PZU Group’s financial results for H1 2016

Warsaw, 24 August 2016

What differentiates us

~16 million
clients in Poland, including **~12 million** life insurance clients

#1
in **Poland** measured by gross written premium in **non-life insurance** and **life insurance**

#1
in **Lithuania** and **Latvia** measured by gross written premium in non-life insurance

12.9%
share in the open-end pension fund market by net asset value

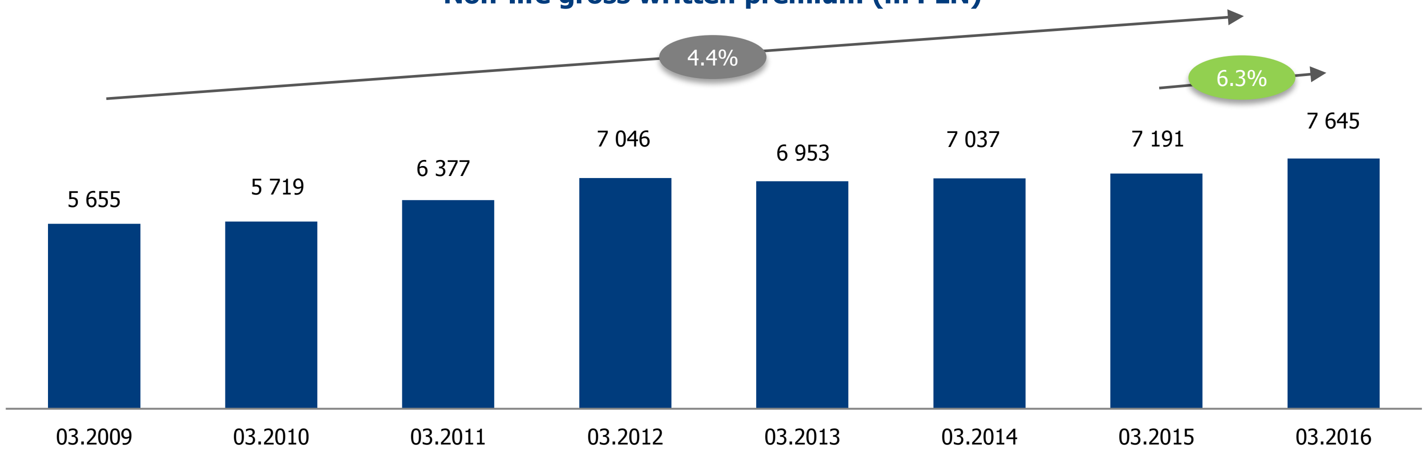
10.6%
market share in mutual funds measured by net asset value

Agenda

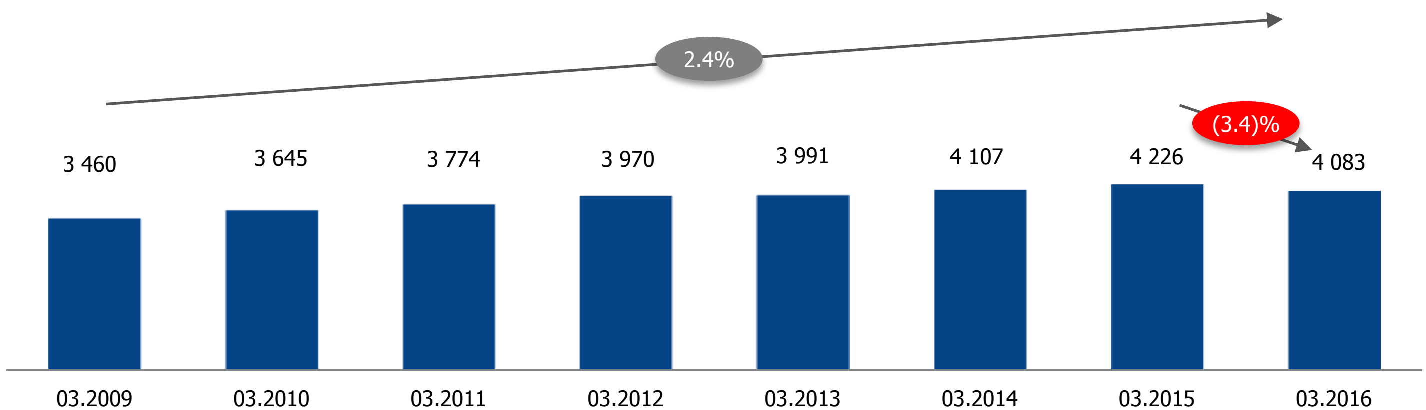
1. Insurance market in Poland, the Baltic States and Ukraine
2. Key drivers of PZU's performance in H1 2016
3. Recap of the PZU Group's financial results for H1 2016
4. Operating results for H1 2016
5. Detailed financials
6. Group's preliminary data as at 31 March 2016 according to Solvency II

Insurance market in Poland

Non-life gross written premium (m PLN)



Life periodical gross written premium (m PLN)

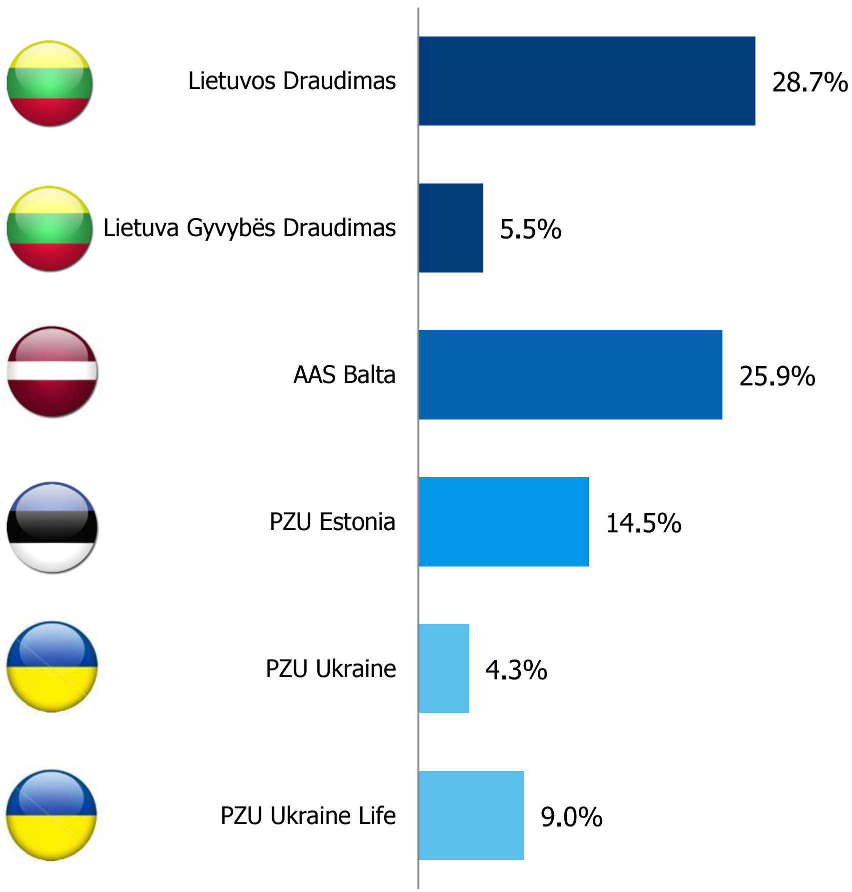


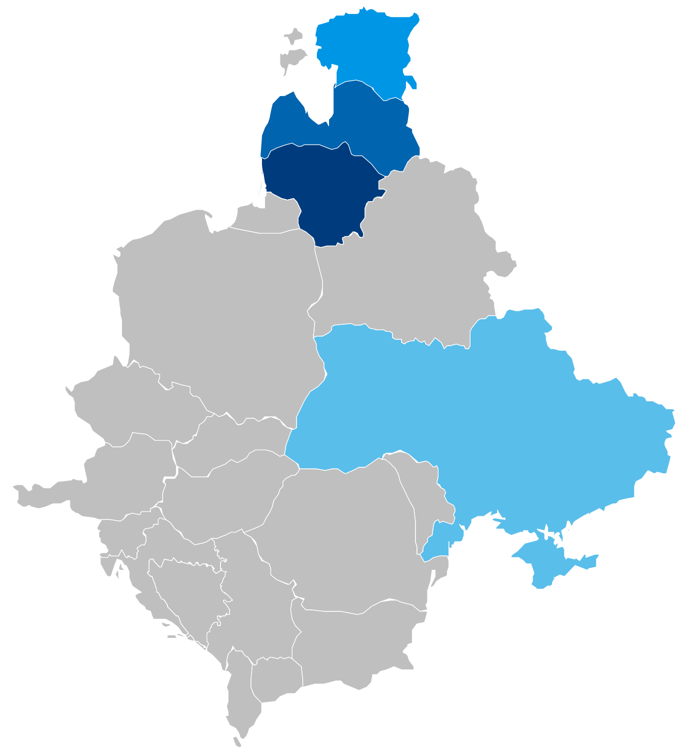
xx% - CAGR

x% - Change year to year

PZU insurance leader in Baltic States*

PZU in CEE region (m PLN)





*Market share in Ukraine and Latvia for Q1 2016, for Lithuania and Estonia for H1 2016.

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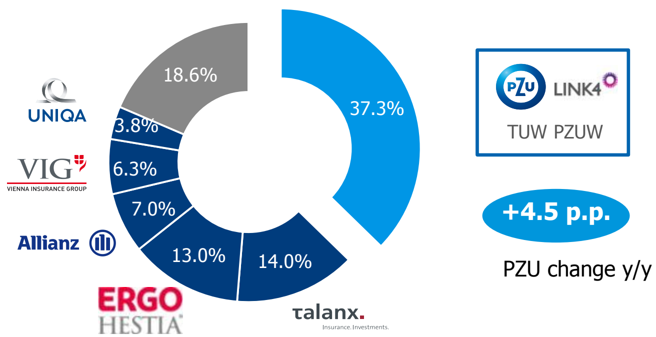
Key drivers of PZU's performance in H1 2016

- Significantly higher market share in life and non-life insurance
- Rapid sales growth in health care
- Rigorous cost discipline coupled with portfolio expansion
- Higher profitability of group and individually continued insurance

- Adverse consequences of ground frost in crop insurance and limited profitability in the motor insurance portfolio
- Considerably lower investment result, chiefly on account of the decline in the valuation of the equity stake in the Grupa Azoty

Significantly higher market share in life and non-life insurance

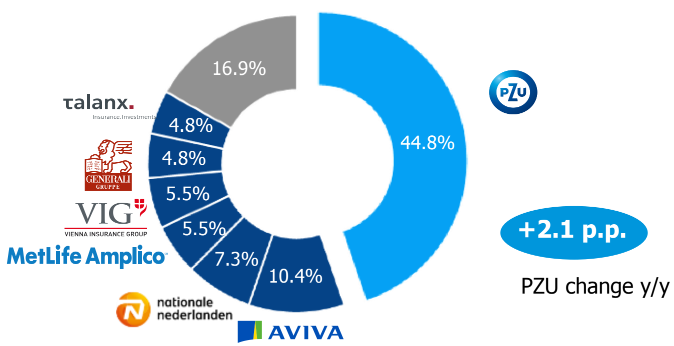
non-life insurance



- PZU Group's strong market position in motor own damage insurance with a market share of **41.9%** and MTPL with a market share of **43.1%***.
- The PZU Group's share in the non-life insurance market in Q1 2016 is **37.3%*** (of which PZU has **35.5%*** and Link4 has **1.8%***).
- The PZU Group's technical result stated as a percentage of the overall market's technical result is **>100%*** (the PZU Group's technical result is 78.8 m PLN while the overall market's technical result is 4.5 m PLN).

* According to the Polish FSA's Q1 2016 report; the market and market shares including PZU's inward reinsurance of Link4 and the TUW mutual;

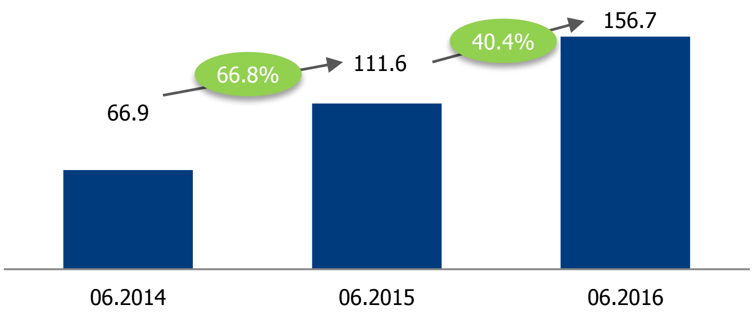
life insurance (periodical premium)



- In Q1 2016 the y/y decline in the gross written premium generated by the overall market net of PZU was **-6.9%**, while in the same period PZU posted growth of **1.3%**.
- This translated into material growth in PZU Życie's periodical premium market share up to **44.8%** at the end of Q1 2016 (its highest level since 2010).
- At the same time, the new information published by the Polish FSA made it possible to determine that PZU's market share of periodical premium for life insurance segment (insurance class I)was **67.4%** in Q1 2016 while for group insurance it was **64.3%.**
- PZU Życie posted high profitability in terms of its technical result in comparison to other market players – the margin commanded by PZU Życie was twice the average margin reported by its competitors – **20.1%** as opposed to the other insurers **9.8%**.

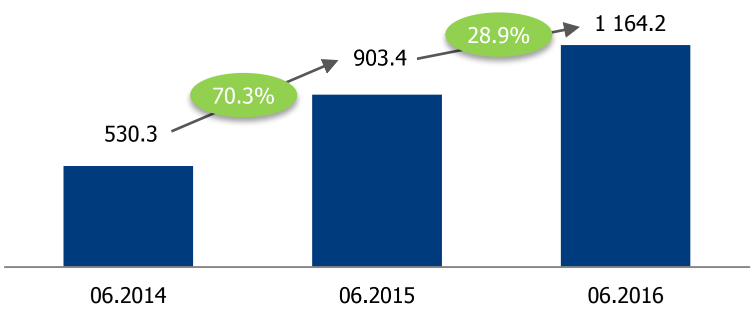
Rapid sales growth in health care

Health revenues (m PLN)*



- Another year of rapid health insurance growth – premium growth rate of 40.5%.
- Launch of health subscription plans (2015).
- Expansion of proprietary medical centers.
- New acquisitions of medical centers to extend the geographic coverage of, and accessibility to, PZU's own network.

Number of health insurance clients (000s)



- Rapid growth – acquisition of new clients and driving up participation among current clients.
- Enrollment of more than 100 thousand police officers in insurance.

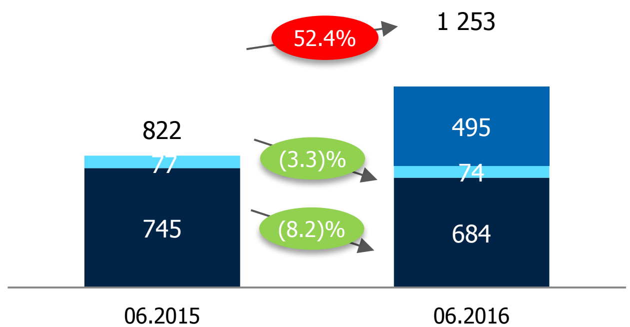
* Gross written premium and revenues of health subscription plans and medical centers presented according to the equity stake held (Proelmed 57.00% equity stake, Gamma 60.46% equity stake) regardless of the date of purchase of the company

x% - Change year to year

Rigorous cost discipline coupled with portfolio expansion

m PLN

PZU Group's administrative expenses



- The y/y increase in the PZU Group's administrative expenses was chiefly driven by commencing the consolidation of Alior Bank.
- At the same time, a positive effect was recorded in comparison to last year in the insurance activity segments in Poland in connection with maintaining high cost discipline - a drop in administrative expenses by 31.3 m PLN and in the Baltic States (down by 16.3 m PLN) driven primarily by the deinvestment in PZU Lithuania in H2 2015.

Activity to date

Impact exerted by the newly-acquired insurance companies

Bank

Administrative expense ratio in the insurance business

- The declining administrative expense ratio in Poland was driven mainly by maintaining cost discipline among others in real estate and marketing expenses.
- At the same time, the improving administrative expense ratio in foreign companies was chiefly driven by maintaining cost discipline in IT in the Baltic States.

Polish insurance companies

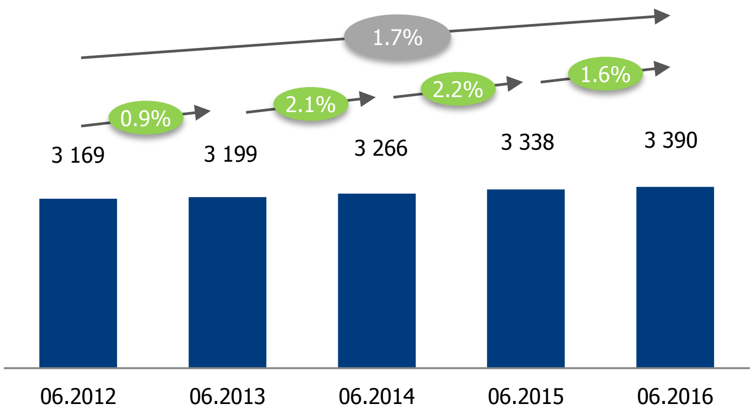
International insurance companies

Administrative expense ratio calculated using the equation:
administrative expenses in the insurance segments / net earned premium

x% - Change year to year

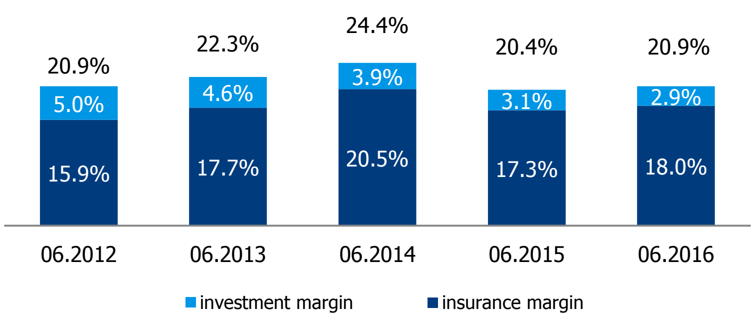
Higher profitability of group and individually continued insurance

Gross written premium (m PLN)



- Limiting the emphasis on the growth rate of premium making it possible to contain the loss ratio
- New riders to group and continued insurance making a positive contribution to the rate of growth and profitability
- Rising contribution made by health insurance gross written premium
- Lower sales of protection insurance in the bancassurance

Margin (%)*



- Sustaining the margin above 20% despite the declining profitability of investing activity
- Profitability of insurance activity at its highest level over last 5 years (better results in 2014 thanks to mortality rate below average
- Containing the pace of growth in the loss ratio in group insurance by focusing on business profitability
- Impact exerted by the new individual continuation growing more positive
- Improving profitability in protection insurance thanks to new riders
- Climbing contribution of health insurance margin

xx% - CAGR

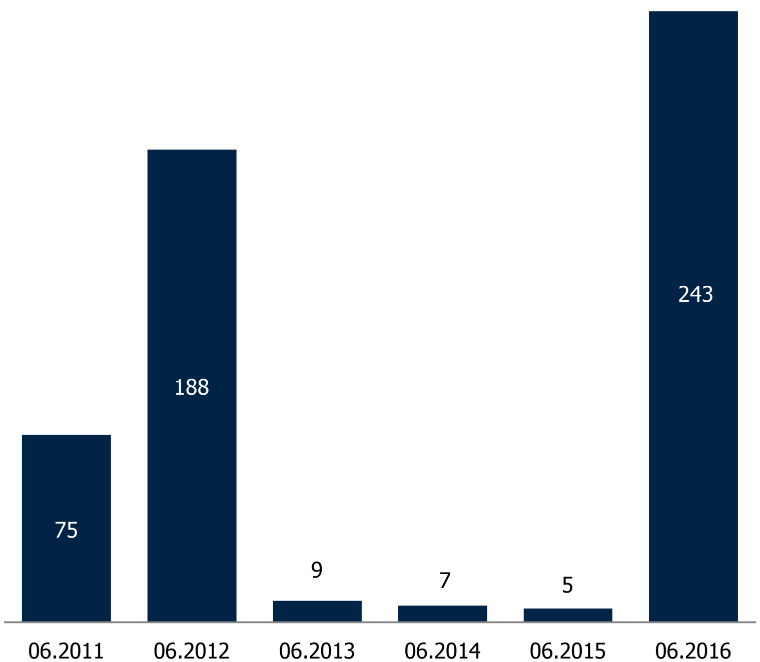
x% - Change year to year

* Operating margin net of the conversion effect

Adverse consequences of ground frost in crop insurance

m PLN

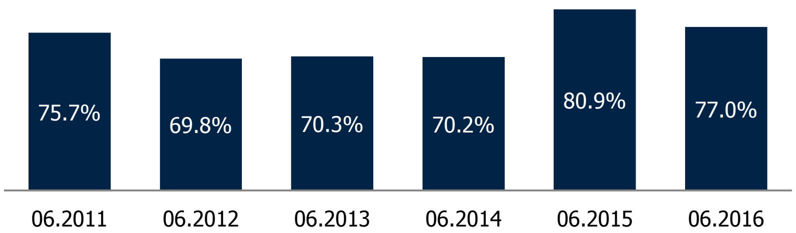
Claims for adverse consequences of ground frost



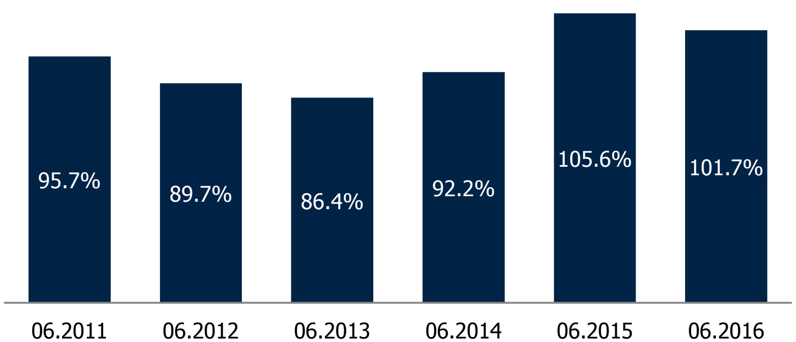
- The adverse consequences of ground frost signify losses caused by crops being affected by frost or wetness from the beginning of December to the end of April leading to partial or total crop damage.
- Freezing temperatures coupled with the simultaneous absence of snow cover pose the greatest threat to crops. Sudden warm spells causing thaws followed by recurring frosts are not conducive to the wintering of crops. In addition, when water from melting snow stands on the ground or when snow drifts persist too long and frequent temperature changes in the early spring precipitate losses classified as the consequences of ground frost.
- The losses pertain to winter crops and, to a large extent, contracted rapeseed.
- These types of losses exhibit irregular development over time – various years may differ fairly substantially in terms of magnitude. It is estimated that ~25% of the land used for winter crops in Poland was destroyed in the winter season of 2012 (>30% in terms of rapeseed), while in the subsequent years the impact exerted by the adverse consequences of ground frost was limited (this year full data concerning ground frost consequences is not available).

Low profitability of the motor insurance portfolio

Loss ratio in motor insurance (Poland)



Combined ratio (COR) in motor insurance (Poland)



- Following the price war from 2005 to 2010 (that ended after flooding in 2010) the results of the overall motor insurance market started to improve. Another price war ensued shortly thereafter....
- ...and the overall market's current technical result reveals its impact: the decline in the insurance market's technical result in Poland (Q1) is mainly the result of declining results in motor TPL (coupled with limited improvement in the results of motor own damage). This is the outcome of higher claims and benefits (up 215.6 m PLN vs 2015; +15.2%) as a result of the Polish FSA's recommendations that contributed to a higher average claim value and the gradual increase in claims frequency in conjunction with a low level of earned premiums caused by price competition (the effects of the price hikes taking place from the latter half of 2015 were not yet noticeable).
- PZU is in a better position than its competitors (in Q1 2016 its motor insurance technical result was roughly equal to 0 while the rest of the market was approximately 275 m PLN in the red; one year earlier roughly +47 m PLN vs -54 m PLN), though its competitors also felt the brunt of the Polish FSA's recommendations (implemented as of Q1 2015). The effects of the earned premium hikes are now partially visible (in gross written premium growth, too) and they will be more noticeable in subsequent periods.

Considerably lower investment result, chiefly on account of the decline in the valuation of the stake in the Grupa Azoty

m PLN

Change in net investment result following the recognition of interest expense (m PLN)

The higher net investment result including interest expenses in H1 2016 mainly stems from incorporating the activity conducted by the banking sector (interest revenues and expenses, among others, including interest on loans and deposits and the trading result) in connection with commencing the consolidation of Alior Bank, offset chiefly by the following:

- decline of 318.3 m PLN in the valuation of the stake in Grupa Azoty in the long-term asset portfolio;
- performance of the asset portfolio to cover investment products down by 179.7 m PLN y/y, including in particular mutual funds in the unit-linked portfolio, though with no impact on the PZU Group's performance.

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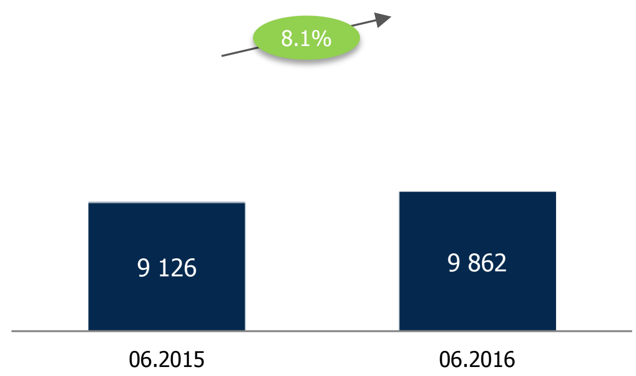
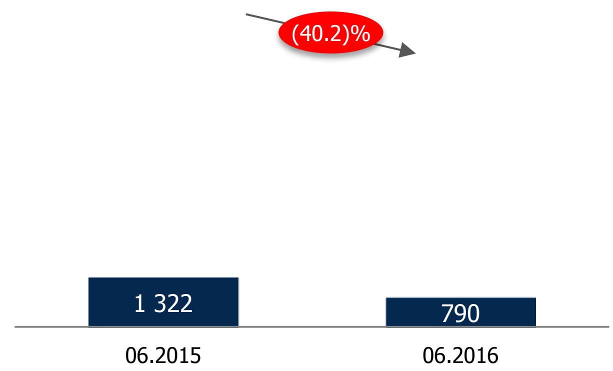
Net profit affected by the declining valuation of equity instruments

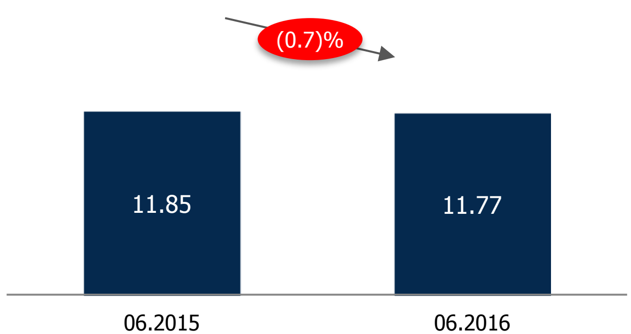
Gross written premium (m PLN)



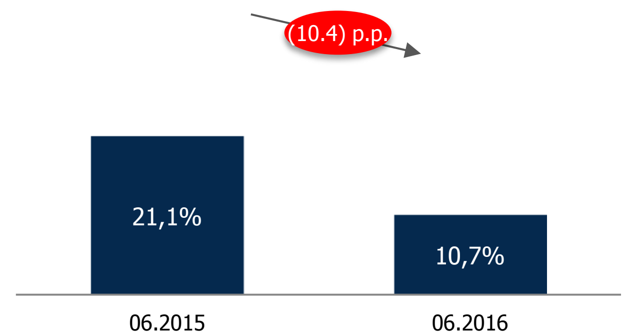
Net profit (m PLN)



Equity – parent company (bn PLN)



Return on equity (ROE) – consolidated (%) *



* Annualized ratio computed on the basis of equity at beginning and end of the reporting period;

x% - Change year to year

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Drivers of the Group's result

Non-life insurance

- **Suppressed profitability due to the following:**
  - significantly higher y/y level of claims and benefits in the agricultural insurance portfolio as a consequence of the adverse effects of ground frost;
  - low profitability of the motor insurance portfolio – the repercussions of fierce price competition in recent years are still being felt (i.a. effect of PFSA guidelines being introduced since 2015).

Life insurance

- **Maintenance of profitability** - y/y growth in profitability in the group and individually continued insurance segment – loss ratio down in protection insurance (due to lower frequency of death-related events confirmed by the Central Statistical Office's statistics), cost savings and measures concerning individual continuation to enhance business profitability on an ongoing basis.

International companies

- **Significant sales growth rate** in all the insurance companies currently belonging to the PZU Group's portfolio - up by a total of 17.5% in the Baltic States segment and 42.8% in the Ukraine segment.
- Higher loss ratio in the Baltic States, chiefly in Lithuania and Estonia in motor insurance, the effect of growth in large claims and higher frequency (outcome of bad weather conditions in the winter of 2016).

Bank segment

- Alior Bank's **purchase** of a spunoff portion of **Bank BPH** (net of the portfolio of mortgage loans denominated in CHF).
- **Alior Bank's rights offering** worth 2.2 bn in June 2016 - the largest public offering on the Warsaw Stock Exchange since 2013.
- Contribution to the PZU Group's consolidated result of **184,4 m PLN** in H1 2016.

Investments

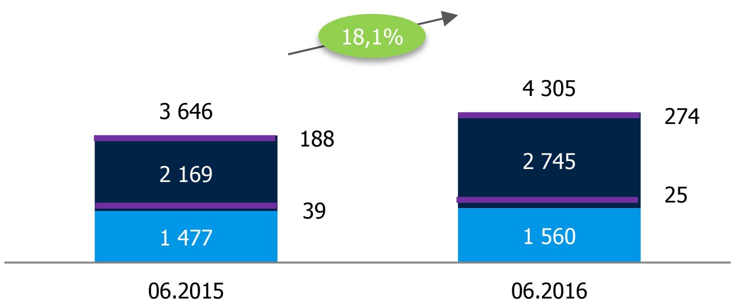
- **Net result on investing activity (net of Alior Bank) fell chiefly following**:
  - Softer performance of listed equities, especially due to the deterioration in market conditions on the WSE in conjunction with Brexit – the WIG index was down 3.7% YTD versus 3.7% growth in the corresponding period of last year and the lower market valuation of Grupa Azoty
  - performance in the portfolio of assets to cover investment products down by 179.7 m PLPN y/y, including in particular funds in the unit-linked portfolio, even though it does not affect the PZU Group's result.

Non-life insurance
Growth in motor insurance sales

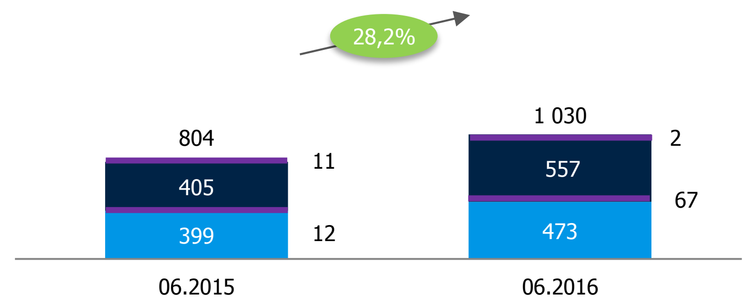
mass segment

corporate segment

Gross written premium (m PLN) — mass segment

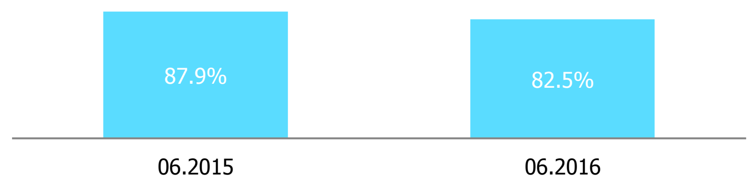


Gross written premium (m PLN) — corporate segment

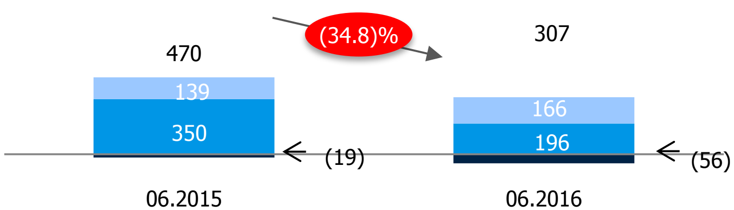


Combined ratio (%) — mass segment

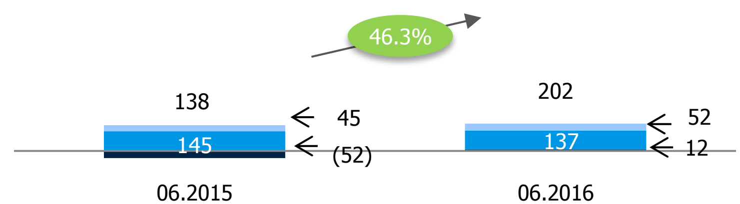
Combined ratio (%) — corporate segment



Operating profit (m PLN) — mass segment



Operating profit (m PLN) — corporate segment



- *Motor insurance*
- *Link4 + TUW PZUW (mutual)*
- *Non-motor insurance*
- *Impact of allocated investment income from the Investment segment*
- *Combined ratio calculated jointly for motor and non-motor insurance*

x% - Change year to year

Recap – non-life insurance

mass segment

Higher gross written premium y/y as an effect of the following:

- growth in motor insurance sales (higher average premium following the gradual introduction of price hikes);
- higher premium for fire and other damage to property insurance, including household insurance PZU DOM and agricultural insurance despite the extensive competition on the market (mainly subsidized crop insurance).

Operating profit down primarily driven by the following:

- higher level of claims and benefits in the group of insurance for other damage to property, chiefly subsidized crop insurance as an effect of the occurrence in Q1 2016 of numerous losses caused by the forces of nature and in motor TPL insurance (caused by the growth in the average claim value and the higher growth rate in the number of reported claims);
- higher insurance activity expenses as the outcome of the following:
  - rising acquisition expenses due to the higher direct acquisition expense (also due to increasing sales);
  - lower administrative expenses – cost level down as a result of aplication of cost discipline among others in marketing and real estate expenses.

corporate segment

Higher gross written premium y/y as an effect of the following:

- rising motor insurance sales driven by the higher average premium and the number of insurance policies;
- incremental growth in the gross written premium on insurance for loans and guarantees – insurance guarantee to a PZU subsidiary, i.e. Alior Bank (the impact exerted by this premium has been eliminated at the consolidated level);
- sales up on insurance against fire and damage to property - conclusion of an agreement with a large player in the coal industry.

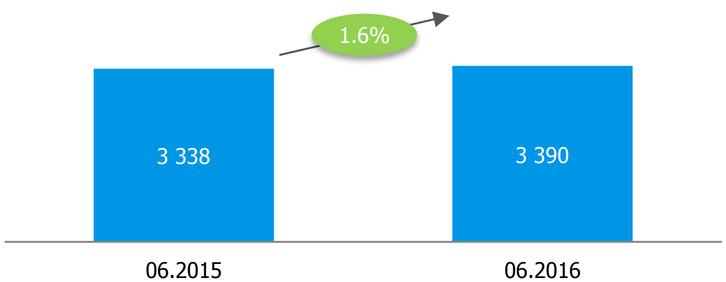
Operating profit up following:

- lower level of claims and benefits in general TPL insurance and insurance guarantees. This effect has been partially offset by the higher level of claims and benefits in motor own damage insurance and the group consisting of insurance for various financial risks;
- higher insurance activity expenses as the outcome of the following:
  - rising acquisition expenses - due to the higher level of direct acquisition expense (also due to increasing sales);
  - lower administrative expenses driven mainly by aplication of cost discipline among others in property and marketing expenses.

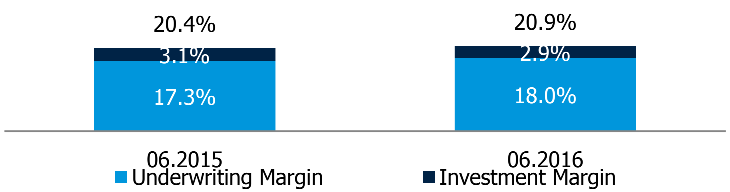
Life insurance
High operating profit margin

group and continued insurance segment

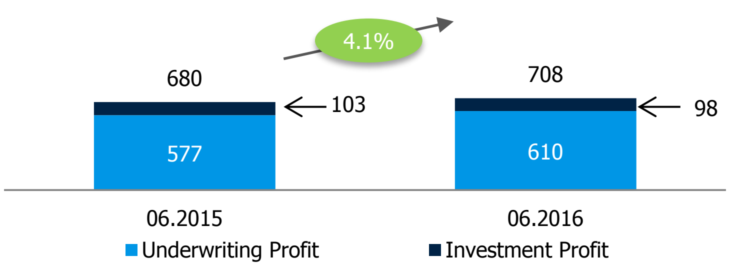
Gross written premium (m PLN)



Margin (%)*

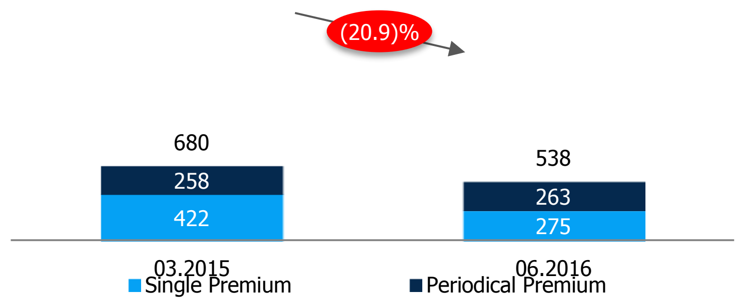


Operating profit* (m PLN)



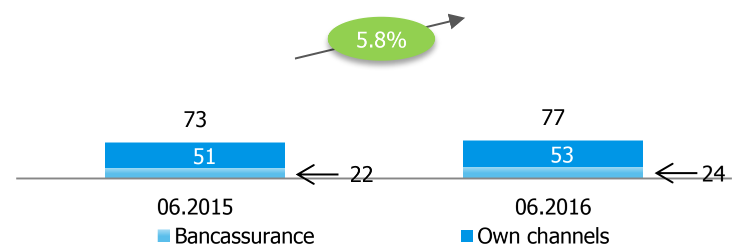
individual insurance segment

Gross written premium (m PLN)



Margin (%)

Annual premium equivalent (m PLN)



* Margin and operating profit net of the conversion effect;

x% - Change year to year

Recap – life insurance

group and continued insurance segment

Drivers of higher gross written premium:

- rising number of insured parties in group protection products and rising average premiums; at the same time, coverage by riders has also expanded;
- dynamic growth in group health insurance (new clients in ambulatory insurance and sales of different options of the medicine product);
- upholding the policy of up-selling riders while concurrently indexing premiums in the underlying main contracts in individually continued products.

Operating profit up driven by the following:

- protection portfolio loss ratio down due to the lower mortality rate (confirmed by statistics published by the Central Statistics Office [GUS] on a similar effect in the entire population);
- movements in the composition of people enrolling in the individual continuation portfolio contributing to lower growth in mathematical provisions;
- company's lower administrative expenses driven mainly by application of cost discipline among others in property and marketing expenses.

individual insurance segment

Gross written premium down driven by the following:

- lower contributions to the *unit-linked* insurance accounts offered jointly with Bank Millennium;
- suppressed subscriptions for a structured product in the dedicated channel compared to the record-breaking beginning of the previous year;
- average contributions to IKE individual retirement accounts down from last year though still very high.

In turn, the following factors produced a positive outcome:

- high sales of individual protection products, especially in PZU Group's branches;
- launch of a new unit-linked product called *Cel na Przyszłość [Goal for the Future]* at yearend 2015.

Sales channels:

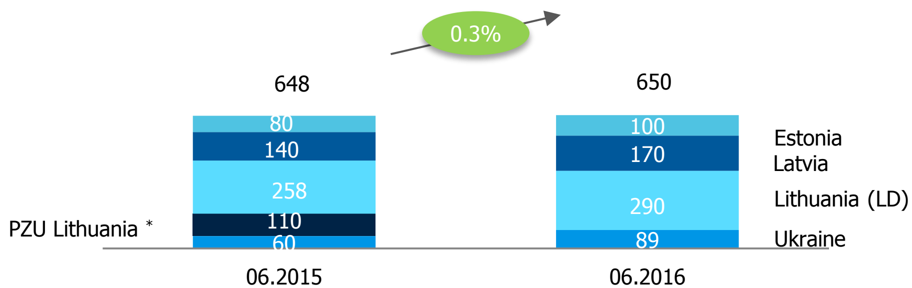
- rising new sales in the bancassurance channel driven by the conversion effect of protection products from group into individual coupled with the sustained level of new unit-linked sales;
- growth in the traditional channel as a result of the launch of a new unit-linked product called *Cel na Przyszłość [Goal for the Future]* at the end of last year and higher sales of individual protection products, especially by Group branches partially set off by the lower sales of the structured product (record-breaking subscriptions at the beginning of last year) and the lower level of contributions to new IKE individual retirement accounts.

International business

Higher result driven by lower insurance activity expenses in the Baltic States

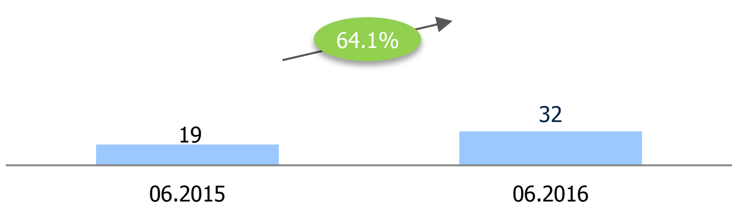
non-life insurance

Gross written premium (m PLN)



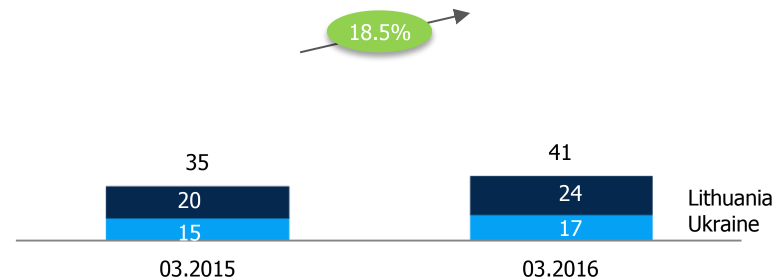
Combined ratio (%)

Operating result (m PLN)



life insurance

Gross written premium (m PLN)



Margin (%)

Operating result (m PLN)

* PZU Lithuania net of the branches in Latvia and Estonia;

x% - Change year to year

Recap – international business

gross written premium

Non-life insurance

- Rapid growth in the gross written premium generated by the various insurance companies acquired in 2014:
  - Lithuanian market leader Lietuvos Draudimas: 290 m PLN (last year: 258 m PLN);
  - Latvian market leader AAS Balta: 170 m PLN (last year: 140 m PLN);
  - Estonian branch of PZU Ubezpieczenia: 100 m PLN (last year: 80 m PLN).
- Slight growth in the total gross written premium of the Baltic States segment since PZU Lithuania made a major contribution to last year's gross written premium (the deinvestment in PZU Lithuania took place on 30 September 2015).
- Gross written premium up 49.7% in Ukraine (68.6% in the functional currency). The higher gross written premium is driven chiefly by signing a contract with a new corporate partner.

Life insurance

- Gross written premium in Lithuania up 21.3% chiefly driven by higher life insurance sales and cooperation with Lietuvos Draudimas;
- Sales in Ukraine up 14.7% in individual and group insurance.

operating results

Non-life insurance

- Combined ratio decline as a result of the following:
  - savings mostly in IT among the companies belonging to the Baltic States segment;
  - higher loss ratio in Estonia and Lithuania caused by higher large claims and higher frequency (outcome of bad weather conditions in the winter of 2016) partially offset by the lower loss ratio in non-life insurance in Ukraine;
  - absence in H1 2016 of the adverse impact exerted by PZU Lithuania, which was recorded in H1 of the previous year.
- Operating result up (by 12 m PLN) in non-life business thanks to the positive results generated by the newly-acquired companies in the PZU Group's portfolio accompanied by the absence in 2016 of the negative impact exerted by PZU Lithuania's results.

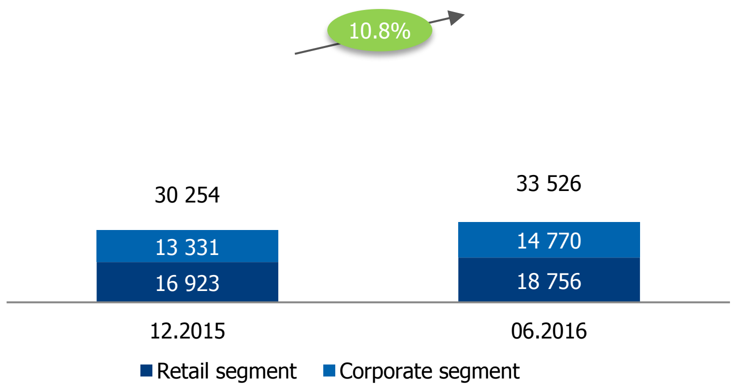
Life insurance

- Higher operating result (up 2 m PLN) in life insurance mainly thanks to the higher change in Ukraine.

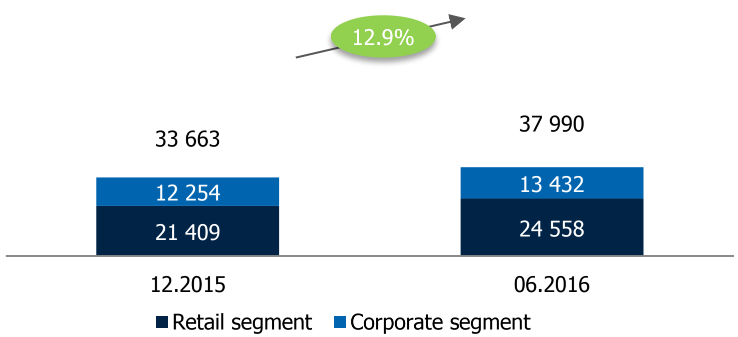
Alior Bank
Positive growth rate in credit receivables

portfolio composition

Loan portfolio by segment (m PLN)

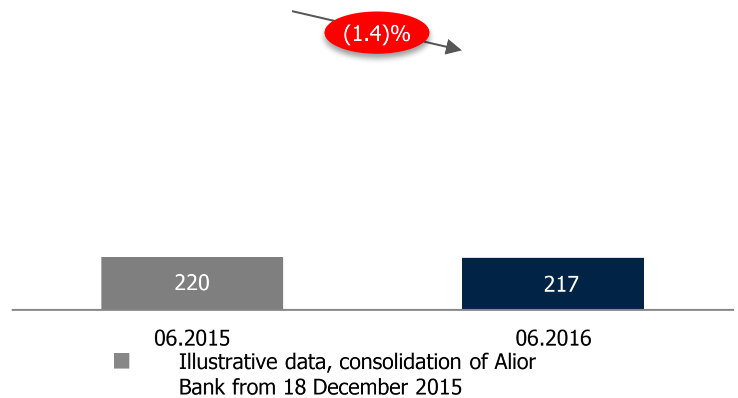


Amounts due to customers (deposit base) by segment (m PLN)

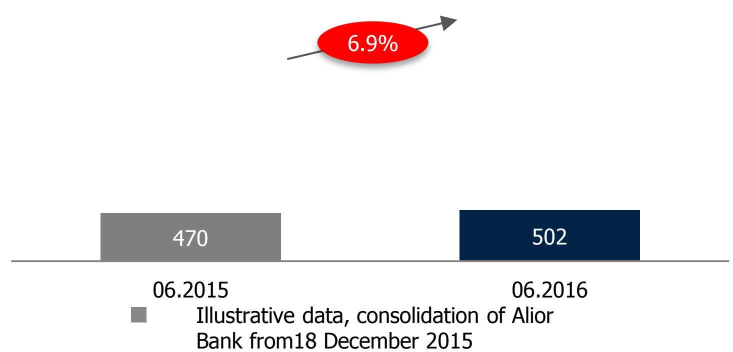


banking activity

Operating profit (m PLN)



Administrative expenses (m PLN)



x% - Change year to year

Agenda

1. Insurance market in Poland, the Baltic States and Ukraine
2. Key drivers of PZU's performance in H1 2016
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4. Operating results for H1 2016
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6. Group's preliminary data as at 31 March 2016 according to Solvency II

Key financial highlights

m PLN, IFRS	1H 2015*	1H 2016	*Change YoY*	Q1 2016*	Q2 2016	*Change Q2 2016 over Q1 2016*
Profit and Loss Statement						
Gross Written Premium	9 126	9 862	*8.1%*	4 801	5 061	*5.4%*
Premium Earned	8 744	8 985	*2.8%*	4 317	4 668	*8.1%*
Net investment Result	1 086	1 456	*34.1%*	983	473	*(51.8)%*
Interest Expenses	(62)	(397)	*x*	(200)	(197)	*x*
Operating Profit	1 619	1 050	*(35.2)%*	717	333	*(53.5)%*
Net Profit	1 322	790	*(40.2)%*	560	230	*(58.9)%*
Parent Company Net Profit	1 322	660	*(50.1)%*	493	166	*(66.3)%*
Balance Sheet						
Parent Company Equity	11 852	11 771	*(0.7)%*	13 401	11 771	*(12.2)%*
Total Assets	66 056	112 945	*71.0%*	108 284	112 945	*4.3%*
Principal Financial Ratios						
ROE**	21.1%	10.7%	*(10.4) p.p.*	15.0%	5.3%	*(9.7) p.p.*
Combined Ratio***	91.3%	93.4%	*2.1 p.p.*	95.5%	91.5%	*(4.0) p.p.*

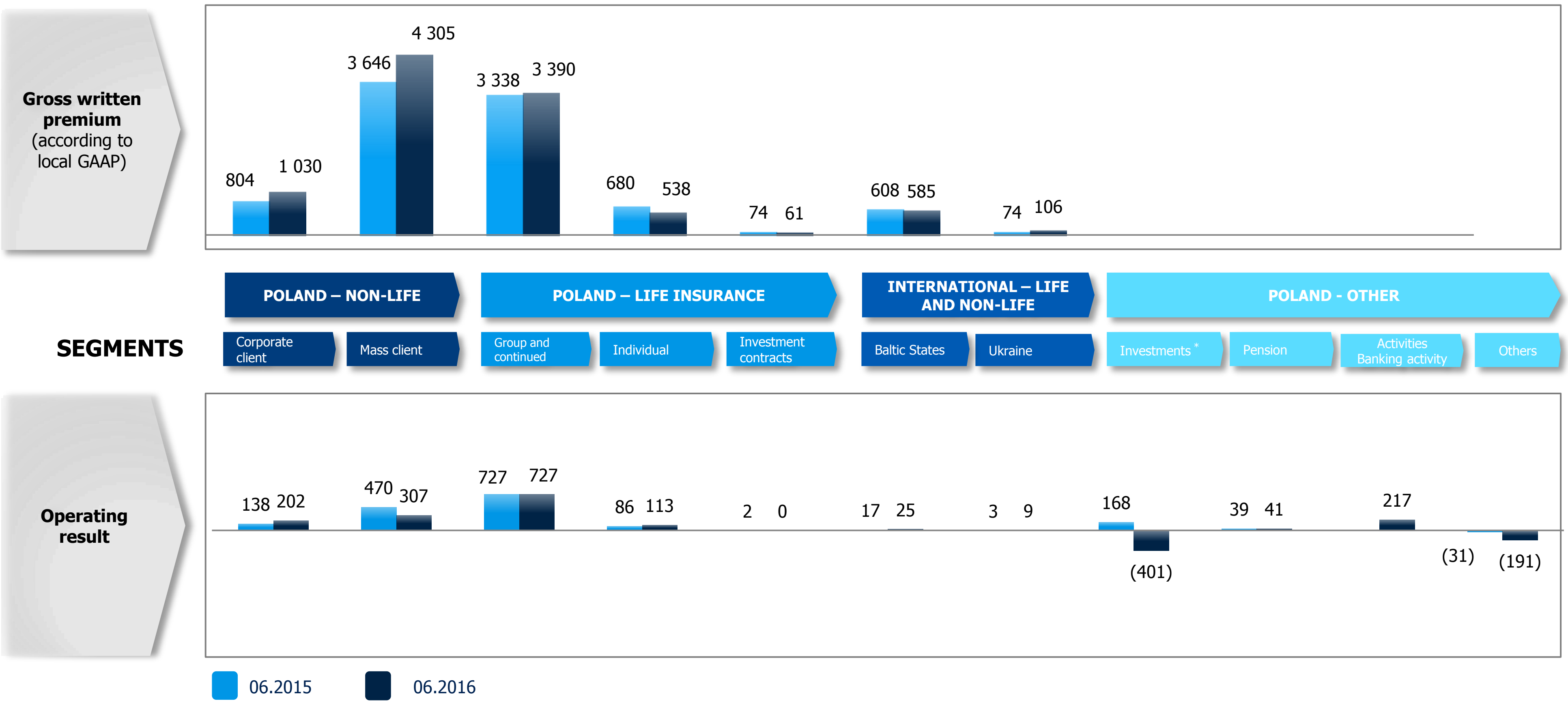
* Restated data

** Ratio computed using equity at beginning and end of reporting period. Computed for the parent company

*** Only for non-life insurance

Operating segment results

m PLN



* Investment income in the Investments segment – external operations;

Profitability by insurance activity segment

Insurance Business Segments	Gross Written Premium			Operating Profit			Combined Ratio / Operating profit ratio*	
m PLN, local GAAP	H1 2015	H1 2016	*Change YoY*	H1 2015	H1 2016	*Change YoY*	H1 2015	H1 2016
Total Non-Life - Poland	**4 450**	**5 335**	***19.9%***	**608**	**509**	***(16.4)%***	**90.3%**	**93.1%**
Mass Insurance - Poland	**3 646**	**4 305**	***18.1%***	**470**	**307**	***(34.8)%***	**90.8%**	**95.4%**
Motor TPL Insurance	1 297	1 703	*31.3%*	(33)	(90)	*x*	107.7%	107.2%
Motor Own Damage	872	1 043	*19.5%*	14	34	*138.7%*	98.1%	95.2%
Other products	1 477	1 560	*5.6%*	350	196	*(43.9)%*	70.7%	84.1%
Impact of investment segment allocation	x	x	*x*	139	166	*20.0%*	x	x
Corporate Insurance - Poland	**804**	**1 030**	***28.2%***	**138**	**202**	***46.3%***	**87.9%**	**82.5%**
Motor TPL Insurance	165	223	*35.1%*	(64)	(2)	*x*	138.9%	103.1%
Motor Own Damage	240	335	*39.4%*	13	15	*16.6%*	95.1%	95.3%
Other products	399	473	*18.5%*	145	137	*(5.5)%*	54.7%	60.7%
Impact of investment segment allocation	x	x	*x*	45	52	*17.7%*	x	x
Total Life - Poland	**4 018**	**3 928**	***(2.2)%***	**814**	**841**	***3.3%***	**20.2%**	**21.4%**
Group and Continued ** - Poland	**3 338**	**3 390**	***1.6%***	**680**	**708**	***4.1%***	**20.4%**	**20.9%**
Individual - Poland	**680**	**538**	***(20.9)%***	**86**	**113**	***31.2%***	**12.7%**	**21.0%**
Conversion effect	x	x	*x*	47	20	*(58.8)%*	x	x
Total Non-Life - Ukraine & Baltica	**648**	**650**	***0.3%***	**19**	**32**	***64.1%***	**98.9%**	**96.1%**
Baltic states Non-life	**588**	**561**	***(4.7)%***	**18**	**25**	***44.4%***	**98.7%**	**96.2%**
Ukraine Non-life	**60**	**89**	***49.7%***	**2**	**7**	***(94.3)%***	**102.4%**	**94.0%**
Total - Life - Ukraine & Baltica	**35**	**41**	***18.5%***	**0**	**3**	***x***	**1.0%**	**6.1%**
Lithuania Life	**20**	**24**	***21.3%***	**(1)**	**0**	***x***	**(4.3)%**	**0.4%**
Ukraine Life	**15**	**17**	***14.7%***	**1**	**2**	***97.9%***	**8.3%**	**14.3%**
Total - banks	**-**	**-**	**x**	**-**	**217**	**x**	**x**	**x**

* Combined ratio (computed on net earned premium) presented for non-life insurance, operating profit margin (computed on gross written premium) presented for life insurance;

**Operating profit and operating profit margin net of conversion effects;

*** Restated data in 2015

Normalized operating profit

m PLN

Operating profit (according to the financial statements)

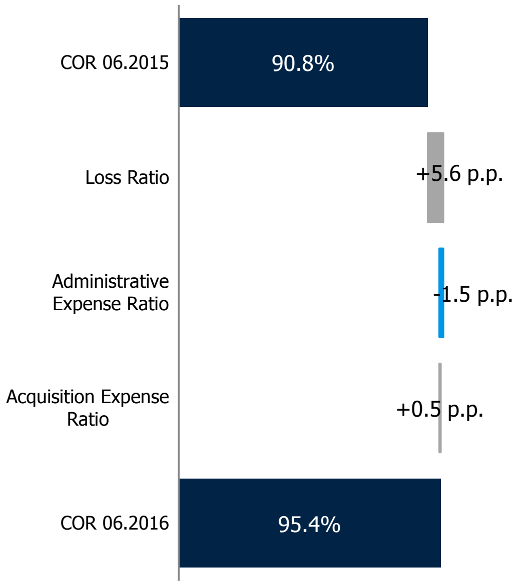
m PLN, IFRS	06.2015	06.2016
Operating Profit	**1 619.0**	**1 049.9**
including:		
1 Conversion effect (IFRS)	47.4	19.5
2 Agricultural Insurance	-	(236.4)

1 Impact exerted by conversion of long-term policies into yearly renewable term agreements in type P group insurance.

2 Above average claims in agricultural insurance versus the last 3 years.

Profitability of the mass insurance segment (non-life insurance)

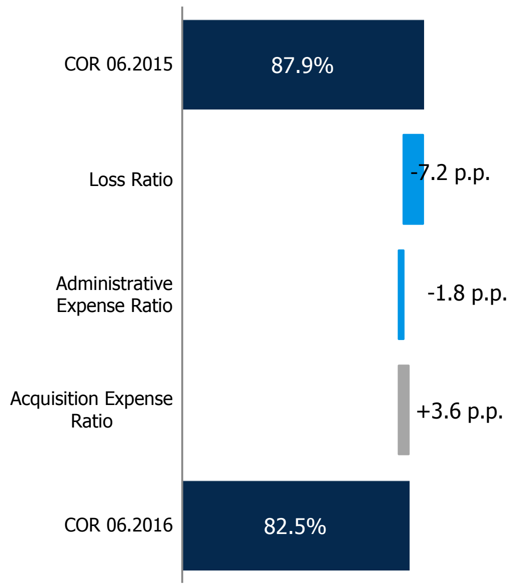
Profitability of the mass insurance segment



- Change in the loss ratio driven by the following:
  - higher loss ratio in agricultural insurance, mostly for subsidized crop insurance as a consequence of the occurrence of many losses caused by the forces of nature (claims caused by the adverse consequences of ground frost were up by 236.4 m PLN compared to the average for the last 3 years);
  - level of claims and benefits up in motor TPL insurance as a result of average claim value growth and the higher growth rate in the number of reported claims accompanied by the simultaneously growth in the provision for unexpired risks.
- Change in the administrative expense ratio as a result of cutting costs by demonstrating cost discipline among others in marketing and real estate expenses;
- Growth in the acquisition expense ratio as a consequence of the following:
  - higher direct acquisition expenses;
  - higher commissions on inward reinsurance with Group companies (eliminated at the consolidated level).

Profitability of the corporate insurance segment
(non-life insurance)

Profitability of the corporate insurance segment



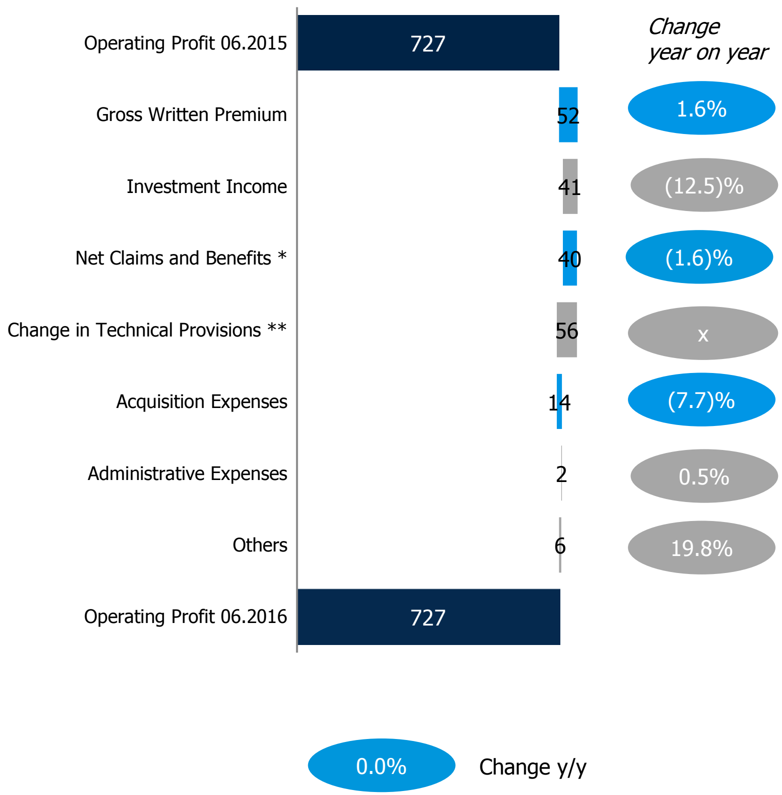
- Movement in the loss ratio driven by the following:
  - declining claims and benefits mostly in motor TPL and insurance guarantees;
  - higher loss ratio in motor own damage insurance and insurance for various financial risks.
- Movement in the administrative expense ratio linked to lower costs by demonstrating cost discipline;
- Rising acquisition expense ratio mainly due to the higher direct acquisition expenses (precipitated by the change in the sales channel mix).

Additionally, starting from Q1 2016, TUW PZUW, a mutual insurance company belongs to the corporate insurance segment. This company is in the early stage of operations; gross written premium in H1 2016 was 61.7 m PLN. This company is covered by PZU's reinsurance program while all the transactions between PZU and TUW are eliminated in the segment.

Group and continued insurance segment (life insurance)

m PLN

Fundamental components of operating profit in the group and continued insurance segment



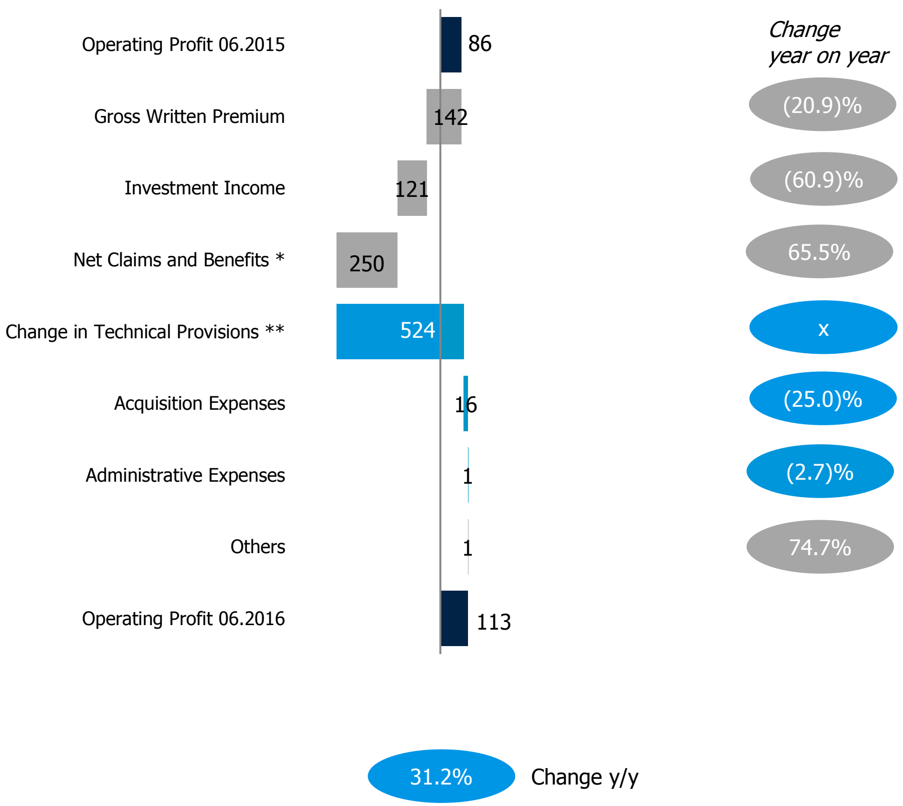
- Gross written premium up by 1.6% y/y due to incremental growth in the portfolio of risks in protection and health insurance (including riders to continued insurance) and average premium expansion.
- The decline in investment income was chiefly the result of the poorer performance generated by unit-linked products following the softer market conditions on the equity market.
- Net insurance claims and benefits fell due to the decrease in the mortality rate in protection products compared to last year (confirmed by statistics published by the Central Statistics Office [GUS] for the entire population - mortality hike at the outset of 2015) and the lower level of transfer payments in employee pension schemes. These positive drivers were partially offset by higher health benefits as a consequence of the rapid expansion in the portfolio of health insurance contracts.
- The growth in other technical provisions surpassed the seen last year. The stronger growth in provisions in individually continued products were the major driver – the absence of the effect from last year (every year the rules for the possible indexation of sums insured by clients in individually continued insurance are set and in June 2015 these rules were modified making a positive contribution to the level of provisions in this portfolio). Net of this effect, the growth in the percentage of persons enrolling in the portfolio of the product post modification facilitating the creation of lower initial provisions continues to make a positive contribution to the level of this cost. Moreover, the slower rate of conversion of long-term contracts into annual renewable contracts in type P group insurance also affected the level of provisions.
- The change in a distribution agreement in the bancassurance channel limited acquisition expenses and as a result the adjustment to the presentation of the fee for performing activities involving the administration of protection insurance agreements (shift to administrative expenses).
- Higher administrative expenses ensued from the change in the distribution agreement in the bancassurance channel as described above. The foregoing adverse factor was offset by curtailing other expenses by demonstrating cost discipline.

* Net claims and benefits paid including movement in claims provisions;
** Mathematical and other provisions, including the conversion effect

Individual insurance segment
(life insurance)

m PLN

Fundamental components of operating profit in the individual insurance segment

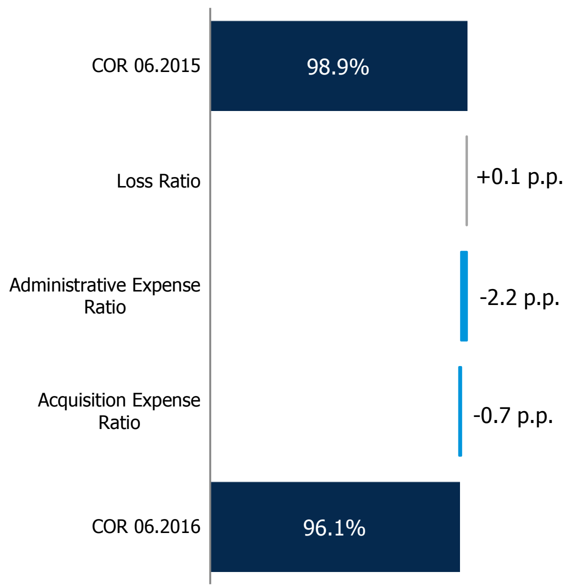


* Net claims and benefits paid including movement in claims provisions;
** Mathematical and other provisions.

- The y/y decline in gross written premium of 142.1 m PLN transpired mostly as a result of lower contributions to the unit-linked insurance accounts offered jointly with Bank Millennium.
- Investment income was down chiefly on account of the losses recorded in investment products - the falling rates of return generated by funds in unit-linked products in the bancassurance channel.
- The increase in the number and average value of surrenders made in the unit-linked portfolio in the bancassurance channel and additionally the higher level of people reaching the endowment age in policies in structured products (maturity of subsequent tranches) and long-term protection products contributed to the higher amount of net claims and benefits.
- The difference in the movement in other technical provisions was mostly related to the negative investment result generated this year in the portfolio of bank unit-linked products (positive result last year) and simultaneously the lower level of sales and the higher level of surrenders in this portfolio, i.e. it offset the drivers described above.
- The considerable drop in acquisition expenses stemmed mainly from lower sales of unit-linked insurance in the bancassurance channel and the modification of the remuneration system for the agent network (the cost of concluding agreements is spread more evenly over time) accompanied by lower y/y sales of new protection products in this channel.
- The segment's operating result rose in comparison with last year, chiefly as a consequence of the growth of share of protection products stated as a percentage of the segment's revenues as they command better margins and additionally the decline in acquisition expenses (also on protection products).

Profitability of international companies
(non-life insurance)

Profitability of international companies



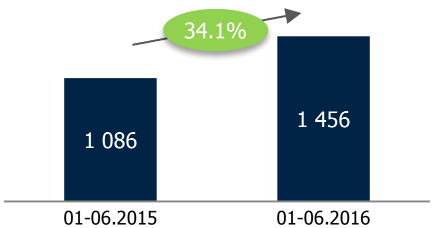
- Higher y/y loss ratio driven by the growth in this ratio in Estonia and Lithuania among others as the effect of growth in large claims and higher frequency (outcome of bad weather conditions in the winter of 2016);
- Reduction in the administrative expense ratio mostly ensuing from PZU Lithuania's contribution in the corresponding period of the previous year. The improving administrative expense ratio in the Baltic companies was chiefly driven by maintaining cost discipline in IT in the Baltic States;
- The decline in the acquisition expense ratio (including bonuses and profit sharing) due to the drop in this ratio in Ukraine (impact exerted by new reinsurance treaties) and in the Baltic States (PZU Lithuania's impact in H1 2015 was negative).

Investments

Lower results in equity instruments and derivatives and funds within the unit-linked portfolio

m PLN

Net investment result*



Equity instruments and derivatives

Interest expenses

The higher result in H1 is above all the effect of incorporating the activity conducted by the banking sector (among others, interest income, including income on loans and the trading result) in connection with commencing the consolidation of Alior Bank.

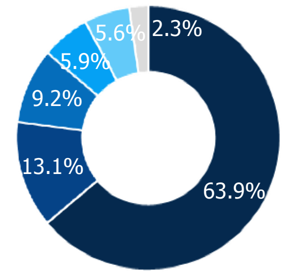
Net of the Alior Bank's consolidated assets, the net result on investing activity fell chiefly following:

- valuation of a stake in Grupa Azoty from the long term investments portfolio lower by 318,3 m PLN;
- weaker performance of listed equities, especially due to the deterioration in market conditions on the WSE in conjunction with Brexit – the WIG index was down 3.7% YTD versus 3.7% growth in the corresponding period of last year;
- performance in the portfolio of assets to cover investment products down by 179.7 m PLN y/y, including in particular funds in the unit-linked portfolio, even though it does not affect the PZU Group's result.

Higher level of interest expenses, in particular in connection with commencing Alior Bank's consolidation and the issue of its own debt securities for 350 m EUR in October 2015.

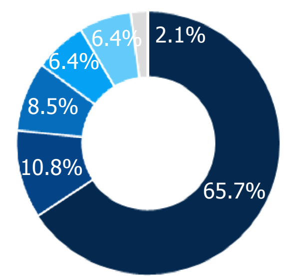
June 2016 investment composition**

Total: 59.5 bn PLN



Dec. 2015 investment composition**

Total: 55.4 bn PLN



- Debt market instruments - treasury
- Debt market instruments - non-treasury
- Money market instruments
- Equity instruments - listed
- Equity instruments - unlisted
- Investment property

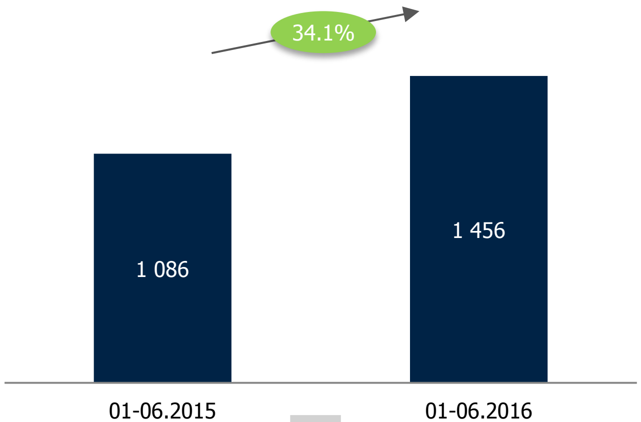
* The net investment result consists of net investment income, net realized result and impairment losses and the net movement in the fair value of assets and liabilties measured at fair value.

** The investment portfolio includes financial assets (including investment products net of loan receivables from clients), investment properties, the negative measurement of derivatives and liabilities for buy backs. Derivatives linked to interest rates, foreign currencies and securities prices, respectively are presented in the categories: Debt market instruments - treasury, money market instruments and listed and unlisted equity instruments.

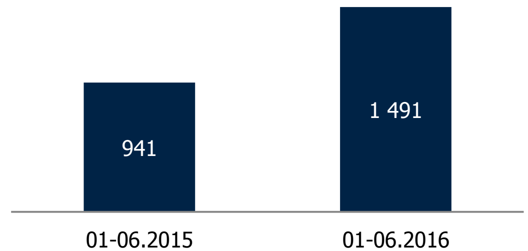
Investments
Weaker performance of unit-linked products

m PLN

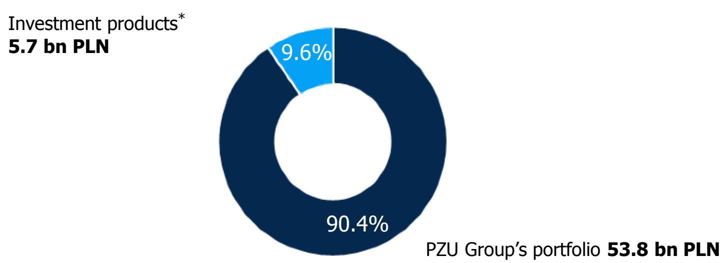
Net investment result



1 **Net investment result in the PZU Group's portfolio**

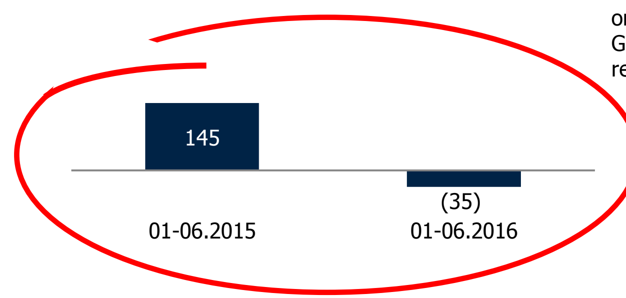


Investment composition in 06.2016



Total: 59.5 bn PLN

2 **Net investment result in investment products***



No impact on the PZU Group's net result

* Unit-linked products, structured products and term deposits in the form of insurance products.

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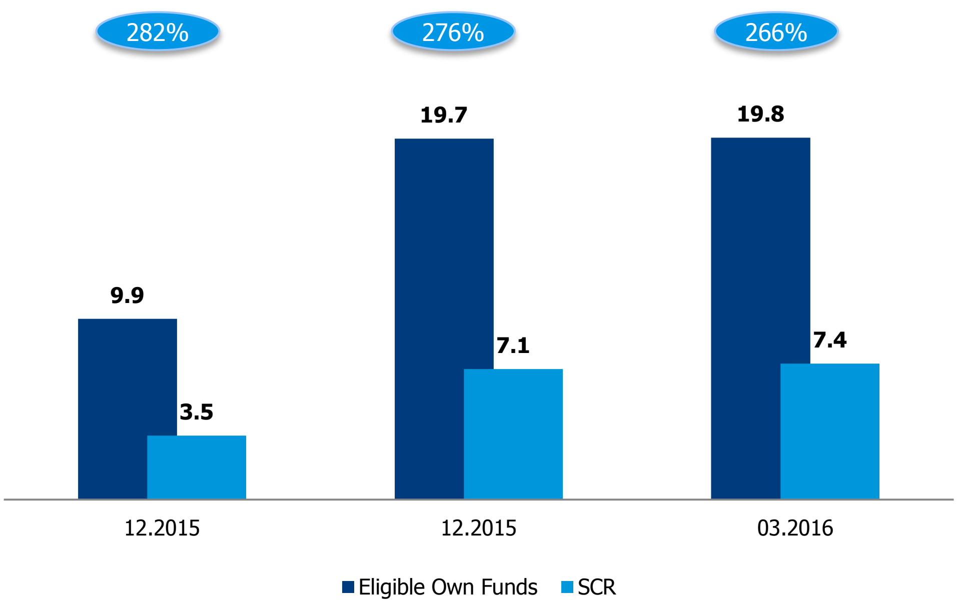
Group solvency ratios
Solvency II data as at 31 March 2016

bn PLN, unaudited data

Solvency I **Solvency II**



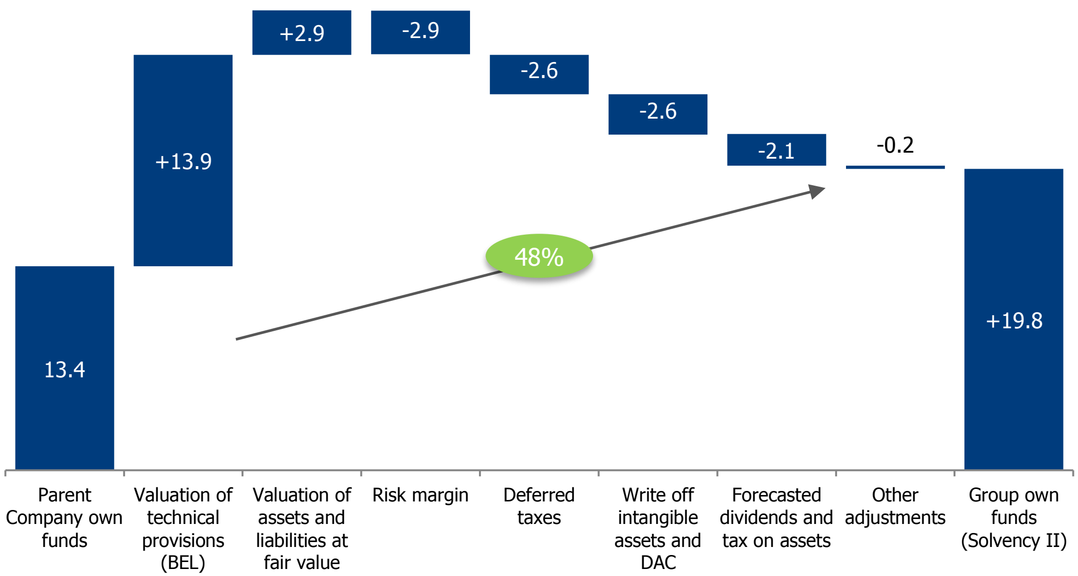
- Starting from 1 January 2016 the basis for assessing the Group's capital adequacy is Solvency II; the Group does not calculate Solvency I requirements.
- In Q1 2016 own funds according to Solvency II were higher by 0.1 bn PLN, i.e. 0.3%.

  The PZU Group's own funds are of very high quality. More than 99% of own funds is classified as Tier 1.
- In comparison with the end of 2015 the solvency requirement under Solvency II is higher by 0.3 bn PLN, i.e. 4%.
- The data at the end of 2015 presented in the previous quarter were preliminary. In particular, the dividend from the 2015 profit was not subtracted from own funds. The data shown in this presentation differ from the preliminary data disclosed in the previous quarter on account of the adjustments ensuing from the interpretations and guidelines given by the PFSA and EIOPA.

- Own funds to solvency margin / SCR coverage

Group's own funds
Solvency II data as at 31 March 2016

Comparison of own funds and consolidated equity according to IFRS



Own funds according to Solvency II ("SII") are calculated using the net assets carried in the Group's economic balance sheet. For the purpose of SII, the data of the insurance entities and entities rendering auxiliary activity such as Centrum Operacji, PZU Pomoc and PZU Zdrowie are subject to consolidation. The data of credit institutions (Alior Bank) and financial institutions (TFI, PTE) are not subject to consolidation.

According to SII regulations:

- technical provisions are measured using the expected discounted cash flow (best estimate) adjusted for the risk margin;
- shares in entities belonging to other financial sectors (Alior Bank, TFI, PTE) are measured using the group's percentage of the regulatory capital of these entities prescribed according to a given sector's regulations;
- other assets and liabilities are measured at fair value*.
- deferred tax is calculated on the temporary differences between the valuation of assets and liabilities according to SII and IFRS.
- the following is subtracted from own funds according to SII:
  - the amount of anticipated dividends**;
  - the forecasts of the amount of tax on assets expected to be paid by insurance undertakings over the 12 months after the balance sheet date (according to the letter from the Polish FSA).

x% - Percentage change

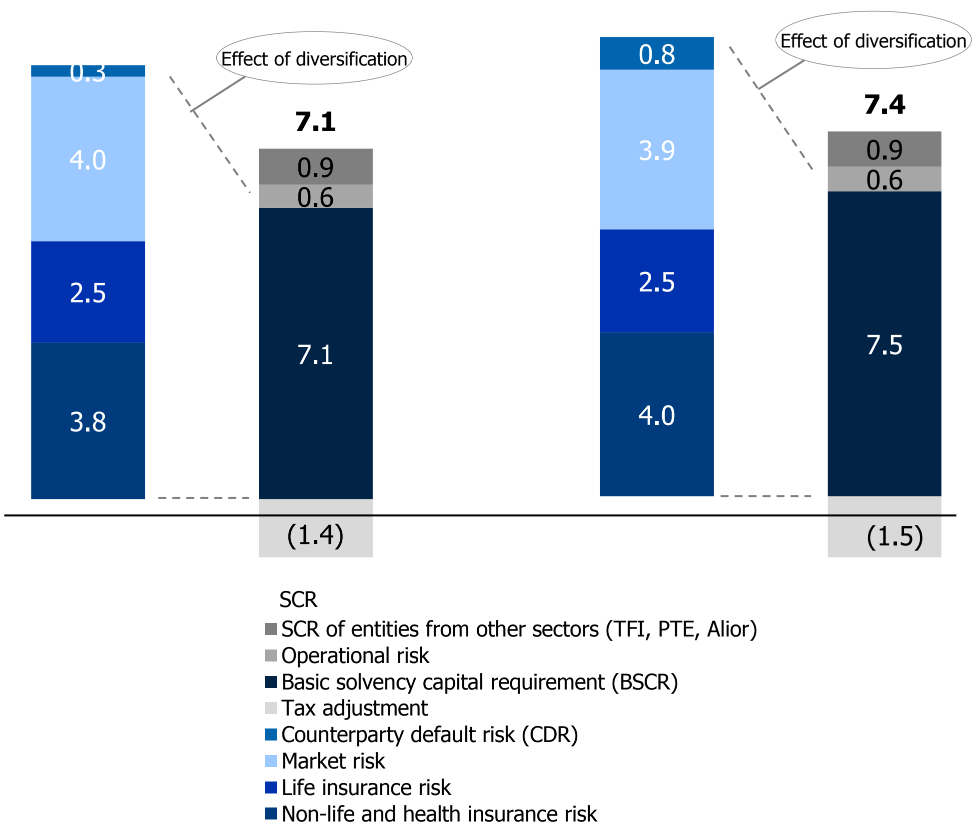
* Intangible assets and deferred acquisition costs whose value for the purposes of SII is zero are an exception;

** The adjustment is recognized on the date of the Management Board's recommendation concerning the distribution of the result;

The Group’s capital solvency requirement
Solvency II data as at 31 December 2015 and 31 March 2016

bn PLN, unaudited data

SII 12.2015 **SII 03.2016**



The Solvency Capital Requirement (SCR) is calculated using the standard formula and it includes, among others, the following risks: actuarial, market, counterparty solvency and operating. In the SCR calculation the PZU Group does not take advantage of the temporary regulations that in the case of some European entities “soften” the consequences of switching over to the new regime.

The requirements of financial entities (TFI, PTE and Alior Bank starting from Dec. 2015) are depicted according to the rules for a given sector and are not adjusted for diversification.

In comparison with the end of 2015 the solvency requirement rose 0.3 bn PLN, i.e. 4 p.p. The main drivers of changes were as follows:

- counterparty insolvency risk up by 0.5 bn PLN - stemming from the higher amount of settlements concerning operations on securities;
- requirement for non-life insurance risk up by 0.2 bn PLN – related to greater net exposure (acquisition of Baltic entities in 2014 and utilization of the flood risk reinsurance limits);
- decline in market risk (-0.1 bn PLN) and the diversification effect (-0.3 bn PLN).

The presented solvency requirement differs from the preliminary data disclosed in the previous quarter (SCR up by 0.2 bn PLN). The adjustments made ensue from the interpretations and guidelines given by the PFSA and EIOPA.

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