2019

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

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This report utilizes photos from campaign "Bezpieczne Wakacje z PZU" [Safe holiday with PZU]

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 H1 2019.

The start of 2019 primarily marked the continuation of the PZU Group's digital transformation under the #newPZU strategy. The first year of its execution proved to be a highly creative period in which we not only attained our intended objectives but we also developed and tested more innovative solutions.

The thoughts that had appeared in the form of ideas and concepts at the outset of 2018 are coming to form a part of the PZU Group's technological stream of innovation to an ever greater degree. Some of these solutions are now recognizable symbols of the PZU brand. In April 2019 we launched PZU GO as part of our standing offer. This is a product that saves the lives of drivers and is offered as a rider to motor insurance. We have also observed the growing popularity of the moje.pzu.pl portal. This is our first comprehensive and technologically integrated sales and information platform to serve our clients. At any time of their choosing they can check the specifics of the products they have purchased from the PZU Group. Moreover, they can buy more products conveniently and in a single spot in line with their needs and the suggestions we provide.

Another equally important facet of PZU's transformation is related to the changes made to service and sales processes. The tests and pilot projects using artificial intelligence in claim handling, among others, made us aware that it is an attainable goal to enhance the quality of client service while simultaneously maintaining a high level of cost effectiveness. We estimate that finalizing this implementation will make it possible to streamline the process of checking technical documentation by 10 times and it will reduce the time needed to handle a notification. We are posting increasingly better results in smart tariff setting. In H1 2019 we rolled out a system for some of our motor insurance products to offer clients custom pricing that matches, among others, their loss ratio (measured using sophisticated risk models) and purchasing preferences.

We see that the latest technological solutions offer enormous potential to enhance the satisfaction of our clients. That is why we are actively looking for new ideas and committing resources to more undertakings. One of these projects is an innovative loan platform developed jointly with Alior Bank enabling employers to introduce new benefits in the form of fast and low-interest loans offered to their employees. We plan to launch this system in Q3 2019.

Our core insurance activity in H1 2019 continues to be in very good shape. The combined ratio for non-life insurance is below 90%, thereby achieving a better result than targeted in our strategy. Delivering such robust profitability during times of growing price pressure on the motor insurance market was chiefly possible thanks to the high level of cost effectiveness and steady improvement in the quality of client service. Our position in group insurance with a periodic premium is equally strong as it generated a margin of 20%. In addition, we are successively developing our network of health centers. In early June, 32 medical centers acquired as part of Falck outpatient care joined the PZU Zdrowie network. In total, the overall PZU Zdrowie network consists of more than 2,300 centers.

In H1 2019 the PZU Group generated a net profit of PLN 1.5 billion for the parent company, on sales of PLN 11.8 billion. Return on equity (ROE) was 20.3%, forming a good prediction of maintaining the growing stream of dividends. In September 2019 we will pay a dividend per share of PLN 2.8. In 2017 and 2018 we distributed PLN 1.4 and PLN 2.5, respectively.

The commercialization of new technologies on the insurance market is translating into an ever faster pace of changes in products and services. This carries with it a number of opportunities and challenges, something that is particularly important in a Group of such a large size and scope of operation. In subsequent periods we will work on devising our new strategy for upcoming years while simultaneously looking for new growth opportunities. At the beginning of this August we signed an agreement with four startups to co-develop solutions employing artificial intelligence and utilize them to digitize our business processes and operations on large data sets.

Developing cooperation in Employee Capital Schemes (ECS) is another important area of our business activity. In April 2019 we made the decision to suspend management fees in these funds for their first twelve months of operation. We have also reduced to a bare minimum the formalities handled by employers in connection with setting up and running ECSs. We have professionally prepared more than 300 corporate client advisors and launched a modern e-ECS portal to support all the processes associated with concluding and administering contracts. As a result, during the first hours of this program's operation, we signed tens of contracts. Since then, every few moments more reputable companies are joining the PZU Group through its Employee Capital Schemes. In addition, the process of selling ECS is supported by Alior Bank whose clients receive access to a special bank offer if they decide to accept TFI PZU's ECS offer. This cooperation advances not just the mere idea of saving money but also forms a prime example of how we as a group can create added value for our clients.

I would like to thank all our employees and agents, and our business partners for the efforts they make every day to build the value of PZU; we are working together for our motto to continue to ring true and for that to remain so in contacts with our clients and shareholders whom I would also like to thank for their trust: you can count on us!

Respectfully,

Paweł Surówka,
CEO of PZU

PZU Group's profile

22 million

clients in five countries

#1

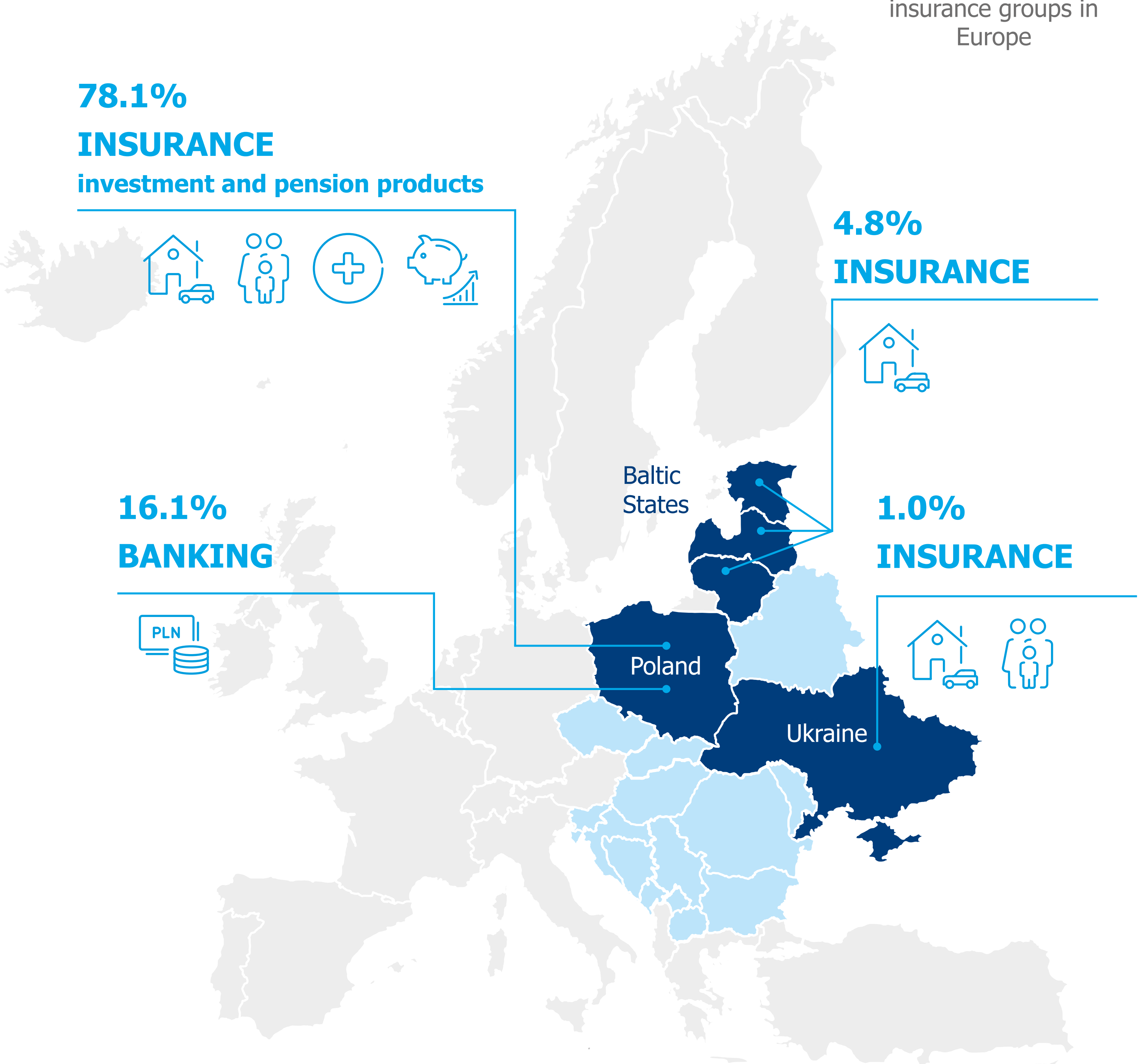
largest insurance and banking group in CEE

99%

most recognizable brand in Poland[1]

STRONG BALANCE SHEET

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



Percentage share in the operating result (adjusted for PZU's shares in banks) after H1 2019

[1] Assisted recognition of the PZU / PZU Życie brand, study by the Gfk Polonia institute, Q2 2019

Recap of H1 2019 results

Gross written premium	Net insurance claims and benefits	Net profit (parent company)
PLN 11.8 bn	**PLN 7.9 bn**	**PLN 1.5 bn**
(0.4)%	+8.0%	+5.0%
PLN 11.8 bn 06.2019	PLN 7.9 bn 06.2019	PLN 1.5 bn 06.2019
PLN 11.9 bn 06.2018	PLN 7.3 bn 06.2018	PLN 1.4 bn 06.2018
PLN 11.6 bn 06.2017	PLN 7.2 bn 06.2017	PLN 1.4 bn 06.2017

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
☐	☑	☑	☐
20.3% 06.2019 (0.4) p.p. vs. 06.2018	**225%** Q1 2019 + 3.0 p.p. vs. 2018	Dividend Payout Ratio **75%** **DPS PLN 2.80** 2018 +12.0% vs. 2017	
>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 our knowledge of our clients are becoming our main value, while our chief product is our acumen in addressing client needs to build a stable future.

The New PZU – More Than Insurance

The Powszechny Zakład Ubezpieczeń Group is the largest financial group in Poland and Central and Eastern Europe. PZU heads up the group with its traditions dating back to 1803 when the first insurance company was established on Polish soil. PZU is a public company. PZU's stock has been listed on the Warsaw Stock Exchange (WSE) since 2010. Since its floatation PZU has been in the WIG20 index. 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 340 billion. The Group enjoys the trust of 22 million clients in five countries by offering products and rendering services to retail clients, small and medium enterprises and business entities. The Polish market is the PZU Group's core market measured by its magnitude and client numbers. Nevertheless, its subsidiaries play an important role on the markets in Lithuania, Latvia, Estonia and Ukraine.

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

It is the Group's strategic ambition to 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 (spontaneous recognition of the PZU brand stands at 87% while assisted recognition is 99%).

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 multiagencies, nearly 1 thousand insurance brokers and electronic distribution channels. When it comes to bancassurance and strategic partnerships, the PZU Group collaborates with 13 banks and 21 strategic partners. PZU also has a claim handling system that operates efficiently.

The PZU Group's clients in Poland have access to Bank Pekao's distribution network (812 branches) and Alior Bank's distribution network (198 traditional branches, 8 Private Banking branches, 8 Regional Business Centers and 644 partner centers). Both banks have professional call centers and mobile and internet banking platforms.

In the Baltic States in which the PZU Group is in the insurance business, its distribution network consists of approximately 1 thousand agents, 33 multiagencies and 380 brokers. PZU also cooperates with 4 banks and 14 strategic partners. In Ukraine insurance products are distributed through more than 700 agents and in cooperation with 15 multiagencies, 35 brokers, 7 banks and 3 strategic partners.

We manage our business responsibly

PZU is an organization operating at a large scale. It is also cognizant of the expectations various stakeholder have of it, including clients, employees, investors, partners, industry experts, social environment and a number of institutions and organizations. That is 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.

Responsible business management in the PZU Group

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

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

Values by which we are guided in our actions

You can rely on us

Stability

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

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

Honesty

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

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

Innovation

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

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

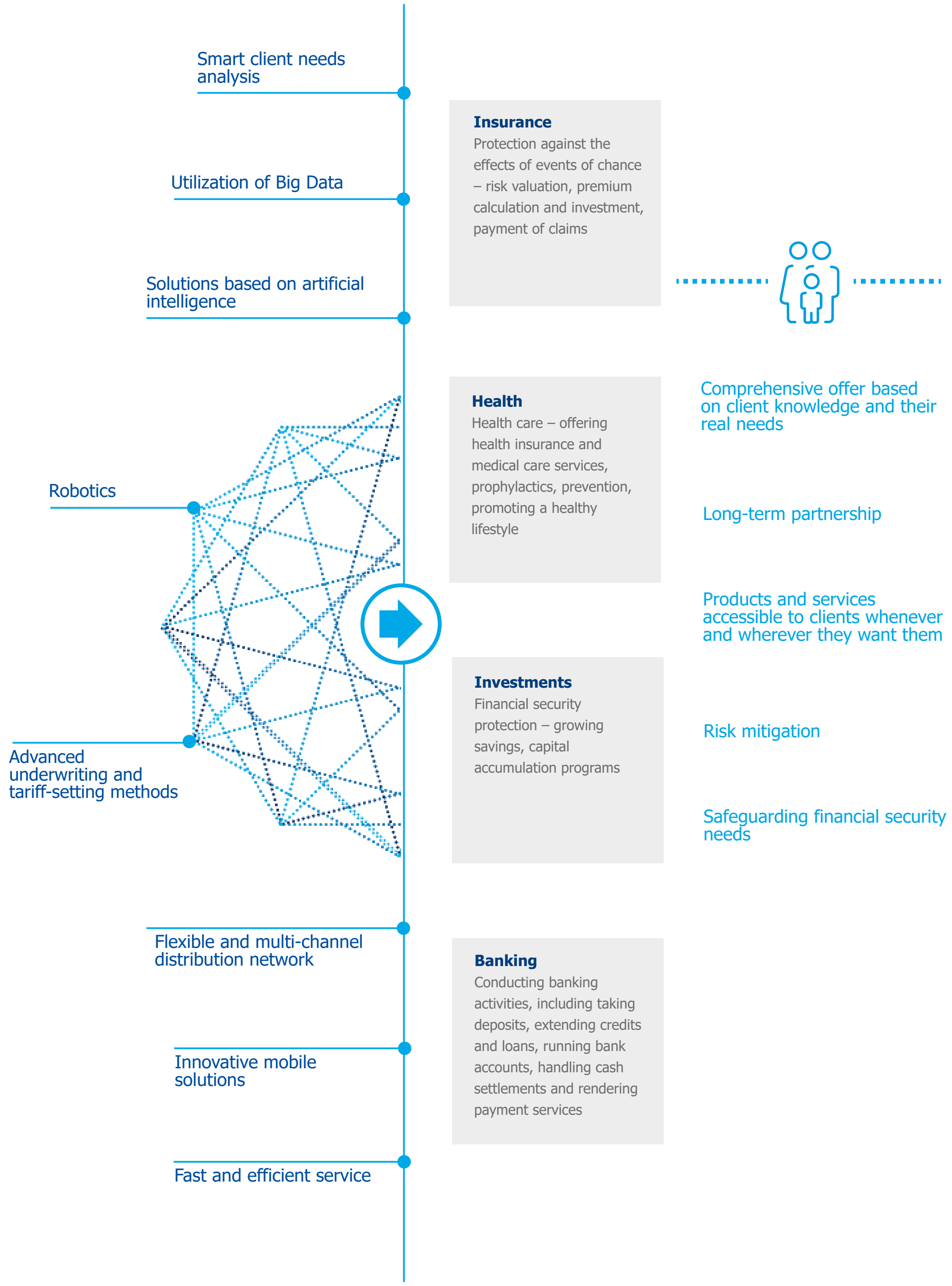
Responsibility

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

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

INNOVATIONS create NEW value for PZU Group's clients

The enormous potential of the largest financial group in Central and Eastern Europe, more than 200 years of trust, experience, effectiveness and innovation.

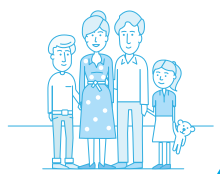


Major business areas

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.

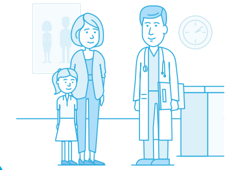
The PZU Group is also the leader in the Baltic States, and it does business in Ukraine.

Poland is the Group's core market. 91,5% of its revenue (measured by gross written premium).
The PZU Group generates in Poland. The insurance activity in the Baltic States (Lithuania, Latvia, Estonia) and in Ukraine generates approximately 8,5% of its revenue.



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

The PZU Group delivers its clients value that is difficult to replicate: quick doctor appointments (in basic medical care a visit is offered within a maximum of 2 business days, and in the case of specialists within a maximum of 5 business days), respecting referrals for tests prepared by physicians from outside the PZU Zdrowie network, remote medical consultation enabling a patient check-up, discussion of symptoms, test results, receipt of a prescription for medicines taken on a long-term basis or referral to examination, cooperation with nearly 2,200 partner centers in Poland and a proprietary network of nearly 100 branches and an offer enriched with preventive activities.



CLIENT

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

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

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

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

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

Alior Bank is a 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 and consistently strengthens its market position.

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

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

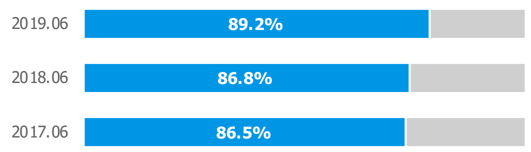
PZU Group Overview

INSURANCE

Non-life insurance in Poland

Gross written premium (PLN billion)

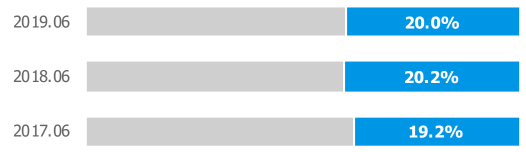
Profitability (combined ratio - COR)



Life insurance in Poland

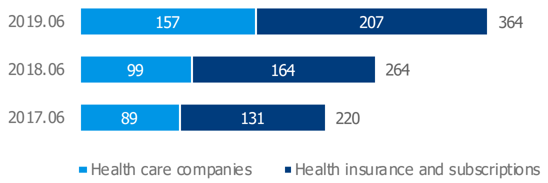
Gross written premium (PLN billion)

Profitability (operating margin)

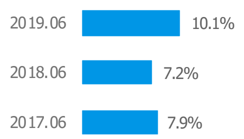


HEALTH

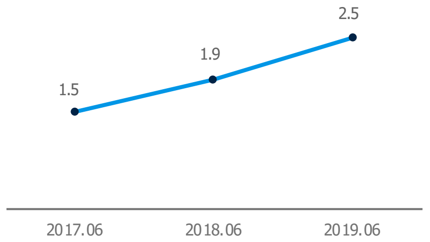
PZU Zdrowie's revenues (PLN million)



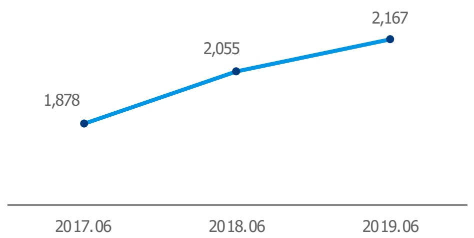
EBITDA margin



Number of agreements (million)

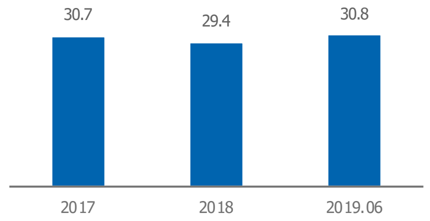


Partnership branches



INVESTMENTS

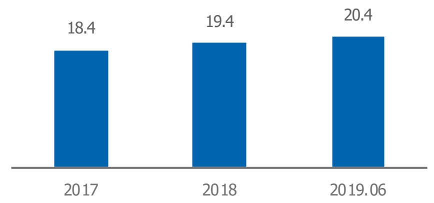
Third Party Assets of TFI and OFE PZU clients (PLN billion)



Net result on asset management (PLN million)

* trailing 12 months

Assets of Pekao TFI (PLN billion)

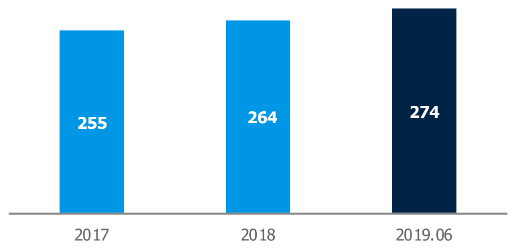


Net result on asset management (PLN million)

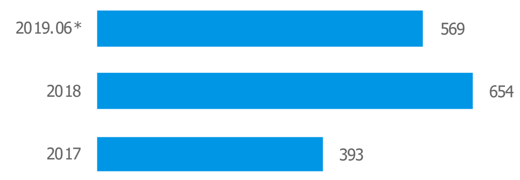
* trailing 12 months

BANKING

Banking assets in the PZU Group (PLN billion)

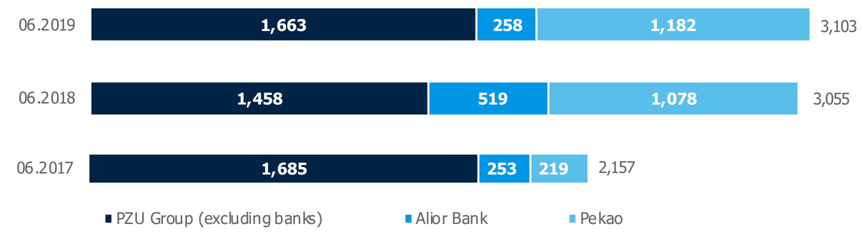


Contribution of banking activity to the net profit of the PZU Group (PLN million)



* trailing 12 months

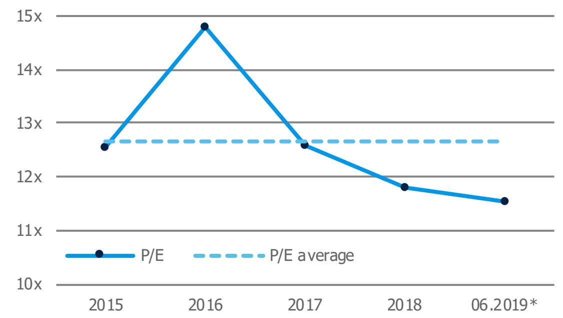
Contribution of the banks to the PZU Group's operating result (PLN million)



PZU Group Overview

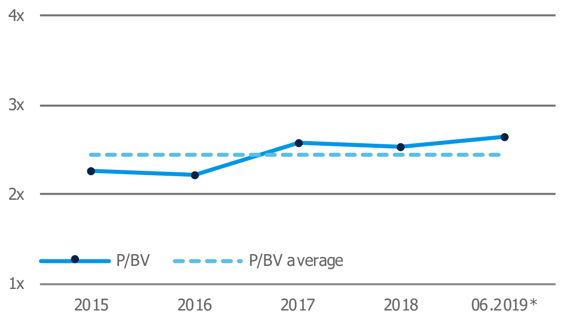
MARKET MULTIPLES

P/E (price to earnings per share)

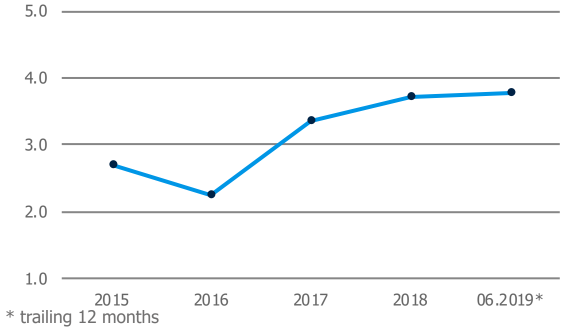


* trailing 12 months

P/BV (price to book value)

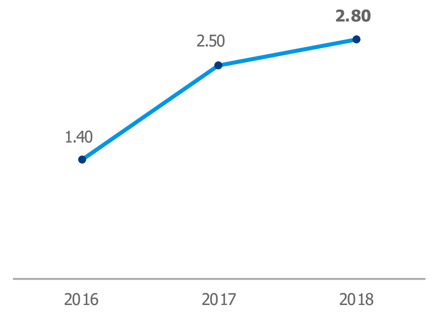


EPS (earnings per share) PLN

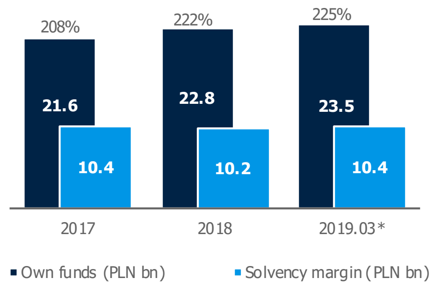


* trailing 12 months

DPS (dividend per share) PLN

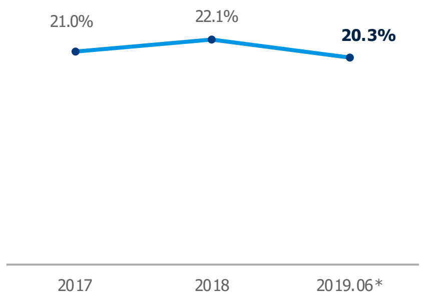


Solvency II



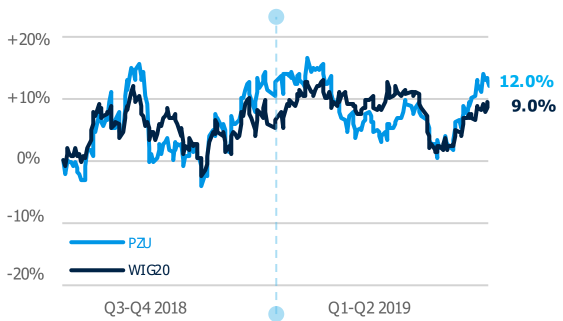
* unaudited data

ROE (return on equity)*

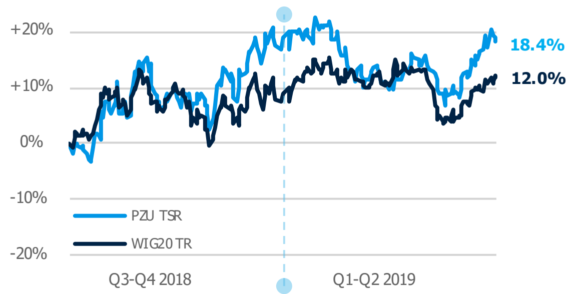


* ROE attributed for the parent company

PZU, WIG20



PZU TSR, WIG20 TR



PZU Group consolidated financial highlights for H1 2017-2019 (in PLN m)

	1 January - 30 June 2019	1 January - 30 June 2018	1 January - 30 June 2017
A) PZU GROUP NET OF ALIOR BANK AND PEKAO			
Gross written premium	11,839	11,881	11,606
Net ivestment result incl. interest expenses	1,032	468	1,087
Net insurance claims and benefits paid	(7,929)	(7,345)	(7,214)
Acquisition expenses	(1,616)	(1,519)	(1,412)
Administrative expenses	(832)	(812)	(802)
Operating profit	1,663	1,458	1,685
Net profit attributable to equity holders of the parent company	1,288	1,133	1,349
B) BANKS: ALIOR AND PEKAO			
Net profit attributable to equity holders of the parent company	193	277	89
NET RESULT ATTRIBUTABLE TO THE PARENT COMPANY (A+B)	**1,481**	**1,410**	**1,438**
Total assets	340,079	321,575	295,967
Equity attributable to the owners of the parent company	14,311	13,207	13,137

* Restated data for H1 2017 and H1 2018

The financial results generated by the PZU Group in recent years place it among the most profitable financial institutions in the country. At the same time, they translate into high asset utilization ratios. In H1 2019 the return on equity was 20.3%, much higher than 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- investment grade rating /positive/ awarded by the US rating agency S&P Global Ratings.

As at the end of Q1 2019, the solvency ratio (calculated according to the standard Solvency II equation) was 225%, a level above the average solvency ratio reported by insurance groups in Europe.

On 14 June 2019, S&P Global Ratings, a US-based rating agency raised PZU's rating outlook from stable to positive. PZU's financial strength and credit rating remained at A-. This is one of the highest possible ratings for a Polish company to receive.

The promise of sharing profits with shareholders also evidences PZU's attractiveness as an investment, where these profits are not needed to underwrite its rapid growth.

A-

/POSITIVE/

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

The dividend per share paid from 2018 earnings, which will be paid on 5 September 2019, is PLN 2.80 per shares, which represents 12.0% y/y growth.

At the end of June 2019, PZU's market capitalization rose PLN 4 billion, or 12.0% comparing to the end of June 2018.

PZU Group development

1803

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

1927

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

1950 1960 1970

1991

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

PZU SA

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

PZU Życie SA

1998

Establishment of PTE PZU – pension insurance management company

PTE PZU SA

1999

Formation of TFI PZU – mutual fund management company

TFI PZU SA

2002

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

2005

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

2010

PZU’s Initial Public Offering (IPO)

PZU

2012

Rebranding

2014

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

CODAN LIETUVOS DRAUDIMAS BALTA

and a direct insurer in Poland - LINK4

LINK4

Launch of the PZU Zdrowie brand

PZU ZDROWIE

2015

Agreement to acquire Alior Bank

ALIOR BANK

Formation of TUW PZUW – a mutual insurance company

PZUW

2017

Finalization of the acquisition of Bank Pekao

Bank Pekao

2018 **The New PZU** - More Than Insurance

2.

External environment

A high growth rate of the Polish economy, an increase in real household income and an excellent situation on the labor market created favorable conditions for PZU's business growth.

In this chapter:

1. Main trends in the Polish economy
2. External environment in the Baltic States and Ukraine
3. Situation on financial markets
4. External factors that may affect the conditions of operations and the PZU Group's activities in H2 2019

2.1 Main trends in the Polish economy

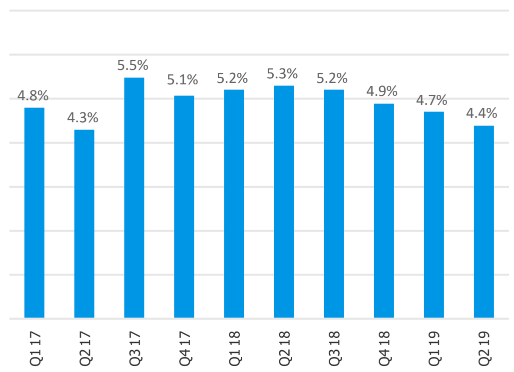
Pace of economic growth

In Q1 2019, GDP growth in real terms slowed down to 4.7% y/y compared to 4.9% y/y in the previous quarter. This was due to domestic demand dynamics, which was lower than it was in seven previous quarters. Consumption growth decreased compared to the previous quarter (down to 3.9% y/y vs. 4.2 y/y) due to the fact that Easter Holidays were later than last year. At the same time, the rate of growth of investments improved (up to 12.6% y/y, versus 8.2% y/y in Q4 last year), boosted by investments undertaken by businesses. A change in inventories had a negative contribution on economic growth in Q1, which reduced GDP growth by 1.1 pp. Net exports contributed 0.7 pp to GDP growth. Export growth weakened in Q1, but import growth fell even more.

Based on the quick estimate, real GDP growth in Q2 2019 stood at 4.4% y/y. The slight slowdown in economic growth is consistent with lower dynamics of industrial production sold and construction – assembly production compared to previous quarter. On the other hand, the growth of retail sales accelerated in connection with the Easter shopping, which came in the second quarter this year.

In H1 2019, the Polish economy was quite resilient to the impact of slower GDP growth in the Eurozone, particularly on the economic downturn in the German processing industry.

GDP growth dynamics from Q1 2017 to Q2 2019



Source: Central Statistical Office

Domestic demand remains strong and the current monthly data show no signs of a slowdown in export growth. However, the most important source of risk for businesses in Poland remains the weakening of the global business conditions and a further escalation of trade conflicts. Moreover, the uncertainty related to the possibility of the "no-deal Brexit" is slowly growing in Europe again.

Labor market and consumption

The lower supply of labor has contributed to a slower employment growth rate this year. According to data for the business sector, which becomes available the earliest, in Q2 2019 the average employment rose 2.7% y/y, at a pace slower to the one posted in Q1 (3.1% y/y) and one year ago (3.9% y/y in Q2 2018).

The registered unemployment rate at the end of June 2019 was 5.3%, meaning it was below last year's level (5.8%) and the level from the previous quarter (5.9% in March of this year).

The growth of average monthly salary in the business sector fell only slightly in H1 2019 and remains relatively high (6.8% y/y). In Q2 of this year, average monthly salary in the business sector was 6.9% higher, in nominal terms, than in the corresponding period of the previous year (compared to 6.7% y/y in Q1). The increase in the average salary in businesses on an annual basis adjusted for inflation slowed down more clearly: it was 4.4% y/y in Q2 2019, compared to 5.3% y/y in Q1 2019.

The conditions for consumption growth should remain very good over the several coming quarters. Unemployment has reached record low levels, salary growth is relatively high and consumer trust ratios are at record high levels. It will also be supported by an increase in social transfers and tax breaks for the young.

Monetary policy, interest rates and inflation

Over the entire first half of 2019, inflation (measured by CPI) was on average only slightly higher than in H2 2018 (1.8% y/y vs. 1.7% y/y). However the increase in prices of consumer goods and services visibly picked up the pace during the first half of the year. In Q2 of this year, CPI reached on average 2.4% y/y, compared to 1.2% y/y in Q1. CPI growth in H1 was promoted not only by the clear increase in prices of food and fuels – net core inflation rose as well (CPI net of food and energy prices) to 1.8% y/y in Q2 of this year, compared to 1.1% y/y one quarter earlier. The main factor contributing to CPI growth was an increase in prices of services (3.9% y/y in June). Prices of goods, which competed with imports, rose more slowly (2.2% y/y in June).

The NBP interest rates remained stable in H1 2019. The reference interest rate has remained at 1.5% since March 2015. According to the Monetary Policy Board, the current level of interest rates supports the maintenance of the Polish economy on a sustainable growth path and enables it to maintain the macroeconomic equilibrium.

Public finance

In the first half of 2019, the result of the state budget declined. After June 2018, there was a PLN 9.5 billion surplus in the budget, while the first half of 2019 closed with a deficit of PLN 5.0 billion. Budget's expenditures rose PLN 24.7 billion compared to H1 last year, while income increased merely by PLN 10.2 billion.

The annual growth of tax revenue after June was about 5.6% y/y, cumulatively, driven mainly by the very high growth of direct tax revenues (PIT 11.4% y/y, CIT 18.8% y/y). The annual growth of expenditures was higher, reaching 14.3% y/y. The main contributors included mainly: a higher subsidy provided to the Social Insurance Fund (up 81.3% y/y), among others in connection with the payment of the "13th pension", higher expenditures on account of settlements with the EU budget (54.3% y/y) and a higher general subsidy for local government units (7.5% y/y).

The Finance Ministry reported that after the first half of the year about 75% of the annual borrowing needs have been financed. The level of liquid funds in Polish zloty and foreign currencies proved to be high at about PLN 67.0 billion at the end of June.

2.2 External environment in the Baltic States and Ukraine

Lithuania

Despite the global weakening of the economic conditions, economic growth in Lithuania remains strong, while Q1 2019 data showed GDP growth at 4.0% y/y and 1.0% q/q.

The Lithuanian economy was driven by the accelerating growth of exports and internal demand, especially private consumption.

The Lithuanian unemployment ratio has remained similar for several months, reaching 8.0% at the end of June 2019. The shortage of qualified employees remains a considerable problem, significantly affecting salary growth. Nevertheless, businesses have already gathered considerable financial reserves, which means that they have the freedom of selecting the manner of expanding their activity – through salary increases or investments in efficiency-improving technologies.

The annual inflation rate was 2.5% in June 2019. The largest contributor to inflation was an increase in the prices of food as well as vacation travel and health care.

Latvia

In Q1 2019, Latvia's economy slowed down, recording GDP growth at 3.2% y/y (annual data, seasonally-adjusted). The slower rate of growth resulted mainly from an uncertain situation in the external economic environment, while internal factors, such as investments and private consumption, maintained a constant upward trend.

The Latvian labor market experiences decreasing unemployment (the registered unemployment rate was 6.9% in April 2019) and high demand for labor, meaning that wage growth remains solid. In Q1 2019, gross wages increased 7.8% y/y in nominal terms.

In the first half of the year, inflation was similar to the projected level. In June 2019, the annual inflation rate was 3.0%, driven largely by higher prices of energy reflecting the upward trend of oil prices.

Estonia

According to data published by the Bank of Estonia[1] the country's GDP increased 4.5% in Q1 2019 (on a year-on-year basis), whereas the quarter-on-quarter growth was 0.5%. Production was the main driving factor of the economy, even though other sectors of the economy also contributed.

In Q1 2019, employment in Estonian businesses and institutions rose 1.9%, while unemployment remained low. The unemployment rate was 4.7% (Q1 2019 data). At the same time, demand for labor increased, driving up wages. Average monthly gross wages increased 7.9% in Q1 2019.

The consumer price index (CPI) moved up 2.4% in June 2019[2] compared to the previous year. Inflation was affected mainly by an increase in the prices of food as well as vacation travel and apartment maintenance costs.

Ukraine

In 2019, the Ukrainian economy is showing signs of stabilization after years of political and economic tensions. In Q1 2019, Ukraine's GDP increased 2.5% compared to the corresponding period of the previous year. In June 2019, the country's annual inflation rate was 9.0%, the lowest in the last 5 years. The inflation rate was affected predominantly by the following main factors: an increase of the discount rate by the National Bank of Ukraine (from 13.5% to 18%; this is the sixth increase since October 2017) reflecting the strengthening of the country's domestic currency.

After 5 months of 2019, a negative balance of foreign trade in goods and services was recorded (USD -3.2 billion) caused mainly by the unresolved conflict in eastern Ukraine. The loss of control over the resources in the East curtailed Ukraine's export capacity (due to disruptions in mining production and electricity generation).

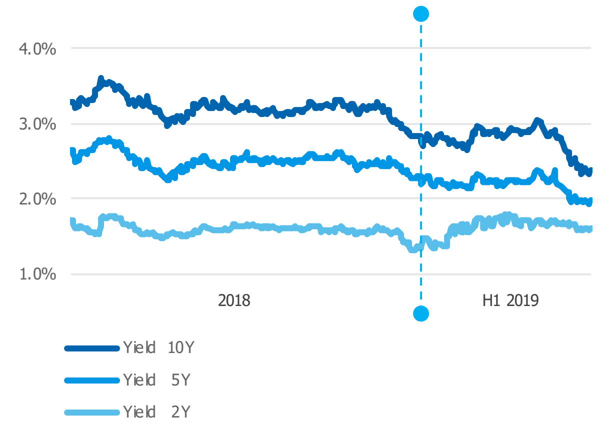
[1] Estonian Economy and Monetary Policy, 4/2018, Bank of Estonia.
[2] Data published by the Estonian Statistical Office.

2.3 Situation on financial markets

In H1 2019, the yields of 10-year treasury bonds of the US and Germany continued to decrease. In the US yields slid from 2.69% at the outset of the year to 2.00% at the end of June. In Germany, yields fell to record low levels; at the end of June they were -0.33%, compared to 0.25% in the beginning of the year. In both cases, the yield curve flattened. In the USA, the yield curve temporarily reversed at the end of March and since 23 May the interest rate on 3-month treasury bills has continuously exceeded the yield on 10-year bonds. In the past that type of situation ordinarily preceded a recession. Responding to the risk of economic slowdown and lower prices on the financial markets, the US Central Bank (Fed) at the beginning of the quarter did an about-face in monetary policy, signaling the suspension of further interest rate hikes and later it also allowed the possibility of reducing the rates, which in fact happened on 31 July. It also made the decision to bring to an early conclusion the process of shrinking its balance sheet. The European Central Bank (ECB) also reacted to the soft data concerning economic growth and declining long-term inflation expectations by announcing the extension of its policy of stable or lower interest rates until at least the end of 2020. It also decided to introduce a new TLTRO program as of September 2019. The ECB is also giving consideration to the possibility of differentiating interest rates depending by the liquidity surpluses deposited by banks (this solution should serve to counteract the adverse consequences of negative interest rates on banks' profitability) and restore the asset purchase program.

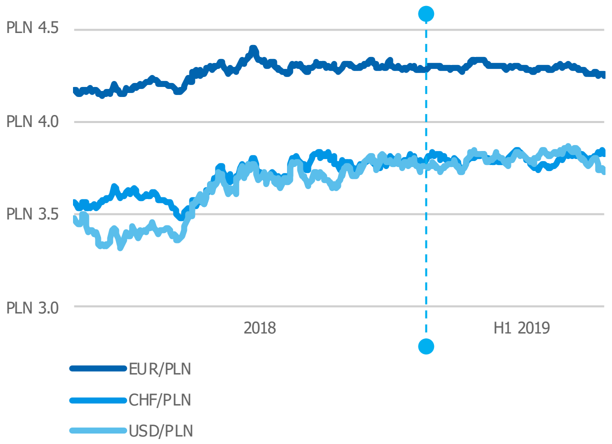
The yields of 10-year Polish treasury bonds fell significantly in H1 2019. At the beginning of the year it was 2.85%, but fell to only 2.39% at the end of June. The yields started to decline in May, which was later than on the core markets, since the announced budget expenditures drove 10-year treasury bond yields close to 3% at the end of February. In the beginning of May they shortly crossed the 3% threshold and it was only after the increase in customs duties on Chinese goods by the US President was announced (which increased concerns about the state of the global economic situation) that they started to decline in line with the trend on the core markets. At that time, market expectations for future NBP interest rates decreased along with the market assessments of Poland's credit risk. The spread versus 10-year German bonds that at the beginning of the quarter was 260 basis points increased to 302 basis points early in May, only to drop to 272 basis points at the end of June. At the same time, the yield curve flattened. The yield on one-year treasury bonds grew from 0.90% to 1.40% at the end of June.

Treasury bond yields in 2018 and H1 2019



The EUR to USD exchange rate reached 1.1388 at the end of H1 2019, which was only 0.4% less than at the end of last year. However starting from the end of April until the beginning of June, the common European currency clearly weakened vs. the US dollar, with the exchange rate mostly staying below 1.12. In the first half of the year, the PLN appreciated slightly versus the two main global currencies. The EUR to PLN exchange rate fell by 1.1% from 4.30 at the end of 2018 to 4.252 at the end of June 2019, while the USD to PLN exchange rate decreased by 0.7% from 3.76 to 3.73. The CHF to PLN exchange rate was 3.83 at the end of June 2019, compared to 3.82 at the end of 2018.

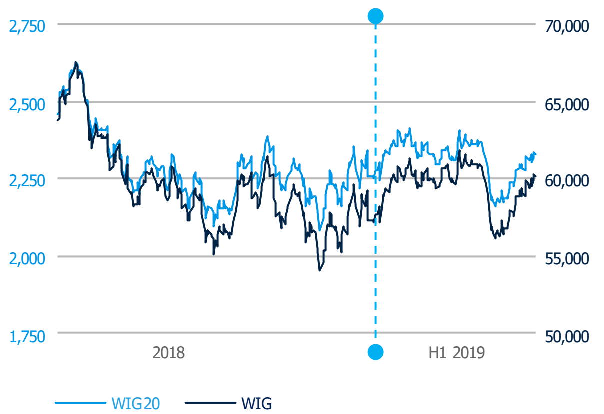
PLN exchange rate in 2018 and H1 2019



On the global equity markets, following the declines at the end of last year, the first half of 2019 saw a sudden recovery which halted only for a moment in May after the aggravation of the US-China trade conflict. The change in the policy pursued by the major central banks was conducive to rapid growth in equity prices. In the first half of 2019 the American S&P500 stock index shot up 17.35% while the German DAX index climbed 17.42%.

Polish equities also moved up in the first half of the year. In that period, the WIG index rose 4.3%, much slower than the corresponding indices on the core markets. The WIG20 index climbed just 2.2%, while the prices of smaller cap companies grew relatively faster. The mWIG40 rose by 4.4% while the sWIG80 surged 11.8%. Looking at the sector structure, the WIG Telecommunications index noted a particularly strong performance, while the WIG Energy index fell sharply.

WIG and WIG20 indices in 2018 and H1 2019



2.4 External factors that may affect the conditions of operations and the PZU Group's activities in H2 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 direct influence on the development and results of the Group in the medium term, in particular in H2 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, employment and salary growth) translate into the growth rate of business in all sectors in which the PZU Group operates and the profitability of individual sectors. On the one hand, they determine, directly or indirectly, and with a certain time lag, the gross written premium growth rate in non-life insurance, changes in demand for credit and accumulation of deposits and flows of assets under management. On the other hand, they impact the loss ratios in non-life insurance, the level and changes in administrative expenses, investment results, determine the fund management results and the key measures affecting the performance of the banking sector (interest margin and costs of risk).

In H2 2019, the PZU Group expects a gradual slowdown of economic growth in Poland, while GDP will continue to increase dynamically and may approach as much as 4.4% for the whole year. The conditions for consumption growth will remain very good over the next several quarters. The unemployment rate remains at a record low, nominal salary growth in recent months has been close to 7% y/y and the increase in social transfers and tax benefits for young people should further strengthen household income. On the other hand, the growth of investments in subsequent quarters should gradually slow down. Gross expenditures for fixed assets rose dynamically in the first quarter of 2019, supported mainly by investments of large businesses. However, the growth of public investments slightly weakened in this period and the latest weaker performance of construction-assemblyproduction indicates that this trend is continuing.

The main risks for Poland's economic growth forecast are related to the external situation. Protectionism in the global economy has intensified, which may speed up and deepen the global economic slowdown. Uncertainty related to Brexit also persists, while the risk of the United Kingdom leaving the EU without a deal has increased. Despite the agreement between Italy and the EU on fiscal tightening in 2019, the risk of fiscal drift and negative reactions of financial markets in the context of Italy's 2020 budget persists. On the other hand, the possible conflict in the Persian Gulf creates a risk of stagflation in the global economy. Therefore, the situation in world trade has deteriorated, instead of improving as expected, and uncertainty has increased. As a result, the global economic climate indicators, rather than improving, were at best stabilized at a relatively low level. At the same time, global trade volumes are falling.

As a result, the policies of the central banks in the USA and the eurozone took a very significant turn, which was also motivated, especially in the case of the ECB, by the intention to counteract the consolidation of very low inflation. Expectations for inflation are clearly falling. In July, the FED reduced interest rates while the ECB also signaled its willingness to reduce interest rates and, if necessary, to resort to non-standard monetary policy measures. Central banks fear the negative impact of protectionism on economic growth and long-term inflation.

The above macroeconomic factors and the political situation in Poland (national parliamentary elections in the autumn of 2019) may affect the economic conditions in the global and national financial market. The climate and direction of the changes in the financial markets is also important for the attractiveness of the products offered by the PZU Group, in particular unit-linked funds and mutual funds, and affects the level of assets and management fees charged by the 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 contribute to an increase in the insurance companies' burden, e.g. court verdicts on payout of pain and suffering under TPL insurance. Legislative work is still underway on the act on rendering services to pursue compensatory claims. The bill aims to regulate the rules for

Polish economy highlights	2019*	2018	2017	2016
Real GDP growth in % (y/y)	4.5	5.1	4.9	3.1
Individual consumption growth in % (y/y)	4.3	4.5	4.5	3.9
Growth of gross expenditures for fixed assets in % (y/y)	7.7	8.7	4.0	(8.2)
Consumer price index in % (y/y, annual average)	2.2	1.6	2.0	(0.6)
Nominal salary growth in the national economy in % (y/y)	7.0	7.0	5.7	3.7
Unemployment rate in % (end of period)	5.4	5.8	6.6	8.2
NBP's prime rate in % (end of period)	1.50	1.50	1.50	1.50

* Forecast of 2 July 2019
Source: PZU's Department of Macroeconomic Analyses

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. suspension of the decision to free TPL motor insurance rates in Ukraine) will have impact on the Group's activity. The legal acts which have influenced insurance activity but will also affect the situation in H2 2019 include IDD and MIFID II. Introduction of the Employee Capital Accumulation Schemes Act (as of July 2019) is an important legal change which may influence the shape and functioning of life insurance and the third pillar pension products available so far. It is also expected that the final wording of the Act on transformation of open-end pension funds will be agreed by the end of 2019.

Out of the regulations adopted in H1 2019, the amendment of the Insurance and Reinsurance Activity Act, which came into effect on 4 May 2019, seems to be the most important for insurance activity. The amendment resulted from the coming into force of 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 ("GDPR"). It allows insurance companies to process data concerning health of the insureds or beneficiaries contained in insurance agreements or declarations submitted before an insurance agreement is concluded, for underwriting purposes or in order to perform the insurance agreement, to the extent required given the purpose and type of insurance. Importantly, consent of the data subject is not required for the processing of data in the above extent.

In January 2019, new insurance activity regulations (MDRs) came into force, which introduced the obligation to report tax schemes. These regulations are aimed at increasing effectiveness in combating dishonest taxpayers and at eliminating aggressive tax optimization schemes. They impose additional obligations on tax advisors, financial institution employees as well as on clients of these entities.

Pursuant to the amendment to the Act on exchange of tax information, starting on 1 September 2019, clients of financial institutions will have to submit a tax residency declaration for the period of 1 January 2016 to 30 April 2017. A criminal liability clause for tax residence declarations also comes into effect on 1 September. This clause replaces the warning about criminal liability for making factually incorrect declarations.

On 1 November 2019, the split payment procedure, which has been voluntary since July 2018, will become mandatory for deliveries of selected groups of goods and services, for the payment of invoices documenting transactions concluded between taxpayers, whose one-time value, regardless of the number of resulting payments, exceeds PLN 15,000 or equivalent.

Factors specific to the sectors in which the PZU Group operates
In addition to the above factors which influence the conditions of operation and the Group's results, the situation in individual

areas of activity is influenced by sector-specific factors and their changes.

The most important one is the level of competition in individual product groups constituting the core of PZU Group's business. Due to the high technical result recorded in the non-life insurance market (mainly in Poland but also in Baltic states), intensification of active pricing policy and increased fight for clients is possible. Also in life insurance and health products it is expected that price competition will continue in H2 2019.

The situation in the insurance and banking sector may also change in connection with new entrants and trends associated with development of new technologies, among others operators of big databases / clients and the so-called insurtechs / fintechs[3]. Additionally, client expectations change – they largely shift in the direction of personalized offers, both in the insurance and in the health segment.

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 fortuitous factors – occurrence of catastrophic phenomena, such as floods, cyclones 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 the Group's response to the ongoing changes. PZU's goal is to take advantage of the opportunities ensuing from the transformation of the insurance market, address the current clients' needs better and enhance their satisfaction as well as reach those segments that value digital solutions SECTION 4 PZU 2020 - MORE THAN INSURANCE

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

3.

PZU Group's operations

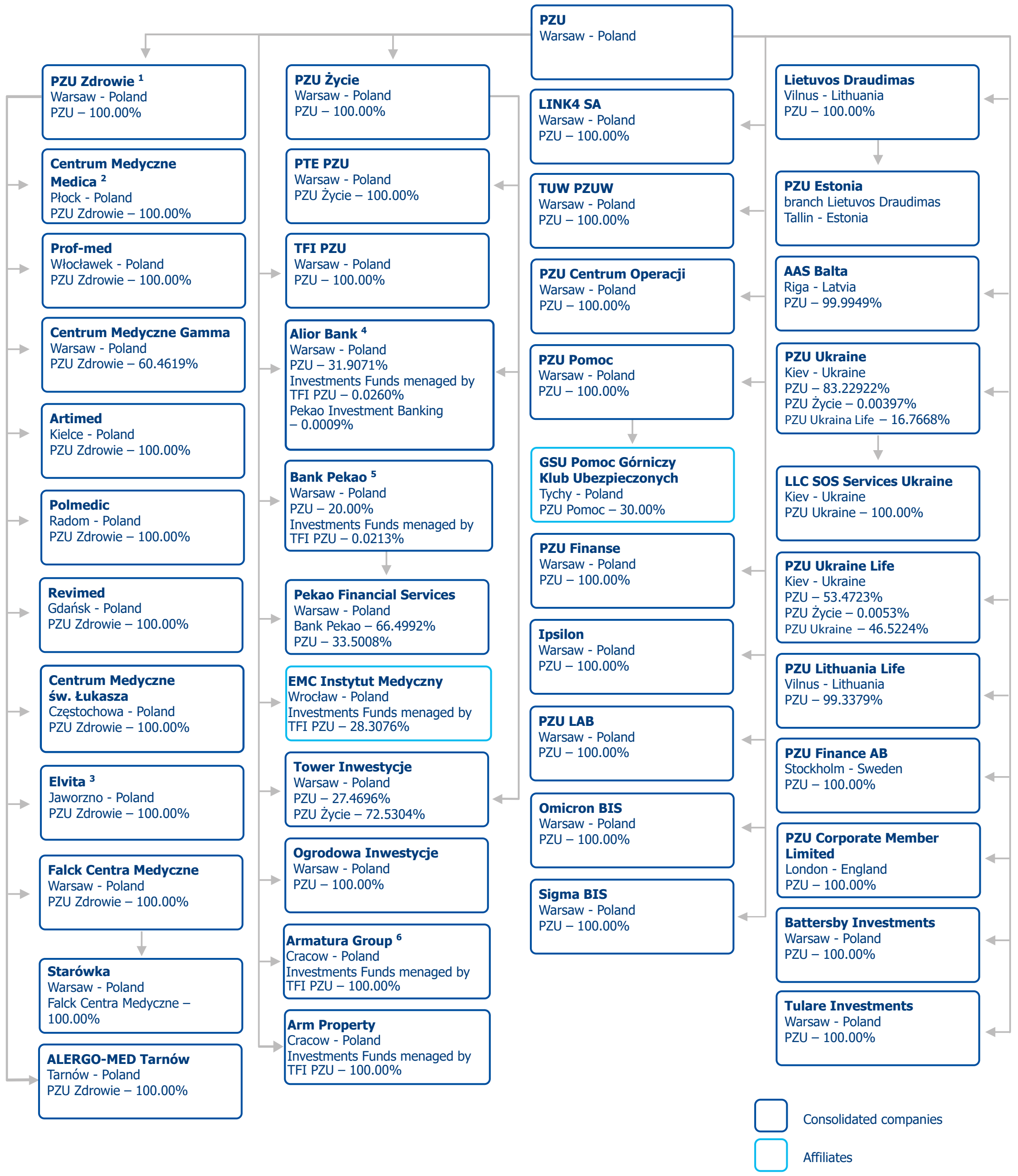
We are strengthening our position as the financial services leader. We have a unique value proposal for the client in the area of insurance, banking products, mutual and pension funds and medical services.

In this chapter:

3.1 Structure of the PZU Group

The PZU Group conducts various activities in insurance and finance. In particular, the PZU Group's companies provide services in life insurance, non-life insurance, health insurance and they manage client assets within its open-end 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 30 June 2019)



[1] there are 6 branches in operation within PZU Zdrowie: CM Nasze Zdrowie, CM Medicus, CM Cordis, CM Warszawa, CM Kraków and CM Poznań

[2] the Centrum Medyczne Medica Group consists of the following companies: Centrum Medyczne Medica Sp. z o.o., Sanatorium Uzdrowiskowe „Krystynka" Sp. z o.o.

[3] the Elvita Group consists of the following companies: Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA – Jaworzno III sp. z o.o., Specjalistyczny Zakład Opieki Zdrowotnej „Multimed" Sp. z o.o. in Oświęcim, Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o. in Łaziska Górne

[4] The Alior Bank Group is composed of the following companies: Alior Bank SA, Alior Services sp. z o.o., Alior Leasing sp. z o.o., Meritum Services ICB SA, Alior TFI SA, New Commerce Services sp. z o.o., Absource Sp. z o.o., PayPo sp. z o.o., CORSHAM Sp. z o.o.

[5] 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., Dom Inwestycyjny Xelion Sp. z o.o., Pekao Investment Management SA (which holds a 100% stake in Pekao TFI SA), CPF Management

[6] The Armatura Group is composed of the following companies: Armatura Kraków SA, Aquaform SA, Aquaform Ukraine TOW, Aquaform Romania SRL
Its 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 H1 2019 up to the date of publication of these financial statements:

- On 3 June 2019, PZU Zdrowie SA purchased shares in Falck Centra Medyczne Sp. z o.o. and Starówka Sp. z o.o.
- On 31 January 2019, the final share sale agreement was signed between PZU Zdrowie SA and the shareholders of Alergo-Med Tarnów Sp. z o.o., under which PZU Zdrowie SA purchased shares in Alergo-Med Tarnów Sp. z o.o. After this transaction, PZU Zdrowie SA is the sole shareholder of Alergo-Med Tarnów Sp. z o.o.

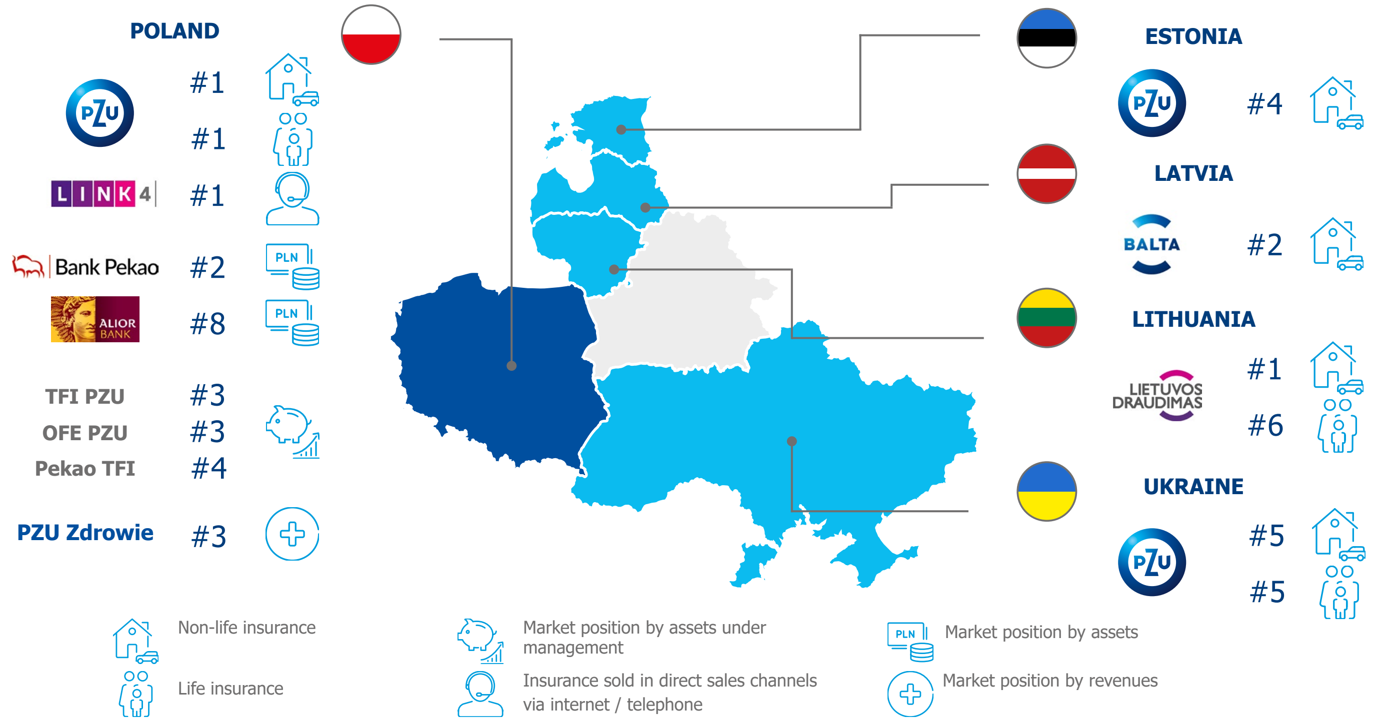
3.2 Non-life insurance (PZU, LINK4 and TUW PZUW)

Market situation

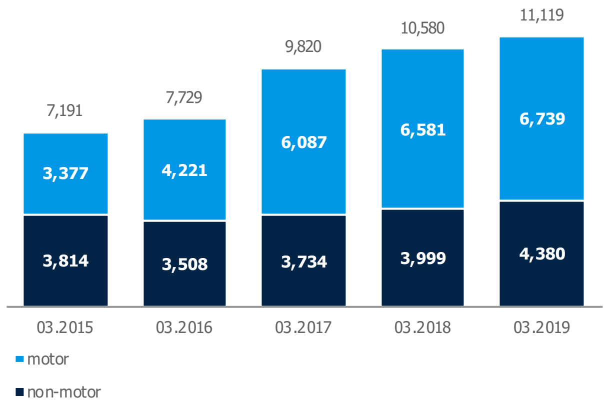
Measured by gross written premium in Q1 2019, the non-life insurance market in Poland grew by a total of PLN 539 million (+5.1%) in comparison to the corresponding period of the previous year, posting growth in nearly every group of insurance.

The higher level of premium was affected primarily by sales growth in insurance against fire and other damage to property (up PLN 138 million, +7.3%, of which PLN 46 million was for indirect activity), motor own damage insurance (up PLN 96 million, +4.5%) and various financial risks (up PLN 81 million, +41.4%). At the same time, for the first time since 2015, a negative growth rate was recorded in gross written premium in motor TPL in direct activity (down PLN 11 million, -0.3%), offset by higher premiums from indirect activity (up PLN 74 million, +10.5%), which resulted from increased competitors' price movements after a period of persistently high profitability of the portfolio.

PZU's activity

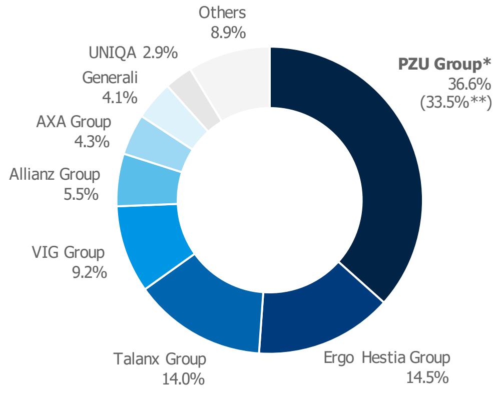


Gross written premium of non-life insurance undertakings in Poland (in PLN million)



Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Rynek ubezpieczeń [Insurance market] 1/2019, Rynek ubezpieczeń 1/2018, Rynek ubezpieczeń 1/2017, Rynek ubezpieczeń 1/2016, Rynek ubezpieczeń 1/2015

Non-life insurance undertakings – percentage of gross written premium in Q1 2019 (in %)



* PZU Group - PZU, LINK4, TUW PZUW
** PZU Group's market share in non-life insurance on direct business

Groups: Allianz – Allianz, Euler Hermes; Ergo Hestia – Ergo Hestia, MTU; Talanx – Warta, Europa, HDI; VIG – Compensa, Benefia, Inter-Risk, Gothaer; Generali Group - Generali, Concordia
Source: KNF Quarterly Bulletin. Rynek ubezpieczeń [Insurance market] 1/2019

In addition, markedly higher sales of accident and sickness insurance (up PLN 78 million, +13.3%), other liability insurance (up PLN 56 million, +8.2%) and assistance (up PLN 27 million, +9.6%) made a positive contribution to the overall non-life insurance market's growth. A decline in premium was observable only in legal protection insurance (down PLN 9 million, -29.7%) and in marine, aviation and transport insurance group (down PLN 0.3 million, -0.3%).

In Q1 2019 the overall non-life insurance market generated a net result of PLN 627 million, signifying incremental growth of PLN 52 million in comparison with the corresponding period of 2018.

After Q1 2019, the technical result of the non-life insurance market rose PLN 5 million to PLN 698 million. The growth in the technical result in motor TPL insurance of PLN 79 million, in third party liability insurance of PLN 47 million and assistance of PLN 23 million made the largest contribution to this change.

The increase in the technical result in motor TPL insurance was caused by an increase in earned premium (up PLN 133 million, +4.2%) and a higher level of insurance activites expences (up PLN 40 million, +6,5%).

The largest decrease in technical result was recorded in the class of insurance against fire and other damage to property (down PLN 124 million) and motor own damage (down PLN 23 million).

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

Gross written premium vs. technical result	1 January - 31 March 2019			1 January - 31 March 2018		
	PZU*	Market	Market w/o PZU	PZU*	Market	Market w/o PZU
Gross written premium	4,071	11,119	7,048	4,074	10,580	6,506
Technical result	371	698	327	404	693	289

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

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

To respond to client expectations in recent years, the PZU Group has been consistently extending its offering for retail and corporate clients, thereby sustaining its high market share.

After Q1 2019, the PZU Group had a 36.6% share in the non-life insurance market, compared to 38.5% in the corresponding period of 2018 (33.5% and 34.8% on direct activity, respectively), while profitability significantly above the market average.

After Q1 2019, 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 53.2% (the PZU Group's technical result was PLN 371 million while the overall market's technical result was PLN 698 million).

The total value of the investments made by non-life insurance undertakings at the end of Q1 2019 (net of the investments made by related parties) was PLN 61,017 million, up 3.0% compared to the end of 2018.

The non-life insurance undertakings in total estimated their net technical provisions at PLN 54,675 million, signifying 3.1% growth compared to the end of 2018.

PZU's activity

As the PZU Group's parent company, PZU offers an extensive array of non-life insurance products, including motor insurance, property insurance, casualty insurance, agricultural insurance and third party liability insurance. At the end of H1 2019, 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.

Faced with changing market conditions, PZU realigned its offering in H1 2019 to clients' evolving interests and needs by rolling out new products and innovative solutions.
In mass insurance, PZU did the following:

- prepared a new offering of mandatory liability insurance for entities engaged in medical treatment activities and professional legal expenses insurance for physiotherapists performing their work in a professional practice (a change in the offering resulting from a change in legal regulations as of 1 June 2019);
- in April 2019 it launched sales of a new option of the PZU Pomoc w Drodze product – 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. Additionally, the PZU GO application includes the so-called driver's assistant, which provides the user with data on the driving style and behavior on a specific route and identifies hazardous behavior;
- implemented the offering of cyber risk insurance for SME clients. The insurance protects businesses against consequences of cyber incidents (e.g. data leak, installation of malicious software, locking of IT systems). The offer distinguishes itself on the non-life insurance market by providing broad insurance cover at a competitive price.

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:

- started submitting offers to leasing clients in quotation services by matching PZU's offering to the client's expectations and risk;
- implemented efficient and cost-optimal solutions for the robotization of business processes in five areas, including back-office and front-office, which additionally supports the development of internal competence to maintain and develop robotized solutions in the future. Thanks to the use of robotization, we have managed, among others, to shorten the time to handle client notifications (including confirmations of loss for corporate clients) and speed up the performance of repetitive tasks. A comprehensive approach to implementing robotization has been recognized by the Efma organization, which gave PZU the main award in the Efma & Accenture Insurance Awards 2019 competition;
- popularized three innovative solutions supporting Polish fleet companies in Poland and abroad, which were

deployed in the last quarter of the previous year: legal assistance abroad, advisory and telematic service.

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, manufacturing and construction industry and the science and innovation sector. In the portfolio insurance area, sales of the financial loss insurance (GAP) was extended to include cooperation with business partners (including leasing companies).

PZU cooperated with 9 banks and 11 strategic partners in H1 2019. 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 has been cooperating actively with the PZU Group's member banks, namely Alior Bank and Pekao, continuing the roll-out of a comprehensive offering using the banks' distribution networks. The cooperation with Pekao and Alior Bank allows PZU to gradually expand the offering and scale of sales of insurance products linked to bank products. 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. The PZU's insurance offering is also present on the e-commerce market through cooperation with Allegro and PLL LOT.

LINK4's activity

LINK4 entered the Polish insurance market 16 years ago as the first undertaking 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 has put the main emphasis on the development of innovative solutions providing added value to clients as well as business partners. By using new technologies in internal processes and in relations with clients, the company continues to challenge the thinking of insurance. This was recognized by the jury of the Leaders of the Banking and Insurance World contest, which awarded LINK4 the title of the Best Digital Insurer of 2018. In 2018, the company was supported by 10 robots, among others in the claims, sales and documentation circulation areas. In the first half of 2019, the Company focused on expanding further its current product offering, by adapting it to the changing expectations of clients and business partners.

The most important activities associated with modifying its product offering in H1 2019 were as follows:

- launch of cooperation with Lumi (a PGE Group brand), a supplier of electricity on the Warsaw market, offering clients value in the form of an exceptionally attractive combination of the insurance and energy offering along with a gift card of PLN 250, which can be used for purchases in Warsaw's largest shopping galleries or to buy gas at Orlen and Lotos stations;
- launch of an additional form of payment for insurance using BLIK, offering, as the first insurance company in Poland, split of payments into up to four installments in all sales channels;
- extending the offer to clients holding a motor policy with LINK4 to include:
  - Post-theft Assistance offered to clients holding a motor TPL insurance policy or bundle. This is a benefit up to PLN 2 thousand, which the client may use for various expenditures related to the theft, such as: purchase of things that were in the stolen vehicle but are not covered by motor own damage insurance, rental of a replacement car, taxi rides or registration of another vehicle. Additionally, the insured may use a hotline that is available 24 hours a day and 7 days a week,
  - Weather alerts sent to drivers as a text message with information on the pending atmospheric event, allowing the clients to protect their cars against deteriorating weather conditions,
  - Bad Weather Insurance – insurance offered to clients holding a TPL motor insurance concluded through an agent in the period from 17 June 2019 to 31 July 2019. The product is an insurance cover for losses involving damage to or destruction of a vehicle as a result of, among others, fire, hail or strong wind;
- extension of the travel insurance cover, including supplementation of the standard cover to include chronic illness with the treatment costs limit of 20% of the sum insured;
- introduction of a joint offer of LINK4 and Credit Agricole, which provides one year of insurance on a bicycle, whose purchase is financed by an installment loan from Credit Agricole. The insurance covers loss of a bicycle as a result of theft with burglary to a family house, auxiliary building, apartment or accompanying premises. The benefit will also be paid out in case of a robbery as well as common theft, provided that the bicycle was properly secured;
- development of sales of the unique LINK4 Mama insurance brand supported with innovative calculators on the LINK4mama.pl website, for which in April 2019 the company was named the Leader of 2018 in the Techno Business contest organized by "Gazeta Bankowa" and previously received a bronze statue in the reputable MIXX Awards competition, for accessibility and practicality of the solution in the User Experience category.

TUW PZUW's activity

TUW PZUW continued its active operations in 2019.

The company 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. TUW has 313 members for whom 44 mutual benefit societies have been established.

The dynamic growth and performance in 2017 resulted in TUW Polish Mutual Insurance Undertaking being noticed on the international market when it was added to the list of largest mutual insurance companies in the world. According to the Global 500 report prepared by the International Cooperative and Mutual Insurance Federation (ICMIF), TUW Polish Mutual Insurance Undertaking is the second fastest growing mutual insurance company in the world, ranking 471st in the ranking of 500 largest cooperative and mutual insurance companies in the world.

In H1 2019, the company continued to improve 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.

Factors, including threats and risks that will affect the operations of the non-life insurance sector in the latter half of 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 standing of the non-life insurance sector in H2 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 from competitors and rivalry to attract clients;
- case law concerning the amounts of pain and suffering 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) and reimbursement of the costs of care provided by related persons;
- 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;
- coming into force of further regulations or financial burdens on insurance undertakings.

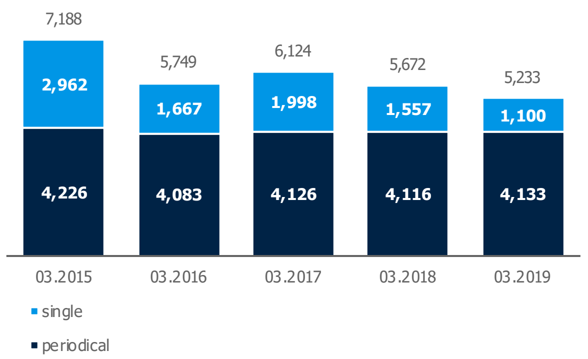
3.3 Life insurance (PZU Życie)

Market situation

Poland's life insurance market measured by gross written premium was worth PLN 5,233 million in Q1 2019 meaning that over the most recent 5 years it shrank on average by 5.5% per annum. At the same time, the premium collected in the first quarter of 2019 was 7.7% 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.

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.

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



Source: KNF's Quarterly Bulletin. Rynek ubezpieczeń 1/2019, Rynek ubezpieczeń 1/2018, Rynek ubezpieczeń 1/2017, Rynek ubezpieczeń 1/2016, Rynek ubezpieczeń 1/2015

Attention should be drawn to the fact that the premium contraction for the overall market year on year in Q1 2019 pertained to single premiums (down PLN 457 million, i.e. 29.4% y/y, compared to 22.1% in the previous year). The single premium compound average growth rate since 2014 was -17.2%. The changes in circumstances on the capital market and in the legal environment should be considered to be the underlying causes for the gross written premium on single premium business to fall in a trend over several years. Initially, the record low interest rates contributed to the decline in the yields offered by term deposits packaged as insurance products, thereby leading to heightened interest in other investment products. Additionally, a tax was introduced as of 1 January 2015 on short-term endowment insurance offering a fixed rate of return or a return based on indices; this also contributed to reducing client interest in 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 successive quarters of 2018 and the first quarter in 2019 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 edge on the market. In Q1 2019, periodic premium was 0.4% higher compared to the same period in 2018, with a compound average growth rate of only 0.1% for the last 5 years. Despite the decline in periodic premium in unit-linked life insurance (by nearly 10% y/y), the protective premium in classes I and V continues to trend upward (in total by 4.6%).

At the same time, market concentration measured by the periodic gross written premium is maintained. The sequence of the largest market players also has not changed.

The total technical result generated by the life insurance undertakings in Q1 2019 was up PLN 55 million (8.0%) from the corresponding period of 2018 to PLN 734 million. The life insurance segment result (class I) improved by PLN 27 million (42.7%), while accident and illness insurance (class V) increased by PLN 25 million (5.4%). In both cases, this was caused by portfolio growth, supported by loss ratio remaining stable or even declining y/y in class I and in class V additionally helped by lower operating expenses and improved investment performance.

In this same period, life insurance undertakings generated a net result of PLN 508 million, representing a PLN 39 million (8.2%) increase y/y. This improved result was the effect of better technical results than in the corresponding period of 2018.

The total value of the investments made by life insurance undertakings at the end of Q1 2019 was PLN 40,682 million, signifying 2.3% growth compared to the end of 2018. In turn, the high level of surrenders, which exceeded the y/y declining 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 0.3% to PLN 50,631 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 Q1 2019 PZU Życie wrote 39.6% of the gross written premium of all life insurance undertakings signifying further growth on top of last year's market share (+2.9 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 2019 it generated 45.9% of these types of premiums written by insurance companies, which means that it retained the last year's market share in this segment. The year on year increase in gross written premium at PZU Życie in this segment was 0.5%, while the other market players taken together posted a 0.4% growth rate. One of the major factors was the rapid growth in the health insurance portfolio. PZU Życie now has more than 2.0 million policies of this type in its portfolio. PZU's share in just the life insurance segment (class I) for periodic premiums in Q1 2019 was 62.2% when measured by gross written premium and 69.0% 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 66.9% for agreements executed in group form and 38.8% for individual agreements (measured by gross written premium).

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

Gross written premium	1 January - 31 March 2019			1 January - 31 March 2018		
	PZU Życie	Market	Market w/o PZU Życie	PZU Życie	Market	Market w/o PZU Życie
Periodic premium	1,899	4,133	2,234	1,890	4,116	2,226
Single premium	171	1,100	928	190	1,557	1,367
TOTAL	**2,070**	**5,233**	**3,162**	**2,079**	**5,672**	**3,593**

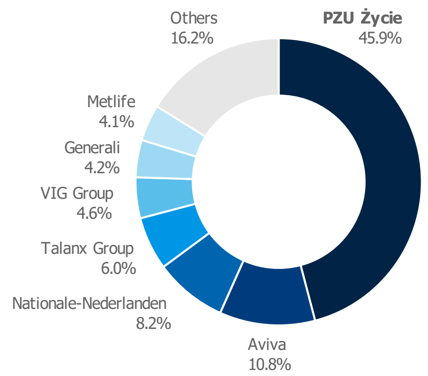
Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Rynek ubezpieczeń 1/2019, Rynek ubezpieczeń 1/2018, PZU Życie's data

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

Life insurance market – gross written premium vs. technical result	1 January - 31 March 2019			1 January - 31 March 2018		
	PZU Życie	Market	Market w/o PZU Życie	PZU Życie	Market	Market w/o PZU Życie
Gross written premium	2,070	5,233	3,162	2,079	5,672	3,593
Technical result	342	734	392	353	679	326
Profitability	16.5%	14.0%	12.7%	17.0%	12.0%	9.2%

Source: KNF (www.knf.gov.pl). Quarterly Bulletin. Rynek ubezpieczeń 1/2019, Rynek ubezpieczeń 1/2018, PZU Życie's data

Life insurance undertakings - percentage of periodic gross written premium in Q1 2019 (in %)



Groups: Talanx - Warta, Europa, Open Life; VIG - Compensa, Vienna Life; Aviva - Aviva, Santander-Aviva
Source: KNF's Quarterly Bulletin. Rynek ubezpieczeń [Insurance Market] 1/2019

PZU Życie's technical result represented nearly half the result earned by all life insurance companies. This evidences the high profitability these products enjoy. In spite of the fact that the first quarter traditionally generates the lowest results for the company, PZU Życie's technical result margin on gross written premium substantially exceeded the overall margin generated by the other companies offering life insurance (16.5% versus 12.7%).

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

Most significant product changes in 2019

Under group and health insurance, PZU Życie made the following major changes in H1 2019:

- launch of pilot sales of PZU Thinking about Life and Health product (May 2019) directed to companies employing up to 4 people. This is the innovation that agents and clients have been waiting for – each employee may select a different insurance option and the insurance agreement is concluded remotely. PZU Życie can insure even a single employee – also when an employer itself does not take out a cover. At present, a pilot is carried out in two regions in Poland (pomorskie and dolnośląskie) in which more than 400 sales personnel from Agency Sales Department, Network Management Department and the Tied Sales Department take part. The product is very flexible. It supports enrollment for people from 18 to 65 years of age. A client may select up to 6 insurance options with different covers and benefit amounts. Additionally, each option may be extended by private medical care. The insurance ranges have been prepared to address different needs, depending on the client's stage in life. As a result, for example a client who does not plan to establish a family, will not pay for risk such as childbirth or spouse's illness, contrary to a typical group insurance policy. The insured is not obligated to fill out a medical questionnaire and the premium begins from just PLN 45 per month. The product can be offered using two paths: standard and remote (using the iPresso tool). Thanks to iPresso, for the first time in PZU Życie's history, a seller may sign a remote agreement without the need to hold a meeting. This is not only very convenient for the client, but also saves time for the seller – the client receives an offer and a set of documents by e-mail and is guided by the system step-by-step to enter into the policy himself/herself;
- implementation of functionalities supporting automatic process of signing an insurance agreement in PZU Protection and Health, which is a protection and health insurance product (March 2019). Thanks to the implementation, a seller may prepare an offer for the client, prepare the proposal and collect data of the insureds (enrollment declarations). The vast majority of the process is already carried out electronically and is not limited by the working time of the support teams. Thanks to the implementation, the seller can complete the whole process in a single meeting with the client and can provide administration electronically, printing only the final versions of the documents;
- commencement of pilot sales of two new ranges of the Opieka Medyczna S health insurance for corporate clients (June 2019) – the first range is profiled to enable a detailed checkup of the health condition of the thyroid gland, liver, heart, arteries and kidneys. The second range enables tests profiled for malignant neoplasms occurring most frequently in women and men.
  During the development of the new ranges, particular emphasis was put on:
  - analyzing results of marketing surveys: to support prevention of the illnesses that Poles fear most,
  - expanding the range of benefits with those that are most frequently concluded in non-standard offers,
  - increasing market advantage by adding new medical services,
  - keeping prices at attractive levels.

In individual protection insurance products, in H1 2019 PZU Życie implemented PZU Support for Relatives, a new life insurance product offered in PZU Branches and the Agency Network. 5 riders were implemented together with the basic agreement:

- tumors and other critical illnesses rider;
- consequences of critical illnesses rider;
- surgical operations rider;
- accidental dismemberment rider;
- accidental bone fracture rider.

Further individual protection insurance products will be implemented in H2 2019.

The following changes were made by PZU Życie to the product offering in investment insurance:

- implementation of sales of the Platinum Investment Plan insurance (a single premium unit-linked product) by Dom Inwestycyjny Xelion sp. z o.o.;
- 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.

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 insurance undertakings to adapt to these expectations rapidly;
- availability of medical personnel in public health care;
- the emergence of new competitors and solutions, including the operators of large client bases or insurtech companies;
- 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 May 2019, there were 31 domestic commercial banks, 545 cooperative banks and 32 branches of credit institutions operating in Poland.

The standing of the banking sector continued to be stable underpinned by the persisting high economic growth.

After 5 months of 2019, the banking sector generated a net profit of PLN 5.9 billion, i.e. PLN 0.6 billion (8.7%) less than it did in the corresponding period of 2018.

Increases in impairment losses (by 13.7% y/y) contributed the most to the change of the sector's net profit. A negative trend was also visible in net fees and commissions, which fell by 2.1% in the period. Banks' operating expenses (including depreciation and amortization) rose 8.9% y/y, mainly as a result of a considerable increase in regulatory charges settled in Q1 2019. The 8.6% growth of net interest income did not offset the negative trends mentioned above.

At the end of May 2019, the sum of assets of the banking sector stood at PLN 1,956 billion, up 6.3% y/y from the end of May 2018. Loans and advances rose 5.2% y/y (by PLN 63.4 million). The value of deposits of the non-financial sector (including locked deposits) increased at the end of May 2019 to PLN 1,187.4 billion, up 10.5% compared to the corresponding period in 2018.

The banking sector's own funds for capital ratios, calculated in accordance with the regulations laid down in the CRR Regulation, totaled PLN 206.8 billion at the end of March 2019, up 3.4% versus the end of March 2018.

The banking sector's overall capital multiple at the end of March 2019 was 18.96% (up 10 bps compared to the end of March 2018), while the Tier I capital ratio at the end of this period was 16.99% (down 3 bps in comparison with the corresponding period of 2018).

Operations of the Pekao Group

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

In H1 2019, the Bank continued initiatives initiated as part of its strategy for 2018-2020 "Strength of the Polish Bison". The strategic objectives announced in the document 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 Q1 2019, Bank Pekao was the second largest bank in Poland (in terms of the value of its assets).

On 4 April 2019, the Management Board of Bank Pekao adopted a resolution on the intention to carry out group layoffs. In the period from 25 April to 31 October 2019 the termination of employment contracts will apply to a maximum of 900 employees and the modification of employment conditions will apply to a maximum of 620 employees.

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 the application of cutting-edge biometric solutions, automation of the credit process for cash loans and closer cooperation with the PZU Group in relation to the offer of insurance and investment products.

In the first half of 2019, the following solutions were implemented in electronic banking for retail clients:

- clients can now open an online account themselves, using a computer or a smartphone. Identity is verified by using biometric measurements of a face and a personal ID. The service is available online 24 hours a day, 7 days a week;
- implementation of recurring BLIK payments, which support quick and regular making of transactions such as: payment of invoices from a specific issuer, subscription fees;
- Apple Pay and ability to link it to a personal account through PeoPay mobile banking without even having to have a card;
- Clients using an Android system may use the PeoPay application and m.pekao24.pl to contact a consultant through text chat. The service is available for logged-in users and offers full information about active products and allows users to submit orders;
- loan offering for clients in the "one click" process in the PeoPay mobile application, under which a loan may be taken out without leaving home – 30 seconds after an agreement is accepted.

In this period, the bank also launched a special safe API developed in accordance with the Payment Services Directive (PSD2), aimed at offering a safe and easy to use set of financial services. The interface was launched following the entry into force of the legal requirements introduced by the EU PSD2 directive. A portal for developers was also created, through which service providers may learn about the interfaces offered by the bank, register and receive support in case of questions. The presented interfaces are compliant with version 2.1.1 of the PolishAPI standard developed by the Polish Banks Association in order to implement the PSD2 directive in Poland.

In H1 2019, the Bank continued to develop cooperation with the PZU Group focused on the bancassurance offering. For clients taking out a cash loan, the Bank extended the product offering to include a new PZU insurance product available in branches. Clients may use new life insurance and property insurance bundles customized to match their needs. In the first quarter of 2019, Bank Pekao's electronic channels conducted an active sales campaign of PZU's tourist insurance offered through the www.moje.pzu.pl

In H1 2019, activities in the Private Banking area focused on acquiring new clients, consolidating relations with the existing ones and also on the implementation of initiatives aimed at keeping the high service level by offering product solutions addressing client needs. A new release of the investment advice service was launched using a new Web application. Thanks to the use of a multi-tasking optimization algorithm, the client receives investment recommendations faster, they are more personalized and take a larger number of investment criteria into account. The service was additionally extended by mutual funds from new partners: Investors TFI and Schroders.

In H1 2019, Private Banking Clients using services provided by CDM Pekao obtained access to the public offering of structured certificates with or without principal protection, issued by UniCredit Bank AG. The bank also cooperated with CDM Pekao and Pekao TFI to prepare a subscription for new certificates in the Pekao Samorząd Plus FIZ fund.

Bank Pekao is steadfastly pursuing its growth strategy in the Small and Medium Enterprise segment. Thanks to numerous improvements in processes, the share of deposits through remote channels increased in the first half of the year. Deposit margin groups corresponding to the existing deposit quotations negotiated in branches have been assigned (in PB24 electronic banking); a dealing module has been made available centrally and access to the telephonic channels (dealers) has been agreed. The offering of cash products for SME clients has also been extended to include closed withdrawals with the bank's transport sent directly to the company's location. These products have previously been offered exclusively to corporate segment clients.

In Q1 2019, Bank Pekao was the only bank to sign an agreement with EIB on the financing of energy efficiency projects in the SME segment for companies from the kujawsko-pomorskie voivodship. The low-interest loans will help companies replace machinery, equipment and technologies with more energy efficient ones.

The bank additionally carried out educational activities aimed at increasing awareness of FX risk and interest rate risk in the sector of SMEs, with particular emphasis on the mitigation of risk in export companies that begin their international expansion.

A new product program was also implemented for investors implementing small and mid-sized investment projects in the commercial property segment. Project financing expertise, previously used to assess large transactions, will also help effectively support SME clients.

In its offering for corporate clients, Bank Pekao launched the Apple Pay service. Users of corporate MasterCard payment cards (excluding prepaid cards and debit cards in EUR), who use Apple brand devices may add payment cards to the Wallet app and make card payments using that application.

Additionally, PekaoBiznes24 clients were presented a new login page. The development of the modernized system login page took inspiration from the newest global trends in designing electronic banking systems. The new visual identity is consistent with the directions of future development of the bank's electronic banking service. A new PekaoBiznes24 application for tablets has been implemented. This is a new, contemporary release of the PekaoBiznes24 developed to introduce multi-channel solutions. Benefits offered by the tablet version include convenience and ease of use, time savings and access regardless of the place of stay, as well as functionalities and analytical tools supporting quick and effective management of a company's finances.

In the first half of 2019, a cooperation agreement was signed with the Association of Polish Chambers of Commerce Abroad (PolChambers) associating more than 5 thousand businesses. Through the Agreement, the bank will obtain easier access to companies operating across the globe and the ability to offer a broad range of services, including a special offer of financing exports from Poland.

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 June 2019 the company had assets under management totaling PLN 20.4 billion, signifying an upswing of PLN 1.0 billion, i.e. 6.2% in comparison to the end of June 2018 and was ranked fourth (in terms of assets under management) on the market of investment companies in Poland. CHAP. 3.5 MUTUAL FUNDS

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

At the end of Q1 2019, Alior Bank was the 8th largest bank in Poland (in terms of the value of its assets).

New products and services

In H1 2019 the following new products and services were introduced in the Alior Bank Group's offering:

- "Non-Standard Loan" cash/consolidating loan with an attractive commission and interest rate, which depends on the amount of the liability;
- "Micro-Cost Loan" cash/consolidating loan with a very attractive interest rate. Its cost per each PLN 1000 of the net loan amount was no more than PLN 6 per month;
- "Internet Loan" offering for new clients, who submitted a dedicated web form to the Bank; they received preferential interest terms and free commission;
- TUiTAM credit card offering, in which the Bank charges no commission for currency conversion;
- automatic opening process of iKonto Biznes and "4x4 Account" in new Electronic Banking system, in which the client receives documents to a specified e-mail address and the company data are obtained directly from the Central Business Activity Registration and Information Database (CEiIDG);
- possibility of registering a Trusted Profile in the electronic banking system and signing public administration applications with the Trusted Profile. A Trusted Profile is a convenient and secure tool that a business may use to handle official business online it public administration websites. More than 20 thousand clients have already taken advantage of this solution;
- Feniks KB – a fully automated credit system, in which, with a single loan application, working capital and procurement financing may be granted in 5 different products: account overdraft, business loan credit card, factoring and leasing;
- a loan application under a pre-approved offering can now be submitted through Internet banking (new AIB or BusinessPro) also by a client's attorney-in-fact. The functionality allows documents to be attached from the client's/attorney's disk level and authorized with a single-use SMS code, and is now available for sole proprietorships;
- functionality of signing a loan agreement with the client in the unsecured form from the Internet banking level (new AIB or BusinessPro). Authorization is carried out through a single-use SMS code sent to the client's trusted phone. This solution has been designed for sole proprietorships as well as partnerships run with spouses;
- the Alior Bank's mobile application is now offering new functionalities; the Google Pay contactless payment service has been added for Android devices and Apple Pay for iPhone, Apple Watch, iPad or Mac devices with the iOS system. Additionally, mobile clients may use an alternative payment service for Internet shopping: BLIK PayByLink, where the whole transaction is confirmed in the mobile app.
- release of the production version of API compliant with the PSD2 requirements. The Alior Bank's programming interface has been developed based on version 2.1.1. PolishAPI standard created, among others, by the Polish Banks Association, banks and payment institutions.

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 H2 2019

The situation of the banking sector in H2 2019 will primarily be affected by the following factors:

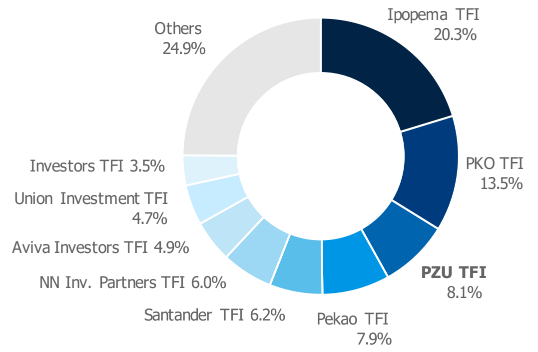
- the scale of demand for banking services and the ability of banks' clients to timely pay their liabilities largely depends on the clients' financial situation. Apart from the country's macroeconomic standing, the economic situation of a number of client groups also depends on the national economic 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 (Brexit, trade wars), affecting the domestic economy;
- development of banking services offered by non-regulated entities;
- interest rate policy of the Monetary Policy Board;
- continuing high level of contributions to the Bank Guarantee Fund.

3.5 Mutual funds (TFI PZU)

Market situation

As at the end of June 2019, assets under management of domestic mutual funds were nearly PLN 257.1 billion compared to 256.8 billion at the end of 2018, representing an slight increase by about PLN 300 million.

Mutual fund companies – share in assets as at 30 June 2019 (in %)



Source: Chamber of Fund and Asset Management

The first half of 2019 proved to be a difficult period for the entire mutual funds market. According to estimates by Analizy Online, the balance of payments to and withdrawals from funds offered by TFIs in the domestic market was negative, having exceeded PLN -2.7 billion. Out of that figure, the balance of the equity market funds was PLN -1.8 billion, while the private market balance amounted to PLN -0.9 billion. The largest outflows were recorded by absolute return funds – clients withdrew more than PLN 1 billion more than they paid in. Equity funds also struggled, ending the 6-month period at the level of PLN -0.9 billion. Debt funds were purchased most frequently: since the beginning of the year they acquired nearly PLN 4.0 billion in new capital. This growth was partially offset by large outflows from short-term debt funds, from which PLN 3.6 billion was withdrawn.

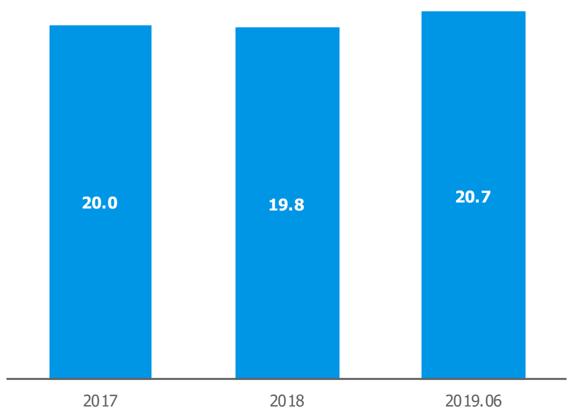
TFI PZU's operations
Towarzystwo Funduszy Inwestycyjnych PZU (TFI PZU) operates on the mutual fund market in the PZU Group. It offers products and services for both retail and institutional clients – including additional investment and savings programs forming part of the third pillar of the social security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

At the end of June 2019, TFI PZU had 47 funds and sub-funds in its portfolio, of which 41 were also offered to clients from outside the Group. This figure included 6 inPZU SFIO passive sub-funds offered by TFI PZU through the inPZU.pl platform. TFI PZU also provides managed account services.

TFI PZU managed net assets worth PLN 20.7 billion at the end of June 2019, signifying a market share above 8%. Accordingly, TFI PZU is among the largest mutual fund companies in Poland – as at 30 June 2019 it was ranked third in Poland according to reports published by IZFiA (Chamber of Fund and Asset Management). TFI PZU is also a market leader in the employee pension plan segment among institutions operating in this market with net assets of nearly PLN 4.2 billion (nearly PLN 5.8 billion in the entire PZU Group).

At the end of June 2019, the net asset value of funds managed by TFI PZU was almost PLN 1 billion higher than it was at the end of December 2018. As regards the most popular solutions, very notable is the increase in assets managed by PZU Oszczędnościowy (former PZU Gotówkowy) by PLN 400 million, PZU Papierów Dłużnych Polonez (up PLN 490 million), inPZU Obligacje Polskie (up PLN 57 million), PZU Sejf+ (up PLN 126 million), inPZU Obligacje Rynków Wschodzących (up PLN 112 million), inPZU Akcje Polskie (up about PLN 15 million) and inPZU Akcje Rynków Rozwiniętych (up about PLN +8 million). 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 Akcji Spółek Dywidendowych, PZU Innowacyjnych Technologii, PZU FIO Ochrony Majątku, PZU Akcji Rynków Wschodzących, PZU FIZ Medyczny, PZU FIZ Surowcowy, PZU FIZ Forte, PZU FIZ Focus, PZU FIZ Akord and PZU Akcji Małych i Średnich Spółek.

TFI PZU's net assets (PLN billion)



Source: Izba Zarządzających Funduszami i Aktywami

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+ for retail clients;
- launch of inPZU SFIO Parasolowy, a new product line of passive funds;
- negative 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:
- actions taken by central bank (Fed, ECB, Bank of Japan, People's Bank of China) translating into global money supply and liquidity on the financial markets;
- the pace and scale of interest rate cuts in the USA, monetary easing in the euro area and the pace of the possible worsening of economic data;
- global inflation;
- intensity of global protectionism, in particular that surrounding the US-China trade conflict;
- change on the position of the ECB president and the first actions that may affect market sentiments;
- existing economic climate on financial markets;
- regulations affecting the reduction of asset management rates.

3.6 International operations

Lithuanian market
According to the Bank of Lithuania, after H1 2019 gross written premium collected by non-life insurance companies totaled EUR 342 million, representing an increase by 6.0% compared the corresponding period of the previous year.

The market growth rate was largely driven by motor insurance, which accounts for approximately 60% of the market. However TPL insurance has had negative growth since the beginning of 2019 (-1.2% between January and June), while the motor own damage insurance market increased in the same period by 5.3%. Other insurance in the period under analysis grew 14.1%, driven mainly by health and agricultural insurance.

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

Lietuvos Draudimas continues to be the largest insurance company in Lithuania in terms of total gross written premium in non-life insurance. The company's share in the market at the end of June 2019 was 29.1%. The Lithuanian non-life insurance market is highly concentrated; considering the recent acquisitions, the total market shares of top four insurance groups in the non-life insurance market was 83.2%.

Gross premium written by Lithuanian life insurance companies was EUR 127 million in H1 2019, up 8.5% from the previous year. The increase in gross written premium was driven by the continuous and stable increase in regular premium (9.9%), which outweighed the 12.3% decrease in single premium income. The rate of growth of the single premium market is hindered by restrictions on tax credits. From 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 61.3% of the portfolio value. Traditional life insurance accounted for 16.6% of written premium.

At of end of May 2019, there were 8 companies operating in the life insurance sector. The Lithuanian life insurance market is also highly concentrated. The share held by the three largest life insurance undertakings in total gross written premium was 60.1%.

Latvian market
The Latvian non-life insurance market recorded a gross written premium of EUR 108 million after Q1 2019. This is EUR 8 million (i.e. 8.2%) more than in the same period of the previous year.

The motor insurance business had the largest share in the non-life insurance market measured by gross written premium. Motor TPL insurance accounted for 23.2% of the market while motor own damage accounted for 22.2%. Also health insurance (24.5% market share) and property insurance (16.6% market share) had an important position in the product mix.

In Q1 2019, there were 10 insurance companies operating on the Latvian non-life insurance market; the top 4 insurance groups held 68.2% of the market.

Estonian market
In H1 2019, non-life insurance undertakings operating in Estonia posted 2.1% growth in gross written premium versus 20.3% in H1 2018[1]. In total, gross written premium was EUR 202 million, of which EUR 58 million, i.e. 28.6% was collected by foreign insurance undertakings operating in Estonia.

The composition of non-life insurance in H1 2019 was dominated by motor insurance, which accounted for 58.7%, of which motor own damage accounted for 31.9%. 26.2% of the gross written premium in the market was collected on property insurance.

At the end of June 2019, there were 13 companies operating in the non-life insurance sector (including 5 branches of foreign insurance companies) among which the top 4 held a combined market share of 69.4%.

[1] 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.

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

Lietuvos Draudimas is the leader of the non-life insurance market in Lithuania with a share of 29.1% after 6 months of 2019 (compared to 29.4% in the corresponding period of 2018). For the first half of the year, it posted a 4.9% upswing in gross written premium compared to the previous year thereby hitting the EUR 99 million watermark.

Life insurance operations in Lithuania are conducted through UAB PZU Lietuva Gyvybės Draudimas – "PZU Lithuania Life". Gross written premium in H1 2019 was EUR 8 million, representing a 13.1% increase compared to the previous year. The share held by PZU Lithuania Life in the life insurance market at the end of June 2019 was 6.6% (compared to 6.3% in the corresponding period of 2018).

In Latvia the PZU Group conducts operations through AAS Balta, which became part of the Group in June 2014, and then (in May 2015) the branch took over the PZU Lithuania branch operating in the Latvian market since 2012. At the end of Q1 2019, the total share of the non-life insurance market reached 28.2% and gross written premium in H1 2019 was EUR 60 million (compared with EUR 53 million in H1 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 share in the Estonian non-life insurance market in H1 2019 was 15.9%[2]. The collected gross written premium was EUR 32 million (EUR 30 million in the first half of the previous year).

Ukrainian market
The Ukrainian insurance market after Q1 2019 posted 14.7% growth in gross written premium reaching UAH 13 billion. The premium written for non-life insurance was UAH 12 billion, signifying 14.1% growth compared to the corresponding period of 2018. Motor TPL and motor own damage insurance (23.0% of the market) recorded a 23.0% increase in gross written premium. In the corresponding period, life insurance undertakings collected gross written premium of UAH 1 billion, signifying 23.6% growth compared to Q1 2018.

The Ukrainian insurance market is highly fragmented – as at the end of March 2019, there were 265 insurance undertakings operating in the country (32 of them offered life insurance). Despite the still large number of insurers, 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 H1 2019, gross written premium collected by PZU Ukraine was UAH 832 million, i.e. 24.2% higher than in the previous year. Gross written premium collected by PZU Ukraine Life was UAH 223 million, up 15.2% from the corresponding period of 2018.

In the first quarter of 2019, PZU Ukraine collected 3.3% of total gross written premium of the whole Ukrainian non-life insurance sector (up 0.3 pp vs. Q1 2018), whereas in the life insurance market PZU Ukraine Life had a 10.9% market share (down 0.2 pp compared to the corresponding period of 2018).

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 pain and suffering 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;
- suspension of the decision to release premium rates in motor TPL insurance in Ukraine, the regulation of rates in Ukraine does not allow insurance undertakings to set premiums based on actual risks.

[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.

3.7 Medical services (Health)

Market situation
The health market is a business area that is dynamically developing and prospective. The current trends are as follows:
- continuation of the double digit pace of growth in the private health insurance market (according to PMR[3]: CAGR of approx. 13% for supplementary health insurance in 2019-2024, while for subscriptions CAGR was approx. 11%);
- 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[4]: at the end of 2018, private health care offered under fee-for-service products was worth PLN 18.9 billion (up 10.5% y/y). In turn, the value of medical subscriptions was PLN 4.5 billion (up 13.6%), while the value of private health insurance climbed to nearly PLN 1.0 billion (up 17.3% y/y).

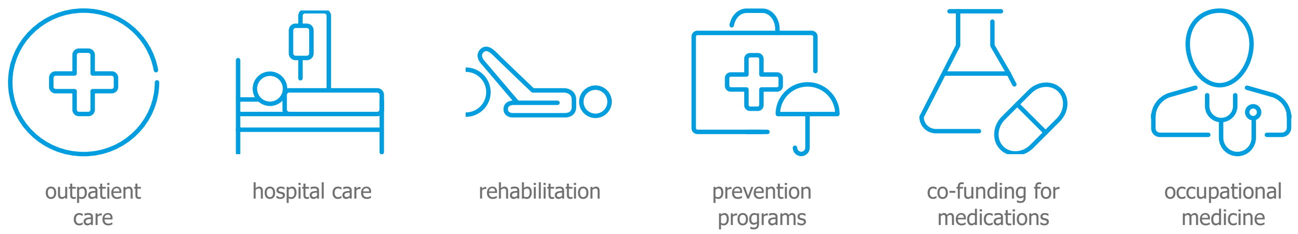
Operations in the Health Area
PZU's operations in the Health Area include:
- sales of health products in the form of insurance (life and health insurance and non-life health insurance) and non-insurance products (occupational medicine, medical subscriptions, partnerships and prevention programs);
- development of the medical infrastructure for the public in Poland to ensure the best accessibility of provided services and execution of revenue targets.

In 2019, the PZU Group's offering in the Health Area changed as follows:
- launch of pilot sales of PZU Thinking about Life and Health product (May 2019) directed to companies employing up to 4 people. Each option of the offer may be additionally extended by private medical care. The insurance ranges have been prepared to address different needs, depending on the client's stage in life.
- commencement of pilot sales of 2 new ranges of the Opieka Medyczna S health insurance for corporate clients (June 2019) – the first range is profiled to enable a detailed checkup of the health condition of the thyroid gland, liver, heart, arteries and kidneys. The second range enables tests profiled for malignant neoplasms occurring most frequently in women and men. The most notable benefits include: analysis of results of marketing surveys: prevention of the illnesses that Poles fear most, benefits requested most frequently by sales in non-standard offerings, increase of market advantages – by adding medical services and keeping prices at attractive levels.

In an effort to develop the Health Area in 2019:
- The PZU Group's service provider network was extended to include more medical centers, which means that PZU already had nearly 2,300 centers;
- a new hotline operation model was fine-tuned to service clients holding health products, including life insurance and non-life insurance with a health rider, online tools were developed to increase the percentage of cases handled during first contact. The hotline structures operate in PZU Zdrowie as the Medical Service Management Center (CZUM), which also allows for integrated management of

[3] PMR Report entitled „Private Health Care Market in Poland 2019" dated July 2019
[4] PMR Report entitled „Private Health Care Market in Poland 2019" dated July 2019

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



client experience and improvement of the service quality, while also testing innovative solutions;
- a tool has been developed further for booking on-line appointments through a direct connection with the calendars of cooperating medical centers. At the end of June 2019, PZU Zdrowie was connected to 135 medical centers located across Poland, comprising the PZU Zdrowie network as well as from external partners. This channel was used to handle more than 30% of cases, of which a considerable part was booked directly by patients, through the myPZU self-service portal;
- in the three greenfield medical centers launched in 2018 in Warsaw, Krakow and Poznań, further specializations were added to the offering.
- Alergomed Tarnów and Falck Centra Medyczne and Starówka were added to the own network (thanks to the two latter entities, the number of own outlets rose to nearly 100);
- the pending projects are aimed at increasing quality of patient care in occupational health protection (efficient management of validity of medical decision by monitoring the validity dates, issuing referrals and automated updating of data based on information from a medical center), improved access to medical documentation.

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 bottom-line results.
- the entry into force of the Employee Capital Scheme Act is yet another benefit for employees, which may cause a deterioration in interest in our 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 directly affects our financial performance in the Health Area.
- potential modification of the National Health Fund's contracting rules may cause significant changes in the financial results generated by medical centers.

3.8 Pension funds (PTE PZU)

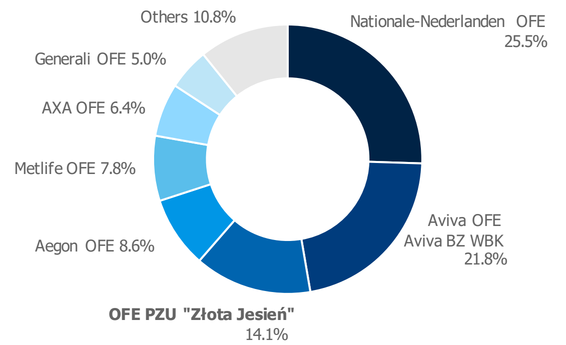
Market situation

At the end of June 2019, the net asset value of open-end pension funds was PLN 161.8 billion, up 2.8% versus the end of 2018.

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 June 2019, 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 2,395.9 thousand members, i.e. 15.2% of all participants in open-end pension funds;
- net assets stood at PLN 22.7 billion, representing 14.1% of the total asset value of open-end pension funds operating in Poland.

Open-end Pension Funds - percentage of net asset value as at 30 June 2019 (in %)



Source: KNF, monthly data on the OFE market, Data for June 2019

At the end of June 2019, PZU's Voluntary Pension Fund (DFE PZU) kept 24.2 thousand funded individual pension security accounts (IKZEs) in which PLN 206.6 million worth of assets was accumulated. Consequently, it retained its position as one of the leaders in the segment of voluntary pension funds. In the first half of 2019, DFE PZU reached the rate of return of 5.07%, one of the top performances on the market.

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:
- the economic climate on the capital market and, in particular on the Warsaw Stock Exchange, affecting the value of assets of the funds and the level of fees collected by pension fund companies for management;
- final wording of the Act on transformation of open-end pension funds;
- work on the adoption of solutions enhancing the performance of the third pillar and making it more attractive, and influencing the need in public awareness for accumulating additional savings for future retirement.

3.9 Other operating areas

PZU Pomoc

PZU Pomoc provides auxiliary services to PZU Group companies, including:
- managing the PZU repair network – at the end of H1 2019 the company cooperated with 918 repair shops;
- organizing motor assistance services for LINK4;
- conducting salvage auctions and sales after loss and damage incidents;
- supporting technical claims handling in motor claims;
- handling assistance products for PZU and PZU Życie (among others, legal consulting, organization of assistance services etc.);
- managing the loyalty program, PZU Pomoc w Życiu Club – at the end of H1 2019 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 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 efficient methods of 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 its consequences 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.

Armatura Group

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.

4.

PZU 2020 - more than insurance

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

In this chapter:

PZU 2020 - more than insurance

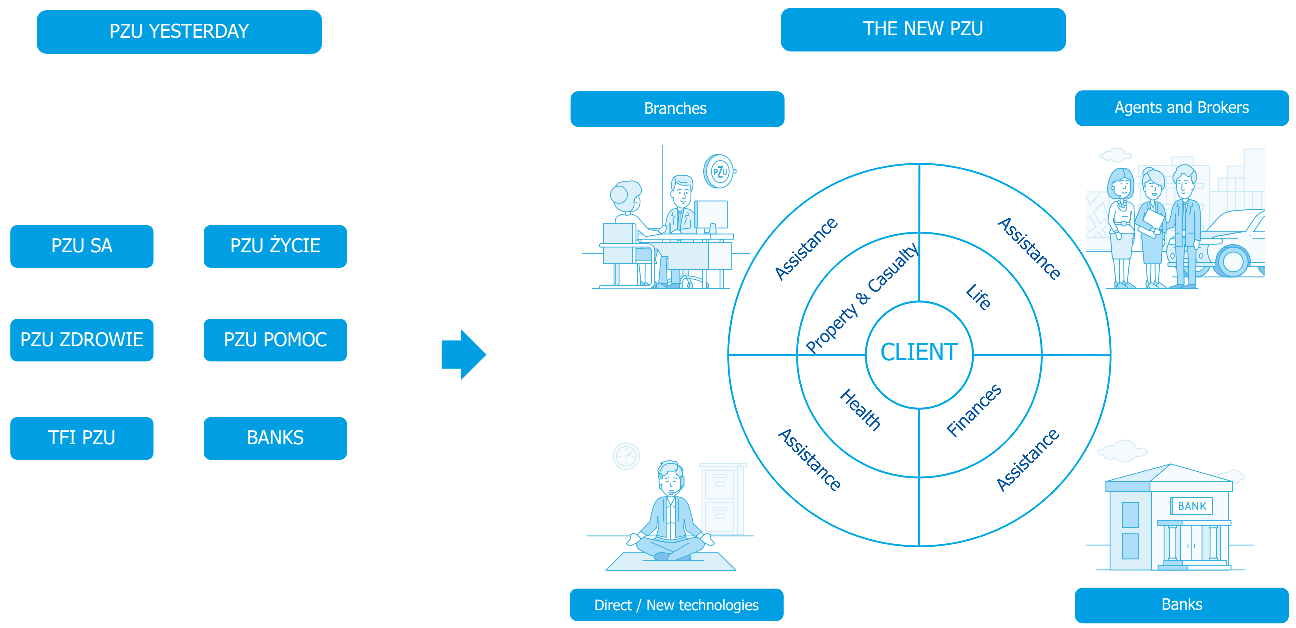
4.1 #newPZU strategy 2017-2020

The PZU Group enjoys the trust of more than 22 million clients in 5 countries in Europe, of which nearly 11 million clients in Poland have 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, investment and pension 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.

On 9 January 2018 the Management Board and Supervisory Board adopted PZU's updated strategy until 2020. The PZU Group's new operating model departs from the classical model of cultivating client relations based on sales and aftersales 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.

#nowPZU



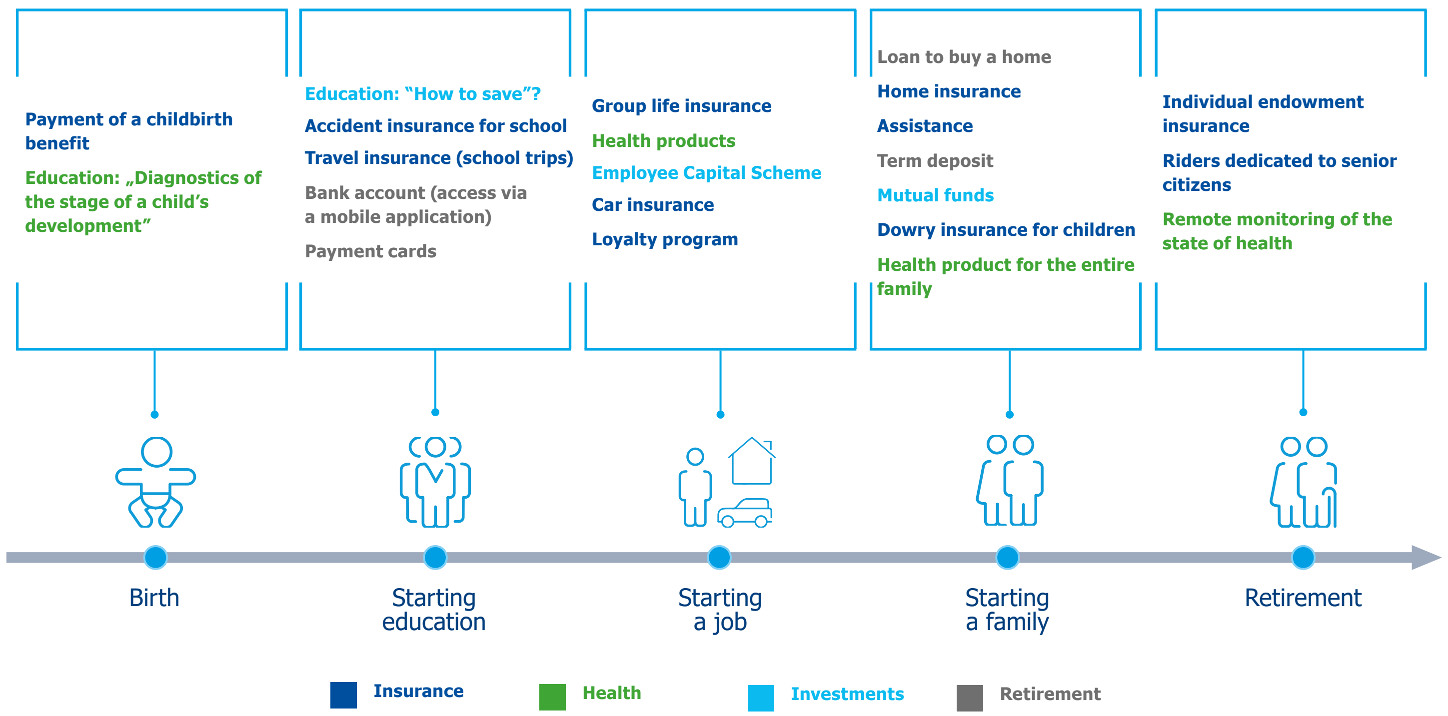
Source: PZU's data

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

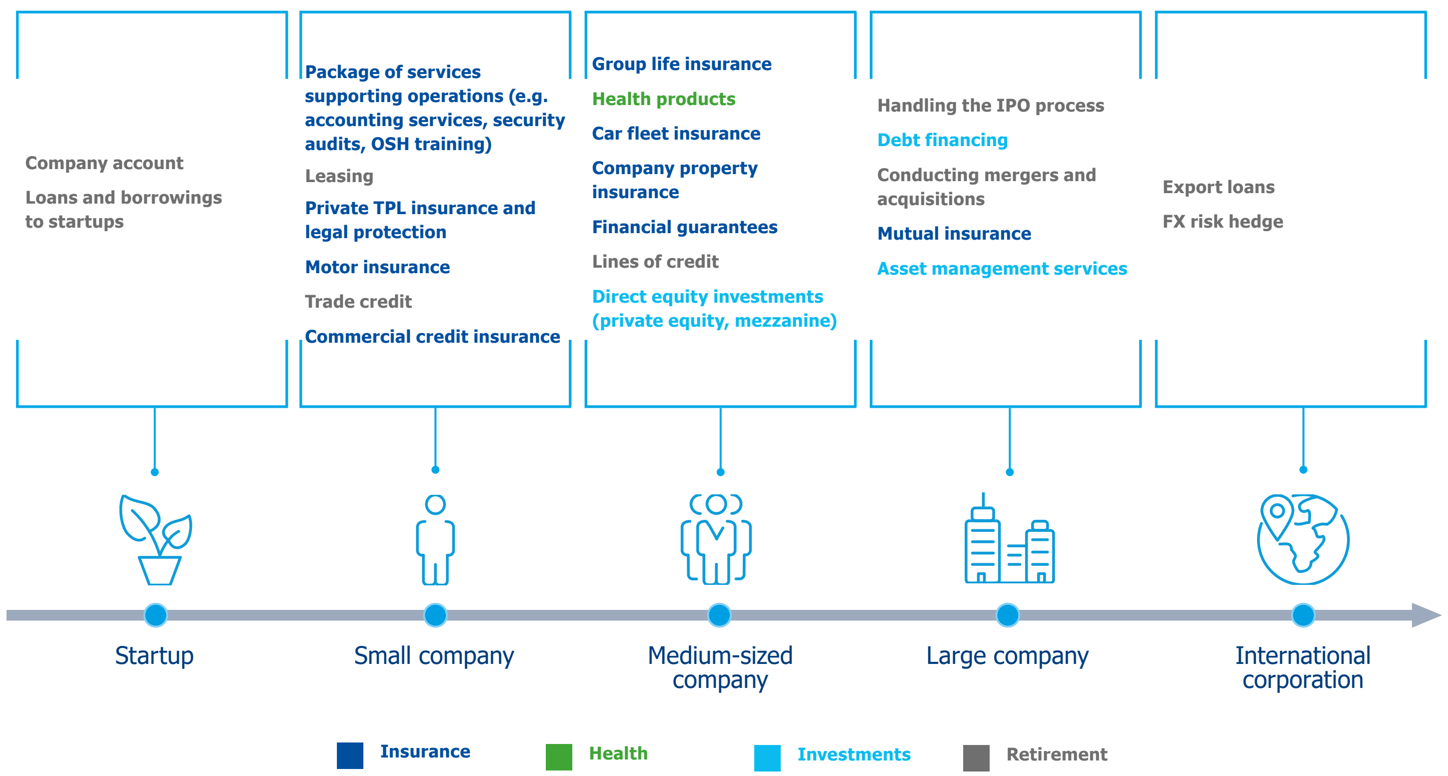
In order to create the appropriate business environment to attain these targets, clients interactions were redefined from scratch. This entailed an alteration to the philosophy of how the overall Group operates. For this purpose, the various business units were placed in a single integrated system dedicated to full dimensional client service at every stage of 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.

PZU wants to do something different from the classical client relation model in which the only contact clients have with

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.



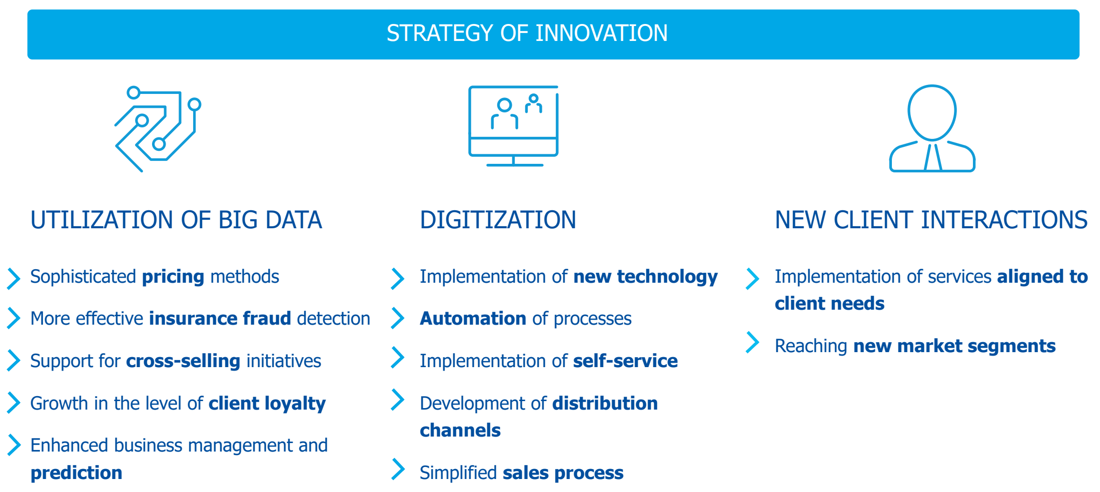
their insurer after buying a policy is when a claim occurs. PZU intends to do considerably more and effectively help clients solve its problems in many areas and during every stage of life. PZU's philosophy of thinking about clients constitutes a departure from the classic model of an insurer's client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

This approach has defined the operating philosophy under the PZU Group's new business model. 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 will drive the gradual transformation of 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 protecting their life, health, property, savings and finances.

As part of the broader business strategy, PZU places considerable emphasis on activities within the accepted innovation strategy. Activities in this area are directed above all towards a better utilization of the company's Big Data sets, digitalization of processes, usage of artificial intelligence and new technologies associated with the development of fintechs and insurtechs. In this manner new underwriting methods will emerge in the Group.

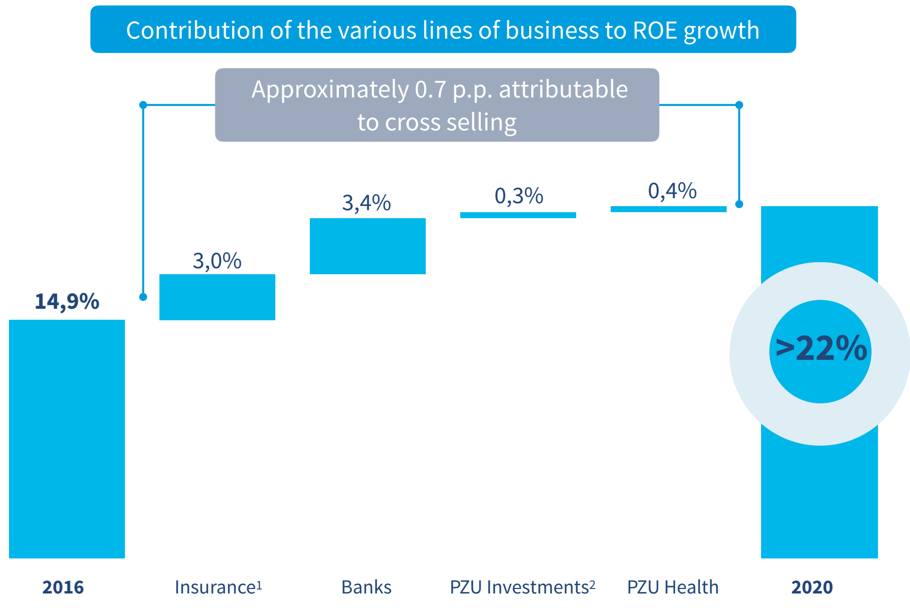
The overarching objective of the #newPZU strategy is to generate a return on equity (ROE) in excess of 22%, i.e. nearly twice as much as the average for insurance companies in Europe.

Strategy of innovation



Source: PZU's data

Contribution of the various lines of business to ROE growth



[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)

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%.

#newPZU 2020 strategic initiatives

Area	No.	Strategic initiatives	Ambitions in 2020
Better utilization of data	1	Data base merger and creation of a single joint CRM system in the PZU Group / full client picture (360 degree view)	55% of the clients in PZU 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
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

4.3 Pursuit of key projects and initiatives in H1 2019

I Better utilization of data

PZU GO – the next stage of tests has been completed and preparation has been made to roll out the PZU GO product in the permanent product offering (started in April 2019). The well-advanced work towards further development of the device and commercialization of the solution, taking into account the different forms and channels of distribution in PZU Group companies.

On 10 February 2019 PZU GO detected the first very serious road accident. It transpired in Silesia. PZU's clients who were injured in the accident were hospitalized and their vehicle was safely towed to a workshop.

Artificial intelligence in claims handling – completion of the pilot phase of an innovative project employing artificial intelligence. Machine learning and computer vision were tested in real time in the motor claims handling process. The implementation of this innovation will make it possible to streamline the process of checking technical documentation by 10 times and it will reduce the time needed to handle a notification.

The use of artificial intelligence in claims handling requires just 30 second to analyze technical documentation. It also helps select 90% of the documentation that fulfills the requirements needed to preserve high quality of claims handling in PZU. The remaining 10% of the documentation is subject to in-depth analysis done directly by PZU employees.

Tariff-setting 3.0 – implementation of the Radar Live system in motor insurance, which allows PZU to offer clients custom pricing that matches, among others, their loss ratio (measured by advanced risk models) and purchasing preferences (defined using pricing elasticity models).

„Ok, google" – implementation of a virtual advisor (in early June 2019) based on the Google system. A few months after the premiere of the Polish version of the Google Assistant service, PZU implemented a solution, through which users may talk about insurance during travel. The assistant interviews clients and based on their individual parameters presents the most suitable travel insurance options.

II Cross selling growth

Cash – an innovative loan platform developed jointly with Alior Bank enabling employers to introduce a new benefit in the form of fast and low-interest loans offered to their employees.

This solution will make it possible to obtain an inexpensive loan for up to three years. The loan application and award process will be fully remote. Loan amortization will take place automatically using payroll deductions. Cash platform loans will be more favorable than other types of products available on the market.

In Q2 2019, advanced tests of the platform were conducted and its launch is planned in Q3 2019.

Development of the PZU Zdrowie network – on 3 June 2019, PZU Zdrowie finalized the purchase of 100% of shares in Falck Centra Medyczne and NZOZ Starówka. In mid-May, the acquisition was approved by the Office for Competition and Consumer Protection. This is the largest acquisition of a health service operator to date.

PZU Zdrowie added to its network 32 outlets of Falck's outpatient care section, without the medical rescue segment. The acquired medical centers are located in 14 cities throughout Poland, including Warsaw, Kraków, Gdańsk, Katowice, Kędzierzyn-Koźle, Słupsk and Ustka. Those are both multi-specialist medical centers located in large cities, company clinics, as well as the Starówka chain in Warsaw, which has family clinics also in smaller towns surrounding the capital. In total, they employ over 1,100 people, including physicians, nurses, midwives and administrative personnel.

The acquisition of this nationwide network will significantly enlarge PZU Zdrowie's medical infrastructure. For several years this company has been engaged in acquiring and building medical centers under its own brand. PZU Zdrowie is a medical operator that has its own network, with 97 medical centers. It also collaborates with nearly 2,200 partner centers in 570 cities in Poland and several dozen hospitals and more than half of the pharmacies in Poland.

In H1 2019, implementation work was conducted in the PZU Zdrowie network focusing on: phone consultations, innovative diagnostic solutions, integration of calendars in own and partner centers and further integration of the mojePZU portal with PZU Zdrowie branches to ensure that in its mojePZU account a patient receives complete information on a visit, i.e.

diagnosis, recommendations, prescribed medicines and their dosage.

Letter of Intent with Goldman Sachs – signing of a letter of intent with Goldman Sachs Asset Management (GSAM) concerning asset management and funds distribution. This cooperation will make it possible to offer PZU's financial products globally and extend PZU's offer to include funds managed (or co-managed) by GSAM.

In Q2 2019, work was conducted on launching a strategic project concerning operationalization of the cooperation.

III Digitalization of processes

moje.pzu.pl – implementing more #myPZU functionalities, including among others facilities to enroll in group insurance, expand information regarding the status of claims and benefits and add options to buy other products (including PZU Education – School ADD) and commencement of work on the target online payment model for the whole PZU Group. At the end of June, the number of user accounts exceeded 170 thousand.

IV Additional interactions with clients

inPZU – granting access to the inPZU web platform to institutional clients. Additionally, in connection with the planned launch of the ECS offering, work was carried out to adapt the inPZU site for the purposes of an employee portal for ECS participants.

ECS (employee capital schemes) – finalization of the development of Employee Capital Scheme offering (in effect since 1 July 2019), including, among others, registering the ECS, deploying a portal for Employers and entering the ECS inPZU Open-end Specialized Mutual Fund (PPK inPZU Specjalistyczny Fundusz Inwestycyjny Otwarty) in the register of mutual funds. PZU declared that it would not charge any fund management fee in the first year of operation of the Employee Capital Scheme.

PZU Club – the work on PZU's loyalty program has begun (in the form of a mobile app and a website). The new channel will be based on frequent interactions promoting good behavioral patterns (physical activity, safe driving) and entertainment (quizzes, competitions, challenges). User involvement will be rewarded by attractive gifts and prizes. This form of contact will support the individual approach to communication and increase the scale of self-service transactions and other sales channels (increasing the number of products per client and cross-sell).

4.4 Implementation of the strategy after H1 2019

ROE[1]

06.2019	2020
20.3%	>22%

BUSINESS SIZE

				2020
NON-LIFE INSURANCE	PZU Group's market share[2,3,]	03.2019	33.5%	38.0%
LIFE INSURANCE	Number of clients in PZU Życie (m)[9]	06.2019	10.8	11.0
INVESTMENTS	Assets under management for third party clients (bn PLN)	06.2019	30.8/51.2[10]	65
HEALTH	Revenues (m PLN)[7]	06.2019	675.8	1,000
BANKING	Assets (bn PLN)	06.2019	274	>300

BUSINESS PROFITABILITY

				2020
NON-LIFE INSURANCE	Combined ratio[3]	06.2019	89.2%	92.0%
LIFE INSURANCE	Operating margin in group and individually continued insurance	06.2019	20.0%	>20%
INVESTMENTS	Net result on third party asset management (m PLN)[6]	06.2019	87/197[10]	200
HEALTH	EBITDA margin[8]	06.2019	10.1%	12.0%
BANKING	Net financial result attributed to the PZU Group (m PLN)[11]	06.2019	569	>900
NON-LIFE INSURANCE	Administrative expense ratio[4]	06.2019	6.6%	6.5%
LIFE INSURANCE	Surplus yield on its own portfolio above the RFR	06.2019	2.4 p.p.	2.0 p.p.

GROUP OBJECTIVES

	03.2019	2020[5]
Solvency II solvency ratio	225%	>200%

1 ROE attributable to the parent company
2 Direct business
3 PZU jointly with TUW PZUW and LINK4
4 Administrative expenses in PZU and PZU Życie
5 Own funds after subtracting anticipated dividends and asset taxes
6 PZU Investments' consolidated net result
7 Annualized revenues of proprietary centers and branches including revenues from PZU Zdrowie and PZU Group
8 Net of non-recurring costs; profitability computed using the sum of revenues generated by branches and earned premium
9 Including customers acquired through cooperation with banks
10 Including assets managed by TFI banks of the PZU Group
11 12 month moving average

5.

Financial results

Return on equity attributed to the parent company (ROE) at 20.3%.
Increase in profit attributable to the parent company by 5.0% year over year, despite nearly two times higher Bank Guarantee Fund costs in banks.

In this chapter:

5.1 Major factors contributing to the consolidated financial result

In H1 2019 the PZU Group generated net profit attributable to the parent company's shareholders in the amount of PLN 1,481 million compared to PLN 1,410 million in the corresponding period of 2018 (up 5% y/y). Net profit reached PLN 2,198 million, i.e. PLN 87 million less than the result in H1 2018, and result before tax amounted to PLN 3,100 compared to PLN 3,056 last year (up 1.4%).

The net result declined 8.6% compared to last year, net of non-recurring events.[1] The operating profit in H1 2019 was PLN 3,103 million, up by PLN 48 million compared to the result in H1 2018.

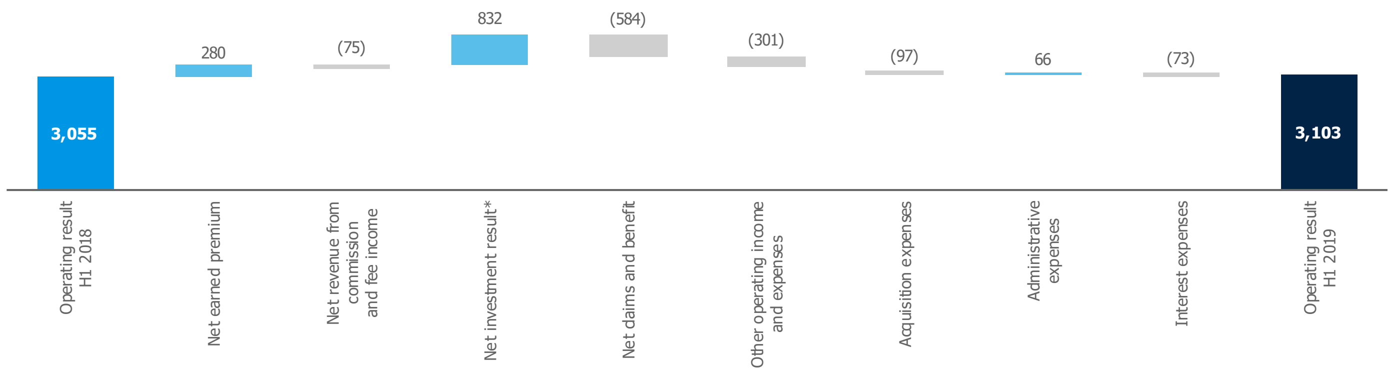
Operating profit was driven in particular by the following factors:

- higher result on listed equities, among others due to better conditions on the Warsaw Stock Exchange;
- high gross written premium on the level comparable to the record-breaking H1 2018, including increase in sales in foreign companies and further growth of sales of health insurance. These factors were balanced out by the lower premium in motor TPL in the mass insurance segment and lower sales of insurance against fire and other damage to property in the corporate segment; in the corresponding period of 2018 a high-value long-term agreement was signed by TUW PZUW;
- improvement in the loss ratio in the motor TPL in the corporate and mass client segment – in the corresponding period of 2018 increase in provisions for claims for pain and suffering due to vegetative state (Supreme Court judgment);
- the decrease in the result on other property insurance in both segments y/y is attributable to a number of several high-value events and losses caused by atmospheric phenomena;
- stable profitability in the group insurance and individually continued segment (20.0%, -0.2 pp) – lower loss ratio in protection agreements and further intensive growth of the health business was counterbalanced by an increase in operating expenses;
- increased profitability in the Baltics and Ukraine segments as a result of an increasing insurance portfolio and improvement of insurance activity ratios;
- lower results in the banking segment due to, among others, higher contributions to the Bank Guarantee Fund.

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

- slight decrease in gross written premium by 0.4% to PLN 11,839 million. The decrease pertained mainly to motor TPL in the mass insurance segment as a result of a decrease in the number of insurance policies resulting from, among others, increased price activity among competitors. The sales of insurance against fire and other damage to property in the corporate insurance segment was lower y/y mainly as a result of entering into a high-value long-term agreement was signed by TUW PZUW in the corresponding period of 2018, which increased the base in H1 2018. The above decreases were partly offset by the record-breaking level of premium collected by foreign operations. Adjusted for the reinsurers' share and change in the provision for unearned premiums, the net earned premium amounted to PLN 11,334 million and was 2.5% higher than in the corresponding period of 2018;
- increase in investment income after deducting interest expenses. Investment income in H1 2019 and H1 2018 was PLN 4,580 million and PLN 3,821 million, respectively. Growth was posted in investment income in banking activity and net of banking activity. The growth in the result in banking activity was driven in particular by the development in the sales of credit products at Pekao and Alior Bank, among others thanks to the favorable economic climate and the low level of interest rates. Investment income excluding banking activity increased primarily thanks to a higher result earned on listed equity instruments. This was helped by the improved market conditions on the Warsaw Stock Exchange; in H1 2019 the WIG index went up 4.3% compared to its 12.2% decrease in the corresponding period of the previous year. The favorable market conditions on the Warsaw Stock Exchange also impacted, among other things, the investment income on the portfolio of assets covering investment products, which however does not affect the PZU Group's overall net result.
- higher level of claims and benefits paid. They amounted to PLN 7,929 million, which indicates a 8.0% increase compared with 2018. The increase pertained in particular to life insurance in connection with the better result on investing activity in most unit-linked portfolios compared to the negative results produced last year (however this effect is neutral to net result of PZU Group, as the higher level of claims and benefits associated with this factor is counterbalanced by the changes in the net result on investing activity in the portfolio of assets to cover investment products). In addition, the higher level of claims and benefits paid in insurance against fire and other damage to property resulted from above-average number of losses caused by atmospheric phenomena;
- higher acquisition expenses (an increase of PLN 97 million) in both mass and corporate client segments, driven up mainly by a change in the structure of sales channels in PZU and growth of sales in foreign operations;
- decrease in administrative expenses to PLN 3,276 million from PLN 3,342 million in the corresponding period of 2018. Administrative expenses in the banking activity segment (net of adjustments on account of valuation of assets and liabilities to fair value) dropped by PLN 101 million thanks to maintaining cost discipline. At the same time, the administrative expenses of the insurance segments in Poland were PLN 23 million higher compared to the previous year. This change largely resulted from higher personnel costs in connection with the wage pressure on the market;
- higher negative balance of other operating income and expenses of PLN 1,592 million. The change resulted mostly from higher Bank Guarantee Fund charges and increase in the levy on financial institutions. The charges to the Bank Guarantee Fund rose from PLN 277 million in H1 2018 to PLN 547 million in H1 2019, while the PZU Group's liabilities (on insurance and banking business alike) on account of the levy on financial institutions in H1 2019 was PLN 569 million versus PLN 542 million in the corresponding period of 2018.

Operating result of the PZU Group in H1 2019 (in PLN m)



* without factoring in interest expenses

[1] Non-recurring events include the effect of converting long-term policies into yearly renewable term business in type P group insurance, and in the comparable period the non-recurring effect of remeasurement of provisions in non-life insurance for claims for pain and suffering due to vegetative state.

Key data from the consolidated profit and loss account	1 January - 30 June 2019	1 January - 30 June 2018	1 January - 30 June 2017
	PLN million	PLN million	PLN million
Gross written premiums	11,839	11,881	11,606
Net earned premiums	11,334	11,054	10,347
Net revenues from commissions and fees	1,602	1,677	510
Net investment result *	5,645	4,813	3,027
Net insurance claims and benefits paid	(7,929)	(7,345)	(7,214)
Acquisition expenses	(1,616)	(1,519)	(1,412)
Administrative expenses	(3,276)	(3,342)	(2,036)
Interest expenses	(1,065)	(992)	(420)
Other operating income and expenses	(1,592)	(1,291)	(645)
Operating profit (loss)	3,103	3,055	2,157
Share in net profit (loss) of entities measured by the equity method	(3)	1	(1)
Profit (loss) before tax	3,100	3,056	2,156
Income tax	(902)	(771)	(451)
Net profit (loss)	2,198	2,285	1,705
Net profit (loss) attributable to equity holders of the parent company	1,481	1,410	1,438

* without factoring in interest expenses

5.2 PZU Group's income

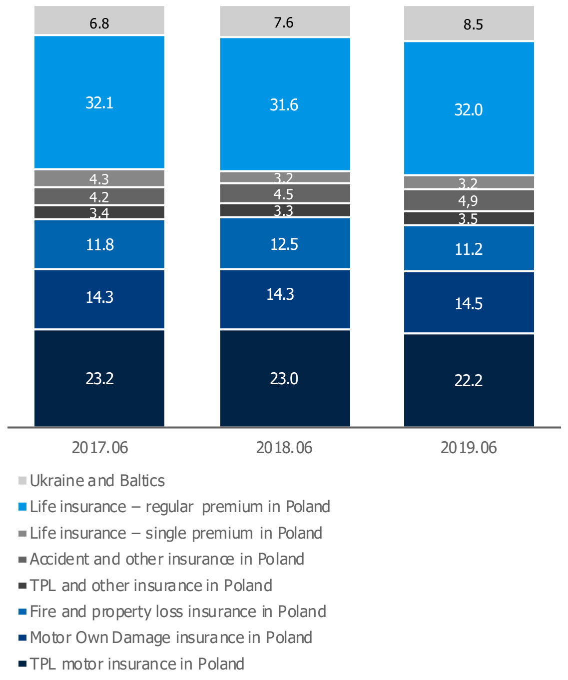
Premiums

In H1 2019, the PZU Group collected gross premiums of PLN 11,839 million or 0.4% less than in the corresponding period of the previous year. The PZU Group posted the following results in the various segments:

- record-breaking gross written premium collected by foreign companies – increase compared to H1 2018 by PLN 104 million, chiefly in motor insurance and health insurance in the Baltic States;
- sales decrease by PLN 63 million in the mass client segment (excluding the inter-segment premiums) compared to 2018, due to a decrease in the number of policies, which resulted from increased price movements among competitors;
- premium decreased in the corporate client segment by PLN 115 million from 2018 (net of inter-segment premiums), mainly due to the lower premiums from insurance against fire and other damage to property (-36.6% y/y) – in the corresponding period of 2018 TUW PZUW entered into a high-value long-term contract;
- higher sales in the group and individually continued insurance segment – premium up PLN 27 million, in particular as a result of signing new contracts in health insurance in group form and active up-selling of other insurance riders in individually continued products;
- a PLN 5 million increase in premiums in the individual insurance segment compared to the year before, driven mainly by still increasing level of premiums in protection products in endowments and the insurance portfolio of protection products in the bancassurance channel.

Insurance segments (PLN million), local GAAP	Gross written premium (external)		
	1 January - 30 June 2019	1 January - 30 June 2018	1 January - 30 June 2017
TOTAL	**11,839**	**11,881**	**11,606**
Total non-life insurance – Poland (external gross written premium)	6,669	6,847	6,596
Mass insurance – Poland	5,264	5,327	5,217
Motor TPL	2,220	2,352	2,350
Motor MOD	1,298	1,278	1,240
Other products	1,746	1,697	1,627
Corporate insurance – Poland	1,405	1,520	1,379
Motor TPL	406	385	342
Motor MOD	423	422	419
Other products	576	713	618
Total life insurance – Poland	4,165	4,133	4,221
Group and individually continued insurance – Poland	3,471	3,444	3,429
Individual insurance – Poland	694	689	792
Total non-life insurance – Ukraine and Baltic States	939	845	742
Ukraine non-life insurance	118	89	96
Baltic States non-life insurance	821	756	646
Total life insurance – Ukraine and Baltic States	66	57	47
Ukraine life insurance	31	26	19
Baltic States life insurance	35	31	28

Structure of gross written premium at PZU Group (%)



Net revenues from commissions and fees

Net revenues from commissions and fees in H1 2019 stood at PLN 1,602 million, or were PLN 75 million lower than in the previous year, mainly as a result of higher commission costs in banking activity.

They included mainly:

- net revenues from commissions and fees in the banking segment of PLN 1,531 million (including mainly: brokers' commissions, revenues and expenses related to the service of bank accounts, payment and credit cards, fees charged for intermediation in insurance sales);
- income on OFE asset management. They stood at PLN 69 million (down compared to the previous year mainly as a result of lower revenues on refund of monies from the OFE Guarantee Fund);
- revenues and fees received from funds and mutual fund companies in the amount of PLN 252 million, or PLN 21 million less than in the previous year.

Net investment result and interest expenses

In H1 2019 the net investment result[2], including interest expenses, was PLN 4,580 million, compared to PLN 3,821 million in the corresponding period of 2018. Excluding the impact exerted by banking activity on the net investment result, after factoring in interest expenses[3] in H1 2019 was PLN 1,032 million. It was higher than in the corresponding period last year by PLN 564 million, which was primarily due to the following drivers:

- higher result earned on listed equity instruments in particular due to improved market conditions on the Warsaw Stock Exchange – the WIG index went up 4.3% in H1 2019 compared to the 12.2% decline in the corresponding period of the previous year;
- higher investment income in the portfolio of assets covering investment products, even though it does not affect the PZU Group's overall net result because it is offset by the higher level of net insurance claims and benefits;
- stabilization of income in the foreign treasury bonds portfolios (EM), chiefly by altering the management strategy from short-term to long-term and setting up FVOCI portfolios;

The foregoing growth was partially offset by the lower result on the Polish treasury bonds portfolio primarily due to the lower level of assets in this portfolio.

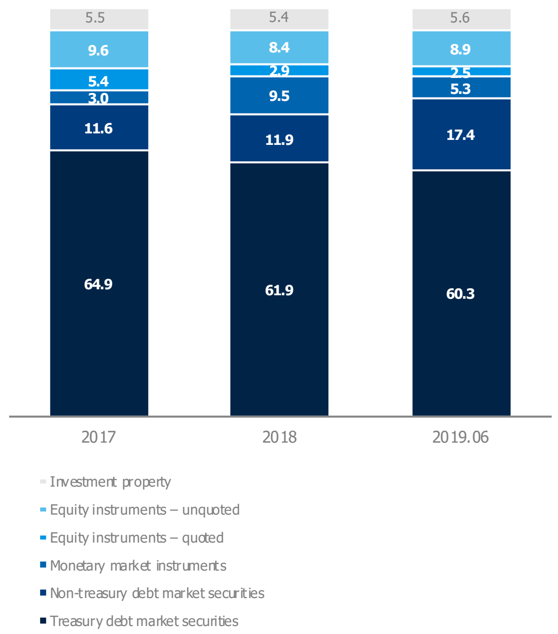
At the end of June 2019 the value of the PZU Group's investment portfolio[4], net of the impact exerted by banking activity was PLN 49,940 million versus PLN 50,270 million at the end of 2018.

The decline of the investment portfolio was attributable primarily to providing of funds for the repayment of own bonds in EUR in July 2019 partly counterbalanced by higher receipts from premiums due to business growth and investment performance.

The increase in the percentage of non-treasury debt market instruments is the result of the consistently implemented investment policy to ensure greater diversification of the investment portfolio and curtailment of volatility in results.

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 portfolio of investments 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 H1 2019, the balance of other operating income and expenses was negative and stood at PLN 1,592 million, compared to the balance in 2018, which was also negative at a level of PLN 1,291 million. The following contributed to this result:

- increase in the BFG charges from PLN 277 million in H1 2018 to PLN 547 million in 2019 as a result of a higher contributions to the mandatory resolution funds;
- levy on financial institutions – the PZU Group's charge on account of this levy (in both insurance and banking activity) in H1 2019 was PLN 569 million compared to PLN 542 million in the previous year.

5.3 PZU Group's claims paid and technical provisions

Net claims and benefits (including the movement in technical provisions) reached PLN 7,929 million and were 8.0% higher than in the corresponding period of the previous year. The following factors contributed to the increase in the net claims and benefits category:

- in life insurance, the higher investment result on most unit-linked product portfolios compared to the negative results produced last year;
- in insurance against fire and other damage to property – above-average number of losses caused by atmospheric phenomena.

On the other hand, a decrease in the net claims and benefits category was recorded in connection with remeasurement, in the corresponding period of the previous year in the motor insurance group in the corporate client segment and the mass client segment, of the provision for claims for pain and suffering caused by a relative being in a vegetative state because of being injured in an accident.

5.4 PZU Group's acquisition and administrative expenses

In H1 2019, acquisition expenses went up PLN 97 million compared to the corresponding period of the previous year. The increase was driven mainly by a change in the structure of sales channels in PZU and growth of sales in foreign operations.

The Group's administrative expenses in H1 2019 amounted to PLN 3,276 million compared to PLN 3,342 million in the corresponding period of the previous year, i.e. went down 2.0% from the previous year. Administrative expenses in the banking activity segment (excluding adjustments for the valuation of assets and liabilities to the fair value) dropped by PLN 101 million thanks to maintaining cost discipline. At the same time, the administrative expenses of the insurance segments in Poland were PLN 23 million higher compared to the previous year. This change largely resulted from higher personnel costs resulting from the wage pressure on the market.

[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] PZU Group net of Pekao and Alior Bank.
[4] The investment portfolio contains investment financial assets (including investment products), investment property (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.

5.5 Drivers and atypical events affecting the results

In H1 2018, a non-recurring effect of remeasurement of provisions was recognized, mainly in motor insurance for claims for pain and suffering due to being in a vegetative state in the amount of PLN 148 million.

The conversion effect of long-term policies into yearly renewable term agreements in type P group insurance was treated as a non-recurring event was PLN 1 million lower in H1 2019 than in the corresponding period of the previous year (PLN 9 million in H1 2019 compared to PLN 10 million in the corresponding period of the previous year).

5.6 PZU Group's asset and liability structure

As at 30 June 2019, the PZU Group's total assets were PLN 340,079 million, up PLN 11,525 million compared to the end of 2018.

Assets

As at 30 June 2019, the largest category of the Group's assets were loan receivables from clients. They represented 55.9% of total assets and amounted to PLN 189,936 million, having risen by PLN 7,882 million from the end of 2018.

The second largest asset category were investments (investment financial assets, investment properties and financial derivatives). They totaled PLN 114,935 million and were up PLN 9,086 million versus the end of last year. They represented 33.8% of the Group's total assets versus 32.2% at the end of 2018. The increase in the value of investments was associated with the banking activity. Excluding banking activity, the investment portfolio in H1 2019 decreased as a result of earmarking the funds for repayment of own bonds in EUR which took place in July this year, partly counterbalanced by higher receipts from premiums due to business growth and investment performance.

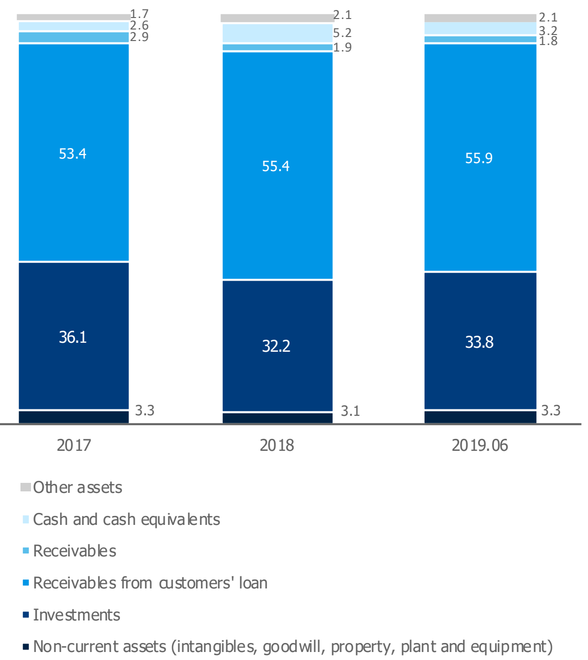
The PZU Group's receivables, including receivables under insurance contracts and current income tax were PLN 6,083 million and represented 1.8% of its assets. Aat the end of 2018 they were PLN 6,343 million (1.9% of the Group's assets) and their decrease was caused mainly by the outstanding transactions on financial instruments and margins.

Non-current assets in the form of intangible assets, goodwill and property, plant and equipment were presented in the statement of financial position at PLN 11,178 million. They accounted for 3.3% of the assets. The increase in the balance compared to the end of 2018 by PLN 943 million resulted from recognition of new assets in respect of the right to use as a result of application of IFRS 16.

As at 30 June 2019, the PZU Group held PLN 10,915 million of cash and cash equivalents (3.2% of assets). At yearend 2018, this value was PLN 17,055 million and the movement occurred mainly in the cash accumulated by Bank Pekao in the Central Bank in conjunction with the reserve requirement.

The balance of assets held for sale in the amount of PLN 1,139 million was similar to the level as at the end of 2018.

PZU Group's asset structure (in %)



Equity and liabilities

As at 30 June 2019, consolidated equity hit PLN 36,273 million, down from the end of 2018 by PLN 1,134 million. The value of non-controlling interests fell by PLN 520 million to PLN 21,962 million versus last year, among others, in connection with Pekao earmarking PLN 1,732 million to be paid as a dividend, with PLN 1,385 million of that being the dividend attributable to non-controlling interests. The declines were partly offset by the result generated by Alior Bank and Pekao attributed to non-controlling shareholders totaling PLN 717 million. Equity attributable to parent company shareholders dropped by PLN 614 million compared to previous year. The distribution of profit for 2018 and allocating PLN 2,418 million to dividend payment was partly compensated by the net result attributable to the parent company generated in H1 2019 in the amount of PLN 1,481 million and increase in the valuation of debt instruments measured at fair value through other comprehensive income.

The largest item of equity and liabilities as at 30 June 2019 were financial liabilities representing 71.4%. The value of this item reached PLN 242,863 million and included in particular:

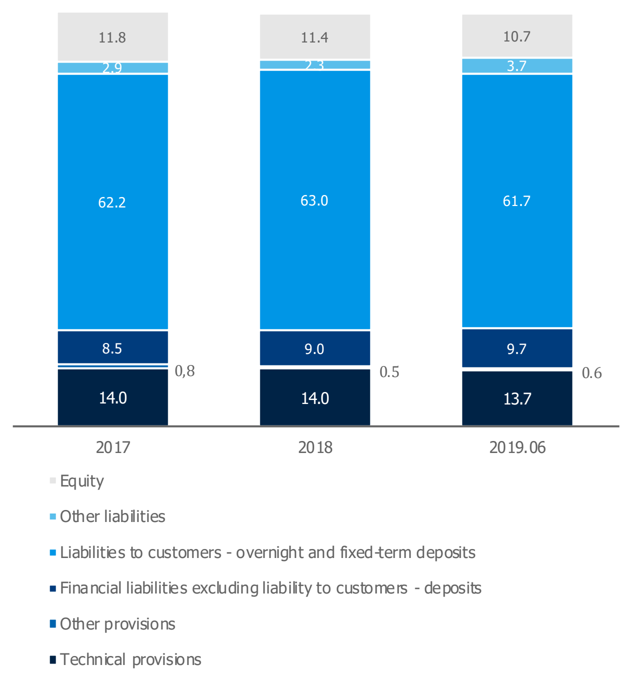
- liabilities to clients for deposits totaling PLN 210,816 million (an increase in current and term deposits in Pekao and Alior Bank by PLN 2,969 million compared to December 2018);
- liabilities on the issue of own debt securities totaling PLN 12,535 million, including:
  - PLN 6,616 million on bonds, of which EUR 850 million are Eurobonds issued by PZU Finance AB, a wholly-owned subsidiary – the bonds were repaid on 3 July 2019; the balance was up by PLN 694 million over 2018, chiefly due to Pekao's issue of bonds;
  - PLN 4,545 million on certificates of deposit issued by Bank Pekao and Alior Bank;
  - PLN 1,374 million on covered bonds issued by Bank Pekao;
- subordinated liabilities of PLN 6,423 million. The balance rose from the end of 2018 by PLN 362 million chiefly due to the issue of subordinated bonds by Pekao in June 2019 for PLN 350 million. SECTION 7.3 DEBT FINANCING

As at the end of H1 2019, technical provisions totaled PLN 46,542 million, which accounted for 13.7% of equity and liabilities (PLN +703 million compared to the end of 2018). The movement in this item resulted in particular from:

- an increase in the provision for unearned premiums in non-life insurance resulting from expanding insurance sales;
- higher claims provisions in non-life insurance due to the notification of several high value claims;
- higher provisions in unit-linked life insurance products due to the high positive result on investment activity.

The balance of other liabilities as at 30 June 2019 was PLN 12,429 million compared to PLN 7,407 million at the end of 2018. The increase pertained in particular to liabilities to PZU shareholders and minority shareholders of subsidiaries on account of dividends, on account of contributions to the Bank Guarantee Fund 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 H1 2019, net cash flows reached PLN -6,101 million, PLN 9,314 million less than in the previous year. This decline was caused, in particular, by net cash flows on investing activity.

Material off-balance sheet line items

The value of contingent liabilities at the end of H1 2019 reached PLN 60,207 million, PLN 2,540 million more than by the end of the previous year, and was attributable mainly to contingent liabilities granted to Alior Bank's and Bank Pekao's clients. The balance of the PZU Group's contingent liabilities consisted in particular of PLN 12,384 million in contingent liabilities by virtue of overdraft limits on current accounts and credit cards, PLN 30,004 million in tranche-based credits and loans and PLN 8,974 million in awarded guarantees and sureties.

Moreover, the balance of contingent liabilities included guarantees for the issue of securities totaling PLN 3,957 million.

5.7 Contribution to the consolidated result made by industry segments

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

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

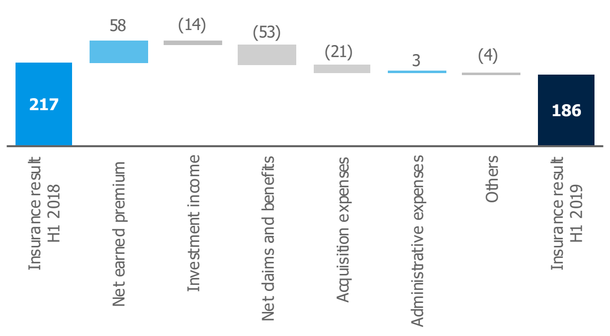
Corporate insurance

In H1 2019, in corporate insurance segment the PZU Group generated an insurance result of PLN 186 million, signifying a 14.3% decline compared to the corresponding period of the previous year.

The following factors had a key impact on this segment's performance in H1 2019:

- a 5.0% increase in net earned premium combined with a 7.2% decrease in gross written premium, both in comparison to H1 2018. The growth rate of the PZU Group's gross written premium was driven by:
  - the lower premiums from insurance against fire and other damage to property (-36.2% y/y) – in the corresponding period of 2018 a high-value long-term contract was entered;
  - growth in the motor insurance gross written premium (+2.7% y/y) offered to leasing companies and in fleet insurance, resulting from still visible higher demand for cars at the end of 2018 as a result of changes in lease taxation as of 2019;
  - development of the insurance portfolio containing various financial risks, in particular the insurance of GAP financial losses;
  - higher sales in the other liability insurance group as a result of signing of several high-value contracts (including long-term ones) and the higher premium from insurance of hospitals and strategic partnerships in TUW PZUW;
- net claims and benefits were up 7.4% compared to the corresponding period of 2018, which, together with a 5.0% increase in net earned premium, means that the loss ratio deteriorated by 1.4 p.p. to 63.6%. Increase of the total loss ratio in this segment was the outcome of the following:
  - higher loss ratios in insurance against fire and other damage to property, which resulted from occurrence of several high-value claims,
  - increase in the average disbursement in motor own damage insurance,
  - decrease in the loss ratio in the motor TPL portfolio (in the corresponding period of 2018 the provision for claims for pain and suffering for pain caused by the vegetative state of a relative injured in an accident was remeasured),
  - lower loss ratio in general TPL insurance and assistance;
- the level of investments allocated to this segment according to transfer prices at PLN 49 million, down 22.2%. This was caused in particular by the 1.1% decrease of the EUR exchange rate vs. PLN, compared to a 4.6% appreciation in the corresponding period last year;
- acquisition expenses (net of reinsurance commissions) reached PLN 254 million, signifying 9.0% y/y growth. This resulted mainly due to higher direct acquisition expenses and change in the structure of sales channels;
- administrative expenses decreased 4.7%, which, given the lower growth rate compared to the earned premium, translated into an improvement in the administrative expense ratio by 0.5 pp. The decline in the expense ratio was due to, among other things, lower costs of service by consistently maintaining cost discipline.

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



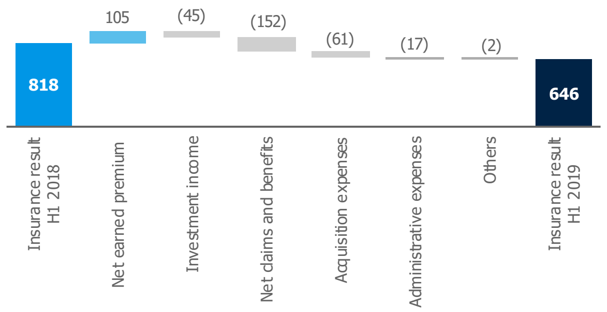
Mass insurance

In H1 2019, in the mass segment the PZU Group generated an insurance result of PLN 646 million, signifying a 21% decline compared to the corresponding period of the previous year. The following factors had impact on this segment's performance in H1 2019:

- a 2.1% increase in net earned premium combined with a 1.4% decrease in gross written premium, both in comparison to H1 2018. The growth rate of the PZU Group's gross written premium was driven by:
  - lower written premium in motor TPL insurance due to a decrease in the number of policies, which resulted from increased price activity among competitors,
  - an increase in gross written premium in motor own damage insurance,
  - slight growth in the premium for insurance against fire and other damage to property, chiefly in household insurance and small and medium-sized enterprise insurance coupled with a lower level of sales of agricultural insurance as a result of the maintained competitive market,
  - higher premium from financial risk and assistance insurance (mainly PZU Pomoc w Drodze);
- higher net insurance claims and benefits in H1 2019 by 4.8% y/y, which coupled with net earned premium being up 2.1%, translated into the loss ratio deteriorating by 1.7 pp compared to H1 2018. This change was driven mainly by:
  - increase in the loss ratio in insurance against fire and other damage to property as a result of above-average number of losses caused by atmospheric phenomena,

  - decrease in the loss ratio in the motor TPL group - in the corresponding period of 2018 the provision for claims for pain and suffering for pain caused by the vegetative state of a relative injured in an accident was remeasured. This was partly counterbalanced by an increase in the loss ratio in MOD;
- income from investments allocated to the mass insurance segment based on transfer prices amounted to PLN 238 million, down 15.9% year on year, which was caused in particular by depreciation of the EUR to PLN exchange rate by 1.1%, compared to appreciation of 4.6% in the corresponding period last year;
- acquisition expenses (net of reinsurance commissions) rose to PLN 966 million and were up by PLN 61 million in comparison with the corresponding period of the previous year (+6.7% y/y), which when coupled with the net earned premium being up by 2.1% signifies growth of acquisition expenses ratio by 0.8 p.p. The factor driving the evolution in the level of acquisition expenses was the higher level of direct acquisition expenses due to the change of the mix of products and sales channels (high share of multiagency and dealer channel, coupled with simultaneous lower growth rate of sales of motor TPL, characterized by lower commission rates);
- administrative expenses in this segment totaled PLN 305 million, up PLN 17 million (+5.9%) versus the year before, driven primarily by the outcome of higher staff costs as a response to the salary pressure on the market and maintaining cost discipline in other, non-staff business areas.

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



Group and individually continued insurance

Insurance result in the group and individually continued insurance after H1 2019 amounted to PLN 703 million, compared to PLN 704 million in the previous year. The result was positively affected mainly by the increasing portfolio of profitable health contracts and lower level of death-related and childbirth benefits paid. Increasing operating expenses, in turn, were one of the key negative factors.

Individual constituent elements of the insurance result were as follows:

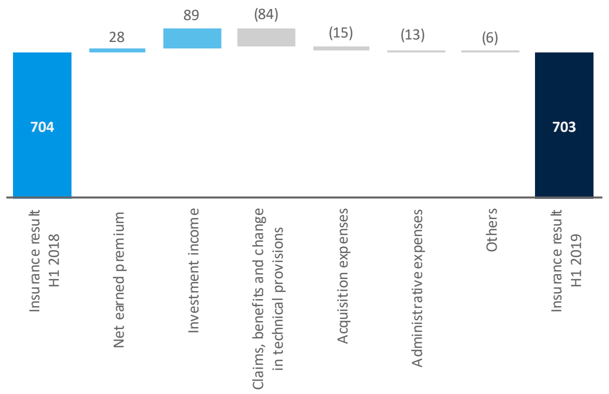
- gross written premium was higher than in the corresponding period of the previous year by PLN 27 million (0.8%), which was mainly the result of the following:
  - attracting further contracts in group health insurance products or individually continued products (new clients in outpatient insurance and sales of different options of the medicine product). At the end of June 2019, PZU Życie had more than 2 million contracts of this type in force. A new rider to continued insurance under the name "PZU Uraz ortopedyczny [PZU orthopedic injury]" has enjoyed particular success in recent months. In case of an accidental orthopedic injury, e.g. fracture, dislocation or sprain, the insured will be provided assistance of a physiotherapist and an orthopedist. The insured will also be able to use rehabilitation procedures in private medical centers across Poland. The insurance garnered excellent response from the clients – three out of four clients enrolling in individual continuation selected this rider as well,
  - active up-selling of riders in other individually continued insurance products, including in particular together with the offering of the basic agreement in PZU branches and increase of sums insured during the terms of the agreements. In addition to the aforementioned rider, in Q4 2018 PZU Życie introduced another product – Myocardial Infarction or Stroke Rider – providing for financial support in the event of occurrence of such events.

  At the same time, revenues from group protection products remained under pressure posed by higher attrition of the insureds in groups (work establishments), and the limited pressure on the growth rate of the average premium made it possible to control the loss ratio in group protection products;
- 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 rose PLN 89 million year on year mainly due to improvement in the income on unit-linked products (especially employee pension schemes (EPS)) as a result of better conditions on the equity market – the WIG index climbed 4.3% compared to the 12.2% decline in the corresponding period of last year. Income allocated according to transfer prices is subject to limited fluctuation and its level depends largely on the level of technical provisions in protection insurance products;
- insurance claims and benefits and the net movement in other net technical provisions totaled PLN 2,594 million (up 3.3% y/y). This change was driven in particular by:
  - an increase in technical provisions in Employee Pension Schemes (EPS, a third pillar retirement security product) compared to a decrease in the previous year, where this was caused by higher investment results this year, coupled with a stable level of client contributions to and withdrawals from unit-linked insurance accounts;
  - the rising level of medical benefits under health products pro rata to the dynamic growth of this contract portfolio.

  The foregoing effects were partially offset by the following:
  - lower death-related and childbirth benefits, which is correlated to the frequency of these events in the overall population according to the data published by the Central Statistical Office (GUS),
  - the disbursements of benefits in the portfolio of bank protection products is limited this year, due to the shrinking of the portfolio containing high individual benefits,
  - the lower pace of converting long-term insurance policies into yearly-renewable term business in type P group insurance than last year. As a result of the conversion, in 2019, provisions were released for PLN 9 million, PLN 1 million less than in the corresponding period of 2018;
- acquisition expenses in the group and individually continued insurance segment in the 6 months of 2019 were PLN 187 million, increasing by PLN 15 million (8.7%) compared to last year. The factor driving the movement in this line item was the increasing remuneration for insurance intermediaries, especially for selling health and protection products, modification made to the remuneration system in the agent network, and increasing sales levels;
- in H1 2019 administrative expenses totaled PLN 310 million. The PLN 13 million increase (by 4.4%) was caused by organizational changes in sales divisions and higher personnel costs incurred as a result of salary pressures on the market.

After excluding the one-off effect related to conversion of long-term contracts into renewable contracts in type P group insurance, the segment's insurance result in 1 2019 amounted to PLN 694 million and remained stable compared to last year.

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



Individual insurance

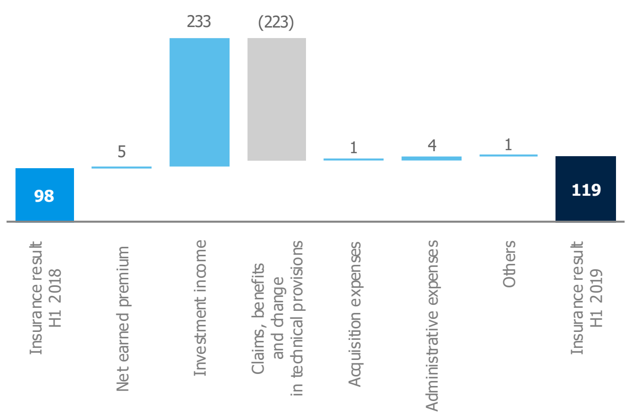
In H1 2019, the insurance result in the individual life insurance segment was PLN 119 million, PLN 21 million, or 21.4%, more than last year. This was mainly attributable to the increasing portfolio of high-margin protection insurance, including bancassurance, lower acquisition expenses for unit-linked products and lower administrative expenses in the entire segment. The improvement of the segment's margin was also driven by a change in the revenue mix towards a higher share of protection products characterized by much higher margins than investment products.

The main factors affecting the segment's insurance result are described below:

- the growth in gross written premium of PLN 5 million (0.7%) to PLN 694 million compared to 2018 was the result of the following positive factors:
  - 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;

  At the same time negative factors were at play – lower contributions to unit-linked accounts in single-payment unit-linked products offered jointly with banks, which is in line with the trends prevailing across the life insurance market.
- the investment result consists of income allocated using transfer prices and income on investment products. In the individual insurance segment, it climbed y/y by PLN 233 million mainly due to the improvement in the investment result on investment products as a result of better conditions on the equity market – the WIG index expanded by 4.3% compared to the 12.2% decline in the corresponding period of last year. At the same time, the segment's income from the management fee charged on assets accumulated in unit-linked products fell PLN 3 million year on year due to the lower level of these assets as a result of net payouts and negative investment results last year. Income allocated according to transfer prices is subject to slight fluctuation and its level depends largely on the level of technical provisions in protection insurance products;
- net insurance claims and benefits together with the movement in other net technical provisions were PLN 794 million, reflecting an increase in this item by PLN 223 million compared to the corresponding period of 2018. The change in the investment result generated on funds in investment products made the major contribution to the increase, while to a lesser extent this was caused by lower client contributions to fund accounts in the bank channel. From the operational point of view, these factors are not significant – they are balanced by other relevant items of the profit and loss account;
- in H1 2019, acquisition expenses in the individual insurance segment dropped by 1.5% to PLN 64 million. Lower commissions on the sale of unit-linked products in the bancassurance channel, resulting from lower sales than one year ago, were partly offset by the increasing remuneration paid to intermediaries for selling protection products, chiefly in the bank channel, while additionally there were additional costs of sales support in the proprietary network;
- in H1 2019 administrative expenses totaled PLN 33 million. The year-on-year decline by PLN 4 million (-10.8%) was affected mainly by the higher involvement of the sales network in the service of group and individually continued products.

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



Investments

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

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

Operating income of the investment segment (based exclusively on external transactions) was higher than in the corresponding period of last year, primarily due to the better conditions on the Warsaw Stock Exchange.

Banking segment / Banking activity

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

In H1 2019, in the banking activity segment, the PZU Group recorded PLN 1,451 million in operating profit (without amortization of intangible assets acquired as part of the bank acquisition transactions), representing a decrease by PLN 317 million compared to the corresponding period of 2018.

In H1 2019, Bank Pekao's contribution to the operating profit (without amortization of intangible assets acquired as part of the Pekao acquisition transaction) in the "Banking activity" segment was PLN 1,212 million (down by PLN 64 million y/y), while Alior Bank's contribution was PLN 239 million (down by PLN 253 million y/y).

The H1 2019 result was under the strong pressure of non-recurring events. In both banks the result was under the significant influence of the Bank Guarantee Fund contribution for the mandatory resolution funds in the total amount of PLN 480 million. The charge for the mandatory resolution funds apply to the whole 2019, but it was charged in entirety to Q1 results. In total, Bank Guarantee Fund contributions and charges, including the mandatory resolution funds contribution and the deposit guarantee contribution, were PLN 270 million higher y/y. The impairment loss associated with the exposure of one of Alior Bank's clients was another major event. The total loss in the amount of PLN 161 million reduced the H1 2019 result.

The key element of the segment's income is investment income, which in 2019 increased to PLN 4,436 million y/y (up 2.3% y/y).

Investment income consists of: interest income, dividend revenue, trading result and result on impairment charges.

In 2019 both Bank Pekao and Alior Bank recorded high sales of credit products, among others thanks to the favorable economic climate and the low level of interest rates.

The increase in their net interest income (interest income less interest expenses) was attributable mainly to the expansion in the volume of loans and deposits and higher interest margin. As at the end of H1 2019, the size of the client loan portfolio in total in both banks grew 4.2% compared to the end of 2018, and deposits from non-financial clients rose 1.6%.

Profitability of the banks in the PZU Group measured by the net interest margin amounted to 2.9% in Pekao and 4.7% 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 1,531 million. This result was generated as the difference between commission income of PLN 1,922 million and commission expenses of PLN 391 million. The result, just like in the case of the net interest income, was influenced by an increase in loan sales, higher commissions on loans, cards and FX transactions with clients.

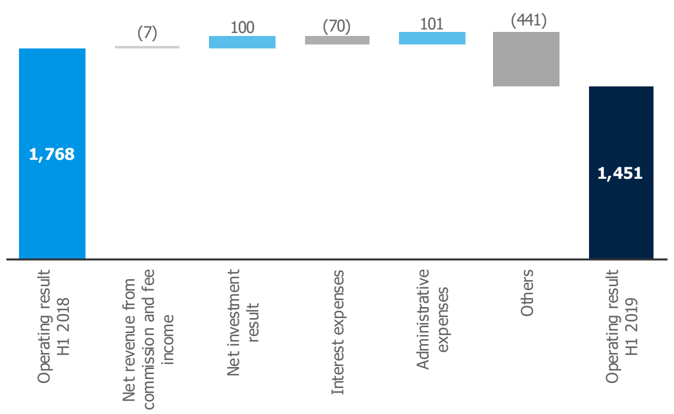
Administrative expenses of the segment amounted to PLN 2,439 million (down by PLN 101 million y/y). This amount comprised Pekao's expenses in the amount of PLN 1,671 million and Alior Bank's expenses of PLN 768 million. The decrease in costs resulted from maintaining cost discipline.

In addition, other contributors to the operating result included other operating income and expenses, where the main components are the BFG fees (PLN 547 million in H1 2019) and levy on other financial institutions (PLN 407 million).

BFG fees increased by PLN 270 million y/y due to a higher contributions to the resolution funds.

As a result, the Cost/Income ratio stood at 41% in both banks. On a separate basis, this ratio was 44% for Pekao and 37% for Alior Bank.

Result on the activity of the banking segment in H1 2019 (in PLN m)

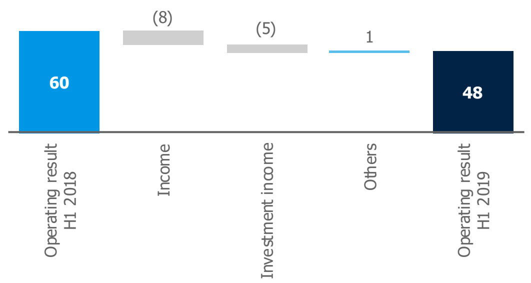


Pension insurance

In H1 2019, the operating profit in the pension insurance segment amounted to PLN 48 million, i.e. it decreased by 20% compared with H1 2018. The major drivers of the operating result included the following:

- revenue from commissions and fees, which amounted to PLN 69 million, i.e. decreased by 10.4% compared with the previous year. This change resulted mainly from:
  - revenues down by more than PLN 9 million on reimbursements from the OFE Guarantee Fund;
  - management fee up by more than PLN 1 million as a result of the higher average net asset value under management of the pension funds;
- acquisition and service expenses stood at slightly more than PLN 2 million, having increased by 39% from the previous year. This resulted mainly from the increase in the sales network and commission costs incurred for distribution of IRSA;
- administrative expenses amounted to PLN 22 million, i.e. they were PLN 5 million, or 27%, up from the previous year. This change resulted mainly from:
  - higher costs due to the payment of contributions to the OFE Guarantee Fund by PLN 2 million,
  - personnel costs higher by PLN 1 million, including the costs of Management Board and Supervisory Board, mainly due to changes in the employment structure and in the composition of the management and supervisory bodies,
  - higher amortization costs of the right to manage the funds in the amount of nearly PLN 1 million.

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



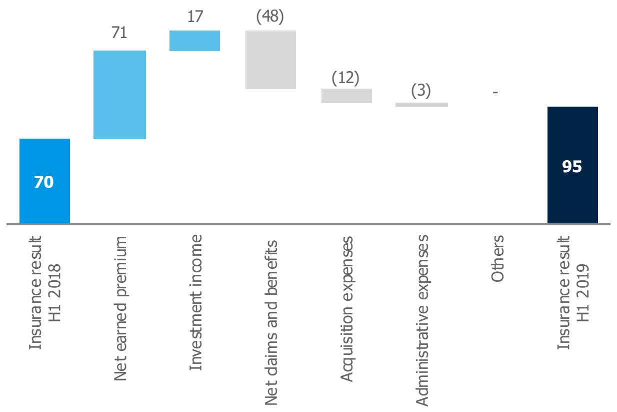
Baltic States

In H1 2019, the PZU Group's business in the Baltic States generated a record-breaking insurance result of PLN 95 million, 35.7% more than in the corresponding period of the previous year. The improvement of the result was attributable to increasing the scale of business, lower loss ratio, positive effects of the operating leverage and improved investment results.

This result was shaped by the following factors:

- increase in gross written premium. It amounted to PLN 856 million compared to PLN 787 million in H1 the year before. The premium in non-life insurance increased by PLN 65 million y/y (8.6%). This growth was possible among others thanks to increasing the sales of property insurance, mainly in Latvia, and increase in gross written premium in health insurance in both Latvia and Lithuania, coupled with maintaining the rates in motor insurance in the region. Premiums in life insurance increased by PLN 4 million (or 12.9%);
- higher investment income. After the first 6 months of 2019, the result was PLN 22 million, up PLN 17 million versus H1 of the previous year;
- increase in net claims and benefits. They amounted to PLN 482 million and were higher by PLN 48 million compared to the corresponding period of the previous year. The loss ratio in non-life insurance stood at 60.1%, down 0.9 p.p. from the loss ratio in H1 2018. In life insurance the value of benefits stood at PLN 34 million and was PLN 14 million higher than the year before;
- higher acquisition expenses. The segment's expenditures for this purpose were at PLN 165 million. The acquisition expense ratio calculated on the basis of net earned premium improved by 0.4 p.p. and stood at 21.1%;
- higher administrative expenses. They amounted to PLN 63 million rising by 5.0% from H1 last year. The administrative expense ratio dropped to 8.1%, or 0.4 p.p. Cutting the administrative expense ratio was possible due to maintaining cost discipline coupled with the growth in the magnitude of business.

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



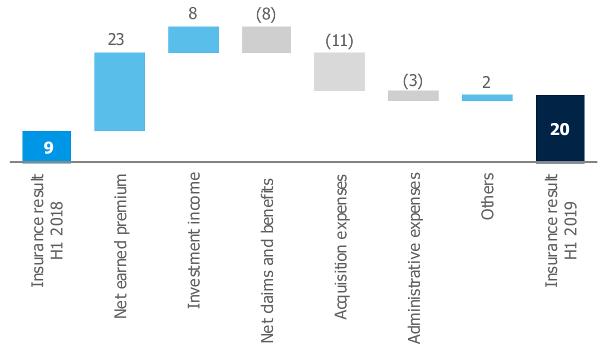
Ukraine

The Ukraine Segment closed H1 2019 with the insurance result of PLN 20 million, compared to PLN 9 million in H1 of the previous year.

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

- increase in gross written premium. It amounted to PLN 149 million and increased compared to the corresponding period of the previous year by PLN 35 million (or 30.7%). The increase in non-life insurance premiums (31.5% y/y) occurred primarily in accident insurance as a result of increasing sales of mandatory insurance for tourist visas and higher sales of the green card insurance. Premiums in life insurance increased by PLN 5 million (or 19.2%);
- higher investment result. In this area the segment generated PLN 14 million, i.e. PLN 8 million more than in H1 2018;
- increase in net claims and benefits. These reached PLN 33 million and were 32.0% higher than in the corresponding period of the previous year. In life insurance the value of benefits paid increased in relation to H1 of the previous year by PLN 4 million (or 50.0%). The loss ratio calculated on the basis of the net earned premium in non-life insurance was 33.9%, down 7.0 p.p. compared to the ration as at the end of June 2018;
- increase in acquisition expenses. They stood at PLN 51 million compared to PLN 40 million after the first 6 months of the previous year. The segment's acquisition expense ratio went down compared to H1 of the previous year by 2.5 p.p. to 55.4%;
- higher administrative expenses. They amounted to PLN 14 million, up PLN 3 million compared to the previous year. The administrative expense ratio calculated on the basis of the net earned premium decreased by 0.7 p.p. and stood at 15.2%.

Insurance result in the Ukraine segment (in PLN m)



Investment contracts

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

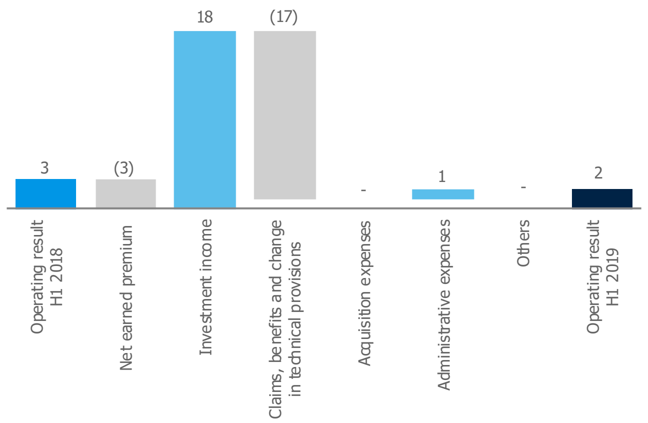
The results of the investment contracts segment are presented according to Polish Accounting Standards, which means that they include, among other things, gross written premium, claims paid and movement in technical provisions. The above categories are eliminated at the consolidated level.

In H1 2019, the PZU Group earned PLN 2 million of operating profit compared to PLN 3 million in the previous year 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 2019 was driven by the following factors:

- gross written premium generated on investment contracts in H1 2019 decreased by PLN 3 million (-15.0%) compared to H1 2018 to PLN 17 million. These changes resulted primarily from the decrease in the level of payments made to IRSA accounts, after the product was withdrawn from the offering;
- result on investing activity in the investment contracts segment improved by PLN 18 million vis-à-vis the previous year, mainly as a result of a better rate of return on individual pension security accounts (IKZEs) and unit-linked funds in the bancassurance channel;
- the cost of insurance claims and benefits together with the movement in other net technical provisions increased PLN 17 million y/y to PLN 24 million, mostly due to the difference in investment income in unit-linked products described above;
- in the investment contract segment, no active acquisition of contracts was underway in the reporting period;
- administrative expenses were PLN 2 million, down by PLN 1 million from the previous year as a consequence of the decreasing portfolio of contracts in this segment.

Summing up, the decrease in the segment's operating result was driven mainly by the lower size of business in this segment.

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



Profitability ratios

The return on equity attributable to the parent company (PZU) for the period from 1 January 2019 to 30 June 2019 was 20.3%. ROE was 0.4 p.p. lower than in the previous year. The profitability ratios achieved in 2019 by the PZU Group exceed the levels achieved by the whole market.

Operational efficiency ratios

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

The PZU Group's combined ratio (for non-life insurance) has been maintained in recent years at a level ensuring a high profitability of business. In H1 2019, this ratio remained at a low level of 89.2%.

Operational efficiency ratios		1 January - 30 June 2019	1 January - 30 June 2018	1 January - 30 June 2017
1.	**Gross claims and benefits ratio** (simple) (gross claims and benefits/gross written premium) x 100%	68.6%	63.2%	63.6%
2.	**Net claims and benefits ratio** (net claims and benefits/net earned premium) x 100	70.0%	66.4%	69.7%
3.	**Operating expense ratio in the insurance segments** (insurance activity expenses/net earned premium) x 100%	21.8%	21.0%	21.1%
4.	**Acquisition expense ratio in the insurance segments** (acquisition expenses/net earned premium) x 100%	14.9%	14.2%	14.0%
5.	**Administrative expense ratio in the insurance segments** (administrative expenses/ net earned premium) x 100%	6.9%	6.8%	7.1%
6.	**Combined ratio in non-life insurance** (net claims and benefits + insurance activity expenses) / net earned premium x 100%	89.2%	87.2%	87.2%
7.	**Operating profit margin in life insurance** (operating profit/gross written premium) x 100%	19.6%	19.2%	18.3%
8.	**Cost/Income ratio -** banking operations	41.4%	44.2%	52.5%

Basic performance ratios of the PZU Group	1 January - 30 June 2019	1 January - 30 June 2018	1 January - 30 June 2017
Return on equity (ROE) – attributable to the parent company (annualized net profit/ average equity) x 100%	20.3%	20.7%	22.0%
Return on equity (ROE) – consolidated (annualized net profit/average equity) x 100%	11.9%	13.0%	13.1%
Return on assets (ROA) (annualized net profit/average assets) x 100%	1.3%	1.4%	1.6%

6.

Risk management

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

In this section:

6.1 Objective of risk management

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

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

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

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

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

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

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

6.2 Risk management system

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

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

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

The first three entail the following:

- The Supervisory Board, which supervises the risk management process and assesses its adequacy and effectiveness as part of its decision-making powers defined in a given entity's Articles of Association and the Supervisory Board bylaws, as well as through the Audit Committee;
- The Management Board, which organizes the risk management system and ensures that it is operational, by adopting strategies and policies, setting the level of risk appetite, defining the risk profile as well as tolerance levels for the individual categories of risk;

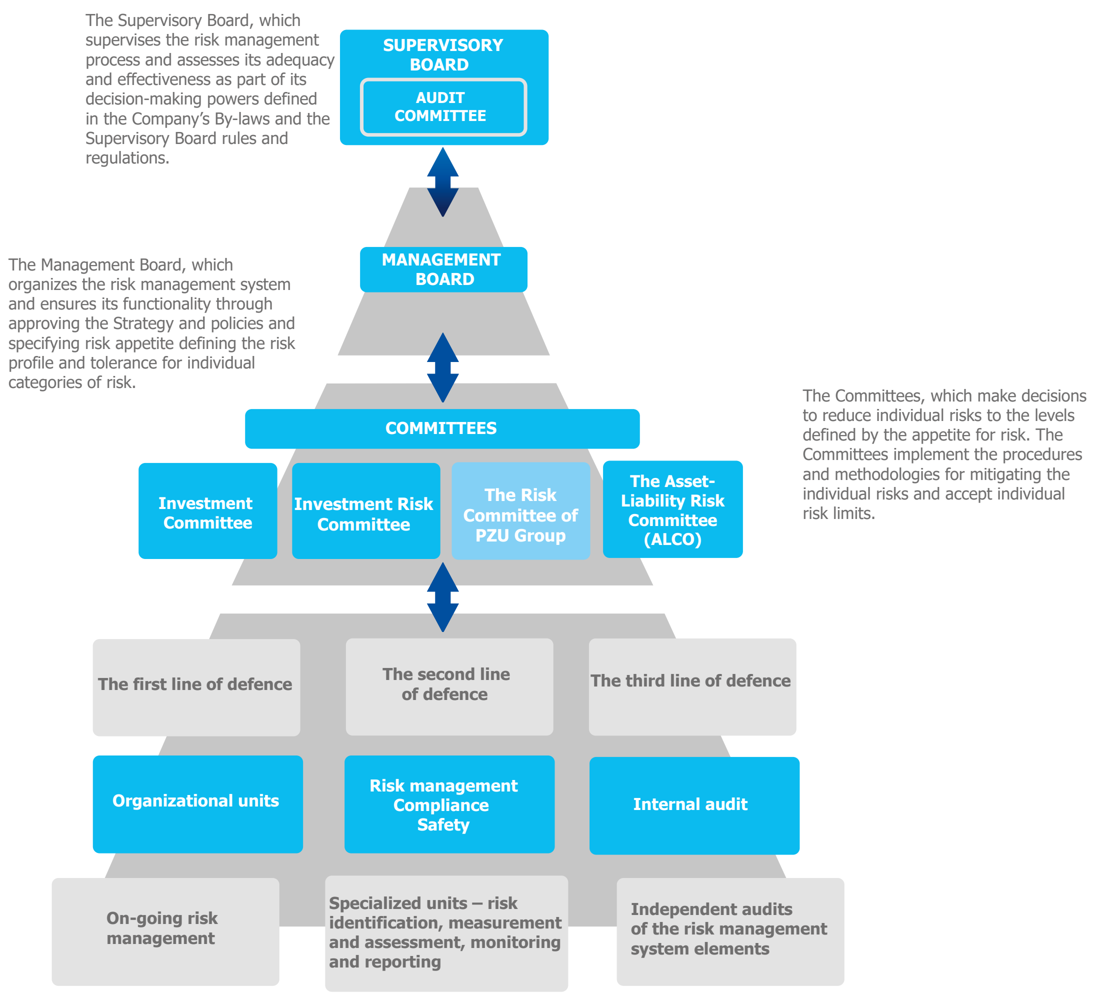
The role of the PZU Group Risk Committee is to provide support to subsidiaries' supervisory boards and management boards in implementing an effective risk management system that is coherent for the entire PZU Group. The operational objective of the PZU Group Risk Committee is to coordinate and supervise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

- 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 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



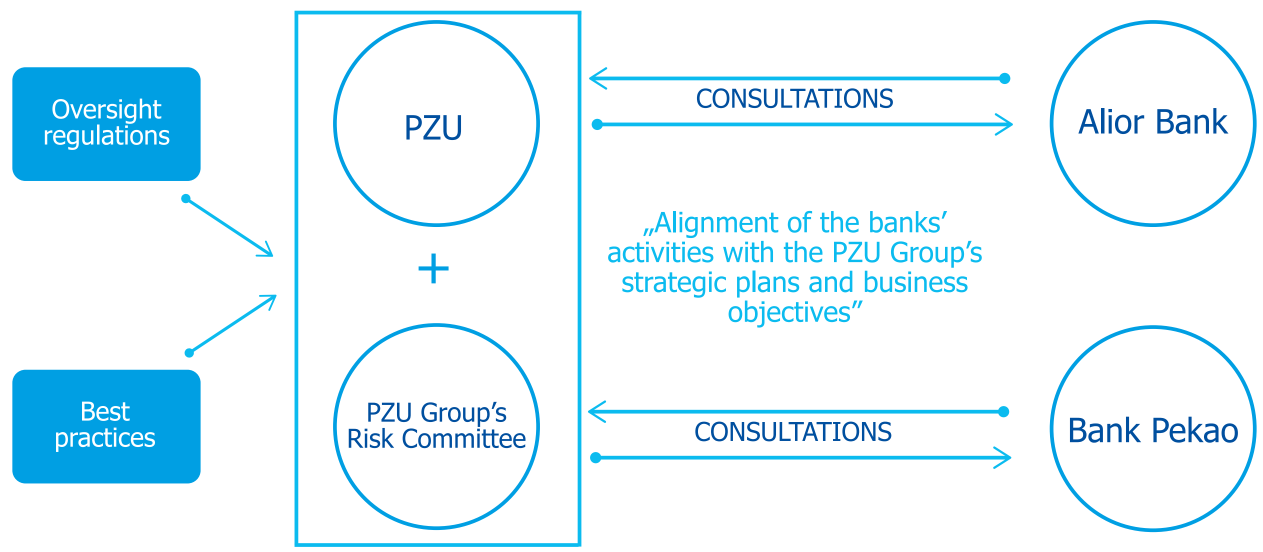
6.3 Risk appetite

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

Process of determining the risk appetite in the PZU Group



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 regulatory requirements (including those arising from remedial plans) and best practices. This process is tailored to both banks to reflect the business strategy and capital structure of each entity. Risk appetite in banking 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 PZU Group level. Once agreed, the level of risk appetite is then approved by the Supervisory Boards of the banking sector entities.

6.4 Risk management process

Two levels are distinguished in the risk management process:

I - GROUP LEVEL – monitoring the limits and risks specific to the Group

Risk management at this level is supposed to ensure that the PZU Group attains its business objectives in a safe manner appropriate to fit the scale of the risk incurred. 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 risks specific to the entity

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

The risk management process consists of the following stages:

Identification

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

Risk measurement and assessment

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

6.5 PZU Group's risk profile

Major risks in the PZU Group

The major risks to which the PZU Group is exposed include the following: actuarial risk, market risk, credit risk, concentration risk, liquidity risk, operational risk, model risk and compliance risk. The major risks associated with the operation of Alior Bank and Bank Pekao include the following risks: credit risk (including the risk of loan portfolio concentration), operational risk and market risk (involving interest rate risk, FX risk, commodity price risk and financial instrument price risk). The overall risk of the banking sector entities accounts for approximately 32% of the PZU Group's total risk (Q1 2019), 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 launch an insurance product development process and continues until the expiry of the related liabilities. The identification of actuarial risk is performed, among others, as follows:

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

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

The measurement of actuarial risk is performed in particular using:

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

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

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

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

- defining the level of tolerance for actuarial risk and monitoring it;
- business decisions and sales plans;
- calculation and monitoring of 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:

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

Market risk

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

The 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;
- cumulated monthly loss.

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

When measuring market risk, the following stages, in particular, are distinguished:

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

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

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

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

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

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

Credit 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.

Risk assesment 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 determined by the management boards of the individual subsidiaries and in such a manner that they make it possible to minimize the risk of 'infection' between concentrated exposures.

In banking activity the provision of credit products is accomplished in accordance with loan granting methodologies appropriate for a given client segment and type of product. The assessment of a client's creditworthiness preceding a credit decision is performed using a system devised to support the credit process, including scoring or rating systems, external information and the internal databases of each bank in the PZU Group. The granting of credit products is performed in accordance with the binding operating procedures whose purpose is to indicate the proper activities to be carried out in the credit process, the units responsible for those activities and the tools to be applied.

To minimize credit risk, collaterals 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 collateral does not waive the requirement to examine the client's creditworthiness.

Liquidity risk

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

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

Risk assessment and measurement are carried out by estimating the shortage of cash to pay for liabilities. The risk estimate and measurement is carried out from the following perspectives:
- liquidity gaps (static, long-term financial liquidity risk) – by monitoring a mismatch of net cash flows resulting from insurance contracts executed until the balance sheet date and inflows from assets to cover insurance liabilities in each period, based on a projection of cash flows;
- stress tests (medium-term financial liquidity risk) – 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 risk) – 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;
- limits of liquidity ratios in the banks of 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 advanced individual models to measure operational risk and to estimate capital requirements on account of this risk.

Monitoring and control of operational risk is performed mainly through an established system of operational risk indicators 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.

Risk of models

Taking into account the growing importance of the scope of use of models and the fact that model risk was classified as material risk for the PZU Group, the formal process of identifying and evaluating this risk began 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 has been defined as the risk of incurring financial losses, incorrectly estimating data reported to the regulatory authority, taking incorrect decision or losing reputation as a result of errors in the development, implementation or application of models.

In the entities from the banking sector, given the high materiality of model risk, the management of this risk has already been implemented in the past 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 cells and units related to ongoing management of compliance risk, include in particular:

- identification and evaluation of compliance risk in the supervised area;
- measurement of compliance risk in the supervised area;
- 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 actions to mitigate compliance risk;
- ongoing monitoring of compliance risk in the supervised area;

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

In H1 2019 the PZU Group entities had compliance systems adapted to the standards designated by PZU.

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

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 PZU 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 various 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 the legal system;
- 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 the risk, including by: adjustment of procedures and processes to changing regulatory requirements, evaluation and design of internal regulations to suit compliance needs, participation in the process of agreeing on marketing activities;
- avoidance of the risk by preventing any involvement of PZU Group entities in activities that are out of compliance with the applicable regulatory requirements or good market practices or activities that may have an unfavorable impact on the PZU Group's image.

As part of efforts aimed at reducing compliance risk in the PZU Group at system level and day-to-day level, the following risk mitigation actions are undertaken:
- continuous implementation of an effective compliance function as a key 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;
- participation in 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.
- running analyses and conducting ongoing monitoring of the application of the rules for the functioning of the Chinese walls – in connection with the additional investor commitments made by PZU in connection with the proceedings under the notification on the intent to purchase Bank Pekao's shares;
- ongoing monitoring of changes in the legal and regulatory environment in order to identify gaps or areas requiring action to ensure compliance.

In 2018 and in H1 2019 – after the key legal changes have come into effect and in connection with the recognition of the PZU Group as a financial conglomerate by KNF and a decision under which the PZU Group will be subject to supplementary oversight exercised in accordance with the provisions of the Supplementary Oversight Act – the compliance area was involved in the work to adapt the Company to the new regulations or new requirements, including primarily the requirements arising out of the following legal acts:
- 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;
- Directive of 15 May 2014 on markets in financial instruments (MIFID 2) (this regulation is material for some PZU Group entities, in particular for mutual funds (TFI)),
- Act of 15 December 2017 on Distribution of Insurance;
- Act of 1 March 2018 on combating money laundering and financing of terrorism;
- Act of 15 April 2005 on supplementary oversight over credit institutions and insurance undertaking, reinsurance undertakings and investment firms comprising a financial conglomerate.

Risk concentration

When managing each type of risk, the PZU Group identifies, measures and monitors risk concentration; for the banking sector, these processes occur on the entity level, according to requirements in the sector. To meet the regulatory obligations imposed on capital groups identified as financial conglomerates, intensive adjustment is pending to implement the management model for significant risk concentrations in a financial conglomerate.

At present the PZU Group 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 on large corporate risks, where in both cases the applicable reinsurance program facilitates reduction of the possible net losses;
- with respect to credit and market risks, concentration of risk is identified at the level of groups, sectors of the economy and countries;
- no risk concentration was identified within operational risk and other significant risks.

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

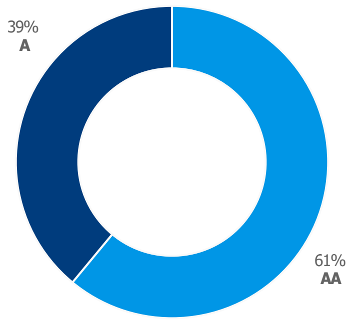
6.6 Reinsurance operations

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

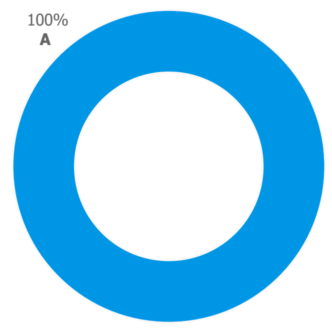
Reinsurance treaties in PZU

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



Reinsurance premium under obligatory treaties in PZU Życie according to the S&P 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 generates gross written premium on inward reinsurance under its operations on the domestic and international market, through facultative and obligatory reinsurance.

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

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

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

6.7 Capital management

On 3 October 2016, the PZU Supervisory Board adopted a resolution (Current Report 61/2016 of 4 October 2016) to approve the PZU Group's Capital and Dividend Policy for 2016-2020 ("Policy"). No changes were made to the Policy in the first half of 2019.

The introduction of the 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 Q1 2019, the estimated solvency ratio (calculated according to the standard Solvency II equation) was 225% and remained above the average solvency ratio for European insurance groups.

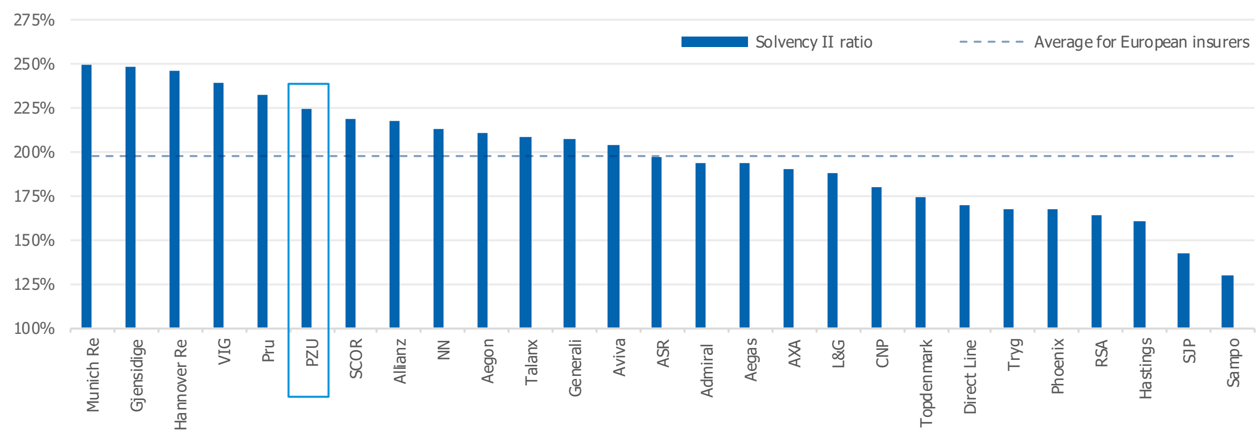
In Bank Pekao and Alior Bank, the capital adequacy ratio and the Tier 1 ratio were computed on the basis of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (CRR Regulation) and also the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

Capital adequacy ratio	Q1 2019	2018
SCR		
PZU Group*	225%	222%
PZU*	244%	240%
PZU Życie*	458%	449%
MCR		
PZU Group*	364%	352%
PZU*	907%	890%
PZU Życie*	1,017%	997%

*unaudited data

	Q2 2019	2018
CRR		
Pekao Group – total capital adequacy ratio	17.3%	17.4%
Tier 1	15.8%	15.8%
Alior Bank Group – total capital adequacy ratio	15.8%	15.8%
Tier 1	12.9%	12.8%

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



Source: Reports of the companies. Q1 2019 data for Ageas, Allianz, AXA, CNP, Generali, Gjensidige, PZU, Munich Re, NN, RSA, Sampo, Scor, Topdanmark and Tryg; 2018 data for all other companies.

7.

PZU on the capital and debt markets

PZU was one of the 4 most liquid companies on WSE's main market in H1 2019 representing 8.7% of trading volume. High liquidity also translates into a low spread between the buy and sell price of 5 basis points compared with a mean of 13 basis points for the twenty most heavily traded companies.

PZU's market value at the end of June 2019 was PLN 37.7 billion (up 12.0% y/y).

In this chapter:

PZU on the capital and debt markets

7.1 PZU's share price

PZU made its debut on the Warsaw Stock Exchange (WSE) on 12 May 2010. Since its floatation it has been included in WSE's most important index, namely WIG20 (calculated on the basis of the portfolio value of the 20 largest and most heavily traded companies on WSE's Main Market)[1]. PZU also belongs to the following indices: WIG, WIG30, WIG-Poland, WIGdiv, WIG20TR, MSCI Poland (emerging markets), Stoxx Europe 600 (developed markets), FTSE Russel mid cap index (developed markets) as well as the sustainable development RESPECT Index (since 2012).

The last quarter of 2018 proved to be highly volatile and was accompanied by the deterioration of sentiments on the markets. On 19 December 2018, the FED (the central bank of the USA) raised interest rates for the fourth time in 2018 and hinted at two further increases in 2019. The markets responded by rapid depreciation. Therefore, from the very beginning of 2019, investors anticipated any signs and directions for the continuation or change of this approach. The trade war between the US and China and the policy of the European Central Bank remained in the background, but not less important.

In the second part of March 2019, FED made a decision to suspend the program of reducing the value of bonds held starting in September 2019 (by reducing the purchases starting in May from 30 to 15 billion USD per month). At the same time, the plans of further interest rate increases were abandoned.

The good sentiments among investors on global markets persistent until the beginning of May 2019 when President Donald Trump announced that there was no progress in negotiations with China and that punitive duties were imposed. This led to a wave of sell-offs on stock markets. The situation changed during the FED meeting in June, which the markets interpreted as a realistic possibility of returning to interest rate cuts. At the end of the first half of 2019, a similar position was presented also by the European Central Bank, which withdrew from the normalization of its monetary policy and upheld its intention to keep the interest rates at least until mid-2020. The promise of greater liquidity increased appetite for risk and led to the continuation of growth.

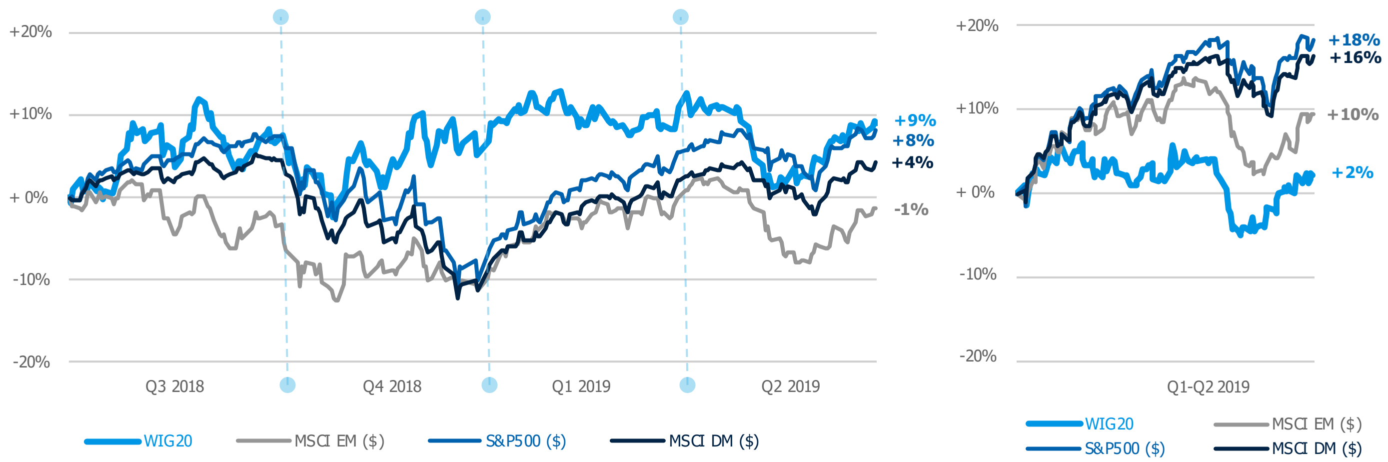
In H1 2019 a bullish drive on global markets bypassed Poland where WIG20 rose by just 2.2% compared to emerging markets (MSCI EM up by 9.6%) or developed markets (MSCI DM up by 16.4%) in the first 6 months of the year. However in the longer perspective (12 months) WIG20 posted a 9.0% growth, which was much higher than the other markets (MSCI EM up by 1.4%, MSCI DM up by 4.4%). In this context, PZU (in the period of 12 months) appreciated by as much as 12.0% (w/o dividends).

The lower rate of growth of the Polish market in H1 2019 (compared to the MSCI EM index) could have been affected by changes in the MSCI Em index itself, which is a proxy index for international investors (which are responsible for nearly 60% of trading on the main market of the Warsaw Stock Exchange). At the end of 28 May 2019, Saudi Arabia was added to the MSCI EM index, while Argentina was reclassified from Frontier Markets to Emerging Markets. Also, MSCI increased the inclusion ratio of China A shares from 5 to 10%, doubling their weight in the index to slightly less than 2%. Another stage of changes was also announced for August 2019. As a result, Poland's share in the MSCI EM index (after the second round of changes from the current ~1.06% to even ~1,00%, which according to analysts may result in the overall supply of shares at the level of PLN 1 to 4 billion.

PZU's shares traded in a price range of PLN 39.2 – PLN 45.4 in H1 2019 (according to closing prices). The standard deviation for PZU's shares in H1 2019 was 12.5%, i.e. 6.6 pp more than in the corresponding period of 2018. Compared to the broad WIG market, PZU's systematic risk expressed by the beta coefficient (PZU's share price versus the WIG index for daily changes) was 0.86 or 0.42 higher in H1 2019 than recorded in H1 2018.

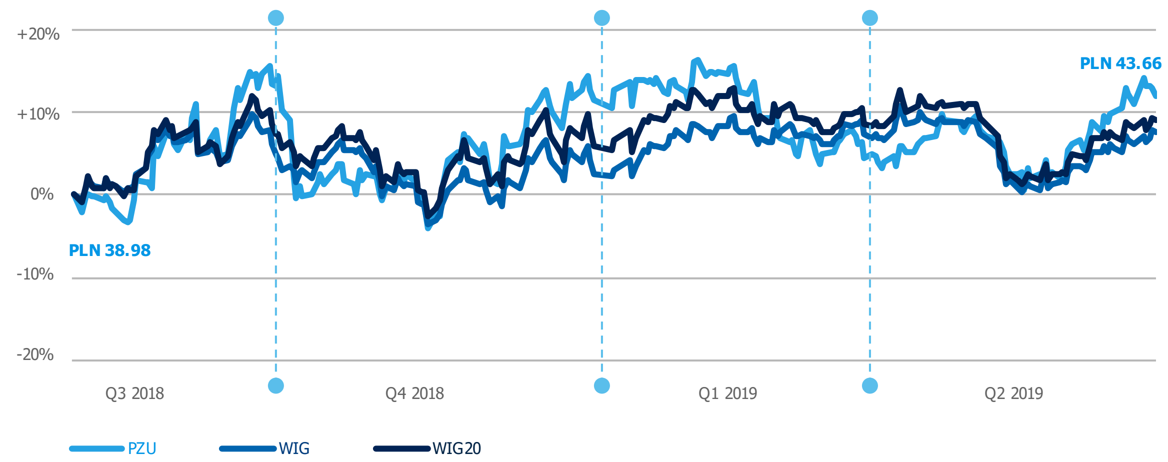
[1] WIG20 is a price index, i.e. it is calculated only by using the prices of the transactions related to it, without incorporating dividend income.

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



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

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



Source: www.infostrefa.com

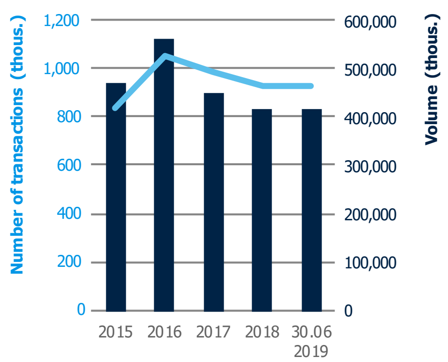
PZU's stock*	06.2019	2018	2017	2016	2015
P/BV Share price / book value per share	2.6x	2.5x	2.6x	2.2x	2.3x
BVPS (PLN) Book value per share	16.6	17.3	16.3	15.0	15.0
P/E Price/earnings per share	11.5x	11.8x	12.6x	14.8x	12.5x
EPS (PLN) Earnings per share / number of shares	3.8	3.7	3.4	2.2	2.7

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

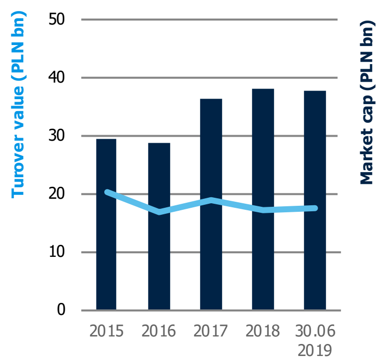
Trading liquidity

PZU's shares were highly liquid in H1 2019. PZU accounted for 8.7% of WSE's overall trading volume (ranking 4th), while its average buy/sell spread for shares was a mere 5 basis points (the mean for the twenty most heavily traded companies was 13 basis points). PZU's market value at the end of June 2019 was PLN 37.7 billion (up 12.0% y/y).

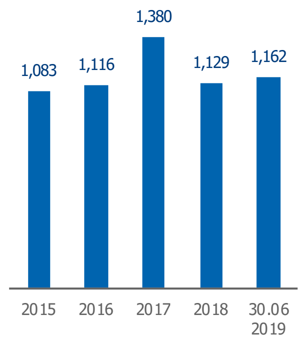
PZU's trading volume* / number of PZU transactions*



Capitalization of PZU / PZU's trading value*



Capitalization of WSE



* moving average (12 months)

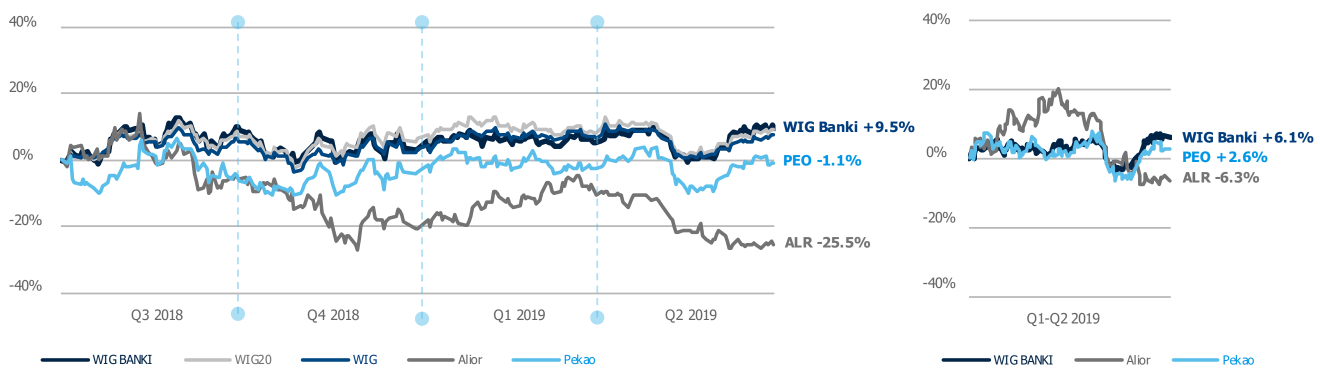
Source: www.infostrefa.com, www.gpw.pl

Stock-related statistics	H1 2018	H1 2019	H1 2019 / H1 2018	Q1 2019	Q2 2019	Q2 2019 / Q1 2019
Maximum price [PLN]	47.34	45.39	(4.1)%	45.39	44.47	(2.0)%
Minimum price [PLN]	36.31	39.18	7.9%	40.23	39.18	(2.6)%
Closing price on the last trading session [PLN]	38.98	43.66	12.0%	40.50	43.66	7.8%
Average trading session price [PLN]	41.95	42.28	0.8%	42.90	41.64	(2.9)%
PLN volume liquidity [000s of PLN]	8,267,241	8,456,098	2.3%	4,809,322	3,646,776	(24.2)%
Average PLN volume liquidity per session [000s of PLN]	67,213	68,749	2.3%	76,338	60,780	(20.4)%
Number of transactions [units]	467,930	464,444	(0.7)%	255,401	209,043	(18.2)%
Average number of trades per session	3,804	3,776	(0.7)%	4,054	3,484	(14.1)%
Trading volume	197,917,506	199,887,098	1.0%	112,326,516	87,560,582	(22.0)%
Average trading volume per session (shares)	1,609,085	1,625,098	1.0%	1,782,961	1,459,343	(18.2)%
Capitalization at the end of the period [000s of PLN]	33,660,127	37,701,414	12.0%	34,972,682	37,701,414	7.8%

Source: www.infostrefa.com

7.2 Banking sector

WSE-listed banks



Source: www.infostrefa.com

WSE-listed banks

In H1 2019, the WIG Banks index has grown by 6.1% and on the 12-month basis the growth was 9.5%. The improved sentiment in the banking segment resulted largely from the inflow of capital to WSE's main indices, especially WIG20, in which banks constitute more than 30%. The correlation between the WIG Banks index and the WIG20 index at the end of June 2019 was 90% (without changes y/y). Beta (versus WIG20) was 0.95, i.e. an increase of 0.02 y/y.

The ratio-based valuation of the WIG Banks index at the end of H1 2019 (P/BV and P/E was 0.72 and 9.7, respectively) was lower than in the corresponding period of the previous year (P/BV and P/E was 0.84 and 10.0, respectively)[2]. The decline in prices in the situation of very good business conditions (which included growing consumption and lending activity) reflected fears of the investors related to the persisting remote plans of interest rate increases by NBP, especially in the environment of easing of the monetary policy by the FED and ECB.

In the first quarter of 2019, the valuation of banks was significantly affected by the decision of the Bank Guarantee Fund concerning the level of contribution and its allocation among the individual banks. In 2019, the contribution for the entire sector increased by 27% (up to PLN 2.8 billion). Out of this amount, the contribution to the forced restructuring fund rose by 110% to PLN 2.0 billion, while the contribution to the deposit guarantee fund fell by 36% to PLN 0.8 billion. It is important to note that the contribution to the desposit guarantee fund is the only one that is evenly distributed over four quarters, while the forced restructuring contribution is accounted for fully in the first quarter. In the banks forming part of the PZU Group, Pekao and Alior, the contribution that was fully charged to the first quarter rose by 157% (up to PLN 370 million) and 189% (up to PLN 110 million), respectively. The relatively high charges imposed on the results of those banks (compared to the whole sector) affected their the weaker performance of their stock prices versus the WIG Banks index. In the case of Alior Bank, the share price drop was additionally impacted by the fear for the condition of the loan portfolio in the corporate segment, especially in the context of the developing potential problems of two corporate clients.

The banks of the PZU Group (Alior Bank and Pekao) were responsible for nearly 11% of the trading volume on WSE's main market at the end of H1. Alior Bank's share price at the end of June 2019 was PLN 49.8, down by 6.3% since the beginning of the year. Bank Pekao's share price in this period rose by 2.6% (w/o dividends) reaching the price of PLN 111.8 (at the end of June 2019). On 26 June 2019, the Shareholder Meeting of Pekao decided to pay out a dividend from the 2018 profit in the amount of PLN 1.73 billion, or PLN 6.6 per share.

[2] https://www.gpw.pl/pub/GPW/statystyki/statystyki_polroczne/20191_GPW.xls

7.3 Debt financing

PZU

PZU bonds: PLPZU0000037 for a total of PLN 2.25 billion

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

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

The issue was effected with a view to 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 not lower than 200%, as defined in the PZU Group's Capital and Dividend Policy.

PZU bonds: XS1082661551 for a total of EUR 850 million (redeemed on 3 July 2019)

The PZU Group (through its wholly-owned subsidiary, PZU Finance AB) issued Eurobonds totaling 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) consisted 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 were secured by a guarantee extended by PZU. The bonds bore interest at a fixed rate of 1.375% per annum. The coupon was paid once a year. The bonds were redeemed on 3 July 2019.

Alior Bank

In H1 2019, Alior Bank did not conduct any public or private issues of its bonds.

Bank Pekao

On 8 May 2019, the Pekao Management Board adopted a resolution giving consent to the issue of subordinated bond issue with the total par value of no more than PLN 750 million.

On 22 May 2019, the Pekao Management Board adopted a resolution on the issue of PLN 350 million D series subordinated bonds value with the following parameters:

- interest rate: floating rate based on WIBOR6M plus a margin of 1.70%;
- issue format: 12NC7, i.e. bonds with a 12-year maturity with the right to early redemption of bonds within 7 years of the issue date;
- issue and redemption date: 4 June 2019 and 4 June 2031.

On 8 July 2019, Pekao received a decision of the Polish Financial Supervision Authority to classify 700 D series subordinated bonds with the total par value of PLN 350 million maturing on 4 June 2031 as instruments in the Bank's Tier II capital.

7.4 Distribution of the 2018 profit

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 could 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, the KNF permitted a dividend payout equal to the entire profit earned in 2018 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 companies operating in section I and at least 150% for insurance companies operating in section II.

The KNF 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.

On 24 May 2019, the PZU's Ordinary Shareholder Meeting adopted a resolution (in accordance with the PZU's capital and dividend policy[3]) to distribute PZU's net profit for the financial year ended 31 December 2018 in which it set a following distribution of profit of PLN 2,712 million:

- PLN 2,418 million as a dividend payout, i.e. PLN 2.80 per share;
- PLN 7 million as an allowance to the Company Social Benefit Fund;
- PLN 287 million as supplementary capital.

The dividend record date was set for 14 August 2019 and the dividend payment date was set for 5 September 2019.

[3] On 3 October 2016 the PZU Supervisory Board adopted a resolution (Current Report 61/2016 of 4 October 2016) to approve the PZU Group's Capital and Dividend Policy for 2016-2020.

Dividend paid by PZU from its earnings for the 2015 - 2018 financial years

	H1 2019	2018	2017	2016	2015
Consolidated profit of the parent company (in PLN m)	1,481	3,213	2,895	1,935	2,343
PZU SA's standalone profit (in PLN m)	1,827	2,712	2,434	1,573	2,249
Dividend paid for the year (in PLN m)	-	2,418	2,159	1,209	1,796
Dividend per share for the year (PLN)	-	2.80	2.50	1.40	2.08
Dividend per share on the date of record (PLN)	2.80	2.50	1.40	2.08	3.00
Dividend payout ratio from the parent company's profit***	-	75.3%	74.6%	62.5%	76.7%
(a) Movement in the share price y/y	(0.6)%	4.1%	26.9%	(2.4)%	(30.0)%
(b) Dividend yield during the year (%) *	-	5.9%	4.2%	6.1%	6.2%

* ratio calculated as dividend (as at the record date) to the share price at the end of the previous financial year
Source: PZU's data

7.5 Rating

Issuer rating

Since 2004, PZU and PZU Życie have been subject to regular reviews by the rating agency of S&P Global Ratings (S&P). The rating assigned to PZU and PZU Życie results from an analysis of 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.

On 14 June 2019, S&P Global Ratings, a US-based rating agency raised PZU's rating outlook from stable to positive. PZU's financial strength and credit rating remained at A-. The S&P analysts decided that the PZU Group has demonstrated its capacity to generate good financial results, both historically and in comparison to its competitors. They also emphasized the improving risk management practices resulting in greater capital resilience and high capital management discipline. The agency's report also refers to PZU's excellent position on the insurance, banking and asset management market, which will allow it to use this advantage in order to continue generating good financial results, strengthening the fundamentals and improving its position in the entire sector.

At the same time, S&P stated that the rating may increase over the period of the next 12-18 months, provided that stability of management and good financial results are maintained (including high profitability in non-life and life insurance). Other conditions included maintenance of stable level of risk in the PZU Group and capital adequacy at least at the level of AA and the capacity to pass the stress test (S&P).

Sovereign rating
On 12 April 2019, S&P announced its decision to affirm Poland's rating at A-/A-2 for long- and short-term liabilities in foreign currency, respectively, and at A/A-1 for long- and short-term liabilities in the domestic currency, respectively. The rating outlook remained stable.

When justifying the affirmation of the rating, S&P pointed to, among other things, diversified economy, qualified employees, manageable levels of public and private debt or membership in the European Union. The agency also noted the good fiscal position of the state budget in 2018. As one of the reasons for the low budget deficit, it pointed to the high growth of tax revenue that resulted, among others, from the good situation on the labor market. The agency also noted the significant progress in the closing of the VAT gap. S&P projects the deficit of the general government sector to GDP at less than 3% in 2019-2002, at 1.5% in 2019 and 2.6% subsequently. According to the agency, the ratio of debt of the general government sector to GDP in 2019-2022 will be kept below 50%[4].

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

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	
Country	Rating and outlook	Updated on	Rating and outlook	Updated on
PZU				
Financial strength rating	A- /Positive/	14 June 2019	A- /Stable/	27 October 2017
Credit rating	A- /Positive/	14 June 2019	A- /Stable/	27 October 2017
PZU Życie				
Financial strength rating	A- /Positive/	14 June 2019	A- /Stable/	27 October 2017
Credit rating	A- /Positive/	14 June 2019	A- /Stable/	27 October 2017
TUW PZUW				
Financial strength rating	A- /Positive/	14 June 2019	A- /Stable/	25 June 2018

Source: S&P Global Ratings

Bank Pekao's financial creditworthiness ratings
Bank Pekao cooperates with three leading rating agencies: Fitch Ratings, S&P Global Ratings and Moody's Investors Service. In the case of the first two agencies, the ratings are prepared upon the Bank's commission based on contracts. The Bank however has signed no agreement with Moody's Investors Service and the rating process is conducted on the basis of publicly available information and review meetings.

On 30 June 2019 Bank Pekao's financial creditworthiness ratings were as follows:

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

On 17 June 2019, the S&P Global Ratings agency ("S&P") raised Pekao's rating outlook from stable to positive and raised the stand-alone credit profile from "bbb" to "bbb+". The long-term rating stayed at the same level of BBB+.

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

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

Alior Bank's rating

On 30 January 2019 Fitch Ratings lowered the Alior Bank's ratings outlook from positive 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

On 16 January 2019 S&P Global Ratings assigned Alior Bank a Long-Term Issuer Credit Rating of 'BB' with a stable outlook and a short-Term Issuer Credit Rating of 'B'.

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

7.6 Calendar of corporate events in 2019

31 MARCH
PZU Group's financial statements (2018) and an update to the 2017-2020 Strategy

14 MAY
PZU Group's financial statements (Q1 2019)

24 MAY
PZU SA's Ordinary Shareholder Meeting (Warsaw / online)

14 AUGUST
Record date for dividends from 2018 earnings

29 AUGUST
PZU Group's financial statements (Q2 2019)

05 SEPTEMBER
Dividend payment date from 2018 earnings (PLN 2.80 per share)

14 NOVEMBER
PZU Group's financial statements (Q3 2019)

8.

Corporate governance

We appreciate that the leader's role is to set the highest standards for the entire industry. We discharge this function not only by observing a number of codes but also by working continuously on their improvement. We believe that this is how we can make sagacious changes to contribute to the world that surrounds us.

In this section:

1. Audit firm auditing the financial statements
2. PZU's share capital and its shareholders; shares held by members of its governing bodies

8.1 Audit firm auditing the financial statements

On 23 May 2019, the PZU Supervisory Board again 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 audit company to review and audit the financial statements of PZU SA and the PZU SA Group for the financial years 2019-2020.

The scope of the concluded agreement encompasses the following in particular:
- auditing PZU's annual standalone financial statements and the PZU Group's annual consolidated financial statements;
- reviewing PZU's interim standalone financial statements and the PZU Group's interim consolidated financial statements.

Main assumptions underlying the policy for selecting the audit firm.
The following are among the main assumptions underlying PZU's policy for selecting the audit firm:
- ensuring that the process of selecting the audit firm is done correctly and determining the responsibility and the duties of the participants in this process,
- analyzing when selecting the audit firm the recommendations given by the Audit Committee,
- giving consideration to the rule of rotating the audit firm and the key statutory auditor in the embraced time horizon.

The main assumptions underlying the Policy for the provision of permitted non-audit services by the audit firm conducting the statutory audit, by entities related to this audit firm and by a member of the audit firm's network:
- ensuring correctness in the process of procuring permitted services;
- determining the responsibility and the duties of the participants in this process;
- defining the catalogue of permitted services;
- establishing the procedure for procuring permitted services.

In 2019 the audit firm auditing the financial statements rendered permitted non-audit services to PZU. The Company conducted an assessment of the audit firm's independence and the PZU Supervisory Board consented to the rendering of the foregoing services.

In recent years, PZU's additional cooperation with KPMG Audyt has covered, without limitation, audits of solvency and financial standing reports required by the Solvency II Directive.

8.2 PZU's share capital and its shareholders; shares held by members of its governing bodies

On 30 June 2015, PZU's Ordinary Shareholder Meeting adopted a resolution to split all PZU shares by decreasing the par value of each share from PLN 1 to PLN 0.10 and increasing the number of shares making up the share capital from 86,352,300 to 863,523,000. 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, "KDPW") adopted resolution no. 789/15 on setting 30 November 2015 as the date of splitting 86,348,289 PZU shares with a par value of PLN 1 each into 863,482,890 PZU shares with a par value of PLN 0.10 each.

Accordingly, PZU's share capital is divided into 863,523,000 ordinary shares with a par value of PLN 0.10 each giving the right to 863,523,000 votes at the Shareholder Meeting.

As at 30 June 2019 the State Treasury and the funds managed by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.: Nationale-Nederlanden Otwarty Fundusz Emerytalny („OFE", Open-end Pension Fund) and Nationale-Nederlanden Dobrowolny Fundusz Emerytalny („DFE", Voluntary Pension Fund) were PZU shareholders holding significant equity stakes in PZU.

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 24 July 2019. This notification indicated that as a result of a transaction to sell PZU shares settled on 18 July 2019, NN open-end pension fund decreased its shareholding in PZU from 43,995,060 shares to 41,985,060, ie. below 5% of PZU's share capital. Thus the funds managed by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.: NN open-end pension fund and NN voluntary pension fund decreased their shareholding in PZU from 44,010,060 shares, representing 5.10% of PZU's share capital and giving it the right to 44,010,060 votes at Shareholder Meeting to 42,000,060 shares, representing 4.86% of PZU's share capital and giving the right to 42,000,060 votes at the Shareholder Meeting.

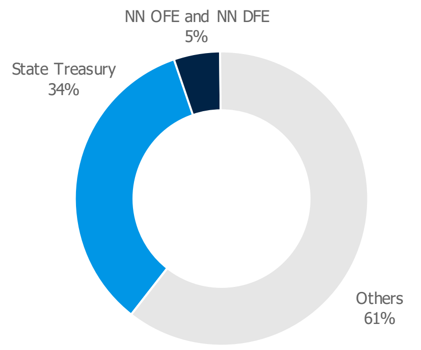
The PZU Management Board does not have any information about executed agreements as a result of which changes may transpire in the future in the equity stakes held by its shareholders to date.

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

In 2013-2018 as well as in H1 2019 PZU did not have any employee share programs in place.

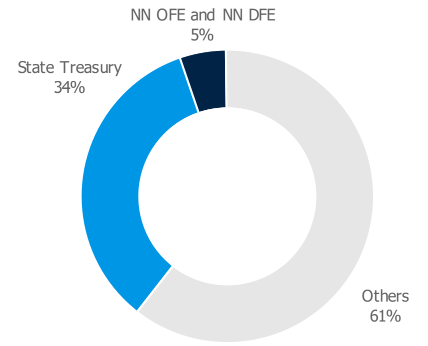
According to the Articles of Association, the shareholders' voting rights have been limited in such a manner that no shareholder may exercise more than 10% of the total number of votes in existence in PZU at its Shareholder Meeting on the date of holding a Shareholder Meeting subject to the reservation 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.

PZU's shareholder structure as at 30 June 2018



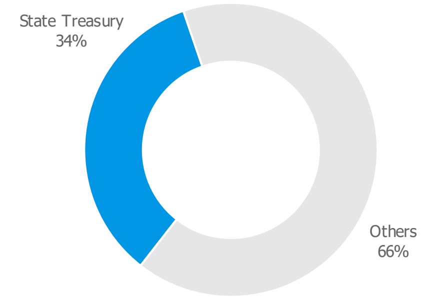
Source: Current Report 21/2018
(data rounded to the nearest integer)

PZU's shareholder structure as at 30 June 2019



Source: Current Report 19/2019
(data rounded to the nearest integer)

PZU's shareholder structure as at 18 July 2019



Source: Current Report 19/2019
(data rounded to the nearest integer)

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, the said voting restrictions will expire starting from the moment when a share of a shareholder who, at the date of adopting a resolution of the Shareholder Meeting introducing the restriction, held shares carrying the right to more 10% of the total number of votes in the Company drops below 5% of the share capital.

Shares or rights to shares held by members of management or supervisory bodies and PZU Group Directors

As at the date of publication of this Activity Report, only Tomasz Kulik, Member of the PZU Management Board held 2,847 PZU shares, which the Company reported in current report 23/2018. There were no any changes in the ownership of PZU's shares or rights to the shares by the members of the Management Board or the Supervisory Board or the Directors of the Group in the period from the date of publication of Activity Report for Q1 2019.

9.

Other

Truthfulness and accuracy of the presented financial statements
To the best knowledge of the PZU Management Board, the PZU Group's 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.

Information about significant agreements between shareholders
The PZU Management Board does not have any information about agreements executed until the date of publication of this Report on the activity of the PZU Group among shareholders as a result of which changes may transpire in the future in the percentages of shares held by its shareholders to date.

Information about significant executed agreements
In H1 2019 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 7.3 DEBT FINANCING

Related party transactions on non-arm's length conditions
In H1 2019, neither PZU nor its subsidiaries executed any transaction with their related parties which were of material significance individually or collectively and were executed on non-arm's length conditions.

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.

Purchase of treasury shares in the financial year
Within its trading activity Bank Pekao enters into transactions on PZU shares and forward contracts. As at 30 June 2019 Bank Pekao held 10,214 PZU shares.

As at 30 June 2019 consolidated funds held 199,205 thousand PZU shares.

PZU did not hold any treasury shares as at 30 June 2019.

Granted and received guarantees and sureties
In H1 2019 neither PZU nor its subsidiaries granted any sureties for a loan or borrowing or guarantees to any single entity or any subsidiary of such an entity where the total amount of outstanding sureties or guarantees would be significant.

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 H1 2019 is set forth in SECTION 5.6 PZU GROUP'S ASSET AND LIABILITY STRUCTURE

Seasonal or cyclical business
PZU's business is not seasonal or cyclical to an extent that would justify application of the suggestions set forth in the International Financial Reporting Standards.

Rules of preparation
The rules of preparation of the condensed interim consolidated financial statements have been described in the PZU Group's interim consolidated financial statements.

Assessment of the management of financial resources, including the capacity to satisfy the assumed liabilities and specification of possible threats and actions taken or to be taken by the Issuer to counter these threats.

Assessment of the performance of investment-related intentions
PZU is in a very good financial standing and satisfies all the safety criteria imposed by the legal regulations and the Polish Financial Supervision Authority.

The Issuer's stable rating outlook confirms that PZU has a strong business position, has a high level of equity, and is well-poised to achieve its intentions when it comes to investments.

Financial forecasts
The PZU Group has not published any forecasts of its financial results.

Disputes
In H1 2019 and by the date of signing this report on the PZU Group's activity, the PZU Group companies were not involved in any proceedings conducted before a court, an arbitration body or a public administration authority which concerned any liabilities or receivables of PZU or any of its direct or indirect subsidiaries the unit value of which would be material, save for the issues described in the condensed interim consolidated financial statements for the 6 months ended 30 June 2019.

As at 30 June 2019, the value of the subject matter of the litigation in all the 238 417 cases pending before courts, arbitration bodies or public administration authorities in which PZU Group entities take part, was PLN 8 048 million.
PLN 4 246 million of that amount pertains to liabilities and PLN 3 802 million to the accounts receivable of PZU Group companies.

Estimates of the provision amounts for individual cases take into account all information available on the date of publishing this report; however, this figure may change in the future.

This Report on the PZU Group's Activity in H1 2019 has 125 consecutively-numbered pages.

Signatures of PZU Management Board Members

Paweł Surówka – President of the Management Board

Adam Brzozowski – Management Board Member

Marcin Eckert – Management Board Member

Elżbieta Häuser – Schöneich – Management Board Member

Tomasz Kulik – Management Board Member

Maciej Rapkiewicz – Management Board Member

Małgorzata Sadurska – Management Board Member

Warsaw, 28 August 2019

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

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 insurancebased investment products

reinsurance – transfer to some other insurance undertaking – the reinsurer – of all or part of the insured risk or class of risks along with the pertinent portion of the premiums. As a result of reinsurance, a secondary split of risks transpires to minimize the risks to the insurance market

outward reinsurance – reinsurance activity whereby the insurer (cedent) transfers a portion of the concluded insurance to a reinsurer or reinsurers in the form of a reinsurance agreement

inward reinsurance – reinsurance activity whereby a reinsurer or reinsurers accept a portion of insurance or a class of insurance transferred by a cedent

technical provisions – provisions that should ensure full coverage of current and future liabilities that may result from executed insurance contracts. The following, in particular, are for accounting purposes part of technical provisions: provision for unearned premiums, provision for outstanding claims and benefits, provision for unexpired risks, provision for investment risk borne by policyholders and provision for bonuses and discounts for insureds

GDPR – Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC

CRR Regulation – Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms

Regulation on Current and Periodic Information – Finance Minister's Regulation of 19 February 2009 on Current and Periodic Information Transmitted by Securities Issuers and the Conditions for Recognizing the Information Required by the Regulations of a Non-Member State as Equivalent (Journal of Laws of 2009, No. 33 Item 259, as amended)

credit scoring – method for assessing the credibility of an entity (usually a natural person or a business) applying for a bank loan. The result of credit scoring is ordinarily presented in the form of a score – the higher the number of points, the greater the credibility of a prospective borrower

sell side – part of the financial sector involved in creating, promoting and selling equities, bonds, foreign currencies and other financial instruments; it includes investment bankers who act as intermediaries between securities issuers and investors as well as market makers who provide liquidity on the market. Sell-side analysts release research reports with investment recommendations and daily comments for the buy side, i.e. for asset managers. Research reports pertain to companies that are already public and to companies that are being floated on an exchange or that are conducting additional rights offerings

gross written premium – the amounts of gross written premiums (net of the reinsurer's share) due by virtue of the insurance contracts executed in the reporting period, notwithstanding the term of liability stemming from these agreements

net earned premium – the gross written premium in a given period giving consideration to the settlement of revenues (premiums) over time through movement in the provisions for unearned premiums and the reinsurers' share

Solvency II – a solvency system for European insurance undertakings taking the risk profile into account. These requirements have been in force since 1 January 2016

spread – a solvency system for European insurance undertakings taking the risk profile into account. These requirements have been in force since 1 January 2016

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

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.