2021

Management Board's report on the activity of the PZU Group in H1 2021

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CEO Letter to Shareholders

Beata Kozłowska-Chyła
President of the PZU Management Board

Dear Shareholders,

together with the management boards of the PZU Group companies, I hereby convey to you our report for H1 2021.

The past reporting period was marked by a highly volatile environment. The beginning of the year was affected by strict sanitary restrictions, followed by their gradual loosening. In June, we were able to partially return to pre-pandemic operating conditions. The return was partial, because the continuing threat of new coronavirus variants is likely to bring a permanent change in many areas of the daily lives of people and companies. The financial results for H1 2021 we present in this report show that the PZU Group, despite its large scale of business, is flexible and capable of adapting quickly to changing conditions. As a result, in the extraordinarily difficult period, we were able to maintain stability, increase sales in all important market segments, retain the exceptional trust and loyalty of several million clients and generate above-average benefits for our Shareholders.

Stable business model and record-breaking dividend
The first half of 2021 brought a very high rate of growth for the PZU Group. Net profit attributable to the equity holders of PZU Group's parent company totaled PLN 1,671 million, nearly six times higher than in the corresponding period of the previous year. Our return on equity also reached a high level of 18.7%, having surpassed our strategic ambitions. The Group also maintained a high profitability of its business, as measured by the combined ratio, and recorded an excellent result on investment activities.

Owing to our stable business model and resilience to the changing conditions, the PZU Group will distribute a record-breaking dividend in 2021. We will allocate over PLN 3 billion for this purpose, which translates into a dividend yield of 9%. PZU has a long history of dividend payouts and we want to keep it that way. Our capital and dividend policy adopted in March 2021 is a continuation of the principles outlined in the previous policy, pursued in 2016-2020.

The PZU Group maintains a strong capital position, reflected in its high Solvency II ratio. At the end of Q1, it stood at 223% and was among the highest in Europe. Moreover, the Group's stable position is reflected in the high rating awarded to us by S&P Global Services: A- with a stable outlook.

Synergy advantage
In times of market turmoil, it is particularly important to run a diversified business. PZU achieves excellent results in building synergies between the Group's various core businesses: insurance, banking, investments and health. In particular, this concerns the development of our cooperation with Bank Pekao and Alior Bank.

In pursuit of our strategic ambitions, in the first half of this year, we intensively developed our cross-sell offer, e.g. by developing special products for Pekao and Alior clients, combining banking services with travel, motor, unemployment and accident insurance, online shopping cover, home repair services or access to telemedicine consultations. PZU's products are present in all material lines of the Group's banks. Further work is underway to implement standalone products in the banks' offering and to build multichannel access to PZU's products for bank clients. Banking products, in turn, are becoming an integral part of the ecosystems created for insurance clients and offered in all of PZU's distribution channels. New solutions are also being developed, such as the offering of the Cash financial benefits, the system of instant payout of claims using BLIK to the client's telephone, etc.

Thanks to these efforts, in H1 2021 the premium collected in cooperation with banks from the PZU Group more than doubled year over year, to PLN 689 million, and in cooperation with all banks increased by nearly a half, to over PLN 1 billion. Today, one out of five clients of Pekao and Alior who takes out a cash loan or any other loan is insured by the PZU Group.

PZU is a leader in bancassurance, i.e. the distribution of insurance products through the banking channel, and assurbanking, that is the sale of banking products through the insurance channel. It has the largest share in the Polish bankassurance market: 26.4%, and approx. 2.5 million clients insured through banks. The PZU Group's experience and potential make the development of cooperation between insurance and banking one of its key growth areas.

New reality as an opportunity for further development
The coronavirus pandemic has brought a lot of human tragedies and a host of new risks, but it has also forced or accelerated changes that may end up being positive for the market and the economy. New trends, such as the growing importance of remote work and remote sales channels, have created great potential that the PZU Group intends to leverage.

Artificial intelligence, machine learning solutions and advanced use of big data have been implemented on a large scale to improve processes within the organization and in client relations. For instance, AI algorithms process hundreds of thousands of motor claims, analyze and verify the correct completion of documents, and virtual assistants and chatbots answer questions coming from clients and employees.

New technologies, especially in the area of telemedicine, have helped the PZU Group successfully respond to the growing demand for private medical care services. The consistent development and coherent branding of PZU Zdrowie's own network, a focus on prevention, a proactive approach to health and the building of a product and service ecosystem are the directions we want to pursue.

Self-service tools have been intensively developed in all Group companies, enabling clients to make use of our remote self-service options. The number of users of our flagship application mojePZU exceeded 2 million in May of this year. Among its various features, the application permits users to calculate the premium and purchase a policy, make an appointment with a doctor or report a claim and monitor the status of the case on one's own. It is constantly expanded to offer new features, including those related to remote treatment and sports activities.

To maintain PZU's leader position, we are not only adapting our offering to the changing expectations of our clients, but we also keep an eye the market to anticipate and capitalize on new trends. Owing to the commitment of our employees and our investments in innovation, the Group has worked out a strong competitive edge in the era of digital transformation.

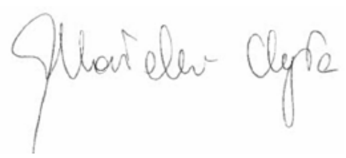
Corporate social responsibility

The PZU Group's significant contribution to the National Vaccination Program and our own program of free preventive medical testing and doctor consultations, Droga do Zdrowia z PZU [Road to Health with PZU], are evidence of our social responsibility and concern for the health of all Poles, not just our own clients. Alongside our ambitious financial targets, both innovation and social responsibility are among the Group's core values. The principles of sustainable development within the ESG framework are very important to us and, in view of the pandemic and the observed effects of climate change, are becoming increasingly relevant. Which is why in March 2021 we announced a new PZU Group strategy "Potential and Growth (2021-2024)", which incorporates the ESG strategy as its integral part.

The solutions developed to date and the resources available to the PZU Group allow us to look to the future with optimism. The second half of this year is bound to continue to be marked by tough challenges, but we are well positioned to meet them and maintain the PZU Group's stable position and provide a sense of security to all our stakeholders.

Motivated by the trust placed in us, we will make every effort to continue to develop the best solutions for our clients and efficiently build shareholder value.

Respectfully



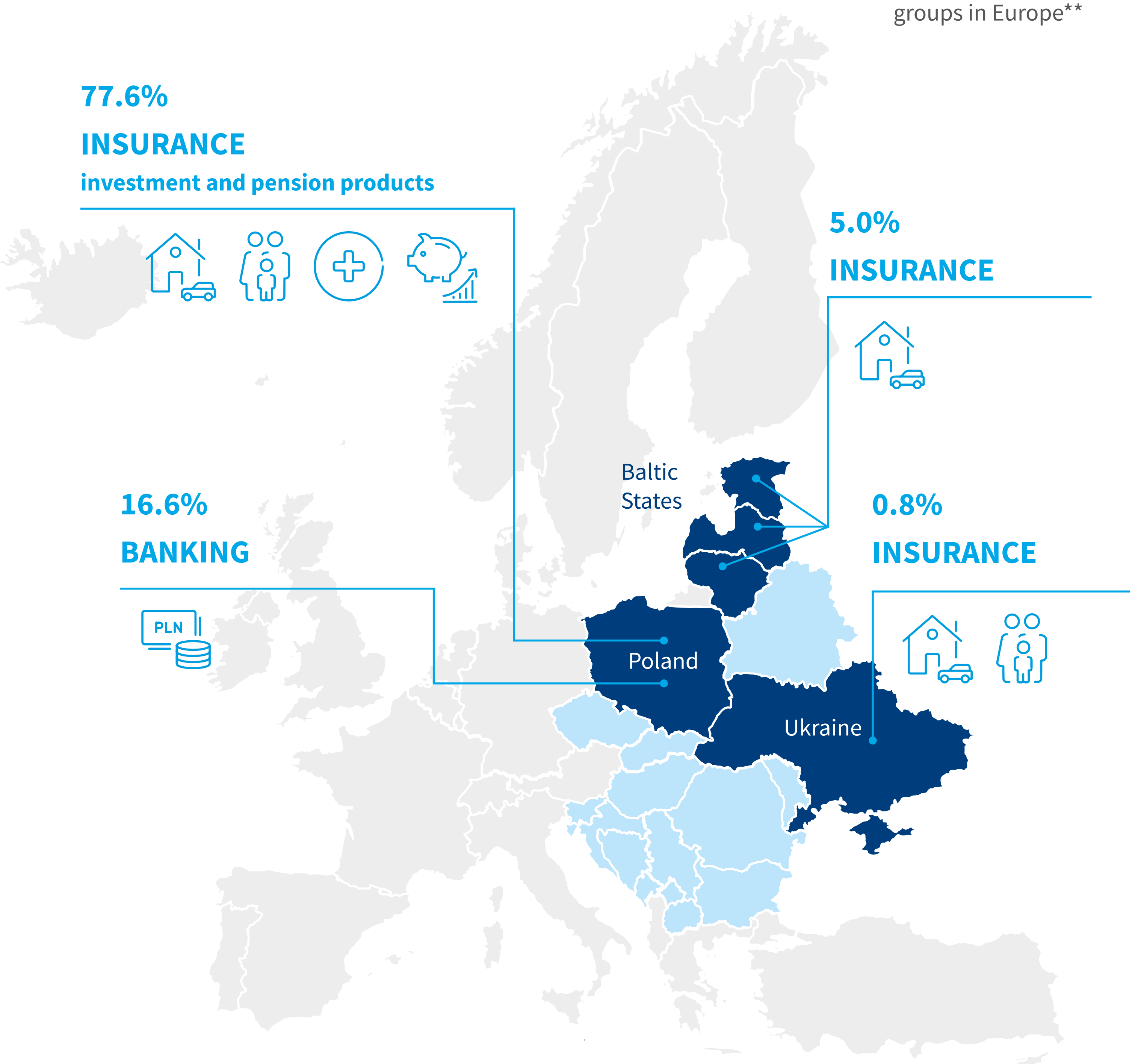
Beata Kozłowska-Chyła, Ph.D. Hab.
President of the PZU Management Board

22 mlion
clients in five countries

#1
largest insurance and banking group in CEE

99%
most recognizable brand in Poland*

STABLE BALANCE SHEET
stability and safety – Solvency II ratio is above average for insurance groups in Europe**



Percentage share in the operating result (adjusted for PZU's shares in banks) the data after H1 2021

* Assisted recognition of the PZU, study by the Kantar, H1 2021
** PZU's own study

Recap of H1 2021 results

Gross written premium	Net insurance claims and benefits	Net profit (attributable to holders of the parent company)
PLN 12.3 bn	**PLN 8.1 bn**	**PLN 1.7 bn**
PLN 12.3 bn 06.2021	PLN 8.1 bn 06.2021	PLN 1.7 bn 06.2021
PLN 11.7 bn 06.2020	PLN 7.3 bn 06.2020	PLN 0.3 bn 06.2020
PLN 11.8 bn 06.2019	PLN 7.9 bn 06.2019	PLN 1.5 bn 06.2019

Ambitions for 2024

We care about the most important things in life

The PZU Group wants to supply overall solutions to help clients lead a healthy life and operate a sustainable business, provide medical care to their families and employees, protect their assets and help them grow their assets, give them a feeling of stabilization and taking good care of their relatives regardless of what the future brings.

We build our success on the basis of modern business models while adhering to the principles of sustainable development for the sake of the natural environment protection, better quality of life for employees and customers, and commitment to the development of local communities.

ROE	Solvency II	Dividend	Climate neutrality
18.7% 06.2021 +15.1 p.p. vs. 06.2020	223%[1] Q1 2021 -13 p.p. vs. 2020	DPS PLN 3.5 2020	
17.4%	≥200%	Dividend Payout Ratio 50% - 100%	Achieving net zero target in own operations (Scope 1 and 2)[2]
2024 target	2024 target	2024 target	2024 target

[1] Data not audited or reviewed by a statutory auditor
[2] Achieving net zero target in own operations (Scope 1 and 2) thanks to reduction of emissions, purchase of green energysigned direct electricity supply agreements) and offset of CO2 emissions

1.

PZU Group Overview

For more than 200 years, PZU has been growing its business, gaining experience and using its potential to protect what is most valuable – the life and well-being of its clients, their families, assets and companies. Every day, the Group grows to be able to provide customers with the most personalised, comprehensive and flexible offer. The priority for the PZU Group and the measure of its success is to generate benefits for its shareholders and clients in a sustainable and responsible manner.

PZU – growth, profitability and sustainability

The Powszechny Zakład Ubezpieczeń Group is the largest financial group in Poland, as well as in 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. Its stock has been listed on the Warsaw Stock Exchange (WSE) since 2010. Since its debut, PZU has been part of WIG20, an index of the Warsaw Stock Exchange's largest companies. It is one of the largest companies by market capitalization and its stock is one of the most liquid ones on the Polish stock exchange. Since 2019, PZU's shares have been one of the largest constituents of the WIG ESG (sustainability) index.

The main shareholder of PZU is the State Treasury, which holds 34.19% of its shares.

The PZU Group's consolidated assets total PLN 391 billion. The Group enjoys the trust of 22 million clients in five countries. It offers products and services to retail clients, small and medium enterprises and large business entities. Poland is the PZU Group's core market measured by its scale and number of customers. Nevertheless, the Group's subsidiaries play an important role on the markets in Lithuania, Latvia, Estonia and Ukraine.

The Group companies offer not only life, non-life and health insurance but also banking, investment, pension and health care products. Within the framework of strategic partnerships, they also provide assistance services for individual clients and businesses. The Group's operations are founded on clients' trust. The Group places the client in the center of attention and integrates all areas of activity around the client. This allows it to offer increasingly personalized, flexible and comprehensive products and services tailored to the needs of increasingly demanding clients at every stage of their private and professional lives and at the suitable place and time.

The Group's strategic ambition is to develop ecosystems, which will provide comprehensive solutions to both, institutional and individual clients. They will create new opportunities to build long-lasting relations with clients thanks to, among others, new interactions with the client in various areas of his life. The key elements that contribute to building a permanent technological advantage in integrated client service include further digitization, use of artificial intelligence (AI), big data and advanced analytics, as well as mobile and omni-channel solutions. The technological transition will be supported by the use of cloud computing.

The execution of the strategy is underpinned by the most recognizable insurance brand in Poland. According to surveys, spontaneous recognition of the PZU brand stands at 81% while assisted recognition is 99%.

Among all insurers operating in Poland, PZU offers its clients the largest sales and service network. It has 410 branches, 9.1 thousand tied agents and agencies, 3.1 thousand multiagencies, over 1 thousand insurance brokers and electronic distribution channels. When it comes to bancassurance and strategic partnerships, the PZU Group collaborates with 11 banks and 21 strategic partners.

In addition, the PZU Group's clients in Poland have access to Bank Pekao's distribution network (669 branches) and Alior Bank's distribution network (643 branches, including 175 traditional branches, 7 Private Banking branches, 13 Corporate Banking Centers and 448 partner centers). Both banks have professional call centers as well as mobile and internet banking platforms.

In the Baltic States, where the PZU Group is in the insurance business, its distribution network consists of over 600 agents, 18 multiagencies and 408 brokers. PZU also cooperates with 7 banks and 48 strategic partners. In Ukraine insurance products are distributed through over 400 agents and in cooperation with more than 20 multiagencies, nearly 40 brokers, 9 banks and 2 strategic partners.

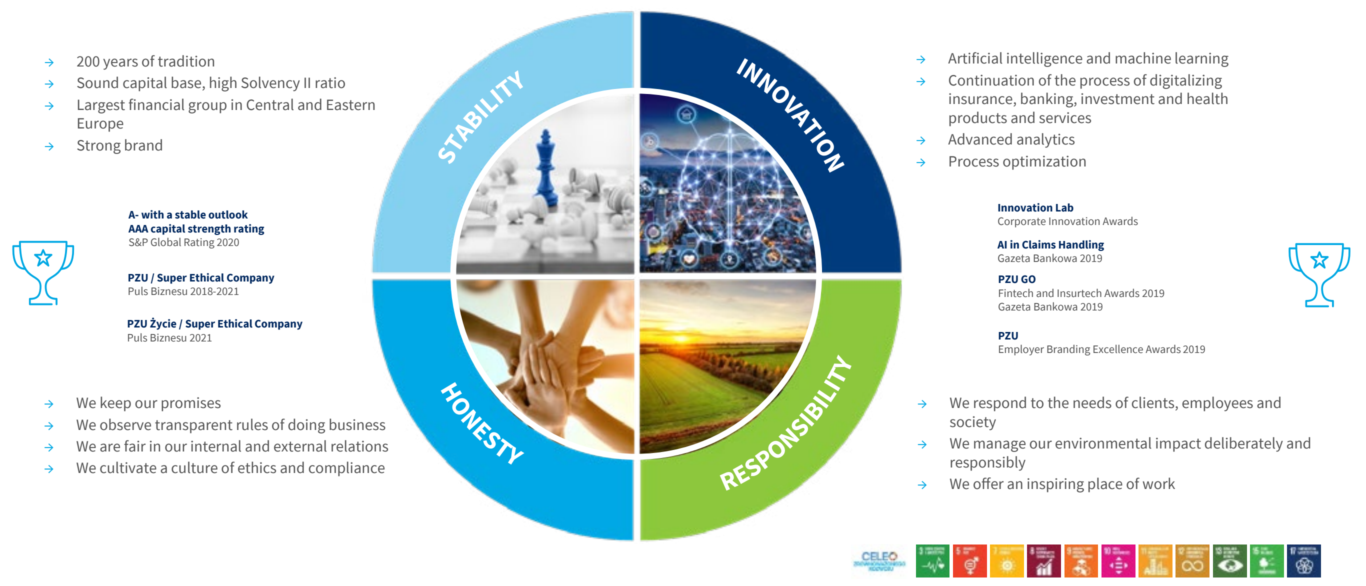
Responsible organization building a safe and sustainable future

The PZU Group is the largest insurance and banking group in the Central and Eastern Europe and one of the largest in whole Europe. Operating on such a significant scale, it is aware of its impact on the wellbeing of the society, business partners, investors, employees and the environment.

The PZU Group is committed to the development of a responsible organization, strongly emphasizing the ESG (environment, social responsibility and corporate governance) in its strategy. The priority for the PZU Group is to generate benefits for its shareholders and clients in a sustainable and responsible manner. The success of the PZU Group will be built based on contemporary business models widely incorporating ESG criteria, setting standards in this respect on the financial market. Such approach will allow making decisions that support sustainable development in terms of offered products, cooperation with business partners, care of the well-being of employees and local communities, as well as building value-based leadership.

The Group supports the development of low-carbon economy, is committed to just energy transition and encourages communities to adopt sustainable and safe lifestyles and builds a modern, responsibly-managed organization. Through these and many other initiatives, the PZU Group pursues the ambition of becoming a trusted partner for green transition, the best place to work on the markets where it conducts business and improve the quality of life for the entire society.

We build our success in an ethical manner, relying on four major values



We have the potential to create modern product and service ecosystems

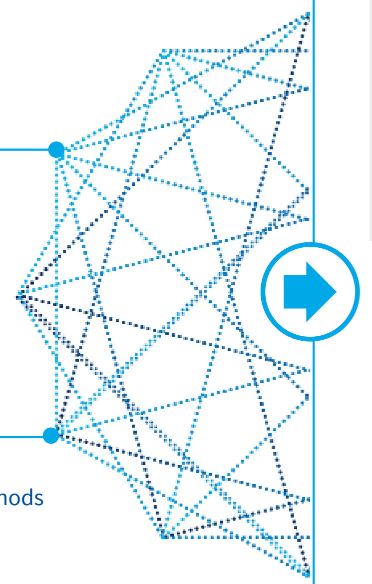
The PZU Group wants to provide comprehensive solutions to help clients lead a healthy life and operate a sustainable business, provide medical care to their families or employees, protect their assets and help grow their assets, give them a sense of stability and taking good care of their relatives regardless of what the future brings.

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

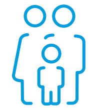
Fast and efficient service

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

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

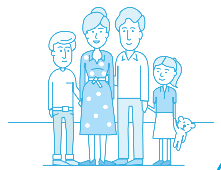
Safeguarding financial security needs

Main 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, after the acquisition of LINK4, the Group has been offering insurance under two brands: the most recognizable PZU brand, with its 200-year tradition, and the much younger LINK4 brand, associated with direct sales channels. In 2015 the third brand, TUW PZUW, or Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych, a mutual insurer, was founded to sell and handle insurance products for companies in various industries, focusing on cooperation with large corporates, medical entities (hospitals and clinics) as well as for church institutions and local government units.

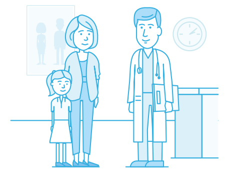
The PZU Group is also the leader in the insurance market in the Baltic States (Lithuania, Latvia, Estonia). It also conducts insurance activities in Ukraine.

Poland is the Group's core market, where it generates 91.5% of its revenue (measured by gross written premium). The insurance activity in the Baltic States and in Ukraine generates 8.5% 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 provide customers with the best possible access to the healthcare services.

The PZU Zdrowie network has 130 own and approximately 2,200 partner centers. Its advantages include quick appointments, respecting referrals for examinations from physicians from outside the PZU Zdrowie network, remote medical consultations allowing not only to obtain an advice or discuss test results but also to receive prescriptions for medicines and referrals for tests. The offer is supplemented by prevention services.



KLIENT

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

The PZU Investments brand offers an extensive range of investment products: open and closed-end mutual funds and pension products, open-end pension funds, individual retirement accounts (IRA), individual retirement security accounts with a voluntary pension fund, employee pension schemes (EPS) and 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 Powszechne Towarzystwo Emerytalne PZU managing the PZU Złota Jesień Open-end Pension Fund.

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

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

Alior Bank is a universal deposit and credit bank. It was established in 2008 as a start-up. 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.

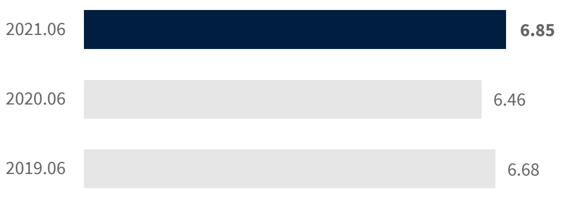
The PZU Group's operations in the banking segment are conducted in the following areas: bancassurance, assurbanking and operational synergies.

PZU Group Overview

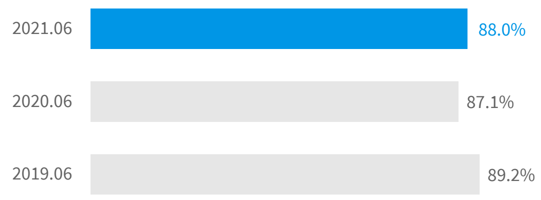
INSURANCE

Non-life insurance in Poland

Gross written premium (PLN bn)

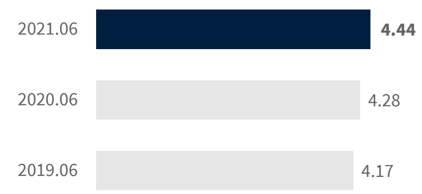


Combined ratio – COR

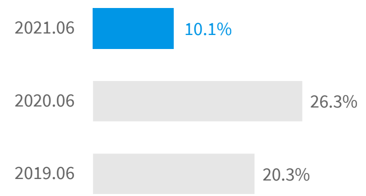


Life insurance in Poland

Gross written premium (PLN bn)

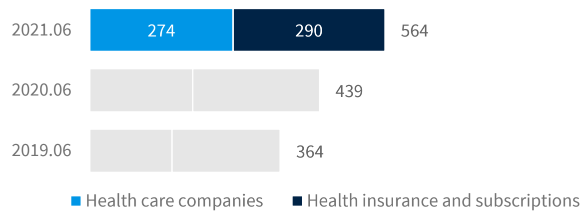


Group and individually insurance operating margin

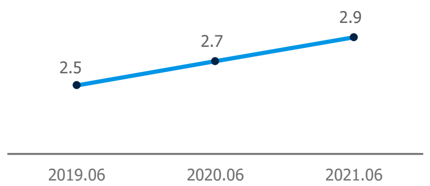


HEALTH

Revenues (m PLN)

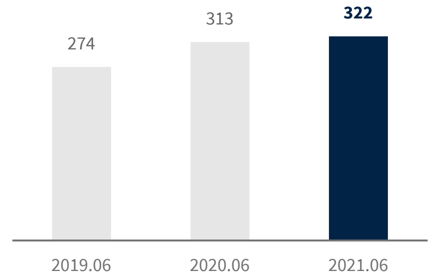


Number of agreements (m)

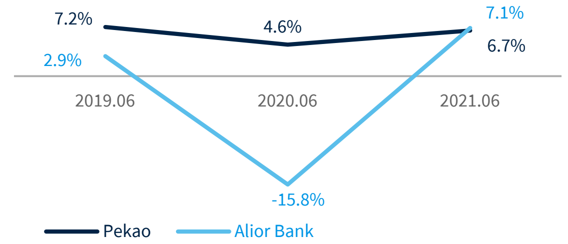


BANKING

Banking assets in the PZU Group (PLN bn)

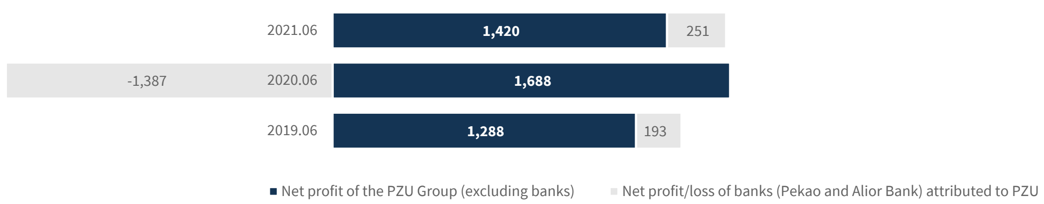


ROE (return on equity)*



* based on reports and presentations of Bank Pekao and Alior Bank

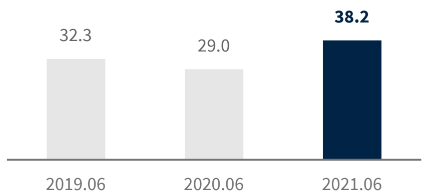
Contribution of banking activity to net profit attributable to the holders of the parent company (PLN m)*



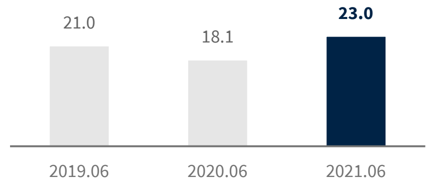
* excluding consolidation adjustments

INVESTMENTS

Assets of third party clients of TFI PZU and PTE PZU (PLN bn)

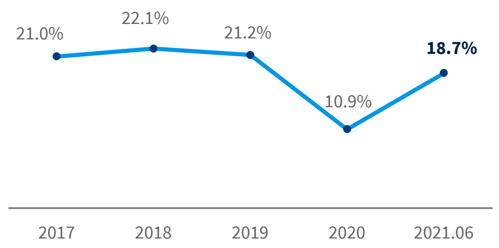


Assets of TFI Pekao and TFI Alior clients (PLN bn)



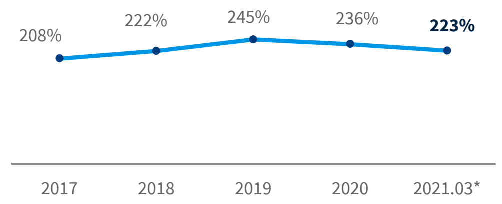
SELECTED RATIOS

ROE (Return on equity)*



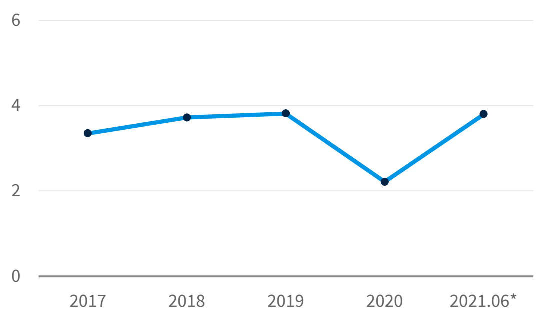
* ROE attributed for the holders of the parent company

Solvency II

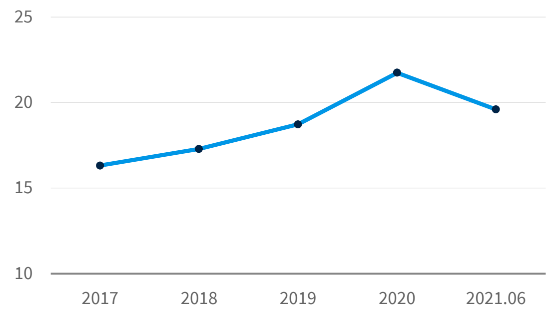


* Data as of 2021.03 are not subjected to audit or review by a statutory auditor

EPS (earnings per share) PLN

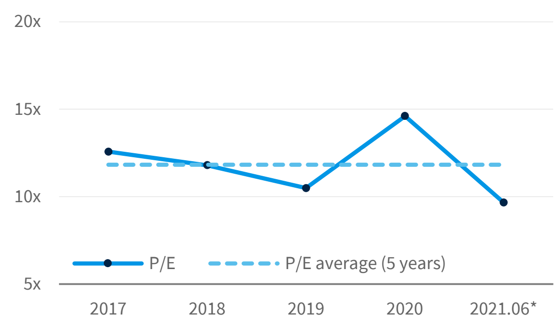


BVPS (book value per share) PLN

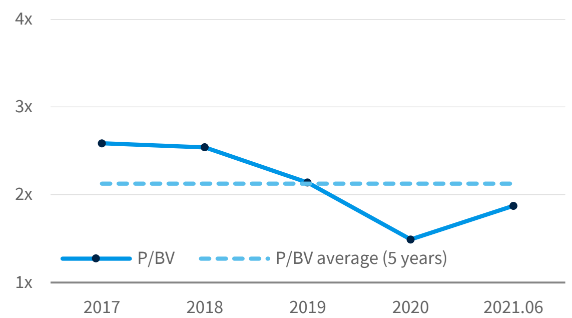


* Trailing data (12 months)

P/E (price to earnings per share)



P/BV (price to book value)



* Trailing data (12 months)

Some of the ratios depicted in the charts above are Alternative Performance Measures (APM) under the ESMA Guidelines on Alternative Performance Measures 2015/1415. Definitions, basis of calculation and explanation of their use are presented in Chapter 10. Attachment: Glossary of terms and Alternative Performance Measures

Group's consolidated highlights for H1 2019-2021 (in PLN m)**

	1 January – 30 June 2019	1 January – 30 June 2020	1 January – 30 June 2021
A) PZU GROUP NET OF ALIOR BANK AND PEKAO			
Gross written premiums	11,839	11,691	12,342
Net result on investing activity including interest expenses	1,032	830	1,317
Net insurance claims and benefits	(7,929)	(7,291)	(8,070)
Acquisition expenses	(1,616)	(1,647)	(1,623)
Administrative expenses	(832)	(905)	(901)
Operating profit	1,663	2,195	1,823
Net profit attributable to equity holders of the parent company	1,288	1,688	1,420
B) Impairment of goodwill (Alior Bank, Bank Pekao) and intangible assets (Alior Bank)	-	(1,343)*	-
C) BANKS: ALIOR AND PEKAO			
Net profit attributable to equity holders of the parent company	193	(44)	251
(A+B+C) NET PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY	**1,481**	**301**	**1,671**
Total assets	340,079	376,645	391,342
Equity attributable to the owners of the parent company	14,311	16,976	16,916

* including 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, after incorporating the impact of deferred tax and minority interest) in the amount of PLN 42 million.
** restated data as at 30 June 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 efficiency ratios. In H1 2021, the return on equity was 18,7%, which is a significantly higher result than the average for insurance companies in Europe. The rapid growth is accompanied by preservation of a high level of security in the business. This is corroborated both by its high solvency ratios and by the A- (stable) investment grade rating awarded by the US rating agency S&P Global Ratings.

As at the end of Q1 2021, the solvency ratio (calculated according to the standard Solvency II formula) was 223%, 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 Global Ratings (S&P) changed PZU's ratings outlook from positive to stable. The change of the outlook resulted from the deterioration in financial and business conditions in Poland due to the outbreak of the COVID-19 pandemic, which, according to the agency's analysts, could 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.

As at the end of June 2021, PZU's market capitalization was PLN 31.7 billion.

PZU Group Overview

The PZU Group has been developing on the financial market for more than 200 years

1803
Establishment of the first insurance company on Polish soil

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

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

1998
Formation of Powszechne Towarzystwo Emerytalne PZU (PTE PZU) – management of pension funds and programs

1999
Creation of Towarzystwo Funduszy Inwestycyjnych PZU (TFI PZU) – management of mutual funds

2002
Launch of operations on the Lithuanian insurance market

2005
Launch of operations on the Ukrainian insurance market

2010
PZU's debut on the Warsaw Stock Exchange (WSE)

2012
Rebranding

2014
Signing of the contract to acquire AAS Balta, AB Lietuvos Draudimas, Codan A/S and Link4. Launch of the PZU Zdrowie brand

2015
Agreement to acquire shares in Alior Bank. Establishment of Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych (TUW PZUW)

2017
Finalization of the acquisition of shares in Bank Pekao

2019

2020

2021
One of the most profitable and safest insurance and bank groups
in Europe in terms of capital

2.

External environment

The improving pandemic situation is contributing to the recovery of economic activity in Poland and its external environment. The release of deferred demand, the strong rebound in industry and the revival of activity in the service sector have all created favorable conditions for the growth of PZU's business.
The anticipated "fourth wave" of the pandemic remains a risk, yet the country's vaccination effort brings hope that it will be less severe than the previous waves.

In this chapter:

2.1 Main trends in the Polish economy

Gross Domestic Product

After the seasonally adjusted GDP dropped 0.3% q/q in the last quarter of 2020, in the first quarter of this year, during the "third wave" of the COVID-19 pandemic, GDP increased 1.3% compared to the previous quarter. As a result, the non-seasonally adjusted GDP was only 0.9% lower than the year earlier. Domestic demand contributed to the increase in the rate of growth in annual GDP in the first quarter of the year, having added 1 percentage point to the overall improvement. Household consumption increased, having surpassed the previous year's level by 0.2%. A surprisingly early and strong increase, in the context of the uncertainty related to the pandemic, was recorded in capital expenditures for fixed assets (seasonally adjusted: 18.2% q/q). As a result, their annual growth (non-seasonally adjusted) stood at 1.3% y/y, even though only a quarter earlier it was strongly negative (-15.4% y/y). Enterprises increased their investment volumes in the face of the already noticeable recovery in industry and the prospect of a strong rebound in economic growth following the relaxation of anti-pandemic restrictions. Public consumption contributed 0.4 percentage points to the rate of GDP growth in the first quarter, property, plant and equipment contributed 0.3 p.p., gross fixed capital formation contributed 0.2 p.p. and consumption in the household sector contributed 0.1 p.p. In turn, the contribution of net exports was negative (-1.9 p.p.)[1].

In the second quarter of this year, along with the improvement in the pandemic situation and the gradual lifting of restrictions, economic growth clearly rebounded. Sold industrial output continued to grow compared to the previous quarter, having remained at a very high level driven by the worldwide recovery in this sector. However, difficulties in the supply of components, particularly in the automotive industry, continued to pose a problem on a global scale. In Q2 2021, sold industrial output was greater by as much as 30.3% than one year before. Retail sales also rose: in Q2 of this year this indicator was 14.4% higher than in the corresponding period of last year. At the same time, the rebound in construction and assembly production in March, April and May (following the winter decline) enabled a slight improvement over the level observed in Q2 of last year. A conclusion may be drawn that the level of activity in services increased significantly after the loosening of the anti-pandemic regulations. According to the flash estimate of the Central Statistical Office, seasonally unadjusted GDP in the second quarter of 2021 increased in real terms by 10.9% y/y[2].

[1] Statistics Poland data at constant prices

Labor market and consumption

The COVID-19 pandemic caused a deterioration of the situation in the labor market in 2020, albeit to a much lesser extent than was originally feared. Government programs and the easing of monetary policy helped protect the country's economic potential and reduce the unfavorable impact of the pandemic on the labor market. The improvement in the economic situation and the rebound of economic activity contributed to an increase in employment in H1 2021. Employment in the enterprise sector increased during the second quarter (from April to June of this year) by approximately 29,000 FTEs, and the dynamics increased from -1.7% y/y in Q1 2021 to 1.2% y/y in Q2 2021. The increase in employment was reinforced by the growing demand for workers in industry and in the trade and services sector opening up after the pandemic. Enterprises reported problems filling their vacancies, and the number of job offers published on the largest recruitment websites in June of this year was higher than a year ago and in the corresponding period before the pandemic[3]. At the end of Q2 2021, the registered unemployment rate decreased to 5.9% (vis-à-vis 6.4% at the end of Q1 2021)[4].

The stronger demand for labor was accompanied by an increase in wages, the level of which grew in 2021 at a rate similar to its pre-pandemic trend (2017-2019). The nominal average gross monthly employee compensation in the enterprise sector, after an increase by 4.7% y/y in 2020, improved by 7.8% in H1 2021 compared to the same period one year earlier[5].

Consumption in the household sector, after a decline by 3.0% in 2020, reached a level 0.2% greater in Q1 2021 than in the corresponding quarter of the previous year. In Q2 2021, the volume of consumer purchases increased as the pandemic situation improved and restrictions were being gradually relaxed starting in May. Retail sales of goods increased 14.4% y/y in the same period, with data on card payments also signaling an increased level of the consumption of services (especially hotel, restaurant and catering services). The increase in consumption compared to the previous quarter, in light of the unclogging of delayed demand, may have thus been greater than in the first quarter.

[2] Statistics Poland data at constant prices
[3] dane Grant Thornton
[4] [5] Statistics Poland data

Inflation, monetary policy and interest rates

Following an increase in the prices of consumer goods and services in 2020 by an average of 3.4%, inflation accelerated in H1 2021. The CPI was on average 3.6% higher than in H1 2020. CPI inflation increased to 4.7% y/y in May, followed by a drop to 4.4% y/y in June. The increase in inflation in H1 2021 was predominantly caused by an increase in fuel prices for private means of transport as a result of rising oil prices across the world. Conversely, one year earlier, due to the pandemic, oil prices on the global markets declined sharply. The increase in administered prices (including the prices of electricity and fees for the waste disposal) was another major driver of CPI inflation. From April 2021, food prices also increased at a higher rate than a year earlier. The strong, globally synchronized recovery in industry was accompanied by a general spike in the prices of commodities, materials and transport costs. Price increases also accompanied the opening up of service sectors previously shut down due to the anti-pandemic restrictions[6].

In H1 2021, the reference rate of the National Bank of Poland did not change, having remained at 0.10%. There were no changes to any other central bank rates in this period. The NBP continued to make large-scale purchases on the secondary market for treasury bonds and treasury-guaranteed bonds (including bonds issued by the Polish Development Fund and Bank Gospodarstwa Krajowego), thereby supporting the liquidity of the domestic financial sector. The NBP also offered loans backed by promissory notes for the refinancing of loans granted to commercial companies by banks. These measures were intended to counteract the adverse economic effects of the COVID-19 pandemic, strengthen the monetary transmission mechanism and support economic recovery. The strong increase in CPI inflation, extending beyond the NBP inflation target (2.5%) since March, and since April the upper limit for acceptable deviations from the target (3.5%), did not trigger any changes in monetary policy, including in respect of interest rates. According to the Monetary Policy Council, the increase in inflation is a consequence of the impact of temporary supply-side factors the impact of which on CPI growth should gradually diminish. Inflation may, however, continue to remain above the upper limit of the NBP target in the coming months. Bearing in mind the sources and the anticipated temporary nature of inflation exceeding the NBP target as well as the uncertainty about the sustainability and scale of the country's current economic recovery, the Monetary Policy Council has suggested that the current monetary policy will be maintained in the near future. At the same time, the MPP has emphasized that it remains ready to act without delay if the economic situation requires prompt action.

[6] Statistics Poland data

Public finance

As was the case in other countries, the COVID-19 pandemic and the measures taken by the government to minimize its effects resulted in an increase in the deficit of the public finance sector. The deficit in the government and local government sector in 2020 was 7% of GDP, versus 0.7% of GDP in 2019 (Statistics Poland). According to the updated Convergence Program (APK) adopted in April 2021, the deficit in the government and local government sector will be reduced slightly to 6.9% of GDP in 2021. It will continue to fall in subsequent years (down to 2.5% GDP in 2024). The debt of the public finance sector, which in 2020 increased to 57.5% of GDP compared to 45.7% of GDP in 2019 (according to Statistics Poland), is expected to increase to 60% of GDP in 2021. In the following years, however, it will gradually fall, reaching 57.9% of GDP at the end of 2024 (APK). The elevated level of the deficit of the general government sector in 2021 is associated with the continuation of activities targeted at counteracting the adverse effects of the pandemic. To date, government aid for companies has already exceeded PLN 200 billion. Despite the periodically tightened anti-pandemic restrictions, the state budget after H1 2021 reached a surplus of around PLN 28 billion, compared to PLN 9.35 billion at the end of May. The high level of the state budget surplus at the end of June was possible due to the increase in tax revenues and the record-high distribution of the NBP's profit (PLN 8.9 billion). The financing of the country's borrowing needs in 2021 after the first half of the year (according to the State Budget Act, along with the distribution of profit generated by the National Bank of Poland) reached nearly 75%. The large amount of funds in PLN and in foreign currencies in the state coffers accumulated as at the end of June (PLN 146.3 billion) has provided the Ministry of Finance with an opportunity to flexibly finance the state's borrowing needs later during the year.

2.2 External environment in the Baltic States and Ukraine

Lithuania

Following a slight decline last year, the Lithuanian economy has been growing relatively strongly this year. Even though significant restrictions were maintained on the activity of residents and enterprises during the first months of 2021, Lithuania's economic activity experienced a rebound. Compared to the previous quarter, industrial output in Q1 2021 increased by 6.4%. The service sector also reported growth, including in real estate sector, IT and telecommunications. Conversely, revenues generated by restaurants and catering businesses declined by 25% compared to the previous quarter and by over 52% compared to the corresponding period of 2019. The volume of business related to culture, arts, entertainment and other associated activities also fell in quarter-over-quarter terms in Q1 2021, with the value added generated by these activities having reached a level 21% lower than in 2019.

Along with the revival of economic activity, the situation in the labor market also improved. During the "second wave"of the COVID-19 pandemic, the number of persons remaining in employment in Lithuania remained unchanged and gradually increased during the early months of 2021. However, the current recovery in the labor market is not as strong as that experienced by the general economy. In Q1 2021, real GDP surpassed the level recorded in 2019, but the number of people in employment continued to be lower. This was probably due to the ability of companies to increase the efficiency of labor and the need to make the best possible use of the existing operational capacity while postponing the recruitment of additional personnel into the future.

In Q1 2021, wages and salaries increased both in the public sector and in the private sector. This was a consequence of efforts made by enterprises to increase the productivity of labor and of the continued expectation that natural demographic patterns would lead to a future shortage of labor.

The higher crude oil prices, resulting from the rebound in demand coupled with the concurrent limitations in its supply, translated into an increase in fuel prices, which has so far been the primary driver of the increase in inflation in Lithuania. Despite the increase in global agricultural prices, food prices in Lithuania have to date increased only moderately, partly due to the good harvest last year.

Latvia

In Q1 2021, Latvia's GDP dwindled by 1.2% y/y (seasonally adjusted data). The data shows that Latvia managed to defeat the "second wave" of the crisis associated with the COVID-19 pandemic having suffered smaller losses than in the previous periods, although the restrictions aimed at reducing the incidence of the disease were much more severe. This better economic performance was a consequence of, on the one hand, better adaptation of enterprises to the situation related to the COVID-19 pandemic and, on the other hand, broader state aid owing to which the industries affected by the crisis did not have to completely shut down their activities.

The health care and social welfare sector exerted the largest positive impact on the growth of Latvia's economy due to the increase in public funds. Growth was also recorded in financial services, manufacturing, utilities and mining. Conversely, sectors directly affected by the restrictions imposed as a result of the COVID-19 pandemic, namely commercial, accommodation, catering and transportation services, exerted the greatest adverse impact on the country's overall economic performance. Contrary to last year, when the construction industry continued to grow steadily, in Q1 2021, construction volumes dived down by 12.4% due to extremely difficult weather conditions and a slight decline in public investment volumes.

The average employee compensation increased by 9.5% in Q1 2021 compared to the same quarter of the previous year. The minimum monthly wage was risen to EUR 500, while many low-wage earners were recorded to have left their jobs. The increase in the average wage was also affected by structural changes in the labor market: the establishment of start-ups and the shut-down of some establishments.

Estonia

The first half of the year was extremely favorable for the Estonian economy. According to the Bank of Estonia, the Estonian economy reached its pre-crisis levels in early 2021 and the country's recorded economic recovery is one of the fastest in Europe. In Q1 2021, GDP was 5.4% higher than in the previous year, having exceeded its pre-crisis level. The restrictions imposed in connection with the COVID-19 pandemic largely concerned the second quarter. However, the ability of economic operators to deal with the crisis improved compared to the previous year due to the increasing acceptance and willingness among consumers to use online channels.

The financial standing of households during the pandemic was relatively stable, supported by an increase in savings and a stable labor market. In Q1, the unemployment rate stood at 7.1% (7.2% in the last quarter of 2020). No noticeable change in economic activity was recorded compared to the previous year.

Consumer prices grew faster in Q2, with more than half of this growth having originated from energy prices. In turn, consumer prices of foodstuffs remained at a level similar to the previous period.

Ukraine

Since the beginning of 2021, the Ukrainian economy has been gradually recovering owing to strong internal demand and favorable conditions prevailing on external markets. In Q1 2021, Ukraine's GDP declined 2.2% compared to the corresponding period of the previous year. The weakening of the country's economic recovery at the beginning of the year was caused by the restrictions associated with the COVID-19 pandemic and by adverse weather phenomena. However, according to preliminary forecasts published by the National Bank of Ukraine, starting from the second quarter of this year, the country's economy will enter a path of stable recovery.

In June 2021, YTD inflation rate was 6.4%. Inflationary pressure is expected to persist in the coming months, chiefly as a result of high prices in the global markets, especially for energy and foodstuffs.

After the first five months of 2021, a positive balance of foreign trade in goods and services (USD 0.04 billion) was recorded, driven by an increase in exports of goods in May with a concurrent decline in imports of goods.

2.3 Situation on the financial markets

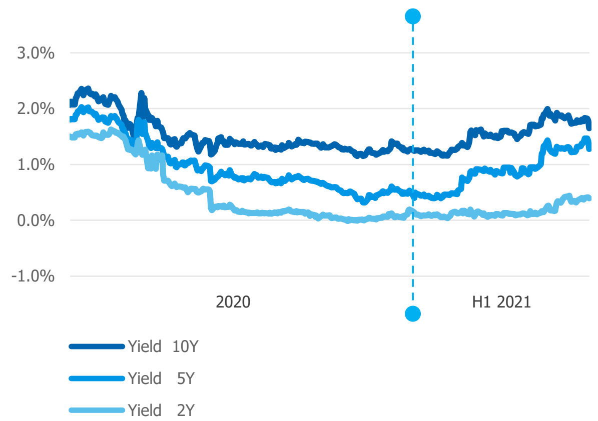
Trends in the COVID-19 pandemic coupled with expectations of economic recovery and rising inflation along with the gradual lifting of public healthcare restrictions as vaccination efforts progressed were the main factors affecting the financial markets in H1 2021. The improvement in sentiments in financial markets was also supported by the unprecedented scale of fiscal and monetary stimulus aimed at combating the adverse economic effects of the COVID-19 pandemic. Although the emergence of new coronavirus mutations poses a potential risk to maintaining the high rate of economic growth across the world, the progress of the vaccination effort and the reduced probability that severe sanitary restrictions may be imposed effectively diminish the degree of uncertainty in the financial markets. Owing to this, even though the COVID-19 pandemic has not yet been completely combated, H1 2021 brought a clear increase in global appetites for more risky assets at the expense of safer ones.

Bond market

In H1 2021, the yields on Polish 1-year, 2-year, 5-year and 10-year treasury bonds increased. The yields on 1-year bonds increased from 0.051% to 0.084%, on 2-year bonds from 0.102% to 0.393%, on 5-year bonds from 0.471% to 1.276%, and on 10-year bonds from 1.252% to 1.65%[7]. The spread, relative to the 10-year German bonds, which at the end of 2020 was 183 b.p., increased at the end of H1 2021 only slightly to 185.6 b.p.[8] The whole Polish yield curve shifted upwards, poked by the approaching economic recovery, rising inflation expectations and an increase in market expectations of domestic interest rate hikes in the coming years. Particularly noticeable were market expectations for interest rate hikes in the medium run, which may be seen in the adjustments

[7] [8] Refinitiv data

Treasury bond yields



Source: Refinitiv data

along the middle portion of the curve. The relatively small increase in the yields on annual bonds compared to longer tenors is a consequence of the improving liquidity of the domestic financial system as a result of the ongoing purchases of domestic assets by the National Bank of Poland and the announcement of the continuation of the quantitative easing-based policy of the Monetary Policy Council in the coming months in light of the diagnosis of a temporary nature of the increase in inflation and the uncertainty as to the durability and extent of the economic recovery. The situation on the core markets also contributed to the increased yields on Polish bonds. In H1, the yields on 10-year US treasury bonds increased from 0.9165% to 1.468%, and on German bonds from -0.575% to -0.203%[9].

Equity market

In Poland, despite the challenging epidemic situation at the turn of the second quarter, the WIG20, WIG, mWIG40 and sWIG80 indices increased in H1 2021 by 11.8%, 15.9%, 21.3% and 27.9%, respectively [10]. Apart from the rapid economic growth, the progress of vaccinations and the adaptation to the pandemic conditions demonstrated by the economy, the increases in the domestic stock market indices during the first half of the year were also driven by the dovish fiscal policy (including government aid for companies in connection with the COVID-19 pandemic) and monetary policy. The low interest rates in an inflationary environment provided an additional incentive for investors in the domestic stock markets. The increase in the stock market indices was also driven by rising risk appetites across the world. Also in the global stock markets in H1 2021, large increases in share prices were recorded in the context of keen expectations of strong economic growth and the continuation of dovish monetary and fiscal policies. In H1 2021, the American S&P500 stock index and the German DAX shot up by 14.4%[11], and 13.2%[12], respectively.

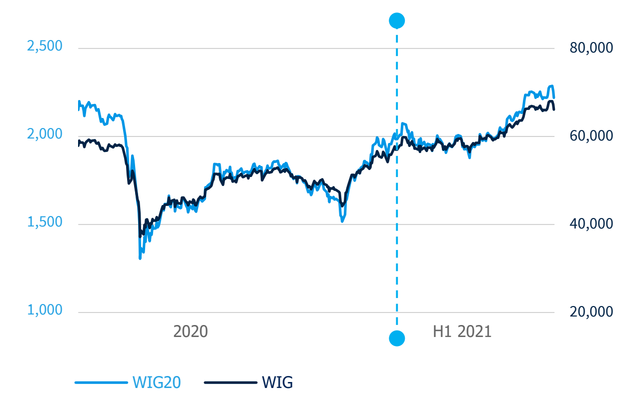
The increasing bond yields did not hold back the upward trend of stock exchange indices. Certain indications of the stock exchange indices slowing down could only be observed in China, where from the end of February to mid-March the Shanghai Composite exchange index declined. That was caused by the growing fear on the markets regarding the effect of the gradual phasing out of the intensive economic stimulation programs, previously implemented in that country in connection with the COVID-19 pandemic. However, in the following months this index began to gradually recover from these dips and finally ended the six-month period with a 3.4% increase.

Currency market

The EUR to PLN exchange rate decreased from 4.61 at the end of 2020 to 4.52 at the end of H1 2021[13]. During the first two months of 2021, the Polish zloty appreciated against the euro, temporarily bringing down the exchange rate to a level below 4.50. The toughening of the anti-pandemic restrictions caused by the increase in the COVID-19 incidence rates and the dovish monetary policy pursued by the NBP again shifted the Polish zloty exchange rate against the euro above the level of 4.60 at the turn of April. The appreciation of the Polish zloty to a level of approximately 4.52 at the end of H1 2021 was not only a consequence of the improvement in the country's pandemic situation, but also of the increase in inflation and the ensuing stimulation of market expectations for interest rate hikes by the NBP in the coming years. The euro to USD exchange rate fell from 1.23 at the end of 2020 to 1.19 at the end of Q2 2021 (the EUR to USD exchange rate calculated on the basis of NBP EUR/PLN and USD/PLN exchange rates). The appreciation of the dollar was driven by the fact that the US is recovering from the "pandemic" recession faster than the euro area and also by the expectations of a more rapid normalization of the country's monetary policy than in the euro area. The appreciation of the dollar on the global markets also translated into its exchange rate against the Polish zloty, despite the appreciation of the Polish zloty against the euro in this period (the dollar exchange rate against the Polish zloty is a cross-rate of the euro to the dollar and the euro to the zloty rates: USD/PLN = EUR/PLN : EUR/USD). Eventually, at the end of the first half of the year, the US dollar exchange rate expressed in Polish zloty increased from 3.76 to 3.80 (NBP). The CHF/PLN exchange rate declined in the first half of the year from 4.26 to 4.12 (NBP). The depreciation of the Swiss franc against the Polish zloty was mainly caused by the appreciation of the Polish zloty against the euro (the CHF to PLN exchange rate is a cross-rate of the euro to the franc and the euro to the zloty rates: CHF/PLN = EUR/PLN : EUR/CHF) as well as by improved investment sentiments in the euro area. This translated into a weaker appreciation pressure on the Swiss franc, which is considered to be the European "safe harbor" currency.

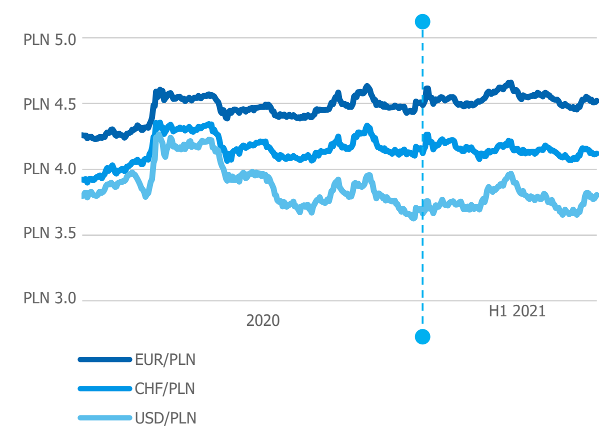
[9] Refinitiv data
[10] Warsaw Stock Exchange data
[11] S&P data
[12] Deutsche Boerse data
[13] NBP data

WIG and WIG20 indices



Source: Warsaw Stock Exchange data

PLN exchange rate



Source: NBP data

2.4 Factors that may affect the conditions of business and the PZU Group's activity in H2 2021

Due to the scope of PZU Group's business (insurance sector in Poland, the Baltic states and Ukraine, mutual and pension funds sector, banking), the main factors that will shape the environment in which the Group will operate and may have a direct impact on the development and results of the Group in the medium term, in particular in 2021, may be divided into the following three categories:

- macroeconomic and geopolitical,
- legal and regulatory,
- market factors, specific to individual sectors or 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) translate into the growth rate of business in all sectors in which the PZU Group operates and their profitability. They determine, directly or indirectly, albeit with a certain time lag, the gross written premium growth rate in non-life insurance, changes in demand for credit, accumulation of deposits and inflow of assets into funds. Moreover, they influence the loss ratio in non-life insurance and the investment result. They also determine the fund management results and key measures affecting the performance of the banking sector (interest margin and cost of risk).

Data from Poland, European Union countries and other major centers of the global economy confirm a strong rebound in economic growth following the shock caused by the COVID-19 pandemic. The rebound is also supported by the dovish fiscal and monetary policies, industrial recovery, the gradual lifting of anti-pandemic restrictions, the release of suspended consumer demand and the progress of the vaccination process. Data from countries where incidence rates caused by the Delta variant of coronavirus have recently increased significantly confirm that a large vaccination coverage helps countries avoid the collapse of their healthcare systems and helps avoid increases in the number of COVID-19-related deaths. Accordingly, it mitigates the risk of the re-imposition of sanitary restrictions that are so burdensome on the economy. The launch of government reconstruction programs provides a boost to the conviction that the coming years will also be a time of recovery in the Polish and global economies.

The largest risk to the positive economic growth scenario remains the slowing of the vaccination rate and the spread of new coronavirus mutations, which might potentially reduce the effectiveness of the vaccines. Due to the relatively lower vaccination rate of the general population in Poland in relation to countries which, despite the increase in infections, avoided an increase in hospitalization burdens or an increase in the number of deaths, the risk of the imposition of sanitary restrictions in Poland may be comparatively greater. On the other hand, however, taking into account the number of convalescents, the "fourth wave" will probably be less severe than the previous ones. Moreover, the economy has adapted to pandemic conditions.

According to PZU's forecasts, the GDP growth rate in Poland may reach approximately 5.2% in 2021. This quick economic recovery in 2021 will also be possible due to the measures that prevented the destruction of the production potential in the form of mass bankruptcies and a spike in unemployment. The already visible economic recovery should create conditions for improvement in the labor market and be conducive to improvement in consumer sentiments. This, in turn, with the accumulated household savings and the increase in real wages (despite the increase in inflation), provides the basis for the expectation of a major increase in consumption in H2 2021.

At the end of 2021, the increase in fixed capital formation should start to be supported by the "Polish Deal" with the inflow of funds from the EU's Next Generation reconstruction program.

If the risks related to the pandemic and the delay in the vaccination program materialize, it would mean an increase in the number of infections and deaths and the imposition of new restrictions on economic activity, which might generate adverse consequences for the PZU Group's insurance segment, such as a reduction in demand for voluntary non-life insurance and an increase in costs related to the disbursement of life and health insurance claims and, possibly, claims under hospital liability insurance. Another consequence might also be a drop in demand for group insurance and an increase in the loss ratio of contractual and financial insurance.

A significant risk that is difficult to estimate is related to large-scale disasters caused by violent climatic events or human activities. Such shocks, depending on their scale, may periodically affect the country's economic growth with all its consequences.

The aforedescribed macroeconomic factors coupled with the pandemic and the geopolitical situation across the world may affect the behavior of central banks and, as a consequence, the overall conditions in the global and national financial markets. The climate and direction of the changes in the financial markets is, in turn, important for the attractiveness of the financial products offered by the PZU Group, in particular unit-linked funds. It also affects the level of assets and management fees charged by the Group companies for asset management.

The materialization of the economic recovery scenario should result in a slight increase in T-bond yields both in Poland and in the core markets. However, monetary policies based on a quantitative easing approach, including through asset purchases by central banks, will mean that market interest rates are poised to remain at low levels. The materialization of this scenario should also drive up stock prices.

Any disruptions in the rollout of the recovery scenario, including the persistence of the pandemic and related restrictions, might also result in additional monetary policy easing, including interest rate cuts by the National Bank of Poland and a suppressed yield curve. This would translate unfavorably into the financial performance of the PZU Group, including its banks. Among others, it would curtail investment income and hinder the achievement of the required rates of return, which might trigger the need to lower the technical rate applied for discounting provisions in life insurance and provisions for the capitalized value of annuities in motor insurance. For banks, a delayed rebound in economic recovery would mean a reduction in interest margins amidst reduced demand for loans. However, in light of the strong economic recovery in Q2 2021 and the progress of the vaccination process, the risk of interest rate cuts in H2 2021 currently seems very low. On the other hand, the NBP has also suggested a low likelihood of any interest rate hikes before the end of 2021.

Polish economy highlights	2018	2019	2020	2021*
Real GDP growth in % (y/y)	5.4	4.7	(2.7)	5.2
Individual consumption growth in % (y/y)	4.3	4.0	(3.0)	5.5
Growth of gross fixed capital formation in % (y/y)	9.4	6.1	(9.6)	13.1
Consumer price index in % (y/y, annual average)	1.6	2.3	3.4	4.2
Nominal salary growth in the national economy in % (y/y)	7.1	7.2	5,0	7.0
Unemployment rate in % (end of period)	5.8	5.2	6.2	5.9
NBP's base rate in % (end of period)	1.50	1.50	0.10	0.10

Source: Statistics Poland /PZU's Department of Macroeconomic Analyses
* Forecast of 20 July 2021

The coming into life of the economic recovery scenario and a reduction in the level of uncertainty across the financial markets should result in a certain degree of appreciation of the Polish zloty in a situation of a large surplus of the balance of payments generated in 2020. This would help reduce expenses related to the prices of spare parts in motor insurance. However, a risk factor in this context is the policy pursued by the National Bank of Poland, which intervened at the turn of the year to weaken the Polish zloty. Accordingly, if the negative pandemic scenario prevails, there will be a high risk of the Polish zloty remaining above 4.50 against the euro.

Legal and regulatory factors

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

Depending on how the "fourth wave" of the COVID-19 pandemic develops, in H2 2021, the regulations adopted in the previous year in connection with the outbreak of the COVID-19 pandemic and aimed at combating it, including restrictions on the conduct of business, and measures taken with a view to reducing the adverse impact of the pandemic on the economy, will be of decisive significance.

Moreover, one of the most visible consequences of the COVID-19 pandemic is the popularization of remote work, which is also the kind of work performed by some PZU Group employees. In these circumstances, it became necessary to regulate the methods of performing remote work, because the applicable laws were adopted only for the duration of the pandemic itself. In accordance with draft amendments to the Labor Code, the principles of remote work need to be agreed upon at the workplace level in consultation with trade unions. If no agreement is reached between the parties to the negotiations, the employer may unilaterally issue internal rules and regulations governing the provision of remote work in its establishment. The employer will also be required to equip employees with tools and materials necessary to perform their work remotely and to compensate employees for part of the costs incurred by them in connection with performing the remote work.

From the perspective of the insurance business, the Group's activity has been affected by any legal changes and case-law that may contribute to an increase in the insurance companies' burdens. They may translate into the amount of the claims paid by the PZU Group.

On 24 June 2021, amendments to the Civil Code were adopted by the Sejm. They provide for the possibility of granting general damages to the closest members of an injured person's family in the event of serious and permanent damage to his or her body or an event causing a health disorder resulting in the inability to establish or continue family ties. The amendments are intended, in accordance with their substantiation, to remove discrepancies in judicial decisions in cases where general damages are sought for the closest family members of the injured person for harm in the form of broken family ties. The adopted solution is also intended to apply to events that occurred before its entry into force, which may result in the filing of additional claims against PZU by the closest family members of the injured persons.

The operation of the insurance market may also be affected by the completion of work by KNF on the so-called 'product intervention' concerning unit-linked life insurance products. Sales of unit-linked policies may suffer as a result or the structure of the product may be changed. On 15 July 2021, the KNF issued a product intervention prohibiting the marketing and sale of certain unit-linked insurance contracts. The intervention applies to new products, to be offered from 1 January 2022.

Product intervention is a legal measure described in Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products. In accordance with the latter regulation, the competent regulatory authority has the power to impose a general prohibition or restriction of certain activities specified in the intervention and related to financial instruments, structured deposits and insurance-based investment products or a specific financial business or financial practice.

The situation on the pension fund market will be affected by legislative work on the Act on the Transformation of Open-End Pension Funds (OFEs). On 12 March 2021, the Sejm of the Republic of Poland received a government bill amending certain acts in connection with the transfer of funds from open-end pension funds to individual retirement accounts. The bill assumed that the Act would enter into force on 1 June 2021 and OFEs would be transformed into specialized investment funds on 28 January 2022. The bill has not passed the whole legislative path.

One of the more important factors in the context of banks is still the issue 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. A number of events (among others, the CJEU ruling of 3 October 2019) prompted an increasing group of borrowers to bring their claims to court. This will have a strong adverse impact on the financial performance of the affected banks, in particular those with a large portfolio of such loans. So far, the main area of impact were the provisions recognized by banks in connection with the anticipated legal risk – they had a strong, negative impact on the sector's results in 2020 and H1 2021. 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, reactions of national regulatory institutions and steps taken by the banks themselves. In this context, of great significance may be the anticipated opinion of the Supreme Court's Civil Chamber, which at a dedicated session (already postponed several times, and currently scheduled for September 2021) is expected to address a number of questions the answers of which may become an interpretation of the law in future court proceedings. Also, a scenario cannot be ruled out in which the CHF loan problem will be eventually solved by the adoption of appropriate legislative measures.

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

Since 10 March 2021, Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, has been in force (SDFR). Entities covered by the regulation include insurance companies that offer insurance-based investment products. The regulation imposes new obligations on financial institutions in terms of transparency and disclosure of their approach to managing risks to sustainable development as part of their investment activities and investment decision-making processes.

Among other regulations, attention should also be paid to the ongoing work on amendments to the Commercial Company Code, which are aimed at introducing the so-called 'holding law' governing private and legal relations between parent companies and their subsidiaries and increasing supervisory obligations in companies. The proposed solutions, if entered into force, may exert a significant impact on the operation of the PZU Group.

Factors specific to the sectors in which the PZU Group operates

The operating conditions and financial performance of the PZU Group in the distinct areas of its business are affected by sector-specific conditions and their evolution. The most important one is the level of competition in individual product groups constituting the core of the Group's business.

The operation of the markets where the PZU Group is a player is also affected in the short and long term by the social and economic consequences of the COVID-19 pandemic.

In the event of the materialization of an adverse scenario for the development of the pandemic in H2 2021, the resulting more challenging financial standing of companies may generate an 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. A consequence of the prolonged pandemic may also be a reduced demand for the purchase of voluntary insurance and an increase in insurance fraud as a result of the more difficult situation in numerous industries, increasing unemployment and lower employment rates. Any deterioration of the financial standing of businesses and employees in industries affected by the restrictions may also cause problems with maintaining their policies and paying their premiums.

In life insurance, the most visible consequence of the pandemic is an increase in mortality.

The coronavirus pandemic and the restrictions that were imposed during the earliest waves of the disease also reduced the overall provision of medical services. Patients postponed their scheduled appointments and treatments for other, initially unspecified, dates. In H1 2021, patients returned to the provision of services postponed in previous months. Continued intense development of telemedicine is expected, coupled with an increase in public awareness of prevention and periodic medical examinations.

The impact of the pandemic on the economic conditions through factors that will drive the demand for banking products as well as changes in the cost of risk and the quality of the credit portfolio will shape the situation of the banking sector.

Changing customer expectations will also affect the business and performance of the PZU Group in each of its areas of activity. In particular, this concerns the personalization of the offering and the provision of a quick and easy access to a comprehensive ecosystem of financial services. Also, other 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 protection products in life insurance and health insurance products. These factors have already driven the rapid growth of telemedicine. The transfer of clients from traditional to remote channels may take place even faster. The change in customer habits which, under normal circumstances, would have taken several years, was a consequence of the lockdowns, which forced the transition to remote work. These factors accelerated the digitization and the use of advanced technologies, especially in the insurance sector. Remote forms of sale, inspection and claims handling became popular relatively rapidly.

The anticipated changes in the insurance and banking sectors will also emerge as a result of the emergence of new entrants and trends associated with development of new technologies, including operators of big databases, insurtechs and fintechs[14].

[14] 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.

Other global trends, such as the sharing economy or the Internet of Things (IoT), have also created potential for the development, in the medium and long term, of insurance solutions for retail and corporate users.

The quest for convenience and the increasing environmental awareness result in a rapid development of the shared mobility industry. City dwellers increasingly frequently choose means of transport which allow them to quickly and efficiently move around and change the means of transport depending on the situation on the road. In addition to cars, shared mobility also includes scooters, segways, skymasters and electric unicycles, rented via smartphone apps.

In turn, the Internet of Things includes smart-home devices such as washing machines, cleaning robots, refrigerators, bathroom scales, TV sets, air purifiers, light bulbs, wearables, smart watches and smart bands as well as cars fitted with smart features. They all collect, process and exchange huge amounts of data over the Internet. The concept of the Internet of Things also encompasses devices used in production (e.g. of food), sales, energy generation and distribution, waste management and even medical devices. And although smart cities are still a distant prospect, many conurbations are already adopting an increasing number of IoT solutions. Connecting all smart devices to the Internet opens up a lot of new opportunities, but also generates certain cybersecurity risks.

In the longer term, the business and financial performance of the PZU Group will also be increasingly affected by factors related to climate change, resulting in the intensification of chance events, namely the occurrence or absence of catastrophic events, such as floods, droughts, heat waves, torrential rains, hail, cyclones or whirlwinds. Demographic trends, such as mortality and fertility levels, will also play an important role.

A detailed description of the factors that may affect the Group's business in H2 2021, broken down into operating segments, is presented in SECTION 3 PZU GROUP'S ACTIVITY.

3.

PZU Group's activity

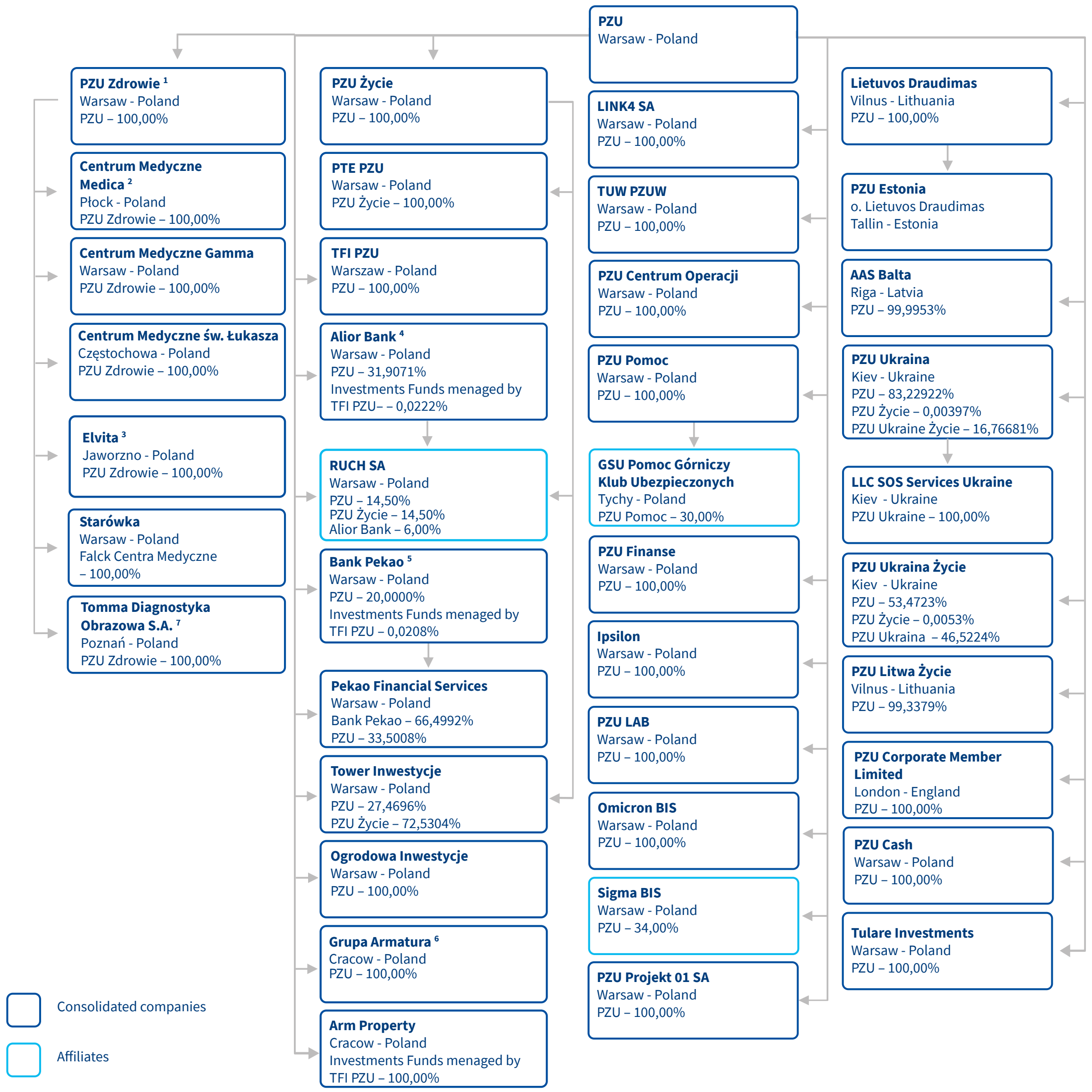
We are strengthening our position as the financial services leader. The PZU Group's brand spans insurance, banking products, mutual funds, pension funds and medical services.

In this chapter:

3.1 Structure of the PZU Group

The PZU Group conducts various activities in insurance and finance. In particular, the PZU Group entities offer services in life insurance, non-life insurance, health insurance and they manage client assets within in an open-end pension fund and mutual funds. Since the PZU Group includes banks, Pekao and Alior, its offering also includes banking services.

Structure of the PZU Group (as at 30 June 2021)



[1] The following branches operate within PZU Zdrowie: CM FCM in Warsaw, CM Tarnów, CM Nasze Zdrowie in Warsaw, CM Medicus in Opole, CM Cordis in Poznań, CM in Warsaw, CM in Krakow, CM in Poznań, CM in Wrocław, CM Gdańsk Abrahama, CM Artimed in Kielce, CM Warsaw Chmielna , CM Polmedic in Radom

[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: Alior Bank SA, Alior Services Sp. z o.o., Alior Leasing Sp. z o.o. (which holds 100% shares in New Commerce Services Sp. z o.o. and holds 100% shares in Serwis Ubezpieczeniowy Sp. z.o.o), Meritum Services ICB SA , Alior TFI SA, Absource 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.

[5] The Bank Pekao Group is composed of, 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), Krajowy Integrator Płatności SA

[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 is composed of the following companies: Tomma Diagnostyka Obrazowa S.A., Bonus Diagnosta Sp. z o.o. (which holds 100% shares in NZOZ Grupa Medical Sp. z o.o.)

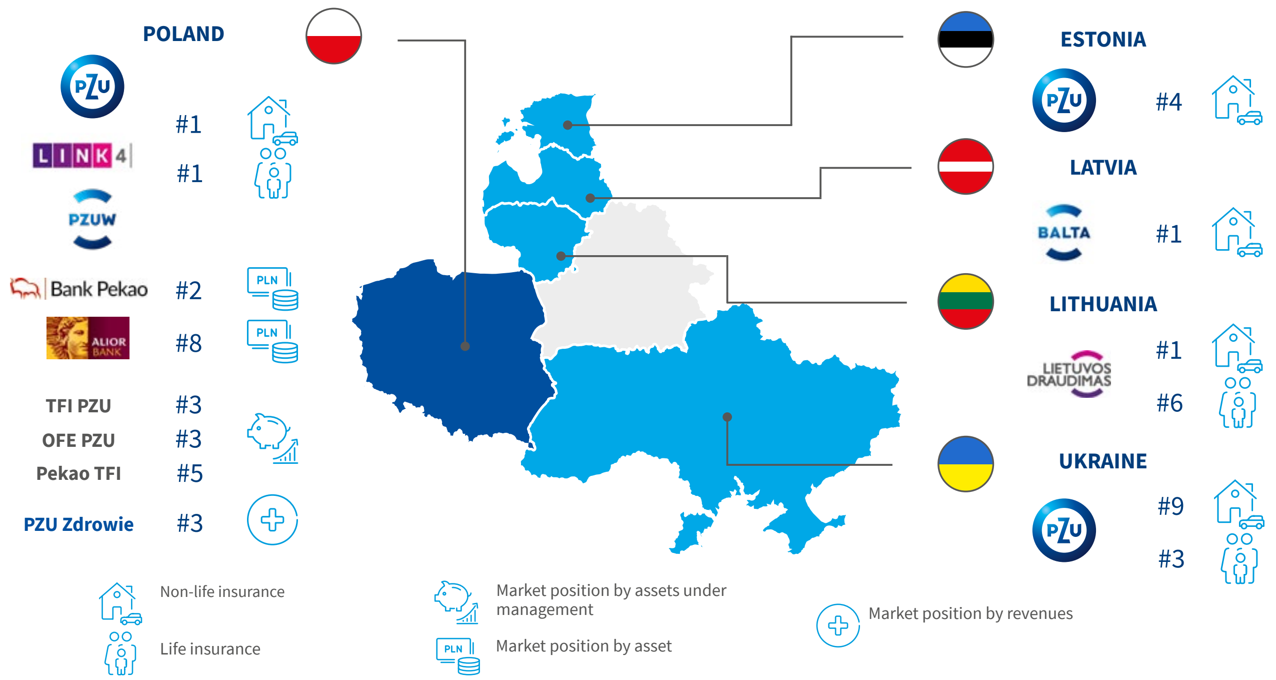
The structure chart does not include mutual funds or companies in liquidation or under bankruptcy.

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, they provide services to each other at an arm’s length basis, using the internal cost allocation model within the tax group.

The following changes transpired in the structure of the PZU Group in H1 2021 up to the date of publication of these financial statements:

- On 7 January 2021, CORSHAM sp. z o.o. sold all the shares it held in PayPo sp. z o.o.;
- On 1 February 2021, the liquidation of Haberton sp. z o.o. commenced. The change was registered in KRS on 25 February 2021;
- On 30 March 2021, PZU purchased, from two shareholders, 21 shares of AAS BALTA representing 0.0004% of capital and votes at the Shareholder Meeting; as a result of the transaction, at the end of March 2021, PZU held 4,727,842 shares of AAS BALTA constituting 99.9953% of capital and votes at the Shareholder Meeting;
- On 31 March 2021, Bank Pekao purchased 210,641 shares representing 38.33% of capital and 38.33% votes at the Shareholder Meeting of Krajowy Integrator Płatności SA, with its registered office in Poznań;
- On 15 April 2021 a change in the NewCommerce Services sp. z o.o. was registered by KRS, by which Alior Leasing sp. z o.o. became its sole shareholder;
- On 20 May 2021, the liquidation of PZU Finance AB commenced;
- On 31 May 2021, PZU Zdrowie S.A. merged with Polmedic sp. z o.o.; all assets of Polmedic sp. z o.o were taken over by PZU Zdrowie S.A. and Polmedic sp. z o.o. ceased to exist. The activity conducted previously by Polmedic sp. z o.o will be continued by PZU Zdrowie S.A. through its branch “PZU Zdrowie S.A. Polmedic Medical Center Branch in Radom”;
- On 31 May 2021, Bonus-Diagnosta Sp. z o.o. purchased 100% shares in NZOZ Grupa Medical Sp. z o.o. with its registered office in Bydgoszcz;
- On 1 July 2021 KRS registered a merger based on the art. 492 §1 sec 1 of the Commercial Company Code, i.e. transferring all assets of the acquired company (NewCommerce Services sp z o.o.) to the acquirer (Serwis Ubezpieczeniowy sp. z o.o.).

PZU Group’s market position in Poland and in Baltic states

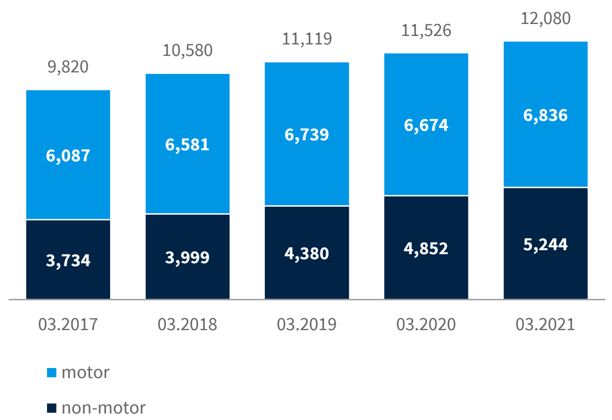


3.2 Non-life insurance (PZU, LINK4 and TUW PZUW)

Market situation

The non-life insurance market in Poland, measured by gross written premium, increased in the first quarter of 2021 by PLN 554 million (+4.8%) in comparison to the corresponding period of the previous year.

Gross written premium of non-life insurers in Poland (in PLN million)



Source: KNF's Quarterly Bulletin (www.knf.gov.pl). Rynek ubezpieczeń [Insurance market] 1/2021, Rynek ubezpieczeń 1/2020, Rynek ubezpieczeń 1/2019, Rynek ubezpieczeń 1/2018, Rynek ubezpieczeń 1/2017

The market growth was driven primarily by gross written premium increase in the non-motor insurance area by PLN 392 million (+8.1% y/y), while gross written premium in the motor insurance area was PLN 162 million higher (+2.4% y/y).

The higher level of premium in non-motor insurance was driven mainly by higher sales of insurance against fire and other damage to property (up PLN 211 million, +9.0%, of which PLN 157 million was for direct activity), liability insurance (up PLN 87 million, +11.2%).

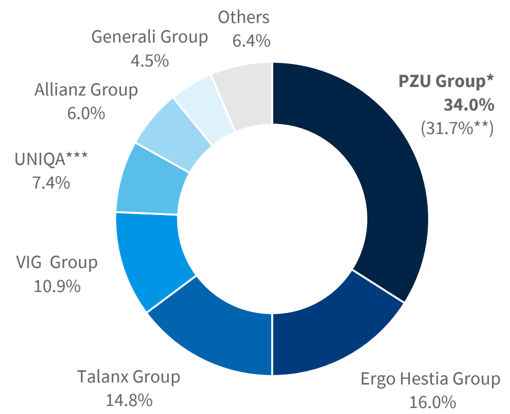
Among motor insurance products, MOD insurance sales contributed the most to premium growth. Premiums in this area were PLN 131 million (+5.8%) higher y/y. In turn, gross written premium in motor TPL insurance, the most important category for the overall market, (PLN 4.4 billion representing 36.8% of the overall premium in non-life insurance in the first quarter of 2021) rose by PLN 30 million y/y (+0.7% y/y).

A decline in premium was observable only in loan and guarantee insurance (down PLN 10 million, -3.8% y/y).

In Q1 2021, the whole non-life insurance market generated a net result of PLN 768 million, signifying an increase by PLN 368 million in comparison with the corresponding period of 2020.

The technical result of the non-life insurance market rose PLN 51 million to PLN 737 million in Q1 2021. The largest contributors to this change included: growth in the technical result in motor insurance, which resulted from improvement in motor third party liability insurance by PLN 133 million (the effect of lower claims and benefits was much stronger than the decline in earned premiums) and from a decrease in motor own damage insurance by PLN 41 million. The technical result decreased among others in insurance against fire and other damage to property (PLN -70 million y/y) and in assistance (PLN -18 million y/y).

Non-life insurance companies – percentage of gross written premium in Q1 2021 (in %)



* PZU Group – PZU, LINK4, TUW PZUW
** PZU Group's market share in non-life insurance on direct business
*** 9 April 2021 - KRS registration of the merger of AXA UBEZPIECZENIA TUiR S.A. (acquiring company) and UNIQA TU S.A. (acquired company), effected by transferring all assets of UNIQA TU S.A. to AXA UBEZPIECZENIA TUiR S.A. and changing the name of the surviving company from AXA UBEZPIECZENIA TUiR S.A. to UNIQA TU S.A. On 9 April 2021, the acquired company terminated its activity.
Groups: Allianz – Allianz, Euler Hermes, Aviva, Santander Aviva TU S.A.; Ergo Hestia – Ergo Hestia; Talanx – Warta, Europa; VIG – Compensa, Inter-Risk ,Wiener, TUW TUTW; Grupa Generali - Generali, Concordia
Source: KNF's Quarterly Bulletin. Rynek ubezpieczeń [Insurance Market] 1/2021

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

To meet expectations voiced by clients, the PZU Group has consistently extended its offering for both retail and corporate clients. As a result, it has been able to retain its high market share.

After Q1 2021, the PZU Group had a 34.0% share in the non-life insurance market (31.7% on direct activity) compared to 35.8% in the corresponding period of 2020 (33.3% on direct activity). In spite of this decrease, the Group has maintained high profitability of its portfolio.

After Q1 2021, 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 41.1% (PLN 303 million vs. PLN 737 million).

The total value of investments made by non-life insurance companies as at the end of Q1 2021 (net of investments in subordinated entities) was PLN 72,131 million, up 1.9% compared to the end of 2020.

Non-life insurers estimated their net technical provisions at an aggregate amount of PLN 60,245 million, signifying a 2.3% growth compared to the end of 2020.

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 2021, 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 2021 to clients' interests and needs by rolling out new products and innovative solutions.

PZU's activities in the mass insurance segment:

- extension of coverage of the PZU AUTO Assistance product to include two Truck Assistance options: Comfort Truck and Super Truck, addressed primarily to carriers with heavy fleet, i.e. trucks with gross vehicle weight exceeding 3.5t, truck tractors, buses, trailers over 2t, semi-trailers, fire-fighting vehicles. In the new options, in case of an incident on the road, PZU organizes and covers the cost of: repairing the vehicle on site, towing and cleaning the accident site, removing a vehicle blocking traffic (on a steep slope, a narrow roundabout or a dead end), supervising cargo, transport to a hospital, travel of a substitute driver and many other services. Extension of the PZU AUTO Assistance product complements the offering for corporate and SME clients. In particular, it strengthens the Company's position in the heavy vehicle fleet segment. The advantage for PZU is the availability of the new product in any suitable form: individual policies, fleet contracts and leasing programs, in all distribution channels;
- implementation of new forms of PZU Auto insurance documents in accordance with the plain language principles. The simple PZU Auto policy is another step to changing communication with clients to one that is user-friendly and consistent with the national plain language

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

Gross written premium vs. technical result	1 January – 31 March 2021			1 January – 31 March 2020		
	PZU*	Market	Market net of PZU	PZU*	Market	Market net of PZU
Gross written premium	4,107	12,080	7,973	4,131	11,526	7,395
Technical result	303	737	434	383	686	303

* includes LINK4 and TUW PZUW
Source: KNF's Quarterly Bulletin (www.knf.gov.pl). Rynek ubezpieczeń [Insurance market] 1/2021, Rynek ubezpieczeń 1/2020, dane PZU

standard. The new document forms include: offers, policies and the confirmation of entering into an insurance agreement. Currently they are available to selected individual clients and they will be gradually rolled out to cover all clients;

- addition of PZU Home to be serviced in Radar Live – a pricing tool enabling a better alignment of the offering with the client's expectations and risks;
- launching a light sales front for SME property insurance products (PZU Firma and General TPL), to support agents in selecting an insurance cover that suits the profile of the client's business activity and in preparing an offer.

Most of the changes in the corporate insurance segment, on which PZU focused its attention, increased the effectiveness of collaboration with intermediaries and the appeal of the dedicated offering for fleet clients and leasing companies. Major new products included:

- development of the Risk PRO program – a comprehensive system to prevent property losses of companies insuring their businesses in PZU. The program has been designed for the industries, in which the risk of a loss is high due to the scale of their business and specialized production processes. The solution uses technologies based on the Industry 4.0 concept, monitors the level of safety in key areas of the company's activity, which are material from the risk perspective (e.g. production, logistics, machinery). The program is free for clients having an active insurance cover in PZU. The pilot of the program, in which it proved its value in more than 30 companies, has already been completed. The clients covered by the pilot suffered no significant losses during the pilot. Risk PRO, which is provided by PZU in cooperation with PZU LAB, implements the goal of support for corporate clients, emphasized in the Group Strategy for 2021-2024. The risk management solution is unique on the market and promotes the idea of industry that is safe and compliant with the ESG ideals;
- introduction of a new Truck Assistance insurance for owners of trucks, truck tractors and buses. In case of an accident or vehicle failure, truck assistance ensures quick help for the driver – including repair of damages, replacement vehicle, tire replacement or towing services. Truck Assistance also offers support in the event of a dead battery, running out of fuel or locked keys. In the Super Truck option, the insurer will organize accommodation for the time of repair and in the event of an illness or bodily injury it will transport the driver to a hospital an organize travel for the replacement driver. The insurance is added to the offer for corporate as well as SME clients.

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 construction industry and the science and innovation sector.

In H1 2021, PZU cooperated with 8 banks and 10 strategic partners. PZU's business partners are leaders in their respective industries and they have client bases offering the possibility of extending the PZU's offering with additional innovative products geared towards those clients. By actively cooperating with PZU Group's banks, i.e. Bank Pekao and Alior Bank, PZU continues the implementation of a comprehensive offering using the banks' distribution networks. This cooperation has allowed 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 PZU offers assistance services, e.g. the assistance of an electrician or a plumber or health assistance. PZU's insurance offering is also present on the e-commerce market through cooperation with, among others, PLL LOT and iSpot.

In H1 2021, PZU expanded its travel insurance offering. Passengers traveling abroad on board of LOT planes may take out insurance in the event they become suddenly ill with COVID-19. The policy is valid for trips not exceeding 30 days and covers all mutations of the illness. In case of a COVID-19 infection, the insurer will cover treatment costs and will pay out a benefit for a hospital stay. The insurance also covers luggage, which in such cases was frequently left without protection at an airport or a hotel. The policy also covers a situation, in which the traveler must cancel the flight due to a COVID-19 infection or a quarantine. In such a case, PZU will cover the costs already incurred in connection with the planned trip. The insurance covering sudden COVID-19 infection or the quarantine obligation is available for all connection in LOT's offer, excluding the destinations, which due to the epidemic situation will be identified by the Ministry of Foreign Affairs as not recommended for travel, except for necessary cases. The policy may be purchased together with the plane ticket or at a later date, by managing the ticket booking on lot.com.

LINK4's activity

LINK4, the first insurance company in Poland offering products by phone continues to be one of the leaders on the direct insurance market, extending its cooperation with multi-agencies, banks and strategic partners. It 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 2021, more than 60 processes in LINK4 were fully handled by robots and there were 11 operational applications supporting day-to-day tasks of the company's employees. Additionally, the following have been implemented:

- new artificial intelligence (AI) technologies, including an application operating on phone web browsers, which allows clients to inspect a vehicle on their own when buying a MOD policy. For this purpose, the client must take 8 photos, which are automatically uploaded to LINK4 and analyzed by an AI engine. An employee uses a tool developed in-house to view each inspection and analyze any irregularities detected by AI. This offers great time savings, both for clients (who do not have to wait for physical inspection) and for employees, who may focus only on verifying the photos that show irregularities. The results of more than 90% correctly performed inspections indicates that the tool was well received by clients;
- speech analytics tool. The distinguishing feature of the technology is using not only a speech to text engine, but also a phonetic engine, which analyzes audio filed directly. The tool enables verification of 100% of calls conducted by consultants and quick response to the considerations, issues and comments that are the most important for clients. Currently, virtual assistants contact clients not only to discuss sales and offers, but they also remind them of the pending payment deadlines.

The first half of 2021 also saw the continued transformation into a Data Driven Company. Within the Data Warehouse Evolution project, a dedicated Data Mart and interactive dashboards were built for the Loss Division.

Additional Machine Learning models were built in the Data Science area to support sales and claims processes. At present, there are more than 15 models that are used in production. The Company also started building a text analysis engine that will use artificial intelligence to evaluate the content of e-mail messages and attached documents.

In H1 2021, LINK4 introduced new rules for cooperation with agents on direct contracts in order to accelerate growth of this distribution channel. It also placed greater emphasis on activating the whole multiagency network to use more of its potential, by measuring the so-called network activity ratio. At the same time, the work on development of a mobile application for agents continued, which should facilitate communication between agents and the insurance company.

LINK4 enjoys a special level of recognition both among its clients and employees, which has been confirmed by awarding it with the prestigious title of Human Resource Investor. LINK4 distinguished itself with above-average employee satisfaction performance and employee engagement. This title is the more important, since the study covered the difficult period of the pandemic and remote/hybrid form of working.

In 2021, LINK4 focuses on expanding further its current product offering, 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:

- amendment of the GTCI for motor own damage insurance (introduction of more precise provisions aimed at, among others, making the claims handling process easier) and amendment of the GTCI of the Assistance Scheme – expanding its scope to include assistance in case of battery failure;
- creation of a new product, LINK4Medica and preparation for its implementation in H2 2021.

TUW PZUW's activity

Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych (TUW PZUW) offers flexible insurance programs customized to the needs of the insured in terms of insurance cover and costs of the cover. Since 2016, it has been selling and handling commercial insurance products for various industries, focusing predominantly on cooperation with large enterprises, medical centers (hospitals and clinics), church entities and local government units.

At the end of June 2021, the Company had 456 members, which was 24 more than at the end of 2020; they were grouped by specific criteria (industry, corporate, risk types) in 55 mutual benefit societies (their number grew by three as compared to end of the previous year). TUW PZUW is consistently attuning its operating model to the growing scale of business by expanding its team of professionals, who provide comprehensive service of its members' insurance and tailor the offering to the members' individual preferences.

As the only mutual insurance company in Poland, TUW PZUW enjoys high ratings from the reputable international S&P agency. It was also included in the prestigious ranking of the companies that can be trusted, developed by the "Home&Market" monthly.

In H1 2021, TUW PZUW focused on expanding further its product offering, adapting it to the changing expectations of its clients and business partners. Its key activities included:

- launching group insurance of photovoltaic installations, home contents and private liability insurance. The products complement the existing broad Assistance offer;
- expanding the offer for Church Institutions by adding another custom product, TUW Podróż. The insurance may be taken out by clergy and consecrated persons who go on missions, visit missions, or travel abroad for any other purpose. The policy is effective worldwide. It is offered in three options where the price depends on the guaranteed sum insured. The agreement is concluded for a year and its main advantage is its simplicity.

Factors, including threats and risks, that may affect the operations of the non-life insurance sector in 2021:

In addition to chance events, such as flood, drought, cyclone, torrential rain, the following risks are also possible:

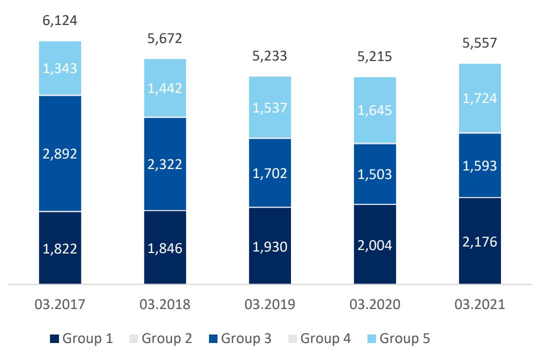
- slowdown in the economic growth in Poland – the more challenging financial standing of companies may result in elevated credit risk, a higher loss ratio on the financial insurance portfolio and deceleration in the pace of gross written premium growth in both motor insurance (predominantly leases) and property non-life insurance;
- the prospect of lower interest rates and their impact on the insurance industry;
- increase in the prices of spare parts due to the depreciation of Polish zloty against the euro and limited production and interrupted deliveries as a result of COVID-19 affects claims handling expenses;
- 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 continuing pandemic;
- reduced demand for voluntary insurance (due to a higher unemployment rate and a decline in employment), which may be a consequence of the persisting COVID-19 pandemic;
- changes in trends and behavior of client seeking customized proposals and an electronic, swift conclusion of agreements and handling insurance, forcing insurers to adapt to these new expectations rapidly;
- increase of insurance fraud as a result of the more difficult situation in numerous industries, increasing unemployment and lower employment rates;
- slowdown in the growth rate of gross written premium, mostly as a consequence of the motor insurance portfolio's profitability generated in recent years (a rivalry to attract clients through an active pricing policy applied by competitors) coupled with a decreasing dynamics of new cars sales, mainly in the dealers channel and financed by leasing companies;
- introduction of additional regulations or financial burdens on insurance companies.

3.3 Life insurance (PZU Życie)

Market situation

After Q1 2021, the life insurance market in Poland, measured by gross written premium, was worth PLN 5,557 million, meaning that in 2017-2021 it contracted on average by 2.4% per annum. At the same time, the premiums collected during the first quarter of 2021 were 6.6% higher than those in the corresponding period of 2020. This resulted both from the evolution in the single premium business in investment products and periodic premium business in protection products. Gross written premium in periodic premium products has increased both in life insurance (class I) and in accident and illness insurance (class V).

Gross written premium reported by life insurers in Poland (in PLN million)



Source: KNF's Quarterly Bulletin. Rynek ubezpieczeń [Insurance market] 1/2021, Rynek ubezpieczeń 1/2020, Rynek ubezpieczeń 1/2019, Rynek ubezpieczeń 1/2018, Rynek ubezpieczeń 1/2017

In recent years has been observed the downward trend of gross written premium in unit-linked insurance, which continued for several years, slowed down. These insurance products recorded significant declines starting in 2018, which was caused by changes on the capital market and in the legal environment. In 2020, the downward trend in the premium business in class III reversed and in Q1 2021 sales of this type of insurance increased (PLN +90.4 million; +6.0% y/y). The increases in unit-linked insurance may have been caused by a good situation on the capital market; the other factor affecting this segment, i.e. legal environment, should continue to have a negative effect on the market.

The outcome of this market evolution was the expanding significance of periodic premium that constitutes PZU Życie's competitive edge on the market. During Q1 2021, premium with this payment form was 4.0% higher compared to the same period in 2020, with a compound average growth rate of 2.0% in 2017-2021. Despite the declining periodic premium in unit-linked life insurance (by PLN 35.8 million y/y), the protective premium in classes I and V increased (by PLN 209 million y/y) in both group and individually purchased insurance.

At the same time, market concentration measured by the periodic gross written premium remained high. During the last year, the sequence of the five largest market players has not changed and their combined share was 75.1%.

The total technical result generated by the life insurance companies in Q1 2021 was down PLN 261 million (-33.1% y/y)

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

Life insurance market – gross written premium vs. technical result	1 January – 31 March 2021			1 January – 31 March 2020		
	PZU Życie	Market	Market net of PZU Życie	PZU Życie	Market	Market net of PZU Życie
Gross written premium	2,254	5,557	3,304	2,184	5,215	3,031
Technical result	221	527	307	444	788	343
Profitability	9.8%	9.5%	9.3%	20.3%	15.1%	11.3%

Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Rynek ubezpieczeń [Insurance Market] 1/2021, PZU Życie's data from the corresponding period of 2020 to PLN 527 million. A decrease of PLN 322 million transpired only in the life insurance class (class I) due to the pandemic. A higher mortality rate was observed starting in November 2020, while in Q1 2021 it occurred also in younger age groups. In other insurance groups, increases of the technical result were recorded as compared to the previous year.

In Q1 2021, life insurance companies generated a net result of PLN 365 million, meaning a PLN 288 million decline y/y (by 44.1%). This is the effect of the technical result being lower than in the corresponding period of 2020, with a simultaneous unfavorable impact of other operating income and expenses.

The total value of the investments made by life insurance companies at the end of Q1 2021 was PLN 41,136 million, signifying a 0.3% decline compared to the end of 2020. In the case of assets at the policyholder's risk, a decline of 0.2% was recorded – the high level of benefits paid out was offset by new payments to funds and positive investment results.

PZU Życie's activity

Within the PZU Group, PZU Życie operates on the Polish life insurance market. The company 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;
- investment contracts.

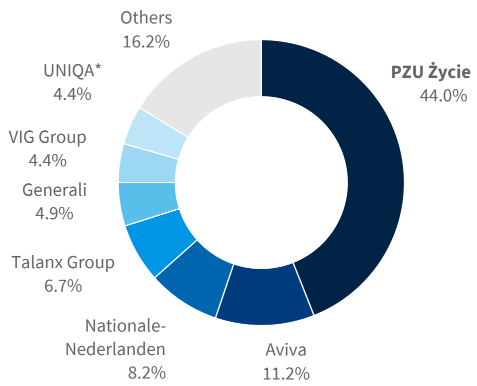
In Q1 2021 PZU Życie wrote 40.6% of the gross written premium of all life insurance companies, signifying a decline versus the last year's market share (by 1.2 p.p.). The reason for the decrease is the lower share in periodic gross written premium than a year earlier (mainly in protection insurance products) while growth of the single premium products (in both unit-linked life insurance and in protection life insurance products).

At the same time, PZU Życie continued to be the leader in the periodic premium segment. In Q1 2021, it generated 44.0% of premiums in this segment, signifying a decrease (by 1.6 p.p.) in the market share as compared to the previous year. The growth rate of gross written premium at PZU Życie was 0.3% y/y in this segment, while the market grew by 4.0% y/y. One of the main factors was the slower-than-market growth of the protection life insurance (class I) and accident and illness insurance (class V) portfolios.

PZU's share in just the life insurance segment (class I) for periodic premiums after Q1 2021 was 55.9% when measured by gross written premium and 59.3% when measured by the number of agreements in force. In turn, PZU's market share in terms of the method of entering into an agreement just in the life insurance segment was 62.5% for agreements executed in group form and 37.2% for individual agreements (measured by gross written premium).

PZU Życie's technical result represented 41.8% of the result generated by all life insurance companies. This evidences the high profitability these products enjoy. PZU Życie's technical result margin on gross written premium was higher than the overall margin generated by other companies offering life insurance (9.8% versus 9.3%).

Life insurers – percentage of periodic gross written premium in Q1 2021 (%)



Groups: Talanx - Warta, Europa, Open Life; VIG - Compensa, Vienna Life; Aviva - Aviva, Santander-Aviva
* 9 April 2021 - KRS registration of the merger of AXA ŻYCIE TU S.A. (acquiring company) and UNIQA TU na ŻYCIE S.A. (acquired company), effected by transferring all assets of UNIQA TU na ŻYCIE S.A. to AXA ŻYCIE TU S.A. and changing the name of the surviving company from AXA ŻYCIE TU S.A. to UNIQA TU na ŻYCIE S.A. On 9 April 2021, the acquired company terminated its activity
Source: KNF's Quarterly Bulletin. Rynek ubezpieczeń [Insurance Market] 1/2021

Product offer

PZU Życie, as a popular and the largest insurer on the Polish market, continuously expands its offering by adding new products or modifying existing ones to protect its clients at each stage of their lives. The unique synergy of competences within the PZU Group (insurer, medical operator, investment manager) allows the company to comprehensively take care of life, health and savings of its clients, providing them with the broadest possible support in accordance with their expectations and needs.

The changes in the offering take into account the new requirements of the regulatory authority and the growing extent of statutory consumer protection. 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. They also enable the client to take advantage of various contact channels to reach the insurance undertaking (e.g. in a branch, by phone, e-mail, Internet client account, person providing technical insurance services in the workplace or through an insurance intermediary, whether tied or external).

Activities undertaken by PZU Życie in group and health insurance in H1 2021 focused mainly on complementing the group insurance Individual Continuation (IC) offer by adding new voluntary malignant neoplasm rider. The rider is available for both new and existing IC clients up to 80 years of age. The insurance provides financial support in the event that a malignant neoplasm is diagnosed.

PZU Życie's efforts in the area of individual protection insurance and protection and unit-linked insurance:

- revitalizing the individual life insurance offer, entailing among others:
  - lowering the technical rate from 1.5% to 1% adjusting it to the new maximum technical rate announced by the KNF Office on 29 January 2021 (change from 1.76% to 1.32%) in PZU Gwarantowane Jutro, PZU Na Dobry Początek, PZU Wsparcie Najbliższych insurance products,
  - adding the option of increasing the sum insured without risk assessment, or changing the sum insured in PZU Ochrona Każdego Dnia term insurance,
  - separating indexation from profit-sharing in PZU Gwarantowane Jutro, PZU Na Dobry Początek, PZU Wsparcie Najbliższych insurance products, creating a separate premium indexation mechanism (which will index the premium and the benefit amount) and a separate profit-sharing mechanism (which can increase the sum insured without changing the premium amount),
  - increasing the minimum premiums and adapting them to the current market conditions and the purchasing power of money,
  - extending the grace period for premium payment, as a result of which a policyholder may benefit from a new, extended grace period for premium payment (when it keeps the insurance cover even if due premium is not paid) from 1 month to 2 months of the agreement;
- launching the pilot of the individual medical care S (OMS) insurance. The product is available in two options: Standard and Comfort, which offer a different scope of laboratory and imaging tests and the number of available specialist physicians.

In individual pension insurance, the PZU IRSA (Individual Retirement Security Account) insurance has been modified to adapt it to the new regulations effective as of 1 January 2021. From this date, the IRA and IRSA act introduced a new amount limit for persons who conduct non-farming business activity. These persons may pay into IRSA up to 1.8 times the average forecast monthly salary in the national economy for the given year. Other clients may pay into IRSA up to 1.2 times the average forecast monthly salary for the given year.

PZU Życie cooperated actively with 4 banks, including the PZU Group's member banks, providing a comprehensive insurance offering for their clients. 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 H1 2021 sales of endowment insurance in the bancassurance channel were launched.

In the case of unit-linked products, sold by Bank Millennium, Bank Pekao and Alior Bank, promotional fees were offered to clients, which increased the attractiveness and competitiveness of the offer in the market. In connection with the COVID-19 pandemic, additional functionalities were available in the self-service channels, facilitating client access and servicing of concluded agreements.

Factors, including threats and risks, that may affect the operations of the life insurance sector in 2021:

The main risk factors include:

- the continuing COVID-19 pandemic and its social and economic consequences, including deterioration of the financial standing of businesses and employees from industries affected by the restrictions and the related problems with maintaining and paying for the policies, and the higher death rates among Poles and the need to develop modern, remote solutions for product distribution and service;
- the prospect of lower interest rates and their impact on the insurance industry;
- demographic changes and the aging society and the ensuing changes in the mortality and fertility levels;
- constant price pressure in group insurance and the battle for client ownership (and client 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;
- new EIOPA regulations for the insurance market in the European Union;
- consequences of product intervention of the regulatory authority in the unit-linked fund segment;
- the emergence of new competitors and solutions from outside the insurance industry, including the operators of large client bases or insurtechs.

3.4 Banking (Bank Pekao, Alior Bank)

Market situation

The first half of the year in the banking sector saw an improvement in performance against the soft 2020, although the pre-pandemic level is yet to be reached. Systemic stability ensured a good starting point for the sector; it was preserved due to high capital levels and supportive measures from fiscal, monetary and macroprudential policies. The improvement of the banks' situation has been supported by an improved economic climate, which ensured a partial recovery in credit demand, although demand across various categories continued to vary. The sector still faces the challenge of rebuilding its profitability, which has declined due to changes in the monetary policy in 2020 and also the materialization of risks associated with foreign currency loan portfolios.

At the end of June 2021, there were 30 commercial banks, 522 cooperative banks and 37 branches of credit institutions operating in Poland. The banking network comprised a total of 5,367 branches, 2,747 offices, agencies and other customer service outlets and 3,158 representative offices (including partner centers). Therefore the banking network comprised a total of 11,272 outlets, i.e. 1,177 outlets less vs. June last year.

Headcount in the banking sector at the end of June 2021 fell to 145.6 thousand people and was 8.0 thousand (5.2%) lower than at end of June 2020.

In the period from January to June 2021, the banking sector generated a net profit of PLN 6.1 billion, compared to PLN 3.3 billion in the corresponding period of the previous year, up PLN 2.9 billion (i.e. 87.3% y/y).

The economic recession already from Q2 2020 exerted strong pressure on the margins in the sector. The year 2021 continued the previous year's trend; from the beginning of the year, net interest margin was falling, to reach 2.03% at the end of June, compared to 2.24% at the end of December 2020.

Return on equity in 2021 increases gradually from the beginning of the year. After June 2021, ROE[1] of the banking sector was 1.31%; compared to 2020, ROE rose by 1.39 p.p.

In June 2021, the net asset value of the banking sector was PLN 2,462 billion, up 8.0% y/y and up 4.7% from December 2020. The increase in the assets of the banking sector was driven mainly by an increase of the value of debt instruments.

Gross receivables from the non-financial sector in June 2021 stood at PLN 1,081 billion, up 0.8% y/y, which is a sign of growth of the lending activity as the crisis developed. Despite lower interest rates, the growth rate of deposits increased noticeably. At the end of June 2021 they increased to PLN 1,593 billion, i.e. 4.5% y/y.

[1] ROE - the ratio of the total financial result earned over 12 successive months to average equity in the same period. ROE refers to the aggregate of the commercial and cooperative banks sector (excluding branches of credit institutions).

The structure of deposits showed a slight increase of the share of the non-financial sector from 91.2% in December 2020 to 92.2% in June 2021. The biggest increase was posted in household and corporate deposits, as result of the crisis tendency for companies to increase the savings and accumulation of funds from the "Anti-crisis Shield".

The banking sector's own funds for capital ratios, calculated in accordance with the regulations laid down in the CRR1 Regulation, totaled PLN 230.6 billion at the end of March 2021, up 9.7% versus the end of March 2020.

The banking sector's total capital ratio was 20.7% at the end of March 2021 (up 238 bps compared to March 2020). At the end of March 2021, the Tier I capital ratio was 18.6% (up 223 bps compared to March 2020).

Pekao Group's activity

Bank Pekao is a universal commercial bank offering a full range of banking services provided to individual and institutional clients operating chiefly in Poland. The Bank Pekao Group consists of financial institutions operating on the following markets: banking, asset management, brokerage services, transaction advisory, leasing and factoring. From 2017 Bank Pekao has been part of the PZU Group.

The Bank offers competitive products and services on the Polish market, high-level customer service and a developed distribution network. A broad product offering, innovative solutions and individual approach provide clients with comprehensive financial service. An integrated service model, in turn, guarantees the highest quality of products and services, as well as their alignment with the changing needs. The Bank systematically strengthens its market position in the strategic areas of business.

On 3 January 2021, Bank Pekao acquired the enterprise and the liabilities of Idea Bank (with exceptions) after the Bank Guarantee Fund applied the forced resolution procedure.

Idea Bank was commercial bank offering banking services provided to individual and institutional clients, such as, among others, acceptance of cash deposits payable on demand or upon maturity and keeping accounts for such deposits, granting loans, granting bank guarantees, issuing securities. The acquisition of Idea Bank did not entail any payment from Pekao. As a result of the transaction the PZU Group acquired Idea Bank's assets and liabilities whose total estimate fair value was negative.

Considering the foregoing, on 8 January 2021 Pekao received from Banking Guarantee Fund (BGF) support in the form of a subsidy of PLN 193 million to cover the difference between the value of the acquired liabilities and the value of the acquired property rights of Idea Bank.

At the end of Q1 2021, Bank Pekao was the second largest bank in Poland (in terms of the value of its assets).

New products and services

In H1 2021, Bank Pekao continued its activities undertaken in 2020 in connection with the COVID-19 pandemic, actively supporting its clients in maintaining financial liquidity, accelerating digitalization of processes and encouraging clients to use remote channels in day-to-day banking. The bank monitors the economic situation in Poland and worldwide on an ongoing basis, analyzing various scenarios of evolution of the epidemic and its impact on the economy, and devising the best solutions that the Bank may adopt.

In March 2021 Bank Pekao announced its new strategy for 2021-24 ("Responsible Bank. Modern banking"). According to the strategic plan, Bank Pekao S.A.:

- will be a universal bank of first choice for its customers;
- will develop remote distribution and customer service model;
- will focus on cost and process efficiency;
- will grow in most profitable market segments.

Pekao's ambition in the 2024 horizon is to be among the most profitable and efficient banks in Poland.

Therefore, as part of the implementation of the new strategy, Bank Pekao focuses on:

- significant increase in the return on equity (ROE) from 4.5% in 2020 to ~10% in 2024 and
- reduction of the cost-to-income ratio (C/I) from 49% in 2020 to ~42% in 2024.

The main strategic goals also include an increase in the number of active mobile banking customers from 2 million in 2020 to 3.2 million in 2024. The strategy is based on four pillars: Customer, Growth, Efficiency and Responsibility.

Pekao intensively develops digital channels as well as fast and convenient service processes. In H1 2021, the number of active mobile banking clients increased by 135 thousand and was 1.6 times higher than two years earlier. In H1 2021, the number of active mobile clients using PeoPay increased by another 196 thousand and was 2.1 times higher than 2 years earlier. At the end of H1 2021, 81.5 thousand companies actively used mobile banking services and 176 thousand used electronic banking (up 7.3 thousand from H1 2020).

In H1 2021, new functionalities were also added to the PeoPay KIDS application for children aged 6-13 launched in June 2020.

PeoPay KIDS is very popular among children; at the end of June 2021, the youngest customers had more than 68 thousand virtual piggy banks saving for their individual goals.

Pekao continues to develop the new version of the Pekao24 service and the process of full migration of customers from the previous version. At the end of June 2021, 90% of Pekao's customers used only the new version of the Pekao24 service.

PekaoID digital identity and trusted profile services were also expanded, enabling remote confirmation of identity of retail customers. Following integration with the eIDAS National Node, the numbers of PekaoID activations have surged. By the end of H1 2021, more than one million customers used PekaoID. Bank Pekao's website launched a new platform named "Everything in one place", which provides a range of financial solutions that make it easier to run a business and a collection of useful tips for business owners. Owners receive suggestions of products and interesting services tailored to the needs of micro businesses. The platform also features modern tools and attractive partner offers, which include legal services or IT support.

Since June 2021, Pekao has used open banking functionalities in the processes of granting cash loans, overdraft limits and credit cards, using the account history from another bank to assess the customer's creditworthiness. This accelerated the credit process and Pekao customers may now receive a credit decision faster. At present, account history from the following banks may be downloaded and used for the credit process: Santander, Millennium, Alior, BNP Paribas, ING, Credit Agricole.

In H1 2021, Pekao added a standalone travel insurance product to its insurance offer, which is available through the e-banking and mobile banking platform. Several options of the insurance are available and customers may match the insurance cover and sums insured to their needs. In the initial months the product is offered with a special discount. Implementation of travel insurance is one of the assumptions of the new strategy and an effect of expanding cooperation within the PZU Group. Electronic channels also offer the possibility of purchasing motor insurance on favorable terms. In expanding its product offering, the Bank launched new service bundles for customer personal accounts. An insurance package with assistance services was an important element of these new services. The insurance offers a broad cover ensuring real help in emergencies and in the first 6 months it is free of charge.

For the second time, Pekao allowed its clients to file applications for financial subsidies under the government-sponsored aid program "PFR Financial Shield 2.0" (Polish Development Fund's Financial Shield 2.0), designed to help micro, small and medium-sized enterprises operating in industries most threatened by the pandemic to maintain financial liquidity. In Q1 2021, businesses eligible for subsidies were able to file applications through the online banking platform. In connection with PFR launching in H1 2021 the subsidy forgiveness process under the "PFR Financial Shield 1.0" program, Pekao has made the forgiveness process available to customers through the e-banking service: Pekao24 for Businesses, PekaoBiznes24 and Idea Cloud. In case of any questions or doubts, customers receive support of a dedicated helpline.

Pekao TFI

The Pekao Mutual Fund Management Company (Pekao TFI) is member of the Pekao Group. It is the oldest mutual fund management company in Poland. Pekao TFI provides clients with modern financial products and offers opportunities to invest in the largest capital markets on the globe. For many years it has been devising savings programs, including programs affording an opportunity to put aside more money for retirement under the third retirement pillar. Pekao TFI also offers portfolio management services and Employee Capital Schemes (ECSs). The company is in the ECS records and its offering is available also through the mojeppk.pl portal.

As at 30 June 2021, the net asset value of Pekao TFI mutual funds (including PPK) was PLN 21.4 billion, up PLN 4.0 billion, i.e. 23.2% in comparison to the end of June 2020. The increase in assets was caused by customers returning to investments in mutual funds. In the previous year, the value of assets was driven down by the pandemic and a lion's share of receipts from the redemption of participation units in mutual funds was deposited in bank accounts. CHAPTER 3.5 MUTUAL FUNDS.

Alior Bank Group's activity

The Alior Bank Group is headed by Alior Bank. Alior Bank 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 Polish clients. In 2017, Alior Bank opened a foreign branch in Romania, offering retail banking products and services. However the percentage of international clients in the overall number of the bank's clients is negligible.

In 2020 Alior Bank published its new strategy for 2020-2022 entitled "More than a bank". In addition to the implementation of the strategy, the first half of 2021 was also a time for effectively addressing the needs of the bank's stakeholders functioning in a unique environment caused by the COVID-19 pandemic.

At the end of H1 2021, Alior Bank was the 8th largest bank in Poland (in terms of the value of its assets).

New products and services

In H1 2021, Alior Bank developed new, non-financial services in its offer. Those customers who set up Konto Jakże Osobiste account, after satisfying a few simple conditions, will be able to take advantage of free telemedicine consultations for 12 months. The telemedicine service, which can be used by new account holders at Alior Bank, includes unlimited e-consultations with a specialist in internal medicine.Moreover, as part of the service, they are given the opportunity to receive prescriptions, referrals and medical leaves, all without having to leave their home. The offer was prepared in cooperation with PZU Zdrowie.

Alior Bank continues to develop remote channels. In H1 2021, the Bank launched new functions in Alior Online banking to include the possibility of purchasing from PZU insurance for a cash loan in the event of job loss and consequences of an accident, LINK4 insurance and PZU Wojażer travel insurance.

A new Moje Sprawy [My Matters] tab was also added to Alior Online, by which customers gain access to a list of banking matters that they can perform at home – without having to visit the branch. Introduction of the "My Matters" tab in Alior Online enables access to selected instructions related to the products held by the customer. It also allows users to ask questions about banking services and to lodge complaints.

The Bank continues to digitize its services and strives to refine its offer and processes in order to be available to customers everywhere, all the time. To this end, in H1 2021 Alior Bank extended the possibility of booking an appointment in all of its own branches via the popular Booksy application. This means that individual customers and micro-entrepreneurs will be able to conveniently plan their appointment in the outlets located in 104 cities in Poland.

To ensure convenience and safety of its customers, Alior Bank also launched a voice helpline assistant, which should improve contact with customers. This is yet another action taken by Alior Bank which will allow it to respond to user needs even faster.

New voicebot functionalities will be deployed gradually. Customers can already use a mechanism whereby the voicebot recognizes the interlocutor's intentions and, on this basis, redirects them to an appropriate consultant. At the next stage, a function will be added for the bot to explain the basic operations, such as for example how to log into the mobile app, what the features of selected banking products and services are, and what conditions must be satisfied to be able to use them.

The Alior Bank Brokerage House also launched a new tool for those interested in investments. Alior 4 Trader Demo is a modern and free application that presents a transaction system for investors in a trial version – demo. Customers are able to test trading in the currency market, CFDs on commodities and indices and the spot market, 24 hours a day, 5 days a week.

Availability of the demo version of the investment platform is one of the deployment stages of a new trading system. Soon, investors will be able to use the live version of the solution. The demo version aims to educate and safely introduce them to the world of investments and to test the new tool.

Starting on 15 January 2021, Alior Bank's business customers have been able to apply for subsidies from Polish Development Fund's Financial Shield 2.0 via Alior Online and BusinessPro web banking platforms. The support was designated for micro-enterprises and companies from the SMEs sector representing industries that were affected the most by the second wave of the COVID-19 pandemic.

In order to support businesses in the transport and coach industry, Alior Leasing became a business partner of ARP Leasing, a company from the Industry Development Agency's Group. The agreement provides for cooperation in the refinancing of lease contracts by ARP Leasing with a 12-month grace period for lease payments. Alior Leasing customers affected by the negative financial effects of the COVID-19 pandemic may apply for financial support offered by ARP Leasing under the Anti-Crisis Shield.

Alior Bank is consistently extending the range of services that make it easier to run a business and offers entrepreneurs a wide range of solutions tailored to different stages of the company's development. In H1 2021, the Bank launched a new Plan Biznes account for micro-, small- and medium-sized enterprises keeping full accounting books which, through an innovative formula, allows customers to select the necessary services independently and create a convenient model of cooperation with Alior Bank. The Plan Biznes account includes a basic account with auxiliary accounts, the Basic Plan with a set of products and services that are always free for customers, as well as three additional transaction plans to choose from depending on the company's needs.

The Bank also offered entrepreneurs an innovative approach to charging fees for current accounts. It offers a current account with a set of basic services for PLN 0. In line with Alior Bank's new campaign, "Your business, your rules", businesses may themselves select profiled service and transaction plans for their accounts and manage them online. Each of these plans is available for a single monthly fee. Examples of such solutions include the 4x4 account, designed for companies with a single-entry bookkeeping system, and the Plan Biznes account for businesses keeping full accounting books.

In view of the concern for the environment, Alior was one of the first banks to become involved in the "Clear Air" program. Through cooperation with the National and Voivodeship Environmental Protection and Water Management Funds (NFOŚiGW and WFOŚiGW) the program will offer subsidies for the replacement of old ineffective heat sources and thermo-modernization of single-family houses. The overall budget, within which the banks participating in the program will apply to the WFOŚiGW for subsidies used for partial repayment of loan principal for projects executed in accordance with the "Clear Air" program, is PLN 1.5 billion.

The "bank path", which is being prepared within the "Clear Air" program envisages that the loans will be covered by BGK guarantees from the Environmental Surety and Guarantee Fund. As a result of these guarantees, the lending banks will be able to offer more favorable terms of loans financing eligible projects under the program.

Alior TFI

Alior TFI (formerly Money Makers) is part of the Alior Bank Group. The company was established in 2010 and its operations, originally as a brokerage house, focused on asset management services. Following a transformation, from July 2015, it has been operating as a Mutual Fund Management Company.

Alior Bank's cooperation with its subsidiary Alior TFI comprises primarily the company's core business, i.e. development and management of mutual funds and representing them vis-a-vis third parties.

Factors, including threats and risks, which may affect the banks' operations in 2021

The situation of the banking sector in 2021 will primarily be affected by the following factors:

- impact of the COVID-19 pandemic on the economic conditions and macroeconomic factors, which will drive the demand for banking products, changes of the risk costs and the quality of the credit portfolio;
- 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;
- 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;
- continuing low interest rates exerting strong unfavorable impact on the results of the banking sector (through impact on the net interest income);
- interest rate policy of the Monetary Policy Council;
- banking sector consolidation and restructuring processes;
- development of banking services offered by non-regulated entities, including global technological companies;
- the fiscal and regulatory environment, including, in particular, the tax on certain financial institutions, the high own capital requirements, the BGF charges, the costs of further adjustments to a plethora of regulatory solutions (including MIFID II, GDPR, PSD II, MREL).

Other than the factors mentioned above, one of the most important issues of today remains 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. A number of events (among others, the CJEU ruling of 3 October 2019) prompted an increasing group of borrowers to bring their claims to court. This will have a strong adverse impact on the financial performance of the affected banks, in particular those with a large portfolio of such loans. So far, the main area of impact were the provisions recognized by banks in connection with the anticipated legal risk – they had a strong, negative impact on the sector's results in 2020 and H1 2021. 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, reactions of national regulatory institutions and steps taken by the banks themselves. What may prove important in this context is the opinion of the Civil Chamber of the Supreme Court, which is expected to address a number of questions in a dedicated session (already postponed several times and now scheduled for September 2021). The answers given to these questions may become the interpretation of law in future lawsuits. 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 2021, assets under management of domestic mutual funds were more than PLN 308 billion, compared to 280.5 billion at the end of 2020, representing an increase by 9.8%.

According to the Chamber of Fund and Asset Management, the balance of purchases and redemptions in the mutual funds offered on the domestic market by Fund Management Companies in H1 2021 was PLN 17 billion. The high level of sales resulted from interest exhibited by investors in the following funds: short-term debt (PLN +4.9 billion), equity (PLN +4.3 billion), mixed (PLN +3.1 billion), of which the assets were directed to stable growth funds (PLN +1.6 billion), defined date funds (PLN +2.5 billion), debt (PLN +1.1 billion), absolute return (PLN +0.8 billion), other (PLN +0.7 billion) and commodity funds (+0.5 billion).

In 2021, the importance of Employee Capital Scheme (ECS) funds increases – they are, by nature, immune to the market situation thanks to systematic payments made by employees, employers and the State Treasury. These funds acquired PLN 2.5 billion in H1 2021.

Employee Capital Schemes

Net asset value of the defined date funds in the ECS system operated only by mutual fund management companies (TFI), without universal pension fund management companies (PTE) and insurance companies (ZU), at the end of June 2021 stood at PLN 4.4 billion.

Employee Capital Schemes are voluntary long-term savings programs for employees. Money on the employee's ECS account comes from three sources:

- the employee's own payments (the so-called basic contribution, which is mandatory and voluntary additional contribution);
- contributions financed by the employer (basic and additional contributions);
- subsidies financed by the State Treasury (the so-called welcome contribution of PLN 250 and annual contributions of PLN 240).

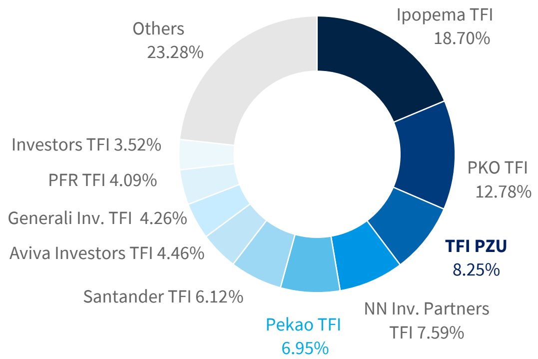
The basic contribution, i.e. the employee's mandatory payment, equals 2% of his/her monthly salary forming the basis for calculation of contributions for retirement and disability insurance. It may be reduced (to 0.5%) if the employee's salary earned in the month from different sources does not exceed 1.2 times the minimum wage. An employee may also declare a voluntary contribution in the amount of up to 2% of his/her salary.

The basic (mandatory) contribution from the employer, equals 1.5% of the employee's monthly salary forming the basis for calculation of contributions for retirement and disability insurance. The amount of the employer's additional (voluntary) contribution is up to 2.5% of the employee's salary.

The ECS were introduced in stages. In the first stage, started on 1 July 2019, the reform covered employers with more than 250 people, followed by other groups in the next periods. In May 2021, the last stage of implementing ECSs in the smallest companies and public finance sector entities ended. At the end of June 2021, overall participation in ECS in companies that successfully implemented ECS was about 29%. The ECS market has reached its ultimate form. It remains a big challenge to convince the remaining employees to return to ECS and start saving in this system before another mandatory enrollment campaign to be carried out in 2023.

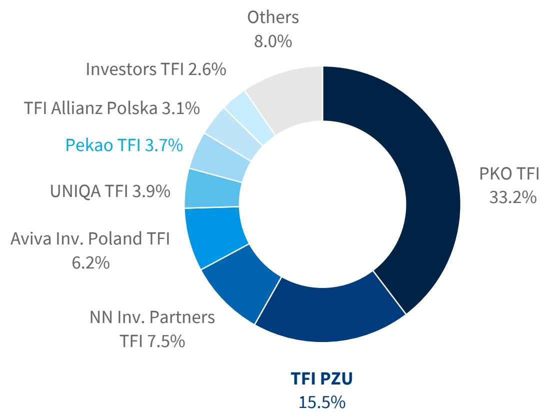
ECS may be managed and operated only by companies entered in the records kept by the Polish Development Fund. As at the end of June 2021, there were 19 such institutions: 16 TFIs, 2 PTEs and 1 insurance company.

Mutual fund management companies – % of assets as at 30 June 2021



Source: Chamber of Fund and Asset Management

Mutual fund management companies – % of assets (ECS) as at 30 June 2021



Source: analizy.pl based on TFI reports, net asset value of FZD, data for TFIs only, without PTEs and insurers

TFI PZU's activity

Towarzystwo Funduszy Inwestycyjnych PZU (TFI PZU) operates on the mutual fund market in the PZU Group. TFI PZU offers products and services for retail and institutional clients. It also operates investment and saving programs under the third pillar of the social security system:

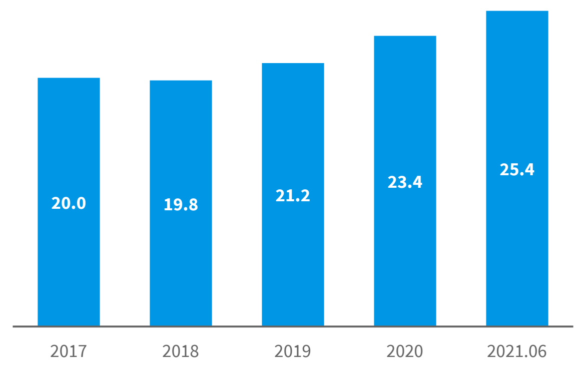
- Individual Retirement Accounts (IRA);
- Employee Savings Plans (ESP);
- Employee Pension Schemes (EPS);
- Employee Capital Schemes (ECS);
- Company Investment Plans (CIP);
- Group Pension Plans (GPP), within which Individual Retirement Security Accounts (IRSA) are available.

At the end of June 2021, TFI PZU had 48 funds and sub-funds in its portfolio, including 9 ECS sub-funds.

At the end of H1 2021, TFI PZU managed a portfolio of net assets worth PLN 25.4 billion, representing an 8.49% increase from the end of 2020 and an 8.25% share in the mutual fund market. Accordingly, TFI PZU reached the status of one of the three largest mutual fund management companies in Poland (it was ranked third according to reports published by the Chamber of Fund and Asset Management (IZFiA)).

The largest increase in TFI PZU assets was posted by the following funds: PZU Sejf + (PLN +263 million vs. the end of 2020), PZU FIO Ochrony Majątku (PLN +94 million), PZU Akcji KRAKOWIAK (PLN +81.5 million), PZU Stabilnego Wzrostu MAZUREK (PLN +79.2 million), PZU Obligacji Krótkoterminowych (PLN +77.2 million), PPK inPZU 2035 (PLN +77 million), PPK inPZU 2040 (PLN +73.6 million), PPK inPZU 2030 (PLN +64.1 million), PPK InPZU 2045 (PLN +60.4 million) and PZU FIZ Akord (PLN +58 million).

TFI PZU's net assets (in PLN bn)



Source: Chamber of Fund and Asset Management

The following funds recorded the largest decreases in net assets at the end of H1 2021: PZU FIZ Forte, PZU Dłużny Rynków Wschodzących, PZU Dłużny Aktywny, PZU FIZ Medyczny and PZU Medyczny.

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

- development of the inPZU service and offering and the support actions;
- active sales of funds as part of Employee Capital Schemes;
- active sales of funds as part of Employee Pension Plans;
- acquisition of assets from the efforts in unit distribution by external distributors;
- interest rate cuts by central banks, relativizing the profit of certain funds;
- the COVID-19 pandemic resulting in increased volatility of fund valuations.

TFI PZU is the leader in the pension product segment. At the end of June 2021, it accumulated net assets in the amount of PLN 5.6 billion in Employee Pension Schemes.

TFI PZU is also one of the leaders of the Employee Capital Schemes market. The amount of assets accumulated in ECS funds managed by TFI PZU stood at PLN 822.1 million, which accounted for nearly 18.5% of the market at end of June 2021 (according to a report by the Chamber of Fund and Asset Management, without the ECS operated by PTEs and insurance companies). Until the end of June 2021, over 95 thousand employers signed ECS management agreements with TFI PZU. This outcome could be achieved, among others, as a result of the broad support that TFI PZU offers to employers in the deployment and service of ECS, and outstanding fund management performance achieved in 2020 in respect to the funds dedicated to ECS.

Factors, including threats and risks, which may affect the operations of mutual funds and Employee Capital Schemes in 2021

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

- macroeconomic situation (including the rate of economic growth, the unemployment rate and the inflation rate in Poland and throughout Europe) affecting the financial standing of enterprises and households;
- the condition of Polish economy and global economies as a result of the restrictions associated with the COVID-19 pandemic;
- effectiveness of the COVID-19 vaccinations and the pace of the vaccination campaigns in individual countries, which will be an important factor determining the level of uncertainty on financial markets;
- actions taken by central banks (Federal Reserve System – FED, European Central Bank – ECB, Bank of Japan, People’s Bank of China) translating into global money supply and liquidity on the financial markets;
- continuation of the record low interest rates, which negatively affect the attractiveness of bank deposits while increasing the attractiveness of alternative forms of investments;
- uncertainties related to privacy and technology regulations, new taxes and the enactment of antitrust regulations;
- growing price pressure to harmonize the management fee rates to the limits introduced in the ECS Act, which are max. 0.5% for the annual management fee and 0.1% for the success fee.

3.6 International operations

Lithuanian market

According to the Bank of Lithuania, at the end of May 2021 gross written premium on the non-life insurance market totaled EUR 289 million, up 5.8% from the corresponding period of the previous year.

The dynamic growth was caused mainly by the low base after the decline recorded last year. Compared to the corresponding period of 2019, before the pandemic, sales were up by 1.1%.

Motor insurance had the highest market share (55%). However due to the very strong competitive pressure, premiums on TPL motor insurance were 1.8% lower y/y. The value of the MOD motor insurance market increased by 7.9% y/y.

The property insurance and health insurance showed their resilience to the COVID-19 pandemic crisis, posting growth of 12.0% and 13.0% y/y, respectively.

As of the end of May 2021, there were 11 companies operating in the non-life insurance sector, including 7 branches of insurance companies seated in other EU member states.

Lietuvos Draudimas continues to be the largest insurance company in terms of total gross written premium in non-life insurance – the company’s market share at the end of May 2021 stood at 29.1%. The combined market shares of top 4 players in the non-life insurance market totaled 68.6%.

Gross premiums written by Lithuanian life insurance companies at the end of May 2021 amounted to EUR 125 million, up 7.3% relative to the corresponding period in 2020. Unit-linked remains the main product on the market, which makes up 75.3% of new business.

Premiums from new sales of unit-linked products increased by 48.0%, term premiums by 25.7%, while premiums from new endowment insurance products maintained their negative dynamics, falling by 32.6%.

The Lithuanian life insurance market is highly concentrated. At the end of May, 8 companies operated in that sector and three largest entities held 62.3% market share measured by gross written premium.

Swedbank is the largest life insurance company in Lithuania in terms of total gross written premiums with a 22.9% market share. The next players are Compensa (20.5% market share) and Aviva (18.8 market share).

Latvian market

In Q1 2021 the Latvian non-life insurance market generated gross written premium of EUR 108 million, down 1.0% relative to the corresponding period of the previous year.

As a result of a strong price competition, the largest year on year decline occurred in TPL motor insurance (down EUR 5.6 million) and in travel insurance (down 51.9%, or EUR 1.5 million) due to the COVID-19 pandemic. At the same time, sales of health insurance and property insurance increased, by EUR 3.1 million and EUR 2.6 million, respectively.

The motor insurance business had the largest share in the non-life insurance market measured by gross written premium. Motor TPL insurance accounted for 17.7% of the market while motor own damage accounted for 20.8%. Also health insurance (30.3% market share) and property insurance (18.1% market share) had an important position in the product mix.

At the end of March 2021, there were 10 insurance companies operating on the Latvian non-life insurance market; the top 5 insurers held 82.1% of the market.

Estonian market

After June 2021, non-life insurance companies operating in Estonia recorded a decrease in gross written premium by 3.5% y/y down to EUR 201 million. 35.7% of this amount, i.e. EUR 72 million, was collected by branches of foreign insurers operating in Estonia.

Market growth was supported mainly by the dynamic growth in the health insurance area (up by EUR 2.2 million). At the same time, sales of TPL motor insurance fell 7.5% compared to the corresponding period of the previous year.

The structure of non-life insurance was dominated by motor insurance, which accounted for 56% of the market (with MOD insurance accounting for 31%). Property insurance generated 28% of the market’s gross written premium.

At the end of June 2021, there were 13 companies operating in the non-life insurance sector, including 5 branches of foreign insurance companies. 4 largest companies had the combined market share of 68.7%.

Activity of PZU companies in the Baltic States

Lithuania

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

Lietuvos Draudimas is the leader of the non-life insurance market in Lithuania. Its market share at the end of May 2021 was 29.1%. Compared to the end of June last year, the company recorded a 6.9% increase in gross written premium up to EUR 102 million. The biggest growth was achieved in MOD insurance (up EUR 4 million) and health insurance (up EUR 2 million). At the same time, due to the strong price competition, the value of the TPL motor insurance portfolio went down EUR 2 million.

PZU Group’s life insurance operations in Lithuania are conducted through UAB PZU Lietuva Gyvybës Draudimas (PZU Lithuania Life). At the end of June 2021, gross written premium was EUR 10 million, up 8.8% from H1 2020. The share of PZU Lithuania Life in the life insurance market after May 2021 was 6.7%, increasing 0.2 p.p. over the end of May last year.

Latvia

From June 2014, the PZU Group was joined in Latvia by AAS Balta, which in May 2015 took over the PZU Lithuania branch operating in the Latvian market since 2012.

In H1 2021 gross premium written by AAS Balta amounted to EUR 59 million, up 7.3% relative to the end of June 2020. The biggest growth was achieved in property insurance (up EUR 3 million) and health insurance (up EUR 2 million). Sales of TPL motor insurance, due to strong price pressure in the market, were EUR 2 million lower. At the end of the first quarter, the share of AAS Balta in the non-life insurance market was 29.4%, up 1.8 p.p from the first quarter last year.

Estonia

Since May 2015 PZU Group operations in Estonia are conducted by a branch of Lietuvos Draudimas which was established as a result of merger of two entities: branch of the Lithuanian PZU company and the Estonian branch, which operated under the Codan brand.

The share in the Estonian non-life insurance market reached 14.5% after May 2021, signifying a decline of 0.3 p.p. versus the corresponding period of the previous year. Gross written premium after H1 was EUR 29 million, up 1.0% relative to the end of June 2020. The increase in property insurance sales was offset by lower volumes in TPL and MOD motor insurance products.

Ukraine

As of the end of June 2020, the supervision over the insurance market in Ukraine was taken over by the National Bank of Ukraine. This change resulted in, among other things, final implementation of the regulations on the solvency levels required of insurance companies, which, in turn, led to termination of operations by some entities and the gradual contraction of the financial and property insurance market.

The Ukrainian insurance market in the first quarter of 2021 reported 4.3% growth in gross written premium reaching UAH 12 billion. The premium written for non-life insurance was UAH 10.7 billion, signifying 4.0% growth compared to the corresponding period of 2020. Due to the lower number of insurance companies, a reduction in market size was observed in non-life and financial insurance. Restrictions related to the COVID-19 pandemic caused a decline in the travel insurance market. At the same time, the motor insurance and green card insurance markets recorded growth compared to the first quarter last year. As at the end of March 2021, insurance companies offering life insurance collected gross written premium of UAH 1.3 billion, signifying 6.4% growth compared to the corresponding period of the previous year.

The Ukrainian insurance market is highly fragmented. As at the end of March 2021, there were 188 insurance companies operating in the country. Despite the large number of insurers, the top 100 non-life insurers generated 99% of gross written premium.

On the Ukrainian market, the PZU Group operates insurance business via two companies: PrJSC IC PZU Ukraine (PZU Ukraine) (a non-life insurance company), and PrJSC IC PZU Ukraine Life (PZU Ukraine Life) (a life insurance company). In addition, LLC SOS Services Ukraine offers assistance services.

The gross written premium collected by PZU Ukraine Life in H1 2021 was UAH 770 million, up 10.6% from the end of June last year. The largest growth was recorded in travel, motor and green card insurance. Gross written premium collected by PZU Ukraine Life in the period from January to June 2021 was UAH 299 million, up 21.9% from the corresponding period last year. After the first quarter of 2021, PZU Ukraine obtained 3.2% (down 0.3 p.p. from Q1 2020) of the total gross premium written by the Ukrainian non-life insurance sector, which made it the ninth largest company on the non-life insurance market. PZU Ukraine Life ranked third in the life insurance market with a 22.4% market share (up 10.7 percentage points relative to the previous year)[2].

Factors, including threats and risks, that may affect the insurance business of foreign companies in 2021

In addition to chance events, such as flood, drought, cyclone, torrential rain, the following hazards are also possible:

- adverse trends related to the increase in the loss ratio in the area of insurance guarantees, job loss insurance and low own contribution insurance for mortgage loans;
- resumption of price pressure in motor insurance, i.e. competition for clients through an active pricing policy applied by competitors;
- 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;

[2] Insurance TOP, Ukrainian insurance quarterly, #3(79)2021

- changes in trends and behavior of client seeking customized proposals and an electronic, swift conclusion of agreements and handling insurance, forcing insurers to adapt to these new expectations rapidly;
- increase of insurance fraud as a result of the more difficult situation in numerous industries, increasing unemployment and lower employment rates;
- demographic changes and the aging society and the ensuing changes in the mortality and fertility levels;
- coming into force of new regulations or financial burdens on insurance companies.

3.7 Medical services (Health)

Market situation

The health market is a dynamically developing and prospective business area. Experts from PMR[3], dealing with market research and analyses in Central and Eastern Europe, expect that in 2021-2024:

- the growth rate of private health insurance will reach the average annual level of approx. 7.1% for supplementary health insurance and approx. 9.2% for subscriptions;
- the average annual growth rate of the fee for service (FFS) market will be 6.8%.

In addition, the following is expected:

- further intensive development of telemedicine and service opportunities through remote channels;
- increasing number of persons outside working age and greater need to provide care to senior citizens, as well as the declining number of people in working and pre-working age;
- increasing public awareness of prevention and periodic examinations.

According to PMR, the value of the private health care segment in fee-for-service products fell by more than 20% in 2020 and amounted to PLN 16.7 billion. Due to the considerable decline in value and because of the low base effect, the fee-for-service segment should develop at the highest average annual rate in the coming years. Contrary to the FFS segment, the market for private health insurance in the difficult pandemic year of 2020 grew at the rate of approx. 4%, exceeding PLN 0.9 billion.

[3] PMR Report entitled „Private Health Care Market in Poland 2021 – market analysis and development forecasts for 2021-2024"

The coronavirus pandemic and the restrictions that were imposed during the earlier waves of the disease caused temporary limitations in the provision of medical services. Due to the pandemic situation, patients postponed their scheduled appointments and treatments for other, initially unspecified, dates. In H1 2021, patients returned to the provision of services postponed in previous months.

The main area that gained importance in 2020 and continues to play a major role also in the current health care service process, is telemedicine. PMR estimates that the telemedicine consultation market increased its value in 2020 more than tenfold. The high level of acceptance of telemedicine services by patients allows to assume that they will become an important element of the health care system also after the pandemic.

Medical inflation will be an important factor affecting the value of the private medical care market in 2021-2024. The previous trend of growing prices will be maintained in the coming years and its pace will be even higher. This is why the above aspects will be particularly important for the prices of outpatient care and physician services.

The expected future increase in the value of the private medical care market will be driven by the improving situation on the labor market and growing consumption of households. Market growth in 2021 is affected by the recovery of consumer trust, which was eroded by the limited provision of health services in 2020 due to pandemic restrictions.

Activities in the health area

The PZU Group's activities 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);
- sale of non-insurance products (medical subscriptions, occupational medicine, partnerships and prevention programs);
- development of proprietary, uniform-standard medical infrastructure (medical centers and patient service

solutions) to ensure the best access to services and the achievement of revenue targets;

- purchase of medical entities operating on the market (medical centers offering services that match PZU Zdrowie’s development strategy).

Development of the non-insurance health offering of PZU Zdrowie

- In 2021, sales of medical care subscription product were continued through PZU Zdrowie’s own 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 improved to generate the best possible synergy. Another step on the way was to improve cooperation between the PZU Życie Corporate Sales Network and the PZU Zdrowie Sales Network. To enable growth of PZU Zdrowie on the medical operators market, the sales networks decided to support one another in the sales processes. This cooperation should boost the growth of sales of medical care packages among PZU Group clients.
- As part of the non-standard subscription offer, the following were deployed:
  - Same-day surgery – includes surgery, which is performed and the patient is discharged on the same day or within 24 hours. The scope of this service includes limited consultations by a physician of the relevant medical specialty. The following are also offered: anesthesia consultation, surgical procedures and accompanying necessary diagnostic tests ordered by a physician during a hospital stay, anesthesia, dressing materials, medical care and costs of medicines ordered as part of the same-day surgery service, as well as post-operative follow-up.
  - “Your Choice” Reimbursement – is a reimbursement for tests or visits made at any medical center. Under “Your Choice” reimbursement, 70% of the value of the medical procedure paid by the patient is reimbursed. Each of the available medical packages has a quarterly limit for the reimbursement amount. For example, the limit for the STANDARD package is PLN 250 per quarter. For the OPTIMUM package, the limit amount is PLN 500 per quarter.
- Preventive health care is an important element of PZU Zdrowie’s business. This area increasingly frequently features products offering screening diagnosis for specific diseases, as well as medical activities verifying past diseases in order to prevent relapse. The following proposals for customers have been introduced in this area:
  - RT-PCR coronavirus tests – a product for B2B customer introduced in connection with the pandemic, offering COVID-19 testing across Poland. The product is offered as an add-on to existing subscriptions or as a stand-alone product.
  - Post-COVID-19 testing packages – two testing packages were created to verify the health condition after diseases directly related to SARS-CoV-2 infection. The packages are dedicated to B2B customers and can be purchased as a separate element of the offer.

Development of the health insurance offering

In May 2021, individual clients of PZU Życie were offered the opportunity to join the Opieka Medyczna S (OMS) insurance. The product is available in two options (Standard and Comfort), which are differentiated mainly in terms of the number of available specialist physicians and a scope of laboratory and imaging tests. This is a pilot program, which will support development of the individual offer in the future.

The broad range of health products is adapted to the segment’s and clients’ needs.

Activities for development of the Health area

Development of medical infrastructure

- PZU Zdrowie purchased a magnetic resonance imaging (MRI) laboratory in Grójec through Bonus Diagnosta Sp. o.o., a subsidiary of Tomma Diagnostyka Obrazowa S.A. This is yet another facility expanding the range of services provided in the imaging diagnostics segment across Poland;
- PZU Zdrowie is in the process of purchasing two more MRI laboratories in cities with a population from 150,000 to 200,000 to supplement the portfolio of diagnostic facilities held by Tomma Diagnostyka Obrazowa S.A.;
- work has begun on launching 3 new own facilities in Łódź, Kraków and Gdańsk;
- the service provider network was expanded by further centers, thanks to which PZU Zdrowie’s partner network comprises already appoximately 2,200 centers;
- starting in Q2 2021, PZU Zdrowie has been developing a new business line: oral medicine, in which it focuses on the acquisition of dental clinics located in major Polish cities. Advanced talks are held with entities in Warsaw, Wrocław, Gdańsk and Toruń;
- the mobile psychological interventions service is also being developed. Through cooperation with psychologists across Poland, PZU Zdrowie provides assistance irrespective of a patient’s place of residence. Our specialists include primarily psycho-oncologists and crisis interventionists who support accident victims and their family members.

Development of e-commerce and IT infrastructure

- thanks to further development of the tool for booking and purchase of on-line appointments through a direct connection with the calendars of the medical centers, the number of centers throughout Poland supporting such connections increased to approx. 400. These are centers in PZU’s own network and the partner network. Nearly 30% of medical services are booked by PZU Zdrowie patients themselves (via the mojePZU portal);
- Launched in April 2020, the PZU Zdrowie Telemetry Center already performs every third teleconsultation for PZU Zdrowie patients;
- the PZU Zdrowie offer was made available to strategic partners – it is a personalized sales offer addressed to customers of PZU Zdrowie’s business partners (e.g. customers of a bank). Through a dedicated link that is placed e.g. in a service application or on the partner’s website, customers are directed to a sales page;
- customers using the moje.pzu.pl portal may book laboratory tests directly at the collection point of the diagnostic service provider.

Development of innovative solutions

Since early 2021, PZU Zdrowie has continued its activities in the area of innovation, by testing new, most promising solutions, implementing those that yielded the best results during the pilot phase, and by supporting key innovative initiatives in the health innovation area in Poland:

- a pilot phase of remote cognitive behavioral therapy for insomnia (CBT-I) was carried out in January. Insomnia or sleep problems affect 10% of the adult population. The solution being launched is one of the first digital therapies based on systematic, independent work of the patient and performance of specific exercises. The full therapy program takes 6 weeks and the work methodology is based on years of research. The solution is medically certified. These types of therapies are now an important part of the health care system in the US and the UK. It is a priority for PZU Zdrowie to implement the best solutions in Poland addressing the insomnia problem;
- the solutions tested during pilot programs are rolled out in other PZU Zdrowie outlets. The purchase of additional portable ultrasound heads, which are used by physicians to make an ultrasound test at any place after the head is connected to a tablet, may serve as an example. These solutions will soon become a standard service in PZU Zdrowie’s newly-built medical centers;
- PZU Zdrowie became the main partner of the “Top Disruptors in Healthcare 2021” report, which is the first and the most comprehensive inventory of the medtech start-up market in Poland;
- PZU Zdrowie cooperates with the Foundation for Technology Entrepreneurship participating in the Poland Prize program, in which, together with PZU and PZU Życie, it will select the best startups for cooperation as part of an acceleration program;
- PZU Zdrowie has become a Main Member of the AI in Healthcare Coalition, which undertakes numerous activities to popularize artificial intelligence tools in the Polish healthcare system;

- Representatives of the Analysis and Innovation Department participated as experts in the Patient Empowerment Congress, the MedMeetsTech conference and the AI in Healthcare conference, where they discussed digital transformation in healthcare and the use of modern technologies, including telemedicine solutions and artificial intelligence.

PZU Zdrowie's involvement in health protection activities

PZU Zdrowie's social activity in 2021 focuses on supporting the health care system and the patients in combating the COVID-19 pandemic.

PZU Zdrowie is an operator in the Health Ministry's Home Medical Care program. PZU Zdrowie performs the following tasks as part of the program:

- pulsocare – remote monitoring of the health condition of the individuals who are isolated due to COVID-19, among others by checking their blood oxygen level, pulse, temperature and symptoms of the illness. It also provides internal medicine advice and psychological consultations;
- referrals for COVID-19 tests – contacting and issuing referrals for patients who filled out a relevant form on the gov.pl website;
- 40 PLUS Prophylactics – preparation of a hotline through which citizens who do not use an Internet Patient Account can, together with a consultant, complete a medical questionnaire and obtain referrals for examinations under the 40 PLUS Prophylactics program. The hotline was launched on 1 July 2021.

PZU Zdrowie has also launched the first drive-thru COVID-19 vaccination center in Warsaw at ul. Woronicza and enrolled 30 of its own centers to support the National Vaccination Program.

In March 2021, PZU Zdrowie launched its official Facebook profile, which is aimed at building awareness of the PZU Zdrowie brand, health prophylactics and counseling.

Factors, including threats and risks, that may affect the operations of the Health Area in 2021:

- changes in fertility, mortality, and morbidity rates, as well as the health consequences of the fact that during the COVID-19 pandemic treatments for certain conditions (e.g., cardiovascular and oncology) were postponed, may affect the value of sales and the loss ratios (e.g. in subscription plans or in health insurance);
- changes in trends and behaviors displayed by clients, who will start searching for customized offerings – clients' new expectations may bring about the need to change processes and systems, which in turn may affect the bottom-line results;
- salary pressures exerted by doctors and other personnel serving patients in medical centers may directly affect financial performance in the health area;
- access to medical personnel – the demand for specialized doctors exceeds the supply, which may slow down growth of the company and affect our margins;
- continued pressure on the prices of group insurance products – the market for health services remains very competitive both in terms of prices and the range of available services;
- relatively high saturation of the market in larger cities and also staff shortages and lack of customer potential in smaller towns may reduce our growth rates.

3.8 Pension funds (PTE PZU)

Market situation

At the end of June 2021, the net asset value of open-end pension funds was nearly PLN 176 billion, up 18.4% relative to the end of 2020.

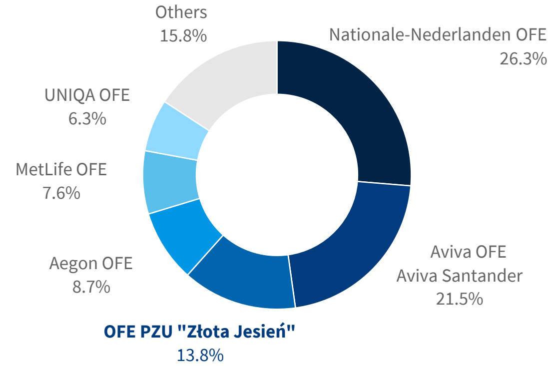
PTE PZU's activity

The PZU Złota Jesień Open-End Pension Fund, which is managed by Powszechne Towarzystwo Emerytalne PZU, is one of the largest players on the pension fund market in Poland. At the end of June 2021, 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 2,302 thousand members, i.e. 15.1% of all participants in open-end pension funds;
- net assets stood at over PLN 24 billion, thereby representing 13.8% of the total asset value of the open-end pension funds operating in Poland.

At the end of June 2021, PZU's Voluntary Pension Fund (DFE PZU) kept 34.9 thousand funded individual pension security accounts (IKZEs) in which PLN 432.4 million worth of assets was accumulated. It kept the leading position in the voluntary pension fund segment.

Open-end Pension Funds – percentage of net asset value as at 30 June 2021 (in %)



Source: KNF, monthly data on the OFE market, data for June 2021

Factors, including threats and risks, that may affect the pension funds' operations in H2 2021:

Key challenges:

- the economic climate on the capital market and, in particular on the Warsaw Stock Exchange, resulting from the course of the COVID-19 pandemic and affecting the value of assets of the funds and the level of fees collected by pension fund companies for management;
- opportunities arising from the achievement of the objectives specified in the Capital Accumulation Scheme and the Responsible Development Strategy and the New Deal, the pursuit of which will depend on the development of detailed solutions and the entry into force of necessary legislative changes;
- active participation in the work on 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 12 March 2021, the Sejm of the Republic of Poland received a government bill amending certain acts in connection with the transfer of funds from open-end pension funds to individual retirement accounts. The bill assumed that the Act would enter into force on 1 June 2021 and OFEs would be transformed into specialized mutual funds on 28 January 2022. The bill has not passed the whole legislative path.

The bill contained the following assumptions for restructuring the operating model of OFEs:

- 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 OFEs to IRAs will be subject to a 15% transformation fee. The payment will be distributed over two years. The disbursement of pensions from IRAs will be exempt from income tax, and savings accumulated in IRAs 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 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 separated 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.

3.9 Other operating areas

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

- managing the PZU repair network – at the end of H1 2021, the company cooperated with 889 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);
- managing the PZU Assistance in Life Club loyalty program – at the end of H1 2021 approx. 2.1 million club members could take advantage of insurance discounts and products offered by cooperating companies (rebate programs from partners).

PZU Centrum Operacji
PZU Centrum Operacji provides services supporting the operation of PZU Group companies. It has been established to provide the following services: IT, Data Center, Contact Center, mass printing, HR and payroll-related services and auxiliary services related to insurance and pension funds, as well as constant intermediation in conclusion of insurance agreements, financial and investment agreements and assistance agreements.

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, water damage or explosion, and determine their consequences. Then the possible scenarios and the methods of minimizing the negative consequences are discussed. Ultimately, PZU LAB engineers implement innovative technological solutions in client companies that are 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.

The Company conducts work associated with the office and commercial investment project 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 to keep accounting ledgers for subsidiaries of the PZU Group (excluding PZU and PZU Życie).

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

PZU Cash
The line of business of PZU Cash is brokerage in granting cash loans in the form of an employee benefit. It operates through 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 PZU Cash.

PZU Corporate Member Limited
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 agency, which deals with the ongoing activities of syndicates, invests their funds and employs underwriters.

Armatura Kraków
Since October 1999, the PZU Group has held an equity stake in Armatura Kraków and since November 2020, PZU has been the sole shareholder.

The business of Armatura Kraków lies outside the domain of financial and insurance services. The group is a leading manufacturer in the sanitary and heating industry in Poland. Along with its subsidiary Aquaform SA, it specializes in the manufacture of bathroom and kitchen taps, aluminum central heating radiators, a wide range of valves and sanitaryware.

4.

PZU Group Strategy in 2021-2024

Sustainable development, growth in key business markets, high profitability and regular dividends are the main goals of the PZU Group till 2024.

In this chapter:

PZU Group Strategy in 2021-2024

4.1 PZU Group Strategy in 2021-2024

On 25 March 2021, the PZU Group announced its new Strategy “Potential and Growth”, which based on the indentified opportunities, indicates the PZU Group's main strategic ambitions for the years 2021-2024. The strategic assumptions refer directly to customer needs, personalization and flexibility of the offer, and embedding of these requirements in specially created ecosystems. In order to achieve these goals, modern business models will be implemented while maintaining the principles of sustainable development, taking care of the natural environment, better quality of life for employees and clients, and involvement for the development of local communities. This area will be supported by the implementation of new technologies, innovation and further digitalization, which will allow us to better understand and satisfy the client’s needs in the shortest possible time using their preferred contact channels.

„Our offering will be the best response to all of the most important needs most demanding individual clients and businesses currently have at every stage of their private and professional lives. We will provide them and our shareholders with significant benefits in a sustainable, sound and socially and environmentally responsible manner”

Beata Kozłowska-Chyła, Ph.D. Hab.,
CEO of PZU

The strategy was built taking into account the PZU Group’s operating philosophy, which is based on four main values:

- stability – the strong PZU brand with traditions and a strong capital standing measured by a Solvency II ratio;
- innovation – using latest technologies and advanced analytics to automate and improve efficiency of processes;
- integrity – conducting business in an ethical manner, fulfilling commitments and developing a compliance culture;
- responsibility – caring for the needs of customers and employees and consciously managing its own environmental impact.

With a sense of social responsibility, the Strategy also defines measures improving the situation of society as a whole in the areas of:

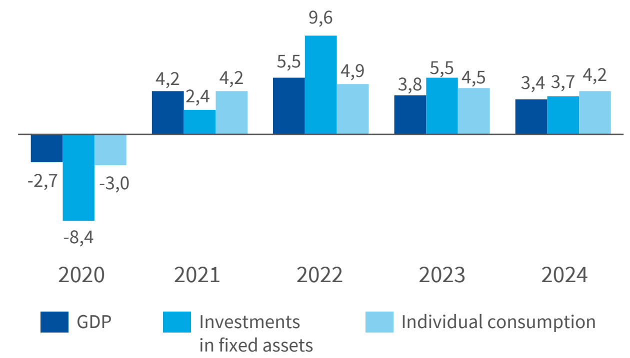
- health and active lifestyle – promoting a healthy and active lifestyle to change the habits of Poles and improve public health;
- safety and prevention - cooperation with and financial support for rescue institutions and organizations (such as Voluntary Mountain Rescue Service, Voluntary Volunteer Rescue Service, Fire Brigade), involvement in local activities to improve safety and mold responsible and safe behaviors;
- culture and protection of national heritage – supporting the most important cultural institutions, as well as events and taking action to protect national heritage, which contributes to building national identity, respect for tradition, a feeling of belonging to the community and its history.

4.2 Opportunities and challenges 2021+

The Strategy was adopted under very specific conditions following the COVID-19 pandemic. When the Strategy was announced, macroeconomic forecasts assumed a gradual recovery of the global economy. During this recovery period, consumption, investment, GDP are expected to rise, while unemployment rate should drop. However, the forecasts also indicated that in the coming years the NBP interest rates would remain at the historically low level of 0.1% which, among other factors, would lead to higher inflation (above the NBP’s 2.5% target).

The COVID-19 pandemic also caused significant social changes, materially influencing the components of the company’s business model. In particular, the rise of remote working and remote sales channels was observed, coupled with deep changes in consumer behavior and needs regarding digital and mobile solutions.

GDP, individual consumption and investments in real terms, change y/y (%)



Source: PZU forecast of the March 2021

Consumption will revisit the level from prior to the Covid-19 pandemic the quickest, followed by investments.

Digitalization and digitization

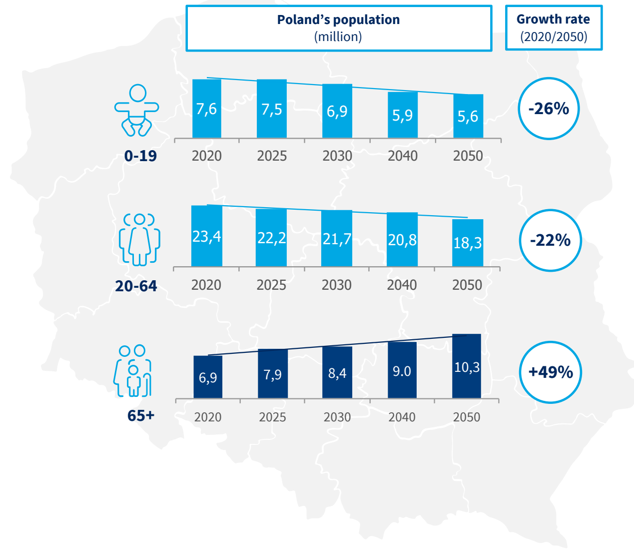
The trend of technological development and digitalization, which was dominant in recent years, will continue. This trend will bring about numerous opportunities, which can be exploited by the Group. As data analysis tools, machine learning, artificial intelligence, chatbots, virtual assistants, data mining are developed and the possibilities of integrating sales channels (omnichannel approach) emerge, the PZU Group will be able to satisfy needs of its Clients faster and more effectively.

Increasing awareness and importance of ecology

Increased awareness of the issues of sustainable development and growing expectations in respect to climate action create an opportunity for the PZU Group to develop in new business areas. Development of the green energy sector offers a chance of increased demand for related insurance.

Demographic and social changes

Demographic trends are continuing to show an unfavorable decline in the population coupled with the simultaneous aging of the population, which is associated with a greater need to provide health care and long-term care to senior citizens. There is also a growing demand for protection products related to security and cybersecurity. Client needs are changing in the direction of increased personalization and customization of the offer. The use of social media in marketing and PR and the importance of remote sales channels are also rising.



Source: Eurostat - Population projections (July 2020)

4.3 Strategic objectives

PZU Group Strategy in 2021-2024 sets out 4 main areas of ambition, in which the directions were set for strategic measures.

Area I Stable dividend and growing gross written premium and revenue

- **Maintaining growth in key business areas**

Insurance – keeping the leading position and increasing gross written premiums to PLN 26 billion, i.e. by 10%.
Health – the fastest-growing company on the health care market; PZU Zdrowie increased its revenues to PLN 1.7 billion, i.e. by 80%.
Investments – increasing assets under management to PLN 60 billion, i.e. by 82%.
Banks – Alior Bank and Bank Pekao increasing their contribution to the Group’s financial results to PLN 0.8 billion, i.e. by nearly 650%.

PZU Group Strategy in 2021-2024

- **Maintaining cost discipline**

The PZU Group plans to maintain its cost effectiveness in the post-pandemic period by applying cost discipline, investing in digitization and digitalization, and by changing its work model to remote or hybrid working. The goal is to reduce the administrative expense ratio by 0.1 p.p. in 2024.

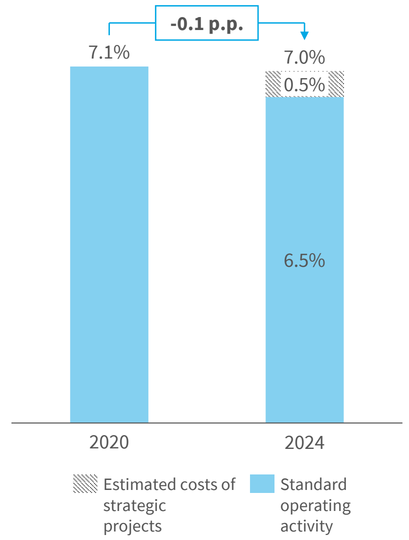
„We will maintain high cost effectiveness despite the slowdown caused by COVID-19. We are confident that it may translate not only into the prices and attractiveness of our products to clients but also to greater investment potential enabling us to attain an entrenched competitive edge"

Tomasz Kulik, Member of the PZU and PZU Życie Management Boards, PZU Group's Chief Financial Officer

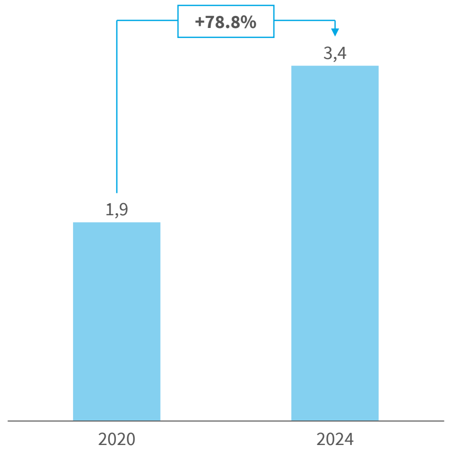
- **Bolstering the potential to generate a high level of net profit**

By harnessing consistent measures carried out on all the markets where the PZU Group is present, at the end of 2024 it will be possible to generate the highest net result since the time when PZU went public of roughly 3.4 bn PLN. This signifies an increase of approximately 80% versus 2020.

PZU's administrative expense ratio



PZU's net profit attributable to the parent company (bn PLN)

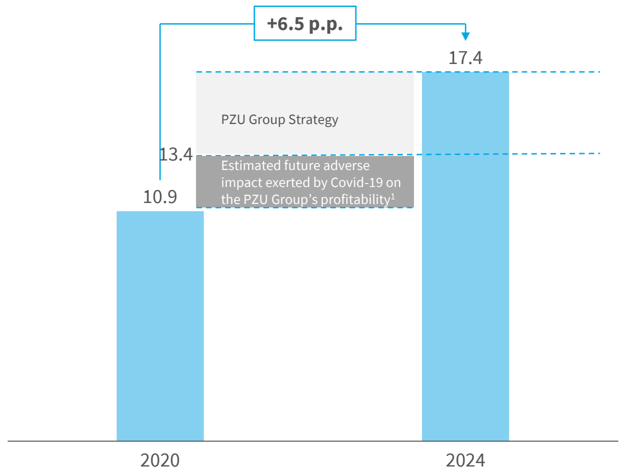


STABLE DIVIDEND AND GROWING GROSS WRITTEN PREMIUM AND REVENUE	1	We will achieve **further growth on every market** where we operate
	2	We will deliver an **increase in gross written premium** on insurance activity
	3	We will materially **grow revenue in our health business**
	4	We will be a **leader on the asset management market generating high returns** on our own portfolio and on savings and investment products
	5	We will leverage the **potential in the PZU Group's banks**
	6	We will maintain the **cost effectiveness** in the business we run post-Covid-19
	7	Our ambition is to **bolster the PZU Group's potential to generate a high level of net profit**
	8	We will deliver **high business profitability**
	9	We will ensure a **predictable and attractive model for generating shareholder value** and a **safe solvency ratio**
LEVERAGING THE PZU GROUP'S POTENTIAL	10	We will generate **benefits ensuing from the potential and scale** of being the largest insurance and banking group in Central and Eastern Europe
	11	We will give clients a **comprehensive product offering** thanks to the synergies afforded by the PZU Group by **taking advantage of various distribution channels**
	12	**We will revolutionalize the approach to health care** by becoming the most comprehensive medical advisor for our clients
INNOVATIVE FINANCIAL GROUP	13	We will leverage **new technologies in all operating areas**
SUSTAINABLE GROWTH	14	We endorse **sustainable** development: we will be an active participant in the green energy transformation

- **Delivering high business profitability**

Maintaining and improving high profitability of business is an important part of the Group Strategy. Despite the negative effect of the COVID-19 pandemic, the PZU Group plans to increase its return on equity (ROE) to 17.4% by 2024. This goal will be achieved by a stable and secure business model based on diversification, further streamlining of business, product and distribution processes.

Return on equity (ROE) (%)



[1] Estimated temporary future impact on insurance activity

- **Maintaining an attractive dividend policy**

The PZU Group intends to generate above-average profits, which it plans to pay out annually in the form of a dividend. It will amount from 50% to 100% of the consolidated annual profits.

Area 2 – Leveraging the PZU Group's potential

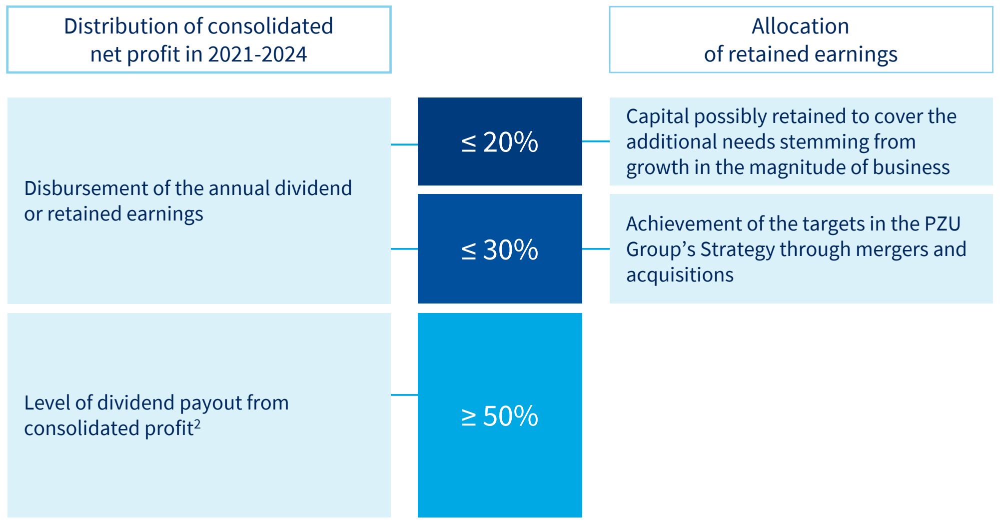
- **Effective utilization of databases and knowledge of clients**

The PZU Group plans to use knowledge about its clients even more effectively. This will allow to create a top quality offer addressing actual needs of its clients. By exploiting the potential of the database, it will be possible to personalise the offer, provide coordinated advisor care at every stage and attract new clients. The Group's strategic activities assume: harmonizing access to information sources and channels, rolling out analytical tools for machine learning and artificial intelligence, and incorporating them in our business processes.

- **Development of business collaboration with banks and strategic partners**

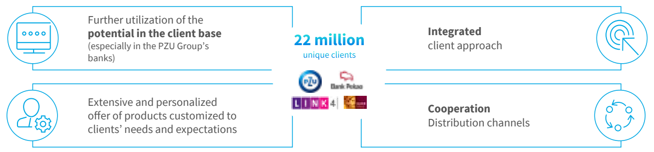
The PZU Group wants to achieve cumulative gross written premium of about PLN 3 billion, on insurance and banking collaboration with Bank Pekao and Alior Bank, by reaching the banks' clients with a comprehensive and unique offer of combined insurance and banking products. It plans to broaden the PZU Cash offer, strengthen the insurance position on the energy market

Dividend policy in 2021-2024



[2] PZU's net profit attributable to the parent company

and develop cooperation with Strategic partners operating on the e-commerce market.

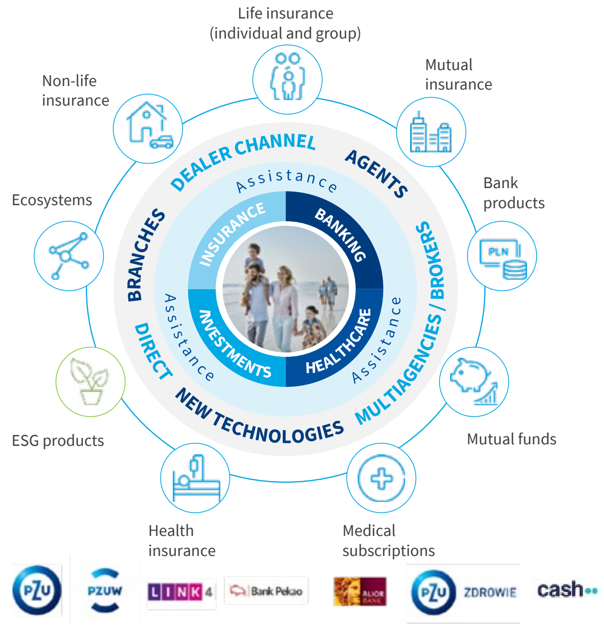


„As the PZU Group, we already provide our clients with the most comprehensive set of financial services in insurance, banking, investment, health care and medical services. In the future, we want the range of services offered to our clients to be complete and satisfy the needs of our clients to the fullest extent."

Krzysztof Szypuła, Member of the PZU and PZU Życie Management Boards

- **Utilization of all distribution channels**

Through an omnichannel approach, the PZU Group will be able to reach clients through various distribution channels suited to their needs and preferences. Clients will receive access to a broad range of modern products, including life and non-life insurance as well as health, investment and banking products customized to their evolving needs at every stage of their life.



Activation of the branch potential

- → **Flexible sales service** – customized to clients' preferences
- → **More than insurance** – extended offering in branches

Modern agency channel

- → **Modern approach to recruiting agents**
- → **Varied support for agents** customized to their needs
- → Support for agents through other sales channels
- → Further development of **modern and digital tools** for remote sales and contacts with clients

Accelerating the development of the digital channel

- → Developing digital marketing and **personalizing offers**
- → Continuing the development of the mojePZU internet platform
- → **Developing digital communication tools** to support sales

Profitable growth in multiagencies and the dealer channel

- → Strengthening network management structures
- → Technological changes
- → **Enhancing the product portfolio**
- → Coordination of PZU – LINK4's activities

New sources of value in the corporate segment

- → Building and maintaining long-term relations with clients by developing support services
- → Increasing the effectiveness of sales – **digitalization of sales and aftersales processes**
- → Actively managing **relations with brokers**

Affinity, Bancassurance

- → Further development of cooperation with **e-commerce partners**
- → Focusing on the **acquisition of new clients**
- → Extending the portfolio of **products in banking channels**

- **Introduction of a modern claims and benefits handling process using new technologies to automate and accelerate processes and reduce costs**

Recognition of damage on the basis of photos
Utilizing artificial intelligence makes it possible to fully control and audit losses in which the payment will be accepted automatically.

Automatic data reading from documents
This system processes unstructured documents into a digital format, then it **finds the data on the basis of a learned AI model.**

AI in the agent application
This solution **enhances the quality of insurance documentation at the stage of its collection** thereby reducing the cost of verification.

Using robots to search for a service provider
On the basis of a client's location data the robot **will find the road assistance unit that is the closest and may fill the order the fastest.** It checks its availability and transmits information regarding the client's location.

Anonymizing photos
The model **supports the process of preparing photos to put post-accident vehicles up for auction**, thereby reducing the work done on manually handling photos.

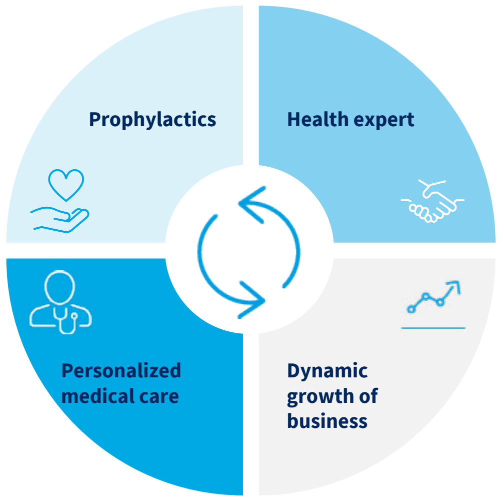
Automatic segregation and classification of e-mails
Utilizing artificial intelligence **in the process of segregating PZU's incoming e-mail correspondence** will increase the speed and efficiency of service and reduce costs.

- **New approach to health care in Polande**

The PZU Group plans to emphasize building health awareness and preventing diseases. The offer will include top quality personalized health care services. By achieving these goals while keeping the business profitable, the Group will grow faster than the market and gain the leading position on the private health care market.

„We do not wish merely to tend to the ill. We rather want to keep our clients healthy for as long as possible by improving their quality of life. The foundation of this approach is prevention, which requires breaking down the wall between the insurance business and healthcare."

Aleksandra Agatowska, President of the PZU Życie Management Board



Area 3 – Innovative financial group

The PZU Group plans to leverage the latest technologies in all areas of its activities:

- **digitalization and streamlining of processes** - we continue to implement solutions for clients that are simple, intuitive and universal;
- **use of AI, Big Data and advanced analytics** - implementation of new technologies should lead to improved operating efficiency and profitability of business, among others through automation and streamlining of decision-making processes;
- **mobility and omnichannel approach** - utilization of new digital distributions channels to complement the traditional ones;
- **cloud computing** - support for technological transformation, including greater efficiency of the infrastructure;

- **cybersecurity** - protection of our IT networks; introduction of tools for estimating cybersecurity risk in the financial sector.

Area 4 – Sustainable growth

The PZU Group will build its success based on contemporary business models, which include elements of sustainability. It will become an active participant in safe and responsible transition processes. The sales offering will be extended to include green products. We also plan to support social initiatives aimed at, among others, environmental protection as well as promotion of safety and a sustainable lifestyle. It will be PZU Group's priority to always act transparently, relying on clearly defined ESG criteria.

„The measure of our business success consists not only of our financial results but also in generating them in a sustainable manner. This is our commitment to our shareholders. Fulfilling this commitment is possible by conducting business with respect for the environment, social issues and in line with the best corporate governance practises.”

Dorota Macieja, Member of the PZU Życie Management Board

The PZU Group also wants to become the best employer on the markets where it operates. For this purpose it will leverage the potential of its teams by increasing efficiency of cooperation between business areas, increasing speed and effectiveness of actions and quality of solutions implemented. This will enable a better utilization of resources (synergies) and knowledge, moreover, it will allow us to streamline processes.

4.4 Strategy operationalization

- **Increasing revenue and market share**

The main strategic objective in the business growth area is to increase the PZU Group's sales measured by gross written premiums. The strategic ambition for 2024 assumes sales of PLN 26 billion, up 10% from 2020. This goal will be achieved among others through an increase of sales by LINK4 and TUW PZUW subsidiaries and expansion of cooperation with Bank Pekao and Alior.

LINK4 - over 22 percent increase in gross written premiums by 2024 thanks to, among others, further consistent digital transformation; analytics will ensure growth and savings in marketing, sales, claims handling processes and better client management in all channels (omnichannel approach). This will also translate into an increase in LINK4's share in the TPL market to over 6 percent and, as a consequence, an increase in the property insurance market share to approx. 3 percent.

TUW PZUW - an increase in gross written premium by approximately 62% to about PLN 1 bn by 2024, which will translate into 2.3 percent of additional market share for the PZU Group. The assumed increases will be achieved thanks to, among others, operating and cost efficiencies. New products will also be introduced, among others in the cybersecurity area.

	#Trusted Partner in green transformation	#Better quality of life	#Responsible organization
	We support the development of a low-emission economy, contributing to sustainable transformation	We encourage communities to adopt a sustainable and safe lifestyle	We build a modern organization, which is managed responsibly
Our ambitions	→ PZU Group developing an insurance offer supporting climate and energy transformation → Responsible investor supporting safe and sustainable transformation → Green organization operating on the basis of sustainable decision-making and governance processes	→ Responsible partner supporting safety in local communities → Trustworthy guide to a sustainable lifestyle	→ Employer promoting responsible leadership and responsible attitudes among Employees → Trusted Partner in business promoting the sustainable development idea
Sustainable development goals			

Bank Pekao and Alior Bank – an increase of revenues from insurance and banking cooperation by approx. 200 percent, measured by written premium growth (over the duration of the Strategy 2021-2024) compared to the duration of the previous Strategy (2017-2020). This means growth of the cumulative gross written premium in cooperation with banks up to approx. PLN 3 bn. This will be achieved by using the potential of the database of 22 million unique clients and providing them with extended comprehensive insurance and banking offer adapted to their needs, including, among others, motor, protection, credit, property, travel, leasing and group insurance.

- **Building the most comprehensive offer on the market**

The 360° offer will be a personalized, comprehensive and dynamic product offering suited to the constantly changing expectations and needs of clients at each stage of their life. It combines services from all areas of the Group's activity, which gives clients access to a range of products consisting of life and non-life insurance, health and bank products and individual protection and investment solutions.

PZU Group also expands the offer for corporates to include supporting services, such as risk management assistance through advisory services and implementation of advanced tools as well as providing the IT system for fleet management (insurance administration, fleet risk management, advisory services, ongoing legal support for Polish international fleets).

By using the latest tools and new technologies, the PZU Group will improve the management of relations with clients. For this purpose, it will use new analytical environments, which automate and support decision-making processes. Introduction of Interactive CRM will improve communication and make sales processes more effective. Implementation of joint CRM projects between PZU and PZU Group's banks is also planned.

„PZU's top priority is to focus on clients and building long-lasting relations with them; that is why in this strategy we refer to an integrated client approach. We will build an ecosystem rewarding client loyalty delivering a comprehensive product offering through cooperation between multiple distribution channels”

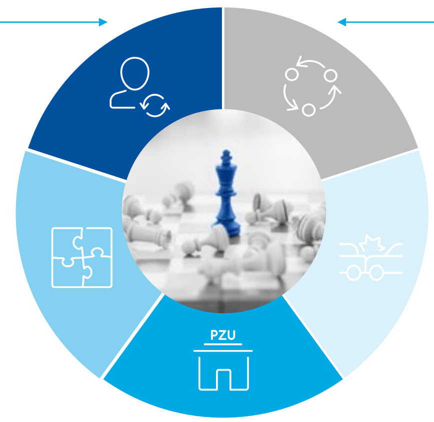
Małgorzata Sadurska, Member of the PZU and PZU Życie Management Boards

360 Offer°
The broadest offer on the market

We will provide our clients with the broadest product offering on the market, tailored to their changing needs and expectations.

Leveraging our unique client base

We will take advantage of the potential of PZU Group's data: its customer base includes more than two thirds of the Polish population. The main growth driver will be a higher number of products sold to an individual client.



Diverse distribution channels
We are wherever you are looking for us

We will use diverse distribution channels (branches, agents, banks, direct, multiagencies) to be close to our clients always.

Excellence in claims and benefits handling

Our ambition is to provide the best client service on the market. We will use new technologies to increase the speed and quality of claims and benefits handling in PZU.

Trusted brand

Our robust brand underpins strategy execution. For years, we have been the most recognizable and trusted insurance brand. According to brand awareness surveys, PZU is the most recognizable brand in Poland (spontaneous recognition of the PZU brand stands at 89% while assisted recognition is 100%)[3].

[3] Spontaneous recognition is the percentage of the target audience that is able to name the brand without assistance from the pollster. supported recognition is the percentage of the target group declaring familiarity with the brand after the pollster reads it aloud.

- **Developing modern business ecosystems**

The PZU Group wants to supply comprehensive solutions to help clients lead a healthy life and operate a sustainable business, provide medical care to their families or employees, protect their assets and help them grow, give them a feeling of stabilization and taking good care of their relatives regardless of what the future brings. The Group's goal is to develop business ecosystems, for institutional and individual Clients.

Ecosystem – benefits

The integrated ecosystem of non-salary employee benefits will include a set of advanced digital tools, which make it easier for employers to manage non-salary benefits, provide a single-point access to various types of benefits, save time, unify processes, ensure greater convenience and reduce administrative expenses. An ecosystem offers client new opportunities to build realtions in their daily life. Within the system client will have access to new attractive products, such as PZU Sport, PZU Cash and many other bundles linked to services of external partners.

Ecosystem – drivers

It is an extensive ecosystem that provides comprehensive assistance, including support when buying or selling a car, checks of a vehicle's technical condition, possible repairs and legal assistance, arranging roadside assistance and a replacement car, providing repair history, access to loyalty programs and discounts on services from the Group's partners. All this will be available at a single point of access, through safe and user-friendly digital tools. The new platform for drivers will be available to anyone, even those without insurance.

Ecosystem - health and medical care

The PZU Group wants to become a comprehensive medical advisor through a revolutionary approach to medical care. The new model will be based on:

- prophylactics;
- digital service (with the use of artificial intelligence – AI);
- comprehensiveness of services;
- Integrated Information System;
- decisions based on medical protocols, data and AI;
- possibility of providing treatment outside of the outpatient clinic.

In addition to the implementation of the new model, the Group plans to cooperate with the health care system, integrate medical centers and develop the PZU Zdrowie brand. This will allow to increase revenues and improve relations.

In the health area, the PZU Group will offer services relating to healthy nutrition and physical activity, preventive medical testing and full medical care – in the form of insurance, subscriptions or one-time paid services. The system will include teleconsultations, remote patient monitoring and household treatment while at the same time giving all of the interested parties quick and direct access to physicians in PZU Zdrowie's proprietary outlet network that is constantly growing and undergoing integration.

ECOSYSTEM FOR HEALTH

Individual health needs of different clients, among others:	Medical care **solutions**	Individual health needs of different clients, among others:
Prophylactics	Subscriptions	Sleep
Mental health	Insurance	Healthy nutrition
Medicines	Fee-for-service medical services (FFS)	Sport
Medical care	Financing of medical services	Beauty

Ecosystem - special offer for seniors

To address the challenges associated with demographic shifts, the PZU Group will put forward an offer to improve the wellbeing of seniors. It will include insurance corresponding to their expectations in terms of scope, sales and service channels, medical services with special emphasis placed on remote care at home and treatment in health spas, special safe bank and investment products and also a package of services to support seniors in their day-to-day life and community activities: ranging from assistance in traveling to see a physician, delivering medicines, organizing physical therapy, to household repairs or participation in sports classes and courses.

- Insurance
- Medical care
- Bank and investment offer
- Service offer to support seniors in their day-to-day life
- Augmenting activity and building a community

- **Development of the green insurance offer supporting sustainable development**

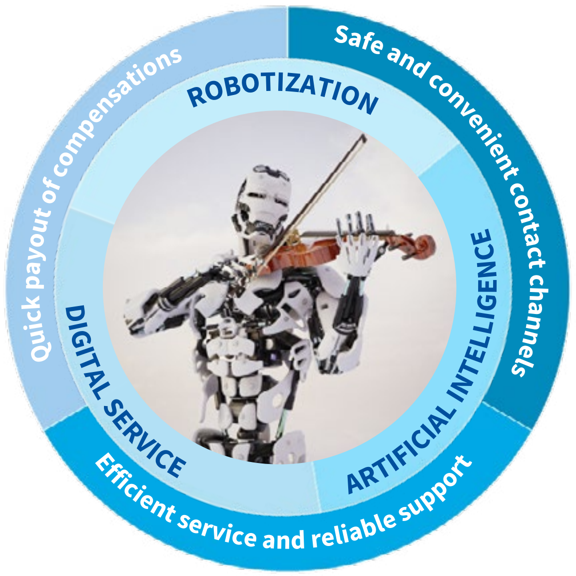
The PZU Group will develop the green insurance offer supporting green transformation. It will include products promoting low-carbon solutions in transport and supporting companies that develop such technologies. A new insurance offer will be introduced for environmentally-friendly equipment such as solar collectors, heat pumps, photovoltaic installations or small wind farms. The Group will also analyze the possibility of developing the existing product-related programs (such as e.g. Eco Risk, energy audits) for clients taking action to switch to green energy sources.

- **Introducing an integrated approach to all distribution channels**

In order to improve contacts with clients, the PZU Group plans to introduce a solution based on the omnichannel approach. It entails development of hybrid service paths in the service and sales process. This will enable further cooperation with e-commerce partners and expansion of the product portfolio in banking channels. Digitalization of sales and post-sales processes will ensure an increase of their efficiency and create a new channel for the activation of agents.

- **Implementing new technologies in the claims and benefits handling process**

Through development of technologies such as artificial intelligence, robotization and Big Data, ultimately it will be possible to automate the claims and benefits handling process. It will ensure quick payout of compensations or benefits. Comprehensive, efficient and friendly service will strengthen PZU's position as the most reliable insurer on the market.



Omnichannel approach

→ We will develop capabilities in the area of smooth change of channels in the sales and service process

→ We will provide a personalized offer

- Activation of the branch potential
- Modern Agent
- Cooperation with multiagencies and the dealer channel
- Development of the digital channel
- Affinity, Bancassurance
- New sources of value in the corporate segment

- **Further growth in the Baltic States**

The PZU Group is committed to continuing organic growth in the Baltic States and it is constantly monitoring the market with an eye to attractive acquisition targets. The strategic objective is to maintain 8% of the PZU Group's overall premium in the form of the gross written premium on international markets.

- **ESG Strategy**

The ESG Strategy adopted within the framework of the PZU Group business strategy in 2021-2024 lays out its ambitions in environmental protection, social commitment and corporate governance. PZU Group's activities will be based on sustainable growth principles, which include climate, social and economic factors.

In its approved ESG strategy, the PZU Group plans to:

#1 Increase of the current exposure to investments supporting climate and energy transition by 500 m PLN in 2021-2024

Planned actions:

- conducting investment activity while respecting the principles of sustainable development;
- supporting energy transition of the Polish economy – drawing up a development strategy for a portfolio in low-emission and sustainable industries until 2050;
- investing in climate-friendly products and sectors; systematically increasing the share of sustainable and green investments and funds.

#2 ESG assessment of 55% of the biggest corporate insurance clients from sectors sensitive to ESG risks

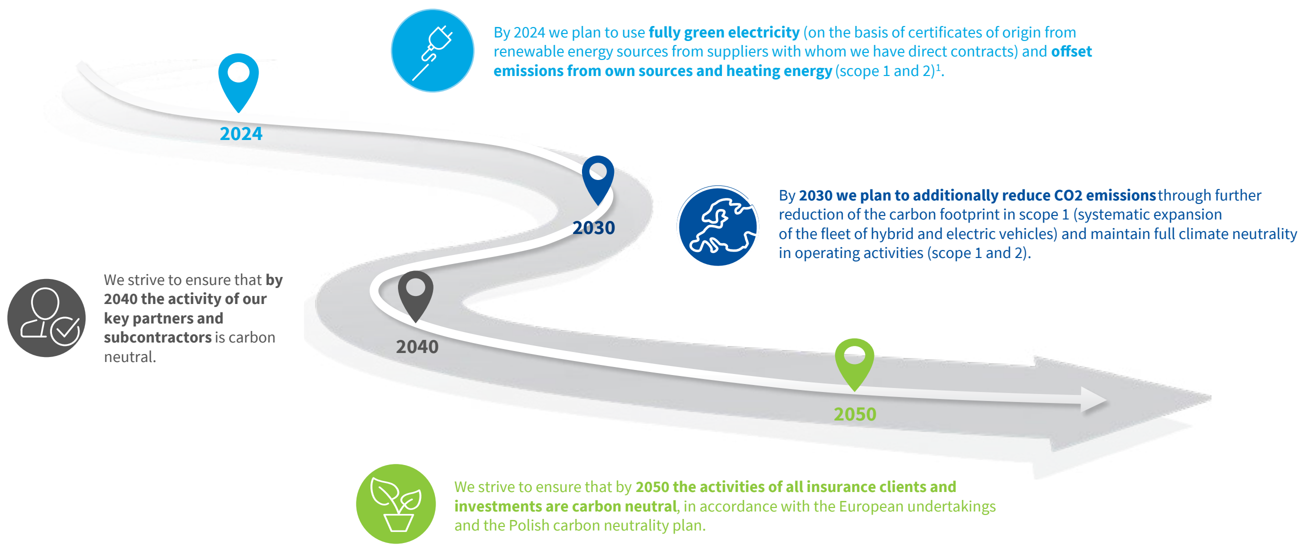
Planned actions:

- supporting clients and communities in their journey to climate neutrality;
- building the insurance offer that supports decarbonization and the process of changing the energy mix;
- managing risks related to own activity and climate transition.

#3 Achieving CO2 neutrality in own operations (scope 1 and 2)

Planned actions:

- offsetting direct CO2 emissions of PZU and PZU Życie to the extent they cannot be reduced;
- reducing consumption of resources – water, paper, energy, toners, petrol, Diesel oil;
- increasing environmental awareness among employees;
- incorporating ESG factors in the process of managing individual risk categories.



#4 Achieving 10-15 million recipients of social activities in the area of safety and sustainable lifestyle during the year and reaching 70% of employees with the well-being program

Planned actions:

- supporting education and training of road traffic participants;
- social campaigns to improve the safety on Polish roads;
- initiatives towards insurance education and projects supporting sustainable lifestyles;
- preventing mental health problems.

#5 Giving consideration to ESG targets in the company's strategic objectives and incorporating ESG requirements into 70% key procurement processes

Planned actions:

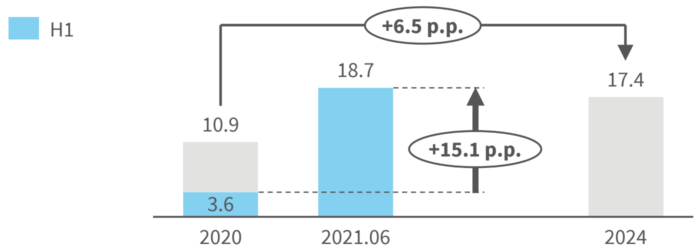
- developing an organizational culture based on openness and ethics;
- taking resposibility for developing responsible attitudes of employees at every level of the organization;
- demanding the highest business standards from collaborators (partners, suppliers);
- taking an active part as a member of key organizations focusing on sustainability operating on the Polish market.

4.5 ESG indicators

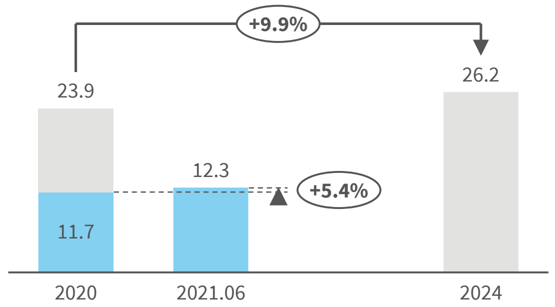
ESG goals in Senior Mgmt targets	Giving consideration to ESG targets in the Company's strategic objectives and handing them over for execution by Senior Management
55%	Assessment from the ESG perspective of 55% of the biggest corporate insurance clients from sectors sensitive to ESG risks
500 m	Increase of the current exposure in investments supporting climate and energy transformation by 500 m PLNin 2021-2024
70%	Percentage of key procurement processes which give consideration to ESG criteria
scope 1 and 2	Reaching climate neutrality of own operations thanks to reduction of emissions, purchase of green energy and compensation of CO2 emissions
70%	Percentage of employees covered by the #Well-being program
10-15 m	Number of recipients of social activities in the area of safety and sustainable lifestyle during the year

4.6 Financial measures and strategy execution

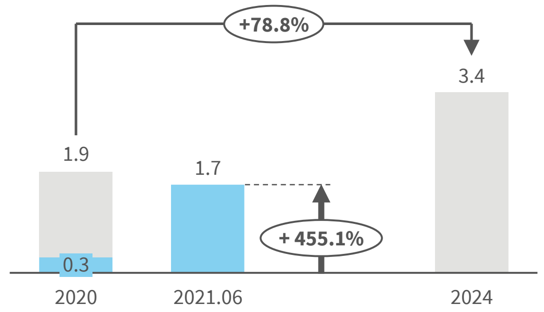
ROE (%)[4]



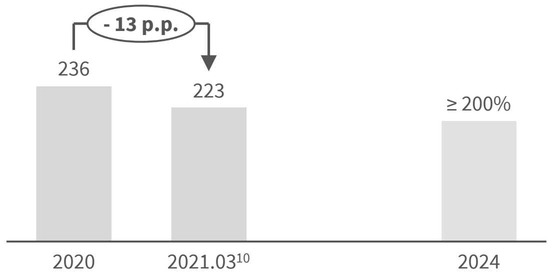
GROSS WRITTEN PREMIUM[5] (BN PLN)



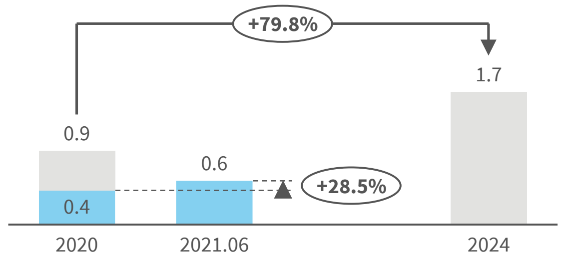
NET PROFIT[6] (BN PLN)



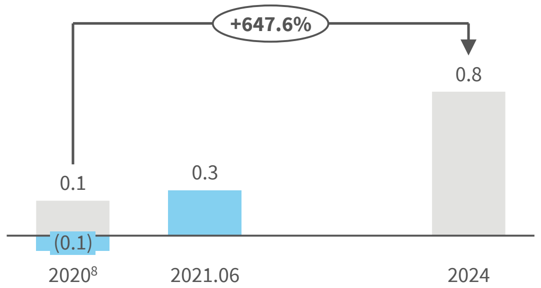
SOLVENCY II RATIO (%)



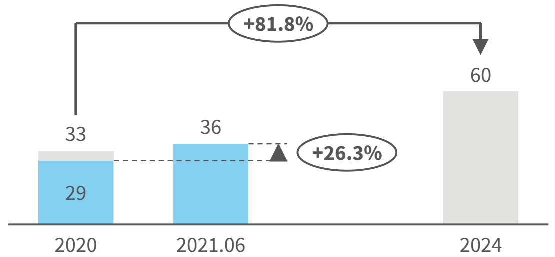
PZU ZDROWIE'S REVENUES (BN PLN)



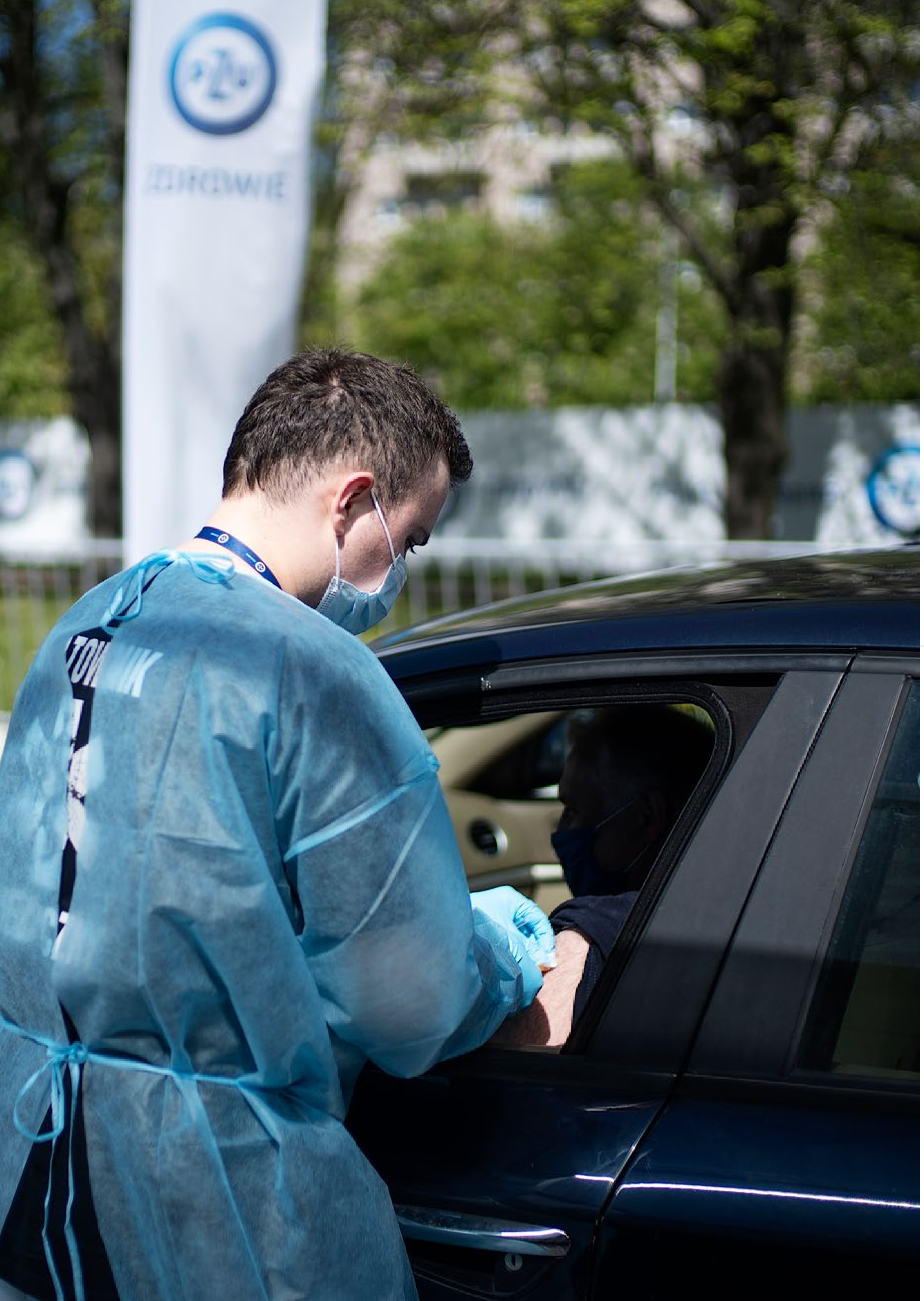
BANKS' CONTRIBUTION TO PZU GROUP'S NET RESULT[7] (BN PLN)



ASSETS UNDER MANAGEMENT[9] (BN PLN)



[4] Attributable to the holders of the parent company; [5] Gross written premium of the PZU Group; [6,7] Net profit attributable to the holders of the parent company; [8] Does not incorporate the impairment losses for intangible assets following from the acquisition of Alior Bank and Bank Pekao; [9] Third party assets under management TFI PZU, Pekao TFI and Alior TFI; [10] Data as of 2021.03 are not subjected to audit or review by a statutory auditor



5.

Financial results

Return on equity attributable to equity holders of the parent (ROE) at 18.7%. Increase in profit attributed to equity holders of the parent to PLN 1.7 billion. Gross written premium up 5.6% year on year.

In this chapter:

5.1 Key factors affecting the financial results achieved

In H1 2021, the net profit attributable to the PZU Group's parent company shareholders was PLN 1,671 million, compared to PLN 301 million in the corresponding period of 2020 (up 455.1%). Net profit reached PLN 2,524 million, i.e. PLN 2,220 million more than in H1 2020, and profit before tax stood at PLN 3,398 million, compared to PLN 1,055 million the year before

The net result rose 19.8% compared to the corresponding period of last year, net of non-recurring events.[1]

The operating profit in H1 2021 was PLN 3,406 million, up 222.5% compared to the result generated in H1 2020.

Operating profit was driven in particular by the following:

- higher gross written premium, especially in non-motor insurance in the mass and corporate client segment, in unit-linked insurance offered in cooperation with banks, individual protection products in the bancassurance channel and growth of sales in the Baltic companies, including health and property insurance products;
- higher performance on investing activities, including an increased valuation of shares in a logistics company following its IPO;
- better performance of the banking business, last year, there was a 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) coupled with a lower than last year costs of risk stemming from the recognition of additional provisions for expected credit losses;
- lower profitability in group and individually continued insurance on account of the increased loss ratio due to deaths of the insured and co-insured in the group protection portfolio and in continued insurance;
- lower profitability in the mass insurance segment – impact of higher loss ratio in motor insurance resulting from higher claim frequency (gradual return to the natural loss ratios after the pandemic period) and reduction of average payouts. This effect was partly mitigated by the increase in the profitability of the non-motor insurance portfolio, including insurance against fire and other damage to property, as a result of lower than the year before level of losses caused by atmospheric phenomena, including rainfall and hail;
- lower operating result in the corporate client segment, mainly as a consequence of lower profitability of the motor insurance portfolio (effect of the increased loss ratio due to a higher average payout and depreciation of PLN against EUR in foreign currency claims).

[1] Non-recurring events include: higher result on investment activity as a result of listing of a company from the logistics industry and in the corresponding period of last year, 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 (after adjustment for the impact exerted by deferred income tax and minority shareholdings the impact exerted on the net result attributable to the parent company's shareholders was PLN 42 million).

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

- increase in gross written premium by 5.6% to PLN 12,342 million. It concerned mainly non-motor insurance, including insurance against fire and other damage to property in the corporate client segment as a consequence of renewal of a long-term high-ticket contract, and other TPL and ADD and other insurance in the mass client segment, including mainly accident insurance as a consequence of development of sales in cooperation with the Group's banks. At the same time a higher gross written premium was recorded in the unit-linked insurance offered in cooperation with banks, individual protection products in the bancassurance channel and growth of sales in the Baltic companies, including health and property insurance products. After considering the reinsurers' share and movement in the provision for unearned premiums, the net earned premium was PLN 11,517 million, or 0.6% higher than in the corresponding period of 2020;
- 42.2% increase in investment income which, after factoring in interest expenses,[2] amounted to PLN 4,755 million, as compared to PLN 3,343 million in H1 2020. An increase in investment income was posted in banking activity and net of banking activity. In banking activity, the increase in profit was triggered by the lower costs of risk due to last year's establishment of additional loan provisions for the anticipated deterioration in the quality of the loan portfolio. At the same time interest income of both banks fell y/y as a result of a decrease in interest rates. Income on investing activity, excluding banking business[3], increased primarily thanks to a higher result earned on listed equities, in particular on the back of the higher valuation of the logistics company as a result of its listing on the stock exchange. The positive effect was additionally strengthened by better investment results in the portfolio of assets to cover the investment products. Investment results of the portfolio of assets held to cover the investment products alone do not affect the PZU Group's overall net result because it is offset by the movement in net insurance claims and benefits;
- the higher level of claims and benefits paid, which amounted to PLN 8,070 million, i.e. 10.7% more than in H1 2020. The increase pertained in particular to life insurance as a result of the increase in benefits for the insureds' and co-insureds' death in H1 2021, which is correlated with the frequency of these events in the overall population according to the data published by Statistics Poland (GUS), higher investment result in most unit-linked product portfolios in relation to the results recorded last year;
- acquisition expenses lower by 1.5% as they dropped from PLN 1,647 million in H1 2020 to PLN 1,623 million. This decline was mainly due to the shift in the mix of products and sales channels;
- increase in administrative expenses by 3.6%, to PLN 3,456 million, compared to PLN 3,335 million in H1 2020. Administrative expenses in the banking activity segment (net of adjustments on account of valuation of assets and liabilities to fair value) increased by PLN 124 million and in the insurance activity segments in Poland dropped by PLN 4 million, which resulted primarily from higher utilization of holiday time by employees, expiration of the assistance package for the sales area, and lower costs of providing protection and prevention measures related to the COVID-19 pandemic. The effect was partially offset by rising personnel costs as a result of wage pressures and the strengthening of marketing campaigns;
- change in the balance of other operating income and expenses – to PLN 1,404 million, compared to PLN 2,971 million in the corresponding period of 2020. This resulted mainly from the non-recurring effects from last year – 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 decrease of the BFG contribution from PLN 406 million in H1 2020 to PLN 310 million in H1 2021. At the same time, the burden related to the levy on financial institutions increased (the outcome of the growth of value of assets subject to the levy, and not of the levy rate).

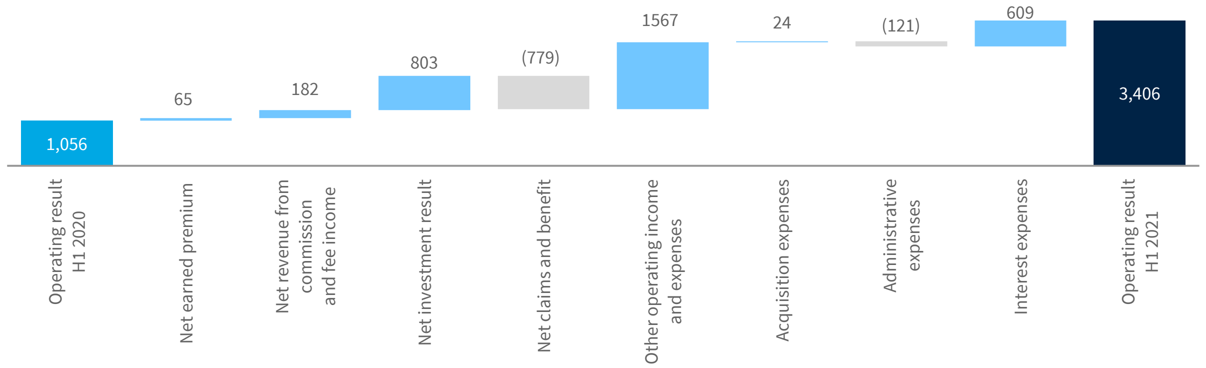
[2] including: interest income calculated using the effective interest rate, other net investment income, result on derecognition of financial instruments and investments, movement in allowances for expected credit losses and impairment losses on financial instruments, net movement in fair value of assets and liabilities measured at fair value, and interest expenses

[3] PZU Group net of the data for Bank Pekao and Alior Bank

Key data from the consolidated profit and loss account*	1 January – 30 June 2019 PLN million	1 January – 30 June 2020 PLN million	1 January – 30 June 2021 PLN million
Gross written premiums	11,839	11,691	12,342
Net earned premiums	11,334	11,452	11,517
Net revenues from commissions and fees	1,602	1,505	1,687
Net investment result**	5,613	4,149	4,952
Net insurance claims and benefits	(7,929)	(7,291)	(8,070)
Acquisition expenses	(1,616)	(1,647)	(1,623)
Administrative expenses	(3,276)	(3,335)	(3,456)
Interest expenses	(1,065)	(806)	(197)
Other operating income and expenses	(1,560)	(2,971)	(1,404)
Operating profit (loss)	3,103	1,056	3,406
Share in net profit (loss) of entities measured by the equity method	(3)	(1)	(8)
Profit (loss) before tax	3,100	1,055	3,398
Income tax	(902)	(747)	(874)
Loss on discontinued operations	-	(4)	-
Net profit (loss)	2,198	304	2,524
Net profit (loss) attributable to equity holders of the parent company	1,481	301	1,671

*restated data for H1 2019
** including: interest income calculated using the effective interest rate, other net investment income, result on derecognition of financial instruments and investments, movement in allowances for expected credit losses and impairment losses on financial instruments, net movement in fair value of assets and liabilities measured at fair value

Operating result of the PZU Group in H1 2021 (in PLN m)



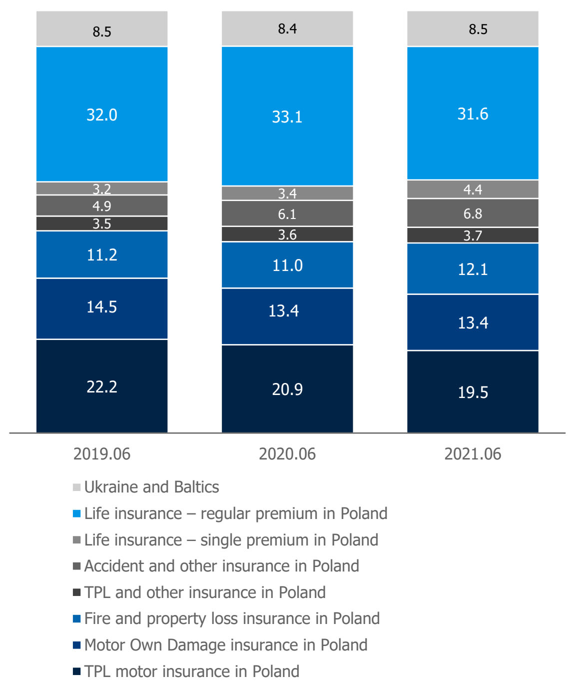
5.2 PZU Group's income

Premiums

In H1 2021, the PZU Group collected gross premiums of PLN 12,342 million, or 5.6% (PLN 651 million) more than in the corresponding period of 2020. The change in gross written premium (net of inter-segment premiums) was affected chiefly by:

- increase in the written premium in the corporate client segment by PLN 246 million (+20.2%, to PLN 1,462 million) – pertained chiefly to insurance against fire and other damage to property as a result of renewal of a long-term high-ticket contract, general TPL insurance as a result of entering into several high-unit-value contracts;
- increase by PLN 169 million (+22.2% y/y, to PLN 931 million) of the written premium in the individual insurance segment, including unit-linked products and protection products offered in collaboration with the banks and equity and term protection products offered in own channels;
- increase by PLN 164 million (+3.1% y/y, to PLN 5,384 million) in sales in the mass client segment in Poland – especially in the other TPL and ADD and other insurance, mainly accident insurance as a result of the development of the sales of products offered in cooperation with the Group's banks to mortgage loans and cash loans, increase in motor insurance written premium as a result of an increased volume of insurances and the average price of MOD insurance;
- increase by PLN 76 million (+7.8% y/y, to PLN 1,055 million) of sales of the foreign companies, mainly health insurance and property insurance in the Baltic States;
- decrease by PLN 3 million (-0.1% y/y, to PLN 3,510 million) of sales of the group and individually continued insurance – in particular revenues from group protection products and banking protection products. This effect was partly offset by attracting further contracts in health insurance products entered into in group or individually continued form.

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



Net revenues from commissions and fees

In H1 2021, net revenues from commissions and fees amounted to PLN 1,687 million, i.e. PLN 182 million or 12.1% more than in the previous year.

The revenues included primarily:

- net revenues from commissions and fees in the banking business of PLN 1,375 million, up PLN 186 million, or 15.6%, as compared to last year, included mainly: brokers' commissions, revenues and expenses related to the service of bank accounts and payment and credit cards, and fees charged for intermediation in insurance sales;
- revenues from pension insurance – in the amount of PLN 69 million, lower by PLN 4 million, or 5.5%, than in the corresponding period of the previous year; the decrease was caused mainly by the Insurance Guarantee Fund overpayment in the National Depository of Securities in H1 2020 associated with a decrease in net assets;
- revenues and fees received from funds and mutual fund management companies in the amount of PLN 240 million, down PLN 1 million, or 0.4%, relative to H1 2020.

Insurance segments (PLN million), local GAAP	Gross written premium (external)		
	1 January – 30 June 2019	1 January – 30 June 2020	1 January – 30 June 2021
TOTAL	**11,839**	**11,691**	**12,342**
Total non-life insurance – Poland (external gross written premium)	6,669	6,436	6,846
Mass insurance – Poland	5,264	5,220	5,384
Motor TPL	2,220	2,110	2,088
Motor MOD	1,298	1,243	1,310
Other products	1,746	1,867	1,986
Corporate insurance – Poland	1,405	1,216	1,462
Motor TPL	406	333	313
Motor MOD	423	325	348
Other products	576	557	801
Total life insurance – Poland	4,165	4,275	4,441
Group and individually continued insurance – Poland	3,471	3,513	3,510
Individual insurance – Poland	694	762	931
Total non-life insurance – Ukraine and Baltic States	939	903	970
Ukraine non-life insurance	117	107	105
Baltic States non-life insurance	821	796	865
Total life insurance – Ukraine and Baltic States	67	77	85
Ukraine life insurance	31	38	41
Baltic States life insurance	35	39	44

Net investment result and interest expenses

In H1 2021, the net investment result, including interest expenses, net of data from Bank Pekao and Alior Bank, was higher than in the corresponding period of last year, chiefly due to the following factors:

- an increased valuation of shares in a logistics company following its IPO;
- high result of the Private Equity portfolio due to increased profitability of investments in the final phase;
- higher 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 changes in insurance liabilities.

Result on other operating income and expenses

The balance of other operating income and expenses in H1 2021 was negative and stood at PLN 1,404 million, compared to the negative balance of PLN 2,971 million in the corresponding period of 2020. The change was attributable to the following factors:

- non-recurring effects in the corresponding period of last year: impairment loss on goodwill arising from the acquisition of Alior Bank – in the amount of PLN 746 million and Bank Pekao – in the amount of 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;
- lower BFG fees – decline from PLN 406 million in H1 2020 to PLN 310 million in 2021 as a result of a lower bank compulsory restructuring premium;
- higher burden with the levy on financial institutions, which in the case of PZU Group (jointly insurance and banking activity) from PLN 596 million in H1 2020 to PLN 637 million in 2021, which resulted from the higher burden to banking activity resulting from the increase in value of assets forming the taxable base (the rate of the levy did not change);
- recognizing a provision of PLN 91 million in connection with the tax risk in PZU Finance AB;
- decrease by PLN 27 million of the costs of amortization of intangible assets purchased in company acquisition transactions.

5.3 PZU Group's claims paid and technical provisions

Net claims and benefits (taking into account the movement in technical provisions) in H1 2021 reached PLN 8,070 million, i.e. 10.7% more than the year before. This change was driven primarily by:

- rise in insureds' and co-insureds' death benefits in the group and individually continued insurance corresponding, as follows from Statistics Poland's data, with a higher mortality in the whole population in the period;
- higher benefits in riders related to hospital treatment and surgical operation and permanent disability and dismemberment in group and continued insurance as a result of unusually low benefits last year due to lower activity related to the onset of the pandemic;
- increase of technical provisions in investment life insurance, both as a result of higher payments into unit-linked fund accounts as well as higher result on investing activity compared to the results generated last year (the latter 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);
- higher loss ratio in motor insurance resulting from higher claim frequency (gradual return to the natural loss ratios after the pandemic period) in the mass insurance segment and higher average payout, as well as depreciation of PLN against EUR in foreign currency claims in the corporate insurance segment;
- the decrease in the loss ratio in non-motor insurance in the mass client segment – as a result of lower than the year before level of losses caused by atmospheric phenomena, including rainfall and hail;
- the loss ratio in the non-motor insurance portfolio in the corporate client segment remained on the same level as a consequence of a lower loss ratio in the group of natural calamity insurance, which was partly offset by the deterioration in the property damage insurance group.

5.4 PZU Group's acquisition and administrative expenses

Acquisition expenses in H1 2021 dropped by PLN 24 million, or 1.5%, in comparison to the previous year and stood at PLN 1,623 million. This decline was the result of the shift in the mix of products and sales channels. .

In H1 2021, PZU Group's administrative expenses were PLN 3,456 million compared to PLN 3,335 million in the previous year, i.e. up PLN 121 million. Administrative expenses in the banking activity segment (net of adjustments on account of valuation of assets and liabilities to fair value) increased by PLN 124 million, including in Pekao Bank, in connection with inclusion of the costs of the taken over Idea Bank business. Alior Bank recorded a decline as it maintained its cost discipline. The decrease of administrative expenses excluding the banking business results primarily from higher utilization of holiday time by employees, expiration of the assistance package for the sales area, and lower costs of providing protection and prevention measures related to the COVID-19 pandemic. The effect was partially offset by rising personnel costs as a result of wage pressures and the strengthening of marketing campaigns.

5.5 Drivers and atypical events affecting the results

In the first half of 2021, a higher result on investing activity was recorded due to the IPO of a logistics company held in the portfolio of a mutual fund managed by TFI PZU. In H1 2021, the increase in income on that account amounted to PLN 548.7 million.

PZU Group's H1 2020 resulted was burdened by a non-recurring impairment loss on goodwill arising from the acquisition of Alior Bank and Bank Pekao For Alior Bank, the impairment loss was PLN 746 million, and for Pekao – PLN 555 million. The result was also determined by a one-off 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.

In the case of continued and group insurance, the technical rate applied for the calculation of provisions in life insurance was reduced to 1.5% in June 2020. Previously, it was between 1.5% and 3%, depending on the date of execution or modification of the policy. Moreover, the PZU Group updated the assumptions about the behavior of the portfolio in connection with the mortality of the insured and the probability of the insured having co-insureds to prevent the growing mismatch between it and the previously adopted assumptions. It also modified its method of calculating provisions for the group insurance portfolio by adopting an individual approach instead of the hypothetical portfolio structure.

5.6 PZU Group's asset and liability structure

As at 30 June 2021, the PZU Group's total assets were PLN 391,342 million, up PLN 12,368 million compared to the end of 2020.

Assets

53.6% of the Group's assets (versus 52.1% at the end of 2020) represented loan receivables from clients. Their balance reached PLN 209,645 million. It increased compared to the end of 2020 by PLN 12,357 million, mainly due to the growing loans (particularly mortgage loans) and increase of the balance of purchased receivables in the business segment.

37.6% of assets (versus 39.5% at the end of 2020) were investments: investment financial assets, investment properties and financial derivative instruments. They totaled PLN 147,016 million and were down PLN 2,738 million versus the end of last year. The decrease in the value of investments was associated particularly with Bank Pekao and was related to the lower value of the portfolio of government debt securities. Net of the banking business, the growth in the value of the investment portfolio resulted from the generated investment result and inflow of premiums driven by business growth.

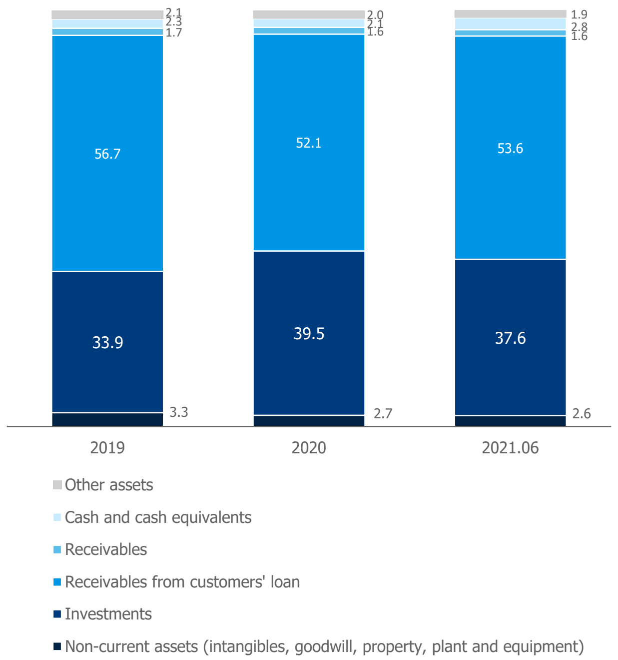
2.6% of assets (versus 2.7% at the end of 2020) were non-current assets – in the form of intangible assets, goodwill and property, plant and equipment. They amounted to PLN 10,120 million and were down PLN 50 million versus the end of 2020. The decrease pertained in particular to property, plant and equipment.

2.8% of assets (versus 2.1% at the end of 2020) were cash and cash equivalents. Their value stood at PLN 10,921 million and was PLN 2,982 million higher than at the end of 2020. This resulted from the increased balance of cash accumulated by Bank Pekao.

1.6% of assets, just like at the end of 2020, represented the PZU Group's receivables, including receivables under insurance contracts and the current income tax. They amounted to PLN 6,360 million and were higher by PLN 114 million compared to the end of 2020. The increase was primarily due to higher receivables on direct insurance and on current income tax.

0.03% of assets (versus 0.2% at the end of 2020) were the assets held for sale. Their balance dropped in H1 2021 by PLN 474 million to PLN 116 million. It concerned mainly the properties held by real estate sector mutual funds as held for sale.

PZU Group's asset structure (in %)



Equity and liabilities

As at the end of H1 2021, the PZU Group's consolidated equity soared to PLN 41,627 million, which was up PLN 1,776 million versus the end of 2020.

The value of the non-controlling interests increased by PLN 85 million, to PLN 24,711. This was driven by the decrease in the valuation of debt instruments and cash flow hedging instruments measured at fair value through other comprehensive income and the result generated by Alior Bank and Bank Pekao attributable to non-controlling owners of PLN 853 million.

Equity attributable to the parent company's shareholders dropped by PLN 1,861 million – PLN 16,916 million. This is the effect of the decline in the valuation of debt instruments and cash flow hedging instruments measured at fair value through other comprehensive income, distribution of PZU's profit for 2020, including the allocation of PLN 3,022 million as a dividend and the net profit generated in H1 2021 attributable to parent company's shareholders in the amount of PLN 1,671 million.

65.9% of the Group's equity and liabilities at the end of H1 2021 were liabilities to clients under deposits. They amounted to PLN 257,775 million and were higher by PLN 15,800 million than as at 31 December 2020. This resulted from the increase in current deposits of Bank Pekao and Alior Bank by PLN 21,963 million, which was partly offset by a decrease in term deposits.

As at 30 June 2021, the PZU Group had liabilities arising from own debt securities totaling PLN 6,133 million, including:

- PLN 3,961 million on bonds issued by Bank Pekao and Alior Bank,
- PLN 897 million on certificates of deposit issued by Bank Pekao and Alior Bank,
- PLN 1,275 million on covered bonds issued by Bank Pekao.

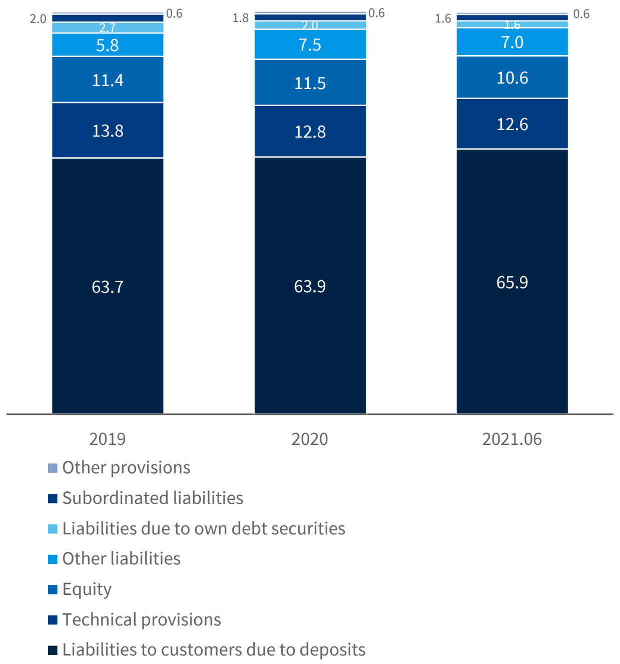
As at 30 June 2021, the PZU Group's subordinated liabilities amounted to PLN 6,415 million, down by PLN 264 million from the end of 2020.

12.6% of equity and liabilities at the end of H1 2021 was the value of technical provisions. They amounted to PLN 49,463 million and were higher by PLN 992 million compared to the end of 2020. This was affected by:

- higher provision for unearned premiums in non-life insurance resulting mainly from the return to the insurance sales growth rates from before the COVID-19 pandemic;
- higher provisions in unit-linked life insurance products due to the high positive result on investment activity.

3.8% of equity and liabilities at 30 June 2021 was other liabilities in the amount of PLN 14,747 million. They were higher by PLN 2,313 million than as at 31 December 2020. The change was caused primarily by liabilities to shareholders for dividends.

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



Cash flow statement

As at 30 June 2021, net cash flows reached PLN 3,004 million, PLN 5,346 million less compared to the end of H1 2020. This decrease was recorded in particular in flows from operating activities.

Material off-balance sheet line items

The value of contingent liabilities as at 30 June 2021 was PLN 65,308 million, that is PLN 477 million less than at yearend 2020. This was caused predominantly by:

- PLN 4,973 million in contingent liabilities for renewable limits in settlement accounts and credit cards,
- PLN 38,732 million in liabilities from loans in tranches,
- PLN 8,975 million in liabilities in the form of awarded guarantees and sureties,
- PLN 5,141 million in the form of guarantees for the issue of securities.

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) – 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) – property, accident, TPL and motor insurance products offered to individual clients and entities in the small and medium enterprise sector by PZU and LINK4;
- life insurance: group and individually continued insurance – protection, investment (which are not investment contracts) and health insurance; PZU Życie offers it to employee groups and other formal groups, e.g. to trade unions, and persons under a legal relationship with the policyholder (e.g. employer or trade union) enroll in the insurance agreement; individually continued insurance covers persons who acquired the right to individual continuation during the group phase;
- individual life insurance: protection, investment (which are not investment contracts) and health insurance; PZU Życie provides it to individual clients and the insurance agreement applies to a specific insured who is subject to individual underwriting;
- investments – the segment reporting according to the Polish Accounting Standards comprises investments of the PZU Group's own funds, understood as the surplus of investments over technical provisions in PZU, LINK4 and PZU Życie plus the surplus of income earned over the risk-free rate on investments reflecting the value of technical provisions in insurance products, i.e. surplus of investment income over the income allocated at transfer prices to insurance segments; the segment includes also income from other free funds in the PZU Group, including consolidated mutual funds;
- pension insurance – the segment includes income and expenses of PZU OFE pension funds;
- banking – a broad range of banking products offered to corporate and retail clients by Pekao and Alior Bank;
- Baltic States – non-life insurance and life insurance products provided in the territories of Lithuania, Latvia and Estonia;
- Ukraine – 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 in unit-linked form;
- other – consolidated companies that are not classified in any of the enumerated segments.

Corporate insurance

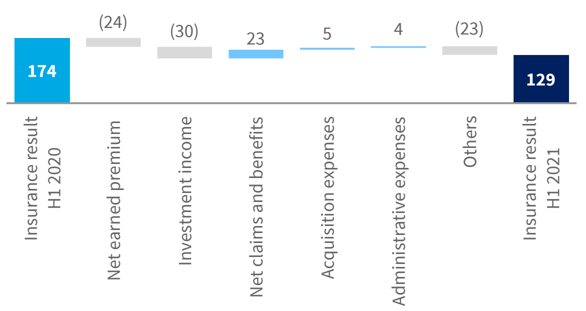
In H1 2021, in the corporate insurance segment, the PZU Group generated an operating result of PLN 129 million, signifying a 25.9% decline compared to the corresponding period of 2020.

The result was affected mainly by the following factors:

- net earned premium lower by PLN 24 million (-2.0% y/y) combined with an increase in gross written premium by PLN 249 million (+20.3% y/y) relative to H1 2020. The movement in the PZU Group's gross written premium was driven by:
  - higher sales of motor insurance (+0.8% y/y) offered to both lease firms and in fleet insurance, resulting from the decrease in motor TPL and increase in MOD; primarily as a result of a higher number of insurance contracts (effect of recovering sales of new vehicles and recovery in the leasing market after the COVID-19 pandemic and high uncertainty associated with its economic effects). This effect was partly offset by the decline in the average premium due to the continued price pressure,
  - higher written premium from insurance against fire and other damage to property (+102.8% y/y) as a consequence of renewal of a high-value long-term contract,
  - an increase the premiums in general TPL insurance by PLN 20 million (+11.4% y/y) as a result of concluding several high-unit-value contracts, including with clients from the transport industry,
  - increased sales of assistance products resulting from the development of strategic partnerships in TUW PZUW, offset by a lower premium from cargo insurance;
- drop in the net value of claims and benefits by PLN 23 million (-3.0% y/y), which, combined with the net earned premium lower by 2.0%, resulted in improvement of the loss ratio by 0.6 percentage points to 63.8%. The decrease in the total loss ratio in the corporate insurance segment was driven by the following factors:
  - higher loss ratio in the motor insurance group, both in TPL and in MOD insurance. The increased loss ratio resulted mainly from the higher average payout and depreciation of the Polish zloty vs. the euro in foreign currency claims, which was partially offset by a lower frequency of reported claims,
  - the loss ratio in the non-motor insurance portfolio remained on a stable level (increase of the loss ratio by 0.2 p.p. y/y) as a consequence of the deterioration of the ratio in the property damage insurance group, which was partly offset by a lower loss ratio in the group of natural calamity insurance;
- income from investments allocated to the segment according to transfer prices decreased by PLN 30 million (-52.6% y/y) in particular as a result of the depreciation of the euro against the Polish zloty, compared to the appreciation in the corresponding period last year. At the level of the PZU Group's overall net result, this effect was partly offset by the changed level of insurance liabilities covered by foreign currency assets;
- decline by PLN 5 million (-2.2% y/y) in acquisition expenses (including reinsurance commissions), which, along with a 2.0% y/y decrease of net earned premium, translated into maintaining the acquisition expense ratio at the level of 19.5%. Maintaining the acquisition expense ratio is a result of changes in the portfolio structure, including an increase in the commission coefficient in motor insurance, accompanied by a decrease in the coefficient in non-motor insurance on a growing portfolio of this insurance;
- administrative expenses in this segment amounted to PLN 69 million, down by PLN 4 million, or 5.5% less, than the year before, driven primarily by the higher utilization of holiday time and lower expenditures associated with providing protection and prevention measures in the COVID-19 pandemic period. The effect was partially limited

by rising payroll expenses and intensified marketing activities.

Insurance result in the corporate insurance segment (in PLN m)



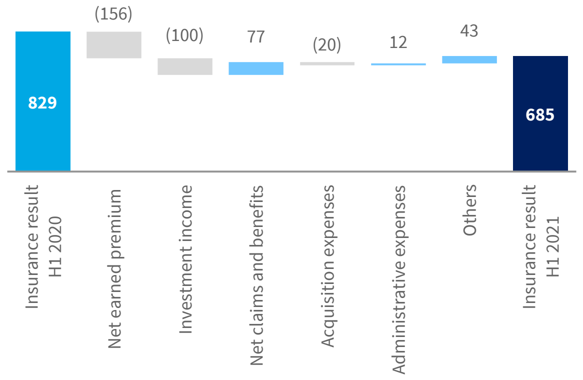
Mass insurance

In H1 2021, the mass insurance segment earned an operating result of PLN 685 million, which was 17.4% less than in the corresponding period last year.

The following factors affected this segment's performance in H1 2021:

- decrease in net earned premium by PLN 156 million (-3.1% y/y) combined with an increase in gross written premium by PLN 145 million (+2.8% y/y). The PZU Group posted the following under sales:
  - higher written premium in motor insurance (+1.1% y/y) as a consequence of an increase in the number of MOD insurance contracts with a simultaneous increase in the average price – recovery in sales after a period of limited availability due to the COVID-19 pandemic restrictions;
  - higher written premium in other TPL insurance (+7.0% y/y) and ADD and other insurance (+20.3% y/y), mainly 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; the effect was partly offset by the decrease in the travel insurance premium in connection with the restrictions on domestic and international traffic imposed during the Covid-19 pandemic;
  - drop in sales of insurance against fire and other damage to property, chiefly in crop insurance and farm building insurance resulting from, among others, the high competitiveness of the market and the natural erosion of the portfolio. This effect was partly offset by maintaining high growth rate of sales in residential insurance and small and medium-sized enterprise insurance
- lower net insurance claims and benefits by PLN 77 million (-2.5% y/y), which, when coupled with net earned premium being down 3.1%, translated into the loss ratio deteriorating by 0.3 p.p. relative to H1 2020. This change was driven mainly by:
  - higher loss ratio in motor insurance resulting from higher claim frequency (gradual return to the natural loss ratios after the pandemic period) and reduction of average payouts,
  - lower loss ratio in non-motor insurance, including insurance against fire and other damage to property, as a result of lower than the year before level of losses caused by atmospheric phenomena, including rainfall and hail;
- income from investments allocated to the segment according to transfer prices decreased by PLN 100 million (-35.8% y/y to PLN 179 million) chiefly as a result of the depreciation of the euro against the Polish zloty, compared to the appreciation in the corresponding period last year and the lower level of market interest rates. The exchange rate effect was partly offset at the level of the PZU Group's overall net result by the changed level of insurance liabilities covered by foreign currency assets.
- rise in acquisition expenses (including reinsurance commissions) by PLN 20 million (+2.0% y/y), to PLN 1,009 million, which, when coupled with the net earned premium being down 3.1%, caused growth in the acquisition expense ratio by 1.0 p.p. This was driven, among others, by a higher level of direct acquisition expenses resulting from a change in the sales channel mix and the product mix (higher share of the multiagency and banking channel in the portfolio combined with lower share of agricultural insurance carrying lower commission rates);
- the decrease of administrative expenses by PLN 12 million (-3.5% y/y) to PLN 329 million, resulting primarily from the effect of higher utilization of holiday time by employees, expiration of the assistance package for the sales area, and lower costs of providing protection and prevention measures related to the COVID-19 pandemic. The effect was partially offset by rising personnel costs as a result of wage pressures and the intensification of marketing activities.

Insurance result in the mass insurance segment (in PLN m)



Group and individually continued insurance

In H1 2021, the operating result in the group and individually continued insurance segment amounted to PLN 356 million, which is 61.4% less than in the previous year.

The main reason for this decline was the increase in benefits paid, which was not only related to COVID-19 but also related to the overall burden on the health care system and the increase in mortality in the population. The rising mortality rate has been observed since the fourth quarter of the previous year, while this year it also affected younger age groups which are more commonly insured. In addition, last year, due to the onset of the pandemic and the introduced restrictions, the significantly lower activity of the population translated into lower benefit payouts in riders related to hospital treatment and surgical operation and permanent disability and dismemberment.

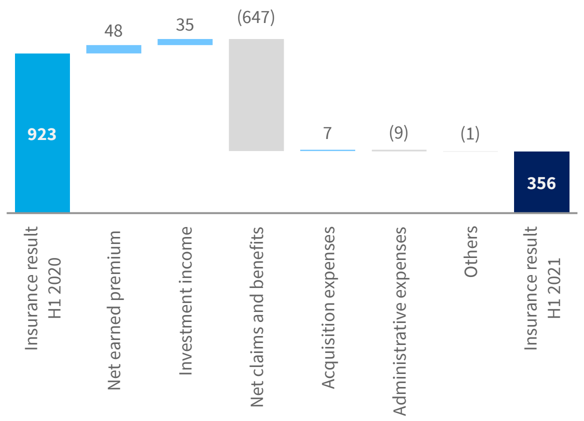
Factors affecting this segment's performance and its movements in H1 2021:

- increase in the net earned premium by PLN 48 million (+1.4%) in connection with the derecognition of the provision for unexpired risk in the amount of PLN 51 million (established last year for the purpose of covering the deficit, if any, of future premiums caused by the anticipated higher mortality due to the COVID-19 pandemic in the middle of this year) and decrease in gross written premium by PLN 3 million (-0.1% y/y). The change in gross written premium was driven by:
  - reduced revenues from group protection products due to the increased attrition of groups of insureds (work establishments),
  - declining portfolio of bank protection products (new contracts are concluded already in individual form),
  - attracting further contracts in group health insurance products or individually continued products (new clients in outpatient insurance and sales of different options of the medicine product) – at the end of 2020, PZU Życie had more than 2.3 million in-force contracts of this type,
  - up-selling of other insurance riders as part of individually continued products, including in the malignant neoplasm insurance rider in Q2 2021.
- income from investment activity higher by PLN 35 million (+11.9% y/y), composed of income allocated according to transfer prices and income from investment products. It was driven by the improved performance of unit-linked products, in particular ESP and reduced income allocated to protection products. At the same time income from investment products does not affect the result of the group and individually continued insurance segment because it is offset by changes in insurance liabilities;
- higher insurance claims and benefits along with the movement in other technical provisions by PLN 647 million (+27.5% y/y), in the amount of PLN 3,002 million. It was the outcome of:
  - rise in insureds' and co-insureds' death benefits in 2021, corresponding, as follows from Statistics Poland's data, with a higher mortality in the whole population in the period,
  - higher benefits in riders related to hospital treatment and surgical operation and permanent disability and

dismemberment as a result of unusually low benefits last year due to lower activity related to the onset of the pandemic,
- growing outpatient health insurance benefits due to low base - limited availability of health care last year caused deferment of some planned procedures to future periods,
- lower childbirth benefit payouts, which was correlated with the lower number of births observed in the overall population and presented by Statistics Poland,
- an increase in technical provisions in ESP (a third pillar retirement security product), which was influenced by higher than in 2020 investment performance coupled by a stable level of contributions on unit-linked fund accounts,
- faster pace of converting long-term insurance policies into yearly-renewable term business in type P group insurance. As a result, in H1 2021, provisions were released for PLN 8 million, while last year a real increase of provisions was recorded mainly due to the recalculation associated with the change of the technical rates and change of the mortality tables;

- acquisition expenses in the segment of group and individually continued insurance lower by PLN 7 million (-3.6% y/y). This was determined by the lower indirect costs in group protection insurance;

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



- administrative expenses higher by PLN 9 million (+2.9% y/y) primarily on the back of higher personnel costs as a result of the salary pressure and strengthening marketing campaigns. This effect was partly offset by the higher utilization of holiday time by employees, expiration of the assistance package for the sales area, and lower costs of providing protection and prevention measures related to the COVID-19 pandemic.

Individual insurance

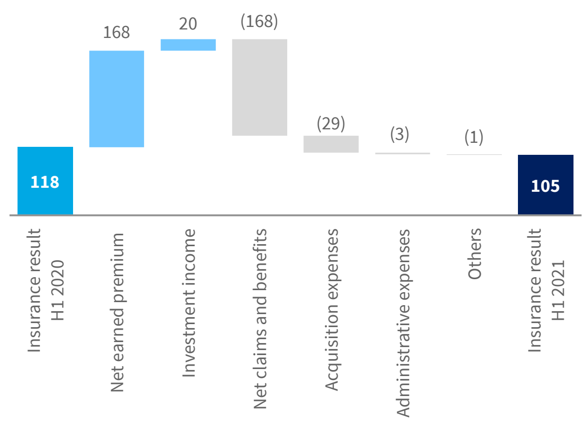
The operating result in the individual insurance segment in H1 2021 was PLN 105 million, meaning it was down by PLN 13 million (-11.0%) as compared to last year.

This is an outcome of the growing sales of unit-linked protection products and the resulting higher commissions, decrease in income from investments allocated according to transfer prices, and growing portfolio of protection products in the banking channel and term products in the proprietary network.

Factors affecting this segment's performance and its movements in H1 2021:

- gross written premium higher by PLN 169 million (+22.2% y/y), to PLN 931 million as a result of:
  - increase in the portfolio of protection products in the bancassurance channel, in particular sold in cooperation with Alior Bank, where the second product was introduced to the offering in June 2020 – individual insurance for mortgage loans,
  - growth in premium generated in investment insurance in the bancassurance channel, mainly in products offered in collaboration with PZU Group banks,
  - constantly rising level of premiums in the case of protection products in endowments and term insurance offered in own channels– the level of sales and premium indexation under the agreements in the portfolio exceeds the value of lapses;
- income from investment activity higher by PLN 20 million (+15.3% y/y), composed of income allocated according to transfer prices and income from investment products. This was predominantly a consequence of the improved performance of investment products caused by the improving market situation. At the same time income from investment products does not affect the result of the individual insurance segment because it is offset by changes in insurance liabilities;
- higher insurance claims and benefits along with the movement in other technical provisions by PLN 168 million (+25.4% y/y). This was driven both by the development of the protection and unit-linked business in cooperation with banks, where in connection with single premiums there are high initial costs of establishment of provisions. Additionally, in the case of products offered in the proprietary network, good investment performance in unit-linked funds translated into an increase in the policyholder risk provision. From the point of view of the operating result, the latter factor was not of significance – it was offset by a higher income from investments.
- acquisition expenses higher by PLN 29 million (+38.7% y/y), to PLN 104 million. The increase was due to higher remuneration of intermediaries for the sale of protection products as well as investment products in the banking channel (directly related to the increase in premium collected) and additional support costs related to the development of business in the proprietary network;
- administrative expenses higher by PLN 3 million (+7.7% y/y) primarily on the back of higher personnel costs as a result of the salary pressure and strengthening marketing campaigns. This effect was partly offset by the expiration of the assistance package for the sales area, and lower costs of providing protection and prevention measures related to the COVID-19 pandemic.

Insurance result in the individual insurance segment (in PLN m)



Investments

Operating income of the investment segment (based exclusively on external transactions) were higher than in the corresponding period of last year, primarily due to the appreciation of shares in a logistics industry company.

Banking segment / banking activity

In H1 2021, the banking activity segment generated PLN 1,556 million in operating profit (without amortization of intangible assets acquired as part of the acquisition transactions of the banks), which represented an increase of PLN 2,563 million compared to the corresponding period of 2020. The H1 2020 result without the impairment of Alior Bank's and Pekao's goodwill increased by PLN 1,262million year on year.

The higher result was associated mainly with lower costs of risk, higher fee and commission income, whose increase offset the negative impact of interest rate cuts, and lower regulatory fees.

Bank Pekao's contribution to PZU Group's operating profit in the "Banking business" segment (net of the amortization of intangible assets acquired as part of the acquisition transaction) was PLN 1,196 million, while Alior Bank's contribution PLN 360 million. The segment's performance in comparison to the corresponding period of the previous year was affected by Alior Bank's goodwill impairment of PLN 746 million and Bank Pekao's goodwill impairment of PLN 555 million from H1 2020.

Investment income, being the key component of the banking segment's revenue, increased to in 2021 PLN 3,526 million (+9.1% y/y). It consists of interest and dividend income, trading result and result on impairment losses. The increase in investment income was primarily due to lower allowances for expected credit losses due to recognizing additional allowances related to the COVID-19 pandemic in the first half of last year. The above effect was offset by lower net interest income correlated with the 2020 interest rate cut - in total by approximately 140 bps.

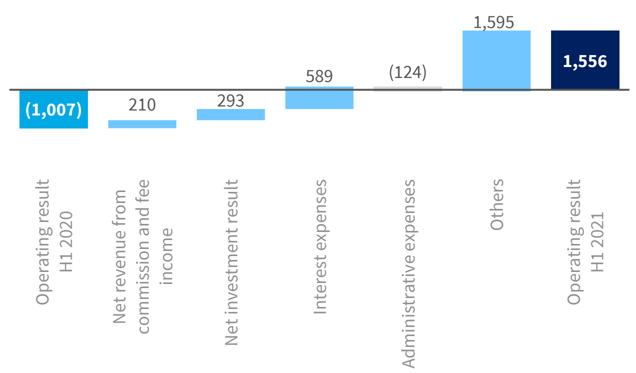
The result on allowances for expected credit losses and impairment of financial instruments at Bank Pekao amounted to PLN 368 million in H1 2021 and was 54% lower y/y than in the corresponding period of 2020. The cost of risk (CoR) in H1 2021 year amounted to 0.43%, down 58 bps y/y.

In Alior Bank, the result on the allowance for expected losses amounted to PLN 508.5 million in H1 2021 compared to PLN 1,211.3 million in H1 2020, an improvement of 58%. The cost of risk for the reported period of 2021 was 1.64%, compared to 3.96% for the corresponding period of 2020.

At the end of H1 2021 the total portfolio of loan receivables in both banks increased by PLN 12.9 billion (+6.5% y/y). Despite the COVID-19 pandemic, at both banks, loan product receivables increased, mainly due to growth in mortgages and corporate loans, and as a result of the acquisition of Idea Bank's assets.

The profitability measured by the net interest margin was 2.29% for Bank Pekao and was lower by 45 bps relative to the corresponding period of 2020, while 3.65% for Alior Bank, i.e. 48 bps less than the year before. The difference in the net interest margin level between Bank Pekao and Alior Bank results in particular from the differences in the structure of the loan receivables portfolio. Interest margin decreased in both banks as a result of the interest rate cuts that took place in March, April and May 2020 and due to the quicker increase in the volume of deposits than loans.

Operating result in the banking segment (in PLN m)



Net fee and commission income in the banking segment increased 14.7% relative to last year to PLN 1,635 million, mainly due to the adaptation of the banks' offering to changing market conditions and a positive trend in the capital markets, partially offset by the negative impact of lower customer activity during the pandemic (mainly translated into lower commissions on the card business), and regulatory changes in the area of mutual funds.

The segment's administrative expenses increased to PLN 2,547 million, up 5.1% compared to the corresponding period of 2020. In the case of Bank Pekao they amounted to PLN 1,830 million (+10.4% y/y) and of Alior Bank – PLN 718 million (-6.2% y/y). Bank Pekao's operating expenses excluding the costs of the acquired Idea Bank business in H1 2021 were about 1% higher y/y, well below inflation, despite the costs incurred on investments in operational transformation and digitalization. The overall decrease in Alior Bank's costs was due to, among other things, maintaining strong cost discipline, which contributed to the reduction of each cost item.

In addition, other contributors to the operating result included other operating income and expenses, above all the Bank Guarantee Fund fees (PLN 310 million) and the levy on other financial institutions (PLN 469 million). Bank Pekao's result was additionally affected by a restructuring provision in the amount of PLN 120 million in connection with the agreement with the trade unions concerning group layoffs of 23 March 2021.

The Cost/Income ratio[4] was 44% for both banks (46% for Bank Pekao and 41% for Alior Bank), i.e. 0.9 p.p. more than the year before. The increase is mainly due to the acquisition of Idea Bank by Bank Pekao, and the higher costs of the combined organizations were not fully offset by income, due to lower net interest income as a result of the interest rate cuts in Q2 2020.

Pension insurance

The operating profit in the pension insurance segment amounted to PLN 37 million in H1 2021, i.e. 21.3% less than in the corresponding period of 2020.

[4] Cost/Income ratio, C/I ratio (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; a decrease in the value of this indicator signifies an improvement in efficiency

Revenues on core business in the pension insurance segment in H1 2021 and in the corresponding period of 2020 were PLN 70 million and PLN 73 million, respectively. The decrease PLN 3 million (4.1% y/y) in other operating income was caused mainly by the Insurance Guarantee Fund overpayment in the National Depository of Securities in H1 2020 associated with a decrease in net assets.

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

Administrative expenses of PTE PZU rose to PLN 31 million, or 19.2% y/y. The main contributing factor was the obligation to make a payment to the Insurance Guarantee Fund in the National Depository of Securities in H1 2021 (PLN 11.7 million) due to the rapid growth of net asset value.

At the end of H1 2021, the total net asset value of all open-end pension funds (OFEs) on the market was PLN 176 billion, up 18.4% relative to the end of 2020. The increase in assets was driven by positive results of the funds, which reached an average rate of return of 19.8% after H1 2021. In the same period, OFE PZU's assets grew 19.3% to PLN 24.3 billion. In the period from January to June 2021 OFE PZU's rate of return was +21.3%, which resulted from better conditions on the domestic stock market.

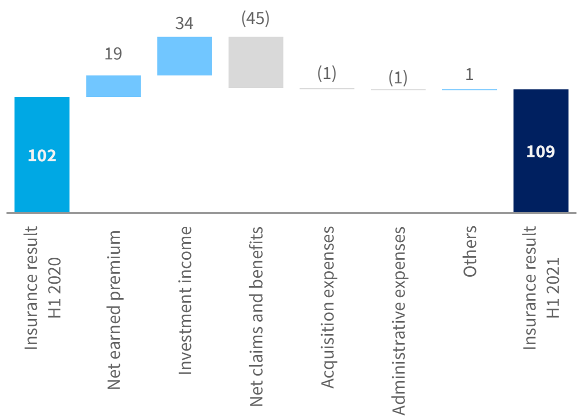
Baltic States

The operating result on the activity in the Baltic States as at the end of June 2021 was PLN 109 million, which means an increase in PLN 7 million, or 6.9%, compared to the end of H1 2020.

Factors affecting the result:

- increase in gross written premium. It totaled PLN 909 million, up PLN 74 million (i.e. 8.9%) compared to the corresponding period of the previous year. Sales were up PLN 69 million (8.7% y/y) and were generated in non-life insurance, chiefly as a result of a considerable growth in sales of property insurance and health insurance. In the motor insurance area, the sales declined in the region. In life insurance, sales climbed PLN 5 million (12.8% y/y);
- higher net earned premium. It was PLN 836 million and was PLN 19 million (or 2.3%) higher than the amount at the end of Q2 last year;
- investment income higher by PLN 34 million, mainly as a result of increases in stock markets;
- increase in net claims and benefits. They amounted to PLN 515 million and were 9.6%, or PLN 45 million, higher than in H1 of the previous year. The loss ratio in non-life insurance stood at 58.9%, up 0.8 p.p. from the end of June 2020. In life insurance the value of benefits was PLN 47 million, up PLN 29 million from the corresponding period of the previous year, mainly as a result of increased provisions;
- increase in acquisition expenses to PLN 170 million (+0.6% y/y). The acquisition expense ratio calculated on the basis of net earned premium dropped by 0.4 p.p. and stood at 20.3%;
- increase in administrative expenses to PLN 72 million (+1.4% y/y). At the same time the administrative expense ratio stood at 8.6%, down 0.1 p.p. from H1 2020.

Insurance result in the Baltic States segment (in PLN m)



Financial results

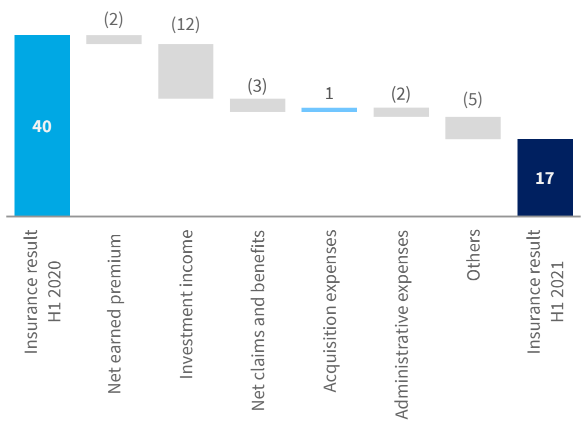
Ukraine

The Ukraine segment closed H1 2021 with the operating result of PLN 17 million, down by PLN 23 million (or 57.5%) compared to H1 of the previous year. The recorded decrease in the functional currency was 52.3%.

Factors affecting this segment's performance:

- increase in gross written premium. It amounted to PLN 146 million, having increased by PLN 2 million (or +1.4% y/y) in comparison to H1 of the previous year. A decrease in sales by PLN 2 million was recorded in non-life insurance, while in the functional currency sales were higher by 10.6%, mainly as a result of an increase in the sales of motor insurance and travel insurance (obligatory when applying for a visa to travel to Poland). The sales of life insurance increased 7.9% (in the functional currency: 22.0%) compared to the end of June last year;
- lower net earned premium, reaching PLN 100 million (-2.0% y/y). In the functional currency a 9.8% growth was posted;
- investment income lower by PLN 12 million (-48.0% y/y), to PLN 13 million;
- increase in net claims and benefits. Compared to the first half of last year, it increased by PLN 3 million (+8.3% y/y) to PLN 39 million (in the functional currency, the increase was 19.8% y/y). The loss ratio calculated on the basis of the net earned premium in non-life insurance was 38.3%, up 11.1 p.p. compared to the end of June 2020, mainly due to an increase in the ratio in the area of motor TPL insurance and the Green Card insurance;
- decrease in acquisition expenses to PLN 51 million from PLN 52 million as at the end of June in the previous year (-1.9% y/y). Increase in the functional currency by 10.1% y/y. The acquisition expense ratio remained the same at 51.0%;
- an increase in administrative expenses by PLN 2 million (+12.5% y/y and +29.4% in the functional currency) - to PLN 18 million. The administrative expense ratio calculated on the basis of the net earned premium increased 2.3 p.p. and stood at 18.0%. The increase was caused, among others, by the higher personnel costs as a result of the payroll pressure and the increase in expenses related to the project activity.

Insurance 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 this segment are presented according to the Polish Accounting Standards, which means that they include, among other things, gross written premium, claims paid and movements in technical provisions. These categories are eliminated at the consolidated level.

Gross written premium generated on investment contracts in H1 2021 remained on the 2020 level, reaching PLN 15 million.

The investment result in the segment of investment contracts increased by PLN 18 million relative to the previous year to PLN 10 million, chiefly due to the a better rate of return on IRSAs. Additionally, investment income does not affect the result of the investment contracts segment because it is offset by changes in insurance liabilities.

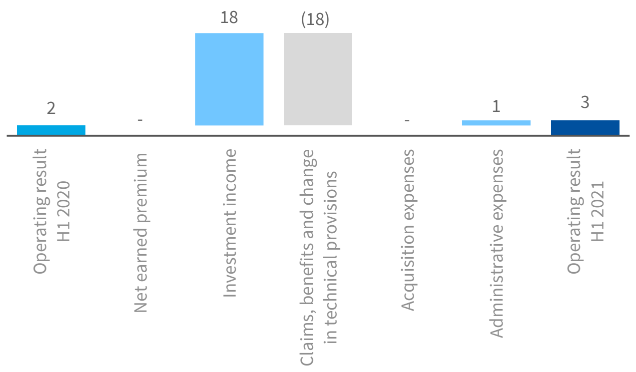
The cost of insurance claims and benefits together with the movement in other net technical provisions increased PLN 18 million y/y to PLN 21 million, mostly due to the aforementioned difference in investment income in unit-linked products.

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

Administrative expenses decreased to PLN 1 million (-50.0% y/y) as a consequence of the decreasing portfolio of contracts in this segment.

The segment's operating result grew to PLN 3 million (+50% y/y), which resulted from a decrease in costs as a consequence of the shrinking size of business in this segment.

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



Alternative Performance Measures

Selected Alternative Performance Measures (APM) within the meaning of European Securities and Markets Authority Guidelines (ESMA) no. 2015/1415 are presented below.

The profitability and operational efficiency indicators presented herein, constituting standard measures applied generally in financial analysis, provide, in the opinion of the Management Board, significant additional information about the PZU Group's financial performance. Their usefulness was analyzed in terms of information, delivered to the investors, regarding the Group's financial standing and financial performance.

Profitability indicators

To facilitate the analysis of PZU Group's profitability, such indicators were selected that best describe this profitability in the opinion of the Management Board.

The return on equity (ROE) and the return on assets (ROA) indicate the degree to which the Company is capable of generating profit when using its resources, i.e. equity or assets. They belong to the most frequently applied indicators in the analysis of profitability of companies and groups regardless of the sector in which they operate.

Return on equity (ROE) is a measure of profitability. It permits an assessment of the degree to which the company multiplies the funds entrusted to it by the owners (investors). This is a ratio of the generated profit to the held equity, i.e. financial resources at the Group's disposal for an indefinite term which were contributed to the enterprise by its owners. In the case of the PZU Group, the value of net profit and equity differ considerably depending on whether they are provided excluding or including the profit/equity of minority shareholders. Therefore, both return on equity (ROE) – attributable to equity holders of the parent, and return on equity (ROE) – consolidated, without excluding profit and equity attributable to non-controlling shareholders, are presented.

Return on assets (ROA) reflects their capability of generating profit. This indicator specifies the amount of net profit attributable to a unit of financing sources engaged in company's assets.

Return on equity attributable to equity holders of the parent (PZU) for H1 2021 was 18.7%. At the same time, it was 15.1 p.p. higher than a year earlier, driven by an increase in banking performance including lower cost of risk, increased fee and commission income, offset by the negative impact of interest rate cuts, and lower regulatory fees.

At the same time, there were non-recurring events in the corresponding period of the previous year, i.e. 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 (after adjustment for the impact exerted by deferred income tax and minority shareholdings the impact exerted on the net result attributable to the parent company's shareholders was PLN 42 million).

Return on assets (ROA) of the PZU Group for H1 2021 was 1.3%, i.e. 1.1 p.p. higher than in the corresponding period of 2020. The primary cause was the increase in the result on banking activity.

Financial results

Basic performance indicators of the PZU Group	1 January – 30 June 2019	1 January – 30 June 2020	1 January - 30 June 2021
Return on equity (ROE) – attributable to the parent company (annualized net profit/ average equity x 100%	20.3%	3.6%	18.7%
Return on equity (ROE) – consolidated (annualized net profit/average equity) x 100%	11.9%	1,5%	11.9%
Return on assets (ROA) (annualized net profit/average assets) x 100%	1.3%	0.2%	1.3%

Operational efficiency ratios
To facilitate the analysis of PZU Group's performance, such indicators were selected that best describe performance in the case of insurance companies and those pursuing banking activity in the opinion of the Management Board. Some indicators refer the costs of pursuit of insurance activity to premiums, hence reflect which portion of the premium was allocated to costs and which portion – to margin. For the banking activity, the Cost/Income (C/I) ratio was selected as the relation which best reflects the performance of this area of the activity in the opinion of the Management Board. All indicators are widely applied by other companies from the corresponding sectors and by investors and serve an analysis of efficiency and profitability of these companies. Detailed information to better understand the functionality and value in use of the applied Alternative Performance Measures can be found in the CHAPTER 10. GLOSSARY OF TERMS AND ALTERNATIVE PERFORMANCE MEASURES

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). This is the ratio of insurance expenses related to insurance administration and payment of claims (e.g. claims paid, acquisition and administrative expenses) to the net earned premium for a given period.

In recent years, the combined ratio (for non-life insurance) of the PZU Group's has been maintained at a level ensuring high profitability of business.

In H1 2021, it stood at 88.0% and was 1.0 p.p. higher than in the corresponding period of 2020, due primarily to a higher loss ratio in motor insurance. It resulted from higher claim frequency (gradual return to the natural loss ratios after the pandemic period) in the mass insurance segment and higher average payout, as well as depreciation of PLN against EUR in foreign currency claims in the corporate insurance segment.

Operating profit margin in life insurance is also an important indicator, i.e. the profitability of life insurance segments calculated as the ratio of the result on operating activity to gross written premium. In H1 2021, the indicator reached 10.3%, and its fall by 13.8 p.p. in comparison to the corresponding period of 2020 was in particular due to a rise in insureds' and co-insureds' death benefits in 2021.

As regards banking activities, efficiency is measured by the cost to income ratio, i.e. the 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. In H1 2021, the cost to income ratio for banking activity in the PZU Group reached 44.4%, and was higher than by 1.1 p.p. compared to the corresponding period of 2020. This is mainly due to the acquisition of Idea Bank by Bank Pekao, and the higher costs of the combined organizations were not fully offset by income, due to lower net interest income as a result of the interest rate cuts in Q2 2020.

The operational efficiency ratios, by segment, are given in CHAPTER 10. GLOSSARY OF TERMS AND ALTERNATIVE PERFORMANCE MEASURES

Operational efficiency ratios	1 January – 30 June 2019	1 January – 30 June 2020	1 January – 30 June 2021
1. **Gross claims and benefits ratio (simple)** (gross claims and benefits/gross written premium) x 100%	68.6%	65.1%	66.3%
2. **Net claims and benefits ratio** (net claims and benefits/net earned premium) x 100%	70.0%	63.7%	70.1%
3. **Operating expense ratio in the insurance segments** (insurance activity expenses/net earned premium) x 100%	21.8%	22.5%	23.0%
4. **Acquisition expense ratio in the insurance segments h** (acquisition expenses/net earned premium) x 100%	14.9%	15.1%	15.6%
5. **Administrative expense ratio in the insurance segments** (administrative expenses/net earned premium) x 100%	6.9%	7.5%	7.4%
6. **Combined ratio in non-life insurance** (net claims and benefits + insurance activity expenses) / net earned premium x 100%	89,2%	87.0%	88.0%
7. **Operating profit margin in life insurance** (operating profit/gross written premium) x 100%	19.6%	24.1%	10.3%
8. **Cost/Income ratio** - banking operations	41.4%	43.3%	44.4%

6.

Risk management

We put a lot of effort into continuously developing advanced risk management procedures. They are of fundamental significance to us. We are committed to ensuring that our clients have peace of mind and feel safe with us, and that the Group's result remains predictable.

In this chapter:

6.1 Objective of risk management

Risk management in the PZU Group aims to build value for all stakeholders. It involves active and deliberate management of 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 PZU Financial Conglomerate.

Risk management in the PZU Group consists in analyzing risk in all processes and units and therefore 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. These elements include, among others:

- 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 competences in the risk management process, in which the Management Boards and Supervisory Boards of the entities and appointed committees play a crucial role.

Entities from the financial sector are additionally obligated to apply standards appropriate for their respective sector. Their internal regulations pertain to, among others:

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

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

In addition, PZU, as a leading entity, manages risk concentration on the level of the whole PZU Financial Conglomerate. It also defines the risk concentration management standards, in particular through introduction of rules for identification, measurement and assessment, monitoring and reporting of significant risk concentration and making managerial decisions.

Effectiveness of the risk management at the Group level is ensured by an additional recommendation issued by PZU (as the parent company) regarding the organization of the risk management system in the subsidiaries from the insurance and banking sector. Additionally, guidelines regulating precisely the various risk management processes in Group companies are in place.

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 implementation of an adequate and effective risk management system.

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

6.2 Risk management system

The risk management system in the PZU Group consists in 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 role of the PZU Group Risk Committee is to provide support to the supervisory boards and management boards of PZU Group subsidiaries 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 consistent split of duties and tasks in the PZU Group and in individual financial sector subsidiaries covers four decision-making levels.

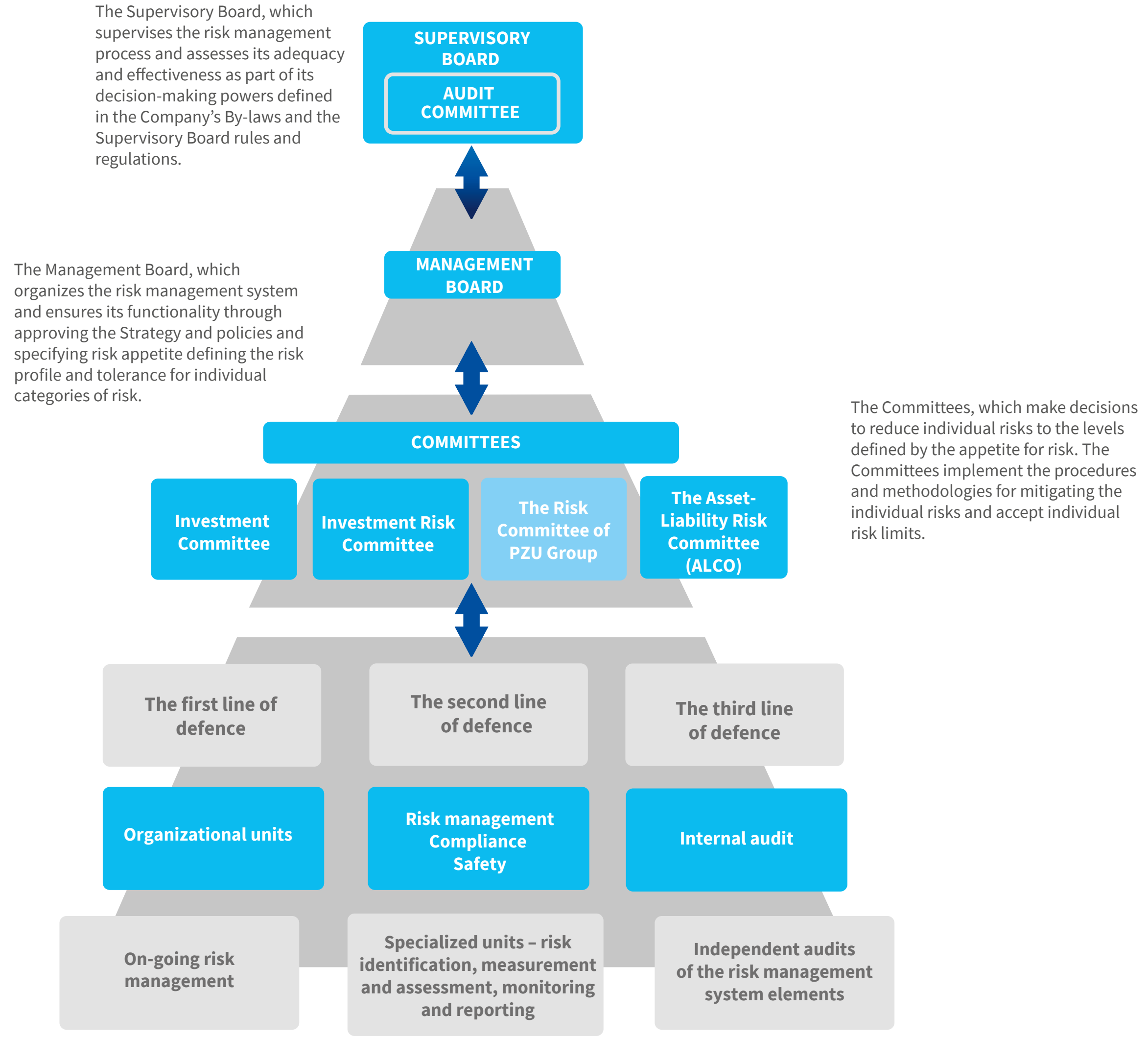
The first three are:

- The Supervisory Board, which supervises the risk management process and assesses its adequacy and effectiveness; performs duties as part of its decision-making powers defined in the entity's Articles of Association and the Supervisory Board Rules and Regulations, 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;
- The committees, which decide about limiting the levels of individual risks to fit the risk appetite framework they have defined, adopt procedures and methodologies for mitigating the individual risks and accept the limits for individual risk types.

The fourth decision-making level pertains to operational measures 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, taking into account the limits for individual risks;
- the second line of defense – risk management by specialized units responsible for risk identification, measurement, monitoring and reporting, as well as for limits control;
- the third line of defense – internal audit which conducts independent audits of the individual elements of the risk management system, as well as of control procedures.

Chart of the organizational structure for the risk management system



6.3 Risk appetite

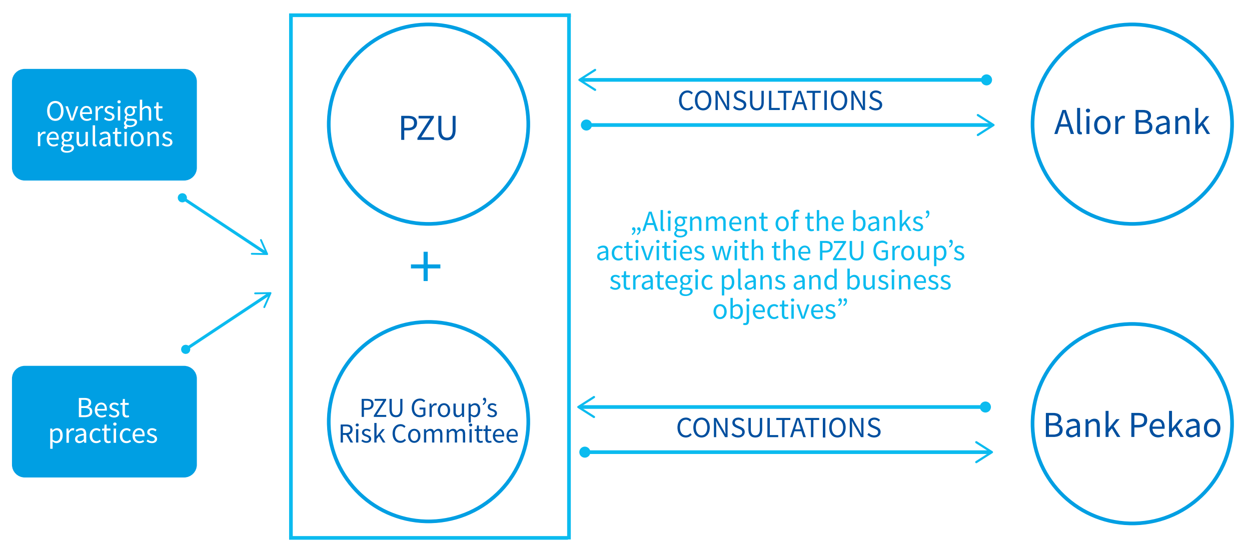
The risk appetite in the PZU Group – the magnitude of risk undertaken to attain its business objectives, where its measure is the level of potential financial losses, the decline in asset value or the growth in the amount of liabilities within one year.

Risk appetite defines the maximum permissible risk level 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. All these measures are coordinated at the PZU Group level.

The risk appetite is set at least once a year also by the two banks from the PZU Group. It is done in accordance with the supervisory regulations (including those following from recovery plans) and the best practices. However, this process is personalized to reflect the business strategy and capital structure of each entity. Risk appetite in these companies is consulted with the PZU Group's parent company and the subject matter of opinions issued by the PZU Group Risk Committee. The aim is to ensure consistency between the activities carried out by the banks and the strategic plans and business objectives of the PZU Group as a whole and maintain an acceptable level of risk at the entire Group level. Once agreed, the level of risk appetite is then approved by the banks' Supervisory Boards.

Process of determining the risk appetite in the PZU Group



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. The PZU Group provides its subsidiaries with support in the implementation of a risk management system.

  Risk management on the Group level includes the introduction of compatible mechanisms, standards and organization of an efficient internal control system (with particular emphasis on the compliance function), the risk management system (especially in the reinsurance area) and the security management system in the PZU Group. It also involves their ongoing monitoring. The PZU Group's designated 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 mutual cooperation agreements.

In connection with the PZU Group obtaining the status of a financial conglomerate, a risk concentration management system has been implemented. Thanks to that, individual entities execute their business objectives, maintaining their own financial stability and the financial stability of the entire PZU Financial Conglomerate. The system monitors the risk concentration measures and their limits and threshold values. Risk measurement permits identification of the sources of concentration in individual risks at the

The risk management process consists of the following stages:

Identification

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

Risk measurement and assessment

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

Risk monitoring and control

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

Reporting

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

Management actions

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

level of both the PZU Financial Conglomerate and individual regulated entities. It also allows to assess the impact of the concentrations on financial stability.

- II - ENTITY LEVEL – monitoring of limits and risks specific to the entity
  Risk management at this level is supposed to ensure that individual PZU Group entities attains their business objectives in a safe manner appropriate to fit the scale of the risk incurred. This is supported by:
  - monitoring of the limits and unique risk categories existing in the given entity,
  - implementation of effective mechanisms and standards,
  - organization of an effective internal control system (with particular emphasis on the compliance function), the risk management system (especially in the reinsurance area) and the security management system in the PZU Group.

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, 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, taking into account PZU's shares in both banks, accounts for approximately 32% of the PZU Group's total risk (Q1 2021), while the largest contribution is in credit risk.

In connection with the COVID-19 pandemic, increased risk was recorded in selected areas, especially mortality risk, interest rate risk, liquidity risk and credit risk.

In H1 2021, initiatives were continued to improve the identification, measurement, assessment and monitoring of the risks associated with sustainable development, in particular with climate changes. The main risks in this area are transition risks and physical risks, which are managed as part of individual risk categories specified below in this Report.

According to the European Commission guidance for non-financial reporting, transition risks refer to the transition of the economy to a low-carbon and climate-resilient future. Physical risk on the other hand entails financial losses stemming from the physical consequences of climate change and encompasses acute (e.g. storms, fires) and chronic risk (rising sea level).

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

- analyzing the general terms and conditions of insurance with respect to the risk being undertaken and compliance with the generally binding legal regulations;
- analyzing the general / specific terms and conditions of insurance or other model agreements with respect to the actuarial risk being undertaken on their basis;
- recognizing the potential risks related to a given product to measure and monitor them at a later time;
- 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;
- assessing actuarial risk through the prism of similar existing insurance products;
- monitoring of existing product;
- analyzing the policy of underwriting (assessment of the risk accepted for insurance), tariffs, technical provisions and reinsurance and the claims and benefits handling process.

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

The measurement of actuarial risk is performed 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 ensure 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 therein are tailored to the needs at each decision-making level.

The management actions contemplated in the actuarial risk management process are performed 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, mitigation of the actuarial risk inherent in current operations is supported by:

- 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.

As a result of the COVID-19 pandemic, an increase in the mortality risk was recorded. It was taken into account in the regular business processes and the risk is subject to regular monitoring and control.

Market risk, including liquidity risk

Market risk is understood as 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 relevant committees govern investment activity in the PZU Group entities.

Market risk identification consists in the identification of actual and potential sources of this type of risk. For assets, the identification of risk begins with the decision to commence transactions in a given type of financial instrument. Units that make a decision to start entering into such transactions 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 identification of market risk associated with insurance liabilities commences with the process of developing an insurance product. It involves identification of the relationship between the cash flows generated by that product and the relevant market risk factors. The identified market risks are subject to assessment using the criterion of materiality, specifying whether the materialization of risk entail a loss capable of affecting the financial condition.

Market risk is measured using the following risk measures:

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

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

Market risk measurement is divided into stages, in particular:

- collection of information on assets and liabilities that generate market risk,
- calculating the value of risk.

The risk measurement is performed::

- 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 to the various decision-making levels information concerning the level of market risk and the results of monitoring and controlling it. The frequency of each report and the scope of information provided therein are tailored to the information needs at each decision-making level.

Management actions in respect to market risk involve in particular:

- 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 appointed 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.

In connection with the COVID-19 pandemic, the banking sector in Poland recorded a significant decrease in net interest income. This affected also the banks from the PZU Group. The reduction of the NBP reference interest rate in total by 140 bp in the first half of 2020 brought down the net interest margin (NIM) in the sector.

In connection with taking into account the current interest rate levels in the business processes, in the short term the risk associated with low interest rates in the PZU Group's insurance segment is not perceived as significant. The risk is monitored and analyzed on an ongoing basis to ensure proper adaptation of the investment portfolio structure.

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 liquidity risk management system aims 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 bancassurance 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 involve estimation of 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 business units of an 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 analyze 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.

In connection with the COVID-19 pandemic, banks in Poland, including the banks from the PZU Group, experience overliquidity. The pandemic caused a major disruption of the existing simple model involving transfer of funds from bank deposits to finance the economy. In the banks' balance sheets, the inflow of deposits remains undisrupted but the outflow is not routed mainly to finance the economy but to purchase of securities issued and guaranteed by the State Treasury. This results in an increase of debt securities and, consequently, increase of liquidity, in the banks' balance sheets. Reduction of the lending activity results from the banks' restrictive lending policy and, at the same time, clients' aversion to incurring debt in unpredictable conditions. The banks' liquidity was additionally strengthened by the reduction of the NBP reserve requirement from 3.5% to 0.5% as of the end of April 2020.

The COVID-19 pandemic did not have a material impact on liquidity of PZU Group's insurance business in H1 2021. An increase in the number of deaths (mortality rate) was observed, which could result from, among other things, the constricted access to health care and COVID-19 related complications. However the situation did not significantly impact PZU Group's liquidity risk. In H1 2021 there were no grounds for taking extraordinary management measures relating to liquidity risk in connection with the COVID-19 pandemic. As part of routine management actions regarding liquidity risk, the PZU Group constantly monitored the level of available liquid funds and the current utilization of liquidity limits.

Liquidity risk 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 belonging to the PZU Group.

Credit risk and concentration risk

Credit risk is understood as the risk of a loss or an adverse change in the financial situation resulting from fluctuations in the reliability and creditworthiness of issuers of securities, counterparties and all debtors. It 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 risk,
- counterparty default risk,
- credit risk in financial insurance.

Concentration risk is understood 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. It 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.

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

The measurement of credit risk is performed using:
- measures 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. 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 monitoring pertains to:
- exposures to financial insurance,
- exposures to reinsurance,
- exposure limits and VaR limits,
- loan exposures (in the case of banking entities).

Reporting involves providing information on the levels of credit risk and concentration risk and the effects of monitoring and control. 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 appointed committees in such a manner that the limits are consistent with the adopted risk tolerance determined by the management boards of the respective 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 security interest does not waive the requirement to examine the client's creditworthiness.

Due to the COVID-19 pandemic, in 2020, domestic banks, including the banks from the PZU Group, increased their impairment losses related to credit exposures and the uncertainty associated with the further economic effects of the pandemic. In H1 2021, despite the improved repayment rate on the loan portfolio, banks continue with a conservative approach, maintaining stricter model parameters, restrictions in underwriting and close monitoring of exposures potentially at risk.

In the PZU Group insurance segment, in the credit risk area, the impact of the COVID-19 pandemic was low; in the entire 2020 and in H1 2021, no indications of impairment were identified in the portfolio, hence no exposure was classified to basket 3 (instruments for which impairment has been recognized).

No significant changes in the structure of financial instruments held were recorded in H1 2021. The value of credit risk allowances and the coverage, which is defined as the ratio of cumulative credit risk allowances to the gross carrying amount of all PZU Group assets exposed to credit risk subject to the IFRS9 regime, did not change materially compared to Q4 2020. At the same time, the value of lifetime allowances increased after foreign treasury bonds from a single issuer were reclassified to the 2nd credit quality bucket when the issuer's rating was downgraded in June 2021. The increase was offset by a lower value of allowances for the 1st credit quality basket, mainly as a result of positive forecasts of changes in the macroeconomic environment.

In H1 2021 there was no confirmed impact of COVID-19 on the increase of the loss ratio in the insurance guarantee portfolio. The standing of individual clients is monitored on an ongoing basis.

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:

- calculating 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 supported mainly by 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 to the various decision-making levels information concerning the level of operational risk and the results of monitoring and controlling it. 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 primarily:

- 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 level of operational risk is ascertained and where the costs involved in risk mitigation are unreasonable;
- risk acceptance – approval of consequences of a possible realization of operational risk unless they threaten to exceed the operational risk tolerance level.

Business Continuity Plans in the PZU Group are regularly tested and consequently updated.

On 25 February 2020, a Crisis Management Team was appointed in PZU and PZU Życie, which remained operational in H1 2021. The Crisis Management Team is monitoring the situation and takes the necessary measures to ensure business continuity of the companies while observing the safety measures and restrictions resulting from, among others, the Council of Ministers' Regulation imposing specific restrictions, prohibitions and orders in connection with the state of pandemic. A crisis situation was declared at PZU and PZU Życie on this day.

PZU and PZU Życie implemented solutions and processes to minimize the risk of infection and spread of the coronavirus in the organization. Appropriate safety measures were applied:

- information measures (newsletters, alerts, SMS, information posted in the PZU24 service, webinar, FAQ);
- organizational and legal measures (appointing the Crisis Management Team and its regular meetings, declaring a crisis situation, introducing remote work procedure and mode, updating the Business Continuity Plan, creating a register of identified infections, prevention regarding work contacts, increased personal hygiene standards);
- technical measures (purchase and expansion of hardware increasing the VPN limit, purchase of licenses for the use of online communicators and for software supporting remote work, increasing the phone data transmission limits, equipping employees with notebooks and desktops for remote work, increasing the bandwidth of internet lines);
- protection measures (equipping PZU branches with disinfectants and protective measures, equipping workstations in PZU branches with protective screens, purchase of facemasks and gloves, disinfection and ozoning of rooms).

Remote work was introduced already in March 2020. The necessary technical and organizational measures were ensured to enable as many employees as possible to work remotely or work in a rotation system. In H1 2021, 65% of employees in PZU and PZU Życie performed their work remotely.

Insurance branches and agencies remained open, adapting to all legal limitations and sanitary restrictions associated with the spread of COVID-19. The sales, contract administration and claims handling processes were adapted in a similar manner to ensure business continuity and, at the same time, safe customer service.

The Crisis Management Team receives regular reports on the number of infections among employees and in Poland, work organization in PZU Group companies, availability of the branches and the agency network, execution of orders for personal protective equipment and disinfectants, and expenditures incurred from the Crisis Management Team budget. Some of the decisions made by the Crisis Management Team were forwarded as recommendations to PZU Group subsidiaries.

The Business Continuity Plans operate in accordance with the internal regulations and procedures in place in PZU Group companies. Despite the crisis situation, there were no major disruptions associated with continuity of operation of the business processes.

Model risk

Model risk, classified by the PZU Group as significant, is 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.

The formal identification and assessment process for this risk is currently being developed in PZU and PZU Życie. The process aims to ensure high quality of model risk management practices.

The model risk management process involves:

- risk identification, which takes place through regular identification of the models used in the areas covered by the process; identified models are assessed for materiality;
- risk measurement, which is based on the results of independent model validations and monitoring;
- risk monitoring, which involves ongoing analysis of deviations from the adopted points of reference regarding the model risk (e.g. verification of the recommendation execution method and comparison of the risk level to the adopted tolerance level);
- risk reporting, which involves communicating the process results on the appropriate management level, in particular results of risk monitoring, validation and measurement;
- management actions, which aim to mitigate the model risk level; they can be active (e.g. recommendations resulting from completed validations) and passive (developing model and model risk management standards).

In the entities from the banking sector, given the high significance 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 PZU Group banks have defined standards for the model risk management process, including the rules for developing models and evaluating the quality of their operation, ensuring at the same time appropriate corporate governance solutions.

Compliance risk

The compliance risk understood as the risk that the PZU Group may infringe on the law, internal regulations and adopted standards of conduct, including ethical standards, which results or may result in:

- being subject to legal sanctions;
- incurring financial loss;
- loss of reputation or credibility.

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

In H1 2021 the compliance systems of PZU Group entities were aligned with the standards set by PZU.

The provision of full information on compliance risk in Group companies is the responsibility of their compliance units. They are required to assess and measure compliance risk, undertake and implement appropriate remedial actions, which reduce the likelihood of realization of this risk.

PZU Group entities are obligated to provide ongoing information on compliance risk to the PZU Compliance Department. The tasks of the Compliance Department include, among others:

- 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;
- issuing best practice recommendations for PZU Group entities;
- 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 and, as a result, 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 is predominantly inherent in the Group's insurance companies and banks.

The identification and assessment of compliance risk for each internal process in PZU Group entities is the responsibility of 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 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 effects of risk materialization of the following types:

- financial risks, resulting among others from the possibility of imposing 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 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 the legislative work on amendments to generally prevailing provisions of law;
- performing diverse activities in industry organizations;
- coordination of external control processes;
- monitoring of implementation of recommendations issued following external audits;
- coordination of the fulfillment of disclosure obligations imposed by the stock exchange (in respect of PZU) and by statute;
- popularization of knowledge on competition law and consumer protection among PZU Group employees, according to the area of their activities;
- 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 response to compliance risk include in particular:

- acceptance of the risk arising, without limitation, from legal and regulatory changes;
- mitigation of the risk, including by: adjustment of procedures and processes to changing regulatory requirements, evaluation and design of internal regulations to suit compliance needs, participation in the process of agreeing on marketing activities;
- avoidance of 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 and standards of conduct;
- 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;
- analyses and ongoing monitoring of the application of "Chinese wall" rules – 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.

The actions in H1 2021 in the compliance area were also associated with the PZU Group continuing to meet the criteria for treating it as a financial conglomerate, and hence applying KNF's supplementary supervision to it under the Act of 15 April 2005 on supplementary oversight over credit institutions and insurance companies, reinsurance companies and investment firms comprising a financial conglomerate. The compliance area was involved in the work to align the Company to the requirements ensuing from this act, as well as to the requirements stemming among others from the following legal acts:

- Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, entered into force;
- Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, amending Regulation (EU) 2019/2088;
- Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of persons who report breaches of Union law;
- Act of 1 March 2018 on Combating Money Laundering and Financing of Terrorism;
- 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;
- draft act amending the Commercial Company Code and certain other acts;
- Act of 18 November 2020 on Electronic Deliveries.

Risk concentration

When managing the various categories of risk, the PZU Group identifies, measures and monitors risk concentration. Compliance with the regulatory obligations imposed on groups identified as financial conglomerates is supported by the model introduced in 2020 to manage significant risk concentration in the PZU Financial Conglomerate in keeping with the requirements of the Supplementary Supervision Act.

Supplementary supervision protects the financial stability of lending institutions, insurance companies, reinsurance companies and investment firms being members of financial conglomerates. The supervision is exercised, among others, through measuring the risk concentration level in the financial conglomerate as a whole, also from the perspective of regulated entities being its members.

The implementation of this model served the purpose of defining the risk concentration management principles and supporting the units involved in the process, in particular through:

- defining the roles and responsibilities of individual participants of the significant risk concentration management process;
- introducing consistent risk definitions;
- introducing the principles of identifying, measuring and assessing risk;
- defining the risk limits and threshold values;
- defining the principles of monitoring significant risk concentrations;
- introducing the principles of reporting and management decision-making.

Regulated subsidiaries monitor and submit regular reports to the leading entity in the PZU Financial Conglomerate on the measures and data required to identify risk concentrations. In the case of identification of an excessive risk concentration, management actions are implemented on the level of the given entity or the whole financial conglomerate.

Risk concentration is measured and monitored, in particular, in the following dimensions:

- concentration per counterparty or group of counterparties,
- concentration per currency,
- concentration per sector of economy,
- concentration per country,
- concentration per asset type.

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 companies. This task is performed through obligatory reinsurance contracts supplemented by facultative reinsurance.

Reinsurance treaties in PZU

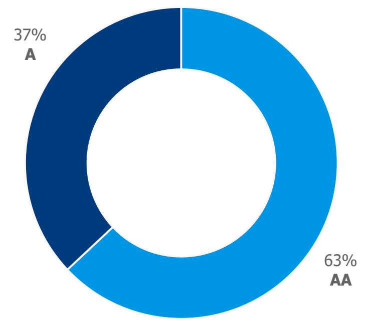
PZU consciously and adequately protects the Company's financial result against the results of materialization of natural risks, e.g. severe storms, floods, droughts or fires, associated with, among others, the climate change. For this purpose, the PZU Group runs, among others, periodic analyses of the non-life insurance portfolio for its exposure to natural disasters. The portfolio is divided into zones with specific degrees of exposure to the risk of floods and cyclones has been introduced. The values of prospective losses are assigned to each one of the zones under analysis. They correspond to the severity of a given phenomenon and, consequently, its specific probability level. On this basis, as part of the annual reinsurance cover program design process, the distribution of the level of possible catastrophic loss is estimated.

On the base of the reinsurance treaties it has entered into PZU limits its risk related to catastrophic losses among others through a catastrophic non-proportional excess of loss treaty. The risk related to the consequences of large single losses, in turn, is mitigated under non-proportional reinsurance treaties to protect its portfolios of property, technical, marine, aviation, third party liability and third party liability motor insurance.

PZU's risk is also mitigated by proportional and non-proportional reinsurance of the financial insurance portfolio (e.g. guarantees, commercial credit). PZU's reinsurance partners have high S&P ratings. This demonstrates the good financial position of the reinsurer and provides security for the Company.

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

Reinsurance premium under PZU's obligatory treaties according to the S&P/AM Best rating



Main reinsurers in 2021: Munich Re, Hannover Re, Gen Re, Scor, Swiss Re

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

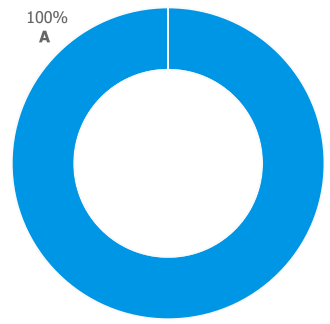
Reinsurance treaties in PZU Życie

The outward reinsurance treaty entered into by PZU Życie protects the company's entire portfolio against the accumulation of risk and individual policies with higher sums insured. Reinsurance partners have high S&P ratings. This demonstrates the good financial position of the reinsurer and provides security for the Company.

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 significant 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.

Reinsurance premium under PZU Życie's obligatory treaties according to the S&P rating



Main reinsurers in 2021: QBE, Mapfre , Toa Re, Nacional de Reaseguros

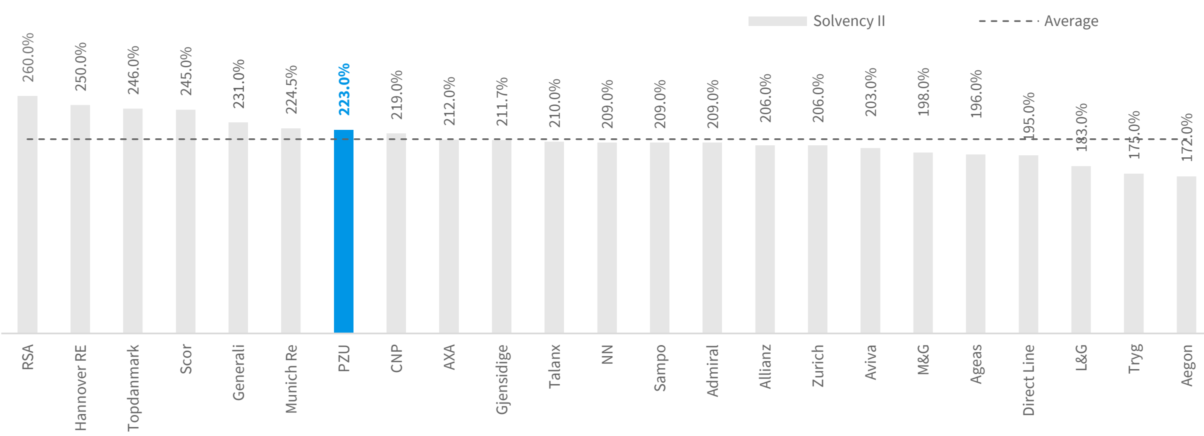
6.7 Capital management

On 25 March 2021 the PZU Supervisory Board adopted a resolution to approve the PZU Group's Capital and Dividend Policy for 2021-2024. The adopted policy is a continuation of the principles set forth in the PZU Group's Capital and Dividend Policy for 2016-2020.

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

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



Source: PZU - the data after Q1 2021 (unaudited), in the case of the other insurers - the data after Q2 2021

- level of security and retaining capital resources for strategic growth objectives through organic growth and acquisitions;
- ensure sufficient financial means to cover the Group's liabilities to its clients.

The capital management policy rests on the following principles:
- manage the PZU Group's capital (including excess capital) at the level of PZU;
- 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 25%;
- ensure funds for growth and acquisitions;
- maintain the financial conglomerate's surplus own funds above the pertinent requirements for solvency;
- PZU will not issue any new shares for the duration of this Policy.

It is assumed that certain temporary deviations in the actual solvency ratio above or below the target level may occasionally occur.

As at the end of Q1 2021, the estimated solvency ratio (calculated according to the standard Solvency II equation) was 223%[1], a level above the average solvency ratio reported by insurance groups in Europe.

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	2020	Q1 2021*
SCR		
PZU Group	**236%**	**223%**
PZU	268%	264%
PZU Życie	348%	334%
MCR		
PZU Group	412%	380%
PZU	960%	962%
PZU Życie	772%	742%

CRR	2020	H1 2021
Pekao Group – total capital adequacy ratio	18.7%	18.3%
Tier 1	16.7%	16.4%
Alior Bank Group – total capital adequacy ratio	15.9%	15.0%
Tier 1	13.5%	13.0%

* data not audited and not reviewed by the statutory auditor

[1] data not audited and not reviewed by the statutory auditor

7.

PZU on the capital and debt markets

In 2021, PZU will pay out a dividend of more than PLN 3 billion, i.e. PLN 3.5 per share.

- 15 September 2021 – dividend record date
- 6 October 2021 – dividend payment date

In this chapter:

7.1 PZU's share price

PZU made its debut on the Warsaw Stock Exchange (WSE) on 12 May 2010. Since the 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 liquid 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 the financial markets

The first half of 2021 was primarily the period of economic recovery associated with improving global economic outlook. The first signs of changing sentiments on financial markets appeared in early November 2020, when news spread around the world that the US-based pharmaceutical company Pfizer, in collaboration with the German biotechnology company BioNTech SE, confirmed the more than 90% efficacy of their proprietary vaccine against the SARS-CoV-2 coronavirus. On 27 December 2020, vaccination started in most European Union states. Since that day, the pace grew dynamically and more approved vaccinations came to the market. By the end of H1 2021, the number of doses administered globally exceeded 3 billion[1], which contributed significantly to the lower global number of COVID-19 infections and deaths.

[1] https://ourworldindata.org/

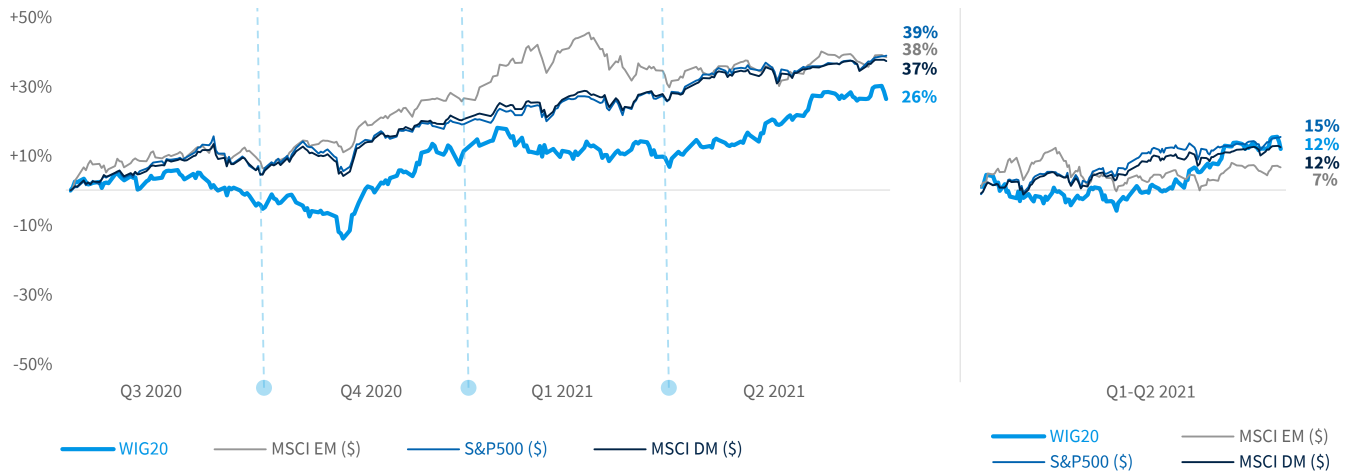
The reversal of the negative trend associated with the spread of the pandemic turned investors' attention to stock markets. The situation was helped by the stimulation by major central banks and government assistance programs. This contributed to a growing interest in higher risk assets.

Indices of developed and emerging markets quickly recovered, recording high double-digit increases (on a 12-month basis). Polish stock indices followed the global trend. On 25 June 2021, the local broad market index WIG set an all-time record of 68,118.05 points. The main index of the largest companies, WIG20, performed equally well. The 12-month rate of return on that index was 26.1% at the end of H1 2021.

Poland commenced COVID-19 vaccination together with other countries of the European Union. By the end of H1 2021, more than 29.5 million vaccinations were made in Poland, which translated to 17 million people vaccinated with the first dose (of which more than 13.5 million were vaccinated with two doses)[2]. As a result, the number of infections continued to drop and the markets received even better information. In H1 2021, this information had the strongest impact on small and medium cap indices (sWIG80 +27.9% and mWIG40 +21.3%, respectively) The main index WIG20 rose by 11.8%. In this context, the shares of PZU posted performance that was 1.6 p.p. better than the benchmark index, increasing by 13.4%. Over the 12-month period, the rate of return on PZU shares was 26.9%.

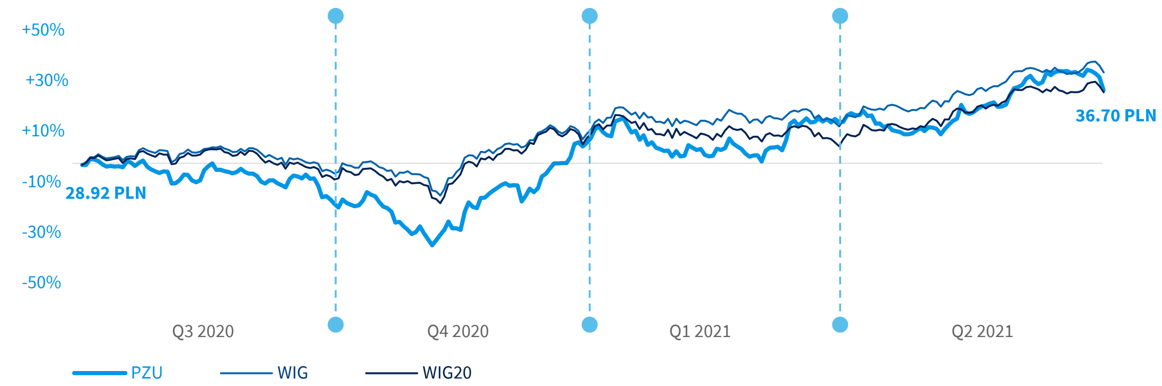
[2] https://ourworldindata.org/

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



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

PZU's growth rate (%) and trading volume versus WIG and WIG20



Source: www.infostrefa.com

PZU's shares were traded in a price range of PLN 29.3 – PLN 38.8 in H1 2021 (based on closing prices). The standard deviation for PZU's shares in H1 2021 was 17.5%, i.e. 13.2 percentage points less than in the corresponding period of 2020. 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 1.01 and 0.03 higher in H1 2021 than recorded in H1 2020.

Trading liquidity

PZU's shares were highly liquid in H1 2021. PZU accounted for 5.2% of WSE's overall trading volume (ranking 6th), while its average buy/sell spread for shares was a mere 8 basis points (the mean for the twenty most heavily traded companies was 18 basis points). PZU's market value at the end of June 2021 was PLN 31.7 billion (up 13.4% over a 6-month period).

Stock-related statistics	H1 2020	H1 2021	Change	Q1 2021	Q2 2021	Change
Maximum price [PLN]	41.80	38.84	(7.1)%	34.30	38.84	13.2%
Minimum price [PLN]	26.74	29.27	9.5%	29.27	32.10	9.7%
Closing price on the last trading session [PLN]	28.93	36.70	26.9%	34.10	36.70	7.6%
Average trading session price [PLN]	33.41	33.49	0.2%	31.67	35.34	11.6%
PLN volume liquidity [000s of PLN]	9,855,622	8,696,404	(11.8%)	4,214,531	4,481,873	6.3%
Average turnover per session [000s of PLN])	79,481	70,702	(11.0)%	67,976	73,473	8.1%
Number of transactions [units]	764,538	714,136	(6.6)%	371,544	342,592	(7.8)%
Average number of trades per session	6,166	5,806	(5.8)%	5,993	5,616	(6.3)%
Trading volume	302,532,419	258,995,392	(14.4)%	132,770,012	126,225,380	(4.9)%
Average trading volume per session [shares]	2,439,778	2,105,654	(13.7)%	2,141,452	2,069,269	(3.4)%
Capitalization at the end of the period [000s of PLN]	24,981,720	31,691,294	26.9%	29,446,134	31,691,294	7.6%

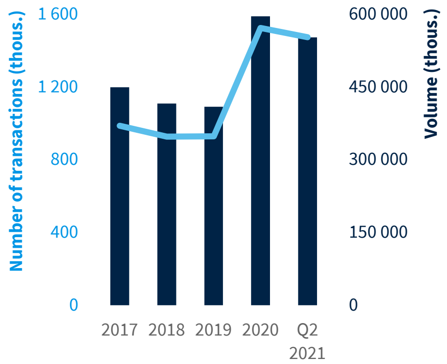
Source: www.infostrefa.com

PZU on the capital and debt markets

PZU's stock*	2017	2018	2019	2020	06.2021
P/BV Market share price / book value per share	2.6x	2.5x	2.1x	1.5x	1.9x
BVPS (PLN) Book value per share	16.3	17.3	18.7	21.7	19.6
P/E Market share price / Earnings per share	12.6x	11.8x	10.5x	14.6x	9.7
EPS (PLN) Net profit (loss) / number of shares outstanding	3.4	3.7	3.8	2.2	3.8

* 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

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



Capitalization of PZU / Trading volume of PZU's stock*

Capitalization of the Warsaw Stock Exchange (PLN billion)

* Moving average (12 months)
Source: www.gpwinfostrefa.pl

7.2 Banking sector

In H1 2021, the WIG Banks index grew by 37.4%, making it the fastest growing industry index on the WSE. Over the 12-month period, the growth reached as much as 57.5%. Such a strong demand pressure was caused by the improving economic situation and lifting of pandemic-related restrictions. It was also a rebound after the 2020 decreases, when the banking sector found itself under pressure of not only very low interest rates (0.1%) but also increasing credit losses and provisions for legal risk of Swiss franc mortgage loans. The sentiment changed at the end of 2020, when the first news of the efficacy of COVID-19 vaccines surfaced.

In H1 2021, the perception of the banking sector improved significantly. Even though interest rates did not increase in the period, the reports on growing inflation sent a strong impulse to the market. Moreover, banks listed on the WSE managed to improve their net fee and commission income. The improved economic situation also meant reduced pressures to recognize credit provisions. Another positive factor was a reduced contribution to the Bank Guarantee Fund; which is expected to be 30% lower y/y in 2021.

The shares of PZU Group's banks (Alior Bank and Bank Pekao) were responsible for nearly 6% of the trading volume on WSE's main market at the end of H1. Alior Bank's share price at the end of June 2021 was PLN 33.3, climbing 96.4% since the beginning of the year. In the corresponding period, the share price of Bank Pekao's shares went up by 52.2% up to PLN 93.

In 2020, the Polish Financial Supervision Authority recommended suspension of dividend payments in connection with the economic situation caused by the COVID-19 pandemic. In 2021, KNF permitted commercial banks to pay out dividends in the second half of 2021, provided that they meet the specified requirements. This allowed Bank Pekao to pay out a dividend. On 9 June 2021, the Shareholder Meeting of Bank Pekao made a decision to pay out a dividend for 2020 in the amount of PLN 3.21 per share (PLN 843 million, or 75% of the 2020 net profit).

WSE-listed banks

Source: www.gpwinfostrefa.pl

The correlation between the WIG Banks index and the WIG20 index in H1 2021 was 80% (down 10 p.p. y/y). Beta (versus WIG20) was 1.13, i.e. an increase of 0.5 y/y. The P/BV of the WIG Banks index at the end of H1 2021 was 0.63, i.e. an increase of 0.23 y/y.

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 it was 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 the issue, with an option of early redemption 5 years after the issue date.

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

Alior Bank
In H1 2021, Alior Bank did not conduct any public or private issues of its bonds.

Bank Pekao
In H1 2021, Bank Pekao did not conduct any public or private issues of its bonds.

7.4 Distribution of PZU's 2020 profit

16 December 2020 – KNF's recommendation on paying dividends from the profits generated in 2020
On 16 December 2020, KNF took a stance on the dividend policy of insurance and reinsurance companies.

The document permits insurance companies to:

- pay out a dividend of up to 100% of the profit generated in 2019,
- pay out a dividend of up to 50% of the profit generated in 2020

provided that the criteria set by KNF have been fulfilled.

These criteria include a Supervisory Review and Evaluation Process (SREP) (i.e. risk assessment) and the coverage of a specific capital requirement on a standalone (unconsolidated) basis. Moreover, a company intending to disburse a dividend must not have experienced a situation involving a shortage of own funds to cover the capital requirement in any quarter and must not be covered by a short-term financial plan or remedial plan.

KNF also pointed out that, when deciding on the level of dividends, insurance companies should take into account their additional capital needs within the period of 12 months from the approval date of the 2020 financial statements, which may result, among others, from changes in the market and legal environment, in particular from the high degree of uncertainty about the future evolution of the coronavirus pandemic.

11 May 2021 – Motion of the PZU Management Board regarding the distribution of the profit generated in 2020 and the amount transferred from the supplementary capital created from the profit generated in 2019
In connection with the aforementioned recommendation of the KNF, the PZU Management Board recommended distribution of the profit generated in 2020 (and the amount transferred from the supplementary capital created from the profit generated in 2019). The proposed dividend amount was PLN 3 billion, i.e. PLN 3.5 per share.
On 12 May 2021, the Supervisory Board issued a positive opinion on the Management Board's motion and recommended the Ordinary Shareholder Meeting of PZU to accept the profit distribution and the payment dates included in the proposal.

16 June 2021 – Ordinary Shareholder Meeting's resolution on the distribution of PZU's net profit
The Ordinary Shareholder Meeting of PZU adopted a resolution on distribution of PZU's net profit, in which it decided to distribute the profit generated in 2020 increased by the amount transferred from the supplementary capital created from the profit generated in 2019. The amount of PLN 3,022 million was designated for the dividend payment, in line with the recommendation of PZU Management Board. The dividend record date was set for 15 September 2021 and the dividend payout date was set for 6 October 2021.

Dividend paid by PZU from its earnings in the 2017 – H1 2021 financial years

	2017	2018	2019	2020	H1 2021
Consolidated profit attributable to the parent company (in PLN m)	2,895	3,213	3,295	1,912	1,671
PZU SA's standalone profit (in PLN m)	2,459	2,712	2,651	1,919	753
Dividend paid for the year (in PLN m)	2,159	2,418	**	**	-
Dividend per share for the year (PLN)	2.50	2.80	**	**	-
Dividend per share on the date of record (PLN)	1.40	2.50	2.80	**	3.50
Ratio of dividend payout to consolidated profit attributable to the parent company	74.2%	75.3%	**	**	-
(a) Movement in the share price y/y	26.9%	4.1%	(8.8)%	(19.2)%	13.4%
(b) Dividend yield during the year (%)*	4.2%	5.9%	6.4%	**	10.8%
(a+b) Total Shareholder Return (TSR)	31.2%	10.1%	(2.4)%	(19.2)%	24.2%

* Dividend 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
** in 2020, the Ordinary Shareholder Meeting of PZU allocated no portion of the profit to the disbursement of a dividend (in accordance with KNF's recommendation of 26 March 2020) In 2021 the Ordinary Shareholder Meeting of PZU decided to distribute the 2020 profit increased by the amount transferred from supplementary capital created from the net profit generated for the year ended 31 December 2019
Source: PZU's data

7.5 Rating

PZU 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 of both companies as well as the sovereign rating. It also includes a rating outlook, or an assessment of the Company's future position in the event that specific circumstances occur.

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

The rating 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 issued a forecast that the PZU Group's position will remain stable. The viewpoint of the agency's analysts is 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.

Poland's rating
On 2 April 2021, the S&P rating agency reviewed Poland's rating and decided to affirm the rating at A- and A-2 for long- and short-term liabilities in foreign currencies, respectively, and at A and A-1 for long- and short-term liabilities in the domestic currency, respectively. The rating outlook remained stable.

Poland's rating

	Currently		Previously	
Country	Rating and outlook	Last change	Rating and outlook	Updated on
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
Bank Pekao cooperates with three leading rating agencies: Fitch Ratings, S&P Global Ratings and Moody's Investors Service.

Fitch Ratings and S&P Global Ratings prepare their ratings at the Bank's request under the contracts entered into between the Bank and these agencies. Because Moody's Investors Service has no contract with Bank Pekao, the agency prepares its ratings based on publicly available information and review meetings.

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. At the same time, the agency upheld all ratings for Pekao at their previous levels.

On 8 April 2020, S&P Global Ratings changed the rating outlook for the Bank from positive to stable. At the same time, the agency affirmed Pekao's long- and short-term ratings at their previous levels.

On 24 June 2021, S&P Global Ratings affirmed the ratings and stable rating outlook for the Bank.

On 7 January 2021, Moody's Investors Service lowered its individual "Baseline Credit Assessment" rating from "baa1" to "baa2" and its long-term counterparty risk rating from "A1" to "A2". The long-term credit risk assessment was lowered from "A1(cr)" to "A2(cr)".

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	-
Minimum support rating	No support	-
Outlook	Negative	Stable
Rating (S&P Global Ratings)	**Bank Pekao**	**Poland**
Long-Term Foreign Currency Rating	BBB+	A-
Long-Term Domestic Currency Rating	BBB+	A
Short-Term Foreign Currency Rating	A-2	A-2
Short-Term Domestic Currency Rating	A-2	A-1
Standalone rating	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	baa2	-
Long-term Counterparty Credit Risk Rating	A2(cr)	-
Short-term Counterparty Credit Risk Rating	Prime-1(cr)	-
Outlook	Stable	Stable
Long-term Counterparty Risk Rating	A2	-
Short-term Counterparty Risk Rating	Prime-1	-

Alior Bank rating
On 14 April 2020, Fitch Ratings lowered Alior Bank's rating outlook from stable to negative. On 17 December 2020, the agency confirmed the ratings it had granted previously.

On 27 April 2020, S&P Global Ratings lowered Alior Bank's rating outlook from stable to negative.

On 24 June 2021, the agency affirmed the ratings it had granted previously and changed the outlook from negative to stable.

Fitch Ratings	Alior Bank	Poland
Issuer's long-term rating (IDR)	BB	A-
Issuer's short-term rating (IDR)	B	F2
Viability rating	bb	-
Support rating	5	-
Minimum support rating	'No Floor'	-
Outlook	Negative	Stable

S&P Global Ratings	Alior Bank	Poland
Long-Term Foreign Currency Rating	BB	A-
Long-Term Domestic Currency Rating	BB	A
Short-Term Foreign Currency Rating	B	A-2
Short-Term Domestic Currency Rating	B	A-1
Standalone rating	bb-	-
Outlook	Stable	Stable

7.6 Calendar of PZU's major corporate events in 2021

25 MARCH
Annual report for 2020

27 MAY
Quarterly report for Q1 2021

26 AUGUST
Interim report for H1 2021

15 SEPTEMBER
Dividend record date

6 OCTOBER
Dividend payment date (PLN 3.5 per share)

18 NOVEMBER
Quarterly report after Q3 2021

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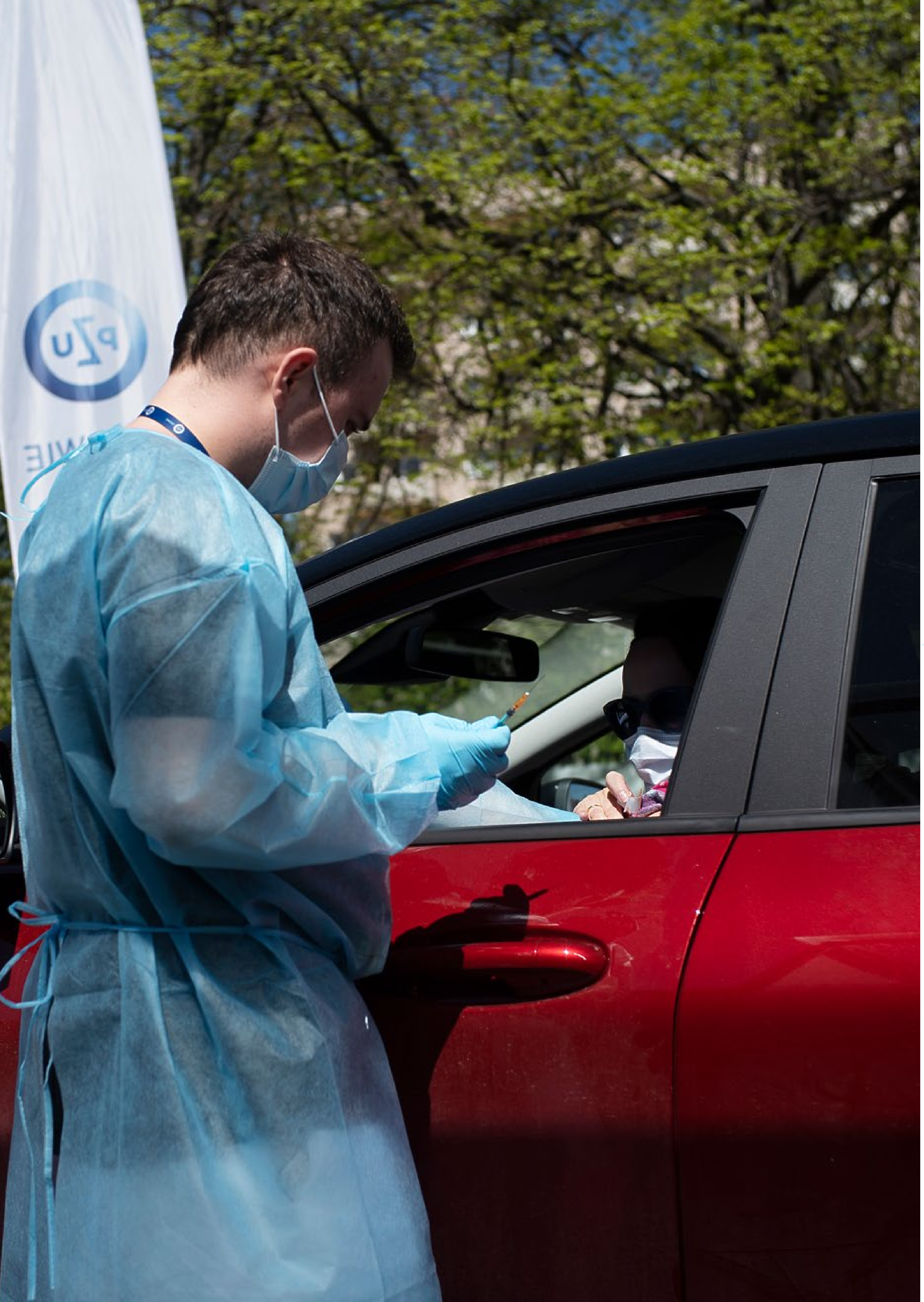


8.

Corporate governance

We understand that the leader's role is to set the highest standards for the entire industry. We discharge this function not only by adhering to the 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 chapter:

8.1 Audit firm auditing the financial statements

On 23 May 2019 KNF gave a permission to PZU to extend for another two years the maximum period for the engagement for KPMG Audyt Sp. z o.o. sp.k. (hereinafter "KPMG Audyt") 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.

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.

The 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 (known as the Special Act) repealed the provision of the Act on Statutory Auditors according to which "the maximum permissible uninterrupted duration of the statutory audit engagements referred to in Article 17(1) second paragraph of Regulation No 537/2014, 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 may not exceed 5 years." The Special Act introduced similar amendments to the Accounting Act.

As a consequence, the maximum permissible uninterrupted duration of the statutory audit engagements for an audit firm will be a period of 10 years, as specified in Article 17(1) second paragraph of Regulation (EU) No 537/2014 of the European Parliament and of the Council.

On this basis, on 28 May 2020 the Supervisory Board decided to renew, for 2021-2022, with an option to extend until 2023, while on 7 April 2021 it gave its consent to exercise the option and extend to 2023 the orders for KPMG Audyt to review and audit the standalone financial statements of PZU and the consolidated financial statements of the PZU Group. The recommendation on the selection of an audit firm to conduct the audit satisfied the applicable terms.

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 objectives of the policy for the provision of permitted non-audit services by the audit firm conducting the statutory audit, its related entities and by a member of the audit firm's network were as follows:

- 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 2021, the audit firm auditing the financial statements rendered permitted non-audit services to PZU, which was approved, following an assessment of the company's independence, by the Audit Committee.

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 and 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 giving the right to 863,523,000 votes at the Shareholder Meeting.

As at 30 June 2021 and as at the date of publication of this report, PZU shareholders holding significant equity stakes were:

- State Treasury of the Republic of Poland, which 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;
- Funds managed by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne SA: Nationale-Nederlanden Otwarty Fundusz Emerytalny (Open-end Pension Fund) and Nationale-Nederlanden Dobrowolny Fundusz Emerytalny (Voluntary Pension Fund) that held 45,188,000 shares at PZU's Ordinary Shareholder Meeting held on 16 June 2021, constituting 5.23% of PZU's share capital and giving it 45,188,000 votes at the Shareholder Meeting.

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.

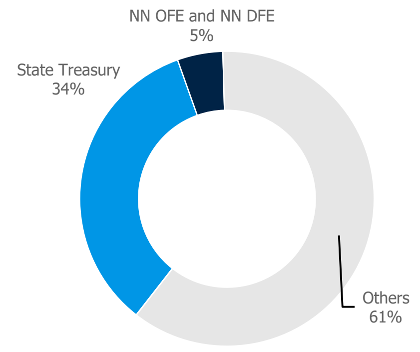
PZU did not issue, redeem or repay any debt or equity securities and did not issue any securities that would provide its shareholders with special control rights.

In 2013-2020 and in H1 2021, PZU did not have any employee stock programs in place.

All PZU shares are ordinary shares with no preferential rights attached to them, in particular no special control rights. However, certain rights have been granted to some PZU shareholders by the Company's Articles of Association:

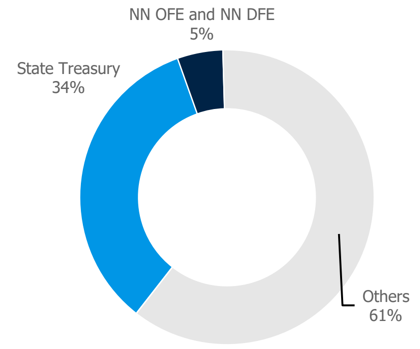
- in accordance with § 20 sec. 5 of the Articles of Association, half of Supervisory Board Members appointed by the Shareholder Meeting are elected from among persons proposed by the shareholder specified in § 37 sec. 2 of the Articles of Association, that is the shareholder who, on the date of adoption of the Shareholder Meeting resolution introducing this right holds the largest stake in the Company's share capital; this right is vested in the shareholder until its stake in the Company's share capital drops below 20%; in accordance with § 37 sec. 4 of the Articles of Association, upon expiration of the shareholder's right referred to in § 37 sec. 2 of the Articles of Association, this right is shifted to another shareholder then holding the largest stake in the Company's share capital, provided that this shareholder holds at least 20% of the share capital;
- in accordance with § 20 sec. 7 of the Articles of Association, the State Treasury has the right, in line with Article 354 § 1 of the Commercial Company Code, to appoint and dismiss one Supervisory Board Member by way of a written statement submitted to the Company's Management Board;

PZU's shareholder structure as at 31 December 2020



Source: Current Report 38/2020
(data rounded to the nearest integer)

PZU's shareholder structure as at 30 June 2021



Source: Current Report 17/2021
(data rounded to the nearest integer)

such appointment or dismissal is effective upon delivery of the pertinent statement to the Company's Management Board and does not require a resolution of the Shareholder Meeting; this right of the State Treasury expires when the State Treasury ceases to be a shareholder of the Company; in accordance with § 20 sec. 12 sentence 2 of the Articles of Association, in the event of expiration of the mandate of at least one Supervisory Board Member elected by group voting, the State Treasury regains the individual right referred to in § 20 sec. 7.

Also, pursuant to Pursuant to § 16 sec. 5 of 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 doubts, the provisions regarding the restriction of the voting right shall be 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, Tomasz Kulik, Member of the PZU Management Board held 2,847 PZU shares, which the Company reported in current report 23/2018. No changes transpired from the date of conveying the consolidated financial statements for the period of 3 months ended 31 March 2021 (i.e. 27 May 2021) with respect to members of the Management Board and Supervisory Board or Group Directors holding PZU shares or rights to shares.

Limitations on transferring the title to the issuer's securities

The PZU Articles of Association contain no provisions restricting the transfer of the title to the issuer's securities. Nor are there any other known limitations arising from documents other than the Articles of Association that would be applicable in this context, except for limitations resulting from generally applicable laws in precisely defined situations, in particular:

- limitations resulting from the provisions of the Act of 29 July 2005 on Public Offerings and the Conditions for Offering Financial Instruments in an Organized Trading System and on Public Companies (Journal of Laws of 2020, item 2080), namely:
  - from Article 75(4) – shares encumbered with a pledge, until the date of its expiration, may not be traded, except in a situation where the acquisition of such shares takes place in the performance of an agreement on the establishment of financial security within the meaning of the Act of 2 April 2004 on Certain Forms of Financial Security,
  - from Article 77(4) – temporary limitations on the acquisition or disposal of shares in the period between the notification of the intention to announce a public tender offer and the end of the public tender offer, applicable to the entities and to the extent specified therein,
  - from Article 88a – temporary limitations on the direct or indirect acquisition of or subscription for shares in a public company by an entity required to perform the obligations specified in Article 73(2) and (3) of the Act or Article 74(2) and (5) of the Act, which in the company in question exceeded the threshold of the total number of votes specified in these regulations – until the date of fulfillment of such obligations;
- limitations arising from Article 362 of the Commercial Company Code, regarding the prohibition of the acquisition of treasury shares by the issuer, except for the cases specified therein and limitations on the acquisition of the parent company's treasury shares by a subsidiary company or a subsidiary cooperative and persons acting on their behalf;
- limitations pertaining to the closed period referred to in Article 19 of the Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC (MAR) and insider dealing within the meaning of the provisions of MAR;
- possible objection by the regulatory authority, in the form of a decision, to the acquisition of or subscription for shares or rights attaching to shares in a domestic insurance undertaking in a quantity ensuring the achievement or exceeding of, as the case may be, one-tenth, one-fifth, one-third, one-second of the total number of votes at the Shareholder Meeting or of a stake in share capital – in accordance with Article 90(1) of the Act of 11 September 2015 on Insurance and Reinsurance Activity (Journal of Laws of 2020, item 895, as amended), if:
  - the entity submitting the notification referred to in Article 82(1) failed to remove the deficiencies in its notification or in the documents or information attached to the notification within the prescribed time limit,
  - the entity submitting the notification referred to in Article 82(1) failed to provide additional information or documents required by the regulatory authority within the prescribed time limit,
  - it is justified by the need of prudent and stable management of the domestic insurance undertaking due to a possible impact of the entity submitting the notification referred to in Article 82(1) on the domestic insurance undertaking or due to the assessment of the financial standing of the entity submitting the notification;
- possible setting of a time limit for the acquisition of or subscription for shares or rights attaching to shares, by the regulatory authority, in accordance with Article 90(4) and (5) of the Act referred to in item 4, in a decision declaring the absence of grounds for filing an objection;
- possible issuance, by the regulatory authority, in accordance with Article 98(5) of the Act referred to in item 4, of a decision requiring the disposal of shares within the prescribed time limit in the event that the authority issues a decision prohibiting the exercise of voting rights attaching to shares in a domestic insurance undertaking for the reasons specified in Article 98(1) of this Act;
- prohibition to sell shares or rights attaching to shares held by the State Treasury under Article 13(1)(27) of the Act of 16 December 2016 on Rules for Managing State Property (consolidated text: Journal of Laws of 2020, item 735, as amended); which prohibition, pursuant to Article 13(2)(2) of this Act, does not apply to the case referred to in Article 73(2)(2) of the Act referred to in item 1 (disposal of shares in a quantity resulting in the achievement of no more than 33% of the total number of votes).

9.

Other

Representation by the Parent Company's Management Board 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 assets, financial position and financial result. To the best knowledge of the PZU Management Board, the report on the activities of the PZU Group contains a true picture of the development, achievements and situation of the PZU Group, including a description of basic 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 publication of this Report on the activity of the PZU Group 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

In H1 2021, no significant contracts were executed in respect of the Issuer's operations.

Related party transactions on terms other than an arm's length basis

In H1 2021, neither PZU nor its subsidiaries executed any transaction with their related parties which were of material significance individually or collectively and were executed on terms other than an arm's length basis.

Other related party transactions

At the stage of acquisition of the shares in Alior Bank and 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 as 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 the 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 are at threat, no dividend will be paid out, and retained earnings will be allocated for increasing the Banks' own funds.

Purchase of treasury shares in the financial year

As at 30 June 2021, consolidated funds held 182 thousand PZU shares. PZU did not hold any treasury shares as at 30 June 2021.

Granted and received guarantees and sureties

In H1 2021, 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 June 2021 is presented in Section 5.6 ASSET AND LIABILITY STRUCTURE.

Rules of preparation

The Rules of preparing the annual consolidated financial statements have been described in the PZU Group's 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 2021 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 2021.

As at 30 June 2021, the total value of dispute in all 259,817 cases (as at 31 December 2020: 282,352 cases) pending before courts, arbitration bodies or public administration authorities in which PZU Group entities take part, was PLN 9,109 million (as at 31 December 2020: PLN 8,825 million). This amount included PLN 4,652 million (as at 31 December 2020: PLN 4,408 million) of liabilities and PLN 4,457 million (as at 31 December 2020: PLN 4,417 million) of accounts receivable of PZU Group companies.

This Report on the PZU Group's Activity in H1 2021 has 146 consecutively-numbered pages.

Signatures of PZU Management Board Members

Beata Kozłowska-Chyła – President of the Management Board

Ernest Bejda – Management Board Member

Małgorzata Kot – Management Board Member

Krzysztof Kozłowski – Management Board Member

Tomasz Kulik – Management Board Member

Maciej Rapkiewicz – Management Board Member

Małgorzata Sadurska – Management Board Member

Krzysztof Szypuła – Management Board Member

Warsaw, 25 August 2021

10.

Attachment: Glossary and Alternative Performance Measures

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 products by banks

insurance broker – entity holding a permit to conduct brokerage activity. Performs activities on behalf or in favor of an entity seeking insurance cover

cross-selling – sales strategy for selling an 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) – indicator specifying the ratio of the market price to the book value per share

P/E (Price to Earnings) – indicator 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

Civil Code – Act of 23 April 1964 entitled Civil Code

Commercial Company Code – Act of 15 September 2000 entitled Commercial Company Code

ECSs – Employee Capital Schemes defined by the provisions of the Act of 4 October 2018 on Employee Capital Schemes

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 included in 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

Glossary

RODO – 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 (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 (Capital Requirements Regulation)

Regulation on Current and Periodic Information – Finance Minister's Regulation of 29 March 2018 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 2018, item 757)

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

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

spread – the difference between the purchase and sale price of a 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

Unit-linked – Unit-linked insurance fund, a separate fund consisting of assets constituting a provision consisting of insurance premiums invested in the manner specified in the insurance agreement, a constituent part of unit-linked life insurance also referred to as an investment policy

Act on Statutory Auditors – Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision (Journal of Laws of 2020, Item 1415)

UOKiK – Office of Competition and Consumer Protection, the Polish anti-trust authority, acting to ensure the development of competition, protect businesses exposed to monopolistic practices and protect consumer interests, www.uokik.gov.pl

Insurance Activity Act – Act of 11 September 2015 on Insurance and Reinsurance Activity (Journal of Laws of 2021, Item 1130), with most regulations in force as of 1 January 2016. This Act introduced Solvency II requirements to the Polish legal system

UX (User Experience) – area related to the experiences of users of the respective tool (or, more broadly, of a process, or interacting with the brand in general). It is associated directly with web usability, which is an empirical field of knowledge dealing with the design and testing of tools (in this case: online tools) in consideration of the needs and preferences of target users. In the context of websites, it involves broadly construed usefulness and effectiveness in attaining specific goals

WIBOR6M – reference interest rate for a loan for 6 months on the Polish interbank market

Solvency II – solvency system for European insurance undertakings taking the risk profile into account. These requirements have been in force since 1 January 2016

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

Alternative Performance Measures

Selected Alternative Performance Measures (APM) within the meaning of European Securities and Markets Authority Guidelines (ESMA) no. 2015/1415 are presented below.

The profitability and operational efficiency indicators presented herein, constituting standard measures applied generally in financial analysis, provide, in the opinion of the Management Board, significant additional information about the PZU Group's financial performance. Their usefulness was analyzed in terms of information, delivered to the investors, regarding the Group's financial standing and financial performance.

Assets of external clients of TFI PZU and PTE PZU – assets of external clients accumulated in the PZU "Złota Jesień" Open-End Pension Fund and the PZU Voluntary Pension Fund as well as all assets accumulated and managed by TFI PZU, other than those constituting own funds of PZU Group companies. An increase in this indicator means that the inflows of assets into the funds are greater than the outflows from the funds and/or that the funds generated positive rates of return on assets under management.

COR (Combined Operating 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; a decrease in the value of this indicator signifies an improvement in efficiency

Net interest margin (NIM) – the difference between a bank's net interest income earned on income-generating assets and interest expenses incurred on liabilities. It is the ratio of a bank's earnings generated on interest to average assets net of matured interest on at-risk receivables; an increase in the value of this indicator signifies an improvement in efficiency.

Operating margin in life insurance – profitability of life insurance segments, calculated as the ratio of the result on operating activity to gross written premium; an increase in the value of this indicator signifies an improvement in efficiency.

Operating margin in group and individually continued insurance – profitability of the segment of group and individually continued insurance, calculated as the ratio of the result on operating activity without the conversion effect to gross written premium; an increase in the value of this indicator signifies an improvement in efficiency.

PZU Zdrowie's revenues - annual gross written premium on health insurance (non-life and life), annual revenue on subscriptions, occupational medicine, moje PZU (Zdrowie) [my PZU (Health)] portal, telemedicine and all products implemented during the year, regardless of the distribution company, and annual revenues of all centers. An increase in revenues signifies an increase in the scale of business either organically or through acquisitions.

ROA (Return on Assets) – return on assets, calculated as the ratio of the annual net profit to the arithmetic mean of total assets at the beginning and end of the reporting period; an increase in the value of this indicator signifies an improvement in efficiency, i.e. a greater ability of the assets to generate profits.

ROE (Return on Equity) attributable to equity holders of the parent company – return on equity calculated as the ratio of the annual net profit attributable to owners of the parent company to the arithmetic mean of consolidated equity minus minority interest at the beginning and end of the reporting period; an increase in the value of this indicator signifies an improvement in efficiency and the ability to multiply funds entrusted by the owners (investors).

Consolidated ROE (Return on Equity) – return on equity calculated as the ratio of the annual net profit to the arithmetic mean of consolidated equity at the beginning and end of the reporting period; an increase in the value of this indicator signifies an improvement in efficiency and the ability to multiply funds entrusted by the owners.

Administrative expense ratio – the quotient of administrative expenses and net earned premium (for the non-life insurance sector) or gross written premium (for the life insurance sector); this indicator specifies the percentage share of administrative expenses in the premium, and a decrease in its value signifies an improvement in efficiency.

Acquisition expense ratio – the quotient of acquisition expenses (including reinsurance commissions) and net earned premium (for the non-life insurance sector) or gross written premium (for the life insurance sector); this indicator specifies the percentage share of acquisition expenses in the premium, and a decrease in its value signifies an improvement in efficiency.

Insurance activity expense ratio – the quotient of insurance activity expenses (administrative expenses plus acquisition expenses net of reinsurance commissions) and net earned premium (for the non-life insurance sector) or gross written premium (for the life insurance sector); this indicator specifies the percentage share of insurance activity expenses in the premium, and a decrease in its value signifies an improvement in efficiency.

Gross loss ratio – the quotient of the sum of gross claims and benefits and movement in the provision for outstanding gross claims and benefits and gross written premium; it shows what portion of the premium was allocated to indemnification costs; a decrease in the value of this indicator signifies an improvement in efficiency.

Net loss ratio – the quotient of net insurance claims and benefits and net earned premium; it shows what portion of the premium was allocated to indemnification costs; a decrease in the value of this indicator signifies an improvement in efficiency.

Cost/Income ratio, C/I ratio (banking sector) – the 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; a decrease in the value of this indicator signifies an improvement in efficiency.

PZU Group's solvency ratio – the level of coverage of the solvency capital requirement with the PZU Group's own funds within the meaning 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 and supplemented with related documents; an increase in the value of this indicator signifies an increase in the capital surplus.

These Financial Statements contain forward-looking statements concerning the strategic operations. Such forward-looking statements are exposed to both known and unknown types of risks, involve uncertainties and are subject to other significant factors which may cause that the actual results, operations, or achievements of PZU Group considerably differ from future results, operations, or achievements expressed or implied in the forwards-looking statements. The statements are based on a number of assumptions concerning the current and future business strategy of PZU Group and the external environment in which the Group will operate in the future. PZU expressly waives any and all obligations or commitments concerning distribution of any updates or adjustments to any of the assumptions contained in these Management Board's report on the activity of the PZU Group and PZU, which shall aim to reflect the changes in PZU expectations or changes in events, conditions, or circumstances on which a given assumption has been made, unless provisions of the law provided otherwise. PZU stipulates that the forwardlooking statements do not constitute a guarantee as to the future results, and the company's actual financial standing, business strategy, management plans and objectives concerning the future operations may considerably differ from those presented or implied in such statements contained in these Management Board's report on the activity of the PZU Group and PZU. Moreover, even if the PZU Group's financial standing, business strategy, management plans and objectives concerning the future operations comply with the forward-looking statements contained in these Management Board's report on the activity of the PZU Group and PZU, such results or events may not be treated as a guideline as to the results or events in the subsequent periods.

PZU does not undertake to publish any updates, changes, or adjustments to information, data or statements contained in these Management Board's report on the activity of the PZU Group and PZU if the strategic operations or plans of PZU shall change, or in the case of facts or events that shall affect such operations or plans of PZU, unless such an obligation to inform resulted from applicable provisions of the law.

PZU Group is not liable for the effects of decisions made following the reading of the Management Board's report on the activity of the PZU Group and PZU.

At the same time, these Management Board's report on the activity of the PZU Group and PZU may not be treated as a part of a call or an offer to purchase securities or make an investment. The Management Board's report on the activity of the PZU Group and PZU does not constitute also an offer or a call to effect any other transactions concerning securities.