Powszechny Zakład Ubezpieczeń Spółka Akcyjna

Solvency and financial condition report as at and for the financial year ended 31 December 2017

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Glossary

1) **SII Directive –** Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II);
2) **EIOPA** – European Insurance and Occupational Pensions Authority;
3) **PZU Group** – PZU as the parent company together with its subsidiaries, including subsidiary companies within the meaning of the applicable provisions of accounting law;
4) **Unit** – organizational unit or organizational cell of PZU;
5) **Subsidiary** – business unit (also a non-corporate business unit such as a civil-law partnership or a mutual fund) directly or indirectly controlled by PZU; the fact of the exercise of such control results from the grounds laid down in International Financial Reporting Standard 10 "Consolidated Financial Statements";
6) **Manager** – manager of the division or business unit;
7) **KNF, regulatory authority** – Polish Financial Supervision Authority;
8) **Labor Code** – Labor Code of 26 June 1974 (consolidated version: Journal of Laws of 2018 Item 108, as amended);
9) **Commercial Company Code** – Commercial Company Code of 15 September 2000 (consolidated version: Journal of Laws of 2017 Item 1577);
10) **LAC** (loss-absorbing capacity) – adjustment related to the capacity of deferred tax to cover losses;
11) **MCR** – minimum capital requirement in the SII system;
12) **IFRS –** International Financial Reporting Standards, as endorsed by the European Commission, published and in force as at 31 December 2017;
13) **NBP** – National Bank of Poland;
14) **PZU branches** – field outlets of PZU and PZU Życie carrying out insurance activities in the area of direct client service, including product sales;
15) **PIU** – Polish Insurance Association;
16) **PAS** – Polish Accounting Standards, as laid down in the Accounting Act and in the executive regulations thereto, in particular in the Finance Minister's Regulation of 12 April 2016 on the accounting policies of insurance and reinsurance undertakings (Journal of Laws 2016 Item 562) and the Finance Minister's Regulation of 12 December 2001 on the detailed principles of recognition, valuation methods, scope of disclosure and presentation of financial instruments (consolidated text: Journal of Laws of 2017 No. 277); in matters not regulated in the Accounting Act and in the executive regulations thereto, National Accounting Standards and/or IFRS are applied accordingly;
17) **PZU, Company** – Powszechny Zakład Ubezpieczeń Spółka Akcyjna;
18) **PZU Życie** – Powszechny Zakład Ubezpieczeń na Życie Spółka Akcyjna;
19) **SCR** – solvency capital requirement in the SII system;
20) **SII system** – complete collection of requirements of the following legal acts and guidelines issued by regulatory authorities: SII Directive, Insurance Activity Act, delegated regulation, executive regulations and guidelines issued by EIOPA and KNF;
21) **QRT** – quarterly and annual quantitative reporting templates;
22) **delegated regulation –** delegated regulation of 10 October 2014 supplementing 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), as amended;
23) **implementing regulation applicable to the SFCR** – Commission Implementing Regulation (EU) 2015/2452 of 2 December 2015 laying down implementing technical standards with regard to the procedures, formats and templates of the solvency and financial condition report in accordance with Directive 2009/138/EC of the European Parliament and of the Council;

24) **Statutory Auditor Act** – Act on Statutory Auditors, Audit Firms and Public Supervision of 11 May 2017 (Journal of Laws of 2017 Item 1089, as amended);
25) **Accounting Act** – Accounting Act of 29 September 1994 (consolidated version: Journal of Laws of 2018 Item 396, as amended);
26) **Insurance Activity Act** – Insurance and Reinsurance Activity Act of 11 September 2015 (consolidated text: Journal of Laws of 2017 Item 1170, as amended);
27) **Act on the Rules for Shaping the Compensation of Persons Managing Certain Companies** – Act of 9 June 2016 on the Rules for Shaping the Compensation of Persons Managing Certain Companies (consolidated text: Journal of Laws of 2017 Item 2190);
28) **result on insurance activity** – technical result on non-life insurance activity according to PAS;
29) **EIOPA guidelines** – EIOPA guidelines on reporting and public disclosure;
30) **Corporate Governance Rules** – Corporate Governance Rules for Supervised Institutions issued by KNF, in effect since 1 January 2015.
31) **Names of companies:**

1. **Alior Bank** – Alior Bank SA;
2. **Link4** – Link4 Towarzystwo Ubezpieczeń SA;
3. **NZOZ Trzebinia** – Niepubliczny Zakład Opieki Zdrowotnej Trzebinia sp. z o.o.;
4. **Pekao** – Bank Pekao SA;
5. **TFI PZU SA** – Towarzystwo Funduszy Inwestycyjnych PZU SA;
6. **TUW PZUW** – Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych.

Summary

Basis for preparation

The duty to prepare this report stems from Article 284 of the Insurance Activity Act which implements the requirements of the SII Directive into the national legal system. The layout of this report is consistent with annex XX to the delegated regulation, with the reservation that only information relevant to PZU's business is disclosed.

This report has been prepared in accordance with the following provisions of law:

- Insurance Activity Act;
- delegated regulation;
- EIOPA guidelines;
- implementing regulation applicable to the SFCR;

Assets, liabilities and own funds have been measured by applying the provisions of the Insurance Activity Act, the delegated regulation, the EIOPA guidelines on the recognition and measurement of assets and liabilities other than technical provisions, the EIOPA guidelines on the measurement of technical provisions and the EIOPA guidelines on the classification of own funds.

The capital requirement for the Company is calculated using the WII standard formula for the primary purpose of covering the risks associated with the existing activity to the largest extent possible. All calculations pertaining to risk modules and sub-modules have been based on the methods defined in the delegated regulation.

PZU's business and operating results

PZU is the largest insurer operating on the non-life insurance market in Poland with a market share of 32.9%[*] (including inward reinsurance toward Link4 and TUW PZUW) and a major insurer in Central and Eastern Europe. As the PZU Group's parent company, PZU offers an extensive array of non-life insurance products, including motor insurance, property insurance, casualty insurance, agricultural insurance and third party liability insurance both in Poland and abroad. At yearend 2017, motor insurance was the most important group of products offered by PZU, both in terms of the number of insurance agreements and its premium stated as a percentage of total gross written premium.

With a split into business lines in the SII system, the most important group comprises motor insurance, including third party liability insurance on account of using a motor vehicle, with a 42.4% share in the portfolio and fire insurance and insurance of other property losses of with a 19.2% share in 2017.

Against the background of changing market conditions, PZU keeps aligning its offering with clients' new interests and needs by rolling out new solutions and products, often with a touch of innovation, designed with both domestic and international retail and institutional clients in mind.

In 2017, PZU enlarged its offering with health insurance riders sold with PZU Auto and PZU Dom policies and added new travel insurance and cyber risk insurance products offering protection against the adverse effects of hacking attacks, including by taking actions aimed at destroying the attack and restoring the company's normal operations.

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

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[*] Source: KNF (www.knf.gov.pl). Biuletyn Kwartalny [Quarterly Bulletin]. Rynek ubezpieczeń [Insurance Market] 4/2017

PZU's ambitions will be achieved through 12 key initiatives underpinning the New PZU. These key strategic initiatives affecting the development of the non-life insurance business include:

- better matched price to risk and price sensitivity (Tariff setting 3.0);
- implementation of solutions employing artificial intelligence;
- development of cooperation with banks;
- simplifying the product offering, also meaning simple language;
- development of the direct offering;
- integrated service model for SMEs.

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

In 2017, PZU had a 32.9%[1] share in the non-life insurance market, compared to 33.3% in 2016 (31.8%[1] and 32.5% from direct business, respectively), thus recording only a minor decline, predominantly as a result of significant changes in the structure of the non-life insurance market affecting the year-on-year comparability of premium levels (for instance, due to the inclusion of the premium written by Liberty Seguros Compania de Seguros y Reaseguros S.A. Poland Branch to KNF filings).

In 2017, PZU recorded a result on insurance activity at a level of PLN 1,218,037 thousand compared to PLN 536,523 thousand in the preceding year, which means more than a twofold increase year on year. Net profit was PLN 2,433,874 thousand compared to PLN 1,573,269 thousand in 2016 (up 54.7%). Without taking into account the dividends received from PZU Życie SA, PZU's net profit was PLN 1,004,528 thousand and was higher by PLN 256,259 thousand compared to 2016.

In the individual net result items, PZU recorded:

- an increase in gross written premium to PLN 11,180,680 thousand, or 21.4%, compared to the previous year, mainly in motor insurance as a result of an increase in the average premium (driven by a gradual shift in the tariff) and in insurance of other property losses;
- a higher level of claims and benefits in the amount of PLN 7,168,855 thousand, up 16.6% compared to 2016. The main change was recorded in the motor insurance group driven by growth of the insurance portfolio and in the insurance against damages caused by the forces of nature;
- the result on investing activity, higher by PLN 95,371 thousand, as a result of a higher dividend from PZU Życie offset by the one-off effect of realization of the result of valuation of participation units in the Universum PZU Specialist Open-end Mutual Fund (PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Universum) in 2016, which until redemption of the units was captured through a change of the revaluation reserve;
- higher insurance activity expenses as the outcome of the higher acquisition costs, including reinsurance commissions, by PLN 270,426 thousand as a result of the growing insurance portfolio and a decline in administrative expenses to PLN 692,879 thousand owing to the application of cost discipline in both ongoing business and project activities.

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

PZU ensures a high level of security of its business. This is corroborated both by its high solvency ratios and by the A- investment grade rating awarded by S&P Global Ratings. As of 25 March 2014, PZU's rating is one notch above Poland's rating for foreign currency-denominated debt.

Management system

The management system in place in the Company, including its organization, is commensurate with the scale of operations, the extent of realized functions and the scale and complexity of risks, and it effectively supports the achievement of the Company's strategic objectives as well as immediate business and operating goals.

The Company's management system comprises, in particular, the Management Board, the Supervisory Board and four key functions: actuarial, risk management, compliance and internal audit. The allocation of powers among the

Management Board members is accurately defined. Each key function has been assigned the scope of powers and duties as well as proper operational independence and access to the managing and supervisory bodies. Committees have been established within the Company's structure to support its activities in specific areas of business and corporate governance. PZU has in place the rules for compensating Supervisory Board members, Management Board members and employees based on the requirements of the SII System as well as the rules for evaluating the competence and integrity of persons holding supervisory positions and performing key functions. The risk management system relies on the risk management process and on the organizational structure which itself is based on the allocation of powers and duties exercised and executed within this process. Within the risk management system, PZU operates an internal control system designed to ensure the Company's adherence to regulatory requirements and the effectiveness and efficiency of its operations and to safeguard the availability and reliability of financial and non-financial information. The Company has put in place detailed rules for outsourcing, defining within them the basic and critical activities.

During the reporting period, there was a change of the person supervising the key internal audit function: from the Director of the Internal Audit Department to the Managing Director for Audit.

Risk profile

PZU's risk profile results from the PZU Group's strategy and business plans; it is subject to periodical monitoring and control. The most significant risks are actuarial risk and market risk, which is a consequence of the Company's scale of insurance activity and the value of funds obtained from its core line of business and allocated to investments.

In compliance with the applicable provisions of the SII system, PZU it calculates its SCR reflecting the value of eligible own funds that would enable the Company to cover significant unforeseen losses within 1 year, thus ensuring a sufficient degree of protection of the interests of the insureds.

In the light of the nature of business and the significant risks involved, the standard formula proposed by the provisions of the SII system is a proper reflection of the solvency requirement and as such is applied by PZU.

The risks covered by PZU's SCR include: actuarial risk, counterparty insolvency risk, operational risk and the adjustment related to the capacity of deferred income tax to cover losses.

At yearend 2017, the basic solvency capital requirement was 9,714,177 thousand, up 10%. The change was primarily due to the increase in the capital requirements for market risk and actuarial non-life risk, which was a consequence of business decisions made in the area of investment activities (acquisition of an equity stake in Pekao) and insurance activities.

In 2017, the capital requirement for market risk increased by PLN 819,435 thousand, driven predominantly by the higher capital requirement for share price risk caused by the acquisition of the minority stake in Pekao.

In 2017, the Company noted an increase in the capital requirement for actuarial risk in non-life insurance by PLN 158,718 thousand, which was primarily due to the growing business of motor insurance offset by a change in the reinsurance structure for catastrophic risk. The capital requirement for actuarial risk in life insurance went up by PLN 12,055 thousand due to the hike in disability pension liabilities. In turn, the capital requirement for actuarial risk in health insurance went down by PLN 8,864 thousand due to the hike in disability pension liabilities caused by a slight decline in the planned premium.

Measurement for solvency purposes

For solvency purposes, the Company measures its assets and liabilities other than technical provisions at fair value. The fair value is calculated using market prices quoted on active markets for the same assets or liabilities. In cases where there is no such active market, alternative measurement methods are used, as provided for by the provisions of the SII system: mark-to-market measurement, income-based measurement or cost-based measurement.

The most significant asset groups according to PZU's economic balance sheet are: real properties, related parties, debt securities, participation units and investment certificates in collective investment undertakings.

The main differences in the measurement of these assets compared to their measurement in the financial statements prepared according to PAS pertain to real properties, related parties and debt securities. These differences stem mostly from the fact that in the economic balance sheet the said assets are measured at fair value, whereas the financial statements according to PAS are prepared using measurement methods based on historical cost (purchase price minus depreciation, equity method, adjusted purchase price).

The most significant liability groups according to PZU's economic balance sheet are: technical provisions, financial liabilities, subordinated liabilities and deferred tax liability.

In the case of financial liabilities and subordinated liabilities, the difference between values according to PAS and measurement for solvency purposes follows from the application of different measurement methods: according to PAS at the adjusted purchase price, while for the purposes of the economic balance sheet they are presented at fair value but without adjusting own credit spread from the date of the emergence of the liability.

The Company measures its technical provisions at a value which might be reasonably expected to be requested for assuming and fulfilling its insurance and reinsurance liabilities by another insurance undertaking or reinsurance undertaking (reference undertaking). Technical provisions consist of the best estimate and the risk margin, in compliance with Article 225 of the Insurance Activity Act.

During the reporting period, there were no significant changes in the method of measurement of assets and liabilities other than technical provisions. With regard to best estimate measurement, the adopted economic assumptions were modified: in 2017, the risk-free rate applied for discounting cash flows was changed. No changes were made to non-economic assumptions.

Capital management

PZU's capital and dividend policy is aimed at zeroing in on the rate of return for shareholders through efficient capital management while maintaining the existing security level and preserving capital resources for the purposes of strategic development through acquisitions.

In 2017, the Company satisfied the solvency requirements and held eligible own funds to cover the solvency capital requirement. The SCR was PLN 9,047,942 thousand while eligible own funds were PLN 25,359,898 thousand, including category 1 basic own funds of PLN 23,042,433 thousand and category 2 basic own funds of PLN 2,317,464 thousand, which ensured the ratio of SCR coverage with eligible own funds at a level of 280%. The MCR was PLN 2,261,985 thousand, while eligible own funds were PLN 23,494,831 thousand, including category 1 basic own funds of PLN 23,042,433 thousand and category 2 basic own funds of PLN 452,397 thousand, which ensured the ratio of MCR coverage with eligible own funds at a level of 1,039%.

Eligible own funds increased in relation to 2016 by PLN 2,531,477 thousand or 11%. This increase was caused mainly by the issue of subordinated bonds, classified as category 2 basic own funds, with a total par value of PLN 2,250,000 thousand and with a fair value as at 31 December 2017 of PLN 2,317,464 thousand.

In 2017, the SCR rose 15% compared to 2016, owing chiefly to the increase in its components for market risk and reserve and premium risk, while no significant changes were made to the method of calculation of the capital requirements. The increase in market risk was driven by PZU's acquisition of an equity stake in Pekao, which pushed up equity risk, itself a sub-module of market risk. Moreover, the transaction caused a change in the asset structure covered by market risk calculations due to the funding of the acquisition of Pekao with own funds. The MCR also increased 15% compared to 2016.

In its SCR calculation, the Company does not apply the transitory provisions. As at 31 December 2017, PZU did not apply the matching adjustment referred to in Article 227 of the Insurance Activity Act, the volatility adjustment mentioned in Article 229 of the Insurance Activity Act, transitional risk-free interest rate term structure mentioned in Article 496 of the Insurance Activity Act or the transitional deduction mentioned in Article 497 of the Insurance Activity Act.

A. Operating activities and results

A.1. Activities

A.1.1. Name and legal form

PZU is the parent company of the PZU Group.

A.1.2. Regulatory authority in charge of exercising financial supervision over the Company and overseeing the PZU Group

Regulatory authority in charge of exercising financial supervision over PZU and the PZU Group:

KNF, Plac Powstańców Warszawy 1, 00-030 Warsaw

A.1.3. Key statutory auditor

Marcin Dymek, registration no. 9899, acting on behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k., an entity authorized to audit financial statements, license no. 3546, ul. Inflancka 4A, 00-189 Warsaw, Poland.

A.1.4. Shareholders with significant stakes in the Company

As at 31 December 2017, the PZU shareholding structure was as follows:

No.	Shareholder's name	Number of shares and votes	Percentage share in the share capital and in the total number of votes at the Shareholder Meeting
1.	State Treasury *)	295,217,300	34.1875%
2.	Other shareholders	568,305,700	65.8125%
	Total	**863,523,000**	**100.0000%**

*) Based on current report no. 42/2017 regarding the change to the percentage in the total number of PZU's votes – reduction of the votes held below 5 % of the total number of votes.

A.1.5. Company's position in the PZU Group's legal structure, simplified organizational chart

The PZU Group's capital structure as at 31 December 2017 is presented in Attachment 1 to this report*.

A simplified organizational chart of the Company is presented in Attachment 2.

A.1.6. PZU's significant lines of business and relevant geographies of the Company's operations

As the PZU Group's parent company, PZU offers an extensive array of non-life insurance products in the territory of Poland and abroad (gross written premium on the foreign activity is below 10%), including motor insurance, property insurance, casualty insurance, agricultural insurance and third party liability insurance. At yearend 2017, motor insurance was the most important group of products offered by PZU, both in terms of the number of insurance contracts and its premium stated as a percentage of total gross written premium.

With a split into business lines in the SII system, the most important group comprises motor insurance, including third party liability insurance on account of using a motor vehicle, with the share of 42.4% in the portfolio, other vehicle insurance at the level of 25.3% and fire insurance and insurance of other property losses of 19.2% in 2017.

Detailed information on premiums, claims and benefits and costs broken down by lines of business in the SII system and by countries was included in QRT form S.05.01.02 constituting Attachment3 and S.05.02.01 constituting Attachment4 to the report.

A.1.7. All significant events of a business and other nature that occurred during the reporting period and had a significant impact on PZU

* The attachment does not cover any mutual funds controlled by the PZU Group as at 31 December 2017 in light of IFRS 10 or the funds' subsidiaries. These funds were: PZU SFIO Universum, PZU FIZ Dynamiczny, PZU FIZ Sektora Nieruchomości, PZU FIZ Sektora Nieruchomości 2, PZU FIZ Aktywów Niepublicznych BIS 1, PZU FIZ Aktywów Niepublicznych BIS 2, PZU FIZ Aktywów Niepublicznych Witelo Fund, PZU FIZ Surowcowy, PZU FIO Globalny Obligacji Korporacyjnych, PZU Dłużny Aktywny, PZU Dłużny Aktywny, PZU Telekomunikacja Media Technologia, PZU Akcji Spółek Dywidendowych, PZU FIZ Forte, PZU FIZ Akcji Combo.

Moreover, the following entities controlled by the mutual funds were members of the PZU Group as at 31 December 2017:

1) Armatura Kraków SA with its subsidiaries forming the Armatura Group (Aquaform SA, Aquaform Badprodukte GmbH, Aquaform Ukraine TOW, Aquaform Romania SRL, Morehome.pl sp. z o.o.);
2) Arm Property sp. z o.o.;
3) subsidiary companies established under commercial law as special-purpose vehicles controlled by the funds: PZU FIZ Sektor Nieruchomości (15 companies) and PZU FIZ Sektor Nieruchomości 2 (20 companies).

A.1.7.1. Dividend from PZU Życie

On 28 June 2017, the PZU Życie Ordinary Shareholder Meeting adopted a resolution to distribute net profit for the 2016 financial year in the amount of PLN 1,434,346 thousand, designating the amount of 1,429,346 thousand for dividend.

The record date was set at 28 June 2017 and the dividend was paid out on 17 October 2017.

A.1.7.2. Subordinated bond issue

On 30 June 2017, PZU issued subordinated bonds with a total nominal value of PLN 2,250,000 thousand. The final maturity of the bonds is 29 July 2027 with an early repayment option on 29 July 2022.

A.1.7.3. Dividends paid

On 29 May 2017, the PZU Management Board decided to file a motion with the Ordinary Shareholder Meeting of PZU to distribute PZU's net profit for the year ended 31 December 2016 in the amount of PLN1,592,951 thousand as follows:

- designate PLN 1,208,932 thousand, i.e. PLN 1.4 per share, for a dividend payment;
- designate PLN 369,019 thousand for supplementary capital;
- designate PLN 15,000 thousand for the Company Social Benefit Fund.

On 29 June 2017, the Ordinary Shareholder Meeting of PZU adopted a resolution on distribution of net profit for the year ended 31 December 2016, in accordance with the motion submitted by the PZU Management Board, and the dividend was paid out on 19 October 2017.

A.2. Result on insurance activity

Premiums, claims paid and costs broken down by lines of business are presented in form QRT S.05.01.02 constituting Attachment 3 to the report.

A.2.1. Key drivers of the result on insurance activity according to PAS

In 2017, PZU recorded a result on insurance activity at a level of PLN 1,218,037 thousand compared to PLN 536,523 thousand in the preceding year, which signifies an over double increase year on year.

The key drivers of PZU's financial results in 2017 were the following:

- an increase in gross written premium to PLN 12,433,216 thousand, or 16.4%, compared to the previous year, mainly in motor insurance as a result of an increase in the average premium (driven by a gradual shift in the tariff) and in insurance of other property losses. After consideration of the reinsurers' share and the movement in the provision for unearned premiums, net earned premium was PLN 11,180,680 thousand, up 21.4% from 2016;
- a higher level of claims and benefits in the amount of PLN 7,168,855 thousand, up 16.6% compared to 2016. The main change was recorded in the motor insurance group driven by growth of the insurance portfolio and in the insurance against damages caused by the forces of nature;
- higher acquisition expenses, taking into account reinsurance commission (an increase by PLN 270,426 thousand), mainly due to an increase in direct acquisition expenses driven by the growing insurance portfolio. The factor that had a positive effect on acquisition expenses was the fact that, according to the requirements of the Insurance Activity Act, the rules for paying consideration to policyholders in group contracts were altered – since 1 April 2016, these expenses have been treated as administrative expenses;
- a decrease in administrative expenses to PLN 692,879 thousand compared to PLN 723,941 thousand in 2016, primarily as a result of the application of cost discipline measures both in current and in project activities.

Result on insurance activity broken down into statutory groups (PLN thousand)	2017	2016
Results of accidents and sickness	157,175	161,836
Motor third party liability insurance	396,748	(139,296)
Other motor insurance	168,213	31,319
Marine, aviation and transport	(3,583)	(7,450)
Insurance against fire and other property losses	266,707	202,703
Third Party Liability	157,345	298,956
Loans and guarantees	24,617	12,247
Assistance	29,347	3,574
Legal protection	276	1,777
Other financial insurance	21,192	(29,143)
Total	**1,218,037**	**536,523**

A.2.2. Revenues (premiums)

In 2017, PZU collected gross written premium of PLN 12,433,216 thousand, i.e. 16.4% more than in 2016. They comprised mainly:

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

Gross written premium according to PAS, broken down into statutory groups (PLN thousand)	2017	2016
Results of accidents and sickness	388,892	430,054
Motor third party liability insurance	5,269,806	4,072,382
Other motor insurance	3,139,907	2,759,943
Marine, aviation and transport	45,451	53,779
Insurance against fire and other property losses	2,388,082	2,046,884
Third Party Liability	727,681	694,274
Loans and guarantees	88,528	69,923
Assistance	335,026	365,168
Legal protection	9,400	7,159
Other financial insurance	40,443	182,448
Total	**12,433,216**	**10,682,014**

A.2.3. Costs

A.2.3.1. Claims and benefits with movement in technical provisions according to PAS

In 2017, net claims and benefits and movement in PZU's provisions totaled PLN 7,168,855 thousand, i.e. 16.6% growth compared to 2016.

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

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

Claims and benefits according to PAS, broken down into statutory classes (PLN thousand)	2017	2016
Results of accidents and sickness	133,533	136,289
Motor third party liability insurance	3,428,765	2,890,823
Other motor insurance	1,982,325	1,660,041
Marine, aviation and transport	22,009	34,869
Insurance against fire and other property losses	1,039,836	983,086
Third Party Liability	323,327	186,083
Loans and guarantees	13,362	8,655
Assistance	218,105	201,392
Legal protection	4,185	1,905
Other financial insurance	3,408	45,391
Total	**7,168,855**	**6,148,534**

A.2.3.2. Acquisition and administrative expenses

In 2017, acquisition expenses (net of reinsurance commissions) amounted to PLN 2,137,915 thousand and increased by 15.2% compared with 2016. This increase resulted predominantly from an increase in direct acquisition expenses (commissions) which resulted from higher sales. The additional factor that had a positive effect on acquisition expenses was the fact that, according to the regulations of Articles 18 and 19 of the amended Insurance Activity Act, the rules for settlements with banks under group bancassurance contracts were altered – as of 1 April 2016, these expenses have been treated as administrative expenses.

In 2017, PZU's administrative expenses were at PLN 692,879 thousand, which was 4.3% lower than in the prior year. Their level was driven primarily by maintaining the cost discipline in current activities and optimization of the costs of project activity.

A.2.3.3. Other technical income and expenses

The balance of other technical income and expenses in 2017 was negative and stood at PLN 177,420 thousand. Compared to 2016, the company recorded a result that was PLN 8,146 thousand worse, driven by significantly higher impairment losses and revaluation charges for receivables.

A.3. Result on investment activity

In 2017, the result on PZU's investment activity was PLN 1,973,255 thousand compared to PLN 1,877,884 thousand in 2016. Excluding the contribution of the level of dividend received from PZU Życie higher by PLN 604,346 thousand in 2017 and the effect of a one-off result achieved in 2016 on participation units of PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Uniwersum in the amount of PLN 764,374 thousand, the net investment result was PLN 543,909 and up PLN 255,399 thousand primarily because of the improved result on related parties and a better situation on the Polish market of treasury bonds.

The negative result on loans and term deposits is mainly caused by the accrual of negative foreign exchange differences on currency assets in view of the strengthening of PLN especially against EUR and USD.

Result on investment activity according to PAS (PLN thousand)	2017	2016
Real property	16,178	(19,599)
Shares in related parties	1,483,574	783,565
Shares	238	10
Participation units and investment certificates	56,718	775,061
Debt securities	403,599	319,162
Term deposits	(8,432)	11,507
Borrowings	(6,303)	50,237
Other	27,683	(42,059)
Total	**1,973,255**	**1,877,884**

The gross result (result before tax) on investment activity recognized by a change to the revaluation reserve was PLN 196,010 thousand in 2017 against the loss of PLN 88,587 thousand in the previous year.

After excluding the effect of a one-off result achieved in 2016 on participation units of PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Uniwersum in the amount of PLN 764,374 thousand, the higher result on the participation units is primarily caused by the improved result on investment certificates of PZU's funds, especially PZU Fundusz Inwestycyjny Zamknięty BIS Aktywów Niepublicznych 1 and PZU Fundusz Inwestycyjny Zamknięty BIS Aktywów Niepublicznych 2. The lower result on shares in related parties recognized by a change to the revaluation reserve is associated with the disbursement of a higher dividend by PZU Życie in 2017 recorded directly in the profit and loss account.

Result before tax through revaluation reserve according to PAS (change in PLN thousand)	2017	2016
Real property	(247)	(444)
Shares in related parties	81,963	657,406
Shares	(2,424)	-
Participation units and investment certificates	116,657	(748,072)
Debt securities	61	2,523
Term deposits		
Borrowings	-	-
Other	-	-
Total	**196,010**	**(88,587)**

During 2017, PZU did not conduct any securitization activity.

A.4. Results from other types of activity

In 2017, the net balance of other operating income and expenses was negative and amounted to PLN 217,464 thousand compared with the similarly negative balance for 2016 of PLN 361,739 thousand. Starting in mid-2014, the balance of other operating expenses was charged with the interest expense and change of the valuation on account of foreign exchange differences on the loan (in the amount of EUR 850,000 thousand) taken out from PZU Finance AB. In 2017, revenues on account of foreign exchange differences on the loan received from PZU Finance AB (publ.) amounted to PLN 217,344 thousand compared to the 2016 cost amounting to PLN 138,383 thousand. Additionally, the level of other operating expenses was significantly impacted by the tax on assets – the resulting charge in 2017 was PLN 177,637 thousand (increase by PLN 29,969 thousand compared to 2016).

General profit and loss account (PLN thousand)	2017	2016
Technical result	1,218,037	536,523
Net investment result	1,973,255	1,877,884
Result on other operating income and expenses	(217,464)	(361,739)
Profit (loss) before tax	2,720,403	1,809,025
Net profit (loss)	2,433,874	1,573,269

In 2017, the Company did not have any material lease agreements.

A.5. Additional information

A.5.1. Acquisition of additional blocks of shares in Alior Bank

From 29 June to 12 July 2017, PZU purchased in exchange transactions a total of 9,041,140 shares constituting 6.99% of shares, for PLN 558,085 thousand. As a result, PZU's stake in the share capital and votes at the Shareholder Meeting of Alior Bank reached 32.19% as at 31 December 2017.

Additionally, indirectly through PZU Życie and controlled mutual funds, PZU held 0.04% of Alior Bank's share capital and the total number of votes at Alior Bank's shareholder meeting.

A.5.2. Acquisition of shares in Bank Pekao

On 7 June 2017, PZU directly acquired a stake in Pekao representing approximately 20% of the total number of votes.

B. Management system

B.1. General information on the management system

The management system in place in the Company, including its organization, is commensurate with the scale of operations, the extent of realized functions and the scale and complexity of risks, and it effectively supports the achievement of the Company's strategic objectives as well as immediate business and operating goals.

The adopted formal, organizational and procedural solutions include all the significant elements of the management system and make it possible to maintain an acceptable risk level in the Company.

The management system in the adopted structure of the Company addresses all the tasks defined for an insurance undertaking in compliance with the prevailing law. An assessment of the management system's adequacy was made on the basis of conducted analyses of activity in the areas indicated in the regulatory requirements and subject to reporting in this report.

B.1.1. Supervisory Board

In accordance with the Company's Articles of Association, the Supervisory Board is composed of seven to eleven members. The number of Supervisory Board members is specified by the Shareholder Meeting. Members of the Supervisory Board are appointed by the Shareholder Meeting for a joint term of office which lasts three consecutive full financial years.

The Articles of Association give the State Treasury the right to appoint and dismiss one member of the Supervisory Board by way of a written statement submitted to the Management Board. This right will expire if the State Treasury ceases to be a Company shareholder. A candidate for a Supervisory Board member named by the State Treasury should meet the requirements set forth in Article 19 of the Act of 16 December 2016 on Rules for Managing State Property.

The Supervisory Board adopts the Bylaws of the Supervisory Board which define its organization and manner of acting. The Bylaws define the composition and manner of appointing members to the Supervisory Board, tasks and scope of its operations as well as the procedure for convening and conducting meetings.

The Supervisory Board elects from among its members the Chairperson and Deputy Chairperson and may also elect the Secretary from among its members.

The Supervisory Board Chairperson manages the work of the Supervisory Board. In the event of absence of the Supervisory Board Chairperson, including a temporary hindrance which prevents him from discharging his/her function and in a situation when the mandate of the Supervisory Board Chairman has expired and the new Supervisory Board Chairman has not been appointed yet, all rights and duties of the Supervisory Board Chairman are exercised and performed by the Supervisory Board Deputy Chairman, excluding the right to resolve the wording of a Supervisory Board resolution in the event of an equal number of votes.

The Supervisory Board may elect the Supervisory Board Secretary from among its members. The Supervisory Board Secretary supports the Supervisory Board Chairperson or, during his/her absence, the Supervisory Board Deputy Chairperson, in discharging his/her duties specified in the Bylaws, in particular by:

1) organizing the work of the Supervisory Board;
2) supervising the organizational and technical support for Supervisory Board meetings;
3) ensuring that minutes of meetings of the Supervisory Board are kept;
4) presenting draft reports prepared by the Supervisory Board as required by Company's Articles of Association.

The Supervisory Board may delegate its members to perform specific oversight functions individually. Each delegation requires a Supervisory Board resolution naming the delegated person(s) and specifying a detailed scope of the oversight functions and the delegation period. Supervisory Board members delegated to perform specific oversight functions individually will submit written reports of their activity to the Supervisory Board at the Supervisory Board meeting following any individual performance of oversight function. During the reporting period, the Supervisory Board did not exercise the above right.

The Supervisory Board exercises permanent supervision over the Company's operations in all areas of its activity.

The Supervisory Board's powers include in particular:

1) evaluating the Management Board's report on the Company's activity and of the financial statements for the previous financial year with respect to their consistency with the underlying ledgers, documents and the facts.
2) evaluating the Management Board's motions to distribute the profit or cover the loss;
3) submitting a written report to the Shareholder Meeting on the results of the evaluation referred to in items 1 and 2 above, a concise annual evaluation of the Company's standing with an assessment of its internal control system and the Company's system for managing significant risks and an annual report on the Supervisory Board's work;
4) concluding, terminating and amending agreements with Management Board members and setting the rules for their compensation;
5) appointing, suspending and dismissing the President of the Management Board, Management Board members or the entire Management Board and making decisions to discontinue such a suspension;
6) granting consent to transferring an insurance portfolio in its entirety or in part;
7) accepting motions submitted by the Management Board to purchase, subscribe for or sell ownership interest and shares in companies and on the Company's participation in other entities – the Supervisory Board may define the maximum amount, the terms and conditions and the procedure that the Management Board may use to conduct the foregoing activities without the obligation to obtain approval from the Supervisory Board, except in cases where the decision in this respect is made by the Shareholder Meeting pursuant to § 18a of the Articles of Association;
8) 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;
9) accepting instructions concerning votes being cast by the Company's representatives during Shareholder Meetings of PZU Życie regarding: an increase and decrease in the share capital, bonds issue, disposal and lease of PZU Życie enterprise or establishment of a usufruct right thereupon, division of PZU Życie, combination of PZU Życie with a different company, liquidation or termination of PZU Życie;
10) selecting an entity authorized to audit financial statements to perform an audit the Company's annual financial statements;
11) deciding on the consolidated text of the revised Articles of Association,
12) granting consent to purchase or sell real property, perpetual usufruct or share in real property or in perpetual usufruct, of the gross value exceeding the equivalent of EUR 3,000,000 (three million EUR);
13) granting consent for the Company to conclude, with a related party, a material agreement in the meaning of provisions regarding current and periodic information submitted by issuers of securities approved for trading on a regulated market, excluding typical agreements concluded by the Company on market terms as part of its operational activity;
14) granting consent for the Company to conclude an agreement with an underwriter referred to in article 433 § 3 of the Commercial Company Code;
15) granting consent to pay an interim dividend against an expected dividend;
16) granting consent to establish or close the regional branches referred to in § 2 section 2 of the Articles of Association and foreign branches;
17) approving the Company's long-term development plans and annual financial plans prepared by the Management Board;
18) approving the Bylaws of the Management Board;
19) examining and consulting matters submitted by the Management Board for deliberation at the Shareholder Meeting.

At present, the following committees operate as part of the PZU Supervisory Board:

- Audit Committee;
- Nomination and Compensation Committee,
- Strategy Committee.

The Audit Committee is an advisory and consultative body to the Supervisory Board and is appointed to improve the effectiveness of the Board's supervision over correct financial reporting, and the effectiveness of internal control, including internal audit and risk management. In addition, the Audit Committee may request the Supervisory Board to request specific control activities in the Company, whereby the requested activities may be performed by an internal unit or external entity.

At least one member of the Audit Committee should hold accounting or financial audit qualifications in the meaning of and pursuant to the Act on Statutory Auditors. Furthermore, in accordance with the said Act, the majority of the Audit Committee members, including its chairman, should meet the statutory criteria of independence (independent member) concerning, without limitation, professional or family ties, especially to managers or supervisors of PZU or PZU Group entities. The independent member is obliged to submit a written representation on the compliance with all the independence criteria and to notify the Company whenever such compliance has ceased.

The Nomination and Compensation Committee is an advisory and consultative body to the Supervisory Board and is appointed to improve the effectiveness of the Supervisory Board's oversight activities related to the development of the management structure, including organizational solutions, the remuneration principles and the selection of properly qualified staff.

The Strategy Committee is an advisory and consultative body to the Supervisory Board and is appointed to improve the effectiveness of the Supervisory Board's oversight activities with regard to opining any strategic documents submitted to the Supervisory Board by the Management Board (in particular the Company's development strategy) and presentation to the Supervisory Board of recommendations pertaining to planned investments with material impact on the Company's assets.

Pursuant to the Supervisory Board Bylaws, besides appointing the Audit Committee and the Nomination and Compensation Committee as stipulated in the Articles of Association, to ensure correct performance of oversight activities, the Supervisory Board may establish other standing committees serving as advisory and consultative bodies, whose competences, composition and operating procedures are defined by the given committee's bylaws adopted by the Supervisory Board. The Bylaws provide for the possibility for the Supervisory Board and its appointed committees to use services of experts and consulting firms.

B.1.2. Management Board

In accordance with the Company's Articles of Association, the Management Board is composed of three to seven members appointed for a shared term of three consecutive full financial years.

Members of the Management Board, including the President of the Management Board, are appointed and dismissed by the Supervisory Board. Such appointment takes place following a recruitment procedure designed to verify and evaluate qualifications of the candidates and to select the best candidate, for a shared term of office of three consecutive full financial years. The President of the Management Board of the new term of office appointed before the current term elapses has the right to submit a motion to the Supervisory Board requesting appointment of the remaining Management Board members of the new term of office before the current term elapses.

The Management Board exercises any and all rights related to management of the Company, which are not reserved by law or the Articles of Association to the Shareholder Meeting or the Supervisory Board. Two Management Board members acting jointly or one Management Board member acting jointly with an attorney-in-fact are authorized to represent the Company. The Management Board adopts its bylaws, which are approved by the Supervisory Board. The President of the Management Board directs the work of the Management Board.

A Directive of the President of the Management Board defines the division of organizational oversight duties among the members and assigns the functions of the Heads of Divisions.

PZU operates the positions of PZU Group Directors. Those positions have been established to ensure a consistent and effective management model for PZU and PZU Życie, based on a functional division of responsibilities among the members of the Management Boards of PZU and PZU Życie. The positions of a PZU Group Director are filled with persons performing the functions of a member of PZU Życie Management Board who are not members of PZU Management Board. PZU Group Directors exercise direct oversight over the same areas of activities (divisions or units) as they have oversight over in PZU Życie.

What follows is a presentation of the scope of responsibilities of the members of the PZU Management Board and the PZU Group Directors as at the end of 2017:

Name	Function in the PZU Group	Scope of responsibilities as at the end of 2017	Additional duties during the year
Paweł Surówka	Member of the PZU Management Board from 20 January 2016 to 19 March 2016 PZU Group Director in PZU from 1 November 2016 President of the PZU Management Board since 13 April 2017	management and corporate governance in the PZU Group, corporate management, internal audit, administration, strategy and business development, innovation, compliance, reinsurance	investments, macroeconomic analyses, real properties
Roger Hodgkiss	Member of the PZU Management Board from 19 January 2016	mass non-life insurance (sales and sales network management, products and tariffs), corporate non-life insurance (sales and sales network management, underwriting, financial insurance), direct sales, development of sales technologies and tools, retail sales efficiency	PZU branch network management, bancassurance, strategic partnership programs
Tomasz Kulik	Member of the PZU Management Board from 14 October 2016	finance, actuarial, investments	-
Maciej Rapkiewicz	Member of the PZU Management Board from 22 March 2016	risk management	
Małgorzata Sadurska	Member of the PZU Management Board from 13 June 2017	bancassurance, strategic partnership programs, real property, supervision over PZU Group's foreign companies	-
Aleksandra Agatowska	PZU Group Director in PZU from 25 March 2016	procurement	marketing, innovation, client relations management
Dorota Macieja	PZU Group Director in PZU from 15 March 2017	marketing, client relations management, corporate communication	-
Tomasz Karusewicz	PZU Group Director in PZU from 29 January 2016	IT, insurance operations	-
Bartłomiej Litwińczuk	PZU Group Director in PZU from 19 August 2016	security, legal services, HR	-
Roman Pałac	PZU Group Director in PZU from 15 February 2016	PZU branch network management, health insurance, claims and benefits handling, remote channels	corporate non-life insurance

In 2017, in addition to the committees established at the level of the Supervisory Board, the following committees operated at PZU:

- PZU Group's Risk Committee;
- Credit Risk Committee in PZU and PZU Życie SA (until 26.06.2017);

- Investment Risk Committee
- Investment Committee
- Asset and Liability Management Committee;
- Data Governance Committee;
- Sponsorship, Prevention and CSR Committee;
- Innovations Committee;
- PZU Pricing Committee;
- Procurement Committee
- Cost and Expenditure Committee
- Crisis Task Force.

B.1.3. Duties and responsibilities of persons overseeing the key functions

Key functions are performed by Members of the Management Board, of the Supervisory Board and the officers overseeing key areas in PZU, i.e.:

- actuarial;
- risk management;
- compliance;
- internal audit.

The Chief Actuary - Director for Underwriting Risk in the Actuarial Department is responsible for the actuarial function in PZU, which includes the tasks described in part B.6 thereof.

The Director of the Risk Department is responsible for risk management, including the tasks described in part B.3.1 thereof.

The Director of the Compliance Department is responsible for ensuring legal compliance, including the tasks described in part B.4.2 thereof.

The Director of the Audit Department is responsible for internal audit, including the tasks described in part B.5.1 thereof.

B.1.3.1. Operational independence of key functions

In principle, the persons in charge of the key functions do not participate in the implementation of processes and tasks from outside the scope of the key functions. The functions are performed so as to ensure impartiality and independence from operational processes.

The persons in charge of the key functions have direct access to the Management Board and unlimited access to all material information. They report regularly to the Management Board and the Supervisory Board; in particular, the Internal Audit Department reports directly to the Supervisory Board (pursuant to the Bylaws of the Supervisory Board's Audit Committee.

In order to ensure operational independence, the persons in charge of key functions in PZU are covered by the Compensation Policy in PZU, applicable to the narrow group of officers of key importance to the Company. The Policy ensures, inter alia, the independence of a key officer, by separating the impact of activities in his or her area of assessment or oversight on the person's variable remuneration; it also allows for a major part of this remuneration to be deferred.

B.1.4. Material changes to the management system which took place during the reporting period

In the reporting period, the Company introduced changes as regards the oversight over the key function of internal audit. Until 31 August 2017, this function was overseen by the Director of the Internal Audit Department. As from 1 September 2017, a new position of the Managing Director for Audit was created, whose scope includes the management of the Internal Audit Department (i.e. taking over the function of the Director of the Internal Audit Department). As a result, the Audit Managing Director has been designated as the officer overseeing the key function of internal audit.

During 2017, the following persons comprised the PZU Management Board and fulfilled the functions of the Director of the PZU Group:

Name (composition of the Management Board in 2017)	Function in PZU/PZU Group	Scope of responsibilities
Michał Krupiński	President of the PZU Management Board from 19 January 2016 to 22 March 2017	management of the PZU Group, corporate management, administration, corporate communication, internal audit, strategy and projects, PZU Group business strategy, banking projects, macroeconomic analyses
Marcin Chludziński	Member of the PZU Supervisory Board, delegated to temporarily perform the activities of the President of the PZU Management Board from 23 March 2017 to 13 April 2017	management of the PZU Group, corporate management, administration, corporate communication, internal audit, strategy and projects, PZU Group business strategy, macroeconomic analyses
Andrzej Jaworski	Member of the PZU Management Board from 14 May 2016 to 29 May 2017	health insurance, real estate
Sławomir Niemierka	Director of the PZU Group from 19 March 2012 to 31 October 2017.	compliance, reinsurance

As at the date of drafting the SFCR, the following persons comprised the PZU Management Board:

1) Paweł Surówka – President of the PZU Management Board;
2) Roger Hodgkiss – Member of the PZU Management Board;
3) Maciej Rapkiewicz – Member of the PZU Management Board;
4) Małgorzata Sadurska – Member of the PZU Management Board.
5) Tomasz Kulik – Member of the PZU Management Board;

This report was accepted by the PZU Management Board in the composition given above.

B.1.5. Information on the principles and practices of compensating members of the Supervisory Board, the Management Board and employees

Members of the PZU Supervisory Board do not receive a variable remuneration pegged to the Company's performance. The remuneration rules applicable to the Supervisory Board members are set directly by the Shareholder Meeting. In 2017, members of the Supervisory Board received a fixed monthly remuneration, in the amount set in a resolution of the Company's Extraordinary Shareholder Meeting adopted on 8 February 2017, which was adapted to the reference range defined pursuant to Article 10 of the Act on the Rules for Shaping the Compensation of Persons Managing Certain Companies.

The principles of remuneration for the members of the Management Board are decided by the Supervisory Board, and envisage that the total remuneration for a Management Board Member payable for management services and performance of other obligations resulting from a Management Services Provision Agreement, concluded for the duration of performing the functions on the Company's Management Board, is composed of the following components:

- fixed compensation – a fixed monthly base salary (for a calendar month) that cannot exceed the reference range established pursuant to Article 4 Section 2 of the Act on the Rules for Shaping the Compensation of Persons Managing Certain Companies, without prejudice to the situations referred to in Article 4 Section 3 of the Act;
- variable compensation – supplementary compensation for a given financial year, depending on the extent to which the management objectives have been attained. The variable component for a given financial year may not exceed 100% of the annual fixed salary in the previous financial year for which the amount of the variable compensation is being calculated. In addition, a significant portion of the variable compensation component is awarded in the form of deferred variable compensation. Deferred variable compensation is deferred for 3 years; after 12, 24 and 36 months from the award date, respectively, a Management Board Member may acquire the right to 1/3 of the deferred variable compensation for a given year provided that the conditions defined in the Management Services Provision Agreement have been met.

The Company determines the principles of employee remuneration, in particular of the key function officers. The principles applicable to those officers are an element of an effective risk management in the Company and contain the rules of remuneration applicable to insurance market entities as stipulated by the existing law, the Principles of Corporate Governance, the delegated regulation and the Insurance Activity Act.

Pursuant to the Compensation Policy, the variable compensation component is determined individually for each specific employee group or each individual. Its amount is linked to the Company's financial performance and the employee's individual work performance. The principles of the variable remuneration component are designed to support proper and effective risk management, discourage excessive risk-taking beyond the limits approved by the Supervisory Board, as well as to support the implementation of the business strategy and avert conflicts of interest. The variable compensation component may be subject to limitations as regards the allowable maximum amount. The Policy also provides for the option of deferring the disbursement of a significant portion of the variable compensation component. The Compensation Policy does not include an employee scheme of rights to shares, share options, additional pension and disability plans or else early retirement plans for the members of the Management Board, Supervisory Board or key function officers.

B.1.6. Information on material transactions concluded during the reporting period with shareholders and members of the Management Board or Supervisory Board

In 2017, the Company paid dividend to the shareholders, as described in part A.1.7.1 thereof.

B.2. Requirements concerning competences and reputation

B.2.1. The requirements regarding skills, qualifications and professional expertise of the *de facto* managers the Company or persons acting in the capacity of other key functions

The requirements regarding the skills, qualifications and professional expertise of the *de facto* managers the Company or persons acting in the capacity of other key functions are applied relative to their respective scopes of responsibilities, the existing law and the Company's internal regulations.

Within the group of the de facto managers of the Company and persons acting in the capacity of other key functions, the Company considers the following 4 groups:

1) members of the Supervisory Board, whose applicable requirements regarding skills, qualifications and professional expertise are regulated by the Company's Articles of Association;
2) Managers, i.e. persons acting as a Member of the Company's Management Board or a PZU Group Director in PZU who concurrently serves as a Member of the Management Board of PZU Życie;
3) persons overseeing key functions, i.e. persons designated as heads of the individual key functions by force of a resolution of the President of the Management Board;

4) persons performing activities which belong to key functions in the Company, i.e. persons employed in the Company's business and organization units who - pursuant to the Company's organizational bylaws - perform a key function.

The Company applies separate requirements to its Managers, key function officers and persons acting in the capacity of key functions, respectively.

In particular, a Company's Manager must satisfy the following requirements:

1) meets the requirements set out in the Company's Articles of Association;
2) is able to ensure that the Company's affairs are run with due care;
3) has full capacity to take legal actions;
4) was not convicted for a premeditated crime or intentional crime against tax regulations, under a legally binding court ruling;
5) is not a member of a governing body of:
   - a reinsurance undertaking,
   - a mutual fund company or an alternative investment fund manager within the meaning of the Investment Fund Act, operating under a valid license,
   - an entity conducting brokerage activity within the meaning of the Trading in Financial Instruments Act, dated 29 July 2005 (consolidated text: Journal of Laws of 2017, item 1768, as amended) or any other financial instrument trading activity in the meaning of this Act,
   - a universal pension fund company,
   - a bank.
6) has a proven knowledge of the Polish language, pursuant to the Insurance and Reinsurance Act;
7) has professional experience and knowledge which are adequate to his or her function, in particular as regards:
   - the insurance and financial markets,
   - the management system,
   - financial and actuarial analysis,
   - principles, rules and requirements of the laws applicable to the Company's business, including the skills of adapting to changes in law.

A key function officer must in particular satisfy the following requirements:

1) holds a university degree obtained in the Republic of Poland or another country in the meaning of the relevant laws in effect in that country, unless the Company submits a request and obtains a consent from the regulatory authority to forgo that requirement in view of the officer's professional experience;
2) meets the requirements defined by the Company for its Managers, referred to in items 2, 3, 4 and 7 above.

A person performing activities belonging to key functions in the Company must meet the requirements defined in the job description of his or her position. Job descriptions for individual functions are drawn up based on the Company's organizational bylaws and the bylaws of a given business unit fulfilling a key function. The core requirements applicable to the aforementioned group of employees, in breakdown by the individual key functions, are given below:

1) for positions in the actuarial function: the Company requires knowledge of insurance and financial mathematics and professional experience and education which are adequate to perform the relevant tasks;
2) for positions in the risk management function: the Company requires knowledge of underwriting risk assessment and underwriting risk provisioning, asset and liability management, capital investments - in particular in derivative instruments and similar financial instruments, liquidity and concentration risk management, operational risk management, reinsurance and other techniques of risk mitigation, as well as professional experience and education which are adequate to perform the relevant tasks;
3) for positions in the internal audit function: the Company requires knowledge of risk assessment, process analysis and designation, audit work methodology, business process good practices, skills of providing recommendations

based on audit findings collected in the course of a planned audit, as well as professional experience and education which are adequate to perform the relevant tasks;

4) for positions in the compliance function: the Company requires knowledge of non-compliance risk management, assessment of non-compliance risk, skills of developing system-based solution in the area of non-compliance risk, as well as professional experience and education which are adequate to perform the relevant tasks;

B.2.2. Evaluation of competences and reputation of the de facto managers of the Company or persons acting in the capacity of other key functions

The requirements regarding the competences and reputation of the de facto managers the Company or persons acting in the capacity of other key functions are applied relative to their respective scopes of responsibilities, the existing law and the Company's internal regulations.

The Company applies separate principles of assessment of the competencies and reputation of its Managers, key function officers and persons performing activities which belong to key functions.

In keeping with the foregoing, the bodies responsible for the assessment of competencies and reputation are:

1) for Managers of the Company - the Supervisory Board in the case of members of the Management Board and the Management Board in the case of PZU Group Directors.
2) for key function officers - the Management Board.

   The competencies and reputation assessment of Managers and key function officers in the Company is conducted prior to the appointment as a member of the Management Board or to the position of a PZU Group Director, or else to a position involving oversight over a key function. The assessment is verified on an annual basis as well as whenever circumstances are established indicating that a given person has acted in contravention with the law, which in particular may result in the Company's non-compliance with the law, a financial crime or a threat to the Company's correct management.

3) the competencies and reputation assessment of a person performing activities belonging to a key function in the Company is carried out by their direct superiors. The competencies and reputation assessment is conducted prior to the appointment to a key function position or whenever circumstances are established indicating that a given person has acted in contravention with the law, which in particular may result in the Company's non-compliance with the law or a financial crime.

   The criteria applied in the above mentioned assessments are defined pursuant to the existing law, the Company's internal regulations and the relevant job description. The individual criteria are evaluated individually and the results are input in the overall assessment of a given person. The assessment is carried out based on the documents provided by the applicant, confirming his or her compliance with the requirements, an assessment of his or her behavior and attitudes shown in the performance of professional duties, as well as information from other sources.

B.3. The risk management system, including own risk and solvency assessment

B.3.1. Description of the risk management system

The risk management system in the PZU Group is based on the following:

- the organizational structure, comprising a breakdown of responsibilities and duties performed by statutory bodies, committees and business units involved in the risk management process;
- the risk management process, including methods of risk identification, measurement and assessment, monitoring and control, risk reporting and undertaking management actions.

The organizational structure of the risk management system includes four competence levels. The first three levels include:

- the Supervisory Board, which supervises the risk management process and assesses its adequacy and effectiveness as part of its decision-making powers defined in the Company's Articles of Association and the Supervisory Board bylaws, as well as through the Audit Committee;
- The Management Board, which organizes the risk management system and ensures that it is operational, by adopting strategies and policies, setting the level of risk appetite, defining the risk profile as well as tolerance levels for the individual categories of risk;
- Committees, which make decisions to mitigate individual risks to a level determined by the risk appetite. The committees adopt the procedures and methodologies for mitigating various risks and they accept limits to mitigate the various types of risk.

The fourth decision-making level pertains to operational measures and is divided into three lines of defense:

- the first line of defense – ongoing risk management at the business unit level and decision-making as part of the risk management process;
- the second line of defense – risk management by specialized units responsible for risk identification, monitoring and reporting, as well as for limits control;
- the third line of defense – internal audit which conducts independent audits of the individual elements of the risk management system, as well as of control activities embedded in operations.

The risk management process consists of the following stages:

1) Identification

The process commences with a proposal to start developing an insurance product, buying a financial instrument, modifying an operating process, as well as whenever some other event occurs that may potentially lead to the emergence of risk. The identification process continues until the expiration of liabilities, receivables or activities associated with the risk. Risk identification involves identification of actual and potential sources of risk, which are later analyzed in terms of significance.

2) Risk measurement and assessment

Risk measurement and assessment are carried out depending on the nature of the given type of risk and the level of its importance. Risk measurement is carried out by specialized units. The Risk Department is responsible for the development of tools and the measurement of risk in terms of risk appetite, risk profile and the tolerance limits;

3) Risk monitoring and control

Risk monitoring and control consists in the ongoing analysis of deviations from benchmarks (limits, threshold values, plans, figures from prior periods, recommendations and guidelines).

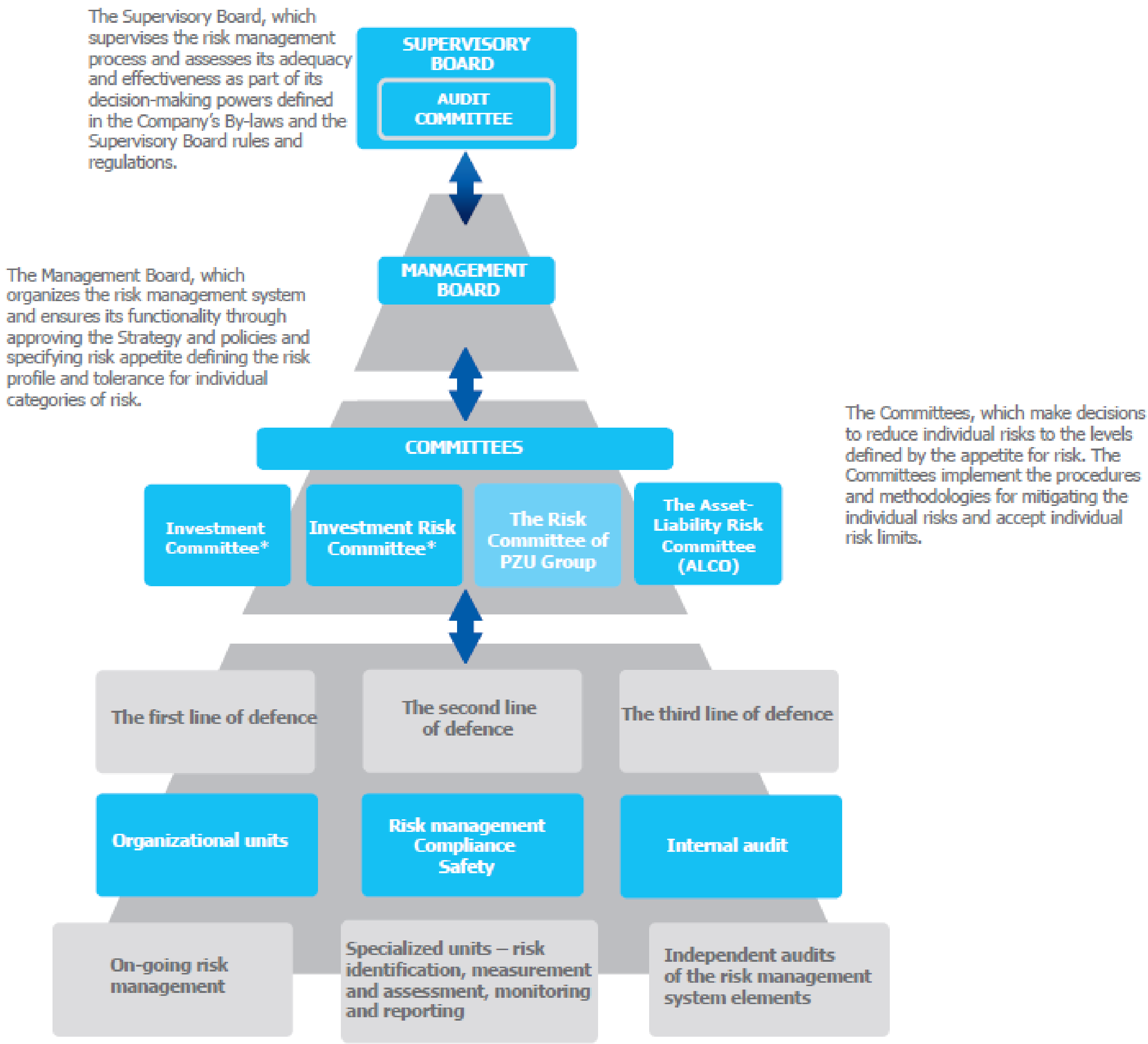
4) Reporting

Reporting allows for effective communication on risk and supports risk management on various decision-making levels;

5) Management actions

The management actions include among others: risk avoidance, risk transfer, risk mitigation, determination of risk appetite, acceptance of risk level, as well as the use of tools supporting such actions.

Chart of the organizational structure for the risk management system*



The tasks of the Risk Management Function include in particular:

- the development and implementation of a risk management strategy and management policies for individual types of risk;
- the development of measurement methods for individual types of risk;
- the design and development of tools to support the risk management process;
- the identification, measurement and assessment, monitoring and controlling of risks;
- risk reporting and proposals of risk mitigating measures;
- drafting the proposals regarding the limits and restrictions grid and the key risk indicators (KRI);
- drafting control reports and monitoring the utilization of limits and restrictions;

* As at the end of June 2017, the Credit Risk Committee's powers were divided between the Investment Risk Committee and the Investment Committee. The Investment Risk Committee took over the powers to set market risk limits.

- preparation of risk management rules and methodologies;
- preparation of risk information for the regulatory authority and rating agencies;
- stress-testing;
- acting as a competence center for risk management.

The Director of the Risk Department is in charge of the Risk Management Function; the Director is accountable to the Member of the PZU Management Board responsible for risk management. The Risk Department is responsible for a system-based risk management; in that process the Department collaborates with all organizational units of the Company.

B.3.2. Own risk and solvency assessment

The process of own risk and solvency assessment is an integral part of the financial planning process and consists of the following stages:

- drafting and approval of the process assumptions in the given year;
- drafting and approval by the relevant units, and then forwarding to the Risk Department, of data consistent with the valuation adopted in the SII system and consistent with the PZU Group Strategy and financial plans of the PZU Group and the Company;
- analysis and assessment of risks;
- analysis of the fulfillment of requirements concerning technical provisions;
- conducting an assessment of the capital required to implement the assumptions of the financial plan;
- assessment of the capital condition of the PZU Group (aggregated) or the Company through stress testing;
- analysis of the consistency with risk appetite and the risk profile;
- proposal of changes regarding reduction in the risk exposure or increase of own funds, where necessary;
- changes to the financial plan or draft financial plan, where necessary;
- approval of the results of own risk and solvency assessment and initiation of possible management measures;
- documenting the results of own risk and solvency assessment in the form of a report;
- drafting of the own risk and solvency assessment protocol;
- provision to the regulatory authority of the own risk and solvency assessment report for the authority’s purposes.

The own risk and solvency assessment process, and the analyses it involves, have been consulted as to ensure support for the financial planning process in terms of risk profile analysis and evaluation of compliance with the capital requirements within the planned time horizon and the financial plan assumptions. It also constitutes the summary and efficiency review of the measures taken in the risk management process.

The structure of the own risk and solvency assessment process and the responsibilities of its individual participants have been adjusted to complement the responsibilities of the individual units based on their scope of competencies specified in the management system and in the financial planning process. The Company’s Management Board is responsible for organizing and ensuring efficient functioning of the own risk and solvency assessment process. The Members of the Company’s Management Board overseeing the units participating in the process oversee the activities related to the own risk and solvency assessment in their reporting areas and approve the data and analyses prepared in their areas that are required to conduct the own risk and solvency assessment. The Risk Department develops the own risk and solvency assessment process, coordinates the assessment as it is conducted and carries out an evaluation of the respective solvency needs, continuous compliance with capital requirements and deviation of the risk profile from the assumptions adopted for the calculation of the solvency capital requirement. All the forecasting data is provided to the Risk Department via the Planning and Controlling Department, which is responsible for their internal integrity and consistency with financial plans.

The own risk and solvency assessment is conducted regularly, at least once a year or after the occurrence of material changes to the risk profile arising from changes in internal operations or changes in the business environment. The frequency of the own risk and solvency assessment process is consistent with the frequency of financial plans revisions and the accompanying new business development projections, which correspond to the implementation of the PZU Group Strategy and incorporate the changes resulting from portfolio growth and changes in the business environment.

The results of own risk and solvency assessment are documented in the form of a report. The report is subject to an independent review by the Internal Audit Department and subsequently, after the PZU Group's Risk Committee issues its opinion on the report, it is subject to approval by the Management Board.

The assessment of general solvency needs is conducted for all the risks identified as material under the Risk Management Strategy and the individual risk management policies, i.e. actuarial risk, market risk, counterparty insolvency risk and operational risk. Furthermore, the buffer for the possible materialization of difficult to measure risks (including compliance risk) is estimated.

The assessment of general solvency needs in 2017 covered the years 2017-2020, in accordance with the timeframe used for the PZU Group Strategy and the accompanying financial plans. As part of the assessment of general solvency needs, analyses have been conducted to determine whether, with the current business strategy, the Company would maintain the necessary capital level that is adequate to the risk it is currently exposed to and to which it may be exposed in the future (including in the case of sudden events reflected in shock scenarios). The tested scenarios have been designed on the basis of PZU's risk profile, allowing for a review of its capital needs in new situations, involving both significant changes in the macroeconomic environment as well as shocks typical for the insurance sector. Moreover, the analysis includes scenarios that affect both assets as well as equity and liabilities.

If the own risk and solvency assessment identifies a potential decline in the solvency ratio below the acceptable level or an overrun of the risk profile limits, Director of the Risk Department, in cooperation with Director of the Planning and Controlling Department, presents potential possible measures, including changes to financial plans, in order to mitigate the risk or to increase own funds. Those measures are then submitted for approval to the Member of the Management Board overseeing the Risk Department, in consultation with the Member of the Management Board overseeing the Planning and Controlling Department.

B.4. Internal control system

B.4.1. Description of the internal control system

In addition to the risk management system, PZU operates an internal control system designed to ensure the Company's adherence to regulatory requirements and the effectiveness and efficiency of its operations in the light of the Company's objectives, and to safeguard the availability and reliability of financial and non-financial information.

The system includes in particular the compliance function, administrative and accounting procedures, internal control organization, as well as reporting arrangements at all levels of the Company's organizational structure.

The internal control system supports the Company's Supervisory Board, Management Board, Officers and employees in the fulfillment of objectives set forth in particular in the Company's strategy; as a result, the system must focus on the following areas:

- internal control environment, i.e. promoting the importance of control among employees and promoting management supervision and management style, including delegation of tasks, honesty, ethical values and employee development;
- risk identification and assessment, including containment of risks at an acceptable level;
- control activities and division of responsibilities;
- quality and communication of information, i.e. ensuring a flow of information that enables the Company to run and control its operations;
- monitoring of the efficiency of control mechanisms.

Relative to the type of tasks set forth in the organizational bylaws of divisions and units, job descriptions and employee responsibilities documents, the scope of internal control includes in particular:

- completeness, up-to-dateness and compliance of the Company's relevant internal regulations with the existing law;
- correctness, completeness and timeliness of activities, including document circulation;
- correctness of work organization and allocation;
- observance of powers-of-attorney, authorizations, limits and other control elements, in particular relating to:
  - signing of the Company's internal and external correspondence;
  - entering into transactions, which result in liabilities for the Company;
  - making business decisions;
  - use of IT systems;
- correctness of processes;
- correctness of accounting records;
- safety of IT systems and IT communication networks;
- safety of protected information, in the meaning of the applicable internal regulations.

If a Company's employee identifies irregularities found as a result of an inspection, the employee is obligated to document them and inform his/her direct superior thereof. At the same time, the employee is obligated to report the irregularity in accordance with the Company's internal regulations, e.g. to report them to the Compliance Function using the Whistleblowing Procedure.

The direct superior takes measures to eliminate the non-conformities and informs the Manager if additional measures must be taken.

B.4.2. Compliance Function

The purpose of the compliance function is to ensure an effective management system for the risk of non-compliance with regulatory requirements and the Company's internal regulations.

The compliance function includes:

- provision of advice to the Company's Management Board and Supervisory Board regarding compliance with the law,
- evaluation of the possible impact of changes in the legal environment on the Company's operations,
- identification and assessment of the risk associated with non-compliance with the existing law, internal regulations and the code of conduct adopted by the Company.

The compliance function includes in particular the following tasks:

- implementation of a comprehensive compliance system in the Company,
- introduction of processes and procedures to ensure effective management of non-compliance risk;
- establishment of the rules for ensuring compliance with regulations, including the definition of responsibilities, competences and reporting duties of the Compliance Function;
- development of a compliance assurance plan including the planned actions of the Compliance Function that incorporate all the areas of the Company's operation and their exposure to non-compliance risk;
- assessment of the suitability of measures adopted by the Company to prevent non-compliance;
- development of coherent system-based solutions to manage non-compliance risk to be implemented by the PZU Group's companies.

The Compliance Department is responsible for system-based management of compliance risk; in doing so, the Compliance Department collaborates with all the Company's organizational units.

Director of the Compliance Department is responsible for the key function of compliance; until 31 October 2017, the Director was accountable to the PZU Group Director overseeing the Compliance Department. As from 1 November 2017, the Compliance Department has been accountable to the Managing Director for Regulations, who is accountable to the President of the PZU Management Board. The Managing Director for Regulations and the Director of the Compliance Department have direct access to the members of the Company's Management Board and Supervisory Board, to whom the Compliance Department reports on the issues pertaining to the operation of the compliance function and non-compliance risk management. The reporting takes the form of cyclical reports on non-compliance risk and ad hoc memos presented to members of the Company's statutory bodies.

In PZU, the Compliance Function operates based on impartiality and independence, as well as separation from operational functions. The Compliance Department operates in the second line of defense and is separated from the Company's on-going business operation. The objectives and responsibilities of the Compliance Department are defined in its organizational bylaws and the Compliance Policy. In particular, it fulfills the tasks arising from the system-based compliance function. Furthermore, it is responsible for system-based non-compliance risk management. At the Company level, the actions undertaken under, and the information arising from, non-compliance risk assessment and management are reported - on both regular and ad hoc basis - to the PZU Management Board and Supervisory Board.

Furthermore, the appointment and dismissal of Director of the Compliance Department must be consulted with the Supervisory Board's Audit Committee.

B.5. Internal audit function

B.5.1. Description of the implementation of the internal audit function

At PZU, the internal audit function is implemented by the Internal Audit Department as the so-called "third line of defense"; it conducts independent audits of the risk management system elements as well as of the control activities embedded in PZU's operations.

The scope of internal audit includes: an independent risk assessment, an examination of all the business units, products, systems, business processes and risk management processes, with a frequency that depends on the identified risk areas and the materiality of risks, as well as on the role and effectiveness of internal control in mitigating those risks.

The internal audit function involves:

- assessment of the suitability and effectiveness of the internal control system and of all the other elements of the management system;
- establishment, implementation and maintenance of an audit plan, which defines the scope of audit work to be undertaken in subsequent years, with regard to all types of activity and the Company's overall system of management;
- provision of regular management information from internal audit areas to the Company's Management Board and the Supervisory Board's Audit Committee;
- making recommendations on the basis of the findings collected in the course of work according to the audit plan; checks of adherence to the decisions made by the Company's Management Board under the recommendations made;
- checks of adherence to the decisions made by the Company's Management Board under the recommendations made;

The Internal Audit Department conducts the following audits:

- planned audits;
- ad hoc audits.

The findings of planned audits are presented in audit reports. The findings of ad hoc audits are presented in the form, manner and time agreed with the person who decided to request the audit.

Besides audits, the Internal Audit Department is engaged in advisory activities designed for the auditee unit to improve its process effectiveness.

The timeliness of the implementation of audit recommendations by the auditee units is overseen by the responsible member of the Management Board or the PZU Group Director. The Internal Audit Department monitors the progress of implementing the recommendations based on the information received from the individual units; it also decides when the recommendations are deemed implemented. The implementation of the recommendations made to the individual auditee units may be subject to review by the Internal Audit Department.

In order to ensure good quality and continuous improvement of the internal audit function, internal (on an annual basis) and external (not less than once every five years) assessments of the Company's internal audit activities are conducted.

B.5.2. Independence and impartiality of internal audit

The internal audit function is impartial and independent of operational functions. The independence of the Internal Audit Department is protected by a range of measures.

The Internal Audit Department reports directly to the Supervisory Board. The appointment and dismissal of the Managing Director for Audit must be consulted with the Supervisory Board's Audit Committee.

In PZU, internal audits are conducted by employees of the Internal Audit Department (internal auditors), a team of high professional and ethical qualifications, having the knowledge, skills and expertise in auditing.

Representatives of the Internal Audit Department take part in meetings of the Management Board; they also have access to meeting minutes. Furthermore, they take part in meetings of selected Committees.

When justified, the Internal Audit Department may use the support of employees of PZU Group companies or external service providers.

Over the time of an audit, members of the audit team have the powers of internal auditors and are obligated to observe internal auditors' duties. The audit leader provides the members of the audit team with the Company's internal regulations.

Internal auditors have access to the necessary information, explanations, documents and data, allowing for the timely and correct performance of their tasks.

The Internal Audit Department prepares an annual activity report, which includes:

- information on audits performed (including the achievement of the audit plan);
- evaluation of the internal control system and the risk management system.

The annual report is presented to the Management Board by 31 March of the following year, and subsequently to the PZU Supervisory Board's Audit Committee, by the time decided by the agendas and dates of the Audit Committee meetings.

The Internal Audit Department also prepares quarterly reports, including in particular:

- information on the progress in implementing the audit plan;
- information on the findings of internal audits;
- information on recommendation monitoring results.

The Managing Director for Audit provides the aforementioned reports to:

- Members of the PZU Management Board and PZU Group Directors, in electronic form, by the end of the month following the end of the reported quarter;
- The Audit Committee, by the time decided by the agendas and dates of the PZU Supervisory Board's Audit Committee meetings.

The scope of audit activities performed in the individual audits and the post-audit evaluations are autonomous decisions of the Internal Audit Department. The tasks are allocated in such a manner so as to prevent potential and actual conflicts of interest. Each employee is obligated to notify their superior if a conflict of interest occurs. Information on potential conflicts of interests is collected from internal audit employees and, where necessary, tasks are reallocated. Furthermore, an auditor cannot audit activities they have themselves performed or managed before one year has elapsed. PZU has implemented The Internal Auditor's Code of Ethics, based on the guidelines of the Institute of Internal Auditors included in the IIA Code of Ethics. The purpose of the Code is to promote best practices and models for ethical behavior, and to motivate the need for continuous professional improvement and development of the proper image of internal auditors. Internal auditors may not accept responsibility for any operational activity that is assessed by internal audit.

The Managing Director for Audit decides about the audit resources and schedule.

The Internal Audit Department engages in advisory activities based on the decision of the Internal Audit Manager. The nature and scope of the advisory activities are always agreed with the auditee unit and designed to improve the unit's processes, with the proviso, however, that the responsibility for the processes lies with the unit managers. The manner of implementation of, and reporting on, the relevant information is agreed with the unit manager. However, if material findings are identified, the Internal Audit Department reports this information to the Management Board and the Supervisory Board's Audit Committee.

B.6. Actuarial function

PZU operates according to precise characteristics of the actuarial function, its manager, the manager's required scope of knowledge and competencies, as well as the position of the function in the Company's overall management system. The actuarial function reports directly to the Management Board. The majority of tasks, and the key responsibilities in particular, are performed by the employees of the Actuarial Department, whereby they often collaborate with the other departments of the Company. The Function has guaranteed access to all data necessary to perform its activities, as well as the right to communicate with, and request clarifications from, any PZU employee.

At PZU, Director of the Actuarial Department is responsible for the calculation of technical provisions. The Director for Underwriting Risk in the Actuarial Department - the Chief Actuary, is responsible for the actuarial function, including for the validation of provisioning. The above mentioned division of responsibilities, combined with separation from departments in charge of tariffs, product development and reinsurance, guarantees that the actuarial function is free from any influences that could impair its ability to perform actuarial tasks in an impartial, integral and independent manner.

The individual tasks of the actuarial function are documented on an on-going basis. The actuarial activities of any given year are summarized in an Actuarial Function Report, which is drafted and published in the following year and addressed directly to the Management Board.

The purpose of the Actuarial Function at PZU is:

- to coordinate the amounts of technical reserves;
- to ensure the suitability of methodologies and models, as well as the assumptions adopted for the calculations of technical provisions;
- to assess whether the data used for the calculation of technical provisions is sufficient and of adequate quality;
- to compare the best estimates with the data resulting from the amassed experience;
- to inform the Company's Management Board and Supervisory Board about the reliability and adequacy of technical provisions;
- to oversee the calculation of technical provisions for solvency purposes in the instances of approximations, including a case-by-case approach;
- to provide an opinion on the overall underwriting policy;
- to provide an opinion on the suitability of reinsurance solutions, in the context of their impact on the technical provision amounts;
- to contribute to the effective implementation of the risk management system, including in particular:
    - modelling of risks input into the calculations of the solvency capital requirements and the minimum capital requirement,
    - own risk and solvency assessment.

Besides its own analyses, the Actuarial Function also uses analyses, studies and reports prepared by other organizational units, including inter alia by:

- Risk Department;
- Reinsurance Department;
- Actuarial Analyses Department;
- departments in charge of products;
- Planning and Controlling Department;
- Information Management Department.

B.7. Outsourcing

The Company has adopted the outsourcing rules, which also govern the outsourcing of activities that the Company considers core or important. The Company does not outsource the key functions of the management system.

Before entering into an outsourcing contract for core or important activities, the outsourcing risk of the potential supplier is assessed.

Outsourcing contracts for the core or important activities contain provisions required by law, including those that guarantee the appropriate service level and a possibility for the Company and by authorized entities to verify the performance of the contracts. The external providers will also have contingency plans in place for the performance of the contract and they are obligated to update them in the event of a change of circumstances related to the performance of the contract. Draft outsourcing contracts are opined by the designated units, including the Legal Department and the Compliance Department.

The Company monitors the outsourcing risk and manages the risk on an on-going basis and at the system-based level. In particular, the Company evaluates on an on-going basis the quality and timeliness of performance and, at least once a year, conducts a regular inspection of the providers to verify the quality of the services provided thereby. The system-based management of the outsourcing risk includes, *inter alia*, an evaluation of the outsourcing risk at the Company-wide level and reporting to the Management Board and the regulatory authority.

At PZU, the core or important activities are outsourced with the view to invest the Company's funds and in the area of claims handling and assistance processes. All outsourcing providers are subject to Polish jurisdiction.

C. Risk profile

PZU's risk profile results from the PZU Group's strategy and business plans; it is subject to periodical monitoring and control. Given the scale of the Company's insurance operations (the leader in the non-life and motor insurance markets) and the amount of funds earmarked for investment, including inter alia the acquisition of a capital stake in Pekao bank in 2017, the most significant risks are actuarial risk and market risk.

The Company has developed and implemented a risk management system that is focused on both controlling risk as well as on maintaining the appropriate capitalization level. Through identification, analysis, measurement, control, management and reporting of risk related to its operating activity, PZU is able to fulfill its obligations to clients and business partners and comply with the requirements arising from the existing law and external regulations. The risk categories that are important to the Company are given in the table below:

No.	Risk category	Definition
1	actuarial risk	actuarial risk is the likelihood of a loss or an adverse change in the value of liabilities under the existing insurance agreements and insurance guarantee agreements, due to inadequate assumptions regarding premium pricing and technical provisioning.
2	market risk	market risk is the risk of a loss or an adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, credit spread, as well as value of liabilities and financial instruments.
3	counterparty default risk	counterparty default risk is the risk of a loss or an adverse change in the financial situation resulting from fluctuations in the reliability and creditworthiness of issuers of securities, counterparties and all debtors, materializing in the form of the counterparty's default on a liability
4	operational risk	operational risk is the risk of a loss resulting from improper or erroneous internal processes, human activities, system failures or external events.
5	non-compliance risk	non-compliance risk is the risk that the Company, its subsidiaries or persons related thereto may infringe on the existing law, internal regulations and codes of conduct adopted by the Company or its subsidiaries, including ethical standards, which results or may result in the Company, its subsidiaries or persons acting on its behalf being subject to legal sanctions, or incurring financial loss or else loss of reputation or credibility

The Solvency Capital Requirement (SCR) is calculated according to the standard formula of the SII system. The solvency capital requirement comprises 8 modules: market risk, counterparty default risk, actuarial risk in non-life insurance, actuarial risk in life insurance, actuarial risk in health insurance, intangible assets risk, operational risk and adjustment of technical provisions and deferred taxation to cover losses. The first five modules and the intangible assets risk (which equals zero at PZU) are subject to the diversification effect. Combined, the risks form the so-called basic solvency capital requirement (BSCR). In its SCR calculation, the Company does not apply the transitory provisions.

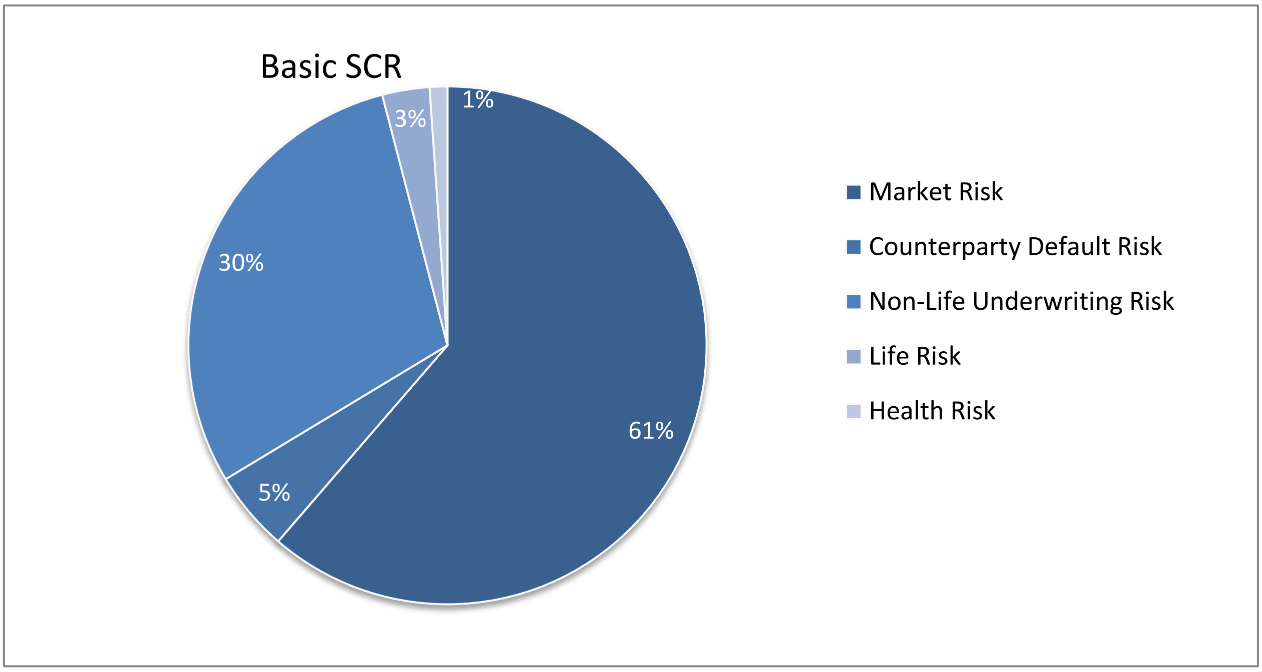
The table below presents the value of the solvency capital requirement and the basic capital requirement before and after the diversification effect as at 31 December 2017 and compared to the preceding year.

Sub-module name	Value (PLN thousand)		Change 2017/2016	
	2017	2016	(PLN thousand)	%
Market risk	7,680,362	6,860,927	819,435	12%
Counterparty default risk	628,239	480,342	147,897	31%
Actuarial life insurance risk	369,799	357,744	12,055	3%
Actuarial health insurance risk	138,250	147,114	(8,864)	(6%)
Actuarial non-life insurance risk	3,704,620	3,545,902	158,718	4%
Basic solvency capital requirement before diversification	12,521,270	11,392,030	1,129,241	10%
Diversification	(2,807,094)	(2,593,127)	(213,967)	8%
Basic solvency capital requirement after diversification	9,714,177	8,798,903	915,274	10%
Operational risk	358,000	283,598	74,401	26%
Loss-absorbing capacity	(1,024,235)	(1,210,015)	185,780	(15%)

Solvency capital requirement	9,047,942	7,872,486	1,175,456	15%

In 2017, the solvency capital requirement increased by PLN 1,175,456 thousand or 15%. The change was primarily due to the increase in the capital requirements for market risk and actuarial non-life risk. The reasons for the SCR changes for those types of risk are described in the relevant chapters below.

The Company implemented internal procedures which transpose the obligations resulting from the principle of the prudent investor. As a result, PZU invests its funds exclusively into assets and financial instruments for which the Company is able to identify, monitor and manage the risks involved, and which are incorporated into the assessment of the Company-wide solvency needs. Having ensured an adequate level of investment liquidity, PZU invests into low-risk assets of sufficient quality and rate of return. When investing assets covering the technical provisions for solvency purposes, the Company takes into account the nature and duration of the existing insurance contracts, in keeping with the policyholder interests. PZU diversifies and disperses its assets in order to avoid over-exposure to one single asset class, issuer or geographical area.



Stress-testing and sensitivity analyses

The Company has conducted stress tests for market, credit, actuarial, and liquidity risks, in accordance with the methodology adopted by the KNF, as well as sensitivity analyses for other material risks and events according to the scenarios prepared for the own risk and solvency assessment purposes (ORSA). Considering the nature and specificity of the risks described in C.6 of the report, the stress testing and sensitivity analyses requirements are in principle not applicable to this scope of reporting.

Stress testing in operational risk is conducted as scenario-based analyses of operational risk. It is a method of operational risk identification and assessment based on an analysis of an occurrence of a hypothetical operational risk incident in the Company. The purpose of those analyses is to identify areas which may be prone to a more adverse real loss, identification of potential threats, as well as - if possible - planning of actions and controls that may prevent the operational risk incident described in the scenario from happening in the first place. Based on the surveys conducted, the tests concerned claims fraud, product defects and erroneous execution of orders.

Under the own risk and solvency assessment (ORSA), the sensitivity analysis for PZU covered 15 stress and sensitivity scenarios, with impact on both assets and equity and liabilities. In 2017, stress tests were also performed in compliance with KNF's requirements. The tests were carried out based on the principles contained in Solvency II. The following scenarios were defined for the assessment purposes.

No.	Stress tests / sensitivity analyses	Risk impact
1	Increase in interest rates (+100 bp)	Market risk
2	Reduction in interest rates (- 100 bp)	Market risk
3	Decrease in share prices (-50%)	Market risk
4	Decrease in real estate prices (-30%)	Market risk
5	Incorporation of sovereign bond risk in capital requirement	Market risk / credit spread risk / counterparty default risk / over-exposure risk
6	Changing shape of interest rate curve	Market risk
7	Increase in loss ratio (+4 p.p.)	Actuarial risk
8	Reduction in loss ratio (-3 p.p.)	Actuarial risk
9	Increase in net claims provision (+10%)	Actuarial risk
10	Increase in gross claims provision (+5%)	Actuarial risk
11	Natural disaster risks scenarios - a loss of PLN 300 million in the first projection year	Actuarial risk
12	Natural disaster risks scenarios - a loss of PLN 400 million in the second projection year	Actuarial risk
13	Increase in mortality rates (+15%)	Actuarial risk
14	Reduction in mortality rates (-20%)	Actuarial risk
15	Concurrent reduction in interest rates (-100 basis points) and increase in loss ratio (4 percentage points)	Actuarial risk / market risk

In 2017, the Company also performed stress tests recommended by KNF in compliance with the *Methodology for performing stress tests in insurance and reinsurance undertakings in 2016*. The stress test parameters were imposed by KNF, except for one additional stress test which was prepared by the Company and assumed a decline in Poland's credit rating and the resulting 80% slump in the value of the treasury bonds held in the Company's portfolio.

No.	KNF tests	Risk impact
1	Market risk (increase/reduction in interest rates)	Market risk
2	Risk of over-concentration of assets and credit risk spread for treasury and municipal bonds	Concentration risk / credit spread risk
3	Combined scenario for selected types of market risk	Market risk
4	Provisioning risk (Section II)	Actuarial risk
5	Concurrent materialization of catastrophic risk and reinsurer default risk	Actuarial risk/counterparty default risk/liquidity risk
6	Additional stress tests (Poland goes bankrupt)	Market risk/liquidity risk

The proposed stress tests refer to the primary areas of insurance operations and the Company's risk profile. They have been developed based on PZU's risk map analysis and the regulatory authority's stress test methodology.

The stress tests selected for ORSA reflect the assessment of the most critical risks in PZU's operations. According to the risk map methodology, all the material risks were assessed; as a result it was concluded, that the most critical types of risks at PZU are: premium and provisioning risk, catastrophic risk and share price (equity) risk.

When deciding on the stress depth, the following factors were considered:

- consistency over successive years (stress depth was not changed in the absence of material reasons);
- KNF's approach described in the stress test methodology;
- scenarios tested by other entities in the PZU Group.

Each test was conducted independently, with the assumed change of the designated elements in the tests and maintenance of the remaining ratios at the base scenario level.

In keeping with the KNF's guidelines to the stress testing methodology applicable to insurance and reinsurance undertakings, PZU performs stress test analyses of liquidity with regard to insurable events, including extraordinary ones, and decreases in prices of financial investments. The analyses involve estimation of the possibilities of financing the payouts of claims and benefits as a result of insurable events of extraordinary nature. The stress tests results confirmed the capacity to finance payouts of claims and benefits for insurable events of extraordinary nature.

The test results do not reflect the influence of potential actions taken by the Company's Management Board in order to mitigate the impact of the materialized scenario. In fact, given the PZU's risk management system, and in particular the system of limits and restrictions, the Company's Management Board may take relevant actions to prevent or mitigate the impact, should the scenario materialize.

The stress test results show that in 2017 PZU held sufficient own funds to maintain the solvency ratio above the levels required by the KNF. The table below presents the change in the own funds coverage of the solvency capital requirement after the in-house stress tests as well as after the stress tests according to the KNF's methodology. The table below presents the results of stress tests conducted in 2017 to the official value of the solvency ratio published at the time of the stress tests.

ORSA tests	Change to the value of base solvency ratio (in p.p.)
Increase in interest rates (+100 bp)	0
Reduction in interest rates (- 100 bp)	(1)
Decrease in share prices (-50%)	(35)
Decrease in real estate prices (-30%)	(1)
Incorporation of sovereign bond risk in capital requirement	(7)
Changing shape of interest rate curve	2
Increase in loss ratio (+4 p.p.)	(5)
Reduction in loss ratio (-3 p.p.)	4
Increase in net claims provision (+10%)	(5)
Increase in gross claims provision (+5%)	(3)
Natural disaster risks scenarios - a loss of PLN 300 million in the first projection year	(3)
Natural disaster risks scenarios - a loss of PLN 400 million in the second projection year	0
Increase in mortality rates (+15%)	2
Reduction in mortality rates (-20%)	(3)
Concurrent reduction in interest rates (-100 basis points) and increase in loss ratio (4 percentage points)	(6)

KNF tests	Change to the value of base solvency ratio (in p.p.)
Market risk (increase/reduction in interest rates)	(16)
Risk of over-concentration of assets and credit spread risk for treasury and municipal bonds	(27)
Combined scenario for selected types of market risk	(54)
Provisioning risk (Section II)	(31)
Concurrent materialization of catastrophic risk and reinsurer default risk	(38)
Additional stress-testing (Poland's sovereign default)	(101)

Exposure to risk arising from off-balance sheet items

As at 31 December 2017, the value of off-balance sheet items included in the capital requirements calculations was PLN 5,550,247 thousand and included in particular: reverse transactions used as collateral, mortgage loans and guarantees extended to PZU subordinated entity regarding no repayment of principal and interest for bondholders.

C.1. Actuarial risk

Risk identification commences with an insurance product development process and continues until the expiry of the related liabilities. The identification of actuarial risk is performed, among others, as follows:

- an analysis of the general terms and conditions of insurance with respect to the underwriting risk and compliance with the existing laws;
- an analysis of the general/specific terms and conditions of insurance or other model agreements with respect to the relevant actuarial risk being undertaken;
- identification of potential risks related to a given product, for the purposes of subsequent measurement and monitoring;
- an analysis of the impact exerted by the introduction of new insurance products on the Company's capital requirements and risk margin computed according to the standard formula;
- verification and validation of changes to products;
- an assessment of actuarial risk with reference to similar existing insurance products;
- monitoring of existing product;
- an analysis of the underwriting, tariff, provisioning and reinsurance policies and the claims and benefits handling process.

The assessment of actuarial risk consists in the identification of the degree of the risk or a group of risks that may lead to a loss, and in an analysis of risk elements in order to make an underwriting decision that results in a liability for the Company. The actuarial risk assessment process undergoes continual evolution designed to adapt the applied measures to the changing external environment, achieve more effective product profitability management and organizational changes and modify the product offering. However, the changes recorded in 2017 were not of material character.

The measurement of actuarial risk is performed in particular by the way of:

- an analysis of selected ratios;
- the scenario method - an analysis of impairment arising from an assumed change in risk factors;
- the factor method - a simplified version of the scenario method, reduced to one scenario per risk factor;
- statistical data;
- exposure and sensitivity measures;
- application of the expertise of the Company's employees.

The monitoring and control of actuarial risk includes a risk level analysis by means of a set of reports on selected ratios.

Reporting is designed to ensure effective communication regarding actuarial risk and support the management of actuarial risk at various decision-making levels, from an employee to the Supervisory Board. The frequency of each report and the scope of information provided therein are tailored to the information needs at each decision-making level.

The management actions taken in the course of the actuarial risk management process are performed in particular by the way of:

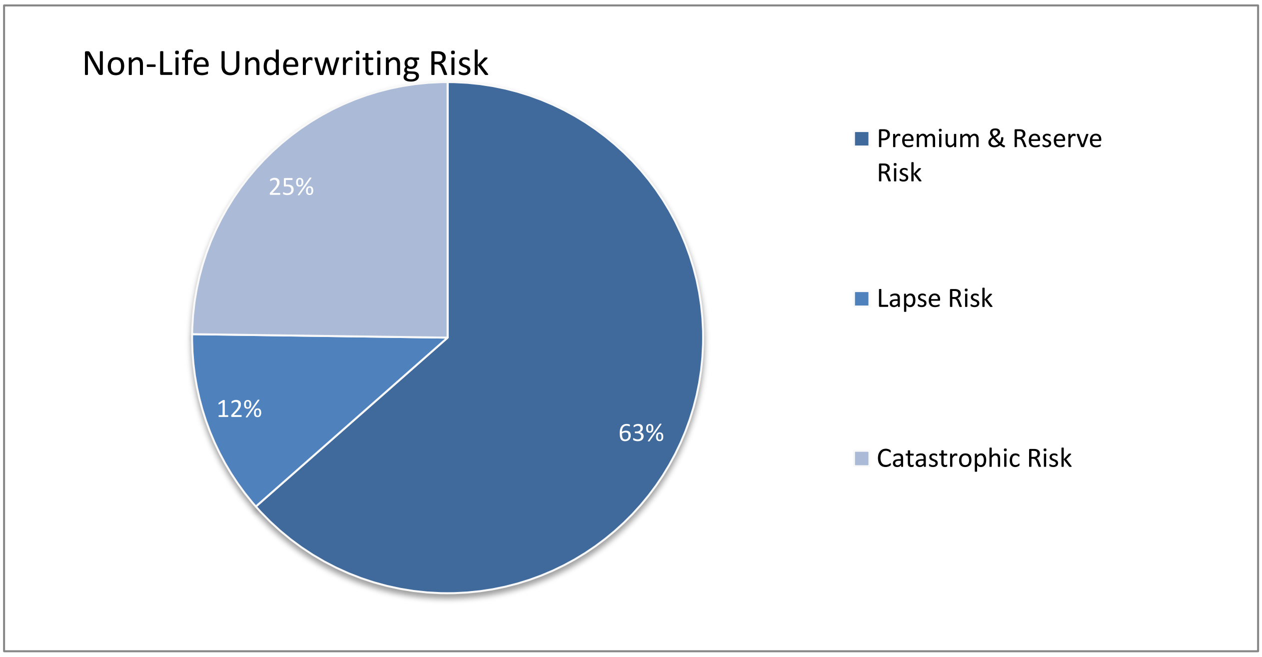
- identification of the tolerance level for actuarial risk and its monitoring;
- business decisions and sales plans;
- calculation and monitoring of technical provision adequacy;
- tariff strategy, monitoring of current estimates and assessment of the premium adequacy;
- the process of assessment, valuation and acceptance of actuarial risk;

- application of tools designed to mitigate actuarial risk, including in particular reinsurance and prevention.

In PZU, actuarial risk is mitigated mainly through the following activities:

- definition of the scope of liability in the general terms and conditions of insurance and other model agreements;
- co-insurance and reinsurance;
- adequate tariff policy;
- application of the appropriate provision calculation methodology;
- appropriate procedure to assess underwriting risk;
- appropriate claims handling procedure;
- sales decisions and plans;
- prevention.

The chart below presents the share of each sub-module in actuarial risk (without the diversification effect) as at 31 December 2017. Mortality risk is the most significant part of the actuarial risk module in non-life insurance, and represents premium and provisioning risks.



In 2017, the Company noted an increase in actuarial risk in non-life insurance, which was primarily due to the growing business of motor insurance offset by a change in the reinsurance structure for catastrophic risk. More detailed information is provided in the tables below:

Actuarial non-life risk

Sub-module name	Value (PLN 000s)		Change 2017/2016		Commentary
	2017	2016	(PLN thousand)	%	
Premium and provisioning risk	3,152,159	2,657,807	494,352	19%	Growth in the planned premium, mainly in motor insurance
Catastrophic risk	1,229,852	1,719,710	(489,859)	(28%)	Change in the reinsurance program structure for catastrophic risks
Lapse risk	580,711	516,479	64,232	12%	Business development in non-life and accident insurance
Diversification	(1,258,101)	(1,348,094)	89,993	(7%)	
Actuarial non-life risk	3,704,620	3,545,902	158,718	4%	

Actuarial life risk

Sub-module name	Value (PLN thousand)		Change 2017 / 2016		Commentary
	2017	2016	(PLN million)	%	
Longevity risk	296,074	285,705	10,369	4%	Growth in disability pension liabilities arising from non-life and accident insurance
Risk of disability pension revision	131,276	128,454	2,822	2%	Growth in disability pension liabilities arising from non-life and accident insurance
Cost risk	39,028	37,278	1,750	5%	Growth in disability pension liabilities arising from non-life and accident insurance
Diversification	(96,579)	(93,692)	(2,887)	3%	
Life actuarial risk	369,799	357,744	12,055	3%	

Actuarial health risk

Sub-module name	Value (PLN thousand)		Change 2017 / 2016		Commentary
	2017	2016	(PLN thousand)	%	
Health non-life risk	129,225	138,563	(9,338)	(7%)	Reduction in planned health insurance premium
Health catastrophic risk	26,495	25,714	781	3%	Development of health insurance business
Diversification	(17,470)	(17,163)	(307)	2%	
Actuarial health risk	138,250	147,114	(8,864)	(6%)	

In the area of premium and provisioning risk, the following actions are carried out:

- active monitoring of the combined ratio;
- an analysis of the impact of changes in the external environment on the statistical data used to calculate premiums and provisions;
- proactive monitoring of results achieved on individual products;
- development and implementation of a strategy in the area of punitive damages, including, *inter alia*, an analysis of the changing trends in court jurisprudence, manner of litigation at the pre-court and court phases, legislation and media presence;
- a reinsurance program designed to mitigate potential financial losses resulting from an unexpected increase in loss ratio.

As regards catastrophic risk in non-life and accident insurance, the following actions are carried out:

- monitoring of changes in portfolio exposure;
- monitoring of the reinsurance program's volume and deductible, including potential modification thereof in order to mitigate losses resulting from catastrophic events;
- exposure map for non-life insurance;
- creation of a flooding risk model, to be used in a wide spectrum of business applications (including underwriting, tariff-setting) and a flooding exposure map.

PZU has not identified any significant risk concentrations with regard to actuarial risk.

Reinsurance protection in PZU secures underwriting activity, by limiting the consequences of an occurrence of catastrophic events that could adversely affect the financial situation of the Company.

C.2. Market risk

Market risk identification consists in the identification of actual and potential sources of this type of risk. For assets, the market risk identification process begins with the decision to commence transactions in a given type of financial instrument. Units that make the decision to commence transactions in a given type of financial instrument draw up a description of the instrument, containing, in particular, a description of the risk factors involved, and provide it to the Risk Department, which proceeds with the identification and assessment of market risk.

The identification of market risk associated with insurance liabilities commences with the process of developing an insurance product and involves identification of the relationship between the cash flow generated by that product and the relevant market risk factors. The identified market risks are subject to assessment, relative to their materiality, i.e. if the materialization of that risk would entail a loss capable of affecting the financial condition.

Market risk is measured using the following risk measures:

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

When measuring market risk, the following particular stages can be identified:

- collection of information on assets and liabilities that generate market risk;
- calculation of the value of the risk.

The risk is measured:

- daily for exposure and sensitivity measures of the instruments in the Kondor+ transaction system;
- monthly, using a partial internal model or the standard formula.

Market risk is monitored internally in the organizational units responsible for operational management of market risk and - in parallel - independently by the Risk Department. The monitoring of market risk consist in an analysis of the level of risk and of the utilization of the designated limits. The risk is monitored on a daily and monthly basis, in accordance with the defined limits.

Reporting involves communicating to the various decision-making levels the information on the level of market risk, as well as the results of monitoring and control processes. The frequency of each report and the scope of information provided therein are tailored to the information needs at each decision-making level.

Management actions in respect to market risk involve in particular:

- transactions to mitigate market risk, i.e. selling a financial instrument, closing a derivative, or purchasing a hedging derivative;
- diversification of the assets portfolio, 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 application of limits is the primary management tool to maintain a risk position within the acceptable level of risk tolerance. The structure of limits for each category of market risk, as well as the individual business units, is established so as to ensure that the limits be consistent with the risk tolerance set by the Management Board. At PZU, the Asset and Liability Management Committee establishes additional detailed limits of market risk, except for credit spread risk, for which the limits are set by the Investment Risk Committee and Investment Committee.

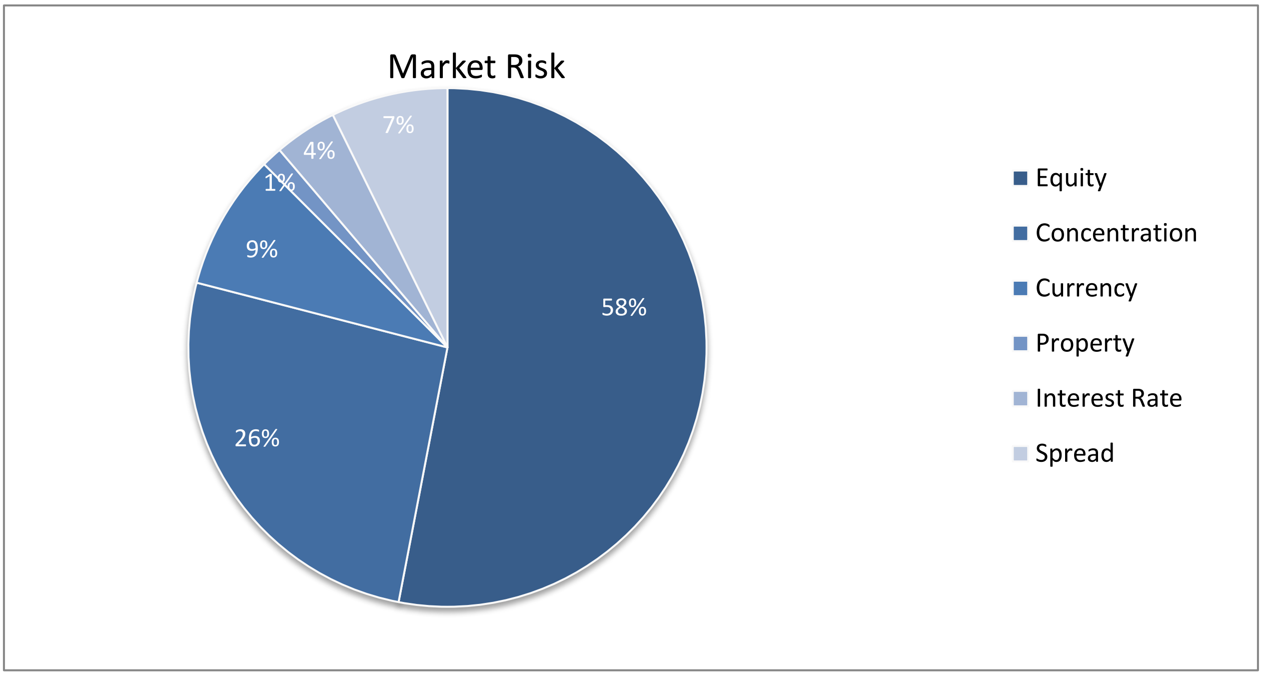
The table below presents the capital requirements for market risk and its sub-modules as at the end of 2017, compared to 2016.

Sub-module name	Value (PLN thousand)		Change 2017/2016	
	2017	2016	(PLN thousand)	%
Equity risk	5,853,018	4,524,254	1,328,764	29%
Concentration risk	2,869,731	3,469,875	(600,144)	(17%)
Foreign exchange risk	934,754	1,296,925	(362,171)	(28%)
Real estate price risk	142,189	147,428	(5,239)	(4%)
Interest rate risk	434,054	710,204	(276,150)	(39%)
Credit spread risk	805,111	516,193	288,918	56%
Diversification	(3,358,494)	(3,803,952)	445,458	(12%)
Market risk	7,680,362	6,860,927	819,435	12%

As at the end of 2017, and alike in 2016, the largest part of the market risk module is equity risk.

In 2017, significant changes occurred in the area of market risk. The changes were linked to the acquisition by PZU of 20% shares of Pekao, for the purchase price of PLN 6,001,761 thousand. As a result, the asset structure covered by market risk calculations has changed. PZU financed the acquisition of the shares from the funds in bank deposits or reverse transactions, sale of debt instruments and redemption of shares in investment funds. Consequently, the respective shares of the individual modules in the total market risk have changed. In 2017, no significant changes were made to the assessment methods of market risk.

The chart below presents the share of each sub-module in the total market risk, without the diversification effect.



At PZU, market risk concentration consists in the exposure to two groups which have received loans from PZU and/or in which PZU holds a capital stake and/or holds a capital stake in related parties.

Market risk concentration is reduced by the way of risk limits for each type of investment being set by the relevant Committees.

C.3. Credit risk/counterparty default risk

The purpose of credit risk management is to optimize the level of credit risk leading to a reduction in losses caused by the realization of that risk and to ensure adequate and effective control mechanisms, while using appropriate organizational, procedural and technical solutions.

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

Underwriting consists of estimating the probability of realization of a specific risk and estimating the potential impact of its realization on the financial standing.

Credit risk is measured using:

- measures of exposure (gross and net credit exposure and maturity-weighted net credit exposure);
- VaR, with the reservation that the Risk Department calculates this measure for the area of the entire Company.

Monitoring credit risk involves an analysis of the current risk level, assessment of creditworthiness and calculation of the degree of utilization of existing limits.

At PZU, monitoring is conducted in the following cycles:

- monthly - for financial insurance exposures;
- quarterly – for exposures of the PZU Reinsurance Department;
- daily – for other exposure limits;
- monthly – for VaR limits.

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

Management actions in respect of credit risk involve in particular:

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

The structure of credit risk limits for each issuer is established by a dedicated committee in such a manner that the limits are consistent with the risk profile and risk tolerance adopted by the Management Board. In PZU, the above structure is established by the Investment Committee – for transactions up to PLN 600 million inclusive and the Investment Risk Committee – for transactions above PLN 600 million. Additionally, the Committees set detailed limits on amounts and qualitative restrictions.

In 2017, counterparty default risk (CDR) was 6.9% of the total value of the Company’s SCR. Compared to 2016, the above percentage increased by 0.8 p.p.

Credit risk includes counterparty default risk, credit spread risk and asset concentration risk. In accordance with the requirements defined by the SII Directive, credit spread risk and concentration risk are included in the market risk module and the data for the capital requirement are presented there. In 2017, no significant changes were made to assessment methods of credit risk and counterparty default risk.

At PZU, risk concentration with regard to counterparty default risk occurs through reinsurance positions and cash in bank accounts.

In the case of other exposures, credit risk concentration is mitigated by setting limits to reduce the exposure to single entities, groups of entities and credit limits for sectors and states other than Poland by the Investment Risk Committee and the Investment Committee.

PZU performs regular reviews of the set limits together with an analysis of concentration risk.

C.4. Liquidity risk

Financial liquidity risk means the possibility of losing the capacity to settle, on an ongoing basis, the Company's liabilities to its clients or counterparties. The aim of the liquidity risk management system is to maintain the capacity of fulfilling the Company's liabilities on an ongoing basis. In 2017, no material changes to the liquidity management processes were introduced. Furthermore, the Company's investment strategy takes into consideration the required minimum level of the investment portfolio liquidity. The Company maintains the required level of the investment portfolio liquidity (the profile of the liquidity risks did not change to a material extent in the reporting period).

The risk identification involves analysis of the possibility of occurrence of unfavorable events, in particular:

- shortage of liquid cash to satisfy the Company's current needs;
- lack of liquidity of financial instruments held.

The risk estimate and measurement is carried out from the following perspectives:

- liquidity gaps – by monitoring a mismatch of net cash flows resulting from insurance contracts executed until the balance sheet date and inflows from assets to cover insurance liabilities in each period, based on a projection of cash flows;
- stress tests - by estimating the impact of selling the portfolio of financial investments in a short period to satisfy liabilities arising from the occurrence of extraordinary insurable events;
- current statements of estimates (short-term financial liquidity) – by monitoring demand for cash reported by other business units by the date defined in prevailing internal regulations.

The following measures aim to reduce financial liquidity risk:

- maintaining cash in a separate liquidity portfolio at a level consistent with the limits for the portfolio value;
- maintaining sufficient cash in a foreign currency in portfolios of investments earmarked for satisfying insurance liabilities denominated in the given foreign currency;
- provisions of the Agreement on managing portfolios of financial instruments entered into between TFI PZU SA and PZU regarding limitation of the time for withdrawing cash from the portfolios managed by TFI PZU SA to at most 3 days after a request for cash is filed;
- keeping open credit facilities in banks and/or the possibility of performing sell-buy-back transactions on treasury securities, including those held until maturity;
- centralization of management of portfolios/funds by TFI PZU SA (using the services of one external asset management entity facilitates risk management, including liquidity risk).

PZU has not identified a significant risk concentration with regard to liquidity risk.

Monitoring financial liquidity risk involves analyzing the utilization of defined limits.

Reporting involves communicating the level of financial liquidity to various decision-making levels.

The Company does not estimate liquidity risk by taking into account the amount of expected profit from future premiums as referred to in Article 295 sec. 5 of the delegated Regulation. For this reason, the amount of expected profit from future premiums has not been presented.

C.5. Operational risk

Operational risk is identified in particular by:

- accumulation and analysis of information on operational risk incidents;
- self-assessment of operational risk;
- scenario analyses.

Operational risk is assessed and measured by:

- calculating the effects of the occurrence of operational risk incidents;
- estimating the effects of potential operational risk incidents that may occur in the Company's business.

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

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

Management actions involving reactions to any identified and assessed operational risks involve, in particular:

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

Business continuity plans have been implemented at PZU. Actions securing correct operation of the processes included in the Plan in the event of emergency have been tested.

Based on an analysis of operational risk indicators in the following areas: security, human resources, IT technologies and law, the operational risk of the Company in 2017 was assessed as low. No significant changes to the operational risk profile were found in the reporting period. The method of assessing operational risk did not change, either. Based on up-to-date knowledge, no material concentrations were identified in the area of operational risk in the present reporting period. Neither any grounds were identified that could indicate the possibility of such concentrations to appear in the future.

C.6. Other material risks

Other material risks identified by PZU include compliance risk, including reputation risk.

Reputation risk is construed as the risk associated with an unfavorable reception of an entity's image by clients, business partners, investors, shareholders, public administration institutions and the public. On the other hand, outsourcing risk is a risk of adverse influence exerted by an external entity on the continuity, integrity or quality of operation of PZU, its property or employees.

Compliance risk includes, in particular, the risk that the operations performed by PZU will be out of line with the changing legal environment (both in the area of law, regulatory requirements as well as the standards and best practices adopted to be followed). This risk may materialize as a result of delayed implementation or absence of clear and unambiguous laws, or the so called 'legal loophole'. This may cause irregularities in the business of PZU, which may then lead to an increase in costs (for instance, due to the imposition of administrative penalties) and an increase in the level of reputation risk, thus in a drop of the PZU's trustworthiness on the market (resulting in a possible financial loss). Compliance risk regarding failure to adjust or delay in the adjustment of the PZU's activity to the changing legal environment increases because of the dynamics and scale of amendments to law (both in Poland and internationally), which have a material impact, in particular on PZU's regulated activity.

In the reporting period, no significant changes to the identification of other material risks took place.

The identification and assessment of compliance risk is performed for each internal process by the heads of organizational cells or units, in accordance with the allocation of responsibility for reporting. Moreover, the Compliance Department identifies compliance risk on the basis of its own actions and information obtained, also from notifications to the register of conflicts of interest, gifts and benefits and irregularities, as well as from inquiries sent to them.

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

- financial, resulting, without limitation, from administrative penalties, court judgments, contractual penalties and claims paid;
- non-financial, pertaining to a loss of reputation, including damage to the image and brand.

In the reporting period, no significant changes to the methods of assessing compliance risk occurred. Neither any significant concentrations of risks – because of nature of the described risks – were identified either.

Compliance risk is monitored, in particular, through:

- compliance analyses;
- systemic analysis of cyclic reports received from the heads of organizational cells;
- participation in the Company's legislative process;
- review of regulatory requirements;
- participation in legislative work aimed at amending the existing laws of general application;
- performing diverse activities in industry organizations;
- coordination of external control processes;
- coordination of reporting requirements arising from the stock exchange regulations and the law;
- review of the implementation of the Compliance Department's recommendations.

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

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

Taking into consideration the nature and special character of the risks described in this part of the report, the requirements for stress testing and sensitivity analyses are in principle not applicable to this scope of reporting.

The Company does not identify any material risks in the compliance risk area resulting from off-balance sheet items.

D. Measurement of assets and liabilities

Quantitative information on assets and liabilities measured in accordance with the SII system is included in form QRT S.02.01.02 which constitutes Attachment5 to this report.

D.1. Assets

PZU measures assets for solvency purposes at fair value and the table below presents the grounds, methods and major assumptions used when measuring assets.

Assets	Description of the grounds, methods and major assumptions used when measuring assets for solvency purposes
Real property	The fair value of real property is determined using the alternative measurement method described in part D.4.
Shares in related entities, including equity interests	The measurement method consistent with the hierarchy described in Article 13 of the delegated regulation: Equity interests in related parties listed on active markets are measured at fair value in accordance with Article 10 sec. 2 of the delegated regulation, i.e. based on the market prices of the same assets listed on active markets. Shares in related parties not quoted on active markets are measured using the adjusted equity method. The adjusted equity method requires that PZU should measure equity interests held in subsidiaries based on the share owned in the subsidiary's surplus of assets over liabilities. When calculating a surplus of assets over liabilities for subsidiaries, particular assets and liabilities of the given entity are measured in accordance with the principles of the SII system.
Debt securities, loans	Fair values of debt securities are determined on the basis of quotations publicly available on an active market and if there are no such quotations – valuations published by an authorized information service; and if there are no such quotations either – using valuation models containing references to published price quotations of the underlying financial instruments, interest rates and stock exchange indices. PZU conducts an internal review of the valuations published by the authorized information service comparing them to the valuations available from other sources based on data which can be observed on the market. The fair value of debt securities for which an active market does not exist and of loans is measured using the alternative measurement method described in part D.4.
Participation units and investment certificates in collective investment undertakings	The fair value of participation units and investment certificates of mutual funds are measured using the alternative measurement method described in part D.4.
Derivatives	For derivatives quoted on an active market, the fair value is considered to be the closing price as at the balance sheet date. The fair value of derivatives not quoted on an active market, including forward contracts and interest rate swaps is measured using the alternative measurement method described in part D.4.
Deposits other than cash equivalents	The fair value of deposits is measured using the alternative measurement method described in part D.4.
Receivables from insurance and from insurance intermediaries	The fair value has been measured using the alternative measurement method described in part D.4. In receivables from the insured and insurance intermediaries only these receivables are presented whose maturity dates have already passed. Due and future premium installments are taken into consideration when defining the best estimate as cash flows – inflows. In this item, estimations on account of salvage and subrogation are presented. The anticipated salvage and subrogation are determined using the discounted cash flow method based on triangles of received salvage and subrogation, with the application of standard actuarial methods such as Chain Ladder.
Other receivables (trade receivables other than those from insurance activity) and amounts due and payable from reinsurance agreements for liabilities resulting from	The fair value is measured using the alternative measurement method described in part D.4.

Assets	Description of the grounds, methods and major assumptions used when measuring assets for solvency purposes
insurance	
Cash	Measurement at nominal value, increased, in justified cases, by the accrued interest.

The table below presents an explanation, in quantitative terms, of differences between data of assets calculated in accordance with the principles used for measurement for solvency purposes (described in the table above) and data calculated in accordance with the principles used for the needs of financial statements (according to the PAS). The column entitled "Amount from the financial statements" presents values from the Company's financial statements for the year ended 31 December 2017 in accordance with their economic content, but without making adjustments that would be necessary to make the numbers fit the format and presentation required in the SII system. The amount of total assets in the "Amount from the financial statements" column is equal to the total amount from the Company's financial statements, after taking into consideration the changes to presentation of the reinsurers' share in technical provisions and the reinsurers' share in estimated salvage and subrogation.

Assets (data in PLN thousand) as at 31 December 2017	Amount from the financial statements as at 31 December 2017	Adjustment of deferred acquisition costs	Adjustment of intangible assets	Measurement of investments	Measurement of provisions	Reclassification of items	Adjustment of the Company Social Benefit Fund	Measurement of other assets	Amount according to Solvency II as at 31 December 2017
Deferred acquisition costs	1,285,837	(1,285,837)	-	-	-	-	-	-	-
Intangible assets	345,437	-	(345,437)	-	-	-	-	-	-
Property, plant and equipment (tangible fixed assets) used for own needs	468,154	-	-	139,607	-	-	-	-	607,761
Investments (other than assets for life insurance in which the benefit is determined on the basis of specified indices or other base values and for life insurance linked to a unit-linked fund)	34,376,311	-	-	9,723,402	-	15,711	-	-	44,115,424
Real property (other than used for own needs)	19,486	-	-	65,358	-	-	-	-	84,844
Shares in related entities, including equity interests	15,980,453	-	-	8,990,241	-	-	-	-	24,970,694
Shares and interests	3,894	-	-	-	-	-	-	-	3,894
Shares and interests – quoted	3,879	-	-	-	-	-	-	-	3,879
Shares and interests – unquoted	15	-	-	-	-	-	-	-	15
Debt securities	11,204,100	-	-	667,803	-	-	-	-	11,871,903
Government bonds	10,772,160	-	-	662,897	-	-	-	-	11,435,057
Corporate bonds	384,639	-	-	3,644	-	-	-	-	388,283
Structured securities	47,302	-	-	1,262	-	-	-	-	48,564
Participation units and investment certificates in collective investment undertakings	6,314,427	-	-	-	-	-	-	-	6,314,427
Derivatives	190,977	-	-	-	-	-	-	-	190,977
Deposits other than cash equivalents	662,974	-	-	-	-	15,711	-	-	678,685
Loans and mortgage-backed loans – other	1,849,458	-	-	(51,131)	-	-	-	-	1,798,327
Amounts due and payable from reinsurance agreements for liabilities resulting from:	1,157,750	-	-	-	(907,768)	-	-	-	249,982
Insurance other than life insurance and health insurance treated as non-life insurance	984,349	-	-	-	(858,638)	-	-	-	125,711
Insurance other than life insurance products (excluding health insurance)	975,392	-	-	-	(846,713)	-	-	-	128,679
Health insurance treated as non-life insurance	8,957	-	-	-	(11,925)	-	-	-	(2,968)

Assets (data in PLN thousand) as at 31 December 2017	Amount from the financial statements as at 31 December 2017	Adjustment of deferred acquisition costs	Adjustment of intangible assets	Measurement of investments	Measurement of provisions	Reclassification of items	Adjustment of the Company Social Benefit Fund	Measurement of other assets	Amount according to Solvency II as at 31 December 2017
Life insurance and health insurance treated as life insurance, except for health insurance and the insurance in which a benefit is determined on the basis of specified indices or other base values and unit-linked life insurance – excluding health insurance	173,401	-	-	-	(49,130)	-	-	-	124,271
Receivables from insurance and from insurance intermediaries	1,931,358	-	-	-	(1,235,468)	-	-	-	695,890
Outward reinsurance receivables	43,610	-	-	-	(8,048)	(32,141)	-	-	3,421
Other receivables (trade receivables other than those from insurance activity)	340,273	-	-	-	-	-	(52,268)	-	288,005
Cash and cash equivalents	982,152	-	-	-	-	(15,711)	(30,045)	-	936,396
Other assets (not included in other items)	765,771	(26,954)	-	-	(612,500)	32,141	-	(7,111)	151,347
Total assets	**43,546,111**	**(1,312,791)**	**(345,437)**	**9,811,878**	**(2,763,784)**	**-**	**(82,313)**	**(7,111)**	**48,846,553**

D.1.1. Qualitative description of material differences between measurement for solvency purposes and measurement according to PAS

D.1.1.1. Measurement of investments

1) Real property: the difference between values according to PAS and measurement for solvency purposes follows from different measurement methods. According to PAS, real estate is measured at purchase price or production cost, reduced by the amount of depreciation accrued as at a balance sheet date, taking into account impairment losses, while for the purposes of economic balance sheet, real estate is recognized at fair value.
2) Valuation of related parties: the difference between values according to PAS and measurement for solvency purposes follows from different measurement methods. According to PAS, related parties are measured using the equity method, while for the purposes of economic balance sheet measured at fair value or an adjusted equity method.
3) Debt securities (the portfolio of financial instruments held to maturity), long-term investments, loans: the difference between values according to PAS and measurement for solvency purposes follows from different methods of measuring instruments valued according to PAS at an adjusted purchase price, taking into account impairment losses, which for the purposes of economic balance sheet are presented at fair value.

D.1.1.2. Measurement of provisions

1) Reinsurers' share in technical provisions: according to PAS – the provisions are established in compliance with the Finance Minister's Regulation of 12 April 2016 on the special accounting principles for insurance and reinsurance undertakings pursuant to the individual or actuarial method on the basis of historical data. For the purposes of the economic balance sheet, the reinsurer's share is taken into consideration as the best estimate of future cash flows resulting from settlements with the reinsurers, which is presented in the item: Amounts due and payable from reinsurance agreements for liabilities resulting from insurance.
2) Technical provisions: according to PAS, the provisions are established in compliance with the Finance Minister's Regulation of 12 April 2016 on the special accounting principles for insurance and reinsurance undertakings pursuant to the individual or actuarial method or at a level documented by cedents on the basis of historical data. For the purposes of the economic balance sheet, technical provisions are established by discounting future cash flows resulting from liabilities from executed insurance agreements and reinsurance treaties – the best estimate and risk margin. A detailed explanation of the most important differences is provided in part D.2.1.

D.1.1.3. Assessment criteria for an active market

Whether a financial instrument is quoted on an active market is determined at the moment of establishing the carrying amount of the instrument on the measurement date based on data about the number and trading volume of transactions executed on the instrument, on the market on which the total trading volume in all the quotation systems was the biggest in the calendar month preceding the measurement date, and for instruments which were admitted for trading after this period, in the calendar month in which the measurement date falls. The above rule does not apply to instruments admitted for trading on the Treasury Bond Spot market.

An analysis of the activity of markets is based on information coming from the markets on which the Company could execute transactions of selling the instrument in regular circumstances. In particular, these include the following markets:

1) the markets on which the Company has executed transactions or
2) the biggest markets from markets in a given country or

3) global markets earmarked for institutional clients.

The instrument's price is regarded as coming from an active market if it has been found on a market specified above and:

1) available data on the number and trading volume of transactions coming from the market allow for stating that on each day of the period referred to in the first paragraph transactions were usually executed or regulations prevailing on the market impose on the selected participants the requirement of presenting quotations representing their readiness for simultaneous purchase and sale of the instrument for prices within a limited range and
2) transactions were executed on the measurement date.

If, on the basis of the data on the number and trading volume of transactions executed on the market, it is impossible to determine unambiguously their frequency in the period referred to in the first paragraph, it is found whether the price comes from an active market on the basis of an analysis of the activity level of the given instruments on the date on which the price was determined.

D.1.2. Changes to the bases used for recognition, measurement or estimates in the reporting period

In 2017, no changes to the principles of recognition, measurement or estimates were made with regard to measurement of assets.

D.2. Technical provisions

The values of technical provisions broken down by lines of business are included in form QRT S.12.01.02, constituting Attachment 6to this report, and form S.17.01.02, constituting Attachment 7to this report. The most important lines of business in PZU are lines 4, 5 and 34.

Information on non-life insurance claims and benefits in the format of development triangles is included in form QRT S.19.01.21 constituting Attachment 8 to this report.

Technical provisions consist of the best estimate and the risk margin, in compliance with Article 225 of the Insurance Activity Act. The best estimate takes into consideration all the future proceeds and expenditures required to settle insurance liabilities and is determined on the basis of historical data, including possible adjustments referring to the future. The best estimate does not include payments on account of salvage and subrogation. Estimates of those payments are presented in the economic balance sheet in connection with Article 28 g) of the delegated regulation. The best estimate is determined by discounting forecasted cash flows with the risk-free rate.

In the best estimate, the Company has taken into consideration possible compensation for the wrong done to the family of a victim who suffered serious and permanent injury. The estimate is based on an expert's assessment of the number of entitled persons and the average compensation.

The main assumption made for defining the best estimate is the adequacy of historical experience for the purposes of anticipating the future. The table below presents the grounds, methods and major assumptions used when measuring assets for solvency purposes.

Line of business	Description of the grounds, methods and major assumptions used for measurement
4 and 5	For claims provisions, cash flows are determined based on triangles of losses, with the application of standard actuarial methods such as Chain Ladder. Cash flows from the provision for unearned premiums are determined based on the provision for unearned premiums according to PAS, adjusted for forecasted lapse rate and anticipated combined ratio. The cash flows also include outstanding premium receivables. The cash flows are determined on the basis of the triangle of premium collection.
34	Cash flows are determined individually for each annuity recipient based on his/her demographic features, the up-to-date annuity amount and selected features that are significant from the perspective of forecasting the annuity increase. Annuity increase is forecasted based on historical data, using the GLM and GAMLSS models. For calculations, life expectancy tables from the Central Statistical Office (GUS) are taken.

All the cash flows are discounted with the risk-free rate published by the EIOPA.

The uncertainty of the best estimate follows for the most part from the fact that the forecasted flows may diverge, perhaps significantly, from the historical trends. Some of the divergences may be random in nature (e.g. the occurrence of large claims), while other may result from changes to the (business, economic, legal, etc.) environment or changes to the procedures of handling the Company's liabilities. Additional uncertainty is connected with a long term of performing third party liability insurance liabilities, especially provisions for annuities, which depend to a significant extent on the applied discount rate. While estimating compensation for dismemberment, the uncertainty of the estimate is relatively high because of the absence of historical data for such claims as well as the absence of written justification for the Supreme Court's verdict of 27 March 2018 (III CZP 36/17). The uncertainty refers in particular to the degree of permanent dismemberment in the injured party, the group of entitled persons and the very compensation amount.

PZU does not use material simplifications to calculate the best estimate.

The risk margin is calculated in accordance with the assumptions set forth in Article 38 of the delegated regulation. The Company uses simplifications in its risk margin calculations. Simplifications are used to approximate the value of some elements of the future capital requirements using the identified risk carriers.

D.2.1. Description of material differences between measurement for solvency purposes and measurement according to PAS

The grounds, methods and assumptions applied to the measurement of technical provisions for the solvency purposes according to SII do not differ to a material extent from the grounds, methods and assumptions applied to the measurement of these provisions for the purposes of financial statements according to PAS. Differences to the amounts of technical provisions result from different measurement rules for specific items of provisions according to SII and PAS. What contributes to the differences is a different product granulation and the fact that SII values are best estimates, while PAS values are calculated using the methods and assumptions that include safety markups (e.g. the stochastic method in the motor TPL insurance). The table below is a summary of the most important differences in the rules of measuring provisions for solvency purposes according to SII and for the purposes of financial statements according to PAS.

Line of business	Technical provisions according to SII	Technical provisions according to PAS
1-12	• Provision for unearned premiums reduced by the future profit • Future premiums are included • At a discounted value • Overheads are included • Salvage and subrogation are not included • Risk margin	• Provision for unearned premiums reduced by the future profit • Future premiums are not included • At an undiscounted value • Overheads are not included • Future salvage and subrogation are included • No open risk margin
34	• Variable discount rate Variable growth rate • Risk margin	• Fixed discount rate • Fixed growth rate • No open risk margin

The table below presents the value of the best estimate and the risk margin for material lines of business and the value of provisions calculated for the purposes of financial statements (balance as at 31 December 2017, amounts in PLN thousand):

No. of business line according to the SII system	Name of business line according to the SII system	Amount of technical provisions according to the SII system		Amount of technical provisions according to PAS
		Best estimate	Risk margin	
4 and 16	Third party liability insurance on account of using motor vehicles	5,324,294	388,025	7,986,855

5 and 17	Other motor insurance	1,565,190	41,568	2,357,291
34	Annuities from insurance contracts other than life insurance contracts and connected with insurance liabilities other than health insurance liabilities	4,375,876	331,035	4,830,561

D.2.2. Matching adjustment, volatility adjustment, transitional risk-free interest rate term structure, transitional deductions

As at 31 December 2017, PZU did not apply the matching adjustment referred to in Article 227 of the Insurance Activity Act, the volatility adjustment mentioned in Article 229 of the Insurance Activity Act, transitional risk-free interest rate term structure mentioned in Article 496 of the Insurance Activity Act or the transitional deduction mentioned in Article 497 of the Insurance Activity Act.

D.2.3. The amounts due under reinsurance treaties and from special-purpose vehicles (special-purpose entities).

The amounts due under reinsurance treaties are determined on the basis of the gross best estimate and assignment indicators for technical provisions according to PAS. The amount due and payable on account of reinsurance also includes future cash flows of premiums and reinsurance commissions measured according to PAS. The amounts due and payable from reinsurers are adjusted for the probability of the reinsurer's bankruptcy. Reinsurance treaties are executed with companies with a sufficiently high rating (in most cases, at least A-). PZU does not execute agreements with special purpose vehicles (special purposes entities) which would result in receivables on that account.

D.2.4. Changes to assumptions adopted for calculating technical provisions as compared to the previous reporting period

With regard to economic assumptions, in 2017, the risk-free rate applied for discounting cash flows was changed. If the rate from the end of 2016 was adopted, this would mean a decrease in the best estimate of annuities for 31 December 2017 by PLN 294,305 thousand and a decrease in the best estimate for other business lines by PLN 84,686 thousand. No changes were made to non-economic assumptions.

D.3. Other liabilities

PZU measures liabilities for solvency purposes at fair value and the table below presents the grounds, methods and major assumptions used when measuring liabilities.

Liabilities	Description of the grounds, methods and major assumptions used for measurement for solvency purposes
Other provisions (other than technical provisions) and pension benefit liabilities payable to employees	The fair value of other provisions and pension benefit liabilities payable to employees are measured using the alternative measurement method described in part D.4.
Deferred tax liability	The amount of deferred tax liabilities is calculated using the balance sheet method, as a positive difference between the amounts of balance sheet items recognized and measured in accordance with the rules set forth in the Insurance Activity Act and the delegated regulation and the amounts of balance sheet items according to the valuation for tax purposes taking into account the CIT rates, which are expected to apply when the liability is realized in accordance with the provisions of Polish tax law enacted by the end of the reporting period. In the economic balance sheet, deferred tax liabilities and assets are presented after compensation (on a net basis).
Derivatives	They are measured based on the derivatives measurement method described in Section D.1. Negative measurement is presented as liability.

Liabilities	Description of the grounds, methods and major assumptions used for measurement for solvency purposes
Financial liabilities other than liabilities to credit institutions	Fair value is measured using the alternative measurement method described in part D.4.
Insurance liabilities and liabilities to insurance intermediaries and other liabilities (trade, other than those from insurance activity, not recognized in other items)	Fair value is measured using the alternative measurement method described in part D.4. In insurance and inward reinsurance liabilities only these liabilities are recognized whose maturity dates have already passed. Current and future liabilities are taken into consideration when determining the best estimate as cash flows – outflows. The Other liabilities item includes: accrued payroll expenses and bonuses for employees, prepayments to business partners, other deferred revenue.
Subordinated liabilities	Fair value is measured using the alternative measurement method described in part D.4.

The table below presents an explanation, in quantitative terms, of the differences between data on other liabilities calculated in accordance with the rules used by PZU for measurement for solvency purposes and data calculated in accordance with the principles used for the purposes of financial statements (according to PAS). The column entitled "Amount from the financial statements" presents values from the Company's financial statements for the year ended 31 December 2017 in accordance with their economic content, but without making adjustments that would be necessary to make the numbers fit the format and presentation required in the SII system. The amount of total assets in the "Amount from the financial statements" column is equal to the total amount from the Company's financial statements, after taking into consideration the changes to presentation of the reinsurers' share in technical provisions and the reinsurers' share in estimated salvage and subrogation.

Liabilities (data in PLN thousand) as at 31 December 2017	Amount from the financial statements as at 31 December 2017	Adjustment of deferred acquisition costs	Measurement of investments	Measurement of provisions	Deferred tax	Adjustment of the Company Social Benefit Fund	Adjustment of the Prevention Fund	Measurement of other liabilities	Amount according to Solvency II as at 31 December 2017
Technical provisions – non-life insurance	15,431,243	-	-	(5,589,850)	-	-	-	-	9,841,393
Technical provisions – non-life insurance (excluding health insurance)	15,132,756	-	-	(5,402,602)	-	-	-	-	9,730,154
Technical provisions calculated jointly	-	-	-	-	-	-	-	-	-
Best estimate	-	-	-	9,106,485	-	-	-	-	9,106,485
Risk margin	-	-	-	623,668	-	-	-	-	623,668
Technical provisions – health insurance (treated as non-life insurance)	298,487	-	-	(187,248)	-	-	-	-	111,239
Technical provisions calculated jointly	-	-	-	-	-	-	-	-	-
Best estimate	-	-	-	106,710	-	-	-	-	106,710
Risk margin	-	-	-	4,530	-	-	-	-	4,530
Technical provisions in life insurance (except for the insurance in which a benefit is determined on the basis of specified indices or other base values and unit-linked life insurance)	4,977,153	-	-	(136,388)	-	-	-	-	4,840,765
Technical provisions in life insurance (except for health insurance and the insurance in which a benefit is determined on the basis of specified indices or other base values and unit-linked life insurance)	4,977,153	-	-	(136,388)	-	-	-	-	4,840,765
Technical provisions calculated jointly	-	-	-	-	-	-	-	-	-
Best estimate	-	-	-	4,500,147	-	-	-	-	4,500,147
Risk margin	-	-	-	340,618	-	-	-	-	340,618
Other technical provisions	717,981	-	-	(717,981)	-	-	-	-	-
Other provisions (other than technical provisions)	126,545	-	-	(12,191)	-	-	-	-	114,354
Employee pension benefit liabilities	12,055	-	-	-	-	-	-	-	12,055
Deferred tax liabilities	337,607	-	-	-	698,818	-	-	-	1,036,425
Derivatives	161,630	-	-	-	-	-	-	-	161,630
Financial liabilities other than liabilities to credit institutions	3,558,260	-	62,922	-	-	-	-	-	3,621,182
Insurance liabilities and liabilities to insurance intermediaries	426,438	-	-	(73,939)	-	-	-	-	352,499

Liabilities (data in PLN thousand) as at 31 December 2017	Amount from the financial statements as at 31 December 2017	Adjustment of deferred acquisition costs	Measurement of investments	Measurement of provisions	Deferred tax	Adjustment of the Company Social Benefit Fund	Adjustment of the Prevention Fund	Measurement of other liabilities	Amount according to Solvency II as at 31 December 2017
Outward reinsurance liabilities	110,971	-	-	(110,971)	-	-	-	-	-
Other liabilities (trade liabilities, other than those from insurance activity)	888,829	-	-	-	-	(82,314)	(34,274)	-	772,241
Subordinated liabilities (included in the basic own funds)	2,284,674	-	32,790	-	-	-	-	-	2,317,464
Other liabilities (not included in other items)	929,436	(42,393)	-	(659,790)	-	-	-	(3,802)	223,450
Total liabilities	**29,962,822**	**(42,393)**	**95,712**	**(7,301,110)**	**698,818**	**(82,314)**	**(34,274)**	**(3,803)**	**23,293,458**

D.3.1. Qualitative description of material differences between measurement for solvency purposes and measurement according to PAS

D.3.1.1. Valuation of liabilities

Financial liabilities and subordinated liabilities: the difference between values according to PAS and measurement for solvency purposes follows from different methods of measuring financial and subordinated liabilities valued according to PAS at an adjusted purchase price, which for the purposes of economic balance sheet are presented at fair value but without adjusting own credit spread from the date of the emergence of the liability.

D.3.2. Sources of the deferred tax liability

PZU sets off deferred tax assets and liabilities in its economic balance sheet and consequently for the purposes of calculation of the value of own funds. The following table presents the sources of setting off negative and positive taxable temporary differences as at 31 December 2017.

The decisive part of the temporary differences follows from overestimating medium- and long-term financial assets and technical provisions.

Sources of the deferred tax liability	Amount of the deferred tax liability (PLN thousand)
Financial instruments	297,684
Depreciation of property, plant and equipment and amortization of intangible assets	(23,490)
Measurement of properties	15,823
Other provisions and accruals and deferred income	(127,860)
Technical provisions	862,092
Other differences	12,176
Total deferred tax liability	**1,036,425**

D.3.3. The nature of duties, expected schedule of outflow of economic benefits, uncertainty and the manner of taking into consideration of the risk of measurement deviation

Financial liabilities other than liabilities to credit institutions

On 7 July 2014 and 16 October 2015, PZU took out loans from PZU Finance AB (publ) in Stockholm with par values of EUR 500,000 thousand and EUR 350,000 thousand, respectively. The interest rate on loans is stable, interest is paid once a year on contractual dates in the last week of June. The repayment date of the loans was set at 28 June 2019.

As at 31 December 2017, the carrying amount of the loan from PZU Finance AB (publ) was PLN 3,558,260 thousand (PLN 3,764,983 thousand as at 31 December 2016), while their fair value was PLN 3,621,182 thousand (PLN 3,851,835 thousand as at 31 December 2016).

Subordinated liabilities

On 30 June 2017, PZU issued subordinated bonds with a total nominal value of PLN 2,250,000 thousand. The final maturity of the bonds is 29 July 2027 with an early repayment option on 29 July 2022.

Parameters of outstanding bonds:

Parameter	Value
Total nominal value of the bonds	PLN 2,250,000 thousand
Nominal value and issue price of one bond	PLN 100,000
Final maturity	29 July 2027
Interest rate	WIBOR 6M + 1.80% margin
Interest payment days	29 January and 29 July each year, from 29 January 2018 until 29 July 2027
Possibility of redeeming bonds before final maturity	29 July 2022
Security	None

The bonds are not in the form of documents and are registered in the securities depository maintained by Krajowy Depozyt Papierów Wartościowych SA [National Depository for Securities] and listed in alternative trading systems run by BondSpot SA and the Warsaw Stock Exchange. As at 31 December 2017, the carrying amount of subordinated loans was PLN 2,284,674 thousand, while their fair value was PLN 2,317,464 thousand.

The risk measure is taken into consideration in the model for measuring fair value. For the above items, the basis point value (BPV) is calculated which is a measure of sensitivity to a change of interest rates. The BPV measures how much the value of an asset/a liability will change when the interest rate changes by 1 basis point.

D.3.4. Changes to the bases used for recognition, measurement or estimates in the reporting period

In 2017, no changes to the principles of recognition, measurement or estimates were made with regard to measurement of liabilities other than technical provisions.

D.4. Alternative measurement methods

The assets and liabilities to which alternative measurement methods apply along with the justification for applying such methods are presented in the following table.

Assets and liabilities measured using the alternative method	Description of the alternative measurement method along with the justification for its application
Real property	Due to the absence of an active market, real properties are valued by licensed property appraisers in accordance with generally applicable provisions of law and applicable professional standards, in most cases using the comparative method or the income method. Licensed property appraisers are required to collect and prepare all documentation necessary to perform the valuation. The acceptance of each completed valuation is additionally subjected to the assessment of compliance with the order by employees of the Real Estate Department to eliminate any potential typographical or accounting errors. Any concerns arising during the process are clarified on an ongoing basis with the author of the appraisal report or opinion.
Debt securities, loans	The fair value of debt securities for which an active market does not exist is measured based on valuations published by an authorized information service and, if there are none, using the discounted cash flow method. For loans, the fair value is determined using the discounted cash flow method. Discount rates are determined on the basis of the yield curve for government bonds adjusted by the credit spread. It is calculated on a calibration date, which is the date of the most recent issue or market transaction or each day of the averaging period of the spreads calculated from the most recent market data. Such a spread leads to parallel shifting of the yield curve for government bonds by a fixed amount along its whole length or as the difference between the yield of listed debt securities of issuers with a similar rating operating in similar industries and the yield of government bonds (German government bonds for bonds denominated in EUR) multiplied by a ratio determined as at the calibration date, taking into account issuer-specific risk in the discount curve.
Derivatives	The fair value of derivatives not quoted on an active market, including forward contracts and interest rate swaps is measured using the discounted future cash flow method. For the discounting of cash flows, interest rates are used from the yield curves assigned to the relevant type of financial instrument and currency, shaped on the basis of available market data. The fair value of options is measured as the expected value of the option payoff function discounted as at the valuation date. The expected value of the payoff function is calculated using the Monte

Assets and liabilities measured using the alternative method	Description of the alternative measurement method along with the justification for its application
	Carlo modeling method.
Long-term deposits	Due to the absence of an active market, the fair value of deposits is measured as the value of discounted cash flows resulting from the terms of executed deposit agreements. For discounting, a base curve is used adjusted for the credit spread quantifying the credit risk of counterparty banks with which long-term deposit agreements have been entered into in the relevant period. For each currency of the deposits, an appropriate discount curve is used. For a given currency of the deposit, discount curves are used specific to the counterparty bank in which the deposit has been made.
Participation units and investment certificates in collective investment undertakings	Due to the absence of an active market, the Company measures participation units and investment certificates using prices published by mutual fund companies determined on the basis of net asset value of the funds measured in accordance with the accounting principles for funds. As at the date of preparation of the SFCR, the prices published by mutual fund companies were verified with the audited financial statements of the funds. The valuation of participation units issued by subsidiary funds is subject to adjustment in cases where the fund's assets are not presented at fair value in the fund's financial statements and the difference between the fair value and the valuation amount in the fund's financial statements is significant.
Receivables on insurance and from insurance intermediaries, other receivables (trade receivables other than those from insurance activity) and amounts due and payable from reinsurance agreements for liabilities resulting from insurance	Due to the absence of an active market, PZU measures its receivables on insurance and from insurance intermediaries and other receivables using the discounted cash flow method. The valuation of these receivables is based on a historical analysis of the receivables payment ratio, and the projected cash flows are discounted using the current market discount rate. Due to the higher rate of collecting receivables in the first several months of debt recovery, the discount effect is insignificant for the calculation of fair value.
Pension benefit liabilities payable to employees and other provisions (other than technical provisions) measured using actuarial methods	Due to the absence of an active market, the fair value of other provisions is calculated as the expected present value of anticipated cash flows in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". The value of the provision for unused vacation leaves is recognized in accordance with IAS 19 on an accrual basis. The costs of retirement severance pay and post-mortem benefits estimated using actuarial methods are recognized on an accrual basis in accordance with IAS 19 by applying the forecasted specific entitlements method. Provisions for retirement severance pay and post-mortem benefits are estimated using actuarial methods by applying appropriate actuarial techniques and assumptions (discount rates, mortality rate, anticipated wage growth rate, employee turnover rate and disability rate).
Financial liabilities other than liabilities to credit institutions, subordinated liabilities	The fair value of financial liabilities for which an active market does not exist and the fair value of subordinated liabilities and loans which are the PZU Group's liabilities are measured using the discounted cash flow method. Such liabilities are measured based on credit spread in relation to a risk-free curve, calculated in such a way that the instrument price at the issue date resulting from the model equals the issue price. In accordance with the measurement rules for liabilities in the SII system, the own credit spread calculated in the above manner is not subsequently changed.
Insurance liabilities and liabilities to insurance intermediaries, other liabilities	Due to the absence of an active market, PZU measures its insurance liabilities and liabilities to insurance intermediaries and other liabilities using the discounted cash flow method. The valuation of these liabilities is based on a historical analysis of the liabilities payment ratio, and the projected cash flows are discounted using the current market discount rate. Owing to their short due dates, their nominal value is a reasonable approximation of fair value.

D.4.1. Assumptions and assessments on important sources of uncertainty of estimating fair value

The following coefficients are applied to measure uncertainty in measurement of financial instruments:

- BPV (basis point value) – this coefficient indicates what the change will be in the value of the instrument if the discount and projection curve is shifted by 1 b.p. for bonds, loans, deposits and structured securities;
- sensitivity to a change in credit spread – this coefficient indicates what the change will be in the value of the instrument if the credit spread is shifted by 1 b.p. for bonds, loans, deposits and structured securities;
- delta – this coefficient indicates the percentage change in the value of an option if the price of the underlying asset changes by 1% for the option.

PZU regularly compares the measurement adequacy by calibrating the spread (if possible) applied in the valuation with available market prices and comparing the model-based valuation with a valuation based on the adjusted purchase price for bonds, loans, deposits and structured securities.

Uncertainty in measurement of assets and liabilities other than technical provisions, except for financial instruments, is assessed mainly through:

- price volatility;
- standards of technical wear and tear;
- cash flow volatility;
- variability of the economic environment;
- volatility of market interest rates.

The Company regularly verifies the adequacy of measurements, in particular by comparing them with other models or historical results performed on actual transactions.

D.5. Additional information

The Company does not have any material intangible assets or material lease agreements.

As at 31 December 2017, employee benefit liabilities did not constitute a material class of liabilities and as such, they have not been described in detail.

E. Capital management

E.1. Own funds

E.1.1. Own funds management

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

The capital management policy rests on the following principles:

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

The dividend amount proposed by the PZU Management Board to be distributed by the Company for a financial year is determined on the basis of the PZU Group's consolidated financial result attributable to the parent company, where:

- no more than 20% will be earmarked as retained earnings (supplementary capital) for goals associated with organic growth and innovations as well as execution of growth initiatives;
- no less than 50% is subject to payment as an annual dividend;
- the remaining part will be paid in the form of annual dividend or will increase retained earnings (supplementary capital) if in the given year significant expenditures are incurred in connection with execution of the PZU Group Strategy, including in particular, mergers and acquisitions;
- according to the Management Board's plans and risk and solvency self-assessment, own funds of PZU and the PZU Group following the declaration or payment of a dividend will remain at a level that will ensure fulfillment of the conditions specified in the policy;
- when determining the dividend, KNF's recommendations concerning dividends are taken into account.

In order to monitor and maintain capital at a level adequate to the assumed risks and to fulfill the capital requirements on a continuous basis, a capital limit system has been introduced. It includes an early warning system based on thresholds which, when exceeded, trigger the application of corrective measures preventing the crossing of the final limit.

The early warning system is based on the accepted risk appetite level. Management actions are subject to the current and anticipated coverage level of the solvency capital requirement for PZU:

- Green zone (above 160%),
- Yellow zone (120% to 160%),
- Red zone (below 120%),
- Final limit (below 100%).

Management actions aimed at increasing the level of own funds include in particular:

- increasing subordinated debt;
- discontinuing or temporarily suspending the redemption of instruments classified into own funds if the terms and conditions of the issue or the contract provide for such a possibility;
- retaining part or all of the profit by reducing the amounts of dividends to be distributed;

- contributions to capital using supplementary own funds;
- increasing the capital.

Management actions in the area of risk profile include in particular:

- risk avoidance – refraining or withdrawing from involvement in actions which result in an elevated exposure to risks;
- risk transfer – shifting a portion of risk exposure to a third party;
- risk mitigation – limiting the likelihood of materialization of risks or limiting their impact;
- risk level acceptance – accepting the stopping of a risk in situations where other management actions are unavailable or the cost of their implementation is too high compared to the benefits to be obtained;
- implementation of tools assisting the taking of other management actions, in particular: limits, reinsurance programs, regular reviews of the underwriting policy.

The scale of corrective measures to be taken depends on the current and anticipated changes in the capital position and the timing of the relevant solvency assessment. If the analysis is performed at the planning stage, the corrective measures to be taken may be of a milder nature (for instance, in the form of amendments to the business plan) than would be the case if the analysis took place at the monitoring stage – in such a situation, the taking of immediate action might be necessary. The selection of corrective measures may be affected also by other factors such as: issues related to reputational risk, the ability of applying a specific corrective measure in practice, the time necessary to implement the corrective measure, the quality of own funds if the corrective measure involves an increase in the level of capital to cover the risk, the impact of the corrective measure on the PZU Group's business (profitability, market share, etc.).

Decisions on the application of any of the above methods are made by the Company's Management Board.

The Company's Supervisory Board and Management Board receive reports on the current solvency level in PZU and the PZU Group (at least once a quarter or on an ongoing basis if any of the capital thresholds have been exceeded). Capital planning takes place within the framework of own risk and solvency assessment which is performed on at least an annual basis. It forms an integral part of the business strategy and is taken into consideration in the strategic decision-making process. The period of capital position planning assumes the time horizon adopted in the current PZU Group Strategy and must not be shorter than 3 years. In January 2018, PZU published the Strategy until 2020 which takes into account, among other issues, the impact of the acquisition of a 20% stake in Pekao in June 2017 on the Company's capital position.

In 2017, no significant changes took place in the management of own funds.

E.1.2. Structure, value and quality of own funds

As at 31 December 2017, PZU had PLN 25,304,272 thousand of available and eligible own funds to cover the solvency capital requirement and PLN 23,459,297 thousand of eligible own funds to cover the minimum capital requirement. The Company's own funds fulfilled the conditions of Article 245 Section 2 of the Insurance Activity Act in consideration of the factors referred to in Article 245 Section 3 of the Act, thus were classified into unlimited category 1 and category 2 and consisted of the following items:

- reconciliation provision before subtracting equity interests in financial and credit institutions in the amount of PLN 22,362,318 thousand;
- other items of basic own funds in the amount of PLN 624,491 thousand.

Information on own funds is included in form QRT S.23.01.01 forming Appendix 9 to this report. Its summary and a comparison with the data as at 30 December 2016 is presented below:

Category	Value according to the SII system as at 31 December 2017 in PLN 000s	Value according to the SII system as at 31 December 2016 in PLN 000s	change	% change
Available and eligible own funds to cover the solvency capital requirement and the minimum capital requirement	25,359,898	22,828,451	2,531,447	11.09%
Reconciliation provision before subtracting equity interests in financial and credit institutions	22,417,943	22,203,960	213,983	0.96%
Other items of basic own funds	624,491	624,491	-	0.00%

The line item "Available and eligible own funds to cover the solvency capital requirement and the minimum capital requirement" includes total basic own funds (after deductions) in category 1 of PLN 23,042,433 thousand and in category 2 of PLN 2,317,464 thousand for the SCR coverage and PLN 452,397 thousand for the MCR coverage. Category 2 includes subordinated liabilities by virtue of outstanding own bonds, as described in section A.1.7.2.

The movement compared to 31 December 2016 was caused predominantly by the issue of subordinated bonds by PZU on 30 June 2017 with a total par value of PLN 2,250,000 thousand. The fair value of the subordinated bonds as at 31 December 2017 was PLN 2,317,464 thousand. This line item is described in section A.1.7.2.

Another driver of growth in own funds was the increase in the value of ownership interests in related parties, in particular: Alior Bank shares (a PLN 985 million increase in market valuation) and Pekao shares (on 7 June 2017, PZU directly acquired Pekao shares representing approx. 20% of the total number of votes for the purchase price of PLN 6,002 million and fair value as at 31 December 2017 of PLN 6,798 million (a PLN 796 million increase in market valuation).

As at 31 December 2016, the Company did not reduce the value of available own funds by the value of the expected distributions of its net result beyond the types of capital provided for in the Company's Articles of Association (dividend and charge for the Company Social Benefit Fund).

As at 31 December 2017, the Company did reduced the value of available own funds by the hypothetical values of distributions of its net result beyond the types of capital provided for in the Company's Articles of Association, applying the assumptions described in section E.1.2.1.

The basic categories of own funds and the coverage of solvency capital requirements are presented in the following table:

Category	As at 31 December 2017 (PLN 000s)
Amount of eligible own funds to cover the solvency capital requirement (SCR)	25,359,898
Amount of eligible own funds to cover the minimum capital requirement (MCR)	23,494,831
Solvency capital requirement (SCR)	9,047,942
Minimum capital requirement (MCR)	2,261,985
Coverage ratio of the solvency capital requirement (SCR) with eligible own funds	280%
Coverage ratio of the minimum capital requirement (MCR) with eligible own funds	1,039%

E.1.2.1. Reconciliation provision

The structure of significant items in the reconciliation provision is presented in the following table.

Reconciliation provision (PLN 000s)	31 December 2017
Surplus of assets over liabilities, including:	**25,553,096**
Equity according to PAS	13,583,289
Measurement according to SII	11,969,807
Anticipated dividends, disbursements and charges, including:	**2,510,662**
Anticipated dividend and charge for the Company Social Benefit Fund	2,328,000
Anticipated tax on assets (payable by certain financial institutions) for the next 12 months	182,662
Other items of basic own funds	**624,491**
Share capital	86,352
Surplus on the sale of shares above their par value associated with the share capital	538,139

Total reconciliation provision	**22,417,943**

The expected dividend amount, resulting in a reduction in equity, is presented in accordance with the Dividend Policy of PZU and the PZU Group, as described in section E.1.1 and the assumptions presented below.

For the purposes of this report, the assumption was made that PZU's net profit for 2017 will be distributed in 2018 in such a manner that, due to the need to ensure continued growth and development of PZU, 20% of the PZU Group's consolidated net profit earned in 2017 attributable to PZU shareholders will be retained by PZU.

In accordance with the dividend policy adopted by PZU, no less than 50% of the PZU Group's consolidated net profit attributable to PZU shareholders should be allocated to distribution in the form of an annual dividend, no more than 20% may be retained for the purposes of organic growth, as referred to in the preceding sentence, and the remaining 30% may either be distributed as part of the annual dividend or be allocated to retained earnings.

The table below presents hypothetical values of the solvency ratio for the exemplary dividend payout levels of 50% and 80% of the PZU Group's consolidated net profit earned in 2017 attributable to PZU shareholders.

Own funds (PLN million)	**Data adjusted downward for the hypothetical distribution of profit**	
	Minimum dividend amount*	**Value by which own funds have been reduced in this report****
Dividend amount as a percentage of the consolidated net profit attributable to PZU's equity holders	50.0%	80%
Dividend amount posted as a reduction in own funds	1,455	2,328
Own funds decreased by the dividend amount	26,233	25,360
Solvency capital requirement	9,048	9,048
Coverage of the solvency capital requirement with own funds	290%	280%

(*) Minimum dividend value specified in the PZU Group's capital and dividend policy for 2016-2020.

(**) Hypothetical allocation of the result according to the assumptions described in this section.

As at the date of this report, the PZU Management Board has not made any decision on the planned distribution of PZU's net profit generated in 2017 (subject to distribution is only the net profit disclosed in PZU's standalone financial statements prepared in accordance with PAS, which stood at PLN 2,434 million). In particular, no decision has been made as to the amount of the anticipated dividend for 2017 or the usual annual charge to the Company Social Benefit Fund.

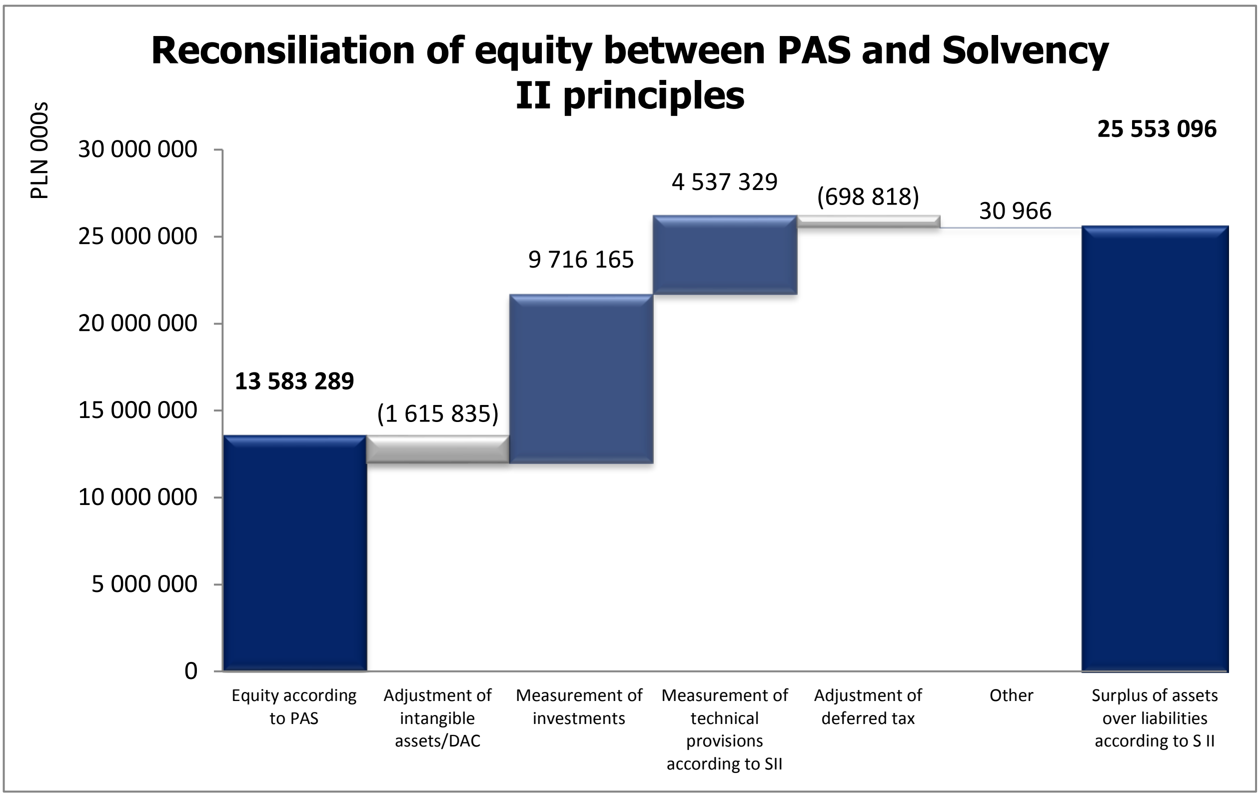
In the calculation of PZU's own funds as at 31 December 2017, it is necessary to adopt one value of the planned distribution of the financial result. In other words, the application of an optional approach is not permitted.

By reason of existing uncertainties and while adhering to the principle of a prudential approach (consisting of the assumption of a reduction in own funds by the maximum distribution value of PZU's financial result, limited only by the aforesaid assumption on PZU's retaining 20% of the PZU Group's consolidated net profit generated in 2017 attributable to PZU shareholders), the calculation of PZU's own funds as at 31 December 2017 has taken into account an 80% decrease in the PZU Group's consolidated net profit for 2017 attributable to PZU shareholders, that is by PLN 2,328 million (given that the PZU Group's total consolidated net profit for 2017 attributable to PZU shareholders was PLN 2,910 million).

However, the decision on the distribution of PZU's net profit for 2017 may only be made by the Shareholder Meeting which will be held after the date of publication of this report. The Shareholder Meeting may choose to apply other criteria than the legally permitted amount (taking into account the applicable recommendations issued by KNF for insurance undertakings regarding the permitted distributions of profit generated in 2017) and the conformity of the assumed value with the dividend policy as the basis for its assumptions.

In 2017, no other significant changes occurred in the structure of substantial items of the reconciliation provision.

E.1.3. Differences between the equity presented in PZU's financial statements and the surplus of assets over liabilities calculated for solvency purposes



The reasons for each of the differences presented in the foregoing chart result from various valuation rules applied to the pertinent assets and liabilities for solvency purposes and according to PAS – a detailed description of these differences is presented in Part D. of this report. The intangible asset/DAC adjustment pertains to the impairment of intangible assets and deferred acquisition costs.

E.2. Solvency capital requirement and minimum capital requirement

The amounts of PZU's solvency capital requirement and minimum capital requirement at the end of the reporting period along with the amount of the solvency capital requirement broken down into risk modules are presented in form QRT S.25.01.21 constituting Appendix 10 to the report. Quantitative data on the minimum capital requirement are also presented in form QRT S.28.01.01 constituting Appendix 11 to the report.

PZU applies a standard formula to calculate its SCR. The solvency capital requirement is calculated in accordance with the applicable provisions of the SII system based on the going concern assumption. This calculation covers the current business and any new business anticipated to be commenced within the following 12 months.

The following table presents the MCR and SCR values as at the end of December 2017 and the corresponding period of the previous year.

Indicator	Value (PLN thousand)		Change 2017/2016	
	2017	2016	(PLN thousand)	%
MCR	2,261,985	1,968,122	293,864	15%
SCR	9,047,942	7,872,486	1,175,456	15%

The increase in the value of the SCR in 2017 was chiefly due to the increase in its components for market risk and reserve and premium risk, while no significant changes were made to the method of calculation of the capital requirements. The increase in market risk was driven by PZU's acquisition of a 20% equity stake in Pekao for the purchase price of PLN 6,001,761 thousand, which pushed up equity risk, itself a sub-module of market risk. Moreover, the transaction caused a change in the asset structure covered by market risk calculations due to the funding of the acquisition of Pekao with own funds.

In 2017, an increase in the MCR value was also observed driven by the increase in the SCR.

E.3. Use of the duration-based equity price risk sub-module to calculate the solvency capital requirement

This section is not applicable to PZU.

E.4. Differences between the standard formula and the applied internal model

This section is not applicable to PZU.

E.5. Non-compliance with the minimum capital requirement and non-compliance with the solvency capital requirement

Throughout 2017 and as at 31 December 2017, no non-compliance was found with the solvency capital requirement or the minimum capital requirement.

List of appendices

1) Structure of the PZU Group
2) Simplified organizational structure chart
3) Form S.05.01.02
4) Form S.05.02.01
5) Form S.02.01.02
6) Form S.12.01.02
7) Form S.17.01.02
8) Form S.19.01.21
9) Form S.23.01.01
10) Form S.25.01.21
11) Form S.28.01.01

Signatures of the PZU Management Board Members:

Name	Position	
Paweł Surówka	President of the PZU Management Board	.... (signature)
Tomasz Kulik	Member of the PZU Management Board	.... (signature)
Roger Hodgkiss	Member of the PZU Management Board	.... (signature)
Maciej Rapkiewicz	Member of the PZU Management Board	.... (signature)
Małgorzata Sadurska	Member of the PZU Management Board	.... (signature)

Warsaw, 26 April 2018

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

PZU
based in Warsaw - Poland

PZU Zdrowie SA
based in Warsaw - Poland
PZU – 100.00%

Grupa Kapitałowa Centrum Medycznego Medica sp. z o.o.*
based in Płock – Poland
PZU Zdrowie – 100.00%

Prof-med
based in Włocławek - Poland
PZU Zdrowie – 100.00%

Gamma
based in Warsaw - Poland
PZU Zdrowie – 60.46%

Elvita
based in Jaworzno - Poland
PZU Zdrowie – 100.00%

Proelmed
based in Łaziska Górne - Poland
Elvita – 57.00%

NZOZ Trzebinia
based in Trzebinia - Poland
Elvita – 99.75%

Artimed
based in Kielce - Poland
PZU Zdrowie – 100.00%

Polmedic sp. z o.o.
based in Radom - Poland
PZU Zdrowie – 100.00%

Revimed sp. z o.o.
based in Gdańsk - Poland
PZU Zdrowie – 100.00%

PZU Życie
based in Warsaw - Poland
PZU – 100.00%

PTE PZU
based in Warsaw - Poland
PZU Życie – 100.00%

TFI PZU SA
based in Warsaw - Poland
PZU – 100.00%

Grupa Kapitałowa Alior Banku**
based in Warsaw - Poland
PZU – 32.19%
PZU Życie – 0.04%
PZU SFIO Uniwersum – 0.0023%

Tower Inwestycje sp. z o.o.
based in Warsaw - Poland
PZU – 27.47%
PZU Życie – 72.53%

Grupa Kapitałowa Pekao***
based in Warsaw - Poland
PZU – 20.00%
PZU Akcji Spółek Dywidendowych – 0.02%

Ogrodowa Inwestycje sp. z o.o.
based in Warsaw - Poland
PZU – 100.00%

Ardea Alba SA w likwidacji
based in Warsaw - Poland
PZU – 100.00%

LINK4
based in Warsaw - Poland
PZU – 100.00%

L4C sp. z o.o. w likwidacji
based in Warsaw - Poland
LINK4 – 99.87%
PZU – 0.13%

TUW PZUW
based in Warsaw - Poland
PZU – 100.00%

PZU CO
based in Warsaw - Poland
PZU – 100.00%

PZU Pomoc SA
based in Warsaw - Poland
PZU – 100.00%

GSU Pomoc Górniczy Klub Ubezpieczonych SA
based in Tychy - Poland
PZU Pomoc – 30.00%

PZU Finanse sp. z o.o.
based in Warsaw - Poland
PZU – 100.00%

Ipsilon sp. z o.o.
based in Warsaw - Poland
PZU – 100.00%

PZU LAB SA
based in Warsaw - Poland
PZU – 100.00%

Omicron BIS SA
based in Warsaw - Poland
PZU – 100.00%

Sigma BIS SA
based in Warsaw - Poland
PZU – 100.00%

Lietuvos Draudimas AB
based in Vilnius - Lithuania
PZU – 100.00%

AAS Balta
based in Riga - Latvia
PZU – 99.99%

PZU Ukraine
based in Kiev - Ukraine
PZU – 83.2292%
PZU Życie – 0.0040%
PZU Ukraina Życie – 16.77%

LLC SOS Services Ukraine
based in Kiev - Ukraine
PZU Ukraina – 100.00%

PZU Ukraine Life
based in Kiev - Ukraine
PZU – 53.4723%
PZU Życie – 0.0053%
PZU Ukraina – 46.52%

PZU LT GD
based in Vilnius - Lithuania
PZU – 99.34%

PZU Finance AB
based in Stockholm - Sweden
PZU – 100.00%

PZU Corporate Member Limited
based in London - England
PZU – 100.00%

Battersby Investments SA
based in Warsaw - Poland
PZU – 100.00%

Tulare Investments sp. z o.o.
based in Warsaw - Poland
PZU – 100.00%

* Grupa Kapitałowa Centrum Medycznego Medica sp. z o.o. includes the following entities: CM Medica, „SU Krystynka”.

** Grupa Kapitałowa Alior Banku 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 TFI SA , New Commerce Services sp. z o.o., Absource sp. z o.o., Serwis Ubezpieczeniowy sp. z o.o.

*** Grupy Kapitałowa Pekao includes the following entities: Bank Pekao SA, Pekao Bank Hipoteczny SA, Centralny Dom Maklerski Pekao SA, Pekao Leasing sp. z o.o., Pekao Investment Banking SA, Pekao Faktoring sp. z o.o., Pekao Powszechne Towarzystwo Emerytalne SA (in the past Pekao Pioneer Powszechne Towarzystwo Emerytalne SA), Pekao TFI SA (in the past Pioneer Pekao TFI SA), Centrum Kart SA, Pekao Financial Services sp. z o.o., Centrum Bankowości Bezpośredniej sp. z o.o., Pekao Property SA, FPB – Media sp. z o.o., Pekao Fundusz Kapitałowy sp. z o.o. w likwidacji, Pekao Investment Management SA (in the past Pioneer Pekao Investment Management SA), Dom Inwestycyjny Xelion sp. z o.o.

Names of companies:

1. **AAS Balta** – Apdrošināšanas Akciju Sabiedrība Balta;
2. **Artimed** – Artimed Niepubliczny Zakład Opieki Zdrowotnej sp. z o.o.;
3. **CM Medica** – Centrum Medyczne Medica sp. z o.o.;
4. **Elvita** - Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA – Jaworzno III sp. z o.o.;
5. **Gamma** – Centrum Medyczne Gamma sp. z o.o.;
6. **Grupa Kapitałowa Alior Banku** – Alior Bank wraz z jednostkami zależnymi: Alior Services sp. z o.o., Centrum Obrotu Wierzytelnościami sp. z o.o., Alior Leasing sp. z o.o., Meritum Services ICB SA, Money Makers TFI SA, New Commerce Services sp. z o.o., Absource sp. z o.o., Serwis Ubezpieczeniowy sp. z o.o.;
7. **Grupa Kapitałowa Armatura** – Armatura Kraków SA wraz z jednostkami zależnymi: Aquaform SA, Aquaform Badprodukte GmbH, Aquaform Ukraine TOW, Aquaform Romania SRL, Morehome.pl sp. z o.o.;
8. **Grupa Kapitałowa Pekao** – Pekao wraz z jednostkami zależnymi: Pekao Bank Hipoteczny SA, Centralny Dom Maklerski Pekao SA, Pekao Leasing sp. z o.o., Pekao Investment Banking SA, Pekao Faktoring sp. z o.o., Pekao Powszechne Towarzystwo Emerytalne SA, Pekao TFI SA, Centrum Kart SA, Pekao Financial Services sp. z o.o., Centrum Bankowości Bezpośredniej sp. z o.o., Pekao Property SA, FPB – Media sp. z o.o., Pekao Fundusz Kapitałowy sp. z o.o. w likwidacji, Pekao Investment Management SA, Dom Inwestycyjny Xelion sp. z o.o.;
9. **Link4** – Link4 Towarzystwo Ubezpieczeń SA;
10. **Proelmed** – Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.;
11. **Prof-med** - Specjalistyczna Przychodnia Przemysłowa Prof-Med sp. z o.o.;
12. **PTE PZU** – Powszechne Towarzystwo Emerytalne PZU SA;
13. **PZU LT GD** - UAB PZU Lietuva Gyvybes Draudimas;
14. **PZU CO** – PZU Centrum Operacji SA;
15. **PZU Ukraine** – PrJSC IC PZU Ukraine;
16. **PZU Ukraine Life** – PrJSC IC PZU Ukraine Life Insurance;
17. **SU Krystynka** – Sanatorium Uzdrowiskowe „Krystynka" sp. z o.o..

POWSZECHNY ZAKŁAD UBEZPIECZEŃ SPÓŁKA AKCYJNA
organizational structure

President of the Board

Members of the Board

- corporate management and governance
- corporate communication
- internal audit
- legal consulting
- corporate security
- compliance
- reinsurance
- strategy and projects
- PZU Group business development
- marketing
- client relationship management
- innovations
- administration
- purchase

HR Department:
- HR management
- HR operations

Claims and Benefits Service and Remote Channels Department:
- claims and benefits service
- assistance
- customer service

Group Network Department:
- sales network management

IT Technology Department:
- IT management
- IT systems development
- IT support and operations

Operations Department:
- insurance operations

Health Insurance Department:
- health insurance
- analysis and settlements
- management of medical services

- mass products and insurance programs management
- analytical actuarial
- direct sales
- retail sales efficiency
- sales network efficiency
- retail sales tools and technology development

Sales Department:
- retail sales and sales network management

Corporate Client Department:
- corporate sales and underwriting
- corporate business development and service
- financial insurance

- bancassurance and strategic partnership programs
- real estate
- foreign companies

- risk management

- actuarial operations

Financial Department:
- planning and controlling
- tax policy
- information management
- accounting
- accounting operations
- debt collection
- insurance accounting
- internal operations

Investment Department:
- treasury
- assets allocation
- investment strategy management
- macroeconomy analysis
- investments analysis
- investments monitoring

Name of the entity **Powszechny Zakład Ubezpieczeń Spółka Akcyjna**
31-12-2017

S.05.01.02
Premiums, claims and expenses by line of business (in PLN thousand)

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written																		
Gross - Direct Business	R0110	-	388,700	-	4,558,747	3,119,131	43,115	2,097,039	657,519	84,962	9,400	348,150	84,150					11,390,913
Gross - Proportional reinsurance accepted	R0120	-	(2)	-	689,228	26,680	4,627	264,727	57,058	3,025	-	(13,320)	(45,884)					986,139
Gross - Non-proportional reinsurance accepted	R0130													194	24,598	1,298	30,074	56,164
Reinsurers' share	R0140	-	8,777	-	23,935	17,992	14,758	325,358	27,693	33,233	-	118	32,046	198	20,815	626	18,180	523,729
Net	R0200	-	379,921	-	5,224,040	3,127,819	32,984	2,036,408	686,884	54,754	9,400	334,712	6,220	(4)	3,783	672	11,894	11,909,487
Premiums earned																		
Gross - Direct Business	R0210	-	400,089	-	4,098,882	2,922,715	46,597	1,988,914	699,704	72,116	8,591	349,651	74,210					10,661,469
Gross - Proportional reinsurance accepted	R0220	-	13,033	-	602,405	20,044	2,860	187,389	22,745	3,178	-	3,031	48,735					903,420
Gross - Non-proportional reinsurance accepted	R0230													172	18,788	1,459	53,294	73,713
Reinsurers' share	R0240	-	125	-	16,273	40,198	14,556	273,530	25,751	26,338	-	92	28,476	177	15,306	1,947	15,155	457,924
Net	R0300	-	412,997	-	4,685,014	2,902,561	34,901	1,902,773	696,698	48,956	8,591	352,590	94,469	(5)	3,482	(488)	38,139	11,180,678
Claims incurred																		
Gross - Direct Business	R0310	-	107,637	-	2,387,697	1,830,467	17,666	968,476	242,009	27,786	1,768	169,725	8,295					5,761,526
Gross - Proportional reinsurance accepted	R0320	-	6,139	-	376,860	12,942	4,196	185,464	14,814	2,076	-	1,090	8,513					612,094
Gross - Non-proportional reinsurance accepted	R0330													(11)	13,763	(174)	76,680	90,258
Reinsurers' share	R0340	-	4	-	75,126	796	1,672	254,322	13,684	17,996	-	-	18,837	-	4,810	782	17,010	405,039
Net	R0400	-	113,772	-	2,689,431	1,842,613	20,190	899,618	243,139	11,866	1,768	170,815	(2,029)	(11)	8,953	(956)	59,670	6,058,839
Changes in other technical provisions																		
Gross - Direct Business	R0410	-	-	-	-	-	-	-	-	-	-	-	-					-
Gross - Proportional reinsurance accepted	R0420	-	-	-	-	-	-	-	-	-	-	-	-					-
Gross - Non-proportional reinsurance accepted	R0430													-	-	-	-	-
Reinsurers' share	R0440	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net	R0500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Expenses incurred	R0550	-	153,318	-	1,471,329	927,884	18,819	753,635	280,875	9,044	6,677	154,250	78,745	28	4,584	107	4,570	3,863,865
Other expenses	R1200																	13,250
Total expenses	R1300																	3,877,115

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross	R1410	-	-	-	-	-	-	-	-	-
Reinsurers' share	R1420	-	-	-	-	-	-	-	-	-
Net	R1500	-	-	-	-	-	-	-	-	-
Premiums earned										
Gross	R1510	-	-	-	-	-	-	-	-	-
Reinsurers' share	R1520	-	-	-	-	-	-	-	-	-
Net	R1600	-	-	-	-	-	-	-	-	-
Claims incurred										
Gross	R1610	-	-	-	-	-	402,423	-	18,636	421,059
Reinsurers' share	R1620	-	-	-	-	-	6,522	-	-	6,522
Net	R1700	-	-	-	-	-	395,901	-	18,636	414,537
Changes in other technical provisions										
Gross	R1710	-	-	-	-	-	-	-	-	-
Reinsurers' share	R1720	-	-	-	-	-	-	-	-	-
Net	R1800	-	-	-	-	-	-	-	-	-
Expenses incurred	R1900	-	-	-	-	-	14,607	-	898	15,505
Other expenses	R2500									-
Total expenses	R2600									15,505

Name of the entity	**Powszechny Zakład Ubezpieczeń Spółka Akcyjna**
	31-12-2017

S.05.02.01

Premiums, claims and expenses by country (in PLN thousand)

		Home Country	**Total Top 5 and home country (by amount of gross premiums written) – non- life obligations**					**Total Top 5 and home country**
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	R0010	POLAND						
Premiums written		C0080	C0090	C0100	C0110	C0120	C0130	C0140
Gross - Direct Business	R0110	11,386,667						
Gross - Proportional reinsurance accepted	R0120	969,240						
Gross - Non-proportional reinsurance accepted	R0130	15,554						
Reinsurers' share	R0140	477,674						
Net	R0200	11,893,787						
Premiums earned								
Gross - Direct Business	R0210	10,658,321						
Gross - Proportional reinsurance accepted	R0220	801,806						
Gross - Non-proportional reinsurance accepted	R0230	43,865						
Reinsurers' share	R0240	418,174						
Net	R0300	11,085,818						
Claims incurred								
Gross - Direct Business	R0310	5,760,955						
Gross - Proportional reinsurance accepted	R0320	610,536						
Gross - Non-proportional reinsurance accepted	R0330	2,505						
Reinsurers' share	R0340	373,033						
Net	R0400	6,000,963						
Changes in other technical provisions								
Gross - Direct Business	R0410	-						
Gross - Proportional reinsurance accepted	R0420	-						
Gross - Non- proportional reinsurance accepted	R0430	-						
Reinsurers'share	R0440	-						
Net	R0500	-						
Expenses incurred	R0550	3,819,176						
Other expenses	R1200							
Total expenses	R1300							

		Home Country	**Total Top 5 and home country (by amount of gross premiums written) – life obligations**					**Total Top 5 and home country**
		C0150	**C0160**	**C0170**	**C0180**	**C0190**	**C0200**	**C02010**
	R1400							
		C022	**C0230**	**C0240**	**C0250**	**C0260**	**C0270**	**C0280**
Premiums written								
Gross	R1410	-						
Reinsurers' share	R1420	-						
Net	R1500	-						
Premiums earned								
Gross	R1510	-						
Reinsurers' share	R1520	-						
Net	R1600	-						
Claims incurred								
Gross	R1610	421,059						
Reinsurers' share	R1620	6,522						
Net	R1700	414,537						
Changes in other technical provisions								
Gross	R1710	-						
Reinsurers' share	R1720	-						
Net	R1800	-						
Expenses incurred	R1900	15,505						
Other expenses	R2500	0						
Total expenses	R2600	15,505						

Name of the entity		Powszechny Zakład Ubezpieczeń Spółka Akcyj
		31-12-2017
S.02.01.02		
Balance sheet (in PLN thousand)		
		Solvency II value
		C0010
Assets		
Goodwill	R0010	
Deferred acquisition costs	R0020	
Intangible assets	R0030	-
Deferred tax assets	R0040	-
Pension benefit surplus	R0050	-
Property, plant & equipment held for own use	R0060	607,761
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	44,115,424
Property (other than for own use)	R0080	84,844
Holdings in related undertakings, including participations	R0090	24,970,694
Equities	R0100	3,894
Equities - listed	R0110	3,879
Equities - unlisted	R0120	15
Bonds	R0130	11,871,903
Government Bonds	R0140	11435,057
Corporate Bonds	R0150	388,283
Structured notes	R0160	48,564
Collateralised securities	R0170	-
Collective Investments Undertakings	R0180	6,314,427
Derivatives	R0190	190,977
Deposits other than cash equivalents	R0200	678,685
Other investments	R0210	-
Assets held for index-linked and unit-linked contracts	R0220	-
Loans and mortgages	R0230	1,798,327
Loans on policies	R0240	-
Loans and mortgages to individuals	R0250	-
Other loans and mortgages	R0260	1,798,327
Reinsurance recoverables from:	R0270	249,982
Non-life and health similar to non-life	R0280	125,711
Non-life excluding health	R0290	128,679
Health similar to non-life	R0300	(2,968)
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	124,271
Health similar to life	R0320	-
Life excluding health and index-linked and unit-linked	R0330	124,271
Life index-linked and unit-linked	R0340	-
Deposits to cedants	R0350	-
Insurance and intermediaries receivables	R0360	695,890
Reinsurance receivables	R0370	3,421
Receivables (trade, not insurance)	R0380	288,005
Own shares (held directly)	R0390	-
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	-
Cash and cash equivalents	R0410	936,396
Any other assets, not elsewhere shown	R0420	151,347
Total assets	R0500	48,846,553
Zobowiązania / Liabilities		-
Technical provisions – non-life	R0510	9,841,393
Technical provisions – non-life (excluding health)	R0520	9,730,154
Technical provisions calculated as a whole	R0530	-
Best Estimate	R0540	9,106,485
Risk margin	R0550	623,668
Technical provisions - health (similar to non-life)	R0560	111,239
Technical provisions calculated as a whole	R0570	-
Best Estimate	R0580	106,710
Risk margin	R0590	4,530
Technical provisions - life (excluding index-linked and unit-linked)	R0600	4,840,765
Technical provisions - health (similar to life)	R0610	-
Technical provisions calculated as a whole	R0620	-
Best Estimate	R0630	-
Risk margin	R0640	-
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	4,840,765
Technical provisions calculated as a whole	R0660	-
Best Estimate	R0670	4,500,147
Risk margin	R0680	340,618
Technical provisions – index-linked and unit-linked	R0690	-
Technical provisions calculated as a whole	R0700	-
Best Estimate	R0710	-
Risk margin	R0720	-
Other technical provisions	R0730	
Contingent liabilities	R0740	-
Provisions other than technical provisions	R0750	114,354
Pension benefit obligations	R0760	12,055
Deposits from reinsurers	R0770	-
Deferred tax liabilities	R0780	1,036,425
Derivatives	R0790	161,630
Debts owed to credit institutions	R0800	-
Financial liabilities other than debts owed to credit institutions	R0810	3,621,182
Insurance & intermediaries payables	R0820	352,499
Reinsurance payables	R0830	-
Payables (trade, not insurance)	R0840	772,241
Subordinated liabilities	R0850	2,317,464
Subordinated liabilities not in Basic Own Funds	R0860	-
Subordinated liabilities in Basic Own Funds	R0870	2,317,464
Any other liabilities, not elsewhere shown	R0880	223,450
Total liabilities	R0900	23,293,458
Excess of assets over liabilities	R1000	25,553,095

Name of the entity **Powszechny Zakład Ubezpieczeń Spółka Akcyjna**
31-12-2017

S.12.01.02
Life and Health SLT Technical Provisions (in PLN thousand)

			Index-linked and unit-linked insurance			Other life insurance						Health insurance (direct business)					
		Insurance with profit participation		Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)		Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
Technical Provisions calculated as a whole	R0010	-	-			-			-			-			-	-	-
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0020	-	-			-			-		-	-			-	-	-
Rezerwy techniczno-ubezpieczeniowe obliczane jako suma najlepszego oszacowania i marginesu ryzyka / Technical provisions calculated as a sum of BE and RM																	
Najlepsze oszacowanie / Best Estimate				-													
Gross Best Estimate	R0030	-		-	-		-	-	4,493,113	7,034	4,500,147		-	-	-	-	-
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080	-		-	-		-	-	124,271	-	124,271		-	-	-	-	-
Best estimate minus recoverables from reinsurance/SPV and Finite Re	R0090	-		-	-		-	-	4,368,842	7,034	4,375,876		-	-	-	-	-
Risk Margin	R0100	-	-			-			331,035	9,584	340,618				-	-	-
Kwota wynikająca z zastosowania przepisów przejściowych dotyczących rezerw techniczno-ubezpieczeniowych / Amount of the transitional on Technical Provisions		-	-														
Technical Provisions calculated as a whole	R0110	-	-			-			-	-	-				-	-	-
Best estimate	R0120	-		-	-		-	-	-	-	-		-	-	-	-	-
Risk Margin	R0130	-	-			-			-	-	-	-			-	-	-
Technical provisions - total	R0200	-	-			-			4,824,148	16,618	4,840,766	-			-	-	-

Name of the entity	**Powszechny Zakład Ubezpieczeń Spółka Akcyjna 31-12-2017**																	
S.17.01.02 Non-life Technical Provisions (in PLN thousand)																		
		Direct business and accepted proportional reinsurance												**Accepted non-proportional reinsurance**				
		Medical expense insurance	**Income protection insurance**	**Workers' compensation insurance**	**Motor vehicle liability insurance**	**Other motor insurance**	**Marine, aviation and transport insurance**	**Fire and other damage to property insurance**	**General liability insurance**	**Credit and suretyship insurance**	**Legal expenses insurance**	**Assistance**	**Miscellaneous financial loss**	**Non-proportional health reinsurance**	**Non-proportional casualty reinsurance**	**Non-proportional marine, aviation and transport reinsurance**	**Non-proportional property reinsurance**	**Total Non-Life obligation**
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
Technical provisions calculated as a whole	R0010	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0050	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Technical provisions calculated as a sum of BE and RM																		
Best estimate																		
Premium provisions																		
Gross	R0060	-	38,986	-	1,255,278	1,082,052	(3,862)	235,458	(80,695)	84,159	1,337	79,072	12,911	67	16,140	328	17,509	2,738,740
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140	-	(2,971)	-	(51,965)	(27,026)	(11,613)	(209,172)	(16,300)	5,907	-	(272)	(15,710)	-	-	-	-	(329,123)
Net Best Estimate of Premium Provisions	R0150	-	41,957	-	1,307,243	1,109,078	7,751	444,630	(64,395)	78,252	1,337	79,344	28,622	67	16,140	328	17,509	3,067,864
Claims provisions																		
Gross	R0160	-	67,532	-	4,099,974	456,280	38,186	553,787	1,022,759	16,232	6,200	40,986	103,870	124	20,811	3,286	44,426	6,474,454
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240	-	4	-	82,924	168	976	161,194	48,720	6,977	-	0	73,254	-	6,878	752	72,988	454,835
Net Best Estimate of Claims Provisions	R0250	-	67,529	-	4,017,050	456,112	37,209	392,593	974,039	9,255	6,200	40,986	30,616	124	13,933	2,535	(28,562)	6,019,619
Total Best estimate - gross	R0260	-	106,518	-	5,355,252	1,538,332	34,324	789,245	942,064	100,391	7,537	120,058	116,781	191	36,951	3,614	61,935	9,213,194
Total Best estimate - net	R0270	-	109,485	-	5,324,294	1,565,190	44,961	837,224	909,643	87,506	7,537	120,330	59,237	191	30,073	2,863	(11,053)	9,087,483
Risk margin	R0280	-	4,528	-	388,025	41,568	4,313	69,343	106,723	4,465	373	2,749	2,560	1	1,925	127	1,498	628,198
Amount of the transitional on Technical Provisions																		
TP as a whole	R0290	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Best estimate	R0300	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Risk margin	R0310	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Rezerwy techniczno-ubezpieczeniowe – ogółem / Technical provisions - total																		
Technical provisions - total	R0320	-	111,047	-	5,743,278	1,579,900	38,637	858,589	1,048,787	104,856	7,909	122,807	119,341	193	38,876	3,742	63,433	9,841,392
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	-	(2,968)	-	30,959	(26,858)	(10,637)	(47,978)	32,421	12,884	-	(272)	57,544	-	6,878	7,512	72,988	125,712
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	R0340	-	114,014	-	5,712,319	1,606,758	49,274	906,567	1,016,366	91,972	7,909	123,079	61,797	193	31,998	2,990	(9,555)	9,715,681

Name of the entity Powszechny Zakład Ubezpieczeń Spółka Akcyjna
31-12-2017

S.19.01.21

Non-life insurance claims (in PLN thousand)

Total Non-Life Business

Accident year / Underwriting year	Z0010	1

Gross Claims Paid (non-cumulative) (absolute amount)

Development year

	Year	0	1	2	3	4	5	6	7	8	9	10 & +		In Current year	Sum of years (cumulative)
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110		C0170	C0180
Rok															
Wcześniejsze lata	R0100											275,550	R0100	275,550	275,550
N-9	R0160	2,962,018	921,431	145,938	75,528	43,091	39,546	35,705	41,779	33,184	23,758		R0160	23,758	4,321,977
N-8	R0170	3,187,617	777,862	105,337	70,484	58,357	41,046	39,102	29,116	20,053			R0170	20,053	4,328,974
N-7	R0180	3,656,532	1,082,632	167,835	124,897	61,176	49,732	58,005	39,717				R0180	39,717	5,240,526
N-6	R0190	2,954,518	679,211	137,124	86,133	58,728	52,411	39,226					R0190	39,226	4,007,351
N-5	R0200	2,798,833	669,697	123,736	84,337	68,451	34,005						R0200	34,005	3,779,058
N-4	R0210	2,514,308	627,689	130,608	88,366	69,066							R0210	69,066	3,430,036
N-3	R0220	2,591,302	673,671	152,472	89,515								R0220	89,515	3,506,960
N-2	R0230	2,919,670	1,017,734	223,722									R0230	223,722	4,161,156
N-1	R0240	3,592,983	1,096,442										R0240	1,096,442	4,689,424
N	R0250	3,986,207											R0250	3,986,207	3,986,207
												Total	R0260	5,897,262	4,172,722

Gross undiscounted Best Estimate Claims Provisions (absolute amount)

Development year

	Year	0	1	2	3	4	5	6	7	8	9	10 & +		Year end (discounted data)
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300		C0360
Wcześniejsze lata	R0100											746,055	R0100	614,588
N-9	R0160	-	-	-	-	-	-	-	-	160,488	164,422		R0160	135,503
N-8	R0170	-	-	-	-	-	-	-	161,836	143,467			R0170	112,436
N-7	R0180	-	-	-	-	-	-	253,988	210,159				R0180	172,596
N-6	R0190	-	-	-	-	-	313,368	227,835					R0190	178,589
N-5	R0200	-	-	-	-	389,464	322,040						R0200	268,720
N-4	R0210	-	-	-	415,430	332,626							R0210	276,213
N-3	R0220	-	-	541,494	453,243								R0220	379,178
N-2	R0230	-	1,026,543	747,257									R0230	650,448
N-1	R0240	2,437,367	1,266,109										R0240	1,081,023
N	R0250	2,917,105											R0250	2,605,160
												Total	R0260	6,474,454

Name of the entity Powszechny Zakład Ubezpieczeń Spółka Akcyjna
31-12-2017

S.23.01.01
Own funds (in PLN thousand)

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	86,35	86,35		-	
Share premium account related to ordinary share capital	R0030	538,14	538,14		-	
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040	-	-		-	
Subordinated mutual member accounts	R0050	-		-	-	-
Surplus funds	R0070	-	-			
Preference shares	R0090	-		-	-	-
Share premium account related to preference shares	R0110	-		-	-	-
Reconciliation reserve	R0130	22,417,942	22,417,942			
Subordinated liabilities	R0140	2,317,464		-	2,317,464	-
An amount equal to the value of net deferred tax assets	R0160	-				-
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180	-	-	-	-	-
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220	-				
Deductions						
Deductions for participations in financial and credit institutions	R0230	-	-	-	-	-
Total basic own funds after deductions	R0290	25,359,897	23,042,433	-	2,317,464	-
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300	-			-	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310	-			-	
Unpaid and uncalled preference shares callable on demand	R0320	-			-	-
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330	-			-	-
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340	-			-	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350	-			-	-
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360	-			-	
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370	-			-	-
Other ancillary own funds	R0390	-			-	-
Total ancillary own funds	R0400	-			-	-
Available and eligible own funds						
Total available own funds to meet the SCR (solo)	R0500	25,359,898	23,042,433	-	2,317,464	-
Total available own funds to meet the MCR	R0510	25,359,898	23,042,433	-	2,317,464	
Total eligible own funds to meet the SCR	R0540	25,359,898	23,042,433	-	2,317,464	-
Total eligible own funds to meet the MCR	R0550	23,494,831	23,042,433	-	452,397	
SCR	R0580	9,047,942				
MCR	R0600	2,261,985				
Ratio of Eligible own funds to SCR	R0620	280,28%				
Ratio of Eligible own funds to MCR	R0640	1,038,68%				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	25,553,096
Own shares (held directly and indirectly)	R0710	-
Foreseeable dividends, distributions and charges	R0720	2,510,662
Other basic own fund items	R0730	624
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	-
Reconciliation reserve	R0760	22,417,943
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	R0770	-
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	-
Total Expected profits included in future premiums (EPIFP)	R0790	-

Name of the entity	Powszechny Zakład Ubezpieczeń Spółka Akcyjna 31-12-2017

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula - Basic Solvency Capital Requirement (in PLN thousand)

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0080	C0090
Market risk	R0010	7,680,362		-
Counterparty default risk	R0020	628,239		
Life underwriting risk	R0030	369,799	-	-
Health underwriting risk	R0040	138,250	-	-
Non-life underwriting risk	R0050	3,704,620	-	-
Diversification	R0060	(2,807,094)		
Intangible asset risk	R0070	-		
Basic Solvency Capital Requirement	R0100	9,714,177		

Calculation of Solvency Capital Requirement		C0110
Operational risk	R0130	357,800
Loss-absorbing capacity of technical provisions	R0140	-
Loss-absorbing capacity of deferred taxes	R0150	(1,024,235)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	-
Solvency Capital Requirement excluding capital add-on	R0200	9,047,942
Capital add-on already set	R0210	-
Solvency capital requirement	R0220	9,047,942
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	-
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	-
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	-
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	-
Diversification effects due to RFF nSCR aggregation for article 304	R0440	-

Name of the entity Powszechny Zakład Ubezpieczeń Spółka Akcyjna
31-12-2017

S.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity (in PLN thousand)

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCRNL Result	R0010	1,859,708

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020	-	-
Income protection insurance and proportional reinsurance	R0030	109,486	380,050
Workers' compensation insurance and proportional reinsurance	R0040	-	-
Motor vehicle liability insurance and proportional reinsurance	R0050	5,324,294	5,237,746
Other motor insurance and proportional reinsurance	R0060	1,565,190	3,128,030
Marine, aviation and transport insurance and proportional reinsurance	R0070	44,961	33,782
Fire and other damage to property insurance and proportional reinsurance	R0080	837,224	2,040,684
General liability insurance and proportional reinsurance	R0090	909,643	688,886
Credit and suretyship insurance and proportional reinsurance	R0100	87,506	55,032
Legal expenses insurance and proportional reinsurance	R0110	7,537	9,400
Assistance and proportional reinsurance	R0120	120,330	334,888
Miscellaneous financial loss insurance and proportional reinsurance	R0130	59,237	6,762
Non-proportional health reinsurance	R0140	191	(133)
Non-proportional casualty reinsurance	R0150	30,073	(11,924)
Non-proportional marine, aviation and transport reinsurance	R0160	2,863	(126)
Non-proportional property reinsurance	R0170	-	6,383

Linear formula component for life insurance and reinsurance obligations

		C0040
MCRL Result	R0200	91,893

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation - guaranteed benefits	R0210	-	
Obligations with profit participation - future discretionary benefits	R0220	-	
Index-linked and unit-linked insurance obligations	R0230	-	
Other life (re)insurance and health (re)insurance obligations	R0240	4,375,876	
Total capital at risk for all life (re)insurance obligations	R0250		-

Overall MCR calculation

		C0070
Linear MCR	R0300	1,951,602
SCR	R0310	9,047,942
MCR cap	R0320	4,071,574
MCR floor	R0330	2,261,985
Combined MCR	R0340	2,261,985
Absolute floor of the MCR	R0350	15,724
		C0070
Minimum Capital Requirement	R0400	2,261,985