

# 2015

PZU Group's Annual Report

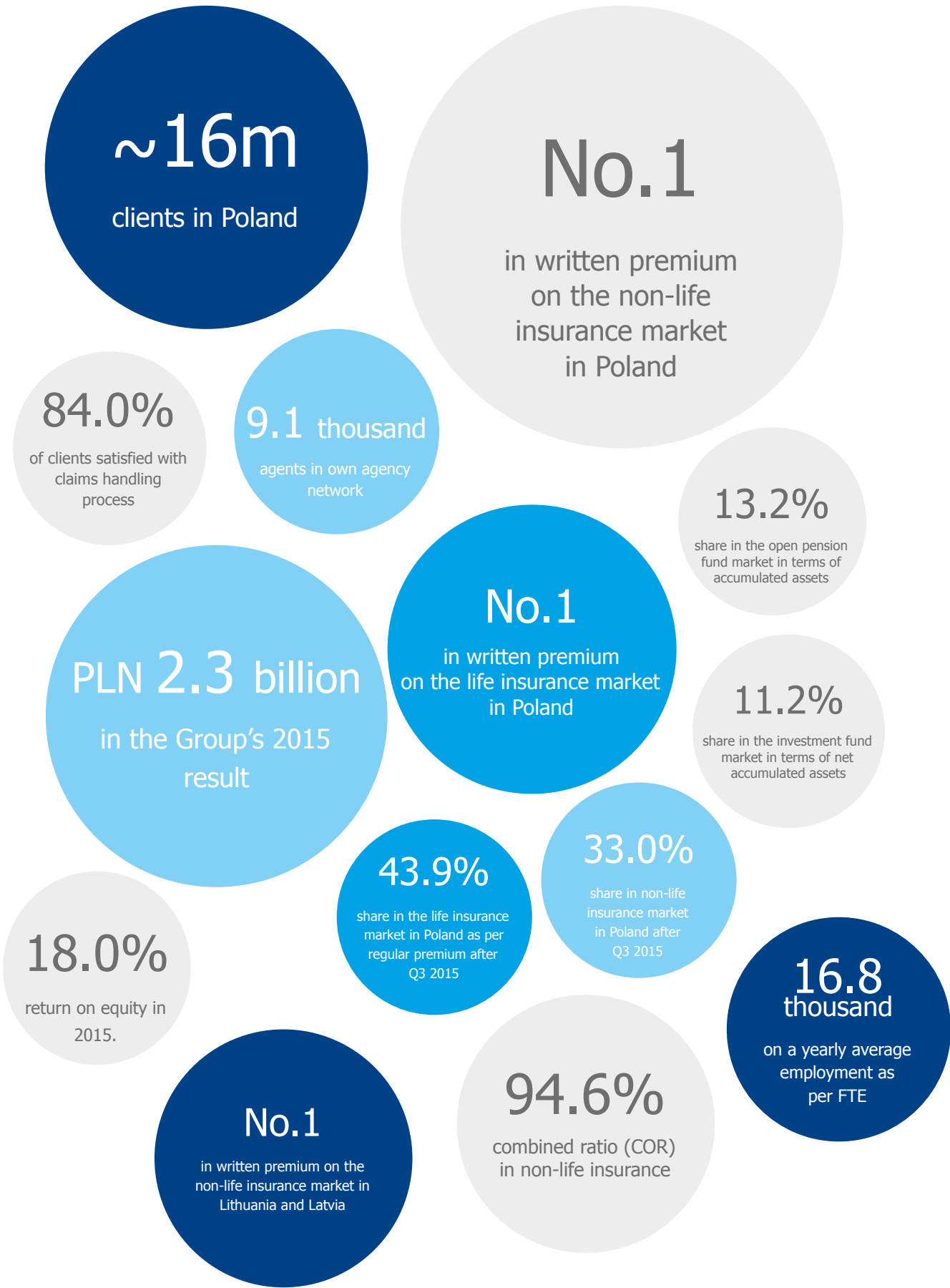




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In the Report posters from internal communications for PZU employees were used.





Michał Krupiński Chairman of the Management Board of PZU

**We should put all our efforts into offering our clients the best and most innovative insurance products that will protect their future, health, and property.**

Ladies and Gentlemen,

2015 was surely not an easy year for PZU Group. The financial result is the lowest since PZU's IPO – the net result has dropped by 21.1% year-on-year to reach PLN 2,342.2 million. The ROE (attributable to the parent entity) amounted to 18% and was 4.6 p.p. lower than the year before. Thus, last year was another witness to higher costs and lower profits. As a result of the poor situation on financial markets, the investment result dropped by over 34% year-on-year, which means nearly PLN 1 billion. At the same time, the profitability in insurance business decreased. This tendency requires a strong reaction from us.

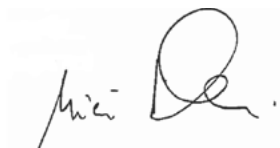
The weaker performance of the Group in recent times does not, however, undermine the foundations of PZU's strong and stable standing. In the insurance sector, PZU continues to be the leader in Poland in non-life (31.2%) and life insurance

(43.9%, regular premium policies). PZU Group continues to be a leader in Lithuania and Latvia, where its share of the domestic, non-life insurance market amounts to 31.1% and 25.1% respectively. Even though the health insurance sector has not yet contributed greatly to the Group's revenues, it can take pride in its dynamic growth. This can be observed in the gross written premium from group health insurance, which rose by 46% year-on-year. We continue to consolidate and use the effects of synergy with Link 4, which can be a relevant source of innovation and growth for the Group, in a similar way to the companies acquired in the Baltic states. At this point, it is also worth remembering that the Group acquired a 25% share package in Alior Bank.

To sum up: the Group's situation is first and foremost a stimulus for change, and as such it constitutes an incentive for growth. It forces us to recalibrate our focus, to concentrate on the area that has been the cornerstone of the PZU identity for over 200 years – the insurance business. We should put all our efforts into offering our clients the best and most innovative insurance products that will protect their future, health, and property. That is why we will concentrate on ensuring that our core business is highly profitable, stable, and future-oriented in everything we do.

I am sure that when we join together in a common effort and use the strong foundations of the Group, best practice, and innovative solutions offered by the global market; we will reverse the negative trends. We will transform PZU into a strong leader who actively conquers new markets, new clients, and new areas of business. I am sure that our shareholders share my optimism and I would like to thank them for their trust, which motivates both the Management Board and myself to further work.

Best regards,



Michał Krupiński  
Chairman of the Management Board of PZU



Paweł Kaczmarek Chairman of the Supervisory Board of PZU

## 2015 was a good time for the Polish economy, but less so for the insurance business.

We are closing it with the ambition to improve on the indicators which adversely affected the Group's results.

Ladies and Gentlemen,

2015 was a year of external factors whose variability affected the operations of PZU Group. It was a good time for the Polish economy, but less so for the insurance business. Insurers had to take into consideration a number of factors, such as low interest rates, a difficult capital market situation, and regulatory changes in Poland and in the European Union.

However, all these factors did not threaten PZU's position as a leader in the Polish insurance market. As a result of its latest acquisitions (the purchase of several RSA Group companies, including Lietuvos Draudimas and AAS Balta), the Group also strengthened its position in Central and Eastern Europe. Today, we can say with pride that PZU is among the largest and most dynamic financial institutions in the region.

In 2015, there was also ongoing work on the new Act on Insurance and Reinsurance Activity as part of the implementation of the Solvency II directive. We now know that the capital standing of PZU after implementation of the EU directive will remain strong. The ratios estimated at the end of Q3 2015 are nearly three times higher than the capital requirements. This puts PZU at the forefront of European insurers.

The demand for insurance services in 2015 remained stable, yet a higher claims ratio in group and individual life insurance and a low yield in motor insurance made it more difficult to achieve satisfactory profits. A price competition on the market has been observable for quite some time now, and last year, it aroused the interest of the Polish Financial Supervision Authority (PFSa). In one of its open letters, the Authority requested that insurance companies review their profitability. As a result, we should expect that the market will be forced to increase premiums for general motor TPL insurance. However, the implementation of the PFSa guidance by insurers should translate into improved profitability in this segment in the future.

There was also a second important PSFA recommendation last year from the perspective of insurers, on the claims handling process. The Authority stressed the need for fair valuations and the use of original spare parts, which may in turn result in higher premiums in motor insurance.

The high investment result achieved last year put a great deal of pressure on the Group this year to match those results. Unfortunately, the higher yield of Polish treasury bonds prevented us from doing so, with net investment result

being nearly 34.3% lower in 2015 than 2014. That exerted significant influence on the total performance of the Group.

The good news, on the other hand, is that a new record was set in gross premiums collected. In 2015, PZU Group sold insurance worth almost PLN 18.4 billion, 8.7% more than in 2014. Life insurance and motor insurance, especially third-party liability motor insurance, contributed most to that success.

We are closing 2015 with the ambition to improve on the indicators which adversely affected the Group's results. In the months to come, we will be focusing on trends in both the global and local economy. The current forecasts suggest that high price fluctuations on the global financial markets will continue to occur, which may, in turn, have negative effects on our investment result. The condition of Polish currency will be a major domestic factor as it affects spare parts pricing in motor insurance. The final operating result of the Group will also depend upon the level of taxation on the assets of financial institutions, which was introduced in January 2016.

I would like to thank all PZU employees for their contribution toward building the value of our company in the last year. At the same time, I wish all the best to the new management board. I truly believe that PZU Group has many successful years ahead of it.

Best regards,



Paweł Kaczmarek  
Chairman of the Supervisory Board of PZU





# 01

## Brief overview of PZU Group

PZU Group is the leader of the Polish market and one of the key insurance and investment companies in CEE.

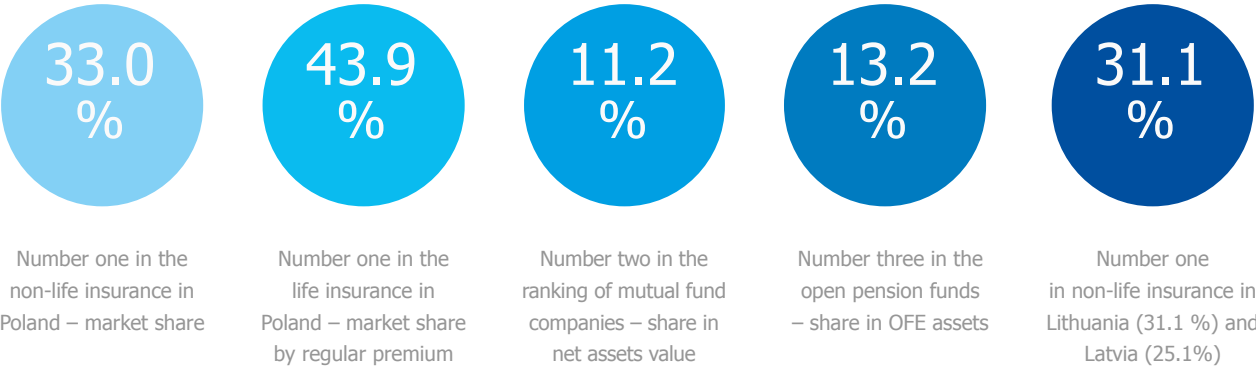
The operations of the Group are focused on the 3 areas: Insurance, Investments, and Health care, while its core values continue to be: Transparency, Efficiency, and Innovations.

As a leader on the insurance market, the Group sets high standards for products and fulfilling the promises given to the Clients by acting as a Market Watchdog.

## „Here is PZU”

Holidays are the time to discover new venues. Show others what's interesting in your vicinity and compete to win an award!! Go to [www.tujestpzu.pl](http://www.tujestpzu.pl), upload your own photos and collect likes.





The Capital Group of Powszechny Zakład Ubezpieczeń SA (PZU Group) is one of the largest financial institutions in Poland and in Central and Eastern Europe. The Group is led by Powszechny Zakład Ubezpieczeń S.A. (PZU, Issuer) – a company quoted on the Warsaw Stock Exchange. The history of the PZU brand goes back to 1803 when the first Polish insurance company was established.

The operations of PZU Group are focused on the 3 business segments: Insurance, Investments, and Healthcare. For many years, PZU Group has ensured comprehensive insurance coverage in all crucial areas of private and economic life by protecting life, property, and health of its clients. The main insurance companies in Poland within the Group are the following: PZU (non-life insurance) and Powszechny Zakład Ubezpieczeń na Życie S.A. (PZU Życie - life insurance).

Since 2014, following the acquisition of Link4, the Group has been operating under two brands: a more traditional one, the PZU brand, and Link4, which is targeted to clients opting for electronic sales channels. By dynamically expanding its product and offer portfolio, the Group maintains its position as the market leader in non-life insurance (33.0% market share) and life insurance (43.9% share in regular premium market) in Poland. Moreover, in 2015, Towarzystwo Ubezpieczeń Wzajemnych – TUW PZUW was established and from 2016 is planned to focus on insurance for medical centers and contribute to optimization of contribution for its members.

As part of its investment operations performed under the PZU Inwestycje brand, PZU Group offers a wide range of asset

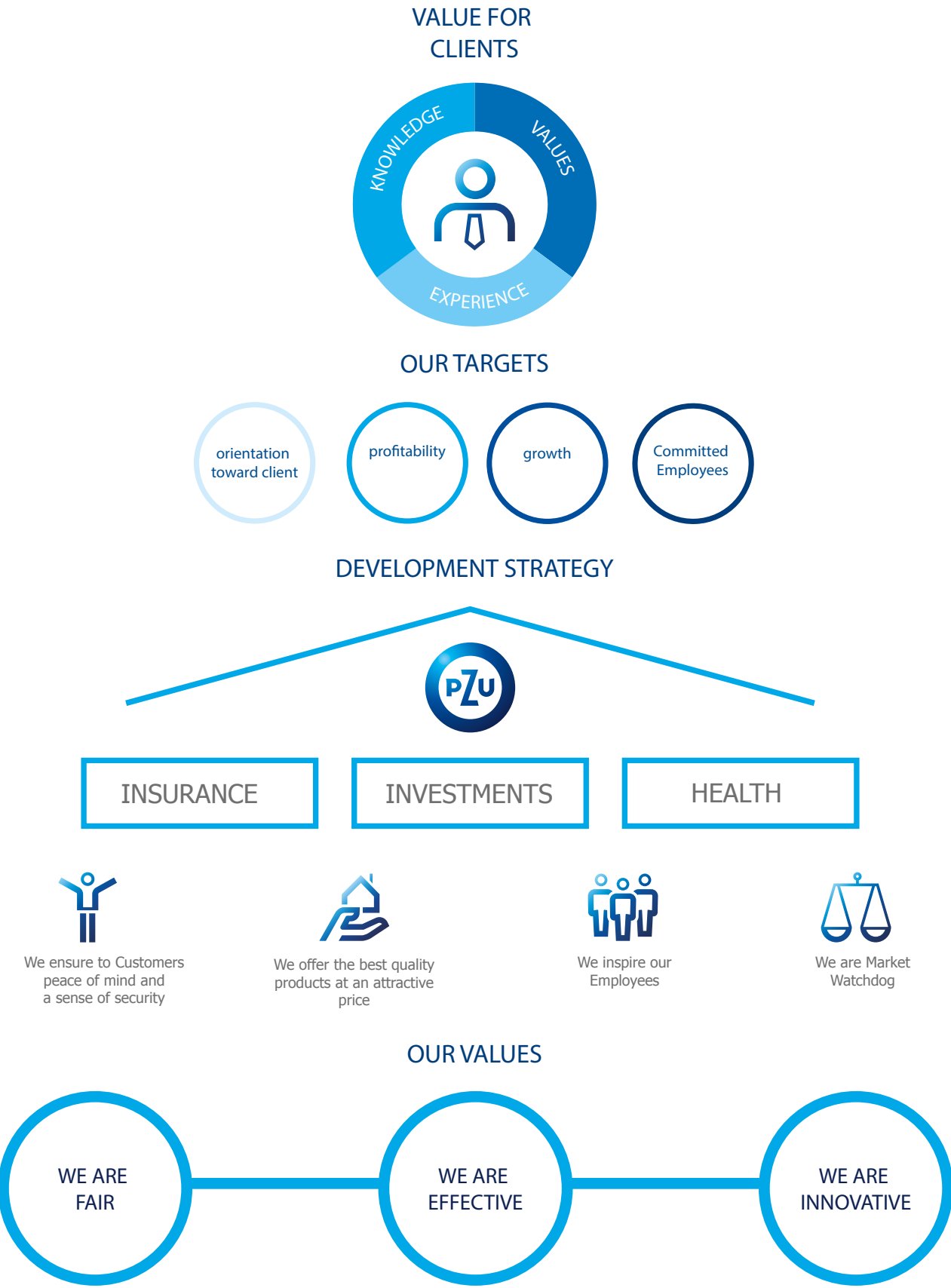
management services, including management of open pension funds and investment funds, as well as saving schemes.

PZU is intensively developing the health insurance segment and additional health care services under the PZU Zdrowie brand to meet the needs of PZU clients in an improved and more comprehensive manner.

Building on the foundation of the long insurance tradition in Poland, PZU has been expanding its operations into Central and Eastern Europe for the past few years. Thanks to the consistent realization of the expansion strategy, according to data for three quarters of 2015, PZU Group held first place in the CEE region. When it comes to the scale of operations and the number of clients, the Group's primary market of operations continues to be Poland, but PZU's subsidiaries play an important role on the markets of Lithuania, Latvia, Estonia, and Ukraine. In 2015, the expansion into the Baltic states was concluded. PZU Lithuania was sold in September 2015. This disinvestment was the condition for obtaining permits for the acquisition of Lietuvos Draudimas, the biggest insurer in Lithuania. Today, PZU Group is number one on the markets of Lithuania and Latvia.

Concerning the investment activity, the Group purchased a considerable stake in the share capital of Alior Bank S.A. (Alior Bank) in 2015, opening the way to a more comprehensive involvement in Bancassurance products and initiatives. Total shares of almost 30% allow PZU Group to take control of Alior Bank and thus increase the total balance of PZU Group by around PLN 40 billion by the end of 2015.

PZU values, goals, and aspirations







PZU Group aspires

to distinguish itself among current and potential competition by continuing to strengthen its market position by focusing the Group's activity on client satisfaction and loyalty.

PZU Group's values

The three key values of PZU Group are: Transparency, Innovation, and Efficiency. These values are the foundation for relations with clients, employees, and all other PZU stakeholders.

Transparency – No fine print

The Group offers products with no fine print – solutions with no hidden charges, unclear limitations or liability exclusion. The products offered by PZU are presented in a clear and coherent way. This reduces miscommunication and guarantees that the client knows what to expect from the Group and responsibilities that it assumed. The conception of transparency and simplicity is not limited to traditional life and non-life insurance, but also covers the so-called investment policies, i.e. insurance serving as a regular savings plan. PZU Group positively distinguishes itself among the entities on the market who often abuse clients' trust or simply mislead them.

Innovations

In the face of the continuously changing environment, growing customer demands, and operations of the competition, PZU Group strives to keep improving both its offer and internal processes. The PZU Group's Innovation Strategy was introduced in 2015 to ensure understanding of the long-term goals throughout the entire organization.

**Our Strategy of Innovation** focuses on promoting cultural patterns that facilitate innovation, including openness to change, thinking outside the box, and creating a space for experiments, with a strong accent on a "try and test" method that allows for new operating methods, and – as a result – new proposals for our clients. This strategy is carried out through appropriate selection of employees, who realize the long-term business objectives and try to break through existing behavioral patterns and old processes. Simultaneously, an innovation evaluation process was started, which includes implementation of individual measures such as number of innovations in total submitted ideas or number of completed innovations among total innovations, value of savings and additional revenue obtained through implementation of an innovation.

The Group's innovative products establish new market standards. In 2015, PZU launched sign language services at its branches. In 2014, PZU was the first entity on the market to introduce direct claims handling. PZU's services include the option of taking advantage of the innovative fleet of 300 replacement cars. In its promotion of ecological claims handling solutions, PZU offers bicycles to own instead of replacement cars. The Link4 offer was expanded by solutions calculating the insurance premium based on actual driver behavior in traffic to promote safe and ecological driving. PZU Lab was established for corporate clients in order to improve their risk management and consequently reduce the likelihood of events covered by the policy and lower its price. The Group's role as a "market watchdog" sees its innovative projects establish top quality standards of relations with the clients.

Efficiency

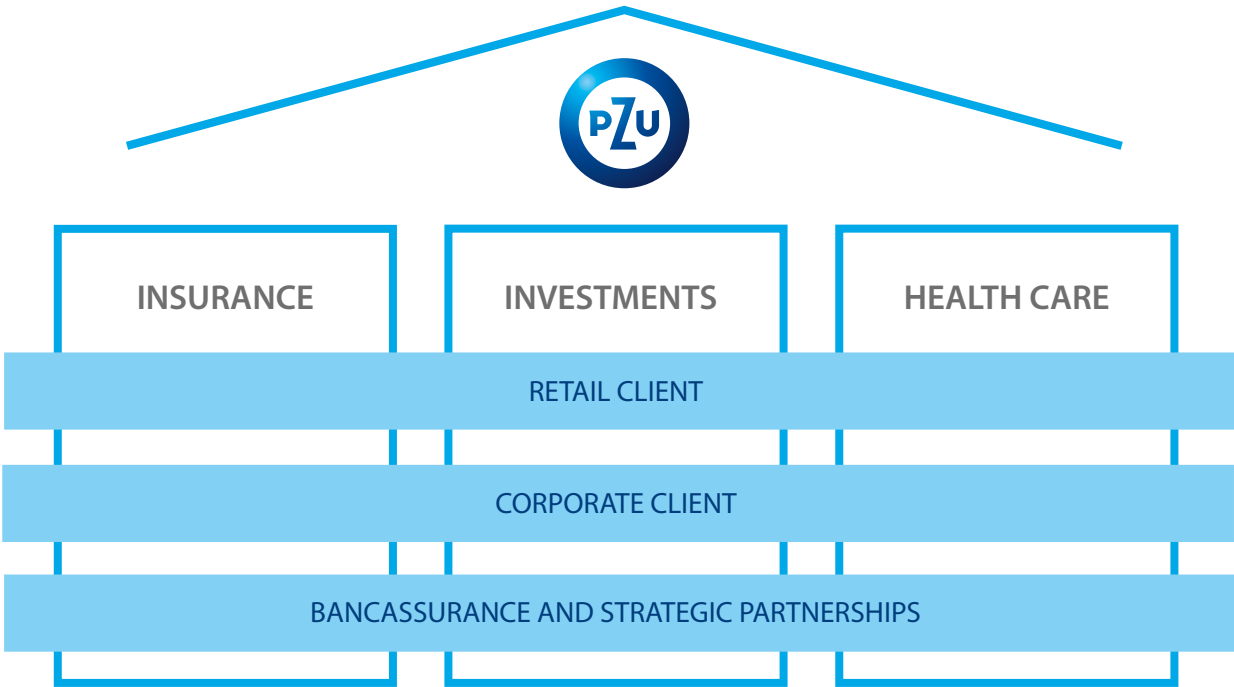
Operating efficiency is a necessary condition to build a competitive market offer and fulfill the Group's obligations towards shareholders, employees, suppliers, and other business partners. One of the key projects aimed to increase operating activity is the Everest platform – a system implemented from 2014 in non-life insurance. The high operating effectiveness combined with the scale of the Group's activity provides PZU with the potential to reach cost effectiveness at a level unreachable to other players on the market. By combining above-average cost effectiveness with an innovative offer, PZU acts as the so-called market watchdog – a leader in the field ensuring high standards of the market offer.

**Insurance** - PZU Group offers a broad range of insurance products. The gross written premium for 2015 reached the record value of PLN 18.4 billion. PZU and PZU Życie are the leaders of the insurance market in Poland; The Group is also the leader in the Baltic states and a major player in Ukraine – total written premium gathered on these markets in 2015 constituted 7.4% of the Group's gross written premium. For years, the most important element of the Group's activity has been insurance, representing over 90% of the profits.

**Investments** – PZU is the biggest asset-management company on the Polish market. At the end of 2015, the assets of external clients managed by TFI PZU and PTE PZU amounted to PLN 25.3 billion. PZU is also the unquestioned market leader in employee pension programs, managing 509 EPP

Areas of the Group's business

PZU Group's activity is focused on the following 3 areas:

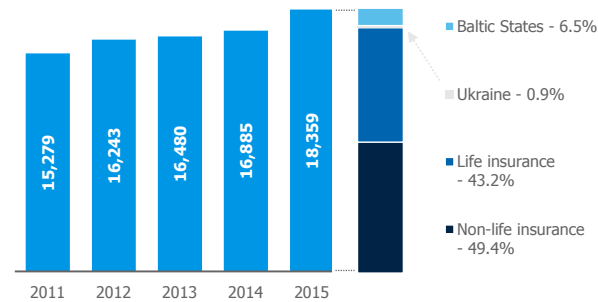


with total assets exceeding PLN 4.6 billion. High competences concentrated in scope of TFI PZU and PTE PZU provide the potential for acquiring important assets of both individual and institutional investors from the market. The activity of the Investments segment focuses on taking advantage of the extensive asset management experience and skills and offering more niche investment funds besides traditional closed and open ones (stock, mixed, stable growth, debt, etc.), such as PZU Energia Medycyna Ekologia, FIZ Akord, FIZ Dynamiczny, i.e. funds operating in a specific market segment and

attempting to produce above-average management profits, not correlated with changes to market indexes (the so-called absolute rate of return funds). Simultaneously, PZU holds a considerable portfolio of own investments which constitute more than insurance liabilities.

**Health** – developing the health insurance and health care services segment from 2014, PZU is cooperating with 1,580 health care centers (hospitals, clinics, counseling centers). The Group is simultaneously expanding the portfolio of own medical establishments.

Gross written premium(PLN million)



PZU Group plans to become an integrated operator of coordinated health care by building a comprehensive product offer, creating a network of own medical establishments supported by the nationwide external network, and providing unique and customer-friendly service and appointment organization model.

The activity undertaken in scope of the area of Health segment takes advantage of PZU's long experience in medical policies. The purpose of PZU health insurance and medical subscriptions is to provide services at private medical establishments with qualified staff and high quality



diagnostic equipment. With current PZU’s offer, patients are allowed to take advantage of extensive medical care – from diagnostics, through treatment, to rehabilitation. The activities in this segment will successively raise the number of medical establishments open to the Group’s clients. By offering medical services to the patients, PZU simultaneously guarantees the high quality of said services.

PZU Group’s Clients

Nearly 16 million clients in Poland benefit from PZU’s services and products, 12 million of which in group and individually continued life insurance. On average, a typical individual Polish customer of PZU takes advantage of 1.5 of the Group’s products. The 2015 surveys showed that the satisfaction level among PZU clients who benefited from claims handling by PZU or received payment of benefits from PZU Życie within the last 12 months was 7 p.p. higher than that of the competition. The Net Promoter Score (NPS) among the Group’s clients was 11%<sup>1</sup>. In turn, the NPS among Link4 clients was 10%, 3 p.p. higher than that of the competition in the direct market.<sup>2</sup>

PZU Group is consequently trying to stay close to its current and potential clients – to their needs, ambitions, and aspirations. All undertaken activities – from insurance product concepts, through customer communication channels, to the activity in scope of Social Business Responsibility, are designed

<sup>1</sup> Monthly survey carried out by GFK Polonia at the request of PZU. Presented data constitute an accumulated result of monthly assessments from January to December 2015  
<sup>2</sup> Monthly survey carried out by GFK Polonia at the request of PZU. Presented data constitute an accumulated result of monthly assessments from January to December 2015

to adapt PZU’s offer to the demands of its clients as closely as possible. The Group aims to address said demands as best as it can at every level of mutual relations – from the choice of insurance products, through preferred communication and sales channels, to issues associated with claims handling and benefits payments. The Group applies Big Data tools and methods in its activity to support segmentation and profiling of the clients (both individual and corporate), identification of factors contributing to client resignations, or improved handling of customer demands through application of prediction models.

Product Offer

PZU Group’s offer is the most extensive insurance and investment offer on the Polish market. It covers over 300 types of insurance and investment products addressed to all Customer Segments.

The Group’s insurance products are offered under two complementary brands: the more traditional PZU brand and the Link4 brand, which is associated with direct sales channels.

The Group focuses on the innovative profile of the product offer. PZU was the first institution in Poland to create the Voluntary Pension Fund and propose Individual Retirement Security Accounts. For several years, the Group has been assigning considerable funds to develop health insurance offer. The Group was the first to introduce medicine insurance on the Polish market.

Protection of property and securing third-party property against damage	Accident cover	Savings	Securing the future of the family	Preparations for retirement	Health care
<ul style="list-style-type: none"><li>Motor TPL and motor own damage insurance</li><li>Other property insurance</li><li>Financial insurance</li></ul>	<ul style="list-style-type: none"><li>Accident insurance</li><li>Assistance services</li></ul>	<ul style="list-style-type: none"><li>Structured products</li><li>Participation units in investment funds</li></ul>	<ul style="list-style-type: none"><li>Group and individually continued protection products</li><li>Individual protection insurance</li></ul>	<ul style="list-style-type: none"><li>Pillar II of the pension system – open-ended pension funds</li><li>Pillar III of the pension system (employment pension products- EPP, individual pension accounts – IKE and individual pension security accounts – IKZE))</li></ul>	<ul style="list-style-type: none"><li>Health insurance</li><li>Medicine insurance</li><li>Health care services: general health care and additional services packages</li></ul>

The Group’s offer is broadened with a range of investment products – open and closed investment funds – and pension products – open pension funds, individual pension accounts, individual pension protection accounts with voluntary pension fund, employee pension programs. The Group offers investment solutions adapted to the needs of all investor types, including innovative employee pension programs optimizing tax privileges associated with individual pension accounts (IKE) and individual pension security accounts (IKZE).

Sales and customer service channels

An important element of the Group’s offer is the biggest network of own branches and other options for communication between the clients and PZU on Poland’s insurance and investment market. Besides 414 own branches, the Group offers over 9000 exclusive agents, over 3100 multiagencies, almost 1000 insurance brokers, direct channels (internet, call centre), and a sales network of 10 partner banks and 6 other strategic partners.

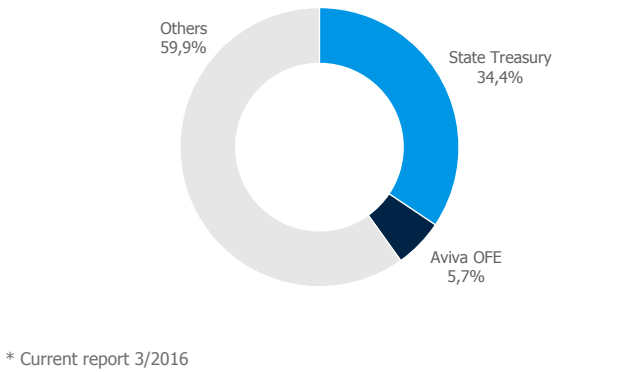
Value for shareholders

PZU has been quoted on the Warsaw Stock Exchange since 2010. The value of PZU’s first public offer (IPO) PZU was almost PLN 8.1 billion. This was the biggest IPO in the history of the Polish capital market, the biggest offer in Central and Eastern Europe from the beginning of the economic transformation, and the biggest IPO in all of Europe since 2007.

The key shareholder of PZU is still the Ministry of the State Treasury, which represents 34.4% of the share capital. The remaining shareholders are both Polish and foreign

institutional investors (various investment and pension funds) and an extensive group of individual investors (in IPO alone, PZU shares were acquired by over 250 thousand individual investors).

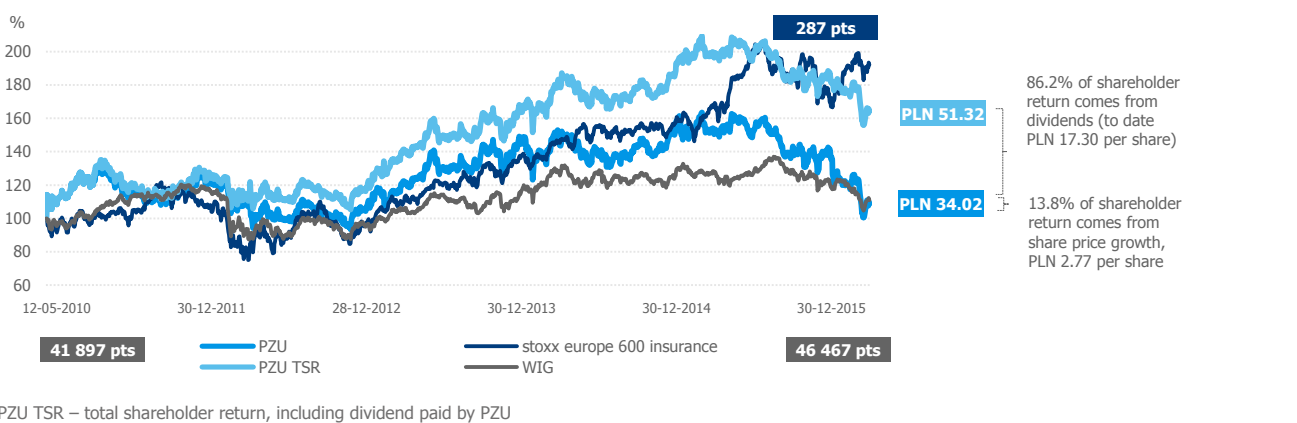
PZU shareholding structure as at 31.12.2015\*



The main ratio serving to measure the effectiveness of the Group’s value building used in communication with the capital market is TSR (Total Shareholder Return). Thanks to the care for generation of high free cash flows, the Group pays high annual dividends, which compose a considerable TSR component, according to the preferences of its shareholders.

In 2015, PZU paid almost PLN 2.6 billion as dividend for the dividend rate of 8.8% (calculated from the share price at the end of 2015, i.e. PLN 34.0). Since its IPO, PZU has already paid out nearly PLN 15 billion in dividends, while the total shareholders return (TSR) from investment in PZU shares amounted to 64.2%.

PZU’s share price listings between the IPO on the Warsaw Stock Exchange (12.05.2010=100) and 31.12.2015 roku



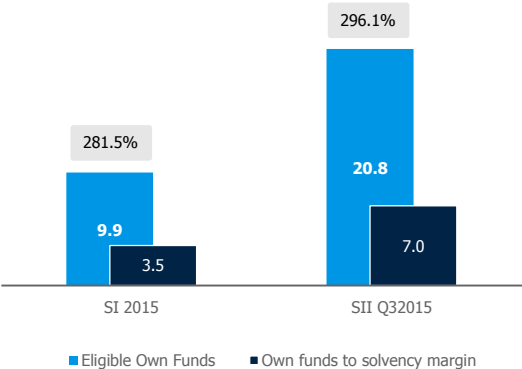


Strong capital position

PZU Group holds exceptionally high capital security ratios in comparison to other insurance groups. And so, in accordance with the regulations of Solvency I, PZU Group held a 281.5% ratio of solvency margin coverage with own funds at the end of 2015.

On 1 January 2016, the Act on Insurance Activity of 11 September 2015 introduced new capital requirements – Solvency II – into the Polish legal systems. In accordance with the new act, calculation of the capital requirement is based on the following risks: market, actuarial (insurance), counterparty insolvency, catastrophe, and operating. As at the end of the third quarter of 2015, the solvency ratio (calculated according to the Solvency II standard formula) was assessed at a level of 296.1%. Ratios as high as these place PZU Group among insurance groups with top capital strength.

Solvency according to Solvency I and Solvency II\* (%)



\*Data according to SII was not subject to audit

From 2009, PZU is subject to regular ratings by Standard & Poor's. On 21 January 2016, Standard & Poor's rating of PZU was lowered from "A" to "A-" with negative rating outlook. The decision to lower the rating of PZU resulted from the lowering of Poland's rating from "A-" to "BBB+" with "negative" outlook one week before and had no association with the situation of the company, the activity of which presents a very high capitalization and security level. According to the rating methodology, PZU's rating can only be one grade above that of its country, therefore the maximum possible S&P rating for PZU is "A -".

Social Responsibility

As one of the largest financial institutions in Poland and Central and Eastern Europe, PZU Group's activity and development strategy recognize social and environmental issues, as well as ethics. PZU Group does its best to ensure that the initiatives it engages in bring positive results also in the social aspects in all the areas where the company may have an influence on the external environment in a manner that is not strictly related to business. As a mature, responsible company, the Group takes all efforts not only to provide its clients with the best offer, but also build a better, safer future together with all its stakeholders.

Sustainable development and social responsibility in business are at the same time the most straightforward way to build the best offer for the clients of PZU Group, as well as the most accurate answer to the needs of its stakeholders. In its day-to-day operations, the Group follows four rules:

**We address the needs** – PZU provides products and services to its clients in a way best suited to their expectations,

**We value our people** – the Group is continuously providing opportunities for its staff to develop their skills and competences, creating good conditions to develop their personal interests,

**We support the society** – PZU makes efforts to establish stable, long-term relations with the local communities by supporting initiatives that have a positive impact on the community,

**We care for the environment** – PZU takes responsibility for the environment in which it operates.

Main consolidated financial data of PZU Group for 2011–2015 (PLN million)

	2015	2014	2013	2012	2011
Gross written premiums	18,359.0	16,884.6	16,480.0	16,243.1	15,279.3
Revenue from commissions and fees	242.8	350.8	299.2	237.1	281.4
Net investment income	1,739.3	2,646.9	2,479.4	3,613.4	1,735.3
Net insurance claims	(11,857.1)	(11,541.7)	(11,161.2)	(12,218.7)	(10,221.1)
Acquisition costs	(2,376.3)	(2,147.0)	(2,015.9)	(2,000.4)	(1,962.0)
Administrative expenses	(1,657.9)	(1,527.7)	(1,406.5)	(1,440.3)	(1,383.9)
Interest expenses	(117.4)	(147.3)	(104.2)	(127.0)	(158.2)
Operating profit	2,939.4	3,693.2	4,119.1	4,038.7	2,907.6
Net profit	2,342.2	2,967.6	3,295.0	3,253.8	2,343.9
Total assets	105,429.0	67,572.8	62,787.3	55,909.6	52,129.3
Financial assets	89,305.8	56,760.0	55,085.7	50,423.1	46,775.4
Equity	15,178.9	13,167.6	13,127.6	14,269.3	12,869.5
Technical provisions	41,280.3	40,166.9	37,324.4	35,400.8	32,522.7

\* restated data for the period 2011-2014.

## Summary of results and selected events in 2015

01

### Financial results and safety of operations

**Net profit** at PLN 2,342.2 million, i.e. 21.1% lower than in 2014, mainly due to the lower income from investments and decreased insurance profitability.

**Return on equity** (attributable to parent company) – 18.0% – a decline of 4.6 p.p. compared with 2014.

Introducing Solvency II requirements by implementing the new Act on Insurance and Reinsurance Activity as of the beginning of 2016.

Maintenance of solvency ratios which are higher than the average for the sector. The Solvency II ratio calculated at the end of September 2015 according to the standard formula was 296.1%.

**Debt ratio** at 22.6%.

**Dividend** payment from 2014 PZU profit at PLN 2,590.6 million, i.e. PLN 30.00 per share (pre-split).

**Stock split** in 1:10 relation, i.e. from PLN 1 to PLN 0.10 and increase of PZU shares composing share capital to 863,523,000 with no change to the share capital.

02

### Non-life insurance - Poland

**PZU:** Gross written premium (according to IFRS) at PLN 8,858.0 million, a 7.2% raise in relation to 2014. Growth of premium in motor insurance resulting from active reinsurance agreements concluded with newly acquired subsidiaries.

Leader on the Polish non-life insurance market with share of 31.2% (after 3 quarters of 2015).

Market leader with a share of 35.6%\* on the motor insurance market (after 3 quarters of 2015).

**Link4:** Gross written premium PLN 493.2 million (including contribution to the result of PZU Group at PLN 138.8 million in 2014 from the moment of acquisition).

Market share of 1.9% (after three quarters of 2015).

**TUW PZUW:** Establishment of Towarzystwo Ubezpieczeń Wzajemnych - TUW PZUW.

03

### Life insurance - Poland

**Gross written premium** (according to IFRS) at PLN 7,922.9 million. Increase by 1.5% in relation to 2014 in the conditions of declining single premium (by 8.0%). High sales of protection (both group and individual) and group health products offset by lower sales of investment products mainly in the bank channel.

Life insurance market share of 29.1%, including year-on-year growth of 1 p.p. in regular premiums to 43.9% (after three quarters of 2015).

Stable high profitability level exceeding the strategic objective despite pressure from higher death rate in 2015.

04

### Investment funds

**Net asset** value of PLN 28.3 billion at the end of 2015 – annual increase of PLN 2.8 billion. External clients' assets value of PLN 6.8 billion, annual net increase of PLN 0.8 billion.

Second place on the market in volume of gathered assets at the end of December with 11.2% share.

Maintenance of the position of leader on the market of Employee Pension Programs with total net assets of PLN 3.2 billion. At the end of December 2015 TFI PZU handles the total of 117 programs for 119 thousand people.

05

### Pension funds

Maintenance of the third place on the market in both members (the fund had 2,208.4 thousand members for a market share of 13.4%) and net asset value (NAV of PLN 18.5 billion, i.e. 13.2% market share).

Generation of the highest rate of return among all Pension Funds in 2015.

Acquisition of Nordea DFE approved by PFSA.

Maintenance of the position of leader on the Individual Pension Security Accounts (IKZE) market among the voluntary pension funds as far as the number of participants is concerned.

06

### Health care

Cooperation with approximately 1580 health care centers (compared to 1,380 at the end of 2014).

Investments in new ambulatories.

A 46% increase in gross written premium in medical insurance compared to 2014.

07

### Foreign operations

Strengthening of the insurance position in Central and Eastern Europe resulting from the acquisition of the following entities in the previous year: Lietuvos Draudimas (Lithuania), Balta (Latvia) and Codan Forsikring branch (Estonia).

**Lithuania:** From November 2014, PZU Group has been operating on the Lithuanian non-life insurance market through Lietuvos Draudimas – the market leader. The acquisition of Lietuvos Draudimas was conditioned by the sale of PZU Lithuania – the disinvestment took place on 30 September 2015. In 2015, Lietuvos Draudimas recorded a growth of the gross written premium by 6.8% from the previous year and reached the level of EUR 127.2 million. PZU Lithuania Life collected premiums in the amount of EUR 10.3 million (4.4% share in the life insurance market).

**Latvia:** In 2015, PZU Group conducted business through AAS Balta – leader on the market, which entered the Group in June 2014 and, subsequently, acquired the PZU Lithuania branch operating on the Latvian market since 2012 (in May 2015). The share of both companies in the Latvian non-life insurance market reached 25.1% at the end of the third quarter of 2015. The total gross written premium of both entities in 2015 was EUR 67.1 million.

**Estonia:** The entity is conducting business through the Estonian branch of Lietuvos Draudimas established through the merger of two entities – the branch of PZU Lithuania, registered in 2012, and the Estonian branch, acquired in 2014, which was operating under the Codan brand. The share in the Estonian non-life insurance market was 13.8%. The acquired written premium was EUR 38.6 million.

**Ukraine:** The premium gathered by PZU Group on the Ukrainian market of non-life insurance amounted to UAH 798.9 million and was 58.5% higher than in the previous year. The reasons for the increased premium included growing confidence in foreign insurance companies. The gross premium collected by PZU Ukraine Life amounted to UAH 177.8 million and was 15.2% higher than in the previous year.

08

### Investments

PLN 1,739.3 million net result on investing activities of– lower by 34.3% compared to 2014 due to the decline in the price of debt instruments (higher yield).

Capital investment in Alior Bank – purchase of 25.19% shares of the bank and launch of consolidation on 18 December 2015.

Issue of Eurobonds for EUR 350 million with maturity date of July 2019.

09

### Infrastructure

Completed stage I of implementing the new Everest IT system for non-life insurance policies. Providing the system to almost 18 thousand target users.

Launch of direct claims handling for PIU settlements.

Setting up own fleet of replacement cars used for claims handling purposes composed of 300 hybrid vehicles.

\*PZU share calculated with consideration of active reinsurance of PZU towards Link4



10  
Human resources  
management

Average annual employment of approximately 16.8 thousand employees calculated as FTEs.  
(excluding Alior Bank employees).

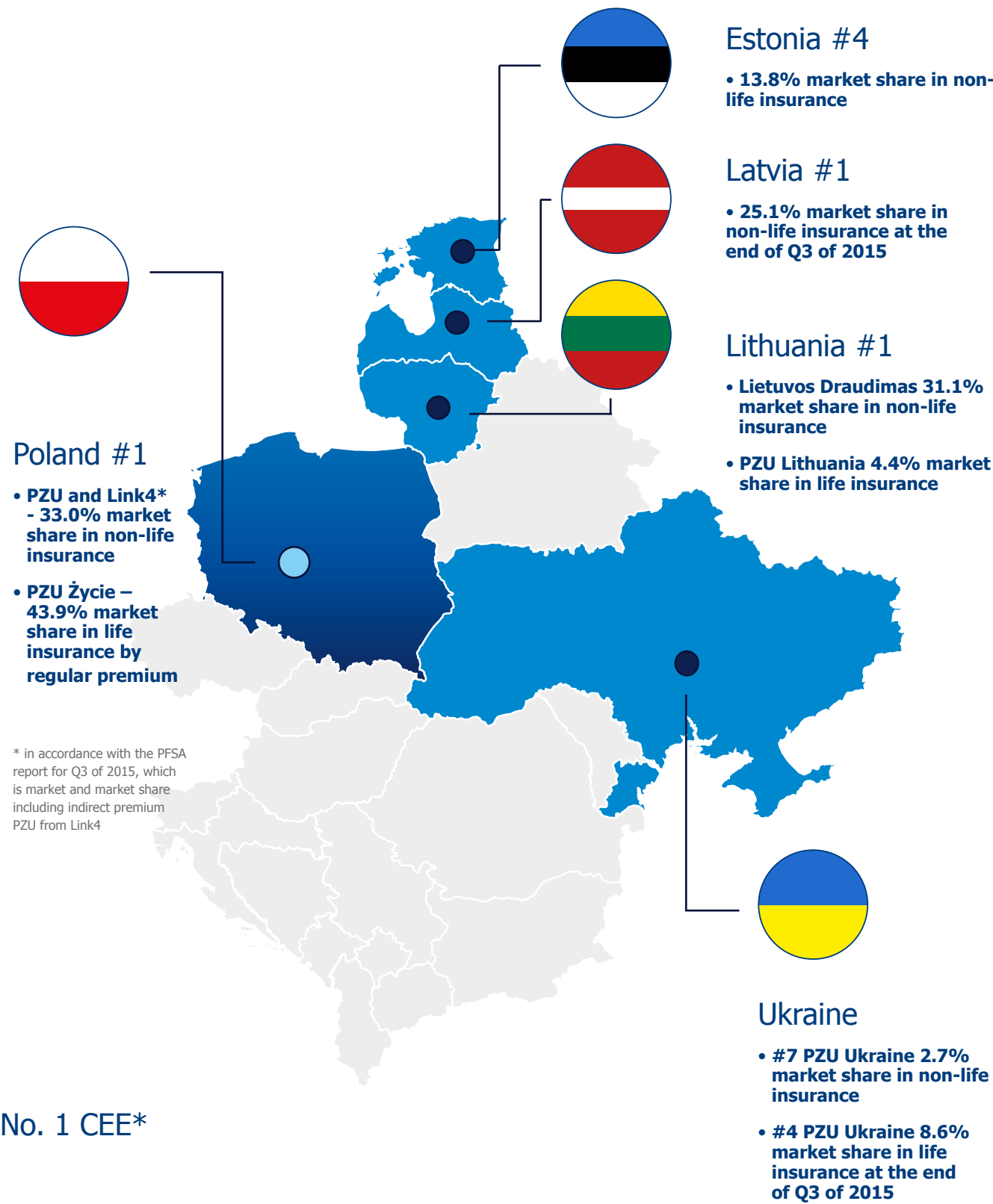
Employment restructuring in PZU and PZU Życie.

VI place in the Employer of the Year ranking organized by AIESEC.

Implementation of the Innovation Strategy – promotion of pro-innovation cultural models.

Extensive training and development program for employees - SmartUp, TalentUp, MBA.

International operations of PZU Group



\* Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Montenegro, Czech Republic, Estonia, Lithuania, Latvia, Macedonia, Poland, Romania, Serbia, Slovakia, Slovenia, Ukraine, Hungary.

# Brief overview of PZU Group

## Selected awards and prizes

In 2015, PZU Group received numerous awards and prizes. Some of them are listed below.



### AWARDS:

#### Service Quality:

for PZU in category of "Best Onsite Service Quality" and "Best Service Quality in Remote Communication Channels"



Favorite insurance brand in Latvia for AAS Baltaa

#### Investor Relations:

First place for: annual online report; 2014 PZU annual report, award for 2014 Management's activity report



Best IR Professionals in Poland and Central and Eastern Europe

#### Products:

for Link4 in category of: motor insurance



for TFI PZU for management of the PZU Papierów Dłużnych POLONEZ fund



for PTE PZU in category of best OFE



for TFI PZU best Polish treasury bond fund for PZU Papierów Dłużnych POLONEZ



#### Marketing:

3 prizes for the "Kochasz? Powiedz STOP Wariatom Drogowym" (If you love, say STOP to Reckless Drivers) campaign



Platinum for the "Kochasz? Powiedz STOP Wariatom Drogowym" (If you love, say no to Reckless Drivers) campaign



#### HR awards in Baltic states:

Best employer in the Latvian insurance sector (CV-online Latvia) for AAS Balta



Best employer for Lietuvos Draudimas and AAS Balta in Lithuania and Latvia



#### HR awards Poland:

Top Employers Poland



Top Quality HR



Top Quality Practices and Internships



Employer Accreditation of ACCA Poland



Responsible Employer and HR Leader for Link4



6 place in the 2015 Employer of the Year survey



## SCHEDULE

### May

30 May – PZU concluded a preliminary agreement to purchase 25.19% of Alior Bank.

### June

30 June – GSM approved dividend payment of the total amount of PLN 2,590.6 million.

### August

3 August – pilot implementation of Everest platform in external channels.

### September

30 September – PZU finalized the sale of PZU Lithuania.

### October

16 October - PZU Finance AB (publ) issued bonds for the total amount of EUR 350 million.

### November

3 November – PFSA approved establishment of TUW PZUW.

### November

30 November – 1:10 stock split. As a result of the split, 863,523,000 PZU shares will be quoted.

### December

1 December – 10 million policies issued via Everest platform.

### January 2016

19 January 2016 new CEO of PZU – Michał Krupiński.



## We are improving relations on the roads

**Do you love someone? Join us in saying STOP to Reckless Drivers**

[www.stopwariatom.pl](http://www.stopwariatom.pl)

PZU'S INTERNAL COMMUNICATION



# 02

## External environment

Stable growth of gross domestic product, lower unemployment rate, increase in real incomes of households and favorable condition of polish enterprises set up positive macroeconomic environment for PZU.

However, increase in yields of polish bonds and decline in indices on polish capital market negatively affected investments results of PZU Group.

### Contents:

1. Main trends in the Polish economy
2. Financial markets situation
3. Polish insurance sector compared with Europe
4. Regulations of the insurance and financial markets in Poland
5. External environment in the Baltic states and Ukraine
6. Macroeconomic factors which can affect the operations of the Polish insurance sector and the operations of PZU Group in 2016

2.1 Main trends in the Polish economy

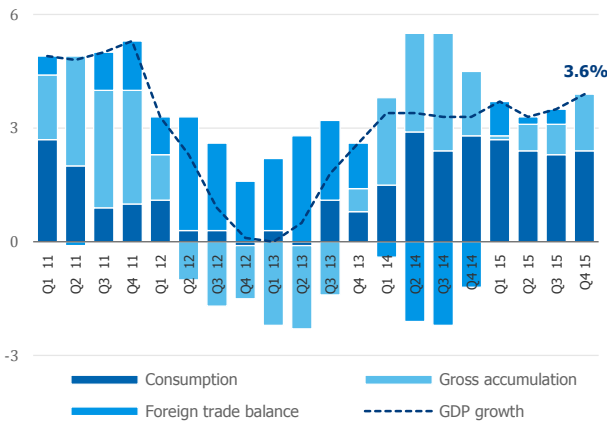
Gross Domestic Product

It might be estimated that real GDP growth in 2015 reached 3.6%, compared with 3.3% the year before. The quarterly GDP growth pace remained at the level of 3.3%–3.9% year-on-year.

Domestic demand continued to be the key factor contributing to the economic growth, even though it grew less rapidly than in 2014 (3.3% vs. 4.9%). Improved situation on the labor market, as well as relatively stable real remuneration growth accelerated the dynamics of household consumption to 3.1%, compared with 2.6% in 2014. Savings increased as well. The pace of households consumption growth was exceptionally stable in 2015. The public consumption growth slightly decreased and reached 3.5% versus 4.9% in 2014. In 2015, growth of investment in tangible assets was lower than in the previous year 6.1% compared with 9.8%. Good financial condition of enterprises along with steady economic growth, relatively stable capacity utilization level, high availability and low cost of credit jointly created favorable conditions for investment growth. On the other hand, the uncertainty of demand forecasts and increased volatility in the financial markets induced the companies to remain prudent. At the same time, weakened public investment dynamics may have resulted from entering in a transitory period between two European Union financial perspectives, i.e. for the years 2007–2013 and the years 2014–2020. Unlike in 2014, the change in inventories adversely affected domestic demand and GDP dynamics in 2015.

In 2015 export grew slightly faster than import. As a result, the impact of net export on GDP growth in 2015 was only slightly positive (0.4 p.p.), whereas in 2014 the net export decreased the real GDP growth by 1.5 percentage point.

Composition of GDP growth in Q1 2011 - Q4 2015



The labor market and consumption

Favorable tendencies were observed on the labor market in 2015. The recorded unemployment rate systematically dropped to reach the lowest level since the end of 2008 (9.8% in December compared with 11.4% at the end of 2014.) In 2015, the average monthly employment in the enterprise sector grew by nearly 77 thousand people and its annual dynamics reached 1.4% year-on-year in December 2015 compared with 1.1% year-on-year at the end of 2014.

Under the circumstances of deflation, the pressure on salary increases remained limited. The average monthly salary in the enterprise sector grew in 2015 by 3.2%, the same as the year before. However, due to the dropping consumer price index (CPI), the real salary increase was the highest since 2008. Taking the price changes into account, the average monthly salary in the enterprise sector was 4.2% in 2015 in comparison with 3.2% the year before. Similarly to 2014, salary in the enterprise sector in 2015 grew faster than in the public sector. The average monthly real dynamics of the remuneration fund in this sector in 2015 was on average 5.6%

year-on-year and was the highest in 7 years. The real growth of disposable gross income was also considerably larger than in 2014. The consumer sentiment condition indicators also systematically improved. The Consumer Confidence Index published by the Polish Statistical Office (GUS) was the highest since 2008.

The improving financial situation of households and more favorable labor market contributed to a growing consumption and savings of households. The individual consumption dynamics accelerated in 2015 to 3.1% compared with 2.6% the year before.

Inflation, monetary policy and interest rates

In 2015, the yearly average consumer prices (CPI) were lower by 0.9% annually. After hitting the minimum in February (-1.6% year-on-year), the annual CPI was slowly rising to reach -0.5% year-on-year at the end of the year.

Decrease in consumer prices resulted mainly from global processes – global prices of crude oil and other resources strongly dropped, food prices remained low, and so did the inflation level in the countries being Poland’s key trade partners. At the same time, no demand pressure on price growth was observed in Poland, while production price decrease and limited remuneration pressure continued. Net inflation (CPI excluding food and energy prices) amounted in 2015 to an annual average of only 0.3% compared with 0.6% in 2014.

In such conditions, in March 2015 the Monetary Policy Council lowered interest rates by 50 bps, including the reference rate, which was decreased to 1.5%. The decision was justified with prolonged deflation and higher risk of inflation

remaining significantly below the target in the medium term. The Monetary Policy Council also indicated that the process of monetary policy easing had been completed. No changes in interest rates were introduced till the end of the year. As per the Monetary Policy Council assessed in December 2015, leaving the interest rates at the same level contributed to maintaining the sustainable growth and macroeconomic balance of the Polish economy.

Public finance

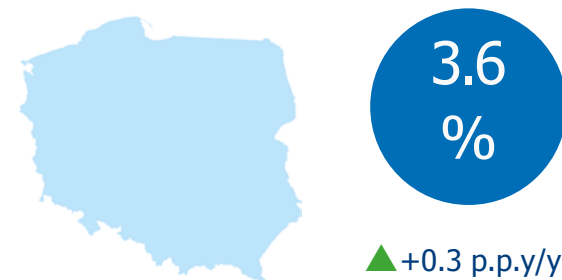
Originally, the 2015 budget provided for a deficit of PLN 46.08 billion. In December, the original budget was amended to increase the deficit planned for 2015 to PLN 49.98 billion. This amount is much higher than PLN 29.98 billion recorded in 2014.

Poland had no difficulties in acquiring market financing. At the end of 2015, approximately 20% of borrowing needs planned for 2016 had been financed.

2.2 Financial markets situation

A number of events that had a considerable impact on the financial markets took place in 2015. In late January, the European Central Bank announced its quantitative easing program and begun to buy treasury bonds of Eurozone states. Consequently, the German 10-year bond yields were decreasing in subsequent months to the lowest historical levels, and temporarily amounted to less than 0.1%. Simultaneously, German stock exchange indices were exceptionally high. Both shares and treasury bonds were more expensive also on the Polish market.

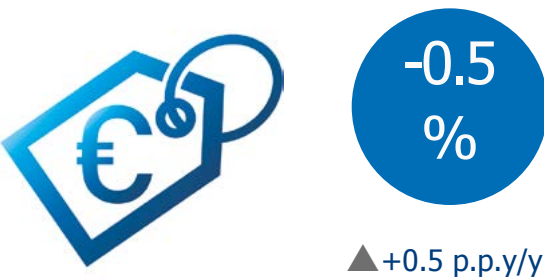
GDP growth in Poland in 2015



Unemployment rate in Poland at the end of 2015



CPI in Poland in 2015



Real growth rate of salaries in Poland in 2015





The expected increase of interest rates by the US Federal Reserve in 2015, contrasted with an extraordinary easing of monetary policy in the Eurozone, resulted in a significant strengthening of US dollar versus the common European currency in Q1 2015. The differences in monetary policy and in the perceived economic outlook in the Eurozone and the USA contributed to a larger difference between the German and US 10-year treasury bond yields that reached the highest level in years.

Making the Swiss franc exchange rate free-floating by the Swiss central bank in mid-January was another significant event in early 2015. The minimum EUR/CHF exchange rate of 1.20 was abolished. This decision resulted in a rapid strengthening of the Swiss currency also versus the Polish zloty.

The Monetary Policy Council's decision to lower the National Bank of Poland reference rate to 1.50% in March 2015, which ended the monetary policy easing cycle, was exceptionally significant for the Polish treasury debt securities with shorter maturity periods.

In late April and early May 2015 atmosphere on the financial markets begun to change fundamentally. Prices of shares and bonds started to drop, especially in Europe. Quieting down the fears of strengthening deflation in Eurozone contributed to a change on the interest rate market. A higher risk aversion on financial markets, i.e. due to the problematic situation in Greece and the Russian-Ukrainian conflict, adversely influenced the stock market situation. The tension escalated in late June 2015 when the Greek Prime Minister A. Tsipras announced a referendum on accepting the terms and conditions of the aid scheme for the country.

In the stormy first half of 2015, the Polish 10-year treasury bond yields reached both the lowest and the highest level of the year. They first dropped from 2.54% to 2.00% at the end of January and then increased to 3.37% at the end of June. In late April and early May the WIG index exceeded the value of 57 thousand points, growing by nearly 12% since the end of 2014. However, its drop in the second half of May and June removed most of the previous increase.

Three key issues influenced the financial market trends in August and September 2015. First of all – the situation in China where the prices on the stock market collapsed in mid-August 2015, causing strong global turbulence. Secondly –

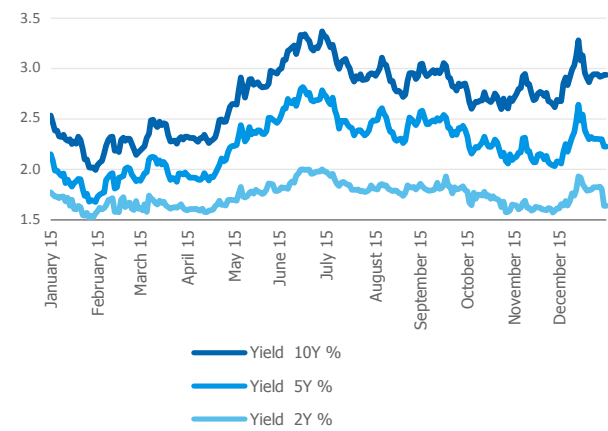
a possibility that the European Central Bank would extend and prolong the quantitative easing program which was due to finish by September 2016. Thirdly – it was expected that the Federal Reserve would decide on the potential interest rates increase in the USA, which eventually did not take place in September.

In Q3 2015, the Polish yield curve significantly dropped and flattened. Externally, low yields were maintained as a result of the ECB's and Fed's monetary policy, which proved more accommodative than expected. What is more, persistently low inflation in Poland and the expected outcome of Polish election suggested that accommodative monetary policy in Poland would be maintained.

That period proved unfavorable for the stock market. Share prices decreased not only in Poland, but also globally. Initially, the decreases resulted mainly from concerns related to the situation of Greece. They grew stronger along with the deteriorating economic and market situation in China and its potential implication for the global economy, especially „emerging markets”. An additional burden for several companies on the Polish market – especially from the banking sector – were the media announcements of potential statutory changes, which might have negative effects on such companies' operations (including the so-called financial institution tax) and were likely to be introduced after parliamentary elections in October 2015. SECTION 2.4. Regulations on the insurance and financial markets in Poland

Decreases in WSE indexes escalated in the last months of 2015. WIG20, an index of the largest companies, reached nearly 1700 points for the first time since 2009. After the peak in May, WIG dropped by nearly 24%. Several factors contributed to that situation. The US central bank increased the federal funds rate by 25 bps in December. That had been the first increase since 2006. The European Central Bank eased its monetary policy in December; however, the scale of easing was narrower than expected by the market. At the same time, the concerns related to the situation on emerging markets grew stronger. Raw material prices were going down. External risks and announcement of regulatory changes to affect e.g. the banking sector proved to be an additional burden for the Polish stock market, especially WIG20 index.

Treasury bond yields in 2015



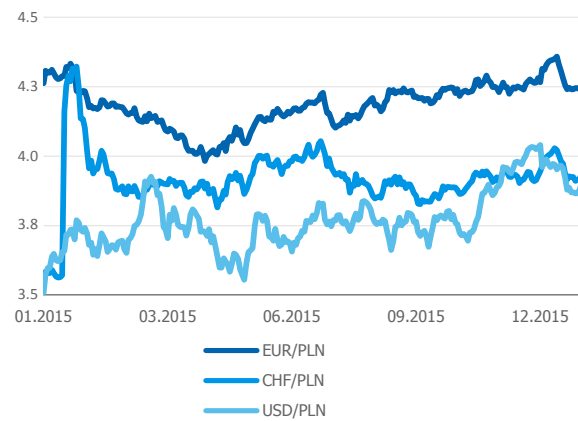
The same factors had a strong influence on the Polish treasury bond market and led to the Polish yield curve growing steeper. In Q4 2015, the Polish 10-year treasury bonds yields slightly increased. At the same time, interest rates in Poland were expected to decrease, which led to a lower yield for bonds with shorter maturity dates.

Finally, in entire 2015 the Polish one-year treasury debt securities yield dropped by approximately 30 bps to around 1.50%. Five and ten-year bonds yields increased by approximately 10 and 40 bps, respectively. The difference between 10-year and one-year bonds yield increased by around 70 bps. Correlation between the yields in Poland and yields on key global markets, such as Germany or the USA, remained high.

At the same time in 2015, WIG20 stock index dropped by nearly 20%, whereas WIG decreased by almost than 10%.

The currency market in 2015 was dominated by the trend of the strong appreciation of the US dollar to the euro, which was, however, less clear than in 2014. Still, the euro lost as much as 10.2% to the US dollar. The PLN to USD exchange rate also changed – the dollar cost 11.2% more than at the end of 2014. The PLN significantly weakened in relation to the Swiss franc and dropped by 11.1%. Yet, the Polish currency remained stable against the euro.

PLN rate in 2015



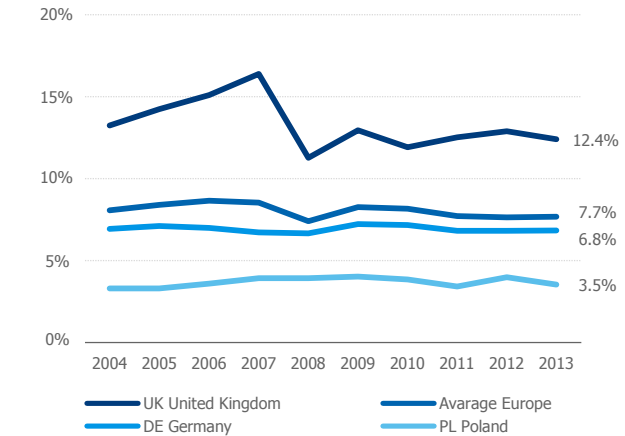
2.3 Polish insurance sector compared with Europe

In 2013, a statistical European spend EUR 1,882.7<sup>1</sup> on insurance (**density index**), while an average Pole spent EUR 361.8 (i.e. PLN 1,503.1), that is 5 times less. Almost 60% of the premiums of an average European and 54% of an average Pole and are paid towards life insurance.

In analyzing the level of the premium compared with GDP (**penetration ratio**), Poland is below the European average. This indicator for Poland is slightly above half of the European average. Central and Eastern European countries, such as Estonia and Latvia, in which PZU operates, have a ratio of 1.7% and 1.3% accordingly, which, from the point of view of market development, opens up huge opportunities for sales growth.

<sup>1</sup> According to latest "Statistics: European Insurance in Figures" report, 6 January 2015; www.insuranceeurope.eu

Insurance value versus GDP (%)



# External environment

## 2.4 Regulations on the insurance and financial markets in Poland

2015 was another year to witness intense preparations for implementation of the requirements of Solvency II directive GLOSSARY (Directive 2009/138/EC of the European Parliament and the Council dated 25 November 2009 on the taking-up and pursuit of the business of insurance and reinsurance), which bind insurance and reinsurance companies as of 1 January 2016. The new scheme concentrates on capital requirements and risk borne by insurance and reinsurance companies.

In 2015, there were also ongoing preparations on the new Act on Insurance and Reinsurance Activity in connection with the implementation of Solvency II.

**The Act on Insurance and Reinsurance dated 11 September 2015 – most of the provisions become effective as of 1 January 2016.** A vacatio legis principle is applied to some provisions (e.g. provisions on contracts on third party's account which come into force on 1 April 2016; until that day, provisions on insurance with insurance capital fund will also apply; a provision allowing insurers to acquire voluntary pension funds directly or via agents will come into effect on 1 August 2016.) The Act has following objectives:

- to introduce a new solvency scheme applicable to insurance and reinsurance companies, similar to the regulations on capital requirements for banks (adaptation of EU provisions of Solvency II). The system is founded on the three pillars: the first pillar specifies capital requirements – higher capital requirements will be applied that will reflect specific risk profile of a given insurance or reinsurance company; the second specifies quality requirements concerning management system and supervision process; the third concerns information obligations of insurance and reinsurance companies;
- to reinforce right of the insured in the contracts on third party's account – especially in group insurance (e.g. an obligation to provide the insured with information on contractual terms and conditions, providing the insured and her/his heirs with information related to the claims handling process);
- to impose on insurance companies an obligation to analyze the needs, knowledge and experience level, as well as financial standing of the policyholder or the insured prior to concluding an investment policy. The clients are also entitled to withdraw from unit-linked insurance contracts

for a longer period of time (besides the right to withdraw provided for in the Civil Code GLOSSARY) and at a lower cost (60 days following receipt of the information provided for in the Act, while the maximum early termination fee may not exceed 4% of premiums paid);

- to change the manner of remunerating insurance agents and handling charges for unit-linked products and structured products. While setting the remuneration of the agent, an insurance company should follow the rule of even spreading in time of an insurance agent's commission (in case of contracts concluded for more than 5 years, the commissions should be spread over a minimum period of 60 months);
- to grant new entitlements to the Polish Financial Supervision Authority (PFSA) GLOSSARY (a supervisory body may e.g. prohibit or limit trading, distribution, or sale of selected investment policies). The PFSA may also issue recommendations within a scope necessary to implement guidelines and recommendations of European Insurance and Occupational Pensions Authority, as well as to prevent infringement of interests of the insured, policyholders, beneficiaries or entitled under insurance contracts;
- to maintain an obligatory participation of insurers in the Polish Chamber of Insurance (PIU) GLOSSARY;
- to introduce a number of regulations concerning strictly operations of insurance and reinsurance companies on the Polish insurance market.

In 2015, the PFSA released recommendations concerning the following areas: flood risk management in the insurance sector, insurance distribution, motor insurance claims handling, reinsurance inwards/retrocession, IT management and IT security. The recommendations fall under the „comply or explain” rule. Institutions under supervision may not follow the principles included in the recommendations; but if the company fails to implement any of the principles, either permanently or incidentally, it is obliged to inform the market of this fact and justify reasons for non-implementation of a given principle. At the same time, in accordance with its statutory entitlement, PFSA is working on further recommendations, e.g. concerning a product adequacy test and product management system.

**The Act on Complaints Handling by Financial Market Entities and Financial Ombudsman dated 5 August 2015** of provisions that increase protection mainly of financial institution clients (banks, insurance companies, pension funds). The Act specifies terms and conditions for handling complaints filed by

consumers. The Act appoints a Financial Ombudsman, a new function to replace the Insurance Ombudsman. The Financial Ombudsman represents interests of financial institution clients (e.g. she/he will hear clients' complaints and applications, is entitled to impose fines of up to PLN 100 thousand on financial institutions which fail to observe deadlines for complaints handling, etc., may lead mediation proceedings, as well as initiate and organize education and information activities related to client rights protection). It needs to be added that it is mandatory for a financial market entity to participate in mediation proceedings.

Apart from the above-mentioned acts, PSFA requirements and works related to implementing the requirements of Solvency II Directive, other regulations were also implemented in 2015, which had or will have an impact on the operations of PZU Group. Some of them are listed below:

**The Act on amending the Act on the Protection of Consumers and Competition and Code of Civil Procedures Act dated 10 June 2014**, which became effective as of 18 January 2015. The Act introduced several changes to the Polish anti-trust law aimed to strengthen the domestic system for the protection of competition and consumers. The main objectives of the amendments are the following: to improve the detection of competition limitation, the effectiveness of the detection and accountability of entrepreneurs entering illegal agreements, and strengthen the positions of the weaker players on the market. Changes were introduced as to the obligation to notify about the intention of concentration in instances of acquiring control of an entrepreneur or purchasing the property of another entrepreneur.

**Amendments to the Act on the protection of consumers and competition and several other acts dated 5 August 2015.** The aim of the amendment is e.g. a more efficient combating unfair market practices in financial service sector, i.e. offering a client a product which does not suit his/her needs (so-called misspelling.) As per the Act, the President of the Office of Competition and Consumer Protection GLOSSARY, through issuing an administrative decision, will settle on an inadmissible nature of a provision included in a template contract and forbid its further use. The proceedings in this respect are to be conducted by the President of the Office of Competition and Consumer Protection and such a procedure will replace supervision of provisions included in a template contract which had been conducted by the Court of Competition and Consumer Protection. The decision of

the President of the Office of Competition and Consumer Protection will be published on the Office's website, whereas the existing nature of a register of prohibited (abusive) clauses will be maintained for a period specified in the Act.

**The Act amending the Corporate Income Act, Personal Income Tax Act, and several other acts dated 29 August 2014**, which has been in force as of 1 January 2015, amended e.g. the regulations concerning thin capitalization and limited the exemption of revenues acquired from investment-oriented life insurance – structured products. Tax does not apply to revenue from endowment insurance for which a technical rate is applied to establish the technical provision. The Act simplified also the calculation of taxable revenue from premium investment as the difference between the benefit amount and the premium paid to the insurance company.

**The Act amending the Act on Crop and Livestock Insurance dated 26 June 2015** provides fruit and vegetable producers with insurance with premiums subsidized from the state budget if insurance companies apply tariff rates higher than 6% of the sum of insured crop. The new provisions take into account amended rules for granting public aid specified in the EU guidelines on the state's aid in agriculture and forestry sector and in rural regions in the years 2014–2020, which refer to the aid in financing insurance premiums. The newly introduced solution is meant to expand insurance protection of crop by a growing number of concluded insurance contracts.

**The Act amending Act on Mandatory Insurance dated 22 May 2003, the Insurance Guarantee Fund and the Polish Motor Insurers' Bureau dated 25 September 2015** introduces a provision stating that a claim for compensation resulting from TPL insurance of owners of motor vehicles may be filed exclusively with the court competent for place of residence or register office of the party injured in the event that caused the damage in question, or the court competent for the place where such an event occurred. The aim of the amendment is to limit concentration of court proceedings related with seeking compensation resulting from TPL insurance of owners of motor vehicles.

**The Act dated 9 October 2015 on Executing the Agreement Between the Government of the United States of America and the Government of the Republic of Poland to Improve International Tax Compliance and to Implement FATCA** has been binding as of 1 December 2015. FATCA GLOSSARY is the American federal law which aims to oppose tax evasion

# External environment

by both natural and legal persons obliged to pay taxes in the United States. Both PZU Życie and PZU TFI implemented procedural and IT solutions that enable fulfillment of statutory obligations.

**The Act amending Act on the Financial Market Supervision and several other acts dated 5 August 2015.** The aim of the Act is to increase protection of consumers using financial services provided e.g. by consumer credit institutions which are not obliged to hold a PSFA GLOSSARY permit for such operations.

**The Act dated 9 October 2015 on amending the Corporate Income Tax Act, Personal Income Tax Act, and several other acts.** The Act has been effective as of 1 January 2016 and implements the Polish legal system to the three directives of EU Council: 2014/48/EU dated 24 March 2014, 2014/86/EU dated 8 July 2014, and 205/121/EU dated 27 January 2015. The most important amendments include: with relation to income on sale of securities (tax obligation due to paid sale of securities arises upon making such a transaction), with relation to tax on dividends, a so-called „tax evasion clause” (taxpayer is not exempt from tax on dividend or revenues from share in profit of related entities if the transaction does not reflect economic reality and its objective or one of key objectives was tax evasion or avoidance), with relation to transfer pricing (some taxpayers who enter transactions with related entities will be obliged to prepare substantially extended documentation on transfer pricing), with relation to interest tax (changes in this respect aim to efficiently tax profit on savings in a form of interests paid across borders).

**The Act amending Accounting Act and several other acts dated 23 July 2015.** New regulations introduce to the Polish legal system Directive 2013/34/EC of the European Parliament and the Council dated 26 June 2013 on annual financial statements, consolidated financial statements and related

reports of some entity types. The Act has been effective as of 23 September 2015, except for Article 1 point 1 and Article 5 which came into force on 1 January 2016.

**The Act on Tax on Some Financial Institutions dated 15 January 2016.** In accordance with the Act, as of February 2016 banks (domestic, branches of foreign banks, branches of credit institutions), insurance and reinsurance companies, cooperative saving and credit institutions, and lending companies are subject to so-called financial assets tax annually amounting to 0.44% of their assets’ value. For banks and cooperative saving and credit institutions, the value of tax-free assets is PLN 4 billion. For insurers this amount is PLN 2 billion, and PLN 200 million for lending companies. The limits of assets’ value beyond which insurance and reinsurance companies will be subject to tax are specified for entire capital group and not respective companies.

**Judicial decisions and the Prohibited Clauses Register.** On 9 September 2015, the Supreme Court (File no. III SZP 2/15) issued a resolution where it stated that, when seeking from the insurer claims resulting from TPL insurance of owners of motor vehicles, the injured party who is a natural person that does not conduct business activity is not deemed a consumer within the meaning of Article 24 in conjunction with Art 4 point 12 of the Act on the Protection of Consumers and Competition dated 17 February 2007, in conjunction with Article 22(1) of the Civil Code GLOSSARY. In its resolution III CZ 5/11, the Supreme Court pointed out that „a person injured by the insured (perpetrator) cannot be deemed a consumer as he/she does not conclude an agreement, and filing a claim against perpetrator and using the actio directa rule towards the insurer do not constitute a legal transaction within the meaning of Article 221 of the Civil Code”.

**The projected legal regulations may have significant influence on insurance and reinsurance operations. Insurance Distribution Directive (IDD) of the European Parliament and the Council.** On 24 November 2015, the European Parliament approved Insurance Distribution Directive (IDD). The directive should be soon officially adopted by the Council. Member states will then have 2 years to implement the directive’s provisions into their legal systems. During that time, implementing acts provided for in the Directive will be drafted. The new directive will substitute the previous Directive 2002/92/EC of the European Parliament and the Council dated 9 December 2002 on insurance mediation.

## 2.5 External environment in the Baltic states and Ukraine

**Lithuania**  
The Bank of Lithuania informed that the economy growth rate decreased by nearly a half in 2015 compared with the previous years, mainly due to unfavorable external influence. GDP growth amounted to 2.0% (year-on-year). Persistently low prices of energy resources and existing economic sanctions on Russia adversely impact the economy of the country, which further affects other countries economically and financially tied with Russia. A significant drop in import to Russia had an unfavorable influence of the results of Lithuanian enterprises that engage in transportation, storage, and warehousing as their re-export activity, especially considering that transportation of goods to the East, constitutes a significant part of their business.

Similarly to the previous years, individual consumption continued to be the cornerstone of economic growth. The labor market remained insensitive to economic slowdown in the country. Employment in transportation and trade enterprises, i.e. entities that most severely suffered from economic slowdown in Russia, stopped growing at the hitherto pace; yet, the growth rate continues to be positive. The number of job places increased in other sectors of the economy. As a result, demand for work did not decrease, which translated into a positive remuneration dynamics. Along with the growing number of vacancies in the economy and lower unemployment rate (to 9.00%), remuneration growth, which was partially caused by an increase in the minimum monthly salary, did not change in comparison with the previous year, which helped households to achieve higher consumption levels.

**Latvia**  
Despite the ongoing Ukrainian crisis and mutual sanctions between Russia and the European Union, the Latvian economy recorded a medium GDP growth of 3.0% year-on-year. The main growth accelerator was domestic consumption. The business sector that contributed most to GDP growth included production, trade, public utility companies, and, to a lesser extent, providers of other business services. In the first nine months of 2015, exports increased by 2.0% year-on-year. Even though conditions for export in the current international environment are rather unfavorable, the Latvian enterprises continue to show capacity to increase export volume. Increased export, whose dynamics was higher than import growth, translated into Latvia’s improved trade balance in the first three quarters of 2015, compared with the same period in 2014.

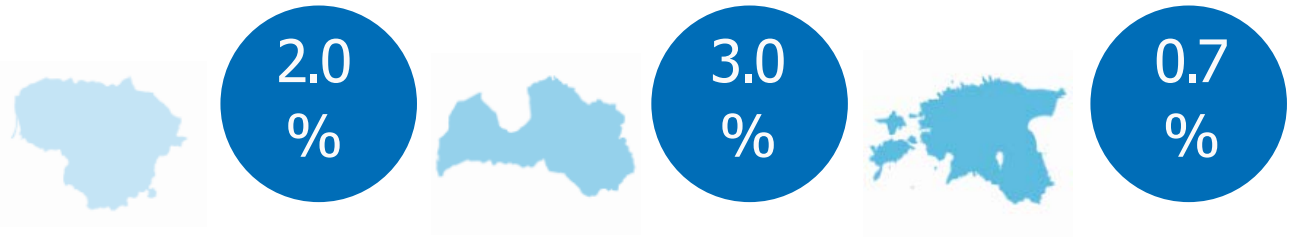
The inflation rate remained low and amounted to 0.3% year-on-year. The situation on the labor market improved in last couple of years, which favorable influenced general economic growth – unemployment rate is systematically decreasing, employment rate is growing, accompanied by a relatively rapid increase in remunerations. However, in the second half of the year, the registered unemployment rate increased for the first time since the 2007 crisis (by 0.1 p.p. to 8.3% of economically active persons as at the end of October 2015) year-on-year.

**Estonia**  
In the first three quarters of 2015 the Estonian economy slightly grew (0.7%). The main factor that contributed to such a growth was higher retail sales. Also depreciation of ruble, and consequently decreased export of goods and services to Russia, had an impact on the mild growth rate.

A significant increase in real revenues caused also a growth in private consumption. It was also reflected in higher households savings and more intense credit activities. The unemployment rate remained stable and reached 6.4% in 2015.

The deflation has maintained at the same level since 2014. The change in CPI amounted to -0.9% year-on-year. The drop in general price level was caused mainly by low energy and resources prices on global markets, as well as sanctions imposed on the Russian market.

### GDP growth of Baltic States in 2015 – Lithuania, Latvia, Estonia





Ukraine

Since 2014, political and economic situation in Ukraine has been unstable. This fact is linked with the following factors that influence the Ukrainian insurance market: military action in eastern Ukraine (including the Donetsk and Lugansk regions), annexation of Crimea in 2014, high inflation rate and strong dynamics of local currency (Ukrainian hryvnia) depreciation vs. US dollar and euro, collapse of domestic demand, problems in the banking sector (bankruptcy of Delta Bank, the fourth largest bank in Ukraine).

In 2015, the above-mentioned factors caused an even greater crisis in the Ukrainian economy. According to the data of the Ukrainian Central Statistical Office, the GDP dropped by 7.2%. Industrial production dropped in 2015 by 13.4%, compared with the level of industrial production in the corresponding period of 2014. The inflation in December 2015 increased by 43.3% compared with December 2014, which resulted from the administratively regulated prices and the depreciation of the UAH. From January to November, a positive foreign trade balance (USD 249.5 million) was recorded, which resulted from a 31.2% drop in import (with a simultaneous 30.9% drop in export.) Turnover of retail and gastronomy companies in Ukraine dropped by 20.7% compared with the 2014 levels.

2.6 Macroeconomic factors which can affect the operations of the Polish insurance sector and PZU Group’s activities in 2016

The Polish economy has so far proved resistant to global threats to GDP growth that grew more significant in the second half of 2015. They include, first of all, the economic slowdown in China and on key emerging markets and the related drop in dynamics of global trade. We assume that the GDP growth in 2016 may turn out only slightly below the 2015 level, even though the end-of-year data let us hope for a better result.

The factors that affect domestic demand, i.e. key driver of GDP growth in the face of external threats, are likely to remain favorable. In the second half of 2015, enterprises intensified their recruitment efforts, even though at the end of the year it could have resulted from the plan to apply social security contributions to mandate contracts in early 2016. Real households income is on a solid, stable increase.

The unemployment rate continues to fall systematically and the employees’ bargaining position is improving. It is therefore expected that the pace of nominal growth of salaries will accelerate, despite the persistently low inflation rate which favors a milder pressure on salary increase. Taking into consideration a very low inflation, probably amounting to an annual average of 0% in 2016, low interest rates, and higher social transfers (the 500+ program), we estimate that the consumption dynamics may reach approximately 4.0%.

In 2016, the investments are likely to grow at a solid pace, yet slower than in 2015. The capacity utilization level is relatively high and good financial standing of enterprises and low interest rates will facilitate financing of investments. Moreover, residential housing investments are expected to increase relatively fast. Yet, increasing uncertainty concerning e.g. demand forecasts, highlighted by enterprise sector, may prove to be a factor that limits investment demand. What is more, the cycle of investment growth in enterprises will be rather advanced in 2016. However, the effects of the new financial institution tax on crediting the economy are yet unknown. It is expected that investment in infrastructure will grow throughout the year, even though funds granted within European Union financial perspective 2007–2013 are almost finished and the new projects will only enter the implementation phase.

It seems that macroeconomic background regarding sales of household-oriented insurance may be slightly better than in 2015, taking into account the increase in real income, improving situation on labor market and higher savings. Conditions for corporate insurance sales, implied by the increased GDP and financial standing of companies, should be similar to those observable the year before.

The economic growth in Poland may be negatively impacted mainly by the external situation, mostly by the slowdown in GDP growth of emerging markets, including China. There is a growing concern that in such conditions the drop in resource prices and the tightening monetary policy in the US may lead to a financial crisis in developing countries, where companies have been early increasing their USD-denominated debt in the recent years. Uncertainty results also from the situation in Greece, Ukraine, refugee crisis in Europe, and ISIS operations (Islamic State). No major signs of impact of the problems of developing economies on the economic growth in the USA and the Eurozone are at the moment observable both on the

US market and in Eurozone, including the German market, which is the most important from Poland’s perspective. We expect that the 2016 GDP growth in Eurozone will be at least similar to that of last year. However, in case that crisis hits emerging markets, a slowdown in Poland’s GDP growth is to be expected.

Due to the aforementioned threats and relatively high risk aversion, we expect that in 2016 prices on the global (and, consequently, Polish) financial markets will remain highly volatile. This may have negative impact on investment income. If the weakness of PLN continues, it may result in the higher costs of motor insurance due to growing spare parts prices.

The drop in oil prices at the turn of 2015 and 2016 caused a significant fall in fuel prices in Poland. As a result, provided that the consequences of PLN weakness are inflationary, sector taxes are introduced and food prices grow, the average annual inflation rate in 2016 may only slightly exceed zero. The low fuel prices may produce a higher claims ratio for motor insurance. We estimate that the new Polish Monetary Policy Council will keep interest rates of the National Bank of Poland unchanged, even though the rates are more likely to decrease due to low inflation and likely easing of monetary policy by the European Central Bank. However, the interest rates will remain low, which will continue to be a problem for achieving the guaranteed rate of return in life insurance.

Forecasts for the Polish economy	2016*	2015	2014	2013	2012
Real GDP growth in % (year-on-year)	3.5	3.6	3.3	1.3	1.6
Increase in individual consumption in % (year-on-year)	3.8	3.1	2.6	0.2	0.8
Increase in gross expenditure on fixed assets in % (year-on-year)	4.9	6.1	9.8	(1.1)	(1.8)
Increase in prices of consumer goods and services in % (year-on-year, yearend)	1.1	(0.5)	(1.0)	0.7	2.4
Nominal wage growth in domestic economy in % (year-on-year)	4.5	3.2	3.2	3.7	3.7
Rate of unemployment in % (end of the year)	9.0	9.8	11.4	13.4	13.4
NBP base rate in % (end of the year)	1.50	1.50	2.00	2.50	4.25
Average annual EUR/PLN exchange rate	4.35	4.18	4.19	4.20	4.19
Average annual USD/PLN exchange rate	3.98	3.77	3.16	3.16	3.26

Source: PZU Macroeconomic Analysis Office  
\*Forecast as at 29 February 2016





## Activity of PZU Group

We are strengthening the position of the Polish insurance leader and expanding on the international market through acquisitions of companies and implementation of product, and process innovations.

We are building the assets of people who keep their savings in Poland's biggest investment fund company and expanding our presence on the health care market.

## Let's get to know each other better

We operate in several countries. We have one thing in common – we give people piece of mind:

- in Estonia **Tagame Sinu meelerahu**
- in Lithuania **Mes suteikiame ramybę**
- in Latvia **Mēs nodrošinām sirdsmieru**
- in Ukraine **Даруємо спокій**



### Contents:

1. Structure of PZU Capital Group
2. PZU, Link4 and TUW PZUW – activity on the Polish non-life insurance market
3. PZU Życie – activity on the life insurance market in Poland
4. PTE PZU – activity on the pension funds market
5. TFI PZU – activity on the investment fund market
6. Foreign activity
7. PZU Zdrowie – activity on the health care market
8. Alior Bank – banking activity
9. Other areas of activity

3.1 Structure of PZU Capital Group

PZU Group conducts various activities in the area of insurance and finance. In particular, PZU Group’s entities provide

services in life insurance, non-life insurance, health insurance and asset management for clients within OPF and investment funds.

Structure of PZU Group (as at 31 December 2015)



\* Grupa Armatura included the following entities: Armatura Kraków SA, Armatoora SA, Armatura Tower sp. z o.o.(joint venture), Aquaform SA, Aquaform Badprodukte GmbH, Aquaform Ukraine TOW, Aquaform Romania SRL, Morehome.pl sp. z o.o.  
\*\* Grupa Centrum Medyczne Medica includes the following entities: Centrum Medyczne Medica Sp. z o.o., Sanatorium Uzdrowskowie „Krystynka” Sp. z o.o. i Rezo-Medica sp. z o.o.  
\*\*\* Grupa Alior Bank Medica includes the following entities: Alior Bank SA, Alior Services sp. z o.o. , Centrum Obrotu Wierzytelnościami sp. z o.o., Alior Leasing sp. z o.o., Meritum Services ICB SA , Money Makers SA , New Commerce Services sp. z o.o.  
The structure does not cover investment funds.

As a parent company, acting through its representatives in supervisory bodies of the companies and casting votes at shareholders’ meetings, PZU influences the process of determining strategic directions, both in the scope of activities and the finances of the entities making up PZU Group.

The companies provide mutual services both under market conditions and based on the internal cost allocation model (in the scope of the Tax Capital Group) thanks to the expertise of selected companies and by taking advantage of the Tax Capital Group.

The following changes took place in the structure of PZU Group in 2015 and until the release of this report:

- On 3 November 2015, PFSA issued its approval to establish a Mutual Insurance Company (Towarzystwo Ubezpieczeń Wzajemnych) under the name of Polski Zakład Ubezpieczeń Wzajemnych (TUW PZUW). PZU, Link4, and PZUW
- Pursuant to the agreement concluded on 2 February 2015, PZU Group sold 99.879% of shares in PZU Lithuania to the Norwegian insurance company Gjensidige Forsikring ASA. The transaction was finalized on 30 September 2015, the final price amounted to EUR 66 million. The price will be adjusted by four payments made in 6-month periods, each in the amount representing 1.5% of the capital surplus calculated as the difference between the actual share capital of PZU Lithuania, established according to the requirements of the Bank of Lithuania, and the required capital of PZU Lithuania, calculated in accordance with the provisions of law and the binding regulations of PZU Lithuania. The sale of PZU Lithuania was a necessary condition for acquisition of Lietuvos Draudimas;

- PZU Zdrowie purchased shares in the following medical companies: Nasze Zdrowie (2015), Medicus in Opole (2015), CM Gamma (2015) and CM Cordis (2016); additionally, CM Medica bought REZO-MEDICA (2015). PZU ZDROWIE – ACTIVITIES ON THE HEALTH CARE MARKET CHAPTER 3.7
- in the scope of capital investment, the preliminary agreement for the purchase of Alior Bank shares constituting 25.19% of the Bank’s share capital was signed on 30 May 2015. ALIOR BANK – BANKING ACTIVITY CHAPTER 3.8
- based on the agreement signed on 15 January 2015, PZU subsidiaries Armatura Kraków SA and Armatoora SA (Purchaser) purchased shares in Aquaform SA from Saniku SA and Shower Star B.V. (Seller). OTHER AREAS OF ACTIVITY CHAPTER 3.9

3.2 PZU, Link4 and TUW PZUW – activity on the Polish non-life insurance market

Market situation

The non-life insurance market in Poland measured by the gross written premium grew by an annual average of 3.6% over the first three quarters of the past 5 years. The non-life insurance market in three quarters of 2015 increased by a total of PLN 471.5 million (+2.4%). The growth of sales of accident and illness insurance (by PLN 257.9 million, +17.6% year-on-year, 154.2 million of which concerns direct business) and motor own damage insurance (by PLN 180.5 million, +4.6%, 109.4 million of which concerns direct business) mainly as a consequence of average premium growth, had the greatest impact on the premium growth.



gross written premium of non-life insurance companies after Q3, 2015



technical result of non-life insurance companies after Q3, 2015

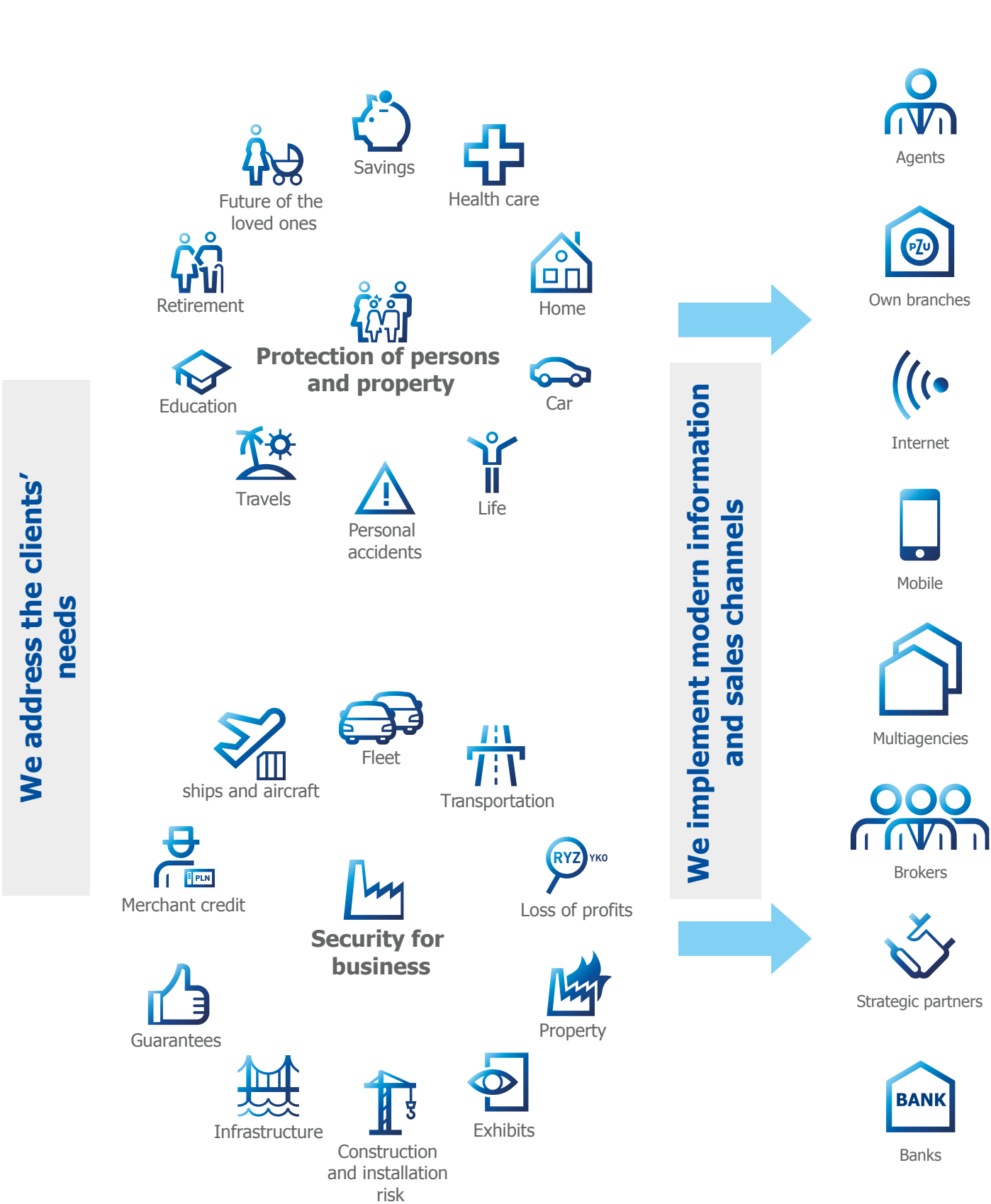


net result of non-life insurance companies (without PZU Życie dividend) after Q3, 2015



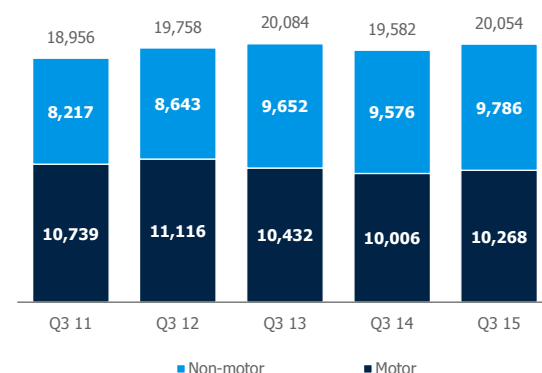
value of assets of non-life insurance companies at the end of Q3, 2015

We ensure peace of mind and financial security to our clients



CLIENTS	EMPLOYEES	DISTRIBUTION
<p>~16m clients in Poland</p> <p>+7 p.p. – NPS of retail clients versus competitors</p> <p>+3 p.p. - NPS of Link4 clients versus direct market competitors</p>	<p>16.8 thousand employees, including:</p> <p>12.5 thousand in insurance companies</p> <p>(11K PZU and PZU Życie, 1.5K in Baltic states and Ukraine)</p> <p>91% employees satisfied with their job</p>	<p><b>Poland</b></p> <p>9,079 exclusive agents</p> <p>414 branches</p> <p><b>Baltic states</b></p> <p>1,071 agents</p>

## Gross written premium of non-life insurance companies in Poland (millions of PLN)

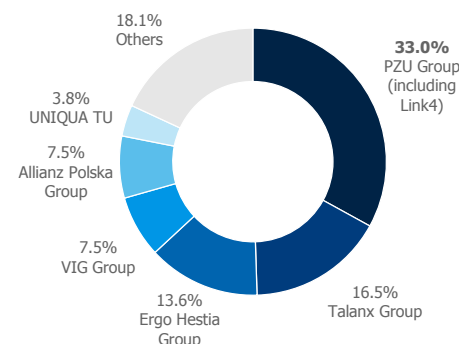


Source: PFSA (www.knf.gov.pl). Quarterly Bulletin. Insurance Market 3/2015. Quarterly Bulletin. Insurance Market 3/2014, Insurance Market 3/2013, Insurance Market 3/2012, Insurance Market 3/2011, Insurance Market 3/2010.

Furthermore, there was growth recorded in sales of TPL insurance (by PLN 134.7 million, +8.9%, PLN 78.7 million of which concerns direct business) and property insurance (by PLN 107.5 million, +2.5%, including a PLN 166.0 million growth on indirect business).

The drop in premiums was most visible in insurance of financial losses (drop by PLN 278.0 million, -29.5%, PLN 323.1 million of which concerns direct business), credit and guarantee insurance (drop by PLN 100.0 million, -15.0%, PLN 96.0 million of which concerns direct business, as well as marine, aviation, and transport insurance (drop by PLN 63.9 million, -22.0%, PLN 53.7 million of which concerns direct business).

## Non-life insurance companies – share in gross written premium for 3 quarters of 2015 (%)



Capital groups: Allianz – Allianz, Euler Hermes; Ergo Hestia – Ergo Hestia, MTU; Talanx – Warta, Europa, HDI; VIG – Compensa, Benefia, Inter-Risk  
Source: PFSA Quarterly Bulletin. Insurance market 3/2015

The whole of the non-life insurance market in three quarters of 2015 generated a net profit of PLN 2.0 billion (drop by 34.2% compared with the same period of the previous year). Excluding the dividend from PZU Życie, the net profit of the non-life insurance market dropped by PLN 0.76 billion (-45.6%). The technical result of the non-life insurance market dropped by PLN 623.5 million, i.e. by 60.2% to the level of PLN 411.6 million. This change was affected to the greatest extent by the drop of the technical result in MTPL insurance (PLN -446.9 million) as a result of the ongoing pricing competition.

Low profitability in motor insurance in the three quarters of 2015 may be compared to the 2010 results.

The drop of the technical result in MTPL insurance resulted mainly from the lower earned premium (PLN -319.2 million, i.e. -5.8%) and higher claims and benefits (+PLN 88.8 million, i.e. +2.0%), while the drop of the result in the motor own damage group stemmed mainly from the higher amount of benefits and claims (+PLN 289.2 million, i.e. +11.4%) and costs of insurance activity (+PLN 45.5 million, i.e. +4.7%).

At the same time, there was a drop in profitability in the group of insurance for damage caused by forces of nature (PLN -65.2 million on direct business) and casco insurance for maritime and inland navigation (PLN -25.8 million on direct business).

The value of investments of non-life insurance companies at the end of the third quarter of 2015 (excluding subsidiary investments) was PLN 51.1 billion and rose by 1.0% from the end of 2014. The instruments issued or guaranteed by the State Treasury and local authorities composed 49.8% of the aforementioned investment portfolio.

Non-life insurance companies, on aggregate, estimated the value of net technical provisions at PLN 41.0 billion, which represented an increase of 2.9% compared with the end of 2014.

### Activities of PZU

Within PZU Group, activities on the non-life insurance market in Poland are conducted by the parent company in the Group, i.e. PZU. Furthermore, non-life products are offered by Link4 and, since November 2015, also by Polski Zakład Ubezpieczeń Wzajemnych (TUW PZUW).

Over the past years, PZU has been controlling approximately 1/3 of the non-life insurance market. After three quarters of 2015, PZU had a 31.2%<sup>1</sup> share in the non-life insurance market compared with 31.4% after three quarters of 2014.

PZU had a strong market position in motor insurance (with a share of 35.6%<sup>1</sup>). The share was 38.4%<sup>1</sup> for motor own damage insurance and 33.8%<sup>1</sup> for MTPL.

After the first three quarters of 2015, the share of PZU's technical result in the market's technical result was 110.2%, which, along with the market share of 31.2%, confirms the high profitability of PZU insurance.

PZU offers a wide range of non-life insurance products in all insurance groups. At the end of 2015, PZU's offer included over 200 insurance products. Motor insurance is the largest group of products offered by PZU, both in terms of the number of insurance contracts and gross written premium.

In the changing conditions and in the face of new demands and interests of the clients, PZU introduced new solutions to its insurance offer in 2015.

In the mass-client insurance:

- PZU Auto Ochrona Prawna (PAOP, PZU Car Legal Protection), under which PZU organizes or covers the costs of protection of the insured party and immediate family's legal interests. PAOP guarantees legal consulting, legal representation, coverage of court costs in cases associated with vehicle possession, including vehicle traffic and use.

<sup>1</sup> PZU share calculated with consideration of inward reinsurance of PZU towards Link4,

## Non-life insurance market - gross written premium (PLN million)

	1 January - 30 September 2015			1 January - 30 September 2014		
	PZU*	Market	Market without PZU	PZU	Market	Market without PZU
Motor own damage insurance	1,642	4,098	2,457	1,492	3,918	2,426
MTPL	2,320	6,169	3,849	1,979	6,088	4,109
Other products	2,663	9,786	7,123	2,684	9,576	6,892
<b>TOTAL</b>	<b>6,625</b>	<b>20,054</b>	<b>13,429</b>	<b>6,155</b>	<b>19,582</b>	<b>13,427</b>

Source: PFSA (www.knf.gov.pl). Quarterly Bulletin. Insurance Market 3/2015, Insurance Market 3/2014  
\*including Link4, which contributed to the Group's result from the moment of acquisition, i.e. 15 September 2014

## Non-life insurance market – technical result (PLN million)

	1 January - 30 September 2015			1 January - 30 September 2014		
	PZU*	Market	Market without PZU	PZU	Market	Market without PZU
Motor own damage insurance	18	(56)	(74)	164	253	88
MTPL	(157)	(597)	(439)	107	(150)	(257)
Other products	553	1,064	510	434	932	498
<b>TOTAL</b>	<b>414</b>	<b>412</b>	<b>(3)</b>	<b>706</b>	<b>1,035</b>	<b>329</b>

Source: PFSA (www.knf.gov.pl). Quarterly Bulletin. Insurance Market 3/2015, Insurance Market 3/2014  
\*including Link4, which contributed to the Group's result from the moment of acquisition, i.e. 15 September 2014



The insurance comes in two options: Komfort and Super (Comfort and Super);

- PZU Dom (PZU Home) home insurance was made more attractive by introducing additional Legal Protection insurance. Thanks to the new solution, clients received actual legal assistance for themselves and their relatives in the instances when the tenant refuses to pay the rent, the home improvement crew fails to meet the contract, the seller fails to deliver the goods ordered online, and many others. Just like the Auto product, the insurance comes in two options: Komfort and Super (Comfort and Super);

In the Corporate Client Division, 2015 was the first year to witness the operation of a new approach to sales and management, which is associated with the strategic project of transforming the corporate sales model. The implementation of the new solution is planned to translate into development of corporate business in the key areas.

A new product was introduced in the corporate client segment – guarantee of payment for shares purchased as a result of a squeeze-out – this offer is mainly for entities with a strong financial and market position. The first such guarantee covers PLN 700 million.

In the scope of financial insurance for corporate clients, PZU took part in large Polish modernization projects, including the ones in power engineering and infrastructure, by issuing security guarantees.

A platform was launched to handle financial liability insurance - PZU Gepard. The platform is designed for corporations and small and medium enterprises insuring financial liabilities at PZU.

PZU Group cooperated with 8 banks and 6 strategic partners in the scope of protective property insurance in 2015. The partners of PZU Group are the leaders in their fields and have customer bases with great potential to expand the offer with successive bancassurance and strategic partnership products:

- the cooperation in the scope of strategic partnerships concerned mainly the companies operating in telecommunications and energy, which were used to offer insurance of electronic equipment and assistance services;
- the sales of protective non-life insurance in the scope of the bancassurance channel covered mainly the insurance of buildings, structures, residences, and insurance dedicated for payment cards.

In 2015, PZU collected gross written premiums of PLN 8,858.0 million, which was 7.2% more than in the previous year. At the same time, its structure slightly changed:

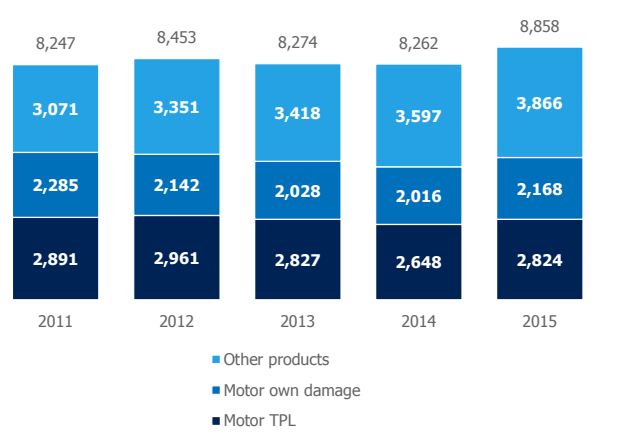
- value of MTPL insurance was PLN 2,824.4 million, which was 6.6% higher than in the previous year. It composed 31.9% of the entire portfolio, i.e. their share dropped by 0.2 p.p. from 2014. The higher sales resulted mainly from conclusion of new inward reinsurance agreements with PZU Group subordinates, including the ones newly acquired in the Baltic states and Link4;
- PZU collected PLN 2,167.7 million from motor own damage insurance premiums, which was 7.5% more than in the previous year. This represented 24.5% of the overall portfolio, i.e. its share remained at a similar level to that of the previous year.
- share of gross premiums from non-motor insurance in total premium increased to 43.6% (as compared with 43.5% in 2014). The written premium value rose by 7.5% year-on-year to PLN 3,865.9 million.

In 2015, PZU paid gross claims and benefits amounting to PLN 5 135.2 million, which was 16.0% more than in the previous year.

Furthermore, the comparability of year-on-year results is influenced by the recognition of the IBNR provision for compensation from pain and suffering for damages occurred before 2008.

In 2015, PZU generated a net profit of PLN 2,248.5 million, of which PLN 1,690.2 million related to the dividend from PZU Życie.

**PZU's gross written premium (PLN million)**



### Activities of Link4

In the scope of PZU Group's development strategy aimed at strengthening PZU's position in Poland and at international expansion, PZU signed the agreement for the acquisition of Link4 shares on 17 April 2014. This transaction was finalized on 15 September 2014, and the transaction was ultimately settled on 11 March 2015. As the purchaser, PZU paid the total price of EUR 91.8 million.

Link4 is the leader of the Polish direct insurance market and offers a wide range of non-life insurance, which covers motor insurance, property insurance, personal insurance, and TPL insurance.

Motor insurance is the most important group of products offered by Link4, both in terms of the number of binding insurance contracts and the premium share in the total gross written premiums.

In 2015, there were many changes made to the Link4 product offer, which were intended to adapt the offer to the changing market demands and trends. Link4 focuses on innovative solutions. Some of the 2015 initiatives are listed below:

- introduction of solutions promoting safe driving and ecodriving for individual clients and mini fleets. The company established cooperation with a provider of GPS navigation system in mobile phones and (during the promotional period) added a one-year license for a navigation system and section „Safe Driving with Link4”) to the purchased policy. The purpose of the project is to create the future potential for lowering policy prices because of safe driving;
- a new online insurance payment product was developed and will be tested in the first quarter of 2016. The company will realize this project with the innovative internet platform supporting online sales. For this purpose, the company created a new brand, Link4Pay;
- company also introduces graphic general insurance conditions for easier understanding. The document is available for download at [www.link4.pl](http://www.link4.pl).

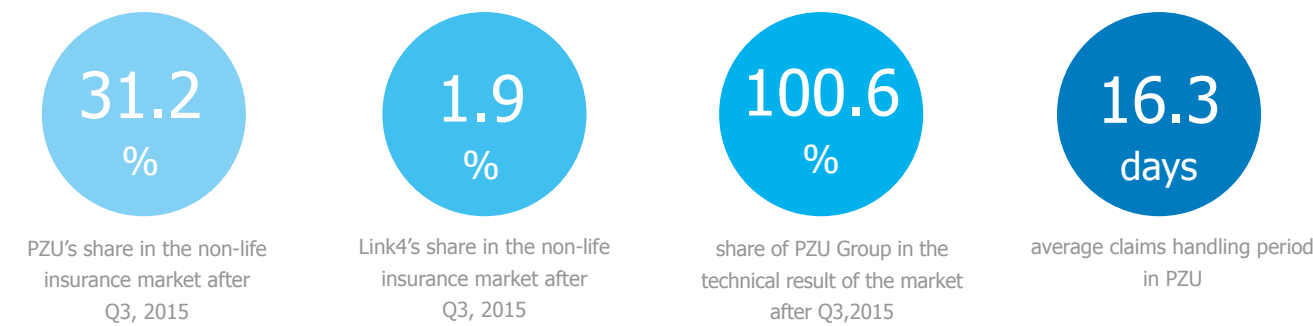
In 2015, the decision was made to discontinue sales of insurance offered to the corporate clients. Taking into consideration a much greater experience in quoting and the amount of regulatory capital, the insurance for corporate clients will be offered by the PZU Brand.

In 2015, Link4 collected gross written premiums of PLN 493.2 million, most of which concerned motor insurance, respectively:

- value of MTPL insurance was PLN 320.9 million, which constitutes 65.1% of the entire portfolio;
- value of the motor own damage insurance premium was PLN 95.8 million, which composes 19.4% of the entire insurance portfolio.

### Activities of TUW PZUW

On 30 November 2015, PFSA approved PZU's establishment of a Mutual Insurance Company under the name of Polski Zakład Ubezpieczeń Wzajemnych (TUW PZUW). The hospitals cooperating under the TUW model will be able to distribute the risk in the scope of mutual relations adapted to the specifics of a given group of medical entities, which will reduce the costs of insurance premium. As a founding member of TUW PZUW, PZU will provide hospitals - TUW participants



– support in active risk management and development of recommendations concerning reduction of suffered risk by means such as extended cooperation in the scope of Medical Risk Assessment (MRA).

## Factors, including risks and dangers, which will impact the activities in the non-life insurance sector in 2016

Apart from events of a catastrophic nature (such as floods, drought and spring frost), the main factors which can affect the situation of the non-life insurance sector in 2016 include:

- possible slowdown of economic growth in Poland resulting from deteriorating external conditions. In consequence, the worse financial standing of households can lead to a decline in sales of motor policies (as a result of lower new car sales), lower sales of mortgages and the related mortgage related insurance, as well as lower demand for other property insurance. The poorer financial standing of businesses can result in a growth in credit risk and an increase in the level of claims in the financial insurance portfolio.
- the reduction in the development of mortgage campaigns as a result of the introduced asset tax and stricter requirements of Recommendation S GLOSSARY on good practices regarding the management of credit exposures collateralized with mortgages;
- decisions of supreme courts in the scope of monetary compensation to the closest relative from the TPL insurance of owners of motor vehicles for damage resulting from the violation of his or her personal welfare even if the damage took place before 3 August 2008;
- potential raise of claims handling costs resulting from the implementation of further recommendations concerning claims handling by the PFSA;

- raise of spare parts prices with effect on claims handling costs resulting from the successive drop of PLN against the euro;
- implementation of the Solvency II requirements based on risk evaluation from January 2016 may change the operating model of selected areas of the insurance companies on the market (e.g. the tariff policy);
- further regulations or financial burdens imposed on insurers – e.g. a possible reinstatement of so-called “Religa tax” (i.e. compulsory fee payable to NFZ from every MTPL policy).

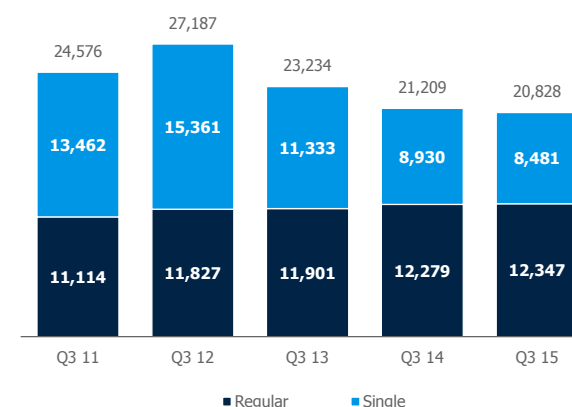
## 3.3 PZU Życie – activity in the life insurance market in Poland

### Market situation

After three quarters of 2015, the life insurance market in Poland measured by the gross written premium amounted to PLN 20.8 billion, which means that it has declined by an annual average of 2.2% over the past 5 years. The premium collected during three quarters of 2015 was simultaneously lower by 1.8% than in the corresponding period of the previous year, which is a continued decline after a series of increases, which ended in 2012.

It should be noted that the premium decline applied exclusively to the single premium (a decline of 5.0% year-on-year), mainly in the bancassurance channel. The dynamics for the corresponding period of 2014 were also negative at -21.2%.

## Gross written premium of life insurance companies in Poland (PLN million)



Źródło: KNF ([www.knf.gov.pl](http://www.knf.gov.pl)). Biuletyn Kwartalny. Rynek ubezpieczeń 3/2015, Rynek ubezpieczeń 3/2014, Rynek ubezpieczeń 3/2013, Rynek ubezpieczeń 3/2012, Rynek ubezpieczeń 3/2011.

The reasons of the lower single premiums in recent years include the current situation of the capital market and changes in the legal environment. The record low interest rates reduce the profitability of short-term endowment policies (polisolokaty) thereby generating greater interest in other investment products, i.e. the investment funds offered by TFI or the unit-linked insurance products. Additionally, a tax on revenue from short-term life and endowment policies with fixed rate of return or interest-based return was introduced on 1 January 2015, which reduced the client interest in such products.

The aforementioned changes contributed to the fact that the segment of unit-linked products holds the highest year-on-year growth dynamics, i.e. 8.5%.

Simultaneously, the share of the bancassurance channel in the gross written premium of life insurance companies is reducing quarter to quarter starting from 2013. In Q3 2015 it amounted to 38.1%<sup>2</sup> and decreased compared to the corresponding period in 2014.

The result of the changes taking place on the market is the rising prominence of the regular premium over the single premium, which is PZU Życie's competitive advantage on the market. Throughout three quarters of 2015 this premium was higher by 0.6% compared with the corresponding period of 2014.

The gradual increase in the attractiveness of employee pension programs (EPP) on the life insurance market is noticeable. Much like in previous years, the most common form of EPP were insurance programs. In 2014, they represented 66%<sup>3</sup> of all Employee Pension Programs. At the end of 2014, the value of assets gathered in all employee pension programs (irrespectively of the form) amounted to PLN 10.3 billion and rose by 9% in comparison with 2013. By the end of 2015, almost 2.4% Polish employees were covered by EPP.

The total technical result reached by life insurance companies in three quarters of 2015 was lower than in the corresponding period of 2014 by PLN 598.8 million (22%) and amounted to PLN 2,123.7 million. The weaker result is the effect of lower profitability in all groups, especially life insurance (Group I) – drop of PLN 350.0 million (-40.5%; resulting mainly from the lower investment activity result) and unit-linked life insurance (Group III) – drop in technical result by

<sup>2</sup> PIU data([www.piu.org.pl](http://www.piu.org.pl)), bancassurance market after Q3 2015

<sup>3</sup> Employee Pension Programs in 2014, Polish Financial Supervision Authority, June 2015

## Life insurance market – gross written premium (PLN millions)

	1 January - 30 September 2015			1 January - 30 September 2014		
	PZU Życie	Market	Market without PZU Życie	PZU Życie	Market	Market without PZU Życie
Regular premium	5,421	12,347	6,927	5,267	12,279	7,012
Single premium	649	8,481	7,832	910	8,930	8,021
<b>TOTAL</b>	<b>6,069</b>	<b>20,828</b>	<b>14,759</b>	<b>6,176</b>	<b>21,209</b>	<b>15,032</b>

Source: PFSA ([www.knf.gov.pl](http://www.knf.gov.pl)). Quarterly Bulletin. Insurance Market 3/2012, PZU Życie data

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

	1 January - 30 September 2015			1 January - 30 September 2014		
	PZU Życie	Market	Market without PZU Życie	PZU Życie	Market	Market without PZU Życie
Written premium	6,069	20,828	14,759	6,176	21,209	15,032
Technical result	1,311	2,124	813	1,610	2,723	1,112

Source: PFSA ([www.knf.gov.pl](http://www.knf.gov.pl)). Quarterly Bulletin. Insurance Market 3/2014, PZU Życie data

PLN 143.8 million (-29.8%; the effect of regulatory changes lowering the charges collected by insurance companies).

During this period, life insurance companies generated the net result of PLN 2,366.3 million, which constituted a year-on-year drop of 10.8% (PLN 285.8 million). This drop results mainly from the investment results of insurers, which were lower than in the corresponding period of 2014.

The value of investments of life insurance companies at the end of the third quarter of 2015 was PLN 42.4 billion and dropped by 1.7% from the end of 2014. At the same time, the high premium (which exceeded paid benefits) contributed to increasing the net assets of life insurance with investment risk falling onto the insurer (2.0% growth to PLN 55.1 billion).

PZU Życie’s activities

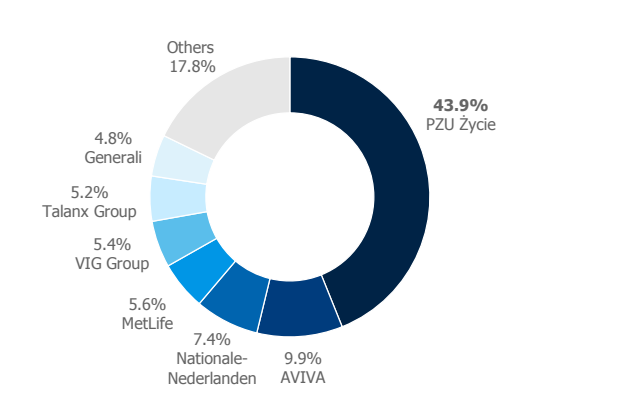
PZU Życie SA (PZU Życie) operates on the Polish life insurance market within PZU Group. The Company offers a wide range of life insurance products, including group and individual protection insurance, investment, insurance, and pension products.

PZU Życie collected 29.1% of the gross written premium of life insurance companies in three quarters of 2015 to retain last year’s market share. Simultaneously, PZU Życie continued to remain the decisive leader in the regular premium segment. During three quarters of 2015, it obtained 43.9% of such premiums of all insurance companies.

PZU Życie’s technical result constituted the majority of the result achieved by all life insurance companies. This is the evidence to the high profitability of the products offered. PZU Życie’s technical result margin was almost four times higher than

the margin achieved by all the other companies offering life insurance together (21.6% compared with 5.5%).

Life insurance companies — share in gross written premium for 3 quarters of 2015 (%)



Capital groups: Talanx - Warta, Europa, Open Life; VIG - Compensa Życie, Polisa Życie, Skandia Życie, Benefia (merged with Compensa Życie on 30 September 2014); Aviva - Aviva TUnŻ, BZ WBK-Aviva TUnŻ

Source: PFSA Quarterly Bulletin. Insurance market 3/2015

In 2015, besides being adapted to new legal regulations, the product offer of PZU Życie was expanded with innovative solutions designed to make it more attractive. The 2015 changes in the PZU Życie product offer include the following:

- implementation of new regular premium insurance „PZU Cel na Przyszłość”. This product is meant for clients who either have or are planning to establish an investment objective for a long period, over which they would like to gather a specific amount. The investment objectives may include extra funds for future retirement, building a house, educating children, paying off a mortgage early, etc.;
- introduction of a new version of additional insurance with the Pharmacy Card to group protection insurance and

individual continued insurance. The product change is related with the expansion of the previous non-cash model with the cash option of the Pharmacy Card, which allows the benefits to be realized at all pharmacies;

- introduction of modified group life insurance Pogodna Przyszłość. This is a new version of PZU’s offer for clients interested in employee pension programs (EPP). The main modification is the change of the investment platform; the previous equity of PZU Życie with weekly valuation have been replaced with funds from the PZU TFI offer with daily valuation. The individual program includes 6 funds with a broad investment range and the recommended program includes 4 funds.

Furthermore, there were numerous changes made to the health care product offer, including new technological solutions, some of which are presented below:

- expansion of the offer with additional „Cztery Pory Roku” (Four Seasons) insurance in individually continued insurance. The insurance includes a guarantee for co-funding of immediate medication and antibiotics. The product is available nationwide at all pharmacies and only requires a prescription. The co-funding is in non-cash format in roughly 1/3 Polish pharmacies;
- implementation of the „Z miłości do zdrowia” (Out of love for health) additional insurance, which includes coordination of treatment progress for people recuperating from heart attacks and strokes or battling tumors. Besides medical consultations, rehabilitation, and diagnostics, the product covers psychological support and a personal assistant to lead the insured party through the treatment process. The product has the advantage of offering preventive examinations, to which the insured party will be subject throughout the effectiveness of the insurance agreement;

- telemedicine (introduced as a pilot program in 2016) – remote cardiologic care providing for unassisted home ECG examination and subsequent consultation of the results with a physician. This is a 24-hour service;
- expanding the network of health care centers for medical insurance clients to 1,580 in 500 cities.

Furthermore, there were 10 Świat Zysków (World of Profits) subscriptions, which were very popular among structured insurance clients. Individual subscriptions offered diverse investment strategies, which adapted to the changing market conditions. Besides the payout of the guaranteed capital, certain closed subscriptions concluded with a payout of the profit (the greatest profit was paid to the clients of 25 subscriptions and constituted 33.33%).

In 2015, the bank channel saw continuation of cooperation with current distributors. The high sales of the Multicurrency Investment Program unit-linked single premium product, which was offered through Bank Millennium SA, were a success and were sustained especially in the first half of last year.

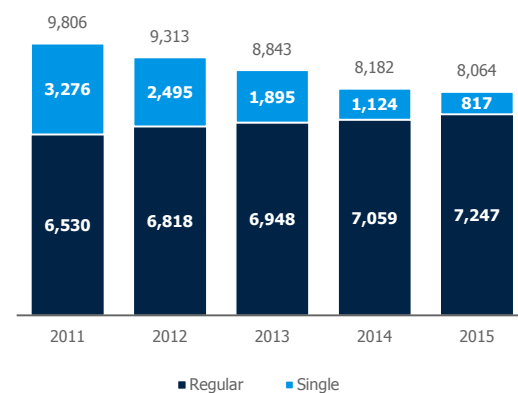
In 2015, in accordance with Polish Accounting Standards, PZU Życie collected gross written premiums of PLN 8,064.0 million, which was 1.4% less than in the previous year. The vast majority of the Company’s premium was from regular premium products. It represented 89.9% of the gross written premiums (as opposed to 86.3% in the previous year). It primarily included the written premium from group insurance and individually continued insurance, which had approximately 12 million customers in Poland.

In 2015, PZU Życie settled claims and benefits at the amount of PLN 6,294.8 million, which was 3.6% less than in the previous year.



In 2015, PZU Życie generated a net profit of PLN 1,677.1 million in accordance with the Polish Accounting Standards.

## Gross written premium PZU Życie (PLN million)



## Factors, including risks and dangers, which will impact the activities in the life insurance sector in 2016

The situation on the life insurance market in 2016 will primarily be affected by:

- low interest rates, which in longer period reduce the profitability of investments made from premiums collected;
- lower interest in investment products – outflow of capital to alternative investment forms other than insurance policies;
- economic climate on the capital markets which is difficult to predict and which determines the attractiveness of unit-linked insurance products;
- guidance in the scope of insurance distribution released by the PFSA and included in the Act on Insurance Activity GLOSSARY, which affect both the product structure and the entire insurance agency sector;

- UOKiK [OCCP, the Office of Competition and Consumer Protection] rulings in the scope of unit-linked products;
- implementation of the Solvency II requirements based on risk evaluation from January 2016 may change the operating model of selected areas of the insurance companies on the market (e.g. the tariff policy).

## 3.4 PTE PZU – activities in the pension funds market

### Market situation

At the end of 2015, the net assets of open pension funds were at the level of PLN 140.5 billion and dropped by 5.7% with respect to the end of the previous year.

### Activities of PTE PZU

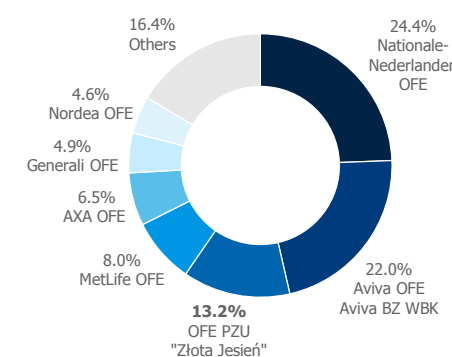
OFE PZU Złota Jesień (Open Pension Fund, OPF), which is managed by PTE PZU SA (PTE PZU), is one of the largest players on the pension funds market in Poland. At the end of 2015, OFE PZU was the third largest pension fund, both in terms of the number of members, as well as in terms of net asset value:

- the Fund had 2,208.4 thousand members, i.e. 13.4% of all participants of open pension funds;
- net assets were at the level of PLN 18.5 billion, or, in other words, they represented 13.2% of the total value of assets of the open pension funds operating in Poland.

The Social Insurance Institution (ZUS) transferred PLN 295.7 million in premiums to OFE PZU in 2015, which was 70.2% less than in the previous year. The premium level dropped mainly due to introduction of premiums voluntary payment to open pension funds resulting from the changes introduced in 2014 (the Act as of 6 December 2013 amending

certain other acts concerning the purpose of defining the principles of pension payouts from funds gathered in open pension funds). At the end of 2015, Dobrowolny Fundusz Emerytalny PZU (PZU Voluntary Pension Fund) held 56.8 thousand IKZE accounts, which held assets worth PLN 14.3 million. As a result, it maintained its position as one of the leaders in the voluntary pension funds segment. The 2015 rate of return was 9.1%.

## Open Pension Funds – share in assets as at 31.12.2015 (%)



Source: PFSA, Monthly data on OPF market, December 2015

## Factors, including risks and dangers, which will impact the activities of pension funds in 2016

The main challenges for the pension funds market in 2016 are:

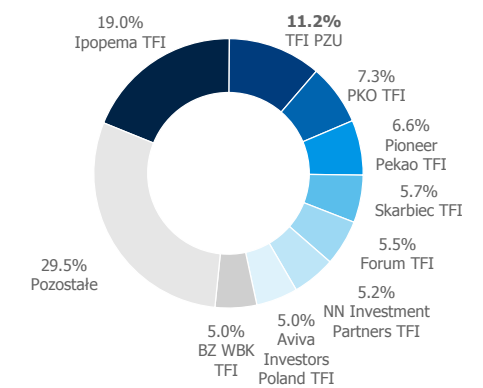
- reform of the pension system in Poland and the outflow of funds from OPFs;
- so-called transfer window, which is the period between 1 April and 31 July 2016 open to filing of declarations concerning the continuation of premium payment to ZUS or payment to OPFs and ZUS;
- economic climate on the capital market and, in particular on the WSE, affecting the value of the assets of open pension funds and the level of management fees collected by PTEs.

## 3.5 TFI PZU – activity on the investment fund market

### Market situation

At the end of 2015, the funds managed by domestic investment funds rose by almost +20.6%. At the end of 2015,

## Fund management companies – share in assets a at 31.12.2015 (%)



Source: Chamber of Fund and Asset Management

the assets for the entire investment fund market amounted to PLN 252.2 billion in comparison with PLN 209.0 billion at the end of the previous year.

In 2015, the balance of public and non-public sales of solutions offered by TFI on the domestic market amounted to almost PLN 37.9 billion (according to the estimates of Analizy Online [Online Analyses]). The fast growth of the market during the recent year was largely influenced by the inflow of assets into non-public investment funds.

Taking into account the share of the market available to a broader range of recipients, domestic investors in 2015 were most likely to invest in stock funds as well as absolute rate of return funds.

As a result of the trends described above, the Polish investment fund market has experienced a change in the structure of assets. Non-public asset, capital protection, and absolute rate of return funds are amongst the ones which have recorded the greatest growth dynamics.

### Activities of TFI PZU

The operations on the investment fund market in scope of PZU Group are carried out by Investment Fund Association PZU SA (TFI PZU). It offers products and services to both mass market and institutional customers, including additional investment/ savings programs within pillar III of the social insurance system, including Individual Pension Account (IKE), Specialized investment programs, Employee Pension Programs (EPP) and Corporate Investment Programs (ZPI).

140.5  
PLN billion

net asset value of open-ended pension funds at the end of 2015

16.5mln  
members

of open-ended pension funds at the end of 2015

252.2  
PLN billion

net assets value of mutual funds at the end of 2015

37.9  
PLN billion

net inflow to domestic mutual funds in 2015

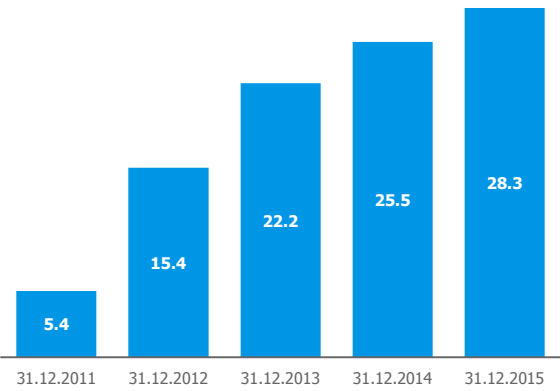


# Activity of PZU Group

At the end of 2015, TFI PZU had 25 funds and sub-funds in its portfolio, of which 19 were also offered to clients from outside PZU Group.

As of the end of December 2015, TFI PZU gathered net assets valued at PLN 28,303.3 million, 10.8% more than at the end of 2014. This makes TFI PZU one of the biggest Investment Funds in Poland, in second place at the end of the year according to the joint report of Analizy Online and IZFiA. TFI PZU is also the leader in the segment of employee pension programs among all institutions operating on this market (not only investment funds), accumulating assets worth more than PLN 3.2 billion at the end of last year.

TFI PZU net assets (PLN billion)



Source: Analizy Online

In 2015, TFI PZU's assets grew primarily due to:

- active sales of funds and sub-funds;
- further development of the distribution network;
- introduction of new Employee Pension Programs;
- investment results generated by the fund managers.

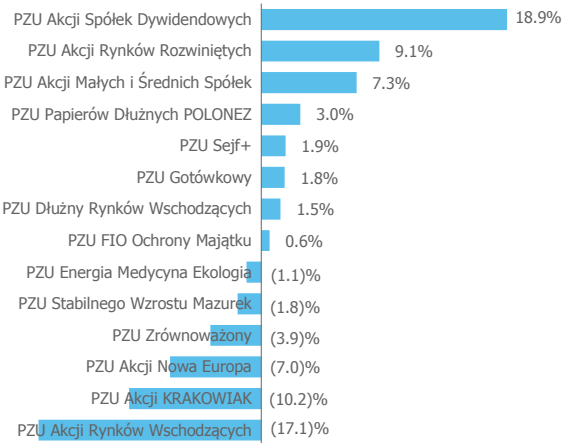
## Factors, including risks and dangers, which will impact the activities of investment funds in 2016

The condition and results of the investment fund market will primarily depend on:

- operations of central banks;
- economic climate on capital markets (including the prices of raw materials);
- attractiveness of traditional bank deposits and profitability of instruments.

- establishing a model for offsetting among the funds on the Polish market.

## Rates of return of TFI PZU investment funds in 2015 (%)



Source: Analizy Online

## 3.6 Foreign activity

### Lithuanian market

According to the Bank of Lithuania, the value of gross written premium gathered by non-life insurance companies amounted to EUR 409.1 million and was 6.0% higher than in the previous year.

The market dynamics were generated mostly by non-life insurance (composing 20.6% of the market) with written premium growth to 12.4%. Motor insurance, which dominated the premium structure (56.6% market share) also recorded aggregated growth. Motor own damage insurance grew by 8.7% and MTPL insurance grew by 0.5%. The premium growth in motor own damage insurance resulted from both the greater number of policies and the price rise, which followed the price war.

Ten companies were operating in the non-life insurance sector at the end of 2015 (including 10 branches of insurance companies registered in other European states). The largest insurance company in Lithuania in terms of total gross written premiums from non-life insurance remains Lietuvos Draudimas. The 2015 market share of this company was 31.1%. BTA was second with a 13.3% market share and PZU

Lithuania was third (12.8% market share). However, PZU Lithuania and Gjensidige hold the combined 19.4% market share, which puts the Gjensidige Group in second place on the non-life insurance market.

The 2015 gross written premium recorded by Lithuanian life insurance companies amounted to EUR 236.0 million, 9.7% higher than in the previous year. Regular (18.5%) and single premium (7.9%) products both presented positive dynamics.

The structure of life insurance was dominated by unit-linked insurance representing 72.1% of the premiums. Traditional life insurance accounted for 20.9% of the written premium.

At the end of 2015, 8 companies were active in the life insurance sector. The Lithuanian life insurance market is highly concentrated. At the end of December 2015, the share of total gross written premiums of the three largest life insurance companies amounted to 62.3%.

### Latvian market

At the end of the third quarter of 2015, the Latvian non-life insurance market gathered the written premium of EUR 195.7 million, up by roughly EUR 15 million from the corresponding period of the previous year.

Considering the product structure, the highest market share was held by motor own damage insurance (25.3%) and MTPL insurance (21.2%), as well as property (19.1%) and health (18.9%) insurance. Health insurances present high dynamics – in comparison with the three quarters of last year, the written premium rose by over 14%.

In 2015, 15 insurance companies were operating on domestic non-life insurance market and the 4 biggest ones held the approximate share of 65.3%.

### Estonian market

In 2015, the non-life insurance companies and branches of foreign companies of this insurance sector operating in Estonia recorded a 6.7% growth of the gross written premium from the previous year and gathered the total premium in amount of EUR 278.8 million, EUR 62.0 million or 22.2% of which were acquired by the branches of foreign insurance companies operating in Estonia.

The 2015 structure of non-life insurance was dominated by motor insurance, which accounted for 60.7%, whereby the share of motor own damage insurance held 35.3% and property insurance held 26.3% of the market share.

Nine companies were operating in the non-life insurance sector at the end of 2015 (including 3 branches of foreign insurance companies), 5 of which held the share of 82.6%.

### Activities of PZU companies in the Baltic states

From November 2014, PZU Group has been operating on the Lithuanian non-life insurance market through Lietuvos Draudimas, which from May 2015 is the owner of PZU Estonia. The acquisition of Lietuvos Draudimas was conditioned by the sale of PZU Lithuania – the disinvestment took place on 30 September 2015.

Lietuvos Draudimas is the leader of Lithuanian non-life insurance with market share of 31.1%. In 2015, it recorded a growth of the gross written premium by 6.8% compared with the previous year and reached the level of EUR 127.2 million. The greatest growth was recorded in motor (6.9%) and property (5.6%) insurance.

The life insurance activity in Lithuania is carried out by UAB PZU Lietuva Gyvybės Draudimas – “PZU Lithuania Life”. Written premium amounted to EUR 10.3 million, a 16.0% growth from the previous year. The greatest sales growth was recorded endowment insurance, which rose by 22.5% from 2014, and unit-linked insurance (growth by 7.9%).

The share of PZU Lithuania Life in the life insurance market was 4.4% (up from 4.1% in 2014).

In Latvia, PZU Group conducts business through AAS Balta – the dominating entity on the market – which entered the Group in June 2014 and, subsequently, acquired the PZU Lithuania branch operating on the Latvian market since 2012 (in May 2015). At the end of the third quarter of 2015, the share of both entities in the non-life insurance market in three quarters was 25.1% and the 2015 total gross written premium of both entities was EUR 67.1million.

From May 2015, the entity conducting business in Estonia is a branch of Lietuvos Draudimas and was established through the merger of two entities – the branch of PZU Lithuania, registered in 2012, and the Estonian branch, acquired in 2014,

which was operating under the Codan brand. The share in the Estonian non-life insurance market was 13.8%. The acquired written premium was EUR 38.6 million.

## Ukrainian market

In 2015, the Ukrainian insurance market recorded growth. The gross written premiums on the non-life insurance market in three quarters of 2015 was UAH 20.2 billion and was higher by 29.7% than in the corresponding period of the previous year. This growth resulted mainly from the raise of insurance sums, which resulted from the devaluation of the local currency and rising inflation, as well as the statutory raise of compulsory insurance rates. Motor insurance, which hold a 28.2% share in the non-life insurance market, recorded increase in premium of 21.8%, including the growth of the Green Card product by 76.4%.

Life insurance companies collected UAH 1.5 billion gross written premiums in three quarters of 2015, slightly up (by 0.2%) from three quarters of the previous year.

On one hand, the Ukrainian insurance market is fragmented, as it was composed of 368 insurance companies as at September 2015 (of which 50 were providing life insurance). On the other hand, the TOP 100 non-life insurance companies generated 96.3% of the entire market's gross written premium and the TOP 20 life insurance companies generated 98.9% of the written premium.

In 2015, much like in the previous year, the Ukrainian insurance market experienced difficult conditions associated with the state's weakened economy, the armed conflict in the east, devaluation processes, decline of the bank system liquidity, and low client activeness. The market continued to present a high level of acquisition expenses, problems with preservation of current liquidity of some insurance companies and reduced confidence among natural persons. The aforementioned events resulted in client reorientation towards companies with western capital share, a process started in 2014 – if the previous key factor in choosing an insurer was the price, the current one is credibility and solvency.

PZU Group conducts its insurance business on the Ukrainian market through two companies: PZU Ukraine (in terms of non-life insurance) – “PZU Ukraine” and PrJSC IC PZU Ukraine Life (life insurance) – “PZU Ukraine Life”. In addition, LLC SOS Services Ukraine performs assistance functions.

In 2015, the total gross value of PZU Group's gross written premiums in non-life insurance in the Ukraine amounted to UAH 798.9 million, i.e. it was 58.5% higher than in the previous year. This increase arose from both the growth in the premium obtained through external entities (banks and travel agencies) and through its own distribution channels. Motor insurance, Green Card insurance, tourism insurance, and corporate property insurance played a particularly important role in the growth in written premiums.

During three quarters of 2015, PZU Ukraine had obtained 2.7% (growth of 0.5 p.p. in relation to three quarters of 2014) of the gross written premium on the Ukrainian non-life insurance sector, which gave it seventh place on the market. Meanwhile, the leader's share was 5.3%.

The written premium collected by PZU Ukraine Life in 2015 amounted to UAH 177.8 million and was 15.2% higher than in 2014. This growth was achieved primarily in the bancassurance and brokerage channel, mainly thanks to sales of life and endowment insurance.

On the life insurance market, PZU Ukraine Life held fourth place after three quarters of 2015, with a market share of 8.6% (1.3 p.p. growth in comparison with the previous year). The leader's share was 18.6%.

It should also be noted that the written premium in the functional currency for both companies was lower than last year under the conditions of strong currency depreciation. In 2015, the premium of PZU Group in Ukraine was PLN 168.2 million, down by 3.1% from the previous year.

Due to the uncertain political and economic situations in the country, the management boards of PZU Ukraine and PZU Ukraine Life decided to take the following risk reduction measures:

- outside of standard exceptions (war, terrorism, etc.) insurance activity does not cover illegal actions of third parties. Furthermore, conclusion and extension of non-life insurance for natural persons and legal entities, including mortgaged property where the insurance falls within the territory of the Donetsk and Luhansk regions, is temporarily suspended; the same applies to shipping and carrier liability insurance if the transport route runs through the aforementioned regions;

- regional branches in Crimea and the Donetsk and Luhansk regions were closed;
- some of the financial assets were transferred to selected banks operating in Ukraine. The selected banks had to have a dominating foreign shareholder and state-owned banks had to meet the criteria presented in the internal regulations of PZU Group.

The Management Board of PZU monitors the situation in Ukraine in cooperation with the management boards of the Ukrainian companies. Controlling mechanisms and scenarios of reaction to market changes have been prepared. PZU has no intention of withdrawing from the Ukrainian market. As at the signing date of this activity report, the Management Board of PZU assumes that the companies will continue to operate according to the accepted premises. Nevertheless, the current economic instability in Ukraine may have negative consequences on the financial situation and results of the Ukrainian companies in a way which cannot be predicted with credibility at this time.

## 3.7 PZU Zdrowie – activity on the health care market

### Health in PZU

In 2014, PZU Group made the decision to expand its medical services and health insurance. The expansion included establishment of PZU Zdrowie to serve as the platform integrating acquired medical services companies and managing health subscribers

PZU Zdrowie was set up from the transformation of Ipsilon Bis SA, which had no previous record of operations.

The chain of PZU Group's medical centers offers the following:

- medical services for the local population of Płock, Włocławek, cities of Upper Silesia, as well as Opole and Warsaw, and - as of February 2016 – also Poznań, in scope of NFZ contracts covering general health care and ambulatory special care;
- services in scope of additional health care packages for corporate and individual customers in Płock, Włocławek, cities of Upper Silesia, Opole, Warsaw, and, as of February 2016, Poznań;
- medical services for holders of medical insurance at PZU Życie and commercial patients.

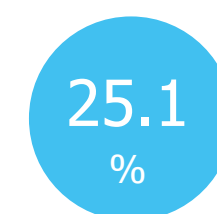
### Mergers of PZU Group's entities in the medical services field

Due to the building of the health care center and health insurance networks, PZU Group was expanded by the following companies in 2015 and until the release of this report:

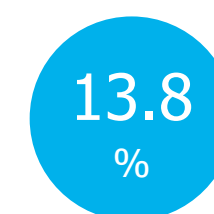
- **REZO-MEDICA** (100% shares, from 23 April 2015) – offering magnetic resonance services in Płock;
- **CM Gamma** (“Centrum Medyczne Gamma sp. z o.o.” – 60.46% shares), one of the most innovative private hospitals specializing in orthopedics in Poland.
- On 29 July 2015, PZU FIZ AN BIS 2, an investment fund managed by PZU TFI, acquired 29,278 Gamma shares constituting 54.95% of share capital.
- On 25 November 2015, a resolution was passed to raise the Gamma share capital by issuing 7,423 shares with nominal value of PLN 50 per share. All shares were acquired by PZU FIZ AN BIS 2 and the capital raise was registered on 2 December 2015. Resulting from the issue, the share of PZU Group in the CM Gamma share capital and shareholder votes rose to 60.46%.



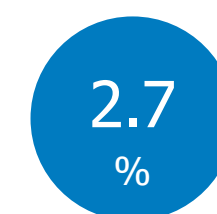
share of Lietuvos Draudimas in gross written premium of the non-life market in Lithuania



share of AAS Balta in gross written premium of the non-life market in Latvia after Q3, 2015



share PZU in gross written premium of the non-life market in Estonia



share of PZU Ukraina in gross written premium of the non-life market in Ukraine after Q3, 2015

- On 29 December 2015, PZU Zdrowie acquired CM Gamma.
- Nasze Zdrowie** (100% shares, from 26 August 2015) – operates on the Warsaw market of medical services in range of ambulatory health care (both basic and specialized);
- Medicus w Opolu** (100% shares, from 22 September 2015) – provides both basic and specialized ambulatory health care services;
- CM Cordis** (100% shares, from 1 February 2016) – provides specialized services for patients in Poznań.

The total cost of purchase of the aforementioned companies was PLN 27.6 million in 2015 and the goodwill recognized in the consolidated financial statements amounted to PLN 20.1 million.

## 3.8 Alior Bank – banking activity

### Purchase of Alior Bank shares and recognition in the consolidated financial statements of PZU Group

According to the preliminary share purchase agreement covering the sale of Alior Bank SA ("Alior Bank") shares from Alior Lux S.à.r.l. & Co. S.C.A and Alior Polska sp. z o.o., which was signed on 30 May 2015, PZU acquired 18,318,473 shares of Alior Bank constituting roughly 25.19% of the bank's share capital in three tranches for the total price of PLN 1,634.9 million (PLN 89.25 per share). The transaction depended on conditions precedent, including no objection from PFSA, approval of OCCP, and approval of the Ukrainian anti-monopoly office.

On 6 October, PFSA did not submit an objection and thus all of the conditions precedent were fulfilled.

PZU paid the following for specific tranches:

- I tranche 7,244,900 shares (9.96%) for total amount of PLN 646.6 million – 12 October 2015;
- II tranche 7,244,900 shares (9.96%) for total amount of PLN 646.6 million – 18 December 2015;
- III tranche 3,828,673 shares (5.27%) for total amount of PLN 341.7 million – 11 March 2016.

Between 12 October 2015 and 18 December 2015, Alior Bank was considered as an associated entity.

PZU Group has been in control from the acquisition of the second tranche. Consequentially, Alior Bank was subject to consolidation. A makeshift settlement of the acquisition was performed for the end of 2015 based on the data prepared for 31 December 2015. There were no considerable differences in the accounting data between 18 December 2015 (first day following the acquisition of control) and 31 December 2015. In 2015 only assets and liabilities of Alior Bank were consolidated.

Simultaneously, the obligations resulting from the acquisition of the third tranche of 3,828,673 shares for the total amount of PLN 341.7 million were recognized.

### Market situation

As at the end of 2015, there were 38 domestic banks, 561 cooperative banks, and 27 branches of credit intuitions operating on the Polish market. On 2015, similarly to the previous years, banking network diminished (by 3.8% to 14,496 locations) and the employment level dropped (by 1.0%).

Between January and December 2015, the banking sector generated a net profit of PLN 11.5 billion (a drop by 27.6% year-on-year.) The net result in the banking sector was mainly influenced by the following events: decrease in interest result by 4.8% (as a result of lowering interest rates by the Monetary Policy Council) and the result from fees and commissions by 3.3%. Moreover, this drop resulted from a higher employees costs and a growth in general management costs due to increased fees payable by the banks to the Bank Guarantee Fund.

The value of assets of the banking sector as at the end of 2015 reached PLN 1,599.9 billion and was 4.4% higher than at the end of 2014. The main areas of improvement was a growth in credits for enterprises (+8.8% year-on-year) and household receivables (+6.7% year-on-year). Despite low interest rates, the deposits in the non-financial sector increased at the end of December 2015 by 9.9% year-on-year to the amount of PLN 938.8 billion.

The value of own funds in the banking sector for capital ratios reached PLN 149.2 billion as at the end of September 2015 and reached by 7.4% year-on-year. The growth was related to a decision of a considerable number of banks to retain 2014 profits as a result of resigning from and discontinuation of dividend payment.

Total capital ratio of the banking sector reached 15.6% at the end of September 2015 (a growth by 0.6 p.p. compared to the end of September 2014), and the core capital ratio, Tier I, amounted to 14.3% at the end of the above-mentioned period (an increase by 0.5 p.p. compared to the end of September 2014).

### Activity of Alior Bank

Alior Bank is a universal bank that is recognizable for its state-of-the-art solutions and a wide product offer. In 2015, Alior Bank Group generated PLN 309,0 million in net profit per shareholders of the parent entity and reached ROE of 9.5%.

The above financial result was reached regardless of a number factors that adversely affected operations of the bank, including: incurring costs related with the bankruptcy of Spółdzielczy Bank Rzemiosła i Rolnictwa (Cooperative Bank for Craftsmanship and Agriculture) in Wołomin, making a payment towards the Borrowers' Support Fund, higher fees payable to the Bank Guarantee Fund, higher interchange fee on card

transactions, or operating in the environment where very low interest rates prevailed.

The main sources of revenues at Alior Bank Group include net interest result which reached PLN 1,501.0 million – thanks to a dynamic growth in credits by means of applying an effective pricing policy and as a result of merger with Meritum Bank.

The cost/income ratio amounted to 51.1%, but it would have reached 48.1% if the costs incurred as a result of the bankruptcy of Spółdzielczy Bank Rzemiosła i Rolnictwa (Cooperative Bank for Craftsmanship and Agriculture) in Wołomin and the payment towards the Borrowers' Support Fund had been excluded.

At the same time, in 2015 operational merger with Meritum Bank took place four months after the legal merger, which evidences to the level of competence and experience of Alior Bank staff.

### Factors, including risks and dangers, which will impact the activities of Alior Bank in 2016

The situation in the banking sector in 2016 will primarily be affected by:

- new tax burden applicable as of 1 January 2016 resulting from the tax on certain financial institutions REGULATIONS ON THE INSURANCE MARKET CHAPTER 2.4;
- increasing by the PFSA minimum capital requirements to 10.25% in the core capital ratio Tier I and to 13.25% in the total capital ratio as of 1 January 2016, from the previously applicable levels of 9.00% and 12.00% respectively;
- operating in the environment where very low interest rates prevail, which creates pressure on the level of generated net interest margin;
- macroeconomic situation in the Polish economy – increase in the Gross Domestic Products, as well as the employment and salary level, accompanied by historically low interest rates and low prices of energy materials, positively affects the level of generated volume of credits and quality of credit portfolio.

## 3.9 Other areas of activity

### PZU Pomoc

### Health care market



100  
PLN  
billion

### The chain of the cooperating with PZU Group's health care centres in Poland



1,580

PZU Pomoc SA (PZU Pomoc) is an ancillary company for PZU Group's subsidiaries established to provide assistance services to clients in scope of claims handling.

At the end of 2015, the company held the leading position on the market of intermediation in the sale of damaged vehicles through an online auction platform.

With the start of May 2015, the company's operations were divided and organized in scope of two fields, Assistance and Health. Resulting from the division, which saw the separation of the organized segment of the enterprise, Health was moved to PZU Zdrowie on 2 November 2015.

PZU Pomoc holds 30% of the shares in GSU Pomoc Górniczy Klub Ubezpieczonych [GSU Mining Assistance Insured Club]. Discount, incentive and loyalty programs addressed to the mining industry are being developed within this entity.

## PZU CO

PZU CO established to provide an ancillary services for PZU Group's subsidiaries in the following areas: printing, IT, Data Center, Contact Center, insurance and pension fund assistance, permanent intermediation in the conclusion of insurance contracts, financial and investment contracts, and assistance agreements.

## PZU Finance AB

PZU Group's operations on the debt market are realized through PZU Finance AB in Stockholm (Sweden). The Company was established in 2014 and is a 100% subsidiary of PZU. Its main operating field is collection of funds through issuance of bonds or other debt instruments and providing financing for the companies within PZU Group.

On 16 October 2015, PZU Finance AB issued five-year eurobonds in the amount of EUR 350 million. These bonds were assimilated and together with eurobonds at value of PLN 500 million issued by PZU Finance AB (publ.) on 3 July 2014, they constitute one series, a so-called tap issue. DEBT FINANCING CHAPTER 8.3.

## PZU Finanse

PZU Finanse Sp. z o.o. is a service provider established to keep accounting records for PZU Group's subsidiaries (with exception of PZU and PZU Życie).

## Ogrodowa-Inwestycje

Ogrodowa-Inwestycje Sp. z o.o. (Ogrodowa-Inwestycje) is the owner of the City-Gate office building (Ogrodowa 58, Warsaw) and rents office space to external clients and companies of PZU Group.

## Grupa Armatura

PZU Group has held an equity stake in Armatura Kraków SA (Armatura Kraków) since October 1999. At this time, 100% of the shares of Armatura Kraków are owned by the PZU FIZ AN BIS 2 investment fund.

Armatura Kraków is the parent entity in the Armatura Group. The Armatura Group includes: Armatura Kraków SA, Armatoora SA, Aquaform SA, Aquaform Bauprodukte, Aquaform Ukraine, Aquaform Romania, Morehome.pl, Armatura Tower (joint-venture). The Armatura Group conducts its business outside the area of financial and insurance services. It is a leading manufacturer in the plumbing and heating sector in Poland. The entities composing Armatura Group specialize in manufacturing of bathroom and kitchen taps, aluminum central heating radiators, a wide range of valves, and sanitary ware.

On 15 January 2015, Armatura Kraków acquired control of Aquaform SA Group (indirectly also acquiring Aquaform Bauprodukte, Aquaform Ukraine, Aquaform Romania, Morehome.pl), a manufacturer of shower cabins, bath tubs and bathroom furniture, for PLN 25.9 million (provisional settlement, because the price depends on the sales value acquired by Aquaform SA on selected foreign markets in the years 2015–2017).

On 29 June 2015, Armatura Kraków sold Arm Property Sp. z o.o. to PZU FIZAN BIS 2 and thus ended the restructuring of Armatura Kraków Group's non-productive assets.





## Business strategy

PZU Group develops and evolves along with the world around it. At the very heart of its process of creating value, the Group continues to focus on the clients' needs and expectations. The strategic operations respond to the existing and forecasted market challenges to reflect the strive for a stronger competitive position, basing on the 3 Areas of Activity (Insurance, Investments, Health Care), achieve above-average financial results, and respond to the expectation of the Group's interested parties.

## New values For genuine masterful experts

### NEW STRATEGY MEANS NEW VALUES:

We are Effective  
We are Fair  
We are Innovative

This approach will enable us to pursue  
our new strategy with masterful execution.

☎ 801 102 102 [pzu.pl](http://pzu.pl)



### Contents:

1. Key development directions of PZU Group in the years 2016–2020.
2. Realization of key projects and initiatives in 2015.

4.1 Key development directions of PZU Group in the years 2016–2020.

Dynamically changing business and legal environment forces the Group to strike a balance between pursuing previously determined strategic operations and searching for innovative solutions by means of thorough data analysis and skillful experimentation.

Development directions of PZU Group in the years 2016-2020:

- Staying client-centric – We are here to ensure our Clients’ peace of mind and security. Our Clients can always rely on us. The Group’s mission in practice translates into transforming PZU from a product-centered organization into a company that focuses on the clients’ needs;
- Strengthening the position of a leader at the insurance market in Poland;
- Retail Client Area – maintaining the market leadership by using the comprehensive offer that fits the needs of relevant client segments and the strategy of two brands (PZU and Link4);
- Corporate Client Area:
- (in non-life insurance) strengthening the position of a market leader, especially in Mid-Corpo client segment, and achieving the status of a business partner with strong expertise that provides not only insurance products, but also guidelines and support to the clients at every stage of risk management process;
- (in life insurance) maintaining the position of market leader along with high profitability, irrespective of strong competition pressure;
- Foreign operations:
- Dynamic increase in contribution of GWP from foreign countries;

- Focus on profitability and achieving high return on investments.
- Development of auxiliary insurance offer by introducing the following:
  - customer asset management;
  - medical insurance;

The insurance sector undergoes numerous changes and transformations, which result in the insurers focusing on client’s needs. The important direction of changes consists in creating products whose terms of conditions are simple and transparent and that the clients can easily compare. Competing under demanding market conditions forces the insurers to endlessly strive to expand and improve through

optimizing the applied business models and extensive application of the analytical tools that use Big Data.

Further development of PZU Group will progress under conditions determined by the following main trends and factors:

- Low interest rates
- In the next few years, PZU Group will operate in the environment where low interest rate will prevail. The forecasts concerning inflation in both Poland and the Eurozone indicate no considerable probability of the inflation growth to the level of 2% earlier than near the end of the Strategy’s horizon. This situation will continue to produce a difficulty in achieving a guaranteed rate of return in life insurance, and also it will have a considerable impact on the formation of the rates of return demanded by the investors, which are possible to achieve by investment and pension funds. MACROECONOMIC FACTORS CHAPTER 2.6

- Growing regulative requirements  
*Solvency II*  
The regulations of the Solvency II directive establishing the requirements concerning key financial parameters of insurance activity came into effect on 1 January 2016. The new regulations change the way of establishing the capital solvency requirement for insurance companies. According to the new regulations, these requirements will be established separately for insurance (actuarial), market and operating risk. By tightening regulative requirements, the Directive considerably changes the insurance market. Its implementation affects both premium calculation and changes to the internal processes of insurance companies, mainly in the scope of risk management. According to the new regulations, insurers are obliged to report the new extended information scopes to superior institutions and make them public. Resulting from the implemented changes, certain companies will face the need for

capital injection or limitation of their operating scope.  
REGULATIONS ON THE INSURANCE MARKET CHAPTER 2.4  
*Asset tax*  
The tax on assets of financial institutions came into effect in Poland as of 1 February 2016. For insurers, the tax rate is 0.44% of the collected assets. This tax will cover many insurance companies operating in Poland, but the biggest part of its generated revenue will come from the tax on PZU Group’s assets. It is estimated that the tax may amount to approx. PLN 270 - 280 million (applies only to insurance companies, annualized data). REGULATIONS ON THE INSURANCE MARKET CHAPTER 2.4

*Changes to the Act on Insurance Activity*  
The changes to the Act on Insurance Activity also came into effect in early 2016. The implemented changes are mainly oriented towards formation of relations with clients. In this case, the changes will mostly affect life insurers,

*"Strategy is fundamentally management of change"*  
*Prof. Arnaldo C. Hax, MIT Sloan School of Management*



Key strategic goals



Aspirations

- Profitable insurance business
- Active management of investment portfolio
- Cost discipline through, among others, fixed costs reduction
- Expansion of PZU Zdrowie – further development of health insurance offer along with accompanying health care services
- Dynamic international expansion regarding insurance
- Building the position of a leading company managing assets – surge growth of market share in the asset management in Poland
- Building the best competences on the market regarding Big Data in order to improve product per client (CRM), underwriting and processes
- Selling up of an ecosystem enabling effective management of client risk (from counseling to insurance products)

including the requirement to keep detailed analyses of the client’s needs in sales of products with investment capital funds and providing the client with appropriate recommendations and guidelines. The regulations on paying commission to insurance agents have changed, which will lead to changes in the sales of insurance products, especially through agents. REGULATIONS ON THE INSURANCE MARKET CHAPTER 2.4

- Client’s expectations  
In recent years, financial products, especially life insurances, became so complicated that clients tend to search for simpler and more transparent solutions, the so-called products without fine print. The products whose structure will be clear and understandable, regardless of the level of clients’ economic knowledge. Product transparency means e.g. a shift from comprehensive solutions combining elements of insurance and investment. Meanwhile, in the case of non-life insurance products there is a constant pressure on price, which forces the insurers to compete not only on the scope of a basic service, but also the scope of additional services (assistance, direct claims handling, concierge). This requires the insurers to develop both comprehensive and flexible approach to the pricing of offered services.
- Strong demographic trends and resulting changes in purchasing behavior  
The strong demographic trends will lead to quick changes in the age structure of the society and, simultaneously, to the purchasing behavior of the Group’s clients. The number of people aged 60 and up, mostly still professionally active, with broad and diverse needs for all kinds of insurance (including medical insurance) and saving products (asset management) will quickly rise, especially throughout the realization of the main directions of the Group’s development horizon. Simultaneously, there will be more “millennials” entering the labor market with lifestyles, preferences, and purchasing behaviors considerably different from their parents. This generation is much more used to all forms of digitalization in various aspects of life (including use of financial and insurance products). This forces the insurers, PZU included, to offer the products, as well as claims and benefits handling, through mobile channels, with the application of internet marketing and social media.
- Growing importance of digital and mobile channel issues  
The next few years are often referred to as the period of “rapid digitalization”. It is expected that extensive use of

new digital technologies will be one of the strongest trends up to the year 2020, in the scope of both the projected changes in the operating activity of insurance companies and the formation of their relations with the clients. It is expected that developed markets will see a very quick growth in the number of clients using digital channels to contact insurers within the next five years. Consequently, it will be necessary to adapt relations with the clients, but it will also be easier to decompose the value chain of insurance companies because of the escalated competition and transparent prices. At present, none of the companies operating in the financial sector should neglect remote channels as a form of distribution and client service.

- Greater potential to adapt to the client’s needs by using Big Data  
The combination of the rising role of digital channels in client relations and rapidly growing analytical potential creates a unique opportunity for companies operating in the financial sector – especially insurance companies. However, numerous changes in business processes and investments in the solutions allowing for collecting and processing vast amount of data are essential, as well as tools for modeling and analyzing client behavior, which will enable the application of historical data collected by the companies. The use and development of the above-mentioned tools allow for a more effective client segmentation, which in turn translates into a more flexible adjustment of the offer to the needs, as well as optimization of sales and marketing costs of an insurance company.

4.2 Realization of key projects and initiatives in 2015

In 2015, the Group achieved the following objectives in specific Business Fields:

Activities realized in 2015	
Business areas	Summary of the achievements of 2015
Insurance	<ol style="list-style-type: none"><li>1. PZU retained the top position on the non-life insurance market. According to PFSA data for the third quarter of 2015, PZU’s market share was 31.2%* (a drop of 0.2 p.p. year-on-year).</li><li>2. Link4’s share in the non-life insurance market rose from 1.6% at the end of the third quarter of 2014 to 1.9% at the end of the third quarter of 2015.</li><li>3. Retaining the top position in life insurance with regular premium after the third quarter of 2015 with a 43.9% market share (up from last year’s 42.9%). Following the third quarter of 2015, PZU had a 29.1% share in the entire life insurance market.</li><li>4. PZU Group is still the leader of the Lithuanian and Latvian markets. In 2015, the share in the Lithuanian non-life insurance market was 31.1% and the share in the Latvian market following three quarters of 2015 was 25.1%. In both cases, the market share grew from the previous year. PZU’s 2015 share in Estonian market was 13.8%. Both Ukrainian companies improved their market share and positions from the previous year. After three quarters of 2015, the non-life company is in 7th place with market share of 2.7% while the life company is in 4th place with market share of 8.6%, retaining a positive financial result despite the difficult business conditions.</li><li>5. The sale of PZU Lithuania was concluded on 30 September 2015. The company was purchased by the Norwegian Gjensidige Forsikring ASA. The final sale price was EUR 66 million.</li><li>6. On 3 November 2015, PFSA approved PZU’s establishment of TUW – Polski Zakład Ubezpieczeń Wzajemnych. The new entity will provide hospitals with effective insurance coverage based on active risk management.</li></ol>
Investments	<ol style="list-style-type: none"><li>1. By the end of 2015, the value of the assets managed by (AuM) TFI PZU was PLN 28.3 billion, which constituted 11.2% of the assets obtained by domestic investment funds, thus placing it second among all companies affiliated under the Chamber of Fund and Asset Management.</li><li>2. Growth of managed assets of external clients from PLN 6.0 billion at the end of 2014 to PLN 6.8 billion at the end of 2015. At the end of 2015, the share of assets of external TFI PZU clients in TFI market assets (with exception of non-public assets) was 5.1% (4.7 at the end of 2014).</li><li>3. TFI PZU retained the top position in the segment of employee pension programs among all domestic investment fund institutions as it managed assets with value of PLN 3.2 billion (PPE – Employee Pension Plan, PPO – Employee Saving Program, ZPI – Corporate Investment Program) – AuM growth from 6.2% at the end of 2014.</li><li>4. The revenue of TFI PZU for 2015 amounted to PLN 172.6 million, a growth of almost 18.1% year-on-year.</li></ol>
Health	<ol style="list-style-type: none"><li>1. PZU Zdrowie was established and received all medical assets (directly or indirectly).</li><li>2. PZU Zdrowie purchased shares in the following medical companies: Nasze Zdrowie (2015), Medicus w Opolu (2015), CM Gamma (2015) and CM Cordis (2016); additionally, CM Medica bought REZO-MEDICA (2015).</li><li>3. The gross written premium from group medical insurance rose by 46% from 2014.</li></ol>

\* PZU share calculated taking into account PZU’s inward reinsurance towards Link4.





Activities realized in 2015	
Factors conditioning implementation	Summary of activity and achievements in 2015
Effective distribution and customer service	<ol style="list-style-type: none"><li>Continued implementation associated with the introduction of a new policy system (Everest Platform) to improve PZU's flexibility and competitiveness. In 2015, remaining non-life products and first corporate insurances were introduced. For the most part of 2015, external sales channels (multiagents, dealers, brokers) and remote channels were prepared to work with the new system.</li><li>Continued implementation of innovative PZU Branches – well-visible and common for the entire Group. In 2015, 45 PZU Branches were activated and 151 Branches operating under the new model have been opened since the launch of the process.</li><li>Continued work aimed to consolidate and improve the visualization standard of Exclusive Agent offices. In 2015, 635 offices in the new standard were opened. From the start of the project, 866 offices in the new standard were opened.</li><li>There is ongoing work on the target sales support operating system.</li></ol>
A socially responsible organization	<ol style="list-style-type: none"><li>In 2015, the key way to promote active lifestyle and health prevention among Poles was PZU Group's involvement in running initiatives. PZU served as the strategic partner of numerous sports events, including the PZU Warsaw Marathon.</li><li>In scope of activation of local communities, PZU Group organized PZU Trasy Zdrowia – green areas specifically designed for physical exercise – in several municipalities throughout Poland.</li><li>As a patron of culture, PZU was involved in the preservation of Polish cultural heritage, supporting the Royal Castle in Warsaw, Royal Łazienki Museum, National Museum in Kraków, National Museum in Warsaw, and Grand Theatre—National Opera.</li><li>In 2015, PZU Foundation realized another edition of the campaign "Kochasz? Powiedz STOP Wariatom Drogowym" (If you love, say STOP to Reckless Drivers). Its main objective was to improve road safety by promoting responsible attitudes among drivers.</li></ol>
Effective claims handling and operations, flexible IT	<ol style="list-style-type: none"><li>84% of PZU Group's clients are satisfied with claims and benefits handling (satisfaction survey on a sample of 4.7 thousand clients conducted in the fourth quarter of 2015).</li><li>The regulations concerning claims paid from TPL insurance drafted by PIU (Polish Chamber of Insurance) came into effect on 1 April 2015. PZU is the initiator of the Direct Claims Handling program.</li><li>There was ongoing work aimed to implement the advanced fraud detection system. The first implementation of the tool for motor insurance is planned for April 2016.</li><li>A new human resources and salaries system has been implemented as the first step towards standardization and improvement of HR processes in the whole company.</li><li>In order to optimize the costs, the next stage of the restructuring program in PZU and PZU Życie has been carried out. On 8 April 2015, the Management Boards of PZU and PZU Życie declared their intention to conduct collective redundancies in accordance with the Act on the specific principles of terminating labor relationships for reasons not attributable to employees dated 13 March 2003. The restructuring took place in the second quarter of 2015. It covered 267 people in PZU and PZU Życie, including the employment reduction which pertained to 134 PZU and PZU Życie employees.</li></ol>

Activities realized in 2015	
Factors conditioning implementation	Summary of activity and achievements in 2015
Effective capital and investment policy and integrated risk management system	<ol style="list-style-type: none"><li>18,318,473 shares of Alior Bank, which compose 25.19% of the share capital, have been acquired. The total value of the transaction is PLN 1.63 billion. Two of the total projected 3 share tranches were cleared in 2015. The final one was cleared in March 2016.</li><li>Cooperation has been established with the National Center for Research and Development, which will see PZU Group take part in the setting up of venture capital funds for the sector of new technologies.</li><li>PZU Finance AB (a 100% subsidiary of PZU) issued eurobonds for the amount of EUR 350 million. The bonds bear interest at a fixed interest rate of 1.375% per year and the interest will be paid once a year. The redemption of the bonds will take place on 3 July 2019.</li><li>All of the Group's insurance companies were adjusted to fulfill the requirements of the Solvency II directive.</li><li>In accordance with the GSM decision, the dividend of PLN 2.59 billion, i.e. PLN 30.0 per share, was paid on 21 October 2015.</li><li>A split of PZU stocks in relation of 1:10 took place on 30 November 2015. The shareholders retained their share in PZU ownership and rights held before the split.</li></ol>





# 05

## Organization, infrastructure and human resources

Introducing new technological solutions, we do our best to help our clients select the right product and make the claims handling process efficient and satisfactory. We want the clients to be sure that their decision to choose PZU was the right one.

## Choose your bundle of benefits

Lanuch of PZU's **internet base** of employee benefits. Decide what you want to do with your money from the Company's social benefits fund.

**Take advantage** of our sports cards, educational and cultural offer, weekend relaxation and attractive discounts.

Details on PZU24.



### Contents:

1. Sales and service channels
2. Human resources management
3. Marketing

5.1 Sales and service channels

PZU Group (PZU and PZU Życie) has the largest network of sales and service branches on the Polish market. The organization of the PZU sales network has the objective of guaranteeing sales effectiveness, while simultaneously assuring a high quality of services provided.

- At the end of 2015, PZU Group distribution network included:
- exclusive agents – PZU own agency network consisted of 9,079 exclusive agents, including individuals performing agency activities. The agency channel conducts sales of mainly mass client insurance, especially motor and non-life insurance, as well as individual insurance (life insurance);
  - multiagencies – 3,161 multiagencies work with PZU Group to make sales mainly to the mass client (this channel is used to sell all types of insurance, especially motor insurance and non-life insurance ), as well as individual life insurance;
  - insurance brokers -- PZU, in particular the Corporate Customer Division, cooperated with 965 insurance brokers;
  - PZU employees – thousands of PZU employees sold insurance (primarily to corporate and group customers) at their own branch offices that underwent a makeover in 2014. They are well-advertised, located in attractive venues, have no architectural barriers, and provide convenient access to all clients;
  - bancassurance and strategic partnership programs – PZU Group cooperated with 10 banks and 6 strategic partners in scope of protective insurance in 2015. The partners of PZU Group are the leaders in their fields and have customer bases with great potential. The cooperation in scope of strategic partnerships concerned mainly the companies operating in telecommunications and energy, which were

- used to offer insurance of electronic equipment and assistance services;
- direct – PZU sells products to individual customers by telephone and over the Internet.


PZU’s customers can file claims or contact us:

- via the Internet;
- by telephone via the Contact Center;
- in person at any branch of their choice;
- in a garage belonging to the PZU Repair Network (in the case of motor claims);
- in the PZU Pomoc mobile office;
- in writing (sent by post, email or fax).

Claims and benefits handling process is conducted at 8 Regional Claims Centers located throughout the country and at the central unit – the Operational Center for Claims and Benefits. Since the process is based mainly on electronic information and the service is performed at a location which is not connected with the place of residence of the insured or the place of the event, the company has implemented the model of an equal workload of individual claims handling units that is automated within the SLS system. The process of handling certain types of claims has been centralized; this results in a higher specialization level and boosts customer satisfaction. The centralization has been introduced i.a. in the following fields: personal claims handling, claims concerning theft of vehicles belonging to individuals, claims handling under the direct claims handling service. GLOSSARY


As the first company (to start in April 2014) the direct claims handling (BLS) process GLOSSARY on the Polish insurance market, PZU continues to handle claims under that scheme. It realizes it in two forms: individually and under an agreement. By the end of 2015, BLS agreement – drafted by PIU (Polish

How did we develop remote communication channels?




Chat on the website www.pzu.pl

- By means of this chat service employees of the Contact Center provide information on insurance products that help the Customer navigate through the www.pzu.pl website and suggest how to complete the forms online.
- The next step in the development of this channel will be a dynamic chat, which will respond to customer behavior on the website – e.g. in the situation of his/her lack of action.




Video chat

- The Video chat enables a Customer to have meeting with a representative of PZU without leaving home.
- During such a call the Customer may make a claim, obtain information about the status of the liquidation of damage and buy insurance.
- This Video Chat brought us the opportunity to service the deaf and hearing impaired.




Video tips

- Video tips come in many forms, for example: comments from specialists, infographics, manuals.
- We want, thanks to this, to advise Customers that find themselves in various situations or to provide instruction regarding the proper completion of the most widely used web forms.
- We use this not only on the pzu.pl site, but also in e-mail communications.




Callback form

- With it the customer can, during a conversation on the helpline, choose a topic of conversation, leave a phone number and select a time limit within which he or she wishes to be contacted.




Social Media Command Center

- We created the Team to Service and Monitor Social Media, which is responsible for the company’s image in the network and thus also for enhancing its image.
- The team conducts daily monitoring of the internet and of social media, engages in discussion forums, respond to customers’ posts on Facebook, Twitter and other social channels replies to private questions of Customers through a dedicated application Help Center.
- It deals with, among others, topics related to the sale of insurance, claims handling service, the Assistance product, and also with communication, advertising or CSR activities.



Transpromo letters

- This is correspondence by letter, which combine substantive elements (e.g. relating to a transaction) with elements of promotion, offering customers a measurable benefit.
- The whole concept is based on the philosophy of using simple language and its leitmotif is to build positive relationships through contact with customers. Thus, our lists are of more personal in nature, and the client finds in them important information shown with the help of infographics or preventive elements related to safety.



Central address for paper and electronic correspondence

- The centralization of these functions enables the implementation of uniform service standards and tools for the control of the process to answer Customers.
- As a result, Customers are assured that their cases get to where they will be serviced.



Chamber of Insurance) GLOSSARY – encompassed eight insurance companies, including PZU, which together represent nearly 70% of the motor TPL insurance measured at gross written premium level. Direct claims handling (BLS) under the agreement was implemented in April 2015. Introducing the BLS agreement helped to simplify the settlement of paid claims and claims handling costs between the insurers based on lump-sum schemes. PZU maintained also its earlier BLS solution for its clients who suffered damage at insurance companies that are not parties to BLS.

Under cooperation contracts concluded with the largest network of companies on the Polish market, PZU Group provides car rental, towing, and parking services. PZU actively offers its help in organization of the above services to all customers.

PZU was also the first to introduce its own fleet of replacement cars to the insurance market. The offer covers 300 hybrid Toyota Auris cars, which guarantee comfort and safe and ecological use. This provides a high replacement car availability standard according to market rates, which is dedicated for all PZU clients.

In 2015, PZU continued cooperation with garages in the field of post-accident vehicle repairs. The cooperation with PZU Pomoc Repair Network is intended to ensure the highest quality and repair service standards to all customers who suffered damage. Every client that commissions a vehicle repair at a garage within the PZU network receives a Quality Certificate confirming the top quality of conducted works.

PZU continues to develop its offer when it comes to the management of objects that are left after a damage by providing the clients with an option to sell them on the Pomoc Online platform. The clients are offered to sell the remaining parts at the highest purchase bid price by reliable entities cooperating with the platform administrator.

In order to improve the non-life claims handling process, in 2015 the company continued to organize training sessions which followed the British standards of best practice in claims handling addressed to employees handling non-life claims of corporate clients.

For the customer, claims handling process is the moment of truth in contacts with the insurer and an opportunity to

## PZU's branches



test the quality of the purchased product. Satisfying his or her expectations in the claims handling process is the key to building his or her ties with PZU. Therefore, in 2015 extensive measures were taken to improve and shorten the process, such as the implementation of a LEAN culture and the expansion of an automatic and simplified process of claims handling. A process of implementing a Self-handling service was started; the service allows the victim to estimate the amount of compensation in motor and non-life claims and at workshops that repair equipment damaged during overload. Moreover, in 2015 PZU commenced a large-scale introduction of simplified solutions in contacts with clients, e.g. by resigning from traditional letters and a wider use of telephone and electronic communication, but first and foremost by making the language of its correspondence simpler and user-friendly.

Another innovative move was to appoint the Assistance Providers under the name of Organizatorzy Pomocy Poszkodowanym w Wypadkach [Providers of Assistance to Accident Victims]. These are mobile employees who meet with the victims in their houses and determine the actual life situation and the needs related to the accident they suffered from and for which PZU is liable. Provided assistance includes, among others, organization of medical, social, vocational and psychological rehabilitation in a broad sense. Assistance

Providers advise on how to adjust place of residence to meet the needs of a disabled person, as well as how to choose proper systems compensating for dysfunctions and disabilities. They also provide assistance in completing all the formalities connected with claims handling. They assist in obtaining benefits and establishing contacts with government institutions (PFRON [National Disabled Persons Rehabilitation Fund], ZUS [Social Insurance Institution], KRUS [Farmer's Social Security Fund], MOPS [Municipal Social Services Center] and MOPR [Municipal Family Support Center]). They also provide psychological support to the immediate family members of the victim.

As an innovation-driven company, PZU provided its clients with an access to a mobile application which allows the insured to select the type of claim handling or accident insurance benefits at any given time. The service was addressed to the clients who often find it difficult to pick up the phone during working hours or need more time to think about the proposed claim payment. The tool allows the insured easily and conveniently participate in the decision-making process concerning the contribution payment, and speeds up the entire process by a quick contact with the Consultant.

The company is focusing on service improvement, therefore, it strongly appreciates customer feedback. Customer satisfaction surveys are conducted via the application. The customers' replies suggest that the clients are highly satisfied with the change. The insured perceive the change in a positive way and point out to the improved claims handling process and accident insurance benefits.

Another example of a pro-customer activity implemented by PZU in 2015 is a visual representation of claims handling stages in the Online Claim/Issue Status. After logging to

his or her claim/issue at [www.pzu.pl](http://www.pzu.pl), the Client can learn how many stages the PZU claims handling process involves, become familiar with every stage, and check his or her claim/issue status, as well as see which activities have already been realized. Additionally, the client can freely change notification settings concerning his or her claim/issue so that the system sends a status update to a designated email address or phone number.

The [www.pzu.pl](http://www.pzu.pl) website features also a video with tips related to online claims handling. Short videos depict PZU employees showing the clients how quickly file a claim, change its status, or how to use the accident insurance in the case of an accident. PZU – Video tips – Online claims handling.

The quality of claims handling process and benefits payment at PZU is highly valued by the clients. At the end of Q4 2015, satisfaction rate reached 84%<sup>1</sup>. Meanwhile, NPS (Net Promoter Score), a recommendation index being the difference between the proportion of promoters and critics participating in the survey for claims handling sector amounted to 20%, while 46% of consumers surveyed indicated that they were active promoters of PZU.

## IT and operations

Everest Platform is a state-of-the-art tool that facilitates sales of non-life insurance, assessment of insurance risk, and management of policies and settlements, which is being implemented by PZU since 2014. By using the platform, the Group will be able to distribute information faster, which will enable the agents to better recognize and understand the needs of clients from different segments. Introducing improved and more advanced solutions to the working environment of the Group's agents and employees, Everest

<sup>1</sup> Change in sample selection methodology since the 2015 survey

## Bancassurance and strategic partnership



10

cooperating banks

## Insurance brokers



965

cooperating brokers



platform helps boost operational effectiveness, which in turn increases possibilities of presenting a competitive offer to the clients.

In 2014, according to the assumed schedule, PZU introduced motor, household, and some property products into the new system. In 2015, remaining non-life products and first corporate insurances were introduced. For the most part of 2015, external sales channels (multiagents, dealers) were prepared to work with the new system. Pre-implementation and information meetings for future users of the Everest platform, as well as training to prepare staff for working with the system, were held in all external sales channels. Pilot programs were initiated to test if the conditions for smooth and timely implementation have been met. At the same time, in April and June 2015, surveys were held to check the satisfaction level of the users and learn their opinion on the new system.

At the moment, there are over 19 thousand users working at the Everest platform, including all branch employees, exclusive agents, agents-partners, and office workers. More than 13 million policies have been issued in the new system so far, including over 8 million in 2015 alone. The full implementation of the new policy system is planned to be finished in the third quarter of 2016.

In 2015, in addition to operating activities and working on Everest project, the Technology Division implemented internal strategic initiatives, which consisted of the development of a series of activities supporting key business initiatives, especially the following:

- as an adjustment of the IT and security system to requirements of external acts, the process of Polish Financial Supervision Authority (KNF) requirements implementation is highly advanced and will allow to satisfy the requirements as planned until the end of 2016;
- IT systems were adjusted to report in accordance with requirement of Solvency II directive GLOSSARY;
- in the field of management reporting, the Baltic companies were subject to periodical reporting and the management information system was extended to cover PZU Group subsidiaries;
- using agile methodology of software development was continued and extended.

5.2 Human resources management

Level of employment

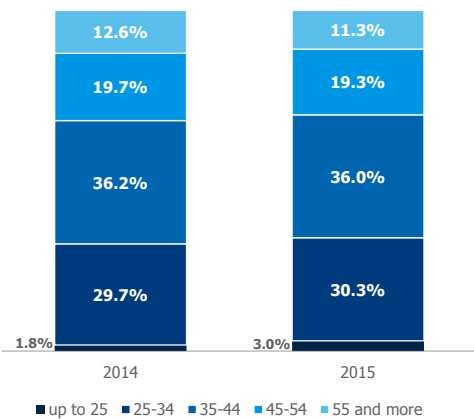
In 2015, the average annual employment in PZU Group amounted to 16.8 thousand employees calculated as FTEs (excluding Alior Bank employees), whereas 11 thousand people were employed in PZU and PZU Życie.

In 2015, the majority of employees in both companies (PZU and PZU Życie) were women. At the end of 2015, they represented nearly 62% of the total number of employees. It should be noted that the proportion of women in the employment structure has been stable in recent years. Nearly 80% of PZU and PZU Życie employees had higher education. The employee age structure also remains stable. In December 2015, nearly 70% of the employees were under 44 years old.

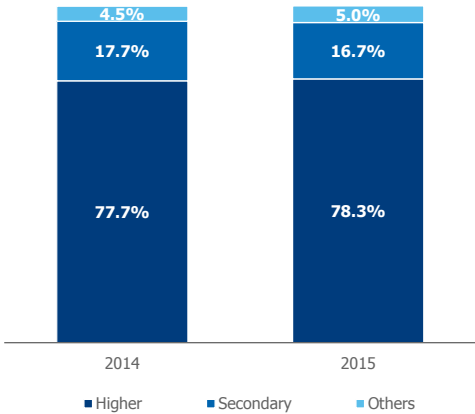
On the 8 of April 2015, the Management Boards of PZU and PZU Życie declared their intention to conduct collective redundancies in accordance with the Act on the specific principles of terminating labor relationships for reasons not attributable to employees dated on the 13 of March 2003. The restructuring took place in Q2 2015. It covered 267 people in PZU and PZU Życie, including the employment reduction which pertained to 134 PZU and PZU Życie employees.

The people who were dismissed or who did not accept the changes in the terms and conditions of employment (the same as during all stages of employment restructuring, namely in 2010–2014) were offered more favorable conditions of leaving than those provided for by law in similar situations. The amount of additional redundancy payment depended on the length of service with PZU Group and the salary of each employee.

Employment at PZU and PZU Życie per age (%)



Employment at PZU and PZU Życie per education level (%)



Salary policy

In 2015, PZU continued its remuneration and recruitment policy which covers all internal principles concerning salaries for relevant groups of employees. Such principles are determined in accordance with the generally applicable rules of law, PZU internal regulations and corporate governance.

The main premises of PZU Group’s remuneration policy include:

- awarding and retaining best talents by offering a competitive remuneration scheme, as well as trainings and career development options;
  - planning replacements at positions within PZU Group by development of career paths and programs for workers and managerial staff;
  - recruiting the best employees (including young talents) by building an image of the company as an employee of choice, by effective recruitment and selection process;
  - supporting non-professional activities of PZU Group employees, i.e. by engaging them in the Group’s CSR actions, such as employee volunteering program.
- CHAPTER 9 CORPORATE SOCIAL RESPONSIBILITY

The remuneration scheme includes the nature and scope of the company’s operations, its functioning sectors, as well as market practices.

A part of remuneration subject to variations is developed on the basis of the above-mentioned factors and depends on the group of employees it concerns. The applicable remuneration

policy is based on a performance result management system, competence assessment and on-going adjustment of the remuneration scheme to changing conditions. This applies especially to the variable part of remuneration and extra benefits.

The PZU Group remuneration system is based on an annual employee assessment which constitutes a part of modern motivational system and awarding the best personnel. The annual competence assessment system and the quarterly target determination and settlement system covers the following:

- „Płacimy za wyniki” (We pay for results) – a new performance management system – a quarterly assessment of target achievement (adjusting targets to managerial level and business specifics), whereas achievement level of quarterly targets translates into the bonus amount;
- „Ocena DNA PZU” (PZU DNA appraisal) – a competence assessment model for employees and leaders;
- „Roczna ocena pracownika” (Annual performance review) – employee development plan based on the analysis of target achievement and competence assessment.

The solutions applied within the remuneration policy allowed to develop a relation between effectiveness and competence level and pay rises, development choices and promotions. They constitute a tool for managers that helps to manage targets/tasks/motivation of their teams, as well as identify and develop employees with exceptional competence levels.

Recruitment, training and building an image of an employer of choice

In 2015, a new recruitment module was successfully implemented in HRM (Saba Enterprise) application already used by the company. From 2015, by the time a job application has been accepted, the entire recruitment process takes place in a user-friendly HRM application interface which keeps the participants of the process posted about their application status. For the first time in history of recruitment at PZU, an extensive database was used which is accessible to all recruiters and improves documentation management as well as has an option to preview the candidates’ applications. The recruiters may also automatically publish job offers in several locations and thus monitor effectiveness of selected candidate acquisition channels. The HRM system helps them



not only save time spent on application posting and selecting job applications, but also improves security of stored data. The changed functionality helps also to build a positive image of PZU Group as an employer among candidates applying for a job at PZU. One of the key benefits of introducing the HRM recruitment module for the candidates is an option to receive an update on their recruitment project status via emails with invitations to an interview, notifications on delays in the recruitment process, or a thank you note for the participation in the process.

PZU has also mechanisms for entry into and exit from the organization. The assumption to the process of introducing a new employee is to build commitment and loyalty in an atmosphere of openness and cooperation. However, anyone parting with the organization by mutual consent is asked for his or her opinion on working for PZU Group and the reasons of their decision to change employer.

The following have been organized in 2015 to support employees in improving their skills, which are required at the given work post:

- **PLUS training program (Professionalism – People – Skills – Trainings)** – trainings are selected for the employee on the basis of his DNA appraisal (PZU competence model) which have the objective of developing the weak spots. Every program contains several training modules which develop competences in all fields, such as client, result, responsibility, development, cooperation;
- **Menedżer 2.0 (Manager 2.0)**, program which focuses on the development of mid-level management (over 1,500 managers) in building managerial thinking, team engagement, business effectiveness of a team, as well as coaching skills indispensable at a managerial position. An interactive and gamified Inspiratorium Menedżer 2.0 (Inspiration Space Manager 2.0) platform is a continuation and extension of stationary trainings. The platform uses state-of-the-art trends to combine elements and mechanisms known from games to support development of a habit to pursue self-education and knowledge acquisition, as well as social network mechanisms to create an interactive space for sharing knowledge, experience, ideas, and inspirations;
- **Lider 2.0 program**, the aim of which is to strengthen key managers in the role of all-round leaders. More than 300 managers participate in it;

- **coaching** for the top management with the aim to support individual development;
- **other forms of trainings** – postgraduate studies and specialized forms of professional development, language courses;
- **„Świadoma siebie” (A self-conscious me)** – development program for women within „Kobiety PZU” (PZU Women) Association.

Every employee at PZU and PZU Życie benefited from an average of 27 hours of classroom trainings in 2015.

In addition, three projects were continued as a part of the development of the new organizational culture:

- **Otwarte PZU [Open PZU]** – a program designed to build employees’ awareness in the area of openness. The aim of the project is to build innovative attitudes. The program objective is to promote: direct and simple communication, feedback providing strategies, team cooperation, partner relations and research of innovative solutions;
- **TalentUp** a talent-building program addressed to specialists which aims to prepare the employees to work more important roles within the organization;
- **SmartUP** – a General MBA development program addressed to managers and directors who exhibit high potential. It has been designed in cooperation with the Warsaw University of Technology Business School.

An internal coaching project was initiated. The project is addressed to mid-level managers and project leaders and is conducted by employees having appropriate preparation in various business fields.

PZU continues also large-scale activities **promoting its brand as an employer**, which are addressed to students and professionals. Year 2015 started with a uThoruj sobie drogę na staż (Your way to internship) recruitment campaign; as a result, over 100 students from the entire country joined the company. The company’s spring campaign actions were recognized by the jury at EB Excellence Award and EB Stars competitions. Popular social competitions, i.e. Studencki Projekt Roku (Student Project of the Year) and Inwestycja w Przyszłość (Investment in the Future), were continued to support the most active students and most popular academic projects.

PZU experts shared their knowledge and experience at a number of business presentations and trainings for students (i.a. during Dni Otwartego Biznesu w PZU (Open Business Days at PZU)), and all image activities were supported by active and creative PZU Group Ambassadors and Advisors.

The year ended with the #najlepszastrona (#bestside) image campaign, which received another prestigious award, EBKreator. The awarded campaign is based, among others, on the new Instagram profile @pzukariera which is the third social media channel to openly communicate as an employer, alongside with Facebook and LinkedIn.

## 5.3 Marketing

In 2015, PZU Group made wide-ranging advertising campaigns, including:

- Campaign to promote motor TPL insurance with Direct Claims Handling (BLS) service. The aim of the campaign was to present benefits from holding motor insurance with BLS at PZU. The campaign featuring Marcin Dorociński included TV spots and online activities at tylkospokoj.pl;
- „Kochasz? Powiedz STOP Wariatom Drogowym” (If you love, say STOP to Reckless Drivers) social campaign.;
- **CHAPTER 9 CORPORATE SOCIAL RESPONSIBILITY**
- **Loteria OC (TPL Lottery)** campaign. A campaign addressed to clients who have TPL insurance in PZU. The lottery included the following sponsored awards: 12 passenger cars and 360 bicycles. Additionally, as a part of a special offer, holders of TPL insurance at PZU could pay less for filling their tanks at LOTOS and LOTOS Optima petrol stations thanks to special discount cards;
- **Niestraszki (Fear-nots)** campaign. The first edition of a new PZU campaign, „Niestraszki w pakiecie” (Fear-nots in a pack), was initiated in December. The campaign features 5 Fear-nots – funny, yet smart characters with

an educational mission, i.e. to teach children the rules of security. **CHAPTER 9 CORPORATE SOCIAL RESPONSIBILITY**

In 2015, PZU Group made also advertising campaigns with a narrower range, including:

- **Pomoc od serca (Help from the heart)** campaign – the aim of the campaign was to show that holding a „PZU pomoc od serca” insurance guarantees security in the case of tumor, heart illnesses, and other serious conditions. The campaign was conducted on TV and online;
- **EMPLOYER BRANDING** campaign – the aim of the campaign was to promote the employer’s brand. It featured two editions in 2015: the spring edition targeted to students and graduates at the largest universities in Poland, and the fall edition was addressed to professionals.

In 2015, PZU continued to introduce unified visual standards for exclusive agents’ offices, both when it comes to signage and fit-out of the premises. A process of external branding of multiagents was commenced. Nearly 250 multiagency offices were branded in 2015.

Ongoing and long-term actions to support sales of life and non-life insurance were conducted, dedicated to PZU and PZU Życie agents. Activities covered BTL support were addressed to branches and agents’ offices. A mobile stand was organized and PZU representatives were present at 12 outdoor events in Poland. PZU equipped its agents in branding materials, which guaranteed that the company was present at local events realized by field agents.

PZU Group implemented also ATL actions, i.e. 4 campaigns consisting in covering shop windows in departments and agents’ offices.

Nearly 190 shop windows were covered in Poland.

In 2015, PZU marketing campaigns received a number of awards, i.a.:

- **KTR (Klub Twórców Reklamy [Commercial Creators Club])**, Platinum Magellan Award – „Kochasz? Powiedz STOP



- Wariatom Drogowym" (If you love, say STOP to Reckless Drivers) social campaign;
- KTR, Silver award – „Telewizor" (TV Set), a PZU housing campaign of 2014;
- KTR, double Bronze award – „Ulubiona zabawka" (Favorite toy) project – (categories: Loyalty Program&Direct);
- Innovation Award 2015 – distinction for „Ulubiona zabawka" (Favorite toy) project (category: Insight).





## Don't let yourself become disenchanted

### BBE/OBI

Social techniques are part of the art of influencing others, and consequently of achieving specific goals by manipulating people.

Safeguard protected information, don't share it with unauthorized persons!



## Consolidated financial results

With gross written premium of PLN 18.4 billion, we are the leader in the Central and Eastern Europe region.

Net profit of PLN 2.3 billion and the return on equity of 18.0% place us among the most profitable financial institutions both in the country and in Europe.

### Contents:

1. Key factors affecting the achieved financial results
2. Income
3. Claims and technical provisions
4. Acquisition costs and administrative expenses
5. Structure of assets and liabilities
6. Share of the business segments in the results

## 6.1 Key factors affecting the achieved financial results

In 2015, PZU Group achieved gross profit at a level of PLN 2,943.7 million compared with PLN 3,691.7 million in the previous year (decrease of 20.3%). Net profit attributable to the shareholders of the parent company amounted to PLN 2,342.4 million, compared with PLN 2,967.7 million in 2014 (a 21.1% decrease).

With the exception of one-off events<sup>1</sup>, the net result declined by 20.2% compared to the previous year. The operating profit for 2015 amounted to PLN 2,939.4 million, down by PLN 753.8 million from the result for 2014.

The main reasons for the change were the following:

- lower result of the mass client insurance segment by PLN 104.8 million, associated mainly with decrease of profitability in motor insurance resulting from the growth of dynamics of reported claims with maintenance of the average claim from the previous year and increase of insurance activity costs;
- growth of PLN 94.5 million in profitability of the corporate insurance segment. Improvement mainly in TPL insurance resulting from declined provisions for claims for damage from previous years;
- drop of PLN 187.1 million in profitability of the group and individually continued insurance segment associated mainly with increased claims ratio of protective products resulting from higher mortality ratio;
- result of the pension insurance segment lower by PLN 122.0 million due to OPF reform;
- drop in net investment result mainly due to lower valuation of interest-bearing financial assets resulting from the yield increase of the Polish treasury bonds.

The following one-off events had an impact on PZU Group's result in 2015:

- gross result on sale of PZU Lithuania in the amount of PLN 165.5 million.
- loss due to the change in fair value of shares purchased within tranche I between the purchase date and the date of control commencement of over Alior Bank, i.e. 18 December 2015, amounting to PLN 175.8 million.

<sup>1</sup> One-off events are: conversion effect of long-term insurance contracts into annual renewable contracts in type P group, result on the sale of PZU Lithuania, impact on the profit and loss account due to the consolidation of Alior Bank.

- the effect of the conversion of long-term insurance contracts into annual renewable contracts in type P group cover at the amount of PLN 75.4 million, i.e. PLN 5.5 million more than in 2014.

2015 saw significant changes, which impacted comparability of the results and the assets and liabilities:

- purchase of Baltic state companies in 2014 (subject to consolidation for the full period in 2015);
- sale of PZU Lithuania in September 2015;
- commencement of the consolidation of Alior Bank. Resulting from this transaction, the total assets rose by roughly PLN 40 billion and the non-controlling interest by PLN 2.3 billion at the end of 2015.

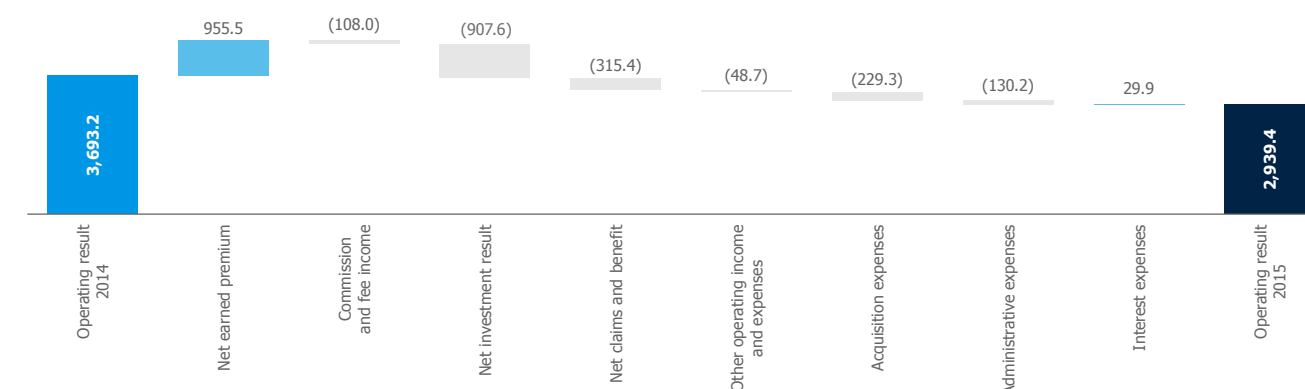
Within particular items of the operating result, PZU Group recorded:

- an increase in the gross written premium to the level of PLN 18,359.0 million compared with the previous year (increase of 8.7%) mainly due to the growth of its foreign operations and the premium collected by Link4. After accounting for the share of reinsurers and the change in provision for unearned premium, the net premium earned amounted to PLN 17,384.9 million, which was 5.8% higher than in 2014.
- lower net investment result, in particular due to the decline in the valuation of debt instruments. Net result on investing activities amounted to PLN 1,739.3 million and was 34.3% lower than in 2014;
- higher amount of claims and benefits. These amounted to PLN 11,857.1 million, i.e. they were 2.7% higher than in 2014. Specifically, there were more claims reported in motor insurance and a higher mortality ratio in protection insurance;
- higher acquisition expenses (by PLN 229.3 million) resulting mainly from the consolidation of the insurance companies acquired in 2014 and growth of direct acquisition costs in the mass client segment;
- growth of administrative expenses to PLN 1,657.9 million from 1,527.7 million in 2014 associated mainly with the costs of foreign companies (mainly the newly acquired ones), which rose by PLN 59.2 million and, concerning insurance activity in Poland, growth of expenses in relation with the development of the Everest Platform (the target policy system for non-life insurance) and other strategic projects aimed to improve customer service by tied agents and develop distribution channels;

- higher negative balance of other operating revenues and expenses in the amount of PLN 418.8 million (negative impact of the change on the gross year-on-year result of PLN 48.7 million) mainly due to the amortization of

intangible assets identified as a result of the acquisition of insurance companies.

### Operating result of PZU Group in 2015 (PLN million)



Basic amounts from the consolidated profit or loss account	2015	2014	2013	2012	2011
	PLN million	PLN million	PLN million	PLN million	PLN million
Gross written premiums	18,359	16,885	16,480	16,243	15,279
Net earned premiums	17,385	16,429	16,249	16,005	14,891
Revenue from commissions and fees	243	351	299	237	281
Net investment result	1,739	2,647	2,479	3,613	1,735
Net insurance claims	(11,857)	(11,542)	(11,161)	(12,219)	(10,221)
Acquisition expenses	(2,376)	(2,147)	(2,016)	(2,000)	(1,962)
Administrative expenses	(1,658)	(1,528)	(1,406)	(1,440)	(1,384)
Interest expenses	(117)	(147)	(104)	(127)	(158)
Other operational revenues and expenses	(419)	(370)	(220)	(31)	(274)
Operating profit (loss)	2,939	3,693	4,119	4,039	2,908
Share in net profit (loss) of entities measured using the equity method	4	(2)	1	-	-
Gross profit (loss)	2,944	3,692	4,120	4,039	2,908
Income tax	(602)	(724)	(826)	(785)	(564)
Net profit (loss)	2,342	2,968	3,295	3,254	2,344
Net profit (loss) attributable to owners of equity of parent company	2,342	2,968	3,293	3,255	2,345



## 6.2 Income

### Premiums

Gross written premiums in 2015 amounted to PLN 18,359.0 million compared to PLN 16,884.6 million last year, which means an increase by 8.7%. Within particular segment, the following trends were recorded:

- increase by PLN 652.0 million in written premium collected by foreign companies compared to 2014, including mainly due to premium gathered by entities purchased in 2014;
- higher sales in mass-client segment by PLN 749.5 million (excluding premium between segments) compared to 2014, mainly within motor insurance due to the sales volume of PZU and as a result of Link4 acquisition, as well as insurance of financial losses (commencement of long-term cooperation with new client on the basis of obligatory amount inward reinsurance agreement);
- sales growth in group and individually continued insurance segment – regular premium higher by PLN 149.6 million, mainly due to development of protection insurance sector (a rise in the average premium and higher number of insured) and collection of premium in medical insurance (new clients);
- premium in corporate client segment lower by PLN 42.3 million compared to 2014 (excluding premium between segments), including mainly in TPL insurance as a result in finalization of several large tender procedures in December 2014 (with no impact on net earned premium in 2014), partially offset by high written premium in motor own damage insurance due to a higher number of insurance policies;
- in individual insurance segment, premium lower by PLN 34.4 million compared to the previous year, mainly investment products in bancassurance channel.

### Revenue from commissions and fees

Fees and commission revenue in 2015 contributed PLN 242.8 million to PZU Group's result, which is 30.8% lower than in the previous year. Fee and commission revenue comprised mainly:

- OFE Złota Jesień asset management fee. It amounted to PLN 99.8 million (a drop of 11.0% compared with 2014 as a result of statutory transfer of a portion of the assets of OPFs to the Social Insurance Institution (ZUS) corresponding to 51.5% of the units on the account of every member of OFE PZU);
- income and fees from investment funds and fund management companies of PLN 115.4 million,

i.e. PLN 47.5 million more than in the previous year, mainly as a result of the increase in sales of fund units through the external channel;

- commissions from pension insurance handling fees. This amounted to PLN 5.2 million, namely 26.2% of their previous year's value. The drop associated with the statutory decrease in the rates from 3.5% to 1.75% and the insured making a choice as to the further transfer of their premiums at the new level of 2.92% to OPF concerning future premiums.

Furthermore, the comparison of the revenue balance from commissions and fees with 2014 was affected by a one-off event in the previous year, which saw revenue from liquidation and withdrawal of funds from the additional part of the Guarantee Fund in the amount of PLN 132.3 million, associated with statutory changes in OPF.

### Net investment result and interest expense

In 2015, PZU Group's net investment result amounted to PLN 1,739.3 million compared with PLN 2,646.9 million in 2014 (decrease of 34.3%). The following factors had the greatest impact on the decline in the result:

- lower valuation of interest-bearing financial assets as a result of rising yields of Polish treasury bonds in the middle and at the end of the yield curve in 2015, compared to the declines along the entire curve in 2014;
- weaker performance of derivatives purchased mainly for trading purposes aiming at appropriate investment portfolio risk management.

The impact of the above factors was partially balanced by improved results on equity instruments.

The following one-off events had an impact on PZU Group's net investment result in 2015:

- gross result on the sale of PZU Lithuania in the amount of PLN 165.5 million.
- loss due to the change in fair value of shares purchased within tranche I between the purchase date and the date of control commencement of over Alior Bank, i.e. 18 December 2015, amounting to PLN 175.8 million.

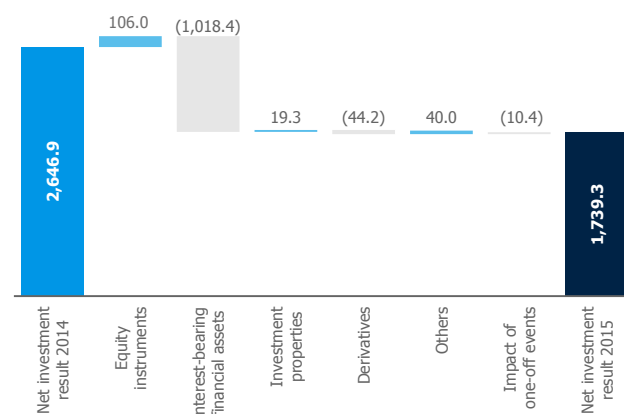
Interest expense<sup>2</sup> decreased in 2015 by 20.3% as compared to the previous year.

<sup>2</sup> "Interest expense" is presented excluding foreign exchange differences, also on own debt securities, which are currently presented in net investment result as Others, but including change in valuation of investment contracts at amortized cost, which were beforehand presented under the line "Change in valuation of investment contracts", which was deleted beginning from the current period.

Insurance segment PLN million, local accounting standards	Gross written premium				
	2015	2014	2013	2012	2011
<b>TOTAL</b>	<b>18,359</b>	<b>16,885</b>	<b>16,480</b>	<b>16,243</b>	<b>15,279</b>
<b>Non-life insurance – Poland (externally written premium)</b>	<b>9,074</b>	<b>8,367</b>	<b>8,269</b>	<b>8,451</b>	<b>8,242</b>
<b>Mass client insurance - Poland</b>	<b>7,309</b>	<b>6,560</b>	<b>6,534</b>	<b>6,614</b>	<b>6,421</b>
MTPL	2,595	2,373	2,453	2,567	2,486
Motor own damage	1,727	1,579	1,549	1,598	1,641
Other products	2,987	2,608	2,531	2,449	2,295
<b>Corporate insurance - Poland</b>	<b>1,765</b>	<b>1,807</b>	<b>1,735</b>	<b>1,838</b>	<b>1,821</b>
MTPL	367	354	372	394	405
Motor own damage	510	461	479	544	645
Other products	888	992	885	899	771
<b>Total life insurance - Poland</b>	<b>7,923</b>	<b>7,808</b>	<b>7,745</b>	<b>7,454</b>	<b>6,752</b>
<b>Group and continued insurance - Poland</b>	<b>6,689</b>	<b>6,539</b>	<b>6,415</b>	<b>6,364</b>	<b>6,179</b>
<b>Individual insurance - Poland</b>	<b>1,234</b>	<b>1,269</b>	<b>1,330</b>	<b>1,090</b>	<b>573</b>
<b>Total non-life insurance – Ukraine and Baltic states</b>	<b>1,288</b>	<b>632</b>	<b>388</b>	<b>338</b>	<b>285</b>
<b>Ukraine non-life insurance</b>	<b>138</b>	<b>133</b>	<b>157</b>	<b>142</b>	<b>121</b>
<b>Baltic states non-life insurance</b>	<b>1,151</b>	<b>499</b>	<b>230</b>	<b>196</b>	<b>164</b>
<b>Total life insurance – Ukraine and Baltic states*</b>	<b>74</b>	<b>78</b>	<b>78</b>	<b>x</b>	<b>x</b>
<b>Ukraine life insurance*</b>	<b>31</b>	<b>41</b>	<b>47</b>	<b>x</b>	<b>x</b>
<b>Lithuania life insurance*</b>	<b>43</b>	<b>37</b>	<b>32</b>	<b>x</b>	<b>x</b>

\* Consolidated starting 1 January 2013.

## Change of the net investment result (PLN million)\*



\* The line Others of "Net investment result" is presented including foreign exchange differences, also on own debt instruments, which were beforehand presented under the line "Borrowing costs", as well as including the change in valuation of investment contracts at fair value, which were beforehand presented under the line "Change in valuation of investment contracts", which was deleted beginning from the current period.

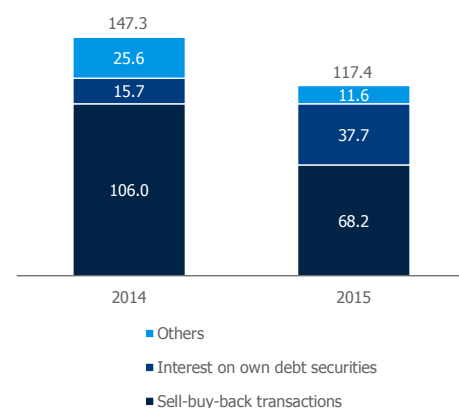
A drop in interest expense was mainly caused by a lower use of sell-buy-back transactions.

As at the end of 2015, the value of PZU Group's investment portfolio<sup>3</sup> amounted to PLN 55,411.2 million compared with PLN 53,958.7 million as at the end of 2014.

Investing activities of PZU Group are conducted in compliance with the statutory requirements, ensuring an appropriate degree of safety, liquidity and profitability; therefore, treasury debt instruments accounted for more than 60% of the

<sup>3</sup> The investment portfolio comprises financial assets (including investment products, excluding credit receivables from clients), investment property, negative measurement of derivative instruments, and liabilities from sell-buy-back transactions.

## Interest expense (PLN million)



investments portfolio, both as at 31 December 2015 and 31 December 2014.

Increased volume of treasury instruments of the debt market resulted from consolidation of Alior Bank portfolio.

Share of investment property declined as a part of portfolio achieved the expected investment horizon and was presented separately in the line "Assets held for sale".

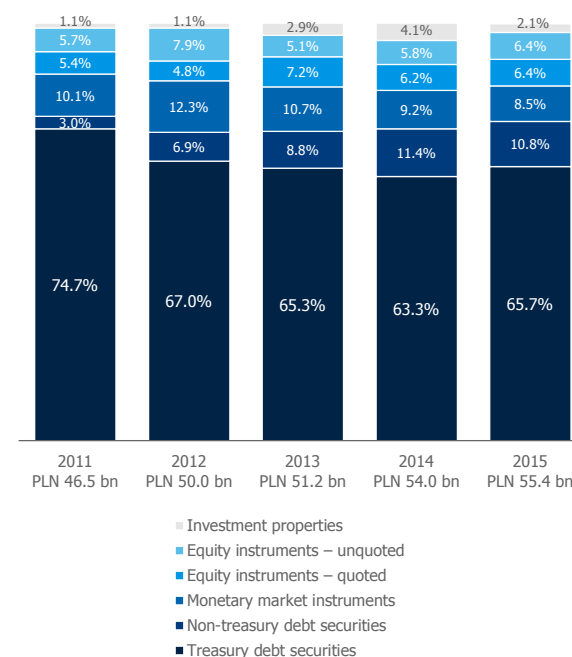
Money-market transactions were executed in order to boost effectiveness of investment activities and achieve additional margins.

PZU Group's investment activities in 2015 concentrated on continuing the realization of the strategy aiming at optimization of investment operations' profitability by greater diversification of investment portfolio.

## Other operating income and operating expenses result

In 2015, the balance of other net operating income and expenses was negative and amounted to PLN 418.8 million compared with the also negative balance for 2014 of

## Investment portfolio structure (PLN million)\*\*



\*\* Derivative instruments based on interest rates, currency exchange rates and prices of securities are presented in the category Debt market instruments – treasury, Money market instruments, and Quoted and non-quoted equity instruments.

PLN 370.1 million. The following factors had an impact on this result:

- higher costs of intangible asset amortization identified as the result of the 2014 acquisition of insurance and medical companies with value of PLN 161.1 million (PLN 87.8 million in 2014).
- greater expenses associated with preventive activity (PLN 92.4 million in 2015 compared to PLN 68.2 million in the previous year);

## 6.3 Claims and technical provisions

In 2015, the total net amount of claims and benefits and increase in provisions of PZU Group amounted to PLN 11,857.1 million.

In relation to 2014, the value of claims together with the change of provisions was 2.7% higher. The following factors also contributed to the increase in the net value of claims and benefits:

- growth of the group protection insurance portfolio, including health insurance with increased claims ratio – higher mortality ratio confirmed by CSO data covering the entire population;
- higher claims ratio in motor insurance resulting from higher number of reported claims.

On the other hand, the following contributed to the decrease in the net value of claims and benefits:

- lowering of the technical and insurance provision level due to PZU Życie's decision made as part of the annual process of establishing the rules for possible indexation of the sum insured by the clients in continued insurance concerning the modification of said rules from the start of 2016.
- lower growth in provision in individual unit-linked products in the banking channel as a result of a decreased sales volume and negative investment result;
- decrease in provisions for compensation claims for damage in previous years in general TPL insurance and damage caused by forces of nature in the corporate insurance segment.

## 6.4 Acquisition expenses and administrative expenses

In 2015, acquisition expenses amounted to PLN 2,376.3 million and increased by 10.7% compared with 2014. The main reasons for the increase were the following:

- higher direct acquisition costs in the mass client segment (resulting mainly from changes to commission rates in the half of 2014) and indirect acquisition costs in the mass client segment, specifically employee costs;
- commencement of consolidation of the insurance companies acquired in 2014.

Simultaneously, the declined acquisition costs resulted from the higher level of costs deferred in time.

In 2015, the Group's administrative expenses were at the level of PLN 1,657.9 million, which was 8.5% higher than in the previous year. The following factors had an impact on their level:

- inclusion of the administrative expenses incurred by the newly acquired insurance companies in the results of PZU Group;
- higher costs associated with the expansion of the Everest Platform (policy system for non-life insurance) and other strategic projects aimed to improve customer service by tied agents and develop distribution channels, especially remote channels.

Simultaneously, there was a recorded positive effect from the previous year in the segment of pension insurance due to the higher costs in 2014 associated with the additional payment to the Guarantee Fund (statutory rise of required funds in 2014 from 0.1% to 0.3% of OPF net asset value ("NAV").

## 6.5 Structure of assets and liabilities

As at 31 December 2015, the total assets of PZU Group amounted to PLN 105,429.0 million and were 56.0% higher than at the end of 2014. The growth resulted mainly from the consolidation of Alior Bank.

### Assets

The key components of the Group's assets were investments (financial assets and investment property). In total, these assets amounted to PLN 90,477.6 million and were 53.4% higher than at the end of the previous year. They represented 85.8% of the Group's total assets compared with 87.3% at the end of 2014.

The increase in the value of investments was mainly caused by the consolidation of Alior Bank, specifically resulting from the credits granted to the clients for the amount of PLN 30,331.6 million. This effect has been slightly offset by the following:

- lower valuation of interest-bearing financial assets;
- payment of the second installment of the 2013 dividend in January 2015 in the amount of PLN 1,468.0 million;
- decrease in share of investment properties due to the transfer of part of the portfolio from achievement of the projected investment horizon to assets for sale.

The PZU Group's receivables, including receivables from insurance contracts and current income tax, amounted to PLN 3,338.1 million, i.e. represented 3.2% of the assets. By comparison, at the end of 2014 the receivables amounted to PLN 3,085.8 million (4.6% of the Group's assets) and their increase concerned mainly receivables from insurance intermediaries.

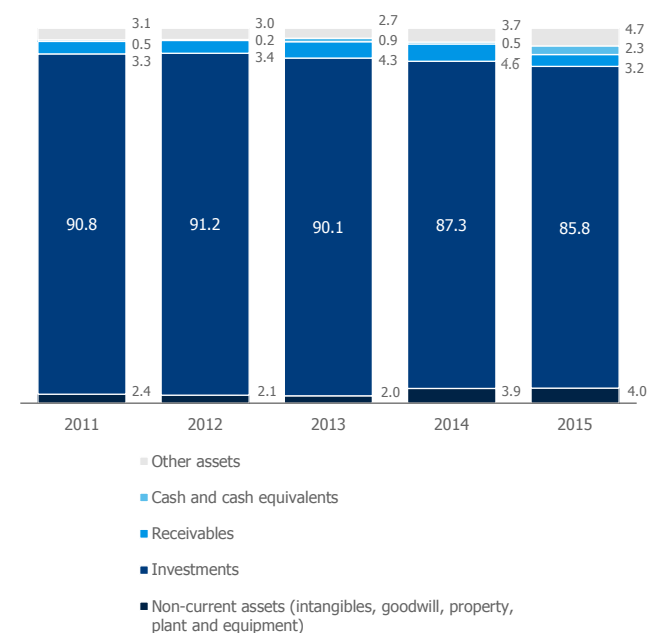
Non-current assets – in the form of intangible assets, goodwill and property, plant and equipment – were recognized in the statement of financial position at PLN 4,199.4 million. They comprised 4.0% of total assets. Their balance increased by 59.1% in 2015 in comparison with 2014, mostly due to the commencement of consolidation of Alior Bank, including:

- calculation of the goodwill in the amount of PLN 720.6 million;
- identification of new intangibles in the amount of PLN 300.0 million previously unrecognized by the company.

The calculation was based on a provisional acquisition settlement.

As at 31 December 2015, PZU Group's cash and cash equivalents amounted to PLN 2,439.9 million (2.3% of the assets). A year earlier, they amounted to PLN 324.0 million. The sixfold increase growth of the asset category resulted mainly from the commencement of the consolidation of Alior Bank and concerned the cash collected at the central bank. The PLN 899.4 million change in the balance of assets held for sale resulted on the one hand from the finalization of the sale of PZU Lithuania and on the other from the transfer of a part of the investment property portfolio to this asset category.

### Structure of PZU Group assets (%)



### Liabilities

Similar to asset structure, the structure of liabilities at the end of 2015 experienced considerable changes resulting from the commencement of consolidation of Alior Bank. The technical and insurance provisions do not compose the majority of the balance total – they composed 39.2% at the end of 2015 and 59.4% at the end of 2014.

At the end of 2015, the level of technical provisions rose by PLN 1,113.4 million, specifically due to the following:

- higher unearned premium provisions resulting from conclusion of several large agreements with protection

period over one year and gradual implementation of price rises in motor insurance;

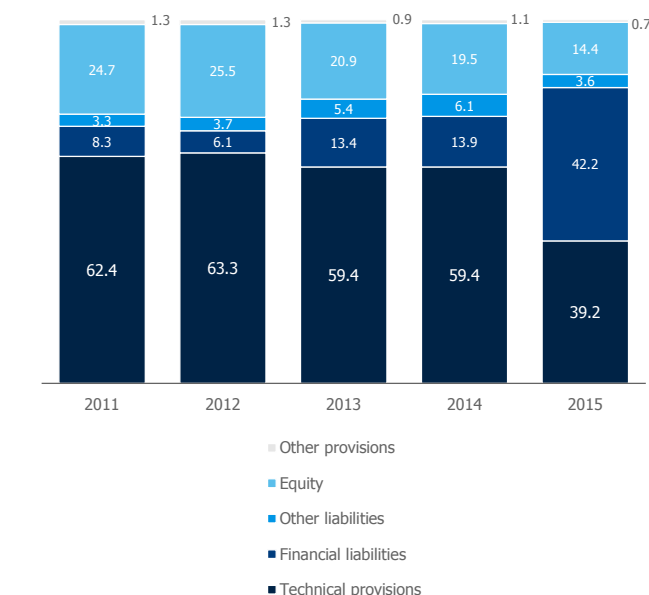
- rise of provisions for claims and benefits resulting from a claim of a considerable unit value (damage covered by the XL and proportional facultative reinsurance program; damage reinsured in over 90%);
- growth in technical provisions in individual unit-linked products, especially within the bancassurance channel – the increase results from sales of contracts exceeding the level of benefits paid, which was partially limited with the negative investment activity result;
- higher provisions in individually continued products – resulting from growth and aging of the agreement portfolio.

At the end of 2015, equity amounted to PLN 15,178.9 million and grew from the end of 2014 (15.3% growth). The growth of consolidated equity concerned minority shares, which reached the value of PLN 2,255.2 million mainly due to the consolidation of Alior Bank. The capital falling to the shareholders of the dominating entity dropped by PLN 242.6 million from the previous year, which is the result of the lower net result for 2015, partially offset by retained earnings from 2014.

The biggest component of liabilities at the end of 2015 covered financial liabilities, the share of which rose from 13.9% to 42.2% from the previous year. Their balance amounted to PLN 44,487.8 million and included:

- liabilities of PLN 33,655.7 million towards the clients (resulting mainly from the deposits of Alior Bank, which entered the structures of PZU Group on 18 December 2015);
- liabilities from sell-buy-back transactions in the amount of PLN 3,794.3 million at the end of 2015 compared to PLN 4,411.5 million in 2014;
- investment contracts in the amount of PLN 545.4 million compared to PLN 1,108.1 million at the end of 2014. The value drop by PLN 562.7 million compared with 2014 resulted from payments of subsequent tranches in short-term endowment investment products, both in the bancassurance and own channel, and additional surrenders in unit-linked products.
- liabilities from issuance of own debt instruments for the total amount of PLN 3,536.5 million (in total EUR 850 million, including the 2015 issuance for EUR 350 million);

### Structure of PZU Group liabilities (%)



- subordinated liabilities of Alior Bank including EUR 10 million loan and issued bonds with nominal value of PLN 708.9 million (book value of PLN 758.6 million at the end of 2015).

The balance of other liabilities and provisions at the end of 2015 amounted to PLN 4,482.0 million compared with PLN 4,835.0 million at the end of 2014. The drop mainly concerned liabilities towards the shareholders from the payment of the dividend resulting from the 2013 profit in the amount of PLN 1,468.0 million (dividend paid in January 2015) and was partially offset by the liabilities of the consolidated Alior Bank and the outstanding amount from the purchase of tranche III of Alior Bank shares.

### Cash Flow Statement

Total net cash flows as at the end of 2015 amounted to PLN 2,091.0 million and increased by PLN 2,373.6 million compared with the previous year. This increase is related to the high balance of cash and cash equivalents on the accounts of Alior Bank.

### Significant off-balance items

Conditional assets of PZU Group as at the end of 2015 amounted to PLN 33.1 million, a considerable amount of which constituted guarantees issued by Bank Millennium SA for PZU and PZU Życie. Under the guarantee line agreement

dated 7 October 2013 concluded between PZU and Bank Millennium SA, the bank extended bank guarantees (bid bonds and contractual guarantees) to PZU organizational units that participate in tender procedures for insurance services.

The value of conditional liabilities as at the end of 2015 amounted to PLN 10,082.0 million.

The significant year-on-year growth resulted mainly from the consolidation of Alior Bank. The value of conditional liabilities provided to Alior Bank clients amounted to PLN 8,941.7 million. This amount included PLN 7,371.8 million of conditional liabilities connected to financing and PLN 1,569.9 million of conditional guarantee liabilities.

Moreover, the balance of conditional liabilities include also claims, toward which no provisions have been recognized, including insurance-related claims.

The balance of conditional liabilities related to claims rose by PLN 379.8 million in 2015. This change resulted from a higher number of disputes and claim for damages resulting from disqualification from right to dividend, specified in point 53.1 of the Consolidated Financial Statements for 2015.

## 6.6 Share of the industry segments in the results

For management purposes, PZU Group has been divided into the following industry segments:

- corporate insurance (non-life) - this segment encompasses a wide range of non-life insurance, general liability and motor insurance, which are adapted to client needs and, with individually valued risks, offered by PZU and Link4 to large business entities.
- mass insurance (non-life) – composed of non-life, accident, TPL, and motor insurance products. PZU and Link4 provide the insurance to individuals and entities from the SME sector;
- life insurance: group and individual continued - PZU Życie offers this insurance to groups of employees and other formal groups (e.g. trade unions). It includes the following types of insurance:
- protection, investment (which, however, are not investment contracts) and health insurance;

- individual life insurance – PZU Życie offers this insurance to individual clients. The insurance contract relates to a specific insured, subject to the assessment of the individual risk. This group comprises protection, investment (other than investment contracts) and health insurance products.

Individuals who have a legal relationship with the policyholder (for instance an employer or a trade union) may enroll in the insurance; and individually continued insurance in which the policyholder acquired the right to individual continuation during the group phase.

- investments – reporting in accordance with PAS – comprises investment activity conducted with PZU Group's own funds defined as the surplus of investments over technical provisions in the insurance companies within PZU Group with their registered offices in Poland (PZU, Link4 and PZU Życie) increased by the surplus of income exceeding the risk-free rate from investments matching the value of technical provisions of PZU, Link4 and PZU Życie in insurance products, i.e. the surplus of investment income of PZU, Link4 and PZU Życie over the income allocated to insurance segments according to transfer prices. Additionally, the Investment segment includes income earned on other excess funds in PZU Group;
- pension insurance - activity conducted by PTE PZU.
- Ukraine segment - includes both non-life and life insurance;
- Baltic states segment - non-life and life insurance products provided in Lithuania, Latvia, and Estonia;
- investment contracts - including PZU Życie products, which do not transfer significant insurance risk and do not meet the definition of an insurance contract. They include some products with a guaranteed rate of return and some unit-linked products.
- other - this encompasses consolidated entities not allocated to any of the segments above.

### Corporate insurance

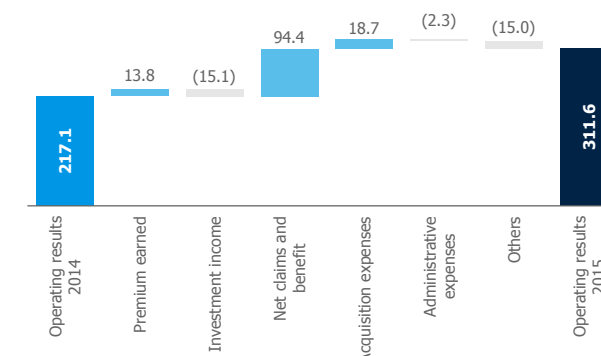
In 2015, the corporate insurance segment (composed of PZU and Link4) earned the operating profit of PLN 311.6 million, which is 43.5% more than in corresponding period of the previous year.

The commencement of Link4 consolidation in September 2014 entailed the growth of particular items in the 2015 operating result in comparison with the corresponding period of the previous year.

The following factors primarily had a key impact on this segment result in 2015:

- 0.9% growth of the net earned premium despite the slight decrease in the gross written premium by 0.4% compared with 2014. Lower sales were recorded mainly in the TPL insurance group resulting in finalization of several large tenders conducted by medical entities in the December 2014 (with no effect on the premium earned in 2014) and the motor own damage insurance group for rail vehicles and guarantees. Decrease in the written premium was partially offset by the increase in sales of motor own damage insurance as a result of a higher number of insurance policies and in the group of insurance against fire and damage to property resulting from the acquiring several strategic clients and entering contracts for the period longer than one year.
- 9.8% decline in net claims and benefits in comparison with the corresponding period of 2014, which, considering a 0.9% increase of the net premium earned, means that the loss ratio decreased by 7.0 p.p., to the level of 58.9%. The decline was recorded mainly in TPL insurance (lower level of provisions for previous years claims) and insurance for damage caused by forces of nature (lower claims rate). The effect is partially offset by the increased claims and benefits in motor insurance as a result of the higher average claim payment and higher number of reported claims.
- 11% decline in the investment income allocated to the segment at transfer prices to PLN 121.4 million, which was caused by the lower market interest rates;
- decline in acquisition expenses by PLN 18.7 million, i.e. 6.1 % compared with 2014, resulting from higher level of deferred acquisition costs partially offset by the increase in commission from inward reinsurance and indirect acquisition costs;
- an increase in administrative expenses to the level of PLN 127.4 million, i.e. 1.9 %, compared with the previous year. The level of expenses in 2015 was influenced by e.g. implementation of changes in client relations management, including mainly implementation of a new model of the corporate insurance sales network.

### Operating profit in the corporate segment (PLN million)



### Mass client insurance

In 2015, the operating profit in the mass client insurance segment amounted to PLN 651.6 million (a 13.9% decrease compared with the prior year).

The commencement of Link4 consolidation in September 2014 entailed the growth of particular items in the 2015 operating result in comparison with the corresponding period of the previous year.

The result was determined by the following factors:

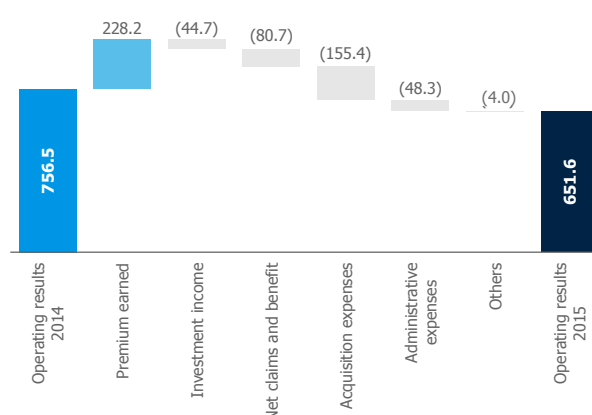
- 3.5% growth of the net earned premium y/y to PLN 6,791.3 million with simultaneous growth of the gross written premium by 14.6% (excluding the premium from the Group's subsidiaries, +11.4% y/y). Sales growth was recorded mainly in the motor insurance group as result of higher sales of motor insurance offered by PZU and acquisition of Link4 as of 15 September 2014. Higher premium was recorded also in the group of insurance of financial losses (due to long-term cooperation with a new Client under obligatory inward reinsurance agreement) and insurance for damage caused by forces of nature. Moreover, the premium growth was caused also by including Link4 and companies in the Baltic states in the inward reinsurance program (eliminated at the consolidated level);
- 1.8% higher amount of claims and benefits than in 2014. The decline in results from the previous year stemmed mainly from the higher claims and benefits level in motor insurance, which was determined mainly by the high



dynamics of claims reported and paid of motor own damage insurance. The adverse events were partially offset by a lower level of claims in property and agricultural insurance (especially regarding claims of mass character); Furthermore, the comparability of the results is influenced by the recognition of the rise of claims provision for compensation from pain and suffering for damage occurred in previous years in the 2014 result.

- 7.9% decline y/y (i.e. PLN 44.7 million) in the investment income allocated to the mass insurance segment at transfer prices, which was caused by the lower market interest rates;
- 12.5% higher acquisition costs compared with the corresponding period of the previous year resulting from higher inward reinsurance commission (effect of the conclusion of inward reinsurance agreements with the Group's subsidiaries companies) and indirect acquisition costs (including the costs of sales-assisting activity aimed to improve the effectiveness of the sales network). Furthermore, there was a growth of direct acquisition costs, which resulted from the change to the sales channel mix (higher share of the multiagency and dealers channel);
- 7.8% higher administrative expenses in comparison with 2014. This change was due to expansion and initial usage of the Everest Platform (policy system for non-life insurance) and other strategic projects aimed to improve client service by tied agents and develop distribution channels.

## Operating profit in the mass segment (PLN million)



## Group and individually continued insurance

The operating profit of the group and individually continued insurance amounted to PLN 1,574.7 million and was 10.6% lower than in the previous year. This was a result of:

- growth of the gross written premium by PLN 149.6 million (+2.3%) was primarily due to:
  - development of group protection insurance (growth of the average premium and number of insured parties, including high level of new sales);
  - acquisition of the premium in group health insurance (new clients in ambulatory insurance and sales of medicine product versions);
  - upselling of riders and higher sums insured in individually continued products.

The positive effects were partially offset by the decrease in premium in unit-linked insurance, which resulted from the transfer of EPP agreements of PZU's employees to the EPP operated by TFI PZU;

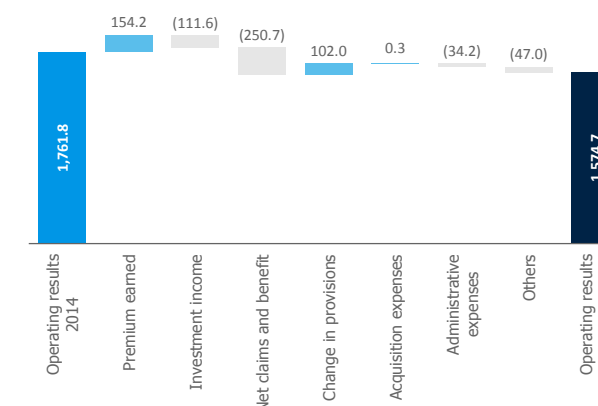
- lower investment income. In 2015, it amounted to PLN 601.7 million, i.e. dropped by 15.6%, which resulted from the decline of the revenue allocated according to transfer pricing as the effect of lower market interest rates and from the decrease in revenue from unit-linked products as the effect of lower treasury bond prices compared to the rises in the previous year;
- 5.6% higher net insurance claims and benefits. In 2015, they closed at PLN 4,750.1 million. The change resulted mainly from the following:
  - increased mortality ratio in protection insurance compared with the previous year, confirmed by the CSO (Central Statistical Office) survey on the entire population and additional growth of the agreement portfolio itself;
  - higher endowment payments in short-term endowment products and structured products in the bancassurance channel - maturity dates reached for the subsequent product tranches; no effect on the result – offset by the change to the technical insurance provisions.
- PLN 31.6 million drop in other net technical provisions compared to the PLN 70.3 million provision growth of the previous year. The main cause was the lower growth of provisions in individually continued products – higher mortality ratio (a client's death entails the need for benefit payment, but simultaneously releases the technical and insurance provision) and higher share among people entering the portfolio following the modification allowing for the creation of lower initial technical and insurance

provisions. Furthermore, PZU Życie's modified these rules from the start of 2016 in the scope of the annual process of establishing the rules for possible indexation of the sum insured by the clients in continued insurance. This had a positive impact on the level of technical provisions in this portfolio. There was also a greater decline of provisions in short-term life and endowment products and structured products in the bancassurance channel compared with the previous year – endowment of the subsequent product tranches in the face of the lack of sales of new contracts. Moreover, the slightly higher rate of conversion of long-term contracts into annual renewable contracts in type P group cover also affected the level of these provisions. As a result, provisions of PLN 75.4 million were released, i.e. PLN 5.5 million more than in 2014;

- acquisition costs similar to those of the previous year. These costs amounted to PLN 356.3 million. Factors determining the level of direct and indirect acquisition costs included high sales of riders to continued protection insurance (agent remuneration, costs of distributing the offers to the clients and associated indirect costs) and increased sales activity in the scope of health products. These factors were offset by the lower acquisition costs in group protection insurance as the effect of the rising focus of the agency network on acquisition of individual protection products;
- 6.3% higher administrative expenses. The growth to PLN 577.2 million was determined mainly by strategic expenses in distribution and operating support. 2015 saw the continuation of several strategic products aimed to build an innovative distribution channel and for other purposes;
- the PLN 47.0 million year-on-year decline in other revenues and expenses was caused by a prevention fund charge (no such cost was recorded in the previous year, eliminated at the level of the consolidated result) and higher costs related to PZU Życie financing the premium (higher promotional sales of additional insurance policies to individually continued insurance).

After excluding the one-off effect related to the conversion of long-term contracts into renewable contracts type P from the segment's result, the segment's 2015 operating profit amounted to PLN 1,499.3 million, compared with PLN 1,692.0 million in the corresponding period of 2014 (a 11.4% drop). The main cause of the inferior result is the higher claims ratio of the protection portfolio resulting from higher mortality ratio.

## Operating profit of the group and individually continued insurance (PLN million)



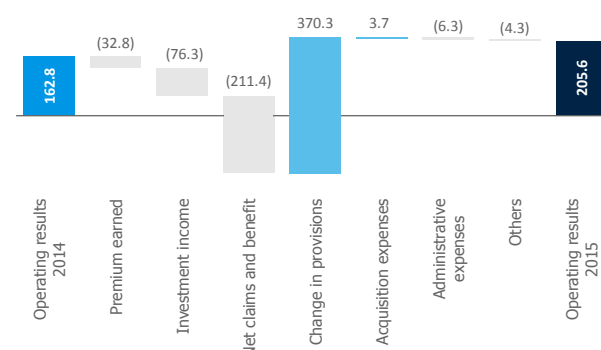
## Individual insurance

In 2015, the operating result of the individual life insurance segment amounted to PLN 205.6 million, i.e. it was 26.3% higher than in the prior year. The main factors affecting the level of the segment's operating result were:

- gross written premium drop of PLN 34.4 million (-2.7%) from 2014 resulted from the following:
  - lower sales of unit-linked products in cooperation with banks;
  - lack of sales in structured and deposit product in cooperation with banks in 2015;
  - withdrawal of the Plan na Życie savings product with a protection component and regular premium.
- The negative effect was offset by the following:
  - record structured product subscriptions in own channel;
  - high sales of protection products – resulting from the changes to the commission system and improvement of the offer through introduction of the new Pomoc od Serca additional insurance;
  - higher average deposits to IKE accounts;
  - introduction of a new unit-linked product into the own channel offer: Cel na Przyszłość.
- lower investment income. Decrease year-on-year by PLN 76.3 million to PLN 250.4 million in the individual insurance segment, mainly in unit-linked products in the bank channel, resulting mainly from the sentiment on the Polish capital market in 2015, which was inferior to that of the previous year. The income allocated according to transfer prices slightly declined;

- 33.1% growth of net insurance claims and benefits. In 2015, they amounted to PLN 850.2 million. This growth resulted from the higher value of surrenders in unit-linked products sold in own channels (PZU's discontinuation of charging for advanced surrender in the scope of the Plan na Życie product) and the bank channel (year-on-year portfolio growth). The situation on the capital markets was also important in both cases. The next factor included higher endowment payments in structured products in the bancassurance channel (maturity dates reached for the subsequent product tranches) and in term protection products. In the case of investment products, the negative impact of the aforementioned factors on the operating result (with the exception of the lack of charges for advance surrenders) was offset by the appropriate change to the technical provisions;
- the increase in other net technical provisions was lower than in the previous year by PLN 370.3 million. This change was associated mainly with the dropping provision of unit-linked products sold via bancassurance – there was a culmination of three negative effects on the state of provisions, i.e. increased benefit payments, decreased written premium, and negative investment activity result. Additional factors reducing the level of provisions concerned annuity products and included the introduction of uncollected benefit verification and also rise of payments for endowment while simultaneously lacking the sales of structured products in the bancassurance channel in the year. A similar effect was observed in the Plan na Życie savings product with a protection element and regular premium (discontinued sales and withdrawal from charges for advance surrender leading to increased surrenders value);
- acquisition costs lower by 2.9% The drop in the costs to PLN 122.7 million was caused mainly by the withdrawal of the Plan na Życie savings product with a protection component and regular premium;
- administrative expenses increased by PLN 6.3 million in comparison with the previous year. The growth to PLN 59.7 million was determined by strategic expenses in distribution and operating support. The improvements included client service quality by exclusive agents;
- changes in the other revenues and expenses category (expenses higher by PLN 4.3 million) resulting from the prevention fund charges in the current year (no such expense was recorded in the previous year which was eliminated at the consolidated level).

## Operating profit of the individual insurance segment (PLN million)



## Investments

Income from the investment segment investment activity conducted with PZU Group's own funds defined as the surplus of investments over technical provisions in the insurance companies within PZU Group with their registered offices in Poland (PZU, Link4 and PZU Życie) increased by the surplus of income exceeding the risk-free rate from investments matching the value of technical provisions of PZU, Link4 and PZU Życie in insurance products, i.e. the surplus of investment income of PZU, Link4 and PZU Życie over the income allocated to insurance segments according to transfer prices. Additionally, the investments segment includes income earned on other excess funds in PZU Group.

The operating profit of the investments segment (external operations only) amounted to PLN 506.2 million and was 12.6% lower than in 2014, mainly due to lower yield of investment portfolio caused mainly by decrease in income on interest-bearing financial assets as a result of increased yield of Polish treasury bonds in the middle and at the end of the yield curve in 2015 compared to the decreases along the entire curve in 2014.

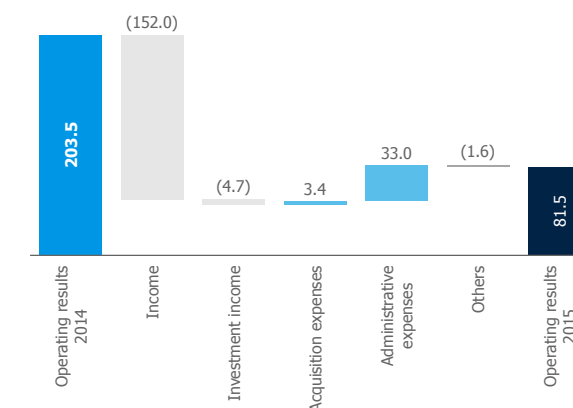
## Pension insurance

In 2015, the operating profit of the pension insurance segment amounted to PLN 81.5 million, i.e. it dropped by 60.0% compared with 2014. This was the result of:

- fee and commission revenue, which amounted to PLN 118.5 million, i.e. it dropped by 56.2% from the previous year. This change was the result of:

- the 2014 statutory withdrawal of funds from the additional part of the Guarantee Fund in the amount of PLN 132.3 million;
- decrease of PLN 14.7 million in premium revenue resulting from the discontinuation of premium transfer of members who omitted to fill in the participation declaration during the transfer window to OPFs after 1 August 2014, the reduction of fees from 3.5% to 1.75% on 1 February 2014, and the lack of premiums for the people in the so-called "slider";
- decrease of PLN 8.1 million in management fee resulting from the statutory transfer of a portion of OPF assets to the Social Insurance Institution (ZUS) on 3 February 2014 and the decline in OPF assets during the second half of 2015 as a result of the market situation;
- the net investment revenue amounted to PLN 6.9 million and dropped by PLN 4.7 million due to the financial asset drop;
- the acquisition costs amounted to PLN 2.9 million, i.e. they were 53.6% lower than in the previous year. This resulted from the informational activity conducted by OPF in 2014;
- the administrative expenses amounted to PLN 39.9 million, i.e. were 45.3% lower than in the previous year. In particular, the costs of maintaining pension fund registers declined by PLN 9.3 million due to lowering the fee for the management of the accounts of the members of OFE PZU (first in February 2014, then again in January 2015) and the resignation from the additional compensation for the transfer agent in connection with the fulfillment of assumptions regarding the improvement of the quality of provided services. Fees collected from premiums transferred by the Social Insurance Institution (ZUS) to OPF were lower by PLN 3.3 million as a result of statutory changes. Furthermore, the costs of obligatory additional payments to the Guarantee Fund in the Central Securities Repository of Poland dropped by PLN 20.3 million (mainly as a result of the statutory change of the required level from 0.1% to 0.3% of the net assets of OPF at the end of the first quarter of 2014 and the additional payment of the previous year).

## Operating profit in the pension insurance segment (PLN million)



## Baltic states

The following changes with considerable impact on data comparability occurred in the Baltic states structure over the years 2014-2015:

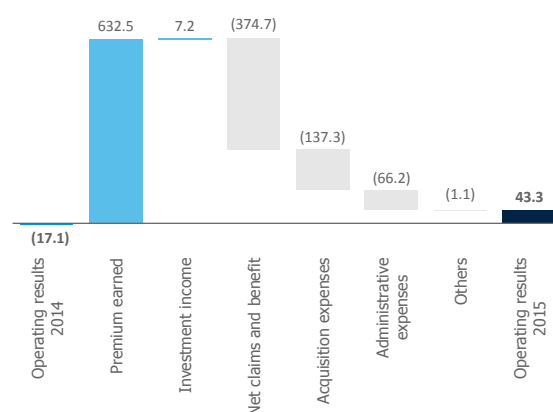
- PZU Lithuania was a part of the segment until 30 September 2015;
- in 2014, the segment was expanded to include: AAS Balta (June 2014), Lietuvos Draudimas (November 2014), Estonian branch operating under the Codan brand (November 2014).

PZU Group generated an operating profit of PLN 43.3 million in the Baltic states in 2015 compared with an operating loss of PLN 17.1 million in the previous year. The result arose from the following factors:

- increase in gross written premium. It amounted to PLN 1,193.9 million, where the companies acquired in 2014 generated the premium of PLN 981.2 million and life insurance recorded a written premium growth of PLN 5.9 million (i.e. 15.9%) from the previous year;
- growth of the investment income. In 2015, the result amounted to PLN 21.8 million, up by 49.0% from the previous year;
- increase in net claims and benefits. They amounted to PLN 686.9 million and were 120.0% higher than in 2014, with the value of claims and benefits of the companies acquired in the previous year amounting to PLN 546.7 million. In life insurance, the value of claims amounted to PLN 29.3 million, 13.6% up from the previous year.

- increase in acquisition costs. The respective expenses of the segment amounted to PLN 252.8 million, including PLN 202.5 million of acquisition costs incurred by the companies acquired in 2014. The acquisition cost ratio to the net earned premium dropped by 1.4 p.p. to 22.8%;
- increase in administrative expenses. They amounted to PLN 146.4 million, up by 82.5% from the previous year, while the expenses of the newly acquired companies amounted to PLN 111.7 million. At the same time, the administrative expenses ratio amounted to 13.2%, a drop of 3.6 p.p. from the previous year.
- increase in interest-bearing costs. They amounted to PLN 1.8 million and were PLN 1.1 million higher than in the prior year.

## Operating profit in Baltic states insurance segment (PLN million)



## Ukraine

Taking into account the significant depreciation of the Ukrainian currency, the results are presented in the currency used by the companies for reporting purposes.

In 2015, the Ukraine segment earned an operating profit of UAH 12.3 million, compared with UAH 8.9 million in the previous year.

The change of the segment result was caused by:

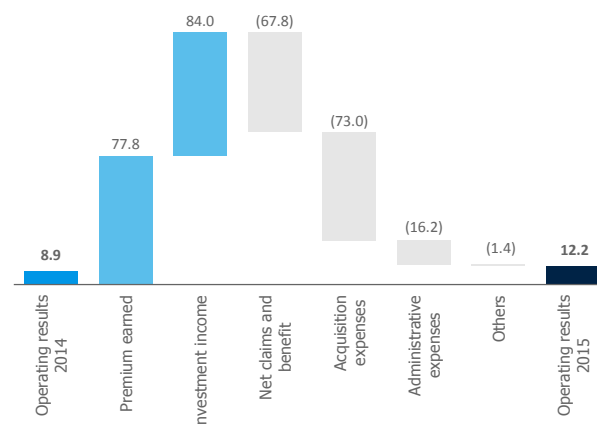
- increase in the gross written premium. The premium amounted to UAH 976.7 million and increased by 48.4% in comparison with the previous year. The sales of the Green Card (increased rates) and health insurance improved. Taking into account the depreciation of the currency, the

written premium showed a reverse trend (a drop of PLN 5.4 million);

- growth of the investment income. This segment earned UAH 239.7 million in this respect, which is 53.9% more than in 2014. The following factors had a positive impact on its level: an increase in the liquid assets base and foreign exchange profits, in particular, in life insurance offered mainly in foreign currencies;
- increase in claims and benefits. They amounted to UAH 425.6 million, i.e. 18.9% higher than in the previous year. The reasons for the increase included the 2.3 p.p. rise of the claims ratio, mainly in property and health products;
- increase in acquisition costs. They amounted to UAH 270.7 million compared with UAH 197.7 million in the prior year. Their level was the result of an increase in the written premium from motor and travel insurance, which are subject to higher commission charges;
- increase in administrative expenses. They amounted to UAH 122.8 million. For comparison purposes, in 2014, the administrative expenses of the segment amounted to UAH 106.7 million. Meanwhile, the administrative cost ratio to the net earned premium remained at the level of 20.7%.

In the reporting currency, the written premium amounted to PLN 168.2 million and was lower by 3.1% compared with the previous year.

## Operating profit in Ukraine segment (UAH million)



## Investment contracts

The consolidated statements present the investment contracts in accordance with the requirements of IAS 39.

The results of investment contracts segment are presented as per the Polish Accounting Standards, which means that, among others, the following items were included: gross

written premiums, paid benefits and change in technical provisions. The above categories are eliminated for the purpose of the consolidated results.

PZU Group earned PLN 1.1 million of operating profit compared with PLN 15.1 million in the previous year (drop of 92.5%) on investment contracts, i.e. PZU Życie's products which do not transfer significant insurance risk and which do not meet the definition of an insurance contract (such as some products with a guaranteed rate of return and some unit-linked products).

The following had an impact on the results of the segment in 2015:

- gross written premium from investment contracts dropped by PLN 233.4 million (-62.3%) from the corresponding period of 2014 to PLN 141.1 million. The main reasons for the changes to the gross written premium included:
  - lower sales of short-term endowment products in own channels,
  - withdrawal of short-term endowment products in the bancassurance channel.

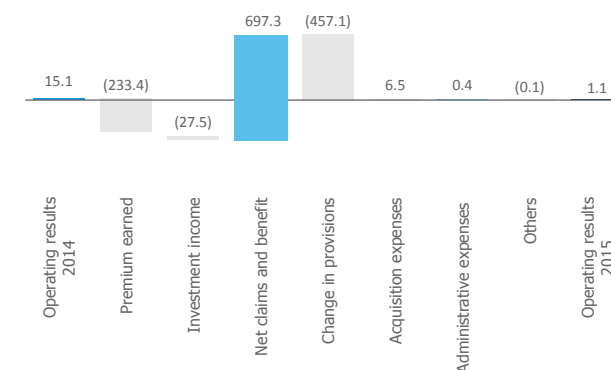
In both cases, the reason was the low profitability of such agreements for the clients following the drop of market interest rates to unprecedented lows and introduction of the tax on capital revenue for such policies. A positive factor is the year-on-year growth of contribution to accounts observed in IKZE.

- lower investment income. The income was PLN 16.1 million, i.e. 63.1% lower than in the corresponding period of 2014, mainly in the short-term endowment products in own and bancassurance channels, as well as unit-linked in bancassurance channel as the effect of a decline in investments level;
- lower value of net insurance claims and benefits resulting from the considerable drop in endowment payments from short-term endowment products in the bancassurance channel (last year saw the maturity of high-value tranches; considerably lower sales in subsequent periods; no effect on the result – corresponding effect in changes to technical provisions). These amounted to PLN 694.5 million, i.e. they were 50.1% lower than in the prior year;
- lower negative balance of the change in the balance of other technical provisions. This amounted to PLN 558.5 million compared with PLN 1,015.5 million in the prior year. This difference arose mainly from the changes in the portfolio of short-term investment endowments sold

through the bancassurance channel, i.e. lower level of endowment combined with the withdrawal of such products from the offer;

- lower acquisition costs. These amounted to PLN 10.0 million, i.e. they were 39.3% lower than in the prior year. This resulted from considerable reduction of sales and declined asset value in unit-linked products of the bancassurance channel (some of the bank's remuneration is determined by the level of assets);
- lower administrative expenses. These amounted to PLN 9.3 million and declined by 3.8% compared with 2014 – the result of a decrease in the contracts portfolio. The decline is less than proportional because some of the service processes must continue despite failure to generate revenue.

## Operating profit in investment contracts segment (PLN million)



## Profitability ratios

In 2015, the return on equity of the dominating entity (PZU) was 18.0%. ROE was 4.6 p.p. lower than in the previous year. The profitability ratios achieved in 2015 by PZU Group exceed the levels achieved by the whole market (according to the data for three quarters of 2015).

## Operating efficiency ratios

One of the basic efficiency and operating measure of an insurance company is the combined ratio (COR) which is calculated for the non-life sector because of its specific nature (Section II).

The combined ratio of PZU Group (for non-life insurance) remains in the last few years at the level which guarantees

high profitability. In 2015, the ratio dropped, mainly because of the declined provisions for claims from damage in previous years in PZU's third-party liability insurance group.

Operating efficiency ratios by segments were also presented in ATTACHMENT

Key profitability ratios of PZU Group	2015	2014	2013	2012	2011
<b>Return on Equity (ROE) – falling to the dominating entity</b> (annualized net profit / average equity) x 100%	18.0%	22.6%	24.1%	24.1%	18.3%
<b>Return on Equity (ROE) - consolidated</b> (annualized net profit / average equity) x 100%	16.5%	22.6%	24.1%	24.0%	18.3%
<b>Return on assets (ROA)</b> (annualized net profit / average assets) x 100%	3.5%*	4.6%	5.6%	6.0%	4.6%
<b>Administrative expenses ratio</b> (administrative expenses / premium earned net of reinsurance) x 100%	9.5%	9.3%	8.7%	9.0%	9.3%
<b>Return on Sales</b> (net revenue / gross written premium) x 100%	12.8%	17.6%	20.0%	20.0%	15.3%

\* excluding Alior Bank

Operating efficiency ratios	2015	2014	2013	2012	2011
1. <b>Claims ratio gross</b> (Gross claims including change in technical provisions / gross written premium) x 100%	66.9%	69.5%	67.9%	76.2%	67.9%
2. <b>Claims ratio net of reinsurance</b> (net claims paid/net premium earned) x 100%	68.2%	70.3%	68.7%	76.3%	68.6%
3. <b>Insurance activity costs ratio</b> (Costs of insurance activity/premium earned net of reinsurance) x 100%	23.2%	22.4%	21.1%	21.5%	22.5%
4. <b>Acquisition expenses ratio</b> (acquisition expenses/premium earned net of reinsurance) x 100%	13.7%	13.1%	12.4%	12.5%	13.2%
5. <b>Administrative expenses ratio</b> (Administrative expenses/premium earned net of reinsurance) x 100%	9.5%	9.3%	8.7%	9.0%	9.3%
6. <b>Combined ratio in non-life insurance</b> (claims + costs of insurance activity)/ premium earned net of reinsurance x 100%	94.6%	95.7%	87.8%	92.8%	95.3%
7. <b>Operating profit margin in life insurance</b> (operating profit/gross written premium) x 100%	22.3%	24.4%	22.3%	19.8%	28.7%





## Virtual threats are real

Do you remember them? Mario and Agatka will remind you how to protect yourself against cyber threats at work and more.

If you want to learn more, write to **kontaktBBE@pzu.pl** or go to **PZU24/Security Department** or **obi.pzu.pl**



## Risk management

We devote a lot of time to a continued development of advanced risk management procedures. We consider them to be fundamental, as, all in all, we want our clients to feel secure and calm and our results to remain predictable.

### Contents:

1. Risk management objective
2. Risk management system
3. Risk appetite
4. Risk management process
5. Risk profile
6. Sensitivity to risk
7. Reinsurance activity
8. Capital management

## 7.1 Risk management objective

Risk management aims to:

- increase the value of PZU Group through active and conscious management of the amount of exposure at risk;
- prevent taking risk at a level which could threaten the financial stability of PZU Group.

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

The main elements of an integrated risk management system are consistent for all insurance companies of PZU Group and implemented in a way which ensures the realization of strategic plans of individual companies and ensures business objectives of the whole PZU Group. They include, among others:

- systems of limits and restrictions of the acceptable risk level, including the level of risk appetite;
- processes of identification, measurement and assessment, monitoring and control, reporting and management actions with respect to individual risks;
- risk management organizational structure, in which Management Boards and Supervisory Boards of companies, as well as dedicated Committees, play the key roles.

Companies from other financial market sectors are obliged to follow the standards relevant to a given sector. In internal regulations adopted by them they specify among others the following:

- processes, methods, and procedures that enable risk measurement and management;
- segregation of duties in the risk management process;
- scope, terms and conditions, and frequency of reporting on risk management.

PZU supervises the PZU Group risk management system under cooperation agreements with PZU Group entities and on the basis of information provided as per such agreements, as well as manages PZU Group aggregated risk.

## 7.2 Risk management system

The risk management system of PZU Group is based on:

- organizational structure – including division of responsibilities and tasks performed by management bodies, committees as well as organizational units in the risk management process;
- risk management process, including the methods of identification, measurement and assessment, monitoring and control, reporting risk and taking management action.

The organizational structure of the risk management system, which is consistent within PZU Group and in individual insurance companies within PZU Group, includes four competence levels.

The first three are as follows:

- Supervisory Board, which oversees the risk management process and assesses its adequacy and effectiveness as part of its decision-making powers defined in the company's By-laws and the Supervisory Board rules and regulations, as well as through the appointed Audit Committee;
- Management Board, which organizes the risk management system and ensures its functionality through approving the strategy and policies and defining the risk appetite, the risk profile and tolerance for individual kinds of risk;
- Committees which make decisions on reducing the level of individual risks in order to keep the overall risk within the limit determined by the risk appetite. The Committees implement the procedures and methodologies for mitigating individual risks and accept their limits.

Fourth level of competence relates to operational actions and is divided between the three lines of defense:

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

## 7.3 Risk appetite

The risk appetite is defined in PZU Group as the amount of risk taken in order to achieve business objectives and it is measured by the level of potential financial losses, decrease in the value of assets or an increase in the value of liabilities in a one-year period.

The risk appetite determines the maximum level of acceptable risk when setting individual partial risks limits and restrictions which, when exceeded, result in taking actions necessary to limit further risk growth.

The procedure of determining the risk appetite and limits for individual risk categories has been implemented in all insurance companies of PZU Group and is consistent with the group process. The Management Board in each company determines the risk appetite, the risk profile and tolerance limits which reflect its strategic plans and objectives of the entire PZU Group. Such an attitude ensures appropriateness and efficiency of the risk management system in PZU Group and prevents risk acceptance at a level which could pose a threat to the financial stability of individual companies or the entire PZU Group. The Management Board of a respective company is responsible for determining the appropriate risk level for every company, whereas the risk unit reviews the level of risk appetite once a year. All the activities are coordinated at the Group level.

**The risk management process consists of the following stages:**

### Identification

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

### Risk measurement and assessment

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

### Risk monitoring and control

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

### Reporting

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

### Management actions

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

# Risk management

## 7.4 Risk management process

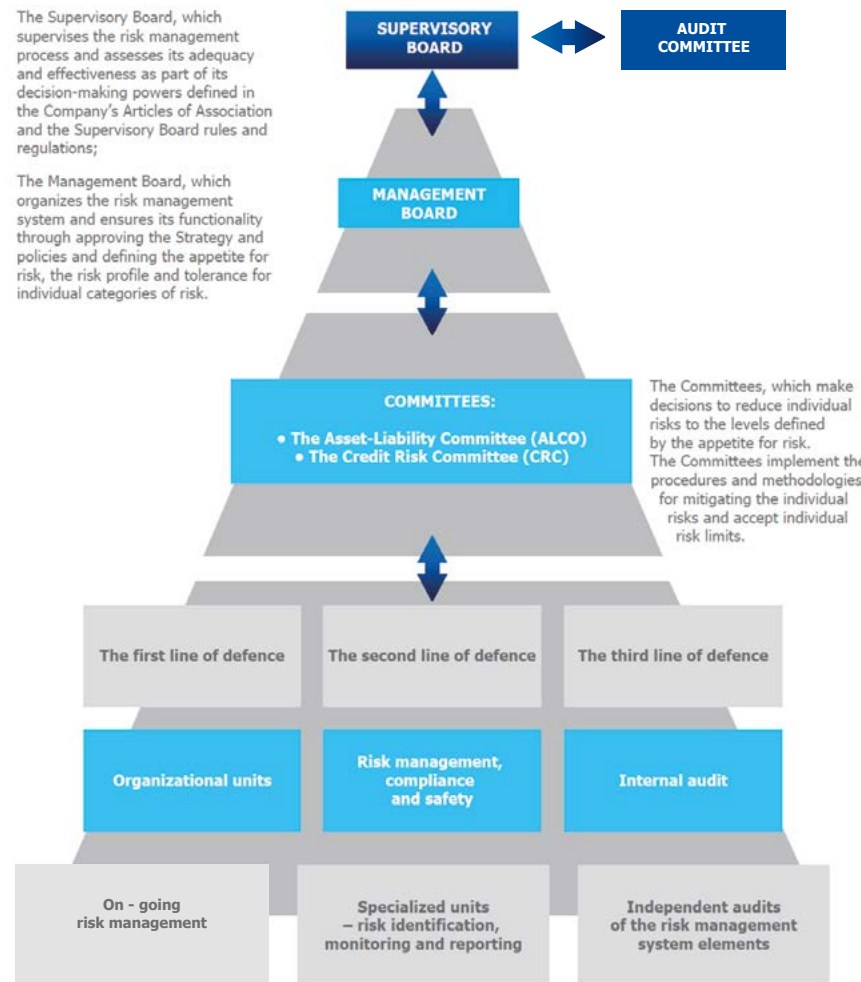
Two levels are distinguished in the risk management process:

- PZU Group level – ensures that PZU Group implements its business objectives in a safe way which is adequate to the degree of risk involved. This level engages the monitoring of limits and specific risks to PZU Group, such as: catastrophe risk, financial risk, counterparty risk, or concentration risk. PZU Group provides support in implementation of the integrated risk management system which encompasses introducing consistent mechanisms, standards, and operational organization of an effective internal control system (with special focus on compliance function), risk management system (especially in the reinsurance area), and security management system at PZU Group, as well as monitors their on-going operation. Dedicated employees from PZU Group cooperate

with Management Boards of the companies and with management of such areas as finance, risk, actuary, reinsurance, investment, and compliance, under relevant cooperation agreements;

- solo level – ensures that a given PZU Group entity implements its business objectives in a safe way, adequate to the degree of risk involved by this entity. As a part of the integrated risk management system, PZU Group implements consistent mechanisms, standards, and operational organization of an effective internal control system (with special focus on the compliance function), risk management system (especially in the reinsurance area), and security management system.

### Organizational structure of risk management system



## 7.5 Risk profile of PZU Group

### The most important factors influencing PZU Group's risk profile in 2015

The integration of risk management process in insurance companies within PZU Group and implementation of Solvency II GLOSSARY requirements and supervisory guidelines, in particular those of PFSA, were the key event from the point of view of PZU Group's risk profile.

The main types of risks incurred by PZU Group include underwriting risk, market risk, credit risk, concentration risk, operational risk, and compliance risk.

### Underwriting risk

It is the risk of a loss or an adverse change in the value of liabilities as a result of improper assumptions regarding valuation and the establishment of technical provisions.

The process of risk identification starts with the idea of creating an insurance product and it lasts until the related liabilities expire. Underwriting risk identification is carried out, e.g. by means of:

- analysis of general insurance terms and conditions in respect of the accepted risk and compliance with generally applicable provisions of law;
- monitoring of existing products;
- analysis of the policies relating to underwriting, tariffs, provisions and reinsurance, as well as the claims and benefits handling process.

Underwriting risk assessment involves recognizing the degree of exposure or a group of exposures related to the possibility of incurring a loss and analyzing the risk elements in order to make a decision on whether PZU should accept a risk for insurance and assume liability. The aim of the risk assessment (underwriting) GLOSSARY is the assessment of future claims and the reduction of adverse selection.

Underwriting risk measurement is based in particular on:

- analysis of selected indicators;
- scenario method – analysis of impairment arising from an assumed change in risk factors;
- factor method – a simplified version of the scenario method, reduced to one scenario per risk factor;
- statistical data.

Monitoring and controlling of underwriting risk includes the analysis of the level of risk by means of a set of reports including selected indicators.

The reporting aims to ensure efficient underwriting risk communication and supports underwriting risk management at different levels of decision-making process from the employee level to the Supervisory Board. The frequency of individual reports and the scope of information are tailored to meet the information needs at different decision-making levels.

Management activities in the underwriting risk management process are carried out, in particular by:

- specifying underwriting risk tolerance level and monitoring thereof;
- business decisions and sales plans;
- calculating and monitoring the adequacy of technical provisions;
- pricing strategy, as well as monitoring existing estimates and assessing the premiums adequacy;
- process of assessment, measurement and acceptance of underwriting risk;
- use of underwriting risk mitigation techniques, including, in particular, reinsurance and prevention.

Furthermore, in order to reduce the underwriting risk associated with the ongoing activities the following actions, in particular, are undertaken:

- definition of the scopes of liability and exclusions in the general terms of insurance;
- reinsurance activities;
- adequate pricing policy;
- application of appropriate methodology of provisions calculation;
- appropriate underwriting process;
- appropriate claims handling process;
- sales decisions and plans;
- prevention.

### Market risk

Risk of a loss or an adverse change in the financial standing, which directly or indirectly arises from fluctuations and changes in market prices of assets, credit spread, value of liabilities, and financial instruments.

# Risk management

The nature of the process of credit spread risk management and concentration risk varies from management process of other subcategories of market risk and has been defined in the next section (Credit and concentration risk) along with the process of managing counterparty default risk.

The identification of market risk involves recognizing the actual and potential sources of this risk. In the case of assets, the market risk identification process begins when a decision is made to commence transactions on a given type of financial instrument. The units which decide to start transactions on a given type of a financial instrument prepare the description of the instrument, including, in particular, the description of the risk factors. The description is then submitted to the risk management unit which uses it to identify and assess the market risk.

The process of identifying market risk related to insurance liabilities starts simultaneously with the process of creating an insurance product and involves identifying the relationship between the amount of cash flows associated with this product and the market risk factors. Identified market risks are assessed in terms of materiality, i.e. based on whether the materialization of a risk would be related to a loss that could affect the financial standing.

The market risk is measured using the following measures of risk:

- VaR, i.e. Value at Risk – a risk measure quantifying the potential economic loss which will not be exceeded over a one-year period with a 99.5% probability under normal market circumstances;
- exposure and sensitivity measures;
- accumulated monthly loss.

The following stages of the market risk measurement process can be distinguished:

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

The risk measurement is performed:

- for the measures of exposure and sensitivity of instruments;
- using a partial internal model.

Monitoring and control of the market risk involves analyzing the risk levels and the utilization of limits.

Reporting consists of communicating the level of market risk and the effects of monitoring and control to the different decision-making levels. The frequency of individual reports and the scope of information are tailored to meet the information needs at different decision-making levels.

Management actions regarding market risk include, in particular:

- concluding transactions to mitigate market risk, such as selling a financial instrument, closing out a transaction on a derivative, and purchasing a hedging derivative;
- diversifying the portfolio of assets, in particular with respect to market risk categories, maturities of instruments, concentration of exposure in one entity, geographical concentration;
- setting market risk restrictions and limits.

The setting of limits is the main management tool for maintaining risk positions within acceptable risk tolerance levels. The structure of limits for the individual market risk categories and the organizational units is defined by dedicated Committees in line with the risk tolerance.

## Credit risk and concentration risk

Credit risk is the risk of loss or adverse change of the financial standing resulting from fluctuations of reliability and creditworthiness of issuers of instruments, counterparties and debtors, which materializes in the default of counterparty or an increase in credit spread.

Concentration risk is a risk arising from lack of diversification in the portfolio of assets or from high exposure to the risk of default by a single issuer of securities or a group of related issuers.

Identification of the credit and concentration risk takes place at the stage of making a decision to invest in a new type of financial instrument or to involve in the credit exposure to a new entity. Identification is based on an analysis of whether a given investment is related to credit or concentration risk, on which its level and volatility depends. The actual and potential sources of credit and concentration risk are identified.

Risk assessment is based on estimating a probability that the risk occurs and a potential impact of such an occurrence on the financial standing.

Credit risk is measured with the use of the following tools:

- exposure measures (the amount of the gross and net credit exposure and maturity-weighted net credit exposure);
- VaR.

Concentration risk measurement for a single entity is calculated as the product of the following two values:

- amount of exposure to this entity over the excessive concentration level;
- concentration risk factor set for every internal rating.

The total concentration risk is measured as the sum of concentration risks of individual entities. In the case of related entities, concentration risk is specified for all related entities cumulatively.

Monitoring and controlling of the credit and concentration risk involve analyzing the current risk level, assessing creditworthiness, and determining the level of utilization of the limits set.

Monitoring is conducted for:

- financial insurance exposures;
- reinsurance exposures;
- exposure limits and VaR limits.

Reporting consists of communicating the level of credit and concentration risk and the effects of monitoring and control to the different decision-making levels. The frequency of individual reports and the scope of information are tailored to meet the information needs at different decision-making levels.

Management actions with respect to credit risk and concentration risk include, in particular:

- setting limits of exposure to a single entity, group of entities, sectors or states;
- diversifying a portfolio of financial assets and insurance, mainly with respect to the state, sector;
- accepting collateral;
- concluding transactions aimed at mitigating credit risk, such as selling a financial instrument, closing out a derivative transaction or purchasing a hedging derivative, restructuring of the granted debt;
- reinsuring a financial insurance portfolio;

The structure of credit and concentration risk limits for individual issuers is determined by dedicated Committees in line with risk tolerance.

## Operational risk

Is a risk of loss resulting from incorrect or erroneous internal processes, human actions, operation of systems or external factors.

Identification of the operational risk is carried out, in particular, by means of:

- collecting and analyzing information on operational risk incidents;
- operational risk self-assessment;
- scenario analysis.

Assessment and measurement of the operational risk is carried out by means of:

- identifying the results of operational risk incidents;
- estimating the results of potential operational risk incidents which may occur in the course of business activity.

Monitoring and controlling of the operational risk is carried out mainly by established operational risk indicators which make it possible to assess the change of operational risk level, and the factors that influence the risk level in business activities.

Reporting consists of communicating the level of operational risk and the effects of monitoring and control to the different decision-making levels. The frequency of individual reports and the scope of information are tailored to meet the information needs at different decision-making levels.

Management actions in response to identified and assessed operational risk involve in particular:

- risk mitigation by taking actions aimed at minimizing the risk, e.g. by strengthening the internal control system;
- risk transfer – in particular by means of concluding an insurance agreement;
- risk avoidance by not engaging in or withdrawing from particular business activity when excessive operational risk is detected and its restriction would be too costly to make the venture profitable;
- risk acceptance – approval of consequences of a possible materialization of operational risk if its level does not exceed the tolerance level for operational risk.



The business continuity plans were implemented in the key companies of PZU Group. The companies tested also the actions that secure correct operation of processes covered by the plans in the case of a breakdown.

Compliance risk

Risk that the Company or persons related to the Company violate or fail to comply with the provisions of law, internal regulations, or standards of conduct adopted by the Company, including ethical norms which result or may result in suffering by the Company or persons acting on its behalf legal sanctions, financial losses, or loss of reputation or credibility.

Compliance risk is identified and assessed for individual internal processes of PZU and PZU Życie by the managers of entities and organizational units, in line with the division of reporting responsibilities. Additionally, the compliance unit identifies risks on the basis of entries in the register of conflicts of interest, gifts, benefits and irregularities, as well as the enquiries received.

In 2015, PZU Group companies implemented Methodology for compliance risk identification and assessment, in accordance with solutions adopted at PZU; the methodology was used to perform first compliance risk identification and assessment.

The compliance units are responsible for delivering complete information on compliance risk at the Group's companies. Such units assess and measure compliance risk and take appropriate remedial actions which will prevent the materialization of such risk and will not adversely impact the PZU Group's image.

PZU Group companies deliver up-to-date information on compliance risk to the PZU and PZU Życie Compliance Bureau. The Compliance Bureau conducts e.g. the following actions:

- analysis of monthly and quarterly reports received from compliance units from the Group companies;
- assessment of impact of the companies' compliance risk on PZU Group;
- analysis of implementation of recommendations given to the companies with regards to realizing the compliance function;
- supporting compliance units at PZU Group companies at compliance risk assessment process;
- reporting to the Management Board and Supervisory Board of PZU.

Compliance risk covers especially the risk of non-compliance of PZU Group companies' operation with a changing legal environment. The risk may be materialized as a result of absence of clear and unambiguous provisions or any provisions at all, i.e. so-called legal loophole. This may cause irregularities in PZU Group operations, which may in turn contribute to a cost increase (e.g. due to financial penalties), as well as higher risk of reputation loss, and what follows deteriorated credibility of the Group on the market (and a potential possibility to suffer financial loss).

Due to a wide scope of PZU Group's operations, reputation loss risk is also influenced by the risk of court proceedings of variable value which pertain mostly to insurance companies within the Group.

Compliance risk in the Group's companies is identified and assessed for the individual internal processes by the managers of organizational units of such companies, in line with the division of reporting responsibilities. Additionally, the compliance units in PZU Group companies identify risks on the basis of entries in the register of conflicts of interest, gifts, benefits and irregularities, as well as the enquiries received.

Compliance risk is assessed and measured by determining the effects of materialization of the following risks:

- financial, resulting e.g. from administrative penalties, court verdicts, Office of Competition and Consumer Protection (UOKiK) GLOSSARY decisions, contractual penalties, and damages.
- intangible, such as loss of reputation, including damage to PZU Group's image and brand.

Compliance risk is monitored mainly through:

- analysis of reports received from the managers of the entities and organizational units;
- monitoring of regulatory requirements and compliance of PZU Group companies' operation to a changing legal environment;
- participation in legislative work on amending the generally applicable regulations;
- participation in the activities of professional organizations;
- coordination of external control processes;
- coordination of fulfilling the reporting requirements arising from the stock exchange regulations (PZU) and the statutory law;

- popularizing knowledge on competition law in PZU Group and verification of employees' knowledge on anti-trust law in selected fields;
- monitoring of anti-trust rulings and proceedings conducted by the President of the Office of Competition and Consumer Protection;
- review of the recommendations of PZU Group's compliance unit;
- ensuring coherent realization of compliance function in PZU Group.

Management actions taken in response to the compliance risk comprise in particular:

- acceptance of risk, e.g. in connection with legal or regulatory changes;
- mitigation of risk, including adjustment of procedures and processes to regulatory requirements, issuing opinions and drafting internal regulations from the point of view of compliance, participating in the process of agreeing marketing activities;
- avoiding risk through the prevention of involvement in activities which do not comply with regulatory requirements or good market practices or which could have an adverse effect on the image.

Under compliance risk mitigation on a system and current level, among others the following mitigating activities have been implemented:

- current realization of effective compliance function as one of the key functions in the management system at PZU Group companies;
- participating in consultations with legislative and supervision bodies (PZU Group's supervised companies) upon drafting regulations (public consultation);

- delegating representatives of PZU Group's supervised companies to participate in committee works at supervision bodies;
- conducting implementation projects for new regulations;
- training employees of the Group's companies in the field on new regulations, standards of conduct, and recommended remedial actions;
- engaging independent external advisors in the process of adjusting new and drafted regulations;
- issuing opinions on internal regulations of PZU Group companies and recommending potential changes with regards to compliance with legal provisions and accepted standards of conduct;
- verification of procedures and processes with regards to compliance with legal provisions and accepted standards of conduct;
- advance adjustment of documentation to upcoming changes of legal requirements;
- monitoring claims handling procedures (with regards to their impact of future court proceedings);
- improving and monitoring legal representation procedures in court proceedings;
- systemic supervision of PZU SA over realization of compliance function in PZU Group companies.

7.6 Sensitivity to risk

Risk related to financial assets

Table on page 111 presents the results of the analysis of the net financial result and PZU Group's equity sensitivity to changes in interest rate risk, currency risk, and equity risk. The analysis does not take into account the impact of changes

Sensitivity of assets portfolio (in PLN million)	Change of risk factor	31 December 2015		31 December 2014	
		Impact on net financial result	Impact on equity	Impact on net financial result	Impact on equity
Interest rate risk	drop by 100 bps	601	149	126	223
	increase by 100 bps	(548)	(142)	(138)	(219)
Foreign currency risk	increase by 20%	89	15	6	119
	drop by 20%	(89)	(15)	(6)*	(119)*
Equity instruments risk	increase by 20%	545	207	346	561
	drop by 20%	(545)	(207)	(346)	(561)

\*Assuming a 80% drop in the exchange rate of hryvnia vs. Polish zloty (with a 20% drop maintained for other currencies), the adverse impact on financial result and equity would amount to PLN 47 million and PLN 159 million respectively.

in interest rates on the insurance or investment contracts presented as liabilities.

Financial assets exposed to currency risk include deposit transactions and debt instruments used to hedge payments from technical provisions denominated in foreign currencies, as well as exposures to equities listed on stock exchanges other than WSE, investment fund units and certificates in foreign currencies, exposures to derivatives denominated in foreign currencies and financial assets of consolidated entities denominated in foreign currencies.

## Risk pertaining to technical rates and mortality

Table on page 112 shows a sensitivity analysis of the net result and equity to changes in the assumptions used to calculate the capitalized annuities. The analysis does not take into account the impact of changes in valuation of the deposits taken into consideration in calculation of the reserve on the net financial result and equity

## 7.7 Reinsurance activity

Reinsurance cover in PZU Group secures the insurance activity, reducing the consequences of the occurrence of catastrophic events which could adversely affect the financial standing of insurance companies. This objective was realized through mandatory reinsurance contracts supplemented with facultative reinsurance.

### Reinsurance contracts – PZU

PZU uses concluded reinsurance contracts to mitigate its exposure to catastrophic losses (e.g. flood, hurricane) through, among others, a catastrophic non-proportional excess of loss contract and to the consequences of large one-off losses by non-proportional excess of loss contracts protecting property, technical, marine, aviation, TPL and MTPL portfolios.

PZU's risk is also mitigated through reinsurance of the financial insurance portfolio. In 2015, the main partners providing treaty reinsurance cover to PZU were Swiss Re, Hannover Re, Scor, Munich Re, and Lloyd's. As per S&P/AM Best, ratings of PZU reinsurance partners are high, which is an evidence of

reinsurer's good financial standing and guarantees security to the Company.

PZU's activity in the area of inward reinsurance includes other PZU Group's insurance companies. Further commitment to the protection of Baltic companies and Link4 resulted in an increase in the related written premium.

In addition, PZU obtains a gross written premium from inward reinsurance from activity on the domestic and foreign market, mainly through facultative reinsurance.

### Reinsurance contracts - PZU Życie

Outward reinsurance contracts concluded by PZU Życie protect PZU Życie's portfolio against the accumulation of risks, as well as protect individual policies with higher sums insured.

QBE Re, RGA, Partner Re and Arch Re are the partners providing reinsurance cover to PZU Życie. Reinsurance partners have high S&P ratings, which gives PZU Życie the certainty of reinsurer's good financial standing.

### Reinsurance contracts of foreign companies of PZU Group and Link4

Other insurance companies of PZU Group, i.e. PZU Ukraine, Lietuvos Draudimas, the Estonian branch of Lietuvos Draudimas, AAS Balta and Link4, have reinsurance cover that matches their business profile. Every significant insurance portfolio is secured by a treaty contract. PZU, the main reinsurer of the subsidiaries, coordinates the protection of the Group's companies.

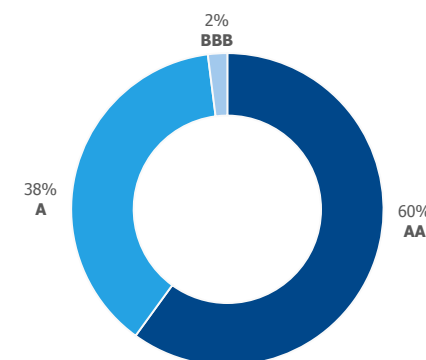
## 7.8 Capital management

By the end of 2015, Poland followed the so-called Solvency I system GLOSSARY. The below table presents results of PZU Group, PZU and PZU Życie for the last 5 years.

Until the end of 2015 the insurance companies were also obliged to maintain assets for covering technical reserves in excess of the required level. At the end of 2015, the assets to technical provisions ratio amounted to: 110.5% for PZU and 114.6% for PZU Życie. The details are presented in the APPENDIX.

From 1st of January 2016 the new capital requirements regime- Solvency II became effective in European Union. REGULATIONS ON THE INSURANCE MARKET CHAPTER 2.4. As at the end of the third quarter of 2015, the solvency ratio (calculated according to the Solvency II standard formula) was assessed at a level of 296.1%<sup>1</sup>. Ratios as high as these place PZU Group among insurance groups with top capital strength.

### Reinsurance share from PZU obligatory contracts as per Standard & Poor's rating



<sup>1</sup>Data not audited

Calculation of own funds for solvency margin coverage	2015	2014	2013	2012	2011
PZU Group's solvency margin coverage with own funds	281.5%	291.2%	351.8%	405.8%	352.9%
PZU's solvency margin coverage with own funds	550.4%	585.9%	697.7%	815.3%	686.6%
PZU Życie's solvency margin coverage with own funds	206.2%	224.1%	235.5%	376.0%	332.5%

Sensitivity of provisions	Impact of assumptions on:			
	net financial result		equity	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
<b>Change in assumptions used to calculate the provisions for capitalized annuities net of reinsurance in non-life insurance (in PLN million)</b>				
Technical rate – increase by 0.5 p.p.	412	415	412	415
Technical rate – decrease by 1.0 p.p.	(1,064)	(1,074)	(1,064)	(1,074)
Mortality 110% of existing value	127	129	127	129
Mortality 90% of existing value	(142)	(144)	(142)	(144)
<b>Change in assumptions for annuities in life insurance (in PLN million)</b>				
Technical rate – decrease by 1 p.p.	(32)	(34)	(32)	(34)
Mortality 90% of existing value	(12)	(12)	(12)	(12)
<b>Change in assumptions for provisions for insurance and investment contracts with DPF in life insurance, excluding annuities (in PLN million)</b>				
Technical rate – decrease by 1 p.p.	(2,157)	(2,194)	(2,157)	(2,194)
Mortality 110% of existing value	(902)	(923)	(902)	(923)
110% of morbidity and injury rates	(179)	(187)	(179)	(187)



08

## PZU on capital and debt market

Antarctica is the only continent where there is no PZU shareholders. Our investors live in over 100 cities in Europe, America, Asia, Africa and Australia. To reach them we circled the globe more than 10 times. Since the IPO the trading value of PZU shares exceeded PLN 135 billion.

## Be the first one on the finish line

Starting on February 15 you can test your skills in the **Race for knowledge**. Take part in this quiz and demonstrate your mental agility and knowledge. Impose us with your mental capacities. Go to **6biur.pzu.pl** and show us what you can do.



### Contents:

1. Share and bond market
2. PZU's share prices
3. Debt financing
4. Investor relations
5. Analysts' recommendations
6. Dividend policy
7. Rating



## 8.1 Share and bond market

In 2015, world markets remained under a very strong influence of central banks' policies and economic situation of the Eurozone, USA, and China. FINANCIAL MARKETS SITUATION SEC. 2.2.

In early 2015, there were two significant occurrences: the European Central Bank's announcement regarding the purchase of treasury bonds of the Eurozone countries and the release of Swiss franc exchange rate. The latter triggered numerous doubts regarding the functioning of the bank system in Poland. The subsequent quarter of 2015 remained under a strong influence of ever-increasing problems of Greece and the conflict between Russia and Ukraine.

The second half of the year brought a breakdown on the Chinese market, which had a negative impact on share prices both in Poland and abroad. What is more, the situation in the country was exacerbated by the perspective of introducing a new burden for the banking sector, which was to become reality after parliamentary elections in October 2015. The last quarter did not result in any improvement. The US Central Bank increased its interest rate by 25 bps in December (first increase since 2006), the prices of raw materials were going down (particularly oil prices – a decline of 35% year-on-year), and the European Central Bank announced the intention of easing its monetary policy to a lesser extent than it was expected.

The above events had a significant influence on the Polish debt market. In entire 2015, the Polish treasury bonds yield of 5-year and 10-year treasuries grew by 10 and 40 bps to 2.2% and 2.9% respectively.

Deterioration of situation on the markets was reflected in the MSCI (Morgan Stanley Capital International Index) for emerging markets, which fell by 17.1%. In relation to this index, in 4Q 2015 there was also a significant weakening of the MSCI Poland index. This resulted from a substantial decline in bank capitalization on the Warsaw Stock Exchange.

## 8.2 PZU's share prices

High geopolitical risk on the European markets was reflected in a high volatility of main indexes on the Warsaw Stock Exchange. Throughout 2015, the most important Polish index, WIG20, remained at levels exceeding 2,500 bps; however, during the last session in the year, its value amounted to only 1,859 points, which was a drop of 19.7% compared to 2014. The WIG index was slightly better and fell by 9.6% year-on-year. Small companies turned out to be the most resistant to decreases – the sWIG80 index gained 9.1% year-on-year. By comparison, the same index ended the year 2014 with a decrease of more than 15.5%.

### PZU share prices

PZU shares were first traded on the Warsaw Stock Exchange on 12 May 2010. Since its IPO, the company has been

included in the WIG20, WIG, WIG30, WIG-Poland, and WIGdiv indexes. Since 2012, PZU shares have been also included in the sustainable development indexes, RESPECT and CEERIUS GLOSSARY OF TERMS.

On 30 November 2015, PZU split its stock, the operation consisting in decreasing the nominal value of shares from PLN 1 to PLN 0.1. The split did not result in any changes in the shareholding structure, the operation was purely technical (i.e. without any influence on share capital). Following the split, the share price decreased 10 times and the number of shares increased 10 times. Split registration was preceded by an amendment to the By-laws made on 3 November 2015.

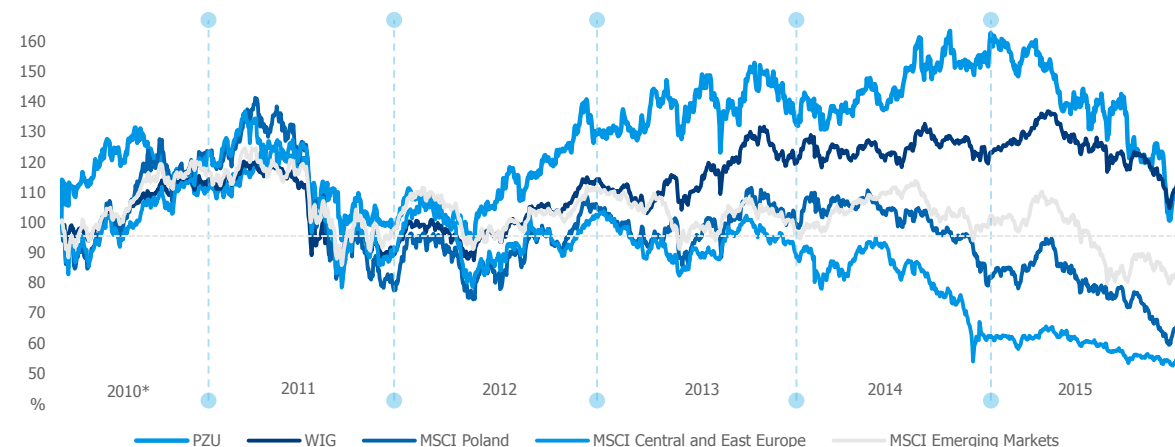
With capitalization amounting to PLN 29 billion, at the end of 2015, PZU was the fourth company when it comes to the capitalization of domestic companies (5.7% of share in the WSE main market). In 2015, maximum PZU share price (calculated after the split) amounted to PLN 50.9. The price reached its bottom on 14 December 2015 when it amounted to PLN 31.4 per share.

At the end of Q1 2015, PZU share prices were valued 11.0% better than in the same previous period of 2014, which was a very good result compared with WIG20 (a 2.7% drop year-on-year) or WIG Banks (a 12.5% drop year-on-year). However, the subsequent quarters brought a market downturn. In a downward trend, PZU share value dropped faster than the main market indexes. The closing price from the last session in 2015 amounted to PLN 34.0 and 8.3% lower than the estimate as at the end of 2014. By comparison, the same WIG20 and WIG BANKS ended the year with a decrease of 19.7% and 23.5% respectively. The sale of shares concerned also RESPECT index whose closing price was 15.5% lower than in 2014.

High dividend paid by PZU on 21 October 2015 offered some conciliation to the investors. The dividend amounted to nearly PLN 2.6 billion, i.e. PLN 3.00 per share. The dividend rate (calculated in relation to the share price at the end of 2015, i.e. PLN 34.0) amounted to 8.8%. Since its IPO, PZU has already paid out nearly PLN 15 billion in dividends, while the Total Shareholders Return (TSR) for PZU shares amounted to 64.2%.



### Dynamics of PZU's share prices in relation to MSCI



\* Share prices from 12 May 2010 (PZU's IPO on WSE).  
Source: Reuters

### Min/max PZU share prices\* following the session end in the years 2010-2015



\* Share prices after a 1:10 split.  
Source: Reuters



Capital market ratios for PZU shares*	2015	2014	2013	2012	2011
P/BV Market price per share / book value per share	2.27	3.19	2.95	2.64	2.07
BVPS Book value per share	14.97	15.25	15.20	16.52	14.90
P/E Price per share / profit per share	12.54	14.14	11.77	11.60	11.38
EPS (PLN) Profits (losses) per share / number of shares	2.71	3.44	3.82	3.77	2.72

\*based on PZU Group data (IFRS)

PZU shares are characterized by a high level of liquidity. An average spread in 2015 reached only 7 bps. Only two other main market entities recorded such a low spread value. The average number of transactions involving PZU shares per session was 3,329 (a 33.4% increase year-on-year). The highest trading volume, i.e. 7,528,870 items, was recorded on 24 April 2015, which resulted from market speculations regarding a potential involvement of PZU Group in the capital increase at Nowa Kompania Węglowa. PZU denied this information. Similarly high trading volume took place on 3 December 2015 when the lower house of Parliament (Sejm) received a draft of the tax on financial institutions. The market

reacted negatively, which consequently led to a share price drop amounting to several percent (evidenced by high trading volume.)

PZU share price rate in 2015 continued to be strongly influenced by the decision to invest in consolidation of banking sector's assets in Poland. On 30 May 2015, PZU concluded an agreement to purchase 25.19% Alior Bank shares at PLN 1.6 billion. The PZU Management Board planned to buy further banks to build an entity that would be one of five largest institutions in Poland when it comes to asset volume. However, by the end of 2015 the company did not manage

PZU share statistics	1 January - 30 December 2015	1 January - 30 December 2014	1 January - 30 December 2013	1 January - 30 December 2012	1 January - 30 December 2011
Maximum rate of shares* (PLN)	50.9	51.1	47.8	43.7	39.7
Minimum rate of shares* (PLN)	31.4	40.9	38.5	29.2	29.4
The exchange rate at the last session of the year* (PLN)	34.0	48.6	44.9	43.7	30.9
Average rate per session* (PLN)	43.7	45.2	43.2	34.6	34.9
Value of the volume (PLN million)	20,144.56	18,400.72	19,970.38	18,152.22	23,315.25
Average value of the volume per session (PLN million)	80.3	73.9	80.9	73.2	92.9
Number of transactions (item)	835,471	621,224	585,205	411,635	526,265
Average number of transactions per session	3,329	2,495	2,369	1,660	2,097
Trading volume**	470,048,842.0	407,247,220.0	464,899,980.0	525,648,380.0	667,367,130.0
Average trading volume per session (item)*	1,872,704.5	1,635,531.0	1,882,186.2	2,119,549.9	2,658,833.2
Capitalization at the end of the period (PLN million)	29,377.1	41,967.2	38,767.9	37,736.0	26,682.9

\*prices calculated after a 1:10 stock split

\*\*trading volume calculated after a 1:10 stock split

to pursue further transactions. Moreover, the market price of share of banks quoted on WSE, including Alior Bank shares, are valued significantly lower, which resulted in the decreased capitalization of PZU.

As at the end of 2015, capitalization of WSE companies dropped by 9% and amounted to PLN 122 billion (including 26 new domestic entities that were first traded on WSE in 2015.) The P/E ratio for domestic companies decreased in 2015 by 7.6% to 18.2 year-on-year, while the P/BV ratio fell by 15.3%

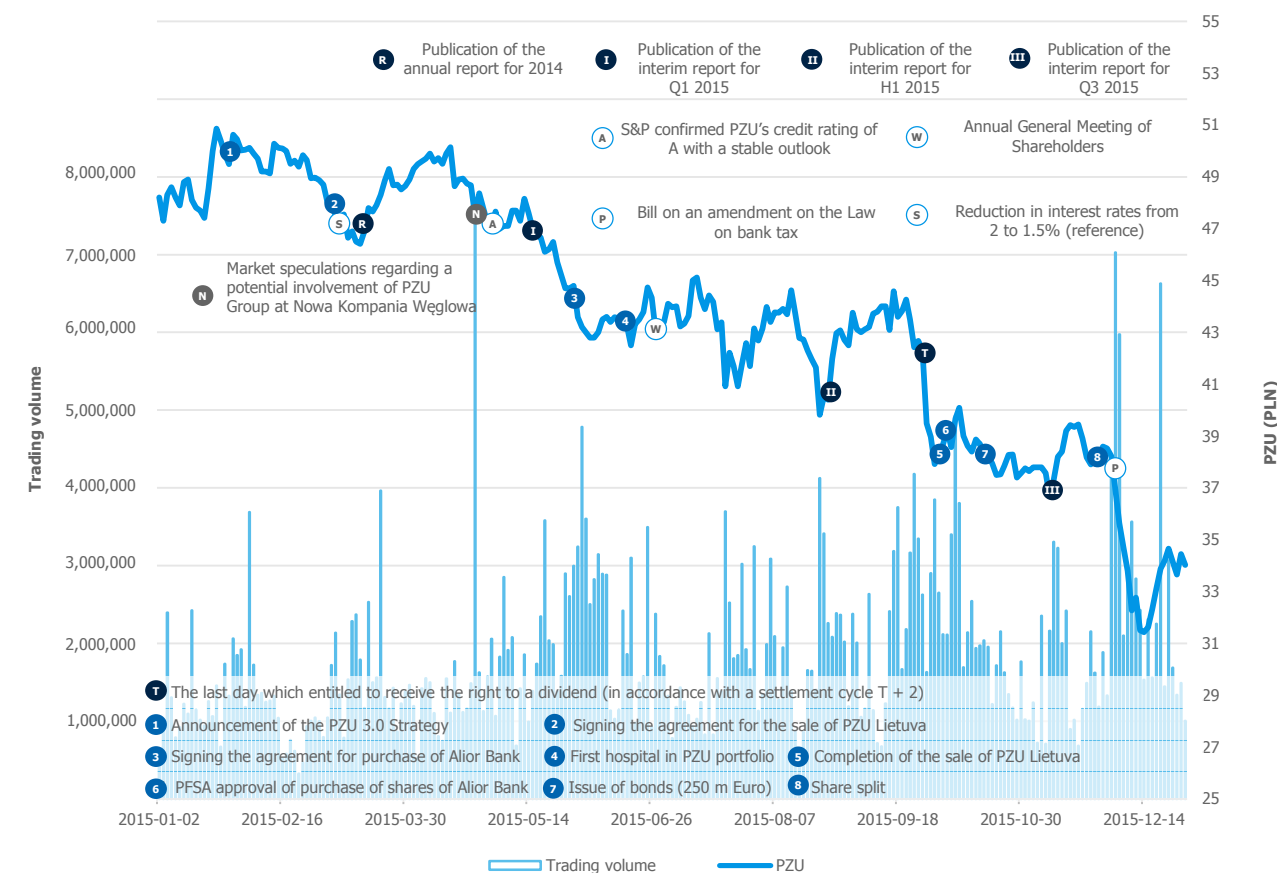
to 1.1 year-on-year<sup>1</sup>. Share/Book Value ratio was 12,54, and Price/Book Value 2,27.

## 8.3 Debt financing

On 16 October 2015, PZU Finance AB (a public company), subsidiary of PZU Group seated in Sweden, issued bonds of the total value of EUR 350 million. These bonds were

<sup>1</sup> [http://www.gpw.pl/analizy\\_i\\_statystyki](http://www.gpw.pl/analizy_i_statystyki)

## Main events that influenced PZU share prices in 2015



## Codes Quick Response (QR) for online transmission

Annual General Meeting of Shareholders

Signing the agreement for purchase of Alior Bank



assimilated and together with eurobonds at the value of PLN 500 million issued by PZU Finance AB (a public company) on 3 July 2014, they constitute one series, a so-called „tap” issue.

Senior bonds issued in 2015 were purchased by approximately 60 investors (28% from Poland, 23% Holland, 18% Great Britain, 12% Czech Republic, and 9% Germany). The issue price per bond with a nominal value of EUR 100,000 amounted to EUR 99,218. Bond yield was 1.593%. The bonds bear interest at a fixed interest rate of 1.375% per year and the coupon will be paid once a year. The issue was awarded S&P rating at „A-”; yet, as a result of lowering PZU rating to „A-” on 21 January 2016 due to the S&P’s decision to decrease Poland rating from „A-” to „BBB+” for long-term liabilities in foreign currencies, the rating of PZU bonds dropped to the „BBB+” level.

The bonds are quoted on the regulated market of the Irish Stock Exchange and the Warsaw Stock Exchange Catalyst ASO/Bondspot market.

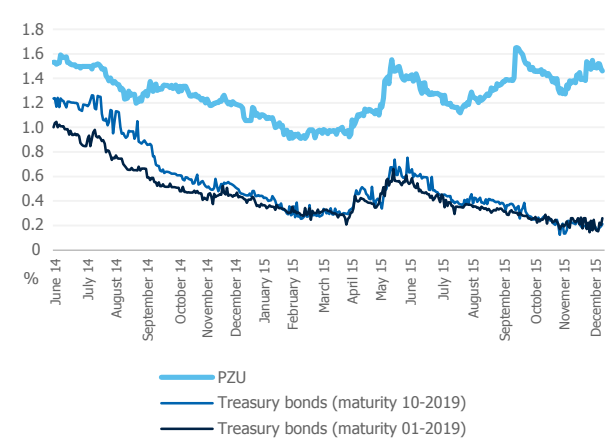
The funds from the bond issue were planned to be used to increase the involvement of investment portfolio in investments denominated in euro, manage FX position, and use of debt financing, which is cheaper than equity.

*We create the value of PZU through active communication with capital market participants.  
We build trust and take care of good relations.*

The issue of eurobonds constituted the implementation of PZU Group’s investment strategy in the scope of the management of the matching of assets and liabilities denominated in euro. PZU Group debt ratio as at 31 December 2015 amounted to 22.6%<sup>2</sup>

<sup>2</sup> debt ratio calculated as the sum of liabilities from credits, loans and issuance of own debt securities to the sum of own capital and these liabilities.

Yield of PZU eurobonds vs. Polish treasury bonds maturing on 2019 (euro)



Source: Reuters

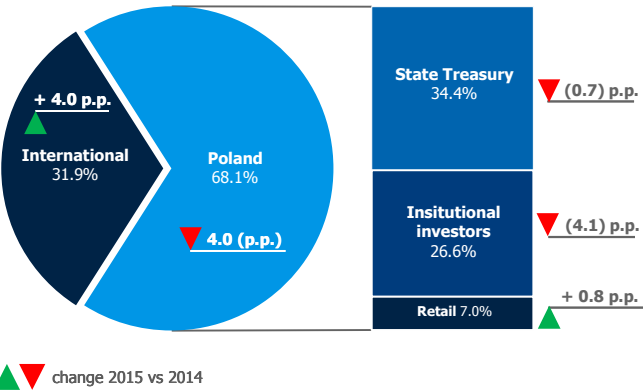
8.4 Investor relations

In order to meet the highest information governance requirements for public companies and fulfilling information needs of different groups of stakeholders, the Management Board of PZU undertakes various investor relations activities aimed at improving transparency of the company. Therefore, PZU has consistently applied „Principles for PZU to Conduct its Information Policy for Capital Market Participants”.

Shareholding structure  
As at 31 December 2015,

the shareholders of PZU with significant share packages were as follows: the State Treasury of the Republic of Poland (34.4% of the share capital) and Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK (5.7% of the share capital) PZU SHARE CAPITAL AND SHAREHOLDERS SECTION 10.6.

PZU shareholding structure – key investor groups



PZU shareholding structure in 2015 continued to undergo further geographical diversification. The foreign investors’ share increased by 4.1 p.p. to 31.9%. Engagement of North American investors significantly grew – their share in shareholding nearly doubled to 9.9% year-on-year. The share of European investors (excluding Poland) slightly decreased by 0.3 p.p. and reached 17.9%. As for the structural changes, the higher activity of investors from the United Kingdom was strongly discernable. Their share in 2015 rose from 3.0% in 2014 to 8.1% in 2015. At the same time, the result of the

conducted survey pointed to individual shareholding outside Poland, whose share amounted to 1.1% at the end of 2015.

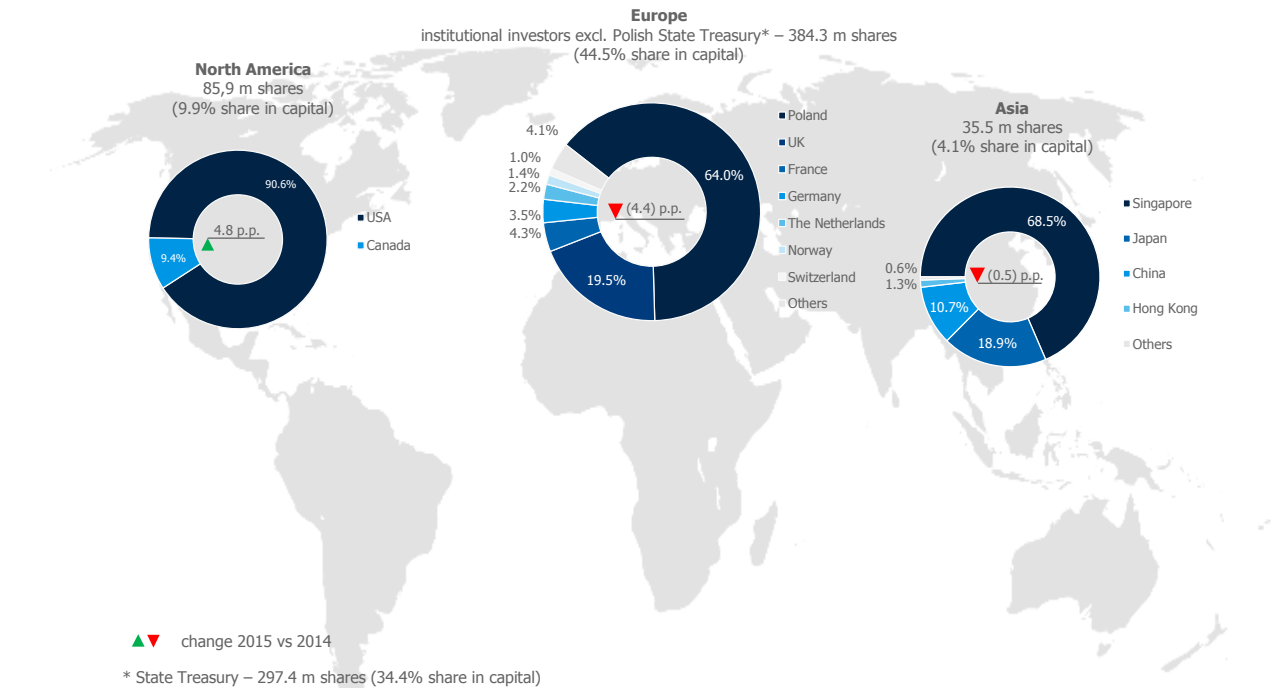
The share of institutional investors from Poland dropped in 2015 by 4.4 p.p. to 26.6%, which was related to a higher supply of PZU shares, mainly from the Polish fund management companies (TFI). Simultaneously, the share of individual investors from Poland increased to 7%.

Communication with capital market participants

The financial performance of PZU Group (for 2014, Q1 2015, 1H 2015 and Q3 2015) was presented and discussed by the Management Board of PZU during meetings with capital market analysts (all also broadcast live on the Internet). PZU organized also a live streaming of the meeting held on 28 January 2015 and devoted to the presentation of the PZU 3.0 Strategy for the years 2015-2020, and the conference held on 1 June 2015 in connection with signing an agreement for purchase of Alior Bank shares.

2015 was another year to present PZU annual report online (<http://annualreport2014.pzu.pl/>), along with the most important events, achievements and plans. The report was awarded the highest distinction for the best annual online report in a prestigious competition held by the Polish Institute of Accounting and Taxes.

Geographical structure of PZU shareholding



850 mln  
euro bond issue  
value

3 July  
2019 redemption  
date

BBB+  
(S&P) issue  
rating

1,375%  
fixed interest  
rate

IR activities aimed at institutional investors

- In 2015, representatives of PZU participated in:
- 5 non-deal road shows in Boston, New York (3x), Frankfurt (1x), Hong Kong and Singapore (1x);
  - 13 financial conferences held abroad with global institutional investors;
  - 5 conferences for institutional investors in Warsaw;
  - a number of group, one-on-one and group meetings, as well as teleconferences with investors and stock portfolio managers held in the company's office.

In 2015, PZU participated in 234 meetings (a 25.8% increase year-on-year) with nearly 384 institutional investors and more than 130 meetings and teleconferences with analysts issuing recommendations concerning PZU shares.

RI activities aimed at individual investors

- In 2015, PZU continued also communication activities addressed to the large group of individual investors. With them in mind, we:
- participated in 2 conferences for individual investors organized in Poland by Individual Investors' Association: 19th Wall Street Conference in Karpacz – the largest meeting of individual investors in Central and Eastern Europe and in the 9th edition of Professional Investor Conference 2015 in Zakopane;
  - organized 4 chats with individual investors, in which the Member of the Management Board of PZU who is in charge of Finance Division in PZU Group also participated, after each publication of the results, and 1 chat after announcement of the PZU 3.0 Strategy;
  - participate in the „10 na 10 – komunikuj się skutecznie” [Ten out of Ten: Effective Communication] program aimed at creating high communication standards for quoted companies to reach individual investors.

Investment centers visited in 2015 (number of visits)



Awards and prizes for IR activities

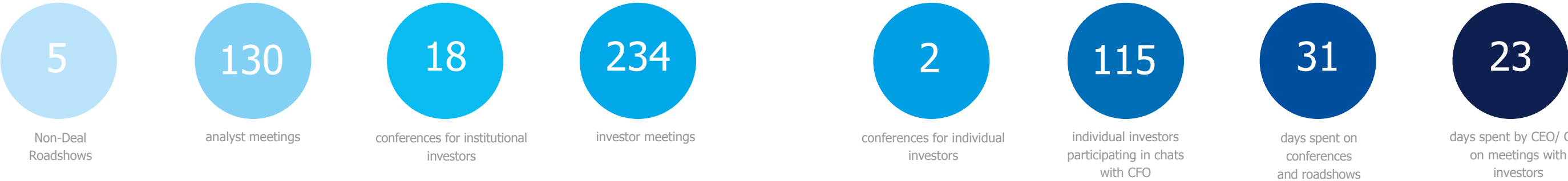
- Activities of PZU regarding investor relations are highly appreciated both by investors, analysts and media. In 2015, PZU received the following awards and prizes in this area:
- Eight awards for the best investors relations in Poland and Central and Eastern Europe in Extel 2015 survey GLOSSARY:
  - *CEOs best for Investor Relations (Central & Eastern Europe) - Andrzej Klesyk #1*
  - *CEOs best for Investor Relations (Poland) - Andrzej Klesyk #1*
  - *CFOs best for Investor Relations (Central & Eastern Europe) - Przemysław Dąbrowski #1*
  - *CFOs best for Investor Relations (Poland) - Przemysław Dąbrowski #1*
  - *Best IR Professionals (Central & Eastern Europe) - Piotr Wiśniewski #1*
  - *Best IR Professionals (Poland) - Piotr Wiśniewski #1*

- *Corporates best for Investor Relations (Central & Eastern Europe) – PZU #1*
  - *Corporates best for Investor Relations (Poland) – PZU #1*
- The Extel survey included 16 thousand people from investment environment from 75 countries. The representatives of brokerage houses and investment analysts were rated by asset managers and IR department staff. 5.5 thousand individuals and over 1.5 thousand companies were subject to the survey in the field of investors relations. All data used for drafting the ranking were subject to an external audit which ensures their credibility and correctness.
- The first place for the best annual report and the best online annual report for 2014, in the category of Banks and Financial Institutions in the competition The Best Annual Report organized by IRIP GLOSSARY. Management Report for 2014 was also awarded. In the past four years, PZU has twice received the first place in this contest, being also on the podium in the other two editions.
  - Second place in the competition for best investor relations according to institutional investors – investor relation survey in WIG 30 companies held by Gazeta Giełdy „Parkiet” (Stock Exchange Newspaper) and Chamber of Brokerage Houses.
  - Investor-Friendly Company certificate – awarded by the Individual Investors Association to the companies that maintain high reliability of its information policy and protect the rights of investors.

IR aims for 2016

- Main objectives of investor relations in 2016:
- establishing good relations between the Management Board of PZU and investors;
  - ensuring understanding and approval for the PZU 3.0 strategy among the investors and analysts;

- providing a broad market for PZU shares and bonds– by continuing pro-investors activities aiming to create a diversified (geographically, numerically and in terms of their profiles) group of investors who know the company and are well-informed;
- wide coverage for PZU shares by analysts of investment banks and brokerages (sell-side) and ensuring the fair valuation of PZU shares by providing analysts with high-quality information on the activities of PZU, industry trends, factors affecting the financial results and feedback on the analysis of the issued recommendations;
- creating standards of investor relations for other quoted companies to follow;
- Providing the Management Board of PZU with regular feedback on perception of PZU among capital market participants and wide knowledge on existing and potential shareholders of the company;
- monitoring investors' sentiment towards PZU shares and changes in shareholding structure in order to apply the most adequate IR actions and tools and asses effectiveness of IR plans.



## 8.5 Analysts' recommendations

In 2015, recommendations for PZU shares were issued by 18 domestic and foreign financial institutions. In total, the sell-side analysts issued 28 recommendations. Positive and neutral recommendations dominated (92.9% of total recommendations issued.) The median of target prices (TP) from the recommendations valid in December 2015 amounted to PLN 43.00 and was lower by 13.5% compared with median as at the beginning of the year. Analogically, the maximum target price was PLN 49.80<sup>3</sup> and was 5.5% lower, compared to the maximum target price from January 2015.

The valuation of PZU shares by analysts was most significantly influenced by assumptions concerning growth and yield

<sup>3</sup> prices calculated after a 1:10 stock split

of insurance operations, achieved investment result and expectations towards dividend.

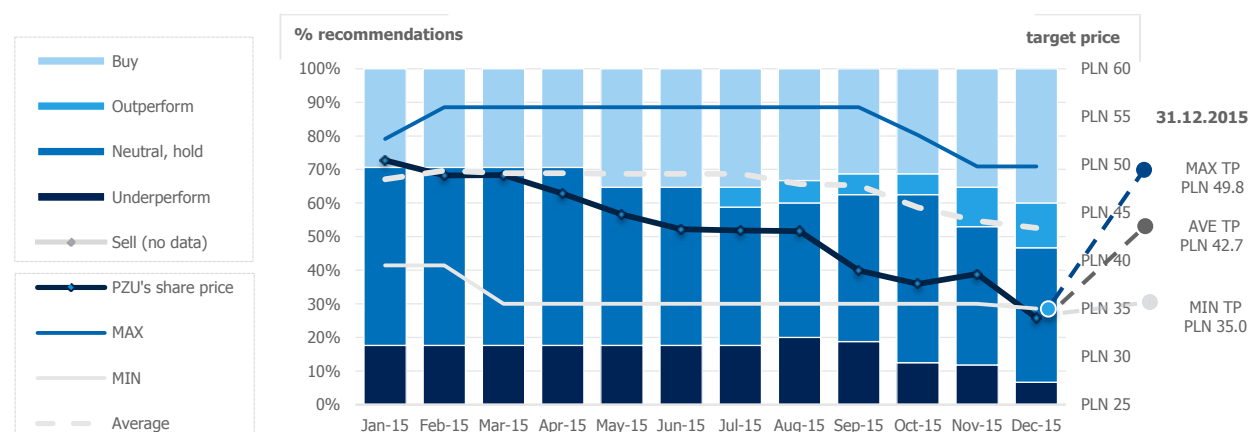
A considerable discrepancy between valuations of respective analysts and PZU market valuation, that was observable at the end of 2015, constitutes an evidence that the market valuations are isolated from the fundamental value. That situation was related e.g. to weakening investors' sentiment towards shares on global markets (concerns related to situation in china, low oil prices, migration crisis), as well as such local factors in Poland as announcements concerning introduction of tax on financial institutions, etc. Additional burden for PZU shares was growing uncertainty as to further investments in consolidation of the banking sector in Poland and expected personal changes in the Management Board of PZU.

### Recommendations and target prices scheme in 2015

RECOMMENDATIONS	▲ 12	Buy, accumulate, outperform		2015-12-31	2015-01-01	year-on-year change
(28)	14	Neutral, hold	Maximum target price	49,80*	52,70*	(5,50)%
			Median	43,00*	49,70*	(13,48)%
			Minimum target price	35,00*	39,50*	(11,39)%

\*prices calculated after a 1:10 stock split

### Analysts' expectations towards PZU share price in 2015 on the basis of recommendation updated as at end of December 2015



### Institutions issuing recommendations for PZU shares in 2015

#### POLAND

Institution	Analyst	Contact details
Deutsche Bank	Marcin Jabłczyński	+48 22 579 87 33 <a href="mailto:marcin.jablczynski@db.com">marcin.jablczynski@db.com</a>
DM mBank	Michał Konarski	+48 22 697 47 37 <a href="mailto:michal.konarski@mdm.pl">michal.konarski@mdm.pl</a>
DM BH (Citi)	Andrzej Powierża	+48 22 690 35 66 <a href="mailto:andrzej.powierza@citi.com">andrzej.powierza@citi.com</a>
Haitong Bank	Kamil Stolarski	+48 22 347 40 48 <a href="mailto:kstolarski@espiritantoib.pl">kstolarski@espiritantoib.pl</a>
Ipopema Securities	Iza Rokicka	+48 22 236 92 31 <a href="mailto:rokicka@ipopema.pl">rokicka@ipopema.pl</a>
DM ING	Piotr Palenik	+48 22 820 50 20
DM PKO	Jaromir Szortyka	+48 22 580 39 47 <a href="mailto:jaromir.szortyka@pkobp.pl">jaromir.szortyka@pkobp.pl</a>
DM Trigon	Hanna Kędziora	<a href="mailto:hanna.kedziora@trigon.pl">hanna.kedziora@trigon.pl</a>
Wood & Company	Marta Jeżewska-Wasilewska	+48 22 222 15 48 <a href="mailto:marta.jezewska-wasilewska@wood.com">marta.jezewska-wasilewska@wood.com</a>

#### OTHER COUNTRIES

Institution	Analyst	Contact details
Barclays Capital	Ivan Bokhmat	+44 20 7773 0417 <a href="mailto:ivan.bokhmat@barclays.com">ivan.bokhmat@barclays.com</a>
Credit Suisse	Richard Burden	+44 20 7888 0499 <a href="mailto:richard.burden@credit-suisse.com">richard.burden@credit-suisse.com</a>
ERSTE	Thomas Unger	+43 50 1001 7344 <a href="mailto:thomas.unger@erstegroup.com">thomas.unger@erstegroup.com</a>
Exane BNP Paribas	Thomas Jacquet	+33 142 99 51 96 <a href="mailto:thomas.jacquet@exanebnpparibas.com">thomas.jacquet@exanebnpparibas.com</a>
HSBC	Dhruv Gahlaut	+44 20 7991 6728 <a href="mailto:Dhruv.gahlaut@hsbcib.com">Dhruv.gahlaut@hsbcib.com</a>
JP Morgan	Michael Huttner	+44 20 7325 9175 <a href="mailto:michael.huttner@jpmorgan.com">michael.huttner@jpmorgan.com</a>
Raiffeisen Centrobank	Bernd Maurer	+43 1 51520 706 <a href="mailto:maurer@rcb.at">maurer@rcb.at</a>
UBS	Michael Christelis	+27 11 322 7320 <a href="mailto:michael.christelis@ubs.com">michael.christelis@ubs.com</a>
Societe Generale	Jason Kalamboussis	+44 207 762 4076 <a href="mailto:jason.kalamboussis@sgcib.com">jason.kalamboussis@sgcib.com</a>



## 8.6 Dividend policy

On 13 May 2014, the Management Boards for PZU decided to update the Capital Structure and Dividend Policy of PZU Group for the years 2013-2015 (Policy), approved on 26 August 2013. Thanks to the introduced changes, on 19 November 2013 an advance dividend expected at the end of 2013 financial year in the amount of PLN 1,727 million, that is, PLN 20.00(before stock split) per share, was recognized as part of the payment of the surplus capital.

The key objective of the implementation of the Policy is reduction of the cost of capital through optimization of the balance sheet structure by way of replacing equity with less expensive borrowed capital at the same time ensuring high security and maintaining funds for development.

The policy aims to increase the total shareholder return (TSR) GLOSSARY and is based on the following principles:

- maintaining the own funds of PZU Group, excluding the subordinate debt, at the level not lower than 250% of the solvency margin (according to Solvency I GLOSSARY) of PZU Group and an attempt to maintain the own funds of PZU Group, including the subordinate debt, at the level of about 400% of the solvency margin (as at the end of the

financial year) in order to maintain the financial security of the Group;

- maintaining assets to cover the provisions of individual companies of PZU Group at a level not lower than 110%;
- obtaining an optimal financing structure by replacing the capital surplus with subordinated debt up to an amount no higher than PLN 3 billion;
- maintaining the equity level corresponding to Standard & Poor's AA rating;
- providing funds for development and acquisitions in upcoming years;
- no share issues by PZU in the upcoming years.

The policy assumes dividend payment calculated based on:

- consolidated net profit where the amount of the dividend paid cannot be lower than 50% or higher than 100% of the net profit shown in PZU Group's consolidated financial statements compliant with IFRS; and
- surplus capital, where the total amount of dividends paid from surplus capital in 2013-2015 cannot exceed PLN 3 billion.

PZU is planning to amend the capital and dividend policy to address the requirements of Solvency II.

### Dividend paid by PZU from profit for 2011-2015 financial years

	2015	2014	2013	2012	2011
Consolidated net profit of PZU Group (in PLN million)	2,342.2	2,967.6	3,295.0	3,253.8	2,343.9
Standalone income of PZU (in PLN million)	2,248.5	2,636.7	5,106.0	2,581.0	2,582.0
Dividend paid per year (in PLN million)	n/a	2,590.6	4,663.0	2,564.7	1,936.9
Dividend per share per year (in PLN)**	n/a	3.00	5.40*	2.97	2.24
Dividend as at the date of establishing dividend right (in PLN)**	3.00	3.40	4.97	2.24	2.60
Dividend payout ratio from the consolidated result for the year	n/a	87.3%	89.1%*	78.8%	82.6%
Dividend rate in the year (%) ***	8.8%	7.0%	11.1%	5.1%	8.4%
TSR (Total Shareholders Return)	(23.9)%	15.8%	14.1%	48.7%	(5.8)%

\* dividend from surplus capitals paid in 2013 (PLN 2.00 per share), not included in dividend payout ratio

\*\* historical data was calculated in 1:10 ratio as per stock split

\*\*\* the rate calculated as dividend as at the ex-dividend date vs. share price as at the end of the given year

### Payment of dividends for 2014

On 30 June 2015, the General Shareholders' Meeting of PZU adopted the resolution on distribution of the net profit for the year ended 31 December 2014 in which it decided to allocate to the dividend payment the amount of PLN 2,590.6 million, i.e. PLN 30.00 per share (before split). 30 September 2015 was chosen as the date according to which the list of shareholders entitled to the payment was established. Dividend was paid on 21 October 2015.

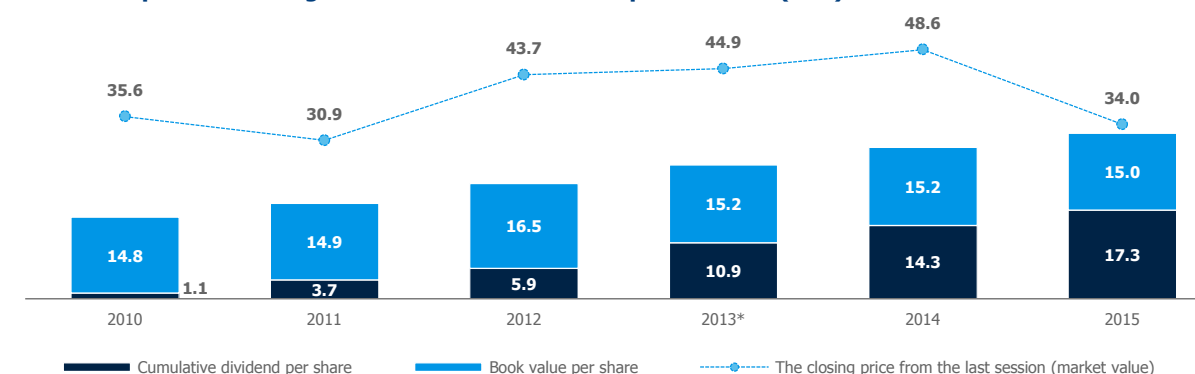
### Payment of dividends for 2015

On 1 December 2015, PFSA issued a recommendation on payment of dividend from profit generated in 2015. The supervisory body recommends that the insurance companies continue their prudent dividend policy using the generated profit to enhance their capital standing.

Similarly to the previous years, as per the supervisory institution's recommendation, dividend should be paid only by the insurance companies that meet specific financial criteria. At the same time, the dividend payment should be limited to the maximum of 75% of the 2015 profit maintaining the capital requirement coverage ratio after dividend of at least 110%, in accordance with Solvency II. Simultaneously, the supervisory body allowed the payment of dividend from the entire profit generated in 2015, e.g. as long as the capital requirements cover as per Solvency II will stay at or above the level of 150% after the payment of planned dividends.

By the date of preparing this Management Report of PZU Group, the Management Board had not adopted a resolution concerning distribution of profit for 2015.

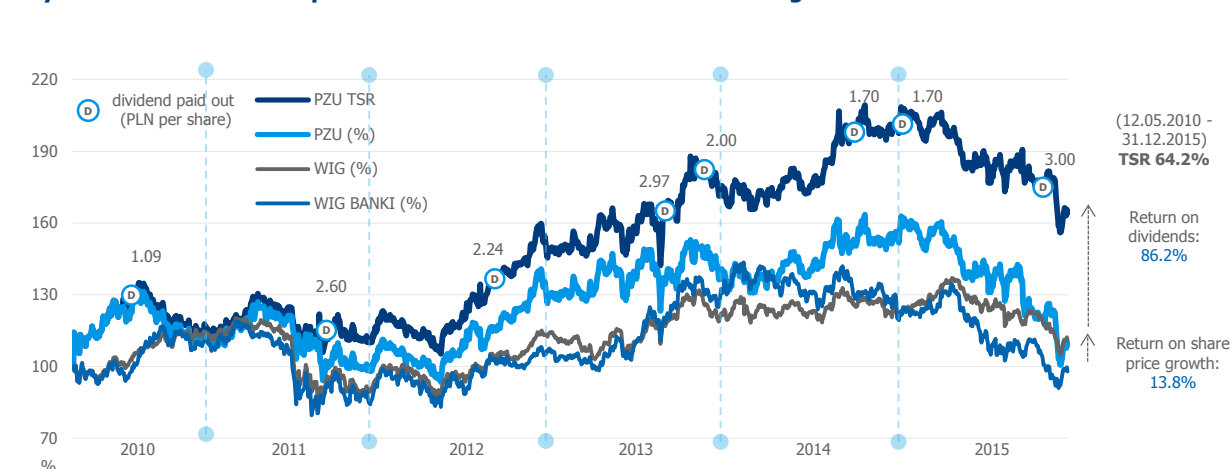
### Book value per share and gross accumulated dividend per share \*\* (PLN)



\* dividend from surplus capitals paid in 2013 (PLN 2.00 per share), not included in dividend payout ratio

\*\* historical data was calculated in 1:10 ratio as per stock split

### Dynamics of PZU's share prices in relation to selected stock exchange indexes



\* Quotation as of 12 May 2010 (PZU's IPO at WSE).

\*\* Dividend per share after the exchange of all the shares in a 1:10 ratio.

Source: Reuters..

## 8.7 Rating

### Issuer's rating

PZU and PZU Życie are regularly rated by Standard & Poor's Ratings Services (S&P). The rating assigned to PZU and PZU Życie results from an analysis of the financial information, competitive position, management and corporate strategy as well as country financial situation. It also includes outlook, i.e. an assessment of the future position of the Company in the event of specific circumstances.

On 27 April 2015, Standard & Poor's Rating Services confirmed the financial strength rating of PZU and PZU Życie at the „A” level and maintained a stable level of outlook for both companies.

On 18 December 2015, Standard & Poor's Rating Services put PZU on its CreditWatch Negative list, as a result of resignation of the President of the Management Board, uncertainty as to the future strategy, and capability to pass the stress test of hypothetical bankruptcy of issuer's country in connection with PZU investment in consolidation of bank assets in Poland.

On 21 January 2016, Standard & Poor's Rating Services lowered the financial strength rating of PZU and PZU Życie to the „A-” level with negative outlook for both companies. The decision to lower PZU rating was a consequence of S&P's downgrading Poland's rating. Such a move did not result from a change in PZU financial standing.

### Country's rating

On 15 January 2015, Standard & Poor's Rating Services downgraded Poland's credit rating from „A-” to „BBB+” for long-term liabilities in foreign currencies, and from „A/A-1” to „A/A-2” respectively for long- and short-term liabilities in local currency. At the same time, the outlook was changed from positive to negative. Justifying its decision, the agency indicated that its analysts believe that legislative initiatives initiated by the new government in Poland will weaken sovereignty and effectiveness of key institutions in the country. The change for negative outlook reflects S&P's opinion that further downgrading Poland's rating is likely in the next 24 months if credibility of monetary policy is endangered and deficit in public finances drops below the expectations of agency analysts.

### Eurobonds' rating

On 20 June 2014, Standard&Poor's awarded a rating of „A-” for unsecured debt to the eurobonds issued by PZU Finance AB. In October 2015, PZU bonds valued at EUR 350 million were issued. These bonds were assimilated and together with eurobonds at value of PLN 500 million issued by PZU Finance AB (a public company) on 3 July 2014, they constitute one series, a so-called „tap” issue. On 12 October 2015, S&P analysts awarded a rating of A- to the new issue. On 21 January 2016, as a result of downgrading PZU rating, the rating of eurobonds issued by PZU Finance AB was lowered to the level of BBB+. It continues to be a so-called „investment rating”.

### Rating PZU

	Current		Past	
Company name	Rating and outlook	Date of awarding / updating	Rating and outlook	Date of awarding / updating
<b>PZU</b>				
Financial strength rating	A- /Watch Neg/	21 January 2016	A /stable/	27 April 2015
Credit rating	A- /Watch Neg/	21 January 2016	A /stable/	27 April 2015
<b>PZU Życie</b>				
Financial strength rating	A- /Watch Neg/	21 January 2016	A /stable/	27 April 2015
Credit rating	A- /Watch Neg/	21 January 2016	A /stable/	27 April 2015

### Poland's rating

	Current		Past	
Country	Rating and outlook	Date of awarding / updating	Rating and outlook	Date of awarding / updating
<b>Republic of Poland</b>				
Credit rating (long-term, in local currency)	A- /negative/	15 January 2016	A /positive/	7 August 2015
Credit rating (long-term, in foreign currency)	BBB+ /negative/	15 January 2016	A- /positive/	7 August 2015
Credit rating (short-term, in local currency)	A-2 /negative/	15 January 2016	A-1 /positive/	7 August 2015
Credit rating (short-term, in foreign currency)	A-2 /negative/	15 January 2016	A-2 /positive/	7 August 2015

### Rating of eurobonds issued by PZU Finance AB (publ)

	Current		Past	
	Rating and outlook	Date of awarding / updating	Rating and outlook	Date of awarding / updating
EUR 350m to 07/03/2019	BBB+ /Watch Neg/	21 January 2016	A- /stable/	12 October 2015
EUR 500m to 07/03/2019	BBB+ /Watch Neg/	21 January 2016	A- /stable/	20 June 2014

# STOCK SPLIT

STOCK SPLIT IS AN OPERATION PERFORMED BY A JOINT-STOCK COMPANY THAT CONSISTS IN DECREASING THE NOMINAL VALUE OF SHARES AND MAINTAINING THE VALUE OF SHARE CAPITAL AT THE SAME TIME..

BEFORE SPLIT

AFTER SPLIT

MEANS AFTER SPLIT

1 PZU SHARE

10 PZU SHARES

NO. OF SHARES BEFORE SPLIT

86,352,300

NO. OF SHARES AFTER SPLIT

863,523,000

NOMINAL VALUE OF SHARES

1 PLN

PLN 1

10 PLN

PLN 0.10

BENEFITS?

SHARES MORE ACCESSIBLE TO SMALL INVESTORS

DIVERSIFICATION OF SHAREHOLDING

MORE ATTRACTIVE SHARE PRICE FOR POTENTIAL PURCHASERS

Schedule of main corporate events in 2016

7 January

General Shareholders' Meeting

15 March

Annual Report 2015

12 May

Report for Q1 2016

3-5 June

20. Wall Street Conference for individual investors

24 August

Report for 1H 2016

10 November

Report for Q3 2016

[MORE](#)



## We are not afraid to help

Join us and other employees to create a **Noble Package**.  
Choose the family you want to help on November 21.

**More information at PZU24.**



## Corporate social responsibility

We are a part of the world around us. We believe that understanding the expectations of our clients and other stakeholders, taking care for our employees, and engaging in social life and environmental care are indispensable basis for building responsible business and creating value of a modern company.

### Contents:

1. We address the needs
2. We value our people
3. We support the society
4. We care for the environment



As one of the largest financial institutions in Poland and CEE, PZU Group's operations and strategy take into consideration social and environmental issues, as well as ethics. PZU Group does its best to ensure that the actions and initiatives it engages to bring positive results also in the social aspects in all the areas where the company may have an influence on the external environment in a manner that is not strictly related to business. As a mature, responsible company, the Group takes all efforts not only to provide its clients with the best Value Offer, but also build a better, safer future together with all interested parties.

Long-term, sustainable approach to doing business is reflected by PZU's presence in RESPECT (index of socially responsible companies at Warsaw Stock Exchange) and CEERIUS sustainable development index (CEE Responsible Investment Universe – an index of Vienna Stock Exchange for socially responsible Central and Eastern European companies).

Sustainable development and social responsibility in business are at the same time the most straightforward way to build the best Value Offer for the Clients of PZU Group, as well as the most accurate answer to the needs of other interested parties.

In its day-to-day operations, the Group follows the four rules:

- **We address the needs** – PZU's objective is to provide top quality products which are best fitted to client's expectations;
- **We value our people** – the Group is continuously developing skills and competences of its staff and creating good conditions for its employees to boost their personal interests;
- **We support the society** – PZU makes efforts to establish stable, long-term relations with the local communities by supporting initiatives that have a positive impact on the environment;
- **We care for the environment** – PZU takes responsibility for the environment where it operates.

## 9.1 We address the needs

For over 200 years, PZU Group has done its best to meet expectations and keep its customer services at the highest level. We respects all principles included in Code of Good

Insurance Practices introduced by the Polish Chamber of Insurance.

### Client relations

In order to ensure safety and guarantee top quality cooperation to our clients and other interested parties, PZU is constantly analyzing data from all available communication channels and other information sources. The conclusions drawn from such analyses allow us to constantly improve our business processes and relations with our clients.

The tools used by PZU to analyze the clients' needs and expectations are for example the following:

- **client satisfaction surveys** – PZU and PZU Życie hold regular and advanced surveys concerning customer satisfaction and loyalty. PZU Group organizes satisfaction surveys during every process and in every sales channel. That helps us to gain even better understanding of the market. The surveys were carried out among over 50 thousand participants and their results allowed not only to better determine the clients' needs, but also indicate organizational strengths and identify areas for improvement and change. The 2015 surveys showed that the satisfaction level among PZU clients who benefited from claims handling process managed by PZU Group or received payment of benefits within the last 12 months was 7 p.p. higher than at the competitors. The Net Promoter Score (NPS) among the Group clients was 11%<sup>1</sup>. Among Link4 clients, NPS amounted to 10% and was by 3 p.p. higher than at the competitors' at the direct market<sup>2</sup>;
- **customer service quality survey** – PZU regularly examines the quality of customer service in PZU branches and through the agents and partners of PZU. Conclusions from these observations are used to prepare training programs in customer service, including trainings for the agents and partners, in order to ensure constant improvement of the service quality;
- **Client Council** – an exceptional advisory body composed of PZU Group customers. The Council actively supports and provides feedback to PZU in selected initiatives, concerning, among others, service quality, ways of communication with clients, service processes, marketing materials, social actions;

<sup>1</sup> Monthly survey carried out by GFK Polonia at the request of PZU. Presented data constitute an accumulated result of monthly assessments from January to December 2015

<sup>2</sup> Monthly survey carried out by GFK Polonia at the request of PZU. Presented data constitute an accumulated result of monthly assessments from January to December 2015

- **social media and clients' complaints** – PZU contacts all interested parties e.g. via expert blogs or social media, such as Facebook, Twitter, Linkedin or Instagram. Such platforms enable better communication with diversified audience and thus allow for a better identification of space for improvement. On the other hand, using modern communication channels strengthens the image of PZU as a customer-friendly and contemporary company which welcomes comments and discussion with interested parties;
- **client communication quality audits** – audits of spoken and written language used by PZU employees in communication with clients, carried out by the Plain Polish Section of the University of Wrocław, became the basis for a number of initiatives and training programs (addressed to all employees of PZU) aimed at simplifying communication;
- **data mining models** – advanced analytics supported by practical business know-how of experts allowed for development of models which effectively find information in data warehouses. Data mining models directly support all marketing and sales processes.

When providing our clients with best possible access to PZU Group's services, at the same time we take efforts to support local communities. Most PZU branches are located in towns with less than 15 thousand of inhabitants and significantly contribute to the growth of the towns and their communities. Striving for high accessibility of its products and services, PZU – as the first insurer in Poland – introduced customer service in Polish Sign Language in some of its branches. The service is provided in collaboration with Migam.org and facilitates a video connection with the translator via tablets. The service has been introduced to eight selected branches of the company. The solution implemented by PZU will allow for a better and more comfortable service of the deaf and hard of hearing.

### Relations with service providers

PZU also strongly focuses on establishing good relations with its service providers and vendors. In particular, the Group focuses on ensuring best possible cooperation with agents, providing them with support programs, training (e.g. Akademia Agenta [Agent's Academy]) and a new internal communication portal within the network of the Group's agents. Candidates for agents are trained as well. On the other hand, PZU expects its suppliers, vendors and agents to respect all valid regulations pertaining to their scope of operations and clearly communicates this expectation to all its partners.

### Cooperation with the industrial sector

PZU Group is among the leaders in the Central and Eastern Europe market. The dynamically developing market environment forces continuous improvement of own products and processes and adaptation of development strategies. Polish enterprises expect their insurance companies to offer excellent service and innovative solutions adapted to their demands. The PZU Lab research and development center was established to meet these demands and results directly from PZU Group's strategy, which concentrates on development and innovative solutions. The project is aimed to increase awareness of Polish companies in scope of risk management and promotion of „good practices” among clients. PZU wants to show that cooperation with the insurer does not have to be limited to products and can provide the entrepreneurs with long-term added value.

### Information security in PZU Group and in relations with stakeholders

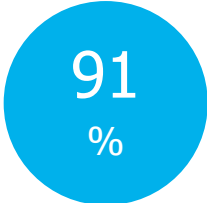
PZU takes utmost care of the security of the data entrusted by the clients and other stakeholders, as well as the information it processes. In scope of its activity, PZU Group strictly obeys the personal information protection act, specifically the regulation



Customer satisfaction of PZU higher than with competitors



Customer satisfaction of Link4 higher than with competitors on direct market



PZU employees satisfied with their work



PZU Foundation spending on charity activities

permitting data processing only if approved by its owner. As a data administrator, the Group strictly controls the type of personal data that are introduced, time of their introduction, as well as persons responsible for introducing and processing them. The agents, partners, and other vendors must obey the same top standards as PZU and do everything in their power to protect the interests of their clients – especially in scope of processing their data in accordance with the law, gathering the data for specific purposes, and preventing further processing for other purposes.

Everest platform – the next step toward perfect relations with the clients

By implementing the new IT system, PZU Group is providing the sales team with knowledge allowing for better and faster understanding of the clients’ needs in order to prepare comprehensive offers. More information is available in SALES AND SERVICE CHANNELS CHAPTER 5.1.

9.2 We value our people

A motivating work environment

PZU does everything in its power to create a working environment which assists in finding and strengthening the motivation of its employees, what raises the value of their work, and in reaching top effectiveness in the interest of the clients, stakeholders, and the entire environment of the Organization. PZU sees an effective and motivated staff as the most important element of realizing strategic objectives. Consistent strengthening of intellectual and social capital by developing the talents of the Group’s employees is directly reflected in the main effectiveness indexes and is one of the key conditions to guarantee future growth of the company’s value.

Equal opportunity policy

According to good practices, all PZU’s employees have equal opportunities. This rule serves as the foundation for our relations. It involves all processes – from recruitment, through evaluation of results, promotions, professional development, to attendance in training courses. Our employees have equal opportunities and potential – their gender, age, proficiency, religious beliefs, political opinions, ethnic origin, sexual orientation, and form of employment are insignificant.

PZU Group also does everything in its power to create a convenient environment for the handicapped. Everyone can take advantage of internal training courses and opportunities for career development. The recruitment process includes consideration of all applications which meet the expectations and requirements pertaining to knowledge, ability, and skills.

Enforcement of these rules allows for clear association of effectiveness with raises, the developmental offer, and promotions, and has also provided the managers with tools to manage employee motivation. What is equally important, all employees take active part in assessment, have the opportunity to share their opinions with their superiors, and take responsibility for their individual development.

Personal and professional development

Initiatives focused on personal development and increased job satisfaction strengthen employee motivation and establish a foundation for the Group’s market success. Many programs were launched over the course of 2015 in scope of personal and professional support for employees to assist the development of their skills in required areas. Examples of such initiatives include the PLUS program and the Manager 2.0, Leader 2.0, and SmartUp programs for managers. HUMAN RESOURCES MANAGEMENT CHAPTER 5.2.

Employee involvement

A committed employee of PZU is a person who thinks about the goals of their actions, their consequences for the company and its clients, and ways to cooperate with others in order to build an even more successful business. The results of recent surveys on commitment among PZU Group’s employees

have shown that 91% of them are satisfied with their jobs. From the start of the surveys, the employee satisfaction

and commitment have been successively rising. In the survey the employees graded their working conditions, procedural transparency, and relations with superiors. To ensure that the process is transparent, the survey results were announced to all employees. Based on the results, the employees and their supervisors came up with numerous ideas on how to turn PZU into an even friendlier workplace engaging all of the Group’s employees. One of the initiatives was the establishment of the Sport Team. Today, there are 11 active Sport Team

units: running, cycling, skiing, squash, volleyball, crossfit, soccer, sailing, basketball, table tennis, triathlon. The units are composed of almost 800 PZU employees. The PZU Sport Team is regularly among the leaders in amateur tournaments and events, both open and organized only for employees of corporations. For example, PZU’s runners placed second in the PZU Warsaw Marathon (for the fastest company).

Volunteers among employees

PZU Group encourages its employees to perform active volunteer work and support their local communities and organizations. Volunteering helps build permanent and long-lasting relations, which have positive effect on all of the Group’s structures.

In 2015, PZU’s employees took part in numerous Employee Volunteer projects. 27 different projects were launched in the spring and 29 in the fall in scope of the „Wolontariat to radość działania” [Volunteering is the joy of action] campaign alone. PZU’s employees have contributed over 10 thousand hours of their time in volunteer initiatives.

The most important volunteer projects included the following:

- Wolontariat to radość działania [Volunteering is the joy of action] – a contest for PZU’s employees and agents. The main prize in the contest was a PLN 5 thousand grant for a chosen noble cause;

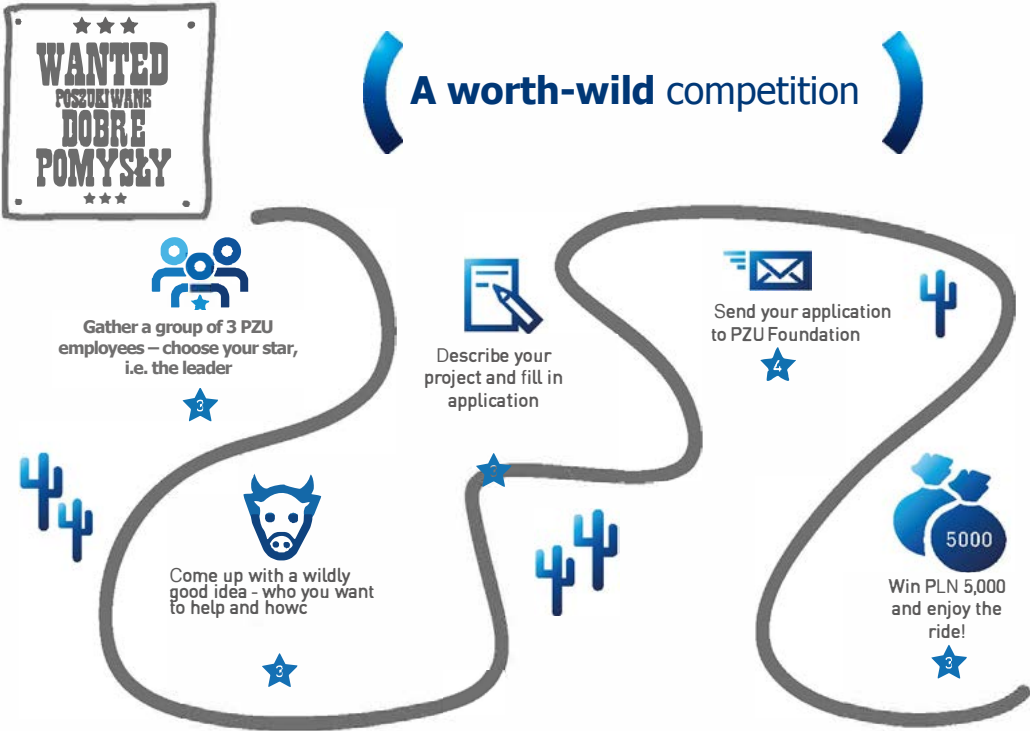
- „Lekcja z Prezesem” – Koalicja Prezesa – Wolontariusze [„Class with the Chairman” – Chairmen-Volunteers Coalition] – volunteer work to raise competences, where the members of the boards of our Group meet with students at their schools, share their experiences, and motivate them to develop their passions;
- Zwolnieni z teorii [Exempt from theory] – the first contest in Poland where the students demonstrate not their school knowledge, but their practical skills. They do not compete in tests and essays, but in social projects;
- Szlachetna paczka [Noble package] – The PZU Foundation has served as the strategic partner of Szlachetna paczka [Noble package] since 2013. The organizations came together for the concept of smart assistance, which offers immediate help, but also systemic solutions based on long-term activity and long-lasting effects. In 2015, 76 PZU leaders gathered 2537 individuals, who prepared assistance for 82 families at the approximate value of PLN 160,000.

Rules of ethics

PZU’s effective ethics are an inseparable part of the Group’s operations and the foundation for its sustainable development. The company is doing everything in its power to have them reflected in all activities of the Group’s employees. On one hand, the Rules are contained in the official documents such as the PZU Good Practices and the New Security Policy. On

" You have to create an attractive environment where the people are interested in the history they are creating"

Carlos Goshn. CEO Renault/Nissan



the other, they compose the foundation for Values, which the Group's employees follow in all of their actions. The Rules are:

- wisdom;
- simplicity;
- imagination.

9.3 We support the society

Strong involvement in the social life is an inseparable long-term value of the social responsibility of business. PZU provides support for local organizations and communities, both financial and in scope of sharing the knowledge and experience of its employees. The Group builds long-term relations with their partners to make sure that the initiatives it supports are continuously improved. With support from the PZU Foundation and the preventive fund, PZU promotes healthy lifestyle, educates in scope of safety, supports development of medical science, and carries out the Group's philanthropic activity. These activities are permanent elements of its social involvement strategy.

Prevention

In scope of prevention, PZU undertakes numerous initiatives aimed to minimize the probability of events – or their potential consequences – entailing the need to handle various types of claims.

PZU Group has been supporting the Voluntary and Professional Fire Department and State Police Department for years by providing funding for firefighting and flood prevention equipment as well as professional training courses.

The Group also uses the prevention fund to support the activity of rescue organizations – GOPW and WOPR – by contributing to equipment purchases, raising rescuers' qualifications, and educational campaigns under the slogans „Bezpieczeństwo stawiamy najwyżej” [Safety first] and „Wpływamy na bezpieczeństwo” [We help stay safe].

Pro-health activity

Pro-health prevention is aimed to minimize the negative effects of events by spreading knowledge about safety and health promotion through mass running events supported by PZU and with other campaigns.

In 2015, both PZU and PZU Życie cooperated with hospitals, non-government organizations and media who carried out health-related projects and contributed to purchases of medical equipment. The following preventive programs were aimed at improving health and prevention:

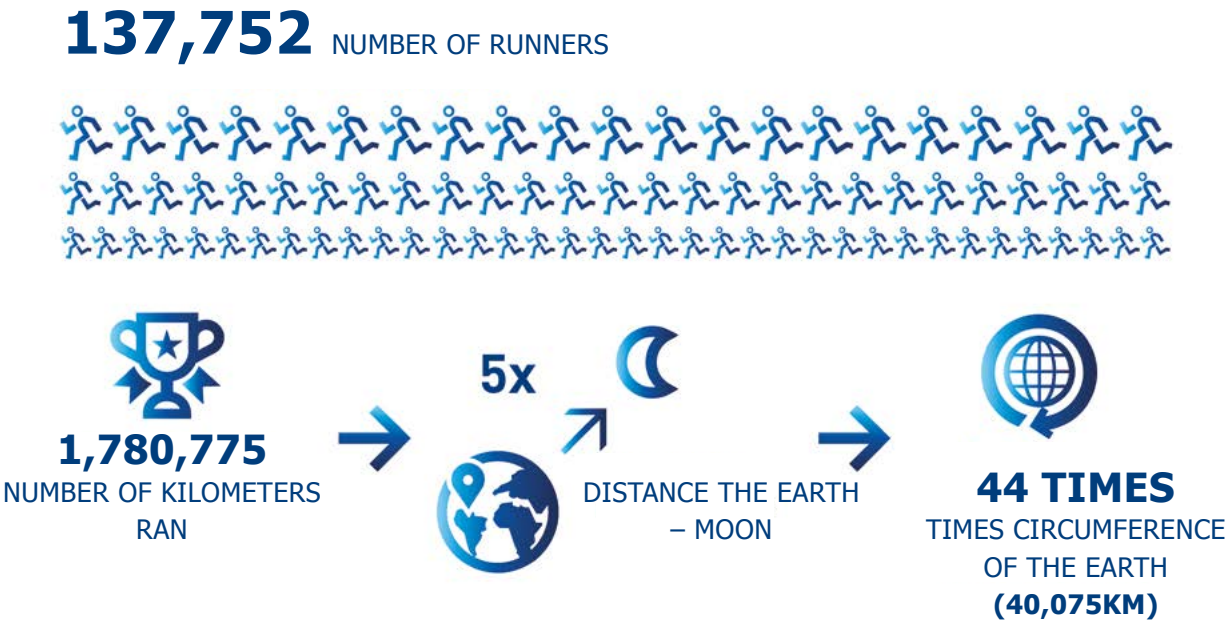
- **PZU Trasy Zdrowia [Health Routes] program**  
This is a program for the local governments in municipalities with up to 50 thousand inhabitants. It is

aimed to create Routes in Poland for meetings, recreation, sports, or pro-health education, and consequentially integration of the local community. In 2015, the PZU Foundation funded 31 more routes. Today, there are 61 PZU Health Routes in Poland. Each one is equipped with exercise facilities and information boards, which include exercise plans tailored to the needs of users of different age groups and various levels of advancement.

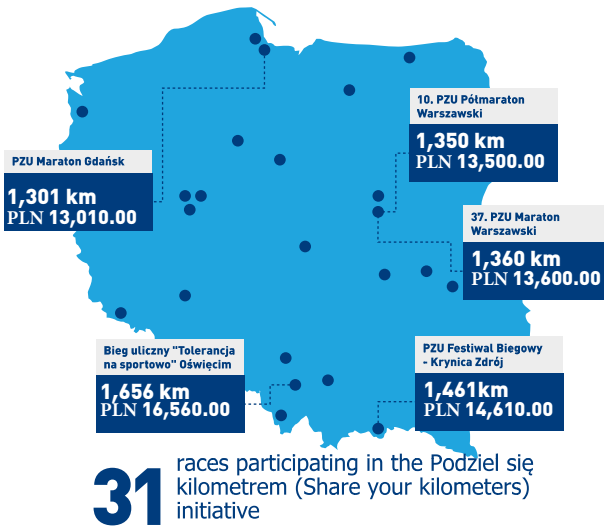
- **Support for mass running events**  
PZU also supported numerous mass running events in 2015. The most important projects included ultramarathons (Karkonosze, Bieg 7 Dolin [7 valley run]), marathons (Warsaw, Gdańsk, Szczecin, Lublin), half-marathons (Warsaw, Królewski [Royal]), and 15, 10, and 5 km runs (Bieg po Zdrowie [Run for Health], Bieg Nowych Idei [New Idea Run], Kamienna Piątka [Rock Five]). The supported initiatives also included special running events, among others those promoting transplants (Bieg po Nowe Życie [Run for a New Life]), tolerance (Tolerancja na sportowo [Sports Tolerance], Bieg Na Tak – Run of Spirit), patriotism (Bieg Żołnierzy Wyklętych [Run of Cursed Soldiers]), or fun (The Color Run). 138 thousand people took part in last year's running events supported by PZU. In total, they ran 1,780,775 kilometers – twice as much as in 2014.
- **Stop wariatom drogowym [Stop Reckless Drivers] Campaign**  
In 2015, the PZU Foundation realized the second part

of the campaign „Kochasz? Powiedz STOP Wariatom Drogowym” [If You Love, Say No to Road Rage]. Its main objective is to improve road safety by promoting responsible attitudes among drivers. The campaign's symbol is a blue heart, which, gifted by a dear person, is placed in a visible spot in the car to remind drivers to drive safely. The hearts, which are the symbols of the campaign, were distributed in all offices and branches of PZU and during special events. The second stage of the campaign carried out in 2015 was focused on the initiative for active pedestrian crossings and attracting attention to the fact that responsibility on the road falls to both the driver and the pedestrian. The message is expressed in the following slogan: „If you love, watch out for the pedestrians. They can be your loved ones.” In 2015, PZU built active pedestrian crossings in 20 Polish municipalities. Each crossing is equipped with a special light system, which turns on when the pedestrian approaches the crossing, anti-slip mats reducing breaking distance, and a system of „cat-eye-lights” which are always on.

- **Business Forum in Krynica**  
PZU Group provides organizational and financial support to the Business Forum in Krynica. This so-called Polish Davos gathers prime ministers, ministers, European commissioners, and the most important individuals on the political and business scene each year. As a partner of the event, PZU actively contributes to strengthening



SHARE YOUR KILOMETERS 2015





# Corporate social responsibility

the political and business contacts in Europe to serve the development of regional and international political, business, cultural, and science relations.

## The PZU Foundation

Since 2004, the PZU Foundation has carried out charity activities of PZU Group which are among the most important elements of its community involvement strategy. The aim of the PZU Foundation is to promote education of children and teenagers, fostering talents and creating equal opportunities for people who are, for various reasons, disadvantaged, as well as to increase access to cultural assets and social life, that is, a broadly understood development of civil society. According to its mission under the slogan „Pomagamy Pomagać” [We Help to Help], the PZU Foundation contributes financially to projects carried out by non-governmental organizations and institutions throughout Poland, the statutory objectives of which fall under the scope of the Foundation’s support. Its operations are focused on the following areas: education, social care and assistance, culture and arts, and health care.

In 2015, the PZU Foundation spent almost PLN 40 million for its statutory operations.

## Education



[The Power of helping]

The PZU Foundation is financing education initiatives in rural areas and small towns which are run by credible local partners. The top initiatives are chosen by means such as the successive editions of the „Z PZU po lekcjach” [With PZU After Classes] contest, which have been choosing the best projects for the past 10 years. 368 projects were submitted to the contest in 2015 and 22 organizations with initiatives deemed most interesting received financial support.

In scope of educational activity, the „Niestraszki w pakiecie” [Fear-Nots in a Pack] campaign was launched in the second half of 2015. The campaign features 5 Fear-Nots – funny, yet

smart characters with an educational mission, i.e. to teach children the rules of safety.

The Foundation is also a partner of Krajowy Fundusz na rzecz Dzieci [National Fund for Children] – an organization providing support to gifted children by offering them educational aides and scholarships.

## Social care and assistance

The social care and assistance activity of the Foundation is aimed mainly to prevent social marginalization and provide equal opportunities to the disabled. The projects realized in this scope in 2015 include the following:

- Świetlica – moje miejsce [The Community Center is My Place] – the objective of this program is to provide a place for youth, where they could spend their free time after school – take part in educational exercises, especially in scope of sciences, develop their interests, and do their homework under the supervision of someone who will help them out.
- „Młodzi niepełnosprawni – pełnosprawni z PZU” [Young Disabled People Able with PZU] – the objective of this program is to raise the self-reliance, ability, and social activity of the disabled and provide support to their families by organizing care for the disabled in rural areas and small towns up to 30 thousand inhabitants.

## Culture and art

In 2015, PZU acted as a sponsor and patron of various national and local cultural events and focused on initiatives associated with Polish national and cultural heritage. The Group supports the Royal Castle in Warsaw, the Royal Museum, and the National Museum in Kraków. For many years, PZU has been contributing to the purchases of museum exhibits and providing promotional and conceptual support. As a Patron of Polish Culture, the Group also actively participated in the organization of Noc Muzeów [Night of the Museums], preparing special PZU zones promoting art and culture in unconventional ways. In 2015, the Group’s support was spread over the 19th-Century Arts Gallery at the National Museum in Warsaw. As the patron of the Museum, PZU wants to improve the security of both its priceless collections and visitors. PZU Group was also the patron of the celebrations commemorating the anniversary of the Warsaw Uprising and, since 2015, also serves as the patron of the Warsaw Uprising Museum, thus

contributing to preserving the memory of this special event in history of Poland.

## Health care

The health care initiatives undertaken by the PZU Foundation are focused mainly on financial contribution to purchases of specialized medical equipment (such as insulin pumps and respirators for newborns) and rehabilitation equipment, and to the treatment costs of people in difficult financial situation. For years, the Foundation has been working together with organizations such as Stowarzyszenie Pomocy Dzieciom Chirurgicznie Chorym [Association for Assistance to Surgically Ill Children]. PZU is also the strategic sponsor of the „Misie Ratuja Dzieci” [Bears Save Children] association, which offers comprehensive rehabilitation and psychological care for children at the Therapy Center in Dźwirzyn near Kołobrzeg. Dom Misia Ratownika [House of the Rescue Bear] guarantees free-of-charge professional therapy and provides all conveniences necessary for proper therapeutic progress during the therapy periods.

## CSR awards and prizes

- in 2015, the „Kochasz? Powiedz STOP Wariatom Drogowym” [If You Love, Say No to Reckless Drivers] social campaign received 5 awards (3 from Klub Twórców Reklamy [Club of Advertisement Creators], the Platinum Magellan Award, and second place in the „Best 25” list organized by the League of American Communications Professionals);
- PZU took sixth place in the 2015 Employer of the Year ranking of AIESEC – the biggest students’ association in Poland – in the category of most desired employers;
- in 2015, PZU Group’s insurers operating in Lithuania and Latvia – BALTA and Lietuvos Draudimas – received the title of „Best Employers” in Baltic states;
- Link4 won the 2015 Responsible Employer – HR Leader Contest, a national human resources (HR) program. The program aims to raise awareness of and promote positive models and operating strategies in scope of HR policy and the strategy of integrating HR and business affairs;
- PZU took first place in the 2015 Institution of the Year ranking of MojeBankowanie.pl in categories of „Best Onsite

Service Quality” and „Best Service Quality in Remote Communication Channels.”

## 9.4 We care for the environment

Managing environmental impact is one of the key elements of the Group’s CSR activity GLOSSARY. PZU’s initiatives in this area come in two forms: responsible internal resource management and environmental sensitivity and awareness building among stakeholders: employees, clients, business partners, suppliers and representatives of local communities. PZU cares for the environment through initiatives such as:

- „rower zastępczy” [replacement bicycle] – in scope of this initiative, PZU offers to its clients a choice between a replacement vehicle and a bicycle, which they can keep in case of traffic collisions requiring repairs to their vehicle. The objective of this innovative offer is to promote a healthy lifestyle, but it also reflects the company’s care for the environment;
- introducing hybrid cars to the fleet. The drive complies with the highest EURO 5 standard of combustion, binding in the European Union, and cars, with proper driving techniques, use only about 4 l/100 km in urban areas;
- economic management of resources and raw materials. Extensive use of electronic data carriers and limiting the use of paper in business is an important aspect of this activity. In recent years, equipment such as new printers, which automatically print on two sides, and application of irrelevant office materials for office printing allowed us to reduce paper consumption by about 3% or 3,3 million sheets annually. In order to reduce power consumption, we install energy-saving lighting and heating systems. We also focus on responsible waste management and strive to achieve full recycling;
- choice of the new back office headquarters with attention to ecological aspects. The Konstruktorska Business Center Building, which houses the PZU back office, is powered entirely by renewable source energy and offers over 30 locations for charging electric cars. The building was designed with special attention devoted to environment protection – it has the BREEAM certificate. Categories assessed in the certificate include: air quality, energy and



- water consumption, low waste levels, use of eco-friendly materials and provision of good working conditions;
- employee education. Key initiatives include: campaigns raising awareness about use of consumables, recycling, e.g. involving employees in collection of mobile phones and in environmental campaigns.

## We care of the environment:



We introduced replacement bikes to our offer

In 2015, we produced **143.5 tons** less documents for Archive



In 2015, we used **3.3 million** less sheets of paper



PZU Lab

we support risk management in industrial companies

**4 l/100 km** - we are building our hybrid car fleet



**100% recycling** - we recycle paper, batteries, and ferrous metals



10

## Corporate governance

We understand that, being the market leader, our role is to set the highest standards for the whole industry.

We fulfill this role not only by complying with a wide range of codes, but also by working on their continuous improvement. We believe that we can offer these wise changes to the world that surrounds us.

Best practices will take you  
a long way!



### Contents:

1. Corporate governance principles applied by PZU
2. Application of Good Practices of Companies quoted on WSE
3. Application of Corporate Governance Principles to supervised institutions
4. Control system applied during preparation of the financial statements
5. Entity authorized to audit financial statements
6. Share capital and shareholders of PZU; stock held by members of its authorities
7. By-laws of PZU
8. General Shareholders' Meeting, Supervisory Board, and Management Board
9. Remuneration of the members of the Group's bodies

## 10.1 Corporate governance principles applied by PZU

Since the IPO of PZU on a regulated market the Issuer has followed the corporate governance rules laid down in Good Practices of Companies quoted on WSE.

The document was accepted by WSE Council on 4 July 2007 and has undergone several modifications since then. Since 1 January 2013 to 31 December 2015 oblige document adopted by resolution of WSE Council dated 21 November 2017 regarding amendments to the Good Practices of Companies quoted on WSE.

On 13 October 2015, a new set of corporate governance rules under the name of „Good Practices of Companies quoted on WSE 2016” was accepted by the resolution of WSE Council. The new rules are in force as at 1 January 2016.

The current contents are available on the website devoted to corporate governance of WSE-quoted entities [WWW.CORP-GOV.GPW.PL](http://WWW.CORP-GOV.GPW.PL), as well as on the PZU's corporate website ([www.pzu.pl](http://www.pzu.pl)), in the section dedicated to PZU's shareholders – „Investor Relations”.

Code of Good Insurance Practices adopted on 8 June 2009 by the General Meeting of the Polish Chamber of Insurance („PIU”), an organization associating insurance companies operating in the Polish market is another document determining the manner of business operations and of developing relations with stakeholders. The document is available on the website: <http://piu.org.pl>.

Further, stakeholder relations are based on our internal PZU Code of Good Practices. The document is available on the website: <http://www.pzu.pl/en>

On 22 July 2014, Polish Financial Supervision Authority issued Corporate Governance Rules for Supervised Institutions („Rules”).

The rules and information on how to use them can be found on the PZU website: <http://www.pzu.pl/grupa-pzu/pzu-sa/zasady-ladu-korporacyjnego>

## 10.2 Application of Good Practices of Companies quoted on WSE

In 2015, PZU complied with the principles included in Good Practices of Companies quoted on WSE except for the one referred to in Section IV pt.10 and Section I pt.5, I pt.9 and I pt.12.

With regard to the principle referred to in Section IV pt.10, regarding enabling shareholders' exercise voting rights personally or by proxy on in General Shareholders' Meetings using IT tools to allow mutual real-time communication and participation in discussions during the meeting of shareholders who are physically absent at the meeting venue, please note that, in our opinion, there are a number of technical and legal factors that may affect the course of a General Shareholders' Meeting, and therefore the appropriate application of the above rule. Moreover, in our view, the company's principles concerning participation in Shareholders' Meetings applicable in PZU allow for exercising rights from shares and protect interests of all shareholders. The communication regarding non-compliance with the principle included in Section VI pt.10 was submitted by the Issuer on 29 January 2013.

The following issues mentioned in section I of Good practices of companies quoted on WSE defining “Recommendations concerning good practices of companies quoted on WSE” should be emphasized:

- as for the recommendation included in Section I pt.5 concerning the policy of remunerating members of management and supervisory bodies, remunerations of members of the Supervisory Board for participation in the works of the Board are determined by the General Shareholders' Meeting and those of the Management Board are set based on a resolution of the Supervisory Board;
- policy of remunerating members of the management and supervisory bodies of PZU does not include all elements indicated in the recommendation of the European Commission of 14 December 2004 fostering an appropriate regime for the remuneration of directors of quoted companies (2004/913/EC), supplemented by recommendation of EC of 30 April 2009 (2009/385/EC). Moreover, PZU did not present a declaration presenting remuneration policy on its corporate website. The decision concerning future compliance with the mentioned above rule will be taken by the Supervisory Board and the General Shareholders' Meeting;

- at the same time, please note that implementing the Ordinance on current and periodic information, the Issuer discloses information regarding remuneration, awards or profits for each member of the managing and supervisory bodies in PZU in the annual report;
- as for the recommendation specified in Section I pt.9 concerning gender parity principle to be followed in the Company's management and supervisory bodies, PZU has always pursued the policy of appointing competent, creative, experienced and educated people to the Company's bodies. The composition of the Management and Supervisory Board is determined based on a decision of the Supervisory Board or a General Shareholders' Meeting, respectively, and other factors, such as gender, are not taken into account;
- with regard to the recommendation referred to in Section IV pt.12, regarding enabling shareholders' participation in General Shareholders' Meetings using IT tools to allow mutual real-time communication and participation in discussions during the meeting of shareholders who are physically absent at the meeting venue, please note that, in our opinion, there are a number of technical and legal factors that may affect the course of a General Shareholders' Meeting, and therefore the appropriate application of the above rule. Moreover, in our view, rules concerning participation in Shareholders' Meetings applicable in PZU allow for exercising rights from shares and protect interests of all shareholders.

The announcement on non-compliance with these recommendations was not issued in line with the waiver of the obligation to publish issuers' reports referred to in Article 29.3 of the Regulations of WSE with respect to corporate governance principles set forth in Section I of Good practices of companies quoted on WSE, in accordance with the resolution of the Management Board of WSE dated 11 December 2007 regarding partial waiver of the obligation to publish reports on corporate governance adopted on the WSE Main Market.

## 10.3 Application of Corporate Governance Principles to Supervised institutions

The Management Board and the Supervisory Board of PZU declared their readiness to apply the Principles to the furthest objectively possible extent, taking into account the principle of proportionality and the „comply or explain” rule, arising from their content. These statements of the Management Board and the Supervisory Board of PZU were confirmed by their appropriate resolutions.

The Management Board and the Supervisory Board of PZU announced the decision on implementing the Principles during the General Shareholders' Meeting that took place on 30 June 2015. The General Shareholders' Meeting of PZU declared that while acting within its mandate it will follow the Corporate Governance Rules in the wording of Polish Financial Supervision Authority of 22 July 2014 with the exception of the rules that the General Shareholders' Meeting of PZU decided to waive.

Detailed information about the application of the Principles by PZU can be found on PZU's website. That includes the principles whose application is partial, that is:

- principle specified in § 8.4: Principles facilitating the participation of all shareholders in the General Shareholders' Meeting, e.g. by ensuring the active electronic participation in meetings; it should be emphasized that the current shareholders of PZU can follow the broadcast of the meeting, but the Company decided not to introduce the so-called e-GSM; in the assessment of PZU, there are many technical and legal factors that could affect the proper conduct of the General Shareholders' Meeting. The legal concerns are related to the possibility of identifying shareholders and inspecting the ID cards of the GSM's participants; the risk of technical problems, e.g. with the Internet connection or a potential intrusion into information systems, can disrupt the work of the General Shareholders' Meeting and raise doubts about the effectiveness of the resolutions adopted during the meeting; the occurrence of the above-mentioned risks may affect the correct application of the principle in full;
- principle specified in § 21.2: Principles which state that in the composition of the supervisory body there should be a separate function of a chairperson who manages the works of the supervisory body and that the choice of the chairperson of the supervisory body should be

made based on the experience and team leadership skills, taking into account the criterion of independence; it must be emphasized that, in accordance with the Code of Commercial Companies GLOSSARY and the By-laws of PZU, there is a separate function of a chairperson in the Supervisory Board of PZU; the composition of the Supervisory Board of PZU, including the office of the chairperson, are shaped according to the criterion of independence set out in the Act on statutory auditors GLOSSARY; the election of the chairperson of the Supervisory Board is made on the basis of their knowledge, experience and skills, which confirm that the chosen person has the competencies necessary for the proper performance of their supervising duties; the application of the criterion of independence in the case of the chairperson in accordance with the PFSA's explanation of the principle may raise doubts about the potential conflicts of law relating to shareholders' rights;

- in relation to the principle specified in § 49.3 of the Principles concerning appointment and dismissal in supervised institutions of the person heading the internal audit unit or the person heading the compliance unit, it should be noted that PZU complies with the principles specified in § 14 of the Principles fully, which means that PZU's Management Board is the only one entitled to and responsible for management of the operations of the company; furthermore, in accordance with the provisions of the labor law, the activities related to the labor law are performed by the governing body; in view of the above, PZU adopted a solution according to which the decision about appointment and dismissal of the person heading the internal audit unit is made, taking into account the opinion of the Audit Committee of the Supervisory Board; the same applies to the appointment and dismissal of the person heading the compliance unit; the Management Board consults the Audit Committee about such decisions.

The General Shareholders' Meeting of PZU decided against implementing the following principles:

- rule specified in § 10.2 in the following wording: „Introduction of personal entitlements or other special entitlements for shareholders of a supervised institution should be justified and serve realization of the objectives of this supervised institution. Having such entitlements by a shareholders should be reflected in a basic act regulating operation of the institution.”  
- waiver from applying the principle is justified by the

unfinished privatization of the Company carried out by the State Treasury;

- principle specified in § 12.1 in the following wording: „The shareholders are responsible for providing immediate capital injection to the supervised institution in a situation in which it is necessary for maintaining the own capitals of the supervised institution on a level required by the legal or supervisory regulations and also when it is required for the reasons concerning safety of the supervised institution.”  
- waiver from applying the principle is justified by the unfinished privatization of the Company carried out by the State Treasury;
- principle specified in § 28.4 in the following wording: „A decision-making authority shall assess whether the agreed remuneration policy is beneficial to the development and safety of the supervised institution.”  
- waiver from applying the principle is justified by the scope of application of the remuneration policy assessed by the decision-making authority being too broad. The remuneration policy for persons performing key functions and not being the members of the supervisory body or governing body should be assessed by their employer or principal, which is the Company represented by the Management Board and controlled by the Supervisory Board.

Moreover, the following rules do not apply to PZU:

- principle specified in § 11.3 in the wording: „In the event that the decision concerning a transaction with a related party was made by the General Shareholders' Meeting, all shareholders should have access to any information necessary for assessment of the terms on which the transaction is to be executed and its impact on the situation of the supervised institution.”  
– in PZU the General Shareholders' Meeting does not make decisions concerning transactions with related parties;
- principle specified in § 49.4 in the following wording: „In a supervised institution, where there is no internal audit unit or compliance unit, the entitlements referred to in items 1–3 shall be held by the people responsible for performance of those functions.”  
– there is both an internal audit unit and a compliance unit at PZU;
- principle specified in § 52.2 in the following wording: „In a supervised institution, where there is no audit unit or compliance assurance unit, and where no unit responsible for that area has been appointed, the information referred to in item 1 shall be submitted by the people responsible

for fulfilling those functions.”

- there is both an internal audit unit and a compliance unit at PZU;
- the rules specified in Chapter 9 – Execution of Rights Resulting from Assets Acquired at Client's Risk, as PZU offers no products which involve managing assets at client's risk.

## 10.4 Control system applied during preparation of the financial statements

Financial statements are prepared within the PZU Finance Division including PZU Head Office (with the Accounting Office) and central units operating based on applicable regulations. PZU Finance Division is supervised by a Member of the Management Board of PZU.

The elements which facilitate completing the process are the accounting principles (policy), the chart of accounts with a commentary and other detailed internal regulations approved by the Management Board of PZU specifying the key rules of recording business events in PZU and dedicated reporting systems.

Data is prepared in the source systems using formal operating and acceptance procedures which specify the competencies of individual persons.

The reporting process is controlled by appropriately qualified, skilled and experienced staff.

PZU monitors the changes in the external regulations concerning e.g. the accounting policy (procedures) and reporting requirements of insurance undertakings and carries out appropriate adaptation processes.

The accounting records are closed and financial statements are prepared in accordance with detailed schedules, including the key activities and control points with assigned liability for timely and correct completion.

The key controls during preparation of the financial statements include:

- controls and permanent monitoring of the quality of input data, supported by the financial systems with defined rules of data correctness, in accordance with PZU internal

regulations concerning the control of correctness of the accounting data;

- data mapping from the source systems to financial statements supporting appropriate presentation of data;
- analytical review of financial statements by specialists to compare them with the business knowledge and knowledge about business transactions;
- formal review of the financial statements to confirm compliance with the valid legal regulations and market practice in terms of required disclosures.

PZU internal audit periodically reviews the organization and the process of preparing the financial statements.

Activities within the consolidated financial reporting are coordinated through the organizational structure of the Finance Division in the PZU and PZU Życie Head Offices, which is shared, i.e. organized based on a personal union. PZU controls all the consolidated subsidiaries through Management Boards and Supervisory Boards of the companies.

The process of consolidated financial reporting is regulated by a number of internal acts. The acts regulate the accounting principles (policy) adopted by PZU Group and applied accounting standards. Additionally, the process is also subject to detailed schedules including the key activities and control points with assigned liability for timely and correct completion.

### Audit Committee

The Supervisory Board of PZU appoints three members of the Audit Committee. At least one of them must be qualified in accounting or auditing, as understood by the Act on Statutory Auditors and Their Self-Governing Body, Auditing Firms and on Public Oversight. The Audit Committee is an advisory and consultative body to the Supervisory Board and is appointed to improve the effectiveness of the supervision of the correctness of financial reporting, effectiveness of internal control, including internal audit and risk management, exercised by the Supervisory Board.

A statutory auditor appointed by the Supervisory Board of PZU based on the recommendation of the Audit Committee reviews interim separate and consolidated financial statements of PZU and audits its annual separate and consolidated financial statements.



## 10.5 Entity authorized to audit financial statements

On 18th February 2014, the Supervisory Board of PZU appointed KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k. with the registered office in Warsaw, ul. Inflancka 4A, 00-189 Warsaw, entered on the list of entities authorized to audit financial statements under No. 3546 by the National Chamber of Statutory Auditors as the entity authorized to audit financial statements, with whom an agreement on audit and review of financial statements will be concluded.

The scope of the agreement will include:

- audit of annual separate financial statements of PZU and of annual consolidated financial statements of PZU Group;
- review of interim separate financial statements of PZU and of interim consolidated financial statements of PZU Group.

The work referred to above will include three subsequent financial years ending, respectively, on: 31 December 2014, 31 December 2015 and 31 December 2016, with an option to extend the agreement for further two financial years ending, respectively, on 31 December 2017 and 31 December 2018.

Former cooperation of PZU with KPMG Audyt included mostly tax advisory services.

## 10.6 Share capital and shareholders of PZU; stock held by members of its authorities

On 30 June 2015, the General Shareholders' Meeting of PZU adopted the resolution on splitting all stocks of PZU by decreasing the nominal value of each PZU share from PLN 1 to PLN 0.1 and increasing the number of PZU shares

which constitute the stocks capital from 86,352,300 to 863,523,000. The split of shares was performed through the exchange of all shares in 1:10 ratio. The split of stocks had no influence on the share capital of PZU.

On 3 November 2015, the District Court for the capital city of Warsaw, XII Economic Division of the National Court Register recorded the appropriate change to the By-laws of PZU.

On 24 November 2015, the Management Board of the National Depository for Securities adopted at the request of PZU a resolution No. 789/15 on determining the day of 30 November 2015 as the day of splitting 86,348,289 PZU shares with the face value of PLN 1 each to 863,482,890 PZU shares with the face value of PLN 0.10 each.

Therefore, the share capital of PZU is divided into 863,523,000 ordinary shares with the face value of PLN 0.10 each, giving right to 863,523,000 votes on the General Shareholders' Meeting.

In accordance with the current report No. 3/2016, on the Extraordinary General Shareholders' Meeting of PZU on 7 January 2016 the shareholders of PZU with significant share packages were as follows: the State Treasury holding 297,420,578 shares, i.e. 34.44% of the share capital of PZU and the right to 297,420,578 votes at the General Shareholders' Meeting, and Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK holding 49,156,660 shares, i.e. 5.69% of the share capital of PZU and the right to 49,156,660 votes at the General Shareholders' Meeting.

There were no significant changes in the ownership structure of blocks of PZU shares in 2015.

The Management Board of the Company has no knowledge about concluded agreements which may result in changes in the proportion of shares held by the shareholders.

PZU did not issue, redeem or repay any debt or equity instruments that would provide its shareholders with special control rights.

From 2013 to 2015, no employee stock ownership plans existed in PZU.

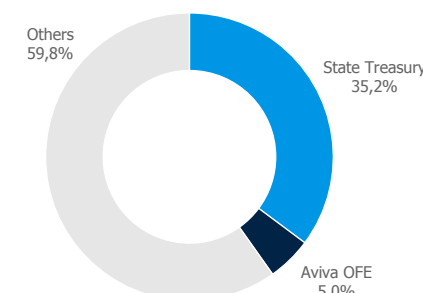
In line with the PZU By-laws, the voting right of the shareholders is restricted in a way that none of them can exercise more than 10% of the total number of votes at PZU at the date of the General Shareholders' Meeting, with the reservation that for the purpose of determining obligations of parties acquiring material blocks of shares provided for in the Act on Public Offering and the Act on Insurance Activity, such voting restrictions are considered non-existent. The restrictions do not apply to:

- shareholders who held shares entitling to more than 10% in the total number of votes in the Company as at the date of adopting a resolution of the General Shareholders' Meeting;
- shareholders co-acting with shareholders defined in the point above based on agreements concerning joint voting rights attached to the shares. For the purposes of voting rights restrictions, the votes of the shareholders being parent companies or subsidiaries will be added up in line with the principles specified in the By-laws.

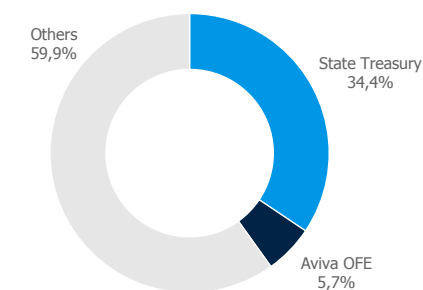
In case of any interpretation doubts with respect to the voting restrictions, Article 65.2 of the Civil Code will apply. GLOSSARY

In line with the PZU's By-laws, the above voting restrictions will expire starting from the moment when a share of a shareholder who, at the date of adopting a resolution of the Shareholders' Meeting introducing the restriction, held shares entitling him to more than 10% in the total number of votes in the Company, drops below 5% of the share capital.

## PZU shareholding structure as at 31.12.2014



## PZU shareholding structure as at 31.12.2015



## 10.7 By-laws of PZU

### Amendments to the By-laws

The By-laws of PZU can be amended by the General Shareholders' Meeting in the form of a resolution passed by a majority of three fourths of votes. In cases specified in the Act on Insurance Activity GLOSSARY such change must be approved by the FSA and then recorded in the National Court Register. The Supervisory Board can approve the unified amended text of the By-laws.

On 30 June 2015, the General Shareholders' Meeting of PZU adopted amendments to the By-laws of PZU.

Then, on 18 September 2015, the Supervisory Board of PZU adopted a resolution regarding the wording of the consolidated amended By-laws of PZU. On 3 November 2015, the By-laws were recorded in the National Court Register.

Fee of the entity authorized to audit financial statements	1 January - 31 December 2015	1 January - 31 December 2014
Statutory audit of annual separate/consolidated financial statements	1,488	714
Other attestation services including review of separate/consolidated financial statements	248	248
Tax advisory services	-	-
Other services	27	27
<b>Total</b>	<b>1,763</b>	<b>989</b>

Shares or rights to shares held by management and PZU supervisory personnel				
No.	Body / Name and surname	Number of shares / rights to shares as of the date of Management Report (i.e. 14 March 2016)	Number of shares / rights to shares as of the date of Management Report (i.e. 17 March 2015)	The resulting change in the period between these dates
<b>Management Board</b>				
1.	Michał Krupiński	-	na	na
2.	Przemysław Dąbrowski	-	-	-
3.	Roger Hodgkiss	-	na	na
4.	Beata Kozłowska-Chyła	-	na	na
5.	Dariusz Krzewina	-	-	-
6.	Robert Pietruszyn	-	na	na
7.	Paweł Surówka	-	na	na
8.	Andrzej Klesyk	na	-	na
9.	Tomasz Tarkowski	na	800	na
10.	Ryszard Trepczyński	na	-	na
<b>Group Directors</b>				
1.	Tomasz Karusewicz	-	na	na
2.	Sławomir Niemierka	-	-	-
3.	Roman Pałac	-	na	na
4.	Tobiasz Bury	nd	500	na
5.	Rafał Grodzicki	nd	-	na
6.	Przemysław Henschke	nd	-	na
<b>Supervisory Board</b>				
1.	Paweł Kaczmarek	-	na	na
2.	Marcin Gargas	-	na	na
3.	Maciej Zaborowski	-	na	na
4.	Marcin Chludziński	-	na	na
5.	Eligiusz Krześniak	-	na	na
6.	Alojzy Nowak	-	-	-
7.	Jerzy Paluchniak	-	na	na
8.	Piotr Paszko	-	na	na
9.	Radosław Potrzeszcz	-	na	na
10.	Aleksandra Magaczewska	nd	-	na

11.	Zbigniew Ćwiąkański	na	-	na
12.	Tomasz Zganiacz	na	-	na
13.	Zbigniew Derdziuk	na	-	na
14.	Dariusz Filar	na	-	na
15.	Dariusz Kacprzyk	na	-	na
16.	Jakub Karnowski	na	280	na
17.	Maciej Piotrowski	na	-	na
<b>Total</b>		-	1 580	

## 10.8 General Shareholders' Meeting, Supervisory Board, and Management Board

### General Shareholders' Meeting

The General Shareholders' Meeting is the highest body of PZU. The general operational principles and the rights of the General Shareholders' Meeting have been determined by the Code of Commercial Companies GLOSSARY and the By-laws.

The By-laws are available on PZU's corporate website (WWW.PZU.PL) in the „Investors relations” section, tab: „Company”.

The General Shareholders' Meeting did not issue its Regulations.

The General Shareholders' Meeting is a body authorized to make decisions concerning issues related to the organization and operations of the issuer. Resolutions of the General Shareholders' Meeting are adopted by an absolute majority of votes, except for cases specified in the Code of Commercial Companies GLOSSARY or the By-laws.

The competencies of the General Shareholders' Meeting, in addition to those specified in the Commercial Companies Code and the By-laws of PZU, include passing resolutions concerning the following:

- examination and approval of the Management Board report on the issuer's activities, financial statements for the previous financial year and acknowledgement of the fulfillment of duties by members of the company's authorities;

- profit distribution or loss coverage;
- making decisions concerning claims for redressing damage inflicted upon formation of the company or exercising management or supervision;
- disposal of the enterprise or its organized part or its lease or establishment of a limited property right;
- redemption of shares or issue of bonds;
- creating reserve capitals and making the decision whether to use them and, if so, how;
- division of the Company, its merger with another company, its liquidation or dissolution;
- appointing and dismissing members of the Supervisory Board, subject to the right granted to the State Treasury to appoint and dismiss one member of the Supervisory Board;
- establishing the rules of remunerating members of the Supervisory Board;
- acquisition or disposal by the issuer of real property, perpetual usufruct or share in real property or in perpetual usufruct with a value exceeding the equivalent of a gross amount of EUR 30.0 million (thirty million euro).

In accordance with the By-laws, a majority of three fourths of votes is required to pass the General Shareholders' Meeting's resolutions on the following:

- amendments to the By-laws;
- decrease in the share capital;
- disposal of the enterprise or its organized part or its lease or establishment of a limited property right;

A majority of 90% of votes at the General Shareholders’ Meeting is required to pass resolutions relating to the following:

- preference shares;
- issuer’s business combination by transferring all its assets to another company;
- its merger by forming a new company;
- dissolving the Company (also as a result of moving its seat or the head office abroad);
- its liquidation, transformation or reduction in the share capital through redemption of a portion of shares without a similar capital increase.

The General Shareholders’ Meeting is held:

- as an Ordinary General Shareholders’ Meeting, which should be held within six months from the end of each financial year;
- as an Extraordinary General Shareholders’ Meeting, which is convened in cases specified in the generally applicable law and the By-laws.

The General Shareholders’ Meetings are held in Warsaw and convened by placing an appropriate announcement on PZU’s website in accordance with the method for providing current information specified in the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies of 19 July 2005, i.e. in the form of current reports. Such announcement should be made no later than 26 days before the date of the General Shareholders’ Meeting. From the date of convening the General Shareholders’ Meeting the announcement with materials presented to shareholders at the General Shareholders’ Meeting are available on PZU’s corporate website ([www.pzu.pl](http://www.pzu.pl)) in section „Investors relations”, tab „General Shareholders’ Meeting”. A duly called General Shareholders’ Meeting is deemed valid regardless of the number of attending shareholders. Ballots are open. The secret ballot is used when appointing and dismissing members of the Issuer’s bodies or liquidators, in cases of their personal responsibility towards the issuer and in personal cases, except when an open ballot is required by the applicable law, upon request of any shareholder present or represented at the General Shareholders’ Meeting. The rights of the shareholders and the method of exercising thereof at the General Shareholders’ Meeting are specified in the Code of Commercial Companies GLOSSARY and the By-laws. Only persons who were shareholders of the issuer 16 days before the date of the General Shareholders’ Meeting have the right to participate

in the Meeting (date of registration of attendance at the Meeting). Shareholders may attend the General Shareholders’ Meeting and exercise the right to vote personally or through a proxy. The power of attorney to participate in the General Shareholders’ Meeting and to exercise the voting right may be granted in writing or in an electronic form. One share of PZU gives the right to a single vote at the General Shareholders’ Meeting, including restrictions with respect to exercising the voting rights described in the Company’s By-laws. The shareholder has the right to vote in a different manner under each share held.

During the General Shareholders’ Meeting each shareholder may provide resolution drafts concerning items on the agenda.

In accordance with the Code of Commercial Companies GLOSSARY, detailed procedures concerning participation in the General Shareholders’ Meeting and exercising the voting rights are always presented in an announcement of the General Shareholders’ Meeting published on the date of convening the Shareholders’ Meeting on PZU’s corporate website ([WWW.PZU.PL](http://WWW.PZU.PL)), section „Investors relations”, tab „General Shareholders’ Meeting”.

Composition, powers and functioning of the Supervisory Board

**Composition**  
The Supervisory Board is composed of seven to eleven members. The number of members is specified at the General Shareholders’ Meeting.

Members of the Supervisory Board are appointed by the General Shareholders’ Meeting for a shared term which includes three consecutive full financial years.

At least one member of the Supervisory Board must be qualified in accounting or auditing, as understood by the Act on Statutory Auditors and Their Self-Governing Body, Auditing Companies and on Public Oversight GLOSSARY. Furthermore, at least one member of the Supervisory Board should meet the independence criteria specified in the By-laws (Independent Member) concerning e.g. professional and personal relations, especially with members managing or supervising PZU and entities in PZU Group. The Independent Member has to present a written statement that all independence criteria provided for in the By-laws have been met and inform the Company when the criteria are no longer

met. In addition, the By-laws give the State Treasury the right to appoint and dismiss one member of the Supervisory Board by way of a written statement submitted to the Management Board. The right will expire once the State Treasury ceases to be the Company’s shareholder.

Composition of the Supervisory Board of PZU as at 1 January 2015:

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

The criteria of an Independent Member of the Supervisory Board were met by Dariusz Kacprzyk and Dariusz Filar.

On 30 June 2015, Tomasz Zganiacz’s mandate of a member of the Supervisory Board expired.

On 30 June 2015, with effect on 1 July 2015, the General Shareholders’ Meeting of PZU established the composition of the Supervisory Board of PZU of the new term as follows: Dariusz Kacprzyk, Dariusz Filar, Aleksandra Magaczewska,

Zbigniew Ćwiąkałski, Jakub Karnowski, Maciej Piotrowski, Alojzy Nowak, Zbigniew Derdziuk, Paweł Kaczmarek.

On 8 July 2015, the Supervisory Board of PZU entrusted the function of the Chairperson of the Board to Zbigniew Ćwiąkałski, the function of the Deputy Chairperson of the Board to Paweł Kaczmarek, and the function of the Secretary of the Board to Dariusz Filar.

Therefore, since 8 July 2015, composition of the Supervisory Board of PZU was as follows:

- Zbigniew Ćwiąkałski – Chairman of the Board;
- Paweł Kaczmarek – Deputy Chairman of the Board;
- Dariusz Filar – Secretary of the Board;
- Zbigniew Derdziuk – Member of the Board;
- Aleksandra Magaczewska – Member of the Board;
- Dariusz Kacprzyk – Member of the Board;
- Jakub Karnowski – Member of the Board;
- Alojzy Nowak – Member of the Board;
- Maciej Piotrowski – Member of the Board.

The criteria of an Independent Member of the Supervisory Board were met by Dariusz Kacprzyk and Dariusz Filar.

The terms of office of the members of the Supervisory Board (according to its composition as at 31 December 2015) have been presented below:

Name and surname of the member of the Supervisory Board of PZU (the composition as at 31 December 2015)	Term of office of the member of the Supervisory Board of PZU
Zbigniew Ćwiąkałski	Chairman of the Board from 8 July 2015 to 6 January 2016 In the Board from 10 June 2010 to 6 January 2016
Paweł Kaczmarek	Deputy Chairman of the Supervisory Board from 8 July 2015 to 6 January 2016 Chairman of the Board since 19 January 2016
Dariusz Filar	Secretary of the Board from 8 July 2015 to 6 January 2016 In the Board from 10 June 2010 to 6 January 2016
Zbigniew Derdziuk	Member of the Board from 30 June 2011 to 6 January 2016
Aleksandra Magaczewska	In the Board from 18 June 2014 to 6 January 2016 Chairman of the Board from 15 July 2014 to 30 June 2015
Dariusz Kacprzyk	Member of the Board from 18 June 2014 to 6 January 2016
Jakub Karnowski	Member of the Board from 18 June 2014 to 6 January 2016
Alojzy Nowak	Member of the Board since 30 May 2012
Maciej Piotrowski	Member of the Board from 30 May 2012 to 6 January 2016

The current term of office of the Supervisory Board of PZU started on 1 July 2015 and will end after the lapse of three financial years. The mandates of members of the Supervisory Board expire not later than on the date of the General Shareholders' Meeting approving the financial statements for the last full financial year of their term.

On 7 January 2016, the Extraordinary General Shareholders' Meeting of PZU removed the following people from the Supervisory Board: Zbigniew Ćwiąkałski, Zbigniew Derdziuk, Maciej Piotrowski, Dariusz Kacprzyk, Jakub Karnowski, Aleksandra Magaczewska, Dariusz Filar. Simultaneously, on 7 January 2016, it appointed the following people to the Supervisory Board of PZU: Piotr Paszko, Marcin Chludziński, Marcin Gargas, Maciej Zaborowski, Eligiusz Krześniak, Radosław Potrzebacz, Jerzy Paluchniak.

On 19 January 2016, the Supervisory Board of PZU entrusted the function of the Chairperson of the Board to Paweł Kaczmarek, the function of the Deputy Chairperson of the Board to Marcin Gargas, and the function of the Secretary of the Board to Maciej Zaborowski.

Therefore, since 19 January 2016, composition of the Supervisory Board of PZU was as follows:

- Paweł Kaczmarek – Chairman of the Board;
- Marcin Gargas – Deputy Chairman of the Board;
- Maciej Zaborowski – Secretary of the Board;
- Marcin Chludziński – Member of the Board;
- Eligiusz Krześniak – Member of the Board;
- Alojzy Nowak – Member of the Board;
- Jerzy Paluchniak – Member of the Board;
- Piotr Paszko – Member of the Board;
- Radosław Potrzebacz – Member of the Board.

The criteria of an Independent Member of the Supervisory Board are met by Marcin Gargas, Maciej Zaborowski, Marcin Chludziński, Eligiusz Krześniak, Alojzy Nowak, Piotr Paszko, Radosław Potrzebacz.



**Paweł Kaczmarek – Chairman of the Supervisory Board since 19 January 2016; Deputy Chairman of the Supervisory Board from 8 July 2015 to 6 January 2016**

He graduated from the Faculty of Law and Administration at the University of Łódź. In 1994-2014, he worked in the Ministry of Finance. For several years he dealt with legal aspects concerning the issue of public debt: its financing, conversion and restructuring, cooperation with the regulatory authorities of the capital market to develop regulations applying to broadly understood capital market, and also the state's policy towards small and medium-sized enterprises, with particular consideration of financial support provided by the state. At present, he holds the position of the Director of the Strategic Companies Department in the Ministry of the State Treasury. His responsibilities include preparation of the system solutions concerning ownership supervision towards the companies whose shares are held by the State Treasury and which were indicated in separate instructions given by the Minister. In the past he was a member of several supervisory boards, including WSE, Industrial Development Agency S.A. and Polish Press Agency S.A.



**Marcin Gargas – Deputy Chairman of the Supervisory Board, in the Supervisory Board since 7 January 2016**

Graduate in the field of Law from the Faculty of Law and Administration at Adam Mickiewicz University in Poznań. In 2006-2009 he was a trainee legal advisor in the Regional Chamber of Legal Advisors in Poznań. In 2010, he obtained the title of Legal Advisor (record No. PZ/2614). He gained his professional experience working as a lawyer in Rödl & Partner's branch office in Poznań (from September 2006 to July 2007). Then, from August 2007 to April 2009, he continued his career as a lawyer in the Legal Department of Ruch S.A. From May 2009 to March 2010 he was employed as a lawyer in Zakrzewska, Skowronek, Jurkiewicz Kancelaria Prawna Spółka Cywilna law office with its seat in Poznań. From April 2010 he leads the individual professional practice within the legal adviser's office. He specializes in providing comprehensive legal services for business entities operating within the holding structures. He gained significant experience in the development, acquisition and transformation of commercial companies and their restructuring and ongoing corporate support. In the course of his professional activity he carried out many legal audits and advised on complex transactions involving the purchase and sale of real estate. He coordinated the legal aspects of major real estate projects and investment processes including commercial buildings (shopping malls, gas stations, supermarkets network). He has considerable experience in conducting litigation as well as in the conduct of proceedings before the authorities and administrative courts.





## **Maciej Zaborowski – Secretary of the Supervisory Board, in the Supervisory Board since 7 January 2016**

Graduate from the Faculty of Law and Administration at the University of Warsaw. He is also a graduate of XVI School of Civic Society Leaders, school founded by Prof. Zbigniew Pelczyński from Oxford University in United Kingdom, Center for American Law Studies (shared initiative of the Florida State University and the Faculty of Law and Administration of the University of Warsaw) and the Academy of Young Diplomats (European Academy of Diplomacy), specialization: Foreign Service. As of 2012, he holds the professional title of attorney. In addition, he completed post-graduate studies in Intellectual Property Law at the Faculty of Law and Administration of the University of Warsaw and post-graduate studies in Law of Evidence at the Faculty of Law and Administration of the Cardinal Stefan Wyszyński University. From December 2005 to September 2007 he performed activities commissioned by the Ministry of Justice. From September 2006 to September 2007 he worked as an assistant of the Minister of Justice – Prosecutor General. From September 2007 to February 2008 he worked as a legal expert at the Embassy of the Republic of Poland in Rome – Consular Department (his duties included i.a. organization and coordination of the state's parliamentary elections taking place in the Italian Republic and duties of Vice-President of the District Electoral Committee in Rome). From January 2010 to November 2010 he assisted the Committee of Inquiry (so-called gambling committee) in the Parliament of the Republic of Poland, and from July 2008 to March 2012 he worked as a lawyer for the Justice and Human Rights Committee in the Parliament of the Republic of Poland. From January 2009 to November 2012 he worked as a lawyer and advocate trainee in Kancelaria Adwokacka prof. dr. hab. Piotra Kruszyńskiego legal office and from May 2010 to February 2012 he was a lawyer in Kancelaria Adwokacka Adwokata Rafała Rogalskiego legal office. Since January 2013 he has been working as a mediator for the Mediation Center at the Polish Bar Council. Since May 2013 he has been keeping his own law office as an advocate. Since 2014 he has been a Member of the Young Advocates Initiatives Commission of the Polish Bar Council (legislative subcommittee) and a Member of the Young Advocates Association – District Bar Council in Warsaw. Since March 2012 he has been the Chairman of the Founders' Board of the Fundacja Odpowiedzialność Obywatelska (Social Responsibility Foundation), (earlier, from January 2008 to February 2012, he was a Member of the Founders' Board). He is a prizewinner of prestigious competition, Rising Stars – Prawnicy Liderzy Jutra 2015 (Lawyers Leaders of Tomorrow 2015) organized by „Dziennik Gazeta Prawna” and Wolters Kluwer. He is also commenting on the legal context of current affairs in Panorama, news program on TVP 2 television channel. He holds safety certificate issued by the Internal Security Agency (ABW) entitling to access classified information marked as „top secret” (applying also to information with lower mark).



## **Marcin Chludziński – Member of the Supervisory Board since 7 January 2016**

Graduate from the Center for European Regional and Local Studies and Faculty of Journalism and Political Science of the University of Warsaw. Since 2004 he has been associated with Invent Grupa Doradztwa i Treningu (Invent Advisory and Training Group), and since 2006 he has been holding the position of the President of this company. Since 2009 he also has been holding the position of the President of the Management Board of Urbino sp. z o.o., an Internet technology company.

He has nine years of experience in managing commercial law companies. The main domain of the companies' activity was financing the investment projects, advising in strategic planning, restructuring processes, and audit and internal controlling. He is a licensed coach and advisor specializing in strategic and organizational planning and project management. He is also experienced in defining and managing advisory projects in public administration and business. As a lecturer, he cooperates on a regular basis with i.a. the University of Warsaw, Collegium Civitas and Łazarski University. He is qualified to sit on supervisory boards of companies whose shares are held by the State Treasury. He is experienced in supervising municipal heat companies. He published articles on public management in such periodicals as „Rzecz Wspólne”, „W sieci”, „Wprost”. He developed his personal accomplishments through pro publico bono activities by leading a think tank of the Republican Foundation as a co-author and expert, concerning especially the context of the role the State Treasury companies play in realizing the objectives of the state, managing public sector in the context of focusing on development goals and supporting national economic expansion through cooperation carried out within public sector. His main professional competencies are: ability to manage a commercial law company concerning the organizational, legal and financial aspects, experience in corporate supervision, skill in conducting processes of reorganization, restructuring, cost optimization and internal control, capacity of guiding horizontal controlling and auditing processes, qualification to define and supervise projects – especially the ones financed with EU funds, possession of the expertise in the field of energy and heat industry, and knowledge about the models of realizing the objectives of the state by the state-owned companies.



## **Eligiusz Krzeńskiak – Member of the Supervisory Board since 7 January 2016**

He is a graduate of the Faculty of Law and Administration, University of Wrocław, where he also obtained a degree of Ph.D. Moreover, he studied at the Law Faculty of the Philipps-Universität Marburg and Rheinische - Wilhelms - Universität Bonn as well as at the State University of North Carolina at Charlotte. He is a graduate of the Academy of Leadership Psychology and the School of Mentors operating as a part of the School of Business of the Warsaw University of Technology. Lawyer in Warsaw since 2002. Author and co-author of several law books and dozens of articles published in Rzeczpospolita, Puls Biznesu, Dziennik Gazeta Prawna and many legal publications. Columnist for Forbes magazine. International partner in the global law firm Squire Patton Boggs and general partner in its Polish office - Squire Patton Boggs Świącicki Krzeńskiak sp. k. He has extensive experience in managing projects in the field of mergers and acquisitions, acquisition of companies, as well as intellectual property and manage complex negotiations. For years, he is indicated as a leading lawyer in Poland in international rankings of Chambers Europe and Legal 500; according to the annual ranking of the Rzeczpospolita he won twice, in 2013 and 2014 (in 2014. ex aequo with two other persons) as the best TMT lawyer. In 2008-2009, he held the position of the Vice-Chairman of the Supervisory Board of PKO Bank Polski SA. He entered the list of recommended arbitrators of the two largest arbitration tribunals in Poland - the Arbitration Court at the Polish Chamber of Commerce and the Arbitration Court of the Polish Confederation of Private Employers Lewiatan. For several tenure he served as inspector and member of the District Bar Council in Warsaw for the training of trainee lawyers and the Committee. Foreign relations of the Supreme Bar Council; also acted as a mediator. He began his career in the nineties as a radio journalist and foreign correspondent in Germany and in the United States.



## **Alojzy Nowak – Member of the Supervisory Board since 30 May 2012**

In 1984, he graduated from the present Warsaw School of Economics and in 1992 from University of Illinois at Urbana – Champaign, USA, M.A. in economics. In 1993 he completed studies in banking, finance and capital markets at Exeter, UK, and in 1996 economic studies at Free University of Berlin, while in 1997 in International Economics at RUCA. In 2002, he gained the title of Professor of Economics. He has won a number of prestigious awards, including Rector Award for Scientific Achievements (annually since 1997), Award of the Minister of Education for a book „Integracja europejska. Szansa dla Polski?” („European Integration. Opportunity for Poland?”) and a book titled „Banki a gospodarstwa domowe – dynamika rozwoju” („Banks and households – the dynamics of development”). He has been a member of scientific organizations and professional editing boards of periodicals, among others Foundations of Management (Member), Journal of Interdisciplinary Economics (Editor in Chief), Yearbook on Polish European Studies, Mazovia Regional Studies, Gazeta Bankowa and a reviewer in PWE S.A. Warszawa editing company. He is a long-term Committee Member of Teraz Polska Award and Scientific Council Member. He gained his professional experience working as the Head of International Business Relations Section at Management Faculty of the University of Warsaw, the Head of National Economy Unit at Management Faculty of the University of Warsaw, the Director of European Center at the University of Warsaw, the Deputy Dean in charge of foreign cooperation at Management Faculty of the University of Warsaw, the Dean at Management Faculty of the University of Warsaw and the Deputy Rector in charge of scientific research and cooperation at the University of Warsaw. He is a lecturer at the University of Warsaw, and also in France, UK, U.S., Russia, China and Korea. Further, he worked as: advisor to the Prime Minister, to the Minister of Agriculture, the President of University Sports Association at the University of Warsaw, a Member of the Advisory Committee NewConnect at Management Board of Warsaw Stock Exchange, a Member of the Foundation Council of the National Bank of Poland, the Chairman of the Scientific Council of the National Bank of Poland. He held positions in supervisory boards of various institutions, to include: PTE WARTA S.A., PKO BP S.A., JSW S.A., the Chairman and the Deputy Chairman of the Supervisory Board in EUROLOT S.A.



## **Jerzy Paluchniak – Member of the Supervisory Board since 7 January 2016**

He is a graduate of the Wrocław University of Economics, the Faculty of Management and Information Technology, specialization in Management and Marketing, major in Business Management. Since 2003, he works as a Certified Internal Auditor (CIA). In 2005, he achieved the title of Statutory Auditor (No. 10649) and successfully passed all ACCA exams. In 1999–2000, he gained his professional experience as an assistant of a Brand Manager in Zielona Budka Zbigniew Grycan S.A. In 2000, he continued his professional career in audit department of Arthur Andersen/Ernst&Young located in Wrocław, at positions from an assistant to a manager (promoted in 2005). Since 2007, he worked in audit department of KPMG located in Wrocław, where in 2008 he was promoted to a Senior Manager. He specialized in the study of financial statements prepared in accordance with Accounting Act and International Financial Reporting Standards. He got a Certified Trainer at KPMG. He conducted trainings in the field of audit, accounting and personal and interpersonal competence for customers and employees of KPMG. Furthermore, he was responsible for the actions of corporate social responsibility at KPMG office in Wrocław. On 7 January 2016 he finished work at KPMG. On 1 February 2016 he assumed the position of Director of Internal Audit in Tauron Polska Energia SA. Since 2010 member of the Regional Council of Chartered Accountants in Wrocław.



**Piotr Paszko – Member of the Supervisory Board since 7 January 2016**

Holds a Ph.D. in Economics, his specialization is Management Science. He is a graduate of the Wrocław University of Economics. He was a scholarship holder of Deutscher Akademischer Austauschdienst – Universität Mainz; faculty name: Volkswirtschaftslehre. Manager, entrepreneur and counselor with nearly twenty years of professional experience in the business counseling sector. Manager of tens of consulting projects connected with organization of investment and development activities, business restructuring and public-private partnerships. Provided counseling support concerning designing new development directions, privatization, preparation of investments, improving management, implementation of financial control systems and mergers and acquisitions processes to a number of energy and industrial companies. He is a member of the boards of capital companies. He has been combining counseling activity with research for several decades. Authored a number of research papers and expert opinions. as awarded the Medal for Long Service by the President of Poland.



**Radosław Potrzebny – Member of the Supervisory Board since 7 January 2016**

He completed his studies at the Faculty of Law and Administration of the University of Wrocław. Furthermore, he was a court and advocate trainee. Member of the Bar Council in Wrocław. He co-designed post-graduate studies in a form of the Company Academy at the Warsaw School of Economics, where he is a lecturer. In addition, he runs classes at other post-graduate studies, i.a. for bank analysts, courses concerning business insurances and trainings for advocate trainees. He is an arbiter in the Arbitral Tribunal of the Insurance Ombudsman. In 2003, he co-created the Act amending the Code of Commercial Companies. As an expert appointed by the Minister of Justice, he provided parliamentary assistance concerning work on this amendment. He developed and opined a number of other acts, including the opinion given on the draft legislation for the Office of Analyses of the Parliament during the term of the Parliament dated 2005–2007. Since the Autumn of 2006 he has been an expert in the Committee of Inquiry investigating the solutions concerning ownership and capital changes in banking sector and the activities of banking supervisory bodies in the period of 4 June 1989 – 19 March 2006 (the so-called Banking Committee of Inquiry). He also held the position of the Member of the Supervisory Board in TVP S.A. and in Polskie Radio S.A. He authored a monograph titled: „Kapitały własne spółek handlowych” („Equity of Commercial Companies”), published by the Association of Chartered Auditors and Accountants in 2002. He is also a co-author and co-editor of a four-volume commentary to the Code of Commercial Companies published by LexisNexis, and a co-author of a commentary „Prawo Ubezpieczeń” („Insurance Law”) consisting of the legal act and a comment to it published by Poltext in Warsaw, 2004. He authored a number of articles published in law periodicals focusing on the topic of company law and law of business insurance.

## Competencies

The Supervisory Board exercises constant supervision over the Company's activities in all aspects of its business. In accordance with the By-laws, the powers of the Supervisory Board include:

- review of the Management Board's report on the activities of the Company and financial statements for the previous financial year in terms of their compliance with the accounting records, documents and facts;
- review of the motions of the Management Board concerning profit distribution or loss coverage;
- presenting the General Shareholders' Meeting with a written report on the results of the review described above and submitting a brief annual assessment of the situation of the Company, including internal controls and key risk management and an annual report on the work of the Supervisory Board;
- concluding, terminating and amending the agreements with members of the Management Board and setting the terms and conditions of remuneration and the amount of remuneration;
- appointing, suspending and dismissing the CEO, members of the Management Board or the entire Management Board, as well as making decision to stop the suspension;
- agreeing to transfer the entire or portion of the insurance portfolio;
- accepting motions of the Management Board concerning acquisition, assumption or disposal of shares in companies, as well as the Company's participation in other entities – the Supervisory Board may specify the amount, terms and conditions and the way in which the Management Board may carry out the activities without the acceptance of the Supervisory Board;
- delegating members of the Supervisory Board to temporarily perform the functions of members of the Management Board who have been dismissed, resigned or cannot perform their functions for other reasons;
- accepting instructions concerning votes being cast by the Company's representatives during the General Shareholders' Meeting of PZU Życie concerning: an increase and decrease in the share capital, bonds issue, disposal and lease of a PZU Życie enterprise or establishment of a usufruct right, division of PZU Życie combination of PZU Życie with a different company, liquidation or termination of PZU Życie;
- selection of the entity authorized to audit the financial statements which will audit the annual financial statements of the company;

- wording of the consolidated amended By-laws;
- approval of the long-term plans for the development of the company and annual financial plans drafted by the Management Board;
- approval of the regulations of the Management Board;
- examination and evaluation of issues submitted by the Management Board for discussion during the General Shareholders' Meeting.

Moreover, the Supervisory Board grants consent to:

- acquisition or disposal of a real property, perpetual usufruct or share in the real property or in perpetual usufruct exceeding the equivalent of EUR 3.0 million;
- conclusion of a material agreement by the Company and its related party, as understood by the Ordinance on current and periodic information, excluding standard agreements concluded by the Company on an arm's length basis as part of its operating activities;
- conclusion of the agreement by the Issuer with the underwriter referred to in Article 433.3 of the Code of Commercial Companies;
- advance payment against expected dividend;
- creation and closing of regional and foreign branches.

## Mode of operation

The Supervisory Board adopts the regulations of the Supervisory Board specifying its organization and the manner of performing activities.

The regulations of the Supervisory Board were adopted by its Resolution of 9th October 2012 and specify its composition and the way in which its members are appointed, the tasks and the scope of its activities and the manner of calling the Supervisory Board and conducting debates.

The By-laws stipulate that the Supervisory Board should meet at least once every quarter. The Supervisory Board may delegate its members to fulfill specific supervising activities on their own and to this effect appoint temporary committees. The scope of responsibility of a delegated member of the Supervisory Board and the committee is specified in a resolution of the Supervisory Board.

Resolutions of the Supervisory Board are adopted by an absolute majority of votes. In the event of a voting tie, the Chairman of the Supervisory Board has the casting vote. The resolutions of the Supervisory Board may be adopted using means of direct distant communication and in a written form.



Additionally, the By-laws stipulate that a vote may be cast in writing through another member of the Supervisory Board.

In accordance with the By-laws, the resolutions of the Supervisory Board are adopted in an open ballot, except for resolutions concerning appointment of the Chairman, Deputy Chairman and the Secretary of the Supervisory Board, delegation of members of the Supervisory Board to temporarily fill in for members of the Management Board and for resolutions with respect to appointing, suspending and dismissing the CEO, members of the Management Board or the entire Management Board as well and taking decision to stop such suspension which are adopted in a secret ballot. Moreover, a secret ballot may be chosen on request of a member of the Supervisory Board.

The Supervisory Board appoints the Chairman and the Deputy Chairman of the Supervisory Board from its members and it may also select the Secretary of the Supervisory Board.

In accordance with the Regulations of the Supervisory Board, apart from appointing the audit committee and promotion and compensation Committee, provided for in the By-laws to properly perform its supervision, the Supervisory Board may appoint other permanent advisory and consultative committees whose competencies, composition and way of work is specified by regulations adopted by the Supervisory Board. The regulations of the Supervisory Board stipulate that the Supervisory Board and the appointed committees may use the services of experts and advisory companies.

Members of the Management Board, employees of the Company competent for the discussed issue selected by the Management Board and other persons invited by the Supervisory Board may take part in the meetings of the Supervisory Board; however, they cannot cast votes. In specific cases, the Supervisory Board of PZU may also invite members of the management board or a supervisory board of a different company in PZU Group. Moreover, members of the Supervisory Board, upon consent of the Supervisory Board, may select one advisor authorized to take part in the meetings of the Supervisory Board devoted to reports and financial statements, and give their advice, provided that such person respects confidentiality and signs a confidentiality statement.

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

- Audit Committee;
- Promotion and Compensation Committee;
- Strategy Committee.

The By-laws provide for appointing an Audit Committee by the Supervisory Board. The Committee is composed of three members, including at least one independent member qualified in accounting or auditing. Detailed tasks and terms and conditions of appointing members of the Audit Committee and its functioning have been specified in a resolution of the Supervisory Board, which views relevant competencies and experience of the candidates for members of the Committee.

In accordance with the Regulations of the Audit Committee adopted by a resolution of the Supervisory Board, the Audit Committee is an advisory and consultative body to the Supervisory Board and is appointed to improve the effectiveness of the supervision of the correctness of financial reporting and of internal control, including internal audit and risk management, exercised by the Supervisory Board. Moreover, the Audit Committee may apply to the Supervisory Board for commissioning specific controls in the Company to be exercised by an internal or external entity.

The Supervisory Board appointed the Audit Committee on 3 June 2008. Composition of the Audit Committee as at 1 January 2015:

- Dariusz Filar – Chairman of the Committee;
- Dariusz Daniluk – Member of the Committee;
- Tomasz Zganiacz – Member of the Committee.

Dariusz Filar was indicated by the Supervisory Board as an independent member, having accounting and audit qualifications as defined in Article 86.4 of the Act on Statutory Auditors GLOSSARY.

In relation to the appointment of the Supervisory Board of PZU of the new term on 1 July 2015 by the General Shareholders' Meeting of PZU, at the session of 8 July 2015 the Supervisory Board of PZU established the following composition of the Audit Committee:

- Dariusz Filar – Chairman of the Committee;
- Dariusz Kacprzyk – Member of the Committee;
- Paweł Kaczmarek – Member of the Committee.

As at 31 December 2015, the composition of the Committee had not changed.

In relation to the changes in the composition of the Supervisory Board of PZU, on 19th January 2016 the Supervisory Board of PZU established the following composition of the Audit Committee:

- Marcin Chludziński – Chairman of the Committee;
- Jerzy Paluchniak – Member of the Committee;
- Paweł Kaczmarek – Member of the Committee.

In accordance with the Regulations of the Supervisory Board, once the Company's shares are quoted on the regulated market, as understood by the Act on Trading in Financial Instruments of 29 July 2005, the Supervisory Board may appoint a Promotion and Compensation Committee.

In accordance with the By-laws, detailed responsibilities and the method of appointing members of the Promotion and Compensation Committee, the way it works and remuneration are specified in a resolution of the Supervisory Board. The Committee should include at least one independent member. If the Supervisory Board includes five members elected in a vote, the Promotion and Compensation Committee is not appointed and its tasks are carried out by the entire Supervisory Board.

According to the regulations of the Promotion and Compensation Committee adopted by a resolution of the Supervisory Board of 4 April 2013, it is an advisory and consultative body to the Supervisory Board and is to improve efficiency of the Board's supervisory activities related to establishing the management structure, including organizational issues, remuneration system, remuneration principles and selection of properly qualified staff.

The Supervisory Board decided that the promotion and compensation committee would be composed of five persons. Composition of the Promotion and Compensation Committee as at 1 January 2015:

- Zbigniew Ćwiąkański – Chairman of the Committee;
- Zbigniew Derdziuk – Member of the Committee;
- Dariusz Filar – Member of the Committee;
- Maciej Piotrowski – Member of the Committee;
- Tomasz Zganiacz – Member of the Committee.

In relation to the appointment of the Supervisory Board of PZU of the new term on 1 July 2015 by the General Shareholders' Meeting of PZU, at the session of 8 July 2015 the Supervisory Board of PZU established the following composition of the Promotion and Compensation Committee:

- Zbigniew Ćwiąkański – Chairman of the Committee;
- Zbigniew Derdziuk – Member of the Committee;
- Dariusz Filar – Member of the Committee;
- Maciej Piotrowski – Member of the Committee;
- Paweł Kaczmarek – Member of the Committee.

As at 31 December 2015, the composition of the Promotion and Compensation Committee had not changed.

In relation to the changes in the composition of the Supervisory Board of PZU, on 19 January 2016 the Supervisory Board of PZU decided that the Promotion and Compensation Committee should consist of 4 people, while simultaneously establishing the following composition of the Committee:

- Radosław Potrzebszcz – Chairman of the Committee;
- Marcin Gargas – Member of the Committee;
- Paweł Kaczmarek – Member of the Committee;
- Piotr Paszko – Member of the Committee.

The Committee is dissolved once five members of the Supervisory Board are elected in a vote cast in groups and its rights are then taken by the entire Supervisory Board.

According to the regulations of the Strategy Committee adopted by a resolution of the Supervisory Board of 4 April 2013, it is an advisory and consultative body to the Supervisory Board and is to improve efficiency of the Board's supervisory activities related to consulting of all strategic documents presented by the Management Board (in particular, the Company development strategy) and presenting the Supervisory Board with recommendations on planned investments that materially impact the Company's assets.

Composition of the Audit Committee as at 1 January 2015:

- Alojzy Nowak - Chairman of the Committee;
- Zbigniew Derdziuk – Member of the Committee;
- Aleksandra Magaczewska – Member of the Committee;
- Jakub Karnowski – Member of the Committee;
- Maciej Piotrowski – Member of the Committee.

In relation to the appointment of the Supervisory Board of PZU of the new term on 1 July 2015 by the General Shareholders' Meeting of PZU, at the session of 8 July 2015 the Supervisory



Board of PZU established the following composition of the Strategy Committee:

- Alojzy Nowak – Chairman of the Committee;
- Zbigniew Derdziuk – Member of the Committee;
- Aleksandra Magaczewska – Member of the Committee;
- Jakub Karnowski – Member of the Committee;
- Maciej Piotrowski – Member of the Committee.

As at 31 December 2015 the composition of the Committee did not changed.

In relation to the changes in the composition of the Supervisory Board of PZU, on 19 January 2016 the Supervisory Board of PZU decided that the Strategy Committee should consist of 6 people, while simultaneously establishing the following composition of the Committee:

- Alojzy Nowak – Chairman of the Committee;
- Marcin Chludziński – Member of the Committee;
- Marcin Gargas – Member of the Committee;
- Piotr Paszko – Member of the Committee;
- Radosław Potrzebacz – Member of the Committee;
- Maciej Zaborowski – Member of the Committee.

### Management Board

#### Composition

In accordance with the By-laws of PZU, the Management Board is composed of three to seven members appointed for a shared term which includes three consecutive full financial years.

Members of the Management Board, including the CEO, are appointed and dismissed by the Supervisory Board. The CEO of the new term appointed before the end of the current term may apply to the Supervisory Board for appointing other members of the Management Board of the new term before the end of the current term.

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

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

On 30 June 2015, Ryszard Trepczyński's mandate of

a member of the Supervisory Board expired, and on 1 July 2015, the Supervisory Board of PZU established the following composition of the Management Board of the new term:

- Andrzej Klesyk – Chairman of the Management Board;
- Przemysław Dąbrowski – Member of the Management Board;
- Rafał Grodzicki – Member of the Management Board;
- Dariusz Krzewina – Member of the Management Board;
- Tomasz Tarkowski – Member of the Management Board.

On 1 September 2015, the Management Board of PZU appointed Witold Jaworski as a Member of the Management Board of PZU.

Therefore, since 1 September 2015, composition of the Management Board was as follows:

- Andrzej Klesyk – Chairman of the Management Board;
- Przemysław Dąbrowski – Member of the Management Board;
- Rafał Grodzicki – Member of the Management Board;
- Witold Jaworski – Member of the Management Board;
- Dariusz Krzewina – Member of the Management Board;
- Tomasz Tarkowski – Member of the Management Board.

On 8 December 2015, Andrzej Klesyk and Witold Jaworski submitted a statement of resignation coming into effect on 9 December 2015, and the Supervisory Board of PZU entrusted temporary performance of duties of CEO to Dariusz Krzewina.

As at 31 December 2015, composition of the Management Board was as follows:

- Dariusz Krzewina – acting as Chairman of the Management Board;
- Przemysław Dąbrowski – Member of the Management Board;
- Rafał Grodzicki – Member of the Management Board;
- Tomasz Tarkowski – Member of the Management Board.

The current term of the Management Board of PZU started on 1 July 2015 and will last until the end of three consecutive financial years. The mandates of members of the Management Board expire not later than on the date of the General Shareholders' Meeting approving the financial statements for the last full financial year of their term.

The scope of responsibility of the Members of the Management Board constituting the Management Board in 2015 has been presented below:

Name and surname (composition of the Management Board in 2015)	In PZU Group	Scope of responsibility
Andrzej Klesyk	Chairman of the Management Board of PZU between 14 December 2007 and 8 December 2015	Governing PZU Group
Dariusz Krzewina	Acted as Chairman of the Management Board of PZU between 9 December 2015 and 18 January 2016 Chairman of the Management Board of PZU Życie since 10 August 2007 Member of the Management Board of PZU since 15 March 2013 Joined the Group in September 1993	Corporate government, HR, corporate insurance, administration and logistics, bancassurance and reinsurance
Przemysław Dąbrowski	Member of the Management Board of PZU since 21 December 2010 Member of the Management Board of PZU Życie since 29 January 2010 Joined PZU Group in 2000	Finance, actuary
Rafał Grodzicki	Member of the Management Board of PZU between 1 July 2015 and 18 January 2016 Member of the Management Board of PZU Życie between 11 August 2008 and 19 January 2016 Joined PZU Group in February 2004	Insurance activities, foreign operations (international activities) and health business
Tomasz Tarkowski	Member of the Management Board of PZU between 21 April 2011 and 19 January 2016 Member of the Management Board of PZU Życie between 1 July 2011 and 29 January 2016 Joined PZU Group in 1996	Loss adjustment
Ryszard Trepczyński	Member of the Management Board of PZU / PZU Życie between 1 July 2011 and 30 June 2015	Investments
Witold Jaworski	Member of the Management Board of PZU between 1 September 2015 and 9 December 2015 Member of the Management Board of PZU Życie since 2 September 2015, Chairman of the Management Board of PZU Życie between 29 September 2015 to 9 December 2015	Individual insurance, marketing
Sławomir Niemierka	Member of the Management Board of PZU Życie / Director of the Group since 19 March 2012 Joined PZU Group in 2008	Risk management, reinsurance, compliance and safety
Tobiasz Bury	Member of the Management Board of PZU Życie / Director of the Group between 16 January 2014 and 29 January 2016 Joined PZU Group in 2009	Mass client insurance, governing the network of PZU branches and channels of distribution, contact center and post-sale support
Przemysław Henschke	Member of the Management Board of PZU Życie between 3 February 2012 and 29 January 2016 Director of PZU Group between 7 February 2012 and 29 January 2016	IT

The Management Board exercises all management rights which have not been reserved by the provisions of law or provisions of the By-laws for the General Shareholders' Meeting or the Supervisory Board. The Company may be represented by two members of the Management Board acting jointly or one member of the Management Board acting with a commercial proxy. The Management Board adopts its regulations which are approved by the Supervisory Board. The regulations of the Management Board were adopted by the Management Board on 2 October 2012, amended with a Resolution of the Board of 8 April 2013, and approved by a resolution of the Supervisory Board of 16 April 2013.

On 19 January 2016, Rafał Grodzicki and Tomasz Tarkowski submitted a statement of resignation, and the Supervisory Board of PZU established the following composition of the Management Board:

- Michał Krupiński – Chairman of the Management Board;
- Roger Hodgkiss – Member of the Management Board;
- Beata Kozłowska-Chyła – Member of the Management Board;
- Robert Pietrzych – Member of the Management Board;
- Paweł Surówka – Member of the Management Board, appointed on 20 January 2016.

Therefore, since 19 January 2016, composition of the Management Board has been as follows.

- Michał Krupiński – Chairman of the Management Board;
- Przemysław Dąbrowski – Member of the Management Board;
- Roger Hodgkiss – Member of the Management Board;
- Beata Kozłowska-Chyła – Member of the Management Board;
- Dariusz Krzewina – Member of the Management Board;
- Robert Pietrzych – Member of the Management Board;
- Paweł Surówka – Member of the Management Board (appointed on 20 January 2016).



## **Michał Krupiński – CEO of PZU since 19 January 2016**

Michał Krupiński graduated from Warsaw School of Economics. He was awarded a diploma with distinction after the completion of expert studies in Economics at Catholic University in Louvain. Completed an MBA program at Columbia University Graduate School of Business and, what is more, studied at Harvard University. In 2012, was awarded the title of Young Global Leader by the Davos World Economic Forum. He is fluent in the following languages: English, French, German and Spanish.

Since 2011, he has been the CEO of Merrill Lynch Polska and Head of Investment Banking for Central and Eastern Europe in Bank of America Merrill Lynch. His responsibilities concern governing and managing the projects centered on mergers and acquisitions and financing in private and public markets. His advisory activities focused on asset management, investment policy and capital structure, i.a. in banking and insurance sector. Previously, between 2008 and 2011, he was the Alternate Executive Director – Member of the Board of Directors at the World Bank in Washington, D.C. He co-decided on the proposals concerning IBRD loans and guarantees, IDA loans and guarantees, IFC, investment guarantees and strategy and policies of the World Bank. Between 2006 and 2008 he was the Undersecretary of State in the Ministry of State Treasury, where he was responsible i.a. for ownership supervision. He supervised the program of energy sector consolidation.



## **Dariusz Krzewina – CEO of PZU Życie since 10 August 2007, Member of the Management Board in PZU since 15 March 2013**

Dariusz Krzewina graduated from the Faculty of Economy and Sociology of the University of Łódź and post-graduate studies in insurance at Warsaw School of Economics. He has worked in the insurance industry for many years. From September 1993 to August 1998 he was employed in PZU Życie as Head of Sales Department, Deputy Director and Director of the Insurance Office. From September 1997 to September 1998 he was a Member of the Management Board of PZU Życie. In the period from September 1998 to March 2000, he was the General Sales Director and, from April 2000 to August 2001, a Member of the Management Board of STUnŻycie ERGO HESTIA S.A. From April 2002, he was a Sales Director and from October 2002 to June 2004 he was the CEO and the Sales Director at SAMPO TUnŻ S.A. In August 2004, he was appointed the Director of the Group Insurance Office in PZU Życie and in January 2006 he started his work as the Coordinating Director in charge of Corporate Clients. He has been in the Management Board of PZU Życie since March 2007. From August 2007 to September 2015 and, again, since 29 January 2016 he has been holding the position of the CEO. From 1 February 2010 to 14 March 2013 Director in PZU Group. Member of the Management Board of PZU since 15 March 2013. Between 9 December 2015 and 18 January 2016, he acted as CEO. He is in charge of corporate, financial insurance, life operations, agency sale of life insurance and products management of life insurance.



**Przemysław Dąbrowski – Member of the Management Board in PZU since 21 December 2010 / PZU Życie since 29 January 2010**

Przemysław Dąbrowski graduated from the University of Warsaw, the Faculty of Information Technology and a Post-Graduate Management Course. He graduated from MBA studies at the University of Illinois and from the Warsaw-Illinois Executive MBA program. He has vast experience in financial management services for the insurance sector, in managing financial investments and large financial transactions. He has knowledge and experience in accounting, tax and actuarial issues. He started his professional career in 1993. From 1993 to 1998 he worked at Whirlpool Polska sp. z o.o. as an analyst and financial controller. In 1998–2000 he was the Treasurer at AIG Poland. In the years 2000–2001, he was the Financial Director and a Member of the Management Board of Creative Team S.A. (the Elektrim Group). From 2001 to 2006, he was the Planning and Controlling Director at PZU. In 2006–2008, he worked at at Kearney and Accenture as a Manager and a Senior Manager. From October 2008 to March 2009, he held the function of the Director – Deputy Head of Financial Division in the Head Office of PZU and PZU Życie. From November 2008 to February 2009, he was the Planning and Controlling Director in the Head Office of PZU and PZU Życie, and in March 2009 he was appointed the Information Management Director in the Head Office of PZU and PZU Życie. He has been holding the position of a Member of the Management Board of PZU Życie since January 2010. He has been holding the position of a Member of the Management Board of PZU since December 2010. In PZU Group, he is responsible for finance, accounting operations, debt collection and actuary.



**Roger Hodgkiss – Member of the Management Board in PZU from 19 January 2016 / PZU Życie from 29 January 2016**

He has many years of experience in financial services. He graduated with honors from the University of Liverpool as an engineer. He is a Statutory Auditor, certified in the United Kingdom. Between 1998 and 2007, he worked for GE Capital on various management positions concerning finance. In the years 2007–2008, he held the position of the CEO of AAS Balta – the largest insurance company in Latvia. From 2008 to 2009, he worked as Sales Director in Intouch Insurance Group, a holding company part of RSA Group. Since 2009, he has been in the Management Board of Link4 Towarzystwo Ubezpieczeń S.A., and since 2012 has been the CEO. He was awarded prize of „Gazeta Ubezpieczeniowa”: the title of Człowiek Roku Ubezpieczeń 2014 (Man of the Year in Insurance). In PZU Group, he is responsible for retail sale of non-life insurance, sales support, direct channels, sales network, CRM and product management of non-life insurance.



**Beata Kozłowska-Chył" – Member of the Management Board in PZU since 19 January 2016 / PZU Życie since 29 January 2016**

She is a PH.D. of Laws and a lecturer at the Faculty of Law and Administration of the University of Warsaw, where she graduated. Between 1994 and 1997, she was a trainee legal advisor and entered the list of legal advisors of Regional Chamber of Legal Advisors in Warsaw. In 2015, the Central Committee for Degrees and Titles took action in order to award Beata Kozłowska-Chył" with habilitation in Legal Sciences. She was performing the functions of the Director of State Company „Uzdrowisko Konstancin” in Konstancin-Jeziorna. She was the Deputy Director of the Legal and Licensing Department of the Pension Funds Supervisory Authority (UNFE). Between 2000 and 2007, she was a lecturer at the College of Public Administration in Ostrołęka. She also was the Deputy Dean of the Faculty of Administration at Public Administration University in Ostrołęka. She was an advisor to the Minister of Finance. She was a Member of the Supervisory Board of PZU and then a Member of the Management Board of PZU. Moreover, she performed a function of a Member of the Supervisory Board of TFI PZU and PTE PZU, and also of a Member of the Supervisory Board of Telewizja Polska S.A. Until January 2016, she provided legal advice in a legal advisory office. What is more, since 2010, she has been a recommended arbitrator of the Arbitration Court of the Polish Chamber of Commerce in Warsaw. Authored a number of scientific publications concerning company law, securities law and issues of ownership transformation and privatization of state companies. She is also the author of legal expert opinions prepared on the order of the Parliament, covering i.a. the draft of the Act on Financial Market Supervision. She is involved in teaching activities at the Faculty of Law and Administration of the University of Warsaw and the Faculty of Economics at the University of Warsaw. In PZU Group, she is responsible for administration, purchases, non-life operations (post-sale contract support), legal activities.





**Robert Pietrzych – Member of the Management Board in PZU since 19 January 2016 / PZU Życie since 29 January 2016**

Graduate from the Faculty of Law, Administration and Economics of the University of Wrocław, Master of Business Administration (MBA) studies and Post-graduate Management Studies „Company Management” at the Oscar Lange University of Economics in Wrocław. He started his professional career as a Management Board proxy for Kronn sp. z o.o., where, between 2001 and 2004, he worked on financial risk management, receivables purchasing and representation concerns (i.a. acquisition of several major entities). Between 2004 and 2006, he worked as a Project Consultant/Project Manager at PROFES Capital sp. z o.o. and focused on the area of investment banking: company restructuring, mergers transactions, financing (Polcolorit S.A.) and crisis management. In 2006, he was employed as an Expert for PKO BP S.A., where he worked on optimization of bank’s operations and cost restructuring. At the same time, he was also a Member of the Management Board in charge of organization and strategy in Dolfamex sp. z o.o. Between 2006 and 2008, he was associated with Grupa Kapitałowa KGHM Polska Miedź S.A. Between 2008 and 2011, he was running his own business (consulting services). His activities covered economic counseling concerning restructuring of business areas, strategic advice, and marketing. From January 2011 to January 2016, he was the CEO of Wrocław 2012 sp. z o.o. (Municipal Stadium, Wrocław). His activities focused on supervising investment process (the biggest investment in the history of post-war Wrocław: PLN 900 million), strategy and business operations. At present, he is also a Member of the Supervisory Board of LOTOS Group S.A. In the past, he used to perform the role of a Member of the Supervisory Board of the following companies: DOLMED SA, Polcolorit SA (company quoted on WSE), Wrocław 2012 sp. z o.o., Radio Merkury S.A. (Chairman of the Supervisory Board), WKS Zawisza Bydgoszcz S.A., PGE Dystrybucja Rzeszów sp. z o.o. (Chairman of the Supervisory Board), Ruch S.A. (Chairman of the Supervisory Board, company quoted on WSE), Pri Bazalt S.A. (Deputy Chairman of the Supervisory Board). In PZU Group, he is responsible for foreign operations (international activity), health business, marketing, client relation management, bancassurance and property management.



**Paweł Surówka – Member of the Management Board in PZU since 20 January 2016 / PZU Życie since 29 January 2016**

Graduate of Université Paris I Panthéon Sorbonne and Ecole des Hautes Etudes en Sciences Sociales (EHESS). Completed his main studies at Ludwig Maximilian Universität (LMU) in Munich. Between 2007 and 2013, he worked as a financial advisor at Bank of America Merrill Lynch. He represented the Bank in the CEE region by building relationships with investors. His activities covered counseling on portfolio management, asset allocation and their diversification, alternative financial instruments and market analysis. From 2013 to 2015, he was a Member of the Management Board of Boryszew S.A., the Office Director in charge of automotive sector development, and the CEO of the subsidiaries from the automotive sector. During his time spent in Boryszew Group, he was responsible for strategic and operational management and supervision over budget policy of the motor sector. His activities covered preparation and implementation of a business strategy for automotive area. Moreover, he was responsible for mergers and acquisitions performed as a part of expansion policy and disinvestment of Boryszew Group. He also led restructuring processes of the companies from motor sector. Until January 2016, he was an advisor to the CEO of PKO Bank Polski S.A., and the Director of Corporate Banking and Investments in Germany responsible for opening the first foreign corporate branch of PKO Bank Polski. His activities covered also counseling and financial processing for the largest corporate clients of PKO Bank Polski concerning their expansion and foreign operations. He is fluent in English, French and German. In PZU Group, he is in charge of investments.



**Sławomir Niemierka – Member of the Management Board of PZU Życie and Director in PZU Group since 19 March 2012**

He graduated from the Faculty of Law and Administration at the University of Warsaw and from Harvard Business School. He has the qualifications of legal advisor. Co-authored a number of publications on financial law and bank supervision. He was an academic teacher at post-graduate courses at Polish Academy of Sciences, the University of Warsaw and the Academy of Insurance and Finance. For many years, he worked in the National Bank of Poland, where he headed the Inspection Office responsible for inspections carried out in banks. Member of a Steering Committee of the General Inspectorate of Banking Supervision in charge of the implementation of the second Basel Accord, supervision over risk models, operational risk and accounting standards. He was in a Team in charge of the development of the risk management system in the National Bank of Poland. As a Member of the Management Board of the Bank Guarantee Fund, he supervised the operational risk management system. He joined PZU Group in 2008 and was appointed the Managing Director in charge of auditing. On 19 March 2012, he joined the Management Board of PZU Życie and was appointed the Director of PZU Group. He is in charge of risk management, reinsurance, compliance and safety.



## **Tomasz Karusewicz – Member of the Management Board of PZU Życie and Director in PZU Group since 29 January 2016**

Graduate from the Faculty of Economic Sciences and Management at the University of Szczecin – specialization company management. Is also a Certified Internal Auditor and qualified to sit on supervisory boards of the State Treasury companies. He gained his experience and vast practical knowledge on functioning of large economic entities during his work in the area of supervision, institutional control and internal audit. As a member of supervisory boards of commercial law companies, he participated in decision-making processes which were strategically vital to current operations of these entities, concerning i.a. such areas as: investments, planning, IT strategy, acquisition, or finance operations. Between 2003 and 2005, he was employed by the Municipal Office of Szczecin. He worked in the Internal Control Division, and afterwards he was an internal auditor. From 2006 to 2008, he worked in Ciech Group. He was a Member of the Supervisory Board of Ciech S.A. He was also the Deputy Director of the Ownership Supervision Office, where he was performing ownership supervision over the companies of Ciech Group. In addition, he was a Member of the Supervisory Boards of the companies of Ciech Group, i.e. Zakłady Chemiczne Alwernia S.A. and Ciech Polfa Sp. z o.o. From 2007 to 2009, he worked as the Deputy Director of the Foreign Investments Office (Business Development Office) at PZU. Between 2010 and 2012, he worked in Telewizja Polska S.A. At first, as the Deputy Director of the Office of the Management Board and Corporate Issues, then – as the Director of the Audit and Internal Control Office. Moreover, he sat in management boards of many companies, i.a. Enea S.A., IKS Solino S.A. and Zakłady Azotowe w Tarnowie – Mościcach S.A. At the present he is a Member of Supervisory Board of Azoty S.A. Group. Since January 2016 again employed in PZU. He is a Member of Supervisory Board in PZU Życie, he is in charge of IT.



## **Roman Pałac – Member of the Management Board of PZU Życie and Director in PZU Group since 29 January 2016**

Graduate from Economy at Warsaw School of Economics. He earned the title of Master of Business Administration (MBA) at London Business School along with the dean's award for the best graduates. He has many years of experience in financial services in Poland and abroad. In 2003-2007, he worked as a Project Manager in the World Bank where he was responsible for preparing and coordinating the implementation of borrowing programs that were aimed to introduce policies to improve energy efficiency in the CEE countries. He coordinated also the works on a coal industry reform in Poland. In 2009-2016, he has collaborated with The Boston Consulting Group, where he has held the position of a Junior Partner and was responsible for insurance and banking consulting e.g. in the following fields: motor claims handling, organizational changes, business strategy creation, and intensification of sales operations. He took part in several bank mergers where he acted as an expert. In PZU Group, he is in charge of Claims Handling and Benefits.

The regulations of the Management Board determine:

- the scope of Management Board's competencies and activities that require approval or confirmation by the Supervisory Board;
- competencies of the CEO and Members of the Management Board;
- principles and organization of Board's activities, including its meetings and decision making procedures;
- rights and obligations of the Members of the Management Board upon dismissal.

In accordance with the regulations of the Management Board, resolutions of the Management Board are especially required for:

- adoption of a long-term plan for development and operations of the company;
- adoption of an action and development plan for PZU Group;
- adoption of an annual financial plan and a report on its implementation;
- approval of the financial statements for the previous financial year and the Management Report on the activities of the company;
- approval of a motion concerning profit distribution or loss coverage;
- determination of premiums in the compulsory and voluntary insurance and general voluntary insurance terms and conditions;
- determination of the scope and size of outward reinsurance and the tasks for inward reinsurance;
- adoption of an annual audit and control plan and a report on its implementation with conclusions;
- determination of the terms and conditions of investments, prevention and sponsoring;
- giving sureties and guarantees (excluding insurance operations) and taking out and giving credit facilities or loans by the Company (excluding credit facilities and loans given from the Company's Social Benefits Fund);
- appointment of a commercial representation.

In accordance with the regulations, meetings of the Management Board are held at least once a fortnight. The work of the Management Board is administered by the CEO whose powers include in particular:

- defining the scope of responsibility of each member of the Management Board;
- calling meetings of the Management Board;
- setting the agenda of the meeting of the Management Board;

- applying to the Supervisory Board for appointing and dismissing members of the Management Board;
- designating a person to administer the work of the Management Board during the absence of the CEO.

The work of the Management Board is administered by the CEO who defines the scope of responsibility of each member of the Management Board.

Resolutions of the Management Board are adopted only in the presence of the CEO or a person designated to administer the work of the Management Board during their absence.

Resolutions of the Management Board are adopted by an absolute majority of votes and in the event of a voting tie the CEO has the casting vote. The Management Board, upon consent of the CEO, may adopt resolutions in writing, on paper or in an e-form (i.e. using means of distant communication and a qualified electronic signature). The By-laws also provide that the meetings of the Management Board may be held using means of direct distant communication.

The CEO takes decisions in the form of orders and official instructions. Other Members of the Management Board administer the operations of the Company within the scope specified by the CEO.

The By-laws of PZU do not provide for any special rights of the Management Board concerning decisions to issue or redeem shares.

## **10.9 Remuneration of the members of the Group's bodies**

Employment contracts concluded with the Members of the Management Board, approved by resolution of the Supervisory Board, do not include compensation for resignation or dismissal from their positions without a valid reason, or if the dismissal results from a business combination through an acquisition of the issuer.

Separate non-competition agreements regulate among others refraining from post-employment competition with PZU in exchange for damages. In 2014-2015, PZU Group companies included in consolidation did not grant any loans or similar benefits to members of their management boards, higher level managers or members of their supervisory boards.

Compensation and other short-term employee benefits paid by PZU (PLN 000)	1 January – 31 December 2015		1 January – 31 December 2014	
		including bonuses and special prizes:		including bonuses and special prizes:
<b>Management Board, including:</b>	<b>8,124</b>	<b>2,862</b>	<b>8,226</b>	<b>2,812</b>
Andrzej Klesyk	2,970	1,170	2,714	914
Przemysław Dąbrowski	1,112	371	1,054	313
Dariusz Krzewina	1,281	507	1,314	534
Tomasz Tarkowski	995	332	891	228
Ryszard Trepczyński <sup>1</sup>	1,194 <sup>2</sup>	482	1,165	424
Rafał Grodzicki <sup>3</sup>	312	-	-	-
Witold Jaworski <sup>4</sup>	260	-	-	-
Barbara Smalska <sup>5</sup>	-	-	1,088	399
<b>Contracts concluded with high level managers – High level management (Directors of PZU Group), including:</b>	<b>3,799</b>	<b>1,530</b>	<b>3,717</b>	<b>1,193</b>
Rafał Grodzicki <sup>3</sup>	624	312	936	312
Przemysław Henschke	936	312	936	312
Sławomir Niemierka	963	300	860	199
Tobiasz Bury	1,276	606	985	370 <sup>6</sup>
<b>Supervisory Board, including:</b>	<b>1,224</b>	<b>-</b>	<b>1,221</b>	<b>-</b>
Zbigniew Ćwiąkałski	180	-	168	-
Paweł Kaczmarek	84	-	-	-
Dariusz Filar	132	-	120	-
Aleksandra Magaczewska	156	-	97	-
Tomasz Zganiacz	72	-	144	-
Zbigniew Derdziuk	120	-	120	-
Dariusz Kacprzyk	120	-	64	-
Jakub Karnowski	120	-	64	-
Alojzy Nowak	120	-	120	-
Maciej Piotrowski	120	-	120	-
Waldemar Maj	-	-	90	-
Dariusz Daniluk	-	-	57	-
Włodzimierz Kiciński	-	-	57	-

Total estimated valued of benefits in kind allocated by PZU and its subsidiaries (PLN thousands)	1 January – 31 December 2015		1 January – 31 December 2014	
		including bonuses and special prizes:		including bonuses and special prizes:
<b>Management Board, including:</b>	<b>3,310</b>	<b>1,279</b>	<b>2,942</b>	<b>996</b>
Przemysław Dąbrowski	799	400	599	200
Dariusz Krzewina	690	273	553	133
Tomasz Tarkowski	536	179	536	179
Ryszard Trepczyński <sup>1</sup>	643 <sup>2</sup>	259	658	259
Rafał Grodzicki <sup>3</sup>	504	168	-	-
Witold Jaworski <sup>4</sup>	138	-	-	-
Barbara Smalska <sup>5</sup>	-	-	596	225
<b>Contracts concluded with high level managers – High level management (Directors of PZU Group), including:</b>	<b>1,546</b>	<b>492</b>	<b>1,844</b>	<b>478</b>
Rafał Grodzicki <sup>3</sup>	-	-	455	119
Przemysław Henschke	504	168	455	119
Sławomir Niemierka	464	107	427	70
Tobiasz Bury	578	217	507	170 <sup>6</sup>

Total estimated valued of benefits in kind allocated by PZU and its subsidiaries (PLN thousands)	1 January – 31 December 2015	1 January – 31 December 2014
<b>Management Board, including:</b>	<b>1,224</b>	<b>1,307</b>
Andrzej Klesyk	298	282
Przemysław Dąbrowski	191	186
Dariusz Krzewina	209	217
Tomasz Tarkowski	178	191
Ryszard Trepczyński <sup>1</sup>	179	226
Rafał Grodzicki <sup>3</sup>	129	-
Witold Jaworski <sup>4</sup>	40	-
Barbara Smalska <sup>5</sup>	-	205
<b>Contracts concluded with high level managers – High level management (Directors of PZU Group), including:</b>	<b>600</b>	<b>908</b>
Rafał Grodzicki <sup>3</sup>	44	170
Przemysław Henschke	167	203
Sławomir Niemierka	176	358

Total estimated valued of benefits in kind allocated by PZU and its subsidiaries (PLN thousands)	1 January – 31 December 2015	1 January – 31 December 2014
Tobiasz Bury	213	177
<b>Supervisory Board, including:</b>	<b>11</b>	-
Zbigniew Ćwiąkalski	10	-
Jakub Karnowski	1	-

<sup>1</sup> Ryszard Trepczyński has not been appointed to the Management Board of PZU new term of office, which run began on 1 July 2015.

<sup>2</sup> The indicated amounts include remuneration for non-competition PLN 185 thousand (PZU) and PLN 100 thousand (PZU Życie) and the remuneration for the notice period.

<sup>3</sup> Rafał Grodzicki was dismissed from the position of Director of the PZU Group on 30 June 2015 and appointed to the Management Board of PZU new term of office, which run began on 1 July 2015.

<sup>4</sup> Witold Jaworski was appointed to the Management Board of PZU on 1 September 2015.

<sup>5</sup> Barbara Smalska submitted a statement of resignation on 6 October 2014 into effect on 31 December 2014, in 2015 she received the remuneration for the notice period and for the non-competition in the amount of PLN 974 thousand (PZU) and PLN 525 thousand (PZU Życie) and PLN 71 thousand for non-cash benefits.

<sup>6</sup> WThe indicated amount is the premium for 2013 years for performing other functions in PZU and PZU Życie.

Rules of granting annual bonuses to the Members of the Management Board

The bonuses of the Management Board’s Members are dependent on their performance for the financial year. They are awarded by the Supervisory Board after the approval of the financial statements for the year.

The bonus amount depends on the performance of the business area supervised by the given Member of the Management Board; however, the areas that affect business results have much greater impact on remuneration than the support areas.

Group Directors

Positions of PZU Group Directors were established at PZU in relation to the implementation of the management model, according to which Members of the Management Board of PZU Życie as PZU Group Directors are in charge of the same business areas and functions in both companies. The positions of PZU Group Directors are established based on Organizational Regulations of PZU (paragraph 20, item 3).

As at 1 January 2015, PZU Group Directors were the following:

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

On 1 July 2015, the Supervisory Board of PZU appointed Rafał Grodzicki as a Member of the Management Board of PZU.

As at 31 December 2015, PZU Group Directors were the following:

- Tobiasz Bury;
- Przemysław Henschke;
- Sławomir Niemierka

On 29 January 2016, Tomasz Karusewicz was appointed a Director of the Group, and on 15 February 2016 Roman Pałac also was appointed to perform this function. Moreover, on 29 January the following people ceased to hold the position of Director of the Group: Tobiasz Bury and Przemysław Henschke.

As at the date of preparation of this Report on the activities, the following people have been performing the role of a Director of PZU Group:

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



## Representations of the Management Board

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We are creating  
this place together.







Correctness and reliability of presented financial statements

The Management Board of PZU declares that, to the best of their knowledge, the annual financial statements and comparable data of PZU Group have been prepared in accordance with the applicable accounting principles and provide a true, fair and clear view of the economic and financial position and the financial result of the Group and the management report of PZU Group presents a true picture of its development and achievements, including a description of the main risks and threats.

Selection of the entity authorized to audit financial statements

The Management Board of PZU represents that the entity authorized to audit financial statements - KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k. - which audited the annual consolidated financial statements was selected in accordance with the provisions of law and that the entity and certified auditors who audited the financial statements met the requirements to express an unbiased and independent opinion on the audited annual consolidated financial statements, in accordance with the applicable provisions of law and professional standards

Cooperation with international public institutions

Companies of PZU Group cooperate with the EIOPA (European Insurance and Occupational Pensions Authority) in the context of Solvency II.

Information about significant agreements for the operations of PZU Group, including those concluded between shareholders

The Management Board is not aware of any agreements concluded by the date of preparation of this Management’s Report of PZU Capital Group (including those concluded after the end of the financial year), which could result in future changes in proportions of shares held by the existing shareholders.

Information on significant contracts concluded

On 16 October 2015, PZU issued a guarantee in relation to the liabilities of PZU Finance AB (publ) arising from the bonds issued by the company. The maximum value of the guarantee was not established. The guarantee issued by PZU is irrevocable and unconditional and will expire on the expiry of the bondholders’ claims against PZU Finance AB. PZU is

not entitled to receive any remuneration for the issuance of the guarantee.

On 19 October 2015, the Issuer took a loan from PZU Finance AB (publ) with a total value of EUR 350 million and the interest rate of 1.425% per year. The loan is to be paid back on 28 June 2019.

Related party transactions

PZU Group companies provide services to each other, as part of their capital and business ties. With the exception of companies of the Tax Capital Group, transactions are concluded at arm’s length.

Tax Capital Group

On 25 September 2014, a new Tax Capital Group agreement was signed, covering the following 13 PZU Group’s companies: PZU, PZU Życie, Link4 Towarzystwo Ubezpieczeń SA, PZU Centrum Operacji SA, PZU Pomoc SA, Ogrodowa-Inwestycje Sp. z o.o., Ipsilon Sp. z o.o., PZU Asset Management SA, TFI PZU SA, Ipsilon Bis SA, PZU Finanse Sp. z o.o., Omicron SA, Omicron Bis SA. The tax capital group was established for a 3-year period - between 1 January 2015 and 31 December 2017.

PZU is the dominating and representing company of the tax capital group. In accordance with art. 25 section 1 of the CIT act, the tax capital group makes monthly settlements with the Treasury Office. PZU makes advance payments to the Treasury Office in scope of CIT owed from all companies, while PZU Życie provides PZU with advance CIT payments concerning the business activity of PZU Życie.

Seasonal or cyclical business

Operations of PZU are not of a seasonal or cyclical nature to the extent that would justify application of the suggestions presented in International Financial Reporting Standards.

Evaluation of financial resources management, including the ability to repay liabilities and definition of possible threats and activities, undertaken or planned by the Issuer to counteract these threats

The financial position of the Issuer is very good. It meets all the security requirements imposed by the Act on Insurance Activity and the Polish Financial Supervision Authority. A stable rating outlook of PZU confirms that the Issuer has a strong business position, high levels of equity and is a competitive entity in the insurance market.

Disputes

In 2015 and by the date of preparation of this Management’s Report of PZU Capital Group, PZU Group did not take part in any proceedings before court, body competent to hear arbitration proceedings or public authority body concerning liabilities or receivables of PZU or its direct and indirect subsidiaries with the value of at least 10% of the equity of PZU. The description of court cases and proceedings before the President of the Office of Competition and Consumer Protection (OCCP) is included in the consolidated financial statements of PZU Group for 2015.

This Management Report of PZU Capital Group for 2015 includes 183 pages with sequential numbers.

As at 31 December 2015, the total value of all 121,918 cases heard by courts, bodies competent to hear arbitration proceedings or public authority bodies involving PZU Group entities was PLN 4,898.3 million. The amount includes PLN 3,131.1 million of liabilities and PLN 1,767.2 million of receivables of PZU Group companies, which accounted for 25.29% and 14.28% of the equity of PZU calculated in line with PAS, respectively.

Signatures of Members of PZU Management Board

Michał Krupiński – CEO

Przemysław Dąbrowski – Member of the Management Board

Roger Hodgkiss – Member of the Management Board

Beata Kozłowska-Chyła – Member of the Management Board

Dariusz Krzewina – Member of the Management Board

Robert Pietryszyn – Member of the Management Board

Paweł Surówka – Member of the Management Board



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Appendix: PZU financial data

## COMPLIANCE WEEK

**We invite you to attend a series of meetings with interesting people and a coffee and ...**

**More information at PZU24**

Let friendship abound where a code of conduct applies.  
When there are a host of norms it's worth knowing who works with whom.  
So with this intriguing observation in mind, accept our invitation.



## Appendix: PZU financial data



Basic amounts of the consolidated profit and loss account (PLN thousand)	2015	2014	2013	2012	2011
Gross written premiums	18,359,044	16,884,639	16,480,003	16,243,131	15,279,262
Net earned premiums	17,384,871	16,429,370	16,248,769	16,005,240	14,890,528
Revenue from commissions and fees	242,799	350,764	299,169	237,102	281,351
Net investment income	1,739,277	2,646,907	2,479,375	3,613,417	1,735,340
Net claims and benefits	(11,857,102)	(11,541,708)	(11,161,224)	(12,218,731)	(10,221,122)
Acquisition costs	(2,376,305)	(2,147,024)	(2,015,938)	(2,000,351)	(1,961,986)
Administrative expenses	(1,657,878)	(1,527,699)	(1,406,480)	(1,440,301)	(1,383,897)
Interest expenses	(117,433)	(147,285)	(104,199)	(126,958)	(158,154)
Other operational revenues and expenses	(418,844)	(370,107)	(220,378)	(30,710)	(274,485)
Operating profit (loss)	2,939,385	3,693,218	4,119,094	4,038,708	2,907,575
Share in net profit (loss) of entities measured using the equity method	4,348	(1,525)	1,404	-	-
Gross profit (loss)	2,943,733	3,691,693	4,120,498	4,038,708	2,907,575
Net profit (loss), including:	2,342,196	2,967,627	3,294,955	3,253,826	2,343,947
Shareholders' profit (loss)	2,342,355	2,967,731	3,293,496	3,255,181	2,345,424
Minority profit (loss)	(159)	(104)	1,459	(1,355)	(1,477)
Basic and diluted weighted average number of ordinary shares*	863,523,000	863,519,490	863,519,490	863,523,000	863,523,000
Number of shares issued	863,523,000	863,523,000	863,523,000	863,523,000	863,523,000
Basic and diluted PZU Group's profit per ordinary Issuer's share (in PLN)	2.71	3.44	3.81	3.77	2.72
Net profit of PZU (Issuer)	2,248,522	2,636,733	5,106,345	2,580,720	2,582,303
Basic and diluted profit per ordinary share (in PLN)	2.60	3.05	5.91	2.99	2.99

\*including shares in consolidated funds

Restated data from the period 2011-2014.

Assets (PLN thousand)	2015	2014	2013	2012	2011
Intangible assets	1,393,168	868,692	308,726	183,238	166,038
Goodwill	1,506,445	769,044	8,519	8,474	8,716
Property, plant and equipment	1,299,788	1,001,609	927,281	992,317	1,055,381
Investment property	1,171,721	2,236,062	1,474,770	564,404	534,222
Entities measured using the equity method	54,065	66,311	48,595	-	-
Financial assets	89,305,847	56,759,976	55,085,728	50,423,076	46,775,359
Receivables, including under insurance contracts	3,270,793	3,085,432	2,671,964	1,835,793	1,734,636
Reinsurers' share in technical provisions	1,096,852	753,115	526,605	749,334	700,713
Estimated subrogations and recoveries	114,229	127,262	129,950	121,632	83,117
Deferred tax assets	349,189	26,957	16,949	13,963	8,600
Current income tax receivables	67,295	368	34,895	80,646	8,582
Deferred acquisition costs	1,154,742	712,066	609,819	574,489	569,843
Other assets	698,964	235,250	195,449	178,646	246,351
Cash and cash equivalents	2,439,863	324,007	569,157	136,586	237,724
Non-current assets held for sale and disposal groups	1,506,048	606,610	178,897	46,962	-
<b>Total assets</b>	<b>105,429,009</b>	<b>67,572,761</b>	<b>62,787,304</b>	<b>55,909,560</b>	<b>52,129,282</b>

Restated data from the period 2011-2014.

## Appendix: PZU financial data



Equity (PLN thousand)	2015	2014	2013	2012	2011
Share capital	86,352	86,352	86,352	86,352	86,352
Supplementary capital	9,947,292	9,678,921	8,855,999	8,780,212	7,711,818
Revaluation reserve	240,677	248,543	242,297	363,242	268,831
Actuarial profits and losses related to provisions for employee benefits	(4,404)	(6,179)	902	-	-
Treasury shares	-	(110)	(110)	-	-
Other reserve shares	22	66	-	-	-
Exchange differences from subsidiaries	(41,980)	(35,450)	(37,737)	(38,004)	(32,263)
Retained profits (losses)	353,405	226,462	2,397,137	1,743,148	2,403,000
Net profit (loss)	2,342,355	2,967,731	3,293,496	3,255,181	2,345,424
Appropriations on net profit during the financial year	-	-	(1,727,046)	-	-
Minority interest	2,255,188	1,292	16,341	79,138	86,343
<b>Total equity</b>	<b>15,178,907</b>	<b>13,167,628</b>	<b>13,127,631</b>	<b>14,269,269</b>	<b>12,869,505</b>

Restated data from the period 2011-2014.

Liabilities (PLN thousand)	2015	2014	2013	2012	2011
Technical provisions	41,280,321	40,166,885	37,324,416	35,400,778	32,522,729
Unearned premium and unexpired risk reserve	5,855,996	5,250,103	4,540,011	4,537,167	4,521,396
Life insurance provisions	16,221,886	16,281,625	16,048,191	15,675,243	14,595,112
Outstanding claims provisions	8,264,040	7,770,351	6,586,781	5,878,445	5,429,481
Provision for annuities	5,807,892	5,997,595	5,761,332	5,660,281	5,088,626
Provisions for bonuses and discounts for the insured	2,662	2,291	2,893	4,227	7,192
Other technical provisions	383,888	439,364	477,987	531,617	581,155
Unit-linked technical provisions	4,743,957	4,425,556	3,907,221	3,113,798	2,299,767
Provisions for employee benefits	117,398	120,070	123,380	107,307	255,576
Other provisions	108,109	191,206	192,906	267,456	322,063
Deferred tax liability	509,157	398,433	255,399	357,557	109,716
Financial liabilities	44,487,823	9,403,244	8,398,582	3,435,313	4,324,166
Other liabilities, including current income tax	3,747,294	3,873,281	3,364,990	2,071,880	1,725,527
Liabilities directly associated with assets qualified as held for sale	-	252,014	-	-	-
<b>Total liabilities</b>	<b>90,250,102</b>	<b>54,405,133</b>	<b>49,659,673</b>	<b>41,640,291</b>	<b>39,259,777</b>
<b>Total equity and liabilities</b>	<b>105,429,009</b>	<b>67,572,761</b>	<b>62,787,304</b>	<b>55,909,560</b>	<b>52,129,282</b>

Restated data from the period 2011-2014.



## Assets to cover technical provisions in PZU (PLN thousand)

Item	2015		Maximum limit %
	Total	% of technical provisions	
<b>A. Technical provisions</b>	<b>18,577,330</b>	<b>100.0%</b>	-
<b>B. Assets to cover technical provisions, total</b>	<b>20,535,296</b>	<b>110.5%</b>	-
1. Debt issued or guaranteed by the State Treasury and international organizations to which the Republic of Poland belongs	6,841,108	36.8%	without limitations
2. Bonds issued or guaranteed by local authorities or associations of local authorities	26,251	0.1%	without limitations
3. Other fixed revenue instruments	541,460	2.9%	10%
4. Investment fund units	6,843,761	36.8%	40%
Mortgage loans	917,623	4.9%	25%
6. Other loans	200,901	1.1%	5%
7. Investment certificates in investment funds	1,801,248	9.7%	10%
8. Property or its part excluding property or its part for own use	41,056	0.2%	25%
9. Bank deposits	1,391,806	7.5%	without limitations
10. Receivables	336,900	1.8%	25%
11. Receivables from the State Budget	63,641	0.3%	without limitations
12. Tangible assets, other than property, if amortized using the prudence principle	118,398	0.6%	5%
13. Cash	4,397	0.0%	3%
14. Deferred acquisition expenses compliant with the principles of determining provision for unearned premium in section I of the attachment to the Act and in compliance with the unearned premium reserve calculation in section II	845,148	4.5%	without limitations
15. Reinsurers' share in technical provisions	518,419	2.8%	25%
16. Mortgage bonds	43,179	0.2%	10%
<b>C. Surplus (shortage) of assets covering technical provisions</b>	<b>1,957,966</b>	<b>10.5%</b>	-

## Assets to cover technical provisions in PZU Życie (excluding unit-linked assets) (PLN thousand)

Item	2015		Maximum limit %
	Total	% of technical provisions	
<b>A. Technical provisions, excluding unit-linked technical provisions</b>	<b>17,290,586</b>	<b>100.0%</b>	-
<b>B. Assets to cover technical provisions, total</b>	<b>20,569,115</b>	<b>119.0%</b>	-
1. Debt issued or guaranteed by the State Treasury and international organizations to which the Republic of Poland belongs	13,475,140	77.9%	without limitations
2. Bonds issued or guaranteed by local authorities or associations of local authorities	26,251	0.2%	without limitations
3. Other fixed income securities	125,443	0.7%	10%
4. Investment fund units	3,876,305	22.4%	40%
5. Investment certificates in investment funds	1,688,670	9.8%	10%
6. Mortgage loans	272,452	1.6%	25%
7. Other loans	1,887	0.0%	5%
8. Bank deposits	1,025,347	5.9%	without limitations
9. Tangible assets, other than property, if amortized using the prudence principle	67,912	0.4%	5%
10. Cash	9,708	0.1%	3%
<b>C. Surplus (shortage) of assets covering technical provisions</b>	<b>3,278,529</b>	<b>19.0%</b>	-

## Assets to cover unit-linked technical provisions in PZU Życie (PLN thousand)

Item	2015		Maximum limit %
	Total	% of technical provisions	
<b>A. Unit-linked life insurance provisions</b>	<b>5,088,723</b>	<b>100.0%</b>	-
<b>B. Assets to cover technical provisions, total</b>	<b>5,088,723</b>	<b>100.0%</b>	-
1. Debt issued or guaranteed by the State Treasury and international organizations to which the Republic of Poland belongs	1,459,996	28.7%	without limitations
2. Other fixed income securities	73,683	1.4%	without limitations
3. Shares	515,970	10.1%	without limitations
4. Investment units or investment certificates in investment funds	3,021,680	59.4%	without limitations
5. Other variable revenue instruments	3,352	0.1%	without limitations
6. Bank deposits	91,407	1.8%	without limitations
7. Receivables due to financial market transactions	18,888	0.4%	without limitations
8. Liabilities due to financial market transactions	(96,254)	(1.9%)	without limitations

## Total assets to cover technical provisions in PZU Życie (PLN thousand)

Item	2015	
	Total	% of technical provisions
<b>A. Technical provisions</b>	<b>22,379,309</b>	<b>100.0%</b>
<b>B. Assets to cover technical provisions, total</b>	<b>25,657,838</b>	<b>114.6%</b>
<b>C. Surplus (shortage) of assets covering technical provisions</b>	<b>3,278,529</b>	<b>14.6%</b>

One-off events in PZU Group - impact on gross result (PLN million)	2015	2014	2013	2012	2011
Loss due to the change in fair value of Alior Bank shares purchased within tranche I	(175.8)	-	-	-	-
Conversion effect (IAS)	75.4	69.9	127.1	207.0	406.1
Result of the sale of PZU Lithuania	165.5	-	-	-	-
Fund consolidation commencement	-	-	172.7	-	-
Adjusting the rate of PZU Życie calculated according to IFRS to the PAS level	-	-	-	(390.1)	-
Reducing the technical rate in PZU Życie	-	-	-	(408.5)	-
Change in the rates for annuity provision	-	-	-	(234.2)	-
Release of provisions for employee benefits associated with termination of the Company Collective Bargaining Agreement	-	-	-	177.0	-
Sales of shares from the AFS portfolio	-	-	-	101.0	-
Result on contract guarantees	-	-	-	(93.2)	-
Consolidation of the Armatura Group	-	-	-	-	118.9
Provisions for OCCP penalties	-	-	-	-	(67.9)
Green Card reinsurance settlements	-	-	53.2	-	(91.8)

## Appendix: PZU financial data



Operating efficiency ratios		2015	2014	2013	2012	2011
1.	<b>Claims ratio gross</b> (Claims gross/written premium gross) x 100%	66.9%	69.5%	67.9%	76.2%	67.9%
2.	<b>Claims ratio net of reinsurance</b> (net claims paid/net premium earned) x 100%	68.2%	70.3%	68.7%	76.3%	68.6%
3.	<b>Insurance activity costs ratio</b> (Costs of insurance activity/premium earned net of reinsurance) x 100%	23.2%	22.4%	21.1%	21.5%	22.5%
4.	<b>Acquisition costs ratio</b> (Acquisition costs/premium earned net of reinsurance) x 100%	13.7%	13.1%	12.4%	12.5%	13.2%
5.	<b>Administrative expenses ratio</b> (Administrative expenses/premium earned net of reinsurance) x 100%	9.5%	9.3%	8.7%	9.0%	9.3%
6.	<b>Combined ratio in non-life insurance</b> (Claims + costs of insurance activity)/premium earned net of reinsurance x 100%	94.6%	95.7%	87.8%	92.8%	95.3%
7.	<b>Operating profit margin in life insurance</b> (Operating profit/gross written premium) x 100%	22.3%	24.4%	22.3%	19.8%	28.7%

Data from the profit and loss account – corporate insurance (non-life insurance) (PLN thousand)	2015	2014	2013	2012	2011
Gross written premiums	1,824,453	1,831,143	1,740,157	1,839,912	1,823,885
Net earned premiums	1,476,022	1,462,260	1,555,752	1,764,459	1,723,966
Investment income	121,403	136,456	140,039	127,357	158,938
Net insurance claims	(869,551)	(963,968)	(854,110)	(1,174,033)	(1,254,224)
Acquisition costs	(287,687)	(306,347)	(300,302)	(336,218)	(310,961)
Administrative expenses	(127,383)	(125,050)	(115,829)	(107,687)	(104,737)
Reinsurance commission and share in profits	16,627	16,192	8,022	(5,715)	12,200
Other	(17,821)	(2,442)	(42,091)	(50,632)	(30,831)
<b>Operating profit (loss)</b>	<b>311,610</b>	<b>217,101</b>	<b>391,481</b>	<b>217,531</b>	<b>194,351</b>
Acquisition costs ratio (including reinsurance commission)*	18.4%	19.8%	18.8%	19.4%	17.3%
administrative expenses ratio*	8.6%	8.6%	7.4%	6.1%	6.1%
Claims ratio*	58.9%	65.9%	54.9%	66.5%	72.8%
Combined ratio (COR)*	85.9%	94.3%	81.1%	92.0%	96.2%

\* ratios calculated with net premium earned

Data from the profit and loss account – mass-market insurance (PLN thousand)	2015	2014	2013	2012	2011
Gross written premiums	7,526,767	6,569,484	6,533,743	6,613,586	6,423,356
Net earned premiums	6,791,252	6,563,005	6,552,285	6,512,677	6,182,305
Investment income	518,130	562,821	556,759	537,003	542,502
Net insurance claims	(4,444,095)	(4,363,412)	(4,192,968)	(4,298,978)	(4,132,339)
Acquisition costs	(1,394,293)	(1,238,906)	(1,141,493)	(1,136,834)	(1,156,488)
Administrative expenses	(665,744)	(617,450)	(546,865)	(568,609)	(529,170)
Reinsurance commission and share in profits	(3,058)	(26,506)	66,967	(15,929)	(29,617)
Other	(150,544)	(123,072)	(227,414)	(229,682)	(303,792)
<b>Operating profit (loss)</b>	<b>651,648</b>	<b>756,480</b>	<b>1,067,271</b>	<b>799,648</b>	<b>573,401</b>
Acquisition costs ratio (including reinsurance commission)*	20.6%	19.3%	16.4%	17.7%	19.2%
administrative expenses ratio*	9.8%	9.4%	8.3%	8.7%	8.6%
Claims ratio*	65.4%	66.5%	64.0%	66.0%	66.8%
Combined ratio (COR)*	95.8%	95.2%	88.7%	92.4%	94.6%

\* ratios calculated with net premium earned

Data from the profit and loss account – group and individually continued insurance (PLN thousand)	2015	2014	2013	2012	2011
Gross written premiums	6,688,657	6,539,082	6,415,178	6,364,007	6,179,053
Group insurance	4,753,287	4,627,346	4,518,196	4,491,887	4,349,810
Individually continued insurance	1,935,370	1,911,736	1,896,982	1,872,120	1,829,243
Net earned premiums	6,691,210	6,537,052	6,414,069	6,362,185	6,178,109
Investment income	601,663	713,254	735,242	955,194	657,127
Net insurance claims	(4,750,100)	(4,499,360)	(4,299,510)	(4,143,878)	(4,074,495)
Change in the balance of other technical provisions net of reinsurance	31,624	(70,328)	(270,964)	(848,700)	(109,119)
Acquisition costs	(356,308)	(356,627)	(322,765)	(317,716)	(277,703)
Administrative expenses	(577,220)	(542,974)	(545,720)	(578,417)	(560,860)
Other	(66,176)	(19,192)	(106,931)	(55,593)	(33,277)
<b>Operating profit (loss)</b>	<b>1,574,693</b>	<b>1,761,825</b>	<b>1,603,421</b>	<b>1,373,075</b>	<b>1,779,782</b>
<b>Operating profit (loss) excluding one-off events</b>	<b>1,499,341</b>	<b>1,691,965</b>	<b>1,476,325</b>	<b>1,561,157</b>	<b>1,349,144</b>
Acquisition costs ratio*	5.3%	5.5%	5.0%	5.0%	4.5%
administrative expenses ratio*	8.6%	8.3%	8.5%	9.1%	9.1%
Operating profit margin**	22.4%	25.9%	23.0%	24.5%	21.8%

\* ratios calculated with gross premium written

\*\* ratio calculated with gross premium written, excluding one-off events



## Appendix: PZU financial data



Data from the profit and loss account – individual insurance (PLN thousand)	2015	2014	2013	2012	2011
Gross written premiums	1,234,260	1,268,637	1,329,894	1,089,970	572,718
Net earned premiums	1,234,634	1,267,427	1,330,782	1,091,926	574,821
Investment income**	250,382	326,696	321,867	346,956	197,443
Net insurance claims	(850,194)	(638,789)	(626,601)	(604,780)	(649,296)
Change in the balance of other technical provisions net of reinsurance	(240,832)	(611,119)	(712,390)	(594,055)	133,908
Acquisition costs	(122,731)	(126,442)	(109,519)	(90,824)	(56,104)
Administrative expenses	(59,670)	(53,381)	(53,225)	(53,383)	(49,180)
Other**	(5,979)	(1,641)	(11,057)	8,674	8,543
<b>Operating profit (loss)</b>	<b>205,610</b>	<b>162,751</b>	<b>139,857</b>	<b>104,514</b>	<b>160,135</b>
Acquisition costs ratio*	9.9%	10.0%	8.2%	8.3%	9.8%
administrative expenses ratio*	4.8%	4.2%	4.0%	4.9%	8.6%
Operating profit margin*	16.7%	12.8%	10.5%	9.6%	28.0%

\* ratios calculated with gross premium written

\*\* as of 2013, presentation of figures resulting from supplementary benefits (kickback) was changed upon the request of PFSA

Data from the profit and loss account – investment contracts (PLN thousand)	2015	2014	2013	2012	2011
Gross written premiums	141,088	374,467	1,097,951	1,859,439	3,054,350
Group insurance	2,917	44,829	673,464	1,373,414	2,293,916
Individuall insurance	138,171	329,638	424,487	486,025	760,434
Net earned premiums	141,063	374,481	1,098,557	1,858,734	3,054,350
Investment income **	16,064	43,550	104,495	191,383	(13,956)
Net insurance claims	(694,458)	(1,391,718)	(1,329,748)	(3,185,031)	(3,069,661)
Change in the balance of other technical provisions net of reinsurance	558,454	1,015,526	172,272	1,171,526	72,829
Acquisition costs	(9,993)	(16,466)	(18,318)	(31,215)	(37,500)
Administrative expenses	(9,345)	(9,716)	(11,377)	(15,978)	(12,172)
Other **	(645)	(527)	(4,604)	11,651	20,868
<b>Operating profit (loss)</b>	<b>1,140</b>	<b>15,130</b>	<b>11,277</b>	<b>1,070</b>	<b>14,758</b>
Operating profit margin*	0.8%	4.0%	1.0%	0.1%	0.5%

\* ratios calculated with gross premium written

\*\* as of 2013, presentation of figures resulting from supplementary benefits (kickback) was changed upon the request of PFSA

Data from the profit and loss account – pension segment (PLN thousand)	2015	2014	2013	2012	2011
Revenues	118,521	270,565	218,300	199,165	231,638
Investment income	6,949	11,639	11,580	13,273	12,563
Acquisition costs	(2,947)	(6,349)	(16,776)	(20,212)	(81,559)
Administrative expenses	(39,865)	(72,838)	(77,923)	(92,967)	(73,091)
Other	(1,179)	467	2,251	(810)	896
<b>Operating profit (loss)</b>	<b>81,479</b>	<b>203,484</b>	<b>137,432</b>	<b>98,449</b>	<b>90,447</b>

## Appendix: PZU financial data



Data from the profit and loss account – Ukraine segment (PLN thousand)	2015	2014	2013	2012	2011
Gross written premiums	168,184	173,562	203,640	142,228	120,892
Net earned premiums	102,150	135,921	170,572	103,010	92,394
Investment income	41,270	41,058	24,373	17,741	14,329
Net insurance claims	(73,285)	(94,348)	(80,892)	(53,874)	(48,809)
Acquisition costs	(46,617)	(52,126)	(62,445)	(27,998)	(31,594)
Administrative expenses	(21,154)	(28,130)	(35,904)	(28,450)	(26,854)
Other	(255)	(22)	-	-	(12)
<b>Operating profit (loss)</b>	<b>2,109</b>	<b>2,353</b>	<b>15,703</b>	<b>10,429</b>	<b>(546)</b>
exchange rate UAH/PLN	0.1722	0.2637	0.3886	0.4001	0.3716
Acquisition costs ratio*	45.6%	38.4%	36.6%	27.2%	34.2%
administrative expenses ratio*	20.7%	20.7%	21.0%	27.6%	29.1%

\* ratios calculated with net premium earned

Investment segment (PLN thousand)	2015	2014	2013	2012	2011
<b>Total</b>	<b>506,166</b>	<b>578,923</b>	<b>896,372</b>	<b>1,525,225</b>	<b>115,720</b>

Data from the profit and loss account – Baltic states segment (PLN thousand)	2015	2014	2013	2012	2011
Gross written premiums	1,193,884	536,498	262,289	195,721	164,299
Net earned premiums	1,109,535	476,994	227,146	171,833	139,556
Investment income	21,782	14,617	6,511	9,890	(5,701)
Net insurance claims	(686,935)	(312,216)	(139,087)	(111,653)	(86,453)
Acquisition costs	(252,779)	(115,445)	(67,137)	(49,047)	(40,067)
Administrative expenses	(146,422)	(80,239)	(26,490)	(18,861)	(15,049)
Other	(1,833)	(766)	-	-	-
<b>Operating profit (loss)</b>	<b>43,348</b>	<b>(17,055)</b>	<b>943</b>	<b>2,162</b>	<b>(7,714)</b>
exchange rate EUR (LTL) in PLN	4.1848	1.2133	1.2196	1.2087	1.1990
Acquisition costs ratio*	22.8%	24.2%	29.6%	28.5%	28.7%
administrative expenses ratio*	13.2%	16.8%	11.7%	11.0%	10.8%

\* ratios calculated with net premium earned



## Appendix: Glossary of terms

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## First a pedestrian, then a driver

Do you love someone? Help me say STOP to Reckless Drivers

**Act on Insurance Activity** – Act on Insurance Activity of 11 September 2015 (Journal of Laws of 2015, item 1844); the majority of its provisions have been effective as of 1 January 2016. The Act introduces the Solvency II requirements to the Polish legal systems.

**Act on statutory auditors** – Act on statutory auditors and their self-governing body, auditing firms and on public oversight of 7 May 2009 (Journal of Laws of 2009, No. 77, item 649, as amended).

**ATI (Accounting and Tax Institute)** – the task of the Institute is to improve the professional qualifications of financial, accounting, and management personnel, setting the standards of financial reporting, creating changes in tax and accounting law, disseminating good practices in business, and thus better preparing Polish companies and institutions to operate under the highly competitive environment of the European Union member states.

**BLS (direct claims handling)** – a system of handling a claim by an insurance company which issued MTPL insurance policy of the injured party, not the perpetrator. It has been operating in Poland since 1 April 2015. Once the claims handling process is finished, the insurance companies settle the amount as a lump-sum via the Polish Chamber of Insurance (PIU).

**cedent** – a person assigning a liability to a buyer.

**CEERIUS (CEE Responsible Investment Universe)** – is an index of Wiener Börse for Central and Eastern European (CEE) companies. It consists of companies that meet quality criteria in the social and ecological area.

**Civil Code** – Act of 23 April 1964 – Civil Code (Journal of Laws No. 16 of 1964, item 93, as amended).

**Code of Commercial Companies** – Act of 15 September 2000 – Code of Commercial Companies (Journal of Laws of 2000, No. 94, item 1037, as amended).

**COR** – Combined Ratio – combined ratio calculated for the non-life sector (class II). It is the ratio of all the insurance expenses related to insurance administration and payment of claims (i.e. the costs of claims, acquisition and administration) to earned premium in a given period.

**CSR – Corporate Social Responsibility** – a concept according to which, upon drafting its strategy, a company voluntarily includes in its social interests and environment protection issues, as well as relations with various interest groups.

**earned premium** – a written premium in a given period giving consideration to the settlement of revenues (premiums) over time through movement in premium provision.

**Everest** – a system for managing non-life insurance which is being implemented in PZU.

**free float** – a public company's shares that are not locked-in. It is the ratio of the number of shares not held by large investors to the total number of outstanding shares. In other words, all the publicly-traded shares that are freely available.

**gross written premium** – a gross amount of premiums (without including the reinsurers' share) due on the insurance contracts executed in a financial year, regardless of the term of liability established by these contracts.

**insurance agent** – an entrepreneur performing agency activities under an agreement concluded with the insurance company. The agents' activities focus on: customer acquisition, concluding insurance contracts, participating in the administration and performance of insurance contracts and organizing and supervising the activities of the agency.

**insurance broker** – an entity authorized to pursue brokerage activities. A broker performs activities in the name of or on behalf of a person or entity seeking insurance coverage.

**inward reinsurance** – reinsurance activity entailing a reinsurer or reinsurers accepting a portion of the insurance or groups of insurance yielded by the cedent.

**Payout ratio** – a dividend payout ratio, i.e. the quotient of the dividend paid and the company's net result stated as a percentage.

**PFSA** – Polish Financial Supervision Authority, [www.knf.gov.pl](http://www.knf.gov.pl)

**PIU (Polish Chamber of Insurance)** – insurance economic local authority which gathers all insurance companies operating in Poland.

**profit margin in group and continued insurance (in PZU Życie)** – an indicator calculated as the ratio of the operating profit to gross written premium in the group and individually-continued insurance segment, net of one-off effects such as, for instance, the conversion effect, namely the conversion of long-term contracts into short-term contracts and changes to technical rates, namely the rate used to discount technical provisions.

**reinsurance** – yielding all or a portion of an insured risk or a group of risks along with the commensurate portion of the premiums to some other insurance company – a reinsurer. As a result of reinsurance, there is a secondary split of the risks making it possible to minimize the risks to the insurance market.

**risk-free rate** – the rate of return on risk-free financial instruments. PZU's risk-free rate is based on yield curves for treasury instruments, and it is also the basis for setting transfer prices in settlements between operating segments.

**Solvency I** – the solvency margin for insurance companies. The system operating in the European Union from the 1970s to 31 December 2015.

**Solvency II** – capital requirements for European insurance companies based on the risk undertaken. The requirements have been effective as of 1 January 2016.

**Solvency Capital Requirement, SCR** – a capital requirement calculated as per Solvency II provisions. Calculation of the capital requirement is based on the calculation of the following risks: market, actuarial (insurance), counterparty insolvency, catastrophe, and operating risk, and afterwards undergoes a diversification analysis. The ratio can be calculated under a standard formula or, once an applicable permit of a supervisory body has been obtained, using a whole or partial internal model of the company.

**solvency margin** – the amount of an insurance undertaking's shareholder funds no lower than the minimum guarantee fund which is required to ensure that the undertaking remains liquid.

**sum insured** – the cash amount for which an insured object is insured. In non-life insurance the sum insured ordinarily constitutes the upper limit of the insurer's liability.

**S&P rating** – a credit risk assessment performed by Standard & Poor's. An A- rating means that issuers of debt instruments have a high capability of servicing their obligations giving consideration to the emergence of factors diminishing that capability.

**technical provisions** – provisions which should ensure full coverage of all current and future liabilities that may arise from insurance contracts. Technical provisions include in particular: provision for unearned premiums, provision for unpaid claims and provision for unexpired risks, provision where the investment risk is born by the policyholders, provision for bonuses and rebates for the policyholders.

**technical rate** – the rate used to discount technical provisions in life insurance and provisions for capitalized annuities in third party liability insurance. According to the Finance Minister's Ordinance of 28 December 2009 on the special accounting standards for insurance and reinsurance undertakings, the technical rates used by an insurance undertaking may not be higher than 80% of the weighted-average rate of return on investments covering technical provisions during the most recent three financial years. PFSA calculates and announces the maximum technical rate by 31 January of every year.

**U Recommendation** – a recommendation of PFSA concerning good practices in scope of bancassurance.

**underwriting** – the process of selecting and classifying risks declared for insurance to estimate and accept, according to suitable terms and conditions, or reject an insurance risk.

**unit-fund** – fund related to life insurance where the investment risk is borne by the policyholders.

**WIBOR6M** – a reference interest rate on a six-month-long loan on the Polish interbank market.

**WIG20TR** – the WIG20 index including the dividends paid by companies.

**WSE** – Warsaw Stock Exchange



These Financial Statements contain forward-looking statements concerning the strategic operations.

Such forward-looking statements are exposed to both known and unknown types of risks, involve uncertainties and are subject to other significant factors which may cause that the actual results, operations, or achievements of PZU Group considerably differ from future results, operations, or achievements expressed or implied in the forwards-looking statements. The statements are based on a number of assumptions concerning the current and future business strategy of PZU Group and the external environment in which the Group will operate in the future. PZU expressly waives any and all obligations or commitments concerning distribution of any updates or adjustments to any of the assumptions contained in these Financial Statements of PZU Group, which shall aim to reflect the changes in PZU expectations or changes in events, conditions, or circumstances on which a given assumption has been made, unless provisions of the law provided otherwise. PZU stipulates that the forward-looking statements do not constitute a guarantee as to the future results, and the company's actual financial standing, business strategy, management plans and objectives concerning the future operations may considerably differ from those presented or implied in such statements contained in these Financial Statements of PZU Group. Moreover, even if the PZU Group's financial standing, business strategy, management plans and objectives concerning the future operations comply with the forward-looking statements contained in these Financial Statements of PZU Group, such results or events may not be treated as a guideline as to the results or events in the subsequent periods. PZU does not undertake to publish any updates, changes, or adjustments to information, data or statements contained in these Financial Statements of PZU Group if the strategic operations or plans of PZU shall change, or in the case of facts or events that shall affect such operations or plans of PZU, unless such an obligation to inform resulted from applicable provisions of the law.

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