2018 Management Board's report on the activity of the PZU Group and PZU SA

Table of Contents

Table of Contents

In pursuance of the Accounting Act requirements, the Company hereby presents a separate statement of non-financial information related to PZU Group and PZU SA. The statement was prepared in conformity with the international reporting standards of the Global Reporting Initiative (GRI Standards). Pursuant to Art. 49b.9 of the Accounting Act, the statement of non-financial information is available on the Company's website at: https://www.pzu.pl/en/investor-relations/reports

This report utilizes photos from campaigns published on the PZU Group Career" site

CEO Letter to Shareholders

Paweł Surówka
CEO of PZU

Dear Shareholders,

On behalf of the Management Boards of the PZU Group companies, I hereby convey to you our activity report for 2018.

Last year, economic conditions on the global capital markets were challenging for investors. High volatility returned to the financial markets. Positive sentiments persisted only at the outset of the year, riding the wave of optimism from 2017 when the main indices of the Polish stock exchange rose by more than 20%. This situation changed on 23 January 2018, when the WIG index, shadowing the rise in global risk appetite, reached its historic high of 67.5 thousand points. The rest of the year, however, was dominated by substantially grimmer sentiments on the Polish market. At the end of 2018, the WIG index had fallen by 9.5% y/y. Its performance was comparable to that on the main trading floors in Europe and the US. In this uninviting environment, PZU's shares rose by 4.1% and, considering the value of dividends paid, the rate of return for shareholders was 10.1%. This demonstrates the great strength and potential accumulated under the PZU brand, on the economic side of the business and the total shareholder rate alike.

Earnings per share rose by 11% to PLN 3.72 in 2018. That was the effect of unwaveringly implementing our strategy entitled "The New PZU – More Than Insurance" adopted by the Management Board in early 2018. I am glad that we have been able to grow within the framework of this value creation model and augment our investment appeal by offering a strong dividend stream to our shareholders.

In 2018, our unquestionable success was generating an above-average return on equity of 22.1%, nearly double the average posted by insurance companies in Europe. Compared to 2017, this ratio improved by 1.1 percentage points, while sales at the same time rose PLN 623 million. This excellent result was driven largely by good performance on our core insurance business. The combined ratio was 86.6% improving by 2.7 percentage points from 2017, emphasizing the Group's high quality sales and its optimum pricing policy matching the risks involved. Other contributing factors included good weather conditions and KNF's active oversight over the adequacy of pricing policies applied by insurance companies. 2018 was also another successful year for the group insurance segment with the operating margin remaining at the high level of 22.1%, or 2.1 percentage points above the level in our strategy.

According to the strategy, the PZU Group is developing its health, investment and banking areas. In 2018 we placed the bar very high for our competitors, setting trends, deploying innovative solutions and consolidating our position on the markets where we operate. Even now, we can use our broadly defined digital resources to adjust our offering quickly, reaching clients with value proposals based on top quality services.

The digitization process will also bring more products available via the Internet. In 2018, the www.pzu.pl portal changed radically. Now you can conveniently use it on your smartphone, report a claim, make an appointment with an agent or buy an insurance policy. In addition, the #myPZU (moje.pzu.pl) Internet platform has been launched, offering a broad range of services, including the ability to purchase and service of insurance products, book a doctor appointment and medical tests and access to TFI PZU's investment offering. The inPZU platform is an innovative transaction tool enabling retail and institutional clients to purchase units of passive mutual funds directly. While these funds are very popular across the globe, they are still considered a novelty in Poland. Our solution is a pioneering one. We offer a product that is well-suited to client needs, affluence and capabilities with the management fee being a mere 0.5%, with a comparable average for actively managed Polish funds in the range of 3%. Building competences in low-cost investments is another step towards Employee Capital Schemes to be launched in July 2019. Thanks to economies of scale, scope of operations and many millions of clients, PZU is bound to be a key player in this market.

We understand that today's world of finance built a digital model also involves potentially stronger competition for us posed by innovative fintechs and startups. That is why we emphasize the use of new technologies in the PZU Group. In 2018, we executed 15 pilot projects in data use, digitization of processes and client interactions. We tested telematic solutions, advanced analytics in routing and semantic OCR. In parallel, we cooperated with startups, acting as a partner in two startup acceleration programs – RBL_Start (Alior Bank's accelerator) and the MIT Enterprise Forum. We cooperated with the embassies of France, Israel and the United Kingdom, universities (AGH) and organizations integrating business communities focused around innovative activities.

In 2019, we will run more pilot projects, intensifying work to identify technologies (telematics, remote sensors, electromobility, driving autonomy and solutions harnessing the internet of things), from the perspective of using them in more business processes in PZU. Our ambition is to analyze at least several thousand such solutions per annum. At the same time, we remain focused on pursuing our strategic ambitions. These include maintaining the high profitability of our core underwriting activity on a competitive market and in the face of rapidly evolving regulatory changes, development of economies of scale in health and investments and intensification of cooperation in bancassurance. Over 200 years of tradition obligate us to continue to look for solutions and pursue our mission of helping clients take care of their future.

I would like to thank all our employees and agents for their above average commitment to building the #newPZU and the Supervisory Board for their trust and effective cooperation.

Respectfully,

Paweł Surówka,
CEO of PZU

Chairman of the Supervisory Board Statement

Maciej Łopiński
Chairman of the PZU Supervisory Board

Dear Stakeholders,

2018 was a very successful year for the Polish economy. High GDP growth, equilibrium in the current account balance, the extremely low public finance sector's deficit and the unemployment rate coming in at a level unrecorded in nearly 30 years formed great conditions for doing business. Relying on its strong brand and economies of scale, the PZU Group leveraged this period to strengthen its competitive edge and develop all areas of its operations.

From an economic point of view 2018 was primarily a period in which the PZU Group reported spectacular results that surpassed all-time highs quarter on quarter. The value of insurance sold increased by PLN 623 million to PLN 23.5 billion, while the overall PZU Group's net profit climbed by PLN 1.2 billion to PLN 5.4 billion. The robust profitability of the core underwriting business and the expanding share of the banking segment made a major contribution to this performance. We delivered such rapid business growth while preserving a rational risk appetite. The SII solvency ratio in Q3 2018 was nearly 245%, representing the optimum level of safety from the Supervisory Board's vantage point.

2018 was also a period of ambitious projects that will serve as the foundation for the digital transformation of the overall PZU Group. We have reached ever more frequently for advanced technology in our business processes: robotics, machine learning and sophisticated mobile solutions. Genuine solutions tested in pilots and acceleration programs back up these slogans. Executing these initiatives over the next several years will underpin the PZU Group's competitive edge in insurance. It will also make it possible to build new quality in asset management, health and banking.

As the key authority overseeing the Management Board's operations, the Supervisory Board fastidiously scrutinized the implementation of multiple changes against the regulatory backdrop as Polish regulations were harmonized with European Union law. The Insurance Distribution Act ("IDD") precipitated extensive modifications in sales, distribution and network management. It also expanded the protection of client interests, which is something positive for the overall insurance market. The General Data Protection Regulation ("GDPR") contributed to greater client data security. Nevertheless, these legal amendments did not adjudicate some issues, e.g. personal data processing in respect of health for underwriting purposes. The payment of claims for (pain and suffering) caused by the vegetative state of a relative injured in an accident returned as a topic. That is why PZU set up additional provisions of PLN 148 million to make possible payments by virtue thereof. Despite that, we anticipate that these types of events will happen less and less frequently because work is underway on a law to regulate the operations of firms that pursue claims.

The PZU Group is more than just ambitious strategic objectives. It also espouses fundamental ethical values that will persist for much longer than the horizon of the current strategy. Having this in mind we take a comprehensive approach to non-financial reporting, which according to the Supervisory Board is an important part of business assessment and the growth prospects of the PZU Group. I am confident that the unswerving execution of the strategy entitled "The New PZU – More Than Insurance", which takes into consideration the principles of sustainable development, will deliver new value to shareholders, clients, employees and all other stakeholders.

Respectfully,

Maciej Łopiński

Chairman of the PZU Supervisory Board

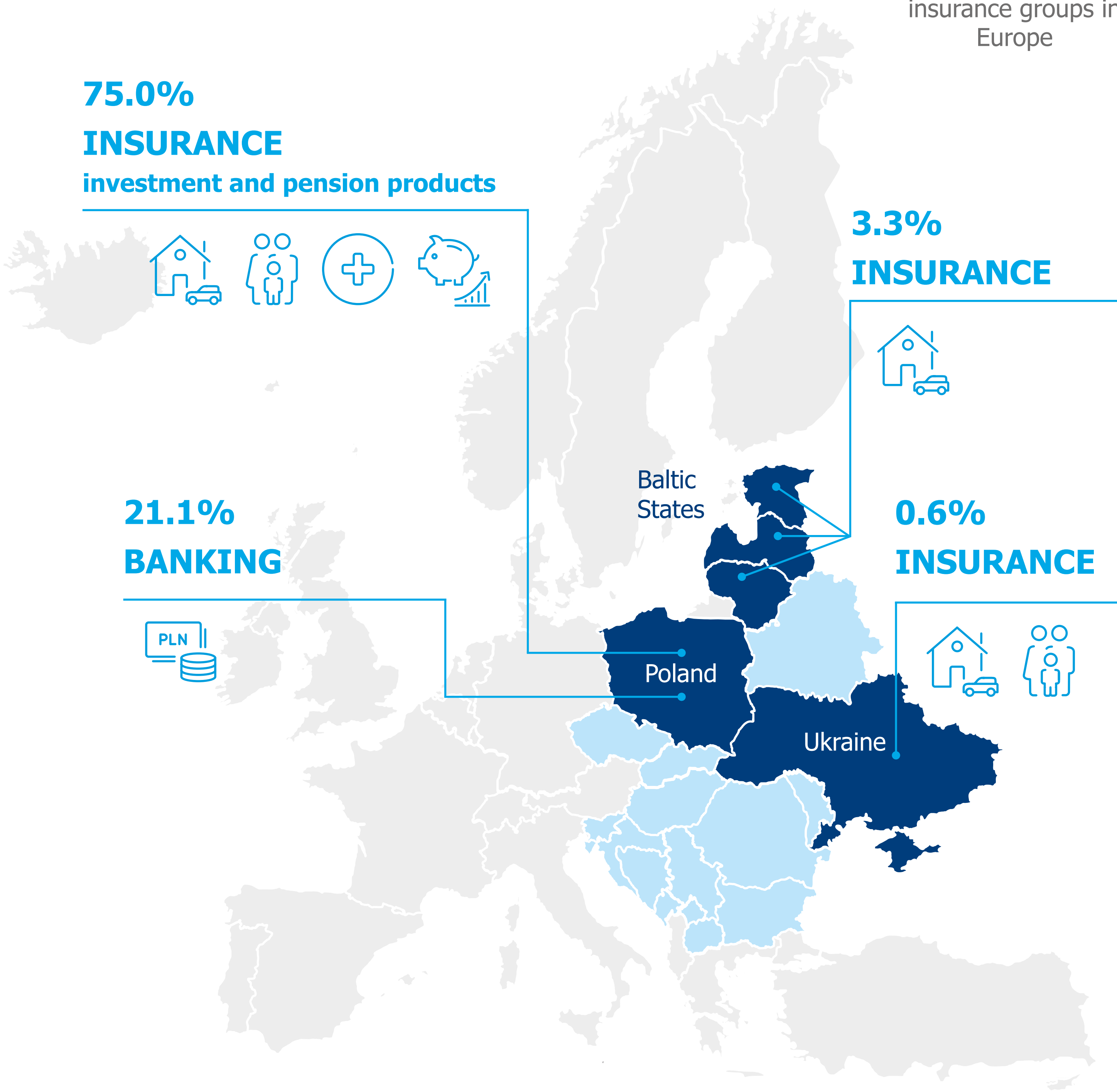
PZU Group's profile

22 million
clients in five countries

#1
largest insurance and banking group in CEE

100%
most recognizable brand in Poland[1]

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



75.0%
INSURANCE
investment and pension products

21.1%
BANKING

3.3%
INSURANCE

0.6%
INSURANCE

Percentage share in the operating result (adjusted for PZU's shares in banks)

[1] Assisted recognition of the PZU / PZU Życie brand, study by the Gfk Polonia institute, 2018

Recap of 2018 results

Gross written premium	Net insurance claims and benefits	Net profit (parent company)
PLN 23.5 bn	**PLN 14.6 bn**	**PLN 3.2 bn**
+ 2.7%	(2.5)%	+ 11.0%
PLN 23.5 bn 2018	PLN 14.6 bn 2018	PLN 3.2 bn 2018
PLN 22.8 bn 2017	PLN 14.9 bn 2017	PLN 2.9 bn 2017
PLN 20.2 bn 2016	PLN 12.7 bn 2016	PLN 1.9 bn 2016

Ambitions for 2020

Pomagamy klientom dbać o ich przyszłość

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

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

ROE	Solvency II	Dividend	Green PZU
22.1% 2018 + 1.1 p.p. vs. 2017	**245%** Q3 2018 + 37.2 p.p. vs. 2017	Dividend Payout Ratio **74%** **DPS PLN 2.50** 2017 +78.6% vs. 2016	
>22%	>200%	Dividend Payout Ratio 50% - 80%	Implementation of "Green PZU" Standard
2020 target	2020 target	2020 target	2020 target

1.

PZU Group Overview

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

PZU Group Overview

The New PZU – More Than Insurance

The Powszechny Zakład Ubezpieczeń Group is the largest financial group in Poland and Central and Eastern Europe. PZU heads up the group with its traditions dating back to 1803 when the first insurance company was established on Polish soil. PZU is a public company. PZU's stock has been listed on the Warsaw Stock Exchange (WSE) since 2010. Since its floatation PZU has been in the WIG20 index. It is one of the most highly valued companies and heavily traded stocks on the Polish stock exchange. PZU has also been one of the companies belonging to the Respect Index without interruption since 2012. (This index consists of the companies that exhibit the greatest corporate social responsibility on the Warsaw Stock Exchange).

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

The PZU Group's consolidated assets amount to PLN 329 and it enjoys the trust of 22 million clients in five countries by offering products and rendering services to retail clients, small and medium enterprises and business entities. The Polish market is the PZU Group's core market measured by the scale of its business and client numbers. Nevertheless, its subsidiaries play an important role on the markets in Lithuania, Latvia, Estonia and Ukraine.

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

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

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

Its robust brand underpins strategy execution. According to brand awareness surveys, PZU is the most recognizable brand in Poland (recognition of the PZU brand stands at 88% while prompted brand awareness is 100%).

Among all the Polish insurers PZU offers its clients the largest sales and service network. It has 411 branches with convenient access across the country, 9.1 thousand tied agents and agencies, 3 thousand multi-agencies, nearly 1 thousand insurance brokers and electronic distribution channels. When it comes to bancassurance and strategic partnerships, the PZU Group cooperates with 13 banks and 21 strategic partners. PZU also has a claim handling system that operates efficiently.

The PZU Group's clients in Poland also have access to Bank Pekao's distribution network (825 branches) and Alior Bank's distribution network (202 own branches, 8 branches of private banking, 8 regional business centres, 643 intermediaries). Both banks have professional call centers and mobile and internet banking platforms.

In the Baltic States in which the PZU Group is in the insurance business, its distribution network consists of approximately 1 thousand agents, 33 multi-agencies and 390 brokers. PZU also cooperates with 5 banks and 14 strategic partners. In Ukraine insurance products are distributed through 700 agents and in cooperation with 14 multi-agencies, 30 brokers, 7 banks and 8 strategic partners.

We manage business in a responsible manner

PZU is an organization operating at a large scale. It is also cognizant of the expectations various stakeholder have of it, including clients, employees, investors, industry experts, social environment and a number of institutions and organizations. That is also why managing relations with stakeholders and their impact on the business community is accomplished in a deliberate and sustainable manner. PZU is a company that is open to social expectations. In the actions it takes it strives to set trends and construe business solutions responsibly. It also gets involved in actions to benefit the local communities in which the Group's clients and employees function. For the PZU Group, sustainable management is a deliberate choice of how it conducts its business, thereby making it possible to build the company's long-term value in an ethical and transparent manner while giving consideration to stakeholder needs and expectations. The full scope of information pertaining to the PZU Group's implementation of corporate social responsibility principles that also incorporates all the legally-required non-financial information can be found in the 2018 Non-financial Information Report of the PZU Group and PZU forming an attachment to this Activity Report of the PZU Group and PZU.

Responsible business management in the PZU Group

We respond to the needs of our clients

We are devising new standards in relations with supplier

We create an inspiring place of work

We are a leader in social activities focusing on security

ETYKA

We cultivate a culture of ethics and compliance

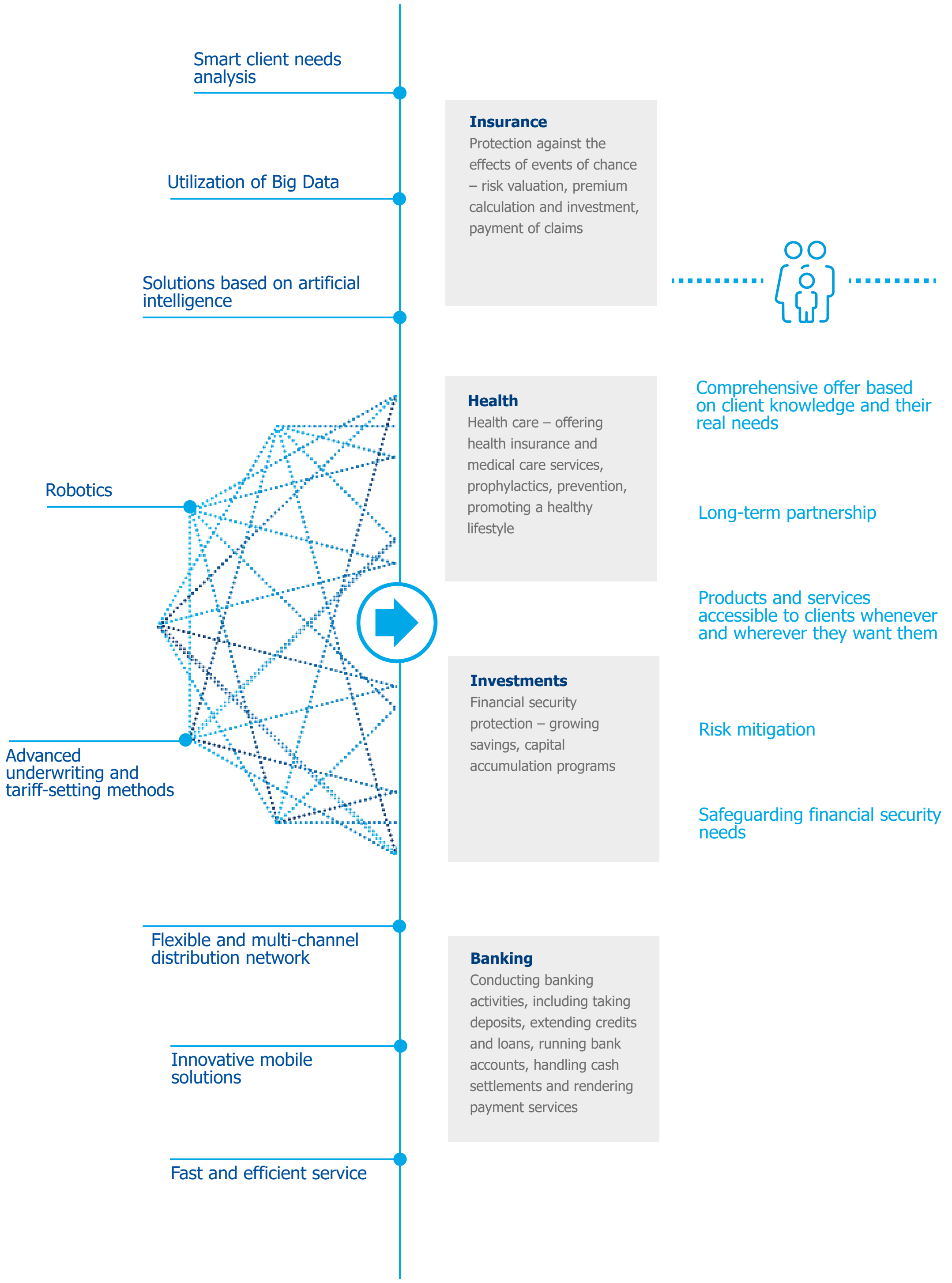
We manage our environmental impact in a deliberate manner

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

Values by which we are guided in our actions

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

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

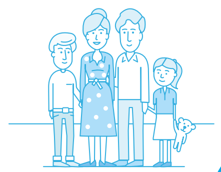


Major business areas

Insurance – for many years the PZU Group has provided insurance cover in all of the most important areas of private, public and business life, thereby safeguarding its clients' lives, assets and health. PZU (non-life insurance, including motor, residential and buildings, agricultural and third party liability insurance) and PZU Życie (life insurance) are the leaders on Poland's insurance market. Since 2014, following the acquisition of Link4, insurance is offered by the Group in Poland under two brands: PZU, a brand with more than 200 years of tradition standing behind it and Link4, a much younger brand associated with direct sales channels. TUW PZUW, a mutual insurer, was founded in 2015 to sell and handle insurance products for companies in various industries, focusing on cooperation with large corporates, medical entities (hospitals and clinics) and local government units.

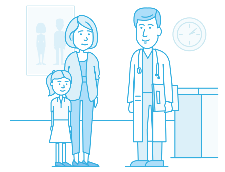
The PZU Group is also the leader in the Baltic States, and it does business in Ukraine.

Poland is the Group's core market. 92% of its revenue (measured by gross written premium) is generated in Poland. The insurance activity in the Baltic States (Lithuania, Latvia, Estonia) and in Ukraine generates 8% of its revenue.



Health – Striving to satisfy to a greater and better extent client needs, the PZU Group is intensively growing its health insurance segment accompanied by the accompanying medical care services under the PZU Zdrowie brand. The health business deals with the following two types of efforts: (i) sales of health products in the form of insurance and sales of non-insurance products (occupational medicine, medical subscriptions, partnerships and prevention programs), (ii) construction and development of medical infrastructure in Poland to give clients the best accessibility to the medical services rendered.

The PZU Group delivers its clients quality that is difficult to replicate: quick doctor appointments (in basic medical care a visit is offered within a maximum of 2 business days, and in the case of specialists within a maximum of 5 business days), respecting referrals for tests prepared by physicians from outside the PZU Zdrowie network, cooperation with more than 2,100 partner centers in Poland and a proprietary network of more than 60 branches as well as an offer enriched with preventive activities.



CLIENT

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

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

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

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

Bank Pekao was established in 1929. It is a universal bank, providing a comprehensive offerof banking services to individual and institutional clients, operating mainly in Poland.

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

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

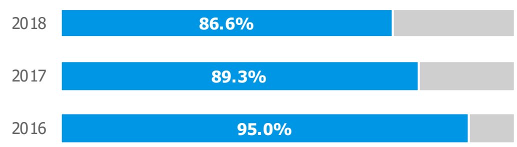
PZU Group Overview

INSURANCE

Non-life insurance in Poland

Gross written premium (PLN billion)

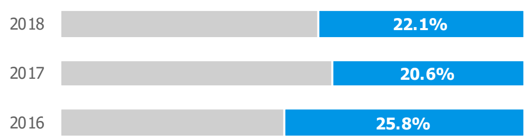
Profitability (combined ratio - COR)



Life insurance in Poland

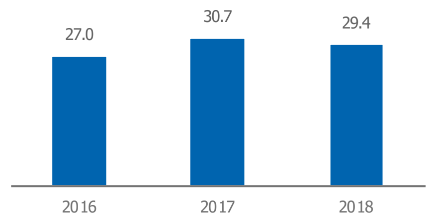
Gross written premium (PLN billion)

Profitability (operating margin)



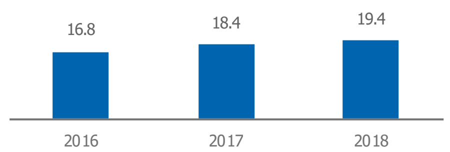
INVESTMENTS

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



Net result on asset management (PLN million)

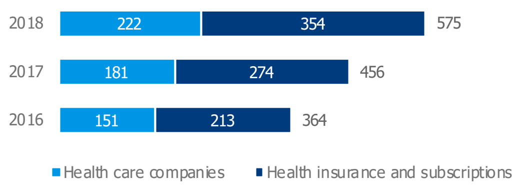
Assets of Pekao TFI (PLN billion)



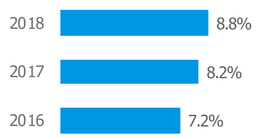
Net result on asset management (PLN million)

HEALTH

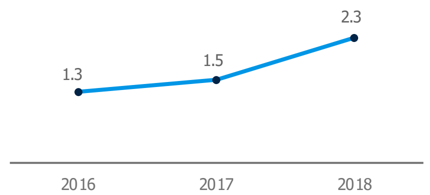
PZU Zdrowie's revenues (PLN million)



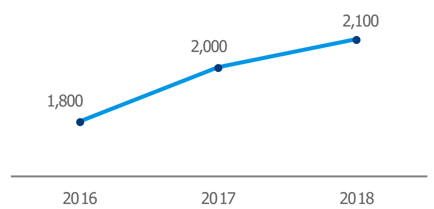
EBITDA margin



Number of agreements (milion)

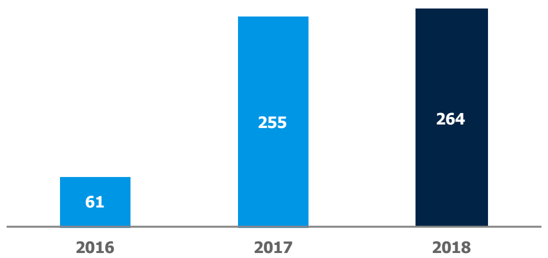


Partnership branches

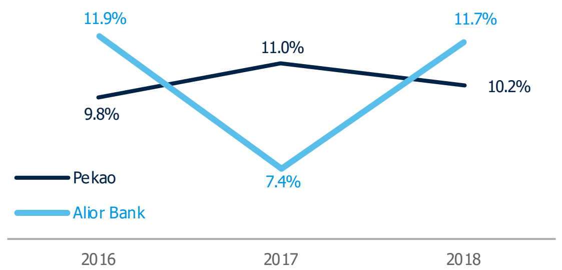


BANKING

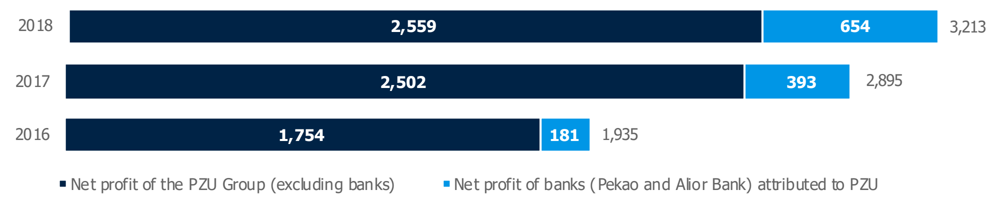
Banking assets in the PZU Group (PLN billion)



ROE (return on equity)



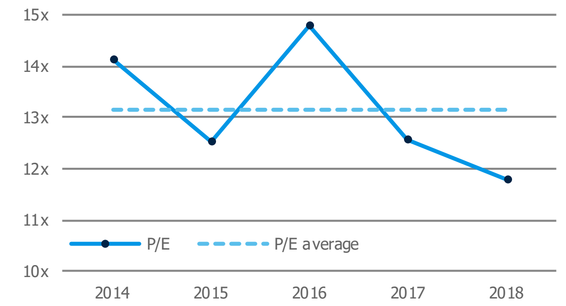
Contribution of banking activity to the net profit of the parent (PLN million)



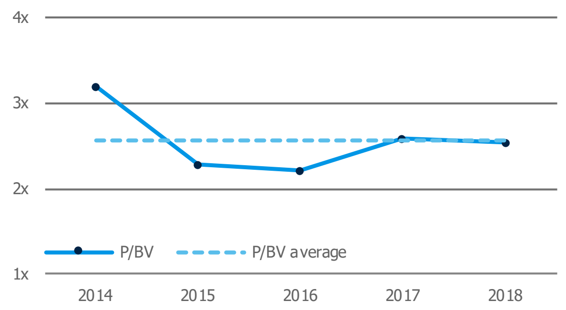
PZU Group Overview

MARKET MULTIPLES

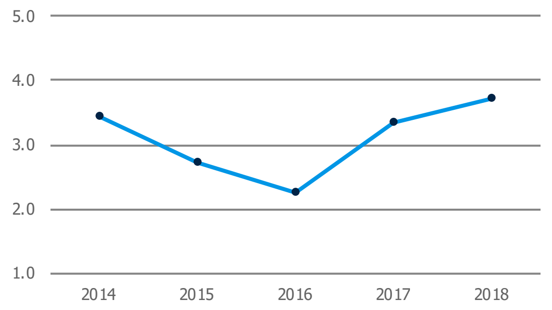
P/E (price to earnings per share)



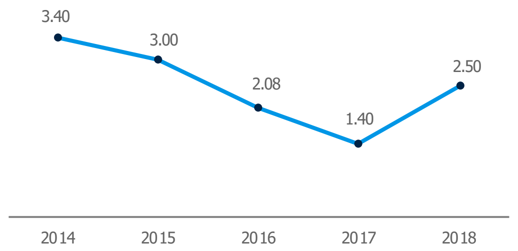
P/BV (price to book value)



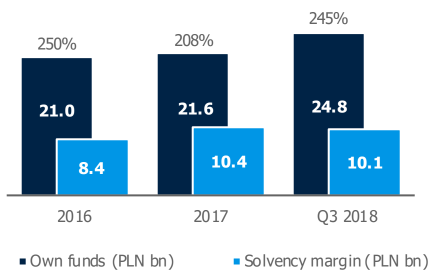
EPS (earnings per share) PLN



DPS (dividend per share) PLN

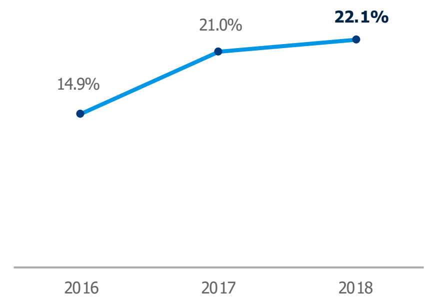


Solvency II*



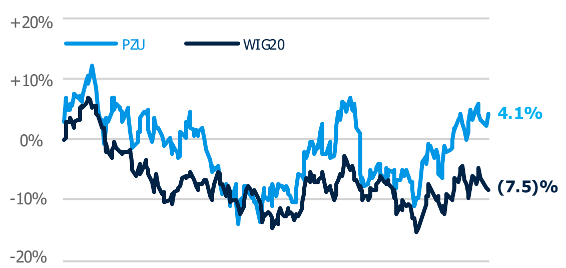
* Unaudited data

ROE (return on equity)*

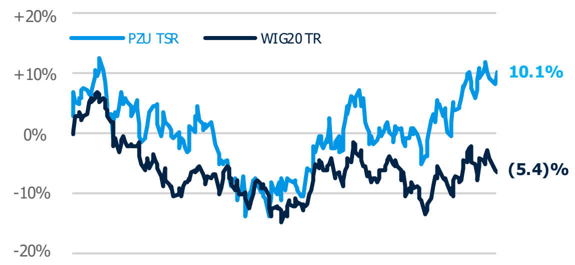


* ROE attributed for the parent company

PZU, WIG20 (2018)



PZU TSR, WIG20 TR (2018)



Financial highlights from 2014-2018 (in PLN m)

	2018	2017	2016	2015	2014
PZU GROUP NET OF ALIOR BANK AND PEKAO					
Gross written premium	23,470	22,847	20,219	18,359	16,885
Net ivestment result	904	1,855	1,217	1,622	2,500
Net insurance claims and benefits paid	(14,563)	(14,941)	(12,732)	(11,857)	(11,542)
Acquisition expenses	(3,130)	(2,901)	(2,613)	(2,376)	(2,147)
Administrative expenses	(1,637)	(1,647)	(1,644)	(1,658)	(1,528)
Operating profit	3,298	3,198	2,287	2,940	3,693
Net profit attributable to equity holders of the parent company	2,559	2,502	1,754	2,343	2,968
BANKS: ALIOR AND PEKAO					
Net profit attributable to equity holders of the parent company	654	393	181	-	-
NET RESULT ATTRIBUTABLE TO THE PARENT COMPANY	3,213	2,895	1,935	2,343	2,968
Total assets	328,554	317,458	125,304	105,397	67,573
Equity attributable to the owners of the parent company	14,925	14,599	12,990	12,924	13,166

Restated data as at 31 December 2014 - 2017
PZU Group excluding financial data of Pekao and Alior Bank
Data from consolidated statement of financial position for 2016 restated - as at 1 January 2017

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 2018 the return on equity was 22.1%[1], nearly double the average posted by insurance companies in Europe. Rapid growth is achieved while preserving a high level of business safety. This is corroborated both by its high solvency ratios and by the A- rating with stable outlook rating assigned by the US rating agency S&P Global Ratings.

A-
/STABLE/
Financial strength rating and credit rating awarded to PZU by S&P

As at the end of Q3 2018, the solvency ratio (calculated according to the standard Solvency II equation) was 245%, a level above the average solvency ratio reported by insurance groups in Europe.

[1] indicator calculated on the basis of average equity attributable to the owners of the parent company on January 1, 2018 after the change in accounting principles and December 31, 2018

In 2018 no changes were made to PZU's rating or outlook, while S&P Global Ratings twice affirmed the financial strength and creditworthiness ratings for PZU at A- with a stable outlook. This rating was assigned to PZU on 27 October 2017. This is one of the highest possible ratings for a Polish company to receive.

The promise of distributing profits to shareholders in the form of dividends also evidences PZU's attractiveness as an investment, where these profits are not needed to underwrite its rapid growth. The dividend per share paid from 2017 earnings (on 3 October 2018) was equal to PLN 2.50, representing 78.6% y/y growth.

During the 12 months of 2018, PZU's market capitalization rose PLN 4.6 billion. Taking into account the PLN 2.2 billion dividend paid to the shareholders, the annual rate of return on the Company's stock was 10.1%. The benchmark WIG index recorded a 9.5% y/y loss in the same period.

Selected awards and distinctions

The PZU Group received numerous awards and distinctions for the activity in 2018. We present some selected ones below.

AWARDS:

Business:

- PZU: Trustworthy Brand
- PZU: Friendly Insurance Company
- PZU: Paweł Surówka - Insurance Manager of the Year 2018
- PZU: First place in the Insurance Indemnity Fund's Data Quality ranking in 2018
- PZU: Ethical Company
- PZU: Golden Handset "Excellent Client Communication"
- PZU: Simple Polish Certificate
- LINK4: Ethical Standards Ombudsman
- LINK4: Service Quality Start 2018
- LINK4: Client's Golden Laurel for Discovery of the Year awarded for Link4Mama
- PZU Zdrowie: Healthy Company
- Pekao: Best Investment Bank in Poland
- Pekao: Best Private Bank in Poland
- Alior: Best Bank in Poland in 2018
- Alior: Best Bank for Companies
- Alior Bank: Newsweek's Friendly Bank 2018

Innovations:

- PZU: Customer Experience & Engagement, Customer Service in Sign Language
- PZU: distinction for the PZU GO project
- TFI PZU: "Revolutionist" awarded for inPZU
- Alior Bank: IT Leader 2018
- Alior: The Heart - Corporation Innovation Awards 2018
- Pekao: PeoPay, the Most Innovative Product in the World

Marketing:

- PZU: Top BRAND (position in the media)
- PZU and LINK4: the most admired insurance brand creation, 1st and 2nd place

HR:

- PZU: Top Quality HR
- PZU: Top Quality Apprenticeships and Internships
- LINK4: Great Place To Work
- LINK4: Human Capital Investor
- LINK4: distinction for HR DREAM TEAM 2018
- Pekao: Top Employer 2018

IR:

- PZU: The Best Annual Report 2017 (main prize in the category "Banks and financial institutions")
- PZU: Best IR Professionals in Poland (2nd place)

PZU Group development

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

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

1950 1960 1970

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

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

1998
Establishment of PTE PZU – pension insurance management company

1999
Formation of TFI PZU – mutual fund management company

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

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

2010
PZU's Initial Public Offering (IPO)

2012
Rebranding

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

and a direct insurer in Poland - LINK4

Launch of the PZU Zdrowie brand

2015
Agreement to acquire Alior Bank

Formation of TUW PZUW – a mutual insurance company

2017
Finalization of the acquisition of Bank Pekao

2018

The New PZU - More Than Insurance

July

Portal of new possibilities – new unveiling of the website www.pzu.pl

September

PZU's single world – launch of the portal moje.PZU

October

Revolution in investments – launch of the platform inPZU

CALENDAR

09 JANUARY
announcement of the #newPZU strategy

31 MARCH
record-breaking opening of the year in terms of gross written premium (the best first quarter in the history of the PZU Group)

25 JUNE
S&P awards a rating to TUW PZUW (A-)

26 JULY
portal of new opportunities – new unveiling www.pzu.pl

03 OCTOBER
dividend paid from PZU's 2017 profits (PLN 2.50 per share)

31 OCTOBER
S&P affirms PZU's rating at A- (stable outlook)

09 JANUARY
appointment of Maciej Łopiński to be the PZU Supervisory Board Chairman

13 JUNE
Impact'18 Congress in Cracow – The Future of the Digital Economy

28 JUNE
PZU SA's Ordinary Shareholder Meeting

30 SEPTEMBER
PZU Group's highest quarterly net profit in 5 years

04 OCTOBER
#PolandCanDoNation Conference in New York

Rejestruję - pilotuję

Working in the Client Service area, you accompany clients in important situations in their lives – child birth, purchase of a new apartment, car failure. In these situations, you provide clients with indispensable support and through your actions you guarantee that they can always rely on us

PZU. This work makes sense.

More: http://bit.ly/2CKPfh0

2.

External environment

The high economic growth based on the robust domestic demand - particularly household consumption supported by the high real disposable income and situation on the labour market -created favorable conditions for PZU's business growth.

In this section:

1. Main trends in the Polish economy
2. External environment in the Baltic States and Ukraine
3. Situation on financial markets
4. Polish and Baltic States insurance sector compared to Europe
5. Polish banking sector compared to Europe
6. Regulations pertaining to the insurance market and the financial markets in Poland
7. Factors that may affect the operations of the Polish insurance sector and the PZU Group's activities in 2019

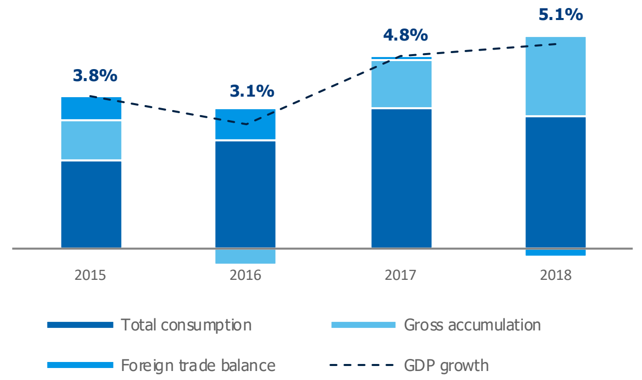
External environment

2.1 Main trends in the Polish economy

Gross Domestic Product

According to preliminary estimates of the Central Statistical Office, in 2018 GDP increased 5.1% in real terms, which was the strongest growth since 2007. Household consumption, up 4.6% from 2017, remained the main driver of the country's GDP growth. This persistently robust consumption growth was supported by higher employment, a decline in the rate of unemployment and higher real income. Investments in fixed assets were a major contributor to the strong economic growth. The growth rate of investments in 2018 accelerated to 7.3% from 3.9% the year before, also owing to public investment projects co-funded by the European Union. The GDP growth rate was also driven by rising inventories. On the other hand, the deteriorated condition of German industries and the slowdown in economic growth in the euro area suppressed the growth rate of Polish exports, whereas imports remained high due to strong domestic demand. The contribution of net exports to the GDP growth rate was negative (-0.2 p.p.).

Decomposition of GDP growth in 2015-2018



Source: Central Statistical Office, preliminary estimate of GDP in 2018 as at 28 February 2019.

Labor market and consumption

In 2018 the labor market conditions continued to improve from an employee point of view. Employment grew and the unemployment rate decreased, albeit slower than a year earlier. At the same time, companies reported difficulties filling vacancies and wages were on the rise at a relatively high rate.

The most readily available information about the labor market comes from the enterprise sector. In 2018, average paid employment grew by almost 168 thousand people, as compared to an increase by 266 thousand people in 2017. In December 2018, the average monthly employment in enterprises was 2.8% higher than the year before. The growth in employment, coupled with the declining working-age population, resulted in a lower unemployment rate. The registered unemployment rate in December 2018 was 5.8%, compared to 6.6% in December 2017. At the end of 2018, the seasonally adjusted rate of economic unemployment (according to Eurostat) stood at 3.5%, which was below the European Union average (6.6% in December 2018). This notwithstanding, the extent of the decline in the rate of unemployment in 2018 was smaller than in the four prior years.

In this situation, in 2018, the upward trend in average monthly wages in the Polish economy was 7.0%, compared to 5.7% in 2017. The average monthly salary in the business sector increased between yearend 2017 and yearend 2018 by 7.1% compared to a 5.9% increase in 2017. With the inflation rate lower than in 2017, this also caused a higher real increase in the average wage. The robust growth in real income coupled with high consumer confidence indicators contributed to achieving a relatively high rate of growth in household consumption in 2018 (4.6%).

Inflation, monetary policy and interest rates

In 2018, the consumer price index (CPI) increased on average by 1.6% in annual average terms, compared to 2.0% in 2017. In December 2018, consumption prices were 1.1% higher than the year before and net core inflation (CPI without the prices of food and energy) declined to 0.6% y/y. With low core inflation in the euro area, the room for increases in the prices of commercial goods remained curbed. Moreover, the demand gap in Poland was closed relatively recently. Accordingly, the country is under no strong inflationary pressure at this point.

In 2018 and in January and February 2019, the Monetary Policy Board decided not to change interest rates. They remained flat at the level set in March 2015 – the reference interest rate was 1.5%. According to the Monetary Policy Council, the current level of interest rates is still conducive to keeping the Polish economy on a sustainable growth path and helps it preserve macroeconomic balance.

Public finance

The Finance Ministry announced that the state budget deficit in 2018 was PLN 10.4 billion, which is much lower than the PLN 41.5 billion planned. This means that the state budget deficit was a mere 0.5% of GDP. The State Treasury debt at the end of December 2018 was PLN 954.2 billion, up PLN 25.8 billion (+2.8%) from the beginning of 2018. According to the European Commission's forecasts in November 2018, the deficit of the general government sector in Poland in 2018 dropped to 0.9% of GDP. In 2018 Poland had no problems whatsoever in obtaining market financing – the Finance Ministry reported that over one-fourth of its borrowing needs planned for 2019 had been pre-financed at yearend.

2.2 External environment in the Baltic States and Ukraine

Lithuania

At the end of 2018, the Lithuanian economy experienced a slowdown in its economic growth. GDP in the third quarter was 2.9% y/y, having declined on a q/q basis by 0.9%. Growing household incomes were a driver of the Lithuanian economy, having translated directly into higher internal demand and ongoing pressure on wage inflation.

To a slight extent, a higher immigration rate eased tensions on the labor market. The majority of immigrants have been hired by transportation companies, whereas a number of other industries continue to struggle with a shortage of personnel. This demonstrates an imbalance on the labor market, ultimately leading to a rapid increase in wages.

In 2018, inflation subsided to the annual rate of 1.9%. Changes in prices remained affected by the domestic economic situation and shifting trends in the global commodities market. This year's changes in global commodity prices contributed significantly to higher prices of fuels, yet inflation was kept at a moderate level due to the prices of food, beverages, industrial goods and services, which grew at a slower pace than the year before.

Latvia

In the third quarter of 2018, Latvia's GDP grew at a rate of 5.3% (annual data, seasonally adjusted). The rapid growth of the Latvian economy was driven by rising investments and private and public consumption.

In a situation of growing uncertainty in the external economic environment and export opportunities becoming more and more blurred, it is possible that private consumption will again become the economy's driving force. Private consumption remained on a stable growth path and had a favorable impact on investments. Gross fixed capital formation, the growth rate of which subsided somewhat in the second quarter, increased 4.2% in the third quarter.

The Latvian labor market experiences decreasing unemployment and high demand for labor, meaning that wage growth remains solid. In the third quarter of 2018, gross wages increased 8.0% y/y in nominal terms.

In December 2018, the annual inflation rate was 2.6%, driven largely by higher prices of goods and services related to home maintenance, alcoholic beverages and tobacco products, transportation services and healthcare.

Estonia

Despite the slight cooling of the economic situation in Europe, Estonia maintained its upward trend. According to data published by the Bank of Estonia[1] the country's GDP increased 4.2% in Q3 2018 (on a year-on-year basis), whereas the quarter-on-quarter increase was 0.4%. In the third quarter of the year, GDP driven chiefly by domestic demand, while exports recorded a slight increase. The construction and real estate sectors were responsible for approximately half the growth.

The Estonian labor market is struggling with a shortage of qualified employees, which predominantly affects those sectors of the economy that suffer from low productivity and find it hard to compete with sectors offering higher wages. The annual increase in average gross monthly wages was 6.4% in Q2 2018, and 7.5% in Q3 2018.

The consumer price index (CPI) moved up 3.4% in 2018[2] compared to the previous year. The largest impact on the annual change in the index was exerted by housing maintenance expenses, including prices of electricity supplied to homes, solid fuels and rents.

[1] Estonian Economy and Monetary Policy, 4/2018, Bank of Estonia.
[2] Data published by the Estonian Statistical Office.

Ukraine

In 2018, the Ukrainian economy remained on a stable growth path initiated in 2017. In Q3 2018, Ukraine's GDP increased 2.8% compared to the corresponding period of the previous year. In December 2018, the country's annual inflation rate was 9.8%, the lowest in the last 5 years. The inflation rate was affected predominantly by the following main factors: an increase the discount rate by the National Bank of Ukraine reflecting the strengthening of the country's domestic currency and wage increases, and the ensuing increase in consumer demand.

After 11 months of 2018, a negative balance of foreign trade in goods and services was recorded (USD -10.6 million). This was another offshoot of the still unresolved conflict in eastern Ukraine. The loss of control over the resources in the eastern part of the country curtailed Ukraine's export capacity (due to disrupted mining production and electricity generation).

2.3 Situation on the financial markets

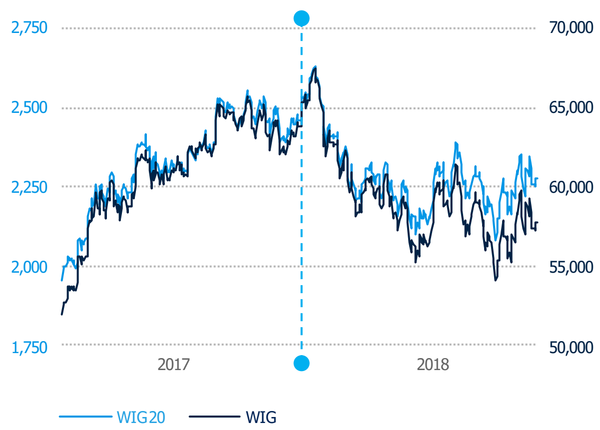
2018 was an unfavorable year for investors on global financial markets. Most asset classes recorded a negative rate of return (with Polish and German treasury bonds among the few notable exceptions). Despite the temporary trepidations at the turn of January and February, stock prices grew for the better part of the year on developed markets, having dwindled only in the last quarter of the year. The prices of US and German treasury bonds behaved erratically throughout most of the year. The yields on 10-year US Treasuries continued to increase steadily until October. Subsequently, they declined, but not deep enough to break the level at which they started the year. In 2018, the yields on 10-year German Bunds dwindled. The year began with a strong growth in the yields on German bonds, but at the end of February the upward trend reversed, and the decline even accelerated at the end of the year.

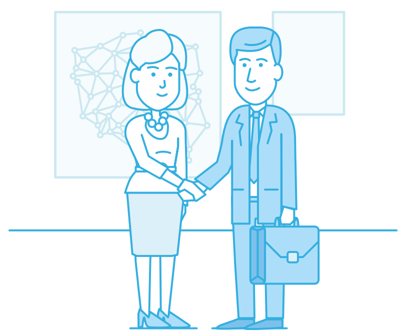
In 2018, trends on the financial markets were swayed by news of heightened tensions in global trade relations and indications of decelerating economic growth in the world's major economies. In 2018, the US trade policy became more austere, especially towards China, which resulted in bilateral tariff hikes. This had an adverse effect on the dynamics of global trade and resulted in a worsening of the business climate in economies dependent largely on exports, including Germany. The rate of GDP growth in China and the euro area began to subside. At the end of 2018, investors also began to worry that, as a result of monetary policy tightening measures taken by the US central bank (the Fed), economic growth in this country may also decelerate. The increase in uncertainty was also worsened by the possibility of a disorderly Brexit, Italy's pursuit to adopt a fiscal policy unacceptable by the EU and recurring declarations that customs duties will be imposed on cars exported from Europe to the United States.

However, these events did not stop the Fed from raising its interest rates four times or from continued efforts to shrink its balance sheet. In turn, at the end of 2018 the European Central Bank ended its asset purchase program, thus effectively ending the quantitative easing period.

In Poland, the stock market ended the year 2018 in the red. In 2018, the WIG and WIG20 indices lost 9.5% and 7.5%, respectively. Against the backdrop of increases in global indices and the improved economic situation in Poland, all of the country's major stock market indices grew until the end of January. The beginning of February roughly marked a synchronized descent in all stock market indices. In the middle of the year, certain differences appeared in the paths followed by large and small cap indices. While WIG20, the blue chip index, stabilized and even improved somewhat in the second half of the year, the medium and small company indices of mWIG40 and sWIG80, respectively, continued to decline rapidly in this period. Compared to other major sectors, in 2018 the fuel industry was outstandingly strong compared to such poorly performing industries as banking, utilities, commodities and construction, among others.

WIG and WIG20 indices





Poland's GDP growth in 2018 accelerated to

5.1% y/y

due to the high rate of growth in household consumption

The registered unemployment rate in Poland in December 2018 fell to

5.8%

compared to 6.6% in December 2017

The average monthly salary in Polish economy in 2018 grew by

7.0%

PLN

compared to a 5.7% increase in 2017

In 2018, the consumer price index (CPI) in Poland rose

1.6%

in annual average terms, compared to 2.0% in 2017

No interest rate changes by the Monetary Policy Board in 2018, the reference interest rate has remained flat at

1.5%

since 2015

Insurance penetration rate in Poland

1.6%

below the European average (7.5% in 2017)

In 2017, the statistical Pole spent

EUR 380

on insurance, or more than 5 times less than the European average (EUR 2,030)

15000€

65%

PLN

- share of bank loans in the Polish banking system in relation to the GDP in 2017, while the European average is 126%

Increase in GDP of Baltic states at the end of Q3 2018 on an annual basis:

Latvia by **5.3%**

Estonia by **4.2%**

Lithuania by **2.9%**

on an annual basis

Deposits are the most popular form of accumulating financial assets in Poland - on an annual basis,

84.9%

of all households hold them

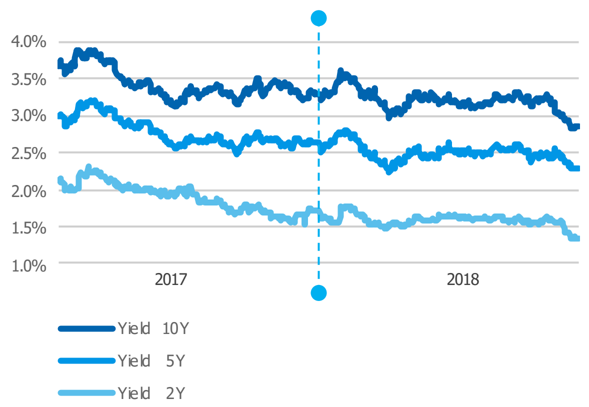
Ukraine's GDP growth in Q3 2018 rose

2.8%

on an annual basis

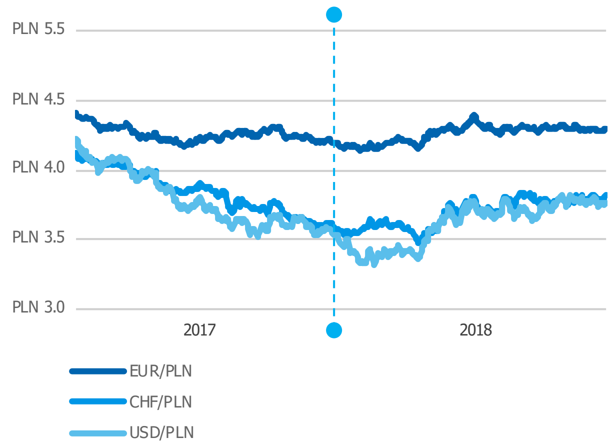
2018 was another year in which Polish PLN-denominated treasury bonds appreciated. The yields declined along the whole yield curve, with the largest movement recorded on annual and 10-year bonds. The behavior of Polish 10-year treasury bonds was largely correlated with changes in the yields on 10-year German bonds. At the same time, during the year the spread between Polish and German 10-year treasury bonds tightened by 31 basis points, which resulted partly from the robust fundamentals of the Polish economy. This fact did not go unnoticed by Standard & Poor's: the agency raised its credit rating to A- with a stable outlook. Throughout 2018, the yields on 10-year treasury bonds slumped by 49 bps from 3.30% to 2.81%. The yields on 5-year treasury bonds declined by 36 bps and stood at 2.29% at the end of the year, while the yields on 2-year bonds dropped by 37 bps to 1.34% during the year. The yield of Polish debt treasury securities with a one-year maturity fell by 56 bps, reaching 0.91% at the end of the year.

Treasury bond yields in 2018



In 2018, especially between March and May, a clear trend transpired on the main currency markets with the US dollar strengthening markedly against other major global currencies. In the light of increasing concerns about a disorderly Brexit, the British pound depreciated in the second part of the year. Eventually, the USD/EUR exchange rate stood at 1.14 at the end of 2018, which means a 4.8% appreciation compared to the beginning of the year. In the same period, the Polish zloty weakened against the major global currencies. Between the beginning and end of 2018, the US dollar appreciated against the Polish zloty by 8.0% to PLN 3.76, while the euro was worth PLN 4.30 at the end of 2018, up 3.1%. The Polish zloty clearly weakened against the Swiss franc by 7.0% (the CHF/PLN exchange rate increased to roughly PLN 3.82).

PLN exchange rates



2.4 Polish and Baltic States insurance sector compared to Europe

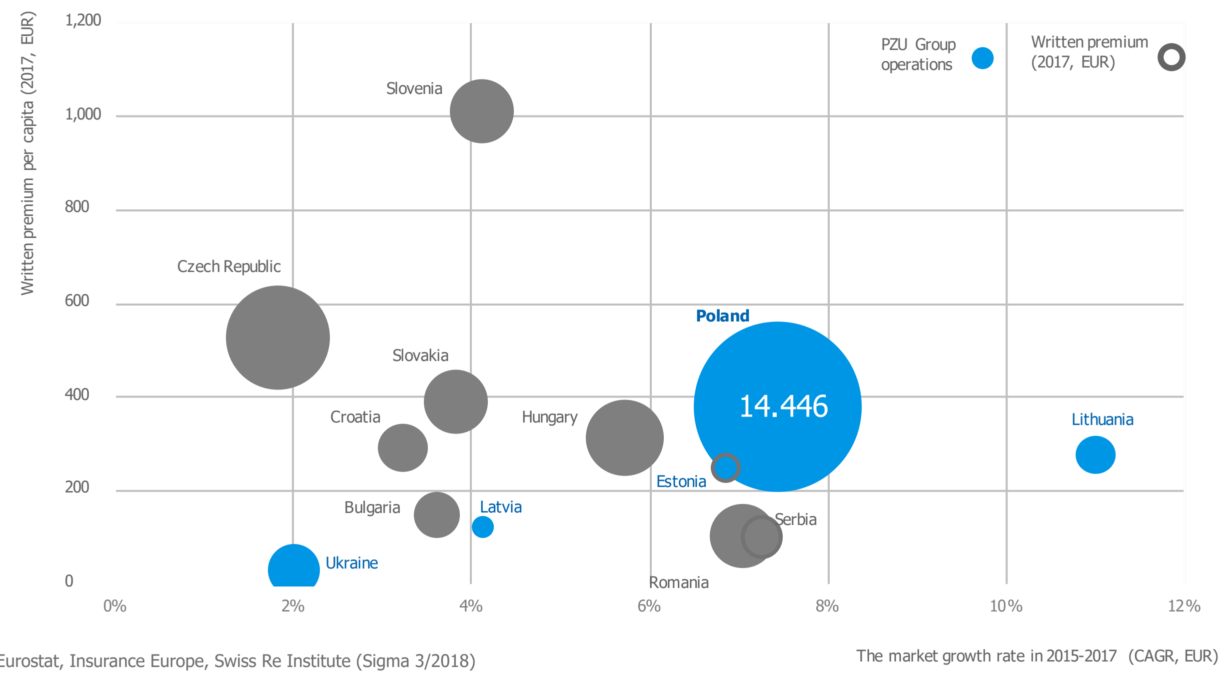
The European insurance market generates approximately 30% of the world's gross written premium[3]. According to data published on October 30, 2018, insurers operating in Europe, in countries affiliated to Insurance Europe, obtained in 2010 EUR 1 213 billion in premiums[4]. In 2015-2017, the European insurance market grew at an average rate of 0.6%.

In 2017, the statistical European spent EUR 2,030 on insurance, whereas the average Pole spent EUR 380, or more than 5 times less. Insurance spending in the Baltic states was even lower. In 2017, the average Lithuanian spent EUR 278 on insurance, the average Estonian spent EUR 251 and the average Latvian spent EUR 123. In 2017, the average Ukrainian spent only EUR 33 on insurance.

In Poland, the market insurance model has been developing since 1990. Currently, Poland has the largest insurance market in Central and Eastern Europe. However, even though the size of this market (as measured by gross written premium) doubled between 2008 and 2017, it still remains way behind Western Europe. In 2017, total gross written premium in the Polish market was EUR 14.4 billion (compared to EUR 7.0 billion in 2008). Europe's largest insurance market is the United Kingdom (with EUR 283.6 billion in gross written premium in 2017). Markets above the EUR 100 billion gross written premium threshold include France (EUR 211.6 billion), Germany (EUR 198.0 billion) and Italy (EUR 131.0 billion).

[3] Swiss Re, Sigma No. 3/2018: "World insurance in 2017"
[4] Insurance Europe, https://insuranceeurope.eu/insurancedata

Written premium per capita (2017, EUR) in relation to the growth rate of the insurance market (2015-2017, EUR)



Source: Eurostat, Insurance Europe, Swiss Re Institute (Sigma 3/2018)

In terms of size, the Polish insurance market also trails certain West European countries with a significantly smaller population than Poland, including Austria (EUR 17.1 billion in gross written premium in 2017), Belgium (EUR 25.8 billion), Denmark (EUR 31.2 billion), Finland (EUR 22.8 billion), the Netherlands (EUR 70.0 billion), Switzerland (EUR 48.9 billion) and Sweden (EUR 33.5 billion)[5].

The structure of the Polish market is dominated by non-life insurance (approx. 60% of the market), with the majority of gross written premium generated by motor insurance. In 2017, gross written premium collected on motor third party liability insurance and motor own damage insurance accounted for 36% of the entire market's gross written premium[6]. The share of life insurance in Poland's total gross written premium (approx. 40%) was, in turn, a third lower than the European average. A similar structure of insurance markets is also typical of the Baltic states. In those countries, life insurance, on average, accounts for less than 30% of total gross written premium. This structure is completely different from that of West European countries where life insurance takes the bigger chunk of the market. In 2017, nearly 58.5% of insurance premiums in Europe was generated in life insurance, 30.6% in non-life insurance and 10.9% in health insurance. Countries with the most developed life insurance market are countries that also have the largest insurance markets. These include Italy (in 2017, life insurance accounted for 75.3% of gross written premium), the United Kingdom (69.5%), France (63.6%) and the Scandinavian states: Finland (81.3%), Sweden (78.5%) and Denmark (70.6%).

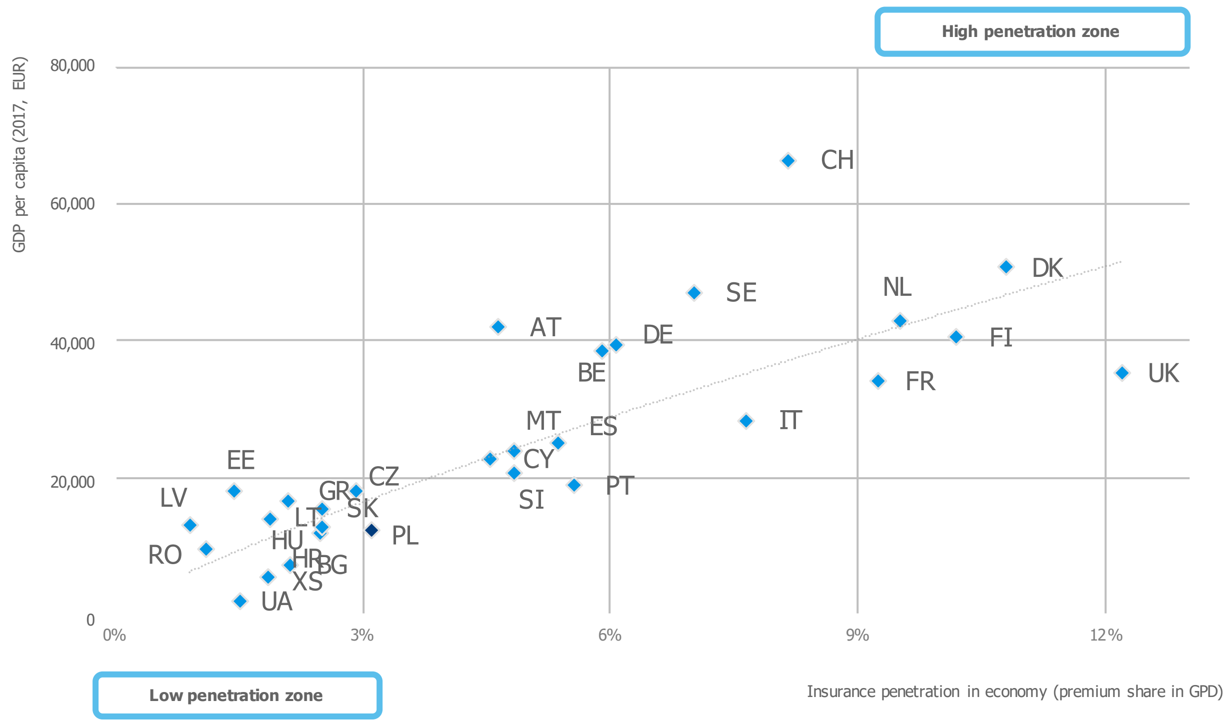
[5] Swiss Re, Sigma No. 3/2018: "World insurance in 2017"
[6] Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Insurance market 2017

Poland's insurance penetration rate, which is the ratio of total gross written premium to gross domestic product (GDP), is below the European average. In 2017, this rate stood at 3.1%, whereas the Europe average was 7.5%[7]. Even lower penetration rates were achieved in the insurance markets of Lithuania (1.9%), Ukraine (1.5%), Estonia (1.4%) and Latvia (0.9%). The highest penetration rates were recorded by the United Kingdom (12.2%), Denmark (10.8%), Finland (10.2%) and the Netherlands (9.5%).

Analyzing the penetration of insurance in relation to GDP per capita, it should be expected that the Polish insurance sector will develop alongside Poland's economic development (growing GDP), greater affluence of the society (increasing disposable household incomes) and growing insurance awareness of the local population, which was exactly the path taken by West European countries. Between 2013 and 2017, the insurance penetration rate in Poland increased by 1.1 percentage points, from 2.0% in 2013 to 3.1% in 2017.

[7] Isurance Europe, https://insuranceeurope.eu/insurancedata

Insurance penetration to GDP per capita in Europe (2017, EUR)



Source: Eurostat, Insurance Europe, Swiss Re Institute (Sigma 3/2018)

2.5 Polish banking sector compared to Europe

Banking assets in Poland have recorded a significant increase since the transformation. Since the end of 2008, they have enlarged annually by approx. 6% on average. Currently, the Polish banking sector ranks around the European median in terms of assets. According to data of the European Central Bank (ECB), in 2017 the Polish banking sector's assets totaled EUR 427 billion[8]. Europe's largest banking sector is in the United Kingdom (EUR 10 billion in assets in 2017) and the smallest one is in Estonia (EUR 25 billion in assets in 2017).

The Polish banking sector operates in accordance with the classic model of financial intermediation in which banks mainly provide loans to the non-financial sector using their customers' deposits in the process. This is reflected in the high share of loans in the banking sector's assets, which at the end of 2017 accounted for 68% of such assets and was higher than the average for the banking sectors of the European Union (65%) and Central and Eastern Europe (66%). The share of other types of assets in the banks' balance sheets, in particular those making up the "held for trading" portfolio, was much lower in Poland, just like in other Central and Eastern European countries, than in more developed economies.

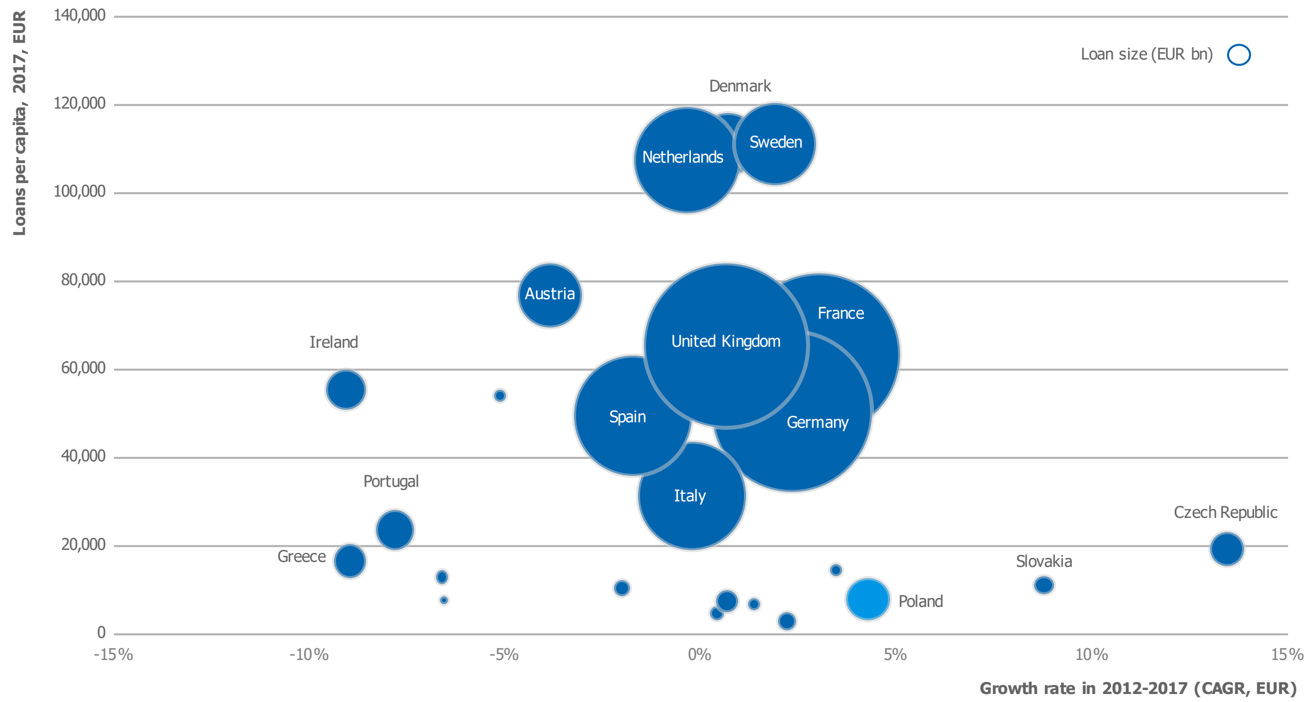
At the end of 2017, loans in the Polish banking sector totaled EUR 300 billion, which placed Poland in the middle of the pack.

Compared to other European Union states, Poland's banking sector is relatively small in relation to the country's GDP. Bank loans in the Polish banking system account for 65% of GDP while the European average is 126%. Denmark, Sweden and Holland have the highest ratios of loans to GDP.

The Polish banking market features a low, though rising percentage of corporate loans in the total amount of non-financial sector loans (approximately 30%). In turn, Poland is the fourth country in the European Union in terms of household loans stated as a percentage of all the loans in the banking sector.

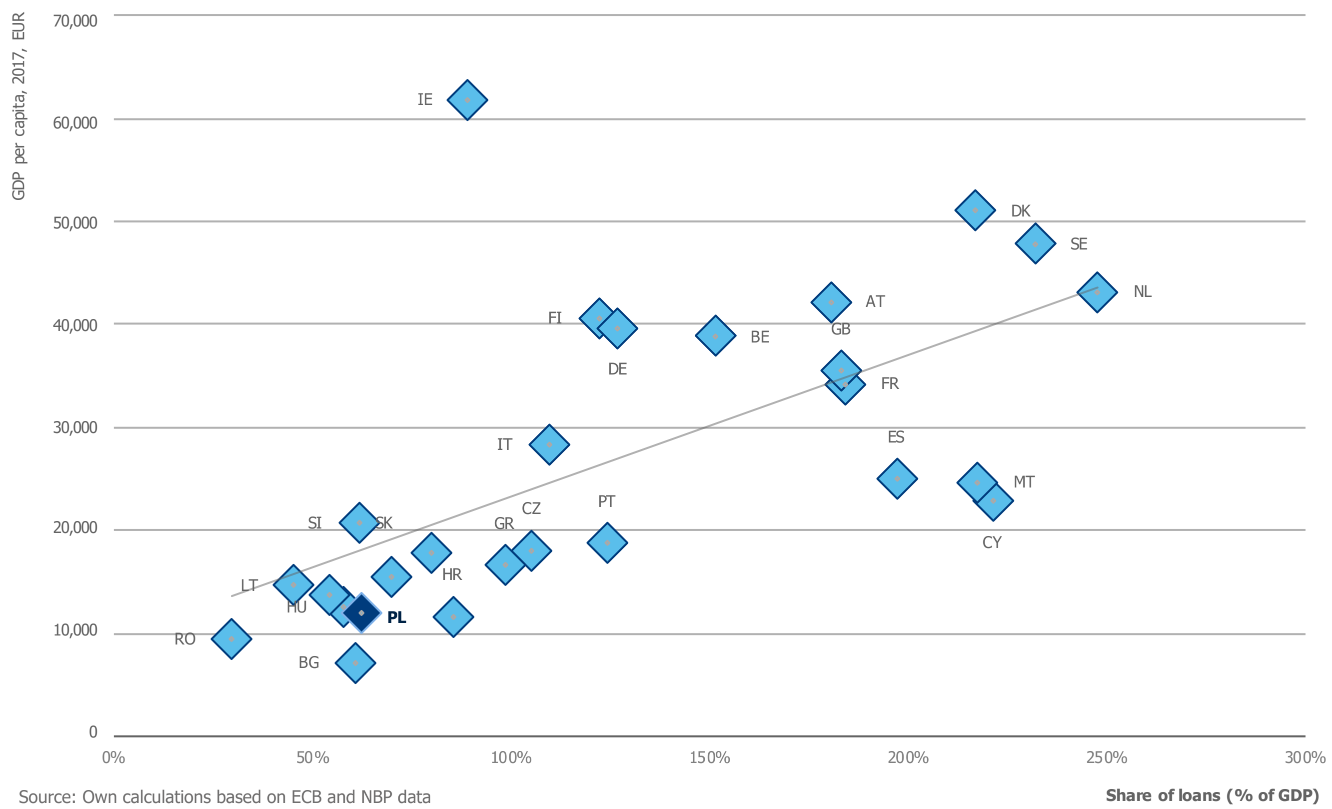
[8] European Central Bank, https://sdw.ecb.europa.eu/

Loans per capita (2017, EUR) in relation to the growth rate (2012-2017, EUR)



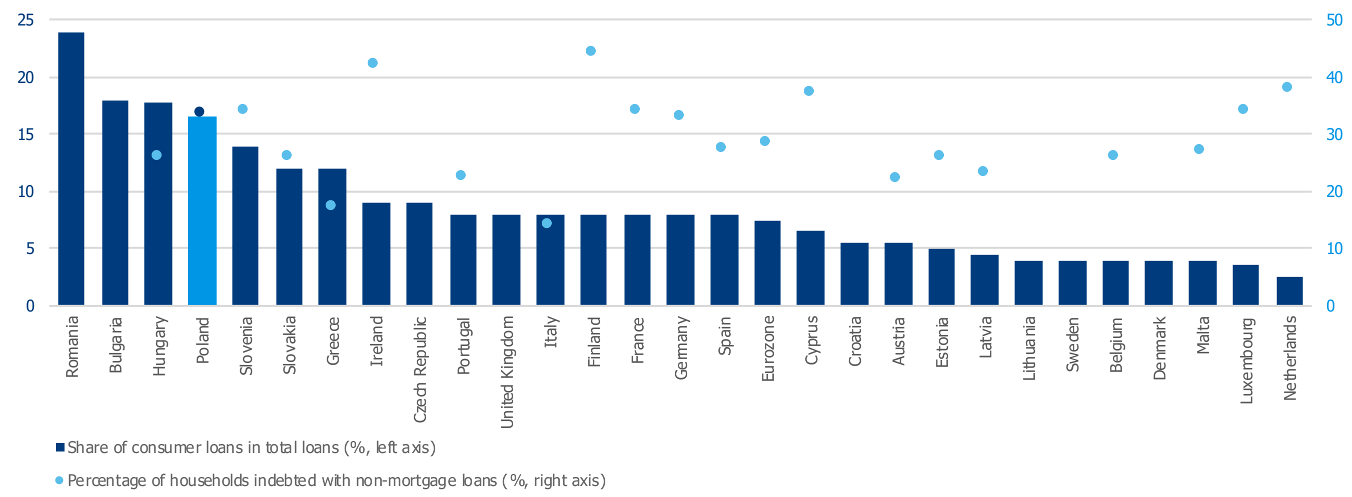
Source: Own calculations based on ECB and NBP data

Share of loans in GDP (2017, %) in relation to GDP per capita



Source: Own calculations based on ECB and NBP data

Consumer loans in Poland compared to EU countries



Source: NBP, stability report, December 2018

The research conducted by the National Bank of Poland[9] indicates that households in Poland are significantly less indebted than in the euro area: the average household has total liabilities of 5.5% of gross assets while in the euro area the average debt is 26% of assets in total.

Mortgage loans account for the highest percentage of household loans (roughly 60%); in the European Union that percentage is higher (roughly 70%). However, mortgage loans in Poland represent a mere 19% of GDP, while the average in the European Union is 40% of GDP. In turn, Poland is one of the countries with the highest percentage of consumer loans among total loans; the value of extended consumer loans versus GDP at the end of June 2018 was 8.7% of GDP, or more than the average in the euro area (5.9%) and less only than in comparison with Bulgaria, Greece and Cyprus.

Banks are financed with client deposits in Poland to a greater extent than in other countries in the European Union. At the end of 2017, they accounted for 73% of the total balance sheet value of the banking sector.

On the other hand, financial assets (deposits, mutual funds, equities, bonds, life insurance and voluntary pension plans) stated as a percentage of households' assets are markedly smaller in Poland than in the most economically developed countries in Europe. In 2016, they stood at 8.5% in Poland, while they were 17.8% of gross assets in the euro area. This disproportion is also very visible in absolute figures: EUR 3.5 thousand in Poland versus EUR 10.6 thousand in the euro area. On the other hand, financial assets, even though they are small, are a popular form in which Polish nationals accumulate financial means. 90.8% of all households hold them, with deposits being the most popular form of accumulating financial assets (84.9% of all households have deposits). Households much more rarely invest their savings in mutual funds (3.8% of households), though on average the amounts involved are higher (median of EUR 19.6 thousand). NBP's research shows that the increase in financial assets (94% in two years) was the main driver of the growth in net assets.

[9] BZGD research is conducted in the international research network called Household Finance and Consumption Network (HFCN). Central banks and statistical offices representing euro area countries, Poland and Hungary participate in this undertaking initiated in 2006 and coordinated by the European Central Bank. https://www.nbp.pl/home.aspx?f=/aktualnosci/wiadomosci_2018/ZGDwP_20180109.html

2.6 Regulations pertaining to the insurance market and the financial markets in Poland

In the insurance business, 2018 was a year in which many regulations took effect to enhance client protection and equip the regulator with powers and resources to control more effectively and enforce compliance with the established rules:

On 1 January 2018, 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 (PRIIPs) took force GLOSSARY. The Regulation requires that a key information document (KID) on an insurance-based investment product must be drawn up and provided to the client. Violations of the Regulation are punishable by severe administrative sanctions. In the solutions adopted in the Act of 29 September 2017 amending the Financial Market Supervision Act and the Insurance and Reinsurance Activity Act, which is used to apply the said regulation, the regulatory authority may impose fines in the amount up to PLN 21,569,000 or 3% of net revenues on the sale of goods and services and financial operations, and, in the case of an insurance undertakings, 3% of the gross written premiums reported in the most recent financial statements for the financial year as approved by the approving body, or twice the amount of benefits obtained or losses avoided as a result of the violation, if they can be determined.

On 3 January 2018, provisions of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments (MiFID II) came into effect. They imposed new obligations on financial market entities in respect of, among others, protection of investors, market transparency and corporate governance. The new regulations force changes in the market infrastructure and envisage a number of new powers for the regulators..

The regulations of the MiFID II directive were entered into the national legal system by amending the Financial Instruments Trading Act, of 29 July 2005, which took effect on 21 April 2018.

On 25 May 2018, 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 also referred to as the "General Data Protection Regulation" or "GDPR". The new regulations introduce a number of changes and broaden the scope of responsibility of data controllers and data processors. The purpose of these changes is to ensure transparency of information transmitted to the person providing the data and to govern issues related to the right to remove certain data from the database at the request of their provider. These new regulations are also intended to provide natural persons and regulatory authorities with effective tools to react properly to any breaches of the Regulation. In the operations of insurance and reinsurance undertakings, the new regulations affect processes involving the processing of personal data, both from the legal perspective and in terms of IT systems, and will cover the majority of processes and areas of insurance activity, most notably sales and client service, on-line services, cross-selling, underwriting, marketing, CRM, counteracting insurance fraud and IT systems supporting business processes.

On 1 October 2018, the insurance distribution act of 15 December 2017 took effect. It implements in Polish law the regulations of Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (Insurance Distribution Directive, abbreviated as IDD). The act increases the protection of customers concluding insurance agreements, which entails imposing additional requirements on entities offering insurance, mainly reporting duties. The new rules are supported by strict administrative sanctions applied in the event of breaches of sales obligations and rules. The regulatory authority may impose fines on an insurance undertaking in the amount up to PLN 21,827,500 for specified violations or 5% of the gross written premium reported in the most recent financial statements for the financial year, or twice the amount of benefits obtained or twice the amount of losses avoided as a result of the violation, if they can be determined.

To strengthen consumer protection the President of the Office of Competition and Consumer Protection obtained additional powers in the Act of 16 February 2007 on Competition and Consumer Protection. He may impose a financial penalty up to PLN 5 million on a management board member of a financial institution if that person, within the framework of discharging his or her function at the time of the breach found by UOKiK GLOSSARY deliberately permitted, through his or her action or inaction, a financial institution to violate bans against practices violating the collective interests of consumers or the ban against the usage of impermissible contractual clauses.

In addition to strengthening client protection, other regulations were accepted that have exerted or will exert an impact on the functioning of the PZU Group. Some of them are presented below:

The new approach to tasks to combat money laundering has defined the Act of 1 March 2018 on counteracting money laundering and financing of terrorism (it took effect on 13 July 2018). The act defines anew the principles and procedure for preventing money laundering and financing of terrorism. The process of identifying and analyzing risk associated with combating money laundering is supposed to incorporate material factors from the vantage point of a given client as well as from the view point of a given institution's risk of money laundering. Groups are obligated to implement group procedures defining the rules for sharing and protecting information among the entities in a group in connection with performing their duties to combat money laundering and financing of terrorism.

Employee Capital Schemes (ECS) GLOSSARY are a solution to increase future pensions. Their organizational rules have been laid down in the act of 4 October 2018 on Employee Capital Schemes. These schemes involve the obligation of employers to administer capital schemes for their employees' retirement. Their launch will take place on 1 July 2019 and sequentially they will apply to businesses with more than 250 employees, small and medium-sized companies and public finance sector entities. Every employer has an obligation to set up an ECS and offer it to its employees, while the participation of employees is not mandatory. They can opt out of participating in a scheme at any time.
The main contribution in an ECS is paid by the employer (1.5%) and the employee (2.0%) alike. Additionally, the state is to make a welcome contribution to an employee's ECS in the amount of PLN 250 and an additional annual contribution of PLN 240. Moreover, employees and employers will have the option to make an additional contribution. The employee's additional contribution is to be 2.0%, while the employer's is 2.5%. Mutual funds managed by mutual fund companies, pension funds managed by pension fund management companies, employee pension management companies or life insurance undertakings may be a manager of an ECS.

The indemnities for third party liability insurance for vehicles and farmers were raised in the act of 22 May 2003 on mandatory insurance, the Insurance Guarantee Fund and the Polish Motor Insurers Office. The indemnities in these insurance policies cannot be lower than the PLN equivalent value (per event whose consequences are insured regardless of the number of injured parties: in personal injuries – EUR 5.21 million (previously EUR 5 million) while in property related lossed – EUR 1.050 million (previously EUR 1 million).

The prescription periods for claims in civil cases were shortened under the amendment to the Civil Code of 13 April 2018. The prescription period in cases whose prescription period up till now was 10 years has been truncated to 6 years. The law also bans the pursuit of claims against consumers after the elapse of the prescription period. The act does not shorten the prescription period for consumers' claims in existence prior to the effective date of the act that have not yet expired on that day.

As a consequence of the act of 20 July 2018 on transforming the perpetual usufruct right to developed land for residential purposes into the right of ownership to this land, the perpetual usufruct right to developed land for residential purposes was transformed by the power of law into the right of ownership as of 1 January 2019. The act treats as developed land for residential purposes single family or multi-family residential buildings in which at least one half of the units are residential units, including commercial-purpose buildings, garages, other construction facilities or construction equipment making it possible to utilize residential buildings correctly and reasonably. By virtue of transformation, the new land owner incurs a fee to the owner to date equal to the annual perpetual usufruct fee charged to date, to be paid for 20 years from transformation. A land owner who is a commercial undertaking, in reference to real property used to do business may submit a declaration to the authority of its intent to remit a fee for 99 years, 50 years or 33 years from the date of transformation if the annual fee rate stated as a percentage for perpetual usufruct is 1%, 2% or 3%, respectively, or of its intent to remit the fee for the period in which the sum total of these fees will not exceed the market value of the real property if the fee rate stated as a percentage for perpetual usufruct is higher than 3%. The regulations of the act are applicable while giving consideration to public aid regulations, where the provision of public aid requires the fulfillment of conditions for extending de minimis aid as prescribed inter alia by Regulation no. 1407/2013 of the EU Commission on 18 December 2013 in the matter of applying articles 107 and 108 of the Treaty on the Functioning of the European Union to de minimis aid.

2018 was also a period in which numerous changes were adopted in the tax area, with the following being among them:

Regulations concerning the identification and transmission of information regarding tax schemes (in English referred to as Mandatory Disclosure Rules, or MDR) took force on 1 January 2019. Reporting pertains to tax schemes, or actions (including ones that are just at the planning stage) in which at least one party is a taxpayer or that exert or may exert an impact on a tax obligation. According to these regulations, PZU is obligated to introduce and apply a procedure to prevent non-compliance with the duty to transmit information regarding tax schemes. A financial penalty (with a maximum of PLN 10 million) may be imposed on obligated entities in the event of failing to meet the obligation of applying the procedure.

In reference to corporate income tax, the amendments concern, among other things, changes to transfer prices (raising limits and changing the mechanisms for defining thresholds above which there is an obligation to prepare transfer pricing documentation), the exemption from the documentation obligation for transactions executed by domestic related parties (provided certain conditions are met) and changes to the approach to settling the costs of cars used in doing business.

In reference to the tax on revenues from buildings the scope of taxation has been extended to all buildings (residential and non-residential) that have been commissioned for usage (entirely or partially) pursuant to a lease contract, tenancy contract or some similar contract. The new scope of the tax means that PZU Group companies will also be subject to it.

Drafted legal regulations that may have a significant impact on the PZU Group's business

Legislative work is underway on the act on rendering services to pursue compensatory claims. The bill aims to regulate the rules for commercial undertakings active in the business of pursuing compensatory claims to conduct their business. The bill calls for curtailing the fees for activities related to pursuing these claims, introducing a requirement for clients to approve the legal actions executed by their advisors to waive a claim, disbursing damages directly to injured parties and introducing compulsory TPL insurance for losses caused in the course of pursuing compensatory claims.

The act on the liability of collective entities for illegal acts under the threat of a penalty aims to enhance the effectiveness of tools to mete out sanctions against collective entities, especially when combating grave economic and treasury criminal activity. In comparison with the regulations to date, this bill extends the grounds for the liability of collective entities by incorporating thereunder conduct deemed to be the own conduct of collective entities bearing the markings of an illegal act. The liability of a collective entity for all illegal acts under threat of penalty as a crime or treasury crime, except for private treasury crimes has been introduced. The requirement of first obtaining a prior ruling (a judgment condemning a natural person) has been abandoned.

Selected Supreme Court rulings affecting insurance activity issued in 2018

In reference to the term for responding to a client complaint and the consequences of failing to meet it, pursuant to the act of 5 August 2015 on the examination of complaints by financial market entities and on the Financial Ombudsman, the Supreme Court ruled that in such a situation the financial market entity may challenge the justification for the claim pursued by the client (case file III CZP 113/17).

The Supreme Court also considered the issue regarding the rights of the closest relatives of an injured party who as a result of an illegal act has suffered grave and permanent dismemberment to receive general damages for the injury. The Supreme Court indicated that general damages are due solely when it comes to the gravest and irreversible losses of health in which the injury is comparable to the total loss of a relative (case file III CZP 60/17, III CZP 69/17, III CZP 36/17). The stance taken by the Supreme Court, by stating the prerequisites for a claim to be due, should contribute to unifying case law in the common courts.

The Supreme Court also explained the doubt concerning the term for the prescription of claims resulting from unit-linked insurance policies recognizing that this period is 10 years (case file III CZP 13/18, III CZP 20/18 and III CZP 22/18).

The Supreme Court adopted a resolution to determine according to what state of affairs the assessment is made on whether a contractual clause is illegal – the Supreme Court indicated that this assessment should be made as at the time of entering into the agreement (case file III CZP 23/17).

2.7 External factors that may affect the conditions of operations and the PZU Group's activities in 2019

Due to the scope of PZU Group's business (insurance sector in Poland, 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 influence on the development and results of the Group in the medium term, in particular in 2019, can be divided into three categories: macroeconomic and geopolitical, legal and regulatory, and market factors, specific to individual sectors / businesses in which the Group is involved.

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

In the Polish economy there are presently no clear signs of disruption to the balance where during the upcoming quarters they could lead to a material, cyclical slowdown. The situation in the labor market and the government's announcements regarding extension of the 500+ program and payout of the "thirteenth pension" in 2019 will drive consumption, although its growth rate may slacken. Among the internal factors that may curtail GDP growth in Poland, one should cite problems with hiring properly qualified staff, possible decline in the willingness to invest in businesses or a higher than expected increase in inflation eroding households' real income (though the regulations on electricity prices introduced at the end of 2018 contain that risk).

The consumption growth rate in 2019 will remain robust. Public investments should continue to grow markedly, though the shortage of qualified employees and higher costs may lead to delays in the execution of some projects. Cyclical factors presently support growth in the investments of businesses, though the external situation may exert an unfavorable impact. For GDP growth in and around the Polish economy clearly started to slow down at the end of 2018. Especially the growth rate of industrial production in the euro area and Germany fell off. The adverse impact of protectionism on business expectations and decisions is becoming evident and the probability of imposing US customs duties on cars imported from the EU has increased recently. The slowdown in global trade is visible. Uncertainty related to relations between the US and China and to Brexit continues to persist. Concerns linked to the deterioration of Italy's budget situation and its cohesiveness with the rules of the Stability and Growth Pact and to the resilience of the financial sector in the euro area may reappear if there is a stronger slowdown in the euro area economy. It therefore appears that the possibility of a serious slowdown in GDP growth in the euro area and the overall global economy, and hence the occurrence of unfavorable phenomena on the financial markets, is the most important macroeconomic risk in 2019. We expect that the pace of GDP growth in Poland in 2019 will be approximately 3.7%.

The uncertainty related to Brexit is an important factor adversely affecting economic growth in the euro area at the threshold of 2019. A "disorderly" Brexit – leading to more commercial barriers, disruptions in transport and the probable decline in the United Kingdom's GDP would also be a shock to the Polish economy. For the United Kingdom is the second largest importer of our goods and services following Germany. The pool of EU funds of which Poland is a beneficiary would also be reduced. The direct adverse impact exerted by such a scenario on GDP in Poland is usually estimated to be several tenths of a percentage point. However, considering the indirect impact exerted, among others, by slower GDP growth in the euro area, the repercussions would probably be more pronounced.

Forecast for the Polish economy	2019*	2018	2017	2016	2015
Real GDP growth in % (y/y)	3.7	5.1	4.8	3.1	3.8
Increase in individual consumption in % (y/y)	4.2	4.6	4.9	3.9	3.0
Gross fixed capital formation in % (y/y)	5.1	7.3	3.9	(8.2)	6.1
Increase in prices of consumer goods and services in % (y/y, end of period)	1.6	1.6	2.0	(0.6)	(0.9)
Nominal wage growth in national economy in % (y/y)	6.9	7.0	5.7	3.7	3.5
Unemployment rate in % (end of period)	5.6	5.8	6.6	8.2	9.7
NBP base rate in % (end of period)	1.50	1.50	1.50	1.50	1.50

*Estimate as of 28 February 2019
Source: Macroeconomic Analysis Office PZU

These macroeconomic factors and the global geopolitical situation (on top of Brexit, populism is on the rise in Europe, tensions in the Middle East, intensification of global protectionism, in particular the course of the US-China trade conflict) and in Poland (two sets of elections: EU and national parliamentary elections in the spring and autumn 2019, respectively) may affect the behavior of global central banks and, as a consequence, the overall conditions in the global and national financial market. The climate and direction of the changes in the financial markets are, in turn, important for the attractiveness of the products offered by the PZU Group, in particular unit-linked funds, and affects the level of assets and management fees charged by Group companies for asset management.

Legal and regulatory factors
The PZU Group's activity is subject to the impact of local regulations and European legal acts. From the perspective of the insurance business, the Group's activity will be affected by any legal changes that may bump up the burden borne by insurance companies, e.g. court verdicts on payout of general damages under TPL insurance. Currently, legislative work is underway on the act on rendering services to pursue compensatory claims. The bill aims to regulate the rules for commercial undertakings active in the business of pursuing compensatory claims to conduct their business, which may affect the claims paid by the Group.

Also, all resolutions regarding insurance rates (e.g. in Ukraine) will have an impact on the Group's activity. Some legal acts that influenced insurance activity in 2018 and that will also affect trends in 2019 include IDD and MIFID II. Introduction of the Employee Capital Schemes Act (as of July 2019) is an important legal change that may affect the shape and functioning of life insurance and third pillar pension products available so far. It is also expected that the pension system review planned for 2019 will define the rules of operation of the second pension pillar. SECTION 2.6 REGULATIONS PERTAINING TO THE INSURANCE MARKET AND THE FINANCIAL MARKETS IN POLAND

Factors specific to the sectors in which the PZU Group operates
In addition to the above factors influencing the conditions of operation and the Group's results, the situation in individual areas of business is influenced by sector-specific factors and evolution therein.

The most important one is the level of competition in individual product groups constituting the PZU Group's core business. Due to the positive technical result recorded in the non-life insurance market (mainly in Poland but also in the Baltic States), it is plausible that in 2019 a more active pricing policy and more stringent competition to attract clients will emerge. Also, life insurance and health products are expected to see further price competition in 2019.

The situation in the insurance and banking sector may also change in connection with new entrants and trends associated with the development of new technologies, among others, operators of big databases / clients and insurtechs / fintechs[10]. Additionally, client expectations change – they largely shift toward personalized offers in the insurance and health segments alike.

PZU Group's activity and results in the short and longer time horizon will be shaped by demographic trends, mortality and fertility rates (life insurance segment) and factors of chance – the occurrence of catastrophic phenomena, such as floods, hurricanes etc. (non-life insurance segment).

A detailed description of the factors that may influence the Group's activity in 2019 broken down into individual operating segments is presented in SECTION 3 OPERATION OF THE PZU GROUP.

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

The new approach to building relationships with clients, resulting in integration of all areas in the company around the client, drives the gradual transformation of insurers from focusing primarily on valuation and transfer of risk toward being an advisory and service company (operating on the basis of technological know-how). This will enable clients to optimize their decisions at all stages of their lives. It will ultimately translate into growing trust and loyalty placed in PZU as the brand of first choice when it comes to insurance, finance and health services. SECTION 5 BUSINESS MODEL

[10] Fintech - sector of the economy encompassing companies operating in the financial and technological industry. Fintech companies most frequently provide financial services through the web. 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.

Paweł

Praktykant w Biurze Sprzedaży Wyłącznej

Weź karierę we własne ręce!

Więcej informacji o programie praktyk i staży w PZU oraz aktualne oferty znajdziesz na **pzu.pl/kariera.**

Paweł studies Administration at the Maria Curie-Skłodowska University in Lublin. He is doing his internship in the Tied Agent Sales Department. The reports he prepares enhance the efficiency and quality of cooperation with our agents. On days off he follows the latest motor trends; he is a passionate coffee lover and music accompanies him all day long. Additionally, as of the new academic year, he will be a PZU Ambassador in Lublin.

"In PZU, every day produces a surprise. The whole team supports me with their expertise and experience, and each task stimulates me to act. My work requires creativity and allows me to develop my analytical skills."

www.pzu.pl/kariera/studenci/program-praktyk-i-stazy

3.

PZU Group's operations

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

In this section:

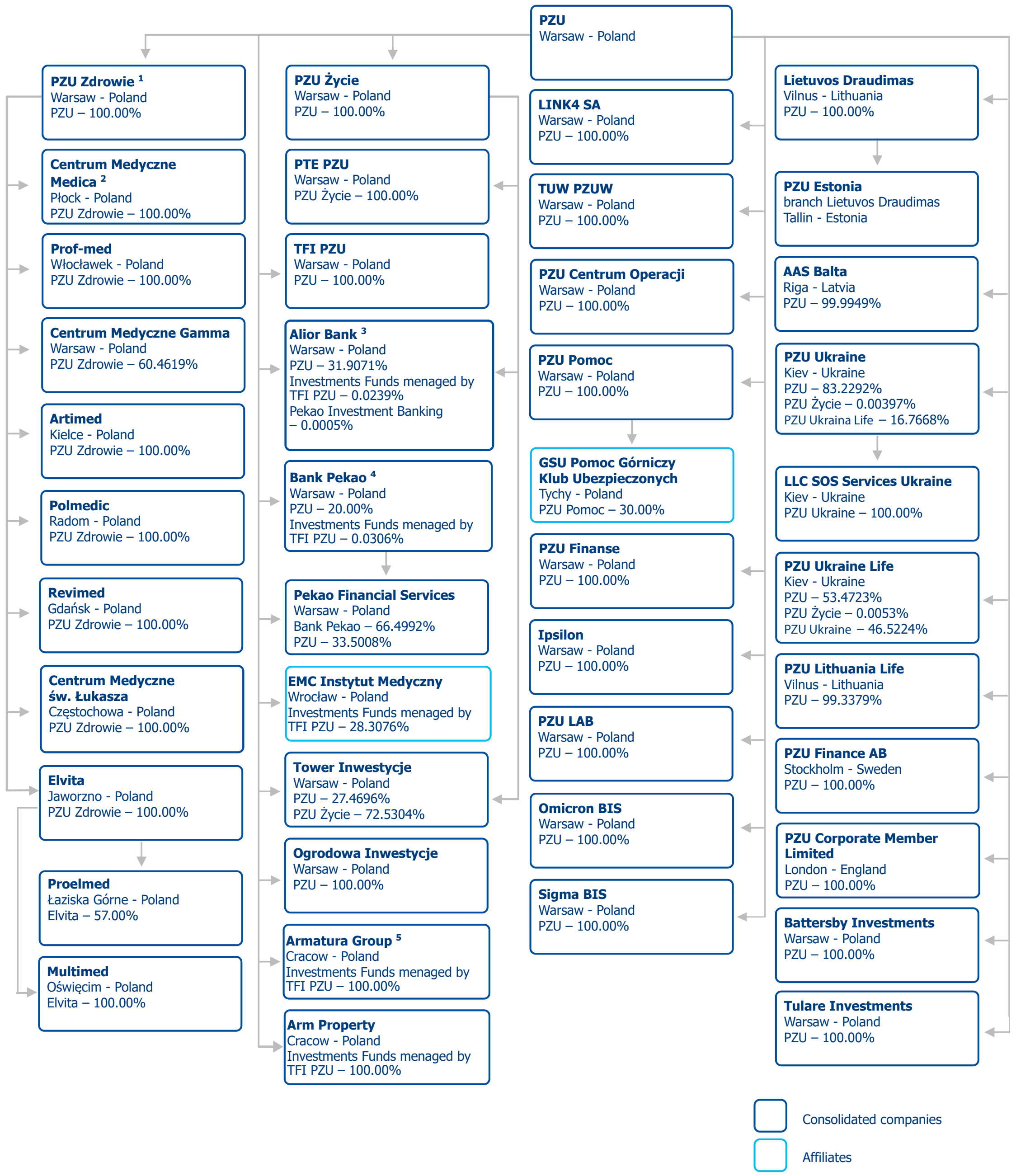
1. Structure of the PZU Group
2. Non-life insurance (PZU, Link4 and TUW PZUW)
3. Life insurance (PZU Życie)
4. Banking (Bank Pekao, Alior Bank)
5. Mutual funds (TFI PZU)
6. International operations
7. Medical services (Health Area)
8. Pension funds (PTE PZU)
9. Other operating areas

PZU Group's operations

3.1 Structure of the PZU Group

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

Structure of the PZU Group (as at 31 December 2018)



[1] PZU Zdrowie has 6 branches: CM Nasze Zdrowie, CM Medicus, CM Cordis, CM Warszawa, CM Kraków i CM Poznań
[2] The Centrum Medyczne Medica Group is composed of the following companies: Centrum Medyczne Medica Sp. z o.o. and Sanatorium Uzdrowiskowe "Krystynka" Sp. z o.o.
[3] 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., Meritum Services ICB SA, Alior TFI SA, New Commerce Services sp. z o.o., Absource Sp. z o.o.
[4] The Bank Pekao Group is composed of the following companies: Bank Pekao SA, Pekao Bank Hipoteczny SA, Centralny Dom Maklerski Pekao SA, Pekao Leasing sp. z o.o., Pekao Investment Banking SA, Pekao Faktoring sp. z o.o., Centrum Kart SA, Centrum Bankowości Bezpośredniej sp. z o.o., Pekao Property SA, Dom Inwestycyjny Xelion Sp. z o.o., Pekao Investment Management SA, CPF Management
[5] The Armatura Group is composed of the following companies: Armatura Kraków SA, Aquaform SA, Aquaform Ukraine TOW, Aquaform Romania SRL
The structure does not include mutual funds or companies in liquidation.

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

The following changes transpired in the structure of the PZU Group in 2018 and up to the date of publication of this report:

- in January 2018 PZU Zdrowie acquired shares in Centrum Św. Łukasza, while in December 2018 – Elvita acquired shares in SZOZ Multimed. In January 2019 – PZU Zdrowie acquired shares in Alergo-med;
- in May 2018 PZU PTE and Pekao PTE entered into a business transfer agreement encompassing i.a. the operations of Pekao OFE and Pekao DFE, involving the management of Pekao OFE and the management of Pekao DFE. SECTION 3.8 PENSION FUNDS (PTE PZU)
- in June 2018 an Organized Part of the Business (OPB) was spun off from PZU CO and contributed to Pekao Financial Services (PFS) held by Bank Pekao. As a result of this transaction PZU acquired a 33.5% equity stake in PFS SECTION 3.9 OTHER OPERATING AREAS.

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

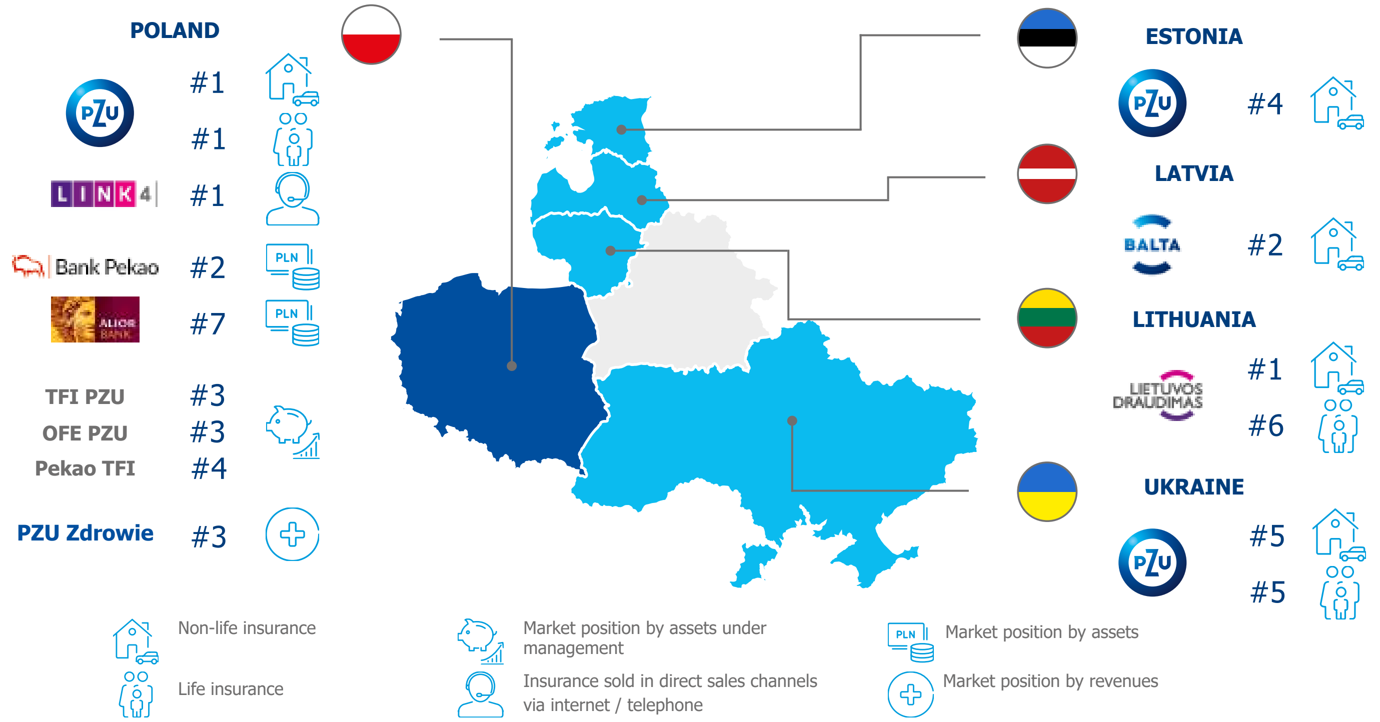
Market situation

Measured by gross written premium in the first three quarters of 2018, the non-life insurance market in Poland grew by a total of PLN 2,038 million (+7.3%) versus the corresponding period of the previous year.

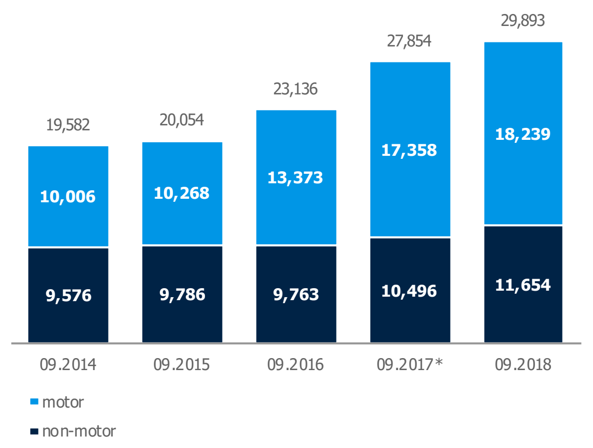
The sales growth in insurance against fire and other damage to property (up PLN 546 million, +11.1%, of which indirect activity grew by PLN 148 million), motor own damage insurance (up PLN 496 million, +8.8%) and motor TPL insurance (up PLN 385 million, + 3.3%), chiefly due to the considerable rise in the average premium (the consequence of phasing in price hikes starting in 2016) and the higher level of premium coming from indirect activity (motor TPL indirect insurance up PLN 36 million year on year) made the largest contribution to the higher level of the gross written premium.

In addition, markedly higher sales of accident and sickness insurance (up PLN 263 million, 15.0%), general TPL insurance (up PLN 174 million, +11.6%) and assistance (up PLN 143 million, +20.0%) made a positive contribution to the overall non-life insurance market's growth. A decline in premium was observable only in insurance for various financial risks

PZU's activity



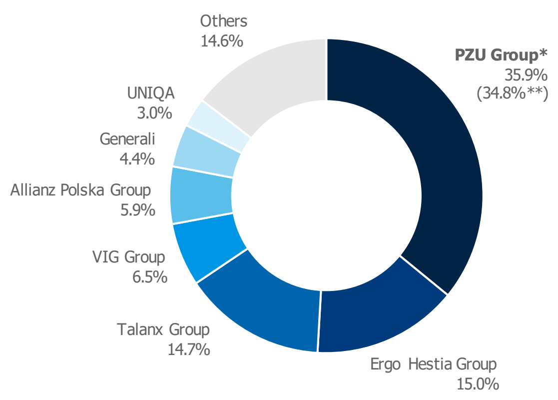
Gross written premium of non-life insurance undertakings in Poland (in PLN million)



* including growth in written premium in the AXA Group by PLN 835 million, partly as a result of the transfer, in October 2016, of the business of Liberty Seguros Compania de Seguros y Reaseguros S.A. Poland Branch and the insurance portfolio of Avanssur S.A. Poland Branch to AXA Ubezpieczenia TUiR S.A.

Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Rynek ubezpieczeń [Insurance market] 3/2018, Rynek ubezpieczeń 3/2017, Rynek ubezpieczeń 3/2016, Rynek ubezpieczeń 3/2015, Rynek ubezpieczeń 3/2014

Non-life insurance undertakings – percentage of gross written premium in the first three quarters of 2018 (in %)



* PZU Group – PZU, Link4, TUW PZUW
** PZU Group’s market share in non-life insurance on direct business at the end of Q3 2018.

Groups: Allianz – Allianz, Euler Hermes; Ergo Hestia – Ergo Hestia, Talanx – Warta, Europa, VIG – Compensa, Inter-Risk, Generali - Generali, Concordia
Source: KNF’s Quarterly Bulletin. Rynek ubezpieczeń [Insurance Market] 3/2018

(down PLN 51 million, -7.7%) as an outcome of the evolving conditions on the financial insurance market and in legal protection insurance (down PLN 2 million, -2.4%).

In the first three quarters of 2018, the overall non-life insurance market generated a net result of PLN 3,749 million, signifying incremental growth of PLN 739 million in comparison with the corresponding period of 2017. Excluding the dividend from PZU Życie, net profit of the non-life insurance market increased PLN 911 million (57.7%).

In the first 3 quarters of 2018, the technical result of the non-life insurance market rose PLN 860 million to PLN 2,367 million. The growth in the technical result in insurance against fire and other damage to property of PLN 415 million (effect of considerable sales growth accompanied by a simultaneous decline in claims and benefits paid) and motor own damage insurance of PLN 279 million and in motor TPL insurance of PLN 226 million made the largest contribution to this change.

The increase in the technical result in motor insurance chiefly ensues from the higher earned premium (up PLN 1,936 million, +14.5%) following the price hikes made in recent years that outpaced the growth in claims paid (up PLN 1,068 million, +10.9%) despite incorporating the additional provision estimate to cover the claims for pain and suffering caused by the vegetative state.

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

Gross written premium vs. technical result	1 January - 30 September 2018			1 January - 30 September 2017		
	PZU*	Market	Market w/o PZU	PZU*	Market	Market w/o PZU
Gross written premium	10,735	29,893	19,157	10,264	27,854	17,590
Technical result	1,306	2,367	1,061	853	1,507	654

* it contains LINK4 and TUW PZUW
Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Rynek ubezpieczeń 3/2018, Rynek ubezpieczeń 3/2017, PZU’s data

34.8%

- PZU Group’s share in the non-life insurance market (direct business) at the end of Q3 2018, including LINK4’s share of

2.8%

37.3%

- PZU Group’s share in the motor insurance market (direct business) at the end of Q3 2018

46.0%

- PZU Życie’s share in periodic gross written premium at the end of Q3 2018

PLN

PLN 19.8 billion

- net assets managed by TFI PZU, representing a

7.7%

market share at the end of 2018

14.1%

- share of OFE PZU Złota Jesień in the total asset value of the open-end pension funds operating in Poland at the end of 2018

30.5%

- share of Lietuvos Draudimas in the Lithuanian non-life insurance market at the end of 2018

27.8%

- share of AAS Balta in the Latvian non-life insurance market at the end of Q3 2018

16.0%

- share of the Lietuvos Draudimas branch in the Estonian non-life insurance market at the end of 2018

3.4%

- share of PZU Ukraine in the Ukrainian non-life insurance market at the end of Q3 2018,

11.0%

- the share of PZU Ukraine Life in the Ukrainian life insurance market

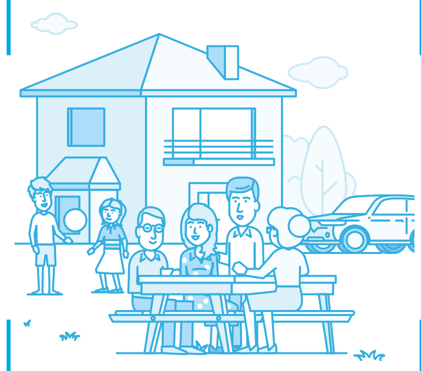
2nd and 7th

- market position of Bank Pekao and Alior Bank, respectively, in terms of accumulated assets at the end of Q3 2018

BANK

3rd

- PZU Group’s market position in terms of revenues in the health area at the end of 2018



In the first three quarters of 2018, the technical result declined y/y chiefly in general TPL insurance (down PLN 116 million, of which PLN 103 million was on direct activity) and credit and guarantee insurance (down PLN 5 million including PLN 3 million for direct activity).

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

To respond to client expectations in recent years, the PZU Group has extended its offering for retail and corporate clients (the latter by forming a mutual insurer), thereby sustaining its high market share.

In the first three quarters of 2018, the PZU Group had a 35.9% share in the non-life insurance market, compared to 36.8% in the corresponding period of 2017 (34.8% and 35.8% on direct activity, respectively), thereby recording a slight dip while simultaneously retaining the portfolio's high profitability.

In the first three quarters of 2018 the PZU Group's technical result (PZU together with Link4 and TUW PZUW) stated as a percentage of the overall market's technical result was 55.2% (the PZU Group's technical result was PLN 1,306 million while the overall market's technical result was PLN 2,367 million).

The total value of the investments made by non-life insurance undertakings at the end of Q3 2018 (net of the investments made by subordinated entities) was PLN 58,749 million, up 9.7% compared to the end of 2017.

The non-life insurance undertakings in total estimated their net technical provisions at PLN 52,110 million, signifying 6.9% growth compared to the end of 2017.

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 yearend 2018, motor insurance was the most important group of products offered by PZU, both in terms of the number of insurance agreements and its premium stated as a percentage of total gross written premium.

Against the background of evolving market conditions, in 2018 PZU matched its offering to clients' new interests and needs by rolling out new products and innovative solutions.
In mass insurance, PZU did the following:

- it added more health insurance products to the offer under PZU Plan na Zdrowie [PZU's Plan for Health] forming a flexible medical care proposal offered to private individuals (also to those engaged in running businesses), companies and institutions. Depending on the option selected clients receive on top of the underlying insurance a package of health benefits enabling them to customize the scope of medical care to their own needs. This proposal stands out among the ones available on the market as it provides extensive support if health problems arise following an accident – Plan na Zdrowie and W Ciężkiej Chorobie (Critical Illness), W Leczeniu Nowotworu (Cancer Treatment) and in the course of everyday care – W Trosce o Ciebie (Caring for You);
- it launched the sales of the Pewnie na Rower (Feeling Secure on My Bicycle) insurance product in the web that was designed to afford the most extensive protection to cyclists. For the first time ever clients have the possibility of taking out insurance for the cycling season. In practice that means that the cover lasts for 7 months regardless of when they submit their proposal. Clients can insure a new bicycle or a used bicycle not older than four years. The insurance is based on bicycle accident insurance. One can add a rider in the form of a cyclist's TPL policy, a bicycle own damage policy, i.e. cover in the event of theft or damage and baggage insurance. The insurance protects the person named in the policy meaning the bicycle user and owner alike, while the TPL and accident insurance cover is effective regardless of whether the bicycle is owned or the insured is using a rented bicycle;
- it implemented "fast-track sales" for the PZU Dom [PZU Home] product. This new front-end makes it possible simultaneously to prepare at lightning speed an offer aligned to a client's profile with three different options that have various types of cover. This system is similar to Direct insurance in terms of its simplicity and intuitiveness;
- it rolled out a product solution in PZU Auto AC making it possible to use in full the possibilities offered as a result of the Green Parts project. The clauses of the General Terms and Conditions of Insurance obligate the insured to enable PZU to pick up parts from the workshop eligible for replacement to recycle them and reduce the costs of damages. In that manner PZU takes social responsibility for co-creation, and hence, for recycling roughly 4 million parts per annum. The utilization of these salvaged parts is carried out in accordance with the Act on Waste and regulations in this area. In every instance PZU asks clients whether they would like for the salvaged parts after vehicle repair (damaged parts) to be utilized by PZU's partners;
- devised a new plan for the product PZU AUTO Assistance – PZU GO. PZU GO is an innovative product using telematic technology, thereby confirming PZU's focus on developing innovative solutions as it cares for the life and health of its clients. If a road accident is identified using the mobile application connected to the sensor mounted in the vehicle, PZU attempts to help or rescue life by establishing contact with the insured or the Rescue Notification Center. PZU GO (will be) is an extension of its motor insurance offer making it more attractive by adding PZU assistance even without having to be in contact with the insured.

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

- popularizing the insurance against cyber risks launched in the last quarter of last year. This insurance offers protection against the adverse effects of hacking attacks, including by taking actions aimed at destroying the attack and restoring the company's normal operations. This offering is targeted especially at those clients who are at risk of data leakage or operational paralysis caused by a cyber-attack.
- extending the offer for car fleet clients to include three innovative solutions underpinning Polish fleet companies at home and abroad:
  - International Legal Support addressed to fleet clients rendering services across Europe (transport companies) as well as all other businesses whose drivers travel abroad. Having this legal assistance service available in 37 countries in Europe, an insured who participates in an accident or a collision gets immediate legal support through the hotline in the language of the country where he or she is located;
  - Advisory Service under which the appointed team of PZU experts supports clients in mitigating insurance risk by reducing the frequency and average claim value, thereby eliminating down time for vehicles caused by claim events and obtaining a stable and predictable amount of insurance premium in subsequent years;
  - Telematic service for users or holders of light fleets. Under its insurance cover PZU offers clients a free of charge car fleet audit and an assessment of the telematic solution it has in respect of its influence on insurance risk, giving recommendations on modifications to support driver safety. The outcome of the audit will form the basis for underwriting the fleet and the foundation for calculating the insurance premium.

In financial insurance, PZU was unswerving in its support for the Polish economy by providing insurance guarantees and securing the performance of contracts in such key areas as the power sector, the shipbuilding industry, the construction industry and the science and innovation sector. At the same time, to respond to client expectations in financial insurance, PZU in collaboration with TFI PZU launched a new product combining investments in mutual funds with financial loss insurance to give clients an indemnity in the event of softer investment performance to cover the loss they sustain. This program targets private individuals and companies that are planning to combine their first investment in mutual funds units in the PZU SEJF+ participation units with insurance to cover any possible financial loss.

PZU cooperated with 9 banks and 10 strategic partners in 2018. PZU's business partners are leaders in their industries and they have client bases with enormous potential offering an opportunity to extend the offering to include more innovative products. PZU established cooperation with the PZU Group's member banks, namely Alior Bank and Pekao, launching the roll-out of a comprehensive offering via its distribution network. Cooperation with Pekao and Alior Bank enables PZU to offer its clients a full array of financial and insurance services at each stage of their lives. In strategic partnerships, cooperation applied mostly to companies operating in the telecom and power sectors through which insurance for electronic equipment and assistance services were offered, e.g. the assistance of an electrician or a plumber. PZU launched cooperation with Allegro and PLL LOT to offer insurance on the e-commerce market.

LINK4's operations

LINK4 entered the Polish insurance market 15 years ago as the first company offering products by phone; it still continues to be one of the leaders on the direct insurance market. It is extending its cooperation with multi-agencies, banks and strategic partners. The Company offers an extensive array of non-life insurance products, including motor insurance, property insurance, casualty insurance and third party liability insurance.

The Company places its core emphasis on developing innovative technologies to be rolled out in client service processes and internal processes with an eye to optimize them and enhance their efficiency.

The most important activities associated with modifying its product offering in 2018 were as follows:

- launching a line of products unlike any other on the Polish market dedicated to current and future parents. In the new LINK4 Mama offer, current and future parents alike can choose from two types of packages they can utilize in full or they can adapt them to their own needs. The LINK4 Mama brand received the award for being the Discovery of the Year in 2018 from the Consumer Laurels project commission. The firm has also elected to embrace a novel method of promulgating its new brand by undertaking cooperation with leading Polish bloggers running parenting portals. In the LINK4 Mama package clients can take accident insurance for Moms and TPL in their private lives that applies to losses caused to third parties by moms or their children. If they elect to take out one or both of these products at the same time, clients can enrich their insurance bundle with a medical package for mom. Under this bundle Link4 will organize and cover half the costs of visits to physicians in various specialties, legal assistance and a Rapid Assistance Package with an unlimited 24/7 concierge. The other package called LINK4 Dziecko (Child) can be construed anyway a client likes, by picking any number of products from the offer, i.e. accident insurance Child, a medical package for children and Rapid Assistance Package.
- extending the offer to clients holding a motor policy with LINK4 to include the following products:
  - Wracaj do Zdrowia (Return to Health) offered to clients who hold an motor insurance policy in Link4. Under this insurance clients have access to specialist physicians, ambulatory rehabilitation, selected tests and procedures and specialist diagnostics offered in more than 2 thousand PZU Zdrowie medical centers in more than 500 cities located across the country,
  - Post-theft Assistance offered to clients holding a motor TPL insurance policy or bundle. Under this insurance a client obtains compensation for the items in the stolen vehicle and reimbursement of the costs related to vehicle theft. In addition, clients obtain hotline support in proceedings following vehicle theft;
- enriching the current product offer by aligning it to evolving client expectations (e.g. TPL in private life, extending the territorial range to include Europe, raising the sums insured in travel insurance – the possibility of insuring treatment costs up to PLN 800 thousand) and deploying unrivalled solutions on the market to make Link4 products more attractive (weather alerts for clients who hold apartment insurance and as of January 2019 also for clients who hold motor own damage or SmartCasco).

TUW PZUW's activity

2018 marks the third year of TUW PZUW's active operations.

It offers its clients a flexible insurance program to optimize the costs and scope of cover.

Since 2016, it has been selling and handling insurance products targeted at clients from various industries, focusing predominantly on cooperation with large enterprises, medical centers (hospitals and clinics) and local government units. Such entities, within the framework of cooperation exercised under TUW's model, are provided with the opportunity to dissipate their risks within the boundaries of mutual benefit societies adjusted to the specific nature of the pertinent group of entities and thereby reducing the costs of their insurance premiums. TUW has 246 members for whom 44 mutual benefit societies have been established.

In 2018, the primary emphasis was placed on constantly improving the product offering, expanding the team of professionals offering comprehensive insurance service to the mutual's members and aligning its offering to its clients' needs.

The most important activities associated with modifying its product offering in 2018 were as follows:

- obtaining KNF's consent to extend the business to include statutory class 2, giving the ability to extend PZUW's offer to include another pillar, namely health insurance, including:
  - Occupational medicine - offered to employees working for companies that are members of TUW PZUW. Under this insurance clients obtain access to a wider package of tests including among others physician rulings, preventive health care for employees and assessments of the ability to work while considering the state of health and the threat posed at a given work position;
  - TUW PZUW Medical Care Group Insurance, a supplement to TUW PZUW's main offering addressed to the employees of the Mutual's Members. In the Medical Care package clients can utilize doctor consultations, outpatient procedures and laboratory and imaging diagnostics in more than 2.1 thousand PZU Zdrowie medical centers in more than 500 cities in Poland;
- rolling out in the offer, as the first insurer in Poland, a product called Third Party Liability Insurance for the Members of the Governing Bodies of a Medical Treatment Entity. Extending this offer is part of the mutual's expansion onto the market made up by medical entities, especially hospitals that are one of the major axes on TUW PZUW's strategy for the upcoming years. This product addressed to TUW PZUW's clients who already hold compulsory TPL insurance for a medical treatment entity protects the representatives of the management of medical treatment entities against the financial consequences of erroneous managerial decisions, omissions and procedural violations;
- implementation of comprehensive cybernetic insurance offering protection against the adverse consequences of damages related to the operation of a computer network and computer network safety breaches, also as a result of cyber terrorism;
- launching an insurance program for church-related institutions encompassing property and third party liability insurance under a dedicated mutual benefit society.

Factors, including threats and risks that will affect the operations of the non-life insurance sector in 2019

Besides chance events (such as floods, droughts and spring ground frost), the following should be treated as the main factors that may affect the situation of the non-life insurance sector in 2019:

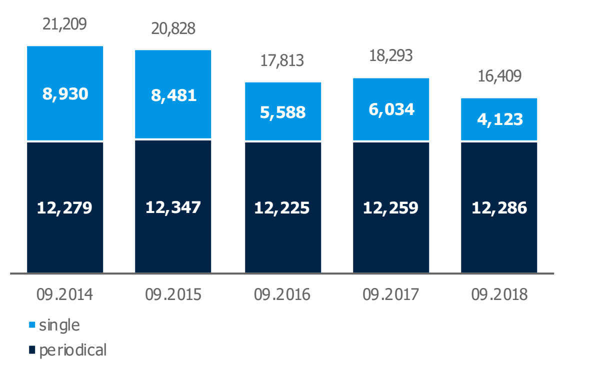
- possible slowdown in economic growth in Poland. The poorer financial standing of companies may result in elevated credit risk, a higher loss ratio on the financial insurance portfolio and deceleration in the pace of gross written premium growth;
- possible slowdown in the growth rate of gross written premium, mostly as a consequence of the motor insurance portfolio's profitability generated in recent years, and thereby the return to an active pricing policy and competition to attract clients;
- case law concerning the amounts of general damages paid in cash under the TPL insurance held by the owners of motor vehicles for suffering sustained to the closest family members of persons who have died (Article 446 of the Polish Civil Code);
- increase in the prices of spare parts affecting claims handling expenses due to the depreciation of the Polish zloty against the euro;
- changes in trends and client behavior toward customization of proposals and an electronic, swift and paperless method of purchasing and handling insurance, forcing insurance undertakings to adapt to these expectations rapidly;
- emergence of more regulations or financial burdens on insurance undertakings.

3.3 Life insurance (PZU Życie)

Market situation

Poland's life insurance market measured by gross written premium was estimated at PLN 16,409 million in the first three quarters of 2018 meaning that over the most recent 5 years it contracted on average by 6.7% per annum. At the same time, the premium collected in the first three quarters of 2018 was 10.3% lower than in the corresponding period of the previous year. This resulted principally from the evolution in the single premium business in investment products while the gross written premium in periodic products has persisted at a similar level.

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



Source: KNF's Quarterly Bulletin. Rynek ubezpieczeń [Insurance market] 3/2018, Rynek ubezpieczeń 3/2017, Rynek ubezpieczeń 3/2016, Rynek ubezpieczeń 3/2015, Rynek ubezpieczeń 3/2014

The changes in the level and the growth rate of the life insurance market premium in recent years has been stimulated mostly by single premiums in investment products. Attention should be drawn to the fact that the premium contraction during the first three quarters of 2018 for the overall market year on year pertained to single premiums to a greater extent (down PLN 1,911 million, i.e. 31.7% y/y). At the same time, the growth rate for the corresponding period of 2017 was positive at 8.0%. The single premium compound average growth rate since 2013 was -18.3%. The changes in circumstances on the capital market and in the legal environment should be considered to be the underlying causes for the gross written premium on single premium business to fall in a trend over several years. The record low interest rates contributed to the decline in the yields offered by term deposits packaged as insurance products, thereby leading to heightened interest in other investment products. Additionally, a tax was introduced as of 1 January 2015 on short-term endowment insurance offering a fixed rate of return or a return based on indices; this also contributed to reducing client interest in these types of products and ultimately to their retraction, especially the first ones, from the offer of insurance undertakings. In subsequent years the regulatory authority's guidelines, including guidelines regarding the level of fees incurred by clients of unit-linked products and EU directives regulating the market for these types of products and their distribution led to insurance undertakings constricting their offering of these types of products, especially in cooperation with banks. The next quarters of 2018 were characterized by a dip in the level of single premium to the lowest figures in many years.

The outcome of this market evolution was the expanding significance of periodic premium that constitutes PZU Życie's competitive advantage on the market. In Q1-Q3 2018, periodic premium was 0.2% higher compared to the same period in 2017, with a cumulative average growth rate of 0.6% for the last 5 years. Despite the decline in periodic premium in unit-linked life insurance, the protective premium in classes I and V continues to trend upward.

At the same time, market concentration measured by the periodic gross written premium is on the rise. The sequence of the largest market players has not changed, but their combined share, especially of the top four, has expanded.

The total technical result generated by the life insurance undertakings in Q1-Q3 2018 was down PLN 11 million (0.5%) from the corresponding period of 2017 to PLN 2,407 million. A decline of PLN 116 million (19.7%) transpired in the life insurance group (group I), while one of the main drivers was the drop off in revenue from investment activity in the part allocated to this product group. At the same time, the life insurance segment result improved by PLN 81 million in combination with unit-linked business (class III) and by PLN 55 million in accident and illness insurance (class V). In the first instance, improvement transpired as a result of the falling level of expenses, chiefly acquisition expenses as revenue slackened. In turn, in the latter instance, the cause was linked to the growing level of business accompanied by a simultaneous fall off of the loss ratio.

In this same period, life insurance undertakings generated a net result of PLN 1,964 million, representing a PLN 105 million (5.6%) increase y/y. This improved result was the effect of better investment performance recorded by insurers than in the corresponding period of 2017 with respect to investments of undertakings' free funds and also lower other operating expenses.

The total value of the investments made by life insurance undertakings at the end of Q3 2018 was PLN 40,912 million, signifying 0.6% growth compared to the end of 2017. In turn, negative investment performance and the rising level of redemptions accompanied by the decline in the level of client contributions to funds led to a lower net asset value of life insurance in which the policyholder bears the investment risk (down 9.3% to PLN 53,633 million).

PZU Życie's activity

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

During the first three quarters of 2018, PZU Życie wrote 37.8% of the gross written premium of all life insurance undertakings, signifying further growth on top of last year's market share (+3.0 p.p.). The expansion of PZU Życie's market share was driven by a positive rate of growth in periodic gross written premium on a y/y basis than that of all its competitors combined and the lower decline on average than for the other market players in the form of a single premium, accompanied by the Company holding a lower percentage of that business in its portfolio.

PZU Życie continued to be the clear leader in the periodic premium segment. In Q1-Q3 2018, it generated 46.0% of these types of premiums written by insurance companies, signifying growth of 0.2 p.p. in the market share in this segment and, once again, the highest market share level

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

Gross written premium	1 January - 30 September 2018			1 January - 30 September 2017		
	PZU Życie	Market	Market net of PZU Życie	PZU Życie	Market	Market w/o PZU Życie
Periodical premium	5,650	12,286	6,636	5,617	12,259	6,642
Single premium	547	4,123	3,576	753	6,034	5,281
Total	**6,197**	**16,409**	**10,212**	**6,370**	**18,293**	**11,923**

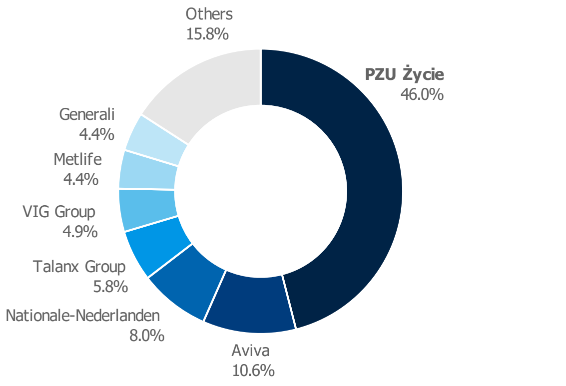
Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Rynek ubezpieczeń 3/2018, Rynek ubezpieczeń 3/2017, PZU Życie's data

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

Life insurance market – gross written premium vs. technical result	1 January - 30 September 2018			1 January - 30 September 2017		
	Market	Market net of PZU Życie	PZU Życie	Market	Market w/o PZU Życie	Rynek bez PZU Życie
Gross written premium	6,197	16,409	10,212	6,370	18,293	11,923
Technical result	1,267	2,407	1,139	1,245	2,418	1,173
Profitability	20.4%	14.7%	11.3%	19.6%	13.2%	9.8%

Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Rynek ubezpieczeń 3/2018, Rynek ubezpieczeń 3/2017, PZU Życie's data since 2010. The year on year growth rate of gross written premium at PZU Życie in this segment was 0.6%, while the other market players taken together posted a negative growth rate of -0.1%. One of the major factors was the rapid growth in the health insurance portfolio. PZU Życie now has more than 1.8 million policies of this type in its portfolio. PZU's share in just the life insurance segment (class I) for periodic premiums at the end of Q3 2018 was 64.0% when measured by gross written premium and 70.7% 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 (class I) was 66.6% for agreements executed in group form and 39.2% for individual agreements (measured by gross written premium).

Life insurance undertakings - percentage of periodic gross written premium in the first three quarters of 2018 (in %)



Groups: Talanx - Warta, Europa, Open Life; VIG - Compensa, Vienna Life; Aviva-Aviva, Santander-Aviva
Source: KNF's Quarterly Bulletin. Rynek ubezpieczeń [Insurance Market] 3/2018

PZU Życie's technical result represented more than half the result earned by all life insurance companies. This evidences the high profitability these products enjoy. PZU Życie's technical result margin on gross written premium was nearly two times higher than the overall margin generated by other companies offering life insurance (20.4% versus 11.3%).

Product offer

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

Concurrently, the changes in the offering take into account the evolving requirements of the regulatory authority and the growing extent of statutory consumer protection. PZU Życie takes a customer-oriented approach by designing its offer and client service process so that the client feels fully cared for and satisfied. It should also be emphasized that the changes introduced in 2018 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 (processes and front-ends) and enable the client to take advantage of various contact channels to reach the insurer (e.g. in a branch, by phone, e-mail, client account, person handling technical issues related to insurance in the workplace or through an insurance intermediary, whether tied or external).

Most significant product changes in 2018

Under group and individually continued (protection) insurance, PZU Życie made the following major changes in 2018:

SOHO clients

As part of the insurance products dedicated to the SOHO business (micro-business conducted by businesses run by one or two persons), two existing products were combined in October 2018: Mój Biznes [My Business] and Zdrowy Biznes [Healthy Business] with a price benefit offered for the combined purchase (2-in-1). The combined offer provides comprehensive protection to clients that includes both financial support for the beneficiaries in the event of death, illness or after an accident, as well as access to private medical care for the insured.

SME clients

The main change that was introduced in 2018 in group insurance for the SME segment was the implementation of PZU Ochrona i Zdrowie, a new protection and health product in November. In that insurance, the Company offers, among others, a benefit in the event of the insured's death, financial support and medical services in the event of critical illness or accident. The insurance consists of 3 bundles: Moje Zdrowie, Moja Rodzina, Mój Wybór.

- The Moje Zdrowie [My Health] bundle offers private medical care in the event of an illness (critical illness or regular cold) or an accident and prevention measures. Additionally, in the event of a critical illness or accident, PZU provides financial support to the insured;
- In the Moja Rodzina [My Family] bundle, the insured's relatives receive financial support in the event of his/her death caused by an illness or an accident (including motor accidents). The bundle also offers benefits for the insured on account of a childbirth and financial support in the event of a death of the relatives;
- Each insured (employee) may adapt the insurance to their needs and individually expand the insurance cover to include additional options from the Mój Wybór [My Choice] bundle. In this bundle, PZU Życie ensures financial aid in the event of accidents in daily life, offers additional insurance for family members in respect to medical care and finances the purchase of specified prescription medicines (at 80% of their regular price).

Corporate clients

Two new health riders to the P Plus group life insurance were implemented in March 2018:

- PZU w Trosce o Zdrowie [PZU Care for Your Health] The insurance covers, among others, specialist consultations, physical therapy procedures, ECG tests, CT and MRI scans in the event of an illness of the circulatory system, nervous system, malignant neoplasm and meningioma. The key benefits for the client include:
    - access to private medical care – after delivery of documentation confirming the occurrence of a critical illness,
    - caregiver supporting the patient and his/her family over the entire treatment path,
    - fast service time in private medical facilities all over Poland,
    - psychological care.
- PZU Powrót do sprawności [PZU Return to Ability] – medical care in the event of a traffic accident or an accident at work. The scope of available services includes specialist consultations, selected diagnostic tests and a list of physical therapy procedures.
- In November 2018, system changes and additional clauses were introduced to the General Terms and Conditions of P Plus and Pełnia Życia group life products in connection with the proceedings by UOKiK (more detailed specification of the list of exclusions of liability and introduction of a definition of diagnostic and treatment proceedings in the GTCI.

Individual continuation clients

In April 2018, PZU Życie commenced the national roll-out following the pilot sales of the Kontynuacja dla Ciebie [Continuation for You] product. This insurance is an alternative to the standard individual continuation. This product aims to give a package of benefits close to a group offer, which an insured would like to continue having, and it is our response to the needs of younger clients.

In an effort to develop the offer for individual continuation clients, sales of new riders were launched:

- PZU Uraz Ortopedyczny [PZU Orthopedic Injury] – providing for private medical care in the event of an orthopedic injury caused by an accident;
- Myocardial Infarction or Stroke Rider – providing for financial support in the event of a myocardial infarction or a stroke.

Based on an UOKiK decision, editorial changes were introduced to the GTCI of other riders to individually continued insurance: Z Kartą Apteczną [With Pharmacy Card] and Asystent w Czasie Utraty Zdrowia [Assistant During Illness], related to the wording on exclusions of events pre-existing before liability under the insurance began.

In addition, in the interests of clarity of the message to the client, the letters concerning individually continued insurance are changed to a simple language comprehensible by the consumer in cooperation with the Polish Language Department at the University of Wrocław. The work in this area will be continued in 2019.

Individual clients

In 2018, PZU Życie rolled out the following individual protection insurance product:

- in the direct channel (on the moje.pzu.pl website) – PZU Ja Plus [PZU Me Plus] accident insurance. In this insurance, PZU covers not only the insured (the parent) but also all the children (who are older than 1 year old and younger than 18 years old). This insurance provides for a benefit payout in case of being in a hospital, having a broken bone, permanent disability and accidental death or death in a motor accident. When entering into an agreement, his/her health condition. Additionally, we offer special treatment to clients with a Large Family Card: if the insured or the beneficiary hold a Large Family Card at the benefit stage, the benefit paid out will be 30% higher;

the client does not have to provide any information about his/her health condition. Additionally, we offer special treatment to clients with a Large Family Card: if the insured or the beneficiary hold a Large Family Card at the benefit stage, the benefit paid out will be 30% higher;
- in the PZU Branch Network and the Agency Network – the new PZU Gwarantowane Jutro [PZU Guarantee of Tomorrow] endowment insurance product. Four riders were implemented along with the base agreement (death caused by an accident, death in a motor accident, hospitalization, monthly benefit in the event of the insured's death). Additional riders will be rolled out in early 2019;
- promotion entitled "Twelfth premium – pay less or nothing" in the PZU Start w Dorosłość [PZU Launch into Adulthood] dowry insurance product. The promotion calls for rewarding clients for conducting simulations, leaving data with a marketing consent and for the purchase of this policy;
- individual life insurance for borrowers of cash loans extended by Alior Bank;
- in Bank Pekao – life insurance for borrowers of cash loans (CPI PEX).

The following changes were made by PZU Życie to the product offering in investment insurance:
- launch of sales in Bank Pekao of Program Inwestycyjny Multi-Alokacja [Multi-Allocation Investment Program] (a single premium unit-linked product for Private Banking clients) and Świat Inwestycji Premium [Premium Investments World] (a single premium unit-linked product for clients of the Retail Network and CDM Pekao);
- bancassurance unit-linked products (Multi Capital, World Investment Program) were migrated from the previous transfer agent's systems to Pekao Financial Services' systems to enhance the effectiveness of cooperation in the group and optimize service processes;
- additional subscriptions of the structured insurance product known as World of Profits (Świat Zysków) that has enjoyed tremendous client interest were sold. Various investment strategies that adapt to volatile market conditions were offered in the individual subscription tranches, based on various models of calculating the investment bonus.

In its other initiatives PZU constantly opts for understanding client needs better and better and building long-term client relations. PZU wants to respond swiftly to changes in the environment through a sophisticated offer accompanied by clear and communicative messages by doing the following:
- creating predictive client attrition models and responding swiftly and effectively to symptoms of client dissatisfaction;
- developing a loyalty program;
- using a simple and transparent arrangement and description of its products on its new website www.pzu.pl.

In addition, having regard for the legal and regulatory environment and the requirements placed on PZU, its products were adapted to the EU General Data Protection Regulation (GDPR). These changes affected the process of selling, implementing and servicing products.

Factors, including threats and risks, that may affect the operations of the life insurance sector in 2019

The following constitute the major risk factors on the life insurance market in 2019:
- the prospect of a higher inflation rate and economic growth driving an increase in T-bond yields, which in the long term will be beneficial to the PZU Group, although in the short term may adversely affect investment income;
- softer conditions on the capital markets deteriorating the attractiveness of products, especially unit-linked products;
- demographic changes and the aging society and the ensuing changes in the current mortality, fertility and morbidity levels, especially diseases of civilization, i.e. lifestyle diseases;
- constant price pressure in group insurance and the battle for client ownership (and their data), thereby cutting the insurer's margins, reducing the quality of the product and fostering entry and exit obstacles for clients to overcome with independent intermediaries;
- changes in trends and client behavior toward customization of proposals and an electronic, swift and paperless method of purchasing and handling insurance, forcing insurers to adapt to these expectations rapidly;
- the emergence of new competitors and solutions, including the operators of large client bases or insurtech companies;
- consequences of the entry into force of the Insurance Distribution Directive (IDD);
- further consequences of the entry into force of MIFID II;
- entry into force of the new pension security system (Employee Capital Schemes) and its impact on the products existing in the 3rd pillar of the pension system.

3.4 Banking (Bank Pekao, Alior Bank)

Market situation

As at the end of December 2018, there were 32 domestic commercial banks, 549 cooperative banks and 31 branches of credit institutions operating in Poland.

The standing of the banking sector in 2018 continued to be stable underpinned by the persisting vibrance of the economy and the functioning of banks in a low interest rate environment. In 2018, the banking sector generated a net profit of PLN 14.7 billion, i.e. PLN 1.0 billion (7.5%) more than the 2017 figure.

The sector's net result was shaped predominantly by the improved operating result (to PLN 19.1 billion, i.e. up 3.5% in comparison with the corresponding period in 2017), caused by significantly higher net interest income with a concurrent dip in the result on fees and commissions.

Gross receivables from the non-financial sector (excluding debt instruments) increased 6.0% to PLN 1,015 billion y/y as at the end of December 2018. Growth in this area was driven mainly by receivables from enterprises (+6.8% y/y) and receivables from households (+5.7% y/y).

Banks' operating expenses (net of depreciation and provisions) climbed 1.7% in the analyzed period. This change was caused by growing employee expenses (up 2.5%) and higher general and administrative expenses (up 0.8%).

At the end of December 2018, assets of the banking sector reached PLN 1.9 trillion and increased by PLN 119.4 billion, or 6.7% compared to the end of 2017.

The consumer loan portfolio (gross) increased by 7.9 billion while the portfolio of housing loans for households rose at the same time by PLN 27.7 billion. With respect to receivables from non-financial companies, the (gross) value of operating loan portfolios rose by PLN 13.1 while investment loan portfolios fell by 0.8 billion. The value of gross mortgage loans for corporate clients increased by 9.4 billion in 2018.

The deposits of non financial clients accumulated in banks increased by 88.2 billion in 2018.

The banking sector's own funds for capital ratios, calculated in accordance with the regulations laid down in the CRR Regulation[1], totaled PLN 204.6 billion at the end of December 2018, up 3.5% versus the end of December 2017.

Total Capital Ratio of commercial and cooperative banks stood at 19.1% at yearend 2018, versus 19.0% in 2017 and Tier I ratio amounted to 17.2%.

Operations of the Pekao Group

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

Pekao's strategic objectives announced in the new strategy for 2018-2020 "Strength of the Polish Bison" include becoming the leader of profitability in the Polish banking sector through embarking on the path of intelligent growth in a business model based on high efficiency and quality of processes. Business development is based on a strong capital and liquidity position while maintaining the highest risk management standards and further improving cost effectiveness.

At the end of the third quarter of 2018, Bank Pekao was the second largest bank in Poland (in terms of the value of its assets).

In September 2018, Bank Pekao opened its first foreign representative office in the United Kingdom. The outlet in London plays a representative role. The Bank's representative office should support corporate and private banking relationships, including Polish companies planning international expansion or private equity funds interested in the Polish market.

New products and services

According to Bank Pekao's strategy, its growth among retail clients is driven by the significant acceleration of growth in the number of accounts, among others thanks to its new personal account offer, a new offer for young people and the cutting edge mobile banking function featuring BLIK.

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

In January 2018 the bank launched its new Mega Beneficial Account offer to replace the previous line of Euroaccounts. The Mega Beneficial Account is the bank's main account through which it offers a full array of banking products and services. Moreover, in January 2018 the bank launched a new Savings Account in its offer for retail clients offering an attractive interest rate for their funds and no fees for withdrawals from this account provided that they use the Peopay mobile application.

Since April 2018, the bank has been participating in the Large Family Card program, which is a nationwide system of discounts for families with three or more children. Since the beginning of June, the cardholders have been able to use the services and products of Bank Pekao on very favorable terms, for example they receive a 5% refund (maximum PLN 600 for 2 years) for household bills. In addition, the bank has prepared a special price offer for an Express Loan, housing loan, Flexible credit card, while selected Partners of the Discount Gallery Program offer special discounts on shopping for large families. Bank Pekao serves more than 1.4 million families.

Bank Pekao is a leading bank in servicing foreigners with more than 25% market share in this respect. The largest group of foreigners using banking services in Poland are the citizens of Ukraine, of which almost every fourth is a Bank Pekao customer. The percentage is even higher among Ukrainian students: every third student has an account with Bank Pekao. The Bank expanded its offering for Ukrainian citizens with a helpline, forms of bank regulations in the Ukrainian language and a Currency Exchange service with preferential exchange rates. Starting in July 2018 it will provide free money transfers to Ukraine and PeoPay mobile banking in Ukrainian.

In 2018, the bank introduced a new Savings Account for retail customers and a Premium Savings Account dedicated to affluent customers with a World Premium Account. The new accounts replaced the Dobry Zysk account.

The bank developed its cooperation with PZU in insurance in 2018. Training was delivered to 6.7 thousand branch employees who obtained a license from KNF to sell PZU insurance. It introduced a group insurance product called "PZU-TRAVEL PACKAGE-BUSINESS" for the users of business payment cards issued by Bank Pekao and a general insurance agreement was executed with PZU concerning the risk of mortgage loan amortization. The bank also made available an option to buy voluntary PZU CPI insurance offered in conjunction with a loan application during the "one click" process in the Pekao24 system. Since June 2018, Bank clients have been able to avail themselves of the new insurance for buildings and residential units prepared by PZU. In addition to the standard insurance for real estate that can form collateral for the debts of the Bank's borrowers, clients can choose from additional bundles spanning insurance for their household personal property, assistance and third person liability. Bank Pekao's electronic channels conducted an active sales campaign of PZU's tourist insurance offered through the moje.pzu.pl portal.

In the PeoPay mobile banking area, in 2018 the bank launched a 24/7 money exchange counter and the ability to manage cards; as a result, clients may now use the application to activate or block a payment card. A user of the PeoPay application may set it to display the account balance on the home screen without the need to log in. The PeoPay app also offers the option of verifying the customer during a conversation with a bank consultant. In June 2018, Bank Pekao implemented BLIK codes in the PeoPay application enabling cash withdrawals from ATMs, payments in payment terminals and on the Internet. Additionally, in June 2018 Bank Pekao was one of the first banks in Poland to deploy Apple Pay and it is the only bank in Poland that enables clients to link Apple Pay to their personal account through Peopay mobile banking without even having to have a card. The number of retail clients actively using mobile banking has been increasing by 31% y/y.

The Bank dynamically increased its share in the micro-business segment, which was driven by the availability, attractive offer and effective and fast processes. In 2018, Pekao changed the account offer for micro-businesses, introducing a single Konto Przekorzystne Biznes instead of seven accounts previously. The Bank also launched a very attractive currency offer for businesses that included free supporting accounts in 20 foreign currencies; also all foreign currency transfers received and 5 outgoing European SEPA transfers per month are free.

In 2018 the activities in Private Banking area focused on acquiring new customers and strengthening relations with the existing clients by offering products tailored to their needs and to the current market situation. In 2018 400 new clients were acquired. The clients brought investment products for almost PLN 900 million. At yearend 2018, assets under the Investment Advisory service amounted to PLN 3.1 billion. Private Banking clients actively used the internet and mobile banking services., the number of operations performer through remote channels increased by over 90%.

The Bank is steadfastly pursuing its growth strategy in the Small and Medium Enterprise segment. At the outset of 2018 an offer containing new flexible service bundles was rolled out: Standard and Premium. The SME Premium offer targets companies with annual sales above PLN 5 million that need comprehensive service and for whom a tailor-made approach and the ability to negotiate prices are crucial. In H1 2018 new products were made available to clients: multi-purpose credit line (overdraft, installment working capital loan, guarantees and letters of credit under a single credit decision and agreement), renewable revolving loan to finance current business and e-financing to support the financing of short-term commercial accounts receivable. In the latter half of the year the bank phased in the SME Universal Agreement forming the basis of the comprehensive offer in transactional banking, making it possible to forge multi-dimensional relations with clients. The SME Universal Agreement was crafted by using modern trends in corporate banking giving clients a wide array of products and services. In turn, as a result of the agreement signed in July of 2018 between Bank Pekao and the European Investment Fund (EFI) regarding a line of portfolio guarantees for loans, loans with an EFI COSME guarantee were launched in the offer as of September 2018. EFI COSME guarantees secure 50% of the principal and interest on investment or working capital loans made to companies; they are extended free of charge and make it easier for companies to obtain access to funding.

On 1 July 2018 a split payment mechanism was made available to business clients in Pekao's electronic banking systems, thereby facilitating the execution of wire transfers using funds on the VAT account.

Under its offering for corporate clients Bank Pekao signed an agreement in 2018 with Bank Gospodarstwa Krajowego pertaining to participation in the Export Letters of Credit Program enabling the bank to confirm and discount export letters of credit from countries with a heightened level of risk, whereby it supports Polish companies in their expansion onto international markets.

In 2018 the bank enriched its offering to include bank guarantees issued in the form of a PDF file bearing a qualified electronic signature (e-guarantees) and it launched the Open Financing Platform (OPF) – a new tool for trade finance. This platform provides for fully comprehensive electronic handling of the financing process and redemption of accounts receivable.

In export support Bank Pekao collaborates with the Export Loan Insurance Corporation (KUKE) that offers instruments to mitigate the risk involved in international transactions. In 2018 Pekao signed a master agreement with KUKE regarding their joint offer for exporters and has executed the first transactions on that basis. Under the KUKE agreement insurance guarantees are extended for the payment of receivables in respect of letters of credit opened by international banks - confirmed, post-financed or discounted by Pekao. The development of cooperation with KUKE has also encompassed other export financing products. The Bank has executed transactions to issue contractual guarantees and pre-finance an export contract using collateral in the form of a KUKE insurance guarantee.

Pekao TFI

The Pekao Mutual Fund Company (Pekao TFI) is another member of the Pekao Group. Pekao TFI (formerly Pioneer Pekao TFI) is the oldest mutual fund management company in Poland providing clients modern financial products, offering opportunities to invest in the largest global capital markets. For many years it has been devising savings programs, including programs affording an opportunity to put aside more money for retirement under the third voluntary retirement pillar. Pekao TFI also offers a managed account service. At the end of December 2018 the company had assets under management totaling PLN 19.2 billion, signifying an upswing of PLN 1.8 billion, i.e. 10.2% in comparison to the end of December 2017 and was ranked fourth (in terms of assets under management) on the market of investment companies in PolandCHAP. 3.5 MUTUAL FUNDS

Pekao OFE, DFE Pekao

PZU PTE's acquisition of the management of Pekao OFE and DFE Pekao is one of the outcomes of the PZU Group acquiring Bank Pekao in 2017. The winding up of Pekao OFE commenced on 1 August 2018 and ended on 12 October 2018, and on that day Pekao OFE's assets were transferred to OFE PZU. In turn, the winding up of DFE Pekao kicked off on 19 May 2018 and ended on 28 September 2018. Pekao Financial Services is rendering Transfer Agent Services for the funds managed by PTE PZU.

Operations of the Alior Bank Group

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

At the end of the third quarter of 2018, Alior Bank was the seventh largest bank in Poland (in terms of the value of its assets).

New products and services

In 2018 the key new products and services in the Alior Bank Group's offering included:

- "Pożyczka na piątkę" cash loan/consolidation loan with a very attractive 5% interest rate independent of the loan amount – addressed to clients who have no cash loan/consolidation loan with Alior Bank;
- Online loan offer, in which the Bank refunds interest on every twelfth installment repaid;
- "Pożyczka dwuosobowa" cash loan/consolidation loan, which allows one to obtain an attractive price of a product (reduction of all costs by 33%) if the loan offer is used by two or more borrowers;
- deployment of Apple Pay in June enabling iPhone owners to make contactless payments for products and services using their handset. On top of the payment solutions already available, i.e. Android Pay, HCE and BLIK, this heralds another innovative payment solution forming a component of the Digital Disruptor Strategy;
- preparing a new investment certificate offer for selected Private Banking clients entailing a limited capital guarantee and a conditional early call option known by the name of "autocall". In 2018 thirteen issues of this type were carried out for a total nominal value of PLN 218 million;
- continuing the agency training program to offer individual insurance policies;
- implementing property insurance in cooperation with PZU to be available to mortgage loan borrowers in Alior Bank;
- implementing life insurance for cash loan borrowers in cooperation with PZU Życie;
- rolling out Konto Mocno Oszczędnościowe (Mega Savings Account) that offers attractive interest for new deposits and moreover, free-of-charge wire transfers by Internet to one's own checking and saving account in Alior Bank;
- cooperating with BANCOVO to launch the first, fully digital financial intermediation platform; Operational launch of BANCOVO, a fully-digital financial intermediation platform was held on 6 March 2018. As a result, for the first time in Poland, clients obtained a true online access to actual offers of numerous banks and loan providers
- PAPERLESS - deploying a solution making it possible to abandon the traditional form of signing contracts.

Alior TFI

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

Factors, including threats and risks which will affect the banks' operations in 2019

The situation of the banking sector in 2019 is likely to be primarily affected by the following factors:

- the scale of demand for banking services and the ability of banks' clients to timely pay their liabilities largely depends on the clients' financial situation. Apart from the country's macroeconomic standing, the economic situation of a number of client groups also depends on the national economic policy being pursued. Both a lower growth rate of the Polish economy and changes in the legal framework for the operation of enterprises may have an adverse impact on the financial standing of selected clients of banks;
- changes in the external environment and international events, including tensions related to geopolitical factors (e.g. Brexit, trade wars), affecting the domestic economy;
- development of banking services offered by non-regulated entities;
- interest rate policy of the Monetary Policy Council;
- high requirements regarding equity and solutions based on the latest accounting standards (IFRS9) and the ability to use capital to gradually achieve compliance with the MREL requirements;
- translation of solutions related to the most recent accounting standards (IFRS 9) into the volatility of risk costs – in particular in the context of the expected economic slowdown (a higher sensitivity of costs to business cycle fluctuations);
- continuing high level of contributions to the Bank Guarantee Fund.

3.5 Mutual funds (TFI PZU)

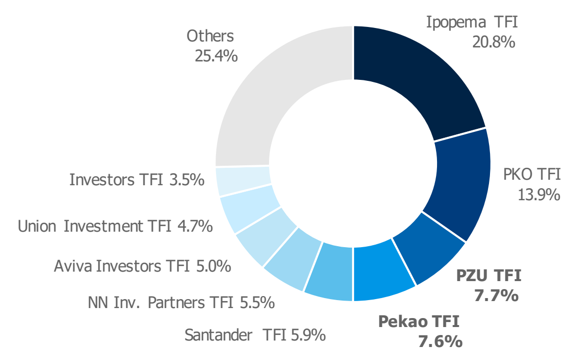
Market situation

As at the end of December 2018, the total assets of the domestic mutual fund market stood at PLN 257 billion compared to PLN 279 billion as at the end of the previous year, representing a decrease by almost 8%.

In 2018, based on estimates by Analizy Online, net outflow (the balance of payments and withdrawals) from retail funds offered by TFIs exceeded PLN 22 billion. It was a difficult year for the whole mutual fund market. However, the segment that was hit the hardest was that of non-public funds – their assets shrank by over PLN 16.3 billion. The unfavorable economic situation and market events caused a decrease in the assets of equity funds by more than PLN 7.8 billion and absolute rate-of-return funds by PLN 6.2 billion.

The only market segment that recorded growth were cash and money funds (an increase in assets by over PLN 15 billion).

Mutual fund companies – share in assets as at 31 December 2018 (in %)



Source: Chamber of Fund and Asset Management

TFI's activity

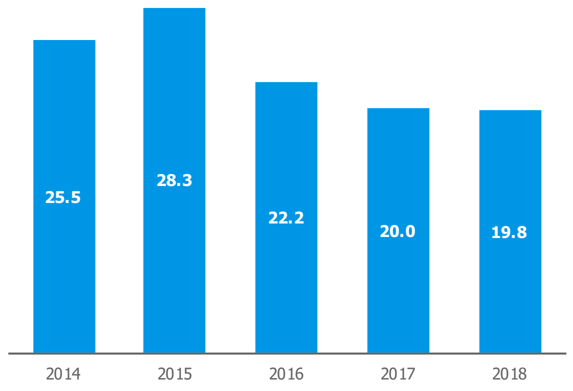
Towarzystwo Funduszy Inwestycyjnych PZU (TFI PZU), part of PZU Group, operates on the mutual fund market. It offers products and services for both retail and institutional clients – including additional investment and savings programs forming part of the third pillar of the social security system: Individual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

At yearend 2018, TFI PZU had 36 funds and sub-funds in its portfolio, of which 29 were also offered to clients from outside the Group – in October the portfolio was supplemented with 6 new sub-funds forming part of inPZU SFIO Parasolowy passive funds available through the cutting-edge platform inpzu.pl. TFI PZU has also begun offering professional asset management services.

At the end of December 2018, TFI PZU managed a portfolio of net assets of nearly PLN 19.8 billion, representing a 7.7%

market share. Accordingly, TFI PZU is among the largest mutual fund companies in Poland – as at 31 December 2018 it was ranked third in Poland according to reports published by IZFiA (Chamber of Fund and Asset Managers). TFI PZU is also the market leader in the employee pension plan segment among institutions operating in this market with net assets of nearly PLN 5.4 billion.

TFI PZU's net assets (PLN billion)



Źródło: Izba Zarządzających Funduszami i Aktywami

At yearend 2018, the net asset value of funds managed by TFI PZU remained at a similar level as at yearend 2017. As regards the most popular solutions, very notable is the increase in assets managed by PZU Oszczędnościowy (former PZU Gotówkowy) by PLN 350 million, PZU PD Polonez by PLN 200 million, inPZU Obligacje Polskie by PLN +210 million, PZU Sejf+ by PLN 153 million, inPZU Obligacje Rynków Wschodzących by PLN 108 million, inPZU Akcje Polskie and inPZU Akcje Rynków Rozwiniętych by approx. PLN 100 million each.

The largest decreases in net assets were recorded at yearend 2018 by the following funds: PZU SFIO Universum, PZU Stabilnego Wzrostu MAZUREK, PZU Medyczny (former PZU Energia Medycyna Ekologia), PZU FIZ FORTE, PZU Akcji KRAKOWIAK, PZU Akcji Spółek Dywidendowych and PZU Akcji Małych i Średnich Spółek.

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

- active sales of funds as part of Employee Pension Plans;
- active sales of PZU Oszczędnościowy and PZU Sejf+ to retail clients;
- launch of inPZU SFIO Parasolowy, a new product line of passive funds;
- difficult situation on the equity market causing outflows from this class of funds;
- unfavorable sentiment towards closed-end funds on the domestic market.

Factors, including threats and risks, which will affect the mutual funds' operations in 2019

The condition and performance of the mutual fund market will depend mainly on the following:

- macroeconomic situation: mostly the rate of economic growth and changes in the rate of inflation domestically and throughout Europe;
- actions taken by central banks (Fed, ECB, Bank of Japan, People's Bank of China) translating into global money supply and liquidity on the financial markets;
- intensity of global protectionism, in particular that surrounding the US-China trade war,
- existing economic climate on financial markets;
- global geopolitical situation (upsurge of populist sentiments in Europe, Brexit, tensions in the Middle East) and domestic political situation (parliamentary and presidential elections).

3.6 International operations

Lithuanian market

According to the Bank of Lithuania, in 2018 gross written premium collected by non-life insurance companies totaled EUR 630 million, representing an increase by 12.2% compared the corresponding period of the previous year.

The market growth rate was largely driven by motor insurance (accounting for 63.3% of the market). Sales of MTPL insurance increased 15.7% and the motor own damage insurance market increased 12.0%, chiefly as a result of the growing sales of new automobiles.

In 2018, there were 12 companies operating in the non-life insurance sector (including 8 branches of insurance companies established in other EU member states).

Lietuvos Draudimas continues to be the largest insurance company in Lithuania in terms of total gross written premium in non-life insurance. The company's share in the market at yearend 2018 was 30.5%. Considering the recent acquisition transactions, the total shares of top four players in the non-life insurance market was 84.1%.

Gross premium written by Lithuanian life insurance companies was EUR 248 million at yearend 2018, up 7.3% from the previous year. The increase in gross written premium was driven by the continuous and stable increase in regular premium (8.9%), which outweighed the 9.4% decrease in single premium income. The rate of growth of the single premium market is hindered by restrictions on tax credits. At the beginning of 2017, the tax credit was reduced to EUR 2,000. Then, in January 2019, the tax credit was cut again – to EUR 1,500 per year.

In the life insurance structure, unit-linked insurance represented the largest share at 60.9% of the portfolio value. Traditional life insurance accounted for 17.4% of written premium.

At of end of 2018, there were 8 companies operating in the life insurance sector. The Lithuanian life insurance market is highly concentrated. The share held by the four largest life insurers in total gross written premium was 76.6%.

Latvian marketi

The Latvian non-life insurance market recorded a gross written premium of EUR 280 million in Q1-Q3 2018. This is nearly EUR 43 million (i.e. 18.3%) more than in the same period of the previous year.

The biggest share in the non-life insurance market share, measured in terms of gross written premium, was captured by motor insurance, whose market position was additionally strengthened by a price increase in the market. Motor TPL insurance accounted for 28.2% of the market while motor own damage accounted for 23.5%. Also health insurance (18.8% market share) and property insurance (16.4% market share) had an important position in the product mix.

In 2018, there were 10 insurance companies operating in the Latvian non-life insurance market and 68.6% of the market was in the hands of the biggest 4 insurers.

Estonian market

In 2018, non-life insurance companies operating in Estonia recorded an increase in gross written premium by 35.9%, compared to 11.1% in 2017[2]. In total, gross written premium was EUR 457 million, of which EUR 122 million, i.e. 26.8%, was collected by foreign insurance undertakings operating in Estonia.

The structure of non-life insurance in 2018 was dominated by motor insurance, which accounted for 58.1%, including MOD insurance accounting for 34.6%. Property insurance collected 28.5% of the gross written premium on the market.

At the end of 2018, there were 13 companies operating in the non-life insurance sector (including 4 branches of foreign insurance companies) among which the top 4 held a combined 68.7% market share.

Activity of PZU companies in the Baltic states

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

Lietuvos Draudimas is the leader of the non-life insurance market in Lithuania with a share of 30.5% after 12 months. In 2018 it recorded a 10.9% increase in gross written premium compared to the previous year, reaching EUR 193 million. The biggest increase was recorded in motor insurance (12.1% y/y).

Life insurance operations in Lithuania are conducted through UAB PZU Lietuva Gyvybės Draudimas – "PZU Lithuania Life". The collected gross written premium was EUR 15 million, which means an increase by 12.3% compared to the previous year. The highest sales growth was recorded in endowment insurance, which increased by 11.9% compared with 2017. The share held by PZU Lithuania Life in the life insurance market at yearend 2018 was 6.2% (compared to 5.9% in the corresponding period of 2017).

In Latvia the PZU Group conducts operations through AAS Balta, which became part of the Group in June 2014, and

[2] As of 1 January 2018, IF P&C Insurance AC (the leader on the Estonian non-life insurance market) started to report total gross written premium, altering the approach taken to date, based on installments and in that manner it significantly distorted market data. The other market participants adopted the same approach to reporting on a non-recurring basis in December 2018.

then (in May 2015) the branch took over the PZU Lithuania branch operating in the Latvian market since 2012. At the end of Q3 2018, the total share of PZU subsidiaries in the non-life insurance market reached 27.8% and gross written premium was EUR 79 million (compared with EUR 105 million in 2018).

Since May 2015 the entity conducting operations in Estonia is a branch of Lietuvos Draudimas and was established as a result of merger of two entities – branch of the Lithuanian PZU company registered in 2012 and the Estonian branch acquired in 2014, which conducted operations under the Codan brand. The company's share in the Estonian non-life insurance market in 2018 was 16.0%. Accumulated gross written premium was EUR 73 million[3].

Rynek ukraiński

The Ukrainian insurance market after Q3 2018 posted 11.1% growth in gross written premium reaching UAH 35 billion. The premium written for non-life insurance was UAH 32 billion, signifying 9.4% growth compared to the corresponding period of 2017. Motor insurance (29.3% of the non-life market) recorded an increase in the premium written by 21.9%, including Green Card insurance by 19.6%. In the corresponding period, life insurance undertakings collected gross written premium of UAH 3 billion, signifying 35.6% growth compared to Q3 2017.

The Ukrainian insurance market is highly fragmented – as at the end of September 2018, there were 285 insurance companies operating in the country (31 of which offered life insurance). Despite the number of insurers that continues to be enormous, the top 100 non-life insurance undertakings generated 98% of gross written premium, while the top 20 life insurance undertakings generated nearly 100% of written premium.

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

In 2018, gross written premium collected by PZU Ukraine was UAH 1,517 million, 17.8% higher than in the previous year. This increase arose from both the increase in the premium obtained through external entities (banks and travel agencies), as well as through its own distribution channels. In 2018, gross written premium collected by PZU Ukraine Life was UAH 413 million, up 37.8% from 2017. This growth was mainly achieved in the bancassurance and broker channels, in particular as a result of sales of endowment insurance policies.

In the first three quarters of 2018, PZU Ukraine collected 3.4% (up 0.1 percentage points compared to the first three quarters of 2017) of total gross written premium of the whole Ukrainian non-life insurance sector, whereas in the life insurance market PZU Ukraine Life gained an 11.0% market share (up 0.6 percentage points compared to the previous year), which gave both companies fifth[4] place on the market.

Factors, including threats and risks, that may affect the insurance business in the area of foreign companies in 2019

- potential slowdown of economic growth in the Baltic states;
- resumption of price pressure in motor insurance caused by improved portfolio profitability in recent years (in the Baltic states);
- 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;
- postponement of the decision to deregulate premium rates in motor TPL insurance in Ukraine.

3.7 Medical services (Health)

Market situation

The health market is a business area that is dynamically developing and prospective. The trends observed in 2018 were as follows:

- continuation of the double digit pace of growth in the private health insurance market;
- development of telemedicine and service opportunities through remote channels;
- greater need to provide care to senior citizens;
- increasing awareness of prevention and periodic examinations.

In accordance with PMR data[5]: at the end of 2017, private health care offered under fee-for-service products was worth PLN 16.9 billion (up 9.5% y/y). In turn, the value of medical subscriptions was PLN 4.0 billion (up 10.2%), while the value of private health insurance climbed to PLN 0.7 billion (up 25.5% y/y).

Operations in the Health Area

Operations in the Health Area include:

- sale of health products in the form of insurance (life and health insurance and non-life health insurance) and non-insurance products (occupational medicine, medical subscriptions, partnerships and prevention programs);
- development of the medical infrastructure for the public in Poland to ensure the best accessibility of provided services and execution of revenue targets.

In 2018, the PZU Group's offering in the Health Area was supplemented with the following two new products:

PZU Ochrona i Zdrowie [PZU Cover and Health]

health protection product for the SME segment offering a benefit in the event of the insured's death, financial support and medical services in the event of critical illness or accident; the product consists of the following 3 bundles:

- Moje Zdrowie [My Health] – offers private medical care in the event of an illness (critical illness or regular cold) or an accident and prevention measures; moreover, in the event of a serious illness or accident, the insured obtains financial support;
- Moja Rodzina [My Family] – the insured's immediate family members receive financial support in the event of his/her death caused by an illness or accident (including motor accidents). The bundle also offers benefits for the insured on account of a childbirth and financial support in the event of the death of immediate family members;
- Mój Wybór [My Choice] – financial aid in the event of accidents in daily life, offers additional insurance for family members in respect of medical care and funding for the purchase of specified prescription medicines (at 80% of their regular price).

PZU Plan na Zdrowie [PZU Plan for Health]

Insurance for natural persons (also those self-employed), companies and institutions enabling adjustment of the scope of medical care to the client's needs. The PZU Group offers the following insurance riders on top of the basic Plan na Zdrowie medical care bundle, which guarantees medical care after an accident (cover includes fractures, paralysis, damage to organs, etc.):

- W Ciężkiej Chorobie [Critical Illness] – treatment in the event of one of 16 critical illnesses;
- W Leczeniu Nowotworu [Cancer Treatment] – treatment of malignant neoplasm;
- W Trosce o Ciebie [Caring for You] – medical care on a daily basis – this insurance is available in three plans: General, Extended and Comprehensive.

In an effort to develop the Health Area in 2018:

- The PZU Group's service provider network was extended to include more medical centers, which means that PZU already had over 2,100 centers;
- a new hotline operation model was rolled out to service clients holding health products, including life insurance and non-life insurance with a health rider. The hotline structures operate in PZU Zdrowie as the Medical Service Management Center (CZUM), which allows for integrated management of client experience and improvement of the service quality, while also testing innovative solutions;

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

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

[3] As of 1 January 2018, IF P&C Insurance AC (the leader on the Estonian non-life insurance market) started to report total gross written premium, altering the approach taken to date, based on installments and in that manner it significantly distorted market data. The other market participants adopted the same approach to reporting on a non-recurring basis in December 2018.

[4] Insurance TOP, Ukrainian insurance quarterly, #4(64)2018

[5] PMR Report entitled „Private Health Care Market in Poland 2018" dated July 2018

- a tool has been developed further for booking on-line appointments through a direct connection with the calendars of cooperating medical centers. In 2018, PZU Zdrowie was connected to 130 medical centers located across Poland;
- 3 new medical centers were built on a greenfield basis and opened in Warsaw, Kraków and Poznań, and the Gdańsk branch was extended to bring it up to modern standards.

Factors, including threats and risks, that may affect the operations of the Health Area in 2019

- Changes in the current mortality, fertility and morbidity levels, which may adversely affect the value of sales and cause a deterioration of the loss ratio (e.g. subscriptions or health insurance);
- Changes in client trends and behaviors towards customization of the offering. Clients' new expectations may bring about the need to change processes and systems, which in turn may affect the achieved results;
- The entry into force of the Employee Capital Plan Act is yet another benefit for employees, which may cause a deterioration in interest in the health care offering due to budgetary constraints on the part of employers;
- 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;
- Salary pressures exerted by doctors and other personnel serving patients in medical centers, which affects our financial performance in the Health Area;
- Potential modification of the National Health Fund's contracting rules may cause significant changes in the financial results generated by medical centers.

3.8 Pension funds (PTE PZU)

Market situation

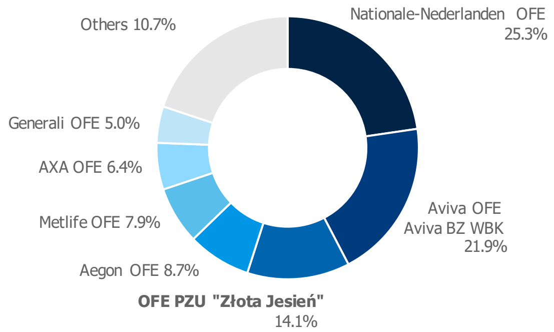
At yearend 2018, the net asset value of open-end pension funds was in excess of PLN 157 billion, down 12.4% versus the end of the previous year.

Operations of PTE PZU

The PZU Złota Jesień Open-End Pension Fund managed by PTE PZU (PTE PZU) is one of the largest players on the pension fund market in Poland. At the end of 2018, 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 2,420 thousand members, i.e. 15.2% of all participants in open-end pension funds;
- net assets stood at over PLN 22 billion, thereby representing 14.1% of the total asset value of the open-end pension funds operating in Poland;
- in 2018 the merger of Pekao OFE and OFE PZU was completed; in accordance with the decision issued by the Polish Financial Supervision Authority, the funds officially merged on 12 October 2018.

Open-end Pension Funds – percentage of net asset value as at 31 December 2018 (%)



Źródło: KNF, Dane miesięczne o rynku OFE, Dane za grudzień 2018 roku

At yearend 2018, PZU's Voluntary Pension Fund ran 74.1 thousand individual pension security accounts (IKZEs) in which assets of more than PLN 168 million were accumulated. Consequently, it retained its position as one of the leaders in the segment of voluntary pension funds.

Factors, including threats and risks, which will affect the pension funds' operations in 2019

The main challenges facing the pension fund market in 2019 are the following:

- financial markets sentiment and, in particular performance of the Warsaw Stock Exchange, affecting the value of the funds' assets and the level of management fees collected by pension fund companies;
- opportunities arising from the achievement of the objectives specified in the Capital Accumulation Scheme and the Responsible Development Strategy the pursuit of which will depend on the development of detailed solutions and the entry into force of necessary legislative changes;
- active participation in work on the adoption of solutions enhancing the performance of the third pillar and making it more attractive, as well as influencing the need in public awareness for accumulating additional savings for future retirement;
- potential conclusions from the pension system review planned for 2019.

3.9 Other operating areas

PZU Pomoc

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

- managing the PZU repair network – at the end of 2018 the company cooperated with 895 repair shops;
- organizing motor assistance services for Link4;
- conducting salvage auctions and sales after loss and damage incidents;
- supporting technical claims handling in motor claims;
- handling assistance products for PZU and PZU Życie (among others, legal consulting, organization of assistance services etc.);
- managing the loyalty program, PZU Pomoc w Życiu Club – at the end of 2018 nearly 1.9 million club members were eligible for insurance discounts and products of cooperating companies (rebate programs from partners).

PZU CO

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

PZU Finance AB

PZU Group's activity on the debt market is realized through PZU Finance AB with its registered office in Stockholm (Sweden). The company's core business is to raise loan funds through the issue of bonds or other debt instruments and provide financing to PZU Group companies.

PZU Finance AB issued five year Eurobonds with nominal value of EUR 350 million on 16 October 2015. These bonds have been assimilated and now form a single series with the tap bonds with a nominal value of EUR 500 million issued by PZU Finance AB (publ) on 3 July 2014. SECTION 8.7 DEBT FINANCING

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). The company constantly seeks new and effective technological solutions allowing to mitigate the risks which particularly impact the insurance activity.

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

Tower Inwestycje

The owners of Tower Inwestycje Sp. z o.o. are PZU Życie with a 73% stake and PZU with a 27% stake.

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

PZU Finanse

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

Ogrodowa-Inwestycje

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

PZU Corporate Member Lmited

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

Through PZU Corporate Member Limited, the PZU Group expanded its international activity. The company is a member of Lloyd's.

Lloyd's is an association of over 80 syndicates managed by over 50 agencies.

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

Grupa Armatura

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

Armatura Kraków SA (Armatura Kraków) is the parent company of the Armatura Group. The Armatura Group includes Armatura Kraków SA, Aquaform SA, Aquaform Bauprodukte, Aquaform Ukraine, Aquaform Romania, Morehome.pl. The business of the Armatura Group lies outside the domain of financial and insurance services. The group is a leading manufacturer in the sanitary and heating industry in Poland. The companies making up the Armatura Group specialize in the manufacture of bathroom and kitchen taps, aluminum central heating radiators, a wide range of valves and sanitaryware.

Agnieszka
Stażystka w Biurze Zarządzania Informacją

Weź karierę we własne ręce!
Więcej informacji o programie praktyk i staży w PZU oraz aktualne oferty znajdziesz na **pzu.pl/kariera.**

Meet our intern in the #IT area. Agnieszka studies IT and econometrics at the University of Warsaw. She is honing her analytical and programming skills in the Information Management Department, maintenance and implementation team. Agnieszka leads a healthy lifestyle; she regularly goes to the gym and prepares health meals which she describes in her Kitchen Madness blog.

"This internship has exceeded my expectations. Every day I get huge support at every stage of my work. I receive auxiliary materials and my duties are varied and focused on development. I think that this is the best way of achieving professional and personal success."

www.pzu.pl/kariera/studenci/program-praktyk-i-stazy

4.

PZU 2020 - More Than Insurance

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

In this section:

4.1 The tenet underpinning the #newPZU Strategy

The PZU Group's strategic planning is predicated on four fundamental principles: stability, honesty, innovativeness and responsibility. These are the values that form the basis for the functioning of best practices in the PZU Group (including the principles of sustainable development implemented in business processes in a broad sense) and the Group's business strategy.

On 9 January 2018 the PZU Management Board and Supervisory Board adopted the strategy update up to 2020. The PZU Group's new operating model departs from the classical model of cultivating client relations based on sales and after-sales service in the direction of having frequent and high quality client interactions during every stage of life anywhere PZU can lend a helping hand. Building relations and partnerships in this line of thinking has been defined as delivering products and services well-matched to clients at the appropriate time and place so as to ensure at the same time that the product's attributes (including its price) are aligned to client needs.

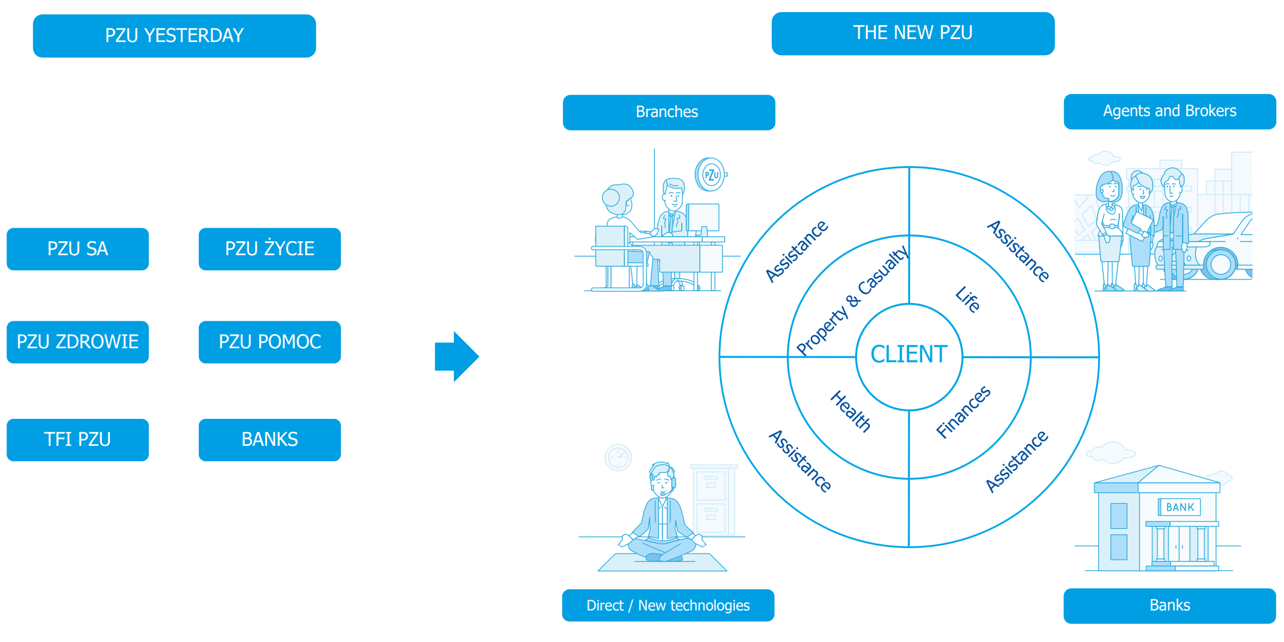
(Pomagamy klientom dbać o ich przyszłość)

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

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

The strength of the #nowePZU strategy lies in technological support spanning the field of innovation and encompassing nearly all the Group's operating areas. Multi-dimensional data analysis will make it possible to gain a better grasp of client needs, offer more efficient client service and provide for easier contacts with a greater amount of partnership. The means to execute these initiatives will involve the usage of tools based on artificial intelligence, Big Data and mobile solutions.

#newPZU



Strategy of innovation

UTILIZATION OF BIG DATA

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

DIGITIZATION

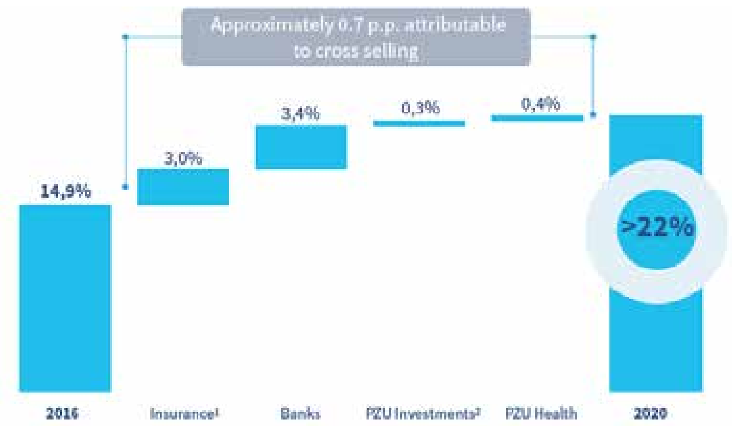
- Implementation of **new technology**
- **Automation** of processes
- Implementation of **self-service**
- Development of **distribution channels**
- Simplified **sales process**

NEW CLIENT INTERACTIONS

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

Source: PZU's data

Contribution of the various lines of business to ROE growth



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

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

The overarching objective of the #newPZU strategy is to generate a return on equity (ROE) in excess of 22%, i.e. nearly twice as much as the average for insurance companies in Europe.

4.2. Strategy operationalization

12 strategic initiatives (in 4 areas: data analysis, cross selling, digitalization of processes and client interactions) define the path to achieving the ROE target > 22%.

#nowePZU 2020 strategic initiatives

Area	No.	Strategic initiatives	Ambitions in 2020
Better utilization of data	1	Data base merger and creation of a single joint CRM system in the PZU Group / full client picture (360 degree view)	55% of the clients in PZU SA and 33% of the clients in PZU Życie SA will give marketing consent
	2	Better matched price to risk and pricing optimisation (Taryfikacja 3.0)	92% combined ratio
	3	Implementation of solutions employing artificial intelligence	6 innovative solutions which at least 100 thousand clients of the PZU Group will use
Cross selling growth	4	Development of cooperation with banks	1 m clients acquired for the banks in the PZU Group 1 bn PLN of incremental premium obtained from the bank channel Cut costs by 100 m PLN
	5	Simplifying the product offering, and simple language	10 core products in broad distribution
	6	Conversion of the sales network into multi-product sales network	50% of salespersons sell multiple products in proprietary networks
	7	Development of sales in PZU Health	1 bn in revenues of PZU Health 12% EBITDA margin
	8	Development of sales and consolidation in PZU Investments	65 bn PLN of third party assets under management 200 m PLN of net profit on third party asset management 15% share of assets on the Employee Capital Schemes market[1]
Digitalization of processes	9	Implementation of a new „moje.pzu.pl" portal	5 m accounts established by clients
	10	Development of the direct offering	10 products available in the direct channel 50% market share held by PZU SA and Link4 of non-life insurance sold in the direct channel
Additional interactions with clients	11	Implementation of a loyalty program at the PZU Group level	3 m participants
	12	Integrated service model for SMEs	70% growth of new sales in group insurance to SME clients in PZU Życie 20% growth in the gross written premium generated by non-life insurance dedicated to the SME segment

[1] Objective to be confirmed after the enactment of the Act on Employee Capital Schemes

Generate an ROE at the target level in the strategy

22.1%

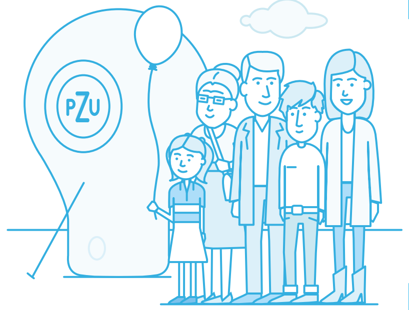
Utilize robotics to enhance the quality of claims handling

Launch an integrated CRM platform – to provide rapid access to information pertaining to products and services

Optimize prices in real time - Tariff-setting 3.0

Launch the inPZU innovative internet platform to offer units in passive funds

Raise the volume of sales and cut costs through PZU's cooperation with the Group's banks



Launch the PZU Data Lab - center for innovation based on data and artificial intelligence

Ramp up PZU Zdrowie's size and profitability by tapping into technology and the high quality and accessibility of services

Deploy a telematic solution to rescue drivers' lives – PZU GO

Expand the range and reach new target client groups with a simple and transparent offer

Devise and accept the PZU Group's environmental standard under the name of "Green PZU"

#1 Joint CRM

Initiative: combine PZU's databases under a single CRM (customer relationship management) system / obtain a full client picture (360 degree view).

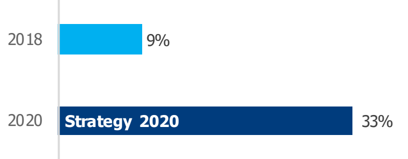
Purpose:

- effectively customize the offer to client needs in terms of quality and costs alike;
- align pricing to risk better;
- accelerate the procurement process and streamline service processes by providing clients with tools to manage easily the products they have in the overall PZU Group;
- create a full client picture (360 degree view) to cultivate partnership relations, standardize processes, grasp client needs better, underwrite risk in an optimum fashion, pursue more effective cross-sales efforts and manage the sales network more efficiently.

Metric: percentage of marketing consents and client contact data in PZU and PZU Życie.

Percentage of marketing consents in PZU

Percentage of marketing consents in PZU Życie



Execution:

- an integrated CRM platform was launched in 2018 – to help PZU agents and employees gain easy and rapid access to information pertaining to products and services. The full client view will make it possible to craft a new dimension of relations and refine cross selling in the PZU Group. Salespersons obtain up-to-date information concerning clients' active products, anniversaries, expiry dates and event histories. The system also prompts new products aligned to client needs. As a result, this will allow us to build strong client relations and augment loyalty and satisfaction. Moreover, the available information can be used to match to a greater extent the product offer and preferences to clients' actual needs in terms of the frequency, timing and method of contact with PZU, and for a salesperson to glean better familiarity with clients' current standing in the PZU Group;
- work continued on a system facilitating comprehensive fraud identification (FMS) within the framework of building an effective CRM system. This system is based on advanced analytics and behavioral models providing support in processes to enter into contracts and handle damages. Its usage will affect the profitability of the product groups at risk and the offer's price attractiveness to the final client.

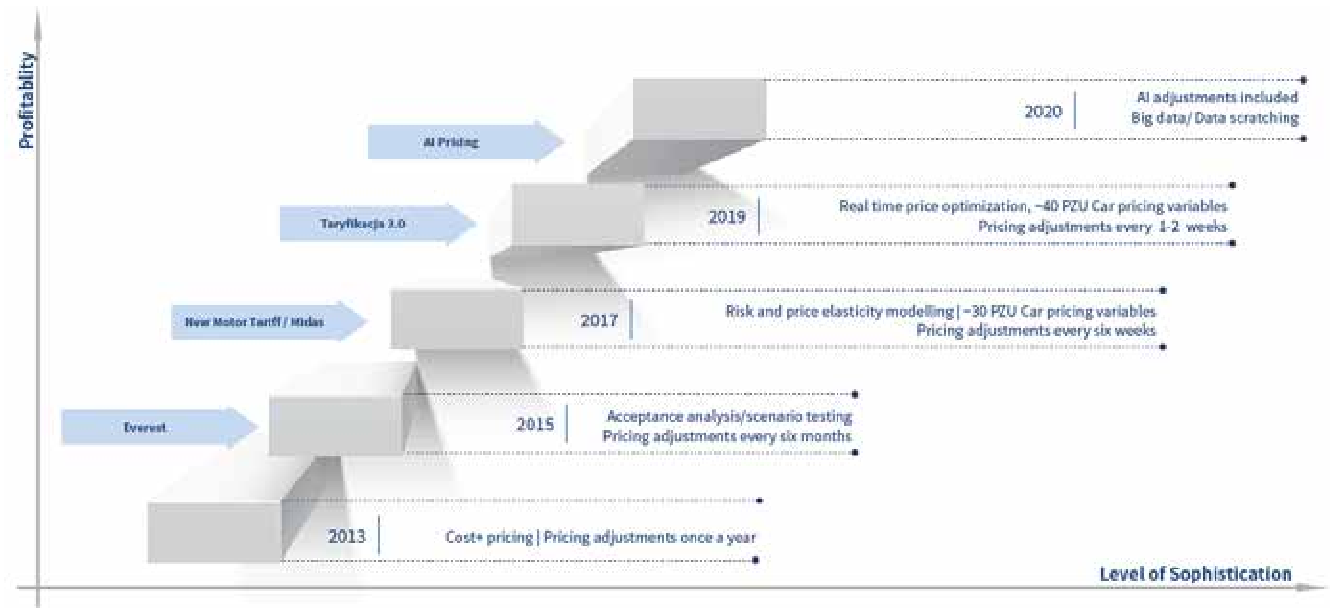
#2 More effective tariff setting

Initiative: shorten the tariff-setting process, in particular on the motor insurance market.

Purpose:

- optimize online prices;
- align prices to risk better;
- offer greater price elasticity;
- maintain a highly competitive position;
- improve sales results and profitability.

Better matched price to risk and price sensitivity (Tariff setting 3.0)



Metric: combined ratio (COR) (measure of profitability in non-life insurance).

COR

Execution:

- work was underway in 2018 on a project to optimize prices in real time (assuming that models would be adjusted every 1-2 weeks). This system is based on machine learning using data originating from the Everest system. In 2018 pilot programs were run on parts of the new system;
- emphasis was placed in streamlining the tariff-setting process in the corporate segment to implement a new risk management model for the Everest policy administration system. A telematic offer was also implemented to align prices better to the loss ratio in client fleets..

#3 Artificial intelligence

Initiative: tap into new technology solutions harnessing proprietary resources and collaborating with the startup community (insurtech, fintech, technology firms).

Our aspiration is for the following business areas to benefit from these changes first: tariff-setting and risk management, sales, client retention and claims handling, as well as medical diagnostics.

Purpose:

- support cross selling initiatives;
- grow the client retention ratio in various lines of business;
- analyze pictures and images in claims and benefits handling processes (e.g. comparison in real time of the picture of the claim and the cost estimate received);
- smart solutions in medical diagnostics;
- enhance efficacy in the detection of insurance fraud;
- render risk management consulting services for companies;
- launch the PZU Data Lab - center for the creation of innovations based on data and artificial intelligence.
- cut expenses;
- enhance quality in client service;
- augment client loyalty;
- build a competititve edge,
- improve sales and profitability;
- grow the value of the brand and the Company.

Metric: number of innovative solutions which at least 100 thousand clients of the PZU Group have used.

Number of innovative solutions

Execution:

- tests of a telematic solution were begun in 2018 to enhance drivers' safety. PZU GO is a telematic app for a smartphone connected to a small beacon attached to a car's windshield. A set of sensors makes it possible to detect an emergency situation and dispatch a signal to PZU's alarm center that will make contact with the driver in question to furnish the requisite support. If it is not possible to make contact with the car driver, rescue services will be sent to the accident site. Additionally, under partnership programs, PZU GO will also provide a benefit package for drivers with a PZU policy and in the future also cheaper motor insurance policies for the best of them. The beacon is self-sufficient and is capable of operating on a single battery for two years.
  Series of pilot projects with the involvement of the Group's employees were run in 2018 to augment the effectiveness of the system. In December this solution was furnished to clients, selected tied agents, PZU branches and outlets in Masovia and Silesia. More than 300 devices were already in operation at the end of February 2019. There are plans to enrich the device with new functionalities and make it available to a broader group of clients.
  On 10 February 2019 PZU GO detected the first very grave road accident. The PZU Emergency Center immediately contacted the driver and summoned rescue services and road assistance. PZU's clients who were injured in the accident were hospitalized and their vehicle was safely towed to a workshop;
- the Data Lab analytical environment was formed under the #nowePZU strategy for the purpose of experimenting with large data files – to design analyses rapidly and test analytical hypotheses. This agile ecosystem supports the conduct of pilot projects in short order in cooperation with the best experts on Big Data and Data Science in Poland. In 2018 DataLab and its partners ran projects regarding underwriting based on pictures and rapid quotation when buying real estate insurance on the web.

#4 Cooperation with banks

Initiative: cooperate with the banking segment in the PZU Group.

Purpose:

- sell insurance to the clients of Bank Pekao and Alior Bank;
- bring new insurance clients from PZU to these banks;
- cost savings in the area of the real estate and purchasing administration system through the creation of an integrated property administration system, or a common purchasing model.

Bancassurance

- Boost sales by utilizing bank channels in line with client preferences
- Dedicated product offering for various segments, including retail clients and SMEs
- Availability of insurance products linked to bank products (insurance for loans and borrowings, personal bank account)
- Implementation of an insurance offer to supplement the offering of banking products (life insurance, health insurance, assistance)
- Broad offering of investment products (TFI), pension products (ECS, IRA, IRSA) and unit-linked products dedicated to the premium segment

Assurbanking

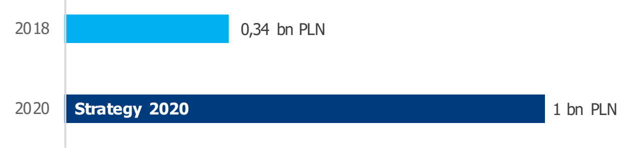
- Offering bank products in the course of insurance-related contacts (sales and service), including "lead generation" through PZU's sales network
- Sales efforts directed to PZU's clients in connection with the occurrence of specific life events such as childbirth, the purchase of a car, a motor claim or a property claim
- Special offers for PZU clients (discounts / cash back) and strategic partnerships

Bank Pekao | PZU | Alior Bank

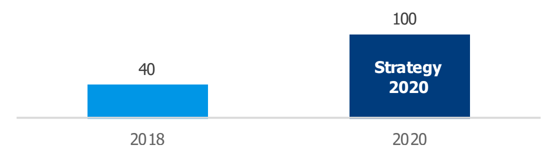
Action	Insurance sales	Client acquisition by the banks	Savings
Description	Sales of PZU's life and non-life insurance under the bancassurance model to the clients of the Group's banks	Acquisition of the Group's insurance clients by the banks	Achievement of synergies in procurement, IT and real estate
Objective for 2020	1 bn PLN of gross written premium	1 m new clients	Cut costs by 100 m PLN

Metric: number of clients attracted to the Group's banks, premium in the banking channel, cost cutting as a result of collaborating with banks.

Amount of premium generated in collaboration with banks



Cost cutting as a result of collaborating with banks



Execution:

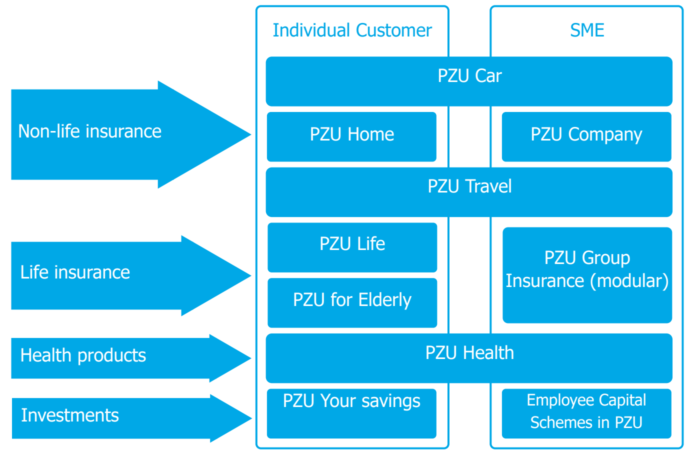
- 24 insurance products were rolled out in the banking offer in 2018, thereby ensuring the presence of PZU's products in all the banks' product lines, while PZU has several leasing bundles in leasing companies containing motor, property and financial insurance. The PZU Group including the banks plans to deploy another fifteen or so products in 2019. Preparatory work (formal legal, business and technology analysis, among others) in assurbanking was also conducted. Several thousand clients were solicited during the pilot period.

#5 Simplifying the product offering

Initiative: create a straight-forward product offer in respect of how the products are structured and the wording used.

Purpose:

- have general salespersons sell simple products effectively;
- increase simplicity and shorten the process for clients to buy products;
- make the simple offer available through the web (10 widely distributed products).



Metric: number of products in general sales.

Number of products in universal sales

Execution:
- analytical work was conducted in 2018 to define the optimum rules for carrying out the new distribution, tariff-setting and sales process. The crucial issue for this process was to design a rapid implementation path for new products.
- the work in this area also pertained to modifying how we communicate with clients. The purpose was to simplify the language of communication with clients. In 2018 changes pertained in particular to debt collection, retail sales and messages in the #myPZU service. The deployment of standards in internal communication and recruitment was also kicked off.

#6: Converting the sales network into a general sales network

Initiative: modify PZU's proprietary networks in the direction of becoming more universal in nature. This project applies to channels fully controlled by the PZU Group: branches, tied agents in life and non-life insurance and the corporate sales network.

Purpose:
- approximately 5 thousand general salespersons (i.e. 50% of the Group's proprietary network) by 2020;
- distribution of at least 3 of the 5 lines of business (life insurance, non-life insurance, medical care, investment products, banking products) by general salespersons.

Metric: percentage of generalist salespersons in our proprietary networks.

Percentage of generalist salespersons in our proprietary networks

Execution:
- the generalist sales strategy also entails enhancing the elasticity of the corporate sales network; changes were made to its structure and motivation, training and development systems. Sales processes were simplified and salespersons have obtained extended powers to submit offers.

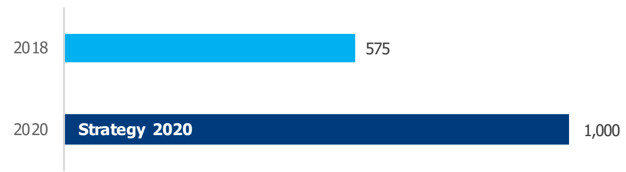
#7: Development of sales in PZU Zdrowie

Initiative: build PZU Zdrowie's size and profitability. Build a competititve advantage by tapping into technology and the high quality and accessibility of services.

Purpose:
- develop new health insurance products and expand the "traditional" offering to include unique riders;
- activate the sales network and tap into the full potential rooted in the PZU Group's client base;
- offer a modern patient service process giving consideration to the best practices on the market, innovative technological and medical solutions and quality of service standards, including VIP care;
- develop a network of proprietary centers through greenfield and M&A projects.

Metric: PZU Zdrowie's revenues (PLN million) and EBITDA (%).

PZU Zdrowie's revenue



PZU Zdrowie's EBITDA margin

Execution:
- in 2018 the solution was implemented in full to allow the clients and consultants on the PZU Zdrowie hotline to book medical benefits in selected centers through the online channel. More centers are added to the system as the integration process progresses.
- within the framework of product-related development work sales was launched in the Everest system of the following products: PZU Auto Asystent Zdrowotny, PZU Dom Asystent, PZU Wojażer Kontynuacja leczenia po podróży and PZU Plan na Zdrowie;
- PZU developed and tested a symptom checker platform based on artificial intelligence in cooperation with a Polish technology start-up; it will be available on the patient portal in an app and also in the form of a dedicated solution for medical hotline employees. The purpose of the platform is to conduct a patient check-up, which is very similar to when a physician conducts an examination, followed by presenting the most probable solution and defining the next steps. This may be phone consultation, video consultation or a chat with a doctor or a visit in a clinic to with a specific specialist. However, in many cases such a discussion with a patient may end with an advice or a prescription sent without any need to leave home.
- to build size PZU Zdrowie cultivated cooperation with partner centers and acquired new centers. At the end of 2018 PZU's network had more than 2,100 partner centers in more than 500 cities in Poland and over 60 proprietary branches.

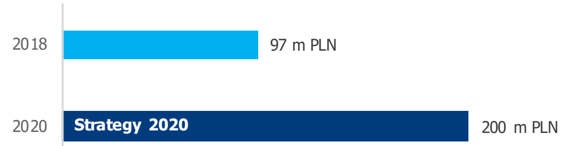
#8: Development of sales and consolidation in PZU Investments

Initiative: design a uniform asset management structure in the PZU Group to utilize multi-channel distribution. Products are also supposed to be sold on international markets within the strategy's horizon up to 2020.

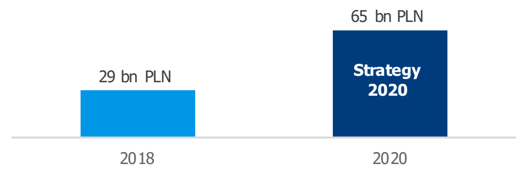
Purpose:
- achieve cost synergies (one factory of investment products);
- ratchet up sales by deploying new investment products based on indices or on what is known as "life cycle";
- utilize the changes ensuing from the reform of the pension system - Employee Capital Schemes;
- growth the net result on asset management.

Metric: third party assets under management (PLN billion), net result on asset management (PLN million), percentage of assets on the employee capital schemes (ECS) makret.

Net result on third party asset management



Third party assets under management



Execution:

- in 2018 educational and preparatory efforts were conducted for the new product offer – ECS (Employee Capital Schemes). News on PZU's efforts was reported in the traditional and internet trade media. A special website emerytura.pzu.pl was also created where current information is published on the upcoming changes. Using that site it is possible to calculate the planned pension benefits coming from saving under the ECS and subscribe to a newsletter. Strategic efforts and efforts to align the business and operating architecture to sell this product were conducted on the business side of things. Moreover, training courses were delivered to salespersons.
- As the leader on the group and voluntary savings market under EPP (roughly PLN 5.3 billion in assets), PZU TFI has rich experience in pension solutions. Its thorough market intelligence, extensive client base, high cost effectiveness, size of operation and rich experience enable TFI PZU to offer attractive terms and conditions in this new formula;
- in October 2018 the new internet inPZU transaction service to sell mutual funds was launched. This service directly reaches retail clients with its new offer of index funds. Client service is done solely in the online channel without having to pay a visit to a branch while the platform is available on all network-enabled devices. inPZU has enabled the Group to build the first offer of low cost index funds in Poland and grow TFI PZU's revenue;
- a modern system to handle the overall investment, finance and accounting process to handle, value and record invesments was deployed in TFI PZU in 2018. In addition, implementation work is in progress on a comprehensive business solution handling the overall investment process from analysis and submitting orders to clearing and confirming trades to risk management and comprehensive reporting at the PZU Group level (PZU, PZU Życie, TFI PZU) in accordinace with the binding legal regulations and KNF's guidelines.

#9: Implementation of a new „moje.pzu.pl" portal

Initiative: integrate the digital services surrounding the PZU Group's processes. The largest project under this initiative is the "moje.pzu.pl" portal.

Purpose:

- gather in a single place client information translating into loyalty and more transactions;
- provide clients with a functionla dashboard enabling them to check their insurance and health coverage at any time (book appointments, too) and manage their investments and, in the future, banking services as well.

Metric: number of accounts established by clients (5 million accounts by 2020).

Execution:

- the "moje.pzu.pl" portal was launched in 2018; it integrates the PZU Group's services and allows clients to manage their health and insurance cover and buy policies. More functionalities are steadily being added. The launch of the "my.pzu.pl" portal was one of the largest IT projects in PZU. The work related to launching the platform called for the integration of more than 20 IT systems and numerous project teams toiled on it. As a result, more than 100 million records pertaining to clients and their services were processed. At the end of 2018, the portal had more than 100 thousand accounts. Promotional efforts to raise awareness about using the platform when handling products are slated to be taken in 2019;
- the new unveiling of the pzu.pl portal transpired in H2 2018. This portal supports the online purchase of products, reporting claims and booking appointments under private medical care and contacts with an insurance agent. This new portal features a modern design, straight forward communication, intuitive navigation and responsiveness (customized to every device);
- the service zgłoszenie.pzu.pl was launched in 2018 in which it is possible to report a loss or a claim at a record-breaking fast pace and determine its value. In motor and non-life claims clients receive an automatically calculated proposal of the indemnity payment. The new tool has also been made available for use by Contact Center employees. That means that registration through our information line takes less time. The content of this service was the subject matter of consultation with the Institute of Simple Polish at the University of Wrocław; clear and comprehensible graphics and photos were used. This platform is adapted for use on mobile devices. The outcome of these efforts is the shortening of the time it takes to register claims from 15 to 5 minutes. The number of cases registered by the internet service has jumped up by nearly 20%;

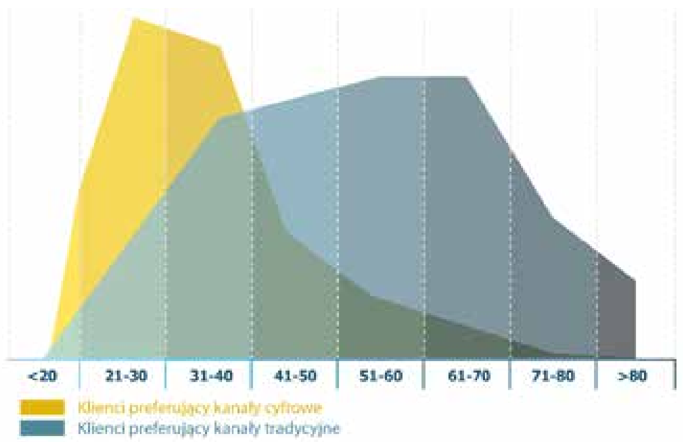
#10: Development of the direct offering

Initiative: Develop the best sales site in the online channel among European insurers.

Purpose:

- design an offer of 10 products based on simple and understandable rules;
- reach clients who prefer digital channels;
- build a leadership position in the direct channel with a market share of at least 50%.

Reaching clients who prefer digital channels



Metric: number of products available in the direct channel (Internet and telephone); market share held by PZU and Link4 of the non-life insurance sold in the direct channel (at least 50% by 2020)[1].

Number of products in the direct channel

Execution:

- 7 insurance, health and investment products were deployed in the direct offer in 2018. To date, the following insurance products have been available in PZU's online sales: car, home/apartment, travel (Voyager), individual retirement security account (IKZE), JaPlus, inPlus and FFS (medical benefits falling outside the scope of a subscription).

#11 Loyalty program

Initiative: launch a loyalty program for the overall Group spanning all its products. The points collected by using these services as well as other activities (among others having a claim-free history and referring the program to a friend) may be converted into products and services from our partners.

Purpose:

- grow the number of client interactions;
- expand the range and reach new target client groups (solicit young clients too) and align the offer better;
- segment clients and personalize the offering;
- support the development of all of the lines of business;
- engage club members to act to benefit the local communities in which they live.

Metric: number of participants in the loyalty program.

Execution:

- conceptual work got started in 2018 in the PZU Club – new space for client contacts.

[1] As of the day of preparing this report the market data on the direct market structure in 2018 were not available.

#12 Integrated service model for SMEs

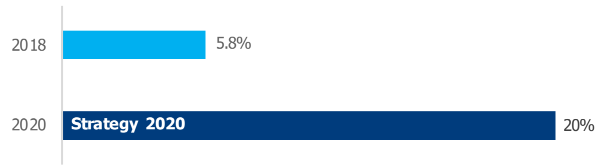
Inicjatywa: zintegrate sales models in the Small and Medium Enterprise (SME) segment.

Purpose:

- ramp up the sales of group and property insurance to the small and medium enterprise (SME) segment;
- reorganize and unify the sales and service model, develop a multi-agency channel;
- create dedicated product offerings for the SME segment.

Metric: pace of new sales of in group insurance to SME clients in PZU Życie (70% up to 2020 - versus 2016), pace of growth of gross written premium on property insurance dedicated to the SME segment (20% up to 2020 – versus 2016).

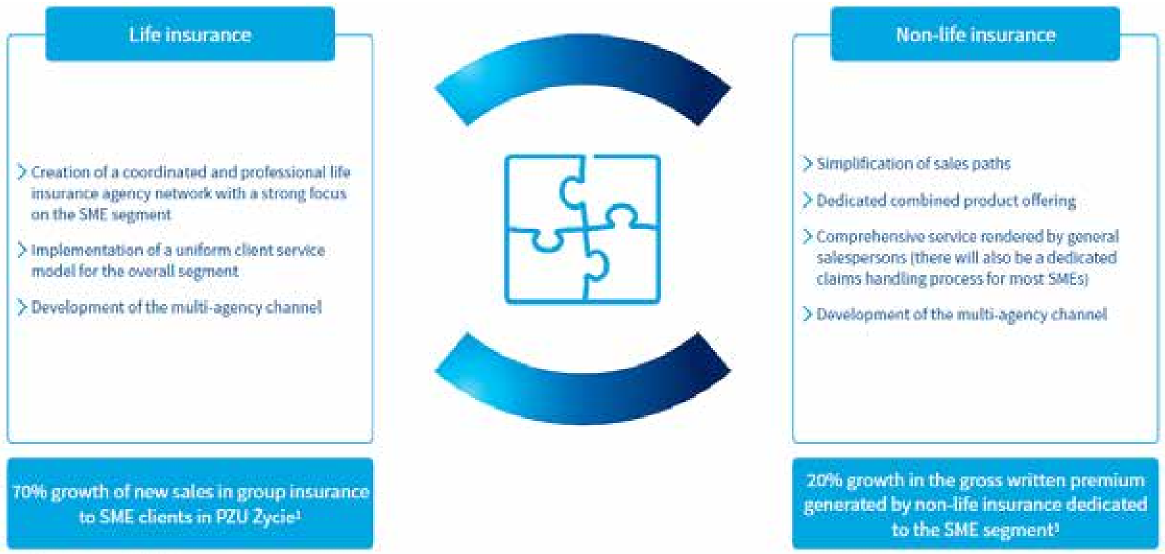
Gross written premium growth in non-life insurance in the SME segment



Execution:

- reorganization processes in the sales of group products were conducted in 2018. The Product Factory project was launched, i.e. a modular offer for SME clients making it possible to take a very flexible approach to products based on the nature of the risks involved. Special processes responding to client expectations for entering into contracts and obtaining after-sales service have been designed.
- the agency network model was reorganized under efforts focused on sales growth in 2018 with respect to dedicated sales structures, compensation and cost control as well as the employee structures to handle the SME portfolio.

Integrated service model for SMEs



[1] Value generated in 2020 compared with 2016

4.3 Pursuit of key projects and initiatives

Actions performed in 2018

Key areas	Recap of actions and achievements in 2018
Insurance	1. Maintaining the PZU Group's leadership position on the non-life insurance market. According to the end of Q3 2018 data published by the Polish Financial Supervision Authority, PZU's market share (direct business) was 34.8%. 2. Link4's non-life insurance market share was 2.8% at the end of Q3 2018 (down 0.1 p.p. y/y; direct business). 3. Strengthening its leading position in periodic premium life insurance. Market share was 46.0% in the first three quarters of 2018 (45.8% last year). PZU Życie's life insurance market share at the end of Q3 2018 was 37.8% (up 3.0 p.p. y/y). 4. Consolidation of market leadership in Lithuania and Latvia. The Lithuanian company's non-life insurance market share was 30.5%, while the market share on the Latvian market at the end of Q3 2018 held steady at 27.8%. The Lithuanian life insurance market share was 6.2% (up 0.3 p.p.). The PZU Group's non-life insurance market share in Estonia in 2018 was 16.0%, posting growth of 0.4 p.p. The Ukrainian non-life company posted market share expansion (3.4%) of 0.1 p.p. in the first three quarters of 2018 compared to the corresponding period of the previous year, while the life company's market share edged up by 0.6 p.p. to 11.0%. 5. Development of TUW PZUW's operations confirmed by its market share of 1.4% at the end of Q3 2018 (up 0.4 p.p. y/y; direct activity). 6. Membership in Lloyd's and close collaboration with the Argenta Syndicate. PZU received a prestigious certificate entitled „Member of Lloyd's". 7. Enlargement of the scope of work to utilize telematics in the PZU Group. Following the solutions deployed in Link4, work on the PZU GO project was launched with the purpose of enhancing drivers' safety. 8. Commencement of work for PZU to market innovative solutions pertaining to tariff setting and sales support. 9. Commencing the implementation of advanced consulting services in risk management by the PZU Lab. 10. PZU won the Polish Radio's Economic Prize in the "National Treasure" category awarded to businesses that stood out in the past year on the market place and contributed to promoting Poland on the international arena. 11. PZU received a prestigious award as a Trustworthy Brand in 2017 conferred by the "My Company Polska" monthly for products and services that feature a special degree of trust according to commercial undertakings.

Actions performed in 2018

Investments	1. TFI PZU is in third place on the market in terms of net assets under management. At the end of 2018, TFI PZU's assets under management were PLN 19.8 billion, accounting for 7.7% of the assets in domestic mutual fund companies (TFIs). Pekao TFI is in fourth place on the market in terms of net assets under management. At the end of 2018, Pekao TFI's assets under management were PLN 19.4 billion, accounting for 7.6% of the assets in domestic mutual fund companies (TFIs). 2. The slight decline in third party assets under management from PLN 7.3 billion at the end of 2017 to PLN 7.1 billion at the end of 2018 was primarily due to the soft market. The assets of TFI PZU's third party clients represented 4.4% of the TFI market's assets at the end of 2018 (net of privately held assets). 3. TFI PZU is the market leader in the employee pension plan segment among domestic mutual fund companies. At the end of 2018 TFI PZU had PLN 5.3 billion in assets under management (EPP, GPP, PPO, ZPI. 4. The net asset value of OFE PZU Złota Jesień at the end of 2018 was PLN 22.1 billion (including the assets acquired from OFE PEKAO), which translated into 3rd place on the market with a share of 14.1%. 5. PTE PZU's net profit at the end of 2018 was PLN 70.8 million.
Health	1. At the end of 2018, PZU Zdrowie's revenues were PLN 575.3 million, signifying growth of 26.3% from the previous year. 2. 20.1% growth in gross written premium in group health insurance in comparison with 2017. 3. PZU Zdrowie's acquisition of equity stakes in Centrum Św. Łukasza and Elvita's acquisition of equity stakes in Multimed in 2018. Additionally, PZU Zdrowie acquired equity stakes in Alergo-Med in January 2019. 4. Further refining of the tool to manage the proprietary medical center network and the centers cooperating with PZU Zdrowie and manage client traffic on the medical hotline. 5. Performance of work on implementing a functionality enabling online communication with Medical Hotline consultants to book medical services with an extensive network of medical centers. 6. Work to implement a portal to handle occupational medicine for employers and a self-service portal for PZU's patients (mojePZU portal).
Banking	1. The value of banking assets in the PZU Group's possession rose to PLN 264 billion at the end of 2018. 2. The banking segment's contribution to the PZU Group's operating result was PLN 4,036 million at the end of 2018. 3. Work was continued to achieve income and cost synergies in the cooperation between PZU and the banks in its group (Pekao, Alior Bank).
Cost effectiveness culture	1. Increase of administrative expenses in the underwriting segments in Poland by PLN 5 m at the end of 2018, i.e. 0.4% y/y. 2. The administrative expense ratio in PZU and PZU Życie improved 0.2 p.p. at the end of 2018 to 6.6%. 3. The administrative expense ratio in the international companies improved by 0.6 p.p. At the end of 2018 this ratio was 9.2%.

Execution of the PZU Group's CSR strategy

2018 was the first year of executing the PZU Group's CSR strategy that defined the ambitions PZU and PZU Życie have for corporate social responsibility. Within the bounds of these assumptions the areas of corporate social responsibility, operating directions and management approach to the initiatives being undertaken were defined.

Purpose		Execution 2018	Level in 2020
Building its CSR position in the financial industry - Membership in the Respect Index of listed companies observing corporate social responsibility		Membership in the index below the average for the industry	Membership in the index at a minimum average level for the industry
PZU's further membership in the basket of companies pursuing corporate social responsibility included under the RESPECT Index was affirmed on 12 December 2018 (the study covered the company's operations in 2017). Its result was lower than the average result in the financial industry. Among other things, this was the result of greater pressure on reporting at the Group level, i.e. including Bank Pekao and Alior Bank. Efforts will be taken in 2019 to streamline communication, thereby making it possible to report the required data to a broader extent.			
Clients	NPS for retail clients in insurance versus the competition	>competition	>competition
	Indicator concerning the timeliness of examining complaints	97% up to 28 days	95% up to 28 days
Clients were once again inclined to recommend PZU to a greater extent in 2018 in comparison to the competition. Its NPS (Net Promoter Score) was 7.3 p.p. higher than the competition's. This score is to a large extent the outcome of a broad array of client satisfaction and loyalty studies, enabling us to satisfy client needs effectively and identify the organization's strengths and areas in need of modification and improvement.			
Employees	Employee commitment index	40%	55%
	% of women in managerial positions	53.1%	at least 50%
The commitment index rose 5 p.p. in 2018 to 40%. The participation ratio was 73% (52% in 2017).			
Environment	Implementation of the Group's "Green PZU" standard	The standard and guidelines for execution were devised	Fully implemented (100%)
In November 2018 the "PZU Group Standard - Green PZU" was enacted with general guidelines for planned implementation in the environment. They should be completed by the end of 2020.			
Risk management	Risk assessment framework score (BION) for PZU and PZU Życie	Good level*	Good level
Social activities	Financial commitment to social activity	PLN 86.8 million	> PLN 50 million per annum
Suppliers	Percentage of suppliers adhering to the "Code of CSR Best Practices for PZU's Suppliers"	The "Code of CSR Best Practices for PZU's Suppliers" was prepared	90% of contracts contain an obligation to adhere to the "Code of CSR Best Practices for PZU's Suppliers"
Preparations were underway in 2018 to implement a new procurement platform that, according to the assumptions underpinning the CSR strategy, will incorporate the necessity of affirming the obligation to abide by the "Code of CSR Best Practices.			

* As at 2017 (last available data)

4.4 Completed activities in 2018

ROE[1]

2017	2018	2020
21.0%	22.1%	>22%

BUSINESS SIZE

NON-LIFE INSURANCE – PZU Group's market share[2,3,4]

2017	2018	2020
35.7%	34.8%	38.0%

LIFE INSURANCE – Number of clients in PZU Życie (m)[10]

2017	2018	2020
11.0	10.9	11.0

INVESTMENTS – Assets under management for third party clients (bn PLN)

2017	2018	2020
31/51[11]	29/50[11]	65

HEALTH – Revenues (m PLN)[8]

2017	2018	2020
456	575	1,000

BANKING – Assets (bn PLN)

2017	2018	2020
255	264	>300

BUSINESS PROFITABILITY

Combined ratio[3]

2017	2018	2020
89.3%	86.6%	92.0%

Operating margin in group and individually continued insurance

2017	2018	2020
20.6%	22.1%	>20%

Net result on third party asset management (m PLN)[7]

2017	2018	2020
95/122[11]	97/187[11]	200

EBITDA margin[9]

2017	2018	2020
8.2%	8.8%	12.0%

Net financial result attributed to the PZU Group (m PLN)

2017	2018	2020
393	654	>900

Administrative expense ratio[5]

2017	2018	2020
6.8%	6.6%	6.5%

Surplus yield on its own portfolio above the RFR

2017	2018	2020
2.3 p.p.	1.5p.p.	2.0 p.p.

GROUP OBJECTIVES

Solvency II solvency ratio[4, 6,]

2017	2018	2020
208%	245%	>200%

Number of products per client

2017	2018	2020
1.5	1.6	2.0

1 ROE attributable to the parent company
2 Direct business
3 PZU jointly with TUW PZUW and LINK4
4 Data at the end of Q3 2018
5 Administrative expenses in PZU and PZU Życie
6 Own funds after subtracting anticipated dividends and asset taxes
7 PZU Investments' consolidated net result
8 Annualized revenues of proprietary centers and branches including revenues from PZU Zdrowie
9 Net of non-recurring costs; profitability computed using the sum of revenues generated by branches and earned premium
10 Including customers acquired through cooperation with banks.
11 Including assets managed by TFI banks of the PZU Group.

Analysis of data on campaigns such as "Teddy Bears Rescue Children's Lives" is not only about tables, bars and charts. The analyses we carry out in such projects give us certainty that our daily work translates into specific effects. The feeling that we do something good motivates us to work.

PZU. This work makes sense.

Więcej na: http://bit.ly/2CKPfh0

5.

Business Model

The PZU Group is constantly changing. Along with the new Strategy for 2017-2020, the Group's business model is undergoing modification from being an insurer (chiefly involved in the valuation and transfer of risk) to being a service company (an advisory company operating on the basis of technological know-how). This will enable clients to optimize their decisions at all stages of their lives. It will ultimately translate into augmenting the trust and loyalty placed in the brand of first choice which PZU will become in insurance, finance and health services.

In this section:

5.1 PZU Group's new operating model

The PZU Group enjoys the trust of more than 22 million clients in 5 countries in Europe, of which 11.8 million, clients in Poland have group and individually continued life insurance.

The PZU Group's offer is the most extensive and most comprehensive, insurance and financial offer on the Polish market. It consists of a broad array of insurance, pension and investment products addressed to all client segments. Group companies are active in health care, banking and additionally they render assistance services to retail clients and businesses through strategic partnerships. SECTION 1 PZU GROUP'S DEVELOPMENT

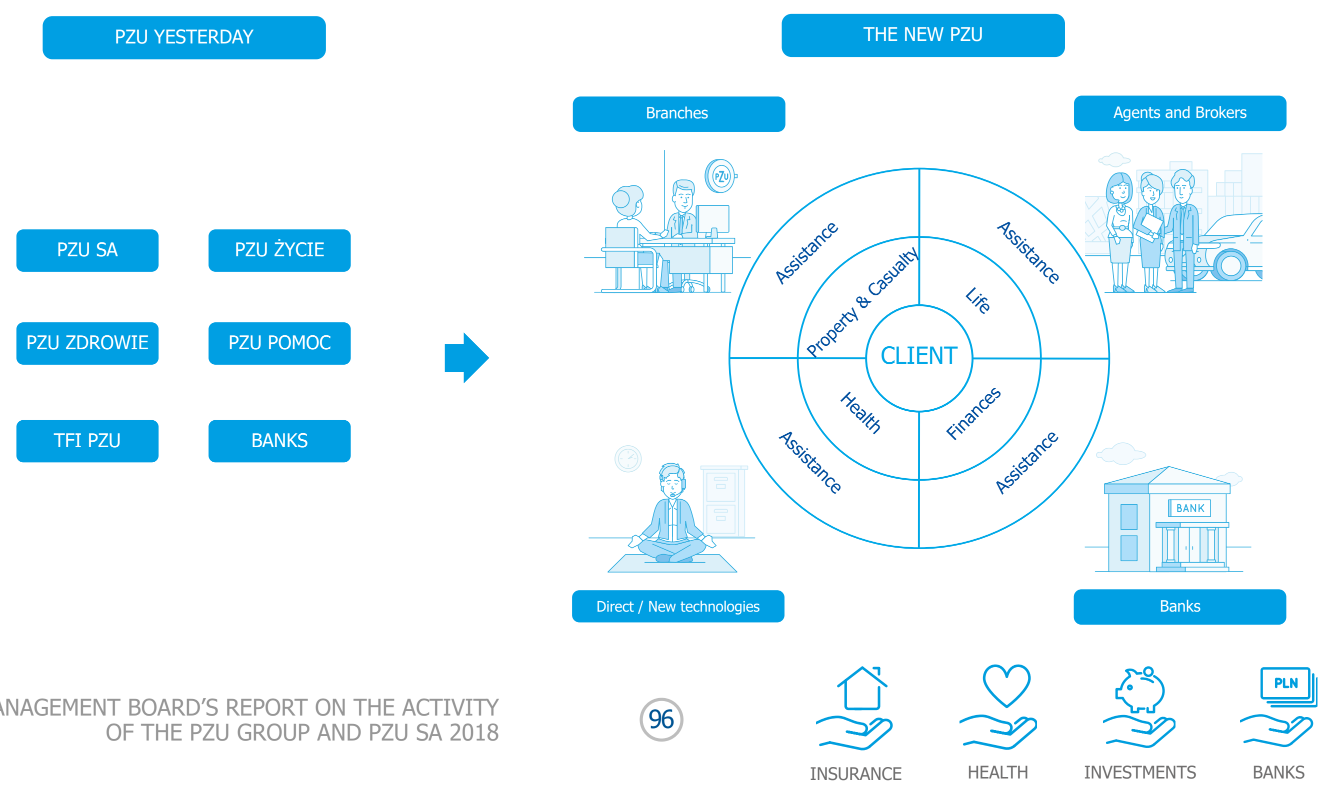
The PZU Group Strategy published on 9 January 2018: "The New PZU – More Than Insurance" SECTION 4 PZU 2020 - MORE THAN INSURANCE is client-centered. The mission that we have defined – we help clients care for their future – means that our client relationships and our client knowledge are becoming our overriding value, while our chief product is our acumen in addressing client needs to build a stable future.

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

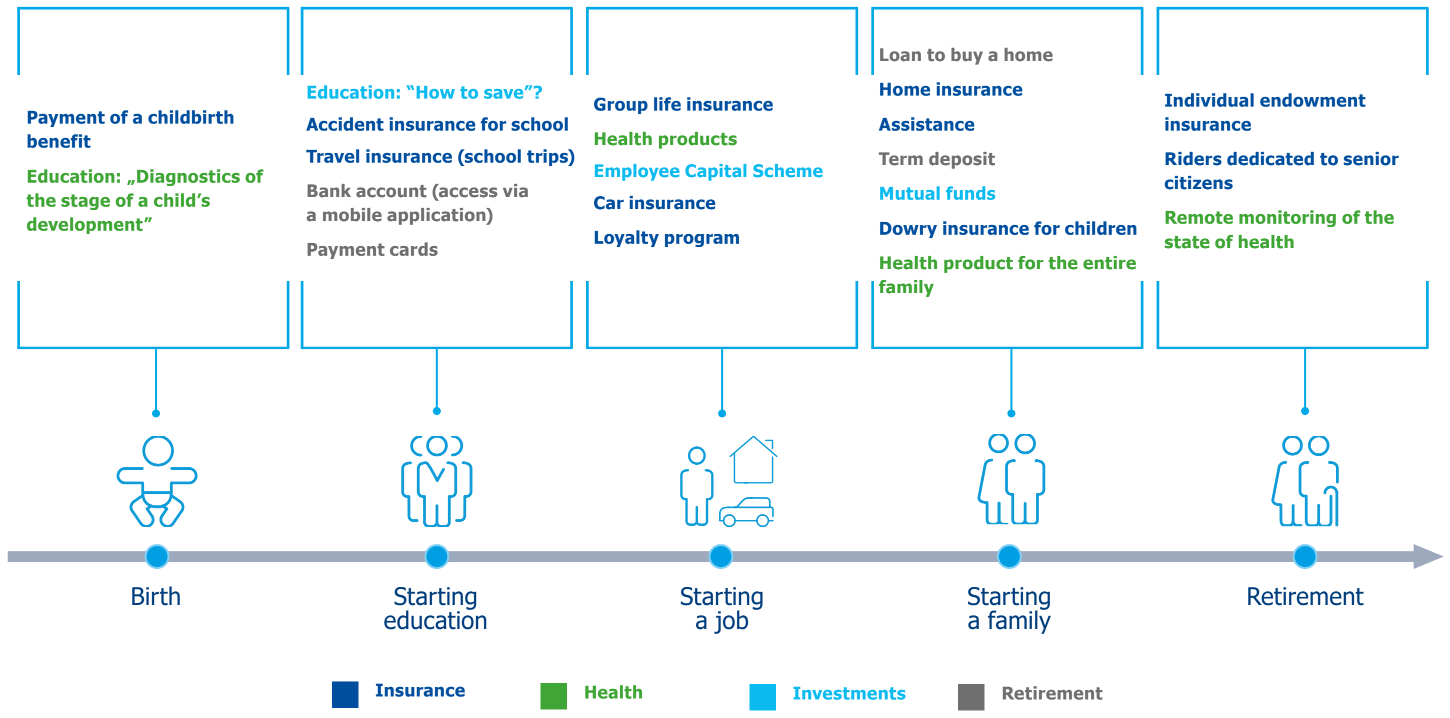
This approach has defined the operating philosophy under the PZU Group's new business model.

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

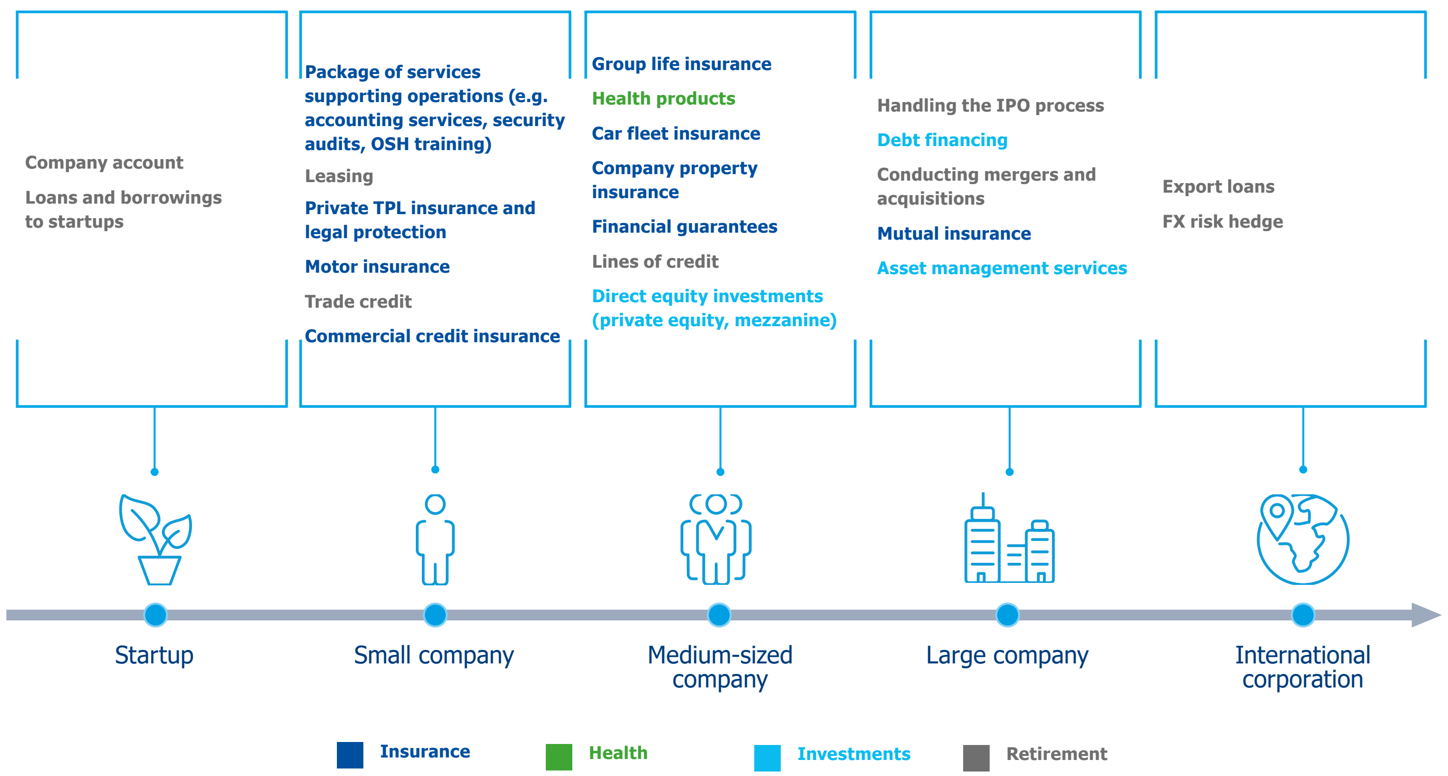
We are changing PZU – we are becoming a lifetime partner



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



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



The PZU Group proposes abandoning "product centricity" in favor of an ecosystem whose overriding objective is to manage client relations skillfully by offering solutions in all venues available to clients. Accurately anticipating the future, understanding client needs and building ever better methods of becoming part of their daily lives are the logical grounds underpinning other initiatives in PZU's new strategy. These initiatives will contribute to transforming the Group's operating model in the direction of an ecosystem spanning not just insurance, but also banking, health protection and payments. SECTION 4 PZU 2020 - MORE THAN INSURANCE

Above all, PZU is driven to utilize its Big Data files better, it is betting on digitalizing processes, using artificial intelligence and new technologies associated with the development of fintechs and insurtechs. In this manner new underwriting methods will emerge in the Group. It is expected that by the end of 2019, tariffs will be optimized in real time, while the models themselves will undergo adjustment once every 1-2 weeks. This will open the path to the more extensive utilization of artificial intelligence models in tariff processes in 2020. At the same time, artificial intelligence is a method of simplifying processes, including ones directly affecting clients. The beneficiaries of change will be areas such as sales, claims handling and medical diagnostics.

The combination of PZU's databases under a single CRM (customer relationship management) system will make it possible to customize the offer to client needs more effectively in terms of quality and costs alike. This will also accelerate the purchase process while streamlining service-related processes. Clients will be able to manage their products in the entire PZU Group quickly and easily (on their own or with the support of advisors).

Launching the "moje.pzu.pl" portal is not just the outcome of developing digitalization and mobility in PZU but also a way of radically modifying client interactions. This is a one-of-a-kind dashboard enabling clients to check their insurance coverage at any time, manage their medical coverage and appointments and handle their investments and, in the future, banking services as well. The ability to enter into an agreement through the online channel means that this portal / app will ultimately be used by all PZU clients.

To strengthen relations with its clients PZU also intends to simplify its product offer (in terms of the number of products and the language used), universalize the sales network and roll out an integrated SME service model. Tightening cooperation with the Alior and Pekao SA banks is also an important issue whereby the Group will be able to devise comprehensive financial solutions responding to the needs of retail clients and small and medium-sized companies. Up to 2020 PZU plans to fully utilize the potential of the financial market's largest proprietary distribution network. The universalization of the sales network will make it possible for sales people to offer clients at least 3 of the PZU Group's 5 lines of business (life insurance, non-life insurance, medical care, investment products, banking products).

5.2 Insurance

Insurance continues to be the PZU Group's core business despite constant evolution, organic growth and acquisitions. The core business model based on effective sales channels and efficient claims handling functions in their midst. The PZU Group offers insurance in Poland, Lithuania and Ukraine (life and non-life insurance), as well as in Latvia and Estonia (non-life insurance).

Clients and products

The PZU Group has a comprehensive product offer spanning life and non-life insurance for 16 million clients in Poland. They are retail clients, sole proprietors, small and medium enterprises and large corporates. The PZU Group enjoys the trust of 1.2 million clients in the Baltic States and Ukraine.

Non-life insurance is offered in Poland under three brands: PZU, the traditional and most well-known brand, LINK4 associated with direct sales channels and TUW PZUW, the brand under which the mutual insurance company does business. SECTION 3.2 NON-LIFE INSURANCE Life insurance is sold in Poland under the PZU brand. SECTION 3.3 LIFE INSURANCE International insurance activity is conducted under the brand of Lietuvos Draudimas in Lithuania, under the Balta brand in Latvia and under the PZU brand in Ukrainie and Estonia. SECTION 3.6 INTERNATIONAL OPERATIONS.

100%

- aided PZU brand recognition

16 million

PZU clients in Poland,

5 million

Bank Pekao clients,

4 million

Alior Bank clients

411

- number of PZU branches, including 189 branches in small towns

9.1 thousand

tied agents and agencies in the PZU Group - the biggest agency network among Polish insurers

>2,100

number of partner outlets cooperating with the PZU Group at the end of 2018,

>60

number of proprietary PZU Zdrowie medical centers

825

- number of Bank Pekao branches at the end of 2018,

1,708

number of own ATMs

861

proprietary and partner outlets of Alior Bank at the end of 2018

PLN 1 million

for drivers driving safely in the LINK4 "Kasa Wraca" [Cash Back] telematic program in 2018

6.7 thousand

- number of employees of Bank Pekao branches who were trained and obtained KNF licenses to sell PZU insurance in 2018

over 300

innovative ideas submitted in 4 competitions using the Ideas Generator

83.5%

of the PZU Group's clients are satisfied with the claims and benefits handling process (satisfaction survey on a sample of 20 thousand clients conducted in 2018)

Business Model

The PZU Group's insurance offer in Poland is complemented by an extensive range of investment products - open and closed-end mutual fund products and pension products - open-end pension fund, individual retirement security accounts with a voluntary pension fund, employee pension plans, individual retirement accounts (IKE) and individual retirement security accounts (IKZE). The Group offers investment solutions customized to the needs of all types of investors. In October 2018 the inPZU platform was launched. It enables clients to invest on their own in passive funds, which is an innovation on the Polish market. Two investment paths are available on inPZU: for beginning investors who can use the "Helper" and the expert path where the client will unilaterally build his or her own investment portfolio by selecting among 6 index funds, ranging from the safest ones to equity funds.

Distribution channels
PZU's sales network is organized in a manner that ensures sales effectiveness along with high quality services. Among all the Polish insurers PZU offers its clients the largest sales and service network. It has 411 branches with convenient access across the country (with 189 in small communities) and tied agents, multiagencies, insurance brokers and electronic distribution channels.

At yearend 2018, the PZU Group's distribution network included the following:

- tied agents – in Poland the PZU Group's own agency network consisted of 9.1 thousand tied agents and agencies. Sales are conducted through the agency channel predominantly in the mass client segment, particularly of motor and non-life insurance as well as individual insurance (life insurance). In the Baltic states (the PZU Group is active on the non-life insurance market in Lithuania, Latvia

Distribution network



Percentage of the PZU Group's gross written premium

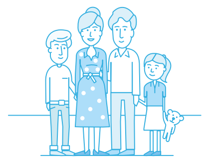
	92% Poland non-life insurance	92% Poland life insurance	7% Baltic States	1% Ukraine
Employees	✕✕	✕✕✕	✕✕	✕✕✕
Tied agents	✕✕✕	✕	✕✕	✕
Multiagencies / Brokers	✕✕✕	✕	✕✕✕	✕✕✕
Direct	✕✕	✕	✕	✕
Banks	✕	✕✕	✕	✕✕
Strategic Partners	✕		✕	✕✕✕

Key: on a scale from 1 to 3 where 3 denotes the highest sales

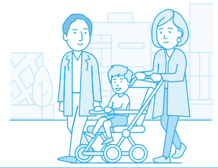
For you and your family

Life
We have health care for you and your relatives. We help you when you have an accident or fall ill. We give financial support to your family in important and tough times.

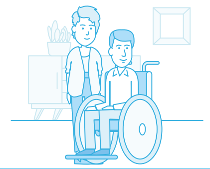
Protection for you and your family
- Life cover and savings
- Support for your family
- Individual continuation of group insurance



Protection for your child
- Securing the future of your child
- Annuity for your child after you die
- Accident insurance for children and youths

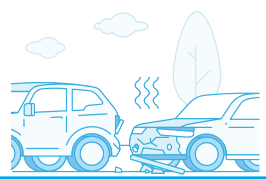


Protection after an accident
- Support after an accident for you and your child
- Support after a surgical operation



Non-life, travel, TPL
We take care not just of your home but of all your assets. We also protect you and your health. We provide support if you encounter unexpected problems when traveling – in Poland or abroad. You can rely on us if you or your relatives accidentally hurt someone else.

Vehicles
- PZU Auto TPL
- PZU Auto MOD
- PZU AUTO Assistance



Home and apartment
- Home insurance
- Apartment insurance
- Home under construction insurance

Travel
- Tourist travel insurance
- Sports travel insurance
- Work or study travel insurance

Third party liability
- Private TPL
- TPL Sport
- TPL for teachers, counselors and guardians

Investments and savings
We offer a host of investment and savings opportunities. You can grow your capital with us in mutual funds and secure additional funds for retirement. You can also choose savings solutions combined with life cover.

Mutual funds
- PZU Sejf+ with capital protection
- PZU Oszczędnościowy [PZU Savings]
- PZU Dłużny Aktywny [PZU Active Debt Fund]

Investment insurance
- Structured life insurance with a capital guarantee – PZU Świat Zysków [World of Profits]
- Unit-linked life insurance – PZU Cel na Przyszłość [Goal for the Future]
- Individual unit-linked life insurance – Multi Kapitał [Multi Capital]

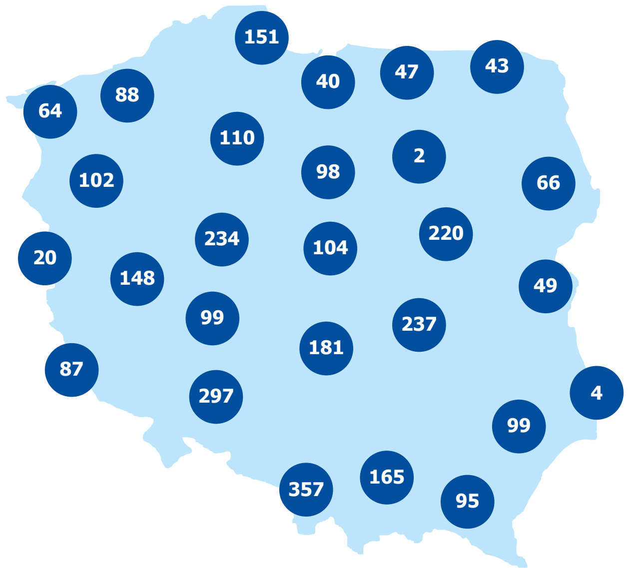
Pension
- Individual Retirement Account
- Individual Retirement Security Account
- Open-end pension fund

and Estonia through Lietuvos Draudimas, AAS Balta and Lietuvos Draudimas' PZU Estonia branch, respectively, while on the life insurance market it is active through PZU Lietuva GD), the Group's agency network consisted of approx. 1 thousand agents, while in Ukraine (where PZU is active on the non-life insurance market and on the life insurance market through PZU Ukraine and PZU Ukraine Life, respectively) it had roughly 700 agents;

- multiagencies – more than 3 thousand of them cooperate with the PZU Group on the Polish insurance market. They perform sales operations targeted mainly at the mass market (insurance of all types is sold through this channel, especially motor insurance and non-life insurance as well as individual life insurance). In turn, in the Baltic States Group companies cooperate with 33 multiagencies and in Ukraine with 14 multiagencies;
- insurance brokers – in Poland, the Group, in particular PZU's Corporate Client Division, cooperated with almost 1 thousand insurance brokers. In the Baltic states where the brokerage channel is a major insurance distribution channel, the Group companies cooperated with over 390 brokers, whereas Ukrainian companies cooperated with more than 30 brokers;
- bancassurance and strategic partnership – in protective insurance, in 2018 the PZU Group cooperated in Poland with 13 banks in particular Pekao and Alior Bank and 21 strategic partners. The PZU Group's business partners are leaders in their industries with client bases offering enormous potential. In strategic partnership, cooperation applied mostly to companies operating in the telecom and power sectors through which insurance for electronic equipment and assistance services was offered. In the Baltic states, PZU cooperated with 5 banks and 14 strategic partners. In Ukraine, the respective numbers were 7 banks and 8 strategic partners.

Claims and benefits handling

Find a branch and an agent



For clients, claims handling is the 'moment of truth' when the quality of the product purchased from an insurer is tested. Satisfying client expectations during the claim handling/case handling process is the key to building PZU's client relationships. For this reason, the PZU Group took a number of measures in 2018 to streamline and shorten this process. More than 85% of the simple benefits are handled on the day they are reported.

In 2018 PZU started a new internet service to report claims and benefits. This service complies with the philosophy of using simple language, while its usage of intuitive graphics and images makes it user friendly and easy to grasp. Since it is suitable for mobile devices, it can be used anywhere. When reporting a case clients fill out only the data which PZU does not have. Clients receive an automatically calculated proposal of the indemnity payment in motor and property claims. These changes have shortened the time it takes to record a claim from 15 to 5 minutes. The new tool to report claims and benefits has also been made available for use by Contact Center employees. That means that registration through our information line takes less time, thereby considerably enhancing the quality of service.

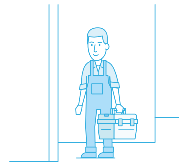
For companies and employees

Employee life and health

Gain a competitive edge on the labor market. Offer insurance cover to your employees. Give them and yourself some support in difficult situations (e.g. in sickness, after an accident or in the event of a relative's death). Also tend to health prevention.

Own business

- PZU Mój Zdrowy Biznes [My Healthy Business]
- PZU Zdrowy Biznes [Healthy Business]
- PZU Mój Biznes [My Business]

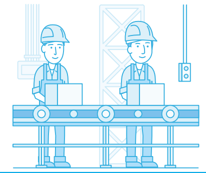


Companies with 3 to 30 employees

- PZU Ochrona i Zdrowie [PZU Cover and Health]
- PZU Ochrona Plus [PZU Cover Plus]
- PZU u Lekarza [PZU at the Doctor's]

Companies above 30 employees

- PZU P Plus
- PZU W Razie Wypadku [In Case of Accident]
- PZU u Lekarza [PZU at the Doctor's]
- PZU Pełnia Życia [PZU Full Life]



Property and TPL insurance for companies

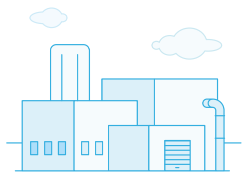
We support large corporates, small and medium enterprises and farms. We insure their property and care for their employees. We also lend a helping hand in tough circumstances related to practicing a profession.

Vehicles and transport

- PZU Auto TPL
- PZU Auto MOD
- Cargo in transit insurance

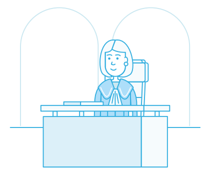
Non-Life

- All risk property insurance
- Property insurance against fire and other natural elements
- Insurance of construction and installation risks



Third party liability

- General TPL insurance
- Professional TPL
- TPL for the company's management



Agrobiznes

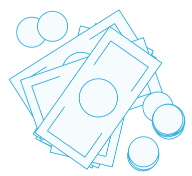
- PZU Gospodarstwo Rolne [PZU Farm]
- PZU Uprawy [PZU Crops]
- PZU Zwierzęta [PZU Animals]

Corporate finance and investments

We offer insurance and financial instruments to enable you to invest conveniently and safely and grow your capital. We will help you care for an additional pension for your employees. In turn, thanks to numerous insurance guarantees we care for the financial security of your company and your business partners.

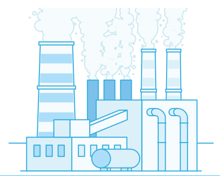
Mutual funds

- PZU FIO Ochrony Majątku [PZU FIO Wealth Protection]
- PZU Oszczędnościowy [PZU Savings]
- PZU SEJF+



Financial insurance and guarantees

- Contractual guarantees
- Environment guarantee
- Deposit guarantee



Pension plans

- Employee pension plan (EPP)
- Employee capital scheme (ECS)
- Group Pension Plan

In Poland, claims and benefits handling is carried out in competence centers operating across the country. It is founded predominantly on electronic information and is not tied to the insured's place of residence or the insurable event. The competence centers handle specific types of damage, which is conducive to stricter specialization and boosts client satisfaction. These units specialize, without limitation, in handling claims arising from property, motor or personal damage, claims reported by corporate clients, benefits, damage involving in the theft of personal vehicles or claims handled as part of the direct claims handling (DCH) service. A separate unit deals with technical issues related to claims arising from motor or property damage. A similar claims handling model is in place at PZU Estonia where there are 3 competence centers. Centralized among them is only the handling of certain types of damage, such as personal injuries, large property damages and marine damages. In other Group companies operating in the Baltic states and Ukraine, the claims and benefits handling process is entirely centralized.

PZU has a Relationship Manager who stays in contact with the injured party for the duration of the claims handling process. That person's assignment is not only to collect the documents needed to take a position on the claim in question, but also to convey information to clients about the stage of service.

PZU has accelerated the process of determining the amount of damages by introducing new forms of determining the extent of a loss. On top of conducting a vehicle inspection in a fixed inspection point, through a Mobile Motor Expert in a venue chosen by a client or in a Repair Network workshop, the quantum of the loss may be determined under a simplified service procedure (without conducting a vehicle inspection), self-service (calculation of the amount of the loss on your own) or video inspection (using an app to determine the amount of the loss). A Video Inspection is an option offered to clients as of April 2018 as an alternative form of conducting an inspection of vehicles and other damaged items and determining the amount of the benefit due in claims handled under motor and property insurance. PZU is recording greater and greater interest among clients in this form of determining the amount of the loss.

How to report a claim?

	Poland	Baltic states	Ukraine
Internet form	✓ https://zgloszenie.pzu.pl/	✓	
Hotline	✓ 801 102 102 22 566 55 55	✓	✓
Text message	✓ with the content CLAIM to the number 4102 – we will call you back and accept your notification		
In person in a branch	✓	✓	✓
In a workshop belonging to the company's repair network (motor claims)	✓	✓	✓
In a mobile office	✓		
By conventional post, electronic mail or fax	✓ e-mail to kontakt@pzu.pl	✓	✓

To meet client expectations PZU supports handling the entire claims handling process with the use of a smart phone. With a smart phone injured parties may report a loss, summon Assistance on the roadside or from home, initiate the repair process in a Repair Network workshop, conduct a video inspection and determine the amount of the loss. Only the final stage in the claims handling process, i.e. determining the amount of the indemnity and disbursement belongs to PZU in this process.

In 2018 PZU modified and simplified the form for clients to initiate claims self-service rolled out in 2017. Presently, the claims self-service is triggered at the time of reporting a claim. In accident insurance claims or benefits, the client may freely accept or reject the proposed amount of the benefit. In motor and property damage and in centers repairing devices damaged by a power surge, the client may also, prior to making a decision, assess on his or her own in a few steps the amount of indemnification payable. This information is then forwarded online to the Relationship Manager who executes the payment. This service allows clients to participate in the payout decision in a simple and convenient manner and accelerates the process itself by reducing the waiting time for the disbursement of the benefit. Satisfaction surveys carried out among PZU clients reveal the fact that insureds are of a very favorable opinion about this service. PZU companies in the Baltic States are rolling out similar improvements.

On top of accelerating the process of determining the amount of the loss PZU has undertaken efforts to speed up the payment of the indemnity by introducing robotics elements at the stage of summarizing the claims notification and making the claims decision. Robotics are used in specific types of claims.

PZU was the pioneer in DCH (Direct Claims Handling) on the Polish insurance market. Currently, DCH is executed in two forms: at an individual level or under the agreement worked out by PIU. DCH is offered by entities accounting for nearly 70% of the motor TPL insurance market, as measured by gross written premium. The said agreement, which is based on a lump-sum approach, has dramatically simplified the settlement of claim payments between insurers. PZU also maintained its own DCH solution previously introduced for clients injured by insureds in establishments that did not sign the agreement. In Estonia, direct claims handling has been regulated by the provisions of the TPL Insurance Act since the beginning of 2015. In turn, clients in Latvia who wish to take advantage of DCH must purchase a rider on their insurance.

PZU has built the largest network of centers in Poland that arrange replacement vehicle rental services and roadside assistance services. A network of centers offering these services is also being developed in the Baltic States. Currently, clients of Lietuvos Draudimas in Lithuania and the Lietuvos Draudimas branch in Estonia may benefit from replacement vehicle rental services and roadside assistance services. Moreover, since 2015, Lietuvos Draudimas as the only insurer in Lithuania has been arranging such services for holders of TPL insurance.

2018 was another year of cooperation with repair shops in the area of post-accident vehicle repairs in countries covered by the PZU Group's insurance business. PZU has created Poland's largest network of cooperating repair shops enabling the Company to control the quality and speed of service already at the claim handling stage. Every client who orders a repair in the PZU Pomoc repair network receives a Quality Certificate guaranteeing that the repair has been performed in accordance with the highest standards. PZU is refining its proposal to assist clients in managing damage remains by selling them on the Online Assistance platform. Clients are presented with a proposal to sell their damage remains for the highest purchase offer obtained from reliable entities that cooperate regularly with the platform administrator (a similar solution is also available to clients of the Estonian Lietuvos Draudimas branch).

PZU keeps working on improving communication with its clients. Traditional letters are being replaced by electronic and telephone forms of contact. Moreover, efforts are being made to adapt all communication, e-mails and text messages for clients to the principles of a simple language so that the information provided to the clients is clear and comprehensible.

Visualizing distinct case handling stages in the form of an Online Case/Claim Status report available to the Group's clients in Poland is a great convenience to clients. By logging into the www.pzu.pl website and stating the claim/case number, clients may find out in exactly how many steps PZU will carry out the claim handling process, what it will involve, what the current stage of the case is and what has already been done. Also available on www.pzu.pl are video tips on how to handle the claim online. Short videos featuring PZU employees explain to clients how to report a case in a few simple steps and then how to check the status of the case or how to take advantage of the accident insurance policy in case of an accident.

An unrivaled solution supporting the handling of personal injuries under TPL insurance is the group of Organizers of Assistance for Accident Victims. These are mobile members of staff who visit accident victims directly in their homes to determine the actual standard of living of the victim and in consultation with the victim assess his/her needs arising from the accident for which PZU is liable under TPL insurance. For severely injured accident victims, PZU Client Relationship Managers arrange a broad array of medical, social and occupational rehabilitation and psychological support. Injured parties have the option of obtaining treatment and rehabilitation in medical centers applying modern technologies. Persons who have become disabled as a result of an accident are given advice on how to adapt the closest environment to their needs, how to properly select devices that compensate for dysfunctions and disability and receive support in terms of their return to the open labor market. The most severely injured children are provided with comprehensive and long-term psychological support to mitigate the adverse consequences of post-traumatic stress. PZU Relationship Managers also explain to accident victims the rights they have and what documents they should produce.

Efforts have been continued under the property pre-claims handling procedure introduced in 2017. It entails initiation of contact with a client who has been injured in a chance event, i.e. after a gas explosion. Within the scope of measures taken in this process PZU contacted 65 clients who received a proposal of utilizing assistance services in line with the type of event that had occurred. 12 claims were registered. Each contact generated a positive client response. Pre-service garnered special recognition in the contact center industry – this project won the Golden Handset 2018 prize in the competition organized by the Polish Marketing Association under the category of Excellent Client Communication.

In 2018 PZU invested in new drone technology entailing visual material processing. A professional DIJ Matrice 200 drone, a training drone and drone flight simulators were purchased. Presently, 6 people in PZU hold UAVO certification (Unmanned Aerial Vehicle Operator) issued by the Civilian Aviation Authority (CAA). These certificates are issued after passing a state examination preceded by specialist training. PZU's aviation personnel is doing additional training using sophisticated simulators. The first aviation missions using a drone outfitted with photo/video and infrared cameras are slated to take place in the spring of 2019. Ultimately, drones will be employed to obtain photo and video documentation regarding property claims. Generating 3D models will facilitate more extensive analysis of the site and object of the claim. This will be a big step on the path to further optimization of the processes to ascertain the causes and scopes of claims, especially catastrophic claims, or of large magnitude in buildings, structures, industrial facilities and power lines.

For several years PZU has been analyzing the options for utilizing aviation and satellite photos in the claims handling process regarding crops. The remote sensing method was implemented in the spring of 2018 for practical claims handling regarding the consequences of severe ground frost. Remote sensing makes it possible to obtain information concerning facilities or areas from a distance (remotely), most frequently by using sensors installed on aircraft or satellites facilitating the measurement of reflected and emitted radiation. The Normalized Difference Vegetation Index, or NDVI is a highly popular and effective method used in agriculture. It uses the measurement of reflected light in the near-infrared spectrum and its absorption in the red channel. NDVI is correlated with the biological processes taking place in plants whereby it is possible to define its developmental state and condition. This information is widely used to forecast crop yields.

Handling claims caused by the consequences of severe ground frost involves a determination of whether the damaged plantation has a minimal proliferation of plants guaranteeing a crop yield at an economically justified level.

The claims handling methodology devised by PZU's employees in the spring of 2018 based on remote sensor imaging was used in claims handling on area of approximately 10 thousand square kilometers. The second phase of the measures undertaken in 2018 concerned underwriting the risk related to entering into insurance for the damages caused by the effects of severe ground frost. This phase was conducted in the autumn and pertained to an area of approximately 17 thousand square kilometers. The major advantage given by remote sensor methods is the sourcing of data for the entire are of the insured crops. The remote sensor method features objectivity and makes it possible to source the data required to calculate the indemnity quickly for a large geographical area. PZU is working on utilizing satellite pictures in crop claims handling processes. This methodology is subject to constant improvements and there are plans to utilize it on a broader scale.

In 2018 innovative solutions in property claims were implemented. Jointly with the Allegro brand PZU has given clients who hold insurance for the contents of their homes an offer whereby they can replace their television set with a new receiver if it is damaged as a result of a power surge. The details of this process were prepared in such a way so that the client's participation in the actions related to claims handling would be curtailed to a minimum, i.e. reporting the event and selecting an offer for the delivery of a new device from among the several offers proposed by Allegro. The chief objective was to minimize the severity of the loss sustained by clients so that they can enjoy the usage of a new receiver as soon as possible. These efforts have been met with interest and a positive reception among clients.

The Service Scenario for Property Claims is another innovative solution PZU introduced in 2018. In the handling of water damage claims under PZU Dom insurance clients have the option to obtain PZU's assistance in finding a craftsman who will proceed to repair the client's loss within several days. This means that clients do not have to rifle through announcements to find a suitable craftsman. PZU is the one responsible for designating a Repair Shop and will pay for the costs of renovation and construction work. It is purely a voluntary decision to take advantage of the Service Scenario for Property Claims. In every situation clients may select the conventional method of claims handling and receive the indemnity on the bank account they designate. At the same time, using this innovative solution to repair a loss to a structure does not suspend the payout of the indemnity due for household contents and other insured objects.

An invariably significant area of operation in claims and benefits handling is the prevention of insurance fraud. PZU constantly improves solutions to curtail the payment of undue benefits, hinder practices of clients counterfeiting documentation filed during the submission of a claim or statements regarding their health status and purport to simplify many processes. In 2018 support was extended to identify undue payments of claims and benefits by incorporating a Fraud Management System (FMS) when examining non-life insurance claims. Contracts were signed to procure services involving the audit of electronic registers of post-accident vehicle traction and sourcing documents and information from international entities.

Innovations

Laboratorium Innowacji

Innovations, digitalization and development of new technologies are processes that have been in progress for years in all the sectors of the economy. By rolling out many new solutions companies are gaining an ability to transform their strategy, business model and client, partner and employee experience. PZU grasps how new technologies are changing the insurance industry. In recent years, the PZU Group has been very active in implementing innovative solutions. Activities in this area are supported by the Innovation Laboratory – a unit created with a view to verifying the latest technological trends and testing new solutions across the organization. Modern solutions are being created both internally and in cooperation with the best start-up companies in the respective fields. The first projects have already been distinguished in domestic and international competitions (e.g. the Insurance Innovation of the Month prize and the Innovation in Insurance 2018 prize conferred by EFMA, an international organization, for the I Sign project, the Golden Handset prize for the Pre-Service project and the distinction in a competition organized by The Digital Insurer for the PZU GO project).

Innovative solutions are also collected internally using the Idea Generator, a portal to administer competitions and share inspirations among employees. In 2018, more than 300 ideas were submitted under 4 competitions.

In November 2018, the first year passed since the time when the PZU Management Board adopted the Innovation Strategy developed by the Innovation Laboratory. Its purpose is to help pursue the PZU Group's mission and strategy and maintain the high level of competitiveness in the new technological environment. The Strategy points to three specific areas in which PZU should be especially active while seeking innovation: the use of Big Data, digitalization and new interactions with clients. The designated areas ascribed the direction to be taken by 15 pilot projects organized in cooperation with the Innovation Laboratory, the relevant business departments and IT. They made it possible to vet the ideas and prepare the first implementations, i.e.:

- PZU GO – the first telematic solution of its type in Europe whose purpose is to enhance drivers' safety. A mobile app combined with a small beacon device makes it possible to place a call automatically for assistance in the event of a collision or accident;
- Data Lab - PZU Group's analytical environment to experiment using large data files, fast design and testing of analytical hypotheses in cooperation with business and IT.
- Artificial Intelligence in Claims Handling - using solutions predicated on Artificial Intelligence technology in processes involving claims and benefits handling;
- Pre-Claims Handling Service - process involving PZU making initial contact with an injured party, even before that party reports a claim. This project applies to property claims and it aims to improve satisfaction with client service and augment the insurer's proactive client-centric and modern image;
- Semantic analysis of documentation - utilization of a sophisticated analysis of semantic expressions to extract information from scans of documents.

In 2018 PZU started to collaborate with two startup accelerators: MIT Enterprise Forum Poland and Alior Bank (RBL_Start). The former one looked for solutions related to 3 key areas specified in PZU's strategy. The latter one focused on open banking and the PSD2 Directive, i.e. Payment Services Directive 2 (Directive of the European Parliament and of the Council (EU) on payment services in the internal market) SECTION 5.4 BANKING. The solutions put forward under these programs enjoyed interest from selected business areas and some of them are already undergoing tests in the organization. Having noted the initial editions' satisfactory results the decision was made to continue cooperation with accelerator programs for startups.

In 2018 PZU continued working on the moje.pzu.pl service, a self-service platform for retail clients. This platform is constantly refining the scope of its functionalities and the services available there. In November 2018 a landmark implementation transpired in the project: two services operating separately were merged and new elements were appended: presentation of renewal offers (also including ones prepared by an agent), fast track to purchase PZU Dom insurance, medical background information to make a preliminary online diagnosis of someone's state of health, purchase of a doctor's visit / test from outside the scope of insurance for yourself and your family members and the availability of an investment offer on inPZU.pl.

LINK4

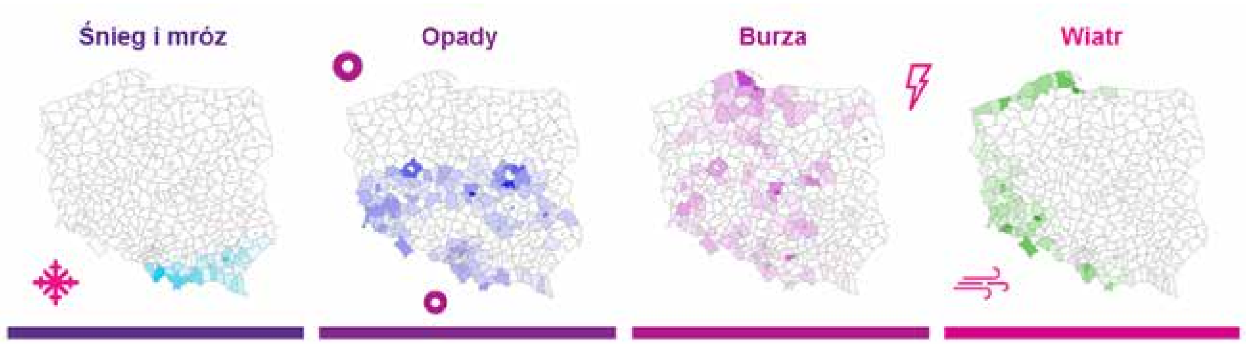
Link4 is the Group brand that has long been known for its innovative approach to motor insurance. On the Polish market the Company is running a number of innovative projects to distinguish the company and position it among the top modern and digital insurers.

In 2018 one of the main innovative projects in Link4 was the deployment of Robotic Process Automation, i.e. RPA technology. This solution imitates human work and is capable in simple tasks of fully assisting employees in their daily tasks. That means employees can do more interesting and more development-focused tasks offering greater business value to the company.

The company's culture of innovation is an extremely important aspect that forges the generation of new and interesting projects and ideas. In mid 2018 Link4 held its first internal conference entitled Link4Future addressed to all its employees. The purpose of this conference was to show and familiarize employees with the most fascinating trends, events and technologies from around the world, especially from non-insurance industries. Keynote speakers from outside Link4 were invited to attend the conference. The event's success and its positive reception among employees led to writing this event into the company's event calendar on a permanent basis.

The company employs telematic solutions to enhance safety on Polish roads. For every motor policy purchased, it offers a free NaviExpert navigation service to its clients whereby it analyzes a driver's driving style. Another year of the functioning of the telematic program called "Cash Back" made it possible to improve analytical algorithms and the mechanics used to reward drivers. Link4 rewards people whose driving style it considers to be smooth and safe – the reward is in the form of Polish zloty accumulated on a client's account. At the end of the policy term drivers can receive a payout of this amount or apply it to lower the premium for a new policy. In 2018 safe drivers collected a total of more than PLN 1 million while the person who broke all records obtained a refund of PLN 1,200. In addition, the program's highly pronounced impact on renewal of policies is observable. The renewal rate is several times higher than among portfolio clients who do not have the telematic program.

Areas to which alerts were most frequently directed in 2018 broken down by weather phenomena



In conjunction with the stronger presence of meteorological phenomena (such as wind storms, tornadoes, torrential rain, storms and blizzards), Link4 and Skywarn Poland - Polish Storm Hunters have given clients holding real estate insurance access to a weather alert system. In the event of expected sudden and severe weather phenomena clients receive a text message containing a warning and a website link where they can read about how to protect themselves against the adverse consequences of various weather events. The reception of this service has been positive with fewer than 1% of clients discontinuing it has inclined the firm to make this service available in 2019 to motor insurance clients. Weather warnings taken into account when planning a car trip may exert a measurable contribution to enhancing road safety and reducing the number of accidents.

To track on a continual basis trends, changes and new developments in innovation Link4 constantly cooperates with trend watchers and the startup community. In 2018 Link4 partnered with the insurtech path in the accelerator program organized by MIT Enterprise Forum Poland. After the program ended the company began to cooperate with two startups through pilot projects.

In Q4 2018 Link4 introduced new payment solutions. It deployed two innovative payment solutions on the insurance market. Clients can use their card to remit payment in the agency channel by using the Tubapay solution. In turn, at the end of the year, the BLIK payment system, which has been attracting more and more users was added to the possible forms of payment.

PZU LAB

The PZU Group has the potential of creating innovations also for the industry. The activities in this respect are conducted under the PZU LAB brand. The Company has been consistently executing the Group's strategy, delivering innovative solutions and supporting corporate clients in optimizing risk in their business.

PZU LAB engineers cooperate with clients at all stages of their operations and offer a broad range of solutions and consulting and training services and services based on innovative technologies, custom-made to the enterprise's individual needs. The Company supports clients in the area of safe enterprise management, reduction of financial losses associated with contingencies and stoppages, and building the reputation of a trusted partner in the local and international market.

PZU LAB cooperates with university centers, state institutions and engineering offices within the framework of partner groups and research councils.

From the beginning of the company's operations, PZU LAB experts have helped over 200 clients to mitigate risks associated with their business, implementing, among others, such projects as self-learning company, anti-drone, artificial intelligence and enterprise safety tool (ESTools).

The ESTools system, developed by PZU LAB together with its technological partner F@BE (FABE Safety Factory) under an acceleration program, serves to increase and maintain safety in industrial plants using modern technical measures and organization management methods. The system supports ongoing control of insurance audit orders. Installed in the insured enterprises, it ensures control scheduling and configuration of execution requirements (including a list of controlled elements and the methods of control of individual element types). The control comprises measurements, tests and inspections, as well as verification of correctness of fulfillment of organizational requirements. Each control is planned, executed and evidenced using GNSS (Global Navigation Satellite Systems). The system has implemented functions for mapping the course of the route planned in the map of the analyzed area, spatial and temporal location of the user and the controlled infrastructure (RFID (Radio-frequency identification) support), spatial and temporal location of the measurements and time synchronization.

The key benefits from the deployment of the system include: significant improvement of compliance with the qualitative or procedural recommendations and the quality and speed of the remedial decisions made, prevention of degradation of the facility's safety layers, and thus reduction of the risk of catastrophes which may cause serious human injuries, serious damage to buildings, machinery and materials or serious environmental damage, not to mention the damage to the image, as well as obtaining access to audit data and tools for analyzing them.

Artificial intelligence solutions implemented by PZU LAB used for failure prediction are another example of risk management innovations. They make it possible to detect irregularities in the operation of machines, going back as much as tens of hours earlier than the existing systems. This has paramount importance especially for complicated industrial installations (such as, for example, turbines) because it makes it possible to avoid damages and losses in the range of tens of millions of zlotys.

PZU LAB has highly qualified engineering staff in the area of thermovisual measurements, holding the international ITC Level 1 (Infrared Training Center) certificate. Thermovisual measurements are performed by practitioner engineers with established theoretical background in infrared measurement techniques. PZU LAB engineers also have industry-specific expertise regarding operation and measurement of power facilities and mechanical systems. Based on the audit, the client receives a thermovisual report accompanied by thermograms. Each identified defect or thermal anomaly has its description and status classified according to a simple and legible scale. The status provides information about the severity of the defect. Thermovision is a tool for managing risk in the enterprise.

One of the latest PZU LAB initiatives is a study program entitled "Risk management in the enterprise in the insurance aspect" launched in September 2018 together with the Business School of the Warsaw University of Technology. During studies, risk managers in a business, agents, brokers and students have an opportunity to absorb a huge amount of practical knowledge on risk management, the role of insurance and deployment of state-of-the-art technologies. Lectures and case studies are presented by outstanding professionals combining theory with practice, who on a daily basis work on the point of contact of the world science, business, institutions and engineering offices. During the classes, also PZU LAB experts share their expertise on risk assessment and optimization in industry.

On 1 October 2018, in Gietrzwałd, the PZU LAB Day was held – an event devoted to safety management in business, where PZU LAB not only talked about but also showed how to efficiently manage risk in enterprises. The conference was attended by representatives of companies from a number of industries, including the power, fuel and mining industry, who work on a daily basis with the corporate client division of PZU, PZU LAB and TUW PZUW. Demonstrations of practical solutions for the industry, organized outside the lecture room, in the form of live shows, were an interesting element of the event.

Conference participants had the opportunity to see how safe and effective water mist can be in extinguishing fires. In some cases, water only intensifies the fire and causes huge damage due to flooding. Often as much as 80% of the fire damage is caused not by fire but by the water used to extinguish it. Participants found out that even more damage can be caused by the use of powder fire extinguishers used in each office. As a result of their use, electronic equipment within the radius of 10 meters is no good for use. Apart from that, the powder has very corrosive properties, which contributes to additional damage. Water mist not only extinguishes fire effectively and quickly, but practically does not cause any additional damage.

The guests were even more interested in the demonstration of the possibilities of a professional film drone, the demonstrations of Eagles FPV sports drones and the Ctrl+Sky anti-drone system presented by PZU LAB's technological partner, Advanced Protection Systems. The guests could see live on the screens how the system detects and tracks flying objects which entered the facility uninvited. Everyone could see the specialized equipment and the mini command center located in a site vehicle used to control and neutralize threats.

During the conference a strategic cybersecurity cooperation agreement between PZU LAB and NASK SA was signed. Its aim is to ensure cooperation on improvement of security of the Polish industry's IT infrastructure. Clients will receive not only support in enterprise risk management and adaptation of the security levels to the requirements of insurance and financial institutions in Poland and abroad, but also comprehensive technological support in designing and implementing state-of-the-art technological solutions in the area of IT/OT system cybersecurity.

5.3 Health

The Health Area has become an integral part of PZU Group's business model in 2014. Currently, the operations associated with development of medical services are one of the most important growth areas of the PZU Group. At the end of 2018, the Group had 2.3 million in-force health contracts. This is a 52% increase in relation to 2017. In 2020 the health business is expected to generate PLN 1 billion in revenues.

The operating model in the Health Area supplements and expands PZU's insurance offering. Two complementary types of activities are conducted:

- sale of health products in the form of insurance and sale of non-insurance products (occupational medicine, medical subscriptions, partnerships and prevention programs);
- development of the medical infrastructure in Poland to ensure the best accessibility of provided medical services.

Clients and products

In the Health Area the PZU Group offers a broad range of health products adapted to the segment's and clients' needs:

Corporate client segment (life and health insurance) – the sales of group life and health insurance constitute the basis for the business operations of the PZU Group's Health Area. The offering is addressed to corporate clients and the SME and micro business segments. Employers may purchase insurance in the sponsored or co-financed model, or negotiate a group offer for their employees.

Mass insurance segment (health, non-life insurance) – mass clients buying non-life policies are offered additional health insurance of assistance nature, ensuring access to specific medical services if an event under the basic policy occurs.

Retail client segment (life and non-life health insurance) – retail clients are provided with health care in the form of individual continuation or rider to life insurance.

Non-insurance products – PZU Zdrowie as a medical operator offers health services to individual clients using proprietary clinics and corporate clients seeking an alternative for products in the form of insurance.

Distribution channels

Health products – in the form of life and health and property insurance and non-insurance products – benefit from synergies within the PZU Group and are distributed through virtually all sales channels, however based on the corporate and agency chain of PZU and PZU Życie.

Your health and employee health

We cover your health and the health of your relatives. We help you when you have an accident or fall ill. Thanks to our offering, being an employer, you can provide your employees, e.g. with life protection and medical care.

Health protection

We provide help in the case of an illness and serious health problems. We offer, among other things, financial support, subsidy to purchase of medicines and access to private medical care.

- Support in the case of hospital treatment after an accident or illness
- Support in the case of cancer or critical illness – PZU Pomoc od Serca [PZU Help for Your Heart]
- Medical care in the case of critical illness – PZU z Miłości do Zdrowia [PZU out of Love for Health]

Daily medical care

With us you will take care of your health using the services of private medical centers. We provide doctor consultations, diagnostic tests, outpatient procedures and rehabilitation.

- Medical care in the case of an accident, illness and for everyday needs
- Prophylactics for everyone
- PZU Plan na Zdrowie [PZU Plan for Health]

Employee health

People are the most important asset in the company. Thanks to our offering, you can provide your employees e.g. with life cover, medical care and subsidy to purchase of prescribed medicines.

- PZU Medycyna Pracy [PZU Occupational Medicine]
- PZU Strefy Zdrowia [PZU Health Zones]
- PZU w Szpitalu [PZU in the Hospital]
- PZU u Lekarza [PZU at the Doctor's]
- PZU w Aptece [PZU at the Pharmacy]

Distribution channels

	Group insurance	Mass insurance	Individual insurance	Non-insurance products
Corporate sales	✓	✓		
Tied agents	✓	✓	✓	
Multi-agencies/ Brokers/Dealers	✓	✓	✓	
Branch	✓	✓	✓	
Direct (mailing)				✓
Strategic partners		✓		✓
PZU Zdrowie employees (corporate network and outlets)				✓

Medical infrastructure

PZU Zdrowie cooperates with more than 2,100 partner centers in more than 500 towns and cities in Poland.

At the same time, it has been consistently developing its own network of over 60 medical centers, among others in Warsaw, Gdańsk, Poznań, Katowice, Częstochowa, Radom, Płock and Opole, which in aggregate employ more than 1,300 physicians. Initially, it was created by acquiring local healthcare service providers with extensive experience and a good reputation in the medical community. Currently, PZU Zdrowie is expanding the scope of its operations through acquisitions and, in parallel, through building greenfield medical centers, which makes it easier for the company to usher in uniform standards in terms of equipment and patient service in such facilities.

In 2018, 3 new PZU Zdrowie medical centers were opened – in Warsaw at ul. Puławska 145, in Kraków at ul. Kotlarska 11 and in Poznań at ul. Grunwaldzka 184. These centers, situated in excellent locations, were built on a greenfield basis with interior design consistent with the latest visual identity standards of the PZU Zdrowie brand. Furthermore, the Gdańsk branch located at ul. Abrahama 1A was expanded also in accordance with the new standards. The newly opened medical centers have a multi-specialization profile, to enable both patients benefiting from the medical care offered by PZU Zdrowie and patients who use the services rendered in these centers on an ad hoc basis to be provided with the necessary medical assistance. An important issue is the location of these centers – they have been built in modern buildings easily accessible by public transport.

In the beginning od 2018 PZU Zdrowie aquired shares of CM Św. Łukasz in Częstochowa. At the turn of 2018 and 2019, two mergers were finalized – in Oświęcim (Multimed, acquired by Elvita) and in Tarnów (Alergo-Med, acquired by PZU Zdrowie), in both cases leading providers of private medical care. Through these acquisitions, PZU Zdrowie expanded its own network of medical centers in the Małopolska region.

Extensive medical infrastructure guarantees quick appointments; in the case of basic medical care, an appointment is offered within a maximum of 2 business days, and in the case of specialists within a maximum of 5 business days.

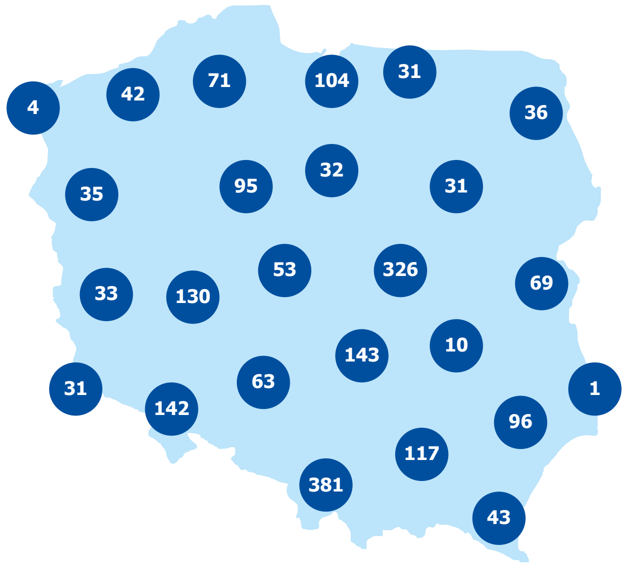
Contact channels

A patient can make a doctor's appointment or an appointment for any other medical service provided by PZU Zdrowie through multiple contact channels:

- self-service website mojePZU [myPZU] with access to the calendar of appointments of each center;
- 24/7 hotline;
- appointment scheduling form on pzu.pl;
- text message to make an appointment;
- PZU mobile application (available from App Store and Google Play);
- phone call order form on pzu.pl.

Development of the scale of operations of PZU Zdrowie

Find a medical center



Innovations

In 2018, PZU Zdrowie either started or continued the execution of the following IT projects aimed at improving its customer service:

- mojePZU [myPZU] – a self-service website of the PZU Group offering healthcare functionalities, enabling the holder of health products to:
  - make or cancel an appointment over the Internet;
  - see which centers cooperate with PZU;
  - check the list of past and upcoming appointments;
  - verify if a specific medical service is covered by the user's insurance;
  - obtain advice on how to prepare for an examination.
- Olimp [Olympus] – PZU Zdrowie's website assisting employers in handling various matters related to occupational medicine services, for example by:
  - monitoring expiration dates of employees' medical examinations;
  - enabling the creation of a referral for an examination with "one click";
  - enabling the PZU Hotline to contact the employee with sufficient advance notice to remind him/her about an upcoming examination;
  - providing the PZU Hotline with the referral form to facilitate the conversation with the employee and schedule his/her examinations;

Contact channels

24/7 call centre 801 405 905	Application form of appointment on pzu.pl	Application form of request phone calling from pzu.pl	Mobile application PZU Pomoc	SMS with text: „WIZYTA" for 4102

Facilities for patients

- We guarantee short waiting times for medical appointments – our availability deadlines are stated in the general terms and conditions of insurance (2 business days for a primary care physician, 5 business days for a specialist physician);
- Our patients can benefit from services throughout Poland – our partner network covers over 500 towns and cities and we keep developing our own network of more than 60 centers;
- We provide remote medical care – our patients can use a phone, chat or video chat to consult specialist physicians of over a dozen medical fields. During remote consultation, patients may discuss their ailments, test results and receive prescriptions for medicines taken permanently as well as obtain referrals for examinations;
- Patient's path – the purpose of the platform is to conduct a patient check-up, which is very similar to when a physician conducts an examination, followed by presenting the most probable solution and defining the next steps. This may be phone consultation, video consultation or a chat with a doctor or a visit in a clinic to a specific specialist. However in many cases such a discussion with a patient may end with an advice or a prescription sent without any need to leave home;
- We do not require referrals to visit specialist physicians and we also honor referrals from physicians from outside our network;
- We also allow our patients to get treatment from doctors from outside our network: through the reimbursement option clients may use medical services included in the coverage outside of our network.

- creating a list of things to do related to ongoing handling of occupational medicine services and sending reminders by e-mail;
- enabling the handling of several companies from the same capital group.
- Communications broker – a project integrating the calendars of partner network centers and own network centers, facilitating the process of scheduling appointments and the provision of medical services.

5.4 Banking and strategic partnerships

A major element of the PZU Group's business model is the banking business. The tightening of cooperation with the banks within the PZU Group (with Alior Bank and Bank Pekao acquired by the Group in 2015 and 2017, respectively) has opened up tremendous growth opportunities, especially in terms of integrating and focusing 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. Its ambitious targets entail the sales of insurance to the clients of Bank Pekao and Alior Bank as well as PZU bringing insurance clients as new clients to these banks.

A comprehensive offering of financial services will help reach the client through all channels. This should considerably ramp up the number of products per client while making a material contribution to grow new sales. The PZU Group assumes that in 2020 it will collect PLN 1 billion of additional written premium from cooperation with the banks and that the banks themselves will acquire 1 million of the Group's insurance clients. Significant savings will also be generated owing to synergies in the areas of procurement, IT and real estate within the Group. It is expected that costs will be cut by PLN 100 million by 2020. SECTION 4. STRATEGY

In 2018 an important decision was made concerning the model of cooperation between Bank Pekao and Alior Bank within the PZU Group. On 23 October 2017, at their own initiative, Bank Pekao and Alior Bank signed a letter of intent to commence preliminary talks on potential cooperation strategies that might be developed to increase their value for shareholders and clients. Following the analyses performed by both banks, the option of a merger between Alior Bank and Bank Pekao (under which Alior Bank's shareholders would obtain shares of the merged bank) was considered to be an opportunity for generating potentially the greatest added value to shareholders. Accordingly, negotiations were commenced to select of the optimal form for the merger between Alior Bank and Bank Pekao. Finally, on 7 August 2018, the banks decided to wrap up their analyses and negotiations on a possible merger. According to the banks' final decision, it will be more beneficial from the shareholders' point of view for the banks to keep operating as separate entities and cooperate with each other as members of the PZU Group in order to fully tap into the potential of the largest financial group in Central and Eastern Europe.

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

The first results of this cooperation are as follows:

- in the bancassurance area, PZU's insurance of real properties owned by mortgage borrowers has been introduced for both Pekao's and Alior Bank's clients. Moreover, Pekao's clients may avail themselves of the insurance for buildings and residential units prepared by PZU. In addition to the standard insurance for real estate that can form collateral for the debts of the bank's borrowers, clients can choose from additional bundles spanning insurance for their household personal property, assistance and third party liability. Pekao also made available an option to buy voluntary PZU CPI insurance (loan repayment insurance) offered in conjunction with a loan application during the "one click" process in the Pekao24 system, while Alior Bank rolled out life insurance with PZU Życie for cash loan borrowers. The PZU Wojażer travel insurance is being offered by both banks in the remote channel. Moreover, Pekao's offering includes group insurance PZU-TRAVEL BUNDLE – BUSINESS for users of business payment cards issued by Pekao;
- In assurbanking, PZU supports the sales of a Pekao account in tens of its branches, while it launched a pilot project in 3 branches on 5 March 2018 where PZU employees are actively offering the Bank's Przekorzystne Konto (Mega Beneficial Account). The disbursement of benefits to PZU clients in Pekao's Branches (auto-disbursement) was also deployed;
- As part of the companies' cooperation, insurance programs were launched for the banks' employees and special offers on bank products for the employees of PZU Group companies; in Pekao training was delivered to 6.7 thousand branch employees who obtained a license from KNF to sell PZU insurance;
- operational synergies include cost synergies in IT, administration and security, which translate into a real impact on the costs of PZU and Bank Pekao. In 2018, the realized cost synergies reached the amount of PLN 40 million.

Insurance for individual customers of Bank Pekao

Are you an Express Loan (PEX) Borrower? We will help you in situations such as loss of a job, serious illness or hospitalization due to an accident, and we will pay out the money to your nominated beneficiaries in the event of your death. If you are a customer of Bank Pekao, you can also insure your home or apartment.

Insurance for individual customers of Alior Bank

Are you a loan or mortgage loan borrower? We can help you in many unexpected situations that may happen at home (e.g. theft with burglary, water or electricity installation breakdown). Are you a consolidation loan or cash loan borrower? Our insurance will secure the repayment of your financial liabilities, should an accident leave you unable to live independently.

As a leader of the Polish financial market, with immense potential to create innovative solutions for business, the PZU Group actively promotes Polish economy abroad. PZU and Bank Pekao cooperate regularly at such events as #PolandCanDoNation as well as promotion of Poland during the World's Economic Forum in Davos.

On 4 October 2018 in New York, under the PZU initiative #PolandCanDoNation, one of the biggest meetings took place, bringing together the leaders of Polish economy and representatives of American business. Several dozens of CEOs from the most important Polish companies took part in the events. Polish Prime Minister was the guest of honor.

The September promotion into the prestigious group of developed markets, as well as the centenary of regaining independence created a context for conversations about Poland's prospects, as well as the intellectual and economic potential of Polish people and companies. Those conversations culminated in the debate "From Developing to Developed – A Macroeconomic Perspective", organized with the Reuters press agency and Boston Consulting Group.

The #PolandCanDoNation campaign, designed to promote Poland and initiated by PZU with a meeting of Polish and American business in New York, was continued in the form of a Polish Home at the World's Economic Forum in Davos. It was a result of joint actions of PZU and Bank Pekao. Throughout the duration of the Forum - which is one of the most important meetings of the world's business, the Polish Home was a venue of debates, presentations and conferences devoted to global issues and Polish economy. Our guests discussed global trends, such as the industrial revolution 4.0, biotechnology or artificial intelligence. It was also a place of meetings with clients and mutual funds interested in increasing their exposure to Poland. The Polish Home was created for the first time in the history of the World's Economic Forum in Davos and was open to visitors from 21 to 25 January 2019.

The World's Economic Forum is attended by the majority of presidents and prime ministers representing G7 and G20, i.e. the groups of the most developed countries and the biggest economies in the world. The 2019 World's Economic Forum in Davos hosted representatives of over 100 governments, representatives of over 3,000 companies, leaders of international organizations, representatives of non-governmental organizations and of science and research from all over the world.

Bank Pekao - clients and products

Bank Pekao

Bank Pekao is one of the largest financial institutions in Central and Eastern Europe. It is a universal commercial bank, the biggest corporate bank and the leader of the private banking segment in Poland. Pekao has over 5 million customers, every second Polish company is a customer of the Bank. The Bank offers all financial services available in Poland to individual and institutional clients. The group comprises over a dozen companies which are national leaders in the area of brokerage services, leasing, factoring, financial investment and transaction advisory services. SECTION 3 OPERATION OF THE PZU GROUP

A broad product offering, innovative solutions and individual approach provide customers with comprehensive financial service. An integrated service model guarantees the highest quality of products and services, as well as their optimum alignment with the changing needs.

The bank's business model is based on a segmentation of clients into the following areas:

- Retail Banking – providing services to individual clients and micro businesses through a leading network of branches and partner outlets, supported by the Bank's remote channels, which are leading in the market;
- Private Banking – providing services to affluent clients and offering investment advisory services in private banking centers and via remote channels. In Q4 of 2018, under organizational changes in the Bank, this function was incorporated into the structures of Retail Banking;
- Banking for Small and Medium Enterprises (SME) - a segment focused on providing services to one of the most rapidly developing sectors of the economy. Clients are serviced by advisors, supported by product specialists. The service is provided in universal retail branches, as well as in specialized Business Customer Centers. Clients are offered professional products and services tailored to their individual needs, based on proven corporate banking product solutions and adapted to the needs of the SME segment;
- Corporate Banking – client segmentation comprises medium-sized and large corporations (segmentation based on revenues), public sector entities, financial institutions and the commercial property finance industry. Clients are serviced by advisors, supported by product specialists, which leads to optimization of the level of services and service costs.

Distribution channels

Pekao's customers can use a developed network of branches and ATMs, which provides convenient access throughout Poland, as well as a professional call center and a competitive Internet banking and mobile banking platform for individual and corporate clients, and for small and micro businesses.

As at the end of December 2018, the bank had 825 own branches and 1,708 own ATMs. With a competitive offer of products and services in the Polish market and a high standard of customer service, the Bank administered 5,949.4 thousand current accounts, 378.0 thousand mortgage loan accounts and 678.1 thousand Express Loan accounts (data as at 31.12.2018).

As from the beginning of 2018, the Bank has consistently pursued a growth strategy in the Small and Medium Enterprise segment. Customer service is provided in specially created dedicated SME Business Centers across Poland, where clients can receive support of qualified Advisors, supported by Product Specialists (in respect of foreign currency transaction services, leasing, factoring or EU funds).

Pekao is one of the leaders in electronic banking in Poland. In its electronic banking operations, the bank offers its customers a full range of solutions such as: web and mobile sites, a mobile app for phones and tablets and PeoPay mobile payments. Since mid-2017, the bank's customers have been able to use Pekao24, a new mobile service for mobile phone browsers, which apart from the design change, friendly navigation and intuitive operation, offers the functions familiar to customers from the mobile app for tablets and the Internet service.

Along with the development of remote channels, the bank also implements a project to increase the efficiency of its traditional retail sales network. In corporate banking, one of the key initiatives is a project geared towards proficient management of relationship value, based on a better understanding of the client's potential and needs, raising the efficiency of the sales network by the way of digitization and automation, as well as optimization of the key processes and activities of the network employees.

In 2018, improvement in the quality of customer service was achieved. According to a Newsweek survey, over the past year the bank rose to become the leader in the "Mortgage Banking" category, and ranked second in the Forbes ranking for the most friendly bank for companies, up from 11. place taken in the previous survey.

Innovations

Innovativeness is one of Pekao's strategic priorities. To this end, the Bank established the Innovation Laboratory, with the objective to create innovative concepts in interdisciplinary teams of the bank's employees, and in cooperation with start-ups and fintech companies. The bank's developments in the area of digital transformation have been noted internationally and rewarded by the EFMA association (The European Financial Management & Marketing Association), which named the PeoPay app the best innovation in the world in the category Phygital Distribution & Experience. The Bank's flagship product was highly praised by international experts, for, inter alia, its multi-functional character - support of multiple currencies, use of biometric data for log-in and transaction authorization, as well as the option to make transactions with one's phone, without the requirement of having a physical card.

PeoPay is state-of-the-art mobile banking, which integrates the services of banking and payments within one app. PeoPay offers innovative solutions, such as the use of touch-id or face-id to authorize transfers and payments, payment for Internet shopping directly in the phone, without the need to log into Internet banking, scanning of account numbers from invoices, without any prior need of inputting the account numbers into the app. The PeoPay app is available for devices with an Android and iOS operating system. The app can be used to pay at over 700 thousand contactless terminals in Poland (NBP data for the end of Q2 2018), which represents nearly 99% of all POSs, and about 6 million terminals worldwide, as well as in most online stores in Poland and in online stores abroad marked with the Apple Pay or Masterpass logo. In 2018, the mobile service and the PeoPay app provided information on the investment account and offered transfers to the client's savings and checking account. Clients also received the function of viewing debit cards issued for the account and managing their settings. The new function allows them to set or change the PIN for the card, activate the card, change transaction limits and temporarily block or suspend the card. In the payment schedule, the bank's clients can easily check the impending payments, such as regular transfers or card repayments, and may use e-mail to contact the bank's relationship managers directly.

Retail clients may also use an innovative mobile app made especially for tablets: "Pekao24 for tablets". In addition to the key transaction functions available in the regular Pekao24 system, the app has been equipped with a financial analysis tool, which makes it easier for clients to review receipts to and expenditures from their accounts. A new, simplified transfer form and an advanced operation history search engine make daily use of a bank account easier. The "Pekao24 for tablets" app is available for devices with an Android and iOS operating system.

The Bank continues to improve its digital solutions dedicated to corporate clients. In 2018, the Open Financing Platform was launched, a unique supplier financing solution that can be used by companies that are the bank's clients, as well as the companies that do not have accounts in Bank Pekao. The bank is also working on further development of the Internet banking platform, PekaoBiznes24.

Alior Bank - clients and products

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. In its operations, Alior Bank combines the principles of traditional banking with innovative solutions and consequently it sets new trends in financial services and consistently strengthens its market position. SECTION 3. OPERATION OF THE PZU GROUP

The bank's operations are conducted by various divisions that offer specific products and services earmarked for specific market segments. Currently, the bank has presence in three industry segments: individual clients (retail segment), business clients (business segment), treasury operations.

At the end of 2018, Alior Bank catered to 4.0 million retail clients. The higher client number in 2018 resulted from the bank's organic growth. Alior Bank provides services predominantly to clients from Poland. The percentage of international clients in the overall number of the bank's clients is negligible.

Alior Bank has a comprehensive and contemporary offer for business clients in all the segments: micro, small and medium and corporates. As at 31 December 2018, the bank serviced more than 192.8 thousand business clients.

Since 2017, the bank has been implementing a project of behavioral segmentation of retail clients, which allows it to target products and services to the appropriate recipients. Behavioral segmentation is applied to the development of the product offering and also to the support given to the sales network. In 2018, the bank continued to implement the strategic segmentation of its clients. It implemented an innovative solution, i.e. customer surveys carried out using Dronna, a speech synthesizer combined with Data Mining models, which enabled telephone contact with 3.5 million clients. The knowledge of customer needs and the focus on segments of strategic importance allowed the bank to implement the new Savings Account quickly and efficiently. In one of the regions, the bank tested the implementation of the Strategic Segmentation in the sales network; after 6 months it contributed to an increase in the sales of checking and saving accounts by 71%.

In addition to behavioral segmentation, the bank divides its retail clients in the following operating segments:

- mass clients (persons whose assets in the bank do not exceed PLN 100 thousand and whose monthly inflows to their personal account are under PLN 10 thousand);
- affluent clients (persons with monthly inflows to their personal accounts exceeding PLN 10 thousand or holding assets worth more than PLN 100 thousand);
- Private Banking clients (persons with assets worth more than PLN 1 million or holding an Elite Account).

This segmentation is reflected in the structure of the sales network, as the sales units are specialized into, respectively: universal branches, premium and mini-premium and Private Banking branches.

Distribution channels

At the end of 2018, Alior Bank had 861 outlets (202 traditional branches, including 8 Private Banking branches, 8 Regional Business Centers and 643 partner outlets). The bank's products were also offered in the chain of 10 Mortgage Centers, 10 cash centers and a network of roughly 5 thousand intermediaries.

Alior Bank also used distribution channels based on a modern IT platform incorporating: online banking, mobile banking and call centers and the DRONN technology. The Bank uses the Internet, including Internet banking, to enter into agreements for: savings and checking accounts, currency accounts, savings accounts, deposits, debit cards and brokerage accounts. These channels are also used to accept applications for credit products: cash loans, credit cards, overdraft limits and mortgage loans. Using the Internet, the bank offers installment loans in an on-line process and offers services of a currency exchange office.

Alior Bank's traditional branches are located throughout Poland, in particular in cities with more than 50 thousand residents, offering the full range of the bank's products and services. Partner outlets on the other hand are located in smaller towns and in selected locations in Poland's major cities, offering a broad range of services and deposit and credit products for retail and business customers.

Cooperation between the bank and its partner outlets is based on an outsourcing agency agreement. Under these agreements, agents provide exclusive agency services to the bank in respect to the distribution of products. These services are provided in locations owned or leased by agents approved by the bank.

The bank's products are also offered in financial intermediary chains, such as Expander, Open Finance, Sales Group, Dom Kredytowy Notus, Fines, DFQS, GTF and others. The range of the bank's products available from financial intermediaries varies depending on the intermediary, however financial intermediaries offer mainly cash loans, consolidation and mortgage loans as well as installment loans.

Sales support in all distribution channels is ensured by operational and analytical Customer Relationship Management (CRM) systems.

Higher culture. Novelty bank.

As one of the first financial start-ups, Alior Bank has an innovation culture in its DNA. The Bank uses cutting-edge technologies to implement processes from various areas in the most effective way possible. Robotization and automation are two of the key assumptions of the "Digital Disruptor" strategy adopted by the bank for 2017-2020. The slogan "Higher culture. The Bank of innovation." emphasizes being open to clients of the era of mobility, and the bank's focus on digital channels and daily banking.

The Alior Bank's new Innovation Management Model supports the use of modern technologies to bridge customer needs with the bank's strategy. This will make life easier for customers while ensuring high profitability for the bank. The model is based on two ecosystems: internal and external. They enable ideas to be retrieved from employees, customers and the fintech sector around the world and turned into innovative solutions for clients. The Bank is introducing a new career path for innovators and crowdsourcing tools to stimulate innovation among employees and open the way towards the use of their ideas in business.

The Bank is an example of an efficient collaboration between a corporation and fintech companies. Together with VoicePin it successfully introduced artificial intelligence which, under the name of DRONN, supports the bank in monitoring its key clients, increased risks, account closing processes or sending of reminders in enforcement seizures. This technology also powers Virtual Advisors supporting remote contact with clients. The system is based on artificial intelligence, biometrics and speech analysis, one of the most advanced generations of robots. It has been designed to carry a casual, logical conversation with clients: respond to answers and ask questions that match them. The Virtual Advisor is used in soft recovery and in marketing research.

In 2018, Alior Bank launched the RBL_START acceleration program. As the program is launched, Alior Bank's new RBL_ brand is introduced. Its purpose is to bring together everything that is innovative, digital and cutting edge. At present, there are two entities operating under the RBL_ brand (which is short for REBEL): RBL_START, an acceleration program for start-ups and RBL_LAB, a laboratory conducting work on technology solutions. RBL_START is an original program of Alior Bank addressed to startups from all over the world, aimed at identification of innovative projects, their development in accordance with business needs and commercialization (both within the bank's own systems and among business partners). The major theme of the first edition of the program, which was held in 2018, was trends in new technologies, with a particular focus on open banking, blockchain and roboadvisory. From among nearly 100 applications, 8 startups were selected for a 15-week acceleration program. For that period, the participants received a solid support from bank mentors and program partners in the area of preparing the cooperation model and potential implementation of the idea at the bank and PZU, which was the major partner of the first edition of RBL_START. In addition, the bank provided the participants with API Sandbox, or a testing environment in which services were exhibited in connection with PSD2 Directive, i.e. Payment Services Directive 2 (Directive of the European Parliament and of the Council (EU) on payment services in the internal market). In the RBL_LAB research lab, prototypes of the solutions developed by the startups were tested with clients to better adjust the target products to users' needs. For the entire period of the program, the startups could also take advantage of the modern RBL space located in the Warsaw Spire building in the center of Warsaw. The effect of the accelerator has taken the form of pilot projects with selected startups in Alior Bank and PZU. One of the successes accompanying the program was Alior Bank's investment in PayPo, a company participating in the accelerator.

PZU has declared that it will continue to cooperate with startups AI Busters and Aazzur. With the first of these, within 'proof of concept', PZU investigates the role of email correspondence in the client service process. In a pilot project, they pay special attention to topic aggregation, message analysis and preparation of suggested answers. In a pilot project with Aazzur, possibilities are studied in the area of generating and presenting a personalized offer of PZU for clients based on their purchasing and financial decisions.

In the course of executing its innovation strategy, in 2018 Alior Bank launched Bancovo, an innovative online loan and credit platform. This is the first such solution in Poland, due to which clients have gained online access to actual offers of numerous banks and loan providers. Bancovo aggregates and presents to a client the most appropriate offers, the most profitable for them, which may be accepted in a fast, simple and secure manner, directly via the Internet. The innovative solutions applied in BANCOVO (big data + self-learning machine learning systems) allow for getting credit and loans online in a simple and friendly manner. Based on UX best practices, provision of data was limited to minimum. Within one minute, the client receives actual offers of banks and loan providers to choose from and due to transparent presentation, the client may select the solution most appropriate for them. An agreement is executed via the Internet, in compliance with the highest security standards. The platform guarantees its Partners a client profile of proper quality due to applied tools, such as prescoring or anti-fraud shield.

Bancovo won in the second edition of the Polish contest entitled 'The Heart Corporate Innovation Awards 2018'[1] in the category of "New Digital Venture", where the jury reviewed applications for new brands or businesses developed by corporations. Alior Bank also found itself among the best in the category "Deal of the Year" for the investment in PayPo, the startup specializing in deferred payments for online purchases.

Alior Bank also won golden prize in the category "Offering Innovation" for Konto Jakże Osobiste [Very Personal Account] in the sixth edition of the EFMA Distribution & Marketing Innovation Awards competition,[2] where innovations were assessed that may constitute added value to traditional banking products. The Very Personal Account is the bank's flagship product in which the clients, choosing from among 10 benefits – services and functionalities, may put up an account as they wish, managing on their own additional benefits to accounts and individually adjusting them to their needs.

Strategic partnerships

Cooperation under a banking model, its strong market position, brand recognition and its strategic objective of creating an ecosystem in which the overriding objective is to manage client relations skillfully by offering clients solutions in all venues accessible to clients will contribute to intensifying activities in strategic partnerships with companies operating on the Polish market.

[1] The Heart is a corporate innovation center, which together with the partners, Mastercard and Ghelamco, once again, in 2019, awarded prizes to the biggest companies which open themselves to innovations most effectively, building partnerships and implementing new technologies.

[2] European Financial Management Association (EFMA) is an organization of banking and insurance professionals, specializing in marketing and distribution of financial services. The institution, associating over 3,300 companies from over 130 countries, conducts studies, publishes industry reports and publications, organizes international conferences as well as – in cooperation with Accenture, a company providing consulting services, modern technologies and outsourcing –holds the annual prestigious Distribution & Marketing Innovation Awards competition, in which every year the most innovative financial services in the world are selected.

Since 14 November 2018, passengers of LOT Polish airlines may purchase a PZU tourist insurance policy at the moment of booking an air ticket. The solution is possible because of the cooperation of PZU with LOT and Chubb European Group. Within the travel insurance "PZU Pomoc w Podróży LOT", three variants can be chosen, adjusted to the needs of customers of the Polish carrier. Depending on the selected option, the policy will guarantee, among others, refunding the cost of the air ticket, payment for medical expenses, refunding the transport charges in emergency or protection of luggage and personal belongings.

In 2018, PZU also entered into a strategic partnership with Allegro - the internet sales leader in Poland. The cooperation concerns the sales and distribution of innovative, fully digital insurance products customized to the specific nature of the needs of users on the allegro.pl service. PZU offers three insurance products: "Alleopona" [Alle-tire] assistance, (new or used) bicycle insurance and insurance of brown goods.

Furthermore, within strategic partnerships, PZU offers a number of insurance products for business clients (persons conducting business activity, companies and institutions), including:

- protection of Apple equipment, such as iPhone, iPad, Apple Watch and Mac computers, guaranteeing the organization and coverage of costs of repairing the equipment or replacing it for new products. The insurance operates in Poland and during foreign travel which lasts altogether not longer than 60 days. Apple devices may be insured only on the purchase date in the SAD sales network (with a sales person);
- assistance insuarnce for power consumers, customers of Enea (corporate clients), guaranteeing services of professionals, e.g. an electrician or an IT specialist;
- insurance for individual customers of Innogy, offering services of professionals, e.g. an electrician, locksmith for power consumers – participants of the Innogy Benefit Club;
- insurance for individual customers of Innogy, offering services of professionals, e.g. an electrician, locksmith for power consumers – participants of the Innogy Benefit Club.

5.5 Management of the PZU Group's brands

PZU is the most recognizable brand in Poland. According to spontaneous brand recognition studies, recognition of the PZU brand reaches 88%, while prompted brand awareness is 100%.[3] Even though it is associated mainly with insurance, the PZU Group umbrella contains several brands. They differ in terms of the visual systems used, target groups and business models.

The main brand used is the PZU corporate brand. This brand is used to identify the PZU Group itself, most of its companies operating on the Polish market (PZU, PZU Życie, PTE PZU, TFI PZU, PZU Pomoc, PZU Zdrowie, PZU Centrum Operacji), as well as some of the international companies – the Ukrainian companies and the branch in Estonia.

In the PZU Group's architecture, there is also a group of so-called PZU family brands. The family consists of companies whose names do not refer to the dominant brand, such as AAS Balta i TUW PZUW. However, their logos look similar to the corporate brand. These companies also use similar visual identification systems.

The last level of brand architecture is the independent brands group. This category includes the brands within the PZU Group, the names and visualization of which differ from the corporate brand, such as Lietuvos Draudimas and Link4. Both companies are distinguished by their high prompted brand awareness on the Lithuanian and Polish markets, at 97% and 94% respectively.

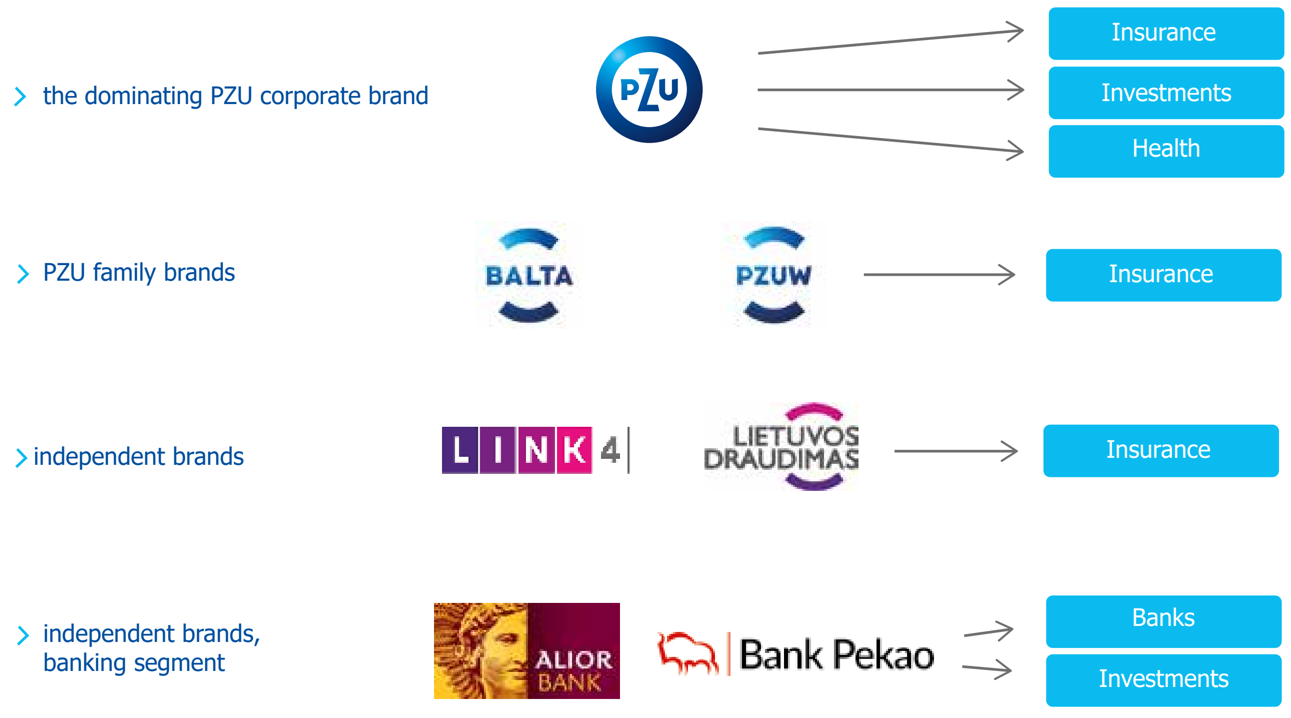
The independent brands which joined the PZU Group in recent years are Alior (2015) and Pekao (2017). Both are the leading banks with regard to brand recognizability in the category of banks according to the study by Kantar Millward Brown. At the end of December 2018, the prompted recognition of the Pekao brand was 95%[4].

[3] Study conducted by the Gfk Polonia institute, 2018

[4] Customers of Banks in Poland, Kantar Millward Brown, 2018

Business Model

PZU Group brand architecture (the "corporate umbrella" model)



Władysław
Praktykant w Biurze Inwestycji Strukturyzowanych

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Władysław is an intern in the PZU TFI Structured Investment Department. He studies financial markets at the University of Economics in Kraków. With his analyses he supports the team in making strategic investment decisions. In his free time, he takes care of his health by going to the gym and he passionately reads news from all over the world.

"I was surprised that PZU offers so many development opportunities unassociated with insurance. I think that each good specialist will find a place in PZU. I'm happy that I can constantly develop my financial passion and be satisfied with what I do. You should apply too!"

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6.

Financial Results

Return on equity (ROE) attributed to the parent company at the level of 22.1%. The banks' higher contribution to the PZU Group's result. Gross written premium up 2.7% year on year.

In this section:

6.1 Major factors contributing to the consolidated financial result

In 2018, the PZU Group generated a result before tax of PLN 7,086 million compared with PLN 5,474 million in the previous year (up 29.4%). Net profit surged to PLN 5,368 million, i.e. PLN 1,183 million more than the result in 2017. Net profit attributable to the parent company's shareholders was PLN 3,213 million compared to PLN 2,895 million in 2017 (up 11.0%).

The net result, adjusted for non-recurring events[1] rose 27.5% compared to last year. The operating profit in 2018 was PLN 7,087 million, up by PLN 1,629 million compared to 2017.

Operating profit was driven in particular by the following factors:

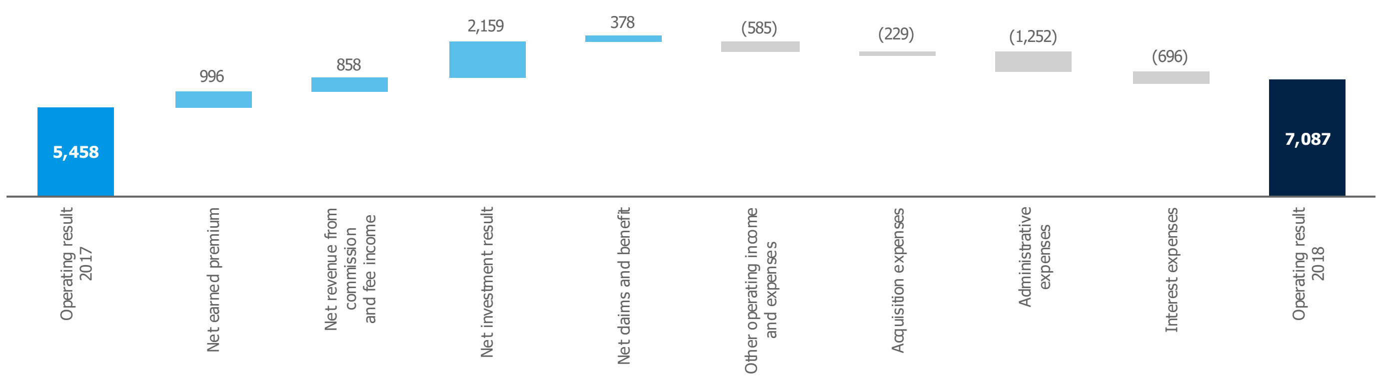
- growth in gross written premium in motor insurance (due to the higher average premium coupled with the decline in the number of insurance policies), the acquisition of several high-value contracts and higher sales in international companies (chiefly in motor insurance);
- higher profitability in the mass insurance segment, mainly due to the higher result of the non-motor insurance portfolio connected to the lower level of weather-related claims and the motor own damage portfolio, slightly offset by the decline in the result on motor TPL insurance – as a result of remeasurement of the provision for claims for general damages for pain caused by an injured relative being in a vegetative state;
- higher underwriting result in the corporate segment due to improved profitability in the portfolio of motor own damage insurance partly offset by the higher loss ratio on motor TPL and third party liability insurance;
- increased profitability in group and individually continued insurance as a result of the constantly growing insurance portfolio, improvement in the loss ratio in protection products compared to last year and a change in the mix of individually continued products with a lower standalone expense for provisioning the future disbursement of benefits;
- better performance in the banking segment at Alior Bank in connection with the high sales level of credit products supported by good business cycle and a low interest rate environment;
- lower result on listed equities, in particular due to the weaker performance of stocks listed on the Warsaw Stock Exchange.

The incorporation of Bank Pekao in the PZU Group's structure in June 2017 materially affected the comparability of results year on year. Pekao contributed PLN 3,047 million to the banking segment's operating result in 2018 compared to PLN 1,749 million in 2017.

The tendencies observable in the main constituents of operating result were the following:

- 2.7% increase in gross written premium to PLN 23,470 million. That growth pertained chiefly to motor insurance in the mass and corporate client segments (due to the higher average premium) and ensued from the acquisition of several high-value contracts and higher sales in international companies. Including the reinsurers' share and movement in the unearned premium reserve, the net earned premium was PLN 22,350 million and was 4.7% higher than in 2017;
- higher net result on investing activity, was a combination of a higher investment income earned on the banking activity after the start of consolidation of Pekao SA in June 2017 and a lower net result on investing activity excluding banking activity.
  The net result on investing activity was PLN 10,630 million, up 25.5% compared to 2017.
  Income on investments, excluding banking business, fell mainly due to the worse performance achieved in listed equities, driven in particular by the deterioration of market conditions on the WSE – the WIG index fell by 9.5% in 2018 versus an increase of 23.2% in the previous year, translating in particular into softer investment performance in the portfolio of assets to cover investment products that does not have any impact on the PZU Group's overall net result. This effect was partially offset by the better performance of the marked to market treasury bond portfolio, due the more favorable movement of the debt market;
- interest expenses up to PLN 2,046 million vs. PLN 1,350 million in the corresponding period of the previous year, associated in particular with the start of consolidation of Pekao. The increase pertained mainly to interest borne on current and term deposits on banking activity and interest on own debt securities issued, primarily in connection with the issue of subordinated bonds by PZU in the amount of PLN 2,250 million in June 2017;
- lower level of claims and benefits. They amounted to PLN 14,563 million, which indicates a 2.5% drop compared with 2017;
  In particular, the decline was recorded in life insurance in connection with the lower investment result on most unit-linked product portfolios, compared with high positive results achieved last year (this effect was offset by the changes in the net investment result) and lower client contributions to accounts in individual unit-linked products in the bancassurance channel, as well as in insurance against fire and other damage to property as a result of a lower level of damage caused by weather conditions (gusty wind, torrential rain);
- higher acquisition expenses (a PLN 229 million increase) in the mass and corporate client segments alike, driven mainly by higher sales and the evolution in the sales channels mix;
- the increase in administrative expenses to PLN 6,609 million from PLN 5,357 million in 2017 was due to the start of consolidating Pekao in June 2017. Administrative expenses of the banking segment rose by PLN 1,246 million. At the same time, the administrative expenses of the insurance segments in Poland were PLN 5 million higher compared to the previous year. This change largely resulted from higher payroll costs in response to clear signs of wage pressure on the market while maintaining persistent cost discipline in operating areas unrelated to wages – both current and project-related operations;
- higher negative balance of other operating income and expenses of PLN 2,165 million. The change resulted mostly from a higher levy on financial institutions and an increase in Bank Guarantee Fund charges.
  The PZU Group's expense on the levy on financial institutions (on insurance and banking business alike) in 2018 was PLN 1,092 million vs. PLN 822 million in 2017, while the BFG charges rose from PLN 121 million to PLN 372 million (in both cases due to the consolidation of Pekao).

Operating result of the PZU Group in 2018 (PLN million)



[1] Non-recurring events include the effect of converting long-term policies into yearly renewable term business in type P group insurance, the non-recurring effect of remeasurement of provisions in non-life insurance for claims for general damages due to being in a vegetative state and the level of weather-related claims (storms) higher than the average for the prior 3 years in a comparable period..

Key data from the consolidated profit and loss account	2018	2017	2016	2015	2014
	PLN million	PLN million	PLN million	PLN million	PLN million
Gross written premiums	23,470	22,847	20,219	18,359	16,885
Net earned premium	22,350	21,354	18,625	17,385	16,429
Net revenues from commissions and fees	2,620	1,762	544	243	351
Net investment result	10,630	8,471	3,511	1,739	2,647
Net insurance claims and benefits paid	(14,563)	(14,941)	(12,732)	(11,857)	(11,542)
Acquisition expenses	(3,130)	(2,901)	(2,613)	(2,376)	(2,147)
Administrative expenses	(6,609)	(5,357)	(2,923)	(1,658)	(1,528)
Interest expenses	(2,046)	(1,350)	(697)	(117)	(147)
Other operating income and expenses	(2,165)	(1,580)	(724)	(419)	(370)
Operating profit (loss)	7,087	5,458	2,991	2,940	3,693
Share in net profit (loss) of entities measured by the equity method	(1)	16	(3)	4	(2)
Profit (loss) before tax	7,086	5,474	2,988	2,944	3,692
Income tax	(1,718)	(1,289)	(614)	(601)	(724)
Net profit (loss)	5,368	4,185	2,374	2,343	2,968
Net profit (loss) attributable to equity holders of the parent company	3,213	2,895	1,935	2,343	2,968

* restated data for 2014-2017

6.2 PZU Group's income

Premiums

In 2018, the PZU Group collected gross premiums of PLN 23,470 million or 2.7% more than in 2017.

The PZU Group posted the following results in the various segments:

- sales in the mass client segment up PLN 296 million (net of intersegment gross written premium) compared to 2017, primarily in motor insurance due to an increase in average premium and a roughly constant number of TPL policies;
- premium increased in the corporate client segment by PLN 386 million from 2017 (net of intersegment gross written premium), mainly in motor insurance due to the higher average premium coupled with a decline in the number of motor own damage insurance policies and higher sales of insurance against fire and other damage to property following the execution of several contracts with high unit values;
- higher sales in the group and individually continued insurance segment – premium up PLN 36 million, in particular as a result of writing more premium in health insurance sold in group form;
- PLN 318 million drop in premiums in the individual insurance segment compared to the year before, driven mainly by lower contributions to accounts in unit-linked products in the bancassurance channel;
- gross written premium collected by foreign companies also increased compared to 2017 by PLN 222 million, chiefly in motor insurance in the Baltic States.

Assets

PLN 328,554 million

(+3.5% y/y)

Equity attributable to the shareholders of the parent company

PLN 14,925 million

(+2.2% y/y)

Net profit

PLN 5,368 million

(+28.3% y/y)

Net profit attributable to the shareholders of the parent company

PLN 3,213 million

(+11.0% y/y)

Gross written premium

PLN 23,470 million

(+2.7% y/y)

Net earned premium

PLN 22,350 million

(+4.7% y/y)

Net insurance claims and benefits

PLN 14,563 million

(-2.5% y/y)

Low risk profile investment portfolio - over

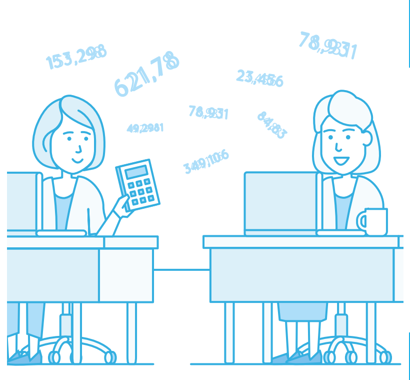
60%

of treasury debt securities

ROE attributable to the parent company

22.1%

(+1,1 p.p. y/y)



COR

87.1%

(-2.5 p.p y/y)

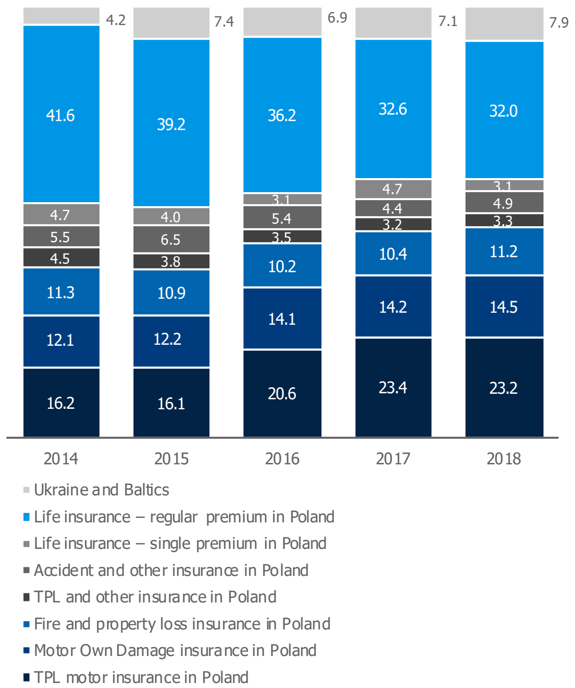
Operating profit margin in group and individually continued insurance

22.1 %

(+1,5 p.p. y/y)

Insurance segments (PLN millions), local GAAP	Gross written premium (external)				
	2018	2017	2016	2015	2014
TOTAL	**23,470**	**22,847**	**20,219**	**18,359**	**16,885**
Total non-life insurance – Poland (external gross written premium)	13,384	12,702	10,878	9,074	8,367
Mass insurance – Poland	10,325	10,029	8,742	7,309	6,560
Motor TPL	4,610	4,606	3,635	2,595	2,373
Motor own damage	2,524	2,406	2,147	1,727	1,579
Other products	3,191	3,017	2,960	2,987	2,608
Corporate insurance – Poland	3,059	2,673	2,136	1,765	1,807
Motor TPL	845	735	532	367	354
Motor own damage	878	848	712	510	461
Other products	1,336	1,090	892	888	992
Total life insurance – Poland	8,237	8,519	7,949	7,923	7,808
Group and individually continued insurance – Poland	6,891	6,855	6,775	6,689	6,539
Individual insurance – Poland	1,346	1,664	1,174	1,234	1,269
Total non-life insurance – Ukraine and Baltic States	1,729	1,527	1,305	1,288	632
Ukraine non-life insurance	202	181	173	138	133
Baltic States non-life insurance	1,527	1,346	1,132	1,150	499
Total life insurance – Ukraine and Baltic States	120	100	88	74	78
Ukraine life insurance	55	42	37	31	41
Baltic States life insurance	65	58	51	43	37

Structure of gross written premium at PZU Group (%)



Net revenues from commissions and fees

Net revenues from commissions and fees in 2018 were PLN 2,620 million, or were PLN 858 million higher than in the previous year, mainly caused by the commencement of Pekao's consolidation.

They included mainly:

- net revenues from commissions and fees in the banking segment of PLN 1,925 million, including mainly: brokers' commissions, revenues and expenses related to the service of bank accounts, payment and credit cards, fees charged for intermediation in insurance sales;
- income on OFE asset management. It amounted to PLN 122 million (up 1.7% compared to the previous year because of the higher average net assets of OFE PZU);
- revenues and fees received from funds and mutual fund companies in the amount of PLN 562 million, or PLN 285 million more than in the previous year, mainly caused by the start of Bank Pekao' consolidation.

Net investment result and interest expenses

In 2018, the net investment result[2] including interest expenses was PLN 8,584 million compared to PLN 7,121 million in 2017. This higher result was caused predominantly by the commencement of Pekao's consolidation in June 2017. After the contribution of Pekao and Alior Bank is netted out, the net investment result after factoring in interest expenses in 2018 was PLN 904 million and was PLN 951 million lower than in the previous year.

The following factors affected the income:

- softer performance on listed equities, driven in particular by the deterioration of market conditions on the WSE – the WIG index fell by 9.5% in 2018 compared to a 23.2% growth in the corresponding period of the previous year;
- better performance of the marked to market treasury bonds portfolio, in connection with the more favorable situation on the debt market;
- negative impact exerted by the foreign exchange differences on own debt securities in conjunction with depreciation of the PLN versus EUR following appreciation in the comparable period, partially offset by the better performance of investments denominated in EUR .

In addition, the results on the portfolio of assets covering investment products were down PLN 528 million y/y, even though this is neutral to the PZU Group's overall net result because they are offset by the lower level of net insurance claims and benefits.

In 2018, the value of the PZU Group's investment portfolio[3], excluding the impact of banking activity, was PLN 50,270 million compared to PLN 46,164 million as at the end of 2017.

The overall growth of the investment portfolio was related to the higher premiums inflow due to business growth and the rising value of the investments.

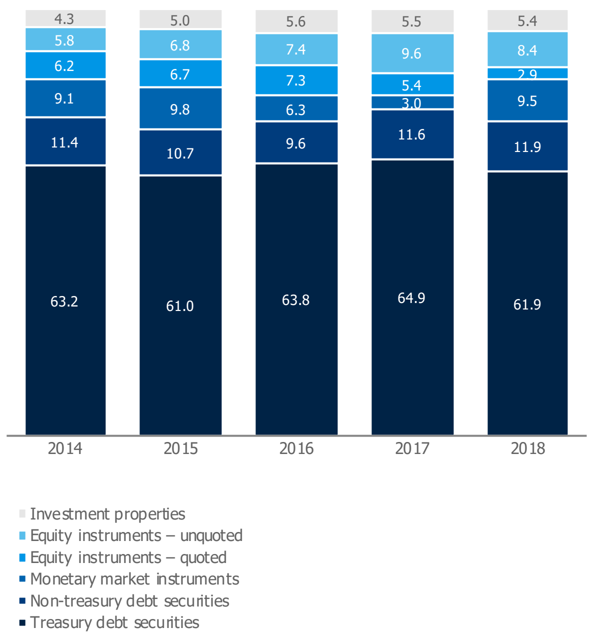
The increase in the balance of reverse repo transactions and term deposits with credit institutions entered into on the interbank market aimed to enhance the return on investment activity. The increase in the balance of these transactions was

[2] Net investment result includes: net investment income, net result on realization of financial instruments and investments, movement in allowances for expected credit losses and impairment losses on financial instruments and net movement in fair value of assets and liabilities measured at fair value.
[3] The investment portfolio contains investment financial assets (including investment products), investment properties (including the part presented in the category of assets held for sale) financial derivatives along with the negative valuation of derivatives and liabilities arising from repurchase transactions presented in financial liabilities.

partly offset by the decrease in the balance of funds presented in receivables presented outside the investment portfolio.

The Group runs its investment operations in compliance with statutory requirements while maintaining appropriate levels of safety, liquidity and profitability, therefore debt treasury securities accounted for over 60% of the investment portfolio.

Structure of the investment portfolio net of the impact of banking activity* (in %)



* Interest rate, foreign exchange and equity price derivatives duly presented in the categories of debt market instruments – treasuries, money market instruments and listed and unlisted equity instruments.

Result on other operating income and expenses

In 2018, the balance of other operating income and expenses was negative and stood at PLN 2,165 million, compared to the balance in 2017, which was also negative at a level of PLN 1,580 million. The following contributed to this result:

- levy on financial institutions – the PZU Group's expense on account of this levy (combined on insurance and banking activity) in 2018 was PLN 1,092 million compared to PLN 822 million last year. The increase in the liability was caused by the commencement of Pekao's consolidation in June 2017;
- costs of amortization of intangible assets identified as a result of acquiring companies were up PLN 53 million (effect of the acquisition of the equity stake in Pekao in June 2017);
- increase in the BFG charges from PLN 121 million in 2017 to PLN 372 million in 2018 (as a result of the acquisition of the equity stake in Pekao).

6.3 PZU Group's claims paid and technical provisions

Net claims and benefits (including the movement in technical provisions) were PLN 14,563 million, or 2.5% less than in the corresponding period of the previous year. The following factors contributed to the decline in the category of net claims and benefits:

- in life insurance, a lower investment result on most unit-linked product portfolios, compared with high, positive results achieved last year and lower client contributions to accounts in individual unit-linked products in the bancassurance channel;
- in insurance against fire and other damage to property, a lower level of weather-related claims (gusty wind, torrential rain).

In turn, the growth in this category of net claims and benefits was precipitated by the remeasurement of the provision for claims for general damages for the pain caused by the vegetative state of a relative injured in an accident in the motor insurance business in the mass and corporate client segment.

6.4 PZU Group's acquisition and administrative expenses

In 2018, acquisition expenses went up PLN 229 million compared to the corresponding period of the previous year. This increase was caused in particular by higher sales in the mass and corporate client segments in connection with the evolution of the sales channels mix.

The Group's administrative expenses in 2018 were PLN 6,609 million compared to PLN 5,357 million in 2017, i.e. they went up 23.4% over the previous year. The increase resulted mainly from the consolidation of Pekao. Administrative expenses of the banking segment rose by PLN 1,246 million. At the same time, the administrative expenses of the insurance segments in Poland were PLN 5 million higher compared to the previous year. This change largely resulted from higher payroll costs in response to clear signs of wage pressure on the market while maintaining persistent cost discipline in operating areas unrelated to wages – both current and project-related operations.

6.5 Drivers and atypical events affecting the results

In Q1 2018, a non-recurring effect of remeasurement of provisions was recognized, mainly in motor insurance for claims for general damages due to being in a vegetative state in the amount of PLN 148 million.

In the corresponding period, a higher level of losses caused by weather phenomena (storms) than the average for the last 3 years was recorded at PLN 170 million.

The conversion effect of long-term policies into yearly renewable term agreements in type P group insurance treated as a non-recurring event was lower in 2018 by PLN 18 million in comparison with the comparable period of the previous year (PLN 17 m in 2018 compared to PLN 35 m in 2017).

6.6 PZU Group's asset and liability structure

As at 31 December 2018, the PZU Group's total assets were PLN 328,554 million, up PLN 11,096 million compared to the end of 2017.

Assets

As at 31 December 2018, the main part of the Group's assets took the form of loan receivables from clients. They represented 55.4% of total assets and amounted to PLN 182,054 million, having risen by PLN 12,597 million from the end of 2017.

The second largest asset category were investments (investment financial assets, investment properties and financial derivatives). They totaled PLN 105,849 million and were down PLN 8,903 million versus the end of last year. They represented 32.2% of the Group's total assets versus 36.1% at the end of 2017. The decline in the value of investments concerned Pekao and was related to the lower volume of the liquidity portfolio. Excluding banking activity, the investment portfolio expanded on business development (higher receipts from proceeds from premiums) and the rising value of the investments.

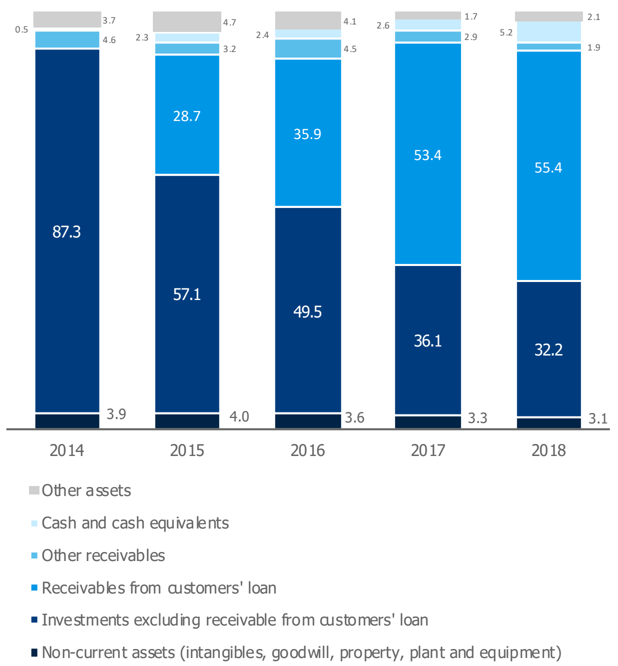
The PZU Group's receivables, including receivables under insurance contracts and current income tax receivables were PLN 6,343 million and represented 1.9% of its assets. For the sake of comparison, at the end of 2017 they stood at PLN 9,096 million (2.9% of the Group's assets) and their decrease was caused mainly by the drop in outstanding transactions on financial instruments and margin calls.

Non-current assets, i.e. intangible assets, goodwill and property, plant and equipment were presented in the statement of financial position at PLN 10,235 million. They constituted 3.1% of assets. Their decline of PLN 325 million versus the end of 2017 resulted from, among others, amortization of intangible assets identified as a result of the acquisition of shares in Bank Pekao by PZU and depreciation of tangible non-current assets.

As at 31 December 2018, the PZU Group held PLN 17,055 million of cash and cash equivalents (5.2% of assets). At yearend 2017, this value was PLN 8,239 million and the movement occurred mainly in the cash accumulated by Bank Pekao in the Central Bank under reserve requirement.

The assets held for sale stood at PLN 1,147 million and moved up PLN 830 million compared to the previous year due to changes in the classification of a portion of the investment property portfolio.

PZU Group's asset structure (in %)



Equity and liabilities

At the end of 2018, consolidated equity stood at PLN 37,407 million, down from the end of 2017 by PLN 153 million. The value of non-controlling interests fell by PLN 479 million to PLN 22,482 million versus last year, among others, in connection with the dividend payment by Pekao of PLN 2,074 million, with PLN 1,659 million of that being the dividend attributable to non-controlling interests, as well as the effect of IFRS 9 implementation. The declines were partially offset by the result generated by Alior Bank and Pekao attributed to non-controlling shareholders amounting to PLN 2,155 million. Equity attributable to the parent company's shareholders rose by PLN 326 million compared to the end of the previous year – as an effect of the net result attributable to the parent company generated in 2018 totaling PLN 3,213 million, partially offset by of the distribution of profit for 2017, including the allocation of PLN 2,159 million as a dividend and the impact exerted by applying IFRS9.

The largest item of equity and liabilities at the end of 2018 were financial liabilities representing 71.9%.
 The value of this item reached PLN 236,316 million and included in particular:

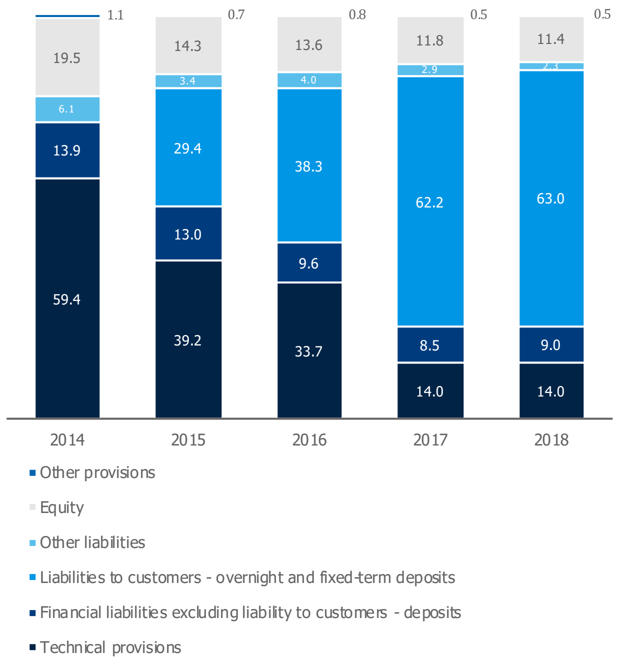
- l client deposits liabilities in the amount of PLN 206,909 million (an increase in current and term deposits in Pekao and Alior Bank by PLN 9,500 million compared to December 2017);
- liabilities on the issue of own debt securities totaling PLN 12,009 million, including:
  - PLN 5,922 million on bonds, of which EUR 850 million are Eurobonds issued by PZU Finance AB, a wholly-owned subsidiary; the balance was up by PLN 2,101 million over 2017, chiefly due to Pekao's issue of bonds ;
  - PLN 4,542 million on certificates of deposit issued by Bank Pekao and Alior Bank;
  - PLN 1,545 million on covered bonds issued by Bank Pekao.
- subordinated liabilities of PLN 6,061 million. The balance rose from the end of 2017 by PLN 742 million chiefly due to the issue of subordinated bonds by Pekao in October 2018 for PLN 750 million. SECTION 8.3 DEBT FINANCING

As at the end of 2018, technical provisions totaled PLN 45,839 million, which accounted for 14.0% of equity and liabilities (PLN +1,281 million compared to the end of 2017). The movement in this item resulted in particular from:

- higher provision for unearned premiums in non-life insurance resulting mainly from growing sales of insurance in Poland;
- remeasurement of provisions, mainly in motor insurance, for claims for general damages due to being in a vegetative state;
- lower provisions in unit-linked life insurance products due to the negative result on investment activity, and additionally the level of payouts and benefits in the product portfolio exceeded for the first time the amount of client contributions;
- higher mathematical provisions in continued business associated with the indexation of amounts insured and the higher average age of the insureds.

The balance of other liabilities as at 31 December 2018 was PLN 7,407 million compared to PLN 9,096 million at the end of 2017. The decrease pertained in particular to liabilities on account of outstanding transactions on financial instruments and liabilities to banks for payment documents cleared by the National Clearing House.

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



Cash flow statement

At the end of 2018, net cash flow was PLN 8,774 million, up PLN 3,431 million versus the previous year. This increase pertained, in particular, to net cash flow on investing activity.

Material off-balance sheet line items

At the end of 2018, the value of contingent liabilities was PLN 57,667 million, having fallen by PLN 1,311 million versus last year. The value of contingent liabilities granted to the clients of Alior Bank and Bank Pekao was PLN 56,436 million. The balance of the PZU Group's contingent liabilities consisted in particular of PLN 13,211 million in overdraft and credit cards contingent liabilities , PLN 28,523 million in contingent liabilities related to tranche-based credits and loans and PLN 7,682 million in granted guarantees.

Moreover, the balance of contingent liabilities included guarantees for the underwriting of securities totaling PLN 4,470 million.

6.7 Contribution made by the market segments to the consolidated result

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

- corporate insurance (non-life insurance) – this segment covers a broad scope of property and casualty insurance products, other liability and motor insurance customized to a client's needs entailing individual underwriting offered by PZU and TUW PZUW;
- mass insurance (non-life insurance) – this segment consists of property and casualty, accident, other liability and motor insurance products. PZU and LINK4 provide insurance to individuals and entities from the SME sector;
- life insurance: group and individually insurance – PZU Życie offers it to employee groups and other formal groups. Persons under a legal relationship with the policyholder (e.g. employer, trade union) enroll in the insurance agreement and individually continued insurance in which the policyholder acquired the right to individual continuation during the group phase. This spans the following types of insurance: protection, investment (however, not investment contracts) and health insurance;
- individual life insurance – PZU Życie provides those products to retail clients. The insurance agreement applies to a specific insured who is subject to individual underwriting. These products include protection, investment (which are not investment contracts) and health insurance;
- investments – reporting according to PAS – the revenues of the investments segment comprise the investments of the PZU Group's own funds, understood as the surplus of investments over technical provisions in the PZU Group insurance companies based in Poland (PZU, Link4 and PZU Życie) plus the surplus of income earned over the risk-free rate on investments reflecting the value of technical provisions of PZU, Link4 and PZU Życie in insurance products, i.e. the surplus of investment income of PZU, Link4 and PZU Życie over the income allocated at transfer prices to insurance segments. Additionally, the segment includes income from other free funds in the PZU Group, including consolidated mutual funds;
- banking segment – a broad range of banking products offered to corporate and retail clients alike by Pekao and Alior Bank.

- Baltic States segment – includes non-life insurance and life insurance products provided in the territories of Lithuania, Latvia and Estonia;
- investment contracts – include PZU Życie products that do not transfer material insurance risk and do not satisfy the definition of insurance contract. These are some of the products with a guaranteed rate of return and some products in unit-linked form;
- other – include consolidated companies that are not classified in any of the above segments.

Corporate insurance

In 2018, the corporate insurance segment earned an insurance profit of PLN 268 million, which is 40.3% more than in the corresponding period last year.

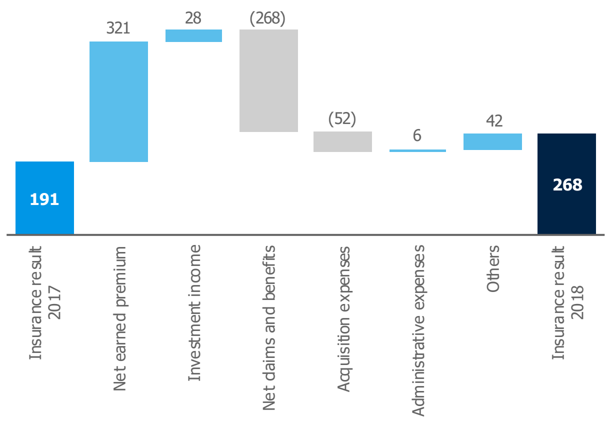
The following factors had a key impact on this segment's performance in 2018:

- a 16.0% increase in net earned premium associated with a 13.1% increase in gross written premium in comparison to 2017. The PZU Group posted the following under sales:
  - higher premiums in motor insurance (+6.9% y/y) offered to leasing companies and in fleet insurance as a consequence of the higher average premium coupled with the lower number of motor own damage insurance (this decline is particularly noticeable in the insurance group for leasing),
  - higher sales of insurance against fire and other damage to property and other TPL following the execution of several contracts (including long-term contracts) with high unit values and development of the medical entity insurance portfolio in TUW PZUW,
  - development of the insurance portfolio containing various financial risks, including of several high-value contracts and the higher premium from the insurance of GAP financial losses;
- net claims and benefits grew 20.3% compared to the corresponding period of 2017, which, together with a 16.0% increase in net earned premium, means that the loss ratio deteriorated by 2.4 p.p. to 68.4%. The loss ratio moved up in the following areas:
  - motor TPL as an outcome of rising annuity benefits, the observed increase in the average payment and remeasurement in Q1 2018 of the provision for claims for pain and suffering,
  - third party liability insurance.

These changes were partially offset by the dip in the loss ratio in the motor own damage insurance portfolio as a result of the net earned premium growth being much higher than the growth in claims and benefits, despite the observed increase in average payout and in the insurance against fire and other damage to property (despite several large claims under inward reinsurance);

- income from investments allocated to this segment was up 32.9% to PLN 113 million, which was caused in particular by the 3.1% appreciation of the EUR exchange rate vs. PLN, compared to a 5.7% depreciation in the corresponding period last year;
- acquisition expenses (without reinsurance commissions) reached PLN 477 million, signifying 12.2% growth versus the ones incurred in 2017, mainly due to higher direct acquisition expenses (the effect of the higher pace of sales coupled with the change in the average commission rate in key distribution channels);
- administrative expenses decreased 4.4%, which, given the fact that the earned premium went up 16.0%, translated into an improvement in the administrative expense ratio by 1.2 percentage points. The decline in the expense ratio was due to lower costs of project activity and current operations by consistently maintaining cost discipline.

Insurance result in the corporate insurance segment (PLN million)

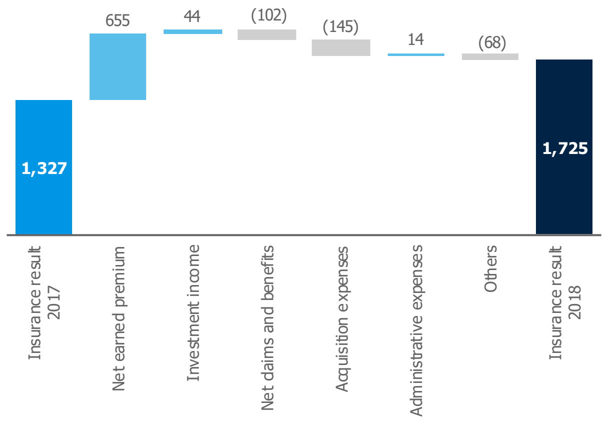


Mass insurance

In 2018, the mass insurance segment generated an insurance profit of PLN 1,725 million, which is 30.0% more than in the corresponding period last year. The following factors drove this segment's performance in 2018:

- a 6.9% increase in net earned premium combined with a 3.3% increase in gross written premium in comparison to 2017. The PZU Group posted the following under sales:
  - growth in gross written premium in motor insurance as a result of the higher average premium coupled with a stable level in the number of motor TPL insurance policies,
  - growth in the premium for insurance against fire and other damage to property, chiefly in household property insurance and small and medium-sized enterprise insurance coupled with a similar level of sales of agricultural insurance despite the fierce competition on the market,
  - higher written premium in other TPL insurance (+5.6% y/y) and accident and other (11.5% y/y), mainly assistance and accident insurance;
- higher net insurance claims and benefits in 2018 by 1.7%, which when coupled with net earned premium being up 6.9%, translated into the loss ratio improving by 3.1 percentage points compared to 2017. This change resulted mainly from the following:
  - a decline in the loss ratio in insurance against fire and other damage to property, including crop insurance due to the lower number of damage claims caused by forces of nature (in the corresponding period, damage caused by gusty wind and rainfall);
  - lower loss ratio of the motor insurance portfolio due to considerable improvement in motor own damage insurance and slight change in TPL insurance – remeasurement of the provision for claims for pain and suffering for pain caused by the vegetative state of a relative injured in an accident (Supreme Court ruling). After netting out the effect of movement in the provision for pain and suffering, high profitability was maintained in motor TPL insurance and motor own damage insurance;
- income from investments allocated to the mass insurance segment based on transfer prices was PLN 526 million, up 9.1% year on year, mostly due to appreciation of the EUR to PLN exchange rate of 3.1% faced with depreciation of 5.7% in the corresponding period last year;
- acquisition expenses (without reinsurance commissions) rose to PLN 1,890 million and were up by PLN 145 million or 8.3% year on year, which when coupled with the net earned premium being up by 6.9% signifies growth of acquisition expenses by 0.2 p.p. The factor driving the evolution in the level of acquisition expenses was the higher level of direct acquisition expenses due to the expanding portfolio and the change in the mix of sales channels (rising percentage of the multi-agency and dealer channels featuring higher selling expenses);
- administrative expenses in this segment totaled PLN 594 million, down PLN 14 million, or 2.3% since the year before, driven primarily by the outcome of cost discipline in non-staff areas in current and project activity and higher staff costs as a response to the clear signs of salary pressure on the market.

Insurance result in the mass insurance segment (PLN million)



Group and individually continued insurance

Insurance result in the group and individually continued insurance amounted to PLN 1,543 million in 2018 and was PLN 93 million, or 6.4%, higher than in the previous year. Individual constituent elements of the insurance result were as follows:

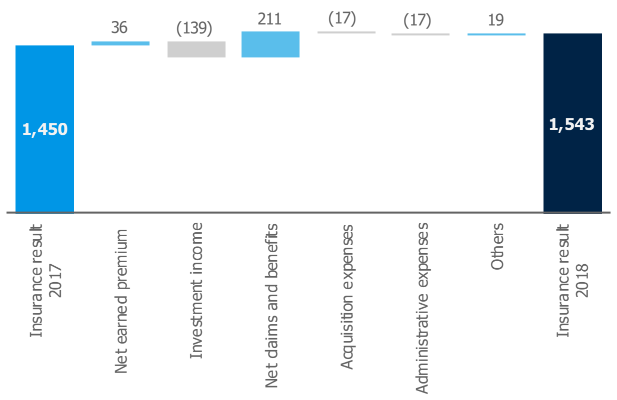
- gross written premium was higher than in the corresponding period of the previous year by PLN 36 million (0.5%), which was mainly the result of the following:
  - acquiring more contracts in group or individually continued health insurance products (new clients in outpatient insurance and sales of different options of the medicine product). At the end of 2018, PZU Życie had more than 1.8 million contracts of this type in force. In Q1 2018 PZU Życie introduced a new rider to continued insurance under the name "PZU Uraz ortopedyczny [PZU orthopedic injury]",
  - active up-selling of other riders in individually continued insurance products, including in particular together with the offering of the basic agreement in PZU branches and increase of amounts insured during the terms of the agreements. In addition to the aforementioned rider, in Q4 PZU Życie introduced another product – heart attack or Stroke Rider – providing for financial support in the event of heart attack or a stroke.

  At the same time, revenues from group protection products remained under pressure of increased departures from groups (work establishments) due to the legal reduction of the retirement age in Q4 2017.
- the investment result consists of income allocated using transfer prices and income on investment products. In the group and individually continued insurance segment, investment income fell PLN 139 million mainly due to the lower income on unit-linked products as a result of worse conditions on the equity market – the WIG index fell by 9.5% compared to a 23.2% increase in the corresponding period of last year. Income allocated based on transfer prices increased due to an increase in the value of portfolios replicating insurance liabilities;
- insurance claims and benefits and the net movement in other net technical provisions totaled PLN 4,931 million (down 4.1% y/y). This change was driven by the following factors in particular:
  - a decrease in technical provisions in Employee Pension Plans (EPP, a third pillar retirement security product) compared to an increase in the previous year, due to negative investment results this year, compared to an increase last year, coupled with a stable level of client contributions to and withdrawals from unit-linked insurance accounts;
  - lower level of benefits this year in the group protection products portfolio;
  - lower than last year increase in mathematical provisions in continued products as a result of the previous changes in indexation principles and the share of "old" and "new" continuation both among the persons joining and remaining in the insured portfolio: in the "new" continuation, the unit cost of recognizing mathematical provisions for future benefit payments is lower.

  These effects have been partially offset by the slower pace of converting long-term insurance policies into yearly-renewable term business in type P group insurance exerted an influence on the size of the provisions. As a result of the conversion, in 2018, provisions were released for PLN 17 million, i.e. PLN 18 million less than in the corresponding period of 2017. Additionally, the level of medical benefits under health products is increasing following the dynamic growth of this portfolio.
- acquisition expenses in the group and individually continued insurance segment in 2018 were PLN 349 million, increasing by PLN 17 million (5.1%) compared to last year. The factor driving these expenses was the increasing remuneration for insurance intermediaries, especially for selling health products as the portfolio increased, and also the cost of communication mailed to clients (mainly offers of individual continuation riders);
- administrative expenses in 2018 amounted to PLN 604 million. The PLN 17 million increase (by 2.9%) were driven mainly by expenditures related to organizational changes in sales divisions and an increase in personnel costs caused by salary pressures on the market.

Adjusting for the one-off effect related to conversion of long-term contracts into renewable contracts in type P group insurance, the segment's insurance result amounted to PLN 1,526 million in 2018, compared to PLN 1,415 million in 2017 (up 7.8%). This was driven mainly by constantly growing insurance portfolio, the lower level of benefits in the group protection products and the lower than last year increase in mathematical provisions in continued products as a result of the previous changes in indexation principles and the share of "old" and "new" continuation both among the persons joining and remaining in the insured portfolio.

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



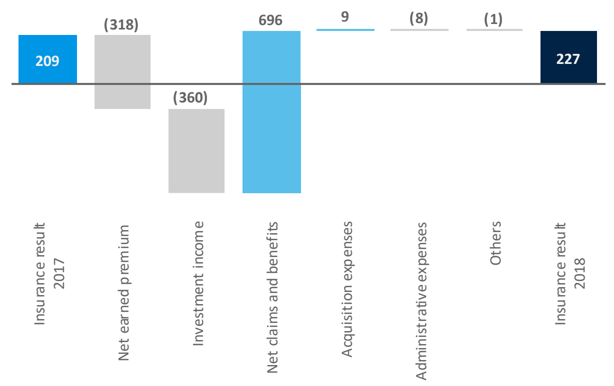
Individual insurance

In 2018, the insurance result in the individual life insurance segment was PLN 227 million, PLN 18 million, or 8.6%, more than last year. The main factors affecting the segment's insurance result are described below:

- the decline in gross written premium compared to 2017 by PLN 318 million (19.1%) down to PLN 1,346 million resulted chiefly from lower contributions to unit-linked accounts in single-payment unit-linked products offered jointly with banks, which is in line with the trends in the entire life insurance market. At the same time, positive factors were also at play, such as:
  - constantly rising level of premiums on 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,
  - growth of the insured portfolio in protection products in the bancassurance channel, including particularly the introduction of new products together with Alior Bank and Bank Pekao in H2 2018;
- the investment result consists of income allocated using transfer prices and income on investment products. In the individual insurance segment, it fell PLN 360 million y/y mainly due to the lower income on unit-linked products as a result of worse conditions on the equity market. At the same time, the segment's income from the management fee charged on assets accumulated in unit-linked products increased by PLN 5 million y/y (following an increase in the average assets value). Income allocated according to transfer prices dropped as a result of lower market interest rates;
- net insurance claims and benefits together with the movement in other net technical provisions were PLN 976 million, reflecting the decrease in costs by PLN 696 million compared to 2017. This was driven mainly by the significantly lower investment result on most unit-linked product portfolios in this period. In the product offered in the Bank Millennium network, it additionally resulted from lower client contributions to the accounts. From the insurance result point of view, these factors are not significant – they are balanced by other relevant items of the profit and loss account;
- in 2018, acquisition expenses decreased in the individual insurance segment by PLN 9 million to PLN 126 million. Lower commissions on the sale of unit-linked products in the bancassurance channel (due to lower sales with the commission paid upfront) were partly offset by the increasing costs of sales support and remuneration to intermediaries for selling protection products, in the latter case also in the bancassurance channel;
- administrative expenses in 2018 increased to PLN 69 million compared to PLN 61 million in the previous year. This was influenced by the strategic investments in the exclusive sales network aimed at increasing sales in this segment and, to a smaller extent, an increasing level of remuneration for the handling of unit-linked products in the bancassurance channel (growing assets of such products).

Summing up, the most important factors driving the year-on-year change in result included lower acquisition expenses in unit-linked products and rising compensation generated by management fees in unit-linked products. Another factor contributing to the improvement in the profit margin was an increased share of protection products in revenues, since they generate much higher margins.

Insurance result in the individual insurance segment (PLN million)



Investments

The revenues of the Investments segment comprise the investments of the PZU Group's own funds, understood as the surplus of investments over technical provisions in the PZU Group insurance companies seated in Poland (PZU, Link4 and PZU Życie) plus the surplus of income earned over the risk-free rate on investments reflecting the value of technical provisions of PZU, Link4 and PZU Życie in insurance products, i.e. surplus of investment income of PZU, Link4 and PZU Życie over the income allocated at transfer prices to insurance segments.

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

Operating income of the investment segment (based exclusively on external transactions) were lower than in the corresponding period of last year, primarily due to the worse conditions on the Warsaw Stock Exchange.

Banking segment / Banking activity

The banking activity segment consists of the following groups: Pekao, from June 2017 (effect of settling the transaction and start of consolidation) and Alior Bank.

In 2018, the banking activity segment generated PLN 4,036 million in operating profit (without amortization of intangible assets acquired as part of the bank acquisition transactions), representing an increase by PLN 1,597 million compared to 2017. Taking into consideration the commencement of consolidation of Pekao, one of the largest banks in Central and Eastern Europe, in 2017 all items of the statement of profit or loss and items of the statement of financial position for 2018 are significantly higher compared to the previous year.

In 2018, Pekao contributed PLN 3,047 million to the operating profit (without amortization of intangible assets acquired as part of the Pekao acquisition transaction) in the "Banking activity" segment, while Alior Bank's contribution was PLN 989 million.

The key element of the segment's income is investment income, which in 2018 increased to PLN 9,596 million y/y (up 48.2% y/y).

Investment income consists of: interest income, dividend revenue, trading result and result on impairment charges.

In 2018 very high sales of credit products were recorded in Pekao and Alior Bank, among others thanks to the favorable economic climate and the low level of interest rates.

Banks increased their net interest income (interest income less interest expenses) mainly be increasing the volume of loans to their customers. As at the end of 2018, the size of the client loan portfolio in total in both banks grew 7.1% compared to the end of 2017, and deposits from non-financial clients rose 4.4%.

Profitability of the banks in the PZU Group measured by the net interest margin amounted to 2.8% in Pekao (for the whole year) and 4.6% in Alior Bank. The difference in the level of the indicators results in particular from the structure of the loan receivables portfolio.

The net fee and commission income in the banking activity segment amounted to PLN 2 380 million and was PLN 797 million higher y/y. In addition to the consolidation of Bank Pekao newly-acquired in 2017, the improvement in this line item was boosted, as in the case of net interest income, by an increase in the sales of loans.

The segment's administrative expenses amounted to PLN 4 989 million and comprised Pekao's expenses in the amount of PLN 3 389 million and Alior Bank's expenses of PLN 1 600 million. In of 2018, Alior Bank reduced its personnel costs, which resulted from, among others, lower current operating expenses and project-related expenses.

In addition, other contributors to the operating result included other operating income and expenses, where the main components are the BFG fees (PLN 372 million) and tax from other financial institutions (PLN 770 million).

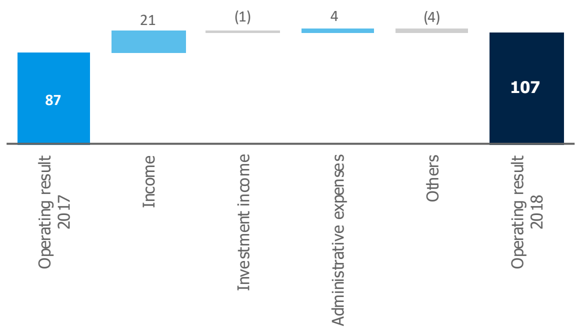
As a result, the Cost/Income ratio stood at 42% in both banks. On a separate basis, the ratio was 44% for Pekao and 39% for Alior Bank.

Pension insurance

In 2018, the operating profit in the pension insurance segment amounted to PLN 107 million, i.e. it increased by 23% compared with 2017. The major drivers of the operating result included the following:

- revenue from commissions and fees, which amounted to more than PLN 149 million, i.e. increased by 17% compared with the previous year. This change was the result of:
  - revenues up by PLN 13 million on reimbursements from the Indemnity Fund;
  - management fee up by nearly PLN 5 million as a result of the higher average annual net asset value in OFE PZU, including take-over of management of OFE Pekao.
  - increase in income on withdrawal of funds from the reserve account by PLN 3 million as a result of obtaining the best 3-year rate of return among funds and the maximum bonus ratio;
- acquisition and service expenses stood at PLN 6 million, having increased by 28.2% from the previous year. This resulted mainly from the increase in the sales network, commission costs incurred for distribution of IRSA, adaptation of the systems and infrastructure to support a new IRSA distributor and additional service costs associated with the take-over of the management of Pekao funds;
- administrative expenses hit PLN 40 million, i.e. they were down 9% from the previous year. This change resulted mainly from:
  - lower costs due to the payment of contributions to the Indemnity Fund by PLN 8 million;
  - incurring the costs associated with the take-over of management over Pekao funds, including inter alia Transfer Agent costs higher by PLN 1.5 million, the costs of migration of OFE member registers in the amount of PLN 1 million and the costs of amortization of the right to manage the funds in the amount of PLN 1 million;
- other operating expenses increased by nearly PLN 1 million, primarily as a result of restatement of the provision for refund of contributions overpaid by ZUS for previous years.

Operating profit in the pension insurance segment (PLN million)



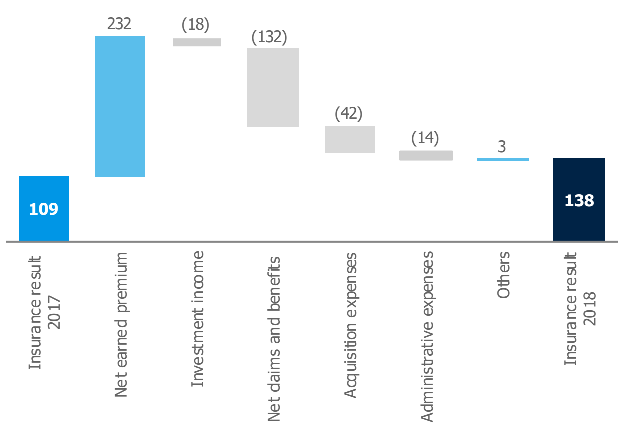
Baltic States

In 2018, the PZU Group's business in the Baltic states generated a positive insurance result of PLN 138 million compared to PLN 109 million in the previous year. This result was shaped by the following factors:

- increase in gross written premium. It amounted to PLN 1,592 million compared to 1,404 in the year before. The premium in non-life insurance increased by PLN 181 million y/y (or 13.4%). Such a dynamic increase was possible, among others, thanks to higher motor insurance premiums in the region, increase in the sale of property and casualty insurance – in Lithuania, Latvia and Estonia, and significant increase in the premium written in health insurance in Latvia. Premiums in life insurance increased by PLN 7 million (or 12.1%);

- decrease in investment income. In 2018, the result was PLN 2 million and was 90.0% lower than in the previous year, primarily as a result of declines in the equity markets during the last quarter;
- increase in net claims and benefits. They amounted to PLN 905 million and were higher by PLN 132 million compared to the year before. The loss ratio in non-life insurance stood at 61.2% and was similar to last year's level. In life insurance the value of benefits stood at PLN 38 million and was 15.6% lower than in the previous year;
- higher acquisition expenses. Segment's expenditures for this purpose were at PLN 317 million. The acquisition expense ratio calculated on the basis of net earned premium dropped by 0.6 p.p. and stood at 21.4%;
- increase in administrative expenses. They were PLN 125 million, increasing by 12.6% from the previous year. Despite a increase in incurred expenses, the administrative expense ratio dropped to 8.4%, down 0.4 p.p. relative to 2017. Cutting the administrative expense ratio was possible due to maintaining cost discipline coupled with the growth in the scale of business.

Insurance result in the Baltic States segment (PLN million)



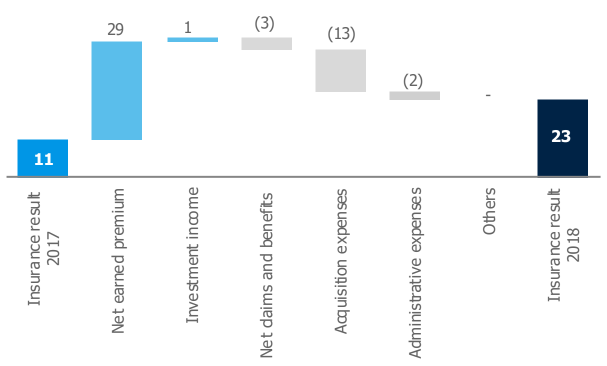
Ukraine

The Ukraine Segment closed 2018 with a positive insurance result of PLN 23 million, compared to PLN 11 million in 2017.

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

- growth of gross written premium. It amounted to PLN 257 million and increased compared to the previous year by PLN 34 million (or 15.2%). The increase in non-life insurance premiums (11.6% y/y) occurred primarily in motor insurance, both as a result of increasing tariffs in mandatory insurance and in accident insurance thanks to conclusion of new contracts. Premiums in life insurance increased by PLN 13 million (or 31.0%);
- higher investment result. In this area the segment generated PLN 19 million, i.e. PLN 1 million more than in 2017;
- increase in net claims and benefits. These reached PLN 59 million and were 5.4% higher than in the previous year. In life insurance the value of benefits paid increased in relation to the previous year by PLN 2 million (or 11.8%). The loss ratio calculated on the basis of the net earned premium in non-life insurance was 40.4%, down 6.6 p.p. compared to the previous year;
- increase in acquisition expenses. They stood at PLN 82 million compared to PLN 69 million in the previous year. Due to the higher commission burden, expenditures for this purpose in life insurance increased by PLN 9 million (or 36.0%). The segment's acquisition expense ratio went down compared to the previous year by 2.2 p.p. to 53.9%;
- higher administrative expenses. They amounted to PLN 25 million, up PLN 2 million compared to the previous year. The administrative expense ratio calculated on the basis of the net earned premium decreased by 2.3 p.p. and stood at 16.4%.

Insurance result in the Ukraine segment (PLN million)



Investment contracts

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

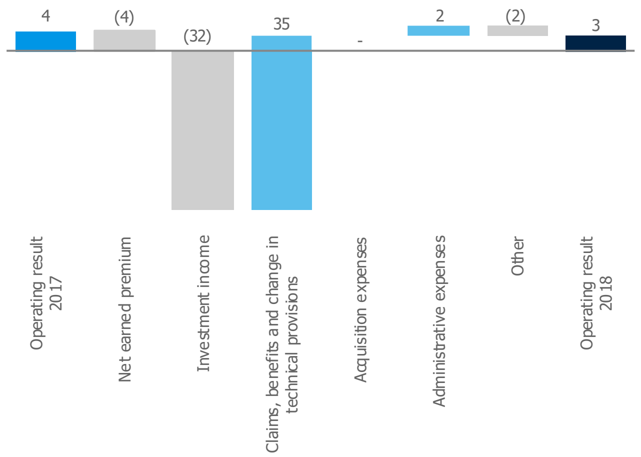
The results of the investment contracts segment are presented according to Polish Accounting Standards, which means that they include, among other things, gross written premium, claims paid and movement in technical provisions. The above categories are eliminated at the consolidated level.

In 2018 the PZU Group earned PLN 3 million of operating profit compared with PLN 4 million in the previous year (decrease of 25.0%) on investment contracts, i.e. PZU Życie's products which do not generate a material insurance risk and which do not meet the definition of an insurance contract (such as some products with a guaranteed rate of return and certain unit-linked products). This result in 2018 was driven by the following factors:

- gross written premium generated on investment contracts in 2018 decreased by PLN 4 million (-9.1%) compared to 2017 to PLN 40 million. The changes were caused mainly by modification of the IKZE product at the end of 2017, which allowed newly-signed contracts to be signed as insurance contracts and transferred to the individual insurance segment;
- result on investing activity in the investment contracts segment fell PLN 32 million versus the previous year, mainly as a result of a worse rate of return on individual pension security accounts (IKZEs) and unit-linked products in the bancassurance channel;
- the cost of insurance claims and benefits together with the movement in other net technical provisions decreased PLN 35 million y/y to PLN 15 million due to the negative investment income in unit-linked products in this segment in the current period, as compared to the high positive performance in the previous year;
- in the investment contract segment, no active acquisition of contracts is currently underway and only a small fee was paid in unit-linked products in the bancassurance channel;
- administrative expenses were PLN 5 million, down by PLN 2 million from the previous year as a consequence of the decreasing portfolio of contracts in this segment.

Summing up, the increase in the segment's operating result was driven mainly by the lower operating expenses allocated to the products of this segment.

Operating result in the investment contracts segment (PLN million)



Profitability ratios
The return on equity attributable to the parent company (PZU) for the period from 1 January 2018 to 31 December 2018 was 22.1%. ROE was 1.1 p.p. higher than in the previous year. The profitability ratios achieved in 2018 by the PZU Group exceed the levels achieved by the whole market (according to the data for three quarters of 2018).

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

The PZU Group's combined ratio (for non-life insurance) has been maintained in recent years at a level ensuring a high profitability of business. In 2018, this ratio remained at a low level of 87.1% despite the remeasurement of provisions for claims for general damages due to vegetative state.

The operating efficiency ratios, broken down into individual segments, were presented in the ATTACHMENT.

	Operational efficiency ratios	2018	2017	2016	2015	2014
1.	**Gross claims and benefits ratio** (simple) (gross claims and benefits/gross written premium) x 100%	63.8%	67.3%	63.7%	66.9%	69.5%
2.	**Net claims and benefits ratio** (net claims and benefits/net earned premium) x 100	65.2%	70.0%	68.4%	68.2%	70.3%
3.	**Operating expense ratio in the insurance segments** (insurance activity expenses/net earned premium) x 100%	21.4%	21.1%	22.5%	23.3%	22.2%
4.	**Acquisition expense ratio in the insurance segments** (acquisition expenses/net earned premium) x 100%	14.5%	14.0%	14.3%	14.1%	13.4%
5.	**Administrative expense ratio in the insurance segments** (administrative expenses/ net earned premium) x 100%	6.9%	7.2%	8.3%	9.2%	8.8%
6.	**Combined ratio in non-life insurance** (net claims and benefits + insurance activity expenses) / net earned premium x 100%	87.1%	89.6%	94.9%	94.5%	95.7%
7.	**Operating profit margin in life insurance** (operating profit/gross written premium) x 100%	21.3%	19.3%	25.3%	22.3%	24.4%
8.	**Cost/Income ratio -** banking operations	42.3%	48.0%	44.4%		

Basic performance ratios of the PZU Group	2018	2017	2016	2015	2014
Return on equity (ROE) – attributable to the parent company (annualized net profit/ average equity) x 100%	22.1%	21.0%	14.9%	18.0%	22.6%
Return on equity (ROE) – consolidated (annualized net profit/average equity) x 100%	14.6%	15.3%	14.7%	16.6%	22.6%
Return on assets (ROA) (annualized net profit/average assets) x 100%	1.7%	1.9%	2.1%	2.7%	4.6%

6.8 Issuer's financial results – PZU (PAS)

In 2018, the issuer (PZU) recorded a technical result at a level of PLN 1,539 million compared to PLN 1,218 million in the preceding year, which signifies a 26.3% increase in the result year on year. Net profit was PLN 2,712 million compared to PLN 2,459 million in 2017 (up 10.3%). Excluding the dividend received from PZU Życie SA, PZU's net profit was PLN 1,454 million and was higher by PLN 425 million compared to 2017.

In the individual net result items, PZU recorded:

- an increase in gross written premium to PLN 13,003 million, or 4.6%, compared to the previous year, mainly in motor insurance as a result of an increase in the average premium (driven by changes in the tariff introduced in recent years and changes in the structure of the insured vehicle portfolio) and in insurance against fire and other damage to property. Adjusting for the reinsurers' share and the movement in the provision for unearned premiums, net earned premium was PLN 12,086 million, up 8.1% from 2017;
- a higher level of claims and benefits totaling PLN 7,520 million, up 4.9%, compared to 2017. The main change was recorded in the motor insurance and third party liability insurance group;
- net investment result higher by PLN 153 million. These were mainly the effects of the dividends paid out by Pekao, compensated partly by the lower than the year before dividends received from PZU Życie;
- higher acquisition expenses, taking into account reinsurance commission (an increase by PLN 218 million), mainly due to an increase in direct acquisition expenses driven by the growing insurance portfolio combined with a change of the structure of sales channels (higher share of multiagency and dealer channels characterized by higher commission rates);
- a decrease in administrative expenses to PLN 655 million compared to PLN 693 million in 2017, primarily as a result of the application of cost discipline measures both in current and in project activities.

In 2018 PZU collected gross written premium of PLN 13,003 million, i.e. 4.6% more than in 2017. They comprised mainly:

- TPL motor insurance premiums, accounting for 41.5% of PZU's insurance portfolio (42.4% in the prior year). In 2018, their value was 2.3% higher than in the previous year, mainly as an effect of increase in the average premium as a result of the tariff changes introduced in recent years combined with a lower number of insurance policies;
- motor own damage insurance premiums with a 25.0% share of PZU's total gross written premium (i.e. 0.3 p.p. less than in the corresponding period of the previous year) – increase (+3.3% y/y) being the resultant of the average premium and a decease in the number of concluded insurance policies (in the corporate client segment);
- insurance against fire and ather damage to property premiums, accounting for 19.7% of PZU's premium portfolio. In 2018 their share in the insurance portfolio increased 0.5 p.p. and the value was higher by 7.4% compared to the previous year – the effect of the higher premiums from household insurance, SME, and indirect activity with the Group Companies;
- accident and other insurance premiums, whose share amounted to 8.0% (an increase by 0.7 p.p. compared with 2017). In this insurance category PZU recorded an increase in the value of the premiums mainly in assistance insurance (including assistance offered with motor insurance) and various financial losses insurance – in 2017 TUW PZUW was joined by several existing strategic partners and end of cooperation with a big customer under an obligatory quota share inward reinsurance treaty.

In 2018, PZU's investment activity focused on the continuation of strategic assumptions, in particular on the optimization of profitability of investment operations through greater diversification of the investment portfolio.

In 2018, the result on PZU's investment activity was PLN 2,152 million compared to PLN 1,998 million in 2017. After netting out the effect of the dividends received from PZU Życie, the net investment result was PLN 894 million compared to PLN 569 million the year before. The increase in the result was attributable mainly to the dividends received from Pekao in the amount of PLN 415 million. In December 2018, the value of PZU's investment portfolio was PLN 37,571 million compared to PLN 36,553 million at yearend 2017.

The increase in the portfolio value resulted primarily from higher cash flows in connection with the dynamic development of the insurance portfolio, and the investment resulted generated. Compared to the year before, the share of bank deposits and conditional transactions, entered into mainly to enhance the return on investing activity, increased.

In 2018 PZU did not use hedge accounting.

In 2018, net claims and benefits and the incremental growth in PZU's provisions totaled PLN 7,520 million, whichi indicates a 4.9% growth compared to 2017.

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

- higher claims and benefits in motor insurance resulting from change of the structure of the insurance portfolio, remeasurement of the provision for claims for pain and suffering and the observed increase in the average payout;
- the higher loss ratio in third party liability insurance, resulting to a large extent from an increase in the value of the annuities provision (mainly in third party liability insurance for medical entities) and reporting of several large claims;
- the lower level of claims in the group of damages caused by elements and other property losses, including much lower level of events with a high unit value and claims under crop insurance – in the corresponding period of 2017, there were numerous losses caused by gusty wind and rainfall.

During 2018, acquisition expenses (without reinsurance commissions) amounted to PLN 2 371 million and increased by 10.9% compared with 2017. This increase resulted predominantly from an increase in direct acquisition expenses (commissions) which resulted from higher sales and change of the distribution channel mix (higher share of the multiagency and dealer channel in the portfolio).

In 2018, PZU's administrative expenses were at PLN 655 million, which was 5.5% lower than in the prior year. The expense dynamics was affected primarily by the persistent cost discipline in operating areas unrelated to wages (current and project-related operations), partly limited by higher payroll costs in response to clear signs of wage pressure on the market.

The balance of other technical income and expenses in 2018 was negative and stood at PLN 242 million. The deterioration of the balance in relation to 2017 was the result of, among others, revaluation charge for receivables and lower other technical incomes.

In 2018, the net balance of other operating income and expenses was negative and amounted to PLN 447 million compared with the also negative balance for 2017 of PLN 217 million. Starting in mid-2014 the balance of other operating expenses was charged with the interest expense and change of the valuation on account of foreign exchange translation differences on the loan taken from PZU Finance AB for the total amount of EUR 850 million (EUR 500 million in July 2014 and EUR 350 million in October 2015). In 2018 positive foreign exchange differences on the loan received from PZU Finance AB (publ.) amounted to PLN 1 million, compared to the 2017 positive differences of PLN 217 million. Additionally, the level of other operating expenses was significantly impacted by the tax on assets – the resulting charge in 2018 was PLN 190 million (increase by PLN 12 million compared to 2017).

On 31 December 2018, PZU's total assets value amounted to PLN 43,567 million and was 2.8% higher as at the end of 2017.

The main component of PZU's assets were investments in the total amount of PLN 37,571 million (up 2.8% compared to the end of 2017), which accounted for 86.2% of PZU's total asset value compared to 86.3% as at the end of the previous year. Net of investments in subsidiaries, the level of investments was higher by 8.8% compared to the end of 2017. The main cause of the increase in the value of investments was the higher level of operating cash flows into the portfolio and increase in the generatedinvestment result.

PZU's receivables stood at PLN 2,343 million and accounted for 5.4% of assets. For comparison, at the end of 2017, they amounted to PLN 2,315 million (5.5% of PZU's assets). The highest growth was recorded in the value of receivables on reinsurance, including from related parties (increase by PLN 73 million, compared to the end of 2017) resulting from the dynamic growth of the inward reinsurance portfolio with TUW PZUW. Non-current assets – in the form of intangible assets, goodwill and property, plant and equipment – stood at PLN 458 million and constituted 1.1% of assets.

As at 31 December 2018, PZU held PLN 1,222 million of cash (2.8% of assets). The year before their value was PLN 982 million.

At the end of 2018, net technical provisions were the main component of PZU's equity and liabilities. They stood at PLN 20,998 million (including estimated recourses) and accounted for 48.2% of equity and liabilities. Their share in the balance sheet increased by 1.1 p.p. compared to 2017, while in terms of value they rose by PLN 1,030 million, in particular due to higher provisions for outstanding claims and benefits, mainly in the group of motor TPL insurance and general TPL.

As at the end of 2018, equity amounted to PLN 13,925 million and accounted for 32.0% of equity and liabilities (no changed compared to the end of 2017).

Contingent receivables amounted to PLN 4,490 million, down by PLN 126 million compared to the year before. They comprised among others: guarantees received, bills of exchange issued on account of granted insurance guarantees and other contingent receivables comprising mainly securities received in the form of mortgage on the debtor's assets and other contingent receivables.

The balance of contingent liabilities increased by PLN 75 million compared to the year before. This resulted mainly from the increase in the granted guarantees and sureties (which include, among others, the guarantee granted to the subsidiary PZU Finance AB), partly compensated by a decrease in other contingent liabilities, including disputable liabilities, challenged by the insurer.

In 2018, PZU generated a return on equity (ROE) of 19.7%, up by 0.5 p.p. compared to 2017. In 2015-2018, the average return on equity (ROE) was 17.5%.

COR (combined ratio) was one of the fundamental measures of productivity and operating efficiency of an insurance company; in PZU SA it has been maintained at a level confirming its high operating profitability in recent years.

Operational efficiency ratios are presented below.

	Operational efficiency ratios	2018	2017	2016	2015	2014
1.	**Gross claims and benefits ratio** (simple) (gross claims and benefits/gross written premium) x 100%	60.5%	60.9%	58.8%	61.2%	65.5%
2.	**Net claims and benefits ratio** (net claims and benefits/net earned premium) x 100%	62.2%	64.1%	66.7%	63.8%	66.2%
3.	**Insurance activity expense ratio** (insurance activity expenses/net earned premium) x 100%	24.8%	25.2%	27.9%	29.4%	28.5%
4.	**Acquisition expense ratio*** (acquisition expenses/net earned premium) x 100%	19.3%	19.0%	20.1%	19.9%	19.3%
5.	**Administrative expense ratio** (administrative expenses/net earned premium) x 100%	5.4%	6.2%	7.9%	9.5%	9.2%
6.	**Combined ratio (COR GLOSSARY)** (net claims and benefits + insurance activity expenses) / net earned premium x 100%	87.0%	89.3%	94.7%	93.2%	94.7%

* after taking into account reinsurance commissions received

Basic profitability ratios of PZU	2018	2017*	2016	2015	2014
Return on equity (ROE) (annualized net profit/average equity) x 100%	19.7%	19.2%	12.8%	18.2%	21.4%
Return on assets (ROA) (annualized net profit/average assets) x 100%	6.3%	6.2%	4.3%	6.3%	8.1%

* Restated data

Joanna

Praktykantka w Biurze Efektywności Sprzedaży

Weź karierę we własne ręce!
Więcej informacji o programie praktyk i staży w PZU oraz aktualne oferty znajdziesz na **pzu.pl/kariera.**

Joanna studies at the Jagiellonian University. She is doing her internship in the Sales Efficiency Department. One of her projects involves developing training scripts in virtual reality so that our trainers can run workshops more efficiently. Joanna is fascinated by Far East culture. In her free time, she makes costumes from games and comic books, which she regularly presents at international competitions.

"I'm fascinated by technology and I'm happy that I can participate in such an innovative project. I can't wait for a time when my creative work can be used in education. I like the work system and the fact that from day one I've been treated as a full-fledged employee."

www.pzu.pl/kariera/studenci/program-praktyk-i-stazy

7.

Risk management

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

In this section:

7.1 Objective of risk management

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

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

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

- systems of limits and limitations on the acceptable level of risk, including the level of risk appetite;
- processes involving the identification, measurement and assessment, monitoring and controlling, reporting and management measures pertaining to various risks;
- risk management organizational structure in which the management boards and supervisory boards of the entities and dedicated committees play a crucial role.

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

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

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

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

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

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

7.2 Risk management system

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

- organizational structure – comprising a 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 organizational structure of the risk management system that is identical across the PZU Group and the PZU Group's various financial sector entities has four decision-making levels.

The first three entail the following:

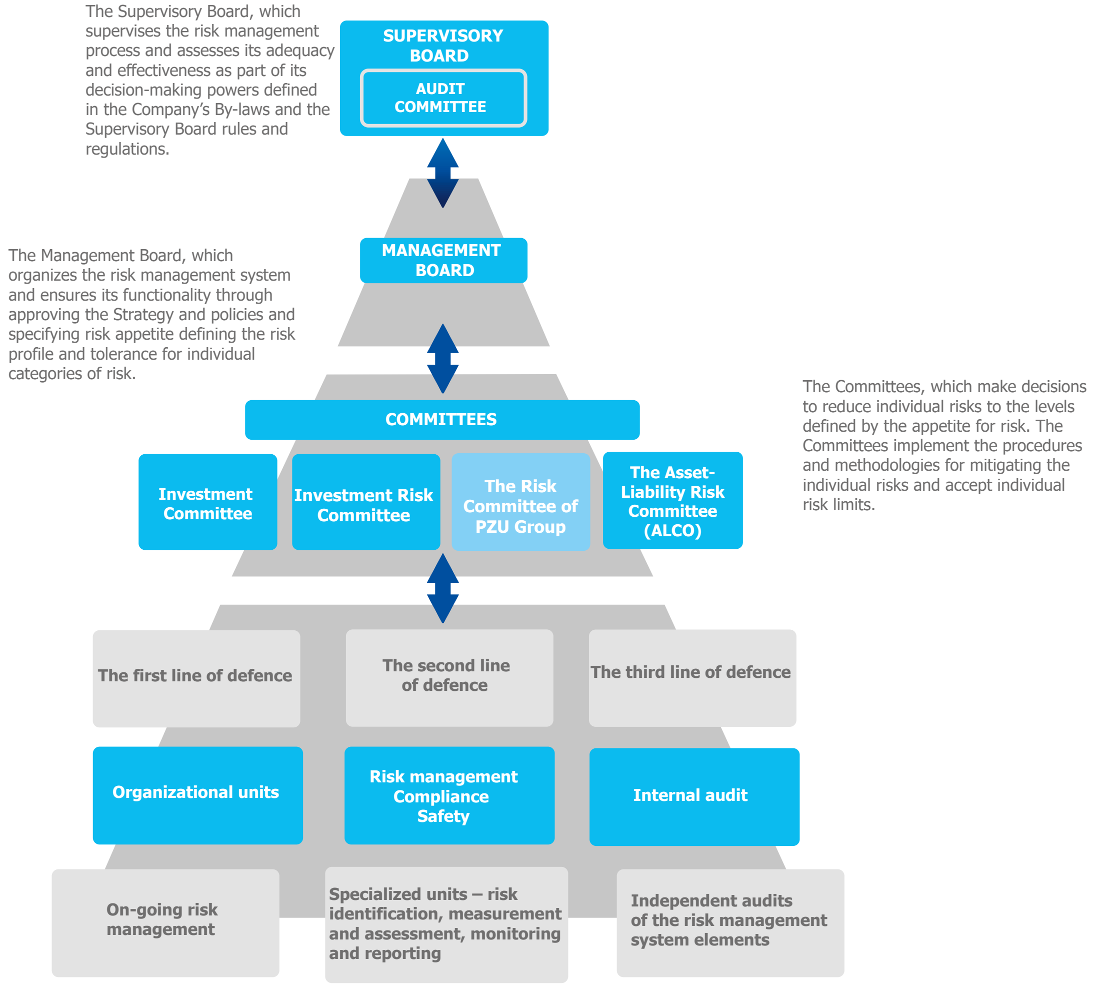
- The Supervisory Board, which supervises the risk management process and assesses its adequacy and effectiveness as part of its decision-making powers defined in a given entity's Articles of Association and the Supervisory Board bylaws, as well as through the Audit Committee;
- The Management Board,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

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

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

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

Chart of the organizational structure for the risk management system



7.3 Risk appetite

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

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

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

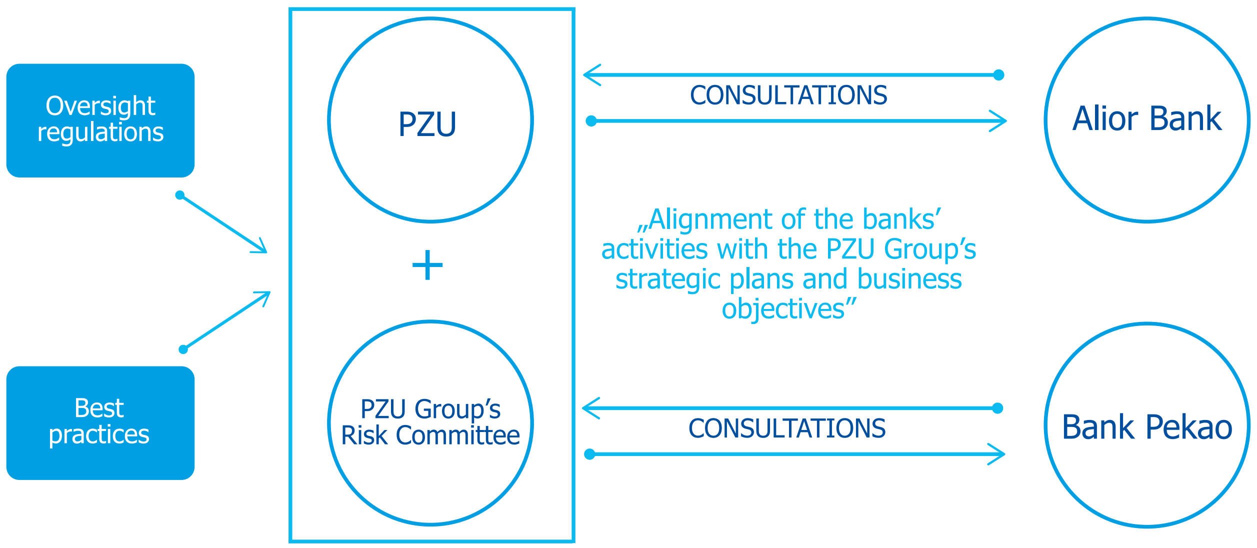
Risk appetite is also determined at least once a year in the PZU Group's banking sector entities. This process is carried out based on the applicable oversight regulations (including those arising from remedial plans) and best practices. This process is tailored to both banks to reflect their business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

7.4 Risk management process

Two levels are distinguished in the risk management process:

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

Process of determining the risk appetite in the PZU Group



Risk management prevents the acceptance of risk at a level that could pose a threat to the PZU Group's financial stability

Risk management process stages: identification, measurement and assessment, monitoring and control, and management activities

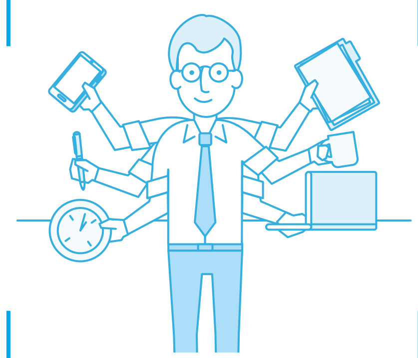
The risk management structure in the PZU Group comprises 4 decision-making levels: (i) Supervisory Board, (ii) Management Board, (iii) Committees, (iv) three lines of defense as part of operations

Key risks in the PZU Group: actuarial, market, credit, concentration, liquidity, operational, model and compliance

The process of determining the risk appetite and risk limits for each risk category consistent with the Group's process implemented in entities in the PZU Group

Supervision over risk management systems in the banking sector entities (Alior and Pekao) is exercised by the Supervisory Boards of these banks, to which PZU designates its representatives

The risk appetite determined at least once a year in Pekao and Alior (after consultations with the parent company) ensures alignment of the banks' activities with the PZU Group's strategic plans and business objectives



Reinsurance providing security against negative impact of catastrophic events on the results of the PZU Group's insurance activity

As at the end of Q3 2018, the Solvency II ratio 245% above the average ratio reported by insurance groups in Europe

The Group's capital management (including excess capital) is conducted at the level of the PZU Group as the parent company

PZU's reinsurance partners with high S&P ratings (AA, A)

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

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

The risk management process consists of the following stages:

Identification

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

Risk measurement and assessment

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

Risk monitoring and control

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

Reporting

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

Management actions

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

7.5 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 accounts for approximately 33% of the PZU Group's total risk (Q3 2018), while the largest contribution is in credit risk.

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 start developing an insurance product, buying a financial instrument, modifying an operating process and also with the moment when some other event occurs that may potentially lead to the emergence of risk in a given entity and it is in play until the time when the related liabilities expire. The identification of actuarial risk is performed, among others, as follows:

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

Assessing actuarial risk entails recognizing the degree of the threat or the group of threats determining the possibility of a loss emerging and analyzing the elements of that risk in a manner enabling one to make a decision to accept that risk to be insured and for a given entity to incur liability. The purpose of underwriting is to assess the future loss ratio and curtail adverse selection. Assessing actuarial risk also involves measures to reinsure the largest risks posing the greatest threat.

The measurement of actuarial risk is performed in particular using:

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

Monitoring and controlling actuarial risk involves the regular analysis of the level of risk and determining the degree of utilization of the established borderline values of risk tolerance and the limits set forth in the Risk Management Strategy in the PZU Group.

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

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

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

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

- the scopes of liability are defined in the general / specific terms and conditions of insurance or other model agreements in financial insurance;
- the exclusions of liability are defined in the general / specific terms and conditions of insurance or other model agreements in financial insurance;
- reinsurance actions;
- adequate tariff policy;
- application of the appropriate provision calculation methodology;
- relevant underwriting procedure;
- relevant benefits handling procedure;
- sales decisions and plans;
- prevention.

Market risk

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

The process of managing the credit spread risk 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 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 credit risk and interest rate risk.

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

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

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

Market risk is measured using the following risk measures:

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

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

When measuring market risk, the following stages, in particular, are distinguished:

- collection of information on assets and liabilities that generate market risk;
- calculation of risk based on the VaR metric and the standard formula.

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

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

Management actions in respect of market risk involve in particular:

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

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

Credit and concentration risk

Credit risk is the risk of a loss or an unfavorable change in the financial standing resulting from fluctuations in the trustworthiness and creditworthiness of the issuers of securities, counterparties and all debtors, materializing by the counterparty's default on a liability or an increase in credit spread. The following risk categories are distinguished in terms of credit risk:

- spread;
- counterparty default risk;
- credit risk in financial insurance.

Concentration risk is the possibility of incurring a loss stemming from the failure to diversify an asset portfolio or from large exposure to the risk of default 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 to a new entity. Such identification involves an analysis of whether the contemplated investment entails credit risk or concentration risk, what its level depends on and what its volatility over time is. Both actual and potential sources of credit risk and concentration risk should be 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.

Credit risk is measured using:

- measures of exposure (gross and net credit exposure and maturity-weighted net credit exposure);
- standard formula.

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

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

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

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

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

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

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

The structure of credit risk limits and concentration risk limits for various issuers is established by dedicated committees in such a manner that the limits are consistent with the adopted risk tolerance 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 a system devised to support the credit process, scoring or rating tools, external information (for instance, CBD DZ, CBD BR, BIK and BIG databases) and the internal databases of both of the PZU Group's banks. 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, security interests are established in line with the level of exposure to credit risk and in accordance with the client's ability to provide the required collateral. The establishment of a security interest does not waive the requirement to examine the client's creditworthiness.

In turn, credit scoring is used as a tool supporting the decision making process regarding loans for retail clients and micro-enterprises, while credit rating has the same role in the segment of small, medium-sized and large enterprises.

Liquidity risk

Financial liquidity risk means the possibility of losing the capacity to settle, on an ongoing basis, the Company's liabilities to its clients or counterparties. The aim of the liquidity risk management system is to maintain the capacity of fulfilling the Company's liabilities on an ongoing basis. The Company maintains the required level of investment portfolio liquidity.

The risk identification involves analysis of the possibility of occurrence of unfavorable events, in particular:
- shortage of liquid cash to satisfy the Company's current needs;
- lack of liquidity of financial instruments held.

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

The 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 above.

Within management of liquidity risk, banks in the PZU Group also perform analyses of the maturity profile over a longer term, depending to a large extent on the adopted assumptions about development of future cash flows connected with items of assets and equity and liabilities. The assumptions take into consideration:
- stability of equity and liabilities with indefinite maturities (e.g. current accounts, cancellations and renewals of deposits, level of their concentration);
- possibility of shortening the maturity period for specific items of assets (e.g. mortgage loans with an early repayment option);
- possibility of selling items of assets (liquidity portfolio).

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

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

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

Operational risk

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

Operational risk is identified in particular by:
- accumulation and analysis of information on operational risk incidents;
- self-assessment of operational risk;
- scenario analyses.

Operational risk is assessed and measured by:
- calculating the effects of the occurrence of operational risk incidents;
- estimating the effects of potential operational risk incidents that may occur in the business.

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

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

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

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

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

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

Model risk

Considering the growing importance of the scope in which models are used and the classification of the risk of models as material for the PZU Group, the formal process of identifying and assessing this risk was launched in 2018. The process aims to ensure high quality of risk management practices applied to this risk. It is currently being implemented in PZU and PZU Życie.

Model risk 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.

Model risk is very important for banking sector entities and therefore management of this risk has already been implemented in the course of adaptation to the requirements of Recommendation W issued by the KNF. Both banks have defined standards for the model risk management process, including the rules for developing models and evaluating the quality of their operation and have ensured appropriate corporate governance solutions.

Compliance risk

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

The compliance risk management process at the PZU and PZU Życie level covers both systemic activities carried out by the Compliance Department and ongoing compliance risk management activities which are the responsibility of the heads of organizational units or cells in the Companies. Compliance risk is identified and assessed for each internal process at PZU and PZU Życie, in line with the demarcation of reporting responsibilities. Moreover, the Compliance Department identifies compliance risk on the basis of information obtained from the legislative process, from notifications to the register of conflicts of interest, gifts and irregularities, and from inquiries received by the Department.

The systemic activities include, in particular:

- development and implementation of systemic assumptions and internal regulations consistent with those assumptions;
- recommending to other PZU Group entities solutions for the application of a consistent compliance function and a systemic approach to compliance risk management;
- monitoring of the compliance risk management process, including in particular: performing compliance risk analyses, reviewing the degree of implementation of guidelines provided by external entities in respect of compliance risk management;
- consulting on and issuing interpretations and guidelines for the application of the adopted standards of conduct and compliance risk management;
- planning and delivery of training and internal communication in the field of compliance;.
- preparation of compliance risk reports and information.

In turn, activities of the heads of organizational units related to ongoing management of compliance risk include, among others:

- identification and evaluation of risk in the supervised area;
- measurement of risk;
- determining the instruments to provide protection and limit the number and scale of irregularities;
- reporting any threats and events in the compliance risk area to the Compliance Department;
- taking mitigation activities;
- ongoing monitoring of compliance risk.

Moreover, the Compliance Department at PZU level makes efforts aimed at ensuring consistent and uniform standards of compliance solutions in all PZU Group entities and monitors compliance risk throughout the PZU Group.

In 2018 the PZU Group entities had compliance systems adapted to the standards designated by PZU.

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

On an ongoing basis, PZU Group entities provide information on compliance risk to the Compliance Department at PZU and PZU Życie. In turn, the tasks of the Compliance Department include the following:

- analysis of monthly and quarterly reports received from compliance units of each member of the Group;
- assessment of the impact of compliance risk on the PZU Group as a whole;
- analysis of the implementation of recommendations issued to companies pertaining to the fulfillment of the compliance function;
- provision of support to compliance units in various PZU Group entities in assessing their own compliance risk;
- preparation of reports for 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 the absence of clear and unambiguous laws or their non-existence manifesting itself in the form of 'legal loopholes'. This may cause irregularities in the PZU Group's business, which may then lead to an increase in costs (for instance, due to the imposition of financial penalties) and an increase in the level of reputation risk, thus in a drop of the Group's trustworthiness on the market (resulting in a possible financial loss).

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

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

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

- financial, resulting, without limitation, from administrative penalties, court judgments, decisions issued by UOKiK, contractual penalties and damages;
- intangible, pertaining to a loss of reputation, including damage to the PZU Group's image and brand.

Compliance risk is monitored, in particular, through:

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

Management actions in the area of response to compliance risk include in particular:
- acceptance of the risk arising, without limitation, from legal and regulatory changes;
- mitigation of risk, including adjustment of procedures and processes to regulatory requirements, issuing opinions and drafting internal regulations from the point of view of compliance, participating in the process of agreeing marketing activities;
- avoidance of the risk by preventing any involvement in activities that are out of compliance with the applicable regulatory requirements or best market practices or activities that may have an unfavorable impact on the entity's image.

As part of efforts aimed at reducing compliance risk 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 function in the management system of PZU Group entities;
- 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;
- execution of implementation projects for new regulations;
- training of staff in PZU Group entities in new regulations, standards of conduct and recommended management actions;
- issuing opinions on internal regulations of PZU Group entities 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;
- anticipating adjustment of documentation to upcoming changes in legal requirements;
- systemic supervision exercised by PZU over the execution of the compliance function in PZU Group entities.

In 2018, because of the effective dates of critical legal changes, the compliance area was involved in the work on adapting the Company to the new regulations. These included mainly the requirements arising out of the following legal regulations:
- Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision;
- Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation);
- Act of 16 December 2016 on Rules for Managing State Property;
- Markets in Financial Instruments Directive of 15 May 2014 (MIFID 2) (regulation material for some PZU Group entities, in particular TFI);
- Insurance Distribution Act of 15 December 2017;
- Act of 1 March 2018 on Preventing Money Laundering and the Financing of Terrorism.

Risk concentration

As part of its risk management operations, the PZU Group has been identifying, measuring and monitoring risk concentration; in the banking sector, these processes have been carried out at the level of the individual entities, in line with the requirements for the sector. In order to comply with the regulatory requirements imposed on groups identified as financial conglomerates, intensive adaptation work is under way to implement the model for managing significant risk concentrations in a financial conglomerate.

The PZU Group currently identifies the following types of risk concentration:
- within actuarial risk, it identifies concentration risk with regard to possible losses caused by natural disasters, such as, in particular, floods and cyclones and concentration of large corporate risks, however in both these instances, the reinsurance program in place reduces the potential for net loss;
- within credit and market risks, concentration risk is identified at the level of corporate groups, sectors of the economy and countries;
- within operational risk and other material risks, no concentration risk has been identified.

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

7.6 Risk vulnerability

Risk pertaining to financial assets

In the table below summarizes the results of analysis of the sensitivity of the net financial result and equity of the PZU Group (excluding banks) to changes in interest rate risk, foreign exchange risk and equity instruments price risk. This analysis does not take into account the impact of changes in interest rates on the insurance agreements presented in the liabilities or the investment contracts and receivables of banks from its clients.

Financial assets exposed to exchange risk include deposit transactions and debt securities used to hedge payments from technical provisions denominated in foreign currencies, exposures to equity instruments quoted on stock exchanges other than WSE, investment fund units and certificates, exposures to derivatives denominated in foreign currencies and financial assets of consolidated international insurance companies.

Interest rate risk: possibility of incurring a loss as a consequence of movement in the value of financial instruments or assets and movement in the current value of projected flows on liabilities as a result of shifts in the term structure of market interest rates or volatility of risk-free market interest rates.

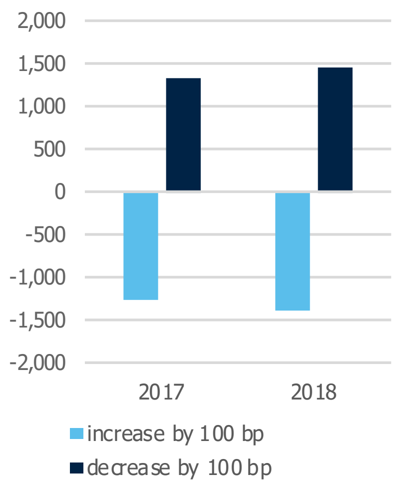
Currency risk: possibility of incurring a loss as a consequence of movements in the value of assets, liabilities and financial instruments as a result of changes in currency exchange rates or volatility in currency exchange rates.

Equity price risk: possibility of incurring a loss as a consequence of movement in the value of assets, liabilities and financial instruments as a result of changes in the market prices of equities or volatility in the market prices of equities.

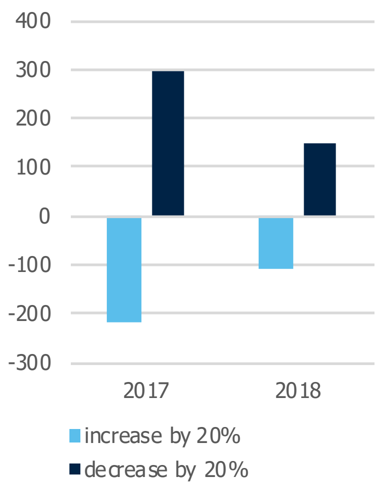
The differences in the sensitivity of the asset portfolio between 2017 and 2018 stem from executing the adopted investment strategy and aligning the investment portfolio to it.

		31 December 2018	31 December 2017
Sensitivity of the asset portfolio (in PLN m)	**Change of the risk factor**	**Impact on net financial result and equity**	**Impact on net financial result and equity**
Interest rate risk	decrease by 100 bp	1,450	1,334
	increase by 100 bp	(1,369)	(1,250)
Foreign exchange risk	increase by 20%	(110)	(219)
	decrease by 20%	148	295
Equity instruments price risk	increase by 20%	190	350
	decrease by 20%	(190)	(350)

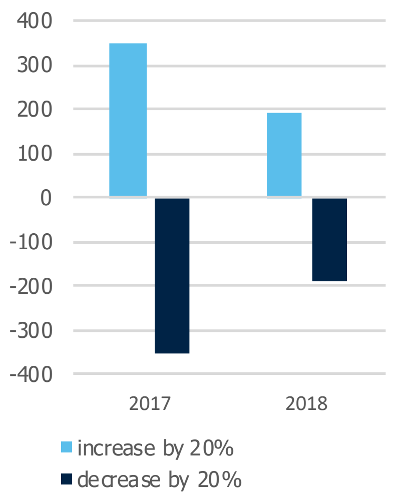
Interest rate risk



Currency risk



The risk of capital instruments prices



Risk pertaining to technical rates and mortality

In the table on page 108, a sensitivity analysis is presented of the net result and equity to changes in the assumptions used to calculate the provision for the capitalized value of annuities. This analysis does not take into account the impact of changes in the valuation of deposits taken into consideration in the calculation of the provision on the net financial result and equity.

sensitivity of reserves	Impact of changes in assumptions on the net financial result and equity	
	31 December 2018	31 December 2017
Changes in the assumptions to the net capitalized annuities in non-life insurance (in PLN m)		
Technical rate - increase by 0.5 p.p.	426	407
Technical rate - decrease by 1.0 p.p.	(1,105)	(1,051)
Mortality at 110% of the currently assumed rate	127	127
Mortality at 90% of the currently assumed rat	(142)	(141)
Changes in the assumptions for annuities in life insurance (in PLN m)		
Technical rate - decrease by 1.0 p.p.	(25)	(27)
Mortality at 90% of the currently assumed rat	(11)	(11)
Changes in the assumptions for reserves in life insurance, excluding annuity insurance (in PLN m)		
Technical rate - decrease by 1.0 p.p.	(2,062)	(2,092)
Mortality at 110% of the currently assumed rate	(869)	(881)
110% morbidity and accident rate	(143)	(148)

Banking activity

Interest rate risk

Interest rate risk is defined as the risk of the level of market interest rates exerting an adverse impact on the current result or the net present value of the Bank's capital. When managing interest rate risk in its banking book, the banks endeavor to secure the economic value of equity and to achieve its intended net interest income target within the accepted limits.

The table below depicts the estimated change in the valuation of a given transaction/item as a result of a parallel shift in the yield curve from a given point by 1 basis point (BPV).

BPV (PLN thous.) (shift by 1 basis point)	31.12.2018	31.12.2017
Pekao Group	3,540	437
Alior Bank Group	2,251	537

Foreign exchange risk

The fundamental measure of foreign exchange risk in both banks is the Value at Risk (VaR) model to designate the potential value of a loss on currency positions due to changes in exchange rates, while maintaining the assumed confidence level of 99% and the period in which the position is kept. This value is calculated daily for all areas responsible for risk taking and risk management, both on an individual and collective basis.

1-day VaR – fx risk – trading book (PLN thous.)	31.12.2018	31.12.2017
Pekao Group	117	739
Alior Bank Group	49	50

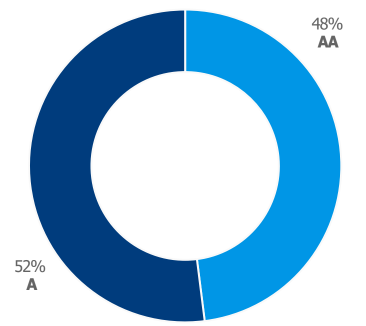
7.7 Reinsurance operations

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

Reinsurance treaties in PZU

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

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



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

PZU's operations in inward reinsurance involves the PZU Group's other insurance companies. The greater exposure to protection of the Baltic companies, Link4 and TUW PZUW is causing the PZU's gross written premium by virtue thereof to rise.

In addition, PZU obtains a gross written premium from inward reinsurance from activity on the domestic and foreign market through optional and mandatory reinsurance.

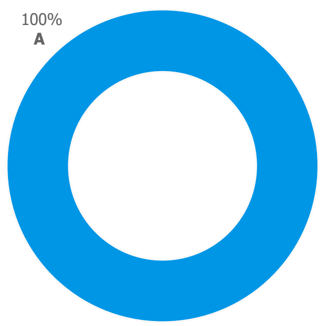
Reinsurance treaties in PZU Życie

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

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

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

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



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

7.8 Capital management

On 3 October 2016 PZU Supervisory Board adopted a resolution (Current Report 61/2016 of 4 October 2016) to approve the PZU Group's Capital and Dividend Policy for 2016-2020 ("Policy"). No changes were made in the Policy in 2018.

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

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

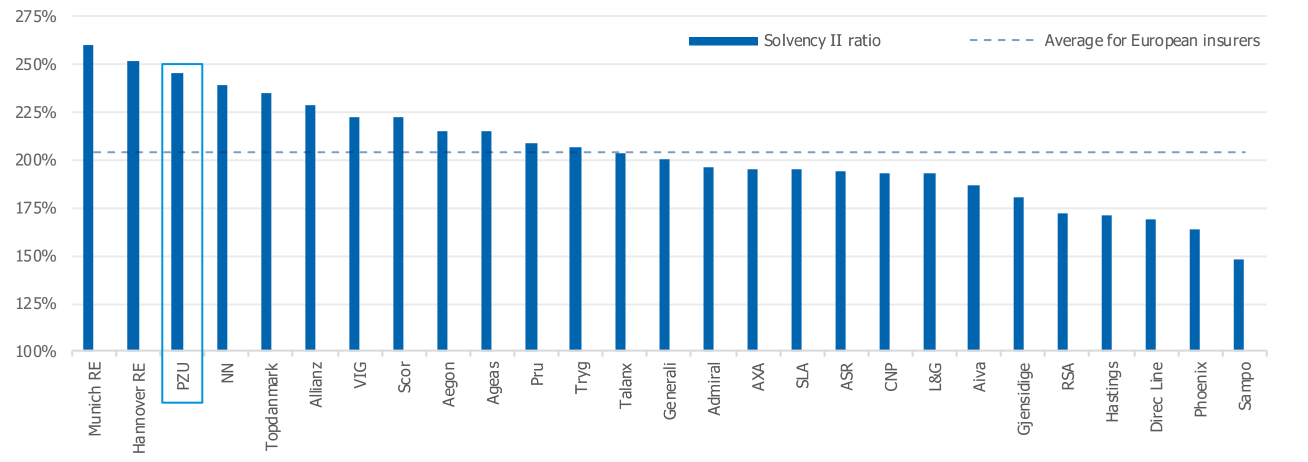
- manage capital effectively by optimizing the usage of capital from the Group's perspective;
- maximize the rate of return on equity for the parent company's shareholders, in particular by maintaining the level of security and retaining capital resources for strategic growth objectives through acquisitions;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

The capital management policy rests on the following principles:

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

As at the end of Q3 2018, the estimated solvency ratio (calculated according to the standard Solvency II equation) was 245% and remained above the average solvency ratio for European insurance groups.

Solvency II ratio for PZU against European insurers

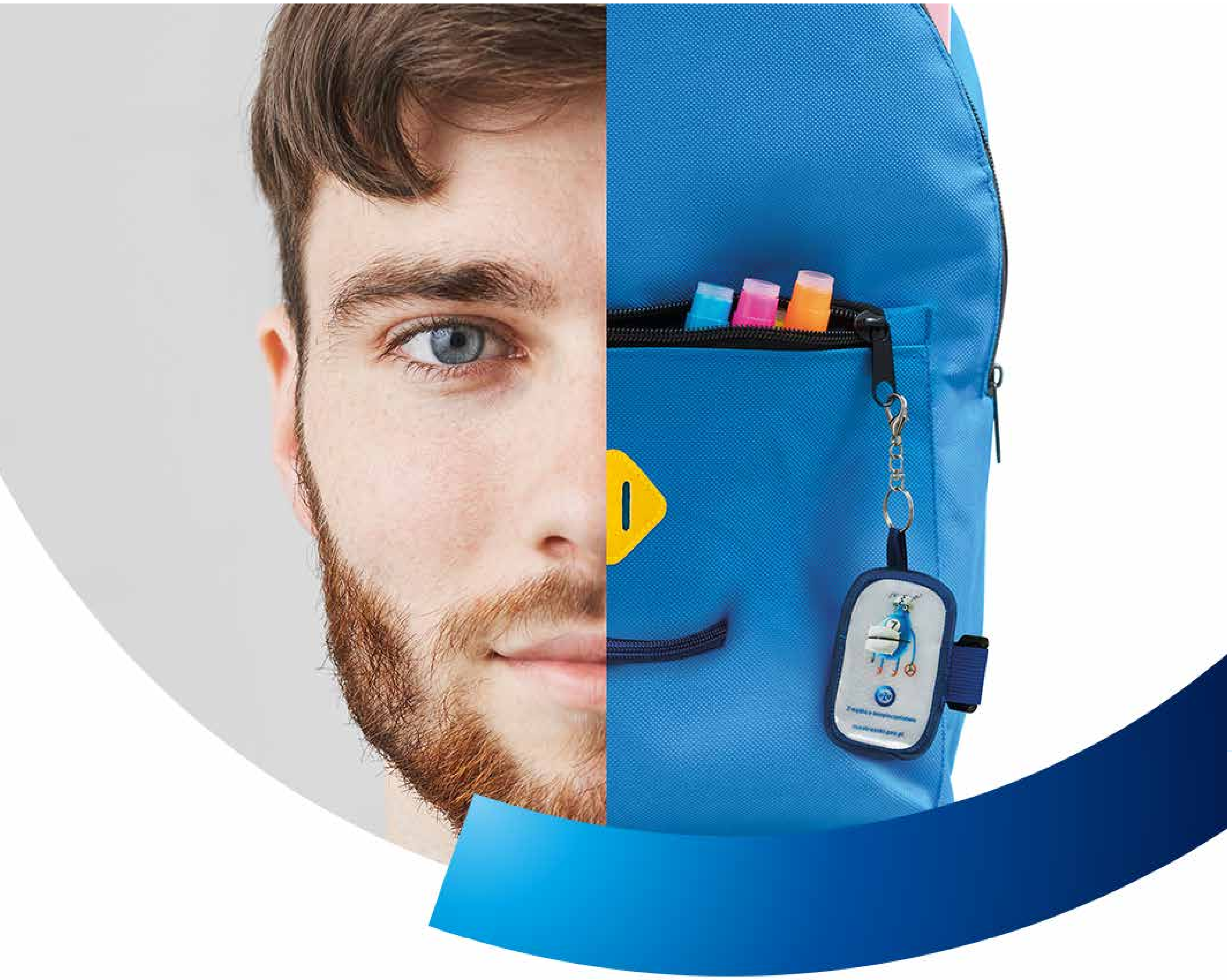


Source: Reports of companies. Q3 2018 data for Aegon, Ageas, Allianz, ASR, AXA, CNP, Generali, Gjensidige, Munich Re, NN, RSA, Sampo, Scor Topdanmark and Tryg; Q2 2018 for the others.

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).

Capital adequacy ratio	Q3 2018	2017
SCR		
PZU Group	245%	208%
PZU*	316%	280%
PZU Życie*	493%	437%
MCR		
PZU Group	457%	351%
PZU*	1,174%	1,039%
PZU Życie*	1,095%	971%,
CRR		
Pekao Group – total capital adequacy ratio	17.4%	17.1%
Tier 1	15.8%	16.1%
Alior Bank Group – total capital adequacy ratio	15.9%	15.2%
Tier 1	12.8%	12.1%

*unaudited data



Kreuję - edukuję

Working for PZU you have actual influence on the reality with which our clients deal on a daily basis. Your ideas really matter and are often the first step to changing the space within which we operate. Be part of big projects in a dynamic company and create safe environment.

PZU. This work makes sense.

Więcej na: http://bit.ly/2CKPfh0

8.

PZU on the capital and debt markets

During the 12 months of 2018, PZU's market capitalization increased by PLN 4.6 billion. Taking into account the PLN 2.2 billion dividend paid to the shareholders, the annual rate of return on the Company's stock was 10.1%. The benchmark WIG index recorded a 9.5% y/y loss in the same period.

In this section:

8.1 Equity and bond market

In the global financial markets, the beginning of 2018 was marked by continuation of very good sentiment prevailing across almost all asset classes in 2017. On 23 January 2018, the WIG index, following the rise in global risk appetite, reached its historic high of 67,529.39 points. The rest of the year, however, was dominated by much worse sentiments on the Polish market. At yearend 2018, the WIG index was down 9.5% y/y, having stopped at 57,690.50 points. The main trading floors in London, Frankfurt and Paris experienced a similar turn of events, having recorded slumps of over 10% y/y. In the United States, the main S&P 500 index ended the year only slightly better with a loss of 7% y/y. The MSCI ACWI (All Country World Index) (composed of stocks from 46 different countries, of which 23 are classified as developed markets and the other 23 are considered emerging markets) dwindled 11.2% y/y in 2018, thus wiping off half the upsurge generated in 2017.

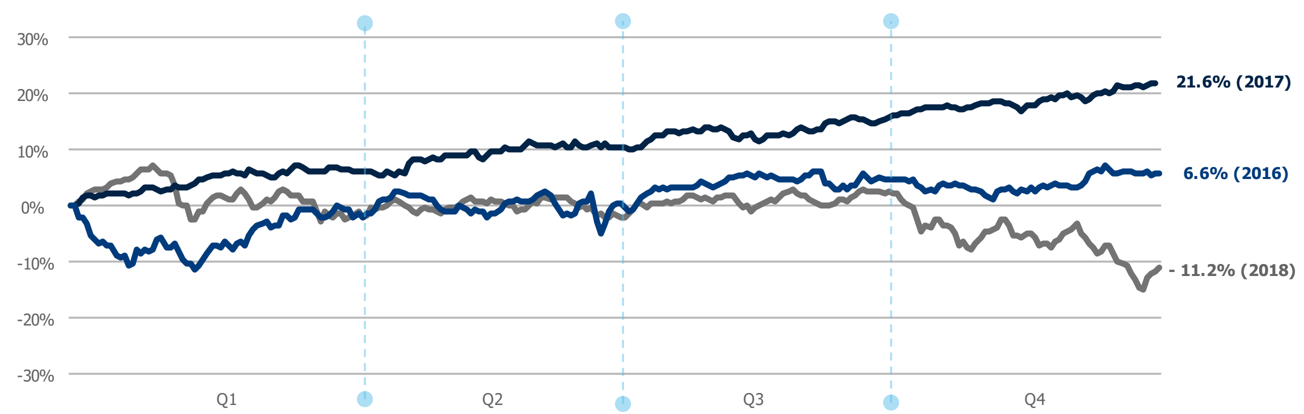
Much like in 2017, the situation on the financial markets was largely affected by the activities of central banks. Investors' attention was focused in particular on the rhetoric and decisions of the American central bank (the Fed), in particular on as many as 4 interest rate hikes. The last such hike was effected on 19 December (to 2.25-2.5%) and was accompanied by a declaration of two more interest rate hikes in 2019. In parallel, throughout 2018 the Fed kept lowering market liquidity through a quantitative tightening operation, i.e. reducing its balance sheet by restraining the reinvestment of maturing bonds.

Also the European Central Bank announced a reduction in the amount of cheap money in circulation, to be effected by way of termination of its quantitative easing program by the end of 2018 (at the same time announcing no interest rate hikes by the end of 2019 and maintaining the reinvestment of interest and principal from maturing bonds). In August 2018, the central bank of England also raised interest rates (to 0.75%), admitting the possibility of subsequent hikes, in particular in the light of potential turbulence associated with Brexit.

Actions taken by major central banks, aimed at gradual tightening of monetary policy, translated into lower liquidity and more constrained access to cheap money. The first consequence of this was a decline in confidence in high-risk assets, in particular emerging markets securities. The effect of the outflow of capital was intensified by the sharp appreciation of the dollar (between the beginning and end of 2018, the US dollar appreciated against the Polish zloty by 8% to PLN 3.76). The unenthusiastic attitudes towards these markets (the contagion effect) were further exacerbated by serious currency turbulences in Argentina and Turkey. The MSCI index of emerging markets dwindled 16.6% y/y.

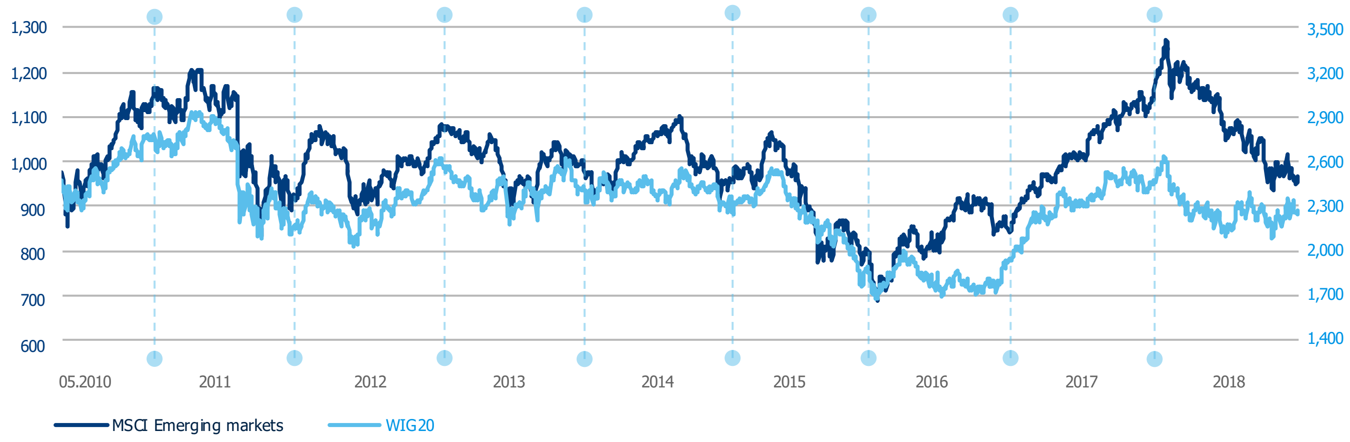
The outflow of capital from emerging markets affected also the Polish capital market, as it is dominated by foreign investors (at yearend 2018, their share in this market was 59%). Furthermore, the weakness of the Polish market was also affected by local factors related to financial problems experienced by the debt collection company GetBack and accusations of corruption against the former head of the Polish Financial Supervision Authority (KNF), which had

MSCI ACWI ($) 2016-2018



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

MSCI Emerging Markets/WIG20



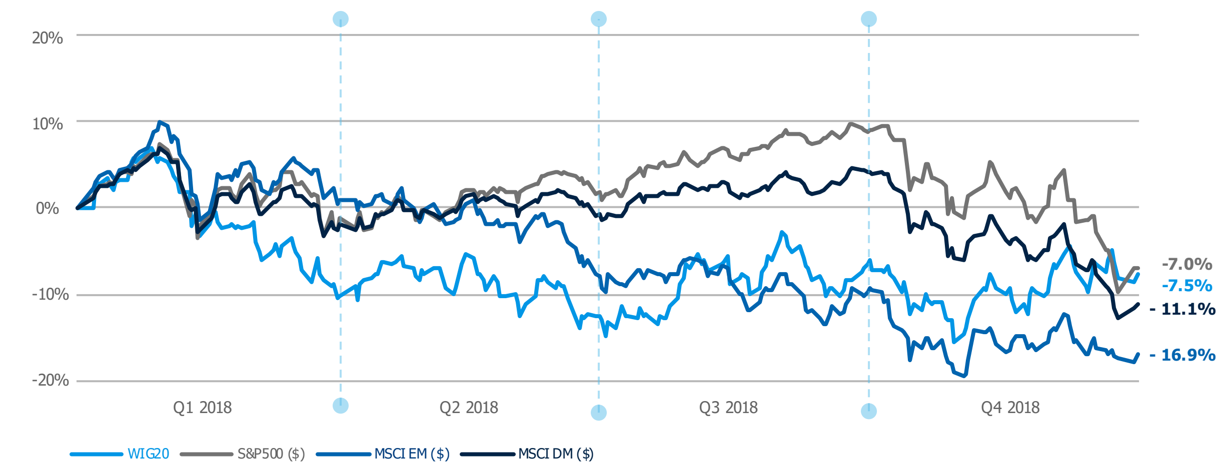
Source: www.infostrefa.com, www.msci.com

a significant impact on the perceived stability of the banking sector (accounting for the largest chunk of the WIG20 index). As a result, also retail investors (whose share in the market at yearend 2018 was 12%) kept withdrawing funds from share-based assets (equities and units in mutual funds). The sweeping deterioration did not spare the asset management market, either. Equity assets under management stood at PLN 25.4 billion at the end of 2018, compared to PLN 33.2 billion at yearend 2017. This means a decline by PLN 7.8 billion, of which the value of redemptions of participation units in these funds totaled PLN 3.9 billion. Total assets of mutual funds shrank by PLN 22.1 billion y/y to PLN 256.8 billion.[1]

Compared to emerging markets, the S&P 500 index, supported by additional appreciation of the dollar, performed much better, setting new records all the way up until September 2018. However, the last quarter of 2018 saw a rapid outflow of capital from the US stock market (at yearend 2018, the S&P 500 dropped 7% y/y to 2,485.74 points). The weaker wrap-up of the year was due not only to the deterioration of sentiments towards the American economy caused by the weakening fiscal stimulus (resulting in a potential slowdown of economic growth), but also to the discounting of the effects of escalating tensions between the United States and China. SECTION 2.3. SITUATION ON THE FINANCIAL MARKETS

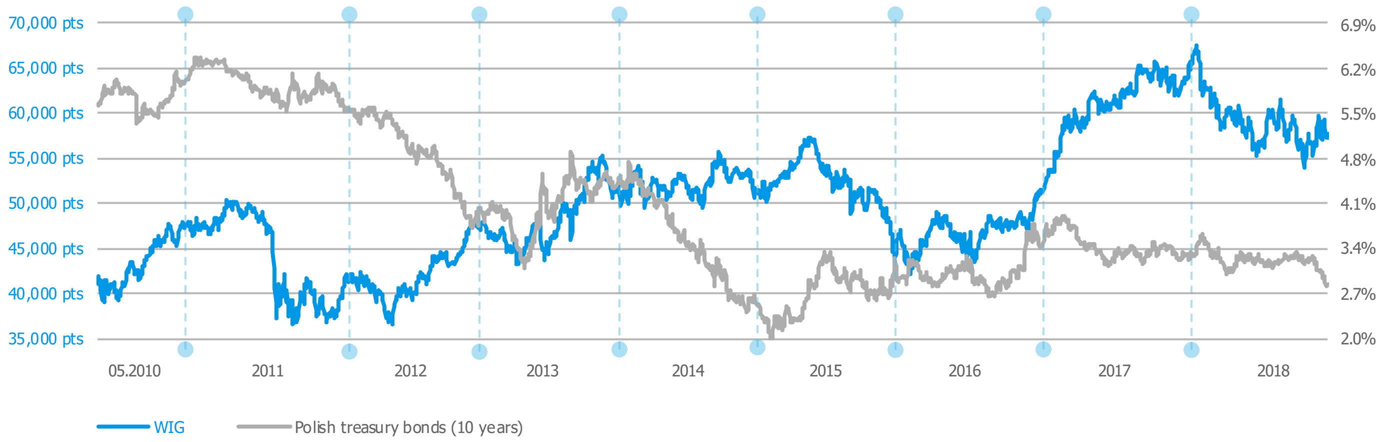
[1] https://www.izfa.pl/dane-statystyczne

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



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

WIG / Treasury bonds



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

The increasing prices of equities on the US stock exchange (during the first 9 months of 2018) were accompanied by declines in the prices of 10-year US Treasuries, which lasted uninterruptedly until October 2018. Conversely, in the European markets, bond prices were on the increase in response to incoming data that might indicate an economic slowdown in the euro area.

The yields on Polish treasury bonds declined (as their prices increased) along the whole yield curve, with the largest movement recorded on annual and 10-year bonds. Throughout 2018, the yields on 10-year treasury bonds slumped by 49 bps from 3.30% to 2.81%. The yields on 5-year treasury bonds declined by 36 bps and stood at 2.29% at the end of the year, while the yields on 2-year bonds dropped by 37 bps to 1.34% during the year. The yield of Polish debt treasury securities with 1-year maturity fell by 56 bps to 0.91% at the end of the year. The benchmark index of Polish treasury bonds TBSP (fixed-coupon and zero-coupon bonds) improved 4.7% y/y in 2018. SECTION 2.3 SITUATION ON THE FINANCIAL MARKETS

8.2 PZU's share price

PZU made its debut on the Warsaw Stock Exchange (WSE) on 12 May 2010. Since day one, it has been included in the following indices: WIG20, WIG, WIG30, WIG-Poland, WIGdiv, WIG20TR and MSCI Poland. Since 2012, the PZU stock has also been taken into account in the sustainable development RESPECT Index (confirmed on 12 December 2018).

Warsaw Stock Exchange indices

In 2018, the Polish blue chip index (WIG20) oscillated between 2,083 and 2,630 (in 2017: between 1,957 and 2,552), ending the year's last session at 2,276 (down 7.5% y/y). The performance of the index of small and medium-sized companies in this period was even poorer. The mWIG index dropped 19.3% y/y and sWIG index plummeted 27.6% y/y.

PZU's share price

In 2018, PZU's shares remained among the most liquid companies traded on the WSE. With the market capitalization of over PLN 37.9 billion as at the end of 2018, PZU was again the fourth largest company listed on the Warsaw Stock Exchange in terms of capitalization. PZU's share in the total WSE trade value was 8.4% (ranking 4th). PZU's equities also ranked among the top five in terms of the rate of return within the WIG20 index (10.1%), with the other 15 companies of the index having recorded losses. At the same time, PZU was the only company representing the financial industry in the WIG20 index with a positive rate of return in 2018.

The maximum price per share of PZU stock in 2018 was PLN 47.34 (at closing prices) and the minimum price was PLN 36.31. In 2017, these prices were PLN 49.06 and PLN 32.82, respectively.

After adjusting the price of PZU stock for disbursed dividends (http://stooq.pl/pomoc/?q=9&s=pzu), the price at yearend 2018 increased 10.7% y/y. The highest price levels were close to historical highs recorded in 2017, yet they were not beaten.

PLN

The dividend yield for PZU's stock was

5.9%

The dividend per share paid in 2018 was

PLN 2.50

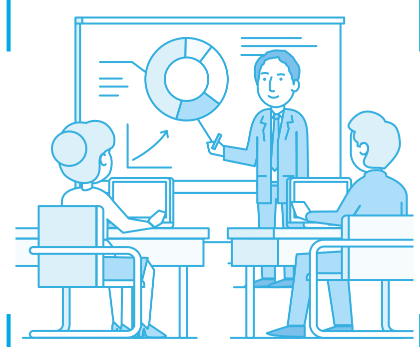
The P/E ratio (price / earnings) for PZU's stock at the end of 2018 was

11.8x

P/BV (price / book value)

2.5x

PLN



Average trading value of PZU's stock per session was

PLN 69.6 million

while the average number of trades per session was

3,751

The percentage of foreign investors in PZU's shareholder structure at the end of 2018 was

35.0%
(PLN 13.3 billion)

including the percentage held by North American investors

13.2%
(PLN 5.0 billion)

PLN

The dividend yield for Pekao's stock was

6.1%

The dividend per share paid in 2018 was

PLN 7.90

The number of conferences for institutional investors

14 foreign

6 local

2 non-deal roadshows in New York City, Boston, Chicago and Tokyo

Number of recommendations issued for PZU shares in 2018:
16

highest target price at the end of December 2018: **PLN 54.0**

average target price at the end of December 2018: **PLN 48.9**

Percentage of PZU held by open-end pension funds (OFE) was

17.4%

and by TFIs

4.9%

Financial strength rating and credit rating for PZU and PZU Życie awarded by S&P Global Ratings

A- (stable)

PZU's market value at the end of 2018 was

PLN 37.9 billion

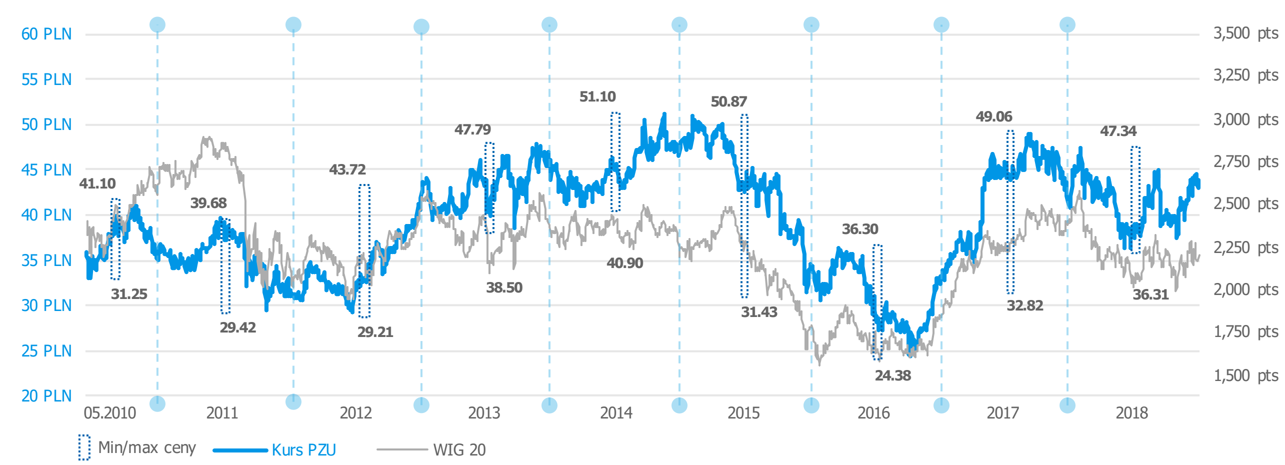
Pekao **PLN 28.6 billion**

Alior Bank **PLN 6.9 billion**

The percentage of retail investors in PZU's shareholder structure at the end of 2018 was

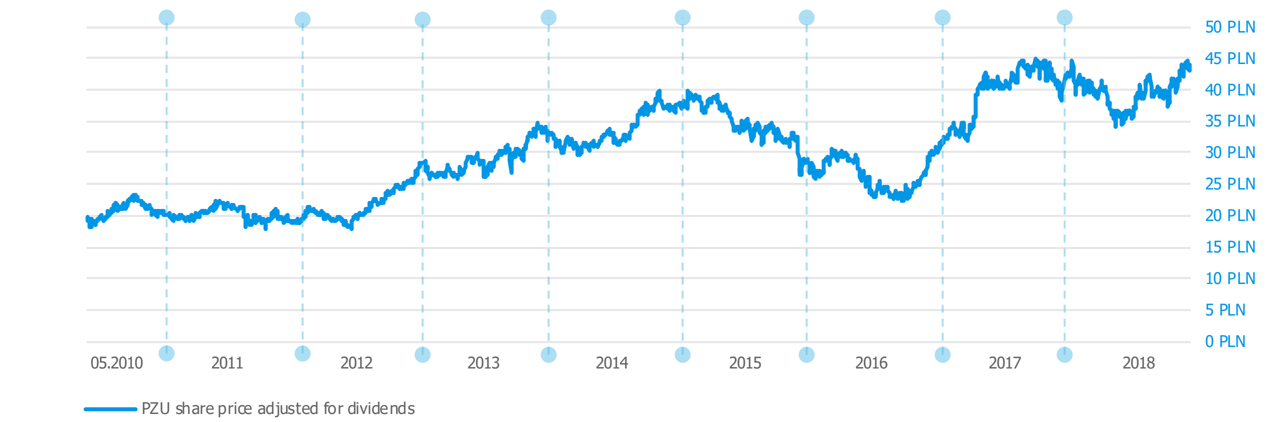
7.2% (PLN 2.7 billion)

PZU's min/max share price at session closing from May 2010 to 2018



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

PZU's share price adjusted for dividends paid from May 2010 to 2018

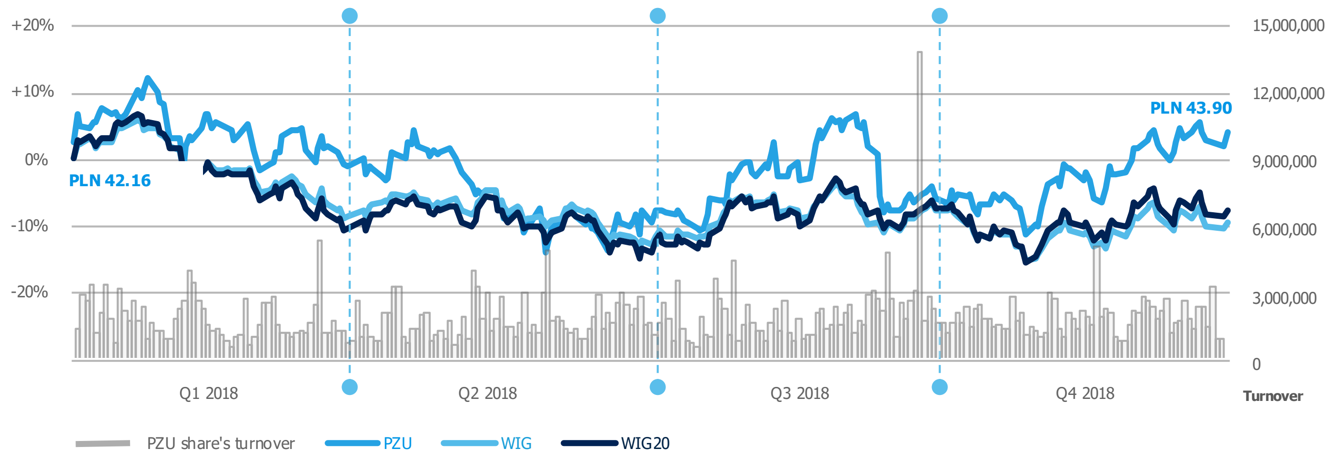


Source: www.stooq.pl

The PZU stock price in 2018 peaked on 26 January at PLN 47.34 per share. This level turned out to be the end of a strong upward trend followed in 2017. For the remainder of the year, the stock performed in a highly volatile manner, following in the footsteps of Polish benchmark indices. The increase in PZU's relative strength vis-à-vis the WIG index transpired only in the last quarter of the year. At yearend 2018, the value of PZU stock (net of the disbursed dividend) increased 4.1% y/y as the WIG20 index decreased 7.5% y/y. In income terms (taking the dividend into account), throughout 2018 PZU recorded a 10.1% y/y rate of return compared to the WIG drop by 9.5% y/y.

In 2018, PZU's stock maintained very high liquidity. The average daily spread of PZU's stock was only 7 bps compared to 16 bps of the average spread for the 20 most liquid companies. PZU's stock accounted for 8.4% of the total market's trading value in PLN, having exceeded PLN 17.2 billion. The average daily trading volume of PZU's stock in 2018 was 1.7 million shares. The largest daily turnover (of 12.4 million shares) was recorded on the falling (-1.4%) trading session of 21 September 2018. This large capital flow was associated with Poland's reclassification from the basket of emerging markets to that of developed markets by FTSE Russel agency, which issued a favorable assessment

PZU stock price versus WIG and WIG20



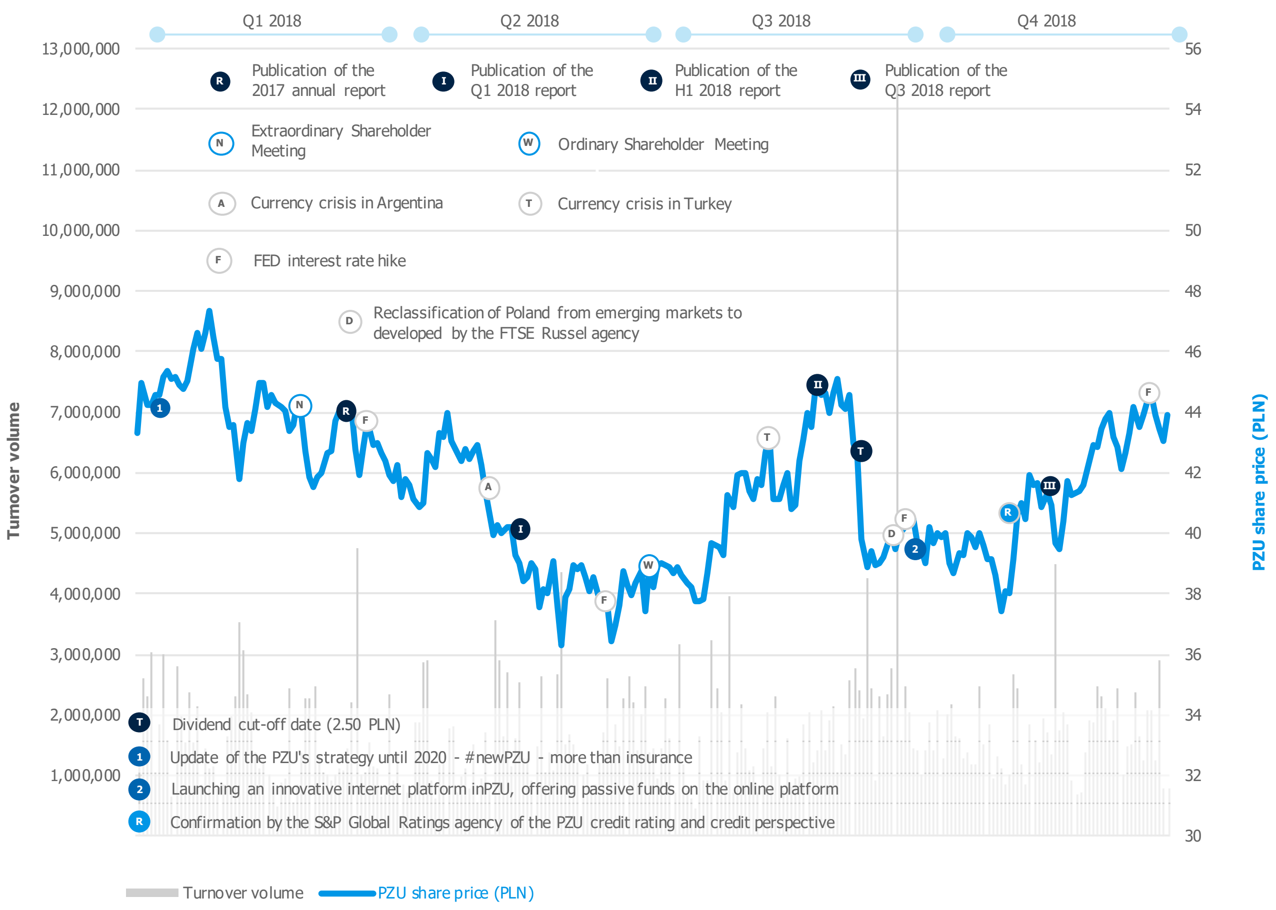
Source: www.gpwinfostrefa.pl

of the developments in the Polish regulatory environment, infrastructure and quality of the capital market, and appreciated the condition of the depository and clearing system as well as the development of the derivatives market. As a result, Poland entered the group of top 25 developed global markets, having joined such countries as Germany, France, Japan, Australia and the United States. At the same time, owing to this reclassification, Poland entered the Stoxx 600 index. The session of 21 September was the last session during which investment funds (mainly passive ones) made changes in their portfolios (predominantly during the fixing of prices at the session's close). Although it will be possible to assess the consequences of the reclassification decision only in the longer term, the immediate conclusion is that concerns about the oversupply of stocks due to the reduction of Poland's share in the basket of developed countries versus that of developing countries were proven wrong. At the end of the 21 September session, the WIG index recorded a token increase.

One of the main factors that affected the increased volatility in the valuation of PZU's stock for most of 2018 was uncertainty arising from speculations about the possible merger of Alior Bank and Pekao and its impact on PZU. On 23 and 24 October 2017, both banks announced in their current reports that work was initiated on analyzing strategic options available to the PZU Group, including a potential merger transaction. After the 7 August 2018 session, the banks announced their withdrawal from negotiations and completion of the analysis process. The justification for the decision was that it will be more beneficial from the shareholders' point of view for the banks to keep operating as separate entities and cooperate with each other as members of the PZU Group. The market reacted favorably to this information. PZU's share price at the close of the 8 August 2018 session went up 2.5% to PLN 42.6.

The trading volume (in OTC block trades) of PZU's stock in 2018 was 9.5 million shares (up 3.9% y/y). This accounted for approx. 2.3% of the trading volume in session transactions in the whole of 2018.

Factors affecting PZU's stock price in 2018



Źródło: www.gpwinfostrefa.pl

Kody Quick Response (QR) do transmisji video

Publication of the 2017 annual report

Publication of the Q1 2018 report

Publication of the H1 2018 report

Publication of the Q3 2018 report

Volatility

Compared to the broad WIG market, PZU's systematic risk expressed by the beta coefficient (PZU stock price vis-à-vis the WIG index for daily shifts) in 2018 was 1.23 (1.06 in 2017). The increase in the beta coefficient was related to the poor performance of the main Polish indices, all of which wrapped up 2018 in the red. In sectoral terms, the situation was not much better either: WIG-Fuels was the only industry-specific index that improved. Against this background, PZU's stock prices definitely stood out, generating a 4.1% increase (net of the distributed dividend). In 2018, the annualized standard deviation for daily changes in the PZU stock price increased 3.5 percentage points y/y and stood at 27.1%. The value of this statistic for WIG and WIG20 went up 3.4 p.p. and 3.7 p.p. to 15.2% and 18.7%, respectively, which was in line with the global trend of increasing volatility in 2018.

PZU's total shareholder return, calculated as the stock price difference plus the value of the distributed dividend, was 10.1% as at yearend 2018 (in 2016 and 2017, it was 3.7% and 31.2%, respectively). In 2018, PZU's performance compared to the best-suited comparative group (WIG20TR index) was significantly better than in 2017, surpassing the benchmark index in 2018 by 15.5 p.p. compared to 2.3 p.p. in 2017.

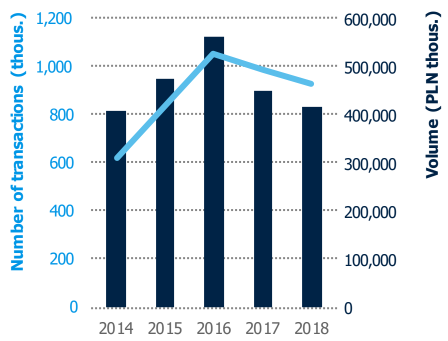
The dividend yield on PZU's stock disbursed in 2018 (of PLN 2.50 per share), calculated using the price per share of PLN 42.16 as at the end of 2017, was 5.9%. This was 4 p.p. higher than the dividend yield for the WIG20TR index[2]. The dividend yield for the WIG-Banks index was 3.4%.

Wskaźniki

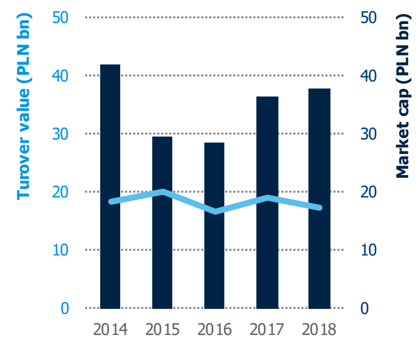
As at the end of 2018, PZU's shares had a high value of the P/BV ratio of 2.5, i.e. twice the average for European insurance companies, which according to analysts is a consequence of a high ROE at yearend 2018, it stood at 22.1%.

[2] Warsaw Stock Exchange, https://www.gpw.pl/pub/GPW/statystyki/statystyki_kwartalne/20184_GPW.xls

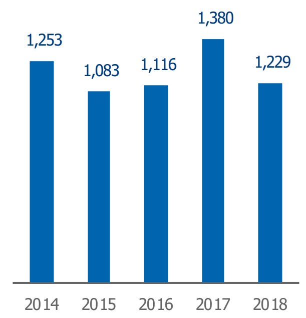
PZU's trading volume / Number of transactions



PZU's capitalization / Trading volume



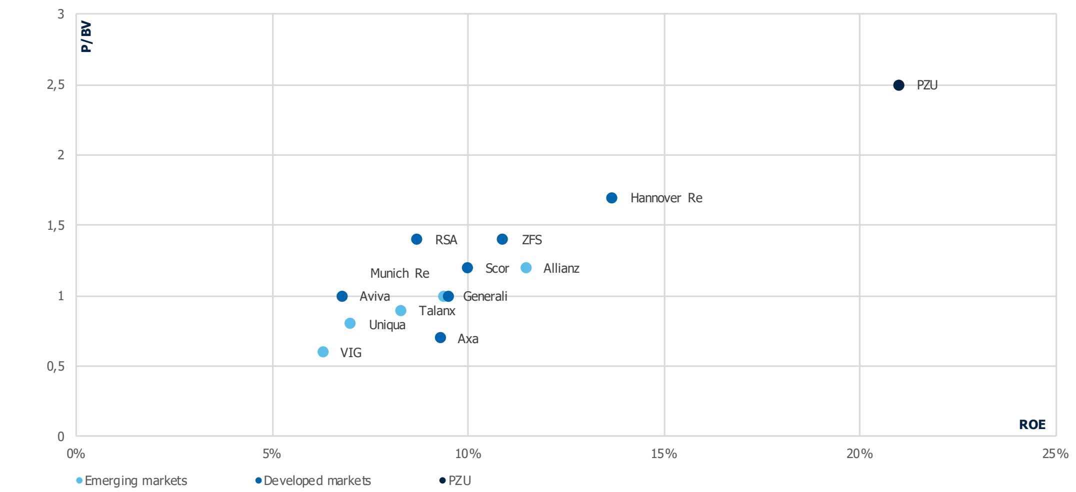
WSE's capitalization



PZU's stock-related statistics	2018	2017	2016	2015	2014
Maximum price (PLN)	47.34	49.06	36.30	50.87	51.10
Minimum price (PLN)	36.31	32.82	24.38	31.43	40.90
Closing price on the last trading session of the year (PLN)	43.90	42.16	33.21	34.02	48.60
Average session price (PLN)	41.48	42.53	30.76	43.72	45.22
Trading Volume (PLN m)	17,183	18,902	16,755	20,145	18,401
Average trading value per session (PLN m)	69.6	75.6	66.8	80.3	73.9
Number of transactions (units)	926,486	985,515	1,046,398	835,471	621,224
Average number of trades per session	3,751	3,942	4,169	3,329	2,495
Trading volume (units)	415,380,500	448,832,864	558,496,833	470,048,842	407,247,220
Average trading volume per session (shares)	1,681,702	1,795,331	2,225,087	1,872,705	1,635,531
Capitalization at the end of the period (PLN m)	37,908	36,406	28,677	29,377	41,967

Source: www.gpwinfostrefa.pl

PZU's valuation compared to the peer group (P/BV and ROE)



Source: Bloomberg (Q3 2018); PZU (Q3 2018)

PZU's stock*	2018	2017**	2016	2015	2014
P/BV Share price / book value per share	2.5x	2.6x	2.2x	2.3x	3.2x
BVPS (PLN) Book value per share	17.3	16.3	15.0	15.0	15.3
P/E Share price / net earnings per share	11.8x	12.6x	14.8x	12.5x	14.1x
EPS (PLN) Net profit (loss) / number of shares outstanding	3.7	3.4	2.2	2.7	3.4

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

** restated data

8.3 Banking sector on the Warsaw Stock Exchange

Context in the banking sector

In 2018, the WIG-Banks[3] index sank 12.1% y/y, or 2.6 p.p. more than the WIG index. The deteriorating sentiment towards banks (in 2017, WIG-Banks increased 35.4% y/y, beating WIG by 12 p.p.) is a result of the market's response to the passive "wait and see" attitude adopted by the Monetary Policy Board towards interest rate hikes. The rationale behind this behavior of the Monetary Policy Board was the low inflation rate (below the NBP target of 2.5%) and the inflation structure, not driven by growth in demand on the goods and services market but stimulated predominantly by energy prices. The decline in the valuation of banking assets in Poland was also a result of the deteriorating global sentiments: the STOXX Banks index (adjusted for dividends, EUR) decreased in 2018 by over 30%.[4]

Despite the diminishing valuations of banks listed on the stock exchange, the overall condition of the banking sector remained good. Banks recorded increases in lending activity and net interest income, driven to a large extent by the high rate of economic growth and wages in Poland and the falling rate of unemployment. On the other hand, greater regulatory pressure resulted in a lower result on fees and commissions. This notwithstanding, already in November 2018 the profits generated by the banking sector surpassed those achieved in the whole of 2017.

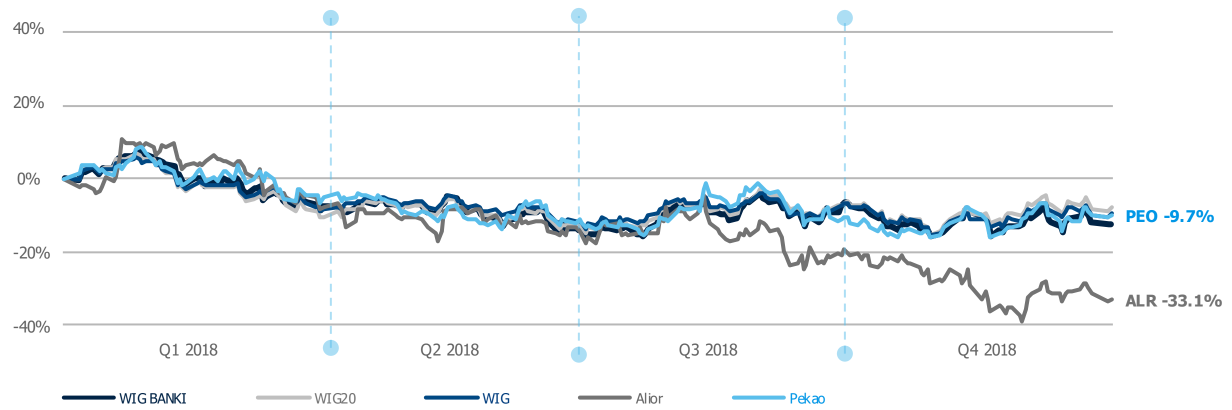
The bank valuations were also affected by local factors related to the situation involving Getin Bank and Idea Bank. Due to their financial problems and a rapid outflow of deposits (especially in the case of Getin Bank), concerns emerged about possible corrective measures and potential involvement of other capital-rich Polish banks. It also caused concerns about a greater-than-expected increase in contributions to the Bank Guarantee Fund (BFG), which according to analysts would have to swell from approx. PLN 2 billion to PLN 3 billion per annum in order for the Fund to reach the target levels of cash until 2030 despite potential additional costs. The risk related to the conversion of loans denominated in Swiss francs continued to exist.

In 2018, the share prices of the banks controlled by PZU, i.e. Pekao (a member of the PZU Group since 7 June 2017) and Alior Bank (a member of the PZU Group since 18 December 2015), went down 9.7% (taking account of the dividend) and 33.1%, respectively. The relatively poorer performance of Alior Bank compared to the WIG-Banks index resulted to a certain extent from investors' concerns about the execution of Alior Bank's ambitious strategy in the context of profound changes in its management and speculations about the bank's possible continued participation in the consolidation of the banking sector in Poland.

In 2018, Pekao distributed a dividend of PLN 7.9 per share (100% of profit), which implied a 6.1% dividend yield (calculated based on the share price at yearend 2017). The dividend yield for the WIG-Banks index was 3.4%.

[3] It is an income-based index and thus, when it is calculated, it accounts for both the prices of underlying shares and income from dividends and pre-emptive rights.
[4] https://www.stoxx.com/index-details?symbol=SX7E

WSE-listed banks in 2018



Source: www.gpwinfostrefa.pl

8.4 PZU's investor relations

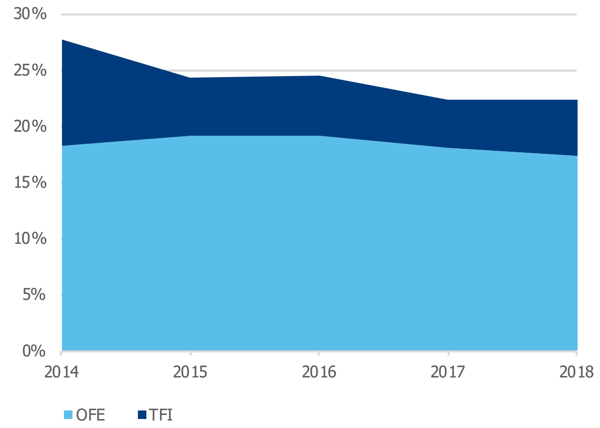
Meeting stringent information governance requirements for public companies and fulfilling information needs of different groups of stakeholders, the Management Board of PZU undertakes various investor relations activities aimed at improving transparency in the company and procuring equal access to information. Therefore, PZU has consistently applied the "Principles for PZU to Conduct its Information Policy for Capital Market Participants".

PZU's shareholder structure

As at 31 December 2018, the Company was aware of two shareholders controlling more than 5% of its share capital and votes at the PZU Shareholder Meeting: the State Treasury of the Republic of Poland (34.2%) and NN OFE/NN DFE[5] (5,1%)[6] SECTION 9.6. PZU'S SHARE CAPITAL AND SHAREHOLDERS

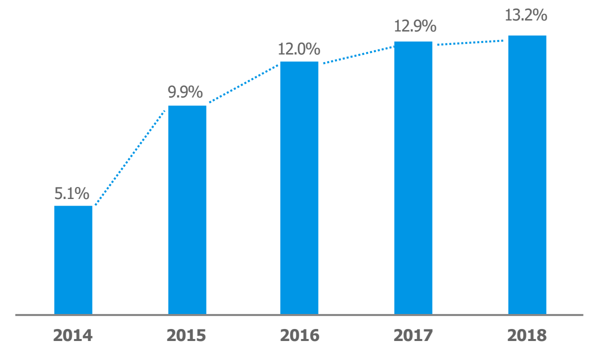
According to a survey[7] carried out at the end of 2018, PZU's shareholder structure remained stable and diversified. The share of foreign investors increased 0.6 p.p. y/y to 35.0% at the expense of domestic investors, which resulted predominantly from a lower exposure of retail investors. The (benchmark) year 2017 was a record year for this group of investors, which was related, without limitation, to very large improvements in major market indices (WIG20 by 26.4% and WIG by 23.2%). At the same time, the share of retail investors in trading on the whole regulated market in 2018 decreased to 12% (-4 p.p.). The share of foreign retail investors (in PZU) remained at a similar level to that of 2018 and stood at 1.0%.

Open-end pension funds and fund management companies in the shareholder structure of PZU in 2014-2018



Source: IPREO

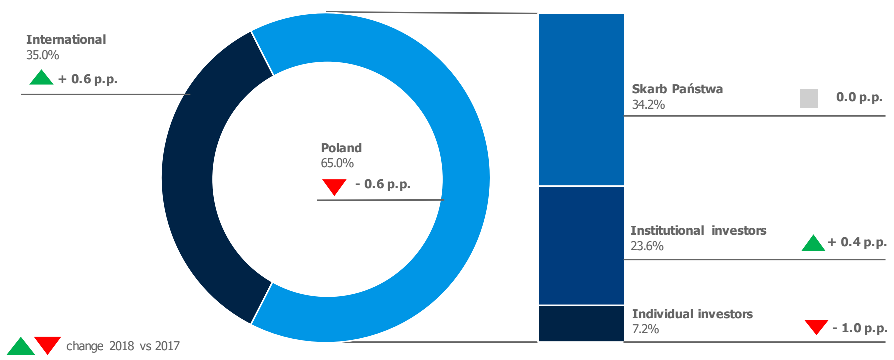
North American investors 2014-2018



Source: IPREO

[5] Nationale-Nederlanden Open Pension Fund and Nationale Nederlanden Voluntary Pension Fund.
[6] Current Report 21/2018
[7] Shareholder structure survey by IPREO

PZU shareholder structure - main investor groups

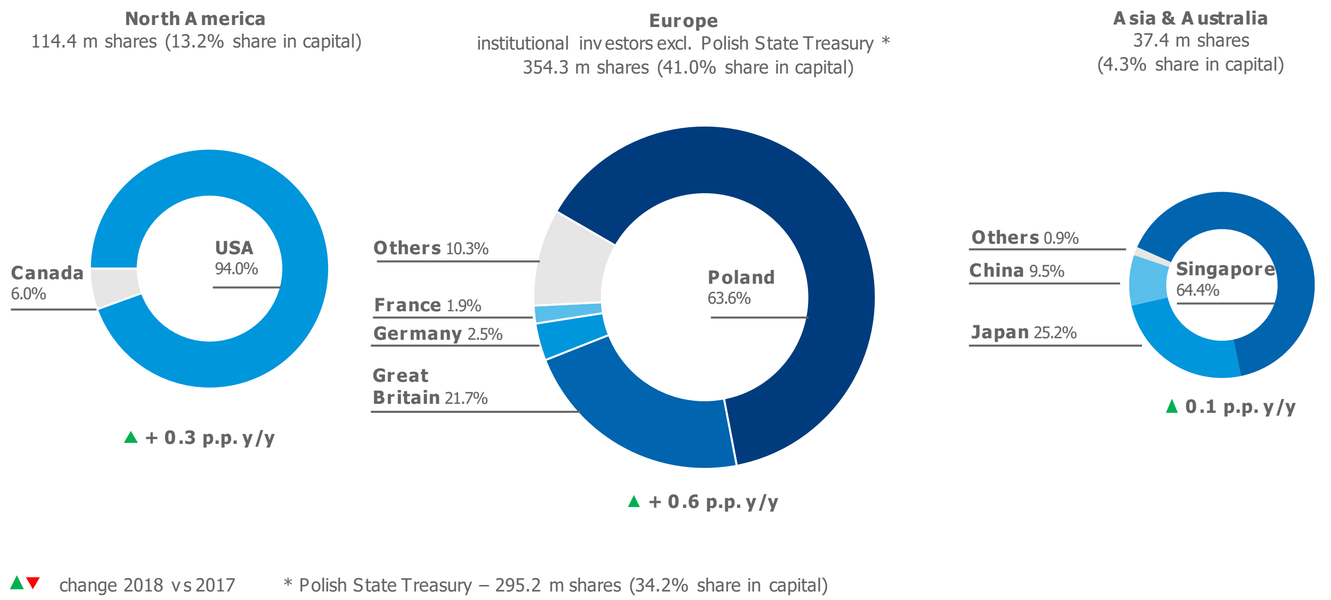


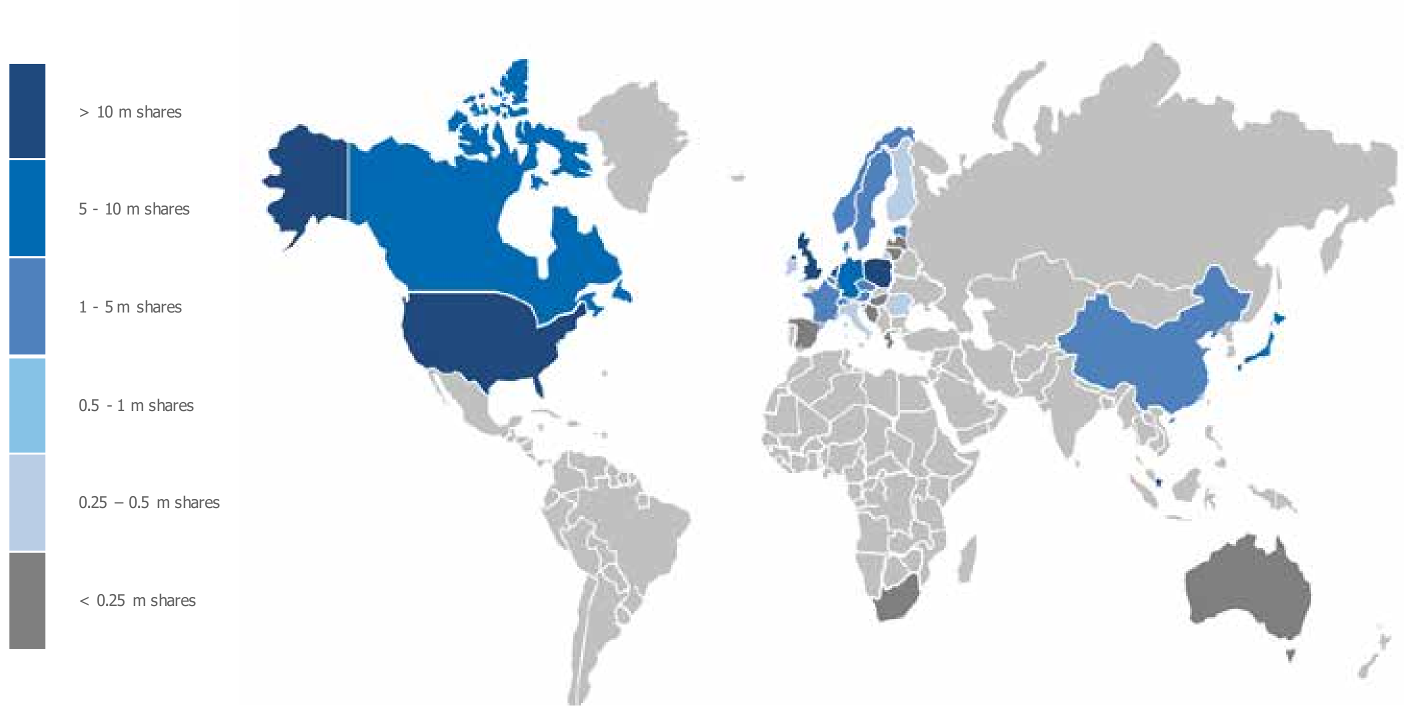
Source: IPREO

In 2018, the structure of Polish institutional shareholders remained stable. At yearend 2018, the shares of open-end pension funds and fund management companies in PZU's share capital were 17.4% (-0.6 p.p.) and 4.9% (+0.5 p.p.), respectively.

The increase in the share of foreign investors in 2018 was due chiefly to capital inflow from North America, which in the last five years has grown by as much as 8.1 p.p.

Geographical structure of PZU's shareholders





Source: IPREO

As regards European institutional shareholders (excluding the State Treasury of the Republic of Poland), the leading position was again kept by investors from the United Kingdom. However, in contrast to 2017, the exposure of German funds increased, with their share up from 1.7% to 2.5% (calculated in relation to European institutional shareholders, excluding the State Treasury).

In 2018, PZU continued to hold regular meetings with representatives of its Management Board devoted to the publication of the Company's quarterly results. Another significant event was the announcement of the Company's strategy. All corporate events held with capital market participants in mind were broadcast live over the internet (with simultaneous translation into English). The recorded meetings are available on PZU's website in the investor relations section at https://www.pzu.pl/relacje-inwestorskie/do-pobrania.

09 JANUARY
Presentation of „The New PZU – More Than Insurance", update and operationalization of the PZU Group strategy for 2017-2020

27 FEB / MAR 09
Extraordinary General Meeting

15 MARCH
2017 Annual Report

16 MAY
Q1 2018 Report

28 JUNE
General Meeting

30 AUGUST
H1 2018 Interim Report

15 NOVEMBER
Q3 2018 Interim Report

The Company's key events, achievements and plans are again presented in the form of an online Annual Report at annualreport2017.pzu.pl. Users have been provided with tools enabling a multi-directional analysis of corporate and macroeconomic events as well as financial results. The report includes interactive infographics, animations and video materials, which offer a succinct presentation of PZU Group's activity in 2017.

annualreport2017.pzu.pl

In 2018, the new version of the www.pzu.pl website also contains a revamped section on investor relations. www.pzu.pl/ri. The improved website provides easy access to an abundance of information. The refreshed version of the website can also be used conveniently on a smartphone and the visual message has been made more attractive through the use of micro animations. The change in the communication method is supported by UX GLOSSARY (user experience) solutions.

Activities addressed to institutional investors

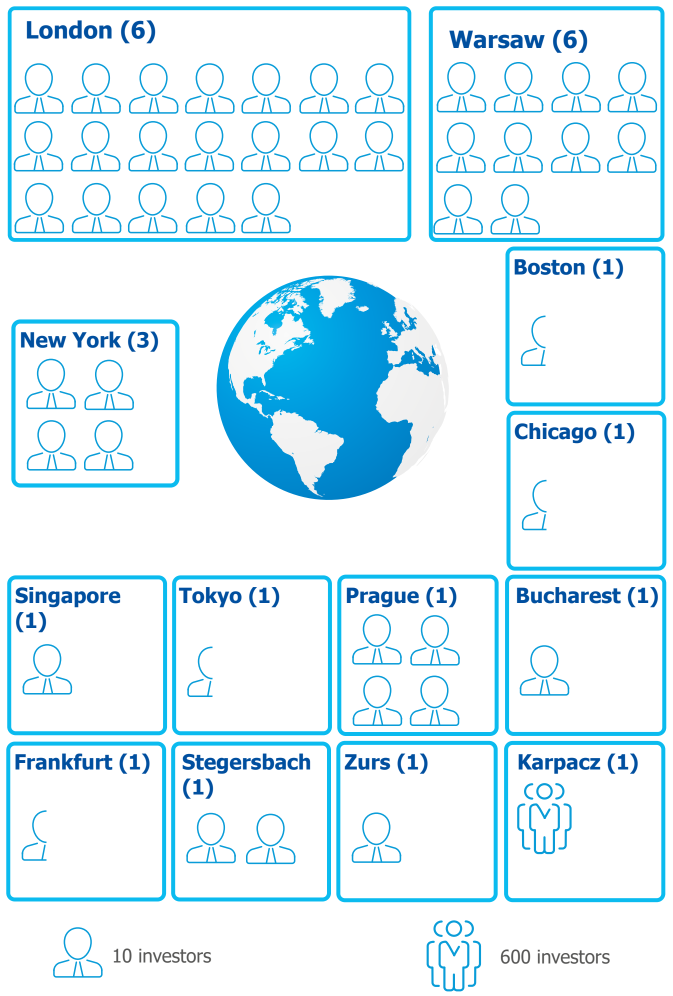
In 2018, PZU representatives participated in the following:

- 2 non-deal roadshows in New York City, Boston, Chicago and Tokyo (3 in 2017);
- 14 international finance conferences attended by global institutional investors (12 in 2017);
- 6 conferences for institutional investors held in Warsaw (4 in 2017);

During which 241 meetings (161 in 2017) with 437 managers (368 in 2017) were held.

Additionally, in 2018 PZU actively met with investors and analysts at the company's headquarters. Approximately 50 meetings and conference calls were held with approx. 80 institutional investors and approx. 70 meetings and conference calls with analysts issuing recommendations for PZU stocks.

Investment centers visited in 2018 (number of visits)



Activities addressed to retail investors

In 2018, PZU engaged in an active dialog with retail investors, in particular by providing them with reliable and up-to-date information on the activities of PZU, the insurance industry and the Company's financial results. In this respect, PZU implemented both communication projects (e.g. the online report, a newsletter, a factsheet, mass mailing) and took active steps to enable direct contact between investors and the Company's representatives, including, in particular:

- for the 8th time, it participated in the largest conference for retail investors from Central and Eastern Europe organized in Poland by the Polish Association of Individual Investors: the 22st Wall Street Conference in Karpacz;
- held 4 chats with retail investors hosted by a Member of the PZU Management Board in charge of the PZU Group's Finance Division each time after the publication of its quarterly financial results, and 1 chat after the publication of the #nowePZU Strategy;

Without interruption since 2012, PZU has also been participating in a program conducted by the Polish Association of Individual Investors called "10 of 10: Communicate Effectively) whose purpose is to develop high communication standards between public companies and retail investors.

Prizes and distinctions for IR activities

PZU's investor relations activities are highly regarded by investors, analysts and the media. In 2018, PZU received the following prizes and distinctions (among others) in this area:

- First place for Tomasz Kulik, CFO of the PZU Group, in ranking of the best CFOs for investor relations in Poland in the Extel 2018 survey;
- Second place for the Investor Relations team in the ranking of the best investor relations in Poland in the Extel 2018 survey;
- First place in the Best Annual Report 2017 contest in the Banks and Financial Institutions category;
- special prize for the best on-line annual report in the Banks and Financial Institutions category;
- distinction for the best management activity report in the Banks and Financial Institutions category;
- distinction for the best IFRS/IAS-compliant financial statements in the Banks and Financial Institutions category.

IR objectives in 2019

The main objectives of PZU's investor relations function in 2019:

- strengthen good relations between the PZU Management Board and the community of investors, both in the local market and in the global market;
- ensure understanding and approval for PZU's business strategy among investors and analysts;
- secure a deep and broad market for PZU's shares and bonds by continuing investor-friendly measures to build a diversified base (in terms of geography, numbers and profile) of an appropriate number of well-informed investors familiar with the company, in particular by increasing pressure on acquiring investors from Asia;
- ensure a reliable valuation for PZU's stock by providing sell-side analysts of investment banks and brokerage houses GLOSSARY with high quality information about PZU's operations, industry trends, drivers of financial performance and feedback after analysis of their recommendations;
- ensure sell-side research coverage, in particular among international investment banks;
- provide the PZU Management Board with regular feedback concerning the perception of PZU among capital market players and broad knowledge of current and potential shareholders of the company;
- monitor investor sentiment towards PZU shares and changes in the shareholder structure in order to adopt the most adequate investor relations measures and tools;
- develop digital tools to address investor needs better, i.a. implement new solutions in the online annual report and enhance the functionality of the investor relations service;
- extend the scope of non-financial reporting.

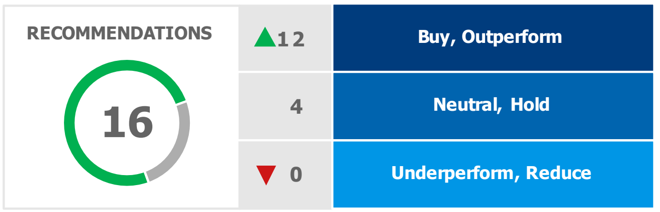
8.5 Analysts' recommendations for PZU stocks

In 2018, PZU stock recommendations were issued by 12 domestic and international financial institutions in total. In total, sell-side analysts issued 16 recommendations, with 75% of them being positive.

At the end of 2018, PZU had 11 current recommendations (6 buy, 3 overweight and 2 sell). In 2018 "buy" recommendations were prevalent. In contrast with 2017, no "sell" recommendation was issued.

The median target price in the valid recommendations as at 31 December 2018 was PLN 49.5 (down 3.1% y/y, or 2.1% if consideration is given to cutting off the dividend in September 2018). The average target price was 11.4% higher than the share price at the end of 2018 (at the end of 2017 the deviation was 16.0%).

Statistics related to the recommendations issued in 2018



In 2018 analysts issuing recommendations for PZU's shares devoted considerable space in their publications to the situation on the motor insurance market in light of rising price pressure, the development of case law regarding general damages, in particular when it comes to people in a vegetative state and as a consequence of the possible profitability erosion in this insurance segment. The potential risks and threats posed to the high margin business model in group and individually continued insurance and the assessment of the impact exerted by financial market volatility on the Group's investment performance were an equally important topic. A material issue raised especially in H1 2018 was the impact of possible Pekao and Alior Bank merger on the PZU Group's business and results.

In 2018 PZU's average target share price according to analysts oscillated around PLN 49, implying 35% share price upside. At yearend 2018, the upside narrowed to roughly 11%; at the end of December 2018 the PZU share price was PLN 43.90, while the average target price was PLN 48.90.

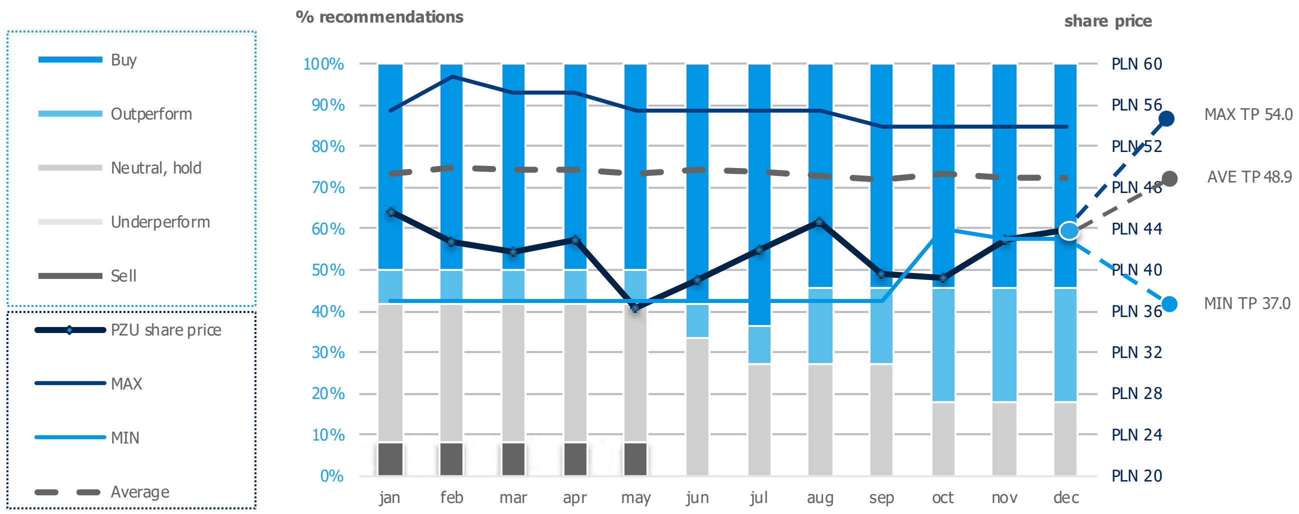
In H1 2018 analysts issued recommendations with a wide range of target prices. In H2 the range between maximum and minimum target price started to dwindle, due to the structural evolution in analyst recommendations from neutral to overweight. In the final quarter of 2018 the minimum target price was higher than the share price. At the closing of the final session in 2018, the minimum target price was already 2.1% below the share price.

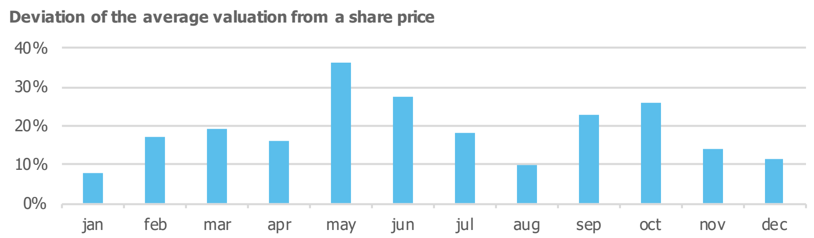
Price variance of the recommendations in 2018

	2018-12-31	2017-12-31	change	Price variance of the recommendations from the share price at the end of 2018 (PLN 43.9)
Highest target price	54.0	55.4	(2.5%)	23.0%
Median of the target prices	49.5	51.1	(3.1%)	12.8%
Average of the target prices	48.9	48.9	0.0%	11.4%
Lowest target price	43.0	37.0	16.2%	(2.1%)

Source: PZU data

Target prices for PZU stocks, based on recommendations valid at the end of December 2018





Źródło: dane PZU

Institutions issuing recommendations for PZU's stock (as at 31 December 2018)

POLAND

Institution	Analyst	Contact data
Citi	Andrzej Powierża	+48 22 690 35 66 andrzej.powierza@citi.com
Erste	Mateusz Krupa	+48 22 330 62 51 mateusz.krupa@erstegroup.com
Ipopema	Łukasz Jańczak	+48 22 236 92 30 lukasz.janczak@ipopema.pl
JP Morgan	Michał Kużawiński	+48 22 441 95 34 michal.kuzawinski@jpmorgan.com
mBank	Michał Konarski	+48 22 697 47 37 michal.konarski@mdm.pl
PKO BP	Jaromir Szortyka	+48 22 580 39 47 jaromir.szortyka@pkobp.pl
Trigon	Maciej Marcinowski	+48 22 4338 375 maciej.marcinowski@trigon.pl
Wood & Company	Marta Jeżewska-Wasilewska	+48 22 222 15 48 marta.jezewska-wasilewska@wood.com

ABROAD

Institution	Analyst	Contact data
HSBC	Dhruv Gahlaut	+44 20 7991 6728 Dhruv.gahlaut@hsbcib.com
Raiffeisen Centrobank	Bernd Maurer	+43 1 51520 706 maurer@rcb.at
UBS	Michael Christelis	+27 11 322 7320 michael.christelis@ubs.com

In 2018 PZU had analyst coverage by Deutsche Bank. Due to changes in the structure of the research team, as of 29 August 2018 this bank ceased to issue recommendations for PZU stocks.

On 18 January 2019 Haitong Bank reinitiated coverage of PZU.

8.6 PZU Group's dividend policy

PZU Group's Capital and Dividend Policy in 2016 – 2020 was adopted in a PZU Supervisory Board resolution in 2016. SECTION 7.9 CAPITAL MANAGEMENT. According to this Policy, the PZU Group endeavors to manage capital effectively and to maximize the rate of return on equity for the parent company's shareholders, in particular by maintaining the level of security and retaining capital resources for strategic growth objectives through acquisitions.

PZU's dividend policy rests on the following principles:

- The PZU Group endeavors to manage capital effectively and maximize the rate of return on equity for the parent company's shareholders, in particular by maintaining the level of security and retaining capital resources for strategic growth objectives through acquisitions;
- the dividend amount proposed by PZU's (the parent company) Management Board from a given financial year profits is determined on the basis of the PZU Group's consolidated financial result attributable to the parent company, where:
  - no more than 20% will be retained (supplementary capital) for financing of organic growth and innovations as well as execution of growth initiatives;
  - no less than 50% will be distributed to shareholders as an annual dividend;
  - the remaining part will be distributed as an annual dividend or will increase retained earnings (supplementary capital) if in the given year significant expenditures are incurred in connection with execution of the PZU Group Strategy, including in particular, mergers and acquisitions;

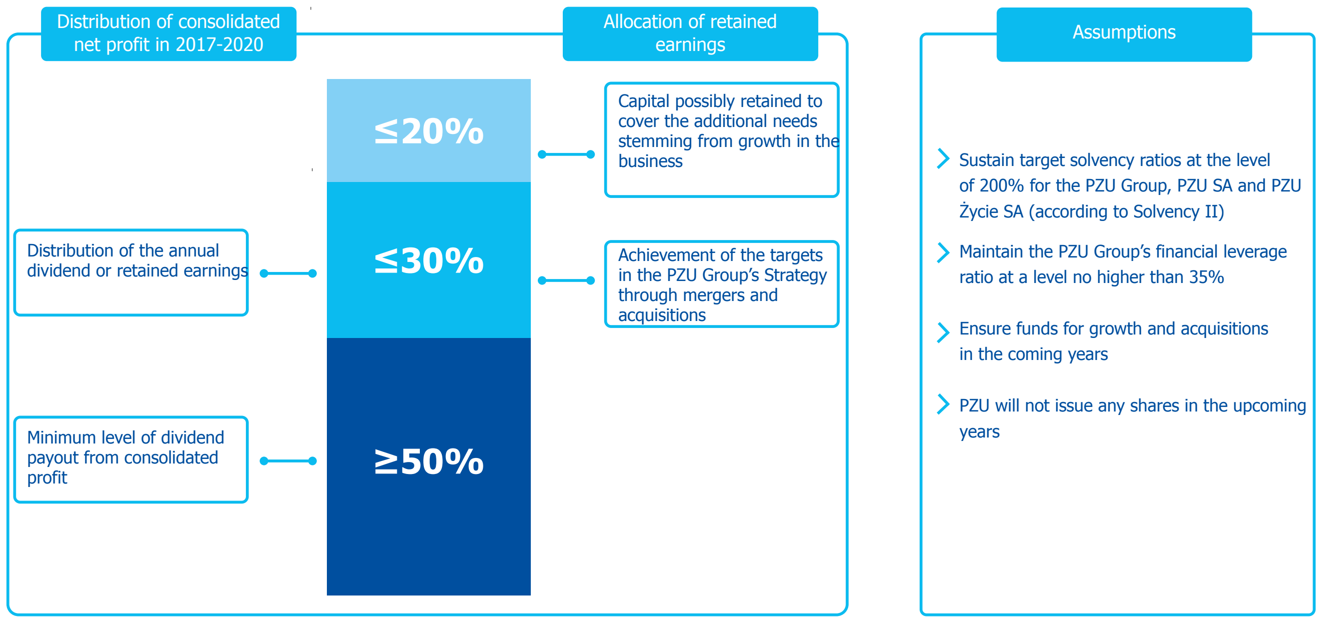
with a reservation that:

- according to the Management Board's plans and risk and solvency self-assessment of the parent company, the own funds of the parent company and the PZU Group following the declaration or payment of a dividend will remain at a level that will ensure fulfillment of the conditions specified in the capital policy;
- when determining the dividend the regulatory authority's recommendations concerning dividends will be taken into consideration.

Payment of a dividend from the 2017 profits

On 28 June 2018, PZU's Ordinary Shareholder Meeting adopted a resolution on the distribution of PZU's net profit for the financial year ended 31 December 2017, in which it resolved to distribute the amount of PLN 2,159 million, or PLN 2.50 per share, as a dividend. The dividend record date was 12 September 2018. The dividend was paid on 3 October 2018.

PZU Group's Dividend and Capital Policy



The Polish FSA's recommendation on dividend payments from the profits generated in 2018

On 15 January 2019 the Polish Financial Supervisory Authority took a stance on the dividend policy of insurance and reinsurance undertakings.

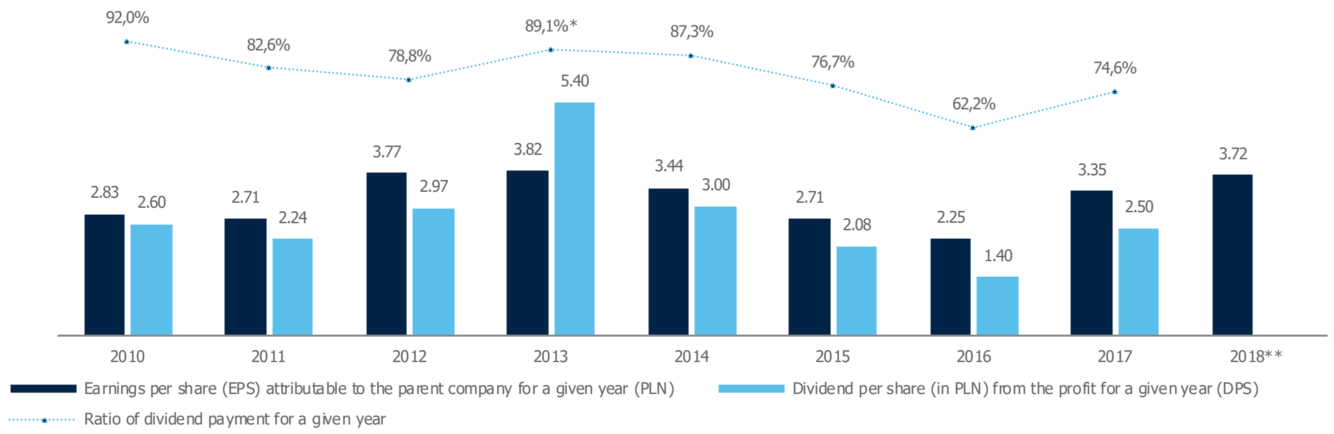
As recommended by the regulatory authority, dividends should be paid only by insurance undertakings meeting certain financial criteria. At the same time, the dividend payout should be limited to no more than 75% of the profit earned in 2018, while the coverage of the capital requirement for the quarter in which the dividend was distributed should be maintained at no less than 110%.

At the same time, KNF permitted a dividend payout equal to the entire 2018 profit provided that the capital requirement coverage (after expected dividends are deducted from own funds) as at 31 December 2018 and for the quarter when the dividend is paid, is at least 175% for insurance undertakings operating in section I and at least 150% for insurance undertakings operating in section II.

The Polish FSA also recommended that the undertakings that satisfy the above criteria, when deciding on the level of dividends, should take into account the additional capital needs within the period of twelve months from the approval date of the 2018 financial statements, which may result, among others, from changes in the market and legal environment.

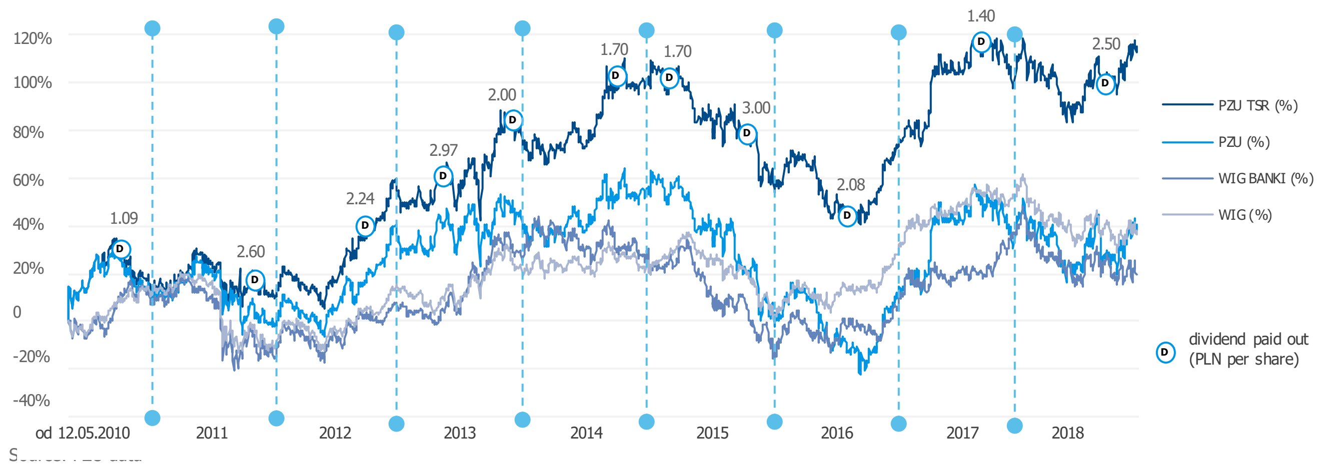
Up to the date of preparing this Report on the activities of the PZU Group, the Management Board has not adopted a resolution concerning the distribution of 2018 profit.

PZU's earnings and dividend per share in 2010-2018

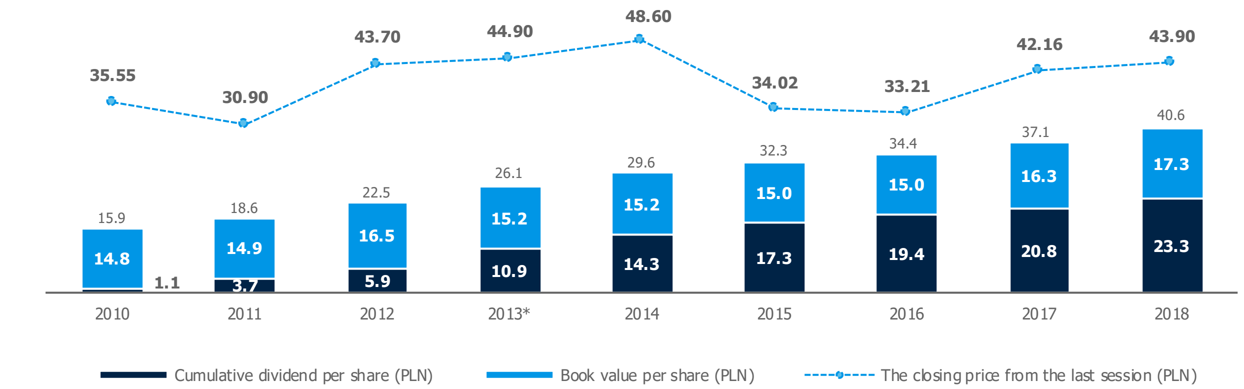


* the payout ratio net of the dividend payout from excess capital (PLN 2 per share)
** up to the date of preparing this Activity Report, the Management Board has not adopted a resolution concerning the proposed distribution of profit for 2018
Source: PZU data

Dividend distributions and PZU's total shareholder return (TSR) (2010-2018)



Book value per share and gross accumulated dividend per share in PZU (PLN) (2010-2018)



* in 2013 a dividend was paid from excess capital (PLN 2 per share)
Source: PZU data

Dividend paid by PZU from its earnings in the 2014-2018 financial years

	2018	2017	2016	2015	2014
Consolidated profit attributable to the parent company (in PLN m)	3,213	2,895	1,935	2,343	2,968
PZU SA's standalone profit (in PLN m)	2,712	2,459	1,573	2,249	2,637
Dividend paid for the year (in PLN m)	**	2,159	1,209	1,796	2,591
Dividend per share for the year (PLN)	**	2.50	1.40	2.08	3.00
Dividend per share on the date of record (PLN)	2.50	1.40	2.08	3.00	3.40
Ratio of dividend payout to consolidated profit attributable to the parent company***	**	74.2%	62.5%	76.7%	87.3%
(a) Movement in the share price y/y	4.1%	26.9%	(2.4)%	(30.0)%	8.3%
(b) Dividend yield during the year (%)*	5.9%	4.2%	6.1%	6.2%	7.6%
(a+b) Total Shareholder Return (TSR)	10.1%	31.2%	3.7%	(23.8)%	15.8%

* yield calculated as the dividend (as at the record date) in relation to the share price at the end of the previous reporting year
** up to the date of preparing this Activity Report, the Management Board has not adopted a resolution concerning the proposed distribution of profit for 2018
***not restated data for 2018

8.7 Debt financing of PZU, Pekao and Alior Bank

The debt issued by PZU Group consists of subordinated with a nominal value of worth PLN 2.25 billion and Eurobonds with a nominal value of EUR 850 million.

PZU bonds: PLPZU0000037 for a total of PLN 2.25 billion

On 30 June 2017, PZU carried out the largest issue of subordinated bonds (denominated in Polish zloty) in the history of the Polish financial sector, while the issue was the first one in Poland to comply with Solvency II requirements (download the information note here). 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 at the earliest.

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

The issue was aimed at supplementing PZU's equity, following the acquisition of a 20% stake in Bank Pekao, in order to maintain the Solvency II ratio at a level no lower than 200%, as defined in the PZU Group's Capital and Dividend Policy. SECTION 8.7 PZU GROUP'S CAPITAL AND DIVIDEND POLICY.

PZU bonds: XS1082661551 for a total of EUR 850 million

The PZU Group (through its wholly-owned subsidiary, PZU Finance AB) issued Eurobonds with a nominal value of EUR 850 million, listed on the Official List, Main Securities Market of the Irish Stock Exchange and on the Catalyst ASO WSE/Bondspot market. The listed series of the bonds (PZU0719) consists of two assimilated series (under a single ISIN code: XS1082661551) with a nominal value of EUR 500 and 350 million issued on 3 July 2014 and 16 October 2015, respectively.

The liabilities arising from the bonds are secured by a guarantee extended by PZU. The bonds bear interest at a fixed rate of 1.375% per annum. The coupon is paid once a year. The maturity date is 3 July 2019.

The Eurobond issue implemented PZU Group's investment strategy to manage the matching of EUR assets and liabilities. The proceeds from the bond issue were aimed to increase the exposure to investments denominated in EUR, manage the FX position and optimize the cost of financing.

Alior Bank

Public offerings of own bonds

Pursuant to the resolution adopted by the Bank's Supervisory Board on 23 August 2017, Alior Bank, up to 12 October 2018, held a second open bond issuance program worth a maximum of PLN 1.2 billion issued in series under the procedure anticipated in article 33 item 1 of the Bond Act according to the basic prospectus. According to the basic prospectus drafted in connection with the Second Public Issue Program, Alior Bank could issue in Poland up to 12 million unsecured bearer bonds, unsubordinated or subordinated, with a nominal value equal to PLN 100 or a multiple of that amount, with a maturity of up to 10 years from the date of issuing a given bond series, while the Bank's Management Board was authorized to determine the terms and conditions for issuing the various series of the subordinated bonds in such a way so as to accomplish the following:

- the total nominal value of all the subordinated bonds issued on the basis of the Prospectus does not surpass the amount of PLN 600 million;
- the unit par value of the subordinated bonds is PLN 400 thousand.

The Bank did not hold any bond issues under the Second Public Issuance Program in 2018. On 12 October 2018 the Second Public Issuance Program and the basic prospectus expired.

Non-public offerings of own bonds

The Bank has a program to issue own bonds worth a maximum of PLN 2 billion established by the power of the Bank's Supervisory Board resolution of 10 August 2015. The type of bonds, the offering procedure and the specific terms and conditions for issuing the various series of the bonds issued under the Issuance Program are determined by the Bank's Management Board in the form of resolutions. The Bank did not hold any subordinated bond issues under the Issuance Program in 2018, but it conducted one private, series L short-term ordinary bond issue.

Alior Bank's series L bonds: PLALIOR00243 for PLN 15.2 million

On 30 November 2018 the Bank issued 1,520 short-term ordinary bearer series L bonds with a nominal value of PLN 10 thousand, each and a total value of PLN 15.2 million under the procedure anticipated by Article 33 item 2 of the Bond Act. The bonds bear interest at a fixed interest rate of 2.15% per annum. The bonds are for 7 months with their redemption falling on 1 July 2019. These bonds are not listed.

Bank Pekao

Covered bonds

Under the covered bonds program established in 2010, Pekao, acting through its subsidiary Pekao Bank Hipoteczny, issues long-term debt securities secured on its loan portfolio. The issue program is limited to PLN 2 billion. Pekao Bank Hipoteczny's covered bonds have been rated by Fitch at BBB+ with a stable outlook.

The Company's total liabilities by virtue of covered bonds as at 31 December 2018 was PLN 1.53 billion. The liabilities by virtue of covered bonds with a maturity of up to 1 year account for 14.7%, from 1 to 3 years for 42.7%, from 3 to 5 years 13.1%) and from 5 to 10 years 29.5% of the total nominal value.

Bonds issued by Pekao Bank Hipoteczny

For the purpose of diversification of financing sources, in 2018 Pekao Bank Hipoteczny issued bonds with the value of PLN 300.0 million. The bonds were issued in the issuer's bond issue program up to PLN 1 billion. In 2018 Pekao Bank Hipoteczny S.A. obtained the Covered Bond Label quality certificate, which attests to security and quality of the issued covered bonds and the highest transparency standards for investors in place.

Bonds issued by Pekao Leasing sp. z o.o.

In addition, the Pekao Group held as at 31 December 2018 liabilities for the issuance of own bonds by Pekao Leasing Sp. z o.o. totaling PLN 1.68 billion. The bonds with a maturity of up to 1 month account for 18.0%, up to 3 months for 34.6%, up to 6 months for 28.1%, up to 1 year for 8.2% and up to 3 years for 11.1% of the total nominal value.

Subordinated bonds

On 30 October 2017, Pekao placed its first issue of subordinated bonds with a value of PLN 1.25 billion in order to improve its capital ratios. The bonds have a 10-year maturity with an early redemption option five years after the date of issue. The bonds bear interest at a floating rate based on WIBOR6M plus a margin of 1.52%. After receiving on 21 December 2017 the Polish Financial Supervision Authority's consent, the funds were earmarked to raise the Bank's supplementary funds (Tier II capital).

In October 2018 Pekao issued subordinated bonds in subsequent B and C series worth PLN 550 and 200 million, respectively. These bonds have a 10-year tenor and bear interest at a floating rate equal to the sum of the underlying WIBOR rate for six-month deposits and a 1.55 p.p. margin (for series B bonds) and a 1.80 p.p. margin (for series C bonds), respectively.

As a result of classifying the series B and C bonds as instruments in Tier II capital, there will be an increase in the total capital ratio (TCR) for the bank and the bank's group by roughly 0.6 p.p.

8.8 Rating

Issuer rating

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

In 2018 no changes were made to PZU's rating or outlook, while S&P Global Ratings twice affirmed the financial strength and creditworthiness ratings for PZU (25 June and 31 October) at A- with a stable outlook.

Sovereign rating

On 12 October 2018, S&P Global Ratings raised Poland's rating to A- for long-term liabilities in foreign currencies and A/A-1 for long- and short-term liabilities in the local currency, respectively. The rating short-term liabilities in foreign currency remained constant in the S&P rating at A-2.

Poland's rating

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

Source: S&P Global Ratings

PZU rating

	Currently		Previously	
Company name	Rating and outlook	Updated on	Rating and outlook	Updated on
PZU				
Financial strength rating	A- /Stable/	27 October 2017	A- /Negative/	31 October 2016
Credit rating	A- /Stable/	27 October 2017	A- /Negative/	31 October 2016
PZU Życie				
Financial strength rating	A- /Stable/	27 October 2017	A- /Negative/	31 October 2016
Credit rating	A- /Stable/	27 October 2017	A- /Negative/	31 October 2016
TUW PZUW				
Financial strength rating	A- /Stable/	27 October 2017		

Source: S&P Global Ratings

Eurobond rating

On 20 June 2014, Standard & Poor's assigned an A-rating to the unsecured Eurobonds issued by PZU Finance AB in October 2015. These bonds have been assimilated and now form a single series with the "tap" bonds with the nominal value of EUR 500 m issued by PZU Finance AB (publ) on 3 July 2014. On 12 October 2015, the S&P assigned an A-rating to the new issue. On 21 January 2016, the Eurobonds rating was cut to BBB+ (investment grade), which resulted from reduction of PZU issuer rating, which in turn was caused by sovereign rating downgrade.

Rating of the Eurobonds issued by PZU Finance AB (publ.)

	Currently		Previously	
	Rating and outlook	Updated on	Rating and outlook	Updated on
EUR 350 million till 7 March 2019	BBB+	21 January 2016	A-	12 October 2015
EUR 500 million till 7 March 2019	BBB+	21 January 2016	A-	20 June 2014

Source: S&P Global Ratings

Bank Pekao's credit ratings

Bank Pekao cooperates with three leading rating agencies: Fitch Ratings, S&P Global Ratings and Moody's Investors Service. In the case of the first two agencies, the ratings are provided on a solicited basis under relevant agreements and with respect to Moody's Investors Service the ratings are unsolicited and they are based on publicly available information and review meetings.

On 31 December 2018 Bank Pekao's ratings were as follows:

Fitch Ratings	Pekao Bank	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	Stable	Stable

On 17 October 2018 Fitch Ratings lowered the IDR long-term rating from "A-" to "BBB+"; raised the IDR long-term rating outlook from "Negative" to "Stable" and lowered the Viability Rating (VR) from "a-" to "bbb+". Fitch Ratings confirmed the Bank's other ratings at unchanged levels.

On 16 July 2018 S&P Global Ratings introduced a new ratings category encompassing "Counterparty Rating in the event of a Forced Restructuring Process (RCR - Resolution Counterparty Rating)".

On 15 October 2018 S&P Global Ratings affirmed Bank Pekao's ratings and concurrently raised the Bank's long-term rating in the category "Counterparty Rating in the event of a Forced Restructuring Process (RCR - Resolution Counterparty Rating)" from "BBB+" to "A-". The short-term rating for liabilities under the RCR rating for the Bank was upheld at the level of "A-2".

S&P Global Ratings	Pekao Bank	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)	Pekao Bank	Poland
Long-term deposit rating in foreign currencies	A2	A2
Short-term deposit rating	Prime-1	Prime-1
Baseline Credit Assessment	baa1	-
Long-term Counterparty Credit Risk Rating	A1(cr)	-
Short-term Counterparty Credit Risk Rating	Prime-1(cr)	-
Outlook	Stable	Stable
Long-term Counterparty Risk Rating	A1	-
Short-term Counterparty Risk Rating	Prime-1	-

Rating Alior Banku

On 5 September 2013, Fitch Ratings Ltd. assigned a BB rating to Alior Bank, outlook stable. On 5 February 2018, Fitch Ratings Ltd. affirmed the issuer rating for Alior Bank S.A. at BB, while it changed the outlook from stable to positive. On 30 January 2019 Fitch Ratings lowered the Alior Bank's ratings outlook 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	Stable	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

8.9 Calendar of PZU's major corporate events in 2019

13 MARCH
2018 Annual Report

14 MAY
Q1 2019 Report

31 MAY
23nd WallStreet Conference for individual investors

29 AUGUST
H1 2019 Interim Report

14 NOVEMBER
Q1-Q3 2019 Report

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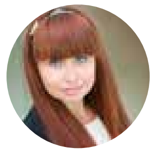

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Alicja,
Stażystka w Zespole HR Business Partnerów

Weź karierę we własne ręce!
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Meet Alicja, a student of sociology at the University of Warsaw and our intern this year. Alicja is supporting recruitment and the work of HR Business Partners. She often runs meetings in our field offices. In her free time, she reads crime stories and enjoys tending to her flower garden.

"I'm happy that each day at work is different. It's great that the company is open to our proposals and looks for new solutions. People share their knowledge and are happy to cooperate. I'll tell you about the details later. For now, apply for an internship."

www.pzu.pl/kariera/studenci/program-praktyk-i-stazy

9.

Corporate governance

We are aware that the leader's role is to set the highest standards for the entire industry. We fulfil this function not only by observing a number of codes but also by working continuously on their improvement. We believe that this is how we can make sagacious changes to contribute to the world that surrounds us.

In this section:

9.1 Corporate governance principles applied by PZU

Since the day when its shares were admitted to trading on a regulated market, PZU has followed the corporate governance rules laid down in the Best Practices of WSE listed companies.

This document was accepted by WSE's Supervisory Board on 4 July 2007 and has undergone several modifications since then. The document entitled "Best Practices of WSE Listed Companies 2016" adopted by a WSE Supervisory Board resolution on 13 October 2015 has been in force since 1 January 2016. Its current wording is available on the website devoted to the corporate governance of companies listed on WSE https://www.gpw.pl/dobre-praktyki, jak również na and on PZU's corporate website (www.pzu.pl), in the section entitled "Investor Relations".

The set of principles expressed in the Best Insurance Practices adopted on 8 June 2009 by the General Assembly of the Polish Chamber of Insurance ("PIU"), an organization whose members are insurance undertakings operating on the Polish market informs how PZU conducts its business operations and shapes relations with its stakeholders. This document is available on the website: http://piu.org.pl.

Furthermore, our own code entitled PZU Group's Best Practices defines the principles for how we mold relations with our stakeholders. This document is available on our website: http://www.pzu.pl.

On 22 July 2014 the Polish Financial Supervision Authority ("KNF") published Corporate Governance Rules for Regulated Institutions. The Corporate Governance Rules constitute a set of guidelines that should be applied by regulated entities from 1 January 2015 under the applicable laws giving consideration to the rule of proportionality. The Corporate Governance Rules are available on PZU's website.

9.2 Application of Best Practices of WSE Listed Companies

In 2018, PZU complied with the recommendations and principles set forth in Best Practices of WSE Listed Companies 2016, except for recommendation IV.R.2. which provides for a possibility for shareholders to participate in a Shareholder Meeting using means of electronic communication, in particular via the following:

- real-time transmission of the Shareholder Meeting,
- real-time bilateral communication where shareholders may take the floor during a Shareholder Meeting from a location other than the shareholder meeting,
- exercising, in person or by proxy, voting rights during a Shareholder Meeting.

Presently, PZU shareholders may follow the broadcast of the Shareholder Meeting. However, the Company has not elected to introduce an electronic shareholder meeting. According to PZU, there are many technical and legal factors that may affect the proper course of the Shareholder Meeting. The legal doubts pertain to the ability to identify shareholders and check the legitimacy of participants in the shareholder meeting. The risk of the occurrence of technical difficulties, e.g. with the internet connection or possible external interference in the IT systems may disrupt the work of the Shareholder Meeting and evince doubts concerning the efficacy of the resolutions adopted during its course. The appearance of these risks may affect the proper application of this rule to a full extent.

Furthermore, the following rules are not applicable to PZU:

- principle I.Z.1.10, providing for the publication of financial projections, if the company has decided to publish them, published at least in the last 5 years, including information about the degree of their implementation, because, as at the date of publication of this report, PZU has not published any financial projections or estimates;
- principle III.Z.6., concerning cases of non-separation of an internal audit function within the company's organizational structure, because this function has been separated in PZU's organizational structure;
- recommendation IV.R.3., concerning situations where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, because PZU securities are traded only on the Polish market.

Information on the status of PZU's application of the recommendations and rules laid down in the Best Practices of WSE Listed Companies 2016 is available on PZU's website:

In conjunction with the work conducted in 2018 to modify the PZU Group's website and its implementation with a new look, incidental difficulties may have transpired in respect of accessing some of the material and content on the website. The scope of information on the site and access thereto are monitored on an ongoing basis. In the event of detecting any technical problems posing an impediment to specific resources, efforts are promptly taken to reinstate the website's full functionality.

9.3 Application of Corporate Governance Rules for Regulated Institutions

The PZU Management Board and Supervisory Board have declared their readiness to apply the Rules to the objectively broadest extent while giving consideration to the rule of proportionality and the rule "comply or explain" stemming from their wording. These declarations were confirmed by the PZU Management Board and Supervisory Board in their respective resolutions.

Information on the application of the Rules was presented by the PZU Management Board and Supervisory Board during PZU's Ordinary Shareholder Meeting held on 30 June 2015. The PZU Ordinary Shareholder Meeting declared that, acting within its powers, it will be guided by the Corporate Governance Rules in the wording issued by the Polish Financial Supervision Authority on 22 July 2014, except for certain specific rules waived by the PZU Ordinary Shareholder Meeting.

Detailed information is published on PZU's website on PZU's application of Corporate Governance Rules, including those rules whose application will be partial, namely:

- in reference to the rule laid down in § 8 sec. 4 the Corporate Governance Rules concerning the enabling of all shareholders to participate in the Shareholder Meeting, including by procuring the possibility of actively participating electronically in the Shareholder Meeting, it should be noted that, presently, PZU shareholders may follow the broadcast of the Shareholder Meeting, however the Issuer decided not to introduce the so-called e-Shareholder Meeting, because, in PZU's opinion, there are a number of factors of a technological and legal nature which may affect the proper conduct of the Shareholder Meeting. Legal concerns include the possibility of identifying the shareholders and verifying their legitimacy; the risk of the occurrence of technical difficulties, e.g. with the Internet connection or possible external interference in the IT systems, may disrupt the work of the Shareholder Meeting and evince doubts concerning the efficacy of the resolutions adopted during its course; the materialization of the above risks may affect the proper application of this rule to its full extent;
- in reference to the rule laid down in § 21 sec. 2. of the Corporate Governance Rules according to which within the supervising body there should be a separate function of the chairperson in charge of managing the work of the supervising body, and the selection of the chairperson of the supervising body should be accomplished on the basis of experience and team management skills while giving consideration to the criterion of independence, it should be emphasized that, in accordance with the Commercial Company Code GLOSSARY and PZU's Articles of Association, the function of chairperson has been established within the PZU Supervisory Board; the PZU Supervisory Board's composition and the chairperson's function are shaped in accordance with the criteria of independence stated in the Statutory Auditor Act GLOSSARY; the selection of the Supervisory Board Chairperson is accomplished on the basis of the criterion of knowledge, experience and skills that confirm the competences required to discharge duly the duties of supervision; applying the criterion of independence to the chairperson according to the KNF Office's explanation GLOSSARY of this rule may evince doubts concerning a possible collision with the legal regulations pertaining to shareholder rights;
- in respect of the rule laid down in § 49 section 3 of the Corporate Governance Rules concerning the appointment and dismissal, in a regulated institution, of the person managing the internal audit cell and the person managing the compliance cell with the consent of the supervising body or the audit committee, it should be pointed out that PZU applies the rules laid down in § 14 of the Rules to their full extent, which means that the PZU Management Board is the sole body empowered to, and responsible for, managing the Company's activity; moreover, according to the labor law regulations, the managing body exercises labor law activities; on account of the foregoing, PZU has adopted a solution that anticipates that the selection and dismissal of the person managing the internal audit cell is accomplished while taking into account the opinion of the Supervisory

Board's Audit Committee; the person managing the compliance cell is appointed and dismissed in an identical manner; in making these decisions, the Management Board obtains the Audit Committee's opinions.

The PZU Ordinary Shareholder Meeting has waived the following rules:

- the rule laid down in § 10 section 2 of the Corporate Governance Rules reading as follows: "The implementation of personal rights or other special rights for shareholders of the regulated institution should be justified and serve the accomplishment of the regulated institution's material operating goals. The possession of such rights by shareholders should be reflected in the wording of the primary governing document of the regulated institution."
  – the waiving of this rule is due to the unfinished process of the Company's privatization by the State Treasury;
- the rule laid down in § 12 section 1 reading as follows: "Shareholders are responsible for recapitalizing without delay a regulated institution in a situation in which it is necessary to maintain the regulated institution's equity at the level required by the legal regulations or oversight regulations as well as when the security of the regulated institution so requires."
  – the waiving of this rule is due to the unfinished process of the Company's privatization by the State Treasury;
- the rule laid down in § 28 section 4 reading as follows: "The decision-making body assesses whether the implemented compensation policy fosters the regulated institution's development and operating security."
  – the waiving of this rule is due to the overly broad scope of the subject matter of the compensation policy subject to assessment by the decision-making body. The compensation policy in respect of persons who discharge key functions but are not members of the supervising body or the managing body should be subject to assessment by such persons' employer or principal, i.e. the Company represented by the Management Board and supervised by the Supervisory Board.

Furthermore, the following rules are not applicable to PZU:

- the rule laid down in § 11 section 3 reading as follows: "In the event that the decision-making body makes a decision concerning a transaction with a related party, all shareholders should have access to all information required to assess the conditions on which it is implemented and its impact on a regulated institution's standing."
  – in PZU, the Shareholder Meeting does not make decisions on transactions with related parties;
- the rule laid down in § 49 section 4 reading as follows: "In a regulated institution in which there is no audit or compliance cell, the rights ensuing from sections 1-3 are vested in the persons responsible for performing these functions."
  – audit and compliance cells operate in PZU;
- the rule laid down in § 52 section 2 reading as follows: "In a regulated institution in which there is no audit or compliance cell or no cell responsible for this area has been designated, the information referred to in section 1 shall be conveyed by the persons responsible for performing these functions."
  – audit and compliance cells operate in PZU;
- the rules laid down in Chapter 9 entitled "Exercising rights from assets acquired at a client's risk"
  – PZU does not offer products entailing asset management at a client's risk.

9.4 System of control in the process of preparing financial statements

Financial statements are prepared within the PZU Finance Division including the PZU Head Office (including the Accounting Department) and central units operating based on the applicable regulations. The PZU Finance Division is supervised by a PZU Management Board Member.

The elements which facilitate completing the process are the accounting principles (policy), the chart of accounts with a commentary and other detailed internal regulations approved by the PZU Management Board specifying key rules for recording business events in PZU, the valuation of assets and liabilities and dedicated reporting systems.

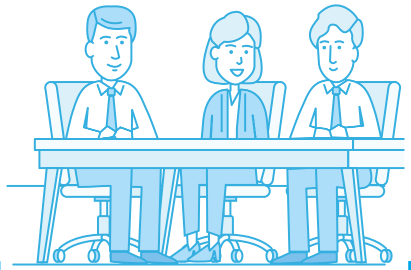
Data are prepared in the source systems using formal operating and acceptance procedures which specify the powers of specific persons.

The reporting process is controlled by appropriately qualified, skilled and experienced staff.

PZU monitors changes in external regulations concerning, without limitation, the accounting policy (procedures) and reporting requirements applicable to insurance undertakings

3

Supervisory Board committees: audit committee, nomination and compensation committee, strategy committee



22%

of PZU's Supervisory Board members are women

30%

of the PZU and PZU Życie Management Board members are women

PZU has been a signor of the Charter of Diversity

since 2013

863,523,000

common shares with a par value of PLN 0.10 each make up PZU's share capital

Long-term and stable shareholder – the State Treasury holds a

34.19%

equity stake in PZU

Application of all recommendations and principles expressed in

DPSN2016,

except for the electronic shareholder meeting recommendation

The PZU Group Best Practices Code

is a collection of ethical standards and standards of conduct to be followed by all PZU Group employees

8

Audit Committee meetings in 2018

Application, in daily operations, of

ETYKA

the Best Insurance Practices

comprising principles that should be followed by insurance sector companies as institutions of social trust

Adoption and application of

Corporate Governance Rules for Regulated Institutions

in accordance with the declaration of 2015 and carries out appropriate adaptation processes in these areas.

The accounting records are closed and financial statements are prepared in accordance with detailed schedules, including the key activities and control points with assigned liability for timely and correct completion.

The key controls during preparation of the financial statements include:
- controls and permanent monitoring of the quality of input data, supported by financial systems with defined rules of data correctness, in accordance with PZU's internal regulations governing the control of accuracy of accounting data;
- data mapping from the source systems to financial statements supporting the proper presentation of data;
- analytical review of financial statements by specialists to compare them with the business knowledge and business transactions;
- formal review of the financial statements to confirm compliance with the applicable legal regulations and market practice in terms of required disclosures.

PZU internal audit periodically reviews the organization and the process of preparing the financial statements.

Activities within the consolidated financial reporting processes are coordinated through the organizational structure of the Finance Division in the PZU and PZU Życie Head Offices which is shared, i.e. organized based on a personal union. PZU controls all its consolidated subsidiaries through these companies' management boards and supervisory boards.

Consolidated financial reporting is governed by a number of internal regulations concerning the accounting principles (policy) adopted by the PZU Group and applied accounting standards as well as detailed schedules including the key activities and control points with assigned liability for timely and correct completion.

Consolidation packages forwarded by subsidiaries are subjected to:
- verification procedures by a statutory auditor scrutinizing the PZU Group's consolidated financial statements;
- analytical reviews by specialists and, in the case of consolidation packages forwarded by banks, also reconciliation with their published stock exchange disclosures.

Audit Committee

The PZU Supervisory Board appoints the Audit Committee composed of at least three Supervisory Board Members. The majority of Audit Committee Members, including the Chairperson, satisfy the independence criteria defined in the Statutory Auditor Act GLOSSARY and at least one Member has knowledge and skills in the fields of accounting or audit of financial statements in accordance with the requirements provided for in the Statutory Auditor Act.

The Audit Committee Members have knowledge and skills pertaining to the insurance industry, which is construed as at least one Audit Committee Member having knowledge and skills in the field of insurance or various Audit Committee Members having knowledge of specific branches within this field.

The Audit Committee is an advisory and consultative body to the Supervisory Board of PZU and is appointed to improve the effectiveness of supervision of the correct financial reporting at PZU and the effectiveness of internal control, including internal audit and risk management, exercised by the PZU Supervisory Board.

A statutory auditor appointed by the PZU Supervisory Board, based on a recommendation of the Audit Committee, reviews interim standalone and consolidated financial statements, audits annual standalone and consolidated financial statements and audits annual solvency and financial standing reports required by the Solvency II Directive (for PZU and the PZU Group).

9.5 Audit firm auditing the financial statements

On 18 February 2014, the PZU Supervisory Board selected KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. with its registered office in Warsaw, ul. Inflancka 4A, 00-189 Warsaw, entered by the National Chamber of Statutory Auditors on the list of audit firms under no. 3546 as the entity to audit the financial statements for the years 2014-2016, and on 27 April 2017 the PZU Supervisory Board exercised the option of extending this cooperation to include 2017-2018.

The scope of the concluded agreement encompasses the following in particular:
- auditing PZU's annual standalone financial statements and the PZU Group's annual consolidated financial statements;
- reviewing PZU's interim standalone financial statements and the PZU Group's interim consolidated financial statements.

Main assumptions underlying the policy for selecting the audit firm.

The following are among the main assumptions underlying PZU's policy for selecting the audit firm:
- ensuring that the process of selecting the audit firm is done correctly and determining the responsibility and the duties of the participants in this process,
- analyzing the recommendations given by the Audit Committee when selecting the audit firm;
- giving consideration to the rule of rotating the audit firm and the key statutory auditor in the embraced time horizon.

The main assumptions underlying the Policy for the provision of permitted non-audit services by the audit firm conducting the statutory audit, by entities related to this audit firm and by a member of the audit firm's network:
- ensuring correctness in the process of procuring permitted services;
- determining the responsibility and the duties of the participants in this process;
- defining the catalogue of permitted services;
- establishing the procedure for procuring permitted services.

In 2018 the audit firm auditing the financial statements rendered permitted services to PZU that were not part of the audit. The Company conducted an assessment of the audit firm's independence and the PZU Supervisory Board consented to the rendering of the foregoing services.

In recent years, PZU's additional cooperation with KPMG Audyt has covered, without limitation, audits of solvency and financial standing reports required by the Solvency II Directive.

Fee charged by audit firm auditing PZU's financial statements (PLN thous.)	1 January - 31 December 2018	1 January - 31 December 2017
compulsory audit of the annual financial statements / consolidated financial statements	609	4,950
other assurance services, including a review of financial statements/consolidated financial statements	759	1,793
tax advisory services	-	-
other services	-	-
Total	**1,368**	**6,743**

Fee charged byaudit firm auditing the PZU Group's financial statements (PLN thous.)	1 January - 31 December 2018	1 January - 31 December 2017
audit of the financial statements	7,813	7,673
other assurance services	4,814	3,568
Total	**12,627**	**11,241**

9.6 PZU's share capital and its shareholders; shares held by members of its governing bodies

On 30 June 2015, PZU's Ordinary Shareholder Meeting adopted a resolution to split all PZU shares by decreasing the par value of each PZU share from PLN 1 to PLN 0.10 and increasing the number of PZU shares making up the share capital from 86,352,300 to 863,523,000 shares. The split was effected by exchanging all the shares at a ratio of 1:10. The share split did not affect the amount of PZU's share capital.

On 3 November 2015 the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register registered the pertinent amendment to PZU's Articles of Association.

On 24 November 2015, at PZU's request, the Management Board of the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A., "KDPW") adopted Resolution No. 789/15 on setting 30 November 2015 as the date of a split of 86,348,289 PZU shares with a par value of PLN 1 each into 863,482,890 PZU shares with a par value of PLN 0.10 each.

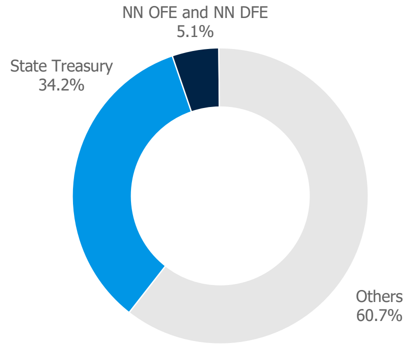
Accordingly, PZU's share capital is divided into 863,523,000 ordinary shares with a par value of PLN 0.10 each carrying the right to 863,523,000 votes at the Shareholder Meeting.

The State Treasury and the funds managed by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A. are PZU shareholders holding significant equity stakes in PZU: Nationale-Nederlanden Otwarty Fundusz Emerytalny („OFE", Open-end Pension Fund) and Nationale-Nederlanden Dobrowolny Fundusz Emerytalny („DFE", Voluntary Pension Fund).

The State Treasury holds 295,217,300 shares representing 34.19% of PZU's share capital giving the right to 295,217,300 votes at the Shareholder Meeting.

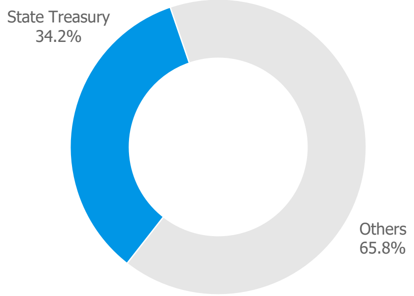
A notification pertaining to movement in the equity stake held in PZU SA by the NN open-end pension fund and the NN voluntary pension fund was transmitted to PZU on 12 June 2018. This notification indicated that as a result of a transaction to buy PZU shares settled on 6 June 2018, OFE and DFE increased their shareholding in PZU to 43,456,903 shares, representing 5.03% of PZU's share capital and giving

PZU shareholder structure as at 31 December 2018



Source: current report no. 21/2018

PZU shareholder structure as at 31 December 2017



Source: current report no. 42/2017

it the right to 43,456,903 votes at Shareholder Meeting. On 28 June 2018, i.e. on the date of holding the PZU SA Ordinary Shareholder Meeting, NN OFE and NN DFE held a total of 43,825,000 shares, representing 5.0751% of PZU's share capital and giving the right to 43,825,000 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 that would provide its shareholders with special control rights.

In 2013-2018, PZU did not have any employee share programs in place.

According to the Articles of Association, the shareholders' voting rights have been limited in such a manner that no shareholder may exercise more than 10% of the total number of votes in existence in PZU at its Shareholder Meeting on the date of holding a Shareholder Meeting subject to the reservation that for the purposes of determining the obligations of the buyers of significant equity stakes contemplated by the Act on Public Offerings and the Insurance Activity Act, such limitation of voting rights shall be deemed not to exist. The restriction on voting rights does not apply to the following:

- shareholders who on the date of adopting the Shareholder Meeting resolution implementing this limitation were entitled to shares representing more than 10% of the total number of votes;
- shareholders acting with the shareholders specified in the item above pursuant to executed agreements pertaining to jointly exercising the voting rights attached to shares.

For the purpose of limiting voting rights, the votes of shareholders among whom there is a parent or subsidiary relationship are totaled in accordance with the rules described in the Articles of Association.

In the event of doubt, the provisions regarding the restriction on voting rights are subject to interpretation according to Article 65 § 2 of the Civil Code GLOSSARY.

In line with 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. As at the date of the Activity Report for 2017 (i.e. 15 March 2018) none of the members of the Management Board or the Supervisory Board or the Directors of the Group held any PZU shares or rights thereto.

9.7 PZU's Articles of Association

The Articles of Association are available on PZU's corporate website in the "Investor relations" section www.pzu.pl/ri

Amendments to the Articles of Association

PZU's Articles of Association may be amended by the Shareholder Meeting provided that a resolution is adopted by a majority of three fourths of the votes, KNF's approval is issued in the cases referred to in the Insurance Activity Act GLOSSARY and the amendments are entered in the National Court Register. The Supervisory Board has the powers to approve the consolidated amended text of the Articles of Association.

9.8 Shareholder Meeting, Supervisory Board and Management Board

Shareholder Meeting

The Shareholder Meeting is PZU's highest corporate body. The general operational principles and the rights of the Shareholder Meeting are regulated by the Commercial Company Code GLOSSARY and the Articles of Association.

The PZU Ordinary Shareholder Meeting adopted its Rules and Regulations under Resolution No. 31/2018 of 28 June 2018.

The Shareholder Meeting is the body authorized to make decisions concerning issues related to the organization and operations of the Issuer. Resolutions of the Shareholder Meeting are adopted by an absolute majority of votes, except in cases provided for in the Commercial Company Code GLOSSARY or the Articles of Association.

The powers of the Shareholder Meeting, in addition to those specified in the Commercial Company Code or the Articles of Association, include the adoption of resolutions concerning the following:

- examination and approval of the Management Board's report on the Company's activity and the Management Board's report on the activity of the PZU Group and the Company's financial statements and consolidated financial statements of the PZU Group for the previous financial year and granting a discharge to individual members of the Company's corporate bodies on the performance of their duties;

- review of the Management Board's report on representation expenditures and expenditures for legal, marketing, public relations and public communication services and management consulting services;
- distribution of profits or coverage of losses;
- decisions on claims to remedy damages incurred during the incorporation of the Company or in its administration or oversight;
- transfer or lease of a business or an organized part thereof or establishing a limited right in them thereon;
- redemption of shares or issue of bonds;
- establishing reserve capital accounts and making decisions on their allocation or manner of allocation;
- split of the Company, merger of the Company with another company, winding up or dissolving the Company;
- appointment and dismissal of members of the Supervisory Board, subject to the personal right granted to the State Treasury to appoint and dismiss one member of the Supervisory Board;
- establishing the rules for remunerating members of the Supervisory Board;
- purchase or transfer by the Issuer of real estate, perpetual usufruct or a share in real estate or perpetual usufruct whose gross value exceeds the equivalent of EUR 30.0 million (thirty million euros), subject to § 18a of the Articles of Association.

In accordance with the Articles of Association, the Shareholder Meeting's approval is required for:

- disposal of non-current assets within the meaning of the Accounting Act of 29 September 1994 (Journal of Laws of 2016, items 1047 and 2255) classified as intangible assets, property, plant and equipment or long-term investments, including contribution to a company or a cooperative – if the market value of those assets exceeds 5% of total assets within the meaning of the Accounting Act of 29 September 1994, determined on the basis of the most recent approved financial statements; and also handing those assets over for use to another entity for a period longer than 180 days in a calendar year based on a legal act, if the market value of the subject matter of the legal act exceeds 5% of total assets, whereas the handing over of assets for use in the case of the following:
    - lease, rental and other agreements to hand over an asset for use to other entities against payment, the market value of the subject matter of a legal act is defined as the value of benefits for:
        - one year if the asset is handed over on the basis of contracts entered into for an unspecified term,
        - the full duration of the term of validity in the case of contracts entered into for an unspecified term,
    - lending for use agreements and other agreements to hand over an asset to other entities for gratuitous use, the market value of the subject matter of a legal act is defined as the value of benefits that would be due if a lease or rental agreement was executed instead, for:
        - one year if the asset is to be handed over on the basis of a contract entered into for an unspecified term,
        - the full duration of the term of validity in the case of contracts executed for an unspecified term,
- purchase of non-current assets within the meaning of the Accounting Act of 29 September 1994, with the value exceeding:
    - PLN 100 million or
    - 5% of total assets within the meaning of the Accounting Act of 29 September 1994, determined on the basis of the most recent approved financial statements,
- subscription or acquisition of shares in another company, with the value exceeding:
    - PLN 100 million or
    - 10% of total assets within the meaning of the Accounting Act of 29 September 1994, determined on the basis of the most recent approved financial statements,
- disposal of shares in another company, with the value exceeding:
    - PLN 100 million or
    - 10% of total assets within the meaning of the Accounting Act of 29 September 1994, determined on the basis of the most recent approved financial statements.

Shareholder Meeting resolutions concerning the following issues require a three-fourths majority of votes:

- amendments to the Articles of Association;
- decrease in the share capital;
- transfer or lease of a business or an organized part thereof or establishing a limited right in rem thereon.

A majority of 90% of votes at the Shareholder Meeting is required to pass resolutions relating to the following:

- preference shares;
- Issuer's business combination by transferring all its assets to another company;
- merger by forming a new company;
- dissolving the Company (also as a result of moving its registered office or the head office abroad);
- liquidation, transformation or reduction in the share capital through the redemption of a portion of shares without a concurrent capital increase.

A Shareholder Meeting is held:

- as an Ordinary Shareholder Meeting which should be held within six months from the end of each financial year;
- as an Extraordinary Shareholder Meeting which is convened in cases specified in the generally applicable law and the Articles of Association.

Shareholder Meetings are held in Warsaw and convened by placing an appropriate announcement on PZU's website in accordance with the method for providing current information specified in the Act on Public Offerings, Conditions Governing the Introduction of Financial Instruments to Organized Trading and Public Companies of 19 July 2005, i.e. in the form of current reports. Such announcement should be made not later than twenty-six days before the date of the Shareholder Meeting. From the date of convening the Shareholder Meeting, the announcement with materials presented to shareholders at the Shareholder Meeting are available on PZU's corporate website in the "Investors relations" section under the "Shareholder Meeting" tab QR code https://www.pzu.pl/relacje-inwestorskie/akcje-i-obligacje/walne-zgromadzenia. A duly convened Shareholder Meeting is deemed valid regardless of the number of attending shareholders. Resolutions are passed in an open ballot. A secret ballot is ordered in elections or on motions to dismiss members of the Issuer's corporate bodies or liquidators, in matters concerning their personal liability to the Company as well as in other personal matters or, excluding cases when voting by open ballot ensues from a statute, at the request of at least one of the shareholders attending or represented at the Shareholder Meeting. The rights of the shareholders and the method of exercising thereof at the Shareholder Meeting are specified in the Commercial Company Code GLOSSARY and the Articles of Association. Only persons who were shareholders of the Issuer sixteen days prior to the date of the Shareholder Meeting have the right to participate in the Meeting (date of registration of attendance at the Meeting). Shareholders may attend the Shareholder Meeting and exercise the right to vote in person or through a proxy. The proxy document to participate in the Shareholder Meeting and exercise the voting right must be granted in writing or electronically. One PZU share gives the right to a single vote at the Shareholder Meeting, subject to restrictions with respect to exercising the voting rights described in the Company's Articles of Association. A shareholder may vote differently from each of the shares held by it.

During the Shareholder Meeting, each shareholder may provide draft resolutions concerning items on the agenda.

In accordance with the Commercial Company Code GLOSSARY, detailed procedures concerning participation in the Shareholder Meeting and exercising the voting rights are always presented in an announcement of the Shareholder Meeting published on the date of convening the Shareholder Meeting on PZU's corporate website in the "Investors relations" section under the "Shareholder Meeting" tab.

Supervisory Board's composition, powers and method of operation

Composition

In accordance with the Articles of Association, the Supervisory Board is composed of seven to eleven members. The number of Supervisory Board members is specified by the Shareholder Meeting.

Members of the Supervisory Board are appointed by the Shareholder Meeting for a joint term of office which lasts three consecutive full financial years. At least one member of the audit committee appointed by the Supervisory Board must hold qualifications in accounting or auditing financial statements within the meaning of the Act on Statutory Auditors, Audit Firms and Public Supervision. Furthermore, in accordance with the said Act, the majority of the audit committee members should meet the statutory independence criteria (independent member) concerning, without limitation, professional or family ties, especially to managers or supervisors of PZU or PZU Group entities. An independent supervisory board member is obligated to present a written declaration on satisfying all the independence criteria and advise the Company of ceasing to satisfy these criteria. In addition, the Articles of Association give the State Treasury the right to appoint and dismiss one member of the Supervisory Board by way of a written statement submitted to the Management Board. This right will expire if the State Treasury ceases to be a Company shareholder. A candidate to be a Supervisory Board member named by the State Treasury should meet the requirements set forth in Article 19 of the Act of 16 December 2016 on Rules for Managing State Property.

As at 1 January 2018, the following persons sat on the PZU Supervisory Board:
- Katarzyna Lewandowska – Supervisory Board Chairwoman;
- Aneta Fałek – Supervisory Board Deputy Chairwoman;
- Alojzy Nowak – Supervisory Board Secretary;
- Maciej Zaborowski – Supervisory Board Member;
- Marcin Chludziński – Supervisory Board Member;
- Bogusław Marian Banaszak – Supervisory Board Member;
- Paweł Górecki – Supervisory Board Member;
- Agata Górnicka – Supervisory Board Member;
- Robert Śnitko – Supervisory Board Member.

On 8 January 2018, Aneta Fałek tendered her resignation from membership in the Supervisory Board effective as of that date. As at 8 January 2018 Maciej Łopiński was appointed by letter. On 9 January 2018, the Supervisory Board entrusted the function of Chairman to Maciej Łopiński and the function of Deputy Chairman to Paweł Górecki.

Accordingly, the composition of the PZU Supervisory Board was as follows:
- Maciej Łopiński – Supervisory Board Chairman;
- Paweł Górecki – Supervisory Board Deputy Chairman;
- Alojzy Nowak – Supervisory Board Secretary;
- Bogusław Marian Banaszak – Supervisory Board Member;
- Marcin Chludziński – Supervisory Board Member;
- Agata Górnicka – Supervisory Board Member;
- Katarzyna Lewandowska – Supervisory Board Member;
- Robert Śnitko – Supervisory Board Member;
- Maciej Zaborowski – Supervisory Board Member.

On 9 January 2018, due to his death, the mandate of Bogusław Marian Banaszak as a Supervisory Board Member expired.

On 9 March 2018 the Extraordinary Shareholder Meeting appointed Robert Jastrzębski. Accordingly, the composition of the PZU Supervisory Board was as follows:
- Maciej Łopiński – Supervisory Board Chairman;
- Paweł Górecki – Supervisory Board Deputy Chairman;
- Alojzy Nowak – Supervisory Board Secretary;
- Marcin Chludziński – Supervisory Board Member;
- Agata Górnicka – Supervisory Board Member;
- Robert Jastrzębski – Supervisory Board Member;
- Katarzyna Lewandowska – Supervisory Board Member;
- Robert Śnitko – Supervisory Board Member;
- Maciej Zaborowski – Supervisory Board Member.

The current term of office of the PZU Supervisory Board started on 1 July 2015 and ended after the elapse of three full financial years, i.e. on 31 December 2018. 2016 was the first full financial year of this term of office. The mandates of members of the Supervisory Board will expire not later than on the date of the Shareholder Meeting approving the financial statements for the last full financial year of their term.

Presented below is the period of discharging the function in the Supervisory Board (according to the composition as at 31 December 2018):

Powers

The Supervisory Board continuously oversees the Company's business in all areas of its operation. In accordance with the Articles of Association, the powers of the Supervisory Board include:
- evaluating the Management Board's report on the Company's activity and the Management Board's report on the activity of the PZU Group and the Company's financial

The PZU's Supervisory Board composition as at 31 December 2018

Name and surname	PZU Supervisory Board member's period of holding office
Maciej Łopiński	Supervisory Board Chairman since 9 January 2018 (on the Supervisory Board since 8 January 2018)
Paweł Górecki	Supervisory Board Deputy Chairman since 9 January 2018 (on the Supervisory Board since 8 February 2017)
Alojzy Nowak	Supervisory Board Secretary since 14 March 2017 (on the Supervisory Board since 30 May 2012)
Marcin Chludziński	Supervisory Board Member since 7 January 2016
Agata Górnicka	Supervisory Board Member since 8 February 2017
Robert Jastrzębski	Supervisory Board Member since 9 March 2018
Katarzyna Lewandowska	Supervisory Board Member since 12 April 2017
Robert Śnitko	Supervisory Board Member since 12 April 2017
Maciej Zaborowski	Supervisory Board Member since 7 January 2016

Maciej Łopiński

Supervisory Board Chairman

In the Supervisory Board since 8 January 2018

Graduate of the University of Gdańsk. Editor-in-Chief of Tygodnik Gdański, a journalist of Głos Wybrzeża and Tygodnik Czas, among others. A member of parliament in the 7th term of office. Secretary of State in the Office of President Lech Kaczyński in 2005-2010 and in turn in the Office of President Andrzej Duda in 2015-2016. He has many years of experience in company law and corporate governance also gained in supervisory bodies in commercial law companies, among others, KGHM Poland Miedź SA, PZU Asset Management SA, Telewizja Polska SA.

Paweł Górecki

Supervisory Board Deputy Chairman

In the Supervisory Board since 8 February 2017

Graduated from the Faculty of Law, Administration and Economics of the University of Wroclaw. He received the degree of Doctor of Law. He was a legal advisor trainee and a court trainee and has been entered in the registry of legal advisors. A university lecturer. He has authored several dozen peer-reviewed papers on the subject of law published by Polish and international journals and has authored numerous unpublished legal opinions. He has been an active participant of conferences organized by Polish academic centers. He specializes in the providing legal services to companies and applying administrative, fiscal and court-and-administrative procedures.

Alojzy Nowak

Supervisory Board Secretary

In the Supervisory Board since 30 May 2012

Professor ordinary at the University of Warsaw, a graduate of the Department of Foreign Trade of the Central School of Planning and Statistics. Completed, among others, economics studies at the University of Illinois Urbana-Champaign in the US and completed studies in banking, finance and capital markets at the University of Exeter in the UK. Head of the Department of National Economy at the Management Faculty of the University of Warsaw, Director of the European Center of the University of Warsaw, Dean of the Management Faculty of the University of Warsaw. Member of the National Development Council at the President of the Republic of Poland, adviser to the Prime Minister. He has extensive experience in corporate governance, gained, among others, while serving as a member of the supervisory boards of PTE WARTA S.A., PKO BP S.A. and JSW S.A.

Marcin Chludziński

Supervisory Board Member

In the Supervisory Board since 7 January 2016

Graduate of the European Regional and Local Studies and the Faculty of Journalism and Political Sciences of the University of Warsaw. From 2004, associated with Invent Grupa Doradztwa i Treningu. From 2009, President of the Management Board of Urbino sp. z o.o., a licensed coach and consultant specializing in strategic and organizational planning and project management.He has been working for the University of Warsaw, the Collegium Civitas and the Łazarski University as a lecturer. Has gained extensive experience in corporate governance in companies with a State Treasury shareholding and municipal companies. Author of articles on public management.

Agata Górnicka

Supervisory Board Member

In the Supervisory Board since 8 February 2017

Graduate of the Faculty of Journalism and Political Science at the University of Warsaw and. She has obtained a post-graduate diploma in media management from the Kozminski University in Warsaw. From 2006 to 2012 she was professionally associated with Telewizja Polska S.A., in 2012-2013 she was a Project Coordinator at the Bank Zachodni WBK S.A. Foundation, in 2013-2014 she was an Assistant to the President of the Bank Zachodni WBK S.A. Management Board. From 2014 to 2015, she was the Manager of the Office of the Management Board and Supervisory Board at Bank Zachodni WBK S.A. Since December 2015, she has served as the Director of the Political Office at the Ministry of Development.

Robert Jastrzębski

Supervisory Board Member

In the Supervisory Board since 9 March 2018

Graduate of the Faculty of Law and Administration at the University of Warsaw. In 2001 he obtained the academic degree of doctor of legal sciences in the law, and in 2009 he obtained the academic degree of a habilitated doctor. He is the author of more than 80 academic publications. Winner of awards and distinctions, including, among others, an Award from the Faculty of Law and Administration at the University of Warsaw for outstanding academic achievement. Employed since 2001 by the Faculty of Law and Administration at the University of Warsaw. Since 2015 Head of the Workshop on 20th century Polish law. Member among others of the program council of the magazine Przegląd Ustawodawstwa Gospodarczego (2010) (Business Legislation Review), editorial team of the magazine Zeszyty Naukowe Biura Analiz Sejmowych (2016) (Research Bulletin of the Parliamentary Research Office).

Katarzyna Lewandowska

Supervisory Board Member

In the Supervisory Board since 12 April 2017, she served as the Supervisory Board Chairwoman from 13 April 2017 to 8 January 2018.

Graduated from Warsaw School of Economics. From 1996 to 2017, an employee of the State Treasury Ministry where she gained extensive experience in exercising corporate governance in companies operating in the defense industry, operating in the coal mining industry, managing sea ports and exercising the State Treasury's monopoly in number games and cash lotteries. From March 2017 Deputy Director of the State Treasury Department in the Prime Minister's Office. Member of the Supervisory Board of the LOTOS S.A. Group. Acting Director of the State Treasury Department.

Robert Śnitko

Supervisory Board Member

In the Supervisory Board since 12 April 2017

Graduate of the London School of Economics and Political Science, University of London, School of Oriental and African Studies, University of London, Faculty of Economics at the Radom Technical University. Holder of a Scholarship awarded by the Minister of National Education (Minister of Science and Higher Education), the United Kingdom's Ministry of Foreign Affairs and non-governmental organizations from the United Kingdom and the United States. Ph.D. in economics obtained from the Warsaw School of Economics. Member of the International Institute for Strategic Studies.

Maciej Zaborowski

Supervisory Board Member

In the Supervisory Board since 7 January 2016

Graduated from the Law and Administration Department at the University of Warsaw. Completed post-graduate studies in intellectual property law and postgraduate studies in evidence law. Graduate of the Center for American Law Studies, Leadership Academy for Poland. Advocate and professional mediator of the Mediation Center at the Polish Bar Council. Lecturer of advocate training at the Bar Association in Warsaw. Currently, he runs his own legal practice and is a Managing Partner at the law firm Kopeć Zaborowski Adwokaci i Radcowie Prawni sp.p. He has acquired experience in corporate governance as a member of the supervisory boards in various companies.

statements and consolidated financial statements of the PZU Group for the previous financial year for compliance with the accounting ledgers and documents as well as the facts;
- approving the solvency and financial condition report of the Company and the solvency and financial condition report of the PZU group;
- evaluating the Management Board's motions to distribute the profit or cover the loss;
- submitting a written report to the Shareholder Meeting on the results of the evaluation referred to in the foregoing items and submitting a concise annual evaluation of the Company's standing with an assessment of its internal control system and the system for managing significant risks to the Company, and an annual report on the Supervisory Board's work;
- concluding, terminating and amending agreements with Management Board members and setting the rules for their compensation;
- appointing, suspending and dismissing the President of the Management Board, Management Board members or the entire Management Board and making decisions to discontinue such a suspension;
- granting consent to transferring an insurance portfolio in its entirety or in part;
- accepting motions submitted by the Management Board to purchase, subscribe to or sell ownership interest and shares in companies and on the Company's participation in other entities – the Supervisory Board may define the maximum amount, the terms and conditions and the procedure that the Management Board may use to conduct the foregoing activities without the obligation to obtain approval from the Supervisory Board, except in cases where the decision in this respect is made by the Shareholder Meeting pursuant to § 18a of the Articles of Association;
- seconding members of the Supervisory Board to perform temporarily the functions of members of the Management Board who have been dismissed, resigned or cannot perform their functions for other reasons;
- accepting instructions on how the Company's representatives should vote at Shareholder Meetings of PZU Życie in matters on increasing or decreasing the share capital, issuing bonds, selling or leasing PZU Życie's enterprise or establishing a usufruct right on the enterprise, dividing PZU Życie, merging PZU Życie with another company, liquidating or dissolving PZU Życie;
- selecting the audit firm to carry out the mandatory audit of the financial statements, including the annual financial statements of the Company and the annual consolidated financial statements of the PZU Group, and the solvency and financial condition report of the Company and the solvency and financial condition report of the PZU Group, and reviews of the financial statements in accordance with the obligations following from the prevailing laws;
- deciding on the consolidated text of the revised Articles of Association,
- approving the Company's long-term development plans and annual financial plans prepared by the Management Board;
- approving the Bylaws of the Management Board;
- examining and consulting matters submitted by the Management Board for deliberation at the Shareholder Meeting.

Moreover, one of the the Supervisory Board's powers is to give consent to the following:
- acquisition or disposal of real property, perpetual usufruct or share in real property or in perpetual usufruct with a value exceeding the equivalent of EUR 3.0 million;
- execution of a material agreement, as construed by the the Regulation on Current and Periodic Information, by the Company with its related party, except for standard agreements executed by the Company on an arm's length basis as part of its operating activities;
- executing an agreement with an underwriter of the kind referred to in Article 433 § 3 of the Commercial Company Code;
- paying out an interim dividend;
- creating and shutting down regional or foreign branches;
- executing an agreement to provide legal, marketing, public relations and public communication services or management consulting services if the total net fee to be paid for such services is greater than PLN 500 thousand annually;
- amending an agreement to provide legal, marketing, public relations and public communication services or management consulting services by increasing the said fee above and beyond the net amount of PLN 500 thousand annually;
- executing an agreement to provide legal, marketing, public relations and public communication services and management consulting services which do not specify the maximum amount of the fee;
- executing a donation or other agreement having a similar effect, the value of which exceeds PLN 20 thousand or

- 0.1% of total assets within the meaning of the Accounting Act of 29 September 1994, determined on the basis of the most recent approved financial statements;
- executing a debt release or other agreement having a similar effect, the value of which exceeds PLN 50 thousand or 0.1% of total assets within the meaning of the Accounting Act of 29 September 1994, determined on the basis of the most recent approved financial statements.

Mode of operation

The Supervisory Board adopts the Rules and Regulations of the Supervisory Board which define its organization and manner of acting. The Rules and Regulations of the Supervisory Board were adopted by its Resolution of 24 February 2016 (as amended), specifying the composition of the Supervisory Board and the way in which its members are appointed, the tasks and the scope of its activities and the manner of convening its meetings and conducting debates.

The Articles of Association stipulate that the Supervisory Board should meet at least once every quarter. The Supervisory Board may delegate its members to fulfil specific supervising activities on their own and to this effect appoint temporary committees. The scope of responsibility of a delegated member of the Supervisory Board and the committee is specified in a resolution of the Supervisory Board.

The Supervisory Board adopts its resolutions by an absolute majority of votes. In the event of a voting tie, the Chairman of the Supervisory Board has the casting vote. Resolutions of the Supervisory Board may be adopted using means of direct remote communication and circular vote. Additionally, the Articles of Association stipulate that a vote may be cast in writing through another member of the Supervisory Board.

Resolutions of the Supervisory Board are adopted in an open ballot, except for resolutions concerning the appointment of the Chairperson, Deputy Chairperson or the Secretary of the Supervisory Board, delegation of members of the Supervisory Board to temporarily fill in for members of the Management Board and for resolutions on appointing, suspending and dismissing the President, members of the Management Board or the entire Management Board as well and making decisions to stop such suspension, which are adopted in a secret ballot. Moreover, a secret ballot may be held at the request of a member of the Supervisory Board.

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

In accordance with the Rules and Regulations of the Supervisory Board, apart from appointing the audit committee and the nomination and compensation committee, provided for in the Articles of Association to properly perform its supervision, the Supervisory Board may appoint other permanent advisory and consultative committees whose competencies, composition and manner of operation are laid down in the rules and regulations of the committee in question adopted by the Supervisory Board. The Bylaws provide for the possibility for the Supervisory Board and its appointed committees to use the services provided by experts and consulting firms.

Members of the Management Board, the Company's employees relevant to the issue under consideration selected by the Management Board and other persons invited by the Supervisory Board may take part in the meetings of the Supervisory Board without the right to vote. In specific cases, the Supervisory Board may also invite members of the management board or supervisory board of other PZU Group member companies. Moreover, members of the Supervisory Board, with the consent of the Supervisory Board, may select no more than one advisor authorized to take part in the meetings of the Supervisory Board devoted to reports and financial statements and give their advice, provided that such a person adheres to the rules of confidentiality and signs a confidentiality undertaking.

At present, the following committees operate as part of the PZU Supervisory Board:
- audit committee;
- nomination and compensation committee;
- strategy committee.

The Articles of Association provide for the appointment of an audit committee by the Supervisory Board. The audit committee shall include at least three members. Pursuant to the Act of 21 June 2017 on Statutory Auditors, Audit Firms and Public Supervision, at least one member of the audit committee appointed by the Supervisory Board should hold qualifications in accounting or auding financial statements. Furthermore, the majority of the audit committee members, including its chairman, should meet the statutory independence criteria (independent member) concerning, without limitation, professional or family ties, especially to managers or supervisors of PZU or PZU Group entities. The detailed tasks and for appointing members of the audit committee and its operation are specified in a resolution of the Supervisory Board which takes into account the relevant competencies and experience of candidates in respect of the matters entrusted to this committee.

In accordance with the rules and regulations of the audit committee adopted by a resolution of the Supervisory Board, the audit committee is an advisory and consultative body to the Supervisory Board and is appointed to improve the effective supervision of the correctness of financial reporting and the effectiveness of internal control, including internal audit and risk management, exercised by the Supervisory Board. Moreover, the audit committee may request the Supervisory Board to commission the performance of specific control activities in the Company, and such commissioned control activities may be performed by an internal unit or an external entity.

The Audit Committee was appointed by a Supervisory Board resolution of 3 June 2008. Composition of the audit committee as at 1 January 2018:
- Bogusław Banaszak – Committee Chairman;
- Marcin Chludziński – Committee Member;
- Maciej Zaborowski – Committee Member.

Bogusław Banaszak and Maciej Zaborowski were indicated as independent members within the meaning of Article 129 Section 3 of the Act on Statutory Auditors, Audit Firms and Public Supervision, and Marcin Chludziński was indicated as a member holding accounting or financial audit qualifications.

On 9 January 2018, due to his death, the mandate of Bogusław Banaszak as the Committee Chairman expired.

On 9 February 2018 the PZU Supervisory Board resolved that the audit committee will be composed of 3 persons and simultaneously established the following composition of the committee:
- Alojzy Nowak – Committee Chairman;
- Marcin Chludziński – Committee Member;
- Maciej Zaborowski – Committee Member.

Alojzy Nowak and Maciej Zaborowski were indicated as independent members within the meaning of Article 129 Section 3 of the Act on Statutory Auditors, Audit Firms and Public Supervision, and Marcin Chludziński was indicated as a member holding accounting or financial audit qualifications.

As at 31 December 2018, the composition of the committee was unchanged.

All Members of the audit committee have the knowledge and skills in the industry in which PZU operates.

The qualifications of committee members in accounting and auditing financial statements and the knowledge and skills in the insurance industry stem from the education, experience and professional practice gained by the various committee members.

In 2018, 8 meetings of the Audit Committee were held.

In accordance with the Rules and Regulations of the Supervisory Board, once PZU's shares are listed on a regulated market within the meaning of the Financial Instruments Trading Act of 29 July 2005, the Supervisory Board may appoint a nomination and compensation committee.

In accordance with the Articles of Association, detailed responsibilities and the method of appointing members of the nomination and compensation committee, the manner of its operation and remunerations are defined by a Supervisory Board resolution. The committee should include at least one independent member. If the Supervisory Board includes five members elected in a vote, the nomination and compensation committee is not appointed and its tasks are carried out by the entire Supervisory Board.

According to the regulations of the nomination and compensation committee adopted by a resolution of the Supervisory Board of 4 April 2013, the committee is an advisory and consultative body to the Supervisory Board and is appointed to improve the effectiveness of the Supervisory Board's oversight activities related to establishing the management structure, including organizational issues, the remuneration system and principles and the selection of properly qualified staff.

The committee is dissolved once five members of the Supervisory Board are elected by group voting, following which its powers are taken over by the whole Supervisory Board.

Composition of the nomination and compensation committee as at 1 January 2018:
- Aneta Fałek – Committee Chairwoman;
- Paweł Górecki – Committee Member;
- Katarzyna Lewandowska – Committee Member.

In connection with the changes in the PZU Supervisory Board, on 9 January 2018 the PZU Supervisory Board resolved that the nomination and compensation committee will be composed of 3 persons and established the following composition of the committee:
- Paweł Górecki – Committee Chairman;
- Agata Górnicka – Committee Member;
- Katarzyna Lewandowska – Committee Member.

On 14 March 2018 the PZU Supervisory Board resolved that the nomination and compensation committee will be composed of 4 persons and simultaneously established the following composition of the committee:
- Paweł Górecki – Committee Chairman;
- Agata Górnicka – Committee Member;
- Katarzyna Lewandowska – Committee Member;
- Maciej Łopiński – Committee Member.

As at 31 December 2018, the composition of the committee was unchanged.

According to the rules and regulations of the strategy committee adopted by a resolution of the Supervisory Board of 4 April 2013, the committee is an advisory and consultative body to the Supervisory Board and is appointed to improve the effectiveness of the Supervisory Board's oversight activities related to issuing opinions on all strategic documents presented by the Management Board (in particular, the Company's development strategy) and providing the Supervisory Board with recommendations on planned investments that materially impact the Company's assets.

Composition of the strategy committee as at 1 January 2018:
- Alojzy Nowak – Committee Chairman;
- Bogusław Banaszak – Committee Member;
- Marcin Chludziński – Committee Member;
- Agata Górnicka – Committee Member;
- Robert Śnitko – Committee Member;
- Maciej Zaborowski – Committee Member.

In connection with the changes in the PZU Supervisory Board, on 14 March 2018 the PZU Supervisory Board resolved that the strategy committee will be composed of 6 persons and established the following composition of the committee:
- Alojzy Nowak – Committee Chairman;
- Marcin Chludziński – Committee Member;
- Agata Górnicka – Committee Member;
- Robert Jastrzębski – Committee Member;
- Robert Śnitko – Committee Member;
- Maciej Zaborowski – Committee Member.

As at 31 December 2018, the composition of the committee was unchanged.

Management Board

Composition

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

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

A Management Board Member must fulfill all of the following conditions:
- holds a graduate degree or a graduate degree received abroad and recognized in the Republic of Poland pursuant to separate regulations,
- has at least 5-year employment period based on an employment agreement, appointment, selection, nomination, cooperative employment agreement or provision of services on the basis of another contract or conducting business activity on one's own account,
- has at least 3 years of experience on managerial or independent positions or arising from conducting business activity on one's own account,
- in addition to the above requirements, meets other requirements arising from separate regulations, in particular is not in breach of any restrictions or prohibitions for holding an executive position in commercial companies.

A Management Board Member may not be a person who fulfills at least one of the following conditions:
- acts as a social associate or is an employee of an MP's office, senator's office, MP-senator's office or office of a member of European Parliament pursuant to an employment agreement or provides work on the basis of a mandate agreement or other similar agreement;
- is a member of a body of a political party that represents the political party externally and is authorized to incur liabilities;
- is employed by a political party pursuant to an employment agreement or provides work on the basis of a mandate agreement or other similar agreement;
- is an elected official of a company trade union or a company trade union in a group company;
- his/her public or business activity raises conflict of interest with the Company's business.

As at 1 January 2018 the Management Board composition was as follows:
- Paweł Surówka – President of the Management Board;
- Roger Hodgkiss – Management Board Member;
- Tomasz Kulik – Management Board Member;
- Maciej Rapkiewicz – Management Board Member;
- Małgorzata Sadurska – Management Board Member.

As at 31 December 2018, the Management Board composition was unchanged.

Up to the date of publication of this report, the Management Board composition is unchanged.

The current term of office of the PZU Management Board started on 1 July 2015 and spans three full consecutive financial years. The mandates of the Management Board members will expire no later than on the date of the Shareholder Meeting approving the financial statements for the most recent full financial year of the discharge of their functions.

The Management Board exercises any and all rights related to managing PZU which are not otherwise reserved by law or the provisions of the Articles of Association to the Shareholder Meeting or the Supervisory Board. Two Management Board members acting jointly or one Management Board member acting jointly with an attorney-in-fact are authorized to represent the Company. The Management Board adopts its rules and regulations, which are approved by the Supervisory Board. The Rules and Regulations of the Management Board were adopted by the Management Board on 2 October 2012, subsequently amended by Resolution of the Management Board of 8 April 2013 and Resolution of 10 May 2018, approved by the Supervisory Board resolution of 15 May 2018.

The Rules and Regulations of the Management Board define:
- the scope of the Management Board's powers and activities that require approval or confirmation by the Supervisory Board;
- powers of the President of the Management Board and other Management Board members;
- principles and organization of the Management Board's activities, including its meetings and decision making procedures;
- rights and obligations of Management Board members upon dismissal.

In accordance with the Rules and Regulations of the Management Board, resolutions of the Management Board are especially required for:
- adoption of a long-term plan for the Company's development and operations;
- adoption of an action and development plan for the PZU Group;
- adoption of an annual financial plan and a report on its implementation;
- acceptance of the Management Board's report on the Company's activity and the Management Board's report on the activity of the PZU Group and the Company's financial statements and consolidated financial statements of the PZU Group for the previous financial year;
- acceptance of the solvency and financial condition report of the Company and the solvency and financial condition report of the PZU Group;
- acceptance of the Company's own risk and solvency assessment report and the Group's own risk and solvency assessment report;
- adoption of a report on representation expenditures and expenditures for legal, marketing, public relations and public communication services and management consulting services;
- approval of a motion to distribute profit or cover loss;

- determination of premiums in compulsory and voluntary insurance and the general terms and conditions of voluntary insurance;
- determination of the scope and size of outward reinsurance and the tasks for inward reinsurance;
- adoption of an annual audit and control plan and a report on its implementation with conclusions;
- determination of the terms and conditions of investment, prevention and sponsoring activities;
- granting sureties and guarantees (excluding insurance operations) and contracting or providing credit facilities or loans by the Company (excluding credit facilities and loans granted from the Company Social Benefits Fund);
- appointment of a commercial proxy.

In accordance with the Rules and Regulations, meetings of the Management Board are held at least once a fortnight. The President of the Management Board directs the work of the Management Board and its powers include the following in particular:

- defining the scope of responsibility of each member of the Management Board;
- convening meetings of the Management Board;
- setting the agenda of meetings of the Management Board;
- applying to the Supervisory Board for appointing or dismissing members of the Management Board;
- designating a person to administer the work of the Management Board during the absence of the President of the Management Board.

The work of the Management Board is headed by the President of the Management Board who defines the scope of responsibility for each member of the Management Board.

The Management Board prepares and presents to the Shareholder Meeting a report on representation expenditures and expenditures for legal, marketing, public relations and public communication services and management consulting services.

Resolutions of the Management Board are adopted only in the presence of the President of the Management Board or a person designated to head the work of the Management Board during the President's absence.

Resolutions of the Management Board are adopted by an absolute majority of votes; in the event of a voting tie, the President has the casting vote. The Management Board, with the consent of the President, may adopt resolutions in writing, on paper or in electronic form (i.e. using means of remote communication and a qualified electronic signature). The Articles of Association also provide that meetings of the Management Board may be held using means of direct remote communication.

The President of the Management Board makes decisions in the form of orders and official instructions. Other members of the Management Board administer the operations of the Company within the scope specified by the President.

PZU's Articles of Association do not provide for the Management Board to have rights concerning decisions on issuing or redeeming shares.

Presented below are the scopes of responsibility of the Management Board members in office as at the end of 2018:

First and last name (Management Board composition at the end of 2018)	In the PZU Group	Responsibilities (as at the end of 2018)
Paweł Surówka	President of the PZU Management Board from 13 April 2017 / President of the PZU Życie Management Board from 23 June 2016 to 13 April 2017	management and corporate governance in the PZU Group, corporate management, strategy and development of PZU Group's business, internal audit, compliance, reinsurance, assurbanking, innovation, management of development of digital processes, administration
Roger Hodgkiss	PZU Management Board Member since 19 January 2016 /PZU Życie Management Board Member since 29 January 2016	mass non-life insurance (sales and sales network management, products and tariffs), corporate non-life insurance (sales and sales network management, underwriting, financial insurance), direct sales, CRM and development of sales tools, retail sales efficiency
Tomasz Kulik	PZU Management Board Member since 14 October 2016 /PZU Życie Management Board Member since 19 October 2016	finance, actuarial, investments
Maciej Rapkiewicz	PZU Management Board Member since 22 March 2016 /PZU Życie Management Board Member since 25 May 2016	risk management
Małgorzata Sadurska	PZU Management Board Member since 13 June 2017 / PZU Życie Management Board Member since 19 June 2017	bancassurance, strategic partnership programs, supervision over PZU Group's foreign companies, real property, procurement, environmental protection at the PZU Group
Roman Pałac	President of the PZU Życie Management Board since 26 April 2017 / PZU Group Director since 15 February 2016	management of the PZU branch network, health insurance, claims and benefits handling, remote channels
Aleksandra Agatowska	PZU Życie Management Board Member / PZU Group Director since 25 March 2016	no scope of duties assigned because of the temporary absence *
Tomasz Karusewicz	PZU Życie Management Board Member / PZU Group Director since 29 January 2016	IT, insurance operations
Bartłomiej Litwińczuk	PZU Życie Management Board Member / PZU Group Director since 19 August 2016	security, legal services, HR
Dorota Macieja	PZU Życie Management Board Member / PZU Group Director since 15 March 2017	marketing, client relations management, corporate communication, sponsoring, prevention and CSR

* client relations management - area overseen since 28 January 2019

Paweł Surówka

President of the PZU Management Board since 13 April 2017/ President of the PZU Życie Management Board since 23 June 2016 to 13 April 2017

Graduate of Université Paris I Panthèon Sorbonne, Ecole des Hautes Etudes en Sciences Sociales (EHESS) and the Ludwig Maximilian Universität (LMU) in Munich. From 2007 to 2013, he held the position of financial advisor with Bank of America Merrill Lynch. From 2013 to 2015 he served as a Management Board Member in Boryszew SA, Director of the Automotive Sector Development Department and CEO of subsidiaries in the automotive sector. Until January 2016, he was an advisor to the CEO of PKO Bank Polski SA and Director of Corporate and Investing Banking for Germany, he was responsible for opening the first international corporate branch of PKO Bank Polski as well as for advisory and financial services for PKO Bank Polski's top corporate clients.

Roger Hodgkiss

PZU Management Board Member since 19 January 2016 / PZU Życie Management Board Member since 29 January 2016

Roger holds an Honours Degree in Mechanical Engineering from Liverpool University and also qualified as a Chartered Accountant in the United Kingdom. From 1998 to 2007, he worked for GE Capital where he held various managerial positions in finance and operations. From 2007 to 2008 he was the CEO of AAS Balta – the largest insurer in Latvia. From 2008 to 2009 he was the Commercial Director in Intouch Insurance Group, the Joint Venture established by the RSA Group and DIFI to establish Direct Insurance businesses in Emerging Markets. From 2009 he was CEO of Link4 Towarzystwo Ubezpieczeń S.A. He received the prestigious "Man of the Year" award from Gazeta Ubezpieczeniowa in 2014.

Tomasz Kulik

PZU Management Board Member since 14 October 2016 / PZU Życie Management Board Member since 19 October 2016

He graduated from the Warsaw School of Economics. He also completed MBA studies at the University of Illinois and the Warsaw-Illinois Executive MBA program. A member of The Association of Chartered Certified Accountants (ACCA). Through most of his professional career, he was associated with the Aviva Group (former Commercial Union). Prior to his appointment to the PZU Management Board, he served as the Director of the Planning and Controlling Department. He prepared the PZU Group's strategy for the years 2016-2020 and the PZU Group's capital and dividend policy. Member of the TFI PZU SA Management Board in charge of finance, risk, operations and IT. In his capacity as Member of the TFI PZU SA Management Board, he was also responsible for the corporate area.

Maciej Rapkiewicz

PZU Management Board Member since 22 March 2016 / PZU Życie Management Board Member since 25 May 2016

He graduated from the Faculty of Law and Administration at the University of Łódź and completed post-graduate studies in business insurance at the Kraków Academy of Economics, MBA Finance & Insurance at the Łódź University of Technology / Illinois State University, and Ph.D. studies at the Economics Faculty of the Finance, Banking and Insurance Institute of Łódź University. In 2006-2009, Member and then Vice President of the TFI PZU SA Management Board. Since 2015, he has been working for TFI BGK S.A., where he has been discharging the function Management Board Member. President of the ŁSSE S.A. Management Board, Member of the Morizon S.A. Supervisory Board (in 2015-2016), Chairman of the Dom Invest Sp. z o.o. Supervisory Board (since 2016).

Małgorzata Sadurska

PZU Management Board Member since 13 June 2017 / PZU Życie Management Board Member since 19 June 2017

Graduated from the Law and Administration Faculty of the Maria Curie-Skłodowska University in Lublin and completed a post-graduate course in Organization and Management. From 2002 to 2005, she was a Member of the Puławy County Board. From 2005 to 2015, she was a member of the Sejm of the Republic of Poland (of the 5th, 6th and 7th terms). She worked in the Committees on the European Union, Internal Affairs, Special Committee for changes in legal codes, where she acted as the deputy chairwoman of the Committee for two terms of office. She was also member of the National Council of the Judiciary of Poland, Chairwoman of the Supervisory Board of the ZUS Social Insurance Institution. In 2007, she was the Secretary of the State on labor and social policy at the Prime Minister's Office. In 2015-2017, she served as Head of the Chancellery of the President of the Republic of Poland.

Roman Pałac

President of the PZU Życie Management Board since 26 April 2017/ PZU Group Director since 15 February 2016

Graduated in Economics from the Warsaw School of Economics (SGH) and completed MBA studies at the London Business School. Gained extensive experience working for Polish and foreign financial institutions. In 2003-2007, he worked as Project Manager at the World Bank in charge of the preparation and coordination of loan programs aimed at implementing policies intended to improve energy efficiency in countries of Central and Eastern Europe. From 2009 to 2016, he was associated with The Boston Consulting Group where he was responsible for the provision of insurance and banking advisory services related to motor insurance claims handling, business strategy development and sales activation. He also participated as an expert in several bank merger deals.

Aleksandra Agatowska

PZU Życie Management Board Member / PZU Group Director since 25 March 2016

Graduate of the Jagiellonian University majoring in Economic Sociology and Market Research. She gained her professional experience working for ING Życie, ING Powszechne Towarzystwo Emerytalne and ING Spółka Dystrybucyjna. She also collaborated with the team of the Public Policy Evaluation and Analysis Center. For HDI (currently Warta S.A.), she managed the product marketing team, developing and executing sales support campaigns. Then she headed the Marketing Intelligence team at Sony Europe. At Philips S.A. she managed the Marketing and Business Intelligence team in 17 countries of the region. As an external consultant, she advised among others Aviva on the implementation of distribution channel projects.

Dorota Macieja

PZU Życie Management Board Member / PZU Group Director since 15 March 2017

Graduate of Polish philology at the University of Warsaw. Associated with the PZU Group since 2016. As a director, she supervised prevention and sponsoring activities at PZU and PZU Życie SA. In 2010-2016, she coordinated and managed publishing and film production projects. In 2008-2010, she served as deputy director and director of Channel 1 of Telewizja Polska SA. Earlier, in 2007, she headed TVP1's News program. For many years, a journalist working for Tygodnik Solidarność, Wprost and Radio Free Europe. During martial law in Poland, she was associated with the underground publishing house "Wola".

Tomasz Karusewicz

PZU Życie Management Board Member / PZU Group Director since 29 January 2016

Graduate of the Department of Economic Sciences and Management at Szczecin University. Certified internal auditor. In 2006-2008, he worked for the Ciech Group. He served as a member of the Ciech S.A. Supervisory Board and was also Deputy Director of the Corporate Governance Department. A member of the supervisory boards of Zakłady Chemiczne Alwernia S.A. and Ciech Polfa Sp. z o.o. In 2007-2009, the deputy director of the Foreign Investment Department at PZU. In 2010-2012, he worked for Telewizja Polska S.A., initially as Deputy Director of the Management and Corporate Department, then as Director of the Internal Audit and Control Department. He also served as a member of the supervisory boards of Enea S.A. and Zakłady Azotowe w Tarnowie-Mościcach S.A.

Bartłomiej Litwińczuk

PZU Życie Management Board Member / PZU Group Director since 19 August 2016

Graduated from the Faculty of Law and Administration at the University of Warsaw. Advocate at the Bar Association in Warsaw. Practiced as an advocate specializing in civil law. He combines the knowledge of business with extensive experience resulting from his provision of legal assistance services in cases related to commercial company law, copyright law, administrative law and criminal law. He also served as an advisor to the Extraordinary Committee of the Sejm for changes in legal codes. He has acquired experience in corporate governance serving as a member of supervisory bodies of commercial law companies.

9.9 Compensation of the members of governing bodies

The rules for compensating Management Board members are shaped by the Supervisory Board in accordance with Resolution No. 4 adopted by PZU's Extraordinary Shareholder Meeting on 8 February 2017 in the matter of determining the compensation of the Management Board members, as amended by Resolution No. 38 adopted by PZU's Ordinary Shareholder Meeting on 29 June 2017 and the requirements set forth in the Act of 9 June 2016 on the Rules for Shaping the Compensation of Persons Managing Some Companies.

The foregoing rules stipulate that the total compensation due to a Management Board member for rendering management services and discharging other obligations ensuing from the Management Services Provision Agreement consists of the following:

- fixed compensation - flat monthly base compensation (for a calendar month) that cannot exceed the reference range established pursuant to art. 4 section 2 of the Act on the Rules for Shaping the Compensation of Persons Managing Certain Companies without prejudice to the situations outlined in art. 4 section 3 of the aforementioned act;
- variable compensation - supplementary compensation for a given financial year depending on the extent to which management objectives are attained, within the catalogue of management objectives defined pursuant to the aforementioned act, and which include, among others, growing the Company's value and improving its economic and financial ratios. The variable compensation for a given financial year may not exceed 100% of the annual fixed compensation in the previous financial year for which the amount of variable compensation due is to be calculated. In addition, a significant portion of the variable compensation is awarded in the form of deferred variable compensation. Deferred variable compensation is payable over 3 years. After the elapse of 12, 24 and 36 months, respectively from the date of allocation, a Management Board member may acquire the right to 1/3 of the deferred variable compensation for a given year subsequent to satisfying the conditions defined in the Management Services Provision Agreement.

Moreover, the Management Services Provision Agreements entered into with Management Board members regulate their term of notice and issues related to refraining from engaging in competitive activity to the Company's during their term of validity after their termination in consideration for damages. These contracts do not contain provisions contemplating damages in the event Management Board members resign or are dismissed from their position without a valid reason except for severance pay distributed after the fulfillment of contractual prerequisites which include dismissal or release on account of the issuer undergoing a merger by way of acquisition.

In 2018, the PZU Group companies subject to consolidation did not grant any loans or similar benefits to members of their management boards, higher level managers or members of their supervisory boards.

Group Directors

There is a common management model in PZU and PZU Życie. The rules governing the establishment of which and the appointment to and dismissal from which are laid down in the Organizational Rules and Regulations of these companies. According to this model, the persons discharging the functions of Management Board members at PZU Życie are at the same time employed as directors of the PZU Group at PZU and are in charge of the same business structures and areas at PZU and PZU Życie SA.

The following persons served as directors of the PZU Group throughout 2018:

- Aleksandra Agatowska;
- Tomasz Karusewicz;
- Bartłomiej Litwińczuk;
- Dorota Macieja
- Roman Pałac.

The compensation paid to members of PZU's key management staff (PZU Management Board Members, higher level managers and Supervisory Board members who discharged their duties for at least one day in 2018 and 2017).

Compensation and other short-term employee benefits paid by PZU (PLN thous.)	1 January – 31 December 2018		1 January – 31 December 2017	
		including bonuses and special awards:		including bonuses and special awards:
Management Board, of which:	**3,857**	**-**	**6,870**	**2,042**
Paweł Surówka	793	-	683	74
Rodger Hodgkiss	766	-	1,171	412
Tomasz Kulik	766	-	319	-
Maciej Rapkiewicz	766	-	1,152	379
Małgorzata Sadurska	766	-	421	-
Michał Krupiński	nd.	nd.	2,086 [1]	895
Andrzej Jaworski	nd.	nd.	945 [2]	282
Marcin Chludziński	nd.	nd.	93	-
High-level managers (PZU Group Directors), including:	**1,451**	**11**	**5,138**	**1,381**
Aleksandra Agatowska	203	-	854	254
Tomasz Karusewicz	307	-	1 031	356
Bartłomiej Litwińczuk	307	-	754	122
Roman Pałac	317	-	986	378
Dorota Macieja	317	11 [3]	501	-
Paweł Surówka	nd.	nd.	261 [4]	72
Sławomir Niemierka	nd.	nd.	751	199
Supervisory Board, of which:	**1,420**	-	**1,344**	**-**
Maciej Łopiński	169	-	nd.	nd.
Paweł Górecki	170	-	131	-
Alojzy Nowak	170	-	154	-
Marcin Chludziński	156	-	133	-
Agata Górnicka	156	-	133	-
Robert Jastrzębski	127	-	nd.	nd.
Katarzyna Lewandowska	157	-	115	-
Robert Śnitko	156	-	105	-
Maciej Zaborowski	156	-	146	-
Aneta Fałek	3	-	114	-
Bogusław Banaszak	nd.	-	142	-
Marcin Gargas	nd.	-	18	-
Paweł Kaczmarek	nd.	-	48	-
Eligiusz Krześniak	nd.	-	13	-
Jerzy Paluchniak	nd.	-	39	-
Piotr Paszko	nd.	-	13	-
Radosław Potrzeszcz	nd.	-	13	-
Łukasz Świerżewski	nd.	-	27	-

1) including non-competition compensation of PLN 600 thousand
2) including non-competition compensation of PLN 276 thousand
3) bonus for the Sponsoring Director function discharged from 1 January to 14 March 2017
4) compensation for the period of discharging the PZU Group Director's function until 12 April 2017

Compensation and other short-term employee benefits paid by other PZU Group entities (PLN thous.)	1 January – 31 December 2018	including bonuses and special awards:	1 January – 31 December 2017	including bonuses and special awards:
Management Board, of which:	**90**	**-**	**2,835**	**801**
Paweł Surówka	90 1)	-	499	214
Rodger Hodgkiss	-	-	491	214
Tomasz Kulik	-	-	840	103
Maciej Rapkiewicz	-	-	446	135
Michał Krupiński	nd.	-	67 2)	-
Andrzej Jaworski	nd.		492 3)	135
High-level managers (PZU Group Directors), including:	**2,206**	**6**	**3,030**	**706**
Aleksandra Agatowska	344	-	509	137
Tomasz Karusewicz	460	-	604	192
Bartłomiej Litwińczuk	460	-	455	66
Roman Pałac	476	-	604	204
Dorota Macieja	466	6 4)	319	-
Sławomir Niemierka	nd.	nd.	539	107

1) remuneration for the function of Pekao Supervisory Board Member discharged from 1 January to 20 June 2018
2) remuneration for the function of Alior Supervisory Board Member discharged from 1 January to 14 June 2017
3) including non-competition compensation of PLN 149 thousand (PZU Życie)
4) bonus for the Sponsoring Director function discharged from 1 January to 14 March 2017

Total estimated value of non-cash benefits granted by PZU and PZU's subsidiaries	1 January – 31 December 2018	1 January – 31 December 2017
Management Board, of which:	**515**	**701**
Paweł Surówka	149	62
Rodger Hodgkiss	115	144
Tomasz Kulik	77	76
Maciej Rapkiewicz	64	107
Małgorzata Sadurska	110	15
Michał Krupiński	nd.	162
Andrzej Jaworski	nd.	135
High-level managers (PZU Group Directors), including:	**525**	**924**
Aleksandra Agatowska	111	201
Tomasz Karusewicz	89	138
Bartłomiej Litwińczuk	118	151
Roman Pałac	129	168
Dorota Macieja	78	119
Sławomir Niemierka	nd.	147

The Company does not have any pension liabilities or similar benefits to former managers, supervisors or former members of its administrative authorities or liabilities taken out in connection with these benefits.

9.10 Diversity policy applied to the issuer's administrative, managing and supervising bodies

PZU is a company in which the State Treasury has a shareholding. Accordingly, the persons who sit in its managing bodies are selected in accordance with the statutory regulations applicable to these types of entities.

PZU employs best practices promulgating diversity and it cares about equal treatment for employees.

Respecting human rights is assigned special significance in HR policy when it comes to organizational culture. This involves counteracting mobbing and discrimination, offering equal opportunities to all employees regardless of their professional position in the PZU Group, sex, age, disability, race, religion, nationality, political convictions, union membership, ethnic origin, ethnic origin, denomination, sexual orientation, employment for a specified or unspecified term or on a full-time or part-time basis while respecting the right of assembly and the right to strike.

Respecting individuality, promulgating equal treatment and combating discrimination at work are accomplished in practice by supporting procedures and initiatives:

- countering mobbing – support is given by the Anti-mobbing Procedure contemplating the appointment of an Anti-mobbing Commission to investigate every report of improper conduct that may involve elements of mobbing;
- ensuring equal treatment in employment opportunities and counteracting discrimination – support is given by the "Report an Incident" procedure enabling employees to convey information pertaining to the breach of a rule through the intranet platform.

In addition, e-learning training entitled "Mobbing – legal and psychological aspects" is available to all employees. This training deals not just with mobbing but also discrimination and equal treatment in employment opportunities.

Additionally, elements pertaining to the psychological working environment are part of regular occupational safety and health training offered to employees and managers alike.

PZU provides its employees equal opportunities for development to enhance their skills, being promoted and compensation, while having regard for employees' individual potential, their accomplishments and work performance.

Respecting the personal dignity of employees is an important aspect of organizational culture.

Principles supporting diversity and equal treatment span all career stages in PZU, starting from the recruitment process to the duration of the employment relationship (employment terms, access to training and development-minded activities, opportunities to be promoted) to the termination of cooperation.

PZU confirmed its will to pursue a diversity policy by joining the signers of the Charter of Diversity in 2013.

As regards qualifications and requirements for those occupying positions in management and supervisory bodies in PZU, the Company in particular takes into account the criteria defined in the provisions of the Commercial Company Code of 11 September 2015 the Insurance and Reinsurance Activity Act of 11 September 2000 and the State Property Management Act of 16 December 2016. The criteria adopted by the legislator aim to ensure recruitment of people with the education and professional experience adequate to occupy management or supervisory positions in a company conducting insurance activity. Members of the management board and supervisory board of the new term of office are selected in compliance with the principles of equal access of women and men to positions in the company's statutory bodies. The current composition of the governing bodies also addresses the need of age diversification among PZU Management Board and Supervisory Board members.

Monika is a student of journalism at the Cardinal Stefan Wyszyński University. She is our intern in the Corporate Communication Department. For the first 1.5 months she dealt with internal communication, among other things taking part in prepating the PZU World quarterly. Currently, she is familiarizing herself with the ins and outs of social media in the external communication and PR section. Privately, she loves classic rock music (oldies) and is passionate about films and open-air cinema.

"From the very beginning I've been surrounded by positive people. Each task has been explained well and there hasn't been a moment when I wasn't able to cope. I recommend this program to everyone"

www.pzu.pl/kariera/studenci/program-praktyk-i-stazy

10.

Other

Truthfulness and accuracy of the presented financial statements

To the best knowledge of the PZU Management Board, the PZU Group and Issuer's annual consolidated financial statements and comparative data have been prepared in line with the prevailing accounting principles, and honestly, accurately and clearly reflect the PZU Group's and the Issuer's assets and financial position as well as their financial result, and that the Management Board's report on the PZU Group's activity shows a true picture of the PZU Group's and the Issuer's development, results and position, including a description of the major threats and risks.

Cooperation with international public institutions

PZU Group companies cooperate among others with the European Bank for Reconstruction and Development (EBRD) and the European Investment Fund. EBRD acquired PLN 300 million in securities under the subordinated bond issue in 2017.

In 2018 Bank Pekao signed an agreement with the European Investment Fund pertaining to the portfolio guarantee line.

Under Solvency II PZU has the possibility of consulting the European Insurance and Occupational Pensions Authority (EIOPA).

Information about significant agreements executed between shareholders

The PZU Management Board does not have any information about agreements executed until the date of this Report on the activity of the PZU Group and PZU among shareholders as a result of which changes may transpire in the future in the percentages of shares held by its shareholders to date.

Information about significant executed agreements

In 2018 no significant contracts were executed in respect of the Issuer's operations.

In 2017 PZU issued subordinated bonds with a nominal value of PLN 2.25 billion.

The bond redemption date is 29 July 2027 with an early repayment option on 29 July 2022. Section 8.7 DEBT FINANCING PZU, PEKAO AND ALIOR BANK

Related party transactions on terms other than on an arm's length basis

In 2018, 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 based on an arm's length principle.

Tax Group

The tax group agreement for fiscal years 2018-2020 was signed on 20 September 2017. According to the agreement, the tax group consists of PZU, PZU Życie, LINK4, PZU CO, PZU Pomoc, Ogrodowa-Inwestycje, PZU Zdrowie, PZU Finanse, PZU LAB, Ipsilon, Omicron Bis, Tulare Investments and Battersby Investments.

Under the tax group agreement, PZU is the parent company representing the tax group. Pursuant to art. 25 section 1 of the CIT Act, the Tax Group performs settlements with the Tax Office on a monthly basis. PZU makes advance payments to the Tax Office for the CIT tax due from PZU's overall Tax Group, while the member companies transfer the amount they owe in advance payments to PZU's specified bank account.

According to the agreement, the new tax group does not include TFI PZU or Ardea Alba in liquidation, which previously belonged to the tax group established for the period of 2015 to 2017.

Purchase of treasury shares in the financial year

Within its trading activity Bank Pekao enters into transactions on PZU shares and futures. As at 31 December 2018 Bank Pekao held 7 447 PZU shares. As at 31 December 2018 consolidated funds held 268 thousand PZU shares. PZU did not hold any treasury shares as at 31 December 2018.

Credits and loans extended and taken out

Under their investment activity in 2018 PZU SA, PZU Życie SA and the funds managed by TFI PZU SA executed transactions to extend debt financing in the form of loans and bonds.

Companies in the PZU Group extend loans to one another. The following loans were extended in 2018 to the issuer's related entities:

- Loan agreement entered into by and between PZU Zdrowie SA and Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia Elvita-Jaworzno III Sp. z o.o. on 19 December 2018 for the amount of PLN 20.6 million maturing on 31 December 2028;
- Loan agreement entered into by and between PZU Zdrowie SA and Revimed Sp. z o.o. on 06 March 2018 for the amount of PLN 3 million maturing on 31 December 2023;
- Under the loan agreement entered into by and between PZU and PZU Zdrowie SA on 23 March 2015 and subsequent annexes thereto, on 21 December 2018 a tranche in the amount of PLN 20 million was paid out. The loan maturity date is 31 December 2030.

Armatura Kraków SA chiefly funds its business using loans totaling PLN 69 million. In 2018 the financing banks extended the maturity of the loans.

Granted and received guarantees and sureties

In 2018, neither PZU nor its subsidiaries granted any sureties for a loan or borrowing or gave guarantees to any single entity or any subsidiary of such an entity if the total amount of outstanding sureties or guarantees would be significant, except for the first guarantee securing loan repayment by a subsidiary with a guarantee sum of PLN 495 million after conversion.

On 8 November 2017, PZU executed a mandate contract with Alior Bank on periodic granting of insurance guarantees constituting unfunded credit protection and a framework mandate agreement on the periodic granting of counter-guarantees (Current Report No. 64/2017). The maximum exposure limit for guarantees is PLN 5 billion (say: five billion Polish zloty) and is in force for a period of 3 years.

Information regarding the off-balance sheet items as at the end of 2018 is set forth in CHAPTER 6.6 ASSET AND LIABILITY STRUCTURE.

Business seasonality or cyclicity

PZU's business is not seasonal or cyclical to an extent that would justify application of the suggestions set forth in the International Financial Reporting Standards.

Rules of preparation

The Rules of 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 2018 and up to the date of preparation of this report on the activity of the PZU Group and PZU, there were no pending proceedings before court, a body competent to hear arbitration proceedings or a public authority body concerning liabilities or receivables of PZU or a direct or indirect subsidiary thereof whose unit value would be material except for the issues described in the PZU Group's consolidated financial statements and PZU's financial statements for 2018.

As at 31 December 2018, the total value of all the 217,810 cases pending before courts, competent bodies for arbitral proceedings or public administration authorities to which PZU Group entities are a party was PLN 7,804 million (of which PZU was a party to 146,551 cases with a total value of PLN 3,482 million). PLN 4,108 million of that amount pertains to liabilities and PLN 3,696 million to the accounts receivable of PZU Group companies (including 3,060 of liabilities and PLN 423 million of the Issuer's accounts receivable).

Management Board's Report on the Activity of the PZU Group and PZU SA for 2018 has 240 consecutively-numbered pages.

Signatures of PZU Management Board Members

Paweł Surówka – President of the Management Board

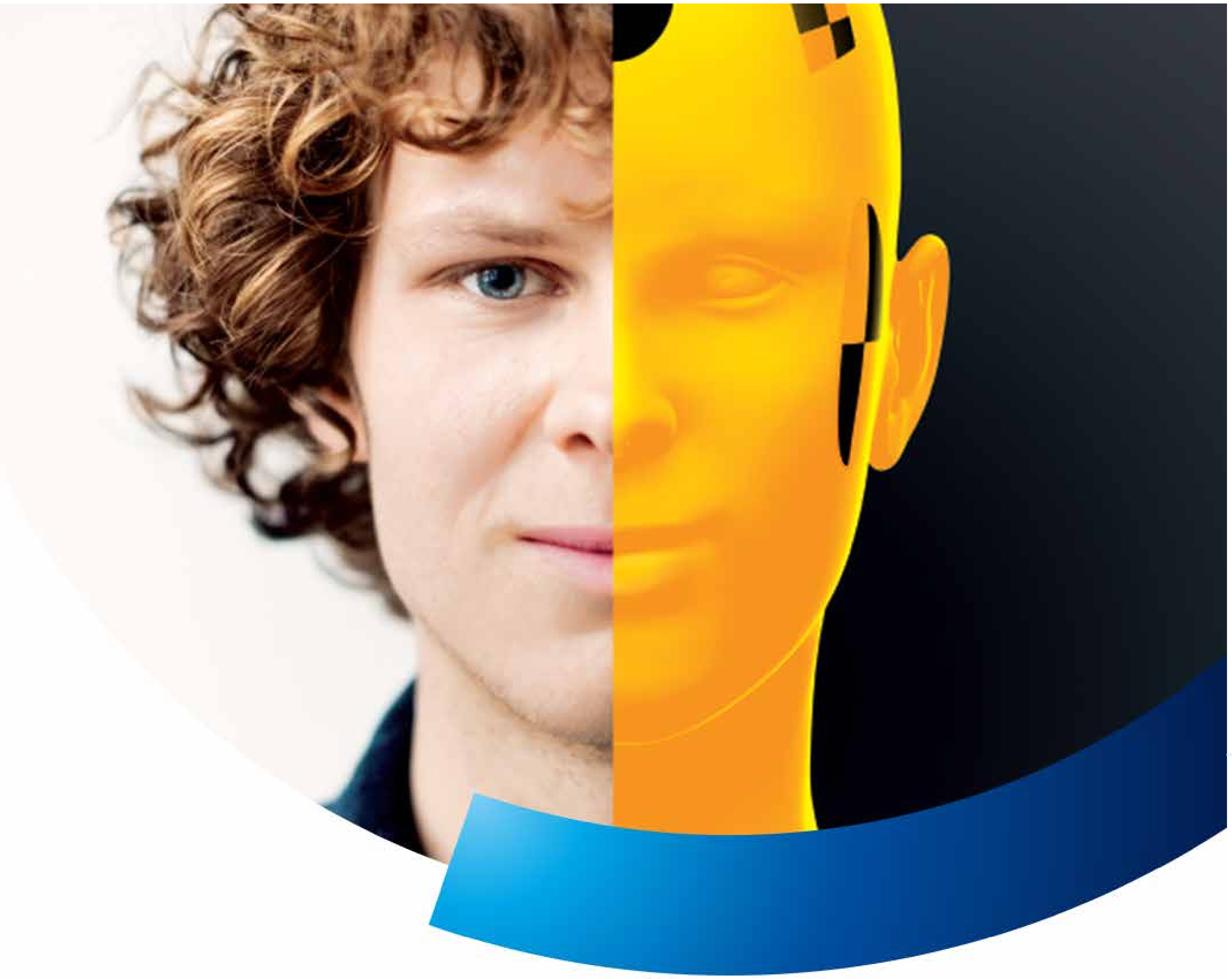
Roger Hodgkiss – Management Board Member

Tomasz Kulik – Management Board Member

Maciej Rapkiewicz – Management Board Member

Małgorzata Sadurska – Management Board Member

Warsaw 12 March 2019



11.

Appendix: PZU Group's financial data

Appendix: PZU Group's financial data

Basic amounts of the consolidated profit and loss account (PLN million)	2018	2017	2016	2015	2014
Gross written premiums	23,470	22,847	20,219	18,359	16,885
Net earned premiums	22,350	21,354	18,625	17,385	16,429
Revenue from commissions and fees	2,620	1,762	544	243	351
Net investment income	10,630	8,471	3,511	1,739	2,647
Net claims and benefits	(14,563)	(14,941)	(12,732)	(11,857)	(11,542)
Acquisition costs	(3,130)	(2,901)	(2,613)	(2,376)	(2,147)
Administrative expenses	(6,609)	(5,357)	(2,923)	(1,658)	(1,528)
Interest expenses	(2,046)	(1,350)	(697)	(117)	(147)
Other operational revenues and expenses	(2,165)	(1,580)	(724)	(419)	(370)
Operating profit (loss)	7,087	5,458	2,991	2,940	3,693
Share in net profit (loss) of entities measured using the equity method	(1)	16	(3)	4	(2)
Gross profit (loss)	7,086	5,474	2,988	2,944	3,692
Net profit (loss), including:	5,368	4,185	2,374	2,343	2,968
Shareholders' profit (loss)	3,213	2,895	1,935	2,343	2,968
Minority profit (loss)	2,155	1,290	439	-	-
Basic and diluted weighted average number of ordinary shares*	863,347,220	863,519,608	863,510,930	863,523,000	863,519,490
Number of shares issued	863,523,000	863,523,000	863,523,000	863,523,000	863,523,000
Basic and diluted PZU Group's profit per ordinary Issuer's share (in PLN)	3,72	3,35	2,24	2,71	3,44
Net profit of PZU (Issuer)	2,712	2,459	1,573	2,249	2,637
Basic and diluted Issuer's profit per ordinary share (in PLN)	3,14	2,85	1,82	2,60	3,05

*including shares in consolidated funds

Data as at 31 December 2014-2017 restated

Assets (PLN million)	2018	2017	2016	2015	2014
Intangible assets	3,180	3,443	1,463	1,393	869
Goodwill	3,871	3,830	1,583	1,532	769
Property, plant and equipment	3,184	3,287	1,467	1,300	1,002
Investment property	1,697	2,355	1,738	1,172	2,236
Entities measured using the equity method	17	20	37	54	66
Loan receivables	182,054	169,457	44,998	30,254	0
Derivatives	2,487	2,351	953	1,113	546
Financial assets	101,665	110,046	59,335	57,862	56,214
Receivables	6,343	9,096	5,664	3,350	3,085
Reinsurers' share in technical provisions	1,512	1,250	990	1,097	753
Deferred tax assets	2,234	1,590	641	369	27
Deferred acquisition costs	1,546	1,485	1,407	1,154	712
Other assets	562	692	866	801	363
Cash and cash equivalents	17,055	8,239	2,973	2,440	324
Assets held for sale	1,147	317	1,189	1,506	607
Total assets	**328,554**	**317,458**	**125,304**	**105,397**	**67,573**

Data from consolidated statement of financial position for 2016 restated - as at 1 January 2017

Appendix: PZU Group's financial data

Equity (PLN million)	2018	2017	2016	2015	2014
Share capital	86	86	86	86	86
Supplementary capital	12,660	11,824	10,758	9,947	9,679
Revaluation reserve	(65)	157	106	241	249
Actuarial profits and losses related to provisions for employee benefits	-	4	3	(4)	(6)
Own shares	(11)	-	(1)	-	-
Other reserves	18	5	5	-	-
Exchange differences from subsidiaries	(36)	(73)	(2)	(42)	(35)
Retained profits (losses)	(940)	(299)	100	353	226
Net profit (loss)	3,213	2,895	1,935	2,343	2,968
Appropriations on net profit during the financial year	-	-	-	-	-
Minority interest	22,482	22,961	4,067	2,194	1
Total equity	**37,407**	**37,560**	**17,057**	**15,118**	**13,168**

Data from consolidated statement of financial position for 2016 restated - as at 1 January 2017

Liabilities (PLN million)	2018	2017	2016	2015	2014
Technical provisions	45,839	44,558	42,194	41,280	40,167
Unearned premium and unexpired risk reserve	8,525	8,008	7,076	5,856	5,250
Life insurance provisions	16,204	16,060	15,928	16,222	16,282
Outstanding claims provisions	9,690	8,898	8,272	8,264	7,770
Provision for annuities	5,981	5,776	5,673	5,808	5,998
Provisions for bonuses and discounts for the insured	7	14	5	2	2
Other technical provisions	256	287	323	384	439
Unit-linked technical provisions	5,176	5,515	4,917	4,744	4,426
Provisions for employee benefits	531	556	128	117	120
Other provisions	519	497	367	108	191
Deferred tax liability	486	638	469	509	398
Financial liabilities	236,316	224,550	60,045	44,695	9,403
Other liabilities	7,407	9,096	5,011	3,570	3,874
Liabilities directly associated with assets qualified as held for sale	49	3	33	-	252
Total liabilities	**291,147**	**279,898**	**108,247**	**90,279**	**54,405**
Total equity and liabilities	**328,554**	**317,458**	**125,304**	**105,397**	**67,573**

Data from consolidated statement of financial position for 2016 restated - as at 1 January 2017

One-off events in PZU Group -impact on gross result (PLN million)	2018	2017	2016	2015	2014
Revaluation of reserves for claims for compensation for vegetative states	(148)	-	-	-	-
Higher than the average of the last 3 years, the level of damage caused by atmospheric phenomena (storms)	-	(170)	-	-	-
Conversion effect (IAS)	17	35	40	75	70
"Gain on acquisition of the spun-off part of Bank BPH"	-	-	465	-	-
Restructuring reserve in Alor Bank	-	-	(268)	-	-
Loss due to the change in fair value of Alior Bank shares purchased within tranche I	-	-	-	(176)	-
Agricultural insurance claims higher than the average of the last 3 years	-	-	(237)	-	-
Update of assumptions concerning future payments applied in the calculation of reserves	-	-	216	-	-
Result of the sale of PZU Lithuania	-	-	-	165	-

	Operational efficiency ratios	2018	2017	2016	2015	2014
1.	**Gross claims and benefits ratio** (simple) (gross claims and benefits/gross written premium) x 100%	63.8%	67.3%	63.7%	66.9%	69.5%
2.	**Net claims and benefits ratio** (net claims and benefits/net earned premium) x 100	65.2%	70.0%	68.4%	68.2%	70.3%
3.	**Operating expense ratio in the insurance segments** (insurance activity expenses/net earned premium) x 100%	21.4%	21.1%	22.5%	23.3%	22.2%
4.	**Acquisition expense ratio in the insurance segments** (acquisition expenses/net earned premium) x 100%	14.5%	14.0%	14.3%	14.1%	13.4%
5.	**Administrative expense ratio in the insurance segments** (administrative expenses/ net earned premium) x 100%	6.9%	7.2%	8.3%	9.2%	8.8%
6.	**Combined ratio in non-life insurance** (net claims and benefits + insurance activity expenses) / net earned premium x 100%	87.1%	89.6%	94.9%	94.5%	95.7%
7.	**Operating profit margin in life insurance** (operating profit/gross written premium) x 100%	21.3%	19.3%	25.3%	22.3%	24.4%
8.	**Cost/Income ratio -** banking operations	42.3%	48.0%	44.4%	-	-

Appendix: PZU Group’s financial data

Data from the profit and loss account – corporate insurance (non-life insurance) (PLN million)	2018	2017	2016	2015	2014
Gross written premiums	3,097	2,738	2,174	1,779	1,831
Net earned premiums	2,326	2,005	1,641	1,477	1,462
Investment income	113	85	115	121	136
Insurance claims	(1,591)	(1,323)	(1,062)	(871)	(964)
Acquisition costs	(477)	(425)	(361)	(288)	(306)
Administrative expenses	(131)	(137)	(125)	(127)	(125)
Reinsurance commission and share in profits	39	27	21	16	16
Other	(11)	(41)	-	(18)	(2)
Insurance profit	**268**	**191**	**229**	**310**	**217**
Acquisition costs ratio (including reinsurance commission)*	18.8%	19.9%	20.7%	18.4%	19.8%
administrative expenses ratio*	5.6%	6.8%	7.6%	8.6%	8.6%
Claims ratio*	68.4%	66.0%	64.7%	59.0%	65.9%
Combined ratio (COR)*	92.9%	92.7%	93.1%	86.0%	94.3%

* ratios calculated with net premium earned

Data from the profit and loss account – mass-market insurance (non-life insurance) (PLN million)	2018	2017	2016	2015	2014
Gross written premiums	10,401	10,068	8,833	7,364	6,569
Net earned premiums	10,168	9,513	7,836	6,793	6,563
Investment income	526	482	517	518	563
Insurance claims	(6,171)	(6,069)	(5,275)	(4,441)	(4,363)
Acquisition costs	(1,890)	(1,745)	(1,551)	(1,383)	(1,239)
Administrative expenses	(594)	(608)	(634)	(665)	(617)
Reinsurance commission and share in profits	(6)	(9)	(14)	(14)	(27)
Other	(308)	(237)	(220)	(150)	(123)
Insurance profit	**1,725**	**1,327**	**659**	**658**	**756**
Acquisition costs ratio (including reinsurance commission)*	18.6%	18.4%	20.0%	20.6%	19.3%
administrative expenses ratio*	5.8%	6.4%	8.1%	9.8%	9.4%
Claims ratio*	60.7%	63.8%	67.3%	65.4%	66.5%
Combined ratio (COR)*	85.2%	88.6%	95.4%	95.7%	95.2%

* ratios calculated with net premium earned

Appendix: PZU Group's financial data

Data from the profit and loss account – group and individually continued insurance (PLN million)	2018	2017	2016	2015	2014
Gross written premiums	6,891	6,855	6,775	6,689	6,539
Group insurance	4,887	4,878	4,829	4,753	4,627
Individually continued insurance	2,004	1,977	1,946	1,936	1,912
Net earned premiums	6,890	6,854	6,776	6,691	6,537
Investment income	581	720	680	602	713
Insurance claims and change in other technical provisions net	(4,931)	(5,142)	(4,686)	(4,718)	(4,570)
Acquisition costs	(349)	(332)	(329)	(356)	(357)
Administrative expenses	(604)	(587)	(585)	(577)	(543)
Other	(44)	(63)	(71)	(67)	(19)
Insurance profit	**1,543**	**1,450**	**1,785**	**1,575**	**1,762**
Insurance profit excluding conversion effect	**1,526**	**1,415**	**1,745**	**1,500**	**1,692**
Insurance profit excluding one-off events	**1,526**	**1,415**	**1,529**	**1,500**	**1,692**
Acquisition costs ratio*	5.1%	4.8%	4.9%	5.3%	5.5%
Administrative expenses ratio*	8.8%	8.6%	8.6%	8.6%	8.3%
Insurance profit margin (excl. conversion effect)*	22.1%	20.6%	25.8%	22.4%	25.9%
Insurance profit margin (excl. one-off events)*	22.1%	20.6%	22.6%	22.4%	25.9%

* ratios calculated with gross premium written

Data from the profit and loss account – individual insurance (PLN million)	2018	2017	2016	2015	2014
Gross written premiums	1,346	1,664	1,174	1,234	1,269
Net earned premiums	1,344	1,662	1,174	1,234	1,267
Investment income	59	419	288	251	327
Insurance claims and change in other technical provisions net	(976)	(1,672)	(1,043)	(1,091)	(1,250)
Acquisition costs	(126)	(135)	(107)	(123)	(126)
Administrative expenses	(69)	(61)	(59)	(60)	(53)
Other	(5)	(4)	(9)	(5)	(2)
Insurance profit	**227**	**209**	**244**	**206**	**163**
Acquisition costs ratio*	9,4%	8,1%	9,1%	10,0%	10,0%
Administrative expenses ratio*	5,1%	3,7%	5,0%	4,9%	4,2%
Insurance profit margin*	16,9%	12,6%	20,8%	16,7%	12,8%

* ratios calculated with gross premium written

Data from the profit and loss account – investment contracts (PLN million)	2018	2017	2016	2015	2014
Gross written premiums	40	44	86	141	374
Group insurance	2	2	3	3	45
Individual insurance	38	42	83	138	330
Net earned premiums	40	44	86	141	374
Investment income	(14)	18	18	16	44
Insurance claims and change in the balance of other technical provisions net	(15)	(50)	(89)	(136)	(376)
Acquisition costs	(1)	(1)	(4)	(10)	(16)
Administrative expenses	(5)	(7)	(9)	(9)	(10)
Other	(2)	-	-	(1)	(1)
Insurance profit	**3**	**4**	**2**	**1**	**15**
Insurance profit margin*	7.5%	9.1%	2.3%	0.7%	4.0%

* ratios calculated with gross premium written

Data from the profit and loss account- banking activity (PLN million)	2018	2017	2016	2015	2014
Net revenue from commissions and fees	2,380	1,583	351	-	-
Investment income	9,596	6 475	2,119	-	-
Interest costs	(1,904)	(1,249)	(605)	-	-
Administrative expenses	(4,989)	(3,743)	(1,290)	-	-
Other	(1 047)	(627)	73	-	-
Total	**4,036**	**2,439**	**648**	**-**	**-**

Data from the profit and loss account – pension segment (PLN million)	2018	2017	2016	2015	2014
Investment income	5	6	5	7	12
Other revenues	149	128	110	119	271
Administrative expenses	(40)	(44)	(41)	(40)	(73)
Other	(7)	(3)	-	(4)	(6)
Operating profit (loss)	**107**	**87**	**74**	**82**	**203**

Data from the profit and loss account – Ukraine segment (PLN million)	2018	2017	2016	2015	2014
Gross written premiums	257	223	210	169	174
Net earned premiums	152	123	109	103	136
Investment result	19	18	23	41	41
Net insurance claims	(59)	(56)	(54)	(74)	(94)
Acquisition costs	(82)	(69)	(60)	(47)	(52)
Administrative expenses	(25)	(23)	(24)	(21)	(28)
Other	18	18	21	10	-
Insurance profit	**23**	**11**	**15**	**12**	**2**
Exchange rate UAH/PLN	0.1330	0.1402	0.1542	0.1722	0.2637
Acquisition costs ratio*	53.9%	56.1%	55.0%	45.6%	38.4%
Administrative expenses ratio*	16.4%	18.7%	22.0%	20.4%	20.7%

* ratios calculated with net premium earned

Appendix: PZU Group's financial data

Data from the profit and loss account – Baltic states segment (PLN million)	2018	2017	2016	2015	2014
Gross written premiums	1,592	1,404	1,183	1,193	536
Net earned premiums	1,480	1 248	1,104	1,109	477
Investment result	2	20	23	22	15
Net insurance claims	(905)	(773)	(694)	(687)	(312)
Acquisition costs	(317)	(275)	(251)	(253)	(115)
Administrative expenses	(125)	(111)	(110)	(147)	(80)
Other	3	-	-	-	-
Insurance profit	**138**	**109**	**72**	**44**	**(16)**
Exchange rate EUR/LTL in PLN	4.2669	4.2447	4.3757	4.1848	1.2133
Acquisition costs ratio*	21.4%	22.0%	22.7%	22.8%	24.2%
Administrative expenses ratio*	8.4%	8.9%	10.0%	13.3%	16.8%

* ratios calculated with net premium earned

Investment segment (external) (PLN million)	2018	2017	2016	2015	2014
Total	**(447)**	**111**	**(570)**	**506**	**579**

11.

Attachment: Glossary of terms

insurance agent – commercial undertaking conducting agency activity pursuant to an agreement executed with an insurance undertaking. The activity of agents focuses on acquiring customers, entering into insurance contracts, participating in the administration and performance of insurance agreements and organizing and supervising agency activity

assurbanking – distribution of banking products by insurance companies

bancassurance – distribution of insurance company products by the bank

insurance broker – entity holding a permit to conduct brokerage activity. Performs activities on behalf or in favor of an entity seeking insurance cover

cedent – person who cedes an account receivable to a buyer

COR – Combined Ratio – calculated for the non-life insurance sector (section II). This is the ratio of insurance expenses related to insurance administration and the payment of claims (e.g. claims, acquisition and administrative expenses) to the net earned premium for a given period

cross-selling – a sales strategy for selling a given insurance product in combination with a complementary insurance product or an insurer's partner's product, e.g. a bank's product. Bancassurance products such as credit insurance may serve as an example

P/BV (Price to Book Value) – multiple specifying the ratio of the market price to the book value per share

P/E (Price to Earnings) – multiple specifying the ratio of the company's market price (per share) to earnings per share

DPS (Dividend Per Share) – market multiple specifying the dividend per share

DY (Dividend Yield) – market multiple specifying the ratio of the dividend per share to the market share price

EPS (Earnings Per Share) – market multiple specifying earnings per share

IDD – Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (Insurance Distribution Directive)

IPO (Initial Public Offering) – public offering of specific securities performed for the first time. One of the most important elements of an initial public offering is the preparation of a prospectus and the proceeding before the institution supervising admission to be traded publicly

cc – The Act of 23 April 1964 - Civil Code

ccc – The Act of September 15, 2000 the Code of Commercial Companies

ECP – Employee Capital Plans defined by the provisions of the Act of 4 October 2018 on employee capital plans

PRIIP – Commission Delegated Regulation (EU) 2017/653 of 8 March 2017 supplementing Regulation (EU) No. 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products

reinsurance – transfer to some other insurance undertaking – the reinsurer – of all or part of the insured risk or class of risks along with the pertinent portion of the premiums. As a result of reinsurance, a secondary split of risks transpires to minimize the risks to the insurance market

outward reinsurance – reinsurance activity whereby the insurer (cedent) transfers a portion of the concluded insurance to a reinsurer or reinsurers in the form of a reinsurance agreement

inward reinsurance – reinsurance activity whereby a reinsurer or reinsurers accept a portion of insurance or a class of insurance transferred by a cedent

technical provisions – provisions that should ensure full coverage of current and future liabilities that may result from executed insurance contracts. The following, in particular, are for accounting purposes part of technical provisions: provision for unearned premiums, provision for outstanding claims and benefits, provision for unexpired risks, provision for investment risk borne by policyholders and provision for bonuses and discounts for insureds

Attachment: Glossary of terms

GDPR – Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC

CRR Regulation – Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms

Regulation on Current and Periodic Information – Finance Minister's Regulation of 19 February 2009 on Current and Periodic Information Transmitted by Securities Issuers and the Conditions for Recognizing the Information Required by the Regulations of a Non-Member State as Equivalent (Journal of Laws of 2009, No. 33 Item 259, as amended)

credit scoring – method for assessing the credibility of an entity (usually a natural person or a business) applying for a bank loan. The result of credit scoring is ordinarily presented in the form of a score – the higher the number of points, the greater the credibility of a prospective borrower

sell side – part of the financial sector involved in creating, promoting and selling equities, bonds, foreign currencies and other financial instruments; it includes investment bankers who act as intermediaries between securities issuers and investors as well as market makers who provide liquidity on the market. Sell-side analysts release research reports with investment recommendations and daily comments for the buy side, i.e. for asset managers. Research reports pertain to companies that are already public and to companies that are being floated on an exchange or that are conducting additional rights offerings

gross written premium – the amounts of gross written premiums (net of the reinsurer's share) due by virtue of the insurance contracts executed in the reporting period, notwithstanding the term of liability stemming from these agreements

net earned premium – the gross written premium in a given period giving consideration to the settlement of revenues (premiums) over time through movement in the provisions for unearned premiums and the reinsurers' share

Solvency II – a solvency system for European insurance undertakings taking the risk profile into account. These requirements have been in force since 1 January 2016

spread – the difference between the purchase and sale price of a given financial instrument

risk-free rate – rate of return on financial instruments with zero risk. In PZU the risk-free rate is based on the yield curves for treasuries and it is the basis for determining transfer prices in settlements between operating segments

sum insured – amount in cash for which an insured object is insured. In non-life insurance the sum insured ordinarily constitutes the upper limit of the insurer's liability

TSR (Total Shareholder Return) – measure specifying the total rate of return obtained by shareholders by virtue of holding shares in a given company during an annual period. This measure expresses the sum total of profit stemming from the movement in the share price of a given company and the dividends paid during the time when an investor holds its shares in relation to its share value at the beginning of a given year. It is expressed as a percentage on an annualized basis

ICP – Insurance Capital Fund, a separate asset fund constituting a provision created from insurance premiums, invested in the manner specified in the insurance contract, a component of life insurance with an insurance capital fund (ICP), also referred to as an investment policy

Statutory Auditor Act – Act z 7 May 1999 roku on Statutory Auditors and their Self Regulation, Entities Authorized to Audit Financial Statements and Public Supervision (Dz. U. 2009 nr 77 poz. 649 z późn zm.)

UOKiK – Office of Competition and Consumer Protection. The shaping of anti-monopoly policy and consumer protection policy is one of the powers of the President of the Office of Competition and Consumer Protection, inter alia, by conducting anti-monopoly proceedings in cases of practices limiting competition and in cases of practices violating the collective interests of consumers, www.uokik.gov.pl

Insurance Activity Act – Act of 11 September 2015 on Insurance and Reinsurance Activity (Journal of Laws of 2015, Item 1844, as amended), with most regulations in force as of 1 January 2016. This Actintroduced Solvency II requirements in the Polish legal system

up-selling – commercial technique involving the offering and selling of additional higher-priced and higher standard services to a current client

venture capital – medium and long-term investments in privately-held businesses in their early stage of development combined with managerial support, conducted by specialized entities (venture capital funds). The purpose of venture capital investments is to generate a profit ensuing from the incremental growth in the value of a business by selling its stock after the elapse of a specific period

VIX – index of the volatility of stock market prices expected by Wall Street investors based on option prices. The higher this index goes, the greater the fear on the market and the greater the opportunities are to buy discounted equities

WIBOR6M – reference interest rate for a loan for 6 months on the Polish interbank market

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

solvency ratio – statutory multiple (under Solvency II) specifying the level of capital security for the operations conducted by an insurer; by law this multiple should be higher than 100%

leverage ratio of PZU Group - quotient of the debt from long-term financial liabilities (excl. bank deposits, deposit certificates and credit received in connection with the preferential financing of loans) and the sum of: debt from long-term financial liabilities and PZU Group's equity less: the value of intangible assets, deferred acquisition costs and deferred tax assets, which have been presented in consolidated financial statements of PZU Group.

prudent person principle – principle expressed in article 129 of the Solvency II Directive of the European Parliament and of the Council on the Taking-up and Pursuit of the Business of Insurance and Reinsurance that imposes on insurance undertakings and reinsurance undertakings the requirement of investing assets in the policyholders' best interest, properly matching investments to liabilities and duly incorporating the various types of financial risk, such as liquidity risk and concentration risk

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.