# 2020 Management Board's report on the activity of the PZU Group in H1 2020

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# CEO Letter to Shareholders

Beata Kozłowska-Chyła
acting President of the Management Board

Dear Shareholders,

On behalf of the management boards of the PZU Group companies, I hereby convey to you our activity report for H1 2020.

The first half of 2020 was a period of great uncertainty and volatile sentiments as the market reacted to the possible effects of the COVID-19 pandemic. The threat of disruptions to international supply chains resulting in global recession forced global investors to adopt a more restrictive approach to risk. These phenomena were also felt by the Polish economy and affected the valuation of assets on the Warsaw Stock Exchange. During the first 6 months of 2020, the WIG index fell by as much as 14.3%. As a result, investors focused not only on analyzing the current financial standing of companies, but also on the management decisions which will contribute in the medium term to changes in fundamental ratios that are critical for building the future value of companies.

Against this background, the PZU Group maintained its strong market position, while ensuring high safety of its operations. The trust of its clients resulted in very high levels of gross written premium, which amounted to nearly PLN 12 billion at the end of H1 2020. Due to high efficiency of our activity, we have managed to achieve excellent performance in key business lines, increasing the margin in group and individually continued life insurance to 26.1%, achieving a stable combined ratio (COR) of 87.1%, and a return on investments that was 3.2 p.p. above the risk-free rate (RFR).

Despite the resilient business model and a stable market position, the H1 results were burdened with the impairment of banking assets created after the transactions in 2015 and 2016 in the amount of PLN 1,343 million. The impairments result from significant deterioration of business conditions for the banking sector, which include, among others, the interest rate cuts by the Monetary Policy Council, increased credit risk and additional write-offs due to expected credit losses, related to the economic slowdown. The net result attributable to the parent company shareholders after H1 2020 was PLN 301 million, however without the impairment allowance it would have been PLN 1,644 million, increasing by 11% y/y.

The PZU's capital position remains strong. The Solvency II indicator at the end of Q2 2020 was 258%, much higher than the average for European insurance companies. On 6 April 2020, the US-based S&P Global Services rating agency affirmed the PZU's high rating of A-, while changing its rating outlook to "stable". The high A- rating and the stable outlook were kept also after the recognition of impairment of banking assets in Q2. Also, on 27 August 2020 S&P Global Services announced that "the PZU Group will likely continue to retain a comfortable capital cushion above the ‚AAA' requirements of S&P Global Ratings' capital model". According to S&P's experts, the PZU Group will maintain its leading business position in Poland, a strong capital position and a stable result on insurance activity whereby it will be able to safely get through the coming turmoil caused by the macroeconomic situation.

In the first half of 2020, we devoted significant efforts to digitization of insurance, banking, investment and health products and services. These actions demonstrated our high effectiveness in adapting to changes and allowed us to modernize and update the offering for the customers.

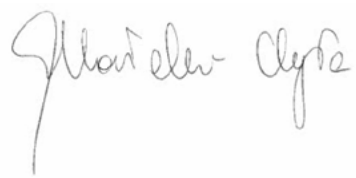
It was with great satisfaction that we observed a 3-digit increase of agent transaction rates in the mojePZU portal and a 2-digit increase in the interest in telemedicine services. For us, these figures confirm the potential that is hidden in the digitization of our services. They strengthen our belief that the value of the Group will accumulate faster in the areas where we can be mobile, flexible and accessible to our clients and partners. At the same time, we can see an increasing potential of the health business, where we dynamically develop our activity and set new standards of customer service. At the end of June 2020, the number of health contracts exceeded 2.7 million. Our customers had access to nearly 2.2 thousand of our cooperating medical partners, 48 hospitals and 130 locations of PZU's own centers. After 6 months of 2020, revenues from this portion of our business reached PLN 439 million, increasing 20.6% y/y.

The projects that we implemented in the PZU Group while pursuing the strategy entitled "The New PZU – More Than Insurance" proved to be very useful during the pandemic. The state-of-the-art technological solutions designed and implemented in PZU to improve the efficiency of medical services: the mojePZU portal, the telemedicine service and the "band of life", have been very helpful in the fight against coronavirus and against the spread of COVID-19.

We are currently working on the new PZU Group strategy, which will continue, strengthen and add to the changes introduced so far. It will comprise objectives and assumptions aiming to attain above-average financial results in the changing financial reality and business conditions. Our success is also measured by non-financial objectives. As the largest insurer in Poland, we strive to develop the Group in a sustainable manner, taking into account the needs of the employees, clients, business partners and a large group of other stakeholders, as well as our social position and impact on the environment and climate. As a promoter of best business practices, we set market standards and prove that such an approach facilitates high returns on capital, providing the basis for dividend payments and for building shareholder value.

I would like to close by extending my thanks to all Shareholders for trusting in us and to our Employees, Agents and Business Partners for their daily efforts to build the value of PZU!

Respectfully yours,



Beata Kozłowska-Chyła,
acting President of the Management Board

# PZU Group's profile

**22 million**

clients in five countries

**#1**

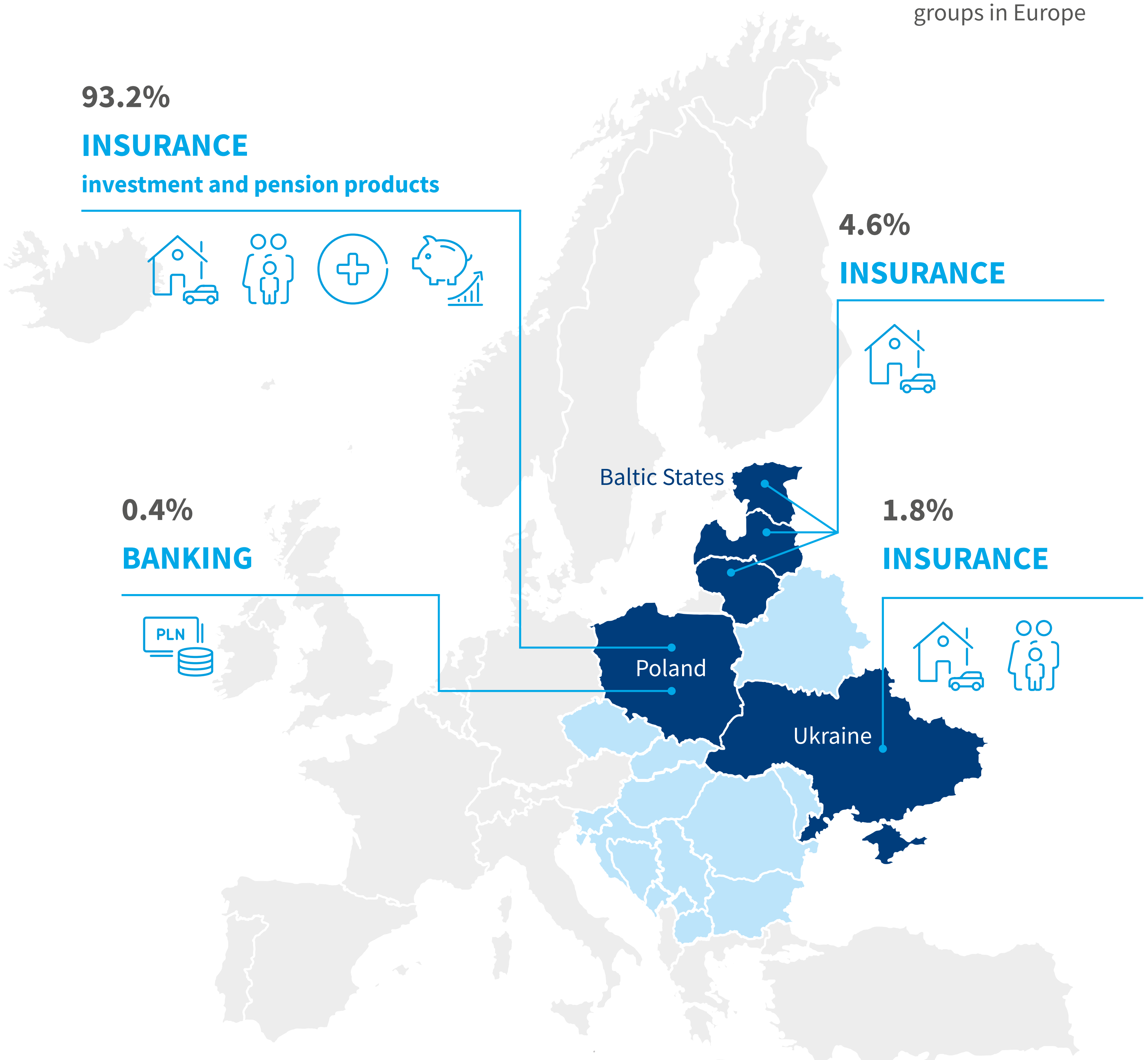
largest insurance and banking group in CEE

**100%**

most recognizable brand in Poland[1]

**STRONG BALANCE SHEET**

stability and safety – Solvency II ratio is above average for insurance groups in Europe




**93.2%**

**INSURANCE**

**investment and pension products**

**4.6%**

**INSURANCE**

**0.4%**

**BANKING**

**1.8%**

**INSURANCE**

Percentage share in the operating result (adjusted for PZU's shares in banks after H1 2020, excluding the impairment loss on Bank Pekao and Alior Bank goodwill and intangibles identified during the acquisition of Alior Bank)

[1] Assisted recognition of the PZU / PZU Życie brand, study by the Gfk Polonia institute, Q2 2020

## Recap of H1 2020 results

| Gross written premium | Net insurance claims and benefits | Net profit (parent company) |
|---|---|---|
| **PLN 11.7 bn** | **PLN 7.3 bn** | **PLN 0.3 /1.6[1] bn** |
| **PLN 11.7 bn** 06. 2020 | **PLN 7.3 bn** 06. 2020 | **PLN 0.3/ 1.6[1] bn** 06. 2020 |
| **PLN 11.8 bn** 06. 2019 | **PLN 7.9 bn** 06. 2019 | **PLN 1.5 bn** 06. 2019 |
| **PLN 11.9 bn** 06. 2018 | **PLN 7.3 bn** 06. 2018 | **PLN 1.4 bn** 06. 2018 |

## Ambitions for 2020

**Pomagamy klientom dbać o ich przyszłość**

We would like to do something different from the classical client relation model insurers follow in which the only contact clients have with their insurer after buying a policy is when a claim occurs. We want to help our clients make wise choices to protect their lives, health, assets, savings and finances. Gradually, we will modify the company's operating model from an insurer model (pricing and transferring risk) to the model of a service company specializing in utilizing data (risk management consulting and services as well as caring for the future of clients, retail and business alike).

We place special emphasis on our code of ethics and corporate social responsibility in how we conduct business. The PZU Group's value growth should be aligned to the needs of the environment and rely on sustainable resource utilization.

| ROE | Solvency II | Dividend | Green PZU |
|---|---|---|---|
| **3.6 / 19.1%[1]** 06. 2020 | **258%[2]** 06. 2020 | Dividend Payout Ratio **0%** **DPS PLN 0** 2019[3] | |
| >22% | >200% | Dividend Payout Ratio 50% - 80% | Implementation of "Green PZU" Standard |
| 2020 target | 2020 target | 2020 target | 2020 target |

[1] Excluding the impairment loss on Bank Pekao and Alior Bank goodwill and intangibles identified during the acquisition of Alior Bank.
[2] Preliminary data, not audited or reviewed by a statutory auditor.
[3] Compliant with the stance of the KNF expressed in its letter of 26 March 2020 sent to insurance and reinsurance companies in which KNF indicates that having regard for the current situation involving the epidemic announced in Poland and its possible further adverse impact on the insurance sector, the regulatory authority expects that insurance companies retain the entirety of profit earned in previous years.
Dividend payout ratio and dividend per share (DPS) for the preceding 3 years were as follows: 62.2%, PLN 1.40 (2016); 74.6%, PLN 2.50 (2017); 75.3% PLN 2.20 (2018).

# 1.

## PZU Group Overview

We would like to do something different from the classical client relation model insurers follow in which the only contact clients have with their insurer after buying a policy is when a claim occurs. We bring together all of the PZU Group's activities and integrate them in a client-focused manner: life insurance, non-life insurance, health insurance, investments, pensions, health care, banking and assistance services. Our client relationships and our knowledge of our clients are becoming our main value, while our chief product is our acumen in addressing client needs to build a stable future.

**The New PZU – More Than Insurance**

The Powszechny Zakład Ubezpieczeń Group is the largest financial group in Poland and Central and Eastern Europe. PZU heads up the group with its traditions dating back to 1803 when the first insurance company was established on Polish soil. PZU is a public company. PZU's stock has been listed on the Warsaw Stock Exchange (WSE) since 2010. Since its floatation PZU has been in the WIG20 index and has been one of the most highly valued companies and heavily traded stocks on the Polish stock exchange. Since 2019, PZU has been part of the WIG ESG (sustainability) index.

The State Treasury with a 34.19% equity stake is PZU's main shareholder.

The PZU Group's consolidated assets total PLN 377 billion. The Group enjoys the trust of 22 million clients in five countries by offering products and rendering services to retail clients, small and medium enterprises and business entities. The Polish market is the PZU Group's core market measured by its magnitude and client numbers. Nevertheless, its subsidiaries play an important role on the markets in Lithuania, Latvia, Estonia and Ukraine.

Its companies are active not only in life, non-life and health insurance but also in investment, pension, health care and banking products. Moreover, they render assistance services to retail clients and businesses through strategic partnerships. The magnitude and variety of operations paint the larger picture of what PZU is. It is a powerful financial institution, but above all it is a group of service companies whose operating foundation is the trust of its clients.

It is the Group's strategic ambition to build long-lasting client relations, thereby leading to the integration of all operating areas with the client at the focal point. This makes it possible to deliver products and services that are well-matched to client needs at the appropriate time and place and respond to other client needs on a comprehensive basis. A crucial element in this process involves the usage of tools rooted in artificial intelligence, Big Data and mobile solutions that contributes to building an entrenched technological advantage in integrated client service.

PZU's philosophy of thinking is driving the transformation of the company's operating model from an insurer model (pricing and transferring risk) to the model of a service company specializing in utilizing data (risk management consulting and services as well as caring for the future of clients, retail and business alike). The new model brings together all of the PZU Group's activities and integrates them in a client-focused manner: life insurance, non-life insurance, health insurance, investments, pensions, health care, banking and assistance services.

Its robust brand underpins strategy execution. According to brand awareness surveys, PZU is the most recognizable brand in Poland (spontaneous recognition of the PZU brand stands at 92.3% while assisted recognition is 100%).

Among all the Polish insurers PZU offers its clients the largest sales and service network. It has 410 branches with convenient access across the country, 9.9 thousand tied agents and agencies, 3.2 thousand multiagencies, nearly 1.1 thousand insurance brokers and electronic distribution channels. When it comes to bancassurance and strategic partnerships, the PZU Group collaborates with 12 banks and 20 strategic partners. PZU also has a claims handling system that operates efficiently.

The PZU Group's clients in Poland have access to Bank Pekao's distribution network (785 branches) and Alior Bank's distribution network (750 branches, including 191 traditional branches, 7 Private Banking branches, 7 Regional Business Centers and 545 partner centers). Both banks have professional call centers and mobile and internet banking platforms.

In the Baltic States in which the PZU Group is in the insurance business, its distribution network consists of approximately 700 agents, 21 multiagencies and 387 brokers. PZU also cooperates with 5 banks and 15 strategic partners. In Ukraine insurance products are distributed through more than 400 agents and in cooperation with 15 multiagencies, 38 brokers, 10 banks and 2 strategic partners.

**We manage our business responsibly**

PZU is an organization operating at a large scale. It is also cognizant of the expectations various stakeholder have of it, including clients, employees, investors, partners, industry experts, social environment and a number of institutions and organizations. That is why managing relations with stakeholders and their impact on the business community is accomplished in a deliberate and sustainable manner. PZU is a company that is open to social expectations. In the actions it takes it strives to set trends and construe business solutions responsibly. It also gets involved in actions to benefit the local communities in which the Group's clients and employees function. For the PZU Group, sustainable management is a deliberate choice of how it conducts its business, thereby making it possible to build the company's long-term value in an ethical and transparent manner while giving consideration to stakeholder needs and expectations. The full scope of information pertaining to the PZU Group's implementation of corporate social responsibility principles that also incorporates all the legally-required non-financial information can be found in the 2019 Non-Financial Information Report of the PZU Group and PZU.

**Responsible business management in the PZU Group**

- We respond to the needs of our clients
- We are devising new standards in relations with supplier
- We create an inspiring place of work
- We are a leader in social activities focusing on security
- ETYKA – We cultivate a culture of ethics and compliance
- We manage our environmental impact in a deliberate manner

The Group's value growth should be aligned to the needs of the environment and rely on sustainable and responsible resource utilization

**Values by which we are guided in our actions**

You can rely on us

**Stability**

What that means for clients
- We run this business safely - you can trust us
- We are keen on the long-term development of the markets on which we operate - we offer only products in which we believe

What that means for employees
- We care about employee development and we create career opportunities in the PZU Group
- We offer safe forms of employment

**Honesty**

What that means for clients
- We follow transparent rules for client communication - we fulfill our obligations
- Clients can always rely on us

What that means for employees
- We discharge our obligations
- We apply clear principles in the operation of our organization

**Innovation**

What that means for clients
- We are well-versed with client needs and we are incessantly looking for new solutions
- We set the trends on the financial services market

What that means for employees
- We think outside the box and we break the mould
- We actively endeavor to streamline how our company functions

**Responsibility**

What that means for clients
- We feel responsible for our clients at every stage of their lives
- We help people make conscious decisions by providing education and conducting prevention activities

What that means for employees
- We give consideration to the impact our decisions exert on employees
- We engage employees in our corporate social responsibility activities

# PZU Group Overview

**INNOVATIONS create a NEW value for the clients of the PZU Group**

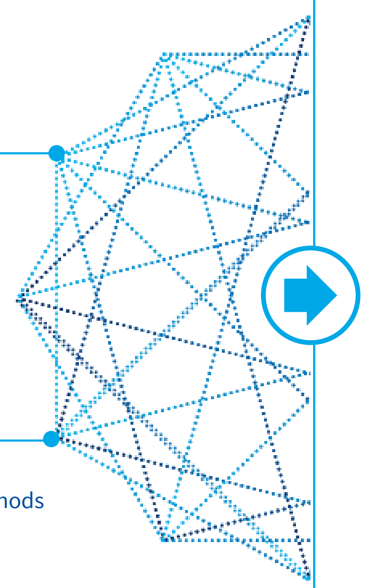
High potential of the largest financial group in Central and Eastern Europe, over 200 years of trust, experience, efficiency and innovation.

Smart client needs analysis

Utilization of Big Data

Solutions based on artificial intelligence

Robotics



Advanced underwriting and tariff-setting methods

Flexible and multi-channel distribution network

Innovative mobile solutions

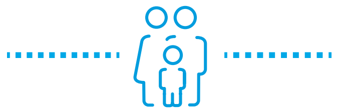
Fast and efficient service

**Insurance**
Protection against the effects of events of chance – risk valuation, premium calculation and investment, payment of claims

**Health**
Health care – offering health insurance and medical care services, prophylactics, prevention, promoting a healthy lifestyle

**Investments**
Financial security protection – growing savings, capital accumulation programs

**Banking**
Conducting banking activities, including taking deposits, extending credits and loans, running bank accounts, handling cash settlements and rendering payment services



Comprehensive offer based on client knowledge and their real needs

Long-term partnership

Products and services accessible to clients whenever and wherever they want them

Risk mitigation

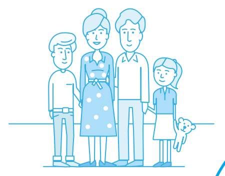
Safeguarding financial security needs

**Major business areas**

**Insurance** – for many years the PZU Group has provided insurance cover in all of the most important areas of private, public and business life, thereby safeguarding its clients' lives, assets and health. PZU (non-life insurance, including motor, residential and buildings, agricultural and third party liability insurance) and PZU Życie (life insurance) are the leaders on Poland's insurance market. Since 2014, following the acquisition of LINK4, insurance is offered by the Group in Poland under two brands: PZU, a brand with more than 200 years of tradition standing behind it and LINK4, a much younger brand associated with direct sales channels. TUW PZUW, a mutual insurer, was founded in 2015 to sell and handle insurance products for companies in various industries, focusing on cooperation with large corporates, medical entities (hospitals and clinics) and local government units.

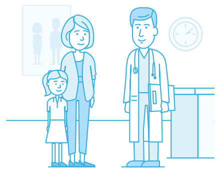
The PZU Group is also the leader in the Baltic States, and it does business in Ukraine.

Poland is the Group's core market. 91.6% of its revenue (measured by gross written premium). The PZU Group generates in Poland. The insurance activity in the Baltic States (Lithuania, Latvia, Estonia) and in Ukraine generates 8,4 % of its revenue.



**Health** – in its efforts to ensure greater and more complete satisfaction of its client needs, the PZU Group has been actively developing the health insurance market with accompanying health care services under the PZU Zdrowie brand. The health business deals with the following activities: (i) sales of health products in the form of insurance and sales of non-insurance products (occupational medicine, medical subscriptions, partnerships and prevention programs), (ii) construction and development of medical infrastructure in Poland to give clients the best accessibility to the medical services rendered.

The PZU Group delivers its clients value that is difficult to replicate: quick doctor appointments (in basic medical care a visit is offered within a maximum of 2 business days, and in the case of specialists within a maximum of 5 business days), respecting referrals for tests prepared by physicians from outside the PZU Zdrowie network, remote medical consultation enabling a patient check-up, discussion of symptoms, test results, receipt of a prescription for medicines taken on a long-term basis or referral to examination, cooperation with nearly 2,200 partner centers in Poland and a proprietary network of 130 branches and an offer enriched with preventive activities.



CLIENT

**Investments** – The PZU Group is one of the largest asset managers on the Polish market. PZU is the uncontested market leader in employee pension schemes.

An extensive range of investment products is offered under the PZU Investments brand, namely open and closed-end mutual funds and pension products: an open-end pension fund, individual retirement accounts, individual retirement security accounts with a voluntary pension fund, employee pension schemes and, as of 1 July 2019, employee capital schemes (ECS). PZU TFI also invests the PZU Group's own funds.

The PZU Group has three mutual fund management companies: PZU TFI, Pekao TFI and Alior TFI. It also has PTE PZU – a company managing the PZU Złota Jesień Open-end Pension Fund.

**Banking** – The PZU Group's banking business consists of the following groups: Pekao (a member since 2017) and Alior Bank (a member since 2015).

Bank Pekao was established in 1929. It is a universal commercial bank offering a full range of banking services provided to individual and institutional clients, operating in Poland.

Alior Bank is a universal deposit and loan bank that was established in 2008 as a start-up. In its operations it combines the principles of traditional banking with innovative solutions and consequently it sets new trends in financial services and consistently strengthens its market position.

Tightening cooperation with banks has opened up enormous growth opportunities for the PZU Group, especially in terms of integrating and focusing its services on clients at every stage of their personal and professional development. Cooperation with the banking segment forms an additional plane for PZU to build lasting client relations.

The PZU Group's operations in the banking segment are conducted chiefly in the following areas: bancassurance, assurbanking, cooperation and operational synergies.

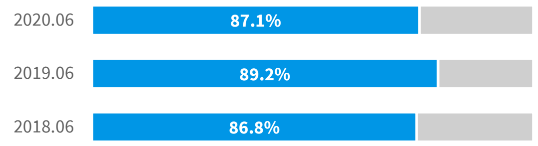
# PZU Group Overview

## INSURANCE

### Non-life insurance in Poland

**Gross written premium (PLN billion)**

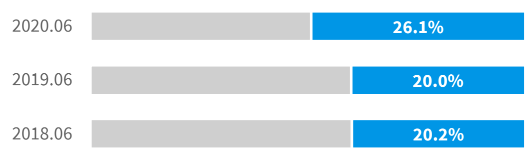

**Combined ratio - COR**




### Life insurance in Poland

**Gross written premium (PLN billion)**

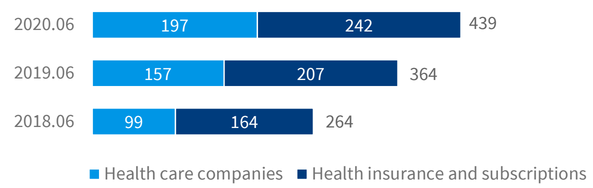

**Operating margin in group and IC* insurance**



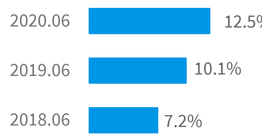

* individually continued

## HEALTH

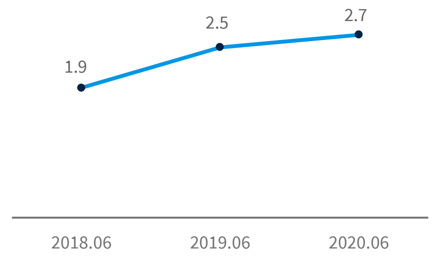
**PZU Zdrowie's revenues (PLN million)**



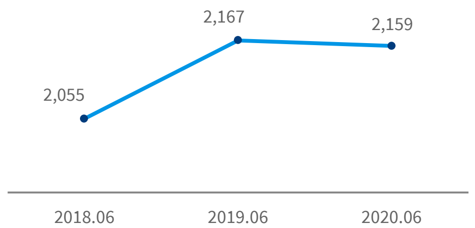

**EBITDA margin**




**Number of agreements (million)**

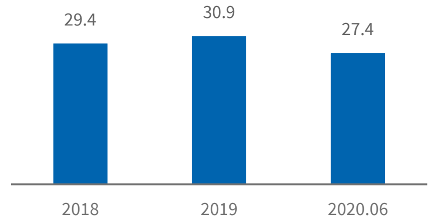



**Partnership branches**




## INVESTMENTS

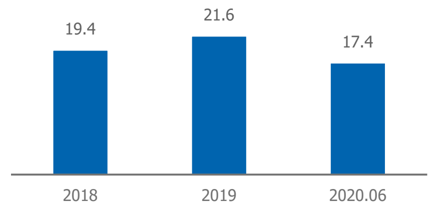
**Third Party Assets of TFI and OFE PZU clients (PLN billion)**




**Net result on asset management of TFI and OFE PZU clients (PLN million)**


* trailing 12 months

**Assets of Pekao TFI (PLN billion)**

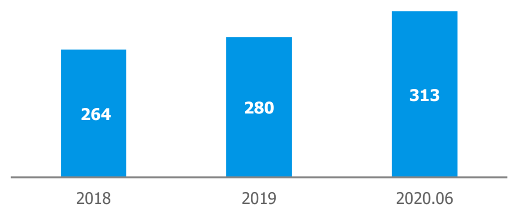



**Net result on asset management of Pekao TFI (PLN million)**

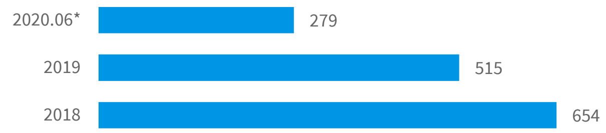

* trailing 12 months

## BANKING

**Banking assets in the PZU Group (PLN billion)**

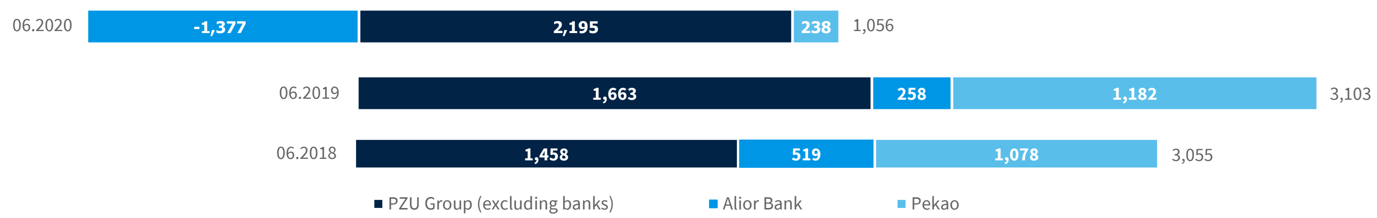



**Net financial result attributed to the PZU Group (PLN million)****




* trailing 12 months
** excluding the impairment loss on Bank Pekao and Alior Bank goodwill and intangibles identified during the acquisition of Alior Bank, excluding consolidation eliminations

**Contribution of banking activity to the PZU Group operating profit (PLN million)***

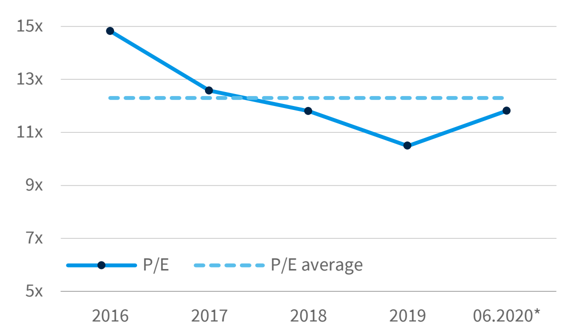



* excluding consolidation eliminations

# PZU Group Overview

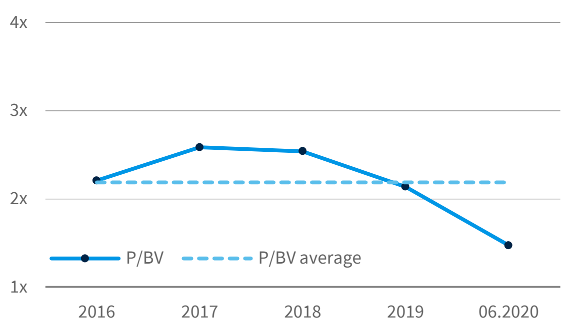
## MARKET MULTIPLES

### P/E (price to earnings per share)

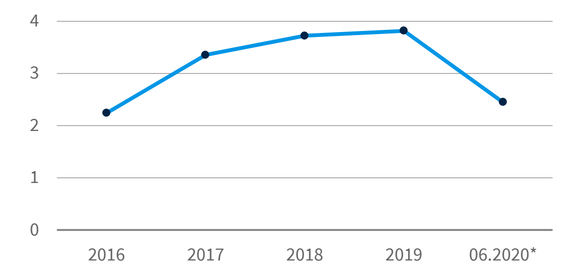



* trailing 12 months

### P/BV (price to book value)

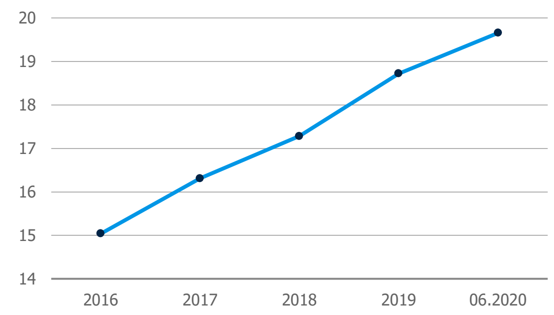



### EPS (earnings per share) PLN

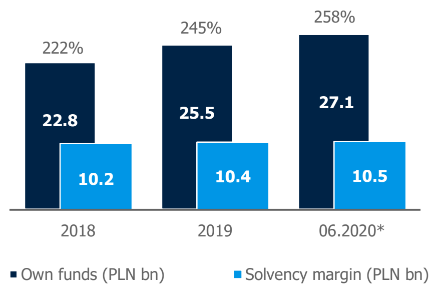



* trailing 12 months

### BVPS (Book value per share) in PLN

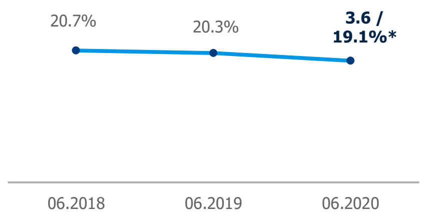



### Solvency II



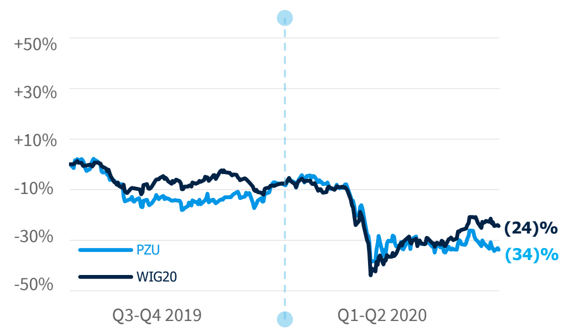

* preliminary data, not audited or reviewed by a statutory auditor

### ROE (return on equity)**

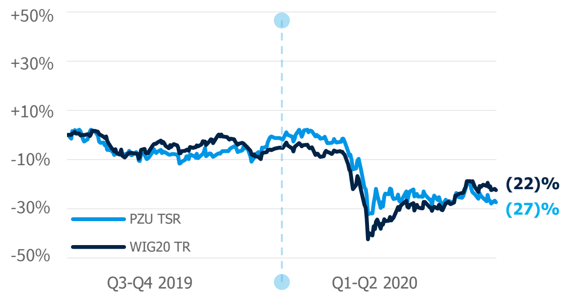



* excluding the impairment loss on Bank Pekao and Alior Bank goodwill and intangibles identified during the acquisition of Alior Bank
** ROE attributed for the parent company

### PZU, WIG20 (H1 2020)




### PZU TSR, WIG20 TR (H1 2020)




**PZU Group's consolidated highlights for H1 2018-2020 (PLN million)**

| | 1 January – 30 June 2018 | 1 January – 30 June 2019 | 1 January – 30 June 2020 |
|---|---|---|---|
| A) PZU GROUP NET OF ALIOR BANK AND BANK PEKAO | | | |
| Gross written premiums | 11,881 | 11,839 | 11,691 |
| Net result on investing activity including interest expense | 468 | 1,032 | 830 |
| Net insurance claims and benefits paid | (7,345) | (7,929) | (7,291) |
| Acquisition expenses | (1,519) | (1,616) | (1,647) |
| Administrative expenses | (812) | (832) | (905) |
| Operating profit | 1,458 | 1,663 | 2,195 |
| Net profit attributable to equity holders of the parent company | 1,133 | 1,288 | 1,688 |
| B) Impairment loss on goodwill (Alior Bank, Bank Pekao) and intangibles (Alior Bank) | | | (1,343)* |
| C) BANKS: ALIOR BANK AND BANK PEKAO | | | |
| Net profit attributable to equity holders of the parent company | 277 | 193 | (44) |
| **(A+B+C) NET PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY** | **1,410** | **1,481** | **301** |
| Total assets | 321,575 | 340,079 | 376,645 |
| Equity attributable to the owners of the parent company | 13,207 | 14,311 | 16,976 |

* including the impairment loss on goodwill arising from the acquisition of Alior Bank (PLN 746 million) and Bank Pekao (PLN 555 million), the impairment loss on intangibles arising from the acquisition of Alior Bank (i.e. trademark and relations with clients adjusted for the impact of deferred tax and minority interest) in the amount of PLN 42 million

Restated data for H1 2018 and H1 2019

The financial results generated by the PZU Group in recent years place it among the most profitable financial institutions in the country. At the same time, they translate into high asset utilization ratios. In H1 2020, the return on equity was 19.1%[1], much higher than the average posted by insurance companies in Europe. The rapid growth is achieved while preserving a high level of business safety. This is corroborated both by its high solvency ratios and by the A- (stable) rating awarded by the US rating agency S&P Global Ratings.

As at the end of Q2 2020, the solvency ratio (calculated according to the standard Solvency II equation) was 258%[2], a level above the average solvency ratio reported by insurance groups in Europe.

**A-**

/STABLE/

Financial strength rating and credit rating awarded to PZU by S&P

On 6 April 2020, S&P revised its outlook on PZU from positive to stable. The outlook has changed as a result of the deterioration in financial and business conditions in Poland due to the outbreak of the COVID-19 pandemic. According to the agency's analysts, this may affect the PZU Group's business; in particular, it may lead to a lower contribution from banking activity. At the same time, S&P emphasized that the PZU Group's position should continue to be stable. The stable outlook reflects the viewpoint of the agency's analysts that the PZU Group will maintain its leading business position in Poland, a strong capital base and a stable insurance earnings, thereby enabling it to withstand potential further deterioration of the economic environment.

On 27 August 2020, S&P concluded that PZU Group should deliver results relatively comparable with its main international insurance peers in 2020, despite its goodwill impairment on its banking investments. Furthermore, the group will likely continue to retain a comfortable capital cushion above the ‚AAA' requirements of S&P Global Ratings' capital model.

[1] Excluding the impairment loss on goodwill arising from the acquisition of Alior Bank (PLN 746 million) and Bank Pekao (PLN 555 million) and the impairment loss on intangibles arising from the acquisition of Alior Bank (i.e. trademark and relations with clients) in the amount of PLN 161 million (PLN 42 million impact on the net result attributable to the shareholders of the parent company, after deducting deferred tax income and minority interest).
[2] preliminary data, not audited or reviewed by a statutory auditor

## PZU Group development

**1803**
Establishment of the first insurance company on Polish soil – Fire Insurance Company for Cities in Southern Prussia

**1927**
Creation of the PZU brand - transformation of the Polish Mutual Insurance Directorate into a public company – Powszechny Zakład Ubezpieczeń Wzajemnych

1950 1960 1970

**1991**
Transformation of PZU into a joint stock company wholly-owned by the State Treasury

PZU SA

Establishment of PZU Życie by Polski Bank Rozwoju and Bank Handlowy w Warszawie

PZU Życie SA

**1998**
Establishment of PTE PZU – pension insurance management company

PTE PZU SA

**1999**
Formation of TFI PZU – mutual fund management company

TFI PZU SA

**2002**
Acquisition of a stake in UAB DK „Lindra" (PZU Lietuva), business launch on the Lithuanian insurance market

**2005**
Acquisition of a stake in OJSC „Skide-West" (PZU Ukraine), business launch on the Ukrainian insurance market

**2010**
PZU's Initial Public Offering (IPO)

PZU

**2012**
Rebranding

**2014**
Acquisition of insurance companies in the Baltic States (Latvia, Lithuania, Estonia)

CODAN LIETUVOS DRAUDIMAS BALTA

and a direct insurer in Poland - LINK4

LINK4

Launch of the PZU Zdrowie brand

PZU ZDROWIE

**2015**
Agreement to acquire Alior Bank

ALIOR BANK

Formation of TUW PZUW – a mutual insurance company

PZUW

**2017**
Finalization of the acquisition of Bank Pekao

Bank Pekao

**2018**

July
Portal of new possibilities
www.pzu.pl

September
PZU's single world
moje.PZU

October
Revolution in investments
inPZU

**2019**

August
Mobile application
moje.PZU

October
Innovative cash loans
CASH

**2020**

May
Band of life in the fight against COVID-19

**The New PZU** - More Than Insurance

# 2.

# External environment

The COVID-19 pandemic resulted in an economic downturn in Poland and its environment. The demand and supply shock associated directly with the decline in business activity in a number of industries increased the level of uncertainty among enterprises and households, thereby deteriorating the conditions for business development at PZU.

**In this section:**

## 2.1 Main trends in the Polish economy

**Rate of economic growth**

The COVID-19 pandemic landed a major blow to the global economy. In order to reduce the rate of transmission and the overall incidence of the disease, it became necessary to restrict the mobility of people and economic activity. Also in Poland, in mid-March 2020, the activity of a significant portion of trade and services was subjected to a lockdown.

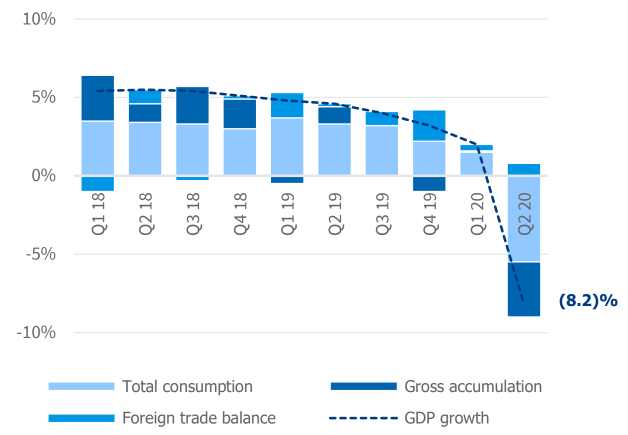
The economic consequences of the pandemic were reflected to a limited extent in GDP data for Q1 2020, according to which Poland's economic growth in this period slowed down to 2.0% y/y compared to 3.2% y/y in Q4 2019. The rate of growth in investments slowed down significantly (to 0.9% y/y from 6.1% in the previous quarter), as did that in private consumption (to 1.2% y/y from 3.3% y/y). Domestic demand added 1.6 p.p. (of which 0.8 p.p. was attributable to public consumption) to GDP growth. Economic growth was also supported by net exports, which contributed 0.4 p.p.

In Q2 2020, as a result of the supply and demand shock triggered by the COVID-19 pandemic, economic activity exhibited a major slump on a scale incomparable with any experience of the Polish economy after the transformation period. The largest decline in economic activity was recorded in April. In May and June, along with the gradual lifting of restrictions and a certain improvement in moods, economic activity rebounded. The fulfillment of demand that had been delayed in the circumstances of the pandemic exerted a strong impact on the growth of retail sales and industrial production, driven predominantly by the production of durable consumer goods. However, despite the vigorous rebound in retail sales and industrial production, the months of May and June and the whole second quarter of the year maintained a marked decline in GDP in annual terms.

Retail sales in Q2 2020 dwindled 10.7% compared to the same quarter of the previous year. On a year-on-year basis, sold industrial production fell 13.6% in this period. The disruptions related to the pandemic did not significantly affect construction and assembly output. The economy's impressive performance in Q1 2020 (when a 5.8% y/y increase in construction and assembly output was recorded) meant that in the whole H1 2020 it was 2.4% greater than the year before.

In Q2 2020, GDP was 8.2% lower compared to the corresponding period of 2019. The decrease in household consumption amounted to 10.9% y/y. Gross fixed capital formation also decreased by 10.9% y/y. On the other hand, GDP growth was increased by net exports and public consumption, which added 0.8 percentage points each.

**Structure of GDP growth from Q1 2018 to Q2 2020**




Source: Central Statistical Office

**Labor market and consumption**

H1 2020 saw the situation on the labor market deteriorate. In Q2 2020, the employment level in the enterprise sector decreased 2.0% compared to the level recorded the year before, following a 0.8% y/y increase in the first quarter. The decline in employment (226,000 jobs were lost in the enterprise sector in Q2 2020) was caused not only by layoffs but also by a reduction in full-time equivalents, an increase in unpaid leaves, termination and non-renewal of fixed-term contracts. Observed more frequently than usual was the phenomenon of collecting sickness and childcare benefits – which may have also affected the temporary decline in statistically registered employment.

The number of registered unemployed individuals in Q2 2020 increased by over 117,000 people. As a consequence, the registered unemployment rate increased from 5.4% in March to 6.1% in June. Owing to the deployment of government support programs, the increase in registered unemployment was only moderate.

The rate of growth in the average gross monthly salary in businesses slipped significantly – to 2.1% y/y in Q2, following the high rate of growth of 7.0% y/y in Q1, which was supported by the increase in the minimum wage.

The increase in the inflation rate adversely affected the purchasing power of salaries. In Q2 2020, the average real salary in the enterprise sector dropped 0.9% y/y, following a 2.5% y/y increase in the first quarter.

Retail sales and consumption were strongly adversely affected by the restrictions imposed due to the pandemic. In Q1 2020, household consumption climbed 1.2% y/y in real terms. Data on retail sales in Q2 2020 indicate that the annual rate of growth in household consumption was significantly negative in this period. In April, retail sales recorded a steep decline, both in y/y and m/m terms. Although the value of retail sales was rebuilding in the following months of the quarter, in May and June it was still lower in y/y terms. Consumption was also not favored by the persistent uncertainty associated with the situation on the labor market and the decline in real incomes. These factors may also slow down the rebound in consumption demand in the coming quarters.

**Inflation, monetary policy and interest rates**

Inflation, as measured by the Consumer Price Index (CPI), decreased in Q2 2020 to 3.2% y/y compared to 4.5% y/y in the previous quarter. The decrease in inflation compared to Q1 2020 was mainly caused by a significant decline in fuel prices for personal means of transport and, although to a lesser extent, from a lower rate of growth in food prices. At the same time, core inflation increased from 2.7% in Q4 2019 to 3.4% y/y in Q1 2020 and to 3.8% y/y in Q2 2020.

The National Bank of Poland interest rates were cut three times H1 2020. The reference interest rate went down from 1.5% to 1.0% in March, to 0.5% in April and then to 0.1% at the end of May. The National Bank of Poland also launched a plan to purchase treasury securities and debt securities guaranteed by the State Treasury on the secondary market within the framework of structural open market operations. According to the Monetary Policy Council, the easing of the NBP's monetary policy mitigates the adverse consequences of the pandemic by curbing the extent of the decline in economic activity and by supporting the incomes of households and companies. As a result, it contributes to halting the decline in employment and the deterioration of the financial standing of companies, thereby aiding a quicker economic rebound when the pandemic subsides.

**Public finance**

In H1 2020, the position of the state budget deteriorated. In H1 2019, there was a PLN 5 billion deficit in the state budget, whereas the first half of this year ended with a deficit of PLN 17.1 billion. State budget expenditures rose by PLN 17.3 billion compared to H1 2019, while income increased by only PLN 5.2 billion.  The decline of tax revenue in H1 2020 was -6.6% y/y, driven mainly by the extremely weak rate of growth in VAT revenues (-9.5% y/y) and PIT revenues (-7.4% y/y). Non-tax revenues were the main contributor saving the income-side performance of the state budget. In H1 2020, non-tax revenues increased by PLN 16.8 billion (115% y/y), partly due to a PLN 7.4 billion contribution from the NBP's profit. The annual rate of growth in expenditures stood at 8.8% y/y. The primary drivers of this growth were predominantly: expenditures on the financing of tasks related to combating the COVID-19 pandemic and expenditures on the extended 500+ program. The actual spending from the state budget does not fully reflect the situation of public finance. A major portion of expenditures associated with countering the pandemic and satisfying the country's borrowing needs has been funded by institutions and funds that, according to the national definition, do not belong to the public finance sector (BGK's Fund for Counteracting COVID-19 or the Polish Development Fund's Financial Shield).

## 2.2 External environment in the Baltic States and Ukraine

**Lithuania**

Economic growth in Lithuania was weakened by operational restrictions and feebler demand caused by the COVID-19 pandemic. In Q1 2020, Lithuania's GDP diminished 0.3%. Based on the preliminary data, the Lithuanian economy entered a much deeper recession in Q2 2020 due to uncertainty about the prospects for subsequent growth.

Despite various measures that have been taken to preserve jobs, support household incomes and ensure the profitability of companies both in Lithuania and beyond the country's borders, the restrictions that have been imposed and growing concerns about the outlook for the future have significantly aggravated economic indicators, including those associated with the labor market. In June 2020, the unemployment rate in Lithuania stood at 12.1%, up 3.4 p.p. compared to December 2019.

In June 2020, the annual inflation rate increased to 1.0% from 0.3% in the previous month. In m/m terms, consumer prices moved 0.5%, following a 0.5% decline in May. Inflation accelerated in food products, non-alcoholic beverages and services.

**Latvia**

In Q1 2020, Latvia's gross domestic product shrank 1.5% (annual seasonally adjusted data). Since the beginning of February, the country's economy had been gradually squeezed down by the COVID-19 pandemic which, when it was rising, forced the Latvian government to impose a variety of restrictions, thereby creating unprecedented challenges for a number of enterprises. Among those hit the hardest were providers of hotel services, cultural, entertainment and sports events, passenger transport services and trade. The pandemic had virtually no effect on the construction industry, for which the outlook also remains optimistic due to government-backed investment projects.

In Q1 2020, the unemployment rate increased to 7.4% from 6.0% in the previous quarter. This was a record high unemployment rate since Q2 2018. The reasons for this increase in unemployment may be traced back to the pandemic, which affected the situation of most companies and, as a consequence, led to many losses of jobs.

In June 2020, the annual inflation rate stood at -0.7%. This biggest decline in the price level in Latvia in the last 4 years was caused by declines in the prices of transportation services, housing, clothing and footwear.

**Estonia**

According to data published by the Bank of Estonia[1], the annual GDP growth rate in Q1 2020 was -0.7%. The deceleration of economic growth in Estonia was already noticeable at the end of 2019, and the COVID-19 pandemic additionally affected a large number of sectors of the country's economy, especially hotel and catering services sector.

In Q1 2020, before the announcement of a state of national emergency in March, Estonia's employment rate was at a historically high level and unemployment was low. Demand for labor plummeted as the crisis caused by the pandemic hit Estonia. In response to the situation, the government implemented salary subsidies with a large chunk of the responsibility for paying workers' wages picked up by the Estonian unemployment fund[2], which helped curb the financial pressure exerted by the crisis on employers and provided them with the opportunity to apply for employee-related subsidies for up to three months. Owing to these measures, the impact of the crisis on the situation in the labor market in Q1 2020 was limited and unemployment stood at 5.0%.

The annual consumer price index (CPI) in June 2020 stood at -1.0%, although the monthly CPI reached 0.9% m/m. Compared to May 2020, electricity, up 13.2%, was the most significant driver of the increase in the consumer price index. Unexpectedly, the increase was also partly driven by the indicator related to educational and custody institutions – the increase in this measurement was caused by the reintroduction of fees for preschools following the emergence of a crisis situation. Compared to June 2019, the decreases in the prices of diesel fuel (by 25.0%), gasoline (by 12.5%) and electricity (by 7.6%) had the largest impact on the consumer price index.

[1] Estonian Economy and Monetary Policy, 4/2019, Bank of Estonia
[2] Eesti Töötukassa (Estonian Unemployment Insurance Fund) – the mission of Töötukassa is to administer social insurance related to unemployment and arrange labor market services in a manner that facilitates the finding of new jobs by the unemployed

**Ukraina**

After a period of political and economic tensions in 2014-2015, the Ukrainian economy was showing signs of stabilization in the following years. In Q1 2020, the rate of growth in Ukraine's GDP stood at -1.3%, compared to the corresponding period of 2019. It is expected that in Ukraine, as in other economies, the impact of the COVID-19 pandemic will continue to affect the country's economic development throughout 2020.

In June 2020, the annual inflation rate was 2.0%, i.e. below the target range of 5% +/-1 p.p. The inflation pressure was eased down by the strengthening of the hryvnia, lower energy prices and a broader offering of certain foodstuffs.

In Q1 2020, the unemployment rate in Ukraine declined to 8.6% from 8.7% in Q4 2019. However, in the following quarters, when the impact of the pandemic will be in full swing, the situation on the labor market may be expected to deteriorate.

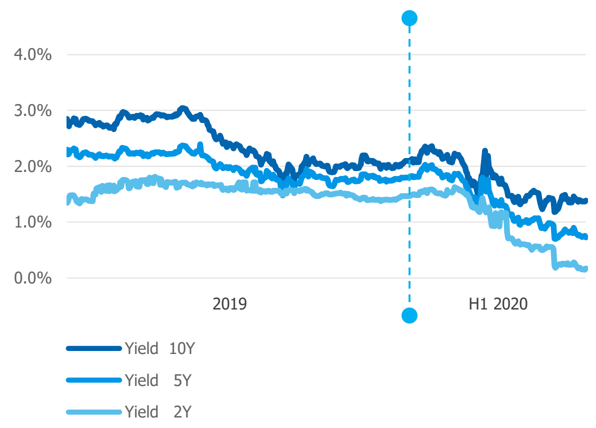
After the first 5 months of 2020, a positive balance of foreign trade in goods and services (of USD 0.3 billion) was recorded as a result of a greater-than-expected decline in imports of services, which resulted from a lower level of outbound tourism spending and a decline in other business and transportation services.

## 2.3 Situation on the financial markets

In H1 2020, the yields on 10-year US and German treasury bonds continued to decrease. In the United States, 10-year yields slid from 1.91% at the end of 2019 to 0.65% at the end of June. In Germany, the yields declined to -0.46% at the end of June from -0.19% at the end of the previous year. The largest declines occurred in mid-March when (in a situation of very limited liquidity caused by a high degree of uncertainty) global yields reached their historical lows. The yields dwindled due to a decline in long-term inflation expectations driven by fears of a long-lasting global recession that might be kicked off by the COVID-19 pandemic. In order to counteract the recession, the US central bank (the Fed) took a number of steps to alleviate the consequences of the crisis. The Fed cut down its interest rates to zero and announced that they would remain at this level for a long time. It also resumed the asset purchase program, expanded it to include corporate securities and opened credit facilities for financial and non-financial corporations and local governments. In connection with the temporary situation of illiquidity on the global market for the US dollar, the Fed also amplified the scale of its dollar swap lines with other major central banks. The European Central Bank (ECB) also responded to the outbreak of the pandemic by significantly expanding its asset purchase program and announcing that its rates would remain at low levels for a long time to come.

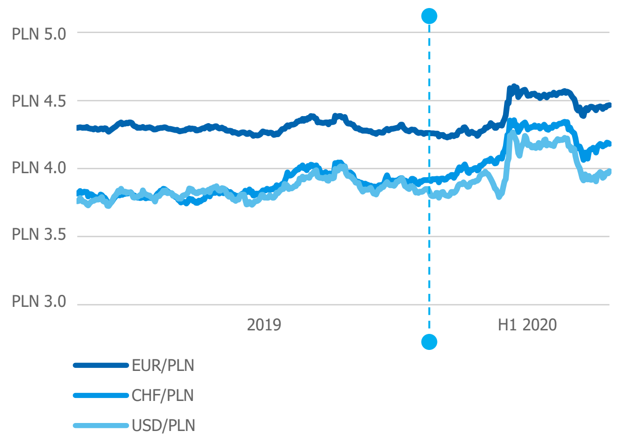
The yield on Polish 10-year treasury bonds followed suit by declining significantly in H1 2020. While at the end of 2019, it was 2.07%, it declined to only 1.39% at the end of June. The yields reacted both to events in the core markets, where yields have been declining since the beginning of the year, and to local events. In order to ease the financial conditions in Poland, the NBP effected three interest rate cuts down to a level of 0.1% in H1 2020 (one cut in March and two cuts in Q2), which translated into a further decline in yields. Market expectations concerning future NBP interest rates decreased, but at the same time the market's assessment of Poland's credit risk deteriorated. The country's long-term inflation expectations also decreased. The spread versus 10-year German bonds, which at the beginning of the year was 225 basis points decreased to 185 basis points at the end of June. At the same time, the yield curve steepened. The yield on annual treasury bonds fell from 0.98% to 0.03% at the end of June, i.e. much more than the yield on long-term bonds.

**Treasury bond yields**




The USD to EUR exchange rate reached 1.1231 at the end of H1 2020, which was 0.1% higher than at the end of last year. In the first half of the year, the Polish zloty, much like the other emerging market currencies, depreciated significantly against the two major global currencies. The PLN to EUR exchange rate increased 4.9% from 4.26 at the end of 2019 to 4.47 at the end of June 2020, while the PLN to USD exchange rate increased 4.8% from 3.80 to 3.98. The PLN to CHF exchange rate at the end of June 2020 was 4.18, compared to 3.92 at the end of 2019.

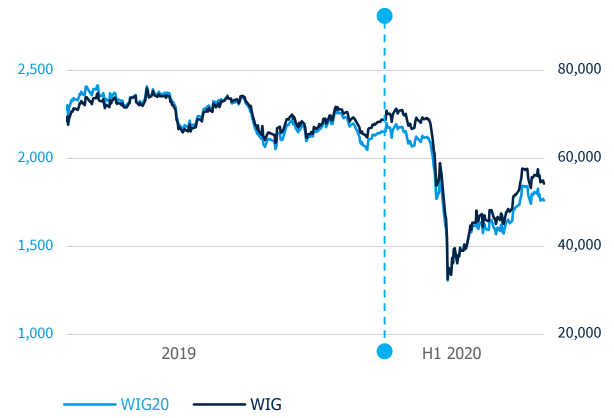
**PLN exchange rate**




Global equity markets displayed a high degree of volatility in H1 2020. Following their increases at the outset of the year, equity indices plummeted between mid-February and mid-March as a result of the outbreak of the COVID-19 pandemic, amid the high level of uncertainty and the illiquid US dollar. Thereafter, until the end of May, they continued their equally strong rebound. The launch of large-scale aid programs, providing both liquidity support through the monetary policy and liquidity and income support for enterprises and households through the fiscal policy, was of major significance for the increase in share prices. In H1 2020, the American S&P 500 stock exchange index declined 4.04% and the German DAX index dropped 7.08%, even though in mid-March both these indices plunged by a whopping -30.8% and -36.3%, respectively, since the beginning of the year.

In H1 2020, the indices of Polish stocks reflected the movements of indices in the world's core markets, yet the rebound of the WIG (the main index of the Warsaw Stock Exchange) following the lows in March was less spectacular than in those other markets: in the same period, the WIG fell 14.29%. While the WSE indices of the largest companies, namely WIG20 and mWIG40, declined 18.20% and 11.25%, respectively, the valuations of smaller companies performed relatively better: in H1 2020, the sWIG80 index increased as much as 11.35%. Looking at the sectoral structure, the WIG-Games and WIG-Technologies indices performed particularly well. The WIG-Construction index also did quite well. By contrast, the WIG-Banks and WIG-Clothing indices plummeted.

**Indexes WIG i WIG20**




## 2.4 Factors that may affect the conditions of business and the PZU Group's activity in H2 2020

Due to the scope of the PZU Group's business (insurance sector in Poland, the Baltic states and Ukraine, mutual and pension funds sector, banking), the main factors that shape the environment in which the Group operates and may directly affect the Group's growth and performance in the medium term, in particular in H2 2020, may be divided into three categories: macroeconomic and geopolitical, legal and regulatory, and market factors, specific to individual sectors/businesses in which the Group is involved.

**Macroeconomic and geopolitical factors**

The growth rate, level and structure of the key macroeconomic factors in Poland and abroad (GDP, inflation interest rates, employment and salary growth) translate into the growth rate of business in all sectors in which the PZU Group operates and the profitability of each segment. On the one hand, they determine, directly or indirectly, and with a certain time lag, the gross written premium growth rate in non-life insurance, changes in demand for credit and accumulation of deposits and inflow of assets in funds. On the other hand, they impact the loss ratios in non-life insurance, the level and changes in operational expenses, investment results, determine the fund management results and key measures affecting the performance of the banking sector (the interest margin and costs of risk).

In H2 2020, key risk factors will be correlated with the further course of the COVID-19 pandemic, including the significant likelihood of its intensification in the northern hemisphere in the fall, and the scale of constraints affecting economic activity as a result of the possible reinstatement of restrictions in Poland and at its trading partners with a view to counteracting the spread of the pandemic. Disruptions associated with the taking of measures aimed at counteracting the pandemic affect particularly adversely the service sector, transport, trade, restaurant and hotel services, and the broadly construed cultural and entertainment sector. As a result of the pandemic and the related restrictions, global supply chains may also be temporarily disrupted. It seems inevitable that Poland will record a decline in GDP by several percent in 2020, including a drop in household consumption and investments and a deterioration in the labor market. An additional risk factor will be the scale of the crisis around the Polish economy.

Among the possible consequences of a decline in GDP are:

- cuts in household and corporate spending, including on purchases of motor insurance policies (for instance, due to weaker sales of new cars), lower sales of loans and associated borrowers' insurance products and a slump in demand for life insurance products, in particular as a result of a smaller pool of benefits offered by companies;
- a higher rate of unemployment, fewer new jobs and lower real incomes of households, despite the increase in the minimum wage in 2020, which may result in a lower propensity to purchase non-mandatory insurance; similar behaviors may be displayed by enterprises in the event of a deterioration in their financial standing;
- a poorer financial standing of companies would result in an elevated credit risk (in particular in the banking segment) and a higher loss ratio on the financial insurance portfolio;
- a slump in the rate of growth in new mortgage loans and a slower pace of growth in consumer loans.

The consequences of the progressing COVID-19 pandemic and the behaviors of global central banks will affect the trends on the global and domestic financial markets. An unfavorable situation on the capital markets may result in the following: a declining value of the investment portfolio and assets under management and a lower degree of attractiveness of products, especially unit-linked funds. In the medium term, low interest rates may suppress the interest margins of banks operating in Poland and, in the longer term, may reduce the level of investment income in insurance activity.

A significant decline in the profitability of investments covering technical provisions may generate a risk of inadequacy of the technical rates applied by insurance companies, which will prompt the need to change the technical rates and establish additional technical provisions to cover this risk, which will affect the financial performance of insurance undertakings.

| Polish economy highlights | 2017 | 2018 | 2019 | 2020* |
|---|---|---|---|---|
| Real GDP growth in % (y/y) | 4.9 | 5.3 | 4.1 | (3.4) |
| Individual consumption growth in % (y/y) | 4.5 | 4.2 | 3.9 | (5.4) |
| Growth of gross fixed capital formation in % (y/y) | 4.0 | 9.4 | 7.2 | (8.6) |
| Consumer price index in % (y/y, annual average) | 2.0 | 1.6 | 2.3 | 3.5 |
| Nominal salary growth in the national economy in % (y/y) | 5.7 | 7.1 | 7.2 | 2.9 |
| Unemployment rate in % (end of period) | 6.6 | 5.8 | 5.2 | 7.4 |
| NBP's base rate in % (end of period) | 1.50 | 1.50 | 1.50 | 0.10 |

* Forecast of 2 July 2020
Source: PZU's Department of Macroeconomic Analyses

**Legal and regulatory factors**

The PZU Group's activity and operations are subject to the impact of local regulations and European legal acts.

From the perspective of the insurance business, of major significance are any legal changes that may contribute to an increase in the burdens imposed on insurance companies, such as court judgments on the disbursement of general damages under TPL insurance or the completion of legislative work on the act on the provision of services related to the pursuit of claims for damages. The adopted solutions may translate into the amount of the claims paid by the PZU Group.

In the context of banks, the scale of impact and the development of the situation surrounding the judgments handed down by the Court of Justice of the European Union (CJEU) in 2019 on foreign currency mortgage loans in CHF and consumer loans will be of great significance. These judgments have resulted in the requirement to establish sizeable provisions and had an unfavorable impact on the banking sector's performance in H2 2019 due to the requirement to refund the fees for early repayment of consumer loans, and in the case of CHF mortgage loans, they have increased the risk of unfavorable judgments in litigation to be conducted in subsequent years, and thus also the level of provisions that have to be established by banks. Because the exposure of the PZU Group's banks to foreign currency loans is small compared to other banks operating in Poland, the direct impact of this phenomenon on the PZU Group should be limited.

Moreover, the increasing awareness regarding the climate, environmental protection and sustainable development will drive not only an increase in regulatory burdens but will also impact the behaviors of consumers, businesses and financial institutions.

However, H2 2020 will be affected predominantly by the legal regulations that were introduced in the first half of the year due to the state of pandemic caused by SARS-CoV-2 virus infections and actions aimed, on one hand, at countering the pandemic and, on the other hand, at reducing its impact on the economy. The legislative manifestation of those activities are the "Anti-Crisis Shields", namely:

- Act of 2 March 2020 on Special Solutions Associated with Preventing, Counteracting and Combating COVID-19, Other Infectious Diseases and Crises Caused by Them,
- Act of 31 March 2020 Amending the Act on Special Solutions Associated with Preventing, Counteracting and Combating COVID-19, Other Infectious Diseases and Crises Caused by Them and Certain Other Acts,
- Act of 16 April 2020 on Special Support Instruments in Connection with the Spread of the SARS-CoV-2 Virus,
- Act of 14 May 2020 Amending Certain Acts in Respect of Protective Measures in Connection with the Spread of the SARS-CoV-2 Virus,
- Act of 19 June 2020 on Interest Subsidies for Bank Loans Granted to Commercial Undertakings Affected by COVID-19 and on a Simplified Procedure for Approval of a Settlement in Connection with the Occurrence of COVID-19.

These statutes provide for a number of solutions applicable to various of areas of economic life, including instruments that enable economic operators to maintain financial liquidity (exemption from payment of social security contributions, micro-loans and idle time pay) and regulations aligning legal solutions with the realities of the electronic economy.

The regulations of the "Anti-Crisis Shields" have both a direct and indirect impact on PZU's business. The indirect impact stems from the fact that these solutions will favorably affect the operation of enterprises (and their employees), including those of PZU's clients. And even though the "Anti-Crisis Shields" did not contain any direct references to insurance activity, the following direct effects of these regulations on PZU may be mentioned:

- extending the possibility of remote work by the company's corporate authorities – an amendment to the Commercial Company Code introduced changes in the manner of holding meetings (using means of remote communication) and adopting resolutions by the company's management and supervisory bodies. Among the most important changes is the ability of the Supervisory Board to hold meetings via means of remote communication, which option was not provided for by the Commercial Company Code or the Articles of Association of PZU before. This amendment enables the Supervisory Board to adopt resolutions by written procedure or via means of direct remote communication also in matters for which the Company's Articles of Association require a secret ballot, provided that no Supervisory Board member puts forward an objection.
- reducing the requirements for the rotation of audit firms – the requirement of 5 years as the maximum permissible uninterrupted duration of statutory audit engagements performed by the same audit firm or an audit firm associated with this audit firm or any member of a network operating in the European Union states of which these firms are members has been removed. Instead, a 10-year engagement period has been introduced for audits of financial statements.
- changing the criteria of access to the register of identity cards and the PESEL register, which will facilitate access to the data sharing service by way of limited teletransmission of data from the Register of Identity Cards and verification of data from the PESEL register. The reason for extending this access is to seal the client registration processes, for instance by the obligated entities referred to in the regulations on counteracting money laundering and terrorist financing, through additional data verification by running a query in public registers.

The regulations of the "Anti-Crisis Shield" also have a direct impact on changing the organization of work at PZU, because they serve as the basis for a large portion of the Company's employees to work remotely. As regards the organization of work and the operation of PZU branches, PZU's business during the pandemic has also been affected by regulations issued by the Council of Ministers on the establishment of certain restrictions, orders and prohibitions related to the announcement of the state of pandemic and recommendations of the State Labor Inspection Service. In accordance with these regulations, PZU takes steps to ensure safe conditions for the performance of work and services by its employees and agents and to provide safety for its clients.

A bundle of solutions prepared by the Polish Financial Supervision Authority, entitled: "Supervisory Incentive Package for Security and Development of the insurance industry" is addressed directly to insurance companies. The purpose of the solutions proposed by the regulator is to:

- ensure that insurance and reinsurance companies are able to fulfill their obligations towards clients,
- enable insurance companies to focus on serving their clients, conducting key processes and running current operations by, without limitation, reducing their reporting burdens,
- facilitate the execution of insurance contracts by insurance companies and insurance intermediaries by permitting them to execute insurance contracts in a completely electronic manner,
- take into consideration the specific situation of insurance companies in the claims handling aspect.

The Polish Financial Supervision Authority also recommended that insurance companies retain all the profit they generated in previous years (i.e. that they refrain from the disbursement of dividends). SECTION 7.4 DISTRIBUTION OF THE 2019 PROFIT

Moreover, the insurance sector has developed its own solutions to assist clients affected by the pandemic. These solutions are included in the "Recommendations of pro-client activities for the insurance market" issued by the Polish Insurance Association, in which the Association puts forward the following recommendations (among others) to its members:

- deferment (suspension) for all or part of the insurance portfolio, payment of the premium for insurance purchased in connection with a loan agreement via the bank for a period of up to 3 months in the event of financial problems of the client caused by the current epidemic situation associated with the COVID-19 pandemic,
- deferment or suspension of payment of a life insurance premium of a savings or unit-linked nature in the event of financial problems of the client,
- reduction or no increase in the installment payment for motor third party liability insurance at the individual request of the client, applicable to installments payable during the pandemic.
- introduction of a simplified method of handling simple and relatively minor claims.

Measures to be taken in the state of pandemic are also laid down in the Act on Supporting the Insurance Market for Trade Receivables in Connection with Counteracting the Economic Effects of COVID-19, which was adopted by the Sejm on 19 July 2020. The Act specifies the terms and conditions under which the State Treasury may take over from insurance companies certain risks arising from insurance contracts on trade receivables, the provisions of which are applicable to trade receivables arising in the period from 1 April 2020 to 31 December 2020. The State Treasury, by way of an agreement entered into with an insurance company, may undertake to take over 80% of the insurance risk arising from the insurance portfolio of trade receivables. The State Treasury's liability may not exceed the amount equivalent to 375% of the gross written premium of the insurance company generated from its insurance of trade receivables in 2019.

On 19 May 2020, the Regulation of the Minister of Finance of 14 May 2020 Amending the Regulation on the Examination for Persons Applying for the Performance of Agency Activities, Distribution Activities of an Insurance Company and Distribution Activities of a Reinsurance Company entered into force and aligned the conditions for the conduct of such examinations by insurance companies with the situation caused by the COVID-19 pandemic. On 27 May 2020, the Regulation of the Minister of Finance of 22 May 2020 Amending the Regulation on Applications for Entry in the Register of Insurance Agents and Agents Offering Supplementary Insurance entered into force. The amendments were the Minister of Finance's response to market expectations to make the pertinent solutions more flexible in the light of the COVID-19 pandemic.

On 4 May 2020, the Regulation of the Minister of Health of 28 April 2020 on Information to Be Provided to Insurance Companies by Entities Performing Medical Activities and by the National Health Fund entered into force. The Regulation redefined the procedure for providing insurance companies with information on the health of insureds or persons on whose account the insurance contract is supposed to be entered into and the procedure for providing insurance companies by the National Health Fund with data on the names and addresses of service providers who have provided healthcare services in connection with an accident or random event forming the basis for determining their liability and the amount of indemnification or benefits, and the method for determining the amount of fees for the provision of such information. In accordance with this Regulation, the application (to an entity performing medical activities or the National Health Fund) must be accompanied by information on the consent of the insured or the person on whose account the insurance contract is supposed to be entered into, or his or her statutory representative, along with the date and form of expressing such consent. The amendment results in the revocation of the previously binding requirement to receive written consent from clients of insurance companies, which made it difficult to enter into insurance contracts remotely.

The most important judgments handed down by the Supreme Court which will affect the insurance business concern the liability of insurance companies for the expenses incurred on the rental of a replacement vehicle and a benefit disbursed in the event of an early termination of a unit-linked life insurance contract.

On 13 March 2020, in case no. III CZP 63/19, the Supreme Court ruled that incurring an obligation by the injured party to pay the rent for a replacement vehicle constitutes a loss within the meaning of Article 361 § 2 of the Civil Code which remains in a causal relationship with the related traffic accident.

On 17 July 2020, in case no. III CZP 75/19, the Supreme Court ruled that the benefit disbursed by the insurer in the event of an early termination of a unit-linked life insurance contract is not the main benefit within the meaning of Article 385 1 § 1 sentence 2 of the Civil Code.

**Factors specific to the sectors in which the PZU Group operates**

In addition to the above factors which influence the conditions of operation and the Group's results, the situation in individual areas of activity is influenced by sector-specific factors and their changes. The most important one is the level of competition in individual product groups constituting the core of PZU Group's business. Moreover, the COVID-19 pandemic has triggered a number of processes that will affect the operation of the insurance market, both in the short term and in the long term.

In connection with the lockdown of the Polish economy, the loss ratio in motor own damage and motor TPL insurance declined due to the lower frequency of claims (which resulted from a lower volume of domestic and international traffic) with an increase in the average claim (fewer minor claims, interrupted supply chains and shortages of spare parts, appreciation of the euro, longer use of replacement vehicles). Similarly, on the side of life insurance, there was a significant decrease in the loss ratio in group and health insurance (due to a lower frequency of deaths, despite the outbreak of the pandemic, and a lower loss ratio of paramedical risks, chiefly hospitalization, surgical operations, critical illnesses and permanent dismemberment, due to a smaller number of claims). Despite the currently observed gradual return to the loss ratio from the period preceding the lockdown of the economy, it is difficult to predict how the trends in question will affect the level of competition and the pricing policies of insurance companies in H2 2020.

On the other hand, some lines of business were immediately struck by the COVID-19 pandemic. First of all, travel insurance was particularly exposed to the unfavorable effects of the lockdown – at the initial stage of the pandemic, insurers recorded a deterioration in the loss ratio of this type of insurance, whereas following the imposition of travel restrictions, sales of insurance in this product group were frozen. In the medium term, unfavorable trends related to the increase in the loss ratio may be expected to appear in the area of insurance guarantees, job loss insurance and low own contribution insurance for cash loans and mortgages.

Also, changes may occur in clients' awareness, expectations and habits. The pandemic and the accompanying sense of insecurity may cause clients to start generating stronger demand for classic protective life insurance products. Another trend may be the development of telemedicine. Furthermore, the lockdown of the economy, forcing the transition to distance work, undoubtedly accelerated the processes of digitization and the use of advanced technologies in the insurance sector. Remote forms of work, sales, inspection and claims handling became popular quite rapidly. The situation caused by isolation and, currently, adhering to the principles of social distancing in the return to the "new normal" may also accelerate the transfer of clients from traditional to remote channels. Changes in clients' habits, which would normally take several years, may in the current circumstances occur much faster.

At the same time, it is expected that changes in the insurance sector will continue, as they were observed even before the COVID-19 pandemic, related to the emergence of new entrants and trends associated with the development of new technologies, including operators of big databases, fintechs and insurtechs[3].

The sharing economy trends and increasing environmental awareness result in dynamic development of the shared mobility industry. City dwellers increasingly frequently choose solutions which allow them to quickly and efficiently move around and change the means of transport depending on the situation on the road. Shared mobility is not only about cars but also other types of personal transport devices (e.g. scooters, segways, skymasters, electric monocycles), rented using mobile technologies. The new insurance risks create a potential for development of products for individual users and businesses.

[3] Fintech – sector of economy encompassing companies operating in the financial and technological industries. Fintech companies most often provide financial services using the Internet. It is also a term for all types of technological or financial innovations. Insurtech is one of the areas of the fintech industry encompassing new technological solutions in insurance.

Moreover, the PZU Group's activity and results in the short and longer time horizon will be shaped by fortuitous factors – the occurrence or lack of occurrence of catastrophic phenomena, such as floods, torrential rains, hail, cyclones and tornadoes, an increased intensity of which is usually observed in the summer months (non-life insurance segment) as well as by demographic trends, mortality and fertility (life insurance segment).

A detailed description of the factors that may influence the Group's activity in H2 2020 broken down into individual operating segments is presented in SECTION 3 OPERATION OF THE PZU GROUP.

The PZU Group grasps the aforedescribed factors, carefully keeps track of the dynamic social and demographic changes and constantly analyzes the threats and opportunities affecting the development of the markets in which it operates. The PZU strategy for 2017-2020 published on 9 January 2018 and entitled "The New PZU – More Than Insurance" is also our response to the ongoing changes. PZU's goal is to take advantage of the opportunities ensuing from the transformation of the insurance market, address our current clients' needs better and enhance their satisfaction as well as reach those segments that value digital solutions SECTION 4 PZU 2020 – MORE THAN INSURANCE.

# 3.

# PZU Group's activity

We are strengthening our position as the financial services leader. The PZU Group's brand spans insurance, banking products, mutual funds and pension funds and medical services.

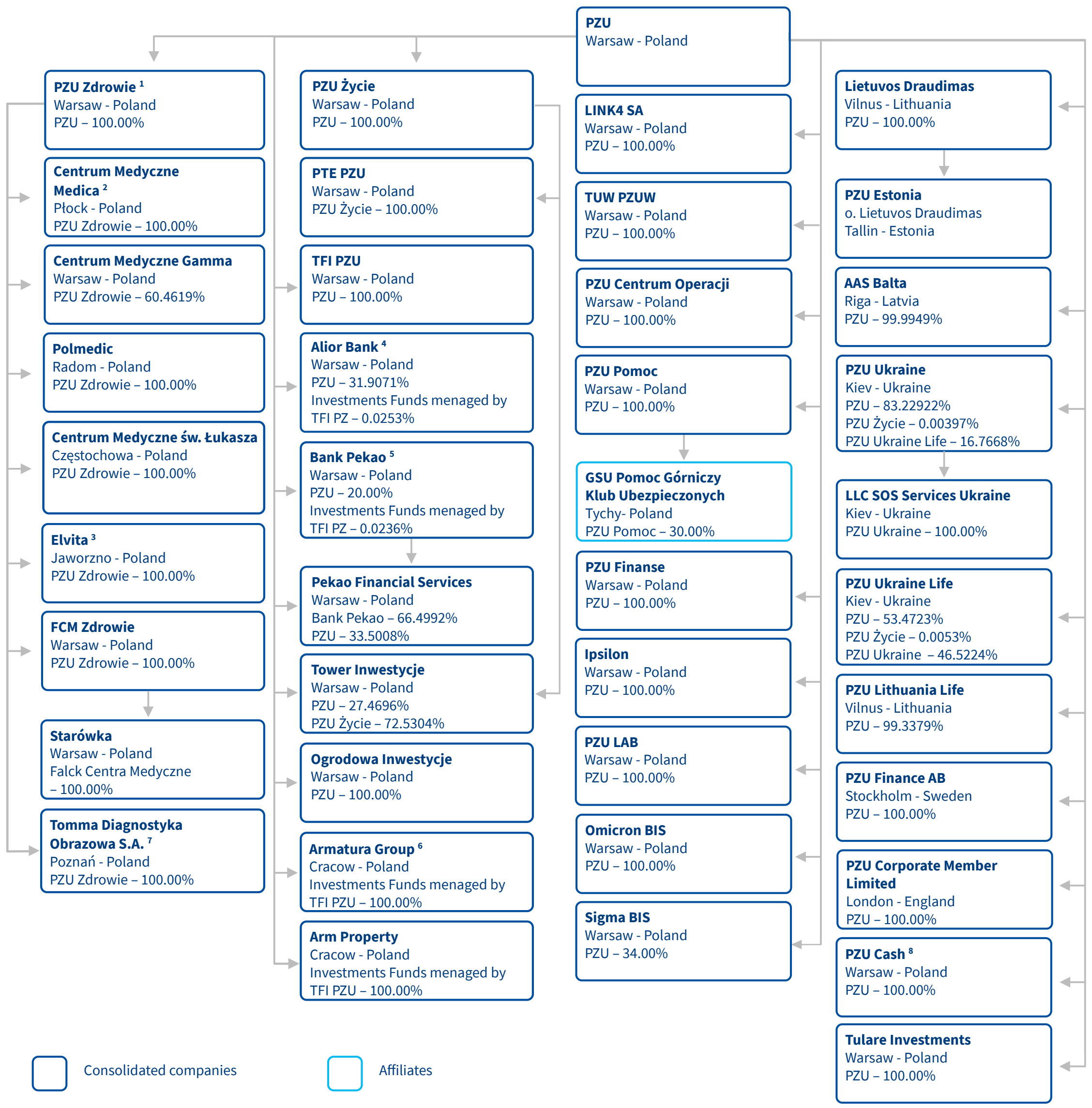
**In this section:**

1. Structure of the PZU Group
2. Non-life insurance (PZU, LINK4 and TUW PZUW)
3. Life insurance (PZU Życie)
4. Banking (Bank Pekao, Alior Bank)
5. Mutual funds and Employee Capital Schemes (TFI PZU)
6. International operations
7. Medical services (Health Area)
8. Pension funds (PTE PZU)
9. Other operating areas

## 3.1 Structure of the PZU Group

The PZU Group conducts various activities in insurance and finance. In particular, the PZU Group companies provide services in life insurance, non-life insurance, health insurance and products and they manage client assets in mutual funds, an open-end pension fund and employee capital schemes, and thanks to its investment in Bank Pekao and Alior Bank they also offer banking services.

**Structure of the PZU Group (as at 30 June 2020)**



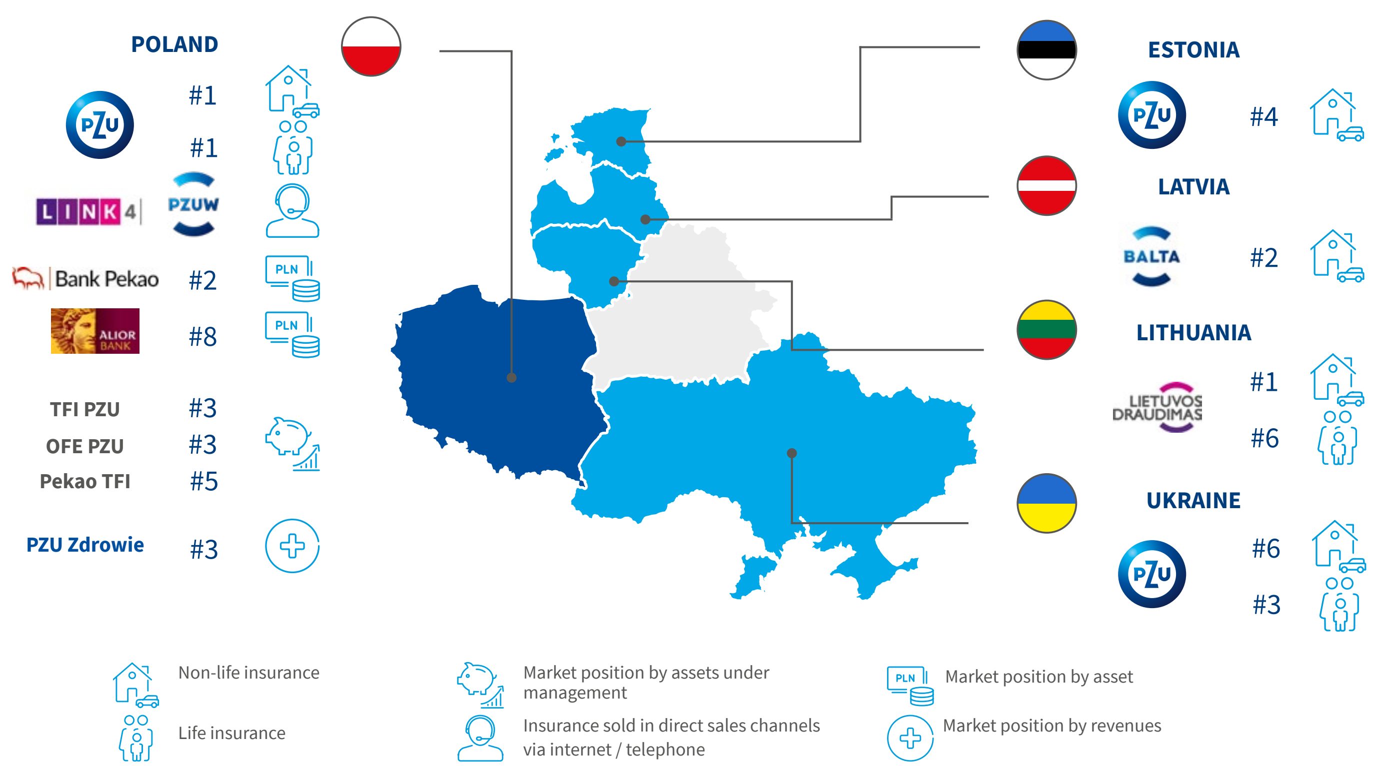

[1] The following branches operate within PZU Zdrowie: CM Nasze Zdrowie, CM Medicus, CM Cordis, CM Warszawa, CM Kraków, CM Poznań, CM Wrocław, CM Gdańsk Abrahama, CM Artimed, CM Warszawa Chmielna
[2] The Centrum Medyczne Medica Group consists of the following companies: Centrum Medyczne Medica Sp. z o.o., Sanatorium Uzdrowiskowe „Krystynka" Sp. z o.o. with its registered office in Ciechocinek
[3] The Elvita Group consists of the following companies: Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA – Jaworzno III Sp. z o.o., Przedsiębiorstwo Usług Medycznych PROELMED Sp. z o.o. in Łaziska Górne
[4] The Alior Bank Group is composed of the following companies, among others: Alior Bank SA, Alior Services Sp. z o.o., Alior Leasing Sp. z o.o., Meritum Services ICB SA, Alior TFI SA, New Commerce Services Sp. z o.o., Absource Sp. z o.o., Serwis Ubezpieczeniowy Sp. z.o.o, PayPo Sp. z o.o., CORSHAM Sp. z o.o., RBL_VC Sp. z o.o., RBL_VC sp. z o.o. ASI S.K.A., Harberton sp. z o.o. (holding a 100% stake in RUCH SA; RUCH SA holds a 100% stake in the following subsidiaries: Fincores Business Solutions sp. z o.o., RUCH Detal S.A., RUCH Marketing sp. z o.o., RUCH Nieruchomości V sp. z o.o.)
[5] The Bank Pekao Group is composed of the following companies, among others: Bank Pekao SA, Pekao Bank Hipoteczny SA, Pekao Leasing Sp. z o.o., Pekao Investment Banking SA, Pekao Faktoring Sp. z o.o., Centrum Kart SA, Pekao Financial Services Sp. z o.o., Pekao Direct Sp. z o.o. (until 16 January 2020: Centrum Bankowości Bezpośredniej Sp. z o.o.), Dom Inwestycyjny Xelion Sp. z o.o., Pekao Investment Management SA (holding a 100% stake in Pekao TFI SA), CPF Management
[6] The Armatura Group is composed of the following companies: Armatura Kraków SA, Aquaform SA, Aquaform Ukraine TOW, Aquaform Romania SRL
[7] The Tomma Group includes the following subsidiary: Bonus Diagnosta Sp. z o.o.
[8] On 17 February 2020, Battersby Investments S.A. changed its name to PZU CASH S.A.
Its structure does not include mutual funds or companies in liquidation or under bankruptcy.

PZU – as the parent company – through its representatives in supervisory bodies of subsidiaries and voting at their shareholder meetings, exerts an impact on the selection of strategic directions regarding both the scope of business and the finances of the Group members. As selected companies focus on their specialization and utilize their membership in the Tax Group, these companies render services to one another on chosen markets pursuant to an internal cost allocation model (under the Tax Group).

The following changes transpired in the structure of the PZU Group in H1 2020 up to the date of publication of these financial statements:

- On 2 January 2020, Specjalistyczna Przychodnia Przemysłowa "PROF-MED" sp. z o.o. merged with Centrum Medyczne Medica Sp. z o.o.
- On 19 February 2020, Alior Bank S.A. acquired a 100% stake in Harberton sp. z o.o.
- On 17 April 2020, RBL_VC spółka z ograniczoną odpowiedzialnością ASI S.K.A. was entered in the National Court Register. The company was established on 21 November 2019 by Alior Bank Spółka Akcyjna and RBL_VC spółka z ograniczoną odpowiedzialnością.
- On 3 June 2020, Harberton Sp. z o.o., a wholly-owned subsidiary of Alior Bank SA, and Lurena Investments B.V., entered into a final share purchase agreement under which Alior Bank indirectly acquired 108,824,007 shares in RUCH SA, representing in total 100% of the company's share capital, for the price of PLN 1. Haberton Sp. z o.o. became an indirect parent of the following wholly-owned subsidiaries of Ruch SA: Fincores Business Solutions sp. z o.o., RUCH Detal S.A., RUCH Marketing sp. z o.o., RUCH Nieruchomości V sp. z o.o.
- On 30 June 2020, PZU Zdrowie S.A. merged with Alergo-Med Sp. z o.o., and Bonus-Diagnosta Sp. z o.o. merged with Asklepios Diagnostyka Sp. z o.o.
- On 1 September 2020, a joint-stock company PZU Projekt 01 SA was established with a share capital of PLN 150 thousand.

**Market position of PZU Group companies**

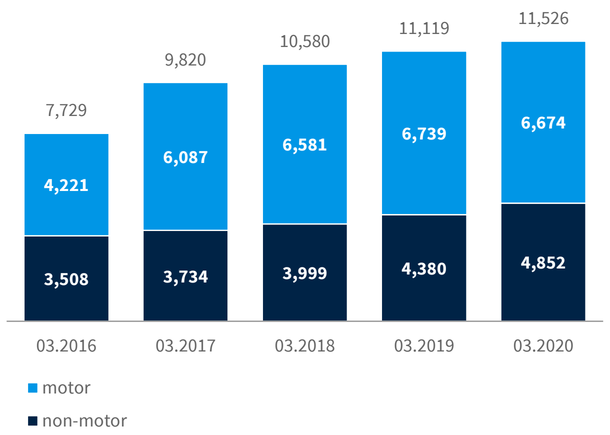


## 3.2 Non-life insurance (PZU, LINK4 and TUW PZUW)

**Market situation**

Measured by gross written premium in Q1 2020, the non-life insurance market in Poland grew by a total of PLN 407 million (+3.7%) in comparison to the corresponding period of the previous year. The market growth was driven chiefly by an increase in gross written premium in the non-motor insurance area (by PLN 472 million, +10.8% y/y, while gross written premium in the motor insurance area was lower by PLN 65 million (-1.0%) y/y.

**Gross written premium of non-life insurance companies in Poland (in PLN million)**



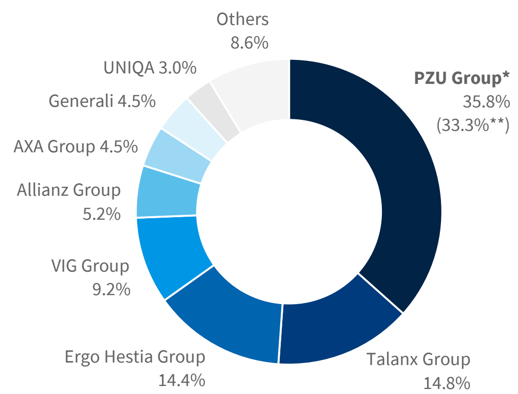

Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Rynek ubezpieczeń [Insurance market] 1/2020, Rynek ubezpieczeń 1/2019, Rynek ubezpieczeń 1/2018, Rynek ubezpieczeń 1/2017, Rynek ubezpieczeń 1/2016.

The higher level of premium was driven primarily by sales growth in insurance against fire and other damage to property (up PLN 306 million, +15.0%, of which PLN 138 million was for indirect activity), marine, aviation and transport insurance by PLN 50 million (+45.7%) and assistance (up PLN 47 million, +15.1%).

Conversely, a negative rate of growth in gross written premium on motor TPL insurance, which is the most important segment of the Polish non-life insurance market, was again recorded; in Q1 2020, gross written premium accounted for 38.3% of the total gross written premium in section II. On a year-on-year basis, gross written premium in motor TPL insurance in direct business was lower by PLN 50 million (-1.3%), which was additionally exacerbated by a lower premium in indirect business (by PLN 46 million, -5.9%). These trends were a consequence of the increased price competition following a period of sustained high profitability of the portfolios in 2018 and 2019 and a slowdown on the lease market (first symptoms of the pandemic).

The sales of motor own damage (MOD) insurance were up 1.4% y/y (PLN +30 million) and reached PLN 2.3 billion, which accounted for 19.6% of the overall gross written premium in non-life insurance in Q1 2020.

**Non-life insurance companies – percentage of gross written premium in Q1 2020 (in %)**




Groups: Allianz – Allianz, Euler Hermes; Ergo Hestia – Ergo Hestia; Talanx – Warta, Europa; VIG – Compensa, Inter-Risk, Wiener; Generali - Generali, Concordia
* PZU Group – PZU, LINK4, TUW PZUW
** PZU Group's market share in non-life insurance on direct business
Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Rynek ubezpieczeń [Insurance market] 1/2020

In Q1 2020, the overall non-life insurance market generated a net result of PLN 400 million, signifying a decrease by PLN 229 million in comparison with the corresponding period of 2019.

The technical result of the non-life insurance market in Q1 2020 was PLN 686 million, having declined by PLN 13 million y/y. The fall in the technical result in motor TPL insurance by PLN 146 million (effect of an increase in claims and benefits paid significantly greater than the rate of growth in earned premium) and in the general third party liability group by PLN 39 million, partly offset by an improved result in insurance against fire and other damage to property by PLN 118 million (impact of a lower degree of damage caused by atmospheric phenomena) and in motor own damage insurance by PLN 44 million, had the largest impact on this change.

**Non-life insurance market - gross written premium vs. technical result (in PLN million)**

| Gross written premium vs. technical result | 1 January – 31 March 2019 | | | 1 January – 31 March 2020 | | |
|---|---|---|---|---|---|---|
| | PZU* | Market | Market net of PZU | PZU* | Market | Market net of PZU |
| Gross written premium | 4,071 | 11,119 | 7,048 | 4,131 | 11,526 | 7,395 |
| Technical result | 371 | 699 | 328 | 383 | 686 | 303 |

* It contains LINK4 and TUW PZUW
Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Rynek ubezpieczeń [Insurance market] 1/2020, Rynek ubezpieczeń 1/2019, PZU's data

The following entities in the PZU Group operate on the non-life insurance market in Poland: the Group's parent company, i.e. PZU, along with LINK4 and TUW PZUW.

In Q1 2020, the PZU Group had a 35.8% share in the non-life insurance market, compared to 36.6% in the corresponding period of 2019 (33.3% and 33.5% on direct business, respectively), thereby recording a slight dip while retaining the portfolio's profitability well above market average.

After Q1 2020, the PZU Group's technical result (PZU together with LINK4 and TUW PZUW) stated as a percentage of the overall market's technical result was 55.9% (the PZU Group's technical result was PLN 383 million while the overall market's technical result was PLN 686 million).

The total value of investments made by non-life insurance companies as at the end of Q1 2020 (net of investments in subordinated entities) was PLN 62,729 million, up 2.7% compared to the end of 2019.

The non-life insurance companies in total estimated their net technical provisions at PLN 57,167 million, signifying a 1.8% growth compared to the end of 2019.

**PZU's activity**

As the PZU Group's parent company, PZU offers an extensive array of non-life insurance products, including motor insurance, property insurance, casualty insurance, agricultural insurance and third party liability insurance. At the end of Q2 2020, motor insurance was the most important group of products offered by PZU, both in terms of the number of insurance contracts and its premium stated as a percentage of total gross written premium.

Faced with changing market conditions, PZU realigned its offering in 2020 to clients' evolving interests and needs by rolling out new products and innovative solutions.

In mass insurance, PZU did the following:

- In expanded the scope of PZU Firma by adding the following clauses:
    - PZU Cyber, providing insurance cover, among other risks, against the consequences of cyberattacks and breaches of privacy regulations (including the GDPR and the Polish Personal Data Protection Act). It was a response to market demand generated by the occurrence of the COVID-19 pandemic; the more intensive performance of remote work translated into an increase in the use of IT tools and a higher frequency of remote use of enterprise resources. In the event of a cyberattack, PZU will arrange for and cover the costs of assistance by incident management specialists, IT investigators, law firms and a PR agency;
    - PZU Data Protection, providing insurance cover against the consequences of breaches of personal data protection regulations;
- made the PZU Home offering more attractive by introducing new pricing tools (Radar Live), which enabled

an even better alignment of the offering with the client’s expectations and risks;

- launched the PZU against Cancer product targeted at clients under the age of 65 who have not been diagnosed with cancer prior to enrolling in the insurance. If the insured develops a malignant neoplasm or a malignant neoplasm in the pre-invasive phase or a benign brain tumor during the period of cover, the insurance will provide financial support and the possibility of obtaining an additional medical opinion from a foreign specialist.
- added the PZU Motor Tires product to its offering, providing assistance and funding for the repair or replacement of a damaged tire in a vehicle for clients with PZU Auto TPL or PZU Auto MOD. This insurance stands out on the market due to its very broad available cover, adjustable in accordance with the client’s needs, and the largest assistance network comprising over 700 partner businesses providing road assistance services. This offering is one of the new elements of protecting the insured client’s mobility.

Most of the changes in the corporate insurance segment called for enhancing the effectiveness of collaboration with intermediaries and making the dedicated offering for fleet clients and lease companies more attractive. The most important activities related to the product offering were as follows:

- deployment of a new offering in the field of property insurance in international transport, aiming to increase the degree of competitiveness and standardization of the proposal, in particular for clients in the business of both domestic and international transport;
- creation of the PZU D&Oskonała Ochrona [PZU Directors & Officers Perfect Protection] sub-product (third party liability insurance for members of company governing bodies) targeted at small and medium-sized enterprises. This product is offered through the Company’s own network and multi-agencies.

In financial insurance, PZU was unswerving in its support for the Polish economy by providing insurance guarantees and securing the performance of contracts in such key areas as the power sector, the shipbuilding industry, the construction industry and the science and innovation sector. The most important activities related to the product offering were as follows:

- modernization of the Environmental Guarantees product aimed at reducing irregularities in the waste sector related to improper storage and treatment of waste;
- preparation of a GAP insurance offering for clients of the dealer channel.

PZU cooperated with 8 banks and 13 strategic partners in H1 2020. PZU’s business partners are leaders in their industries and they have client bases with enormous potential offering an opportunity to extend the offering to include more innovative products. PZU cooperates actively with the PZU Group’s member banks, continuing the roll-out of a comprehensive offering using the banks’ distribution networks. This cooperation with Bank Pekao and Alior Bank allows PZU to steadily expand the offering and scale of sales of insurance products linked to bank products, including insurance coverage for cash loans and mortgage loans.

In strategic partnerships, cooperation was based mostly on companies operating in the power sector through which assistance services were offered, e.g. the assistance of an electrician or a plumber as well as the newly introduced health assistance. PZU’s insurance offering is also present on the e-commerce market through cooperation with iSpot, Allegro and PLL LOT.

**LINK4’s operations**

LINK4 was the first insurance company in Poland offering products by phone; it still continues to be one of the leaders on the direct insurance market, extending its cooperation with multi-agencies, banks and strategic partners. The company offers an extensive array of non-life insurance products, including motor insurance, property insurance, casualty insurance and third party liability insurance. Given the changing market situation, the company has zeroed in on the development of innovative solutions providing added value to both its clients and business partners. By using new technologies in internal processes and in relations with clients, the company continues to challenge the way of thinking about insurance.

In H1 2020, LINK4 had in place 41 business processes executed fully or largely by robots.

In order to support its clients in cases that extend beyond the possibilities of the available complaint paths, the insurer established the function of the Client Ombudsman as one of the first insurance companies on the market. The establishment of the new function within the company’s structures is aimed at strengthening the relationship between the insurer and its clients. The Ombudsman deals with the most complex cases that have already been handled within the framework of the complaint procedure but the client has found their outcome unsatisfying. The Ombudsman makes decisions based on the applicable provisions of law, taking into account the circumstances of the case and the broadly construed client’s perspective.

In H1 2020, the company also introduced a host of solutions to facilitate the work of intermediaries. During the pandemic, LINK4 accelerated its work on the remote policy, which resulted in introducing the option to execute insurance contracts remotely, without the client having to sign the policy documents, as early as within one week of the announcement of the state of epidemic. At the same time, the option of carrying out inspections without the participation of an agent was also introduced.

Moreover, all LINK4 clients who are employees of medical services, the police, city guards or other public service institutions that are directly involved in the fight against the spread of the coronavirus, as well as volunteers assisting the infected and the elderly, may use a dedicated hotline.

LINK4 enjoys a special level of recognition both among its clients and employees, which has been confirmed by awarding it with the Best Quality Employer 2020 title, putting LINK4 among the best employers in Poland. Previously, the company had been awarded twice with the titles of Investor in Human Capital and Great Place To Work. For the second time, the National Certification Board awarded LINK4 with the Best Quality Employer title, which is a distinction for companies applying the market’s best practices in the HR area. This year, LINK4 was awarded, among other aspects, for its support of employee development and its personalized approach to individuals participating in recruitment processes and persons already hired by the company.

In 2020, LINK4 focused on expanding further its current product offering by adapting it to the changing expectations of its clients and business partners. The most important activities associated with modifying its product offering were as follows:

- extension for Assistance after an Accident for the LINK4 customers with a motor insurance policy, a product offered to customers with a motor third party insurance policy or a package. As part of the product, the customer receives a guarantee of quick damage handling without incurring additional costs, in a situation where the accident occurred in Poland due to the fault of another driver who has a motor TPL insurance agreement entered into with an insurer other than LINK4;
- extension of the LINK4 Child offering with the disbursement of a benefit for sickness and hospitalization related to COVID-19;
- extension of cover and introduction of All Risks MOD insurance (replacing the existing named events);
- extension of the scope of cover in motor ADD insurance – previously, the insured received the benefit when he or she sustained permanent dismemberment. Currently, the benefit is payable for each, also milder, detriment to health, provided it has been entered in the new impairment table. The current table describes both the diagnosis and the consequences of the accident. The insured does not have to sustain permanent dismemberment and LINK4 does not wait until the end of treatment with the disbursement of the benefit. Rather, it pays out the benefit on the basis of medical documentation.

**TUW PZUW’s activity**

In 2020, the rapid growth of TUW PZUW’s sales continued along with the company’s significant improvement in profitability.

The company offers its clients flexible insurance programs that optimize both costs and coverage. Since 2016, it has been selling and handling commercial insurance products targeted at clients from various industries, focusing predominantly on cooperation with large enterprises, medical centers (hospitals and clinics), local government units and church entities.

Faced with changing market conditions, TUW PZUW realigned its offering in 2020 to clients’ evolving interests and needs by rolling out new products and innovative solutions.

The most significant activity related to changes in the product offering was the introduction of the product dubbed “Loss of profit due to machine failure” (MLoP), which supplemented the offering targeted at both large and smaller businesses.

Moreover, TUW PZUW is consistently attuning its operating model to the growing scale of business by expanding its team of professionals to ensure the provision of comprehensive insurance services to its members and the capacity to tailor its insurance offering to the specific needs of clients.

As a result of the rapid increase in the number of members, the company has enrolled nearly 400 of them. Within the framework of TUW PZUW, 50 mutual benefit societies were established, bringing together members that fulfill specific criteria (industrial, corporate, in terms of risk types).

TUW PZUW remains the leader of the mutual insurance market in Poland and has been included in the list of 500 of the Rzeczpospolita daily, ranking 12th in the category "Biggest jumps on the 500 list", having jumped from 460th place (for 2018) to 407th place, up 53 places.

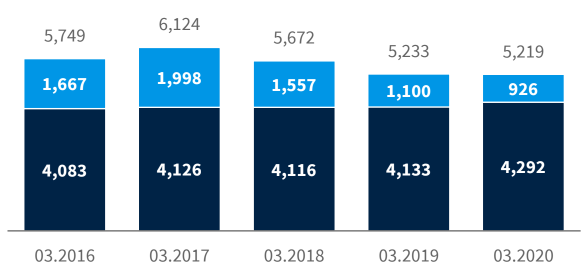
Among companies with the highest rate of growth in income, it ranks 30th (up 53 places compared to in last year's edition). The 25.2% y/y increase in revenue enabled the company to climb up 23 places.

**Factors, including threats and risks, that will affect the operations of the non-life insurance sector in H2 2020**
Besides chance events (such as floods, droughts and spring ground frost), the following should be treated as the main factors that may affect the situation of the non-life insurance sector in 2020:
- possible slowdown in economic growth in Poland. The more challenging financial standing of companies may result in elevated credit risk, a higher loss ratio on the financial insurance portfolio and deceleration in the pace of gross written premium growth in both motor insurance (predominantly leases) and property non-life insurance;
- increase in the prices of spare parts affecting claims handling expenses due to the depreciation of the Polish zloty against the euro;
- possible slowdown in the growth rate of gross written premium, mostly as a consequence of the motor insurance portfolio's profitability generated in recent years, and thereby an active pricing policy applied by competitors and rivalry to attract clients;
- possible adverse trends related to the increase in the loss ratio may be expected to appear in the area of insurance guarantees, job loss insurance and low own contribution insurance for mortgage loans as a result of the prolonged COVID-19 pandemic;
- reduced demand for voluntary insurance (due to an increase in the rate of unemployment and a decline in employment) as a result of the ongoing COVID-19 pandemic;
- changes in trends and client behavior toward customization of proposals and an electronic, swift and paperless method of purchasing and handling insurance, forcing insurance companies to adapt to these expectations rapidly;
- coming into force of further regulations or financial burdens on insurance companies.

## 3.3 Life insurance (PZU Życie)

**Market situation**
Poland's life insurance market measured by gross written premium was worth PLN 5,219 million in Q1 2020 meaning that over the most recent 5 years it shrank on average by 6.2% per annum. At the same time, gross written premium in Q1 2020 was by PLN 14 million, or 0.3%, lower than in the corresponding period of the previous year. Although the market measured by gross written premium did not experience a significant change, some major changes occurred in individual categories and classes. In terms of insurance classes, the largest decline in value was posted in class 3 (unit-linked insurance) – by PLN 200 million, or -11.7% y/y, while increases were recorded in class 5 (health and accident insurance) – by 108 PLN million, or +7.1% y/y, and class 1 (life insurance) – by PLN 77 million, or +4% y/y. In turn, in terms of the form of payment, written premium from single payment insurance decreased by PLN 173 million, or 15.8% y/y, and written premium from periodic insurance increased by PLN 159 million (3.9% y/y).

**Gross written premium reported by life insurance companies in Poland (in PLN million)**




Source: KNF's Quarterly Bulletin. Rynek ubezpieczeń [Insurance Market] 1/2020, Rynek ubezpieczeń 1/2019, Rynek ubezpieczeń 1/2018, Rynek ubezpieczeń 1/2017, Rynek ubezpieczeń 1/2016

The changes in the level and the growth rate of the life insurance market premium have been stimulated mostly by single premiums in investment products also in the longer term. The single premium compound average growth rate since 2015 was -20.7%. The changes in circumstances on the capital market and in the legal environment should be considered to be the underlying causes for the gross written premium on single premium business to fall in a trend over several years. Initially, the record low interest rates contributed to the decline in the yields offered by term deposits packaged as insurance products, thereby leading to heightened interest in other investment products. Additionally, a tax was introduced as of 1 January 2015 on short-term endowment insurance offering a fixed rate of return or a return based on indices; this also contributed to reducing client interest in such products and ultimately to their retraction, especially the first ones, from the offer of insurance companies. In subsequent years the regulatory authority's guidelines, including guidelines regarding the level of fees incurred by clients of unit-linked (UL) products and EU directives regulating the market for these types of products and their distribution led to insurance companies constricting their offering of these types of products, especially in cooperation with banks. The first three quarters of 2018 were characterized by a significant dip in the level of gross written premium in single premium insurance to the lowest figures in many years, followed by its stabilization at PLN 1.1-1.2 billion in each of the subsequent quarters. However, in Q1 2020, after another decline, gross written premium set a new minimum of PLN 0.9 billion.

The outcome of this market evolution was the expanding significance of periodic premium products that constitutes PZU Życie's competitive edge on the market. In Q1 2020, periodic premium was 3.9% higher compared to the same period in 2019, with a compound average growth rate of 0.3% for the last 5 years. Periodic written premium in protection insurance in classes I and V increased by PLN 0.2 million y/y. The market concentration measured by the periodic premium remains high, while the sequence of the largest market players also has not changed. In the single premium, PZU Życie assumed the leading position, both in terms of the absolute written premium (PLN 226 million) and the increase in written premium (PLN +54 million y/y).

The total technical result generated by the life insurance companies in Q1 2020 was up PLN 58 million (7.9%) from the corresponding period of 2019 to PLN 792 million. The increase recorded in classes 1 and 5 was by PLN 58 and 48 million, respectively, chiefly due to the lower loss ratio, while class 3 posted a y/y decline in technical result by PLN 32 million.

In this same period, life insurance companies generated a net result of PLN 653 million, representing a PLN 144 million (28.3%) increase y/y. Among the drivers of this improved performance was the effect of better technical results than in the corresponding period of 2019.

The total value of the investments made by life insurance companies at the end of Q1 2020 was PLN 40,751 million, signifying a 1.0% growth compared to the end of 2019. In turn, the level of net asset value of life insurance in which the policyholder bears the investment risk decreased by 10.6% to PLN 43,850 million, mainly as a result of drop in the financial markets.

**Life insurance market – gross written premium (in PLN m)**

| Gross written premium | 1 January – 31 March 2019 | | | 1 January – 31 March 2020 | | |
|---|---|---|---|---|---|---|
| | PZU Życie | Market | Market net of PZU Życie | PZU Życie | Market | Market net of PZU Życie |
| Periodic premium | 1,899 | 4,133 | 2,234 | 1,959 | 4,292 | 2,334 |
| Single premium | 171 | 1,100 | 928 | 226 | 926 | 701 |
| **TOTAL** | **2,070** | **5,233** | **3,162** | **2,184** | **5,219** | **3,035** |

Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Rynek ubezpieczeń [insurance market] 1/2020, Rynek ubezpieczeń 1/2019, PZU Życie's data

**Life insurance market – gross written premium vs. technical result (in PLN m)**

| gross written premium vs. technical result | 1 January – 31 March 2019 | | | 1 January – 31 March 2020 | | |
|---|---|---|---|---|---|---|
| | PZU Życie | Market | Market net of PZU Życie | PZU Życie | Market | Market net of PZU Życie |
| Gross written premium | 2,070 | 5,233 | 3,162 | 2,184 | 5,219 | 3,035 |
| Technical result | 342 | 734 | 392 | 444 | 792 | 347 |
| Profitability | 16.5% | 14.0% | 12.7% | 20.3% | 15.2% | 11.8% |

Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Rynek ubezpieczeń [insurance market] 1/2020, Rynek ubezpieczeń 1/2019, PZU Życie's data

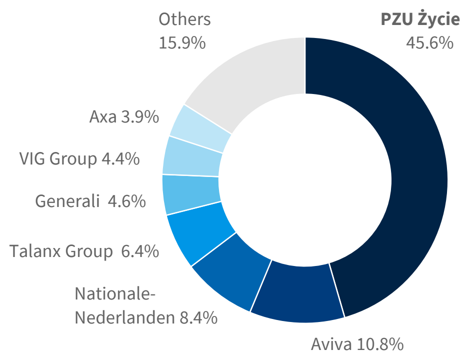
**PZU Życie's activity**

Within the PZU Group, PZU Życie operates on the Polish life insurance market. PZU Życie offers an extensive range of life insurance products, which for management purposes are reported and analyzed broken down into the following three segments: group and individually continued insurance, individual insurance and investment contracts.

In Q1 2020 PZU Życie wrote 41.8% of the gross written premium of all life insurance companies, signifying further growth on top of last year's market share (+2.3 p.p.). The reason for the increase in PZU Życie's share is the higher level of gross written periodic and single premium than a year earlier (both among protection insurance products and investment insurance products) with a decrease in the share of other market participants (in the unit-linked life insurance group). In terms of value, the increase in written premium in life insurance with a single premium was similar to the increase in written premium in life insurance with a periodic premium (PLN 54 million vs. PLN 59 million), and in both these types of insurance PZU Życie was the leader in terms of growth in absolute terms. Moreover, the increase in the single premium, in percentage terms, at PZU Życie was among the highest on the market.

At the same time, PZU Życie continued to be the clear leader in the periodic premium segment. In Q1, it generated 45.6% of these types of premiums written by insurance companies, signifying a small decrease (by 0.3 p.p.) in the market share in this segment. The year-on-year rate of increase in gross written premium at PZU Życie in this segment was 3.1%, while the other market players taken together posted a 4.5% growth rate (with a particularly high rate of growth recorded by TUnŻ WARTA SA). One of the major factors was the rapid growth in the health and individual protection insurance portfolio. PZU Życie now has more than 2.2 million policies of this type in its portfolio. PZU's share in just the life insurance segment (class I) for periodic premiums after Q1 2020 was 60.0% when measured by gross written premium and 65.5% when measured by the number of agreements in force. In turn, PZU Życie's market share in terms of the method of entering into an agreement just in the life insurance segment (class I) was 65.8% for agreements executed in group form and 38.5% for individual agreements (measured by gross written premium).

**Life insurance companies - percentage of periodic gross written premium in Q1 2020 (in %)**




Groups: Talanx - Warta, Europa, Open Life; VIG - Compensa, Vienna Life; Aviva - Aviva, Santander-Aviva
Source: KNF's Quarterly Bulletin. Rynek ubezpieczeń [Insurance Market] 1/2020

Importantly, PZU's share in the insurance market with a single premium, despite being lower than that in the insurance market with a periodic premium, continues to grow very rapidly: in Q1 2020 it increased 9 p.p. y/y and 16 p.p. over the past five years.

PZU Życie's technical result represented more than half the result earned by all life insurance companies. This evidences the high profitability these products enjoy. PZU Życie's technical result margin on gross written premium was 1.7 times higher than the overall margin generated by other companies offering life insurance (20.3% versus 11.8%).

**Product offer**

PZU Życie, as a popular and the largest insurer on the Polish market, continuously expands its product offering by adding new products or modifying existing ones to protect its clients at each stage of their lives. Changes in the product offering are intended to attract new clients and expand the insurance cover for those already in the portfolio, along with strengthening their loyalty and increasing their satisfaction level. Taking advantage of the unique synergy of competences within the PZU Group (insurer, medical operator, investment manager), the company is able to comprehensively take care of life, health and savings of its clients, providing them with the broadest possible support.

The evolution of the offering takes into account the changing requirements of the regulatory authority and the growing extent of statutory consumer protection. PZU Życie takes a customer-oriented approach by designing its offer and client service process so that the client feels fully cared for and satisfied. It should also be emphasized that the changes are made not only to the product itself but also entail the modernization and simplification of the way in which insurance is offered and sold and enable the client to take advantage of various contact channels to reach the insurance company (e.g. in a branch, by phone, e-mail, client account, person providing technical insurance services in the workplace or through an insurance intermediary, whether tied or external).

**Most significant product changes in 2020**

Under group and health insurance, PZU Życie made the following major changes in H1 2020:

- launch of sales of the PZU Thinking about Life and Health product (March 2020) targeted at companies employing up to 4 people. This innovation had been awaited eagerly by both agents and clients. Each employee may now select a different insurance option and the insurance agreement is concluded remotely via the mojePZU portal. PZU Życie can insure even a single employee – also when an employer itself does not take out a cover. A client may select up to 6 insurance options with different covers and benefit amounts, and each option may be extended to include private medical care. The insurance covers have been prepared to address different needs, depending on the client's stage in life. As a result, for instance, a client who does not plan to establish a family will not pay for such risks as childbirth or spouse's illness;
- launch of pilot sales of the PZU Cover for Farmers product began, targeted at individuals who own or co-own a farm. Insurance cover may also include their spouses or life partners and adult children. The advantages of this offering include high benefits in the event of accidents and a new benefit addressed only to this group of clients: death of the insured as a result of an accident at agricultural work. This is a new solution on the market, developed to meet the specific expectations of clients from this segment. Each client may choose a proposal from the four available options;
- launch of an insurance rider "Child Cover" to extend the PZU Protection and Health and PZU Life Protection products. The rider includes the following three additional risks: critical illness of the child (26 diseases), hospitalization of the child as a result of an illness or accident, and the child's health loss. The cover applies to children under the age of 18. Insurance riders are available in two variants which differ in the amount of the sum insured with the premium amount independent of the number of children covered. The insured will have the option to decide on his or her own whether or not to extend the cover with a new insurance risk (My Choice);
- extension of the P Plus group insurance offering with the following three new riders designed to provide insurance cover for children:
  - accidental dismemberment of a child,
  - hospitalization of a child caused by an accident or illness,

- occurrence of a critical illness of a child (26 different diseases);

  Each of these types of insurance may be extended to cover medical services. The insurance cover provides, among others, consultations with specialist physicians and rehabilitation;
- launch of an offering of riders for various industries to extend the PZU Protection and Health and PZU Life Protection products, which enable, among others, the selection of higher than standard sums insured and higher benefit payouts for selected types of dismemberment to which persons employed in certain specific industries are exposed to an above-average extent. Each offering refers directly to the industry at which it is targeted, also visually.
- extension of the corporate insurance offering with new insurance riders against the loss of abilities in everyday life. It is the first insurance of this type on the Polish market. This insurance provides financial support when, as a result of an illness or accident, the insured loses one of his or her abilities (to see, hear or speak) or at least two of his or her abilities or dexterity (the ability to walk, the ability to climb stairs, the ability to stand, the ability to kneel or bend down, the ability to lift and carry objects, the ability to sit, the dexterity of both hands, the dexterity of the upper limb). The money received from insurance may provide tangible assistance, for instance in rearranging the insured's apartment or vehicle to the new requirements arising from his or her disability, hiring a rehabilitation specialist or home assistant, settling current liabilities, etc. After the disbursement of the benefit, the insured will continue to be covered by insurance and may receive another benefit if his or her illness or accident results in the loss of other abilities covered by this product.

In the area of individual protection insurance and protection and unit-linked insurance:

- the offering was extended to include individual insurance riders for treatment in a foreign medical center (sales suspended due to the pandemic). This insurance will let PZU clients take advantage of a comprehensive arrangement of treatment (including coverage of treatment costs!) in foreign medical centers that specialize in treating the disease in question. The insurance covers:
  - development of a neoplasm,
  - cardiac surgery,
  - neurosurgical procedure,
  - organ or bone marrow transplant.
- new insurance riders were launched to cover the loss of abilities in everyday life. It is the first insurance of this type on the Polish market. It provides financial support in a situation where, as a result of an illness or accident, the insured loses the ability to stand up, kneel down, bend, lift and carry objects, loses his or her sight or hearing, etc. The money received from insurance may provide tangible assistance, for instance in rearranging the insured's apartment or vehicle to the new requirements arising from his or her disability, hiring a rehabilitation specialist or home assistant, settling current liabilities, etc.
- a modified insurance rider covering death caused by a motor accident was added to the offering.
- the "Additional Sum Insured" promotional campaign was launched. The purpose of this campaign is to incentivize clients to purchase insurance riders offered under protection products and protection and unit-linked products. The campaign focuses on increasing the sum insured in the insurance rider selected by the client (additional sum insured) without charging an additional premium.

PZU Życie cooperated actively with 4 banks, including the PZU Group's member banks, continuing the roll-out of a comprehensive offering using the banks' distribution networks. The cooperation with Bank Pekao and Alior Bank allows PZU Życie to gradually expand the offering and volume of sales of insurance products linked to bank products. In Q2 2020, life insurance for borrowers of Alior Bank's mortgage loans was launched.

The following changes were made by PZU Życie to its product offering in individual unit-linked insurance sold through the bancassurance channel:

- launch of sales of the Platinum Investment Plan insurance (a single premium unit-linked product) by Dom Inwestycyjny Xelion Sp. z o.o.;
- launch of promotional fees payable by clients in unit-linked products sold by Bank Millennium, Bank Pekao and Alior Bank.

As regards its other initiatives, PZU Życie continuously strives to understand the needs of its clients better and build long-term relations with them. The Company wants to respond swiftly to changes in the environment through a sophisticated offer accompanied by clear and communicative messages by doing the following:

- creating predictive client attrition models and responding swiftly and effectively to symptoms of client dissatisfaction;
- developing a loyalty program;
- using a simple and transparent arrangement and description of its products on its new website www.pzu.pl.

**Factors, including threats and risks, that may affect the operations of the life insurance sector in H2 2020**

The following constitute the major risk factors on the life insurance market in 2020:

- reduced demand for group employee life insurance (increase in the rate of unemployment, decline in employment) as a consequence of the prolonged COVID-19 pandemic;
- softer conditions on the capital markets deteriorating the attractiveness of products, especially unit-linked products;
- demographic changes and the aging society and the ensuing changes in the current mortality, fertility and morbidity levels, especially diseases of civilization, i.e. lifestyle diseases;
- constant price pressure in group life insurance and the battle for client ownership (and their data), thereby cutting the insurer's margins, reducing the quality of the product and fostering entry and exit obstacles for clients to overcome with independent intermediaries;
- changes in trends and client behavior toward customization of proposals and an electronic, swift and paperless method of purchasing and handling insurance, forcing insurance companies to adapt to these expectations rapidly;
- availability of medical personnel in public health care;
- the emergence of new competitors and solutions, including the operators of large client bases or insurtech companies;
- continued development of the new pension security system (Employee Capital Schemes) and its impact on the products existing in the 3rd pillar of the pension system;
- possible intervention of the regulatory authority in the unit-linked fund segment.

## 3.4 Banking (Bank Pekao, Alior Bank)

**Market situation**

The situation of the banking sector in H1 2020 was volatile due to the COVID-19 pandemic caused by the SARS-CoV-2 virus. With a view to curbing the increase in infections, a number of restrictions were introduced across Poland that significantly affected the country's economic environment, the operation of businesses, the behavior of households and the situation in the financial sector. The restrictions resulted in a slowdown of economic activity in Poland. Banks posted poorer performance in H1 2020. In the first 6 months of 2020, the banking sector generated a net profit of PLN 4.0 billion, i.e. PLN 3.6 billion (47.4%) less than in the corresponding period of 2019. The banks' performance throughout the remainder of 2020 is also expected to be lower than the year before.

The consequences of the measures taken to prevent the spread of the COVID-19 pandemic affected the results generated by the banking sector. Operating profit deteriorated (to PLN 6.2 billion, down 40.3% compared to the corresponding period of 2019), predominantly as a result of a decrease in total operating income (by PLN 1.5 billion, or 4.0% less than in the corresponding period of 2019) and a higher level of impairment of financial assets measured at amortized cost. Due to the risk of a recession in H2 2020, there is a tangible possibility that the quality of the loan portfolio may deteriorate and that sales of loan products may decline, which would translate into poorer operating performance of the whole banking sector. Compared to the corresponding period of 2019, the level of loan provisions was PLN 1.7 billion (or 37.9%) higher, and financial assets measured at amortized cost increased by PLN 74.2 billion (or 5.2%) compared to the beginning of 2020.

As at the end of June 2020, gross receivables from the non-financial sector (without debt instruments) increased 2.6% to PLN 1,073.3 billion compared to June 2019. Growth in this area was driven mainly by receivables from households (+3.6% y/y) and receivables from enterprises (+0.5% y/y), in particular from large enterprises (up by PLN 8.0 billion, or 4.9% y/y).

Banks' operating expenses (net of depreciation and provisions) decreased 1.2% in the period under analysis. This change was caused by declining employee expenses (down 1.2%) and lower general and administrative expenses (down 1.2%).

As at the end of June 2020, assets of the banking sector reached PLN 2.28 trillion and increased by PLN 279.1 billion, or 14.0%, compared to the end of 2019.

The (gross) consumer loan portfolio decreased by PLN 2.9 billion (or 1.8%) compared to the end of 2019, while the portfolio of housing loans for households rose at the same time by PLN 18.7 billion (or 4.3%). With respect to receivables from non-financial companies, the (gross) value of operating loan portfolios declined by PLN 7.6 billion (or 5.6%), while investment loans increased by PLN 4.4 billion (or 3.5%). Compared to the beginning of 2020, the gross value of real property loans granted to non-financial companies increased by PLN 3.5 billion.

From the beginning of the year to June 2020, the value of deposits from the non-financial sector increased by PLN 118.5 billion.

The banking sector's own funds for capital ratios, calculated in accordance with the regulations laid down in the Capital Requirements Regulation[1], totaled PLN 210.3 billion at the end of March 2020, remained unchanged from the end of December 2019.

As at the end of March 2020, the total capital ratio of the commercial and cooperative banking sectors was 18.3% compared to 19.1% at the end of December 2019, while the Tier I capital ratio was 16.3% compared to 17.0% at the end of December 2019.

**Operations of the Pekao Group**
The Pekao Group is led by Bank Pekao, a universal commercial bank offering a full range of banking services provided to individual and institutional clients operating chiefly in Poland. The Pekao Group consists of financial institutions operating on the following markets: banking, asset management, pension funds, brokerage services, transaction advisory, leasing and factoring.

Pekao's strategic objectives announced in the strategy for 2018-2020 "Strength of the Polish Bison" include becoming the leader of profitability through building lasting business relationships and improving operating efficiency. Pekao's strategic priorities in 2020 remain: smart growth, building long-term relationships with clients based on an integrated service model, digital and operational transformation designed to strengthen Pekao's position as one of the most recognizable banks in Poland owing to its professional approach to business and value creation for the client.

In 2020, the strategy "Strength of the Polish Bison" developed for 2018-2020 will end. Accordingly, the bank will begin work on the development of a new strategy that will cover the time horizon of the next several years. The strategy for the following years may be announced at the turn of 2021.

At the end of Q1 2020, Bank Pekao was the second largest bank in Poland (in terms of the value of its assets). Compared to Q4 2019, Bank Pekao's assets went up 7.4%.

**New products and services**
According to Bank Pekao's strategy, its growth among retail clients is driven by the significant acceleration of growth in the number of accounts, among others thanks to its new personal account offering, a new proposal for young people and the cutting edge mobile banking solution.

In Q2 2020, Bank Pekao deployed a new PeoPay mobile banking app. Its modern graphic design improves navigation and ease of use. Since mid-April 2020, the new Pekao24 internet banking platform has been available to the bank's clients. It features a modern graphical interface, improves user experience and enables optimized and simplified processes that respond to the needs of the user community, in particular by enabling them to manage their finances without leaving home.

In June 2020, the bank released the PeoPay KIDS app developed specifically for children aged between 6 and 13. The app lets children learn in an easy and accessible manner how to manage and save their money. Children may also obtain their own PeoPay KIDS payment card to let them make purchases in stores and withdraw cash – the transaction limit on the card is set by the parent. The app also enables the user to perform simple operations, such as transfers from the Mega Beneficial Account or top-ups of pre-paid phone cards.

For new and existing clients alike, the bank prepared a competitive credit offering, focused in particular on the gradual increase in availability of 'clickable' processes.

[1] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

Despite the unfavorable market situation caused by the pandemic, at the end of H1 2020 sales of loans through e-channels kept growing steadily. In June, sales of Cash Click (Klik Gotówki) reached PLN 112 million, which was the highest ever monthly sales figure of loans granted through clickable e-processes. The share of sales of Cash Click in the total volume of loan sales was nearly 50% in Q2 2020. In terms of the number of loans, the corresponding share was 68%.

Due to its scale and growth potential, Retail Banking is considered a priority area for the bank's development. The strategic activities carried out in 2020 were chiefly aimed at: a significant and sustainable increase in the number of clients acquired, growth in the portfolio of consumer loans and mortgage loans, improvement in profitability through intelligent price management, strengthening of relations with client through active cross-selling based on an extensive proposal of investment and insurance products, development of the business client segment (microenterprises). These objectives were pursued by a variety of activities, including by tapping into the client acquisition potential in digital channels using the latest biometrics solutions, automation of the lending process for cash loans and development of cooperation with the PZU Group in the field of insurance and investment products. At the same time, the implemented solutions ensure the highest quality of loans granted. For clients taking out a cash loan, the bank extended the product offering to include new PZU insurance bundles available to clients purchasing loans both through remote channels and in branches.

In H1 2020, Bank Pekao continued its "Mega Beneficial Referrals" program designed to support the acquisition of new accounts. The rapid acquisition of personal accounts drove the sale of 207 thousand accounts, with a marked increase in monthly sales from 20 thousand accounts in April 2020 to nearly 34 thousand accounts in June 2020. Compared to the beginning of 2020, the number of active mobile banking clients increased by 146 thousand and was 430 thousand higher than at the end of H1 2019 (up 31% y/y) and, as a consequence, 1.6 times higher than two years earlier. In H1 2020, the number of active mobile clients using PeoPay increased by another 142 thousand and was 5 times higher than 2 years earlier.

Bank Pekao ranks among the leaders in sales of mortgage loans. In H1 2020, its sales of housing loans totaled PLN 4.2 billion. On an ongoing basis, the bank kept adjusting its offering of housing loans to the changing market situation while consistently optimizing its housing loan granting and servicing processes by implementing new improvements. Among the most significant such improvements was the introduction of a PLN mortgage loan for natural persons with a fixed interest rate. Also, the bank extended its methods of sending notifications to clients about loan installment amounts and information about changes in interest rates. In addition to the previously used traditional mail form, the client may select the option of being notified by e-mail or via the Pekao24 platform.

In Q1 2020, Bank Pekao ranked 4th in terms of the number of accounts maintained for foreigners. The most sizeable group are citizens of Ukraine for whom the bank has prepared a broad range of products and services, including a helpline in Ukrainian, a full set of necessary documentation in Ukrainian the PeoPay mobile application, the Mega Beneficial Account, a multi-currency card with an option of free international ATM withdrawals, including in Ukraine.

In H1 2020, Bank Pekao developed and aligned its offering of insurance products to the needs of its clients and the market environment. The bank's actions were aimed at improving and digitizing sales and service processes.

Bank Pekao continued the increasing trend in sales of insurance associated with its loan products. In H1 2020, the share of PEX cash loans sold with CPI reached 33% and was 3 p.p. higher than in the corresponding period of the previous year. As regards mortgage loans, the share of loans sold with CPI was 83%, or 10 p.p. higher than in the corresponding period of the previous year.

In H1 2020, Bank Pekao continued its cooperation with the PZU Group. Within the framework of assurbanking endeavors carried out, among others, in PZU branches, 48% more clients were acquired than in the corresponding period of 2019, and PZU's travel insurance campaigns offered via the mojePZU portal were conducted in the bank's electronic channels.

The microenterprise segment is one of the most significant and promising segments for the bank. Faced with the outbreak of the pandemic, the bank prepared a number of special solutions for its clients. At the end of Q1 2020, the bank deployed a special SOS aid package for borrowers adversely affected by the pandemic. It also introduced the option of remote submission of applications for financial support from the Polish Development Fund's Financial Shield for Companies and Employees and for the provision of funding under the European Union's Employment and Social Innovation ("EaSI") program. The bank also signed a portfolio agreement with Bank Gospodarstwa Krajowego regarding a de minimis guarantee facility, which enabled the introduction of the possibility for micro, small and medium-sized companies to secure their loans with a guarantee granted on special terms: the value of the guarantee increased to 80%, the warranty period extended to 39 months and the commission fee of 0% until 31 December 2020.

The bank is steadfastly pursuing its growth strategy in the Small and Medium-Sized Enterprise segment. In H1 2020, the bank achieved a rate of growth of +7.4% y/y in commercial income in the Small and Medium-Sized Enterprise Banking area, comprised of income from the Group's products offered in the bank's network, supported by a 22% y/y improvement in client acquisitions. In H1 2020, the bank focused on activities aimed at improving client satisfaction through continued streamlining and optimization of key processes, products and services. Owing to these activities, the number of acquired clients increased significantly compared to H1 2019.

Clients from the SME sector were provided with a broad range of available products in Pekao Connect enabling process improvements stemming from the integration of the client's financial and accounting system with banking systems, which will significantly optimize costs and shorten working time. As part of the Cashless Poland Plan, Bank Pekao offers POS terminals to clients on attractive terms. The total number of payment terminals provided to clients in 2020 was 60% higher compared to 2019.

In H1 2020, within the framework of business development activities and efforts aimed at increasing the efficiency of the bank's services, the functionality of online banking was expanded to include the options of remote client service process and remote contracting. Within the framework of the bank's transformation and digital projects, services were introduced enabling, without limitation: remote signing of contracts for corporate clients, signing of documents with a trusted profile and e-ID (the first such solution for corporate clients on the Polish market), execution of ExpressElixir orders in the PekaoBiznes24 online banking system (with an upper limit for a single transaction of up to PLN 100 thousand).

In 2019, two types of loans related to environmentally oriented activities were introduced to the bank's offering. The PrzEKOrzystny (Mega Beneficial) loan is intended for funding RES generation in the form of the borrower's use of photovoltaic panels for own needs. The loan is secured with a gratuitous BGK Biznesmax guarantee, which lets the clients obtain a preferential interest rate and, during the first three years of loan repayment, also a 5% refund of interest.

Moreover, in connection with attempts at alleviating the adverse consequences of the COVID-19 pandemic on the operation of enterprises, the bank signed a portfolio agreement with Bank Gospodarstwa Krajowego regarding a de minimis guarantee facility, which enabled the introduction of the possibility for SMEs to secure their loans with a guarantee granted on special terms: the value of the guarantee increased to 80% and the warranty period extended to 39 months.

The bank accepts applications from its clients for financial support from the government-sponsored aid program under the "financial shield of the Polish Development Fund", designed to help micro, small and medium-sized enterprises maintain financial continuity. Clients eligible for such support may submit their applications via the online banking channel or use the information posted on the website or call a free-of-charge dedicated hotline.

As part of its offering for corporate clients, Bank Pekao, as a leading corporate bank in Poland, took a number of initiatives in 2020 focused on strengthening relations with its clients and improving its product offering. The bank also focused on providing solutions designed to ensure that clients retain and improve their financial liquidity despite their operations having been or expected to be affected by the pandemic, and thus ensuring the continuity of their business in the current tough situation. Despite the extraordinary economic circumstances, commercial income of the Corporate Banking area increased 7.5% in H1 2020 vis-à-vis H1 2019.

**Pekao TFI**

The Pekao Mutual Fund Management Company (Pekao TFI) is another member of the Pekao Group. Pekao TFI (formerly Pioneer Pekao TFI) is the longest operating mutual fund management company in Poland providing clients modern financial products, offering opportunities to invest in the largest global capital markets. For many years it has been devising savings programs, including programs affording an opportunity to put aside more money for retirement under the third voluntary retirement pillar. Pekao TFI also offers asset management services and Employee Capital Schemes (ECSs). At the end of June 2020, the company had assets under management totaling PLN 17.4 billion, signifying a downswing of PLN 3.0 billion, or 14.8%, in comparison to the end of June 2019. The drop in the value of assets was driven down by the pandemic. Meanwhile, a lion's share of cash obtained from the redemption of participation units in mutual funds was accumulated in bank accounts. SECTION 3.5 MUTUAL FUNDS

**Operations of the Alior Bank Group**

Alior Bank, the Group's holding company, is a universal deposit and credit bank, providing services to natural persons, legal persons and other domestic and foreign entities. The bank's core business comprises maintaining bank accounts, granting cash loans, issuing bank securities and purchase and sale of foreign currencies. The bank also conducts brokerage activity, provides financial advisory and intermediation services, arranges corporate bond issues and provides other financial services.

Alior Bank provides services predominantly to clients from Poland. The percentage of international clients in the overall number of the Bank's clients is negligible. As part of retail banking activities, in 2016 Alior Bank opened a foreign branch in Romania.

Alior Bank is one of the most modern and innovative financial institutions in Poland. It is a place for people who have ideas and business courage to set new banking standards. The bank's offering includes products and services both for individual and business clients, including small and medium enterprises and institutional clients. The bank's offer combines the principles of traditional banking with innovative solutions. As a result, Alior Bank systematically strengthens its market position and for years has been consistently setting new directions of development of the Polish banking. By implementing the "Digital Disruptor" strategy, Alior Bank has the ambition of becoming the digital bank of first choice for individual clients and for small and medium enterprises in Poland and wants to become one of the most innovative banks in Europe.

At the end of Q1 2020, Alior Bank was the 8th largest bank in Poland (in terms of the value of its assets). As at 30 June 2020, Alior Bank catered to 4.5 million retail clients.

**New products and services**

Following the successful pilot launch of the Cash platform (in 2019), the bank has been expanding its cooperation activities to include other companies. Cash is an innovative platform in the form of an employee benefits portal, owned by PZU and powered by Bancovo.pl (provided by NewCommerce Services Sp. z o.o., a member of the Alior Bank Group). Individuals hired under an employment contract may quickly and easily obtain low-interest loans for any purpose via the Cash portal. The process of applying for a loan is fully remote – from the online completion of the application to the signing of the agreement via a text message. The loan may also be taken out from home. The employee receives the money on the business day immediately following the date of signing the agreement. Installments are automatically deducted from the borrower's salary, relieving him or her from the obligation to remember their due dates. The Cash portal combines the needs of employees and employers. Employers gain the opportunity to offer additional attractive benefits to their employees, while employees receive a simple and intuitive solution to obtain money from a safe source and on favorable terms.

In March 2020, a new cash loan application process in which the client is verified with a selfie was included in the offering of home banking services. PHOTO ID is a proprietary client identification method designed and deployed by Alior Bank employees. It significantly accelerated the identity verification process: the whole process takes no more than 5 minutes. At the same time, the solution is intuitive and does not require advanced digital skills.

In 2020, Alior Bank continued its activities in the Bancassurance area focused on supporting growth of sales and the development of protection insurance associated with mortgage loans. Since March 2020, the bank has been recording a rapid increase in sales of life insurance (PPI) offered with loan products. In June 2020, the bank launched a new life insurance product (PPI) to accompany mortgage loans in cooperation with PZU Życie, which replaced the product offered previously by TU na Życie Europa S.A.

In 2020, Alior Bank continued the pursuit of its strategy aimed at selling more products to its own clients by offering them preferential pricing terms and a simplified loan granting process, both in stationary channels and in online and mobile banking. For the purposes of activating and upselling loan and savings products to Consumer Finance clients, the bank carried out a number of correlated activities aimed at building brand awareness, activating clients in digital channels and incentivizing them to purchase special products and offers, not only cash loans, but also other products designed for retail clients. By taking these actions, the bank continued its new approach to the distribution of loans to its own clients – by combining them with other areas of banking for retail clients. The bank appreciates active clients and encourages existing and new clients to be active in their daily banking activities. With a view to satisfying the needs of borrowers, Alior Bank prepared solutions for its clients aimed at alleviating the burden of loan repayments in connection with the coronavirus pandemic. For clients who, due to the existing epidemiological situation, wish to take advantage of a temporary grace period for the repayment of their loan liabilities, an automated process of suspending repayments, also known as a moratorium period, has been introduced. Regardless of the pandemic, Alior Bank kept developing the functionalities arising from the provisions of PSD2, namely the possibility for clients of other banks to apply for Alior Bank's loan products without the need to present a certificate of earnings (AIS payment account information access service). This solution is already available in all stationary and remote channels. Currently, under PSD2, Alior Bank cooperates with the following six banks: PKO BP, Pekao SA, ING, Santander, mBank and Bank Millennium. By the end of Q3 2020, the availability of the tool is scheduled to be gradually expanded in online processes.

**Alior TFI**

Alior TFI (formerly Money Makers) operates in the Alior Bank Group. It was established in 2010 and its operations originally focused on asset management services. Alior Bank's cooperation with its subsidiary Alior TFI pertains to three areas: asset management (portfolio management for retail clients/private banking), unit-linked funds, and Alior SFIO sub-fund management. Since 5 January 2017, Alior TFI has been listed on the alternative market of the Warsaw Stock Exchange (NewConnect).

In Q1 2020, the bank found itself in a new economic situation caused by restrictions imposed on businesses due to COVID-19. While maintaining uninterrupted operation, the bank developed remote and online sales channels. Alior Bank rolled out a host of improvements in its internal systems and began to efficiently activate clients in its online banking area.

**Bancovo**

In H1 2020, Bancovo acquired more than 80 thousand new users. This growth was driven both by the February 2020 TV campaign and the development of Bancovo's own partnership program. Moreover, due to COVID-19, starting in March 2020, an increasing number of clients began looking for online financing solutions to fulfill their needs. Starting in April 2020, as a result of the imposition of new regulations, the availability of financing provided by loan firms took a nosedive, which resulted, among others, in intensified traffic on Bancovo's platform devoted to offering banking services and was reflected in the introduction of Poland's first online consolidation loan prepared in collaboration with TF Bank and in the launch of sales of Credit Agricole's offering. The activities carried out in this area brought the following measurable results:

- increase in the number of users to nearly 280,000 as at the end of June 2020;
- almost 100,000 loan applications received from these users in H1 2020.

**Factors, including threats and risks, which will affect the banks' operations in H2 2020**

The situation of the banking sector in 2020 will primarily be affected by the following factors:

- macroeconomic factors related to the COVID-19 pandemic and their impact on the quality of the loan portfolio;
- interest rate policy of the Monetary Policy Council;
- possibility of a temporary increase in risk aversion due to the uncertainty caused by the impact of the COVID-19 pandemic on the level of global economic activity, which may translate into reduced investment activity of banks' clients;
- scale of demand for banking services and the ability of banks' clients to timely pay their financial liabilities, which largely depends on the clients' financial standing. Apart from the country's macroeconomic standing, the economic situation of a number of client groups also depends on the national economic policy being pursued. Both a lower growth rate of the Polish economy and changes in the legal framework for the operation of enterprises may have an adverse impact on the financial standing of selected clients of banks;
- changes in the external environment and international events, including tensions related to geopolitical factors, affecting the domestic economy;
- development of banking services offered by non-regulated entities;
- continuing high level of contributions to the Bank Guarantee Fund;
- scale of complaints filed in connection with the ruling issued by the Court of Justice of the European Union (CJEU) on consumer loans (known as the 'small CJEU').

Other than the factors related to the institutional environment mentioned above, one of the most important issues of today is that of foreign currency mortgage loans. In the absence of a final systemic solution of this issue, the largest impact on the banking system will be exerted by court rulings handed down in lawsuits concerning specific loan agreements. In this context, the ruling announced by the Court of Justice of the European Union (CJEU) on 3 October 2019 is of great significance as it may prompt more borrowers to bring their claims to court. This may have a strong adverse impact on the financial performance of the affected banks, in particular those with a large portfolio of such loans. According to most forecasts, the total costs for the sector may reach tens of billions of Polish zloty but are difficult to estimate and are likely to be spread over time. Much will depend, among other factors, on the actual number of lawsuits filed (how many borrowers end up bringing legal action against the banks), interpretations adopted by national courts in individual cases (in reference to the CJEU opinion), reactions of national regulatory institutions and steps taken by the banks themselves. Also, a scenario cannot be ruled out in which the CHF loan problem will be eventually solved by the adoption of appropriate legislative measures.

## 3.5 Mutual funds and Employee Capital Schemes (TFI PZU)

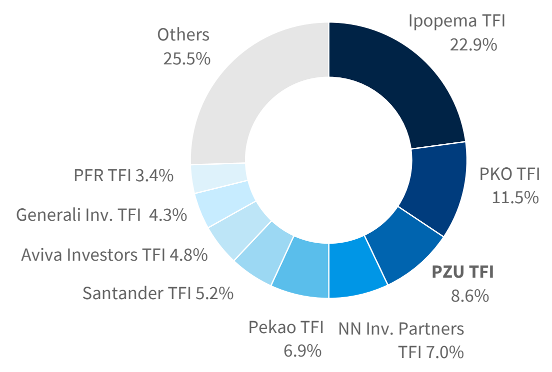
**Situation on the mutual fund market**

As at the end of June 2020, assets under management of domestic mutual funds were nearly PLN 252.7 billion, compared to 268.0 billion at the end of 2019, representing a decrease by 5.7%.[2]

In H1 2020, according to data published by Analizy Online, the balance of payments to and withdrawals from retail funds offered by TFIs in the domestic market was negative and amounted to PLN -17.6 billion. This was caused by the massive withdrawal of cash in March and April (PLN -23.0 billion in total) in response to the panic behavior of capital markets in connection with the COVID-19 pandemic. At the end of H1, that is in June 2020, clients contributed almost PLN 2.4 billion to the funds.

In H1 2020, debt securities funds were the most popular among clients.

**Mutual fund management companies – % of assets as at 30 June 2020**




Source: IZFiA

**Employee Capital Schemes**

Employee Capital Schemes (ECSs) are a private system of voluntary long-term savings. Savings held on the employee's account are privately owned, much in the same manner as bank deposits, may be withdrawn at any time and are inheritable. A person saving his or her money in an ECS will be able to freely dispose of the funds accumulated on his or her account after reaching the age of 60, regardless of whether he or she is employed or retired at the time.

Money on the participant's ECS account comes from three sources:

- contributions financed by the employer (basic contributions, additional contributions);
- co-payments financed by the State (welcome payment, annual co-payments);
- payments financed by the ECS participant (basic contributions, additional contributions).

The basic contribution to the ECS equals 2% of the participant's monthly salary forming the basis for calculation of contributions for retirement and disability insurance

[2] IZFiA, assets as at 30 June 2020

payable by the ECS participant plus 1.5% of the salary forming the basis for calculation of contributions for retirement and disability insurance payable by the employer. Moreover, in the ECS management agreement, the employer has the option to declare an additional contribution of up to 2.5%. This means that the employer may fund an additional contribution of at least 1.5% but no more than 4% for each employee. The ECS participant may also declare an additional contribution of up to 2%, up to a maximum of 4% (sum of the basic and additional contributions). As a result, between 3.5% and 8% of the employee's salary may be transferred to his or her ECS account. Contributions made to the ECS, in the part funded by the employer, are classified as tax-deductible expenses.

Savings accumulated in the ECS are invested in defined date funds, that is funds with a specific investment target date, which will be close to the participant's expected retirement date. Depending on the participant's age, the degree of risk is modified: initially, funds are invested in more risky assets (such as equities), and over time they are automatically switched to safer assets (such as bonds). Owing to a precisely described investment policy of defined date funds, the security of assets managed under the ECS increases. The ECS offering entity should have the ability to accumulate funds in at least eight different defined date funds intended for employees of different age groups. Each defined date fund is required to invest funds accumulated in the ECS in accordance with the interests of the participants, striving to ensure the safety and efficiency of deposits made and complying with the investment risk limitation principles.

The only financial institutions that may offer the management of funds deposited in ECSs are:

- Mutual fund managed by a mutual fund management company (TFI);
- Pension fund managed by a pension fund management company (PTE) or an employee pension fund management company (PrTE);
- Insurance company (IU).

The ECSs were launched on 1 July 2019, initially in the biggest employers with more than 250 employees. In the second stage, which started on 1 January 2020, the obligation to establish an ECS covers also companies employing more than 50 people. The third stage of implementation of the ECS system began on 1 July 2020, covering companies that employ at least 20 people. The last (fourth) stage of implementation of the ECS system is scheduled for 1 January 2021 and will cover all other enterprises and public finance sector entities.

In connection with the outbreak of the SARS-CoV-2 coronavirus pandemic, in compliance with the provisions of the Act of 2 March 2020 on Special Solutions Associated with Preventing, Counteracting and Combating COVID-19, Other Infectious Diseases and Crises Caused by Them (also known as the "anti-crisis shield"), companies employing between 50 and 249 staff as at 30 June 2019 (second stage of implementation of the ECS system) may enter into a contract for the management of an ECS six months later than was originally required. The new time limits coincide with those planned for the third stage of implementation of the ECS system. Specifically, the new time limit for signing ECS management contracts has been postponed to 27 October 2020 (previously set at 24 April 2020), while the time limit for signing ECS maintenance contracts has been postponed to 10 November 2020 (previously set at 11 May 2020).

Only financial institutions managed by entities entered in the ECS register, kept by the Polish Development Fund (Polski Fundusz Rozwoju S.A., PFR), participate in the ECS system. As at the end of June 2020, there were 20 such institutions: 16 TFIs, 3 PTEs and 1 IU/Towarzystwo Ubezpieczeń na Życie (TUnŻ).

As at 30 June 2020, the net asset value of the defined date funds under the ECS system was over PLN 1.2 billion in the TFIs alone, and totaled over PLN 1.4 billion including the PTEs and TUnŻ.

**The time limit by which the company becomes subject to the ECS regulations depends on the number of employees**

| Stage | Companies employing | Date of record for determining the number of employees | Start date of application of the regulations | Time limit for signing contracts | |
|---|---|---|---|---|---|
| | | | | for management of an ECS | for maintenance of an ECS |
| I | at least 250 persons | 31 December 2018 | 1 July 2019 | until 25 October 2019 | until 12 November 2019 |
| II | 50-249 persons | 30 June 2019 | 1 January 2020 | until 27 October 2020 | until 10 November 2020 |
| III | 20-49 persons | 31 December 2019 | 1 July 2020 | until 27 October 2020 | until 10 November 2020 |
| IV | public finance sector entities (regardless of the number of employees) | n/a | 1 January 2021 | until 26 March 2021 | until 10 April 2021 |
| | other employers | | | until 23 April 2021 | until 10 May 2021 |

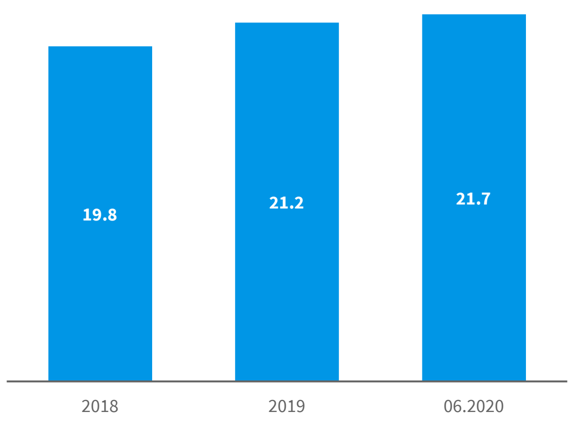
**TFI PZU's operations**

Towarzystwo Funduszy Inwestycyjnych PZU (TFI PZU) operates on the mutual fund market in the PZU Group. It offers products and services for both retail and institutional clients – including additional investment and savings programs forming part of the third pillar of the social security system: Individual Retirement Accounts (IRAs), Employee Savings Plans (ESPs), Employee Pension Schemes (EPSs), Employee Capital Schemes (ECSs), Company Investment Plans (CIPs) and Group Pension Plans (GPPs) which additionally offer Individual Retirement Security Accounts (IRSAs).

As at the end of June 2020, TFI PZU had 40 funds and sub-funds in its portfolio and 8 ECS sub-funds. H1 2020 saw continued growth of the inPZU SFIO passive funds available on the inPZU platform. TFI PZU also offers managed account services.

As at 30 June 2020, TFI PZU managed a portfolio of net assets worth PLN 21.7 billion, representing a 2.3% increase from the end of 2019 and an 8.6% share in the mutual fund market. Accordingly, it is among the largest mutual fund management companies in Poland – as at 30 June 2020 it was ranked third in Poland according to reports published by the Chamber of Fund and Asset Management (IZFiA). TFI PZU is also a market leader in the employee pension plan segment among institutions operating in this market with net assets of PLN 5.2 billion. In turn, the assets accumulated in ECS funds managed by TFI PZU as at 30 June 2020 amounted to PLN 197 million, representing a 13.9% market share according to reports published by Analizy Online.

**TFI PZU's net assets (in PLN billion)**




Source: IZFiA

In H1 2020, the largest increase in assets was posted by the following funds: PZU Papierów Dłużnych POLONEZ up PLN 197 million, InPZU Inwestycji Ostrożnych up PLN 167 million, PZU SFIO Universum up PLN 109 million, PZU FIZ Aktywów Niepublicznych BIS1 up PLN 62 million, PZU FIZ Sektora

Nieruchomości up PLN 49 million, PZU FIZ BIS2 up PLN 44 million, InPZU ECS 2035 up PLN 35 million, InPZU ECS 2040 up PLN 33 million, InPZU ECS 2030 up PLN 31 million, InPZU ECS 2045 up PLN 29 million and PZU FIZ Akord up PLN 27 million. The following funds recorded the largest decreases in net assets as at the end of June 2020: InPZU Obligacji Polskich, PZU Obligacji Krótkoterminowych i PZU Akcji KRAKOWIAK.

Changes in the asset value of individual funds were driven predominantly by:

- active sales of funds as part of Employee Capital Schemes;
- active sales of funds as part of Employee Pension Plans;
- interest rate cuts by central banks;
- COVID-19 pandemic;
- continued development of inPZU SFIO, a new product line of passive funds.

**Factors, including threats and risks, which will affect the operations of mutual funds and Employee Capital Schemes in H2 2020**

The condition and performance of the market for mutual funds and Employee Capital Schemes will depend mainly on the following:

- macroeconomic situation: the rate of economic growth, the unemployment rate and changes in the inflation rate domestically and throughout Europe affecting the financial standing of enterprises and households;
- the condition of the Polish economy and other economies across the world following the introduction of subsequent stages of lifting the restrictions and defrosting the economies locked down in connection with the COVID-19 pandemic – it is difficult to estimate to what extent and how quickly the return of the economic and social life to what it was before the lockdown will take place;
- uncertainty related to the impact of a possible second wave of the coronavirus pandemic and an upsurge in COVID-19 incidence on global economic growth and the sentiments on financial markets;
- actions taken by central bank (Fed, ECB, Bank of Japan, People's Bank of China) translating into global money supply and liquidity on the financial markets;
- uncertainties related to privacy and technology regulations, new taxes and the enactment of antitrust regulations;
- degree of popularity of Employee Capital Schemes which will translate into the amount of funds accumulated in ECS funds.

## 3.6 International operations

**Lithuanian market**

According to the Bank of Lithuania's data, in H1 2020, gross written premium collected by non-life insurance companies totaled EUR 330 million, representing a decrease by 3.5% compared the corresponding period of the previous year.

The lower sales were driven down predominantly by motor insurance (57.6% of the market). Due to the restrictions imposed on traffic during the lockdown and the increasing competition between insurance market players, sales of motor third party liability and motor own damage insurance decreased 8.8% and 4.3%, respectively. The rate of the market decline was partially offset by an increase in premiums in property insurance (19.0% of the market) and health insurance (7.2% of the market): gross written premium in both these product categories increased 5.0%.

As at the end of June 2020, there were 12 companies operating in the non-life insurance sector (including 8 branches of insurance companies established in other EU member states).

Lietuvos Draudimas continues to be the largest insurance company in Lithuania in terms of total gross written premium in non-life insurance. The company's share in the market at the end of H1 2020 was 29.0%. Considering the recent acquisition transactions, the shares of top four players in the non-life insurance market totaled 79.6%.

Gross premium written by Lithuanian life insurance companies in H1 2020 was EUR 141 million, up 10.5% from the previous year. This growth of gross written premium was driven by new business in 2019 and the increase in sales of single-premium products. Sales of single-premium and regular-premium insurance products increased 18.4% and 10.1%, respectively.

In the life insurance structure, unit-linked insurance represented the largest share at 64.0% of the portfolio value. Traditional life insurance accounted for 14.6% of written premium.

As at the end of June 2020, there were 8 companies operating in the life insurance sector. The Lithuanian life insurance market is highly concentrated. The share held by the four largest life insurance companies in total gross written premium was 77.8%.

**Latvian market**

The Latvian non-life insurance market recorded a gross written premium of EUR 109 million in Q1 2020[3]. This was EUR 1.7 million (i.e. 1.6%) more than in the same period of the previous year.

The motor insurance business had the largest share in the non-life insurance market measured by gross written premium. Motor TPL insurance accounted for 22.3% of the market while motor own damage accounted for 20.9%. Also health insurance (27.0% market share) and property insurance (15.7% market share) had an important position in the product mix.

In 2020, there were 11 insurance companies operating in the Latvian non-life insurance market and 80.2% of the market was in the hands of the biggest 4 insurers.

**Estonian market**

In H1 2020, non-life insurance companies operating in Estonia recorded a decrease in gross written premium by 4.1% compared to the corresponding period of 2019. In total, gross written premium was EUR 194 million, of which EUR 53 million, i.e. 27.3% was collected by foreign insurance companies operating in Estonia.

The structure of non-life insurance was dominated by motor insurance, which accounted for 55.9%, including MOD insurance accounting for 31.3%. 27.9% of the gross written premium in the market was collected on property insurance.

As at the end of June 2020, there were 13 companies operating in the non-life insurance sector (including 5 branches of foreign insurance companies) among which the top 4 held a combined market share of 70.1%.

**Activity of PZU companies in the Baltic States**

As of November 2014, the PZU Group has been operating in the Lithuanian non-life insurance market through Lietuvos Draudimas, which, as of May 2015, is the owner of the PZU Estonia branch.

Lietuvos Draudimas is the leader of the non-life insurance market in Lithuania with a share of 29.0% as at the end of H1 2020. In this period, the company posted a 4.2% downswing in gross written premium compared to the previous year, thereby hitting the EUR 95 million mark.

Life insurance operations in Lithuania are conducted through UAB PZU Lietuva Gyvybës Draudimas – "PZU Lithuania Life". The collected gross written premium was EUR 9 million, which means an increase by 7.1% compared to the previous year. The share held by PZU Lithuania Life in the life insurance market in H1 2020 was 6.4% (compared to 6.6% in the corresponding period of 2019).

In Latvia the PZU Group conducts operations through AAS Balta, which became part of the Group in June 2014, and then (in May 2015) the branch took over the PZU Lithuania branch operating in the Latvian market since 2012. At the end of Q1 2020, the share in the non-life insurance market reached 27.7% and gross written premium in H1 2020 was EUR 55 million (compared with EUR 60 million in H1 2019).

Since May 2015 the entity conducting operations in Estonia is a branch of Lietuvos Draudimas and was established as a result of merger of two entities – branch of the Lithuanian PZU company registered in 2012 and the Estonian branch acquired in 2014, which conducted operations under the Codan brand. The share in the Estonian non-life insurance market as at the end of H1 2020 was 14.9%. Accumulated gross written premium was EUR 28.8 million.

**Ukrainian market**

The Ukrainian insurance market after Q1 2020 posted a 13.4% decline in gross written premium reaching UAH 11.5 billion. The premium written for non-life insurance was UAH 10.3 billion, down 16.4% compared to the corresponding period of 2019. Motor insurance (30.4% of the market) recorded a 10.2% increase in gross written premium.

After Q1 2020, life insurance companies collected gross written premium of UAH 1.3 billion, signifying 22.7% growth compared to the corresponding period of 2019.

The Ukrainian insurance market is highly fragmented – as at the end of March 2020, there were 225 insurance companies operating in the country (22 of them offered life insurance). Despite the number of insurers that continues to be enormous, the top 100 non-life insurance companies generated 99% of gross written premium, while the top 10 life insurance companies generated nearly 96% of written premium.

[3] Starting in 2020, data published by the FCMC (Financial and Capital Market Commission) include mandatory deductions for third party liability insurance. Taking this change into account, the increase compared to the corresponding period of the previous year was 0.7%.

On the Ukrainian market, the PZU Group operates insurance business via two companies: PrJSC IC PZU Ukraine (a non-life insurance company), referred to as “PZU Ukraine”, and PrJSC IC PZU Ukraine Life (a life insurance company), referred to as “PZU Ukraine Life”. In addition, LLC SOS Services Ukraine performs assistance functions.

In H1 2020, the gross written premium collected by PZU Ukraine was UAH 696 million, meaning that it was 16.4% lower than in the corresponding period of the previous year. In H1 2020, gross written premium collected by PZU Ukraine Life was UAH 245 million, up 9.9% compared to H1 2019.

As at the end of Q1 2020, PZU Ukraine collected 3.5% (up 0.2 percentage points compared to Q1 2019) of total gross written premium of the whole Ukrainian non-life insurance sector, whereas in the life insurance market PZU Ukraine Life gained an 11.7% market share (up 0.8 percentage points compared to the previous year), which gave these companies the 6th and 3rd place on the non-life and life insurance markets, respectively[4].

**Factors, including threats and risks, that may affect the insurance business in the area of foreign companies in H1 2020**

- possible slowdown of economic growth in the Baltic States. The more challenging financial standing of companies may result in elevated credit risk, a higher loss ratio on the financial insurance portfolio and deceleration in the pace of gross written premium growth in both motor insurance (predominantly leases) and property non-life insurance;
- resumption of price pressure in motor insurance – competition for clients through an active pricing policy applied by competitors;
- possible adverse trends related to the increase in the loss ratio may be expected to appear in the area of insurance guarantees, job loss insurance and low own contribution insurance for mortgage loans as a result of the prolonged COVID-19 pandemic;
- reduced demand for voluntary insurance (due to an increase in the rate of unemployment and a decline in employment) as a result of the ongoing COVID-19 pandemic;
- case law concerning the amounts of general damages paid in cash for the suffering sustained (legislative amendments in Lithuania) under the TPL insurance held by the owners of motor vehicles to the closest family members of persons who have died;
- increase in the prices of spare parts affecting the value of claims handling expenses due to the depreciation of the Ukrainian hryvnia against the euro (Ukraine);
- changes in trends and client behavior toward customization of proposals and an electronic, swift and paperless method of purchasing and handling insurance, forcing insurance companies to adapt to these expectations rapidly;
- coming into force of new regulations or financial burdens on insurance companies.

[4] Insurance TOP, Ukrainian insurance quarterly, #1(69)2020

## 3.7 Medical services (Health)

**Market situation**

The health market is a business area that is dynamically developing and prospective. However, the key factor that exerted a significant impact on this area in H1 2020 was the COVID-19 pandemic. The current trends are as follows:

- continuation of the double digit rate of growth in the private health insurance market (according to PMR: CAGR of approx. 13% for supplementary health insurance in 2019-2024, while for medical subscriptions CAGR was approx. 11%);
- growing significance of the e-commerce segment, reflecting consumer trends on the market for goods and services;
- development of telemedicine and service opportunities through remote channels coupled with changes in patients’ attitudes and their much greater propensity to take advantage of telemedicine solutions as a result of the pandemic;
- increasing awareness of prevention and periodic examinations, which may result in changes in purchasing habits and the allocation of more funds to health protection as a result of the pandemic;
- greater need to provide care to senior citizens.

**Operations in the Health area**

The PZU Group’s operations in the Health Area include:

- sale of health products in the form of insurance (life and health insurance and non-life health insurance) and non-insurance products (occupational medicine, medical subscriptions, partnerships and prevention programs);
- development of medical infrastructure (medical centers and patient service solutions) in Poland to ensure the best accessibility of services and the achievement of revenue targets.

**In the Health Area the company offers a broad range of health products adapted to the segment and clients’ needs:**

outpatient care | hospital care | rehabilitation | oral medicine | prevention programs | co-funding for medications | occupational medicine | telemedicine | psychology

**Development of the health offering**

- In January, sales of a subscription product were launched through PZU Zdrowie’s dedicated sales network, focused predominantly on strategic corporate clients. Rules for internal communication with other PZU Group companies and for work on the shared portfolio were prepared to generate the best possible synergy from actions aimed at selling the health offering. In June, the network successfully accomplished its revenue plan. Within the framework of the area’s development activities, the following tasks were completed:
  - standardized Sales Contacts Report (CRM),
  - uniform documentation necessary for the execution of agreements,
  - rules for cooperation with external sales agents and brokers,
  - promotional and communication materials for the subscription product and occupational medicine;
- Within the structures of PZU Zdrowie, a tender offering area was established, the key purpose of which is to align the product offering to the individual expectations of strategic tendering clients, in accordance with the tendering roadmap prepared by the company.
- Pilot sales of a product designed for seniors, named “Out of concern for seniors”, were launched. The product coverage is profiled to include the option of providing care for a senior with the use of tools that monitor basic life functions, geolocation and a functionality that supports requests for immediate assistance in life-threatening situations. The product also includes a medical package enabling prompt doctor consultations and tests, both in a traditional manner and effected remotely.
- Within the framework of the non-standard subscription-based offering, several solutions were developed or prepared for deployment to improve the company’s competitive edge on the market and align its product coverage with the expectations of clients:
  - Friendly change – a proposal for strategic corporate clients which enables, in the event that the client switches its medical operator to PZU Zdrowie, a temporary (usually lasting 3 months) use of the services of the previous provider and invoice-based settlements with PZU Zdrowie. The purpose of this solution is to enable the employees of a new client to smoothly transfer their medical records and continue treatment based on their existing medical history,
  - Reimbursement 3.0 – an extension of existing single-level price list-based settlements with an option to submit an offer consistent with the expectations of a strategic client, for instance up to 80%, 90% or any other agreed-upon amount of reimbursement for expenses incurred by the employee in a medical network different from the one indicated by PZU Zdrowie,
  - Individual Continuation of subscription products targeted chiefly at clients sending their requests for proposals to be processed by way of a tender and at strategic clients.

**Actions performed in H1 2020**

The situation related to the COVID-19 pandemic was a key factor affecting the revenues and performance of the Health Area in H1 2020. This concerned especially the centers whose significant portion of revenue is generated by FFS and National Health Fund outpatient specialist care streams, because the revenue they obtain depends on the types and volumes of performed medical procedures. In the period from March to May 2020, the volume of provided consultations and medical procedures was significantly lower than planned, which was reflected in lower revenues of the centers in question. Medical centers took a variety of actions to align their level of costs with the decrease in revenues by trimming down doctors’ schedules, requesting lessors to reduce rents and encouraging employees to take outstanding leaves. Some appointments were held in the form of telemedicine consultations, instead of stationary visits. Some centers, provided that they met the criteria for eligibility, took advantage of the applicable elements of the “Anti-Crisis Shield” regulations: postponement of contributions to the Social Insurance Institution (ZUS), tax liabilities and perpetual usufruct fees, waiver of real estate tax, co-funding of employee compensations. At the same time, the centers incurred additional expenses related to COVID-19, chiefly the costs of materials and measures to prevent the dissemination of the virus.

Main actions performed in H1 2020 include:

- PZU Zdrowie’s new multi-specialization facility named Warsaw Chmielna was opened with a large variety of implemented solutions designed to set a new standard for patient experience:
  - AccuVein vein imaging device designed to support the nursing staff at blood specimen collection points. It uses a laser to display veins in patients whose veins are either invisible or impalpable, thereby minimizing the risk of painful insertions of a needle, especially in women and children,
  - electronic stethoscope made by StethoMe, a Polish manufacturer. In combination with headphones, the device may be used as a traditional stethoscope, which additionally recognizes and appropriately amplifies sounds originating in the lungs or in the heart. When integrated with the dedicated tablet app, the stethoscope supports the diagnosis of lung diseases in adults and children using medically certified artificial intelligence algorithms,
  - USG Lumify – portable USG devices connectable directly to a tablet, enabling the physician to perform a medical examination wherever necessary. Among other applications, orthopedists use this tool for joint injections. In many cases, the device enables the performance of medical procedures without an additional USG visit,
  - monitors in doctor’s offices with visualizations of medical models serving as a tool enabling the physician to explain the medical problem in question to the patient, thereby permitting the patient to take an active part in the diagnosis process;
- Opening of a new magnetic resonance imaging (MRI) laboratory at Tomma Diagnostyka Obrazowa in Wrocław;
- Launch of a magnetic resonance imaging (MRI) laboratory at Tomma Diagnostyka Obrazowa in Zabrze;
- Launch of a new line of business: psychological consultations over the phone;
- Implementation of the “Large Family Card” program in 60 own locations (continuation of the program launched originally in 2018);
- Further development of the tool for booking online appointments through a direct connection with the calendars of cooperating medical centers;
- Intensified use of the mojePZU portal: more than 20% of medical services are arranged by PZU Zdrowie patients on their own via the mojePZU portal;
- Deployment of online access to medical records on the mojePZU portal for patients of PZU Zdrowie’s own centers;
- Deployment of a voice bot powered by intelligent voice automation (IVA) technology to handle incoming phone calls from patients wishing to make or cancel an appointment;
- Opening of an own telemedicine center named Centrum Telemedyczne PZU Zdrowie [PZU Zdrowie Telemedicine Center] (April);
- Launch of remote consultations with a psychologist, including free-of-charge countrywide support for medical personnel, PZU employees and National Health Fund patients (March);
- Start of the provision of remote consultations by PZU Zdrowie’s stationary centers in connection with the COVID-19 pandemic;
- Launch of sales of medical packages targeted at fee-for-service (FFS) clients (May).

**PZU Zdrowie’s involvement in activities aimed at protecting the health of Poles**

In July 2020, PZU Zdrowie was awarded for its endeavors aimed at protecting the health of Poles, made during the COVID-19 pandemic, with a TUZY Biznesu prize presented by the editorial office of the “Wprost” weekly. Moreover, in H1 2020, PZU Zdrowie:

- became a partner of the “Top Disruptors in Healthcare” report on innovations in medicine prepared by the Polish Federation of Hospitals and Young Managers of Medicine (January);
- assumed the patronage of a charity concert for the Children’s Transplant Center at the Children’s Memorial Health Institute (January);
- assumed the patronage of the debate “I, the Patient”, held by the Medical National Interest Group at the Polish Academy of Sciences on the occasion of the World Day of the Sick (February).

In connection with the outbreak of the COVID-19 pandemic, PZU Zdrowie became involved in the following health counseling initiatives, which provided assistance to a total of approx. 20 thousand individuals:

- support for the Patient Hotline of the National Health Fund – a hotline for all citizens supported by PZU Zdrowie consultants, physicians and psychologists who provided free-of-charge counseling on the coronavirus;
- launch of a psychological support hotline – free-of-charge psychological counseling for physicians, nurses, paramedics and lab technicians involved in the fight against the coronavirus;
- gratuitous telemedicine consultations – these free consultations provided by PZU Zdrowie physicians were available to all callers who were offered professional assistance and information about the coronavirus; during these telemedicine appointments, callers could obtain electronic prescriptions, referrals and sick notes; such consultations were launched on 4 March 2020, when the first case of coronavirus was confirmed in Poland.

**Factors, including threats and risks, that may affect the operations of the Health Area in H2 2020:**

- In the short term, COVID-19 carries the risk of lower revenues generated in centers by FFS and National Health Fund outpatient specialist care streams, because the revenue they obtain depends on the types and volumes of performed medical procedures. The risk level depends on the severity of the possible pandemic recurrence and its impact on consumer decisions in the medical services market;
- In the medium to long term, changes in consumer purchasing habits may be expected that will be favorable to the healthcare sector. Consumers will exhibit greater propensity to spend more of their own money on healthcare and prevention of diseases at the expense of other services and material goods;
- Changes in the mortality, fertility and morbidity levels may adversely affect the value of sales and cause a deterioration of the loss ratio (e.g. subscriptions or health insurance).
- Changes in trends and behaviors displayed by clients towards customization of the offering – clients’ new expectations may bring about the need to change processes and systems, which in turn may affect the achieved bottom-line results;
- Salary pressures exerted by doctors and other personnel serving patients in medical centers, which directly affects our financial performance in the Health Area;
- Potential modification of the National Health Fund’s contracting rules may cause significant changes in the financial results generated by medical centers.

### 3.8 Pension funds (PTE PZU)

**Market situation**

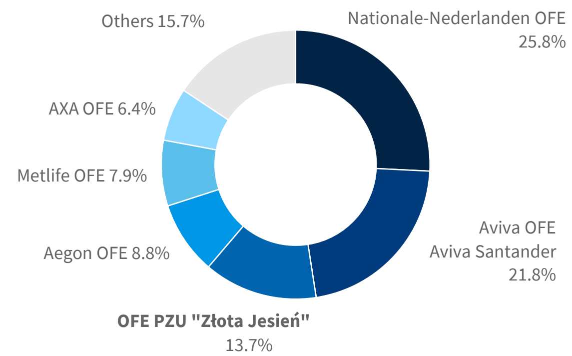
At the end of June 2020, the net asset value of open-end pension funds was nearly PLN 132 billion, down 14.9% versus the end of 2019.

**Operations of PTE PZU**

The PZU Złota Jesień Open-End Pension Fund (Otwarty Fundusz Emerytalny PZU “Złota Jesień”) managed by PTE PZU is one of the largest players on the pension fund market in Poland. At the end of June 2020, 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 2,350 thousand members, i.e. 15.1% of all participants in open-end pension funds;
- net assets stood at over PLN 18 billion, thereby representing 13.7% of the total asset value of the open-end pension funds operating in Poland.

**Open-end Pension Funds – percentage of net asset value as at 30 June 2020 (in %)**




Source: KNF, monthly data on the OFE market, data for June 2020

At the end of June 2020, PZU’s Voluntary Pension Fund ran 30.9 thousand individual pension security accounts (IKZEs) in which assets worth more than PLN 259 million were accumulated. Consequently, it retained its position as one of the leaders in the segment of voluntary pension funds.

**Factors, including threats and risks, that will affect the pension funds' operations in H2 2020**

The main challenges facing the pension fund market in 2020 are the following:

- the economic climate on the capital market and, in particular, on the Warsaw Stock Exchange, resulting from the development of COVID-19, affecting the value of assets of the funds and the level of fees collected by pension fund management companies for their services;
- opportunities arising from the achievement of the objectives specified in the Capital Accumulation Scheme and the Responsible Development Strategy the pursuit of which will depend on the development of detailed solutions and the entry into force of necessary legislative changes;
- active participation in work on the adoption of solutions enhancing the performance of the third pillar and making it more attractive, and influencing the need in public awareness for accumulating additional savings for future retirement;
- transfer of funds from open-end pension funds to individual retirement accounts.

On 13 February 2020, the Sejm of the Republic of Poland passed an act amending certain acts in connection with the transfer of funds from open-end pension funds to individual retirement accounts.

The act provides for the reconstruction of the model governing the operation of open-end pension fund so that:

- universal pension fund management companies (PTEs) which currently manage open-end pension funds (OFEs) and voluntary pension funds (DFEs) will be transformed into mutual fund management companies (TFIs);
- OFEs and DFEs will become specialist open-end mutual funds (SFIOs) that will be managed by TFIs;
- an OFE member will have the following options what to do with the funds accumulated on his or her OFE account:
  - the default option will be the transfer of funds from the OFE account to an individual retirement account (IKE) with the possibility of continued payment of contributions on a voluntary basis. The transfer of funds from OFE to IKE will be subject to a 15% transformation fee. Payment of this fee will be spread over a period of 2 years. The disbursement of pensions from IKE will be exempt from income tax, and savings accumulated in IKE will be inheritable,
  - OFE members may submit a declaration on the transfer of assets from OFE to the Demographic Reserve Fund (FRD) at the Social Insurance Institution (ZUS) and have the value of the transferred funds added to their capital accumulated on the Social Insurance Fund (FUS) account. There will be no conversion fee if the OFE member selects this option. The funds accumulated in ZUS will not be inheritable, and future pensions will be subject to income tax in accordance with the rate of the applicable tax bracket,
  - under the umbrella SFIO established as a result of the transformation of OFE, a pre-retirement sub-fund will be spun-off for the accumulation of assets owned by fund participants approaching the retirement age,
  - the investment policy of the pre-retirement fund will be aligned with the age group of the insureds, meaning that the fund's investment risk will be significantly limited by statutorily imposed investment limits,
  - the fees charged by the mutual fund management company for managing the assets of open-end pension funds transformed into individual retirement accounts as well as all other fees and costs will be strictly limited.

The basis for the operation of the transformed open-end pension funds will be the amended Act on Individual Retirement Security Accounts and Individual Retirement Accounts and the Act on Mutual Funds and Management of Alternative Investment Funds. The bill provides for amendments to several dozen statutes directly related to the operation of open-end pension funds and the social insurance system.

The bill does not provide for any transition period for adjustment of the operations of a universal pension fund management company transformed into a mutual fund management company to the new regulations. From the day of transformation into a mutual fund management company, the universal pension fund management company will be required to apply the provisions of the Act on Mutual Funds and the implementing regulations to this Act as well as the provisions of Community law pertaining to collective investment institutions and managers if collective investment institutions, in particular Commission Delegated Regulation (EU) No 231/2013 of 19 December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision.

## 3.9 Other operating areas

**PZU Pomoc**

PZU Pomoc provides auxiliary services to PZU Group companies, including:

- managing the PZU repair network – at the end of H1 2020, the company cooperated with 902 repair shops;
- organizing motor assistance services for LINK4;
- conducting salvage auctions and sales after loss and damage incidents;
- supporting technical claims handling in motor claims;
- handling assistance products for PZU and PZU Życie (among others, legal consulting, organization of assistance services etc.);
- managing the loyalty program, PZU Pomoc w Życiu Club – at the end of H1 2020, approx. 2 million club members were able to take advantage of insurance discounts and products of cooperating companies (rebate programs offered by partners).

**PZU CO**

PZU CO is an auxiliary company for PZU Group companies, established to provide the following services: printing, IT, Data Center, Contact Center, auxiliary services related to insurance and pension funds, constant intermediation in conclusion of insurance agreements, financial and investment agreements, assistance agreements and HR and payroll-related services.

**PZU LAB**

PZU LAB is a company dealing with advisory services and assistance in implementation of all kinds of solutions improving the security of the strategic corporate clients of PZU and TUW PZUW.

The company cooperates with numerous academic centers and experienced experts (local and foreign). It constantly seeks new and effective technological solutions to enable mitigation of the risks that have the greatest impact on the insurance activity.

The PZU LAB team has developed methods for cooperation with the existing and prospective clients. First, the engineers identify critical installation sites, simulate critical events such as fire, flooding or explosion, and determine their consequences. Then the possible scenarios and the methods of minimizing them are discussed. PZU LAB engineers implement innovative technological solutions in client companies wishing to improve their safety. This approach signifies an evolution in client relations. PZU ceases to be only a seller of insurance and becomes a risk management advisor.

**Tower Inwestycje**

The company's line of business is to invest available funds in:

- real estate development initiatives, in particular in the construction of commercial properties,
- investment activity.

At present, the company conducts work associated with the office and commercial investment project located in a prestigious location in Wrocław at ul. Oławska 35 (Plac Dominikański) in a venue occupied for the past several decades by an office building owned by PZU. This investment is partially intended for the PZU Group's needs and partially for lease.

**PZU Finanse**

PZU Finanse Sp. z o.o. is a service company established for the purpose of keeping accounting ledgers for subsidiaries of the PZU Group (excluding PZU and PZU Życie).

**Ogrodowa-Inwestycje**

Ogrodowa-Inwestycje Sp. z o.o. (Ogrodowa-Inwestycje) is the owner of the City-Gate office building (located at ul. Ogrodowa 58 in Warsaw) and leases office space to external clients and PZU Group companies.

**PZU Cash SA**

The line of business of PZU Cash SA is brokerage in granting cash loans in the form of an employee benefit. Brokerage is carried out using the Cash lending platform, while the proposal is presented by Alior Bank. The Cash portal is an innovative solution on the Polish market that enables employees to take out online loans. The loan proposal is targeted at employees of those companies that have established cooperation with Cash.

**PZU Corporate Member Lmited**

On 28 September 2017, PZU acquired shares in PZU Corporate Member Limited, entitling it to 100% of votes at the shareholder meeting.

The company is a member of Lloyd's, a market for insurance companies, brokers and agents, bringing together nearly 100 syndicates.

PZU Corporate Member is handled by Argenta Holdings Limited. This agency deals with the ongoing activities of syndicates, invests their funds and employs underwriters.

**Armatura Group**

Since October 1999, the PZU Group has held an equity stake in Armatura Kraków S.A. (Armatura Kraków). At present, a 100% stake in Armatura Kraków is held the mutual fund PZU FIZ AN BIS 2.

The business of the Armatura Group lies outside the domain of financial and insurance services. The group is a leading manufacturer in the sanitary and heating industry in Poland. The companies making up the Armatura Group specialize in the manufacture of bathroom and kitchen taps, aluminum central heating radiators, a wide range of valves and sanitaryware.

# 4.

# PZU 2020 - more than insurance

Our client relationships and our knowledge of our clients are becoming our main value as defined in the New PZU Strategy, while our chief product is our acumen in addressing client needs to build a stable future.

**In this section:**

## 4.1 #newPZU strategy 2017-2020

The PZU Group enjoys the trust of more than 22 million clients in 5 countries in Europe.

The PZU Group's offer is the most extensive and most comprehensive, insurance and financial offer on the Polish market. It consists of a broad array of insurance, pension and investment products addressed to all client segments. Group companies are active in health care, banking and additionally they render assistance services to retail clients and businesses through strategic partnerships.

The PZU Group Strategy published on 9 January 2018: "The New PZU – More Than Insurance" is client-centered. The mission that we have defined – we help clients care for their future – means that our client relationships and our client knowledge are becoming our overriding value, while our chief product is our acumen in addressing client needs to build a stable future.

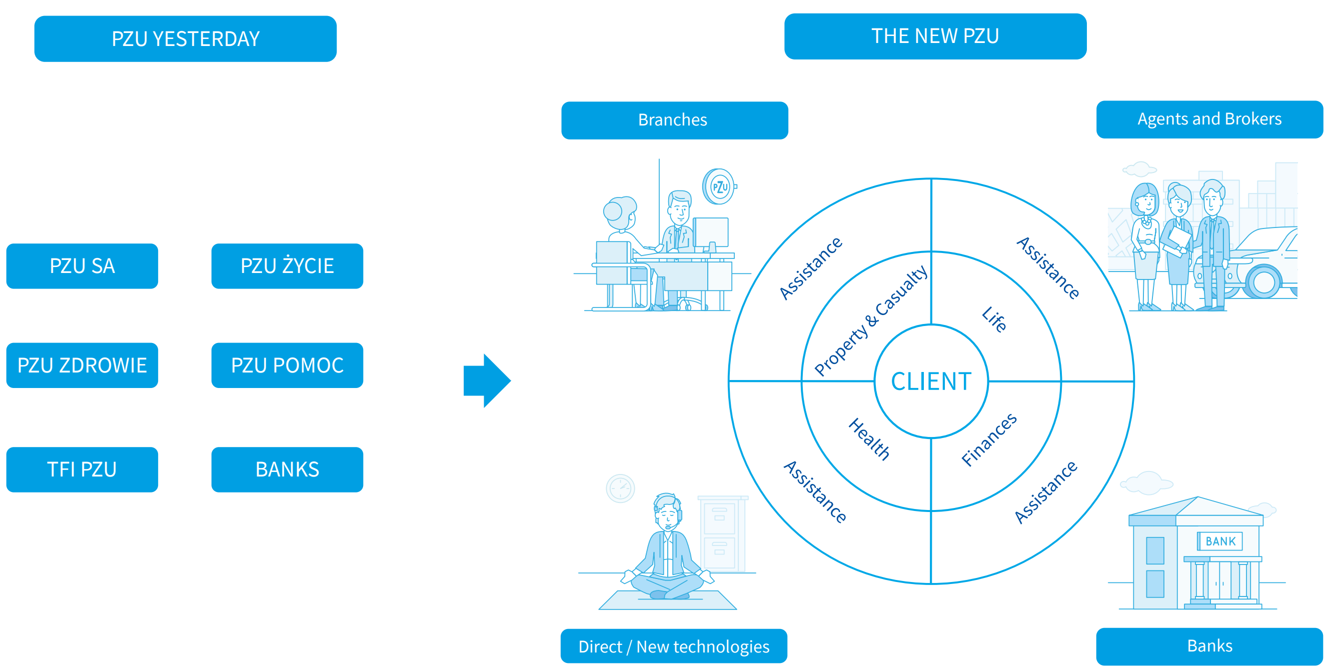
This strategy has specified how various areas within the PZU Group will be integrated to focus on clients in order to maximize client convenience and satisfaction. Special emphasis has been placed on analyzing the information the PZU Group has to grasp and use it better.

In order to create the appropriate business environment to attain these targets, clients interactions were redefined from scratch. This entailed an alteration to the philosophy of how the overall Group operates. For this purpose, the various business units were placed in a single integrated system dedicated to full dimensional client service at every stage of cooperation. Client interactions were realigned to long-term partnership based on trust and understanding where a major value driver is the quality of the solutions dedicated to clients.

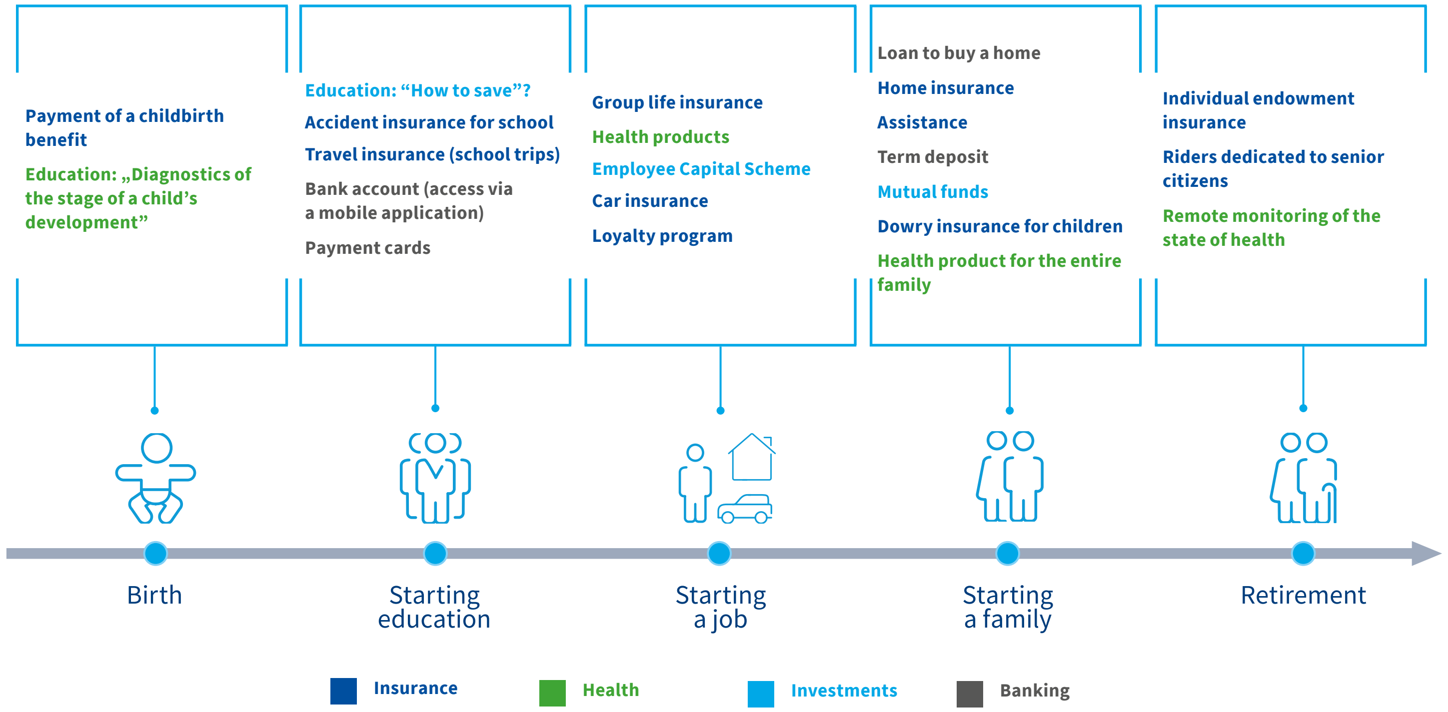
PZU operates differently from the classical client relation model in which the only contact clients have with their insurer after buying a policy is when a claim occurs. PZU effectively helps clients solve their problems in many areas and during every stage of life. PZU's philosophy of thinking about clients constitutes a departure from the classic model of an insurer's client relations rooted solely in sales and aftersales service. PZU's goal is to establish and maintain relations by delivering products well-matched to clients at the appropriate time and place so as to ensure at the same time that the product's attributes (including its price) are aligned to client needs.

This approach has defined the operating philosophy under the PZU Group's new business model.

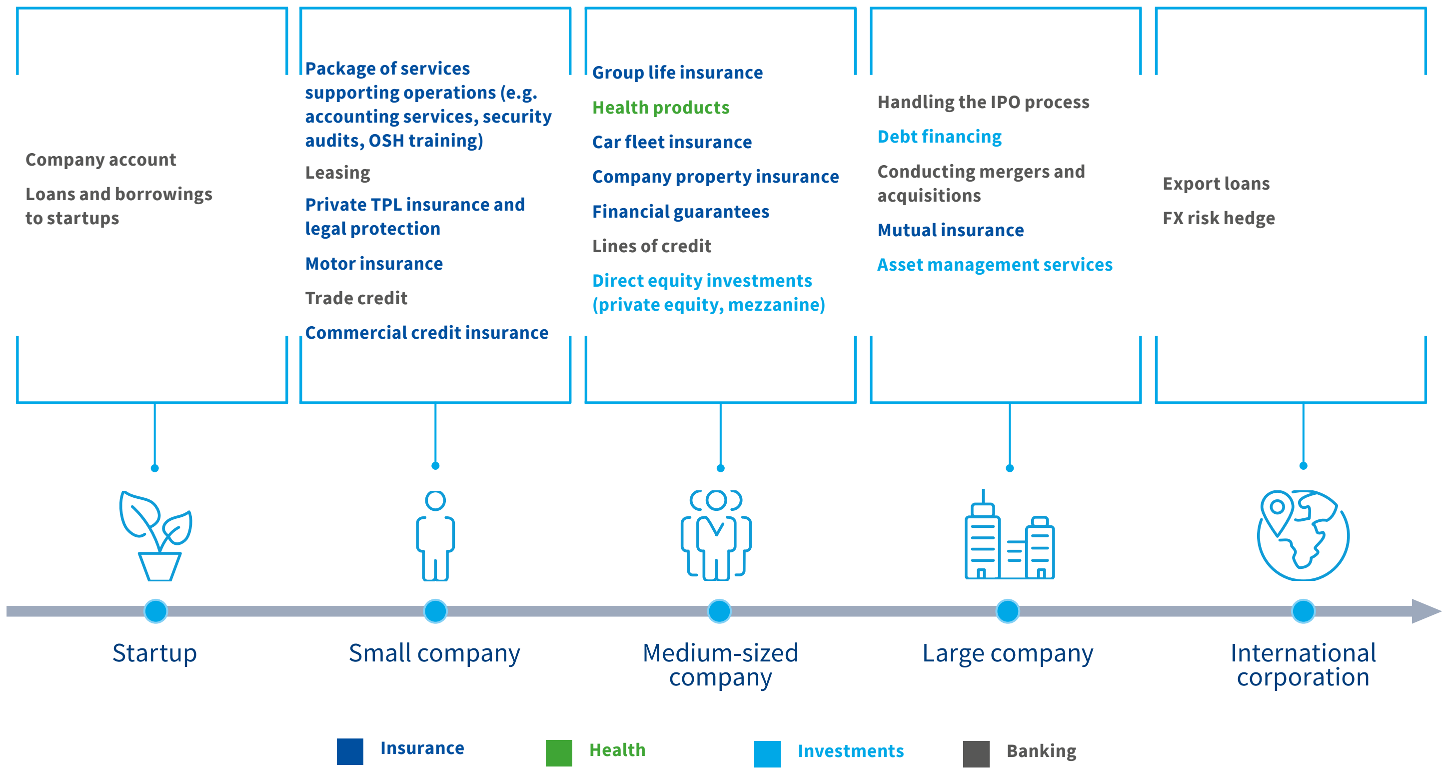
#newPZU




**We will be a long-term partner for our clients.**




**We help companies grow by offering them a wide array of products supporting their growth.**



# PZU 2020 - more than insurance

The new model brings together all of the PZU Group's activities and integrates them in a client-focused manner: life insurance, non-life insurance, health insurance, investments, pensions, health care, banking and assistance services. This drives the gradual transformation of insurers from focusing primarily on valuation and transfer of risk toward being an advisory and service company (operating on the basis of technological know-how). Achieving a high degree of quality and number of client interactions called for the creation of a new model in which the core is client knowledge and the skill of building long-term relations. The transformation in the direction of an advisory and service company will makes it possible to care for the clients' future and satisfy their needs comprehensively when it comes to life, health and property insurance and savings and finance.

The strength of the #newPZU strategy lies in technological support spanning the field of innovation and encompassing nearly all the Group's operating areas. A better utilization of the company's Big Data sets, digitalization of processes, usage of artificial intelligence and new technologies associated with the development of fintechs and insurtechs allows for new risk underwriting methods, streamlining of processes, including those that affect clients directly. The beneficiaries of change include areas such as sales, claims handling and medical diagnostics.

The pursuit of the strategy will also translate into an improved return on equity (ROE), which will be significantly above the average value for insurance companies operating in Europe.

### Strategy of innovation

**UTILIZATION OF BIG DATA**

- Sophisticated **pricing** methods
- More effective **insurance fraud** detection
- Support for **cross-selling** initiatives
- Growth in the level of **client loyalty**
- Enhanced business management and **prediction**

**DIGITIZATION**

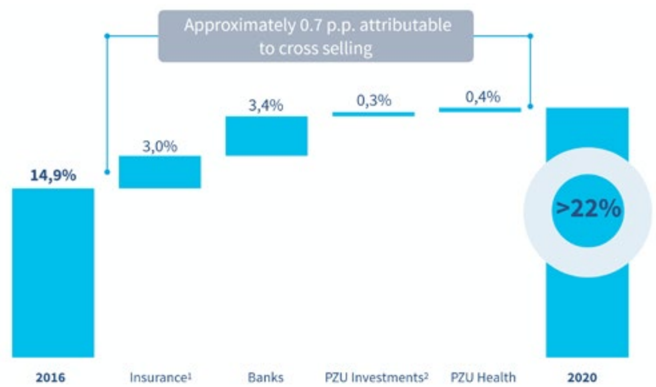
- Implementation of **new technology**
- **Automation** of processes
- Implementation of **self-service**
- Development of **distribution channels**
- Simplified **sales process**

**NEW CLIENT INTERACTIONS**

- Implementation of services **aligned to client needs**
- Reaching **new market segments**

Source: PZU's data

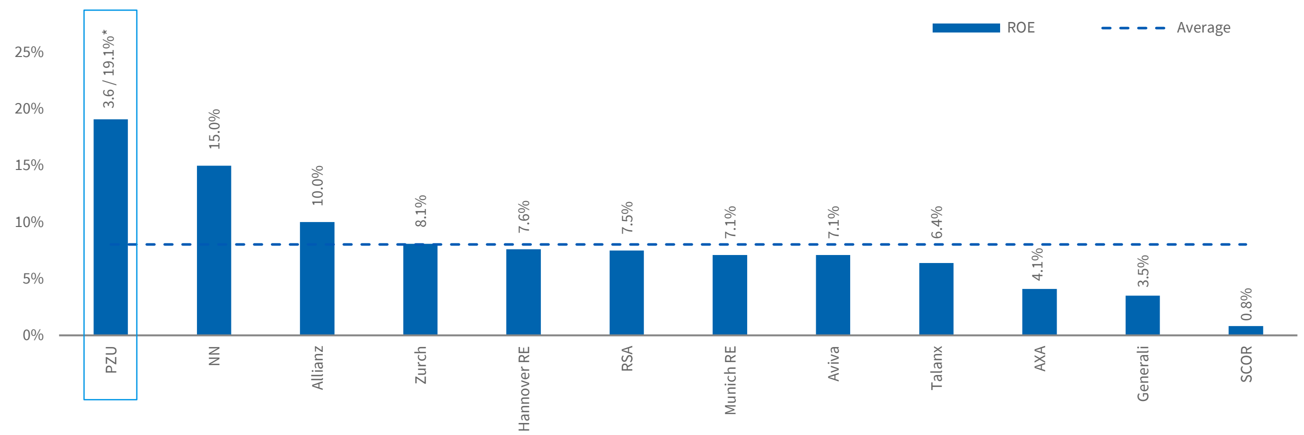
### Contribution of the various lines of business to ROE growth




- Streamlining processes in insurance activities, including better price to risk matching, and also by improving the investment result
- Growth in the banking segment's contribution as the banks generate a higher net result and deliver synergy effects with PZU
- Higher volume of assets under management and merger of the investment fund management companies (TFI) within the PZU Group to facilitate achievement of synergies
- High growth rate in the number of health clients stemming from greater sales activity and reaching new market segments

[1] Taking into account the investment activity in our own portfolio and net of the health insurance presented by PZU Zdrowie
[2] Pertains to third party asset management (giving consideration to all PZU Group entities))

### PZU's ROE versus European insurers (H1 2020)




* Excluding the impairment loss on Bank Pekao and Alior Bank goodwill and intangibles identified during the acquisition of Alior Bank
Source: data from company reports

## 4.2 Strategy operationalization

12 initiatives in 4 areas: data analysis, cross selling, digitalization of processes and client interactions, define the path to achieving strategic objectives.

**#newPZU 2020 strategic initiatives**

| Area | No. | Strategic initiatives | Ambitions in 2020 |
| --- | --- | --- | --- |
| Better utilization of data | 1 | Data base merger and creation of a single joint CRM system in the PZU Group / full client picture (360 degree view) | 55% of the clients in PZU and 33% of the clients in PZU Życie will give marketing consent |
| | 2 | Better matched price to risk and pricing optimisation (Taryfikacja 3.0) | 92% combined ratio |
| | 3 | Implementation of solutions employing artificial intelligence | 6 innovative solutions which at least 100 thousand clients of the PZU Group will use |
| Cross selling growth | 4 | Development of cooperation with banks | 1 m clients acquired for the banks in the PZU Group<br>1 bn PLN of incremental premium obtained from the bank channel<br>Cut costs by 100 m PLN |
| | 5 | Simplifying the product offering, and simple language | 10 core products in broad distribution |
| | 6 | Conversion of the sales network into multi-product sales network | 50% of salespersons sell multiple products in proprietary networks |
| | 7 | Development of sales in PZU Zdrowie | 1 bn in revenues of PZU Zdrowie<br>12% EBITDA margin |
| | 8 | Development of sales and consolidation in PZU Investments | 65 bn PLN of third party assets under management<br>200 m PLN of net profit on third party asset management<br>15% share of assets on the Employee Capital Schemes market |
| Digitalization of processes | 9 | Implementation of a new „moje.pzu.pl" portal | 5 m accounts established by clients |
| | 10 | Development of the direct offering | 10 products available in the direct channel<br>50% market share held by PZU and LINK4 of non-life insurance sold in the direct channel |
| Additional interactions with clients | 11 | Implementation of a loyalty program at the PZU Group level | 3 m participants |
| | 12 | Integrated service model for SMEs | 70% growth of new sales in group insurance to SME clients in PZU Życie<br>20% growth in the gross written premium generated by non-life insurance dedicated to the SME segment |

## 4.3 Pursuit of key projects and initiatives in H1 2020

Key projects executed in H1 2020 were focused on the areas of digitization and additional interactions with the client. This was caused, among other factors, by the situation that emerged as a result of the outbreak and spread of the SARS-CoV-2 coronavirus pandemic across Poland. PZU put priority on activities aimed at increasing the resilience of its business and taking care of the health, life, assets and future of its clients. The pandemic provided a strong stimulus to ramp up our efforts focused on technological transformation.

Our use of remote channels to the maximum extent in sales and service processes (claims handling) and in access to telemedicine services was aimed at limiting the physical contact with the client. The mojePZU portal, the telemedicine service and the band of life are state-of-the-art technological solutions that have helped in the fight against coronavirus and against the spread of COVID-19.

**All services in one place**

H1 2020, within the framework of the mojePZU project, "PZU Remotely" was rolled out – it is a solution for our clients, which is especially useful during the pandemic. New functionalities appeared in the area of claims and benefits, where the user is able to check a claim reported under the third party liability insurance of the person at fault and has the option to provide the bank account number for the disbursement of indemnification/benefits. Another novelty was the launch of the mojeID service, which enables customers to confirm their identity by registering on the mojePZU platform and obtain quick and easy access to a variety of documentation, including the client's medical records at PZU Zdrowie.

In June 2020, the number of user accounts of the mojePZU portal surpassed 1 million.

**mojePZU - your online PZU account**


mojePZU is a solution that enables the user to report a claim and check its status, arrange a doctor's appointment for the user or his/her relatives, download an e-referral for tests or e-prescriptions, access the user's medical documentation, purchase insurance products and invest savings. The platform also provides access to attractive promotions under the PZU Pomocni Club.

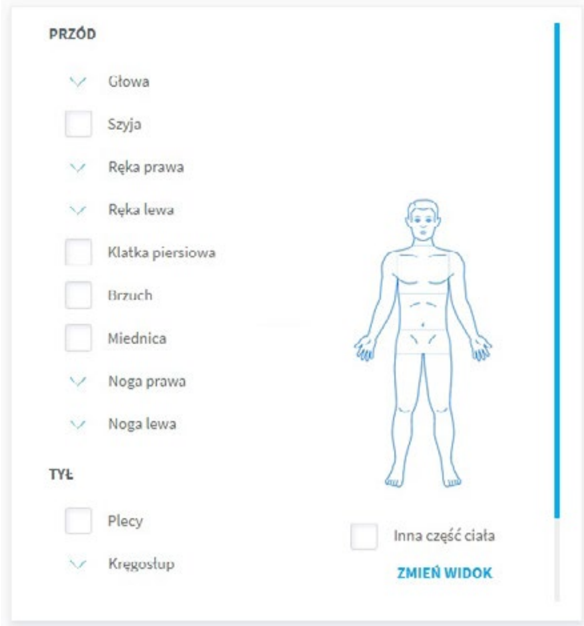
Launching the moje.pzu.pl portal is not just the outcome of developing digitalization and mobility in PZU but also a way of radically modifying client interactions. Modern self-service offers a single location to access PZU Group's products and services and helps in the handling of numerous matters without the need to visit a branch or call a hotline. It is accessible from any location and at any time on personal computers and through the mojePZU mobile app. mojePZU is the most comprehensible platform available on the insurance, financial and health markets. It is continuously upgraded with new functionalities.

**Quick and convenient – remote reporting of injuries and instant disbursement of benefits**

PZU was the first insurer in Poland to roll out a mechanism offering the client an amount for life and non-life claims at the stage of claim notification. The client may use a virtual model of the human body to mark any injuries sustained. On this basis, the client is then informed about the amount of the proposed benefit immediately, without leaving home. Once the benefit proposed by PZU has been accepted, the money gets transferred to the client's account on the same day. There is one condition: the underlying documentation must confirm the information provided by the client in the notification.

Within the framework of the implemented self-service solutions, a new tool for the handling of claims related to deaths and births is also available to clients. Already at the stage of registration of the notified claim, the client receives information about the amount of benefit due. The transfer of required documents has been extremely simplified. By activating the option "Documentation hyperlink", the client will receive a message containing a hyperlink with which he or she will be able to submit the required documents in a secure manner.

The claim notification option is available in a number of channels, including via the zgloszenia.pzu.pl website and the mojePZU mobile app.




**Band of life in the fight against COVID-19**

"Band of life" is an innovative solution created by PZU in cooperation with SIDLY, a Polish medical start-up, in October 2019. It is an electronic device worn on the wrist like a watch to take measurements of a patient's pulse, body temperature and blood oxygen saturation. It analyzes the results and immediately alarms medical personnel – using an audio signal and a message on the computer screen – if the patient's life parameters fall to critical levels.

Initially, the bands were tested in hospital emergency rooms. When the pandemic broke out, nearly one thousand such devices adapted for use in care for patients infected with coronavirus were delivered to infectious disease hospitals in a number of cities, including Elbląg, Grudziądz, Tychy, Ostróda and Kędzierzyn-Koźle.

In H1 2020, work was also continued in other areas of the PZU strategy.

The PZU GO Project, a key solution serving the purpose of better use of data, entered the next stage of development. Since May 2020, PZU GO may be purchased through the call center, and since mid-June it has been available in all PZU branches and from nearly 1,600 tied agents across Poland. Previously, the device was offered only in selected locations of Mazowieckie, Śląskie, Podlaskie and Wielkopolskie voivodships. By mid-2021, PZU intends to sell 100,000 PZU GO devices.


**PZU GO – a simple path to safety**

PZU GO is a state-of-the-art solution guarding the driver's safety while behind the wheel. This small device pasted to the car's windshield communicates with the app in the driver's phone and detects dangers.

**How does PZU GO operate?**

In the event of an accident, PZU GO immediately notifies the PZU Emergency Center of its occurrence. Along with the information about the accident, PZU GO also sends out precise location data. PZU immediately contacts the driver to check if he or she needs any assistance. Unless the driver answers the phone, PZU notifies the emergency services and provides them with the last location obtained from the device's GPS.

**Why is it a good idea to have it?**

- Insurance cover – the client obtains a PZU GO device when he or she purchases PZU AUTO Assistance with the PZU GO option
- Assistance in case of an accident or collision – if the driver has an accident on the road, PZU GO automatically detects it, calls for assistance and, if necessary, calls emergency services
- Support in other dangerous situations – for instance, if the driver faints while driving or his/her car breaks down, all the driver has to do is press the SOS button in the app, prompting PZU to call for assistance.
- Improved driving style – with the driver's prior consent, he or she will be provided with information about his/her driving style, the purpose of which is to help the driver improve the safety and economics of driving.

The Cash project, which was in progress H1 2020, was a key initiative supporting increased cross-selling. In June, after several months of the execution of a pilot project in PZU Group companies, the portal was made available to corporate clients. The first company to establish cooperation under the Cash project was PKP TELKOL sp. z o.o., a member of the PKP Group.

**Cash – a new line of business and an example of how synergies are tapped into in the PZU Group**

The Cash portal is an innovative lending platform created by PZU and Alior Bank. It provides employed individuals with quick access to cheap and safe loans which are automatically repaid from the borrower's salary or wage. A loan may be obtained online with minimum formalities.

Individuals hired under an employment contract may quickly and easily obtain low-interest loans for any purpose via the online Cash portal. The maximum loan amount is PLN 50,000. The term of the loan may be between 3 and 36 months. Another feature that distinguishes loans offered by Alior Bank on the Cash portal from their competition is their low cost – less than PLN 5 per month for each PLN 1,000 borrowed if the loan is repaid in 18 or more installments.

The process is fully remote – from the online completion of the application to the signing of the agreement via a text message. The loan may be taken out from home, which is very convenient for the borrower who receives the money on the business day immediately following the date of signing the agreement. Installments are automatically deducted from the borrower's salary, relieving him or her from the obligation to remember their due dates.

The Cash portal provides benefits to employees and employers alike, because the former they may obtain additional money from a safe source and for the latter it is an excellent opportunity to offer additional benefits to their employees. Employers are also provided with comprehensive support in launching and operating the platform. It consists of training for payroll departments, information materials for employees and ongoing comprehensive maintenance services.

## 4.4 Implementation of the strategy in H1 2020

**ROE[1]**

| 06.2020 | 2020 |
|---|---|
| 3,6% / 19,1%[1] | >22% |

BUSINESS SIZE

| | | | | | |
|---|---|---|---|---|---|
| NON-LIFE INSURANCE | PZU Group's market share[2,3] | 03.2020 | 33.3% | 2020 | 38.0% |
| LIFE INSURANCE | Number of clients in PZU Życie (m)[10] | 06.2020 | 10.4 | 2020 | 11.0 |
| INVESTMENTS | Assets under management for third party clients (bn PLN) | 06.2020 | 27.4/45.6[11] | 2020 | 65 |
| HEALTH | Revenues (m PLN)[8] | 06.2020 | 920 | 2020 | 1,000 |
| BANKING | Assets (bn PLN) | 06.2020 | 313 | 2020 | >300 |
| NON-LIFE INSURANCE | Combined ratio[3] | 06.2020 | 87.1% | 2020 | 92.0% |
| LIFE INSURANCE | Operating margin in group and individually continued insurance | 06.2020 | 26.1% | 2020 | >20% |
| INVESTMENTS | Net result on third party asset management (m PLN)[7] | 06.2020 | 92/210[11] | 2020 | 200 |
| HEALTH | EBITDA margin[9] | 06.2020 | 12.5% | 2020 | 12.0% |
| BANKING | Net financial result attributed to the PZU Group (m PLN)[12] | 06.2020 | 279[13] | 2020 | >900 |

BUSINESS PROFITABILITY

| | 06.2020 | 2020 |
|---|---|---|
| Administrative expense ratio[5] | 7.1% | 6.5% |
| Surplus yield on its own portfolio above the RFR | 3.2 p.p. | 2.0 p.p. |

GROUP OBJECTIVES

| | | | | |
|---|---|---|---|---|
| Solvency II solvency ratio | 06.2020[4] | 258%[4] | 2020[6] | >200% |
| Number of products per client | 06.2020 | 1.6 | 2020 | 2.0 |

[1] ROE attributable to the parent company/ excluding the impairment loss on Bank Pekao and Alior Bank goodwill and intangibles identified during the acquisition of Alior Bank.
[2] Direct business
[3] PZU jointly with TUW PZUW and LINK4
[4] Preliminary data, not audited or reviewed by a statutory auditor
[5] Administrative expenses in PZU and PZU Życie
[6] Own funds after subtracting anticipated dividends and asset taxes
[7] PZU Investments' consolidated net result
[8] Annualized revenues of proprietary centers and branches including revenues from PZU Zdrowie and PZU Group
[9] Net of non-recurring costs; profitability computed using the sum of revenues generated by branches and earned premium
[10] Including customers acquired through cooperation with banks
[11] Including assets managed by TFI banks of the PZU Group
[12] Excluding the impairment loss on Bank Pekao and Alior Bank goodwill and intangibles identified during the acquisition of Alior Bank
[13] Trailing 12 months

# 5.

# Financial results

The PZU Group's financial results for H1 2020 were affected by the unfavorable effects of the COVID-19 pandemic, in particular on the banking business. Net of the banking business, profit attributable to equity holders of the parent company increased 31.1% year on year. Gross written premium reached 98.7% of the amount collected in the corresponding period of the previous year.

**In this section:**

### 5.1 Major factors contributing to the consolidated financial result

In H1 2020, the net profit attributable to the PZU Group's parent company shareholders was PLN 301 million, compared to PLN 1,481 million in H1 2019 (down 79.7%). Net profit reached PLN 304 million, i.e. PLN 1,894 million less than the result generated in H1 2019, and the result before tax stood at PLN 1,055 million, compared to PLN 3,100 million in the corresponding period of the previous year. The net result declined 21.0% compared to last year, net of non-recurring events.[1]

The operating profit in H1 2020 was PLN 1,056 million, down 66.0% compared to the result generated in H1 2019. Operating profit was driven in particular by the following factors:

- higher profitability in group and individually continued insurance as the outcome of a decrease in the loss ratio of certain risks in the group protection portfolio and an increase in operating expenses;
- higher profitability of the mass insurance segment driven by the lower loss ratio in both motor insurance (as a result of the lower frequency of claims) and non-motor insurance;
- lower operating result in the corporate client segment as the outcome of an increase in the loss ratio on the general TPL insurance portfolio (consisting predominantly of the provision of insurance cover to medical centers) and a better result generated on motor insurance, chiefly MOD products;
- operating result on individual insurance at a level comparable to that attained in the corresponding period of 2019 with a growing insurance (chiefly bancassurance) portfolio;
- lower result on listed equities, in particular due to the deteriorated market conditions on the capital market caused by the COVID-19 pandemic;
- high gross written premium of PLN 11,691 million, including growing sales in the life insurance segments in unit-linked products offered in collaboration with banks, and growth of the portfolio of group health products. These drivers were counterweighed by a lower premium from motor insurance in both non-life insurance segments as a result of the persisting COVID-19 pandemic;

[1] Non-recurring events included the impairment loss on goodwill arising from the acquisition of Alior Bank (PLN 746 million) and Bank Pekao (PLN 555 million), the impairment loss on assets arising from the acquisition of Alior Bank (i.e. trademark and relations with clients) in the amount of PLN 161 million and the conversion effect of changing long-term contracts into annual renewable contracts in type P group insurance.

- poorer performance of the banking business, including the one-off effect of the impairment loss on goodwill arising from the acquisition of Alior Bank (PLN 746 million) and Bank Pekao (PLN 555 million) and the impairment loss on assets arising from the acquisition of Alior Bank (i.e. trademark and relations with clients) in the amount of PLN 161 million coupled with the higher costs of risk stemming from the establishment of additional loan provisions as a result of the COVID-19 pandemic.

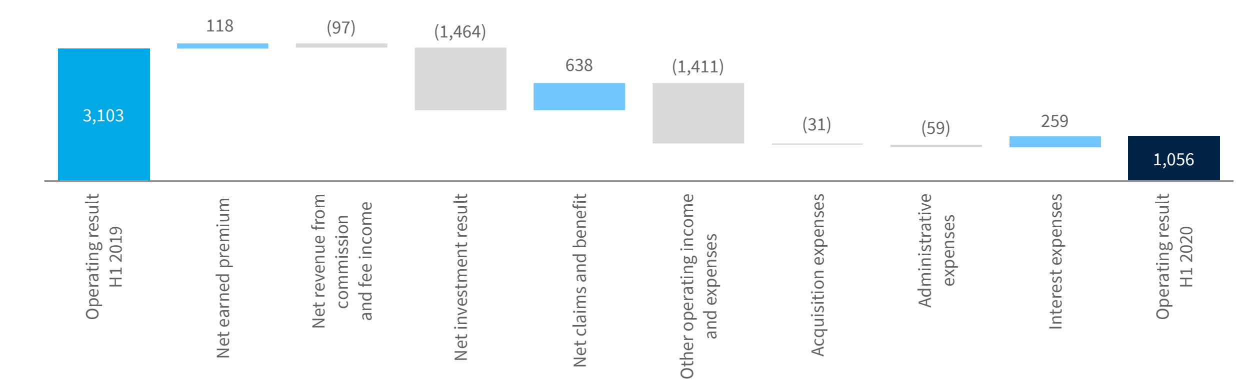
In the individual operating result items, the PZU Group posted:

- gross written premium of PLN 11,691 million, or 98.7% of that attained in H1 of the previous year. The decline in sales was posted primarily in motor insurance, both in the corporate insurance segment and in the mass insurance segment, driven down by the lower number of insurance policies and a simultaneous fall in the average price. The declines were partly offset by higher premiums in the life insurance segments in unit-linked products offered in collaboration with banks and growth of the portfolio of group health products. Moreover, an increase was posted in written premium in ADD and other insurance in the mass insurance segment, primarily as a result of the growing sales of insurance offered in cooperation with the Group's banks, and providing insurance cover to physicians and medical personnel against a COVID-19 infection. After considering the reinsurers' share and movement in the provision for unearned premiums, the net earned premium was PLN 11,452 million, or 1.0% higher than in the corresponding period of 2019;
- decrease in investment income after factoring in interest expenses. Investment income in H1 2020 and the corresponding period of 2019 was PLN 3,343 million and PLN 4,548 million, respectively. Declines were posted in investment income in banking activity and net of banking activity. In banking activity, the decrease in profit was triggered, in particular, by the higher costs of risk due to the establishment of additional loan provisions for the anticipated deterioration in the quality of Bank Pekao and Alior Bank's loan portfolios. At the same time, Alior Bank's net interest income was driven down by the impact of the CJEU ruling on the refund of part of the commission in the event of an early repayment of consumer loans. Income on investing activity, excluding banking business[2], declined mainly due to poorer performance on listed equities, in particular by the deterioration in market conditions due to the COVID-19 pandemic, translating among others into investment performance in the portfolio of assets to cover investment products that have no effect on the PZU Group's overall net result;

[2] PZU Group net of Bank Pekao and Alior Bank

- lower level of claims and benefits paid - the COVID-19 pandemic did not have any negative impact on the PZU Group's loss ratio neither in non-life insurance nor in life insurance. Claims and benefits paid amounted to PLN 7,291 million, down 8.0% compared to the corresponding period of 2019. The decrease pertained in particular to life insurance in connection with the poorer result on investing activity in most unit-linked portfolios compared to the results generated last year (this effect has no impact on the PZU Group's total net result, because the increase in claims and benefits paid is counterbalanced by the changes in the net result on investing activity in the portfolio of assets to cover investment products) and lower disbursements of benefits in group protection products. Moreover, a lower level of claims and benefits paid was recorded in motor insurance in the mass insurance segment as a consequence of a decrease in the frequency of claims resulting from restrictions in domestic and international traffic in connection with COVID-19 and rising loss inflation;
- slightly higher acquisition expenses (up 1.9%), including, in particular, in the mass client segment. This increase was driven by a higher level of direct acquisition expenses caused by a change in the product mix (lower rate of growth in sales of motor third party liability insurance carrying lower commission rates);
- increase in administrative expenses to PLN 3,335 million from PLN 3,276 million in the corresponding period of 2019. Administrative expenses in the banking activity segment (net of adjustments on account of valuation of assets and liabilities to fair value) dropped by PLN 16 million thanks to maintaining cost discipline at Bank Pekao and Alior Bank. At the same time, the administrative expenses of the insurance segments in Poland were PLN 59 million higher compared to the previous year. This change largely resulted from higher personnel costs in connection with the wage pressure on the market and the establishment of higher paid vacation reserves as a result of COVID-19 pandemic;
- higher negative balance of other operating income and expenses at PLN 2,971 million. The change was associated primarily with the non-recurring effect of the impairment loss on goodwill arising from the acquisition of Alior Bank (PLN 746 million) and Bank Pekao (PLN 555 million), the impairment loss on assets arising from the acquisition of Alior Bank (i.e. trademark and relations with clients) in the amount of PLN 161 million, a decrease in charges to the Bank Guarantee Fund and a higher levy on financial institutions due to the increase in taxable assets (while the tax rates remained unchanged). The charges to the Bank Guarantee Fund declined from PLN 547 million in H1 2019 to PLN 406 million in H1 2020, while the PZU Group's liabilities (on insurance and banking business alike) on account of the levy on financial institutions in H1 2020 stood at PLN 596 million versus PLN 569 million in H1 2019.

**Operating result of the PZU Group in H1 2020 (in PLN m)**



| Key data from the consolidated profit and loss account | 1 January – 30 June 2018<br>PLN million | 1 January – 30 June 2019<br>PLN million | 1 January – 30 June 2020<br>PLN million |
|---|---|---|---|
| Gross written premiums | 11,881 | 11,839 | 11,691 |
| Net earned premium | 11,054 | 11,334 | 11,452 |
| Net revenues from commissions and fees | 1,677 | 1,602 | 1,505 |
| Net investment result | 4,830 | 5,613 | 4,149 |
| Net insurance claims and benefits paid | (7,345) | (7,929) | (7,291) |
| Acquisition expenses | (1,519) | (1,616) | (1,647) |
| Administrative expenses | (3,342) | (3,276) | (3,335) |
| Interest expenses | (992) | (1,065) | (806) |
| Other operating income and expenses | (1,308) | (1,560) | (2,971) |
| Operating profit (loss) | 3,055 | 3,103 | 1,056 |
| Share in net profit (loss) of entities measured by the equity method | 1 | (3) | (1) |
| Profit (loss) before tax | 3,056 | 3,100 | 1,055 |
| Income tax | (771) | (902) | (747) |
| Loss on discontinued operations | - | - | (4) |
| Net profit (loss) | 2,285 | 2,198 | 304 |
| Net profit (loss) attributable to equity holders of the parent company | 1,410 | 1,481 | 301 |

restated data for H1 2018 and H1 2019

## 5.2 PZU Group's income

**Premiums**

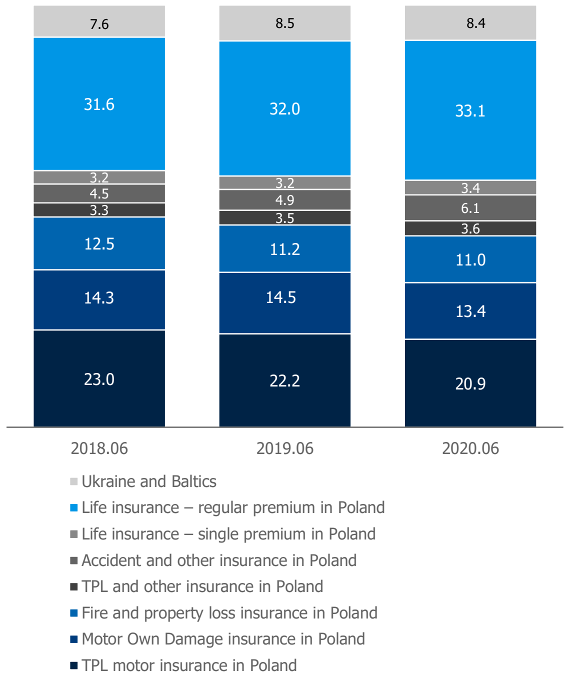
In H1 2020, the PZU Group collected gross premiums of PLN 11,691 million, or 1.3% (PLN 148 million) less than in the corresponding period of 2019. The change in gross written premium (net of inter-segment premiums) was mainly affected by:

- increase in premiums by PLN 68 million in the individual insurance segment (+9.8% y/y), driven mainly by growing sales of unit-linked products offered in collaboration with the banks and the persisting upward trend in written premium in endowment and term protection products offered in the Group's own channels;
- higher sales in the group and individually continued insurance segment – the premium went up PLN 42 million (+1.2% y/y) to PLN 3,513 million, in particular as a result of signing new contracts in health insurance in group or continued form and active up-selling of other insurance riders in individually continued products;
- sales by foreign companies lower by PLN 27 million (-2.6%) compared to H1 2019, at a level of PLN 979 million. This drop was caused, in particular, by a lower number of sold motor and travel policies in the Baltic States due to the restrictions imposed as a result of the COVID-19 pandemic;
- sales in the mass client segment in Poland stood at PLN 5,220 million, down PLN 44 million compared to H1 2019 (-0.8%). The decline in written premium in the motor insurance class was partly counterweighed by an increase in written premium in ADD and other insurance, primarily as a result of the growing sales of insurance offered in cooperation with the Group's banks, and providing

| Insurance segments (PLN million), local GAAP | Gross written premium (external) | | |
|---|---|---|---|
| | 1 January – 30 June 2018 | 1 January – 30 June 2019 | 1 January – 30 June 2020 |
| **TOTAL** | **11,881** | **11,839** | **11,691** |
| Total non-life insurance – Poland (external gross written premium) | 6,847 | 6,669 | 6,436 |
| Mass insurance – Poland | 5,327 | 5,264 | 5,220 |
| Motor TPL | 2,352 | 2,220 | 2,110 |
| Motor MOD | 1,278 | 1,298 | 1,243 |
| Other products | 1,697 | 1,746 | 1,867 |
| Corporate insurance – Poland | 1,520 | 1,405 | 1,216 |
| Motor TPL | 385 | 406 | 333 |
| Motor MOD | 422 | 423 | 325 |
| Other products | 713 | 576 | 557 |
| Total life insurance – Poland | 4,133 | 4,165 | 4,275 |
| Group and individually continued insurance – Poland | 3,444 | 3,471 | 3,513 |
| Individual insurance – Poland | 689 | 694 | 762 |
| Total non-life insurance – Ukraine and Baltic States | 845 | 939 | 902 |
| Ukraine non-life insurance | 89 | 118 | 106 |
| Baltic States non-life insurance | 756 | 821 | 796 |
| Total life insurance – Ukraine and Baltic States | 57 | 67 | 77 |
| Ukraine life insurance | 26 | 31 | 38 |
| Baltic States life insurance | 31 | 35 | 39 |

insurance cover to physicians and medical personnel against a COVID-19 infection;
- decline in written premium in the corporate client segment compared to the corresponding period of 2019 by PLN 189 million (-13.5%) to PLN 1,216 million, primarily in motor insurance offered to both lease firms and in fleet insurance as a result of a lower number of insurance contracts coupled with a drop in the average price (impact of the COVID-19 pandemic and maintained price pressure).

**Structure of gross written premium in the PZU Group (%)**




**Net revenues from commissions and fees**

Net revenues from commissions and fees in H1 2020 stood at PLN 1,505 million, or were PLN 97 million lower than in the corresponding period of the previous year, mainly as a result of higher commission costs in banking activity.

They included mainly:
- net revenues from commissions and fees in the banking business of PLN 1,189 million (including mainly: brokers' commissions, revenues and expenses related to the service of bank accounts, payment and credit cards, fees charged for intermediation in insurance sales);
- income on OFE asset management. They stood at PLN 73 million (an increase compared to the previous year as a result of an overpayment in the Guarantee Fund for Q1 2020);
- revenues and fees received from funds and mutual fund management companies in the amount of PLN 241 million, or PLN 11 million less than in the previous year.

**Net investment result and interest expenses**

The net investment result, after factoring in interest expenses, net of data from Bank Pekao and Alior Bank, was lower than in the corresponding period of last year, chiefly due to the following factors:
- lower investment income in the portfolio of assets to cover investment products, even though it does not affect the PZU Group's overall net result because it is offset by the movement in net insurance claims and benefits;
- lower result on equities, in particular due to the deteriorated market conditions caused by the COVID-19 pandemic.

These declines were partly counterweighed by the posting of positive foreign exchange differences on portfolios measured in EUR and covering insurance liabilities, the valuation of which is shown by the movement in net insurance claims and benefits, and an increase in real property valuation, in part as a result of the settlement of developer gains on real properties in the warehouse sector generated in Q2.



**Result on other operating income and expenses**

In H1 2020, the balance of other operating income and expenses was negative and stood at PLN 2,971 million, compared to the balance in the corresponding period of 2019, which was also negative at PLN 1,560 million. The following contributed to this result:
- non-recurring effect of the impairment loss on goodwill arising from the acquisition of Alior Bank and Bank Pekao in the amount of PLN 746 million and PLN 555 million, respectively;
- non-recurring effect of the impairment loss on assets arising from the acquisition of Alior Bank (i.e. trademark and relations with clients) in the amount of PLN 161 million;
- decrease in BGF (Banking Guarantee Fund) charges from PLN 547 million in H1 2019 to PLN 406 million in 2020 as a result of a lower charge towards compulsory restructuring;
- levy on financial institutions – the PZU Group's liability on account of this levy (in both insurance and banking activity) in H1 2020 was PLN 596 million compared to PLN 569 million in the corresponding period of the previous year. The higher burden was attributable to banking activity and resulted from the increase in value of assets forming the taxable base (the rate of the levy did not change);
- reversal of the PLN 57 million provision for the fine imposed on PZU by the President of the Office of Competition and Consumer Protection (UOKiK) on 30 December 2011.

## 5.3 PZU Group's claims paid and technical provisions

Net claims and benefits (including the movement in technical provisions) were PLN 7,291 million, or 8.0% less than in the corresponding period of the previous year. The following factors contributed to the decline in the category of net claims and benefits:
- in life insurance, a lower result on investing activity in most unit-linked portfolios compared to the results generated in H1 of last year (this effect has no impact on the PZU Group's total net result; the item is the outcome of improved investment results on the portfolio of assets to cover investment products) and lower disbursements of benefits in group protection products;
- lower level of claims and benefits paid in motor insurance in the mass insurance segment as a consequence of a decrease in the frequency of claims resulting from restrictions in domestic and international traffic in connection with COVID-19 pandemic and rising loss inflation.

In turn, an increase in the net claims and benefits category was recorded in the general third party liability insurance portfolio in the corporate insurance segment due to the higher loss ratio in insurance of medical centers.

## 5.4 PZU Group's acquisition and administrative expenses

In H1 2020, acquisition expenses went up PLN 31 million compared to the corresponding period of the previous year, reaching PLN 1,647 million. This increase was related in particular to the mass insurance segment and was driven by a higher level of direct acquisition expenses caused by a change in the product mix (lower rate of growth in sales of motor third party liability insurance carrying lower commission rates).

PZU Group's administrative expenses in H1 2020 totaled PLN 3,335 million compared to PLN 3,276 million in the corresponding period of 2019, or PLN 59 million more than the year before.

Administrative expenses in the banking activity segment (net of adjustments on account of valuation of assets and liabilities to fair value) dropped by PLN 16 million thanks to maintaining cost discipline at Bank Pekao and Alior Bank.

At the same time, the administrative expenses of the insurance segments in Poland were PLN 59 million higher compared to the previous year. This change largely resulted from higher personnel costs in connection with the wage pressure on the market and the establishment of higher paid vacation reserves as a result of COVID-19.

## 5.5 Drivers and atypical events affecting the results

The result generated in H1 2020 was burdened with the non-recurring effect of the impairment loss on goodwill arising from the acquisition of Alior Bank and Bank Pekao in the amount of PLN 746 million and PLN 555 million, respectively.

Moreover, in H1 2020, a non-recurring effect was recognized of the impairment loss on assets arising from the acquisition of Alior Bank (i.e. trademark and relations with clients) in the amount of PLN 161 million.

The conversion effect of long-term policies into yearly renewable term agreements in type P group insurance treated as a non-recurring event was PLN 3 million lower in H1 2020 than in the corresponding period of the previous year (PLN 6 million in H1 2020 compared to PLN 9 million in H1 2019).

Additionally, in June 2020, the PZU Group revised some of its assumptions applied for the calculation of provisions in life insurance. A decision was made to decrease the technical rate for the continued insurance portfolio to 1.5% (from the technical rates used previously, of between 1.5% and 3.0%, depending on the date of execution or modification of the policy). Moreover, because the PZU Group has noticed increasing mismatch between historically accepted portfolio assumptions and behavior in terms of mortality and the probability of having co-insured persons, a decision was made to update assumptions. The PZU Group has also modified the method of calculating provisions for the group insurance portfolio and applied to them the individual method, instead of the previously used – hypothetical portfolio structure. As a result of changes in adopted assumptions, technical provisions in life insurance as at 30 June 2020 declined by PLN 6 million compared to the amount that would have been calculated using the previous rules.

Both the impairment on intangible assets, including goodwill and revision of provisions in life insurance had no significant negative impact on the Group's solvency. Estimated PZU Group's solvency ratio as at June 30, 2020 was presented in SECTION 6.7 CAPITAL MANAGEMENT.

## 5.6 PZU Group's asset and liability structure

As at 30 June 2020, the PZU Group's total assets were PLN 376,645 million, up PLN 33,260 million compared to the end of 2019.

**Assets**

As at 30 June 2020, the largest category of the Group's assets were loan receivables from clients. They represented 52.2% of total assets and amounted to PLN 196,455 million, having risen by PLN 1,587 million from the end of 2019.

The second largest asset category were investments (investment financial assets, investment properties and financial derivatives). They totaled PLN 141,182 million and were up PLN 24,678 million versus the end of last year. They represented 37.5% of the Group's total assets versus 33.9% at the end of 2019. The increase in the value of investments was associated with Bank Pekao and was related to the higher value of the portfolio of government debt securities. Net of the banking business, the value of the investment portfolio increased due to the inflow of premiums driven by business growth and investment performance.

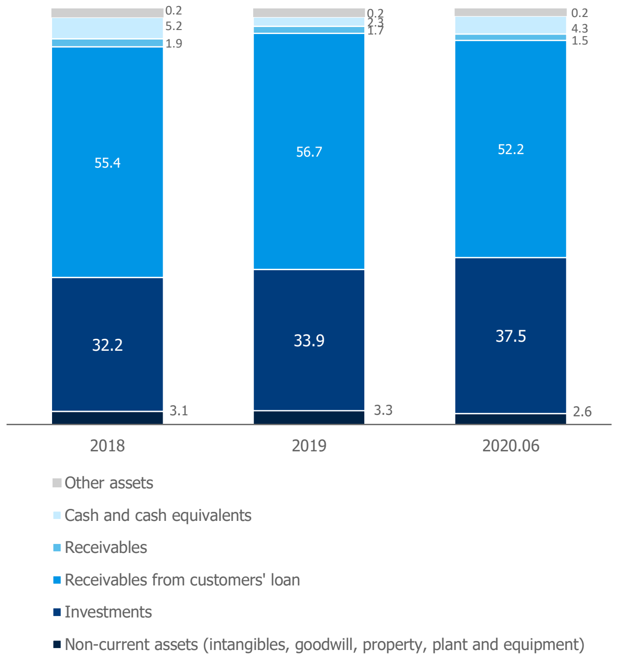
The PZU Group's receivables, including receivables under insurance contracts and current income tax were PLN 5,758 million and represented 1.5% of its assets. For the sake of comparison, at yearend 2019 they stood at PLN 5,737 million (1.7% of the Group's assets) and their movement was caused primarily by the outstanding transactions on financial instruments and margins, partly counterbalanced by a decrease in receivables from policyholders.

Non-current assets in the form of intangible assets, goodwill and property, plant and equipment were presented in the statement of financial position at PLN 9,970 million. They constituted 2.6% of assets. The decrease in the balance by PLN 1,450 million compared to the end of 2019 resulted in part from the impairment loss on goodwill arising from the acquisition of Alior Bank and Bank Pekao of PLN 746 million and PLN 555 million, respectively, and the impairment loss on assets arising from the acquisition of Alior Bank (i.e. trademark and relations with clients) in the amount of PLN 161 million.

As at 30 June 2020, the PZU Group held PLN 16,240 million of cash and cash equivalents (4.3% of assets). At yearend 2019, this value was PLN 7,788 million and the movement occurred mainly in the cash accumulated by Bank Pekao.

The balance of assets held for sale, which stood at PLN 687 million, moved up PLN 107 million compared to the previous year due to the classification of RUCH's assets and liabilities as intended for sale.

**PZU Group's asset structure (in %)**




**Equity and liabilities**

At the end of H1 2020, consolidated equity reached PLN 40,794 million, up from the end of 2019 by PLN 1,506 million. The value of non-controlling interests increased compared to the previous year by PLN 699 million to reach PLN 23,818 million, its movement driven by the increase in the valuation of debt instruments and cash flow hedging instruments measured at fair value through other comprehensive income and the result attributable to non-controlling shareholders of PLN 3 million (generated by Alior Bank and Bank Pekao). Equity attributable to the parent company's shareholders rose by PLN 807 million compared to the end of the previous year, driven predominantly by the net result attributable to the parent company generated in H1 2020 totaling PLN 301 million and the increase in the valuation of debt instruments and cash flow hedging instruments measured at fair value through other comprehensive income.

The largest item of equity and liabilities at the end of H1 2020 were liabilities on account of deposits from clients, the share of which stood at 65.4%. Their balance reached PLN 246,148 million and increased by PLN 27,560 million compared to the end of 2019 (an increase in Bank Pekao and Alior Bank's current deposits by PLN 47,269 million, counterweighed in part by a decrease in term deposits).

As at 30 June 2020, the PZU Group had liabilities arising from own debt securities totaling PLN 7,686 million, including:

- PLN 2,820 million on bonds issued by Bank Pekao and Alior Bank,
- PLN 3,420 million on certificates of deposit issued by Bank Pekao and Alior Bank,
- PLN 1,446 million on covered bonds issued by Bank Pekao.

At the end of H1 2020, the PZU Group's subordinated liabilities reached PLN 6,694 million and stood at a similar level to that of yearend 2019. SECTION 7.3 DEBT FINANCING

As at the end of H1 2020, technical provisions totaled PLN 47,569 million, which accounted for 12.6% of equity and liabilities (up PLN 240 million compared to the end of 2019). The movement in this item resulted in particular from:

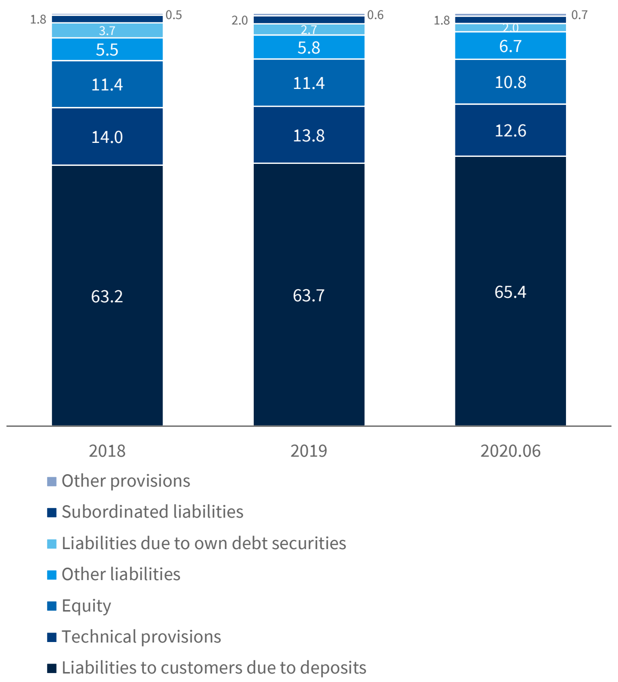
- increase in the provision for outstanding claims and benefits in non-life insurance caused by mass claims that occurred in June in crop insurance and an increase in claims provisions in motor TPL (primarily in the mass segment);
- lower provision for unearned premiums, chiefly as a result of slower sales due to the imposition of social isolation rules, which translated into a limited availability of the sales network, and changes in the structure of the non-life insurance portfolio in the corporate segment (lower share of long-term contracts with a high unit value).

Revision of provisions in life insurance (CHAPTER 5.5 DRIVERS AND ATYPICAL EVENTS AFFECTING THE RESULTS) took into account: the change in the technical rate for the portfolio individually continued and group insurance, the change in the method of provisions calculating for the group insurance portfolio on the individual method and the change in assumptions regarding mortality and probability of having people co-insured.

Lowering the technical rate resulted in an increase in provisions by PLN 2,512 million, while the change in assumptions concerning mortality and probability having co-insured lowered provisions by PLN 2,552 million. Change in the method of provisions calculating for group insurance portfolio on an individual basis resulted in its increase by 34 million. As a result, technical provisions were lower by PLN 6 million compared to those that would be calculated using previous methods.

The balance of other liabilities as at 30 June 2020 was PLN 10,394 million compared to PLN 10,409 million at the end of 2019. The movement concerned in particular the accrued reinsurance expenses and liabilities due under transactions on financial instruments .

**Structure of PZU Group's equity and liabilities (in %)**




**Cash flow statement**

At the end of H1 2020, net cash flows reached PLN 8,350 million, up PLN 14,451 million from the previous year. This increase pertained, in particular, to net cash flow on operating activity.

**Material off-balance sheet line items**

The value of contingent liabilities at the end of H1 2020 was PLN 62,132 million, that is PLN 2,695 million more than at yearend 2019. The balance of the PZU Group's contingent liabilities consisted in particular of PLN 11,705 million in contingent liabilities by virtue of overdraft limits on current accounts and credit cards, PLN 31,092 million in tranche-based credits and loans and PLN 9,967 million in awarded guarantees and sureties.

Moreover, the balance of contingent liabilities included guarantees for the underwriting of securities totaling PLN 3,569 million.

## 5.7 Contribution made by the market segments to the consolidated result

The following industry segments were identified in order to facilitate management of the PZU Group:

- corporate insurance (non-life insurance) – this segment covers a broad scope of property insurance products, liability and motor insurance customized to a client's needs entailing individual underwriting offered by PZU and TUW PZUW;
- mass insurance (non-life insurance) – this segment consists of property, accident, liability and motor insurance products. PZU and LINK4 provide insurance to individuals and entities from the SME sector;
- life insurance: group and individually continued insurance – PZU Życie offers it to employee groups and other formal groups. Persons under a legal relationship with the policyholder (e.g. employer, trade union) enroll in the insurance agreement and individually continued insurance in which the policyholder acquired the right to individual continuation during the group phase. This spans the following types of insurance: protection, investment (however, not investment contracts) and health insurance;
- individual life insurance – PZU Życie provides those products to retail clients. The insurance agreement applies to a specific insured who is subject to individual underwriting. These products include protection, investment (which are not investment contracts) and health insurance;
- investments – reporting according to PAS – the revenues of the investments segment comprise the investments of the PZU Group's own funds, understood as the surplus of investments over technical provisions in the PZU Group insurance companies based in Poland (PZU, LINK4 and PZU Życie) plus the surplus of income earned over the risk-free rate on investments reflecting 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 at transfer prices to insurance segments. Additionally, the segment includes income from other free funds in the PZU Group, including consolidated mutual funds;
- banking segment – a broad range of banking products offered both to corporate and retail clients by Bank Pekao and Alior Bank;
- pension insurance segment – includes income and expenses of PZU OFE pension funds;
- Baltic States segment – includes non-life insurance and life insurance products provided in the territories of Lithuania, Latvia and Estonia;
- Ukraine segment – includes non-life insurance and life insurance products provided in the territory of Ukraine;
- investment contracts – include PZU Życie products that do not transfer material insurance risk and do not satisfy the definition of insurance contract. These are some of the products with a guaranteed rate of return and some products in unit-linked form;
- other – include consolidated companies that are not classified in any of the above segments.

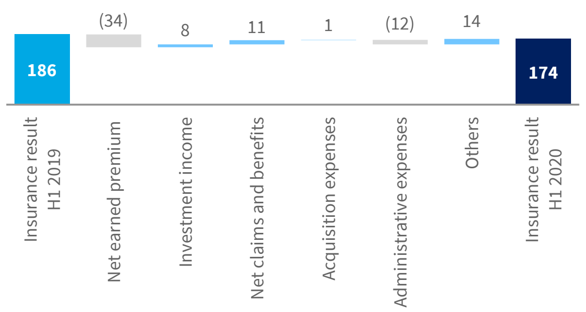
**Corporate insurance**

In H1 2020, in the corporate insurance segment, the PZU Group generated an operating result of PLN 174 million, signifying a 6.5% decline compared to the corresponding period of the previous year.

The following factors had a key impact on this segment's performance in H1 2020:

- decrease in net earned premium by 2.8% combined with a 13.1% decrease in gross written premium, both in comparison to H1 2019. The movement in the PZU Group's gross written premium was driven by:
    - lower premium on motor insurance (-20.6% y/y) offered to both lease firms and in fleet insurance, primarily as a result of a lower number of insurance contracts (effect of slower sales of new vehicles and a downturn in the leasing market due to the persisting COVID-19 pandemic). This effect was exacerbated by the decline in the average premium due to the continued price pressure,
    - lower premium from insurance against fire and other damage to property (-23.6% y/y) as a consequence of the execution of a high-value long-term contract in H1 2019,
    - growth of the assistance insurance portfolio under strategic partnerships in TUW PZUW and improved sales of cargo insurance;
- net claims and benefits down 1.4% compared to the corresponding period of 2019, which, along with a 2.8% decrease in net earned premium, translated into a deterioration of the loss ratio by 0.9 p.p. to 64.5%. The increase in the total loss ratio in this segment was driven by the following factors:
    - higher loss ratio on the general third party liability portfolio, including a higher level of the loss ratio in insurance for medical centers,
    - lower loss ratio in the motor own damage insurance portfolio – impact of the lower incidence of losses as a result of the restrictions on the movement of people imposed throughout the country during the pandemic,
    - deteriorated loss ratio in the motor TPL insurance class as a result of the lower frequency of claims partly offset by a higher average payout and an increase in annuities;
- income from investments allocated to this segment, using transfer prices, grew 16.3% to PLN 57 million, which was caused in particular by the appreciation of the euro against the Polish zloty; this impact was partly offset at the level of the PZU Group's overall net result by the change in the level of net insurance claims and benefits covered by foreign currency assets;
- acquisition expenses (including reinsurance commissions) declined to PLN 231 million (-1.7% y/y), which, along with a 2.8% decrease in net earned premium, translated into a deterioration of the acquisition expense ratio by 0.2 p.p. to 19.5%. The increase in the acquisition expense ratio was driven chiefly by changes in the portfolio structure, in particular by the higher share of non-motor insurance;
- administrative expenses in this segment amounted to PLN 73 million, up by PLN 12 million, or 19.7%, than the year before. The upswing in these expenses was driven predominantly by the growing personnel costs as a result of wage pressures, higher provisions for paid vacations (weaker propensity by employees to go on vacation during the pandemic) and an increase in the costs of IT license fees.

**Operating result in the corporate insurance segment (in PLN m)**

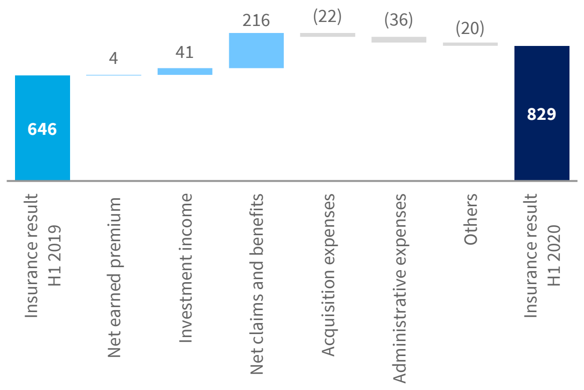



**Mass insurance**

In H1 2020, the mass insurance segment earned an insurance profit of PLN 829 million, which was 28.3% more than in the corresponding period last year. The following factors affected this segment's performance in H1 2020:

- 0.1% y/y increase in net earned premium combined with a decrease in gross written premium. The PZU Group posted the following under the segment's sales:
  - decrease in gross written premium in motor insurance by 4.6% y/y as the outcome of the lower number of insurance contracts with a simultaneous decline in the average price. The slowdown in sales, chiefly in the branches and in the Group's own network and dealership network, was a consequence of the restrictions imposed in connection with the pandemic and temporary lockdown. The decrease in the average premium resulted primarily from the change in the mix of sales channels, in particular from the lower sales of new vehicles through the dealership channel
  - higher level of sales of insurance against fire and other damage to property, chiefly in residential insurance and small and medium-sized enterprise insurance, offset to a small degree by the dip in premium on agricultural insurance, resulting from the impact exerted by the high amount of competitiveness on the market and the natural erosion of the portfolio translating into losing a portion of insurance for farm buildings,
  - increase in written premium in ADD and other insurance (+21.4% y/y), chiefly accident insurance as a result of the growing sales of insurance offered in cooperation with the Group's banks for mortgage loans and cash loans, and providing insurance cover to physicians and medical personnel against a COVID-19 infection. This effect was partly offset by lower sales of travel insurance due to restrictions on domestic and international traffic imposed during the pandemic;
- lower net insurance claims and benefits in H1 2020 by 6.6%, which when coupled with net earned premium being up 0.1%, translated into the loss ratio improving by 4.3 percentage points compared to the corresponding period of 2019. This change resulted mainly from the following:
  - lower loss ratio in the motor insurance class as a consequence of a decrease in the frequency of claims resulting from restrictions in domestic and international traffic in connection with COVID-19 pandemic and rising loss inflation,
  - increase in the loss ratio in non-motor insurance, including insurance against fire and other damage to property despite an above-average number of losses caused by atmospheric phenomena in the last weeks of the second quarter;
- income from investments allocated to the mass insurance segment according to transfer prices increased by PLN 41 million, chiefly as a result of the appreciation of the euro against the Polish zloty. This impact was partly offset at the level of the PZU Group's overall net result by the change in the level of net insurance claims and benefits covered by foreign currency assets;
- acquisition expenses (with reinsurance commissions) rose to PLN 989 million and were up by PLN 23 million in comparison with the corresponding period of the previous year (+2.4% y/y), which when coupled with the net earned premium being up by 0.1% signifies growth of acquisition expenses by 0.4 p.p. The factor driving the evolution in the level of acquisition expenses was the higher level of direct acquisition expenses due to the change in the product mix (lower rate of growth in motor third party liability insurance carrying lower commission rates);
- administrative expenses in this segment amounted to PLN 341 million, up by PLN 36 million, or +11.8%, than the year before. The upswing in these expenses was driven predominantly by the growing personnel costs as a result of wage pressures, higher provisions for unused paid vacations and additional expenses related to the aid package for the sales area as a result of COVID-19 pandemic, and an increase in the costs of IT license fees.

**Operating result in the mass insurance segment (in PLN m)**




**Group and individually continued insurance**

In H1 2020, the operating result in the group and individually continued insurance segment stood at PLN 923 million, which was 31.3% more than in the corresponding period of last year. The rate of growth in this segment's operating result was the highest in percentage terms among all insurance segments in Poland, and in absolute terms (up PLN 220 million y/y) it was the strongest among all of the Group's segments.

The result was favorably affected mainly by the following factors:

- lower disbursements of paramedical benefits related to hospitalization and surgical operations as well as to permanent disability and dismemberment (effect of the continuing pandemic and temporary lockdown);
- growing portfolio of profitable health contracts, the loss ratio of which also temporarily improved as a result of the lower utilization of benefits during the lockdown period.

Increasing operating expenses came into play as a negative factor.

The following factors affected this segment's performance and its movements in H1 2020:

- gross written premium was higher than in the corresponding period of the previous year by PLN 42 million (+1.2%), which was mainly the result of the following:
  - attracting further contracts in group health insurance products or individually continued products (new clients in outpatient insurance),
  - active up-selling of other riders in individually continued insurance products, including, in particular, when offering the basic agreement in PZU branches and increasing sums insured during the term of the agreement.

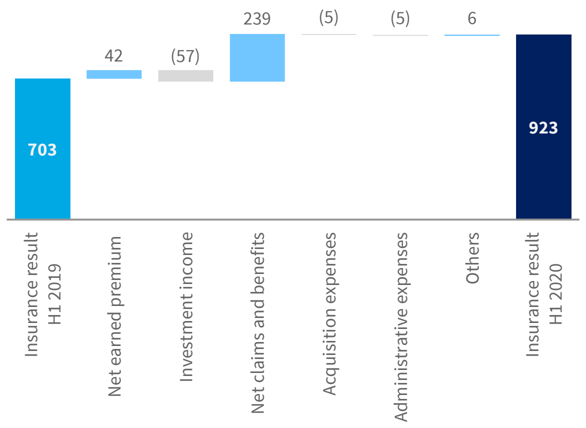
  At the same time, the PZU Group recorded a decline in the rate of growth in revenues from group protection products due to the limited possibilities of acquiring new clients in Q2 (effect of the temporary lockdown), exacerbated by the lower propensity to purchase insurance and deferred decisions to enroll in insurance. Lessening the pressure on the average premium growth rate made it possible to control the loss ratio of group protection products;
- lower investment income (by PLN 57 million, or 16.3% y/y). The investment result consists of income allocated using transfer prices and income on investment products. Income allocated according to transfer prices is subject to slight fluctuation and its level depends largely on the level of technical provisions in protection insurance products. The movement in the segment's investment income was predominantly a consequence of the poorer performance of unit-linked products, especially Employee Pension Schemes (EPSs, a third pillar retirement security product), as a result of the downturn in the financial markets caused by the COVID-19 pandemic. This component of investment income does not affect the segment's performance, because it is offset by the movement in technical provisions;
- lower insurance claims and benefits along with the movement in other technical provisions by PLN 239 million, or 9.2% y/y, to PLN 2,355 million. This change was driven by the following factors in particular:
  - lower payouts of benefits in group protection products, chiefly on riders related to hospitalization and surgical operations and on permanent disability and dismemberment, which might have been partly due to the lower level of human activity caused by the pandemic and changes in client behaviors in terms of channels through which claims are reported,
  - lower value of benefits in continued insurance related to the deaths of insureds and co-insureds, which, according to data published by Statistics Poland (GUS), is correlated to the frequency of these events in the overall population;
  - lower than last year increase in mathematical provisions in continued products as a result of the change in the percentage of "old" and "new" continuation among the persons joining and remaining in the insured portfolio – in "new" continuation the unit cost of setting up

mathematical provisions for future benefit payments is lower; moreover, the number of new persons in the portfolio lower than in the previous year,
- decrease in technical provisions in EPS (Employee Pension Schemes) compared with an increase in the previous year, due to the lower investment results this year, coupled with a stable level of withdrawals and an increase in client contributions to unit-linked insurance accounts,
- lower value of benefits related to the deaths of co-insureds and childbirth benefits, which is correlated to the frequency of these events in the overall population according to the data published by Statistics Poland (GUS),
- lower value of medical benefits under health products despite the growth of this contract portfolio (effect of the temporary lockdown, lower frequency of stationary medical appointments and diagnostics),

The foregoing movements were partially offset by:
- higher disbursements of benefits in the portfolio of bank protection products as a result of an increase in individual benefits,
- lower pace of converting long-term insurance policies into yearly-renewable term business in type P group insurance than last year. As a result of the conversion, in H1 2020, provisions were released for PLN 6 million, PLN 3 million less than in the corresponding period of 2019,
- higher value of benefits related to the deaths of insureds;

- acquisition expenses in the segment of group and individually continued insurance higher by PLN 5 million (2.7%). The factor driving the movement in this line item was the increasing remuneration for insurance intermediaries, especially for selling health and protection products, modification made to the remuneration system in the agent network, and increasing sales levels;
- upswing in administrative expenses by PLN 5 million, or 1.6%, compared to the previous year, chiefly as a result of the growing personnel costs as a result of persisting wage pressures, higher provisions for paid vacations (weaker propensity by employees to go on vacation during the pandemic) and an increase in the costs of handling life products.

**Operating result in the group and individually continued insurance segment (in PLN m)**



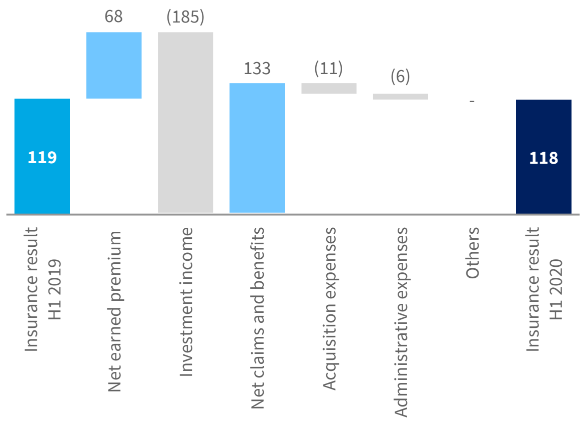

**Individual insurance**

The operating result of the individual insurance segment remained at a level similar to that generated in the corresponding period of the previous year, that is at PLN 118 million (-0.8% y/y).

The following factors affected this segment's performance and its movements in H1 2020:
- growth in gross written premium by PLN 68 million (9.8%) to PLN 762 million compared to H1 2019, driven by the following favorable factors:
  - higher contributions to the unit-linked insurance accounts offered jointly with the banks,
  - increase in contributions to other unit-linked insurance, including contracts executed under individual retirement accounts,
  - constantly rising level of premiums on protection products in endowments offered in own channels – the level of sales and premium indexation under the agreements in the portfolio exceeded the value of lapses,
  - growth of the insured portfolio in protection products offered through the bancassurance channel, especially in cooperation with Alior Bank;

  At the same time, the withdrawal of the structured product offered in the Group's own network from the offering at the beginning of 2020 exerted a negative impact.
- decrease in investment income (by PLN 185 million). The investment result consists of income allocated using transfer prices and income on investment products. Income allocated according to transfer prices is subject to slight fluctuation and its level depends largely on the level of technical provisions in protection insurance products. The decrease in the segment's income was predominantly a consequence of the poorer performance of unit-linked products, in particular as a result of the downturn in the financial markets caused by the COVID-19 pandemic. This component of investment income does not affect the segment's performance, because it is offset by the movement in technical provisions.
- lower net insurance claims and benefits together with the movement in other technical provisions by PLN 133 million compared to H1 2019. The movement in the result generated on funds in investment products, caused by the downturn in financial markets due to the coronavirus pandemic, made a major contribution to this decrease. From the operational point of view, this factor was rather insignificant as it was offset by the lower investment income. At the same time, in the unit-linked portfolio area run in cooperation with banks, many more requests for withdrawal of the surrender value were registered in the reporting period;
- increase in acquisition expenses by 17.2% to PLN 75 million. The increase in remuneration paid to intermediaries was related to higher sales of protection products in the bancassurance channel, while the additional expenses incurred on sales support in the Group's own network were partly offset by the lower commissions on sales of unit-linked products in the bancassurance channel;
- upswing in administrative expenses by PLN 6 million, or 18.2%, compared to the previous year, chiefly as a result of the growing personnel costs (impact of the wage pressure on the market) and higher provisions for unused paid vacations than the year earlier.

**Operating result in the individual insurance segment (in PLN m)**




**Investments**

The revenues of the Investments segment comprise the investments of the PZU Group's own funds, understood as the surplus of investments over technical provisions in the PZU Group insurance companies seated in Poland (PZU, LINK4 and PZU Życie) plus the surplus of income earned over the risk-free rate on investments reflecting the value of technical provisions of PZU, LINK4 and PZU Życie in insurance products, i.e. surplus of investment income of PZU, LINK4 and PZU Życie over the income allocated at transfer prices to insurance segments.

Additionally, the investment segment includes income from other free funds in the PZU Group (including consolidated mutual funds).

The operating income of the investment segment (based exclusively on external transactions) was lower than in the corresponding period of last year, primarily due to the deteriorated conditions on the financial markets due to the COVID-19 pandemic.

**Banking segment / Banking activity**

The banking activity segment consists of the following groups: Bank Pekao and Alior Bank.

In H1 2020, the banking activity segment generated an operating loss (without amortization of intangible assets acquired as part of the transactions to take over the banks) of PLN 1,007 million, which signifies a decrease by PLN 2,458 million compared to the corresponding period of 2019. This lower result was predominantly caused by the impact of the COVID-19 epidemic on the increase in the costs of risk due to the establishment of additional loan provisions for the anticipated deterioration in the quality of the segment's loan portfolio. Moreover, the interest rate cuts (by an average of approx. 140 bps in H1 2020) contributed to the decline in net interest income generated by the banks.

In H1 2020, Bank Pekao contributed PLN 841 million to the operating profit (without amortization of intangible assets acquired as part of the acquisition transaction) in the "Banking activity" segment, while Alior Bank's contribution was PLN -547 million. The segment's performance was also affected by Alior Bank's goodwill impairment of PLN 746 million and Bank Pekao's goodwill impairment of PLN 555 million.

Investment income, which decreased to PLN 3,233 million y/y in 2020 (or 26.6% y/y), is the key component of the segment's revenue. Investment income consists of: interest income, dividend revenue, trading result and result on impairment charges.

As at the end of H1 2020, the portfolio of loan receivables in both banks increased 3.2% compared to the same period of 2019, whereas the y/y decline in investment income was primarily due to the higher costs of risk stemming from the establishment of additional loan provisions for the anticipated deterioration in the quality of the loan portfolio. The cost of allowances for expected credit losses and impairment losses on financial instruments at Bank Pekao amounted to PLN 805 million in H1 2020, of which PLN 546 million was estimated as the impact of the COVID-19 epidemic. At Alior Bank, the value of allowances caused by COVID-19 amounted to PLN 418 million, of which PLN 270 million was related to changes in model parameters and PLN 149 million was related to individual allowances. At the same time, Alior Bank's net interest income was driven down by the impact of the CJEU ruling on the refund of part of the commission in the event of an early repayment of consumer loans. The total impact of the judgment was estimated at PLN 192 million, of which PLN 100 million were current returns charged to net interest income. The remaining PLN 98 million was an additional provision for loans repaid before 11 September 2019, posted to other operating expenses.

The profitability of banks in the PZU Group in H1 2020 measured by the net interest margin ratio for Bank Pekao and Alior Bank was 2.7% and 4.2%, respectively. The difference in the level of the indicators results in particular from the structure of the loan receivables portfolio. Both banks posted a decline in their interest margins due to the interest rate cuts that took place in March, April and May.

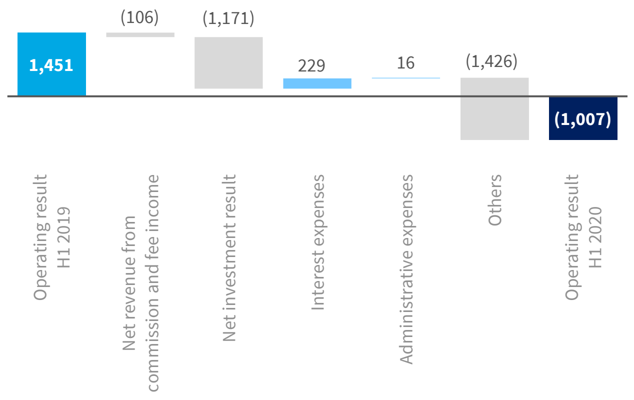
The net fee and commission income in the banking activity segment amounted to PLN 1,425 million and was 6.9% lower than in the corresponding period of last year. The main cause of the poorer commission income was the growing costs of card servicing and the lower level of client activity due to economic constraints imposed in Q2 2020. The segment's administrative expenses amounted to PLN 2,423 million and comprised of Bank Pekao's expenses in the amount of PLN 1,657 million and Alior Bank's expenses of PLN 766 million. The decline in expenses by 0.7% y/y resulted, among others, from the maintenance of a strong cost discipline by Bank Pekao, both in HR and other categories.

In addition, other contributors to the operating result included other operating income and expenses, where the main components are the BGF fees (PLN 406 million) and the levy on other financial institutions (PLN 436 million).

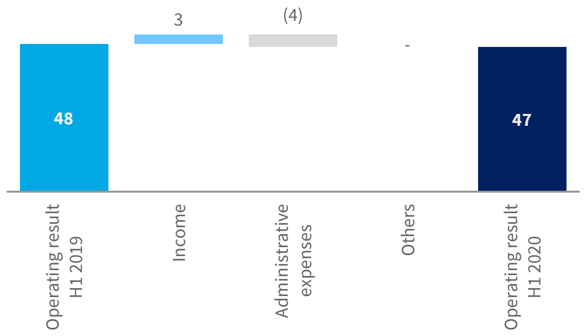
As a result, the Cost/Income[3] ratio stood at 43% for both banks. On a separate basis, this ratio was 42% for Bank Pekao and 46% for Alior Bank.

[3] Cost/Income ratio (C/I; banking segment) – quotient of administrative expenses and the sum of operating income, excluding: the BGF charge, the levy on other financial institutions and the net result on realization and impairment losses on investments

**Operating result in the banking segment (in PLN m)**




**Operating profit in the pension insurance segment (in PLN m)**




**Pension insurance**

In H1 2020, the operating profit in the pension insurance segment amounted to PLN 47 million, signifying a 2.1% decrease in comparison to the corresponding period of 2019. The major drivers of the operating result included the following:

- other revenues, which amounted to PLN 73 million, i.e. increased by 5.8% compared with the previous year. This movement was mainly caused by the overpayment in the Guarantee Fund for Q1 2020;
- administrative expenses, which stood at PLN 26 million, i.e. were up 18.2% than the year before. This change resulted mainly from:
  - changes in the scope of obligatory contributions to the Guarantee Fund held by the National Depository for Securities (KDPW),
  - execution of a project at PTE aimed at connecting it with the mojePZU platform;
- other items, which amounted to PLN 2.0 million, remained unchanged compared to the previous year.

**Baltic States**

In H1 2020, the PZU Group's business in the Baltic States generated an operating result of PLN 102 million, thus recording an increase by PLN 7 million (or 7.4%) in comparison to the corresponding period of the previous year.

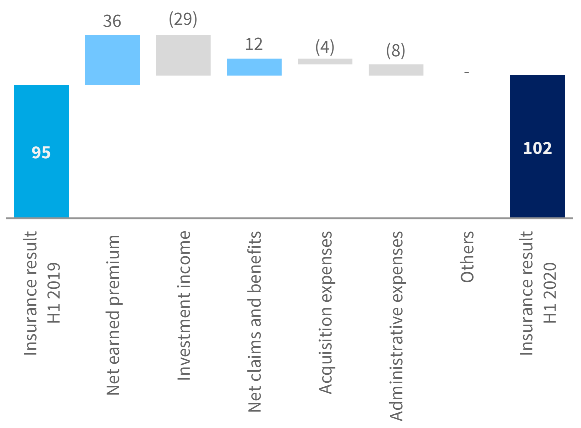
This result was shaped by the following factors:

- lower value of gross written premium. It amounted to PLN 835 million compared to 856 the year before. The premium in non-life insurance decreased by PLN 25 million y/y (or 3.0%). The lower value of sales was largely a consequence of the restrictions related to the COVID-19 pandemic, the reduced volume of vehicle and tourist traffic and, as a consequence, a decrease in the number of sold motor third party liability policies, motor own damage policies and travel insurance policies. Premiums in life insurance increased by PLN 4 million (or 11.4%);
- decline in investment income. As at the end of June 2020, a loss of PLN 7 million was generated, chiefly due to the decrease in the fair value of assets ;
- decrease the value of net claims and benefits. They amounted to PLN 470 million and were lower by PLN 12 million compared to the corresponding period of the previous year. The loss ratio in non-life insurance fell 2.0 p.p. to 58.1% compared to the corresponding period of the previous year. In life insurance, the value of benefits stood at PLN 18 million and was 47.1% lower than in the previous year;
- increase in acquisition expenses. The segment's expenditures for this purpose reached PLN 169 million.

The acquisition expense ratio calculated on the basis of net earned premium dropped by 0.4 p.p. and stood at 20.7%;

- higher administrative expenses. They amounted to PLN 71 million, having increased 12.7% from H1 2019. This increase was generated in part as a result of the higher exchange rate – in the functional currency, it stood at 6.7% and was caused, among other drivers, by project work expenses and an increase in personnel costs due to wage pressure.

**Operating result in the Baltic States segment (in PLN m)**



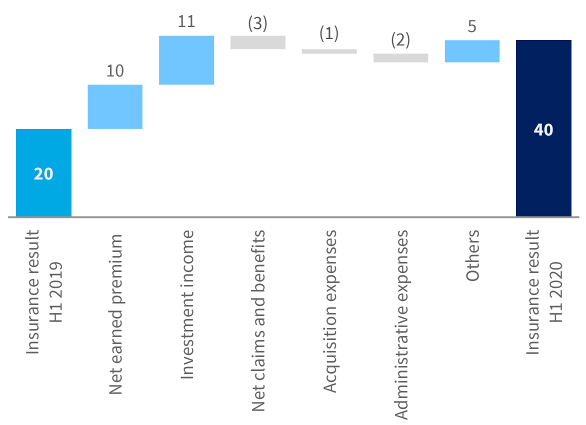

**Ukraine**

The Ukraine Segment closed H1 2020 with the operating result of PLN 40 million, compared to PLN 20 million in H1 of the previous year.

The improvement of the segment's result was the outcome of the following factors:

- lower gross written premium. It amounted to PLN 144 million, having dropped by PLN 5 million (or 3.4%) in comparison to H1 of the previous year. The decrease in written premium in non-life insurance (by 10.2% y/y) was mainly caused by the restrictions imposed as a consequence of the COVID-19 pandemic and was associated primarily with accident and travel insurance and other third party liability insurance – mandatory when applying for a visa for persons leaving for Poland – and motor third party liability insurance, motor own damage insurance and green card insurance as a result of the restrictions imposed on vehicular traffic. Premiums in life insurance increased by PLN 7 million;
- higher income from investing activities. In this area, the segment generated PLN 25 million, or PLN 11 million more than in H1 of the previous year;
- increase in net claims and benefits. They reached PLN 36 million and were 9.1% greater than in the corresponding period of the previous year; In life insurance, the value of disbursed benefits in relation to H1 2019 increased by PLN 6 million (or 50.0%). The loss ratio calculated on the basis of the net earned premium in non-life insurance was 27.3%, down 6.6 p.p.;
- increase in acquisition expenses. They stood at PLN 52 million, compared to PLN 51 million in the corresponding period of the previous year. In life insurance, expenses for this purpose increased by PLN 1 million (or 5.3%). The segment's acquisition expense ratio went down compared to H1 of the previous year by 4.5 p.p. to 51.0%;
- higher administrative expenses. They amounted to PLN 16 million, up 14.3% compared to the corresponding period of the previous year. The increase in these expenses was generated in part by the higher exchange rate: in the functional currency, they increased 6.3% y/y. The administrative expense ratio calculated on the basis of the net earned premium increased 0.5 p.p. and stood at 15.7%.

**Operating result in the Ukraine segment (in PLN m)**




**Investment contracts**

In the consolidated financial statements investment contracts are recognized in accordance with the requirements of IFRS 9.

The results of the investment contracts segment are presented according to Polish Accounting Standards, which means that they include, among other things, gross written premium, claims paid and movement in technical provisions. The above categories are eliminated at the consolidated level.

Gross written premium generated on investment contracts in H1 2020 decreased to PLN 15 million, down by PLN 2 million (-11.8%) compared to the corresponding period of 2019. These changes resulted primarily from the decrease in the level of payments made to IRSA accounts, after the product was withdrawn from the offering.

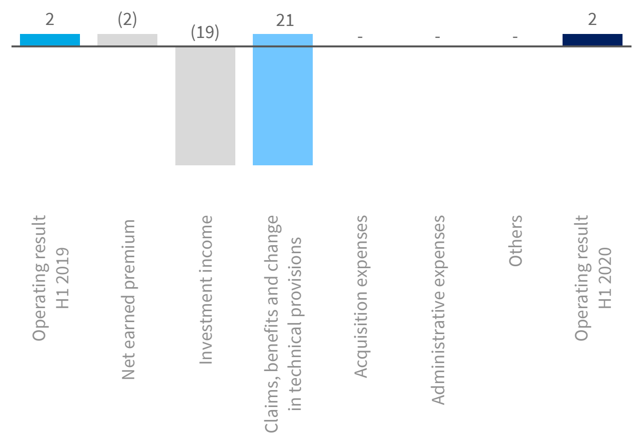
Income from investment activity in the segment of investment contracts decreased compared to the previous year, chiefly due to the lower rate of return on IRSAs as a result of the downturn on the financial markets, which was related to the persisting COVID-19 pandemic.

The cost of insurance claims and benefits together with the movement in other net technical provisions decreased PLN 21 million y/y to PLN 3 million, mostly due to the difference in investment income in unit-linked products described above.

In the investment contract segment, no active acquisition of contracts is currently underway.

Administrative expenses were PLN 2 million, remaining flat year on year. The segment's operating result stood at PLN 2 million and did not change due to only minor changes in the contract portfolio in this segment.

**Operating result in the investment contracts segment (in PLN m)**




**Profitability ratios**

The return on equity attributable to the parent company (PZU) for the period from 1 January 2020 to 30 June 2020 was 3.6%, down 16.7 p.p. from that generated in the previous year.

| Basic performance ratios of the PZU Group | 1 January – 30 June 2018 | 1 January – 30 June 2019 | 1 January – 30 June 2020 |
|---|---|---|---|
| **Return on equity (ROE) – attributable to the parent company** (annualized net profit/average equity) x 100% | 20.7% | 20.3% | 3.6% |
| **Return on equity (ROE) – consolidated** (annualized net profit/average equity) x 100% | 13.0% | 11.9% | 1.5% |
| **Return on assets (ROA)** (annualized net profit/average assets) x 100% | 1.4% | 1.3% | 0.2% |

**Operational efficiency ratios**
One of the fundamental measures of operational efficiency and performance of an insurance company is COR – Combined Ratio – calculated, due to its specific nature, for the non-life insurance sector (Section II).

The PZU Group's combined ratio (for non-life insurance) has been maintained in recent years at a level ensuring a high profitability of business. In H1 2020, this ratio remained at a low level of 87.0%.

| | Operational efficiency ratios | 1 January – 30 June 2018 | 1 January – 30 June 2019 | 1 January – 30 June 2020 |
|---|---|---|---|---|
| 1. | **Gross claims and benefits ratio (simple)** (gross claims and benefits/gross written premium) x 100% | 63.2% | 68.6% | 65.1% |
| 2. | **Net claims and benefits ratio** (net claims and benefits/net earned premium) x 100% | 66.4% | 70.0% | 63.7% |
| 3. | **Operating expense ratio in the insurance segments** (insurance activity expenses/net earned premium) x 100% | 21.0% | 21.8% | 22.5% |
| 4. | **Acquisition expense ratio in the insurance segments** (acquisition expenses/net earned premium) x 100% | 14.2% | 14.9% | 15.1% |
| 5. | **Administrative expense ratio in the insurance segments** (administrative expenses/net earned premium) x 100% | 6.8% | 6.9% | 7.5% |
| 6. | **Combined ratio in non-life insurance** (net claims and benefits + insurance activity expenses) / net earned premium x 100% | 87.2% | 89.2% | 87.0% |
| 7. | **Operating profit margin in life insurance** (operating profit/gross written premium) x 100% | 19.2% | 19.6% | 24.1% |
| 8. | **Cost/Income ratio** - banking operations | 44.2% | 41.4% | 43.3% |

# 6.

# Risk management

We devote considerable time to continue developing sophisticated risk management procedures. They are of fundamental importance to us as at the end of the day the goal is for our customers to have safety and peace of mind and for our results to be predictable.

**In this section:**

## 6.1 Objective of risk management

Risk management in the PZU Group aims to build value for all stakeholders by actively and deliberately managing the quantum of risk accepted. The essence of this process also involves preventing the acceptance of risk at a level that could pose a threat to the financial stability of the PZU Group or the financial conglomerate.

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

The main elements of the PZU Group's risk management system have been implemented to ensure sectoral consistency and the execution of the various entities' strategic plans and the overall PZU Group's business objectives. They include the following:

- systems of limits and limitations on the acceptable level of risk, including the level of risk appetite;
- processes involving the identification, measurement and assessment, monitoring and controlling, reporting and management measures pertaining to various risks;
- allocation of powers in the risk management process, in which the Management Boards and Supervisory Boards of the entities and dedicated Committees play a crucial role.

In addition, financial sector entities are obligated to apply the appropriate standards for a given sector. The adopted internal regulations specify among others:

- processes, methods and procedures facilitating risk measurement and management;
- split of duties in the risk management process;
- scope and conditions and the frequency of risk management reporting.

PZU exercises supervision over the PZU Group's risk management system on the basis of mutual cooperation agreements entered into with other PZU Group entities and the information provided thereunder. It manages risk at the PZU Group level on an aggregate basis, especially with respect to capital requirements.

Additionally, the PZU Group has in place processes to ensure the effectiveness of risk management at the PZU Group level. The risk management rules applicable to the PZU Group's subsidiaries include a recommendation issued by PZU (the parent) regarding the organization of the risk management system in insurance sector and banking sector subsidiaries. Additionally, guidelines regulating the various risk management processes in the PZU Group entities are also issued from time to time.

The management boards of PZU Group entities are responsible for fulfilling their own duties in accordance with the generally applicable provisions of national and international law. In particular, they are responsible for the implementation of an adequate and effective risk management system.

Supervision over the risk management systems in the various financial sector entities is exercised by supervisory boards. PZU designates its representatives to the Supervisory Boards of its subsidiaries, including in particular Alior Bank and Bank Pekao.

## 6.2 Risk management system

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

- split of duties and tasks performed by statutory bodies, committees and individual organizational units and cells in the risk management process;
- risk management process, including risk identification, measurement and assessment, monitoring and control methods, risk reporting and undertaking management actions. The framework for this process is universal among financial market entities.

The consistent split of duties and tasks in the PZU Group and in individual subsidiaries of the PZU Group's financial sector is based on four decision-making levels.

The first three entail the following:

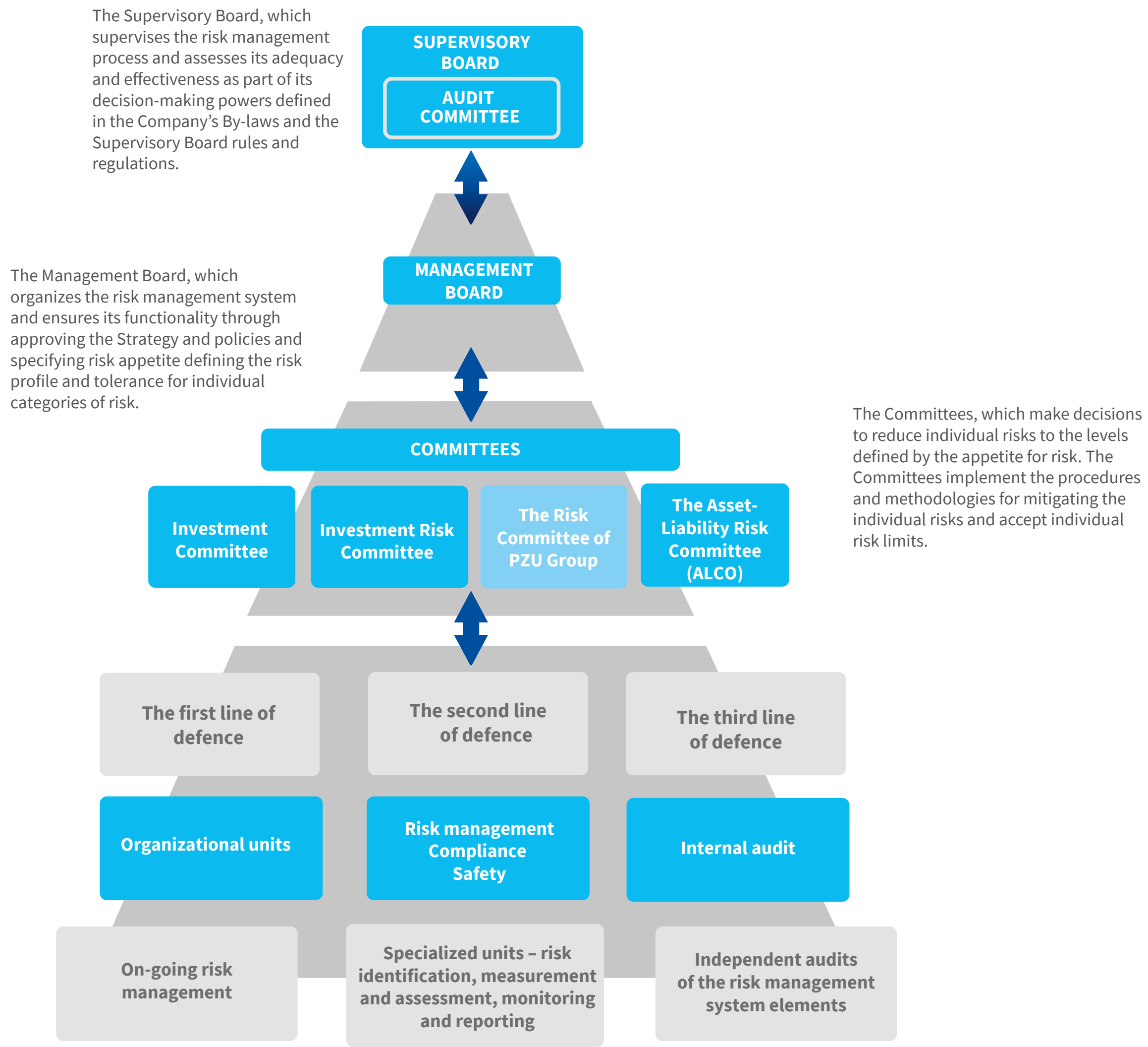
- The Supervisory Board, which supervises the risk management process and assesses its adequacy and effectiveness as part of its decision-making powers defined in a given entity's Articles of Association and the Supervisory Board bylaws, as well as through the Audit Committee;
- The Management Board,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

*The role of the PZU Group Risk Committee is to provide support to subsidiaries' Supervisory Boards and Management Boards in implementing an effective risk management system that is coherent for the entire PZU Group. The operational objective of the PZU Group Risk Committee is to coordinate and supervise activities related to the PZU Group's risk management system and processes.*

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

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

**Chart of the organizational structure for the risk management system**



## 6.3 Risk appetite

*The risk appetite in the PZU Group - the magnitude of risk undertaken to attain its business objectives, where its measure is the level of potential financial losses, the decline in asset value or the growth in the amount of liabilities within one year.*

Risk appetite defines the maximum level of permissible risk while setting limits and restrictions for the various partial risks and the level above which remedial actions are taken to curtail further risk expansion.

The process of determining the risk appetite and risk limits for each risk category consistent with the Group's process has been implemented in all the insurance entities in the PZU Group. The management board of each entity determines the risk appetite, risk profile and risk tolerance reflecting its financial plans, business strategy and the objectives of the entire PZU Group. This approach ensures the adequacy and effectiveness of the risk management system in the PZU Group and prevents the acceptance of risk levels that could jeopardize the financial stability of individual entities or the entire PZU Group. The determination of the appropriate level of risk in each entity is the Management Board's responsibility, whereas a review of the risk appetite values is conducted once a year by the unit responsible for risk, with all actions being coordinated at the PZU Group level.

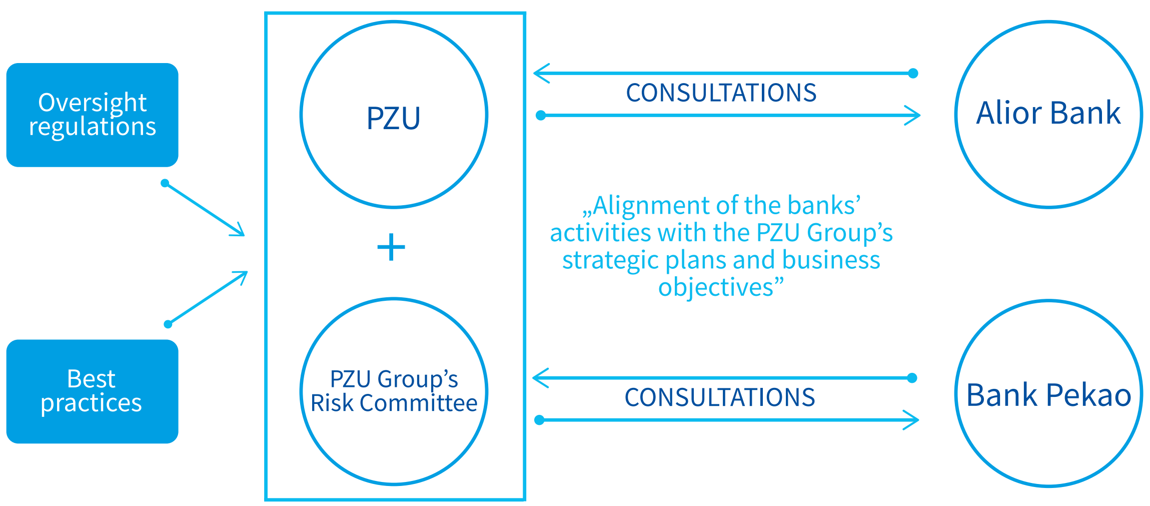
Risk appetite is determined at least once a year in the PZU Group's banking sector entities. This process is carried out based on the applicable regulatory requirements (including those arising from remedial plans) and best practices. This process is tailored to both banks to reflect the business strategy and capital structure of each entity. Risk appetite in banking sector entities is a topic for consultation with the PZU Group's parent company and the subject matter of opinions issued by the PZU Group Risk Committee with a view to ensuring consistency between the activities carried out by the banks and the strategic plans and business objectives of the PZU Group as a whole while maintaining an acceptable level of risk at the Group level. The agreed upon level of risk appetite is also approved by the Supervisory Boards of the banking sector entities.

## 6.4 Risk management process

Two levels are distinguished in the risk management process:

- I - GROUP LEVEL – monitoring the limits and risks specific to the Group
  Risk management at this level is supposed to ensure that the PZU Group attains its business objectives in a safe manner appropriate to fit the scale of the risk incurred.

**Process of determining the risk appetite**




The PZU Group provides support for the implementation of a risk management system, including the introduction of compatible mechanisms, standards and organization of an efficient operation of the internal control system (with particular emphasis on the compliance function), the risk management system (in particular in the reinsurance area) and the security management system in the PZU Group, and also monitors their ongoing application. The PZU Group's dedicated personnel cooperates with the Management Boards of entities and managers of such areas as finance, risk, actuarial services, reinsurance, investments and compliance on the basis of pertinent mutual cooperation agreements;

- II - ENTITY LEVEL – monitoring of limits and risks specific to the entity
  Risk management at this level aims to ensure that the PZU Group entity attains its business objectives in a safe manner appropriate to fit the extent of the risk incurred by that entity. The limits and risk categories specific to the company are monitored at this level and also, as part of the risk management system, mechanisms, standards and organization are implemented for the efficient operation of the internal control system (with particular emphasis on the compliance function), the risk management system (in particular in reinsurance) and the security management system.

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

### Identification

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

### Risk measurement and assessment

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

### 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

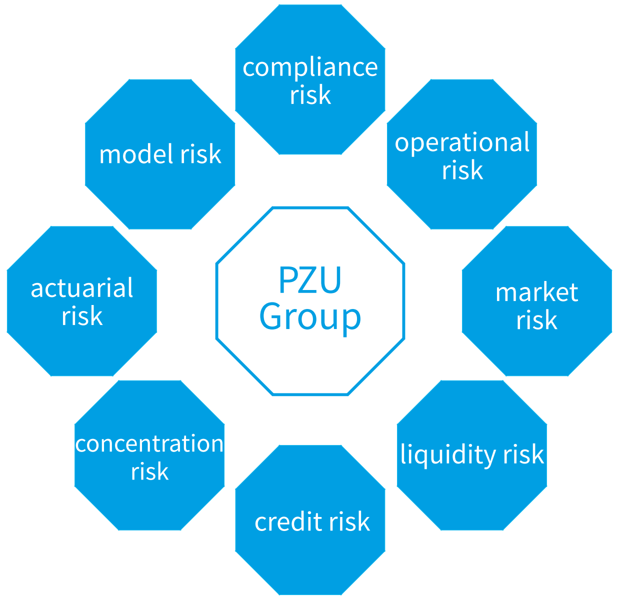
Allows efficient risk communication and supports risk management at various decision-making levels.

### Management measures

Management measures include, among others, risk avoidance, risk transfer, risk mitigation, acceptance of risk level, as well as implementation of tools supporting these actions, such as limits, reinsurance programs or regular review of internal regulations and processes.

## 6.5 PZU Group's risk profile

**Major risks in the PZU Group**




The major risks to which the PZU Group is exposed include the following: actuarial risk, market risk, credit risk, concentration risk, liquidity risk, operational risk, model risk and compliance risk.

The major risks associated with the operation of Alior Bank and Bank Pekao include the following risks: credit risk (including the risk of loan portfolio concentration), operational risk and market risk (involving interest rate risk, FX risk, commodity price risk and financial instrument price risk). The overall risk of the banking sector entities accounts for approximately 36% of the PZU Group's total risk (Q1 2020), while the largest contribution is in credit risk.

In H1 2020, the PZU Group's operations were affected by the COVID-19 pandemic which reached Poland in March 2020. The situation surrounding the spread of COVID-19 has been developing rapidly and its impact on the PZU Group's solvency is currently difficult to estimate. The PZU Group keeps monitoring on an ongoing basis how the changing environment affects all identified risks.

**Actuarial risk**

This is the likelihood of a loss or an adverse change in the value of liabilities under the existing insurance contracts and insurance guarantee agreements, due to inadequate assumptions regarding premium pricing and creating technical provisions.

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

- an analysis of the general terms and conditions of insurance with respect to the accepted risk and compliance with the existing laws;
- an analysis of the general/specific terms and conditions of insurance or other model agreements with respect to the relevant actuarial risk being undertaken;
- identification of potential risks related to a given product, for the purposes of subsequent measurement and monitoring;
- analyzing the impact exerted by the introduction of new insurance products on capital requirements and risk margin computed using the standard formula;
- verifying and validating modifications to insurance products;
- an assessment of actuarial risk with reference to similar existing insurance products;
- monitoring of existing product;
- analyzing the policy of underwriting, tariffs, technical provisions and reinsurance and the claims as well as benefits handling process.

The assessment of actuarial risk consists in the identification of the degree of the risk or a group of risks that may lead to a loss, and in an analysis of risk elements in order to make an underwriting decision.

The measurement of actuarial risk is performed in particular using:

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

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

Reporting aims to engage in effective communication regarding actuarial risk and supports management of actuarial risk at various decision-making levels from an employee to the supervisory board. The frequency of each report and the scope of information provided are tailored to the information needs of each decision-making level.

The management actions contemplated in the actuarial risk management process are performed in particular by doing the following:

- defining the level of tolerance for actuarial risk and monitoring it;
- business decisions and sales plans;
- calculation and monitoring of the adequacy of technical provisions;
- tariff strategy, monitoring of current estimates and assessment of the premium adequacy;
- the process of assessment, valuation and acceptance of actuarial risk;
- application of tools designed to mitigate actuarial risk, including in particular reinsurance and prevention.

Moreover, to mitigate the actuarial risk inherent in current operations the following actions in particular are undertaken:

- defining the scopes of liability in the general / specific terms and conditions of insurance or other model agreements;
- co-insurance and reinsurance;
- application of an adequate tariff policy;
- application of the appropriate methodology for calculating technical provisions;
- application of an appropriate procedure to assess underwriting risk;
- application of a correct claims or benefits handling procedure;
- sales decisions and plans;
- prevention.

**Market risk**

This is the risk of a loss or an adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, credit spread, as well as value of liabilities and financial instruments.

The risk management process for the credit spread and concentration risk has a different set of traits from the process of managing the other sub-categories of market risk and has been described in a subsequent section (Credit risk and concentration risk) along with the process for managing counterparty insolvency risk.

The market risk in the PZU Group originates from three major sources:

- operations associated with asset and liability matching (ALM portfolio);
- operations associated with active allocation, i.e. designating the optimum medium-term asset structure (AA portfolios);
- banking operations – in conjunction with them the PZU Group has a material exposure to interest rate risk.

Numerous documents approved by supervisory boards, management boards and dedicated committees govern investment activity in the PZU Group entities.

Market risk identification involves recognizing the actual and potential sources of this risk. The process of identifying market risk associated with assets commences at the time of making a decision to start entering into transactions on a given type of financial instruments. Units that make a decision to start entering into transactions on a given type of financial instruments draw up a description of the instrument containing, in particular, a description of the risk factors. They convey this description to the unit responsible for risk that identifies and assesses market risk on that basis.

The process of identifying the market risk associated with insurance liabilities commences with the process of developing an insurance product and involves an identification of the interdependencies between the magnitude of that product's financial flows and market risk factors. The identified market risks are subject to assessment using the criterion of materiality, i.e. does the materialization of risk entail a loss capable of affecting its financial condition.

Market risk is measured using the following risk measures:

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

In the case of banking entities suitable measures are employed in accordance with the regulations applicable to this sector and best market practices.

When measuring market risk, the following stages, in particular, are distinguished:
- collection of information on assets and liabilities that generate market risk;
- calculating the value of risk.

The risk is measured:
- daily – for exposure and sensitivity measures of the instruments in systems used by particular PZU Group companies;
- monthly – when using the value at risk model for market risk or a standard formula.

Monitoring and control of market risk involves an analysis of the level of risk and of the utilization of the designated limits.

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

Management actions in respect of market risk involve in particular:
- execution of transactions serving the purpose of mitigation of market risk, i.e. selling a financial instrument, closing a position on a derivative, purchasing a derivative to hedge a position;
- diversification of the assets portfolio, in particular with respect to market risk categories, maturities of instruments, concentration of exposure in one entity, geographical concentration;
- setting market risk restrictions and limits.

The application of limits is the primary management tool to maintain a risk position within the acceptable level of risk tolerance. The structure of limits for the various categories of market risk and also for the various organizational units is established by dedicated committees in such a manner that the limits are consistent with risk tolerance as agreed by the management boards of the subsidiaries. Banking sector entities are in this respect subject to additional requirements in the form of sector regulations.

**Credit risk and concentration risk**

Credit risk is grasped as the risk of loss or adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors, which materializes in the form of a counterparty's default on a liability or an increase in credit spread. The following risk categories are distinguished in terms of credit risk:
- spread;
- counterparty default risk;
- credit risk in financial insurance.

Concentration risk is grasped as the possibility of incurring loss stemming either from lack of diversification in the asset portfolio or from large exposure to default risk by a single issuer of securities or a group of related issuers.

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

Risk assessment consists of estimating the probability of risk materialization and the potential impact exerted by risk materialization on a given entity's financial standing.

Credit risk is measured using:
- easures of exposure (gross and net credit exposure and maturity-weighted net credit exposure);
- capital requirement calculated using the standard formula.

Concentration risk for a single entity is calculated using the standard formula.

A measure of total concentration risk is the sum of concentration risks for all entities treated separately. In the case of related parties, concentration risk is calculated for all related parties jointly.

In the case of banking entities suitable measures are employed in accordance with the regulations applicable to this sector and best market practices. In particular, credit risk is measured using a set of loan portfolio quality metrics.

Monitoring and control of credit risk and concentration risk involves an analysis of the current risk level, assessment of creditworthiness and calculation of the degree of utilization of existing limits. Such monitoring is performed, without limitation, on a daily and monthly basis.

The following are subject to monitoring:
- exposures to financial insurance;
- exposures to reinsurance;
- exposure limits and VaR limits;
- loan exposures (this pertains to banking entities).

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

Management actions in respect of credit risk and concentration risk involve in particular:
- setting limits to curtail exposure to a single entity, group of entities, sectors or countries;
- diversification of the portfolio of assets and financial insurance, especially with regard to country and sector;
- acceptance of collateral;
- execution of transactions to mitigate credit risk, i.e. selling a financial instrument, closing a derivative, purchasing a hedging derivative, restructuring a debt;
- reinsurance of the financial insurance portfolio.

The structure of credit risk limits and concentration risk limits for various issuers is established by dedicated committees in such a manner that the limits are consistent with the adopted risk tolerance determined by the management boards of the individual subsidiaries and in such a manner that they make it possible to minimize the risk of 'infection' between concentrated exposures.

In banking activity the provision of credit products is accomplished in accordance with loan granting methodologies appropriate for a given client segment and type of product. The assessment of a client's creditworthiness preceding a credit decision is performed using tools devised to support the credit process, including a scoring or rating system, external information and the internal databases of a given PZU Group bank. Credit products are granted in accordance with the binding operational procedures stating the relevant actions performed in the lending process, the units responsible for that and the tools used.

To minimize credit risk, adequate collateral is established in line with the credit risk incurred. The establishment of a collateral does not waive the requirement to examine the client's creditworthiness.

**Liquidity risk**

Financial liquidity risk means the possibility of losing the capacity to settle, on an ongoing basis, the PZU Group's liabilities to its clients or business partners. The aim of the liquidity risk management system is to maintain the capacity of fulfilling the entity's liabilities on an ongoing basis. Liquidity risk is managed separately for the insurance part and the banking part.

The risk identification involves analysis of the possibility of occurrence of unfavorable events, in particular:
- shortage of liquid cash to satisfy the current needs of the PZU Group entity;
- lack of liquidity of financial instruments held;
- the structural mismatch between the maturity of assets and liabilities.

Risk assessment and measurement are carried out by estimating the shortage of cash to pay for liabilities. The risk estimate and measurement is carried out from the following perspectives:
- liquidity gaps (static, long-term financial liquidity risk) – by monitoring a mismatch of net cash flows resulting from insurance contracts executed until the balance sheet date and inflows from assets to cover insurance liabilities in each period, based on a projection of cash flows prepared for a given date;
- potential shortage of financial funds (medium-term financial liquidity risk) – through analysis of historical and expected cash flows from the operating activity;
- stress tests (medium-term financial liquidity risk) – by estimating the possibility of selling the portfolio of financial investments in a short period to satisfy liabilities arising from the occurrence of insurable events, including extraordinary ones;
- current statements of estimates (short-term financial liquidity risk) – by monitoring demand for cash reported by other business units of a given insurance undertaking in the PZU Group by the date defined in regulations which are in force in that entity.

The banks in the PZU Group employ the liquidity risk management metrics stemming from sector regulations, including Recommendation P issued by the Polish Financial Supervision Authority.

To manage the liquidity of the banks in the PZU Group, liquidity ratios are used for different periods ranging from 7 days, to a month, to 12 months and to above 12 months.

Within management of liquidity risk, banks in the PZU Group also perform analyses of the maturity profile over a longer term, depending to a large extent on the adopted assumptions about development of future cash flows connected with items of assets and equity and liabilities. The assumptions take into consideration:

- stability of equity and liabilities with indefinite maturities (e.g. current accounts, cancellations and renewals of deposits, level of their concentration);
- possibility of shortening the maturity period for specific items of assets (e.g. mortgage loans with an early repayment option);
- possibility of selling items of assets (liquidity portfolio).

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

Reporting involves communicating the level of financial liquidity to various decision-making levels. The frequency of each report and the scope of information provided therein are tailored to the information needs at each decision-making level.

The following measures aim to reduce financial liquidity risk:

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

**Operational risk**

Operational risk is the risk of suffering a loss resulting from improper or erroneous internal processes, human activities, system failures or external events.

Operational risk is identified in particular by:

- accumulation and analysis of information on operational risk incidents and the reasons for their occurrence;
- self-assessment of operational risk;
- scenario analysis.

Operational risk is assessed and measured by:

- determining the effects of the occurrence of operational risk incidents;
- estimating the effects of potential operational risk incidents that may occur in the business.

Both banks in the PZU Group, upon KNF's consent, apply advanced individual models to measure operational risk and to estimate capital requirements on account of this risk.

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

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

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

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

The business continuity plans in PZU Group entities are kept up to date and tested regularly.

**Model risk**

Taking into account the growing importance of the scope of use of models and the fact that model risk was classified as material risk for the PZU Group; the formal process of identifying and evaluating this risk is continued. The process aims to ensure high quality of risk management practices applied to this risk. It is currently being developed in PZU and PZU Życie. Within the framework of this process, the models are monitored and independently validated.

Model risk has been defined as the risk of incurring financial losses, incorrectly estimating data reported to the regulatory authority, taking incorrect decision or losing reputation as a result of errors in the development, implementation or application of models.

In the banking entities, given the high materiality of model risk, the management of this risk has already been implemented for some years in the course of adaptation to the requirements of Recommendation W issued by the KNF. Both banks have defined standards for the model risk management process, including the rules for developing models and evaluating the quality of their operation and have ensured appropriate corporate governance solutions.

**Compliance risk**

Compliance risk is the risk that PZU Group entities or persons related to PZU Group entities may fail to adhere to or violate the applicable provisions of law, internal regulations or standards of conduct, including ethical standards, adopted by PZU Group entities, which will or may result in the PZU Group or persons acting on its behalf suffering legal sanctions, financial losses or a loss of reputation or trustworthiness.

PZU makes efforts aimed at ensuring adequate and uniform standards of compliance solutions in all PZU Group entities and monitors compliance risk throughout the PZU Group.

In H1 2020  the PZU Group entities had compliance systems adapted to the standards designated by PZU.

The provision of full information on compliance risk in each member of the Group is the responsibility of compliance units of these entities. These units are required to assess and measure compliance risk and take appropriate remedial actions aimed at mitigating the likelihood of realization of this risk.

PZU Group entities are obligated to provide ongoing information on compliance risk to the PZU Compliance Department. In turn, the tasks of the Compliance Department include the following:

- analysis of monthly and quarterly reports received from compliance units of each member of the Group;
- assessment of the impact of compliance risk on the PZU Group as a whole;
- analysis of the implementation of recommendations issued to entities pertaining to the fulfillment of the compliance function;
- support of the PZU Group entities' compliance business units when assessing compliance risk;
- reporting to the PZU Management Board and Supervisory Board.

Compliance risk includes, in particular, the risk that the operations performed by PZU Group entities will be out of line with the changing legal environment. This risk may materialize as a result of delayed implementation or absence of clear and unambiguous laws, or what is known as a legal gap. This may cause irregularities in the PZU Group's business, which may then lead to higher costs (for instance, administrative penalties, other financial penalties) and a heightened level of loss of reputation risk.

Due to the broad spectrum of the PZU Group's business, reputation risk is also affected by the risk of litigation whose value varies, which is predominantly inherent in the Group's insurance companies and banks.

The identification and assessment of compliance risk in the Group's entities is performed for each internal process of these entities by the heads of organizational units, in accordance with the allocation of responsibility for reporting. Moreover, compliance units in PZU Group entities identify compliance risk on the basis of information obtained, in particular, from notifications to the register of conflicts of interest, gifts and irregularities, and from inquiries sent to them.

Compliance risk is assessed and measured by calculating the consequences of the following types of risk materializing:

- financial risks, resulting among others from administrative penalties, court judgments, decisions issued by UOKiK, contractual penalties and damages;

- intangible risks pertaining to a loss of reputation, including damage to the PZU Group's image and brand.

Compliance risk is monitored, in particular, through:
- systemic analysis of the regular reports received from the heads of organizational units and cells;
- monitoring of regulatory requirements and adaptation of the business to the changing legal environment of PZU Group entities;
- participation in legislative work aimed at amending the existing laws of general application;
- performing diverse activities in industry organizations;
- coordination of external control processes;
- coordination of the fulfillment of reporting duties imposed by the stock exchange (in respect of PZU) and by statute;
- increasing the level of knowledge among PZU Group staff in the field of competition law and consumer protection, tailored to the specific business areas;
- monitoring of anti-monopoly jurisprudence and proceedings conducted by the President of UOKiK;
- reviews of the implementation of recommendations issued by the PZU Group's compliance unit;
- ensuring uniform standards and consistent implementation of the compliance function within the PZU Group.

Management actions in the area of response to compliance risk include in particular:
- acceptance of the risk arising, without limitation, from legal and regulatory changes;
- mitigation of risk, also through aligning procedures and processes to regulatory requirements, evaluation and design of internal regulations to suit compliance needs, participation in the process of agreeing on marketing activities;
- avoidance of risk by preventing any involvement of PZU Group entities in activities that are out of compliance with the applicable regulatory requirements, best market practices or activities that may have an unfavorable impact on the PZU Group's image.

As part of efforts aimed at reducing compliance risk in the PZU Group at system level and day-to-day level, the following risk mitigation actions are undertaken:
- continuous implementation of an effective compliance function as a key management function;
- participation in consultations with legislative and regulatory authorities (supervised entities within the PZU Group) at the stage of development of the regulations (social consultations);
- delegating representatives of the PZU Group's supervised entities to participate in the work of various commissions of regulatory authorities;
- participation in implementation projects for new regulations;
- training of staff on new regulations, standards of conduct and recommended management actions;
- issuing opinions on internal regulations and recommending possible amendments to ensure compliance with the applicable laws and accepted standards of conduct;
- verifying procedures and processes in the context of their compliance with the applicable laws and accepted standards of conduct;
- aligning documentation to upcoming changes in legal requirements before they are enacted;
- systemic supervision exercised by PZU over the execution of the compliance function in PZU Group entities;
- running analyses and conducting ongoing monitoring of the application of the rules for the functioning of the Chinese walls – in connection with the additional investor commitments made by PZU in connection with the proceedings under the notification on the intent to purchase Bank Pekao's shares;
- ongoing monitoring of changes in the legal and regulatory environment in order to identify gaps or areas requiring action to ensure compliance.

In 2019 and in H1 2020, in connection with the PZU Group continuing to meet the criteria for treating it as a financial conglomerate, and hence the necessity for KNF to continue applying supplementary oversight to it under the Act of 15 April 2005 on supplementary oversight over credit institutions and insurance undertakings, reinsurance undertakings and investment firms comprising a financial conglomerate – compliance was involved in the work to align the Company to the requirements ensuing from this act, as well as to the requirements stemming chiefly from the following legal acts:
- Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation);
- Directive of 15 May 2014 on Markets in Financial Instruments (MIFID II) (this regulation is material for some PZU Group entities, in particular for TFI);
- Act of 15 December 2017 on Distribution of Insurance;
- Act of 1 March 2018 on Combating Money Laundering and Financing of Terrorism;
- Act of 16 October 2019 on amending the Act on Public Offerings and the Conditions for Offering Financial Instruments in an Organized Trading System and on Public Companies and some other acts;
- International Financial Reporting Standard 17 "Insurance Contracts" (IFRS 17);
- draft Act Amending the Mandatory Insurance, Insurance Guarantee Fund and Polish Motor Insurers' Bureau Act and the Insurance and Reinsurance Activity Act.

**Risk concentration**

When managing the various categories of risk, the PZU Group identifies, measures and monitors risk concentration; for the banking sector, these processes are discharged at the level of the various entities according to sector-specific requirements. To meet the regulatory obligations imposed on groups identified as financial conglomerates, numerous initiatives were undertaken in 2019 to implement a model to manage significant risk concentration in a financial conglomerate in keeping with the requirements of the Supplementary Oversight Act. A portion of this work is also continued in 2020.

At present the PZU Group identifies the following types of risk concentration:
- within actuarial risk, it identifies risk concentration with regard to possible losses caused by catastrophic events, such as, in particular, floods and cyclones and concentration on large corporate risks, where in both cases the applicable reinsurance program facilitates reduction of the possible net losses;
- with respect to credit risk and market risk, risk concentration is identified at the level of groups, sectors of the economy and countries;
- no risk concentration was identified within operational risk and other significant risks.

Risk concentration in the identified areas is subject to regular measurement and monitoring.

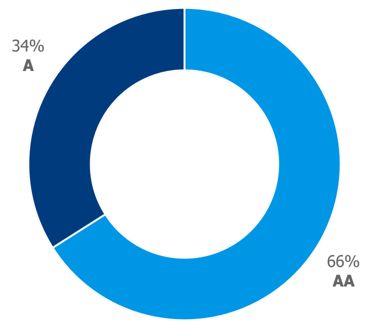
## 6.6 Reinsurance operations

Reinsurance protection in the PZU Group secures insurance activity, limiting the consequences of the occurrence of catastrophic phenomena that could adversely affect the financial standing of insurance undertakings. This task was accomplished through obligatory reinsurance treaties in conjunction with facultative reinsurance.

**Reinsurance treaties in PZU**

On the base of the reinsurance treaties it has entered into PZU limits its risk related to catastrophic losses (e.g. floods, cyclones) among others through a catastrophic non-proportional excess of loss treaty and related to the consequences of large single losses under non-proportional reinsurance treaties to protect its portfolios of property, technical, marine, air, third party liability and third party liability motor insurance. PZU's risk is also limited by reinsuring the financial insurance portfolio.

**Reinsurance premium under obligatory treaties in PZU by the Standard & Poor's / AM Best rating**




Main reinsurers in 2020:
Munich Re
Hannover Re
Gen Re
Swiss Re
VIG Re

PZU's reinsurance partners have high S&P ratings. That evidences the reinsurer's robust financial position and affords the Company security.

PZU's inward reinsurance business involves the PZU Group's other insurance companies. Continued exposure to protect Baltic companies, LINK4 and TUW PZUW means that PZU continues to generate a high gross written premium by virtue thereof.

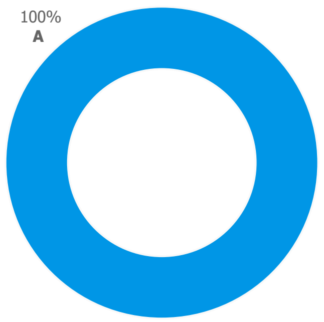
In addition, PZU generates gross written premium on inward reinsurance on domestic business through facultative and obligatory reinsurance.

**Reinsurance treaties in PZU Życie**

Under the outward reinsurance treaty entered into by PZU Życie, the PZU Życie portfolio is protected against the accumulation of risk and it has protection for individual policies with higher sums insured.

Its reinsurance partners have high S&P ratings. That evidences the reinsurer's robust financial position and affords the Company security.

**Reinsurance premium under obligatory treaties in PZU Życie by the S&P rating**




Main reinsurers in 2020:
QBE
Mapfre
Toa Re
Nacional de Reaseguros

**Reinsurance treaties in the PZU Group's international companies, LINK4 and TUW PZUW**

The PZU Group's other insurance companies, i.e. Lietuvos Draudimas, Lietuvos Draudimas Branch in Estonia, AAS Balta, PZU Ukraine, LINK4 and TUW PZUW have reinsurance cover aligned to the profile of their operations and their financial standing. Every material insurance portfolio is secured with the appropriate obligatory treaty. Reinsurance cover is provided for the most part by PZU, which transfers a portion of the accepted risk outside the Group.

## 6.7 Capital management

On 3 October 2016, the PZU Supervisory Board adopted a resolution (Current Report 61/2016 of 4 October 2016) to approve the PZU Group's Capital and Dividend Policy for 2016-2020 ("Policy"). No changes were made to this Policy in H1 2020.

The introduction of this Policy stemmed from the implementation, as of 1 January 2016, of Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II), as amended, the Insurance and Reinsurance Activity Act of 11 September 2015 and the expiration of the PZU Group's Capital and Dividend Policy for 2013-2015 updated in May 2014.

In accordance with the Policy, the PZU Group endeavors to do the following:

- manage capital effectively by optimizing the usage of capital from the Group's perspective;
- maximize the rate of return on equity for the parent company's shareholders, in particular by maintaining the level of security and retaining capital resources for strategic growth objectives through acquisitions;
- ensure sufficient financial means to cover the Group's liabilities to its clients.

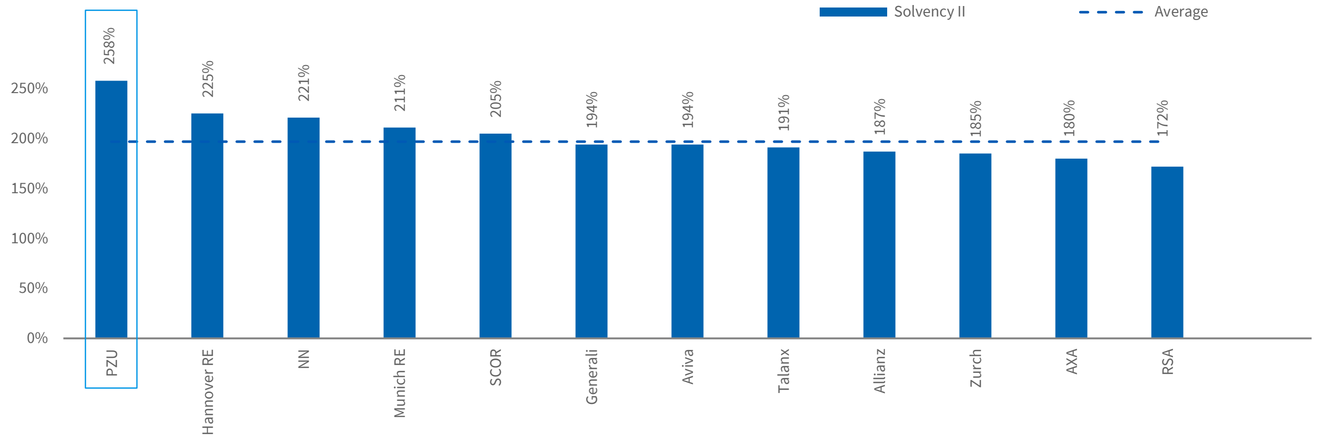
The capital management policy rests on the following principles:

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

As at the end of Q2 2020, the estimated solvency ratio (calculated according to the standard Solvency II equation) was 258%[1] and remained above the average solvency ratio for European insurance groups.

[1] preliminary data, not audited or reviewed by a statutory auditor

**The Solvency II ratio for the PZU Group compared to European insurers**




Source: data from company reports as at 30/06/2020, PZU - preliminary data, not audited or reviewed by a statutory auditor

In Bank Pekao and Alior Bank, the capital adequacy ratio and the Tier 1 ratio were computed on the basis of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (CRR Regulation) and also the various types of risk identified in the Internal Capital Adequacy Assessment Process (ICAAP).

| Solvency ratio | 2019 | Q1 2020 | Q2 2020 |
|---|---|---|---|
| **SCR** | | | |
| **PZU Group** | 245% | 256%* | 258%** |
| PZU | 267% | 283%* | 289%** |
| PZU Życie | 463% | 414%* | 392%** |
| **MCR** | | | |
| **PZU Group** | 421% | 483%* | 478%** |
| PZU | 986% | 1,026%* | 1,005%** |
| PZU Życie | 1,030% | 920%* | 871%** |
| **CRR** | | | |
| Pekao Group – total capital adequacy ratio | 17.1% | 16.4% | 18.0% |
| Tier 1 | 15.0% | 14.5% | 16.0% |
| Alior Bank Group – total capital adequacy ratio | 16.2% | 15.5% | 15.7% |
| Tier 1 | 13.5% | 12.9% | 13.1% |

* data not audited or reviewed by a statutory auditor
** preliminary data, not audited or reviewed by a statutory auditor


# 7.

# PZU on the capital and debt markets

The shares of PZU, Bank Pekao and Alior Bank accounted for 16.8% of the turnover on the Warsaw Stock Exchange in H1 2020, totaling PLN 22.1 billion.

**In this section:**

## 7.1 PZU's share price

PZU made its debut on the Warsaw Stock Exchange (WSE) on 12 May 2010. Since its floatation it has been included in its most important index, namely WIG20 (calculated on the basis of the portfolio value of the 20 largest and most heavily traded companies on WSE's main market). PZU also belongs to the following Polish indices: WIG, WIG30, WIG-Poland, WIGdiv, WIG20TR, WIG.MS-FIN, CEEplus and WIG ESG (sustainable development index) and the following international indices: MSCI Poland (emerging markets), Stoxx Europe 600 (developed markets) and FTSE Russel mid cap index (developed markets).

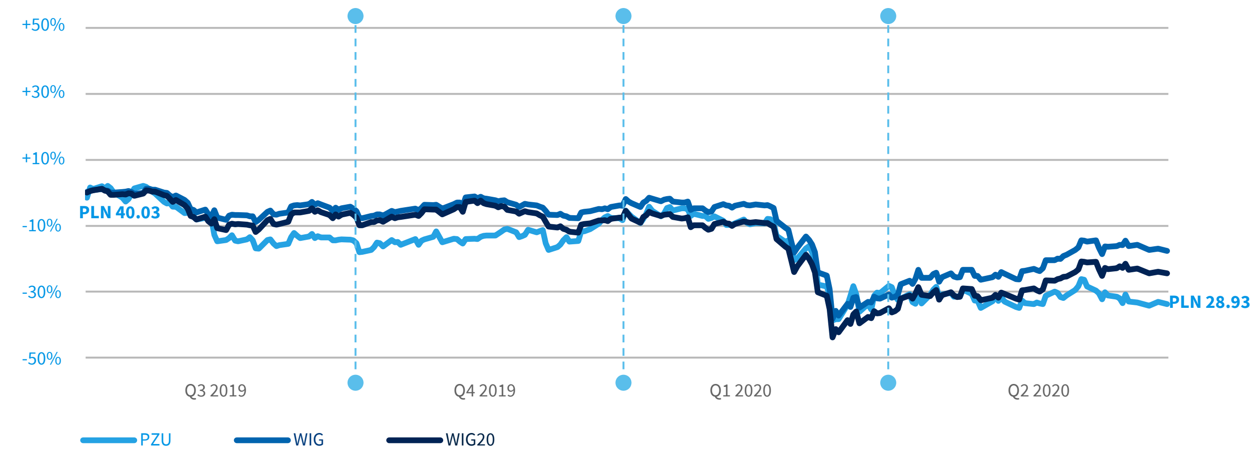
**Situation on financial markets**
The first half of 2020 was predominantly a period of extreme volatility reflecting the market's reaction to the outbreak of the COVID-19 pandemic (caused by the SARS-CoV-2 coronavirus). According to WHO (World Health Organization) data[1], the origins of the pandemic have been traced to the city of Wuhan (Hubei province in central China) where the first cases of this disease were diagnosed on 17 November 2019. The prospect of disruptions to international supply chains and of the resulting global recession has translated into a more restrictive approach to risk by global investors.

On 10 March 2020, an enormously rapid sell-off was triggered on stock exchanges in the United States. The S&P 500, Dow Jones and Nasdaq indices lost more than 7% at the close of the day's session. In order to constrain the declines, the Fed launched the largest market intervention since the credit crunch of 2008 by announcing, in mid-March 2020, another quantitative easing program under which the Fed started buying bonds. As a result, in March, the Fed's total balance sheet value increased by over USD 1 trillion, which turned out not to be enough to outweigh the supply side. Subsequent sessions brought further declines of stocks prices. Almost all major global stock markets were also experiencing declines. The aggregate weekly declines reached a whopping 20-30%. A rebound and strong upward corrections took place only in Q2 2020. At the end of June 2020, the S&P 500 climbed up 5.4% (on a 12-month basis). Stock quotations in emerging markets proved less resilient and the correction of the initial downturn was much slower than in developed markets. During the first 6 months of 2020, the MSCI EM index declined 11.0%.

In Poland, the first COVID-19 infection was diagnosed on 4 March 2020. The country's financial markets exhibited a strong reaction only a week later, when the WHO declared the disease a pandemic (on 11 March 2020). During the trading session of 12 March, the WIG and WIG20 indices took a plunge of 12.7% and 13.3%, respectively, recording the largest single-session declines in their history. As was the case in global markets, local indices recovered some of the dips in Q2 2020, yet they did not perform quite as well.

[1] https://www.who.int/emergencies/diseases/novel-coronavirus-2019

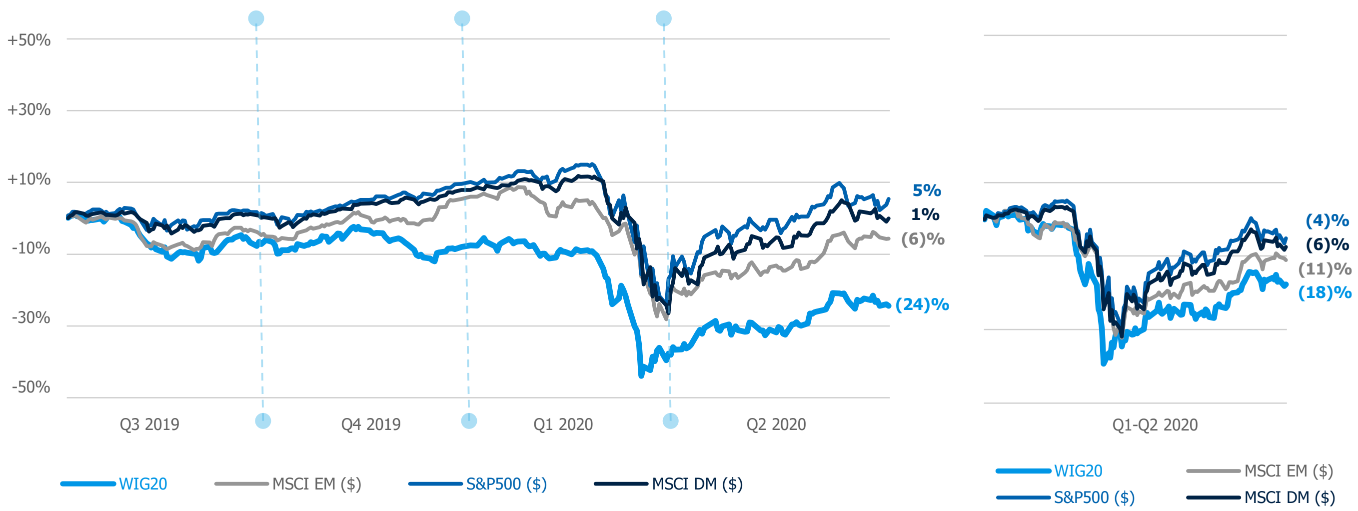
**PZU's growth rate (%) and turnover versus WIG and WIG20**




Source: www.infostrefa.com

PZU's shares traded in a price range of PLN 26.7 – PLN 41.8 in H1 2020 (closing prices). The standard deviation for PZU's shares in H1 2020 was 30.7%, i.e. 18.1 percentage points more than in the corresponding period of 2019. Compared to the broad WIG market, PZU's systematic risk expressed by the beta coefficient (PZU's share price versus the WIG index for daily changes) was 0.99 or 0.12 higher in H1 2020 than recorded in H1 2019.

**WIG20 versus the MSCI EM and DM and S&P500 market indices**




Source: www.infostrefa.com, www.msci.com

| PZU's stock* | 2016 | 2017 | 2018 | 2019 | H1 2020 |
|---|---|---|---|---|---|
| **P/BV**<br>Share price / book value per share | 2.2x | 2.6x | 2.5x | 2.1x | 1.5x |
| **BVPS (PLN)**<br>Book value per share | 15.0 | 16.3 | 17.3 | 18.7 | 19.7 |
| **P/E**<br>Share price / earnings per share | 14.8x | 12.6x | 11.8x | 10.5x | 11.8x |
| **EPS (PLN)**<br>Net profit (loss) / number of shares outstanding | 2.2 | 3.4 | 3.7 | 3.8 | 2.4 |

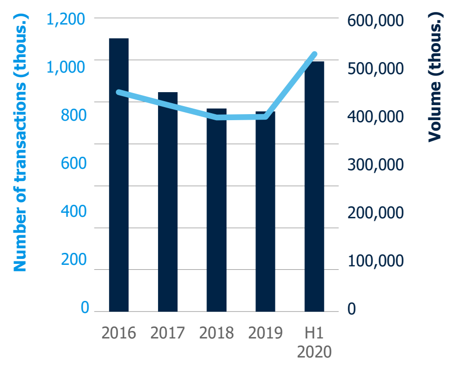
* Calculation based on the PZU Group's data (according to IFRS); for the annual data the price per share and book value at yearend and net profit for 12 months; for the semi-annual data: the price per share and book value at the end of the half of the year and the profit for 12 months (on a moving basis); the number of PZU shares: 863,523,000

# PZU on the capital and debt markets

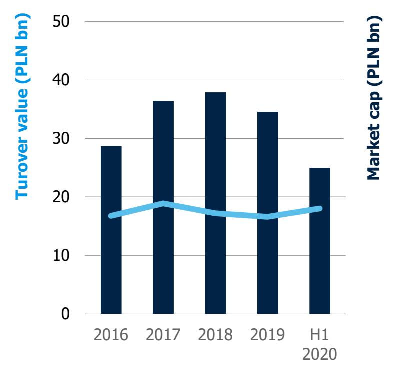
**Trading liquidity**

PZU's shares remained highly liquid in H1 2020. PZU accounted for 7.5% of WSE's overall turnover (ranking 5th), while its average buy/sell spread for shares was a mere 9 basis points (the mean for the twenty most heavily traded companies was 18 basis points). PZU's market capitalization at the end of June 2020 was PLN 24.9 billion (down 27.7% over a 6-month period).

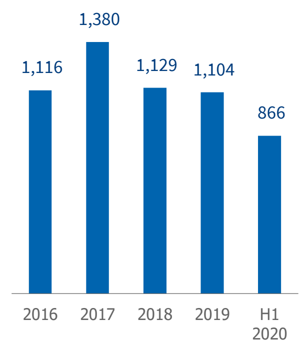
**Trading volume of PZU's stock* / Number of PZU's stock transactions***




**Capitalization of PZU / Turnover of PZU's stock***




**Capitalization of the Warsaw Stock Exchange (PLN billion)**




*Moving average (12 months)

Source: www.gpwinfostrefa.pl

| Stock-related statistics | H1 2019 | H1 2020 | H1 2020 / H1 2019 | Q1 2019 | Q2 2020 | Q2 2020 / Q1 2019 |
|---|---|---|---|---|---|---|
| Maximum price [PLN] | 45.39 | 41.80 | (7.9)% | 41.80 | 32.22 | (22.9)% |
| Minimum price [PLN] | 39.18 | 26.74 | (31.8)% | 26.74 | 28.40 | 6.2% |
| Closing price on the last trading session [PLN] | 43.66 | 28.93 | (33.7)% | 31.33 | 28.93 | (7.7)% |
| Average trading session price [PLN] | 42.28 | 33.41 | (21.0)% | 36.83 | 29.86 | (18.9)% |
| Turnover [000s of PLN] | 8,456,098 | 9,855,622 | 16.6% | 5,200,053 | 4,655,569 | (10.5)% |
| Average turnover per session [000s of PLN] | 68,749 | 79,481 | 15.6% | 82,541 | 76,321 | (7.5)% |
| Number of transactions [units] | 464,444 | 764,538 | 64.6% | 370,185 | 394,353 | 6.5% |
| Average number of transactions per session | 3,776 | 6,166 | 63.3% | 5,876 | 6,465 | 10.0% |
| Trading volume [shares] | 199,887,098 | 302,532,419 | 51.4% | 147,109,137 | 155,423,282 | 5.7% |
| Average trading volume per session [shares] | 1,625,098 | 2,439,778 | 50.1% | 2,335,066 | 2,547,923 | 9.1% |
| Capitalization at the end of the period [000s of PLN] | 37,701,414 | 24,981,720 | (33.7)% | 27,054,176 | 24,981,720 | (7.7)% |

Source: www.infostrefa.pl

## 7.2 Banking sector

**WSE-listed banks**

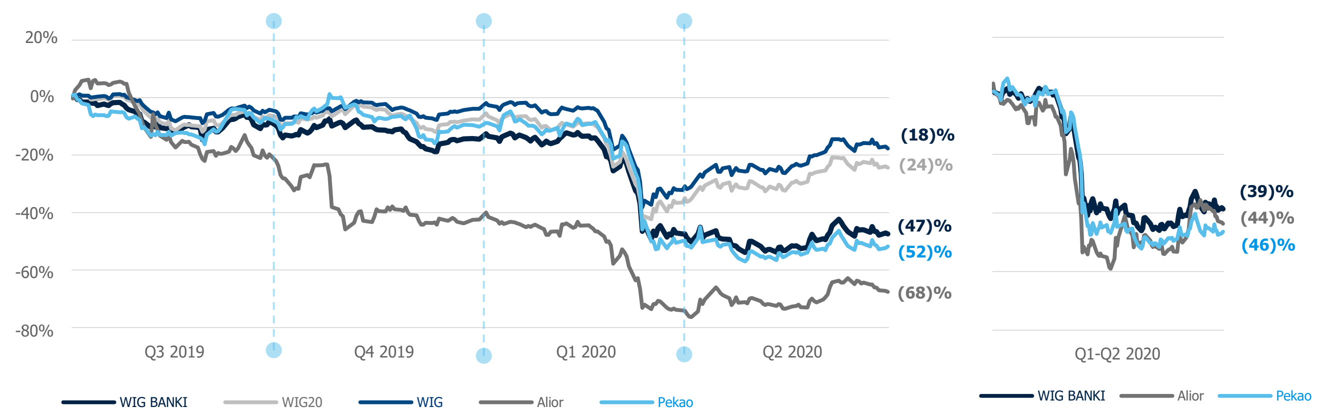
In H1 2020, the WIG Banks index plunged 38.6% and on a 12-month basis the decline was 47.4%. This large sell-off was a consequence of the panic triggered by the COVID-19 pandemic and of growing concerns about the condition of the banking sector. Investors priced in the risk of an increase in bad loan provisions due to the worsening economic situation across the economy. Moreover, the Monetary Policy Council effected 3 interest rate cuts, bringing the reference rate down to a mere 0.10%. Such a large scale and swiftness of interest rate cuts came as a surprise to investors. According to analysts, the interest rate cuts alone cost the banking sector PLN 6-8 billion[2].

The banks forming part of the PZU Group (Alior Bank and Bank Pekao) were responsible for nearly 9.3% of the turnover on WSE's main market at the end of H1. Alior Bank's share price at the end of June 2020 was PLN 16.2, down by 43.7% since the beginning of the year. Bank Pekao's share price in this period declined 46.4%, down to PLN 53.8 (at the end of June 2020).

The correlation between the WIG Banks index and the WIG20 index at the end of June 2020 was 90% (no change y/y). Beta (versus WIG20) was 1.08, i.e. an increase of 0.13 y/y. The P/BV and P/E valuations of the WIG Banks index at the end of H1 2020 were 0.40 and 10.9, respectively. In H1 2019, the corresponding valuations stood at 0.72 and 9.7, respectively[3].

[2] Based on research reports by Millennium DM and Santander DM
[3] https://www.gpw.pl/pub/GPW/statystyki/statystyki_polroczne/20191_GPW.xls

**WSE-listed banks**




Source: www.infostrefa.com

## 7.3 Debt financing

**PZU**

**PZU bonds:** PLPZU0000037 for a total of PLN 2.25 billion

On 30 June 2017, PZU effected the largest issue of subordinated bonds (in Polish zloty) in the history of the Polish financial sector, while at the same time being the first issue in Poland complying with Solvency II requirements. The bonds with a nominal value of PLN 2.25 billion bear interest at WIBOR6M + 180 bps. The maturity date is 29 July 2027, or 10 years after issue with an early redemption option 5 years after the issue date.

The bonds are listed on the Catalyst ASO WSE/Bondspot.

**Alior Bank**

In H1 2020, Alior Bank did not conduct any public or private issues of its bonds.

**Bank Pekao**

In H1 2020, Bank Pekao did not conduct any public or private issues of its bonds.

## 7.4 Distribution of the 2019 profit

3 December 2019 – KNF's recommendation on paying dividends from the profits generated in 2019

As recommended by the Polish Financial Supervision Authority (KNF), dividends should be paid only by insurance undertakings meeting certain financial criteria and ones that received a good or satisfactory score on their Test and Regulatory Assessment [Polish abbreviation: BION[4] for 2018. At the same time, the dividend payout should be limited to no more than 75% of the profit earned in 2019, while the coverage of the capital requirement for the quarter in which the dividend was distributed should be maintained at no less than 110%.

KNF permitted a dividend payout equal to the entire profit earned in 2019 (implying that it is not permissible to make distributions from any of the other capital accounts) provided that the capital requirement coverage (after expected dividends are deducted from own funds) as at 31 December 2019 and for the quarter in which the dividend is paid, is at least 175% for insurance undertakings operating in section I (life insurance) and at least 150% for insurance undertakings operating in section II (non-life insurance).

According to KNF's recommendation, those insurance companies that satisfy the above criteria, when deciding on the level of dividends, should take into account the additional capital needs within the period of twelve months from the approval date of the 2019 financial statements, which may result, among others, from changes in the market and legal environment.

26 March 2020 – KNF's recommendation on paying dividends from the profits generated in 2019

The President of the Polish Financial Supervision Authority, in his letter of 26 March 2020, sent to the management boards of insurance companies, expressed the expectation that in connection with the state of epidemic announced in Poland and its possible adverse economic consequences, insurance undertakings should retain the entirety of profit earned in previous years.

By doing so, the Authority changed its position presented in KNF's Communication of 3 December 2019 concerning the regulatory authority's position on assumptions of the dividend policy of commercial banks, cooperative banks and affiliation banks and insurance and reinsurance undertakings in 2020, according to which the possibility of dividend payment up to the entire profit earned depended on the BION assessment, solvency level in 2019 and capital needs within twelve months from the moment of approving the financial statements for 2019. The solvency requirements were set at the same level as in the previous years.

2 April 2020 – EIOPA (European Insurance and Occupational Pensions Authority) recommended a temporary suspension of dividends by European insurance companies.

21 April 2020 – Management Board's recommendation on the distribution of PZU's net profit

In connection with the said recommendation issued by the Polish Financial Supervision Authority, the PZU Management Board proposed the distribution of PZU's profit generated in 2019 in accordance with the regulator's suggestion regarding the retention of earnings. On 28 April 2020, the PZU Supervisory Board issued a favorable assessment of this proposal .

26 May 2020 – Ordinary Shareholder Meeting's resolution on the distribution of PZU's net profit

The Company's Ordinary Shareholder Meeting adopted a resolution to distribute PZU's net profit for the financial year ended 31 December 2019, in which it resolved to distribute profit of PLN 2,651 million in the following manner:
- PLN 7 million as an allowance to the Company Social Benefit Fund;
- PLN 2,644 million as supplementary capital.

[4] The BION assessment is a thorough process involving the utilization of all available information in the regulator's possession regarding an insurance undertaking / reinsurance undertaking, including information obtained from licensing activities, desktop research and on-site inspection-related activities in an insurance undertaking / reinsurance undertaking as well as inquiries / questionnaires addressed to an insurance undertaking / reinsurance undertaking

**Dividend paid by PZU from its earnings in the 2016 – H1 2020 financial years**

| | 2016 | 2017 | 2018 | 2019 | H1 2020 |
|---|---|---|---|---|---|
| Consolidated profit attributable to the parent company (in PLN m) | 1,935 | 2,895 | 3,213 | 3,295 | 301 |
| PZU SA's standalone profit (in PLN m) | 1,573 | 2,459 | 2,712 | 2,651 | 1,170 |
| Dividend paid for the year (in PLN m) | 1,209 | 2,159 | 2,418 | ** | - |
| Dividend per share for the year (PLN) | 1.40 | 2.50 | 2.80 | ** | - |
| Dividend per share on the date of record (PLN) | 2.08 | 1.40 | 2.50 | 2.80 | ** |
| Ratio of dividend payout to consolidated profit attributable to the parent company | 62.5% | 74.2% | 75.3% | ** | - |
| (a) Movement in the share price y/y | (2.4)% | 26.9% | 4.1% | (8.8)% | (27.7)% |
| (b) Dividend yield (%) * | 6.1% | 4.2% | 5.9% | 6.4% | - |
| (a+b) Total Shareholder Return (TSR) | 3.7% | 31.2% | 10.1% | (2.4)% | (27.7)% |

* Yield calculated as the dividend (as at the dividend record date) in relation to the share price at the end of the previous reporting year
** The Ordinary Shareholder Meeting allocated no portion of the profit to the disbursement of a dividend (in accordance with KNF's recommendation of 26 March 2020)
Source: PZU's data

## 7.5 Rating

**Issuer rating**

Since 2004, PZU and PZU Życie have been subject to regular reviews by the rating agency of S&P Global Ratings (S&P). The rating assigned to PZU and PZU Życie results from an analysis of financial data, competitive position, management and corporate strategy as well as the country's credit rating. It also includes a rating perspective (an outlook), namely, an assessment of the future position of the company in the event specific circumstances occur.

On 6 April 2020, S&P Global Ratings changed the ratings outlook for the Company from positive to stable. PZU's financial strength and credit rating remained at A-.

The ratings outlook has changed as a result of the deterioration in financial and business conditions in Poland due to the outbreak of the COVID-19 pandemic. According to the agency's analysts, this may affect the PZU Group's business; in particular, it may lead to a lower contribution from banking activity. At the same time, S&P emphasized that the PZU Group's position should continue to be stable. This outlook reflects the viewpoint of the agency's analysts that the PZU Group will maintain its leading business position in Poland, a strong capital position and a stable result on insurance activity whereby it will be capable of withstanding any further potential deterioration in the business environment.

On 27 August 2020, S&P concluded that PZU Group should deliver results relatively comparable with its main international insurance peers in 2020, despite its goodwill impairment on its banking investments. Furthermore, the group will likely continue to retain a comfortable capital cushion above the ‚AAA' requirements of S&P Global Ratings' capital model.

**Sovereign rating**

On 10 April 2020, S&P announced its decision to affirm Poland's rating at A-/A-2 for long- and short-term liabilities in foreign currency, respectively, and at A/A-1 for long- and short-term liabilities in the domestic currency, respectively. The rating outlook remained stable.

When justifying the affirmation of the rating, S&P pointed to the diversified economy, qualified workforce, manageable levels of public and private debt and the relatively deep domestic capital market. According to the agency, the macroeconomic foundations of the country's economy are strong due to its diversification and competitiveness as well as the floating exchange rate. S&P analysts concluded that the quarantine caused by the COVID-19 pandemic will disrupt business activities of domestic undertakings, causing the Polish economy to shrink in 2020. At the same time, they expressed expectations that the existing room for potential activities, including the large level of flexibility of the country's monetary policy, combined with a solid position in terms of external balance and fiscal space, will help mitigate the shock. In 2021, S&P expects a strong economic recovery in Poland (real GDP growth of nearly 5.0%), which will lead to an improved fiscal standing[5].

[5] https://www.gov.pl/web/finanse/sp-potwierdza-dotychczasowy-rating-polski

### Poland's rating

| | Currently | | Previously | |
|---|---|---|---|---|
| **Country** | **Rating and outlook** | **Last change** | **Rating and outlook** | **Updated on** |
| **Republic of Poland** | | | | |
| Credit rating (long-term in local currency) | A /Stable/ | 12 October 2018 | A- /Positive/ | 13 April 2018 |
| Credit rating (long-term in foreign currency) | A- /Stable/ | 12 October 2018 | BBB+ / Positive/ | 13 April 2018 |
| Credit rating (short-term in local currency) | A-1 | 12 October 2018 | A-2 | 13 April 2018 |
| Credit rating (short-term in foreign currency) | A-2 | 13 April 2018 | A-2 | 13 April 2018 |

Source: S&P Global Ratings

### PZU rating

| | Currently | | Previously | |
|---|---|---|---|---|
| **Company name** | **Rating and outlook** | **Last change** | **Rating and outlook** | **Updated on** |
| **PZU** | | | | |
| Financial strength rating | A- /Stable/ | 6 April 2020 | A- /Positive/ | 14 June 2019 |
| Credit rating | A- /Stable/ | 6 April 2020 | A- /Positive/ | 14 June 2019 |
| **PZU Życie** | | | | |
| Financial strength rating | A- /Stable/ | 6 April 2020 | A- /Positive/ | 14 June 2019 |
| Credit rating | A- /Stable/ | 6 April 2020 | A- /Positive/ | 14 June 2019 |
| **TUW PZUW** | | | | |
| Financial strength rating | A- /Stable/ | 6 April 2020 | A- /Positive/ | 14 June 2019 |

Source: S&P Global Ratings

**Bank Pekao's financial creditworthiness ratings**

On 14 April 2020, Fitch Ratings announced that, as a consequence of the COVID-19 pandemic, the Bank's rating outlooks in the form of "long-term IDR" and "domestic long-term rating" changed from stable to negative and that all ratings remain at their current levels.

On 8 April 2020, S&P announced a change in the rating outlook from positive to stable and confirmed the maintenance of the long-term and short-term ratings at their current levels.

According to the substantiation provided by S&P, the decision to change Bank Pekao's rating outlook was tied to the lowering of the rating outlook for PZU, which is the Bank's main shareholder, and resulted from the deterioration in financial and business conditions in Poland due to the outbreak of the COVID-19 pandemic. In the agency's opinion, this may result in weaker financial performance, although Pekao should maintain both its profitability and capital position at a satisfactory level and demonstrate overall resilience despite the deteriorating financial and business conditions in Poland.

### Bank Pekao rating

| Rating (Fitch) | Bank Pekao | Poland |
|---|---|---|
| Issuer's long-term rating (IDR) | BBB+ | A- |
| Issuer's short-term rating (IDR) | F2 | F2 |
| Viability rating | bbb+ | - |
| Support rating | 5 | - |
| Support Rating Floor | No floor | - |
| Outlook | Negative | Stable |

| Rating (S&P Global Ratings) | Bank Pekao | Poland |
|---|---|---|
| Long-Term Foreign Currency Rating | BBB+ | A- |
| Long-Term Local Currency Rating | BBB+ | A |
| Short-Term Foreign Currency Rating | A-2 | A-2 |
| Short-Term Local Currency Rating | A-2 | A-1 |
| Standalone credit profile | bbb+ | - |
| Outlook | Stable | Stable |
| **S&P Global Ratings (counterparty rating in the event of forced restructuring)** | | |
| Long-Term Foreign Currency Rating for liabilities | A- | - |
| Short-Term Foreign Currency Rating for liabilities | A-2 | - |
| Long-Term Domestic Currency Rating for liabilities | A- | - |
| Short-Term Domestic Currency Rating for liabilities | A-2 | - |

| Moody's Investors Service Ltd. (ratings not procured by the bank) | Bank Pekao | Poland |
|---|---|---|
| Long-term deposit rating in foreign currencies | A2 | A2 |
| Short-term deposit rating | Prime-1 | Prime-1 |
| Baseline Credit Assessment | baa1 | - |
| Long-term Counterparty Risk Assessment | A1(cr) | - |
| Short-term Counterparty Risk Assessment | Prime-1(cr) | - |
| Outlook | Stable | Stable |
| Long-term Counterparty Risk Rating | A1 | - |
| Short-term Counterparty Risk Rating | Prime-1 | - |

**Alior Bank's rating**
On 14 April 2020, Fitch Ratings Ltd. confirmed the long-term and short-term ratings at their current levels and changed the rating outlook from stable to negative.

On 27 April 2020, S&P confirmed the long-term and short-term ratings at their current levels and changed the rating outlook from stable to negative.

According to the explanations published by Fitch and S&P, their decisions to change the rating outlook were caused by the economic situation related to the coronavirus and its potential consequences for the sector, the economy and Alior Bank's customers.

| Fitch Ratings | Alior Bank | Poland |
|---|---|---|
| Issuer's long-term rating (IDR) | BB | A- |
| Issuer's short-term rating (IDR) | B | F2 |
| National long-term rating | BBB+(pol) | - |
| National short-term rating | F1(pol) | - |
| Viability rating | bb | - |
| Support rating | 5 | - |
| Support rating floor | 'No Floor' | - |
| Outlook | Negative | Stable |

| S&P Global Ratings | Alior Bank | Poland |
|---|---|---|
| Long-Term Foreign Currency Rating | BB | A- |
| Long-Term Local Currency Rating | BB | A |
| Short-Term Foreign Currency Rating | B | A-2 |
| Short-Term Local Currency Rating | B | A-1 |
| Standalone credit profile | bb- | - |
| Outlook | Negative | Stable |

### 7.6 Calendar of corporate events in 2020

12 MARCH
**PZU Group's financial statements (2019)**

26 MAY
**Ordinary Shareholder Meeting**

29 MAY
**PZU Group's financial statements (Q1 2020)**

10 SEPTEMBER
**PZU Group's financial statements (Q2 2020)**

19 NOVEMBER
**PZU Group's financial statements (Q3 2020)**

# 8.

## Corporate governance

We appreciate that the leader's role is to set the highest standards for the entire industry. We discharge this function not only by observing a number of codes but also by working continuously on their improvement. We believe that this is how we can make sagacious changes to contribute to the world that surrounds us.

**In this section:**

## 8.1 Audit firm auditing the financial statements

On 23 May 2019 KNF gave a permit to PZU to extend for another two years the maximum period for the engagement for KPMG Audyt Sp. z o.o. sp. k. to audit the standalone and consolidated financial statements. In this manner the Supervisory Board made the decision to continue cooperation with the auditor to audit the 2019-2020 financial statements.

On 28 May 2020, in connection with Article 49 of the Act of 31 March 2020 amending the Act on special solutions connected with preventing, counteracting and combating COVID-19, other infectious diseases and crises caused by them and certain other acts, which extended the maximum period of uninterrupted engagement to carry out statutory audit to ten years by abolishing the limit set forth in Article 134 sec. 1 of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision, the PZU SA Supervisory Board gave its consent to renew the engagement for KPMG Audyt for years 2021-2022 with an extension option to 2023.

The scope of the concluded agreement encompasses the following in particular:

- auditing PZU's annual standalone financial statements and the PZU Group's annual consolidated financial statements;
- reviewing PZU's interim standalone financial statements and the PZU Group's interim consolidated financial statements.

**Main assumptions underlying the policy for selecting the audit firm**

The following are among the main assumptions underlying PZU's policy for selecting the audit firm:

- ensuring that the process of selecting the audit firm is done correctly and determining the responsibility and the duties of the participants in this process,
- analyzing when selecting the audit firm the recommendations given by the audit committee,
- giving consideration to the rule of rotating the audit firm and the key statutory auditor in the embraced time horizon.

The main assumptions underlying the Policy for the provision of permitted non-audit services by the audit firm conducting the statutory audit, by entities related to this audit firm and by a member of the audit firm's network:

- ensuring correctness in the process of procuring permitted services;
- determining the responsibility and the duties of the participants in this process;
- defining the catalogue of permitted services;
- establishing the procedure for procuring permitted services.

In H1 2020 the audit firm auditing the financial statements rendered permitted non-audit services to the PZU Group. The Company conducted an assessment of the audit firm's independence and the PZU Supervisory Board consented to the rendering of the foregoing services.

In recent years, PZU's additional cooperation with KPMG Audyt has covered, without limitation, audits of solvency and financial standing reports required by the Solvency II Directive.

## 8.2 PZU's share capital and its shareholders; shares held by members of its governing bodies

On 30 June 2015, PZU's Ordinary Shareholder Meeting adopted a resolution to split all PZU shares by decreasing the par value of each PZU share from PLN 1 to PLN 0.10 and increasing the number of PZU shares making up the share capital from 86,352,300 to 863,523,000 shares. The split was effected by exchanging all the shares at a ratio of 1:10. The share split did not affect the amount of PZU's share capital.

On 3 November 2015 the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register registered the pertinent amendment to PZU's Articles of Association.

On 24 November 2015 the Management Board of the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych, "KDPW") adopted Resolution No. 789/15 on setting 30 November 2015 as the date for splitting 86,348,289 PZU shares with a par value of PLN 1 each into 863,482,890 PZU shares with a par value of PLN 0.10 each.

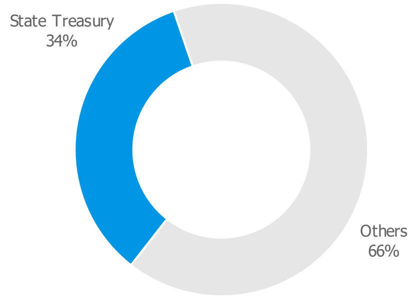
Accordingly, PZU's share capital is divided into 863,523,000 ordinary shares with a par value of PLN 0.10 each carrying the right to 863,523,000 votes at the Shareholder Meeting.

The State Treasury is the sole PZU shareholder holding a majority equity stake as of 30 June 2020 and as of the date of publishing these financial statements.



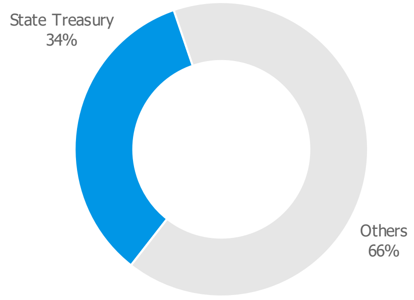
The State Treasury holds 295,217,300 shares representing 34.19% of PZU's share capital giving the right to 295,217,300 votes at the Shareholder Meeting.

**PZU's shareholder structure as at 31 December 2019**




Source: Current Report 19/2019
(data rounded to the nearest integer)

**PZU's shareholder structure as at 30 June 2020**




Source: Current Report 18/2020
(data rounded to the nearest integer)

The PZU Management Board does not have any information about executed agreements as a result of which changes may transpire in the future in the equity stakes held by its shareholders to date.

PZU did not issue, redeem or repay any debt or equity securities that would provide its shareholders with special control rights.

In 2013-2019 and in H1 2020, PZU did not have any employee stock programs in place.

Pursuant to the Articles of Association, the shareholders' voting rights have been limited in such a manner that no shareholder may exercise more than 10% of the total number of votes in existence in PZU at its Shareholder Meeting on the date of holding a Shareholder Meeting subject to the reservation that for the purposes of determining the obligations of the buyers of significant equity stakes contemplated by the Act on Public Offerings and the Insurance Activity Act, such limitation of voting rights shall be deemed not to exist. The restriction on voting rights does not apply to the following:

- shareholders who on the date of adopting the Shareholder Meeting resolution implementing this limitation were entitled to shares representing more than 10% of the total number of votes;
- shareholders acting with the shareholders specified in the item above pursuant to executed agreements pertaining to jointly exercising the voting rights attached to shares.

For the purpose of limiting voting rights, the votes of shareholders among whom there is a parent or subsidiary relationship are totaled in accordance with the rules described in the Articles of Association.

In the event of doubt, the provisions regarding the restriction on voting rights are subject to interpretation according to Article 65 § 2 of the Civil Code.

Pursuant to PZU's Articles of Association, these voting restrictions will expire starting from the moment when the equity stake held by the shareholder who held shares giving the right to more than 10% of the total number of votes in PZU when the Shareholder Meeting adopted the resolution drops below 5% of the Company's share capital.

**Shares or rights to shares held by members of management or supervisory bodies and PZU Group Directors**

As at the date of publication of this Activity Report, only Tomasz Kulik, Member of the PZU Management Board held PZU shares numbering 2,847, which the Company reported in current report 23/2018. No changes transpired from the date of conveying the Q1 2020 consolidated financial statements (i.e. 29 May 2020) with respect to members of the Management Board and Supervisory Board or Group Directors holding PZU shares or rights to shares.

# 9.

## Other

**Representation by the parent company's Management Board's on the preparation of standalone and consolidated financial statements and the activity report**
To the best knowledge of the PZU Management Board, the PZU Group's interim consolidated financial statements and comparative data have been prepared in line with the prevailing accounting principles, and honestly, accurately and clearly reflect the PZU Group's and the Issuer's assets and financial position as well as their financial result, and that the Management Board's interim report on the PZU Group's activity shows a true picture of the PZU Group's and the Issuer's development, results and position, including a description of the major threats and risks.

**Information about significant agreements executed between shareholders**
The PZU Management Board does not have any information about agreements executed until the date of this Report on the activity of the PZU Group and PZU among shareholders as a result of which changes may transpire in the future in the percentages of shares held by its shareholders to date.

**Information about significant executed agreements**
On 4 February 2020 the PZU Management Board adopted a resolution to select an offer in the proceeding to lease headquarters for the PZU Head Office and sign a letter of intent with Bitra Enterprise 1 sp. z o.o., a company belonging to the Skanska Group. According to the resolution in question, the PZU Management Board accepted a scenario on how to proceed in the selection of headquarters for the PZU Head Office involving the conclusion of a lease agreement for office and storage space and parking spaces with Bitra Enterprise 1 sp. z o.o., with its registered office at Al. Solidarności 173, 00-877 Warsaw ("Lessor") and approved the selection of building "Y"; it is under construction in the Generation Park complex situated at Rondo Daszyńskiego 4 in Warsaw ("Building") as the new headquarters of the PZU Head Office.

On 30 June 2020, the PZU Management Board adopted a resolution on the execution of a lease agreement for the PZU Head Office with the Lessor. On the same date, an agreement was signed to lease office space, commercial and service space, storage space and parking spaces in the Building ("Lease Agreement"). The Lease Agreement contains clauses contemplating contractual penalties regarding the Lessor's liability for delays in handing over the leased facility, hindrances and impediments to usage of the leased area and violations of the non-compete clause.

The total estimated gross value of the Lease Agreement to lease the Building over the 10 years of its duration is approximately PLN 787 million, while the gross incremental costs related to relocation are approximately PLN 65 million. The amounts stated above may vary as a result of specific arrangements concerning the final layout, the final scope of adaptation work, the costs of fit-out and the date of translating some of the costs and financial incentives between EUR and PLN. The total value of the Lease Agreement as at 30 June 2020 should not change by more than 5% of the specified amount.

In H1 2020, no other significant contracts were executed in respect of the Issuer's operations.

**Related party transactions on non-arm's length conditions**
In H1 2020, neither PZU nor its subsidiaries executed any transaction with their related parties which were of material significance individually or collectively and were executed on non-arm's length conditions.

**Other related party transactions**
At the stage of acquisition of the shares in Alior Bank and Bank Pekao, respectively, PZU filed with KNF the Representations on Liabilities referred to in Article 25h(3) of the Banking Law, according to which, acting as a strategic investor, it should ensure, without limitation, that:

- The Banks will be managed in such a way as to maintain at all times liquidity, own funds and solvency ratios on a stable level required by the law, guaranteeing the Banks' ability to satisfy their liabilities;
- appropriate capital support without undue delay in the event of a decline or threat of decline of capital adequacy ratios or liquidity of the Banks below the level required by the law and regulations and recommendations of Polish banking regulatory authorities. Each support for the Banks, however, requires PZU's analysis aimed to maintain the trust to PZU, through maintaining, even in a crisis situation, a high level of solvency of PZU and PZU Group as a whole;
- as part of the powers vested in PZU as a shareholder, all decisions pertaining to dividend payout and reinvestment of the Banks' profits will take into account the Banks' development needs and stability and safety of the funds deposited in the Banks by their clients. In particular, in a situation when the Banks' liquidity or capital position required by law or recommendations of competent banking regulatory authorities for the banking sector in Poland will be at threat, no dividend will be paid out, and retained earnings will be allocated for increasing the Banks' own funds.

**Tax Group**
A Tax Group [Polish: Podatkowa Grupa Kapitałowa] was established under an agreement signed on 20 September 2017 by and between 13 PZU Group companies: PZU, PZU Życie, LINK4, PZU CO, PZU Pomoc SA, Ogrodowa-Inwestycje, PZU Zdrowie SA, Tulare Investments sp. z o.o., Battersby Investments SA, Ipsilon sp. z o.o., PZU Finanse sp. z o.o., PZU LAB SA (formerly: Omicron SA), Omicron Bis SA. The Tax Group has been established for a period of 3 years – from 1 January 2018 to 31 December 2020. PZU is the parent company representing the Tax Group.

**Purchase of treasury shares in the financial year**
Within the framework of its trading activity, Bank Pekao enters into transactions on PZU shares and forward contracts. As at 30 June 2020, Bank Pekao held no PZU shares.

As at 30 June 2020, consolidated funds held 204 thousand PZU shares.

PZU did not hold any treasury shares as at 30 June 2020.

**Granted and received guarantees and sureties**
In H1 2020, neither PZU nor its subsidiaries granted any sureties for a loan or borrowing or guarantees to any single entity or any subsidiary of such an entity where the total amount of outstanding sureties or guarantees would be significant.

Information regarding the off-balance sheet items as at the end of H1 2020 is set forth in Section 5.6 ASSET AND LIABILITY STRUCTURE.

**Seasonal or cyclical business**
PZU's business is not seasonal or cyclical to an extent that would justify application of the suggestions set forth in the International Financial Reporting Standards.

**Rules of preparation**
The rules of preparation of the condensed interim consolidated financial statements have been described in the PZU Group's interim consolidated financial statements.

**Assessment of the management of financial resources, including the capacity to satisfy the assumed liabilities and specification of possible threats and actions taken or to be taken by the Issuer to counter these threats Assessment of the performance of investment-related intentions.**
The PZU Group and the Issuer are in very good financial standing and satisfy all the safety criteria imposed by the legal regulations and the Polish Financial Supervision Authority.

The Issuer's stable rating outlook confirms that PZU has a strong business position, has a high level of equity, and is well-poised to achieve its intentions when it comes to investments.

**Financial forecasts**
The PZU Group has not published any forecasts of its financial results.

**Disputes**
In H1 2020 and by the date of signing this report on the PZU Group's activity, the PZU Group companies were not involved in any proceedings conducted before a court, an arbitration body or a public administration authority which concerned any liabilities or receivables of PZU or any of its direct or indirect subsidiaries the unit value of which would be material, save for the issues described in the condensed interim consolidated financial statements for the 6 months ended 30 June 2020.

As at 30 June 2020, the total value of dispute in all 272,848 cases (as at 31 December 2019: 294,687 cases) pending before courts, arbitration bodies or public administration authorities in which PZU Group entities take part, was PLN 8,561 million (as at 31 December 2019: PLN 8,363 million). This amount included PLN 4,345 million (as at 31 December 2019: PLN 4,293 million) of liabilities and PLN 4,216 million (as at 31 December 2019: PLN 4,070 million) of receivables of PZU Group companies.

This Report on the Activity of the PZU Group for H1 2020 has 136 consecutively numbered pages.

**Signatures of PZU Management Board Members**

Beata Kozłowska-Chyła – acting President of the Management Board

Ernest Bejda – Management Board Member

Adam Brzozowski – Management Board Member

Marcin Eckert – Management Board Member

Elżbieta Häuser – Schöneich – Management Board Member

Tomasz Kulik – Management Board Member

Maciej Rapkiewicz – Management Board Member

Małgorzata Sadurska – Management Board Member

Warsaw, 9 September 2020

# 10.

## Attachment: Glossary of terms

**insurance agent** – commercial undertaking conducting agency activity pursuant to an agreement executed with an insurance undertaking. The activity of agents focuses on acquiring customers, entering into insurance contracts, participating in the administration and performance of insurance agreements and organizing and supervising agency activity

**assurbanking** – distribution of banking products by insurance companies

**bancassurance** – distribution of insurance company products by the bank

**insurance broker** – entity holding a permit to conduct brokerage activity. Performs activities on behalf or in favor of an entity seeking insurance cover

**COR** – Combined Ratio – calculated for the non-life insurance sector (section II). This is the ratio of insurance expenses related to insurance administration and the payment of claims (e.g. claims, acquisition and administrative expenses) to the net earned premium for a given period

**cross-selling** – a sales strategy for selling a given insurance product in combination with a complementary insurance product or an insurer's partner's product, e.g. a bank's product. Bancassurance products such as credit insurance may serve as an example

**P/BV (Price to Book Value)** – multiple specifying the ratio of the market price to the book value per share

**P/E (Price to Earnings)** – multiple specifying the ratio of the company's market price (per share) to earnings per share

**DPS (Dividend Per Share)** – market multiple specifying the dividend per share

**DY (Dividend Yield)** – market multiple specifying the ratio of the dividend per share to the market share price

**EPS (Earnings Per Share)** – market multiple specifying earnings per share

**IDD** – Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (Insurance Distribution Directive)

**IPO (Initial Public Offering)** – public offering of specific securities performed for the first time. One of the most important elements of an initial public offering is the preparation of a prospectus and the proceeding before the institution supervising admission to be traded publicly

**cc** – The Act of 23 April 1964 - Civil Code

**ccc** – The Act of September 15, 2000 the Code of Commercial Companies

**ECP** – Employee Capital Plans defined by the provisions of the Act of 4 October 2018 on employee capital plans

**PRIIP** – Commission Delegated Regulation (EU) 2017/653 of 8 March 2017 supplementing Regulation (EU) No. 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products

**reinsurance** – transfer to some other insurance undertaking – the reinsurer – of all or part of the insured risk or class of risks along with the pertinent portion of the premiums. As a result of reinsurance, a secondary split of risks transpires to minimize the risks to the insurance market

**outward reinsurance** – reinsurance activity whereby the insurer (cedent) transfers a portion of the concluded insurance to a reinsurer or reinsurers in the form of a reinsurance agreement

**inward reinsurance** – reinsurance activity whereby a reinsurer or reinsurers accept a portion of insurance or a class of insurance transferred by a cedent

**technical provisions** – provisions that should ensure full coverage of current and future liabilities that may result from executed insurance contracts. The following, in particular, are for accounting purposes part of technical provisions: provision for unearned premiums, provision for outstanding claims and benefits, provision for unexpired risks, provision for investment risk borne by policyholders and provision for bonuses and discounts for insureds

**GDPR** – Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC

**CRR Regulation** – Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms

**Regulation on Current and Periodic Information** – Finance Minister's Regulation of 19 February 2009 on Current and Periodic Information Transmitted by Securities Issuers and the Conditions for Recognizing the Information Required by the Regulations of a Non-Member State as Equivalent (Journal of Laws of 2009, No. 33 Item 259, as amended)

**credit scoring** – method for assessing the credibility of an entity (usually a natural person or a business) applying for a bank loan. The result of credit scoring is ordinarily presented in the form of a score – the higher the number of points, the greater the credibility of a prospective borrower

**sell side** – part of the financial sector involved in creating, promoting and selling equities, bonds, foreign currencies and other financial instruments; it includes investment bankers who act as intermediaries between securities issuers and investors as well as market makers who provide liquidity on the market. Sell-side analysts release research reports with investment recommendations and daily comments for the buy side, i.e. for asset managers. Research reports pertain to companies that are already public and to companies that are being floated on an exchange or that are conducting additional rights offerings

**gross written premium** – the amounts of gross written premiums (net of the reinsurer's share) due by virtue of the insurance contracts executed in the reporting period, notwithstanding the term of liability stemming from these agreements

**net earned premium** – the gross written premium in a given period giving consideration to the settlement of revenues (premiums) over time through movement in the provisions for unearned premiums and the reinsurers' share

**Solvency II** – a solvency system for European insurance undertakings taking the risk profile into account. These requirements have been in force since 1 January 2016

**spread** – the difference between the purchase and sale price of a given financial instrument

**risk-free rate** – rate of return on financial instruments with zero risk. In PZU the risk-free rate is based on the yield curves for treasuries and it is the basis for determining transfer prices in settlements between operating segments

**sum insured** – amount in cash for which an insured object is insured. In non-life insurance the sum insured ordinarily constitutes the upper limit of the insurer's liability

**TSR (Total Shareholder Return)** – measure specifying the total rate of return obtained by shareholders by virtue of holding shares in a given company during an annual period. This measure expresses the sum total of profit stemming from the movement in the share price of a given company and the dividends paid during the time when an investor holds its shares in relation to its share value at the beginning of a given year. It is expressed as a percentage on an annualized basis

**ICP** – Insurance Capital Fund, a separate asset fund constituting a provision created from insurance premiums, invested in the manner specified in the insurance contract, a component of life insurance with an insurance capital fund (ICP), also referred to as an investment policy

**Statutory Auditor Act** – Act z 7 May 1999 roku on Statutory Auditors and their Self Regulation, Entities Authorized to Audit Financial Statements and Public Supervision (Dz. U. 2009 nr 77 poz. 649 z późn zm.)

**UOKiK** – Office of Competition and Consumer Protection. The shaping of anti-monopoly policy and consumer protection policy is one of the powers of the President of the Office of Competition and Consumer Protection, inter alia, by conducting anti-monopoly proceedings in cases of practices limiting competition and in cases of practices violating the collective interests of consumers, www.uokik.gov.pl

**Insurance Activity Act** – Act of 11 September 2015 on Insurance and Reinsurance Activity (Journal of Laws of 2015, Item 1844, as amended), with most regulations in force as of 1 January 2016. This Actintroduced Solvency II requirements in the Polish legal system

# Attachment: Glossary of terms

**up-selling –** commercial technique involving the offering and selling of additional higher-priced and higher standard services to a current client

**venture capital** – medium and long-term investments in privately-held businesses in their early stage of development combined with managerial support, conducted by specialized entities (venture capital funds). The purpose of venture capital investments is to generate a profit ensuing from the incremental growth in the value of a business by selling its stock after the elapse of a specific period

**WIBOR6M** – reference interest rate for a loan for 6 months on the Polish interbank market

**Cost/Income ratio (C/I; banking sector)** – quotient of administrative expenses and the sum of operating income, excluding: the BFG charge, the levy on other financial institutions and the net result on realization and impairment losses on investments

**solvency ratio** – statutory multiple (under Solvency II) specifying the level of capital security for the operations conducted by an insurer; by law this multiple should be higher than 100%

**leverage ratio of PZU Group** - quotient of the debt from long-term financial liabilities (excl. bank deposits, deposit certificates and credit received in connection with the preferential financing of loans) and the sum of: debt from long-term financial liabilities and PZU Group's equity less: the value of intangible assets, deferred acquisition costs and deferred tax assets, which have been presented in consolidated financial statements of PZU Group.

**prudent person principle** – principle expressed in article 129 of the Solvency II Directive of the European Parliament and of the Council on the Taking-up and Pursuit of the Business of Insurance and Reinsurance that imposes on insurance undertakings and reinsurance undertakings the requirement of investing assets in the policyholders' best interest, properly matching investments to liabilities and duly incorporating the various types of financial risk, such as liquidity risk and concentration risk