attract new Clients and perform services up-selling.

The purchase of shares in Alior Bank allowed PZU Group to grow in the new area outside of the traditional scope of insurance activity – in bank services. The goodwill recognized in the consolidated financial statements is an outcome of the fact that it is a dynamically growing entity, with a high degree of commercial and technological advancement, which will be used by PZU Group as a platform for the consolidation of the Polish banking sector. It is a crucial step in establishing a banking group operating within PZU Group.

Acquisition of entities rendering health care services (in 2015: Rezo-Medica sp. z o.o., Centrum Medyczne Gamma sp. z o.o., Medicus w Opolu sp. z o.o., Nasze Zdrowie sp. z o.o.) is aimed at complementing health insurance offered by PZU Group. Development of healh care services and health insurance offer s one of the main components of the PZU Group's strategy. Implementation of part of the services in own facilities boost the competitiveness of PZU Group at this market. The goodwill recognized in the consolidated financial statements is an outcome of the planned growth of this service segment and of the volume of services generated by health insurance, whilst improving rentability of these services due to retaining part of the margin in PZU Group.

2.4.6.1. Acquisition of Alior Bank

Under the preliminary share purchase agreement signed on 30 May 2015 concerning the sale of the shares of Alior Bank, PZU acquired 17,818,473 shares of Alior Bank from Alior Lux S.à.r.l. & Co. S.C.A ("Seller 1") and 500,000 shares of Alior Bank from Alior Polska sp. z o.o. ("Seller 2"), i.e. 18,318,473 shares in total, representing 25.19% of both the share capital of Alior Bank and the total number of votes at the General Meeting of Shareholders of Alior Bank.

Upon fulfilling the provisions stipulated in the share purchase agreement, the shares of Alior Bank were acquired by PZU in three installments:

- first installment: 6,744,900 shares of Seller 1 and 500,000 shares of Seller 2;
- second installment: 7,244,900 shares of Seller 1;
- III tranche: 3,828,673 shares of Seller 1.

Price per share amounted to PLN 89.25 and the acquisition cost of the shares amounted to PLN 1,634,924 thousand in total.

The transaction will be settled upon fulfillment of the following conditions precedent, which at the same time constitute conditions precedent to the implementation of individual installments (the first three points refer only to the first installment):

- lack of objection of PFSA regarding PZU's acquisition of shares in Alior Bank (on 6 October 2015, PFSA found no grounds to object to the acquisition);
- consent of the President of Office of Competition and Consumer Protection or the consent being considered granted (On 6 August 2015, PZU was informed that this condition was fulfilled);
- consent of the Ukrainian anti-thrust authority (on 2 September 2015, PZU was informed that the consent in question was granted);
- no violations of declarations and warranties made by the parties (the condition was met on 9 October 2015);
- lack of unauthorized services defined in the agreement, which have not been adequately compensated (the condition was met on 9 October 2015);
- lack of substantially negative change defined in the agreement (the condition was met on 9 October 2015);
- lack of infringement of the commitments agreed upon during the transitional period from the date of signing of the agreement until the date of the subsequent installment (the condition was met on 9 October 2015);
- Alior Bank's acquisition of the organized part of Seller 2's company, which includes the property listed in points a) – d) of resolution No. 27/2017 of the General Meeting of Shareholders of Alior Bank of 25 May 2015 (the condition was met on 31 July 2015).

On 12 October 2015, the acquisition of the first installment was settled, and on 18 December 2015 – the second installment transaction was finalized. Payment per each installment amounted to PLN 646,607 thousand (PLN 1,293,214 in total). In the period between 12 October 2015 and 18 December 2015, PZU Group did not control Alior Bank but had significant influence over it, as a result of which it was considered an associate. As a result of the acquisition of the second installment, PZU Group obtained control over Alior Bank, which therefore has been consolidated since 18 December 2015. Also, the following subsidiaries of Alior Bank have been consolidated: 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 SA, New Commerce Services sp. z o.o. Summary of control analysis has been presented in Note 6.1.1.1.

On 11 March 2016, the acquisition of the III tranche of Alior Bank's shares was settled. The payment for the III tranche amounted to PLN 341,709 thousand. As a result of acquiring three installments, PZU directly possesses as of 14 March

2016 18,318,473 shares of Alior Bank representing 25.19 % of Alior Bank's share capital and votes at the General Meeting of Shareholders of Alior Bank. In addition, through investment funds controlled by PZU, it indirectly held 4.0284 % of the share capital of Alior Bank and the total number of votes at the General Meeting of Shareholders of Alior Bank.

The costs related to acquisition of Alior Bank shares attributable to statement of profit and loss amounted to PLN 2,307 thousand. Due to the fact that these costs were connected with the project ongoing at the same time, the disclosed amount is the best possibile estimation of their allocation to the transaction of acquisition of Alior Bank shares.

Provisional purchase price allocation for Alior Bank

Acquisition of significant influence

In the period between 12 October 2015 and 18 December 2015, Alior Bank was treated as an associate measured using the equity method. The results of this valuation are presented in the table below:

Acquisition of significant influence and Alior Bank measurement using the equity method	(PLN thousand)
Consideration transferred (tranche I)	646,607
Fair value of interest held as at the moment of acquiring significant influence	244,571
Share in provisional fair value of net identifiable assets of Alior Bank	470,290
Goodwill	**420,888**
Carrying amount as at the moment of acquiring significant influence	**891,178**
Share in Alior Bank net result for the period between 12 October and 18 December 2015	5,284
Share in Alior Bank other comprehensive income for the period between 12 October and 18 December 2015	871
Carrying amount as at the acquisition date and the cessation of the measurement using the equity method	**897,333**

Acquisition of control

The settlement of the acquisition of shares of Alior Bank as at the acquisition date was accounted for on the basis of the accounting data prepared as at 31 December 2015. There were no significant differences in the accounting data between 18 December 2015 (the acquisition date) and 31 December 2015.

The share of PZU Group in the financial profit of Alior Bank for this period have been recognized together with the the gains/ losses resulting from the equity method for the period from 12 October to 18 December 2015 and reported in "Share in net results of entities measured using the equity method" of the consolidated statement of profit or loss.

Due to the following facts:

- the price for the III tranche has been agreed and is not subject to changes irrespective of market conditions;
- the III tranche is irrevocably connected with the previous ones that give PZU Group control over Alior Bank;
- non-controlling interest attributed to the shares in the III tranche deos not meet the definition of equity component in accordance with IFRS 32 point 23;

PZU Group included also the III tranche in the settlement of the acquisition of Alior Bank by way of:

- including the consideration transferred for both the II and the III tranches in the calculation of goodwill – PLN 988,316 thousand;
- calculating the carrying amount of non-controlling interest on the assumption that the III tranche shares are owned by PZU (70.78%);
- recognizing the liability to make the payment for the III tranche in the amount of PLN 341,709 thousand.

During the goodwill calculation, the carrying amounts of assets and liabilities of Alior Bank have been remeasured to fair value and new intangible assets have been identified that had not been hitherto recognized by the company as assets.

To the date of the publication of these consolidated financial statements, the purchase price allocation for Alior Bank has not been completed. Reliable and accurate calculation of fair value requires a large volume of data and appropriate measurements. It made impossible to finnish this process in the short period of time between the acquisition date and the date of the publication of the consolidated financial statements. Therefore, PZU Group decided to include a provisional purchase price allocation, in which:

- as to the fair value of the loans portfolio, the fair value reported in consolidated financial statements of Alior Bank Group as at 31 December 2015 was used;
- the liability arising from unfavorable valuations of lease agreements, customer relations (other than included in the core deposits intangible ("CDI"));
- the analysis of the potential property, plant, equipment and intangible assets fair value measurement has not been finalized;
- valuation of off-balance sheet liabilities has not been reported.

The final settlement will be presented after the process of identifying and calculating the fair value of the acquired assets, liabilities and off-balance liabilities is completed, which should not take place later than the date of the publication of the interim condensed consolidated financial statements of PZU Group for the first half of 2016.

Provisional fair value of the acquired assets and liabilities at the acquisition date	(PLN thousand)
Intangible assets	281,706
Tangible assets	228,955
Financial assets	35,844,054
Other receivables	484,862
Cash	2,089,579
Other assets	439,450
New intangible assets identified during the acquisition, including:	300,000
- trademark	100,000
- customer relations	200,000
Total assets	**39,668,606**
Financial liabilities	35,921,048
Other liabilities	567,863
Non-controlling interest [1]	1,240
Provisional fair value of net assets acquired	**3,178,455**

[1] measured at share value in fair value of net identifiable assets

Goodwill calculation	(PLN thousand)
Consideration transferred (tranche II and III) – in cash	988,316
Value of non-controlling interest (a 70.78% share in fair value of Alior Bank net assets)	2,249,609
Acquisition-date fair value of the previously held equity interest	661,099
Provisional fair value of net identifiable assets of Alior Bank	(3,178,455)
Goodwill	**720,569**

An increase of cash balance of PZU Group by PLN 2,089,579 thousand is recognized under "increase in cash inflows due to the acquisition of entities and changes in the scope of consolidation" line in the consolidated cash flow statement.

As at the day of acquiring control over Alior Bank, PZU Group performed remeasurement (in accordance with IFRS 3 point 32(a) (iii) and 42) of equity interest held at Alior Bank prior to the acquisition date to the fair value, and recognized the resulting loss in the statement of profit or loss under "Net result on realization and impairment losses on investments":

Amounts recognized in the statement of profit or loss	(PLN thousand)
Carrying amount of Alior Bank shares as at the acquisition date (measurement using the equity method as at the acquisition date)	897,333
Acquisition-date fair value of the previously held equity interest	661,099
One-off impact on statement of profit or loss resulting from the acquisition of Alior Bank	**(236,234)** [1)]

[1)] including PLN (175,834) thousand due to change of fair value of shares purchased under tranche I between the purchase date and the acquisition date of Alior Bank, which is 18 December 2015.

2.4.6.2. Final settlement of Link4 shares acquisition

On the basis of the share purchase agreement signed on 17 April 2014, PZU acquired from Royal & Sun Alliance Insurance plc (RSA) 111,354,305 registered shares in Link4 that represent 100% of share capital of Link4 and 100% of votes at the General Meeting of Shareholders of Link4 ("Link4 Shares") with a nominal value of PLN 1.00 each.

Closing of the acquisition of Link4 and obtaining control took place on 15 September 2014 and since that day Link4 has been subjected to consolidation. The payment for the shares of Link4 made on the date of closing the transaction amounted to EUR 93,886 thousand (in accordance with the NBP's exchange rate from the day preceding the date of the transaction – PLN 393,917 thousand).

On 11 March 2015, the final settlement of the transaction was prepared. Due to the difference between the final value of net assets and their notional value, RSA paid PZU the resulting difference in the amount of EUR 2,070 thousand. The final payment amounted to EUR 91,816 thousand (PLN 385,378 thousand, including PLN 6,897 thousand in settlements acquired between Link4 and RSA).

The settlement of the acquisition of shares of Link4 was accounted for on the basis of accounting data of the company prepared as at 31 August 2014. There were no significant differences in the accounting data between 31 August 2014 and 15 September 2014 (the acquisition date).

During the calculation of goodwill, the carrying amounts of assets and liabilities of Link4 have been remeasured to fair value and new intangible assets have been identified that had not been hitherto recognized by the company.

Fair value of the acquired assets and liabilities at the time of the acquisition of control	**Provisional settlement** (PLN thousand)	**Adjustments**	**Final settlement** (PLN thousand)
Intangible assets	8,552	-	8,552
Tangible assets	10,698	-	10,698
Financial assets	476,439	-	476,439
Receivables	65,354	-	65,354
Reinsurers' share in technical provisions	28,961	-	28,961
Other assets	26,634	-	26,634
New intangible assets identified during the acquisition, including:	117,266	-	117,266
- trademark	50,000	-	50,000
- present value of future profits	67,266	-	67,266
Total assets	**733,904**	**-**	**733,904**
Technical provisions	493,973	-	493,973
Liabilities	82,827	-	82,827
Share in fair value of the acquired net assets	**157,104**	**-**	**157,104**
Fair value of consideration transferred – in cash	393,917	(15,436) [1)]	378,481
Calculated goodwill	**236,813**	**(15,436)**	**221,377**

[1)] The reversal of PLN 15,436 thousand include a return made by RSA in the amount of EUR 2,070 thousand (PLN 8,539 thousand) and purchase price decreased by the value of acquired settlements between Link4 and RSA in the amount of PLN 6,897 thousand.

The company's goodwill will not decrease the taxable income.

2.4.6.3. Final settlement of Lietuvos Draudimas AB shares acquisition

Pursuant to the share purchase agreement signed on 17 April 2014, Lietuvos Draudimas AB PZU acquired from RSA 805,432 ordinary registered shares in the company Lietuvos Draudimas AB, which represent 99.98% of share capital of Lietuvos Draudimas AB ("Lietuvos Draudimas AB shares") and 99.98% of votes at the General Meeting of Shareholders of Lietuvos Draudimas AB, with a nominal value of LTL 50.00 each.

Closing of the acquisition of Lietuvos Draudimas AB and obtaining control took place on 31 October 2014 and since that day Lietuvos Draudimas AB has been subjected to consolidation. The payment for the Lietuvos Draudimas AB shares made on the date of closing the transaction amounted to EUR 191,012 thousand (in accordance with the NBP's exchange rate from the day preceding the date of the transaction: PLN 807,598 thousand).

On 3 June 2015, the final settlement of the transaction was prepared. Due to the difference between the final value of net assets and their notional value, RSA paid PZU the resulting difference in the amount of EUR 279 thousand. The final purchase price amounted to EUR 190,733 thousand (PLN 806,446 thousand).

The settlement of the acquisition of Lietuvos Draudimas AB shares was accounted for on the basis of accounting data of the company prepared as at 31 October 2014.

During the calculation of goodwill, the carrying amounts of assets and liabilities of Lietuvos Draudimas AB have been remeasured to fair value and new intangible assets have been identified that had not been hitherto recognized by the company.

Fair value of the acquired assets at the time of the acquisition of control	**Provisional settlement** (EUR thousand)	**Adjustments**	**Final settlement** (EUR thousand)
Intangible assets	4,595	-	4,595
Tangible assets	11,066	-	11,066
Investment property	831	-	831
Financial assets	126,116	-	126,116
Receivables	23,454	-	23,454
Reinsurers' share in technical provisions	2,211	-	2,211
Other assets	7,889	-	7,889
New intangible assets identified during the acquisition, including:	58,700	-	58,700
- trademark	19,400	-	19,400
- customer relations	18,700	-	18,700
- present value of future profits	17,800	-	17,800
- broker relations	2,800	-	2,800
Total assets	**234,862**	**-**	**234,862**
Technical provisions	96,400	-	96,400
Liabilities	31,890	-	31,890
Non-controlling interest	27	-	27
Share in fair value of the acquired net assets	**106,545**	**-**	**106,545**
Fair value of consideration transferred – in cash	191,012	(279)	190,733
Calculated goodwill	**84,467**	**(279)**	**84,188**

The company's goodwill will not decrease the taxable income.

2.4.6.4. Purchasing of Aquaform SA shares

On 15 January 2015, a share purchase agreement for the sale of Aquaform SA shares was concluded between Saniku SA and Shower Star B.V. (Sellers) and PZU's subsidiaries: Armatura Kraków SA and Armatoora SA (Buyers). Pursuant to that agreement, Armatura Kraków SA and Armatoora SA purchased 8,421,053 shares in the Aquaform SA company, with a nominal value of PLN 0.38 per share.

Under the share purchase agreements signed on 31 May 2015 and 14 May 2015, concerning the sale of shares of Aquaform SA, a subsidiary of PZU, Armatura Kraków SA acquired from non-controlling interest an additional portion of shares in the amount of 1,578,947 in Aquaform SA.

PZU has also become an indirect owner of Aquaform Badprodukte GmbH, Aquaform Romania SRL, Aquaform Ukraine TOW, and Morehome.pl sp. z o.o. – subsidiaries of Aquaform SA.

Purchase of Aquaform is connected with realization of strategy that consists in expansion of product segments offered by Grupa Armatura and acquisition of new outlets.

The purchase price of the controlling interest consists of a fixed price of EUR 5,300 thousand and an additional price which constitutes 6.5% of the total sales value exceeding EUR 24,000 thousand obtained by Aquaform SA on markets in Germany, Austria, Switzerland, France, the Netherlands and Luxembourg in the years 2015–2017.

The total purchase price for shares of non-controlling interest amounted to PLN 3,620 thousand. As per the sales budgets, the value of additional payment was estimated at PLN 150 thousands.

The total share of Armatura Kraków SA and Armatoora SA in the share capital of Aquaform SA amounts to 100%, which translates into 100% votes in the General Meeting of Shareholders.

Closing of the acquisition of Aquaform SA and obtaining control took place on 15 January 2015 and since that day Aquaform SA and its subsidiaries have been subjected to consolidation.

The settlement of the acquisition of shares of Aquaform SA was accounted for on the basis of accounting data of the company prepared as at 31 December 2014. There were no significant differences in the accounting data between 31 December 2014 and 15 January 2015 (the acquisition date).

Fair value of the acquired assets and liabilities at the time of the acquisition of control	Final settlement (PLN thousand)
Intangible assets	334
Tangible assets	2,123
Change in deferred tax assets	2,608
Receivables	13,275
Other assets	19,802
New intangible assets identified during the acquisition, including:	7,443
- trademark	6,120
- favorable contract	1,323
Total assets	**45,585**
Liabilities	12,302
Share in fair value of the acquired net assets	**33,283**
Fair value of consideration transferred – in cash	25,925
Gain on bargain purchase	**7,358**

Gain on bargain purchase has been recognized in the consolidated statement of profit or loss under "Other operating income".

2.4.6.5. Acquisition of shares in health care companies

Rezo-Medica sp. z o.o.

On 23 April 2015, CM Medica acquired 2,000 shares in Rezo-Medica sp. z o.o., representing 100% of the share capital of Rezo-Medica sp. z o.o. and 100% of votes at the General Meeting of Shareholders, with a nominal value of PLN 500 each.

Since the acquisition date, which is 23 April, 2015 Rezo-Medica sp. z o.o. has been subjected to consolidation.

Centrum Medyczne Gamma sp. z o.o

On 29 July 2015, the Extraordinary General Meeting of Shareholders of Gamma adopted a resolution to increase the company's share capital by issuing 29,278 shares with a nominal value of PLN 50 each. All shares were acquired by PZU FIZ AN BIS 2 and the increase in share capital was registered on 8 September 2015. As a result of the issue, PZU's share in the share capital and votes at the General Meetings of Shareholders of Gamma increased to 54.95%.

On 25 November 2015, the Extraordinary General Meeting of Shareholders of Gamma adopted a resolution to increase the company's share capital by issuing 7,423 shares with a nominal value of PLN 50 each. All shares were acquired by PZU FIZ AN BIS 2 and the increase in share capital was registered on 2 December 2015. As a result of the issue, PZU's share in the share capital and votes at the General Meetings of Shareholders of Gamma increased to 60.46%.

Since the acquisition date, which is 8 September 2015, Gamma has been subjected to consolidation.

Nasze Zdrowie sp. z o.o.

On 26 August 2015, PZU Zdrowie SA acquired 152 shares in Nasze Zdrowie sp. z o.o., representing 100% of the share capital and 100% of votes at the General Meeting of Shareholders, with a nominal value of PLN 329 each.

Since the acquisition date, which is 26 August 2015, Nasze Zdrowie sp. z o.o. has been subjected to consolidation.

Medicus w Opolu sp. z o.o.

On 22 September 2015, PZU Zdrowie SA acquired 13,412 shares in Medicus w Opolu sp. z o.o., representing 100% of the share capital of Medicus w Opolu sp. z o.o. and 100% of votes at the General Meeting of Shareholders, with a nominal value of PLN 100 each.

Since the acquisition date, which is 22 September 2015, Medicus w Opolu sp. z o.o. has been subjected to consolidation.

Purchase price allocation for health care companies

The settlement of the acquisition of shares in subsidiaries was carried out based on data of these entities collected on 30 April 2015 (Rezo-Medica sp. z o.o.), 31 August 2015 (Centrum Medyczne Gamma sp. z o.o. and Nasze Zdrowie sp. z o.o.), and 30 September 2015 (Medicus w Opolu sp. z o.o.). There were no significant differences in the accounting data between the data based on which the purchase price allocation was finalized and the data as at the respective acquisition dates.

During the calculation of goodwill, the carrying amounts of property, plant and equipment have been remeasured to fair value.

Fair value of the acquired assets at the time of the acquisition of control	**Final settlement** (PLN thousand)
Intangible assets	268
Tangible assets	9,488
Financial assets	14,841
Receivables	1,963
Change in deferred tax assets	1,241
Other assets	457
Total assets	**28,258**
Liabilities	17,298
Non-controlling interest	3,406
Share in fair value of the acquired net assets	**7,554**
Fair value of consideration transferred – in cash	27,607
Calculated goodwill	**20,053**

The company's goodwill will not decrease the taxable income.

(in PLN thousand)

2.4.6.6. Financial data of the acquired entities

The following table presents financial data of the entities acquired in 2015 and included in the consolidated statement of profit or loss. The data have been prepared in accordance with IFRS and they are for the period in which the companies were controlled by PZU Group.

As a result of assumptions made as to the settlement of the purchase of Alior Bank on the basis of the data prepared as at 31 December 2015, the data from Alior Bank statement of profit or loss will be recognized in consolidated statement of profit or loss of PZU Group as of 1 January 2016. As a result, the table does not include Alior Bank data.

Consolidated statement of profit or loss	**Aquaform SA**	**Rezo-Medica sp. z o.o.**	**Centrum Medyczne Gamma sp. z o.o.**	**Nasze Zdrowie sp. z o.o.**	**Medicus w Opolu sp. z o.o.**
Net investment income	-	-	1	-	5
Other operating income	67,395	1,655	3,545	1,970	2,881
Interest expense	(100)	(26)	-	-	(2)
Other operating expenses	(66,353)	(1,390)	(4,100)	(1,699)	(2,529)
Operating profit (loss)	**942**	**239**	**(554)**	**271**	**355**
Gross profit (loss)	**942**	**239**	**(554)**	**271**	**355**
Income tax	(339)	(82)	104	(60)	(66)
- current portion	-	(27)	-	(60)	(66)
- deferred portion	(339)	(55)	104	-	-
Net profit (loss)	**603**	**157**	**(450)**	**211**	**289**
- profit (loss) attributable to owners of the parent company	603	157	(247)	211	289
- profit (loss) attributable to non-controlling interest	-	-	(203)	-	-

(in PLN thousand)

2.4.6.7. Consolidated statement of profit or loss, including acquired entities

The following table presents incomes and profits of PZU Group, including the financial data of the acquired subsidiaries calculated as if the acquisition date for all combinations performed throughout the year was the beginning of the financial year.

Selected items from consolidated statement of profit or loss	1 January - 31 December 2015
Gross written premiums	18,359,044
Revenue from commissions and fees	790,541
Net investment income	3,756,752 [1)]
Net profit	**2,650,145**

[1)] including PLN 2,185,456 thousand of Alior Bank Group interest income

3. The shareholding structure

Table below presents PZU's shareholders structure, including shareholders holding more than 5% of all votes at the General Meeting of Shareholders:

At 31 December 2015

No.	Shareholder's name	Number of shares and votes at GMS	Percentage shares in the share capital and total number of votes at GMS
1	State Treasury	297,420,578[1)]	34.4427%
2	Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	49,156,660[1)]	5.6926%
3	Other shareholders	516,945,762	59.8647%
Total		863,523,000	**100.00%**

[1)] As per the current report no. 3/2016 on the list of shareholder who hold at least 5% of all votes at the Extraordinary Shareholders' Meeting PZU on 7 January 2016.

On 3 November 2015, the District Court of Warsaw, XII Business Division of the National Court Register, registered changes in the PZU's By-laws which include, among other things, lowering the nominal value of each PZU share from PLN 1 to PLN 0.10 and increasing the number of PZU shares in the share capital from 86,352,300 to 863,523,000. Additional information on the split of shares is presented in Note 43.1.

No.	Shareholder's name	Number of shares and votes at GMS	Percentage shares in the share capital and total number of votes at GMS
1	State Treasury	30,385,253	35.1875%
2	Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	4,317,691	5.0001%
3	Other shareholders	51,649,356	59.8124%
Total		**86,352,300**	**100.00%**

Information on the number of shares included in the calculation of profits per share are presented in Note 24.

3.1.1. Transactions involving significant packages of PZU shares

In the period from 1 January 2015 to the date of signing the consolidated financial statements, there was no significant changes in the ownership structure of significant PZU's shares packages.

3.1.2. Highest-level parent entity of PZU

As at 31 December 2015 the State Treasury held 34.4427% of PZU shares giving the right to 34.4427% of votes at the General Meeting of Shareholders (based on the current report no. 3/2016 on the list of shareholder who hold at least 5% of all votes at the Extraordinary Shareholders' Meeting PZU on 7 January 2016). Therefore, there was no higher-level parent entity of PZU preparing its consolidated financial statements.

4. Composition of the Management Board, Supervisory Board and Directors in the Group

4.1 Composition of the parent entity's Management Board

From 1 January 2015, the composition of the Management Board of PZU was as follows:

- Andrzej Klesyk – Chairman of the Management Board of PZU;
- Przemysław Dąbrowski – Member of the Management Board;
- Dariusz Krzewina – Member of the Management Board;
- Tomasz Tarkowski – Member of the Management Board;
- Ryszard Trepczyński – Member of the Management Board.

On 16 March 2015, the Supervisory Board of PZU adopted a resolution appointing Andrzej Klesyk as the President of PZU's Management Board in its new term of office.

On 24 June 2015, at the request of the President of the Management Board of PZU, the Supervisory Board of PZU appointed the following Members of the Management Board in its new term of office:

- Przemysław Dąbrowski;
- Rafał Grodzicki;
- Dariusz Krzewina;
- Tomasz Tarkowski.

The Member was appointed for the common term of office, which began on 1 July 2015. The term covers three consecutive full financial years. The first full financial year of the term is 2016.

Board composition changes, referred to below, did not affect the course of the term.

On 1 September 2015, at the request of the President of the Management Board of PZU, the Supervisory Board of PZU appointed Witold Jaworski as a Member of the Management Board in its new term of office.

On 8 December 2015, Andrzej Klesyk resigned from the position of the President of the Management Board of PZU, effective from 9 December 2015. Also on 8 December 2015, Witold Jaworski resigned from the position of the Member of the Management Board of PZU, effective from 9 December 2015.

On 8 December 2015, the Supervisory Board of PZU entrusted Dariusz Krzewina with the temporary position of the President of the Management Board of PZU, effective from 10 December 2015 and ending with the appointment of the next President of the Management Board of PZU.

On 19 January 2016, Tomasz Tarkowski oraz Rafał Grodzicki resigned from the positions of Members of the Management Board of PZU, effective from 19 January 2016.

On 19 January 2016, the Company Supervisory Board appointed the following Members of the Management Board of PZU:

- Michał Krupiński,
- Roger Hodgkiss,
- Beata Kozłowska-Chyła,
- Robert Pietryszyn,
- Paweł Surówka.

Composition of the Management Board of PZU between 19 January 2016 and the date of signing the consolidated financial statements:

- Michał Krupiński – Chairman of the Management Board of PZU;
- Przemysław Dąbrowski – Member of the Management Board;
- Roger Hodgkiss – Member of the Management Board;
- Beata Kozłowska-Chyła – Member of the Management Board;
- Dariusz Krzewina – Member of the Management Board;
- Robert Pietryszyn – Member of the Management Board;
- Paweł Surówka – Member of the Management Board (from 20 January 2016).

4.2 Composition of the parent entity's Supervisory Board

In the period from 1 January 2015 to 30 June 2015, the composition of the Supervisory Board of PZU was as follows:

- Aleksandra Magaczewska – Chairperson of the Board;
- Zbigniew Ćwiąkalski – Vice-Chairman;
- Tomasz Zganiacz – Secretary of the Board;
- Zbigniew Derdziuk – Member;
- Dariusz Filar – Member;
- Dariusz Kacprzyk – Member;
- Jakub Karnowski – Member;
- Alojzy Nowak – Member;
- Maciej Piotrowski – Member.

On 30 June 2015, the General Meeting of Shareholders of PZU appointed the following Members of the Supervisory Board for the new term of office:

- Zbigniew Ćwiąkalski (since 8 July 2015 – Chairman of the Board);
- Paweł Kaczmarek (since 8 July 2015 – Vice-Chairman of the Board);
- Dariusz Filar (since 8 July 2015 – Secretary of the Board);
- Zbigniew Derdziuk – Member;
- Dariusz Kacprzyk – Member;
- Jakub Karnowski – Member;
- Aleksandra Magaczewska – Member;
- Alojzy Nowak – Member;
- Maciej Piotrowski – Member.

The common term of office began on 1 July 2015 and will cover three consecutive full financial years. The first full financial year of the term is 2016.

Board composition changes, referred to below, did not affect the course of the term.

On 7 January 2016, the Extraordinary General Meeting of Shareholders of PZU dismissed Zbigniew Ćwiąkalski, Zbigniew Derdziuk, Maciej Piotrowski, Dariusz Kacprzyk, Jakub Karnowski, Aleksandra Magaczewska and Dariusz Filar from the Supervisory Board of PZU.

On the same day, the Extraordinary General Meeting of Shareholders of PZU appointed the following Members of the Supervisory Board: Marcin Chludziński, Marcin Gargas, Eligiusz Krześniak, Jerzy Paluchniak, Piotr Paszko, Radosław Potrzeszcz, Maciej Zaborowski. The resolutions to dismiss and appoint Members of the Supervisory Board came into force as at the date of adoption.

Composition of the Supervisory Board of PZU between 7 January 2016 and the date of signing the consolidated financial statements:

- Paweł Kaczmarek – Chairman of the Board (from 19 January 2016);
- Marcin Gargas – Vice-Chairman of the Board (from 19 January 2016);
- Maciej Zaborowski – Secretary of the Board (from 19 January);
- Marcin Chludziński – Member;
- Eligiusz Krześniak – Member;
- Alojzy Nowak – Member;
- Jerzy Paluchniak – Member;
- Piotr Paszko – Member;
- Radosław Potrzeszcz – Member.

4.3 Directors of PZU Group

Along with the Members of the Management Board, key managing personnel in PZU Group includes Group Directors, who are also members of the Management Board in PZU Życie.

Directors at PZU Group from 1 January 2015:

- Tobiasz Bury
- Rafał Grodzicki;
- Przemysław Henschke;
- Sławomir Niemierka.

As a result of the appointment of Rafał Grodzicki as a Member of the Management Board, on 21 July 2015 a resolution was passed to dismiss Rafał Grodzicki from the position of a Director of PZU Group, effective from 30 June 2015.

On 29 January 2016, Tobiasz Bury and Przemysław Henschke were dismissed from the positions of Directors of the Group and Tomasz Karusewicz was appointed as one. On 15 February 2016, Roman Pałac was also appointed as a Director of the Group.

Directors of PZU Group from 15 February 2016 to the date of signing of the consolidated financial statements:

- Tomasz Karusewicz;
- Roman Pałac;
- Sławomir Niemierka.

5. Summary of significant accounting policies

The consolidated financial statements have been drawn up on historical cost basis, except from remeasurements of investment property and some financial instruments, which are measured at fair value.

5.1 Changes in accounting policies, accounting estimates and errors

The accounting policies are changed only if the change:

- is required by the IFRS; or
- results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the Group's financial position, financial performance or cash flows – voluntary application.

Changes in accounting policies upon initial application of IFRS are applied in accordance with transitional provisions included in the IFRS. When changes in accounting policies are made upon initial application of IFRS that do not include specific transitional provisions applying to that change, or the changes are made voluntarily, the entity shall apply the change retrospectively. Retrospective application of a change in accounting policy requires to adjust the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

The items of financial statements determined based on accounting estimates shall be subject to verification if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience.

The results of a change in estimates shall be accounted for prospectively. This means that the amounts concerning transactions, other events and conditions are adjusted from the moment when the change occurred (the change impacts only the current statement of comprehensive income or the results in a given period and future periods).

It is assumed that errors are adjusted in the period when they were made (and not detected). Thus, essential errors from previous periods shall be adjusted retrospectively, and the differences are charged to equity.

(in PLN thousand)

5.1.1. Changes in the applied IFRS

5.1.1.1. Standards and interpretations as well as changes in standards effective from 1 January 2015

The following new standards, interpretations and changes in standards have been applied to these consolidated financial statements:

Standard/Interpretation	Date of entry into force for periods beginning on	Resolution endorsing a standard or interpretation	Description
IFRIC 21 "Levies"	17 June 2014 and later	634/2014	IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the event resulting in the creation of an obligation to pay a public fee in a Business operations subject to a public fee, as specified in the relevant laws. In the case of the fees incurred by the companies of PZU Group, the obligation to pay a fee is recognized gradually, over time, as the revenue being the basis for the calculation is achieved. The exception to this are fees made by banks to the Bank Guarantee Fund. In accordance with the standpoint of the Polish Ministry of Finance, expressed in its letter dated 11 February 2015, a fee should not be recognized under costs as a one-off payment. Moreover, the Bank Guarantee Fund shares this standpoint. Therefore, the implementation of IFRIC 21 does not exert any effect on the consolidated financial statements of PZU Group.
Amendments to IFRS 2011-2013	1 July 2014	1361/2014	Amendments to various standards and interpretations resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording. The revisions clarify the required accounting treatment in situations in which the freedom of interpretation was previously acceptable. The most important changes include new or revised requirements regarding: meaning of effective IFRSs in IFRS 1; scope of exemption for joint ventures; scope of paragraph 52 if IFRS 13 (net exposure exception) and clarifying the interrelationship of IFRS 3 and IAS 40 (additional services). The aforesaid change did not exert any effect on the consolidated financial statements of PZU Group.
Amendments to IFRS 2010-2012	1 July 2014	28/2015	Amendments to various standards and interpretations resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording. The revisions clarify the required accounting recognition in cases where free interpretation used to be permitted. The most important changes include new or revised requirements regarding: definition of "vesting condition"; accounting for contingent consideration in a business combination; aggregation of operating segments and reconciliation of the total of the reportable segments' assets to the entity's assets; measuring short-term receivables and liabilities; proportionate restatement of accumulated depreciation application in revaluation method and clarification on management personnel. The aforesaid change did not exert any effect on the consolidated financial statements of PZU Group.

(in PLN thousand)

Amendments to IAS 19 - Employee benefits - defined benefit programmes - employee contributions	1 July 2014	29/2015	The narrow scope amendments in IAS 19 apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service (for example, employee contributions that are calculated according to a fixed percentage of salary). The aforesaid change did not exert any effect on the consolidated financial statements of PZU Group.

5.1.1.2. Standards, Interpretations and changes in standards issued but not effective as at the balance sheet date

The following standards, Interpretations and changes in standards have been issued but are not effective as at the balance sheet date:

- Endorsed by European Commission ordinance:

Standard/Interpretation	Date of entry into force for periods beginning on	Resolution endorsing a standard or interpretation	Description
Amendment to IAS 16 and IAS 41 – Bearer plants	1 January 2016	2113/2015	The amendment introduces a definition of bearer assets and removes them from the scope of the application of IAS 41 by moving them to IAS 16, which will result in change in the method of valuation. The amendment will not affect the consolidated financial statement of PZU Group.
Amendments to IFRS 11 – settlement of acquisition of shares in a joint venture	1 January 2016	2173/2015	The amendment clarifies that the purchaser of the shares in joint operations must comply with all the rules regarding acquisition accounting under IFRS 3 and other IFRSs that are not in conflict with IFRS 11 and disclose the information required by these standards. The aforesaid change does not exert any significant effect on the consolidated financial statements of PZU Group.
Amendments to IAS 16 and IAS 38 - an explanation acceptable methods of depreciation	1 January 2016	2231/2015	The amendment clarifies that the adoption of depreciation methods based on revenues generated by the assets is not appropriate. The aforesaid change does not exert any significant effect on the consolidated financial statements of PZU Group.

(in PLN thousand)

Standard/Interpretation	Date of entry into force for periods beginning on	Resolution endorsing a standard or interpretation	Description
Amendments to IFRS 2012-2014	1 January 2016	2343/2015	Amendments to IFRS 5 – adding guidance on how to reclassify assets held for sales to assets held for distribution to owners and conversely, and instances of discontinued classification of assets held for distribution to owners. Amendments to IFRS 7 – adding guidance on how to conduct disclosures of contracts on handling assets and explanations of amendments applied to IFRS 7 concerning offsetting in condensed interim financial statements. Amendment to IFRS 19 – explanation that high quality corporate bonds used for the estimation of the discount rate applied to calculate post-employment benefits shall be denominated in the same currency in which the benefits will be paid (hence, the market activity concerning the bonds should be evaluated at the currency level). Amendments to IAS 34 – clarification of terms. The aforesaid change does not exert any significant effect on the consolidated financial statements of PZU Group.
Amendments to IAS 1 – disclosure initiative	1 January 2016	2406/2015	Adding requirements with respect to an orderly layout of financial statements, introduction of the requirement of reconciling indirect totals in the statement of profit or loss, comprehensive statement of profit or loss, statement of financial position, and in addition adding guidance on importance, level of detail of presentation and accounting principles. The amendment may result in minor modifications of the layout of basic tables in consolidated financial statements of PZU Group.
Amendment to IAS 27- Equity method in separate financial statements	1 January 2016	2441/2015	The amendment allows entities to use the equity method in the valuation of investments in subsidiaries, associates and joint ventures in the separate financial statements. The amendment will not affect the consolidated financial statement of PZU Group.

(in PLN thousand)

Not endorsed by European Commission:

Standard/Interpretation	Date of issuance by IASB	Date of entry into force for periods beginning on (by IASB)	Description
IFRS 9 - Financial Instruments	24 July 2014	1 January 2018	The standard replaces IAS 39 and establishes the requirements regarding the recognition and measurement of impairment, derecognition of financial instruments and hedge accounting. The standard introduces a new approach to the classification of financial assets, which depends on the characteristics of cash flows and the business model associated with the given assets. The standard unifies the impairment model for all financial instruments. The new expected loss impairment requires faster recognition of expected credit losses. The standard introduces a reformed model of hedge accounting, with enhanced disclosure requirements for risk management activities. As IFRS 9 and IFRS 4 Phase II concerning insurance contracts entered into force on different dates (the latter standard will enter into force no sooner than in 2020), it is now under consideration whether different approaches may be adopted so as to eliminate from the statement of profit or loss significant volatilities related to applying the changes in financial asset valuation at an earlier point than the ones related to the valuation of insurance contracts. The Council considers the following transition approaches (in the period between 1 January 2018 and the date of entry into force of the new IFRS 4): • transparent separation of the results from the difference in the valuation of financial assets related to insurance activity pursuant to IFRS 9 and IFRS 39 from the account and presenting thereof in other comprehensive income; • in the case of capital groups conducting both insurance activity and bank activity – the option to apply IFRS 39 to the valuation of all financial assets in consolidated financial statements when insurance activity is the dominant one (i.e. when insurance liabilities constitute at least ¾ of the liabilities of the capital group). If the insurance activity is not the dominant one, all financial assets in the consolidated financial statements have to be measured in accordance with IFRS 9; • financial assets related to insurance activity can be measured pursuant to IAS 39, while other financial assets can be measured pursuant to IFRS 9. After Alior Bank is included in consolidation, PZU Group will not meet the criterion allowing for the application of the second presented simplification. Due to the long lead time of entry into force of IFRS 9 and lack of the final shape of changes to IFRS 4 in scope of transitional arrangements, no estimates of the impact of IFRS 9 on the total income and equity of PZU Group were made.
IFRS 14 – Regulatory Deferral Accounts	30 January 2014	1 January 2016 1)	Allowing entities applying IFRS for the first time, and which now the regulatory deferral accounts in accordance with their previous generally accepted accounting principles, the continuation of the recognition of these balances in the transition to IFRS. The change does not affect PZU Group.
IFRS 15 – Revenue from Contracts with Customers	28 May 2014 and changes of 11 September 2015	1 January 2018 2)	IFRS 15 defines how and when to recognize revenues and requires the provision of more detailed disclosures. The standard replaces IAS 18 "Revenue", IAS 11 "Construction Contracts" and many interpretations related to revenue recognition. The Standard applies to almost all contracts with customers (the main exceptions relate to lease agreements, financial instruments and insurance contracts). The fundamental principle of the new standard

Standard/Interpretation	Date of issuance by IASB	Date of entry into force for periods beginning on (by IASB)	Description
			concerns the recognition of revenues in such a way as to reflect the transfer of goods or services to customers and in such amount that reflects the amount of remuneration (i.e. payments), to which the company expects to obtain the rights in exchange for goods or services. The standard replaces IAS 18 "Revenue", IAS 11 "Construction Contracts" and many interpretations related to revenue recognition. The Standard applies to almost all contracts with customers (the main exceptions relate to lease agreements, financial instruments and insurance contracts). Due to the long lead time of entry into force and the lack of application in relation to insurance companies of PZU Group, the potential impact of adopting the new standard on comprehensive revenues and equity has not been estimated.

(in PLN thousand)

Standard/Interpretation	Date of issuance by IASB	Date of entry into force for periods beginning on (by IASB)	Description
IFRS 16 – Leasing	13 January 2016	1 January 2019	IFRS 16 replaced IAS 17 Leasing and the related interpretations of the standard. With respect to lessees, the new standard eliminates the distinction between finance and operating leases. The recognition of operating leases in the statement of financial position leads to the recognition of a new asset – the right to use the object of lease – and a new liability – liabilities from lease payments. The rights to use the leased assets will be subject to accumulated depreciation and the liabilities will be charged with interest. As a result, higher costs in the initial stage of the lease will be generated, even if the parties agreed on fixed annual fees. The recognition of leases in most cases will remain unchanged, as the distinction between operating and finance leases did not change. Due to the long lead time of entry into force and the recent publication of the new standard, the potential impact of adopting the new standard on comprehensive revenues and equity has not been yet estimated.
Amendments to IAS 7 – Disclosure initiative	29 January 2016	1 January 2017	The amendments include the presentation of disclosures enabling the assessment of changes in the value of liabilities arising from financial activities (resulting both from cash flows and non-cash changes). In order to apply the requirements, additional disclosures will need to be included in the consolidated financial statements of PZU Group.
Amendments to IAS 12 – Recognition of deferred tax assets for unrealized losses	19 January 2016	1 January 2017	The amendments clarify, among other things, that unrealized loses related to debt instruments measured at fair value, with tax values equal to their initial cost, may lead to negative temporary differences. The amendment will not affect the consolidated financial statements of PZU Group.
Amendments to IFRS 10 and IAS 28 – Sales or transfer of assets between an investor and an associated entity or a joint venture	11 September 2014	Deferred for an indefinite time	The major effect of the amendment is recognition of the full profit or loss whenever a transaction concerns organized business (irrespective of whether it is located within a subsidiary or not); partial profits or losses are recognized when a transaction concerns particular assets that do not form organized business, even when they are located in a subsidiary. The amendment will not affect the consolidated financial statement of PZU Group.

(in PLN thousand)

Standard/Interpretation	Date of issuance by IASB	Date of entry into force for periods beginning on (by IASB)	Description
Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment entities: Exemptions from consolidation applied	18 December 2014	1 January 2016	IFRS 10 – adding supplementary guidance instructing investment entities to perform obligatory consolidation of non-investment subsidiaries rendering services related to investment; adding guidance on the lack of duty to perform consolidated statements in the case of lower-level parent entities being subsidiaries of investment entities. IAS 28 – adding guidance on the application of measurement using the equity method by an investor not being an investment entity with respect to an associated investment entity or a joint-venture. The amendment will not affect the consolidated financial statement of PZU Group.

[1] European Commission put on hold the approval process by the time the final version of the standard has been published.
[2] On 28 April 2015, IASB voted to postpone the date of entry into force by one year, i.e. until 1 January 2018.

Summing up, PZU Group is of the opinion that the introduction of the aforementioned standards and interpretation will not significantly impact the accounting policies applied by PZU Group, save for IFRS 9 and 15, impact of which on the accounting policies applied by PZU Group has not been assessed yet.

5.1.2. Explanation of differences between the statements published previously and the current consolidated financial statements

5.1.2.1. Change of presentation of cash flows from outstanding contributions of fund members of some investment programs

In order to faithfully reflect the economic content, cash flows in suspense accounts including outstanding contributions of fund members of PPE (employee pension plans), IKE (individual pension accounts) and PI (investment plans) are required to be offset in the consolidated financial statements. Instead of presenting them separately as "Other inflows from operating activities" and "Other operating outflows", the cash flows are recognized in these positions by compensation (per account balance).

5.1.2.2. Rearrangements of the consolidated statement of profit or loss and the consolidated statement of financial position

In order to recognize the financial data of Alior Bank Group, which has been subjected to consolidation since 18 December 2015, in the consolidated financial statements of PZU Group the layout of the consolidated statement of profit or loss and the consolidated statement of financial position has been rearranged.

In the consolidated statement of profit or loss:

- A new "Interest expense" line has been added, where interest expense from term deposits and current accounts, sell buy-back transactions or issued debt instruments are recognized, before in the line "Borrowing costs". This item includes also interest expense from investment contracts with guaranteed and fixed terms and conditions, recognized before in "Change in measurement of investment contracts" line.
- The line "Change in measurement of investment contracts" has been removed and the amounts recognized in it have been transferred, depending on the method of contract valuation as per effective interest rate or fair value, to "Interest expense" and "Net change in the fair value of assets and liabilities measured at fair value".
- The line "Borrowing costs" has been removed and the interest expense recognized in it have been transferred to "Interest expense", while exchange differences to "Net investment income".

In order to increase transparency of the consolidated statement of financial position:

- The breakdown of technical provisions has been removed.
- The items relating to investment contracts have been removed – the amounts associated with investment contracts are presented in an item "Financial liabilities".
- The items "Derivatives" and "Liabilities arising from the issue of own debt instruments" have been removed – the related amounts previously recognized in these lines are presented in a new item "Financial liabilities".
- A new item, "Financial liabilities", has been added – it includes, among other things, derivatives, investment contracts, liabilities to participants of consolidated investment funds, liabilities to banks and clients from deposits, liabilities arising from issue of debt instruments, presented in detail in Notes.

Moreover, the items of consolidated statement of financial position have been regrouped so as to better reflect the liquidity criterion.

(in PLN thousand)

5.1.2.3. Effect of the changes on the consolidated financial statements

The effect of applying the aforementioned changed on the items of consolidated statement of financial position, the consolidated statement of profit or loss and the consolidated cash flow statement is presented in the tables below.Assets	31 December 2014 *(approved)*	Adjustment	Note	31 December 2014 *(restated)*	1 January 2014 *(approved)*	Adjustment	Note	1 January 2014 *(restated)*
Goodwill	785,663	(16,619)	2.4.6.2 2.4.6.3	769,044	8,519	-		8,519
Receivables, including insurance receivables	3,068,813	16,619	2.4.6.2 2.4.6.3	3,085,432	2,671,964	-		2,671,964
Total assets	**67,572,761**	**-**		**67,572,761**	**62,787,304**	**-**		**62,787,304**

Equity and liabilities	31 December 2014 *(approved)*	Adjustment	Note	31 December 2014 *(restated)*	1 January 2014 *(approved)*	Adjustment	Note	1 January 2014 *(restated)*
Total equity	**13,167,628**	**-**		**13,167,628**	**13,127,631**	**-**		**13 127 631**
Liabilities								
Investment contracts	1,108,107	(1,108,107)	5.1.2.2	item deleted	2,121,037	(2,121,037)	5.1.2.2	item deleted
- with guaranteed and fixed terms and conditions	520,840	(520,840)	5.1.2.2	item deleted	1,250,492	(1,250,492)	5.1.2.2	item deleted
- unit-linked	587,267	(587,267)	5.1.2.2	item deleted	870,545	(870,545)	5.1.2.2	item deleted
Financial liabilities	-	9,403,244	5.1.2.2	9,403,244	-	8,398,582	5.1.2.2	8,398,582
Derivative instruments	625,844	(625,844)	5.1.2.2	item deleted	237,749	(237,749)	5.1.2.2	item deleted
Liabilities arising from the issue of own debt instruments	2,127,527	(2,127,527)	5.1.2.2	item deleted	-	-		item deleted
Other liabilities	9,361,277	(5,541,766)	5.1.2.2	3,819,511	9,351,414	(6,039,796)	5.1.2.2	3,311,618
Total liabilities	**54,405,133**	**-**		**54,405,133**	**49 659 673**	**-**		**49,659,673**
Total equity and liabilities	**67,572,761**	**-**		**67,572,761**	**62 787 304**	**-**		**62,787,304**

(in PLN thousand)

Selected items from consolidated statement of profit or loss	1 January - 31 December 2014 *(approved)*	Adjustment	Note	1 January - 31 December 2014 *(restated)*
Net investment income	1,793,838	(89,189)	5.1.2.2	1,704,649
Net change in the fair value of assets and liabilities measured at fair value	512,533	2,578	5.1.2.2	515,111
Interest expense	-	(147,285)	5.1.2.2	(147,285)
Change in measurement of investment contracts	(14,031)	14,031	5.1.2.2	-
Operating profit	**3,913,083**	**(219,865)**	**5.1.2.2**	**3,693,218**
Borrowing costs	(219,865)	(219,865)	5.1.2.2	item deleted
Gross profit	**3,691,693**		5.1.2.2	**3,691,693**

Selected items from consolidated cash flows statement	1 January - 31 December 2014 *(approved)*	Adjustment	Note	1 January - 31 December 2014 *(restated)*
Cash flows from operating activities	,	,		,
Inflows	20,817,079	(1,046,982)	5.1.2.2	19,770,097
- other inflows from operating activities	2,071,053	(1,046,982)	5.1.2.2	1,024,071
Outflows	(19,041,866)	1,046,982	5.1.2.2	(17,994,884)
- other operating outflows	(2,932,743)	1,046,982	5.1.2.2	(1,885,761)
Net cash flows from operating activities	**1,775,213**	-		**1,775,213**
Total net cash flows	**(282,621)**	-		**(282,621)**

5.2 Consolidation principles

These consolidated financial statements for the financial year ended on 31 December 2015 include data of the parent entity and all its subsidiaries after elimination of intercompany transactions.

A subsidiary is an entity that is controlled by another entity. That means that the latter simultaneously has: power over the investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns.

In case of losing control over an investment fund, its consolidation is being ceased and the assets and liabilities of this fund are being excluded from consolidated statement of financial position, as well as potential liabilities to its participants. In exchange, the participation units or investment certificates that correspond with the fair value of shares of PZU Group in net assets of such a fund are presented in the statement.

Consolidation involves combining similar items of assets, liabilities, equity, revenue, costs and cash flows of a parent entity and its subsidiaries. Then, the carrying amount of the parent entity's investment in each subsidiary is eliminated along with the part of equity of each subsidiary that corresponds to the share of the parent entity. Moreover, the assets and liabilities, revenue, costs and cash flows related to the intragroup transactions within PZU Group are eliminated in full.

The financial statements of the parent entity and its subsidiaries used in preparation of the consolidated financial statements are prepared for the same reporting period.

Subsidiaries are subject to consolidation from the commencement of control until the cessation of control.

The principles applicable to translation of assets, liabilities and comprehensive income of foreign subsidiaries denominated in foreign currencies have been presented in Note 5.3.

(in PLN thousand)

5.3 Recognition of foreign currency transactions and balances and applied exchange rates

Transactions executed in currency other than PLN are recognized at the NBP exchange rate valid for the transaction date. As at the end of the financial year, monetary items denominated in foreign currencies are translated at the average NBP rate as at that date. Non-monetary items measured at fair value and denominated in foreign currencies are measured at the average NBP exchange rate as at the date when the fair value was determined. Exchange differences from translation are charged directly to the statement of profit or loss.

Financial data of foreign subsidiaries are translated into PLN:

- Assets and liabilities – at the average National Bank of Poland exchange rate established as at the end of the financial year;
- Items in the statement of profit or loss and other comprehensive income – at rates determined as the arithmetic mean of the rates published by the National Bank of Poland, valid as at the last day of each month of the financial year.

Exchange differences are recognized under "Exchange differences from translation" in equity.

The following exchange rates have been applied in the consolidated financial statements:

Currency exchange rates adopted to translate financial data of foreign operations	1 January – 31 December 2015	1 January – 31 December 2014	31 December 2015	31 December 2014
EUR	4.1848	4.1892	4.2615	4.2623
LTL	n/a	1,2133	n/a	1.2344
UAH	0.1722	0.2637	0.1622	0.2246

5.4 Acquisition method

The acquisition of subsidiaries by PZU Group is accounted for using the acquisition method in accordance with IFRS 3 **"**Business Combinations**"**.

In the case of acquisition of an entity, an acquirer is determined as well as the acquisition date being the day on which it obtains control of the acquiree. On the acquisition date, identifiable assets acquired, liabilities assumed and non-controlling interest in the acquiree are recognized separately from goodwill.

All identifiable assets acquired and liabilities assumed are measured at acquisition-date fair value.

In the case of every acquisition, all non-controlling interest in an acquiree are measured at a proportional share in fair value of identifiable net assets of the acquiree.

Goodwill

Goodwill is measured and recognized as at the acquisition date as the difference between:

- the consideration transferred measured at their acquisition-date fair value;
- non-controlling interest in the acquiree, measured as described above;
- acquisition-date fair value of the equity interest previously held by PZU Group;

over the net of the acquisition-date fair value of the identifiable assets acquired and the liabilities assumed.

In the measurement period, PZU Group may retrospectively adjust provisional amounts recognized as at the acquisition date, so as to reflect new information obtained concerning the facts and circumstances at the acquisition date, which, if known, could have an effect on measurement of the amounts recognized as at the aforementioned date. Pursuant to IFRS 3 point 45, the measurement period shall not exceed one year after the acquisition date.

Intangible assets

Intangible assets acquired on business combination transactions are recognized at fair value as at the acquisition date. Fair value of intangible assets reflects expectations as to the probability that the entity achieves economic benefits from a given asset. Fair value of intangible assets is determined in the following manner:

- trademark – using the relief-from-royalty method, based on potential savings on the license fees the entity will not be charged with being the owner of the trademark (i.e. the present value of future license fees). Determining the market rate of license fees involves an analysis of license rates for using trademarks applied between unrelated parties in a comparable market segment. Then, hypothetical license payments are established, defined as the product of the adopted license fee and the value of estimated revenue from sales. In order to calculate the net income from license, license payments should be reduced by the hypothetical amount of income tax. To the calculated net cash flows the potential tax savings on tax depreciation of a trademark should be added, the so-called TAB (tax amortization benefit). Finally, the indicated cash flows are discounted using the discount rate reflecting, among others, the typical risk of a given trademark;
- Broker and customer relations – using the multi-period excess earnings method (MEEM) based on the present value of future profits generated by the respective relations. Fair value is determined based on discounted future cash flows arising from the additional revenue generated by the company owning a given intangible asset as compared to the revenue generated by the company if it did not hold such an asset. The relations are identified along with the projected period of their duration (using an appropriate churn rate and applying the so-called Weibull's curve); revenue and costs related to individual relations are projected. The identified and calculated CAC (contributory asset charge), including retaining capital ratios at levels required by supervisory authorities, fixed assets, organized workforce, trademark and other intangible assets, is applied to cash flows after tax. Should there be any tax structures in place allowing an average market participant for tax depreciation of the relations, the TAB should be included in its measurement;
- present value of future profits (VIF – value in force) – as a potential excess of book value of technical provisions over their fair value, including deferred acquisition costs. Fair value of technical provisions is determined as the expected value of nominal cash flows projected using actuarial methods appropriate for particular provision types, including the specific nature of a given portfolio and market trends. The expected value of future cash flows is determined by discounting projected nominal cash flows using discount rates established on the basis of the risk-free rates' curve. When forecasting nominal cash flows, the following factors are considered: the likelihood of occurrence and the value of future claims, claim handling costs (both direct and indirect) and – in the case of unearned premiums reserve – also administrative expenses related to insurance portfolio management. The estimates take into account reinsurer's share resulting from binding reinsurance treaties. The relevant probability of an event's occurrence is estimated using statistical and actuarial methods, whereas the cash flow value results from relevant provisions of insurance contracts and actuarial analysis.
- customer relations concerning deposit clients (core deposit intangible, CDI) – as a current value of the difference between the borrowing costs of deposits and alternative borrowing costs (including interest and administrative expenses) which would be incurred by the bank if it did not have a portfolio of such deposits. The value of a CDI is measured with the favorable source of funds method, being a derivative of the expense and income methods. In this method, forecasts are made for the retention level of deposit accounts (with the application of so-called Weibull curve), average opening balance and the number of accounts which have to be included in the measurement are estimated and net balance of deposits is calculated (adjusted by the retention ratio and unstable part of the deposit base). On the basis of the requirements for the minimum reserves, interest and administration expenses less commission income from accounts, the cost of acquired deposits is calculated. Next, on the basis of interest rate benchmarks, the alternative borrowing cost is estimated. In the next step, the difference between the alternative borrowing costs and the cost of acquired accounts, which is discounted using the acceptable return rate, is calculated. In the measurement of CDI no tax amortization benefit (TAB) was included.

The discount rate applied to measure the intangible assets reflects the time value of money and risks related to expected cash flows in the future. It is calculated based on the expected return from the best alternative investment as compared with the measured investment. The rate indicates the lowest acceptable return from an asset by the investor in such a manner that the return rate achieved by the investor is at least equal to the best available investment alternative. The return from alternative investment must be comparable in terms of value, time and certainty.

Cost of equity (CE) is estimated as at the acquisition date in accordance with the CAPM (Capital Asset Pricing Model) model: CE = RF + ERP x β + SP + SR, where RF stands for risk-free rate, ERP – market risk premium, β – measure of systematical risk borne by the equity holders, including the operational and financial risks related to a given type of activity, SP – low capitalization premium, SR – specific premiums.

Tangible assets

Property are measured using the income method, on the assumption that the acquirer pays the price the rate of which is dependent on the discounted value of achievable cash flows.

Other plant, property and equipment is measured using comparative or replacement value method.

Technical provisions

The value of technical provisions is measured in accordance with the acquiree carrying amount. In accordance with IFRS 4, the difference between fair value and the carrying amount is disclosed as intangible assets (present value of future profits).

5.5 Goodwill

Goodwill, with the initial value determined using a manner described in Note 5.4, is not subject to amortization; instead, it is subject to the impairment test at the end of each financial year and each and every time when impairment indications occur. Goodwill is tested for impairment based on the assessment of the recoverable amount of each cash-generating units (CGU) and comparing it with their carrying amount (including the allocated goodwill). The tested CGU cannot be larger than operating segment. Should the recoverable amount be lower, the impairment loss is first allocated to goodwill.

Goodwill related to subsidiaries is recognized under **"**Goodwill**"**, whereas goodwill related to associates – under **"**Entities measured using the equity method**"** in the consolidated statement of financial position.

5.6 Intangible assets

Intangible assets are recognized when they are identifiable, controlled, and it is possible that the future economic benefits that are attributable to the assets will flow to the entity and it is possible to reliably measure the cost of the asset, with expected useful life longer than one year.

Intangible assets are measured at purchase costs or production costs less accumulated amortization as well as impairment losses.

The method applied to determine the fair value of intangible assets acquired in a business combination has been presented in Note 5.4

Intangible assets include in particular: software, copyright, licenses, concessions, as well as assets acquired as a result of business combination transactions: trademarks, customer relations (including CDI), broker relations, future profits from concluded insurance contracts, etc.

Intangible assets are subject to amortization over their estimated useful life:

(in PLN thousand)

- intangible assets other than intangible assets acquired in a business combination – using the straight line method over the period of two to five years. If appropriate, following a case-by-case analysis, the entity may apply another amortization rate suitable for the estimated useful life of the intangible asset. As the main product system is planned to be used by PZU for 10 years, the adopted annual amortization rate amounts to 10%;
- intangible assets acquired in a business combination (except for acquired trademarks) – over the period from one to fifteen years, on the basis of the profits generated in particular years;
- trademarks acquired in a business combination are intangible assets with an indefinite useful life and are not subject to amortization; instead, they are subject to the impairment test at the end of each financial year and each and every time when impairment indications occur.

Amortization is charged under "Other operating costs" in the consolidated statement of profit or loss.

5.7 Tangible assets

Property, plant and equipment are recognized at cost less any accumulated depreciation and impairment losses.

All property, plant and equipment as well as their important components are depreciated, excluding land and property, plant and equipment under construction. An asset is subject to depreciation as long as it is available for use, i.e. from the moment it is adapted to a given location and conditions required so that it can be used in the manner intended.

Annual depreciation rates for material assets are presented below:

Asset type	Rate
Ownership right of cooperative residential or commercial space	2.5%
Buildings and structures	1.5% - 10%
Machines and technical devices	10% - 40%
Vehicles	14% - 33%
IT equipment	20% - 40%
Other non-current assets	7% - 20%

Assets held under finance leases are depreciated over the period of their useful life when reasonable assurance is provided as to their purchase or ownership transfer. Otherwise they are depreciated over the period not longer than the period of the lease.

5.8 Impairment of property, plant and equipment and intangible assets

At the end of each financial year, assets are reviewed in order to determine if there are any impairment indicators.

It is considered that intangible assets and property, plant and equipment are impaired if as a result of technological changes, plans of liquidation, abandonment or other premises indicating decrease in usefulness of a given asset, the value of expected economic benefits related to intangible assets or property, plant and equipment has fallen.

When such indicators are identified, an impairment test for a given asset is carried out to determine its recoverable amount. A test for impairment of future profits from the acquired portfolio is carried out together with a test for adequacy of provisions, as described in Note 5.18.3. If necessary, an impairment loss is recognized to the recoverable amount. If an asset does not generate cash flows which, to a large extent, are independent of cash flows generated by other assets, the analysis is carried out for the smallest identifiable group of cash-generating assets which the asset belongs to. Impairment losses are recognized in the consolidated statement of profit or loss under "Other operating expenses".

If there are premises indicating that the impairment losses recognized in previous periods are no longer required and the loss should be decreased, the recoverable value of such an asset is calculated. An impairment loss recognized in the previous periods is reversed to the recoverable value not exceeding the carrying amount that would have been determined (having deducted the depreciation), had the impairment loss not been recognized previously. A reversal of impairment loss is disclosed as income in the consolidated statement of profit or loss under "Other operating income".

5.9 Acquisition costs and deferred acquisition costs

Acquisition costs include expenses related to conclusion and extension of insurance contracts. Direct acquisition costs include insurance agent commission costs, payroll costs related to conclusion of insurance contracts, costs of attestation, studies and research regarding the accepted risk. Indirect acquisition costs include advertisement and promotion of insurance products and costs related to analysis of applications and issuing policies.

Under the accrual basis of accounting, acquisition costs are deferred over time, in accordance with the rules laid down in Note 5.9.1 and 5.9.2

Deferred acquisition costs capitalized in the statement of financial position, related both to non-life insurance as well as life insurance, are tested for impairment by the means of Liability Adequacy Tests.

5.9.1. Non-life insurance

Acquisition costs in the case of non-life insurance products are deferred in line with the principles applicable to the unearned premiums reserve and depreciated in the statement of profit or loss (under "Acquisition costs") over the period of the insurance coverage.

Deferral in time applies to acquisition commissions and some of indirect acquisition costs related to conclusion and extension of insurance policies (especially the costs of operations indirectly related to sales processes which cannot be qualified as indirect acquisition costs) and, primarily, the costs of operations related to: concluding contracts and underwriting processes in sales units (specified on the basis of work time surveys), automatic and manual input of policies into production systems (sales recording) and functioning of the contact center in scope of selling the policies.

5.9.2. Life insurance

In the case of life insurance products, for traditional individual insurance contracts with discretionary participation features acquisition costs are recognized over time based on the Zillmer method (life insurance, endowment and birth insurance).

5.10 Salvages and subrogations in non-life insurance

In the case of some classes (types) of non-life insurance, having paid claims or benefits, the insurer may assume claims against third parties (subrogations) or property rights to the insured property (salvages).

Salvages are presented in the statement of financial position under "Other assets" and their fair value estimated as at the obtaining date reduces the claims and benefits paid in the given period.

Estimated salvages and subrogations are measured using the actuarial methods (expected future value of refunds due to assumption of claims against third parties and assumption of the right to the insured property) and are recognized in the statement of financial position under "Estimated salvages and subrogations".

Estimation of future subrogations and salvages is based on annual triangles of received subrogations and salvages. The value of future subrogations and salvages is calculated with the generalized Chain Ladder method, broken down by the years during which losses were incurred.

Estimated values of salvages and subrogations, recognized in the accounting records in the given period, reduce the costs of the increase of claims technical provisions for that period.

5.11 Investment property

Investment property is maintained with the purpose of profits from rent or from an increase of the property's value, or with the purpose of benefiting from both simultaneously. Investment property is maintained with the purpose of profits from rent or from an increase of the property's value, or with the purpose of benefiting from both simultaneously. Investment properties are not used for operations.

Investment properties are initially disclosed at cost increased by transaction costs. Subsequently, they are measured at fair value, in accordance with the rules described in Note 10.1.5. Profits and losses resulting from changes in the fair value of investment property are recognized in the statement of profit or loss under "Net change in the fair value of assets and liabilities measured at fair value" in the period when they occurred.

If property used for internal purposes becomes investment property measured at fair value, depreciation is calculated until the reclassification date, and possible impairment losses are recognized and next:

- if the carrying amount calculated as at the given date exceeds fair value, the difference is disclosed in the consolidated statement of profit or loss under "Other operating expenses",
- if the carrying amount to date is lower than fair value, the difference is firstly recognized in the consolidated statement of profit or loss under "Other operating income" as a reversal of an impairment loss (to the level of the impairment loss recognized previously, but the amount recognized in the consolidated statement of profit or loss must not exceed the amount that would bring the value of property to the value that would remain after depreciation if no impairment loss was recognized), and the remaining part of the difference – in other comprehensive income under "Property reclassified from property, plant and equipment to investment property".

On subsequent disposal of the investment property the revaluation reserve is moved to supplementary capital.

5.12 Associates and joint ventures

Associates are entities over which the parent entity has significant influence i.e. in which it holds enough power to be entitled to participate in the financial and operating policy decisions of the investee, but is not in control or joint control of these policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Associates and joint ventures are measured using the equity method, i.e. initially the investment is recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the associate or joint venture. The share of PZU Group in the financial profit of associates and joint ventures is recognized in the consolidated statement of profit or loss under "Share in net profit (loss) of entities measured using the equity method", and the share in changes of comprehensive income items – in the statement of other comprehensive income.

At the end of each financial year and every time any impairment indicators are identified, associates and joint ventures are tested for impairment. The test is based on the assessment of the recoverable amount of the whole entity and by comparing it with the carrying amounts (including goodwill). Should the recoverable amount be lower, the impairment loss is first allocated to goodwill.

5.13 Financial instruments

Recognition and classification

Financial assets and liabilities are recognized in the statement of the financial position when a PZU Group entity becomes a party to a binding contract under which it incurs risk and receives benefits related to the financial instrument. For transactions concluded on an organized market, the purchase or sale of financial assets and liabilities is recognized as at the trade date.

Financial instruments are classified at the moment of acquisition according to the categories determined by IAS 39 and they are recognized at fair value adjusted by transaction costs directly attributable to the purchase or sale of a given financial instrument. Instruments measured at fair value through profit or loss for which transaction costs are recognized separately under "Net investment income" are an exception. The fair value of a financial instrument upon initial recognition is usually its transaction price, unless the nature of the financial instrument provides otherwise.

Financial assets and liabilities are classified and measured according to the principles described in Notes 5.13.1 - 5.13.4.

In the case of financial instruments generating interest income, the interest is calculated starting from the first day after the date of transaction settlement.

Derecognition from the statement of financial position

Financial assets are derecognized from the consolidated statement of financial position if they expire or if the contractual entitlement to cash flows from the given asset is transferred to another entity. The transfer takes place also when contractual entitlement to cash flows from an asset is blocked, but the contractual obligation to transfer these cash flows to a third party is accepted.

When financial assets are transferred, it is estimated to what extent the risk and benefits related to the ownership of an asset remain:

- if the whole risk and benefits related to the ownership of a financial asset are transferred, the financial asset is derecognized from the consolidated statement of financial position;
- if practically the whole risk and benefits related to the ownership of a financial asset is kept, the financial asset continues to be recognized in the consolidated statement of financial position;
- if practically the whole risk and benefits related to the ownership of a financial asset are neither transferred nor kept, the financial asset continues to be recognized in the consolidated statement of financial position.

If the control is kept, the financial asset is recognized in the consolidated statement of financial position to the amount resulting from the continuous involvement, accordingly, if there is no control, the asset is derecognized from the consolidated statement of financial position.

A financial liability (or its part) is derecognized from the consolidated statement of financial position, if the obligation laid down in the contract was fulfilled, remitted or expired.

5.13.1. Financial assets held to maturity

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that PZU Group has the positive intention and ability to hold to maturity.

Financial instruments held to maturity are measured at amortized cost and gains or losses on the measurement are recognized under "Net investment income".

5.13.2. Loans and other receivables

Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not listed in an active market, other than:

- those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates at the fair value through profit or loss;
- those that the entity upon initial recognition designated as available for sale;
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Loans and other receivables include in particular:

- debt securities acquired as part of a contract under which the seller has kept practically all risks and benefits related thereto (buy-sell-back and reverse-repo transactions);
- debt securities not quoted in an active market;
- granted loans;
- loan receivables from clients;
- insurance receivables (including reinsurance);
- other receivables.

Loans and other receivables, excluding insurance receivables and other short-term receivables, are measured as at the balance sheet date at amortized cost.

Due to their nature, insurance receivables and other short-term receivables are measured at the nominal value less any impairment losses (the manner of estimating the impairment losses for insurance receivables is described in Note 6.2.2.4).

The result of measurement of loans and other receivables are recognized under "Net investment income".

5.13.3. Financial assets available for sale

Financial instruments available for sale include financial instruments which have not been classified to any other category.

Instruments classified to this category are measured at fair value in accordance with rules described in Note 10.1.The difference between fair value as at the balance sheet date and cost is charged directly to the revaluation reserve. In the case of debt instruments, interest accrued using the effective interest rate is recognized under "Net investment income". The difference between the fair value and the amortized cost is recognized in the revaluation reserve.

In the case of a sale of financial instruments available for sale, the value of accumulated revaluation reserve is derecognized and recognized under "Net profit or loss on realization and impairment loss on financial assets".

5.13.4. Financial instruments measured at fair value through profit or loss

Financial instruments measured at fair value through profit or loss include:

- financial instruments held for trading – assets acquired to be resold in a short term or liabilities incurred to be repurchased in a short term, and derivatives, which are not recognized as effective hedging derivatives;
- financial instruments designated upon initial recognition as at fair value through profit or loss, provided that the fair value may be reliably estimated. Such financial instruments include:
  - some instruments to cover technical provisions and investment contracts liabilities in life insurance. Adopted classification of those instruments eliminates or significantly reduces a measurement or recognition inconsistency between assets and liabilities covered by those assets;
  - financial instruments managed and evaluated based on fair value in accordance to documented risk management principles;
  - liabilities arising from unit-linked investment contracts;
  - liabilities to participants of consolidated investment funds.

Fair value measurement principles are described in Note 10.1. The effects of a change in the measurement of financial instruments measured at fair value, including interest, and changes of value of liabilities arising from unit-linked investment contracts are recognized under "Net change in the fair value of assets and liabilities measured at fair value" in the period to which they relate.

Derivatives

Derivatives are recognized in the accounting records at fair value as at the transaction date. Subsequently, they are measured at fair value, according to the rules described in Note 10.1.3.

Derivatives are recognized as financial assets, if their fair value is positive, or as financial liabilities, if it is negative.

Changes in the fair value of derivatives which are not hedging instruments are recognized under "Net change in the fair value of assets and liabilities measured at fair value."

5.13.5. Hedge accounting

Hedge accounting is used for symmetric recognition of offsetting changes in fair value of hedging instruments and hedged items in the statement of profit or loss. Hedge accounting is applied, when all conditions specified in IAS 39 are met:

- at the inception of the hedge, the hedging relationship is formally designated and documented, including the entity's risk management objective and strategy for undertaking the hedge. The documentation includes the identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and how the entity assessed the hedging instrument's effectiveness;
- The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy regarding the specific hedging relationship;
- the planned transaction that is the subject of the hedge must be highly probable and must present an exposure to variability in cash flows that could affect profit or loss;
- the effectiveness of the hedge can be reliably measured, which means it is possible to reliably estimate cash flows relating to the hedged item and the hedging instrument;
- the hedge is being constantly evaluated in terms of its effectiveness throughout the financial reporting periods, for which the hedge was established.

Some PZU Group entities apply hedge cash flows accounting.

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss.

The hedging strategy is aimed at hedging the interest rate risk arising from the variability of cash flows from assets with variable interest rates, using IRS transactions in PLN. The hedged items are cash flows from loans and borrowings (in PLN) portfolio of variable interest rate. The hedging instruments are IRS transactions providing fixed interest based on a fixed rate, and the interest is paid on the basis of a variable rate. Hedged items are measured at amortized cost, and hedging instruments are measured at fair value.

The result of the valuation of the effective portion of cash flow hedges is recognized in other comprehensive income. The ineffective portion of the hedge is recognized in the statement of profit or loss.

5.13.6. Financial liabilities other than ones measured at fair value

Financial liabilities measured at amortized cost, with the measurement gains or losses recognized under "Interest expense", include:

- liabilities to banks and clients from term deposits and current deposits;
- debt instruments issued by PZU Group
- investment contracts with guaranteed and fixed terms and conditions;
- sell buy-back transactions.

Trade liabilities are short-term in nature and, thus, are measured at the amount due.

5.13.7. Impairment of financial assets

As at the end of each financial year, potential existence of objective evidence for impairment of a financial asset or a group of financial assets is assessed.

In the case of any objective evidence for impairment resulting from events following the initial recognition of financial assets and resulting in a decrease in expected future cash flows occurs, appropriate impairment losses are created and charged to the current period expenses. Expected impairment losses resulting from future events, irrespective of their probability, are not recognized.

Objective evidence for impairment includes information concerning the following events:

- material financial difficulties of the issuer or debtor;
- breach of the terms and conditions of the contract (such as outstanding interest or principal repayment);
- special facilities given to the debtor (for economic or legal reasons resulting from financial difficulties of the debtor) which otherwise would not have been given;
- high probability of bankruptcy or other financial reorganization of the debtor;
- disappearance of an active market for a given financial instrument due to financial difficulties of the issuer;
- availability of data indicating measurable decrease in estimated future cash flows related to the group of financial assets since their initial recognition, despite lack of evidence indicating impairment of a single financial asset, including:
  - negative changes concerning the status of the debtors' payments in the group (e.g. an increase in the amount of outstanding payments); or
  - unfavorable changes of the economic situation in the industry, region, etc., which lead to deterioration in the debtor's solvency;
- significant or prolonged decrease in the fair value of an investment in an equity instrument below the cost (additional information presented in Note 6.2.2.3);
- unfavorable changes in the technological, market, economic, legal or other situation affecting the issuer of the equity instruments which indicate that the costs of investment in the equity instrument may not be recovered.

Impairment indicators concerning loan exposures may be divided into indicators related to:

- client, including:
  - individual client – personal bankruptcy, death, lack of information on the client's place of residence, client's financial problems;
  - business client – resolution, bankruptcy/liquidation, material downgrading of the internal scoring/rating, significant deterioration of economic and financial condition;
  - both individual and business client – significant delay in payment or unauthorized overdraft, undisclosed client's assets.
- account – issue of a bank enforcement order, instigation of enforcement proceedings, successful termination of a contract, restructuring, exposure questioned by the debtor in court, identified act of fraud.

If there is no objective evidence of impairment of the individually assessed financial asset, whether the asset is individually significant or not, the asset is included in a group of financial assets with similar characteristics of credit risk and they are jointly assessed for impairment. The assets assessed individually for impairment loss for which an impairment loss was recognized are not included in the group assessment for impairment.

The amount of the impairment loss is the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding future credit losses not incurred) which are discounted using the original effective interest rate of the financial instrument (i.e. effective interest rate determined upon initial recognition). Interest income is recognized with the application of the interest rate used for discounting future cash flows for the assessment of an impairment loss. The exposures for which an impairment was evidenced are classified as individually assessed and collectively assessed.

In the case of impairment indicators for financial instruments available for sale, losses initially recognized in revaluation reserve are charged to the statement of profit or loss.

Impairment losses on financial instruments available for sale charged to profit or loss:

- in the case of equity instruments – must not be reversed;
- in the case of debt instruments – may be reversed, provided that in the subsequent periods the fair value of a given debt instrument increases, and the increase may be objectively associated with the event following recognition of the impairment loss in the statement of profit or loss.

The estimates and judgments used for determination of impairment losses have been presented in Note 6.2.2.

5.14 Cash and cash equivalents

Cash and cash equivalents include, among other things, cash in hand and current bank accounts, including the NBP account.

Cash is recognized at face value.

5.15 Assets and liabilities held for sale and disposal groups

Assets and liabilities or disposal groups are classified as intended for sale, if there is a plan for selling them and a buyer is being actively sought.

Assets and liabilities held for sale and disposal groups are measured at the lower of the two figures: previous carrying amount and fair value less costs to sell.

5.16 Leasing

Leases are classified depending on the extent to which the risks and benefits of ownership of the leased asset are attributable to the lessor and to the lessee. PZU Group companies are parties to leases, both as lessors and lessees. These agreements concern mainly property and therefore are classified as operating leases.

Lease payments for operating leases are recognized in the statement of profit or loss with the application of the straight line method throughout the leasing period.

5.17 Equity

5.17.1. Share capital

Share capital is recognized in the amount specified in the parent entity's by-laws and registered in the National Court Register.

5.17.2. Treasury shares

Acquired treasury shares and the ones held by the consolidated entities within PZU Group are recognized at cost.

5.17.3. Supplementary capital

Under "Supplementary capital", the following are recognized:

- effect of profit distribution, in accordance with the legal regulations in the country of the company's domicile (in Poland, in accordance with the provisions of the Code of Commercial Companies (Journal of Laws of 2013, item 1030, as amended) and the By-laws of PZU Group entities;
- •capital resulting from sale of investment property which was earlier reclassified from property, plant and equipment in accordance with rules described in Note 5.11;
- difference between decrease of the value of non-controlling interest and fair value of consideration transferred in the transactions of acquiring non-controlling interests at subsidiaries.

5.17.4. Revaluation reserve

"Revaluation reserve" includes the effects of:

- measurement of financial assets classified as available for sale;
- measurement of the value of property to their fair value as at the date of their reclassification from property, plant and equipment to investment property;
- measurement of the effective part of hedging instruments;

including the corresponding change in the deferred tax assets and liabilities.

5.17.5. Actuarial gains and losses from remeasurements of defined benefit liabilities

This item includes actuarial profits and losses resulting from an increase or a decrease in the present value of defined benefit liabilities due to changes in actuarial assumptions and ex post adjustments thereto. The item includes profits and losses resulting from changes in demographic assumptions (such as mortality, employee turnover ratio) as well as financial assumptions (such as the discount rate or the projected pay growth rates).

5.17.6. Exchange differences from translation

The item includes exchange differences from translation of foreign operations' financial data using the exchange rates and in accordance with principles described in Note 5.3.

5.17.7. Unappropriated result

"Unappropriated result" includes:

- previous year net profit which has not been distributed by the Annual General Meeting/ Shareholders' Meeting;
- current year net profit / loss;
- uncovered net loss.

Net profit distribution (or loss coverage) of the parent entity and PZU Group entities takes place only with respect to the net profit (loss) recognized in the company's separate financial statements prepared according to the local accounting standards effective in the country of residence of the given company.

5.17.8. Non-controlling interest

Non-controlling interest represents the part of a subsidiary's equity which may not be attributed to the parent entity, whether directly or indirectly. Non-controlling interest is measured as the proportional share in the fair value of identifiable net assets of the subsidiary.

5.18 Insurance contracts

5.18.1. Gross written premium, unearned premium reserve and unexpired risk reserve

5.18.1.1. Non-life insurance

Written premiums from insurance contracts and reinsurance treaties are recognized at the date of the insurance contract conclusion.

Written premiums are recognized in proportion to the period of insurance coverage. Part of the written premium for the period of insurance coverage after the balance sheet date is recognized under unearned premiums reserve. The unearned premiums reserve is determined individually as at the end of each financial year, accurate to one day.

The unexpired risks reserve complements the unearned premiums reserve and covers future claims, benefits and costs, including acquisition expenses (including deferred acquisition costs), relating to insurance contracts which do not expire on the last day of the financial year. The unexpired risks reserve is determined for individual insurance groups as at the end of each financial year.

The general amount of unexpired risks reserve is determined for insurance groups with the claims ratio for the current year exceeding 100%, as the difference between the product of the unearned premiums reserve and the claims ratio for the current financial year and the unearned premiums reserve – for the same coverage period.

5.18.1.2. Life insurance

Written premiums in life insurance contracts include amounts due under insurance contracts concluded during the financial year, irrespective of the fact whether the amounts have been paid or not, as well as whether the amounts refer to the whole reporting period or its part. The premiums are adjusted by the change in the unearned premiums reserve during the financial year and reduced by the amount of premium due to the reinsurers. Unearned premiums reserve is created as a portion of written premiums that refers to future financial years.

5.18.2. Claims and benefits paid and technical provisions

5.18.2.1. Non-life insurance

Costs of the financial year include all costs of claims and benefits paid under the concluded insurance contracts, including direct and indirect claims handling costs and costs of collection of subrogations and a change in outstanding claims provisions. The costs of claims and benefits are reduced by all received salvages and subrogations as well as by the change in expected salvages and subrogations.

Outstanding claims provisions

The outstanding claims provisions include:

- provision for outstanding claims and benefits due to losses and accidents which took place and were reported by the end of the financial year;
- provision for losses and accidents which were incurred by the end of the financial year and were not reported;
- provision for claims handling costs.

RBNP is determined based on an individual approach by claim handling units or, if obtained information disallows determining the provision amount, as the amount of average claim determined with an actuarial method. The provision includes the deductible, expected increase in the prices of goods and repair services and may not exceed the sum insured and the guaranteed sum. The provision is revalued immediately after receiving information which impact its amount by individual assessment or estimated losses and claims.

IBNR is created for claims and benefits which have not been reported by the end of the financial year, when the provision is recognized. IBNR is calculated using the loss triangles: the generalized Chain Ladder method, and if the number of claims or their value is insignificant – using the Bornhuetter-Ferguson method, broken down by the years during which losses were incurred. Basis for calculation are annual triangles for claims paid and claims reported.

The provision for direct claim handling costs for claims reported is calculated on a case-by-case basis for each claim by operating units, whereas for claims incurred but not reported is calculated using generalized Chain Ladder, based on loss triangles for the year of the claim.

The provision for indirect claims handling expenses is recognized using the actuarial method as the product of the share of indirect claims handling expenses in claims paid to direct claims handling expenses ratio, and the provision for claims reported but not paid, the provision for claims incurred but not reported and the provision for direct claims handling expenses.

Provisions I and II and the provision for claims handling costs are recognized at the nominal value, i.e. they are not discounted.

Provisions for the capitalized value of annuities

The provision for the capitalized value of annuities is calculated individually, as the present value of annuity (for life or periodic), paid in advance.

As at the end of each financial year, using actuarial methods a provision for capitalized value of annuities is created for claims incurred after 31 December 1990 by the balance sheet date and not disclosed as annuity (annuity IBNR). As at the end of each financial year, the value of additional provision for liabilities resulting from increased annuity benefits from the so-called old portfolio is determined. Reassessment is carried out only for annuitants with the same provision calculated as at the end of 1997 whose benefit at the end of the financial year does is lower than the predetermined percentage of the current value of average salary between 1960 and 1990.

5.18.2.2. Life insurance

Costs of the financial year include all costs of claims and benefits paid under the concluded insurance contracts, including direct and indirect claims handling costs and a change in outstanding claims provisions.

Costs of paid claims and benefits

Benefits paid include all payments and charges made in the financial year due to benefits incurred during the financial year and earlier (also annuity claims and surrenders), together with all direct and indirect, internal and external benefits handling costs. Handling costs include also the costs of litigation.

The value of benefits is recognized at the actually paid amount, following deduction of refunds (except for refunds due to outward reinsurance), increased by the change in outstanding claims provision and reduced by the reinsurers' share in claims paid and provisions.

Life insurance provision

Life insurance provision is determined based on actuarial methods in the following way:

- group employee insurance and individually continued insurance – the provision is based on the prospective actuarial method which consists in determining a provision for each insurance contract separately, based on statistical data. It corresponds to the present value of the claims expected in relation to insurance protection granted, less the present value of future premiums;
- unit-linked technical provision – the provision is created to cover present benefits related to the insurance coverage over the cash accumulated in the fund, according to individual types of insurance, in line with their general terms and conditions. The amount corresponds to the portion of payments imposed due to the insurance coverage attributable to future financial years;
- other insurance – based on the prospective actuarial method, individually for each insurance contract, corresponding to the difference between the present value of guaranteed benefits and the present value of premiums due under the insurance contracts.

Unit-linked technical provision

Unit-linked technical provision is measured at the amount equal to the fair value of shares in the insurance fund as at the end of the financial year.

Outstanding claims provisions

Outstanding claims provisions are created independently for:

- claims reported but not paid – using the case-by-case method or when the amount of claim cannot be assessed, if the claims and benefits are large-scale, using the average claim from the quarter immediately preceding the financial year;
- claims incurred but not reported – using the lump-sum method, as the percentage of claims paid for the period of the last twelve months.

Outstanding claims provisions include a claims handling provision.

Provisions for bonuses and rebates for the insured

The provision corresponds to the expected profit sharing for the insurer recognized as at the end of the financial year, which will be granted following the end of the settlement period.

Technical provisions – life insurance

Other technical provisions in life insurance include:

- provision for revaluation of claims under individual life insurance and annuity assumed from Państwowy Zakład Ubezpieczeń;
- provision for pending court proceedings and claims related to court decisions (based on Article 358.3 of the Civil Code of 23 April 1964 (Journal of Laws of 1964, item 121, as amended) concerning the change in the amount and the manner of paying a cash performance;

- In 1992, PZU transferred old portfolio policies to PZU Życie.
- In the hyperinflationary period of the 1980s, investment activities of Państwowy Zakład Ubezpieczeń were limited, which resulted in the investment income being below the inflation level. In effect, provisions created in relation to the old portfolio were not sufficient to cover claims adjusted for inflation. PZU Życie partly revalued the old portfolio policies. Some of the insured whose claims were revalued started to take legal action against PZU Życie with the objective of obtaining higher claims. PZU Życie creates a provision for revaluation of claims from the old portfolio, which may result from future disputes (court cases and settlements).
- The value of the above provision has been determined based on the expected value of additional future claims resulting from court cases and settlements. The value of such claims has been determined by extrapolating the historical trends related to claims, estimated on the basis of the number of concluded court cases and settlements as well as the awarded amounts.
- provision for low interest rates – this provision is related to the projected decline in profitability of insurance fund investments for individual life insurance, individual policies with an increasing sum insured and premium, group Firma insurances and annuity insurances. The provision is created according to the actuarial method, on the case-by-case basis, in the amount corresponding to the difference between:
  - amount of mathematical provisions calculated with relevant formulas and application of modified technical rates, including their projected future decrease and
  - the amount of mathematical provisions calculated in line with the valid regulations for creating provisions with the original technical rate applied for other product pricing.

5.18.3. Liability Adequacy Tests

Non-life insurance

In non-life insurance, the test for adequacy of provisions is not required, however when preparing the consolidated financial statements, a procedure, analogous to Liability Adequacy Tests for life insurance products, is carried out in order to verify the adequacy of provisions for claims for individual products. Currently observed trends in accidents, rate of damage reporting and compensation payment are considered while carrying out the assessment. If the estimates including current trends exceed provisions for claims, the provisions are increased to the level of these estimates. Otherwise, the provisions can be partially released.

The mechanism of creation of unexpired risks reserve in non-life insurance described in Note 5.18.1.1 is in line with the minimum requirements of Liability Adequacy Test described in point 16 of IRFS 4.

Life insurance

As at the end of each year, the technical provisions recognized in the consolidated financial statements are compared with the current value of expected future cash flows, i.e. the economic value of liabilities, for individual products from the life insurance portfolio. The forecasts for the cash flows include income from premiums, expenses due to claims, costs and commissions, and are determined based on a number of assumptions concerning: mortality, claims, resignations, servicing costs, curves of return rates and other assumptions specific for the product (e.g. indexation).

The assumptions on expected future rate of mortality, claims, resignations and other assumptions specific for the product used for cash flow forecasts are verified every year and updated based on current experience and observed trends. Along with the assessment of their further establishment, they constitute the best estimate assumption in scope of the further development of mortality, claims, resignations, etc.

Future indexations of the sum insured and premiums resulting from the right to a share in the profit described as the surplus of return rates from investments achieved above the technical rate are based on a forecast concerning future return rates from the current assets covering technical provisions portfolio for these products, along with their reinvestments with present term structure of interest rates, i.e. in line with current market expectations, forecasted in the future.

The forecasts of the future costs are made on a basis of the expected number of contracts that stay in the portfolio in subsequent periods and average unit cost of service per contract. The assumptions concerning unit costs are made based on expected future portfolio maintenance and service costs including asset management and claims handling costs. It is assumed that unit service costs are subject to the increase in projection in subsequent years by the cost increase rate. The amount of future commissions is set based on agreed commission rates for every contract in the years subsequent to their conclusion.

In order to determine the value of future cash flows, discount factors are used based on unadjusted profitability of Polish treasury bonds in line with their current market prices.

The test involves a comparison of the present value of projected discounted cash flows with the amount of provision recognized at the end of each year. In the case when the provisions are found to be insufficient as compared to the value of discounted cash flows, the assumptions concerning provision creation are adjusted, thus making the adjustment to the value of the provisions.

The objective of the Liability Adequacy Test is the assessment of sufficiency of value of the technical provisions recognized in the consolidated financial statements, and not the assessment of sufficiency of each assumption. Hence, the Liability Adequacy Test does not lead to direct identification of sufficiency level or inadequacy of each assumption used for the estimation of technical provisions.

5.18.4. Reinsurers' share

The reinsurer’s share in written premiums, unearned premiums reserve, unexpired risks reserve, and outstanding claims provisions is determined in accordance with the terms and conditions of relevant reinsurance treaties.

The reinsurers’ share in claims and benefits is determined for the groups of insurance with reinsurance, in the amount of reinsurers’ share in claims and benefits, in line with relevant reinsurance treaties.

5.19 Provisions for employee benefits

5.19.1. Defined contribution plans

Social security contributions

PZU Group entities are subject to the provisions of law of the country where the company has its registered office, pay all or some of the costs of contributions which are statutory employee overheads. In Poland, they include some of the contribution to pension and disability insurance and all contribution to accident insurance, Fundusz Pracy [Labor Fund] and Fundusz Gwarantowanych Świadczeń Pracowniczych [Guaranteed Employment Benefit Fund], as well as contributions to Zakładowy Fundusz Świadczeń Socjalnych [Social Benefits Fund]. PZU Group entities are obliged to pay specific contributions and are not obliged, whether legally or constructively, to participate in payment of such future benefits to employees.

Specific contributions to the pension plans are charged to the statement of profit or loss for a relevant period.

5.19.2. Defined benefit plans

5.19.2.1. Provisions for retirement benefits

Pursuant to the Labor Code of 26 June 1974 (Journal of Laws of 2014, item 1502, as amended), the employees of the PZU Group's entities with registered offices in Poland are entitled to a retirement or disability benefit in the amount of a monthly salary at the time when they retire.

The costs of retirement benefits estimated using actuarial methods are recognized on an accrual basis, using the projected unit credit method.

Actuarial profits and losses are recognized in total in the period in which they were disclosed under "Actuarial gains and losses from remeasurements of defined benefit liabilities" under other comprehensive income. Additional information concerning assets held for sale has been presented in Note 5.17.5.

5.19.2.2. Provisions for death benefits

Pursuant to the Labor Code employees of PZU Group entities with registered offices located in Poland are entitled to death benefits. In case of death of an employee during their employment or at the time of receiving benefit as a result of inability to work due to sickness, the family is entitled to death benefits depending on the employee’s duration of employment at PZU Group which is an equivalent of 1 to 6-month salary.

Liabilities due to survivor benefits recognized in the statement of financial position are measured at the current value of discounted cash flows.

5.19.3. Costs of paid annual leave

The employees of PZU Group entities are entitled to paid vacation on the terms and conditions specified in legal acts concerning the labor law (in Poland – the Labor Code). In accordance with IAS 19, the cost of employee paid vacation is recognized on an accrual basis, using the liability method. The liability due to employee paid vacation is determined based on the difference between the actual use of the vacation by employees and the balance which would take place if the paid vacation was used in proportion to the lapse of time in the period for which the vacation is due.

5.20 Other provisions

Provisions are liabilities of uncertain timing or amount. A provision is created based on a present obligation that has arisen from past events, which – when fulfilled – will cause an outflow of economic benefits. The amount of the provision is measured based on the best estimate of this outflow as at the balance sheet date.

A provision for restructuring costs is created only when the general criteria of recognizing provisions have been met, together with additional specific criteria related to provisions for restructuring costs, such as a formal, detailed plan of restructuring and arousing justified expectations of parties affected by the plan that the restructuring action should take place (for instance by starting to implement the plan or announcing its key elements).

5.21 Recognition of revenue

Recognition of revenue due to insurance contracts has been described in Note 5.18.1.

Interest

Income from interest is recognized on the accrual basis, based on the effective interest rates and it is recognized in the statement of profit or loss under "Net investment income".

Dividends

Dividends are recognized as revenue when the right to the dividend is acquired and they are recognized under "Net investment income".

Income from pension fund management services

Income from the management of OFE PZU is recognized on the accrual basis and presented under "Net investment income". The income includes in particular:

- fees on premiums transferred by ZUS to OFE PZU – in the amount specified in the By-laws of OFE PZU and in line with the limits stipulated in the Pension Funds Act;
- management fees specified in the By-laws of OFE PZU – in accordance with the limits specified in the Pension Funds Act;
- other fees determined in the By-laws of OFE PZU.

Revenue and payments received from funds and investment fund management companies

Revenue and payments received from funds and investment fund management companies are recognized on an accrual basis based on the value of assets invested in different investment funds and presented in the "Revenue from commissions and fees" line.

5.22 Taxes

Income tax recognized in the statement of profit or loss includes the current and the deferred portion.

Current corporate income tax liabilities are calculated in accordance with the tax regulations applicable in the country where the company has its registered office.

The deferred portion recognized in statement of profit or loss is the difference between the balance of deferred tax liabilities and assets as at the beginning and end of the financial year; deferred tax liabilities and assets for transactions charged to equity are charged to equity.

Deferred tax liabilities and assets are determined using the balance sheet method, considering corporate income tax rates which – as expected – will apply at the time when the asset is recovered or provision settled, in line with the tax law provisions applicable in the countries of residence of PZU Group entities, issued by the end of the financial year.

5.23 Earnings per share

Basic earnings per share are calculated by dividing the profit or loss attributable to ordinary equity holders of PZU (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period.

The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during this period and multiplied by a time-weighting factor. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the period.

6. Key estimates and judgments

Preparation of the consolidated financial statement in accordance with IFRS requires from the Management Board of PZU to make professional judgments, estimates and assumptions which have an effect on the adopted accounting principles and the presented value of assets, liabilities, revenue and expenses.

Estimates and assumptions related to them are based on historical data and other factors considered to be rational in given circumstances, whereas their results provide a basis for a professional judgment of the carrying amount of assets and liabilities which does not result directly from other sources.

With respect to important issues, the Management Board of PZU can base on the opinion of independent experts when making judgments, estimates or assumptions.

The actual value may differ from the estimated value. Judgments, estimates and assumptions related to them undergo constant verification. Any changes thereto should be presented as described in Note 5.1.

6.1 Judgments made

6.1.1. Consolidation principles

6.1.1.1. Judgments in determining PZU has control

In accordance with point 7 of IFRS 10, PZU Group assumes that it has control only when it simultaneously has power over the investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns.

In order to determine whether PZU Group has the exisiting rights which are sufficient to exercise power, i.e. the current ability to direct the relevant activities, PZU Group analyses i.e.:

- how many votes it holds and whether it holds more votes than other investors (including potential voting rights and rights resulting from other contractual arrangements);

- how many entities would have to act together in order to outvote PZU Group;
- distribution of votes at previous general meetings;
- obligations, if any, to ensure undisturbed operations of the entity in which the investment was made;
- are the key personnel of the entity or members of the management body of the entity where the investment was made related to PZU Group;
- capacity to appoint members of management and supervisory bodies of the entity;
- possibility to oblige or prevent the entity to perform significant transactions;
- other prerequisites.

Following the purchase of the II tranche of Alior Bank shares, under the transaction specified in 2.4.6.1, PZU Group performed control analysis and determined that:

- it holds a total of 23.9574% of Alior Bank shares (and after inclusion of potential voting rights resulting from irrevocably mandatory purchase of the III tranche – 29,2232%) that entitles it to the same number of votes at the General Shareholders' Meeting of Alior Bank;
- only three shareholders own interests of over 5%, and the rest of shareholding is fragmented and a large number of entities would have to act together to outvote PZU;
- it would hold a majority of votes at the majority of general meetings (as a result of an analysis of attendance and schedule of votes at Alior Bank general meetings in the years 2013-2015);
- upon PZU Group's request, a member of the Alior Bank management board was appointed who previously served as a member of the PZU Management Board, as well as two members to the Alior Bank supervisory board who are key managers at PZU;
- PZU Group does not have knowledge of potential agreements concluded between other shareholders of Alior bank;
- it undertook investment obligations towards Alior Bank, due to which its exposure to variability of Alior Bank's financial results is disproportionately greater that its voting rights.

In the light of the above prerequisites, it was stated that, starting from 18 December 2015, PZU Group exercises control over Alior Bank along with its subsidiaries, and included it in consolidation.

6.1.1.2. Principles of consolidation of investment funds

PZU Group has assumed that it controls the investment fund if both conditions mentioned below are met:

- PZU Group entities together have the ability to use their power over the fund in order to influence the value of the return on investment and the rationales for this ability are, among others, the control over the investment fund management company, a significant share in the total number of votes at the general meeting of investors or the board of investors;
- the total exposure of PZU Group entities to variable returns from involvement in the investment fund is significant, which means that the total share of PZU Group entities in the net assets of the fund is equal to or exceeds 20%, whereas the determination of the so understood total share does not take into consideration the fund assets that are attributable to unit-linked products. If the involvement does not exceed 20% in the net assets of the fund, the exposure to volatility of the fund's financial results considered together with decision-making powers imply that such a fund is not under control.

PZU Group accepts that the consolidation of the fund will be maintained (or dropped, accordingly) during the period of two subsequent quarters following a quarter which closed with a decrease (or increase, accordingly) of the share in the net assets of the fund below (or above, accordingly) 20% when this decrease (or increase) resulted from amounts paid in (or out) of participants not belonging to PZU Group.

Investment funds controlled by PZU Group are consolidated. Their assets are fully presented in the statement of financial position as financial assets by type and portfolio classification, while the liability related to the net assets of the fund held by third-party investors – as "Liabilities".

6.1.2. Classification of insurance contracts in accordance with IFRS 4

PZU Group entities that carry out insurance activity apply guidance included in IFRS 4 regarding classification of their products as insurance contracts subject to IFRS 4 or investment contracts. A contract can be classified as an insurance contract only when an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction), i.e. when the contract involves significant insurance risk transfer.

Assessment whether a contract does transfer significant insurance risk requires an analysis of cash flows related to a product under various scenarios and estimation of probability of their occurrence. The assessment is based on a subjective judgment which significantly impacts accounting principles applied. Based on the assumptions adopted by PZU Group, significant insurance risk occurs when an insured event results in payment of claims at least 10% higher than claims paid if the event had not occurred. Based on the aforementioned criterion, concluded contracts are recognized either in accordance with IFRS 4 or IAS 39.

6.1.3. Contract classification in non-life insurance

The analysis carried out proves that all non-life insurance contracts transfer significant insurance risk and therefore are governed by regulations of IFRS 4.

Additionally, in the light of work on the second stage of IFRS 4 carried out by IASB, the Group continues to apply insurance contract accounting to financial guarantees that meet the definition of a financial instrument.

6.1.4. Classification of life insurance contracts

Based on the carried out analysis, it was concluded that products from PZU Group's offer that do not transfer significant insurance risk (they include certain products with guaranteed return rate and some unit-linked ones) and thus do not meet the definition of an insurance contract pursuant to IFRS 4. Therefore, these products have been classified in the consolidated financial statements as investment contracts measured in accordance with IAS 39 (depending on the product construction), which means at amortized cost or fair value.

Investment contracts include, among others: individual life and endowment Pewny Zysk insurance (recognized at amortized cost), unit-linked PZU IKZE insurance and Program Inwestycyjny Prestige [Prestige Investment Program] (recognized at fair value).

Both insurance and investment contracts can include discretionary participation features (DPF). They entitle the insured to receive additional claims or bonuses as an extra to the guaranteed claim. Such a claim constitutes a significant part of the total contractual claim; its amount and period of validity are of contractual nature and they depend on the insurer's discretion and their occurrence depends on:

- a specific set or type of contracts;
- profit or no profit from specific assets;
- profit or loss of the insurer, fund or other entity related to the contract.

All contracts with discretionary participation features, unilaterally specified by the insurance company, are measured in accordance with IFRS 4.

Additionally, no life insurance contracts were identified which would provide for the transfer of both insurance and financial risk and require unbundling of insurance and investment components. In the case of contracts for which unbundling of embedded options (e.g. the right to surrender a contract, change it into a premium-free contract, guaranteed annuity for a set premium, indexation of the sum insured and premiums) is permitted, but not required according to IFRS4, the investment component is not unbundled.

6.1.5. Unrecognized deferred tax assets

PZU Group applies the prudence principle and recognizes deferred tax assets resulting from tax losses of PZU Group entities to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized.

The amount of unrecognized deferred tax assets due to tax losses incurred by PZU Group entities is presented in Note 33.

6.2 Estimates and assumptions made

6.2.1. Fair value

Assumptions applicable for determining the fair value of assets have been presented in Note 10.

6.2.2. Impairment

6.2.2.1. Goodwill

Key assumptions made for the purpose of estimating the recoverable amount have been presented in Note 28 (for subsidiaries) and Note 34 (for the entities measured using the equity method).

6.2.2.2. Financial instruments measured at amortized cost

The assessment is made for all loans exposures (groups of loans exposures) in order to identify objective evidence for impairment. It is made in accordance with the most recent data and on the day of value remeasurement. While determining the amount of impairment loss, the assessment of the estimations of amounts and realization dates of future cash flows is made. The estimations are based on assumptions concerning many factors, hence the real results may vary. This may lead to a future change in the amount of an impairment loss.

Individual assessment is valid for impaired exposure exceeding the adopted materiality or exposure thresholds (PLN 150 thousand for individual client and PLN 500 thousand for business client), for which there is no possibility of separating a group of assets with similar credit risk characteristics or the attempt to assess the parameters of the group was insufficient.

The individual assessment is based on an analysis of possible scenarios (business clients) or an Event Tree for possible events (individual clients). The probability of realization and expected recoveries were assigned to each scenario or branch of the Tree. The standard Event Trees which represent different collection strategies were prepared for the individual clients. The assumptions for individual measurements are thoroughly described. The values of the salvages expected in individual measurements are compared to salvages realized quarterly.

The group measurement is based on the time the given exposure spends in the state of impairment; it takes into account the characteristics of a given group in terms of expected salvages. The hedges are recognized on the exposure level.

The credit exposures for which individual evidence of impairment loss was not identified are grouped with respect to the homogeneity principle concerning risk profile and the provision for exposure group for the coverage of losses incurred but not reported is created.

Impairment losses on assets held to maturity and loans and receivables are determined as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted using the effective interest rate determined upon initial recognition (original effective interest rate).

If in a subsequent period the amount of impairment decreases as a result of an event that occurred after the impairment, the previous impairment loss is reversed by adjusting the balance of impairment losses. The reversal is recognized in the consolidated statement of profit or loss under "Net result on realization and impairment losses on investments".

6.2.2.3. Equity instruments listed on the regulated markets as well as participation units and investment certificates issued by investment funds

Impairment losses on equity instruments listed on the regulated markets, units in open-end investment funds and certificates issued by closed-end investment funds classified as available for sale are recognized if at least one of these two conditions is met:

- the negative difference between the present value and the cost or the amount revalued (by a previous impairment loss) represents at least 30% of the cost or the amount revalued;
- the market value of the asset as at the end of each of the 12 consecutive months is lower than the cost or the amount revalued (by a previous impairment loss).

Impairment losses are not recognized if it is concluded that the aforesaid events may be reversed within 6 months of the end of the financial year or there are any other indications that the decreases may be temporary in nature.

6.2.2.4. Receivables from policyholders

Receivables from policyholders are reviewed in order to determine possible occurrence of impairment indicators.

Firstly, impairment losses for individual assets are assessed. An impairment loss for individual asset is made for a single account receivable after an evaluation of the economic and financial situation of the debtor and the probability that the amount due will be paid. These receivables are not taken into account in group impairment losses.

As far as accounts receivable from debtors that are in liquidation or bankrupt are concerned, the impairment loss is based on the amount of receivables not covered by a guarantee or another security. If the debtor saw their bankruptcy petition dismissed and the debtor’s assets are not sufficient to satisfy the costs of bankruptcy proceedings, the total value of the account receivable is written-off.

An impairment loss for individual asset is increased when there are indications suggesting that the estimated amount which can be recovered has decreased or that the amount due, for which the impairment loss for individual asset was created – has grown. An impairment loss for individual asset is reversed if it is estimated that the amount which can be recovered exceeds previous estimates or if it has been confirmed that the receivables will be paid partially or in total, or if the amount has been deemed undue. An impairment loss for individual asset is used if the receivables are to be partially or fully remitted or written-off.

Where no case-by-case estimates have been made, the impairment of receivables is assessed on a collective-basis, which provides grounds for a group impairment loss.

Non-life insurance

The group impairment loss is assessed on the basis of the adopted model of a permanent yet individually insignificant impairment assessment. In the model, the impairment loss is determined on the basis of a collective assessment of impairment of receivables due from policyholders grouped according to similar characteristics of the credit risk.

Mature receivables are subject to age analysis, depending on their overdue period. Mature receivables are reduced by the value of the receivables subject to impairment losses for individual assets. The group impairment loss is assessed according to individual overdue periods and on the basis of the irrecoverability ratios of mature receivables that are determined on the basis of a historical analysis.

The value of receivables that will probably become mature on the basis of a historical analysis of the share of overdue receivables is determined for non-mature receivables. The amount determined in this way is reduced by the value of the receivables subject to impairment losses for individual assets. On the basis of the remaining amount of receivables, an impairment loss in the amount of the irrecoverability ratio of mature receivables for the shortest overdue period is determined.

Life insurance

The group impairment loss is assessed for receivables which are not subject to impairment losses for individual assets. Receivables are grouped according to similar credit risk characteristics which indicate the debtor's ability to repay the entire debt. It is also allowed to group receivables according to criteria different than how long they have been overdue, as long as it allows for a more accurate estimate of the value of the group impairment loss. Calculations are carried out separately for each insurance product or groups of insurance products.

The amount of group impairment losses is estimated with the help of models which are created and updated on the basis of data on debt collection in particular groups sharing similar characteristics. Such estimates are created on the basis of historical data concerning defaults on loans and receivables in various categories of being overdue.

6.2.3. Assumptions made in estimation of technical provisions for non-life insurance

When calculating a provision for capitalized value of annuities, estimated future increase of an average annuity is based on historical data taking into account other information that may result in an increase in the value of annuities in the future (for instance, increased insurance awareness, legislation changes etc.).

Based on the forecast inflation and the pay growth rates, the technical rate of 3.6% and the growth rate of 3.9% was used for all annuities, both as at 31 December 2015 and 31 December 2014.

As regards life annuities, the period during which annuity claims are paid is determined based on publicly available statistics, such as, for example, the Polish Life Expectancy Tables (PLET), published by the Central Statistical Office in Poland. Additionally, calculation of the provision for capitalized value of annuity claims includes the cost of their future management in the amount of 3% of the value of paid claims.

The final estimated value of claims and benefits paid has been presented in the provision development triangles, as well as an analysis of sensitivity of the net profit/loss and equity to changes in the assumptions made for determining the value of technical provisions for life insurance is presented in Note 8.5.1.1. Methodologies used to calculate the IBNR provision and the old portfolio provision are described in Note 5.18.2.1.

6.2.4. Assumptions made in estimation of technical provisions for life insurance products

The amount of life insurance provision equals to the value of liabilities related to the concluded insurance contracts. It is determined as a difference between the current value of expected claims and the current value of expected premiums using the so-called net premium method.

The provision calculation includes all claims and premiums provided for in the contracts as contractual liabilities and receivables, irrespective of the fact whether the contract will be maintained by the insured until the end of the period or terminated. The assumptions for the frequency of events under insurance coverage, i.e. mortality, incidence proportion and accident rate is determined based on publicly available statistics, such as PLET in Poland, or based on own statistics developed on the basis of historical data for individual classes of products found in the portfolio.

The assumptions used in calculation of life insurance provision are calculated separately for individual insurance products at the time of determining premium rates and marketing a given product. The assumptions used in calculation of life insurance provision are calculated separately for individual insurance products at the time of determining premium rates and marketing a given product. Every year, the approved assumptions are verified in terms of adequacy. In the case when any of the originally determined assumptions is found to be insufficient, the adjustments are made; however, in the case of lack of insufficiency, the lock-in assumptions are applied.

Incidence of events covered by insurance

Group insurance by employers and individually continued and family products cover both the insured individuals, referred to as "the key insured", and their family members. As the Company had only access to data on the main insured covered by continued insurance and due to a lack of complete information on the age, sex, marital and family status of the insured in group insurance, in 2004 a statistical survey was conducted with regard to the age structure and sex of the individuals covered by group insurance, as well as their family members. The aforementioned survey also served as the basis for the assumptions regarding the family structure of the individuals covered by individually continued insurance.

The assumptions made on the basis of the statistical survey for the purpose of determining the group insurance provisions, in line with the theory of probability and statistical methods, allow to take into account the age structure and sex of the insured and their family members and to estimate the value of the provisions for the whole portfolio.

An analysis of sensitivity of the net profit/loss as well as equity to changes in the assumptions made for determining the value of technical provisions for life insurance is presented in Note 8.5.1.2.

6.2.5. Deferred acquisition expenses

From 1 January 2015, PZU extended the range of the costs that undergo deferral in time by some of indirect acquisition costs related to conclusion and extension of insurance policies (especially the costs of operations indirectly related to sales processes which cannot be qualified as indirect acquisition costs) and, primarily, the costs of operations related to: concluding contracts and underwriting processes in sales units (specified on the basis of work time surveys), automatic and manual input of policies into production systems (sales recording) and functioning of the contact center in scope of selling the policies. The change mentioned above provides better proportionality of revenue and expenses (written premium generated by these activities is deferred in time through the premium reserve) and resulted in the increase of the gross result for 2015 by the amount of PLN 112,031 thousand.

(in PLN thousand)

6.2.6. Calculation of provisions for employee benefits

Provisions for retirement and death benefits (as presented in Note 45) are estimated using actuarial methods with the application of appropriate actuarial techniques and assumptions.

Actuarial assumptions

The table below presents the key actuarial assumptions made for calculation of provisions.

Key actuarial assumptions made for calculation of provisions for retirement and death benefits	31 December 2015	31 December 2014
Discount rates, including:		
- PZU and PZU Życie	in accordance with the bond yield curve [1)]	in accordance with the bond yield curve [2)]
- other PZU Group entities	1.0%-4.5%	1.0%-4.5%
Anticipated pay growth rates, including:		
- PZU and PZU Życie	3.0%	3.0%
- other PZU Group entities	0.2%-5.0%	0.2%-4.3%
Mortality rate, including:		
- PZU and PZU Życie	PLET [3)]	PLET [3)]
- other PZU Group entities	PLET [3)]	PLET [3)]
Employee turnover ratio, including:		
- PZU and PZU Życie	specific to company [4)]	specific to company [4)]
- other PZU Group entities	0.0%-15.6%	0.0%-10.0%)
Disability rate (entitlement to a disability pension), including:		
- PZU and PZU Życie	0.2%	0.2%
- other PZU Group entities	30%-60% PLET [5)]	30%-60% PLET

1) The yield curve for zero-coupon Treasury bonds used for discounting the provisions for employee benefits at PZU and PZU as at 31 December 2015 covers the period from 2016 to 2045, assuming increasing values (1.51%-3.41%).

2) The yield curve for zero-coupon Treasury bonds used for discounting the provisions for employee benefits at PZU and PZU as at 31 December 2014 covers the period from 2015 to 2045, assuming increasing values for the range until 2033 (1.75%-2.90%) and subsequently becoming an inverted yield curve decreasing to the level of 2.88%.

3) The assumed mortality rate matches the level defined in PLET.

4) The employee turnover ratio has been calculated based on ongoing observation of employee turnover. The ratio differs depending on the employee's age, length of service and sex.

5) The disability rate represents a relevant percentage of the mortality rate described above. Some PZU Group entities do not take the aforementioned rate into account.

Sensitivity analysis

Effect of changes in actuarial assumptions for retirement and death benefits on the related provisions	31 December 2015		31 December 2014	
	Retirement benefits	Death benefits	Retirement benefits	Death benefits
Discount rates				,
- increase by 1 p.p.	(2,028)	(2,578)	(2,124)	(2,629)
- decrease by 1 p.p.	2,517	3,094	2,652	3,176
Projected pay growth rates:				
- increase by 1 p.p.	2,490	3,056	2,611	3,125
- decrease by 1 p.p.	(2,044)	(2,596)	(2,134)	(2,639)
Mortality rate:				
- increase by 10%	(239)	2,026	(245)	1,978
- decrease by 10%	245	(2,071)	251	(2,022)
Employee turnover ratio:				
- increase by 10%	(332)	(620)	(356)	(620)
- decrease by 10%	350	650	375	650

6.2.7. Estimated provisions for disputes

Provisions for disputes are estimated using the individual method, in accordance with IAS 37, taking into account the probability of an outflow of cash, including economic benefits to settle the obligation. Outflow of cash is regarded as probable if the event is more likely than not to occur, i.e. the probability that the event will occur is greater than the probability that it will not.

Detailed descriptions and amounts of provisions for disputes are presented in Note 46 and 54.

6.2.8. Deferred tax assets and liabilities

PZU Group entities estimated taxable future income taking into account the possibility of realization of negative temporary differences due to a tax loss incurred by these companies. No deferred tax assets concerning unused tax loss were recognized in result of the estimations. Deferred tax assets and liabilities are recognized according to the principles defined in Note 33.

7. Segment reporting

7.1 Reporting segments

7.1.1. Key division criterion

Operating segments are components of the entity for which separate financial information is available and that are regularly reviewed by CODM, in practice, it is carried out by the Management Board of PZU, in order to allocate resources to the segment and assess its performance.

The key segmentation pattern of PZU Group is based on the criterion of consolidated entities with the exception of the insurance companies in PZU Group (PZU, PZU Życie, and Link4) with the registered office in Poland, where additional segments based on the criteria such as customer groups, product lines and types of activities can be distinguished.

PZU and Link4 segments:

- Corporate insurance (non-life insurance);
- Retail customer insurance (non-life insurance);
- Investment activities – comprising investments using own funds.

PZU Życie segments:

- Group insurance and individually continued insurance (life insurance);
- Individual life insurance (life insurance);
- Investment activities – including investments using own funds;
- Investment contracts – described further in this chapter.

Due to the differences and operation in different regulatory environments, the internal financial reporting system used in PZU Group, in accordance with the segmentation pattern of PZU Group based on the criterion of consolidated entities and the usefulness for the users of financial statements, the additional following segments have been distinguished:

- Pension insurance
- Baltic states – Lithuania, Latvia, Estonia (non-life and life insurance);
- Ukraine (non-life and life insurance).

Operating segments may be aggregated into a single reporting segment if the qualitative and quantitative criteria described in IFRS 8.12–19 are met. In the consolidated financial statements separate operating segments have not been aggregated into reportable segments with the exception of the "Investments" segment, which comprises investment activities using the PZU Group entities’ own funds, and the "Baltic states" segment in which the countries have been classified together due to the similar products and services offered and a similar regulatory environment.

7.1.2. Geographical areas

PZU Group applies additional geographical segmentation as follows:

- Poland;
- Baltic states;
- Ukraine.

7.2 Settlements among segments

The net investment performance (the difference between realized and unrealized revenue and expenses) disclosed under corporate insurance (non-life insurance), retail customer insurance (non-life insurance), group insurance and individually continued insurance (life insurance) is determined in accordance with the transfer pricing based on the interest rate of the curves of the treasury instruments profitability (risk-free rate). In the case of unit-linked products with a guaranteed rate and for structured products, the net profit or loss on investments constituting coverage of the corresponding technical provisions is disclosed.

7.3 Measure of profit of a segment

The key measure of profit of a segment in PZU Group:

- in insurance companies registered in Poland – a profit or loss on insurance constituting the profit or loss before tax and other operating income and expenses (including borrowing costs), however taking into account the income on investments (corresponding to the value of technical provisions) determined by the risk free rate. A profit or loss on insurance is a similar measure to the technical result on insurance defined in PAS, however it includes the net profit or loss on investments described in the previous sentence for non-life and life insurance;
- in the case of insurance companies registered abroad – as described above, taking into account the total investment performance of the company, i.e. without adjusting the profit on investment described above, calculated in accordance with IFRS;
- in non-insurance companies – an operating profit or loss in accordance with the accounting policies of the country of residence of the company or IFRS, constituting a profit or loss before tax and borrowing costs.

7.4 Segments characteristics

Description of all the reportable segments of PZU Group, including the presentation of the accounting policies used for presenting financial data:

- Corporate insurance (non-life insurance) – reporting in accordance with Polish Accounting Standards – a wide range of non-life insurance products, third party and motor insurance products customized to meet customers' expectations and with individual risk assessment, offered to big enterprises;
- Retail customer insurance (non-life insurance) – reporting in accordance with Polish Accounting Standards – a wide range of non-life insurance products, accident insurance products, third party and motor insurance products offered to retail customers and entities in the SME sector;
- Group and individually continued insurance (life insurance) – reporting in accordance with Polish Accounting Standards – group insurance offered by PZU Życie to groups of employees and other formal groups (e.g. trade unions), intended for individuals who are in a legal relation with the insurer (e.g. employer, trade union) and individually continued insurance where the insurer has obtained the right to continue insurance individually under group insurance. The offer of PZU Życie comprises a wide range of group insurance coverage, investment insurance (other than investment contracts) and health insurance;
- Individual insurance (life insurance) – reporting in accordance with Polish Accounting Standards – insurance offered by PZU to individual customers whereby an insurance contract covers a given individual who is subject to separate risk assessment. The offer of PZU Życie comprises a wide range of group insurance coverage, investment insurance (other than investment contracts) and health insurance;
- Investment – reporting in accordance with Polish Accounting Standards – comprises investment activity conducted with the PZU Group's own funds defined as the surplus of investments over technical provisions in the insurance companies within PZU Group with their registered offices in Poland (PZU, Link4 and PZU Życie) increased by the surplus of investment income exceeding the risk-free rate matching the value of technical provisions of PZU, Link4 and PZU Życie in insurance products, i.e. the surplus of income from investment activities of PZU, Link4 and PZU Życie over the income to insurance segments according to transfer prices. Additionally, the "Investments" segment includes income earned on other excess cash in PZU Group (including consolidated investment funds);
- Pension insurance – reporting in accordance with Polish Accounting Standards – comprising the company PTE PZU;
- Ukraine (life and non-life insurance) – reporting in accordance with IFRS – including PZU Ukraine and PZU Ukraine Life;
- Baltic states (life and non-life insurance only) – reporting in accordance with IFRS – including Lietuvos Draudimas AB with its Estonian branch, AAS Balta, PZU Lithuania (until 30 September 2015), UAB PZU Lietuva Gyvybes Draudimas;
- Investment contracts – reporting in accordance with Polish Accounting Standards – comprising products of PZU Życie which do not result in a transfer of significant insurance risk in accordance with IFRS 4 and are not insurance contracts (i.e. some of the products with a guaranteed rate of return and some unit-linked products), described in Note 7.5.2;
- Other – reporting in accordance with IFRS or PAS (presentation of a profit or loss of a segment under "Other" is not required under IFRS 8) – comprises other consolidated entities which do not belong to any of the aforesaid segments and whose revenue is earned mainly from the manufacture of fittings, heaters, casting and services.

7.5 Polish Accounting Standards applied

7.5.1. PZU

PAS and the differences between PAS and IFRS in respect of financial reporting of PZU were presented in detail in the annual separate financial statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna 2015.

The separate financial statements of PZU for 2015 are available on the PZU website www.pzu.pl under "Investor Relations".

7.5.2. PZU Życie

The PZU accounting policy in accordance with PAS is convergent with PZU PAS policy (excluding accounting policies regarding insurance contracts and investment contracts).

In accordance with IFRS, the accounting policies regarding insurance contracts and investment contracts of PZU have been presented in Notes:5.13.4, 5.13.5, 5.18.1.2, 5.18.2.2.

The key difference between PAS and IFRS as regards accounting for insurance contracts and investment contracts of PZU is the classification of contracts. In PAS there is no concept of investment contract and as a result all contracts are classified as insurance contracts. According to IFRS, the classification of contracts should follow the guidelines included in IFRS 4 regarding the classification of products as insurance contracts (subject to IFRS 4) or as investment contracts (recognized in accordance with IAS 39). In case of the latter, the written premium is not recognized. The classification of contracts is described in Note 6.1.2.

7.6 Structure of the segment reporting note and reconciliations

Due to the fact that the profits of segments are measured in accordance with the accounting policies of the country of residence of the PZU Group's company, financial data from segments are disclosed according to several different accounting standards (PAS, IFRS).

Reconciliation of the totals of revenues (understood as net earned premium) and profit or loss of the reportable segments with the consolidated investment result as required by IFRS 8.28 is presented in Note 7.7.

7.7 Simplifications in the segment note

Some simplifications in the segment note have been made, acceptable under IFRS 8. Justification of the simplifications:

- withdrawal from presentation of information about allocation of all assets and liabilities to individual segments. The reason: management reporting does not include such documents. The key information analyzed by the Management Board of PZU is the profit or loss of given segments, on which basis management decisions, including decisions about allocation of resources are made. Analysis of assets and liabilities allocated to the segments is limited to the monitoring of compliance with the regulatory requirements related to capital adequacy ratios and having assets covering technical provisions exceed the sum of those provisions (analysis by individual insurance companies instead of product groups);
- presentation of the net profit or loss on an investment with a single amount expressed as a difference between realized and unrealized revenue and expensed from investments – resulting from an internal assessment of the profit or loss of the segments on the basis of the total measure of the profit or loss on investments;
- revenue and expenses other than realized and unrealized investment revenue and expenses not allocated to the "investments" segment – resulting from the method of analysis of data regarding that segment and from impracticality of such allocation;

(in PLN thousand)

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Profit and loss account for the period from 1 January 2015 to 31 December 2015	Corporate insurance (non-life insurance)	Mass-market insurance (non-life insurance)	Group and individually continued life insurance	Individual life insurance	Investments	Pension insurance	Ukraine	Baltic states	Investment contracts	Other activity	Segment total
	PAS	PAS	PAS	PAS	PAS	PAS	IFRS	IFRS	PAS	PAS	
Gross written premiums - external	1 765 031	7 309 028	6 688 657	1 234 260	-	-	168 184	1 193 884	141 088	-	18 500 132
Gross written premiums - cross-segment	59 422	217 739	-	-	-	-	-	-	-	-	277 161
Gross written premiums	**1 824 453**	**7 526 767**	**6 688 657**	**1 234 260**	-	-	**168 184**	**1 193 884**	**141 088**	-	**18 777 293**
Reinsurers' share in gross written premium	(261 065)	(218 688)	553	(22)	-	-	(67 822)	(41 354)	-	-	(588 398)
Net written premiums	**1 563 388**	**7 308 079**	**6 689 210**	**1 234 238**	-	-	**100 362**	**1 152 530**	**141 088**	-	**18 188 895**
Reinsurers' share in changes in unearned premiums and unexpired risks reserves (gross)	46 049	113 771	-	-	-	-	17 509	3 624	-	-	180 953
Net earned premiums	**1 476 022**	**6 791 252**	**6 691 210**	**1 234 634**	-	-	**102 150**	**1 109 535**	**141 063**	-	**17 545 866**
Investment income, including:	121 403	518 130	601 663	250 382	2 287 073	6 949	41 270	21 782	16 064	175 239	4 039 955
Net investment result (external transactions)	121 403	518 130	601 663	250 382	506 166	6 949	41 270	21 782	16 064	175 239	2 259 048
Net investment result (cross-segment transactions)	-	-	-	-	1 780 907	-	-	-	-	-	1 780 907
Other technical income net of reinsurance	48 950	166 452	997	74	-	-	-	-	4	-	216 477
Operating revenues of non-insurance companies	-	-	-	-	-	118 521	-	-	-	591 876	710 397
Other operating revenue (not applicable to insurance companies)	-	-	-	-	-	908	-	-	-	21 091	21 999
Gross claims and benefits paid	(951 558)	(4 459 100)	(4 714 810)	(843 613)	-	-	(87 081)	(695 815)	(698 693)	-	(12 450 670)
Changes in provisions for outstanding claims and benefits (gross)	(267 738)	(69 651)	(35 413)	(6 581)	-	-	757	(13 128)	4 235	-	(387 519)
Reinsurers' share in claims and benefits paid	41 393	52 231	123	-	-	-	13 124	16 765	-	-	123 636
Reinsurer' share in change in provisions	308 352	32 425	-	-	-	-	(85)	5 243	-	-	345 935
Net claims	**(869 551)**	**(4 444 095)**	**(4 750 100)**	**(850 194)**	-	-	**(73 285)**	**(686 935)**	**(694 458)**	-	**(12 368 618)**
Changes in technical provision net of reinsurance, life insurance provisions, unit-linked technical provisions, risk equalization reserve	(10 040)	(26 916)	31 624	(240 832)	-	-	-	-	558 454	-	312 290
Bonuses and rebates for the insured net of reinsurance, including change in provisions	(6 059)	(1 132)	(266)	(209)	-	-	-	-	5	-	(7 661)
Other technical charges – net of reinsurance	(50 672)	(288 948)	(66 685)	(5 844)	-	-	-	-	(654)	-	(412 803)
Interest expenses							(255)	(1 833)		(65 502)	(67 590)
Acquisition expenses	(287 687)	(1 394 293)	(356 308)	(122 731)	-	(2 947)	(46 617)	(252 779)	(9 993)	-	(2 473 355)
Administrative expenses	(127 383)	(665 744)	(577 220)	(59 670)	-	(39 865)	(21 154)	(146 422)	(9 345)	-	(1 646 803)
Reinsurance commission and share in profits	16 627	(3 058)	(222)	-	-	-	-	-	-	-	13 347
Operating expenses of non-insurance companies	-	-	-	-	-	-	-	-	-	(590 660)	(590 660)
Other operating expenses (insurance companies excluded)	-	-	-	-	-	(2 087)	-	-	-	(22 978)	(25 065)
Insurance result / Operating profit (loss)	**311 610**	**651 648**	**1 574 693**	**205 610**	**2 287 073**	**81 479**	**2 109**	**43 348**	**1 140**	**109 066**	**5 267 776**

(in PLN thousand)

Profit and loss account for the period from 1 January 2014 to 31 December 2014	Corporate insurance (non-life insurance)	Mass-market insurance (non-life insurance)	Group and individually continued life insurance	Individual life insurance	Investments	Pension insurance	Ukraine	Baltic states	Investment contracts	Other activity	Segment total
	PAS	PAS	PAS	PAS	PAS	PAS	IFRS	IFRS	PAS	PAS	
Gross written premiums - external	1 807 349	6 559 511	6 539 082	1 268 637	-	-	173 562	536 498	374 467	-	17 259 106
Gross written premiums - cross-segment	23 794	9 973	-	-	-	-	-	-	-	-	33 767
Gross written premiums	**1 831 143**	**6 569 484**	**6 539 082**	**1 268 637**	-	-	**173 562**	**536 498**	**374 467**	-	**17 292 873**
Reinsurers' share in gross written premium	(226 610)	(62 606)	(4 272)	(122)	-	-	(32 988)	(27 698)	-	-	(354 296)
Net written premiums	**1 604 533**	**6 506 878**	**6 534 810**	**1 268 515**	-	-	**140 574**	**508 800**	**374 467**	-	**16 938 577**
											-
Changes in unearned premiums and unexpired risks reserves (gross)	(201 832)	37 816	2 242	(1 088)	-	-	(13 076)	(31 528)	14	-	(207 452)
Reinsurers' share in changes in unearned premiums and unexpired risks reserves (gross)	59 559	18 311	-	-	-	-	8 423	(278)	-	-	86 015
Net earned premiums	**1 462 260**	**6 563 005**	**6 537 052**	**1 267 427**	-	-	**135 921**	**476 994**	**374 481**	-	**16 817 140**
											-
Investment income, including:	136 456	562 821	713 254	326 696	2 823 234	11 639	41 058	14 617	43 550	167 678	4 841 003
Net investment result (external transactions)	136 456	562 821	713 254	326 696	578 923	11 639	41 058	14 617	43 550	167 678	2 596 692
Net investment result (cross-segment transactions)	-	-	-	-	2 244 311	-	-	-	-	-	2 244 311
											-
Other technical income net of reinsurance	37 215	106 596	1 103	48	-	-	-	-	5	-	144 967
Operating revenues of non-insurance companies	-	-	-	-	-	270 565	-	-	-	443 144	713 709
Other operating revenue (not applicable to insurance companies)	-	-	-	-	-	711	-	-	-	5 916	6 627
											-
Gross claims and benefits paid	(774 846)	(3 728 363)	(4 513 462)	(658 202)	-	-	(103 247)	(312 758)	(1 389 147)	-	(11 480 025)
Changes in provisions for outstanding claims and benefits (gross)	(315 611)	(693 683)	14 017	19 413	-	-	(1 786)	(21 625)	(2 571)	-	(1 001 846)
Reinsurers' share in claims and benefits paid	28 166	34 380	85	-	-	-	7 208	26 293	-	-	96 132
Reinsurer' share in change in provisions	98 323	24 254	-	-	-	-	3 477	(4 126)	-	-	121 928
Net claims	**(963 968)**	**(4 363 412)**	**(4 499 360)**	**(638 789)**	-	-	**(94 348)**	**(312 216)**	**(1 391 718)**	-	**(12 263 811)**
Changes in technical provision net of reinsurance, life insurance provisions, unit-linked technical provisions, risk equalization reserve	2 427	(9 526)	(70 328)	(611 119)	-	-	-	-	1 015 526	-	326 980
Bonuses and rebates for the insured net of reinsurance, including change in provisions	(2 325)	-	(638)	-	-	-	-	-	(38)	-	(3 001)
Other technical charges – net of reinsurance	(39 759)	(220 142)	(21 227)	(1 689)	-	-	-	-	(494)	-	(283 311)
Interest expenses							(22)	(766)		(82 944)	(83 732)
Acquisition expenses	(306 347)	(1 238 906)	(356 627)	(126 442)	-	(6 349)	(52 126)	(115 445)	(16 466)	-	(2 218 708)
Administrative expenses	(125 050)	(617 450)	(542 974)	(53 381)	-	(72 838)	(28 130)	(80 239)	(9 716)	-	(1 529 778)
Reinsurance commission and share in profits	16 192	(26 506)	1 570	-	-	-	-	-	-	-	(8 744)
Operating expenses of non-insurance companies	-	-	-	-	-	-	-	-	-	(415 875)	(415 875)
Other operating expenses (insurance companies excluded)	-	-	-	-	-	(244)	-	-	-	(25 625)	(25 869)
Insurance result / Operating profit (loss)	**217 101**	**756 480**	**1 761 825**	**162 751**	**2 823 234**	**203 484**	**2 353**	**(17 055)**	**15 130**	**92 294**	**6 017 597**

(in PLN thousand)

Reconciliation of the totals of segments and consolidated data	1 January - 31 December 2015		1 January - 31 December 2014	
	Net earned premium	Segment result	Net earned premium	Segment result
Segment total	17,545,866	5,267,776	16,817,140	6,017,597
Presentation of investment contracts	(141,063)	-	(374,481)	-
Equity instruments measurement	-	103,795	-	55,972
Property valuation	-	(31,708)	-	(29,821)
Equalization provision and prevention fund	-	25,193	-	(61,260)
The Company's Social Benefits Fund charges and actuarial expenses	-	(17,284)	-	(11,968)
Consolidation adjustments	(19,932)	(2,408,387) [1]	(13,289)	(2,277,302)
Consolidated data	**17,384,871**	**2,939,385**	**16,429,370**	**3,693,218**

[1] Consolidation adjustments result mostly from dividends paid between given segments and from different accounting standards that are applied to reporting given reporting segments (PAS and IFRS) and consolidated data (IFRS).

Geographical segmentation 2015	Poland	Baltic states	Ukraine	Non-allocated (consolidation eliminations and other)	Consolidated value
Gross written premiums – external	16,998,069	1,193,884	168,184	(1,093)	18,359,044
Gross written premiums – cross-segment	64,692	-	-	(64,692)	-
Revenue from commissions and fees	242,799	-	-	-	242,799
Net investment income	1,512,351	16,861	42,475	(419)	1,571,268
Net result on realization and impairment losses on investments	(390,839)	4,310	(2,193)	165,483	(223,239)
Net change in the fair value of assets and liabilities measured at fair value	389,649	611	988	-	391,248
Non-current assets other than financial [1]	2,387,834	302,298	3,229	(405)	2,692,956
Change in deferred tax assets	345,674	-	1,145	2,370	349,189
Assets	104,738,120	1,825,890	217,201	(1,352,202)	105,429,009

[1] Concerns intangible assets and property, plant and equipment.

Geographical segmentation 2014	Poland	Baltic states	Ukraine	Non-allocated (consolidation eliminations and other)	Consolidated value
Gross written premiums – external	16,174,579	536,498	173,562	-	16,884,639
Gross written premiums – cross-segment	26,815	-	-	(26,815)	-
Revenue from commissions and fees	350,764	-	-	-	350,764
Net investment income	1,654,726	10,241	39,682	-	1,704,649
Net result on realization and impairment losses on investments	426,016	1,402	(271)	-	427,147
Net change in the fair value of assets and liabilities measured at fair value	510,482	2,974	1,655	-	515,111
Non-current assets other than financial [1]	1,706,430	160,650	3,887	(666)	1,870,301
Change in deferred tax assets	20,556	5,383	1,018	-	26,957
Assets	67,788,204	1,185,229	224,704	(1,625,376)	67,572,761

[1] Concerns intangible assets and property, plant and equipment.

7.8 Information on key accounts

Due to the nature of operations undertaken by the companies of PZU Group, there are no accounts that would provide 10% or more of total revenues of PZU Group (defined as gross written premium). The Note 54.4 presents revenues from 10 biggest business partners of PZU Groups whose shares are held by the State Treasury. PZU Group does not recognize different entities controlled by the Polish government as a single customer (including government bodies and similar entities on the local, national or international level).

8. Risk management

8.1 Introduction

Risk management is aimed at:

- increasing the value of PZU Group through active and conscious management of risk assumed;
- preventing acceptance of risk at a level which could threaten the financial stability of PZU Group.

Risk management in PZU Group is based on risk analysis of all processes and units. Risk management is an integral part of the management system.

The main elements of risk management are consistent for all companies of PZU Group and implemented in a way which ensures the implementation of both strategic plans of individual companies and business objectives of the whole PZU Group. These include i.a.:

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

The risk management system of PZU Group is based on three components:

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

Risk management strategy at PZU Group and individual PZU Group's companies defines the framework of risk management by setting out limits of risk parameters (the definition of risk appetite and risk profile), indicating the roles and responsibilities of participants in the risk management, and its process. It is also used to improve business planning and maintaining the risk on an acceptable level.

The strategy and related policies of individual risk category management are aimed at:

- introducing a uniform definition of risk management;
- introducing the principles of identification, measurement and assessment, monitoring and control of risks, as well as making decisions about their magnitude.
- determining the risk appetite and risk profile.

As part of preparations for the entry into force of the Solvency II, all insurance entities of PZU Group were covered by a coherent, integrated risk management system. The approach implemented in 2015 assures compatibility with the provisions of the Act on Insurance and Reinsurance of 11 September 2015 (Journal of Laws of 2015, item 1844) which came into force as at 1 January 2016. Entities from other sector of the financial market are required to apply standards that are appropriate to their sector. The adopted internal regulations specify:

- processes, methods and procedures for measuring and managing risk;
- division of responsibilities in the risk management process;

- scope, conditions and frequency of risk management reports.

PZU supervises the risk management system of PZU Group on the basis of cooperation agreements and shared information, and manages the risk of PZU Group in aggregate terms.

Due to a short period of time which passed between the date of taking control over Alior Bank (18 December 2015) and the date of publication of the consolidated financial statement and due to the current banking regulations concerning e.g. banking secrecy, from the day of acquiring control by PZU Group to the date of publishing consolidated financial statements, risk management in Alior Bank was performed separately from risk management in other entities within PZU Group. Nevertheless, PZU Group may monitor risk management system at Alior Bank through the members of the supervisory board designated by PZU.

The main types of risk related to Alior Bank operations are the following: market risk (including risks concerning interest rate, liquidity, currency, and prices of goods), credit risk, and operational risk.

8.2 Organizational structure

The organizational structure of risk management system is consistent in PZU Group's individual insurance companies and includes four competence levels:

- •the Supervisory Board, which supervises the risk management process and assesses its adequacy and effectiveness as part of its decision-making powers defined in the given company’s Articles of Association and the Supervisory Board rules and regulations;
- the Management Board, which organizes the risk management system and ensures its functionality through approving the strategy and policies and defining the risk appetite, the risk profile and tolerance for individual categories of risk;
- Committees, which make decisions on reducing individual risks to a level determined by the risk appetite. The Committees implement the procedures and methodologies for mitigating the individual risks and accept individual risk limits.

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

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

In the risk management process at Alior Bank, management board and supervisory board of Alior Bank, as well as Assets and Liabilities Management Committee play an active role.

The Supervisory Board oversees the risk management process by determining an annual strategy in this respect, e.g. by accepting market risk management strategy, including main risk limits, and controlling the compliance of Alior Bank risk policy with the strategy and financial plan.

The Management Board of the Bank is responsible for e.g.: supervising the risk management process, risk monitoring and reporting; specifying proper organization and division of duties, accepting policy and guidelines related to risk management and determining detailed limits for reduction of Alior Bank risk, as well as providing a proper mechanism for controlling the limits and notifying when they are exceeded.

The key assumptions of market and liquidity risk management strategy at Alior Bank are included in the assets and liabilities management policy which is drafted on annual basis and presented by the Management Board of Alior Bank to the Supervisory Board of Alior Bank for approval as a part of the process of approving year budget. The strategy is in place by the times of the next update.

The Assets and Liabilities Management Committee exercises daily control over market risk management, including liquidity risk, accepts limits of Alior Bank operations on money and capital markets. It makes all decisions provided that they have not been previously qualified as exclusive competence of Alior Bank management board or supervisory board.

8.3 Risk appetite, risk profile and risk tolerance

The process of determining the risk appetite and limits for separate categories of risk in line with the group process has been implemented in the PZU Group's insurance companies. The Management Board of each company determines the risk appetite, the risk profile and tolerance limits which reflect its strategic plans and objectives of the entire PZU Group.

The risk appetite has been defined as the risk that the company is prepared to accept in pursuit of its business goals. The measure of risk appetite is the level of potential financial loss, decrease in the value of assets or an increase in the value of liabilities in the period of one year. The level of risk appetite is defined as the minimum capital requirement coverage ratio. The risk appetite determines the maximal level of acceptable risk when setting limits and restrictions for individual partial risks and the level which, when exceeded, results in taking specific management measures necessary to limit further risk growth.

The risk profile involves quantitative limits which define the risk appetite more precisely.

Tolerance limits are additional limits introduced for individual risk types to mitigate the potential risk.

Such an attitude ensures appropriateness and efficiency of the risk management system in PZU Group and prevents risk acceptance at a level which could pose a threat to the financial stability of both individual companies and the entire PZU Group. The company's Management Board is responsible for determining the appropriate risk level for that company. The risk unit reviews the level of risk appetite once a year. All activities are coordinated at the level of the Group.

The Management Board of Alior Bank is responsible for supervising the risk level, it is supervised by the Supervisory Boardwhere PZU has its representatives.

8.4 Risk identification, measurement, assessment, monitoring and reporting methods

Identification, measurement, evaluation, monitoring and reporting of risk and implemented management actions ensure ongoing adequacy and effectiveness of the risk management system. The risk management process in PZU Group consists of:

- identification – beginning with the proposal to commence the creation of an insurance product, acquire a financial instrument, change the operating process and 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. Identification of risk consists in the identification of actual and potential sources of risk, which are later analyzed in terms of significance;
- measurement and evaluation of risk – depending on the characteristics of the given risk type and the level of its significance. Risk is measured by specialized units. The risk unit in each company is responsible for the development of tools and measurement of risk in terms of risk appetite, risk profile and tolerance limits;
- monitoring and control of risk – consist of ongoing analysis of deviations from benchmarks, i.e. limits, thresholds, plans, prior period values as well as recommendations and guidance issued, conducted by dedicated units;
- reporting – it allows for effective communication on risk and supports risk management on various decision-making levels;
- management actions, including i.a.: risk avoidance, risk transfer, risk mitigation, determination of risk appetite, risk level acceptance as well as supporting tools, such as limits, reinsurance programs as well as underwriting policy reviews.

Two levels are distinguished in the risk management process:

- the PZU Group level – it ensures that PZU Group implements its business objectives in a safe way which is adjusted to the scale of risk involved. This level involves the monitoring of limits and types of risk specific to PZU Group, such as: catastrophe risk, financial risk, counterparty risk and risk concentration. PZU Group ensures support in the implementation of an integrated risk management system, including the introduction of coherent mechanisms, standards, and an efficient functioning of the internal control system (with emphasis on the compliance function), risk management system (in particular in the field of reinsurance), and safety management system within PZU Group, as well as monitors their current use. While carrying out their tasks within the integrated risk management system, the authorized persons of PZU Group cooperate with the Boards of subsidiaries and the management of areas such as finance, risk, actuary, reinsurance, investments and compliance, on the basis of appropriate cooperation agreements;

- the company level – it ensures that the company implements its business objectives in a safe way which is adjusted to the scale of risk involved. This level involves the monitoring of limits and specific types of risk occurring in a given company, and the implementation of mechanisms, standards, and an efficient functioning of the internal control system (with emphasis on the compliance function), risk management system (in particular in the field of reinsurance), and safety management system within the framework of the integrated risk management system.

8.5 Risk profile

A major change in PZU Group risk profile took place in 2015 and was related to consolidation of Alior Bank and disclosing the acquired loan and deposit portfolio in the statement of financial position. As a result, interest rate risk and credit risk related to these portfolios became significant risk components.

PZU Group is exposed to the following main types of risk: actuarial risk, market risk (with emphasis on interest rate risk), credit risk, concentration risk, operational risk and non-compliance risk.

The key event, from the point of view of the risk profile of PZU Group, was the integration of the risk management process in PZU Group's insurance companies, as well as the implementation of Solvency II requirements in these companies.

8.5.1. Actuarial risk (non-life and life insurance)

Actuarial risk – a possibility of loss or unfavorable change in the value of liabilities that can result from insurance contracts and insurance guarantee agreements, from incorrect assumptions regarding measurement and recognition of technical provisions.

Actuarial risk includes:

	Non-life insurance	Life insurance
Longevity risk – a possibility of loss or unfavorable change of insurance liabilities resulting from changes in the level, trend or volatility of the mortality factor if its increase results in a growth of insurance liabilities,	X	X
Cost risk – a possibility of loss or unfavorable change in the amount of insurance liabilities resulting from changes in the level, trend or volatility of costs incurred for insurance or reinsurance contract management.	X	X
Laps Risk – a risk of loss or unfavorable change in the amount of insurance liabilities resulting from changes in the level, trend or volatility of indicators, including withdrawal from contracts, termination or buyout of policies.	X	X
Catastrophe risk – a possibility of loss or unfavorable change in the value of insurance liabilities resulting from significant uncertainty of the assumptions regarding measurement and technical provisions for extreme or exceptional events.	X	X
Premium risk – a risk of improper estimation of tariff rates and the possibility of deviation from the expected written premium levels, resulting from volatility of occurrence, frequency and scale of insured events.	X	N/A
Provision risk – a risk of improper estimation of the level of technical provisions, as well as the possibility of fluctuations in the actual damage within the extent of its statistical average due to the stochastic nature of future claim payments.	X	N/A
Annuity revision risk – a risk of loss or unfavorable change in the value of insurance liabilities resulting from changes in the level, trend or volatility of annuity revision indicators related to changes in the legal environment or the health of the insured.	X	N/A
Mortality risk – a possibility of loss or unfavorable change of insurance liabilities resulting from changes in the level, trend or volatility of the mortality factor if its increase results in a growth of insurance liabilities,	N/A	X
Disability risk – a risk of loss or unfavorable change of insurance liabilities resulting from changes in the level, trend or volatility of the disability factor and occurrence of illnesses/diseases.	N/A	X

PZU Group manages actuarial risk i.a. by way of:

- calculating and monitoring the adequacy of technical provisions;
- tariff strategy and monitoring of the current estimates and evaluation of premium adequacy;
- underwriting;
- reinsurance.

Calculation and monitoring of adequacy of technical provisions

PZU Group manages the adequacy risk of technical provisions through application of appropriate calculation technology and control of processes related to determining of provisions. The provisioning policy is based on:

- prudent approach to determining technical provisions,
- continuity principle, consisting in the changelessness of the methods of technical provisioning, provided there are no significant circumstances which justify introduction of changes.

For non-life insurance, the level of technical provisions is evaluated once a month and in specific circumstances (making a payment, obtaining new information from liquidators or lawyers) their amount is updated. History of development and payments per balance sheet year is used to analyze the amount of technical provisions. The analysis results in assessment of precision of actuarial methods.

For life insurance products, public statistics (life expectancy tables) made available by specialized entities supported by historic data derived from insurance portfolios provide the main source of data to estimate the projected frequency of claims. Periodic statistical analyzes of claims incidence are made at the level of product groups, individual insurance portfolios and well-defined homogeneous risk groups. These analyzes allow determining relative frequency of claims compared to public statistics. The use of appropriate statistical methods allows to determine the significance of the determined statistics. If necessary, determined appropriate security charges are applied when creating technical provisions and risk evaluation. Estimating of technical provisions in PZU Group is supervised by main actuaries.

(in PLN thousand)

Tariff strategy, monitoring of current estimates and premium adequacy assessment

The purpose of the tariff policy is to ensure an adequate premium level, sufficient to cover the existing and future liabilities arising on concluded policies and expenses. Along with developing a tariff, simulations are carried out with regard to the projected insurance profit/loss in subsequent years. Additionally, regular premium adequacy and portfolio yield studies are regularly carried out for each insurance type based on, among others, evaluation of the technical result on a product for a given financial year. Frequency of analyzes is adjusted to the materiality of the product and possible result fluctuation. If the course of insurance is unfavorable, activities are undertaken to restore a defined profitability level, involving adjusting premium tariffs or the insured risk profile through modifying general insurance terms.

Underwriting

Regarding corporate customers and SME, a separate underwriting process independent from the sales function is carried out. The process of selling insurance for corporate customers is preceded with an analysis and assessment of risk carried out by dedicated underwriting teams. The underwriting process includes a three-stage risk acceptance system depending on competency scopes and limits granted.

Reinsurance

The objective of the reinsurance program in PZU Group in non-life insurance is to secure its core business by mitigation of catastrophic risk that may negatively impact the financial standing of PZU Group. The task is performed in the form of concluding obligatory contracts with additional facultative reinsurance

PZU Group limits its risk i.a. by way of:

- non-proportional excess of loss treaties which protect the portfolios against catastrophic losses (e.g. flood, hurricane);
- non-proportional excess of loss treaties which protect property, technical, marine, aviation, TPL and MTPL portfolios against the effects of large single losses;
- proportional treaties which protects the financial insurance portfolio.

Optimization of the reinsurance program in terms of protection against catastrophic claims is based on the results of internal analyses and uses third-party models.

8.5.1.1. Exposure to insurance risk in non-life products

Primary cost ratios in non-life insurance	1 January – 31 December 2015	1 January – 31 December 2014
Expense ratio	29.96%	28.94%
Claims ratio, net of reinsurance	63.82%	66.39%
Reinsurer’s retention ratio	3.54%	3.84%
Combined ratio	93.78%	95.32%

The expense ratio is calculated by dividing the total acquisition costs, administrative expenses, reinsurance commissions and share in reinsurers’ profits by the net premiums earned.

The claims ratio net of reinsurance is calculated by dividing claims and the net change in technical provisions by the net premiums earned.

The reinsurer's retention ratio is calculated by dividing a reinsurer’s share in gross written premiums by the gross written premiums.

Combined ratio is defined as the ratio of the total of acquisition costs, administrative expenses, reinsurance commissions and share in reinsurers’ profits, claims and changes in net technical provisions to the net earned premiums.

The following tables present development of technical provisions and payments in subsequent financial years.

Claims development in direct property and personal insurance, gross (by financial year)	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Provision at the end of the financial year	7,540,570	7,898,097	8,292,721	8,698,661	9,380,501	9,870,123	10,989,024	11,782,567	13,311,566	13,162,561
The provision and the total claim payments (from the end of the first financial year to the end of the current financial year, excluding payments made before the end of the first financial year):										
- calculated one year later	7,300,086	7,697,588	8,382,022	8,560,746	9,680,960	10,298,173	11,285,586	12,241,486	13,031,673	
- calculated two years later	7,286,968	7,833,155	8,409,631	8,855,827	10,192,492	10,752,650	11,958,413	12,179,921		
- calculated three years later	7,436,865	7,852,001	8,757,918	9,346,313	10,718,813	11,589,871	11,973,179			
- calculated four years later	7,443,246	8,140,607	9,215,412	9,874,432	11,574,390	11,738,383				
- calculated five years later	7,661,124	8,599,531	9,723,948	10,712,439	11,735,090					
- calculated six years later	8,102,772	9,076,948	10,558,365	10,875,392						
- calculated seven years later	8,523,330	9,842,325	10,747,125							
- calculated eight years later	9,224,422	10,027,933								
- calculated nine years later	9,416,220									
Total provision and claim payments (from the end of the first financial year to the end of the current financial year, excluding payments made before the end of the first financial year)	9,416,220	10,027,933	10,747,125	10,875,392	11,735,090	11,738,383	11,973,179	12,179,921	13,031,673	
The total claim payments (from the end of the first financial year to the end of the current financial year, excluding payments made before the end of the first financial year)	4,684,166	4,835,703	4,996,462	4,628,205	4,904,361	4,169,497	3,675,277	2,957,342	2,237,974	
Provision recognized in the statement of financial positions	4,732,054	5,192,230	5,750,663	6,247,187	6,830,729	7,568,886	8,297,902	9,222,579	10,793,699	
Difference between the first year provision and the run-off result estimated at the end of reporting year	(1,875,650)	(2,129,836)	(2,454,404)	(2,176,731)	(2,354,589)	(1,868,260)	(984,155)	(397,354)	279,893	
The above difference as a percentage of the first year provision	-25%	-27%	-30%	-25%	-25%	-19%	-9%	-3%	2%	

Claims development in direct property and personal insurance, net of reinsurance (by financial year)	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Provision at the end of the financial year	6,356,239	6,916,099	7,433,410	7,972,938	8,639,044	9,304,621	10,413,376	11,453,315	12,813,985	12,652,743
The provision and the total claim payments (from the end of the first financial year to the end of the current financial year, excluding payments made before the end of the first financial year):										
- calculated one year later	6,145,931	6,790,822	7,568,099	7,843,760	8,838,330	9,731,139	10,722,247	11,787,321	12,524,663	
- calculated two years later	6,201,722	6,968,715	7,597,785	8,091,605	9,344,945	10,185,213	11,282,329	11,703,615		
- calculated three years later	6,396,354	6,991,045	7,909,625	8,558,410	9,872,521	10,946,654	11,277,787			
- calculated four years later	6,405,273	7,246,292	8,343,715	9,106,236	10,672,033	11,071,268				
- calculated five years later	6,589,073	7,683,193	8,874,588	9,891,566	10,817,590					
- calculated six years later	7,008,662	8,189,106	9,656,518	10,037,345						
- calculated seven years later	7,457,627	8,904,032	9,826,508							
- calculated eight years later	8,108,651	9,070,206								
- calculated nine years later	8,280,359									
Total provision and claim payments (from the end of the first financial year to the end of the current financial year, excluding payments made before the end of the first financial year)	8,280,359	9,070,206	9,826,508	10,037,345	10,817,590	11,071,268	11,277,787	11,703,615	12,524,663	
The total claim payments (from the end of the first financial year to the end of the current financial year, excluding payments made before the end of the first financial year)	3,745,809	4,075,856	4,281,212	3,996,811	4,211,923	3,760,879	3,308,752	2,858,444	2,176,622	
Provision recognized in the statement of financial positions	4,534,550	4,994,350	5,545,296	6,040,534	6,605,667	7,310,389	7,969,035	8,845,171	10,348,041	
Difference between the first year provision and the run-off result estimated at the end of reporting year	(1,924,120)	(2,154,107)	(2,393,098)	(2,064,407)	(2,178,546)	(1,766,647)	(864,411)	(250,300)	289,322	
The above difference as a percentage of the first year provision	-30%	-31%	-32%	-26%	-25%	-19%	-8%	-2%	2%	

Increase in the negative value of the run-off result in 2015 is mainly the result of identifying the claims relating to personal claims for previous years claims.

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Motor insurance products (MTPL and own damage) account for the major part of PZU Group portfolio. Both types of insurances are usually concluded for a year, during which a claim must occur to be covered. The own damage insurance is based on a claim-made principle, so it is not a source of uncertainty. It is unlike MTPL, which is an occurrence insurance (there is up to 30 years for making a claim). The amount of property claims is particularly sensitive to the number of court claims made and court decisions regarding individual cases. In case of MTPL contracts, new types of claims emerge along with additional deferred claims, which significantly add to the complexity of estimating the technical provisions amount.

Risk concentration in non-life insurance

Due to the climatic conditions of the region where PZU Group operates, the concentration risk may occur in the case of catastrophic damage such as floods or hurricanes. For this reason, presented below is catastrophic damage PZU Group is exposed to.

Depending on the percentage of the value of paid out flood and hurricane damage in the total value of claims paid in the period in which the catastrophic events occurred, i.e. the floods or hurricanes, three groups of regions have been distinguished. Next, relevant insurance sums and the number of policies was defined for each region, thus arriving at flood and hurricane risk concentration.

Risk concentration in non-life insurance – flood claims exposure

Risk concentration in non-life insurance – flood claims exposure as at 31 December 2015		Sum insured					Total
		0-200 thousand PLN	200-500 thousand PLN	500-1 ,000 thousand PLN	1,000-2,000 thousand PLN	over 2,000 thousand PLN	
A group regions – where flood claims constitute 0 to 5% of total claims	Sum insured	6.5%	10.0%	4.3%	1.9%	9.8%	**32.5%**
	Number of policies	32.2%	10.3%	2.1%	0.5%	0.3%	**45.4%**
B group regions – where flood claims constitute 5 to 15% of total claims	Sum insured	1.1%	1.5%	0.8%	0.6%	7.1%	**11.1%**
	Number of policies	5.8%	1.6%	0.4%	0.1%	0.2%	**8.1%**
C group regions – where flood claims constitute over 15% of total claims	Sum insured	6.4%	10.3%	3.9%	2.1%	33.7%	**56.4%**
	Number of policies	33.1%	10.6%	1.9%	0.5%	0.4%	**46.5%**
Total	**Sum insured**	**14.0%**	**21.8%**	**9.0%**	**4.6%**	**50.6%**	**100.0%**
	Number of policies	**71.1%**	**22.5%**	**4.4%**	**1.1%**	**0.9%**	**100.0%**

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Risk concentration in non-life insurance – flood claims exposure as at 31 December 2014		Sum insured					Total
		0-200 thousand PLN	200-500 thousand PLN	500-1 ,000 thousand PLN	1,000-2 ,000 thousand PLN	over 2,000 thousand PLN	
A group regions – where flood claims constitute 0 to 5% of total claims	Sum insured	3.8%	6.6%	2.5%	1.2%	12.4%	**26.5%**
	Number of policies	18.6%	5.6%	1.2%	0.3%	0.3%	**26.0%**
B group regions – where flood claims constitute 5 to 15% of total claims	Sum insured	2.5%	2.8%	1.1%	0.9%	6.4%	**13.7%**
	Number of policies	12.3%	2.8%	0.5%	0.2%	0.2%	**16.0%**
C group regions – where flood claims constitute over 15% of total claims	Sum insured	8.2%	12.9%	4.9%	2.4%	31.4%	**59.8%**
	Number of policies	41.8%	13.0%	2.3%	0.5%	0.4%	**58.0%**
Total	**Sum insured**	**14.5%**	**22.3%**	**8.5%**	**4.5%**	**50.2%**	**100.0%**
	Number of policies	**72.7%**	**21.4%**	**4.0%**	**1.0%**	**0.9%**	**100.0%**

Risk concentration in property and personal insurance - hurricane claims exposure

Risk concentration in non-life insurance – hurricane claims exposure as at 31 December 2015		Sum insured					Total
		0-200 thousand PLN	200-500 thousand PLN	500-1 ,000 thousand PLN	1,000-2 ,000 thousand PLN	over 2,000 thousand PLN	
A group regions – where hurricane claims constitute 0 to 5% of total claims	Sum insured	6.2%	9.9%	4.3%	2.0%	14.9%	**37.3%**
	Number of policies	32.9%	10.2%	2.0%	0.5%	0.3%	**45.9%**
B group regions – where hurricane claims constitute 5 to 15% of total claims	Sum insured	4.6%	8.0%	3.1%	1.6%	25.5%	**42.8%**
	Number of policies	23.1%	8.2%	1.5%	0.4%	0.6%	**33.8%**
C group regions – where hurricane claims constitute over 15% of total claims	Sum insured	2.9%	4.0%	1.7%	1.0%	10.3%	**19.9%**
	Number of policies	15.1%	4.1%	0.8%	0.2%	0.1%	**20.3%**
Total	**Sum insured**	**13.7%**	**21.9%**	**9.1%**	**4.6%**	**50.7%**	**100.0%**
	Number of policies	**71.1%**	**22.5%**	**4.3%**	**1.1%**	**1.0%**	**100.0%**

Risk concentration in non-life insurance – hurricane claims exposure as at 31 December 2014		Sum insured					Total
		0-200 thousand PLN	200-500 thousand PLN	500-1 ,000 thousand PLN	1,000-2 ,000 thousand PLN	over 2,000 thousand PLN	
A group regions – where hurricane claims constitute 0 to 5% of total claims	Sum insured	8.9%	15.6%	6.0%	3.0%	38.3%	**71.8%**
	Number of policies	46.3%	14.5%	2.8%	0.7%	0.8%	**65.1%**
B group regions – where hurricane claims constitute 5 to 15% of total claims	Sum insured	4.7%	5.8%	2.2%	1.3%	9.8%	**23.8%**
	Number of policies	22.8%	5.9%	1.0%	0.3%	0.3%	**30.3%**
C group regions – where hurricane claims constitute over 15% of total claims	Sum insured	0.7%	0.9%	0.3%	0.2%	2.3%	**4.4%**
	Number of policies	3.5%	0.9%	0.2%	0.0%	0.0%	**4.6%**
Total	**Sum insured**	**14.3%**	**22.3%**	**8.5%**	**4.5%**	**50.4%**	**100.0%**
	Number of policies	**72.6%**	**21.3%**	**4.0%**	**1.0%**	**1.1%**	**100.0%**

Transfer of risk to the areas of a higher percentage of hurricane claims results from a larger number of events subject to insurance caused by hurricanes in 2015 versus the events of 2014.

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Risk concentration in non-life insurance: general liability insurance

Risk concentration in property and casualty general liability insurance measured by the gross written premium amount is presented sorted by guarantee amount and type of coverage.

Gross written premium in non-life insurance – TPL as at 31 December 2015	Sum insured					Total
	0-200 thousand PLN	200-500 thousand PLN	500-1 ,000 thousand PLN	1,000-2 ,000 thousand PLN	over 2,000 thousand PLN	
General TPL in personal life and other	18.4%	3.4%	2.3%	2.9%	12.7%	**39.7%**
Medical TPL	0.5%	1.2%	1.1%	6.0%	26.3%	**35.1%**
Professional TPL except from medical and agricultural (legal, consulting, etc.)	8.0%	3.6%	1.7%	2.1%	4.4%	**19.8%**
TPL of farmers and their movable property	0.0%	0.0%	0.0%	5.3%	0.0%	**5.3%**
Product TPL	0.0%	0.0%	0.0%	0.0%	0.1%	**0.1%**
Total	**26.9%**	**8.2%**	**5.1%**	**16.3%**	**43.5%**	**100.0%**

Gross written premium in non-life insurance – TPL as at 31 December 2014	Sum insured					Total
	0-200 thousand PLN	200-500 thousand PLN	500-1 ,000 thousand PLN	1,000-2 ,000 thousand PLN	over 2,000 thousand PLN	
General TPL in personal life and other	15.5%	3.4%	2.5%	2.9%	14.1%	**38.4%**
Medical TPL	0.6%	1.0%	1.2%	6.4%	33.1%	**42.3%**
Professional TPL except from medical and agricultural (legal, consulting, etc.)	5.5%	2.9%	1.3%	1.5%	3.7%	**14.9%**
TPL of farmers and their movable property	0.0%	0.0%	0.0%	4.3%	0.0%	**4.3%**
Product TPL	0.0%	0.0%	0.0%	0.0%	0.1%	**0.1%**
Total	**21.6%**	**7.3%**	**5.0%**	**15.1%**	**51.0%**	**100.0%**

Capitalized annuity amount

The below results do not take into account the impact of changes in valuation of deposits taken into consideration in the calculation of the provision value.

Gross change in the assumptions for the provision for capitalized value of annuities amount in non-life insurance	Effect of change in the assumptions on net financial profit/loss		Effect of changes in assumptions on equity	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Technical rate – increase by 0.5 p.p.	426,594	426,244	426,594	426,244
Technical rate – decrease by 1.0 p.p.	(1,103,521)	(1,101,344)	(1,103,521)	(1,101,344)
Mortality at 110% of the currently assumed rate	131,619	132,268	131,619	132,268
Mortality at 90% of the currently assumed rate	(146,720)	(147,984)	(146,720)	(147,984)

Change in the assumptions for the provision for capitalized value of annuities amount – net of reinsurance in property and personal insurance	Effect of change in the assumptions on net financial profit/loss		Effect of changes in assumptions on equity	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Technical rate – increase by 0.5 p.p.	411,837	415,451	411,837	415,451
Technical rate – decrease by 1.0 p.p.	(1,063,628)	(1,073,704)	(1,063,628)	(1,073,704)
Mortality at 110% of the currently assumed rate	127,435	128,940	127,435	128,940
Mortality at 90% of the currently assumed rate	(142,011)	(144,263)	(142,011)	(144,263)

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8.5.1.2. Exposure to insurance risk in life products

PZU Group has not presented information on the development of claims in life insurance due to the fact that the uncertainty regarding amounts and claim payment periods usually stops within one year.

Risk concentration in this group is related to the concentration of contracts or sums insured. For traditional individual insurance products, where risk of concentration is related to occurrence probability of the covered event or to potential claims amounts arising on a single event, risk assessment is based on case by case approach. The assessment includes both medical risk and – in justified cases – financial risk. Such an approach allows selection of risks (evaluation of an individual concluding an insurance contract) and defining of the maximum acceptable risk level.

In group products, concentration risk occurrence is limited by the contract portfolio size. This allows for significant reduction of the level of distraction resulting from random insurance course. Additionally, the form of a contract, under which all the insured have the same sum insured and coverage is a material risk-mitigating factor. Therefore, some risks are not concentrated within a portfolio.

In the case of group insurance contracts, allowing adjusting of coverage at the level of each group of contracts, a simplified risk assessment is applied. It is carried out on the basis of information about the industry of a given employer, assuming appropriate participation limits of the insured in respect of all persons employed in the workplace. In such cases, premium and charges are based on statistical analyzes carried out in relation to the frequency of claims on the level of defined homogeneous risk groups, including relative frequency of events compared to public statistics.

It should be noted that for most contracts the claim amount is clearly defined in the contract. Therefore, compared to typical non-life insurance contracts, the concentration risk decreases, i.e. occurrence of single events necessitating large claims is relatively low.

Annuity insurance products in life insurance

Changes in the annuity insurance in life insurance portfolio	Effect of change in the assumptions on net financial profit/loss		Effect of changes in assumptions on equity	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Technical interest rate – decrease by 1.0 p.p.	(31,501)	(34,259)	(31,501)	(34,259)
Mortality at 90% of the currently assumed rate	(11,704)	(12,318)	(11,704)	(12,318)

Assumptions regarding liabilities arising from insurance and investment contracts with DPF in life insurance excluding annuity insurance

Change in assumptions regarding provisions for insurance and investment contracts with DPF in life insurance excluding annuity products	Effect of change in the assumptions on net financial profit/loss		Effect of changes in assumptions on equity	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Technical interest rate – decrease by 1.0 p.p.	(2,157,032)	(2,194,319)	(2,157,032)	(2,194,319)
Mortality at 110% of the currently assumed rate	(901,924)	(922,805)	(901,924)	(922,805)
110% morbidity and accident rate	(178,931)	(187,082)	(178,931)	(187,082)

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Effects of customers' withdrawing from life insurance products

Calculation of technical provisions for life insurance does not include the risk of the insured's withdrawal. Below please find the effects of hypothetical withdrawal of 10% of total customers with life insurance products in PZU Życie.

Item in financial statements	31 December 2015	31 December 2014
Change in technical provisions	2,116,763	2,093,927
Claims and benefits paid	(803,356)	(782,563)
Change in deferred acquisition costs	(7,002)	(6,256)
Gross financial profit/loss	1,306,406	1,305,109
Net financial profit/loss	1,058,189	1,057,138
Equity	1,058,189	1,057,138

8.5.2. Market risk

Market risk is a risk of a loss or an unfavorable change in the financial position, resulting directly or indirectly from changes in the level or volatility of market prices of assets, credit spread, value of liabilities and financial instruments.

Market risk in PZU Group includes:

- share price risk – a possibility of incurring a loss following changes in the value of assets, liabilities and financial instruments as a result of changes in market share prices or their volatility;
- unlisted share price – a possibility of incurring a loss following changes in the value of unlisted shares;
- property price risk – a possibility of incurring a loss following changes in the value of assets, liabilities and financial instruments as a result of changes in market prices or their volatility;
- goods price risk – a possibility of incurring a loss following changes in the value of assets, liabilities and financial instruments as a result of changes in market prices or their volatility;
- inflation risk – a possibility of incurring a loss resulting from inflation, in particular inflation of goods and services prices, as well as expectations regarding the future inflation level which impact valuation of assets and liabilities;
- liquidity risk – the inability to realize investments and other assets with no impact on their market prices in order to settle one's financial liabilities when they fall due;
- interest rate risk – a possibility of incurring a loss following changes in the value of financial instruments or assets and fluctuations in the present value of projected cash flows on liabilities following changes in term of structure of market interest rates or volatility of these risk-free rates;
- basis risk – a possibility to incur a loss following changes in the value of financial instruments or assets and fluctuations in the present value of projected cash flows on liabilities following changes in term structure of market interest rate spreads as compared to risk-free rates or volatility of these spreads – with the exception of credit spreads;
- currency risk – a possibility of incurring a loss following changes in the value of assets, liabilities and financial instruments as a result of changes in exchange rates or their volatility.
- credit spread risk – the possibility of incurring losses due to changes in the value of assets, liabilities and financial instruments arising from changes in the level of credit spreads with regard to the time structure debt instruments issued by the State Treasury or their volatility;
- concentration risk – a risk arising from lack of diversification in the portfolio of assets or from high exposure to counterparty risk including a single issuer of securities or a group of related issuers.

Concentration risk and credit spread risk are regarded as an integral part of market risk when measuring risk for the purpose of evaluating a risk profile, risk tolerance, and reporting indicators of market risk. However, the process of managing these risks is different in nature than in case of other subcategories of market risk, and is described in Note 8.5.3 along with the process of managing the counterparty risk.

Market risk in PZU Group originates from three key sources:

- matching of assets and liabilities (ALM portfolio);
- strategic allocation of assets, i.e. determining an optimum medium-term structure of assets (AA portfolios);

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- Alior Bank bank activity – as the result of which PZU Group significantly increased exposure to interest rate risk and credit risk).

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

Departments of risk take part in the risk identification process, measure those risks, monitor and report them. Market risk is measured by the Value at Risk method. The total market risk value is determined by aggregated amounts of individual risks based on a pre-defined correlation matrix. In order to effectively manage market risk, limits in a form of capital amounts allocated to each market risk, as well as limits for separate market risk factors are determined.

In Alior Bank the exposure to market and liquidity risk is mitigated by the system of periodically updated limits introduced by the resolution of the Supervisory Board or the Management Board, which cover all measures of risk. In Alior Bank there are three types of limits which differ in scope and functioning method – basic, supplementary and stress-test limits. The market risk management focuses on potential changes in economic result.

Market risk exposure

Carrying amount as at 31 December 2015	Note	Risk covering assets of the Group	Unit-linked assets	Total
Financial assets and cash exposed to interest rate risk		**82,838,239**	**1,625,086**	**84,463,325**
Fixed interest debt instruments	35.1,35.2 , 35.3, 35.4	30,962,178	1,429,723	32,391,901
Floating interest debt instruments	35.1,35.2 , 35.3, 35.4	7,963,895	103,956	8,067,851
Loan receivables from clients	35.4	30,331,615	-	30,331,615
Term deposits with credit institutions	35.4	5,187,637	91,407	5,279,044
Loans	35.4	1,929,045	-	1,929,045
Cash	40	2,439,863	-	2,439,863
Buy sell-back transactions	35.4	3,132,740	-	3,132,740
Derivative instruments		891,266	-	891,266
Financial assets exposed to other price risk		**3,671,814**	**3,541,002**	**7,212,816**
Shares listed on the regulated market	35.2, 35.3	2,984,125	519,322	3,503,447 [1)]
Participation units and certificates in investment funds	35.2 , 35.3	466,001	3,021,680	3,487,681 [2)]
Derivative instruments	35.3	221,688	-	221,688
Total		**86,510,053**	**5,166,088**	**91,676,141**

[1)] Difference of the values presented as equity instruments listed on the regulated market in Notes 35.2 and 35.3 amounting to PLN 19,153 thousand regards listed units and investment certificates in the line below.
[2)] Difference of the values presented as equity instruments not listed on the regulated market in the Notes 35.2 and 35.3 and amounting to PLN 33,700 47,374 thousand regards listed units and investment certificates (PLN 19,153 thousand) and non-listed equity instruments other than units and investment certificates not included in that item (PLN 52,853 thousand).

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Carrying amount as at 31 December 2014	Note	Risk covering assets of the Group	Unit-linked assets	Total
Financial assets and cash exposed to interest rate risk		**48,991,002**	**1,557,038**	**50,548,040**
Fixed interest debt instruments	35.1,35.2 , 35.3, 35.4	30,686,636	1,368,931	32,055,567
Floating interest debt instruments	35.1,35.2 , 35.3, 35.4	5,851,652	105,969	5,957,621
Term deposits with credit institutions	35.4	6,061,643	82,138	6,143,781
Loans	35.4	2,309,972	-	2,309,972
Cash	35.4	324,007	-	324,007
Buy sell-back transactions	40	3,250,173	-	3,250,173
Derivative instruments	35.4	506,919	-	506,919
Financial assets exposed to other price risk		**3,110,178**	**3,422,151**	**6,532,329**
Shares listed on the regulated market		2,831,054	532,352	3,363,406 [1)]
Participation units and certificates in investment funds	35.2, 35.3	239,640	2,889,799	3,129,439 [2)]
Derivative instruments		39,484	-	39,484
Total		**52,101,180**	**4,979,189**	**57,080,369**

[1)] Difference of the values presented as equity instruments listed on the regulated market in notes 35.2 and 35.3 amounting to PLN 10,529 thousand regards listed units and investment certificates in the line below.

[2)] Difference of the values presented as equity instruments not listed on the regulated market in the notes 35.2 and 35.3 amounting to PLN 10,073 thousand regards listed units and investment certificates (PLN 10,529 thousand) and non-listed equity instruments other than units and investment certificates not included in that item (PLN 456 thousand).

As at 31 December 2015 there were no financial assets and liabilities held for sale.

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Carrying amount of financial assets and cash held for sale	Note 42	31 December 2014
Financial assets and cash exposed to interest rate risk		314,284
Fixed interest debt instruments		217,852
Term deposits with credit institutions		88,085
Cash		8,347
Financial assets exposed to other price risk		36,702
Shares listed on the regulated market		16,366
Participation units and certificates in investment funds		20,336
Total		**350,986**

In its investing activities PZU Group uses derivatives to manage various investment risks. Most of the aforesaid instruments reduce exposure to individual types of risks.

The table below presents PZU Group's derivatives as at 31 December 2015 and 31 December 2014.

Interest rate derivatives	Base amount by maturity as at 31 December 2015					Assets at fair value as at 31 December 2015	Liabilities at fair value as at 31 December 2015
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total		
Instruments presented as cash flows hedges – OTC, including:	100,000	6,060,000	4,635,000	-	10,795,000	139,578	-
- SWAP transactions	100,000	6,060,000	4,635,000	-	10,795,000	139,578	-
Instruments presented as held for trading, including:	**4,539,937**	**9,150,822**	**41,305,044**	**8,479,530**	**63,475,333**	**751,688**	**846,515**
Instruments listed on the regulated market, including:	413,148	1,236,454	411,090	-	2,060,692	-	20,362
- futures	413,148	1,236,454	411,090	-	2,060,692	-	20,362
OTC instruments, including:	4,126,789	7,914,368	40,893,954	8,479,530	61,414,641	751,688	826,153
- futures	2,449,411	162,123	6,543	-	2,618,077	22,168	19,905
- SWAP transactions	1,299,586	6,872,059	40,069,037	8,359,530	56,600,212	725,722	802,450
- call options	188,896	440,093	409,187	60,000	1,098,176	3,798	-
- put options	188,896	440,093	409,187	60,000	1,098,176	-	3,798
Total interest rate derivatives	**4,639,937**	**15,210,822**	**45,940,044**	**8,479,530**	**74,270,333**	**891,266**	**846,515**

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Interest rate derivatives	Base amount by maturity as at 31 December 2014					Assets at fair value as at 31 December 2014	Liabilities at fair value as at 31 December 2014
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total		
OTC instruments, including:	5,405,303	13,317,880	27,608,149	5,145,782	51,477,114	506,919	556,426
- futures	2,500,000	6,417,880	-	-	8,917,880	7,203	5,735
- SWAP transactions	2,905,303	6,900,000	27,608,149	5,145,782	42,559,234	499,716	550,691
Total interest rate derivatives	**5,405,303**	**13,317,880**	**27,608,149**	**5,145,782**	**51,477,114**	**506,919**	**556,426**

Derivatives linked to currency exchange rates	Base amount by maturity as at 31 December 2015					Assets at fair value as at 31 December 2015	Liabilities at fair value as at 31 December 2015
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total		
OTC instruments, including:	**6,661,014**	**2,619,764**	**1,654 394**	**68,016**	**11,003,188**	**170,129**	**63,213**
- futures	1,448,763	573,313	295,341	-	2,317,417	54,620	7,747
- SWAP transactions	4,892,809	1,622,877	1,235,293	68,016	7,818,995	106,385	46,339
- call options	159,721	211,787	61,880	-	433,388	9,124	-
- put options	159,721	211,787	61,880	-	433,388	-	9,127
Total derivatives linked to currency exchange rates	**6,661,014**	**2,619,764**	**1,654,394**	**68,016**	**11,003,188**	**170,129**	**63,213**

Derivatives linked to currency exchange rates	Base amount by maturity as at 31 December 2014				Assets at fair value as at 31 December 2014	Liabilities at fair value as at 31 December 2014
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Total		
Instruments listed on the regulated market, including:	-	620,808	1,030,540	1,651,348	-	9,516
- futures	-	620,808	1,030,540	1,651,348	-	9,516
OTC instruments, including:	3,899,010	175,360	-	4,074,370	14,975	48,266
- futures	1,292,039	-	-	1,292,039	720	15,633
- SWAP transactions	2,606,971	-	-	2,606,971	13,016	32,633
- call options	-	87,680	-	87,680	994	-
- put options	-	87,680	-	87,680	245	-
Total derivatives linked to currency exchange rates	**3,899,010**	**796,168**	**1,030,540**	**5,725,718**	**14,975**	**57,782**

Security price derivatives	Base amount by maturity as at 31 December 2015					Assets at fair value as at 31 December 2015	Liabilities at fair value as at 31 December 2015
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total		
Instruments listed on the regulated market, including:	514	28,987	-	-	29,501	131	-
- futures	514	-	-	-	514		-
- call options (sale)	-	28,987	-	-	28,987	131	-
OTC instruments, including:	119,893	736,339	384,091	3,177,910	4,418,233	51,428	30,756
- call options	119,893	385,223	384,091	1,588,955	2,478,162	51,428	-
- call options (sale)	-	351,116	-	1,588,955	1,940,071	-	30,756
Total security price derivatives	**120,407**	**765,326**	**384,091**	**3,177,910**	**4,447,734**	**51,559**	**30,756**

Security price derivatives	Base amount by maturity as at 31 December 2014				Assets at fair value as at 31 December 2014	Liabilities at fair value as at 31 December 2014
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Total		
Instruments listed on the regulated market, including:	-	734,930	1,030,540	1,765,470	1,843	9,516
- futures	-	620,808	1,030,540	1,651,348	-	9,516
- call options	-	114,122	-	114,122	1,843	-
OTC instruments, including:	215,110	102,539	365,732	683,381	22,666	2,120
- futures	153,443	-	-	153,443	-	2,120
- call options	61,667	102,539	365,732	529,938	22,666	-
Total security price derivatives	**215,110**	**837,469**	**1,396,272**	**2,448,851**	**24,509**	**11,636**

Risk concentration

	31 December 2015 (PLN thousand)	31 December 2015 (% of financial asset value)	31 December 2014 (PLN thousand)	31 December 2014 (% of financial asset value)
Involvement in treasury instruments issued and guaranteed by the Polish State Treasury and buy-sell-back transactions on these instruments	32,996,823	36.7%	36,161,177	63.7%
PZU Group's involvement in shares listed on the Warsaw Stock Exchange	4,896,218	5.4%	2,713,587	4.8%
Involvement in assets related to one bank (PKO Bank Polski SA - bank deposits, debt instruments and shares of that bank)	2,231,099	2.5%	1,953,044	3.4%
General involvement bank assets - bank deposits, debt instruments issued by banks, shares of banks and derivative transactions concluded with banks	14,431,537	16.1%	13,201,504	23.3%
Involvement in financial assets denominated in Polish zloty	79,906,781	88.9%	52,678,740	92.8%

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Exposure to debt instruments issued by treasuries other than the Polish Treasury, companies and local government authorities

Table below present the exposure of the PZU Group entities to bonds issued by treasuries other than the Polish Treasury, companies and local government authorities. Financial instruments classified as held to maturity as well as loans and receivables have been presented as measured at amortized cost, while financial instruments classified as available for sale and measured at fair value through profit or loss (both classified as such upon initial recognition and held for trading) have been presented as measured at fair value.

Debt instruments issued by treasuries other than the Polish Treasury

As at 31 December 2015	Currency	Reclassification to portfolio	Cost	Carrying amount	Fair value	Impairment loss
Bulgaria	EUR	at fair value	24,715	25,664	25,664	-
Bulgaria	EUR	at amortized cost	15,361	15,495	15,465	-
Croatia	EUR	at amortized cost	16,910	17,023	16,806	-
Croatia	USD	at fair value	6,092	8,336	8,336	-
Czech Republic	CZK	at fair value	105,555	105,591	105,591	-
Spain	EUR	at fair value	78,536	76,260	76,260	-
Ireland	EUR	at fair value	6,878	6,827	6,827	-
Ireland	EUR	at amortized cost	7,433	7,547	7,800	-
Iceland	USD	at fair value	7,420	10,249	10,249	-
Lithuania	EUR	at fair value	374,017	400,777	400,777	-
Lithuania	EUR	at amortized cost	137,041	139,542	141,846	-
Lithuania	USD	at fair value	4,934	6,944	6,944	-
Latvia	EUR	at fair value	55,953	59,991	59,991	-
Latvia	EUR	at amortized cost	19,024	19,433	19,065	-
Latvia	USD	at fair value	31,236	40,191	40,191	-
Germany	EUR	at fair value	849,833	841,102	841,102	-
Portugal	EUR	at fair value	80,361	78,194	78,194	-
Romania	EUR	at fair value	91,315	101,171	101,171	-
Romania	EUR	at amortized cost	27,179	27,199	27,418	-
Romania	RON	at fair value	78,063	78,455	78,455	-
Romania	USD	at fair value	15,631	22,453	22,453	-
Sri Lanka	USD	at fair value	24,775	23,250	23,250	-
Turkey	USD	at fair value	99,310	103,164	103,164	-
Ukraine	UAH	at fair value	12,509 [1)]	9,955 [1)]	9,955 [1)]	-
Ukraine	UAH	at amortized cost	13,512,[1)]	11,256,[1)]	11,322,[1)]	-
Ukraine	USD	at fair value	3,710	3,645	3,645	-
Ukraine	USD	at amortized cost	1,518	1,965	2,071	-
Hungary	EUR	at fair value	111,052	115,176	115,176	-
Hungary	EUR	at amortized cost	12,642	12,935	13,074	-
Hungary	HUF	at fair value	157,196	156,924	156,924	-
Hungary	USD	at fair value	7,801	10,718	10,718	-
United States of America	USD	at fair value	160,062	155,685	155,685	-
other	EUR/USD	at fair value	63,343	63,526	63,526	-
other	EUR	at amortized cost	7,990	8,226	8,297	-
Total			**2,708,907**	**2,764,869**	**2,767,412**	**-**

[1)] For these bonds, the principal amount is repaid annually in a fixed amount of UAH 100 (i.e. 10% of the bond nominal value). The cost reveals the actual price paid by the company and does not include the repayments of the principal amount.

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As at 31 December 2014	Currency	Valuation method	Cost	Carrying amount	Fair value	Impairment loss
Bulgaria	EUR	at fair value	12,589	13,941	13,941	-
Croatia	USD	at fair value	13,489	15,555	15,555	-
Croatia	EUR	at amortized cost	2,418	2,447	2,478	-
Cyprus	EUR	at fair value	20,663	21,585	21,585	-
Iceland	USD	at fair value	24,745	29,246	29,246	-
Lithuania	EUR	at fair value	61,935	68,565	68,565	-
Lithuania	LTL	at fair value	436,696	458,145	458,145	-
Lithuania	USD	at fair value	14,178	17,113	17,113	-
Lithuania	EUR	at amortized cost	12,964	14,050	15,380	-
Lithuania	LTL	at amortized cost	14,857	15,196	15,786	-
Latvia	EUR	at fair value	66,277	70,051	70,051	-
Latvia	USD	at fair value	31,236	35,048	35,048	-
Latvia	EUR	at amortized cost	1,631	1,679	1,781	-
Romania	EUR	at fair value	143,607	156,896	156,896	-
Romania	RON	at fair value	48,545	50,882	50,882	-
Romania	USD	at fair value	15,631	20,436	20,436	-
Turkey	USD	at fair value	449	477	477	-
Ukraine	USD	at fair value	1,458	1,663	1,663	-
Ukraine	UAH	at fair value	10,183 [1)]	9,343 [1)]	9,343 [1)]	-
Ukraine	UAH	at amortized cost	25,181 [1)]	9,231 [1)]	9,196 [1)]	-
Ukraine	USD	at amortized cost	23,692	25,916	25,785	-
Hungary	EUR	at fair value	17,308	20,230	20,230	-
Hungary	HUF	at fair value	160,882	163,499	163,499	-
Hungary	USD	at fair value	7,801	9,456	9,456	-
Hungary	EUR	at amortized cost	570	655	721	-
other	EUR/USD	at fair value	53,492	59,279	59,279	-
Total			**1,222,477**	**1,290,584**	**1,292,537**	**-**

[1)] For these bonds, the principal amount is repaid annually in a fixed amount of UAH 100 (i.e. 10% of the bond nominal value). The cost reveals the actual price paid by the company and does not include the repayments of the principal amount.

All debt securities issued by governments other than the government of the Republic of Poland, which have been measured at fair value or for which the fair value has been disclosed (classified as held to maturity) are included in Level I of the fair value hierarchy.

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Debt instruments issued by companies and local government authorities.

As at 31 December 2015	Valuation method	Cost	Carrying amount	Fair value	Impairment loss
WIG index companies – Banks	at fair value	322,868	325,778	325,778	-
	at amortized cost	1,520,556	1,534,875	1,564,538	-
WIG index companies – Fuels	at fair value	304,464	309,115	309,115	-
	at amortized cost	700,000	700,686	710,287	-
WIG index companies – Chemical index	at amortized cost	5,795	5,857	5,872	-
WIG index companies – Energy	at amortized cost	315,000	316,322	312,776	-
Not listed domestic banks	at amortized cost	20,000	20,250	22,132	-
Mortgage banks	at fair value	41,983	43,179	43,179	-
Foreign banks	at fair value	3,710	3,876	3,876	-
	at amortized cost	71,985	73,999	76,542	1,142
Local governments	at fair value	45,632	56,592	56,592	-
	at amortized cost	50,000	52,501	59,467	-
WIG index companies – Raw materials	at fair value	51,200	51,367	51,367	-
	at amortized cost	195,000	151,069	151,139	42,836
Other – impaired	at fair value	367,487	342,047	342,047	11,630
	at amortized cost	86,120	87,515	87,466	-
Total		**4,101,800**	**4,075,028**	**4,122,173**	**55,608**

As at 31 December 2014	Valuation method	Cost	Carrying amount	Fair value	Impairment loss
WIG index companies – Banks	at fair value	184,224	190,676	190,676	-
	at amortized cost	1,616,283	1,630,862	1,711,036	-
WIG index companies – Fuels	at fair value	303,226	314,558	314,558	-
	at amortized cost	700,000	700,746	715,642	-
WIG index companies – Chemical index	at amortized cost	1,211	1,236	1,229	-
WIG index companies – Energy	at amortized cost	400,000	401,778	399,721	-
Not listed domestic banks	at amortized cost	20,000	20,271	23,594	-
Foreign banks	at fair value	23,600	24,081	24,081	-
	at amortized cost	76,359	77,813	82,944	-
Mortgage banks	at fair value	41,983	42,623	42,623	-
Local governments	at fair value	45,632	58,608	58,608	-
	at amortized cost	50,000	52,504	60,884	-
Other	at fair value	38,427	38,942	38,942	-
	at amortized cost	62,751	63,760	64,409	-
WIG index companies – Raw materials – written down	at amortized cost	200,000	193,142	201,339	10,144
Other – impaired	at fair value	11,630	-	-	11,630
Other foreign banks – impaired	at amortized cost	1,142	-	-	1,142
Total		**3,776,468**	**3,811,600**	**3,930,288**	**22,916**

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8.5.2.1. Interest rate risk

The following table presents sensitivity tests of the non-unit-linked financial assets portfolio of PZU Group.

Change in portfolio value	31 December 2015		31 December 2014	
	Effect on net financial profit/loss	Effect on equity	Effect on net financial profit/loss	Effect on equity
Market interest rate drop by 100 bp	601,366	148,659	125,668	223,086
Market interest rate increase by 100 bp	(548,302)	(142,455)	(138,436)	(219,307)

The above sensitivity tests do not include effects of changes in interest rates for presented insurance, investment contract liabilities nor Alior Bank receivables from clients. Analysis of effects of a change in technical rate on measurement of insurance and investment contracts is presented in item 8.5.1.

The interest rate risk related to Alior Bank's liabilities to clients is linked, first of all, to:

- risk of revaluation dates mismatch;
- base risk, e.g. the influence of uneven change in reference indexes with a similar revaluation date on the profit or loss;
- modelling the accounts with indefinite maturity date and interest rate determined for e.g. current deposits;
- influence of the non-interest items (e.g. equity, fixed assets).

One of the methods of calculating the exposure to interest rate risk is setting the BPV, which determines the estimated change in measurement of a given transaction/item due to a parallel shift of a yield curve by 1 bp. The estimation of BPV for Alior Bank as at 31 December 2015 has been presented below:

Currency	Up to 6 months	6 months – 1 year	1 year – 3 years	3-5 years	5-10 years	Total
PLN	(192.3)	17.3	369.8	(140.0)	30.3	85.2
EUR	(19.1)	(16.2)	(19.7)	(13.8)	(6.6)	(75.4)
USD	6.1	11.3	(6.2)	(6.8)	(0.4)	4.0
CHF	0.4	(0.1)	(1.4)	0.0	0.0	(1.1)
GBP	0.6	1.7	0.1	0.0	0.0	2.5
Other	(0.5)	(1.6)	0.0	0.0	0.0	(2.1)
Total	**(204.8)**	**12.5**	**342.6**	**(160.6)**	**23.4**	**13.1**

In order to estimate the level of interest rate risk, Alior Bank applies the Value at Risk (VaR) model. 99% VaR with the horizon of 10 days calculated as at 31 December 2015 for the banking records amounted to PLN 6,361 thousand. The banking operations for the interest rate risk management covers instruments (other than acquired for trade), loans, deposits, credits and derivative transactions aimed at hedging the risk of these operations. Alior Bank analyzes the scenarios in terms of i.a. the influence of change in interest rates on the future interest result and economic value of the capital. As a part of these scenarios the internal limits are maintained, whose utlization is measured daily. The use of the limit of change in economic value of capital with the parallel shift of the percentage curve by +/- 200 bps and non-parallel shifts with the scenarios of +/- 100/400 bps (in tenors of 1M/10Y, between them a linear interpolation of the shift) as at 31 December 2015 is presented in the following table:

Scenario (1M/10Y)	Change in economic value of capital
+400 / +100	(170,383)
+100 / +400	(75,552)
+200 / +200	(99,421)
- 200 / - 200	79,039
- 100 / - 400	65,379
- 400 / - 100	78,498

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8.5.2.2. Currency risk

Degree of risk exposure

Information regarding exposure to currency risk by class of financial instruments is presented in Note 39.

The following table presents sensitivity tests of the non-unit-linked financial assets portfolio of PZU Group.

Change in portfolio value	31 December 2015		31 December 2014	
	Effect on net financial profit/loss	Effect on equity	Effect on net financial profit/loss	Effect on equity
20% increase in FX to PLN rates	88,958	15,317	6,052	118,583
20% decrease in FX to PLN rates	(88,958) [1)]	(15,317) [1)]	(6,052)	(118,583)

[1)] With assumption of decrease by 80% in exchange rates of UAH against PLN (while retaining 20% decrease for other currencies) the negative influence on financial result and equity would amount to, respectively: PLN 46,550,000 and PLN 159,081,000.

Financial assets exposed to FX risk include deposit transactions and debt instruments that hedge outlays for technical provisions denominated in foreign currencies, exposure to equity instruments listed at stock exchanges other than WSE, participation units and investment certificates of investment funds, to derivatives denominated in foreign currencies, as well as financial assets of foreign companies included in consolidation.

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

8.5.2.3. Share price risk

Degree of risk exposure

The value of available for sale and measured at fair value through profit or loss instruments portfolio is presented in Note 35.2 and 35.3

Sensitivity analysis

The following table presents sensitivity tests of the non-unit-linked financial assets portfolio of PZU Group.

Change in portfolio value	31 December 2015		31 December 2014	
	Effect on net financial profit/loss	Effect on equity	Effect on net financial profit/loss	Effect on equity
increase in measurement of listed equity instruments by 20%	545,254	207,188	345,885	561,156
decrease in measurement of listed equity instruments by 20%	(545,254)	(207,188)	(345,885)	(561,156)

8.5.2.4. Liquidity risk

Financial liquidity risk of PZU Group may result from three types of events:

- shortages of liquid funds in ongoing operations;
- illiquidity of financial instruments;
- a structural mismatch between the maturity of assets and liabilities.

In the liquidity risk management process, liquidity is controlled in the short, medium and long term, i.e.:

- short-term liquidity – the balance of funds in the liquidity and currency portfolios is held as not greater than the limit defined. Furthermore, conditional sell-buy-back transactions are used in liquidity management;
- medium-term liquidity – PZU and PZU Życie hold adequate liquid investments portfolios;
- long-term liquidity and structural mismatch between the maturity of assets and liabilities – Asset Liability Management (ALM), i.e. matching of the structure of financial investments which cover technical provisions to the nature of such provisions is applied.

Another objective of the ALM process is to ensure the capability to pay claims and benefits within the shortest possible time also in unfavorable economic conditions. The level of liquidity risk is measured by estimating the shortages of cash required for liability payments. The estimate is made on the basis of a set of analyzes, including among others, a liquidity gap analysis (a mismatch of net cash flows), an analysis of the distribution of expenditures relating to operating activities and incurred over short periods as well as currency gap analysis.

The policy of liquidity risk management in Alior Bank involves maintaining the liquidity positions so that it is possible to meet payment liabilities at any time, with the available cash in hand, inflows from transactions with a given maturity date or with sale of the assets available for sale, whilst minimizing the costs of maintaining liquidity.

In order to manage Alior Bank's liquidity, ratios and related to them limits of the following types of liquidity are used:

- payment liquidity – the ability to finance assets and meet liabilities on time in the normal course of operations or in other circumstances which can be foreseen, with no need to incur loss. As a part of payment liquidity management, the emphasis is put on the immediate and current (up to 7 days) liquidity analysis;
- short-term liquidity – the ability to meet all cash liabilities if the payment due date falls within 30 subsequent days;
- medium-term liquidity – the ability to meet all liabilities if the maturity date falls within the period of up to 6 months;
- long-term liquidity – monitoring the possibility of meeting all cash liabilities if the payment due date falls within the period of more than 12 months.
- As a part of liquidity risk management, the analysis of the long-term maturity profile is made, which largely depends on the assumptions concerning the shaping of future cash flows related to the position of assets and liabilities. The assumptions take into account:
- stability of liabilities with indefinite maturity dates (e.g. current accounts, deposit terminations and renewals, their level of concentration);
- possibility to shorten the maturity date of certain items of assets (e.g. mortgages with an option of earlier repayment);
- possibility to sale an item of assets (liquidity portfolio).

Degree of risk exposure

Future cash flows resulting from assets used as coverage of technical provisions have been presented as the nominal value of the projected future cash flows corresponding to the periods in which such cash flows are expected. As regards debt securities, loans and term deposits, all cash flows which are expected to occur by the date of redemption of such securities, withdrawal of investments or repayment of loans have been taken into consideration. Shares and participation units have been presented in the periods of their expected disposal or redemption.

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For the purpose of the analysis the adjustments of cash flows presented in tables on following pages and engagement of PZU Group in investment funds (units and investment certificates) have not been consolidated. This means that they are presented as units and investment certificates rather than assets held by the funds. Such an attitude reflects the liquidity management perspective and ensures coverage of technical provisions with assets at the level of given companies, taking into account statutory limits for type concentration of those assets.

Non-life insurance

The table below presents the match between undiscounted cash flows related to technical provisions in non-life insurance and the assets used as their coverage.

Item	Projected cash flows				
	up to 3 months	over 3 months and up to 6 months	over 6 months and up to 1 year	over 1 year and up to 5 years	over 5 years
A. Projected net outflows resulting from insurance contracts concluded by the end of reporting year (I + II)	(2,165,008)	(1,506,727)	(2,118,797)	(5,314,198)	(10,794,855)
I. Outflows	(2,182,454)	(1,516,853)	(2,130,151)	(5,342,773)	(10,853,734)
II. Inflows	17,446	10,126	11,354	28,575	58,879
B. Inflows from assets covering technical provisions	2,361,268	1,617,615	2,108,827	6,158,922	11,869,752
I. Future inflows whose value is known as at the end of reporting year	1,964,880	999,235	627,170	4,742,265	6,188,827
- Treasury bonds	516,048	116,264	153,072	3,169,194	5,852,887
- Other debt securities	19,460	15,071	294,609	322,037	183,543
- Term deposits with credit institutions	792,907	640,279	-	-	-
- Loans	71,528	-	547	995,442	89,135
- Receivables	510,039	89,155	39,971	6,745	-
- Other	54,898	138,466	138,971	248,847	63,262
II. Future inflows whose value depends directly on market interest rates or other ratios and is unknown as at the end of reporting year	342,950	615,939	1,478,420	1,413,891	5,639,869
- Treasury bonds	-	-	302,510	61,346	359,331
- Other debt securities	762	-	12,471	17,632	43,205
- Loans	-	-	-	34,598	-
- Shares listed on the regulated market	-	-	-	-	-
- Shares not listed on the regulated market	-	-	-	-	-
- Investment fund units	342,188	615,939	1,163,439	1,300,315	3,436,085
- Investment certificates	-	-	-	-	1,801,248
III. Inflows from other assets	53,438	2,441	3,237	2,766	41,056
C. Balance of projected cash flows (A + B)	196,260	110,888	(9,970)	844,724	1,074,897
D. Balance of accumulated cash flows	196,260	307,148	297,178	1,141,902	2,216,799

The projected net cash flows resulting from non-life insurance contracts concluded by the end of the financial year have been determined using statistical and actuarial mathematical methods, taking into account historical data. Inflows have been calculated on the basis of the gross premium. Outflows include all projected costs to be incurred by the insurance company in connection with insurance contracts concluded.

The duration gap is the measure of a mismatch between the maturity dates of assets (investments) and liabilities (technical provisions). The duration of investments in non-life insurance as at 31 December 2015 was 3.3 (2.9 as at 31 December 2014), whereas the duration of technical provisions as at 31 December 2015 was 5.3 (5.8 as at 31 December 2014).

Life insurance

The table below presents the match between cash flows from technical provisions and liabilities under investment contracts with guaranteed and fixed terms and conditions, and the assets associated with them. The table does not present cash flows relating to unit-linked insurance products and investment contracts.

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Item	Projected cash flows					
	up to 6 months	over 6 months and up to 1 year	over 1 year and up to 5 years	over 5 year and up to 10 years	over 10 year and up to 20 years	over 20 years
A. Projected net outflows resulting from insurance and investment contracts concluded by the end of reporting year (I + II)	(791,451)	(221,366)	(950,599)	(1,297,562)	(4,152,117)	(5,995,992)
I. Outflows	(1,645,098)	(1,043,553)	(6,755,642)	(6,886,259)	(11,129,464)	(9,691,369)
II. Inflows	853,647	822,187	5,805,043	5,588,697	6,977,347	3,695,377
B. Inflows from assets covering technical provisions	2,600,370	851,129	5,572,275	7,864,938	4,113,273	5,942,597
I. Future inflows whose value is known as at the end of reporting year	2,600,367	849,904	5,568,194	6,175,346	4,113,047	2,066,292
- Treasury bonds	1,898,822	637,233	4,977,294	6,097,443	4,113,047	2,066,292
- Other debt securities	6,152	2,766	151,503	18,261	-	-
- Term deposits with credit institutions	695,372	209,884	166,529	57,535	-	-
- Loans	21	21	272,868	2,107	-	-
II. Future inflows whose value depends directly on market interest rates or other ratios and is unknown as at the end of reporting year	3	1,225	4,081	1,689,592	226	3,876,305
- Treasury bonds	-	94	-	-	-	-
- Other debt securities	-	1,128	4,061	902	226	-
- Loans	3	3	20	20	-	-
- Investment fund units	-	-	-	-	-	3,876,305
- Investment certificates	-	-	-	1,688,670	-	-
III. Inflows from other assets	-	-	-	-	-	-
C. Balance of projected cash flows (A + B)	1,808,919	629,763	4,621,676	6,567,376	(38,844)	(53,395)
D. Balance of accumulated cash flows	1,808,919	2,438,682	7,060,358	13,627,734	13,588,890	13,535,495

The forecast of future claims and future net premiums in life insurance takes into account assumptions regarding mortality, accident and birth rates, the insured's resignation, projected claims and projected inflows from net premiums.

The duration gap is the measure of a mismatch between the maturity dates of assets (investments) and liabilities (technical provisions). The duration of investments in life insurance as at 31 December 2015 was 5.2 (4.9 as at 31 December 2014), whereas the duration of technical provisions as at 31 December 2015 was 19.4 (22.4 as at 31 December 2014).

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Banking activity

The below table presents the analysis of maturity of Alior Bank assets and liabilities as per contractual dates. The amounts are expressed in PLN milion.

31 December 2015	1D	1M	3M	6M	1Y	2Y	5Y	10Y+	Total
Assets	**7,249**	**519**	**937**	**1,314**	**2,893**	**4,449**	**8,469**	**14,174**	**40,003**
Cash and Nostro	2,090	-	-	-	-	-	-	-	2,090
Receivables from banks	-	122	-	-	-	184	-	-	306
Receivables from clients	5,160	382	919	1,065	2,322	3,024	6,328	11,722	30,922
Securities	-	15	17	249	570	1,241	2,141	633	4,867
Other assets	-	-	-	-	-	-	-	1,819	1,819
Liabilities and equity	**(13,938)**	**(6,780)**	**(5,391)**	**(4,881)**	**(1,876)**	**(1,534)**	**(1,224)**	**(4,378)**	**(40,003)**
Liabilities to banks	(11)	(804)	-	-	-	(203)	(43)	-	(1,061)
Liabilities to clients	(13,927)	(5,098)	(5,385)	(4,622)	(1,687)	(621)	(47)	(17)	(31,404)
Own issues	-	-	(6)	(259)	(189)	(710)	(1,135)	(847)	(3,145)
Equity	-	-	-	-	-	-	-	(3,514)	(3,514)
Other liabilities	-	(878)	-	-	-	-	-	-	(878)
Balance-sheet gap	**(6,689)**	**(6,262)**	**(4,454)**	**(3,567)**	**1,017**	**2,915**	**7,244**	**9,795**	**-**
Accumulated balance-sheet gap	**(6,689)**	**(12,951)**	**(17,405)**	**(20,972)**	**(19,955)**	**(17,040)**	**(9,795)**	**-**	
Derivative instruments - inflows	-	2,455	763	536	1,722	1,108	407	60	7,052
Derivative instruments - outflows	-	(2,428)	(753)	(551)	(1,721)	(1,087)	(404)	(59)	(7,002)
Derivative instruments - net	**-**	**27**	**10**	**(15)**	**2**	**22**	**3**	**1**	**50**
Guarantee and financial lines	8,639	3	9	37	134	98	2	20	8,942
Off-Balance-sheet gap	**8,639**	**30**	**19**	**22**	**136**	**120**	**5**	**21**	**8,991**
Total gap	**1,950**	**(6,232)**	**(4,435)**	**(3,545)**	**1,153**	**3,035**	**7,249**	**9,817**	**8,991**
Total accumulated gap	**1,950**	**(4,283)**	**(8,718)**	**(12,263)**	**(11,110)**	**(8,075)**	**(826)**	**8,991**	

Additionally, Alior Bank carries out liquidity stress tests, prepares a plan to raise funds in emergency situations, and determines and verifies the rules for the sale of liquid assets, taking into account the cost of maintaining liquidity. In accordance with the resolution of the PFSA, Alior Bank determines:

- a short-term liquidity gap (minimal current excess liquidity) defined as the difference between the sum of primary and supplementary value of liquidity reserves on the reporting day and the value of unstable external funds. As of 31 December 2015, the value of the excess liquidity was PLN 1,880 million.
- the non-liquid funds to own funds cover ratio, calculated as the ratio of bank's own funds less the aggregate value of capital requirements for market risk, delivery settlement risk, and counterparty risk to non-liquid assets. As of 31 December 2015, the value of the ratio was 4.72;
- non-liquid and limited liquidity assets to own funds and stable external funds ratio, calculated as the quotient of the total of own funds, less the total value of the capital requirements for market risk, delivery settlement risk, counterparty risk and stable external funds to the sum of non-liquid assets and limited liquidity assets. As of 31 December 2015, the value of the ratio was 1.11;
- a short-term liquidity ratio, defined as the ratio of the sum of primary and supplementary liquidity reserves on the reporting day to the value of unstable external funds. As of 31 December 2015, the value of the ratio was 1.53.

Alior Bank conducts also an in-depth analysis of the stability and structure of the funding sources, including the core and concentration level of term deposits and current accounts. Additionally, it monitors the variability of the balance sheet and off-balance sheet items, in particular the values of the expected outflows arising from the guarantees granted to its customers.

8.5.3. Credit risk and concentration risk

Credit risk – a risk of a loss or an unfavorable change in the financial position, resulting from changes in the creditworthiness of issuers of securities, business partners and any debtors.

Credit risk in PZU Group includes:

- credit spread risk – the possibility of incurring losses due to changes in the value of assets, liabilities and financial instruments arising from changes in the level of credit spreads with regard to the time structure instruments issued by the State Treasury or their volatility;
- counterparty default risk – the risk of losses due to a counterparties' and debtors' failure to meet their obligations;
- credit risk in banking activity - credit risk that results from operations in the banking sector which is related mainly with the risk of a borrower or debtor's failure to meet his/her obligations;
- credit risk in financial insurance – credit risk arising from activity in the financial insurance sector, related primarily to the danger of the customer's company, the debtor's or the borrower's failure to meet obligations towards a third party; this risk may result from unsuccessful venture implementation or the economic environment's unfavorable impact.

Concentration risk – a risk arising from lack of diversification in the portfolio of assets or from high exposure to counterparty risk including a single issuer of securities or a group of related issuers.

Exposure to credit risk in PZU Group arises directly from investment, financial insurance and guarantee, reinsurance and bancassurance related activities. PZU Group distinguishes the following types of credit risk exposure:

- bankruptcy of an issuer of financial instruments (e.g. corporate bonds) in which PZU Group invests, or which it trades, e.g. corporate bonds;
- risk of a contractor's failure to meet its obligations, e.g. reinsurance or OTC derivatives, as well as bancassurance activities;
- risk of a PZU Group customer's failure to meet its obligations to a third party, e.g. insurance of monetary receivables, insurance guarantees;
- risk of customer's failure to meet its obligations to PZU Group from contracted credits or loans (in banking activity)

Banking activity

Concentration risk

Each month, Alior Bank analyzes the concentration of the deposit base, which aims to identify the potential risks of excessive dependence on funding sources characterized by a low degree of diversification. In order to estimate the concentration level, the Bank sets a high concentration indicator by calculating the ratio of the funds accumulated by the largest depositaries to the value of the deposit base. As of 31 December 2015, the ratio was 2.22%, which indicates a lack of concentration.

In order to reduce the concentration risk, Alior Bank diversifies its structure of the deposit base, dividing its clients into retail, business, financial, central and local government institutions, and monitors the monthly share of each of these groups in the total deposit base.

The management of concentration risk arising from lending activities concerns the risks arising from, among other things:

- exposures to individual entities or entities related by capital or management;
- exposures to entities in the same industry, economic sector, carrying out the same business activity or trading in similar products;
- exposures to entities from the same voivodeship, as well as from the same countries or groups of countries;
- exposures secured by the same kind of collateral or secured by the same collateral provider (including the risks arising from collaterals established on securities with similar characteristics);
- exposures in the same currency;

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- exposures to entities referred to in Article 71 of the Polish Banking Act;
- product data sheet;
- customer segment;
- distribution channel;
- special offers and promotions;
- internal concentration.

In order to prevent adverse events resulting from excessive concentration, Alior Bank reduces concentration risk by setting limits and using concentration standards, both the ones arising from external regulations and the ones that were adopted internally. These include i.a.:

- principles for identifying credit concentration risk areas;
- a process for determining and updating the concentration limits;
- a process for managing the limits, including the manner of proceeding if the permitted limit level is exceeded;
- a process for monitoring concentration risk;
- control of the process of concentration risk management.

The following table shows the industry concentration of Alior Bank's balance sheet and off-balance sheet exposures, divided by sections of the Polish Classification of Activity (PKD), which takes into account:

- the credit amount (balance sheet and off-balance sheet exposures without interest, fees and write-offs), decreased by the value of the paid cash deposits;
- unauthorized overdrafts in current accounts;
- the treasury limits decreased by the value of the paid deposits, including debt securities whose issuer is an entity of the given section.

Section name as per Classification of Business Activities in Poland	31 December 2015
Industrial processing	4,275,844
Construction	3,707,790
Wholesale and retail, repair of motor vehicles, including motorcycles	3,433,278
Real estate activities	3,379,837
Production and distribution of electricity, gas, steam and air conditioning	1,889,519
Accommodation and food service activities	1,568,126
Financial and insurance activity	1,178,549
Other	3,697,167
Total	**23,130,110**

The following factors are taken into account during the process of setting and updating concentration limits:

- reliable economic and market information related to each of the exposure concentration areas, in particular, macroeconomic ratios, industry ratios, and information on business trends, taking into account projections of the value of interest rates, foreign exchange rates, political risk analyses, ratings of governments and financial institutions;
- reliable information on business position of entities, industries, branches, business sectors, overall economic information, including on the economic and political position of countries, and other information necessary to assess the concentration risk;
- business and qualitative information relating to the management process within the entities to which the Bank is exposed, which leads to concentration risk;
- interest rate risk, liquidity risk, operational risk and political risk related to the identified exposures, which may lead to an increase in concentration risk.

The Bank analyzes risk both on an individual and on a portfolio level. The actions taken by the Bank result in:

- minimizing the credit risk of individual loans at a predetermined rate of return;
- reducing the total credit risk resulting from owning a specific credit portfolio.

As part of the process of minimizing risk of individual exposures, the following factors are assessed whenever the Bank grants a loan or another credit product:

- creditworthiness and credit rating of the exposure, taking into consideration, among other things, a detailed analysis of the sources of its repayment;
- collateral, including verifying their formal, legal and economic status, taking into consideration, among other things, LTV (loan to value) adequacy.

In order to improve the risk control over individual exposures, Alior Bank regularly monitors its clients, taking appropriate mitigating actions in the event of identifying increased risk factors.

In terms of minimizing the level of credit risk arising from owning of a specific portfolio, the Bank:

- determines and controls concentration limits;
- monitors early warning signals;
- regularly monitors the credit portfolio, controlling all material credit risk parameters;
- regularly performs stress tests.

Risk assessment in the credit process

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

Credit decisions are met in accordance with the currently applicable system of credit decision system (with competence levels adjusted to a risk level of a particular client or transaction).

In order to conduct regular assessment of credit risk taken and to mitigate potential losses on credit exposures, the client's situation is under monitoring during the crediting period. This is done by identifying early warning signals, as well as periodic, individual reviews of credit exposures.

The monitoring process is completed upon the issuance of a recommendation on the strategy of further cooperation with the client.

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

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The aim of a credit collateral is to secure the return of a credit granted along with due interest and costs in the event when the borrower fails to settle its debt in the periods stipulated in a credit agreement, and when restructuring activities fail to bring anticipated effects. Accepted forms of collateral include: guarantees, sureties, bank account freezes, registered pledges, transfers of title, credit insurances, promissory notes, and mortgages. Subjects of a collateral are verified as part of the credit process with respect to the legal possibilities of efficient collateral security; moreover, their market value is assessed, as well as their potential value to be recovered through the enforcement procedure. Due to collaterals it is possible to reduce the amount of impairment losses and provisions, as well as to apply more favorable risk weights to calculate capital requirements.

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

Credit scoring and rating

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

Scoring and rating models are under regular monitoring to check whether they operate correctly. The aim of the process is to conclude whether the applied models are able to properly diversify the risk, and whether estimated risk parameters accurately reflect appropriate risk aspects. Furthermore, as part of functional inspections also the correctness of application of those models in the credit process is verified.

Not overdue financial assets	Risk class	31 December 2015
Receivables not overdue and without impairment		
Retail segment		
Mortgage loans, cash loans, Credit cards, overdraft in current and saving account		
(1 – the best class, 6 – the worst class)	1	700,449
	2	691,423
	3	808,399
	4	887,246
	5	51,867
	6	6,851
Borrowings, cash loans, Credit cards, overdraft in current and saving account - standard procedure		
(K1 – the best class, K10 – the worst class)	K1	341,778
	K2	426,684
	K3	795,538
	K4	1,084,859
	K5	1,227,531
	K6	1,034,654
	K7	561,920
	K8	201,861
	K9	40,719
	K10	3,809
Mortgage loans		
(M1 – the best class, M10 – the worst class)	M1	2,818
	M2	21,767
	M3	103,571
	M4	381,809
	M5	935,591
	M6	1,254,284
	M7	940,449
	M8	613,014
	M9	233,637
	M10	54,473
No scoring		2,151,619
Total retail segment		**15,558,620**
Business segment		

Long-term products, Car loans, Limit in current account		
(1 – the best class, 5 – the worst class)	1	7,785
	2	11,784
	3	16,478
	4	6,172
	5	-
Models for microenterprises which carry out abbreviated book-keeping and Models for entities which keep business accounting books, automotive dealers and developers		
(Q01 – the best class, Q25 – the worst class)	Q01	21
	Q02	13,370
	Q03	195,015
	Q04	190,236
	Q05	17,095
	Q06	1,074,832
	Q07	402,377
	Q08	161,978
	Q09	1,038,925
	Q10	209,023
	Q11	1,293,114
	Q12	709,894
	Q13	521,595
	Q14	992,276
	Q15	355,544
	Q16	694,126
	Q17	674,844
	Q18	288,928
	Q19	626,156
	Q20	163,146
	Q21	89,767
	Q22	51,762
	Q23	71,686
	Q24	2,108
	Q25	44,906
No rating		687,318
Total business clients		**10,612,261**
Receivables not overdue and without impairment		**26,170,881**
Receivables not overdue and with recognized impairment		**152,849**
Retail segment		37,337
Business segment		115,512
Total not overdue receivables from clients		**26,323,730**

Credit risk monitoring in terms of individual and business clients

Continuous monitoring of timely service of credits and periodic reviews of financial and economic standing of clients and the value of adopted collaterals ensure constant protection of the credit portfolio. This process is applied to all credit exposures of individual and business clients.

Application of forbearance and related practices

The following tools are applied in the process of the client's restructuring:

- prolongation of the duration of the credit, as a result of which monthly principal and interest payments are reduced (the maximum duration is 120 months in the case of unsecured products);
- granting a grace period for the repayment of a full installment or part thereof;
- consolidation of several liabilities towards Alior Bank, including changing a personal overdraft into a credit to be repaid in installments.

In particularly justified situations, other tools may be used.

No limitations with respect to forbearance and related practices have been introduced to the process of restructuring of business clients. Given the specificity of our clients, the most commonly applied tools are:

- agreement on the change in the schedule of mature exposures;
- annex on the reduction of overdraft limit of open-end credits;
- annex on the change in conditions of changing repayment date/installment value or grace period for principal amount/interest.

Monitoring the risk connected to forbearance and related practices

As to the application of tools such as *forbearance*, the following risks are identified:

- risk of non-repayment or cessation of repayment;
- risk of collaterals loss (movable property in particular) or significant decrease in value thereof;
- bankruptcy risk.

Those risks are mitigated, among others, by conducting a client analysis in terms of its financial possibilities and the history of cooperation with the client, as well as field visits and other sources. Prior to the implementation of forbearance tools it is possible to execute collaterals and, as a consequence, significantly reduce the involvement. When forbearance tools are applied, the aim is to provide maximum collateralization of exposures (through mortgages, sureties and pledges).

Impairment assessment with respect to exposures covered by forbearance practices

In the case of exposures subject to forbearance practices, stricter criteria for identification of evidence of impairment are adopted. Regarding such exposures, besides the standard catalogue of evidence, additional criteria are applied which defined as the occurrence of one of the following situations upon taking a decision whether to grant a facility to a client:

- delay longer than 30 days;
- other impairment evidence;
- analyst assessment of the threat of service timeliness (for individual clients);
- determination that its economic and financial standing is substandard or worse (for business clients).

Impairment for those exposures is determined in the course of an individual scenario analysis based on historical behavior of similar clients and specific features of a given client.

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As at the date of consolidating Alior Bank Group, the credit receivables of clients towards Alior Bank were measured at fair value. An analysis of involvement covered by forbearance presented in the table below was prepared based on the value credits measured at amortized costs, resulting from the consolidated financial statements of Alior Bank Group.

Credits granted to clients subject to *forbearance*	31 December 2015
Retail segment	**100,422**
without recognized impairment	50,279
with recognized impairment	79,575
IBNR [1)]	(212)
impairment losses	(29,220)
assessed using the case-by-case method	(16,672)
assessed using the portfolio method	(12,548)
Business segment	**255,597**
without recognized impairment	131,887
with recognized impairment	230,518
IBNR [1)]	(26)
impairment losses	(106,782)
assessed using the case-by-case method	(90,487)
assessed using the portfolio method	(16,295)
Total net receivables	**356,019**

[1)] Provision created for a group of exposures used to cover incurred and not reported losses. It is created for exposures for which individual evidence of impairment loss was not identified and which are grouped with respect to the homogeneity principle concerning risk profile.

Credits granted to clients subject to forbearance	31 December 2015
With recognized impairment	174,091
including value of collateral	124,648
Without recognized impairment	181,928
including value of collateral	97,742
not overdue	85,305
overdue	96,623
Total net receivables	**356,019**

Investment activity

The principles of credit risk management in PZU Group regarding risk arising from investing activities is regulated in a number of documents approved by the Supervisory Boards, the Management Boards and dedicated Committees.

Credit and concentration risk limits are set by dedicated Committees.

Limits for banks and other issuers of debt securities are determined based on the level of exposure. The exposure limits are regarded with reference to a single entity or capital group (both credit limits and concentration limits). Exceeding the limit results in an obligation to prepare and submit a plan to reduce exposure.

Credit risk assessment of an entity is based on internal credit ratings (rating approach differs depending on an entity type). Ratings are based on a quantitative and qualitative analysis and provide the basis for determining the limits. The ratings are updated for credit quality monitoring purposes.

Degree of credit risk exposure

The following table presents credit risk exposure of assets charged with credit risk in individual Fitch groups (in absence of these, Standard&Poors or Moody`s standards have been applied). The exposure to credit risk relating to repo transactions has been presented as an exposure towards the issuer.

Reports presenting assets exposed to credit risk do not include loan receivables from clients and insurance receivables. This was due to significant dispersion of the portfolio of assets, resulting, among others, in a significant share of receivables from small enterprises and retail customers who do not have ratings.

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Assets exposed to credit risk as at 31 December 2015	Note	AAA	AA	A	BBB	BB	No rating	Unit-linked assets	Total
Debt instruments		996,787	7,583	33,389,390	2,930,295	1,005,990	596,027	1,533,680	40,459,752
- held to maturity	35.1	-	-	17,146,791	137,859	79,058	6,418	-	17,370,126
- available for sale	35.2	519,011	-	5,830,345	384,648	94,046	317,700	-	7,145,750
- measured at fair value	35.3	477,776	7,583	10,208,680	422,146	530,646	32,758	1,533,680	13,213,269
- loans	35.4	-	-	203,574	1,985,642	302,240	239,151	-	2,730,607
Deposits with credit institutions and buy sell-back transactions	35.4	-	-	4,900,606	2,914,301	6,553	498,917	91,407	8,411,784
Other loans	35.4	-	-	68,096	-	158,805	1,702,144	-	1,929,045
Derivative instruments	35.3 8.5.2	-	66,641	762,776	47,499	-	236,038	-	1,112,954
Reinsurers' share in net claim provisions	31	-	353,232	310,385	534	-	93,446	-	757,597 [1)]
Reinsurance receivables	38	-	8,436	21,677	1,223	-	17,687	-	49,023
Total		**996,787**	**435,892**	**39,452,930**	**5,893,852**	**1,171,348**	**3,144,259**	**1,625,087**	**52,720,155**

[1)] including PLN 139,578 thousand of instruments presented as transactions hedging cash flows.

Assets exposed to credit risk as at 31 December 2014	Note	AAA	AA	A	BBB	BB	No rating	Unit-linked assets	Total
Debt instruments		-	-	33,685,106	2,415,765	310,188	127,229	1,474,900	38,013,188
- held to maturity	35.1	-	-	19,933,317	50,372	-	-	-	19,983,689
- available for sale	35.2	-	-	2,141,329	261,139	-	32,397	-	2,434,865
- measured at fair value	35.3	-	-	10,533,633	326,441	208,738	60,367	1,474,900	12,604,079
- loans	35.4	-	-	1,076,827	1,777,813	101,450	34,465	-	2,990,555
Deposits with credit institutions and buy sell-back transactions	35.4	-	-	7,195,733	1,746,022	-	370,061	82,138	9,393,954
Other loans	35.4	-	-	-	-	256,763	2,053,209	-	2,309,972
Derivative instruments	35.3	574	14,725	516,252	3,073	-	11,779	-	546,403
Reinsurers' share in net claim provisions	31	-	208,856	174,539	12,175	-	55,372	-	450,942
Reinsurance receivables	38	-	5,308	12,730	491	-	10,153	-	28,682
Assets held for sale		**-**	**-**	**305,937**	**-**	**-**	**-**	**-**	**305,937**
- Debt instruments	41	-	-	217,852	-	-	-	-	217,852
- Bank deposits	41	-	-	88,085	-	-	-	-	88,085
Total		**574**	**228,889**	**41,890,297**	**4,177,526**	**566,951**	**2,627,803**	**1,557,038**	**51,049,078**

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The following table presents credit risk ratios used by PZU Group to calculate credit risk.

Standard&Poor's ratings	AAA	AA	A	BBB	BB	No rating [1)]
Ratio (%) for 2015	0.74	0.82	1.51	4.06	13.74	25.91
Ratio (%) for 2014	0.74	0.84	1.59	4.33	14.39	26.97

[1)] In the case of exposure to mortgages with no rating, the ratio of 2% was adopted corresponding to the lowest BBB+ investment rating.

The credit risk, to which PZU Group was exposed as at 31 December 2015 amounted to PLN 1,821,601 thousand (PLN 1,639,172 thousand as at 31 December 2014; after applying the coefficients of 31 December 2015, the risk would amount to PLN 1,562,795 thousand).

Risk related to financial insurance (i.a. credit insurance, surety insurance, guarantees)

Credit risk related to the activities in the financial insurance and guarantee sector (mainly performance bonds and customs guarantees) results from the possibility that a customer defaults under an agreement with a third party.

As regards risks assumed by the Company, the risk appetite is determined by a relevant committee, which approves the threshold exposure to credit risk by exposure type, portfolio, product lines, local PZU offices as well as individual risks and the capital group.

A control function in terms of risk monitoring which is independent from the sales function is established at three levels:

- level I – individual level – measurement of risk of financial insurance (i.a. underwriting);
- level II – portfolio level – analysis of changes in the exposure value, level of claims related to the portfolio as well as analysis of concentration and exposure to one entity and capital group. Information about the level of risk in the portfolio is transferred and aggregated in order to monitor the overall exposure of PZU Group;
- level III – relevant committee.

Degree of risk exposure

As at 31 December 2015, the maximum credit risk exposure relating to insurance guarantees and measured by the amount of sums insured was PLN 3,005 million (PLN 2,673 million as at 31 December 2014).

Reinsurance (from the credit risk perspective of the reinsurer) for insurance activity

PZU Group enters into proportional and non-proportional reinsurance contracts with the objective to reduce liabilities arising from its core business. Reinsurance is exposed to credit risk arising from reinsurers' default on their obligations.

The assessment of reinsurers' creditworthiness is conducted on the basis of market data, information obtained from external sources, e.g. S&P, as well as using an internal model. The model divides reinsurers into several groups, depending on the level of risk assessed. Only those entities whose risk is lower than the defined cut-off point are accepted. The acceptance process is not automatic and analyzes are supplemented with assessments conducted by reinsurance brokers. In the credit risk monitoring process, an entity's model-based assessment is updated on a quarterly basis. Additionally, stress tests are carried out.

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The tables below present the credit risk of reinsurers being parties to transactions concluded by the PZU Group entities.

Reinsurer	Reinsurers' share in (net) technical provisions as at 31 December 2015	Rating assigned by Standard&Poor's as at 31 December 2015
Reinsurer 1	98,136	A+
Reinsurer 2	70,675	AA-
Reinsurer 3	64,998	AA-
Reinsurer 4	58,238	AA-
Reinsurer 5	48,182	no rating
Reinsurer 6	46,761	AA-
Reinsurer 7	39,635	AA-
Reinsurer 8	31,699	AA-
Reinsurer 9	27,090	AA
Reinsurer 10	23,444	A+
Reinsurer 11	22,064	A-
Reinsurer 12	21,457	A+
Reinsurer 13	20,764	AA-
Reinsurer 14	18,806	AA
Reinsurer 15	16,554	AA+
Reinsurer 16	15,923	A
Reinsurer 17	15,837	AA-
Reinsurer 18	14,868	no rating
Reinsurer 19	13,810	A
Reinsurer 20	12,265	A+
Others [1]	415,646	
Total	**1,096,852**	

1) "Others" includes reinsurers' share in technical provisions whose carrying amounts are lower than those presented above.

Reinsurer	Reinsurers' share in (net) technical provisions as at 31 December 2014	Rating assigned by Standard&Poor's as at 31 December 2014
Reinsurer 2	69,490	AA-
Reinsurer 6	50,938	AA-
Reinsurer 12	50,069	A+
Reinsurer 3	46,689	AA-
Reinsurer 7	45,389	AA-
Reinsurer 4	25,556	AA-
Reinsurer 8	20,969	A+
Reinsurer 13	19,689	A+
Reinsurer 11	16,185	BBB+
Reinsurer 18	15,355	no rating
Reinsurer 14	14,803	AA
Reinsurer 10	14,549	A+
Reinsurer 21	14,125	A+
Reinsurer 17	13,603	AA-
Reinsurer 22	12,349	A+
Reinsurer 15	11,126	AA+
Reinsurer 23	10,592	no rating
Reinsurer 24	10,369	AA+
Reinsurer 25	9,736	A
Reinsurer 26	9,183	no rating
Others [1]	292,215	
Total [2]	**772,979**	

[1] "Others" includes reinsurers' share in technical provisions whose carrying amounts are lower than those presented above.
[2] PLN 753,115 thousand was reported in the consolidated statement of financial position in "Reinsurers' share in technical provisions", and PLN 19,864 thousand was reported in "Assets held for sale". Additional information concerning assets held for sale has been presented in 42.

8.5.4. Operational risk

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

The objective of operational risk management is to optimize the level of operational risk and operating effectiveness in the PZU Group's operations, leading to a reduction of losses and costs arising from such risks and ensuring adequate and effective control mechanisms. Operational risk management complies with defined guidelines which take into account external conditions and gathered information on the level of operational risk are reported to relevant internal authorities periodically.

8.5.5. Compliance risk

Compliance risk is a risk of legal sanctions, financial loss or loss of reputation or credibility resulting from failure to comply by the Company's employees or entities acting on its behalf with the provisions of law, internal regulations and the adopted standards of conduct, including ethical standards.

Internal regulations impose a division of duties regarding ongoing and system management of non-compliance risk.

System management consists in particular of formulating solutions ensuring that the rules of compliance risk management are followed, monitoring compliance risk management and promoting and monitoring compliance of internal standards and approved compliance procedures.

Ongoing compliance risk management consists in identification, assessment and measurement, as well as ensuring satisfaction of regulatory requirements.

9. Capital management

On 26 August 2013, the Management Board and the Supervisory Board adopted the capital policy and dividend policy for PZU Group for the years 2013–2015. Assumptions of the capital policy and dividend policy are presented below.

PZU Group intends to make changes in its capital policy and dividend policy aimed at addressing the requirements of Solvency II.

Due to a short period of time which passed between the date of taking control over Alior Bank (18 December 2015) and the date of publication of the consolidated financial statement, from the day of acquiring control by PZU Group to the date of publishing consolidated financial statements, equity management in Alior Bank was performed separately from equity management in other entities within PZU Group. Nevertheless, PZU Group may monitor equity management system at Alior Bank through the members of the supervisory board designated by PZU.

9.1 Capital policy

The PZU Group's Capital Policy in 2013–2015 is intended to increase Total Shareholder Return (TSR) and is based on the following rules:

- managing the PZU Group's capital (including surplus capital) at the PZU level;
- maintaining the PZU Group's shareholder funds net of subordinated debt at a level no lower than a 250% solvency margin for PZU Group and striving to maintain the PZU Group's shareholder funds including subordinated debt at approximately a 400% solvency margin (as at the end of the financial year), to maintain the PZU Group's financial security;
- maintaining assets to cover the provisions in PZU and PZU Życie at a level no lower than 110%;
- obtaining an optimal financing structure by replacing the capital surplus with subordinated debt up to an amount no higher than PLN 3 billion, not to exceed a 25% cap of shareholder funds to cover the solvency margin as referred to in article 148 of the Act on Insurance Activity;
- retaining equity at a level corresponding to a AA rating according to Standard&Poor's methodology;

- providing funds for development and acquisitions in the upcoming years;
- no equity issues by PZU in the upcoming years.

9.2 Dividend policy

On 13 May 2014, the Management Board of PZU decided to update the capital and dividend Policy of PZU Group for the years 2013–2015 ("Policy"). At the same time, the Management Board of PZU decided to file a request to the Supervisory Board of PZU to adopt a resolution to approve the update of the Policy.

9.3 Equity management in Alior Bank

In the equity management process at Alior Bank, management board and supervisory board of Alior Bank, as well as the risk management committee play the key role.

The Management Board of Alior Bank drafts and implements the process of assessing internal capital, capital planning and management, as well as reviews and supervises internal capital adequacy assessment process (ICAAP). The competences of Alior Bank supervisory board include approving procedures related to internal capital assessment, as well as capital planning and management.

The ICAAP at Alior Bank, including risk review process and methods of internal capital assessment on key risk types, as well as monitoring capital targets, limits for credit allocation and limits for total capital ratio and Tier 1 capital ratio, is supervised by risk management committee.

9.4 External capital requirements

9.4.1. Insurance activity

Equity management involves, among others, monitoring of the insurers' key solvency parameters, such as the level of own funds and the degree to which such funds are sufficient to cover the required solvency margin and the guarantee capital. The International Financial Reporting Standards do not lay down principles applicable to calculation of the required solvency margin or own funds covering the above margin.

Until the end of 2015, in accordance with the Act on Insurance Activity, an insurance company with its registered office on the territory of the Republic of Poland was obliged to maintain its own funds at an amount of no less than the solvency margin and no less than the guarantee capital.

In order to determine the value of own funds, assets were reduced by the value of intangible assets, deferred tax assets, assets allocated to settle all expected liabilities, as well as shares and other assets (subordinated loans granted) used to finance the equity of insurance companies operating within the insurance capital group. The value determined in the above manner was adjusted in proportion to the shares held by PZU by the total surplus or shortage of own funds of the controlled insurance companies over their solvency margins.

The principles of calculating own funds to cover the solvency margin are specified in the Act on Insurance Activity and the principles for calculation of the required solvency margin and the minimum value of the guarantee capital have been laid down in the Solvency Margin Ordinance.

Calculation of own funds and solvency marginal includes financial data in accordance with PAS.

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Presented below is the calculation of own funds covering the required solvency margin of PZU.

Calculation of own funds to cover the required solvency margin	31 December 2015	31 December 2014
PZU equity	**12,378,733**	**12,328,724**
Intangible assets	(362,167)	(283,999)
Value of assets used to finance equity of other insurance companies operating within the insurance capital group of PZU	(5,853,666)	(6,065,985)
Change in deferred tax assets	(459,105)	(408,388)
Effect of other insurance companies operating within the insurance capital group of PZU on the value of PZU's own funds:	**2,135,034**	**2,411,116**
PZU Życie SA 100.00%	1,914,227	2,213,301
Own funds	3,716,335	3,996,487
Required solvency margin	1,802,108	1,783,186
Surplus of own funds to cover the required solvency margin	1,914,227	2,213,301
Link4 SA 100.00%	85,374	55,638
Own funds	162,363	124,938
Required solvency margin	76,989	69,300
Surplus of own funds to cover the required solvency margin	85,374	55,638
TUW PZUW 100.00%	13,903	n/a
Own funds	25,857	n/a
Required solvency margin	11,954	n/a
Surplus of own funds to cover the required solvency margin	13,903	n/a
Lietuvos Draudimas AB 99.98%	109,198	127,853
Own funds	227,892	214,515
Required solvency margin	118,672	86,636
Surplus of own funds to cover the required solvency margin	109,220	127,879
AAS Balta 99.99%	30,798	22,216
Own funds	80,462	62,207
Required solvency margin	49,661	39,989
Surplus of own funds to cover the required solvency margin	30,801	22,218
UAB DK PZU Lithuania 99.88% (as at 31 December 2014)	n/a	4,692
Own funds	n/a	76,220
Required solvency margin	n/a	71,522
Surplus of own funds to cover the required solvency margin	n/a	4,698
UAB PZU Lietuva Gyvybes Draudimas 99.34%	1,786	5,696
Own funds	17,737	21,504
Required solvency margin	15,939	15,770
Surplus of own funds to cover the required solvency margin	1,798	5,734
PrJSC PZU Ukraine 100.00%	(12,589)	(12,314)
Own funds	5,466	5,199
Required solvency margin	18,055	17,513
Surplus/shortage of own funds to cover the required solvency margin	(12,589)	(12,314)
PrJSC IC PZU Ukraine Life Insurance 100.00%	(7,663)	(5,966)
Own funds	8,276	9,437
Required solvency margin	15,939	15,403
Surplus/shortage of own funds to cover the required solvency margin	(7,663)	(5,966)
Own funds of PZU	**7,838,829**	**7,981,468**
Required solvency margin of PZU	1,424,278	1,362,353
Guarantee capital of PZU	474,759	454,118
Surplus of own funds to cover the required solvency margin	**6,414,551**	**6,619,115**
Surplus of own funds to cover the guarantee capital	**7,364,070**	**7,527,350**

10 November 2015, a new Act on Insurance and Reinsurance was published (Journal of Laws of 2015, item 1844), aimed at implementing the Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance ("Solvency II"). The Act comes into force on 1 January 2016. Under the new Act, the calculation of capital requirements is based on market risk, actuarial (insurance) risk, counterparty risk, catastrophic risk and operational risk. Assets, liabilities and, consequently, own funds covering the capital requirement will be measured at fair value. PZU Group has estimated its capital requirements and own funds

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according to the principles of Solvency II, based on data as at 30 September 2015, and determined a significant surplus of own funds that exceed the capital requirement (information not audited).

9.4.2. Bank activity

The purpose of capital management in bank activity is to maintain proper value of own funds and Tier1 capital for risk coverage, in accordance with the assumed risk appetite. As part of risk appetite, expected risk coverage levels of a potential unexpected loss caused by individual risk types specified in CRR provisions by own funds and Tier1 capital are determined, as well as by individual risk type identified in the course of assessing adequacy of internal capital. Potential unexpected loss is determined using regulatory capital which is defined using methodology specified in CRR as well as using internal capital.

Solvency ratio and Tier1 ratio as at 31 December 2015 was calculated in accordance with CRR. Until the date of preparation of the consolidated financial statements, part of regulations concerning on determining own funds and capital requirements (the so-called national options) was not adopted and published by PFSA. To calculate the solvency ratio within the non-regulated scope, a prudent approach was adopted with respect to, among others, percentage values in the transition period and risk weights towards currency exposures secured by mortgages for which this assumption was indicated by PFSA as potential "national options". When "national options" are determined and published, the capital ratio for bank activity could be different than the one presented in the consolidated financial statements.

Own funds and solvency ratio	31 December 2015
Total own funds for solvency ratio calculation	**3,853,305**
Core capital Tier I (CET1)	**2,975,899**
Supplementary capital Tier II	**877,406**
Capital requirements	**2,457,567**
Tier 1 ratio	**9.69%**
Solvency ratio	**12.54%**

As at 31 December 2015, Alior Bank Group fully followed the regulations of the Capital Requirements Regulation (CRR), including own funds account and calculating capital requirements due to selected risk types.

10. Fair value

10.1 Description of valuation techniques

10.1.1. Debt instruments and loans

Fair values of financial instruments are determined based on quotations available to the public on an active market; when no such quotations are available, using the valuation models applied to public quotations of financial instruments, interest rates and stock market indexes.

The fair value of debt instruments for which an active loan market does not exist is measured using the discounted cash flow method. Discount factors are determined based on the yield curve of government bonds shifted by the credit spread. It is calculated as at the date of issue in relation to the issue price, and leads to a parallel shift of the yield curve of government bonds at a fixed rate over its entire length, or as the difference between the yields of listed debt securities of issuers with a similar rating and operating in similar industries, and the yields of government bonds (in case of securities denominated in EUR, these account for bonds issued by the German government), multiplied by a ratio determined as at the date of the issue, which includes in the discount curve a specific risk of a given issuer.

10.1.2. Equity assets

Fair value of equity assets is determined based on quotations available to the public on an active market.

Fair values of participation units and investment certificates in investment funds are specified as per the values of the participation units and investment certificates in investment funds published by the investment fund companies. The valuation reflects the PZU Group's share in net assets of these funds.

10.1.3. Derivative instruments

For derivatives traded on an active market, fair value shall be the closing price on the trading date.

The fair value of derivatives not quoted on an active market including forwards and interest rate swaps (IRS) is determined using the discounted cash flows and the information used in the measurement of the instruments comes from the money market. Interest rate yield curves associated with a particular type of financial instrument and currency, constructed on the basis of available market data are used to discount cash flows.

The fair value of options related to the structured deposits is determined based on measurements of the option writers, considering verification of the measurements carried out by the companies in PZU Group based on internal measurement models.

10.1.4. Loan receivables from clients

Fair value of receivable from clients (excluding overdrafts) is determined by comparing the margins generated by newly granted credits (in the month preceding the data of preparation of consolidated financial statements) with the margins from entire credit portfolio. When the margins from newly granted credits are higher than the ones generated by the current portfolio, the fair value of a loan is lower than its carrying amount.

Credit receivables from clients have been classified in full to level III of fair value hierarchy due to the application of a valuation model with significant non-observed input data, i.e. current margins generated by newly granted credits.

Due to the fact that settlement of Alior Bank acquisition recognized in consolidated financial statements is of a makeshift nature, fair value of receivables from clients was adopted on the basis of data represented in the consolidated financial statements of Alior Bank Group. Under the purchase price allocation process, a new model of calculating fair value will be developed. After the works have been completed, the fair value of these assets will be calculated in accordance with the new model.

10.1.5. Property measured at fair value

Depending on the characteristics of a given real property, its fair value is measured using the comparable, income or residual method.

With the comparable method available, development land and some smaller and less valuable buildings are measured (such as residential premises, garages etc.). The comparable method is based on the assumption that the fair value is determined by a reference to the observable market prices, including adjustment ratios. The adjustment ratios take into account such factors as the passage of time and market price change trends, location, exposure, intended use defined in the local development plan, availability of means of communication and transport, area, neighborhood (including location against attractive facilities), investment opportunities, physical conditions, ownership, etc.

The income method consists in estimating the fair value of real property based on discounted cash flows. The calculation takes into account such variables as the capitalization rate, rental fee level, maintenance cost level, vacancy provision, losses on exemptions from rental payment and delinquencies, etc. The level of the aforementioned variables differs depending on the characteristics and intended use of the real property measured (office space, commercial space, logistic and warehouse space), its modernity and location (transport, distance from the city center, availability, exposure etc.), as well as local market parameters (such as the capitalization rate, rental fee, maintenance costs).

The residual method is used to determine the market value if the real property is to undergo construction work. The fair value of the real property is defined as the difference in value of the real property after the execution of construction works and average values of the cost of these works, including the revenues attained by similar properties on the market.

Fair value measurement of real property is performed by licensed appraisers. Approval of each measurement is additionally preceded by an inspection carried out by employees of the PZU Group entities aimed at eliminating potential errors and inconsistencies. Any doubts are clarified as they arise.

Investment property is measured in accordance with the following rules:

- properties held by investment funds being PZU's subsidiaries – measured on a semi-annual basis – as at the last day of each year half and the financial year;
- investment property held by the PZU Group entities – the most valuable items are measured if indications of a possible significant change in value occur (most frequently, on an annual basis). Regardless of the value, each investment property is measured at least once every 5 years;
- properties held for sale – measured before being actively exposed on the market.

10.1.6. Financial liabilities

10.1.6.1. Liabilities to clients

Since deposits are collected as part of daily activity on a daily basis, their conditions are similar to the current market conditions of identical transactions, and their time to maturity is short. Therefore, it is assumed that the fair value of liabilities to clients with maturity of up to 1 year does not differ significantly from their carrying amount.

10.1.6.2. Liabilities arising from the issue of own debt instruments and subordinated liabilities

Fair value of liabilities arising from the issue of own debt instruments, including subordinated liabilities, is determined as the current value of expected payments based on the current percentage curves and current credit spreads.

10.1.6.3. Liabilities due to unit-linked investment contracts

Liabilities due to unit-linked investment contracts are measured in accordance with fair value of the assets which cover liabilities of a capital fund associated with a given investment contract.

10.1.6.4. Liabilities to participants of consolidated investment funds

Liabilities to participants of consolidated investment funds are measured at the fair value of the assets of the investment fund (based on the share in the net assets of the investment fund).

10.2 Fair value hierarchy

On the basis of the input data used for fair value measurement, individual assets and liabilities for which the fair value is presented, are classified to the following levels:

- Level I – financial assets and liabilities measured based on listed prices (unadjusted) from active markets for identical assets and liabilities.
  - listed liquid debt instruments;
  - listed shares;
  - listed derivatives.
- Level II – assets and liabilities measured based on input data other than listed prices, classified to Level I, which can be directly (as prices) or indirectly (on the basis of prices) observed on the market.
  - unlisted debt securities and non-liquid debt securities (including other than treasury debt securities issued by other financial entities, local government and entities from outside the financial sector);

  - derivatives other than listed ones;
  - investment property or property held for sale, measured with the use of the comparable method, including available development land and some smaller and less valuable buildings (such as residential premises, garages etc.);
  - liabilities to participants in consolidated investment funds;
- Level III – assets measured based on input data unobserved on the existing markets (unobservable input data). This level includes:
  - investment property or property held for sale, measured using the income method or the residual method;
  - loan receivables from clients and liabilities to clients from deposits.

In a situation where input data classified into different levels of fair value hierarchy is used for measurement of asset or liability elements, the measured component is attributed to the lowest level, from which the input data originate, which have a significant impact on the overall measurement.

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Assets and liabilities measured at fair value as at 31 December 2015	Level I	Level II	Level III	Total
Assets				
Financial assets available for sale	6,687,993	1,039,980	-	7,727,973
Equity instruments	195,689	386,534	-	582,223
Debt instruments	6,492,304	653,446	-	7,145,750
Financial instruments measured at fair value through profit or loss – classified as such upon initial recognition	13,107,367	138,093	-	13,245,460
Equity instruments	2,274,757	109,797	-	2,384,554
Debt instruments	10,832,610	28,296	-	10,860,906
Financial instruments measured at fair value through profit or loss – held for trading	3,341,659	4,061,284	-	7,402,943
Equity instruments	1,053,043	3,024,161	-	4,077,204
Debt instruments	2,278,680	73,683	-	2,352,363
Derivative instruments	9,936	963,440	-	973,376
Hedging derivatives	-	139,578	-	139,578
Investment property	-	117,305	1,054,416 [1)]	1,171,721
Assets held for sale	-	89,808	1,413,486 [1)]	1,503,294
Liabilities				
Derivative instruments	36,078	904,406	-	940,484
Liabilities to participants of consolidated investment funds	-	656,449	-	656,449
Unit-linked investment contracts	-	392,914	-	392,914

[1)] Decreased value of investment property results from classifying a part of properties as assets held for sale. Additional information about this matter is presented in Note 41

Assets and liabilities measured at fair value as at 31 December 2014	Level I	Level II	Level III	Total
Assets				
Financialassets available for sale	2,523,930	458,234	-	2,982,164
Equity instruments	357,732	189,567	-	547,299
Debt instruments	2,166,198	268,667	-	2,434,865
Financial instruments measured at fair value through profit or loss – classified as such upon initial recognition	12,503,393	67,744	-	12,571,137
Equity instruments	1,444,157	38,440	-	1,482,597
Debt instruments	11,059,236	29,304	-	11,088,540
Financial instruments measured at fair value through profit or loss – held for trading	2,990,261	3,535,086	-	6,525,347
Equity instruments	1,572,464	2,890,941	-	4,463,405
Debt instruments	1,415,953	99,586	-	1,515,539
Derivative instruments	1,844	544,559	-	546,403
Investment property	-	161,092	2,074,970	2,236,062
Assets held for sale		69,259	60,001	129,260
Liabilities				
Derivative instruments	19,032	606,812	-	625,844
Liabilities to participants of consolidated investment funds	-	856,865	-	856,865
Unit-linked investment contracts	-	587,267	-	587,267

[1)] Additional information concerning assets held for sale has been presented in Note 41

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Level III investment property	31 December 2015	31 December 2014
Office property	551,163	929,977
Commercial property	-	230,270
Warehouse property	486,660	891,690
Other	16,593	23,033
Level III investment property, total	**1,054,416** [1)]	**2,074,970**

[1)] Decreased value of investment property results from classifying a part of properties as assets available for sale. Additional information about this issue is presented in Note 41.

Assets and liabilities whose fair value is disclosed as at 31 December 2015	Level I	Level II	Level III	Total
Assets				
Entities measured using the equity method – EMC	55,283	-	-	55,283
Financial assets held to maturity	19,665,121	155,209	-	19,820,330
Loans				
Debt instruments	-	2,768,285	-	2,768,285
Loan receivables from clients	-	-	30,331,615	30,331,615
Loans	-	1,926,664	-	1,926,664
Liabilities				
Liabilities to banks	-	475,809	124,831	600,640
Liabilities to clients	-	-	33,665,013	33,665,013
Liabilities arising from the issue of banking securities (Alior Bank)		2,301,507		2,301,507
Liabilities arising from the issue of own debt instruments	-	3,573,225	-	3,573,225
Subordinated liabilities (Alior Bank)	-	758,560	-	758,560
Investment contracts with guaranteed and fixed terms and conditions	-	152,502	-	152,502

Assets and liabilities whose fair value is disclosed as at 31 December 2014	Level I	Level II	Level III	Total
Assets		-	-	
Entities measured using the equity method – EMC	52,737			52,737
Financial assets held to maturity	20,443,747	3,080,645	-	23,524,392
Loans				
Debt instruments – loans portfolio	-	3,091,685	-	3,091,685
Loans	-	2,398,454	-	2,398,454
Liabilities				
Liabilities arising from the issue of own debt instruments	-	2,180,294	-	2,180,294
Investment contracts with guaranteed and fixed terms and conditions	-	520,383	-	520,383

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10.3 Reclassifications between levels of fair value hierarchy

In the event of a change in the method of measuring assets or liabilities, arising e.g. from losing (or gaining) the availability of quotations observed in an active market, such assets or liabilities are transferred between Levels I and II.

Both in 2015 and 2014, there were no significant transfers between Levels I and II and to or from Level III.

Elements of assets or liabilities are transferred between Levels II and III (respectively between Levels III and II) when:

- there is a change in the measurement model which results from the application of new unobservable (respectively observable) factors, or
- the factors which had been used so far, the impact on the measurement of which is significant, cease to be (or respectively become) observable on the active market.

Transfers between levels of the fair value hierarchy are made at the end of each financial year, according to the value at that date.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

10.4 Reconciliation of the balance of recurring fair value measurement categorized within Level III of the fair value hierarchy

Change in the balance of investment property categorized within Level III of the fair value hierarchy	1 January - 31 December 2015	1 January - 31 December 2014
Opening balance	2,074,970	1,312,329
Acquisition	268,919	667,058
Reclassification from own property	2,942	33,964
Profits or losses disclosed in profit or loss as:	85,752	76,391
- net profit/loss on realization and impairment loss on investments	-	(693)
- net change in the fair value of assets and liabilities measured at fair value	85,752	77,084
Profits or losses recognized in other comprehensive income as "Reclassification of real property from property, plant and equipment to investment property"	-	8,725
Reclassification to own property	(29,644)	-
Reclassification to assets held for sale	(1,347,832)	(10,786)
Disposal	-	(15,307)
Change in group composition	-	3,481
Exchange differences	(691)	(885)
Closing balance	**1,054,416**	**2,074,970**

Property classified to Level III of the fair value

No.	Name of the property	Fair value as at 31 December 2015	Fair value as at 31 December 2014	Measurement approach	Unobservable data	Ranges of unobservable data As at 31 December 2015	Ranges of unobservable data As at 31 December 2014
1.	Office complex, Wrocław	273,500	276,220	Income approach using the investment method and the income stream discounting technique	Monthly rental rate per 1 m^2 (office space) Capitalization rate	EUR 14.25 – 15.50 1)	EUR 14.25 – 15.50 1)
2.	Warehouse park, Bielany Wrocławskie	214,900	88,830	Income approach using the investment method and the income stream discounting technique	Monthly rental rate per 1 m2 (office space) Monthly rental rate per 1 m2 (warehouse space) Capitalization rate Construction costs	EUR 7.50 – 9.00 EUR 2.50 – 4.20 1) 2)	EUR 8.00 – 9.00 EUR 2.40 – 4.20 1) 2)
3.	Office building, Warsaw	155,100	156,000	Income approach using the investment method and the income stream discounting technique	Monthly rental rate per 1 m2 (office space) Monthly rental rate (parking lot) Capitalization rate	EUR 11.70 – 14.10 EUR 70.00 – 150.00 1)	EUR 12.00 – 15.00 EUR 70.00 – 150.00 1)
4.	Warehouse park under construction, Komorniki	118,900	101,190	Income approach using the investment method and the income stream discounting technique	Monthly rental rate per 1 m2 (office space) Monthly rental rate per 1 m2 (warehouse space) Capitalization rate Construction costs	EUR 7.50 – 9.00 EUR 2.50 – 4.00 1) 2)	EUR 8.50 – 9.00 EUR 2.30 – 4.20 1) 2)
5.	Warehouse park under construction, Sosnowiec Pieńki	115,700	n/a	Mixed approach with the use of the residual method	Monthly rental rate per 1 m2 (office space) Monthly rental rate per 1 m2 (warehouse space) Capitalization rate Construction costs	EUR 7.50 – 9.00 EUR 2.50 – 4.00 1) 2)	n/a n/a n/a n/a
6.	Office building, Warsaw	114,100	115,330	Income approach using the investment method and the income stream discounting technique	Monthly rental rate per 1 m2 (office space) Monthly rental rate (parking lot) Capitalization rate	EUR 10.09 – 12.91 EUR 35.20 – 84.48 1)	EUR 11.50 – 14.50 EUR 55.00 – 85.00 1)

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No.	Name of the property	Fair value as at 31 December 2015	Fair value as at 31 December 2014	Measurement approach	Unobservable data	Ranges of unobservable data As at 31 December 2015	Ranges of unobservable data As at 31 December 2014
7.	Warehouse park under construction, Sosnowiec	37,160	n/a	Mixed approach with the use of the residual method	Monthly rental rate per 1 m2 (office space) Monthly rental rate per 1 m2 (warehouse space) Capitalization rate Construction costs	EUR 7.50 – 9.00 EUR 2.90 – 4.30 1) 2)	n/a n/a n/a n/a
8.	Office building under construction, Wrocław	7,160	4,250	Income approach using the investment method and the income stream discounting technique	Monthly rental rate per 1 m2 (office space) Capitalization rate Construction costs	EUR 11.00 – 15.50	EUR 11.00 – 15.50
9.	Other	17,896	1,333,150 [3]	n/a	n/a	n/a	n/a
	Total	**1,054,416**	**2,074,970**				

[1] Capitalization rate was established upon the analysis of return rates in transactions concerning similar properties and with consideration of risk perception by potential investors on the real property market

[2] The value of construction costs was determined based on market cost of construction less costs incurred as at the measurement date.

[3] Investment properties at the value of PLN 1,280,130 thousand were re-classified to assets held for sale. Additional information about this issue is presented in Note 41.

Measurement of Level III real property is sensitive to changes in parameters used for measurement purposes and the aforesaid parameters depend on the macroeconomic environment (e.g. economic growth, inflation rate, interest rates), supply and demand on individual local property markets (taking into account both the lease market and the demand for complete items of real property, expressed by financial investors). The parameters used for measurement purposes may be interrelated, whereas the dependence is not fixed and may change depending on the market conditions.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

10.5 Changes in fair value measurement of financial instruments measured at fair value

In 2015 and 2014, there were no changes introduced to the method of determining fair value of financial instruments measured at fair value, the value of which is significant from the consolidated financial statements perspective.

Fair value of financial instruments recognized in consolidated statement of financial position which result from consolidation of Alior Bank has been specified on the basis of methods described above.

10.6 The highest and best use of a non-financial asset vs. its current use

In the case of one investment property with the carrying value of PLN 3,201 thousand (as at 31 December 2014: PLN 2,822 thousand), its current use was not the most significant and best use; however, the carrying amount takes into account its most significant and best use.

The estate is a land with a structure that requires demolition and an optimal use is to build new facilities.

11. Gross written premiums

Gross written premiums	**1 January - 31 December 2015**	**1 January - 31 December 2014**
Gross written premium – non-life insurance	10,362,520	8,999,205
In direct insurance	10,036,342	8,905,802
In indirect insurance	326,178	93,403
Gross written premium – life insurance	7,996,524	7,885,434
Individual premiums	3,241,407	3,256,968
Group insurance premiums	4,755,117	4,628,466
Total gross written premiums	**18,359,044**	**16,884,639**

In 2015 and 2014, the life insurance entities did not engage in reinsurance inwards.

Gross written premiums in direct property and casualty insurance (by classes specified in section II of the appendix to the Act on insurance Activity)	**1 January - 31 December 2015**	**1 January - 31 December 2014**
Accident and sickness insurance (group 1 and 2)	614,925	527,989
Motor third-party liability insurance (group 10)	3,279,436	2,899,442
Other motor insurance (group 3)	2,626,730	2,209,647
Sea, aircraft and transport insurance (groups 4, 5, 6, 7)	60,822	77,015
Insurance against fire and other damage to property (groups 8, 9)	2,318,353	2,043,689
Third-party liability insurance (groups 11, 12, 13)	750,544	798,498
Credit insurance and suretyship (groups 14, 15)	90,510	97,884
Assistance (group 18)	314,340	248,180
Legal protection (group 17)	3,544	877
Other (group 16)	303,316 [1)]	95,984
Total	**10,362,520**	**8,999,205**

[1)] The increase results from written Premium in direct insurance.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

12. Revenue from commissions and fees

Revenue from commissions and fees	1 January - 31 December 2015	1 January - 31 December 2014
Pension contracts	**118,521**	**270,565**
Commission on handling fees	5,212	19,871
Asset management fee for open pension fund	99,822	112,100
Other	13,487	138,594,[1)]
Investment contracts	**8,842**	**12,282**
Fees from unit-linked investment contract	8,842	12,282
Other	**115,436**	**67,917**
Revenue and payments received from funds and investment fund management companies	115,436	67,917
Total revenue from commissions and fees	**242,799**	**350,764**

[1)] Including PLN 132,267 thousand due to liquidation of the additional part of the OPF PZU Guarantee Fund.

13. Net investment income

Net investment income	1 January - 31 December 2015	1 January - 31 December 2014
Interest income, including:	1,349,061	1,480,543
- financial assets available for sale	49,884	55,849
- financial assets held to maturity	931,857	961,401
- loans	363,872	439,660
- receivables, including insurance receivables	757	484
- cash and cash equivalents	2,691	23,149
Dividend income, including:	58,313	88,121
- financial assets measured at fair value through profit or loss – classified as such upon initial recognition	35,260	63,903
- financial assets held for trading	22,149	18,059
- financial assets available for sale	904	6,159
Income from investment property	212,170	137,428
Exchange differences, including:	78,455	58,321
- financial assets held to maturity	(15)	1,957
- financial assets available for sale	7,676	8,421
- loans	887	81,952
- receivables, including insurance receivables	9,160	21,210
- cash and cash equivalents	49,923	33,970
- financial liabilities	12,344	(79,171)
- other	(1,520)	(10,018)
Other, including:	(126,731)	(59,764)
- costs of investment activities	(31,202)	(24,512)
- investment property maintenance costs	(122,730)	(61,209)
- other	27,201	25,957
Total net investment income	**1,571,268**	**1,704,649**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

14. Net result on realization and impairment losses on investments

Net result on realization and impairment losses on investments	1 January - 31 December 2015	1 January - 31 December 2014
Net result on realization of investments	**(154,692)**	**380,284**
Financial assets measured at fair value through profit or loss – classified as such upon initial recognition, including:	87,723	317,227
- equity instruments	13,369	56,405
- debt instruments	74,354	260,822
Financial assets held for trading, including:	(142,136)	97,886
- equity instruments	(70,941)	(36,469)
- debt instruments	(29,515)	34,251
- derivatives	(41,680)	100,104
Financial assets available for sale, including:	9,944	21,071
- equity instruments	(26,035)	633
- debt instruments	35,979	20,438
Financial assets held to maturity, including:	(1,923)	1,371
- debt instruments held to maturity	(1,923)	1,371
Loans	7,726	(368)
Receivables, including insurance receivables	(51,407)	(56,733)
Cash and cash equivalents	(378)	-
Investment property	6,510	(170)
Result on the sale of PZU Lithuania	165,483 [1)]	-
Effect of consolidation of Alior Bank	(236,234)[1)]	-
Impairment losses	**(68,547)**	**46,863**
Financial assets available for sale, including:	-	(3,945)
- equity instruments	-	(3,945)
Loans	(51,644)	(10,242)
Debt instruments	(32,693)	(10,144)
Term deposits with credit institutions	(947)	-
Loans	(18,004)	(98)
Receivables, including insurance receivables	972	61,050[3)]
Cash and cash equivalents	(1,389)	-
Entities measured using the equity method – EMC	(16,486) [4)]	-
Net result on realization and impairment losses on investments	**(223,239)**	**427,147**

[1)] Additional information about sale of PZU Lithuania is presented in Note 2.4.1

[2)] The amount concerns revaluation of Alior Bank shares' package to fair value as at the moment of acquiring control. Additional information about the settlement of acquisition of Alior Bank SA is presented in Note 2.4.6.1.

[3)] Including reversal of receivables impairment losses in the amount of PLN 26,275 thousand due to a mortgage to Metro-Projekt Sp. z o.o. described in Note 54.6.

[4)] Additional information about EMC measurement and impairment tests is presented in Note 34

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15. Net change in the fair value of assets and liabilities measured at fair value

Net change in the fair value of assets and liabilities measured at fair value	1 January - 31 December 2015	1 January - 31 December 2014
Financial instruments measured at fair value through profit or loss – designated as such upon initial recognition, including:	299,235	415,951
- equity instruments	203,443	(160,394)
- debt instruments	100,616	615,929
- liabilities to participants of consolidated investment funds	(7,522)	(42,162)
- unit-linked investment contracts	2,698	2,578
Financial instruments held for trading, including:	16,432	22,945
- equity instruments	(24,687)	42,707
- debt instruments	46,737	83,448
- derivatives	(5,618)	(103,210)
Investment property	75,581 [1]	76,215
Total net change in the fair value of assets and liabilities measured to fair value	**391,248**	**515,111**

[1] Including PLN 4,326 thousand of change in fair value of property represented as assets held for sale.

16. Other operating income

Other operating income	1 stycznia - 31 grudnia 2015	1 stycznia - 31 grudnia 2014
Commission on claims representative services	6,443	7,162
Release of provisions	24,333 [1]	34,773 [2]
Release of provisions for employee benefits	33,121	30,966
Reinsurers' commissions and share in reinsurers' profit	13,544	(6,613)
Revenues from sale of products, goods, and services by non-insurance companies	409,940	295,222
Revenues from direct claims handling regarding policies concluded with other insurance companies	188,516	69,381
Interest from overdue receivables in direct insurance and outward reinsurance	45,321	35,434
Other	82,214	71,308
Total other operating income	**803,432**	**537,633**

[1] The item presents, among others, the effect of reversal of the provision for the Office of Competition and Consumer Protection penalties (PLN 11,290 thousand).
[2] The item presents, among others, the effect of reversal of the provision for the costs of closing the IT GraphTalk project (PLN 28,785 thousand).

17. Insurance claims and change in technical provisions

Insurance claims and change in technical provisions	1 January - 31 December 2015	1 January - 31 December 2014
Claims, benefits and change in technical provisions – non-life insurance	6,416,539	5,866,427
Reinsurers' share in claims, benefits and change in technical provisions – non-life insurance	(425,564)	(191,284)
Claims, benefits and change in technical provisions – life insurance	5,866,386	5,866,801
Reinsurers' share in claims, benefits and change in technical provisions – life insurance	(259)	(236)
Total claims, benefits and change in technical provisions	**11,857,102**	**11,541,708**

17.1 Non-life insurance

Claims and change in provisions in non-life insurance	1 January - 31 December 2015	1 January - 31 December 2014
Gross claims and change in provisions in non-life insurance	**6,416,539**	**5,866,427**
Claims and claims handling expenses for the current period	3,886,621	3,154,034
Claims and claims handling expenses for previous periods	2,226,278	1,669,781

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Change in provision for outstanding claims	303,640	1,042,612
Reinsurers' share in claims and change in provisions in non-life insurance	**(425,564)**	**(191,284)**
Claims and claims handling expenses for the current period	(40,626)	(18,718)
Claims and claims handling expenses for previous periods	(57,564)	(67,478)
Change in provision for outstanding claims	(327,374)	(105,088)
Net claims and change in provisions in non-life insurance	**5,990,975**	**5,675,143**
Claims and claims handling expenses for the current period	3,845,995	3,135,316
Claims and claims handling expenses for previous periods	2,168,714	1,602,303
Change in provision for outstanding claims	(23,734)	937,524

17.2 Life insurance

Benefits in life insurance	1 January - 31 December 2015	1 January - 31 December 2014
Resulting from maturity	638,118	497,470
Resulting from benefits paid as a result of death	2,912,217	2,708,948
Resulting from morbidity	636,277	609,461
Resulting from resignation from the insurance contract	370,913	265,425
Resulting from disability and entitlement to a disability pension	5,097	4,889
Resulting from annuity benefits	40,046	41,657
Resulting from childbirth	330,666	322,564
Resulting from hospital treatment	316,627	300,846
Resulting from a refund of accumulated cash and transfer payments	100,259	281,834
Other	197,372	121,195
Total benefits in life insurance	**5,547,592**	**5,154,289**

17.3 Claims handling expenses

Claims handling expenses, by type	1 January - 31 December 2015	1 January - 31 December 2014
Consumption of materials and energy	13,870	16,722
External services	233,023	189,921
Taxes and charges	26,715	20,037
Employee expenses	319,450	295,472
Depreciation of property, plant and equipment	12,630	11,820
Amortization of intangible assets	18,527	18,650
Other (by type), including:	159,560	119,981
- awarded costs, penal interest and penalties awarded in cases over claims	147,038	110,184
- other	12,522	9,797
Total claims handling expenses	**783,775**	**672,603**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

18. Interest expense

Interest expense	1 January - 31 December 2015	1 January - 31 December 2014
Sell buy-back transactions	68,209	105,975
Own debt instruments issued	37,655	15,676
Bank loans taken by PZU Group entities	4,394	8,908
Investment contracts with guaranteed and fixed terms and conditions	6,477	16,609
Other	698	117
Total interest expense	**117,433**	**147,285**

19. Acquisition expenses

Acquisition expenses, by type	1 January - 31 December 2015	1 January - 31 December 2014
Consumption of materials and energy	29,278	28,754
External services	121,243	87,212
Taxes and charges	5,912	5,791
Employee expenses	511,482	406,247
Depreciation of property, plant and equipment	18,334	13,432
Amortization of intangible assets	29,691	19,111
Other (by type), including:	2,102,823	1,701,745
- commissions from direct activity	1,820,766	1,644,032
- advertisement	89,255	43,576
- commissions from indirect activity	185,363	6,543
- other	7,439	7,594
Change in deferred acquisition expenses	(442,458)	(115,268)
Total acquisition expenses	**2,376,305**	**2,147,024**

20. Administrative expenses

Administrative expenses by type	1 January - 31 December 2015	1 January - 31 December 2014
Consumption of materials and energy	56,344	36,708
External services	315,616	233,534
Taxes and charges	30,131	51,335
Employee expenses	804,479	775,232
Depreciation of property, plant and equipment	53,014	50,869
Amortization of intangible assets	46,273	38,365
Remuneration of people handling group insurance with companies	212,388	209,376
Other (by type), including:	139,633	132,280
- advertisement	78,999	88,941
- other	60,634	43,339
Total administrative expenses	**1,657,878**	**1,527,699**

Administrative expenses also include costs of insurance activity, not classified as acquisition expenses, related to premium collection, management of the portfolio of insurance contracts, reinsurance contracts and other related to the operations of the insurance companies of PZU Group as specified in their By-laws.

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21. Employee expenses

Employee expenses	1 January - 31 December 2015	1 January - 31 December 2014
Wages and salaries	1,397,889	1,247,136
Defined contributions plans, including:	304,070	262,903
- overheads	236,574	199,746
- third pillar pension plans, including costs of premiums to PPE incurred in the period	67,496	63,157
Other	69,565	76,673
Total employee expenses	**1,771,524**	**1,586,712**

As at 31 December 2015, PZU, PZU Życie and PZU CO had third pillar pension plans for their employees, considered defined contribution plans. Due to these plans, the employer paid additional 7% of the gross salary.

Employee expenses are disclosed under "Claims, benefits and change in technical provisions", "Acquisition costs", "Administrative expenses" and "Other operating expenses" of consolidated statement of profit or loss.

22. Other operating expenses

Other operating expenses	1 January - 31 December 2015	1 January - 31 December 2014
Costs of core business of companies not conducting neither insurance nor bank activity	432,196	307,172
Amortization of intangible assets acquired in business combinations	161,081	87,795
Costs from direct claims handling regarding claims on policies concluded with other insurance companies	193,388	73,051
Expenses due to prevention activities	92,366	68,234
Compulsory payments to the insurance market authorities	68,267	58,744
Insurance Guarantee Fund	41,529	35,872
Creation of provisions	21,447	33,365
Donations	1,869	31,508 1)
Payment to National Headquarters of the State Fire Service and Volunteer Fire Service Association	31,528	28,869
Rechargeable expenses	12,140	12,313
Other	166,465	170,817
Total other operating expenses	**1,222,276**	**907,740**

1) Including donations to PZU Foundation in the amount of PLN 30,000 thousand.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

23. Income tax

Income tax	1 January - 31 December 2015	1 January - 31 December 2014
Gross profit (consolidated)	2,943,733	3,691,693
CIT rate (or range of rates) for the country of the registered office of the parent entity (%)	19%	19%
Income tax which would be calculated as the product of the gross book profit of the entities and the CIT rate for the country for the registered office of the parent entity	559,309	701,422
Differences between the income tax calculated above and the income tax recognized in the statement of profit or loss:	42,228	22,644
- tax losses	(681)	1,474
- fines, contractual penalties	707	1,370
- dividends	(2,124)	(3,182)
- valuation of financial assets	7,814	(13,018)
- valuation of investment property	3,554	5,365
- created/reversed impairment losses on receivables not classified as tax deductible expenses	12,407	(3,731)
- other created/reversed provisions and impairment losses on assets, not classified as tax deductible expenses	45,301	18,865
- differences from different tax rates	(3,321)	255
- tax on insurance activities in Ukraine	3,761	4,015
- depreciation	1,701	(524)
- other tax increases, cancellations, exemptions, deductions and reductions	(26,891)	11,755
Income tax recognized in the statement of profit or loss	**601,537**	**724,066**

Total current and deferred tax	1 January - 31 December 2015	1 January - 31 December 2014
1. Recognized in the statement of profit or loss, including:	**601,537**	**724,066**
- current portion	483,101	673,506
- deferred tax	118,436	50,560
2. Recognized in other comprehensive income, including:	**2,472**	**3,383**
- current portion	-	-
- deferred tax	2,472	3,383

Regulations concerning corporate income tax, personal income tax, value added tax and contributions to social security undergo relatively frequent changes. The current regulations contain ambiguities which result in a difference in opinions regarding their legal interpretation, both among various State authorities as well as between these authorities and enterprises. Tax and other settlements (e.g. regarding customs duty or foreign currency settlements) may be controlled by authorities authorized to impose high penalties, and additional liability amounts recognized during are to be paid with high interest. As a result, the level of tax risk in Poland, the Baltic states and Ukraine exceeds that of countries with more developed tax systems. In Poland tax returns are subject to control over a period of five years. Consequently, the amounts presented in consolidated financial statements may change at a later date, after they have been finally assessed by tax authorities.

In accordance with paragraph 25 section 1 of the Corporate Income Tax Act dated 15 February 1992 (i.e. Journal of Laws of 2014 (CIT Tax), item 851 as amended), the TCG conducts settlements with the Tax Office on a monthly basis. PZU makes advance payments of corporate income tax to the Tax Office, which are due from all the companies belonging to the TCG and the said companies transfer the CIT advances related to their business activities to PZU.

On 22 December 2015 the Management Board of PZU granted consent for the conclusion of an annex to the TCG agreement effective as of 1 January 2015. It is set forth in the annex signed on 21 January 2016 that should TCG's income be reduced by a tax loss incurred by one or more companies constituting TCG, the amount of the difference between the amount of TCG's tax due determined without taking tax losses into account and the amount of TCG's tax due determined taking into account tax losses borne by the companies shall be transferred by PZU proportionally to each of the companies where the tax losses arose. Settlement is performed within 14 days from the submission of a CIT-8A declaration for the tax year in which the TCG's tax liability was reduced.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

24. Earnings per share

Earnings per share	1 January - 31 December 2015	1 January - 31 December 2014
Net profit from continued operations attributable to holders of the parent entity	2,342,355	2,967,731
Basic and diluted weighted average number of ordinary shares in issue	863,523,000	863,519,490 [1)]
Number of shares issued	863,523,000	863,523,000 [1)]
Number of treasury shares (held by consolidated investment funds)	-	(3,510) [1)]
Basic and diluted profit (loss) per ordinary share (in PLN)	2.71	3.44 [1)]

[1)] Comparatives were restated, taking into consideration the new number of shares after the split described in Note 42.1

No operations were discontinued in both 2015 and 2014.

There were neither transactions, nor events resulting in the dilution of profit per one share in both 2015 and 2014.

25. Income tax presented in other comprehensive income

Income tax relating to components of other comprehensive income	1 January - 31 December 2015	1 January - 31 December 2014
Other comprehensive income before tax	8,238	20,576
Income tax	(2,472)	(3,383)
Measurement of available-for-sale financial instruments	(404)	(1,743)
Provisions for retirement and death benefits	(411)	1,526
Property reclassified from property, plant and equipment to investment property	(1,657)	(3,166)
Other comprehensive income, net	**5,766**	**17,193**

26. Goodwill

Goodwill	31 December 2015	31 December 2014 (restated)
Alior Bank	720,569	-
Lietuvos Draudimas AB	358,766	358,835
Non-life insurance mass-client segment (Link4)	221,377	221,377
Codan branch	112,303	112,319
AAS Balta	38,251	38,258
Health care companies	49,633	29,580
Other	5,546	8,675
Total goodwill	**1,506,445**	**769,044**

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Changes in goodwill	**1 January - 31 December 2015**	**1 January - 31 December 2014** (restated)
Gross value of goodwill – opening balance	776,076	20,123
Changes in the period:	735,448	755,953
- acquisition of Alior Bank	720,569 [1)]	-
- acquisition of Lietuvos Draudimas AB	-	358,835 [2)]
- acquisition of Link4 – non-life insurance mass-client segment	-	221,377 [3)]
- acquisition of Codan Branch	-	110,399
- acquisition of AAS Balta	-	37,348
- acquisition of other entities	20,053	29,651
- sale of PZU Lithuania	(3,128)	-
- exchange differences	(2,046)	(1,657)
Gross value of goodwill – closing balance	1,511,524	776,076
Impairment losses – opening balance	(7,032)	(11,604)
Changes in impairment losses due to exchange differences	1,953	4,572
Impairment losses – closing balance	(5,079)	(7,032)
Net value of goodwill – closing balance	**1,506,445**	**769,044**

[1)] Information on the acquisition of Alior Bank is presented in Note 2.4.6.1.
[2)] Change in goodwill results from the final settlement of acquisition of the Lietuvos Draudimas AB shares, specified in Note 2.4.6.3.
[3)] Change in goodwill results from the final settlement of acquisition of the Link4 shares, specified in Note 2.4.6.2.

Impairment test

Impairment test is the comparison of carrying amounts (including goodwill) and recoverable amounts of CGUs. For all the foreign entities and Polish non-insurance entities CGUs are particular companies or their foreign branches which are subject to separate internal monitoring. At the moment of final settlement of the acquisition price, the goodwill resulting from the acquisition of Link4 was fully allocated to the mass-client segment, which – due to the integration of Link4's business with PZU as part of realization of the two brands strategy assuming synergy resulting from mass-client portfolio management and sale of additional insurance products – is the smallest CGU to which the goodwill can be assigned. Impairment test regarding goodwill was prepared as at 31 December 2015.

For the purposes of the test, the carrying amount of the mass-client insurance segment was determined on the basis of net asset allocation of PZU Group. The assets were allocated in the same proportion as the one between the hypothetical solvency capital requirement, which may be assigned to the mass insurance segment, and total capital solvency requirement.

The recoverable amount of individual CGUs was determined based on value in use, using the discounted cash flow method based on the most up-to-date, approved by PZU Group financial projections not exceeding 5 years, which have been presented in the table below. The discount rates used for the test of insurance companies and Alior Bank were determined based on the level of the cost of equity. In the case of medical companies, the weighted average cost of capital (WACC) was used. The cost of equity was determined according to the CAMP model. In addition, in justified cases, the adjustments regarding size premium were made. Risk-free rates have been determined based on the yield of 10-year government bonds offered by the country where the CGU has it registered seat; the beta ratio has been based on ratios of similar listed entities. Market premiums amounted to 5.5% (in 2014: 5.5–6.0%). In the case of insurance companies and Alior Bank, the projected cash flows include the need to maintain an adequate level of own funds (for branches that do not manage investments, assets under management at the level of the parent company were allocated pro forma). Terminal growth rates were determined taking into consideration long-term development prospects concerning the expected growth of the market in which a given entity operates. In the case of insurance entities operating in the Baltic states, an adjustment regarding the expected growth of insurance penetration rate (share of insurance premiums in GDP) amounting to 0.2–0.3 p.p. was taken into consideration. In the remaining cases, growth indicators do not exceed long-term prospects of GDP development of a given country in nominal terms.

CGU	31 December 2015			31 December 2014		
	Discount rate	Growth rate after the forecast period	Financial projections horizon	Discount rate	Growth rate after the forecast period	Financial projections horizon
Lietuvos Draudimas AB	5.6%	3.7%	4 years	6.6%	3.7%	5 years
AAS Balta	5.8%	3.8%	4 years	6.3%	3.8%	5 years
Codan branch	5.8%	3.5%	4 years	5.5%	3.5%	5 years
Mass-client insurance segment [1)]	7.5%	2.5%	5 years	7.8% [2)]	2.5%	5 years [2)]
Alior Bank	8.9%	3.0%	5 years	n/a	n/a	n/a
Health care companies	6.6-9.1%	2.0-3.0%	4-5 years	7.2%	3.0%	4-5 years

[1)] Including goodwill resulting from the acquisition of Link4.
[2)] As at 31 December 2014, during the measurement period, impairment test was carried out at the level of Link 4 and the assumptions to the test have been presented in the columns marked 31 December 2014.

As a result of the test, there was no reason for impairment losses recognition. The table below shows the surplus of the recoverable amounts over the carrying amounts and the maximum discount rates and minimum terminal growth rate, at the level of which the carrying amount of a CGU equals its recoverable amount.

CGU	31 December 2015			31 December 2014		
	Surplus (PLN thousand)	Terminal discount rate	Terminal growth rate after the forecast period	Surplus (PLN thousand)	Terminal discount rate	Terminal growth rate after the forecast period
Lietuvos Draudimas AB	693,103	7.5%	0.6%	676,160	8.9%	0.9%
AAS Balta	728,326	14.4%	(23.4%)	602,798	13.7%	(7.7%)
Codan branch	109,091	8.3%	(13.9%)	442,738	12.9%	(7.2%)
Mass-client insurance segment	6,264,698 [1)]	28.2%	n/a. [2)]	220,411[3)]	9.7%[3)]	(0.7%)[3)]
Alior Bank	1,383,491 [4)]	10.4%	1.5%	n/a	n/a	n/a
Health care companies	52,773	8.2-13.9%	(5.6)-2.3%	18,555	9.2% - 9.3%	0.1% - 0.5%

[1)] Surplus of recoverable amount of mass-client segment over its carrying amount along with goodwill resulting from the acquisition of Link4.
[2)] The value of discounted cash flows in the forecast period exceeds the carrying amount assigned to the mass segment, hence the value of the terminal growth rate after the forecast period was not presented.
[3)] As at 31 December 2014, during the measurement period, impairment test was carried out at the level of Link 4 and the results and sensitivity analysis of the test have been presented in the columns marked 31 December 2014.
[4)] Surplus of the CGU's recoverable amount over the carrying amount (100% of Alior Bank's consolidated net assets) along with the allocated goodwill.

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27. Intangible assets

Changes in intangible assets (by group) in the year ended 31 December 2015

	Costs of completed development works	Acquired concessions, patents, licenses and similar items, including:	Computer software	Intangible assets under construction	Other intangible assets	Total intangible assets
Gross value of tangible assets – opening balance	51,233	942,948	817,592	187,851	547,722	1,729,754
Increases (due to):	3,362	371,930	367,165	252,721	310,484	938,497
purchased and manufactured by use of own means	1,842	6,701	6,391	191,065	291	199,899
- change in group composition	260	220,403	220,403	58,893	302,750	582,306
- reclassification from tangible assets under construction	1,260	144,357	140,363	-	-	145,617
- other	-	469	8	2,763	7,443	10,675
Decreases (due to):	(6,938)	(44,856)	(3,947)	(265,655)	(3,752)	(321,201)
- sale and liquidation	(6,938)	(44,656)	(3,747)	(116,589)	(3,398)	(171,581)
- reclassification from tangible assets under construction	-	-	-	(145,617)	-	(145,617)
- other	-	(200)	(200)	(3,449)	(354)	(4,003)
Exchange differences	(81)	(620)	(584)	-	(202)	(903)
Gross value of tangible assets – closing balance	**47,576**	**1,269,402**	**1,180,226**	**174,917**	**854,252**	**2,346,147**
Accumulated depreciation – opening balance	(30,731)	(576,441)	(492,418)	(81)	(92,620)	(699,873)
Changes (due to):	(1,936)	(79,916)	(81,653)	-	(160,607)	(242,459)
- depreciation for the period	(6,595)	(89,390)	(84,856)	-	(161,619)	(257,604)
- sale and liquidation	4,683	9,587	2,847	-	2,804	17,074
- exchange differences	(24)	241	257	-	(2,146)	(1,929)
- other	-	(354)	99	-	354	-
Accumulated depreciation – closing balance	**(32,667)**	**(656,357)**	**(574,071)**	**(81)**	**(253,227)**	**(942,332)**
Impairment losses – opening balance	-	(42,267)	(8,102)	(118,922)	-	(161,189)
Changes in other operating expenses	-	-	-	(37)	-	(37)
Other changes	-	34,165[2)]	-	116,414[2)]	-	150,579
Impairment losses – closing balance	**-**	**(8,102)**	**(8,102)**	**(2,545)**	**-**	**(10,647)**
Net value of intangible assets – closing balance	**14,909**	**604,943**	**598,053**	**172,291**	**601,025**	**1,393,168**

[1)] Including assets acquired in company takeover transactions (trademark, CDI) amounting to PLN 300,000 thousand.

[2)] The Item indicates, among others, derecognition of total expenditures incurred for the GraphTalk project in the amount of PLN 116,309 thousand and the life unit-linked insurance management module and the base license GraphTalk in the amount of PLN 34,165 thousand and charged to impairment losses reported in the preceding periods.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Changes in intangible assets (by group) in the year ended 31 December 2014

	Costs of completed developme nt works	Acquired concessions, patents, licenses and similar items, including:	Computer software	Intangible assets under construction	Other intangible assets	Total intangible assets
Gross value of tangible assets – opening balance	-	764,179	649,709	185,704	1,961	951,844
Increases (due to):	50,355	201,713	187,219	132,885	539,393	924,346
purchased and manufactured by use of own means	469	9,682	8,409	129,640	128	139,919
- change in group composition	49,798	76,031	67,273	2,072	539,265[1)]	667,166
- reclassification from tangible assets under construction	88	115,898	111,435	-	-	115,986
- other	-	102	102	1,173	-	1,275
Decreases (due to):	-	(22,601)	(18,911)	(130,753)	(585)	(153,939)
- sale and liquidation	-	(7,739)	(4,049)	(13,301)	-	(21,040)
- transfer to a category of assets designated for sale in accordance with IFRS 5 [2)]	-	(14,853)	(14,853)	(70)	(485)	(15,408)
- reclassification from tangible assets under construction	-	-	-	(115,986)	-	(115,986)
- other	-	(9)	(9)	(1,396)	(100)	(1,505)
Exchange differences	878	(343)	(425)	15	6,953	7,503
Gross value of tangible assets – closing balance	**51,233**	**942,948**	**817,592**	**187,851**	**547,722**	**1,729,754**
Accumulated depreciation – opening balance	-	(476,148)	(398,033)	-	(836)	(476,984)
Changes (due to):	(30,731)	(100,293)	(94,385)	(81)	(91,784)	(222,889)
- depreciation for the period	(1,136)	(76,049)	(73,162)	-	(87,853)	(165,038)
- sale and liquidation	-	7,283	3,590	-	-	7,283
- change in group composition	(29,068)	(42,412)	(35,789)	(80)	(2,877)	(74,437)
- transfer to a category of assets designated for sale in accordance with IFRS 5 [2)]	-	10,745	10,745	-	-	10,745
- exchange differences	(527)	249	360	(1)	(1,154)	(1,433)
- other	-	(109)	(129)	-	100	(9)
Accumulated depreciation – closing balance	**(30,731)**	**(576,441)**	**(492,418)**	**(81)**	**(92,620)**	**(699,873)**
Impairment losses – opening balance	-	(34,165)[3)]	-	(131,969)[3)]	-	(166,134)
Changes in other operating expenses	-	(301)	(301)	(121)	-	(422)
Other changes:	-	(7,801)	(7,801)	13,168	-	5,367
- change in group composition	-	(8,075)	(8,075)	-	-	(8,075)
- other	-	274	274	13,168	-	13,442
Impairment losses – closing balance	**-**	**(42,267)[3)]**	**(8,102)**	**(118,922)[3)]**	**-**	**(161,189)**
Net value of intangible assets – closing balance	**20,502**	**324,240**	**317,072**	**68,848**	**455,102**	**868,692**

[1)]Including assets acquired in company takeover transactions (customer relations, relations with brokers, future profits from concluded insurance contracts) amounting to PLN 536,387 thousand.

[1)]The item presents transfer of PZU Lithuania's assets to assets held for sale due to the transaction described in Note 2.4.1. The decrease of assets was translated at average rate described in Note 5.3.

[3)] The item "Impairment losses" indicates losses for total expenditures incurred for the GraphTalk project in the amount of PLN 116,309 thousand and the life unit-linked insurance management module and the base license GraphTalk in the amount of PLN 34,165 thousand.

Intangible assets with indefinite period of use (trademarks with a total value of PLN 269,322 thousand as at 31 December 2014: PLN 169,344) were tested for impairment; as a result of the test, there was no reason found for impairment losses recognition.

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Amortization of intangible assets by position in the consolidated statement of profit or loss	1 January - 31 December 2015	1 January - 31 December 2014
Insurance claims and change in technical provisions	18,527	18,650
Acquisition costs	29,691	19,111
Administrative expenses	46,273	38,365
Other operating expenses [1)]	163,064	88,830
Costs of investment activities	45	81
Other	4	1
Total depreciation	**257,604**	**165,038**

28. Other assets

Other assets	31 December 2015	31 December 2014
Reinsurance settlements	339,463	79,010
IT expenses	31,581	25,963
Accrued receivables from direct claims handling	41,582	-
Inventories:	125,260	84,762
- materials	53,201	28,528
- products and goods	71,794	55,720
- claim salvages	265	514
Other assets	161,078	45,515
Total other assets	**698,964**	**235,250**

Other assets	31 December 2015	31 December 2014
Short-term	683,058	229,056
Long-term	15,906	6,194
Total other assets	**698,964**	**235,250**

29. Deferred acquisition costs

Deferred acquisition costs	31 December 2015	31 December 2014
Short-term	1,065,459	644,088
Long-term	89,283	67,978
Total deferred acquisition costs	**1,154,742**	**712,066**

29.1 Deferred acquisition costs – non-life insurance

Change in deferred acquisition costs in non-life insurance	1 January – 31 December 2015	1 January – 31 December 2014
Carrying amount – opening balance	644,451	546,476
Deferred acquisition costs	1,149,975 [1)]	689,604
Depreciation for the period recognized in the statement of profit or loss	(714,632)	(572,310)
Transfer of PZU Lithuania's assets to assets held for sale due to the transaction described in Note 2.4.1 [2)]	-	(15,136)
Exchange differences	(1,487)	(4,183)
Carrying amount – closing balance	**1,078,307**	**644,451**

1) The increase of deferred acquisition expenses results mainly from deferring a part of indirect acquisition costs (see Note 6.2.5 for additional information) and the consolidation of AAS Balta, Lietuvos Draudimas AB, and Link4 for the full financial year.

2) The decrease of deferred acquisition expenses was translated at average rate described in Note 5.3.

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29.2 Deferred acquisition costs – life insurance

Changes in deferred acquisition costs in life insurance	1 January – 31 December 2015	1 January – 31 December 2014
Carrying amount – opening balance	67,615	63,343
Deferred acquisition costs	19,873	5,578
Depreciation for the period recognized in the statement of profit or loss	(11,078)	(1,432)
Exchange differences	25	126
Carrying amount – closing balance	**76,435**	**67,615**

30. Estimated subrogations and salvages

Estimated subrogations, salvages and subsidies	31 December 2015	31 December 2014
Estimated subrogations	110,340	123,617
Estimated salvages	3,889	3,645
Total	**114,229**	**127,262**

Estimated subrogations, salvages and subsidies	31 December 2015	31 December 2014
Short-term	48,983	57,162
Long-term	65,246	70,100
Total	**114,229**	**127,262**

Estimated subrogations and salvages are classified as long-term if the related cash flows are expected to occur after more than 12 months from the end of the reporting period.

31. Reinsurers' share in technical provisions

Reinsurers' share in technical provisions	31 December 2015	31 December 2014
Unearned premiums reserve	339,255	302,173
Provisions for claims outstanding, including:	579,173	296,900
- for claims reported	527,773	228,795
- for claims incurred but not reported (IBNR)	28,973	46,259
- for claims handling expenses	22,427	21,846
Provisions for the capitalized value of annuities	178,424	154,042
Total reinsurers' share in technical provisions	**1,096,852**	**753,115**

Reinsurers' share in technical provisions by currency	31 December 2015	31 December 2014
PLN	733,580	690,347
USD	301,332 [1)]	20
EUR	39,030	35,319
UAH	18,872	27,205
Other	4,038	244
Total reinsurers' share in technical provisions by currency	**1,096,852**	**753,115**

[1)] Increase in reinsurer's share concerns mainly the recognizing reinsurer's share (at the amount of PLN 299,626 thousand) in provision for claims resulting from fire in a Czech company Unipetrol which took place in August 2015.

Reinsurers' share in technical provisions	31 December 2015	31 December 2014
Short-term	307,016	199,156
Long-term	789,836	553,959
Total reinsurers' share in technical provisions	**1,096,852**	**753,115**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

32. Tangible assets

Changes in tangible assets (by group) in the year ended 31 December 2015

	Technical equipment and machines	Vehicles	Tangible assets under construction	Property 1)	Other tangible assets	Total tangible assets
Gross value of tangible assets – opening balance	536,650	143,661	42,915	1,130,382	175,003	2,028,611
Increases (due to):	142,095	37,136	107,030	111,110	148,845	546,216
- purchase and own production	27,742	4,906	93,918	1,568	14,072	142,206
- change in group composition	81,468	755	13,112	22,315	122,916	240,566
- reclassification from investment property	-	-	-	74,662	-	74,662
- reclassification from tangible assets under construction	25,477	31,055	-	12,148	9,385	78,065
- other	7,408	420	-	417	2,472	10,717
Decreases (due to):	(94,730)	(23,822)	(89,202)	(74,486)	(12,283)	(294,523)
- sale and liquidation	(92,985)	(23,822)	(48)	(977)	(11,392)	(129,224)
- reclassification to assets held for sale according to IFRS 5	-	-	-	(7,958)	-	(7,958)
- reclassification to investment property	-	-	(2,701)	(63,542)	-	(66,243)
- reclassification from tangible assets under construction	-	-	(78,065)	-	-	(78,065)
- other	(1,745)	-	(8,388)	(2,009)	(891)	(13,033)
Exchange differences	(977)	(474)	(6)	(268)	(435)	(2,160)
Gross value of tangible assets – closing balance	**583,038**	**156,501**	**60,737**	**1,166,738**	**311,130**	**2,278,144**
Accumulated depreciation – opening balance	(438,374)	(55,322)	(422)	(367,636)	(107,359)	(969,113)
Changes (due to):	53,369	(670)	-	(1,424)	(9,361)	41,914
- depreciation for the period	(34,170)	(19,791)	-	(28,384)	(19,388)	(101,733)
- sale and liquidation	92,543	19,180	-	249	11,022	122,994
- reclassification to assets held for sale according to IFRS 5	-	-	-	1,220	-	1,220
- reclassification to investment property	-	-	-	23,867	-	23,867
- exchange differences	727	236	-	114	407	1,484
- other	(5,731)	(295)	-	1,510	(1,402)	(5,918)
Accumulated depreciation – closing balance	**(385,005)**	**(55,992)**	**(422)**	**(369,060)**	**(116,720)**	**(927,199)**
Impairment losses – opening balance	(3,413)	(17)	(15)	(50,203)	(4,241)	(57,889)
Changes recognized in the financial profit/loss, including:	571	(319)	(386)	16	496	378
- other operating expenses	-	(319)	(386)	-	-	(705)
- other operating income	571	-	-	16	496	1,083
Other changes:	-	-	-	6,354	-	6,354
- reclassification to investment property	-	-	-	6,237	-	6,237
- other	-	-	-	117	-	117
Impairment losses – closing balance	**(2,842)**	**(336)**	**(401)**	**(43,833)**	**(3,745)**	**(51,157)**
Net value of tangible assets – closing balance	**195,191**	**100,173**	**59,914**	**753,845**	**190,665**	**1,299,788**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Changes in tangible assets (by group) in the year ended 31 December 2014

	Technical equipment and machines	Vehicles	Tangible assets under construction	Property [1]	Other tangible assets	Total tangible assets
Gross value of tangible assets – opening balance	582,604	116,418	22,954	1,081,035	139,549	1,942,560
Increases (due to):	64,174	53,269	66,747	132,354	54,759	371,303
- purchase and own production	26,217	12,920	54,498	8,162	9,018	110,815
- change in group composition	27,563	15,782	730	105,199	39,899	189,173
- reclassification to investment property	-	-	-	15,419	-	15,419
- reclassification from tangible assets under construction	9,875	21,827	-	3,574	5,693	40,969
- other	519	2,740	11,519	-	149	14,927
Decreases (due to):	(108,241)	(25,255)	(46,798)	(83,617)	(18,344)	(282,255)
- sale and liquidation	(100,439)	(25,255)	-	(841)	(16,104)	(142,639)
- reclassification to assets held for sale according to IFRS 5 [2]	(4,879)	-	-	(20,691)	(1,810)	(27,380)
- reclassification to investment property	(1,893)	-	(124)	(61,714)	(62)	(63,793)
- reclassification from tangible assets under construction	-	-	(40,969)	-	-	(40,969)
- other	(1,030)	-	(5,705)	(371)	(368)	(7,474)
Exchange differences	(1,887)	(771)	12	610	(961)	(2,997)
Gross value of tangible assets – closing balance	**536,650**	**143,661**	**42,915**	**1,130,382**	**175,003**	**2,028,611**
Accumulated depreciation – opening balance	(494,299)	(52,976)	-	(322,530)	(86,050)	(955,855)
Changes (due to):	55,925	(2,346)	(422)	(45,106)	(21,309)	(13,258)
- depreciation for the period	(29,785)	(14,318)	-	(29,960)	(15,372)	(89,435)
- sale and liquidation	99,779	20,676	-	708	15,703	136,866
- change in group composition	(20,411)	(7,074)	(415)	(28,933)	(24,166)	(80,999)
- reclassification to assets held for sale according to IFRS 5 [2]	3,310	-	-	3,063	1,422	7,795
- reclassification to investment property	1,265	-	-	10,157	36	11,458
- exchange differences	1,412	462	(7)	22	898	2,787
- other	355	(2,092)	-	(163)	170	(1,730)
Accumulated depreciation – closing balance	**(438,374)**	**(55,322)**	**(422)**	**(367,636)**	**(107,359)**	**(969,113)**
Impairment losses – opening balance	-	-	-	(59,424)	-	(59,424)
Changes recognized in the financial profit/loss, including:	(2,452)	(20)	(15)	5,921	-	3,434
- other operating expenses	(2,490)	(20)	(15)	(2,139)	-	(4,664)
- other operating income	38	-	-	8,060	-	8,098
Other changes:	(961)	3	-	3,300	(4,241)	(1,899)
- change in group composition	(1,301)	-	-	-	(4,241)	(5,542)
- reclassification to assets held for sale according to IFRS 5 [2]	-	-	-	1,446	-	1,446
- reclassification to investment property	-	-	-	1,863	-	1,863
- other	340	3	-	(9)	-	334
Impairment losses – closing balance	**(3,413)**	**(17)**	**(15)**	**(50,203)**	**(4,241)**	**(57,889)**
Net value of tangible assets – closing balance	**94,863**	**88,322**	**42,478**	**712,543**	**63,403**	**1,001,609**

[1] Including land perpetual usufruct.

[2] Positions "Transfers to assets held for sale in accordance with IFRS 5" present the transfer of assets of PZU Lithuania to assets available for sale in relation to transaction described in Note 2.4.1. The decrease of assets was translated at average rate described in Note 5.3.

"Reclassifications to investment property" include the same values, as explained in Note 36.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

33. Investment property

Investment property	31 December 2015	31 December 2014
Own land	116,710	177,791
Land perpetual usufruct right	24,197	39,557
Buildings and structures	1,029,798	2,017,141
Cooperative ownership of premises	1,016	1,573
Total investment property	**1,171,721**	**2,236,062**

Change in investment property	1 January - 31 December 2015	1 January - 31 December 2014
Carrying amount – opening balance	2,236,062	1,474,770
Increases (due to):	308,167	722,477
- purchase	270,273	668,524
- change in group composition	-	3,481
- reclassifications to real property used for internal purposes	36,139	50,472
- reclassification from assets held for sale according to IFRS 5	1,755	-
Decreases (due to):	(1,460,445)	(53,192)
- sale and liquidation	(3,506)	(16,000)
- reclassifications to real property used for internal purposes	(74,662)	(15,419)
- reclassification to held for sale according to IFRS 5	(1,382,277)	(21,773)
Profit (loss) on fair value remeasurements	88,627	92,889
- recognized in profit or loss	79,907	76,215
- recognized in other comprehensive income	8,720	16,674
Exchange differences	(690)	(882)
Net book value – closing balance	**1,171,721**	**2,236,062**

The item "Land perpetual usufruct" contains a right to use a land for up to 99 years. Land perpetual usufruct can be subject of sale.

"Reclassifications from property for internal purposes" present the carrying amount of property (historical cost less accumulated depreciation and impairment losses) as at the reclassification (change of use) date.

The fair value of investment property results from valuations by independent appraisers conducted mainly in 2015.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

34. Entities measured using the equity method

Associates and joint ventures	31 December 2015	31 December 2014	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Name of entity	EMC Instytut Medyczny SA		GSU Pomoc Górniczy Klub Ubezpieczonych SA		Armatura Tower Sp. z o.o.	
Nature of the relationship between PZU and the entity	Associate – non-strategic		Associate – non-strategic		Joint venture – non-strategic	
Seat of the entity	Wrocław	Wrocław	Tychy	Tychy	Cracow	Cracow
Share in the entity's capital	28.31%	28.58%	30.00%	30.00%	50.00%	50.00%
Share in the entity's votes	25.44%	25.41%	30.00%	30.00%	50.00%	50.00%
Valuation method in consolidated financial statements	Equity method		Equity method		Equity method	
Accounting standards applied by the entity	IFRS		PAS		IFRS	
Carrying amount of the involvement in the entity	53,479	65,707	575	586	11	18
Fair value of the interest in the entity	55,283	52,737	None – unlisted entity	None – unlisted entity	None – unlisted entity	None – unlisted entity
Dividends received from the entity	-	-	8	36	-	-
Basic financial information						
Assets, including:	252,378	241,290	2,882	2,509	22	35
Short-term assets, including:	54,529	49,796	2,424	2,002	22	35
Cash and cash equivalents	16,350	16,931	2,397	1,752	16	32
Long-term assets	197,849	191,494	458	507	-	-

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Equity	152,873	136,475	1,915	1,953	22	35
Liabilities, including:	99,505	104,815	967	556	-	-
Short-term liabilities, including:	56,497	60,162	967	556	-	-
Short-term financial liabilities	21,934	23,930	-	-	-	-
Long-term liabilities, including:	43,008	44,653	-	-	-	-
Long-term financial liabilities	19,760	24,286	-	-	-	-
					-	
Revenue from core operations	258,070	243,262	2,056	1,093	-	-
Depreciation and amortization	13,141	12,607	154	49	-	-
Interest income	280	1,130	76	133	-	-
Interest expense	1,969	2,419	-	-	-	-
Income tax	551	(211)	21	33	-	-
Total net comprehensive income, including:	(4,337)	(7,233)	(18)	21	(13)	(15)
Profit/loss, including:	(4,498)	(6,605)	(18)	21	(13)	(15)
Profit (loss) from continued operations	(4,498)	(6,605)	(18)	21	(13)	(15)
Profit (loss) from discontinued operations	-	-	-	-	-	-
Other comprehensive income	161	(628)	-	-	-	-

There are no restrictions (e.g. due to lending arrangements, regulatory requirements or contracts) concerning the possibility of transfer of funds by associates and joint ventures in the form of cash dividends.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Change in the share in the net assets of associates	1 January - 31 December 2015	1 January - 31 December 2014
Opening balance	37,050	19,334
Purchase of EMC shares	5,137	19,459
Share in net profit/(loss)	(936)	(1,525)
Dividends [1]	(8)	(36)
Share in other comprehensive income	46	(182)
Closing balance	**41,289**	**37,050**

[1] Dividends paid by GSU Pomoc Górniczy Klub Ubezpieczonych SA

Change in goodwill related to associates	1 January - 31 December 2015	1 January - 31 December 2014
Opening balance	29,261	29,261
Impairment losses	(16,486)	-
Closing balance	**12,775**	**29,261**

Reconciliation of the EMC measurement	1 January - 31 December 2015	1 January - 31 December 2014
Net assets of EMC	152,873	136,475
Non-controlling interest in EMC financial statements	(7,902)	(7,825)
Goodwill in financial statements of EMC as at the moment of achieving a considerable inflow	(1,151)	(1,151)
Net assets of EMC measured using equity method valuation	143,820	127,499
PZU Group's share in EMC capitals	40,704	36,446
Goodwill in financial statements of PZU Group	12,775	29,261
Carrying amount	**53,479**	**65,707**

Impairment test

Impairment test was conducted as at 31 December 2015 and showed the necessity to recognize impairment loss on the value of EMC shares amounting to PLN 16,486 thousand.

The recoverable amount was determined based on entities' value in use, using the discounted cash flow method with respect to the principles described in Note 26. Discount rate was determined based on weighted average cost of capital. The remaining assumptions taken when conducting the test included:

Entity generating cash flows	31 December 2015		31 December 2014	
	Discount rate	Growth rate after the forecast period	Discount rate	Growth rate after the forecast period
EMC	6.2%	3.0%	6.9%	3.5%

35. Financial assets

Due to a change in the purpose of use of the assets, on 1 January 2015, certain assets that up until now were recognized as assets available for sale were reclassified to assets held to maturity. The carrying value of assets at the time of the reclassification amounted to PLN 83,620 thousand. Carrying amount as at 31 December 2015 amounted to PLN 81,767.

Apart from the reclassification mentioned above, no other financial instruments were reclassified from portfolios carried at fair value to those carried at cost or amortized cost in 2015. No reclassification of this kind were carried out in 2014.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

35.1 Financial assets held to maturity

Financial assets held to maturity	31 December 2015		31 December 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets for which fair value may be determined	**17,370,126**	**19,820,330**	**19,983,689**	**23,524,392**
Debt instruments	17,370,126	19,820,330	19,983,689	23,524,392
Government securities	17,150,858	19,591,349	19,796,986	23,320,298
Fixed rate	15,919,711	18,337,510	18,555,389	22,082,026
Floating rate	1,231,147	1,253,839	1,241,597	1,238,272
Other	219,268	228,981	186,703	204,094
Listed on a regulated market	96,481	103,505	63,909	72,889
Fixed rate	96,481	103,505	63,909	72,889
Not listed on the regulated market	122,787	125,476	122,794	131,205
Floating rate	122,787	125,476	122,794	131,205
Total financial assets held to maturity	**17,370,126**	**19,820,330**	**19,983,689**	**23,524,392**

Carrying amount of debt instruments held to maturity by redemption date as at 31 December 2015	up to 1 year	Over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 year and up to 4 years	over 4 years and up to 5 years	Over 5 years	Total
Government securities	864,390	2,756,096	65,918	1,051,738	388,242	12,024,474	17,150,858
Fixed rate	580,705	2,489,188	40,804	1,031,699	388,242	11,389,073	15,919,711
Floating rate	283,685	266,908	25,114	20,039	-	635,401	1,231,147
Other	3,784	24,122	58,307	80,178	6,273	46,604	219,268
Listed on a regulated market	3,784	-	34,190	5,630	6,273	46,604	96,481
Fixed rate	3,784	-	34,190	5,630	6,273	46,604	96,481
Not listed on the regulated market	-	24,122	24,117	74,548	-	-	122,787
Floating rate	-	24,122	24,117	74,548	-	-	122,787
Total	**868,174**	**2,780,218**	**124,225**	**1,131,916**	**394,515**	**12,071,078**	**17,370,126**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Carrying amount of debt instruments held to maturity by redemption date as at 31 December 2014	up to 1 year	Over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 year and up to 4 years	over 4 years and up to 5 years	Over 5 years	Total
Government securities	3,138,479	853,876	2,596,305	57,058	1,025,378	12,125,890	19,796,986
Fixed rate	3,138,479	563,973	2,328,480	31,883	1,005,296	11,487,278	18,555,389
Floating rate	-	289,903	267,825	25,175	20,082	638,612	1,241,597
Other	4,540	3,738	24,120	56,174	75,163	22,968	186,703
Listed on a regulated market	4,540	3,738	-	32,059	604	22,968	63,909
Fixed rate	4,540	3,738	-	32,059	604	22,968	63,909
Not listed on the regulated market	-	-	24,120	24,115	74,559	-	122,794
Floating rate	-	-	24,120	24,115	74,559	-	122,794
Total	**3,143,019**	**857,614**	**2,620,425**	**113,232**	**1,100,541**	**12,148,858**	**19,983,689**

Short-term assets are assets with maturity up to 1 year.

Carrying amount of debt instruments held to maturity	31 December 2015				31 December 2014			
	PLN	EUR	UAH	Total	PLN	EUR	LTL	Total
Government securities	**16,862,518**	**281,920**	**6,420**	**17,150,858**	19,762,959	18,830	15,197	19,796,986
Fixed rate	15,631,371	281,920	6,420	15,919,711	18,521,362	18,830	15,197	18,555,389
Floating rate	1,231,147	-	-	1,231,147	1,241,597	-	-	1,241,597
Other	102,863	116,405	-	219,268	102,876	83,827	-	186,703
Listed on a regulated market	52,502	43,979	-	96,481	52,504	11,405	-	63,909
Fixed rate	52,502	43,979	-	96,481	52,504	11,405	-	63,909
Not listed on the regulated market	50,361	72,426	-	122,787	50,372	72,422	-	122,794
Floating rate	50,361	72,426	-	122,787	50,372	72,422	-	122,794
Total	**16,965,381**	**398,325**	**6,420**	**17,370,126**	**19,865,835**	**102,657**	**15,197**	**19,983,689**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

35.2 Financial instruments available for sale

Financial instruments available for sale	31 December 2015		31 December 2014	
	Carrying amount	Amortized cost	Carrying amount	Amortized cost
Instruments for which fair value may be determined	**7,727,973**	**n/a**	**2,982,164**	**n/a**
Equity instruments	582,223	n/a	547,299	n/a
Listed on a regulated market	195,689	n/a	357,732	n/a
Not listed on the regulated market	386,534	n/a	189,567	n/a
Debt instruments	7,145,750	7,145,084	2,434,865	2,324,810
Government securities	6,317,916	6,236,056	1,922,939	1,828,110
Fixed rate	4,659,631	4,583,137	1,868,605	1,773,860
Floating rate	1,658,285	1,652,919	54,334	54,250
Other	827,834	909,028	511,926	496,700
Listed on a regulated market	245,863	319,280	272,564	263,117
Fixed rate	202,684	276,101	221,413	211,968
Floating rate	43,179	43,179	51,151	51,149
Not listed on the regulated market	581,971	589,748	239,362	233,583
Floating rate	581,971	589,748	239,362	233,583
Instruments for which fair value may not be determined	**16,716**	**n/a**	**3,158**	**n/a**
Equity instruments	16,716	n/a	3,158	n/a
Not listed on the regulated market	16,716	n/a	3,158	n/a
Total financial instruments available for sale	**7,744,689**	**n/a**	**2,985,322**	**n/a**

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Available-for-sale financial instruments	31 December 2015	31 December 2014
Short-term	1,116,236	612,755
Long-term	6,628,453	2,372,567
Total financial assets available for sale	**7,744,689**	**2,985,322**

Equity instruments are classified as long-term unless they are planned to be sold within 12 months from the end of the financial year.

Carrying amount of debt financial instruments available for sale as at 31 December 2015	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	Total
Government securities	972,297	1,438,777	1,396,225	346,297	692,472	1,471,848	6,317,916
Fixed rate	970,307	931,620	829,798	346,297	622,281	959,328	4,659,631
Floating rate	1,990	507,157	566,427	-	70,191	512,520	1,658,285
Other	50,647	34,455	78,197	420,932	171,427	72,176	827,834
Listed on a regulated market	33,559	13,673	-	106,078	20,377	72,176	245,863
Fixed rate	33,559	13,673	-	62,899	20,377	72,176	202,684
Floating rate	-	-	-	43,179	-	-	43,179
Not listed on the regulated market	17,088	20,782	78,197	314,854	151,050	-	581,971
Floating rate	17,088	20,782	78,197	314,854	151,050	-	581,971
Total	**1,022,944**	**1,473,232**	**1,474,422**	**767,229**	**863,899**	**1,544,024**	**7,145,750**

Carrying amount of debt financial instruments available for sale as at 31 December 2014	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	Total
Government securities	394,140	454,558	260,878	178,103	180,462	454,798	1,922,939
Fixed rate	392,605	454,501	208,136	178,103	180,462	454,798	1,868,605
Floating rate	1,535	57	52,742	-	-	-	54,334
Other	145,718	9,379	13,965	-	309,255	33,609	511,926
Listed on a regulated market	145,718	9,379	13,965	-	69,893	33,609	272,564
Fixed rate	137,190	9,379	13,965	-	27,270	33,609	221,413
Floating rate	8,528	-	-	-	42,623	-	51,151
Not listed on the regulated market	-	-	-	-	239,362	-	239,362
Floating rate	-	-	-	-	239,362	-	239,362
Total	**539,858**	**463,937**	**274,843**	**178,103**	**489,717**	**488,407**	**2,434,865**

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Available-for-sale financial instruments	31 December 2015				31 December 2014				
	PLN	EUR	Other	Total	PLN	EUR	LTL	Other	Total
- equity instruments	**493,343**	**105,508**	**88**	**598,939**	**539,734**	**10,601**	**30**	**92**	**550,457**
Listed on a regulated market	171,692	23,997	-	195,689	347,247	10,485	-	-	357,732
Not listed on the regulated market	321,651	81,511	88	403,250	192,487	116	30	92	192,725
Debt instruments	**5,700,875**	**1,389,976**	**54,899**	**7,145,750**	**1,625,802**	**346,424**	**453,828**	**8,811**	**2,434,865**
Government securities	5,090,608	1,172,409	54,899	6,317,916	1,357,136	103,164	453,828	8,811	1,922,939
Fixed rate	3,432,323	1,172,409	54,899	4,659,631	1,302,802	103,164	453,828	8,811	1,868,605
Floating rate	1,658,285	-	-	1,658,285	54,334	-	-	-	54,334
Other	610,267	217,567	-	827,834	268,666	243,260	-	-	511,926
Listed on a regulated market	28,296	217,567	-	245,863	29,304	243,260	-	-	272,564
Fixed rate	28,296	174,388	-	202,684	29,304	192,109	-	-	221,413
Floating rate	-	43,179	-	43,179	-	51,151	-	-	51,151
Not listed on the regulated market	581,971	-	-	581,971	239,362	-	-	-	239,362
Floating rate	581,971	-	-	581,971	239,362	-	-	-	239,362
Total	**6,194,218**	**1,495,484**	**54,987**	**7,744,689**	**2,165,536**	**357,025**	**453,858**	**8,903**	**2,985,322**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

35.3 Financial assets measured at fair value through profit or loss

As at 31 December 2015 and 31 December 2014, the PZU Group entities were not parties to any contracts with embedded derivatives, the nature and the relating risks of which would not be closely connected with the host contract.

Financial assets measured at fair value through profit or loss	31 December 2015	31 December 2014
Assets classified as such upon initial recognition	**13,245,460**	**12,571,137**
Equity instruments	2,384,554	1,482,597
Listed on a regulated market	2,274,062	1,443,739
Not listed on the regulated market	110,492	38,858
Debt instruments	10,860,906	11,088,540
Government securities	10,630,780	11,005,221
Fixed rate	9,047,572	9,814,334
Floating rate	1,583,208	1,190,887
Other	230,126	83,319
Listed on a regulated market	230,126	83,319
Fixed rate	230,126	83,319
Assets held for trading	**7,402,943**	**6,525,347**
Equity instruments	4,077,204	4,463,405
Listed on a regulated market	1,052,849	1,572,464
Not listed on the regulated market	3,024,355	2,890,941
Debt instruments	2,352,363	1,515,539
Government securities	2,278,369	1,441,296
Fixed rate	2,228,895	1,409,570
Floating rate	49,474	31,726
Other	73,994	74,243
Listed on a regulated market	311	-
Floating rate	311	-
Not listed on the regulated market	73,683	74,243
Floating rate	73,683	74,243
Derivative instruments	973,376	546,403
Total financial assets measured at fair value through profit or loss	**20,648,403**	**19,096,484**

Additional information on involvement in derivatives and related risks are presented in Note 8.5.2

Financial assets measured at fair value through profit or loss	31 December 2015	31 December 2014
Short-term	12,527,527	10,858,702
Long-term	8,120,876	8,237,782
Total financial assets measured at fair value through profit or loss	**20,648,403**	**19,096,484**

Equity instruments are classified as long-term unless they are planned to be sold within 12 months from the end of the financial year or they are a part of the financial assets held for trading portfolio.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Carrying amount of debt instruments measured at fair value through profit or loss by redemption date as at 31 December 2015	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	Total
Instruments classified as such upon initial recognition	**2,002,624**	**1,166,790**	**1,033,082**	**1,769,097**	**1,329,794**	**3,559,519**	**10,860,906**
Government securities	1,883,747	1,163,974	1,014,508	1,763,377	1,312,032	3,493,142	10,630,780
Fixed rate	1,850,833	1,071,379	1,009,658	1,623,190	1,194,758	2,297,754	9,047,572
Floating rate	32,914	92,595	4,850	140,187	117,274	1,195,388	1,583,208
Other	118,877	2,816	18,574	5,720	17,762	66,377	230,126
Listed on a regulated market	118,877	2,816	18,574	5,720	17,762	66,377	230,126
Fixed rate	118,877	2,816	18,574	5,720	17,762	66,377	230,126
Instruments held for trading	**23,682**	**405,335**	**429,829**	**444,114**	**336,548**	**712,855**	**2,352,363**
Government securities	23,371	354,747	406,734	444,114	336,548	712,855	2,278,369
Fixed rate	4,170	344,654	386,554	444,114	336,548	712,855	2,228,895
Floating rate	19,201	10,093	20,180	-	-	-	49,474
Other	311	50,588	23,095	-	-	-	73,994
Listed on a regulated market	311	-	-	-	-	-	311
Floating rate	311	-	-	-	-	-	311
Not listed on the regulated market	-	50,588	23,095	-	-	-	73,683
Floating rate	-	50,588	23,095	-	-	-	73,683
Total carrying amount of debt instruments measured at fair value through profit or loss by redemption date	**2,026,306**	**1,572,125**	**1,462,911**	**2,213,211**	**1,666,342**	**4,272,374**	**13,213,269**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Carrying amount of debt instruments measured at fair value through profit or loss by redemption date as at 31 December 2014	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	Total
Instruments classified as such upon initial recognition	**564,379**	**2,537,527**	**1,770,867**	**2,132,417**	**1,721,732**	**2,361,618**	**11,088,540**
Government securities	556,856	2,536,934	1,769,524	2,128,868	1,721,479	2,291,560	11,005,221
Fixed rate	556,856	2,536,838	1,542,427	1,944,593	1,277,261	1,956,359	9,814,334
Floating rate	-	96	227,097	184,275	444,218	335,201	1,190,887
Other	7,523	593	1,343	3,549	253	70,058	83,319
Listed on a regulated market	7,523	593	1,343	3,549	253	70,058	83,319
Fixed rate	7,523	593	1,343	3,549	253	70,058	83,319
Instruments held for trading	**27,063**	**458,380**	**350,305**	**352,300**	**325,609**	**1,882**	**1,515,539**
Government securities	27,063	458,380	299,332	329,030	325,609	1,882	1,441,296
Fixed rate	1,720	451,997	299,332	329,030	325,609	1,882	1,409,570
Floating rate	25,343	6,383	-	-	-	-	31,726
Other	-	-	50,973	23,270	-	-	74,243
Not listed on the regulated market	-	-	50,973	23,270	-	-	74,243
Floating rate	-	-	50,973	23,270	-	-	74,243
Total carrying amount of debt instruments measured at fair value through profit or loss by redemption date	**591,442**	**2,995,907**	**2,121,172**	**2,484,717**	**2,047,341**	**2,363,500**	**12,604,079**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Financial assets measured at fair value through profit or loss by currency	31 December 2015							
	PLN	EUR	USD	HUF	RON	CZK	Other	Total
Assets classified as such upon initial recognition	**12,128,694**	**505,859**	**302,717**	**76,326**	**78,455**	**122,308**	**31,101**	**13,245,460**
- equity instruments	2,190,827	127,187	48,718	1,105	-	16,717	-	2,384,554
Listed on a regulated market	2,190,132	30,341	35,767	1,105	-	16,717	-	2,274,062
Not listed on the regulated market	695	96,846	12,951	-	-		-	110,492
Debt instruments	9,937,867	378,672	253,999	75,221	78,455	105,591	31,101	10,860,906
Government securities	9,909,571	197,939	253,317	75,221	78,455	105,591	10,686	10,630,780
Fixed rate	8,505,742	197,939	253,317	1,433	78,455		10,686	9,047,572
Floating rate	1,403,829	-	-	73,788	-	105,591	-	1,583,208
Other	28,296	180,733	682	-	-	-	20,415	230,126
Listed on a regulated market	28,296	180,733	682	-	-	-	20,415	230,126
Fixed rate	28,296	180,733	682	-	-	-	20,415	230,126
Assets held for trading	**5,805,374**	**812,728**	**346,807**	**161,986**	**15,912**	**47,347**	**212,789**	**7,402,943**
- equity instruments	3,763,404	152,533	117,826	27,803	13,941	1,697	-	4,077,204
Listed on a regulated market	939,885	44,029	25,494	27,803	13,941	1,697	-	1,052,849
Not listed on the regulated market	2,823,519	108,504	92,332	-	-	-	-	3,024,355
Debt instruments	1,537,221	573,992	159,446	81,704	-	-	-	2,352,363
Government securities	1,463,227	573,992	159,446	81,704	-	-	-	2,278,369
Fixed rate	1,413,753	573,992	159,446	81,704	-	-	-	2,228,895
Floating rate	49,474	-	-	-	-	-	-	49,474
Other	73,994	-	-	-	-	-	-	73,994
Listed on a regulated market	311	-	-	-	-	-	-	311
Floating rate	311	-	-	-	-	-	-	311
Not listed on the regulated market	73,683	-	-	-	-	-	-	73,683
Floating rate	73,683	-	-	-	-	-	-	73,683
Derivative instruments	504,749	86,203	69,535	52,479	1,971	45,650	212,789,[1)]	973,376
Total financial assets measured at fair value through profit or loss by currency	**17,934,068**	**1,318,587**	**649,524**	**238,312**	**94,367**	**169,655**	**243,890**	**20,648,403**

[1)] including PLN 156,058 denominated in BRL

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Financial assets measured at fair value through profit or loss by currency	31 December 2014					
	PLN	EUR	USD	HUF	Other	Total
Assets classified as such upon initial recognition	**11,786,698**	**406,087**	**144,511**	**163,498**	**70,343**	**12,571,137**
- equity instruments	1,392,993	63,973	12,683	-	12,948	1,482,597
Listed on a regulated market	1,392,536	39,291	356	-	11,556	1,443,739
Not listed on the regulated market	457	24,682	12,327	-	1,392	38,858
Debt instruments	10,393,705	342,114	131,828	163,498	57,395	11,088,540
Government securities	10,364,401	288,547	131,380	163,498	57,395	11,005,221
Fixed rate	9,198,609	288,547	131,380	138,403	57,395 [1)]	9,814,334
Floating rate	1,165,792	-	-	25,095	-	1,190,887
Other	29,304	53,567	448	-	-	83,319
Listed on a regulated market	29,304	53,567	448	-	-	83,319
Fixed rate	29,304	53,567	448	-	-	83,319
Assets held for trading	**5,851,418**	**232,091**	**190,206**	**92,574**	**159,058**	**6,525,347**
- equity instruments	4,080,344	170,477	136,881	27,502	48,201	4,463,405
Listed on a regulated market	1,379,609	67,540	49,612	27,502	48,201	1,572,464
Not listed on the regulated market	2,700,735	102,937	87,269	-	-	2,890,941
Debt instruments	1,479,939	24,842	10,758	-	-	1,515,539
Government securities	1,405,696	24,842	10,758	-	-	1,441,296
Fixed rate	1,373,970	24,842	10,758	-	-	1,409,570
Floating rate	31,726	-	-	-	-	31,726
Other	74,243	-	-	-	-	74,243
Not listed on the regulated market	74,243	-	-	-	-	74,243
Floating rate	74,243	-	-	-	-	74,243
Derivative instruments	291,135	36,772	42,567	65,072	110,857	546,403
Total financial assets measured at fair value through profit or loss by currency	**17,638,116**	**638,178**	**334,717**	**256,072**	**229,401**	**19,096,484**

[1)] Including PLN 50,885 in RON.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

35.4 Loans

Loans	31 December 2015	31 December 2014
Short-term	19,823,627	9,286,581
Long-term	23,579,424	5,407,900
Total loans and receivables	**43,403,051**	**14,694,481**

Loans and receivables as at 31 December 2015	Carrying amount by maturity date						
	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	Total
Debt instruments	**301,587**	**718,266**	**207,531**	**364,908**	**50,264**	**1,088,051**	**2,730,607**
Government securities	4,020	938	-	1,843	-	-	6,801
Fixed rate	4,020	938	-	1,843	-	-	6,801
Other	297,567	717,328	207,531	363,065	50,264	1,088,051	2,723,806
Not listed on the regulated market	297,567	717,328	207,531	363,065	50,264	1,088,051	2,723,806
Floating rate	297,567	717,328	207,531	363,065	50,264	1,088,051	2,723,806
Other, including:	**19,522,040**	**2,946,278**	**2,239,152**	**2,106,844**	**2,946,241**	**10,911,889**	**40,672,444**
- loan receivables from clients	11,212,509	2,804,953	2,070,426	1,993,826	1,612,087	10,637,814	30,331,615
- buy sell-back transactions	3,132,740	-	-	-	-	-	3,132,740
- term deposits with credit institutions	5,081,175	-	-	21,199	126,080	50,590	5,279,044
- loans	95,616	141,325	168,726	91,819	1,208,074	223,485	1,929,045
Total	**19,823,627**	**3,664,544**	**2,446,683**	**2,471,752**	**2,996,505**	**11,999,940**	**43,403,051**

Loans and receivables as at 31 December 2014	Carrying amount by maturity date						
	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	Total
Debt instruments	**31,938**	**704,738**	**722,721**	**214,196**	**61,336**	**1,255,626**	**2,990,555**
Government securities	28,056	2,788	1,246	-	3,056	-	35,146
Fixed rate	28,056	2,788	1,246	-	3,056	-	35,146
Other	3,882	701,950	721,475	214,196	58,280	1,255,626	2,955,409
Listed on a regulated market	3,882	-	-	-	-	-	3,882
Fixed rate	3,882	-	-	-	-	-	3,882
Not listed on the regulated market	-	701,950	721,475	214,196	58,280	1,255,626	2,951,527
Floating rate	-	701,950	721,475	214,196	58,280	1,255,626	2,951,527
Other, including:	**9,254,643**	**220,963**	**620,571**	**456,343**	**775,407**	**375,999**	**11,703,926**
- buy sell-back transactions	3,250,173	-	-	-	-	-	3,250,173
- term deposits with credit institutions	5,958,563	124,525	-	-	20,433	40,260	6,143,781 [1)]
- loans	45,907	96,438	620,571	456,343	754,974	335,739	2,309,972 [2)]
Total	**9,286,581**	**925,701**	**1,343,292**	**670,539**	**836,743**	**1,631,625**	**14,694,481**

[1)] For more than 89% of term deposits with credit institutions the maturity date fell before the end of March 2015.
[2)] Over 96% of loans and receivables are loans with collaterals such as pledges on shares, liability portfolios as well as bank accounts, other loans or other forms of collateral.

The fair value of buy sell-back transactions and term deposits with credit institutions classified as Level III did not differ significantly from their carrying values due to their short-term nature.

Loan receivables from clients	31 December 2015
Retail segment	**16,996,641**
Operating credits	167,635
Consumer credits	8,538,699

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Consumer Finance credits	755,044
Credits to acquire securities	119,069
Credit card credit	225,308
House purchase credits	6,317,227
Other mortgage loans	845,181
Other receivables	28,478
Business segment	**13,334,974**
Operating credits	7,306,525
Car loans	70,390
Investment credits	5,506,929
Purchased receivables (factoring)	376,403
Other receivables	74,727
Total loan receivables from clients	**30,331,615**

Loans and receivables as at 31 December 2015	PLN	EUR	USD	GBP	Other	Total
Debt instruments	**2,723,806**	**-**	**1,965**	**-**	**4,836**	**2,730,607**
Government securities	-	-	1,965	-	4,836	6,801
Fixed rate	-	-	1,965	-	4,836	6,801
Other	2,723,806	-	-	-	-	2,723,806
Not listed on the regulated market	2,723,806	-	-	-	-	2,723,806
Floating rate	2,723,806	-	-	-	-	2,723,806
Other, including:	**35,350,537**	**4,572,426**	**220,453**	**121,653**	**407,375**	**40,672,444**
- loan receivables from clients	26,404,240	3,528,454	81,357	121,653	195,911	30,331,615
- buy sell-back transactions	3,132,740	-	-	-	-	3,132,740
- term deposits with credit institutions	4,035,062	897,196	135,322	-	211,464 [1)]	5,279,044
- loans	1,778,495	146,776	3,774	-	-	1,929,045
Total loans and receivables	**38,074,343**	**4,572,426**	**222,418**	**121,653**	**412,211**	**43,403,051**

[1)] including e.g. CZK, UAH, NOK

Loans and receivables as at 31 December 2014	PLN	EUR	HUF	UAH	Other	Total
Debt instruments	**2,951,527**	**-**	**-**	**13,112**	**25,916**	**2,990,555**
Government securities	-	-	-	9,230	25,916	35,146
Fixed rate	-	-	-	9,230	25,916	35,146
Other	2,951,527	-	-	3,882	-	2,955,409
Listed on a regulated market	-	-	-	3,882	-	3,882
Fixed rate	-	-	-	3,882	-	3,882
Not listed on the regulated market	2,951,527	-	-	-	-	2,951,527
Floating rate	2,951,527	-	-	-	-	2,951,527
Other, including:	**10,057,726**	**1,137,511**	**380,702**	**72,068**	**55,919**	**11,703,926**
- buy sell-back transactions	3,250,173	-	-	-	-	3,250,173
- term deposits with credit institutions	4,642,200	1,005,698	380,702	59,262	55,919	6,143,781
- loans	2,165,353	131,813	-	12,806	-	2,309,972
Total loans and receivables	**13,009,253**	**1,137,511**	**380,702**	**85,180**	**81,835**	**14,694,481**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

36. Impairment of financial assets and receivables

Changes in impairment losses on financial assets in the year ended 31 December 2015	Impairment losses – opening balance	Recognition of impairment losses in the statement of profit or loss	Reversal of impairment losses in the statement of profit or loss	Derecognition of impairment losses (sale, write-off etc.)	Exchange differences	Other changes in impairment losses	Impairment losses – closing balance
Available-for-sale financial instruments	**158,163**	**-**	**-**	**(111,972)**	**(291)**	**-**	**45,900**
Equity instruments	158,163	-	-	(111,972)	(291)	-	45,900
Financial assets held to maturity	**1,235**	**-**	**-**	**-**	**1**	**-**	**1,236**
Debt instruments	1,235	-	-	-	1	-	1,236
Loans	**25,020**	**51,644**	**-**	**(64)**	**(74)**	**-**	**76,526**
Debt instruments	10,144	32,693	-	-	-	-	42,837
Term deposits with credit institutions	-	947	-	-	(55)	-	892
Loans	14,876	18,004	-	(64)	(19)	-	32,797
Receivables, including insurance receivables	**593,647**	**109,679**	**(110,651)**	**(3,337)**	**(1,517)**	**535**	**588,356**
Receivables from direct insurance	565,901	105,007	(105,951)	(1,626)	(1,233)	126	562,224
Reinsurance receivables	5,021	3,059	(4,039)	-	-	2,207	6,248
Other receivables	22,725	1,613	(661)	(1,711)	(284)	(1,798)	19,884
Reinsurers' share in technical provisions	**17,531**	**8,531**	**(15,269)**	**-**	**-**	**-**	**10,793**
Cash and cash equivalents	**-**	**1,389**	**-**	**-**	**(81)**	**-**	**1,308**
Total	**795,596**	**171,243**	**(125,920)**	**(115,373)**	**(1,962)**	**535**	**724,119**

As at the date of consolidating Alior Bank Group, credit receivables of clients towards Alior Bank were measured at fair value, and thus as at 31 December 2015 no impairment losses on those assets were recognized.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Changes in impairment losses on financial assets in the year ended 31 December 2014	Impairment losses – opening balance	Recognition of impairment losses in the statement of profit or loss	Reversal of impairment losses in the statement of profit or loss	Derecognition of impairment losses (sale, write-off etc.)	Exchange differences	Change in group composition	Other changes in impairment losses 2)	Impairment losses – closing balance
Available-for-sale financial instruments	**154,899**	**3,945**	**-**	**-**	**(681)**	**-**	**-**	**158,163**
- equity instruments	154,899	3,945	-	-	(681)	-	-	158,163
Financial assets held to maturity	**1,202**	**-**	**-**	**-**	**33**	**-**	**-**	**1,235**
- debt instruments	1,202	-	-	-	33	-	-	1,235
Loans	**24,725**	**10,242**	**-**	**-**	**86**	**-**	**(10,033)**	**25,020**
Debt instruments	-	10,144	-	-	-	-	-	10,144
Term deposits with credit institutions	9,797	-	-	-	100	-	(9,897)	-
Loans	14,928	98	-	-	(14)	-	(136)	14,876
Receivables, including insurance receivables	**651,579**	**66,974**	**(128,024)**	**(4,269)**	**(3,216)**	**13,273**	**(2,670)**	**593,647**
Receivables from direct insurance	597,608	58,748	(94,279)	(1,418)	(2,616)	10,143	(2,285)	565,901
Reinsurance receivables	4,619	5,319	(4,938)	-	-	21	-	5,021
Other receivables	49,352	2,907	(28,807),1)	(2,851)	(600)	3,109	(385)	22,725
Reinsurers' share in technical provisions	**4,828**	**21,880**	**(9,178)**	**-**	**1**	**-**	**-**	**17,531**
Total	**837,233**	**103,041**	**(137,202)**	**(4,269)**	**(3,777)**	**13,273**	**(12,703)**	**795,596**

1) Including reversal of impairment losses in the amount of PLN 26,275 thousand due to a mortgage loan granted to Metro-Projekt Sp. z o.o. described in Note 54.6.

2) The item presents transfer of impairment losses on PZU Lithuania assets to assets held for sale due to the transaction described in Note 2.4.1. The decrease of impairment losses was translated at average rate described in Note 5.3.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Credit quality of financial assets as at 31 December 2015	Carrying amount of assets that are not past due		Carrying amount of past due assets			Carrying amount (net)	Impairment losses		Gross book value
	impaired	not impaired	up to 3 months	over 3 months and up to 6 months	over 6 months		individual	group	
Financial assets held to maturity	**6,422**	**17,363,704**	**-**	**-**	**-**	**17,370,126**	**1,236**	**-**	**17,371,362**
Available-for-sale financial instruments	**-**	**7,145,750**	**-**	**-**	**-**	**7,145,750**	**-**	**-**	**7,145,750**
Loans	**276,646**	**38,561,467**	**3,476,156**	**202,840**	**885,942**	**43,403,051**	**76,526**	**-**	**43,479,577**
Debt instruments	151,068	2,579,539	-	-	-	2,730,607	42,837	-	2,773,444
Loan receivables from clients [1)]	-	25,766,677	3,476,156	202,840	885,942	30,331,615	-	-	30,331,615
Buy sell-back transactions	-	3,132,740	-	-	-	3,132,740	-	-	3,132,740
Term deposits with credit institutions	9,253	5,269,791	-	-	-	5,279,044	892	-	5,279,936
Loans	116,325	1,812,720	-	-	-	1,929,045	32,797	-	1,961,842
Receivables, including insurance receivables	**812,314**	**2,078,579**	**181,934**	**52,134**	**145,832**	**3,270,793**	**58,338**	**530,018**	**3,859,149**
Receivables from direct insurance	691,809	746,750	156,529	49,371	123,804	1,768,263	32,255	529,969	2,330,487
Reinsurance receivables	-	21,189	21,296	785	5,753	49,023	6,248	-	55,271
Other receivables	120,505	1,310,640	4,109	1,978	16,275	1,453,507	19,835	49	1,473,391
Reinsurers' share in technical provisions	**61,910**	**1,034,942**	**-**	**-**	**-**	**1,096,852**	**10,793**	**-**	**1,107,645**
Total	**1,157,292**	**66,184,442**	**3,658,090**	**254,974**	**1,031,774**	**72,286,572**	**146,893**	**530,018**	**72,963,483**

[1)] As at the date of consolidating Alior Bank Group, loan receivables from clients were measured at fair value, and thus as at 31 December 2015 no impairment losses on those assets were recognized. According to the best estimation of cash flows determined in contracts whose influence may not be expected, they amounted to PLN 1,937,689 thousand as at the acquisition date. Due to the provisional nature of the settlement of the acquisition of Alior Bank (presented in Note2.4.6.1) the presented fair value of credit receivables may change in the period of 12 months from the acquisition date of Alior Bank (18 December 2015).

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Credit quality of financial assets as at 31 December 2014	Carrying amount of assets that are not past due		Carrying amount of past due assets			Carrying amount (net)	Impairment losses		Gross book value
	impaired	not impaired	up to 3 months	over 3 months and up to 6 months	over 6 months		individual	group	
Financial assets held to maturity	**-**	**19,983,689**	**-**	**-**	**-**	**19,983,689**	**1,235**	**-**	**19,984,924**
Available-for-sale financial instruments	**-**	**2,434,865**	**-**	**-**	**-**	**2,434,865**	-	-	**2,434,865**
Loans	**193,144**	**14,501,059**	**278**	**-**	**,-**	**14,694,481**	**25,020**	**-**	**14,719,501**
Debt instruments	193,144	2,797,411	-	-	-	2,990,555	10,144	-	3,000,699
Buy sell-back transactions	-	3,250,173	-	-	-	3,250,173	-	-	3,250,173
Term deposits with credit institutions	-	6,143,503	278	-	-	6,143,781	-	-	6,143,781
Loans	-	2,309,972	-	-	-	2,309,972	14,876	-	2,324,848
Receivables, including insurance receivables	**658,762**	**2,029,108**	**142,696**	**36,282**	**218,584**	**3,085,432**	**62,866**	**530,781**	**3,679,079**
Receivables from direct insurance	654,682	791,053	133,175	34,199	96,974	1,710,083	35,250	530,651	2,275,984
Reinsurance receivables	98	20,042	6,266	461	1,815	28,682	5,021	-	33,703
Other receivables	3,982	1,218,013	3,255	1,622	119,795[1)]	1,346,667	22,595	130	1,369,392
Reinsurers' share in technical provisions	**79,569**	**673,546**	**-**	**-**	**-**	**753,115**	**17,531**	**-**	**770,646**
Total	**931,475**	**39,622,267**	**142,974**	**36,282**	**218,584**	**40,951,582**	**106,652**	**530,781**	**41,589,015**

[1)] Including PLN 109,478 thousand due to a mortgage loan to Metro-Projekt sp. z o.o. described in Note 53.6.

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37. Change in deferred tax assets

Changes in deferred tax assets in the year ended 31 December 2015	Opening balance	Changes recognized in profit or loss	Changes recognized in other comprehensive income	Change in group composition	Exchange differences	Other changes [1]	Closing balance
Loan receivables from clients	-	-	-	215,127	-	-	215,127
Liabilities to clients	-	-	-	26,772	-	-	26,772
Intangible assets	-	-	-	57,000	-	-	57,000
Financial instruments	(762)	1,070	365	(4,013)	(9)	1,786	(1,563)
Receivables	1,357	(533)	-	89	7	(483)	437
Property	2,025	(1,734)	-	-	12	(3,600)	(3,297)
Provisions for employee benefits	1,139	(479)	(8)	-	(2)	(884)	(234)
Provision for bonuses and deductions for the bonus fund	1,886	335	-	7	(36)	(1,537)	655
Other provisions and accruals	7,688	(1,010)	-	35,000	(344)	(4,388)	36,946
Tax losses to be used in future periods	6,603	(563)	-	2,771	(108)	(5,846)	2,857
Provision for PTE's reimbursement of undue handling fees to the Social Insurance Institution	1,374	353	-	-	-	-	1,727
Tax allowance regarding operations in the special economic zone	5,647	7,115	-	-	-	-	12,762
Total deferred tax assets	**26,957**	**4,554**	**357**	**332,753**	**(480)**	**(14,952)**	**349,189**

[1]The item presents deferred assets and tax liabilities in some of PZU Group entities.

Changes in deferred tax assets in the year ended 31 December 2014	Opening balance	Changes recognized in profit or loss	Change in group composition	Exchange differences	Other changes [1]	Closing balance
Financial instruments	528	1,824	(2,891)	(223)	-	(762)
Receivables	342	477	494	44	-	1,357
Property	2,689	(303)	(357)	(4)	-	2,025
Provisions for employee benefits	129	(64)	1,081	(7)	-	1,139
Provision for bonuses and deductions for the bonus fund	396	299	1,164	27	-	1,886
Other provisions and accruals	3,506	1,809	2,790	(417)	-	7,688
Tax losses to be used in future periods	685	3,303	4,080	102	(1,567)	6,603
Provision for PTE's reimbursement of undue handling fees to the Social Insurance Institution	1,406	(32)	-	-	-	1,374
Tax allowance regarding operations in the special economic zone	7,268	(1,621)	-	-	-	5,647
Total deferred tax assets	**16,949**	**5,692**	**6,361**	**(478)**	**(1,567)**	**26,957**

[1]The item presents transfer of PZU Lithuania's assets to assets held for sale due to the transaction described in Note 2.4.1. The decrease of assets was translated at average rate described in Note 5.3.

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For all consolidated entities participating in the TCG, deferred tax assets and provisions are offset.

As at 31 December 2015, undisclosed deferred tax assets related to tax losses were as follows:

- in Link4: PLN 11,481 thousand (as at 31 December 2014: PLN 16,846 thousand);
- in PZU Lietuva Gyvybes Draudimas: PLN 12,422 thousand (as at 31 December 2014: PLN 12,292 thousand);
- in special purpose entities of property funds: PLN 114 thousand.

Losses in Lithuanian company can be realized at a time that is not prescribed by the provisions of law. Tax loss on Link4 can be realized during one year (PLN 188 thousand) and within from 1 to 5 years (PLN 11,293 thousand). These periods will be counted from the moment in which Link4 ceases to be part of the TCG (not earlier than the end of 2017).

38. Receivables, including insurance receivables

Receivables, including insurance receivables – carrying amount	31 December 2015	31 December 2014
Receivables from direct insurance, including:	1,768,263	1,710,083
- receivables from policyholders	1,564,151	1,557,003
- receivables from insurance intermediaries	178,813	127,271
- other receivables	25,299	25,809
Reinsurance receivables	49,023	28,682
Other receivables	1,453,507	1,346,667
Net receivables, including insurance receivables	**3,270,793**	**3,085,432**

Both as at 31 December 2015 and at 31 December 2014, the fair value of receivables did not significantly differ from their carrying value, primarily due to their short-term nature and the policy of creating write-downs for impairment losses.

Receivables, including insurance receivables – by contractual maturity	31 December 2015	31 December 2014
Up to 1 year	3,120,310	2,843,023
Over 1 year and up to 5 years	148,972	137,813
Over 5 years	1,511	104,596
Receivables, including insurance receivables – by contractual maturity	**3,270,793**	**3,085,432**

Receivables, including insurance receivables, by currencies as at 31 December 2015	PLN	EUR	USD	Other	Total
Receivables from direct insurance	1,557,239	200,760	141	10,123	1,768,263
Receivables from policyholders	1,399,651	154,258	141	10,101	1,564,151
Receivables from insurance intermediaries	134,309	44,482	-	22	178,813
Other receivables	23,279	2,020	-	-	25,299
Reinsurance receivables	26,650	4,941	13,745	3,687	49,023
Other receivables	1,016,901	202,196	214,839	19,571	1,453,507
Total receivables, including insurance receivables, by currencies	**2,600,790**	**407,897**	**228,725**	**33,381**	**3,270,793**

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Receivables, including insurance receivables, by currencies as at 31 December 2014	PLN	EUR	USD	LTL	UAH	Other	Total
Receivables from direct insurance	1,509,391	97,154	132	92,338	11,068	-	1,710,083
Receivables from policyholders	1,369,247	86,110	132	90,459	11,055	-	1,557,003
Receivables from insurance intermediaries	117,315	9,552	-	391	13	-	127,271
Other receivables	22,829	1,492	-	1,488	-	-	25,809
Reinsurance receivables	16,143	5,602	2,597	-	4,170	170	28,682
Other receivables	1,044,815	118,560	165,148	1,448	2,857	13,839	1,346,667
Total receivables, including insurance receivables, by currencies	**2,570,349**	**221,316**	**167,877**	**93,786**	**18,095**	**14,009**	**3,085,432**

38.1 Other receivables

Other receivables	31 December 2015	31 December 2014
Receivables from the State Budget, other than due to income tax	45,441	153,174
Receivables from debit cards settlements	148,690	-
Receivables from Metro Projekt Sp. z o.o.	-	109,478
Receivables relating to prevention activities	62,111	64,647
Receivables from claims representative services	9,663	9,081
Receivables from security transactions and collateral deposits	782,735	758,394
Trade receivables	269,637	117,242
Receivables from immediate decommissioning charged to policies concluded with other insurance companies	40,414	34,086
Receivables from payments for the purchase of shares	-	20,890
Receivables from banks	26,287	-
Other	68,529	79,675
Total other receivables	**1,453,507**	**1,346,667**

Receivables from Metro Projekt sp. z o.o. and related matters have been described in Note .

The item "Receivables from security transactions and collateral deposits" presents receivables related to transactions regarding financial instruments which have been concluded but unsettled.

38.2 Receivables from operating leases

Operating leases concern mainly investment property lease agreements.

Future minimum receivables from lease payments	31 December 2015	31 December 2014
Up to 1 year	188,741	155,027
Over 1 year and up to 5 years	430,770	389,566
Over 5 years	137,410	184,977
Total future minimum receivables from lease payments	**756,921**	**729,570**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

39. Current income tax receivables

Current income tax receivables	31 December 2015	31 December 2014
Short-term	67,295	368
Long-term	-	-
Total current income tax receivables	**67,295**	**368**

40. Cash and cash equivalents

Cash and cash equivalents disclosed in the statement of financial position and in the cash flow statement	31 December 2015	31 December 2014
Balances with the central bank	1,559,981 [1)]	-
Cash in hand and at bank	879,621	323,675
Other cash	261	332
Total cash and cash equivalents disclosed in the statement of financial position and in the cash flow statement	**2,439,863**	**324,007**

[1)] The amount concerns the obligatory reserve maintained by Alior Bank at the current account in NBP, whose amount is in compliance with the Monetary Policy Council decisions.

Notes to the consolidated cash flow statement

The consolidated cash flow statement includes Prevention Funds as cash not available for use. Pursuant to Polish laws and the internal regulations adopted by the PZU Group entities on their basis, such funds may be used for strictly specified purposes relating to prevention activities only and provided that full control is exercised over such funds in prevention activities.

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41. Assets held for sale

Assets held for sale before reclassification	31 December 2015	31 December 2014
Groups held for sale	**-**	**188,747**
Assets	-	440,761
Intangible assets	-	4,745
Tangible assets	-	6,864
Financial assets	-	342,639
Receivables, including insurance receivables	-	32,106
Reinsurers' share in technical provisions	-	19,864
Estimated subrogations	-	6,988
Change in deferred tax assets	-	1,591
Deferred acquisition costs	-	15,399
Accruals	-	2,216
Other assets	-	2
Cash and cash equivalents	-	8,347
Liabilities directly associated with assets qualified as held for sale	-	252,014
Technical provisions	-	215,057
Provisions for employee benefits	-	1,464
Other liabilities	-	28,721
Accruals and deferred income	-	6,772
Other assets held for sale	**1,506,048**	**165,849**
Tangible assets	44,221	51,534
Investment property	1,461,827	114,315
Assets and asset groups held for sale	**1,506,048**	**606,610**
Liabilities directly associated with assets qualified as held for sale	**-**	**252,014**

As at 31 December 2014, the item "Groups held for sale" included assets and liabilities of PZU Lithuania that were sold by means of a transaction described in Note 2.4.1.

As at 31 December 2015, the item "Investment property" included mainly the property held for sale by property investment funds as a result of achieving the expected investment horizon (in the amount of PLN 1,345,100 thousand). As at 31 December 2014, this item presented mainly the assets held by PZU and PZU Życie for sale as part of the portfolio optimization project. The table on the following page presents a summary of major properties for sale with their relevant parameters, which were included in the valuation. For comparison, fair values as at 31 December 2014 were also recognized, previously presented in the item "Investment property".

No.	Name of the property	Fair value as at 31 December 2015	Fair value as at 31 December 2014 [1)]	Measurement approach	Unobservable data	Ranges of unobservable data as at 31 December 2015	Ranges of unobservable data as at 31 December 2014
1.	Warehouse and office buildings, Łódź	253,100	220,990	Income approach using the investment method and the cash flows discounting technique	Monthly rental rate per 1 m2 (office space in warehouse facilities) Monthly rental rate per 1 m2 (warehouse space) Capitalization rate	EUR 7.50 – 9.00 EUR 2.50 – 4.00 [2)]	EUR 7.50 – 9.00 EUR 2.60 – 3.60 [2)]
2.	Office complex, Gdańsk	165,400	168,910	Income approach using the investment method and the income stream discounting technique	Monthly rental rate per 1 m2 (office space) Capitalization rate	EUR 12.00 – 16.00 [2)]	EUR 12.00 – 16.00 [2)]
3.	Office building, Warsaw	134,400	140,240	Income approach using the investment method and the income stream discounting technique	Monthly rental rate per 1 m2 (office space) Monthly rental rate (parking lot) Capitalization rate	EUR 12.00 – 34.00 EUR 65.00 – 150.00 [2)]	EUR 7.98 – 22.00 EUR 23.46 – 150.00 [2)]
4.	Warehouse and office buildings, Gdańsk	130,600	85,070	Income approach using the investment method and the cash flows discounting technique	Monthly rental rate per 1 m2 (office space in warehouse facilities) Monthly rental rate per 1 m2 (warehouse space) Capitalization rate	EUR 7.50 – 9.00 EUR 2.90 – 3.80 [2)]	EUR 8.00 – 9.00 EUR 2.60 – 3.60 [2)]
5.	Warehouse and office building, Nowa Wieś Wrocławska	127,600	124,370	Income approach using the investment method and the income stream discounting technique	Monthly rental rate per 1 m2 (office space in warehouse facilities) Monthly rental rate per 1 m2 (warehouse space) Capitalization rate	EUR 7.50 – 9.00 EUR 2.50 – 4.20 [2)]	EUR 8.00 – 9.00 EUR 2.40 – 4.20 [2)]
6.	Warehouses, Czeladź	125,800	129,500	Income approach using the investment method and the cash flows discounting technique	Monthly rental rate per 1 m2 (office space in warehouse facilities) Monthly rental rate per 1 m2 (warehouse space) Capitalization rate	EUR 7.50 – 9.00 EUR 2.90 – 4.30 [2)]	EUR 8.00 – 9.00 EUR 3.00 – 4.40 [2)]
7.	Shopping center, Pabianice	92,300	97,250	Income approach using the investment method and the income stream discounting technique	Monthly rental rate per 1 m^2 of retail space depending on the surface size rented Capitalization rate	[3)] [2)]	[3)] [2)]
8.	Retail park, Iława	69,200	69,100	Income approach using the investment method and the income stream discounting technique	Monthly rental rate per 1 m^2 of retail space depending on the surface size rented Capitalization rate	[3)] [2)]	[3)] [2)]
9.	Warehouse and office buildings, Łódź	65,400	62,780	Income approach using the investment method and the income stream discounting technique	Monthly rental rate per 1 m2 (office space in warehouse facilities) Monthly rental rate per 1 m2 (warehouse space) Capitalization rate	EUR 7.50 – 9.00 EUR 2.50 – 4.00 [2)]	EUR 7.50 – 9.00 EUR 2.60 – 3.60 [2)]
10.	Warehouse and office building, Nowa Wieś Wrocławska	65,100	60,50	Income approach using the investment method and the income stream discounting technique	Monthly rental rate per 1 m2 (office space in warehouse facilities) Monthly rental rate per 1 m2 (warehouse space) Capitalization rate	EUR 7.50 – 9.00 EUR 2.50 – 4.00 [2)]	EUR 8.00 – 9.00 EUR 2.40 – 4.20 [2)]
11.	Warehouse and office	41,800	44,180	Income approach using the investment	Monthly rental rate per 1 m2 (office space in	EUR 7.50 – 9.00	EUR 7.00 – 8.00

No.	Name of the property	Fair value as at 31 December 2015	Fair value as at 31 December 2014 [1]	Measurement approach	Unobservable data	Ranges of unobservable data as at 31 December 2015	Ranges of unobservable data as at 31 December 2014
	building, Błonie			method and the income stream discounting technique	warehouse facilities) Monthly rental rate per 1 m2 (warehouse space) Capitalization rate	EUR 2.50 – 3.60 2)	EUR 2.10 – 3.00 2)
12.	Retail building, Nowy Targ	39,100	39,040	Income approach using the investment method and the income stream discounting technique	Monthly rental rate per 1 m^2 of retail space depending on the surface size rented Capitalization rate	3) 2)	3) 2)
13.	Retail park, Lublin	35,300	38,650	Income approach using the investment method and the income stream discounting technique	Monthly rental rate per 1 m^2 of retail space depending on the surface size rented Capitalization rate	3) 2)	3) 2)
14.	Other	116,727		n/a	n/a	n/a	n/a
	Total	**1,461,827**	,				

[1] In the consolidated financial statements for 2014, these properties were presented as investment properties.

[2] Capitalization rate was established upon the analysis of return rates in transactions concerning similar properties and with consideration of risk perception by potential investors on the real property market.

[3] The market rent for the property was determined based on a market analysis of retail space in similarly located buildings with similar characteristics to the property which is being measured, in particular is was based on rental rates in contracts signed for the shopping center in question..

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42. Issued share capital and other equity attributable to the owners of the parent entity

42.1 Share capital

On 30 June 2015, the General Shareholders' Meeting of PZU adopted a resolution on the split of all PZU's shares by lowering the nominal value of each of them from PLN 1 to PLN 0.10 and increasing their number, constituting the share capital, from 86,352,300 to 863,523,000. The split took effect through the exchange of all shares in the ratio of 1:10. The split of shares did not affect the value of PZU's share capital.

On 3 November 2015, the District Court of Warsaw, XII Business Division of the National Court Register, registered changes in the PZU's By-laws. According to the resolution of the Board of the National Depository for Securities of 24 November 2015, the split became effective on 30 November 2015.

All shares are paid in full.

At 31 December 2015

Series/ issue	Share type	Type of preference	Type of limitation of right issues	Number of shares	Face value of series/issue (PLN)	Capital coverage	Registration date	Right to dividend (since)
A	registered	none	none	40,110	4,011	cash	23.01.1997	27.12.1991
A	bearer's	none	none	604,423,090	60,442,309	cash	23.01.1997	27.12.1991
B	bearer's	none	none	259,059,800	25,905,980	non-cash contribution	31.03.1999	01.01.1999
Total number of shares				**863,523,000**				
Total share capital					**86,352,300**			

At 31 December 2014

Series/ issue	Share type	Type of preference	Type of limitation of right issues	Number of shares	Face value of series/issue (PLN)	Capital coverage	Registration date	Right to dividend (since)
A	registered	none	none	4,011	4 011	cash	23.01.1997	27.12.1991
A	bearer's	none	none	60,442,309,	60 442 309	cash	23.01.1997	27.12.1991
B	bearer's	none	none	25,905,980	25 905 980	non-cash contribution	31.03.1999	01.01.1999
Total number of shares				**86,352,300**				
Total share capital					**86,352,300**			

The shareholding structure of PZU and information on transactions regarding significant packages of PZU shares are presented in Note 3.

42.1.1. Appropriation of profit of the parent entity

As regards the distributable profit for 2015 and the preceding years, only the profit disclosed in the separate financial statements of the parent entity, drawn up in accordance with the Polish Accounting Standards, is subject to distribution.

42.1.1.1. Appropriation of profit for 2014

On 12 May 2015, the Management Board of PZU applied to the General Shareholders' Meeting of PZU with a proposal for distributing the net profit of PZU for the year ended 31 December 2014 in the amount of PLN 2,636,733 thousand in the following way:

- PLN 2,590,569, i.e. PLN 30 per share would be allocated for the payment of dividends;
- PLN 36,164 thousand would be allocated to the supplementary capital;

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- PLN 10,000 thousand would be allocated to the Company's Social Benefits Fund.

On 30 June 2015, the General Shareholders' Meeting of PZU adopted a resolution, compliant with the request of the Management Board of PZU, on the distribution of PZU's net profit for the year ended 31 December 2014.

The dividend payment date was set for 30 September 2015, and the dividend was paid on 21 October 2015.

42.1.1.2. Appropriation of profit for 2015

By the date of signing of consolidated financial statements, the Management Board of PZU had not adopted a resolution concerning appropriation of profit for 2015.

42.2 Other capitals

Other capitals	31 December 2015	31 December 2014
Own shares	-	(110)
Supplementary capital	9,947,292	9,678,921
Revaluation reserve	240,677	248,543
Other reserve capital	22	66
Actuarial gains and losses from remeasurements of defined benefit liabilities	(4,404)	(6,179)
Exchange differences from translation	(41,980)	(35,450)
Total other reserves	**10,141,607**	**9,885,791**

42.2.1. Supplementary capital

Supplementary capital	31 December 2015	31 December 2014
Share premium	538,139	538,139
Division of results of the PZU Group entities	9,319,165	9,070,903
Other	(89,988)	69,879
Total supplementary capital	**9,947,292**	**9,678,921**

42.2.2. Revaluation reserve

Revaluation reserve	31 December 2015	31 December 2014
Measurement of available-for-sale financial instruments	129,752	127,260
Property reclassified from property, plant and equipment to investment property	110,054	121,283
Other comprehensive income of entities measured using the equity method	871	-
Total revaluation reserve	**240,677**	**248,543**

Changes in revaluation reserve due to revaluation of financial instruments available for sale	1 January - 31 December 2015	1 January - 31 December 2014
Opening balance	127,260	118,785
Changes	2,492	8,475
- change in fair value	69,434	11,931
- sale	(66,942)	(3,456)
Closing balance	**129,752**	**127,260**

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42.2.3. Exchange differences from translation

Exchange differences from translation	1 January - 31 December 2015	1 January - 31 December 2014
Opening balance	(35,450)	(37,737)
Changes in the period:	(6,530)	2,287
Lietuvos Draudimas AB	1,168	6,164
AAS Balta	(126)	5,043
PZU Ukraine	(2,283)	(5,519)
PZU Ukraine Life	(2,752)	(4,472)
Other	(2,537)	1,071
Closing balance	**(41,980)**	**(35,450)**

43. Technical provisions

Technical provisions	31 December 2015	31 December 2014
Technical provisions – non-life insurance	**19,278,600**	**18,410,647**
Unearned premiums reserve	5,642,997	5,133,390
Unexpired risks reserve	119,183	19,257
Outstanding claims provisions	7,706,360	7,258,764
Provisions for the capitalized value of annuities	5,807,892	5,997,595
Provisions for bonuses and rebates for the insured	2,168	1,641
Technical provisions – life insurance	**22,001,721**	**21,756,238**
Unearned premiums reserve	93,816	97,456
Life insurance provision	16,221,886	16,281,625
Outstanding claims provisions	557,680	511,587
Provisions for bonuses and rebates for the insured	494	650
Other technical provisions	383,888	439,364
Unit-linked reserve	4,743,957	4,425,556
Total technical provisions	**41,280,321**	**40,166,885**

The table above presents also the amounts of provisions recognized for the old portfolio (as described in Note 5.18.2.2), which are as follows:

Technical provisions for old portfolio	31 December 2015	31 December 2014
Life insurance provisions	442,996	471,174
Other technical provisions	168,536	194,623
- provisions for low interest rates	108,846	123,273
- provisions for litigations	59,690	71,350
IBNR and RBNP reserve	1,544	2,298
Total technical provisions – old portfolio	**613,076**	**668,095**

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43.1 Technical provisions – non-life insurance

Gross technical provisions by classes specified in section II of the appendix to the Act on Insurance Activity	31 December 2015	31 December 2014
Accident and sickness insurance (group 1 and 2)	408,534	406,557
Motor third-party liability insurance (group 10)	11,769,457	11,620,451
Other motor insurance (group 3)	2,021,902	1,865,335
Sea, aircraft and transport insurance (groups 4, 5, 6, 7)	99,768	113,307
Insurance against fire and other damage to property (groups 8, 9)	1,810,367	1,681,882
Third-party liability insurance (groups 11, 12, 13)	2,225,334	2,252,799
Credit insurance and suretyship (groups 14, 15)	188,681	162,080
Assistance (group 18)	184,289	151,905
Legal protection (group 17)	5,393	2,782
Other (group 16)	564,875	153,549
Total technical provisions	**19,278,600**	**18,410,647**

Technical provisions, net of reinsurance, by classes specified in section II of the appendix to the Act on Insurance Activity	31 December 2015	31 December 2014
Accident and sickness insurance (group 1 and 2)	407,917	405,573
Motor third-party liability insurance (group 10)	11,505,928	11,366,417
Other motor insurance (group 3)	1,989,171	1,829,788
Sea, aircraft and transport insurance (groups 4, 5, 6, 7)	64,873	87,795
Insurance against fire and other damage to property (groups 8, 9)	1,523,481	1,501,794
Third-party liability insurance (groups 11, 12, 13)	2,142,140	2,172,237
Credit insurance and suretyship (groups 14, 15)	112,373	94,747
Assistance (group 18)	179,650	147,603
Legal protection (group 17)	5,392	2,781
Other (group 16)	250,981	48,852
Total technical provisions	**18,181,906**	**17,657,587**

Technical provisions – non-life insurance	31 December 2015	31 December 2014
Short-term	5,326,890	4,411,180
Long-term	13,951,710	13,999,467
Total technical provisions	**19,278,600**	**18,410,647**

Provisions are classified as long-term if the related cash flows are expected to occur after more than 12 months of the end of the reporting period, from 31 December 2015.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Change in provisions

Change in unearned premiums reserve in non-life insurance	1 January - 31 December 2015			1 January - 31 December 2014		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	5,133,390	(302,118)	4,831,272	4,428,845	(209,940)	4,218,905
Increase (decrease) in provisions for policies concluded in the current year	5,212,891	(248,995)	4,963,896	4,335,362	(258,368)	4,076,994
Increase (decrease) in provisions for policies concluded in previous years	(4,689,324)	207,871	(4,481,453)	(4,157,746)	174,566	(3,983,180)
Exchange differences during the period	(13,960)	4,085	(9,875)	(18,556)	5,948	(12,608)
Change in group composition	-	-	-	642,510	(19,282)	623,228
Transfers to assets held for sale in accordance with IFRS 5 [1)]	-	-	-	(97,025)	4,958	(92,067)
Closing balance	**5,642,997**	**(339,157)**	**5,303,840**	**5,133,390**	**(302,118)**	**4,831,272**

[1)] Transfer of PZU Lithuania's assets to liabilities held for sale due to the transaction described in Note 2.4.1. The decrease of provisions was translated at average rate described in Note 5.3.

Change in unexpired risk reserve in non-life insurance	1 January - 31 December 2015			1 January - 31 December 2014		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	19,257	-	19,257	8,770	(16)	8,754
Increase (decrease) in provisions for policies concluded in the current year	115,696	-	115,696	17,077	12	17,089
Increase (decrease) in provisions for policies concluded in previous years	(15,378)	-	(15,378)	(5,316)	-	(5,316)
Exchange differences during the period	(392)	-	(392)	(561)	4	(557)
Change in group composition	-	-	-	12,739	-	12,739
Transfers to assets held for sale in accordance with IFRS 5 [1)]	-	-	-	(13,452)	-	(13,452)
Closing balance	**119,183**	**-**	**119,183**	**19,257**	**-**	**19,257**

[1)] Transfer of PZU Lithuania's assets to liabilities held for sale due to the transaction described in Note 2.4.1. The decrease of provisions was translated at average rate described in Note 5.3.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Change in outstanding claims provisions in non-life insurance	1 January - 31 December 2015			1 January - 31 December 2014		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance, including:	7,258,764	(296,900)	6,961,864	6,041,030	(170,375)	5,870,655
- for claims reported	2,704,345	(228,795)	2,475,550	2,072,193	(121,826)	1,950,367
- for claims incurred but not reported (IBNR)	2,868,611	(46,259)	2,822,352	2,615,113	(29,989)	2,585,124
- for claims handling expenses	1,685,808	(21,846)	1,663,962	1,353,724	(18,560)	1,335,164
Paid benefits concerning claims incurred in previous years, including:	(2,051,618)	51,404	(2,000,214)	(1,575,921)	54,322	(1,521,599)
- paid claims and benefits	(1,721,861)	46,959	(1,674,902)	(1,313,456)	50,481	(1,262,975)
- claims handling costs	(329,757)	4,445	(325,312)	(262,465)	3,841	(258,624)
Increase (decrease) in provisions, including:	2,506,646	(334,282)	2,172,364	2,450,810	(167,606)	2,283,204
- for losses incurred in the current year	2,631,146	(342,841)	2,288,305	2,041,127	(44,022)	1,997,105
- for losses incurred in previous years	(124,500)	8,559	(115,941)	409,683	(123,584)	286,099
Other changes	-	(2,904)	(2,904)	2	8,789	8,791
Exchange differences during the period	(7,432)	3,569	(3,863)	(10,665)	6,304	(4,361)
Change in group composition	-	-	-	454,412	(42,844)	411,568
Transfers to assets held for sale in accordance with IFRS 5 [1)]	-	-	-	(100,904)	14,510	(86,394)
Closing balance	**7,706,360**	**(579,113)**	**7,127,247**	**7,258,764**	**(296,900)**	**6,961,864**
- for claims reported	3,146,098	(527,713)	2,618,385	2,704,345	(228,795)	2,475,550
- for claims incurred but not reported (IBNR)	2,825,240	(28,973)	2,796,267	2,868,611	(46,259)	2,822,352
- for claims handling expenses	1,735,022	(22,427)	1,712,595	1,685,808	(21,846)	1,663,962

[1)] Transfer of PZU Lithuania's assets to liabilities held for sale due to the transaction described in Note 2.4.1. The decrease of provisions was translated at average rate described in Note 5.3

Change in provisions for the capitalized value of annuities – non-life insurance	1 January - 31 December 2015			1 January - 31 December 2014		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	5,997,595	(154,042)	5,843,553	5,761,332	(146,180)	5,615,152
Paid claims concerning losses incurred in previous years	(215,114)	5,853	(209,261)	(182,358)	15,853	(166,505)
Increase (decrease) in provisions for losses incurred in the previous years	(115,827)	(26,158)	(141,985)	76,457	(17,444)	59,013
Changes in assumptions resulting from technical interest rate changes	(15,044)	85	(14,959)	(17,284)	446	(16,838)
Increase in provisions for losses incurred in the current year	166,396	(22)	166,374	278,344	(587)	277,757
Other changes	(10,098)	(4,146)	(14,244)	-	3,916	3,916
Exchange differences during the period	(16)	6	(10)	(8)	40	32
Change in group composition	-	-	-	81,112	(10,086)	71,026
Closing balance	**5,807,892**	**(178,424)**	**5,629,468**	**5,997,595**	**(154,042)**	**5,843,553**

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43.2 Technical provisions – life insurance

Change in life insurance provision – insurance contracts	1 January - 31 December 2015			1 January - 31 December 2014		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	16,721,639	-	16,721,639	16,526,794	-	16,526,794
Increase (decrease) in provisions related to current year policies	434,269	-	434,269	490,085	-	490,085
Increase (decrease) in provisions related to prior year policies	(527,141)	-	(527,141)	(306,608)	-	(306,608)
Changes in assumptions resulting from technical interest rate changes	498	-	498	45,395	-	45,395
Exchange differences	(22,997)	-	(22,997)	(34,027)	-	(34,027)
Closing balance	**16,606,268**	-	**16,606,268**	**16,721,639**	**-**	**16,721,639**

Gross change in life unit-linked insurance provision	1 January - 31 December 2015			1 January - 31 December 2014		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	4,425,556	-	4,425,556	3,907,221	-	3,907,221
Increases in the fund due to premiums	965,607	-	965,607	1,045,805	-	1,045,805
Payments deducted from the fund for risk, administration and other	(89,502)	-	(89,502)	(90,026)	-	(90,026)
Revenue from the fund's investments	(3,471)	-	(3,471)	147,597	-	147,597
Decreases in the fund due to claims, redemptions, etc.	(538,013)	-	(538,013)	(547,991)	-	(547,991)
Other decreases	(38,307)	-	(38,307)	(60,274)	-	(60,274)
Other increases	22,087	-	22,087	23,224,	-	23,224
Closing balance	**4,743,957**	**-**	**4,743,957**	**4,425,556**	**-**	**4,425,556**

Gross change in provisions for outstanding claims	1 January - 31 December 2015			1 January - 31 December 2014		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
RBNP at the beginning of the period	112,728	-	112,728	138,366	-	138,366
IBNR at the beginning of the period	398,859	-	398,859	407,385	-	407,385
Total RBNP and IBNR at the beginning of the period	**511,587**	**-**	**511,587**	**545,751**	**-**	**545,751**
Provisions for claims applied during the year	(564,032)	-	(564,032)	(523,413)	-	(523,413)
Provisions for claims created during the year	610,125	(60)	610,065	489,249	-	489,249
Total RBNP and IBNR at the end of the period	**557,680**	**(60)**	**557,620,**	**511,587**	**-**	**511,587**
RBNP at the end of the period	155,146	(60)	155,086,	112,728	-	112,728
IBNR at the end of the period	402,534	-	402,534	398,859	-	398,859

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44. Provisions for employee benefits

Due to the adopted accounting policy and the fact that the PZU Group entities did not separate defined benefit assets, the carrying amount of defined benefit provisions is equal to the current value of the corresponding liabilities.

The actuarial assumptions used for the purpose of estimating provisions for employee benefits have been presented in Note 6.2.6.

Provisions for employee benefits	31 December 2015	31 December 2014
Provision for employee leaves	66,654	71,923
Defined benefit plans	47,442	44,384
- provisions for retirement severance pay	23,287	20,923
- provisions for death benefits	24,155	23,461
Other long-term employee benefits	3,302	3,763
Total provisions for employee benefits	**117,398**	**120,070**

Net income and expenses related to provisions for employee benefits	1 stycznia - 31 grudnia 2015	1 stycznia - 31 grudnia 2014
Net revenue (expenses) recognized in profit or loss	**(4,568)**	**(1,505)**
Defined benefit plans	(4,381)	(1,492)
- provisions for retirement severance pay	(1,889)	(1,896)
- provisions for death benefits	(2,492)	404
Other long-term employee benefits	(187)	(13)
Net revenue (expenses) recognized in other comprehensive income	**2,128**	**(8,438)**
Defined benefit plans	2,095	(7,933)
- provisions for retirement severance pay	931	(3,306)
- provisions for death benefits	1,164	(4,627)
Other long-term employee benefits	33	(505)
Total net income and expenses related to provisions for employee benefits	**(2,440)**	**(9,943)**

44.1 Provisions for retirement benefits

Change in the balance of provision for retirement benefits	1 January - 31 December 2015	1 January - 31 December 2014
Opening balance	20,923	12,141
Changes recognized in profit or loss account	1,889	1,896
- current service cost	1,547	1,561
- past service cost	51	185
- interest income or expense	291	150
Remeasurement of provision (changes recognized in other comprehensive income)	(931)	3,306
- actuarial profits and losses resulting from changes in demographic assumptions	(23)	(271)
- actuarial profits and losses resulting from changes in financial assumptions	(929)	3,577
- other	21	-
Exchange differences	5	56
Benefits paid	(681)	(548)
Change in group composition	2,082	4,072
Closing balance	**23,287**	**20,923**

Total expected cash flows from retirement benefits since the end of the financial year	31 December 2015	31 December 2014
Up to 3 months	827	608
Over 3 months and up to 1 year	1,334	908
Over 1 year and up to 5 years	4,243	3,274
Over 5 years	75,040	69,207
Total	**81,444**	**73,997**

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44.2 Provisions for death benefits

Change in the balance of provision for death benefits	1 January - 31 December 2015	1 January - 31 December 2014
Opening balance	23,461	19,224
Changes recognized in profit or loss account	2,492	(404)
- current service cost	1,663	2,195
- past service cost	468	(2,685)
- interest income or expense	361	86
Remeasurement of provision (changes recognized in other comprehensive income)	(1,164)	4,627
- actuarial profits and losses resulting from changes in demographic assumptions	(235)	227
- actuarial profits and losses resulting from changes in financial assumptions	(1,074)	4,400
- other	145	-
Benefits paid	(634)	(81)
Change in group composition	-	95
Closing balance	**24,155**	**23,461**

Total expected cash flows from death benefits since the end of the financial year	31 December 2015	31 December 2014
Up to 3 months	320	299
Over 3 months and up to 1 year	1,103	948
Over 1 year and up to 5 years	6,513	6,043
Over 5 years	83,167	79,873
Total	**91,103**	**87,163**

45. Other provisions

Other provisions	31 December 2015	31 December 2014
Short-term	94,353	177,400
Long-term	13,756	13,806
Total other provisions	**108,109**	**191,206**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Changes in other provisions in the year ended 31 December 2015	Opening balance	Increase	Use	Release	Business combinations	Exchange differences	Closing balance
Provision for restructuring expenses [1)]	9,354	3,760	(6,604)	(3,733)	-	-	2,777
Provision for disputed claims and potential liabilities	781	56	-	-	3,219	-	4,056
Provision for the Office of Competition and Consumer Protection penalties [2)]	119,551	3	(50,384)	(11,290)	-	-	57,880
Provision for exit costs of the GraphTalk project [3)]	22,668	338	(17,392)	-	-	-	5,614
Provision for PTE's reimbursement of undue fees to the Social Insurance Institution	7,234	1,881	(23)	-	-	-	9,092
Other	31,618	15,409	(16,020)	(9,310)	7,106	(113)	28,690
Total other provisions	**191,206**	**21,447**	**(90,423)**	**(24,333)**	**10,325**	**(113)**	**108,109**

[1)] Provisions for restructuring expenses are described in Note 56.2.

[2)] The item "Provision for the Office of Competition and Consumer Protection penalties" is described in Note 53.2 and 53.3.

[3)] Additional information is presented in Note 53.4.

Changes in other provisions in the year ended 31 December 2014	Opening balance	Increase	Use	Release	Business combinations	Exchange differences	Closing balance
Provision for restructuring expenses	-	17,687	(8,333)	-	-	-	9,354
Provisions created for potential liabilities relating to CLSiOR investments	916	-	-	(916)	-	-	-
Provision for disputed claims and potential liabilities under insurance contracts	3,075	289	-	(2,583)	-	-	781
Provision for the Office of Competition and Consumer Protection penalties [1)]	119,549	2	-	-	-	-	119,551
Provision for exit costs of the GraphTalk project	50,944	509	-	(28,785)	-	-	22,668
Provision for PTE's reimbursement of undue fees to the Social Insurance Institution	7,401	-	(167)	-	-	-	7,234
Other	11,021	14,878	(4,506)	(2,489)	12,522	192	31,618
Total other provisions	**192,906**	**33,365**	**(13,006)**	**(34,773)**	**12,522**	**192**	**191,206**

[1)] The item "Provision for the Office of Competition and Consumer Protection penalties" is described in Notes 53.2 and 53.3.

Provision for the GraphTalk project exit costs

The total "Provision for the GraphTalk project exit costs" includes PZU Życie provision created for the costs of closing the IT GraphTalk project.

The provision was established in relation to completion of the GraphTalk project and failure to meet economic objectives. Additionally the provisions amount includes estimation of potential liabilities due to litigation with CSC Computer Sciences Sp. z o.o. – aspect described in Note 54.4.

Provision for PTE's reimbursement of undue fees to the Social Security Institution

A detailed method for determining and settlement of undue premiums to be returned is regulated in Article 100a of the Act on organization and operation of pension funds of 28 August 1997 (Journal Laws of 2013, item 989, as amended) pursuant to which if premiums unduly received are returned, the nominal amount of the service fee collected by the pension society managing a given fund should be returned to the Social Insurance Institution as well.

Since 2008, PTE PZU has been maintaining a provision for reimbursement of handling fees related to excess premiums paid by the Social Insurance Institution in previous periods. The calculation is made on the basis of information provided by the Social Security Institution for the years 1999-2015, and the rate of payment of premiums charged by PTE PZU and deducted by the Social Security Institution from the premiums.

Due to the fact that, as at signing of the consolidated financial statements, not all required information has been received from the Social Security Institution, it is not possible to specify the date of return of the fees on premiums.

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46. Deferred tax liabilities

Changes in deferred tax liabilities in the year ended 31 December 2015 [1)]	Opening balance	Changes recognized in profit or loss	Changes recognized in other comprehensive income	Exchange differences	Change in group composition	Closing balance
Financial instruments	281,546	(51,447)	769	69	1,786	232,723
Subrogation receivables	(2,004)	402	-	(2)	(130)	(1,734)
Property	36,750	16,359	1,657	5	(3,461)	51,310
Deferred acquisition costs	121,476	83,632	-	-	-	205,108
Accrued revenue and reinsurance costs	(24,004)	39,074	-	-	-	15,070
Provisions for employee benefits	(20,680)	6,533	403	(18)	(884)	(14,646)
Provision for bonuses	(43,573)	1,232	-	(30)	(1,537)	(43,908)
Liabilities due to natural persons (under personal service contracts, agency contracts etc.)	(47,359)	(2,360)	-	-	-	(49,719)
Other provisions and accruals	(104,399)	28,668	-	(50)	(4,143)	(79,924)
Prevention Fund	18,476	(2,234)	-	-	-	16,242
Equalization provision	113,543	7,019	-	-	-	120,562
Provision for restructuring expenses	(1,777)	1,249	-	-		(528)
Tax losses to be used in future periods	(87)	(13,247)	-	(80)	(5,772)	(19,186)
Other differences	70,525	8,110	-	(263)	(585)	77,787
Total deferred tax liabilities	**398,433**	**122,990**	**2,829**	**(369)**	**(14,726)**	**509,157**

[1)] Compensation of deferred tax assets and liabilities of companies included in the TCG is described in Note 37.

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Changes in deferred tax liabilities in the year ended 31 December 2014 [1)]	Opening balance	Changes recognized in profit or loss	Changes recognized in other comprehensive income	Change in group composition	Exchange differences	Closing balance
Financial instruments	246,912	27,175	1,743	5,716	-	281,546
Subrogation receivables	(2,399)	395	-	-	-	(2,004)
Property	13,271	20,807	3,166	(493)	(1)	36,750
Deferred acquisition costs	110,706	10,770	-	-	-	121,476
Accrued revenue and reinsurance costs	(20,032)	(3,972)	-	-	-	(24,004)
Provisions for employee benefits	(21,499)	2,889	(1,526)	(544)	-	(20,680)
Provision for bonuses	(41,199)	(2,123)	-	(251)	-	(43,573)
Liabilities due to natural persons (under personal service contracts, agency contracts etc.)	(52,389)	5,038	-	(8)	-	(47,359)
Other provisions and accruals	(108,108)	3,709	-	-	-	(104,399)
Prevention Fund	31,397	(12,921)	-	-	-	18,476
Equalization provision	112,116	1,427	-	-	-	113,543
Provision for restructuring expenses	-	(1,777)	-	-	-	(1,777)
Other differences	(13,377)	4,835	-	78,204	776	70,438
Total deferred tax liabilities	**255,399**	**56,252**	**3,383**	**82,624**	**775**	**398,433**

[1)] Compensation of deferred tax assets and liabilities of companies included in the TCG is described in Note 34.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

47. Financial liabilities

Financial liabilities	31 December 2015	31 December 2014
Financial liabilities measured at fair value	**1,989,847**	**2,069,976**
Derivatives held for trading	940,484	625,844
Unit-linked investment contracts	392,914	587,267
Liabilities to participants of consolidated investment funds	656,449	856,865
Financial liabilities measured at amortized cost	**42,497,976**	**7,333,268**
Liabilities to banks	600,298	219,452
Current deposits	11,012	-
Overnight deposits	30,701	-
Term deposits	197,826	-
Issuance of securities (Alior Bank)	32,666	-
Credits received	124,780	219,452
Other liabilities	203,313	-
Liabilities to clients	33,655,744	-
Current deposits	12,475,022	-
Term deposits	18,529,163	-
Issuance of bank securities (Alior Bank)	2,259,230	-
Other liabilities	392,329	-
Liabilities arising from the issue of own debt instruments	3,536,546	2,127,527
Subordinated liabilities (Alior Bank)	758,560	-
Liabilities from sell buy-back transactions	3,794,306	4,411,497
Liabilities from loans	-	53,952
Investment contracts with guaranteed and fixed terms and conditions	152,522	520,840
Total financial liabilities	**44,487,823**	**9,403,244**

Financial liabilities by maturity	31 December 2015	31 December 2014
Up to 3 months	29,662,084	5,362,578
Over 3 months and up to 1 year	6,118,782	43,925
Over 1 year and up to 5 years	6,932,114	2,261,463
Over 5 years	288,923	1,327
With indefinite maturity date	1,485,920	1,733,951
Total financial liabilities by maturity	**44,487,823**	**9,403,244**

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Total financial liabilities by currency as at 31 December 2015	PLN	EUR	USD	GBP	Other	Total
Financial liabilities measured at fair value	**1,557,985**	33,815	83,697	**-**	**314,350**	**1,989,847**
Derivatives held for trading	508,622	33,815	83,697	-	314,350	940,484
Unit-linked investment contracts	392,914	-	-	-	-	392,914
Liabilities to participants of consolidated investment funds	656,449	-	-	-	-	656,449
Financial liabilities measured at amortized cost	**34,598,683**	**5,938,243**	**1,456,948**	**289,559**	**214,543**	**42,497,976**
Liabilities to banks	362,965	35,927	190,991	10,415	-	600,298
Liabilities to clients	29,573,148	2,322,952	1,265,957	279,144	214,543	33,655,744
Liabilities arising from the issue of own debt instruments (PZU)	-	3,536,546	-	-	-	3,536,546
Subordinated liabilities (Alior Bank)	715,742	42,818	-	-	-	758,560
Liabilities from sell buy-back transactions	3,794,306	-	-	-	-	3,794,306
Investment contracts with guaranteed and fixed terms and conditions - measured at amortized cost	152,522	-	-	-	-	152,522
Total financial liabilities by currency	**36,156,668**	**5,972,058**	**1 540 645**	**289,559**	**528,893**	**44,487,823**

Total financial liabilities by currency as at 31 December 2014	PLN	EUR	USD	Other	Total
Financial liabilities measured at fair value	**1,802,654**	49,522	66,536	**151,264**	**2,069,976**
Derivatives held for trading	358,522	49,522	66,536	151,264	625,844
Unit-linked investment contracts	587,267	-	-	-	587,267
Liabilities to participants of consolidated investment funds	856,865	-	-	-	856,865
Financial liabilities measured at amortized cost	**5,058,905**	**2,185,056**	**89,307**	**-**	**7,333,268**
Liabilities to banks	72,616	57,529	89,307	-	219,452
Liabilities arising from the issue of own debt instruments (PZU)	-	2,127,527	-	-	2,127,527
Liabilities from sell buy-back transactions	4,411,497	-	-	-	4,411,497
Liabilities from loans	53,952	-	-	-	53,952
Investment contracts with guaranteed and fixed terms and conditions – measured at amortized cost	520,840	-	-	-	520,840
Total financial liabilities by currency	**6,861,559**	**2,234,578**	**155,843**	**151,264**	**9,403,244**

47.1 Subordinated liabilities

Total balance of subordinated liabilities concerns liabilities incurred by Alior Bank.

	Nominal value	Rate	Date of issue/ granting a loan	Date of redemption/ loan payment
Liabilities recognized as own funds				
Subordinated loan (EUR thousand)		EURIBOR 3M	12 October 2011	12 October 2019
F series bonds (PLN thousand)		WIBOR 6M	26 September 2014	26 September 2024
G series bonds (PLN thousand)		WIBOR 6M	31 March 2015	31 March 2021
I and I1 series bonds (PLN thousand)		WIBOR 6M	4 December 2015	6 December 2021
Meritum Bank bonds (PLN thousand)		WIBOR 6M	29 April 2013	29 April 2021
Meritum Bank bonds (PLN thousand)		WIBOR 6M	21 October 2014	21 October 2022

Subordinated liabilities, carrying amount	31 December 2015
Liabilities recognized as own funds	**758,560**
Subordinated loan	42,818
F series bonds	224,633
G series bonds	195,555
I series bonds	114,145
I1 series bonds	33,482
Meritum Bank bonds	147,927
Subordinated liabilities	**758,560**

A lower carrying amount of subordinated liabilities versus the nominal value presented above results from the fact that a part of bonds issued by Alior Bank was included in consolidated investment funds.

47.2 Liabilities arising from the issue of own debt instruments

On 3 July 2014 and 16 October 2015, PZU (through its subsidiary, PZU Finance AB (publ.)), issued Eurobonds, with the redemption date of 3 July 2019. The bonds were released on the regulated market of the Irish Stock Exchange on the basis of a prospectus approved by the Central Bank of Ireland, and on the Catalyst market. The issued bonds were tap issues, and formed a single series of identical parameters regarding the value of the coupon, interest periods and maturity.

The parameters of the issued bonds:

Issue date	16 October 2015	3 July 2014
Face value of issue (EUR thousand)	350,000	500,000
Issue price of one bond (EUR)	99,218	99,407
Nominal rate	1.375%	1.375%
Frequency of coupon payment	1 year	1 year
Bond yield at issue	1.593%	1.499%

The bonds have been classified as measured at amortized cost.

Undiscounted cash flows from the issued debt securities	31 December 2015	31 December 2014
Up to 1 year	48,705	29,303
Over 1 year and up to 5 years	3,688,273	2,248,363
Total	**3,736,978**	**2,277,666**

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The liabilities of PZU Finance AB (publ) arising from the bonds (including the obligation for payment of the nominal value of bonds and interest on the bonds) were secured with a guarantee provided by PZU to all bondholders. The maximum value of the guarantee was not specified. The maximum value of the guarantee expires upon the expiry of the claims of the bondholders towards PZU Finance AB (publ).

Eurobonds were issued within PZU Group's strategy of matching assets and liabilities denominated in EUR. After having acquired the Baltic companies, an important portion of PZU Group's assets became dependent upon the euro exchange rate. Therefore, the Group decided to issue the Eurobonds in this currency.

47.3 Investment contracts

Total expected cash flows from investment contracts	31 December 2015	31 December 2014
Up to 1 year	504,864	989,481
Over 1 year and up to 5 years	44,562	124,908
Total	**549,426**	**1,114,389**

Financial assets related to investment contracts:

- with guaranteed and fixed terms and conditions – bank deposits presented as "Loans and receivables – term deposits with credit institutions" described in Note 39.4 or treasury bonds classified mainly as held to maturity.
- unit-linked – include mainly units in investment funds, recognized as "Financial instruments measured at fair value through profit or loss – held for trading – equity instruments – not listed on the regulated market", derivatives recognized as "Financial instruments measured at fair value through profit or loss – held for trading – derivatives" (presented in Note 39.3, and bank deposits.

47.4 Liabilities from sell buy-back transactions

Transactions were secured with financial instruments, described in Note 52.1.

Presented below is the basic characteristics of the sell buy-back transactions as at 31 December 2015.

Maturity dates of transactions	Carrying amount	Transaction currency	Carrying amount of assets pledged as security	Financial instrument pledged as security	Quantity
Up to 1 month	3,794,306	PLN	3,808,541	Treasury bonds	3,687,380
Total	**3,794,306**		**3,808,541**		**3,687,380**

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48. Other liabilities

Other liabilities	31 December 2015	31 December 2014
Accrued costs	**1,008,246**	**743,655**
Accrued costs of brokers' commissions	272,153	250,867
Accrued remuneration costs	114,245	131,759
Accrued costs from reinsurance	412,227	214,268
Accrued employee bonuses	86,283	94,558
Other	123,338	52,203
Deferred income	**116,682**	**33,374**
Other liabilities	**2,553,083**	**3,042,482**
Direct insurance liabilities	696,166	686,714
Reinsurance liabilities	96,718	94,384
Liabilities to the State Budget, other than due to income tax	34,576	30,001
Public legal settlements:	51,538,	25,701
Liabilities to employees	9,110	13,106
Insurance Guarantee Fund	11,247	11,794
Liabilities arising from financial instrument transactions	572,240	444,089
Liabilities from acquisition of third share installment of Alior Bank	341,709	-
Liabilities to PZU shareholders (dividends)	2,982	1,471,120
Trade payables to suppliers	122,078	89,787
Estimated non-insurance liabilities	175,786	133,359
Liabilities towards banks due to payment instruments cleared by the National Clearing House	183,574	-
Provision for withdrawals	94,045	-
Liabilities of Alior Bank due to banking product insurance offered to the clients of the bank	66,941	-
Direct claims handling liabilities	11,113	-
Other	83,260	42,427
Total other liabilities	**3,678,011**	**3,819,511**

As at 31 December 2015 and 31 December 2014 the fair value of other liabilities did not differ substantially from their carrying amount, due to the fact that over 98% of them are short-term liabilities.

Liabilities by maturity	31 December 2015	31 December 2014
Up to 1 year	3,627,723	3,783,663
Over 1 year and up to 5 years	41,571	33,025
Over 5 years	8,717	2,823
Total liabilities by maturity	**3,678,011**	**3,819,511**

48.1 Direct insurance liabilities

Direct insurance liabilities	31 December 2015	31 December 2014
Liabilities to policyholders	390,038	408,721
Liabilities to insurance intermediaries	177,507	172,492
Other insurance liabilities	128,621	105,501
Total direct insurance liabilities	**696,166**	**686,714**

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48.2 Liabilities from operating leases

The majority of liabilities from operating leases result from rental of retail and office space. PZU Group has a policy of concluding contracts for a limited period of 3 or 5 years with an option of extension.

Liabilities due to minimum operating lease fees	31 December 2015	31 December 2014
Up to 1 year	115,739	27,795
Over 1 year and up to 5 years	261,708	57,573
Over 5 years	25,431	7,856
Total liabilities due to minimum operating lease fees	**402,878**	**93,224**

Operating lease liabilities recognized in profit or loss account or a given period	1 January - 31 December 2015	1 January - 31 December 2014
Minimum operating lease fees	61,198	98,827
Subleasing fees	50	(10)
Total	**61,248**	**98,817**

49. Current income tax liabilities

As at 31 December 2015 and 31 December 2014, all current income tax liabilities were short-term.

50. Notes to other inflows and outflows from operating activities

Other inflows from operating activities	1 January - 31 December 2015	1 January - 31 December 2014
Suspense accounts including outstanding contributions of fund members of PPE, IKE and IP programs	712	-
Inflows from the core business of non-insurance companies	672,954	524,014
Tax refunds (e.g. CIT, VAT)	192,218	106,621
Inflows from the liquidation of the additional part of the Guarantee Fund of PZU OPF	-	132,267
Other	515,650 [1)]	261,169
Total	**1,381,534**	**1,024,071**

[1)] Including PLN 109,478 thousand in return of receivables from Metro Projekt Sp. z o.o. Addditional information is presented in Note 53.6

Other operating outflows	1 January - 31 December 2015	1 January - 31 December 2014
Suspense accounts including outstanding contributions of fund members of PPE, IKE and IP programs	-	2,522
Gross premiums returns	485,351	438,798
Costs of the core business of non-insurance companies	681,197	607,718
Donations made	118	31,446
Taxes	224,222	283,339
Other	613,594	521,938
Total	**2,004,482**	**1,885,761**

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51. Assets recognized as collateral of receivables, liabilities and contingent liabilities

51.1 Financial assets recognized as collateral of liabilities

As at 31 December 2015 the treasury bonds with the carrying amount of PLN 3,808,541 thousand (as at 31 December 2014: PLN 4,413,363) held by the companies in PZU Group were used as collateral of the sell buy-back transactions described in Note 50.2

51.2 Financial assets recognized as collateral for granted loans

As at 31 December 2015 and 31 December 2014, PZU and PZU Życie were party to buy-sell-back transactions and granted loans secured on financial assets.

Information about the values of these transactions has been provided in Note 39.4

51.3 Tangible assets

As at 31 December 2015, assets held for sale were mortgaged up to the total amount of PLN 51,209 thousand (as at 31 December 2014: PLN 51,209 thousand).

52. Contingent assets and liabilities

Contingent assets and liabilities	31 December 2015	31 December 2014
Contingent assets, including:	33,126	20,976
- guarantees and sureties received	33,126	20,976
- Contingent liabilities	10,081,994	265,709
- resulting from renewable limit in current and saving account and credit cards	7,371,753	-
- guarantees and sureties issued	1,576,178	7,133
- disputed claims related to insurance	389,854 [1)]	185,109
- other disputed claims	211,282 [2)]	36,264
- other, including:	532,927	37,203
- non-granted loan installments	472,988	-
- potential liabilities arising from loan agreements entered into by the Armatura Group	31,478	34,115

[1)] Wzrost wartości roszczeń ubezpieczeniowych spornych wynika ze wzrostu ich liczby, przede wszystkim w PZU.

[2)] W tym 169 328 tys. zł roszczeń dotyczących sprawy pozwu o odszkodowanie z tytułu pozbawienia prawa do dywidendy, o której mowa w punkcie 53.1.

52.1 Loan facility, loan collateral or guarantees granted by PZU or its subsidiaries

The guarantee issued by PZU in relation to the liabilities of PZU Finance AB (publ) arising from the bonds issued by the company, described in Note 47.2.

52.2 Potential litigation related to the continued family insurance

In 1998, proceedings before the Supreme Court regarding revaluation of the sum insured in continued family insurance were concluded, as a result of which PZU was obliged to pay claims exceeding the amount under the insurance contract. Additionally, in several cases district courts issue similar judgments.

PZU Życie is of the opinion, that the insured under individually continued family insurance policies have been entitled to increase the sum insured. Therefore, any claims regarding revaluation are groundless if the sum insured has not been increased. If in similar cases courts issue judgments on revaluation of claims, increasing the sum insured, it may have adverse consequences for the Polish insurance system as a whole. If in the future claims are reported or lawsuits brought by the insured against PZU Życie regarding continued family insurance, the Company will firmly oppose revaluation of claims above the sum insured specified in the insurance policy.

Therefore, the Management Board of PZU Życie believes, there are no reasonable grounds for disclosing any provisions for potential claims relating to the continued family insurance portfolio in the consolidated financial statements.

53. Litigation claims

The entities from PZU Group are parties in a number of court and arbitration disputes as well as administrative proceedings. The typical court disputes are those related to insurance contracts, employment contracts, and contractual obligations. The typical administrative proceedings involving PZU Group entities are those related to owned property. The proceedings and disputes are typical and repetitive and in most cases none of them is significant for PZU Group.

Most disputes involving the PZU Group entities pertain to two companies: PZU and PZU Życie. In addition, PZU and PZU Życie participate in proceedings before the President of the Office of Competition and Consumer Protection (UOKiK).

PZU and PZU Życie consider such claims when creating technical provisions for reported damages, considering the probability of an unfavorable decision of the court and estimating the value of probable settlement. Disputable claims regarding revaluation of annuities at PZU Życie are recognized in other technical provisions in the amount of annual annuity in excess of the corresponding provision amount as determined in mathematical provisions for life insurance.

In 2015 and by the date of submission of the consolidated financial statements, PZU Group entities did not take part in any proceedings before court, competent authority for arbitration proceedings or public administration authority concerning liabilities or debt of PZU or its direct or indirect subsidiary of singular value amounting to at least 10% of the PZU equity.

As at 31 December 2015, the total value of all 121,918 cases heard by courts (as at 31 December 2014: 60,534), competent authority for arbitration proceedings or public administration authority involving the PZU Group entities amounted to PLN 4,898,275 thousand (as at 31 December 2014: PLN 3,056,350 thousand). The amount includes PLN 3,131,109 thousand of liabilities (as at 31 December 2014: PLN 2,509,850 thousand) and PLN 1,767,166 thousand of debt of the PZU Group entities (as at 31 December 2014: PLN 546,500 thousand), which accounted for 25.29% and 14.28% of the PZU equity respectively (as at 31 December 2014 20.36% and 4.43% respectively), calculated in line with PAS.

All information available at the date of signing the consolidated financial statements has been taken into account regarding estimations of provisions, however that value may be subject to change in the future.

53.1 Resolution of the General Shareholders Meeting of PZU regarding 2006 profit distribution

On 30 July 2007, a lawsuit was filed by Manchester Securities Corporation ("MSC"), with the registered office in New York, against PZU regarding cancellation of the General Meeting of Shareholders of PZU's Resolution no. 8/2007 of 30 June 2007 on distribution of PZUs' profit for 2006 as non-compliant with best practices and acting to the detriment of the plaintiff, a shareholder of PZU.

The contested resolution of the General Meeting of Shareholders of PZU distributed the 2006 profit of PLN 3,280,883 thousand in the following manner:

- PLN 3,260,883 thousand to the supplementary capital;
- PLN 20,000 thousand to the Social Benefits Fund.

Through its ruling, on 22 January 2010, the District Court in Warsaw cancelled the aforementioned resolution. PZU appealed against the judgment in its entirety, including final appeal to the Supreme Court with respect to the aforementioned decision, which dismissed the cassation complaint on 27 March 2013. The judgment is final and non-appealable.

PZU believes that cancelation of the above GSM resolution does not give rise to shareholders' claim for dividend.

Following the decision cancelling resolution No. 8/2007 becoming effective, the agenda of the PZU GSM of 30 May 2012 included a Note regarding distribution of profit for 2006 in a manner corresponding to the cancelled resolution No 8/2007. Manchester Securities Corporation objected to the resolution of 30 May 2012, which was recorded in the minutes.

On 20 August 2012, PZU received a copy of the lawsuit filed by MSC with the District Court in Warsaw, which stated that said company seeks the cancellation of the resolution of the General Meeting of Shareholders of PZU dated 30 May 2012 on the distribution of profit for 2006, and the value of the subject of dispute was determined by the plaintiff at the amount of PLN 5,054 thousand. PZU filed its response to the lawsuit seeking the dismissal of the lawsuit in its entirety.

On 17 December 2013, the District Court pronounced a judgment whereby the claims were accepted in their entirety and the costs of the proceedings were awarded from PZU to MSC. On 4 March 2014, PZU appealed against the judgment in its entirety. On 11 February 2015, the Appellate Court in Warsaw passed a judgment that changed the judgment of the District Court dated 17 December 2013 in its entirety, dismissed the action filed by MSC and ordered MSC to pay the costs of the proceedings. The judgment of the Appellate Court is final and non-appealable. MSC filed a cassation appeal on 9 June 2015 against the judgment of the Appellate Court in its entirety. PZU filed its response to the cassation appeal and appealed to the Supreme Court to refuse accepting the cassation appeal, or dismiss it.

On 16 December 2014, MSC requested PZU in the letter to pay PLN 264,865 thousand of compensation due to the cancellation of the resolution No 8/2007 of the General Meeting of Shareholders of PZU dated 30 June 2007 on the distribution of profit of PZU for 2006. PZU refused to fulfill the obligation.

On 23 September 2015, PZU received a copy of a motion with attachments regarding the action initiated by MSC against PZU for the payment of PLN 169,328 thousand with statutory interest accrued from 2 January 2015 until the date of the payment. The action includes a claim for compensation for the deprivation of MSC and J.P. Morgan (MSC acquired the claim from J.P. Morgan), as minority shareholders of PZU, a share in the profit for the year 2006, in connection with a Resolution no 8/2007 adopted by the General Shareholders' Meeting of PZU on 30 July 2007. The case is being handled by the District Court in Warsaw, XX Business Division. On 18 December 2015, PZU filed its response to the lawsuit seeking the dismissal of the lawsuit in its entirety.

According to the Management Board, MSC's claims are unfounded. As a result, as at 31 December 2015, no changes in the presentation of PZU capitals were made that may result from cancellation of the resolution of the General Meeting of Shareholders on the distribution of profit for 2006, including "Supplementary capital" and "Previous year profit (loss)". The funds appropriated to the Company's Social Benefits Fund were not adjusted.

53.1.1. Other demands for payment concerning the distribution of profit of PZU for 2006

On 17 December 2014, Wspólna Reprezentacja SA called PZU to pay the amount of PLN 56,281 thousand and the amount of PLN 618 thousand as claims compensation acquired from the shareholders as a response to their deprivation of the right to a share in the profit of PZU. PZU refused to fulfill the obligation.

Apart from the above mentioned documents, the shareholders or the former shareholders presented PZU with a request for payment based on the facts presented above. The parties requesting the payment did not indicate specific amounts, but a number of shares, or simply request the payment. PZU submitted a response in writing indicating that such claims did not exist and they would not be taken into account.

53.1.2. Other legal proceedings concerning the distribution of profit of PZU for 2006

On 19 January 2015, the District Court of Warsaw delivered a copy of a motion with attachments regarding the action initiated by Wspólna Reprezentacja SA for a summons to a conciliation hearing concerning the amount of PLN 56,281 thousand. At the hearing on 19 February 2015, PZU refused to conclude a settlement.

On 2 February 2015, the District Court of Warsaw delivered a copy of a motion of MSC for a summons to a conciliation hearing concerning the amount of PLN 264,865 thousand. The claim covered in the application is tantamount to the request filed by MSC on 16 December 2014. At the hearing on 24 February 2015, PZU refused to conclude a settlement.

PZU received other copies of motions to summon a conciliation hearing concerning settlement agreements consisting in the payment of the amount due to the share in the profit of PZU for 2006. Some of the proceedings have already ended. PZU refused the conciliation proposal indicating that such claims did not exist and they would not be taken into account.

7 legal actions were initiated against PZU for the payment of dividends or compensation. PZU consistently responds to such requests demanding their cancellation in their entirety. In four proceedings, The District Course for Warszawa Śródmieście in Warsaw dismissed the claims in their entirety (judgments are final). In one case, the District Court discontinued the proceedings due to the withdrawal of the claim (the decision is final).

53.2 Proceedings conducted by the Office of Competition and Consumer Protection ("OCCP") against PZU

53.2.1. Fine imposed in 2009 for standard agreements

In a decision of 30 December 2009 the President of the Office of Competition and Consumer Protection imposed a fine on PZU of PLN 14,792 thousand for the use of practices that infringe the collective interest of consumers consisting of:

- including contractual provisions listed in the Register of prohibited contractual provisions in the standard agreements;
- including contractual provisions which infringe Article 813.1 of the Civil Code by citing the unused sum insured as the condition for the amount of premium reimbursed to the consumer by the insurance company due to unused insurance period whereas the Article does not refer to such condition.

PZU does not agree with both the decision and its statement of reasons. After several years of proceedings, on 6 November 2013, the Appellate Court in Warsaw changed the judgment issued by the Court of Competition and Consumer Protection ("SOKiK") dated 18 January 2013 through reversal of the decision of the President of the Office of Competition and Consumer Protection dated 30 December 2009 in part, dismissal – as regards the contractual clauses in contravention of Article 813.1 of the Civil Code – of PZU's appeal of 18 January 2010, reduction of fine to PLN 1,644 thousand. The judgment of 6 November 2013 is final and was executed through the payment of the awarded financial penalty effected by PZU. 23 June 2014, PZU filed a cassation appeal to the Supreme Court against the judgment. On 24 July 2014, PZU received a response of President of Office of Competition and Consumer Protection to its cassation appeal. On 28 January 2015, the Supreme Court issued the decision accepting the cassation appeal for consideration. 9 September 2015, the Supreme Court dismissed the cassation appeal of PZU. The judgment is final and without appeal.

53.2.2. Fines imposed in 2011

53.2.2.1. Reimbursement of the costs of rental of a replacement car

In a decision of 18 November 2011, the President of the Office of Competition and Consumer Protection imposed a fine on PZU of PLN 11,287 thousand for the use of practices that infringe the collective interest of consumers, as described in Article 24. 1 and 24.2 of the Act on competition and consumer protection (Journal of Laws No. 50 of 2007, item. 331, as amended) consisting in limitation of the scope of liability of PZU towards consumers that submit claims under the insurers' guarantee liability due to compulsory civil liability insurance of an owner of a motor vehicle by:

- refusing to acknowledge that the loss of the possibility to use the damaged car is a property damage and agreeing to pay damages for the rental of a replacement car only if the injured party presented specific circumstances necessitating the rental of a replacement car;
- leaving out the period necessary for the garage to obtain spare parts from the calculation of the reimbursement for the costs of rental of the replacement car;

and demanded that the practices be discontinued.

The Management Board of PZU does not agree with the decision and its legal and factual statement of reasons. On 5 December 2011, PZU appealed against the decision (thus the decision did not become valid).

At a trial held on 2 December 2013, the District Court in Warsaw passed a judgment whereby PZU's appeal was dismissed and the costs of legal representation were awarded from PZU to the President of the Office of Competition and Consumer Protection. On 23 December 2013, PZU appealed against the decision. At the hearing on 17 December 2014, the Appellate Court issued a decision suspending the above proceedings until the Supreme Court settles the legal issue that raises serious doubts regarding a different case pending before the Appellate Court. At the hearing on 9 September 2015, the Supreme Court ruled in favor of PZU, stating that in relation to the insurer, in an event covered by the compulsory TPL of the motor vehicle's owner, the claimant involved in a traffic accident does not have a status of a consumer. As a result of the Supreme Court's consideration of the above mentioned legal issue, the Appellate Court in Warsaw resumed the proceedings and closed the case during its session of 26 January 2015. The delivery of the judgment was postponed to 1 February 2016. By judgment of 1 February 2016, the Appellate Court allowed the appeal of PZU and changed the decision of the District Court in Warsaw in its entirety, annulling the decision of the President of OCCP o 18 November 2011 in its entirety, and adjudged the return of proceeding's expenses by the President of OCCP in favor of PZU. The judgment of the Appellate Court is final and non-appealable. On 2 February 2016, PZU submitted a request concerning delivery of the judgment of the Appellate Court and the substantiation. The President of OCCP submitted similar request on 3 February 2016.

In light of the above, PZU released the maintained provision in the amount of PLN 11,287 thousand.

53.2.2.2. Sale of a group accident insurance

In a decision of 30 December 2011, the President of OCCP imposed a fine on PZU of PLN 56,605 thousand for the use of practices that limit competition and infringe the prohibition specified in Article 6. 1.3 of the Act on competition and consumer protection following an agreement concluded by PZU and Maximus Broker Sp. z o.o. with its registered office in Toruń ("Maximus Broker") that limited the competition in the domestic accident group insurance for children, youth and staff of educational institutions by dividing the market between the entities – the customers of PZU in the Kujawsko-pomorskie region were serviced by Maximus Broker in exchange for recommendation of PZU insurance to those customers. The Office demanded that the practices be discontinued.

The Management Board of PZU refuses to agree with the facts and legal reasons presented in the decision, because the decision does not consider all the evidence and the legal classification was incorrect.

On 18 January 2012, PZU appealed against the decision (thus the decision did not become valid). In the appeal PZU pointed that:

- PZU and Maximus Broker did not conclude any agreement apart from the agreement concerning brokerage fees;
- the President of the Office of Competition and Consumer Protection is wrong in the understanding of insurance contracts concluded via a broker;
- majority of insurance contracts concluded via Maximus Broker was concluded with insurance companies other than PZU;
- PZU and Maximus Broker cannot and could not carry out competitive activities in their markets.

On 22 October 2012, PZU received a response of President of OCCP to its appeal. On 27 March 2015, CCCP issued a judgment overruling the decision of the President of OCCP of 30 December 2011. On 21 May 2015, the President of OCCP filed an appeal. On 24 June 2015, PZU filed its response to the appeal of the President of OCCP.

PZU recognized a provision for the above fine, whose amount both as at 31 December 2015 and 31 December 2014 was PLN 56,605 thousand.

53.3 Proceedings conducted by the Office of Competition and Consumer Protection against PZU Życie

On 1 June 2005, at the request of several petitioners the President of OCCP instituted anti-monopoly proceedings on suspicion of abuse by PZU Życie of its dominant position in the market of employee group insurance, which might have constituted a breach of the provisions of Article 8 of the Act on competition and consumer protection and Article 82 of the Treaty Establishing the European Community. In the decision of 25 October 2007 concluding the aforementioned proceedings, the President of OCCP imposed a fine of PLN 50,384 thousand on PZU Życie for hindering access to the competitors' offers.

The Management Board of PZU Życie disagrees both with the findings and legal arguments presented in the decision. According to the Management Board of PZU Życie the decision issued did not take into account all the evidence and the legal qualification was incorrect, as a result of which it was assumed wrongly that the market position of PZU Życie was dominant. PZU Życie appealed against the decision to the Court of Competition and Consumer Protection, presenting 38 substantive and formal charges with respect to the decision issued by the President of the OCCP.

After several years of proceedings, in a ruling of 17 February 2011 the CCCP partly modified the decision in question, at the same time dismissing the appeal lodged by PZU Życie in relation to the amount of penalty. On 6 May 2011, PZU Życie appealed against the decision.

On 9 May 2013, the Appellate Court in Warsaw admitted the charges filed by PZU Życie and reversed the judgment of the CCCP on grounds of nullity of legal proceedings, cancelled the proceedings to the extent that they were null and remanded the matter for a new trial before the CCCP.

As a result of further proceedings, in the judgment of 28 March 2014 the CCCP dismissed the appeal of PZU Życie and adjudged the return of proceeding's expenses by PZU Życie. On 10 July 2014, PZU Życie appealed against the judgment of the CCCP of 28 March 2014 pertaining to the judgment in its entirety. The court sent a copy of the appeal to the defendant and other participants who submitted a response to the appeal. The files were sent to the Appellate Court in Warsaw. On 2 July 2015, PZU Życie filed a response to the appeal, which was followed by a further exchange of pleadings. The appeal hearing was held on 3 September 2015 and on 17 September 2015 the Appellate Court dismissed PZU Życie's appeal in its entirety and adjudged the return of proceeding's expenses by PZU Życie. The judgment is final and non-appealable. PZU Życie paid the imposed fee in the amount of PLN 50,384 thousand and the costs it was charged with. PZU Życie received the judgment and the substantiation on 20 January 2016. Currently, PZU Życie is assessing the appropriateness of issuing an appeal. The final date of appealing is 21 March 2016.

53.4 Dispute with CSC Computer Sciences Polska Sp. z o.o.

On 9 April 2010, the Arbitration Court served on PZU Życie a statement of claim for payment. The case against PZU Życie was brought by CSC Computer Sciences Polska sp. z o. o. ("CSC") which demanded payment of EUR 8,437 thousand with respect to implementation of the GraphTalk system at PZU Życie. Following subsequent amendments, CSC claimed the total of PLN 35,663 thousand with interest due from the claim date (i.e. from 31 March 2010) until the date of payment. The amount sought by CSC included, among others, the claims related to license fees, implementation works, support and maintenance services, contractual penalties and capitalized interests.

On 31 May 2010, PZU Życie requested that the Arbitration Court dismiss some claims as time inappropriate and dismiss the lawsuit in its entirety. PZU Życie also filed a counter suit against CSC, demanding payment of PLN 71,890 thousand as a return of the remuneration collected by CSC or as damages for undue performance of obligations. On 31 August 2010, CSC motioned for dismissal of the entire claim of PZU Życie indicating absence of evidence to consider it.

After the proceedings before the Arbitration Court at the Polish Chamber of Commerce in Warsaw, on 18 December 2012, the court issued a judgment ("Judgement of the Arbitration Court 108/10") adjudicating the payment of PLN 17,193 thousand for CSC by PZU Życie and discontinued the proceedings concerning the main complaint regarding the payment of EUR 8,437 thousand with statutory interest for the period from the claim date. Furthermore, the Arbitration Court dismissed the remainder of the principal action and dismissed the PZU Życie mutual claim.

As a result of the final termination of the proceedings concerning the statement of enforceability of the Judgment 108/10, on 9 July 2015, PZU Życie paid PLN 17,392 thousand to CSC. On 20 August 2015, PZU Życie filed a cassation appeal to the Supreme Court against the Judgement of the Arbitration Court 108/10 in its entirety. No significant events had taken place by the date of signing the consolidated financial statements.

53.5 Submission of PZU claims to the insolvency estate of PBG Capital Group companies

PZU is the creditor of PBG SA ("PBG") and Hydrobudowa Polska SA ("Hydrobudowa"), both located in Wysogotowo near Poznań, for the issued and executed insurance guarantees (contractual guarantees).

In 2012, bankruptcy proceedings were initiated against PBG and Hydrobudowa. On 21 September 2012, PZU joined the above proceedings submitting its claims to the insolvency estate of both companies.

PBG and Hydrobudowa belong to the same capital group with PBG as the parent entity. They granted sureties to each other. All claims submitted to the insolvency estate of Hydrobudowa in the amount of PLN 100,996 thousand have been therefore submitted in relation to the insolvency estate of PBG as well.

Following their verification by the judge-commissioner and the court appointed supervisor, PZU's receivables due from the bankruptcy estate of PBG of PLN 103,014 thousand have been entered into the list of liabilities. As at 31 December 2015 and 31 December 2014, the sureties amount to PLN 102,164 thousand and their reduction is due to the expiration of a part of guarantees to which no claims were reported. Due to the fact that the receivable is highly unlikely to be redeemed, the amount was not recognized in the financial statements. At the creditors' meeting of 5 August 2015, PZU voted in favor of an agreement, and on 25 August 2015, the judge-commissioner confirmed the voting results and the conclusion of the agreement. On 8 October 2015, the bankruptcy court announced its decision, in which it approved the agreement concluded with the creditors. The decision is not final. When the approval of the agreement is legally binding, PZU will receive 21% of the claim in the form of cash payments, in accordance with the schedule agreed upon in the agreement proposals, and in a non-cash form, involving a conversion of 0.491927% of the debt for an issue of new shares.

53.6 Receivables arising from a mortgage agreement with Metro-Projekt Sp. z o.o.

In 1999, PZU granted a mortgage to Metro-Projekt Sp. z o.o. ("Metro-Projekt") with a 5-year tenor. The amount of the loan was the equivalent of USD 25,500 thousand. The loan was collateralized by maximum value mortgage on property, including the land perpetual usufruct and a building owned by Metro-Projekt, located in Warsaw at Al. Jerozolimskie 44.

Metro-Projekt did not repay its loan and in November 2002 it was declared bankrupt.

The proceedings resulting from the Receiver of Universal SA filing for a separation of the property located at Al. Jerozolimskie 44 in Warsaw from the bankruptcy estate of Metro-Projekt began in 2004.

As a result of a settlement concluded in 2013, in exchange for resigning from claims for the insolvency estate of Universal, the insolvency estate of Metro-Projekt was to be charged with an additional amount of PLN 5,722 thousand to be transferred to the former.

After several unsuccessful efforts to sell Metro-Projekt, another announcement of the Receiver concerning the sale of the enterprise was published on 25 August 2014. The starting price for was set at PLN 80.000 thousand. The only bid in the amount of PLN 80.000 thousand was opened on 21 October 2014.

The Receiver sold the enterprise for PLN 80.000 thousand on 18 December 2014.

As at 31 December 2014, the carrying amount of the receivables from Metro-Projekt was PLN 109,478 thousand. On 28 April 2015, the claim of PZU in the amount PLN 109,478 thousand was fully satisfied with the funds from sale of the business of the company and other means included in the insolvency estate.

54. Related party transactions

54.1 Remuneration of Members of the Management and Supervisory Board, high level management and supervisory boards of PZU Group entities included in consolidation, including profit sharing payments and information on advance payments, loans, borrowings and guarantees given to such Members

In 2015 and 2014 the companies in PZU Group did not grant any loans or any other similar benefits to members of the Management Boards, high-level management and members of their Supervisory Boards.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

54.1.1. Remunerations in the parent entity

Remuneration of members of the Management Board, high level management and members of the Supervisory Board of PZU is presented below:

Remunerations and other short-term employee benefits paid by PZU	1 January – 31 December 2015		1 January – 31 December 2014	
		including bonuses and special rewards:		including bonuses and special rewards:
Management Board, including:	**8,124**	**2,862**	**8,226**	**2,812**
Andrzej Klesyk	2,970	1,170	2,714	914
Przemysław Dąbrowski	1,112	371	1,054	313
Dariusz Krzewina	1,281	507	1,314	534
Tomasz Tarkowski	995	332	891	228
Ryszard Trepczyński 1)	1,194 [2)]	482	1,165	424
Rafał Grodzicki 3)	312	-	-	-
Witold Jaworski 4)	260	-	-	-
Barbara Smalska 5)	-	-	1,088	399
High level management (Directors of PZU Group), including:	**3,799**	**1,530**	**3,717**	**1,193**
Rafał Grodzicki	624	312	936	312
Przemysław Henschke	936	312	936	312
Sławomir Niemierka	963	300	860	199
Tobiasz Bury	1,276	606	985	370 [6)]
Supervisory Board, including:	**1,224**	**-**	**1,221**	**-**
Zbigniew Ćwiąkalski	180	-	168	-
Paweł Kaczmarek	84	-	-	-
Dariusz Filar	132	-	120	-
Aleksandra Magaczewska	156	-	97	-
Tomasz Zganiacz	72	-	144	-
Zbigniew Derdziuk	120	-	120	-
Dariusz Kacprzyk	120	-	64	-
Jakub Karnowski	120	-	64	-
Alojzy Nowak	120	-	120	-
Maciej Piotrowski	120	-	120	-
Waldemar Maj	-	-	90	-
Dariusz Daniluk	-	-	57	-
Włodzimierz Kiciński	-	-	57	-

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Remunerations and other short-terms employee benefits paid by other PZU Group entities	1 January – 31 December 2015		1 January – 31 December 2014	
		including bonuses:		including bonuses:
Management Board, including:	**3,310**	**1,279**	**2,942**	**996**
Przemysław Dąbrowski	799	400	599	200
Dariusz Krzewina	690	273	553	133
Tomasz Tarkowski	536	179	536	179
Ryszard Trepczyński [1)]	643 [2)]	259	658	259
Rafał Grodzicki [3)]	504	168	-	-
Witold Jaworski [4)]	138	-	-	-
Barbara Smalska [5)]	-	-	596	225
High level management (Directors of PZU Group), including:	**1,546**	**492**	**1,844**	**478**
Rafał Grodzicki [3)]	-	-	455	119
Przemysław Henschke	504	168	455	119
Sławomir Niemierka	464	107	427	70
Tobiasz Bury	578	217	507	170 [6)]

Total estimated valued of benefits in kind allocated by PZU and its subsidiaries	1 January – 31 December 2015	1 January – 31 December 2014
Management Board, including:	**1,224**	**1,307**
Andrzej Klesyk	298	282
Przemysław Dąbrowski	191	186
Dariusz Krzewina	209	217
Tomasz Tarkowski	178	191
Ryszard Trepczyński [1)]	179	226
Rafał Grodzicki [3)]	129	-
Witold Jaworski [4)]	40	-
Barbara Smalska [5)]	-	205
High level management (Directors of PZU Group), including:	**600**	**908**
Rafał Grodzicki [3)]	44	170
Przemysław Henschke	167	203
Sławomir Niemierka	176	358
Tobiasz Bury	213	177
Supervisory Board, including:	**11**	-
Zbigniew Ćwiąkalski	10	-
Jakub Karnowski	1	-

1) Ryszard Trepczyński was not appointed as a member of the PZU Management Board in the new term whcih started on 1 July 2015.
2) The specified amounts include compensation resulting from prohibition clause PLN 185 thousand (PZU) and PLN 100 thousand (PZU Życie), as well as remuneration for the notice period.
3) Rafał Grodzicki was dismissed from the position of a Director of PZU Group, effective as of 30 June 2015, and appointed as a member of the PZU Management Board in the new term which started on 1 July 2015.
4) Witold Jaworski was appointed as a member of the PZU Management Board on 1 September 2015.
5) On 6 October 2014, Barbara Smalska resigned from the position of Member of the Management Board of PZU as at 31 December 2014. In 2015, she received remuneration for the notice period and compensation resulting from prohibition clause in the amount of PLN 974 thousand from PZU and PLN 525 thousand from PZU Życie, as well as PLN 71 thousand in non-cash benefits.
6) Amount representing the bonus for 2013 granted during the performance of other functions in PZU and PZU Życie.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

54.1.2. Remunerations in other PZU Group entities

Remuneration paid to members of the Management Boards and Supervisory Boards of other PZU Group entities:

Type of services	1 January – 31 December 2015	1 January – 31 December 2014
Members of the Management Boards	21,586	18,786
Members of the Supervisory Boards	875	844

54.2 Other related party transactions

Balances and turnovers of transactions between PZU Group and related parties	As from 1 January till 31 December 2015 and at 31 December 2015		As from 1 January till 31 December 2014 and at 31 December 2014	
	Key managers of main units [1]	Other related parties [2]	Key managers of main units [1]	Other related parties [2]
Gross written premium				
in property and personal insurance	-	3,188	-	860
in life insurance (including investment contracts)	-	-	-	-
Other revenue	-	3	-	-
Costs	-	11	-	18
Including impairment losses on receivables recognized in current period	-	-	-	
Receivables		50		40
gross value	-	50	-	40
impairment losses	-	-	-	-
net value	-	50	-	40
Liabilities	-	4	-	11
Contingent assets	-	-	-	-
Contingent liabilities	-	-	-	-

[1] High level management, data as per statements..
[2] Non-consolidated companies in liquidation as well as associates and joint ventures measured with the equity metod.

54.3 Presentation of transactions with entities related to the State Treasury

In spite of the provisions of the By-laws of PZU (in particular those concerning the limitations of the voting rights of the shareholders other than the State Treasury and the rules of appointing the Supervisory Board of PZU), for the purposes of presentation of related party transactions, it is assumed that the State Treasury has retained control over PZU, as understood by IAS 27, and thus PZU remains an entity controlled by the State Treasury.

Non-life insurance contracts, life insurance contracts and investment contracts constituted the majority of transactions with subsidiaries, joint-ventures and associates of the State Treasury. The transactions are concluded and settled on the terms and conditions applicable to customers which are not related parties. Insurance receivables from and insurance liabilities to related parties are short-term.

PZU Group enjoys the exemption from the obligation to disclose related-party transactions due to being under control, joint control or significant influence of the same government, as referred to in point 25 of IAS 24. However, as such information is useful, PZU Group decided to disclose the value of premium written as well as the volumes of investment contracts resulting from transactions with subsidiaries, joint-ventures and associates of the State Treasury understood only as commercial companies and State Treasury controlled state entities, whose lists are published on the website of the Ministry of Treasury.

The table below presents the written premium and volumes from investment contracts resulting from transactions with subsidiaries, joint-ventures and associates with the State Treasury.

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Subsidiaries, joint-ventures and associates with the State Treasury	1 January – 31 December 2015	1 January – 31 December 2014
Gross written premium - non-life insurance	49,524	69,347
- including written premium as a result of transactions with Bank Powszechna Kasa Oszczędności BP SA	12,617	14,066
Gross written premium - life insurance	26,503	30,749
- including written premium and volumes of investment contracts as a result of transactions with Bank Powszechna Kasa Oszczędności BP SA	26,503	30,749
Total	**76,027**	**100,096**

54.4 Transactions with largest counterparties whose shares are held by the State Treasury

Gross written premiums[1)] from 10 largest counterparties of PZU Group that are subsidiaries of the State Treasury

Counterparty	1 January - 31 December 2015	Counterparty	1 January - 31 December 2014
Counterparty 1	39,120	Counterparty 1	44,815
Counterparty 2	18,260	Counterparty 2	27,282
Counterparty 3	6,288	Counterparty 4	5,017
Counterparty 4	3,785	Counterparty 5	3,847
Counterparty 5	1,400	Counterparty 3	3,189
Counterparty 6	1,371	Counterparty 6	2,530
Counterparty 7	696	Counterparty 11	1,925
Counterparty 8	646	Counterparty 12	1,521
Counterparty 9	542	Counterparty 13	1,154
Counterparty 10	470	Counterparty 9	1,106

[1)] The item includes gross written premium in non-life insurance, life insurance and volumes of investment contracts.

55. Employment

The table below presents the average number of employees in the PZU Group entities.

Type of services	1 January - 31 December 2015	1 January - 31 December 2014
Management Boards (number of people at the end of the financial year)	81	77
Management	1,448	1,216
Advisors	7	2
Other employees	21,589	15,629
Total	**23,125**	**16,924**

The increase of employment in PZU Group in 2015 results from expanding PZU Group by including newly acquired subsidiary. (Alior Bank – 6,346 employees, other entities – 118).

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56. Other information

56.1 Remuneration of the entity authorized to audit financial statements

The below table presents the amounts due to entities authorized to audit financial statements of PZU paid and payable for the reporting period, including VAT, and determined on the accrual basis.

Type of services	1 January - 31 December 2015	1 January - 31 December 2014
Audit of the financial statements	1,488	714
Other assurance services	248	248
Other services	27	27
Total	**1,763**	**989**

An agreement with KPMG Audyt sp. z o.o. sp. k. concerning the reviews and audits of the separate financial statements of PZU and the consolidated financial statements of PZU Group for the years 2014-2016, with an option to extend the agreement for the years 2017-2018, was concluded on 26 June 2014.

56.2 Employment restructuring process

On 18 December 2014, the Management Board of PZU adopted a decision to commence restructuring activities related to the implementation of the new IT systems and automation of operating processes.

On 8 April 2015, the Management Boards for PZU and PZU Życie announced their intention to carry out group redundancies, in accordance to the Act from 13 March 2003 on special principles of employment termination for reasons not related to employees (Journal of Laws of 2003, item 844, as amended). "Act on special principles of employment termination").

On 10 April 2015, PZU, PZU Życie and the trade unions operating at these companies signed an agreement setting out the terms and conditions of employment restructuring. The final form of the document was based on the experience and solutions developed during the corresponding negotiations in previous years.

Employment restructuring was conducted during the planned period (May–June 2015) and finally encompassed 267 people within PZU and PZU Życie, while the employment downsizing applied to 134 employees.

The people who were dismissed or who did not accept the changes in the terms and conditions of employment (just as during all stages of employment restructuring, namely in 2010–2014) were offered more favorable conditions of leaving than those provided by law in similar situations (Act on special principles of employment termination). The amount of additional redundancy pay depended on the length of service with PZU Group and the salary of each employee.

The costs associated with the payment of benefits to the dismissed employees where charged to restructuring expenses, which as at 31 December 2015 amounted to PLN 2,777 thousand (as at 31 December 2014: PLN 9,354 thousand)

56.3 Loans to subsidiaries of PZU

On 25 February 2015, PZU and CM Medica concluded a loan agreement in the amount of PLN 6,500 thousand. The interest rate on the loan was determined on an arm’s length basis (6-month WIBOR rate increased by a margin of 150 bps.) The loan became effective on 22 April 2015 and its repayment date is 22 April 2017.

On 23 March 2015, PZU and PZU Zdrowie SA concluded an interest-free loan agreement. The maximum amount of the loan is PLN 200,000 thousand and the latest repayment date - 31 December 2030. On 24 March 2015, the first installment of PLN 90,000 thousand was initiated, and on 25 September 2015 - the second one, in the amount of PLN 40,000 thousand. Due to the participation of both companies in the Tax Capital Group ("TCG"), it is tax neutral.

On 21 May 2015, PZU and AAS Balta concluded a subordinated loan agreement in the amount of EUR 4,100 thousand. The interest rate on the loan was determined on an arm’s length basis (3-month EURIBOR rate increased by a margin of 330 bps.). The loan is granted for an indefinite period.

On 29 May 2015, PZU and Lietuvos Draudimas AB concluded a subordinated loan agreement in the amount of EUR 10,000 thousand. The interest rate on the loan was determined on an arm's length basis (3-month EURIBOR rate increased by a margin of 330 bps.). The loan is granted for an indefinite period.

Loans, as transactions between companies within PZU Group, are eliminated in the process of drawing up consolidated financial statements and do not affect its structure nor on the profit or loss of PZU Group.

56.4 Issue of subordinated bonds by Alior Bank

On 28 December 2015 the Supervisory Board of Alior Bank granted consent for opening of Public Subordinated Bond Issuance Program of Alior Bank SA ("Issuance Program") and authorized the Management Board of Alior Bank to incur liabilities through the issuance of unsecured, subordinated bearer bonds with a nominal value of PLN 1,000 per bond in series of up to 800,000. Under the Issuance Program:

- total nominal value of bonds will not exceed PLN 800,000;
- bonds will be issued and offered in series in the period no longer than 12 months from the date of approval of the base prospectus by PFSA;
- the maturity period of bonds will be from 5 to 10 years from the date of issuance of a given bond series;
- the benefits resulting from bonds will be exclusively of monetary nature;
- bonds will be issued pursuant to Article 33 (1) of the Bonds Act;
- bonds will not be in a form of a document;
- terms and conditions for the issuance of each series of the bonds will specify provisions on classifying them as own funds pursuant to the regulations set forth in the Regulation of the European Parliament and Council (EU) No. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1);
- the Management Board of Alior Bank will apply for admitting and introduction of bonds into trading on the regulated market operated by WSE as part of Catalyst system in an alternative trading system operated by WSE or by BondSpot S.A. as part of the Catalyst system;

At the same time, the Supervisory Board of Alior Bank authorized the Management Board of Alior Bank to determine final conditions for the issuance of individual bond series, allocation of bonds to investors and adoption of any other activities so as to carry out the Issuance Program.

Due to the opening of the Issuance Program, individual bond series may be issued so as to secure a safe level of total capital ratio (TCR) in connection with the increase, as of 1 January 2016, minimum capital requirements for banks pursuant to the letter of PFSA dated 22 October 2015. It is stated in the letter that banks are to maintain capital ratios at the level of at least 13.25% in terms of TCR, and 10.25% in terms of Tier 1.

56.5 Inspection of the Polish Financial Supervision Authority in PZU Życie

During the period between 12 August and 3 October 2014 the PFSA conducted an inspection at PZU Życie. The inspection covered PZU Życie operations and its financial status in respect of:

- organization and management;
- bookkeeping;
- investment policy;
- technical provisions;
- fulfillment of benefits.

On 29 June 2015, PZU Życie received a post-inspection report. PZU submitted objections to its content on 13 July 2015 and 12 August 2015.

On 12 November 2015, PZU Życie received the recommendation to adjust its insurance operations to the act on insurance activity, the accounting act, the regulation on specific accounting principles for insurance and reinsurance companies, and the regulation on financial instruments.

The recommendations concerned, in particular, disclosure requirements to policyholders and claimants, principles of complaints, completeness of technical plans in terms of setting the technical rate, and the principles (policies) of accounting in terms of the valuation of assets (particularly, the non-standardized derivatives), as well as the methods of valuating financial instruments and determining the value of life insurance provision.

The implementation date for these recommendations was set at 29 February 2016.

PZU Życie notified PFSA about the methods of implementing the recommendations on 29 December 2015, 4 February, 23 February and 29 February 2016.

The issues identified by PFSA do not exert significant effect on the consolidated financial statements.

56.6 Inspection of the Polish Financial Supervision Authority in PZU

During the period between 17 April and 17 June 2015, the Polish Financial Supervision Authority conducted an inspection at PZU in the scope of the use of services of insurance agents.

On 12 January 2016, PZU received the report of the inspection, which raised objections on 27 January 2016. According to the Management Board of PZU, the results of the control will not influence the consolidated financial statement.

56.7 Situation in Ukraine

Both in 2014 and 2015, Ukraine's political and economic situation was unstable. It was associated with the following factors affecting the Ukrainian insurance sector:

- high inflation (48.7% year-to-year) and strong dynamics of local currency depreciation (Ukrainian hryvnia) in relation to the dollar and the euro;
- collapse in domestic demand;
- issues in the banking sector;
- military activities in the east of Ukraine (in Donetsk and Luhansk circuits).

In 2015, the Ukrainian economy withered. In the third quarter of 2015, according to the data of the Central Statistical Office of Ukraine, the decline in GDP amounted to 7.2% year-to-year.

Due to the uncertain political and economic situation in the country, the management boards of PZU Ukraine and PZU Ukraine Life Insurance undertook to reduce the risk:

- in the scope of insurance activity, apart from standard exceptions such as war, terrorism, etc., insurance coverage does not apply to third party operations performed in violation of the law. In addition, it has been decided to temporarily suspend conclusion and renewal of non-life insurance contracts with natural and legal persons, including property that is subject to a lien or mortgage, if the contract is executed in the territory of Donetsk and Luhansk regions. The same applies to forwarding agent and carrier liability insurance, as well as cargo insurance, if the freight lane passes through the territory of the above mentioned regions;
- cash in current accounts and bank deposits were transferred to selected banks operating in Ukraine, which have credible foreign majority shareholders and an appropriate rating.

External influences disturb the functioning of the financial sector and hinder long-term business planning. For customers, reliability of insurance companies has become highly important. Insurance companies with foreign capital are perceived more reliable. This tendency has a positive effect on the sales of the Ukrainian companies of PZU Group. By diversifying their portfolios and sales channels, PZU Ukraine and PZU Ukraine Life became more flexible to market changes and implemented their financial plans for 2015.

The Management Board of PZU, in cooperation with the management boards of PZU Ukraine and PZU Ukraine Life Insurance, carries out constant monitoring of external risks and changes in the Ukrainian regulations. PZU developed scenarios and control mechanisms to respond to market changes in Ukraine. The company does not intend to withdraw its operations from the Ukrainian market. As at the date of these consolidated financial statements, the Management

Board of PZU assumes that PZU Ukraine and PZU Ukraine Life Insurance will continue their business activity in accordance with the approved objectives. Nevertheless, the unstable business environment in Ukraine could negatively affect in the future results of PZU Ukraine and PZU Ukraine Life Insurance and financial position in a manner not currently determinable. These consolidated financial statements reflects the current assessment of the Management Board of PZU in this respect.

56.8 Revenue from the exchange of goods and services

In 2015 and 2014, PZU Group did not generate revenue from the exchange of goods and services.

56.9 Events after the financial year

56.9.1. Act on Financial Institutions Tax

On 15 January 2016, the Act on Financial Institutions Tax was published, which has been effective as of 1 February 2016. According to the Act, entities subject to taxation are assets of tax payers that include, among others, banks and insurance companies. In the case of banks, subject to taxation is the excess of assets amounting to over PLN 4,000,000 thousand (less, among other things, the value of treasury instruments), and in the case of insurance companies - over PLN 2,000,000 thousand (for insurance companies, this limit is valid for all tax payers, both direct and indirect subsidiaries and joint ventures of an entity or a group of entities affiliated with one another).

The tax calculated monthly amounts to 0.0366% of the tax base.

PZU Group has estimated the impact of the new tax on financial results, according to which the annual effect on the financial result will amount to some PLN 270—280 million (approximately PLN 250-260 million for the period from February to December 2016). Due to the fact that Alior Bank has not completed such a measurement, the amounts presented above concern only insurance companies of PZU Group.

56.9.2. New Act on Insurance Activity

Information on the entry into force of the new act on insurance activity is specified in Note 9.4.1

56.9.3. Acquisition of the third share installment of Alior Bank

Information about the settlement of acquisition of the third share installment of Alior Bank SA is presented in Note 2.4.6.1.

56.9.4. Acquisition of shares in CM Cordis sp. z o.o.

On 1 February 2016, PZU Zdrowie SA acquired 7,312 shares in CM Cordis sp. z o.o., representing 100% of the share capital of CM Cordis sp. z o.o. sp. k. and 100% of votes at the General Meeting of Shareholders, with a nominal value of PLN 50 each.

Since the acquisition date, which is 1 February 2016, CM Cordis sp. z o.o. has been subjected to consolidation.

56.9.5. Administrative proceedings conducted by the Office of Competition and Consumer Protection

At the beginning of 2015, the President of OCCP instituted investigation proceedings against 17 insurance companies, including PZU Życie, regarding the use of practices that infringe collective consumer interests, alleging that by applying surrender fees in unit-linked insurance products insurance companies charge clients with the costs of the initial conclusion of insurance contracts of that type. In the course of the investigation procedure, PZU Życie suggested abandoning this practice and a change in the sample agreement used in the case of WPI product ("Wielowalutowy Program Inwestycyjny", in English: "Multicurrency Investment Program", code of the terms and conditions: FMIJ40), where the previously applied redemption rate was determined when clients withdrew from insurance agreements (redemption). On 14 October 2015, the President of OCCP issued a decision ordering PZU Życie to abandon the application of the previously used sample agreement, and to change the insurance agreements concluded pursuant to the aforementioned sample agreement by increasing the redemption rate.

PZU Życie complied with the above-mentioned decision, and, in particular, it introduced amendments to the applied sample agreement, as well as amended previously concluded agreements pursuant to the sample agreement. The Management Board of PZU is of the opinion that following the decision of the President of OCCP and its execution, PZU Życie is not bound by any other further unrealized effects of the change in the previously applied practice, and hence it is not aware of any further effects that might exert potential negative impact on the information presented in the consolidated financial statements.

Signatures of members of the Management Board of PZU

Name and surname	Position	
Michał Krupiński	Chairman of the Management Board	.... (signature)
Przemysław Dąbrowski	Board Member	.... (signature)
Roger Hodgkiss	Board Member	.... (signature)
Beata Kozłowska-Chyła	Board Member	.... (signature)
Dariusz Krzewina	Board Member	.... (signature)
Robert Pietryszyn	Board Member	.... (signature)
Paweł Surówka	Board Member	.... (signature)

Person responsible for preparation of the consolidated financial statements:

Katarzyna Łubkowska	Director of the Accounting Department	.... (signature)

Warsaw, 14 March 2016

TRANSLATION

The Capital Group of
Powszechny Zakład Ubezpieczeń
Spółka Akcyjna

Opinion and Report of the Independent Auditor Financial Year ended 31 December 2015

The opinion contains 3 pages
The supplementary report contains 16 pages
Opinion of the independent auditor
and supplementary report on the audit
of the consolidated financial statements
for the finacial year ended
31 December 2015

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.

OPINION OF THE INDEPENDENT AUDITOR

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

Opinion on the consolidated financial statements

We have audited the accompanying consolidated financial statements of the Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna ("the Group"), whose parent company is Powszechny Zakład Ubezpieczeń Spółka Akcyjna, with its registered office in Warsaw, al. Jana Pawła II 24 ("the Parent Company"), which comprise the consolidated statement of profit or loss and the consolidated statement of comprehensive income for the year ended 31 December 2015, the consolidated statement of financial position as at 31 December 2015, the statement of changes in consolidated equity and the consolidated statement of cash flows for the year then ended 31 December 2015 and additional information and notes comprising a summary of significant accounting policies and other explanatory information, hereinafter called 'consolidated financial statements'.

Management's and Supervisory Board's Responsibility for the Consolidated Financial Statements

Management of the Parent Company is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations and preparation of the report on the Group's activities. Management of the Parent Company is also responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330 with amendments) ("the Accounting Act"), Management of the Parent Company and members of the Supervisory Board are required to ensure that the consolidated financial statements and the report on the Group's activities are in compliance with the requirements set forth in the Accounting Act.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330 with amendments) ("the Accounting Act") and International Standards on Auditing as adopted by the National Council of Certified Auditors as the National Standards on Assurance. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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 consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management 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.

Opinion

In our opinion, the accompanying consolidated financial statements of the Group have been prepared and present fairly, in all material respects, the financial position of the Group as at 31 December 2015 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, and are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Group.

Specific Comments on Other Legal and Regulatory Requirements

Report on the Group's Activities
As required under the Accounting Act, we report that the accompanying report on the Group's activities includes, in all material respects, the information required byarticle 49 of the Accounting Act, by 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 information required by the law of a non-Member State (Official Journal from 2014, item 133) and the Attachment No. 6 of the Decree of the Minister Finance dated 28 December 2009 on specific accounting principles in insurance and reinsurance companies (Official Journal from 2009, No. 226, item 1825) and the information is consistent with the consolidated financial statements.

On behalf of 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 2016
Warsaw

TRANSLATION

The Capital Group of
Powszechny Zakład Ubezpieczeń
Spółka Akcyjna

Supplementary report on the audit of the consolidated financial statements
Financial Year ended
31 December 2015

The supplementary report contains 16 pages
The supplementary report on the audit of the consolidated financial statements
for the financial year ended
31 December 2015

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

Contents

1. General

1.1 Identification of the Group

1.1.1 Name of the Group

The Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna ('the Group').

1.1.2 Registered office of the Parent Company of the Group

Powszechny Zakład Ubezpieczeń Spółka Akcyjna with registered office in Warsaw, Al. Jana Pawła II 24 ('the Parent Company').

1.1.3 Registration of the Parent Company in the register of entrepreneurs of the National Court Register

Registration court:	District Court in Warsaw, XII Commercial Department of the National Court Register
Date:	30 April 2001
Registration number:	KRS 0000009831
Share capital as at the end of reporting period:	PLN 86,352 thousand

1.1.4 Management of the Parent Company

The Management Board is responsible for management of the Parent Company.

As at the date of this report, the Management Board of the Parent Company was comprised of the following members:

- Michał Krupiński – President of the Management Board
- Przemysław Dąbrowski – Board Member
- Roger Hodgkiss – Board Member
- Beata Kozłowska-Chyła – Board Member
- Dariusz Krzewina – Board Member
- Robert Pietryszyn – Board Member
- Paweł Surówka – Board Member

In the period from 1 January 2015 until the report preparation date, the following changes took place in the composition of the Management Board of the Parent Company:

- On 30 June 2015 Ryszard Trepczyński's mandate of the Member of the Management Board of PZU expired;
- On 8 December 2015 Andrzej Klesyk and Witold Jaworski filed a resignation, with effect from 9 December 2015, whereas the Supervisory Board of PZU appointed Dariusz Krzewina the Acting President of the Management Board;
- On 19 January 2016 Rafał Grodzicki and Tomasz Tarkowski resigned from the Management Board, thus the Supervisory Board of PZU appointed to the Management Board following persons:
    - Michał Krupiński, who was appointed the President of the Management Board;
    - Roger Hodgkiss, who was appointed the Member of the Management Board;

- Beata Kozłowska-Chyła, who was appointed the Member of the Management Board;
- Robert Pietryszyn, who was appointed the Member of the Management Board;
- Paweł Surówka, who was appointed the Member of the Management Board since 20 January 2016,.

1.2 Information about companies comprising the Group

1.2.1 Companies included in the consolidated financial statements

Complete list of the consolidated subsidiaries have been disclosed in point 1.6 of this report and in the Note 2.2 of the additional information and notes to the consolidated financial statements.

The following subsidiaries were consolidated for the first time during the year ended 31 December 2015, as a result of the Parent Company acquiring a controlling interest:

- Aquaform SA, Aquaform Badprodukte GmbH, Aquaform Ukraine TOW, Aquaform Romania SRL, Morehome.pl sp. z o.o. – subject to consolidation from 15 January 2015,
- Rezo-Medica sp. z o.o. – subject to consolidation from 23 April 2015,
- Nasze-Zdrowie sp. z o.o. – subject to consolidation from 26 August 2015,
- PZU FIZ Surowcowy – subject to consolidation from 3 September 2015,
- Centrum Medyczne Gamma sp. z o.o. – subject to consolidation from 8 September 2015,
- Medicus w Opolu sp. z o.o. – subject to consolidation from 30 September 2015,
- PZU Sejf+ – subject to consolidation from 30 September 2015,
- Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych – subject to consolidation from 20 November 2015,
- PZU FIZ Akcji Focus – subject to consolidation from 10 December 2015,
- Alior Bank SA – subject to consolidation from 18 December 2015,
- Alior Services sp. z o.o. – subject to consolidation from 18 December 2015,
- Centrum Obrotu Wierzytelnościami sp. z o.o. – subject to consolidation from 18 December 2015,
- Alior Leasing sp. z o.o. – subject to consolidation from 18 December 2015,
- Meritum Services ICB SA – subject to consolidation from 18 December 2015,
- Money Makers SA – subject to consolidation from 18 December 2015,
- New Commerce Services sp. z o.o. – subject to consolidation from 18 December 2015.

The following subsidiaries were consolidated during the reporting period until the date control by the Parent Company ceased:

- UAB DK PZU Lietuva – subject to consolidation in the period from 1 January 2015 to 30 September 2015,
- PZU Fundusz Inwestycyjny Zamknięty Forte – subject to consolidation in the period from 1 January 2015 to 30 June 2015.

1.2.2 Entities excluded from consolidation

As at 31 December 2015, the following subsidiary was not consolidated as a result of lack of controlling interest by the Parent Company: Syta Development sp. z o.o. w likwidacji.

1.3 Key Certified Auditor and Audit Firm Information

1.3.1 Key Certified Auditor information

Name and surname:	Marcin Dymek
Registration number:	9899

1.3.2 Audit firm information

Name:	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. ("KPMG Audyt")
Address of registered office:	ul. Inflancka 4A, 00-189 Warsaw
Registration number:	KRS 0000339379
Registration court:	District Court for the Capital City of Warsaw in Warsaw, XII Commercial Department of the National Court Register
NIP number:	527-26-15-362

KPMG Audyt is entered in the register of audit firms, maintained by the National Council of Certified Auditors, under number 3546.

1.4 Prior period consolidated financial statements

The financial statements of the Group as at and for the year ended 31 December 2014 were audited by KPMG Audyt who expressed an unmodified opinion on those financial statements dated 16 March 2015.

The financial statements as at and for the year ended 31 December 2014 were approved at the General Meeting of the Parent Company on 30 June 2015.

The financial statements as at and for the year ended 31 December 2014 were submitted to the Registry Court on 6 July 2015.

1.5 Audit scope and responsibilities

This report was prepared for the General Meeting and Supervisory Board of the Parent Company and relates to the consolidated financial statements comprising: the consolidated statement of profit or loss and the consolidated statement of comprehensive income for the year ended 31 December 2015, the consolidated statement of financial position as at 31 December 2015, the statement of changes in consolidated equity and the consolidated statement of cash flows for the year ended 31 December 2015 and additional information and notes comprising a summary of significant accounting policies and other explanatory information.

The Parent Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (“IFRS”).

The consolidated financial statements were audited in accordance with the contract dated 26 June 2014, concluded on the basis of the resolution of the Supervisory Board dated 18 February 2014 on the appointment of the auditor.

We conducted the audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330 with amendments) (“the Accounting Act”) and International Standards on Auditing as adopted by the National Council of Certified Auditors as the National Standards on Assurance.

We audited the consolidated financial statements at the Group entities during the period from October to November 2015 (interim audit) and from January to March 2016 (final audit).

Management of the Parent Company is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS and with other applicable regulations and preparation of the report on the Group’s activities.

Our responsibility is to express an opinion and to prepare a supplementary report on the audit of the financial statements.

The Management Board of the Parent Company submitted a statement, dated as at the same date as this report, as to the true and fair presentation of the accompanying consolidated financial statements, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the consolidated financial statements.

All required statements, explanations and information were provided to us by Management of the Group and all our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of KPMG Audyt.

The Key Certified Auditor and KPMG Audyt fulfill the independence requirements as described in Art. 56 points 3 and 4 of the Act on Certified Auditors and their Self-Governance, Audit Firms authorized to Audit Financial Statements and Public Oversight dated 7 May 2009 (Official Journal from 2015, item 1011 with amendments).

1.6 Information on audits of the financial statements of the consolidated companies

1.6.1 Parent Company

The separate financial statements of the Parent Company for the year ended 31 December 2015 were audited by KPMG Audyt, audit firm number 3546, and received an unmodified opinion.

1.6.2 Other consolidated entities

Entity's name	Authorised auditor	Financial year end	Type of auditor's opinion
Subject to consolidation			
1. Powszechny Zakład Ubezpieczeń na Życie SA	KPMG Audyt	31 December 2015	unqualified
2. Link 4 Towarzystwo Ubezpieczeń SA	KPMG Audyt	31 December 2015	audit not completed
3. Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych	not audited	31 December 2015	-
4. Lietuvos Draudimas AB	KPMG Baltics UAB	31 December 2015	audit not completed
5. Apdrošināšanas Akciju Sabiedrība Balta AAS BALTA	KPMG Baltics SIA	31 December 2015	audit not completed
6. PrJSC IC PZU Ukraine	JSC KPMG Audit	31 December 2015	audit not completed
7. PrJSC IC PZU Ukraine Life Insurance	JSC KPMG Audit	31 December 2015	audit not completed
8. UAB PZU Lietuva Gyvybes Draudimas	KPMG Baltics UAB	31 December 2015	audit not completed
Subject to consolidation – Capital Group of Alior Bank			
9. Alior Bank SA	PricewaterhouseCoopers sp. z o.o.	31 December 2015	unqualified
10. Alior Services sp. z o.o.	not audited	31 December 2015	-
11. Centrum Obrotu Wierzytelnościami sp. z o.o.	not audited	31 December 2015	-
12. Alior Leasing sp. z o.o.	PricewaterhouseCoopers sp. z o.o.	31 December 2015	audit not completed
13. Meritum Services ICB SA	not audited	31 December 2015	-
14. Money Makers SA	Ernst & Young Audyt Polska sp. z o.o. sp. k.	31 December 2015	audit not completed
15. New Commerce Services sp. z o.o.	not audited	31 December 2015	-
Subject to consolidation - other			
16. Powszechne Towarzystwo Emerytalne PZU SA	KPMG Audyt	31 December 2015	unqualified
17. PZU Centrum Operacji SA	KPMG Audyt	31 December 2015	audit not completed
18. Towarzystwo Funduszy Inwestycyjnych PZU SA	KPMG Audyt	31 December 2015	unqualified
19. PZU Pomoc SA	KPMG Audyt	31 December 2015	audit not completed
20. PZU Finance AB	KPMG Sweden	31 December 2015	audit not completed
21. PZU Finanse Sp. z o.o.	not audited	31 December 2015	-
22. Tower Inwestycje Sp. z o.o.	KPMG Audyt	31 December 2015	audit not completed
23. Ogrodowa-Inwestycje Sp. z o.o.	KPMG Audyt	31 December 2015	audit not completed
24. PZU Zdrowie SA	Sandren Biuro Audytorskie sp. z o.o.	31 December 2015	unqualified
25. Centrum Medyczne Medica Sp. z o.o.	Sandren Biuro Audytorskie sp. z o.o.	31 December 2015	unqualified
26. Specjalistyczna Przychodnia Przemysłowa Prof-med sp. z o.o.	Sandren Biuro Audytorskie sp. z o.o.	31 December 2015	unqualified
27. Sanatorium Uzdrowiskowe Krystynka Sp. z o.o.	Sandren Biuro Audytorskie sp. z o.o.	31 December 2015	unqualified
28. Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA – Jaworzno III sp. z o.o. („Elvita”)	Sandren Biuro Audytorskie sp. z o.o.	31 December 2015	unqualified
29. Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o. („Proelmed”)	Katarzyna Walewska Biuro Rachunkowe Biegłego Rewidenta	31 December 2015	unqualified
30. Rezo-Medica sp. z o.o.	Sandren Biuro Audytorskie sp. z o.o.	31 December 2015	unqualified

31. Centrum Medyczne Gamma sp. z o.o.	Sandren Biuro Audytorskie sp. z o.o.	31 December 2015	unqualified
32. Nasze-Zdrowie sp. z o.o.	Sandren Biuro Audytorskie sp. z o.o.	31 December 2015	unqualified
33. Medicus w Opolu sp. z o.o.	Sandren Biuro Audytorskie sp. z o.o.	31 December 2015	unqualified
34. Arm Property sp. z o.o.	not audited	31 December 2015	-
35. Ipsilon Sp. z o.o.	not audited	31 December 2015	-
36. PZU Asset Management SA	KPMG Audyt	31 December 2015	audit not completed
37. Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA w likwidacji	not audited	31 December 2015	-
38. Omicron SA	not audited	31 December 2015	-
39. Omicron Bis SA	not audited	31 December 2015	-
40. Sigma BIS SA	MG Profit sp. z o.o.	31 December 2015	audit not completed
41. LLC SOS Services Ukraine	not audited	31 December 2015	-
42. L4C sp. z o.o.	not audited	31 December 2015	-
Subject to consolidation – the Capital Group of Armatura			
43. Armatura Kraków SA	KPMG Audyt	31 December 2015	audit not completed
44. Armatoora SA	KPMG Audyt	31 December 2015	audit not completed
45. Armaton SA	KPMG Audyt	31 December 2015	audit not completed
46. Aquaform SA	KPMG Audyt	31 December 2015	audit not completed
47. Aquaform Badprodukte GmbH	not audited	31 December 2015	-
48. Aquaform Ukraine TOW	not audited	31 December 2015	-
49. Aquaform Romania SRL	not audited	31 December 2015	-
50. Morehome.pl sp. z o.o.	not audited	31 December 2015	-
Subject to consolidation – investment funds			
51. PZU SFIO Universum	KPMG Audyt	31 December 2015	unqualified
52. PZU FIZ Dynamiczny	KPMG Audyt	31 December 2015	unqualified
53. PZU FIZ Sektora Nieruchomości[1]	KPMG Audyt	31 December 2015	unqualified
54. PZU FIZ Sektora Nieruchomości 2[1]	KPMG Audyt	31 December 2015	unqualified
55. FIZ Aktywów Niepublicznych BIS1	KPMG Audyt	31 December 2015	unqualified
56. FIZ Aktywów Niepublicznych BIS2	KPMG Audyt	31 December 2015	unqualified
57. PZU FIZ Surowcowy	KPMG Audyt	31 December 2015	unqualified
58. PZU Sejf+	KPMG Audyt	31 December 2015	unqualified
59. PZU Dłużny Rynków Wschodzących (Globalnej Alokacji)	KPMG Audyt	31 December 2015	unqualified
60. PZU Akcji Rynków Wschodzących	KPMG Audyt	31 December 2015	unqualified
61. PZU Akcji Spółek Dywidendowych	KPMG Audyt	31 December 2015	unqualified
62. PZU FIO Gotówkowy	KPMG Audyt	31 December 2015	unqualified
63. PZU FIZ Akcji Focus	KPMG Audyt	31 December 2015	unqualified

[1]The Capital Group od PZU also includes subsidiaries, having the character of special purpose vehicles investing in particular properties, which are in the portfolios of the following funds: PZU FIZ Sektora Nieruchomości, PZU FIZ Sektora Nieruchomości 2, the number of which for particular funds amounted to, respectively, 24 and 11. Out of the total number of those companies 24 special purpose vehicles with a property in its portfolio are subject to audit by KPMG Audyt, and until the date of this report these audit have not been completed.

2 Financial analysis of the Group

2.1 Summary analysis of the consolidated financial statements

2.1.1 Consolidated statement of profit or loss

	1.01.2015 - 31.12.2015 PLN thousand	% gross premium written	1.01.2014 - 31.12.2014 PLN thousand	% gross premium written
Gross written premiums	18,359,044		16,884,639	0.0%
Reinsurer's share in the written premiums	(366,702)	2.0%	(349,912)	2.1%
Net written premium	**17,992,342**	**98.0%**	**16,534,727**	**97.9%**
Change in net unearned premium reserve	(607,471)	3.3%	(105,357)	0.6%
Net earned premiums	**17,384,871**	**94.7%**	**16,429,370**	**97.3%**
Revenue from commissions and fees	242,799	1.3%	350,764	2.1%
Net investment income	1,571,268	8.6%	1,704,649	10.1%
Net result on realization and impairment losses on investments	(223,239)	1.2%	427,147	2.5%
Net change in the fair value of assets and liabilities measured at fair value	391,248	2.1%	515,111	3.1%
Other operating income	803,432	4.4%	537,633	3.2%
Claims, benefits and change in technical provisions	(12,282,925)	66.9%	(11,733,228)	69.5%
Reinsurer's share in claims, benefits and change in technical provisions	425,823	2.3%	191,520	1.1%
Net claims and benefits	**(11,857,102)**	**64.6%**	**(11,541,708)**	**68.4%**
Interest expense	(117,433)	0.6%	(147,285)	0.9%
Acquisition costs	(2,376,305)	12.9%	(2,147,024)	12.7%
Administrative expenses	(1,657,878)	9.0%	(1,527,699)	9.0%
Other operating expenses	(1,222,276)	6.7%	(907,740)	5.4%
Operating profit	**2,939,385**	**16.0%**	**3,693,218**	**21.9%**
Share in net profit (loss) of entities measured using the equity method	4,348	0.0%	(1,525)	0.0%
Gross profit	**2,943,733**	**16.0%**	**3,691,693**	**21.9%**
Income tax	(601,537)	3.3%	(724,066)	4.3%
Net profit, including:	**2,342,196**	**12.8%**	**2,967,627**	**17.6%**
- profit attributable to equity holders of the parent entity	2,342,355	12.8%	2,967,731	17.6%
- profit (loss) attributable to non-controling interest	(159)	0.0%	(104)	0.0%

2.1.2 Consolidated statement of other comprehensive income

	1.01.2015 - 31.12.2015 PLN thousand	% net profit	1.01.2014 - 31.12.2014 PLN thousand	% net profit
Net profit	2,340,767		2,967,627	
Other comprehensive income	5,766	0.2%	17,193	-0.6%
Amounts subject to subsequent transfer to statement of profit or loss:	(3,165)	-0.1%	10,580	-0.4%
Measurement of available-for-sale financial instruments	2,492	0.1%	8,475	-0.3%
Exchange differences from translation	(6,574)	-0.3%	2,287	0.1%
Other comprehensive income of entities measured using the equity method	917	0.0%	(182)	0.0%
Amounts not subject to subsequent transfer to statement of profit or loss:	8,931	0.4%	6,613	0.2%
Property reclassified from property, plant and equipment to investment property	7,201	0.3%	13,504	0.5%
Actuarial gains and losses from remeasurements of defined benefit liabilities	1,730	-0.1%	(6,891)	-0.2%
Total net comprehensive income	**2,346,533**	**100.2%**	**2,984,820**	**100.6%**
Comprehensive income attributable to equity holders of the parent entity	2,346,707	100.3%	2,984,916	100.6%
Comprehensive income attributable to non-controlling interest	(174)	0.0%	(96)	0.0%

2.1.3 Consolidated statement of financial position

ASSETS	31 Dec 2015 PLN thousand	% assets	31 Dec 2014 PLN thousand	% assets
Goodwill	1,506,445	1.4%	769,044	1.1%
Intangible assets	1,393,168	1.3%	868,692	1.3%
Other assets	698,964	0.7%	235,250	0.3%
Deferred acquisition costs	1,154,742	1.1%	712,066	1.1%
Estimated subrogations and salvages	114,229	0.1%	127,262	0.2%
Reinsurer's share in technical provisions	1,096,852	1.0%	753,115	1.1%
Property, plant and equipment	1,299,788	1.2%	1,001,609	1.5%
Investment property	1,171,721	1.1%	2,236,062	3.3%
Companies measured using the equity method	54,065	0.1%	66,311	0.1%
Financial assets	89,305,847	84.7%	56,759,976	84.0%
Financial instruments held to meturity	17,370,126	16.5%	19,983,689	29.6%
Financial instruments available for sale	7,744,689	7.3%	2,985,322	4.4%
Financial instruments measured at fair value through profit or loss	20,648,403	19.6%	19,096,484	28.3%
Derivatives	139,578	-	-	-
Loans and receivables	43,403,051	41.2%	14,694,481	21.7%
Deferred tax assets	349,189	0.3%	26,957	0.0%
Receivables, including insurance receivables	3,270,793	3.1%	3,085,432	4.6%
Current income tax receivables	67,295	0.1%	368	0.0%
Cash and cash equivalents	2,439,863	2.3%	324,007	0.5%
Assets held for sale	1,506,048	1.4%	606,610	0.9%
Total assets	**105,429,009**	**100.0%**	**67,572,761**	**100.0%**

EQUITY AND LIABILITIES	31 Dec 2015 PLN thousand	% assets	31 Dec 2014 PLN thousand	% assets
Equity				
Issued share capital and other equity attributable to the equity holders of the parent entity	12,923,719	12.3%	13,166,336	19.5%
Share capital	86,352	0.1%	86,352	0.1%
Other capitals	10,141,607	9.6%	9,885,791	14.6%
Unappropriated profit	2,695,760	2.6%	3,194,193	4.7%
Retained earnings	353,405	0.3%	226,462	0.3%
Net profit	2,342,355	2.2%	2,967,731	4.4%
Non-controlling interest	2,255,188	2.1%	1,292	0.0%
Total equity	**15,178,907**	**14.4%**	**13,167,628**	**19.5%**
Liabilities				
Technical provisions	41,280,321	39.2%	40,166,885	59.4%
Provisions for employee benefits	117,398	0.1%	120,070	0.2%
Other provisions	108,109	0.1%	191,206	0.3%
Deferred tax liabilities	509,157	0.5%	398,433	0.6%
Financial liabilities	44,487,823	42.2%	9,403,244	13.9%
Other liabilities	3,678,011	3.5%	3,819,511	5.7%
Current income tax liabilities	69,283	0.1%	53,770	0.1%
Liabilities directly associated with assets held for sale	-	0.0%	252,014	0.4%
Total liabilities	90,250,102	85.6%	54,405,133	80.5%
Total equity and liabilities	**105,429,009**	**100.0%**	**67,572,761**	**100.0%**

2.2 Selected financial ratios

	2015	2014	2013
Sales profitability ratio	12.8%	17.6%	20.0%
= Net profit (loss) / Gross written premium			
Profitability ratio of investment activity	2.4%	4.9%	4.5%
= Investment income / Average investments' value			
Gross loss ratio	69.2%	72.5%	67.9%
= (Gross claims and benefits paid + change in gross provision for outstanding claims) / Gross earned premium			
Net loss ratio	68.2%	70.3%	68.7%
= (Net claims and benefits paid + change in net provision for outstanding claims) / Net earned premium			
Premium retention ratio	98.0%	97.9%	98.4%
= Net written premium / Gross written premium			
Claims retention ratio	96.5%	98.4%	99.7%
= Net claims and benefits paid / Gross claims and benefits paid			
Acquisition cost ratio	15.4%	13.4%	12.4%
= Acquisition costs[1] / Net earned premium			
Administration cost ratio	9.0%	9.0%	8.5%
= Administration costs / Net earned premium			
Net operating expenses ratio	23.2%	22.4%	21.1%
= General insurance costs[2] / Net earned premium			

[1] Acquisition costs include accrued amounts without the change in deferred acquisition costs.
[2] General insurance costs include acquisition costs (with change in deferred acquisition costs) and administration costs.

3 Detailed report

3.1 Accounting principles

The Parent Company maintains current documentation describing the accounting principles applied by the Group and adopted by the Management Board of the Parent Company.

The accounting principles are described in Note 5 of the additional information and notes to the consolidated financial statements to the extent required by IFRS.

In view of the fact that not all entities being part of the Group apply common accounting principles consistent with the accounting principles applied by the Parent Company, appropriate adjustments to the financial statements of those entities were made to ensure consistency with the accounting principles applied by the Parent Company.

The financial statements of the entities included in the consolidated financial statements were prepared at the end of the same reporting period as the financial statements of the Parent Company.

3.2 Basis of preparation of the consolidated financial statements

The consolidated financial statements of the Group were prepared in accordance with IFRS and other applicable regulations.

The consolidated financial statements were prepared on the basis of the consolidation documentation.

3.3 Method of consolidation

The method of consolidation is described in Note 5.2 of additional information and notes to the consolidated financial statements.

3.4 Goodwill arising on consolidation

The method of calculating goodwill arising on consolidation is described in Notes 2.4, 5.4, 6.2.2 and 26 of additional information and notes to the consolidated financial statements.

3.5 Consolidation of equity and calculation of non-controlling interest

The share capital of the Group is equal to the share capital of the Parent Company.

Other equity items of the Group are determined by adding the equity balances of subsidiaries included in the consolidated financial statements in the proportion reflecting the Parent Company's share in the subsidiaries' equity as at the end of the reporting period to the corresponding positions of the equity of the Parent Company.

Only equity of subsidiaries arising after the Parent Company obtained control of the subsidiary is included in the equity of the Group.

Non-controlling interests in subsidiaries included in the consolidated financial statements were determined based on the non-controlling interests' share in the subsidiaries' equity as at the end of the reporting period.

3.6 Consolidation eliminations

Intercompany balances within the Group were eliminated on consolidation.

Sales between entities and other intercompany operating revenues and expenses and financial revenues and expenses were eliminated on consolidation.

The relevant data for consolidation eliminations was based on the accounting records of subsidiaries consolidated on the full consolidation basis, which have been subject to an audit or other revision procedures, and agreed with information received from the subsidiaries.

3.7 Notes to the consolidated financial statements

All information included in additional information and notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory information, is, in all material respects, presented correctly and completely. This information should be read in conjunction with the consolidated financial statements.

3.8 Report of the Management Board of the Parent Company on the Group's activities

The report of the Management Board of the Parent Company on the Group's activities includes, in all material respects, the information required by article 49 of the Accounting Act, by 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 information required by the law of a non-Member State (Official Journal from 2014, item 133) and Attachment No. 6 to the Decree of the Minister of Finance dated 28 December 2009 on specific accounting principles in insurance and reinsurance companies (Official Journal from 2009, No. 226, item 1825) and the information is consistent with the financial statements.

On behalf of 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.

Warsaw, 14 March 2016

Management's Report of PZU for the year 2015

01

1 Brief description of PZU

Powszechny Zakład Ubezpieczeń Spółka Akcyjna (“PZU”, “Issuer”, “Company”) is one of the largest insurance institutions of non-life insurance in Poland with market share of 31.2%[1] and one of the largest insurance institutions of in Central and Eastern Europe.

PZU stands on the forefront of PZU Group (PZU Group, the Group).

The operations of PZU are focused on the 3 business segments: Insurance, Investments, and Healthcare where the Company operates via its subsidiaries.

PZU values, goals, and aspirations

“We ensure peace of mind looking into the future”

PZU aspiration is to gain advantage over its existing and potential competitors by constantly strengthening its market position as a result of the focus on the client satisfaction and loyalty.

PZU values

Three underlying values of PZU are the following: Transparency, Innovations, and Efficiency. They serve as basis of the PZU’s relations with clients, shareholders, employees, and all interested parties.

Transparency – No fine print

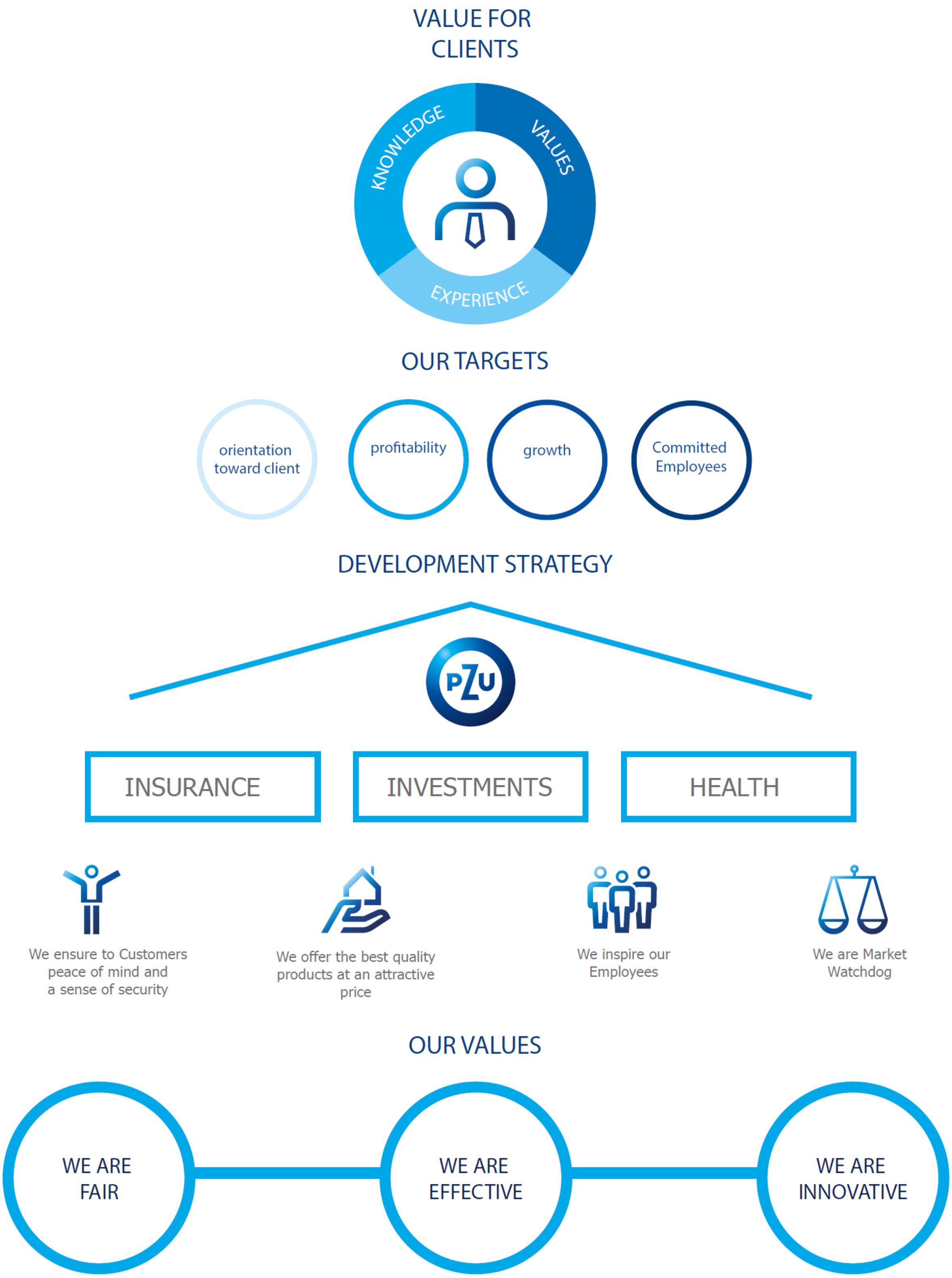
PZU offers to its clients products with no fine print – there are no hidden charges or understated limitations and exclusions of liability. The terms and conditions of products offered by PZU are provided in a clear and understandable language. This helps to avoid any misunderstandings and make sure that the client knows what to expect in the process of fulfilling obligations by PZU.

Innovations

In the light of dynamically changing environment, growing expectations of the clients and stronger competition, PZU is constantly striving for improving its offer and internal processes. The Strategy of Innovation was implemented in PZU Group to ensure that our long-term goals for 2015 and known and understood by everyone in our organization.

Our Strategy of Innovation focuses on promoting cultural patterns that facilitate innovation, including openness to change, thinking outside the box, and creating a space for experiments, with a strong accent on a “try and test” method that allows for new operating methods, and – as a result – new proposals for our clients. We follow the Strategy i.a. by recruiting right personnel who do their best to challenge existing patterns of behavior and old processes, while working on achieving long-term business goals. At the same time, a process of evaluating innovative processes was put in place. The assessment is carried out by means of introducing measures, such as the number of innovations in total volume of presented ideas, or the number of innovations realized versus the total number of innovations, the value of savings and additional income gained as the result of implementing innovative solutions.

[1] PZU’s share calculated taking into account PZU’s inward reinsurance towards Link4

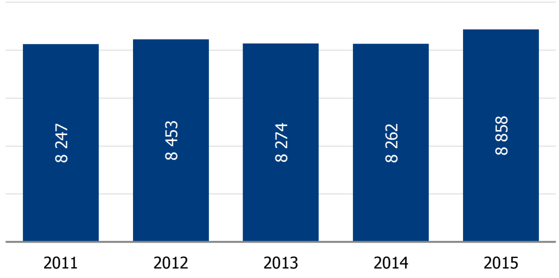

VALUE FOR CLIENTS
KNOWLEDGE
VALUES
EXPERIENCE
OUR TARGETS
orientation toward client
profitability
growth
Committed Employees
DEVELOPMENT STRATEGY
PZU
INSURANCE
INVESTMENTS
HEALTH
We ensure to Customers peace of mind and a sense of security
We offer the best quality products at an attractive price
We inspire our Employees
We are Market Watchdog
OUR VALUES
WE ARE FAIR
WE ARE EFFECTIVE
WE ARE INNOVATIVE

Innovative products set new market standards. Since 2015, several PZU branches provide customer service in sign language. In 2014, PZU was the first insurance company to introduce direct claims handling process. While using PZU services, the clients can take advantage of a modern fleet that consists of 300 replacement hybrid vehicles. By promoting ecological solutions in the claims handling process, PZU offers to its clients an option to receive and keep a free bike instead of using a replacement car. With our corporate clients in mind, PZU Lab was established which helps the clients improve their risk management processes and enables them to decrease a possibility that the events covered by the insurance policy will take place, which in turn lowers the policy's price. PZU serves as a "market watchdog" and the state-of-the-art products it offers set exceptionally high standards in the field of client relations.

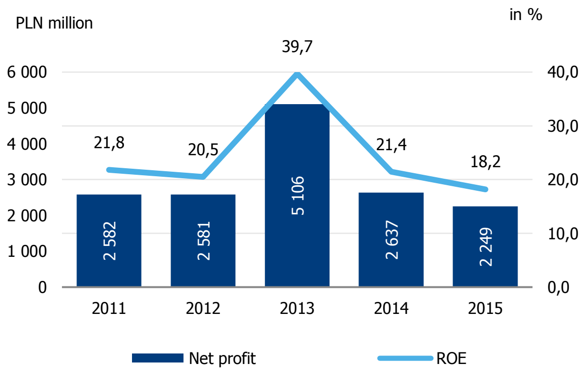
Efficiency

Operational efficiency is an indispensable condition for building a competitive market offer, as well as fulfilling PZU obligations towards its shareholders, employees, suppliers, and other business partners. One of the key projects that aim at increasing operational efficiency is the Everest platform – a system that has been implemented since 2014 in non-life insurance. High operational efficiency, along with the wide scope of business, enable PZU to achieve cost efficiency at the level which is inaccessible to other market participants. By combining exceptional cost efficiency with innovative offer, PZU serves as a "market watchdog" – an industry leader that ensures high standards of the market offer.

Gross written premium (PLN million)



Net profit (PLN million) and ROE (%)



Clients

Almost 16 milions clients in Poland use products and services of PZU (and PZU Życie). The 2015 surveys showed that the satisfaction level among PZU clients who benefited from claims handling by PZU or received payment of benefits from PZU Życie within the last 12 months was 7 p.p. higher than that of the competition. The Net Promoter Score (NPS) among the clients of PZU (and PZU Życie) was 11%[2].

PZU is consequently trying to stay close to its current and potential clients – to their needs, ambitions, and aspirations. All undertaken activities – from insurance product concepts, through customer communication channels, to the activity in scope of Social Business Responsibility, are designed to adapt PZU's offer to demands of its clients as closely as possible. PZU aims to address demands as best as it can at every level of mutual relations – from the choice of insurance products, through preferred communication and sales channels, to issues associated with claims handling and benefits payments.

[2] Monthly survey carried out by GFK Polonia at the request of PZU. Presented data constitute an accumulated result of monthly assessments from January to December 2015

PZU applies Big Data tools and methods in its activity to support segmentation and profiling of the clients (both individual and corporate), identification of factors contributing to client resignations, or improved handling of customer demands through application of prediction models.

the Group pays high annual dividends, which compose a considerable TSR component, according to the preferences of its shareholders.

KPI	2015	2014	2013	2012	2011
ROE	18.2%	21.4%	39.7%	20.5%	21.8%
Combined ratio (COR)	93.2%	94.7%	87.3%	92.3%	94.9%
*Dividend yield**	8.8%	7.0%	11.1%	5.1%	8.4%

** Advance dividend calculated in the payment year*

Product Offer

PZU's offer is the most extensive insurance offer on the Polish market. It covers over 200 types of insurance products addressed to all Customer Segments.

Sales and customer service channels

An important element of the PZU's offer is the biggest network of own branches and other options for communication between the clients and PZU on Polish market. Besides 414 own branches, PZU offers over 6,500 exclusive agents, over 3,100 multiagencies, almost 1,000 insurance brokers, direct channels (internet, call centre), and a sales network of 8 partner banks and 6 other strategic partners.

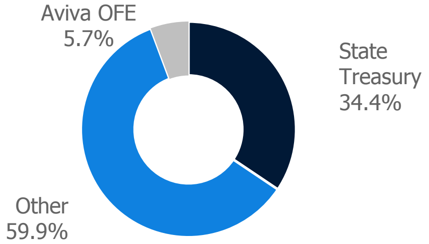
Value for shareholders

PZU has been quoted on the Warsaw Stock Exchange since 2010. The value of PZU's first public offer (IPO) PZU was almost PLN 8.1 billion. It was the biggest IPO in the history of the Polish capital market, the biggest offer in Central and Eastern Europe from the beginning of the economic transformation, and the biggest IPO in all of Europe since 2007.

The key shareholder of PZU is still the Ministry of the State Treasury, which represents 34.4% of the share capital. The remaining shareholders are both Polish and foreign institutional investors (various investment and pension funds) and an extensive group of individual investors (in IPO alone, PZU shares were acquired by over 250 thousand individual investors).

The main ratio serving to measure the effectiveness of the Group's value building used in communication with the capital market is TSR (*Total Shareholder Return*). Due to the care for generation of high free cash flows,

PZU shareholding structure as at na 31.12.2015*



**as per the Current Report 3/2016*

In 2015, PZU paid almost PLN 2.6 billion as dividend for the dividend rate of 8.8% (calculated from the share price at the end of 2015, i.e. PLN 34.0 – before stock split). Since its IPO, PZU has already paid out nearly PLN 15 billion in dividends, while the total shareholders return (TSR) from investment in PZU shares amounted to 64.2%.

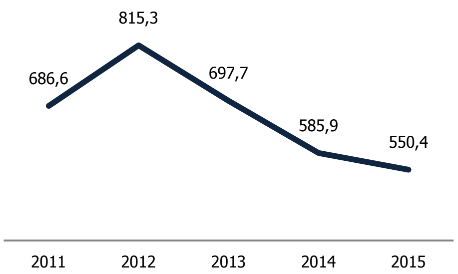
Strong capital position

PZU holds exceptionally high capital security ratios in comparison to other insurance groups. And so, in accordance with the regulations of Solvency I, PZU held a 550.4% ratio of solvency margin coverage with own funds at the end of 2015.

As of 1 January 2016, the Act on Insurance and Reinsurance Activity of 11 September 2015 introduced new capital requirements – Solvency II – into the Polish legal systems. In accordance with the new act, calculation of the capital requirement is based on the following risks: market, underwriting (insurance), counterparty insolvency, catastrophe, and operating. PZU has not published the result concerning the solvency margin pursuant to Solvency II as per units. As per the estimates at the end of the third quarter of

2015, the solvency ratio (calculated according to the Solvency II standard formula) for PZU Group was assessed at a level of 296.1%[3]. Ratios as high as these place PZU Group among insurance groups with top capital strength.

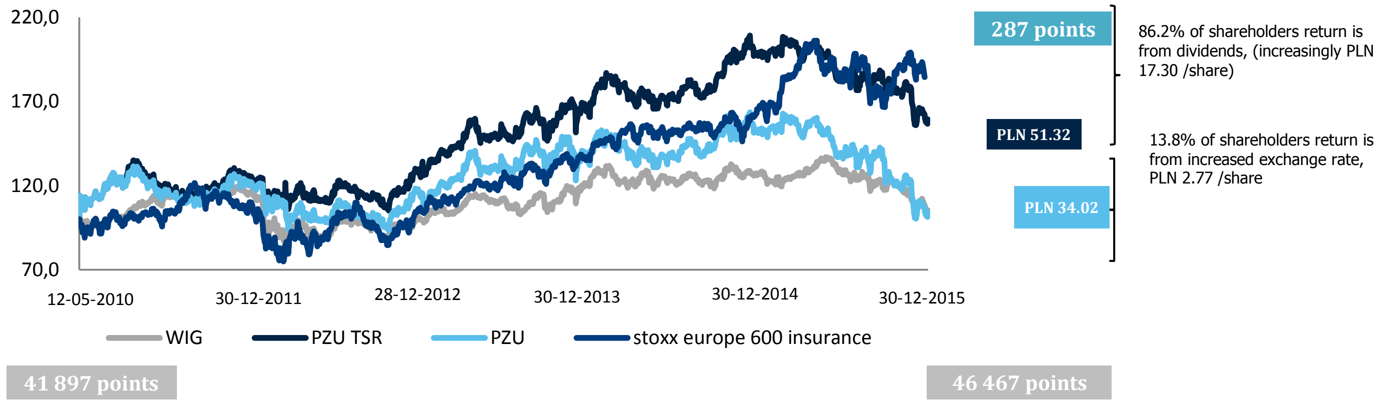
Solvency as per Solvency I (in %)



Since 2009, PZU is subject to regular ratings by Standard & Poor's. On 21 January 2016, Standard & Poor's rating of PZU was lowered from A to "A-" with negative rating outlook. The decision to lower the rating of PZU resulted from the lowering of Poland's rating from "A-" to "BBB+" with "negative" outlook one week before and had no association with the situation of the company, the activity of which presents a very high capitalization and security level. According to the rating methodology, PZU's rating can only be one grade above that of its country, therefore the maximum possible S&P rating for PZU is "A -".

[3] Data not subject to audit

PZU share prices since its IPO on WSE (12.05.2010=100) until 31.12.2015



PZU TSR – total shareholder return, includes the dividend paid by PZU

Main financial data of PZU for 2011–2015 (PLN milion)

Data from the profit and loss statement	2015	2014	2013	2012	2011
Gross written premiums	8,858	8,262	8,274	8,453	8,247
Net earned premiums	7,898	7,903	8,108	8,277	7,906
Net claims and benefits	5,037	5,231	5,047	5,473	5,387
Acquisition expenses, including reinsurance commission	1,571	1,523	1,367	1,495	1,485
Administrative expenses	754	729	663	676	634
Technical result	636	564	1,062	640	332
Net investment income	2,024	2,568	4,633	2,473	2,844
Gross profit (loss)	2,476	2,855	5,391	2,924	2,742
Net profit (loss)	2,249	2,637	5,106	2,581	2,582
Total assets	36,358	34,630	30,137	29,913	27,398
Financial assets	32,356	31,031	27,609	27,591	24,883
Equity	12,379	12,329	12,260	13,453	11,745
Technical provisions	17,540	16,861	15,913	14,933	13,895

The most important events in 2015

Non-life insurance	Gross written premium at PLN 8,858.0 million, a 7.2% raise in relation to 2014. Growth of premium in motor insurance resulting from inward reinsurance agreements concluded with newly acquired subsidiaries. Leader on the Polish non-life insurance market with share of 31.2%[4] (after 3 quarters of 2015). Market leader with a share of 35.6%[4] on the motor insurance market (after 3 quarters of 2015).
Infrastructure	Completed stage I of implementing the new Everest IT system for non-life insurance policies. Providing the system to almost 19 thousand target users. Launch of direct claims handling for PIU settlements. Creation of own fleet of replacement cars used for claims handling purposes composed of 300 hybrid vehicles.
Human resources management	Average annual employment of approximately 7.8 thousand employees calculated as FTEs. Employment restructuring in PZU and PZU Życie. VI place in the Employer of the Year ranking organized by AIESEC. Implementation of the Innovation Strategy – promotion of pro-innovation cultural models. Extensive training and development program for employees - SmartUp, TalentUp, MBA.
Financial results and safety of operations	Net profit at PLN 2,248.5 million, i.e. 14.7% lower than in 2014, mainly due to the lower dividend from PZU Życie. Return on equity 18.2% – a decline of 3.2 p.p. compared with 2014. Dividend payment from PZU profit in 2014 PLN 2,590.6 million. Maintenance of solvency ratios which are higher than the average for the sector.

[4] PZU's share calculated taking into account PZU's inward reinsurance towards Link4

02

2 The external environment in 2015

Contents:

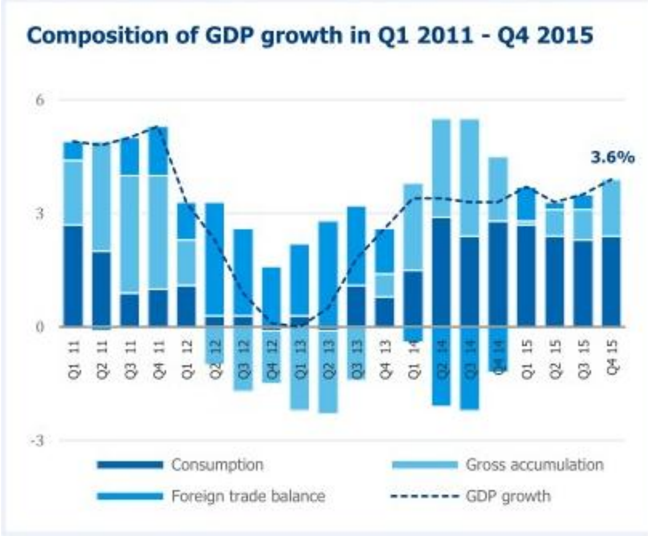
2.1 Main trends in the Polish economy

Gross Domestic Product

The real GDP growth in Poland in 2015 reached 3.6%, compared with 3.3% year-on-year. The quarterly GDP growth pace remained at the level of 3.3%–3.9% year-on-year.

Domestic demand continued to be the key factor contributing to the economic growth, even though it grew less rapidly than in 2014 (3.3% vs. 4.9%). Improved situation on the labor market, as well as relatively stable real remuneration growth accelerated the dynamics of household consumption to 3.1%, compared with 2.6% in 2014. Savings increased as well. The pace of household consumption growth was exceptionally stable in 2015. The public consumption growth slightly decreased and reached 3.5% versus 4.9% in 2014. In 2015, growth of investments in tangible assets was lower than in the previous year – approximately 6.1% compared with 9.8%. Good financial condition of enterprises along with steady economic growth, relatively stable capacity utilization level, high availability and low cost of credit jointly created favorable conditions for investment development. On the other hand, uncertain forecasts on demand and increased volatility on financial markets induced the companies to remain prudent. At the same time, weakened public investment dynamics may have resulted from entering in a transitory period between two European Union financial perspectives, i.e. for the years 2007–2013 and the years 2014–2020. Unlike in 2014, the change in inventories adversely affected domestic demand and GDP dynamics in 2015.

In 2015, export grew slightly more dynamically than import. As a result, the impact of net export on GDP growth in 2015 was only slightly positive (0.4 p.p.), whereas in 2014 the net export decreased the real GDP growth by 1.5 p.p.



The labor market and consumption

Favorable tendencies were observable on the labor market in 2015. The recorded unemployment rate systematically dropped to reach the lowest level since the end of 2008 (9.8% in December compared with 11.4% at the end of 2014.) In 2015, the average monthly employment in the enterprise sector grew by nearly 77 thousand people and its annual dynamics reached 1.4% year-on-year in December 2015 compared with 1.1% year-on-year at the end of 2014.

In the light of deflation, the pressure on salary increases remained limited. The average monthly remuneration in the enterprise sector grew in 2015 by 3.2%, that is the same as the year before. However, due to the dropping consumer price index (CPI), the real salary increase was the highest since 2008. With consideration of the price changes, the average monthly remuneration in the enterprise sector was 4.2% in 2015 in comparison to 3.2% the year before. Similarly to 2014, remuneration in the enterprise sector in 2015 grew faster than in the state-budget units. The average monthly real dynamics of the remuneration fund in this sector in 2015 was on average 5.6% year-on-year and was the biggest in 7 years. The real growth of disposable gross remuneration was also considerably larger than in 2014. The consumer financial condition indicators also systematically improved. The consumer sentiment index prepared by the Polish Statistical Office (GUS) was the highest since 2008.

The improving financial situation of households and more favorable labor market contributed to a growing consumption and savings of households. The individual consumption dynamics accelerated in 2015 to reach 3.1% compared with 2.6% year-on-year.

Inflation, monetary policy and interest rates

In 2015, CPI was lower by an average of 0.9% annually. After hitting the minimum in February (-1.6% year-on-year), the annual CPI was slowly dropping to reach -0.5% year-on-year towards the end of the year.

Decrease in consumer prices resulted mainly from global processes – global prices of oil and other resources strongly dropped, food prices remained low, and so did the inflation level in Poland's key trade partners. At the same time, no demand pressure on price growth was observable in the country, while production price decreased and limited remuneration pressure continued. Net inflation (CPI excluding food and energy prices) amounted in 2015 to an annual average of only 0.3% compared with 0.6% in 2014.

In such conditions, in March 2015 the Monetary Policy Council lowered interest rates by 50 bps, including the reference rate, which was decreased to 1.5%. The decision was justified with prolonged deflation and higher risk of inflation remaining significantly below the target in the medium term. The Monetary Policy Council also pointed that the process of monetary policy easing has been completed. No changes in interest rates were introduced till the end of the year. As per the Monetary Policy Council assessments dated December 2015, the National Bank of Poland's decision to leave the interest rates at the hitherto level resulted in the fact that the Polish economy continued to grow sustainably and macroeconomic balance was maintained.

Public finance

Originally, the 2015 budget provided for a deficit of PLN 46.08 billion. In December, the original budget was amended to increase the deficit planned for 2015 to PLN 49.98 billion. This amount is much higher than PLN 29.98 billion recorded in 2014.

Poland had no difficulties in acquiring market financing. At the end of 2015, approximately 20% of borrowing needs planned for 2016 had been financed.

2.2 Financial markets situation

A number of events that had a considerable impact on the financial markets took place in 2015. In late January, the European Central Bank announced its quantitative easing program and begun to buy treasury bonds of Eurozone states. Consequently, the German 10-year bond yields were decreasing in subsequent months to the lowest historical levels, and temporarily amounted to less than 0.1%. Simultaneously, stock exchange indexes were exceptionally high. Both shares and treasury bonds were more expensive also on the Polish market.

The expected increase of interest rates by the US Federal Reserve in 2015, contrasted with an extraordinary easing of monetary policy in the Eurozone, resulted in a significant strengthening of US dollar versus the common European currency. Different monetary policy and approach to economic perspectives in the Eurozone and the USA contributed to a larger difference between the German and US 10-year treasury bond yields that reached the highest level in years.

The release of Swiss franc exchange rate by the Swiss central bank in mid-January was another significant event in early 2015. The minimum EUR/CHF exchange rate of 1.20 was abolished. This decision resulted in a rapid strengthening of the Swiss currency also versus the PLN.

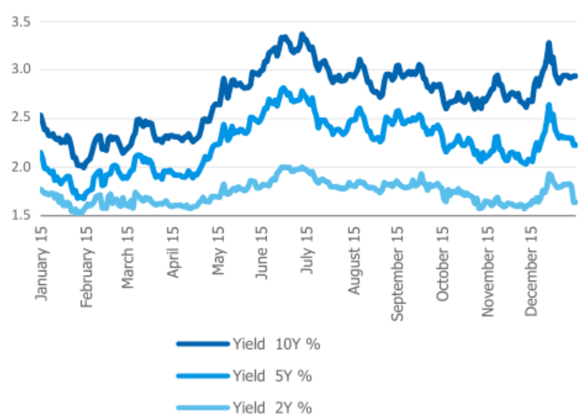
The Monetary Policy Council's decision to lower the National Bank of Poland reference rate to 1.50% in March 2015, which ended the monetary policy easing cycle, was exceptionally significant for the Polish treasury bonds with shorter maturity periods.

In late April and early May 2015, situation on the financial markets begun to change fundamentally. Prices of shares and bonds started to drop, especially in Europe. Quieting down the fears of strengthening deflation in Eurozone contributed to a change on the interest rate market. A higher risk aversion on financial markets, e.g. due to the problematic situation in Greece and the Russian-Ukrainian conflict, adversely influenced the situation on stock market. The tension escalated in late June 2015 when the Greek Prime Minister A. Tsipras held a referendum on accepting the terms and conditions of the aid scheme for the country.

Following significant fluctuations in the first half of 2015, the Polish 10-year treasury bond yields reached the lowest and the highest level in the year at the same time. They first dropped from 2.54% to 2.00% in late January and then increased to 3.37% at the end of June. In late April and early May, the WIG index exceeded the value of 57 thousand points, growing by nearly 12% since the end of 2014. The bond rate drop in the second half of May and June significantly removed the increase they had recorded before.

Three key issues influenced the financial market trends in August and September 2015. First of all – the situation in China where the prices on the stock market collapsed in mid-August 2015 to cause strong global turbulence. Secondly – a possibility that the European Central Bank would extend and

Treasury bond yields in 2015

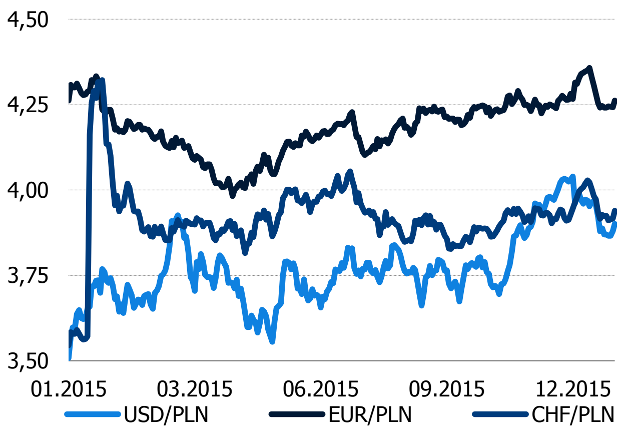


prolong quantitative easing scheme which was due to finish by September 2016. Thirdly – it was expected that the Federal Reserve would decide on the potential interest rates increase in the USA, which eventually did not take place in September.

In Q3 2015, the gradient of the Polish yield curve significantly dropped and flattened. Externally, low yields were maintained as a result of monetary policy applied by ECB and Fed, which proved milder than expected. What is more, a persistently low inflation in Poland and expected result of Polish production suggested that mild monetary policy in Poland would be maintained.

That period proved unfavorable for the stock market. Share prices decreased not only in Poland, but also globally. Initially, the decreases resulted mainly from concerns related to the situation of Greece. They grew stronger along with the deteriorating economic and market situation in China and their potential implication for the global economy, especially "emerging markets". An additional burden for several companies on the Polish market – especially from the banking sector – were the media announcements of potential statutory changes, which might have negative effects on such companies' operations (including the so-called financial institution assets tax) and were likely to be introduced after parliamentary elections in October 2015. REGULATIONS ON THE INSURANCE AND FINANCIAL MARKETS IN POLAND SECTION 2.3

PLN rate in 2015



Decreases in WSE indexes escalated in the last months of 2015. WIG20, an index of the largest companies, reached nearly 1700 points for the first time since 2009. After the peak in May, WIG dropped by nearly 24%. Several factors contributed to that situation. The US central bank increased in December the federal funds rate by 25 bp.

That had been the first increase since 2006. The European Central Bank eased its monetary policy in December; however, the easing's scale was narrower than expected by the market. At the same time, the concerns related to the situation on emerging markets grew stronger. Raw material prices were going down. External risks and announcement of regulatory changes to affect e.g. the banking sector proved to be an additional burden for the Polish stock market, especially the WIG20 index.

The same factors had a strong influence on the Polish treasury bond market and led to the Polish yield curve growing steeper. In Q4 2015, the Polish 10-year treasury bonds yields slightly increased. At the same time, interest rates in Poland were expected to decrease, which led to a lower yield for bonds with shorter maturity dates.

Finally, in entire 2015 the Polish one-year treasury bonds yield dropped by approximately 30 bps to around 1.50%. Five and ten-year bonds yield increased by approximately 10 and 40 bps, respectively. A difference between 10-year and one-year bonds yield increased by around 70 bps. Correlation between the yield in Poland and yields on key global markets, such as Germany or the USA, remained high.

At the same time, WIG20 stock index dropped by nearly 20%, whereas WIG decreased by less than 10% in 2015.

The currency market in 2015 was dominated by the trend of the strong appreciation of the US dollar to the euro, which was, however, less clear than in 2014. Still, the euro lost as much as 10.2% to the US dollar. The PLN to USD exchange rate also changed – the dollar cost 11.2% more than at the end of 2014. The PLN significantly weakened in relation to the Swiss franc and dropped by 11.1%. Yet, the Polish currency remained stable towards the euro.

2.3 Regulations on the insurance market in Poland

2015 was another year to witness intense preparations for implementation of the requirements of Solvency II directive GLOSSARY (Directive 2009/138/EC of the European Parliament and the Council dated 25 November 2009 on the taking-up and pursuit of the business of insurance and reinsurance), which bind insurance and reinsurance companies as of 1 January 2016. The new scheme concentrates on capital requirements and risk borne by insurance and reinsurance companies.

In 2015, there were also ongoing works on the new Act on Insurance and Reinsurance Activity in connection with the implementation of Solvency II.

The Act on Insurance and Reinsurance dated 11 September 2015 – most of the provisions become effective as of 1 January 2016. A *vacatio legis* principle is applied to some provisions (e.g. provisions on contracts on third party's account which come into force on 1 April 2016; from that day, provisions on insurance with insurance capital fund will also apply; a provision allowing insurers to acquire voluntary pension funds directly or via agents will come into effect on 1 August 2016.) The Act has following objectives:

- to introduce a new solvency scheme applicable to insurance and reinsurance companies, similar to the regulations on capital requirements for banks (adaptation of EU provisions of Solvency II) GLOSSARY. The system is founded on the three segments: the first segment specifies capital requirements – higher capital requirements will be applied that will reflect specific risk profile of a given insurance or reinsurance company; the second specifies quality requirements concerning management system and supervision process; the third concerns information obligations of insurance and reinsurance companies.
- to reinforce right of the insured in the contracts on third party's account – especially in group insurance (i.a. an obligation to provide the insured with information on contractual terms and conditions, providing the insured and her/his heirs with information related to the claims handling process).
- to impose on insurance companies an obligation to analyze the needs, knowledge and experience level, as well as financial standing of the policyholder or the insured prior to concluding an investment policy. The clients are also entitled to withdraw from unit-linked insurance contracts for a longer period of time (besides the right to withdraw provided for in the Civil Code GLOSSARY) and at a lower cost (60 days following receipt of the information provided for in the Act, while the maximum early termination fee may not exceed 4% of premiums paid).
- to change the manner of remunerating insurance agents and handling charges for unit-linked products and structured products. While setting the remuneration of the agent, an insurance company should follow the rule of even spreading in time of an insurance agent's commission (in the case of contracts concluded for more than 5 years, the commissions should be spread over a minimum period of 60 months.)
- to grant new entitlements to the Polish Financial Supervision Authority (PFSA) GLOSSARY (a supervisory body may e.g. prohibit or limit trading, distribution, or sale of selected investment policies) The Polish Financial Supervision Authority may also issue recommendations within a scope necessary to implement guidelines and recommendations of European Insurance and Occupational Pensions Authority, as well as to prevent infringement of intersts of insured, policyholders, beneficiaries or entitled under insurance contracts.To maintain an obligatory

participation of insurers in the Polish Chamber of Insurance (PIU) GLOSSARY.

- to introduce a number of regulations concerning strictly operations of insurance and reinsurance companies on the Polish insurance market.

In 2015, the PFSA released recommendations concerning the following fields: flood risk management in the insurance sector, insurance distribution, motor insurance claims handling, reinsurance inwards/ retrocession, IT management and IT security. The recommendations fall under the "comply or explain" rule. Institutions under supervision may not follow the principles included in the recommendations; but if the company fails to implement any of the principles, either permanently or incidentally, it is obliged to inform the market of this fact and justify reasons for non-implementation of a given principle. At the same time, in accordance with its statutory entitlement, PFSA is working on further recommendations, i.a. concerning a product adequacy test and product management system.

The Act on Claims Handling by Financial Market Entities and Financial Ombudsman dated 5 August 2015 contains a number of provisions that increase protection mainly of financial institution clients (banks, insurance companies, pension funds). The Act specifies terms and conditions for handling claims reported by consumers. The Act appoints a Financial Ombudsman, a new function to replace the Insurance Ombudsman. The Financial Ombudsman represents interests of financial institution clients (i.a. she/he will hear clients' complaints and applications, is entitled to impose fines of up to PLN 100 thousand on financial institutions which fail to observe deadlines for claims handling, etc., may lead mediation proceedings, as well as initiate and organize education and information activities related to client rights protection). It needs to be added that it is mandatory for a financial market entity to participate in mediation proceedings.

Apart from the above-mentioned acts, PSFA requirements and works related to implementing the requirements of Solvency II Directive, other regulations were also implemented in 2015, which had or will have an impact on the operations of PZU Group. Some of them are listed below:

The Act on amending the Act on the Protection of Consumers and Competition and Code of Civil Procedures Act dated 10 June 2014, which became effective as of 18 January 2015. The Act introduced several changes to the Polish anti-trust law aimed to strengthen the domestic system for the protection of competition and consumers. The main objectives of the amendments are the following: to improve the detection of competition limitation, the effectiveness of the detection and accountability of entrepreneurs entering illegal agreements, and strengthen the positions of the weaker players on the market. Changes were introduced as to the obligation to notify about the intention of concentration in instances of acquiring control of an entrepreneur or purchasing the property of another entrepreneur.

Amendments to the Act on the protection of consumers and competition and several other acts dated 5 August 2015. The aim of the amendment is i.a. a more efficient combating unfair market practices in financial service sector, i.e. offering a client a product which does not suit his/her needs (so-called *misspelling*.) As per the Act, the President of the Office of Competition and Consumer Protection GLOSSARY, through issuing an administrative decision, will settle on an inadmissible nature of a provision included in a template contract and forbid its further use. The proceedings in this respect are to be conducted by the President of the Office of Competition and Consumer Protection and such a procedure will replace supervision of provisions included in a template contract which had been conducted by the Court of Competition and Consumer Protection. The decision of the President of the Office of Competition and Consumer Protection will be published on the Office's website, whereas the existing nature of a register of prohibited (abusive) clauses will be maintained for a period specified in the Act.

The Act amending the Corporate Income Act, Personal Income Tax Act, and several other acts dated 29 August 2014, which has been in force as of 1 January 2015, amended i.a. the regulations concerning thin capitalization and limited the exemption of revenues acquired from investment-oriented life insurance – structured products. Tax does not apply to revenue from endowment insurance for which a technical rate is applied to establish the technical provision. The Act simplified also the calculation of taxable revenue from premium investment as the difference between the benefit amount and the premium paid to the insurance company.

The Act amending the Act on Crop and Livestock Insurance dated 26 June 2015 provides fruit and vegetable producers with insurance with premiums subsidized from the state budget if insurance companies apply tariff rates higher than 6% of the sum of insured crop. The new provisions take into account amended rules for granting public aid specified in the UE guidelines on the state's aid in agriculture and forestry sector and in rural regions in the years 2014–2020, which refer to the aid in financing insurance premiums. The newly introduced solution is meant to expand insurance protection of crop by a growing number of concluded insurance contracts.

The Act amending Act on Mandatory Insurance, the Insurance Guarantee Fund and the Polish Motor Insurers' Bureau dated 25 September 2015 introduces a provision stating that a claim for compensation resulting from TPL insurance of owners of motor vehicles may be reported exclusively with the court competent for place of residence or register office of the party injured in the event that caused the damage in question, or the court competent for the place where such an event occurred. The aim of the amendment is to limit concentration of court proceedings related with seeking compensation resulting from TPL insurance of owners of motor vehicles.

The Act amending Act on the Financial Market Supervision and several other acts dated 5 August 2015. The aim of the Act is to increase protection of consumers using financial services provided e.g. by consumer credit institutions which are not obliged to hold a PFSA GLOSSARY permit for such operations.

The Act dated 9 October 2015 on amending the Corporate Income Tax Act, Personal Income Tax Act, and several other acts. The Act has been effective as of 1 January 2016 and implements the Polish legal system to the three directives of EU Council: 2014/48/EU dated 24 March 2014, 2014/86/EU dated 8 July 2014, and 205/121/EU dated 27 January 2015. The most important amendments include: with relation to income on sale of securities (tax obligation due to paid sale of securities arises upon making such a transaction), with relation to tax on dividends, a so-called "tax evasion clause" (taxpayer is not exempt from tax on dividend or revenues from share in profit of related entities if the transaction does not reflect economic reality and its objective or one of key objectives was tax evasion or avoidance), with relation to transfer pricing (some taxpayers who enter transactions with related entities will be obliged to prepare substantially extended documentation on transfer pricing), with relation to interest tax (changes in this respect aim to efficiently tax profit on savings in a form of interests paid across borders).

The Act amending Accounting Act and several other acts dated 23 July 2015. New regulations introduce to the Polish legal system Directive 2013/34/EC of the European Parliament and the Council dated 26 June 2013 on annual financial statements, consolidated financial statements and related reports of some entity types. The Act has been effective as of 23 September 2015, except for Article 1 point 1 and Article 5 which came into force on 1 January 2016.

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

Judicial decisions and the Prohibited Clauses Register.

On 9 September 2015, the Supreme Court (File no. III SZP 2/15) issued a resolution where it stated that, when seeking from the insurer claims resulting from TPL insurance of owners of motor vehicles, the injured party who is a natural person that does not conduct business activity is not deemed a consumer within the meaning of Article 24 in conjunction with Art 4 point 12 of the Act on the Protection of Consumers and Competition dated 17 February 2007, in conjunction with Article 22(1) of the Civil Code GLOSSARY. In its resolution III CZ 5/11, the Supreme Court pointed out that "a person injured by the insured (perpetrator) cannot be deemed a consumer as he/she does not conclude an agreement, and filing a claim against perpetrator and using the actio directa rule towards the insurer do not constitute a legal transaction within the meaning of Article 221 of the Civil Code."

The projected legal regulations may have significant influence on insurance and reinsurance operations. Insurance Distribution Directive (IDD) of the European Parliament and the Council. On 24 November 2015, the European Parliament approved Insurance Distribution Directive (IDD). The directive should be soon officially adopted by the Council. Member states will then have 2 years to implement the directive's provisions into their legal systems. During that time, implementing acts provided for in the Directive will be drafted. The new directive will substitute the previous Directive 2002/92/EC of the European Parliament and the Council dated 9 December 2002 on insurance mediation.

2.4 Macroeconomic factors which can affect the operations of the Polish insurance sector and the operations of PZU in 2016

The Polish economy has so far proved resistant to global threats to GDP growth that grew more significant in the second half of 2015. They include, first of all, economic slowdown in China and on key emerging markets and related drop in dynamics of global trade. We assume that the GDP growth in 2016 may turn out only slightly below the 2015 level, even though the end-of-year data let us hope for a better result.

The factors that affect domestic demand, i.e. key driver of GDP growth vs. external threats, are likely to remain favorable. In the second half of 2015, enterprises intensified their recruitment efforts, even though at the end of the year it could have resulted from the plan to apply social security contributions to mandate contracts in early 2016. Real revenues of households are on a solid, stable increase. The unemployment rate continues to fall systematically and the employees' bargaining position is improving. It is therefore expected that the pace of nominal growth of remuneration will accelerate, despite the persistently low inflation rate which favors a milder pressure on salary increase. Taking into consideration a very low inflation, that is likely to be close to zero in 2016, low interest rates, and higher social transfers (the 500+ program), we estimate that the consumption dynamics may reach some 4.0%.

In 2016, the investment level is likely to grow at a solid pace, yet slower than in 2015. The capacity utilization level is relatively high and good financial standing of enterprises and low interest rates will facilitate financing of investments. Moreover, residential housing investments are expected to increase relatively fast. Yet, increasingly negative confidence concerning i.a. demand forecasts, highlighted by enterprise sector, may prove to be a factor that limits investment demand. What is more, the cycle of investment growth in enterprises will be rather advanced in 2016. However, the effects of the new bank tax on crediting the economy are yet unknown. It is expected that investment in infrastructure will grow throughout the year, even though funds granted within European Union financial perspectives 2007–2013 are almost finished and the new projects will enter the implementation phase.

It seems that macroeconomic factors regarding sales of household-oriented insurance may be slightly better than in 2015, taking into account the increase in real income, improving situation on labor market and higher savings. Conditions for corporate insurance sales, implied by the increased GDP and financial standing of companies, may be similar to those observable the year before.

The economic growth in Poland may be negatively impacted mainly by the external situation, mainly by decelerated GDP growth of emerging markets, including China. There is a growing concern that in such conditions the drop in resource prices and tightened monetary policy in the US may lead to a financial crisis in developing countries, where domestic companies have been exceptionally willing to increase their USD debt in the recent years. Uncertainty results also from the situation in Greece, Ukraine, refugee crisis in Europe, and ISIS (Islamic State) operations. No major signs of impact of developing economies on economic growth are at the moment observable both on the US market and in Eurozone, including the German market, that is the most important from Poland's perspective. We expect that the 2016 GDP growth in Eurozone will be at least similar to that of last year. However, provided that the crisis hits emerging markets, a slowdown in Poland's GDP growth is to be expected.

Due to the above-mentioned threats and relatively high risk aversion, we expect that in 2016 prices on the global (and, consequently, Polish) markets will continue to fluctuate. This may have negative impact on investment income. If the weakness of PLN continues, this may result in the higher costs of motor insurance due to growing spare parts prices. The drop in oil prices towards the end of 2015 and in early 2016 caused a significant fall in fuel prices in Poland. As a result, provided that the consequences of PLN weakness are inflationary, sector taxes are introduced and food prices grow, the average annual inflation rate in 2016 can only slightly exceed zero. The low fuel prices may produce a higher claims ratio for motor insurance. We estimate that the new Polish Monetary Policy Council will remain interest rates of the National Bank of Poland unchanged in the next year, even though due to the prevailing low inflation and likely easing of monetary policy by ECB the rates are more probable to be lowered. However, the interest rates will remain low, which will continue to produce a difficulty in achieving a guaranteed rate of return in life insurance.

Forecasts for the Polish economy	2016*	2015	2014	2013	2012
Real GDP growth in % (year-on-year)	3.5	3.6	3.3	1.3	1.6
Increase in individual consumption in % (year-on-year)	3.8	3.1	2.6	0.2	0.8
Increase in gross expenditure on fixed assets in % (year-on-year)	4.9	6.1	9.8	(1.1)	(1.8)
Increase in prices of consumer goods and services in % (year-on-year, year end)	1.1	(0.5)	(1.0)	0.7	2.4
Nominal wage growth in domestic economy in % (year-on-year)	4.5	3.2	3.2	3.7	3.7
Rate of unemployment in % (end of the year)	9.0	9.8	11.4	13.4	13.4
NBP base rate in % (end of the year)	1.50	1.50	2.00	2.50	4.25
Average annual EUR/PLN exchange rate	4.35	4.18	4.19	4.20	4.19
Average annual USD/PLN exchange rate	3.98	3.77	3.16	3.16	3.26

Source: PZU Macroeconomic Analysis Office

*Forecast as at 29 February 2016

03

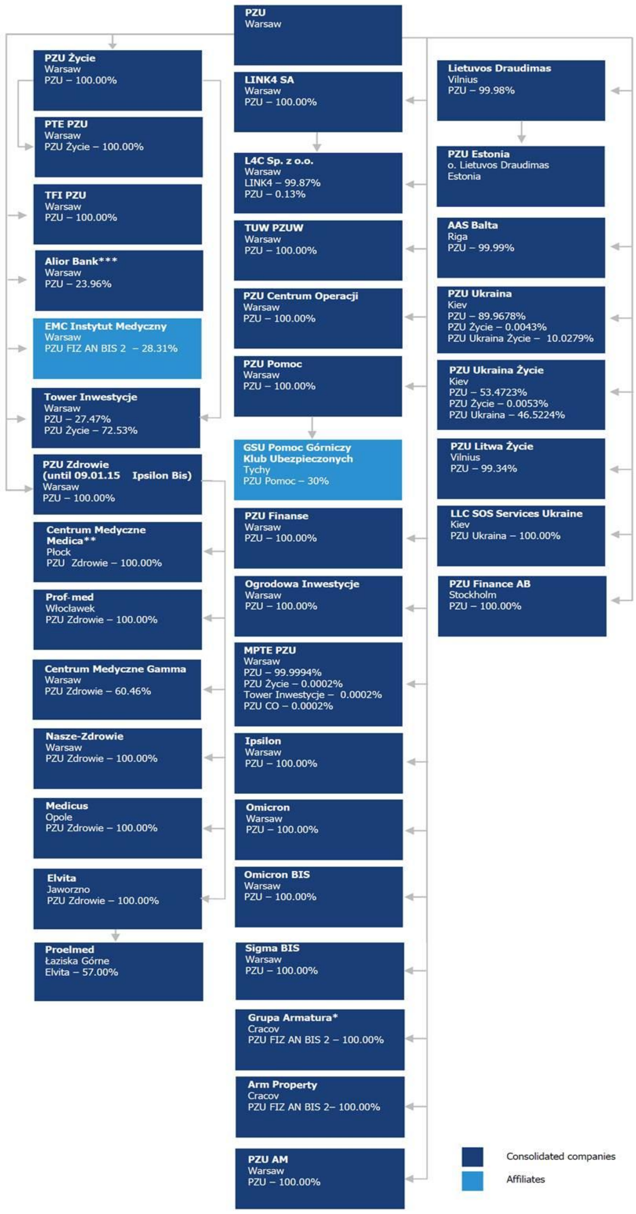
3 PZU's activities

Contents:

3.1 Structure of PZU Group

PZU Group conducts various activities in the area of insurance and finance. In particular, PZU Group's entities provide services in life insurance, non-life insurance, health insurance and asset management for clients within OPF and investment funds.

Structure of PZU Capital Group (as at 31 December 2015)



* Grupa Armatura included the following entities: Armatura Kraków SA, Armatoora SA, Armatura Tower sp. z o.o.(subsidiary company), Aquaform SA, Aquaform Badprodukte GmbH, Aquaform Ukraine TOW, Aquaform Romania SRL, Morehome.pl sp. z o.o.
** Grupa Centrum Medyczne Medica includes the following entities: Centrum Medyczne Medica Sp. z o.o., Sanatorium Uzdrowiskowe „Krystynka" Sp. z o.o. i Rezo-Medica sp. z o.o.
*** Grupa Alior Bank Medica includes the following entities: Alior Bank SA, Alior Services sp. z o.o. , Centrum Obrotu Wierzytelnościami sp. z o.o., Alior Leasing sp. z o.o., Meritum Services ICB SA , Money Makers SA , New Commerce Services sp. z o.o.
The structure does not cover investment funds.

By performing control functions in the supervisory bodies of the companies, PZU – as the parent company – makes key decisions regarding both the scope of activities and the finances of the entities making up PZU Group. The companies provide mutual services both under market conditions and based on the internal cost allocation model (in the scope of the Tax Capital Group) due to the expertise of selected companies and by taking advantage of the Tax Capital Group

Detailed information on changes in the PZU organizational structure have been presented in Management Report of PZU Group WWW.PZU.PL/RELACJE-INWESTORSKIE/RAPORTY-OKRESOWE-BIEZACE/OKRESOWE

3.2 PZU – activity on the Polish non-life insurance market

Market situation

The non-life insurance market in Poland measured by the gross written premium grew by an annual average of 3.6% over the first three quarters of the past 5 years. The non-life insurance market in three quarters of 2015 increased by a total of PLN 471.5 million (+2.4%). The growth of sales of accident and illness insurance (by PLN 257.9 million, +17.6% year-on-year, + PLN 154.2 million of which concerns direct business) and motor own damage insurance (by PLN 180.5 million, +4.6%, + PLN 109.4 million of which concerns direct business) mainly as a consequence of average premium growth, had the greatest impact on the premium growth. Furthermore, there was growth recorded in sales of TPL insurance (by PLN 134.7 million, +8.9%, +PLN 78.7 million of which concerns direct activity) and property insurance (by PLN 107.5 million, +2.5%, including a PLN 166.0 million activity growth on indirect business). The drop in premiums was most visible in insurance of financial losses (drop by PLN 278.0 million, -29.5%, PLN 323.1 million of which concerns direct business), credit and guarantee insurance (drop by PLN 100.0 million, -15.0%, PLN 96.0 million of which concerns direct business), as well as marine, aviation, and transport insurance (drop by PLN 63.9 million, -22.0%, PLN -53.7 million of which concerns direct business).

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

	1 January - 30 September 2015			1 January - 30 September 2014		
	PZU*	Market	Market without PZU	PZU	Market	Market without PZU
Motor own damage insurance	1,642	4,098	2,457	1,492	3,918	2,426
MTPL	2,320	6,169	3,849	1,979	6,088	4,109
Other products	2,663	9,786	7,123	2,684	9,576	6,892
TOTAL	**6,625**	**20,054**	**13,429**	**6,155**	**19,582**	**13,427**

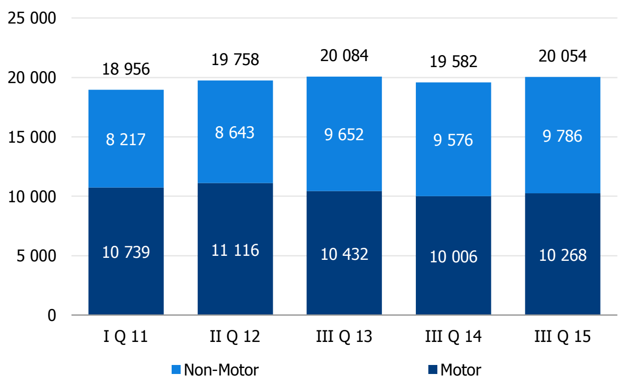
Source: PFSA www.knf.gov.pl. Quarterly Bulletin. Insurance Market 3/2015, Insurance Market 3/2014, PZU data

**including Link4, which contributed to the Group's result from the moment of acquisition, i.e. 15 September 2014*

The whole of the non-life insurance market in three quarters of 2015 generated a net profit of PLN 2.0 billion (drop by 34.2% compared with the same period of the previous year). Excluding the dividend from PZU Życie, the net profit of the non-life insurance market dropped by PLN 0.76 billion (-45.6%). The technical result of the non-life insurance market dropped by PLN 623.5 million, i.e. by 60.2% to the level of PLN 411.6 million. This change was affected to the greatest extent by the drop of the technical result in MTPL insurance (- PLN 446.9 million) as a result of the ongoing pricing competition.

Low profitability in motor insurance in the last three quarters of 2015 could be compared to the lowest results from 2010.

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



Source: PFSA(www.knf.gov.pl). Quaterly Bulletin. Insurance market 3/2015. Quaterly Bulletin. Insurance market 3/2014, Insurance market 3/2013, Insurance market 3/2012,RInsurance market 3/2011, Insurance market 3/2010.

insurance companies, on aggregate, estimated the value of net technical provisions at PLN 41.0 billion, which represented an increase of 2.9% compared with the end of 2014.

Technical results	1 January - 30 September 2015			1 January - 30 September 2014		
	PZU*	Market	Market without PZU	PZU	Market	Market without PZU
Motor own damage insurance	18	(56)	(74)	164	253	88
TPL	(157)	(597)	(439)	107	(150)	(257)
Other products	553	1,064	510	434	932	498
TOTAL	**414**	**412**	**(3)**	**706**	**1 035**	**329**

Source: PFSA www.knf.gov.pl. Quarterly Bulletin. Insurance Market 3/2015, Insurance Market 3/2014

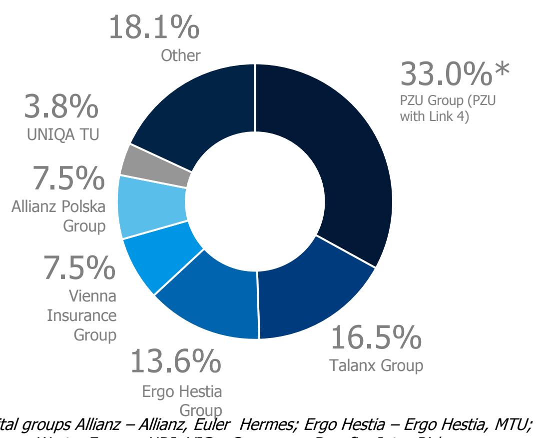
**including Link4, which contributed to the Group's result from the moment of acquisition, i.e. 15 September 2014*

The drop of the technical result in MTPL insurance resulted mainly from the lower earned premium (-PLN 319.2 million, i.e. -5.8%) and higher claims and benefits (+PLN 88.8 million, i.e. +2.0%, while the drop of the result in the motor own damage group stemmed mainly from the higher amount of benefits and claims (+PLN 289.2 million, i.e. +11.4%) and costs of insurance activity (+PLN 45.5 million, i.e. +4.7%).

Simultaneously, a profitability decline was recorded in the insurance for damage caused by forces of nature group (PLN -65.2 million on direct business) and casco insurance for maritime and inland navigation (PLN -25.8 million for direct business).

The value of investments of non-life insurance companies at the end of the third quarter of 2015 (excluding subsidiary investments) was PLN 51.1 billion and rose by 1.0% from the end of 2014. The instruments issued or guaranteed by the State Treasury and local authorities composed 49.8% of the aforementioned investment portfolio. Non-life

Non-life insurance companies - share in gross written premium for 3 quarters of 2015 (%)



Capital groups Allianz – Allianz, Euler Hermes; Ergo Hestia – Ergo Hestia, MTU; Talanx – Warta, Europa, HDI; VIG – Compensa, Benefia, Inter-Risk
Source: PFSA Quaterly Bulletin. Insurance market 3/2015
**PZU' Group's share calculated taking into account PZU's inward reinsurance towards*

PZU's activities

Over the past years, PZU has controlled approximately 1/3 of the non-life insurance market. After three quarters of 2015, PZU had a 31.2%[5] share in the non-life insurance market compared with 31.4% after three quarters of 2014.

PZU had a strong market position in motor insurance (with a share of 35.6%[5]). The share was 38.4%[5] for motor own damage insurance and 33.8%[5] for MTPL.

After the first three quarters of 2015, the share of PZU's technical result in the market's technical result was 110.2%, which, along with the market share of 31.2%, confirms the high profitability of PZU insurance.

PZU offers a wide range of non-life insurance products in all insurance groups. At the end of 2015, PZU's offer included over 200 insurance products. Motor insurance is the largest group of products offered by PZU, both in terms of the number of insurance contracts and the gross written premium.

In the changing conditions and in the face of new needs of the clients, PZU introduced new solutions to its insurance offer in 2015.

In mass client insurance:

- PZU Auto Ochrona Prawna (PAOP, PZU Car Legal Protection) was introduced, under which PZU organizes or covers the costs of protection of the insured party and immediate family's legal interests. PAOP guarantees legal consulting, legal representation, coverage of court costs in cases associated with vehicle possession, including vehicle traffic and use. The insurance comes in two options: Komfort and Super (Comfort and Super);
- PZU Dom (PZU Home) home insurance was made more attractive by introducing additional Legal Protection insurance. Due to the new solution, clients received actual legal assistance for themselves and their relatives in the instances when the tenant refuses to pay the rent, the home improvement crew fails to meet the contract, the seller fails to deliver the goods ordered online, and many others. Similar to the Auto product, the insurance comes in two options: Komfort and Super.

In the Corporate Client Division, 2015 was the first year to witness the operation of a new approach to sales and management, which is associated with the strategic project of transforming the corporate sales model. The implementation of the new solution is planned to translate into development of corporate business in the key areas.

A new product was introduced in the corporate client segment – guarantee of payment for shares purchased as a result of a squeeze-out – this offer is mainly for entities with a strong financial and market position. The first such guarantee covers PLN 700 million.

In the scope of financial insurance for corporate clients, PZU took part in large Polish modernization projects, including the ones in power engineering and infrastructure, by issuing security guarantees. A platform was launched to handle financial liability insurance - PZU Gepard. The platform is designed for corporations and small and medium enterprises insuring financial liabilities at PZU.

PZU cooperated with 8 banks and 6 strategic partners in the scope of protective property insurance in 2015. The partners of PZU are the leaders in their fields and have customer bases with great potential to expand the offer with successive bancassurance and strategic partnership products:

- the cooperation in scope of strategic partnerships concerned mainly the companies operating in telecommunications and energy, which were used to offer insurance of electronic equipment and assistance services;
- the sales of protective non-life insurance in the scope of the bancassurance channel covered mainly the insurance of buildings, structures, residences, and insurance dedicated for payment cards.

Factors, including risks and dangers, which will impact the activities in the non-life insurance sector in 2016

Apart from events of a catastrophic nature (such as floods, drought and spring frost), the main factors which can affect the situation of the non-life insurance sector in 2016 include:

- possible slowdown of economic growth in Poland resulting from deteriorating external conditions. In consequence, the worse financial standing of households can lead to a decline in sales of motor policies (as a result of lower new car sales), lower sales of mortgages and the related mortgage related insurance, as well as lower demand for

[5] PZU share calculated with consideration of inward reinsurance of PZU towards Link4

other non-life insurance. The poorer financial standing of businesses can result in a growth in credit risk and an increase in the level of claims in the financial insurance portfolio.

- the reduction in the development of mortgage campaigns as a result of the introduced asset tax and stricter requirements of Recommendation S GLOSSARY on good practices regarding the management of credit exposures collateralized with mortgages;
- decisions of supreme courts in the scope of monetary compensation from to the closest relative from the TPL insurance of owners of motor vehicles for damage resulting from the violation of his or her personal welfare even if the the damage took place before 3 August 2008;
- • potential raise of claims handling costs resulting from the implementation of further recommendations concerning claims handling by the PFSA;
- raise of spare parts prices with effect on claims handling costs resulting from the successive drop of PLN against the euro;
- implementation of the Solvency II requirements based on risk evaluation from January 2016 may change the operating model of selected areas of the insurance companies on the market (e.g. the pricing policy);
- further regulations or financial burdens imposed on insurers – e.g. a possible reinstatement of the so-called “Religa tax” (i.e. compulsory fee payable to NFZ from every MTPL policy).

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4 Business strategy

Contents:

4.1 Key development directions of PZU Group in the years 2016–2020.

"Strategy is fundamentally management of change"
Prof. Arnoldo C. Hax, MIT Sloan School of Management

Dynamically changing business and legal environment forces the Group to strike a balance between pursuing previously determined strategic operations and searching for innovative solutions by means of thorough data analysis and skillful experimentation.

Development directions of PZU Group in the years 2016-2020:

- Staying client-centric – *We are here to ensure our clients' peace of mind and security. Our Clients can always rely on us.* The Group's mission in practice translates into transforming PZU from a product-centered organization into a company that focuses on the clients' needs;
- Strengthening the position of a leader at the insurance market in Poland;
    - Retail Client Area – maintaining the market leadership by using the comprehensive offer that fits the needs of relevant client segments and the strategy of two brands (PZU and Link4);
    - Corporate Client Segment:
      - (in non-life insurance) strengthening the position of a market leader, especially in Mid-Corpo client segment, and achieving the status of a business partner with strong expertise that provides not only insurance products, but also guidelines and support to the clients at every stage of risk management process;
    - (in life insurance) maintaining the position of market leader along with high profitability, irrespective of strong competition pressure;
- Foreign operations:
    - Dynamic increase in profits generated by foreign operations in PZU Group's profits;
    - Concentration on profitability and achieving high return on investment.
- Development of auxiliary insurance offer by introducing the following:
    - Customer asset management;
    - Health insurance.

The insurance sector undergoes numerous changes and transformations, which result in the insurers focusing on client's needs. The important direction of changes consists in creating products whose terms of conditions are simple and transparent and that the clients can easily compare. Competing under demanding market conditions forces the insurers to endlessly strive to expand and improve through optimizing the applied business models and extensive application of the analytical tools that use *Big Data*.

Further development of PZU Group will progress under conditions determined by the following main trends and factors:

1. Low interest rates

In the next few years, PZU Group will operate in the environment where low interest rate will prevail. The forecasts concerning inflation in both Poland and the Eurozone indicate no considerable probability of the inflation growth to the level of 2% earlier than near the end of the Strategy's horizon. This situation will continue to produce a difficulty in achieving a guaranteed rate of return in life insurance, and also it will have a considerable impact on the formation of the rates of return demanded by the investors, which are possible to achieve by investment and pension funds. MACROECONOMIC FACTORS CHAPTER 2.4

2. Growing regulative requirements

Solvency II

The regulations of the Solvency II directive GLOSSARY establishing the requirements concerning key financial parameters of insurance activity came into effect on 1 January 2016. The new regulations change the way of establishing the capital solvency requirement for insurance companies. According to the new regulations, these requirements will be established separately for insurance (underwriting), market and operating risk. By tightening regulative requirements, the Directive considerably changes the insurance market. Its implementation affects both premium calculation and changes to the internal processes of insurance companies, mainly in the scope of risk management. According to the new regulations, insurers are obliged to report the new extended information scopes to superior institutions and make them public. Resulting from the implemented changes, certain companies will face the need for capital injection or limitation of their operating scope. **REGULATIONS ON THE INSURANCE MARKET IN POLAND CHAPTER 2.3**

Asset tax

The tax on assets of financial institutions came into effect in Poland as of 1 February 2016. For insurers, the tax rate is 0.44% of the collected assets. This tax will cover many insurance companies operating in Poland, but the biggest part of its generated revenue will come from the tax on PZU Group's assets. It is estimated that PZU tax may amount to approx. PLN 150-160 millions. **REGULATIONS ON THE INSURANCE MARKET IN POLAND CHAPTER 2.3**

Changes to the act on insurance activity

The changes to the Act on Insurance Activity also came into effect in early 2016. The implemented changes are mainly oriented towards formation of relations with clients. In this case, the changes will mostly affect life insurers, including the requirement to keep detailed analyses of the client's needs in sales of products with investment capital funds and providing the client with appropriate recommendations and guidelines. The regulations on paying commission to insurance agents have changed, which will lead to changes in the sales of insurance products, especially through agents. **REGULATIONS ON THE INSURANCE MARKET IN POLAND CHAPTER 2.3**

3. Client’s expectations

In recent years, financial products, especially life insurances, became so complicated that clients tend to search for simpler and more transparent solutions, the so-called products without fine print. The products whose structure will be clear and understandable, regardless of the level of clients’ economic knowledge. Product transparency means e.g. a shift from comprehensive solutions combining elements of insurance and investment.

Meanwhile, in the case of non-life insurance products there is a constant pressure on price, which forces the insurers to compete not only on the scope of a basic service, but also the scope of additional services (assistance, direct claims handling, concierge). This requires the insurers to develop both comprehensive and flexible approach to the pricing of offered services.

4. Strong demographic trends and resulting changes in purchasing behavior

The strong demographic trends will lead to quick changes in the age structure of the society and, simultaneously, to the purchasing behavior of the Group’s clients. The number of people aged 60 and up, mostly still professionally active, with broad and diverse needs for all kinds of insurance (including medical insurance) and saving products (asset management) will quickly rise, especially throughout the realization of the main directions of the Group’s development horizon. Simultaneously, there will be more “millennials” entering the labor market with lifestyles, preferences and purchasing behaviors considerably different from their parents. This generation is much more used to all forms of digitalization in various aspects of life (including use of financial and insurance products). This forces the insurers, PZU included, to offer the products, as well as claims and benefits handling, through mobile channels, with the application of internet marketing and social media.

5. Growing importance of digital and mobile channel issues

The next few years are often referred to as the period of “rapid digitalization”. It is expected that extensive use of new digital technologies will be one of the strongest trends up to the year 2020, in the scope of both the projected changes in the operating activity of insurance companies and the formation of their relations with the clients. It is expected that developed markets will see a very quick growth in the number of clients using digital channels to contact insurers within the next five years. Consequently, it will be necessary to adapt relations with the clients, but it will also be easier to decompose the value chain of insurance companies because of the escalated competition and transparent prices. At present, none of the companies operating in the financial sector should neglect remote channels as a form of distribution and client service.

6. Greater potential to adapt to the client’s needs by using *Big Data*

The combination of the rising role of digital channels in client relations and rapidly growing analytical potential creates a unique opportunity for companies operating in the financial sector – especially insurance companies. However, numerous changes in business processes and investments in the solutions allowing for collecting and processing vast amount of data are essential, as well as tools for modeling and analyzing client behavior, which will enable the application of historical data collected by the companies. The use and development of the above-mentioned tools allow for a more effective client segmentation, which in turn translates into a more flexible adjustment of the offer to the needs, as well as optimization of sales and marketing costs of an insurance company.

4.2 Realization of key projects and initiatives in 2015

Poniżej zaprezentowano działania zrealizowane zarówno przez PZU jak i przez spółki z Grupy PZU w 2015 roku:

Realized activities in 2015

Business areas	Summary of the achievements of 2015
Insurance	1. PZU retained the top position on the non-life insurance market. According to PFSA data for the third quarter of 2015, PZU's market share was 31.2%[6] (a drop of 0.2 p.p. year-on-year). 2. Link4's share in the non-life insurance market rose from 1.6% at the end of the third quarter of 2014 to 1.9% at the end of the third quarter of 2015. 3. Retaining the top position in life insurance with regular premium after the third quarter of 2015 with a 43.9% market share (up from last year's 42.9%). Following the third quarter of 2015, PZU had a 29.1% share in the entire life insurance market. 4. PZU Group is still the leader of the Lithuanian and Latvian markets. In 2015, the share in the Lithuanian non-life insurance market was 31.1% and the share in the Latvian market following three quarters of 2015 was 25.1%. In both cases, the market share grew from the previous year. PZU's 2015 share in Estonian market was 13.8%. Both Ukrainian companies improved their market share and positions from the previous year. After three quarters of 2015, the non-life company is in 7th place with market share of 2.7% while the life company is in 4th place with market share of 8.6%, retaining a positive financial result despite the difficult business conditions. 5. The sale of PZU Lithuania was concluded on 30 September 2015. The company was purchased by the Norwegian Gjensidige Forsikring ASA. The final sale price was EUR 66 million. 6. On 3 November 2015, PFSA approved PZU's establishment of TUW – Polski Zakład Ubezpieczeń Wzajemnych. The new entity will provide hospitals with effective insurance coverage based on active risk management.
Investments	1. By the end of 2015, the value of the assets managed by (AuM) TFI PZU was PLN 28.3 billion, which constituted 11.2% of the assets obtained by domestic investment funds, thus placing it second among all companies affiliated under the Chamber of Fund and Asset Management. 2. Growth of managed assets of external clients from PLN 6.0 billion at the end of 2014 to PLN 6.8 billion at the end of 2015. At the end of 2015, the share of assets of external TFI PZU clients in TFI market assets (with exception of non-public assets) was 5.1% (4.7% at the end of 2014). 3. TFI PZU retained the top position in the segment of employee pension programs among all domestic investment fund institutions as it managed assets with value of PLN 3.2 billion (PPE – Employee Pension Plan, PPO – Employee Saving Program, ZPI – Corporate Investment Program) – AuM growth from 6.2% at the end of 2014. 4. The revenue of TFI PZU for 2015 amounted to PLN 172.6 million, a growth of almost 18.1% year-on-year.

6 PZU share calculated taking into account PZU's inward reinsurance towards Link4.

Health	1. PZU Zdrowie was established and received all medical assets (directly or indirectly). 2. PZU Zdrowie purchased shares in the following medical companies: Nasze Zdrowie (2015), Medicus w Opolu (2015), CM Gamma (2015) and CM Cordis (2016); additionally, CM Medica bought REZO-MEDICA (2015). 3. The gross written premium from group health insurance rose by 46% from 2014.

Factors conditioning implementation	**Summary of activity and achievements in 2015**
Effective distribution and customer service	1. Continued implementation associated with the introduction of a new policy system (Everest Platform) to improve PZU's flexibility and competitiveness. In 2015, remaining non-life products and first corporate insurances were introduced. For the most part of 2015, external sales channels (multiagents, dealers, brokers) and remote channels were preparing to work with the new system. 2. Continued implementation of innovative PZU Branches – well-visible and common for the entire Group. In 2015, 45 PZU Branches were activated and 151 Branches operating under the new model have been opened since the launch of the process. 3. Continued work aimed to consolidate and improve the visualization standard of Exclusive Agent offices. In 2015, 635 offices in the new standard were opened. From the start of the project, 866 offices in the new standard were opened. 4. There is ongoing work on the target sales support operating system.
A socially responsible organization	1. In 2015, the key way to promote active lifestyles and health prevention among Poles was PZU Group's involvement in running initiatives. PZU served as the strategic partner of numerous sports events, including the PZU Warsaw Marathon. 2. In scope of activation of local communities, PZU Group organized PZU Trasy Zdrowia – green areas specifically designed for physical exercise – in several municipalities throughout Poland. 3. As a patron of culture, PZU was involved in the preservation of Polish cultural heritage, supporting the Royal Castle in Warsaw, Royal Łazienki Museum, National Museum in Kraków, National Museum in Warsaw, and Grand Theatre—National Opera. 4. In 2015, PZU Foundation realized another edition of the campaign "Kochasz? Powiedz STOP Wariatom Drogowym" (If you love, say STOP to reckless drivers). Its main objective was to improve road safety by promoting responsible attitudes among drivers.
Effective claims handling and operations, flexible IT	1. 84% of PZU Group's clients are satisfied with claims and benefits handling (satisfaction survey on a sample of 4.7 thousand clients conducted in the fourth quarter of 2015). 2. The regulations concerning claims paid from TPL insurance drafted by PIU (Polish Chamber of Insurance) came into effect on 1 April 2015. PZU is the initiator of the Direct Claims Handling program. 3. There was ongoing work aimed to implement the advanced fraud detection

	system. The first implementation of the tool for motor insurance is planned for April 2016. 4. A new human resources and salaries system has been implemented as the first step towards standardization and improvement of HR processes in the whole company. 5. In order to optimize the costs, the next stage of the restructuring program in PZU and PZU Życie has been carried out. On 8 April 2015, the Management Boards of PZU and PZU Życie declared their intention to conduct collective redundancies in accordance with the Act on the specific principles of terminating labor relationships for reasons not attributable to employees dated 13 March 2003. The restructuring took place in the second quarter of 2015. It covered 267 people in PZU and PZU Życie, including the employment reduction which pertained to 134 PZU and PZU Życie employees.
Effective capital and investment policy and integrated risk management system	1. 18,318,473 shares of Alior Bank, which compose 25.19% of the share capital, have been acquired. The total value of the transaction is PLN 1.63 billion. Two of the total projected 3 share tranches were cleared in 2015. The final one was cleared in March 2016. 2. Cooperation has been established with the National Center for Research and Development, which will see PZU Group take part in the setting up of venture capital funds for the sector of new technologies. 3. PZU Finance AB (a 100% subsidiary of PZU) issued eurobonds for the amount of EUR 350 million. The bonds bear interest at a fixed interest rate of 1.375% per year and the interest will be paid once a year. The redemption of the bonds will take place on 3 July 2019. 4. All of the Group's insurance companies were adjusted to fulfill the requirements of the Solvency II directive. 5. In accordance with the GSM decision, the dividend of PLN 2.59 billion, i.e. PLN 30.0 per share before stock split, was paid on 21 October 2015. 6. A split of PZU shares in relation of 1:10 took place on 30 November 2015. The shareholders retained their share in PZU ownership and rights from before the split.

Key strategic goals	Aspirations
Stabilization of financial results	• Profitable insurance business • Active management of investment portfolio • Cost discipline through, among others, fixed costs reduction
Realization of strategy and strategic initiatives	• Expansion of PZU Zdrowie – further development of health insurance offer along with accompanying health care services • Dynamic international expansion regarding insurance • Building the position of a leading company managing assets – surge growth of market share in the asset management in Poland
PZU as the most technologically advanced company in Europe	• Building the best competences on the market regarding Big Data in order to improve product per client (CRM), underwriting and processes • Selling up of an ecosystem enabling effective management of client risk (from counseling to insurance products)

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5 Organization, infrastructure and human resources

Contents:

5.1 Sales and service channels

PZU Group (PZU and PZU Życie) has the largest network of sales and service branches on the Polish market. The organization of the PZU sales network has the objective of guaranteeing sales effectiveness, while simultaneously assuring a high quality of services provided.

At the end of 2015, PZU Group distribution network included:

- exclusive agents – PZU own agency network consisted of 6,554 exclusive agents, including individuals performing agency activities. The agency channel conducts sales of mainly mass client insurance, especially motor and non-life insurance, as well as individual insurance (life insurance);
- multiagencies – 3,161 multiagencies work with PZU Group to make sales mainly to the mass client (this channel is used to sell all types of insurance, especially motor insurance and non-life insurance);
- insurance brokers –- PZU, in particular the Corporate Customer Division, cooperated with 965 insurance brokers;
- PZU employees – thousands of PZU employees sold insurance (primarily to corporate and group customers) at their own branch offices that underwent a makeover in 2014. They are well-advertised, located in attractive venues, have no architectural barriers, and provide convenient access to all clients
- bancassurance and strategic partnership programs – PZU cooperated with 8 banks and 6 strategic partners in scope of protective insurance in 2015. The partners of PZU are the leaders in their fields and have customer bases with great potential. The cooperation in scope of strategic partnerships concerned mainly the companies operating in telecommunications and energy, which were used to offer insurance of electronic equipment and assistance services;
- direct – PZU sells products to individual customers by telephone and over the Internet.

PZU's customers can file claims or contact us:

- via the Internet;
- by telephone via the Contact Centre;
- in person at any branch of their choice;
- in a garage belonging to the PZU Repair Network (in the case of motor claims);
- in the PZU Pomoc mobile office;
- in writing (sent by post, e-mail or fax).

Claims and benefits handling process is conducted at 8 Regional Claims Centers located throughout the country and at the central unit – the Operational Center for Claims and Benefits. Since the process is based mainly on electronic information and the service is performed at a location which is not connected with the place of residence of the insured or the place of the event, the company has implemented the model of an equal workload of individual claims handling units that is automated within the SLS system. The process of handling certain types of claims has been centralized; this results in a higher specialization level and boosts customer satisfaction. The centralization has been introduced i.a. in the following fields: personal claims handling, claims concerning theft of vehicles belonging to individuals, claims handling under the direct claims handling service **GLOSSARY**.

As the first company to start in April 2014 the direct claims handling (BLS) process GLOSSARY on the Polish insurance market, PZU continues to handle claims under that scheme. It realizes it in two forms: individually and under an agreement. By the end of 2015, BLS agreement – drafted by PIU (Polish Chamber of Insurance) GLOSSARY – encompassed eight insurance companies, including PZU, which together represent nearly 70% of the motor TPL insurance measured at gross written premium level. Direct claims handling (BLS) under the agreement was implemented in April 2015. Introducing the BLS agreement helped to simplify the settlement of paid claims and claims handling costs between the insurers based on lump-sum schemes. PZU maintained also its earlier BLS solution for its clients who suffered damage at insurance companies that are not parties to BLS.

Under cooperation contracts concluded with the largest network of companies on the Polish market, PZU provides car rental, towing, and parking services. PZU actively offers its help in organization of the above services to all customers.

PZU was also the first to introduce its own fleet of replacement cars to the insurance market. The offer covers 300 hybrid Toyota Auris cars, which guarantee comfort and safe and ecological use. This provides a high replacement car availability standard according to market rates, which is dedicated for all PZU clients.

In 2015, PZU continued cooperation with garages in the field of post-accident vehicle repairs. The cooperation with PZU Pomoc Repair Network is intended to ensure the highest quality and repair service standards to all customers who suffered damage. Every client that commissions a vehicle repair at a garage within the PZU network receives a Quality Certificate confirming the top quality of conducted works.

PZU continues to develop its offer when it comes to the management of objects that are left after a damage by providing the clients with an option to sell them on the Pomoc Online platform. The clients are offered to sell the remaining parts at the highest purchase bid price by reliable entities cooperating with the platform administrator.

In order to improve the non-life claims handling process, in 2015 the company continued to organize training sessions which followed the British standards of best practice in claims handling addressed to employees handling non-life claims of corporate clients.

For the customer, claims handling process is the moment of truth in contacts with the insurer and an opportunity to test the quality of the purchased product. Satisfying his or her expectations in the claims handling process is the key to building his or her ties with PZU. Therefore, in 2015 extensive measures were taken to improve and shorten the process, such as the implementation of a LEAN culture and the expansion of an automatic and simplified process of claims handling. A process of implementing a Self-handling service was started; the service allows the victim to estimate the amount of compensation in motor and non-life claims and at workshops that repair equipment damaged during overload. Moreover, in 2015 PZU commenced a large-scale introduction of simplified solutions in contacts with clients, e.g. by resigning from traditional letters and a wider use of telephone and electronic communication, but first and foremost by making the language of its correspondence simpler and user-friendly.

Another innovative move was to appoint the Assistance Providers under the name of Organizatorzy Pomocy Poszkodowanym w Wypadkach [Providers of Assistance to Accident Victims]. These are mobile employees who meet with the victims in their houses and determine the actual life situation and the needs related to the accident they suffered from and for which PZU is liable. Provided assistance includes, among others, organization of medical, social, vocational and psychological rehabilitation in a broad sense. Assistance Providers advise on how to adjust place of residence to meet the needs of a disabled person, as well as how to choose proper systems compensating for dysfunctions and disabilities. They also provide assistance in completing all the formalities connected with claims handling. They assist in obtaining benefits and establishing contacts with government institutions (PFRON [National Disabled Persons Rehabilitation Fund], ZUS [Social Insurance Institution], KRUS [Farmer's Social Security Fund], MOPS [Municipal Social Services Center] and MOPR [Municipal Family Support Center]). They also provide psychological support to the immediate family members of the victim.

As an innovation-driven company, PZU provided its clients with an access to a mobile application which allows the insured to select the type of claim handling or accident insurance benefits at any given time. The service was addressed to the clients who often find it difficult to pick up the phone during working hours or need more time to think about the proposed claim payment. The tool allows the insured to easily and conveniently participate in the decision-making process concerning the contribution payment, and speeds us the entire process by a quick contact with the Consultant.

The company is focusing on service improvement, therefore, it strongly appreciates customer feedback. Customer satisfaction surveys are conducted via the application. The customers' replies suggest that the clients are highly satisfied with the change. The insured perceive the change in a positive way and point out to the improved claims handling process and accident insurance benefits.

Another example of a pro-customer activity implemented by PZU in 2015 is a visual representation of claims handling stages in the Online Claim/Issue Status. After logging to his or her claim/issue at www.pzu.pl , the Client can learn how many stages the

PZU claims handling process involves, become familiar with every stage, and check his or her claim/issue status, as well as see which activities have already been realized. Additionally, the client can freely change notification settings concerning his or her claim/issue so that the system sends a status update to a designated email address or phone number.

The www.pzu.pl website features also a video with tips related to online claims handling. Short videos depict PZU employees showing the clients how to quickly file a claim, change its status, or how to use the accident insurance in the case of an accident. PZU – Video tips – Online claims handling

The quality of claims handling process and benefits payment at PZU is highly valued by the clients. At the end of Q4 2015, satisfaction rate reached 84%[7]. Meanwhile, NPS (Net Promoter Score), a recommendation index being the difference between the proportion of promoters and critics participating in the survey for claims handling sector amounted to 20%, while 46% of consumers surveyed indicated that they were active promoters of PZU.

IT and operations

Everest Platform is a state-of-the-art tool that facilitates sales of non-life insurance, assessment of insurance risk, and management of policies and settlement, which has been implemented by PZU since 2014. By using the platform, the Group will be able to distribute information faster, which will enable the agents to better recognize and understand the needs of clients from different sectors. Introducing improved and more advanced solutions to the working environment of the Group's agents and employees, Everest platform helps boost operational effectiveness, which in turn increases possibilities of presenting a competitive offer to the clients.

In 2014, according to the assumed schedule, PZU introduced motor, household, and some property products into the new system. In 2015, remaining non-life products and first corporate insurances were introduced. For the most part of 2015, external sales channels (multiagents, dealers) were prepared to work with the new system. Pre-implementation and information meetings for future users of the Everest platform, as well as training to prepare staff for working with the systems, were held in all external sales channels. Pilot programs were initiated to test if the conditions for smooth and timely implementation have been met. At the same time, in April and June 2015, surveys were held to check the satisfaction level of the users and learn their opinion on the new system.

At the moment, there are over 18 thousand users working at the Everest platform, including all branch employees, exclusive agents, partner agents, and office workers. More than 13 million policies have been issued in the new system so far, including over 8 million in 2015 alone. The full implementation of the new policy system is planned to be finished in the third quarter of 2016.

In 2015, in addition to operating activities and working on the Everest project, the Technology Division implemented internal strategic initiatives, which consisted of the development of a series of activities supporting key business initiatives, especially the following:

- as an adjustment of the IT and security system to requirements of external acts, the process of Polish Financial Supervision Authority (KNF) requirements implementation is highly advanced and will allow to satisfy the requirements as planned until the end of 2016;
- IT systems were adjusted to report in accordance with requirement of Solvency II directive GLOSSARY;
- in the field of reporting, the Baltic companies were subject to periodical reporting and the management information system was extended to cover PZU Group subsidiaries;
- using agile methodology of software development was continued and extended.

5.2 Human resources management

Level of employment

In 2015, the average annual PZU employment of approximately 7.8 thousand employees calculated as FTEs.

On the 8th of April 2015, the Management Boards of PZU and PZU Życie declared their intention to conduct collective redundancies in accordance with the Act on the specific principles of terminating labor relationships for reasons not attributable to employees dated on the

[7] Change in sample selection metodology Since 2015 survey

13th of March 2003. The restructuring took place in the second quarter of 2015. It covered 267 people in PZU and PZU Życie, including the employment reduction which pertained to 134 PZU and PZU Życie employees.

The people who were dismissed or who did not accept the changes in the terms and conditions of employment (the same as during all stages of employment restructuring, namely in 2010–2014) were offered more favorable conditions of leaving than those provided for by law in similar situations. The amount of additional redundancy payment depended on the length of service with PZU Group and the salary of each employee.

Salary policy

In 2015, PZU continued its remuneration and recruitment policy which covers all internal principles concerning salaries for relevant groups of employees; Such principles are determined in accordance with the generally applicable rules of law, PZU internal regulations and corporate governance.

The main premises of PZU's remuneration policy include:

- awarding and retaining best talents by offering a competitive remuneration scheme, as well as trainings and career development options;
- planning replacements at positions within PZU Group by development of career paths and programs for workers and managerial staff;
- recruiting the best employees (including young talents) by building an image of the company as an employee of choice, by effective recruitment and selection process;
- supporting non-professional activities of PZU employees, i.e. by engaging them in the Group's CSR actions, such as employee volunteering program.

The remuneration scheme includes the nature and scope of the company's operations, its functioning sectors, as well as market practices. A part of remuneration subject to variations is developed on the basis of the above-mentioned factors and depends on the group of employees it concerns. The applicable remuneration policy is based on a performance result management system, competence assessment and on-going adjustment of the remuneration scheme to changing conditions. This applies especially to the variable part of remuneration and extra benefits.

The PZU Group remuneration system is based on an annual employee assessment which constitutes a part of modern motivational system and awarding the best personnel. The annual competence assessment system and the quarterly target determination and settlement system covers the following:

- "Płacimy za wyniki" (We pay for results) – a new performance management system – a quarterly assessment of target achievement (adjusting targets to managerial level and business specifics), whereas achievement level of quarterly targets translates into the bonus amount;
- "Ocena DNA PZU" (PZU DNA appraisal) – a competence assessment model for employees and leaders;
- "Roczna ocena pracownika" (Annual performance review) – employee development plan based on the analysis of target achievement and competence assessment.

The solutions applied within the remuneration policy allowed to develop a relation between effectiveness and competence level and pay rises, development choices and promotions. They constitute a tool for managers that helps to manage targets/tasks/motivation of their teams, as well as identify and develop employees with exceptional competence levels.

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

In 2015, a new recruitment module was successfully implemented in HRM (Saba Enterprise) application already used by the company. From 2015, by the time a job application has been accepted, the entire recruitment process takes place in a user-friendly HRM application interface which keeps the participants of the process posted about their application status. For the first time in history of recruitment at PZU, an extensive database was used which is accessible to all recruiters and improves documentation management as well as has an option to preview the candidates' applications. The recruiters may also automatically publish job offers in several locations and thus monitor effectiveness of selected candidate acquisition channels. The HRM system helps them not only save time spent on application posting and selecting job applications, but also improves security of stored data. The changed functionality helps also to build a positive image of PZU Group as an employer among candidates applying for a job at PZU. One of the key benefits of introducing the HRM recruitment module for the candidates is an option to receive an update on their recruitment project status via emails with invitations to an interview, notifications on delays in the recruitment process, or a thank you note for the participation in the process.

PZU has also mechanisms for entry into and exit from the organization. The assumption to the process of introducing a new employee is to build commitment and loyalty in an atmosphere of openness and cooperation. However, anyone parting with the organization by mutual consent is asked for his or her opinion on working for PZU Group and the reasons of their decision to change employer.

The following have been organized in 2015 to support employees in improving their skills, which are required at the given work post:

- PLUS training program (Professionalism – People – Skills – Trainings) - trainings are selected for the employee on the basis of his DNA appraisal (PZU competence model) which have the objective of developing the weak spots. Every program contains several training modules which develop competences in all fields, such as client, result, responsibility, development, cooperation.
- Menedżer 2.0 (Manager 2.0) program which focuses on the development of mid-level management (over 1,500 managers) in building managerial thinking, team engagement, business effectiveness of a team, as well as coaching skills indispensable at a managerial position. An interactive and gamified Inspiratorium Menedżer 2.0 (Inspiration Space Manager 2.0) platform is a continuation and extension of stationary trainings. The platform uses state-of-the-art trends to combine elements and mechanisms known from games to support development of a habit to pursue self-education and knowledge acquisition, as well as social network mechanisms to create an interactive space for sharing knowledge, experience, ideas, and inspirations;
- Lider 2.0 program, the aim of which is to strengthen key managers in the role of all-round leaders. More than 300 managers participate in it;
- coaching for the top management with the aim to support individual development;
- other forms of trainings - postgraduate studies and specialized forms of professional development, language courses;
- "Świadoma siebie" (A self-conscious me) – development program for women within "Kobiety PZU" (PZU Women) Association.

Every employee at PZU and PZU Życie benefited from an average of 27 hours of classroom trainings in 2015.

In addition, three projects were continued as a part of the development of the new organizational culture:

- Otwarte PZU [Open PZU] - a program designed to build employees' awareness in the area of openness. The aim of the project is to build innovative attitudes. The program objective is to promote: direct and simple communication, feedback providing strategies, team cooperation, partner relations and research of innovative solutions;
- TalentUp – a talent-building program addressed to specialists which aims to prepare the employees to work more important roles within the organization;
- SmartUp – a General MBA development program addressed to managers and directors who exhibit high potential. It has been designed in cooperation with the Warsaw University of Technology Business School.

An internal coaching project was initiated. The project is addressed to mid-level managers and project leaders and is conducted by employees having appropriate preparation in various business fields.

PZU continues also large-scale activities promoting its brand as an employer, which are addressed to students and professionals. Year 2015 started with a uThoruj sobie drogę na staż (Your way to internship) recruitment campaign; as a result, over 100 students from the entire country joined the company. The company's spring campaign actions were recognized by the jury at EB Excellence Award and EB Stars competitions. Popular social competitions, i.e.

Studencki Projekt Roku (Student Project of the Year) and Inwestycja w Przyszłość (Investment in the Future), were continued to support the most active students and most popular academic projects.

PZU experts shared their knowledge and experience at a number of business presentations and trainings for students (i.a. during Dni Otwartego Biznesu w PZU (Open Business Days at PZU)),and all image activities were supported by active and creative PZU Group Ambassadors and Advisors.

Ambasadorzy i Doradcy Grupy PZU.

The year ended with the #najlepszastrona (#bestside) image campaign, which received another prestigious award, EBKreator. The awarded campaign is based, among others, on the new Instagram profile @pzukariera which is the third social media channel to openly communicate as an employer, alongside with Facebook and LinkedIn.

5.3 Marketing

In 2015, PZU Group made wide-ranging advertising campaigns, including:

- Campaign to promote motor TPL insurance with Direct Claims Handling (BLS) service. The aim of the campaign was to present benefits from holding motor insurance with BLS at PZU. The campaign featuring Marcin Dorociński included TV spots and online activities at tylkospokoj.pl;
- “Kochasz? Powiedz STOP Wariatom Drogowym” (If you love, say STOP to reckless drivers) social campaign. Its main objective is to improve road safety by promoting responsible attitudes among drivers The campaign's symbol is a blue heart, which, gifted by a dear person, is placed in a visible place in the car to remind drivers to drive safely. The second stage of the campaign carried out in 2015 was focused on the initiative for active pedestrian crossings and attracting attention to the fact that responsibility on the road falls to both the driver and the pedestrian. The message is expressed in the following slogan: “If you love, watch out for the pedestrians. They can be your loved ones.” In 2015, PZU built active pedestrian crossings in 20 Polish municipalities;
- Loteria OC (TPL Lottery) campaign. A campaign addressed to clients who have TPL insurance in PZU. The lottery included the following sponsored awards: 12 passenger cars and 360 bicycles. Additionally, as a part of a special offer, holders of TPL insurance at PZU could pay less for filling their tanks at LOTOS and LOTOS Optima petrol stations due to special discount cards.
- Niestraszki (Fear-nots) campaign. The first edition of a new PZU campaign, “Niestraszki w pakiecie” (Fear-nots in a pack), was initiated in December. The campaign features 5 Fear-nots – funny, yet smart characters with an educational mission, i.e. to teach children the rules of security.

In 2015, PZU made also advertising campaigns with a narrower range, including:

- EMPLOYER BRANDING campaign – the aim of the campaign was to promote the employer’s brand. It featured two editions in 2015: the spring edition targeted to students and graduates at the largest universities in Poland, and the fall edition was addressed to professionals.

In 2015, PZU continued to introduce unified visual standards for exclusive agents’ offices, both when it comes to signage and fit-out of the premises. A process of external branding of multiagents was commenced. Nearly 250 multiagency offices were branded in 2015.

Ongoing and long-term actions to support sales of non-life insurance were conducted, dedicated to PZU and PZU Życie agents. Activities covered BTL support were addressed to branches and agents’ offices. A mobile stand was organized and PZU representatives were present at 12 outdoor events in Poland. PZU equipped its agents in branding materials, which guaranteed that the company was present at local events realized by field agents.

PZU implemented also ATL actions, i.e. 4 campaigns consisting in covering shop windows in branches and agents’ offices. Nearly 190 shop windows were covered in Poland.

In 2015, PZU marketing campaigns received a number of awards, i.a.:

- KTR (Klub Twórców Reklamy [Club of Advertisement Creators]), Platinium Magellan Award – “Kochasz? Powiedz STOP Wariatom Drogowym” (If you love, say STOP to reckless drivers) PZU Foundation social campaign;
- KTR, Silver award – “Telewizor” (TV Set), a PZU housing campaign of 2014
- KTR, double Bronze award – „Ulubiona zabawka” (Favorite toy) Project – (categories: Loyalty Program&Direct);
- Innovation Award 2015 – distinction for “Ulubiona zabawka” (Favorite toy) project (category: Insight).

06

6 Financial results

Contents:

6 Financial results

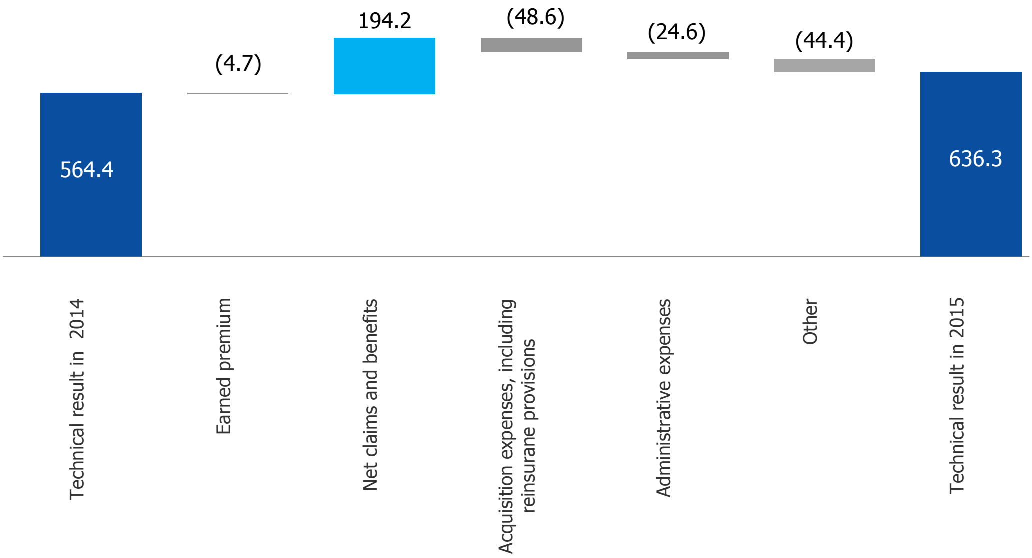
6.1 Key factors affecting the achieved financial results

In 2015, PZU achieved the technical result of PLN 636.3 million, a 12.7% growth from the PLN 564.4 million in the previous year. The net profit amounted to PLN 2,248.5 million, compared with PLN 2,636.7 million in 2014 (a drop of 14.7%). Without the dividend obtained from PZU Życie, the net profit of PZU was PLN 558.3 million and was PLN 18.4 million lower than in 2014.

Within particular items of the net result, PZU recorded:

- growth of the gross written premium to PLN 8,858.0 million, i.e. 7.2% compared to the previous year, mainly in motor insurance, resulting from higher sales of motor insurance offered by PZU and the coverage of Link4 and Baltic states companies with the inward reinsurance program (effect eliminated at the level of consolidation of PZU Group's results) and in insurance of financial losses resulting from establishment of long-term inward reinsurance cooperation with a new client. After accounting for the share of reinsurers and the change in provision for unearned premium, the net premium earned amounted to PLN 7,898.0 million, which was 0.1% lower than in 2014;
- lower claims and benefits at PLN 5,036.6 million, a drop of 3.7% from 2014. The change was recorded mainly in TPL insurance and resulted from the lower level of claims provisions for previous years damage. Simultaneously, the comparability of the results is influenced by the recognition of the rise of claims provisions for compensation for pain and suffering for damage occurred in previous years in the 2014 result;
- lower net investment result by PLN 544.1 million, mainly due to the lower dividend from PZU Życie;
- higher acquisition expenses (growth of PLN 48.6 million) resulting mainly from higher inward reinsurance commission (effect of the conclusion of agreements with the Group's subsidiaries) and indirect acquisition expenses (including sales-assisting activity aimed to improve effectiveness of the sales network). Furthermore, there was a growth of direct acquisition expenses, which resulted from the change to the sales channel mix (higher share of the multiagency and dealers channel);
- growth of administrative expenses to PLN 753.7 million from PLN 729.1 million in 2014 associated mainly with the expansion and initial usage of the Everest Platform (policy system for non-life insurance), strategic projects aimed to improve customer service, and implementation of the new operating model for corporate insurance sales networks.

PZU's technical result in 2015
(PLN million)



Basic amounts of the profit and loss account **PLN million**	**2015**	**2014**	**2015/2014**	
			PLN million	**in %**
Gross written premiums	8,858.0	8,261.8	596.3	7.2%
Net earned premiums	7 898.0	7,902.6	(4.7)	(0.1)%
Net claims and benefits	(5,036.6)	(5,230.9)	194.2	(3.7)%
including paid gross claims and benefits	(5,135.2)	(4,427.3)	(708.0)	16.0%
Acquisition expenses, including reinsurance commission	(1,571.5)	(1,522.9)	(48.6)	3.2%
Administrative expenses	(753.7)	(729.1)	(24.6)	3.4%
Technical result	636.3	564.4	71.9	12.7%
Net investment result	2,024.0	2,568.0	(544.1)	(21.2)%
Gross profit (loss)	2,475.9	2,854.5	(378.6)	(13.3)%
Net profit (loss)	2,248.5	2,636.7	(388.2)	(14.7)%

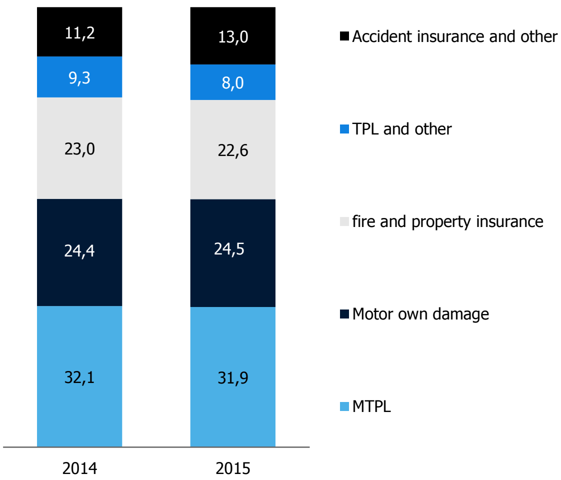
6.2 Gross written premium

Premiums

Gross written premiums in 2015 amounted to PLN 8,858.0 million, which means an increase by 7.2% compared to last year. They comprised mainly:

- MTPL insurance premiums comprised 31.9% of the PZU's insurance portfolio (32.1% in the prior year). In 2015, their value was 6.6% higher than in the prior year, which resulted mainly from the inclusion of Link4 and Baltic states companies in the inward reinsurance program;
- motor own damage insurance premiums with 24.5% share in PZU's total gross written premium (i.e. 0.1 p.p. higher than in corresponding period of the previous year) – growth resulting from higher insurance numbers;
- fire and property insurance premiums comprising 22.6% PZU's premium portfolio. In 2015, their value dropped by 0.4% and their value was up by 5.2% from the previous year – resulting from the acquiring of several large clients and entering into contracts for the periods longer than one year;
- accident and other insurance premiums, which had a 13.0% share, (a growth of 1.8 p.p. from 2014). This insurance category recorded growth in the value of insurance of financial losses, resulting from long-term cooperation established with a new Client under an obligatory amount inward reinsurance agreement.

PZU's gross written premium structure (in %)



6.3 Net investment result

In 2015 PZU's investment activity focused on preserving the diversification of the investment portfolio with the simultaneous optimization of investment activity profitability.

In 2015, PZU's net investment result according to PAS amounted to PLN 2,024.0 million compared with PLN 2,568.0 million in 2014 (drop of 21.2%). Excluding the dividend received from PZU Życie, PZU's net investment activity result amounted to PLN 333.8 million, compared with PLN 508.0 million in the previous year.
The following factors had the greatest impact on the decline in the result:

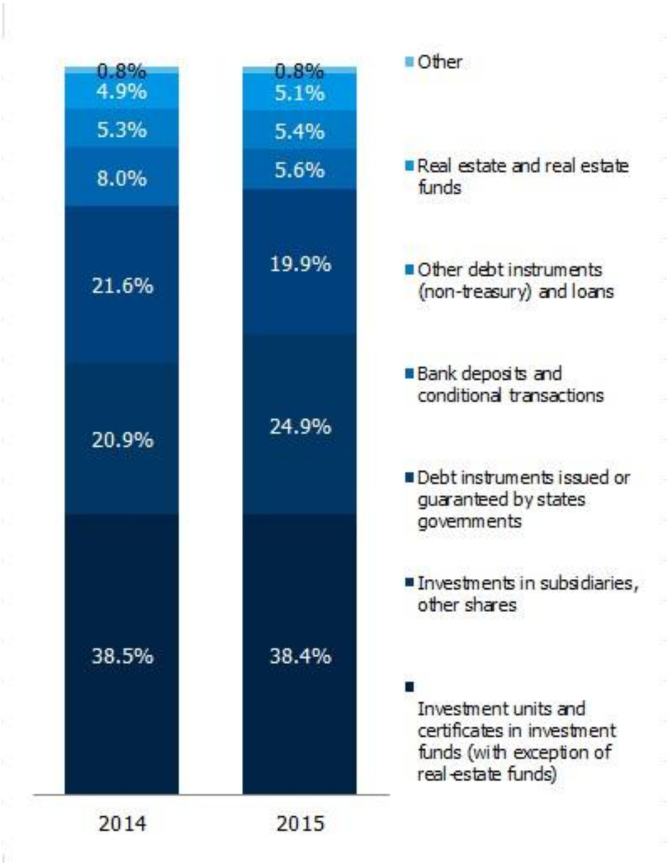
- lower dividend received from PZU Życie;
- weaker performance of derivatives purchased mainly for trading purposes aiming at appropriate investment portfolio risk management;
- weaker performance of currency instruments.

The impact of the above factors was partially balanced by the one-off event associated with the PLN 58.8 million gained from the sale of PZU Lithuania shares.

The sale of PZU Lithuania was an element of the expansion into the Baltic states, which started in 2014. At the same time, branches of PZU Lithuania were transferred to AAS Balta and Lietuvos Draudimas, which contributed to the growth in the valuation of entities mentioned above through revaluation reserve.

At the end of 2015, the value of PZU investments portfolio amounted to PLN 32,356.0 million, compared with PLN 31,030.9 million as at the end of 2014.

Financial asset structure (in %)[8]



The biggest part of PZU's investment portfolio was composed of investment fund units and certificates managed by TFI PZU (with the exception of real-estate funds). The fund portfolios consisted mainly of treasury bonds valuated at fair value as well as non-treasury bonds and quoted shares, where in 2015 the share of quoted shares declined considerably in favor of non-treasury bonds, which resulted from the reallocation of assets in fund's portfolio managed by TFI PZU between PZU and PZU Życie.

A considerable part of PZU's investment portfolio was composed of investments in subsidiaries and other shares and stock kept directly on the balance sheet. Their share amounted to 24.9% compared to 20.9% at the end of 2014. The growth resulted mainly from the acquisition of Alior Bank shares in 2015. The stock of PZU Życie had the greatest share in this investment class.

As at 31 December 2015, the share of debt securities issued or guaranteed by governments of states kept directly on the balance sheet dropped from 21.6% to 19.9%, which resulted from the limited level of reinvestment associated with the low interest rate level.

PZU did not apply security accounting in 2015.

6.4 Claims and technical provisions

In 2015, the total net amount of claims and benefits and increase in technical provisions of PZU amounted to PLN 5,036.6 million. In relation to 2014, the value of claims including the change of provisions was lower by 3.7%. The following factors also contributed to the change in the net value of claims and benefits:

- lower claims ratio in TPL insurance, resulting from lower level of claims provisions for previous years damage;
- lower level of claims in property and agricultural insurance (including mass claims);
- lower claims and benefits level in motor insurance, resulting from two factors:
  - the rise of claims provisions for compensation from pain and suffering for damage occurred in previous years in 2014;
  - negative impact of the higher average payment and more claims reported in 2015 (resulting from the strong price pressure continuing since 2013).

6.5 Acquisition expenses and administrative expenses

In 2015, acquisition expenses without reinsurance commissions amounted to PLN 1,572.3 million and increased by 4.0% from 2014. This growth resulted mainly from higher inward reinsurance commission (effect of the conclusion of inward reinsurance agreements with the Group's companies) and indirect acquisition expenses, including sales-assisting activity aimed to improve effectiveness of the sales network. Furthermore, there was a growth of direct acquisition expenses, which resulted from the change to the sales channel mix (higher share of the multiagency and dealership channel).

[8] Respective categories of investments are presented excluding investment fund portfolios which are presented in the separate line.

In 2015, PZU administrative expenses were at the level of PLN 753.7 million, which was 3.4% higher than in the previous year. This resulted mainly from the expansion and initial usage of the Everest Platform (policy system for non-life insurance) and strategic projects aimed to improve customer service, including implementation of the new operating model for corporate insurance sales networks.

6.6 Other operating and technical expenses/income result

The 2015 balance of technical revenue and expenses was negative and amounted to PLN 113.4 million. The result was down by PLN 1.1 million from 2014, resulting from the change in value of appropriations updating the value of receivables.

In 2015, the balance of other net operating income and expenses was positive and amounted to PLN 19.3 million compared with the negative balance of PLN 74.0 million in 2014. As of mid- 2014, the balance of other operating costs was encumbered with the costs of interest and change in valuation of exchange differences from 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 2015, the costs of interest and exchange differences from the loan taken from PZU Finance AB (publ.) amounted to PLN 49.7 million, i.e. 34.7% lower than in 2014, which resulted from lower exchange differences.

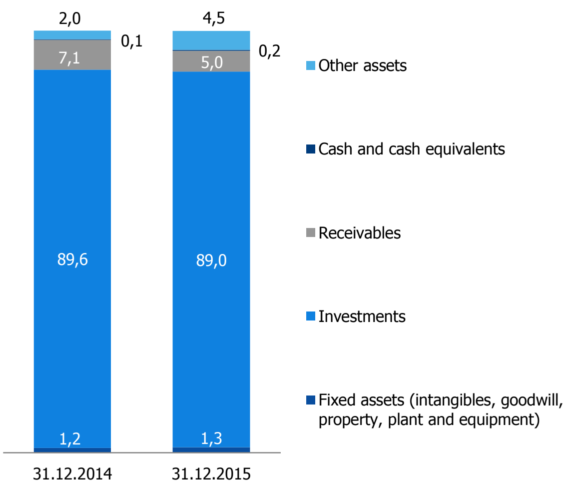
6.7 Structure of assets and liabilities

As at 31 December 2015, the total assets of PZU amounted to PLN 36,358.4 million and was 5.0% higher than at the end of 2014.

Assets

Investments composed the main element of PZU's assets and reached the total value of PLN 32,356.0 million (a 4.3% growth from the end of 2014), 89.0% of PZU's total assets compared to 89.6% at the end of the previous year. With exception of investments in subsidiaries, this level was 1.0% lower. The growth of investment value in subsidiaries resulted mainly from the 2015 acquisition of Alior Bank shares.

PZU's assets structure (in %)



PZU's receivables amounted to PLN 1,801.9 million and composed 5.0% of assets. In comparison, their value at the end of 2014 was PLN 2,437.8 million (7.1% of PZU's assets). The comparable state resulted from the recognition of receivables from PZU Życie for the dividend in amount of PLN 730 million in the 2014 results.

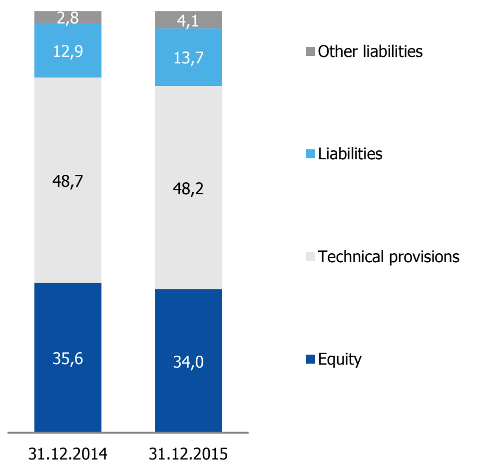
Non-current assets – in the form of intangible assets, goodwill and property, plant and equipment – were recognized in the balance sheet at PLN 493.1 million. They comprised 1.3% of total assets.

As at 31 December 2015, PZU held cash and cash equivalents of PLN 65.1 million (0.2% of the assets). A year earlier, they amounted to PLN 47.0 million.

Liabilities

At the end of 2015, the main component of PZU's liabilities was technical provisions. They amounted to PLN 17,540.5 million, which represented 48.2% of liabilities. Their share in the balance sheet was at a level similar to the previous year, but their value increased by PLN 679.3 million, mainly due to the higher premium provisions in motor and financial insurance.

PZU's liabilities structure (in %)



At the end of 2015, equity amounted to PLN 12,378.7 million and composed 34.0% of the liabilities (drop by 1.6 p.p.).

The balance of other liabilities and special funds at the end of 2015 amounted to PLN 5,109.8 million, composing 14.1% of PZU's liabilities. The balance value rose by 11.1% from the previous year.

Cash Flow Statement

The net cash flows from operating activity at the end of 2015 amounted to PLN 379.8 million and dropped by PLN 424.3 million compared with the previous year.

Off-balance sheet items

Contingent receivables amounted to PLN 30,527.5 million and grew by PLN 20,681.5 million from the previous year. They included the following:

- receivables from security of loans, guarantees, etc. in total amount of PLN 18,868.8 million (balance growth by PLN 17,651.1 million from the end of the previous year);
- bills due to guaranteed insurance in amount of PLN 7,683.0 million (drop of PLN 109.7 million from the balance at the end of 2014) and
- bank guarantees and sureties (bid bonds and contractual guarantees) required for tenders for insurance services in amount of PLN 12.4 million.

The balance of conditional obligations rose by PLN 2,291.7 million from the previous year. Growth was recorded mainly in granted guarantees and sureties, which included the guarantee granted to subsidiary PZU Finance AB. The guarantee covers all liabilities of the issuer resulting from the bonds issued in July 2014 and in October 2015. According to issuing conditions, the date for bond maturity and thus guarantee was set for July 2019.

Credits and loans incurred and granted

At the end of 2015, PZU's debt ratio grew to 22.6%[9].

On 19 October 2015 the Issuer took a loan from PZU Finance AB (publ) with a total amount of EUR 350 million with an interest rate of 1.425% per year. The loan is to be paid back on 28 June 2019. The loan was granted at arm's length.

On 23 March 2015, PZU granted a limit to the PZU Zdrowie loan at maximum PLN 200 million. The first tranche of the loan in amount of PLN 90 million was implemented on 26 March 2015 and the second tranche in amount of PLN 40 million was implemented on 29 September 2015. The loan is interest-free. It will be paid off in 120 equal installments with deadline of 31 December 2030.

6.8 Share of the business segments in the PZU's results

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

- corporate insurance (non-life). This segment encompasses a wide range of non-life insurance , general liability and motor insurance, which are adapted to customer needs and, with individually valued risks, offered by PZU to large business entities.
- mass-market insurance (non-life). This segment comprises property, accident, general liability and motor insurance. PZU provides the insurance to individuals and entities from the SME sector.

Corporate insurance

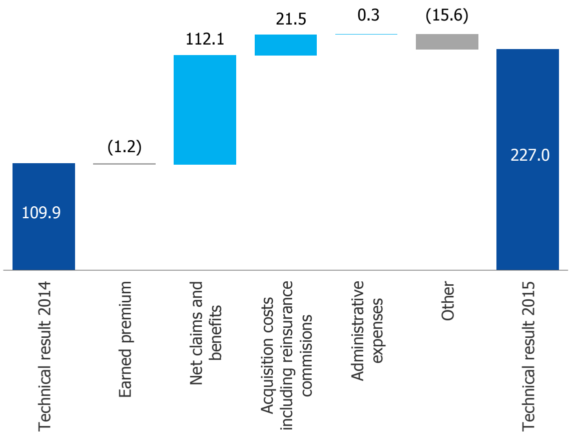
In 2015, the technical result of the corporate insurance segment reached PLN 227.0 million, which is 106.5% more than in the prior year.

[9] Debt ratio calculated as Liability due to obtained loans/(Equity + Liability due to obtained loans)

The 2015 results of this segment was determined by the following factors:

- earned premium at a level similar to the previous year (0.1% drop) and simultaneous drop in gross written premium by 2.0% compared with 2014. In 2015, there were noticed lower sales in the TPL insurance group (drop of PLN 88.2 million), resulting from the finalization of several large tenders conducted by medical entities in December 2014 (with no effect on the premium earned in 2014) and the casco insurance group for rail vehicles (PLN 13.7 million) and guarantees (PLN 9.9 million). The decline in the gross written premium was partially offset by the increased sales of motor own damage insurance, resulting from higher insurance numbers, and in the group of insurance against fire and damage to property (+7.1%), resulting from the acquisition of several strategic Clients and entering into contracts for the period longer than one year;
- 11.7% decline in net claims and benefits from the previous year, which, considering a 0.1% drop of the net premium earned, means that the claims ratio improved 7.6 p.p.

Technical result of corporate segment (PLN million)



The decline was recorded mainly in TPL insurance (lower level of provisions for previous years claims) and insurance for damage caused by forces of nature (lower claims ratio). The effect is partially offset by increased claims and benefits in motor insurance (+11.2% year-on-year) resulting from higher average claim payment and higher number of reported claims;

- decline in acquisition expenses by PLN 21.5 million, i.e. 7.4 % compared with 2014, resulting from higher level of deferred acquisition, partially offset by the increase in commission from inward reinsurance and indirect acquisition costs;
- administrative expenses at a level similar to that of the previous year (0.2% drop). The 2015 expenses were determined by the implementation of changes in client relations management, including mainly implementation of a new model of the corporate insurance sales network.

Mass client insurance

In 2015, the technical result in the mass client insurance segment amounted to PLN 409.3 million (a 9.9% decrease compared with the prior year).

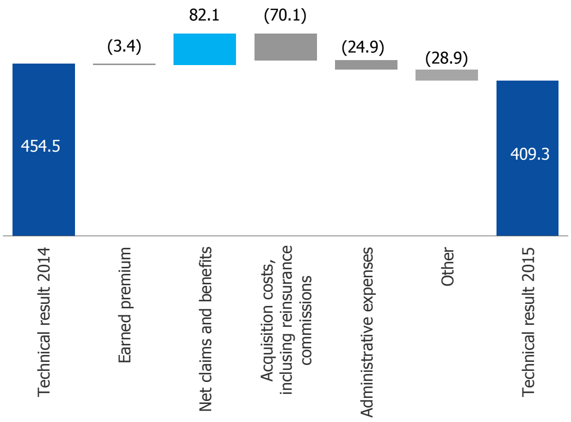
This result was determined by the following factors:

- earned premium of PLN 6,442.9 million (0.1% drop). Simultaneously, the gross written premium rose by 9.8% from the previous year, mainly in motor insurance (+7.2%). There was a higher premium recorded in the group of insurance of financial losses (due to long-term cooperation with a new Client under an obligatory amount inward reinsurance agreement) and insurance for damage caused by forces of nature (+8.1%). Furthermore, the premium growth also resulted from the coverage of Link4 and Baltic states companies with the inward reinsurance program (effect eliminated at the consolidation of PZU Group's results);
- net claims and benefits amounted to PLN 4,191.5 million, i.e. dropped by 1.9% from 2014, mainly due to the lower level of claims in MTPL insurance (recognition of increase of Claims provisions for compensation for pain and suffering for damage occurred in previous years in 2014 result) and agricultural insurance (lower level of mass claims). Simultaneously, there was a growth in claims and benefits in motor own damage insurance (+13.5% year-on-year), which resulted from higher dynamics of reported and paid claims;
- acquisition expenses amounted to PLN 1,303.7 million, 5.7% higher than those of the previous year. The main growth was in inward reinsurance commission (effect of the conclusion of inward

reinsurance agreements with the Group's companies) and indirect acquisition expenses (including sales-assisting activity aimed to improve effectiveness of the sales network). Furthermore, there was a growth of direct acquisition expenses, which resulted from the change to the sales channel mix (higher share of the multiagency and dealership channel);

- administrative expenses which amounted to PLN 629.4 million, increased by 4.1% compared with 2014. The higher expenses were associated with the expansion and initial usage of the Everest Platform (policy system for non-life insurance) and other strategic projects aimed to improve client service by tied agents and develop distribution channels.

Technical result of mass client segment (PLN million)



6.9 Operating efficiency ratios

In 2015, PZU's return on equity amounted to 18.2%. ROE was 3.2 p.p. lower than in the previous year.

On average, the 2013-2015 return on equity (ROE) was 26.4%.

One of the basic efficiency and operating measures of an insurance company is the combined ratio (COR), which PZU has maintained at a level evidencing high profitability in recent years.

The operating efficiency ratios are presented in **APPENDIX**.

Key profitability ratios of PZU Group	2015	2014	2013	2012	2011
Return on Equity (ROE) *(annualized net profit / average equity) x 100%*	18.2%	21.4%	39.7%	20.5%	21.8%
Return on assets (ROA) *(annualized net profit / average assets) x 100%*	6.3%	8.1%	17.0%	9.0%	9.6%
Administrative expenses ratio *(administrative expenses / premium earned net of reinsurance)*	9.5%	9.2%	8.2%	8.2%	8.0%
Return on Sales *(net income / gross written premium) x100%*	25.4%	31.9%	61.7%	30.5%	31.3%

	Operating efficiency ratios	2015	2014	2013	2012	2011
1	Gross claims ratio *(Gross claims including the change in technical provisions/gross written premium) x 100%*	61.2%	65.5%	61.2%	66.4%	66.7%
2	Claims ratio net of reinsurance *(claims and benefits net/net premium earned) × 100%*	63.8%	66.2%	62.2%	66.1%	68.1%
3	Insurance activity costs ratio *(Costs of insurance activity/premium earned net of reinsurance) x 100%*	29.4%	28.5%	25.0%	26.2%	26.8%
4	Acquisition expenses ratio* *(Acquisition expenses/premium earned net of reinsurance)x 100%*	19.9%	19.3%	16.9%	18.1%	18.8%
5	Administrative expenses ratio *(Administrative expenses/premium earned net of reinsurance) x 100%*	9.5%	9.2%	8.2%	8.2%	8.0%
6	Combined ratio (COR) *(claims + costs of insurance activity/premium earned net of reinsurance)* *x 100%*	93.2%	94.7%	87.3%	92.3%	94.9%

including reinsurance commission

07

7 Risk management

Contents:

7.1 Risk management

Risk management in PZU aims to:

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

PZU's risk management is integrated the level of the entire PZU Group.

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

The main elements of the integrated system of risk management are consistent for all companies of PZU Group and implemented in a way which ensures the implementation of strategic plans of individual companies and ensures business objectives of the whole PZU Group.

They include, among others:

- systems of limits and restrictions of the acceptable risk level, including the level of risk appetite;
- processes of identification, measurement and assessment, monitoring and control, reporting and management actions with respect to individual risks;
- risk management organizational structure, in which Management Boards and Supervisory Boards of companies, as well as dedicated Committees, play the key roles.

The risk management system of PZU Group is based on:

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

The risk management organizational structure is coherent in PZU Group and in individual companies includes four competence levels.

The first three are as follows:

- the Supervisory Board, which oversees the risk management and assesses its adequacy and effectiveness as part of its decision-making powers defined in the company's Articles of Association and the Supervisory Board rules and regulations and through the appointed Auditing Committee;
- Management Board, which organizes the risk management system and ensures its functionality through approving the strategy and policies and defining the risk appetite, the risk profile and tolerance for individual kinds of risk;
- Committees which make decisions on reducing the level of individual risks in order to keep overall risk within the limit determined by the risk appetite. The Committees implement the procedures and methodologies for mitigating individual risks and accept their limits.

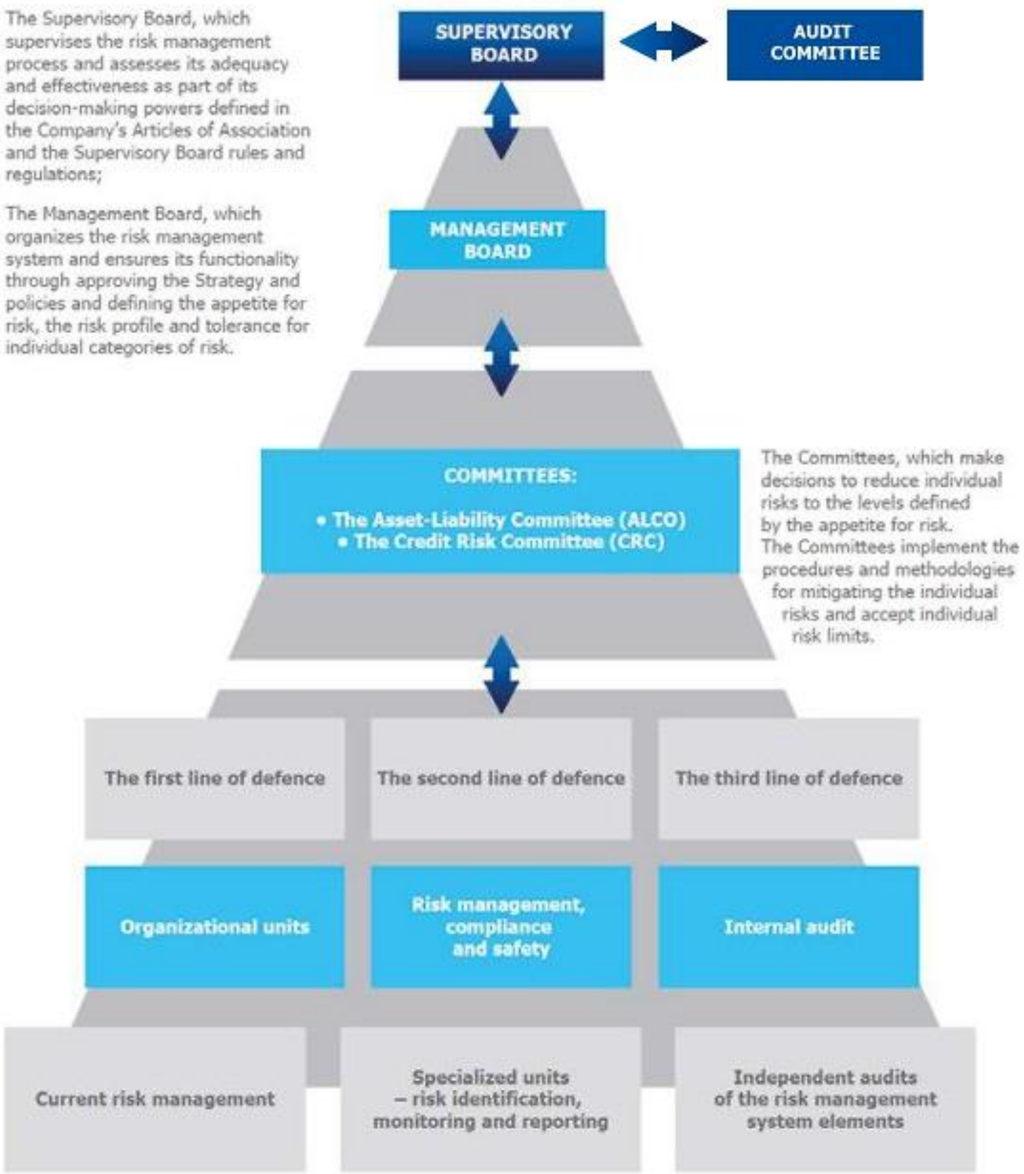
Fourth level of competence relates to operational actions and is divided between the three lines of defense:

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

The diagram below illustrates the organizational structure of the risk management system in every insurance company of PZU Group.

The details concerning the risk management system, risk appetite, and risk management process, are presented in Management Report of PZU Group chapter 7.

WWW.PZU.PL/RELACJE-INWESTORSKIE/RAPORTY-OKRESOWE-BIEZACE/OKRESOWE


The Supervisory Board, which supervises the risk management process and assesses its adequacy and effectiveness as part of its decision-making powers defined in the Company's Articles of Association and the Supervisory Board rules and regulations;
SUPERVISORY BOARD
AUDIT COMMITTEE
The Management Board, which organizes the risk management system and ensures its functionality through approving the Strategy and policies and defining the appetite for risk, the risk profile and tolerance for individual categories of risk.
MANAGEMENT BOARD
COMMITTEES:
• The Asset-Liability Committee (ALCO)
• The Credit Risk Committee (CRC)
The Committees, which make decisions to reduce individual risks to the levels defined by the appetite for risk. The Committees implement the procedures and methodologies for mitigating the individual risks and accept individual risk limits.
The first line of defence
The second line of defence
The third line of defence
Organizational units
Risk management, compliance and safety
Internal audit
Current risk management
Specialized units – risk identification, monitoring and reporting
Independent audits of the risk management system elements

7.2 Reinsurance activity

Reinsurance cover in scope of PZU secures the insurance activity, reducing the consequences of the occurrence of catastrophic events which could adversely affect the financial standing of insurance companies. This task was performed through realization of mandatory reinsurance contracts along with supplementary facultative reinsurance.

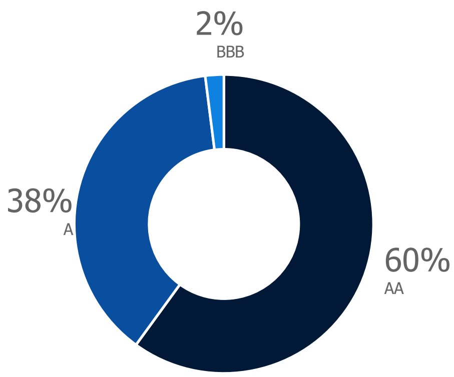
PZU uses the reinsurance contracts it concludes to mitigate its exposure to catastrophic losses (e.g. flood, hurricane) through, among other things, a catastrophic non-proportional excess of loss contract and to the consequences of large one-off losses by non-proportional excess of loss contracts protecting property, technical, marine, aviation, TPL and MTPL portfolios.

PZU's risk is also mitigated through reinsurance of the financial insurance portfolio.

In 2015, the main partners providing treaty reinsurance cover to PZU were Swiss Re, Hannover Re, Scor, Munich Re, and Lloyd's. As per S&P/AM Best, ratings of PZU reinsurance partners are high, which is an evidence of reinsurer's good financial standing and guarantees security to the Company.

PZU’s activity in the area of inward reinsurance includes other insurance companies of PZU Group. Further engagement in the protection of Baltic companies and Link4 resulted in an increase of the associated written premium. In addition, PZU obtains a gross written premium from inward reinsurance from activity on the domestic and foreign market, mainly through facultative reinsurance.

Reinsurance premium from PZU's mandatory contracts as per Standard & Poor's rating



7.3 Capital management

In the context of capital requirements, the old system, i.e. Solvency I, was in effect in the European Union until the end of 2015 **GLOSSARY**.

In turn, on 1 January 2016, the new Solvency II system concerning capital requirements was introduced into the Polish legal system with the Act dated 11 September 2015 on insurance activity. **SECTION 2.4. REGULATIONS ON THE INSURANCE AND FINANCIAL MARKETS IN POLAND SECTION 2.3.**

PZU has a solid capital base, which is much higher than capital requirements of both Solvency I and Solvency II.

At the end of 2015, the solvency margin coverage ratio according to Solvency I amounted to 550.4%, while the assets to technical provisions ratio amounted to 110.5%. The details are presented in the **APPENDIX**. With the introduction of Solvency II, insurance companies are no longer obliged to hold assets for coverage of technical insurance provisions.

From the perspective of requirements according to Solvency II, PZU prepared an estimate calculation of the capital requirements and own funds based on the data of 30 September 2015, establishing that the level of own funds is several times higher from the capital requirement.

PZU has only published solvency ratios for PZU Group. As at the end of the third quarter of 2015, the Solvency II ratio (calculated according to the standard formula) amounted to 296.1%. Ratios as high as these place PZU Group among insurance groups with top capital strength.

Calculation of own funds for solvency margin coverage as per Solvency I	2015	2014	2013	2012	2011
PZU's solvency margin coverage with own funds	550.4%	585.9%	697.7%	815.3%	686.6%

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8 PZU on capital and debt market

Contents:

8.1. PZU's share prices and capital market ratios

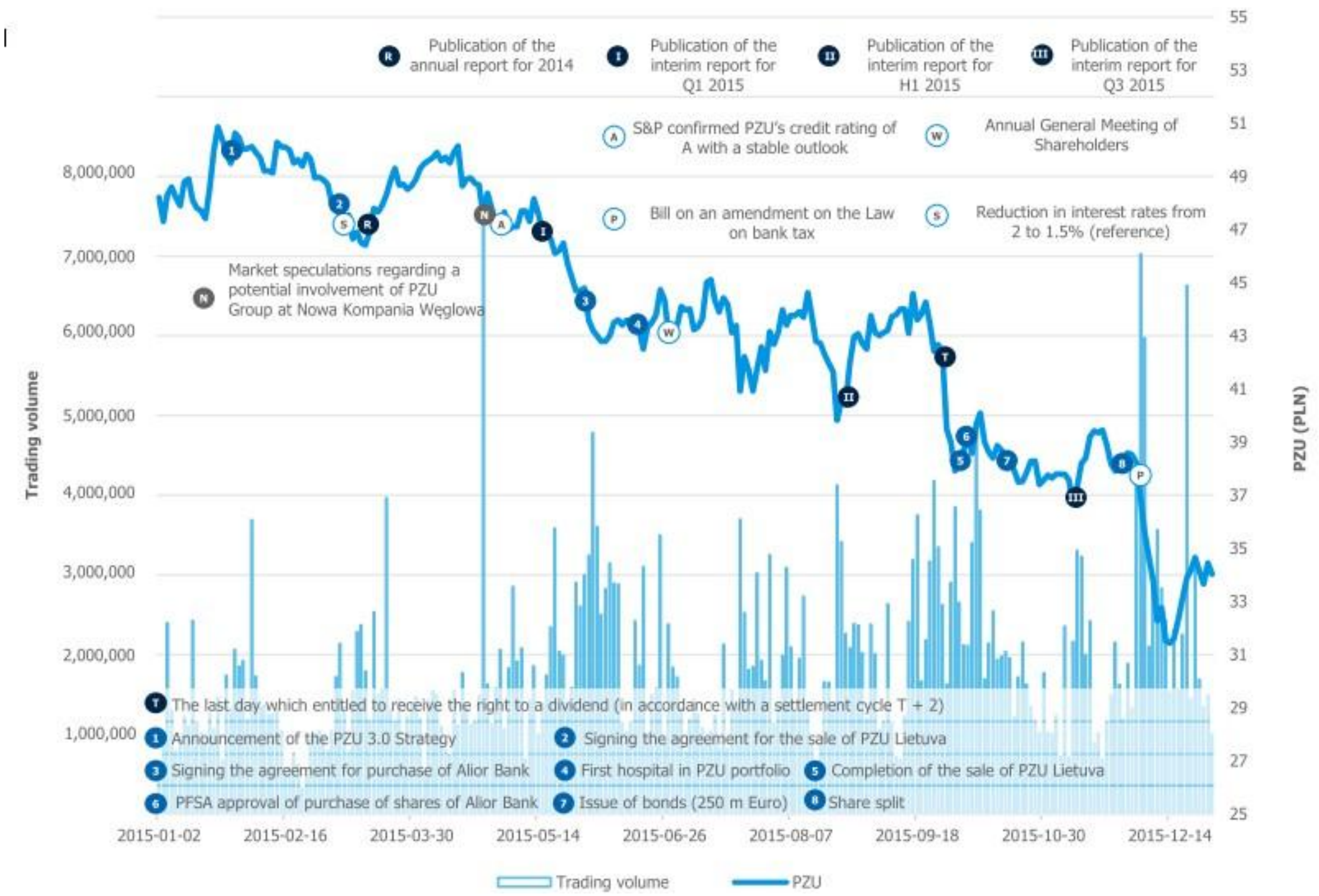
High geopolitical risk on the European countries was reflected in a high volatility of main indexes on the

Warsaw Stock Exchange. Throughout 2015, the most important Polish index, WIG20, remained at levels exceeding 2,500 bps; however, during the last session in the year, its value amounted to only 1,859 points, which was a drop of 19.7% compared to 2014. The WIG index was slightly better and fell by 9.6% year-on-year. Small companies turned out to be the most resistant to decreases – the sWIG80 index gained 9.1% year-on-year. By comparison, the same index ended the year 2014 with a decrease of more than 15.5%.

The shares of PZU were first traded on Warsaw Stock Exchange on 12 May 2010. Since its IPO, the company has been included in the WIG20, WIG, WIG30, WIG-Poland, and WIGdiv indexes. Since 2012, PZU shares have been also included in the sustainable development indexes, RESPECT and CEERIUS **SŁOWNIK**.

The detailed analyses of 2015 share indexes compared to the economic events is presented in the Management Report of PZU Group. **WWW.PZU.PL/RELACJE-INWESTORSKIE/RAPORTY-OKRESOWE-BIEZACE/OKRESOWE**

Events that influenced PZU share prices in 2015



Capital market ratios for PZU shares *Calculated based on PZU data (PAS)*	31 December 2015	31 December 2014	31 December 2013	31 December 2012	31 December 2011
P/BV Market price per share / book value per share	2.37	3.40	3.16	2.81	2.27
BVPS Book value per share	14.34	14.28	14.20	15.58	13.60
P/E Price per share / profit per share	13.07	15.92	7.59	14.62	10.33
EPS (PLN) EPS (PLN) Owners' profits (losses) per share / number of shares	2.60	3.05	5.91	2.99	2.99

8.2. Investor relations

In order to meet the highest 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 of the company. Therefore, PZU has consistently applied "Principles for PZU to Conduct its Information Policy for Capital Market Participants".

RI vision: PZU creates value through active communication with capital market participants. We build trust and care for good relations.

More information concerning investor relations and shareholder structure is presented in the Management Report of PZU Group. WWW.PZU.PL/RELACJE-INWESTORSKIE/RAPORTY-OKRESOWE-BIEZACE/OKRESOWE

8.3. Analysts' recommendations

In 2015, recommendations for PZU shares were issued by 18 domestic and foreign financial institutions. In total, the sell-side analysts issued 28 recommendations. Positive and neutral recommendations dominated (92.9% of total recommendations issued.) The median of target prices (TP) from the recommendations valid in December 2015 amounted to PLN 43.00 and was lower by 13.5% compared with median as at the beginning of the year. Analogically, the maximum target price was PLN 49.80* (Price after a 1:10 stock split) and was 5.5% lower, compared to the maximum target price from January 2015.

The summary of statistics of recommendations for PZU and the analyst list (sell-side) is presented in the Management Report of PZU Group.WWW.PZU.PL/RELACJE-INWESTORSKIE/RAPORTY-OKRESOWE-BIEZACE/OKRESOWE

8.4. Dividend policy

In May 2014, there was an update the Capital Structure and Dividend Policy of PZU Group for the years 2013-2015 (Policy) approved in 2013. Due to introduced changes, the advance payment for the dividend expected at the end of 2013 financial year of 19 November 2013 in the amount of PLN 1,727 million, i.e. PLN 20.00 per share (before stock split), was recognized as part of the payment from PZU Group's surplus capital.

The key objective of the implementation of the Policy is reduction of the cost of capital through optimization of the balance sheet structure by way of replacing equity with less expensive borrowed capital at the same time ensuring high security and maintaining funds for development.

The policy aims to increase the total shareholder return (TSR) GLOSSARY and is based on the following principles:

- maintaining the own funds of PZU Group, excluding the subordinate debt, at the level not lower than 250% of the solvency margin (according to Solvency I) GLOSSARY of PZU Group and an attempt to maintain the own funds of PZU Group, including the subordinate debt, at the level of about 400% of the solvency margin (at the end of the financial year) in order to maintain the financial security of the Group;
- maintaining assets to cover the provisions of individual companies of PZU Group at a level not lower than 110%;
- obtaining an optimal financing structure by replacing the capital surplus with subordinated debt up to an amount no higher than PLN 3 billion;
- maintaining the equity level corresponding to Standard & Poor's AA rating;
- providing funds for development and acquisitions in upcoming years;
- no share issues by PZU in the upcoming years.

The policy assumes dividend payment calculated based on:

- consolidated net profit, where the amount of the dividend paid cannot be lower than 50% or higher than 100% of the net profit shown in PZU Group's consolidated financial statements compliant with IFRS;
- surplus capital, where the total amount of dividends paid from surplus capital in 2013-2015 cannot exceed PLN 3 billion.

PZU plans to amend its capital and dividend policy aiming at addressing the requirements of Solvency II.

Payment of dividends for 2014

On 30 June 2015, the General Shareholders' Meeting of PZU adopted the resolution on distribution of the net profit for the year ended 31 December 2014 in which it decided to allocate to the dividend payment the amount of PLN 2,590.6 million, that is PLN 30.00 (before stock split) per share. 30 September 2015 was chosen as the date according to which the list of shareholders entitled to the payment was established. Dividend was paid on 21 October 2015.

Payment of dividends for 2015

On 1 December 2015 the PFSA issued a recommendation regarding the payment of dividend from 2015 profit. The supervisory body recommends that the insurance companies continue their prudent dividend policy using the generated profit to enhance their capital standing.

Similarly to previous years, as per the supervisory body's recommendation dividend should be paid by insurance companies meeting designated financial criteria. At the same time, the payment of a dividend should be limited to a maximum of 75% of the profit generated in 2015, whereas the coverage ratio of capital requirements as per Solvency II after dividends should remain at a level of at least 110%. At the same time, the supervisory body allowed the payment of dividend from the entire profit generated in 2015, among others, as long as the capital requirements cover as per Solvency II after exclusion of projected dividends stays at the level equal or higher than 150%.

By the date of preparing this Report on the activities of PZU Group, the Management Board had not adopted a resolution concerning distribution of profit for 2015.

8.5. Rating

PZU is regularly rated by Standard & Poor's Ratings Services (S&P). The rating assigned to PZU results from an analysis of the financial information, competitive position, management and corporate strategy as well as country financial situation. It also includes outlook, i.e. an assessment of the future position of the Company in the event of specific circumstances.

On 27 April 2015, Standard & Poor's Rating Services confirmed the financial strength rating of PZU and PZU Życie at the "A" level and maintained a stable level of outlook for both companies.

On 18 December 2015, Standard & Poor's Rating Services put PZU on its CreditWatch Negative list, as a result of resignation of the Chairman of the Management Board, uncertainty as to the future strategy, and capability to pass the stress test of hypothetical bankruptcy of issuer's country in connection with PZU investment in consolidation of bank assets in Poland.

On 21 January 2016, Standard & Poor's Rating Services lowered the financial strength rating of PZU and PZU Życie to the "A-" level with negative outlook for both companies. The decision to lower PZU rating was a consequence of S&P's downgrading Poland's rating. Such a move did not result from a change in PZU financial standing.

PZU rating	Current		Past	
Company name	**Rating and outlook**	**Date of awarding/updating**	**Rating and outlook**	**Date of awarding/updating**
PZU				
Financial strength rating	A- /Watch Neg/	21 January 2016	A /stable/	27 April 2015
Credit rating	A- /Watch Neg/	21 January 2016	A /stable/	27 April 2015
PZU Życie				
Financial strength rating	A- /Watch Neg/	21 January 2016	A /stable/	27 April 2015
Credit rating	A- /Watch Neg/	21 January 2016	A /stable/	27 April 2015

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9 Corporate governance

Contents:

9.1 Corporate governance principles applied by PZU

Since the IPO of PZU on a regulated market the Issuer has followed the corporate governance principles laid down in Good Practices of Companies quoted on WSE.

The document was accepted by WSE Council on 4 July 2007 and has undergone several modification since then. The document accepted by the Resolution of WSE Council regarding amendments to the Good Practices of Companies quoted on WSE of 21 November 2012 was effective from 1 January 2013 to 31 December 2015. On 13 October 2015, a new set of corporate governance rules under the name of "Good Practices of Companies quoted on WSE 2016" was accepted by the resolution of WSE Council. The new rules are in force as at 1 January 2016.

The current contents are available on the website devoted to corporate governance of WSE-quoted entities **WWW.CORP-GOV.GPW.PL** as well as on the PZU's corporate website (www.pzu.pl) in the section dedicated to PZU's shareholders – "Investor Relations".

Code of Good Insurance Practices adopted on 8 June 2009 by the General Meeting of the Polish Chamber of Insurance ("PIU"), an organization associating insurance companies operating in the Polish market is another document determining the manner of business operations and of developing relations with stakeholders. The document is available on the website: **www.piu.org.pl**

Further, stakeholder relations are based on our internal PZU Code of Good Practices. The document is available on the website: **www.pzu.pl**

On 22 July 2014, Polish Financial Supervision Authority issued Corporate Governance Rules for Supervised Institutions ("Rules").

The rules and information on how to use them can be found on the PZU website:

http://www.pzu.pl/grupa-pzu/pzu-sa/zasady-ladu-korporacyjnego

9.2 Application of Good Practices of Companies quoted on WSE

In 2015, PZU complied with the principles included in Good Practices of Companies quoted on WSE except for the one referred to in Section IV pt. 10 and Section I pt. 5, I pt. 9 and I pt. 12.

With regard to the principle referred to in Section IV pt. 10, regarding enabling shareholders to exercise voting rights personally or by proxy on General Meetings using IT tools to allow mutual real-time communication and participating in discussions during the meeting for shareholders who are physically absent at the meeting venue, please note that in our opinion, there are a number of technical and legal factors that may affect the course of a General Meeting, and therefore the appropriate application of the above rule. Moreover, in our view, the company's principles concerning participation in Shareholders' Meetings applicable in PZU allow for exercising rights from shares and protect interests of all shareholders.
The communication regarding non-compliance with the principle included in Section VI pt. 10 was submitted by the Issuer on 29 January 2013.

The following issues mentioned in section I of Good practices of companies quoted on WSE defining "Recommendations concerning good practices of companies quoted on WSE" should be emphasized:

- as for the recommendation included in Section I pt. 5 concerning the policy of remunerating members of management and supervisory bodies, remunerations of members of the Supervisory Board for participation in the works of the Board are determined by the General Shareholders' Meeting and those of the Management Board are set based on a resolution of the Supervisory Board;
- policy of remunerating members of the management and supervisory bodies of PZU does not include all elements indicated in the recommendation of the European Commission of 14 December 2004 fostering an appropriate regime for the remuneration of directors of quoted companies (2004/913/EC), supplemented by recommendation of EC of 30 April 2009 (2009/385/EC). Moreover, PZU did not present a declaration presenting remuneration policy on its corporate website. The decision concerning future compliance with the rule mentioned above

will be taken by the Supervisory Board and the General Shareholders' Meeting;

- at the same time, please note that implementing the Ordinance on current and periodic **GLOSSARY** information, the Issuer discloses information regarding remuneration, awards or profits for each member of the managing and supervisory bodies in PZU in the annual report;
- as for the recommendation specified in Section I.9 concerning gender parity principle to be followed in the Company's management and supervisory bodies, PZU has always pursued the policy of appointing competent, creative, experienced and educated people to the Company's bodies. The composition of the Management and Supervisory Board is determined based on a decision of the Supervisory Board or a General Shareholders' Meeting, respectively, and other factors, such as gender, are not taken into account;
- with regard to the recommendation referred to in Section I pt. 12, regarding enabling shareholders to exercise voting rights personally or by proxy on General Shareholders' Meetings using IT tools to allow mutual real-time communication and participation in discussions during the meeting of shareholders who are physically absent at the meeting venue, please note that, in our opinion, there are a number of technical and legal factors that may affect the course of a General Shareholders' Meeting, and therefore the appropriate application of the above rule. Moreover, in our view, rules concerning participation in Shareholders' Meetings applicable in PZU allow for exercising rights from shares and protect interests of all shareholders.

The announcement on non-compliance with these recommendations was not issued in line with the waiver of the obligation to publish issuers' reports referred to in Article 29.3 of the Regulations of WSE with respect to corporate governance principles set forth in Section I of Good practices of companies quoted on WSE, in accordance with the resolution of the Management Board of WSE dated 11 December 2007 regarding partial waiver of the obligation to publish reports on corporate governance adopted on the WSE Main Market.

9.3 Application of Corporate Governance Principles to Supervised institutions

The Management Board and the Supervisory Board of PZU declared their readiness to apply the Principles to the furthest objectively possible extent, taking into account the principle of proportionality and the *"comply or explain"* rule, arising from their content. These statements of the Management Board and the Supervisory Board of PZU were confirmed by their appropriate resolutions.

The Management Board and the Supervisory Board of PZU announced the decision on implementing the Principles during the General Shareholders' Meeting that took place on 30 June 2015. The General Shareholders' Meeting of PZU declared that while acting within its mandate it will follow the Corporate Governance Rules in the wording of Polish Financial Supervision Authority of 22 July 2014 with the exception of the rules that the General Shareholders' Meeting of PZU decided to waive.

Detailed information about the application of the Principles by PZU can be found on PZU's website. That includes the principles whose application is partial, that is:

- principle specified in § 8. 4. Principles facilitating the participation of all shareholders in the General Shareholders' Meeting, e.g. by ensuring the active electronic participation in meetings; it should be emphasized that the current shareholders of PZU can follow the broadcast of the meeting, but the Issuer decided not to introduce the so-called e-GSM; in the assessment of PZU, there are many technical and legal factors that could affect the proper conduct of the General Shareholders' Meeting. The legal concerns are related to the possibility of identifying shareholders and inspecting the ID cards of the GSM's participants; the risk of technical problems, e.g. with the Internet connection or a potential intrusion into information systems, can disrupt the work of the General Shareholders' Meeting and raise doubts about the effectiveness of the resolutions adopted during the meeting; the occurrence of the above-mentioned risks may affect the correct application of the principle in full;
- principle specified in § 21. 2. Principles which state that in the composition of the supervisory body

there should be a separate function of a chairperson who manages the works of the supervisory body and that the choice of the chairperson of the supervisory body should be made based on the experience and team leadership skills, taking into account the criterion of independence; it must be emphasized that, in accordance with the Code of Commercial Companies **GLOSSARY** and the By-laws of PZU, there is a separate function of a chairperson in the Supervisory Board of PZU; the composition of the Supervisory Board of PZU, including the office of the chairperson, are shaped according to the criterion of independence set out in the Act on statutory auditors **GLOSSARY**; the election of the chairperson of the Supervisory Board is made on the basis of their knowledge, experience and skills, which confirm that the chosen person has the competencies necessary for the proper performance of their supervising duties; the application of the criterion of independence in the case of the chairperson in accordance with the PFSA's explanation of the principle may raise doubts about the potential conflicts of law relating to shareholders' rights;

- principle specified in § 49.3 Principles concerning appointment and dismissal in supervised institutions of the person heading the internal audit unit or the person heading the compliance unit, it should be noted that PZU complies with the principles specified in § 14 of the Principles fully, which means that PZU's Management Board is the only one entitled to and responsible for management of the operations of the company; furthermore, in accordance with the provisions of the labor law, the activities related to the labor law are performed by the governing body; in view of the above, PZU adopted a solution according to which the decision about appointment and dismissal of the person heading the internal audit unit is made, taking into account the opinion of the Audit Committee of the Supervisory Board; the same applies to the appointment and dismissal of the person heading the compliance unit; the Management Board consults the Audit Committee about such decisions.

The General Shareholders' Meeting of PZU decided against implementing the following principles:

- rule specified in § 10.2 in the following wording: "Introduction of personal entitlements or other special entitlements for shareholders of a supervised institution should be justified and serve realization of the objectives of this supervised institution. Having such entitlements by a shareholders should be reflected in a basic act regulating operation of the institution."
  - waiver from applying the principle is justified by the unfinished privatization of the Company carried out by the State Treasury;
- principle specified in § 12.1 in the following wording: "The shareholders are responsible for providing immediate capital injection to the supervised institution in a situation in which it is necessary for maintaining the own capitals of the supervised institution on a level required by the legal or supervisory regulations and also when it is required for the reasons concerning safety of the supervised institution."
  - waiver from applying the principle is justified by the unfinished privatization of the Company carried out by the State Treasury;
- principle specified in § 28.4 in the following wording: "A decision-making authority shall assess whether the agreed remuneration policy is beneficial to the development and safety of the supervised institution."
  - waiver from applying the principle is justified by the scope of application of the remuneration policy assessed by the decision-making authority being too broad. The remuneration policy for persons performing key functions and not being the members of the supervisory body or governing body should be assessed by their employer or principal, which is the Company represented by the Management Board and controlled by the Supervisory Board.

Moreover, the following rules do not apply to PZU:

- rule specified in § 11.3 in the following wording: "In the event that the decision concerning a transaction with a related party was made by the General Shareholders' Meeting, all shareholders should have access to any information necessary for assessment of the terms on which the transaction is to be executed and its impact on the situation of the supervised institution."

- in PZU the General Shareholders' Meeting does not make decisions concerning transactions with related parties;

- rule specified in § 49.4 in the following wording: “In a supervised institution, where there is no internal audit unit or compliance unit, the entitlements referred to in items 1–3 shall be held by the people responsible for performance of those functions.”
  - there are both an internal audit unit and a compliance unit at PZU;

- rule specified in § 52.2 in the following wording: “In a supervised institution, where there is no audit unit or compliance assurance unit, and where no unit responsible for that area has been appointed, the information referred to in item 1 shall be submitted by the people responsible for fulfilling those functions.”
  - there are both an internal audit unit and a compliance unit at PZU;

- the rules specified in Chapter 9 – Execution of Rights Resulting from Assets Acquired at Client's Risk, as PZU offers no products which involve managing assets at client's risk.

9.4 Control system applied during preparation of the financial statements

Financial statements are prepared within the PZU Finance Division including PZU Head Office (including the Accounting Office) and central units operating based on applicable regulations. PZU Finance Division is supervised by a Member of the Management Board of PZU.

The elements which facilitate completing the process are the accounting principles (policy), the chart of accounts with a commentary and other detailed internal regulations approved by the Management Board of PZU specifying the key rules of recording business events in PZU and dedicated reporting systems.

Data is prepared in the source systems using formal operating and acceptance procedures which specify the competencies of individual persons.

The reporting process is controlled by appropriately qualified, skilled and experienced staff.

PZU monitors the changes in the external regulations concerning e.g. the accounting policy (procedures) and reporting requirements of insurance undertakings and carries out appropriate adaptation processes.

The accounting records are closed and financial statements are prepared in accordance with detailed schedules, including the key activities and control points with assigned liability for timely and correct completion.

The key controls during preparation of the financial statements include:

- controls and permanent monitoring of the quality of input data, supported by the financial systems with defined rules of data correctness, in accordance with the PZU internal regulations concerning the control of correctness of the accounting data;
- data mapping from the source systems to financial statements supporting appropriate presentation of data;
- analytical review of financial statements by specialists to compare them with the business knowledge and business transactions;
- formal review of the financial statements to confirm compliance with the valid legal regulations and market practice in terms of required disclosures.

PZU internal audit periodically reviews the organization and the process of preparing the financial statements.

Audit Committee

As per the By-laws, the Supervisory Board of PZU appoints three members of the Audit Committee. At least one of them must be qualified in accounting or auditing, as understood by the Act on Statutory Auditors and Their Self-Governing Body, Auditing Firms and on Public Oversight. The Audit Committee is an advisory and consultative body to the Supervisory Board and is appointed to improve the effectiveness of the supervision of the correctness of financial reporting, effectiveness of internal control, including internal audit and risk management, exercised by the Supervisory Board.

A statutory auditor appointed by the Supervisory Board of PZU based on the recommendation of the Audit Committee reviews interim separate and consolidated financial statements of PZU and audits its annual

Fee of the entity authorized to audit financial statements	1 January–31 December 2015	1 January–31 December 2014
Statutory audit of annual separate/consolidated financial statements	1,488	714
Other attestation services including review of separate/consolidated financial statements	248	248
Tax advisory services	-	-
Other services	27	27
Total	**1,763**	**989**

separate and consolidated financial statements.

9.5 Entity authorized to audit financial statements

On 18th February 2014, the Supervisory Board of PZU appointed KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k. with the registered office in Warsaw, ul. Inflancka 4A, 00-189 Warsaw, entered on the list of entities authorized to audit financial statements under No. 3546 by the National Chamber of Statutory Auditors as the entity authorized to audit financial statements, with whom an agreement on audit and review of financial statements will be concluded.

The scope of the agreement will include:

- audit of annual separate financial statements of PZU and of annual consolidated financial statements of PZU Group;
- review of interim separate financial statements of PZU and of interim consolidated financial statements of PZU Group.

The work referred to above will include three subsequent financial years ending, respectively, on: 31 December 2014, 31 December 2015 and 31 December 2016, with an option to extend the agreement for further two financial years ending, respectively, on 31 December 2017 and 31 December 2018.

Former cooperation of PZU with KPMG Audyt included mostly tax advisory services.

9.6 Share capital and shareholders of PZU; stock held by members of its authorities

On 30 June 2015, the General Shareholders' Meeting of PZU adopted the resolution on splitting all shares of PZU by decreasing the nominal value of each PZU share from PLN 1 to PLN 0.1 and increasing the number of PZU shares which constitute the share capital from 86,352,300 to 863,523,000. The split of shares was performed through the exchange of all shares in 1:10 ratio. The split of shares had no influence on the share capital of PZU.

On 3 November 2015, the District Court for the capital city of Warsaw, XII Economic Division of the National Court Register recorded the appropriate change to the By-laws of PZU.

On 24 November 2015, the Management Board of the National Depository for Securities adopted at the request of PZU a resolution No. 789/15 on determining the day of 30 November 2015 as the day of splitting 86,348,289 PZU shares with the face value of PLN 1 each to 863,482,890 PZU shares with the face value of PLN 0.10 each.

Therefore, the share capital of PZU is divided into 863,523,000 ordinary shares with the face value of PLN 0.10 each, giving right to 263,523,000 votes on the General Shareholders’ Meeting.

In accordance with the current report No. 3/2016, on the Extraordinary General Shareholders' Meeting of PZU S.A. on 7 January 2016 the shareholders of PZU with significant share packages were as follows: the State Treasury holding 297,420,578 shares, i.e. 34.44% of the share capital of PZU and the right to 297,420,578 votes at the General Shareholders' Meeting, and Aviva Otwarty Fundusz Emerytalny Aviva

BZ WBK holding 49,156,660 shares, i.e. 5.69% of the share capital of PZU and the right to 49,156,660 votes at the General Shareholders' Meeting.

There were no significant changes in the ownership structure of blocks of PZU shares in 2015.

The Management Board of the Company has no knowledge about concluded agreements which may result in changes in the proportion of shares held by the shareholders.

PZU did not issue, redeem or repay any debt or equity instruments that would provide its shareholders with special control rights.

From 2013 to 2015, no employee stock ownership plans existed in PZU.

In line with the PZU By-laws the voting right of the shareholders is restricted in a way that none of them can exercise more than 10% of the total number of votes at PZU at the date of the General Shareholders' Meeting, with the reservation that for the purpose of determining obligations of parties acquiring material blocks of shares provided for in the Act on public offering and the Act on insurance activity, such voting restrictions are considered non-existent. The restrictions do not apply to:

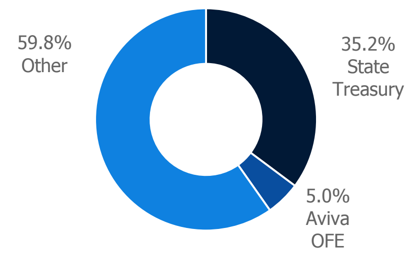
- shareholders who held shares entitling to more than 10% in the total number of votes in the Company as at the date of adopting a resolution of the General Shareholders' Meeting;
- shareholders co-acting with shareholders defined in the point above based on agreements concerning joint voting rights attached to the shares.

For the purposes of voting rights restrictions, the votes of the shareholders being parent companies or subsidiaries will be added up in line with the principles specified in the By-laws.

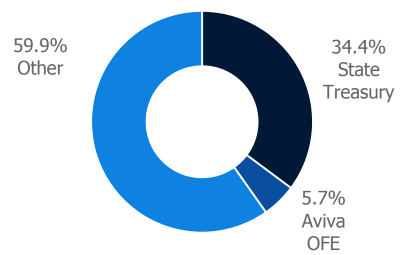
In case of any interpretation doubts with respect to the voting restrictions, Article 65.2 of the Civil Code will apply. **GLOSSARY**

In line with the PZU's By-laws, the above voting restrictions will expire as of the moment when a share of a shareholder who, at the date of adopting a resolution of the shareholders' meeting introducing the restriction, held shares entitling him to more than 10% in the total number of votes in the Company, drops below 5% of the share capital.

PZU's shareholding structure as at 31.12.2014



PZU's shareholding structure as at 31.12.2015*



**as per the Current Report 3/2016*

Information concerning the number of held PZU shares is presented in the table below.

Shares or share entitlements of PZU's managers and supervisors

No.		Number of shares/share entitlements as at the issuance date of this Management's Report (i.e. 14 March 2016)	Number of shares/share entitlements at the issuance date of the Management's Report (i.e. (i.e. 17 March 2015)	Change between the dates
	Management Board			
1	Michał Krupiński	-	n/a	n/a
2	Przemysław Dąbrowski	-	-	-
3	Roger Hodgkiss	-	n/a	n/a
4	Beata Kozłowska-Chyła	-	n/a	n/a
5	Dariusz Krzewina	-	-	-
6	Robert Pietryszyn	-	n/a	n/a
7	Paweł Surówka	-	n/a	n/a
8	Andrzej Klesyk	n/a	-	n/a
9	Tomasz Tarkowski	n/a	800	n/a
10	Ryszard Trepczyński	n/a	-	n/a
	Group Directors			
1	Tomasz Karusewicz	-	n/a	n/a
2	Sławomir Niemierka	-	-	-
3	Roman Pałac	-	n/a	n/a
4	Tobiasz Bury	n/a	500	n/a
5	Rafał Grodzicki	n/a	-	n/a
6	Przemysław Henschke	n/a	-	n/a
	Supervisory Board			
1	Paweł Kaczmarek	-	n/a	n/a
2	Marcin Gargas	-	n/a	n/a
3	Maciej Zaborowski	-	n/a	n/a
4	Marcin Chludziński	-	n/a	n/a
5	Eligiusz Krześniak	-	n/a	n/a
6	Alojzy Nowak	-	-	-
7	Jerzy Paluchniak	-	n/a	n/a
8	Piotr Paszko	-	n/a	n/a
9	Radosław Potrzeszcz	-	n/a	n/a
10	Aleksandra Magaczewska	n/a	-	n/a
11	Zbigniew Ćwiąkalski	n/a	-	n/a
12	Tomasz Zganiacz	n/a	-	n/a
13	Zbigniew Derdziuk	n/a	-	n/a
14	Dariusz Filar	n/a	-	n/a
15	Dariusz Kacprzyk	n/a	-	n/a

16	Jakub Karnowski	n/a	280	n/a
17	Maciej Piotrowski	n/a	-	n/a
Total		**-**	**1580**	

9.7 By-laws of PZU

Amendments to the By-laws

The By-laws of PZU can be amended by the General Shareholders' Meeting in the form of a resolution passed by a majority of three fourths of votes. In cases specified in the Act on Insurance Activity **GLOSSARY** such change must be approved by the FSA and then recorded in the National Court Register.
The Supervisory Board can approve the unified amended text of the By-laws.

On 30 June 2015, the General Shareholders' Meeting of PZU adopted amendments to the By-laws of PZU.

Then, on 18 September 2015, the Supervisory Board of PZU adopted a resolution regarding the wording of the consolidated amended By-laws of PZU. On 3 November 2015, the By-laws were recorded in the National Court Register.

9.8 General Shareholders' Meeting, Supervisory Board, and Management Board

General Shareholders' Meeting

The General Shareholders' Meeting is the highest body of PZU. The general operational principles and the rights of the General Shareholders' Meeting have been determined by the Code of Commercial Companies **GLOSSARY** and the By-laws.

The By-laws are available on PZU's corporate website (**WWW.PZU.PL**) in the "Investors relations" section, tab: "Company".

The General Shareholders' Meeting did not issue its Regulations.

The General Shareholders' Meeting is a body authorized to make decisions concerning issues related to the organization and operations of the issuer. Resolutions of the General Shareholders' Meeting are adopted by an absolute majority of votes, except for cases specified in the Code of Commercial Companies **GLOSSARY** or the By-laws.

The competencies of the General Shareholders' Meeting, in addition to those specified in the Commercial Companies Code and the By-laws of PZU, include passing resolutions concerning the following:

- examination and approval of the Management Board report on the issuer's activities, financial statements for the previous financial year and acknowledgement of the fulfillment of duties by members of the company's authorities;
- profit distribution or loss coverage;
- making decisions concerning claims for redressing damage inflicted upon formation of the company or exercising management or supervision;
- disposal of the enterprise or its organized part or its lease or establishment of a limited property right;
- redemption of shares or issue of bonds;
- creating reserve capitals and making the decision whether to use them and if so, how;
- division of the Company, its merger with another company, its liquidation or dissolution;
- appointing and dismissing members of the Supervisory Board, subject to the right granted to the State Treasury to appoint and dismiss one member of the Supervisory Board;
- establishing the rules of remunerating members of the Supervisory Board;
- acquisition or disposal by the issuer Real property, perpetual usufruct or share in Real property or in perpetual usufruct with a value exceeding the equivalent of a gross amount of EUR 30.0 million (thirty million Euro).

In accordance with the By-laws, a majority of three fourths of votes is required to pass the General Shareholders' Meeting's resolutions on the following:

- amendments in the By-laws;
- decrease in the share capital;
- disposal of the enterprise or its organized part or its lease or establishment of a limited property right.

A majority of 90% of votes at the General Shareholders' Meeting is required to pass resolutions relating to the following:

- preference shares;
- issuer's business combination by transferring all its assets to another company;
- its merger by forming a new company;
- dissolving the Company (also as a result of moving its seat or the head office abroad);
- its liquidation, transformation or reduction in the share capital through redemption of a portion of shares without a similar capital increase.

The General Shareholders' Meeting is held:

- as an Ordinary General Shareholders' Meeting which should be held within six months from the end of each financial year;
- as an Extraordinary General Shareholders' Meeting which is convened in cases specified in the generally applicable law and the By-laws.

The General Shareholders' Meetings are held in Warsaw and convened by placing an appropriate announcement on PZU's website in accordance with the method for providing current information specified in the Act on public offering, conditions governing the introduction of financial instruments to organized trading, and public companies of 19 July 2005, i.e. in the form of current reports. Such announcement should be made no later than 26 days before the date of the General Shareholders' Meeting. From the date of convening the General Shareholders' Meeting the announcement with materials presented to shareholders at the General Shareholders' Meeting are available on PZU's corporate website (WWW.PZU.PL) in section "Investors relations", tab "General Shareholders' Meeting". A duly called General Shareholders' Meeting is deemed valid regardless of the number of attending shareholders.

Ballots are open. The secret ballot vote is used when appointing and dismissing members of the Issuer's bodies or liquidators, in cases of their personal responsibility towards the issuer and in personal cases, except when an open ballot method is required by the applicable law, upon request of any shareholder present or represented at the General Shareholders' Meeting.

The rights of the shareholders and the method of exercising thereof at the General Shareholders' Meeting are specified in the Code of Commercial Companies **GLOSSARY** and the By-laws.

Only persons who were shareholders of the issuer 16 days before the date of the General Shareholders' Meeting have the right to participate in the Meeting (date of registration of attendance at the Meeting). Shareholders may attend the General Shareholders' Meeting and exercise the right to vote personally or through a proxy. The power of attorney to participate in the General Shareholders' Meeting and to exercise the voting right may be granted in writing or in an electronic form.

One share of PZU gives the right to a single vote at the General Shareholders' Meeting, including restrictions with respect to exercising the voting rights described in the Company's By-laws. The shareholder has the right to vote in a different manner under each share held.

During the General Shareholders' Meeting each shareholder may provide resolution drafts concerning items on the agenda.

In accordance with the Code of Commercial Companies **GLOSSARY**, detailed procedures concerning participation in the General Shareholders' Meeting and exercising the voting rights are always presented in an announcement of the General Shareholders' Meeting published on the date of convening the Shareholders' Meeting on PZU's corporate website (WWW.PZU.PL), section "Investors relations", tab "General Shareholders' Meeting".

Composition, powers and functioning of the Supervisory Board

Composition

The Supervisory Board is composed of seven to eleven members. The number of members is specified at the General Shareholders' Meeting.

Members of the Supervisory Board are appointed by the General Shareholders' Meeting for a shared term which includes three consecutive full financial years.

At least one member of the Supervisory Board must be qualified in accounting or auditing, as understood by the Act on Statutory Auditors and Their Self-Governing body, Auditing Firms and on Public Oversight **GLOSSARY**. Furthermore, at least one member of the Supervisory Board should meet the independence criteria specified in the By-laws (Independent Member) concerning e.g. professional and personal relations, especially with members managing or supervising PZU and entities in PZU Group. The Independent Member has to present a written statement that all independence criteria provided for in the By-laws have been met and inform the Company when the criteria are no longer met. In addition, the By-laws give the State Treasury the right to appoint and dismiss one member of the Supervisory Board by way of a written statement submitted to the Management Board. The right will expire once the State Treasury ceases to be the Company's shareholder.

Composition of the Supervisory Board of PZU as at 1 January 2015:

- Aleksandra Magaczewska – Chairperson of the Board;
- Zbigniew Ćwiąkalski – Deputy Chairman of the Board;
- Tomasz Zganiacz - Secretary of the Board;
- Zbigniew Derdziuk – Member of the Board;
- Dariusz Filar – Member of the Board;
- Dariusz Kacprzyk – Member of the Board;
- Jakub Karnowski – Member of the Board;
- Alojzy Nowak – Member of the Board;
- Maciej Piotrowski – Member of the Board.

The criteria of an Independent Member of the Supervisory Board were met by Dariusz Kacprzyk and Dariusz Filar.

On 30 June 2015, Tomasz Zganiacz's mandate of a member of the Supervisory Board expired.

On 30 June 2015, with effect on 1 July 2015, the General Shareholders' Meeting of PZU established the composition of the Supervisory Board of PZU of the new term as follows: Dariusz Kacprzyk, Dariusz Filar, Aleksandra Magaczewska, Zbigniew Ćwiąkalski, Jakub Karnowski, Maciej Piotrowski, Alojzy Nowak, Zbigniew Derdziuk, Paweł Kaczmarek. On 8 July 2015, the Supervisory Board of PZU entrusted the function of the Chairperson of the Board to Zbigniew Ćwiąkalski, the function of the Deputy Chairperson of the Board to Paweł Kaczmarek, and the function of the Secretary of the Board to Dariusz Filar.

Therefore, since 8 July 2015, composition of the Supervisory Board of PZU was as follows:

- Zbigniew Ćwiąkalski – Chairman of the Board;
- Paweł Kaczmarek – Deputy Chairman of the Board;
- Dariusz Filar – Secretary of the Board;
- Zbigniew Derdziuk – Member of the Board;
- Aleksandra Magaczewska – Member of the Board;
- Dariusz Kacprzyk – Member of the Board;
- Jakub Karnowski – Member of the Board;
- Alojzy Nowak – Member of the Board;
- Maciej Piotrowski – Member of the Board.

The criteria of an Independent Member of the Supervisory Board were met by Dariusz Kacprzyk and Dariusz Filar.

The current term of office of the Supervisory Board of PZU started on 1 July 2015 and will end after the lapse of three financial years. The mandates of members of the Supervisory Board expire not later than on the date of the General Shareholders' Meeting approving the financial statements for the last full financial year of their term. On 7 January 2016, the Extraordinary General Shareholders' Meeting of PZU removed the following people from the Supervisory Board: Zbigniew Ćwiąkalski, Zbigniew Derdziuk, Maciej Piotrowski, Dariusz Kacprzyk, Jakub Karnowski, Aleksandra Magaczewska, Dariusz Filar. Simultaneously, on 7 January 2016, it appointed the following people to the Supervisory Board of PZU: Piotr Paszko, Marcin

Chludziński, Marcin Gargas, Maciej Zaborowski, Eligiusz Krześniak, Radosław Potrzeszcz, Jerzy Paluchniak.

On 19 January 2016, the Supervisory Board of PZU entrusted the function of the Chairperson of the Board to Paweł Kaczmarek, the function of the Deputy Chairperson of the Board to Marcin Gargas, and the function of the Secretary of the Board to Maciej Zaborowski.

Therefore, since 19 January 2016, composition of the Supervisory Board of PZU was as follows:

- Paweł Kaczmarek – Chairman of the Board;
- Marcin Gargas – Deputy Chairman of the Board;
- Maciej Zaborowski – Secretary of the Board;
- Marcin Chludziński – Member of the Board;
- Eligiusz Krześniak – Member of the Board;
- Alojzy Nowak – Member of the Board;
- Jerzy Paluchniak – Member of the Board;
- Piotr Paszko – Member of the Board;
- Radosław Potrzeszcz – Member of the Board.

Competencies

The Supervisory Board exercises constant supervision over the Company's activities in all aspects of its business.

In accordance with the By-laws, the powers of the Supervisory Board include:

- review of the Management Board's report on the activities of the Company and financial statements for the previous financial year in terms of their compliance with the accounting records, documents and facts;
- review of the motions of the Management Board concerning profit distribution or loss coverage;
- presenting the General Shareholders' Meeting with a written report on the results of the review described above and submitting a brief annual assessment of the situation of the Company, including internal controls and key risk management and an annual report on the work of the Supervisory Board;
- concluding, terminating and amending the agreements with members of the Management Board and setting the terms and conditions of remuneration and the amount of remuneration;
- appointing, suspending and dismissing the Chairman of the Management Board, members of the Management Board or the entire Management Board, as well as making decision to stop the suspension;
- agreeing to transfer the entire or portion of the insurance portfolio;
- accepting motions of the Management Board concerning acquisition, assumption or disposal of shares in companies, as well as the Company's participation in other entities – the Supervisory Board may specify the amount, terms and conditions and the way in which the Management Board may carry out the activities without the acceptance of the Supervisory Board;
- delegating members of the Supervisory Board to temporarily perform the functions of members of the Management Board who have been dismissed, resigned or cannot perform their functions for other reasons;
- accepting instructions concerning votes being cast by the Company's representatives during the General Shareholders' Meeting of PZU Życie concerning: an increase and decrease in the share capital, bonds issue, disposal and lease of a PZU Życie enterprise or establishment of a usufruct right, division of PZU Życie combination of PZU Życie with a different company, liquidation or termination of PZU Życie;
- selection of the entity authorized to audit the financial statements which will audit the annual financial statements of the company;
- wording of the consolidated amended By-laws;
- approval of the long-term plans for the development of the company and annual financial plans drafted by the Management Board;
- approval of the regulations of the Management Board;

- examination and evaluation of issues submitted by the Management Board for discussion during the General Shareholders' Meeting.

Moreover, the Supervisory Board grants consent to:

- acquisition or disposal of a real property, perpetual usufruct or share in the real property or in perpetual usufruct exceeding the equivalent of EUR 3.0 million.
- conclusion of a material agreement by the Company and its related party, as understood by the Ordinance on current and periodic information, excluding standard agreements concluded by the Company on an arm's length basis as part of its operating activities;
- conclusion of the agreement by the Issuer with the underwriter referred to in Article 433.3 of the Code of Commercial Companies **GLOSSARY**;
- advance payment against expected dividend;
- creation and closing of regional and foreign branches.

Mode of operation

The Supervisory Board adopts the regulations of the Supervisory Board specifying its organization and the manner of performing activities. The regulations of the Supervisory Board were adopted by its Resolution of 9th October 2012 and specify its composition and the way in which its members are appointed, the tasks and the scope of its activities and the manner of calling the Supervisory Board and conducting debates.

The By-laws stipulate that the Supervisory Board should meet at least once every quarter.
The Supervisory Board may delegate its members to fulfill specific supervising activities on their own and to this effect appoint temporary committees. The scope of responsibility of a delegated member of the Supervisory Board and the committee is specified in a resolution of the Supervisory Board.

Resolutions of the Supervisory Board are adopted by an absolute majority of votes. In the event of a voting tie, the Chairman of the Supervisory Board has the casting vote. The resolutions of the Supervisory Board may be adopted using means of direct distant communication and in a written form. Additionally, the By-laws stipulate that a vote may be cast in writing through another member of the Supervisory Board.

In accordance with the By-laws, the resolutions of the Supervisory Board are adopted in an open ballot, except for resolutions concerning appointment of the chairman, Deputy Chairman and the Secretary of the Supervisory Board, delegation of members of the Supervisory Board to temporarily fill in for members of the Management Board and for resolutions with respect to appointing, suspending and dismissing the Chairman of the Management Board, members of the Management Board or the entire Management Board as well and taking decision to stop such suspension which are adopted in a secret ballot. Moreover, a secret ballot may be chosen on request of a member of the Supervisory Board.

The Supervisory Board appoints the Chairman and the Deputy Chairman of the Supervisory Board from its members and it may also select the Secretary of the Supervisory Board.

In accordance with the Regulations of the Supervisory Board, apart from appointing the audit committee and promotion and compensation Committee, provided for in the By-laws to properly perform its supervision, the Supervisory Board may appoint other permanent advisory and consultative committees whose competencies, composition and way of work is specified by regulations adopted by the Supervisory Board. The regulations of the Supervisory Board stipulate that the Supervisory Board and the appointed committees may use the services of experts and advisory companies.

Members of the Management Board, employees of the Company competent for the discussed issue selected by the Management Board and other persons invited by the Supervisory Board may take part in the meetings of the Supervisory Board; however, they cannot cast votes. In specific cases, the Supervisory Board of PZU may also invite members of the management board or a supervisory board of a different company in PZU Group. Moreover, members of the Supervisory Board, upon consent of the Supervisory Board, may select one advisor authorized to take part in the meetings of the Supervisory Board devoted to reports and financial statements, and give their advice, provided that such person respects confidentiality and signs a confidentiality statement.

At present, the following committees function as part of the Supervisory Board of PZU:

- Audit Committee;
- Promotion and Compensation Committee;
- Strategy Committee.

The By-laws provide for appointing an Audit Committee by the Supervisory Board. The Committee is composed of three members, including at least one independent member qualified in accounting or auditing. Detailed tasks and terms and conditions of appointing members of the Audit Committee and its functioning have been specified in a resolution of the Supervisory Board, which views relevant competencies and experience of the candidates for members of the Committee.

In accordance with the Regulations of the Audit Committee adopted by a resolution of the Supervisory Board, the Audit Committee is an advisory and consultative body to the Supervisory Board and is appointed to improve the effectiveness of the supervision of the correctness of financial reporting, effectiveness of internal control, including internal audit and risk management, exercised by the Supervisory Board. Moreover, the Audit Committee may apply to the Supervisory Board for commissioning specific controls in the Company to be exercised by an internal or external entity.

The Supervisory Board appointed the Audit Committee on 3 June 2008. Composition of the Audit Committee as at 1 January 2015:

- Dariusz Filar – Chairman of the Committee;
- Dariusz Daniluk – Member of the Committee;
- Tomasz Zganiacz – Member. of the Committee.

Dariusz Filar was indicated by the Supervisory Board as an independent member, having accounting and audit qualifications as defined in Article 86.4 of the Act on Statutory Auditors **GLOSSARY**.

In relation to the appointment of the Supervisory Board of PZU of the new term on 1 July 2015 by the General Shareholders' Meeting of PZU, at the session of 8 July 2015 the Supervisory Board of PZU established the following composition of the Audit Committee:

- Dariusz Filar – Chairman of the Committee;
- Dariusz Kacprzyk – Member of the Committee;
- Paweł Kaczmarek – Member of the Committee.

As at 31 December 2015, the composition of the Committee did not change.

In relation to the changes in the composition of the Supervisory Board of PZU, on 19th January 2016 the Supervisory Board of PZU established the following composition of the Audit Committee:

- Marcin Chludziński – Chairman of the Committee;
- Jerzy Paluchniak – Member of the Committee;
- Paweł Kaczmarek – Member of the Committee.

In accordance with the Regulations of the Supervisory Board, once the Company's shares are quoted on the regulated market, as understood by the Act on Trading in Financial Instruments of 29 July 2005, the Supervisory Board may appoint a Promotion and Compensation Committee.

In accordance with the By-laws, detailed responsibilities and the method of appointing members of the Promotion and Compensation Committee, the way it works and remuneration are specified in a resolution of the Supervisory Board. The Committee should include at least one independent member. If the Supervisory Board includes five members elected in a vote, the Promotion and Compensation Committee is not appointed and its tasks are carried out by the entire Supervisory Board.

According to the regulations of the Promotion and Compensation Committee adopted by a resolution of the Supervisory Board of 4 April 2013, it is an advisory and consultative body to the Supervisory Board and is to improve efficiency of the Board's supervisory activities related to establishing the management structure, including organizational issues, remuneration system, remuneration principles and selection of properly qualified staff.

The Supervisory Board decided that the promotion and compensation committee would be composed of five persons. Composition of the Promotion and Compensation Committee as at 1 January 2015:

- Zbigniew Ćwiąkalski – Chairman of the Committee;
- Zbigniew Derdziuk – Member of the Committee;
- Dariusz Filar – Member of the Committee;
- Maciej Piotrowski – Member of the Committee;

- Tomasz Zganiacz – Member, of the Committee.

In relation to the appointment of the Supervisory Board of PZU of the new term on 1 July 2015 by the General Shareholders' Meeting of PZU, at the session of 8 July 2015 the Supervisory Board of PZU established the following composition of the Promotion and Compensation Committee:

- Zbigniew Ćwiąkalski – Chairman of the Committee;
- Zbigniew Derdziuk – Member of the Committee;
- Dariusz Filar – Member of the Committee;
- Maciej Piotrowski – Member of the Committee;
- Paweł Kaczmarek – Member of the Committee.

As at 31 December 2015, the composition of the Promotion and Compensation Committee did not change.

In relation to the changes in the composition of the Supervisory Board of PZU, on 19th January 2016 the Supervisory Board of PZU decided that the Promotion and Compensation Committee should consist of 4 people, while simultaneously establishing the following composition of the Committee:

- Radosław Potrzeszcz – Chairman of the Committee;
- Marcin Gargas – Member of the Committee;
- Paweł Kaczmarek – Member of the Committee;
- Piotr Paszko – Member of the Committee.

The Committee is dissolved once five members of the Supervisory Board are elected in a vote cast in groups and its rights are then taken by the entire Supervisory Board.

According to the regulations of the Strategy Committee adopted by a resolution of the Supervisory Board of 4 April 2013, it is an advisory and consultative body to the Supervisory Board and is to improve efficiency of the Board's supervisory activities related to consulting of all strategic documents presented by the Management Board (in particular, the Company development strategy) and presenting the Supervisory Board with recommendations on planned investments that materially impact the Company's assets.

Composition of the Audit Committee as at 1 January 2015:

- Alojzy Nowak – Chairman of the Committee;
- Zbigniew Derdziuk – Member of the Committee;
- Aleksandra Magaczewska – Member of the Committee;
- Jakub Karnowski – Member of the Committee;
- Maciej Piotrowski – Member of the Committee;

In relation to the appointment of the Supervisory Board of PZU of the new term on 1 July 2015 by the General Shareholders' Meeting of PZU, at the session of 8 July 2015 the Supervisory Board of PZU established the following composition of the Strategy Committee:

- Alojzy Nowak – Chairman of the Committee;
- Zbigniew Derdziuk – Member of the Committee;
- Aleksandra Magaczewska – Member of the Committee;
- Jakub Karnowski – Member of the Committee;
- Maciej Piotrowski – Member of the Committee;

As at 31 December 2015 the composition of the Committee did not change.

In relation to the changes in the composition of the Supervisory Board of PZU, on 19th January 2016 the Supervisory Board of PZU decided that the Strategy Committee should consist of 6 people, while simultaneously establishing the following composition of the Committee:

- Alojzy Nowak – Chairman of the Committee;
- Marcin Chludziński – Member of the Committee;
- Marcin Gargas – Member of the Committee;
- Piotr Paszko – Member of the Committee;
- Radosław Potrzeszcz – Member of the Committee;
- Maciej Zaborowski – Member of the Committee.

Management Board

Composition

In accordance with the By-laws of PZU, the Management Board is composed of three to seven members appointed for a shared term which includes three consecutive full financial years.

Members of the Management Board, including the Chairman of the Management Board, are appointed and dismissed by the Supervisory Board. The CEO of the new term appointed before the end of the current term may apply to the Supervisory Board for appointing other members of the Management Board of the new term before the end of the current term.

Since 1 January 2015, composition of the Management Board was as follows:

- Andrzej Klesyk - Chairman of the Management Board;
- Przemysław Dąbrowski - Member of the Management Board;
- Dariusz Krzewina – Member of the Management Board;
- Tomasz Tarkowski – Member of the Management Board;
- Ryszard Trepczyński – Member of the Management Board.

On 30 June 2015, Ryszard Trepczyński's mandate of a member of the Supervisory Board expired, and on 1 July 2015, the Supervisory Board of PZU established the following composition of the Management Board of the new term:

- Andrzej Klesyk – Chairman of the Management Board;
- Przemysław Dąbrowski – Member of the Management Board;
- Rafał Grodzicki – Member of the Management Board;
- Dariusz Krzewina – Member of the Management Board;
- Tomasz Tarkowski – Member of the Management Board.

On 1 September 2015, the Supervisory Board of PZU appointed Witold Jaworski as a Member of the Management Board of PZU.

Therefore, since 1 September 2015, composition of the Management Board was as follows:

- Andrzej Klesyk – Chairman of the Management Board;
- Przemysław Dąbrowski – Member of the Management Board;
- Rafał Grodzicki – Member of the Management Board;
- Witold Jaworski – Member of the Management Board;
- Dariusz Krzewina – Member of the Management Board;
- Tomasz Tarkowski – Member of the Management Board.

On 8 December 2015, Andrzej Klesyk and Witold Jaworski submitted a statement of resignation coming into effect on 9 December 2015, and the Supervisory Board of PZU entrusted temporary performance of duties of CEO to Dariusz Krzewina.

As at 31 December 2015, composition of the Management Board was as follows:

- Dariusz Krzewina – acting as Chairman of the Management Board;
- Przemysław Dąbrowski – Member of the Management Board;
- Rafał Grodzicki – Member of the Management Board;
- Tomasz Tarkowski – Member of the Management Board.

The current term of the Management Board of PZU started on 1 July 2015 and will last until the end of three consecutive financial years. The mandates of members of the Management Board expire not later than on the date of the General Shareholders' Meeting approving the financial statements for the last full financial year of their term.

The Management Board exercises all management rights which have not been reserved by the provisions of law or provisions of the By-laws for the General Shareholders' Meeting or the Supervisory Board. The Company may be represented by two members of the Management Board acting jointly or one member of the Management Board acting with a commercial proxy. The Management Board adopts its regulations which are approved by the Supervisory Board.
The regulations of the Management Board were adopted by the Management Board on 2 October 2012, amended with a Resolution of the Board of 8 April

2013, and approved by a resolution of the Supervisory Board of 16 April 2013.

On 19 January 2016, Rafał Grodzicki i Tomasz Tarkowski submitted a statement of resignation, and the Supervisory Board of PZU established the following composition of the Management Board:

- Michał Krupiński – Chairman of the Management Board;
- Roger Hodgkiss – Member of the Management Board;
- Beata Kozłowska-Chyła – Member of the Management Board;
- Robert Pietryszyn – Member of the Management Board;
- Paweł Surówka – Member of the Management Board, appointed on 20 January 2016.

Therefore, since 19 January 2016, composition of the Management Board has been as follows.

- Michał Krupiński – Chairman of the Management Board;
- Przemysław Dąbrowski – Member of the Management Board;
- Roger Hodgkiss – Member of the Management Board;
- Beata Kozłowska-Chyła – Member of the Management Board;
- Dariusz Krzewina – Member of the Management Board;
- Robert Pietryszyn – Member of the Management Board;
- Paweł Surówka – Member of the Management Board (appointed on 20 January 2016).

The regulations of the Management Board determine:

- the scope of Management Board's competencies and activities that require approval or confirmation by the Supervisory Board;
- competencies of the Chairman and Members of the Management Board;
- principles and organization of Board's activities, including its meetings and decision making procedures;
- rights and obligations of Board members upon dismissal.

In accordance with the regulations of the Management Board, resolutions of the Management Board are especially required for:

- adoption of a long-term plan for development and operations of the company;
- adoption of an action and development plan for 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 Report on the activities of the company;
- approval of a motion concerning profit distribution or loss coverage;
- determination of premiums in the compulsory and voluntary insurance and general voluntary insurance terms and conditions;
- 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 investments, prevention and sponsoring;
- giving sureties and guarantees (excluding insurance operations) and taking out and giving credit facilities or loans by the Company (excluding credit facilities and loans given from the Company's Social Benefits Fund);
- appointment of a commercial representation.

In accordance with the regulations, meetings of the Management Board are held at least once a fortnight.

The work of the Management Board is administered by the CEO whose powers include in particular:

- defining the scope of responsibility of each member of the Management Board;
- calling meetings of the Management Board;
- setting the agenda of the meeting of the Management Board;

- applying to the Supervisory Board for appointing and dismissing members of the Management Board;
- designating a person to administer the work of the Management Board during the absence of the Chairman.

The work of the Management Board is administered by the CEO who defines the scope of responsibility of each member of the Management Board.

Resolutions of the Management Board are adopted only in the presence of the Chairman of the Management Board or a person designated to administer the work of the Management Board during their absence.

Resolutions of the Management Board are adopted by an absolute majority of votes and in the event of a voting tie the CEO has the casting vote. The Management Board, upon consent of the Chairman, may adopt resolutions in writing, on paper or in an e-form (i.e. using means of distant communication and a qualified electronic signature). The By-laws also provide that the meetings of the Management Board may be held using means of direct distant communication.

The Chairman of the Management Board takes decisions in the form of orders and official instructions. Other Members of the Management Board administer the operations of the Company within the scope specified by the CEO.

The By-laws of PZU do not provide for any special rights of the Management Board concerning decisions to issue or redeem shares.

Group Directors

Positions of PZU Group Directors were established at PZU in relation to the implementation of the management model, according to which Members of the Management Board of PZU Życie as PZU Group Directors are in charge of the same business areas and functions in both companies. The positions of PZU Group Directors are established based on Organizational Regulations of PZU (paragraph 20, item 3).

As at 1 January 2015, PZU Group Directors were the following:

- Rafał Grodzicki;
- Przemysław Henschke;
- Sławomir Niemierka
- Tobiasz Bury.

On 1 July 2015, the Supervisory Board of PZU appointed Rafał Grodzicki as a Member of the Management Board of PZU.

As at 31 December 2015, PZU Group Directors were the following:

- Tobiasz Bury;
- Przemysław Henschke;
- Sławomir Niemierka

On 29 January 2016, Tomasz Karusewicz was appointed a Director of the Group, and on 15 February 2016 Roman Pałac also was appointed to perform this function. Moreover, on 29 January the following people ceased to hold the position of Director of the Group: Tobiasz Bury and Przemysław Henschke.

As at the date of preparation of this Report on the activities, the following people have been performing the role of a Director of PZU Group:

- Sławomir Niemierka;
- Tomasz Karusewicz;
- Roman Pałac.

9.9 Remuneration of the members of the Group's bodies

Employment contracts concluded with the Members of the Management Board, approved by resolution of the Supervisory Board, do not include compensation for resignation or dismissal from their positions without a valid reason, or if the dismissal results from a business combination through an acquisition of the issuer.

Separate non-competition agreements regulate among others refraining from post-employment competition with PZU in exchange for damages. In 2014–2015, PZU Group companies included in consolidation did not grant any loans or similar benefits to members of their management boards, higher level managers or members of their supervisory boards.

Rules of granting annual bonuses to the Members of the Management Board

The bonuses of the Management Board's Members are dependent on their performance for the financial year. They are awarded by the Supervisory Board after the approval of the financial statements for the year.

The bonus amount depends on the performance of the business area supervised by the given Member of the Management Board; however, the areas that affect business results have much greater impact on remuneration than the support areas.

The value of remuneration paid to the Members of the Management and Supervisory Boards are presented in the 2015 Financial Report.

10

10 Management Board's Representation

Correctness and reliability of presented financial statements

The Management Board of PZU declares that, to the best of their knowledge, the financial statements of PZU and comparable data have been prepared in accordance with the applicable accounting principles and provide a true, fair and clear view of the economic and financial position and the financial result of PZU and the management report of PZU presents a true picture of its development and achievements, including a description of the main risks and threats.

Selection of the entity authorized to audit financial statements

The Management Board of PZU represents that the entity authorized to audit financial statements - KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k. - which audited the financial statements was selected in accordance with the provisions of law and that the entity and certified auditors who audited the financial statements met the requirements to express an unbiased and independent opinion on the audited financial statements, in accordance with the applicable provisions of law and professional standards.

Cooperation with international public institutions

PZU cooperates with the EIOPA (European Insurance and Occupational Pensions Authority) in the context of Solvency II.

Information on significant contracts concluded between shareholders

The Management Board of the Company has no knowledge about agreements concluded between the shareholders up to the publication date of this Management's Report of PZU, which may result in changes in the proportion of shares held by the shareholders. which could result in future changes in proportions of shares held by the existing shareholders.

Information on significant contracts concluded

On 16 October 2015, PZU issued a guarantee in relation to the liabilities of PZU Finance AB (publ) arising from the bonds issued by the company in the total value of EUR 350 million. The maximum value of the guarantee was not established. The guarantee issued by PZU is irrevocable and unconditional and will expire on the expiry of the bondholders' claims against PZU Finance AB. PZU is not entitled to receive any remuneration for the issuance of the guarantee.

On 19 October 2015, the Issuer took a loan from PZU Finance AB (publ) with a total value of EUR 350 million and the interest rate of 1.425% per year. The loan is to be paid back on 28 June 2019.

Related party transactions

On 16 October 2015, PZU issued a guarantee in relation to the liabilities of PZU Finance AB (publ) arising from the bonds issued by the company in the amount of 350 million EUR. The maximum value of the guarantee was not established. The guarantee issued by PZU is irrevocable and unconditional and will expire on the expiry of the bondholders' claims against PZU Finance AB. PZU is not entitled to receive any remuneration for the issuance of the guarantee. On 19 October 2015, the Issuer took a loan from PZU Finance AB (publ) with a total value of EUR 350 million and the interest rate of 1.425% per year. The loan is to be paid back on 28 June 2019. The loan was granted at arm's length. PZU Group companies provide services to each other, as part of their capital and business ties. With the exception of companies of the Tax Capital Group, transactions are concluded at arm's length.

Tax Capital Group

On 25 September 2014, a new Tax Capital Group agreement was signed, covering the following 13 PZU Group's companies: PZU, PZU Życie, Link4 Towarzystwo Ubezpieczeń SA, PZU Centrum Operacji SA, PZU Pomoc SA, Ogrodowa-Inwestycje Sp. z o.o., Ipsilon Sp. z o.o., PZU Asset Management SA, TFI PZU SA, Ipsilon Bis SA, PZU Finanse Sp. z o.o., Omicron SA, Omicron Bis SA. The tax capital group was established for a 3-year period - between 1 January 2015 and 31 December 2017.

PZU is the dominating and representing company of the tax capital group. In accordance with art. 25 section

1 of the CIT act, the tax capital group makes monthly settlements with the Treasury Office. PZU makes advance payments to the Treasury Office in scope of CIT owed from all companies, while PZU Życie provides PZU with advance CIT payments concerning the business activity of PZU Życie.

Seasonal or cyclical business

Operations of PZU are not of a seasonal or cyclical nature to the extent that would justify application of the suggestions presented in International Financial Reporting Standards.

Evaluation of financial resources management, including the ability to repay liabilities and definition of possible threats and activities, undertaken or planned by the Issuer to counteract these threats

The financial position of the Issuer is very good. It meets all the security requirements imposed by the Act on Insurance Activity and the Polish Financial Supervision Authority. A stable rating outlook of PZU confirms that the Issuer has a strong business position, high levels of equity and is a competitive entity in the insurance market.

Disputes

In 2015 and by the date of signing of this Management's Report of PZU Capital Group, PZU did not take part in any proceedings before court, body competent to hear arbitration proceedings or public authority body concerning liabilities or receivables of PZU or its direct and indirect subsidiaries with the value of at least 10% of the equity of PZU.

The description of court cases and proceedings before the President of the Office of Competition and Consumer Protection (OCCP) is included in the financial statements of PZU for 2015.

As at 31 December 2015, the total value of all 82,781 cases heard by courts, bodies competent to hear arbitration proceedings or public authority bodies involving PZU was PLN 3,406.6 million. The amount includes PLN 2,930.3 million of liabilities and PLN 476.3 million of receivables of PZU, which accounted for 23.66% and 3.85% of the equity of PZU calculated in line with PAS, respectively.

This Management Report of PZU for 2015 includes 96 pages with sequential numbers.

Signatures of Members of PZU Management Board

Michał Krupiński – Chairman of the Management Board

Przemysław Dąbrowski – Member of the Management Board

Roger Hodgkiss – Member of the Management Board

Beata Kozłowska-Chyła – Member of the Management Board

Dariusz Krzewina – Member of the Management Board

Robert Pietryszyn – Member of the Management Board

Paweł Surówka – Member of the Management Board

Warsaw, 14 March 2016

Appendix: Financial data

Data from the profit and loss statement (in PLN '000)	2015	2014	2013	2012	2011
Gross written premiums	8,858,036	8,261,752	8,273,900	8,453,498	8,247,241
Net earned premiums	7,897,960	7,902,639	8,108,036	8,277,136	7,906,271
Claims and benefits	5,036,629	5,230,864	5,047,077	5,473,011	5,386,563
Acquisition expenses, including reinsurance commission	1,571,480	1,522,886	1,366,807	1,494,696	1,484,866
Administrative expenses	753,737	729,142	662,694	676,296	633,907
Technical result	636,334	564,429	1,061,855	640,118	332,297
Net investment result	2,023,981	2,568,038	4,633,302	2,472,660	2,843,963
Gross profit (loss)	2,475,921	2,854,524	5,390,880	2,924,381	2,741,606
Net,profit,(loss)	2,248,522	2,636,733	5,106,345	2,580,720	2,582,303

Main balance sheet items (in PLN '000)	31 December 2015	31 December 2014	31 December 2013	31 December 2012	31 December 2011
ASSETS, including:	**36,358,361**	**34,629,778**	**30,136,572**	**29,913,216**	**27,397,857**
Financial assets	32,356,048	31,030,939	27,609,398	27,591,485	24,882,946
Receivables	1,801,903	2,437,819	1,496,637	1,473,952	1,487,399
LIABILITIES, including:	**36,358,361**	**34,629,778**	**30,136,572**	**29,913,216**	**27,397,857**
Equity	12,378,733	12,328,724	12,259,761	13,452,581	11,745,410
Technical provisions	17,540,493	16,861,181	15,912,942	14,933,110	13,895,347
Other liabilities and special funds	5,109,816	4,598,574	1,280,359,	810,652	826,280
Accruals and deferred income	856,403	576,129	518,282	498,518	517,914

Assets to cover PZU technical provisions (in PLN '000)	2015	% of technical provisions	Maximum limit %
A. Technical provisions	**18,577,330**	**100.0%**	
B. Assets to cover technical provisions, total	**20,535,296**	**110.5%**	
1. Debt issued or guaranteed by the State Treasury and international organizations to which the Republic of Poland belongs without any limitations	6,841,108	36.8%	without limitations
2. Bonds issued or guaranteed by local authorities or associations of local authorities without any limitations	26,251	0.1%	without limitations
3. Other fixed revenue instruments	541,460	2.9%	10%
4. Investment fund units	6,843,761	36.8%	40%
5. Mortgage loans	917,623	4.9%	25%
6. Non-mortgage loans	200,901	1.1%	5%
7. Investment certificates in investment funds	1,801,248	9.7%	10%
8. Property or its part excluding property or its part for own use	41,056	0.2%	25%
9. bank deposits	1,391,806	7.5%	without limitations
10. Receivables	336,900	1.8%	25%
11. receivables from the State Budget	63,641	0.3%	without limitations
12. Tangible assets, other than property, if amortized using the prudence principle	118,398	0.6%	5%
13. Cash	4,397	0.0%	3%
14. Deferred acquisition expenses compliant with the principles of determining provision for unearned premium in section I of the attachment to the Act and in compliance with the unearned premium reserve calculation in section II without any limitations	845,148	4.5%	without limitations
15. Reinsurers' share in technical provisions	518,419	2.8%	25%
16. Mortgage bonds	43,179	0.2%	10%
C. Surplus (shortage) of assets covering technical provisions	**1,957,966**	**10.5%**	

One-off events in PZU (in PLN million)	2015	2014	2013	2012	2011
Change in the rates for annuity provision				(234.2)	
Provisions for employee benefits due to the termination of the Collective Bargaining Agreement				147.8	
Technical result on contract bonds Insurance in the corporate insurance segment				(93.2)	
Provision for the Office of Competition and Consumer Protection penalties					(67.9)
Reinsurance settlements in the scope of the Green Card cover			53.2		(91.8)
Claims and benefits arising from snowfall and flood damages					
Dividend financing costs					

Appendix: Glossary

Act on Insurance Activity – Ustawa z dnia 11 września 2015 roku o działalności ubezpieczeniowej Act on Insurance and Reinsurance Activity of 11 September 2015 (Journal of Laws of 2015, item 1844); the majority of its provisions have been effective as of 1 January 2016. The Act introduces the Solvency II requirements to the Polish legal systems.

ATI (Accounting and Tax Institute) – the task of the Institute is to improve the professional qualifications of financial, accounting and management personnel, setting the standards of financial reporting, creating changes in tax and accounting law, disseminating good practices in business, and thus better preparing Polish companies and institutions to operate under highly competitive environment of European Union member states.

Act on statutory auditors – Act on statutory auditors and their self-governing body, auditing firms and on public oversight of 7 May 2009 (Journal of Laws of 2009, No. 77, item 649, as amended).

BLS (direct claims handling) – a system of handling a claim by an insurance company which issued MTPL insurance policy of the injured party, not the perpetrator. It has been operating in Poland since 1 April 2015 under PIU (Polish Chamber of Insurance). Once the claims handling process is finished, the insurance companies settle the amount as a lump-sum via the Polish Chamber of Insurance (PIU).

cedent – a person assigning a liability to a buyer.

CEERIUS (CEE Responsible Investment Universe) – is an index of Wiener Börse for Central and Eastern European (CEE) companies. It consists of companies that meet quality criteria in the social and ecological area.

Civil Code – Act of 23 April 1964 – Civil Code (Journal of Laws No. 16 of 1964, item 93, as amended).

Code of Commercial Companies – Act of 15 September 2000 – Code of Commercial Companies (Journal of Laws of 2000, No. 94, item 1037, as amended).COR - Combined Ratio – combined ratio calculated for the non-life sector (class II). It is the ratio of all the insurance expenses related to insurance administration and payment of claims (i.e. the costs of claims, acquisition and administration) to earned premium in a given period.

CSR – **Corporate Social Responsibility** – a concept according to which, upon drafting its strategy budowania strategii , a company voluntarily includes in its social interests and environment protection issues, as well as relations with various interest groups interesariuszy.

earned premium – a written premium in a given period giving consideration to the settlement of revenues (premiums) over time through movement in premium provision.

Everest-– a system for managing non-life insurance which is being implemented in PZU.

free float – a public company's shares that are not locked-in. It is the ratio of the number of shares not held by large investors to the total number of outstanding shares. In other words, all the publicly-traded shares that are freely available.

gross written premium – a gross amount of premiums (without including the reinsurers' share) due on the insurance contracts executed in a financial year, regardless of the term of liability established by these contracts.

insurance agent – an entrepreneur performing agency activities under an agreement concluded with the insurance company. The agents' activities focus on: customer acquisition, concluding insurance contracts, participating in the administration and performance of insurance contracts and organizing and supervising the activities of the agency.

insurance broker – an entity authorized to pursue brokerage activities. A broker performs activities in the name of or on behalf of a person or entity seeking insurance coverage.

inward reinsurance – reinsurance activity entailing a reinsurer or reinsurers accepting a portion of the insurance or groups of insurance yielded by the cedent.

OCCP – Office of Competition and Consumer Protection. www.uokik.gov.pl

Ordinance on Current and Periodic Information – the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information submitted by issuers of instruments and conditions for recognizing as equivalent information required by the laws of a non-member state (Journal of Laws of 2009, No. 33, item 259).

outward reinsurance – reinsurance activity entailing an insurer (cedent) yielding a portion of the executed insurance contracts to a reinsurer/reinsurers in the form of a reinsurance contract.

WSE – Warsaw Stock Exchange

Payout ratio – a dividend payout ratio, i.e. the quotient of the dividend paid and the company's net result stated as a percentage.

PFSA – Polish Financial Supervision Authority, www.knf.gov.pl

PIU (Polish Chamber of Insurance) – insurance economic local authority which gathers all insurance companies operating in Poland.

profit margin in group and individually continued insurance (in PZU Życie) – a ratio calculated as the ratio of the operating profit to gross written premium in the group and individually continued insurance segment, net off one-off effects such as, for instance, the conversion effect, namely the conversion of long-term contracts into short-term contracts and changes to technical rates, namely the rate used to discount technical provisions.

reinsurance – yielding all or a portion of an insured risk or a group of risks along with the commensurate portion of the premiums to some other insurance company – a reinsurer.

As a result of reinsurance, there is a secondary split of the risks making it possible to minimize the risks to the insurance market.

RESPECT Index – index of companies quoted on the Warsaw Stock Exchange which are characterized by a responsible and stable way of management and high quality of reporting, investment relations level and information governance.

risk-free rate – the rate of return on risk-free financial instruments. PZU's risk-free rate is based on yield curves for treasury instruments, and it is also the basis for setting transfer prices in settlements between operating segments.

Solvency I – the solvency margin for insurance companies. The system operating in the European Union from the 1970s to 31 December 2015.

Solvency II – capital requirements for European insurance companies based on the risk undertaken. The requirements have been effective as of 1 January 2016.

Solvency Capital Requirement, SCR – a capital requirement calculated as per Solvency II provisions. Calculation of the capital requirement is based on the calculation of the following risks: market, actuarial (insurance), counterparty insolvency, catastrophe, and operating risk, and afterwards undergoes a diversification analysis. The ratio can be calculated under a standard formula or, once an applicable permit of a supervisory body has been obtained, using a whole or partial internal model of the company.

solvency margin – the amount of an insurance undertaking's shareholder funds no lower than the minimum guarantee fund which is required to ensure that the undertaking remains liquid.

solvency margin coverage ratio – a statutory ratio (under Solvency I) specifying the level of capital security for the business conducted by an insurer; by law, this ratio should be above 100%.

solvency ratio – a statutory ratio (under Solvency II) specifying the level of capital security for the business conducted by an insurer; by law, this ratio should be above 100%.

S&P rating – a credit risk assessment performed by Standard & Poor's. An A- rating means that issuers of debt instruments have a high capability of servicing their obligations giving consideration to the emergence of factors diminishing that capability.

sum insured – the cash amount for which an insured object is insured. In non-life insurance the sum insured ordinarily constitutes the upper limit of the insurer's liability.

S recommendation – a recommendation of PFSA concerning good practices in scope of exposures collateralized with mortgages.

technical provisions – provisions which should ensure full coverage of all current and future liabilities that may arise from insurance contracts. Technical provisions include in particular: provision for unearned premiums, provision for unpaid claims and provision for unexpired risks, provision where the investment risk is born by the policyholders, provision for bonuses and rebates for the policyholders.

technical rate – the rate used to discount technical provisions in life insurance and provisions for capitalized annuities in third party liability insurance. According to the Finance Minister's Ordinance of 28 December 2009 on the special accounting standards for insurance and reinsurance undertakings, the technical rates used by an insurance undertaking may not be higher than 80% of the weighted-average rate of return on investments covering technical provisions during the most recent three financial years. PFSA calculates and announces the maximum technical rate by 31 January of every year.

TSR – Total shareholder return (market price of shares at end of the period - market price of shares at the beginning of the period + dividend paid in the period) / market price of shares at beginning of the period.

Underwriting – the process of selecting and classifying risks declared for insurance to estimate and accept, according to suitable terms and conditions, or reject an insurance risk.

unit-fund – fund related to life insurance where the investment risk is borne by the policyholders.

U Recommendation – a recommendation of PFSA concerning good practices in scope of bancassurance.

WIBOR6M – a reference interest rate on a six-month-long loan on the Polish interbank market.

WIG20TR – the WIG20 index including the dividends paid by companies.

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 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 and the external environment in which the PZU will operate in the future. PZU expressly waives any and all obligations or commitments concerning distribution of any updates or adjustments to any of the assumptions contained in these Financial Statements of PZU, 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 forward-looking statements do not constitute a guarantee as to the future results, and the company's actual financial standing, business strategy, management plans and objectives concerning the future operations may considerably differ from those presented or implied in such statements contained in these Financial Statements of PZU. Moreover, even if the PZU financial standing, business strategy, management plans and objectives concerning the future operations comply with the forward-looking statements contained in these Financial Statements of PZU, such results or events may not be treated as a guideline as to the results or events in the subsequent periods. PZU does not undertake to publish any updates, changes, or adjustments to information, data or statements contained in these Financial Statements of PZU 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 is not liable for the effects of decisions made following the reading of the Financial Statements of PZU.

At the same time, these Financial Statements of PZU may not be treated as a part of a call or an offer to purchase securities or make an investment. The Financial Statements of PZU does not constitute also an offer or a call to effect any other transactions concerning securities.

2015 PZU Group Management Report

PZU

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In the Report posters from internal communications for PZU employees were used.

~16m
clients in Poland

No.1
in written premium on the non-life insurance market in Poland

84.0%
of clients satisfied with claims handling process

9.1 thousand
agents in own agency network

13.2%
share in the open pension fund market in terms of accumulated assets

PLN 2.3 billion
in the Group's 2015 result

No.1
in written premium on the life insurance market in Poland

11.2%
share in the investment fund market in terms of net accumulated assets

43.9%
share in the life insurance market in Poland as per regular premium after Q3 2015

33.0%
share in non-life insurance market in Poland after Q3 2015

18.0%
return on equity in 2015.

16.8 thousand
on a yearly average employment as per FTE

No.1
in written premium on the non-life insurance market in Lithuania and Latvia

94.6%
combined ratio (COR) in non-life insurance

CEO Letter to Shareholders

Michał Krupiński Chairman of the Management Board of PZU

We should put all our efforts into offering our clients the best and most innovative insurance products that will protect their future, health, and property.

Ladies and Gentlemen,

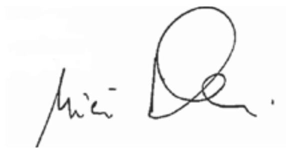
2015 was surely not an easy year for PZU Group. The financial result is the lowest since PZU's IPO – the net result has dropped by 21.1% year-on-year to reach PLN 2,342.2 million. The ROE (attributable to the parent entity) amounted to 18% and was 4.6 p.p. lower than the year before. Thus, last year was another witness to higher costs and lower profits. As a result of the poor situation on financial markets, the investment result dropped by over 34% year–on–year, which means nearly PLN 1 billion. At the same time, the profitability in insurance business decreased. This tendency requires a strong reaction from us.

The weaker performance of the Group in recent times does not, however, undermine the foundations of PZU's strong and stable standing. In the insurance sector, PZU continues to be the leader in Poland in non-life (31.2%) and life insurance (43.9%, regular premium policies). PZU Group continues to be a leader in Lithuania and Latvia, where its share of the domestic, non-life insurance market amounts to 31.1% and 25.1% respectively. Even though the health insurance sector has not yet contributed greatly to the Group's revenues, it can take pride in its dynamic growth. This can be observed in the gross written premium from group health insurance, which rose by 46% year–on–year. We continue to consolidate and use the effects of synergy with Link 4, which can be a relevant source of innovation and growth for the Group, in a similar way to the companies acquired in the Baltic states. At this point, it is also worth remembering that the Group acquired a 25% share package in Alior Bank.

To sum up: the Group's situation is first and foremost a stimulus for change, and as such it constitutes an incentive for growth. It forces us to recalibrate our focus, to concentrate on the area that has been the cornerstone of the PZU identity for over 200 years – the insurance business. We should put all our efforts into offering our clients the best and most innovative insurance products that will protect their future, health, and property. That is why we will concentrate on ensuring that our core business is highly profitable, stable, and future-oriented in everything we do.

I am sure that when we join together in a common effort and use the strong foundations of the Group, best practice, and innovative solutions offered by the global market; we will reverse the negative trends. We will transform PZU into a strong leader who actively conquers new markets, new clients, and new areas of business. I am sure that our shareholders share my optimism and I would like to thank them for their trust, which motivates both the Management Board and myself to further work.

Best regards,



Michał Krupiński
Chairman of the Management Board of PZU

Chairman of the Supervisory Board Statement

Paweł Kaczmarek Chairman of the Supervisory Board of PZU

2015 was a good time for the Polish economy, but less so for the insurance business.

We are closing it with the ambition to improve on the indicators which adversely affected the Group's results.

Ladies and Gentlemen,

2015 was a year of external factors whose variability affected the operations of PZU Group. It was a good time for the Polish economy, but less so for the insurance business. Insurers had to take into consideration a number of factors, such as low interest rates, a difficult capital market situation, and regulatory changes in Poland and in the European Union.

However, all these factors did not threaten PZU's position as a leader in the Polish insurance market. As a result of its latest acquisitions (the purchase of several RSA Group companies, including Lietuvos Draudimas and AAS Balta), the Group also strengthened its position in Central and Eastern Europe. Today, we can say with pride that PZU is among the largest and most dynamic financial institutions in the region.

In 2015, there was also ongoing work on the new Act on Insurance and Reinsurance Activity as part of the implementation of the Solvency II directive. We now know that the capital standing of PZU after implementation of the EU directive will remain strong. The ratios estimated at the end of Q3 2015 are nearly three times higher than the capital requirements. This puts PZU at the forefront of European insurers.

The demand for insurance services in 2015 remained stable, yet a higher claims ratio in group and individual life insurance and a low yield in motor insurance made it more difficult to achieve satisfactory profits. A price competition on the market has been observable for quite some time now, and last year, it aroused the interest of the Polish Financial Supervision Authority (PFSA). In one of its open letters, the Authority requested that insurance companies review their profitability. As a result, we should expect that the market will be forced to increase premiums for general motor TPL insurance. However, the implementation of the PFSA guidance by insurers should translate into improved profitability in this segment in the future.

There was also a second important PSFA recommendation last year from the perspective of insurers, on the claims handling process. The Authority stressed the need for fair valuations and the use of original spare parts, which may in turn result in higher premiums in motor insurance.

The high investment result achieved last year put a great deal of pressure on the Group this year to match those results. Unfortunately, the higher yield of Polish treasury bonds prevented us from doing so, with net investment result being nearly 34.3% lower in 2015 than 2014. That exerted significant influence on the total performance of the Group.

The good news, on the other hand, is that a new record was set in gross premiums collected. In 2015, PZU Group sold insurance worth almost PLN 18.4 billion, 8.7% more than in 2014. Life insurance and motor insurance, especially third-party liability motor insurance, contributed most to that success.

We are closing 2015 with the ambition to improve on the indicators which adversely affected the Group's results.

In the months to come, we will be focusing on trends in both the global and local economy. The current forecasts suggest that high price fluctuations on the global financial markets will continue to occur, which may, in turn, have negative effects on our investment result. The condition of Polish currency will be a major domestic factor as it affects spare parts pricing in motor insurance. The final operating result of the Group will also depend upon the level of taxation on the assets of financial institutions, which was introduced in January 2016.

I would like to thank all PZU employees for their contribution toward building the value of our company in the last year.

At the same time, I wish all the best to the new management board. I truly believe that PZU Group has many successful years ahead of it.

Best regards,

P. Kaczmarek

Paweł Kaczmarek
Chairman of the Supervisory Board of PZU

01

Brief overview of PZU Group

PZU Group is the leader of the Polish market and one of the key insurance and investment companies in CEE.
The operations of the Group are focused on the 3 areas: Insurance, Investments, and Health care, while its core values continue to be: Transparency, Efficiency, and Innovations.
As a leader on the insurance market, the Group sets high standards for products and fulfilling the promises given to the Clients by acting as a Market Watchdog.

Brief overview of PZU Group

33.0 % Number one in the non-life insurance in Poland – market share

43.9 % Number one in the life insurance in Poland – market share by regular premium

11.2 % Number two in the ranking of mutual fund companies – share in net assets value

13.2 % Number three in the open pension funds – share in OFE assets

31.1 % Number one in non-life insurance in Lithuania (31.1 %) and Latvia (25.1%)

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

The operations of PZU Group are focused on the 3 business segments: Insurance, Investments, and Healthcare.
For many years, PZU Group has ensured comprehensive insurance coverage in all crucial areas of private and economic life by protecting life, property, and health of its clients. The main insurance companies in Poland within the Group are the following: PZU (non-life insurance) and Powszechny Zakład Ubezpieczeń na Życie S.A. (PZU Życie - life insurance).

„We ensure peace of mind looking into the future”

Since 2014, following the acquisition of Link4, the Group has been operating under two brands: a more traditional one, the PZU brand, and Link4, which is targeted to clients opting for electronic sales channels. By dynamically expanding its product and offer portfolio, the Group maintains its position as the market leader in non-life insurance (33.0% market share) and life insurance (43.9% share in regular premium market) in Poland. Moreover, in 2015, Towarzystwo Ubezpieczeń Wzajemnych – TUW PZUW was established and from 2016 is planned to focus on insurance for medical centers and contribute to optimization of contribution for its members.

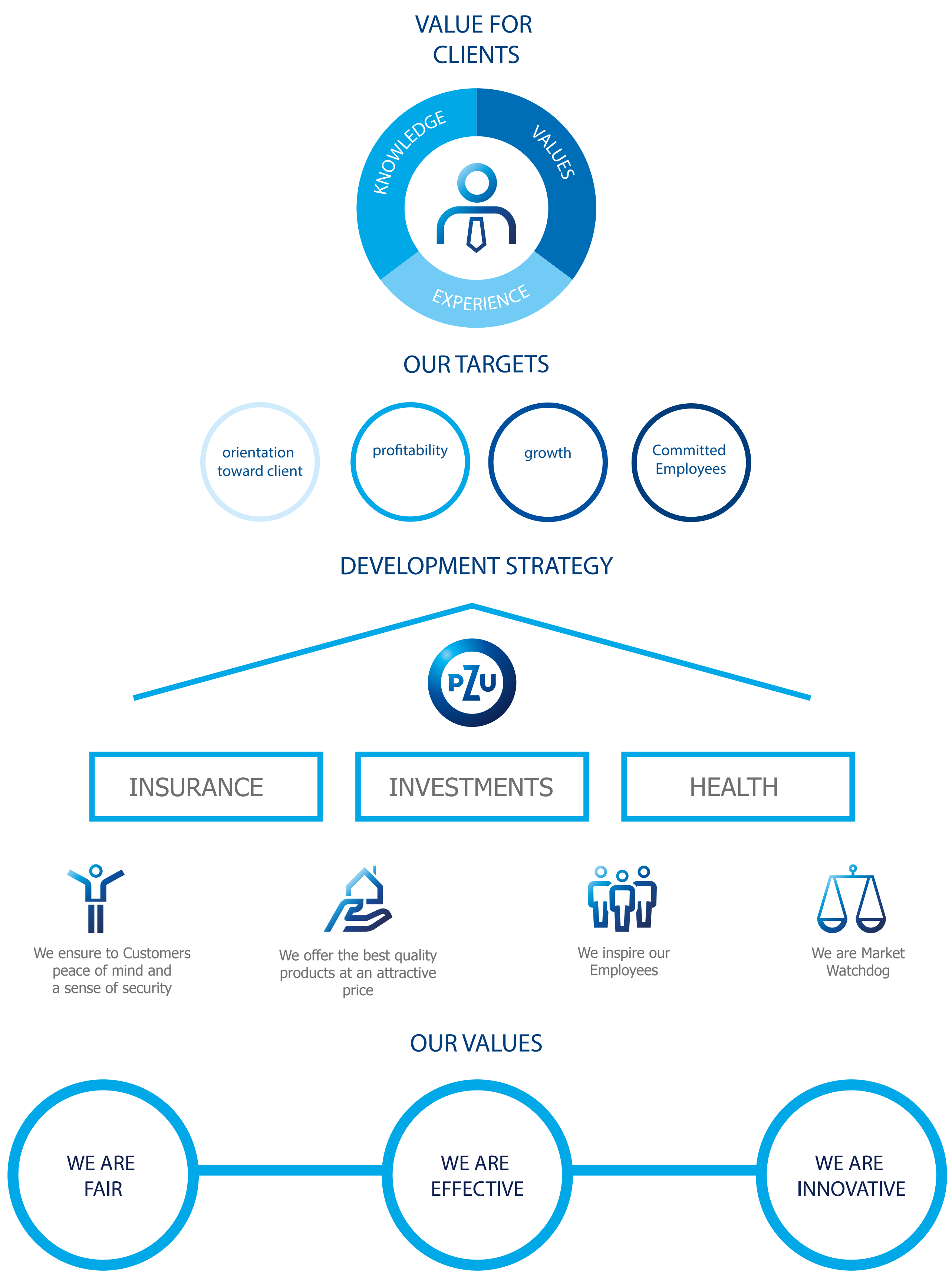
As part of its investment operations performed under the PZU Inwestycje brand, PZU Group offers a wide range of asset management services, including management of open pension funds and investment funds, as well as saving schemes.

PZU is intensively developing the health insurance segment and additional health care services under the PZU Zdrowie brand to meet the needs of PZU clients in an improved and more comprehensive manner.

Building on the foundation of the long insurance tradition in Poland, PZU has been expanding its operations into Central and Eastern Europe for the past few years. Thanks to the consistent realization of the expansion strategy, according to data for three quarters of 2015, PZU Group held first place in the CEE region. When it comes to the scale of operations and the number of clients, the Group's primary market of operations continues to be Poland, but PZU's subsidiaries play an important role on the markets of Lithuania, Latvia, Estonia, and Ukraine. In 2015, the expansion into the Baltic states was concluded. PZU Lithuania was sold in September 2015. This disinvestment was the condition for obtaining permits for the acquisition of Lietuvos Draudimas, the biggest insurer in Lithuania. Today, PZU Group is number one on the markets of Lithuania and Latvia.

Concerning the investment activity, the Group purchased a considerable stake in the share capital of Alior Bank S.A. (Alior Bank) in 2015, opening the way to a more comprehensive involvement in Bancassurance products and initiatives. Total shares of almost 30% allow PZU Group to take control of Alior Bank and thus increase the total balance of PZU Group by around PLN 40 billion by the end of 2015.

PZU values, goals, and aspirations



PZU Group aspires
to distinguish itself among current and potential competition by continuing to strengthen its market position by focusing the Group's activity on client satisfaction and loyalty.

PZU Group's values
The three key values of PZU Group are: Transparency, Innovation, and Efficiency. These values are the foundation for relations with clients, employees, and all other PZU stakeholders.

Transparency – No fine print
The Group offers products with no fine print – solutions with no hidden charges, unclear limitations or liability exclusion. The products offered by PZU are presented in a clear and coherent way. This reduces miscommunication and guarantees that the client knows what to expect from the Group and responsibilities that it assumed. The conception of transparency and simplicity is not limited to traditional life and non-life insurance, but also covers the so-called investment policies, i.e. insurance serving as a regular savings plan. PZU Group positively distinguishes itself among the entities on the market who often abuse clients' trust or simply mislead them.

Innovations
In the face of the continuously changing environment, growing customer demands, and operations of the competition, PZU Group strives to keep improving both its offer and internal processes. The PZU Group's Innovation Strategy was introduced in 2015 to ensure understanding of the long-term goals throughout the entire organization.

Our Strategy of Innovation focuses on promoting cultural patterns that facilitate innovation, including openness to change, thinking outside the box, and creating a space for experiments, with a strong accent on a "try and test" method that allows for new operating methods, and – as a result – new proposals for our clients. This strategy is carried out through appropriate selection of employees, who realize the long-term business objectives and try to break through existing behavioral patterns and old processes. Simultaneously, an innovation evaluation process was started, which includes implementation of individual measures such as number of innovations in total submitted ideas or number of completed innovations among total innovations, value of savings and additional revenue obtained through implementation of an innovation.

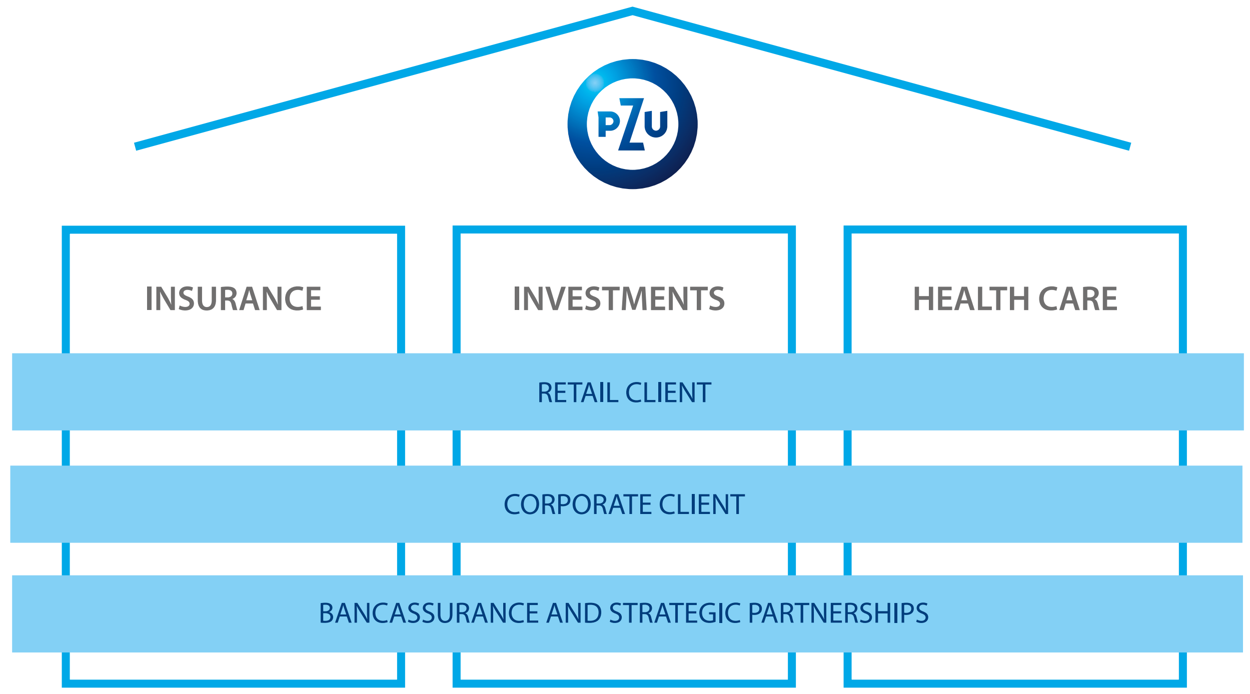
The Group's innovative products establish new market standards. In 2015, PZU launched sign language services at its branches. In 2014, PZU was the first entity on the market to introduce direct claims handling. PZU's services include the option of taking advantage of the innovative fleet of 300 replacement cars. In its promotion of ecological claims handling solutions, PZU offers bicycles to own instead of replacement cars. The Link4 offer was expanded by solutions calculating the insurance premium based on actual driver behavior in traffic to promote safe and ecological driving. PZU Lab was established for corporate clients in order to improve their risk management and consequently reduce the likeliness of events covered by the policy and lower its price. The Group's role as a "market watchdog" sees its innovative projects establish top quality standards of relations with the clients.

Efficiency
Operating efficiency is a necessary condition to build a competitive market offer and fulfill the Group's obligations towards shareholders, employees, suppliers, and other business partners. One of the key projects aimed to increase operating activity is the Everest platform – a system implemented from 2014 in non-life insurance. The high operating effectiveness combined with the scale of the Group's activity provides PZU with the potential to reach cost effectiveness at a level unreachable to other players on the market. By combining above-average cost effectiveness with an innovative offer, PZU acts as the so-called market watchdog – a leader in the field ensuring high standards of the market offer.

Insurance - PZU Group offers a broad range of insurance products. The gross written premium for 2015 reached the record value of PLN 18.4 billion. PZU and PZU Życie are the leaders of the insurance market in Poland; The Group is also the leader in the Baltic states and a major player in Ukraine – total written premium gathered on these markets in 2015 constituted 7.4% of the Group's gross written premium. For years, the most important element of the Group's activity has been insurance, representing over 90% of the profits.

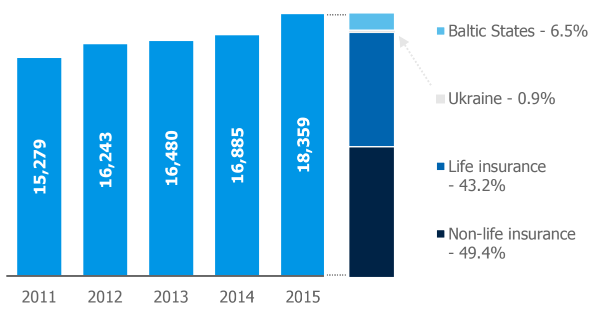
Investments – PZU is the biggest asset-management company on the Polish market. At the end of 2015, the assets of external clients managed by TFI PZU and PTE PZU amounted to PLN 25.3 billion. PZU is also the unquestioned market leader in employee pension programs, managing 509 EPP

Areas of the Group's business
PZU Group's activity is focused on the following 3 areas:



with total assets exceeding PLN 4.6 billion. High competences concentrated in scope of TFI PZU and PTE PZU provide the potential for acquiring important assets of both individual and institutional investors from the market. The activity of the Investments segment focuses on taking advantage of the extensive asset management experience and skills and offering more niche investment funds besides traditional closed and open ones (stock, mixed, stable growth, debt, etc.), such as PZU Energia Medycyna Ekologia, FIZ Akord, FIZ Dynamiczny, i.e. funds operating in a specific market segment and attempting to produce above-average management profits, not correlated with changes to market indexes (the so-called absolute rate of return funds).
Simultaneously, PZU holds a considerable portfolio of own investments which constitute more than insurance liabilities.

Gross written premium(PLN million)



Health – developing the health insurance and health care services segment from 2014, PZU is cooperating with 1,580 health care centers (hospitals, clinics, counseling centers). The Group is simultaneously expanding the portfolio of own medical establishments.

PZU Group plans to become an integrated operator of coordinated health care by building a comprehensive product offer, creating a network of own medical establishments supported by the nationwide external network, and providing unique and customer-friendly service and appointment organization model.

The activity undertaken in scope of the area of Health segment takes advantage of PZU's long experience in medical policies. The purpose of PZU health insurance and medical subscriptions is to provide services at private medical establishments with qualified staff and high quality diagnostic equipment. With current PZU's offer, patients are allowed to take advantage of extensive medical care – from diagnostics, through treatment, to rehabilitation. The activities in this segment will successively raise the number of medical establishments open to the Group's clients. By offering medical services to the patients, PZU simultaneously guarantees the high quality of said services.

PZU Group's Clients

Nearly 16 million clients in Poland benefit from PZU's services and products, 12 million of which in group and individually continued life insurance. On average, a typical individual Polish customer of PZU takes advantage of 1.5 of the Group's products. The 2015 surveys showed that the satisfaction level among PZU clients who benefited from claims handling by PZU or received payment of benefits from PZU Życie within the last 12 months was 7 p.p. higher than that of the competition. The Net Promoter Score (NPS) among the Group's clients was 11%[1]. In turn, the NPS among Link4 clients was 10%, 3 p.p. higher than that of the competition in the direct market.[2]

PZU Group is consequently trying to stay close to its current and potential clients – to their needs, ambitions, and aspirations. All undertaken activities – from insurance product concepts, through customer communication channels, to the activity in scope of Social Business Responsibility, are designed to adapt PZU's offer to the demands of its clients as closely as possible. The Group aims to address said demands as best as it can at every level of mutual relations – from the choice of insurance products, through preferred communication and sales channels, to issues associated with claims handling and benefits payments. The Group applies Big Data tools and methods in its activity to support segmentation and profiling of the clients (both individual and corporate), identification of factors contributing to client resignations, or improved handling of customer demands through application of prediction models.

[1] Monthly survey carried out by GFK Polonia at the request of PZU. Presented data constitute an accumulated result of monthly assessments from January to December 2015

[2] Monthly survey carried out by GFK Polonia at the request of PZU. Presented data constitute an accumulated result of monthly assessments from January to December 2015

Product Offer

PZU Group's offer is the most extensive insurance and investment offer on the Polish market. It covers over 300 types of insurance and investment products addressed to all Customer Segments.

The Group's insurance products are offered under two complementary brands: the more traditional PZU brand and the Link4 brand, which is associated with direct sales channels.

The Group focuses on the innovative profile of the product offer. PZU was the first institution in Poland to create the Voluntary Pension Fund and propose Individual Retirement Security Accounts. For several years, the Group has been assigning considerable funds to develop health insurance offer. The Group was the first to introduce medicine insurance on the Polish market.

Protection of property and securing third-party property against damage	Accident cover	Savings	Securing the future of the family	Preparations for retirement	Health care
• Motor TPL and motor own damage insurance • Other property insurance • Financial insurance	• Accident insurance • Assistance services	• Structured products • Participation units in investment funds	• Group and individually continued protection products • Individual protection insurance	• Pillar II of the pension system – open-ended pension funds • Pillar III of the pension system (employment pension products-EPP, individual pension accounts – IKE and individual pension security accounts – IKZE))	• Health insurance • Medicine insurance • Health care services: general health care and additional services packages

The Group's offer is broadened with a range of investment products – open and closed investment funds – and pension products – open pension funds, individual pension accounts, individual pension protection accounts with voluntary pension fund, employee pension programs. The Group offers investment solutions adapted to the needs of all investor types, including innovative employee pension programs optimizing tax privileges associated with individual pension accounts (IKE) and individual pension security accounts (IKZE).

Sales and customer service channels

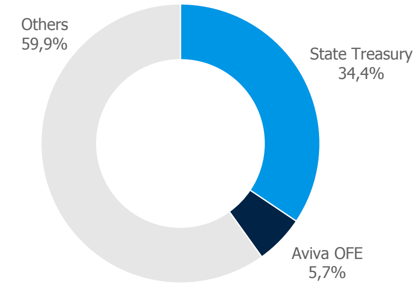
An important element of the Group's offer is the biggest network of own branches and other options for communication between the clients and PZU on Poland's insurance and investment market. Besides 414 own branches, the Group offers over 9000 exclusive agents, over 3100 multiagencies, almost 1000 insurance brokers, direct channels (internet, call centre), and a sales network of 10 partner banks and 6 other strategic partners.

Value for shareholders

PZU has been quoted on the Warsaw Stock Exchange since 2010. The value of PZU's first public offer (IPO) PZU was almost PLN 8.1 billion. This was the biggest IPO in the history of the Polish capital market, the biggest offer in Central and Eastern Europe from the beginning of the economic transformation, and the biggest IPO in all of Europe since 2007.

The key shareholder of PZU is still the Ministry of the State Treasury, which represents 34.4% of the share capital. The remaining shareholders are both Polish and foreign institutional investors (various investment and pension funds) and an extensive group of individual investors (in IPO alone, PZU shares were acquired by over 250 thousand individual investors).

PZU shareholding structure as at 31.12.2015*

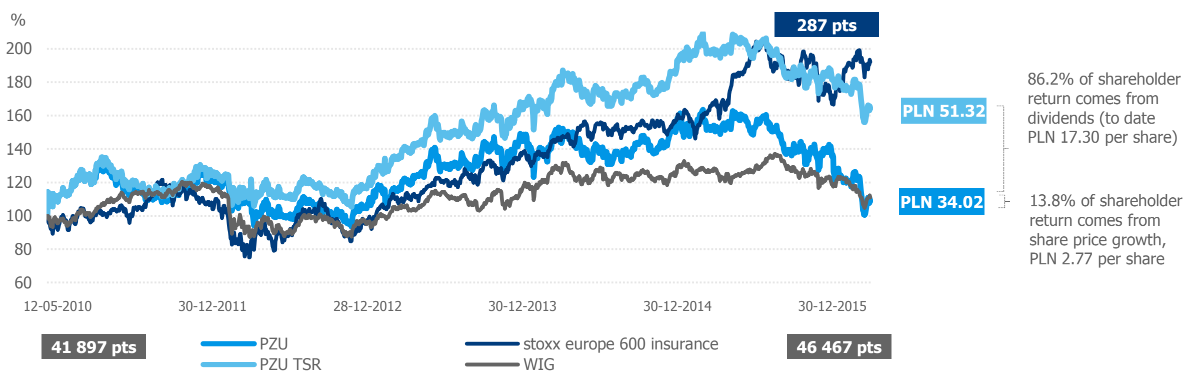


* Current report 3/2016

The main ratio serving to measure the effectiveness of the Group's value building used in communication with the capital market is TSR (Total Shareholder Return). Thanks to the care for generation of high free cash flows, the Group pays high annual dividends, which compose a considerable TSR component, according to the preferences of its shareholders.

In 2015, PZU paid almost PLN 2.6 billion as dividend for the dividend rate of 8.8% (calculated from the share price at the end of 2015, i.e. PLN 34.0). Since its IPO, PZU has already paid out nearly PLN 15 billion in dividends, while the total shareholders return (TSR) from investment in PZU shares amounted to 64.2%.

PZU's share price listings between the IPO on the Warsaw Stock Exchange (12.05.2010=100) and 31.12.2015 roku



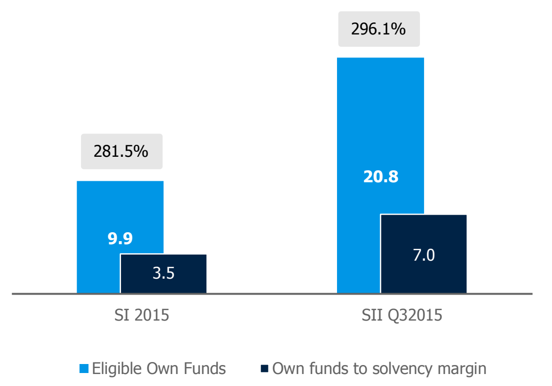
PZU TSR – total shareholder return, including dividend paid by PZU

Strong capital position

PZU Group holds exceptionally high capital security ratios in comparison to other insurance groups. And so, in accordance with the regulations of Solvency I, PZU Group held a 281.5% ratio of solvency margin coverage with own funds at the end of 2015.

On 1 January 2016, the Act on Insurance Activity of 11 September 2015 introduced new capital requirements – Solvency II – into the Polish legal systems. In accordance with the new act, calculation of the capital requirement is based on the following risks: market, actuarial (insurance), counterparty insolvency, catastrophe, and operating. As at the end of the third quarter of 2015, the solvency ratio (calculated according to the Solvency II standard formula) was assessed at a level of 296.1%. Ratios as high as these place PZU Group among insurance groups with top capital strength.

Solvency according to Solvency I and Solvency II* (%)



*Data according to SII was not subject to audit

From 2009, PZU is subject to regular ratings by Standard & Poor's. On 21 January 2016, Standard & Poor's rating of PZU was lowered from "A" to "A-" with negative rating outlook. The decision to lower the rating of PZU resulted from the lowering of Poland's rating from "A-" to "BBB+" with "negative" outlook one week before and had no association with the situation of the company, the activity of which presents a very high capitalization and security level. According to the rating methodology, PZU's rating can only be one grade above that of its country, therefore the maximum possible S&P rating for PZU is -"A -".

Social Responsibility

As one of the largest financial institutions in Poland and Central and Eastern Europe, PZU Group's activity and development strategy recognize social and environmental issues, as well as ethics. PZU Group does its best to ensure that the initiatives it engages in bring positive results also in the social aspects in all the areas where the company may have an influence on the external environment in a manner that is not strictly related to business. As a mature, responsible company, the Group takes all efforts not only to provide its clients with the best offer, but also build a better, safer future together with all its stakeholders.

Sustainable development and social responsibility in business are at the same time the most straightforward way to build the best offer for the clients of PZU Group, as well as the most accurate answer to the needs of its stakeholders. In its day-to-day operations, the Group follows four rules:

We address the needs – PZU provides products and services to its clients in a way best suited to their expectations,

We value our people – the Group is continuously providing opportunities for its staff to develop their skills and competences, creating good conditions to develop their personal interests,

We support the society – PZU makes efforts to establish stable, long-term relations with the local communities by supporting initiatives that have a positive impact on the community,

We care for the environment – PZU takes responsibility for the environment in which it operates.

Main consolidated financial data of PZU Group for 2011–2015 (PLN million)

	2015	2014	2013	2012	2011
Gross written premiums	18,359.0	16,884.6	16,480.0	16,243.1	15,279.3
Revenue from commissions and fees	242.8	350.8	299.2	237.1	281.4
Net investment income	1,739.3	2,646,9	2,479,4	3,613.4	1,735.3
Net insurance claims	(11,857.1)	(11,541.7)	(11,161.2)	(12,218.7)	(10,221.1)
Acquisition costs	(2,376.3)	(2,147.0)	(2,015.9)	(2,000.4)	(1,962.0)
Administrative expenses	(1,657.9)	(1,527.7)	(1,406.5)	(1,440.3)	(1,383.9)
Interest expenses	(117.4)	(147.3)	(104.2)	(127.0)	(158.2)
Operating profit	2,939.4	3,693.2	4,119.1	4,038.7	2,907.6
Net profit	2,342.2	2,967.6	3,295.0	3,253.8	2,343.9
Total assets	105,429.0	67,572.8	62,787.3	55,909.6	52,129.3
Financial assets	89,305.8	56,760.0	55,085.7	50,423.1	46,775.4
Equity	15,178.9	13,167.6	13,127.6	14,269.3	12,869.5
Technical provisions	41,280.3	40,166.9	37,324.4	35,400.8	32,522.7

* restated data for the period 2011-2014.

Brief overview of PZU Group

Summary of results and selected events in 2015

01 Financial results and safety of operations

Net profit at PLN 2,342.2 million, i.e. 21.1% lower than in 2014, mainly due to the lower income from investments and decreased insurance profitability.

Return on equity (attributable to parent company) – 18.0% – a decline of 4.6 p.p. compared with 2014.

Introducing Solvency II requirements by implementing the new Act on Insurance and Reinsurance Activity as of the beginning of 2016.

Maintenance of solvency ratios which are higher than the average for the sector. The Solvency II ratio calculated at the end of September 2015 according to the standard formula was 296.1%.

Debt ratio at 22.6%.

Dividend payment from 2014 PZU profit at PLN 2,590.6 million, i.e. PLN 30.00 per share (pre-split).

Stock split in 1:10 relation, i.e. from PLN 1 to PLN 0.10 and increase of PZU shares composing share capital to 863,523,000 with no change to the share capital.

02 Non-life insurance - Poland

PZU: Gross written premium (according to IFRS) at PLN 8,858.0 million, a 7.2% raise in relation to 2014. Growth of premium in motor insurance resulting from active reinsurance agreements concluded with newly acquired subsidiaries.

Leader on the Polish non-life insurance market with share of 31.2% (after 3 quarters of 2015).

Market leader with a share of 35.6%* on the motor insurance market (after 3 quarters of 2015).

Link4: Gross written premium PLN 493.2 million (including contribution to the result of PZU Group at PLN 138.8 million in 2014 from the moment of acquisition).

Market share of 1.9% (after three quarters of 2015).

TUW PZUW: Establishment of Towarzystwo Ubezpieczeń Wzajemnych - TUW PZUW.

03 Life insurance - Poland

Gross written premium (according to IFRS) at PLN 7,922.9 million. Increase by 1.5% in relation to 2014 in the conditions of declining single premium (by 8.0%). High sales of protection (both group and individual) and group health products offset by lower sales of investment products mainly in the bank channel.

Life insurance market share of 29.1%, including year-on-year growth of 1 p.p. in regular premiums to 43.9% (after three quarters of 2015).

Stable high profitability level exceeding the strategic objective despite pressure from higher death rate in 2015.

04 Investment funds

Net asset value of PLN 28.3 billion at the end of 2015 – annual increase of PLN 2.8 billion. External clients' assets value of PLN 6.8 billion, annual net increase of PLN 0.8 billion.

Second place on the market in volume of gathered assets at the end of December with 11.2% share.

Maintenance of the position of leader on the market of Employee Pension Programs with total net assets of PLN 3.2 billion. At the end of December 2015 TFI PZU handles the total of 117 programs for 119 thousand people.

*PZU share calculated with consideration of active reinsurance of PZU towards Link4

05 Pension funds

Maintenance of the third place on the market in both members (the fund had 2,208.4 thousand members for a market share of 13.4%) and net asset value (NAV of PLN 18.5 billion, i.e. 13.2% market share).

Generation of the highest rate of return among all Pension Funds in 2015.

Acquisition of Nordea DFE approved by PFSA.

Maintenance of the position of leader on the Individual Pension Security Accounts (IKZE) market among the voluntary pension funds as far as the number of participants is concerned.

06 Health care

Cooperation with approximately 1580 health care centers (compared to 1,380 at the end of 2014).

Investments in new ambulatories.

A 46% increase in gross written premium in medical insurance compared to 2014.

07 Foreign operations

Strengthening of the insurance position in Central and Eastern Europe resulting from the acquisition of the following entities in the previous year: Lietuvos Draudimas (Lithuania), Balta (Latvia) and Codan Forsikring branch (Estonia).

Lithuania: From November 2014, PZU Group has been operating on the Lithuanian non-life insurance market through Lietuvos Draudimas – the market leader. The acquisition of Lietuvos Draudimas was conditioned by the sale of PZU Lithuania – the disinvestment took place on 30 September 2015. In 2015, Lietuvos Draudimas recorded a growth of the gross written premium by 6.8% from the previous year and reached the level of EUR 127.2 million. PZU Lithuania Life collected premiums in the amount of EUR 10.3 million (4.4% share in the life insurance market).

Latvia: In 2015, PZU Group conducted business through AAS Balta – leader on the market, which entered the Group in June 2014 and, subsequently, acquired the PZU Lithuania branch operating on the Latvian market since 2012 (in May 2015). The share of both companies in the Latvian non-life insurance market reached 25.1% at the end of the third quarter of 2015. The total gross written premium of both entities in 2015 was EUR 67.1 million.

Estonia: The entity is conducting business through the Estonian branch of Lietuvos Draudimas established through the merger of two entities – the branch of PZU Lithuania, registered in 2012, and the Estonian branch, acquired in 2014, which was operating under the Codan brand. The share in the Estonian non-life insurance market was 13.8%. The acquired written premium was EUR 38.6 million.

Ukraine: The premium gathered by PZU Group on the Ukrainian market of non-life insurance amounted to UAH 798.9 million and was 58.5% higher than in the previous year. The reasons for the increased premium included growing confidence in foreign insurance companies. The gross premium collected by PZU Ukraine Life amounted to UAH 177.8 million and was 15.2% higher than in the previous year.

08 Investments

PLN 1,739.3 million net result on investing activities of– lower by 34.3% compared to 2014 due to the decline in the price of debt instruments (higher yield).

Capital investment in Alior Bank – purchase of 25.19% shares of the bank and launch of consolidation on 18 December 2015.

Issue of Eurobonds for EUR 350 million with maturity date of July 2019.

09 Infrastructure

Completed stage I of implementing the new Everest IT system for non-life insurance policies. Providing the system to almost 18 thousand target users.

Launch of direct claims handling for PIU settlements.

Setting up own fleet of replacement cars used for claims handling purposes composed of 300 hybrid vehicles.

10 Human resources management

Average annual employment of approximately 16.8 thousand employees calculated as FTEs. (excluding Alior Bank employees).

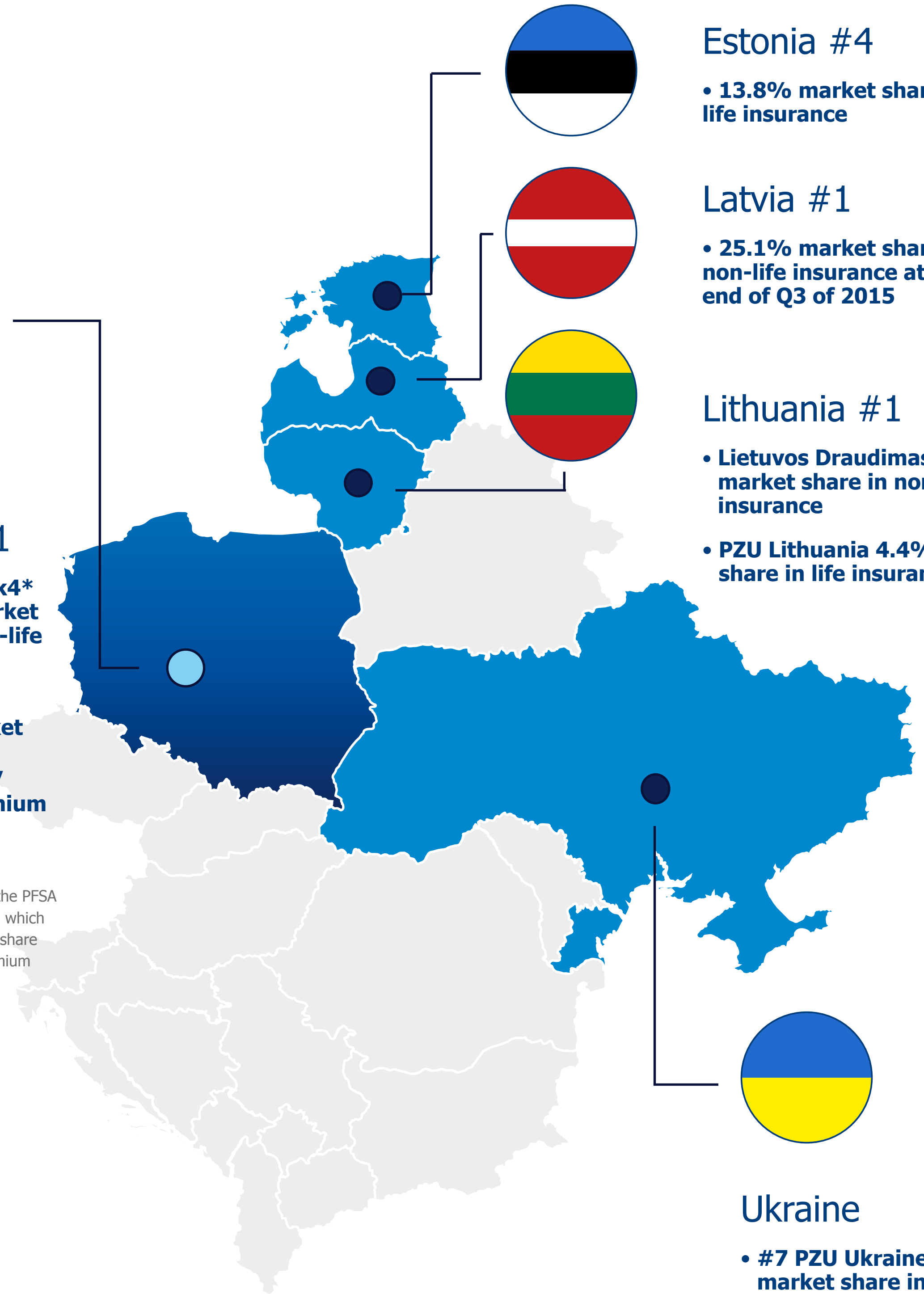
Employment restructuring in PZU and PZU Życie.

VI place in the Employer of the Year ranking organized by AIESEC.

Implementation of the Innovation Strategy – promotion of pro-innovation cultural models.

Extensive training and development program for employees - SmartUp, TalentUp, MBA.

International operations of PZU Group



Estonia #4

- **13.8% market share in non-life insurance**

Latvia #1

- **25.1% market share in non-life insurance at the end of Q3 of 2015**

Lithuania #1

- **Lietuvos Draudimas 31.1% market share in non-life insurance**
- **PZU Lithuania 4.4% market share in life insurance**

Poland #1

- **PZU and Link4* - 33.0% market share in non-life insurance**
- **PZU Życie – 43.9% market share in life insurance by regular premium**

* in accordance with the PFSA report for Q3 of 2015, which is market and market share including indirect premium PZU from Link4

Ukraine

- **#7 PZU Ukraine 2.7% market share in non-life insurance**
- **#4 PZU Ukraine 8.6% market share in life insurance at the end of Q3 of 2015**

No. 1 CEE*

* Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Montenegro, Czech Republic, Estonia, Lithuania, Latvia, Macedonia, Poland, Romania, Serbia, Slovakia, Slovenia, Ukraine, Hungary.

Brief overview of PZU Group

Selected awards and prizes

In 2015, PZU Group received numerous awards and prizes. Some of them are listed below.

AWARDS:

Service Quality:

for PZU in category of "Best Onsite Service Quality" and "Best Service Quality in Remote Communication Channels"

Favorite insurance brand in Latvia for AAS Baltaa

Investor Relations:

First place for: annual online report; 2014 PZU annual report, award for 2014 Management's activity report

Best IR Professionals in Poland and Central and Eastern Europe

Products:

for Link4 in category of: motor insurance

for TFI PZU for management of the PZU Papierów Dłużnych POLONEZ fund

for PTE PZU in category of best OFE

for TFI PZU best Polish treasury bond fund for PZU Papierów Dłużnych POLONEZ

Marketing:

3 prizes for the "Kochasz? Powiedz STOP Wariatom Drogowym" (If you love, say STOP to Reckless Drivers) campaign

Platinum for the "Kochasz? Powiedz STOP Wariatom Drogowym" (If you love, say no to Reckless Drivers) campaign

HR awards in Baltic states:

Best employer in the Latvian insurance sector (CV-online Latvia) for AAS Balta

Best employer for Lietuvos Draudimas and AAS Balta in Lithuania and Latvia

HR awards Poland:

Top Employers Poland

Top Quality HR

Top Quality Practices and Internships

Employer Accreditation of ACCA Poland

Responsible Employer and HR Leader for Link4

6 place in the 2015 Employer of the Year survey

SCHEDULE

May

30 May – PZU concluded a preliminary agreement to purchase 25.19% of Alior Bank.

June

30 June – GSM approved dividend payment of the total amount of PLN 2,590.6 million.

August

3 August – pilot implementation of Everest platform in external channels.

September

30 September – PZU finalized the sale of PZU Lithuania.

October

16 October - PZU Finance AB (publ) issued bonds for the total amount of EUR 350 million.

November

3 November – PFSA approved establishment of TUW PZUW.

November

30 November – 1:10 stock split. As a result of the split, 863,523,000 PZU shares will be quoted.

December

1 December – 10 million policies issued via Everest platform.

January 2016

19 January 2016 new CEO of PZU – Michał Krupiński.

02

External environment

Stable growth of gross domestic product, lower unemployment rate, increase in real incomes of households and favorable condition of polish enterprises set up positive macroeconomic environment for PZU.
However, increase in yields of polish bonds and decline in indices on polish capital market negatively affected investments results of PZU Group.

Contents:

2.1 Main trends in the Polish economy

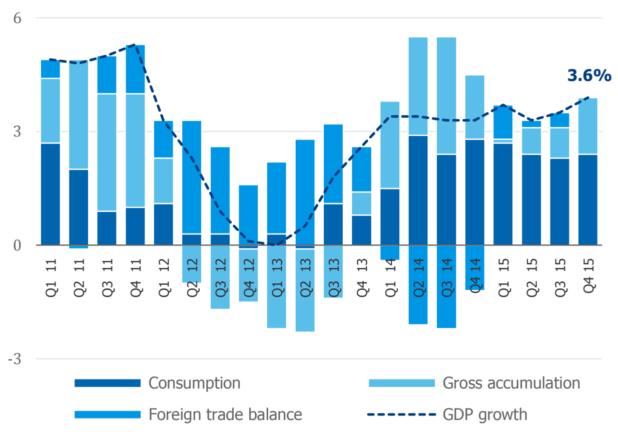
Gross Domestic Product

It might be estimated that real GDP growth in 2015 reached 3.6%, compared with 3.3% the year before. The quarterly GDP growth pace remained at the level of 3.3%–3.9% year-on-year.

Domestic demand continued to be the key factor contributing to the economic growth, even though it grew less rapidly than in 2014 (3.3% vs. 4.9%). Improved situation on the labor market, as well as relatively stable real remuneration growth accelerated the dynamics of household consumption to 3.1%, compared with 2.6% in 2014. Savings increased as well. The pace of households consumption growth was exceptionally stable in 2015. The public consumption growth slightly decreased and reached 3.5% versus 4.9% in 2014. In 2015, growth of investment in tangible assets was lower than in the previous year 6.1% compared with 9.8%. Good financial condition of enterprises along with steady economic growth, relatively stable capacity utilization level, high availability and low cost of credit jointly created favorable conditions for investment growth. On the other hand, the uncertainty of demand forecasts and increased volatility in the financial markets induced the companies to remain prudent. At the same time, weakened public investment dynamics may have resulted from entering in a transitory period between two European Union financial perspectives, i.e. for the years 2007–2013 and the years 2014–2020. Unlike in 2014, the change in inventories adversely affected domestic demand and GDP dynamics in 2015.

In 2015 export grew slightly faster than import. As a result, the impact of net export on GDP growth in 2015 was only slightly positive (0.4 p.p.), whereas in 2014 the net export decreased the real GDP growth by 1.5 percentage point.

Composition of GDP growth in Q1 2011 - Q4 2015



The labor market and consumption

Favorable tendencies were observed on the labor market in 2015. The recorded unemployment rate systematically dropped to reach the lowest level since the end of 2008 (9.8% in December compared with 11.4% at the end of 2014.) In 2015, the average monthly employment in the enterprise sector grew by nearly 77 thousand people and its annual dynamics reached 1.4% year-on-year in December 2015 compared with 1.1% year-on-year at the end of 2014.

Under the circumstances of deflation, the pressure on salary increases remained limited. The average monthly salary in the enterprise sector grew in 2015 by 3.2%, the same as the year before. However, due to the dropping consumer price index (CPI), the real salary increase was the highest since 2008. Taking the price changes into account, the average monthly salary in the enterprise sector was 4.2% in 2015 in comparison with 3.2% the year before. Similarly to 2014, salary in the enterprise sector in 2015 grew faster than in the public sector. The average monthly real dynamics of the remuneration fund in this sector in 2015 was on average 5.6% year-on-year and was the highest in 7 years. The real growth of disposable gross income was also considerably larger than in 2014. The consumer sentiment condition indicators also systematically improved. The Consumer Confidence Index published by the Polish Statistical Office (GUS) was the highest since 2008.

The improving financial situation of households and more favorable labor market contributed to a growing consumption and savings of households. The individual consumption dynamics accelerated in 2015 to 3.1% compared with 2.6% the year before.

Inflation, monetary policy and interest rates

In 2015,the yearly average consumer prices (CPI) were lower by 0.9% annually. After hitting the minimum in February (-1.6% year-on-year), the annual CPI was slowly rising to reach -0.5% year-on-year at the end of the year.

Decrease in consumer prices resulted mainly from global processes – global prices of crude oil and other resources strongly dropped, food prices remained low, and so did the inflation level in the countries being Poland's key trade partners. At the same time, no demand pressure on price growth was observed in Poland, while production price decrease and limited remuneration pressure continued. Net inflation (CPI excluding food and energy prices) amounted in 2015 to an annual average of only 0.3% compared with 0.6% in 2014.

In such conditions, in March 2015 the Monetary Policy Council lowered interest rates by 50 bps, including the reference rate, which was decreased to 1.5%. The decision was justified with prolonged deflation and higher risk of inflation remaining significantly below the target in the medium term. The Monetary Policy Council also indicated that the process of monetary policy easing had been completed. No changes in interest rates were introduced till the end of the year. As per the Monetary Policy Council assessed in December 2015, leaving the interest rates at the same level contributed to maintaining the sustainable growth and macroeconomic balance of the Polish economy.

Public finance

Originally, the 2015 budget provided for a deficit of PLN 46.08 billion. In December, the original budget was amended to increase the deficit planned for 2015 to PLN 49.98 billion. This amount is much higher than PLN 29.98 billion recorded in 2014.

Poland had no difficulties in acquiring market financing. At the end of 2015, approximately 20% of borrowing needs planned for 2016 had been financed.

2.2 Financial markets situation

A number of events that had a considerable impact on the financial markets took place in 2015. In late January, the European Central Bank announced its quantitative easing program and begun to buy treasury bonds of Eurozone states. Consequently, the German 10-year bond yields were decreasing in subsequent months to the lowest historical levels, and temporarily amounted to less than 0.1%. Simultaneously, German stock exchange indices were exceptionally high. Both shares and treasury bonds were more expensive also on the Polish market.

GDP growth in Poland in 2015

3.6 %

▲+0.3 p.p.y/y

Unemployment rate in Poland at the end of 2015

9.8 %

▼-1.6 p.p.y/y

CPI in Poland in 2015

-0.5 %

▲+0.5 p.p.y/y

Real growth rate of salaries in Poland in 2015

4.2 %

▲+1.0 p.p.y/y

The expected increase of interest rates by the US Federal Reserve in 2015, contrasted with an extraordinary easing of monetary policy in the Eurozone, resulted in a significant strengthening of US dollar versus the common European currency in Q1 2015. The differences in monetary policy and in the perceived economic outlook in the Eurozone and the USA contributed to a larger difference between the German and US 10-year treasury bond yields that reached the highest level in years.

Making the Swiss franc exchange rate free-floating by the Swiss central bank in mid-January was another significant event in early 2015. The minimum EUR/CHF exchange rate of 1.20 was abolished. This decision resulted in a rapid strengthening of the Swiss currency also versus the Polish zloty.

The Monetary Policy Council's decision to lower the National Bank of Poland reference rate to 1.50% in March 2015, which ended the monetary policy easing cycle, was exceptionally significant for the Polish treasury debt securities with shorter maturity periods.

In late April and early May 2015 atmosphere on the financial markets begun to change fundamentally. Prices of shares and bonds started to drop, especially in Europe. Quieting down the fears of strengthening deflation in Eurozone contributed to a change on the interest rate market. A higher risk aversion on financial markets, i.e. due to the problematic situation in Greece and the Russian-Ukrainian conflict, adversely influenced the stock market situation. The tension escalated in late June 2015 when the Greek Prime Minister A. Tsipras announced a referendum on accepting the terms and conditions of the aid scheme for the country.

In the stormy first half of 2015, the Polish 10-year treasury bond yields reached both the lowest and the highest level of the year. They first dropped from 2.54% to 2.00% at the end of January and then increased to 3.37% at the end of June. In late April and early May the WIG index exceeded the value of 57 thousand points, growing by nearly 12% since the end of 2014. However, its drop in the second half of May and June removed most of the previous increase.

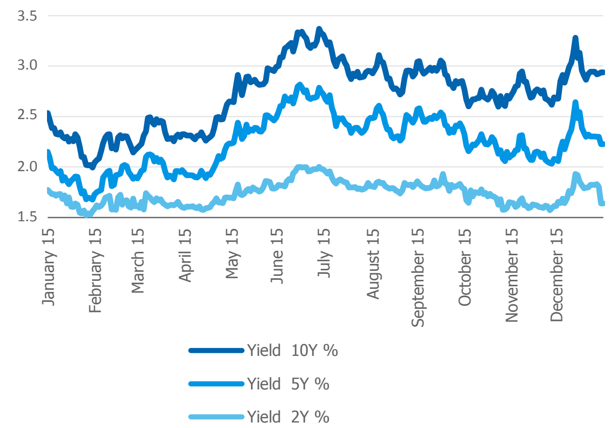
Three key issues influenced the financial market trends in August and September 2015. First of all – the situation in China where the prices on the stock market collapsed in mid-August 2015, causing strong global turbulence. Secondly – a possibility that the European Central Bank would extend and prolong the quantitative easing program which was due to finish by September 2016. Thirdly – it was expected that the Federal Reserve would decide on the potential interest rates increase in the USA, which eventually did not take place in September.

In Q3 2015, the Polish yield curve significantly dropped and flattened. Externally, low yields were maintained as a result of the ECB's and Fed's monetary policy, which proved more accommodative than expected. What is more, persistently low inflation in Poland and the expected outcome of Polish election suggested that accommodative monetary policy in Poland would be maintained.

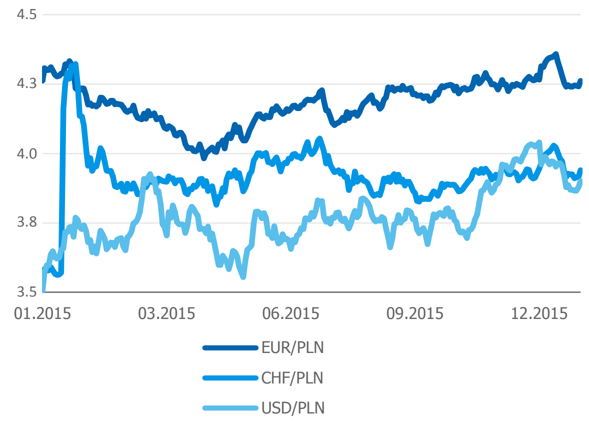
That period proved unfavorable for the stock market. Share prices decreased not only in Poland, but also globally. Initially, the decreases resulted mainly from concerns related to the situation of Greece. They grew stronger along with the deteriorating economic and market situation in China and its potential implication for the global economy, especially „emerging markets". An additional burden for several companies on the Polish market – especially from the banking sector – were the media announcements of potential statutory changes, which might have negative effects on such companies' operations (including the so-called financial institution tax) and were likely to be introduced after parliamentary elections in October 2015. SECTION 2.4. Regulations on the insurance and financial markets in Poland

Decreases in WSE indexes escalated in the last months of 2015. WIG20, an index of the largest companies, reached nearly 1700 points for the first time since 2009. After the peak in May, WIG dropped by nearly 24%. Several factors contributed to that situation. The US central bank increased the federal funds rate by 25 bps in December. That had been the first increase since 2006. The European Central Bank eased its monetary policy in December; however, the scale of easing was narrower than expected by the market. At the same time, the concerns related to the situation on emerging markets grew stronger. Raw material prices were going down. External risks and announcement of regulatory changes to affect e.g. the banking sector proved to be an additional burden for the Polish stock market, especially WIG20 index.

Treasury bond yields in 2015



PLN rate in 2015



The same factors had a strong influence on the Polish treasury bond market and led to the Polish yield curve growing steeper. In Q4 2015, the Polish 10-year treasury bonds yields slightly increased. At the same time, interest rates in Poland were expected to decrease, which led to a lower yield for bonds with shorter maturity dates.

Finally, in entire 2015 the Polish one-year treasury debt securities yield dropped by approximately 30 bps to around 1.50%. Five and ten-year bonds yields increased by approximately 10 and 40 bps, respectively. The difference between 10-year and one-year bonds yield increased by around 70 bps. Correlation between the yields in Poland and yields on key global markets, such as Germany or the USA, remained high.

At the same time in 2015, WIG20 stock index dropped by nearly 20%, whereas WIG decreased by almost than 10%.

The currency market in 2015 was dominated by the trend of the strong appreciation of the US dollar to the euro, which was, however, less clear than in 2014. Still, the euro lost as much as 10.2% to the US dollar. The PLN to USD exchange rate also changed – the dollar cost 11.2% more than at the end of 2014. The PLN significantly weakened in relation to the Swiss franc and dropped by 11.1%. Yet, the Polish currency remained stable against the euro.

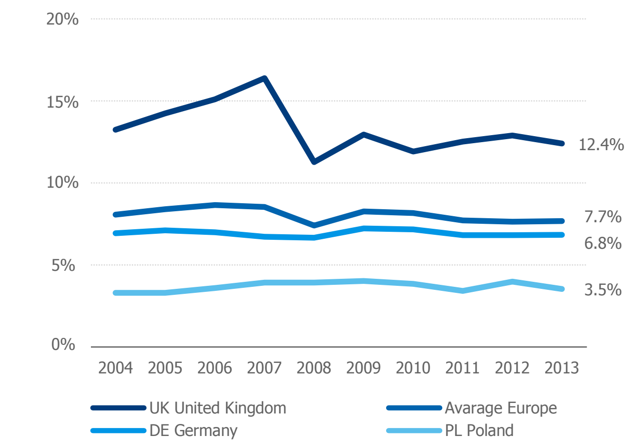
2.3 Polish insurance sector compared with Europe

In 2013, a statistical European spend EUR 1,882.7[1] on insurance (density index), while an average Pole spent EUR 361.8 (i.e. PLN 1,503.1), that is 5 times less. Almost 60% of the premiums of an average European and 54% of an average Pole and are paid towards life insurance.

In analyzing the level of the premium compared with GDP (penetration ratio), Poland is below the European average. This indicator for Poland is slightly above half of the European average. Central and Eastern European countries, such as Estonia and Latvia, in which PZU operates, have a ratio of 1.7% and 1.3% accordingly, which, from the point of view of market development, opens up huge opportunities for sales growth.

[1] According to latest "Statistics: European Insurance in Figures" report, 6 January 2015; www.insuranceeurope.eu

Insurance value versus GDP (%)



2.4 Regulations on the insurance and financial markets in Poland

2015 was another year to witness intense preparations for implementation of the requirements of Solvency II directive GLOSSARY (Directive 2009/138/EC of the European Parliament and the Council dated 25 November 2009 on the taking-up and pursuit of the business of insurance and reinsurance), which bind insurance and reinsurance companies as of 1 January 2016. The new scheme concentrates on capital requirements and risk borne by insurance and reinsurance companies.

In 2015, there were also ongoing preparations on the new Act on Insurance and Reinsurance Activity in connection with the implementation of Solvency II.

The Act on Insurance and Reinsurance dated 11 September 2015 – most of the provisions become effective as of 1 January 2016. A vacatio legis principle is applied to some provisions (e.g. provisions on contracts on third party's account which come into force on 1 April 2016; until that day, provisions on insurance with insurance capital fund will also apply; a provision allowing insurers to acquire voluntary pension funds directly or via agents will come into effect on 1 August 2016.) The Act has following objectives:

- to introduce a new solvency scheme applicable to insurance and reinsurance companies, similar to the regulations on capital requirements for banks (adaptation of EU provisions of Solvency II). The system is founded on the three pillars: the first pillar specifies capital requirements – higher capital requirements will be applied that will reflect specific risk profile of a given insurance or reinsurance company; the second specifies quality requirements concerning management system and supervision process; the third concerns information obligations of insurance and reinsurance companies;
- to reinforce right of the insured in the contracts on third party's account – especially in group insurance (e.g. an obligation to provide the insured with information on contractual terms and conditions, providing the insured and her/his heirs with information related to the claims handling process);
- to impose on insurance companies an obligation to analyze the needs, knowledge and experience level, as well as financial standing of the policyholder or the insured prior to concluding an investment policy. The clients are also entitled to withdraw from unit-linked insurance contracts for a longer period of time (besides the right to withdraw provided for in the Civil Code GLOSSARY) and at a lower cost (60 days following receipt of the information provided for in the Act, while the maximum early termination fee may not exceed 4% of premiums paid);
- to change the manner of remunerating insurance agents and handling charges for unit-linked products and structured products. While setting the remuneration of the agent, an insurance company should follow the rule of even spreading in time of an insurance agent's commission (in case of contracts concluded for more than 5 years, the commissions should be spread over a minimum period of 60 months);
- to grant new entitlements to the Polish Financial Supervision Authority (PFSA) GLOSSARY (a supervisory body may e.g. prohibit or limit trading, distribution, or sale of selected investment policies).The PFSA may also issue recommendations within a scope necessary to implement guidelines and recommendations of European Insurance and Occupational Pensions Authority, as well as to prevent infringement of interests of the insured, policyholders, beneficiaries or entitled under insurance contracts;
- to maintain an obligatory participation of insurers in the Polish Chamber of Insurance (PIU) GLOSSARY;
- to introduce a number of regulations concerning strictly operations of insurance and reinsurance companies on the Polish insurance market.

In 2015, the PFSA released recommendations concerning the following areas: flood risk management in the insurance sector, insurance distribution, motor insurance claims handling, reinsurance inwards/retrocession, IT management and IT security. The recommendations fall under the „comply or explain" rule. Institutions under supervision may not follow the principles included in the recommendations; but if the company fails to implement any of the principles, either permanently or incidentally, it is obliged to inform the market of this fact and justify reasons for non-implementation of a given principle. At the same time, in accordance with its statutory entitlement, PFSA is working on further recommendations, e.g. concerning a product adequacy test and product management system.

The Act on Complaints Handling by Financial Market Entities and Financial Ombudsman dated 5 August 2015 of provisions that increase protection mainly of financial institution clients (banks, insurance companies, pension funds). The Act specifies terms and conditions for handling complaints filed by consumers. The Act appoints a Financial Ombudsman, a new function to replace the Insurance Ombudsman. The Financial Ombudsman represents interests of financial institution clients (e.g. she/he will hear clients' complaints and applications, is entitled to impose fines of up to PLN 100 thousand on financial institutions which fail to observe deadlines for complaints handling, etc., may lead mediation proceedings, as well as initiate and organize education and information activities related to client rights protection). It needs to be added that it is mandatory for a financial market entity to participate in mediation proceedings.

Apart from the above-mentioned acts, PSFA requirements and works related to implementing the requirements of Solvency II Directive, other regulations were also implemented in 2015, which had or will have an impact on the operations of PZU Group. Some of them are listed below:

The Act on amending the Act on the Protection of Consumers and Competition and Code of Civil Procedures Act dated 10 June 2014, which became effective as of 18 January 2015. The Act introduced several changes to the Polish anti-trust law aimed to strengthen the domestic system for the protection of competition and consumers. The main objectives of the amendments are the following: to improve the detection of competition limitation, the effectiveness of the detection and accountability of entrepreneurs entering illegal agreements, and strengthen the positions of the weaker players on the market. Changes were introduced as to the obligation to notify about the intention of concentration in instances of acquiring control of an entrepreneur or purchasing the property of another entrepreneur.

Amendments to the Act on the protection of consumers and competition and several other acts dated 5 August 2015. The aim of the amendment is e.g. a more efficient combating unfair market practices in financial service sector, i.e. offering a client a product which does not suit his/her needs (so-called misspelling.) As per the Act, the President of the Office of Competition and Consumer Protection GLOSSARY, through issuing an administrative decision, will settle on an inadmissible nature of a provision included in a template contract and forbid its further use. The proceedings in this respect are to be conducted by the President of the Office of Competition and Consumer Protection and such a procedure will replace supervision of provisions included in a template contract which had been conducted by the Court of Competition and Consumer Protection. The decision of the President of the Office of Competition and Consumer Protection will be published on the Office's website, whereas the existing nature of a register of prohibited (abusive) clauses will be maintained for a period specified in the Act.

The Act amending the Corporate Income Act, Personal Income Tax Act, and several other acts dated 29 August 2014, which has been in force as of 1 January 2015, amended e.g. the regulations concerning thin capitalization and limited the exemption of revenues acquired from investment-oriented life insurance – structured products. Tax does not apply to revenue from endowment insurance for which a technical rate is applied to establish the technical provision. The Act simplified also the calculation of taxable revenue from premium investment as the difference between the benefit amount and the premium paid to the insurance company.

The Act amending the Act on Crop and Livestock Insurance dated 26 June 2015 provides fruit and vegetable producers with insurance with premiums subsidized from the state budget if insurance companies apply tariff rates higher than 6% of the sum of insured crop. The new provisions take into account amended rules for granting public aid specified in the EU guidelines on the state's aid in agriculture and forestry sector and in rural regions in the years 2014–2020, which refer to the aid in financing insurance premiums. The newly introduced solution is meant to expand insurance protection of crop by a growing number of concluded insurance contracts.

The Act amending Act on Mandatory Insurance dated 22 May 2003, the Insurance Guarantee Fund and the Polish Motor Insurers' Bureau dated 25 September 2015 introduces a provision stating that a claim for compensation resulting from TPL insurance of owners of motor vehicles may be filed exclusively with the court competent for place of residence or register office of the party injured in the event that caused the damage in question, or the court competent for the place where such an event occurred. The aim of the amendment is to limit concentration of court proceedings related with seeking compensation resulting from TPL insurance of owners of motor vehicles.

The Act dated 9 October 2015 on Executing the Agreement Between the Government of the United States of America and the Government of the Republic of Poland to Improve International Tax Compliance and to Implement FATCA has been binding as of 1 December 2015. FATCA GLOSSARY is the American federal law which aims to oppose tax evasion by both natural and legal persons obliged to pay taxes in the United States. Both PZU Życie and PZU TFI implemented procedural and IT solutions that enable fulfillment of statutory obligations.

The Act amending Act on the Financial Market Supervision and several other acts dated 5 August 2015. The aim of the Act is to increase protection of consumers using financial services provided e.g. by consumer credit institutions which are not obliged to hold a PSFA GLOSSARY permit for such operations.

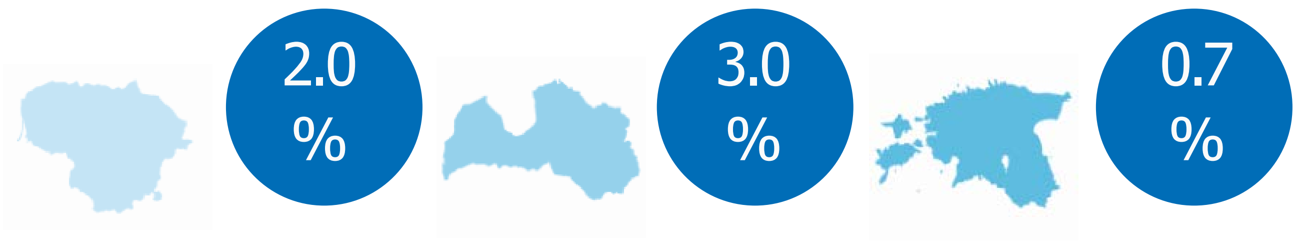
The Act dated 9 October 2015 on amending the Corporate Income Tax Act, Personal Income Tax Act, and several other acts. The Act has been effective as of 1 January 2016 and implements the Polish legal system to the three directives of EU Council: 2014/48/EU dated 24 March 2014, 2014/86/EU dated 8 July 2014, and 205/121/EU dated 27 January 2015. The most important amendments include: with relation to income on sale of securities (tax obligation due to paid sale of securities arises upon making such a transaction), with relation to tax on dividends, a so-called „tax evasion clause" (taxpayer is not exempt from tax on dividend or revenues from share in profit of related entities if the transaction does not reflect economic reality and its objective or one of key objectives was tax evasion or avoidance), with relation to transfer pricing (some taxpayers who enter transactions with related entities will be obliged to prepare substantially extended documentation on transfer pricing), with relation to interest tax (changes in this respect aim to efficiently tax profit on savings in a form of interests paid across borders).

The Act amending Accounting Act and several other acts dated 23 July 2015. New regulations introduce to the Polish legal system Directive 2013/34/EC of the European Parliament and the Council dated 26 June 2013 on annual financial statements, consolidated financial statements and related reports of some entity types. The Act has been effective as of 23 September 2015, except for Article 1 point 1 and Article 5 which came into force on 1 January 2016.

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

Judicial decisions and the Prohibited Clauses Register.
On 9 September 2015, the Supreme Court (File no. III SZP 2/15) issued a resolution where it stated that, when seeking from the insurer claims resulting from TPL insurance of owners of motor vehicles, the injured party who is a natural person that does not conduct business activity is not deemed a consumer within the meaning of Article 24 in conjunction with Art 4 point 12 of the Act on the Protection of Consumers and Competition dated 17 February 2007, in conjunction with Article 22(1) of the Civil Code GLOSSARY. In its resolution III CZ 5/11, the Supreme Court pointed out that „a person injured by the insured (perpetrator) cannot be deemed a consumer as he/she does not conclude an agreement, and filing a claim against perpetrator and using the actio directa rule towards the insurer do not constitute a legal transaction within the meaning of Article 221 of the Civil Code".

GDP growth of Baltic States in 2015 – Lithuania, Latvia, Estonia



The projected legal regulations may have significant influence on insurance and reinsurance operations. Insurance Distribution Directive (IDD) of the European Parliament and the Council. On 24 November 2015, the European Parliament approved Insurance Distribution Directive (IDD). The directive should be soon officially adopted by the Council. Member states will then have 2 years to implement the directive's provisions into their legal systems. During that time, implementing acts provided for in the Directive will be drafted. The new directive will substitute the previous Directive 2002/92/EC of the European Parliament and the Council dated 9 December 2002 on insurance mediation.

2.5 External environment in the Baltic states and Ukraine

Lithuania
The Bank of Lithuania informed that the economy growth rate decreased by nearly a half in 2015 compared with the previous years, mainly due to unfavorable external influence. GDP growth amounted to 2.0% (year-on-year). Persistently low prices of energy resources and existing economic sanctions on Russia adversely impact the economy of the country, which further affects other countries economically and financially tied with Russia. A significant drop in import to Russia had an unfavorable influence of the results of Lithuanian enterprises that engage in transportation, storage, and warehousing as their re-export activity, especially considering that transportation of goods to the East, constitutes a significant part of their business.

Similarly to the previous years, individual consumption continued to be the cornerstone of economic growth. The labor market remained insensitive to economic slowdown in the country. Employment in transportation and trade enterprises, i.e. entities that most severely suffered from economic slowdown in Russia, stopped growing at the hitherto pace; yet, the growth rate continues to be positive. The number of job places increased in other sectors of the economy. As a result, demand for work did not decrease, which translated into a positive remuneration dynamics. Along with the growing number of vacancies in the economy and lower unemployment rate (to 9.00%), remuneration growth, which was partially caused by an increase in the minimum monthly salary, did not change in comparison with the previous year, which helped households to achieve higher consumption levels.

Latvia
Despite the ongoing Ukrainian crisis and mutual sanctions between Russia and the European Union, the Latvian economy recorded a medium GDP growth of 3.0% year-on-year. The main growth accelerator was domestic consumption. The business sector that contributed most to GDP growth included production, trade, public utility companies, and, to a lesser extent, providers of other business services. In the first nine months of 2015, exports increased by 2.0% year-on-year. Even though conditions for export in the current international environment are rather unfavorable, the Latvian enterprises continue to show capacity to increase export volume. Increased export, whose dynamics was higher than import growth, translated into Latvia's improved trade balance in the first three quarters of 2015, compared with the same period in 2014.

The inflation rate remained low and amounted to 0.3% year-on-year. The situation on the labor market improved in last couple of years, which favorable influenced general economic growth – unemployment rate is systematically decreasing, employment rate is growing, accompanied by a relatively rapid increase in remunerations. However, in the second half of the year, the registered unemployment rate increased for the first time since the 2007 crisis (by 0.1 p.p. to 8.3% of economically active persons as at the end of October 2015) year-on-year.

Estonia
In the first three quarters of 2015 the Estonian economy slightly grew (0.7%). The main factor that contributed to such a growth was higher retail sales. Also depreciation of ruble, and consequently decreased export of goods and services to Russia, had an impact on the mild growth rate.

A significant increase in real revenues caused also a growth in private consumption. It was also reflected in higher households savings and more intense credit activities. The unemployment rate remained stable and reached 6.4% in 2015.

The deflation has maintained at the same level since 2014. The change in CPI amounted to -0.9% year-on-year. The drop in general price level was caused mainly by low energy and resources prices on global markets, as well as sanctions imposed on the Russian market.

Ukraine

Since 2014, political and economic situation in Ukraine has been unstable. This fact is linked with the following factors that influence the Ukrainian insurance market: military action in eastern Ukraine (including the Donetsk and Lugansk regions), annexation of Crimea in 2014, high inflation rate and strong dynamics of local currency (Ukrainian hryvnia) depreciation vs. US dollar and euro, collapse of domestic demand, problems in the banking sector (bankruptcy of Delta Bank, the fourth largest bank in Ukraine).

In 2015, the above-mentioned factors caused an even greater crisis in the Ukrainian economy. According to the data of the Ukrainian Central Statistical Office, the GDP dropped by 7.2%. Industrial production dropped in 2015 by 13.4%, compared with the level of industrial production in the corresponding period of 2014. The inflation in December 2015 increased by 43.3% compared with December 2014, which resulted from the administratively regulated prices and the depreciation of the UAH. From January to November, a positive foreign trade balance (USD 249.5 million) was recorded, which resulted from a 31.2% drop in import (with a simultaneous 30.9% drop in export.) Turnover of retail and gastronomy companies in Ukraine dropped by 20.7% compared with the 2014 levels.

2.6 Macroeconomic factors which can affect the operations of the Polish insurance sector and PZU Group's activities in 2016

The Polish economy has so far proved resistant to global threats to GDP growth that grew more significant in the second half of 2015. They include, first of all, the economic slowdown in China and on key emerging markets and the related drop in dynamics of global trade. We assume that the GDP growth in 2016 may turn out only slightly below the 2015 level, even though the end-of-year data let us hope for a better result.

The factors that affect domestic demand, i.e. key driver of GDP growth in the face of external threats, are likely to remain favorable. In the second half of 2015, enterprises intensified their recruitment efforts, even though at the end of the year it could have resulted from the plan to apply social security contributions to mandate contracts in early 2016. Real households income is on a solid, stable increase.

The unemployment rate continues to fall systematically and the employees' bargaining position is improving. It is therefore expected that the pace of nominal growth of salaries will accelerate, despite the persistently low inflation rate which favors a milder pressure on salary increase. Taking into consideration a very low inflation, probably amounting to an annual average of 0% in 2016, low interest rates, and higher social transfers (the 500+ program), we estimate that the consumption dynamics may reach approximately 4.0%.

In 2016, the investments are likely to grow at a solid pace, yet slower than in 2015. The capacity utilization level is relatively high and good financial standing of enterprises and low interest rates will facilitate financing of investments. Moreover, residential housing investments are expected to increase relatively fast. Yet, increasing uncertainty concerning e.g. demand forecasts, highlighted by enterprise sector, may prove to be a factor that limits investment demand. What is more, the cycle of investment growth in enterprises will be rather advanced in 2016. However, the effects of the new financial institution tax on crediting the economy are yet unknown. It is expected that investment in infrastructure will grow throughout the year, even though funds granted within European Union financial perspective 2007–2013 are almost finished and the new projects will only enter the implementation phase.

It seems that macroeconomic background regarding sales of household-oriented insurance may be slightly better than in 2015, taking into account the increase in real income, improving situation on labor market and higher savings. Conditions for corporate insurance sales, implied by the increased GDP and financial standing of companies, should be similar to those observable the year before.

The economic growth in Poland may be negatively impacted mainly by the external situation, mostly by the slowdown in GDP growth of emerging markets, including China. There is a growing concern that in such conditions the drop in resource prices and the tightening monetary policy in the US may lead to a financial crisis in developing countries, where companies have been early increasing their USD-denominated debt in the recent years. Uncertainty results also from the situation in Greece, Ukraine, refugee crisis in Europe, and ISIS operations (Islamic State). No major signs of impact of the problems of developing economies on the economic growth in the USA and the Eurozone are at the moment observable both on the US market and in Eurozone, including the German market, which is the most important from Poland's perspective. We expect that the 2016 GDP growth in Eurozone will be at least similar to that of last year. However, in case that crisis hits emerging markets, a slowdown in Poland's GDP growth is to be expected.

Due to the aforementioned threats and relatively high risk aversion, we expect that in 2016 prices on the global (and, consequently, Polish) financial markets will remain highly volatile. This may have negative impact on investment income. If the weakness of PLN continues, it may result in the higher costs of motor insurance due to growing spare parts prices.

The drop in oil prices at the turn of 2015 and 2016 caused a significant fall in fuel prices in Poland. As a result, provided that the consequences of PLN weakness are inflationary, sector taxes are introduced and food prices grow, the average annual inflation rate in 2016 may only slightly exceed zero. The low fuel prices may produce a higher claims ratio for motor insurance. We estimate that the new Polish Monetary Policy Council will keep interest rates of the National Bank of Poland unchanged, even though the rates are more likely to decrease due to low inflation and likely easing of monetary policy by the European Central Bank. However, the interest rates will remain low, which will continue to be a problem for achieving the guaranteed rate of return in life insurance.

Forecasts for the Polish economy	2016*	2015	2014	2013	2012
Real GDP growth in % (year-on-year)	3.5	3.6	3.3	1.3	1.6
Increase in individual consumption in % (year-on-year)	3.8	3.1	2.6	0.2	0.8
Increase in gross expenditure on fixed assets in % (year-on-year)	4.9	6.1	9.8	(1.1)	(1.8)
Increase in prices of consumer goods and services in % (year-on-year, yearend)	1.1	(0.5)	(1.0)	0.7	2.4
Nominal wage growth in domestic economy in % (year-on-year)	4.5	3.2	3.2	3.7	3.7
Rate of unemployment in % (end of the year)	9.0	9.8	11.4	13.4	13.4
NBP base rate in % (end of the year)	1.50	1.50	2.00	2.50	4.25
Average annual EUR/PLN exchange rate	4.35	4.18	4.19	4.20	4.19
Average annual USD/PLN exchange rate	3.98	3.77	3.16	3.16	3.26

Source: PZU Macroeconomic Analysis Office
*Forecast as at 29 February 2016

03

Activity of PZU Group

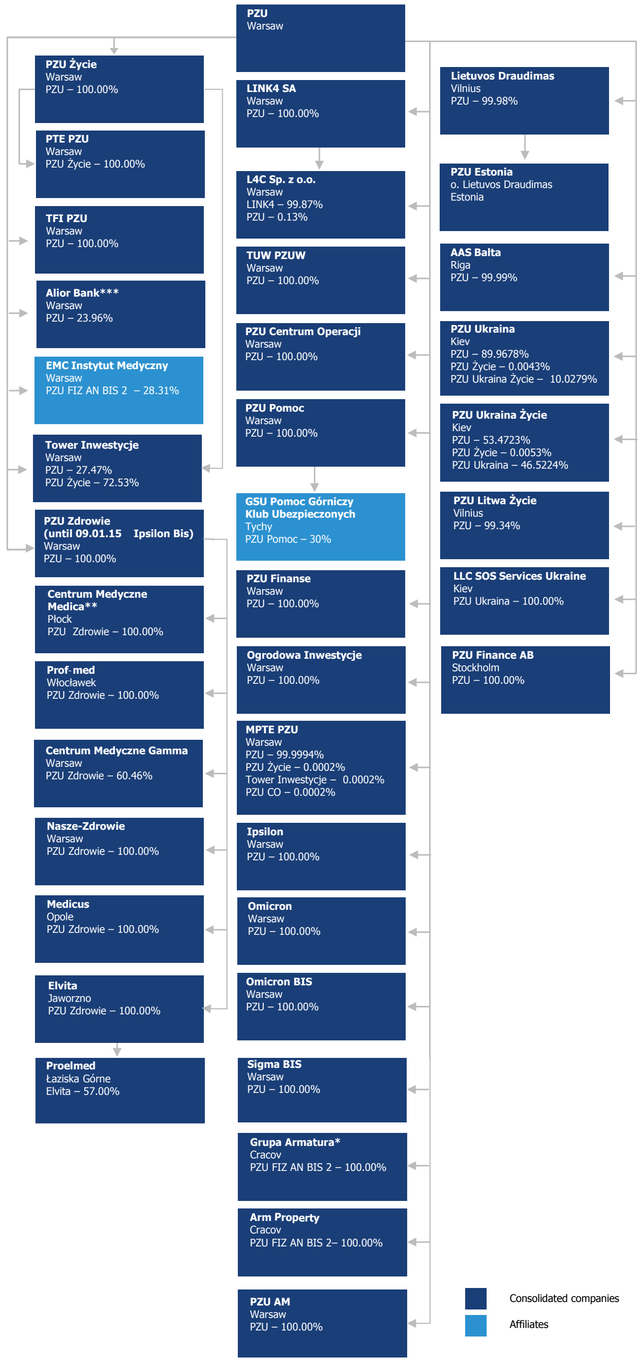
We are strengthening the position of the Polish insurance leader and expanding on the international market through acquisitions of companies and implementation of product, and process innovations.
We are building the assets of people who keep their savings in Poland’s biggest investment fund company and expanding our presence on the health care market.

Contents:

3.1 Structure of PZU Capital Group

PZU Group conducts various activities in the area of insurance and finance. In particular, PZU Group's entities provide services in life insurance, non-life insurance, health insurance and asset management for clients within OPF and investment funds.

Structure of PZU Group (as at 31 December 2015)



* Grupa Armatura included the following entities: Armatura Kraków SA, Armatoora SA, Armatura Tower sp. z o.o.(joint venture), Aquaform SA, Aquaform Badprodukte GmbH, Aquaform Ukraine TOW, Aquaform Romania SRL, Morehome.pl sp. z o.o.
** Grupa Centrum Medyczne Medica includes the following entities: Centrum Medyczne Medica Sp. z o.o., Sanatorium Uzdrowiskowe „Krystynka" Sp. z o.o. i Rezo-Medica sp. z o.o.
*** Grupa Alior Bank Medica includes the following entities: Alior Bank SA, Alior Services sp. z o.o. , Centrum Obrotu Wierzytelnościami sp. z o.o., Alior Leasing sp. z o.o., Meritum Services ICB SA , Money Makers SA , New Commerce Services sp. z o.o.
The structure does not cover investment funds.

As a parent company, acting through its representatives in supervisory bodies of the companies and casting votes at shareholders' meetings, PZU influences the process of determining strategic directions, both in the scope of activities and the finances of the entities making up PZU Group.

The companies provide mutual services both under market conditions and based on the internal cost allocation model (in the scope of the Tax Capital Group) thanks to the expertise of selected companies and by taking advantage of the Tax Capital Group.

The following changes took place in the structure of PZU Group in 2015 and until the release of this report:

- On 3 November 2015, PFSA issued its approval to establish a Mutual Insurance Company (Towarzystwo Ubezpieczeń Wzajemnych) under the name of Polski Zakład Ubezpieczeń Wzajemnych (TUW PZUW). PZU, Link4, and PZUW CHAPTER 3.2
- Pursuant to the agreement concluded on 2 February 2015, PZU Group sold 99.879% of shares in PZU Lithuania to the Norwegian insurance company Gjensidige Forsikring ASA. The transaction was finalized on 30 September 2015, the final price amounted to EUR 66 million. The price will be adjusted by four payments made in 6-month periods, each in the amount representing 1.5% of the capital surplus calculated as the difference between the actual share capital of PZU Lithuania, established according to the requirements of the Bank of Lithuania, and the required capital of PZU Lithuania, calculated in accordance with the provisions of law and the binding regulations of PZU Lithuania. The sale of PZU Lithuania was a necessary condition for acquisition of Lietuvos Draudimas;
- PZU Zdrowie purchased shares in the following medical companies: Nasze Zdrowie (2015), Medicus in Opole (2015), CM Gamma (2015) and CM Cordis (2016); additionally, CM Medica bought REZO-MEDICA (2015). PZU ZDROWIE – ACTIVITIES ON THE HEALTH CARE MARKET CHAPTER 3.7
- in the scope of capital investment, the preliminary agreement for the purchase of Alior Bank shares constituting 25.19% of the Bank's share capital was signed on 30 May 2015. ALIOR BANK – BANKING ACTIVITY CHAPTER 3.8
- based on the agreement signed on 15 January 2015, PZU subsidiaries Armatura Kraków SA and Armatoora SA (Purchaser) purchased shares in Aquaform SA from Saniku SA and Shower Star B.V. (Seller). OTHER AREAS OF ACTIVITY CHAPTER 3.9

3.2 PZU, Link4 and TUW PZUW – activity on the Polish non-life insurance market

Market situation

The non-life insurance market in Poland measured by the gross written premium grew by an annual average of 3.6% over the first three quarters of the past 5 years. The non-life insurance market in three quarters of 2015 increased by a total of PLN 471.5 million (+2.4%). The growth of sales of accident and illness insurance (by PLN 257.9 million, +17.6% year-on-year, 154.2 million of which concerns direct business) and motor own damage insurance (by PLN 180.5 million, +4.6%, 109.4 million of which concerns direct business) mainly as a consequence of average premium growth, had the greatest impact on the premium growth.

20.1 PLN billion

gross written premium of non-life insurance companies after Q3, 2015

0.4 PLN billion

technical result of non-life insurance companies after Q3, 2015

0.9 PLN billion

net result of non-life insurance companies (without PZU Życie dividend) after Q3, 2015

75.5 PLN billion

value of assets of non-life insurance companies at the end of Q3, 2015

We ensure peace of mind and financial security to our clients

We address the clients' needs

Protection of persons and property

Future of the loved ones
Savings
Health care
Retirement
Home
Education
Car
Travels
Personal accidents
Life

Security for business

ships and aircraft
Fleet
Transportation
Merchant credit
Loss of profits
Guarantees
Property
Infrastructure
Construction and installation risk
Exhibits

We implement modern information and sales channels

Agents
Own branches
Internet
Mobile
Multiagencies
Brokers
Strategic partners
Banks

CLIENTS

~16m clients in Poland

+7 p.p. – NPS of retail clients versus competitors

+3 p.p. - NPS of Link4 clients versus direct market competitors

EMPLOYEES

16.8 thousand employees, including:

12.5 thousand in insurance companies

(11K PZU and PZU Życie, 1.5K in Baltic states and Ukraine)

91% employees satisfied with their job

DISTRIBUTION

Poland

9,079 exclusive agents

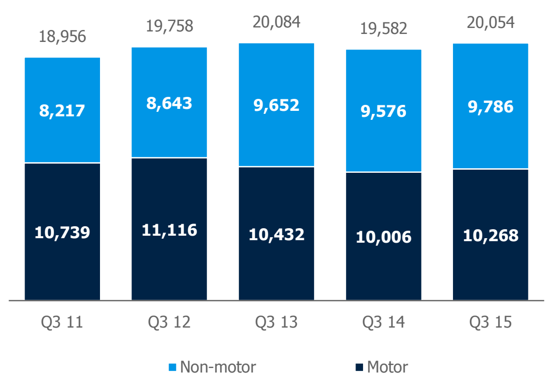
414 branches

Baltic states

1,071 agents

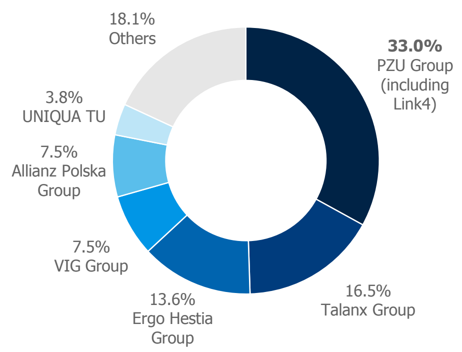
Activity of PZU Group

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



Source: PFSA (www.knf.gov.pl). Quarterly Bulletin. Insurance Market 3/2015. Quarterly Bulletin. Insurance Market 3/2014, Insurance Market 3/2013, Insurance Market 3/2012, Insurance Market 3/2011, Insurance Market 3/2010.

Non-life insurance companies – share in gross written premium for 3 quarters of 2015 (%)



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 3/2015

Furthermore, there was growth recorded in sales of TPL insurance (by PLN 134.7 million, +8.9%, PLN 78.7 million of which concerns direct business) and property insurance (by PLN 107.5 million, +2.5%, including a PLN 166.0 million growth on indirect business).

The drop in premiums was most visible in insurance of financial losses (drop by PLN 278.0 million, -29.5%, PLN 323.1 million of which concerns direct business), credit and guarantee insurance (drop by PLN 100.0 million, -15.0%, PLN 96,0 million of which concerns direct business, as well as marine, aviation, and transport insurance (drop by PLN 63.9 million, -22.0%, PLN 53.7 million of which concerns direct business).

The whole of the non-life insurance market in three quarters of 2015 generated a net profit of PLN 2.0 billion (drop by 34.2% compared with the same period of the previous year). Excluding the dividend from PZU Życie, the net profit of the non-life insurance market dropped by PLN 0.76 billion (-45.6%). The technical result of the non-life insurance market dropped by PLN 623.5 million, i.e. by 60.2% to the level of PLN 411.6 million. This change was affected to the greatest extent by the drop of the technical result in MTPL insurance (PLN -446.9 million) as a result of the ongoing pricing competition.

Low profitability in motor insurance in the three quarters of 2015 may be compared to the 2010 results.

The drop of the technical result in MTPL insurance resulted mainly from the lower earned premium (PLN -319.2 million, i.e. -5.8%) and higher claims and benefits (+PLN 88.8 million, i.e. +2.0%), while the drop of the result in the motor own damage group stemmed mainly from the higher amount of benefits and claims (+PLN 289.2 million, i.e. +11.4%) and costs of insurance activity (+PLN 45.5 million, i.e. +4.7%).

At the same time, there was a drop in profitability in the group of insurance for damage caused by forces of nature (PLN -65.2 million on direct business) and casco insurance for maritime and inland navigation (PLN -25.8 million on direct business).

The value of investments of non-life insurance companies at the end of the third quarter of 2015 (excluding subsidiary investments) was PLN 51.1 billion and rose by 1.0% from the end of 2014. The instruments issued or guaranteed by the State Treasury and local authorities composed 49.8% of the aforementioned investment portfolio.

Non-life insurance companies, on aggregate, estimated the value of net technical provisions at PLN 41.0 billion, which represented an increase of 2.9% compared with the end of 2014.

Activities of PZU

Within PZU Group, activities on the non-life insurance market in Poland are conducted by the parent company in the Group, i.e. PZU. Furthermore, non-life products are offered by Link4 and, since November 2015, also by Polski Zakład Ubezpieczeń Wzajemnych (TUW PZUW).

Over the past years, PZU has been controlling approximately 1/3 of the non-life insurance market. After three quarters of 2015, PZU had a 31.2%[1] share in the non-life insurance market compared with 31.4% after three quarters of 2014.

PZU had a strong market position in motor insurance (with a share of 35.6%[1]). The share was 38.4%[1] for motor own damage insurance and 33.8%[1] for MTPL.

After the first three quarters of 2015, the share of PZU's technical result in the market's technical result was 110.2%, which, along with the market share of 31.2%, confirms the high profitability of PZU insurance.

PZU offers a wide range of non-life insurance products in all insurance groups. At the end of 2015, PZU's offer included over 200 insurance products. Motor insurance is the largest group of products offered by PZU, both in terms of the number of insurance contracts and gross written premium.

In the changing conditions and in the face of new demands and interests of the clients, PZU introduced new solutions to its insurance offer in 2015.

In the mass-client insurance:

- PZU Auto Ochrona Prawna (PAOP, PZU Car Legal Protection), under which PZU organizes or covers the costs of protection of the insured party and immediate family's legal interests. PAOP guarantees legal consulting, legal representation, coverage of court costs in cases associated with vehicle possession, including vehicle traffic and use.

[1] PZU share calculated with consideration of inward reinsurance of PZU towards Link4,

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

	1 January - 30 September 2015			1 January - 30 September 2014		
	PZU*	Market	Market without PZU	PZU	Market	Market without PZU
Motor own damage insurance	1,642	4,098	2,457	1,492	3,918	2,426
MTPL	2,320	6,169	3,849	1,979	6,088	4,109
Other products	2,663	9,786	7,123	2,684	9,576	6,892
TOTAL	**6,625**	**20,054**	**13,429**	**6,155**	**19,582**	**13,427**

Source: PFSA (www.knf.gov.pl). Quarterly Bulletin. Insurance Market 3/2015, Insurance Market 3/2014
*including Link4, which contributed to the Group's result from the moment of acquisition, i.e. 15 September 2014

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

	1 January - 30 September 2015			1 January - 30 September 2014		
Technical results	PZU*	Market	Market without PZU	PZU	Market	Market without PZU
Motor own damage insurance	18	(56)	(74)	164	253	88
MTPL	(157)	(597)	(439)	107	(150)	(257)
Other products	553	1,064	510	434	932	498
TOTAL	**414**	**412**	**(3)**	**706**	**1,035**	**329**

Source: PFSA (www.knf.gov.pl). Quarterly Bulletin. Insurance Market 3/2015, Insurance Market 3/2014
*including Link4, which contributed to the Group's result from the moment of acquisition, i.e. 15 September 2014

The insurance comes in two options: Komfort and Super (Comfort and Super);

- PZU Dom (PZU Home) home insurance was made more attractive by introducing additional Legal Protection insurance. Thanks to the new solution, clients received actual legal assistance for themselves and their relatives in the instances when the tenant refuses to pay the rent, the home improvement crew fails to meet the contract, the seller fails to deliver the goods ordered online, and many others. Just like the Auto product, the insurance comes in two options: Komfort and Super (Comfort and Super);

In the Corporate Client Division, 2015 was the first year to witness the operation of a new approach to sales and management, which is associated with the strategic project of transforming the corporate sales model. The implementation of the new solution is planned to translate into development of corporate business in the key areas.

A new product was introduced in the corporate client segment – guarantee of payment for shares purchased as a result of a squeeze-out – this offer is mainly for entities with a strong financial and market position. The first such guarantee covers PLN 700 million.

In the scope of financial insurance for corporate clients, PZU took part in large Polish modernization projects, including the ones in power engineering and infrastructure, by issuing security guarantees.
A platform was launched to handle financial liability insurance - PZU Gepard. The platform is designed for corporations and small and medium enterprises insuring financial liabilities at PZU.

PZU Group cooperated with 8 banks and 6 strategic partners in the scope of protective property insurance in 2015. The partners of PZU Group are the leaders in their fields and have customer bases with great potential to expand the offer with successive bancassurance and strategic partnership products:

- the cooperation in the scope of strategic partnerships concerned mainly the companies operating in telecommunications and energy, which were used to offer insurance of electronic equipment and assistance services;
- the sales of protective non-life insurance in the scope of the bancassurance channel covered mainly the insurance of buildings, structures, residences, and insurance dedicated for payment cards.

In 2015, PZU collected gross written premiums of PLN 8,858.0 million, which was 7.2% more than in the previous year. At the same time, its structure slightly changed:

- value of MTPL insurance was PLN 2,824.4 million, which was 6.6% higher than in the previous year. It composed 31.9% of the entire portfolio, i.e. their share dropped by 0.2 p.p. from 2014. The higher sales resulted mainly from conclusion of new inward reinsurance agreements with PZU Group subordinates, including the ones newly acquired in the Baltic states and Link4;
- PZU collected PLN 2,167.7 million from motor own damage insurance premiums, which was 7.5% more than in the previous year. This represented 24.5% of the overall portfolio, i.e. its share remained at a similar level to that of the previous year.
- share of gross premiums from non-motor insurance in total premium increased to 43.6% (as compared with 43.5% in 2014). The written premium value rose by 7.5% year-on-year to PLN 3,865.9 million.

31.2 %

PZU's share in the non-life insurance market after Q3, 2015

1.9 %

Link4's share in the non-life insurance market after Q3, 2015

100.6 %

share of PZU Group in the technical result of the market after Q3,2015

16.3 days

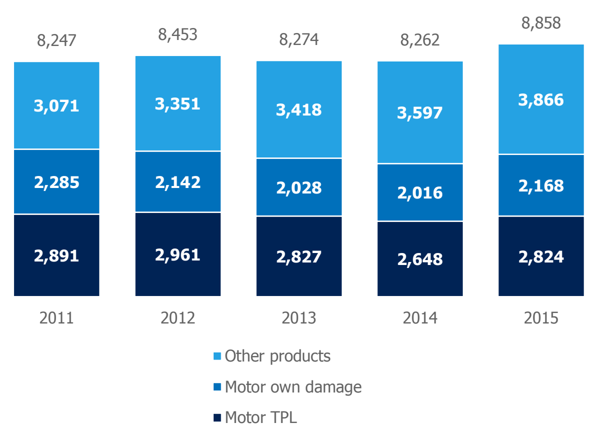
average claims handling period in PZU

In 2015, PZU paid gross claims and benefits amounting to PLN 5 135.2 million, which was 16.0% more than in the previous year.

Furthermore, the comparability of year-on-year results is influenced by the recognition of the IBNR provision for compensation from pain and suffering for damages occurred before 2008.

In 2015, PZU generated a net profit of PLN 2,248.5 million, of which PLN 1,690.2 million related to the dividend from PZU Życie.

PZU's gross written premium (PLN million)



Activities of Link4

In the scope of PZU Group's development strategy aimed at strengthening PZU's position in Poland and at international expansion, PZU signed the agreement for the acquisition of Link4 shares on 17 April 2014. This transaction was finalized on 15 September 2014, and the transaction was ultimately settled on 11 March 2015. As the purchaser, PZU paid the total price of EUR 91.8 million.

Link4 is the leader of the Polish direct insurance market and offers a wide range of non-life insurance, which covers motor insurance, property insurance, personal insurance, and TPL insurance.

Motor insurance is the most important group of products offered by Link4, both in terms of the number of binding insurance contracts and the premium share in the total gross written premiums.

In 2015, there were many changes made to the Link4 product offer, which were intended to adapt the offer to the changing market demands and trends. Link4 focuses on innovative solutions. Some of the 2015 initiatives are listed below:

- introduction of solutions promoting safe driving and ecodriving for individual clients and mini fleets. The company established cooperation with a provider of GPS navigation system in mobile phones and (during the promotional period) added a one-year license for a navigation system and section „Safe Driving with Link4") to the purchased policy. The purpose of the project is to create the future potential for lowering policy prices because of safe driving;
- a new online insurance payment product was developed and will be tested in the first quarter of 2016. The company will realize this project with the innovative internet platform supporting online sales. For this purpose, the company created a new brand, Link4Pay;
- company also introduces graphic general insurance conditions for easier understanding. The document is available for download at www.link4.pl.

In 2015, the decision was made to discontinue sales of insurance offered to the corporate clients. Taking into consideration a much greater experience in quoting and the amount of regulatory capital, the insurance for corporate clients will be offered by the PZU Brand.

In 2015, Link4 collected gross written premiums of PLN 493.2 million, most of which concerned motor insurance, respectively:

- value of MTPL insurance was PLN 320.9 million, which constitutes 65.1% of the entire portfolio;
- value of the motor own damage insurance premium was PLN 95.8 million, which composes 19.4% of the entire insurance portfolio.

Activities of TUW PZUW

On 30 November 2015, PFSA approved PZU's establishment of a Mutual Insurance Company under the name of Polski Zakład Ubezpieczeń Wzajemnych (TUW PZUW). The hospitals cooperating under the TUW model will be able to distribute the risk in the scope of mutual relations adapted to the specifics of a given group of medical entities, which will reduce the costs of insurance premium. As a founding member of TUW PZUW, PZU will provide hospitals - TUW participants

– support in active risk management and development of recommendations concerning reduction of suffered risk by means such as extended cooperation in the scope of Medical Risk Assessment (MRA).

Factors, including risks and dangers, which will impact the activities in the non-life insurance sector in 2016
Apart from events of a catastrophic nature (such as floods, drought and spring frost), the main factors which can affect the situation of the non-life insurance sector in 2016 include:

- possible slowdown of economic growth in Poland resulting from deteriorating external conditions. In consequence, the worse financial standing of households can lead to a decline in sales of motor policies (as a result of lower new car sales), lower sales of mortgages and the related mortgage related insurance, as well as lower demand for other property insurance. The poorer financial standing of businesses can result in a growth in credit risk and an increase in the level of claims in the financial insurance portfolio.
- the reduction in the development of mortgage campaigns as a result of the introduced asset tax and stricter requirements of Recommendation S GLOSSARY on good practices regarding the management of credit exposures collateralized with mortgages;
- decisions of supreme courts in the scope of monetary compensation to the closest relative from the TPL insurance of owners of motor vehicles for damage resulting from the violation of his or her personal welfare even if the damage took place before 3 August 2008;
- potential raise of claims handling costs resulting from the implementation of further recommendations concerning claims handling by the PFSA;
- raise of spare parts prices with effect on claims handling costs resulting from the successive drop of PLN against the euro;
- implementation of the Solvency II requirements based on risk evaluation from January 2016 may change the operating model of selected areas of the insurance companies on the market (e.g. the tariff policy);
- further regulations or financial burdens imposed on insurers – e.g. a possible reinstatement of so-called "Religa tax" (i.e. compulsory fee payable to NFZ from every MTPL policy).

3.3 PZU Życie – activity in the life insurance market in Poland

Market situation
After three quarters of 2015, the life insurance market in Poland measured by the gross written premium amounted to PLN 20.8 billion, which means that it has declined by an annual average of 2.2% over the past 5 years. The premium collected during three quarters of 2015 was simultaneously lower by 1.8% than in the corresponding period of the previous year, which is a continued decline after a series of increases, which ended in 2012.

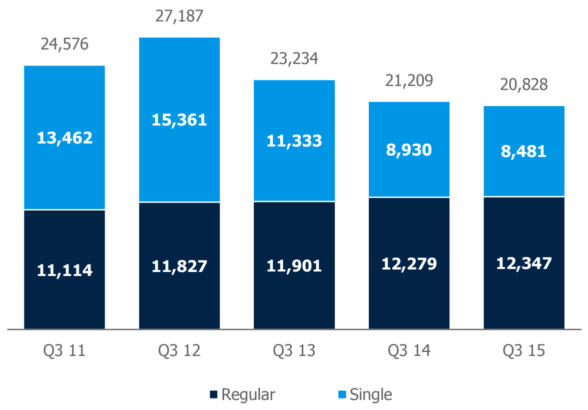
It should be noted that the premium decline applied exclusively to the single premium (a decline of 5.0% year-on-year), mainly in the bancassurance channel. The dynamics for the corresponding period of 2014 were also negative at -21.2%.

Life insurance market – gross written premium (PLN millions)

	1 January - 30 September 2015			1 January - 30 September 2014		
	PZU Życie	Market	Market without PZU Życie	PZU Życie	Market	Market without PZU Życie
Regular premium	5,421	12,347	6,927	5,267	12,279	7,012
Single premium	649	8,481	7,832	910	8,930	8,021
TOTAL	**6,069**	**20,828**	**14,759**	**6,176**	**21,209**	**15,032**

Source: PFSA (www.knf.gov.pl). Quarterly Bulletin. Insurance Market 3/2012, PZU Życie data

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



Źródło: KNF (www.knf.gov.pl). Biuletyn Kwartalny. Rynek ubezpieczeń 3/2015, Rynek ubezpieczeń 3/2014, Rynek ubezpieczeń 3/2013, Rynek ubezpieczeń 3/2012, Rynek ubezpieczeń 3/2011.

The reasons of the lower single premiums in recent years include the current situation of the capital market and changes in the legal environment. The record low interest rates reduce the profitability of short-term endowment policies (polisolokaty) thereby generating greater interest in other investment products, i.e. the investment funds offered by TFI or the unit-linked insurance products. Additionally, a tax on revenue from short-term life and endowment policies with fixed rate of return or interest-based return was introduced on 1 January 2015, which reduced the client interest in such products.

The aforementioned changes contributed to the fact that the segment of unit-linked products holds the highest year-on-year growth dynamics, i.e. 8.5%.

Simultaneously, the share of the bancassurance channel in the gross written premium of life insurance companies is reducing quarter to quarter starting from 2013. In Q3 2015 it amounted to 38.1%[2] and decreased compared to the corresponding period in 2014.

The result of the changes taking place on the market is the rising prominence of the regular premium over the single premium, which is PZU Życie's competitive advantage on the market. Throughout three quarters of 2015 this premium was higher by 0.6% compared with the corresponding period of 2014.

The gradual increase in the attractiveness of employee pension programs (EPP) on the life insurance market is noticeable. Much like in previous years, the most common form of EPP were insurance programs. In 2014, they represented 66%[3] of all Employee Pension Programs. At the end of 2014, the value of assets gathered in all employee pension programs (irrespectively of the form) amounted to PLN 10.3 billion and rose by 9% in comparison with 2013. By the end of 2015, almost 2.4% Polish employees were covered by EPP.

The total technical result reached by life insurance companies in three quarters of 2015 was lower than in the corresponding period of 2014 by PLN 598.8 million (22%) and amounted to PLN 2,123.7 million. The weaker result is the effect of lower profitability in all groups, especially life insurance (Group I) – drop of PLN 350.0 million (-40.5%; resulting mainly from the lower investment activity result) and unit-linked life insurance (Group III) – drop in technical result by

[2] PIU data(www.piu.org.pl), bancassurance market after Q3 2015
[3] Employee Pension Programs in 2014, Polish Financial Supervision Authority, June 2015

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

	1 January - 30 September 2015			1 January - 30 September 2014		
	PZU Życie	Market	Market without PZU Życie	PZU Życie	Market	Market without PZU Życie
Written premium	6,069	20,828	14,759	6,176	21,209	15,032
Technical result	1,311	2,124	813	1,610	2,723	1,112

Source: PFSA (www.knf.gov.pl). Quarterly Bulletin. Insurance Market 3/2014, PZU Życie data

PLN 143.8 million (-29.8%; the effect of regulatory changes lowering the charges collected by insurance companies).

During this period, life insurance companies generated the net result of PLN 2,366.3 million, which constituted a year-on-year drop of 10.8% (PLN 285.8 million). This drop results mainly from the investment results of insurers, which were lower than in the corresponding period of 2014.

The value of investments of life insurance companies at the end of the third quarter of 2015 was PLN 42.4 billion and dropped by 1.7% from the end of 2014. At the same time, the high premium (which exceeded paid benefits) contributed to increasing the net assets of life insurance with investment risk falling onto the insurer (2.0% growth to PLN 55.1 billion).

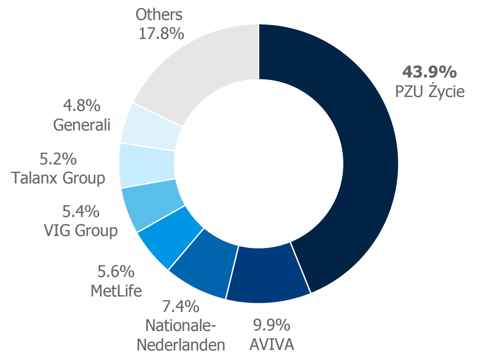
PZU Życie's activities

PZU Życie SA (PZU Życie) operates on the Polish life insurance market within PZU Group. The Company offers a wide range of life insurance products, including group and individual protection insurance, investment, insurance, and pension products.

PZU Życie collected 29.1% of the gross written premium of life insurance companies in three quarters of 2015 to retain last year's market share. Simultaneously, PZU Życie continued to remain the decisive leader in the regular premium segment. During three quarters of 2015, it obtained 43.9% of such premiums of all insurance companies.

PZU Życie's technical result constituted the majority of the result achieved by all life insurance companies. This is the evidence to the high profitability of the products offered. PZU Życie's technical result margin was almost four times higher than the margin achieved by all the other companies offering life insurance together (21.6% compared with 5.5%).

Life insurance companies — share in gross written premium for 3 quarters of 2015 (%)



Capital groups:Talanx - Warta, Europa, Open Life; VIG - Compensa Życie, Polisa Życie, Skandia Życie, Benefia (merged with Compensa Życie on 30 September 2014); Aviva - Aviva TUnŻ, BZ WBK-Aviva TUnŻ
Source: PFSA Quarterly Bulletin. Insurance market 3/2015

In 2015, besides being adapted to new legal regulations, the product offer of PZU Życie was expanded with innovative solutions designed to make it more attractive. The 2015 changes in the PZU Życie product offer include the following:

- implementation of new regular premium insurance „PZU Cel na Przyszłość". This product is meant for clients who either have or are planning to establish an investment objective for a long period, over which they would like to gather a specific amount. The investment objectives may include extra funds for future retirement, building a house, educating children, paying off a mortgage early, etc.;
- introduction of a new version of additional insurance with the Pharmacy Card to group protection insurance and individual continued insurance. The product change is related with the expansion of the previous non-cash model with the cash option of the Pharmacy Card, which allows the benefits to be realized at all pharmacies;
- introduction of modified group life insurance Pogodna Przyszłość. This is a new version of PZU's offer for clients interested in employee pension programs (EPP). The main modification is the change of the investment platform; the previous equity of PZU Życie with weekly valuation have been replaced with funds from the PZU TFI offer with daily valuation. The individual program includes 6 funds with a broad investment range and the recommended program includes 4 funds.

Furthermore, there were numerous changes made to the health care product offer, including new technological solutions, some of which are presented below:

- expansion of the offer with additional „Cztery Pory Roku" (Four Seasons) insurance in individually continued insurance. The insurance includes a guarantee for co-funding of immediate medication and antibiotics. The product is available nationwide at all pharmacies and only requires a prescription. The co-funding is in non-cash format in roughly 1/3 Polish pharmacies;
- implementation of the „Z miłości do zdrowia" (Out of love for health) additional insurance, which includes coordination of treatment progress for people recuperating from heart attacks and strokes or battling tumors. Besides medical consultations, rehabilitation, and diagnostics, the product covers psychological support and a personal assistant to lead the insured party through the treatment process. The product has the advantage of offering preventive examinations, to which the insured party will be subject throughout the effectiveness of the insurance agreement;
- telemedicine (introduced as a pilot program in 2016) – remote cardiologic care providing for unassisted home ECG examination and subsequent consultation of the results with a physician. This is a 24-hour service;
- expanding the network of health care centers for medical insurance clients to 1,580 in 500 cities.

Furthermore, there were 10 Świat Zysków (World of Profits) subscriptions, which were very popular among structured insurance clients. Individual subscriptions offered diverse investment strategies, which adapted to the changing market conditions. Besides the payout of the guaranteed capital, certain closed subscriptions concluded with a payout of the profit (the greatest profit was paid to the clients of 25 subscriptions and constituted 33.33%).

In 2015, the bank channel saw continuation of cooperation with current distributors. The high sales of the Multicurrency Investment Program unit-linked single premium product, which was offered through Bank Millennium SA, were a success and were sustained especially in the first half of last year.

In 2015, in accordance with Polish Accounting Standards, PZU Życie collected gross written premiums of PLN 8,064.0 million, which was 1.4% less than in the previous year. The vast majority of the Company's premium was from regular premium products. It represented 89.9% of the gross written premiums (as opposed to 86.3% in the previous year). It primarily included the written premium from group insurance and individually continued insurance, which had approximately 12 million customers in Poland.

In 2015, PZU Życie settled claims and benefits at the amount of PLN 6,294.8 million, which was 3.6% less than in the previous year.

20,8
PLN billion
gross written premium of life insurance market after Q3, 2015

0.6
%
growth in life insurance market with regular premium after Q3, 2015

2.1
PLN billion
technical result of life insurance market after Q3, 2015

2.4
PLN billion
net result of life insurance market after Q3, 2015

105.8
PLN billion
volume of assets of life insurance companies at the end of Q3, 2015

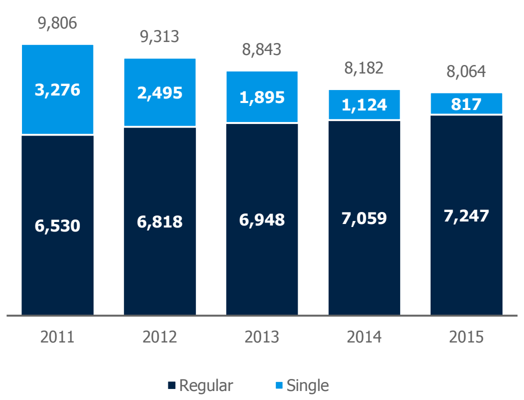
43.9
%
share of PZU Życie in the life insurance market after Q3, 2015 by regular premium

61.7
%
share of PZU Życie in technical result after Q3, 2015

3.4
days
average claims handling period in PZU Życie

In 2015, PZU Życie generated a net profit of PLN 1,677.1 million in accordance with the Polish Accounting Standards.

Gross written premium PZU Życie (PLN million)



Factors, including risks and dangers, which will impact the activities in the life insurance sector in 2016

The situation on the life insurance market in 2016 will primarily be affected by:

- low interest rates, which in longer period reduce the profitability of investments made from premiums collected;
- lower interest in investment products – outflow of capital to alternative investment forms other than insurance policies;
- economic climate on the capital markets which is difficult to predict and which determines the attractiveness of unit-linked insurance products;
- guidance in the scope of insurance distribution released by the PFSA and included in the Act on Insurance Activity GLOSSARY, which affect both the product structure and the entire insurance agency sector;
- UOKiK [OCCP, the Office of Competition and Consumer Protection] rulings in the scope of unit-linked products;
- implementation of the Solvency II requirements based on risk evaluation from January 2016 may change the operating model of selected areas of the insurance companies on the market (e.g. the tariff policy).

3.4 PTE PZU – activities in the pension funds market

Market situation

At the end of 2015, the net assets of open pension funds were at the level of PLN 140.5 billion and dropped by 5.7% with respect to the end of the previous year.

Activities of PTE PZU

OFE PZU Złota Jesień (Open Pension Fund, OPF), which is managed by PTE PZU SA (PTE PZU), is one of the largest players on the pension funds market in Poland. At the end of 2015, 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 2,208.4 thousand members, i.e. 13.4% of all participants of open pension funds;
- net assets were at the level of PLN 18.5 billion, or, in other words, they represented 13.2% of the total value of assets of the open pension funds operating in Poland.

The Social Insurance Institution (ZUS) transferred PLN 295.7 million in premiums to OFE PZU in 2015, which was 70.2% less than in the previous year. The premium level dropped mainly due to introduction of premiums voluntary payment to open pension funds resulting from the changes introduced in 2014 (the Act as of 6 December 2013 amending certain other acts concerning the purpose of defining the principles of pension payouts from funds gathered in open pension funds). At the end of 2015, Dobrowolny Fundusz Emerytalny PZU (PZU Voluntary Pension Fund) held 56.8 thousand IKZE accounts, which held assets worth PLN 14.3 million. As a result, it maintained its position as one of the leaders in the voluntary pension funds segment. The 2015 rate of return was 9.1%.

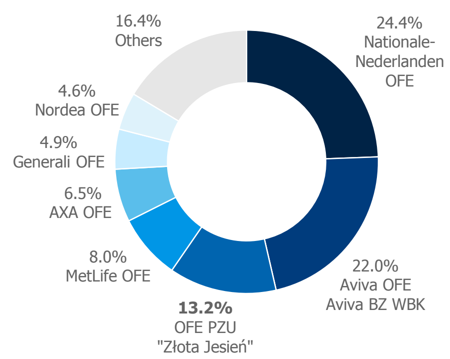
140.5 PLN billion
net asset value of open-ended pension funds at the end of 2015

16.5mln members
of open-ended pension funds at the end of 2015

252.2 PLN billion
net assets value of mutual funds at the end of 2015

37.9 PLN billion
net inflow to domestic mutual funds in 2015

Open Pension Funds — share in assets as at 31.12.2015 (%)



Source: PFSA, Monthly data on OPF market, December 2015

Factors, including risks and dangers, which will impact the activities of pension funds in 2016

The main challenges for the pension funds market in 2016 are:

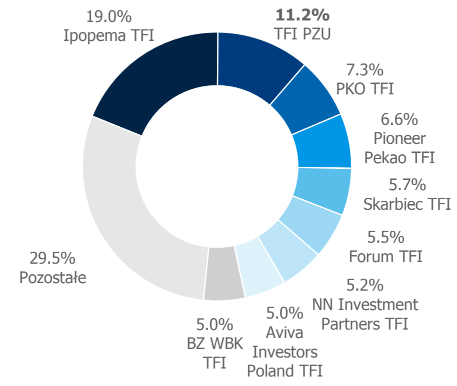
- reform of the pension system in Poland and the outflow of funds from OPFs;
- so-called transfer window, which is the period between 1 April and 31 July 2016 open to filing of declarations concerning the continuation of premium payment to ZUS or payment to OPFs and ZUS;
- economic climate on the capital market and, in particular on the WSE, affecting the value of the assets of open pension funds and the level of management fees collected by PTEs.

3.5 TFI PZU – activity on the investment fund market

Market situation

At the end of 2015, the funds managed by domestic investment funds rose by almost +20.6%. At the end of 2015, the assets for the entire investment fund market amounted to PLN 252.2 billion in comparison with PLN 209.0 billion at the end of the previous year.

Fund management companies — share in assets a at 31.12.2015 (%)



Source: Chamber of Fund and Asset Management

In 2015, the balance of public and non-public sales of solutions offered by TFI on the domestic market amounted to almost PLN 37.9 billion (according to the estimates of Analizy Online [Online Analyses]). The fast growth of the market during the recent year was largely influenced by the inflow of assets into non-public investment funds.

Taking into account the share of the market available to a broader range of recipients, domestic investors in 2015 were most likely to invest in stock funds as well as absolute rate of return funds.

As a result of the trends described above, the Polish investment fund market has experienced a change in the structure of assets. Non-public asset, capital protection, and absolute rate of return funds are amongst the ones which have recorded the greatest growth dynamics.

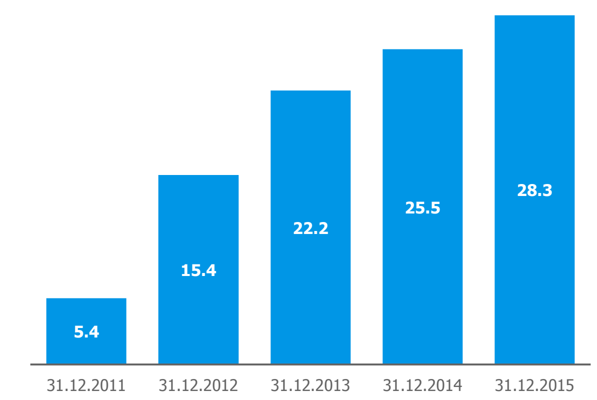
Activities of TFI PZU

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

At the end of 2015, TFI PZU had 25 funds and sub-funds in its portfolio, of which 19 were also offered to clients from outside PZU Group.

As of the end of December 2015, TFI PZU gathered net assets valued at PLN 28,303.3 million, 10.8% more than at the end of 2014. This makes TFI PZU one of the biggest Investment Funds in Poland, in second place at the end of the year according to the joint report of Analizy Online and IZFiA. TFI PZU is also the leader in the segment of employee pension programs among all institutions operating on this market (not only investment funds), accumulating assets worth more than PLN 3.2 billion at the end of last year.

TFI PZU net assets (PLN billion)



Source: Analizy Online

In 2015, TFI PZU's assets grew primarily due to:

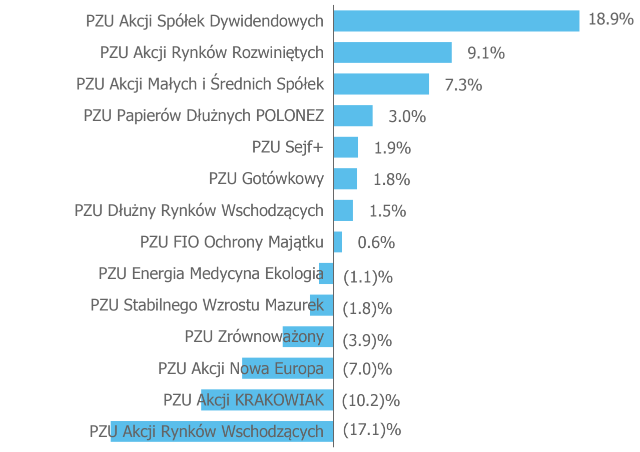
- active sales of funds and sub-funds;
- further development of the distribution network;
- introduction of new Employee Pension Programs;
- investment results generated by the fund managers.

Factors, including risks and dangers, which will impact the activities of investment funds in 2016

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

- operations of central banks;
- economic climate on capital markets (including the prices of raw materials);
- attractiveness of traditional bank deposits and profitability of instruments.
- establishing a model for offsetting among the funds on the Polish market.

Rates of return of TFI PZU investment funds in 2015 (%)



Source: Analizy Online

3.6 Foreign activity

Lithuanian market

According to the Bank of Lithuania, the value of gross written premium gathered by non-life insurance companies amounted to EUR 409.1 million and was 6.0% higher than in the previous year.

The market dynamics were generated mostly by non-life insurance (composing 20.6% of the market) with written premium growth to 12.4%. Motor insurance, which dominated the premium structure (56.6% market share) also recorded aggregated growth. Motor own damage insurance grew by 8.7% and MTPL insurance grew by 0.5%. The premium growth in motor own damage insurance resulted from both the greater number of policies and the price rise, which followed the price war.

Ten companies were operating in the non-life insurance sector at the end of 2015 (including 10 branches of insurance companies registered in other European states). The largest insurance company in Lithuania in terms of total gross written premiums from non-life insurance remains Lietuvos Draudimas. The 2015 market share of this company was 31.1%. BTA was second with a 13.3% market share and PZU Lithuania was third (12.8% market share). However, PZU Lithuania and Gjensidige hold the combined 19.4% market share, which puts the Gjensidige Group in second place on the non-life insurance market.

The 2015 gross written premium recorded by Lithuanian life insurance companies amounted to EUR 236.0 million, 9.7% higher than in the previous year. Regular (18.5%) and single premium (7.9%) products both presented positive dynamics.

The structure of life insurance was dominated by unit-linked insurance representing 72.1% of the premiums. Traditional life insurance accounted for 20.9% of the written premium.

At the end of 2015, 8 companies were active in the life insurance sector. The Lithuanian life insurance market is highly concentrated. At the end of December 2015, the share of total gross written premiums of the three largest life insurance companies amounted to 62.3%.

Latvian market

At the end of the third quarter of 2015, the Latvian non-life insurance market gathered the written premium of EUR 195.7 million, up by roughly EUR 15 million from the corresponding period of the previous year.

Considering the product structure, the highest market share was held by motor own damage insurance (25.3%) and MTPL insurance (21.2%), as well as property (19.1%) and health (18.9%) insurance. Health insurances present high dynamics – in comparison with the three quarters of last year, the written premium rose by over 14%.

In 2015, 15 insurance companies were operating on domestic non-life insurance market and the 4 biggest ones held the approximate share of 65.3%.

Estonian market

In 2015, the non-life insurance companies and branches of foreign companies of this insurance sector operating in Estonia recorded a 6.7% growth of the gross written premium from the previous year and gathered the total premium in amount of EUR 278.8 million, EUR 62.0 million or 22.2% of which were acquired by the branches of foreign insurance companies operating in Estonia.

The 2015 structure of non-life insurance was dominated by motor insurance, which accounted for 60.7%, whereby the share of motor own damage insurance held 35.3% and property insurance held 26.3% of the market share.

Nine companies were operating in the non-life insurance sector at the end of 2015 (including 3 branches of foreign insurance companies), 5 of which held the share of 82.6%.

Activities of PZU companies in the Baltic states

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

Lietuvos Draudimas is the leader of Lithuanian non-life insurance with market share of 31.1%. In 2015, it recorded a growth of the gross written premium by 6.8% compared with the previous year and reached the level of EUR 127.2 million. The greatest growth was recorded in motor (6.9%) and property (5.6%) insurance.

The life insurance activity in Lithuania is carried out by UAB PZU Lietuva Gyvybës Draudimas – "PZU Lithuania Life". Written premium amounted to EUR 10.3 million, a 16.0% growth from the previous year. The greatest sales growth was recorded endowment insurance, which rose by 22.5% from 2014, and unit-linked insurance (growth by 7.9%).

The share of PZU Lithuania Life in the life insurance market was 4.4% (up from 4.1% in 2014).

In Latvia, PZU Group conducts business through AAS Balta – the dominating entity on the market – which entered the Group in June 2014 and, subsequently, acquired the PZU Lithuania branch operating on the Latvian market since 2012 (in May 2015). At the end of the third quarter of 2015, the share of both entities in the non-life insurance market in three quarters was 25.1% and the 2015 total gross written premium of both entities was EUR 67.1million.

From May 2015, the entity conducting business in Estonia is a branch of Lietuvos Draudimas and was established through the merger of two entities – the branch of PZU Lithuania, registered in 2012, and the Estonian branch, acquired in 2014, which was operating under the Codan brand. The share in the Estonian non-life insurance market was 13.8%. The acquired written premium was EUR 38.6 million.

Ukrainian market

In 2015, the Ukrainian insurance market recorded growth. The gross written premiums on the non-life insurance market in three quarters of 2015 was UAH 20.2 billion and was higher by 29.7% than in the corresponding period of the previous year. This growth resulted mainly from the raise of insurance sums, which resulted from the devaluation of the local currency and rising inflation, as well as the statutory raise of compulsory insurance rates. Motor insurance, which hold a 28.2% share in the non-life insurance market, recorded increase in premium of 21.8%, including the growth of the Green Card product by 76.4%.

Life insurance companies collected UAH 1.5 billion gross written premiums in three quarters of 2015, slightly up (by 0.2%) from three quarters of the previous year.

On one hand, the Ukrainian insurance market is fragmented, as it was composed of 368 insurance companies as at September 2015 (of which 50 were providing life insurance). On the other hand, the TOP 100 non-life insurance companies generated 96.3% of the entire market's gross written premium and the TOP 20 life insurance companies generated 98.9% of the written premium.

In 2015, much like in the previous year, the Ukrainian insurance market experienced difficult conditions associated with the state's weakened economy, the armed conflict in the east, devaluation processes, decline of the bank system liquidity, and low client activeness. The market continued to present a high level of acquisition expenses, problems with preservation of current liquidity of some insurance companies and reduced confidence among natural persons. The aforementioned events resulted in client reorientation towards companies with western capital share, a process started in 2014 – if the previous key factor in choosing an insurer was the price, the current one is credibility and solvency.

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

In 2015, the total gross value of PZU Group's gross written premiums in non-life insurance in the Ukraine amounted to UAH 798.9 million, i.e. it was 58.5% higher than in the previous year. This increase arose from both the growth in the premium obtained through external entities (banks and travel agencies) and through its own distribution channels. Motor insurance, Green Card insurance, tourism insurance, and corporate property insurance played a particularly important role in the growth in written premiums.

During three quarters of 2015, PZU Ukraine had obtained 2.7% (growth of 0.5 p.p. in relation to three quarters of 2014) of the gross written premium on the Ukrainian non-life insurance sector, which gave it seventh place on the market. Meanwhile, the leader's share was 5.3%.

The written premium collected by PZU Ukraine Life in 2015 amounted to UAH 177.8 million and was 15.2% higher than in 2014. This growth was achieved primarily in the bancassurance and brokerage channel, mainly thanks to sales of life and endowment insurance.

On the life insurance market, PZU Ukraine Life held fourth place after three quarters of 2015, with a market share of 8.6% (1.3 p.p. growth in comparison with the previous year). The leader's share was 18.6%.

It should also be noted that the written premium in the functional currency for both companies was lower than last year under the conditions of strong currency depreciation. In 2015, the premium of PZU Group in Ukraine was PLN 168.2 million, down by 3.1% from the previous year.

Due to the uncertain political and economic situations in the country, the management boards of PZU Ukraine and PZU Ukraine Life decided to take the following risk reduction measures:

- outside of standard exceptions (war, terrorism, etc.) insurance activity does not cover illegal actions of third parties. Furthermore, conclusion and extension of non-life insurance for natural persons and legal entities, including mortgaged property where the insurance falls within the territory of the Donetsk and Luhansk regions, is temporarily suspended; the same applies to shipping and carrier liability insurance if the transport route runs through the aforementioned regions;
- regional branches in Crimea and the Donetsk and Luhansk regions were closed;
- some of the financial assets were transferred to selected banks operating in Ukraine. The selected banks had to have a dominating foreign shareholder and state-owned banks had to meet the criteria presented in the internal regulations of PZU Group.

The Management Board of PZU monitors the situation in Ukraine in cooperation with the management boards of the Ukrainian companies. Controlling mechanisms and scenarios of reaction to market changes have been prepared. PZU has no intention of withdrawing from the Ukrainian market. As at the signing date of this activity report, the Management Board of PZU assumes that the companies will continue to operate according to the accepted premises. Nevertheless, the current economic instability in Ukraine may have negative consequences on the financial situation and results of the Ukrainian companies in a way which cannot be predicted with credibility at this time.

3.7 PZU Zdrowie – activity on the health care market

Health in PZU

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

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

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

- medical services for the local population of Płock, Włocławek, cities of Upper Silesia, as well as Opole and Warsaw, and - as of February 2016 – also Poznań, in scope of NFZ contracts covering general health care and ambulatory special care;
- services in scope of additional health care packages for corporate and individual customers in Płock, Włocławek, cities of Upper Silesia, Opole, Warsaw, and, as of February 2016, Poznań;
- medical services for holders of medical insurance at PZU Życie and commercial patients.

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

Due to the building of the health care center and health insurance networks, PZU Group was expanded by the following companies in 2015 and until the release of this report:

- REZO-MEDICA (100% shares, from 23 April 2015) – offering magnetic resonance services in Płock;
- CM Gamma ("Centrum Medyczne Gamma sp. z o.o." – 60.46% shares), one of the most innovative private hospitals specializing in orthopedics in Poland.
  - On 29 July 2015, PZU FIZ AN BIS 2, an investment fund managed by PZU TFI, acquired 29,278 Gamma shares constituting 54.95% of share capital.
  - On 25 November 2015, a resolution was passed to raise the Gamma share capital by issuing 7,423 shares with nominal value of PLN 50 per share. All shares were acquired by PZU FIZ AN BIS 2 and the capital raise was registered on 2 December 2015. Resulting from the issue, the share of PZU Group in the CM Gamma share capital and shareholder votes rose to 60.46%.

31.1 %

share of Lietuvos Draudimas in gross written premium of the non-life market in Lithuania

25.1 %

share of AAS Balta in gross written premium of the non-life market in Latvia after Q3, 2015

13.8 %

share PZU in gross written premium of the non-life market in Estonia

2.7 %

share of PZU Ukraina in gross written premium of the non-life market in Ukraine after Q3, 20154

- On 29 December 2015, PZU Zdrowie acquired CM Gamma.
- Nasze Zdrowie (100% shares, from 26 August 2015) – operates on the Warsaw market of medical services in range of ambulatory health care (both basic and specialized);
- Medicus w Opolu (100% shares, from 22 September 2015) – provides both basic and specialized ambulatory health care services;
- CM Cordis (100% shares, from 1 February 2016) – provides specialized services for patients in Poznań.

The total cost of purchase of the aforementioned companies was PLN 27.6 million in 2015 and the goodwill recognized in the consolidated financial statements amounted to PLN 20.1 million.

3.8 Alior Bank – banking activity

Purchase of Alior Bank shares and recognition in the consolidated financial statements of PZU Group

According to the preliminary share purchase agreement covering the sale of Alior Bank SA ("Alior Bank") shares from Alior Lux S.à.r.l. & Co. S.C.A and Alior Polska sp. z o.o., which was signed on 30 May 2015, PZU acquired 18,318,473 shares of Alior Bank constituting roughly 25.19% of the bank's share capital in three tranches for the total price of PLN 1,634.9 million (PLN 89.25 per share). The transaction depended on conditions precedent, including no objection from PFSA, approval of OCCP, and approval of the Ukrainian anti-monopoly office.

On 6 October, PFSA did not submit an objection and thus all of the conditions precedent were fulfilled.

PZU paid the following for specific tranches:

- I tranche 7,244,900 shares (9.96%) for total amount of PLN 646.6 million – 12 October 2015;
- II tranche 7,244,900 shares (9.96%) for total amount of PLN 646.6 million – 18 December 2015;
- III tranche 3,828,673 shares (5.27%) for total amount of PLN 341.7 million – 11 March 2016.

Between 12 October 2015 and 18 December 2015, Alior Bank was considered as an associated entity.

PZU Group has been in control from the acquisition of the second tranche. Consequentially, Alior Bank was subject to consolidation. A makeshift settlement of the acquisition was performed for the end of 2015 based on the data prepared for 31 December 2015. There were no considerable differences in the accounting data between 18 December 2015 (first day following the acquisition of control) and 31 December 2015. In 2015 only assets and liabilities of Alior Bank were consolidated.

Simultaneously, the obligations resulting from the acquisition of the third tranche of 3,828,673 shares for the total amount of PLN 341.7 million were recognized.

Market situation

As at the end of 2015, there were 38 domestic banks, 561 cooperative banks, and 27 branches of credit intuitions operating on the Polish market. On 2015, similarly to the previous years, banking network diminished (by 3.8% to 14,496 locations) and the employment level dropped (by 1.0%).

Health care market

100 PLN billion

The chain of the cooperating with PZU Group's health care centres in Poland

1,580

Between January and December 2015, the banking sector generated a net profit of PLN 11.5 billion (a drop by 27.6% year-on-year.) The net result in the banking sector was mainly influenced by the following events: decrease in interest result by 4.8% (as a result of lowering interest rates by the Monetary Policy Council) and the result from fees and commissions by 3.3%. Moreover, this drop resulted from a higher employees costs and a growth in general management costs due to increased fees payable by the banks to the Bank Guarantee Fund.

The value of assets of the banking sector as at the end of 2015 reached PLN 1,599.9 billion and was 4.4% higher than at the end of 2014. The main areas of improvement was a growth in credits for enterprises (+8.8% year-on-year) and household receivables (+6.7% year-on-year). Despite low interest rates, the deposits in the non-financial sector increased at the end of December 2015 by 9.9% year-on-year to the amount of PLN 938.8 billion.

The value of own funds in the banking sector for capital ratios reached PLN 149.2 billion as at the end of September 2015 and reached by 7.4% year-on-year. The growth was related to a decision of a considerable number of banks to retain 2014 profits as a result of resigning from and discontinuation of dividend payment.

Total capital ratio of the banking sector reached 15.6% at the end of September 2015 (a growth by 0.6 p.p. compared to the end of September 2014), and the core capital ratio, Tier I, amounted to 14.3% at the end of the above-mentioned period (an increase by 0.5 p.p. compared to the end of September 2014).

Activity of Alior Bank

Alior Bank is a universal bank that is recognizable for its state-of-the-art solutions and a wide product offer. In 2015, Alior Bank Group generated PLN 309,0 million in net profit per shareholders of the parent entity and reached ROE of 9.5%.

The above financial result was reached regardless of a number factors that adversely affected operations of the bank, including: incurring costs related with the bankruptcy of Spółdzielczy Bank Rzemiosła i Rolnictwa (Cooperative Bank for Craftsmanship and Agriculture) in Wołomin, making a payment towards the Borrowers' Support Fund, higher fees payable to the Bank Guarantee Fund, higher interchange fee on card transactions, or operating in the environment where very low interest rates prevailed.

The main sources of revenues at Alior Bank Group include net interest result which reached PLN 1,501.0 million – thanks to a dynamic growth in credits by means of applying an effective pricing policy and as a result of merger with Meritum Bank.

The cost/income ratio amounted to 51.1%, but it would have reached 48.1% if the costs incurred as a result of the bankruptcy of Spółdzielczy Bank Rzemiosła i Rolnictwa (Cooperative Bank for Craftsmanship and Agriculture) in Wołomin and the payment towards the Borrowers' Support Fund had been excluded.

At the same time, in 2015 operational merger with Meritum Bank took place four months after the legal merger, which evidences to the level of competence and experience of Alior Bank staff.

Factors, including risks and dangers, which will impact the activities of Alior Bank in 2016

The situation in the banking sector in 2016 will primarily be affected by:

- new tax burden applicable as of 1 January 2016 resulting from the tax on certain financial institutions REGULATIONS ON THE INSURANCE MARKET CHAPTER 2.4;
- increasing by the PFSA minimum capital requirements to 10.25% in the core capital ratio Tier I and to 13.25% in the total capital ratio as of 1 January 2016, from the previously applicable levels of 9.00% and 12.00% respectively;
- operating in the environment where very low interest rates prevail, which creates pressure on the level of generated net interest margin;
- macroeconomic situation in the Polish economy – increase in the Gross Domestic Products, as well as the employment and salary level, accompanied by historically low interest rates and low prices of energy materials, positively affects the level of generated volume of credits and quality of credit portfolio.

3.9 Other areas of activity

PZU Pomoc

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

At the end of 2015, the company held the leading position on the market of intermediation in the sale of damaged vehicles through an online auction platform.

With the start of May 2015, the company's operations were divided and organized in scope of two fields, Assistance and Health. Resulting from the division, which saw the separation of the organized segment of the enterprise, Health was moved to PZU Zdrowie on 2 November 2015.

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

PZU CO

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

PZU Finance AB

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

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

PZU Finanse

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

Ogrodowa-Inwestycje

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

Grupa Armatura

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

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

On 15 January 2015, Armatura Kraków acquired control of Aquaform SA Group (indirectly also acquiring Aquaform Bauprodukte, Aquaform Ukraine, Aquaform Romania, Morehome.pl), a manufacturer of shower cabins, bath tubs and bathroom furniture, for PLN 25.9 million (provisional settlement, because the price depends on the sales value acquired by Aquaform SA on selected foreign markets in the years 2015–2017).

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

04

Business strategy

PZU Group develops and evolves along with the world around it. At the very heart of its process of creating value, the Group continues to focus on the clients' needs and expectations. The strategic operations respond to the existing and forecasted market challenges to reflect the strive for a stronger competitive position, basing on the 3 Areas of Activity (Insurance, Investments, Health Care), achieve above-average financial results, and respond to the expectation of the Group's interested parties.

Contents:

4.1 Key development directions of PZU Group in the years 2016–2020.

Dynamically changing business and legal environment forces the Group to strike a balance between pursuing previously determined strategic operations and searching for innovative solutions by means of thorough data analysis and skillful experimentation.

Development directions of PZU Group in the years 2016-2020:

- Staying client-centric – We are here to ensure our Clients' peace of mind and security. Our Clients can always rely on us. The Group's mission in practice translates into transforming PZU from a product-centered organization into a company that focuses on the clients' needs;
- Strengthening the position of a leader at the insurance market in Poland;
  - Retail Client Area – maintaining the market leadership by using the comprehensive offer that fits the needs of relevant client segments and the strategy of two brands (PZU and Link4);
  - Corporate Client Area:
    - (in non-life insurance) strengthening the position of a market leader, especially in Mid-Corpo client segment, and achieving the status of a business partner with strong expertise that provides not only insurance products, but also guidelines and support to the clients at every stage of risk management process;
    - (in life insurance) maintaining the position of market leader along with high profitability, irrespective of strong competition pressure;
- Foreign operations:
  - Dynamic increase in contribution of GWP from foreign countries;
  - Focus on profitability and achieving high return on investments.
- Development of auxiliary insurance offer by introducing the following:
  - customer asset management;
  - medical insurance;

The insurance sector undergoes numerous changes and transformations, which result in the insurers focusing on client's needs. The important direction of changes consists in creating products whose terms of conditions are simple and transparent and that the clients can easily compare. Competing under demanding market conditions forces the insurers to endlessly strive to expand and improve through optimizing the applied business models and extensive application of the analytical tools that use Big Data.

> *" Strategy is fundamentally management of change"*
>
> *Prof. Arnoldo C. Hax, MIT Sloan School of Management*

Further development of PZU Group will progress under conditions determined by the following main trends and factors:

- Low interest rates
  In the next few years, PZU Group will operate in the environment where low interest rate will prevail. The forecasts concerning inflation in both Poland and the Eurozone indicate no considerable probability of the inflation growth to the level of 2% earlier than near the end of the Strategy's horizon. This situation will continue to produce a difficulty in achieving a guaranteed rate of return in life insurance, and also it will have a considerable impact on the formation of the rates of return demanded by the investors, which are possible to achieve by investment and pension funds. MACROECONOMIC FACTORS CHAPTER 2.6

ASSET MANAGEMENT (PZU Inwestycje)

Future outlook

INSURANCE

Peace of mind and security

HEALTH CARE (PZU Zdrowie)

Health insurance

- Growing regulative requirements
  Solvency II
  The regulations of the Solvency II directive establishing the requirements concerning key financial parameters of insurance activity came into effect on 1 January 2016. The new regulations change the way of establishing the capital solvency requirement for insurance companies. According to the new regulations, these requirements will be established separately for insurance (actuarial), market and operating risk. By tightening regulative requirements, the Directive considerably changes the insurance market. Its implementation affects both premium calculation and changes to the internal processes of insurance companies, mainly in the scope of risk management. According to the new regulations, insurers are obliged to report the new extended information scopes to superior institutions and make them public. Resulting from the implemented changes, certain companies will face the need for capital injection or limitation of their operating scope. REGULATIONS ON THE INSURANCE MARKET CHAPTER 2.4

Asset tax

The tax on assets of financial institutions came into effect in Poland as of 1 February 2016. For insurers, the tax rate is 0.44% of the collected assets. This tax will cover many insurance companies operating in Poland, but the biggest part of its generated revenue will come from the tax on PZU Group's assets. It is estimated that the tax may amount to approx. PLN 270 - 280 million (applies only to insurance companies, annualized data). REGULATIONS ON THE INSURANCE MARKET CHAPTER 2.4

Changes to the Act on Insurance Activity

The changes to the Act on Insurance Activity also came into effect in early 2016. The implemented changes are mainly oriented towards formation of relations with clients. In this case, the changes will mostly affect life insurers,

Key strategic goals	Aspirations
Stabilization of financial results	• Profitable insurance business • Active management of investment portfolio • Cost discipline through, among others, fixed costs reduction
Realization of strategy and strategic initiatives	• Expansion of PZU Zdrowie – further development of health insurance offer along with accompanying health care services • Dynamic international expansion regarding insurance • Building the position of a leading company managing assets – surge growth of market share in the asset management in Poland
PZU as the most technologically advanced company in Europe	• Building the best competences on the market regarding Big Data in order to improve product per client (CRM), underwriting and processes • Selling up of an ecosystem enabling effective management of client risk (from counseling to insurance products)

including the requirement to keep detailed analyses of the client's needs in sales of products with investment capital funds and providing the client with appropriate recommendations and guidelines. The regulations on paying commission to insurance agents have changed, which will lead to changes in the sales of insurance products, especially through agents. REGULATIONS ON THE INSURANCE MARKET CHAPTER 2.4

- Client's expectations
  In recent years, financial products, especially life insurances, became so complicated that clients tend to search for simpler and more transparent solutions, the so-called products without fine print. The products whose structure will be clear and understandable, regardless of the level of clients' economic knowledge. Product transparency means e.g. a shift from comprehensive solutions combining elements of insurance and investment. Meanwhile, in the case of non-life insurance products there is a constant pressure on price, which forces the insurers to compete not only on the scope of a basic service, but also the scope of additional services (assistance, direct claims handling, concierge). This requires the insurers to develop both comprehensive and flexible approach to the pricing of offered services.
- Strong demographic trends and resulting changes in purchasing behavior
  The strong demographic trends will lead to quick changes in the age structure of the society and, simultaneously, to the purchasing behavior of the Group's clients. The number of people aged 60 and up, mostly still professionally active, with broad and diverse needs for all kinds of insurance (including medical insurance) and saving products (asset management) will quickly rise, especially throughout the realization of the main directions of the Group's development horizon. Simultaneously, there will be more "millennials" entering the labor market with lifestyles, preferences, and purchasing behaviors considerably different from their parents. This generation is much more used to all forms of digitalization in various aspects of life (including use of financial and insurance products). This forces the insurers, PZU included, to offer the products, as well as claims and benefits handling, through mobile channels, with the application of internet marketing and social media.
- Growing importance of digital and mobile channel issues
  The next few years are often referred to as the period of "rapid digitalization". It is expected that extensive use of new digital technologies will be one of the strongest trends up to the year 2020, in the scope of both the projected changes in the operating activity of insurance companies and the formation of their relations with the clients. It is expected that developed markets will see a very quick growth in the number of clients using digital channels to contact insurers within the next five years. Consequently, it will be necessary to adapt relations with the clients, but it will also be easier to decompose the value chain of insurance companies because of the escalated competition and transparent prices. At present, none of the companies operating in the financial sector should neglect remote channels as a form of distribution and client service.
- Greater potential to adapt to the client's needs by using Big Data The combination of the rising role of digital channels in client relations and rapidly growing analytical potential creates a unique opportunity for companies operating in the financial sector – especially insurance companies. However, numerous changes in business processes and investments in the solutions allowing for collecting and processing vast amount of data are essential, as well as tools for modeling and analyzing client behavior, which will enable the application of historical data collected by the companies. The use and development of the above-mentioned tools allow for a more effective client segmentation, which in turn translates into a more flexible adjustment of the offer to the needs, as well as optimization of sales and marketing costs of an insurance company.

4.2 Realization of key projects and initiatives in 2015

In 2015, the Group achieved the following objectives in specific Business Fields:

Activities realized in 2015

Business areas	Summary of the achievements of 2015
Insurance	1. PZU retained the top position on the non-life insurance market. According to PFSA data for the third quarter of 2015, PZU's market share was 31.2%* (a drop of 0.2 p.p. year-on-year). 2. Link4's share in the non-life insurance market rose from 1.6% at the end of the third quarter of 2014 to 1.9% at the end of the third quarter of 2015. 3. Retaining the top position in life insurance with regular premium after the third quarter of 2015 with a 43.9% market share (up from last year's 42.9%). Following the third quarter of 2015, PZU had a 29.1% share in the entire life insurance market. 4. PZU Group is still the leader of the Lithuanian and Latvian markets. In 2015, the share in the Lithuanian non-life insurance market was 31.1% and the share in the Latvian market following three quarters of 2015 was 25.1%. In both cases, the market share grew from the previous year. PZU's 2015 share in Estonian market was 13.8%. Both Ukrainian companies improved their market share and positions from the previous year. After three quarters of 2015, the non-life company is in 7th place with market share of 2.7% while the life company is in 4th place with market share of 8.6%, retaining a positive financial result despite the difficult business conditions. 5. The sale of PZU Lithuania was concluded on 30 September 2015. The company was purchased by the Norwegian Gjensidige Forsikring ASA. The final sale price was EUR 66 million. 6. On 3 November 2015, PFSA approved PZU's establishment of TUW – Polski Zakład Ubezpieczeń Wzajemnych. The new entity will provide hospitals with effective insurance coverage based on active risk management.
Investments	1. By the end of 2015, the value of the assets managed by (AuM) TFI PZU was PLN 28.3 billion, which constituted 11.2% of the assets obtained by domestic investment funds, thus placing it second among all companies affiliated under the Chamber of Fund and Asset Management. 2. Growth of managed assets of external clients from PLN 6.0 billion at the end of 2014 to PLN 6.8 billion at the end of 2015. At the end of 2015, the share of assets of external TFI PZU clients in TFI market assets (with exception of non-public assets) was 5.1% (4.7 at the end of 2014). 3. TFI PZU retained the top position in the segment of employee pension programs among all domestic investment fund institutions as it managed assets with value of PLN 3.2 billion (PPE – Employee Pension Plan, PPO – Employee Saving Program, ZPI – Corporate Investment Program) – AuM growth from 6.2% at the end of 2014. 4. The revenue of TFI PZU for 2015 amounted to PLN 172.6 million, a growth of almost 18.1% year-on-year.
Health	1. PZU Zdrowie was established and received all medical assets (directly or indirectly). 2. PZU Zdrowie purchased shares in the following medical companies: Nasze Zdrowie (2015), Medicus w Opolu (2015), CM Gamma (2015) and CM Cordis (2016); additionally, CM Medica bought REZO-MEDICA (2015). 3. The gross written premium from group medical insurance rose by 46% from 2014.

* PZU share calculated taking into account PZU's inward reinsurance towards Link4.

Activities realized in 2015

Factors conditioning implementation	Summary of activity and achievements in 2015
Effective distribution and customer service	1. Continued implementation associated with the introduction of a new policy system (Everest Platform) to improve PZU's flexibility and competitiveness. In 2015, remaining non-life products and first corporate insurances were introduced. For the most part of 2015, external sales channels (multiagents, dealers, brokers) and remote channels were prepared to work with the new system. 2. Continued implementation of innovative PZU Branches – well-visible and common for the entire Group. In 2015, 45 PZU Branches were activated and 151 Branches operating under the new model have been opened since the launch of the process. 3. Continued work aimed to consolidate and improve the visualization standard of Exclusive Agent offices. In 2015, 635 offices in the new standard were opened. From the start of the project, 866 offices in the new standard were opened. 4. There is ongoing work on the target sales support operating system.
A socially responsible organization	1. In 2015, the key way to promote active lifestyleand health prevention among Poles was PZU Group's involvement in running initiatives. PZU served as the strategic partner of numerous sports events, including the PZU Warsaw Marathon. 2. In scope of activation of local communities, PZU Group organized PZU Trasy Zdrowia – green areas specifically designed for physical exercise – in several municipalities throughout Poland. 3. As a patron of culture, PZU was involved in the preservation of Polish cultural heritage, supporting the Royal Castle in Warsaw, Royal Łazienki Museum, National Museum in Kraków, National Museum in Warsaw, and Grand Theatre—National Opera. 4. In 2015, PZU Foundation realized another edition of the campaign "Kochasz? Powiedz STOP Wariatom Drogowym" (If you love, say STOP to Reckless Drivers). Its main objective was to improve road safety by promoting responsible attitudes among drivers.
Effective claims handling and operations, flexible IT	1. 84% of PZU Group's clients are satisfied with claims and benefits handling (satisfaction survey on a sample of 4.7 thousand clients conducted in the fourth quarter of 2015). 2. The regulations concerning claims paid from TPL insurance drafted by PIU (Polish Chamber of Insurance) came into effect on 1 April 2015. PZU is the initiator of the Direct Claims Handling program. 3. There was ongoing work aimed to implement the advanced fraud detection system. The first implementation of the tool for motor insurance is planned for April 2016. 4. A new human resources and salaries system has been implemented as the first step towards standardization and improvement of HR processes in the whole company. 5. In order to optimize the costs, the next stage of the restructuring program in PZU and PZU Życie has been carried out. On 8 April 2015, the Management Boards of PZU and PZU Życie declared their intention to conduct collective redundancies in accordance with the Act on the specific principles of terminating labor relationships for reasons not attributable to employees dated 13 March 2003. The restructuring took place in the second quarter of 2015. It covered 267 people in PZU and PZU Życie, including the employment reduction which pertained to 134 PZU and PZU Życie employees.

Activities realized in 2015

Factors conditioning implementation	Summary of activity and achievements in 2015
Effective capital and investment policy and integrated risk management system	1. 18,318,473 shares of Alior Bank, which compose 25.19% of the share capital, have been acquired. The total value of the transaction is PLN 1.63 billion. Two of the total projected 3 share tranches were cleared in 2015. The final one was cleared in March 2016. 2. Cooperation has been established with the National Center for Research and Development, which will see PZU Group take part in the setting up of venture capital funds for the sector of new technologies. 3. PZU Finance AB (a 100% subsidiary of PZU) issued eurobonds for the amount of EUR 350 million. The bonds bear interest at a fixed interest rate of 1.375% per year and the interest will be paid once a year. The redemption of the bonds will take place on 3 July 2019. 4. All of the Group's insurance companies were adjusted to fulfill the requirements of the Solvency II directive. 5. In accordance with the GSM decision, the dividend of PLN 2.59 billion, i.e. PLN 30.0 per share, was paid on 21 October 2015. 6. A split of PZU stocks in relation of 1:10 took place on 30 November 2015. The shareholders retained their share in PZU ownership and rights held before the split.

05

Organization, infrastructure and human resources

Introducing new technological solutions, we do our best to help our clients select the right product and make the claims handling process efficient and satisfactory.
We want the clients to be sure that their decision to choose PZU was the right one.

Contents:

5.1 Sales and service channels

PZU Group (PZU and PZU Życie) has the largest network of sales and service branches on the Polish market. The organization of the PZU sales network has the objective of guaranteeing sales effectiveness, while simultaneously assuring a high quality of services provided.

At the end of 2015, PZU Group distribution network included:

- exclusive agents – PZU own agency network consisted of 9,079 exclusive agents, including individuals performing agency activities. The agency channel conducts sales of mainly mass client insurance, especially motor and non-life insurance, as well as individual insurance (life insurance);
- multiagencies – 3,161 multiagencies work with PZU Group to make sales mainly to the mass client (this channel is used to sell all types of insurance, especially motor insurance and non-life insurance), as well as individual life insurance;
- insurance brokers –- PZU, in particular the Corporate Customer Division, cooperated with 965 insurance brokers;
- PZU employees – thousands of PZU employees sold insurance (primarily to corporate and group customers) at their own branch offices that underwent a makeover in 2014. They are well-advertised, located in attractive venues, have no architectural barriers, and provide convenient access to all clients;
- bancassurance and strategic partnership programs – PZU Group cooperated with 10 banks and 6 strategic partners in scope of protective insurance in 2015. The partners of PZU Group are the leaders in their fields and have customer bases with great potential. The cooperation in scope of strategic partnerships concerned mainly the companies operating in telecommunications and energy, which were used to offer insurance of electronic equipment and assistance services;
- direct – PZU sells products to individual customers by telephone and over the Internet.

PZU's customers can file claims or contact us:

- via the Internet;
- by telephone via the Contact Center;
- in person at any branch of their choice;
- in a garage belonging to the PZU Repair Network (in the case of motor claims);
- in the PZU Pomoc mobile office;
- in writing (sent by post, email or fax).

Claims and benefits handling process is conducted at 8 Regional Claims Centers located throughout the country and at the central unit – the Operational Center for Claims and Benefits. Since the process is based mainly on electronic information and the service is performed at a location which is not connected with the place of residence of the insured or the place of the event, the company has implemented the model of an equal workload of individual claims handling units that is automated within the SLS system. The process of handling certain types of claims has been centralized; this results in a higher specialization level and boosts customer satisfaction. The centralization has been introduced i.a. in the following fields: personal claims handling, claims concerning theft of vehicles belonging to individuals, claims handling under the direct claims handling service. GLOSSARY

As the first company (to start in April 2014) the direct claims handling (BLS) process GLOSSARY on the Polish insurance market, PZU continues to handle claims under that scheme. It realizes it in two forms: individually and under an agreement. By the end of 2015, BLS agreement – drafted by PIU (Polish

PZU's own agency network

9,079

exclusive agents

Sales through multiagencies

3,161

multiagencies

How did we develop remote communication channels?

Chat on the website www.pzu.pl

- By means of this chat service employees of the Contact Center provide information on insurance products that help the Customer navigate through the www.pzu.pl website and suggest how to complete the forms online.
- The next step in the development of this channel will be a dynamic chat, which will respond to customer behavior on the website – e.g. in the situation of his/her lack of action.

Video chat

- The Video chat enables a Customer to have meeting with a representative of PZU without leaving home.
- During such a call the Customer may make a claim, obtain information about the status of the liquidation of damage and buy insurance.
- This Video Chat brought us the opportunity to service the deaf and hearing impaired.

Video tips

- Video tips come in many forms, for example: comments from specialists, infographics, manuals.
- We want, thanks to this, to advise Customers that find themselves in various situations or to provide instruction regarding the proper completion of the most widely used web forms.
- We use this not only on the pzu.pl site, but also in e-mail communications.

Callback form

- With it the customer can, during a conversation on the helpline, choose a topic of conversation, leave a phone number and select a time limit within which he or she wishes to be contacted.

Social Media Command Center

- We created the Team to Service and Monitor Social Media, which is responsible for the company's image in the network and thus also for enhancing its image.
- The team conducts daily monitoring of the internet and of social media, engages in discussion forums, respond to customers' posts on Facebook, Twitter and other social channels replies to private questions of Customers through a dedicated application Help Center.
- It deals with, among others, topics related to the sale of insurance, claims handling service, the Assistance product, and also with communication, advertising or CSR activities.

Transpromo letters

- This is correspondence by letter, which combine substantive elements (e.g. relating to a transaction) with elements of promotion, offering customers a measurable benefit.
- The whole concept is based on the philosophy of using simple language and its leitmotif is to build positive relationships through contact with customers. Thus, our lists are of more personal in nature, and the client finds in them important information shown with the help of infographics or preventive elements related to safety.

Central address for paper and electronic correspondence

- The centralization of these functions enables the implementation of uniform service standards and tools for the control of the process to answer Customers.
- As a result, Customers are assured that their cases get to where they will be serviced.

Chamber of Insurance) GLOSSARY – encompassed eight insurance companies, including PZU, which together represent nearly 70% of the motor TPL insurance measured at gross written premium level. Direct claims handling (BLS) under the agreement was implemented in April 2015. Introducing the BLS agreement helped to simplify the settlement of paid claims and claims handling costs between the insurers based on lump-sum schemes. PZU maintained also its earlier BLS solution for its clients who suffered damage at insurance companies that are not parties to BLS.

Under cooperation contracts concluded with the largest network of companies on the Polish market, PZU Group provides car rental, towing, and parking services. PZU actively offers its help in organization of the above services to all customers.

PZU was also the first to introduce its own fleet of replacement cars to the insurance market. The offer covers 300 hybrid Toyota Auris cars, which guarantee comfort and safe and ecological use. This provides a high replacement car availability standard according to market rates, which is dedicated for all PZU clients.

In 2015, PZU continued cooperation with garages in the field of post-accident vehicle repairs. The cooperation with PZU Pomoc Repair Network is intended to ensure the highest quality and repair service standards to all customers who suffered damage. Every client that commissions a vehicle repair at a garage within the PZU network receives a Quality Certificate confirming the top quality of conducted works.

PZU continues to develop its offer when it comes to the management of objects that are left after a damage by providing the clients with an option to sell them on the Pomoc Online platform. The clients are offered to sell the remaining parts at the highest purchase bid price by reliable entities cooperating with the platform administrator.

In order to improve the non-life claims handling process, in 2015 the company continued to organize training sessions which followed the British standards of best practice in claims handling addressed to employees handling non-life claims of corporate clients.

For the customer, claims handling process is the moment of truth in contacts with the insurer and an opportunity to

PZU's branches

test the quality of the purchased product. Satisfying his or her expectations in the claims handling process is the key to building his or her ties with PZU. Therefore, in 2015 extensive measures were taken to improve and shorten the process, such as the implementation of a LEAN culture and the expansion of an automatic and simplified process of claims handling. A process of implementing a Self-handling service was started; the service allows the victim to estimate the amount of compensation in motor and non-life claims and at workshops that repair equipment damaged during overload. Moreover, in 2015 PZU commenced a large-scale introduction of simplified solutions in contacts with clients, e.g. by resigning from traditional letters and a wider use of telephone and electronic communication, but first and foremost by making the language of its correspondence simpler and user-friendly.

Another innovative move was to appoint the Assistance Providers under the name of Organizatorzy Pomocy Poszkodowanym w Wypadkach [Providers of Assistance to Accident Victims]. These are mobile employees who meet with the victims in their houses and determine the actual life situation and the needs related to the accident they suffered from and for which PZU is liable. Provided assistance includes, among others, organization of medical, social, vocational and psychological rehabilitation in a broad sense. Assistance Providers advise on how to adjust place of residence to meet the needs of a disabled person, as well as how to choose proper systems compensating for dysfunctions and disabilities. They also provide assistance in completing all the formalities connected with claims handling. They assist in obtaining benefits and establishing contacts with government institutions (PFRON [National Disabled Persons Rehabilitation Fund], ZUS [Social Insurance Institution], KRUS [Farmer's Social Security Fund], MOPS [Municipal Social Services Center] and MOPR [Municipal Family Support Center]). They also provide psychological support to the immediate family members of the victim.

As an innovation-driven company, PZU provided its clients with an access to a mobile application which allows the insured to select the type of claim handling or accident insurance benefits at any given time. The service was addressed to the clients who often find it difficult to pick up the phone during working hours or need more time to think about the proposed claim payment. The tool allows the insured easily and conveniently participate in the decision-making process concerning the contribution payment, and speeds us the entire process by a quick contact with the Consultant.

The company is focusing on service improvement, therefore, it strongly appreciates customer feedback. Customer satisfaction surveys are conducted via the application. The customers' replies suggest that the clients are highly satisfied with the change. The insured perceive the change in a positive way and point out to the improved claims handling process and accident insurance benefits.

Another example of a pro-customer activity implemented by PZU in 2015 is a visual representation of claims handling stages in the Online Claim/Issue Status. After logging to his or her claim/issue at www.pzu.pl , the Client can learn how many stages the PZU claims handling process involves, become familiar with every stage, and check his or her claim/issue status, as well as see which activities have already been realized. Additionally, the client can freely change notification settings concerning his or her claim/issue so that the system sends a status update to a designated email address or phone number.

The www.pzu.pl website features also a video with tips related to online claims handling. Short videos depict PZU employees showing the clients how quickly file a claim, change its status, or how to use the accident insurance in the case of an accident. PZU – Video tips – Online claims handling.

The quality of claims handling process and benefits payment at PZU is highly valued by the clients. At the end of Q4 2015, satisfaction rate reached 84%[1]. Meanwhile, NPS (Net Promoter Score), a recommendation index being the difference between the proportion of promoters and critics participating in the survey for claims handling sector amounted to 20%, while 46% of consumers surveyed indicated that they were active promoters of PZU.

IT and operations

Everest Platform is a state-of-the-art tool that facilitates sales of non-life insurance, assessment of insurance risk, and management of policies and settlements, which is being implemented by PZU since 2014. By using the platform, the Group will be able to distribute information faster, which will enable the agents to better recognize and understand the needs of clients from different segments. Introducing improved and more advanced solutions to the working environment of the Group's agents and employees, Everest

[1] Change in sample selection methodology since the 2015 survey

Bancassurance and strategic partnership

10

cooperating banks

Insurance brokers

965

cooperating brokers

platform helps boost operational effectiveness, which in turn increases possibilities of presenting a competitive offer to the clients.

In 2014, according to the assumed schedule, PZU introduced motor, household, and some property products into the new system. In 2015, remaining non-life products and first corporate insurances were introduced. For the most part of 2015, external sales channels (multiagents, dealers) were prepared to work with the new system. Pre-implementation and information meetings for future users of the Everest platform, as well as training to prepare staff for working with the system, were held in all external sales channels. Pilot programs were initiated to test if the conditions for smooth and timely implementation have been met. At the same time, in April and June 2015, surveys were held to check the satisfaction level of the users and learn their opinion on the new system.

At the moment, there are over 19 thousand users working at the Everest platform, including all branch employees, exclusive agents, agents-partners, and office workers. More than 13 million policies have been issued in the new system so far, including over 8 million in 2015 alone. The full implementation of the new policy system is planned to be finished in the third quarter of 2016.

In 2015, in addition to operating activities and working on Everest project, the Technology Division implemented internal strategic initiatives, which consisted of the development of a series of activities supporting key business initiatives, especially the following:

- as an adjustment of the IT and security system to requirements of external acts, the process of Polish Financial Supervision Authority (KNF) requirements implementation is highly advanced and will allow to satisfy the requirements as planned until the end of 2016;
- IT systems were adjusted to report in accordance with requirement of Solvency II directive GLOSSARY;
- in the field of management reporting, the Baltic companies were subject to periodical reporting and the management information system was extended to cover PZU Group subsidiaries;
- using agile methodology of software development was continued and extended.

5.2 Human resources management

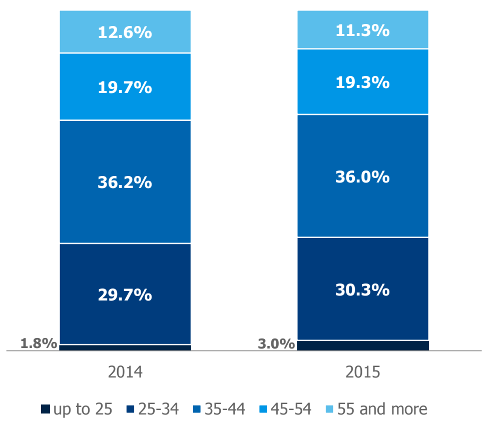
Level of employment
In 2015, the average annual employment in PZU Group amounted to 16.8 thousand employees calculated as FTEs (excluding Alior Bank employees), whereas 11 thousand people were employed in PZU and PZU Życie.

In 2015, the majority of employees in both companies (PZU and PZU Życie) were women. At the end of 2015, they represented nearly 62% of the total number of employees. It should be noted that the proportion of women in the employment structure has been stable in recent years. Nearly 80% of PZU and PZU Życie employees had higher education. The employee age structure also remains stable. In December 2015, nearly 70% of the employees were under 44 years old.

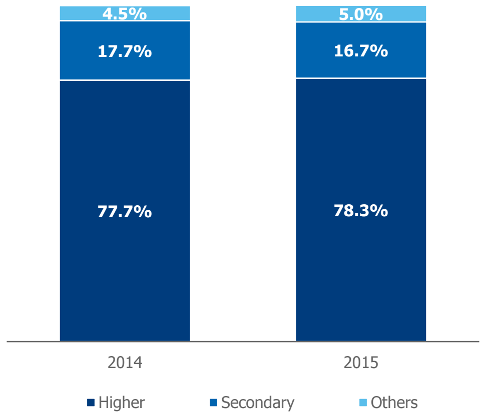
On the 8 of April 2015, the Management Boards of PZU and PZU Życie declared their intention to conduct collective redundancies in accordance with the Act on the specific principles of terminating labor relationships for reasons not attributable to employees dated on the 13 of March 2003. The restructuring took place in Q2 2015. It covered 267 people in PZU and PZU Życie, including the employment reduction which pertained to 134 PZU and PZU Życie employees.

The people who were dismissed or who did not accept the changes in the terms and conditions of employment (the same as during all stages of employment restructuring, namely in 2010–2014) were offered more favorable conditions of leaving than those provided for by law in similar situations. The amount of additional redundancy payment depended on the length of service with PZU Group and the salary of each employee.

Employment at PZU and PZU Życie per age (%)



Employment at PZU and PZU Życie per education level (%)



Salary policy
In 2015, PZU continued its remuneration and recruitment policy which covers all internal principles concerning salaries for relevant groups of employees. Such principles are determined in accordance with the generally applicable rules of law, PZU internal regulations and corporate governance.

The main premises of PZU Group's remuneration policy include:

- awarding and retaining best talents by offering a competitive remuneration scheme, as well as trainings and career development options;
- planning replacements at positions within PZU Group by development of career paths and programs for workers and managerial staff;
- recruiting the best employees (including young talents) by building an image of the company as an employee of choice, by effective recruitment and selection process;
- supporting non-professional activities of PZU Group employees, i.e. by engaging them in the Group's CSR actions, such as employee volunteering program. CHAPTER 9 CORPORATE SOCIAL RESPONSIBILITY

The remuneration scheme includes the nature and scope of the company's operations, its functioning sectors, as well as market practices.

A part of remuneration subject to variations is developed on the basis of the above-mentioned factors and depends on the group of employees it concerns. The applicable remuneration policy is based on a performance result management system, competence assessment and on-going adjustment of the remuneration scheme to changing conditions. This applies especially to the variable part of remuneration and extra benefits.

The PZU Group remuneration system is based on an annual employee assessment which constitutes a part of modern motivational system and awarding the best personnel. The annual competence assessment system and the quarterly target determination and settlement system covers the following:

- „Płacimy za wyniki" (We pay for results) – a new performance management system – a quarterly assessment of target achievement (adjusting targets to managerial level and business specifics), whereas achievement level of quarterly targets translates into the bonus amount;
- „Ocena DNA PZU" (PZU DNA appraisal) – a competence assessment model for employees and leaders;
- „Roczna ocena pracownika" (Annual performance review) – employee development plan based on the analysis of target achievement and competence assessment.

The solutions applied within the remuneration policy allowed to develop a relation between effectiveness and competence level and pay rises, development choices and promotions. They constitute a tool for managers that helps to manage targets/tasks/motivation of their teams, as well as identify and develop employees with exceptional competence levels.

Recruitment, training and building an image of an employer of choice
In 2015, a new recruitment module was successfully implemented in HRM (Saba Enterprise) application already used by the company. From 2015, by the time a job application has been accepted, the entire recruitment process takes place in a user-friendly HRM application interface which keeps the participants of the process posted about their application status. For the first time in history of recruitment at PZU, an extensive database was used which is accessible to all recruiters and improves documentation management as well as has an option to preview the candidates' applications. The recruiters may also automatically publish job offers in several locations and thus monitor effectiveness of selected candidate acquisition channels. The HRM system helps them

not only save time spent on application posting and selecting job applications, but also improves security of stored data. The changed functionality helps also to build a positive image of PZU Group as an employer among candidates applying for a job at PZU. One of the key benefits of introducing the HRM recruitment module for the candidates is an option to receive an update on their recruitment project status via emails with invitations to an interview, notifications on delays in the recruitment process, or a thank you note for the participation in the process.

PZU has also mechanisms for entry into and exit from the organization. The assumption to the process of introducing a new employee is to build commitment and loyalty in an atmosphere of openness and cooperation. However, anyone parting with the organization by mutual consent is asked for his or her opinion on working for PZU Group and the reasons of their decision to change employer.

The following have been organized in 2015 to support employees in improving their skills, which are required at the given work post:

- PLUS training program (Professionalism – People – Skills – Trainings) – trainings are selected for the employee on the basis of his DNA appraisal (PZU competence model) which have the objective of developing the weak spots. Every program contains several training modules which develop competences in all fields, such as client, result, responsibility, development, cooperation;
- Menedżer 2.0 (Manager 2.0), program which focuses on the development of mid-level management (over 1,500 managers) in building managerial thinking, team engagement, business effectiveness of a team, as well as coaching skills indispensible at a managerial position. An interactive and gamified Inspiratorium Menedżer 2.0 (Inspiration Space Manager 2.0) platform is a continuation and extension of stationary trainings. The platform uses state-of-the-art trends to combine elements and mechanisms known from games to support development of a habit to pursue self-education and knowledge acquisition, as well as social network mechanisms to create an interactive space for sharing knowledge, experience, ideas, and inspirations;
- Lider 2.0 program, the aim of which is to strengthen key managers in the role of all-round leaders. More than 300 managers participate in it;
- coaching for the top management with the aim to support individual development;
- other forms of trainings – postgraduate studies and specialized forms of professional development, language courses;
- „Świadoma siebie" (A self-conscious me) – development program for women within „Kobiety PZU" (PZU Women) Association.

Every employee at PZU and PZU Życie benefited from an average of 27 hours of classroom trainings in 2015.

In addition, three projects were continued as a part of the development of the new organizational culture:

- Otwarte PZU [Open PZU] – a program designed to build employees' awareness in the area of openness. The aim of the project is to build innovative attitudes. The program objective is to promote: direct and simple communication, feedback providing strategies, team cooperation, partner relations and research of innovative solutions;
- TalentUp a talent-building program addressed to specialists which aims to prepare the employees to work more important roles within the organization;
- SmartUP – a General MBA development program addressed to managers and directors who exhibit high potential. It has been designed in cooperation with the Warsaw University of Technology Business School.

An internal coaching project was initiated. The project is addressed to mid-level managers and project leaders and is conducted by employees having appropriate preparation in various business fields.

PZU continues also large-scale activities promoting its brand as an employer, which are addressed to students and professionals. Year 2015 started with a uThoruj sobie drogę na staż (Your way to internship) recruitment campaign; as a result, over 100 students from the entire country joined the company. The company's spring campaign actions were recognized by the jury at EB Excellence Award and EB Stars competitions. Popular social competitions, i.e. Studencki Projekt Roku (Student Project of the Year) and Inwestycja w Przyszłość (Investment in the Future), were continued to support the most active students and most popular academic projects.

PZU experts shared their knowledge and experience at a number of business presentations and trainings for students (i.a. during Dni Otwartego Biznesu w PZU (Open Business Days at PZU), and all image activities were supported by active and creative PZU Group Ambassadors and Advisors.

The year ended with the #najlepszastrona (#bestside) image campaign, which received another prestigious award, EBKreator. The awarded campaign is based, among others, on the new Instagram profile @pzukariera which is the third social media channel to openly communicate as an employer, alongside with Facebook and LinkedIn.

5.3 Marketing

In 2015, PZU Group made wide-ranging advertising campaigns, including:

- Campaign to promote motor TPL insurance with Direct Claims Handling (BLS) service. The aim of the campaign was to present benefits from holding motor insurance with BLS at PZU. The campaign featuring Marcin Dorociński included TV spots and online activities at tylkospokoj.pl;
- „Kochasz? Powiedz STOP Wariatom Drogowym" (If you love, say STOP to Reckless Drivers) social campaign.; CHAPTER 9 CORPORATE SOCIAL RESPONSIBILITY

- Loteria OC (TPL Lottery) campaign. A campaign addressed to clients who have TPL insurance in PZU. The lottery included the following sponsored awards: 12 passenger cars and 360 bicycles. Additionally, as a part of a special offer, holders of TPL insurance at PZU could pay less for filling their tanks at LOTOS and LOTOS Optima petrol stations thanks to special discount cards;
- Niestraszki (Fear-nots) campaign. The first edition of a new PZU campaign, „Niestraszki w pakiecie" (Fear-nots in a pack), was initiated in December. The campaign features 5 Fear-nots – funny, yet smart characters with an educational mission, i.e. to teach children the rules of security. CHAPTER 9 CORPORATE SOCIAL RESPONSIBILITY

In 2015, PZU Group made also advertising campaigns with a narrower range, including:

- Pomoc od serca (Help from the heart) campaign – the aim of the campaign was to show that holding a „PZU pomoc od serca" insurance guarantees security in the case of tumor, heart illnesses, and other serious conditions. The campaign was conducted on TV and online;
- EMPLOYER BRANDING campaign – the aim of the campaign was to promote the employer's brand. It featured two editions in 2015: the spring edition targeted to students and graduates at the largest universities in Poland, and the fall edition was addressed to professionals.

In 2015, PZU continued to introduce unified visual standards for exclusive agents' offices, both when it comes to signage and fit-out of the premises. A process of external branding of multiagents was commenced. Nearly 250 multiagency offices were branded in 2015.

Ongoing and long-term actions to support sales of life and non-life insurance were conducted, dedicated to PZU and PZU Życie agents. Activities covered BTL support were addressed to branches and agents' offices. A mobile stand was organized and PZU representatives were present at 12 outdoor events in Poland. PZU equipped its agents in branding materials, which guaranteed that the company was present at local events realized by field agents.

PZU Group implemented also ATL actions, i.e. 4 campaigns consisting in covering shop windows in departments and agents' offices. Nearly 190 shop windows were covered in Poland.

In 2015, PZU marketing campaigns received a number of awards, i.a.:

- KTR (Klub Twórców Reklamy [Commercial Creators Club]), Platinium Magellan Award – „Kochasz? Powiedz STOP

Wariatom Drogowym" (If you love, say STOP to Reckless Drivers) social campaign;

- KTR, Silver award – „Telewizor" (TV Set), a PZU housing campaign of 2014;
- KTR, double Bronze award – „Ulubiona zabawka" (Favorite toy) project – (categories: Loyalty Program&Direct);
- Innovation Award 2015 – distinction for „Ulubiona zabawka" (Favorite toy) project (category: Insight).

Don’t let yourself become **disenchanted**

BBE/OBI

Social techniques are part of the art of influencing others, and consequently of achieving specific goals by manipulating people.

Safeguard protected information, don’t share it with unauthorized persons!

06

Consolidated financial results

With gross written premium of PLN 18.4 billion, we are the leader in the Central and Eastern Europe region.
Net profit of PLN 2.3 billion and the return on equity of 18.0% place us among the most profitable financial institutions both in the country and in Europe.

Contents:

Consolidated financial results

6.1 Key factors affecting the achieved financial results

In 2015, PZU Group achieved gross profit at a level of PLN 2,943.7 million compared with PLN 3,691.7 million in the previous year (decrease of 20.3%). Net profit attributable to the shareholders of the parent company amounted to PLN 2,342.4 million, compared with PLN 2,967.7 million in 2014 (a 21.1% decrease).

With the exception of one-off events[1], the net result declined by 20.2% compared to the previous year. The operating profit for 2015 amounted to PLN 2,939.4 million, down by PLN 753.8 million from the result for 2014.

The main reasons for the change were the following:

- lower result of the mass client insurance segment by PLN 104.8 million, associated mainly with decrease of profitability in motor insurance resulting from the growth of dynamics of reported claims with maintenance of the average claim from the previous year and increase of insurance activity costs;
- growth of PLN 94.5 million in profitability of the corporate insurance segment. Improvement mainly in TPL insurance resulting from declined provisions for claims for damage from previous years;
- drop of PLN 187.1 million in profitability of the group and individually continued insurance segment associated mainly with increased claims ratio of protective products resulting from higher mortality ratio;
- result of the pension insurance segment lower by PLN 122.0 million due to OPF reform;
- drop in net investment result mainly due to lower valuation of interest-bearing financial assets resulting from the yield increase of the Polish treasury bonds.

The following one-off events had an impact on PZU Group's result in 2015:

- gross result on sale of PZU Lithuania in the amount of PLN 165.5 million.
- loss due to the change in fair value of shares purchased within tranche I between the purchase date and the date of control commencement of over Alior Bank, i.e. 18 December 2015, amounting to PLN 175.8 million.

[1] One-off events are: conversion effect of long-term insurance contracts into annual renewable contracts in type P group, result on the sale of PZU Lithuania, impact on the profit and loss account due to the consolidation of Alior Bank.

- the effect of the conversion of long-term insurance contracts into annual renewable contracts in type P group cover at the amount of PLN 75.4 million, i.e. PLN 5.5 million more than in 2014.

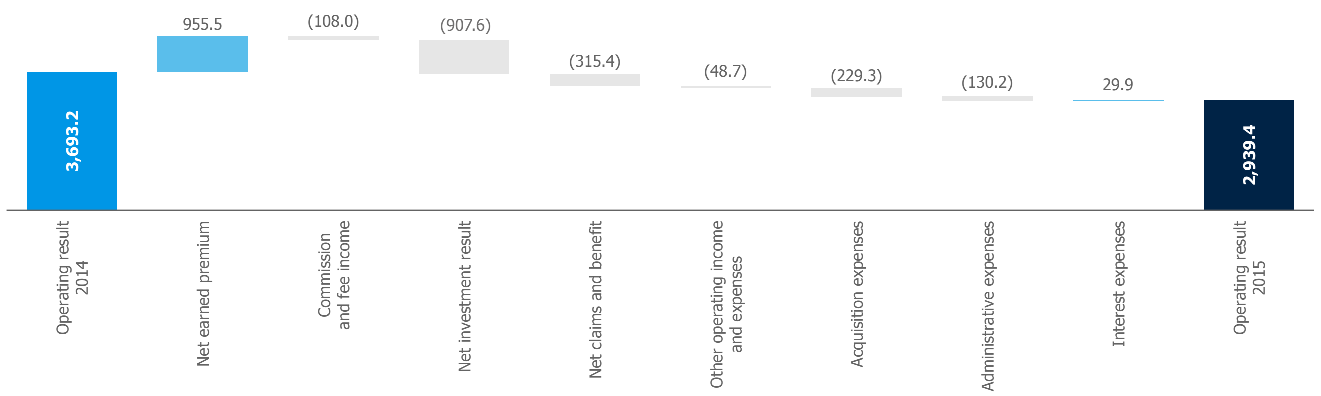
2015 saw significant changes, which impacted comparability of the results and the assets and liabilities:

- purchase of Baltic state companies in 2014 (subject to consolidation for the full period in 2015);
- sale of PZU Lithuania in September 2015;
- commencement of the consolidation of Alior Bank. Resulting from this transaction, the total assets rose by roughly PLN 40 billion and the non-controlling interest by PLN 2.3 billion at the end of 2015.

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

- an increase in the gross written premium to the level of PLN 18,359.0 million compared with the previous year (increase of 8.7%) mainly due to the growth of its foreign operations and the premium collected by Link4. After accounting for the share of reinsurers and the change in provision for unearned premium, the net premium earned amounted to PLN 17,384.9 million, which was 5.8% higher than in 2014.
- lower net investment result, in particular due to the decline in the valuation of debt instruments. Net result on investing activities amounted to PLN 1,739.3 million and was 34.3% lower than in 2014;
- higher amount of claims and benefits. These amounted to PLN 11,857.1 million, i.e. they were 2.7% higher than in 2014. Specifically, there were more claims reported in motor insurance and a higher mortality ratio in protection insurance;
- higher acquisition expenses (by PLN 229.3 million) resulting mainly from the consolidation of the insurance companies acquired in 2014 and growth of direct acquisition costs in the mass client segment;
- growth of administrative expenses to PLN 1,657.9 million from 1,527.7 million in 2014 associated mainly with the costs of foreign companies (mainly the newly acquired ones), which rose by PLN 59.2 million and, concerning insurance activity in Poland, growth of expenses in relation with the development of the Everest Platform (the target policy system for non-life insurance) and other strategic projects aimed to improve customer service by tied agents and develop distribution channels;
- higher negative balance of other operating revenues and expenses in the amount of PLN 418.8 million (negative impact of the change on the gross year-on-year result of PLN 48.7 million) mainly due to the amortization of intangible assets identified as a result of the acquisition of insurance companies.

Operating result of PZU Group in 2015 (PLN million)



Basic amounts from the consolidated profit or loss account	2015	2014	2013	2012	2011
	PLN million	PLN million	PLN million	PLN million	PLN million
Gross written premiums	18,359	16,885	16,480	16,243	15,279
Net earned premiums	17,385	16,429	16,249	16,005	14,891
Revenue from commissions and fees	243	351	299	237	281
Net investment result	1,739	2,647	2,479	3,613	1,735
Net insurance claims	(11,857)	(11,542)	(11,161)	(12,219)	(10,221)
Acquisition expenses	(2,376)	(2,147)	(2,016)	(2,000)	(1,962)
Administrative expenses	(1,658)	(1,528)	(1,406)	(1,440)	(1,384)
Interest expenses	(117)	(147)	(104)	(127)	(158)
Other operational revenues and expenses	(419)	(370)	(220)	(31)	(274)
Operating profit (loss)	2,939	3,693	4,119	4,039	2,908
Share in net profit (loss) of entities measured using the equity method	4	(2)	1	-	-
Gross profit (loss)	2,944	3,692	4,120	4,039	2,908
Income tax	(602)	(724)	(826)	(785)	(564)
Net profit (loss)	2,342	2,968	3,295	3,254	2,344
Net profit (loss) attributable to owners of equity of parent company	2,342	2,968	3,293	3,255	2,345

6.2 Income

Premiums

Gross written premiums in 2015 amounted to PLN 18,359.0 million compared to PLN 16,884.6 million last year, which means an increase by 8.7%. Within particular segment, the following trends were recorded:

- increase by PLN 652.0 million in written premium collected by foreign companies compared to 2014, including mainly due to premium gathered by entities purchased in 2014;
- higher sales in mass-client segment by PLN 749.5 million (excluding premium between segments) compared to 2014, mainly within motor insurance due to the sales volume of PZU and as a result of Link4 acquisition, as well as insurance of financial losses (commencement of long-term cooperation with new client on the basis of obligatory amount inward reinsurance agreement);
- sales growth in group and individually continued insurance segment – regular premium higher by PLN 149.6 million, mainly due to development of protection insurance sector (a rise in the average premium and higher number of insured) and collection of premium in medical insurance (new clients);
- premium in corporate client segment lower by PLN 42.3 million compared to 2014 (excluding premium between segments), including mainly in TPL insurance as a result in finalization of several large tender procedures in December 2014 (with no impact on net earned premium in 2014), partially offset by high written premium in motor own damage insurance due to a higher number of insurance policies;
- in individual insurance segment, premium lower by PLN 34.4 million compared to the previous year, mainly investment products in bancassurance channel.

Revenue from commissions and fees

Fees and commission revenue in 2015 contributed PLN 242.8 million to PZU Group's result, which is 30.8% lower than in the previous year. Fee and commission revenue comprised mainly:

- OFE Złota Jesień asset management fee. It amounted to PLN 99.8 million (a drop of 11.0% compared with 2014 as a result of statutory transfer of a portion of the assets of OPFs to the Social Insurance Institution (ZUS) corresponding to 51.5% of the units on the account of every member of OFE PZU);
- income and fees from investment funds and fund management companies of PLN 115.4 million, i.e. PLN 47.5 million more than in the previous year, mainly as a result of the increase in sales of fund units through the external channel;
- commissions from pension insurance handling fees. This amounted to PLN 5.2 million, namely 26.2% of their previous year's value. The drop associated with the statutory decrease in the rates from 3.5% to 1.75% and the insured making a choice as to the further transfer of their premiums at the new level of 2.92% to OPF concerning future premiums.

Furthermore, the comparison of the revenue balance from commissions and fees with 2014 was affected by a one-off event in the previous year, which saw revenue from liquidation and withdrawal of funds from the additional part of the Guarantee Fund in the amount of PLN 132.3 million, associated with statutory changes in OPF.

Net investment result and interest expense

In 2015, PZU Group 's net investment result amounted to PLN 1,739.3 million compared with PLN 2,646.9 million in 2014 (decrease of 34.3%). The following factors had the greatest impact on the decline in the result:

- lower valuation of interest-bearing financial assets as a result of rising yields of Polish treasury bonds in the middle and at the end of the yield curve in 2015, compared to the declines along the entire curve in 2014;
- weaker performance of derivatives purchased mainly for trading purposes aiming at appropriate investment portfolio risk management.

The impact of the above factors was partially balanced by improved results on equity instruments.

The following one-off events had an impact on PZU Group's net investment result in 2015:

- gross result on the sale of PZU Lithuania in the amount of PLN 165.5 million.
- loss due to the change in fair value of shares purchased within tranche I between the purchase date and the date of control commencement of over Alior Bank, i.e. 18 December 2015, amounting to PLN 175.8 million.

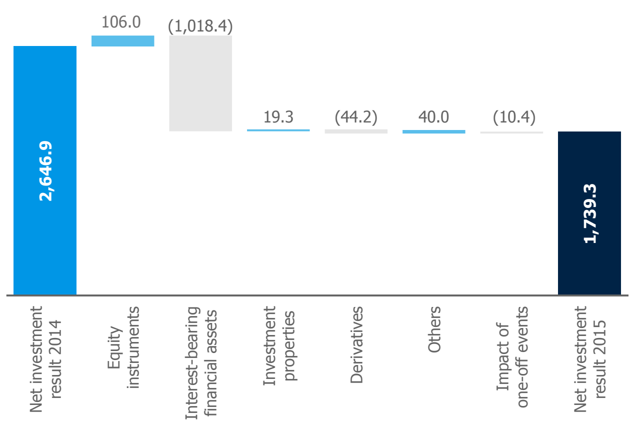
Interest expense[2] decreased in 2015 by 20.3% as compared to the previous year.

[2] "Interest expense" is presented excluding foreign exchange differences, also on own debt securities, which are currently presented in net investment result as Others, but including change in valuation of investment contracts at amortized cost, which were beforehand presented under the line "Change in valuation of investment contracts", which was deleted beginning from the current period.

Insurance segment PLN million, local accounting standards	Gross written premium				
	2015	2014	2013	2012	2011
TOTAL	**18,359**	**16,885**	**16,480**	**16,243**	**15,279**
Non-life insurance – Poland (externally written premium)	**9,074**	**8,367**	**8,269**	**8,451**	**8,242**
Mass client insurance - Poland	**7,309**	**6,560**	**6,534**	**6,614**	**6,421**
MTPL	2,595	2,373	2,453	2,567	2,486
Motor own damage	1,727	1,579	1,549	1,598	1,641
Other products	2,987	2,608	2,531	2,449	2,295
Corporate insurance - Poland	**1,765**	**1,807**	**1,735**	**1,838**	**1,821**
MTPL	367	354	372	394	405
Motor own damage	510	461	479	544	645
Other products	888	992	885	899	771
Total life insurance - Poland	**7,923**	**7,808**	**7,745**	**7,454**	**6,752**
Group and continued insurance - Poland	**6,689**	**6,539**	**6,415**	**6,364**	**6,179**
Individual insurance - Poland	**1,234**	**1,269**	**1,330**	**1,090**	**573**
Total non-life insurance – Ukraine and Baltic states	**1,288**	**632**	**388**	**338**	**285**
Ukraine non-life insurance	**138**	**133**	**157**	**142**	**121**
Baltic states non-life insurance	**1,151**	**499**	**230**	**196**	**164**
Total life insurance – Ukraine and Baltic states*	**74**	**78**	**78**	**x**	**x**
Ukraine life insurance*	**31**	**41**	**47**	**x**	**x**
Lithuania life insurance*	**43**	**37**	**32**	**x**	**x**

* Consolidated starting 1 January 2013.

Change of the net investment result (PLN million)*



* The line Others of "Net investment result" is presented including foreign exchange differences, also on own debt instruments, which were beforehand presented under the line "Borrowing costs", as well as including the change in valuation of investment contracts at fair value, which were beforehand presented under the line "Change in valuation of investment contracts", which was deleted beginning from the current period.

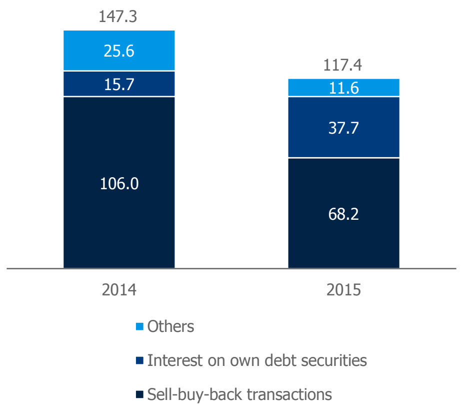
A drop in interest expense was mainly caused by a lower use of sell-buy-back transactions.

As at the end of 2015, the value of PZU Group's investment portfolio[3] amounted to PLN 55,411.2 million compared with PLN 53,958.7 million as at the end of 2014.

Investing activities of PZU Group are conducted in compliance with the statutory requirements, ensuring an appropriate degree of safety, liquidity and profitability; therefore, treasury debt instruments accounted for more than 60% of the investments portfolio, both as at 31 December 2015 and 31 December 2014.

[3] The investment portfolio comprises financial assets (including investment products, excluding credit receivables from clients), investment property, negative measurement of derivative instruments, and liabilities from sell-buy-back transactions.

Interest expense (PLN million)



Increased volume of treasury instruments of the debt market resulted from consolidation of Alior Bank portfolio.

Share of investment property declined as a part of portfolio achieved the expected investment horizon and was presented separately in the line "Assets held for sale".

Money-market transactions were executed in order to boost effectiveness of investment activities and achieve additional margins.

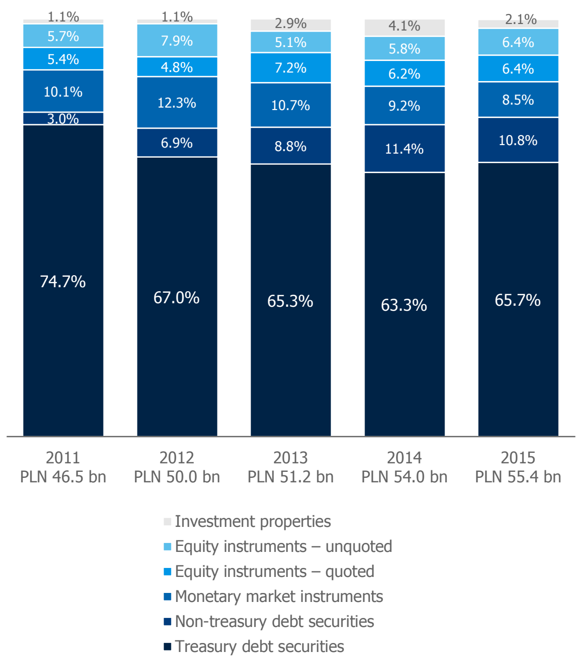
PZU Group's investment activities in 2015 concentrated on continuing the realization of the strategy aiming at optimization of investment operations' profitability by greater diversification of investment portfolio.

Other operating income and operating expenses result

In 2015, the balance of other net operating income and expenses was negative and amounted to PLN 418.8 million compared with the also negative balance for 2014 of PLN 370.1 million. The following factors had an impact on this result:

- higher costs of intangible asset amortization identified as the result of the 2014 acquisition of insurance and medical companies with value of PLN 161.1 million (PLN 87.8 million in 2014).
- greater expenses associated with preventive activity (PLN 92.4 million in 2015 compared to PLN 68.2 million in the previous year);

Investment portfolio structure (PLN million)**



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

6.3 Claims and technical provisions

In 2015, the total net amount of claims and benefits and increase in provisions of PZU Group amounted to PLN 11,857.1 million.

In relation to 2014, the value of claims together with the change of provisions was 2.7% higher. The following factors also contributed to the increase in the net value of claims and benefits:

- growth of the group protection insurance portfolio, including health insurance with increased claims ratio – higher mortality ratio confirmed by CSO data covering the entire population;
- higher claims ratio in motor insurance resulting from higher number of reported claims.

On the other hand, the following contributed to the decrease in the net value of claims and benefits:

- lowering of the technical and insurance provision level due to PZU Życie's decision made as part of the annual process of establishing the rules for possible indexation of the sum insured by the clients in continued insurance concerning the modification of said rules from the start of 2016.
- lower growth in provision in individual unit-linked products in the banking channel as a result of a decreased sales volume and negative investment result;
- decrease in provisions for compensation claims for damage in previous years in general TPL insurance and damage caused by forces of nature in the corporate insurance segment.

6.4 Acquisition expenses and administrative expenses

In 2015, acquisition expenses amounted to PLN 2,376.3 million and increased by 10.7% compared with 2014. The main reasons for the increase were the following:

- higher direct acquisition costs in the mass client segment (resulting mainly from changes to commission rates in the half of 2014) and indirect acquisition costs in the mass client segment, specifically employee costs;
- commencement of consolidation of the insurance companies acquired in 2014.

Simultaneously, the declined acquisition costs resulted from the higher level of costs deferred in time.

In 2015, the Group's administrative expenses were at the level of PLN 1,657.9 million, which was 8.5% higher than in the previous year. The following factors had an impact on their level:

- inclusion of the administrative expenses incurred by the newly acquired insurance companies in the results of PZU Group;
- higher costs associated with the expansion of the Everest Platform (policy system for non-life insurance) and other strategic projects aimed to improve customer service by tied agents and develop distribution channels, especially remote channels.

Simultaneously, there was a recorded positive effect from the previous year in the segment of pension insurance due to the higher costs in 2014 associated with the additional payment to the Guarantee Fund (statutory rise of required funds in 2014 from 0.1% to 0.3% of OPF net asset value ("NAV").

6.5 Structure of assets and liabilities

As at 31 December 2015, the total assets of PZU Group amounted to PLN 105,429.0 million and were 56.0% higher than at the end of 2014. The growth resulted mainly from the consolidation of Alior Bank.

Assets

The key components of the Group's assets were investments (financial assets and investment property). In total, these assets amounted to PLN 90,477.6 million and were 53.4% higher than at the end of the previous year. They represented 85.8% of the Group's total assets compared with 87.3% at the end of 2014.

The increase in the value of investments was mainly caused by the consolidation of Alior Bank, specifically resulting from the credits granted to the clients for the amount of PLN 30,331.6 million. This effect has been slightly offset by the following:

- lower valuation of interest-bearing financial assets;
- payment of the second installment of the 2013 dividend in January 2015 in the amount of PLN 1,468.0 million;
- decrease in share of investment properties due to the transfer of part of the portfolio from achievement of the projected investment horizon to assets for sale.

The PZU Group's receivables, including receivables from insurance contracts and current income tax, amounted to PLN 3,338.1 million, i.e. represented 3.2% of the assets. By comparison, at the end of 2014 the receivables amounted to PLN 3,085.8 million (4.6% of the Group's assets) and their increase concerned mainly receivables from insurance intermediaries.

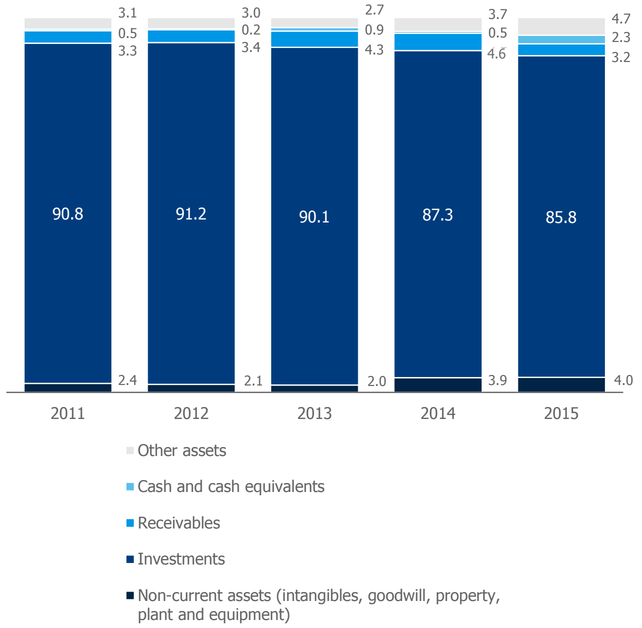
Non-current assets – in the form of intangible assets, goodwill and property, plant and equipment – were recognized in the statement of financial position at PLN 4,199.4 million. They comprised 4.0% of total assets. Their balance increased by 59.1% in 2015 in comparison with 2014, mostly due to the commencement of consolidation of Alior Bank, including:

- calculation of the goodwill in the amount of PLN 720.6 million;
- identification of new intangibles in the amount of PLN 300.0 million previously unrecognized by the company.

The calculation was based on a provisional acquisition settlement.

As at 31 December 2015, PZU Group's cash and cash equivalents amounted to PLN 2,439.9 million (2.3% of the assets). A year earlier, they amounted to PLN 324.0 million. The sixfold increase growth of the asset category resulted mainly from the commencement of the consolidation of Alior Bank and concerned the cash collected at the central bank. The PLN 899.4 million change in the balance of assets held for sale resulted on the one hand from the finalization of the sale of PZU Lithuania and on the other from the transfer of a part of the investment property portfolio to this asset category.

Structure of PZU Group assets (%)



Liabilities

Similar to asset structure, the structure of liabilities at the end of 2015 experienced considerable changes resulting from the commencement of consolidation of Alior Bank. The technical and insurance provisions do not compose the majority of the balance total – they composed 39.2% at the end of 2015 and 59.4% at the end of 2014.

At the end of 2015, the level of technical provisions rose by PLN 1,113.4 million, specifically due to the following:

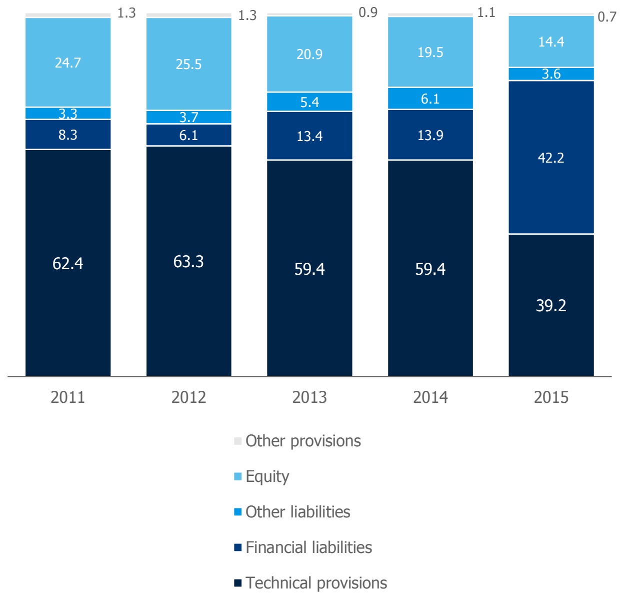
- higher unearned premium provisions resulting from conclusion of several large agreements with protection period over one year and gradual implementation of price rises in motor insurance;
- rise of provisions for claims and benefits resulting from a claim of a considerable unit value (damage covered by the XL and proportional facultative reinsurance program; damage reinsured in over 90%);
- growth in technical provisions in individual unit-linked products, especially within the bancassurance channel – the increase results from sales of contracts exceeding the level of benefits paid, which was partially limited with the negative investment activity result;
- higher provisions in individually continued products – resulting from growth and aging of the agreement portfolio.

At the end of 2015, equity amounted to PLN 15,178.9 million and grew from the end of 2014 (15.3% growth). The growth of consolidated equity concerned minority shares, which reached the value of PLN 2,255.2 million mainly due to the consolidation of Alior Bank. The capital falling to the shareholders of the dominating entity dropped by PLN 242.6 million from the previous year, which is the result of the lower net result for 2015, partially offset by retained earnings from 2014.

The biggest component of liabilities at the end of 2015 covered financial liabilities, the share of which rose from 13.9% to 42.2% from the previous year. Their balance amounted to PLN 44,487.8 million and included:

- liabilities of PLN 33,655.7 million towards the clients (resulting mainly from the deposits of Alior Bank, which entered the structures of PZU Group on 18 December 2015);
- liabilities from sell-buy-back transactions in the amount of PLN 3,794.3 million at the end of 2015 compared to PLN 4.411,5 million in 2014;
- investment contracts in the amount of PLN 545.4 million compared to PLN 1,108.1 million at the end of 2014. The value drop by PLN 562.7 million compared with 2014 resulted from payments of subsequent tranches in short-term endowment investment products, both in the bancassurance and own channel, and additional surrenders in unit-linked products.
- liabilities from issuance of own debt instruments for the total amount of PLN 3,536.5 million (in total EUR 850 million, including the 2015 issuance for EUR 350 million);

Structure of PZU Group liabilities (%)



- subordinated liabilities of Alior Bank including EUR 10 million loan and issued bonds with nominal value of PLN 708.9 million (book value of PLN 758.6 million at the end of 2015).

The balance of other liabilities and provisions at the end of 2015 amounted to PLN 4,482.0 million compared with PLN 4,835.0 million at the end of 2014. The drop mainly concerned liabilities towards the shareholders from the payment of the dividend resulting from the 2013 profit in the amount of PLN 1,468.0 million (dividend paid in January 2015) and was partially offset by the liabilities of the consolidated Alior Bank and the outstanding amount from the purchase of tranche III of Alior Bank shares.

Cash Flow Statement

Total net cash flows as at the end of 2015 amounted to PLN 2,091.0 million and increased by PLN 2,373.6 million compared with the previous year. This increase is related to the high balance of cash and cash equivalents on the accounts of Alior Bank.

Significant off-balance items

Conditional assets of PZU Group as at the end of 2015 amounted to PLN 33.1 million, a considerable amount of which constituted guarantees issued by Bank Millennium SA for PZU and PZU Życie. Under the guarantee line agreement dated 7 October 2013 concluded between PZU and Bank Millennium SA, the bank extended bank guarantees (bid bonds and contractual guarantees) to PZU organizational units that participate in tender procedures for insurance services.

The value of conditional liabilities as at the end of 2015 amounted to PLN 10,082.0 million.

The significant year-on-year growth resulted mainly from the consolidation of Alior Bank. The value of conditional liabilities provided to Alior Bank clients amounted to PLN 8,941.7 million. This amount included PLN 7,371.8 million of conditional liabilities connected to financing and PLN 1,569.9 million of conditional guarantee liabilities.

Moreover, the balance of conditional liabilities include also claims, toward which no provisions have been recognized, including insurance-related claims.

The balance of conditional liabilities related to claims rose by PLN 379.8 million in 2015. This change resulted from a higher number of disputes and claim for damages resulting from disqualification from right to dividend, specified in point 53.1 of the Consolidated Financial Statements for 2015.

6.6 Share of the industry segments in the results

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

- corporate insurance (non-life) - this segment encompasses a wide range of non-life insurance, general liability and motor insurance, which are adapted to client needs and, with individually valued risks, offered by PZU and Link4 to large business entities.
- mass insurance (non-life) – composed of non-life, accident, TPL, and motor insurance products. PZU and Link4 provide the insurance to individuals and entities from the SME sector;
- life insurance: group and individual continued - PZU Życie offers this insurance to groups of employees and other formal groups (e.g. trade unions). It includes the following types of insurance:
- protection, investment (which, however, are not investment contracts) and health insurance;
- individual life insurance – PZU Życie offers this insurance to individual clients. The insurance contract relates to a specific insured, subject to the assessment of the individual risk. This group comprises protection, investment (other than investment contracts) and health insurance products.
  Individuals who have a legal relationship with the policyholder (for instance an employer or a trade union) may enroll in the insurance; and individually continued insurance in which the policyholder acquired the right to individual continuation during the group phase.
- investments – reporting in accordance with PAS – comprises investment activity conducted with PZU Group's own funds defined as the surplus of investments over technical provisions in the insurance companies within PZU Group with their registered offices in Poland (PZU, Link4 and PZU Życie) increased by the surplus of income exceeding the risk-free rate from investments matching 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 to insurance segments according to transfer prices. Additionally, the Investment segment includes income earned on other excess funds in PZU Group;
- pension insurance - activity conducted by PTE PZU.
- Ukraine segment - includes both non-life and life insurance;
- Baltic states segment - non-life and life insurance products provided in Lithuania, Latvia, and Estonia;
- investment contracts - including PZU Życie products, which do not transfer significant insurance risk and do not meet the definition of an insurance contract. They include some products with a guaranteed rate of return and some unit-linked products.
- other - this encompasses consolidated entities not allocated to any of the segments above.

Corporate insurance

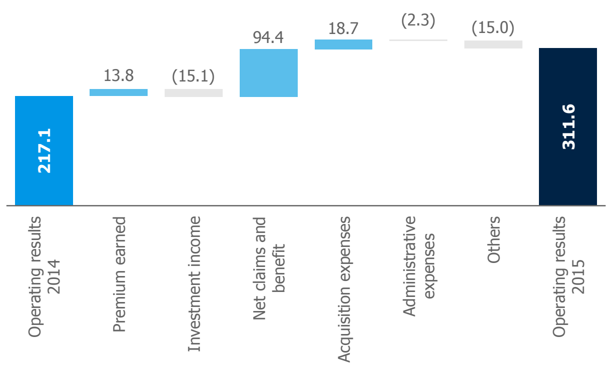
In 2015, the corporate insurance segment (composed of PZU and Link4) earned the operating profit of PLN 311.6 million, which is 43.5% more than in corresponding period of the previous year.

The commencement of Link4 consolidation in September 2014 entailed the growth of particular items in the 2015 operating result in comparison with the corresponding period of the previous year.

The following factors primarily had a key impact on this segment result in 2015:

- 0.9% growth of the net earned premium despite the slight decrease in the gross written premium by 0.4% compared with 2014. Lower sales were recorded mainly in the TPL insurance group resulting in finalization of several large tenders conducted by medical entities in the December 2014 (with no effect on the premium earned in 2014) and the motor own damage insurance group for rail vehicles and guarantees. Decrease in the written premium was partially offset by the increase in sales of motor own damage insurance as a result of a higher number of insurance policies and in the group of insurance against fire and damage to property resulting from the acquiring several strategic clients and entering contracts for the period longer than one year.
- 9.8% decline in net claims and benefits in comparison with the corresponding period of 2014, which, considering a 0.9% increase of the net premium earned, means that the loss ratio decreased by 7.0 p.p., to the level of 58.9%. The decline was recorded mainly in TPL insurance (lower level of provisions for previous years claims) and insurance for damage caused by forces of nature (lower claims rate). The effect is partially offset by the increased claims and benefits in motor insurance as a result of the higher average claim payment and higher number of reported claims.
- 11% decline in the investment income allocated to the segment at transfer prices to PLN 121.4 million, which was caused by the lower market interest rates;
- decline in acquisition expenses by PLN 18.7 million, i.e. 6.1 % compared with 2014, resulting from higher level of deferred acquisition costs partially offset by the increase in commission from inward reinsurance and indirect acquisition costs;
- an increase in administrative expenses to the level of PLN 127.4 million, i.e. 1.9 %, compared with the previous year. The level of expenses in 2015 was influenced by e.g. implementation of changes in client relations management, including mainly implementation of a new model of the corporate insurance sales network.

Operating profit in the corporate segment (PLN million)



Mass client insurance

In 2015, the operating profit in the mass client insurance segment amounted to PLN 651.6 million (a 13.9% decrease compared with the prior year).

The commencement of Link4 consolidation in September 2014 entailed the growth of particular items in the 2015 operating result in comparison with the corresponding period of the previous year.

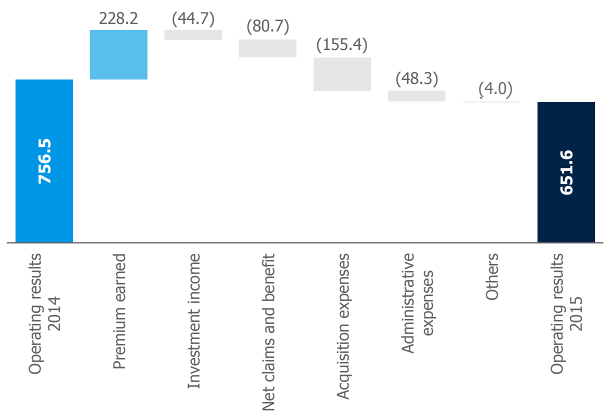
The result was determined by the following factors:

- 3.5% growth of the net earned premium y/y to PLN 6,791.3 million with simultaneous growth of the gross written premium by 14.6% (excluding the premium from the Group's subsidiaries, +11.4% y/y). Sales growth was recorded mainly in the motor insurance group as result of higher sales of motor insurance offered by PZU and acquisition of Link4 as of 15 September 2014. Higher premium was recorded also in the group of insurance of financial losses (due to long-term cooperation with a new Client under obligatory inward reinsurance agreement) and insurance for damage caused by forces of nature. Moreover, the premium growth was caused also by including Link4 and companies in the Baltic states in the inward reinsurance program (eliminated at the consolidated level);
- 1.8% higher amount of claims and benefits than in 2014. The decline in results from the previous year stemmed mainly from the higher claims and benefits level in motor insurance, which was determined mainly by the high

dynamics of claims reported and paid of motor own damage insurance. The adverse events were partially offset by a lower level of claims in property and agricultural insurance (especially regarding claims of mass character); Furthermore, the comparability of the results is influenced by the recognition of the rise of claims provision for compensation from pain and suffering for damage occurred in previous years in the 2014 result.

- 7.9% decline y/y (i.e. PLN 44.7 million) in the investment income allocated to the mass insurance segment at transfer prices, which was caused by the lower market interest rates;
- 12.5% higher acquisition costs compared with the corresponding period of the previous year resulting from higher inward reinsurance commission (effect of the conclusion of inward reinsurance agreements with the Group's subsidiaries companies) and indirect acquisition costs (including the costs of sales-assisting activity aimed to improve the effectiveness of the sales network). Furthermore, there was a growth of direct acquisition costs, which resulted from the change to the sales channel mix (higher share of the multiagency and dealers channel);
- 7.8% higher administrative expenses in comparison with 2014. This change was due to expansion and initial usage of the Everest Platform (policy system for non-life insurance) and other strategic projects aimed to improve client service by tied agents and develop distribution channels.

Operating profit in the mass segment (PLN million)



Group and individually continued insurance

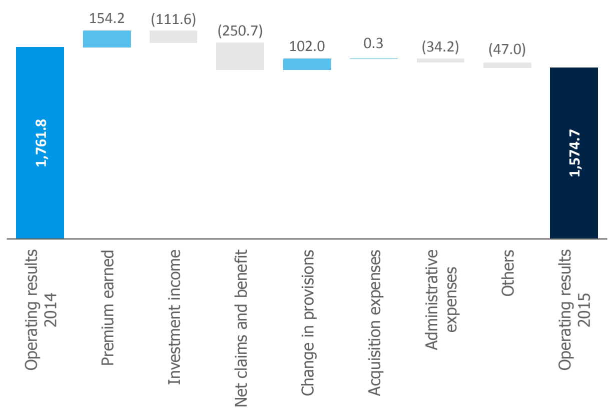
The operating profit of the group and individually continued insurance amounted to PLN 1,574.7 million and was 10.6% lower than in the previous year. This was a result of:

- growth of the gross written premium by PLN 149.6 million (+2.3%) was primarily due to:
  - development of group protection insurance (growth of the average premium and number of insured parties, including high level of new sales);
  - acquisition of the premium in group health insurance (new clients in ambulatory insurance and sales of medicine product versions);
  - upselling of riders and higher sums insured in individually continued products.

  The positive effects were partially offset by the decrease in premium in unit-linked insurance, which resulted from the transfer of EPP agreements of PZU's employees to the EPP operated by TFI PZU;
- lower investment income. In 2015, it amounted to PLN 601.7 million, i.e. dropped by 15.6%, which resulted from the decline of the revenue allocated according to transfer pricing as the effect of lower market interest rates and from the decrease in revenue from unit-linked products as the effect of lower treasury bond prices compared to the rises in the previous year;
- 5.6% higher net insurance claims and benefits. In 2015, they closed at PLN 4,750.1 million. The change resulted mainly from the following:
  - increased mortality ratio in protection insurance compared with the previous year, confirmed by the CSO (Central Statistical Office) survey on the entire population and additional growth of the agreement portfolio itself;
  - higher endowment payments in short-term endowment products and structured products in the bancassurance channel - maturity dates reached for the subsequent product tranches; no effect on the result – offset by the change to the technical insurance provisions.
- PLN 31.6 million drop in other net technical provisions compared to the PLN 70.3 million provision growth of the previous year. The main cause was the lower growth of provisions in individually continued products – higher mortality ratio (a client's death entails the need for benefit payment, but simultaneously releases the technical and insurance provision) and higher share among people entering the portfolio following the modification allowing for the creation of lower initial technical and insurance provisions. Furthermore, PZU Życie's modified these rules from the start of 2016 in the scope of the annual process of establishing the rules for possible indexation of the sum insured by the clients in continued insurance. This had a positive impact on the level of technical provisions in this portfolio. There was also a greater decline of provisions in short-term life and endowment products and structured products in the bancassurance channel compared with the previous year – endowment of the subsequent product tranches in the face of the lack of sales of new contracts. Moreover, the slightly higher rate of conversion of long-term contracts into annual renewable contracts in type P group cover also affected the level of these provisions. As a result, provisions of PLN 75.4 million were released, i.e. PLN 5.5 million more than in 2014;
- acquisition costs similar to those of the previous year. These costs amounted to PLN 356.3 million. Factors determining the level of direct and indirect acquisition costs included high sales of riders to continued protection insurance (agent remuneration, costs of distributing the offers to the clients and associated indirect costs) and increased sales activity in the scope of health products. These factors were offset by the lower acquisition costs in group protection insurance as the effect of the rising focus of the agency network on acquisition of individual protection products;
- 6.3% higher administrative expenses. The growth to PLN 577.2 million was determined mainly by strategic expenses in distribution and operating support. 2015 saw the continuation of several strategic products aimed to build an innovative distribution channel and for other purposes;
- the PLN 47.0 million year-on-year decline in other revenues and expenses was caused by a prevention fund charge (no such cost was recorded in the previous year, eliminated at the level of the consolidated result) and higher costs related to PZU Życie financing the premium (higher promotional sales of additional insurance policies to individually continued insurance).

After excluding the one-off effect related to the conversion of long-term contracts into renewable contracts type P from the segment's result, the segment's 2015 operating profit amounted to PLN 1,499.3 million, compared with PLN 1,692.0 million in the corresponding period of 2014 (a 11.4% drop). The main cause of the inferior result is the higher claims ratio of the protection portfolio resulting from higher mortality ratio.

Operating profit of the group and individually continued insurance (PLN million)



Individual insurance

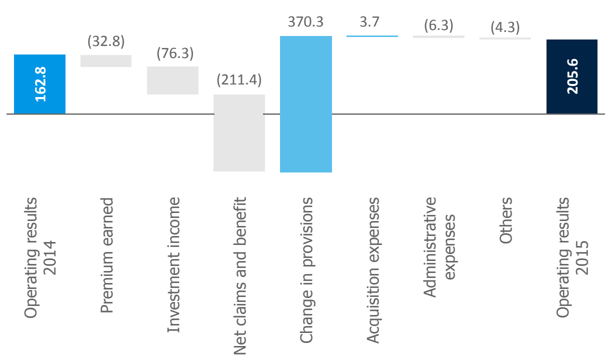
In 2015, the operating result of the individual life insurance segment amounted to PLN 205.6 million, i.e. it was 26.3% higher than in the prior year. The main factors affecting the level of the segment's operating result were:

- gross written premium drop of PLN 34.4 million (-2.7%) from 2014 resulted from the following:
  - lower sales of unit-linked products in cooperation with banks;
  - lack of sales in structured and deposit product in cooperation with banks in 2015;
  - withdrawal of the Plan na Życie savings product with a protection component and regular premium.

  The negative effect was offset by the following:
  - record structured product subscriptions in own channel;
  - high sales of protection products – resulting from the changes to the commission system and improvement of the offer through introduction of the new Pomoc od Serca additional insurance;
  - higher average deposits to IKE accounts;
  - introduction of a new unit-linked product into the own channel offer: Cel na Przyszłość.
- lower investment income. Decrease year-on-year by PLN 76.3 million to PLN 250.4 million in the individual insurance segment, mainly in unit-linked products in the bank channel, resulting mainly from the sentiment on the Polish capital market in 2015, which was inferior to that of the previous year. The income allocated according to transfer prices slightly declined;

- 33.1% growth of net insurance claims and benefits. In 2015, they amounted to PLN 850.2 million. This growth resulted from the higher value of surrenders in unit-linked products sold in own channels (PZU's discontinuation of charging for advanced surrender in the scope of the Plan na Życie product) and the bank channel (year-on-year portfolio growth). The situation on the capital markets was also important in both cases. The next factor included higher endowment payments in structured products in the bancassurance channel (maturity dates reached for the subsequent product tranches) and in term protection products. In the case of investment products, the negative impact of the aforementioned factors on the operating result (with the exception of the lack of charges for advance surrenders) was offset by the appropriate change to the technical provisions;
- the increase in other net technical provisions was lower than in the previous year by PLN 370.3 million. This change was associated mainly with the dropping provision of unit-linked products sold via bancassurance – there was a culmination of three negative effects on the state of provisions, i.e. increased benefit payments, decreased written premium, and negative investment activity result. Additional factors reducing the level of provisions concerned annuity products and included the introduction of uncollected benefit verification and also rise of payments for endowment while simultaneously lacking the sales of structured products in the bancassurance channel in the year. A similar effect was observed in the Plan na Życie savings product with a protection element and regular premium (discontinued sales and withdrawal from charges for advance surrender leading to increased surrenders value);
- acquisition costs lower by 2.9% The drop in the costs to PLN 122.7 million was caused mainly by the withdrawal of the Plan na Życie savings product with a protection component and regular premium;
- administrative expenses increased by PLN 6.3 million in comparison with the previous year. The growth to PLN 59.7 million was determined by strategic expenses in distribution and operating support. The improvements included client service quality by exclusive agents;
- changes in the other revenues and expenses category (expenses higher by PLN 4.3 million) resulting from the prevention fund charges in the current year (no such expense was recorded in the previous year which was eliminated at the consolidated level).

Operating profit of the individual insurance segment (PLN million)



Investments

Income from the investment segment investment activity conducted with PZU Group's own funds defined as the surplus of investments over technical provisions in the insurance companies within PZU Group with their registered offices in Poland (PZU, Link4 and PZU Życie) increased by the surplus of income exceeding the risk-free rate from investments matching 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 to insurance segments according to transfer prices. Additionally, the investments segment includes income earned on other excess funds in PZU Group.

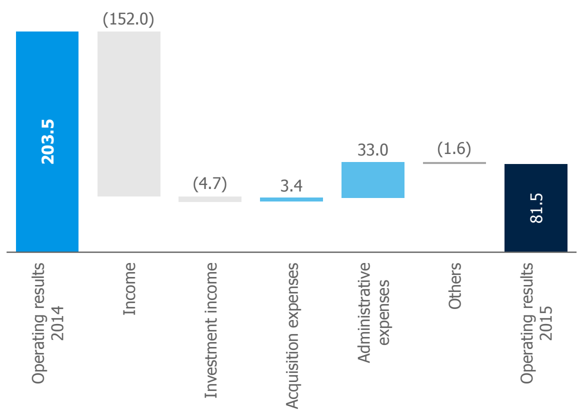
The operating profit of the investments segment (external operations only) amounted to PLN 506.2 million and was 12.6% lower than in 2014, mainly due to lower yield of investment portfolio caused mainly by decrease in income on interest-bearing financial assets as a result of increased yield of Polish treasury bonds in the middle and at the end of the yield curve in 2015 compared to the decreases along the entire curve in 2014.

Pension insurance

In 2015, the operating profit of the pension insurance segment amounted to PLN 81.5 million, i.e. it dropped by 60.0% compared with 2014. This was the result of:

- fee and commission revenue, which amounted to PLN 118.5 million, i.e. it dropped by 56.2% from the previous year. This change was the result of:
  - the 2014 statutory withdrawal of funds from the additional part of the Guarantee Fund in the amount of PLN 132.3 million;
  - decrease of PLN 14.7 million in premium revenue resulting from the discontinuation of premium transfer of members who omitted to fill in the participation declaration during the transfer window to OPFs after 1 August 2014, the reduction of fees from 3.5% to 1.75% on 1 February 2014, and the lack of premiums for the people in the so-called "slider";
  - decrease of PLN 8.1 million in management fee resulting from the statutory transfer of a portion of OPF assets to the Social Insurance Institution (ZUS) on 3 February 2014 and the decline in OPF assets during the second half of 2015 as a result of the market situation;
- the net investment revenue amounted to PLN 6.9 million and dropped by PLN 4.7 million due to the financial asset drop;
- the acquisition costs amounted to PLN 2.9 million, i.e. they were 53.6% lower than in the previous year. This resulted from the informational activity conducted by OPF in 2014;
- the administrative expenses amounted to PLN 39.9 million, i.e. were 45.3% lower than in the previous year. In particular, the costs of maintaining pension fund registers declined by PLN 9.3 million due to lowering the fee for the management of the accounts of the members of OFE PZU (first in February 2014, then again in January 2015) and the resignation from the additional compensation for the transfer agent in connection with the fulfillment of assumptions regarding the improvement of the quality of provided services. Fees collected from premiums transferred by the Social Insurance Institution (ZUS) to OPF were lower by PLN 3.3 million as a result of statutory changes. Furthermore, the costs of obligatory additional payments to the Guarantee Fund in the Central Securities Repository of Poland dropped by PLN 20.3 million (mainly as a result of the statutory change of the required level from 0.1% to 0.3% of the net assets of OPF at the end of the first quarter of 2014 and the additional payment of the previous year).

Operating profit in the pension insurance segment (PLN million)



Baltic states

The following changes with considerable impact on data comparability occurred in the Baltic states structure over the years 2014-2015:

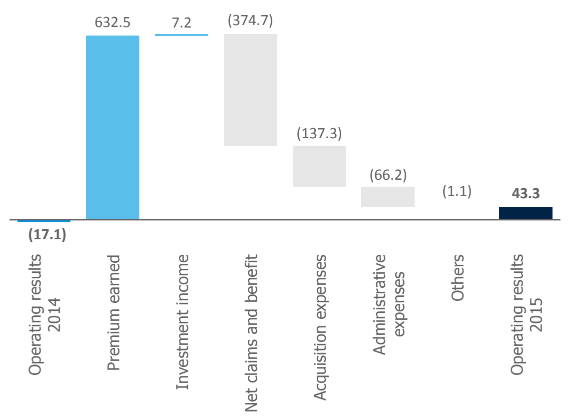
- PZU Lithuania was a part of the segment until 30 September 2015;
- in 2014, the segment was expanded to include: AAS Balta (June 2014), Lietuvos Draudimas (November 2014), Estonian branch operating under the Codan brand (November 2014).

PZU Group generated an operating profit of PLN 43.3 million in the Baltic states in 2015 compared with an operating loss of PLN 17.1 million in the previous year. The result arose from the following factors:

- increase in gross written premium. It amounted to PLN 1,193.9 million, where the companies acquired in 2014 generated the premium of PLN 981.2 million and life insurance recorded a written premium growth of PLN 5.9 million (i.e. 15.9%) from the previous year;
- growth of the investment income. In 2015, the result amounted to PLN 21.8 million, up by 49.0% from the previous year;
- increase in net claims and benefits. They amounted to PLN 686.9 million and were 120.0% higher than in 2014, with the value of claims and benefits of the companies acquired in the previous year amounting to PLN 546.7 million. In life insurance, the value of claims amounted to PLN 29.3 million, 13.6% up from the previous year.

- increase in acquisition costs. The respective expenses of the segment amounted to PLN 252.8 million, including PLN 202.5 million of acquisition costs incurred by the companies acquired in 2014. The acquisition cost ratio to the net earned premium dropped by 1.4 p.p. to 22.8%;
- increase in administrative expenses. They amounted to PLN 146.4 million, up by 82.5% from the previous year, while the expenses of the newly acquired companies amounted to PLN 111.7 million. At the same time, the administrative expenses ratio amounted to 13.2%, a drop of 3.6 p.p. from the previous year.
- increase in interest-bearing costs. They amounted to PLN 1.8 million and were PLN 1.1 million higher than in the prior year.

Operating profit in Baltic states insurance segment (PLN million)



Ukraine

Taking into account the significant depreciation of the Ukrainian currency, the results are presented in the currency used by the companies for reporting purposes.

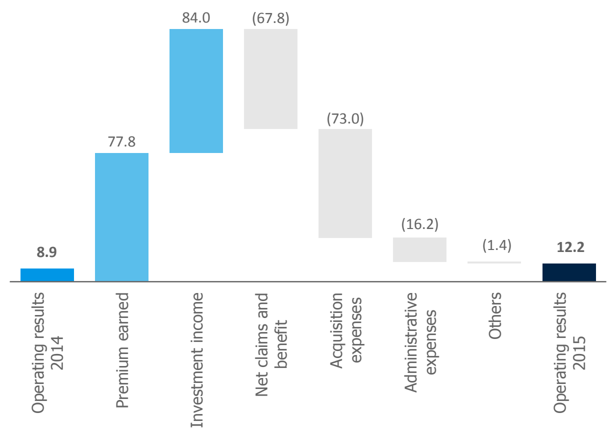
In 2015, the Ukraine segment earned an operating profit of UAH 12.3 million, compared with UAH 8.9 million in the previous year.

The change of the segment result was caused by:

- increase in the gross written premium. The premium amounted to UAH 976.7 million and increased by 48.4% in comparison with the previous year. The sales of the Green Card (increased rates) and health insurance improved. Taking into account the depreciation of the currency, the written premium showed a reverse trend (a drop of PLN 5.4 million);
- growth of the investment income. This segment earned UAH 239.7 million in this respect, which is 53.9% more than in 2014. The following factors had a positive impact on its level: an increase in the liquid assets base and foreign exchange profits, in particular, in life insurance offered mainly in foreign currencies;
- increase in claims and benefits. They amounted to UAH 425.6 million, i.e. 18.9% higher than in the previous year. The reasons for the increase included the 2.3 p.p. rise of the claims ratio, mainly in property and health products;
- increase in acquisition costs. They amounted to UAH 270.7 million compared with UAH 197.7 million in the prior year. Their level was the result of an increase in the written premium from motor and travel insurance, which are subject to higher commission charges;
- increase in administrative expenses. They amounted to UAH 122.8 million. For comparison purposes, in 2014, the administrative expenses of the segment amounted to UAH 106.7 million. Meanwhile, the administrative cost ratio to the net earned premium remained at the level of 20.7%.

In the reporting currency, the written premium amounted to PLN 168.2 million and was lower by 3.1% compared with the previous year.

Operating profit in Ukraine segment (UAH million)



Investment contracts

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

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

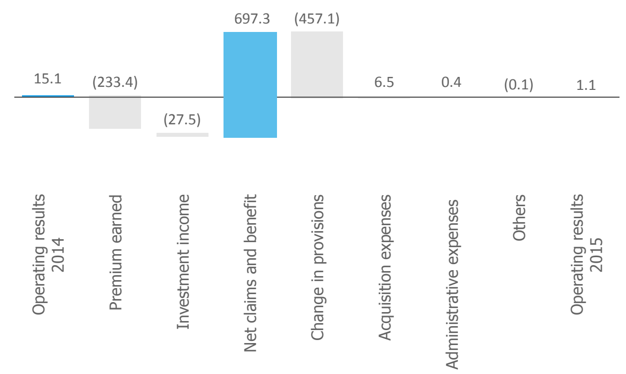
PZU Group earned PLN 1.1 million of operating profit compared with PLN 15.1 million in the previous year (drop of 92.5%) on investment contracts, i.e. PZU Życie's products which do not transfer significant insurance risk and which do not meet the definition of an insurance contract (such as some products with a guaranteed rate of return and some unit-linked products).

The following had an impact on the results of the segment in 2015:

- gross written premium from investment contracts dropped by PLN 233.4 million (-62.3%) from the corresponding period of 2014 to PLN 141.1 million. The main reasons for the changes to the gross written premium included:
  - lower sales of short-term endowment products in own channels,
  - withdrawal of short-term endowment products in the bancassurance channel.

  In both cases, the reason was the low profitability of such agreements for the clients following the drop of market interest rates to unprecedented lows and introduction of the tax on capital revenue for such policies. A positive factor is the year-on-year growth of contribution to accounts observed in IKZE.
- lower investment income. The income was PLN 16.1 million, i.e. 63.1% lower than in the corresponding period of 2014, mainly in the short-term endowment products in own and bancassurance channels, as well as unit-linked in bancassurance channel as the effect of a decline in investments level;
- lower value of net insurance claims and benefits resulting from the considerable drop in endowment payments from short-term endowment products in the bancassurance channel (last year saw the maturity of high-value tranches; considerably lower sales in subsequent periods; no effect on the result – corresponding effect in changes to technical provisions). These amounted to PLN 694.5 million, i.e. they were 50.1% lower than in the prior year;
- lower negative balance of the change in the balance of other technical provisions. This amounted to PLN 558.5 million compared with PLN 1,015.5 million in the prior year. This difference arose mainly from the changes in the portfolio of short-term investment endowments sold through the bancassurance channel, i.e. lower level of endowment combined with the withdrawal of such products from the offer;
- lower acquisition costs. These amounted to PLN 10.0 million, i.e. they were 39.3% lower than in the prior year. This resulted from considerable reduction of sales and declined asset value in unit-linked products of the bancassurance channel (some of the bank's remuneration is determined by the level of assets);
- lower administrative expenses. These amounted to PLN 9.3 million and declined by 3.8% compared with 2014 – the result of a decrease in the contracts portfolio. The decline is less than proportional because some of the service processes must continue despite failure to generate revenue.

Operating profit in in investment contracts segment (PLN million)



Profitability ratios

In 2015, the return on equity of the dominating entity (PZU) was 18.0%. ROE was 4.6 p.p. lower than in the previous year. The profitability ratios achieved in 2015 by PZU Group exceed the levels achieved by the whole market (according to the data for three quarters of 2015).

Operating efficiency ratios

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

The combined ratio of PZU Group (for non-life insurance) remains in the last few years at the level which guarantees

Consolidated financial results

high profitability. In 2015, the ratio dropped, mainly because of the declined provisions for claims from damage in previous years in PZU's third-party liability insurance group.

Operating efficiency ratios by segments were also presented in ATTACHMENT

Key profitability ratios of PZU Group	2015	2014	2013	2012	2011
Return on Equity (ROE) – falling to the dominating entity (annualized net profit / average equity) x 100%	18.0%	22.6%	24.1%	24.1%	18.3%
Return on Equity (ROE) - consolidated (annualized net profit / average equity) x 100%	16.5%	22.6%	24.1%	24.0%	18.3%
Return on assets (ROA) (annualized net profit / average assets) x 100%	3.5%*	4.6%	5.6%	6.0%	4.6%
Administrative expenses ratio (administrative expenses / premium earned net of reinsurance) x 100%	9.5%	9.3%	8.7%	9.0%	9.3%
Return on Sales (net revenue / gross written premium) x 100%	12.8%	17.6%	20.0%	20.0%	15.3%

* excluding Alior Bank

	Operating efficiency ratios	2015	2014	2013	2012	2011
1.	**Claims ratio gross** (Gross claims including change in technical provisions /gross written premium) x 100%	66.9%	69.5%	67.9%	76.2%	67.9%
2.	**Claims ratio net of reinsurance** (net claims paid/net premium earned) × 100%	68.2%	70.3%	68.7%	76.3%	68.6%
3.	**Insurance activity costs ratio** (Costs of insurance activity/premium earned net of reinsurance) x 100%	23.2%	22.4%	21.1%	21.5%	22.5%
4.	**Acquisition expenses ratio** (cquisition expenses/premium earned net of reinsurance) x 100%	13.7%	13.1%	12.4%	12.5%	13.2%
5.	**Administrative expenses ratio** (Administrative expenses/premium earned net of reinsurance) x 100%	9.5%	9.3%	8.7%	9.0%	9.3%
6.	**Combined ratio in non-life insurance** (claims + costs of insurance activity)/ premium earned net of reinsurance x 100%	94.6%	95.7%	87.8%	92.8%	95.3%
7.	**Operating profit margin in life insurance** (operating profit/gross written premium) x 100%	22.3%	24.4%	22.3%	19.8%	28.7%

07

Risk management

We devote a lot of time to a continued development of advanced risk management procedures. We consider them to be fundamental, as, all in all, we want our clients to feel secure and calm and our results to remain predictable.

Contents:

7.1 Risk management objective

Risk management aims to:

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

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

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

- systems of limits and restrictions of the acceptable risk level, including the level of risk appetite;
- processes of identification, measurement and assessment, monitoring and control, reporting and management actions with respect to individual risks;
- risk management organizational structure, in which Management Boards and Supervisory Boards of companies, as well as dedicated Committees, play the key roles.

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

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

PZU supervises the PZU Group risk management system under cooperation agreements with PZU Group entities and on the basis of information provided as per such agreements, as well as manages PZU Group aggregated risk.

7.2 Risk management system

The risk management system of PZU Group is based on:

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

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

The first three are as follows:

- Supervisory Board, which oversees the risk management process and assesses its adequacy and effectiveness as part of its decision-making powers defined in the company's By-laws and the Supervisory Board rules and regulations, as well as through the appointed Audit Committee;
- Management Board, which organizes the risk management system and ensures its functionality through approving the strategy and policies and defining the risk appetite, the risk profile and tolerance for individual kinds of risk;
- Committees which make decisions on reducing the level of individual risks in order to keep the overall risk within the limit determined by the risk appetite. The Committees implement the procedures and methodologies for mitigating individual risks and accept their limits.

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

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

7.3 Risk appetite

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

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

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

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

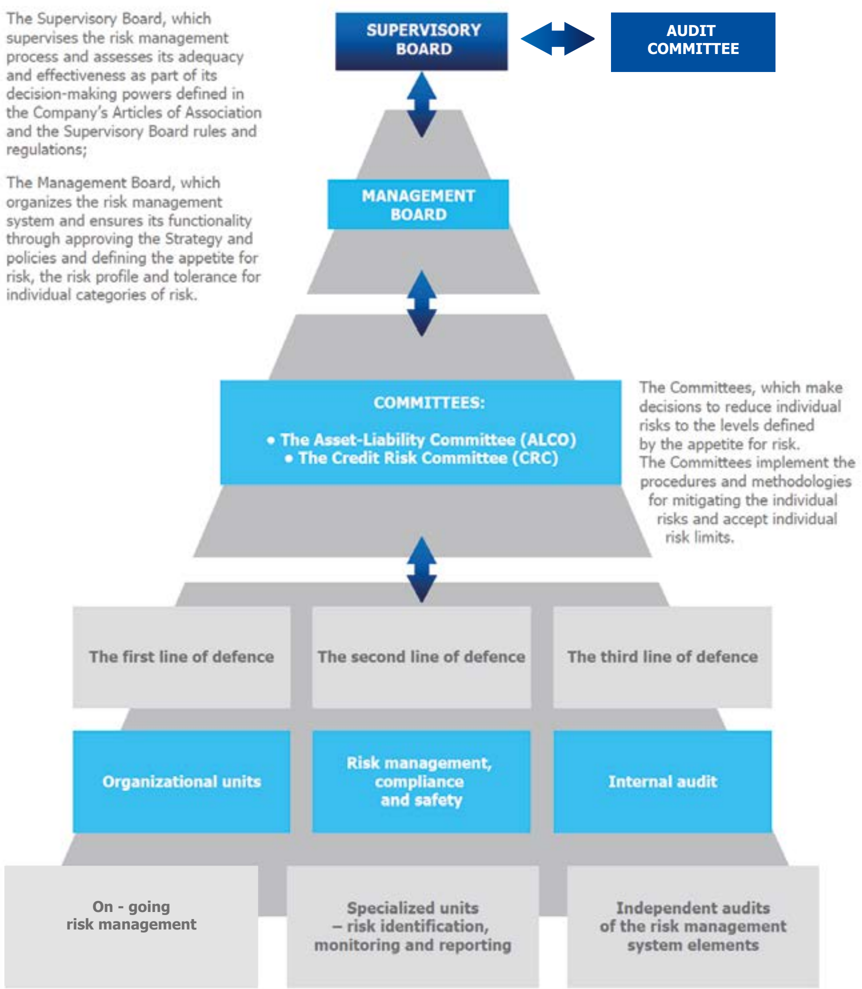
These activities encompass among others risk mitigation, risk transfer, risk avoidance, specifying risk appetite, acceptance of risk tolerance levels, as well as tools which facilitate such activities, i.e. thresholds, reinsurance plans and reviews of underwriting policy.

7.4 Risk management process

Two levels are distinguished in the risk management process:

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

Organizational structure of risk management system



7.5 Risk profile of PZU Group

The most important factors influencing PZU Group's risk profile in 2015

The integration of risk management process in insurance companies within PZU Group and implementation of Solvency II GLOSSARY requirements and supervisory guidelines, in particular those of PFSA, were the key event from the point of view of PZU Group's risk profile.

The main types of risks incurred by PZU Group include underwriting risk, market risk, credit risk, concentration risk, operational risk, and compliance risk.

Underwriting risk

It is the risk of a loss or an adverse change in the value of liabilities as a result of improper assumptions regarding valuation and the establishment of technical provisions.

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

- analysis of general insurance terms and conditions in respect of the accepted risk and compliance with generally applicable provisions of law;
- monitoring of existing products;
- analysis of the policies relating to underwriting, tariffs, provisions and reinsurance, as well as the claims and benefits handling process.

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

Underwriting risk measurement is based in particular on:

- analysis of selected indicators;
- scenario method – analysis of impairment arising from an assumed change in risk factors;
- factor method – a simplified version of the scenario method, reduced to one scenario per risk factor;
- statistical data.

Monitoring and controlling of underwriting risk includes the analysis of the level of risk by means of a set of reports including selected indicators.

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

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

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

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

- definition of the scopes of liability and exclusions in the general terms of insurance;
- reinsurance activities;
- adequate pricing policy;
- application of appropriate methodology of provisions calculation;
- appropriate underwriting process;
- appropriate claims handling process;
- sales decisions and plans;
- prevention.

Market risk

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

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

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

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

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

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

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

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

The risk measurement is performed:

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

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

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

Management actions regarding market risk include, in particular:

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

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

Credit risk and concentration risk

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

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

Identification of the credit and concentration risk takes place at the stage of making a decision to invest in a new type of financial instrument or to involve in the credit exposure to a new entity. Identification is based on an analysis of whether a given investment is related to credit or concentration risk, on which its level and volatility depends. The actual and potential sources of credit and concentration risk are identified.

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

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

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

Concentration risk measurement for a single entity is calculated as the product of the following two values:

- amount of exposure to this entity over the excessive concentration level;
- concentration risk factor set for every internal rating.

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

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

Monitoring is conducted for:

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

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

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

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

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

Operational risk

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

Identification of the operational risk is carried out, in particular, by means of:

- collecting and analyzing information on operational risk incidents;
- operational risk self-assessment;
- scenario analysis.

Assessment and measurement of the operational risk is carried out by means of:

- identifying the results of operational risk incidents;
- estimating the results of potential operational risk incidents which may occur in the course of business activity.

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

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

Management actions in response to identified and assessed operational risk involve in particular:

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

The business continuity plans were implemented in the key companies of PZU Group. The companies tested also the actions that secure correct operation of processes covered by the plans in the case of a breakdown.

Compliance risk

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

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

In 2015, PZU Group companies implemented Methodology for compliance risk identification and assessment, in accordance with solutions adopted at PZU; the methodology was used to perform first compliance risk identification and assessment.

The compliance units are responsible for delivering complete information on compliance risk at the Group's companies. Such units assess and measure compliance risk and take appropriate remedial actions which will prevent the materialization of such risk and will not adversely impact the PZU Group's image.

PZU Group companies deliver up-to-date information on compliance risk to the PZU and PZU Życie Compliance Bureau. The Compliance Bureau conducts e.g. the following actions:

- analysis of monthly and quarterly reports received from compliance units from the Group companies;
- assessment of impact of the companies' compliance risk on PZU Group;
- analysis of implementation of recommendations given to the companies with regards to realizing the compliance function;
- supporting compliance units at PZU Group companies at compliance risk assessment process;
- reporting to the Management Board and Supervisory Board of PZU.

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

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

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

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

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

Compliance risk is monitored mainly through:

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

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

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

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

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

7.6 Sensitivity to risk

Risk related to financial assets

Table on page 111 presents the results of the analysis of the net financial result and PZU Group's equity sensitivity to changes in interest rate risk, currency risk, and equity risk. The analysis does not take into account the impact of changes

Sensitivity of assets portfolio (in PLN million)	Change of risk factor	31 December 2015		31 December 2014	
		Impact on net financial result	Impact on equity	Impact on net financial result	Impact on equity
Interest rate risk	drop by 100 bps	601	149	126	223
	increase by 100 bps	(548)	(142)	(138)	(219)
Foreign currency risk	increase by 20%	89	15	6	119
	drop by 20%	(89)	(15)	(6)*	(119)*
Equity instruments risk	increase by 20%	545	207	346	561
	drop by 20%	(545)	(207)	(346)	(561)

*Assuming a 80% drop in the exchange rate of hryvnia vs. Polish zloty (with a 20% drop maintained for other currencies), the adverse impact on financial result and equity would amount to PLN 47 million and PLN 159 million respectively.

in interest rates on the insurance or investment contracts presented as liabilities.

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

Risk pertaining to technical rates and mortality
Table on page 112 shows a sensitivity analysis of the net result and equity to changes in the assumptions used to calculate the capitalized annuities. The analysis does not take into account the impact of changes in valuation of the deposits taken into consideration in calculation of the reserve on the net financial result and equity

7.7 Reinsurance activity

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

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

PZU's risk is also mitigated through reinsurance of the financial insurance portfolio. In 2015, the main partners providing treaty reinsurance cover to PZU were Swiss Re, Hannover Re, Scor, Munich Re, and Lloyd's. As per S&P/AM Best, ratings of PZU reinsurance partners are high, which is an evidence of

Sensitivity of provisions	Impact of assumptions on:			
	net financial result		equity	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Change in assumptions used to calculate the provisions for capitalized annuities net of reinsurance in non-life insurance (in PLN million)				
Technical rate – increase by 0.5 p.p.	412	415	412	415
Technical rate – decrease by 1.0 p.p.	(1,064)	(1,074)	(1,064)	(1,074)
Mortality 110% of existing value	127	129	127	129
Mortality 90% of existing value	(142)	(144)	(142)	(144)
Change in assumptions for annuities in life insurance (in PLN million)				
Technical rate – decrease by 1 p.p.	(32)	(34)	(32)	(34)
Mortality 90% of existing value	(12)	(12)	(12)	(12)
Change in assumptions for provisions for insurance and investment contracts with DPF in life insurance, excluding annuities (in PLN million)				
Technical rate – decrease by 1 p.p.	(2,157)	(2,194)	(2,157)	(2,194)
Mortality 110% of existing value	(902)	(923)	(902)	(923)
110% of morbidity and injury rates	(179)	(187)	(179)	(187)

reinsurer's good financial standing and guarantees security to the Company.

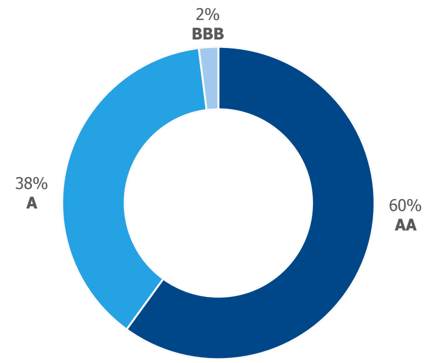
PZU's activity in the area of inward reinsurance includes other PZU Group's insurance companies. Further commitment to the protection of Baltic companies and Link4 resulted in an increase in the related written premium.

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

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

QBE Re, RGA, Partner Re and Arch Re are the partners providing reinsurance cover to PZU Życie. Reinsurance partners have high S&P ratings, which gives PZU Życie the certainty of reinsurer's good financial standing.

Reinsurance share from PZU obligatory contracts as per Standard & Poor's rating



Reinsurance contracts of foreign companies of PZU Group and Link4
Other insurance companies of PZU Group, i.e. PZU Ukraine, Lietuvos Draudimas, the Estonian branch of Lietuvos Draudimas, AAS Balta and Link4, have reinsurance cover that matches their business profile. Every significant insurance portfolio is secured by a treaty contract. PZU, the main reinsurer of the subsidiaries, coordinates the protection of the Group's companies.

7.8 Capital management

By the end of 2015, Poland followed the so-called Solvency I system GLOSSARY. The below table presents results of PZU Group, PZU and PZU Życie for the last 5 years.

Until the end of 2015 the insurance companies were also obliged to maintain assets for covering technical reserves in excess of the required level. At the end of 2015, the assets to technical provisions ratio amounted to: 110.5% for PZU and 114.6% for PZU Życie. The details are presented in the APPENDIX.

From 1st of January 2016 the new capital requirements regime- Solvency II became effective in European Union. REGULATIONS ON THE INSURANCE MARKET CHAPTER 2.4. As at the end of the third quarter of 2015, the solvency ratio (calculated according to the Solvency II standard formula) was assessed at a level of 296.1%[1]. Ratios as high as these place PZU Group among insurance groups with top capital strength.

[1]Data not audited

Calculation of own funds for solvency margin coverage	2015	2014	2013	2012	2011
PZU Group's solvency margin coverage with own funds	281.5%	291.2%	351.8%	405.8%	352.9%
PZU's solvency margin coverage with own funds	550.4%	585.9%	697.7%	815.3%	686.6%
PZU Życie's solvency margin coverage with own funds	206.2%	224.1%	235.5%	376.0%	332.5%

08

PZU on capital and debt market

Antarctica is the only continent where there is no PZU shareholders. Our investors live in over 100 cities in Europe, America, Asia, Africa and Australia. To reach them we circled the globe more than 10 times. Since the IPO the trading value of PZU shares exceeded PLN 135 billion.

Contents:

8.1 Share and bond market

In 2015, world markets remained under a very strong influence of central banks' policies and economic situation of the Eurozone, USA, and China. FINANCIAL MARKETS SITUATION SEC. 2.2.

In early 2015, there were two significant occurrences: the European Central Bank's announcement regarding the purchase of treasury bonds of the Eurozone countries and the release of Swiss franc exchange rate. The latter triggered numerous doubts regarding the functioning of the bank system in Poland. The subsequent quarter of 2015 remained under a strong influence of ever-increasing problems of Greece and the conflict between Russia and Ukraine.

The second half of the year brought a breakdown on the Chinese market, which had a negative impact on share prices both in Poland and abroad. What is more, the situation in the country was exacerbated by the perspective of introducing a new burden for the banking sector, which was to become reality after parliamentary elections in October 2015. The last quarter did not result in any improvement. The US Central Bank increased its interest rate by 25 bps in December (first increase since 2006), the prices of raw materials were going down (particularly oil prices – a decline of 35% year-on-year), and the European Central Bank announced the intention of easing its monetary policy to a lesser extent that it was expected.

The above events had a significant influence on the Polish debt market. In entire 2015, the Polish treasury bonds yield of 5-year and 10-year treasuries grew by 10 and 40 bps to 2.2% and 2.9% respectively.

Deterioration of situation on the markets was reflected in the MSCI (Morgan Stanley Capital International Index) for emerging markets, which fell by 17.1%. In relation to this index, in 4Q 2015 there was also a significant weakening of the MSCI Poland index. This resulted from a substantial decline in bank capitalization on the Warsaw Stock Exchange.

8.2 PZU's share prices

High geopolitical risk on the European markets was reflected in a high volatility of main indexes on the Warsaw Stock Exchange. Throughout 2015, the most important Polish index, WIG20, remained at levels exceeding 2,500 bps; however, during the last session in the year, its value amounted to only 1,859 points, which was a drop of 19.7% compared to 2014. The WIG index was slightly better and fell by 9.6% year-on-year. Small companies turned out to be the most resistant to decreases – the sWIG80 index gained 9.1% year-on-year. By comparison, the same index ended the year 2014 with a decrease of more than 15.5%.

PZU share prices

PZU shares were first traded on the Warsaw Stock Exchange on 12 May 2010. Since its IPO, the company has been included in the WIG20, WIG, WIG30, WIG-Poland, and WIGdiv indexes. Since 2012, PZU shares have been also included in the sustainable development indexes, RESPECT and CEERIUS GLOSSARY OF TERMS.

On 30 November 2015, PZU split its stock, the operation consisting in decreasing the nominal value of shares from PLN 1 to PLN 0.1. The split did not result in any changes in the shareholding structure, the operation was purely technical (i.e. without any influence on share capital). Following the split, the share price decreased 10 times and the number of shares increased 10 times. Split registration was preceded by an amendment to the By-laws made on 3 November 2015.

With capitalization amounting to PLN 29 billion, at the end of 2015, PZU was the fourth company when it comes to the capitalization of domestic companies (5.7% of share in the WSE main market). In 2015, maximum PZU share price (calculated after the split) amounted to PLN 50.9. The price reached its bottom on 14 December 2015 when it amounted to PLN 31.4 per share.

At the end of Q1 2015, PZU share prices were valued 11.0% better than in the same previous period of 2014, which was a very good result compared with WIG20 (a 2.7% drop year-on-year) or WIG Banks (a 12.5% drop year-on-year.) However, the subsequent quarters brought a market downturn. In a downward trend, PZU share value dropped faster than the main market indexes. The closing price from the last session in 2015 amounted to PLN 34.0 and 8.3% lower than the estimate as at the end of 2014. By comparison, the same WIG20 and WIG BANKS ended the year with a decrease of 19.7% and 23.5% respectively. The sale of shares concerned also RESPECT index whose closing price was 15,5% lower than in 2014.

High dividend paid by PZU on 21 October 2015 offered some conciliation to the investors. The dividend amounted to nearly PLN 2.6 billion, i.e. PLN 3.00 per share. The dividend rate (calculated in relation to the share price at the end of 2015, i.e. PLN 34.0) amounted to 8.8%. Since its IPO, PZU has already paid out nearly PLN 15 billion in dividends, while the Total Shareholders Return (TSR) for PZU shares amounted to 64.2%.

(30.0)% PZU

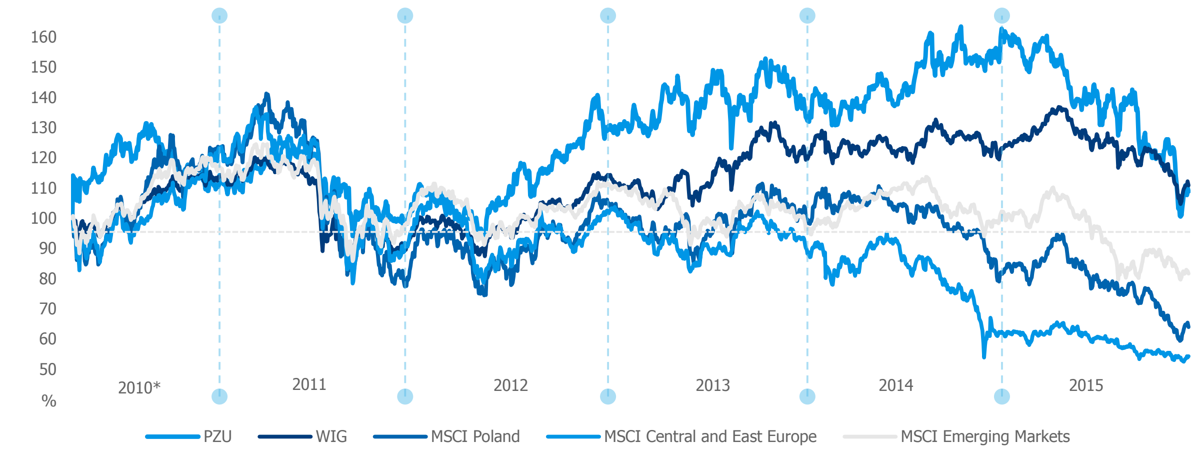
(19.7)% WIG20

(9.6)% WIG

(23.5)% WIG Banki

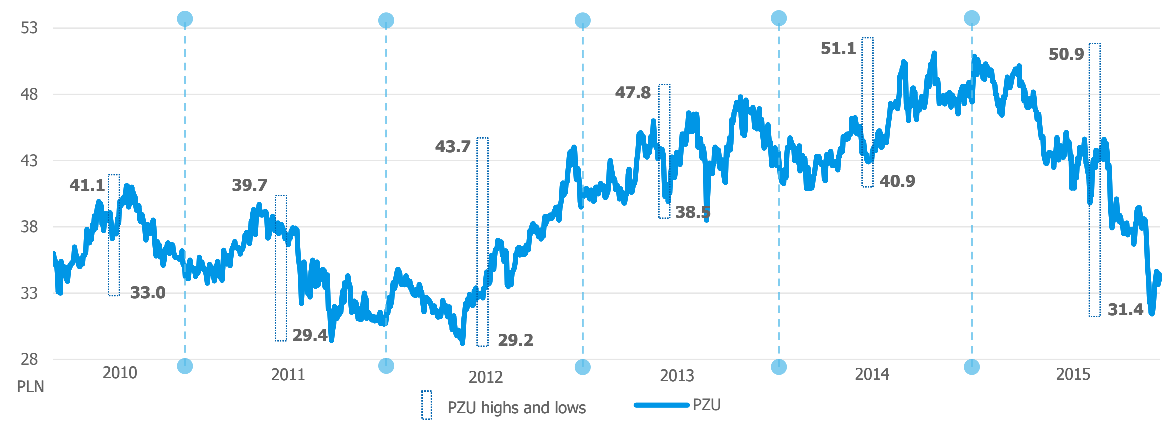
(15.5)% RESPECT

Dynamics of PZU's share prices in relation to MSCI



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

Min/max PZU share prices* following the session end in the years 2010-2015



* Share prices after a 1:10 split.
Source: Reuters

Capital market ratios for PZU shares*	2015	2014	2013	2012	2011
P/BV Market price per share / book value per share	2.27	3.19	2.95	2.64	2.07
BVPS Book value per share	14.97	15.25	15.20	16.52	14.90
P/E Price per share / profit per share	12.54	14.14	11.77	11.60	11.38
EPS (PLN) Profits (losses) per share / number of shares	2.71	3.44	3.82	3.77	2.72

*based on PZU Group data (IFRS)

PZU shares are characterized by a high level of liquidity. An average spread in 2015 reached only 7 bps. Only two other main market entities recorded such a low spread value. The average number of transactions involving PZU shares per session was 3,329 (a 33.4% increase year-on-year). The highest trading volume, i.e. 7,528,870 items, was recorded on 24 April 2015, which resulted from market speculations regarding a potential involvement of PZU Group in the capital increase at Nowa Kompania Węglowa. PZU denied this information. Similarly high trading volume took place on 3 December 2015 when the lower house of Parliament (Sejm) received a draft of the tax on financial institutions. The market reacted negatively, which consequently led to a share price drop amounting to several percent (evidenced by high trading volume.)

PZU share price rate in 2015 continued to be strongly influenced by the decision to invest in consolidation of banking sector's assets in Poland. On 30 May 2015, PZU concluded an agreement to purchase 25.19% Alior Bank shares at PLN 1.6 billion. The PZU Management Board planned to buy further banks to build an entity that would be one of five largest institutions in Poland when it comes to asset volume. However, by the end of 2015 the company did not manage to pursue further transactions. Moreover, the market price of share of banks quoted on WSE, including Alior Bank shares, are valued significantly lower, which resulted in the decreased capitalization of PZU.

PZU share statistics	1 January - 30 December 2015	1 January - 30 December 2014	1 January - 30 December 2013	1 January - 30 December 2012	1 January - 30 December 2011
Maximum rate of shares* (PLN)	50.9	51.1	47.8	43.7	39.7
Minimum rate of shares*(PLN)	31.4	40.9	38.5	29.2	29.4
The exchange rate at the last session of the year*(PLN)	34.0	48.6	44.9	43.7	30.9
Average rate per session* (PLN)	43.7	45.2	43.2	34.6	34.9
Value of the volume (PLN million)	20,144.56	18,400.72	19,970.38	18,152.22	23,315.25
Average value of the volume per session (PLN million)	80.3	73.9	80.9	73.2	92.9
Number of transactions (item)	835,471	621,224	585,205	411,635	526,265
Average number of transactions per session	3,329	2,495	2,369	1,660	2,097
Trading volume**	470,048,842.0	407,247,220.0	464,899,980.0	525,648,380.0	667,367,130.0
Average trading volume per session (item)*	1,872,704.5	1,635,531.0	1,882,186.2	2,119,549.9	2,658,833.2
Capitalization at the end of the period (PLN million)	29,377.1	41,967.2	38,767.9	37,736.0	26,682.9

*prices calculated after a 1:10 stock split
**trading volume alculated after a 1:10 stock split

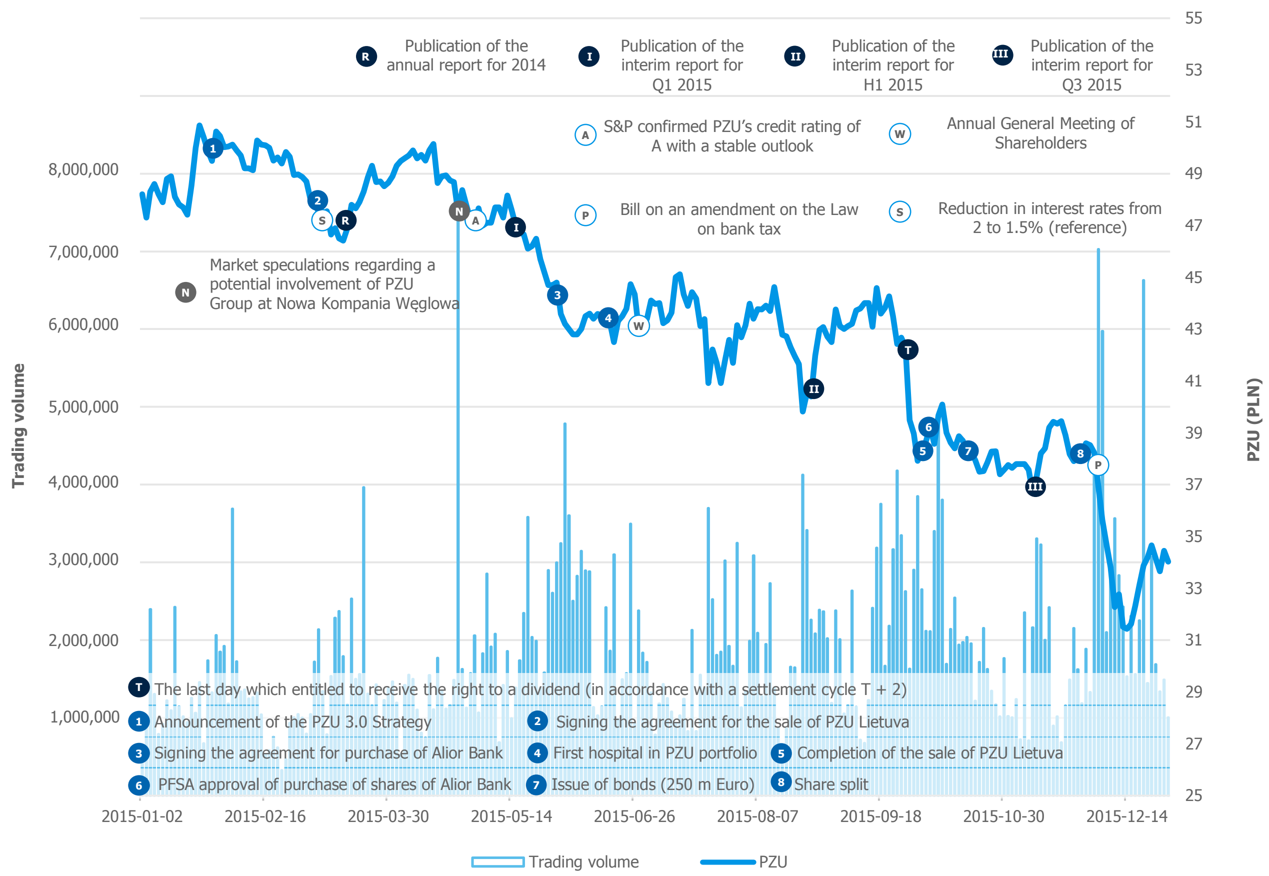
As at the end of 2015, capitalization of WSE companies dropped by 9% and amounted to PLN 122 billion (including 26 new domestic entities that were first traded on WSE in 2015.) The P/E ratio for domestic companies decreased in 2015 by 7.6% to 18.2 year-on-year, while the P/BV ratio fell by 15.3% to 1.1 year-on-year[1]. Share/Book Value ratio was 12,54, and Price/Book Value 2,27.

8.3 Debt financing

On 16 October 2015, PZU Finance AB (a public company), subsidiary of PZU Group seated in Sweden, issued bonds of the total value of EUR 350 million. These bonds were

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

Main events that influenced PZU share prices in 2015



Codes Quick Response (QR) for online transmission

W Annual General Meeting of Shareholders

3 Signing the agreement for purchase of Alior Bank

assimilated and together with eurobonds at the value of PLN 500 million issued by PZU Finance AB (a public company) on 3 July 2014, they constitute one series, a so-called „tap" issue.

Senior bonds issued in 2015 were purchased by approximately 60 investors (28% from Poland, 23% Holland, 18% Great Britain, 12% Czech Republic, and 9% Germany). The issue price per bond with a nominal value of EUR 100,000 amounted to EUR 99,218. Bond yield was 1.593%. The bonds bear interest at a fixed interest rate of 1.375% per year and the coupon will be paid once a year. The issue was awarded S&P rating at „A-"; yet, as a result of lowering PZU rating to „A-" on 21 January 2016 due to the S&P's decision to decrease Poland rating from „A-" to „BBB+" for long-term liabilities in foreign currencies, the rating of PZU bonds dropped to the „BBB+" level.

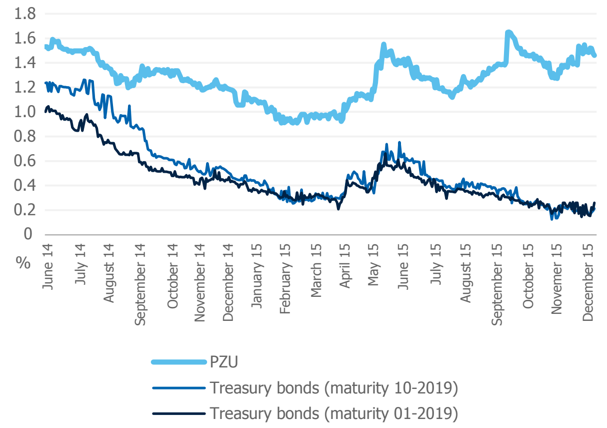
The bonds are quoted on the regulated market of the Irish Stock Exchange and the Warsaw Stock Exchange Catalyst ASO/Bondspot market.

The funds from the bond issue were planned to be used to increase the involvement of investment portfolio in investments denominated in euro, mange FX position, and use of debt financing, which is cheaper than equity.

The issue of eurobonds constituted the implementation of PZU Group's investment strategy in the scope of the management of the matching of assets and liabilities denominated in euro. PZU Group debt ratio as at 31 December 2015 amounted to 22.6%[2]

[2] debt ratio calculated as the sum of liabilities from credits, loans and issuance of own debt securities to the sum of own capital and these liabilities.

Yield of PZU eurobonds vs. Polish treasury bonds maturing on 2019 (euro)



Source: Reuters

8.4 Investor relations

In order to meet the highest 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 of the company. Therefore, PZU has consistently applied „Principles for PZU to Conduct its Information Policy for Capital Market Participants".

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

Shareholding structure

As at 31 December 2015, the shareholders of PZU with significant share packages were as follows: the State Treasury of the Republic of Poland (34.4% of the share capital) and Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK (5.7% of the share capital) PZU SHARE CAPITAL AND SHAREHOLDERS SECTION 10.6.

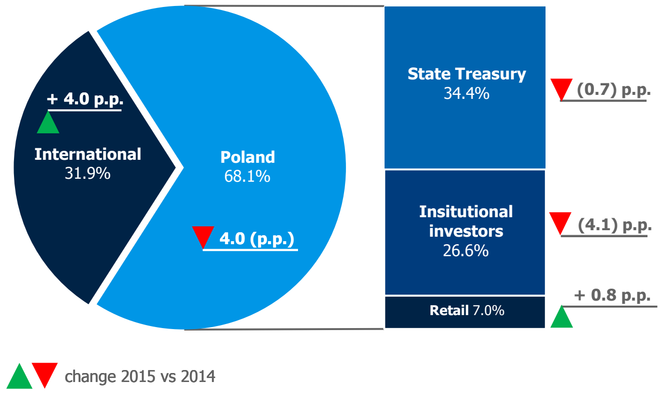
850 mln euro bond issue value

3 July 2019 redemption date

BBB+ (S&P) issue rating

1,375% fixed interest rate

PZU shareholding structure – key investor groups



PZU shareholding structure in 2015 continued to undergo further geographical diversification. The foreign investors' share increased by 4.1 p.p. to 31.9%. Engagement of North American investors significantly grew – their share in shareholding nearly doubled to 9.9% year-on-year. The share of European investors (excluding Poland) slightly decreased by 0.3 p.p. and reached 17.9%. As for the structural changes, the higher activity of investors from the United Kingdom was strongly discernable. Their share in 2015 rose from 3.0% in 2014 to 8.1% in 2015. At the same time, the result of the conducted survey pointed to individual shareholding outside Poland, whose share amounted to 1.1% at the end of 2015.

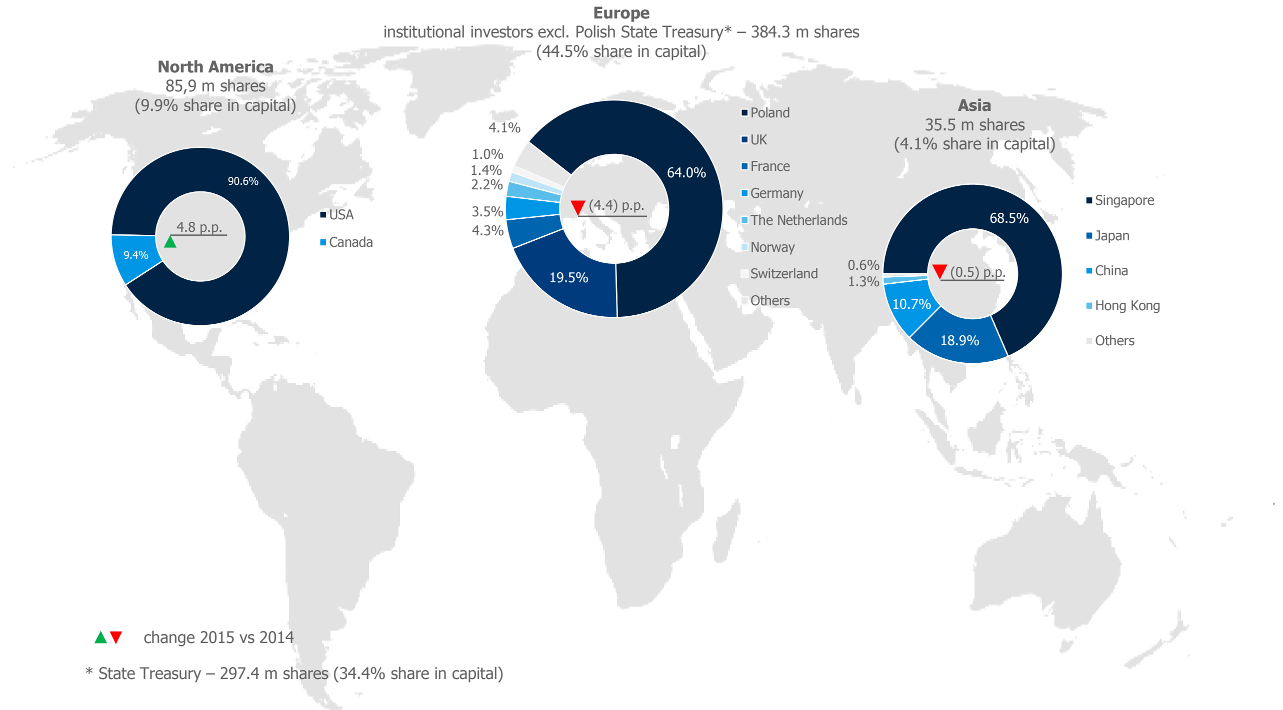
The share of institutional investors from Poland dropped in 2015 by 4.4 p.p. to 26.6%, which was related to a higher supply of PZU shares, mainly from the Polish fund management companies (TFI). Simultaneously, the share of individual investors from Poland increased to 7%.

Communication with capital market participants

The financial performance of PZU Group (for 2014, Q1 2015, 1H 2015 and Q3 2015) was presented and discussed by the Management Board of PZU during meetings with capital market analysts (all also broadcast live on the Internet). PZU organized also a live streaming of the meeting held on 28 January 2015 and devoted to the presentation of the PZU 3.0 Strategy for the years 2015-2020, and the conference held on 1 June 2015 in connection with signing an agreement for purchase of Alior Bank shares.

2015 was another year to present PZU annual report online (http://annualreport2014.pzu.pl/), along with the most important events, achievements and plans. The report was awarded the highest distinction for the best annual online report in a prestigious competition held by the Polish Institute of Accounting and Taxes.

Geographical structure of PZU shareholding



PZU on capital and debt market

IR activities aimed at institutional investors

In 2015, representatives of PZU participated in:

- 5 non-deal road shows in Boston, New York (3x), Frankfurt (1x), Hong Kong and Singapore (1x);
- 13 financial conferences held abroad with global institutional investors;
- 5 conferences for institutional investors in Warsaw;
- a number of group, one-on-one and group meetings, as well as teleconferences with investors and stock portfolio managers held in the company's office.

In 2015, PZU participated in 234 meetings (a 25.8% increase year-on-year) with nearly 384 institutional investors and more than 130 meetings and teleconferences with analysts issuing recommendations concerning PZU shares.

RI activities aimed at individual investors

In 2015, PZU continued also communication activities addressed to the large group of individual investors. With them in mind, we:

- participated in 2 conferences for individual investors organized in Poland by Individual Investors' Association: 19th Wall Street Conference in Karpacz – the largest meeting of individual investors in Central and Eastern Europe and in the 9th edition of Professional Investor Conference 2015 in Zakopane;
- organized 4 chats with individual investors, in which the Member of the Management Board of PZU who is in charge of Finance Division in PZU Group also participated, after each publication of the results, and 1 chat after announcement of the PZU 3.0 Strategy;
- participate in the „10 na 10 – komunikuj się skutecznie" [Ten out of Ten: Effective Communication] program aimed at creating high communication standards for quoted companies to reach individual investors.

Investment centers visited in 2015 (number of visits)

Awards and prizes for IR activities

Activities of PZU regarding investor relations are highly appreciated both by investors, analysts and media. In 2015, PZU received the following awards and prizes in this area:

- Eight awards for the best investors relations in Poland and Central and Eastern Europe in Extel 2015 survey GLOSSARY:
    - *CEOs best for Investor Relations (Central & Eastern Europe) - Andrzej Klesyk #1*
    - *CEOs best for Investor Relations (Poland)* - Andrzej Klesyk #1
    - *CFOs best for Investor Relations (Central & Eastern Europe)* - Przemysław Dąbrowski #1
    - *CFOs best for Investor Relations (Poland)* - Przemysław Dąbrowski #1
    - *Best IR Professionals (Central & Eastern Europe)* - Piotr Wiśniewski #1
    - *Best IR Professionals (Poland)* - Piotr Wiśniewski #1
    - *Corporates best for Investor Relations (Central & Eastern Europe)* – PZU #1
    - *Corporates best for Investor Relations (Poland)* – PZU #1

  The Extel survey included 16 thousand people from investment environment from 75 countries. The representatives of brokerage houses and investment analysts were rated by asset managers and IR department staff. 5.5 thousand individuals and over 1.5 thousand companies were subject to the survey in the field of investors relations. All data used for drafting the ranking were subject to an external audit which ensures their credibility and correctness.
- The first place for the best annual report and the best online annual report for 2014, in the category of Banks and Financial Institutions in the competition The Best Annual Report organized by IRIP GLOSSARY. Management Report for 2014 was also awarded. In the past four years, PZU has twice received the first place in this contest, being also on the podium in the other two editions.
- Second place in the competition for best investor relations according to institutional investors – investor relation survey in WIG 30 companies held by Gazeta Giełdy „Parkiet" (Stock Exchange Newspapper) and Chamber of Brokerage Houses.
- Investor-Friendly Company certificate – awarded by the Individual Investors Association to the companies that maintain high reliability of its information policy and protect the rights of investors.

IR aims for 2016

Main objectives of investor relations in 2016:

- establishing good relations between the Management Board of PZU and investors;
- ensuring understanding and approval for the PZU 3.0 strategy among the investors and analysts;
- providing a broad market for PZU shares and bonds– by continuing pro-investors activities aiming to create a diversified (geographically, numerically and in terms of their profiles) group of investors who know the company and are well-informed;
- wide coverage for PZU shares by analysts of investment banks and brokerages (sell-side) and ensuring the fair valuation of PZU shares by providing analysts with high-quality information on the activities of PZU, industry trends, factors affecting the financial results and feedback on the analysis of the issued recommendations;
- creating standards of investor relations for other quoted companies to follow;
- Providing the Management Board of PZU with regular feedback on perception of PZU among capital market participants and wide knowledge on existing and potential shareholders of the company;
- monitoring investors' sentiment towards PZU shares and changes in shareholding structure in order to apply the most adequate IR actions and tools and asses effectiveness of IR plans.

5
Non-Deal Roadshows

130
analyst meetings

18
conferences for institutional investors

234
investor meetings

2
conferences for individual investors

115
individual investors participating in chats with CFO

31
days spent on conferences and roadshows

23
days spent by CEO/ CFO on meetings with investors

8.5 Analysts' recommendations

In 2015, recommendations for PZU shares were issued by 18 domestic and foreign financial institutions. In total, the sell-side analysts issued 28 recommendations. Positive and neutral recommendations dominated (92.9% of total recommendations issued.) The median of target prices (TP) from the recommendations valid in December 2015 amounted to PLN 43.00 and was lower by 13.5% compared with median as at the beginning of the year. Analogically, the maximum target price was PLN 49.80[3] and was 5.5% lower, compared to the maximum target price from January 2015.

The valuation of PZU shares by analysts was most significantly influenced by assumptions concerning growth and yield of insurance operations, achieved investment result and expectations towards dividend.

A considerable discrepancy between valuations of respective analysts and PZU market valuation, that was observable at the end of 2015, constitutes an evidence that the market valuations are isolated from the fundamental value. That situation was related e.g. to weakening investors' sentiment towards shares on global markets (concerns related to situation in china, low oil prices, migration crisis), as well as such local factors in Poland as announcements concerning introduction of tax on financial institutions, etc. Additional burden for PZU shares was growing uncertainty as to further investments in consolidation of the banking sector in Poland and expected personal changes in the Management Board of PZU.

[3] prices calculated after a 1:10 stock split

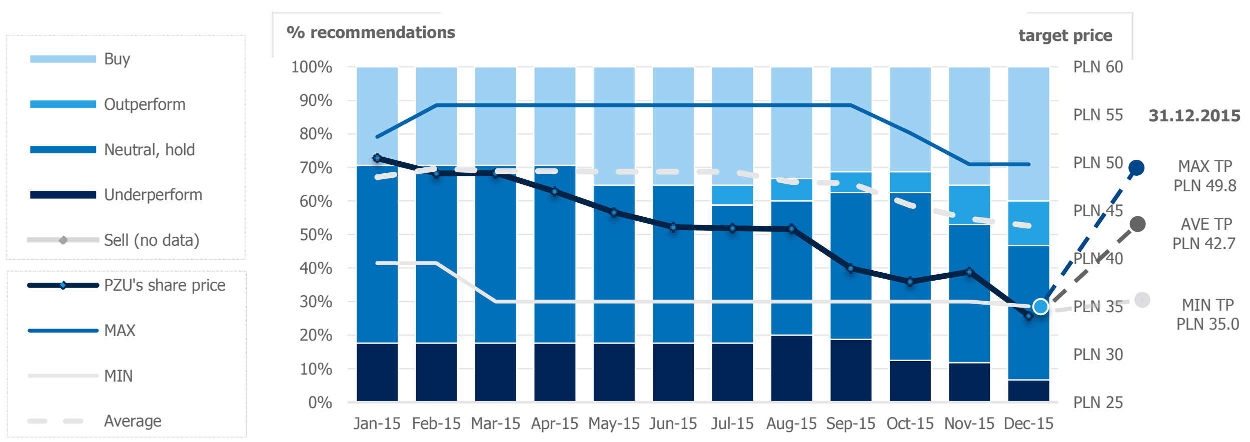
Recommendations and target prices scheme in 2015

RECOMMENDATIONS		
28	▲ 12	Buy, accumulate, outperform
	14	Neutral, hold
	▼ 2	Underperform, reduce

	2015-12-31	2015-01-01	year-on-year change
Maximum target price	49,80*	52,70*	(5,50)%
Median	43,00*	49,70*	(13,48)%
Minimum target price	35,00*	39,50*	(11,39)%

*prices calculated after a 1:10 stock split

Analysts' expectations towards PZU share price in 2015 on the basis of recommendation updated as at end of December 2015



Institutions issuing recommendations for PZU shares in 2015

POLAND

Institution	Analyst	Contact details
Deutsche Bank	Marcin Jabłczyński	+48 22 579 87 33 marcin.jablczynski@db.com
DM mBank	Michał Konarski	+48 22 697 47 37 michal.konarski@mdm.pl
DM BH (Citi)	Andrzej Powierża	+48 22 690 35 66 andrzej.powierza@citi.com
Haitong Bank	Kamil Stolarski	+48 22 347 40 48 kstolarski@espiritosantoib.pl
Ipopema Securities	Iza Rokicka	+48 22 236 92 31 rokicka@ipopema.pl
DM ING	Piotr Palenik	+48 22 820 50 20
DM PKO	Jaromir Szortyka	+48 22 580 39 47 jaromir.szortyka@pkobp.pl
DM Trigon	Hanna Kędziora	hanna.kedziora@trigon.pl
Wood & Company	Marta Jeżewska-Wasilewska	+48 22 222 15 48 marta.jezewska-wasilewska@wood.com

OTHER COUNTRIES

Institution	Analyst	Contact details
Barclays Capital	Ivan Bokhmat	+44 20 7773 0417 ivan.bokhmat@barclays.com
Credit Suisse	Richard Burden	+44 20 7888 0499 richard.burden@credit-suisse.com
ERSTE	Thomas Unger	+43 50 1001 7344 thomas.unger@erstegroup.com
Exane BNP Paribas	Thomas Jacquet	+33 142 99 51 96 thomas.jacquet@exanebnpparibas.com
HSBC	Dhruv Gahlaut	+44 20 7991 6728 Dhruv.gahlaut@hsbcib.com
JP Morgan	Michael Huttner	+44 20 7325 9175 michael.huttner@jpmorgan.com
Raiffeisen Centrobank	Bernd Maurer	+43 1 51520 706 maurer@rcb.at
UBS	Michael Christelis	+27 11 322 7320 michael.christelis@ubs.com
Societe Generale	Jason Kalamboussis	+44 207 762 4076 jason.kalamboussis@sgcib.com

8.6 Dividend policy

On 13 May 2014, the Management Boards for PZU decided to update the Capital Structure and Dividend Policy of PZU Group for the years 2013-2015 (Policy), approved on 26 August 2013. Thanks to the introduced changes, on 19 November 2013 an advance dividend expected at the end of 2013 financial year in the amount of PLN 1,727 million, that is, PLN 20.00(before stock split) per share, was recognized as part of the payment of the surplus capital.

The key objective of the implementation of the Policy is reduction of the cost of capital through optimization of the balance sheet structure by way of replacing equity with less expensive borrowed capital at the same time ensuring high security and maintaining funds for development.

The policy aims to increase the total shareholder return (TSR) GLOSSARY and is based on the following principles:

- maintaining the own funds of PZU Group, excluding the subordinate debt, at the level not lower than 250% of the solvency margin (according to Solvency I GLOSSARY) of PZU Group and an attempt to maintain the own funds of PZU Group, including the subordinate debt, at the level of about 400% of the solvency margin (as at the end of the financial year) in order to maintain the financial security of the Group;
- maintaining assets to cover the provisions of individual companies of PZU Group at a level not lower than 110%;
- obtaining an optimal financing structure by replacing the capital surplus with subordinated debt up to an amount no higher than PLN 3 billion;
- maintaining the equity level corresponding to Standard & Poor's AA rating;
- providing funds for development and acquisitions in upcoming years;
- no share issues by PZU in the upcoming years.

The policy assumes dividend payment calculated based on:

- consolidated net profit where the amount of the dividend paid cannot be lower than 50% or higher than 100% of the net profit shown in PZU Group's consolidated financial statements compliant with IFRS; and
- surplus capital, where the total amount of dividends paid from surplus capital in 2013-2015 cannot exceed PLN 3 billion.

PZU is planning to amend the capital and dividend policy to address the requirements of Solvency II.

Dividend paid by PZU from profit for 2011-2015 financial years

	2015	2014	2013	2012	2011
Consolidated net profit of PZU Group (in PLN million)	2,342.2	2,967.6	3,295.0	3,253.8	2,343.9
Standalone income of PZU (in PLN million)	2,248.5	2,636.7	5,106.0	2,581.0	2,582.0
Dividend paid per year (in PLN million)	n/a	2,590.6	4,663.0	2,564.7	1,936.9
Dividend per share per year (in PLN)**	n/a	3.00	5.40*	2.97	2.24
Dividend as at the date of establishing dividend right (in PLN)**	3.00	3.40	4.97	2.24	2.60
Dividend payout ratio from the consolidated result for the year	n/a	87.3%	89.1%*	78.8%	82.6%
Dividend rate in the year (%) ***	8.8%	7.0%	11.1%	5.1%	8.4%
TSR (Total Shareholders Return)	(23.9)%	15.8%	14.1%	48.7%	(5.8)%

* dividend from surplus capitals paid in 2013 (PLN 2.00 per share), not included in dividend payout ratio
** historical data was calculated in 1:10 ratio as per stock split
*** the rate calculated as dividend as at the ex-dividend date vs. share price as at the end of the given year

Payment of dividends for 2014

On 30 June 2015, the General Shareholders' Meeting of PZU adopted the resolution on distribution of the net profit for the year ended 31 December 2014 in which it decided to allocate to the dividend payment the amount of PLN 2,590.6 million, i.e. PLN 30.00 per share (before split). 30 September 2015 was chosen as the date according to which the list of shareholders entitled to the payment was established. Dividend was paid on 21 October 2015.

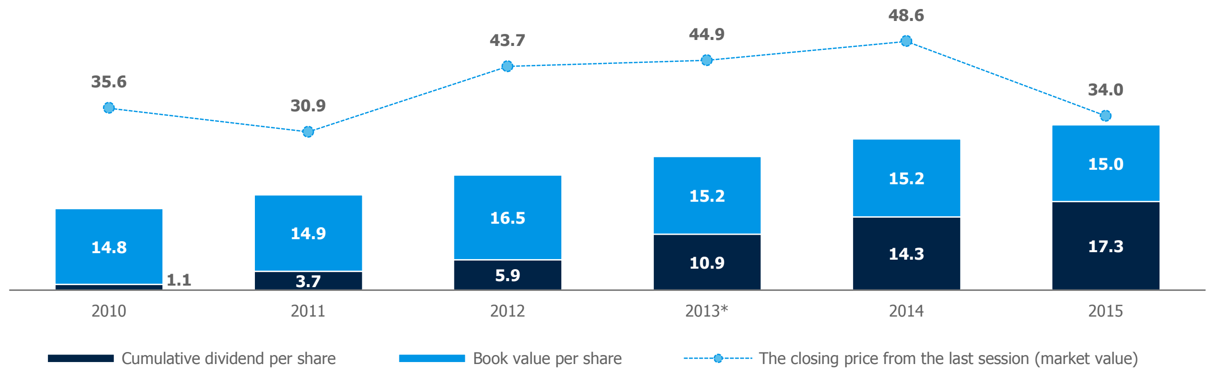
Payment of dividends for 2015

On 1 December 2015, PFSA issued a recommendation on payment of dividend from profit generated in 2015. The supervisory body recommends that the insurance companies continue their prudent dividend policy using the generated profit to enhance their capital standing.

Similarly to the previous years, as per the supervisory institution's recommendation, dividend should be paid only by the insurance companies that meet specific financial criteria. At the same time, the dividend payment should be limited to the maximum of 75% of the 2015 profit maintaining the capital requirement coverage ratio after dividend of at least 110%, in accordance with Solvency II. Simultaneously, the supervisory body allowed the payment of dividend from the entire profit generated in 2015, e.g. as long as the capital requirements cover as per Solvency II will stay at or above the level of 150% after the payment of planned dividends.

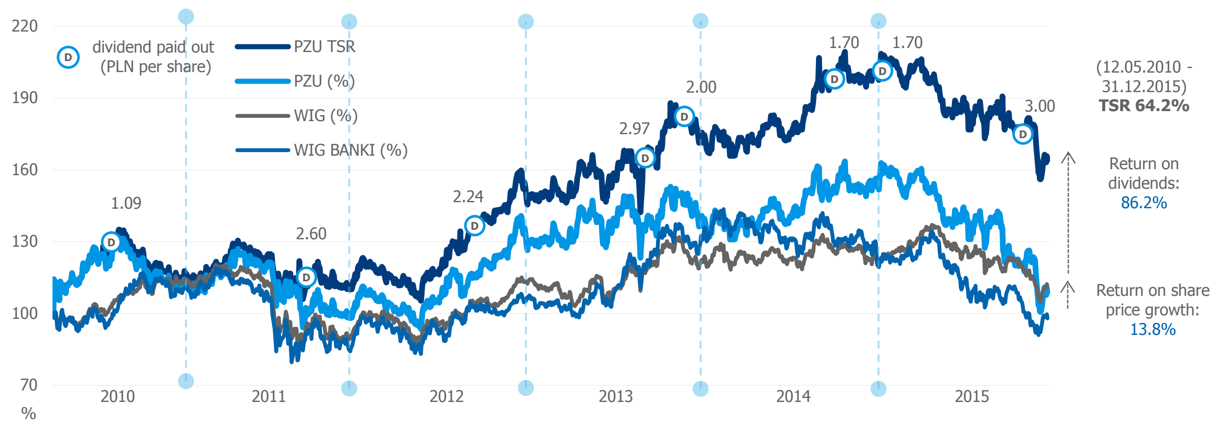
By the date of preparing this Management Report of PZU Group, the Management Board had not adopted a resolution concerning distribution of profit for 2015.

Book value per share and gross accumulated dividend per share ** (PLN)



* dividend from surplus capitals paid in 2013 (PLN 2.00 per share), not included in dividend payout ratio
** historical data was calculated in 1:10 ratio as per stock split

Dynamics of PZU's share prices in relation to selected stock exchange indexes



* Quotation as of 12 May 2010 (PZU's IPO at WSE).
** Dividend per share after the exchange of all the shares in a 1:10 ratio.
Source: Reuters..

8.7 Rating

Issuer's rating

PZU and PZU Życie are regularly rated by Standard & Poor's Ratings Services (S&P). The rating assigned to PZU and PZU Życie results from an analysis of the financial information, competitive position, management and corporate strategy as well as country financial situation. It also includes outlook, i.e. an assessment of the future position of the Company in the event of specific circumstances.

On 27 April 2015, Standard & Poor's Rating Services confirmed the financial strength rating of PZU and PZU Życie at the „A" level and maintained a stable level of outlook for both companies.

On 18 December 2015, Standard & Poor's Rating Services put PZU on its CreditWatch Negative list, as a result of resignation of the President of the Management Board, uncertainty as to the future strategy, and capability to pass the stress test of hypothetical bankruptcy of issuer's country in connection with PZU investment in consolidation of bank assets in Poland.

On 21 January 2016, Standard & Poor's Rating Services lowered the financial strength rating of PZU and PZU Życie to the „A-" level with negative outlook for both companies. The decision to lower PZU rating was a consequence of S&P's downgrading Poland's rating. Such a move did not result from a change in PZU financial standing.

Country's rating

On 15 January 2015, Standard & Poor's Rating Services downgraded Poland's credit rating from „A-" to „BBB+" for long-term liabilities in foreign currencies, and from „A/A-1" to „A/A-2" respectively for long- and short-term liabilities in local currency. At the same time, the outlook was changed from positive to negative. Justifying its decision, the agency indicated that its analysts believe that legislative initiatives initiated by the new government in Poland will weaken sovereignty and effectiveness of key institutions in the country. The change for negative outlook reflects S&P's opinion that further downgrading Poland's rating is likely in the next 24 months if credibility of monetary policy is endangered and deficit in public finances drops below the expectations of agency analysts.

Eurobonds' rating

On 20 June 2014, Standard&Poor's awarded a rating of „A-" for unsecured debt to the eurobonds issued by PZU Finance AB. In October 2015, PZU bonds valued at EUR 350 million were issued. These bonds were assimilated and together with eurobonds at value of PLN 500 million issued by PZU Finance AB (a public company) on 3 July 2014, they constitute one series, a so-called „tap" issue. On 12 October 2015, S&P analysts awarded a rating of A- to the new issue. On 21 January 2016, as a result of downgrading PZU rating, the rating of eurobonds issued by PZU Finance AB was lowered to the level of BBB+. It continues to be a so-called „investment rating".

Rating PZU

	Current		Past	
Company name	**Rating and outlook**	**Date of awarding/ updating**	**Rating and outlook**	**Date of awarding/ updating**
PZU				
Financial strength rating	A- /Watch Neg/	21 January 2016	A /stable/	27 April 2015
Credit rating	A- /Watch Neg/	21 January 2016	A /stable/	27 April 2015
PZU Życie				
Financial strength rating	A- /Watch Neg/	21 January 2016	A /stable/	27 April 2015
Credit rating	A- /Watch Neg/	21 January 2016	A /stable/	27 April 2015

Poland's rating

	Current		Past	
Country	**Rating and outlook**	**Date of awarding / updating**	**Rating and outlook**	**Date of awarding / updating**
Republic of Poland				
Credit rating (long-term, in local currency)	A- /negative/	15 January 2016	A /positive/	7 August 2015
Credit rating (long-term, in foreign currency)	BBB+ /negative/	15 January 2016	A- /positive/	7 August 2015
Credit rating (short-term, in local currency)	A–2 /negative/	15 January 2016	A–1 /positive/	7 August 2015
Credit rating (short-term, in foreign currency)	A–2 /negative/	15 January 2016	A-2 /positive/	7 August 2015

Rating of eurobonds issued by PZU Finance AB (publ)

	Current		Past	
	Rating and outlook	**Date of awarding / updating**	**Rating and outlook**	**Date of awarding / updating**
EUR 350m to 07/03/2019	BBB+ /Watch Neg/	21 January 2016	A- /stable/	12 October 2015
EUR 500m to 07/03/2019	BBB+ /Watch Neg/	21 January 2016	A- /stable/	20 June 2014

STOCK SPLIT

STOCK SPLIT IS AN OPERATION PERFORMED BY A JOINT-STOCK COMPANY THAT CONSISTS IN DECREASING THE NOMINAL VALUE OF SHARES AND MAINTAINING THE VALUE OF SHARE CAPITAL AT THE SAME TIME..

BEFORE SPLIT	AFTER SPLIT
1 PZU SHARE	MEANS AFTER SPLIT 10 PZU SHARES
NO. OF SHARES BEFORE SPLIT 86,352,300	NO. OF SHARES AFTER SPLIT 863,523,000

NOMINAL VALUE OF SHARES

PLN 1	PLN 0.10

BENEFITS?

- SHARES MORE ACCESSIBLE TO SMALL INVESTORS
- DIVERSIFICATION OF SHAREHOLDING
- MORE ATTRACTIVE SHARE PRICE FOR POTENTIAL PURCHASERS

Schedule of main corporate events in 2016

7 January	General Shareholders' Meeting
15 March	Annual Report 2015
12 May	Report for Q1 2016
3-5 June	20. Wall Street Conference for individual investors
24 August	Report for 1H 2016
10 November	Report for Q3 2016

MORE

We are not afraid to help

Join us and other employees to create a **Noble Package.**
Choose the family you want to help on November 21.

More information at PZU24.

PZU'S INTERNAL COMMUNICATION

09

Corporate social responsibility

We are a part of the world around us. We believe that understanding the expectations of our clients and other stakeholders, taking care for our employees, and engaging in social life and environmental care are indispensable basis for building responsible business and creating value of a modern company.

Contents:

As one of the largest financial institutions in Poland and CEE, PZU Group's operations and strategy take into consideration social and environmental issues, as well as ethics. PZU Group does its best to ensure that the actions and initiatives it engages to bring positive results also in the social aspects in all the areas where the company may have an influence on the external environment in a manner that is not strictly related to business. As a mature, responsible company, the Group takes all efforts not only to provide its clients with the best Value Offer, but also build a better, safer future together with all interested parties.

Long-term, sustainable approach to doing business is reflected by PZU's presence in RESPECT (index of socially responsible companies at Warsaw Stock Exchange) and CEERIUS sustainable development index (CEE Responsible Investment Universe – an index of Vienna Stock Exchange for socially responsible Central and Eastern European companies).

Sustainable development and social responsibility in business are at the same time the most straightforward way to build the best Value Offer for the Clients of PZU Group, as well as the most accurate answer to the needs of other interested parties.

In its day-to-day operations, the Group follows the four rules:

- We address the needs – PZU's objective is to provide top quality products which are best fitted to client's expectations;
- We value our people – the Group is continuously developing skills and competences of its staff and creating good conditions for its employees to boost their personal interests;
- We support the society – PZU makes efforts to establish stable, long-term relations with the local communities by supporting initiatives that have a positive impact on the environment;
- We care for the environment – PZU takes responsibility for the environment where it operates.

9.1 We address the needs

For over 200 years, PZU Group has done its best to meet expectations and keep its customer services at the highest level. We respects all principles included in Code of Good Insurance Practices introduced by the Polish Chamber of Insurance.

Client relations

In order to ensure safety and guarantee top quality cooperation to our clients and other interested parties, PZU is constantly analyzing data from all available communication channels and other information sources. The conclusions drawn from such analyses allow us to constantly improve our business processes and relations with our clients.

The tools used by PZU to analyze the clients' needs and expectations are for example the following:

- client satisfaction surveys – PZU and PZU Życie hold regular and advanced surveys concerning customer satisfaction and loyalty. PZU Group organizes satisfaction surveys during every process and in every sales channel. That helps us to gain even better understanding of the market. The surveys were carried out among over 50 thousand participants and their results allowed not only to better determine the clients' needs, but also indicate organizational strengths and identify areas for improvement and change. The 2015 surveys showed that the satisfaction level among PZU clients who benefited from claims handling process managed by PZU Group or received payment of benefits within the last 12 months was 7 p.p. higher than at the competitors. The Net Promoter Score (NPS) among the Group clients was 11%[1]. Among Link4 clients, NPS amounted to 10% and was by 3 p.p. higher than at the competitors' at the direct market[2];
- customer service quality survey – PZU regularly examines the quality of customer service in PZU branches and through the agents and partners of PZU. Conclusions from these observations are used to prepare training programs in customer service, including trainings for the agents and partners, in order to ensure constant improvement of the service qualityi;
- Client Council – an exceptional advisory body composed of PZU Group customers. The Council actively supports and provides feedback to PZU in selected initiatives, concerning, among others, service quality, ways of communication with clients, service processes, marketing materials, social actions;
- social media and clients' complaints – PZU contacts all interested parties e.g. via expert blogs or social media, such as Facebook, Twitter, Linkedin or Instagram. Such platforms enable better communication with diversified audience and thus allow for a better identification of space for improvement. On the other hand, using modern communication channels strengthens the image of PZU as a customer-friendly and contemporary company which welcomes comments and discussion with interested parties;
- client communication quality audits – audits of spoken and written language used by PZU employees in communication with clients, carried out by the Plain Polish Section of the University of Wrocław, became the basis for a number of initiatives and training programs (addressed to all employees of PZU) aimed at simplifying communication;
- data mining models – advanced analytics supported by practical business know-how of experts allowed for development of models which effectively find information in data warehouses. Data mining models directly support all marketing and sales processes.

[1] Monthly survey carried out by GFK Polonia at the request of PZU. Presented data constitute an accumulated result of monthly assessments from January to December 2015

[2] Monthly survey carried out by GFK Polonia at the request of PZU. Presented data constitute an accumulated result of monthly assessments from January to December 2015

When providing our clients with best possible access to PZU Group's services, at the same time we take efforts to support local communities. Most PZU branches are located in towns with less than 15 thousand of inhabitants and significantly contribute to the growth of the towns and their communities. Striving for high accessibility of its products and services, PZU – as the first insurer in Poland – introduced customer service in Polish Sign Language in some of its branches. The service is provided in collaboration with Migam.org and facilitates a video connection with the translator via tablets. The service has been introduced to eight selected branches of the company. The solution implemented by PZU will allow for a better and more comfortable service of the deaf and hard of hearing.

Relations with service providers

PZU also strongly focuses on establishing good relations with its service providers and vendors. In particular, the Group focuses on ensuring best possible cooperation with agents, providing them with support programs, training (e.g. Akademia Agenta [Agent's Academy]) and a new internal communication portal within the network of the Group's agents. Candidates for agents are trained as well. On the other hand, PZU expects its suppliers, vendors and agents to respect all valid regulations pertaining to their scope of operations and clearly communicates this expectation to all its partners.

Cooperation with the industrial sector

PZU Group is among the leaders in the Central and Eastern Europe market. The dynamically developing market environment forces continuous improvement of own products and processes and adaptation of development strategies. Polish enterprises expect their insurance companies to offer excellent service and innovative solutions adapted to their demands. The PZU Lab research and development center was established to meet these demands and results directly from PZU Group's strategy, which concentrates on development and innovative solutions. The project is aimed to increase awareness of Polish companies in scope of risk management and promotion of „good practices" among clients. PZU wants to show that cooperation with the insurer does not have to be limited to products and can provide the entrepreneurs with long-term added value.

Information security in PZU Group and in relations with stakeholders

PZU takes utmost care of the security of the data entrusted by the clients and other stakeholders, as well as the information it processes. In scope of its activity, PZU Group strictly obeys the personal information protection act, specifically the regulation

+7 p.p.
Customer satisfaction of PZU higher than with competitors

+3 p.p.
Customer satisfaction of Link4 higher than with competitors on direct market

91 %
PZU employees satisfied with their work

40 PLN million
PZU Foundation spending on charity activities

permitting data processing only if approved by its owner. As a data administrator, the Group strictly controls the type of personal data that are introduced, time of their introduction, as well as persons responsible for introducing and processing them. The agents, partners, and other vendors must obey the same top standards as PZU and do everything in their power to protect the interests of their clients – especially in scope of processing their data in accordance with the law, gathering the data for specific purposes, and preventing further processing for other purposes.

Everest platform – the next step toward perfect relations with the clients

By implementing the new IT system, PZU Group is providing the sales team with knowledge allowing for better and faster understanding of the clients' needs in order to prepare comprehensive offers. More information is available in SALES AND SERVICE CHANNELS CHAPTER 5.1.

9.2 We value our people

A motivating work environment

PZU does everything in its power to create a working environment which assists in finding and strengthening the motivation of its employees, what raises the value of their work, and in reaching top effectiveness in the interest of the clients, stakeholders, and the entire environment of the Organization. PZU sees an effective and motivated staff as the most important element of realizing strategic objectives. Consistent strengthening of intellectual and social capital by developing the talents of the Group's employees is directly reflected in the main effectiveness indexes and is one of the key conditions to guarantee future growth of the company's value.

" You have to create an attractive environment where the people are interested in the history they are creating"

Carlos Goshn. CEO Renault/Nissan

Equal opportunity policy

According to good practices, all PZU's employees have equal opportunities. This rule serves as the foundation for our relations. It involves all processes – from recruitment, through evaluation of results, promotions, professional development, to attendance in training courses. Our employees have equal opportunities and potential – their gender, age, proficiency, religious beliefs, political opinions, ethnic origin, sexual orientation, and form of employment are insignificant.

PZU Group also does everything in its power to create a convenient environment for the handicapped. Everyone can take advantage of internal training courses and opportunities for career development. The recruitment process includes consideration of all applications which meet the expectations and requirements pertaining to knowledge, ability, and skills.

Enforcement of these rules allows for clear association of effectiveness with raises, the developmental offer, and promotions, and has also provided the managers with tools to manage employee motivation. What is equally important, all employees take active part in assessment, have the opportunity to share their opinions with their superiors, and take responsibility for their individual development.

Personal and professional development

Initiatives focused on personal development and increased job satisfaction strengthen employee motivation and establish a foundation for the Group's market success. Many programs were launched over the course of 2015 in scope of personal and professional support for employees to assist the development of their skills in required areas. Examples of such initiatives include the PLUS program and the Manager 2.0, Leader 2.0, and SmartUp programs for managers. HUMAN RESOURCES MANAGEMENT CHAPTER 5.2.

Employee involvement

A committed employee of PZU is a person who thinks about the goals of their actions, their consequences for the company and its clients, and ways to cooperate with others in order to build an even more successful business. The results of recent surveys on commitment among PZU Group's employees have shown that 91% of them are satisfied with their jobs. From the start of the surveys, the employee satisfaction and commitment have been successively rising. In the survey the employees graded their working conditions, procedural transparency, and relations with superiors. To ensure that the process is transparent, the survey results were announced to all employees. Based on the results, the employees and their supervisors came up with numerous ideas on how to turn PZU into an even friendlier workplace engaging all of the Group's employees. One of the initiatives was the establishment of the Sport Team. Today, there are 11 active Sport Team units: running, cycling, skiing, squash, volleyball, crossfit, soccer, sailing, basketball, table tennis, triathlon. The units are composed of almost 800 PZU employees. The PZU Sport Team is regularly among the leaders in amateur tournaments and events, both open and organized only for employees of corporations. For example, PZU's runners placed second in the PZU Warsaw Marathon (for the fastest company).

Volunteers among employees

PZU Group encourages its employees to perform active volunteer work and support their local communities and organizations. Volunteering helps build permanent and long-lasting relations, which have positive effect on all of the Group's structures.

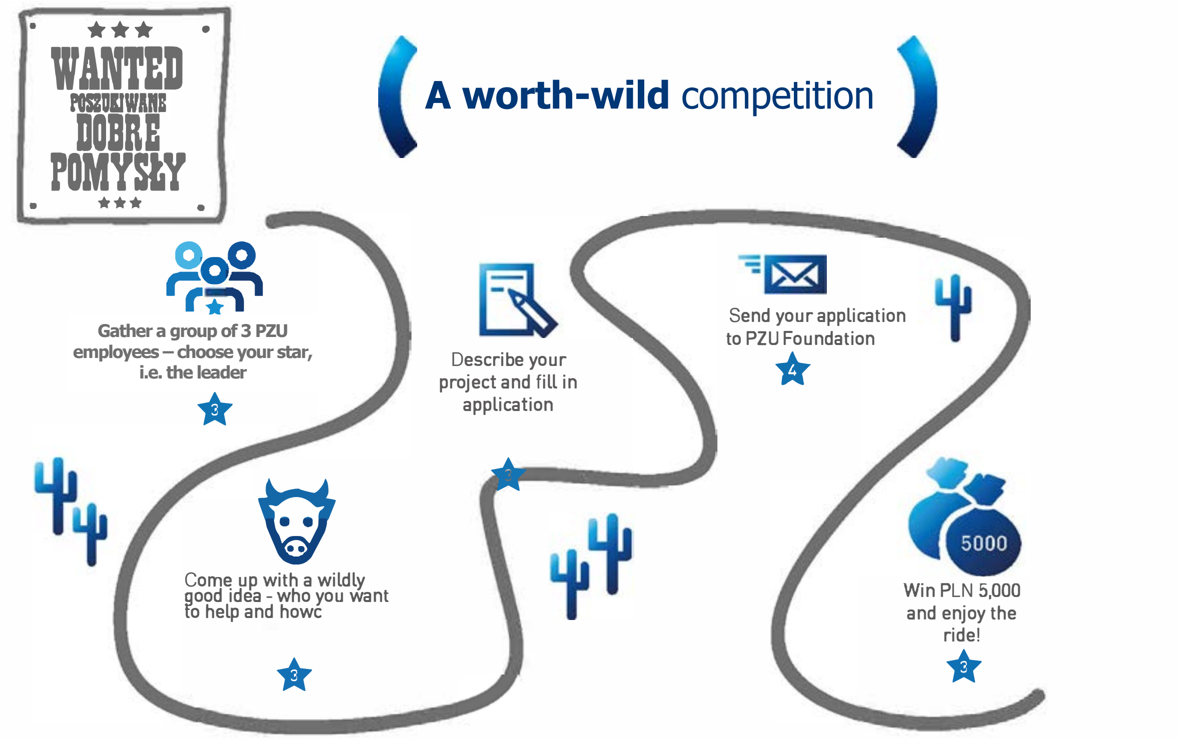
In 2015, PZU's employees took part in numerous Employee Volunteer projects. 27 different projects were launched in the spring and 29 in the fall in scope of the „Wolontariat to radość działania" [Volunteering is the joy of action] campaign alone. PZU's employees have contributed over 10 thousand hours of their time in volunteer initiatives.

The most important volunteer projects included the following:

- Wolontariat to radość działania [Volunteering is the joy of action] – a contest for PZU's employees and agents. The main prize in the contest was a PLN 5 thousand grant for a chosen noble cause;
- „Lekcja z Prezesem" – Koalicja Prezesi – Wolontariusze [„Class with the Chairman" – Chairmen–Volunteers Coalition – volunteer work to raise competences, where the members of the boards of our Group meet with students at their schools, share their experiences, and motivate them to develop their passions;
- Zwolnieni z teorii [Exempt from theory – the first contest in Poland where the students demonstrate not their school knowledge, but their practical skills. They do not compete in tests and essays, but in social projects;
- Szlachetna paczka [Noble package] – The PZU Foundation has served as the strategic partner of Szlachetna paczka [Noble package] since 2013. The organizations came together for the concept of smart assistance, which offers immediate help, but also systemic solutions based on long-term activity and long-lasting effects. In 2015, 76 PZU leaders gathered 2537 individuals, who prepared assistance for 82 families at the approximate value of PLN 160,000.

Rules of ethics

PZU's effective ethics are an inseparable part of the Group's operations and the foundation for its sustainable development. The company is doing everything in its power to have them reflected in all activities of the Group's employees. On one hand, the Rules are contained in the official documents such as the PZU Good Practices and the New Security Policy. On



the other, they compose the foundation for Values, which the Group's employees follow in all of their actions. The Rules are:

- wisdom;
- simplicity;
- imagination.

9.3 We support the society

Strong involvement in the social life is an inseparable long-term value of the social responsibility of business. PZU provides support for local organizations and communities, both financial and in scope of sharing the knowledge and experience of its employees. The Group builds long-term relations with their partners to make sure that the initiatives it supports are continuously improved. With support from the PZU Foundation and the preventive fund, PZU promotes healthy lifestyle, educates in scope of safety, supports development of medical science, and carries out the Group's philanthropic activity. These activities are permanent elements of its social involvement strategy.

Prevention

In scope of prevention, PZU undertakes numerous initiatives aimed to minimize the probability of events – or their potential consequences – entailing the need to handle various types of claims.

PZU Group has been supporting the Voluntary and Professional Fire Department and State Police Department for years by providing funding for firefighting and flood prevention equipment as well as professional training courses.

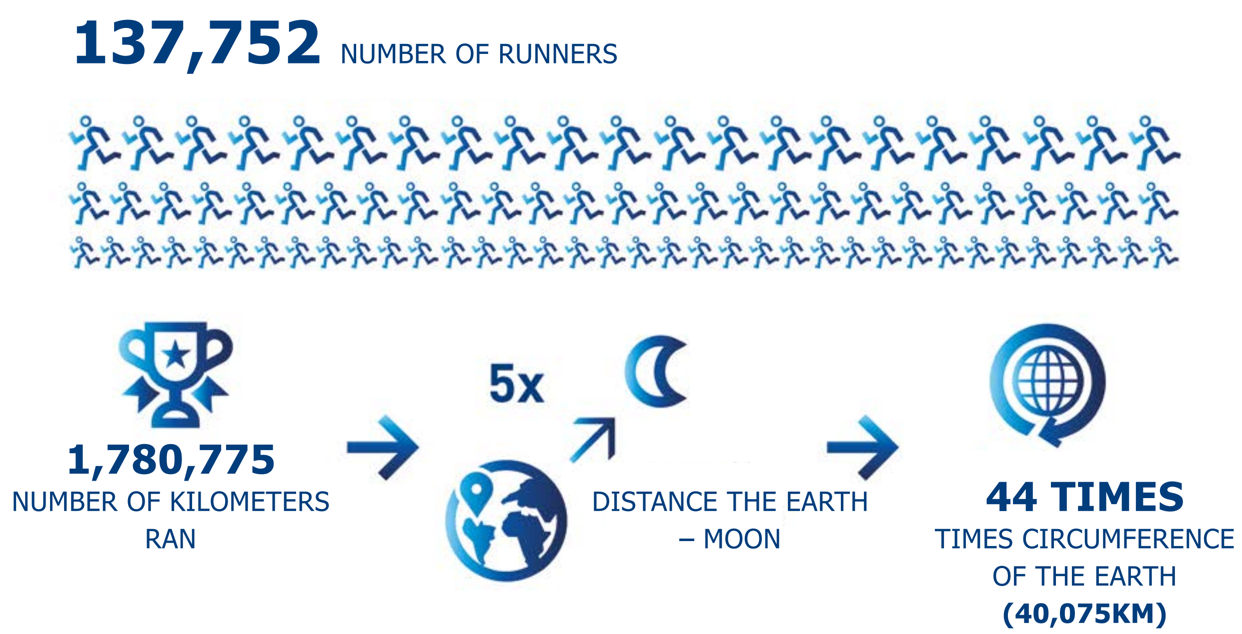
The Group also uses the prevention fund to support the activity of rescue organizations – GOPW and WOPR – by contributing to equipment purchases, raising rescuers' qualifications, and educational campaigns under the slogans „Bezpieczeństwo stawiamy najwyżej" [Safety first] and „Wpływamy na bezpieczeństwo" [We help stay safe].

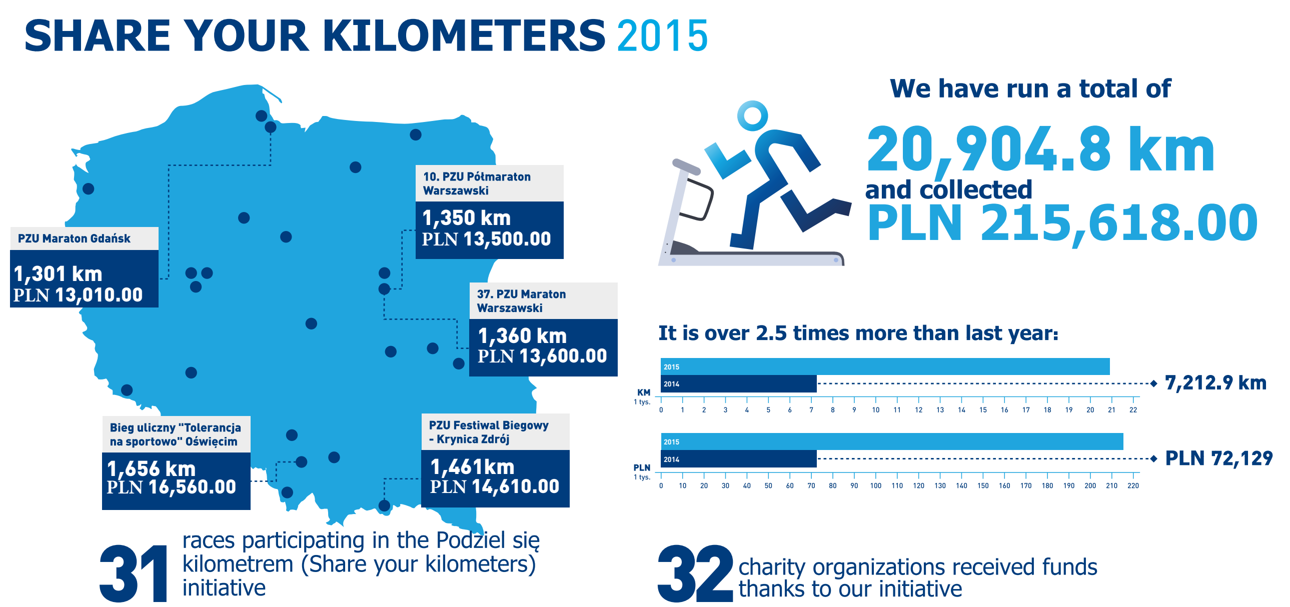
Pro-health activity

Pro-health prevention is aimed to minimize the negative effects of events by spreading knowledge about safety and health promotion through mass running events supported by PZU and with other campaigns.

In 2015, both PZU and PZU Życie cooperated with hospitals, non-government organizations and media who carried out health-related projects and contributed to purchases of medical equipment. The following preventive programs were aimed at improving health and prevention:

- PZU Trasy Zdrowia [Health Routes] program
  This is a program for the local governments in municipalities with up to 50 thousand inhabitants. It is aimed to create Routes in Poland for meetings, recreation, sports, or pro-health education, and consequentially integration of the local community. In 2015, the PZU Foundation funded 31 more routes. Today, there are 61 PZU Health Routes in Poland. Each one is equipped with exercise facilities and information boards, which include exercise plans tailored to the needs of users of different age groups and various levels of advancement.
- Support for mass running events
  PZU also supported numerous mass running events in 2015. The most important projects included ultramarathons (Karkonosze, Bieg 7 Dolin [7 valley run]), marathons (Warsaw, Gdańsk, Szczecin, Lublin), half-marathons (Warsaw, Królewski [Royal]), and 15, 10, and 5 km runs (Bieg po Zdrowie [Run for Health], Bieg Nowych Idei [New Idea Run], Kamienna Piątka [Rock Five]). The supported initiatives also included special running events, among others those promoting transplants (Bieg po Nowe Życie [Run for a New Life]), tolerance (Tolerancja na sportowo [Sports Tolerance], Bieg Na Tak – Run of Spirit), patriotism (Bieg Żołnierzy Wyklętych [Run of Cursed Soldiers]), or fun (The Color Run). 138 thousand people took part in last year's running events supported by PZU. In total, they ran 1,780,775 kilometers – twice as much as in 2014.
- Stop wariatom drogowym [Stop Reckless Drivers] Campaign
  In 2015, the PZU Foundation realized the second part of the campaign „Kochasz? Powiedz STOP Wariatom Drogowym" [If You Love, Say No to Road Rage]. Its main objective is to improve road safety by promoting responsible attitudes among drivers. The campaign's symbol is a blue heart, which, gifted by a dear person, is placed in a visible spot in the car to remind drivers to drive safely. The hearts, which are the symbols of the campaign, were distributed in all offices and branches of PZU and during special events. The second stage of the campaign carried out in 2015 was focused on the initiative for active pedestrian crossings and attracting attention to the fact that responsibility on the road falls to both the driver and the pedestrian. The message is expressed in the following slogan: „If you love, watch out for the pedestrians. They can be your loved ones." In 2015, PZU built active pedestrian crossings in 20 Polish municipalities. Each crossing is equipped with a special light system, which turns on when the pedestrian approaches the crossing, anti-slip mats reducing breaking distance, and a system of „cat-eye-lights" which are always on.
- Business Forum in Krynica
  PZU Group provides organizational and financial support to the Business Forum in Krynica. This so-called Polish Davos gathers prime ministers, ministers, European commissioners, and the most important individuals on the political and business scene each year. As a partner of the event, PZU actively contributes to strengthening





the political and business contacts in Europe to serve the development of regional and international political, business, cultural, and science relations.

The PZU Foundation

Since 2004, the PZU Foundation has carried out charity activities of PZU Group which are among the most important elements of its community involvement strategy. The aim of the PZU Foundation is to promote education of children and teenagers, fostering talents and creating equal opportunities for people who are, for various reasons, disadvantaged, as well as to increase access to cultural assets and social life, that is, a broadly understood development of civil society. According to its mission under the slogan „Pomagamy Pomagać" [We Help to Help], the PZU Foundation contributes financially to projects carried out by non-governmental organizations and institutions throughout Poland, the statutory objectives of which fall under the scope of the Foundation's support. Its operations are focused on the following areas: education, social care and assistance, culture and arts, and health care.

In 2015, the PZU Foundation spent almost PLN 40 million for its statutory operations.

Education

Pomoc to Moc

[The Power of helping]

The PZU Foundation is financing education initiatives in rural areas and small towns which are run by credible local partners. The top initiatives are chosen by means such as the successive editions of the „Z PZU po lekcjach" [With PZU After Classes] contest, which have been choosing the best projects for the past 10 years. 368 projects were submitted to the contest in 2015 and 22 organizations with initiatives deemed most interesting received financial support.

In scope of educational activity, the „Niestraszki w pakiecie" [Fear-Nots in a Pack] campaign was launched in the second half of 2015. The campaign features 5 Fear-Nots – funny, yet smart characters with an educational mission, i.e. to teach children the rules of safety.

The Foundation is also a partner of Krajowy Fundusz na rzecz Dzieci [National Fund for Children] – an organization providing support to gifted children by offering them educational aides and scholarships.

Social care and assistance

The social care and assistance activity of the Foundation is aimed mainly to prevent social marginalization and provide equal opportunities to the disabled. The projects realized in this scope in 2015 include the following:

- Świetlica – moje miejsce [The Community Center is My Place] – the objective of this program is to provide a place for youth, where they could spend their free time after school – take part in educational exercises, especially in scope of sciences, develop their interests, and do their homework under the supervision of someone who will help them out.
- „Młodzi niepełnosprawni – pełnosprawni z PZU" [Young Disabled People Able with PZU] – the objective of this program is to raise the self-reliance, ability, and social activity of the disabled and provide support to their families by organizing care for the disabled in rural areas and small towns up to 30 thousand inhabitants.

Culture and art

In 2015, PZU acted as a sponsor and patron of various national and local cultural events and focused on initiatives associated with Polish national and cultural heritage. The Group supports the Royal Castle in Warsaw, the Royal Museum, and the National Museum in Kraków. For many years, PZU has been contributing to the purchases of museum exhibits and providing promotional and conceptual support. As a Patron of Polish Culture, the Group also actively participated in the organization of Noc Muzeów [Night of the Museums], preparing special PZU zones promoting art and culture in unconventional ways. In 2015, the Group's support was spread over the 19th-Century Arts Gallery at the National Museum in Warsaw. As the patron of the Museum, PZU wants to improve the security of both its priceless collections and visitors. PZU Group was also the patron of the celebrations commemorating the anniversary of the Warsaw Uprising and, since 2015, also serves as the patron of the Warsaw Uprising Museum, thus contributing to preserving the memory of this special event in history of Poland.

Health care

The health care initiatives undertaken by the PZU Foundation are focused mainly on financial contribution to purchases of specialized medical equipment (such as insulin pumps and respirators for newborns) and rehabilitation equipment, and to the treatment costs of people in difficult financial situation. For years, the Foundation has been working together with organizations such as Stowarzyszenie Pomocy Dzieciom Chirurgicznie Chorym [Association for Assistance to Surgically Ill Children]. PZU is also the strategic sponsor of the „Misie Ratują Dzieci" [Bears Save Children] association, which offers comprehensive rehabilitation and psychological care for children at the Therapy Center in Dźwirzyn near Kołobrzeg. Dom Misia Ratownika [House of the Rescue Bear] guarantees free-of-charge professional therapy and provides all conveniences necessary for proper therapeutic progress during the therapy periods.

CSR awards and prizes

- in 2015, the „Kochasz? Powiedz STOP Wariatom Drogowym" [If You Love, Say No to Reckless Drivers] social campaign received 5 awards (3 from Klub Twórców Reklamy [Club of Advertisement Creators], the Platinium Magellan Award, and second place in the „Best 25" list organized by the League of American Communications Professionals);
- PZU took sixth place in the 2015 Employer of the Year ranking of AIESEC – the biggest students' association in Poland – in the category of most desired employers;
- in 2015, PZU Group's insurers operating in Lithuania and Latvia – BALTA and Lietuvos Draudimas – received the title of „Best Employers" in Baltic states;
- Link4 won the 2015 Responsible Employer – HR Leader Contest, a national human resources (HR) program. The program aims to raise awareness of and promote positive models and operating strategies in scope of HR policy and the strategy of integrating HR and business affairs;
- PZU took first place in the 2015 Institution of the Year ranking of MojeBankowanie.pl in categories of „Best Onsite Service Quality" and „Best Service Quality in Remote Communication Channels."

9.4 We care for the environment

Managing environmental impact is one of the key elements of the Group's CSR activity GLOSSARY. PZU's initiatives in this area come in two forms: responsible internal resource management and environmental sensitivity and awareness building among stakeholders: employees, clients, business partners, suppliers and representatives of local communities. PZU cares for the environment through initiatives such as:

- „rower zastępczy" [replacement bicycle] – in scope of this initiative, PZU offers to its clients a choice between a replacement vehicle and a bicycle, which they can keep in case of traffic collisions requiring repairs to their vehicle. The objective of this innovative offer is to promote a healthy lifestyle, but it also reflects the company's care for the environment;
- introducing hybrid cars to the fleet. The drive complies with the highest EURO 5 standard of combustion, binding in the European Union, and cars, with proper driving techniques, use only about 4 l/100 km in urban areas;
- economic management of resources and raw materials. Extensive use of electronic data carriers and limiting the use of paper in business is an important aspect of this activity. In recent years, equipment such as new printers, which automatically print on two sides, and application of irrelevant office materials for office printing allowed us to reduce paper consumption by about 3% or 3,3 million sheets annually. In order to reduce power consumption, we install energy-saving lighting and heating systems. We also focus on responsible waste management and strive to achieve full recycling;
- choice of the new back office headquarters with attention to ecological aspects. The Konstruktorska Business Center Building, which houses the PZU back office, is powered entirely by renewable source energy and offers over 30 locations for charging electric cars. The building was designed with special attention devoted to environment protection – it has the BREEAM certificate. Categories assessed in the certificate include: air quality, energy and

water consumption, low waste levels, use of eco-friendly materials and provision of good working conditions;
- employee education. Key initiatives include: campaigns raising awareness about use of consumables, recycling, e.g. involving employees in collection of mobile phones and in environmental campaigns.

We care of the environment:

We introduced replacement bikes to our offer

In 2015, we produced **143.5 tons** less documents for Archive

In 2015, we used **3.3 million** less sheets of paper

PZU Lab

we support risk management in industrial companies

4 l/100 km - we are building our hybrid car fleet

100% recycling - we recycle paper, batteries, and ferrous metals

Best practices will take you a long way!

10

Corporate governance

We understand that, being the market leader, our role is to set the highest standards for the whole industry.

We fulfill this role not only by complying with a wide range of codes, but also by working on their continuous improvement. We believe that we can offer these wise changes to the world that surrounds us.

Contents:

10.1 Corporate governance principles applied by PZU

Since the IPO of PZU on a regulated market the Issuer has followed the corporate governance rules laid down in Good Practices of Companies quoted on WSE.

The document was accepted by WSE Council on 4 July 2007 and has undergone several modifications since then.
Since 1 January 2013 to 31 December 2015 oblige document adopted by resolution of WSE Council dated 21 November 2017 regarding amendments to the Good Practices of Campanies quoted on WSE.

On 13 October 2015, a new set of corporate governance rules under the name of „Good Practices of Companies quoted on WSE 2016" was accepted by the resolution of WSE Council. The new rules are in force as at 1 January 2016.

The current contents are available on the website devoted to corporate governance of WSE-quoted entities WWW.CORP-GOV.GPW.PL, as well as on the PZU's corporate website (www.pzu.pl), in the section dedicated to PZU's shareholders – „Investor Relations".

Code of Good Insurance Practices adopted on 8 June 2009 by the General Meeting of the Polish Chamber of Insurance („PIU"), an organization associating insurance companies operating in the Polish market is another document determining the manner of business operations and of developing relations with stakeholders. The document is available on the website: http://piu.org.pl.

Further, stakeholder relations are based on our internal PZU Code of Good Practices. The document is available on the website: http://www.pzu.pl/en

On 22 July 2014, Polish Financial Supervision Authority issued Corporate Governance Rules for Supervised Institutions („Rules").

The rules and information on how to use them can be found on the PZU website: http://www.pzu.pl/grupa-pzu/pzu-sa/zasady-ladu-korporacyjnego

10.2 Application of Good Practices of Companies quoted on WSE

In 2015, PZU complied with the principles included in Good Practices of Companies quoted on WSE except for the one referred to in Section IV pt.10 and Section I pt.5, I pt.9 and I pt.12.

With regard to the principle referred to in Section IV pt.10, regarding enabling shareholders' exercise voting rights personally or by proxy on in General Shareholders' Meetings using IT tools to allow mutual real-time communication and participation in discussions during the meeting of shareholders who are physically absent at the meeting venue, please note that, in our opinion, there are a number of technical and legal factors that may affect the course of a General Shareholders' Meeting, and therefore the appropriate application of the above rule. Moreover, in our view, the company's principles concerning participation in Shareholders' Meetings applicable in PZU allow for exercising rights from shares and protect interests of all shareholders. The communication regarding non-compliance with the principle included in Section VI pt.10 was submitted by the Issuer on 29 January 2013.

The following issues mentioned in section I of Good practices of companies quoted on WSE defining "Recommendations concerning good practices of companies quoted on WSE" should be emphasized:

- as for the recommendation included in Section I pt.5 concerning the policy of remunerating members of management and supervisory bodies, remunerations of members of the Supervisory Board for participation in the works of the Board are determined by the General Shareholders' Meeting and those of the Management Board are set based on a resolution of the Supervisory Board;
- policy of remunerating members of the management and supervisory bodies of PZU does not include all elements indicated in the recommendation of the European Commission of 14 December 2004 fostering an appropriate regime for the remuneration of directors of quoted companies (2004/913/EC), supplemented by recommendation of EC of 30 April 2009 (2009/385/EC). Moreover, PZU did not present a declaration presenting remuneration policy on its corporate website. The decision concerning future compliance with the mentioned above rule will be taken by the Supervisory Board and the General Shareholders' Meeting;
- at the same time, please note that implementing the Ordinance on current and periodic information, the Issuer discloses information regarding remuneration, awards or profits for each member of the managing and supervisory bodies in PZU in the annual report;
- as for the recommendation specified in Section I pt.9 concerning gender parity principle to be followed in the Company's management and supervisory bodies, PZU has always pursued the policy of appointing competent, creative, experienced and educated people to the Company's bodies. The composition of the Management and Supervisory Board is determined based on a decision of the Supervisory Board or a General Shareholders' Meeting, respectively, and other factors, such as gender, are not taken into account;
- with regard to the recommendation referred to in Section IV pt.12, regarding enabling shareholders' participation in General Shareholders' Meetings using IT tools to allow mutual real-time communication and participation in discussions during the meeting of shareholders who are physically absent at the meeting venue, please note that, in our opinion, there are a number of technical and legal factors that may affect the course of a General Shareholders' Meeting, and therefore the appropriate application of the above rule. Moreover, in our view, rules concerning participation in Shareholders' Meetings applicable in PZU allow for exercising rights from shares and protect interests of all shareholders.

The announcement on non-compliance with these recommendations was not issued in line with the waiver of the obligation to publish issuers' reports referred to in Article 29.3 of the Regulations of WSE with respect to corporate governance principles set forth in Section I of Good practices of companies quoted on WSE, in accordance with the resolution of the Management Board of WSE dated 11 December 2007 regarding partial waiver of the obligation to publish reports on corporate governance adopted on the WSE Main Market.

10.3 Application of Corporate Governance Principles to Supervised institutions

The Management Board and the Supervisory Board of PZU declared their readiness to apply the Principles to the furthest objectively possible extent, taking into account the principle of proportionality and the „comply or explain" rule, arising from their content. These statements of the Management Board and the Supervisory Board of PZU were confirmed by their appropriate resolutions.

The Management Board and the Supervisory Board of PZU announced the decision on implementing the Principles during the General Shareholders' Meeting that took place on 30 June 2015. The General Shareholders' Meeting of PZU declared that while acting within its mandate it will follow the Corporate Governance Rules in the wording of Polish Financial Supervision Authority of 22 July 2014 with the exception of the rules that the General Shareholders' Meeting of PZU decided to waive.

Detailed information about the application of the Principles by PZU can be found on PZU's website. That includes the principles whose application is partial, that is:

- principle specified in § 8.4: Principles facilitating the participation of all shareholders in the General Shareholders' Meeting, e.g. by ensuring the active electronic participation in meetings; it should be emphasized that the current shareholders of PZU can follow the broadcast of the meeting, but the Company decided not to introduce the so-called e-GSM; in the assessment of PZU, there are many technical and legal factors that could affect the proper conduct of the General Shareholders' Meeting. The legal concerns are related to the possibility of identifying shareholders and inspecting the ID cards of the GSM's participants; the risk of technical problems, e.g. with the Internet connection or a potential intrusion into information systems, can disrupt the work of the General Shareholders' Meeting and raise doubts about the effectiveness of the resolutions adopted during the meeting; the occurrence of the above-mentioned risks may affect the correct application of the principle in full;
- principle specified in § 21.2: Principles which state that in the composition of the supervisory body there should be a separate function of a chairperson who manages the works of the supervisory body and that the choice of the chairperson of the supervisory body should be

made based on the experience and team leadership skills, taking into account the criterion of independence; it must be emphasized that, in accordance with the Code of Commercial Companies GLOSSARY and the By-laws of PZU, there is a separate function of a chairperson in the Supervisory Board of PZU; the composition of the Supervisory Board of PZU, including the office of the chairperson, are shaped according to the criterion of independence set out in the Act on statutory auditors GLOSSARY; the election of the chairperson of the Supervisory Board is made on the basis of their knowledge, experience and skills, which confirm that the chosen person has the competencies necessary for the proper performance of their supervising duties; the application of the criterion of independence in the case of the chairperson in accordance with the PFSA's explanation of the principle may raise doubts about the potential conflicts of law relating to shareholders' rights;

- in relation to the principle specified in § 49.3 of the Principles concerning appointment and dismissal in supervised institutions of the person heading the internal audit unit or the person heading the compliance unit, it should be noted that PZU complies with the principles specified in § 14 of the Principles fully, which means that PZU's Management Board is the only one entitled to and responsible for management of the operations of the company; furthermore, in accordance with the provisions of the labor law, the activities related to the labor law are performed by the governing body; in view of the above, PZU adopted a solution according to which the decision about appointment and dismissal of the person heading the internal audit unit is made, taking into account the opinion of the Audit Committee of the Supervisory Board; the same applies to the appointment and dismissal of the person heading the compliance unit; the Management Board consults the Audit Committee about such decisions.

The General Shareholders' Meeting of PZU decided against implementing the following principles:

- rule specified in § 10.2 in the following wording: „Introduction of personal entitlements or other special entitlements for shareholders of a supervised institution should be justified and serve realization of the objectives of this supervised institution. Having such entitlements by a shareholders should be reflected in a basic act regulating operation of the institution."
  - waiver from applying the principle is justified by the unfinished privatization of the Company carried out by the State Treasury;
- principle specified in § 12.1 in the following wording: „The shareholders are responsible for providing immediate capital injection to the supervised institution in a situation in which it is necessary for maintaining the own capitals of the supervised institution on a level required by the legal or supervisory regulations and also when it is required for the reasons concerning safety of the supervised institution."
  - waiver from applying the principle is justified by the unfinished privatization of the Company carried out by the State Treasury;
- principle specified in § 28.4 in the following wording: „A decision-making authority shall assess whether the agreed remuneration policy is beneficial to the development and safety of the supervised institution."
  - waiver from applying the principle is justified by the scope of application of the remuneration policy assessed by the decision-making authority being too broad. The remuneration policy for persons performing key functions and not being the members of the supervisory body or governing body should be assessed by their employer or principal, which is the Company represented by the Management Board and controlled by the Supervisory Board.

Moreover, the following rules do not apply to PZU:

- principle specified in § 11.3 in the wording: „In the event that the decision concerning a transaction with a related party was made by the General Shareholders' Meeting, all shareholders should have access to any information necessary for assessment of the terms on which the transaction is to be executed and its impact on the situation of the supervised institution."
  – in PZU the General Shareholders' Meeting does not make decisions concerning transactions with related parties;
- principle specified in § 49.4 in the following wording: „In a supervised institution, where there is no internal audit unit or compliance unit, the entitlements referred to in items 1–3 shall be held by the people responsible for performance of those functions."
  – there is both an internal audit unit and a compliance unit at PZU;
- principle specified in § 52.2 in the following wording: „In a supervised institution, where there is no audit unit or compliance assurance unit, and where no unit responsible for that area has been appointed, the information referred to in item 1 shall be submitted by the people responsible for fulfilling those functions."
  – there is both an internal audit unit and a compliance unit at PZU;
- the rules specified in Chapter 9 – Execution of Rights Resulting from Assets Acquired at Client's Risk, as PZU offers no products which involve managing assets at client's risk.

10.4 Control system applied during preparation of the financial statements

Financial statements are prepared within the PZU Finance Division including PZU Head Office (with the Accounting Office) and central units operating based on applicable regulations. PZU Finance Division is supervised by a Member of the Management Board of PZU.

The elements which facilitate completing the process are the accounting principles (policy), the chart of accounts with a commentary and other detailed internal regulations approved by the Management Board of PZU specifying the key rules of recording business events in PZU and dedicated reporting systems.

Data is prepared in the source systems using formal operating and acceptance procedures which specify the competencies of individual persons.

The reporting process is controlled by appropriately qualified, skilled and experienced staff.

PZU monitors the changes in the external regulations concerning e.g. the accounting policy (procedures) and reporting requirements of insurance undertakings and carries out appropriate adaptation processes.

The accounting records are closed and financial statements are prepared in accordance with detailed schedules, including the key activities and control points with assigned liability for timely and correct completion.

The key controls during preparation of the financial statements include:

- controls and permanent monitoring of the quality of input data, supported by the financial systems with defined rules of data correctness, in accordance with PZU internal regulations concerning the control of correctness of the accounting data;
- data mapping from the source systems to financial statements supporting appropriate presentation of data;
- analytical review of financial statements by specialists to compare them with the business knowledge and knowledge about business transactions;
- formal review of the financial statements to confirm compliance with the valid legal regulations and market practice in terms of required disclosures.

PZU internal audit periodically reviews the organization and the process of preparing the financial statements.

Activities within the consolidated financial reporting are coordinated through the organizational structure of the Finance Division in the PZU and PZU Życie Head Offices, which is shared, i.e. organized based on a personal union. PZU controls all the consolidated subsidiaries through Management Boards and Supervisory Boards of the companies.

The process of consolidated financial reporting is regulated by a number of internal acts. The acts regulate the accounting principles (policy) adopted by PZU Group and applied accounting standards. Additionally, the process is also subject to detailed schedules including the key activities and control points with assigned liability for timely and correct completion.

Audit Committee

The Supervisory Board of PZU appoints three members of the Audit Committee. At least one of them must be qualified in accounting or auditing, as understood by the Act on Statutory Auditors and Their Self-Governing Body, Auditing Firms and on Public Oversight. The Audit Committee is an advisory and consultative body to the Supervisory Board and is appointed to improve the effectiveness of the supervision of the correctness of financial reporting, effectiveness of internal control, including internal audit and risk management, exercised by the Supervisory Board.

A statutory auditor appointed by the Supervisory Board of PZU based on the recommendation of the Audit Committee reviews interim separate and consolidated financial statements of PZU and audits its annual separate and consolidated financial statements.

10.5 Entity authorized to audit financial statements

On 18th February 2014, the Supervisory Board of PZU appointed KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k. with the registered office in Warsaw, ul. Inflancka 4A, 00-189 Warsaw, entered on the list of entities authorized to audit financial statements under No. 3546 by the National Chamber of Statutory Auditors as the entity authorized to audit financial statements, with whom an agreement on audit and review of financial statements will be concluded.

The scope of the agreement will include:
- audit of annual separate financial statements of PZU and of annual consolidated financial statements of PZU Group;
- review of interim separate financial statements of PZU and of interim consolidated financial statements of PZU Group.

The work referred to above will include three subsequent financial years ending, respectively, on: 31 December 2014, 31 December 2015 and 31 December 2016, with an option to extend the agreement for further two financial years ending, respectively, on 31 December 2017 and 31 December 2018.

Former cooperation of PZU with KPMG Audyt included mostly tax advisory services.

10.6 Share capital and shareholders of PZU; stock held by members of its authorities

On 30 June 2015, the General Shareholders' Meeting of PZU adopted the resolution on splitting all stocks of PZU by decreasing the nominal value of each PZU share from PLN 1 to PLN 0.1 and increasing the number of PZU shares which constitute the stocks capital from 86,352,300 to 863,523,000. The split of shares was performed through the exchange of all shares in 1:10 ratio. The split of stocks had no influence on the share capital of PZU.

On 3 November 2015, the District Court for the capital city of Warsaw, XII Economic Division of the National Court Register recorded the appropriate change to the By-laws of PZU.

On 24 November 2015, the Management Board of the National Depository for Securities adopted at the request of PZU a resolution No. 789/15 on determining the day of 30 November 2015 as the day of splitting 86,348,289 PZU shares with the face value of PLN 1 each to 863,482,890 PZU shares with the face value of PLN 0.10 each.

Therefore, the share capital of PZU is divided into 863,523,000 ordinary shares with the face value of PLN 0.10 each, giving right to 863,523,000 votes on the General Shareholders' Meeting.

In accordance with the current report No. 3/2016, on the Extraordinary General Shareholders' Meeting of PZU on 7 January 2016 the shareholders of PZU with significant share packages were as follows: the State Treasury holding 297,420,578 shares, i.e. 34.44% of the share capital of PZU and the right to 297,420,578 votes at the General Shareholders' Meeting, and Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK holding 49,156,660 shares, i.e. 5.69% of the share capital of PZU and the right to 49,156,660 votes at the General Shareholders' Meeting.

There were no significant changes in the ownership structure of blocks of PZU shares in 2015.

Fee of the entity authorized to audit financial statements	1 January - 31 December 2015	1 January - 31 December 2014
Statutory audit of annual separate/consolidated financial statements	1,488	714
Other attestation services including review of separate/consolidated financial statements	248	248
Tax advisory services	-	-
Other services	27	27
Total	**1,763**	**989**

The Management Board of the Company has no knowledge about concluded agreements which may result in changes in the proportion of shares held by the shareholders.

PZU did not issue, redeem or repay any debt or equity instruments that would provide its shareholders with special control rights.

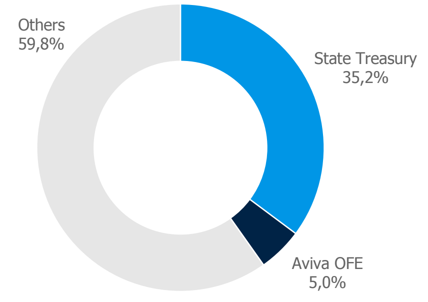
From 2013 to 2015, no employee stock ownership plans existed in PZU.

In line with the PZU By-laws, the voting right of the shareholders is restricted in a way that none of them can exercise more than 10% of the total number of votes at PZU at the date of the General Shareholders' Meeting, with the reservation that for the purpose of determining obligations of parties acquiring material blocks of shares provided for in the Act on Public Offering and the Act on Insurance Activity, such voting restrictions are considered non-existent. The restrictions do not apply to:
- shareholders who held shares entitling to more than 10% in the total number of votes in the Company as at the date of adopting a resolution of the General Shareholders' Meeting;
- shareholders co-acting with shareholders defined in the point above based on agreements concerning joint voting rights attached to the shares. For the purposes of voting rights restrictions, the votes of the shareholders being parent companies or subsidiaries will be added up in line with the principles specified in the By-laws.

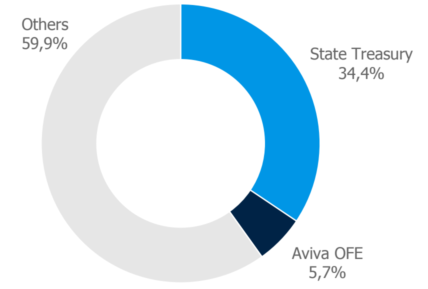
In case of any interpretation doubts with respect to the voting restrictions, Article 65.2 of the Civil Code will apply. GLOSSARY

In line with the PZU's By-laws, the above voting restrictions will expire starting from the moment when a share of a shareholder who, at the date of adopting a resolution of the Shareholders' Meeting introducing the restriction, held shares entitling him to more than 10% in the total number of votes in the Company, drops below 5% of the share capital.

PZU shareholding structure as at 31.12.2014



PZU shareholding structure as at 31.12.2015



10.7 By-laws of PZU

Amendments to the By-laws

The By-laws of PZU can be amended by the General Shareholders' Meeting in the form of a resolution passed by a majority of three fourths of votes. In cases specified in the Act on Insurance Activity GLOSSARY such change must be approved by the FSA and then recorded in the National Court Register. The Supervisory Board can approve the unified amended text of the By-laws.

On 30 June 2015, the General Shareholders' Meeting of PZU adopted amendments to the By-laws of PZU.

Then, on 18 September 2015, the Supervisory Board of PZU adopted a resolution regarding the wording of the consolidated amended By-laws of PZU. On 3 November 2015, the By-laws were recorded in the National Court Register.

Shares or rights to shares held by management and PZU supervisory personnel

No.	Body / Name and surname	Number of shares / rights to shares as of the date of Management Report (i.e. 14 March 2016)	Number of shares / rights to shares as of the date of Management Report (i.e. 17 March 2015)	The resulting change in the period between these dates
Management Board				
1.	Michał Krupiński	-	na	na
2.	Przemysław Dąbrowski	-	-	-
3.	Roger Hodgkiss	-	na	na
4.	Beata Kozłowska-Chyła	-	na	na
5.	Dariusz Krzewina	-	-	-
6.	Robert Pietryszyn	-	na	na
7.	Paweł Surówka	-	na	na
8.	Andrzej Klesyk	na	-	na
9.	Tomasz Tarkowski	na	800	na
10.	Ryszard Trepczyński	na	-	na
Group Directors				
1.	Tomasz Karusewicz	-	na	na
2.	Sławomir Niemierka	-	-	-
3.	Roman Pałac	-	na	na
4.	Tobiasz Bury	nd	500	na
5.	Rafał Grodzicki	nd	-	na
6.	Przemysław Henschke	nd	-	na
Supervisory Board				
1.	Paweł Kaczmarek	-	na	na
2.	Marcin Gargas	-	na	na
3.	Maciej Zaborowski	-	na	na
4.	Marcin Chludziński	-	na	na
5.	Eligiusz Krześniak	-	na	na
6.	Alojzy Nowak	-	-	-
7.	Jerzy Paluchniak	-	na	na
8.	Piotr Paszko	-	na	na
9.	Radosław Potrzeszcz	-	na	na
10.	Aleksandra Magaczewska	nd	-	na
11.	Zbigniew Ćwiąkalski	na	-	na
12.	Tomasz Zganiacz	na	-	na
13.	Zbigniew Derdziuk	na	-	na
14.	Dariusz Filar	na	-	na
15.	Dariusz Kacprzyk	na	-	na
16.	Jakub Karnowski	na	280	na
17.	Maciej Piotrowski	na	-	na
Total		-	1 580	

10.8 General Shareholders' Meeting, Supervisory Board, and Management Board

General Shareholders' Meeting

The General Shareholders' Meeting is the highest body of PZU. The general operational principles and the rights of the General Shareholders' Meeting have been determined by the Code of Commercial Companies GLOSSARY and the By-laws.

The By-laws are available on PZU's corporate website (WWW.PZU.PL) in the „Investors relations" section, tab: „Company".

The General Shareholders' Meeting did not issue its Regulations.

The General Shareholders' Meeting is a body authorized to make decisions concerning issues related to the organization and operations of the issuer. Resolutions of the General Shareholders' Meeting are adopted by an absolute majority of votes, except for cases specified in the Code of Commercial Companies GLOSSARY or the By-laws.

The competencies of the General Shareholders' Meeting, in addition to those specified in the Commercial Companies Code and the By-laws of PZU, include passing resolutions concerning the following:

- examination and approval of the Management Board report on the issuer's activities, financial statements for the previous financial year and acknowledgement of the fulfillment of duties by members of the company's authorities;
- profit distribution or loss coverage;
- making decisions concerning claims for redressing damage inflicted upon formation of the company or exercising management or supervision;
- disposal of the enterprise or its organized part or its lease or establishment of a limited property right;
- redemption of shares or issue of bonds;
- creating reserve capitals and making the decision whether to use them and, if so, how;
- division of the Company, its merger with another company, its liquidation or dissolution;
- appointing and dismissing members of the Supervisory Board, subject to the right granted to the State Treasury to appoint and dismiss one member of the Supervisory Board;
- establishing the rules of remunerating members of the Supervisory Board;
- acquisition or disposal by the issuer of real property, perpetual usufruct or share in real property or in perpetual usufruct with a value exceeding the equivalent of a gross amount of EUR 30.0 million (thirty million euro).

In accordance with the By-laws, a majority of three fourths of votes is required to pass the General Shareholders' Meeting's resolutions on the following:

- amendments to the By-laws;
- decrease in the share capital;
- disposal of the enterprise or its organized part or its lease or establishment of a limited property right;

A majority of 90% of votes at the General Shareholders' Meeting is required to pass resolutions relating to the following:

- preference shares;
- issuer's business combination by transferring all its assets to another company;
- its merger by forming a new company;
- dissolving the Company (also as a result of moving its seat or the head office abroad);
- its liquidation, transformation or reduction in the share capital through redemption of a portion of shares without a similar capital increase.

The General Shareholders' Meeting is held:

- as an Ordinary General Shareholders' Meeting, which should be held within six months from the end of each financial year;
- as an Extraordinary General Shareholders' Meeting, which is convened in cases specified in the generally applicable law and the By-laws.

The General Shareholders' Meetings are held in Warsaw and convened by placing an appropriate announcement on PZU's website in accordance with the method for providing current information specified in the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies of 19 July 2005, i.e. in the form of current reports. Such announcement should be made no later than 26 days before the date of the General Shareholders' Meeting. From the date of convening the General Shareholders' Meeting the announcement with materials presented to shareholders at the General Shareholders' Meeting are available on PZU's corporate website (www.pzu.pl) in section „Investors relations", tab „General Shareholders' Meeting". A duly called General Shareholders' Meeting is deemed valid regardless of the number of attending shareholders. Ballots are open. The secret ballot is used when appointing and dismissing members of the Issuer's bodies or liquidators, in cases of their personal responsibility towards the issuer and in personal cases, except when an open ballot is required by the applicable law, upon request of any shareholder present or represented at the General Shareholders' Meeting. The rights of the shareholders and the method of exercising thereof at the General Shareholders' Meeting are specified in the Code of Commercial Companies GLOSSARY and the By-laws. Only persons who were shareholders of the issuer 16 days before the date of the General Shareholders' Meeting have the right to participate in the Meeting (date of registration of attendance at the Meeting). Shareholders may attend the General Shareholders' Meeting and exercise the right to vote personally or through a proxy. The power of attorney to participate in the General Shareholders' Meeting and to exercise the voting right may be granted in writing or in an electronic form. One share of PZU gives the right to a single vote at the General Shareholders' Meeting, including restrictions with respect to exercising the voting rights described in the Company's By-laws. The shareholder has the right to vote in a different manner under each share held.

During the General Shareholders' Meeting each shareholder may provide resolution drafts concerning items on the agenda.

In accordance with the Code of Commercial Companies GLOSSARY, detailed procedures concerning participation in the General Shareholders' Meeting and exercising the voting rights are always presented in an announcement of the General Shareholders' Meeting published on the date of convening the Shareholders' Meeting on PZU's corporate website (WWW.PZU.PL), section „Investors relations", tab „General Shareholders' Meeting".

Composition, powers and functioning of the Supervisory Board

Composition

The Supervisory Board is composed of seven to eleven members. The number of members is specified at the General Shareholders' Meeting.

Members of the Supervisory Board are appointed by the General Shareholders' Meeting for a shared term which includes three consecutive full financial years.

At least one member of the Supervisory Board must be qualified in accounting or auditing, as understood by the Act on Statutory Auditors and Their Self-Governing Body, Auditing Companies and on Public Oversight GLOSSARY. Furthermore, at least one member of the Supervisory Board should meet the independence criteria specified in the By-laws (Independent Member) concerning e.g. professional and personal relations, especially with members managing or supervising PZU and entities in PZU Group. The Independent Member has to present a written statement that all independence criteria provided for in the By-laws have been met and inform the Company when the criteria are no longer met. In addition, the By-laws give the State Treasury the right to appoint and dismiss one member of the Supervisory Board by way of a written statement submitted to the Management Board. The right will expire once the State Treasury ceases to be the Company's shareholder.

Composition of the Supervisory Board of PZU as at 1 January 2015:

- Aleksandra Magaczewska - Chairperson of the Board;
- Zbigniew Ćwiąkalski - Deputy Chairman of the Board;
- Tomasz Zganiacz - Secretary of the Board;
- Zbigniew Derdziuk - Member of the Board;
- Dariusz Filar - Member of the Board;
- Dariusz Kacprzyk - Member of the Board;
- Jakub Karnowski - Member of the Board;
- Alojzy Nowak - Member of the Board;
- Maciej Piotrowski - Member of the Board.

The criteria of an Independent Member of the Supervisory Board were met by Dariusz Kacprzyk and Dariusz Filar.

On 30 June 2015, Tomasz Zganiacz's mandate of a member of the Supervisory Board expired.

On 30 June 2015, with effect on 1 July 2015, the General Shareholders' Meeting of PZU established the composition of the Supervisory Board of PZU of the new term as follows: Dariusz Kacprzyk, Dariusz Filar, Aleksandra Magaczewska, Zbigniew Ćwiąkalski, Jakub Karnowski, Maciej Piotrowski, Alojzy Nowak, Zbigniew Derdziuk, Paweł Kaczmarek.

On 8 July 2015, the Supervisory Board of PZU entrusted the function of the Chairperson of the Board to Zbigniew Ćwiąkalski, the function of the Deputy Chairperson of the Board to Paweł Kaczmarek, and the function of the Secretary of the Board to Dariusz Filar.

Therefore, since 8 July 2015, composition of the Supervisory Board of PZU was as follows:

- Zbigniew Ćwiąkalski – Chairman of the Board;
- Paweł Kaczmarek – Deputy Chairman of the Board;
- Dariusz Filar – Secretary of the Board;
- Zbigniew Derdziuk – Member of the Board;
- Aleksandra Magaczewska – Member of the Board;
- Dariusz Kacprzyk – Member of the Board;
- Jakub Karnowski – Member of the Board;
- Alojzy Nowak – Member of the Board;
- Maciej Piotrowski – Member of the Board.

The criteria of an Independent Member of the Supervisory Board were met by Dariusz Kacprzyk and Dariusz Filar.

The terms of office of the members of the Supervisory Board (according to its composition as at 31 December 2015) have been presented below:

Name and surname of the member of the Supervisory Board of PZU (the composition as at 31 December 2015)	Term of office of the member of the Supervisory Board of PZU
Zbigniew Ćwiąkalski	Chairman of the Board from 8 July 2015 to 6 January 2016 In the Board from 10 June 2010 to 6 January 2016
Paweł Kaczmarek	Deputy Chairman of the Supervisory Board from 8 July 2015 to 6 January 2016 Chairman of the Board since 19 January 2016
Dariusz Filar	Secretary of the Board from 8 July 2015 to 6 January 2016 In the Board from 10 June 2010 to 6 January 2016
Zbigniew Derdziuk	Member of the Board from 30 June 2011 to 6 January 2016
Aleksandra Magaczewska	In the Board from 18 June 2014 to 6 January 2016 Chairman of the Board from 15 July 2014 to 30 June 2015
Dariusz Kacprzyk	Member of the Board from 18 June 2014 to 6 January 2016
Jakub Karnowski	Member of the Board from 18 June 2014 to 6 January 2016
Alojzy Nowak	Member of the Board since 30 May 2012
Maciej Piotrowski	Member of the Board from 30 May 2012 to 6 January 2016

The current term of office of the Supervisory Board of PZU started on 1 July 2015 and will end after the lapse of three financial years. The mandates of members of the Supervisory Board expire not later than on the date of the General Shareholders' Meeting approving the financial statements for the last full financial year of their term.

On 7 January 2016, the Extraordinary General Shareholders' Meeting of PZU removed the following people from the Supervisory Board: Zbigniew Ćwiąkalski, Zbigniew Derdziuk, Maciej Piotrowski, Dariusz Kacprzyk, Jakub Karnowski, Aleksandra Magaczewska, Dariusz Filar. Simultaneously, on 7 January 2016, it appointed the following people to the Supervisory Board of PZU: Piotr Paszko, Marcin Chludziński, Marcin Gargas, Maciej Zaborowski, Eligiusz Krześniak, Radosław Potrzeszcz, Jerzy Paluchniak.

On 19 January 2016, the Supervisory Board of PZU entrusted the function of the Chairperson of the Board to Paweł Kaczmarek, the function of the Deputy Chairperson of the Board to Marcin Gargas, and the function of the Secretary of the Board to Maciej Zaborowski.

Therefore, since 19 January 2016, composition of the Supervisory Board of PZU was as follows:
- Paweł Kaczmarek – Chairman of the Board;
- Marcin Gargas – Deputy Chairman of the Board;
- Maciej Zaborowski – Secretary of the Board;
- Marcin Chludziński – Member of the Board;
- Eligiusz Krześniak – Member of the Board;
- Alojzy Nowak – Member of the Board;
- Jerzy Paluchniak – Member of the Board;
- Piotr Paszko – Member of the Board;
- Radosław Potrzeszcz – Member of the Board.

The criteria of an Independent Member of the Supervisory Board are met by Marcin Gargas, Maciej Zaborowski, Marcin Chludziński, Eligiusz Krześniak, Alojzy Nowak, Piotr Paszko, Radosław Potrzeszcz.

Paweł Kaczmarek – Chairman of the Supervisory Board since 19 January 2016; Deputy Chairman of the Supervisory Board from 8 July 2015 to 6 January 2016

He graduated from the Faculty of Law and Administration at the University of Łódź. In 1994-2014, he worked in the Ministry of Finance. For several years he dealt with legal aspects concerning the issue of public debt: its financing, conversion and restructuring, cooperation with the regulatory authorities of the capital market to develop regulations applying to broadly understood capital market, and also the state's policy towards small and medium-sized enterprises, with particular consideration of financial support provided by the state. At present, he holds the position of the Director of the Strategic Companies Department in the Ministry of the State Treasury. His responsibilities include preparation of the system solutions concerning ownership supervision towards the companies whose shares are held by the State Treasury and which were indicated in separate instructions given by the Minister. In the past he was a member of several supervisory boards, including WSE, Industrial Development Agency S.A. and Polish Press Agency S.A.

Marcin Gargas – Deputy Chairman of the Supervisory Board, in the Supervisory Board since 7 January 2016

Graduate in the field of Law from the Faculty of Law and Administration at Adam Mickiewicz University in Poznań. In 2006-2009 he was a trainee legal advisor in the Regional Chamber of Legal Advisors in Poznań. In 2010, he obtained the title of Legal Advisor (record No. PZ/2614). He gained his professional experience working as a lawyer in Rödl & Partner's branch office in Poznań (from September 2006 to July 2007). Then, from August 2007 to April 2009, he continued his career as a lawyer in the Legal Department of Ruch S.A. From May 2009 to March 2010 he was employed as a lawyer in Zakrzewska, Skowronek, Jurkiewicz Kancelaria Prawna Spółka Cywilna law office with its seat in Poznań. From April 2010 he leads the individual professional practice within the legal adviser's office. He specializes in providing comprehensive legal services for business entities operating within the holding structures. He gained significant experience in the development, acquisition and transformation of commercial companies and their restructuring and ongoing corporate support. In the course of his professional activity he carried out many legal audits and advised on complex transactions involving the purchase and sale of real estate. He coordinated the legal aspects of major real estate projects and investment processes including commercial buildings (shopping malls, gas stations, supermarkets network). He has considerable experience in conducting litigation as well as in the conduct of proceedings before the authorities and administrative courts.

Maciej Zaborowski – Secretary of the Supervisory Board, in the Supervisory Board since 7 January 2016

Graduate from the Faculty of Law and Administration at the University of Warsaw. He is also a graduate of XVI School of Civic Society Leaders, school founded by Prof. Zbigniew Pełczyński from Oxford University in United Kingdom, Center for American Law Studies (shared initiative of the Florida State University and the Faculty of Law and Administration of the University of Warsaw) and the Academy of Young Diplomats (European Academy of Diplomacy), specialization: Foreign Service. As of 2012, he holds the professional title of attorney. In addition, he completed post-graduate studies in Intellectual Property Law at the Faculty of Law and Administration of the University of Warsaw and post-graduate studies in Law of Evidence at the Faculty of Law and Administration of the Cardinal Stefan Wyszyński University. From December 2005 to September 2007 he performed activities commissioned by the Ministry of Justice. From September 2006 to September 2007 he worked as an assistant of the Minister of Justice – Prosecutor General. From September 2007 to February 2008 he worked as a legal expert at the Embassy of the Republic of Poland in Rome – Consular Department (his duties included i.a. organization and coordination of the state's parliamentary elections taking place in the Italian Republic and duties of Vice-President of the District Electoral Committee in Rome). From January 2010 to November 2010 he assisted the Committee of Inquiry (so-called gambling committee) in the Parliament of the Republic of Poland, and from July 2008 to March 2012 he worked as a lawyer for the Justice and Human Rights Committee in the Parliament of the Republic of Poland. From January 2009 to November 2012 he worked as a lawyer and advocate trainee in Kancelaria Adwokacka prof. dr. hab. Piotra Kruszyńskiego legal office and from May 2010 to February 2012 he was a lawyer in Kancelaria Adwokacka Adwokata Rafała Rogalskiego legal office. Since January 2013 he has been working as a mediator for the Mediation Center at the Polish Bar Council. Since May 2013 he has been keeping his own law office as an advocate. Since 2014 he has been a Member of the Young Advocates Initiatives Commission of the Polish Bar Council (legislative subcommittee) and a Member of the Young Advocates Association – District Bar Council in Warsaw. Since March 2012 he has been the Chairman of the Founders' Board of the Fundacja Odpowiedzialność Obywatelska (Social Responsibility Foundation), (earlier, from January 2008 to February 2012, he was a Member of the Founders' Board). He is a prizewinner of prestigious competition, Rising Stars – Prawnicy Liderzy Jutra 2015 (Lawyers Leaders of Tomorrow 2015) organized by „Dziennik Gazeta Prawna" and Wolters Kluwer. He is also commenting on the legal context of current affairs in Panorama, news program on TVP 2 television channel. He holds safety certificate issued by the Internal Security Agency (ABW) entitling to access classified information marked as „top secret" (applying also to information with lower mark).

Marcin Chludziński – Member of the Supervisory Board since 7 January 2016

Graduate from the Center for European Regional and Local Studies and Faculty of Journalism and Political Science of the University of Warsaw. Since 2004 he has been associated with Invent Grupa Doradztwa i Treningu (Invent Advisory and Training Group), and since 2006 he has been holding the position of the President of this company. Since 2009 he also has been holding the position of the President of the Management Board of Urbino sp. z o.o., an Internet technology company.

He has nine years of experience in managing commercial law companies. The main domain of the companies' activity was financing the investment projects, advising in strategic planning, restructuring processes, and audit and internal controlling. He is a licensed coach and advisor specializing in strategic and organizational planning and project management. He is also experienced in defining and managing advisory projects in public administration and business. As a lecturer, he cooperates on a regular basis with i.a. the University of Warsaw, Collegium Civitas and Łazarski University. He is qualified to sit on supervisory boards of companies whose shares are held by the State Treasury. He is experienced in supervising municipal heat companies. He published articles on public management in such periodicals as „Rzeczy Wspólne", „W sieci", „Wprost". He developed his personal accomplishments through pro publico bono activities by leading a think tank of the Republican Foundation as a co-author and expert, concerning especially the context of the role the State Treasury companies play in realizing the objectives of the state, managing public sector in the context of focusing on development goals and supporting national economic expansion through cooperation carried out within public sector. His main professional competencies are: ability to manage a commercial law company concerning the organizational, legal and financial aspects, experience in corporate supervision, skill in conducting processes of reorganization, restructuring, cost optimization and internal control, capacity of guiding horizontal controlling and auditing processes, qualification to define and supervise projects – especially the ones financed with EU funds, possession of the expertise in the field of energy and heat industry, and knowledge about the models of realizing the objectives of the state by the state-owned companies.

Eligiusz Krześniak – Member of the Supervisory Board since 7 January 2016

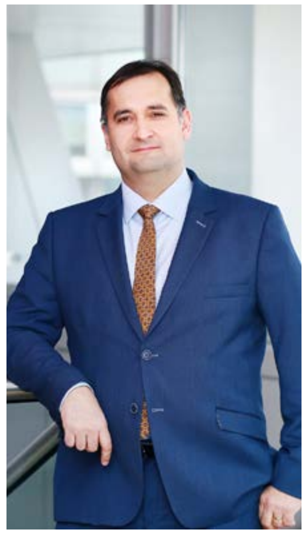
He is a graduate of the Faculty of Law and Administration, University of Wroclaw, where he also obtained a degree of Ph.D. Moreover, he studied at the Law Faculty of the Philipps-Universität Marburg and Rheinische - Wilhelms - Universität Bonn as well as at the State University of North Carolina at Charlotte. He is a graduate of the Academy of Leadership Psychology and the School of Mentors operating as a part of the School of Business of the Warsaw University of Technology. Lawyer in Warsaw since 2002. Author and co-author of several law books and dozens of articles published in Rzeczpospolita, Puls Biznesu, Dziennik Gazeta Prawna and many legal publications. Columnist for Forbes magazine. International partner in the global law firm Squire Patton Boggs and general partner in its Polish office - Squire Patton Boggs Święcicki Krześniak sp. k. He has extensive experience in managing projects in the field of mergers and acquisitions, acquisition of companies, as well as intellectual property and manage complex negotiations. For years, he is indicated as a leading lawyer in Poland in international rankings of Chambers Europe and Legal 500; according to the annual ranking of the Rzeczpospolita he won twice, in 2013 and 2014 (in 2014. ex aequo with two other persons) as the best TMT lawyer. In 2008-2009, he held the position of the Vice-Chairman of the Supervisory Board of PKO Bank Polski SA. He entered the list of recommended arbitrators of the two largest arbitration tribunals in Poland - the Arbitration Court at the Polish Chamber of Commerce and the Arbitration Court of the Polish Confederation of Private Employers Lewiatan. For several tenure he served as inspector and member of the District Bar Council in Warsaw for the training of trainee lawyers and the Committee. Foreign relations of the Supreme Bar Council; also acted as a mediator. He began his career in the nineties as a radio journalist and foreign correspondent in Germany and in the United States.

Alojzy Nowak – Member of the Supervisory Board since 30 May 2012

In 1984, he graduated from the present Warsaw School of Economics and in 1992 from University of Illinois at Urbana – Champaign, USA, M.A. in economics. In 1993 he completed studies in banking, finance and capital markets at Exeter, UK, and in 1996 economic studies at Free University of Berlin, while in 1997 in International Economics at RUCA. In 2002, he gained the title of Professor of Economics. He has won a number of prestigious awards, including Rector Award for Scientific Achievements (annually since 1997), Award of the Minister of Education for a book „Integracja europejska. Szansa dla Polski?" („European Integration. Opportunity for Poland?") and a book titled „Banki a gospodarstwa domowe – dynamika rozwoju" („Banks and households – the dynamics of development"). He has been a member of scientific organizations and professional editing boards of periodicals, among others Foundations of Management (Member), Journal of Interdisciplinary Economics (Editor in Chief), Yearbook on Polish European Studies, Mazovia Regional Studies, Gazeta Bankowa and a reviewer in PWE S.A. Warszawa editing company. He is a long-term Committee Member of Teraz Polska Award and Scientific Council Member. He gained his professional experience working as the Head of International Business Relations Section at Management Faculty of the University of Warsaw, the Head of National Economy Unit at Management Faculty of the University of Warsaw, the Director of European Center at the University of Warsaw, the Deputy Dean in charge of foreign cooperation at Management Faculty of the University of Warsaw, the Dean at Management Faculty of the University of Warsaw and the Deputy Rector in charge of scientific research and cooperation at the University of Warsaw. He is a lecturer at the University of Warsaw, and also in France, UK, U.S., Russia, China and Korea. Further, he worked as: advisor to the Prime Minister, to the Minister of Agriculture, the President of University Sports Association at the University of Warsaw, a Member of the Advisory Committee NewConnect at Management Board of Warsaw Stock Exchange, a Member of the Foundation Council of the National Bank of Poland, the Chairman of the Scientific Council of the National Bank of Poland. He held positions in supervisory boards of various institutions, to include: PTE WARTA S.A., PKO BP S.A., JSW S.A., the Chairman and the Deputy Chairman of the Supervisory Board in EUROLOT S.A.

Jerzy Paluchniak – Member of the Supervisory Board since 7 January 2016

He is a graduate of the Wrocław University of Economics, the Faculty of Management and Information Technology, specialization in Management and Marketing, major in Business Management. Since 2003, he works as a Certified Internal Auditor (CIA). In 2005, he achieved the title of Statutory Auditor (No. 10649) and successfully passed all ACCA exams. In 1999–2000, he gained his professional experience as an assistant of a Brand Manager in Zielona Budka Zbigniew Grycan S.A. In 2000, he continued his professional career in audit department of Arthur Andersen/Ernst&Young located in Wrocław, at positions from an assistant to a manager (promoted in 2005). Since 2007, he worked in audit department of KPMG located in Wrocław, where in 2008 he was promoted to a Senior Manager. He specialized in the study of financial statements prepared in accordance with Accounting Act and International Financial Reporting Standards. He got a Certified Trainer at KPMG. He conducted trainings in the field of audit, accounting and personal and interpersonal competence for customers and employees of KPMG. Furthermore, he was responsible for the actions of corporate social responsibility at KPMG office in Wroclaw. On 7 January 2016 he finished work at KPMG. On 1 February 2016 he assumed the position of Director of Internal Audit in Tauron Polska Energia SA. Since 2010 member of the Regional Council of Chartered Accountants in Wroclaw.



Piotr Paszko – Member of the Supervisory Board since 7 January 2016

Holds a Ph.D. in Economics, his specialization is Management Science. He is a graduate of the Wrocław University of Economics. He was a scholarship holder of Deutscher Akademischer Austauschdienst – Universität Mainz; faculty name: Volkswirtschaftslehre. Manager, entrepreneur and counselor with nearly twenty years of professional experience in the business counseling sector. Manager of tens of consulting projects connected with organization of investment and development activities, business restructuration and public-private partnerships. Provided counseling support concerning designing new development directions, privatization, preparation of investments, improving management, implementation of financial control systems and mergers and acquisitions processes to a number of energy and industrial companies. He is a member of the boards of capital companies. He has been combining counseling activity with research for several decades. Authored a number of research papers and expert opinions. as awarded the Medal for Long Service by the President of Poland.

Radosław Potrzeszcz – Member of the Supervisory Board since 7 January 2016

He completed his studies at the Faculty of Law and Administration of the University of Wrocław. Furthermore, he was a court and advocate trainee. Member of the Bar Council in Wrocław. He co-designed post-graduate studies in a form of the Company Academy at the Warsaw School of Economics, where he is a lecturer. In addition, he runs classes at other post-graduate studies, i.a. for bank analysts, courses concerning business insurances and trainings for advocate trainees. He is an arbiter in the Arbitral Tribunal of the Insurance Ombudsman. In 2003, he co-created the Act amending the Code of Commercial Companies. As an expert appointed by the Minister of Justice, he provided parliamentary assistance concerning work on this amendment. He developed and opined a number of other acts, including the opinion given on the draft legislation for the Office of Analyses of the Parliament during the term of the Parliament dated 2005–2007. Since the Autumn of 2006 he has been an expert in the Committee of Inquiry investigating the solutions concerning ownership and capital changes in banking sector and the activities of banking supervisory bodies in the period of 4 June 1989 – 19 March 2006 (the so-called Banking Committee of Inquiry). He also held the position of the Member of the Supervisory Board in TVP S.A. and in Polskie Radio S.A. He authored a monograph titled: „Kapitały własne spółek handlowych" („Equity of Commercial Companies"), published by the Association of Charted Auditors and Accountants in 2002. He is also a co-author and co-editor of a four-volume commentary to the Code of Commercial Companies published by LexisNexis, and a co-author of a commentary „Prawo Ubezpieczeń" („Insurance Law") consisting of the legal act and a comment to it published by Poltext in Warsaw, 2004. He authored a number of articles published in law periodicals focusing on the topic of company law and law of business insurance.

Competencies

RThe Supervisory Board exercises constant supervision over the Company's activities in all aspects of its business. In accordance with the By-laws, the powers of the Supervisory Board include:

- review of the Management Board's report on the activities of the Company and financial statements for the previous financial year in terms of their compliance with the accounting records, documents and facts;
- review of the motions of the Management Board concerning profit distribution or loss coverage;
- presenting the General Shareholders' Meeting with a written report on the results of the review described above and submitting a brief annual assessment of the situation of the Company, including internal controls and key risk management and an annual report on the work of the Supervisory Board;
- concluding, terminating and amending the agreements with members of the Management Board and setting the terms and conditions of remuneration and the amount of remuneration;
- appointing, suspending and dismissing the CEO, members of the Management Board or the entire Management Board, as well as making decision to stop the suspension;
- agreeing to transfer the entire or portion of the insurance portfolio;
- accepting motions of the Management Board concerning acquisition, assumption or disposal of shares in companies, as well as the Company's participation in other entities – the Supervisory Board may specify the amount, terms and conditions and the way in which the Management Board may carry out the activities without the acceptance of the Supervisory Board;
- delegating members of the Supervisory Board to temporarily perform the functions of members of the Management Board who have been dismissed, resigned or cannot perform their functions for other reasons;
- accepting instructions concerning votes being cast by the Company's representatives during the General Shareholders' Meeting of PZU Życie concerning: an increase and decrease in the share capital, bonds issue, disposal and lease of a PZU Życie enterprise or establishment of a usufruct right, division of PZU Życie combination of PZU Życie with a different company, liquidation or termination of PZU Życie;
- selection of the entity authorized to audit the financial statements which will audit the annual financial statements of the company;
- wording of the consolidated amended By-laws;
- approval of the long-term plans for the development of the company and annual financial plans drafted by the Management Board;
- approval of the regulations of the Management Board;
- examination and evaluation of issues submitted by the Management Board for discussion during the General Shareholders' Meeting.

Moreover, the Supervisory Board grants consent to:

- acquisition or disposal of a real property, perpetual usufruct or share in the real property or in perpetual usufruct exceeding the equivalent of EUR 3.0 million;
- conclusion of a material agreement by the Company and its related party, as understood by the Ordinance on current and periodic information, excluding standard agreements concluded by the Company on an arm's length basis as part of its operating activities;
- conclusion of the agreement by the Issuer with the underwriter referred to in Article 433.3 of the Code of Commercial Companies;
- advance payment against expected dividend;
- creation and closing of regional and foreign branches.

Mode of operation

The Supervisory Board adopts the regulations of the Supervisory Board specifying its organization and the manner of performing activities.

The regulations of the Supervisory Board were adopted by its Resolution of 9th October 2012 and specify its composition and the way in which its members are appointed, the tasks and the scope of its activities and the manner of calling the Supervisory Board and conducting debates.

The By-laws stipulate that the Supervisory Board should meet at least once every quarter. The Supervisory Board may delegate its members to fulfill specific supervising activities on their own and to this effect appoint temporary committees. The scope of responsibility of a delegated member of the Supervisory Board and the committee is specified in a resolution of the Supervisory Board.

Resolutions of the Supervisory Board are adopted by an absolute majority of votes. In the event of a voting tie, the Chairman of the Supervisory Board has the casting vote. The resolutions of the Supervisory Board may be adopted using means of direct distant communication and in a written form.

Additionally, the By-laws stipulate that a vote may be cast in writing through another member of the Supervisory Board.

In accordance with the By-laws, the resolutions of the Supervisory Board are adopted in an open ballot, except for resolutions concerning appointment of the Chairman, Deputy Chairman and the Secretary of the Supervisory Board, delegation of members of the Supervisory Board to temporarily fill in for members of the Management Board and for resolutions with respect to appointing, suspending and dismissing the CEO, members of the Management Board or the entire Management Board as well and taking decision to stop such suspension which are adopted in a secret ballot. Moreover, a secret ballot may be chosen on request of a member of the Supervisory Board.

The Supervisory Board appoints the Chairman and the Deputy Chairman of the Supervisory Board from its members and it may also select the Secretary of the Supervisory Board.

In accordance with the Regulations of the Supervisory Board, apart from appointing the audit committee and promotion and compensation Committee, provided for in the By-laws to properly perform its supervision, the Supervisory Board may appoint other permanent advisory and consultative committees whose competencies, composition and way of work is specified by regulations adopted by the Supervisory Board. The regulations of the Supervisory Board stipulate that the Supervisory Board and the appointed committees may use the services of experts and advisory companies.

Members of the Management Board, employees of the Company competent for the discussed issue selected by the Management Board and other persons invited by the Supervisory Board may take part in the meetings of the Supervisory Board; however, they cannot cast votes. In specific cases, the Supervisory Board of PZU may also invite members of the management board or a supervisory board of a different company in PZU Group. Moreover, members of the Supervisory Board, upon consent of the Supervisory Board, may select one advisor authorized to take part in the meetings of the Supervisory Board devoted to reports and financial statements, and give their advice, provided that such person respects confidentiality and signs a confidentiality statement.

At present, the following committees function as part of the Supervisory Board of PZU:

- Audit Committee;
- Promotion and Compensation Committee;
- Strategy Committee.

The By-laws provide for appointing an Audit Committee by the Supervisory Board. The Committee is composed of three members, including at least one independent member qualified in accounting or auditing. Detailed tasks and terms and conditions of appointing members of the Audit Committee and its functioning have been specified in a resolution of the Supervisory Board, which views relevant competencies and experience of the candidates for members of the Committee.

In accordance with the Regulations of the Audit Committee adopted by a resolution of the Supervisory Board, the Audit Committee is an advisory and consultative body to the Supervisory Board and is appointed to improve the effectiveness of the supervision of the correctness of financial reporting and of internal control, including internal audit and risk management, exercised by the Supervisory Board. Moreover, the Audit Committee may apply to the Supervisory Board for commissioning specific controls in the Company to be exercised by an internal or external entity.

The Supervisory Board appointed the Audit Committee on 3 June 2008. Composition of the Audit Committee as at 1 January 2015:

- Dariusz Filar – Chairman of the Committee;
- Dariusz Daniluk – Member of the Committee;
- Tomasz Zganiacz – Member of the Committee.

Dariusz Filar was indicated by the Supervisory Board as an independent member, having accounting and audit qualifications as defined in Article 86.4 of the Act on Statutory Auditors GLOSSARY.

In relation to the appointment of the Supervisory Board of PZU of the new term on 1 July 2015 by the General Shareholders' Meeting of PZU, at the session of 8 July 2015 the Supervisory Board of PZU established the following composition of the Audit Committee:

- Dariusz Filar – Chairman of the Committee;
- Dariusz Kacprzyk – Member of the Committee;
- Paweł Kaczmarek – Member of the Committee.

As at 31 December 2015, the composition of the Committee had not changed.

In relation to the changes in the composition of the Supervisory Board of PZU, on 19th January 2016 the Supervisory Board of PZU established the following composition of the Audit Committee:

- Marcin Chludziński – Chairman of the Committee;
- Jerzy Paluchniak – Member of the Committee;
- Paweł Kaczmarek – Member of the Committee.

In accordance with the Regulations of the Supervisory Board, once the Company's shares are quoted on the regulated market, as understood by the Act on Trading in Financial Instruments of 29 July 2005, the Supervisory Board may appoint a Promotion and Compensation Committee.

In accordance with the By-laws, detailed responsibilities and the method of appointing members of the Promotion and Compensation Committee, the way it works and remuneration are specified in a resolution of the Supervisory Board. The Committee should include at least one independent member. If the Supervisory Board includes five members elected in a vote, the Promotion and Compensation Committee is not appointed and its tasks are carried out by the entire Supervisory Board.

According to the regulations of the Promotion and Compensation Committee adopted by a resolution of the Supervisory Board of 4 April 2013, it is an advisory and consultative body to the Supervisory Board and is to improve efficiency of the Board's supervisory activities related to establishing the management structure, including organizational issues, remuneration system, remuneration principles and selection of properly qualified staff.

The Supervisory Board decided that the promotion and compensation committee would be composed of five persons. Composition of the Promotion and Compensation Committee as at 1 January 2015:

- Zbigniew Ćwiąkalski – Chairman of the Committee;
- Zbigniew Derdziuk – Member of the Committee;
- Dariusz Filar – Member of the Committee;
- Maciej Piotrowski – Member of the Committee;
- Tomasz Zganiacz – Member of the Committee.

In relation to the appointment of the Supervisory Board of PZU of the new term on 1 July 2015 by the General Shareholders' Meeting of PZU, at the session of 8 July 2015 the Supervisory Board of PZU established the following composition of the Promotion and Compensation Committee:

- Zbigniew Ćwiąkalski – Chairman of the Committee;
- Zbigniew Derdziuk – Member of the Committee;
- Dariusz Filar – Member of the Committee;
- Maciej Piotrowski – Member of the Committee;
- Paweł Kaczmarek – Member of the Committee.

As at 31 December 2015, the composition of the Promotion and Compensation Committee had not changed.

In relation to the changes in the composition of the Supervisory Board of PZU, on 19 January 2016 the Supervisory Board of PZU decided that the Promotion and Compensation Committee should consist of 4 people, while simultaneously establishing the following composition of the Committee:

- Radosław Potrzeszcz – Chairman of the Committee;
- Marcin Gargas – Member of the Committee;
- Paweł Kaczmarek – Member of the Committee;
- Piotr Paszko – Member of the Committee.

The Committee is dissolved once five members of the Supervisory Board are elected in a vote cast in groups and its rights are then taken by the entire Supervisory Board.

According to the regulations of the Strategy Committee adopted by a resolution of the Supervisory Board of 4 April 2013, it is an advisory and consultative body to the Supervisory Board and is to improve efficiency of the Board's supervisory activities related to consulting of all strategic documents presented by the Management Board (in particular, the Company development strategy) and presenting the Supervisory Board with recommendations on planned investments that materially impact the Company's assets.

Composition of the Audit Committee as at 1 January 2015:

- Alojzy Nowak - Chairman of the Committee;
- Zbigniew Derdziuk – Member of the Committee;
- Aleksandra Magaczewska – Member of the Committee;
- Jakub Karnowski – Member of the Committee;
- Maciej Piotrowski – Member of the Committee.

In relation to the appointment of the Supervisory Board of PZU of the new term on 1 July 2015 by the General Shareholders' Meeting of PZU, at the session of 8 July 2015 the Supervisory

Board of PZU established the following composition of the Strategy Committee:

- Alojzy Nowak – Chairman of the Committee;
- Zbigniew Derdziuk – Member of the Committee;
- Aleksandra Magaczewska – Member of the Committee;
- Jakub Karnowski – Member of the Committee;
- Maciej Piotrowski – Member of the Committee.

As at 31 December 2015 the composition of the Committee did not changed.

In relation to the changes in the composition of the Supervisory Board of PZU, on 19 January 2016 the Supervisory Board of PZU decided that the Strategy Committee should consist of 6 people, while simultaneously establishing the following composition of the Committee:

- Alojzy Nowak – Chairman of the Committee;
- Marcin Chludziński – Member of the Committee;
- Marcin Gargas – Member of the Committee;
- Piotr Paszko – Member of the Committee;
- Radosław Potrzeszcz – Member of the Committee;
- Maciej Zaborowski – Member of the Committee.

Management Board

Composition

In accordance with the By-laws of PZU, the Management Board is composed of three to seven members appointed for a shared term which includes three consecutive full financial years.

Members of the Management Board, including the CEO, are appointed and dismissed by the Supervisory Board. The CEO of the new term appointed before the end of the current term may apply to the Supervisory Board for appointing other members of the Management Board of the new term before the end of the current term.

Since 1 January 2015, composition of the Management Board was as follows:

- Andrzej Klesyk – Chairman of the Management Board;
- Przemysław Dąbrowski – Member of the Management Board;
- Dariusz Krzewina – Member of the Management Board;
- Tomasz Tarkowski – Member of the Management Board;
- Ryszard Trepczyński – Member of the Management Board.

On 30 June 2015, Ryszard Trepczyński's mandate of a member of the Supervisory Board expired, and on 1 July 2015, the Supervisory Board of PZU established the following composition of the Management Board of the new term:

- Andrzej Klesyk – Chairman of the Management Board;
- Przemysław Dąbrowski – Member of the Management Board;
- Rafał Grodzicki – Member of the Management Board;
- Dariusz Krzewina – Member of the Management Board;
- Tomasz Tarkowski – Member of the Management Board.

On 1 September 2015, the Management Board of PZU appointed Witold Jaworski as a Member of the Management Board of PZU.

Therefore, since 1 September 2015, composition of the Management Board was as follows:

- Andrzej Klesyk – Chairman of the Management Board;
- Przemysław Dąbrowski – Member of the Management Board;
- Rafał Grodzicki – Member of the Management Board;
- Witold Jaworski – Member of the Management Board;
- Dariusz Krzewina – Member of the Management Board;
- Tomasz Tarkowski – Member of the Management Board.

On 8 December 2015, Andrzej Klesyk and Witold Jaworski submitted a statement of resignation coming into effect on 9 December 2015, and the Supervisory Board of PZU entrusted temporary performance of duties of CEO to Dariusz Krzewina.

As at 31 December 2015, composition of the Management Board was as follows:

- Dariusz Krzewina – acting as Chairman of the Management Board;
- Przemysław Dąbrowski – Member of the Management Board;
- Rafał Grodzicki – Member of the Management Board;
- Tomasz Tarkowski – Member of the Management Board.

The current term of the Management Board of PZU started on 1 July 2015 and will last until the end of three consecutive financial years. The mandates of members of the Management Board expire not later than on the date of the General Shareholders' Meeting approving the financial statements for the last full financial year of their term.

The scope of responsibility of the Members of the Management Board constituting the Management Board in 2015 has been presented below:

Name and surname (composition of the Management Board in 2015)	In PZU Group	Scope of responsibility
Andrzej Klesyk	Chairman of the Management Board of PZU between 14 December 2007 and 8 December 2015	Governing PZU Group
Dariusz Krzewina	Acted as Chairman of the Management Board of PZU between 9 December 2015 and 18 January 2016 Chairman of the Management Board of PZU Życie since 10 August 2007 Member of the Management Board of PZU since 15 March 2013 Joined the Group in September 1993	Corporate government, HR, corporate insurance, administration and logistics, bancassurance and reinsurance
Przemysław Dąbrowski	Member of the Management Board of PZU since 21 December 2010 Member of the Management Board of PZU Życie since 29 January 2010 Joined PZU Group in 2000	Finance, actuary
Rafał Grodzicki	Member of the Management Board of PZU between 1 July 2015 and 18 January 2016 Member of the Management Board of PZU Życie between 11 August 2008 and 19 January 2016 Joined PZU Group in February 2004	Insurance activities, foreign operations (international activities) and health business
Tomasz Tarkowski	Member of the Management Board of PZU between 21 April 2011 and 19 January 2016 Member of the Management Board of PZU Życie between 1 July 2011 and 29 January 2016 Joined PZU Group in 1996	Loss adjustment
Ryszard Trepczyński	Member of the Management Board of PZU / PZU Życie between 1 July 2011 and 30 June 2015	Investments
Witold Jaworski	Member of the Management Board of PZU between 1 September 2015 and 9 December 2015 Member of the Management Board of PZU Życie since 2 September 2015, Chairman of the Management Board of PZU Życie between 29 September 2015 to 9 December 2015	Individual insurance, marketing
Sławomir Niemierka	Member of the Management Board of PZU Życie / Director of the Group since 19 March 2012 Joined PZU Group in 2008	Risk management, reinsurance, compliance and safety
Tobiasz Bury	Member of the Management Board of PZU Życie / Director of the Group between 16 January 2014 and 29 January 2016 Joined PZU Group in 2009	Mass client insurance, governing the network of PZU branches and channels of distribution, contact center and post-sale support
Przemysław Henschke	Member of the Management Board of PZU Życie between 3 February 2012 and 29 January 2016 Director of PZU Group between 7 February 2012 and 29 January 2016	IT

The Management Board exercises all management rights which have not been reserved by the provisions of law or provisions of the By-laws for the General Shareholders' Meeting or the Supervisory Board. The Company may be represented by two members of the Management Board acting jointly or one member of the Management Board acting with a commercial proxy. The Management Board adopts its regulations which are approved by the Supervisory Board. The regulations of the Management Board were adopted by the Management Board on 2 October 2012, amended with a Resolution of the Board of 8 April 2013, and approved by a resolution of the Supervisory Board of 16 April 2013.

On 19 January 2016, Rafał Grodzicki and Tomasz Tarkowski submitted a statement of resignation, and the Supervisory Board of PZU established the following composition of the Management Board:

- Michał Krupiński – Chairman of the Management Board;
- Roger Hodgkiss – Member of the Management Board;
- Beata Kozłowska-Chyła – Member of the Management Board;
- Robert Pietryszyn – Member of the Management Board;
- Paweł Surówka – Member of the Management Board, appointed on 20 January 2016.

Therefore, since 19 January 2016, composition of the Management Board has been as follows.

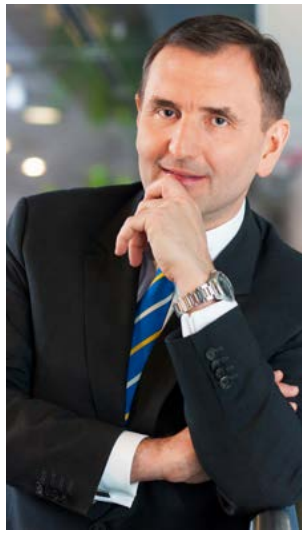
- Michał Krupiński – Chairman of the Management Board;
- Przemysław Dąbrowski – Member of the Management Board;
- Roger Hodgkiss – Member of the Management Board;
- Beata Kozłowska-Chyła – Member of the Management Board;
- Dariusz Krzewina – Member of the Management Board;
- Robert Pietryszyn – Member of the Management Board;
- Paweł Surówka – Member of the Management Board (appointed on 20 January 2016).

Michał Krupiński – CEO of PZU since 19 January 2016

Michał Krupiński graduated from Warsaw School of Economics. He was awarded a diploma with distinction after the completion of expert studies in Economics at Catholic University in Louvain. Completed an MBA program at Columbia University Graduate School of Business and, what is more, studied at Harvard University. In 2012, was awarded the title of Young Global Leader by the Davos World Economic Forum. He is fluent in the following languages: English, French, German and Spanish.
Since 2011, he has been the CEO of Merrill Lynch Polska and Head of Investment Banking for Central and Eastern Europe in Bank of America Merrill Lynch. His responsibilities concern governing and managing the projects centered on mergers and acquisitions and financing in private and public markets. His advisory activities focused on asset management, investment policy and capital structure, i.a. in banking and insurance sector. Previously, between 2008 and 2011, he was the Alternate Executive Director – Member of the Board of Directors at the World Bank in Washington, D.C. He co-decided on the proposals concerning IBRD loans and guarantees, IDA loans and guarantees, IFC, investment guarantees and strategy and policies of the World Bank. Between 2006 and 2008 he was the Undersecretary of State in the Ministry of State Treasury, where he was responsible i.a. for ownership supervision. He supervised the program of energy sector consolidation.

Dariusz Krzewina – CEO of PZU Życie since 10 August 2007, Member of the Management Board in PZU since 15 March 2013

Dariusz Krzewina graduated from the Faculty of Economy and Sociology of the University of Łódź and post-graduate studies in insurance at Warsaw School of Economics. He has worked in the insurance industry for many years. From September 1993 to August 1998 he was employed in PZU Życie as Head of Sales Department, Deputy Director and Director of the Insurance Office. From September 1997 to September 1998 he was a Member of the Management Board of PZU Życie. In the period from September 1998 to March 2000, he was the General Sales Director and, from April 2000 to August 2001, a Member of the Management Board of STUnŻycie ERGO HESTIA S.A. From April 2002, he was a Sales Director and from October 2002 to June 2004 he was the CEO and the Sales Director at SAMPO TUnŻ S.A. In August 2004, he was appointed the Director of the Group Insurance Office in PZU Życie and in January 2006 he started his work as the Coordinating Director in charge of Corporate Clients. He has been in the Management Board of PZU Życie since March 2007. From August 2007 to September 2015 and, again, since 29 January 2016 he has been holding the position of the CEO. From 1 February 2010 to 14 March 2013 Director in PZU Group. Member of the Management Board of PZU since 15 March 2013. Between 9 December 2015 and 18 January 2016, he acted as CEO. He is in charge of corporate, financial insurance, life operations, agency sale of life insurance and products management of life insurance.



Przemysław Dąbrowski – Member of the Management Board in PZU since 21 December 2010 / PZU Życie since 29 January 2010

Przemysław Dąbrowski graduated from the University of Warsaw, the Faculty of Information Technology and a Post-Graduate Management Course. He graduated from MBA studies at the University of Illinois and from the Warsaw-Illinois Executive MBA program. He has vast experience in financial management services for the insurance sector, in managing financial investments and large financial transactions. He has knowledge and experience in accounting, tax and actuarial issues. He started his professional career in 1993. From 1993 to 1998 he worked at Whirlpool Polska sp. z o.o. as an analyst and financial controller. In 1998–2000 he was the Treasurer at AIG Poland. In the years 2000–2001, he was the Financial Director and a Member of the Management Board of Creative Team S.A. (the Elektrim Group). From 2001 to 2006, he was the Planning and Controlling Director at PZU. In 2006–2008, he worked at at Kearney and Accenture as a Manager and a Senior Manager. From October 2008 to March 2009, he held the function of the Director – Deputy Head of Financial Division in the Head Office of PZU and PZU Życie. From November 2008 to February 2009, he was the Planning and Controlling Director in the Head Office of PZU and PZU Życie, and in March 2009 he was appointed the Information Management Director in the Head Office of PZU and PZU Życie. He has been holding the position of a Member of the Management Board of PZU Życie since January 2010. He has been holding the position of a Member of the Management Board of PZU since December 2010. In PZU Group, he is responsible for finance, accounting operations, debt collection and actuary.

Roger Hodgkiss – Member of the Management Board in PZU from 19 January 2016 / PZU Życie from 29 January 2016

He has many years of experience in financial services. He graduated with honors from the University of Liverpool as an engineer. He is a Statutory Auditor, certified in the United Kingdom. Between 1998 and 2007, he worked for GE Capital on various management positions concerning finance. In the years 2007–2008, he held the position of the CEO of AAS Balta – the largest insurance company in Latvia. From 2008 to 2009, he worked as Sales Director in Intouch Insurance Group, a holding company part of RSA Group. Since 2009, he has been in the Management Board of Link4 Towarzystwo Ubezpieczeń S.A., and since 2012 has been the CEO. He was awarded prize of „Gazeta Ubezpieczeniowa": the title of Człowiek Roku Ubezpieczeń 2014 (Man of the Year in Insurance). In PZU Group, he is responsible for retail sale of non-life insurance, sales support, direct channels, sales network, CRM and product management of non-life insurance.

Beata Kozłowska-Chyła – Member of the Management Board in PZU since 19 January 2016 / PZU Życie since 29 January 2016

She is a PH.D. of Laws and a lecturer at the Faculty of Law and Administration of the University of Warsaw, where she graduated. Between 1994 and 1997, she was a trainee legal advisor and entered the list of legal advisors of Regional Chamber of Legal Advisors in Warsaw. In 2015, the Central Committee for Degrees and Titles took action in order to award Beata Kozłowska-Chyła with habilitation in Legal Sciences. She was performing the functions of the Director of State Company „Uzdrowisko Konstancin" in Konstancin-Jeziorna. She was the Deputy Director of the Legal and Licensing Department of the Pension Funds Supervisory Authority (UNFE). Between 2000 and 2007, she was a lecturer at the College of Public Administration in Ostrołęka. She also was the Deputy Dean of the Faculty of Administration at Public Administration University in Ostrołęka. She was an advisor to the Minister of Finance. She was a Member of the Supervisory Board of PZU and then a Member of the Management Board of PZU. Moreover, she performed a function of a Member of the Supervisory Board of TFI PZU and PTE PZU, and also of a Member of the Supervisory Board of Telewizja Polska S.A. Until January 2016, she provided legal advice in a legal advisory office. What is more, since 2010, she has been a recommended arbitrator of the Arbitration Court of the Polish Chamber of Commerce in Warsaw. Authored a number of scientific publications concerning company law, securities law and issues of ownership transformation and privatization of state companies. She is also the author of legal expert opinions prepared on the order of the Parliament, covering i.a. the draft of the Act on Financial Market Supervision. She is involved in teaching activities at the Faculty of Law and Administration of the University of Warsaw and the Faculty of Economics at the University of Warsaw. In PZU Group, she is responsible for administration, purchases, non-life operations (post-sale contract support), legal activities.

Robert Pietryszyn – Member of the Management Board in PZU since 19 January 2016 / PZU Życie since 29 January 2016

Graduate from the Faculty of Law, Administration and Economics of the University of Wrocław, Master of Business Administration (MBA) studies and Post-graduate Management Studies „Company Management" at the Oscar Lange University of Economics in Wrocław. He started his professional career as a Management Board proxy for Kronn sp. z o.o., where, between 2001 and 2004, he worked on financial risk management, receivables purchasing and representation concerns (i.a. acquisition of several major entities). Between 2004 and 2006, he worked as a Project Consultant/Project Manager at PROFES Capital sp. z o.o. and focused on the area of investment banking: company restructuring, mergers transactions, financing (Polcolorit S.A.) and crisis management. In 2006, he was employed as an Expert for PKO BP S.A., where he worked on optimization of bank's operations and cost restructuring. At the same time, he was also a Member of the Management Board in charge of organization and strategy in Dolfamex sp. z o.o. Between 2006 and 2008, he was associated with Grupa Kapitałowa KGHM Polska Miedź S.A. Between 2008 and 2011, he was running his own business (consulting services). His activities covered economic counseling concerning restructuration of business areas, strategic advice, and marketing. From January 2011 to January 2016, he was the CEO of Wrocław 2012 sp. z o.o. (Municipal Stadium, Wrocław). His activities focused on supervising investment process (the biggest investment in the history of post-war Wrocław: PLN 900 million), strategy and business operations. At present, he is also a Member of the Supervisory Board of LOTOS Group S.A. In the past, he used to perform the role of a Member of the Supervisory Board of the following companies: DOLMED SA, Polcolorit SA (company quoted on WSE), Wrocław 2012 sp. z o.o., Radio Merkury S.A. (Chairman of the Supervisory Board), WKS Zawisza Bydgoszcz S.A., PGE Dystrybucja Rzeszów sp. z o.o. (Chairman of the Supervisory Board), Ruch S.A. (Chairman of the Supervisory Board, company quoted on WSE), Pri Bazalt S.A. (Deputy Chairman of the Supervisory Board). In PZU Group, he is responsible for foreign operations (international activity), health business, marketing, client relation management, bancassurance and property management.

Paweł Surówka – Member of the Management Board in PZU since 20 January 2016 / PZU Życie since 29 January 2016

Graduate of Universitė Paris I Panthėon Sorbonne and Ecole des Hautes Etudes en Sciences Sociales (EHESS). Completed his main studies at Ludwig Maximilian Universität (LMU) in Munich. Between 2007 and 2013, he worked as a financial advisor at Bank of America Merrill Lynch. He represented the Bank in the CEE region by building relationships with investors. His activities covered counseling on portfolio management, asset allocation and their diversification, alternative financial instruments and market analysis. From 2013 to 2015, he was a Member of the Management Board of Boryszew S.A., the Office Director in charge of automotive sector development, and the CEO of the subsidiaries from the automotive sector. During his time spent in Boryszew Group, he was responsible for strategic and operational management and supervision over budget policy of the motor sector. His activities covered preparation and implementation of a business strategy for automotive area. Moreover, he was responsible for mergers and acquisitions performed as a part of expansion policy and disinvestment of Boryszew Group. He also led restructuring processes of the companies from motor sector. Until January 2016, he was an advisor to the CEO of PKO Bank Polski S.A., and the Director of Corporate Banking and Investments in Germany responsible for opening the first foreign corporate branch of PKO Bank Polski. His activities covered also counseling and financial processing for the largest corporate clients of PKO Bank Polski concerning their expansion and foreign operations. He is fluent in English, French and German. In PZU Group, he is in charge of investments.

Sławomir Niemierka – Member of the Management Board of PZU Życie and Director in PZU Group since 19 March 2012

He graduated from the Faculty of Law and Administration at the University of Warsaw and from Harvard Business School. He has the qualifications of legal advisor. Co-authored a number of publications on financial law and bank supervision. He was an academic teacher at post-graduate courses at Polish Academy of Sciences, the University of Warsaw and the Academy of Insurance and Finance. For many years, he worked in the National Bank of Poland, where he headed the Inspection Office responsible for inspections carried out in banks. Member of a Steering Committee of the General Inspectorate of Banking Supervision in charge of the implementation of the second Basel Accord, supervision over risk models, operational risk and accounting standards. He was in a Team in charge of the development of the risk management system in the National Bank of Poland. As a Member of the Management Board of the Bank Guarantee Fund, he supervised the operational risk management system. He joined PZU Group in 2008 and was appointed the Managing Director in charge of auditing. On 19 March 2012, he joined the Management Board of PZU Życie and was appointed the Director of PZU Group. He is in charge of risk management, reinsurance, compliance and safety.

Tomasz Karusewicz – Member of the Management Board of PZU Życie and Director in PZU Group since 29 January 2016

Graduate from the Faculty of Economic Sciences and Management at the University of Szczecin – specialization company management. Is also a Certified Internal Auditor and qualified to sit on supervisory boards of the State Treasury companies. He gained his experience and vast practical knowledge on functioning of large economic entities during his work in the area of supervision, institutional control and internal audit. As a member of supervisory boards of commercial law companies, he participated in decision-making processes which were strategically vital to current operations of these entities, concerning i.a. such areas as: investments, planning, IT strategy, acquisition, or finance operations. Between 2003 and 2005, he was employed by the Municipal Office of Szczecin. He worked in the Internal Control Division, and afterwards he was an internal auditor. From 2006 to 2008, he worked in Ciech Group. He was a Member of the Supervisory Board of Ciech S.A. He was also the Deputy Director of the Ownership Supervision Office, where he was performing ownership supervision over the companies of Ciech Group. In addition, he was a Member of the Supervisory Boards of the companies of Ciech Group, i.e. Zakłady Chemiczne Alwernia S.A. and Ciech Polfa Sp. z o.o. From 2007 to 2009, he worked as the Deputy Director of the Foreign Investments Office (Business Development Office) at PZU. Between 2010 and 2012, he worked in Telewizja Polska S.A. At first, as the Deputy Director of the Office of the Management Board and Corporate Issues, then – as the Director of the Audit and Internal Control Office. Moreover, he sat in management boards of many companies, i.a. Enea S.A., IKS Solino S.A. and Zakłady Azotowe w Tarnowie – Mościcach S.A. At the present he is a Member of Supervisory Board of Azoty S.A. Group. Since January 2016 again employed in PZU. He is a Member of Supervisory Board in PZU Życie, he is in charge of IT.

Roman Pałac – Member of the Management Board of PZU Życie and Director in PZU Group since 29 January 2016

Graduate from Economy at Warsaw School of Economics. He earned the title of Master of Business Administration (MBA) at London Business School along with the dean's award for the best graduates. He has many years of experience in financial services in Poland and abroad. In 2003-2007, he worked as a Project Manager in the World Bank where he was responsible for preparing and coordinating the implementation of borrowing programs that were aimed to introduce policies to improve energy efficiency in the CEE countries. He coordinated also the works on a coal industry reform in Poland. In 2009-2016, he has collaborated with The Boston Consulting Group, where he has held the position of a Junior Partner and was responsible for insurance and banking consulting e.g. in the following fields: motor claims handling, organizational changes, business strategy creation, and intensification of sales operations. He took part in several bank mergers where he acted as an expert. In PZU Group, he is in charge of Claims Handling and Benefits.

The regulations of the Management Board determine:

- the scope of Management Board's competencies and activities that require approval or confirmation by the Supervisory Board;
- competencies of the CEO and Members of the Management Board;
- principles and organization of Board's activities, including its meetings and decision making procedures;
- rights and obligations of the Members of the Management Board upon dismissal.

In accordance with the regulations of the Management Board, resolutions of the Management Board are especially required for:

- adoption of a long-term plan for development and operations of the company;
- adoption of an action and development plan for 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 Report on the activities of the company;
- approval of a motion concerning profit distribution or loss coverage;
- determination of premiums in the compulsory and voluntary insurance and general voluntary insurance terms and conditions;
- 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 investments, prevention and sponsoring;
- giving sureties and guarantees (excluding insurance operations) and taking out and giving credit facilities or loans by the Company (excluding credit facilities and loans given from the Company's Social Benefits Fund);
- appointment of a commercial representation.

In accordance with the regulations, meetings of the Management Board are held at least once a fortnight. The work of the Management Board is administered by the CEO whose powers include in particular:

- defining the scope of responsibility of each member of the Management Board;
- calling meetings of the Management Board;
- setting the agenda of the meeting of the Management Board;
- applying to the Supervisory Board for appointing and dismissing members of the Management Board;
- designating a person to administer the work of the Management Board during the absence of the CEO.

The work of the Management Board is administered by the CEO who defines the scope of responsibility of each member of the Management Board.

Resolutions of the Management Board are adopted only in the presence of the CEO or a person designated to administer the work of the Management Board during their absence.

Resolutions of the Management Board are adopted by an absolute majority of votes and in the event of a voting tie the CEO has the casting vote. The Management Board, upon consent of the CEO, may adopt resolutions in writing, on paper or in an e-form (i.e. using means of distant communication and a qualified electronic signature). The By-laws also provide that the meetings of the Management Board may be held using means of direct distant communication.

The CEO takes decisions in the form of orders and official instructions. Other Members of the Management Board administer the operations of the Company within the scope specified by the CEO.

The By-laws of PZU do not provide for any special rights of the Management Board concerning decisions to issue or redeem shares.

10.9 Remuneration of the members of the Group's bodies

Employment contracts concluded with the Members of the Management Board, approved by resolution of the Supervisory Board, do not include compensation for resignation or dismissal from their positions without a valid reason, or if the dismissal results from a business combination through an acquisition of the issuer.

Separate non-competition agreements regulate among others refraining from post-employment competition with PZU in exchange for damages. In 2014–2015, PZU Group companies included in consolidation did not grant any loans or similar benefits to members of their management boards, higher level managers or members of their supervisory boards.

Compensation and other short-therm employee benefits paid by PZU (PLN 000)	1 January – 31 December 2015		1 January – 31 December 2014	
		including bonuses and special prizes:		including bonuses and special prizes:
Management Board, including:	**8,124**	**2,862**	**8,226**	**2,812**
Andrzej Klesyk	2,970	1,170	2,714	914
Przemysław Dąbrowski	1,112	371	1,054	313
Dariusz Krzewina	1,281	507	1,314	534
Tomasz Tarkowski	995	332	891	228
Ryszard Trepczyński[1]	1,194[2]	482	1,165	424
Rafał Grodzicki[3]	312	-	-	-
Witold Jaworski[4]	260	-	-	-
Barbara Smalska[5]	-	-	1,088	399
Contracts concluded with high level managers – High level management (Directors of PZU Group), including:	**3,799**	**1,530**	**3,717**	**1,193**
Rafał Grodzicki[3]	624	312	936	312
Przemysław Henschke	936	312	936	312
Sławomir Niemierka	963	300	860	199
Tobiasz Bury	1,276	606	985	370[6]
Supervisory Board, including:	**1,224**	-	**1,221**	**-**
Zbigniew Ćwiąkalski	180	-	168	-
Paweł Kaczmarek	84	-	-	-
Dariusz Filar	132	-	120	-
Aleksandra Magaczewska	156		97	-
Tomasz Zganiacz	72	-	144	-
Zbigniew Derdziuk	120	-	120	-
Dariusz Kacprzyk	120	-	64	-
Jakub Karnowski	120	-	64	-
Alojzy Nowak	120	-	120	-
Maciej Piotrowski	120	-	120	-
Waldemar Maj	-	-	90	-
Dariusz Daniluk	-	-	57	-
Włodzimierz Kiciński	-	-	57	-

Total estimated valued of benefits in kind allocated by PZU and its subsidiaries (PLN thousands)	1 January – 31 December 2015		1 January – 31 December 2014	
		including bonuses and special prizes:		including bonuses and special prizes:
Management Board, including:	**3,310**	**1,279**	**2,942**	**996**
Przemysław Dąbrowski	799	400	599	200
Dariusz Krzewina	690	273	553	133
Tomasz Tarkowski	536	179	536	179
Ryszard Trepczyński[1]	643[2]	259	658	259
Rafał Grodzicki[3]	504	168	-	-
Witold Jaworski[4]	138	-	-	-
Barbara Smalska[5]	-	-	596	225
Contracts concluded with high level managers – High level management (Directors of PZU Group), including:	**1,546**	**492**	**1,844**	**478**
Rafał Grodzicki[3]	-	-	455	119
Przemysław Henschke	504	168	455	119
Sławomir Niemierka	464	107	427	70
Tobiasz Bury	578	217	507	170[6]

Total estimated valued of benefits in kind allocated by PZU and its subsidiaries (PLN thousands)	1 January – 31 December 2015	1 January – 31 December 2014
Management Board, including:	**1,224**	**1,307**
Andrzej Klesyk	298	282
Przemysław Dąbrowski	191	186
Dariusz Krzewina	209	217
Tomasz Tarkowski	178	191
Ryszard Trepczyński[1]	179	226
Rafał Grodzicki[3]	129	-
Witold Jaworski[4]	40	-
Barbara Smalska[5]	-	205
Contracts concluded with high level managers – High level management (Directors of PZU Group), including:	**600**	**908**
Rafał Grodzicki[3]	44	170
Przemysław Henschke	167	203
Sławomir Niemierka	176	358

Total estimated valued of benefits in kind allocated by PZU and its subsidiaries (PLN thousands)	1 January – 31 December 2015	1 January – 31 December 2014
Tobiasz Bury	213	177
Supervisory Board, including:	**11**	**-**
Zbigniew Ćwiąkalski	10	-
Jakub Karnowski	1	-

[1] Ryszard Trepczyński has not been appointed to the Management Board of PZU new term of office, which run began on 1 July 2015.
[2] The indicated amounts include remuneration for non-competition PLN 185 thousand (PZU) and PLN 100 thousand (PZU Życie) and the remuneration for the notice period.
[3] Rafał Grodzicki was dismissed from the position of Director of the PZU Group on 30 June 2015 and appointed to the Management Board of PZU new term of office, which run began on 1 July 2015.
[4] Witold Jaworski was appointed to the Management Board of PZU on 1 September 2015.
[5] Barbara Smalska submitted a statement of resignation on 6 October 2014 into effect on 31 December 2014, in 2015 she received the remuneration for the notice period and for the non-competition in the amount of PLN 974 thousand (PZU) and PLN 525 thousand (PZU Życie) and PLN 71 thousand for non-cash benefits.
[6] WThe indicated amount is the premium for 2013 years for performing other functions in PZU and PZU Życie.

Rules of granting annual bonuses to the Members of the Management Board

The bonuses of the Management Board's Members are dependent on their performance for the financial year. They are awarded by the Supervisory Board after the approval of the financial statements for the year.

The bonus amount depends on the performance of the business area supervised by the given Member of the Management Board; however, the areas that affect business results have much greater impact on remuneration than the support areas.

Group Directors

Positions of PZU Group Directors were established at PZU in relation to the implementation of the management model, according to which Members of the Management Board of PZU Życie as PZU Group Directors are in charge of the same business areas and functions in both companies. The positions of PZU Group Directors are established based on Organizational Regulations of PZU (paragraph 20, item 3).

As at 1 January 2015, PZU Group Directors were the following:
- Rafał Grodzicki;
- Przemysław Henschke;
- Sławomir Niemierka;
- Tobiasz Bury.

On 1 July 2015, the Supervisory Board of PZU appointed Rafał Grodzicki as a Member of the Management Board of PZU.

As at 31 December 2015, PZU Group Directors were the following:
- Tobiasz Bury;
- Przemysław Henschke;
- Sławomir Niemierka

On 29 January 2016, Tomasz Karusewicz was appointed a Director of the Group, and on 15 February 2016 Roman Pałac also was appointed to perform this function. Moreover, on 29 January the following people ceased to hold the position of Director of the Group: Tobiasz Bury and Przemysław Henschke.

As at the date of preparation of this Report on the activities, the following people have been performing the role of a Director of PZU Group:
- Sławomir Niemierka;
- Tomasz Karusewicz;
- Roman Pałac.

We are creating
this place together.

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Representations of the Management Board

Correctness and reliability of presented financial statements

The Management Board of PZU declares that, to the best of their knowledge, the annual financial statements and comparable data of PZU Group have been prepared in accordance with the applicable accounting principles and provide a true, fair and clear view of the economic and financial position and the financial result of the Group and the management report of PZU Group presents a true picture of its development and achievements, including a description of the main risks and threats.

Selection of the entity authorized to audit financial statements

The Management Board of PZU represents that the entity authorized to audit financial statements - KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k. - which audited the annual consolidated financial statements was selected in accordance with the provisions of law and that the entity and certified auditors who audited the financial statements met the requirements to express an unbiased and independent opinion on the audited annual consolidated financial statements, in accordance with the applicable provisions of law and professional standards

Cooperation with international public institutions

Companies of PZU Group cooperate with the EIOPA (European Insurance and Occupational Pensions Authority) in the context of Solvency II.

Information about significant agreements for the operations of PZU Group, including those concluded between shareholders

The Management Board is not aware of any agreements concluded by the date of preparation of this Management's Report of PZU Capital Group (including those concluded after the end of the financial year), which could result in future changes in proportions of shares held by the existing shareholders.

Information on significant contracts concluded

On 16 October 2015, PZU issued a guarantee in relation to the liabilities of PZU Finance AB (publ) arising from the bonds issued by the company. The maximum value of the guarantee was not established. The guarantee issued by PZU is irrevocable and unconditional and will expire on the expiry of the bondholders' claims against PZU Finance AB. PZU is not entitled to receive any remuneration for the issuance of the guarantee.

On 19 October 2015, the Issuer took a loan from PZU Finance AB (publ) with a total value of EUR 350 million and the interest rate of 1.425% per year. The loan is to be paid back on 28 June 2019.

Related party transactions

PZU Group companies provide services to each other, as part of their capital and business ties. With the exception of companies of the Tax Capital Group, transactions are concluded at arm's length.

Tax Capital Group

On 25 September 2014, a new Tax Capital Group agreement was signed, covering the following 13 PZU Group's companies: PZU, PZU Życie, Link4 Towarzystwo Ubezpieczeń SA, PZU Centrum Operacji SA, PZU Pomoc SA, Ogrodowa-Inwestycje Sp. z o.o., Ipsilon Sp. z o.o., PZU Asset Management SA, TFI PZU SA, Ipsilon Bis SA, PZU Finanse Sp. z o.o., Omicron SA, Omicron Bis SA. The tax capital group was established for a 3-year period - between 1 January 2015 and 31 December 2017.

PZU is the dominating and representing company of the tax capital group. In accordance with art. 25 section 1 of the CIT act, the tax capital group makes monthly settlements with the Treasury Office. PZU makes advance payments to the Treasury Office in scope of CIT owed from all companies, while PZU Życie provides PZU with advance CIT payments concerning the business activity of PZU Życie.

Seasonal or cyclical business

Operations of PZU are not of a seasonal or cyclical nature to the extent that would justify application of the suggestions presented in International Financial Reporting Standards.

Evaluation of financial resources management, including the ability to repay liabilities and definition of possible threats and activities, undertaken or planned by the Issuer to counteract these threats

The financial position of the Issuer is very good. It meets all the security requirements imposed by the Act on Insurance Activity and the Polish Financial Supervision Authority. A stable rating outlook of PZU confirms that the Issuer has a strong business position, high levels of equity and is a competitive entity in the insurance market.

Disputes

In 2015 and by the date of preparation of this Management's Report of PZU Capital Group, PZU Group did not take part in any proceedings before court, body competent to hear arbitration proceedings or public authority body concerning liabilities or receivables of PZU or its direct and indirect subsidiaries with the value of at least 10% of the equity of PZU. The description of court cases and proceedings before the President of the Office of Competition and Consumer Protection (OCCP) is included in the consolidated financial statements of PZU Group for 2015.

As at 31 December 2015, the total value of all 121,918 cases heard by courts, bodies competent to hear arbitration proceedings or public authority bodies involving PZU Group entities was PLN 4,898.3 million. The amount includes PLN 3,131.1 million of liabilities and PLN 1,767.2 million of receivables of PZU Group companies, which accounted for 25.29% and 14.28% of the equity of PZU calculated in line with PAS, respectively.

This Management Report of PZU Capital Group for 2015 includes 183 pages with sequential numbers.

Signatures of Members of PZU Management Board

Michał Krupiński – CEO

Przemysław Dąbrowski – Member of the Management Board

Roger Hodgkiss – Member of the Management Board

Beata Kozłowska-Chyła – Member of the Management Board

Dariusz Krzewina – Member of the Management Board

Robert Pietryszyn – Member of the Management Board

Paweł Surówka – Member of the Management Board

Warsaw, 14 March 2016

COMPLIANCE WEEK

We invite you to attend a series of meetings with interesting people and a coffee and …

More information at PZU24

Let friendship abound where a code of conduct applies.
When there are a host of norms it's worth knowing who works with whom.
So with this intriguing observation in mind, accept our invitation.

PZU'S INTERNAL COMMUNICATION

12

Appendix: PZU financial data

Appendix: PZU financial data

Basic amounts of the consolidated profit and loss account (PLN thousand)	2015	2014	2013	2012	2011
Gross written premiums	18,359,044	16,884,639	16,480,003	16,243,131	15,279,262
Net earned premiums	17,384,871	16,429,370	16,248,769	16,005,240	14,890,528
Revenue from commissions and fees	242,799	350,764	299,169	237,102	281,351
Net investment income	1,739,277	2,646,907	2,479,375	3,613,417	1,735,340
Net claims and benefits	(11,857,102)	(11,541,708)	(11,161,224)	(12,218,731)	(10,221,122)
Acquisition costs	(2,376,305)	(2,147,024)	(2,015,938)	(2,000,351)	(1,961,986)
Administrative expenses	(1,657,878)	(1,527,699)	(1,406,480)	(1,440,301)	(1,383,897)
Interest expenses	(117,433)	(147,285)	(104,199)	(126,958)	(158,154)
Other operational revenues and expenses	(418,844)	(370,107)	(220,378)	(30,710)	(274,485)
Operating profit (loss)	2,939,385	3,693,218	4,119,094	4,038,708	2,907,575
Share in net profit (loss) of entities measured using the equity method	4,348	(1,525)	1,404	-	-
Gross profit (loss)	2,943,733	3,691,693	4,120,498	4,038,708	2,907,575
Net profit (loss), including:	2,342,196	2,967,627	3,294,955	3,253,826	2,343,947
Shareholders' profit (loss)	2,342,355	2,967,731	3,293,496	3,255,181	2,345,424
Minority profit (loss)	(159)	(104)	1,459	(1,355)	(1,477)
Basic and diluted weighted average number of ordinary shares*	863,523,000	863,519,490	863,519,490	863,523,000	863,523,000
Number of shares issued	863,523,000	863,523,000	863,523,000	863,523,000	863,523,000
Basic and diluted PZU Group's profit per ordinary Issuer's share (in PLN)	2.71	3.44	3.81	3.77	2.72
Net profit of PZU (Issuer)	2,248,522	2,636,733	5,106,345	2,580,720	2,582,303
Basic and diluted profit per ordinary share (in PLN)	2.60	3.05	5.91	2.99	2.99

*including shares in consolidated funds

Restated data from the period 2011-2014.

Assets (PLN thousand)	2015	2014	2013	2012	2011
Intangible assets	1,393,168	868,692	308,726	183,238	166,038
Goodwill	1,506,445	769,044	8,519	8,474	8,716
Property, plant and equipment	1,299,788	1,001,609	927,281	992,317	1,055,381
Investment property	1,171,721	2,236,062	1,474,770	564,404	534,222
Entities measured using the equity method	54,065	66,311	48,595	-	-
Financial assets	89,305,847	56,759,976	55,085,728	50,423,076	46,775,359
Receivables, including under insurance contracts	3,270,793	3,085,432	2,671,964	1,835,793	1,734,636
Reinsurers' share in technical provisions	1,096,852	753,115	526,605	749,334	700,713
Estimated subrogations and recoveries	114,229	127,262	129,950	121,632	83,117
Deferred tax assets	349,189	26,957	16,949	13,963	8,600
Current income tax receivables	67,295	368	34,895	80,646	8,582
Deferred acquisition costs	1,154,742	712,066	609,819	574,489	569,843
Other assets	698,964	235,250	195,449	178,646	246,351
Cash and cash equivalents	2,439,863	324,007	569,157	136,586	237,724
Non-current assets held for sale and disposal groups	1,506,048	606,610	178,897	46,962	-
Total assets	**105,429,009**	**67,572,761**	**62,787,304**	**55,909,560**	**52,129,282**

Restated data from the period 2011-2014.

Appendix: PZU financial data

Equity (PLN thousand)	2015	2014	2013	2012	2011
Share capital	86,352	86,352	86,352	86,352	86,352
Supplementary capital	9,947,292	9,678,921	8,855,999	8,780,212	7,711,818
Revaluation reserve	240,677	248,543	242,297	363,242	268,831
Actuarial profits and losses related to provisions for employee benefits	(4,404)	(6,179)	902	-	-
Treasury shares	-	(110)	(110)	-	-
Other reserve shares	22	66	-	-	-
Exchange differences from subsidiaries	(41,980)	(35,450)	(37,737)	(38,004)	(32,263)
Retained profits (losses)	353,405	226,462	2,397,137	1,743,148	2,403,000
Net profit (loss)	2,342,355	2,967,731	3,293,496	3,255,181	2,345,424
Appropriations on net profit during the financial year	-	-	(1,727,046)	-	-
Minority interest	2,255,188	1,292	16,341	79,138	86,343
Total equity	**15,178,907**	**13,167,628**	**13,127,631**	**14,269,269**	**12,869,505**

Restated data from the period 2011-2014.

Liabilities (PLN thousand)	2015	2014	2013	2012	2011
Technical provisions	41,280,321	40,166,885	37,324,416	35,400,778	32,522,729
Unearned premium and unexpired risk reserve	5,855,996	5,250,103	4,540,011	4,537,167	4,521,396
Life insurance provisions	16,221,886	16,281,625	16,048,191	15,675,243	14,595,112
Outstanding claims provisions	8,264,040	7,770,351	6,586,781	5,878,445	5,429,481
Provision for annuities	5,807,892	5,997,595	5,761,332	5,660,281	5,088,626
Provisions for bonuses and discounts for the insured	2,662	2,291	2,893	4,227	7,192
Other technical provisions	383,888	439,364	477,987	531,617	581,155
Unit-linked technical provisions	4,743,957	4,425,556	3,907,221	3,113,798	2,299,767
Provisions for employee benefits	117,398	120,070	123,380	107,307	255,576
Other provisions	108,109	191,206	192,906	267,456	322,063
Deferred tax liability	509,157	398,433	255,399	357,557	109,716
Financial liabilities	44,487,823	9,403,244	8,398,582	3,435,313	4,324,166
Other liabilities, including current income tax	3,747,294	3,873,281	3,364,990	2,071,880	1,725,527
Liabilities directly associated with assets qualified as held for sale	-	252,014	-	-	-
Total liabilities	**90,250,102**	**54,405,133**	**49,659,673**	**41,640,291**	**39,259,777**
Total equity and liabilities	**105,429,009**	**67,572,761**	**62,787,304**	**55,909,560**	**52,129,282**

Restated data from the period 2011-2014.

Assets to cover technical provisions in PZU (PLN thousand)

Item	2015 Total	2015 % of technical provisions	Maximum limit %
A. Technical provisions	**18,577,330**	**100.0%**	-
B. Assets to cover technical provisions, total	**20,535,296**	**110.5%**	-
1. Debt issued or guaranteed by the State Treasury and international organizations to which the Republic of Poland belongs	6,841,108	36.8%	without limitations
2. Bonds issued or guaranteed by local authorities or associations of local authorities	26,251	0.1%	without limitations
3. Other fixed revenue instruments	541,460	2.9%	10%
4. Investment fund units	6,843,761	36.8%	40%
Mortgage loans	917,623	4.9%	25%
6. Other loans	200,901	1.1%	5%
7. Investment certificates in investment funds	1,801,248	9.7%	10%
8. Property or its part excluding property or its part for own use	41,056	0.2%	25%
9. Bank deposits	1,391,806	7.5%	without limitations
10. Receivables	336,900	1.8%	25%
11. Receivables from the State Budget	63,641	0.3%	without limitations
12. Tangible assets, other than property, if amortized using the prudence principle	118,398	0.6%	5%
13. Cash	4,397	0.0%	3%
14. Deferred acquisition expenses compliant with the principles of determining provision for unearned premium in section I of the attachment to the Act and in compliance with the unearned premium reserve calculation in section II	845,148	4.5%	without limitations
15. Reinsurers' share in technical provisions	518,419	2.8%	25%
16. Mortgage bonds	43,179	0.2%	10%
C. Surplus (shortage) of assets covering technical provisions	**1,957,966**	**10.5%**	-

Assets to cover technical provisions in PZU Życie (excluding unit-linked assets) (PLN thousand)

Item	2015 Total	2015 % of technical provisions	Maximum limit %
A. Technical provisions, excluding unit-linked technical provisions	**17,290,586**	**100.0%**	-
B. Assets to cover technical provisions, total	**20,569,115**	**119.0%**	-
1. Debt issued or guaranteed by the State Treasury and international organizations to which the Republic of Poland belongs	13,475,140	77.9%	without limitations
2. Bonds issued or guaranteed by local authorities or associations of local authorities	26,251	0.2%	without limitations
3. Other fixed income securities	125,443	0.7%	10%
4. Investment fund units	3,876,305	22.4%	40%
5. Investment certificates in investment funds	1,688,670	9.8%	10%
6. Mortgage loans	272,452	1.6%	25%
7. Other loans	1,887	0.0%	5%
8. Bank deposits	1,025,347	5.9%	without limitations
9. Tangible assets, other than property, if amortized using the prudence principle	67,912	0.4%	5%
10. Cash	9,708	0.1%	3%
C. Surplus (shortage) of assets covering technical provisions	**3,278,529**	**19.0%**	-

Assets to cover unit-linked technical provisions in PZU Życie (PLN thousand)

Item	2015		
	Total	% of technical provisions	Maximum limit %
A. Unit-linked life insurance provisions	**5,088,723**	**100.0%**	-
B. Assets to cover technical provisions, total	**5,088,723**	**100.0%**	-
1. Debt issued or guaranteed by the State Treasury and international organizations to which the Republic of Poland belongs	1,459,996	28.7%	without limitations
2. Other fixed income securities	73,683	1.4%	without limitations
3. Shares	515,970	10.1%	without limitations
4. Investment units or investment certificates in investment funds	3,021,680	59.4%	without limitations
5. Other variable revenue instruments	3,352	0.1%	without limitations
6. Bank deposits	91,407	1.8%	without limitations
7. Receivables due to financial market transactions	18,888	0.4%	without limitations
8. Liabilities due to financial market transactions	(96,254)	(1.9%)	without limitations

Total assets to cover technical provisions in PZU Życie (PLN thousand)

Item	2015	
	Total	% of technical provisions
A. Technical provisions	**22,379,309**	**100.0%**
B. Assets to cover technical provisions, total	**25,657,838**	**114.6%**
C. Surplus (shortage) of assets covering technical provisions	**3,278,529**	**14.6%**

One-off events in PZU Group - impact on gross result (PLN million)	2015	2014	2013	2012	2011
Loss due to the change in fair value of Alior Bank shares purchased within tranche I	(175.8)	-	-	-	-
Conversion effect (IAS)	75.4	69.9	127.1	207.0	406.1
Result of the sale of PZU Lithuania	165.5	-	-	-	-
Fund consolidation commencement	-	-	172.7	-	-
Adjusting the rate of PZU Życie calculated according to IFRS to the PAS level	-	-	-	(390.1)	-
Reducing the technical rate in PZU Życie	-	-	-	(408.5)	-
Change in the rates for annuity provision	-	-	-	(234.2)	-
Release of provisions for employee benefits associated with termination of the Company Collective Bargaining Agreement	-	-	-	177.0	-
Sales of shares from the AFS portfolio	-	-	-	101.0	-
Result on contract guarantees	-	-	-	(93.2)	-
Consolidation of the Armatura Group	-	-	-	-	118.9
Provisions for OCCP penalties	-	-	-	-	(67.9)
Green Card reinsurance settlements	-	-	53.2	-	(91.8)

Appendix: PZU financial data

Operating efficiency ratios		2015	2014	2013	2012	2011
1.	**Claims ratio gross** (Claims gross/written premium gross) x 100%	66.9%	69.5%	67.9%	76.2%	67.9%
2.	**Claims ratio net of reinsurance** (net claims paid/net premium earned) × 100%	68.2%	70.3%	68.7%	76.3%	68.6%
3.	**Insurance activity costs ratio** (Costs of insurance activity/premium earned net of reinsurance) x 100%	23.2%	22.4%	21.1%	21.5%	22.5%
4.	**Acquisition costs ratio** (Acquisition costs/ premium earned net of reinsurance) x 100%	13.7%	13.1%	12.4%	12.5%	13.2%
5.	**Administrative expenses ratio** (Administrative expenses/premium earned net of reinsurance) x 100%	9.5%	9.3%	8.7%	9.0%	9.3%
6.	**Combined ratio in non-life insurance** (Claims + costs of insurance activity)/ premium earned net of reinsurance x 100%	94.6%	95.7%	87.8%	92.8%	95.3%
7.	**Operating profit margin in life insurance** (Operating profit/gross written premium) x 100%	22.3%	24.4%	22.3%	19.8%	28.7%

Data from the profit and loss account – corporate insurance (non-life insurance) (PLN thousand)	2015	2014	2013	2012	2011
Gross written premiums	1,824,453	1,831,143	1,740,157	1,839,912	1,823,885
Net earned premiums	1,476,022	1,462,260	1,555,752	1,764,459	1,723,966
Investment income	121,403	136,456	140,039	127,357	158,938
Net insurance claims	(869,551)	(963,968)	(854,110)	(1,174,033)	(1,254,224)
Acquisition costs	(287,687)	(306,347)	(300,302)	(336,218)	(310,961)
Administrative expenses	(127,383)	(125,050)	(115,829)	(107,687)	(104,737)
Reinsurance commission and share in profits	16,627	16,192	8,022	(5,715)	12,200
Other	(17,821)	(2,442)	(42,091)	(50,632)	(30,831)
Operating profit (loss)	**311,610**	**217,101**	**391,481**	**217,531**	**194,351**
Acquisition costs ratio (including reinsurance commission)*	18.4%	19.8%	18.8%	19.4%	17.3%
administrative expenses ratio*	8.6%	8.6%	7.4%	6.1%	6.1%
Claims ratio*	58.9%	65.9%	54.9%	66.5%	72.8%
Combined ratio (COR)*	85.9%	94.3%	81.1%	92.0%	96.2%

* ratios calculated with net premium earned

Appendix: PZU financial data

Data from the profit and loss account – mass-market insurance (PLN thousand)	2015	2014	2013	2012	2011
Gross written premiums	7,526,767	6,569,484	6,533,743	6,613,586	6,423,356
Net earned premiums	6,791,252	6,563,005	6,552,285	6,512,677	6,182,305
Investment income	518,130	562,821	556,759	537,003	542,502
Net insurance claims	(4,444,095)	(4,363,412)	(4,192,968)	(4,298,978)	(4,132,339)
Acquisition costs	(1,394,293)	(1,238,906)	(1,141,493)	(1,136,834)	(1,156,488)
Administrative expenses	(665,744)	(617,450)	(546,865)	(568,609)	(529,170)
Reinsurance commission and share in profits	(3,058)	(26,506)	66,967	(15,929)	(29,617)
Other	(150,544)	(123,072)	(227,414)	(229,682)	(303,792)
Operating profit (loss)	**651,648**	**756,480**	**1,067,271**	**799,648**	**573,401**
Acquisition costs ratio (including reinsurance commission)*	20.6%	19.3%	16.4%	17.7%	19.2%
administrative expenses ratio*	9.8%	9.4%	8.3%	8.7%	8.6%
Claims ratio*	65.4%	66.5%	64.0%	66.0%	66.8%
Combined ratio (COR)*	95.8%	95.2%	88.7%	92.4%	94.6%

* ratios calculated with net premium earned

Data from the profit and loss account – group and individually continued insurance (PLN thousand)	2015	2014	2013	2012	2011
Gross written premiums	6,688,657	6,539,082	6,415,178	6,364,007	6,179,053
Group insurance	4,753,287	4,627,346	4,518,196	4,491,887	4,349,810
Individually continued insurance	1,935,370	1,911,736	1,896,982	1,872,120	1,829,243
Net earned premiums	6,691,210	6,537,052	6,414,069	6,362,185	6,178,109
Investment income	601,663	713,254	735,242	955,194	657,127
Net insurance claims	(4,750,100)	(4,499,360)	(4,299,510)	(4,143,878)	(4,074,495)
Change in the balance of other technical provisions net of reinsurance	31,624	(70,328)	(270,964)	(848,700)	(109,119)
Acquisition costs	(356,308)	(356,627)	(322,765)	(317,716)	(277,703)
Administrative expenses	(577,220)	(542,974)	(545,720)	(578,417)	(560,860)
Other	(66,176)	(19,192)	(106,931)	(55,593)	(33,277)
Operating profit (loss)	**1,574,693**	**1,761,825**	**1,603,421**	**1,373,075**	**1,779,782**
Operating profit (loss) excluding one-off events	**1,499,341**	**1,691,965**	**1,476,325**	**1,561,157**	**1,349,144**
Acquisition costs ratio*	5.3%	5.5%	5.0%	5.0%	4.5%
administrative expenses ratio*	8.6%	8.3%	8.5%	9.1%	9.1%
Operating profit margin**	22.4%	25.9%	23.0%	24.5%	21.8%

* ratios calculated with gross premium written
** ratio calculated with gross premium written, excluding one-off events

Appendix: PZU financial data

Data from the profit and loss account – individual insurance (PLN thousand)	**2015**	**2014**	**2013**	**2012**	**2011**
Gross written premiums	1,234,260	1,268,637	1,329,894	1,089,970	572,718
Net earned premiums	1,234,634	1,267,427	1,330,782	1,091,926	574,821
Investment income**	250,382	326,696	321,867	346,956	197,443
Net insurance claims	(850,194)	(638,789)	(626,601)	(604,780)	(649,296)
Change in the balance of other technical provisions net of reinsurance	(240,832)	(611,119)	(712,390)	(594,055)	133,908
Acquisition costs	(122,731)	(126,442)	(109,519)	(90,824)	(56,104)
Administrative expenses	(59,670)	(53,381)	(53,225)	(53,383)	(49,180)
Other**	(5,979)	(1,641)	(11,057)	8,674	8,543
Operating profit (loss)	**205,610**	**162,751**	**139,857**	**104,514**	**160,135**
Acquisition costs ratio*	9.9%	10.0%	8.2%	8.3%	9.8%
administrative expenses ratio*	4.8%	4.2%	4.0%	4.9%	8.6%
Operating profit margin*	16.7%	12.8%	10.5%	9.6%	28.0%

* ratios calculated with gross premium written
** as of 2013, presentation of figures resulting from supplementary benefits (kickback) was changed upon the request of PFSA

Data from the profit and loss account – investment contracts (PLN thousand)	**2015**	**2014**	**2013**	**2012**	**2011**
Gross written premiums	141,088	374,467	1,097,951	1,859,439	3,054,350
Group insurance	2,917	44,829	673,464	1,373,414	2,293,916
Individuall insurance	138,171	329,638	424,487	486,025	760,434
Net earned premiums	141,063	374,481	1,098,557	1,858,734	3,054,350
Investment income **	16,064	43,550	104,495	191,383	(13,956)
Net insurance claims	(694,458)	(1,391,718)	(1,329,748)	(3,185,031)	(3,069,661)
Change in the balance of other technical provisions net of reinsurance	558,454	1,015,526	172,272	1,171,526	72,829
Acquisition costs	(9,993)	(16,466)	(18,318)	(31,215)	(37,500)
Administrative expenses	(9,345)	(9,716)	(11,377)	(15,978)	(12,172)
Other **	(645)	(527)	(4,604)	11,651	20,868
Operating profit (loss)	**1,140**	**15,130**	**11,277**	**1,070**	**14,758**
Operating profit margin*	0.8%	4.0%	1.0%	0.1%	0.5%

* ratios calculated with gross premium written
** as of 2013, presentation of figures resulting from supplementary benefits (kickback) was changed upon the request of PFSA

Data from the profit and loss account – pension segment (PLN thousand)	**2015**	**2014**	**2013**	**2012**	**2011**
Revenues	118,521	270,565	218,300	199,165	231,638
Investment income	6,949	11,639	11,580	13,273	12,563
Acquisition costs	(2,947)	(6,349)	(16,776)	(20,212)	(81,559)
Administrative expenses	(39,865)	(72,838)	(77,923)	(92,967)	(73,091)
Other	(1,179)	467	2,251	(810)	896
Operating profit (loss)	**81,479**	**203,484**	**137,432**	**98,449**	**90,447**

Appendix: PZU financial data

Data from the profit and loss account – Ukraine segment (PLN thousand)	2015	2014	2013	2012	2011
Gross written premiums	168,184	173,562	203,640	142,228	120,892
Net earned premiums	102,150	135,921	170,572	103,010	92,394
Investment income	41,270	41,058	24,373	17,741	14,329
Net insurance claims	(73,285)	(94,348)	(80,892)	(53,874)	(48,809)
Acquisition costs	(46,617)	(52,126)	(62,445)	(27,998)	(31,594)
Administrative expenses	(21,154)	(28,130)	(35,904)	(28,450)	(26,854)
Other	(255)	(22)	-	-	(12)
Operating profit (loss)	**2,109**	**2,353**	**15,703**	**10,429**	**(546)**
exchange rate UAH/PLN	0.1722	0.2637	0.3886	0.4001	0.3716
Acquisition costs ratio*	45.6%	38.4%	36.6%	27.2%	34.2%
administrative expenses ratio*	20.7%	20.7%	21.0%	27.6%	29.1%

* ratios calculated with net premium earned

Data from the profit and loss account – Baltic states segment (PLN thousand)	2015	2014	2013	2012	2011
Gross written premiums	1,193,884	536,498	262,289	195,721	164,299
Net earned premiums	1,109,535	476,994	227,146	171,833	139,556
Investment income	21,782	14,617	6,511	9,890	(5,701)
Net insurance claims	(686,935)	(312,216)	(139,087)	(111,653)	(86,453)
Acquisition costs	(252,779)	(115,445)	(67,137)	(49,047)	(40,067)
Administrative expenses	(146,422)	(80,239)	(26,490)	(18,861)	(15,049)
Other	(1,833)	(766)	-	-	-
Operating profit (loss)	**43,348**	**(17,055)**	**943**	**2,162**	**(7,714)**
exchange rate EUR (LTL) in PLN	4.1848	1.2133	1.2196	1.2087	1.1990
Acquisition costs ratio*	22.8%	24.2%	29.6%	28.5%	28.7%
administrative expenses ratio*	13.2%	16.8%	11.7%	11.0%	10.8%

* ratios calculated with net premium earned

Investment segment (PLN thousand)	2015	2014	2013	2012	2011
Total	**506,166**	**578,923**	**896,372**	**1,525,225**	**115,720**

PZU'S INTERNAL COMMUNICATION

Appendix: Glossary of terms

Appendix: Glossary of terms

Act on Insurance Activity – Act on Insurance Activity of 11 September 2015 (Journal of Laws of 2015, item 1844); the majority of its provisions have been effective as of 1 January 2016. The Act introduces the Solvency II requirements to the Polish legal systems.

Act on statutory auditors – Act on statutory auditors and their self-governing body, auditing firms and on public oversight of 7 May 2009 (Journal of Laws of 2009, No. 77, item 649, as amended).

ATI (Accounting and Tax Institute) – the task of the Institute is to improve the professional qualifications of financial, accounting, and management personnel, setting the standards of financial reporting, creating changes in tax and accounting law, disseminating good practices in business, and thus better preparing Polish companies and institutions to operate under the highly competitive environment of the European Union member states.

BLS (direct claims handling) – a system of handling a claim by an insurance company which issued MTPL insurance policy of the injured party, not the perpetrator. It has been operating in Poland since 1 April 2015. Once the claims handling process is finished, the insurance companies settle the amount as a lump-sum via the Polish Chamber of Insurance (PIU).

cedent – a person assigning a liability to a buyer.

CEERIUS (CEE *Responsible Investment Universe*) – is an index of Wiener Börse for Central and Eastern European (CEE) companies. It consists of companies that meet quality criteria in the social and ecological area.

Civil Code – Act of 23 April 1964 – Civil Code (Journal of Laws No. 16 of 1964, item 93, as amended).

Code of Commercial Companies – Act of 15 September 2000 – Code of Commercial Companies (Journal of Laws of 2000, No. 94, item 1037, as amended).

COR – Combined Ratio – combined ratio calculated for the non-life sector (class II). It is the ratio of all the insurance expenses related to insurance administration and payment of claims (i.e. the costs of claims, acquisition and administration) to earned premium in a given period.

CSR – Corporate Social Responsibility – a concept according to which, upon drafting its strategy, a company voluntarily includes in its social interests and environment protection issues, as well as relations with various interest groups.

earned premium – a written premium in a given period giving consideration to the settlement of revenues (premiums) over time through movement in premium provision.

Everest-– a system for managing non-life insurance which is being implemented in PZU.

free float – a public company's shares that are not locked-in. It is the ratio of the number of shares not held by large investors to the total number of outstanding shares. In other words, all the publicly-traded shares that are freely available.

gross written premium – a gross amount of premiums (without including the reinsurers' share) due on the insurance contracts executed in a financial year, regardless of the term of liability established by these contracts.

insurance agent – an entrepreneur performing agency activities under an agreement concluded with the insurance company. The agents' activities focus on: customer acquisition, concluding insurance contracts, participating in the administration and performance of insurance contracts and organizing and supervising the activities of the agency.

insurance broker – an entity authorized to pursue brokerage activities. A broker performs activities in the name of or on behalf of a person or entity seeking insurance coverage.

inward reinsurance – reinsurance activity entailing a reinsurer or reinsurers accepting a portion of the insurance or groups of insurance yielded by the cedent.

Payout ratio – a dividend payout ratio, i.e. the quotient of the dividend paid and the company's net result stated as a percentage.

PFSA – Polish Financial Supervision Authority, www.knf.gov.pl

PIU (Polish Chamber of Insurance) – insurance economic local authority which gathers all insurance companies operating in Poland.

profit margin in group and continued insurance (in PZU Życie) – an indicator calculated as the ratio of the operating profit to gross written premium in the group and individually-continued insurance segment, net of one-off effects such as, for instance, the conversion effect, namely the conversion of long-term contracts into short-term contracts and changes to technical rates, namely the rate used to discount technical provisions.

reinsurance – yielding all or a portion of an insured risk or a group of risks along with the commensurate portion of the premiums to some other insurance company – a reinsurer. As a result of reinsurance, there is a secondary split of the risks making it possible to minimize the risks to the insurance market.

risk-free rate – the rate of return on risk-free financial instruments. PZU's risk-free rate is based on yield curves for treasury instruments, and it is also the basis for setting transfer prices in settlements between operating segments.

Solvency I – the solvency margin for insurance companies. The system operating in the European Union from the 1970s to 31 December 2015.

Solvency II – capital requirements for European insurance companies based on the risk undertaken. The requirements have been effective as of 1 January 2016.

Solvency Capital Requirement, SCR – a capital requirement calculated as per Solvency II provisions. Calculation of the capital requirement is based on the calculation of the following risks: market, actuarial (insurance), counterparty insolvency, catastrophe, and operating risk, and afterwards undergoes a diversification analysis. The ratio can be calculated under a standard formula or, once an applicable permit of a supervisory body has been obtained, using a whole or partial internal model of the company.

solvency margin – the amount of an insurance undertaking's shareholder funds no lower than the minimum guarantee fund which is required to ensure that the undertaking remains liquid.

sum insured – the cash amount for which an insured object is insured. In non-life insurance the sum insured ordinarily constitutes the upper limit of the insurer's liability.

S&P rating – a credit risk assessment performed by Standard & Poor's. An A- rating means that issuers of debt instruments have a high capability of servicing their obligations giving consideration to the emergence of factors diminishing that capability.

technical provisions – provisions which should ensure full coverage of all current and future liabilities that may arise from insurance contracts. Technical provisions include in particular: provision for unearned premiums, provision for unpaid claims and provision for unexpired risks, provision where the investment risk is born by the policyholders, provision for bonuses and rebates for the policyholders.

technical rate – the rate used to discount technical provisions in life insurance and provisions for capitalized annuities in third party liability insurance. According to the Finance Minister's Ordinance of 28 December 2009 on the special accounting standards for insurance and reinsurance undertakings, the technical rates used by an insurance undertaking may not be higher than 80% of the weighted-average rate of return on investments covering technical provisions during the most recent three financial years. PFSA calculates and announces the maximum technical rate by 31 January of every year.

U Recommendation – a recommendation of PFSA concerning good practices in scope of bancassurance.

underwriting – the process of selecting and classifying risks declared for insurance to estimate and accept, according to suitable terms and conditions, or reject an insurance risk.

unit-fund – fund related to life insurance where the investment risk is borne by the policyholders.

WIBOR6M – a reference interest rate on a six-month-long loan on the Polish interbank market.

WIG20TR – the WIG20 index including the dividends paid by companies.

WSE – Warsaw Stock Exchange

These Financial Statements contain forward-looking statements concerning the strategic operations.

Such forward-looking statements are exposed to both known and unknown types of risks, involve uncertainties and are subject to other significant factors which may cause that the actual results, operations, or achievements of PZU Group considerably differ from future results, operations, or achievements expressed or implied in the forwards-looking statements. The statements are based on a number of assumptions concerning the current and future business strategy of PZU Group and the external environment in which the Group will operate in the future. PZU expressly waives any and all obligations or commitments concerning distribution of any updates or adjustments to any of the assumptions contained in these Financial Statements of PZU Group, which shall aim to reflect the changes in PZU expectations or changes in events, conditions, or circumstances on which a given assumption has been made, unless provisions of the law provided otherwise. PZU stipulates that the forward-looking statements do not constitute a guarantee as to the future results, and the company's actual financial standing, business strategy, management plans and objectives concerning the future operations may considerably differ from those presented or implied in such statements contained in these Financial Statements of PZU Group. Moreover, even if the PZU Group's financial standing, business strategy, management plans and objectives concerning the future operations comply with the forward-looking statements contained in these Financial Statements of PZU Group, such results or events may not be treated as a guideline as to the results or events in the subsequent periods. PZU does not undertake to publish any updates, changes, or adjustments to information, data or statements contained in these Financial Statements of PZU Group if the strategic operations or plans of PZU shall change, or in the case of facts or events that shall affect such operations or plans of PZU, unless such an obligation to inform resulted from applicable provisions of the law.

PZU Group is not liable for the effects of decisions made following the reading of the Financial Statements of PZU Group.

At the same time, these Financial Statements of PZU Group may not be treated as a part of a call or an offer to purchase securities or make an investment. The Financial Statements of PZU Group does not constitute also an offer or a call to effect any other transactions concerning securities.